Consolidated and Parent Company Financial Statements of AS Eesti Telekom 2002

Consolidated and Parent Company financial statements

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Management report

Comments concerning the financial statements

The consolidated statements of AS Eesti Telekom in 2002 cover the following companies:

- AS Eesti Telekom – parent company;
- AS Eesti Telefon – 100% affiliate of AS Eesti Telekom;
- AS EMT – 100% affiliate of AS Eesti Telekom;
- AS Telefonipood – 100% affiliate of AS Eesti Telefon
- AS Connecto – 100% affiliate of AS Eesti Telefon
- SIA Connecto Latvia – 100% affiliate of AS Connecto
- AS Esmofon – 100% affiliate of EMT
- AS Mobile Wholesale – 100% affiliate of EMT

Consolidated accounts were drawn in accordance with International Financial Reporting Standards (IFRS).

Revenues, expenses, and profits

During 2002, consolidated revenues of the Eesti Telekom Group amounted to 296 mln EUR, showing an increase of 8%, compared to 2001. The main growth area was mobile communication. At the same time, fixed data communication revenues were also growing fast. Operating expenses were 159 mln EUR, up by 6%. The growth results from higher costs of materials and services. Personnel costs were down by 4%, compared to 2001. The EBITDA of the Eesti Telekom Group was 136 mln EUR, up by 10%. The EBITDA margin was 46% (2001: 45%). Depreciation was 12% lower than a year ago, amounting to 64 mln EUR. A strong and positive cash flow has led to positive net financing costs to the extent of 0.4 mln EUR (2001: -0.8 mln EUR). Income tax on dividends, paid in 2002, amounted to 6 mln EUR (2001: 2 mln EUR). The net profit of the Eesti Telekom Group in 2002 was 66 mln EUR, or 0.48 EUR per share (2001 respectively 50 mln EUR and 0.36 EUR).

The results of 2001 and 2002 were influenced by the following extraordinary factors:

	2002	2001
Total revenues	AS Eesti Telefon sold property with a capital gain of 4.0 mln EUR. The gain was accounted for as "Other revenues".	
Total expenses		AS Eesti Telefon released a 2.9 mln EUR reserve related to the OÜ Albufent claim.
Income from associates		AS Eesti Telefon sold its ownership in AS Teabeliin. 2.1 mln EUR of profit was accounted as income from associates.
Depreciation		AS Eesti Telefon made a 6.0 mln EUR write-off of fixed assets, accounted as depreciation.

The consolidated revenues of AS Eesti Telefon and subsidiaries (Eesti Telefom Group) in 2002 were 168 mln EUR, down by 9% compared to 2001. Operating expenses amounted to 107 mln EUR, down by 16%. The EBITDA of the Group was 61 mln EUR, up by 10%. The EBITDA margin rose remarkably – from 31% in 2001 to 37% in 2002. The Eesti Telefon Group earned 18 mln EUR of net profit during 2002.

The decrease of the revenues of the Eesti Telefon Group was caused by the parent company of the Group. The total revenues of AS Eesti Telefon amounted to 153 mln EUR, down by 11%. This decrease was caused by lower voice communications revenues. Domestic call revenues were down by 18%, international call revenues were down by 7%. The fall resulted from a tightening of the market – more and more domestic calls are made through mobile phones instead of fixed phones. Revenues from calls from fixed to mobile networks were 8% lower, and Internet dial-up revenues were 42% lower. The decrease in voice communications revenues resulted mainly from lower mobile transit revenues. Starting 2002, a large part of mobile calls went directly from the network of one operator to the network of another (interconnection costs were down as well). Main line revenues of AS Eesti Telefon were up by 20%. Revenues from the Internet and data communications were up by 73%.

The decrease of the operating expenses resulted mainly from lower mobile transit costs. Lower number of employees also led to significantly lower personnel costs – down by 8% in the Eesti Telefon Group and down by 13% at AS Eesti Telefon. The number of Eesti Telefon Group employees fell in 2002 from

2,045 employees, at the end of 2001, to 1,999 employees by the end of 2002. The number of AS Eesti Telefon employees fell from 1,552 to 1,420.

Intensity of the competition between fixed operators, that started in 2001 with the opening up of the market, decreased in 2002. Competition between the mobile operators is getting more actual. The market shares of AS Eesti Telefon have stabilised. As of the end of 2002, the company estimates its share of total call minutes to be 89% (2001: 91%), of domestic call minutes 88% (90%), of international call minutes 70% (70%), of fixed to mobile minutes 75% (75%) and of Internet dial-up minutes 95% (96%).

The subsidiary companies of the Eesti Telefon Group, as opposed to the parent company, reported growth in 2002. Optimisation of the customer service and sales network in AS Telefonipood resulted in a 12% growth in the operating revenues and with a 37% growth in the EBITDA in 2002. The operating revenues of the Connecto Group (AS Connecto and SIA Connecto Latvia) were up by 23%. The EBITDA of the Connecto Group was up by 47%. A framework agreement for the construction of networks was concluded in December 2002 between SIA Connecto Latvia and Latvia's largest telecommunications company SIA Lattelekom. In accordance with the concluded agreement, Connecto Latvia will begin to plan and construct Lattelekom's fibre-optic and copper cable based telecommunications networks. The agreement offers SIA Connecto Latvia the possibility to develop in the area of fixed networks, through the provision of planning and construction services. AS Connecto acquired the EVN-EN ISO 9001:2001 certificate in 2002. Possessing the certificate is a standard precondition for participation in biddings for government contracts.

The total revenues of AS EMT and its subsidiaries (EMT Group), in 2002, amounted to 157 mln EUR, up by 11%. The operating expenses of the Group were 81 mln EUR, up by 10%. The EBITDA of the Group was 77 mln EUR and the EBITDA margin was 49%. The net profit of the EMT Group in 2002 was 55 mln EUR, up by 13% compared to 2001.

The total revenues and the operating expenses of the parent company, AS EMT, were up by 9% and 6% respectively. Revenues from SMS and data had the highest growth-rate, exceeding the corresponding figure in 2001 by 35%. Revenues from prepaid cards grew also significantly, by 21%. Revenues from domestic and roaming calls were both growing. Revenues from monthly fees remained at the same level as in 2001. The expenditure growth was mainly caused by interconnection charges.

The number of customers of AS EMT reached 427,500 by the end of 2002. The company had 280,300 contractual customers and 147,200 prepaid-card users. The client base grew by 44,800 in total. The net growth of contractual customers was 24,600, and the net growth of pre-paid card users was 20,200. In accordance with the Communications Board estimates, mobile penetration in Estonia reached 61% by the end of September 2002. The market share of AS EMT should be around 50%. The monthly ARPU (average revenue per user) in December 2002 was 27.0 EUR, and the average for 2002 was 27.9 EUR (December 2001: 28.1 EUR, 2001 average: 28.9 EUR). The fall in ARPU, in December 2002, was caused by several year-end campaigns and the applying of favourable rates in December.

The number of EMT Group employees grew from 384, at the end of 2001, to 406, by the end of 2002. The number of parent company employees grew from 293 to 295.

Balance sheet and cash flow

At the end of 2002, the total assets of the Eesti Telekom Group amounted to 284 mln EUR (end of 2001: 271 mln EUR). Non-current assets were reduced, from the beginning of the year, by 24 mln EUR. Current assets were up by 38 mln EUR. Current and non-current interest bearing loans were reduced by 5 mln EUR. By the end of 2002, net debt of the Group amounted to 58 mln EUR, and net gearing was – 23%.

The balance of the cash and cash equivalents of the Eesti Telekom Group grew by 32 mln EUR during 2002. Net operating cash flow was 121 mln EUR (2001: 111 mln EUR). Cash outflow into investing activities was 34 mln EUR (2001: 58 mln EUR). Cash outflow into financing activities was 55 mln EUR (2001: 63 mln EUR). Dividends were paid out to the shareholders in the amount of 48 mln EUR.

Investments

The Eesti Telefon Group invested 22 mln EUR in 2002 (2001: 32 mln EUR). The number of main lines in use at the end of December was 465,121 (a penetration of 34.2 lines per 100 people). The net decrease in the number of main lines was 36,600. The abandoned lines were mainly analoge lines of residential customers. The number of business lines increased by more than 1,200. The number of lines per employee was 328. 13,600 new ADSL connections were installed during 2002. The total number of

Atlas ADSL connections was 30,482 at the end of December 2002 (a penetration 2.2 connections per 100 people).

In May 2002, AS Eesti Telefon made the Eurovision Song Contest visible and audible for the whole World. International communication possibilities with 36 European countries, television transmission, communication solutions for the press-centre and for over 1,000 people at the concert hall were provided. State of the art telecommunication solutions – wireless Internet, web-transmission of the concert to the clients having permanent Internet connections in Estonia - were used in parallel with the more traditional ones.

In September 2002, an important stage was completed in the establishing of a nationwide fibre-optic cable backbone network, and all county centres were connected to the network. This network is based upon the cable-circuits principle. Therefore, in case of a possible technical failure, network traffic is automatically redirected, and the connection is not interrupted.

At the end of November 2002, Eesti Telefon established up a new nationwide data communication network. The speed of the new network exceeds the previous one by 64 times. The network is based upon DWDM (dense wavelength division multiplex) technology. This technology improves the quality and flexibility of the data communication.

In February 2002, the Eesti Telefon Group expanded through the acquisition of a new company. So as to extend its activities beyond Estonia, AS Connecto, a subsidiary of the Group, acquired 100% of the shares of the network construction company SIA Connecto Latvia (previously SIA Link).

The EMT Group invested 20 mln EUR in 2002 (2001: 29 mln EUR). The majority of investments made by AS EMT went into base stations and exchanges, and IT systems. GPRS roaming was offered to clients in neighbouring countries. It became possible to pay for public transit fares with m-payments. At the end of the year, the AS EMT electronic self-service bureau was redone.

In December 2002, AS EMT and AS Eesti Telefon together launched a nationwide wireless Internet connection. This system offers high-speed connection in WiFi (Wireless Fidelity) areas and slower connections everywhere in Estonia through GPRS. And clients desiring extra security can make use of the Virtual Private Network (IP-VPN) service.

Both subsidiary companies of the Eesti Telekom Group invested an additional 0.3 mln EUR into AS Sertifitseerimiskeskus.

Changing the telecommunication landscape

Fixed communication

AS Eesti Telefon expects major changes in the Estonian telecommunications sector in 2003. During the last decade, attention was concentrated on minimising the waiting list, digitalisation, voice communication quality, rate rebalancing. In the coming years, data communication and IP-based transmission will have the highest priority. Based on the results of AS Eesti Telefon, the revenues from Internet and data communication have multiplied during the last years. The capacity of the international data communication connections of the company grew threefold in 2002, exceeding the capacity of the voice communication connections for the first time. The new DWDM network enables the capacity to be expanded dozens of times.

Mobile communication

For five years, the Estonian mobile communications market has been shared by three operators – EMT, Radiolinja and Tele2. In August 2002 two new operators announced their intention to enter the market. Each of the current operators has built it's own physical network. The newcomers will act as virtual network providers. One of the new operators, OÜ Vertelson Haldus, plans to start bulk purchases of call minutes from other operators. These minutes will be used for introducing new services to the Estonian market. The newcomer had not actually started its operations by the end of 2002. Another new operator, CityGSM, will launch a prepaid-card at the beginning of 2003, making use of Radiolinja's existing network. The prepaid-card will make it possible to use all services offered to contractual customers. The company hopes to attract up to 20,000 customers.

The issuance of the third generation mobile network licenses has been repeatedly postponed in Estonia. 2003 is the next possible deadline. On 11 February 2003 the *Riigikogu* (Parliament) decided that four third generation licenses to be issued for a ten-year period. At the first stage, a direct offer would be made to the existing licensed mobile operators in Estonia, with a fee of 4,5 mln EUR per license. The second stage would be an auction of the licenses not issued during the first stage, with an initial price of 4,5 mln EUR per license. A precondition for the licensee will be the obligation to establish, within seven years of the license issuance, a third generation network covering at least 30% of the Estonian population. The decision becomes effective on 17 March 2003.

Relations with state regulators

Fulfilment of the obligations arising from the agreement for the termination of the concession agreement

On 29 December 2000, the agreement for the termination of the concession agreement was concluded between the Republic of Estonia and AS Eesti Telefon. The agreement regulates some aspects of the relationship between the company and the state until 1 January 2004. With the agreement, AS Eesti Telefon accepted an obligation to ensure that 95% of the applications for telephone connections submitted to AS Eesti Telefon after 28 February 2003 will be satisfied within two weeks of the payment of the invoice, and to eliminate by 28 February 2003, at the latest, the waiting list of those who had submitted applications before the concluding of the agreement.

In 2001 and 2002, AS Eesti Telefon invested 1,1 mln EUR into the elimination of the aforementioned waiting list. By the end of 2002, the waiting list of subscribers resulting from applications received before the end of 2000, had been reduced from 24,290 to 200. The remaining 200 applications are expected to be satisfied in the beginning of 2003. New applications for a fixed phone connection are fulfilled within 10 business days in 98% of the cases.

Being named an SMP enterprise

On 18 November 2002, the Communications Board declared AS EMT to be an operator with significant market power (SMP) for 2003 in the public mobile telephone service market. The Communications Board justified this SMP declaration with the statement that AS EMT national market share exceeded the level established by the competition assessment procedures - at least 25% of the turnover of the public mobile telephone services market. For the year 2002, AS EMT was also declared to be an operator with significant market power in the public mobile telephone service market.

On November 18, the Communications Board declared AS Eesti Telefon to be an operator with SMP for 2003 in the public telephone service market, public leased line service market, and public interconnection service market. The Communications Board based the determination of operators with significant market power for 2003 on the market shares of 2001. The market share of AS Eesti Telefon amounted to 89.22 per cent of the turnover of the telephone services market, 72.84 per cent of the turnover of the leased line service market, and 59.02 per cent of the turnover of the interconnection service market in 2001. For the years 2001 and 2002, AS Eesti Telefon was also declared to be as an operator with significant market power in the public telephone service market, public leased line service market, and public interconnection service market.

Litigation with the Estonian Competition Board

On 24 April 2001, the Competition Board issued a precept, based on the Competition Act, prohibiting AS Eesti Telefon from levying a per-minute rate of 0.022 EUR at peak time, 0.018 EUR at off-peak time and 0.009 EUR at night for voice calls in its network. The Competition Board thereby instructed AS Eesti Telefon to levy rates lower than those which it had established on 1 April 2001. AS Eesti Telefon is of the opinion that the basic price of 0.009 to 0.022 EUR, for calls within the network, is cost-based. Therefore, AS Eesti Telefon disagreed with the precept of the Competition Board, and contested it in court in May 2001. The first and the second level courts made their decisions in favor of AS Eesti Telefon and the Competition Board appealed to the Supreme Court, which, on December 18 2002, annulled the earlier judgments and forwarded the case to the Administrative Court for revision. The Supreme Court found that the precept of the Competition Board regarding minute rates of the voice communication services within a network is inadequate for making the final judgment. The Administrative and the Circuit Court had, according to the Supreme Court, not assessed all pieces of evidence. The Supreme Court considered it necessary for the Administrative Court to use the assistance of the Communications Board when revising the case.

Reducing termination fees of calls made into mobile networks

The Communications Board started procedures in November 2002 to reduce the termination fees of calls made into mobile networks. The Board analysed interconnection fees of the mobile operators and came to the conclusion that the operators have not based their charges on a reasonable profit percentage, as determined by the Telecommunication Act. The opinion of the Communications Board is that lower interconnection charges would improve the quality of mobile calls made from abroad to Estonia, and would lead to lower retail rates. On January 31, 2003, AS EMT announced its intention to reduce the termination fee from March 1, 2003 from the current 0.20 EUR/min to 0.18 EUR/min, and the discounted termination fee from the current 0.179 EUR/min to 0.176 EUR/min.

Management report

Annual General Meeting of the Shareholders

The Annual General Meeting of the Shareholders of AS Eesti Telekom took place on 17 May 2002. The meeting approved the Annual Report 2001, and the proposal for the allocation of the net profits. It was decided that the owners of A-shares would be paid dividends of 0.35 EUR per share (a total of 48 mln EUR, or 97% of the net profit of 2001). The owner of the preference share was paid dividends in the total amount of 639,11 EUR. The list of shareholders entitled to dividends was fixed on 5 June 2002, and the dividends were paid out on 19 June 2002.

The General Meeting authorised AS Eesti Telekom to reacquire, within one year, AS Eesti Telekom A-series shares, so that the total nominal value of own shares held by AS Eesti Telekom does not exceed the legal limits; and so that the price payable per share does not exceed the highest price paid for an AS Eesti Telekom A-share on the Tallinn Stock Exchange, on the day of reacquisition of the shares. Any possible share buy-back must be approved by the AS Eesti Telekom Council. No share buy-backs have taken place to date.

Changes in the ownership structure

On 26 March 2002, Sonera of Finland and Telia of Sweden, the strategic partners of AS Eesti Telekom, announced that they are planning to merge. On 9 December 2002, the merger took place, and the merged company continued its operations under the name TeliaSonera AB.

TeliaSonera owns 49% of the shares of AS Eesti Telekom. In accordance with the shareholders agreement, concluded in December 1998, the company has agreed not to acquire in excess of 49% of the issued shares prior to the fifth anniversary of the agreement becoming effective, or the date on which the Estonian Republic government’s holding of shares falls below 10%.

During 2002, the Fidelity Investment Services Ltd increased its ownership to 8% of the shares of AS Eesti Telekom.

AS Eesti Telekom and Subsidiary Companies

Income statements for the year ended 31 December 2002

Financial statements are prepared in thousands of euros (EUR)

	Notes	CONSOLIDATED 2002	CONSOLIDATED 2001 Restated	PARENT COMPANY 2002	PARENT COMPANY 2001
Revenues					
Net sales	2 (a), (c), 3 (a)	285,513	265,516	-	-
Change in work-in-progress		55	34	-	-
Capitalized self-constructed assets		4,179	5,568	-	-
Other revenues	3 (b)	5,863	2,714	11	15
Total revenues		**295,610**	**273,832**	**11**	**15**
Operating expenses					
Materials, consumables, supplies and services	2 (a)	(96,107)	(86,380)	-	-
Other operating expenses	2 (a)	(27,792)	(27,746)	(742)	(605)
Personnel expenses	2 (a), 3 (c)	(32,787)	(34,177)	(765)	(558)
Other expenses	3 (d)	(2,735)	(2,117)	(72)	(126)
Total operating expenses		**(159,421)**	**(150,420)**	**(1,579)**	**(1,289)**
Profit/(loss) from operations before depreciation		**136,189**	**123,412**	**(1,568)**	**(1,274)**
Depreciation and amortization	3 (e), 5, 7	(63,941)	(72,582)	(86)	(81)
Profit/(loss) from operations		**72,248**	**50,830**	**(1,654)**	**(1,355)**
Net income/(expenses) from subsidiaries and associates		(329)	1,715	73,010	51,539
Other net financing items	3 (f)	411	(749)	972	1,576
Profit before tax		**72,330**	**51,796**	**72,328**	**51,760**
Income tax on dividends	4	(5,835)	(1,977)	(5,835)	(1,977)
Profit after tax		**66,495**	**49,819**	**66,493**	**49,783**
Minority interest		-	(36)	-	-
Net profit for the period		**66,495**	**49,783**	**66,493**	**49,783**
Earnings per share	15 (g)				
Basic earnings per share (in euros)		0.48	0.36	0.48	0.36
Diluted earnings per share (in euros)		0.48	0.36	0.48	0.36

The notes presented on pages 12 to 36 form an integral part of the consolidated and Parent Company financial statements.

AS Eesti Telekom and Subsidiary Companies

Balance sheets as at 31 December 2002

Financial statements are prepared in thousands of euros (EUR)

		CONSOLIDATED		PARENT COMPANY	
	Notes	**2002**	**2001**	**2002**	**2001**
ASSETS					
Non-current assets					
Property, plant and equipment	5	170,879	194,538	91	147
Goodwill	7	236	947	-	-
Licences, patents and trademarks	7	2,483	2,641	45	64
Investments in subsidiaries and associates	8 - 9	1,451	1,147	209,701	186,635
Other investments	10	173	176	77	77
Other non-current assets	11 (a)	130	369	18,865	21,040
Total non-current assets		**175,352**	**199,818**	**228,779**	**207,963**
Current assets					
Inventories	12	5,971	6,648	-	-
Trade and other receivables	11 (b)	40,987	34,604	3,558	11,964
Cash and cash equivalents	13	61,549	29,669	17,345	11,386
Total current assets		**108,507**	**70,921**	**20,903**	**23,350**
TOTAL ASSETS		**283,859**	**270,739**	**249,682**	**231,313**
EQUITY AND LIABILITIES					
Capital and reserves	15				
Issued capital		87,804	87,804	87,804	87,804
Reserves		28,591	28,591	28,591	28,591
Translation reserve		(2)	-	-	-
Accumulated profits		132,870	114,668	132,868	114,668
Total capital and reserves		**249,263**	**231,063**	**249,263**	**231,063**
Non-current liabilities					
Interest-bearing loans and borrowings	16 (a), 17, 18	1,263	3,139	31	29
Current liabilities					
Trade and other payables	19	30,009	29,785	357	221
Interest-bearing loans and borrowings	16 (b), 17, 18, 20 (b)	2,282	5,635	31	-
Provisions	21	1,042	1,117	-	-
Total current liabilities		**33,333**	**36,537**	**388**	**221**
TOTAL EQUITY AND LIABILITIES		**283,859**	**270,739**	**249,682**	**231,313**

The notes presented on pages 12 to 36 form an integral part of the consolidated and Parent Company financial statements.

AS Eesti Telekom and Subsidiary Companies

Statement of changes in equity as at 31 December 2002 (consolidated)

Financial statements are prepared in thousands of euros (EUR)

	Notes	Issued capital	Reserves: Share premium	Reserves: Statutory legal reserves	Translation reserve	Accumulated profits	Total
31 December 2000		**87,804**	**19,810**	**7,987**	**-**	**113,972**	**229,573**
Amounts transferred to statutory legal reserve	15 (c)	-	-	794	-	(794)	-
Dividends paid	15 (d)	-	-	-	-	(48,293)	(48,293)
Net profit for the period		-	-	-	-	49,783	49,783
31 December 2001		**87,804**	**19,810**	**8,781**	**-**	**114,668**	**231,063**
Exchange differences arising from translation of foreign operations		**-**	**-**	**-**	(2)	-	**(2)**
Dividends paid	15 (d)	-	-	-	-	(48,293)	**(48,293)**
Net profit for the period		-	-	-	-	66,495	**66,495**
31 December 2002		**87,804**	**19,810**	**8,781**	**(2)**	**132,870**	**249,263**

The notes presented on pages 12 to 36 form an integral part of the consolidated and Parent Company financial statements.

AS Eesti Telekom and Subsidiary Companies

Cash flow statements for the year ended 31 December 2002

Financial statements are prepared in thousands of euros (EUR)

		CONSOLIDATED		PARENT COMPANY	
	Notes	**2002**	**2001**	**2002**	**2001**
Cash flows from / (to) operating activities					
Profit before income tax on dividends and minority interest		72,330	51,796	72,328	51,760
Adjustments for:					
Depreciation and amortization	3 (e), 5, 7	63,941	72,582	86	81
(Profit)/loss from sales and write-off of fixed assets	3 (b, d)	(3,497)	94	1	15
(Income)/expense from subsidiaries and associates		329	(1,715)	(73,010)	(51,539)
(Profit)/loss from revaluation of investments	10	(19)	500	-	-
Interests (income)/expense, net	3 (f)	(1,060)	(196)	(1,604)	(1,927)
Other non-cash adjustments		(3)	(19)	-	7
Operating profit (loss) before working capital		132,021	123,042	(2,199)	(1,603)
Change in current receivables		(5,604)	(3,618)	(9)	(9)
Change in inventories		746	2,889	-	1
Change in current liabilities		(50)	(10,188)	136	59
Adjusted cash generated from (used in) operations		127,113	112,125	(2,072)	(1,552)
Interest paid		(490)	(970)	-	(23)
Income tax paid		(5,835)	-	(5,835)	-
Net cash from / (used in) operating activities		**120,788**	**111,155**	**(7,907)**	**(1,575)**
Cash flow from / (to) investing activities					
Purchase of property, plant and equipment		(37,887)	(58,454)	(8)	(27)
Purchase of licenses		(2,153)	(2,296)	(12)	(83)
Acquisition of subsidiaries	23	-	(926)	-	-
Acquisition of associated companies	9	(639)	(383)	-	-
Purchase of investments, shares and other	10	-	(96)	-	-
Proceeds from sales of property, plant and equipment		5,459	730	8	43
Proceeds from sales of investments		-	2,780	-	-
Loans granted		(28)	(305)	(14,816)	(20,382)
Cash receipts from repayment of loans		4	4	25,743	22,932
Dividends collected		6	12	49,945	49,185
Interest collected		1,070	1,245	1,268	2,257
Net cash from / (used in) investing activities		**(34,168)**	**(57,689)**	**62,128**	**53,925**
Cash flow used in financing activities					
Proceeds from long-term debt	18	32	28	32	28
Repayment of long-term debt	18	(1)	(1)	(1)	(1)
Repayment of unsecured short-term bonds		-	(6,391)	-	(6,391)
Proceeds from nonconvertible long-term debt		101	-	-	-
Repayment of nonconvertible long-term debt		(379)	(334)	-	-
Repayment of long-term borrowings	17	(5,064)	(6,713)	-	-
Repayment of obligations under finance lease	6	(1,136)	(1,063)	-	-
Proceeds from short-term borrowings		-	5,000	-	5,000
Repayment of short-term borrowings		-	(5,000)	-	(5,000)
Dividends paid	15 (d)	(48,293)	(48,293)	(48,293)	(48,293)
Net cash used in financing activities		**(54,740)**	**(62,767)**	**(48,262)**	**(54,657)**
Net increase/(decrease) in cash and cash equivalents		**31,880**	**(9,301)**	**5,959**	**(2,307)**
Cash and cash equivalents at beginning of year	13	**29,669**	**38,970**	**11,386**	**13,693**
Cash and cash equivalents at end of year	13	**61,549**	**29,669**	**17,345**	**11,386**

The notes presented on pages 12 to 36 form an integral part of the consolidated and Parent Company financial statements.

1. Significant accounting policies

Significant accounting policies adopted in the preparation of the financial statements of AS Eesti Telekom (the Parent Company) and its subsidiary companies (together referred as “the Group”) are set out below. The financial statements were authorised for issuance by the Supervisory Council on 5 March 2003.

Statement of compliance

The consolidated financial statements of the Group and the financial statements of the Parent Company are prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board.

The financial statements present fairly the financial position, financial performance, and cash flows of the Group and the Parent Company AS Eesti Telekom.

The preparation of the annual accounts according to the IFRS involves estimates made by the Management Board about the Group’s assets and liabilities as of the balance sheet date, and about income received and expenses incurred during the financial year. These estimates are based on the up-to-date information about the state of the Group and take into consideration the Group’s plans and risks as they stand at the date of the financial statements’ preparation. The actual results may differ from the estimates.

Measurement basis

Historical cost has been used as the general measurement basis.

Principles of consolidation

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 up to the date the control ceased. Control is presumed to exist where more than one half of the subsidiary’s voting power is controlled by the Parent Company, or the Parent Company is able to govern the financial and operation policies of subsidiary, or control the removal or appointment of a majority of the subsidiary’s board of directors.

All inter-company transactions and balances have been eliminated.

Minority interests in the equity and the financial results of the entities that are controlled by the Parent Company are shown as a separate line item in the consolidated financial statements.

Foreign currency

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 reorded at the rate of exchange quoted by the Bank of Estonia on that date. Respective exchange differences are recognised in the income statement for the year.

The financial statements of foreign subsidiaries are recorded at the Bank of Estonia (*Eesti Pank*) effective exchange rates. Upon the acquisition of a foreign subsidiary, the Parent Company’s share of the net assets of the subsidiary is fixed and recorded, using the exchange rate prevailing on the date of acquisition. These parts of the equity of the subsidiary will maintain their acquisition value even when the rest of the balance sheet of the subsidiary is retranslated. If foreign subsidiary issues shares, these shares are recorded, using the exchange rate on the day of the issuance. Concerning the future consolidation of the balance sheet of 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.

Financial stataments are prepared in thousands of euros (EUR)

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

Currency	Exchange rate	
	31 December 2002	**31 December 2001**
EUR	15.64664	15.64664
USD	14.93642	17.69182
SEK	1.70284	1.68226
LVL	25.49530	-

Hedging

Foreign exchange contracts are accounted for as a hedge when the contracts are entered into with the intention to hedge other transactions with a high degree of correlation with the hedging instruments.

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 at the same time as when the transaction being hedged is realised.

Property, plant and equipment

Assets with useful life over one year and with a minimum value of 639 EUR (Parent Company – 320 EUR) are considered to be fixed assets. Fixed assets are recorded at acquisition cost, which is comprised of the purchase price, non-refundable taxes, and other expenditures directly related to taking the fixed asset object into use. The cost 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 carrying amount of the assets is reduced to its recoverable amount. Impairment losses are recognised as an expense in the income statement. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount. A reversal of an impairment loss is recognised as income in the income statement.

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

- buildings 3 - 8% per annum;
- telecommunication network equipment 17,5 – 20% per annum;
- plant and equipment 15 - 40% per annum;
- furniture, fixtures and fittings 10 - 50% per annum.

Freehold land is not depreciated.

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

Expenditures on repairs or maintenance of property, plant and equipment made to restore or maintain future economic benefits expected from the assets are recognised as expenses when incurred.

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.

Finance leases are recognised on the balance sheet by recording an asset and a liability equal to the present value of minimum lease payments at the inception of the lease. Finance assets are depreciated in accordance with the depreciation policy described above, with the depreciation period being the estimated useful life of the asset. Repayments of principal reduce lease liabilities, whilst the finance charge component of the lease payment is charged directly to the income.

Payments made under operating leases are charged to income in equal instalments over the period covered by the lease term.

Goodwill

Goodwill represents the excess of the cost of acquisition over the fair value of the net identifiable assets acquired by a controlled entity. Goodwill is recognised as an asset in the Group's consolidated financial statements and is amortized on a straight-line basis. Amortization of goodwill is recorded in the income statement line "Depreciation and amortization". The period of amortization is the period of time during which benefits are expected to arise and does not exceed 5 years.

Licenses, patents and trademarks

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

Research and development

Development costs are charged as an expense in the income statement for the period during which they were incurred. If, in exceptional cases, development costs are capitalized, they are amortized over five years.

Investments

Valuation

Shares and other securities, which are intended to be disposed of during the following financial year, and maturity date of which is one year or less from the balance sheet date are recorded as short-term financial investments. Short-term financial investments are recorded on the balance sheet at the lower of the cost or net realizable value. As an exception, shares quoted on the public stock exchange (that includes Tallinn Stock Exchange) are recorded in the market value according to the quotation on the exchange. The changes in the value of short-term financial investments are recorded in the income statement as financial income or expense.

Investments classified as non-current assets are carried at cost, less write-offs for recognising other than temporary declines in the value of the investment.

Disposals

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

Subsidiaries

Investments in subsidiaries are presented in the Parent Company's financial statements and accounted for under the equity method.

A list of the Group's subsidiaries is disclosed in Note 8.

Associates

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.

A list of Group's significant associates and relevant information is disclosed in Note 9.

Other long-term financial investments

Miscellaneous long-term receivables and loans are valued individually and recorded based upon the probability of receiving payment according to the prudence principle.

Portfolio investments

Portfolio investments are valued at the lower of cost and net realizable value.

Information about portfolio investments is disclosed in note 10.

Inventories

Inventories are carried at the lower of cost and net realizable value.

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

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

Taxation

The Income Tax Law that became effective in Estonia on 1 January 2000 replaces the taxation of earnings with the taxation of dividend distributions and other payments that have the characteristics of a profit distribution. Because of fundamental changes in the principles of taxation, the term *tax base of assets and liabilities* has lost its substance and deferred income tax assets and liabilities as defined in IAS 12 cannot arise.

Receivables

Receivables recorded on the Balance Sheet are valued based on the probability of receiving payment. Accounts receivable, which are not expected to be collected, are expensed during the financial year and reported net of receivables on the Balance Sheet. Receivables, the collection of which is not feasible or economically justified, are considered to be uncollectible and written-off from the Balance Sheet. Previously expensed receivables, which were collected during the financial year, are recorded on the same expense account as a reverse entry.

Liabilities

Liabilities with payment terms over one year after the balance sheet date are considered to be long-term liabilities. Other liabilities are reported as short-term liabilities.

Liabilities which have arisen during the financial year or prior periods, which have 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's estimates, previous experience and, when necessary, the assessment of independent experts.

Potential liabilities, guarantees and warranties are disclosed in the Notes to the Financial Statements as contingent liabilities.

Borrowing costs are recognised as an expense during the period in which they were incurred.

In the calculation of the pension provision, lifetime statistical regularities are taken into consideration, and the payments are periodically adjusted by the consumer price index.

Vacation expenses are recorded in the period the vacation has been earned which means when the right to claim the vacation by an employee occurs. Vacation payment earned, or changes made to it, is recorded in the Income Statement as an expense and on the Balance Sheet as a short-term liability.

Termination benefits are recognised as liabilities and as expenses when, and only when, the company is demonstrably committed to the termination of an employment contract before the employees' normal 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.

Revenue recognition

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.

The completion method is used to determine construction contracts. Revenue and costs are recognised by reference to the stage of completion of the contract activity on the balance sheet date. Contract revenue is recognised to the extent of contract costs incurred, that will probably be recoverable.

Interest, royalties and dividends arising from the use of the Group's resources by others 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 (taking into account the effective yield on the asset) 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.

Reclassification

During 2002, the following comparative balances of 2001 are reclassified:

		CONSOLIDATED	PARENT COMPANY
Income statement			
Operating expenses			
Materials, consumables, supplies and services			
	Beginning balance	(82,492)	-
	Reclassification	(3,888)	-
	Reclassified balance	(86,380)	-
Other operating expenses			
	Beginning balance	(31,634)	-
	Reclassification	3,888	-
	Reclassified balance	(27,746)	-

2. Segment information

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

Three major segments, fixed line, mobile telecommunication 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 AS Eesti Telefon, AS Telefonipood, AS Connecto and SIA Connecto Latvia.

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 Esmofon, AS Esmofon Tartu, and AS Mobile Wholesale.

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

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

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

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

Segment liabilities are those directly attributable to the segment.

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

Segment turnover represent inter-company income and expenses of the three 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 statament are prepared in thousands of euros (EUR)

(a) Business segments

	Fixed network telecommunications		Mobile telecommunications		Other operations		Eliminations		Consolidated	
	2002	**2001 Restated**	**2002**	**2001**	**2002**	**2001**	**2002**	**2001**	**2002**	**2001 Restated**
Revenue										
Net sales	149,766	157,214	135,747	108,302	-	-	-	-	285,513	265,516
Other revenue	8,632	6,417	1,462	1,897	3	2	-	-	10,097	8,316
Inter-segment revenue	9,476	19,937	19,841	31,487	8	13	(29,325)	(51,437)	-	-
Total revenue*)	**167,874**	**183,568**	**157,050**	**141,686**	**11**	**15**	**(29,325)**	**(51,437)**	**295,610**	**273,832**
Operating expenses										
Materials, consumables, supplies and services	(40,418)	(44,426)	(55,689)	(38,066)	-	-	-	-	(96,107)	(86,380)
Other operating expenses	(20,181)	(23,765)	(6,882)	(7,296)	(729)	(573)	-	-	(27,792)	(27,746)
Personnel expenses	(24,833)	(26,888)	(7,189)	(6,731)	(765)	(558)	-	-	(32,787)	(34,177)
Other expenses	(1,381)	(990)	(1,282)	(1,001)	(72)	(126)	-	-	(2,735)	(2,117)
Inter-segment expenses	(19,726)	(31,475)	(9,476)	(19,930)	(13)	(32)	29,215	51,437	-	-
Total operating expenses	**(106,539)**	**(127,544)**	**(80,518)**	**(73,024)**	**(1,579)**	**(1,289)**	**29,215**	**51,437**	**(159,421)**	**(150,420)**
Profit / (loss) from operations before depreciation and amortization	**61,335**	**56,024**	**76,532**	**68,662**	**(1,568)**	**(1,274)**	**(110)**	**-**	**136,189**	**123,412**
Depreciation and amortization	(41,788)	(52,221)	(22,092)	(20,303)	(86)	(81)	25	23	(63,941)	(72,582)
Profit / (loss) from operations	**19,547**	**3,803**	**54,440**	**48,359**	**(1,654)**	**(1,355)**	**(85)**	**23**	**72,248**	**50,830**
Income / (expenses) from subsidiaries and associated companies	(186)	1,832	(143)	(117)	73,010	51,539	(73,010)	(51,539)	(329)	1,715
Net foreign exchange gain/(loss)	24	7	(2)	-	(475)	7	-	-	(453)	14
Other financial income / (expenses)	(1,067)	(2,463)	484	131	1,447	1,569	-	-	864	(763)
Income tax on dividends	-	-	-	-	(5,835)	(1,977)	-	-	(5,835)	(1,977)
Minority interest	-	(36)	-	-	-	-	-	-	-	(36)
Net profit	**18,318**	**3,143**	**54,779**	**48,373**	**66,493**	**49,783**	**(73,095)**	**(51,516)**	**66,495**	**49,783**

*) Net sales includes sales revenue from uncompleted construction projects in the amount of 84 thousand EUR, whereas real expenses plus calculated gross profits minus cumulative gross losses amounted to 227 thousand EUR, and advance payments by clients amounted to 121 thousand EUR.

Financial statаments are prepared in thousands of euros (EUR)

(b) Other information by segments

	Fixed network telecommunications		Mobile telecommunications		Other operations		Eliminations		Consolidated	
	2002	**2001**	**2002**	**2001**	**2002**	**2001**	**2002**	**2001**	**2002**	**2001**
Non-current assets (except investments in subsidiaries and associates)	105,990	127,716	67,843	70,465	19,078	21,328	(19,010)	(20,838)	173,901	198,671
Investments in subsidiaries and associates	1,169	1,036	282	111	209,701	186,635	(209,701)	(186,635)	1,451	1,147
Current assets	51,114	28,435	42,314	35,238	20,903	23,350	(5,824)	(16,102)	108,507	70,921
Total assets	**158,273**	**157,187**	**110,439**	**105,814**	**249,682**	**231,313**	**(234,535)**	**(223,575)**	**283,859**	**270,739**
Capital and reserves	111,349	94,603	98,497	92,092	249,263	231,063	(209,846)	(186,695)	249,263	231,063
Non-current liabilities	19,607	23,356	490	532	31	29	(18,865)	(20,778)	1,263	3,139
Current liabilities	27,317	39,228	11,452	13,190	388	221	(5,824)	(16,102)	33,333	36,537
Total equity and liabilities	**158,273**	**157,187**	**110,439**	**105,814**	**249,682**	**231,313**	**(234,535)**	**(223,575)**	**283,859**	**270,739**
Capital expenditure	(21,716)	(31,713)	(19,972)	(29,489)	(20)	(28)	110	-	(41,598)	(61,230)

c) Net sales by geographic area

	Fixed network telecommunications		Mobile telecommunications		Consolidated	
	2002	**2001**	**2002**	**2001**	**2002**	**2001**
Net sales to customers in Estonia	137,811	143,597	129,925	102,988	267,736	246,585
Net sales to customers outside Estonia	11,955	13,617	5,822	5,314	17,777	18,931
	149,766	**157,214**	**135,747**	**108,302**	**285,513**	**265,516**

Financial stataments are prepared in thousands of euros (EUR)

3. Additional information on the income statement

	CONSOLIDATED		PARENT COMPANY	
	2002	**2001**	**2002**	**2001**
(a) Net sales				
Telecommunication services	258,745	244,427	-	-
Goods	18,440	15,697	-	-
Other services	6,320	3,390	-	-
Other sales	2,008	2,002	-	-
	285,513	**265,516**	**-**	**-**
(b) Other revenues				
Profit from sales of fixed assets	4,145	492	-	1
Foreign exchange gain	301	410	-	-
Prior period income	-	31	-	-
Interest on arrears and penalties	119	118	-	-
Other revenue	1,298	1,663	11	14
	5,863	**2,714**	**11**	**15**
(c) Personnel expenses				
Wages and salaries	(24,077)	(25,346)	(401)	(406)
Social charges	(8,176)	(8,535)	(207)	(144)
Pension expenses	(149)	-	(149)	-
Unemployment insurance charges	(117)	-	(2)	-
Other personnel expenses	(268)	(296)	(6)	(8)
	(32,787)	**(34,177)**	**(765)**	**(558)**
(d) Other expenses				
Loss from sales of fixed assets	(212)	(27)	-	(16)
Write-off of fixed assets	(436)	(559)	(1)	(1)
Foreign exchange loss	(275)	(462)	-	(1)
Sponsorship	(1,341)	(580)	(62)	(84)
Local taxes	(22)	(20)	-	-
Other expenses	(449)	(469)	(9)	(24)
	(2,735)	**(2,117)**	**(72)**	**(126)**
(e) Depreciation and amortization				
Depreciation	(61,064)	(69,570)	(55)	(55)
Amortization	(2,877)	(3,012)	(31)	(26)
	(63,941)	**(72,582)**	**(86)**	**(81)**
(f) Other net financing items				
Interest income	1,520	1,197	1,606	2,135
Interest expense	(460)	(1,001)	(2)	(208)
Net foreign exchange gain / (loss)	(453)	14	(475)	7
Other financial income	34	17	3	-
Other financial expenses	(230)	(976)	(160)	(358)
	411	**(749)**	**972**	**1,576**

Financial stataments are prepared in thousands of euros (EUR)

4. Taxation

According to the Estonian Income Tax Law in force from 1 January 2000, resident legal entities registered in Estonia do not pay income tax on the revenue earned but on distributed profit.

In accordance with the referred tax law, an entity pays income tax 26/74 on all distributed dividends in monetary as well as non-monetary forms to private persons, non-profit organizations not listed in the list of non-profit organizations with income tax preferences, and to foundations and non-residents, and on other profit distributions. Dividends disbursed to resident companies are not taxable.

In case dividends are paid from the retained earnings for the period 1994-1999, it is possible to discount the income tax paid earlier on the part of the retained earnings and prepayments of the tax on dividends made before 2000 from the amount of income tax to be paid on the respective amount of distribution.

On 31 December 1999 AS Eesti Telefon, wholly owned subsidiary of AS Eesti Telekom, had an income tax prepayment for prior years' dividend distributions in the amount of 5,445 thousand EUR. At the preparation of the annual accounts for 1999, the Income Tax Law did not provide a mechanism for realising the asset and it was expensed as an extraordinary item. The amendment to the Income Tax Law valid from 2000, allows transfer of income tax receivables from subsidiary to the parent company in order to offset it against income tax payable of the parent company. Consequently, a mechanism of realization of the expensed asset was provided and the amount was recognised in 2000 as an extraordinary income. AS Eesti Telekom used the transferred income tax receivable for dividend tax settlement in the amount of 1,977 thousand EUR and 3,468 thousand EUR in 2001 and 2000, respectively.

Income tax expense on dividends

	CONSOLIDATED		PARENT COMPANY	
	2002	**2001**	**2002**	**2001**
Tax expense components:				
Current tax expense	(5,835)	-	(5,835)	-
Usage of dividend tax receivables	-	(1,977)	-	(1,977)
Income tax expense on dividends	**(5,835)**	**(1,977)**	**(5,835)**	**(1,977)**

Reconciliation of current tax change

	2002
Dividends paid	48,293
Dividends attracting income tax	34,528
Income tax 26/74 from dividends	(12,132)
Reduction of the income tax paid on 1994 to 1999 earned profit	6,034
Reduction of the income tax paid by Group subsidiaries on 1994 to 1999 earned profit	263
Current tax expense	**(5,835)**

Financial stataments are prepared in thousands of euros (EUR)

5. Property, plant and equipment

(a) Consolidated

	Land and buildings	Plant and equipment	Other equipment and fixtures	Properties under construction	Advance payments for non-current assets	**Total**
At cost						
At 31 December 2000	**46,282**	**352,233**	**22,468**	**1,675**	**235**	**422,893**
Additions	5,052	41,404	13,144	42,089	464	102,153
Disposals and write-offs (-)	(664)	(10,009)	(2,722)	-	-	(13,395)
Eliminated on disposal of a subsidiary (-)	-	(178)	(607)	(34)	-	(819)
Reclassification	-	-	-	(42,696)	(609)	(43,305)
At 31 December 2001	**50,670**	**383,450**	**32,283**	**1,034**	**90**	**467,527**
Additions	1,960	31,005	5,176	31,452	752	70,345
Acquired on acquisition of a subsidiary	-	-	86	-	-	86
Disposals and write-offs (-)	(3,103)	(13,373)	(4,738)	-	-	(21,214)
Reclassification	-	9	(9)	(30,285)	(792)	(31,077)
At 31 December 2002	**49,527**	**401,091**	**32,798**	**2,201**	**50**	**485,667**
Accumulated depreciation						
At 31 December 2000	**25,474**	**179,397**	**11,328**	**-**	**-**	**216,199**
Charge for the year	3,510	59,759	6,301	-	-	69,570
Disposals and write-offs (-)	(604)	(9,390)	(2,343)	-	-	(12,337)
Eliminated on disposal of a subsidiary	-	(96)	(347)	-	-	(443)
At 31 December 2001	**28,380**	**229,670**	**14,939**	**-**	**-**	**272,989**
Charge for the year	2,126	51,613	7,325	-	-	61,064
Disposals and write-offs (-)	(2,192)	(12,487)	(4,586)	-	-	(19,265)
At 31 December 2002	**28,314**	**268,796**	**17,678**	**-**	**-**	**314,788**
Carrying amount						
At 31 December 2001	**22,290**	**153,780**	**17,344**	**1,034**	**90**	**194,538**
At 31 December 2002	**21,213**	**132,295**	**15,120**	**2,201**	**50**	**170,879**

Foreign subsidiary SIA Connecto Latvia’s share of the Group’s total fixed assets is 0.01%. In connection with this and on the basis of the principle of materiality, the influence of unrealised appreciation on components of capital finance is not individually specified in the information on tangible fixed assets.

Financial stataments are prepared in thousands of euros (EUR)

(b) Parent company

	Plant and equipment	Other equipment and fixtures	**Total**
At cost			
At 31 December 2000	**120**	**237**	**357**
Additions	19	8	27
Disposals and write-offs (-)	(66)	(64)	(130)
At 31 December 2001	**73**	**181**	**254**
Additions	-	8	8
Disposals and write-offs (-)	(10)	(19)	(29)
At 31 December 2002	**63**	**170**	**233**
Accumulated depreciation			
At 31 December 2000	**31**	**85**	**116**
Charge for the year	15	41	56
Disposals and write-offs (-)	(23)	(42)	(65)
At 31 December 2001	**23**	**84**	**107**
Charge for the year	15	40	55
Disposals and write-offs (-)	(4)	(16)	(20)
At 31 December 2002	**34**	**108**	**142**
Carrying amount			
At 31 December 2001	**50**	**97**	**147**
At 31 December 2002	**29**	**62**	**91**

Financial stataments are prepared in thousands of euros (EUR)

6. Leased plant and equipment (consolidated)

	Note	Plant and equipment
At cost		
At 31 December 2000		**1,359**
Termination of lease		(1,359)
At 31 December 2001		**-**
Additions		1,201
At 31 December 2002		**1,201**
Accumulated depreciation		
At 31 December 2000		**93**
Charge for the year		201
Termination of lease		(294)
At 31 December 2001		**-**
Charge for the year		120
At 31 December 2002		**120**
Carrying amount		
At 31 December 2001		**-**
At 31 December 2002		**1,081**
Finance lease liability		
At 31 December 2002		**66**
Current portion	20 (b)	66
Principal payments during the financial year		1,136
Interest expenses during the financial year		32
Annual interest rate		7%

Financial stataments are prepared in thousands of euros (EUR)

7. Intangible assets

	CONSOLIDATED			PARENT COMPANY	
	Goodwill	Licenses, patents and trademarks	**Total**	Licenses, patents and trademarks	**Total**
At cost					
At 31 December 2000	**2,804**	**7,770**	**10,574**	**90**	**90**
Additions	168	2,214	2,382	1	1
Disposals (-)	-	(229)	(229)	-	-
At 31 December 2001	**2,972**	**9,755**	**12,727**	**91**	**91**
Additions	38	2,153	2,191	12	12
Acquired on acquisition of a subsidiary	-	14	14	-	-
Disposals (-)	(206)	(3,223)	(3,429)	-	-
At 31 December 2002	**2,804**	**8,699**	**11,503**	**103**	**103**
Accumulated amortization					
At 31 December 2000	**1,092**	**5,162**	**6,254**	**2**	**2**
Charge for the year	933	2,079	3,012	25	25
Disposals and write-offs (-)	-	(128)	(128)	-	-
At 31 December 2001	**2,025**	**7,113**	**9,138**	**27**	**27**
Charge for the year	718	2,159	2,877	31	31
Disposals and write-offs (-)	(175)	(3,056)	(3,231)	-	-
At 31 December 2002	**2,568**	**6,216**	**8,784**	**58**	**58**
Carrying amount					
At 31 December 2001	**947**	**2,642**	**3,589**	**64**	**64**
At 31 December 2002	**236**	**2,483**	**2,719**	**45**	**45**

Foreign subsidiary SIA Connecto Latvia's share of the Group's total intangible assets is 0.25%. In connection with this and on the basis of the principle of materiality, the influence of unrealised appreciation on components of capital finance is not individually specified in the information on intangible assets.

Financial stataments are prepared in thousands of euros (EUR)

8. Investments in subsidiaries

	Country of incorporation	Ownership interest		Principal activity	Owner
		2002	**2001**		
AS Eesti Telefon	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 Telefonipood	Estonia	100%	100%	Retail sales of telecommunication products and services	AS Eesti Telefon
AS Connecto	Estonia	100%	100%	Construction and maintenance of telecommunication networks	AS Eesti Telefon
SIA Connecto Latvia	Latvia	100%	0%	Construction and maintenance of telecommunication networks	AS Connecto
AS EMT	Estonia	100%	100%	Construction and operating of mobile networks, providing mobile communication services	AS Eesti Telekom
AS Esmofon	Estonia	100%	100%	Retail sales of telecommunication products and services	AS EMT
AS Esmofon Tartu	Estonia	-	100%	Retail sales of telecommunication products and services	AS EMT
AS Mobile Wholesale	Estonia	100%	100%	Wholesale of mobile phones	AS EMT

AS Connecto acquired, on 11 February 2002, all of the shares of telecommunication network construction company SIA Link, which operates in Latvia. The shares were acquired from SIA Fortech, a company of the Microlink Group. SIA Link obtained a new business name – SIA Connecto Latvia. That was the first time Eesti Telekom Group widened its activities abroad.

In accordance with the decision of the shareholders of AS Esmofon Tartu, made on 29 August 2002, operations of the company were terminated. The financial investment in the subsidiary is reflected as a short-term investment in its anticipated liquidation value of 1 thousand EUR.

9. Investments in associates

	2002	**2001**
Cost of investments	2,315	1,676
Share of post-acquisition profit / (loss), net of dividends received	(864)	(529)
	1,451	**1,147**

Both subsidiary companies of Eesti Telekom Group, AS Eesti Telefon and AS EMT, invested an additional 319,5 thousand EUR into share capital of AS Sertifitseerimiskeskus.

Details of the Group's associates at 31 December 2002 are as follows:

	Country of incorporation	Ownership interest		Principal activity	Owner
		2002	**2001**		
AS Intergate	Estonia	50%	50%	Venture capital investments into companies with innovative technologies	AS Eesti Telefon
AS Sertifitseerimiskeskus	Estonia	50%	50%	Providing certification and related services	AS Eesti Telefon – 25% AS EMT – 25%
AS EsData	Estonia	30%	30%	Internet and data communication services, VoiP long distance calls and equipment hosting services	AS Eesti Telefon
OÜ Voicecom	Estonia	26%	26%	Designing and providing software for mobile related services	AS EMT

Financial stataments are prepared in thousands of euros (EUR)

10. Other investments

	CONSOLIDATED		PARENT COMPANY	
	2002	**2001**	**2002**	**2001**
Non-current investments in other enterprises:				
AS Rocca al Mare Suurhall	172	172	77	77
AS Hansapank	-	3	-	-
Foundation Vaata Maailma	1	1	-	-
	173	**176**	**77**	**77**

	CONSOLIDATED		PARENT COMPANY	
	2002	**2001**	**2002**	**2001**
Movement in other investments:				
Opening balance	176	580	77	77
Additions	-	96	-	-
Reclassification	(3)	-	-	-
Impairment (-)	-	(500)	-	-
Closing balance	**173**	**176**	**77**	**77**

In 2002, the management of AS Eesti Telefon decided to sell shares of AS Hansapank in the near future. On the balance sheet these shares are recorded as investments for trading with a market value of 22 thousand EUR. Difference between market value and acquisition cost, in the total amount 19 thousand EUR, was recorded in the income statement as other financial income.

The rest of the investments are not listed on any stock exchange and therefore possess no reliable market information.

11. Trade and other receivables

	CONSOLIDATED		PARENT COMPANY	
	2002	**2001**	**2002**	**2001**
(a) Other non-current assets				
Intra-group receivables	-	-	18,865	20,778
Long-term receivables from associates	-	262	-	262
Other receivables	94	102	-	-
Long-term accounts receivable	36	5	-	-
	130	**369**	**18,865**	**21,040**
(b) Trade and other receivables				
Accounts receivable-trade	27,504	25,777	-	-
Intra-group receivables	-	-	2,771	11,898
Receivables from associated companies	314	33	266	5
Accrued income	7,995	6,342	481	30
Tax receivables	1,355	365	9	4
Other receivables	3,819	2,087	31	27
	40,987	**34,604**	**3,558**	**11,964**

12. Inventories

	CONSOLIDATED		PARENT COMPANY	
	2002	**2001**	**2002**	**2001**
Raw materials and consumables	2,687	3,786	-	-
Merchandise purchased for resale	1,644	2,318	-	-
Advance payments to suppliers	1,534	493	-	-
Work-in-progress	106	51	-	-
	5,971	**6,648**	**-**	**-**

Financial statements are prepared in thousands of euros (EUR)

In 2002, the inventories were impaired and were therefore written off in the total amount 230 thousand EUR (2001 year: 383 thousand EUR) based on the estimated decline of the realisation value below their acquisition cost.

13. Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances with banks, and liquid short-term investments.

	CONSOLIDATED	
	2002	**2001**
Bank accounts	8,021	7,727
Deposits	48,450	18,054
Cash on hand	26	16
Short-term investments	5,052	3,872
	61,549	**29,669**

Information about short-term investments of AS Eesti Telekom:

	Notes	Acquisition cost	Reclassifi-cations	Value adjustments	Carrying value	Market value	Number of securities or shares
At 31 December 2001							
KFW International Finance, bonds		473	-	-	473	473	400 000
Export Development Corp, bonds		1,208	-	-	1,208	1,210	1 000 000
LB Baden-Württemberg, bonds (EUR)		1,150	-	-	1,150	1,151	2 100 000
Bayerische Landesbanken, bonds (EUR)		1,041	-	-	1,041	1,042	1 900 000
		3,872	**-**	**-**	**3,872**	**3,876**	
At 31 December 2002							
Skandinaviska Enskilda Banken, bonds		2,512	-	-	2,512	2,541	4 000
AS Eesti Ühispank, commercial papers		2,517	-	-	2,517	2,548	4 000
AS Hansapank, shares	10	-	3	19	22	22	1 369
AS Esmofon Tartu	8	-	1	-	1	-	-
		5,029	**4**	**19**	**5,052**	**5,111**	

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.

Financial statament are prepared in thousands of euros (EUR)

14. Lease receivables

a) Finance lease receivables

	CONSOLIDATED	
	2002	**2001**
Net investments in leases		
Within 1 year	43	34
1-5 years	27	45
	70	**79**
Future interest income	6	9
Gross investments in leases		
Within 1 year	47	38
1-5 years	29	55
	76	**93**
Lease receivables		
Within 1 year	62	57
1-5 years	8	28
	70	**85**

Interest income earned from finance leases for the financial years 2002 and 2001 was 10,9 and 10,7 thousand EUR, respectively and is recorded in the income statement as "Other net financing items".

The interest rate of the financial lease agreements is 8 – 15 % p.a.

b) Operating lease receivables

The cost and accumulated depreciation of assets leased under operating lease agreements is as follows:

	CONSOLIDATED
	Other equipment and fixtures
At cost	
At 31 December 2001	108
At 31 December 2002	103
Accumulated depreciation	
At 31 December 2001	31
At 31 December 2002	48
Carrying amount	
At 31 December 2001	**77**
At 31 December 2002	**55**

Depreciation and rental income under operating leases recognised during the financial year in the income statement is as follows:

	CONSOLIDATED
	Other equipment and fixtures
Depreciation	
2001	19
2002	20
Rental income	
2001	16
2002	35

The Parent Company does not have any finance or operating lease agreement.

Financial statements are prepared in thousands of euros (EUR)

15. Capital and reserves

a) Issued capital

	CONSOLIDATED		PARENT COMPANY	
	2002	**2001**	**2002**	**2001**
Issued capital				
Ordinary shares, par value 0.64 EUR per share, fully paid	137,383,178	137,383,178	137,383,178	137,383,178
Preference share, par value 63.91EUR per share, fully paid	1	1	1	1
	137,383,179	**137,383,179**	**137,383,179**	**137,383,179**

Non-monetary contribution has been made for 63,883,178 shares in the total value of 56,923 thousand EUR.

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

The company has issued one preference share. The holder of the preference share is entitled to an annual preference dividend of 639,11 EUR, and one vote at the shareholders' general meeting.

b) Changes in the ownership structure

On 26 March 2002, Sonera of Finland and Telia of Sweden, the strategic partners of AS Eesti Telekom, announced that they are planning to merge. On 9 December 2002, the merger took place, and the merged company continued its operations under the name TeliaSonera AB.

TeliaSonera AB owns 49% of the shares of AS Eesti Telekom. In accordance with the shareholders agreement, concluded in December 1998, the company has agreed not to acquire more than 49% of the issued shares prior to the fifth anniversary of the agreement becoming effective, or the date on which the government's portion shareholding falls below 10%.

After the merger, AS Eesti Telekom's ordinary shares are divided among the shareholders in the following manner:

Republic of Estonia	37,485,000 shares	(27.28%)
Public investors	32,580,422 shares	(23.72%)
TeliaSonera:		
Telia AB	16,142,523 shares	(11.75%)
Sonera Holding B.V.	16,142,523 shares	(11.75%)
Baltic Tele AB	35,032,710 shares	(25.50%)

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 difference between the issue price and nominal value of issued shares (issue premium).

d) Dividends

Dividends in the total amount of 48,293 thousand EUR were disbursed in 2002. At the date of preparation of financial statements, the Management Board proposed a dividend of 0,38 EUR per ordinary share (2001 year: 0.35 EUR) and 639.11 EUR per preference share (2001 year: 639.11 EUR). As the annual general meeting has not approved the dividends, they are not recognised as a liability.

e) Re-acquiring of shares

The Annual General Meeting on 17 May 2002, authorised AS Eesti Telekom to reacquire, within one year from the adoption of the resolution (i.e. until 17 May 2003; the same authority, which was obtained from last Annual General Meeting on 23 May 2001, terminated on 23 May 2002) AS Eesti Telekom ordinary shares, so that the total nominal value of own shares held by AS Eesti Telekom would not exceed the limit set by law, and that the price payable per share would not exceed the highest price paid for the ordinary shares of AS Eesti Telekom on the Tallinn Stock Exchange on the day of acquiring the shares. AS Eesti Telekom has to pay for the shares from the company's assets in excess of its share capital, capital reserves, and share premium. The amount of shares to be acquired each time shall be determined on each occasion separately by a resolution of AS Eesti Telekom's Supervisory Council. As of 31 December 2002, no shares have been re-acquired by AS Eesti Telekom.

Financial statements are prepared in thousands of euros (EUR)

f) Employees' share option

The relevant information is disclosed in Note 18.

g) Earnings per share

Basic earnings per share (in EUR) have been calculated as follows:

2002 year: EUR 0.48 = (66,495,000 - 639,11): 137,383,178

2001 year: EUR 0.36 = (49,783,000 – 639,11): 137,383,178

In view of the fact that in 2002 the average price of the shares of AS Eesti Telekom at the Estonian Central Depository for Securities was 4.98 EUR, the options relating to the bonds do not have a dilutive effect and diluted earnings per share equal basic earnings per share.

h) Share information

AS Eesti Telekom shares are quoted in the main list of the Tallinn Stock Exchange and in the main list of GDR-s on the London Stock Exchange. Each GDR (Global Depositary Receipts) represents three ordinary shares. On 25 February 2002 the Tallinn Stock Exchange adopted the HEX trading system. AS Eesti Telekom shares have been traded according to the HEX system since that date. AS Eesti Telekom GDR-s have been traded according to the International Order Book system since 18 March 2002.

The highest price of an AS Eesti Telekom share on the Tallinn Stock Exchange, during 2002, was 6.27 EUR; the lowest price was 4.00 EUR, and the average price was 4.98 EUR per share.

16. Interest-bearing loans and borrowings

		CONSOLIDATED		PARENT COMPANY	
	Notes	**2002**	**2001**	**2002**	**2001**
(a) Non-current					
Bank loans (secured)	17 (a, b)	-	1,487	-	-
Non-convertible long-term debt	17 (c)	1,232	1,623	-	-
Convertible bonds	18	31	29	31	29
		1,263	**3,139**	**31**	**29**
(b) Current					
Bank loans - current portion (secured)	17 (a, b)	1,487	5,064	-	-
Unsecured debt	17 (c)	698	571	-	-
Convertible loan – current portion	18	31	-	31	-
Finance lease liability	6, 20 (b)	66	-	-	-
		2,282	**5,635**	**31**	**-**

Financial stataments are prepared in thousands of euros (EUR)

17. Loan information

The details of the Group's loans are as follows:

	Interest rate	Notes	CONSOLIDATED 2002	CONSOLIDATED 2001	PARENT COMPANY 2002	PARENT COMPANY 2001
(a) Bank loans with fixed interest						
EUR loans	7.50%		-	3,557	-	-
(b) Bank loans with floating interest						
EUR loans	6 month EURIBOR+0.55%		1,487	2,974	-	-
			1,487	6,551	-	-
Current portion of bank loans (-)		16 (b)	(1,487)	(5,064)	-	-
Non-current portion of bank loans		16 (a)	-	1,487	-	-

The Group has one outstanding loan from a financial institution as of 31 December 2002. It was taken by AS Eesti Telefon from the Nordic Investment Bank on 27 June 1997. The final repayment of the loan will be on 18 September 2003. The purpose of the loan was to finance the establishment of a digital, optic-fibre based telecommunications system in Estonia.

On 18 January 2001, AS Eesti Telekom entered into a loan facility agreement with a syndicate of international banks for the purpose of raising a 40 million EUR debt. The maturity date of the loan is 5 years and the annual interest rate is EURIBOR+0,775%. The syndicate consists of Bankgesellschaft Berlin AG, the Dai-Ichi Kangyo Bank Ltd, Landesbank Schleswig-Holstein Girozentrale, Leonia Bank plc, Swedbank and AS Hansapank. As of 31 December 2002, the loan has not been used.

	Interest rate	Notes	CONSOLIDATED 2002	CONSOLIDATED 2001	PARENT COMPANY 2002	PARENT COMPANY 2001
(c) Non-convertible long-term debt						
EUR (with floating interest) *)	3 month EURIBOR+3.5%		1,297	1,619	-	-
Pension liability	-		531	573	-	-
Factoring			102	2	-	-
			1,930	2,194	-	-
Current portion of non-convertible long-term debt (-)		16 (b)	(698)	(571)	-	-
Non-convertible long-term debt		16 (a)	1,232	1,623	-	-

*) AS Eesti Telefon has an outstanding liability in the form of a non-convertible long-term loan. It was taken from Telia Finans AB in the amount of 34 million SEK on 30 December 1994.

On 20 February 2002, the loan agreement was changed in a way that an annuity, denominated in SEK and interest payments at the beginning of each period (interest rate K1+margin) became an EUR denominated fixed repayment schedule loan with an interest payment at the end of each period (interest rate EURIBOR+3.5%). Consequently, the Group eliminated the forex risk between SEK and EEK. The last repayment will be made on 30 June 2005.

(d) Repayment of bank loans and non-convertible long-term debt

	CONSOLIDATED Bank loans	CONSOLIDATED Non-convertible long-term debt
2003	1 487	698
2004	-	548
2005	-	277
2006	-	42
2007	-	42
Thereafter	-	323
	1 487	**1 930**

Financial statament are prepared in thousands of euros (EUR)

18. Convertible debt

Employees' share option

At the beginning of 2001, Eesti Telekom Group launched a motivation system for its employees. As a part of the system, AS Eesti Telekom issued bonds with the issuance value of 0.64 EUR per bond. The bonds are accompanied by an option that allows the holder to exchange them for the Parent Company's ordinary shares either in the spring of 2003 (A-series) or in the spring of 2004 (B-series). The subscription price of the shares is 5.79 EUR. From 18 December 2000 until 5 January 2001, 144 employees of the Group subscribed 20,750 A-series bonds and 20,750 B-series bonds during the primary subscription. The Management Board of AS Eesti Telekom approved all subscription applications. As of 31 December 2001, 21,250 A-series and 21,250-B series bonds were issued and subscribed. During 2002, 20,875 A-series and 20,875 B-series bonds were additionally subscribed. As of 31 December 2002, 42,125 A-series and 42,125 B-series bonds had been issued, which can be exchanged for 421,250 AS Eesti Telekom ordinary shares in 2003, and for 421,250 AS Eesti Telekom ordinary shares in 2004, respectively.

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

		CONSOLIDATED		PARENT COMPANY	
	Notes	**2002**	**2001**	**2002**	**2001**
Nominal value of convertible loan bonds issued		54	27	54	27
Convertible loan bonds premium		4	-	4	-
Discount of convertible loan bonds premium		(2)	-	(2)	-
Interest charged		6	2	6	2
Interest paid		-	-	-	-
Total		**62**	**29**	**62**	**29**
Current portion of convertible long-term loan bonds (-)	16 (b)	(31)	-	(31)	-
Convertible long-term loan bonds	16 (a)	31	29	31	29

19. Trade and other payables

	CONSOLIDATED		PARENT COMPANY	
	2002	**2001**	**2002**	**2001**
Current liabilities				
Accounts payable-trade	15,648	16,677	48	55
Intra-group payables	-	-	159	49
Customer prepayments for goods and services	361	590	-	-
Taxes payable	1,825	2,090	-	23
Accrued expenses	12,081	9,756	150	94
Other payables	-	11	-	-
Other prepaid revenue	94	661	-	-
	30,009	**29,785**	**357**	**221**

20. Operating and finance leases

		CONSOLIDATED		PARENT COMPANY	
	Note	**2002**	**2001**	**2002**	**2001**
a) Operating lease payments					
Minimum lease payments under non-cancellable operating leases, not provided for:					
- no later than one year		1,591	2,406	-	-
- between one and two years		1,081	2,068	-	-
- between two and three years		562	1,506	-	-
- between three and four years		237	651	-	-
- between four and five years		106	51	-	-
		3,577	**6,682**	**-**	-

Financial stataments are prepared in thousands of euros (EUR)

	Note	CONSOLIDATED		PARENT COMPANY	
		2002	**2001**	**2002**	**2001**
(b) Finance lease payments					
Finance lease payments, both principal and interest charge, are payable as follows:					
- not later than one year		70	-	-	-
Interest charge (-)		(4)	-	-	-
Current portion of finance lease liability	6, 16 (b)	66	-	-	-

21. Provisions (consolidated)

	Termination benefits provision	Bonuses by result provision	Other	**Total**
At 31 December 2001	**705**	**409**	**3**	**1,117**
Additional provision in the year	686	409	20	1,115
Utilisation of provision	(829)	(360)	(1)	(1,190)
At 31 December 2002	**562**	**458**	**22**	**1,042**

22. Financial instruments

Financial assets of the Group include cash, marketable securities and trade receivables. Financial liabilities include loans, borrowings and trade payables. Accounting policies for financial assets and liabilities are disclosed in Note 1.

To manage the Group's liquid assets more efficiently, the Group has Group account systems in Hansapank, Eesti Ühispank and Sampo Pank in Estonia, and in Hansabanka in Latvia. The group accounts are also used for funding the subsidiaries.

Funding the Group, as well as managing the Group's excess liquidity and financial risks, is the responsibility of the Treasury Department, which fulfils its respective obligations and responsibilities in accordance with the rules approved by the Supervisory Council of AS Eesti Telekom.

(a) Interest rate risk

The Group has hedged a liability through IRS (Interest Rate Swap) against the rise in interest rates (3 month EURIBOR). The contract is made with Nordea Bank Estonia and the hedged loan agreement is signed between AS Eesti Telefon and Telia Finans AB.

The interest rates and repayment terms of the Group's loans are disclosed in Note 17 to the financial statements.

(b) Credit risk

Credit risk represents accounting loss that would be recognised at the reporting date if counterparties failed to perform as contracted. The Group does not have significant exposure to any individual customer or counter-party. To reduce exposure to credit risk, the Group performs ongoing customer performance evaluations. The management does not expect the customers to fail to meet their obligations.

The Group manages its excess liquidity and financial risks only with and through Estonian banks, which have at least a Baa 1 credit rating, and foreign banks, which have at least an A2 credit rating.

(c) Fair value

The fair values of cash, trade payables, loans and borrowings are not materially different from their carrying amounts.

(d) Foreign exchange hedge instruments

To hedge the currency risk arising from liabilities denominated in foreign currencies, the Group has concluded currency option and swap transactions and the Group's group account includes foreign currency assets.

As of 31 December 2002, the Group did not have any outstanding derivative contracts related to hedge currency risks.

Financial stataments are prepared in thousands of euros (EUR)

23. Acquisition of subsidiaries

AS Connecto, which is fully owned by AS Eesti Telekom's 100%-owned subsidiary AS Eesti Telefon, acquired on 11 February 2002 all of the shares of a telecommunication network construction company SIA Link, which operates in Latvia. In accordance with the sale-purchase agreement, AS Connecto purchased 100% of the shares of SIA Link from SIA Fortech, which belongs to the MicroLink Group. The acquisition cost of the bargain deal was 0 EUR.

With the purchase of SIA Link, AS Connecto intends to expand its strategic activities, i.e. the construction of fixed-line networks, radio networks and internal networks, to other Baltic States. SIA Link was founded on 28 September 2001, and is involved mainly with the construction of indoor network and wireless exterior connections. SIA Link has 21 employees and an annual total turnover of roughly 10 million EEK (639 thousand EUR).

On 11 March 2002, SIA Link was renamed to SIA Connecto Latvia.

The effect of the acquisition on goodwill and cash flows in 2002 is the following:

		2002	**2001**	
	Note	SIA Connecto Latvia	AS Esmofon Tartu (32%)	AS Telefonipood
Fixed assets		47	26	-
Inventories		69	25	-
Trade receivables		68	8	-
Other receivables		-	10	-
Cash and bank accounts		2	60	-
Short-term liabilities		(224)	(25)	-
Minority interest in current year		-	(3)	-
Net identifiable assets and liabilities		(38)	101	-
Goodwill	7	38	168	-
Total purchase price		-	269	-
Settlement of purchase liability		-	-	657
Net cash outflow		-	269	657

24. Related party transactions

a) Directors' and executives' remuneration

The remuneration of directors and other members of key management during the year was as follows:

	CONSOLIDATED		PARENT COMPANY	
	2002	**2001**	**2002**	**2001**
Salaries	445	426	208	208

Financial stataments are prepared in thousands of euros (EUR)

b) Trading transactions

Transactions with related parties were conducted under market terms.
During the year, group companies entered into the following transactions with related parties:

	CONSOLIDATED		PARENT COMPANY	
	2002	**2001**	**2002**	**2001**
Telecommunication services provided				
TeliaSonera AB	8,515	6,231	-	-
AS Esdata	233	225	-	-
AS Sertifitseerimiskeskus	16	10	-	-
AS Intergate	3	5	-	-
OÜ Voicecom	6	6	-	-
AdvokaadibürooTark & Co	19	23	-	-
Other sales				
AS Eesti Telefon	-	-	-	5
AS EMT	-	-	8	9
TeliaSonera AB	-	-	-	-
AS Sertifitseerimiskeskus	-	2	-	-
OÜ Voicecom	-	-	-	-
AdvokaadibürooTark & Co	-	1	-	-
Telecommunication services purchased				
AS Eesti Telefon	-	-	8	16
AS EMT	-	-	5	17
AS Esmofon	-	-	-	-
TeliaSonera AB	7,253	4,463	-	-
AS EsData	23	18	2	8
OÜ Voicecom	134	169	-	-
Other services purchased				
TeliaSonera AB	257	443	-	-
Baltic Tele AB	-	101	-	-
OÜ Voicecom	1	18	-	-
AdvokaadibürooTark & Co	68	88	4	8
Financial income				
AS Eesti Telefon	-	-	957	1,671
AS EMT	-	-	46	37
AS Mobile Wholesale	-	-	34	3
SIA Connecto Latvia	-	-	4	-
AS Sertifitseerimiskeskus	17	5	17	5
Financial expenses				
TeliaSonera AB	77	130	-	-
Amounts owed by related parties				
AS Eesti Telefon	-	-	21,610	32,359
AS Mobile Wholesale	-	-	1	317
SIA Connecto Latvia	-	-	25	-
TeliaSonera AB	1,757	2,056	-	-
AS Sertifitseerimiskeskus	267	268	266	267
AS EsData	46	26	-	-
AS Intergate	-	-	-	-
OÜ Voicecom	1	1	-	-
AdvokaadibürooTark & Co	2	2	-	-
Amounts owed to related parties				
AS Eesti Telefon	-	-	77	-
AS EMT	-	-	71	43
AS Connecto	-	-	7	4
AS Telefonipood	-	-	3	-
AS Esmofon	-	-	1	2
AS Eesti Telekom (convertible bonds)	61	29	61	29
TeliaSonera AB	3,223	2,625	-	-
AS EsData	1	-	-	-
OÜ Voicecom	-	32	-	-
AdvokaadibürooTark & Co	-	5	-	-

Financial stataments are prepared in thousands of euros (EUR)

25. Contingencies

Contingent income tax liability

According to the Estonian Income Tax Law in force from 1 January 2003, resident legal entities pay income tax on dividends and on other distribution of profit irrespective of the recipient. The maximum amount of the contingent income tax occurring at the distribution of profits as dividends (132,869 thousand EUR) is up to 34,546 thousand EUR. The income tax payable can be decreased by the income tax paid by the subsidiary and associated company at their dividend distribution.

The Management Board has proposed that 52,686 thousand EUR be distributed as dividends. The proposal has to be approved by the general meeting of shareholders. Taking into consideration the requirements of the Income Tax Law from 1 January 2003, the distribution would cause an income tax liability of 18,511 thousand EUR.

Other contingent liabilities

	CONSOLIDATED		PARENT COMPANY	
	2002	**2001**	**2002**	**2001**
Guarantees to former employees	13	19	13	13
Guarantees to subsidiaries	-	-	192	-
Guarantees to other companies	101	100	-	-
Juridical proceedings	12	-	-	-

26. Events after the balance sheet date

Litigation with the Estonian Competition Board

On 24 April 2001, the Competition Board issued a precept, based on the Competition Act, prohibiting AS Eesti Telefon from levying a per-minute rate of 2.2 euro-cents at peak time, 1.8 euro-cents at off-peak time and 0.9 euro-cents at night for voice calls in its network. The Competition Board there upon instructed AS Eesti Telefon to levy rates lower than those, which it had established on 1 April 2001. AS Eesti Telefon is of the opinion that the basic price of 0.9 to 2.2 euro-cents for calls within the network is cost-based. Therefore, AS Eesti Telefon disagreed with the precept of the Competition Board and contested it in court in May 2001. The first and the second level courts made their decisions in favor of AS Eesti Telefon and the Competition Board appealed to the Supreme Court, which on 18 December 2002 annulled the earlier judgments and forwarded the case to the Administrative Court for revision.

The Supreme Court found that the precept of the Competition Board regarding minute rates of the voice communication services within a network is inadequate for making the final judgment. The Administrative and the Circuit Court had, according to the Supreme Court, not assessed all pieces of evidence. The Supreme Court considered it necessary for the Administrative Court to use the assistance of the Communications Board when revising the case.

Reducing termination fees of calls made into mobile networks

The Communications Board started procedures in November 2002 to reduce the termination fees of calls made into mobile networks. The Board analysed interconnection fees of the mobile operators and came to the conclusion that the operators have not based their charges on a reasonable profit percentage, as determined by the Telecommunication Act. The opinion of the Communications Board is that lower interconnection charges would improve the quality of mobile calls made from abroad to Estonia, and would lead to lower retail rates. The proceedings in this matter are continuing in the year 2003.

27. Employees

The average number of employees during 2002 was 2,307; and during 2001, 2,673.

28. Ultimate parent of the Group

The ultimate parent of the Group is AS Eesti Telekom, situated at Roosikrantsi Str 2, 10119 Tallinn, Estonia.

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INDEPENDENT AUDITOR'S REPORT

To the shareholders of AS Eesti Telekom:

We have audited the accompanying consolidated balance sheets of AS Eesti Telekom and subsidiaries ("the Group") and the separate balance sheets of AS Eesti Telekom as at 31 December 2002 and 2001, and the related statements of income, cash flows and changes in equity for the years then ended. These financial statements are the responsibility of the AS Eesti Telekom's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the consolidated financial position of the Group and the financial position of AS Eesti Telekom as at 31 December 2002 and 2001, and the results of their operations, cash flows and changes in equity for the years then ended, in accordance with International Financial Reporting Standards.

Villu Vaino
Certified Auditor
25 February 2003

AS Deloitte & Touche Audit

Deloitte
Touche
Tohmatsu