

17 October 2002

## THE FINANCIAL RESULTS OF THE FIRST NINE MONTHS OF 2002

Eesti Telekom, the leading provider of telecommunication services in Estonia, hereby announces its results for the nine-month period which ended 30 September 2002.

### Financial highlights

	9 months 2002	9 months 2001	Change, %
Total revenues, mEEK	3,422	3,153	9
EBITDA, mEEK	1,651	1,501	10
EBITDA margin, %	48	48	
EBIT, mEEK	893	721	24
EBIT margin, %	26	23	
Profits before taxes, mEEK	888	744	19
Net profits for the period, mEEK	797	713	12
EPS, EEK	5.80	5.19	12
No. of A- shares	137,383,178	137,383,178	
Investments, mEEK	342	688	-50
Net gearing, %	-19.1	-1.5	
ROA, %	25.2	21.7	
ROE, %	32.6	27.8	

Commenting on these financial results, Chairman Jaan Männik stressed:

“The healthy revenue growth of the Group continued in the third quarter. The financial position of the Group has become even stronger.”

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## **CHAIRMAN'S STATEMENT**

For already the second year, the Eesti Telekom Group faces competition in all the main areas of its operations. And during the last quarter, news reached us concerning new companies intending to enter the market. The Estonian economy, in general, has remained relatively untouched by the problems currently ailing some larger economies. However, a worsening of the Estonian economic environment in the future cannot be excluded. Keeping this in mind, it is especially heartening to see the continued revenue growth and strengthened financial position of the Group. The free cash flow of the Group has doubled, compared to the same period in 2001. These developments will enable the Group to continue carrying on successful operations even in a less favourable environment.

The results of the first nine months of 2002 indicate an improved efficiency in both operating segments of the Eesti Telekom Group. The ratio of operating expenses to total revenues has fallen in both mobile communications and fixed communications. The EBITDA margin of the EMT Group has exceeded the 50% level again. The EBITDA margin of the Eesti Telefon Group is close to 40%.

The investments of the Eesti Telekom Group are substantially lower this year than they were a year ago, since efficiency of investments has become a subject for more radical analyses. Lower investments have had a positive impact on cash flow. Net gearing of the Group had reached -19% by the end of September.

### **Revenues, expenses, and profits**

During the first nine months of 2002, consolidated revenues of the Eesti Telekom Group amounted to 3,422 mln EEK, showing an increase of 9% compared to the same period in 2001. Operating expenses were 1,770 mln EEK, up by 7%. The EBITDA of the Group was 1,651 mln EEK (with a margin of 48%), showing an increase of 10%. Depreciation during the period was 3% lower than a year ago. The EBIT of the Group was up by 24%, amounting to 893 mln EEK. A strong and positive cash flow has led to lower financing costs. On 19 June 2002, AS Eesti Telekom paid out dividends in the amount of 756 mln EEK to its shareholders for the year 2001. Income tax on dividends amounted to 91 mln EEK (31 mln EEK in 2001). The net profit of the Eesti Telekom Group was 797 mln EEK, or 5.80 EEK per share.

The results of the first nine months 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 54 mln EEK. The gain was accounted as "other revenues".	
Total expenses		AS Eesti Telefon released a 46 mln EEK reserve related to the OÜ Albufent claim.
Income from associates		AS Eesti Telefon sold its ownership in AS Teabeliin. 33 mln EEK of profit was accounted as income from associates.

The consolidated revenues of the Eesti Telefon Group were 1,957 mln EEK during the first nine months of 2002, down by 9% compared to the same period in 2001. Operating expenses of the period amounted to 1,201 mln EEK, down by 17%. The EBITDA of the Group was 756 mln EEK (698 mln EEK in 2001). The EBITDA margin rose, compared to the first 9 months in 2001, and reached 39% (32% in 2001). The operating profit and net profit of the Group grew by 74% and 61% respectively. The Eesti Telefon Group earned 239 mln EEK of net profit during the first nine months of 2002.

The operating revenues of AS Eesti Telefon, the parent company of the Eesti Telefon Group, amounted to 1,804 mln EEK, down by 11%, compared to the same period in 2001. This decrease was caused by lower voice communications revenues. Domestic call revenues were down by 18%, international call revenues were down by 10%, revenues from calls from fixed to mobile networks were 10% lower, and dial-up revenues were 42% lower. The decrease in voice communications revenues resulted mainly from lower mobile transit revenues. Starting this year, a large part of mobile calls go directly from the network of one operator to the network of another (interconnection costs are down as well). The decrease in the dial-up revenues has been the result of a wider propagation of permanent connections. Main line revenues of AS Eesti Telefon were up by 21%. Revenues from the internet and data communications almost doubled, showing a growth of 81%.

The market shares of AS Eesti Telefon have been stable. The company estimates its share of total call minutes, domestic call minutes, fixed to mobile minutes, and international minutes to be 89%, 88%, 76%, and 73%, respectively. A slight decrease in the market share of domestic call minutes was the result of active advertising campaigns by competitors during the summer months.

The Estonian fixed communications market opened up to full competition at the beginning of 2001. Estonia has a well-developed mobile communications market. Some decrease in the revenues of AS Eesti Telefon has been inevitable. But the company intends to maintain its profitability, and has prioritized the improving of its cost-efficiency. The operating expenses of AS Eesti Telefon were down by 20%, compared to the same period in 2001. The expenses of the third quarter were down by as much as 25%. The largest part of the decrease was due to lower interconnection costs, but there were also reductions in other categories. Personnel expenses were down by 11%. The number of employees of AS Eesti Telefon had fallen to 1,413 by the end of September 2002 (September 2001: 1,701). The EBITDA of the company was 741 mln EEK, up by 8%. The EBITDA of the third quarter was even up 22%. The EBITDA margin of AS Eesti Telefon in 2002 has remained at over 40%. Depreciation was down by 9%. Greater cost efficiency and lower investments have caused a strong positive cash flow and lower financing costs. Starting from October 2002, payment terms for customers will be brought forward by seven days, which will further improve Eesti Telefon's financial position. The net profit of AS Eesti Telefon was 239 mln EEK, up by 61% compared to 2001.

Another company of the Eesti Telefon Group, AS Connecto, has achieved a healthy revenue growth. Revenues of the company, together with its subsidiary SIA Connecto Latvia, were up by 38%. By now, almost half of AS Connecto's revenues come from outside of the Eesti Telefon Group. In June, AS Connecto and AS EMT concluded a contract according to which AS EMT will order its network construction services from AS Connecto, and give up its own network construction department.

The total revenues of the EMT Group amounted to 1,799 mln EEK, up by 11%. The operating expenses of the Group were 889 mln EEK, up by 10%. The EBITDA of the EMT Group was 910 mln EEK. The EBITDA margin has exceeded the 50% level again. For the first nine months of this year it was an average 51%, with the margin of the third quarter even reaching 53%. The net profit of the Group was 654 mln EEK, up by 10%, compared to the same period in 2001.

EMT's revenues in all main categories were up during the nine months of 2002. Revenues from SMS and data had the highest growth-rate, exceeding the corresponding figure in 2001 by 28%. The growth resulted from a wider customer base and new services being offered by EMT. A good example is the multi-SMS service, which allows businesses to send messages, via the internet, to their numerous customers' mobile phones. Private customers were offered the possibility of paying for purchases by mobile phone. For instance, at the exceedingly popular Tallinn summer beer festival, it was possible to pay for a glass of beer by mobile phone. In August, m-bus tickets were tried out in two major Estonian cities, Tallinn and Tartu.

The number of customers of AS EMT reached 414,000 by the end of September. The company had 270,000 contractual customers and 144,000 prepaid-card users. Client base growth has traditionally been rapid during the spring and summer months, with a gradual slow-down in the third quarter. The company estimates its market share to be approximately 50%. Monthly ARPU (monthly average revenue per user) in September 2002 was 433 EEK (September 2001: 436 EEK, December 2001: 439 EEK).

## **Balance sheet and cash flow**

At the end of September 2002, the total assets of the Eesti Telekom Group amounted to 4,191 mln EEK (December 2001: 4,236 mln EEK). Tangible assets were reduced, from the beginning of the year, by 412 mln EEK. Current and non-current interest bearing liabilities of the Group were reduced by 17 mln EEK. By the end of the period, net debt of the Group amounted to –699 mln EEK, and net gearing was –19%.

Net cash inflows of the Group in the first nine months of 2002 amounted to 355 mln EEK. Net operating cash flow was 1,399 mln EEK (first nine months of 2001: 1,184 mln EEK). Cash outflow into investing activities was essentially smaller than a year ago: 252 mln EEK in 2002, 622 mln EEK in 2001. Cash outflow into financing activities was 791 mln EEK, including dividends of 756 mln EEK.

## **Investments**

The Eesti Telefon Group invested 189 mln EEK during the first nine months of 2002 (first nine months of 2001: 378 mln EEK). The majority of the investments went into improving the quality of the network development of the broadband access network. In September, 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 the case of a possible technical failure, network traffic is automatically redirected, and the connection is not interrupted. The fibre-optic cable network improves speed and quality of data communications, and widens the area where ADSL permanent connections can be installed.

Another fibre-optic cable network is in the process of construction. The network will connect schools and social centres in Tartu. This will be the most modern network of its kind in Estonia, and will therefore be the fastest. It will be used by 14,000 schoolchildren, the Central Library and all of its branches, and five internet access points, which are open to the public. Among other things, it will be possible, in real time, to transfer a lecture from one school to all the other schools connected to the network.

7,245 new ADSL connections were installed during the nine month period. The total number of Atlas ADSL connections reached 24,136 (a penetration of 1.8 lines per 100 people). By data of Point Topic, Estonia has the 12<sup>th</sup> position in the World by the ration of ADSL lines to the total number of main lines in use. Estonia is ahead of USA, Spain, Austria, Norway. In July 2002, Eesti Telefon began to offer a new wireless internet permanent connection Atlas RDSL. The new connection functions on the basis of radio waves. It also gives rural consumers an opportunity to make use of permanent internet connections. In August, Eesti Telefon changed three of its old internet permanent connection packages for new ones, which are more oriented to the needs of specific customer groups.

The number of main lines in use at the end of September was 466,852 (a penetration of 34.3 per 100 people). The number of main lines, compared to the beginning of the year, has been reduced by 35 thousand. Mainly residential customers have been giving up their lines. The number of lines per employee was 331.

In addition to the access business, the development of communication solutions and content services has continued. In September, as an AS Eesti Telefon and Estonian Air joint venture, one of Estonia's first IP-based call processing systems was established. The new system, rented from Eesti Telefon, integrates Estonian Air's telephone and e-mail communications. Eesti Telefon values the project as an opportunity to promote the advantages and potential of IP-based voice communications solutions.

In May 2002, a multimedia section, Broadband Hot, was added to Eesti Telefon's communication environment Hot. This has made it possible to offer customers several new internet facilities. The operation was launched in May with coverage of the latest international Eurovision song contest, which took place in Tallinn. Viewers were able to see three live broadcasts, which differed from the regular TV coverage. The fall has brought with it less glamorous, but more serious and academic events. Thanks to Eesti Telefon, students in Tallinn had an opportunity to follow internet coverage of the Tartu Management Conference,

and to participate, for free, in the telecommunications and IT conference “From a Vision to Solutions”, via web coverage.

In February, the Group expanded through the acquisition of a new firm. 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), which operates in Latvia. In April, AS Eesti Telefon invested an additional 5 mln EEK into the Group’s associated firm AS Sertifitseerimiskeskus.

The EMT Group invested 153 mln EEK during the first nine months of 2002 (first 9 months of 2001: 308 mln EEK). The majority of investments made by EMT went into base stations and exchanges. AS EMT also made a 5 mln EEK investment into AS Sertifitseerimiskeskus. In August, GPRS roaming was introduced to the market. The service can currently be used in Finland, Latvia, and Lithuania.

The first m-tickets were introduced to the Estonian market this summer. In August, AS EMT, in co-operation with AS Connex, presented a new public transport ticket solution based on a GSM mobile phone and an electron card. Initially, the new system will be used only for making payments for public transport fares. In the future, all kind of additional functions can be added to the service.

### **Developments in the mobile communications market**

For five years already, the Estonian mobile communications market has been shared by three operators – AS EMT, Radiolinja and Tele2. In August 2002, two new operators announced their intention to enter the market. Each of the current operators has built its own physical network. The newcomers will act as virtual network providers. One of the new operators, OÜ Vetrelson Haldus, plans to start bulk purchases of call minutes from other operators already within the course of this year. These minutes will be used for introducing new services to the Estonian market. The second new operator, Citygsm, will launch a prepaid-card in the beginning of 2003. The operator will use Radiolinja’s 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.

On 21 May 2002, the Ministry of Roads and Communications presented to the *Riigikogu* (Parliament) an amendment to the Telecommunications Act, which establishes the conditions for the issuing of the third generation mobile network licenses. According to the Ministry’s proposal, the licenses would be issued on a “beauty contest” basis. The participation fee in the tender would be 50 mln EEK. The Ministry’s plan is to issue four third generation licenses. Revenues from issuing the licences have already been written into the federal budget for 2003. However, it is the opinion of the management of AS EMT, that for a small market like Estonia, four licenses are too many. If four licenses are issued, the capacity of the frequency band of each operator would be quite limited, leading to lower efficiency of investments, and higher prices for the final consumers.

### **Relations with state regulators**

On 3 September 2002, the Estonian National Communications Board announced the names of the companies it intends to name as companies with significant market power (SMP) for the year 2003. The intention is to declare AS Eesti Telefon to be a company with SPM for the year 2003 in the public telephone service market, the public leased line service market, and the public interconnection service market. AS Eesti Telefon was named as an operator with SMP in these same fields also in 2001 and 2002.

The intention is to name AS EMT as a company with SMP, for the year 2003, in the nationwide general mobile services market. AS EMT was also declared to be an operator with SMP for 2002. In 2002, AS EMT contested the decision, since the company found its activities to be in accordance with the rules of free competition. In September 2002, the lawsuit was terminated by mutual agreement, as the potential outcome of the dispute had lost its importance for both parties.

AS Eesti Telefon is still in litigation with the Estonian Competition Board. On 24 April 2001, the Competition Board issued a precept, based on the Competition Act, prohibiting Eesti Telefon from levying a per-minute rate of 34 *sent* at peak time, 28 *sent* at off-peak time, and 14 *sent* at night for voice calls in its network. The Competition Board thereby instructed Eesti Telefon to levy a rates lower than those which it had established on 1 April 2001. According to the Competition Act, a fine in the amount of up to 5% of the net sales for the year preceding the decision to impose a fine can be imposed for the abuse of a dominant position.

Eesti Telefon is of the opinion that the basic price of 14 to 34 *sent*, for calls within the network, is cost-based. Therefore, Eesti Telefon disagreed with the precept of the Competition Board, and contested it in the Tallinn Administrative Court on 23 May 2001. The Tallinn Administrative Court agreed with Eesti Telefon and cancelled the Competition Board's precept on 17 January 2002. The Competition Board appealed this decision to the higher Circuit Court, which ended up confirming the Tallinn Administrative Court's judgement. The Competition Board, in turn, appealed the decision to the Supreme Court, which has agreed to hear the case.

### **Potential change 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. Telia is making a purchase offer to the shareholders of Sonera, offering 1.51440 Telia shares for one Sonera share. The Sonera and Telia merger plan was presented to the European Union for approval, which was given on 10 July 2002. The results of the share exchange should be evident by 14 November 2002. The merged TeliaSonera will be the leading telecommunications group in the Nordic and Baltic regions. In the TeliaSonera merger prospectus, Estonia is considered to be a part of the group's home market, where TeliaSonera will provide a full range of telecommunications services to its customers. TeliaSonera will be in the business of providing telecommunications services, rather than providing technology or access to networks. TeliaSonera will seek to be innovative in packaging its products and services, so that they will be conveniently accessible for both consumers and business customers. If the share exchange proves to be successful, Telia/Sonera will have 49% ownership of Eesti Telekom.

### **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 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 5.50 EEK per share (a total of 756 mln EEK, or 97% of the net profits of 2001). The owner of the B-share was paid dividends in the total amount of 10,000 EEK.

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 acquire, 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 acquiring the shares. Any possible share buy-back must be approved by the AS Eesti Telekom Council. No share buy-backs has taken place until now.

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## **Definitions**

**Net debt** – long term and short term debt, less cash and cash equivalents, and short term investments

**ROA** – Net profit for the period, expressed as a percentage of average total assets

**ROE** – Pre-tax profit for the period, expressed as a percentage of average equity

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

mln EEK

	Q3 2001	Q4 2001	Q1 2002	Q2 2002	Q3 2002
Total revenue	1,082	1,132	1,052	1,220	1,150
Total expenses	597	702	545	637	589
EBITDA	485	430	507	583	561
<i>margin</i>	45%	38%	48%	48%	49%
Depreciation and amortization	260	355	257	255	247
EBIT	225	75	250	328	315
<i>margin</i>	21%	7%	24%	27%	27%
Income from associates	-4	-2	-2	-1	-1
Other net income	-8	-6	2	-5	3
Profit before tax	213	67	250	322	316
Income tax	0	0	0	-94	2
Profit after tax	213	67	250	228	318
Minority interest	0	0	0	0	0
Net profit for the period	213	67	250	228	318
Operating cash flows	389	547	377	573	449
Investments	-257	-273	-71	-51	-131
Cash flows before dividends and loan repayments	132	274	306	522	318
Dividends	0	0	0	-756	0
Loan repayments	-181	-6	-13	-6	-17
Net change in cash	-49	268	293	-240	301
Total assets	4,147	4,236	4,405	4,037	4,191
- current assets	932	1,110	1,466	1,240	1,490
- cash and cash equivalents	196	464	758	519	820
- non-current assets	3,215	3,126	2,939	2,797	2,701
Total equity	3,549	3,615	3,866	3,339	3,657
Minority interest	0	0	0	0	0
Total liabilities	598	621	539	698	534
- ST borrowings	40	88	87	83	97
- LT borrowings	102	49	38	36	24



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

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

	Note	9 mths to 30 Sept 2002	9 mths to 30 Sept 2001 Restated	2001
<b>Revenue</b>				
Net sales		3,316,331	3,078,638	4,154,438
Change in work-in-progress		2,104	4,352	529
Capitalized self-constructed assets		31,803	45,039	87,112
Other revenue		71,367	25,129	42,461
<b>Total revenue</b>		<b>3,421,605</b>	<b>3,153,158</b>	<b>4,284,540</b>
<b>Operating expenses</b>				
Materials, consumables, supplies and services		1,045,520	926,539	1,290,730
Other operating expenses		343,028	330,276	494,962
Personnel expenses		357,905	372,936	534,754
Other expenses		23,834	22,090	33,118
<b>Total expenses</b>		<b>1,770,287</b>	<b>1,651,841</b>	<b>2,353,564</b>
<b>Profit from operations before depreciation and amortization</b>		<b>1,651,318</b>	<b>1,501,317</b>	<b>1,930,976</b>
Depreciation and amortization	2	758,572	780,607	1,135,661
<b>Profit from operations</b>		<b>892,746</b>	<b>720,710</b>	<b>795,315</b>
Income/ expenses from subsidiaries and associated companies (net)		-4,541	28,854	26,828
Other net financing items		255	-5,243	-11,719
<b>Profit before tax</b>		<b>888,460</b>	<b>744,321</b>	<b>810,424</b>
Income tax on dividends		91,298	30,932	30,932
<b>Profit after tax</b>		<b>797,162</b>	<b>713,389</b>	<b>779,492</b>
Minority interest		0	557	557
<b>Net profit from ordinary activities</b>		<b>797,162</b>	<b>712,832</b>	<b>778,935</b>
<b>Net profit for the period</b>		<b>797,162</b>	<b>712,832</b>	<b>778,935</b>
<b>Earnings per share</b>				
	6 (e)			
Basic earnings per share (in kroons)		5.80	5.19	5.67
Diluted earnings per share (in kroons)		5.80	5.19	5.67



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

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

	Note	30 Sept 2002	31 Dec 2001	30 Sept 2001 Restated
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and cash equivalents		819,494	464,217	196,079
Trade receivables, net		406,533	403,324	448,643
Other receivables		13,491	10,715	10,364
Accrued income		130,698	99,242	98,421
Prepaid expenses		13,968	28,159	20,364
Inventories		105,450	104,013	157,925
<b>Total current assets</b>		<b>1,489,634</b>	<b>1,109,670</b>	<b>931,796</b>
<b>Non-current assets</b>				
Long term financial assets	4	31,703	26,464	35,962
Tangible assets, net	2	2,632,148	3,043,869	3,131,601
Intangible assets, net	2	37,454	56,139	47,463
<b>Total non-current assets</b>		<b>2,701,305</b>	<b>3,126,472</b>	<b>3,215,026</b>
<b>TOTAL ASSETS</b>		<b>4,190,939</b>	<b>4,236,142</b>	<b>4,146,822</b>
<b>EQUITY AND LIABILITIES</b>				
<b>Current liabilities</b>				
Interest bearing loans and borrowings	5	96,933	88,166	40,234
Customer prepayments		3,202	9,237	8,364
Accounts payable to suppliers		154,822	260,932	190,365
Other payables		189	168	0
Tax liabilities		47,951	32,697	51,786
Accrued expenses		187,807	152,644	142,483
Provisions		16,495	17,482	16,613
Prepaid revenue		2,774	10,350	45,996
<b>Total current liabilities</b>		<b>510,173</b>	<b>571,676</b>	<b>495,841</b>
<b>Non-current liabilities</b>				
Interest bearing loans and borrowings	5	23,798	49,115	101,733
Other long-term payables		0	0	0
<b>Total non-current liabilities</b>		<b>23,798</b>	<b>49,115</b>	<b>101,733</b>
<b>Equity</b>				
	6			
Issued capital		1,373,833	1,373,833	1,373,833
Share premium		309,964	309,964	309,964
Statutory legal reserve		137,384	137,384	137,384
Retained earnings		1,038,553	1,015,235	1,015,235
Net profit for the period		797,162	778,935	712,832
Foreign exchange differences		72	0	0
<b>Total equity</b>		<b>3,656,968</b>	<b>3,615,351</b>	<b>3,549,248</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>4,190,939</b>	<b>4,236,142</b>	<b>4,146,822</b>

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

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

	Note	9 mths to 30 Sept 2002	9 mths to 30 Sept 2001 Restarted
<b>Operating activities</b>			
Profit before tax and minority interest		888,460	744,321
Adjustments for:			
Depreciation and amortization	2	758,572	780,607
Profit/loss from disposal of fixed assets		-53,070	-4,403
Income/ expense from subsidiaries and associates, net		4,541	-28,854
Interests income/ expense, net		-9,864	-2,790
Other non-cash adjustments		70	1,867
Operating profit before working capital changes		1,588,709	1,490,748
Change in current receivables		-16,705	-93,554
Change in inventories		-346	-8,701
Change in current liabilities (except loans)		-74,240	-189,266
Adjusted cash generated from operations		1,497,418	1,199,227
Interest paid		-5,141	-15,258
Income tax on dividends paid		-93,660	0
<b>Net cash flows provided by operating activities</b>		<b>1,398,617</b>	<b>1,183,969</b>
<b>Investing activities</b>			
Purchase of tangible assets		-315,793	-653,887
Purchase of licenses		-16,285	-11,992
Purchase of shares, investments and other		-10,000	-21,996
Proceeds from sales of tangible assets		77,128	9,479
Proceeds from sales of associates		0	43,500
Loans granted		-218	-4,393
Cash receipts from repayment of loans		24	58
Dividends received		96	181
Interest received		12,857	17,528
<b>Net cash flows used in investing activities</b>		<b>-252,191</b>	<b>-621,522</b>
<b>Financing activities</b>			
Proceeds from convertible long-term debt	5	32	438
Repayment of convertible long-term debt	5	-8	-10
Proceeds from nonconvertible long-term debt	5	2,813	0
Repayment of nonconvertible long-term debt	5	-5,789	-103,559
Repayment of long-term borrowings	5	-27,578	-100,734
Payment of finance lease liabilities		-5,002	-16,629
Proceeds from short-term borrowings	5	0	78,233
Repayment of short-term borrowings	5	0	-78,233
Dividends paid	6	-755,617	-755,617
<b>Net cash flows used in financing activities</b>		<b>-791,149</b>	<b>-976,111</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>		<b>355,277</b>	<b>-413,664</b>
<b>Cash and cash equivalents at beginning of year</b>		<b>464,217</b>	<b>609,743</b>
<b>Cash and cash equivalents at end of period</b>		<b>819,494</b>	<b>196,079</b>

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

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

	Issued capital	Share premium	Reserves	Foreign exchange differences	Retained earnings	Net profit for the period	Total
<b>31 December 2000</b>	<b>1,373,833</b>	<b>309,964</b>	<b>124,963</b>	<b>0</b>	<b>661,465</b>	<b>1,121,808</b>	<b>3,592,033</b>
Net profit for the period transferred into retained earnings	0	0	0	0	1,121,808	-1,121,808	0
Amounts transferred to reserves	0	0	12,421	0	-12,421	0	0
Dividends paid	0	0	0	0	-755,617	0	-755,617
Net profit for the period	0	0	0	0	0	712,832	712,832
<b>30 September 2001</b>	<b>1,373,833</b>	<b>309,964</b>	<b>137,384</b>	<b>0</b>	<b>1,015,235</b>	<b>712,832</b>	<b>3,549,248</b>
<b>31 December 2001</b>	<b>1,373,833</b>	<b>309,964</b>	<b>137,384</b>	<b>0</b>	<b>1,015,235</b>	<b>778,935</b>	<b>3,615,351</b>
Net profit for the period transferred into retained earnings	0	0	0	0	778,935	-778,935	0
Foreign exchange differences	0	0	0	72	0	0	72
Dividends paid	0	0	0	0	-755,617	0	-755,617
Net profit for the period	0	0	0	0	0	797,162	797,162
<b>30 September 2002</b>	<b>1,373,833</b>	<b>309,964</b>	<b>137,384</b>	<b>72</b>	<b>1,038,553</b>	<b>797,162</b>	<b>3,656,968</b>

Foreign exchange differences result from conversation of financial statements of SIA Connecto Latvia, a fully owned subsidiary of AS Connecto, registered in Latvia, from Latvian latts into Estonian kroons.



**AS EESTI TELEKOM AND SUBSIDIARY COMPANIES**  
**NOTES FOR THE FINANCIAL STATEMENTS AS OF 30 SEPTEMBER 2002**

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

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

The consolidated interim financial statements for the nine months period ending 30 September 2002 are prepared in accordance with the International Accounting Standards (IAS 34). In all material respects, the same accounting principles have been followed as in the preparation of financial statements for 2001.

Historical cost has been used as the general *measurement basis*.

*The consolidated financial statements* include all subsidiaries that are controlled by the parent company. When an entity began, or ceased to be controlled during the year, the results are included only from the date control commenced, or up to the date control ceased. Control is presumed to exist where more than one half of a subsidiary's voting power is controlled by the parent company, or the parent company is able to govern the financial and operation policies of a subsidiary, or control the removal or appointment of a majority of a subsidiary's board of directors.

All intercompany transactions and balances have been eliminated.

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

*Investments in associates* are accounted for under the equity method of accounting.

An associate is an enterprise in which the Group holds, directly or indirectly, more than 20% 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.

*Transactions in foreign currencies* are translated at the rate of exchange prevailing at the transaction date. At the balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange prevailing at that date. Resulting exchange differences are recognized in the income statement for the year.

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

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

*Interests, royalties and dividends* arising from the use by others of the Group's resources are recognized 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 recognized as it accrues (taking into account the effective yield on the asset) unless collectibility is in doubt. Royalty income is recognized on an accrual basis in accordance with the substance of the relevant agreement. Dividend income is recognized when the shareholder's right to receive payment is established.

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

**AS EESTI TELEKOM AND SUBSIDIARY COMPANIES**  
**NOTES FOR THE FINANCIAL STATEMENTS AS OF 30 SEPTEMBER 2002**  
 Financial statements are prepared in thousand of Estonian kroons (EEK)

**Restatement**

At the end of 2001 balance sheet and income statement accounts were partly reclassified. Respective changes have been made to first nine months 2001 accounts to make them comparable as follows:

	<b>Beginning balance 30 Sept 2001</b>	<b>Restatement</b>	<b>Restated balance 30 Sept 2001</b>
<b>a) Income statement</b>			
<b>Revenue</b>			
Other revenue	71,181	-46,052	25,129
<b>Operating expenses</b>			
Materials, consumables, supplies and services	941,250	-14,711	926,539
Other operating expenses	350,662	-20,386	330,276
Personnel expenses	372,970	-34	-372,936
Other expenses	33,011	-10,921	22,090
<b>b) Balance sheet</b>			
<b>Assets</b>			
Trade receivables, net	402,182	46,461	448,643
Other receivables	56,825	-46,461	10,364
Accrued income	98,541	-120	98,421
<b>Equity and liabilities</b>			
Tax liabilities	61,463	-9,677	51,786
Accrued expenses	132,926	9,557	142,483

Restatement of the income statement accounts is related to the following main factors:

- Until December 2001, release by AS Eesti Telefon of the 46,052 thousand EEK reserve related to the OÜ Albufent claim, was accounted as an increase in “Other revenue”. In Annual Report 2001, the transaction was accounted as a reduction in “Materials, consumables, supplies and services” (-18,451 thousand EEK) and “Other operating expenses” (-27,601 thousand EEK). In interests of comparability, the same change has been made into first nine months 2001 income statement.
- Up until December 2001, AS EMT accounted expenses related to bad debts as “Other expenses”. Starting from December 2001, the category of expenses has been accounted as “Other operating expenses”. In interests of comparability, 7,757 thousand EEK of bad debts of AS EMT have been added to “Other operating expenses” in September 30, 2001, income statement and the same amount has been subtracted from “Other expenses”.

Restatement of the balance sheet accounts is related to the following circumstances:

- Until December 2001, AS Eesti Telefon accounted claims on international operators as “Other receivables”. In Annual Report 2001, the claims are accounted as “Trade receivables”. The same correction has been made into September 30, 2001, balance sheet.
- Restatement of tax liabilities and accrued expenses in the first nine months of 2001 was caused by a tax liability, payable in the next accounting period, which was transferred into accrued expenses.
- Due to Group account interests elimination were reduced accrued income and accrued expenses balances per September 30, 2001 in amount of 120 thousand EEK.

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.

**AS EESTI TELEKOM AND SUBSIDIARY COMPANIES**  
**NOTES FOR THE FINANCIAL STATEMENTS AS OF 30 SEPTEMBER 2002**  
 Financial statements are prepared in thousand of Estonian kroons (EEK)

**2. Tangible and intangible assets**

	Tangible assets	Intangible assets
<b><u>Cost value</u></b>		
<b>31 December 2000</b>	<b>6,616,868</b>	<b>165,440</b>
Additions	657,889	14,752
Disposals	-105,035	-824
<b>30 September 2001</b>	<b>7,169,722</b>	<b>179,368</b>
<b>31 December 2001</b>	<b>7,315,244</b>	<b>199,131</b>
Additions	337,052	17,069
Disposals	-159,260	-2,267
<b>30 September 2002</b>	<b>7,493,036</b>	<b>213,933</b>
<b><u>Accumulated depreciation</u></b>		
<b>31 December 2000</b>	<b>3,382,780</b>	<b>97,837</b>
Depreciation	746,499	34,108
Disposals (-)	-91,158	-40
<b>30 September 2001</b>	<b>4,038,121</b>	<b>131,905</b>
<b>31 December 2001</b>	<b>4,271,375</b>	<b>142,992</b>
Depreciation	723,883	34,689
Disposals (-)	-134,370	-1,202
<b>30 September 2002</b>	<b>4,860,888</b>	<b>176,479</b>
<b><u>Net book value</u></b>		
<b>30 September 2001</b>	<b>3,131,601</b>	<b>47,463</b>
<b>30 September 2002</b>	<b>2,632,148</b>	<b>37,454</b>



**AS EESTI TELEKOM AND SUBSIDIARY COMPANIES**  
**NOTES FOR THE FINANCIAL STATEMENTS AS OF 30 SEPTEMBER 2002**  
 Financial statements are prepared in thousand of Estonian kroons (EEK)

**3. Investments in subsidiaries**

	Ownership interest		Owner
	30 Sept 2002	31 Dec 2001	
AS Eesti Telefon	100%	100%	AS Eesti Telekom
AS Telefonipood	100%	100%	AS Eesti Telefon
AS Connecto	100%	100%	AS Eesti Telefon
SIA Connecto Latvia	100%	0%	AS Connecto
AS EMT	100%	100%	AS Eesti Telekom
AS Esmofon	100%	100%	AS EMT
AS Esmofon Tartu	100%	100%	AS Esmofon
AS Mobile Wholesale	100%	100%	AS EMT

AS Connecto acquired on February 11, 2002 all of the shares of network construction company SIA Connecto Latvia (SIA Link), which operates in Latvia. In accordance with the sale and purchase agreement, AS Connecto purchased 100 % of the shares of SIA Link from SIA Fortech, which belongs to the MicroLink Group.

**4. Investments in associates**

	Ownership interest	
	30 Sept 2002	31 Dec 2001
AS Intergate	50%	50%
AS Sertifitseerimiskeskus	50%	50%
AS EsData	30%	30%
AS Voicecom	26%	26%

**5. Borrowings**

	30 Sept 2002	31 Dec 2001
Current	96,933	88,166
Non-current	23,798	49,115
	<b>120,731</b>	<b>137,281</b>

The movements in the borrowings can be analyzed as follows:

<b>Opening balance 31 Dec 2001</b>	<b>137,281</b>
Proceeds from borrowings	2,845
Repayments of borrowings	-38,377
Proceeds from finance lease	18,717
Other movements	265
<b>Closing balance 30 Sept 2002</b>	<b>120,731</b>

**AS EESTI TELEKOM AND SUBSIDIARY COMPANIES**  
**NOTES FOR THE FINANCIAL STATEMENTS AS OF 30 SEPTEMBER 2002**  
 Financial statements are prepared in thousand of Estonian kroons (EEK)

**6. Equity**

**a) Share capital**

	30 Sept 2002	30 Sept 2001
<b><u>Share capital issued</u></b>		
Ordinary shares par value 10 EEK per share, fully paid	137,383,178	137,383,178
Preference share par value 1000 EEK per share, fully paid	1	1
	137,383,179	137,383,179

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 the 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 a preference dividend of 10,000 EEK, and one vote at the shareholders' general meeting.

The AGM on May 17, 2002, decided to pay to all holders of ordinary shares 755,607 thousand EEK, i.e. 5.50 EEK per ordinary share and to pay to the holder of preference share 10 thousand EEK, i.e. 10 thousand EEK per preference share.

The rest of the accumulated net profit in the amount of 1,038,553 thousand EEK was retained as undistributed.

**b) Reserves**

Reserves include the statutory legal reserve required by the Commercial Code. Subject to the approval of the general meeting, the reserve may be used for covering losses, if the latter cannot be covered with unrestricted equity, and for increasing share capital.

**c) Re-acquiring of shares**

The AGM, on May 17, 2002, authorized AS Eesti Telekom to acquire within one year from the adoption of this resolution (i.e. until 17 May 2003) AS Eesti Telekom shares of A-series so that the total of nominal values of own shares held by AS Eesti Telekom would not exceed the legal limits and the price payable per share would not exceed the highest price paid for the A share of AS Eesti Telekom on the Tallinn Stock Exchange on the day of acquiring the shares. 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 September 2002, no shares have been re-acquired by AS Eesti Telekom.

**d) Employees' share option**

At the beginning of 2001, Eesti Telekom group launched a motivation system for its employees. As a part of the system, bonds were issued by AS Eesti Telekom with the issue price of 10 EEK 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 spring 2003 (A series) or in spring 2004 (B series). The subscription price of the shares is 90.62 EEK. 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.

By 30 September 2002, bonds had been bought back from the employees who had left the Group and re-issued to newly hired managerial personnel. As of 30 September, 22,375 A series and 22,375 B

**AS EESTI TELEKOM AND SUBSIDIARY COMPANIES**  
**NOTES FOR THE FINANCIAL STATEMENTS AS OF 30 SEPTEMBER 2002**  
Financial statements are prepared in thousand of Estonian kroons (EEK)

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series bonds had been issued, which can be exchanged for 223,750 AS Eesti Telekom ordinary share in 2003, and for 223,750 AS Eesti Telekom ordinary shares in 2004, respectively.

**e) Earnings per share**

The calculation of basic earnings per share is the following:

$$\text{EEK } 5.80 = (797,162,000 - 10,000) : 137,383,178$$

In view of the fact that in the nine months of 2002 the average price of the shares of AS Eesti Telekom at the Estonian Central Depository for Securities was 75.42 EEK, the options relating to the bonds do not have a dilutive effect and diluted earnings per share equal basic earnings per share.

**7. Share information**

AS Eesti Telekom shares are quoted in the main list of the Tallinn Stock Exchange and in the main list of GDRs on the London Stock Exchange. On February 25, 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 GDRs have been traded according to the International Order Book system since March 18, 2002.

The highest price of an AS Eesti Telekom share on the Tallinn Stock Exchange, during the period under review, was 90.12 EEK, the lowest price was 62.59 EEK, and the average price was 75.42 EEK.

**8. Segment information**

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

Eesti Telekom Group activities have been divided into three segments: fixed network telecommunications, mobile telecommunications, and other activities.

**Fixed network telecommunications** – this segment deals with operating the national telecommunications network, with providing fixed telecommunication services and related value added services and to provide, produce, market and sell related services. The companies belonging to this segment group are AS Eesti Telefon, AS Telefonipood, AS Connecto and SIA Connecto Latvia.

**Mobile telecommunications** – this segment deals with operating mobile networks and systems, and with producing, marketing and selling services related thereto. The companies belonging to this segment group are AS EMT, AS Esmofon, AS Esmofon Tartu, AS Mobile Wholesale.

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

The segment turnovers presented in the report represent the inter-company income and expenses of the three segments. The inter-company turnovers of the companies belonging to the same segment have not been presented in this report.

Inter-company transactions were conducted under market terms.

**AS EESTI TELEKOM AND SUBSIDIARY COMPANIES**  
**NOTES FOR THE FINANCIAL STATEMENTS AS OF 30 SEPTEMBER 2002**  
Financial statements are prepared in thousand of Estonian kroons (EEK)

	Fixed network telecommunications		Mobile telecommunications		Other operations		Eliminations		Consolidated	
	9 months 2002	9 months 2001 Restated	9 months 2002	9 months 2001 Restated	9 months 2002	9 months 2001 Restated	9 months 2002	9 months 2001	9 months 2002	9 months 2001 Restated
<b>Revenue</b>										
Net sales	1,752,889	1,846,043	1,563,442	1,232,595	0	0			3,316,331	3,078,638
Other revenue	94,960	59,106	9,695	15,397	55	17	564		105,274	74,520
Inter-segment revenue	109,009	245,642	225,794	377,927	90	181	-334,893	-623,750	0	0
<b>Total revenue</b>	<b>1,956,858</b>	<b>2,150,791</b>	<b>1,798,931</b>	<b>1,625,919</b>	<b>145</b>	<b>198</b>			<b>3,421,605</b>	<b>3,153,158</b>
<b>Operating expenses</b>										
Materials, consumables, supplies and services	425,273	523,223	620,247	403,316	0	0			1,045,520	926,539
Other operating expenses	259,066	241,948	75,934	81,375	8,028	6,953			343,028	330,276
Personnel expenses	278,632	298,393	73,915	68,411	5,358	6,132			357,905	372,936
Other expenses	12,567	11,928	10,193	8,254	1,074	1,908			23,834	22,090
Inter-segment expenses	225,742	377,767	108,442	245,532	145	451	-334,329	-623,750	0	0
<b>Total expenses</b>	<b>1,201,280</b>	<b>1,453,259</b>	<b>888,731</b>	<b>806,888</b>	<b>14,605</b>	<b>15,444</b>			<b>1,770,287</b>	<b>1,651,841</b>
<b>EBITDA</b>	<b>755,578</b>	<b>697,532</b>	<b>910,200</b>	<b>819,031</b>	<b>-14,460</b>	<b>-15,246</b>			<b>1,651,318</b>	<b>1,501,317</b>
Depreciation and amortization	498,358	549,333	259,335	230,672	1,006	918	-127	-316	758,572	780,607
<b>EBIT</b>	<b>257,220</b>	<b>148,199</b>	<b>650,865</b>	<b>588,359</b>	<b>-15,466</b>	<b>-16,164</b>			<b>892,746</b>	<b>720,710</b>
Income/ expenses from subsidiaries and associated companies	-2,594	30,263	-1,947	-1,409	893,305	744,694	-893,305	-744,694	-4,541	28,854
Other net financing items	-15,397	-28,898	5,046	8,421	10,606	15,234			255	-5,243
Income tax on dividends expenses	0	0	0	0	-91,298	-30,932			-91,298	-30,932
Minority interest	0	557	0	0	0	0			0	557
<b>Net profit</b>	<b>239,229</b>	<b>149,007</b>	<b>653,964</b>	<b>595,371</b>	<b>797,147</b>	<b>712,832</b>			<b>797,162</b>	<b>712,832</b>
Non-current assets	1,685,971	2,155,301	1,008,647	1,051,814	3,334,728	3,192,495	-3,328,041	-3,184,584	2,701,305	3,215,026
Current assets	739,689	530,754	515,780	386,114	325,913	358,676	-91,748	-343,748	1,489,634	931,796
<b>Total assets</b>	<b>2,425,660</b>	<b>2,686,055</b>	<b>1,524,427</b>	<b>1,437,928</b>	<b>3,660,641</b>	<b>3,551,171</b>			<b>4,190,939</b>	<b>4,146,822</b>
<b>Owners' equity</b>	<b>1,694,849</b>	<b>1,580,054</b>	<b>1,338,014</b>	<b>1,279,422</b>	<b>3,656,968</b>	<b>3,549,248</b>	-3,032,863	-2,859,476	<b>3,656,968</b>	<b>3,549,248</b>
Non-current liabilities	310,909	417,926	7,828	8,487	239	428	-295,178	-325,108	23,798	101,733
Current liabilities	419,902	688,075	178,585	150,019	3,434	1,495	-91,748	-343,748	510,173	495,841
<b>Total equity and liabilities</b>	<b>2,425,660</b>	<b>2,686,055</b>	<b>1,524,427</b>	<b>1,437,928</b>	<b>3,660,641</b>	<b>3,551,171</b>			<b>4,190,939</b>	<b>4,146,822</b>
Cash flow from operating activities	633,810	459,994	864,644	723,444	-117,281	-26,340	17,444	26,871	1,398,617	1,183,969
Cash flow used in capital expenditure	-184,375	-364,367	-148,247	-303,823	-18	-314			-332,640	-668,504
Cash flow from / used in other investing activities	70,675	35,914	5,212	8,733	966,868	748,272	-962,306	-745,937	80,449	46,982
Cash flow from / used in financing activities	-218,830	-143,310	-761,588	-696,677	-755,593	-855,190	944,862	719,066	-791,149	-976,111
<b>Net change in cash and cash equivalents</b>	<b>301,280</b>	<b>-11,769</b>	<b>-39,979</b>	<b>-268,323</b>	<b>93,976</b>	<b>-133,572</b>			<b>355,277</b>	<b>-413,664</b>