EESTI TELEKOM

6 February 2003

THE PRELIMINARY FINANCIAL RESULTS OF 2002

Eesti Telekom, the leading provider of telecommunication services in Estonia, hereby announces its results for the financial year ended 31 December 2002.

Financial highlights

	2002	2001	Change, %
Total revenue, mEUR	**296**	274	**8**
EBITDA, mEUR	**136**	123	**10**
EBITDA margin, %	**46**	45	
EBIT, mEUR	**72**	51	**42**
EBIT margin, %	**24**	19	
Profits before taxes, mEUR	**72**	52	**40**
Net profits for the period, mEUR	**66**	50	**33**
EPS, EUR	**0.48**	0.36	**33**
No. of A- shares	**137,383,178**	137,383,178	
Investments, mEUR	**40**	61	**-34**
Net gearing, %	**-23**	-9	
ROA, %	**24**	18	
ROE, %	**30**	22	

Commenting on these financial results, Chairman, Jaan Männik, stressed:

"Year 2002 was a good year."

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CHAIRMAN'S STATEMENT

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. Mobile communication was the main growth area. 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 Group was 136, 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: -0.7 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 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, accounted as depreciation.

The consolidated revenues of the Eesti Telefon 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 EBITDA margin of the parent company even reached 40%. 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 by 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 parent company 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. There is now more actual competition with the mobile operators. 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%).

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 39% 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 48%. 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 ISO certificate in 2002. Possessing the certificate is almost a standard precondition for participation in biddings for government contracts.

The total revenues of the 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. The net growth of contractual customers was 24,600, and the net growth of pre-paid card users was 20,200. By 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 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 25 mln EUR. Current assets were up by 37 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 21 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 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.

The EMT Group invested 19 mln EUR in 2002 (2001: 29 mln EUR). The majority of investments made by 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 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 getting rid of 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 Eesti Telefon, the revenues from Internet and data communication have multiplied during the last couple of 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 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 it's 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. These minutes will be used for introducing new services to the Estonian market. But this newcomer had not actually started its operations by the end of 2002. The second 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 issuing of the third generation mobile network licenses has been repeatedly postponed in Estonia. 2003 is the next likely deadline. According to a project being debated in the *Riigikogu* (Parliament), four third generation licenses would 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 would be the obligation to establish, within seven years of the issuing of the license, a third generation network encompassing at least 30% of the Estonian population.

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 a lower efficiency of investments, and to higher prices for the final consumers.

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 taken care of at 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 the 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 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 thereby instructed Eesti Telefon to levy rates lower than those which it had established on 1 April 2001. 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, 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, 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 profit share in the interconnection charges of Estonian operators significantly exceeds the corresponding share in the charges levied by operators of other countries. 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 EMR announced its intention to reduce the termination fee from March 1, 2003 from the current 0.20 EUR/min to 0.19 EUR/min, and the discounted termination fee from the current 0.179 EUR/min to 0.176 EUR/min.

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 0.35 EUR per share (a total of 48 mln EUR, or 97% of the net profits of 2001). The owner of the B-share was paid dividends in the total amount of 639 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 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 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.

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 government's holding of shares falls below 10%.

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

EUR/Latvian latt exchange rates
End January, 2002 (acquisition of SIA Connecto Latvia): 1 LVL = 1.8001 EUR
End December, 2002: 1 LVL = 1.6294 EUR

AS EESTI TELEKOM AND SUBSIDIARY COMPANIES
QUARTERLY DATA
mln EUR

	Q4 2001	Q1 2002	Q2 2002	Q3 2002	Q4 2002
Total revenue	72.3	67.2	78.0	73.5	76.9
Total expenses	44.8	34.8	40.7	37.6	46.3
EBITDA	27.5	32.4	37.3	35.9	30.7
margin	0.4	0.5	0.5	0.5	0.4
Depreciation and amortization	22.7	16.4	16.3	15.8	15.5
EBIT	4.8	16.0	21.0	20.1	15.2
margin	0.1	0.2	0.3	0.3	0.2
Income from associates	-0.1	-0.1	-0.1	-0.1	-0.1
Other net income	-0.4	0.2	-0.3	0.2	0.4
Profit before tax	4.2	16.0	20.6	20.2	15.5
Income tax	0.0	0.0	-6.0	0.2	0.0
Profit after tax	4.2	16.0	14.6	20.3	15.5
Minority interest	0.0	0.0	0.0	0.0	0.0
Net profit for the period	4.2	16.0	14.6	20.3	15.5
Operating cash flows	35.0	24.1	36.6	28.7	31.4
Investments	-17.5	-4.5	-3.2	-8.4	-18.0
Cash flows before dividends and loan repayments	17.5	19.6	33.4	20.3	13.4
Dividends	0.0	0.0	-48.3	0.0	0.0
Loan repayments	-0.4	-0.8	-0.4	-1.1	-4.2
Net change in cash	17.1	18.8	-15.3	19.2	9.2
Total assets	270.7	281.5	258.0	267.8	283.6
- current assets	70.9	93.7	79.2	95.2	108.3
- cash and cash equivalents	29.7	48.4	33.2	52.4	61.5
- non-current assets	199.8	187.8	178.8	172.6	175.3
Total equity	231.1	247.1	213.4	233.7	249.2
Minority interest	0.0	0.0	0.0	0.0	0.0
Total liabilities	39.6	34.4	44.6	34.1	34.4
- ST borrowings	5.6	5.6	5.3	6.2	2.3
- LT borrowings	3.1	2.4	2.3	1.5	1.3

AS EESTI TELEKOM AND SUBSIDIARY COMPANIES
INCOME STATEMENT
Financial statements are prepared in thousands of euros (EUR)

	Note	2002	2001
Revenue			
Net sales		285,513	265,516
Change in work-in-progress		47	34
Capitalized self-constructed assets		4,179	5,568
Other revenue		5,863	2,714
Total revenue		**295,602**	**273,832**
Operating expenses			
Materials, consumables, supplies and services		91,881	82,492
Other operating expenses		32,002	31,634
Personnel expenses		32,779	34,177
Other expenses		2,733	2,117
Total expenses		**159,395**	**150,420**
Profit from operations before depreciation and amortization		**136,207**	**123,412**
Depreciation and amortization	**2**	63,988	72,582
Profit from operations		**72,219**	**50,830**
Income/ expenses from subsidiaries and associated companies (net)		-353	1,715
Other net financing items		393	-749
Profit before tax		**72,259**	**51,796**
Income tax on dividends		5,835	1,977
Profit after tax		**66,424**	**49,819**
Minority interest		0	36
Net profit from ordinary activities		**66,424**	**49,783**
Net profit for the period		**66,424**	**49,783**
Earnings per share			
Basic earnings per share (in EUR)		0.48	0.36
Diluted earnings per share (in EUR)		0.48	0.36

AS EESTI TELEKOM AND SUBSIDIARY COMPANIES
BALANCE SHEET
Financial statements are prepared in thousands of euros (EUR)

	Note	2002	2001
ASSETS			
Current assets			
Cash and cash equivalents		61,532	29,669
Trade receivables, net		27,328	25,777
Other receivables		1,086	685
Accrued income		7,994	6,342
Prepaid expenses		4,455	1,800
Inventories		5,949	6,648
Total current assets		**108,344**	**70,921**
Non-current assets			
Long term financial assets	**4**	1,729	1,692
Tangible assets, net	**2**	170,814	194,538
Intangible assets, net	**2**	2,719	3,588
Total non-current assets		**175,262**	**199,818**
TOTAL ASSETS		**283,606**	**270,739**
EQUITY AND LIABILITIES			
Current liabilities			
Interest bearing loans and borrowings	**5**	2,282	5,635
Customer prepayments		184	590
Accounts payable to suppliers		15,611	16,677
Other payables		0	11
Tax liabilities		1,885	2,090
Accrued expenses		12,067	9,756
Provisions		1,028	1,117
Prepaid revenue		94	661
Total current liabilities		**33,151**	**36,537**
Non-current liabilities			
Interest bearing loans and borrowings	**5**	1,263	3,139
Other long-term payables		0	0
Total non-current liabilities		**1,263**	**3,139**
Equity	**6**		
Issued capital		87,804	87,804
Share premium		19,810	19,810
Statutory legal reserve		8,781	8,781
Retained earnings		66,375	64,885
Net profit for the period		66 424	49,783
Foreign exchange differences		-2	0
Total equity		**249,192**	**231,063**
TOTAL EQUITY AND LIABILITIES		**283,606**	**270,739**

EESTI TELEKOM

AS EESTI TELEKOM AND SUBSIDIARY COMPANIES
CASH FLOW STATEMENT

Financial statements are prepared in thousands of euros (EUR)

	Note	2002	2001
Cash flow from operating activities			
Profit before tax and minority interest		72,259	51,796
Adjustments for:			
Depreciation	**2**	63,988	72,582
Profit/loss from sales and write-off of fixed assets		-3,499	94
Income/ expense from subsidiaries and associates		353	-1,715
Profit (-) / loss (+) from revaluation of investments		0	500
Interests income/ expense, net		-1,060	-196
Other non-cash adjustments		-15	-19
Operating profit before working capital changes		132,026	123,042
Change in current receivables		-5,419	-3,618
Change in inventories		768	2,889
Change in current liabilities (except loans)		-230	-10,188
Adjusted cash generated from operations		127,145	112,125
Interest paid		-490	-970
Income tax paid		-5,835	0
Net cash flow from operating activities		**120,820**	**111,155**
Cash flow from investing activities			
Purchase of tangible assets		-37,869	-58,454
Purchase of licenses		-2,153	-2,296
Purchase of shares, investments and other		-639	-1,406
Proceeds from sales of tangible assets		5,459	730
Proceeds from sales of investments		0	0
Proceeds from sales of associates		0	2,780
Loans granted		-27	-305
Cash receipts from repayment of loans		4	5
Dividends received		6	12
Interest received		1,070	1,245
Net cash flow from investing activities		**-34,149**	**-57,689**
Cash flow from financing activities			
Proceeds from convertible long-term debt	**5**	31	28
Repayment of convertible long-term debt	**5**	-1	-1
Repayment of unsecured short-term bonds		0	-6,391
Proceeds from nonconvertible long-term debt	**5**	35	0
Repayment of nonconvertible long-term debt	**5**	-380	-334
Repayment of long-term borrowings	**5**	-5,064	-6,713
Proceeds from finance lease liabilities		0	0
Payment of finance lease liabilities	**5**	-1,136	-1,063
Proceeds from short-term borrowings		0	5,000
Repayment of short-term borrowings		0	-5,000
Dividends paid	**6 (a)**	-48,293	-48,293
Net cash flow from financing activities		**-54,808**	**-62,767**
Net increase / - decrease in cash and cash equivalents		**31,863**	**-9,301**
Cash and cash equivalents at beginning of year		**29,669**	**38,970**
Cash and cash equivalents at end of period		**61,532**	**29,669**

AS EESTI TELEKOM AND SUBSIDIARY COMPANIES
STATEMENT OF CHANGES IN EQUITY

Financial statements are prepared in thousands of euros (EUR)

	Issued capital	Share premium	Reserves	Foreign exchange profit/loss	Retained earnings	Net profit for the period	Total
31 December 2000	**87,804**	**19,810**	**7,987**	**0**	**42,276**	**71,696**	**229,573**
Net profit for the period transferred into retained earnings	0	0	0	0	71,696	-71,696	0
Amounts transferred to reserves	0	0	794	0	-794	0	0
Dividends paid	0	0	0	0	-48,293	0	-48,293
Net profit for the period	0	0	0	0	0	49,783	49,783
31 December 2001	**87,804**	**19,810**	**8,781**	**0**	**64,885**	**49,783**	**231,063**
Net profit for the period transferred into retained earnings	0	0	0	0	49,783	-49,783	0
Foreign exchange profit/loss	0	0	0	-2	0	0	-2
Dividends paid	0	0	0	0	-48,293	0	-48,293
Net profit for the period	0	0	0	0	0	66,424	66,424
31 December 2002	**87,804**	**19,810**	**8,781**	**-2**	**66,375**	**66,424**	**249,192**

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

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

The consolidated financial statements for the financial year ending 31December 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 dominated 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.

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 nor reviewed by the auditors.

Financial statements are prepared in thousand of euros (EUR)

2. Tangible and intangible assets

	Tangible assets	Intangible assets
Cost value		
31 December 2000	**422,894**	**10,574**
Additions	58,814	2,382
Disposals	-14,180	-229
31 December 2001	**467,527**	**12,727**
Additions	39,336	2,241
Disposals	-21,205	-3,466
31 December 2002	**485,658**	**11,502**
Accumulated depreciation		
31 December 2000	**216,199**	**6,253**
Depreciation	69,570	3,012
Disposals (-)	-12,780	-126
31 December 2001	**272,989**	**9,139**
Depreciation	61,111	2,877
Disposals (-)	-19,256	-3,233
31 December 2002	**314,844**	**8,783**
Net book value		
31 December 2001	**194,538**	**3,588**
31 December 2002	**170,814**	**2,719**

Financial statements are prepared in thousand of euros (EUR)

3. Investments in subsidiaries

	Ownership interest		Owner
	2002	**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	0%	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.

In accordance with the decision of the shareholders of AS Esmofon Tartu from August 29, 2002, operations of the company were terminated.

4. Investments in associates

	Ownership interest	
	2002	**2001**
AS Intergate	50%	50%
AS Sertifitseerimiskeskus	50%	50%
AS EsData	30%	30%
AS Voicecom	26%	26%

5. Borrowings

	31 Dec 2002	31 Dec 2001
Current	2,282	5,635
Non-current	1,263	3,139
	3,545	**8,774**

The movements in the borrowings can be analyzed as follows:

Opening balance 31 Dec 2001	**8,774**
Proceeds from borrowings	66
Repayments of borrowings	-5,445
Proceeds from finance lease	1,201
Repayments of finance lease	-1,136
Other movements	85
Closing balance 31 Dec 2002	**3,545**

Financial statements are prepared in thousand of euros (EUR)

6. Equity

a) Share capital

	2002	2001
Share capital issued		
Ordinary shares par value 0.64 EUR per share, fully paid	137,383,178	137,383,178
Preference share par value 649 EUR	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 639 EUR, and one vote at the shareholders' general meeting.

The AGM on May 17, 2002, decided to pay to all holders of ordinary shares 48,292 thousand EUR, i.e. 0.35 EUR per ordinary share and to pay to the holder of preference share 639 EUR, i.e. 639 EUR per preference share.

The rest of the accumulated net profit in the amount of 66,375 thousand EUR was retained as undistributed.

b) Reserves

Reserves include 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 31 December 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 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 spring 2003 (A series) or in spring 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, 42,125 A series and 42,125 B series bonds had been issued, which can be exchanged for 421,250 AS Eesti Telekom ordinary share in 2003, and for 421,250 AS Eesti Telekom ordinary shares in 2004, respectively.

e) Earnings per share

The calculation of basic earnings per share is the following:

EUR 0.48 = (66,424,000 – 639) : 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.

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 6.27 EUR, the lowest price was 4.00 EUR, and the average price was 4.98 EUR.

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.

Financial statements are prepared in thousand of euros (EUR)

	Fixed network telecommunications		Mobile telecommunications		Other operations		Eliminations		Consolidated	
	2002	**2001**	**2002**	**2001**	**2002**	**2001**	**2002**	**2001**	**2002**	**2001**
Revenue										
Net sales	149,765	157,214	135,748	108,302	0	0			285,513	265,516
Other revenue	8,623	6,417	1,462	1,897	4	2			10,089	8,316
Inter-segment revenue	9,476	19,937	19,841	31,487	8	13	-29,325	-51,437	0	0
Total revenue	**167,864**	**183,568**	**157,051**	**141,686**	**12**	**15**	**-29,325**	**-51,437**	**295,602**	**273,832**
Operating expenses										
Materials, consumables, supplies and services	36,192	44,426	55,689	38,066	0	0			91,881	82,492
Other operating expenses	24,391	23,765	6,882	7,296	729	573			32,002	31,634
Personnel expenses	24,826	26,888	7,190	6,731	763	558			32,779	34,177
Other expenses	1,379	990	1,282	1,001	72	126			2,733	2,117
Inter-segment expenses	19,726	31,475	9,476	19,930	13	32	-29,215	-51,437	0	0
Total expenses	**106,514**	**127,544**	**80,519**	**73,024**	**1,577**	**1,289**	**-29,215**	**-51,437**	**159,395**	**150,420**
EBITDA	**61,350**	**56,024**	**76,532**	**68,662**	**-1,565**	**-1,274**	**-110**	**0**	**136,207**	**123,412**
Depreciation and amortization	41,788	52,221	22,139	20,303	86	81	-25	-23	63,988	72,582
EBIT	**19,562**	**3,803**	**54,393**	**48,359**	**-1,651**	**-1,355**	**-85**	**23**	**72,219**	**50,830**
Income/ expenses from subsidiaries and associated companies	-210	1,832	-143	-117	72,939	51,539	-72,939	-51,539	-353	1,715
Other net financing items	-1,060	-2,456	484	131	969	1,576			393	-749
Income tax on dividends expense	0	0	0	0	-5,835	-1 977			-5,835	-1,977
Minority interest	0	36	0	0	0	0			0	36
Net profit	**18,292**	**3,143**	**54,734**	**48,373**	**66,422**	**49,783**	**-73,024**	**-51,516**	**66,424**	**49,783**
Non-current assets	107,116	128,752	68,079	70,576	228,707	207,963	-228,640	-207,473	175,262	199,818
Current assets	50,949	28,435	42,316	35,238	20,903	23,350	-5,824	-16,102	108,344	70,921
Total assets	**158,065**	**157,187**	**110,395**	**105,814**	**249,610**	**231,313**	**-234,464**	**-223,575**	**283,606**	**270,739**
Owners' equity	**111,323**	**94,603**	**98,452**	**92,092**	**249,192**	**231,063**	-209,775	-186,695	**249,192**	**231,063**
Non-current liabilities	19,607	23,356	490	532	31	29	-18,865	-20,778	1,263	3,139
Current liabilities	27,135	39,228	11,453	13,190	387	221	-5,824	-16,102	33,151	36,537
Total equity and liabilities	**158,065**	**157,187**	**110,395**	**105,814**	**249,610**	**231,313**	**-234,464**	**-223,575**	**283,606**	**270,739**
Cash flow from operating activities	54,902	45,295	72,891	65,602	-7,905	-1,575	932	1,833	120,820	111,155
Cash flow used in capital expenditure	-21,362	-31,641	-18,786	-29,168	-20	-110	110	0	-40,058	-60,919
Cash flow from / used in other investing activities	5,195	2,401	480	625	62,147	54,034	-61,913	-53,830	5,909	3,230
Cash flow from / used in financing activities	-17,552	-15,885	-49,865	-44,222	-48,262	-54,657	60,871	51,997	-54,808	-62,767
Net change in cash and cash equivalents	**21,183**	**170**	**4 720**	**-7,163**	**5,960**	**-2,308**	**0**	**0**	**31,863**	**-9,301**