EESTI TELEKOM

24 April 2003

THE FINANCIAL RESULTS OF THE FIRST THREE MONTHS OF 2003

Eesti Telekom, the leading provider of telecommunication services in Estonia, hereby announces its results for the nine-month period, which ended 31 March 2003.

Financial highlights

	3 months 2003	3 months 2002	Change, %
Total revenues, mEUR	**71**	67	**5**
EBITDA, mEUR	**35**	32	**7**
EBITDA margin, %	**49**	48	
EBIT, mEUR	**20**	16	**24**
EBIT margin, %	**28**	24	
Profits before taxes, mEUR	**20**	16	**27**
Net profits for the period, mEUR	**2**	16	**-84**
EPS, EUR	**0.02**	0.12	**-84**
No. of A- shares	**137,383,178**	137,383,178	
Investments, mEUR	**3**	5	**-46**
Net gearing, %	**-34**	-16	
ROA, %	**3**	23	
ROE, %	**32**	27	

Commenting on these financial results, Chairman Jaan Männik stressed:

“The year started well for Eesti Telekom”

For further information, please contact:

Krister Björkqvist +372 6272 465
CFO

Hille Võrk +372 6272 460
Financial Manager

Address	Phone	E-mail	Home page
Roosikrantsi 2	+372 6311212	mailbox@telekom.ee	www.telekom.ee
10119 Tallinn	Fax		
Estonia	+372 6311224		

CHAIRMAN'S STATEMENT

A break-through is being made in the development of the Eesti Telekom Group companies.

When AS Eesti Telefon was created in 1993, 146,000 people were waiting to be provided with a telephone connection, i.e. almost every tenth inhabitant of Estonia. By 28 February 2003, this waiting list had been eliminated. Fast developments in the area of mobile communications have created the situation where many private individuals are giving up their fixed lines. Fixed phones are still indispensable for business customers. The number of main lines used by business customers continued to grow in the first quarter of 2003. However, the decreasing volume and revenues of voice communication are increasingly compensated for by Eesti Telefon's success in the area of data communication. During 2002, the number of users of Eesti Telefon's Atlas ADSL permanent connections almost doubled. The ADSL start-up packages launched in stores at the end of the year have accelerated the growth in the number of connections in 2003 even further. By now, Estonia is among the leading countries not only in Europe, but in the whole world, in the field of ADSL penetration. Eesti Telefon is already taking the next steps – the company supports computer training, the introduction of ID-cards and the electronic signature, and promotes remote working facilities.

Mobile penetration in Estonia exceeded 60 % in 2002. This is a very high rate considering Estonian living standards. But the addition of new customers has slowed down. Operators are, rather, taking over competitors' customers by offering more favourable tariffs or contracts. AS EMT has, over the years, been oriented more on offering the most innovative services, rather than the lowest prices. Therefore, a wide variety of additional services has secured for it a continuous growth of SMS volume. The number of GPRS-users is growing fast. In 2003, the company is intending to acquire the third generation mobile communication license.

Changes in the development trends of the telecommunication market have not threatened the financial position of the Eesti Telekom Group. The EBITDA margin of the Group reached 49% in the first quarter of 2003. The cash flow was strongly positive. Net debt of the Group amounted to –85 mln EUR, and net gearing was –34%.

Revenues, expenses, and profits

During the first three months of 2003, consolidated revenues of the Eesti Telekom Group amounted to 71 mln EUR, showing an increase of 5% compared to the same period in 2002. Operating expenses were 36 mln EUR, up by 5%. The EBITDA of the Group showed an increase of 7%, amounting to 35 mln EUR. The EBITDA margin reached 49%.

In 2003, Estonia started transition to the new Accounting Law. The new law harmonizes Estonian "good accounting practices" with International Financial Reporting Standards. In connection with the transition, the structure of an income statement has been amended. "Change in work-in-progress" and "Capitalized self-constructed assets" have been removed from "Revenue" to "Operating expenses". Comparison data in 2002 was calculated correspondingly. In accordance with the new structure of an income statement, consolidated revenues and expenses of the first three months of 2002 are lower by 0.1 mln EUR, compared to the data published in 2002.

15 mln EUR were calculated as depreciation in the first three months of 2003, a decrease of 11%, compared to the same period in 2002. The decrease in depreciation is mainly caused by new depreciation rates employed in AS Eesti Telefon at the beginning of 2003. The new rates are more differentiated than

the previous ones. Therefore, the presumed useful lifetime of different categories of tangible assets is determined more accurately.

Financial revenues exceeded financial expenses by 0.5 mln EUR in the first quarter of 2003 (Q1 2002: 0.1 mln EUR). The majority of financial revenues consisted of interest earned on cash balances of the Group.

The general meeting of the shareholders of AS Eesti Telefon, that took place on 4 March 2003, decided to distribute 13 mln EUR, out of the company's net profit for the year 2002, to its 100%-owner, AS Eesti Telekom. The general meeting of the shareholders of AS EMT, that took place on 4 March 2003, decided to distribute 38 mln EUR as dividends to AS Eesti Telekom. Starting in 2003, a resident company shall pay 26/74 income tax on all dividends paid. In accordance with that, AS Eesti Telefon has shown 4 mln EUR, and AS EMT has shown 13 mln EUR as dividend income tax expenses in their income statements.

As a result of the high income tax expenses, the net profit of the Eesti Telekom Group was 2 mln EUR (in the corresponding three months of 2002: 16 mln EUR).

AS Eesti Telekom will propose to the general meeting of shareholders the payment of 53 mln EUR, or 0.38 EUR per share, to the shareholders, as dividends for 2002. When the meeting approves the proposal, an income tax liability will arise in the amount of 19 mln EUR. In accordance with the Income Tax Law, AS Eesti Telekom can treat the dividend income tax paid by subsidiary companies as tax-credit. Therefore, AS Eesti Telekom can reduce its 19 mln EUR tax liability by 18 mln EUR, paid by subsidiary companies.

The consolidated revenues of the Eesti Telefon Group were 39 mln EUR, during the first three months of 2003, down by 1% compared to the same period in 2002. Operating expenses of the period amounted to 24 mln EUR, up by 2%. The EBITDA of the Group was 15 mln EUR, down by 7% compared to the same period in 2002. The EBITDA margin reached 38%. Resulting from implementation of the new depreciation rates, depreciation of the Eesti Telefon Group, for the first three months of 2003, was down by 18%. Compared to the same period in 2002, interest expenses were significantly lower. The net financing item of the Eesti Telefon Group, in the first quarter of 2003, was –0.1 mln EUR (corresponding 3 months in 2002: -0.5 mln EUR). The pre-tax profit of the Eesti Telefon Group amounted to 6 mln EUR, up by 31%, compared to the same period in 2002. The net profit of the Group was 1 mln EUR, as tax on dividends was accounted in the income statement.

The operating revenues of AS Eesti Telefon, the parent company of the Eesti Telefon Group, were down by 4%, compared to the same period in 2002. Operating expenses of the company were down by 3%. Among voice communication revenues, the revenue from domestic calls decreased the most, as much as 12%, compared to the same period in 2002. The decrease was mainly caused by competition with mobile operators. Revenues from international calls and calls into mobile networks are stabilizing. Both categories were down by 2%. Revenues from installation and monthly fees were lower by 6%, compared to the same period in 2002. Revenue from Internet dial-up was down by 40%. At the same time, other revenues from Internet connections were up by 50%, and total revenue from Internet and data communication was up by 6%. The company's revenue from network services was down by 5%. Revenue from IT-services was up by 35%.

The market shares of AS Eesti Telefon have been continuously stable. The company estimates its share of total call minutes, domestic call minutes, fixed to mobile minutes, and international minutes to be 88% (March 2002: 90%), 87% (89%), 74% (74%), and 68% (70%), respectively. The estimated market share of dial-up minutes is 95% (95%).

The total revenues of the EMT Group amounted to 40 mln EUR, up by 13%. The operating expenses of the Group were 19 mln EUR, up by 7%. The EBITDA of the EMT Group was 20 mln EUR, up by 19%. The EBITDA margin was 51%. Depreciation of the EMT Group was up by 3%, compared to the same period in 2002. The net financing item of the Group was 0.2 mln EUR. The pre-tax profit of the EMT Group was up by 27%, compared to the first quarter in 2002, amounting to 15 mln EUR. As tax on dividends, in the amount of 13 mln EUR, was accounted in the income statement of March, the net profit of the Group was 1 mln EUR.

AS EMT's (the parent company of the EMT Group) revenues in all main categories, except the monthly fees, were up during the first three months of 2003. Revenues from SMS and data continued to have the highest growth-rate. The number of SMS, sent by AS EMT's customers, has grown from year to year. Revenues from SMS formed 5% of the net sales of the company for the first three months of 2003 (corresponding 3 months in 2002: 4.4%).

The number of customers of AS EMT grew by 3.2 thousand by the end of March 2003, as compared to the end of the year 2002. The total number of customers reached 430,700. The number of contractual customers was up by 5.5 thousand. The number of prepaid customers was down by 2.3 thousand. Mobile penetration in Estonia exceeded 60% in 2002. The market share of AS EMT is around 50%. Against that background, some slow-down in the addition of new customers is inevitable. At the same time, there is noticeable customer interest in the new possibilities that mobile communication can offer. AS EMT has been always made it a point to be the most innovative operator in Estonia. AS EMT was the first one to launch GPRS-services in Estonia. During the last twelve months, the number of GPRS-users has almost six-folded. The revenue from GPRS has grown over seven times. The monthly ARPU (monthly average revenue per user) in March 2003 was 27.0 EUR (March 2002: 26.9 EUR, December 2002: 27.0 EUR).

Balance sheet and cash flow

At the end of March 2003, the total assets of the Eesti Telekom Group amounted to 297 mln EUR (December 2002: 284 mln EUR). Tangible assets were reduced, from the beginning of the year, by 12 mln EUR. Current assets were enlarged by 25 mln EUR. This enlargement was mainly the result of an increase in cash and cash equivalents by 26 mln EUR. At the end of March 2003, the Group's non-current debt amounted to 1 mln EUR and current debt amounted to 1 mln EUR (December 2002: 1 mln EUR and 2 mln EUR respectively). By the end of the period, net debt of the Group amounted to –85 mln EUR, and net gearing was –34%. Other current liabilities of the Group were up by 11 mln EUR, including a 20 mln EUR increase in tax liabilities. The majority of the increase in tax liabilities was income tax calculated on dividends payable by AS Eesti Telefon and AS EMT.

The balance of cash and cash equivalents of the Eesti Telekom Group grew by 26 mln EUR during the first three months of 2003. Net operating cash flow was 29 mln EUR (corresponding 3 months of 2002: 24 mln EUR). Cash outflow into investing activities was essentially smaller than a year ago: 2 mln EUR in 2003, 5 mln EUR in 2002. Cash outflow into financing activities was 1 mln EUR (corresponding 3 months of 2002: 1 mln EUR).

Investments

The Eesti Telefon Group invested 1 mln EUR during the first three months of 2003 (first three months of 2002: 2 mln EUR). The reduction in investments has been caused by harsh weather conditions leading to projects being postponed, and changes in accounting principles – small-volume investments into equipment at customers' locations are written directly into expenses. The number of main lines in use at the end of March was 460,888 (a penetration of 34.0 lines per 100 people). The net decrease in the number of main lines was 4,200. The number of lines per employee was 329. The digitalisation rate reached 77.4% by the end of March 2003.

The total number of Atlas ADSL connections was 34,659 at the end of March 2003 (a penetration of 2.6 connections per 100 people). During the last year, the ADSL-coverage area has grown by one third, 200 populated points are covered. An ADSL permanent Internet connection can be installed to nine phone lines out of ten. Analysts from Point-Topic, in their quarter four, 2002, report, placed Estonia first, among Eastern European countries, on the basis of DSL-penetration level. Estonia also exceeds countries like Netherlands, Italy, and Great Britain. According to the data of the DSL Forum, Estonia is in second place, after Hungary, in Eastern Europe, on the basis of the absolute number of DSL-connections. The ADSL start-up packages launched in stores at the end of last year make it possible for everyone to install an ADSL-connection. Over 75% of the new ADSL-connections have been installed using the start-up packages. AS Eesti Telefon is intending to further accelerate the spread of the ADSL-connections with the promotion of remote working facilities.

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 fulfilled 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.

At the end of the year 2000, 24,290 people were waiting for phones. By the end of February 2003, the waiting list of subscribers, resulting from applications received before the end of 2000, was eliminated. New applications for fixed phone connection are fulfilled within 10 business days in 98% of the cases.

AS Eesti Telefon has participated on several public tenders successfully. In October 2002, the company won the tender for government procurement to supply a virtual private network for the Estonian Land Board. The network between the head office and 14 local offices of the Board was established in February 2003. In February 2003, AS Eesti Telefon won the tender for government procurement to supply the server hosting service for the central database of the Estonian libraries and the web-library.

The EMT Group invested 2 mln EUR during the first three months of 2003 (corresponding 3 months of 2002: 3 mln EUR). The majority of investments made by EMT went into base stations and exchanges.

On 11 February 2003, the *Riigikogu* (Parliament) decided that four third generation mobile communication licenses would be issued for a ten-year period. At the first stage, a direct offer will be made to the existing licensed mobile operators in Estonia, with a fee of 4 mln EUR per license. The second stage will be an auction of the licenses not issued during the first stage, with an initial price of 4 mln EUR per license. A precondition for the licensee will be the obligation to establish, within seven years of the license issuance, a third generation network covering at least 30% of the Estonian population. The decision became effective on 17 March 2003. AS EMT, as an operator oriented upon innovations, continues to be interested in acquiring the license. The investment is budgeted to take place in 2003.

Relations with state regulators

The Communications Board started procedures in November 2002 to reduce the termination fees of calls made to mobile networks. The Board analysed interconnection fees of the mobile operators and came to the conclusion that the operators have not based their charges on a reasonable profit percentage, as determined by the Telecommunication Act. The opinion of the Communications Board is that lower interconnection charges would improve the quality of mobile calls made from abroad to Estonia, and would lead to lower retail rates. As a result, on 31 January 2003, AS EMT announced its intention to reduce the termination fee, starting 1 March 2003, from the current 0.20 EUR/min to 0.19 EUR/min, and the discounted termination fee from the current 0.178 EUR/min to 0.176 EUR/min.

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

Information to the Shareholders

The Annual General Meeting of Eesti Telekom shall be held on 22 May 2003, at 1.00 p.m. at Vanalinnastuudio (Sakala 3, Tallinn). The 2002 Annual Report and resolution projects are available for all shareholders on Internet page http://www.telekom.ee and in the office of AS Eesti Telekom at Roosikrantsi 2, Tallinn, starting 29 April 2003, on working days, from 10.00 a.m. to 2.00 p.m. Any inquiries regarding the General Meeting can be made by phone: +372 6 311 212, or by e-mail: mailbox@telekom.ee.

Definitions

Net debt – long term and short term debt, less cash and cash equivalents, and short term investments
ROA – Net profit for the 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 EUR

	Q1 2002	Q2 2002	Q3 2002	Q4 2002	Q1 2003
Total revenue	67.0	77.6	71.9	74.9	70.7
Total expenses	34.6	40.3	36.1	44.2	36.2
EBITDA	32.4	37.3	35.9	30.7	34.5
margin	*48%*	*48%*	*50%*	*41%*	*49%*
Depreciation and amortization	16.4	16.3	15.8	15.5	14.6
EBIT	16.0	21.0	20.1	15.2	19.9
margin	*24%*	*27%*	*28%*	*20%*	*28%*
Income from associates	-0.1	-0.1	-0.1	0.0	0.0
Other net income	0.2	-0.3	0.2	0.4	0.5
Profit before tax	16.0	20.6	20.2	15.5	20.4
Income tax on dividends	0.0	-6.0	0.2	0.0	-17.9
Net profit for the period	16.0	14.6	20.3	15.5	2.5
Operating cash flows	24.0	37.2	28.7	31.5	29.1
Investments	-4.5	-3.2	-8.4	-18.0	-2.0
Cash flows before dividends and loan repayments	19.5	34.0	20.4	13.4	27.0
Dividends	0.0	-48.3	0.0	0.0	0.0
Loan repayments	-0.8	-0.4	-1.1	-4.2	-0.9
Net change in cash	18.7	-14.6	19.3	9.2	26.2
Total assets	281.5	258.0	267.8	283.9	296.6
- current assets	93.7	79.2	95.2	108.5	133.3
- cash and cash equivalents	48.4	33.2	52.4	61.5	87.7
- non-current assets	187.8	178.8	172.6	175.4	163.4
Total equity	247.1	213.4	233.7	249.3	251.8
Total liabilities	34.4	44.6	34.1	34.6	44.9
- ST borrowings	5.6	5.3	6.2	2.3	1.4
- LT borrowings	2.4	2.3	1.5	1.3	1.3

EESTI TELEKOM

AS EESTI TELEKOM AND SUBSIDIARY COMPANIES
INCOME STATEMENT

Financial statements are prepared in thousands of euros kroons (EUR)

	Notes	3 mths to 31 March 2003	3 mths to 31 March 2002 Restated	2002 Restated
Revenues				
Net sales		70,408	66,603	285,513
Other revenues		302	425	5,863
Total revenues		**70,710**	**67,028**	**291,376**
Operating expenses				
Change in work-in-progress		49	60	55
Capitalized self-constructed assets		137	112	4,179
Materials, consumables, supplies and services		(21,284)	(20,112)	(96,107)
Other operating expenses		(6,535)	(6,296)	(27,792)
Personnel expenses		(8,168)	(7,846)	(32,787)
Other expenses		(408)	(554)	(2,735)
Total operating expenses		**(36,209)**	**(34,636)**	**(155,187)**
Profit from operations before depreciation		**34,501**	**32,392**	**136,189**
Depreciation and amortisation	**2**	(14,600)	(16,392)	(63,941)
Profit from operations		**19,901**	**16,000**	**72,248**
Financial income / (expenses) from subsidiaries and associates		(47)	(141)	(329)
Other net financing items		527	158	411
Profit before tax		**20,381**	**16,017**	**72,330**
Income tax on dividends		(17,883)	-	(5,835)
Net profit for the period		**2,498**	**16,017**	**66,495**
Earning per share	**6 (e)**			
Basic earning per share (in euros)		0.02	0.12	0.48
Diluted earning per share (in euros)		0.02	0.12	0.48

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

	Notes	31 March 2003	31 Dec 2002	31 March 2002
ASSETS				
Non-current assets				
Property, plant and equipment	**2**	159,309	170,879	183,350
Goodwill	**2**	162	236	790
Licenses, patents and trademarks	**2**	2,206	2,483	2,154
Investments in subsidiaries and associates	**3, 4**	1,404	1,451	1,005
Other investments		173	173	176
Other non-current assets		129	130	369
Total non-current assets		**163,383**	**175,352**	**187,844**
Current assets				
Inventories		6,459	5,971	7,229
Trade receivables		26,942	27,504	28,214
Other receivables		12,124	13,483	9,811
Cash and cash equivalents		87,732	61,549	48,429
Total current assets		**133,257**	**108,507**	**93,683**
TOTAL ASSETS		**296,640**	**283,859**	**281,527**
EQUITY AND LIABILITIES				
Equity	**6**			
Issued capital		87,804	87,804	87,804
Reserves		28,591	28,591	28,591
Translation reserve		(3)	(2)	-
Retained earnings		132,870	66,375	114,668
Net profit for the period		2,498	66,495	16,017
Total equity		**251,760**	**249,263**	**247,080**
Non-current liabilities				
Interest-bearing loans and borrowings – due after one year	**5**	1,258	1,263	2,414
Current liabilities				
Trade payables		7,970	15,648	10,547
Other current liabilities		11,472	12,536	11,375
Tax liabilities		21,954	1,825	3,708
Interest-bearing loans and borrowings – due within one year	**5**	1,430	2,282	5,577
Provisions		796	1,042	826
Total current liabilities		**43,622**	**33,333**	**32,033**
TOTAL EQUITY AND LIABILITIES		**296,640**	**283,859**	**281,527**

EESTI TELEKOM

AS EESTI TELEKOM AND SUBSIDIARY COMPANIES
CASH FLOW STATEMENT

Financial statements are prepared in thousands of euros (EUR)

	Notes	3 mths to 31 March 2003	3 mths to 31 March 2002 Restated
Operating activities			
Profit operations		19,901	16,000
Adjustments for:			
Depreciation and amortisation	**2**	14,600	16,392
(Profit) / loss from sales and write-off of fixed assets		(54)	158
Operating cash flow before movements in working capital		34,447	32,550
Change in current receivables		1,877	(3,219)
Change in inventories		(487)	(512)
Change in current liabilities		(6,759)	(4,708)
Cash generated by operations		29,078	24,111
Interest paid		(15)	(95)
Net cash from operating activities		**29,063**	**24,016**
Investing activities			
Purchase of property, plant and equipment		(2,736)	(5,101)
Purchase of licenses		(25)	(42)
Proceeds from sales of property, plant and equipment		118	493
Loans granted		(14)	(3)
Cash receipt from repayment of loans		2	1
Interest received		630	140
Net cash used in investing activities		**(2,025)**	**(4,512)**
Financing activities			
Proceeds from long-term convertible debt	**5**	-	2
Proceeds from nonconvertible long-term debt	**5**	15	40
Repayment of nonconvertible long-term debt	**5**	(128)	(114)
Repayment of long-term borrowings	**5**	(744)	(744)
Net cash used in financing activities		**(857)**	**(816)**
Net increase in cash and cash equivalents		**26,181**	**18,688**
Cash and cash equivalents at beginning of year		**61,549**	**29,669**
Effect of foreign exchange rate changes		**2**	**72**
Cash and cash equivalents at end of period		**87,732**	**48,429**

EESTI TELEKOM

AS EESTI TELEKOM AND SUBSIDIARY COMPANIES
STATEMENT OF CHANGES IN EQUITY

Financial statements are prepared in thousands of euros (EUR)

	Issued capital	Reserves		Translation reserve	Retained earnings	Net profit for the period	TOTAL
		Share premium	Statutory legal reserve				
31 December 2001	**87,804**	**19,810**	**8,781**	**-**	**64,885**	**49,783**	**231,063**
Net profit for the 2001 transferred to retained earnings	-	-	-	-	49,783	(49,783)	-
Exchange differences arising from translation of foreign operations	-	-	-	-	-	-	-
Net profit for the period	-	-	-	-	-	16,017	16,017
31 March 2002	**87,804**	**19,810**	**8,781**	**-**	**114,668**	**16,017**	**247,080**
31 December 2002	**87,804**	**19,810**	**8,781**	**(2)**	**66,375**	**66,495**	**249,263**
Net profit for the 2002 transferred to retained earnings	-	-	-	-	66,495	(66,495)	-
Exchange differences arising from translation of foreign operations	-	-	-	(1)	-	-	(1)
Net profit for the period	-	-	-	-	-	2,498	2,498
31 March 2003	**87,804**	**19,810**	**8,781**	**(3)**	**132,870**	**2,498**	**251,760**

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

The consolidated interim financial statements for the three months period ending 31 March 2003 are prepared in accordance with the International Financial Accounting Standards (IAS 34). In all material respects, the same accounting principles have been followed as in the preparation of financial statements for 2002.

The consolidated financial statements are presented in thousands of euros, unless indicated otherwise. The Group's measurement currency is Estonian kroon. The consolidated financial statements are presented in euros as in reporting of the Group for informational purposes. In translation from kroon to euro the same axchange rate is used throughout the consolidated financial statements, as kroon is pegged to euro with fixed exchange rate of 15.64664 kroons per euro.

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 inter-company 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 according to the equity method.

An associate is an enterprise in which the Group holds, directly or indirectly, 20% - 50% of the voting power of the enterprise, or where the Group exercises significant influence over the enterprise, but is not subject to control by the Group.

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

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

Transactions in foreign currencies are recorded, using the rate of exchange quoted by the Bank of Estonia on the transaction date. On the balance sheet date, monetary assets and liabilities denominated in foreign currencies are recorded at the rate of exchange quoted by the Bank of Estonia on that date. Respective exchange differences are recognised in the income statement for the year.

The financial statements of foreign subsidiaries are recorded at the Bank of Estonia (*Eesti Pank*) effective exchange rates. Upon the acquisition of a foreign subsidiary, the parent company's share of the net assets of the subsidiary is fixed and recorded, using the exchange rate prevailing on the date of acquisition. These parts of the equity of the subsidiary will maintain their acquisition value even when the rest of the balance sheet of the subsidiary is retranslated. If a foreign subsidiary issues shares, these shares are recorded, using the exchange rate on the day of the issuance. Concerning the future consolidation of the balance sheet of a foreign subsidiary, the assets and liabilities are recorded, using the exchange rates prevailing on the balance sheet date. Income and expense items are recorded, using the average exchange rates for the period. Exchange differences, which arise, are charged to equity and transferred to the Group's recorded reserve. Such recording differences are recognised as income from, or as expenses of, subsidiaries in the period in which the operation has taken place. A recorded reserve in consolidated equity is considered in the calculation of the results of sales of shares of a subsidiary.

Financial statements are prepared in thousand of euros (EUR)

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

Currency	Exchange rate	
	31 March 2003	**31 March 2002**
EUR	15.64664	15.64664
USD	14.39102	17.94751
SEK	1.69408	1.73470
LVL	24.91305	28.19495

Assets with useful life over one year and with a minimum value of 639 EUR are considered to be ***fixed assets***. Fixed assets are recorded at acquisition cost, which is comprised of the purchase price, non-refundable taxes, and other expenditures directly related to taking the fixed asset object into use. The cost of property, plant, and equipment constructed by the company includes the cost of materials and direct labour. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the assets is reduced to its recoverable amount.

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

- buildings 3 - 8% per annum;
- telecommunication network equipment 17.5 - 20% per annum;
- plant and equipment 15 - 40% per annum;
- furniture, fixtures, and fittings 10 - 50% per annum.

Freehold land is not depreciated.

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

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

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

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

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

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

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

Financial statements are prepared in thousand of euros (EUR)

Previously expensed receivables, which were collected during the financial year, are recorded on the same expense account as a reverse entry.

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

Liabilities which have arisen during the financial year, or prior periods, which have a legal or contractual basis, which are expected to result in the outflow of resources, and which can be reliably measured, but for which the actual payment amount and payment date has not been definitely determined, are recorded as ***provisions*** on the Balance Sheet. Provisions are measured according to the management's estimates, and previous experience, and when necessary, the assessment of independent experts.

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

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 by others 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 liquid short-term investments.

Cash flows from operating activities are reported under the indirect method. ***Cash flows from investing and financing activities*** are reported based on gross receipts and disbursements made during the accounting period.

Restatement

At the end of 2002 income statement accounts were partly reclassified.
Respective changes have been made to first three months 2002 accounts to make them comparable as follows:

	Beginning balance 31 March 2002	**Restatement**	**Restated balance 31 March 2002**
Operating expenses			
Materials, consumables, supplies and services	(19,922)	(190)	(20,112)
Other operating expenses	(6,486)	190	(6,296)

In 2003 Estonia started transition to the new Accounting Law. The new law harmonizes Estonian "good accounting practices" with International Financial Reporting Standards. In connection with the transition, the structure of income statement has been amended. "Change in work-in-progress" and "Capitalized self-constructed assets" have been removed from "Revenue" to "Operating expenses". Comparison data in 2002 were recalculated correspondingly.

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.

Financial statements are prepared in thousand of euros (EUR)

2. Tangible and intangible assets

	Tangible assets	Intangible assets
At cost		
31 December 2001	**467,527**	**12,727**
Additions	5,258	93
Disposals and write-off's (-)	(3,905)	(15)
31 March 2002	**468,880**	**12,805**
31 December 2002	**485,667**	**11,503**
Additions	2,718	25
Disposals and write-off's (-)	(1,345)	(1,081)
31 March 2003	**487,040**	**10,447**
Accumulated depreciation		
31 December 2001	**272,989**	**9,138**
Depreciation	15,673	719
Disposals and write-off's (-)	(3,132)	4
31 March 2002	**285,530**	**9,861**
31 December 2002	**314,788**	**8,784**
Depreciation	14,225	375
Disposals and write-off's (-)	(1,282)	(1,080)
31 March 2003	**327,731**	**8,079**
Carrying amount		
31 March 2002	**183,350**	**2,944**
31 March 2003	**159,309**	**2,368**

Financial statements are prepared in thousand of euros (EUR)

3. Investments in subsidiaries

	Country of incorporation	Ownership interest		Principal activity	Owner
		31 March 2003	**31 March 2002**		
AS Eesti Telefon	Estonia	100%	100%	Network services for operators, data communication and Internet products, voice communication solutions and Internet content services for business and residential customers	AS Eesti Telekom
AS Telefonipood	Estonia	100%	100%	Retail sales of telecommunication products and services	AS Eesti Telefon
AS Connecto	Estonia	100%	100%	Construction and maintenance of telecommunication networks	AS Eesti Telefon
SIA Connecto Latvia	Latvia	100%	100%	Construction and maintenance of telecommunication networks	AS Connecto
AS EMT	Estonia	100%	100%	Construction and operating of mobile networks, providing mobile communication services	AS Eesti Telekom
AS Esmofon	Estonia	100%	100%	Retail sales of telecommunication products and services	AS EMT
AS Esmofon Tartu	Estonia	100%	100%	Retail sales of telecommunication products and services	AS EMT
AS Mobile Wholesale	Estonia	100%	100%	Wholesale of mobile phones	AS EMT

Financial statements are prepared in thousand of euros (EUR)

4. Investments in associates

	Country of incorporation	Ownership interest		Principal activity	Owner
		31 March 2003	**31 March 2002**		
AS Intergate	Estonia	50%	50%	Venture capital investments into companies with innovative technologies	AS Eesti Telefon
AS Sertifitseerimiskeskus	Estonia	50%	50%	Providing certification and related services	AS Eesti Telefon – 25% AS EMT – 25%
EsData AS	Estonia	30%	30%	Internet and data communication services, VoiP long distance calls and equipment hosting services	AS Eesti Telefon
OÜ Voicecom	Estonia	26%	26%	Designing and providing software for mobile related services	AS EMT

5. Borrowings

	31 March 2003	31 Dec 2002
Current	1,430	2,282
Non-current	1,258	1,263
	2,688	**3,545**

The movements in the borrowings can be analyzed as follows:

Opening balance 31 Dec 2002	**3,545**
Proceeds from borrowings	15
Repayments of borrowings	(872)
Closing balance 31 March 2003	**2,688**

Financial statements are prepared in thousand of euros (EUR)

6. Equity

(a) Share capital

	31 March 2003	31 March 2002
Share capital issued		
Ordinary shares par value 0.64 EUR per share, fully paid	137,383,178	137,383,178
Preference share par value 63.91 EUR 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 639.11 EUR, and one vote at the shareholders' general meeting.

(b) Reserves

Reserves include:

- Obligatory legal reserve required by the Commercial Code. Subject to the approval of the general meeting, the reserve may be used for covering cumulated losses, if the latter cannot be covered with other unrestricted equity, and for increasing share capital.
- Share premium – the difference between the issue price and nominal value of issued shares (issue premium).

(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 limit set by law, and that the price payable per share would not exceed the highest price paid for the ordinary shares of AS Eesti Telekom on the Tallinn Stock Exchange on the day of acquiring the shares. AS Eesti Telekom has to pay for the shares from the company’s assets in excess of its share capital, capital reserves, and share premium. The amount of shares to be acquired each time shall be determined on each occasion separately by a resolution of AS Eesti Telekom's Supervisory Council. As of 31 March 2003, 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, AS Eesti Telekom issued bonds with the issuance value of 0.64 EUR per bond. The bonds are accompanied by an option that allows the holder to exchange them for the parent company’s ordinary shares either in the spring of 2003 (A-series) or in the spring of 2004 (B-series). The subscription price of the shares is 5.79 EUR.

From 18 December 2000, until 5 January 2001, 144 employees of the Group subscribed to 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 March 2003, 42,000 A-series and 42,000-B series bonds had been issued, which can be exchanged for 420,000 AS Eesti Telekom ordinary shares in 2003, and for 420,000 AS Eesti Telekom ordinary shares in 2004, respectively.

(e) Earnings per share

The calculation of basic earnings per share is the following:

3 months 2003: EUR 0.02 = (2,498,000 – 639.11) : 137,383,178
3 months 2002: EUR 0.12 = (16,017,000 – 639.11) : 137,383,178

In view of the fact that in the three months of 2003 the average price of the shares of AS Eesti Telekom at the Estonian Central Depository for Securities was 5.53 EUR, the options relating to the bonds do not have a dilutive effect and diluted earnings per share equal basic earnings per share.

(f) Share information

AS Eesti Telekom shares are quoted in the main list of the Tallinn Stock Exchange and in the main list of GDR-s on the London Stock Exchange. Each GDR (Global Depositary Receipts) represents three ordinary shares. On 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 GDR-s 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 6.22 EUR; the lowest price was 5.14 EUR, and the average price was 5.53 EUR per share.

7. 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.

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

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

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

Segment liabilities are those directly attributable to the segment.

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

Financial statements are prepared in thousand of euros (EUR)

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.

a) Business segments

	Fixed network telecommunications		Mobile telecommunications		Other operations		Eliminations		Consolidated	
	3 months 2003	**3 months 2002 Restated**	**3 months 2003**	**3 months 2002**	**3 months 2003**	**3 months 2002**	**3 months 2003**	**3 months 2002**	**3 months 2003**	**3 months 2002 Restated**
Revenue										
Net sales	36,132	36,938	34,276	29,665	-	-	-	-	70,408	66,603
Other revenue	163	178	139	247	-	-	-	-	302	425
Inter-segment revenue	2,337	2,070	4,544	4,561	1	2	(6,882)	(6,633)	-	-
Total revenue	**38,632**	**39,186**	**38,959**	**34,473**	**1**	**2**	**(6,882)**	**(6,633)**	**70,710**	**67,028**
Operating expenses										
Change in work-in-progress	49	60	-	-	-	-	-	-	49	60
Capitalized self-constructed assets	113	112	24	-	-	-	-	-	137	112
Materials, consumables, supplies and services	(7,661)	(7,983)	(13,623)	(12,129)	-	-	-	-	(21,284)	(20,112)
Other operating expenses	(5,157)	(4,479)	(1,273)	(1,655)	(105)	(162)	-	-	(6,535)	(6,296)
Personnel expenses	(6,471)	(6,282)	(1,572)	(1,447)	(125)	(117)	-	-	(8,168)	(7,846)
Other expenses	(177)	(208)	(156)	(317)	(75)	(29)	-	-	(408)	(554)
Inter-segment expenses	(4,543)	(4,560)	(2,336)	(2,070)	(3)	(3)	6,882	6,633	-	-
Total expenses	**(23,847)**	**(23,340)**	**(18,936)**	**(17,618)**	**(308)**	**(311)**	**6,882**	**6,633**	**(36,209)**	**(34,636)**
EBITDA	**14,785**	**15,846**	**20,023**	**16,855**	**(307)**	**(309)**	**-**	**-**	**34,501**	**32,392**
Depreciation and amortization	(8,931)	(10,858)	(5,665)	(5,515)	(20)	(22)	16	3	(14,600)	(16,392)
EBIT	**5,854**	**4,988**	**14,358**	**11,340**	**(327)**	**(331)**	**16**	**3**	**19,901**	**16,000**
Income/ (expenses) from subsidiaries and associated companies	(23)	(76)	(24)	(66)	2,515	15,890	(2,515)	(15,889)	(47)	(141)
Other net financing items	(17)	(470)	235	170	309	458	-	-	527	158
Income tax on dividends	(4,410)	-	(13,473)	-	-	-	-	-	(17,883)	-
Net profit	**1,404**	**4,442**	**1,096**	**11,444**	**2,497**	**16,017**	**(2,499)**	**(15,886)**	**2,498**	**16,017**

Financial statements are prepared in thousand of euros (EUR)

b) Other information by segments

	Fixed network telecommunications		Mobile telecommunications		Other operations		Eliminations		Consolidated	
	3 months 2003	**3 months 2002**	**3 months 2003**	**3 months 2002**	**3 months 2003**	**3 months 2002**	**3 months 2003**	**3 months 2002**	**3 months 2003**	**3 months 2002**
Non-current assets (except investments in subsidiaries and associates)	98,247	118,874	63,650	67,494	210	19,393	(128)	(18,922)	161,979	186,839
Investments in subsidiaries and associates	1,146	960	258	45	161,087	202,524	(161,087)	(202,524)	1,404	1,005
Current assets	36,852	31,734	59,709	46,491	90,909	25,420	(54,213)	(9,962)	133,257	93,683
Total assets	**136,245**	**151,568**	**123,617**	**114,030**	**252,206**	**247,337**	**(215,428)**	**(231,408)**	**296,640**	**281,527**
Owners' equity	99,971	99,045	61,245	103,536	251,760	247,080	(161,216)	(202,581)	251,760	247,080
Non-current liabilities	747	20,726	480	522	31	31	-	(18,865)	1,258	2,414
Current liabilities	35,527	31,797	61,892	9,972	415	226	(54,212)	(9,962)	43,622	32,033
Total equity and liabilities	**136,245**	**151,568**	**123,617**	**114,030**	**252,206**	**247,337**	**(215,428)**	**(231,408)**	**296,640**	**281,527**
Cash flow from operating activities	9,087	10,728	19,328	12,612	(332)	(328)	979	1,004	29,063	24,016
Cash flow used in capital expenditure	(1,229)	(2,252)	(1,503)	(2,891)	(29)	-	-	-	(2,761)	(5,143)
Cash flow from / used in other investing activities	276	349	229	310	21,553	7,891	(21,322)	(7,919)	736	631
Cash flow from / used in financing activities	(21,569)	(8,548)	369	815	-	2	20,343	6,915	(857)	(816)
Effect of foreign exchange rate changes	8	4	(5)	-	(1)	68	-	-	2	72
Net change in cash and cash equivalents	**(13,427)**	**281**	**18,418**	**10,846**	**21,191**	**7,633**	**-**	**-**	**26,183**	**18,760**

c) Net sales by geographic area

	Fixed network telecommunications		Mobile telecommunications		Consolidated	
	2003	**2002**	**2003**	**2002**	**2003**	**2002**
Net sales to customers in Estonia	32,435	32,940	33,136	28,480	65,571	61,420
Net sales to customers outside Estonia	3,697	3,998	1,140	1,185	4,837	5,183
	36,132	**36,938**	**34,276**	**29,665**	**70,408**	**66,603**