16 October 2003

THE FINANCIAL RESULTS OF THE FIRST NINE MONTHS OF 2003

Eesti Telekom, the leading provider of telecommunications services in Estonia, hereby announces its results for the third quarter, and nine-month period, which ended 30 September 2003.

Financial highlights

	Q3 2003	Q3 2002	Change %	**9 months 2003**	9 months 2002	Change %
Total revenues, mEEK	**1,243**	1,125	10	**3,536**	3,388	4
EBITDA, mEEK	**566**	561	1	**1,669**	1,651	1
EBITDA margin, %	**46**	50		**47**	49	
EBIT, mEEK	**351**	315	12	**1,004**	893	13
EBIT margin, %	**28**	28		**28**	26	
Profit before taxes, mEEK	**356**	316	13	**1,085**	888	22
Net profit for the period, mEEK	**353**	318	11	**796**	797	-0
EPS, EEK	**2.57**	2.32	11	**5.79**	5.80	-0
CAPEX, mEEK	**178**	135	32	**307**	332	-8
Net gearing, %	**-30**	-19		**-30**	-19	
ROA (annualised), %	**33**	31		**24**	25	
ROE (annualised), %	**38**	36		**38**	33	

Commenting on these financial results, Chairman Jaan Männik stresses:

“Strong revenue growth combined with healthy margins continued.”

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CHAIRMAN'S STATEMENT

Financial results

The consolidated revenues, of the Eesti Telekom Group, for the third quarter of 2003 amounted to 1,243 mln EEK, up by 10%, compared to the third quarter of 2002. Operating expenses of the third quarter were up by 20%, amounting to 677 mln EEK. The EBITDA of the Eesti Telekom Group was 566 mln EEK and the EBITDA margin was 46%. Both the revenues and operating expenses of the third quarter were affected by a significant transaction between Elion Enterprises Ltd. and the Tallinn Education Authority (see section"Fixed communications"), and by a new subsidiary, AS Reveko Telekom, being added to the Group. Revenue growth from mobile communications was traditionally high. In the area of fixed communications, higher revenues from the Internet, data communications, and IT compensated the declining revenue from voice communications.

Depreciation charge of the Eesti Telekom Group in the third quarter of 2003 amounted to 215 mln EEK, down by 13%. This decrease is mainly caused by revised depreciation rates applied in a subsidiary company, Elion Enterprises Ltd., at the beginning of 2003. In addition to that, depreciation has started to fall as a result of the relatively low CAPEX that the Group has had during the past years, compared to earlier periods.

The financial revenues of the third quarter exceeded financial expenses by 6 mln EEK.

The net profit of the Eesti Telekom Group in the third quarter of 2003 was 353 mln EEK or 2.57 EEK per share. Corresponding figures in the third quarter of 2002 were 318 mln EEK and 2.32 EEK per share.

During the first nine months of 2003, the consolidated revenues of the Eesti Telekom Group amounted to 3,536 mln EEK, growing by 4%, compared to the first nine month period in 2002. Operating expenses were up by 8%, amounting to 1,867 mln EEK. The EBITDA of the Group was 1,669 mln EEK, up by 1%. The EBITDA margin was 47%. The first nine month consolidated revenues of 2002 included a non-recurring item, a 54 mln EEK capital gain from the sale of real estate. The elimination of this capital gain from the revenues of the base-period would make the revenue growth to be 6% and the EBITDA growth to be 5%.

The net profit of the Eesti Telekom Group in the first nine months of 2003 was 796 mln EEK or 5.79 EEK per share. Corresponding figures for the first nine months of 2002 were 797 mln EEK and 5.80 EEK per share. The net profit of the current year has been affected by an amendment in the taxation regulations, which became effective in 2003. In 2002, the dividend tax applied only to dividend payments to private individuals or nor-resident legal entities. But in 2003, the dividend tax became effective for all dividend payments. Thus, for the Eesti Telekom Group, this tax amendment brought with it a significant increase in the dividend taxes that had to be paid.

At the end of September 2003, the total assets of the Eesti Telekom Group amounted to 4,327 mln EEK (in December 2002, 4,441 mln EEK). Tangible assets were reduced, from the beginning of the year, by 355 mln EEK. Current assets were increased by 240 mln EEK. This enlargement was mainly the result of an increase of cash and cash equivalents (cash, bank accounts, units of money-market funds and other short-term financial investments) by 228 mln EEK. By the end of the period, the net debt of the Group amounted to –1,170 mln EEK, and net gearing was –30%.

The balance of cash and cash equivalents (cash, bank accounts, and units of money-market funds) of the Eesti Telekom Group grew by 259 mln EEK during the first nine months of 2003. The net operating cash flow was 1,270 mln EEK (during the corresponding 9 months of 2002, 1,405 mln EEK). Cash outflow into investments was essentially smaller than a year ago: 176 mln EEK in 2003 (incl. 68 mln EEK from the sale of the minority ownership in AS Connecto, and a 70 mln EEK payment for the UMTS licence), compared with 306 mln EEK in 2002. The cash outflow into financing was 834 mln EEK, including 824 mln EEK paid as dividends (during the corresponding 9 months of 2002, 791 mln EEK, including 756 mln EEK paid as dividends).

Fixed communications

	Q3 2003	Q3 2002	Change %	**9M 2003**	9M 2002	Change %
Total revenues, mEEK	661	607	9	1,897	1,924	-1
EBITDA, mEEK	221	229	-4	682	756	-10
EBITDA margin, %	33	38		36	39	
EBIT, mEEK	91	69	32	277	257	8
EBIT margin, %	14	11		15	13	
Profit before taxes, mEEK	91	66	39	336	239	41
Net profit for the period, mEEK	87	66	33	266	239	11
CAPEX, mln EEK	63	79	-21	125	184	-32
ROA, %	17	11		16	13	
ROE, %	21	16		26	20	

The decrease in the consolidated revenues of the Elion Group stopped in the third quarter of 2003. The consolidated revenues of the Elion Group amounted to 661 mln EEK, showing an increase of 9%, compared to the same period in 2002. The operating expenses of the third quarter were up by 17%, amounting to 441 mln EEK. The EBITDA of the Group was 221 mln EEK and the EBITDA margin was 33%.

In May 2003, the Tallinn Education Authority and Elion Enterprises Ltd. signed a framework agreement concerning the installation of new computers and other equipment into the computer classes of Tallinn schools. The total value of the procurement amounts to more than 63 mln EEK. In July, within the framework of the agreement, computers were sold to the Tallinn Education Authority for 32 mln EEK. This transaction had a significant impact on both revenues ("revenue from IT and data communications") and expenses ("materials, consumables, supplies, and services") of the third quarter. Since the transaction was extensive, but with a low margin, it resulted in a decrease of the EBITDA margin of the third quarter, compared to the same period in 2002.

The operating expenses of the third quarter were also affected by the launching of a new brand name. On 18 August 2003, Elion Enterprises Ltd. introduced the new brand name of Elion. Elion replaced the former brand names Eesti Telefon, et, Hot, Hallo, and Atlas. One objective of the change was to make the obtaining of services from, and communicating with the company easier for the customer. Elion adjusted its portfolio to customers' needs by making a distinction between household, business, and corporate customers. Already starting this year, the company will also "entertain" its customers at home by launching Internet access to TV, movies, computer games, and music. In addition to that, the company will help to finance the obtaining of IT and communication equipment with hire purchase and leasing opportunities. Operating expenses related to the new brand name amounted to approximately 8 mln EEK.

Among the main revenue categories of the Group, the revenues from domestic calls decreased by 12%, compared to the third quarter of 2002. Revenues from international calls were also down by 12%. Revenues from calls into mobile networks were lower by 8%. Revenues from phone installations and monthly fees were down by 4%. Revenues from the Internet, and revenues from IT and data communications were up by 27% and 99% respectively. Revenues from network services were up by 6%.

The market shares of Elion Enterprises Ltd. have been stable. The company estimates its share of total call minutes to be 87% (September 2002: 89%). The estimated market share of domestic call minutes, international call minutes, and fixed to mobile call minutes are 87% (88%), 68% (73%) and 76% (76%) respectively. The estimated market share of dial-up minutes is 95% (95%).

The net profit of the Elion Group in the third quarter of 2003 was 87 mln EEK, showing an increase of 33%, compared to the same period in 2002. This growth is largely the result of the implementation of the revised depreciation rates from the beginning of 2003. The new rates are more differentiated than the previous ones. The useful lifetime of different categories of tangible assets is determined more accurately. In addition to that, depreciation charge has started to fall as a result of the relatively low CAPEX that the

Group has had during the last years, compared to earlier periods. Depreciation of the Elion Group, in the third quarter of 2003, was reduced by 30 mln EEK or 19%.

The consolidated revenues of the Elion Group, during the first nine months of 2003, amounted to 1,897 mln EEK, down by 1%, compared to the first nine months of 2002. However, the consolidated revenues of the first nine months of 2002 contain a capital gain from the sale of real estate in the amount of 54 mln EEK. Elimination of the capital gain would make the revenues of 2003 2% higher than the revenues of 2002. Operating expenses of the period were up by 4%, amounting to 1,215 mln EEK. The EBITDA of the Group was 682 mln EEK and the EBITDA margin was 36%. As a result of amendments in regulations on income taxation, the Group declares a dividend income tax expense of 67 mln EEK in its first nine months' income statement. The net profit of the Elion Group for the first nine months of 2003 was 266 mln EEK, up by 11%, compared to the same period in 2002.

The Elion Group invested 125 mln EEK during the first nine months of 2003 (2002: 184 mln EEK).

The number of main lines in use at the end of September was 446,240 (a penetration of 32.9 lines per 100 people). The net decrease in the number of main lines, since the beginning of 2003, was 14,020. After launching the new brand name, Elion Enterprises Ltd. started a campaign, which provided customers with the opportunity of joining the company's network without having to pay an installation fee. A total of 5,300 customers applied to be connected in the course of the campaign. 87% of the additions were private individuals. 12% of the new customers also applied for an ADSL connection. The total number of ADSL connections at the end of September was 41,132 (3 connections per 100 people). The net increase in the number of ADSL connections since the beginning of 2003 was 10,650.

The sale of minority interests in AS Connecto, a subsidiary of Elion Enterprises, were completed in June. A 49% minority stake in AS Connecto was sold to ELTEL Networks Corporation, a Finnish telecommunications network development firm. The price of the deal was 68 mln EEK, and the capital gain declared was 59.5 mln EEK. Elion Enterprises will remain an active owner of Connecto, but ELTEL Networks has the right to acquire 100% of the company shares after two years. This sale enables Elion Enterprises to focus on its core business, which is the providing of telecommunications and IT solutions. The involvement of a strategic partner will also accelerate the expansion of AS Connecto into the other Baltic states.

On 1 July 2003, AS Connecto, a 51% owned subsidiary of Elion Enterprises Ltd., acquired all of the shares of AS Reveko Telekom. 55% of the shares were purchased from TeliaSonera, and 45% from Estonian private individuals. The price of the deal was 14 mln EEK. AS Reveko Telekom was founded in 1995. The firm specialises in various aspects of indoor telecommunications: the sales and installation of telephone relays and communications systems, the construction of computer and telephone networks, the design and installation of low current systems, and operating services. Reveko Telekom has 22 employees.

The number of employees of the Elion Group at the end of September 2003 was 1,974 (in December 2002: 1,999).

Mobile communications

	Q3 2003	Q3 2002	Change %	**9M 2003**	9M 2002	Change %
Total revenues, mEEK	702	635	11	1,995	1,799	11
EBITDA, mEEK	353	336	5	1,006	910	11
EBITDA margin, %	50	53		50	51	
EBIT, mEEK	268	250	8	746	651	15
EBIT margin, %	38	39		37	36	
Profit before taxes, mEEK	269	249	8	755	654	16
Net profit for the period, mEEK	269	249	8	544	654	-17
CAPEX, mln EEK	115	56	105	181	148	22
ROA, %	66	69		42	55	
ROE, %	80	82		77	64	

The growth of the consolidated revenues of the EMT Group accelerated again in the third quarter of 2003. Revenues of the second quarter were up by 9%, compared to the same period in 2002. In the third quarter, the growth reached 11%. Revenues from SMS and data continued to have the highest growth rate, showing an increase of 28%. Revenues from domestic calls, prepaid call-cards, and interconnection have also increased. There was some decline in the revenue from monthly fees, compared to the third quarter of 2002. In September 2003, the ARPU was 423 EEK (in September 2002, 433 EEK; in December 2002, 423 EEK). The lower ARPU was mainly caused by an increase in the usage time of prepaid call-cards.

The operating expenses of the EMT Group in the third quarter of 2003 amounted to 349 mln EEK, up by 17%, compared to the same period in 2002. The growth resulted from higher interconnection expenses, caused by an increase of outgoing call minutes, and the increased business activities of a subsidiary of the Group, AS Mobile Wholesale.
The EBITDA of the third quarter was 353 mln EEK, up by 5%. The EBITDA margin was 50%. The net profit of the EMT Group was 269 mln EEK, showing an increase of 8%, compared to the third quarter of 2002.

The total number of customers of EMT grew by 24.3 thousand during the third quarter of 2003. The number of contractual customers was up by 3.8 thousand and the number of customers with prepayment was up by 20.5 thousand. The growth in the number of customers was partly caused by changes in the terms of the Simpel call-cards, which became effective 1 May 2003. Until 1 May 2003, customers could use the calling time stored on their cards in the course of two months for calling out, plus, for one more month, they could receive incoming calls. In accordance with the new terms, the calling time stored on the card can be used for calling out in the course of five months, plus, incoming calls can be received for an additional month. Due to the change in terms, EMT will not close any prepaid cards between 2 August and the end of October. The total number of AS EMT customers reached 463.8 thousand by the end of September. The number of contractual customers was 295.1 thousand, and the number of prepaid customers was 168.7 thousand. EMT estimated its market share to be around 47%.

The consolidated revenues of the EMT Group, during the first nine months of 2003, amounted to 1,995 mln EEK, up by 11%, compared to the same period in 2002. Operating expenses of the period amounted to 989 mln EEK, also up by 11%. The EBITDA of the Group was 1,006 mln EEK, and the EBITDA margin was 50%. As a result of amendments, which were made to the regulations concerning the calculating of income tax on dividends, the Group declared a dividend income tax expense of 211 mln EEK in its income statement. The net profit of the EMT Group for the nine-month period was 544 mln EEK.

The EMT Group invested 181 mln EEK during the first nine months of 2003 (during the first nine months of 2002, 148 mln EEK).

On 8 May 2003, a direct offer was made by the Estonian National Communications Board to AS EMT, Radiolinja Eesti AS, and Tele2 AS to acquire third generation mobile communications licences. All three operators submitted their applications in July, and received licences from the Communications Board after paying a licence fee and state duty of 70.7 mln EEK per licence. By acquiring a licence, each operator also accepted an obligation to establish, within seven years of the issuance of the licence, a third generation network, covering at least 30% of the Estonian population, and having a data transmission speed of at least 144 Kb/sec in urban areas and 64Kb/sec anywhere else in Estonia.

On 17 September 2003, Meelis Atonen, the minister of economic affairs and communications, and Peep Aaviksoo, the CEO of AS EMT, made the first UMTS-call in Estonia via the EMT trial network. A commercial UMTS-network is expected to start functioning in 2005.

The number of employees of the EMT Group at the end of September 2003 was 417 (in December 2002, 406).

Relations with state regulators

On 25 August 2003, the Estonian National Communications Board presented letters to AS EMT and Elion Enterprises Ltd., in which the Board announces its intention to declare AS EMT and Elion Enterprises Ltd.

to be firms with significant market power (SMP) for the year 2004. The Communications Board intends to declare AS EMT to have SMP in the public mobile communications services market throughout Estonia. It intends to declare Elion Enterprises Ltd. to have SMP in the public telephone services market, the public leased line services market, and the public interconnection services market.

AS EMT had also been declared to have SMP in the public mobile communications services market for the years 2002 and 2003. Elion Enterprises Ltd. had also been declared to have SMP in the public telephone services market, the public leased line services market, and the public interconnection services market for the years 2001, 2002, and 2003.

The lawsuit continues between Elion Enterprises Ltd. and the Competition Board over the justification of tariffs for calls inside the network, which were established 1 April 2001. The first and second level courts made their decisions in favour of AS Elion, but 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 available evidence. The Supreme Court considered it necessary for the Administrative Court to use the assistance of the Communications Board when revising the case.

Reporting schedule in 2004

In 2004, the financial reports of the Eesti Telekom Group will be published on the following dates:

Preliminary results for 2003	5 February 2004
Final results for 2003	5 March 2004
1st quarter results for 2004	15 April 2004
Half-year results for 2004	15 July 2004
9 month results for 2004	14 October 2004

Definitions

Net debt – long term and short term debt, less cash and cash equivalents, and short term investments
ROA – Net profit for the period, expressed as a percentage of average total assets
ROE – Pre-tax profit for the period, expressed as a percentage of average equity

AS EESTI TELEKOM AND SUBSIDIARY COMPANIES
QUARTERLY DATA
mln EEK

	Q3-2002	Q4-2002	Q1-2003	Q2-2003	Q3-2003
Revenues	1,125	1,171	1,106	1,187	1,243
Operating expenses	564	692	567	624	676
Profit from operations before depreciation	561	480	540	563	566
Depreciation and amortisation	247	242	228	221	215
Profit from operations	314	238	311	341	351
Income / (expenses) from subsidiaries and associates	-1	-1	-1	58	-1
Other net financing items	3	6	8	10	6
Profit before tax	316	243	319	410	356
Income tax on dividends	-2	0	280	6	0
Minority interest	0	0	0	0	3
Net profit for the period	318	243	39	404	353
EBITDA margin, %	49.9%	40.9%	48.8%	47.4%	45.6%
EBIT margin, %	27.9%	20.3%	28.1%	28.8%	28.3%
Net margin, %	28.3%	20.8%	3.5%	34.0%	28.4%
Total assets	4,191	4,441	4,641	4,356	4,327
- Non-current assets	2,701	2,744	2,556	2,419	2,389
- Current assets	1,490	1,698	2,085	1,937	1,938
- Cash and cash equivalents	819	963	1,373	1,181	1,191
Equity and liabilities	4,191	4,441	4,641	4,356	4,327
- Equity	3,657	3,900	3,939	3,543	3,895
- Minority interest	0	0	0	9	13
- Non-current liabilities	24	20	20	15	13
- Interest-bearing borrowings	24	20	20	15	13
- Current liabilities	510	522	683	789	406
- Interest-bearing borrowings	97	36	22	22	9
Proceeds from operating activities	448	493	455	609	206
Net cash used in investing activities	-200	-247	37	-34	-179
Net cash before dividends and net loans	248	246	492	575	27
Dividends paid	0	0	0	-824	0
Loan repayments (net)	-17	-65	-13	-4	-16
Share issue	0	0	0	23	0
Net increase (decrease) in cash and cash equivalents	231	181	478	-230	11

AS EESTI TELEKOM AND SUBSIDIARY COMPANIES
INCOME STATEMENT
Financial statements are prepared in thousands of Estonian kroons (EEK)

	Notes	9 months to 30 Sept 2003	9 months to 30 Sept 2002 Restated	2002
Revenues				
Net sales	**10**	3,513,470	3,316,331	4,467,311
Other revenues		22,662	71,367	91,737
Total revenues		**3,536,132**	**3,387,698**	**4,559,048**
Operating expenses				
Change in work-in-progress		967	2,104	864
Capitalized self-constructed assets		23,457	31,803	65,384
Materials, consumables, supplies and services		(1,163,884)	(1,082,720)	(1,503,759)
Other operating expenses		(328,593)	(305,828)	(434,844)
Personnel expenses		(382,100)	(357,905)	(513,005)
Other expenses		(17,227)	(23,834)	(42,786)
Total operating expenses		**(1,867,380)**	**(1,736,380)**	**(2,428,146)**
Profit from operations before depreciation		**1,668,752**	**1,651,318**	**2,130,902**
Depreciation and amortisation	**2**	(664,705)	(758,572)	(1,000,468)
Profit from operations		**1,004,047**	**892,746**	**1,130,434**
Net financial income / (-expenses) from associates		56,509	(4,541)	(5,153)
Other net financing items		24,928	255	6,443
Profit before tax		**1,085,484**	**888,460**	**1,131,724**
Income tax on dividends		(286,022)	(91,298)	(91,298)
Minority interest		(3,485)	-	-
Net profit for the period		**795,977**	**797,162**	**1,040,426**
Earning per share	**7 (f)**			
Basic earning per share (in kroons)		5.79	5.80	7.57
Diluted earning per share (in kroons)		5.79	5.80	7.57

AS EESTI TELEKOM AND SUBSIDIARY COMPANIES
BALANCE SHEET
Financial statements are prepared in thousands of Estonian kroons (EEK)

	Notes	30 Sept 2003	31 Dec 2002	30 Sept 2002
ASSETS				
Non-current assets				
Property, plant and equipment	**2**	2,250,506	2,673,673	2,632,148
Goodwill	**2**	4,095	3,687	6,316
Licenses, patents and trademarks	**2**	108,424	38,853	31,138
Investments in subsidiaries and associates	**3, 4**	20,562	22,696	23,308
Other investments		2,895	2,710	2,758
Other non-current assets		2,649	2,048	5,637
Total non-current assets		**2,389,131**	**2,743,667**	**2,701,305**
Current assets				
Inventories	**5**	102,840	93,428	105,450
Trade receivables		460,187	430,330	406,533
Other receivables		183,086	210,971	158,157
Investments held for trading		48,524	79,054	114,540
Cash and cash equivalents		1,143,390	883,988	704,954
Total current assets		**1,938,027**	**1,697,771**	**1,489,634**
TOTAL ASSETS		**4 327,158**	**4,441,438**	**4,190,939**
EQUITY AND LIABILITIES				
Equity	**7**			
Issued capital		1,376,445	1,373,833	1,373,833
Reserves		468,410	447,348	447,348
Translation reserve		(38)	(25)	72
Retained earnings		1,254,670	1,038,553	1,038,553
Net profit for the period		795,977	1,040,426	797,162
Total equity		**3,895,464**	**3,900,135**	**3,656,968**
Minority interest		12,978	-	-
Non-current liabilities				
Interest-bearing loans and borrowings – due after one year	**6**	12,784	19,761	23,798
Current liabilities				
Trade payables		162,089	244,850	154,822
Other current liabilities		159,028	196,134	193,972
Tax liabilities		58,100	28,553	47,951
Interest-bearing loans and borrowings – due within one year	**6**	9,210	35,706	96,933
Provisions	**8**	17,505	16,299	16,495
Total current liabilities		**405,932**	**521,542**	**510,173**
TOTAL EQUITY AND LIABILITIES		**4,327,158**	**4,441,438**	**4,190,939**

AS EESTI TELEKOM AND SUBSIDIARY COMPANIES
CASH FLOW STATEMENT
Financial statements are prepared in thousands of Estonian kroons (EEK)

	Notes	9 months to 30 Sept 2003	9 months to 30 Sept 2002 Restated
Operating activities			
Profit from operations		1,004,047	892,746
Adjustments for:			
Depreciation and amortisation	2	664,705	758,572
(Profit) from sales and write-off of fixed assets		(13,330)	(53,070)
Operating cash flow before movements in working capital		1,655,422	1,598,248
Change in current receivables		4,273	(20,777)
Change in inventories		(8,664)	(346)
Change in current liabilities		(94,733)	(75,486)
Cash generated by operations		1,556,298	1,501,639
Interest paid		(459)	(5,141)
Income tax on dividends paid		(286,022)	(91,298)
Net cash from operating activities		**1,269,817**	**1,405,200**
Investing activities			
Purchases of property, plant and equipment	2	(229,169)	(315,793)
Purchases of licenses	2	(77,465)	(16,285)
Proceeds from sales of property, plant and equipment		20,520	77,128
Acquisition of subsidiaries		(13,339)	-
Proceeds from sales of subsidiaries		68,137	-
Acquisition of associates		-	(10,000)
Purchases of other long-term investments		(185)	-
Purchases of trading investments		(48,523)	(227,105)
Proceeds on disposal of trading investments		79,080	173,236
Loans granted		(1,393)	(218)
Cash receipt from repayment of loans		45	24
Dividends received		8	96
Interest received		26,400	12,857
Net cash used in investing activities		**(175,884)**	**(306,060)**
Financing activities			
Proceeds from long-term convertible debt	6	-	32
Repayment of long-term convertible debt	6	(169)	(8)
Proceeds from nonconvertible long-term debt	6	360	2,813
Repayment of nonconvertible long-term debt	6	(9,042)	(5,789)
Repayment of long-term borrowings	6	(23,273)	(27,578)
Repayment of obligations under finance lease	6	(1,066)	(5,002)
Shares issues (Rights Offering)	7 (a)	23,413	-
Dividends paid	7 (c)	(824,309)	(755,617)
Net cash used in financing activities		**(834,086)**	**(791,149)**
Net increase in cash and cash equivalents		**259,847**	**307,991**
Cash and cash equivalents at beginning of year		**883,988**	**403,633**
Effect of foreign exchange rate changes		(445)	(6,670)
Cash and cash equivalents at end of period		**1,143,390**	**704,954**

AS EESTI TELEKOM AND SUBSIDIARY COMPANIES
STATEMENT OF CHANGES IN EQUITY
Financial statements are prepared in thousands of Estonian kroons (EEK)

	Notes	Issued capital	Reserves		Translation reserve	Retained earnings	Net profit for the period	TOTAL
			Share premium	Statutory legal reserve				
31 December 2001		**1,373,833**	**309,964**	**137,384**	**-**	**1,015,235**	**778,935**	**3,615,351**
Net profit for the 2001 transferred to retained earnings		-	-	-	-	778,935	(778,935)	-
Exchange differences arising from translation of foreign operations		-	-	-	72	-	-	72
Dividends paid		-	-	-	-	(755,617)	-	(755,617)
Net profit for the period		-	-	-	-	-	797,162	797,162
30 September 2002		**1,373,833**	**309,964**	**137,384**	**72**	**1,038,553**	**797,162**	**3,656,968**
31 December 2002		**1,373,833**	**309,964**	**137,384**	**(25)**	**1,038,553**	**1,040,426**	**3,900,135**
Net profit for the 2002 transferred to retained earnings		-	-	-	-	1,040,426	(1,040,426)	-
Exchange differences arising from translation of foreign operations		-	-	-	(13)	-	-	(13)
Dividends paid	**7 (c)**	-	-	-	-	(824,309)	-	(824,309)
Share issuance	**7 (a)**	2,612	21,062	-	-	-	-	23,674
Net profit for the period		-	-	-	-	-	795,977	795,977
30 September 2003		**1,376,445**	**331,026**	**137,384**	**(38)**	**1,254,670**	**795,977**	**3,895,464**

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

The consolidated interim financial statements for the nine months period ending 30 September 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.

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 balance sheet and results of the entities that are controlled by the parent company are shown as a separate line item in the consolidated financial statements.

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 collection 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 equity items 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 date 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 Estonian kroons (EEK)

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

Currency	Exchange rate		
	30 Sept 2003	**30 Sept 2002**	**31 Dec 2002**
EUR	15.64664	15.64664	15.64664
USD	13.41275	15.91319	14.93642
SEK	1.75044	1.71368	1.70284
LVL	24.13885	26.35945	25.49530

Assets with useful life over one year and with a minimum value of 10,000 EEK 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 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 carrying amount and recoverable amount. These 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 in Estonia 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 collection. 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 Estonian kroons (EEK)

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.

Reclassification of balances

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

	Initial comparative balance 30 Sept 2002	**Reclassification**	**Comparative balance 30 Sept 2002**
Operating expenses			
Materials, consumables, supplies and services	(1,045,520)	(37,200)	(1,082,720)
Other operating expenses	(343,028)	37,200	(305,828)

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". Comparative data in 2002 were recalculated correspondingly. As a result revenues and expenses decreased by 33,907 thousand EEK in income statement for nine months of 2002.

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.

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

2. Tangible and intangible assets

	Tangible assets	Goodwill	Licenses, patents and trademarks
At cost			
31 December 2001	**7,315 244**	**46,497**	**152,634**
Additions	315,793	562	16,285
Acquired on acquisition of a subsidiary	1,392	-	221
Disposals and write-off's (-)	(139,393)	-	(2,267)
30 September 2002	**7,493,036**	**47,059**	**166,873**
31 December 2002	**7,599,071**	**43,872**	**136,101**
Additions	229,169	2,968	77,465
Acquired on acquisition of a subsidiary	3,805	-	8,136
Disposals and write-off's (-)	(104,964)	(36,085)	(2,938)
30 September 2003	**7,727,081**	**10,755**	**218,764**
Accumulated depreciation			
31 December 2001	**4,271,375**	**31,682**	**111,310**
Depreciation and amortization	723,883	9,061	25,628
Acquired on acquisition of a subsidiary	893	-	-
Disposals and write-off's (-)	(135,263)	-	(1,203)
30 September 2002	**4,860,888**	**40,743**	**135,735**
31 December 2002	**4,925,398**	**40,184**	**97,247**
Depreciation and amortization	646,567	2,560	15,578
Acquired on acquisition of a subsidiary	1,540	-	88
Disposals and write-off's (-)	(96,930)	(36,084)	(2,573)
30 September 2003	**5,476,575**	**6,660**	**110,340**
Carrying amount			
30 September 2002	**2,632,148**	**6,316**	**31,138**
30 September 2003	**2,250,506**	**4,095**	**108,424**

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

3. Investments in subsidiaries

	Country of incorporation	Ownership interest		Principal activity	Owner
		30 Sept 2003	**31 Dec 2002**		
Elion Enterprises Ltd [1)]	Estonia	100%	100%	Network services for operators, data communication and Internet products, voice communication solutions and Internet content services for business and residential customers	AS Eesti Telekom
AS Elion Esindus [2)]	Estonia	100%	100%	Retail sales of telecommunication products and services	Elion Enterprises Ltd
AS Connecto [3)]	Estonia	51%	100%	Construction and maintenance of telecommunication networks	Elion Enterprises Ltd
SIA Connecto Latvia	Latvia	100%	100%	Construction and maintenance of telecommunication networks	AS Connecto
Reveko Telekom AS [4)]	Estonia	100%	-	Installing and construction of telecommunication systems and networks as well as operator services	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 [5)]	Estonia	-	100%	Retail sales of telecommunication products and services	AS EMT
AS Mobile Wholesale	Estonia	100%	100%	Wholesale of mobile phones	AS EMT

[1)] On 30 June 2003, the Registration Department of Tallinn City Court renamed AS Eesti Telefon, a fully owned subsidiary of AS Eesti Telekom, Elion Ettevõtted AS (Elion Enterprises Ltd). Company's brand Elion was introduced in August.

[2)] Previously AS Telefonipood.

[3)] Estonian Competition Board gave approval to Elion Enterprises Ltd, a 100%-owned subsidiary of AS Eesti Telekom, to sell a 49% minority stake in its 100% owned subsidiary AS Connecto, to ELTEL Networks Corporation.

On 18 June, the contracting parties executed the closing of the sales- purchase transaction and confirmed the price of the deal, which is 68 million kroons and the capital gain was booked in Q2 of 2003 will be 59,5 million EEK.

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

Elion Enterprises Ltd will remain as an active owner of Connecto, but ELTEL Networks has a right to acquire 100% of the company shares after two years.

4) Connecto Ltd., which is 51%-owned subsidiary of Eesti Telekom's fully owned Elion Enterprises Ltd. (previously Eesti Telefon Ltd.), acquired on 1 July 2003 all of the shares of Estonian telecommunication company Reveko Telekom Ltd. In accordance with the purchase and sale agreement, AS Connecto purchased 55% of the shares of Reveko Telekom from TeliaSonera and 45 percent of shares from Estonian private persons. The price of the deal is 14 million EEK.

5) In accordance with the decision of the shareholders of AS Esmofon Tartu, made on 29 August 2002, operations of the company were terminated.

4. Investments in associates

	Country of incorporation	Ownership interest		Principal activity	Owner
		30 Sept 2003	**31 Dec 2002**		
AS Intergate	Estonia	50%	50%	Venture capital investments into companies with innovative technologies	Elion Enterprises Ltd
AS Sertifitseerimiskeskus	Estonia	50%	50%	Providing certification and related services	Elion Enterprises Ltd – 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. Inventories

In the first nine months 2003, the inventories were impaired and were therefore written off in the total amount of 1,924 thousand EEK (first nine months 2002: 2 180 thousand EEK) based on the estimated decline of the net realisation value below their acquisition cost.

6. Borrowings

	30 Sept 2003	31 Dec 2002
Current	9,210	35,706
Non-current	12,784	19,761
	21,994	**55,467**

The movements in the borrowings can be analyzed as follows:

Opening balance 31 Dec 2002	**55,467**
Proceeds from borrowings	360
Repayments of borrowings	(33,550)
Other movements	(283)
Closing balance 30 Sept 2003	**21,994**

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

7. Equity

a) Share capital

	30 Sept 2003	31 Dec 2002
Share capital issued		
Ordinary shares par value 10 EEK per share, fully paid		
At beginning of period	137,383,178	137,383,178
Share issuance	261,250	-
At end of period	137,644,428	137,383,178
Preference share par value 1.000 EEK	[illegible]	[illegible]
	137,644,429	137,383,179

The extraordinary general meeting of shareholders of AS Eesti Telekom held on 15 December 2000 approved the issuance of up to 85,000 convertible bonds, including the issuing of up to 42,500 A-series and 42,500 B-series bonds within the framework of the Eesti Telekom Group's employee incentive system. A resolution passed at the same meeting ruled out AS Eesti Telekom shareholders' pre-emptive right to subscribe the convertible bonds to be issued.

During the initial subscription of convertible bonds that took place from 18 December 2000 to 5 January 2001, 144 employees of the Group subscribed 20,750 A-series and 20,750 B-series bonds. The Management Board of AS Eesti Telekom accepted all subscription applications. Additional 21,750 A-series and 21,750 B-series bonds were issued until 1 May 2003, and the total numbers of bonds outstanding as of 1 June 2003 were 41,625 A-series and 41,625 B-series.

In accordance with the "AS Eesti Telekom terms for the issue of convertible bonds", an owner of A-series bond was entitled to (i) redeem a bond and exchange it for 10 Eesti Telekom A-series shares, which have a nominal value of 10 kroons each and a subscription price of 90.62 kroons per share, or (ii) redeem a bond and exchange it for a sum of money (the bond's nominal value 10 kroons plus accumulated interest of 7% per annum).

On 4 June 2003 the Management Board of AS Eesti Telekom approved the results of the subscription period that lasted from 2 May to 2 June 2003. During that period, applications were received for the exchange of 26,125 bonds for 261,250 AS Eesti Telekom A-series shares. The Management Board of AS Eesti Telekom approved the subscription list, and will submit an application to the registry department of the Tallinn City Government for the registration of 261,250 A-series shares with a nominal value of 10 kroons and an issue price of 90.62 kroons, i.e. an issue premium of 80.62 kroons. The shares issued are in all respects equivalent to the existing AS Eesti Telekom A-series shares. The new shares entitle shareholders to dividends for the 2003 financial year. The resolution passed at the extraordinary general meeting of shareholders held on 15 December 2000 rules out AS Eesti Telekom shareholders' pre-emptive right to subscribe the issued AS Eesti Telekom A-series shares under the conditions for convertible bonds.

The total number of AS Eesti Telekom A-shares after the share issuance of the new shares is 137,644,428 and share capital 1,376,445,280 EEK.

A-shares are distributed between the main groups of shareholders as follows:

Republic of Estonia	37 485 000 shares	(27,23%)
Public investors	32 841 672 shares	(23,86%)
TeliaSonera AB:		
Telia AB	16 142 523 shares	(11,73%)
Sonera Holding B.V.	16 142 523 shares	(11,73%)
Baltic Tele AB	35 032 710 shares	(25,45%)

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

The company has issued one preference share. The holder of the preference share is entitled to a preference dividend of 10,000 EEK per annum, 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) Dividends

The Annual General Meeting of the shareholders of AS Eesti Telekom took place on 22 May 2003. It was decided to pay dividends in the total amount 824,299 thousand kroons: 6.00 EEK per ordinary share as dividends to the holders of ordinary shares and 10,000 EEK to the holder of preference share. The list of shareholders on basis of which dividends were distributed was fixed on 10 June 2003 at 8.00 and dividends were disbursed on 19 June 2003.

d) Re-acquiring of shares

The Annual General Meeting of Shareholders, on May 22, 2003, authorized AS Eesti Telekom to acquire within one year from the adoption of this resolution (i.e. until 22 May 2004; the same authority, which was obtained from last Annual General Meeting on 17 May 2002, terminated on 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 statutory regulations, and that the price payable per share would not exceed the highest price paid for the ordinary shares of AS Eesti Telekom on the Tallinn Stock Exchange on the day of acquiring the shares. AS Eesti Telekom has to pay for the shares from the company's assets in excess of its share capital, capital reserves, and share premium. The amount of shares to be acquired each time shall be determined on each occasion separately by a resolution of AS Eesti Telekom's Supervisory Council. As of 30 September 2003, no shares have been re-acquired by AS Eesti Telekom.

e) Employees' share option

As of 30 September 2003, 41,375 B-series bonds had been issued with the issue price of 10.00 EEK per bond, which can be exchanged for 413,750 AS Eesti Telekom ordinary shares in 2004. The subscription price of the shares is 90.62 EEK. Each bond shall bear interest on its nominal amount at the rate of 7% per annum.

f) Earnings per share

The calculation of basic earnings per share is the following:

9 months 2003: EEK 5.79 = (795,977 000 – 10,000) : ((137,383,178 x 5/9) + (137,644,428 x 4/9))

9 months 2002: EEK 5.80 = (797,162,000 – 10,000) : 137,383,178

The calculation of diluted earnings per share is the following:

9 months 2003: EEK 5.79 = (795,977,000 – 10,000) : ((137,383,178 x 5/9) + (137,644,428 x 4/9) + + ((261,250 – (261,250 x 90.62/99.07)) x 5/9) + ((416,250 – (416,250 x 90.62/99.07)) x 9/9))

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

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

g) 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.

The highest price of an AS Eesti Telekom share on the Tallinn Stock Exchange, during the reporting period under review, was 123.61 EEK; the lowest price was 80.42 EEK, and the average price was 99.07 EEK per share.

8. Provisions

	Termination benefits provision	Bonuses by result provision	Other	**Total**
At 30 December 2002	**8,788**	**7,160**	**351**	**16,299**
Additional provision in the year	3,168	7,247	2,500	12,915
Utilisation of provision	(3,374)	(8,114)	(221)	(11,709)
At 30 September 2003	**8,582**	**6,293**	**2,630**	**17,505**

9. Related party transactions

a) Directors' and executives' remuneration

The remuneration of directors and other members of key management during the first nine months 2003 was as follows:

	9 months to 30 Sept 2003	**9 months to 30 Sept 2002**
Salaries	7,622	5,379

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

b) Trading transactions

Transactions with related parties were conducted under market terms.
During the first nine months 2003, group companies entered into the following transactions with related parties:

	9 months to 30 Sept 2003	9 months to 30 Sept 2002
Telecommunication services provided		
TeliaSonera AB	99,264	100,991
EsData AS	3,610	2,688
AS Sertifitseerimiskeskus	100	184
AS Intergate	87	40
OÜ Voicecom	61	65
AdvokaadibürooTark & Co	168	224
Other sales		
EsData AS	11	-
AS Sertifitseerimiskeskus	26	-
OÜ Voicecom	20	-
AdvokaadibürooTark & Co	1	12
Eltel Networks Corporation	95	
Telecommunication services purchased		
TeliaSonera AB	53,583	91,180
EsData AS	2	325
Voicecom OÜ	1,039	1,672
Other services purchased		
TeliaSonera AB	235	632
OÜ Voicecom	4	-
AdvokaadibürooTark & Co	1,925	891
Financial income		
AS Sertifitseerimiskeskus	199	199
Financial expenses		
TeliaSonera AB	752	1,212
Amounts owed by related parties		
TeliaSonera AB	59,244	33,250
EsData AS	481	562
AS Sertifitseerimiskeskus	4,168	4,165
AS Intergate	10	-
OÜ Voicecom	8	7
AdvokaadibürooTark & Co	20	25
Eltel Networks Corporation	95	-
Amounts owed to related parties		
AS Eesti Telekom (convertible loan)	471	479
TeliaSonera AB	42,906	42,410
EsData AS	-	38
OÜ Voicecom	130	189

10. 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 Elion Enterprises Ltd, AS Elion Esindus, AS Connecto, Reveko Telekom AS 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 and AS Mobile Wholesale.

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

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

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

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

Segment liabilities are those directly attributable to the segment.

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

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 Estonian kroons (EEK)

a) Business segments

	Fixed network telecommunications		Mobile telecommunications		Other operations		Eliminations		Consolidated	
	9 months 2003	**9 months 2002 Restated**	**9 months 2003**	**9 months 2002**	**9 months 2003**	**9 months 2002**	**9 months 2003**	**9 months 2002**	**9 months 2003**	**9 months 2002 Restated**
Revenue										
Net sales	1,759,127	1,752,889	1,754,343	1,563,442	-	-	-	-	3,513,470	3,316,331
Other revenue	16,934	61,617	5,719	9,695	9	55	-	-	22,662	71,367
Inter-segment revenue	120,919	109,009	234,662	225,794	35	90	(355,616)	(334,893)	-	-
Total revenue	**1,896,980**	**1,923,515**	**1,994,724**	**1,798,931**	**44**	**145**	**(355,616)**	**(334,893)**	**3,536,132**	**3,387,698**
Operating expenses										
Change in work-in-progress	967	2,104	-	-	-	-	-	-	967	2,104
Capitalized self-constructed assets	20,949	31,239	-	-	-	-	2,508	564	23,457	31,803
Materials, consumables, supplies and services	(447,706)	(462,473)	(716,178)	(620,247)	-	-	-	-	(1,163,884)	(1,082,720)
Other operating expenses	(253,727)	(221,866)	(66,035)	(75,934)	(8,831)	(8,028)	-	-	(328,593)	(305,828)
Personnel expenses	(292,240)	(278,632)	(81,882)	(73,915)	(7,978)	(5,358)	-	-	(382,100)	(357,905)
Other expenses	(8,860)	(12,567)	(6,596)	(10,193)	(1,771)	(1,074)	-	-	(17,227)	(23,834)
Inter-segment expenses	(234,609)	(225,742)	(118,141)	(108,442)	(251)	(145)	353,001	334,329	-	-
Total expenses	**(1,215,226)**	**(1,167,937)**	**(988,832)**	**(888,731)**	**(18,831)**	**(14,605)**	**355,509**	**334,893**	**(1,867,380)**	**(1,736,380)**
EBITDA	**681,754**	**755,578**	**1,005,892**	**910,200**	**(18,787)**	**(14,460)**	**(107)**	**-**	**1,668,752**	**1,651,318**
Depreciation and amortization	(405,088)	(498,358)	(259,474)	(259,335)	(921)	(1,006)	778	127	(664,705)	(758,572)
EBIT	**276,666**	**257,220**	**746,418**	**650,865**	**(19,708)**	**(15,466)**	**671**	**127**	**1,004,047**	**892,746**
Income/ (expenses) from subsidiaries and associated companies	57,442	(2,594)	(933)	(1,947)	811,365	893,305	(811,365)	(893,305)	56,509	(4,541)
Other net financing items	1,926	(15,397)	9,702	5,046	13,300	10,606	-	-	24,928	255
Income tax on dividends	(66,670)	-	(210,811)	-	(8,541)	(91,298)	-	-	(286,022)	(91,298)
Minority interest	(3,503)	-	-	-	-	-	18	-	(3,485)	-
Net profit	**265,861**	**239,229**	**544,376**	**653,964**	**796,416**	**797,147**	**(810,676)**	**(893,178)**	**795,977**	**797,162**

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

b) Other information by segments

	Fixed network telecommunications		Mobile telecommunications		Other operations		Eliminations		Consolidated	
	9 months 2003	**9 months 2002**	**9 months 2003**	**9 months 2002**	**9 months 2003**	**9 months 2002**	**9 months 2003**	**9 months 2002**	**9 months 2003**	**9 months 2002**
Non-current assets (except investments in subsidiaries and associates)	1,385,235	1,667,368	982,209	1,003,942	2,720	302,669	(1,595)	(295,982)	2,368,569	2,677,997
Investments in subsidiaries and associates	17,080	18,603	3,482	4,705	3,292,481	3,032,059	(3,292,481)	(3,032,059)	20,562	23,308
Current assets	705,933	739,689	673,479	515,780	605,663	325,913	(47,048)	(91,748)	1,938,027	1,489,634
Total assets	**2,108,248**	**2,425,660**	**1,659,170**	**1,524,427**	**3,900,864**	**3,660,641**	**(3,341,124)**	**(3,419,789)**	**4,327,158**	**4,190,939**
Owners' equity	1,808,088	1,694,849	1,485,518	1,338,014	3,895,916	3,656,968	(3,294,058)	(3,032,863)	3,895,464	3,656,968
Minority interest	12,996	-	-	-	-	-	(18)		12,978	-
Non-current liabilities	5,606	310,909	7,178	7,828	-	239	-	(295,178)	12,784	23,798
Current liabilities	281,558	419,902	166,474	178,585	4,948	3,434	(47,048)	(91,748)	405,932	510,173
Total equity and liabilities	**2,108,248**	**2,425,660**	**1,659,170**	**1,524,427**	**3,900,864**	**3,660,641**	**(3,341,124)**	**(3,419,789)**	**4,327,158**	**4,190,939**
Cash flow from operating activities	511,868	633,013	772,531	864,644	(30,825)	(110,225)	16,243	17,768	1,269,817	1,405,200
Cash flow used in capital expenditure	(125,096)	(183,813)	(181,186)	(148,247)	(459)	(18)	107	-	(306,634)	(332,078)
Cash flow from / used in other investing activities	78,554	70,113	11,932	5,212	1,177,899	912,999	(1,137,635)	(962,306)	130,750	26,018
Cash flow from / used in financing activities	(554,288)	(218,830)	(600,018)	(761,588)	(801,065)	(755,593)	1,121,285	944,862	(834,086)	(791,149)
Effect of foreign exchange rate changes	(348)	798	(39)	(1)	(58)	(7,143)	-	(324)	(445)	(6,670)
Net change in cash and cash equivalents	**(89,310)**	**301,281**	**3,220**	**(39,980)**	**345,492**	**40,020**	**-**	**-**	**259,402**	**301,321**

c) Net sales by geographic area

	Fixed network telecommunications		Mobile telecommunications		Consolidated	
	9 months 2003	**9 months 2002**	**9 months 2003**	**9 months 2002**	**9 months 2003**	**9 months 2002**
Net sales to customers in Estonia	1,568,426	1,564,080	1,675,588	1,492,896	3,244,013	3,056,976
Net sales to customers outside Estonia	190,702	188,809	78,755	70,546	269,457	259,355
Total	**1,759,128**	**1,752,889**	**1,754,343**	**1,563,442**	**3,513,470**	**3,316,331**

REVIEW REPORT

To the Management Board and shareholders of AS Eesti Telekom:

We have reviewed the accompanying consolidated balance sheet of AS Eesti Telekom and its subsidiaries ("the Group") as at 30 September 2003, and the related consolidated statement of income, cash flows and changes in shareholders' equity for the period then ended. These consolidated financial statements are the responsibility of the AS Eesti Telekom management board. Our responsibility is to issue a report on these financial statements based on our review.

We conducted our review in accordance with the International Standards on Auditing applicable to review engagements. These Standards require that we plan and perform the review to obtain moderate assurance as to whether the financial statements are free of material misstatement. A review is limited primarily to inquiries of Group's personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit conducted in accordance with International Auditing Standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. We have not performed an audit, and accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated financial statements of the Group are not presented fairly, in all material respects, in accordance with International Financial Reporting Standards.

Villu Vaino
Certified auditor
15 October 2003

AS Deloitte & Touche Audit