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HIGHLIGHTS

- Revenue up 16% to 3,595 million kroons (1998: 3,099 million kroons)
- EBITDA up 20% to 1,836 million kroons (1998: 1,528 million kroons)
- EBITDA margin 51% up from 49%
- Net profit 580 million kroons (1998: 318 million kroons)
- Earnings per share up 10% to 4.78 kroons (1998: 4.33 kroons)
- EPS, excluding extraordinary expenses, up 27% to 5.48 kroons
- Investments 1,090 million kroons (1998: 1,050 million kroons)

MAJOR ACCOMPLISHMENTS

January 1999 – February 2000

25.01.1999 – IPO of shares of Estonian Telecom started.

09.02.1999 – IPO of shares of Estonian Telecom completed.

10.02.1999 – Shares of Estonian Telecom quoted on the main list of Tallinn Stock Exchange.

17.02.1999 – Shares of Estonian Telecom quoted on the GDR main list of London Stock Exchange.

15.04.1999 – Restructuring of Estonian Telecom completed. During the restructuring the company's share capital increased by 638.8 million Estonian kroons. Simultaneously, the strategic partners, Telia and Sonera, acquired 49% of Estonian Telecom shares in total; and Estonian Telecom acquired 100% of the shares of its subsidiaries Estonian Telephone Company and Estonian Mobile Telephone Company.

20.05.1999 – Shares of Estonian Telecom partly quoted as Euro Depository Receipts on the London Stock Exchange.

21.05.1999 – General Meeting of Estonian Telecom shareholders held. A new ten-member company council was elected and the decision to pay 20 percent of net profits, or 0.8537 kroons per share as dividends, was made.

11.10.1999 – Estonian Mobile Telephone Company, a subsidiary of Estonian Telecom, announced that it would be the first company in the world to offer, in co-operation with Ericsson, services based on a mobile positioning system.

04.11.1999 – Estonian Telephone Company, a subsidiary of Estonian Telecom, acquired a 70 percent holding in Hallo, one of the largest telephone store chains in Estonia.

13.12.1999 – Estonian Telephone Company, a subsidiary of Estonian Telecom, presented the company's development plan for the period 2000–2009 to the Ministry of Transport and Communications, the supervisory body over the concession agreement.

09.02.2000 – The Riigikogu of the Republic of Estonia passed the Telecommunications Act.

ADDRESS OF THE CHAIRMAN OF THE COUNCIL

Dear customers, investors, employees!

I am sincerely delighted that as a result of our shared efforts, Estonian Telecom is now one of the most outstanding companies in the field of telecommunications. On the one hand, the continued success of Estonian Telecom was facilitated by the initial public offering of company shares and the company restructuring in 1999. On the other hand, much of the progress has been propelled by the rapid integration of Estonia in the global information society: When we consider the current number of mobile telephone and Internet users in Estonia, we are outperforming a number of developed world powers.

Reflecting on our recent past, I will recall the events that have brought us where we are today and anchor our efforts in building a growing information technology and telecommunications sector in the new millennium.

In early 1999, the Republic of Estonia transferred 49 percent of Estonian Telecom shares to private sector buyers through initial public offering. Subsequently, the quoting of company shares on the stock markets in Tallinn and London demonstrated that our action established Estonian Telecom as a solid partner for international investors.

Also, the over-subscription of the shares during the IPO, more than 18-fold, leaves no doubt that the world has accepted Estonia as a sound investment environment. During the Spring 1999 restructuring, the strategic owners Telia and Sonera, exchanged their shares of Estonian Telecom subsidiaries for the shares of Estonian Telecom, thus sending a clear message to investors: Estonian Telecom has taken an irreversible step in assuring efficient management and is committed to running a cost-efficient operation.

Confidence in future success has secured a nearly two-fold growth in investors' assets: following IPO the share price has increased about 80 percent, from 85 to more than 150 Estonian kroons.

Finally, I am delighted to state that after extensive and elaborate disputes, the Riigikogu of the Republic of Estonia passed the Telecommunications Act February 9, 2000, launching Estonia on the European telecommunications market. The new law created a clear-cut legal framework and gave the company the opportunity to plan bold future strategies.

Now, a year before the introduction of open competition in the telecommunications field, I truly believe that Estonian Telecom is ready to rise up to the challenges of the global marketplace and to achieve the status of most valued partner. By offering the best technology and the most innovative solutions in the field of Internet and mobile communications in Estonia, Estonian Telecom will continue to be the focus of interest for international investors into the next decade and beyond.

I wish success to all our investors, partners and employees in these challenging and exciting times. However, as the invasion of telecommunications into our daily lives continues, let us not forget that to be winners in the new millennium, we must embrace change and continue to work in close co-operation.

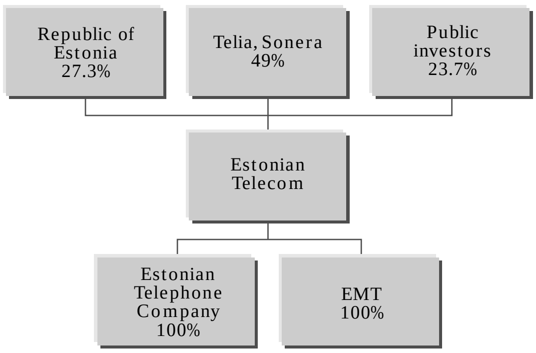
Aare Tark,
Chairman of the Council

ADDRESS OF THE CHAIRMAN OF THE MANAGEMENT BOARD

As we reflect on 1999, we note that despite the economic slowdown, Estonian Telecom increased its revenue, continued to modernize and expand the Estonian telecommunications network, and improved the services offered to customers.

Several internal and external factors account for this noteworthy progress. First, the initial public offering (IPO) and the subsequent restructuring in 1999 established the structure of the organization. Further, the contributions of strategic partners, Telia and Sonera, ensured the success of the IPO as well as the group's overall performance, while the increase in market demand for mobile telecommunications and Internet services nurtured the growth of the new Estonian Telecom.

The structure of Estonian Telecom Group



Increasing efficiency helped propel Estonian Telecom to a leading market position. In a year of economic slowdown, Estonian Telecom increased its revenue by 16%, which has raised the turnover of the group as a whole to 3.6 billion kroons.

In fixed telephone communications, the number of main lines increased by approximately 16,900, for a total of 515,486 by the end of the year. The number of main lines per employee reached 184. By the end of this year, the number of main lines per employee will exceed the 200 mark. At the end of 1999, the density of fixed telephone connections per 100 inhabitants was 35.7 and the level of digitalisation reached 55.3%.

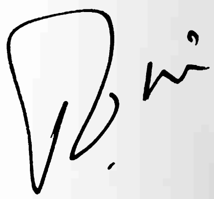
Profits from mobile communications in proportion to total group profits remain at 45%. The number of clients in the EMT network grew by 63%, reaching 243,900 by the end of the year. The total number of call-minutes increased significantly, and several new products and services gained popularity. By the end of 1999 the density of Estonian mobile communications was 26.8 per 100 inhabitants.

The operating profit (EBITDA) of Estonian Telecom Group was 1.84 billion kroons in 1999, which represents a 20.2% increase over the previous year. Net profits were 580 million kroons. Last year over 1 billion kroons was invested in the entire group.

The year 2000 will be decisive for Estonian Telecom Group. In preparation for the upcoming open competition in the telecommunications market, we must continue to streamline our operations and solidify our relationships with operator companies. By building a solid organisation, we can realise our company's full potential and transfer the results of our efforts to our customers in the form of superior products and services.

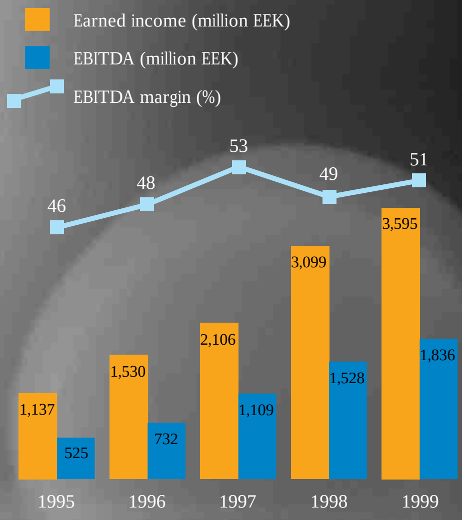
We are dedicated! Dedicated to securing our position in the Estonian telecommunications market and to ensuring our future economic success. We stand ready to develop the Estonian telecommunications network, for it is the foundation for all expansion of services.

A solid foundation is the key to a solid future.

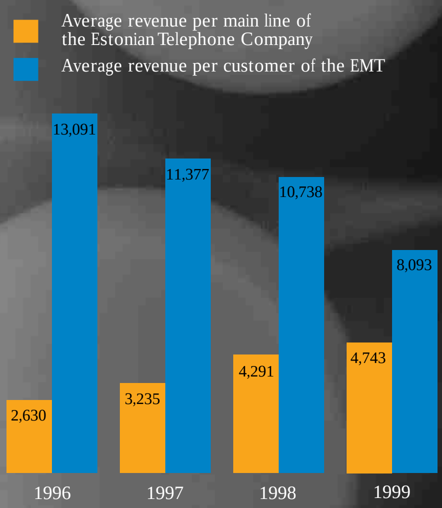


Toomas Sõmera,
Chairman of the Management Board

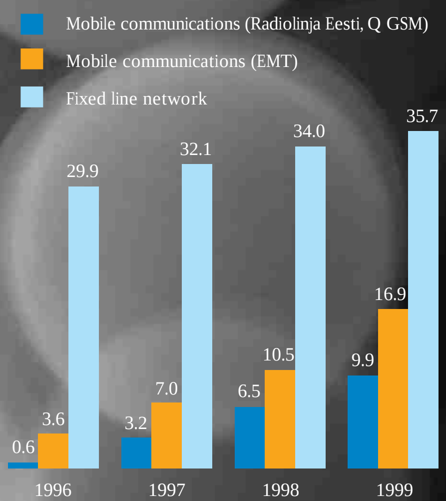
Financial indicators of the Estonian Telecom Group



Average revenue of the Estonian Telephone Company and EMT (EEK)



Fixed line penetration and mobile communications network penetration in Estonia (%)



ESTONIAN TELEPHONE COMPANY

- Rapid growth in seven years
- Concentration on a data communication and Internet products
- Atlas dial-up service is the market leader
- New Web-based magazine
- Presentation of an "et" trademark
- Common products with an EMT
- Creation of a Public Key Infrastructure

Estonian Telephone Company, Estonia's largest telecommunications company, has in its seven years of operation cardinally improved the communications quality in both urban and rural areas. At the end of 1993 the density of telephone communications was 23.2 per 100 inhabitants, while at the end of 1999 that figure was 35.7. At the same time the number of main lines has increased one-and-a-half times, reaching 515,486, and digitalisation increased more than ten times – from 5.4% to 55.3%.

Today's Estonian Telephone Company has also changed its priorities. We are increasingly concentrating on high-quality data communications, composite solutions in Internet services, and speech and data communications, for which the year 1999 was of decisive importance.

At the beginning of 1999 Estonian Telephone Company launched its data communications and Internet access trademark Atlas, under which clients are offered nine different product groups. The Atlas Starter dial-up package, which permits one to quickly create an Internet connection through the ordinary telephone network, an ISDN line or EMT mobile network, soon became the most popular Atlas product.

Estonian Telephone Company also launched 2-, 6- and 12-hour pre-paid Atlas Surf Internet cards, with which clients no longer incur additional charges.

At the beginning of 1999 the Atlas dial-up service had roughly 5,500 users. By the end of the year the number of clients had increased to more than 29,000, and the Estonian Telephone Company Atlas trademark became the market leader in dial-up services, with a 40-percent market share.

Estonian Telephone Company offers a symmetric permanent Internet connection intended primarily for business clients. This Internet connection, called Atlas Status, has six different connection speeds. In March 2000, however, Estonian Telephone Company launched a new asymmetric permanent connection called Atlas ADSL, which made the ADSL permanent Internet connection ten times more affordable, and accessible to the domestic consumer.

Estonian Telephone Company is the owner of the web environment NETI, which is visited 1.8 million times per week. NETI is considered to be the best Estonian Internet search system, where a robot has gathered all public WWW-pages in Estonia, which at present number over half a million. The catalogue of information pages registered at NETI is updated daily.

In autumn 1999 Estonian Telephone Company began to offer Internet dial-up service clients a web-based e-mail environment under the Hot trademark. The web mailer at the address http://www.hot.ee/mail allows one to easily and comfortably read and send e-mail from any computer connected to the Internet.

Beginning in March 2000 users of the Hot Internet service will receive the first Estonian personalised online magazine, which will be sent directly to subscribers' e-mail boxes once a week. In ordering the magazine, each subscriber can select from 12 groups of topics that may be of interest. The magazine covers topics from entertainment and youth matters to technology and economics.

Estonian Telephone Company plans to continue the rapid development of Internet content services, while at the same time emphasising the central importance of communications and observing the principle of the NETI search system and thematic information catalogue – information delivered quickly and simply.

In January 2000 Estonian Telephone Company launched the trademark "et", which provides composite solutions, to better integrate voice communications products with data communications and mobile communications. This indicates that in the future Estonian Telephone Company will not only construct communications connections, but will also conduct in-depth research into clients' needs and offer solutions, product packages, and price packages best suited to their needs.

The first such package offered was Koduliin (Home Line), which was created in co-operation with Estonian Mobile Telephone Company (EMT). This package permits one to pair up a fixed-network private telephone and an EMT mobile telephone and make calls from one to the other at a reduced price by dialling the short number 1411.

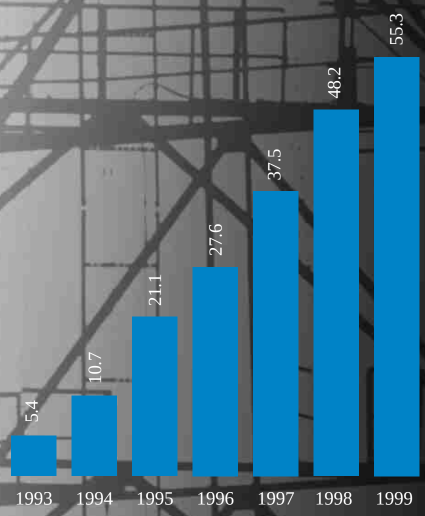
In April Estonian Telephone Company brought Kaupmehe-ISDN, meant for the small shops and shop chains, to the market under the trademark of "et", which makes the speed of card payments considerably faster. When the payment terminal, connected to the usual telephone line, takes 20–30 seconds to create datacommunication channel with the card centre, Kaupmehe-ISDN enables to do it ten times faster, in 2–3 seconds. With Kaupmehe-ISDN solution the customer will be given 5 numbers – payment terminal, computer, phones, ISDN equipment. Kaupmehe-ISDN package includes the possibility to input homepage in Estonian Telephone Company server, use e-mail and Internet dial-up service.

In composite solutions we do not stop at speech communications, but also derive additional value from their connection with products under the Atlas and EMT trademarks.

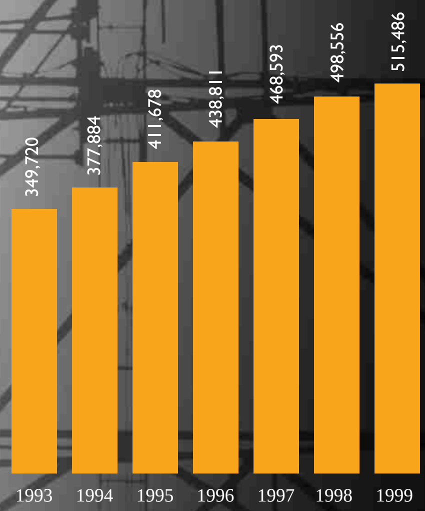
In connection with the development of different security mechanisms, the traditional low-security Internet is becoming an environment of financial transactions, permitting all users to perform secure bank operations via an Internet browser, which is something they are familiar with. Increasing attention is also paid, however, to the introduction of quality control mechanisms in the public areas of the Internet.

It is precisely the guaranteeing of security and quality of service that forms the foundation of the use of the Internet for business purposes. To that end Estonian Telephone Company began the development of a Public Key Infrastructure (TelePKI) at the beginning of 2000 in co-operation with EMT and AS Privador. The system permits secure communications between public communications networks (e.g. Internet) and mutual identification. Several new categories of electronic services, as well as the extensive use of electronic documents and digital signatures, will become possible through TelePKI.

Digitalisation level of the Estonian Telephone Company (%)



Number of main lines of the Estonian Telephone Company



Estonian Telephone Company
Summary of financial reports according to IAS
Income statement

(in thousand of kroons)	CONSOLIDATED		PARENT COMPANY	
	1999	1998	1999	1998
Total revenue	2,456,708	2,165,529	2,416,359	2,137,375
Total expenses	1,402,442	1,261,397	1,371,094	1,240,984
Profit from operations before depreciation	1,054,266	904,132	1,045,265	896,391
Depreciation	656,455	554,302	654,077	551,450
Profit from operations	397,811	349,830	391,188	344,941
Net financing costs	(81,010)	(89,900)	(81,123)	(89,465)
Income from subsidiaries and associates	648	448	2,910	2,853
Profit before tax	317,449	260,378	312,975	258,329
Extraordinary expense	85,197	-	85,197	-
Profit before taxes	232,252	260,378	227,778	258,329
Income tax expense (-) / income (+)	(90,284)	4,461	(87,410)	4,907
Profit after taxes	141,968	264,839	140,368	263,236
Minority interest	1,600	1,603	-	-
Net profit	140,368	263,236	140,368	263,236

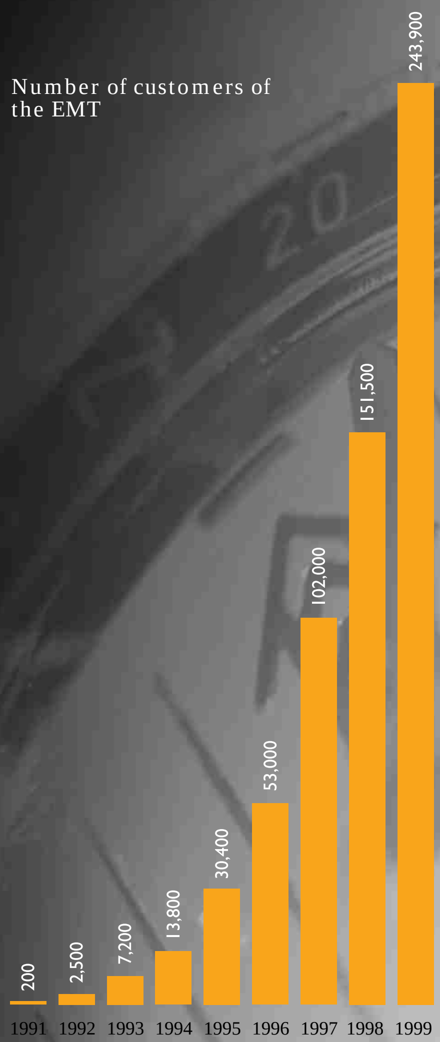
Estonian Telephone Company
Summary of financial reports according to IAS
Balance sheet

(in thousand of kroons)	CONSOLIDATED		PARENT COMPANY	
	1999	1998	1999	1998
Non-current assets	2,178,894	2,224,065	2,183,584	2,220,970
Current assets	474,754	437,338	447,867	430,553
Total assets	2,653,648	2,661,403	2,631,451	2,651,523
Capital and reserves	1,258,029	1,253,268	1,258,029	1,253,268
Minority interest	6,314	2,565	-	-
Non-current liabilities	899,217	992,639	899,217	992,639
Current liabilities	490,088	412,931	474,205	405,616
Total equity and liabilities	2,653,648	2,661,403	2,631,451	2,651,523

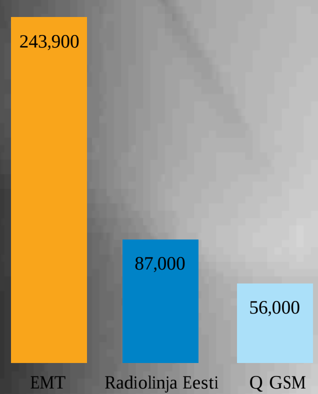
Estonian Telephone Company
Summary of financial reports according to IAS
Cash flow statement

(in thousand of kroons)	CONSOLIDATED		PARENT COMPANY	
	1999	1998	1999	1998
Cash flow from operating activities	895,728	804,375	891,003	793,283
Cash flow used in investing activities	(706,973)	(659,730)	(711,434)	(656,178)
Cash flow from/used in financing activities	(236,463)	(131,572)	(234,963)	(122,572)
Net increase/decrease in cash and cash equivalents	(47,708)	13,073	(55,394)	14,533
Cash and cash equivalents at beginning of year	71,492	58,419	66,510	51,977
Cash and cash equivalents at end of year	23,784	71,492	11,116	66,510

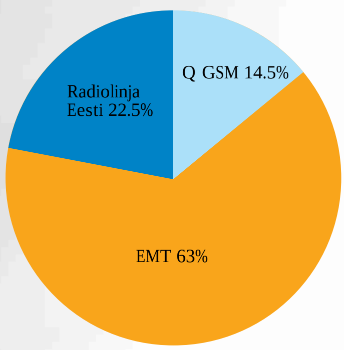
Number of customers of the EMT



Number of customers of Estonian mobile operators, 1999



Market shares of Estonian mobile operators, 1999



ESTONIAN MOBILE TELEPHONE COMPANY

- Prepaid card Simpel still successful
- Usage of a SMS is growing
- First products of GSM-trading
- Start up of a Mobile Positioning System
- WAP services are launched in April 2000.

Estonian Mobile Telephone Company (EMT) earned roughly 100,000 new clients in 1999, providing its services to a total of 243,900 clients by the end of the year, and remained a market leader. EMT's market share was 63% at the end of 1999.

More than half of the new clients continue to select the Simpel pre-paid calling card, thus following a trend that is spreading throughout the global mobile communications industry. In Estonia EMT continues to have the advantage over competing operators due to its better transmission area and broader and more innovative services.

In January 1999 EMT transferred its entire client archive to electronic format, thus permitting significantly more prompt customer service.

In the first quarter EMT also began to offer services operating on the basis on SMS short messages, including an attempted call service, which permits one to see the telephone number of a caller who did not leave a message in their voice mailbox. Using SMS, EMT clients can send key words to the short number 700 and obtain horoscopes, weather reports, cinema or theatre programs, foreign exchange rates, etc.

Through the continual development of this service, EMT clients are able to access their bank account as well as read stock exchange information using SMS. SMS messages have won widespread use, and in 1999 profits from SMS services rose 109%.

In the second half of the year EMT launched the first GSM-commerce service, which permits one to buy a Coca-Cola using one's mobile phone. The bill for the drink is sent to the client along with the mobile phone bill.

In November EMT also concluded a co-operation protocol with Ericsson in Geneva, in order to be the first company in the world to offer services based on the Ericsson mobile positioning system (MPS). The first service in the field of MPS to be offered concerns the identification of the location of mobile phones that have called the emergency number 112.

EMT continues to devote great attention to raising the loyalty of existing clients to remain in the EMT network. For that purpose a special discount programme was launched in spring 1999, the discounts of which depend on the length of time one has been a client and one's promptness in paying bills.

EMT has several new services in store for its clients in the year 2000, which will increasingly help to differentiate the company from its competitors in the field of innovation. Services based on WAP (Wireless Application Protocol) will begin to be offered from April 2000.

In co-operation with Estonian Telephone Company, EMT prepared several joint services in 1999, in order to offer its clients new savings in 2000. The first such co-operation project is Koduliin (Home Line), which permits discount rates for calls between ordinary and mobile phones. This service reached clients in February 2000.

Estonian Mobile Telephone Company
Summary of financial reports according to IAS
Income statement

(in thousand of kroons)	CONSOLIDATED		PARENT COMPANY	
	1999	1998	1999	1998
Total revenue	1,614,764	1,376,330	1,483,278	1,333,559
Total expenses	791,502	707,375	678,108	675,299
Profit from operations before depreciation	823,262	668,955	805,170	658,260
Depreciation	227,892	170,292	225,587	168,865
Profit from operations	595,370	498,663	579,583	489,395
Net financing costs	4,094	1,087	3,910	957
Income from subsidiaries and associates	-	-	12,312	6,921
Profit before tax	599,464	499,750	595,804	497,273
Income tax expense (-) / income (+)	(65,982)	(109,465)	(62,832)	(107,072)
Profit after tax	533,482	390,284	532,973	390,201
Minority interest	509	83	-	-
Net profit for the period	532,973	390,201	532,973	390,201

Estonian Mobile Telephone Company
Summary of financial reports according to IAS
Balance sheet

(in thousand of kroons)	CONSOLIDATED		PARENT COMPANY	
	1999	1998	1999	1998
Non-current assets	829,579	754,441	844,686	763,557
Current assets	497,703	281,552	466,405	269,090
Total assets	1,327,282	1,035,993	1,311,091	1,032,647
Capital and reserves	1,149,708	804,376	1,149,708	804,376
Minority interest	913	403	-	-
Non-current liabilities	9,582	66,875	9,582	66,639
Current liabilities	167,079	164,339	151,800	161,632
Total equity and liabilities	1,327,282	1,035,993	1,311,091	1,032,647

Estonian Mobile Telephone Company
Summary of financial reports according to IAS
Cash flow statement

(in thousand of kroons)	CONSOLIDATED		PARENT COMPANY	
	1999	1998	1999	1998
Cash flow from operating activities	660,885	582,708	648,223	576,946
Cash flow used in investing activities	(299,925)	(375,855)	(291,474)	(376,652)
Cash flow from/used in financing activities	(191,987)	(241,621)	(191,980)	(241,941)
Net increase/decrease in cash and cash equivalents	168,974	(34,768)	164,769	(41,648)
Cash and cash equivalents at beginning of year	86,957	121,725	79,895	121,543
Cash and cash equivalents at end of year	255,931	86,957	244,664	79,895

Financial statements according to IAS

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Rewiew of the consolidated profit and loss statement of Estonian Telecom Ltd in 1999

The consolidated profit and loss statement of Estonian Telecom Ltd in 1999 covers the following companies:

- Estonian Telecom Ltd – parent company;
- Estonian Telephone Company – 100% affiliate of Estonian Telecom Ltd;
- Estonian Mobile Telephone Company – 100% affiliate of Estonian Telecom Ltd;
- AS Teabeliin – 60% affiliate of Estonian Telephone Company;
- AS Telefonipood – 70% affiliate of Estonian Telephone Company;
- AS Esmofon – 100% affiliate of Estonian Mobile Telephone Company;
- AS Esmofon Tartu – 68% affiliate of AS Esmofon;
- AS Tarvin – 100% affiliate of Estonian Mobile Telephone Company.

Consolidated reports were drawn in accordance with international accounting standards (IAS).

Income from business

In 1999 Estonian Telecom Group's income from business increased by 16%, reaching 3,595 million kroons (in 1998 – 3,099 million kroons). The fixed telephone communication operator Estonian Telephone Company and the mobile communication operator Estonian Mobile Telephone Company both contributed considerably to the achievement of this increase.

In 1999 the consolidated income from business of Estonian Telephone Company was 2,457 million kroons. From October 1999 Estonian Telephone Company started rendering free Internet call-in services. By the end of the year approximately 25,000 clients were using the service, which corresponds to approximately 40% of the market share. The time spent on call-in services made up 30% of the total minute count of local calls by the end of the year, thus contributing to the increase of business income and compensating for the previous decrease in the income of Estonian Telephone Company resulting from the mediation of mobile communication due to the rapid increase in the number of mobile phones.

The consolidated income from business of Estonian Mobile Telephone Company reached 1,615 million kroons. The share of income from mobile communication in the aggregate income of Estonian Telecom Group remained on the level of 44%. The increase in these incomes was caused by several circumstances: (a) in 1999 the number of clients increased by 61%, reaching 243,900 by the end of the year; (b) the total minute count of calls increased; (c) in addition to traditional call forwarding, several new services gained popularity, for instance income from SMS services increased by 109% within a year. As about 2/3 of the new clients of the company chose the prepaid SIM-card, the average income per client dropped.

Operating costs

The operating costs of Estonian Telecom Group added to 1,759 million kroons (in 1998 – 1,571 million kroons). The increase of operating costs has always been slower than the increase of income from business. Steps will be taken in 2000 to increase the efficiency of the Group.

In 1999 the operating costs of Estonian Telephone Company were 1,402 million kroons (in 1998 – 1,261 million kroons). In 1999 Estonian Telephone Company reduced the number of its employees from 3,228 to 2,771. The quantity of main telephone lines per employee increased from 153 to 184. In 2000 the decline of the number of employees will continue.

In 1999 the operating costs of Estonian Mobile Telephone Company reached 792 million kroons (in 1998 – 707 million kroons). Last year the number of employees of Estonian Mobile Telephone Company increased only by 17 people i.e. 8% in contrast to the 61% increase in the number of their clients.

Depreciation and change in the value of assets

In 1999 depreciation and depreciation charges of Estonian Telecom Group increased by 157 million kroons i.e. 22%, compared to 1998, when they totalled 881 million kroons.

The depreciation of Estonian Telephone Company reached 656 million kroons (increase – 18.4%). Real estate objects

	Estonian Telecom Group	Estonian Telephone Company	Estonian Mobile Telephone Company
Profit after taxes* (million EEK)	749	142	533
Margin (%)	20.8	5.8	33.0
Increase (%)	17.0	-46.4	36.7
EBIT (million EEK)	955	398	595
Margin (%)	26.6	16.2	36.8
Increase (%)	18.8	13.7	19.4
EBITDA (million EEK)	1,836	1,054	823
Margin (%)	51.1	42.9	51.0
Increase (%)	20.2	16.6	23.1

* prior minority share

were re-appraised in the total value of 48 million kroons. In 1999 the depreciation of Estonian Mobile Telephone Company was 228 million kroons, having increased by 34% compared to the previous year.The increase was due to large-scale investments in previous years.

Profit

In 1999 the net profit of Estonian Telecom Group reached 580 million kroons. Due to restructuring carried out in the first half of 1999 the net profit was not comparable to the pertinent result in 1998 – 318 million kroons.

The adoption of the new Income Tax Act had a positive impact on the profit of Estonian Mobile Telephone Company in the amount of 68 million kroons and a negative impact on the profit of Estonian Telephone Company in the amount of 168 million kroons.

In 1999 Estonian Telecom Group's income per share increased by 10%, reaching 4.78 kroons (4.33 kroons in 1998). Income per share without taking into account the extraordinary expenses was 5.48 kroons, increasing by 27%.

Investments

In 1999 the total investments of Estonian Telecom Group added to 1.1 billion kroons.

The investments of Estonian Telephone Company added to 712 million kroons.The majority of investments were used for the development of the telephone network. During 1999, 49,000 new basic lines were installed; the number of analogue lines was reduced by 29,000. By the end of the year the number of basic lines was 515,486 i.e. 35.7 lines per 100 inhabitants. In December 1999 the level of digitalisation was 55.3%.The telephone queue had dropped to 39,000 by the end of the year.This year Estonian Telephone Company has planned to digitalise Tallinn in full.

Estonian Telephone Company acquired 70% participation in the public limited company AS Telefonipood. AS Telefonipood operates one of the largest sales chains of telephones in Estonia and sells mobile phones and subscription agreements with Estonian Mobile Telephone Company.

Estonian Mobile Telephone Company invested 306 million kroons in 1999. Within a year the number of the company's GSM radio channels grew by 34.2%. At the same time the number of GMS cells increased by 28.7%.The construction of connection lines of radio links between Tallinn and Tartu was completed. In 1999 the main attention was focused on the improvement of the quality of the mobile network of country and town districts and the development of additional services. By the end of 1999 the GSM network of Estonian Mobile Telephone Company covered 98% of the territory of Estonia (in 1998 – 95%). In order to secure its innovative reputation at the Estonian telecommunications market Estonian Mobile Telephone Company completed the introduction of IN-system and in co-operation with two leading banks launched the VPN (Virtual Private Network) service. Preparations have been completed also for the rendering of WAP and positioning services.The market launch of both products has been scheduled for the first half of the year 2000.

Assets and liabilities

The volume of consolidated assets of Estonian Telecom Group increased by 9% within a year (being 3,807 million kroons at the end of 1998 and 4,140 million kroons at the end of 1999). The volume of capital assets reached 3,011 million kroons by the end of 1999 (2,977 million kroons at the end of 1998) and the volume of trading assets 1,129 million kroons (830 million kroons at the end of 1998).

The volume of long-term liabilities of the Group dropped from 675 million kroons to 524 million kroons.The volume of short-term liabilities increased from 535 million kroons to 589 million kroons.The volume of interest bearing liabilities dropped by 111 million kroons within a year, making up 601 million kroons at the end of the year.

Changes in share capital

As of January 1, 1999, 100% of the shares of Estonian Telecom Ltd were government-owned. Estonian Telecom's participation in Estonian Telephone Company and in Estonian Mobile Telephone Company was 51%. On January 25, 1999 the first public sale of the shares of Estonian Telecom Ltd was launched, as a result of which government disposed of 49% of the shares previously in its possession i.e. 36,015,000 shares with par value of 10 kroons.The sale of shares ended on February 9, 1999. According to the submitted purchase wishes the commercial value (equilibrium price) of the shares was established as 85 kroons per share.

On December 28, 1998 the government of Estonia decided to enlarge the share capital of Estonian Telecom Ltd by 638,831,780 kroons, i.e. up to 1,373,832,780 kroons by issuing 63,883,178 new type-A shares with par value of 10 kroons. On March 24, 1999 "A contract on the subscription of shares and transfer of non-monetary contribution" was concluded and the "Subscription list of shares" signed, pursuant to what the issued shares were subscribed as follows:

- Telia AB: 14,425,234 type-A shares with par value of 10 kroons;
- Sonera Holding B.V.: 14,425,234 type-A shares with par value of 10 kroons;
- Baltic Tele AB: 35,032,710 type-A shares with par value of 10 kroons.

According to the restructuring plan of Estonian Telecom the shares referred to above substituted all the shares of Estonian Mobile Telephone Company and Estonian Telephone Company in the possession of Telia AB, Sonera Holding B.V., and Baltic Tele AB.

Before that, during the first public sale of shares, Telia AB and Sonera Holding B.V. both utilised the right granted them by the restructuring contract to purchase 1,717,289 type-A shares each.

After IPO and restructuring the structure of the share capital of Estonian Telecom Ltd was as follows:

- The Republic of Estonia: 37,485,000 type-A shares = 27.28%, 1 type-B share;
- Public investors: 32,580,422 type-A shares = 23.72%;
- Telia AB: 16,142,523 type-A shares = 11.75%;
- Sonera Holding B.V.: 16,142,523 type-A shares = 11.75%;
- Baltic Tele AB: 35,032,710 type-A shares = 25.50%.

Estonian Telecom Ltd became the 100% owner of Estonian Telephone Company and Estonian Mobile Telephone Company.

In April 1999 the Business Registry of the Tallinn City Court registered the growth of the share capital of Estonian Telecom to 1,373,832,780 kroons.

Estonian Telecom Ltd and subsidiary companies

Income statement

(in thousand of kroons)	Note	CONSOLIDATED 1999	CONSOLIDATED 1998	PARENT COMPANY 1999	PARENT COMPANY 1998
Revenue					
Net sales	2 (a)	3,568,523	3,074,519	-	-
Change in work-in-progress		(994)	(498)	-	-
Other revenue	2 (b)	27,714	25,022	94	530
Total revenue		3,595,243	3,099,043	94	530
Operating expenses					
Materials, consumables, supplies and services	2 (a)	(837,516)	(753,336)	-	-
Other operating expenses		(385,029)	(344,528)	(26,198)	(39,559)
Personnel expenses	2 (c)	(466,208)	(402,417)	(9,634)	(3,632)
Other expenses	2 (d)	(70,156)	(70,921)	(2,028)	(1,518)
Total expenses		(1,758,909)	(1,571,202)	(37,860)	(44,709)
Profit from operations before depreciation		1,836,334	1,527,841	(37,766)	(44,179)
Depreciation and amortisation		(881,059)	(723,643)	(676)	(383)
Profit from operations		955,275	804,198	(38,442)	(44,562)
Income from subsidiaries and associates		648	448	592,829	332,400
Other net financing items	2 (e)	(51,040)	(57,804)	25,875	32,092
Profit before tax		904,883	746,842	580,262	319,930
Income tax expense (-) / income (+)	3 (a)	(156,266)	(106,771)	-	(1,767)
Profit after tax		748,617	640,071	580,262	318,163
Minority interest		(83,158)	(321,908)	-	-
Net profit from ordinary activities		665,459	318,163	580,262	318,163
Extraordinary item	3 (b)	(85,197)	-	-	-
Net profit for the period		580,262	318,163	580,262	318,163
Earnings per share					
Basic earnings per share (in kroons)	16	4.78	4.33	4.78	4.33
Diluted earnings per share (in kroons)		4.78	4.33	4.78	4.33

The consolidated and parent company financial statements are to be read in conjunction with the notes to and forming part of the consolidated and parent company financial statements.

Estonian Telecom Ltd and subsidiary companies

Balance sheet

(in thousand of kroons)		CONSOLIDATED		PARENT COMPANY	
	Note	1999	1998	1999	1998
ASSETS					
Non-current assets					
Property, plant and equipment	4	2,934,647	2,798,035	3,368	958
Goodwill	5	24,171	14,100	-	-
Licences, patents and trademarks	6	45,487	50,999	-	-
Development costs	7	267	400	-	-
Investments in subsidiaries and associates	8–10	2,760	2,352	2,405,922	1,047,761
Other investments	11	888	98	840	-
Other non-current assets	13 (a)	2,646	1,437	384,967	384,967
Deferred tax assets	3 (b)	-	109,700	-	-
Total non-current assets		3,010,866	2,977,121	2,795,097	1,433,686
Current assets					
Inventories	14	141,656	103,977	21	5
Trade and other receivables	13 (b)	501,791	448,971	20,369	41,621
Short-term investments		-	4,671	-	-
Cash and cash equivalents	15	485,318	272,022	205,603	118,244
Total current assets		1,128,765	829,641	225,993	159,870
TOTAL ASSETS		4,139,631	3,806,762	3,021,090	1,593,556
EQUITY AND LIABILITIES					
Capital and reserves					
Issued capital		1,373,833	735,001	1,373,833	735,001
Reserves	16	366,817	30,003	366,817	30,003
Accumulated profits		1,279,121	821,732	1,279,121	821,732
Total capital and reserves		3,019,771	1,586,736	3,019,771	1,586,736
Minority interest					
Subsidiary companies		7,226	1,010,497	-	-
Non-current liabilities					
Interest-bearing loans and borrowings	17 (a), 18	523,831	609,463	-	-
Deferred tax liabilities	3 (b)	-	65,084	-	-
Total non-current liabilities		523,831	674,547	-	-
Current liabilities					
Trade and other payables	19	511,967	433,152	1,319	6,820
Interest-bearing loans and borrowings	17 (b)	76,836	101,830	-	-
Total current liabilities		588,803	534,982	1,319	6,820
TOTAL EQUITY AND LIABILITIES		4,139,631	3,806,762	3,021,090	1,593,556

The consolidated and parent company financial statements are to be read in conjunction with the notes to and forming part of the consolidated and parent company financial statements.

Estonian Telecom Ltd and subsidiary companies
Cash flow statement

(in thousand of kroons)		CONSOLIDATED		PARENT COMPANY	
	Note	1999	1998	1999	1998
Cash flow from operating activities					
Profit before taxation and minority interest		904,883	746,842	580,262	319,930
Adjustments for:					
Depreciation and amortisation		881,059	723,643	676	383
Increase in employee benefits		10,343	-	-	-
Profit/loss from sales and write-off of fixed assets		2,725	3,458	36	6
Profit from sales of investments		-	(6,117)	-	(7,198)
Income from subsidiaries and associated companies		(648)	(448)	(592,829)	(332,400)
Interest income/expense net		19,805	36,097	(25,388)	(24,834)
Other non-cash adjustments		4,864	(4,820)	-	(60)
Operating profit before working capital changes		1,823,031	1,498,655	(37,243)	(44,173)
Change in current receivables		(121,455)	(109,872)	(270)	(10)
Change in inventories		(33,901)	293	(16)	231
Change in current liabilities		78,492	155,226	(5,502)	5,570
Cash generated from operations		1,746,167	1,544,302	(43,031)	(38,382)
Interest paid		(39,394)	(55,331)	-	-
Income tax paid (-) / received (+)		(158,784)	(153,287)	17,000	(22,125)
Net cash from operating activities		1,547,989	1,335,684	(26,031)	(60,507)
Cash flow used in investing activities					
Purchase of property, plant and equipment		(981,152)	(1,008,125)	(3,168)	(578)
Purchase of licences		(31,782)	(20,097)	-	-
Acquisition of subsidiaries, net of cash acquired	12	(11,502)	(18,594)	-	-
Purchase of investments, shares and other		(65,868)	(4,671)	(65,729)	-
Long-term deposit		-	(150)	-	-
Cash receipts from loan repayment		2,853	2,517	48	-
Proceeds from sales of property, plant and equipment		70,262	23,822	65,449	25,610
Proceeds from sales of investments		753	436	-	315
Dividends received		240	4,291	150,198	147,233
Interest received		21,032	16,607	29,349	21,816
Net cash used in investing activities		(995,164)	(1,003,964)	176,147	194,396
Cash flow used in financing activities					
Repayment of nonconvertable long-term debt		(7,383)	(8,382)	-	-
Proceeds from long-term borrowings		-	100,000	-	-
Repayment of long-term borrowings		(119,505)	(114,695)	-	-
Payment of finance lease liabilities		(5,577)	(16,032)	-	-
Proceeds from short-term borrowings		56,000	232,000	-	-
Repayment of short-term borrowings		(56,000)	(280,000)	-	-
Proceeds from issuance of share capital		-	1	-	1
Minority contribution for shares		-	320	-	-
Dividends paid		(62,757)	(57,326)	(62,757)	(57,326)
Dividends paid to minority shareholders		(144,307)	(137,408)	-	-
Net cash used in financing activities		(339,529)	(281,522)	(62,757)	(57,325)
Net increase/decrease in cash and cash equivalents		213,296	50,198	87,359	76,564
Cash and cash equivalents at beginning of year		272,022	221,824	118,244	41,680
Cash and cash equivalents at end of year	15	485,318	272,022	205,603	118,244

The consolidated and parent company financial statements are to be read in conjunction with the notes to and forming part of the consolidated and parent company financial statements.

Estonian Telecom Ltd and subsidiary companies

Statement of changes in equity

(in thousand of kroons)		CONSOLIDATED		PARENT COMPANY	
	Note	1999	1998	1999	1998
Issued capital					
1998:					
73,500,000 ordinary shares at					
EEK 10.00 per share, fully paid		735,000	735,000	735,000	735,000
1 preferential share at					
EEK 1000.00 per share, fully paid		1	1	1	1
1999:					
63,883,178 ordinary shares at					
EEK 10.00 per share, fully paid		638,832	-	638,832	-
Total issued capital		1,373,833	735,001	1,373,833	735,001
Share premium					
Opening balance		4,525	4,525	4,525	4,525
Premium on ordinary shares issued		305,441	-	305,441	-
Closing balance		309,966	4,525	309,966	4,525
Legal reserves					
Opening balance		25,478	-	25,478	-
Amounts transferred from accumulated profits		31,373	25,478	31,373	25,478
Closing balance		56,851	25,478	56,851	25,478
Accumulated profits					
Opening balance		821,732	586,373	821,732	586,373
Adjustments to opening accumulated profits	3	(28,743)	-	(28,743)	-
Net profit for the period		580,262	318,163	580,262	318,163
Amounts transferred to legal reserves		(31,373)	(25,478)	(31,373)	(25,478)
Dividends paid	16	(62,757)	(57,326)	(62,757)	(57,326)
Closing balance		1,279,121	821,732	1,279,121	821,732

The consolidated and parent company financial statements are to be read in conjunction with the notes to and forming part of the consolidated and parent company financial statements.

Note 1
Significant accounting policies

The significant accounting policies adopted in the preparation of the financial statements of Estonian Telecom Ltd (the parent company) and its subsidiary companies (the Group) are set out below.The financial statements were authorised for issue by the Directors on the 4-th of April 2000.

Statement of compliance

The consolidated financial statements of the Group and the financial statements of the parent company are prepared in accordance with the accounting standards issued by the International Accounting Standards Committee.

Measurement basis

Historical cost has been used as the general measurement basis.

Principles of consolidation

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

All intercompany transactions and balances have been eliminated.

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

Foreign currency

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

Hedging

Foreign exchange contracts are accounted for as a hedge when the contracts are entered into with the intention to hedge other transactions with a high degree of correlation with the hedging instruments. The gain or loss arising from the settlement of the contracts will be recognise as income or expense at the same time as when the transaction being hedged is realised.

Property, plant and equipment

Items of property, plant and equipment are stated at the lower of historical cost and recoverable amount and are depreciated using the straight line method over their estimated useful lives. Freehold land is not depreciated. The cost of property, plant and equipment constructed by the company includes the cost of materials and direct labour.

Expenditure on repairs or maintenance of property, plant and equipment made to restore or maintain future economic benefits expected from the assets is recognised as an expense when incurred.

The rates of depreciation used are as follows:

- buildings 3–8%;
- plant and equipment 15–40%;
- furniture, fixtures and fittings 10–50%.

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

Leased assets

Leases of plant and equipment under which the Group assumes substantially all the risks and rewards incidental to ownership are classified as finance leases. Other leases are classified as operating leases.

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

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

Goodwill

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

Licences, patents and trademarks

Licences, patents and trademarks are stated at the lower of historical cost and recoverable amount and are amortised using the straight line method over their estimated useful lives.

Research and development

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

Investments

Valuation

Investments classified as current assets are carried at the lower of cost or market value if the latter is determinable.

Investments classified as non-current assets are carried at cost, less amounts written off to recognise other than temporary declines in the value of the investment.

Disposals

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

Associates

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

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

A listing of Group's significant associates is set out in note 10.

Subsidiaries

Investments in subsidiaries are accounted for under the equity method in the parent company's financial statements.

A listing of the Group's subsidiaries is set out in note 10.

Inventories

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

Cost is based on the weighted average cost principle in Estonian Mobile Telephone Company and on the first-in, first-out principle in Estonian Telephone Company and includes expenditure incurred in acquiring the inventories and bringing them to their existing condition and location.

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

Taxation

Deferred income taxes are provided for using the balance sheet liability method of accounting for income taxes, under which deferred tax consequences are recognised for temporary differences, being differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.The amount of deferred income taxes on these differences is determined using the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, as applicable, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date.

Deferred tax assets are recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised, unless the deferred tax asset arises from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting profit nor taxable profit or loss. However for deductible temporary differences associated with investments in subsidiaries, branches and associates, deferred tax assets are recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future, and taxable profit will be available against which the temporary difference can be utilised.

Deferred tax liabilities are recognised for all taxable temporary differences associated with investments in subsidiaries, branches and associates except to the extent that the timing of the reversal of the temporary difference is able to be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

The Income Tax Act 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* will lose its substance and deferred income tax assets and liabilities defined in IAS 12 can no longer arise.

Borrowing costs

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

Pension liability

The discounted pension liability has been calculated using actuarial assumptions.

Termination benefits

Termination benefits are recognised as liabilities and as expenses when and only when the company is demonstrably committed to terminate employment contracts before the employees' normal retirement date. An enterprise is demonstrably committed to a termination when, and only when, the enterprise has a detailed formal plan for the termination and is without realistic possibility of withdrawal.

Revenue recognition

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

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

Interest, royalties and dividends arising from the use by others of the Group's resources are recognised when it is probable that the economic benefits associated with the transaction will flow to the Group and the revenue can be measured reliably. Interest income is recognised as it accrues (taking into account the effective yield on the asset) unless collectibility is in doubt. Royalty income is recognised on an accrual basis in accordance with the substance of the relevant agreement. Dividend income is recognised when the shareholder's right to receive payment is established.

Comparative information

Comparative information in the income statement for 1998 has been restated in respect of a change in accounting policy for revenue measurement.

Segment information

A business segment is a distinguishable component of the Group that is engaged in providing a group of related services or products and that is subject to risks and returns that are different from those of other business segments. Two major segments, fixed line and mobile telecommunication services are distinguished in the consolidated financial statement.

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

Segments result is segment revenue less segment expense. Segment result is determined before any adjustments for minority interest.

Segment assets are those operating assets that are employed by a segment in its operating activities and that are directly attributable to the segment. Segment assets do not include income tax assets.

Segment liabilities are those operating activities of a segment and that are directly attributable to the segment. Segment liabilities do not include income tax liabilities.

Capital expenditure represents the 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).

Note 2
Additional information to the income statement

Profit before tax was derived after including the following items:

(a) Net sales

Compared to 1998, principles of revenue and expense measurement related to international calls have been changed. Formerly, net results of quarterly international settlements were recognised in the income statement. Starting from 1999, gross method based on the amounts of minutes of international calls outgoing from Estonia and incoming into Estonia is the measurement basis. Respective changes have been made to the income statement of 1998 to make them comparable: net sales and expenses on materials, consumables, suppliers and services have been increased by 171,217,000 Estonian kroons.

(in thousand of kroons)	CONSOLIDATED		PARENT COMPANY	
	1999	1998	1999	1998
(b) Other revenue				
Profit from sales of fixed assets	1,174	1,120	3	-
Foreign exchange gain	6,026	6,561	18	96
Prior period income	5,646	3,054	-	-
Penalty	7,616	10,357	-	-
Other revenue	7,252	3,930	73	434
Total	27,714	25,022	94	530
(c) Personnel expenses				
Wages and salaries	338,063	297,866	7,158	2,692
Social charges	112,957	99,997	2,476	940
Pension expenses	10,348	-	-	-
Other personnel expenses	4,840	4,554	-	-
Total	466,208	402,417	9,634	3,632
(d) Other expenses				
Loss from sales of fixed assets	85	3,528	-	-
Write-off of fixed assets	3,814	1,051	39	6
Foreign exchange loss	10,362	5,008	469	93
Prior period expenses	10,736	9,110	7	-
Bad debts	30,100	42,500	-	-
Sponsorship	5,496	5,835	1,451	1,342
Local taxes	2,971	2,051	-	-
Other expenses	6,592	1,838	63	77
Total	70,156	70,921	2,029	1,518
(e) Net financing items				
Interest income	16,974	19,619	25,388	24,834
Interest expense	(36,779)	(55,716)	-	-
Net foreign exchange gain/loss	(3,735)	3,817	487	-
Revenue derived from trading investments	-	6,117	-	7,198
Other financial income	424	747	-	60
Other financial expenses	(27,924)	(32,388)	-	-
Total	(51,040)	(57,804)	25,875	32,092

Note 3
Taxation

(in thousand of kroons)	CONSOLIDATED		PARENT COMPANY	
	1999	1998	1999	1998
(a) Income tax expense				
Major components of tax expense:				
Current tax expense	140,530	99,873	-	1,767
Deferred tax expense relating to the origination and reversal of temporary differences	83,598	16,219	-	-
Deferred tax income relating to the origination and reversal of temporary differences	(67,862)	(9,321)	-	-
Income tax expenses	156,266	106,771	-	1,767

The Group's applicable tax rate is 26%.

The following is a reconciliation of income tax calculated at the applicable tax rate with income tax expense:

Accounting profit	904,883	746,842	580,262	319,930
Tax at the applicable tax rate of 26% (1997: 26%)	235,270	194,179	150,868	83,182
Differences attributable to the tax effect of items that are not assessable in determining taxable profit	(75,734)	(46,436)	(151,458)	(87,419)
Differences attributable to the tax effect of items that are not deductible in determining taxable profit	117,960	55,701	590	6,004
Investment and other allowances*	(121,230)	(96,673)	-	-
Income tax expense	156,266	106,771	-	1,767

* In 1998 Estonian Telephone Company's taxable profitswere taxed at a rate lowered by 50%.

(b) Deferred tax assets and liabilities				
Temporary differences which give rise to deferred tax assets and liabilities are as follows:				
Deferred tax assets:				
Deductible temporary differences	-	109,700	-	-
	-	109,700	-	-
Deferred tax liabilities:				
Accelerated depreciation for tax purposes	-	65,084	-	-
	-	65,084	-	-

The Income Tax Act 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 based of assets and liabilities* will lose its substance and deferred income tax assets and liabilities defined in IAS 12 can no longer arise. Consistent with IAS 12.60, the decrease of EEK 67,862,000 in the deferred income tax liability brought about by the requirements of the new Income Tax Act has been reported in the income statement as income tax income.The decrease in the deferred income tax asset of EEK 83,598,000 has been recognised in the income statement as income tax expense, excluding EEK 28,743,000 that had been credited directly to equity previously.This amount has been deducted from the balance of retained earnings.

As at 31 December 1999, one group company had paid income tax on dividends distributed in previous periods of EEK 85,197,000. In accordance with former legislation, this amount could have been offset against the income tax liability calculated on the company's taxable income. Considering that Estonian Telecom Ltd is the subsidiary's sole shareholder, the subsidiary will not incur an income tax liability at a future dividend distribution. Under the new Income Tax Act, the receivable cannot realise.Therefore, it has been reported as an extraordinary expense.

Note 4
Property, plant and equipment

(in thousand of kroons)	CONSOLIDATED		PARENT COMPANY	
	1999	1998	1999	1998
Freehold land, buildings and constructions (at cost)	819,788	787,106	-	-
Accumulated depreciation	(423,205)	(340,541)	-	-
	396,583	446,565	-	-
Plant and equipment (at cost)	4,843,602	3,897,157	4,375	2,153
Accumulated depreciation	(2,363,849)	(1,640,869)	(1,509)	(1,195)
	2,479,753	2,256,288	2,866	958
Leased plant and equipment	11,876	68,612	-	-
Accumulated depreciation	(9,865)	(56,736)	-	-
	2,011	11,876	-	-
Fixed assets under construction	22,485	64,292	-	-
Advance payments for non-current assets	33,815	19,014	502	-
Total property, plant and equipment	2,934,647	2,798,035	3,368	958

The acquisition cost of freehold land has been EEK 2,862,000 in 1998 and EEK 6,784,000 in 1999.

	Freehold land & buildings		Plant & equipment		Leased plant & equipment		Fixed assets under construction		Advance payments for non-current assets	
(in thousand of kroons)	CONSOL.	PARENT CO	CONSOL.	PARENT CO	CONSOL.	PARENT CO	CONSOL.	PARENT CO	CONSOL.	PARENT CO
1999										
Opening carrying value	446,565	-	2,256,288	958	11,876	-	64,292	-	19,014	-
Additions	46,746	-	976,706	2,778	-	-	746,160	-	46,155	502
Disposals	(14,066)	-	(48,255)	(556)	-	-	(787,968)	-	(31,354)	-
Acquisitions through business combinations	-	-	1,042	-	-	-	-	-		-
Depreciation	(82,662)	-	(706,028)	(314)	(9,865)	-	-	-	-	-
Closing carrying value	396,583	-	2,479,753	2,866	2,011	-	22,484	-	33,815	502
1998										
Opening carrying value	510,275	-	1,919,723	770	25,588	-	29,106	-	18,351	-
Additions	68,915	-	932,931	578	-	-	851,094	-	62,204	-
Disposals	(8,504)	-	(94,019)	(185)	-	-	(815,908)	-	(61,541)	-
Acquisitions through business combinations	-	-	1,813	-	-	-	-	-	-	-
Depreciation	(124,121)	-	(504,160)	(205)	(13,712)	-	-	-	-	-
Closing carrying value	446,565	-	2,256,288	958	11,876	-	64,292	-	19,014	-

Depreciation includes depreciation expense for the period less accumulated depreciation on fixed assets disposed or written off.

Note 5
Goodwill

(in thousand of kroons)		CONSOLIDATED		PARENT COMPANY	
	Note	1999	1998	1999	1998
Goodwill (at cost)		31,158	16,920	-	-
Accumulated amortisation		(6,987)	(2,820)	-	-
		24,171	14,100	-	-
Movement in goodwill					
Opening balance		16,920	-	-	-
Accumulated amortisation		(6,204)	-	-	-
		10,716	-	-	-
Goodwill acquired during the year	12	14,238	16,920	-	-
Amortisation		(783)	(2,820)	-	-
Closing balance		24,171	14,100	-	-

Note 6
Licences, patents and trademarks

(in thousand of kroons)	CONSOLIDATED		PARENT COMPANY	
	1999	1998	1999	1998
Patents and trademarks (at cost)	100,581	70,169	-	-
Accumulated amortisation	(55,093)	(19,170)	-	-
	45,488	50,999	-	-
Movement in licences, patents and trademarks costs				
Opening balance	70,169	50,274	-	-
Accumulated amortisation	(19,170)	(7,832)	-	-
Additions (net)	30,413	19,895	-	-
Amortisation	(35,925)	(11,338)	-	-
Closing balance	45,487	50,999	-	-

Note 7
Development costs

(in thousand of kroons)	CONSOLIDATED		PARENT COMPANY	
	1999	1998	1999	1998
Development costs	1,751	1,412	-	-
Accumulated amortisation	(1,484)	(1,012)	-	-
	267	400	-	-
Movement in development costs				
Opening balance	1,412	1,412	-	-
Accumulated amortisation	(1,012)	(306)	-	-
Costs deferred during the year	339	-	-	-
Amortisation	(472)	(706)	-	-
Closing balance	267	400	-	-
Development costs charged as an expense in the income statement	-	-	-	-

Note 8
Investments in subsidiaries and associates

(in thousand of kroons)		CONSOLIDATED		PARENT COMPANY	
	Note	1999	1998	1999	1998
Investments in:					
Subsidiary companies	9	-	-	2,405,922	1,047,761
Associated companies	10	2,760	2,352	-	-
		2,760	2,352	2,405,922	1,047,761

Note 9
Investments in subsidiaries

	Country of incorporation	Ownership interest	
Parent company:		1999	1998
Estonian Telecom Ltd	Estonia		
Significant subsidiaries:			
Estonian Telephone Company	Estonia	100%	51%
Estonian Mobile Telephone Company	Estonia	100%	51%

Note 10
Investments in associates

	Country of incorporation	Ownership interest	
		1999	1998
AS Esdata	Estonia	30%	30%

Note 11
Other investments

(in thousand of kroons)	CONSOLIDATED		PARENT COMPANY	
	1999	1998	1999	1998
Non-current investments in other enterprises:				
Rocca al Mare Suurhall	840	-	840	-
Hansapank	48	48	-	-
BFD Reklaamiklubi AS	-	50	-	-
	888	98	840	-

As of 31.12.99 Group owned 1,369 shares of Hansapank with market value of 128,403 kroons. Shares of BFD Reklaamiklubi AS were written of due to the bankruptcy of the company.

Note 12
Acquisition of subsidiaries

In November 1999 the Group bought 70% of AS Telefonipood shares. AS Telefonipood is one of the leading Estonian vendors of mobile telephones and providers of subscription contract services. The purchase price was 19.3 million Estonian kroons and the transaction was accounted for under the purchase method. The goodwill was recognised in the total amount of 14.2 million Estonian kroons.

The acquisitions had the following effect on the Group's assets and liabilities:

(in thousand of kroons)	Note	1999
Fixed assets		1,042
Inventories		3,778
Trade receivables		3,151
Other receivables		883
Cash and bank accounts		498
Short-term liabilities		(4,242)
Deferred tax liabilities		(96)
Net identifiable assets and liabilities		5,014
Goodwill on acquisition	5	14,238
Consideration paid, satisfied in cash		19,252
Long-term payable		(7,252)
Cash acquired		(498)
Net cash outflow		11,502

Note 13
Trade and other receivables

(in thousand of kroons)	CONSOLIDATED		PARENT COMPANY	
	1999	1998	1999	1998
(a) Non-current				
Intercompany receivables	-	-	384,967	384,967
Other receivables	2,646	1,437	-	-
	2,646	1,437	384,967	384,967
(b) Current				
Accounts receivable (trade)	372,105	331,090	-	-
Intercompany receivables	-	-	15,413	15,413
Accrued income*	83,683	13,502	685	5,207
Prepaid/refundable taxes receivables	4,891	77,376	4,001	20,971
Other receivables	41,112	27,003	270	30
	501,791	448,971	20,369	41,621

* The significant increase of accrued income is caused by the change of the measurement basis of revenue and expenses related to international calls.

Note 14
Inventories

(in thousand of kroons)	CONSOLIDATED		PARENT COMPANY	
	1999	1998	1999	1998
Raw, materials and consumables	102,543	84,720	-	-
Merchandise purchased for sale	24,234	16,262	9	-
Advance payments to suppliers	14,121	1,243	12	5
Work in progress	758	1,752	-	-
	141,656	103,977	21	5

Note 15
Cash and cash equivalents

Cash and cash equivalents consist of cash on hand balances with banks.

Note 16
Equity

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at annual and general meetings 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 kroons, and one vote at the shareholders' general meeting.

Other reserves include the capital reserve required by the Commercial Code. Subject to the approval of the general meeting, the reserve may be used for covering a loss, if the latter cannot be covered with unrestricted equity, and for increasing share capital.

At balance sheet date the Board of Directors have recommended dividend of EEK 4.00 per ordinary share and EEK 10,000 per preference share. As the dividends have not been approved by the annual meeting, they are not provided for.

Basic earnings per share (in kroons) accounted is following: 4.78 = 580,262,000 : (73,500,001 x 3/12 + 137,383,278 x 9/12)

Note 17
Interest-bearing loans and borrowings

(in thousand of kroons)	Note	CONSOLIDATED 1999	CONSOLIDATED 1998	PARENT COMPANY 1999	PARENT COMPANY 1998
(a) Non-current					
Bank loans (secured)	18 (a)	474,550	572,539	-	-
Nonconvertible long-term debt	18 (b)	42,029	35,133	-	-
Obligations under finance leases	20 (b)	-	1,791	-	-
Other non-current liabilities	12	7,252	-	-	-
		523,831	609,463	-	-

Non convertible long-term debt includes pension liabilities in the amount of EEK 9,582,000.

(in thousand of kroons)	Note	CONSOLIDATED 1999	CONSOLIDATED 1998	PARENT COMPANY 1999	PARENT COMPANY 1998
(b) Current					
Bank loans, current portion (secured)	18 (a, b)	74,976	96,337	-	-
Obligations under finance leases	20 (b)	1,860	5,493	-	-
		76,836	101,830	-	-

Note 18
Details of loans

The interest rates and terms of repayment for loans of the Group are as follows:

(in thousand of kroons)	Interest rate	Interest type	Terms	Note	PARENT COMPANY 1999	PARENT COMPANY 1998	CONSOLIDATED 1999	CONSOLIDATED 1998
(a) Bank loans								
Estonian Investment Bank	SDR + 6.5%	floating	1999		-	10,000	-	-
Nordic Investment Bank	7.5%	fixed	2002		73,185	81,795	-	-
Nordic Investment Bank	6-month EURIBOR + 0.48%	floating	2002		81,763	90,370	-	-
Nordic Investment Bank	EUROLIBOR + 0.45%	floating	2003		93,091	116,364	-	-
Hansapank	14.0%	fixed	1999		-	1,500	-	-
Bankgesellschaft Berlin AG	EUROLIBOR + 0.45%	floating	2002		192,000	192,000	-	-
Svenska Handelsbanken AB	TALIBOR + 0.375%	floating	2002		22,500	70,000	-	-
Svenska Handelsbanken AB	TALIBOR + 0.375%	floating	2003		80,000	100,000	-	-
					542,539	662,029	-	-
Less: Current portion of bank loans				17 (b)	(67,989)	(89,490)	-	-
Non-current portion of bank loans				17 (a)	474,550	572,539	-	-
(b) Nonconvertible long-term debt								
Telia Finants AB	K1+ margin*	floating	2005		38,826	40,480	-	-
Sonera OYj	12.0%	fixed	1999		-	1,500	-	-
Pension liability	-	-	2016		10,190	-	-	-
					49,016	41,980	-	-
Less: Current portion of nonconvertible long-term debt				17 (b)	(6,987)	(6,847)	-	-
Nonconvertible long-term debt				17 (a)	42,029	35,133	-	-

* K1 is the interest rate for highest grade clients on the Stockholm interbank market.

A registered first mortgage is secured over certain properties of the Estonian Telephone Company in respect of loans from Sonera OYj.

(in thousand of kroons)	CONSOLIDATED 2001	2002	2003	2004	2005	2006–2016
(c) Repayment for bank loans and nonconvertible long-term debt						
Repayment for bank loans	67,990	363,286	43,274	-	-	-
Repayment for nonconvertible long term debt	7,409	7,878	8,429	8,980	2,793	6,540

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Note 19
Trade and other payables

(in thousand of kroons)	CONSOLIDATED		PARENT COMPANY	
	1999	1998	1999	1998
(b) Current				
Accounts payable (trade)	174,761	161,570	546	6,336
Intercompany payables	-	-	35	190
Customer prepayments for goods and services	7,138	12,130	-	-
Taxes payable	115,270	97,472	615	217
Accrued expenses	159,176	103,247	123	76
Other payables	14,319	21,805	-	1
Other prepaid revenue	41,303	36,928	-	-
	511,967	433,152	1,319	6,820

Note 20
Commitments

(in thousand of kroons)		CONSOLIDATED		PARENT COMPANY	
	Note	1999	1998	1999	1998
(a) Operating lease payments					
Minimum lease payments under non-cancellable operating leases, not provided for:					
– not later than one year		22,289	14,829	-	112
– between one and two years		12,295	13,224	-	72
– between two and three years		7,930	4,581	-	60
– between three and four years		3,371	673	-	-
		45,885	33,307	-	244
(b) Finance lease payments					
Finance lease payments, both principal and finance charge, are payable as follows:					
– not later than one year		1,920	5,852	-	-
– between one and two years		-	1,851	-	-
		1,920	7,703	-	-
Less: Finance charges		60	419	-	-
Current portion of obligations under finance leases	18 (b)	1,860	5,493	-	-
Non-current portion of obligations under finance leases	18 (a)	-	1,791	-	-

Note 21
Related parties

(in thousand of kroons)	CONSOLIDATED		PARENT COMPANY	
	1999	1998	1999	1998
(a) The total remuneration of directors and executive officers				
Members of the Council and Management Board	9,550	6,562	2,978	1,226
(b) Telecommunication services provided				
Sonera OYj	85,659	74,540	-	-
Telia AB	27,726	29,448	-	-
(c) Other sales				
Sonera OYj	-	32	-	-
Telia AB	-	-	-	23,000
(d) Telecommunication services purchased				
Sonera OYj	47,418	48,649	-	-
Telia AB	29,633	30,990	-	-
(e) Other services puchased				
Baltic Tele AB	4,010	7,034	-	-
Sonera OYj	4,513	3,659	100	-
Telia AB	3,194	4,403	-	-
Advokaadibüroo Tark & Co	1,389	-	51	-

Transactions with related parties are priced at fair values.

Note 22
Segment information

For management purposes, the Group is organised into two major operating divisions, fixed network telecommunications and mobile telecommunications. These divisions are the basis on which segment information is reported.
Activities of the divisions are:

- Fixed network telecommunications: the field of activity is to operate, modernise and expand national telecommunication network and to provide telecommunications services as well as related value added services and international connections, as well as providing, producing, marketing and selling basic services and services related thereto.
- Mobile communications: the field of activity is to establish, operate and maintain mobile telephone networks and systems and to produce, market and sell services related thereto in the Republic of Estonia or abroad.
- Other: largely comprises the activities of the parent company.

(in thousand of kroons)	Fixed network telecommunication		Mobile telecommunication		Other operations		Eliminations		Consolidated	
	1999	1998	1999	1998	1999	1998	1999	1998	1999	1998
(a) Business segments										
Revenue										
External										
– rendering of services and sales	2,244,949	1,963,599	1,322,580	1,110,422	-	-	-	-	3,567,529	3,074,021
– other	12,814	10,380	14,892	14,546	8	96	-	-	27,714	25,022
Inter-segment services	213,048	193,418	364,124	330,888	86	434	(577,258)	(524,740)	-	-
Total revenue	2,470,811	2,167,397	1,701,596	1,455,856	94	530	(577,258)	(524,740)	3,595,243	3,099,043
Result										
Segment result: profit from operations	397,494	349,513	595,370	498,593	(38,442)	(44,562)	853	654	955,275	804,198
Income from associated companies									648	448
Income from other financial investments									-	75
Foreign exchange gain									510	4,695
Other financial income									17,398	26,408
Interest expense									(36,760)	(55,710)
Foreign exchange loss									(4,245)	(878)
Other financial expenses									(27,943)	(32,394)
Extraordinary expenses									(85,197)	-
Income tax expenses (-) / income (+)									(156,266)	(106,771)
Minority interest									(83,158)	(321,908)
Net profit									580,262	318,163
Other information by segments										
Segments assets	2,602,451	2,473,008	1,039,869	922,414	8,345	27,168	-	-	3,650,665	3,422,590
Investments in associates									2,760	2,352
Cash									485,318	272,022
Investments in other enterprises									888	98
Deferred tax assets									-	109,700
Consolidated total assets									4,139,631	3,806,762
Segment liabilities	319,500	258,961	75,868	70,306	669	6,413	-	-	396,037	335,680
Interest-bearing liabilities									593,415	711,293
Taxes payable									123,182	97,472
Deferred tax liabilities									-	65,084
Consolidated total liabilities									1,112,634	1,209,529
Capital expenditure	704,046	663,229	305,720	364,415	3,168	578	-	-	1,012,934	1,028,222
Depreciation and amortisation of segment assets	652,660	553,137	227,723	170,123	676	383	-	-	881,059	723,643

Note 23
Financial instruments

Financial assets of the Group include cash, marketable securities and trade receivables. Financial liabilities include loans and borrowings and trade payables. Accounting policies for financial assets and liabilities are set out in note 1. One of the Group companies has entered into foreign exchange swap transactions to hedge exposures that arise with respect to loans.

(a) Interest rate risk

The interest rates and terms of repayment of loans of the Group are disclosed in note 18 to the financial statements.

(b) Credit risk

Credit risk represents the accounting loss that would be recognised at the reporting date if counterparties failed to preform as contracted.The Group does not have significant exposure to any individual customer or counterparty.To reduce exposure to credit risk, the Group performs ongoing customer performance evaluations.The Group invests available cash with the most respectful Estonian bank.The management does not expect the counterparty to fail to meet its obligations.

(c) Fair value

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

(d) Foreign exchange hedge instruments

(in thousand of kroons)	CONSOLIDATED	
	1999	1998
Foreign currency swap transactions	609,652	668,080
Unrealised gains	6,087	6,811

To hedge exposure that arises from foreign currency loans one of the Group companies has entered into foreign exchange swap transactions.The swap contracts valid as of 31 December 1999 amounted to FIM 123.3 million and DEM 35.6 million. Certain amounts of currencies will be exchanged annually with peaks in year 2000 for DEM transactions and in year 2002 FIM transactions.

Note 24
Contingencies

Two court cases have been instituted against Estonian Telecom Ltd (ETC) and the Republic of Estonia alleging that the concession agreement is void.These cases allege that the Republic of Estonia had no authority to grant the concession, that it was granted before ETC was formally registered and that it breaches Estonian Constitution and Estonian Competition Act. ETC and the parent company believe that they have strong grounds for contesting the cases and intend to do so vigorously. ETC believes that, in view of the complexity of the cases it is unlikely that a final decision would be reached before the year 2000.The final outcome of those court cases can not be reliably estimated and is not reflected in the financial statements.

Connected to the alleged violation of Competition Act there is a pending court proceeding on the issue whether, under the requirements of Competition Act. ETC should be obliged to follow the legislative rules regulating the public procurement upon the contracting of construction work. In case the court shall consider the application of administrative liability to be justified, the court shall be entitled to order an administrative fine in amount up to one per cent of the net sales of the financial year preceding the order of fine but not less than 10,000 EEK.

Auditor's report to the shareholders of Estonian Telecom Ltd

We have audited the accompanying financial statements of Estonian Telecom Ltd, comprising the balance sheet as of 31 December 1999, the related statements of income, cash flows, and changes in equity for the year then ended, and the notes to the financial statements. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements give a true and fair view of the financial position of Estonian Telecom Ltd as of 31 December 1999, and of the results of its operations, its cash flows and changes in equity for the year then ended in accordance with International Accounting Standards.

Tallinn, 29 March 2000
KPMG Estonia

Andres Root
Authorised Public Accountant