CONTENTS

HIGHLIGHTS

- Revenue up 11% to 3,979 mln kroons
- EBITDA up 13% to 2,078 mln kroons
- EBITDA margin 52%
- Net profit 1,176 mln kroons
- Net profit margin 30%
- Earnings per share 8.56 kroons

IMPORTANT EVENTS

February
The new Telecommunications Act is passed by the Parliament.

March
Eesti Telefon brings ADSL product portfolio onto the market.

Eesti Telefon and EMT begin, together with partners, the joint project for the development of a public key infrastructure.

April
EMT begins offering WAP-based services.

May
EMT launches a mobile positioning system with partners.

Annual General Meeting of shareholders decides to pay dividends of 4 kroons per share.

July
EMT begins to market a mobile parking service.

September
Jaan Männik is appointed Chairman of the Management Board of Eesti Telekom.

October
Completion of rebalancing of Eesti Telefon rates.

December
Project “Tallinn 100” is completed. Tallinn is 100% digitalised.

EMT closes NMT network.

The Republic of Estonia and Eesti Telefon sign an agreement for the termination of the concession agreement.

Exclusive rights of Eesti Telefon end.

FROM THE CHAIRMAN OF THE COUNCIL

The first months of competition in the Estonian telecommunications market are behind us, and one may now say that the Eesti Telekom Group has maintained the leading position in all service areas. One must not forget, also, that Eesti Telekom is in some sense a pioneer, the first in Central and Eastern Europe to operate in a completely liberalised telecommunications market.

The macroeconomic environment is entirely favourable for investment in Eesti Telekom. Estonian economy is growing rapidly – roughly 6 percent economic growth is predicted for this year. In 2000 the Estonian government gave companies a gift unique in Europe, by eliminating corporate income tax. In Estonia a stable financial and banking system has developed, and we nurture hopes of joining the European Union and North Atlantic Treaty Organisation (NATO) in the near future, which should increase the country's stability and security even more, and thereby considerably promote the economic environment and the development of investment opportunities.

Estonian society as a whole is innovative and open to information technology. Estonians use many more e-banking services than do the inhabitants of most European countries, we have a surprisingly high density of Internet connections, Estonia has an e-government in which important affairs of state are not decided through the generation of boundless amounts of paper documents, but instead approvals are obtained and discussions are held in cyberspace, in order to save the taxpayer's money.

Eesti Telekom has also made a significant contribution to the development of the information society in Estonia, by supporting the IT College and developing, in co-operation with leading Estonian banks, a public key infrastructure. Within the framework of the "Country Road" project, we have constructed permanent Internet connections for local governments, schools, libraries and public Internet cafés across Estonia. We have provided 60 million kroons in participation in the project "look@world", which arose through co-operation between leading Estonian companies. The aim of the programme is to support Internet use and raise the living standards of the Estonian population and the country's competitiveness in Europe.

In concluding, I would like to thank Toomas Sõmera, long-time and productive Chairman of the Management Board of Eesti Telekom, who resigned in August 2000, and wish the investors, co-operation partners and customers of the Eesti Telekom Group success in this new year that is full of challenges.

Aare Tark,
Chairman of the Council

FROM THE CHAIRMAN OF THE MANAGEMENT BOARD

In 2001 the period of the exclusive rights of Eesti Telefon, subsidiary of Eesti Telekom, came to an end, and the Estonian telecommunications market was the first in Central and Eastern Europe to become fully liberalised.

The internationally recognised auditing company PriceWaterhouseCoopers has, in the audit commissioned by the Ministry of Transport and Communications, reached the conclusion that Eesti Telefon has fulfilled the objectives of the concession agreement. Indeed, the density of fixed lines per 100 inhabitants has increased from 23.2 percent in 1993 to 36.2 percent today, digitalisation from 5 percent to 71 percent, and the total volume of investments is today nearing 5 billion kroons. It is precisely thanks to these investments that a high-quality telecommunications network has been built in Estonia, which permits our competitors to declare that they do not need to build their own networks, since it is more profitable to offer services through the Eesti Telefon network.

Pursuant to the Telecommunications Act, Eesti Telefon has opened its network to new fixed telephone operators, permitting its customers to use, through operator codes, the voice communications services of other companies. Eesti Telefon has also created preconditions for competition by rebalancing voice communications rates, since what could be more of an obstruction to free competition than the fact that a company possessing a very large market share is offering services below net cost.

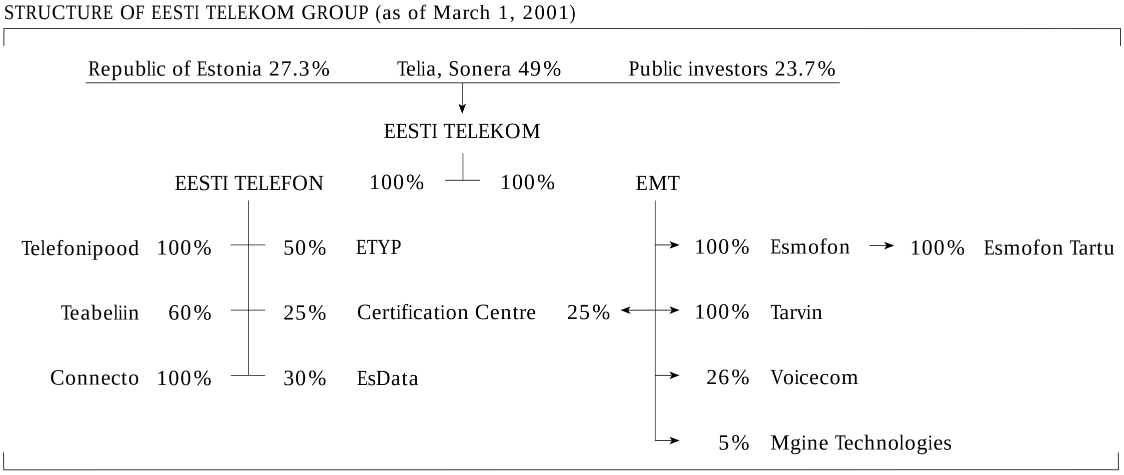
Even before the full liberalisation of the telecommunications market, the Eesti Telekom Group made serious efforts to improve efficiency: the EBITDA margin has risen above 50%, the number of fixed lines per employee has by now increased more than 2.6 times, to 206, since 1993, and the operations of the Eesti Telekom Group have also received positive feedback from international investors and analysts.

At the end of last year the number of mobile phone users surpassed that of fixed telephone users – several years before this was forecast to take place in the world as a whole. Voice communications are increasingly being used through the mobile communications network, and it will not be long before the use of data communications and the Internet through the fixed network surpasses that of voice services.

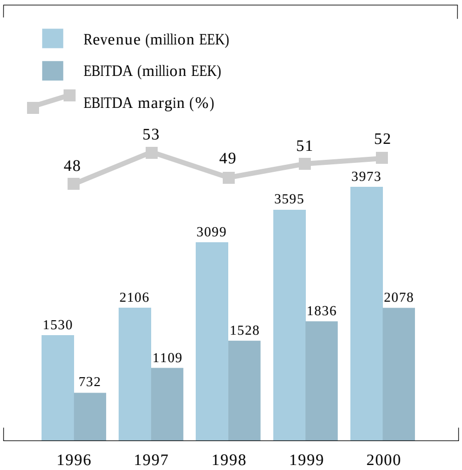
Continuing demand for an increase in bandwidth in the fixed and mobile networks presents new challenges for the Eesti Telekom Group, and today one may state that we have met these challenges surprisingly well. One example of this is the boom in ADSL connections (Estonia surpasses several leading European countries in the density of ADSL connections) or the rapid increase in the number of Internet connections (in terms of the density of Internet connections, Estonia surpasses countries like Germany, Slovenia and the Czech Republic). Eesti Telefon was the first in Estonia to adopt the Internet telephone service, flexible Internet-based voice communications solutions and the wireless DSL network. EMT has successfully introduced the MPS system and WAP services, and has begun the establishment of a GPRS network.

In 2001 the main emphasis of the operations of the Eesti Telekom Group will be on the consolidation of

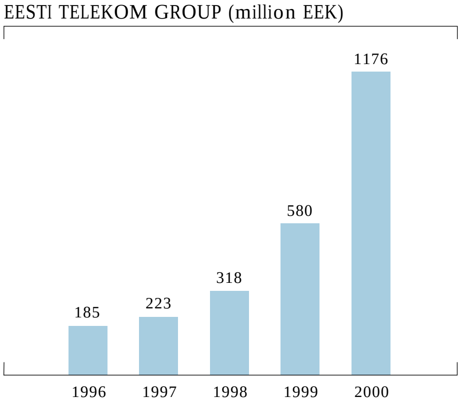
STRUCTURE OF EESTI TELEKOM GROUP (as of March 1, 2001)



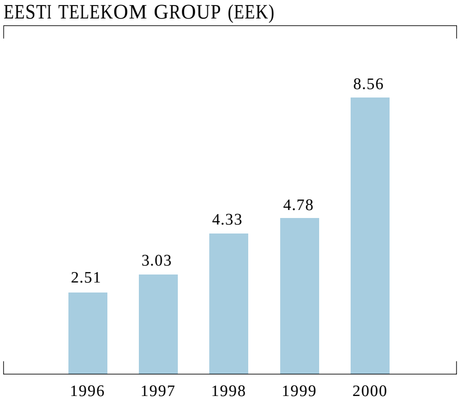
FINANCIAL INDICATORS OF EESTI TELEKOM GROUP



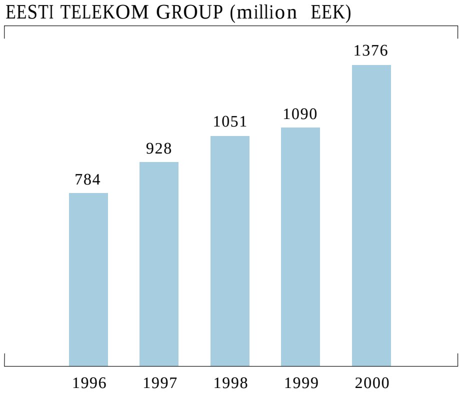
NET PROFIT OF
EESTI TELEKOM GROUP (million EEK)



EARNINGS PER SHARE OF
EESTI TELEKOM GROUP (EEK)



INVESTMENTS OF
EESTI TELEKOM GROUP (million EEK)



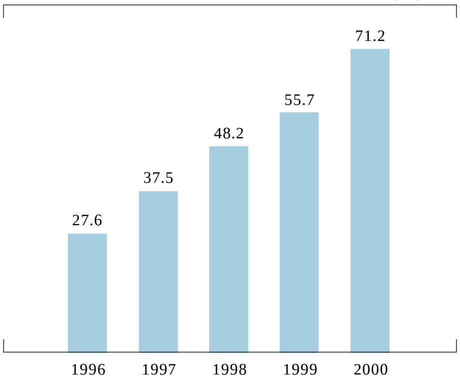
its positions in the domestic market. We will continue to explore opportunities for the formation of joint companies and the purchase of new companies, so that Eesti Telefon and EMT may better concentrate on their primary strategic activities. In the area of mobile communications we will increasingly focus on the acquisition of a third-generation licence, which is also a topical issue elsewhere in the world, and the creation of a UMTS network. In fixed communications we will focus our attention on the provision of ASP applications and Internet content services, since the Internet as an object of commercial activity is increasingly becoming an environment for commercial activity that significantly shortens traditional value chains.

Since the Eesti Telekom Group is and will remain a large and dominant company in the Estonian market, we wish to remain at the forefront of the development of the Estonian information society and continue to make the same scale of investments in the telecommunications infrastructure.

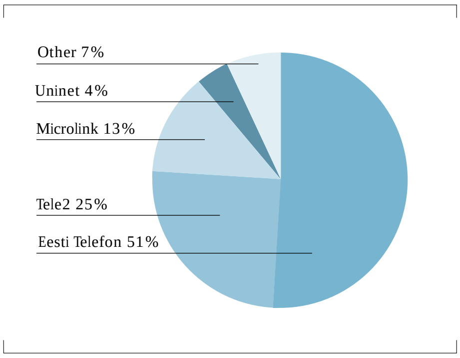
Jaan Männik,
Chairman of the Management Board

AS EESTI TELEFON

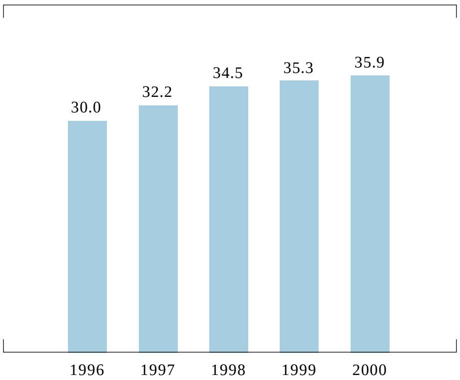
DIGITALISATION LEVEL OF EESTI TELEFON (%)



MARKET SHARES OF
ESTONIAN DIAL-UP OPERATORS (in 2000)



NUMBER OF EESTI TELEFON
MAIN LINES PER 100 INHABITANTS



- We are prepared for competition.
- Data communications and the Internet – the precondition for a successful future.
- Concentration on primary activities, expansion of partnerships.

As of 1 January 2001 the Estonian communications market was completely opened to competition. One of the preconditions for this was the termination of cross-subsidizing between services and customer groups. As of October 1 Eesti Telefon reduced long distance rates and subscription and monthly fees for business customers, also reducing cross-subsidizing of local call rates at the expense of other services. In order to consolidate its market position, bonus packages were offered for calls made to international networks and the EMT mobile network and for Internet dial-up services.

The Telecommunications Act passed in February obligates Eesti Telefon to permit its customers, through operator codes, to use the voice communications services of other companies. In December Eesti Telefon achieved network connecting agreements with two new operators – Tele2 and Uninet – and opened its network to other telecommunications operators.

For Eesti Telefon itself, preparation for competition meant focusing on quality and efficiency. In December 2000 the 115-year analog era ended in Tallinn. During last year roughly 62,000 telephones were switched from analog to digital stations. The level of digitalisation in Estonia reached 71 percent and the number of completely digitalised cities was 10. The construction of a nation-wide digital distribution network for television programmes came to an end.

The RAS 1000 project for the digitalisation of rural areas also came to an end. In the course of this project 40 base stations were constructed since 1998, in order to offer telephone connections to more than 30,000 customers. At present the construction of the AS 4000 wireless access network system has begun in regions in which the construction of cable networks is complicated or unprofitable, permitting, for the first time in Estonia, digital voice communications as well as permanent Internet connections based on the DSL technology.

In addition to traditional voice services, Eesti Telefon also considers it important to offer complex solutions of voice and data communications. Last January Eesti Telefon began to market the complex solutions trademark et. The first product package was Home Line, which was completed in co-operation with AS EMT, permitting the formation of a pair consisting of one ordinary home telephone and an EMT mobile phone. This was followed by the Home-ISDN communications solution for homes, the SmallOffice-ISDN primarily intended for small and medium-sized companies, Merchant-ISDN intended for users of payment terminals and, in co-operation with EMT, the et Business Line, which permits up to nine communications devices to make calls between fixed telephones and mobile phones at discount prices, from within the group.

In March 2000 Eesti Telefon began offering asymmetric digital subscriber lines called Atlas ADSL, which made a quick permanent Internet connection affordable also for those using a computer at home. By the end of 2000 the number of users of the technology had nearly reached 2500 and Estonia surpassed countries like Norway and Switzerland in the construction of ADSL connections. In 2001 the number of Atlas ADSL customers should increase to 13,000. Even at the present time, Eesti Telefon has gained a roughly 80% market share in the area of permanent connections. Also the rapid growth in dial-up services has continued. The number of users of the Atlas dial-up service reached 49,000 by the end of 2000 and our market share was 51%.

As of September the company began offering an Internet telephone service. With the voice communications service Netifon based on VoIP technology, one can, as of March 2001, call any ordinary telephone in the Eesti Telefon network, all mobile communications operators' networks and also abroad from one's computer, without interrupting one's Internet connection.

Internet content services were improved in parallel with the provision of new data communications connections. The hot.ee communications centre was renewed. Whereas up to now customers had been offered a web-based e-mail environment and the option of installing one's own home page, now it is possible to create a free private Intranet in order to simplify communication between members of a club, employees of a small company or a group of friends. In the Intranet one can use an information board, personal and group calendar and file management system. At the Eesti Telefon communications centre the WAP-mail service was provided in three languages, the first such service in the world, which permits one to read and send e-mails using a mobile phone. The number of users of the hot.ee service has risen to more than 150,000 and the hot.ee environment is visited on an average of two million times a week.

In order to guarantee efficiency, Eesti Telefon has decided to concentrate above all on its primary activities. In order to guarantee growth, the integration of telecommunications services into other fields of life has begun with the assistance of partners. Eesti Telefon has begun the formation of a subsidiary AS Connecto, the primary activities of which will be the construction and maintenance of telecommunications networks, so as to permit the parent company to concentrate on the provision of high-quality services and products.

In co-operation with EMT and Estonia's leading banks, development of a joint public key infrastructure has begun, with the aim of assisting in the creation of an Internet-based business environment. At this point the project has reached the formation of a separate Certification Centre. In co-operation with Eesti Ühispank, the joint company AS ETYP was established last year for the creation of the most reliable Internet environment in Estonia.

AS Eesti Telefon
Summary of financial reports according to IAS
Income statement

(in thousand of kroons)	CONSOLIDATED		PARENT COMPANY	
	2000	1999	2000	1999
Revenue	2,690,284	2,456,707	2,529,288	2,416,359
Operating expenses	(1,526,720)	(1,405,879)	(1,381,712)	(1,374,532)
Profit from operations before depreciation	1,163,564	1,050,828	1,147,576	1,041,827
Depreciation	(691,879)	(653,017)	(688,955)	(650,639)
Operating profit	471,685	397,811	458,621	391,188
Net financing item	(49,279)	(81,009)	(49,749)	(81,123)
Income/expenses from subsidiaries and associates	(310)	648	8,592	2,910
Profit before tax	422,096	317,450	417,464	312,975
Income tax expense (-) / income (+)	-	(90,284)	-	(87,410)
Profit after tax	422,096	227,166	417,464	225,565
Minority interest	(4,632)	(1,601)	-	-
Profit from ordinary activities	417,464	225,565	417,464	225,565
Extraordinary expense	-	(85,197)	-	(85,197)
Net profit	417,464	140,368	417,464	140,368

AS Eesti Telefon
Summary of financial reports according to IAS
Balance sheet

(in thousand of kroons)	CONSOLIDATED		PARENT COMPANY	
	2000	1999	2000	1999
Non-current assets	2,346,970	2,178,894	2,368,221	2,183,584
Current assets	469,043	474,754	429,503	447,867
Total assets	2,816,013	2,653,648	2,797,724	2,631,451
Owner's equity	1,521,047	1,258,029	1,521,047	1,258,029
Minority interest	6,618	6,314	-	-
Non-current liabilities	547,042	899,217	547,042	899,217
Current liabilities	741,306	490,088	729,635	474,205
Total equity and liabilities	2,816,013	2,653,648	2,797,724	2,631,451

AS Eesti Telefon
Summary of financial reports according to IAS
Cash flow statement

(in thousand of kroons)	CONSOLIDATED		PARENT COMPANY	
	2000	1999	2000	1999
Cash flow from operating activities	1,210,900	895,728	1,206,156	891,003
Cash flow used in investing activities	(859,731)	(706,973)	(860,513)	(711,434)
Cash flow used in financing activities	(340,352)	(236,463)	(340,352)	(234,963)
Net increase/decrease in cash and cash equivalents	10,817	(47,708)	5,291	(55,394)
Cash and cash equivalents at beginning of year	23,784	71,492	11,116	66,510
Cash and cash equivalents at end of year	34,601	23,784	16,407	11,116

AS EMT

- Customer loyalty is our greatest value.
- It was a good year for sales.
- Customer service became more comfortable for the customer and more efficient for the company.
- Corporate customers – a particular object of our attention.

In 2000 EMT continued with a message familiar from earlier times: loyal customers must be valued, always offering them the best services and customer care.

Based on the number of various additional services introduced, one may declare that EMT is the most innovative mobile communications operator in the Estonian market. In spring 2000 WAP service for the Rescue Board and MPS service were introduced. In summer a mobile parking system and in autumn MPS commercial solutions were added. The implementation of GPRS is expected to begin in 2001.

One year ago we spoke of the goal of being closer to people with our products and services – to be present at their local stores, from which they buy their daily food and essential goods. Now we may say that things have gone as planned. Today EMT and its trademark are represented at almost all large stores in Estonia – in a total of about 20 department stores, supermarkets and hypermarkets. The earlier familiar sales representations also remain. A differentiation process is taking place: at shopping centres customers may satisfy their primary needs connected with mobile communications, and a larger selection of telephones and accessories is available at sales representations.

In 2000 we achieved something that we have been dreaming about for a long time – it is now possible to conclude subscription agreements electronically. All certified sales representatives, of whom there are over 350, can enter customer data directly into the EMT database, as a result of which SIM card granted to a customer is activated within a few minutes. In addition to entering data, it is also possible to perform various other customer and activity queries.

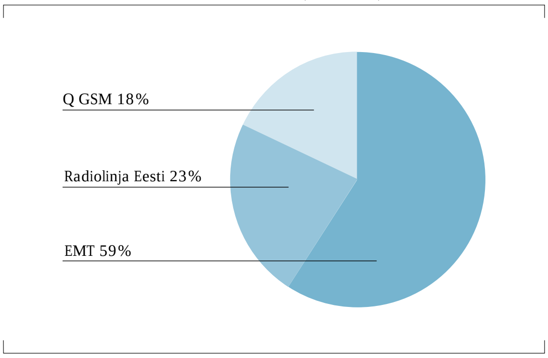
AS Esmofon, the leading company in the sales network, has been a subsidiary of AS EMT for some time. At the end of last year AS Eesti Telefon acquired complete ownership of AS Telefonipood. Thus Eesti Telekom owns two EMT retailers, which permits an even greater increase in the quality of the sales network and ensures common objectives and approaches. EMT sales representatives concluded a total of more than 100,000 new subscription agreements last year.

In June 2000 a new service unit was launched: EMT telemarketing, where the initiative for customer contact proceeds from EMT as a service company, not from the customer. The objective of telemarketing is to foresee the origin of potential problems and claims, while at the same time introducing and offering new services and comprehensive solutions. Telemarketing is also a good channel for gathering information about the specifics of customer satisfaction and needs.

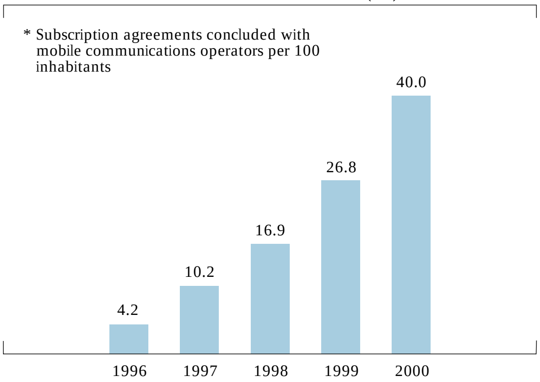
Another great step towards the creation of a customer centre was the establishment of a competence centre for the treatment of customer problems. As of spring 2000 all problems and information queries submitted in written form are directed to problem treatment, where they are registered and solved, and finally it is determined whether the customer himself is satisfied with the particular solution. This created new possibilities for the identification of customer problems and the analysis and rapid elimination of their causes.

On the basis of its 10 years of experience, a special structural unit serving corporate customers – the corporate customer sales group – was created at EMT in 2000. One could sum up the work of the corporate customer sales group in one sentence: With our efforts we help to ensure that customers are able to devote themselves completely to their primary activity – business. In the corporate customer's sales group the customer has a personal contact person – the corporate customer sales manager, whose work is focused above all on personal advising and communications-related consultation. Recently customer interest in complex communications solutions including mobile phone, fixed phone and data communications has increased. In this area the corporate customer sales group has experienced efficient co-operation with EMT's sister company Eesti Telefon.

ESTIMATED MARKET SHARES OF ESTONIAN MOBILE OPERATORS (in 2000)



MOBILE COMMUNICATIONS NETWORK PENETRATION* IN ESTONIA (%)



AS EMT
Summary of financial reports according to IAS
Income statement

(in thousand of kroons)	CONSOLIDATED		PARENT COMPANY	
	2000	1999	2000	1999
Revenue	1,815,393	1,614,764	1,649,138	1,483,278
Operating expenses	(869,501)	(791,492)	(724,003)	(678,108)
Earnings before depreciation	945,892	823,272	925,135	805,170
Depreciation	(276,949)	(227,892)	(273,594)	(225,587)
Operating profit	668,943	595,380	651,541	579,583
Net financing item	11,651	4,094	11,371	3,910
Income from subsidiaries and associates	-	-	16,672	12,312
Profit before tax	680,594	599,474	679,584	595,805
Income tax expense (-) / income (+)	-	(65,982)	-	(62,832)
Profit after tax	680,594	533,492	679,584	532,973
Minority interest	(1,010)	(519)	-	-
Net profit	679,584	532,973	679,584	532,973

AS EMT
Summary of financial reports according to IAS
Balance sheet

(in thousand of kroons)	CONSOLIDATED		PARENT COMPANY	
	2000	1999	2000	1999
Non-current assets	978,873	829,579	1,001,746	844,686
Current assets	615,217	497,703	578,861	466,405
Total assets	1,594,090	1,327,282	1,580,607	1,311,091
Owner's equity	1,363,635	1,149,708	1,363,635	1,149,708
Minority interest	1,575	913	-	-
Non-current liabilities	8,974	9,582	8,974	9,582
Current liabilities	219,906	167,079	207,999	151,800
Total equity and liabilities	1,594,090	1,327,282	1,580,607	1,311,091

AS EMT
Summary of financial reports according to IAS
Cash flow statement

(in thousand of kroons)	CONSOLIDATED		PARENT COMPANY	
	2000	1999	2000	1999
Cash flow from operating activities	969,958	660,885	958,957	648,223
Cash flow used in investing activities	(392,471)	(299,925)	(380,526)	(291,474)
Cash flow used in financing activities	(472,522)	(191,986)	(472,202)	(191,980)
Net increase/decrease in cash and cash equivalents	104,965	168,974	106,229	164,769
Cash and cash equivalents at beginning of year	255,931	86,957	244,664	79,895
Cash and cash equivalents at end of year	360,896	255,931	350,893	244,664

DEVELOPMENT OF REGULATIVE ENVIRONMENT

The most important event of 2000 for the telecommunications market as a whole was the passing of the new Telecommunications Act on February 9. The objective of the act was the creation of favourable conditions for the development of telecommunications and the protection of users of telecommunications services through the promotion of free competition. The act prescribes requirements for telecommunications networks and their operation and the telecommunications services provided. The act also establishes the procedure for state supervision over the performance of listed requirements. According to the legislator's expectations, the new Telecommunications Act should ensure the efficient and fair planning, allocation and use of telecommunications resources. The Telecommunications Act prescribed the opening of the telecommunications market from January 1, 2001.

Under the new act, the Communications Board has a significant role in the telecommunications landscape, to whose competency the organisation of this particular area has been assigned on a national level. The Communications Board is also responsible for the development of telecommunications networks and the organisation of the provision of telecommunications services so that the justified demand is satisfied; for the protection of the interests of the users of telecommunications services as concerns the price and quality of services; together with the Competition Board for the guaranteeing of freedom of competition in the provision of telecommunications services; for the performance of the obligations of the Republic of Estonia in the field arising from foreign agreements and the representation of Estonia in international organisations in the field of telecommunications.

A series of regulations were issued by the government of the Republic of Estonia and the Ministry of Transport and Communications in the last months of 2000 on the basis of and for the performance of the Telecommunications Act. The regulations, for instance, specify the procedures for the establishment of rates for fixed lines and interconnecting services and the methodology for the calculation of costs, the order for the provision of generally used telecommunications services, etc.

In December 2000 an act for the amendment of the Telecommunications Act was initiated, and was passed by the Parliament on February 13, 2001. The act specifies the meaning of the definitions connected with the interconnecting service and upper limits for interconnecting services are established for companies that act as telephone network operators and possess significant market power.

An important agreement from the point of view of AS Eesti Telefon, the subsidiary of Eesti Telekom, was concluded in the last days of the year. On December 29, the agreement for the termination of the concession agreement was signed between the representatives of the Republic of Estonia and Eesti Telefon, terminating the concession agreement concluded in 1992 and in connection therewith the exclusive rights granted to Eesti Telefon.

The most significant obligations arising from the agreement are, for Eesti Telefon:

- provision of telephone, universal, fixed-line and interconnecting services throughout the territory of Estonia, the permission of access to generally-used telephone lines;
- guaranteeing of the number portability upon a change in the provider of the telephone service by January 1, 2004;
- satisfaction of telephone applications submitted before February 28, 2003 in 95% of cases within two weeks;
- elimination, by February 28, 2003 at the latest, of the waiting list of telephone applicants waiting for a telephone on the basis of applications received before the signing of the agreement;
- permission of right of first refusal to the Republic of Estonia for buildings, structures and real estate to be transferred by Eesti Telefon, which were in the possession of Eesti Telefon as of January 1, 1993.

For its part, the Republic of Estonia undertakes to implement regulation that is in compliance with the provisions of the European Union and WTO and not demand from Eesti Telefon the operation of the telecommunications network or provision of services in such a manner that would cause the company unjustifiably large expenses that could not, in conditions of free competition, be re-earned over a reasonable period with a reasonable profit.

The rights and obligations arising from the agreement arose only as of January 1, 2001. The agreement expires on January 1, 2004.

SPONSORSHIP AND CHARITY

The indicators of the efficiency of a company's marketing are considered to be its place in the market for its products or services, its position in the consciousness of its customers and its place in people's hearts. One indicator also depends on the others, and the best result is generally achieved through a balanced relationship between all three. There is, however, a common belief that the latter – "the place in people's hearts" – is the most important of the three and also the precondition for the success of the other two. Hopefully we have obtained a place in the hearts of Estonians through our many activities in the advancement of sport, culture and education.

Memories of the success of Estonian skiers, the fantastic performances of Estonian Olympic Team, Erki Nool and our other sportsmen in Sydney, the first place earned by the Delta basketball team at the Estonian Men's Basketball League are unfading. We have not, however, only felt for the very best and most professional. We have also supported Street basketball, which was attended by large numbers of people, the Simpel Athletics Cup and the Skate Park project, the most youthful sports ground in Tartu. Thanks to the EMT SMS games, many sports fans were able to hit the mark in sports betting.

For Eesti Telefon the year 2000 was a year for initiating a new charity project aimed at children and families. The co-operation between Eesti Telefon and Haiba Children's Home began officially on May 14th with the foster family programme "A child wants to grow up in a family". The support project is intended to aid those families who offer the warmth of their homes and their care to orphans, street children and those children living in an inappropriate, perhaps even violent environment. The aim of the project is to develop a support system of foster families that would create opportunities for problem families to surmount possible problems and obtain help and necessary training.

During the last year Eesti Telefon supported, with EMT, the improvement of the conditions for medical treatment of children. One of our greatest successes in this area was support for the children's cancer ward at Tallinn Children's Hospital, who were able to completely renovate the wards for children suffering from cancer and other rooms in the department and acquire modern medical equipment with the funds donated.

In order to promote continuity in personnel formation and introducing new technologies, last year Eesti Telefon scholarships were established for students of the Tallinn Technical University and the University of Tartu. The company has also provided for advice and strength the organisation of academic seminars and training sessions of various student associations. EMT supported students acquiring training in the area of information technology at the University of Tartu, Tallinn Technical University, the Estonian Business School and the recently created IT College. By supporting education and Estonian youth today, we can ensure that in the future there will be young and talented people who are able to operate successfully in this field.

In the field of art, Eesti Telefon's extensive co-operation with the summer exhibitions project called Art Summer began, in the framework of which artists are given an opportunity to present their work in several Estonian cities. One art event was the Estonian-Flemish joint exhibition held in Kuressaare fortress in the framework of the 2000 summer project. High-level music projects that took place last year with the participation of Joe Cocker and Queen in Symphony also bore the name EMT.

Financial statements according to IAS

Contents

Review of the consolidated financial statements of AS Eesti Telekom in 2000

The consolidated statements of AS Eesti Telekom in 2000 cover the following companies:

- AS Eesti Telekom – parent company;
- AS Eesti Telefon – 100% affiliate of Eesti Telekom;
- AS EMT – 100% affiliate of Eesti Telekom;
- AS Teabeliin – 60% affiliate of Eesti Telefon;
- AS Telefonipood – 70% affiliate of Eesti Telefon;
- AS Esmofon – 100% affiliate of EMT;
- AS Esmofon Tartu – 68% affiliate of Esmofon;
- AS Tarvin – 100% affiliate of EMT.

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

Revenue and expenditure

Total revenue of Eesti Telekom Group in the year 2000 amounted to 3,973 mln kroons, up by 11%. Operating expenses of the Group were 1,895 mln kroons, up by 8%. EBITDA of the Group amounted to 2,078 mln kroons, up by 13% with EBITDA margin 52% (1999 51%).

Total revenue of Eesti Telefon Group was 2,690 mln kroons, up by 10%. Growth of the fixed network revenue slowed down toward the end of the year. Positive contribution to the growth was provided by AS Telefonipood which became 70% owned by Eesti Telefon at the end of 1999 and 100% owned at the end of 2000. However, growth of Eesti Telefon itself was quite moderate. The fastest growing part of the company's revenue was local call revenue increasing by 28%. One factor behind the growth was internet dial-up service. At the end of 2000, internet dial-up minutes formed 40% of local call minutes. Numbers of dial-up minutes in 2000 were much higher than the corresponding figures for 1999. However, during the year 2000, monthly amounts of the minutes stabilised, higher local call tariffs introduced from October 1, 2000 restricted the further growth potential and the company itself started to encourage its clients to exchange their dial-up services for permanent connections. On the other hand, rebalancing fixed communications tariffs from October 2000 was another factor that contributed to the growth of the local call revenue in total. In the fourth quarter of 2000, local call revenue formed already 22% of the total revenue compared to only 16% in the fourth quarter of 1999. Revenue from trunk calls was down by 4%, international call revenue remained at the 1999 level. Revenue from mobile calls grew by 1% and main line revenue by 6%.

Expenses of Eesti Telefon Group grew by 9% to 1,527 mln kroons. Majority of the growth was caused by the new subsidiary, AS Telefonipood. Expenses of Eesti Telefon itself grew only by 1%. Total number of employees fell to 2,379 by the end of December 2000 (2,772 on December 31, 1999). Also, several changes in operations of the company took place during 2000 aimed on improving efficiency.

EBITDA of Eesti Telefon Group was 1,164 mln kroons (1,051 mln kroons in 1999), up by 11%.

Total revenue of EMT Group was up by 12% to 1,815 mln kroons. The growth in the number of customers has slowed down. During the last three months of the year, 11 thousand new customers joined the operator. However, the slow-down is fuelled first of all by prepaid customers. When during the first 9 months of the year prepaid customers formed almost 50% of the total number of new customers, then in the fourth quarter the share of the new prepaid customers fell to just 27% of the total number of customers gained. In total, EMT had 327 thousand customers at the end of 2000. Its estimated market share was about 59%. Despite falling ratio of prepaid customers monthly ARPU continued to fall reaching 398 kroons in December 2000. Due to heavy promotion activities organised by EMT's competitors Radiolinja and Q GSM (Tele2) several discounts and promotion campaigns were organised by EMT as well aimed at attracting new customers and encouraging use of certain services: free subscription periods, free call minutes for new subscribers, discount coupons to buy new handsets, reduced SMS tariffs. Also, minute tariffs were reduced from September or October 2000 for several user packages.

Total operating expenses relating to EMT Group amounted to 870 mln kroons, up by 10%. The number of employees was 271 at the end of the year 2000 (223 at the end of 1999). EBITDA of the group was 946 mln kroons, up by 15%.

Depreciation

In 2000 depreciation of Eesti Telekom Group was 969 mln kroons, up by 10%. Depreciation of Eesti Telefon Group amounted to 692 mln kroons growing by 6%. Depreciation of EMT Group amounted to 277 mln kroons, up by 22%. The increase resulted from a fastened amortisation of the NMT network during year 2000.

Net financing item

There was an essential improvement in net financing item of the group in 2000. In 1999, other financial expenses exceeded other financial income by 51 mln kroons. In 2000 the difference was only 12 mln kroons. The improvement resulted from the activities of the Central Treasury of the Group established in the beginning of the year which made it possible to substitute a part of external loans with cheaper internal loans.

Net profit

Net profit of Eesti Telekom Group in the year 2000 amounted to 1,176 mln kroons (the profit of Eesti Telefon Group was 417 mln and the profit of EMT Group 680 mln kroons). Net profit in 1999 was 580 mln kroons. Restructuring of the Group that took place in 1999 makes it difficult to compare net profit of the period with the corresponding figure in 1999. Also, amendments to the Income Tax Law which, instead of the taxation of corporate income, foresee taxation of dividend distributions, fringe benefits, representation costs and other disbursements, have made the net profits of the two periods incomparable.

As of December 31, 1999, AS Eesti Telefon had an income tax receivable of 85 mln kroons. Due to the prescripts of the new Income Tax Law, effective from January 1, 2000, that asset could not be realised and, therefore, it was recognised in the 1999 financial statements as an extraordinary expense. In June 2000, the Income Tax Law was amended allowing transfer of the income tax receivable from Eesti Telefon to its parent Eesti Telekom. According to the amendment, the asset will be realised at the distribution of profit to natural persons and non-residents against the income tax liability on dividends. By its nature, the subsequent law amendment reverses the negative impact of extraordinary expense and the asset is recognised in the accounts for 2000 as extraordinary income.

Earnings per share in 2000 were 8.56 kroons (4.78 kroons in 1999).

Investments

Eesti Telekom Group invested 1,376 mln kroons in 2000.

870 mln kroons were invested by Eesti Telefon. The majority of investments went into development of telecommunication networks. The most remarkable project of the year, 100% digitalisation of Tallinn, was finished in December. In total, the digitalisation rate in Estonia rose to 71%. The number of main lines per 100 inhabitants was 36 at the end of December.

In May 2000, Eesti Telefon and Eesti Ühispank started final negotiations for the establishment of a joint venture to create the most reliable and commonly used Internet environment. Eesti Telefon invested 15 mln kroons into the share capital of the joint venture.

In November 2000, Eesti Telefon started to establish AS Connecto, a subsidiary, whose main area of activity will be construction and maintenance of telecommunication networks. The subsidiary will be established to enable the parent company to focus on its core business. The company will employ approximately 500 people. The share capital of the subsidiary is 15 mln kroons and it started operating in January 2001.

At the end of December an agreement was signed by Eesti Telefon to increase its shareholding in AS Telefonipood from 70% to 100% as a part of a project aimed at improving the effectiveness of the private customer service.

407 mln kroons were invested by EMT. The majority of investments focus on building and improving base stations, exchanges and other network equipment. During the year 2000, the number of traffic channels and the number of base stations increased by 26.7 and 22.7% respectively. Due to the successful implementation of GSM standard and the necessity to utilise existing resources more efficiently, EMT closed down its NMT network on December 10, 2000.

In September 2000, EMT signed a contract for the design and construction of a new technical centre in Tallinn. The total area of the centre will be 3,000 m^2, and it is scheduled to be completed in 2001. Total cost of the building is 28.5 mln kroons.

EMT sees its mission in offering its clients additional value through developing and implementing new innovative services, products and solutions and selling them also to other service providers in both Estonia and abroad. The company wants to be active not only in basic activities in telecommunications value chain but also in the neighbouring parts of the chain, directly or indirectly. M&A is one vehicle to ensure the future of EMT, broadening its field of activities in the fast changing environment on converging industries of telecommunications, IT and media.

In October 2000, EMT acquired a 5% stake in Mgine Technologies Oy, a Finnish positioning and personalisation solutions company, which also owns 100% of Estonian based subsidiary Mgine Technologies Estonia, a well known IT company active in creating positioning solutions, digital maps technologies, solutions for logistics, etc. With its 5% ownership, EMT became the largest foreign shareholder of the company (the rest of the shares belong to DONE Group of Finland). The partnership serves well to EMT's ambitions to be active in product development field related to the location data of mobile handsets. Also, EMT can be the first implementer of Mgine's solutions though participation in the product development process.

In January 2001, EMT acquired 26% stake in Voicecom OÜ, an Estonian IT company active in creating solutions for telecommunications and banking sector. The company also participated in development of the EMT's mobile parking service and m-commerce platforms, which makes Voicecom a very important strategic partner for EMT.

During the year 2000, EMT started preparations for implementation of GPRS. Commercial launch of the system is planned in the middle of 2001. With the implementation of GPRS EMT aims to stimulate creation of content and applications by many different partners fulfilling the mobile data network with useful traffic. Open interfaces for content and application providers and transparent business models for partnership will be developed.

Assets

The volume of consolidated assets of Eesti Telekom Group increased by 12% within a year (being 4,621 mln kroons at the end of 2000 and 4,140 mln kroons at the end of 1999). The volume of non-current assets reached 3,331 mln kroons and the volume of current assets 1,290 mln kroons by the end of 2000 (in 1999 3,011 mln kroons and 1,129 mln kroons respectively).

Changes in equity

On May 25, 2000, the Annual General Meeting of AS Eesti Telekom approved the allocation of profit suggested by the Management Board. According to the decision, 68 mln kroons were transferred into legal reserves. 549 mln kroons were paid out as dividends, of which 203 mln kroons as ordinary dividends and 346 mln kroons as "Anniversary" dividends. EEK 4 per share was paid to the holders of A-series shares. EEK 10,000 was paid out to the owner of a B-series share. The dividends were paid out on July 12, 2000.

Due to tax prepayments, no dividend taxes had to be paid in year 2000.

Restructuring equity and liabilities

The amount of long term interest bearing loans and borrowings fell by 323 mln kroons during the year 2000 caused by both regular and anticipatory repayment of long term bank loans by Eesti Telefon.

A public bond issue was conducted from July 12 to July 19, 2000. In the course of the issue the investors subscribed for bonds totalling 111 mln kroons. The company decided to approve the issue at volume 100 mln kroons and at 6.1% annual interest rate. Maturity date of the bonds issued is July 20, 2001. The issue of Eesti Telekom bonds was the very first securities issue in Estonia that could be subscribed through the Internet.

In September 2000, Eesti Telekom mandated Bankgesellschaft Berlin AG, the Dai-Ichi Kangyo Bank, Landesbank Schleswig Holstein Girozentrale, Leonia Bank plc, Swedbank and Hansapank to arrange a EUR 40,000,000 5-year revolving credit facility. The loan agreement was signed on January 18, 2001. Interest rate of the loan is EURIBOR + 0.775%.

From the beginning of 2001, the Eesti Telekom Group will introduce a new compensation system consisting of two parts: share option scheme and incentive scheme. An Extraordinary General Meeting of shareholders of Eesti Telekom, held on December 15, 2000 resolved to issue convertible bonds as a part of the share option scheme. The issue price of the bonds was 10 kroons. The bonds could be exchanged for the shares of Eesti Telekom in two stages: from May 2 to June 2, 2003 (A-series) and from May 2 to June 2, 2004 (B-series). The exchange and subscription price for the shares to be issued in exchange for the bonds during the exchange period is the average price of the share, weighted to turnover at the Tallinn Stock Exchange between January 1 and January 31, 2001 (for A-series) and between April 1 and April 30, 2001 (for B-series), but in no case lower than the weighted average price of an A share of Eesti Telekom on December 14, 2000, i.e. 90.62 kroons.

The maximum number of shares to be issued in exchange for the convertible bonds is 850,000 or an increase of 0.62%. The new maximum registered share capital of Eesti Telekom after the lapse of conversion period, as prescribed in the terms and conditions of convertible bonds, will be EEK 1,382,332,780, provided that all convertible bonds will be converted into shares.

AS Eesti Telekom and subsidiary companies
Income statement

(in thousand of kroons)		CONSOLIDATED		PARENT COMPANY	
	Note	2000	1999	2000	1999
Revenue					
Net sales	2 (a)	3,930,154	3,568,523	-	-
Change in work-in-progress		(492)	(994)	-	-
Other revenue	2 (b)	43,829	27,714	303	94
Total revenue		3,973,491	3,595,243	303	94
Operating expenses					
Materials, consumables, supplies and services		(925,884)	(837,516)	-	-
Other operating expenses		(427,007)	(385,029)	(15,200)	(26,198)
Personnel expenses	2 (c)	(484,494)	(466,208)	(13,067)	(9,634)
Other expenses	2 (d)	(58,062)	(70,156)	(3,447)	(2,028)
Total expenses		(1,895,447)	(1,758,909)	(31,714)	(37,860)
Profit from operations before depreciation		2,078,044	1,836,334	(31,411)	(37,766)
Depreciation and amortisation		(969,305)	(881,059)	(1,003)	(676)
Profit from operations		1,108,739	955,275	(32,414)	(38,442)
Income (+) / expense (-)					
from subsidiaries and associates		(310)	648	1,097,574	592,829
Other net financing items	2 (e)	(11,854)	(51,040)	25,773	25,875
Profit before tax		1,096,575	904,883	1,090,933	580,262
Income tax expense (-) / income (+)	3	-	(156,266)	-	-
Profit after tax		1,096,575	748,617	1,090,933	580,262
Minority interest		(5,642)	(83,158)	-	-
Net profit from ordinary activities		1,090,933	665,459	1,090,933	580,262
Extraordinary item	3	85,197	(85,197)	85,197	-
Net profit for the period		1,176,130	580,262	1,176,130	580,262
Earnings per share					
Basic earnings per share (in kroons)	15	8.56	4.78	8.56	4.78
Diluted earnings per share (in kroons)		8.56	4.78	8.56	4.78

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.

AS Eesti Telekom and subsidiary companies
Balance sheet

(in thousand of kroons)	Note	CONSOLIDATED 2000	CONSOLIDATED 1999	PARENT COMPANY 2000	PARENT COMPANY 1999
ASSETS					
Non-current assets					
Property, plant and equipment	4	3,234,088	2,934,647	3,769	3,368
Goodwill	5	26,796	24,171	-	-
Licences, patents and trademarks	6	40,807	45,754	1,381	-
Investments in subsidiaries and associates	7–9	17,849	2,760	2,883,393	2,405,923
Other investments	10	9,071	888	1,200	840
Other non-current assets	12 (a)	2,293	2,646	355,037	384,967
Total non-current assets		3,330,904	3,010,866	3,244,780	2,795,098
Current assets					
Inventories	13	149,223	141,655	14	20
Trade and other receivables	12 (b)	531,111	501,791	233,946	20,367
Cash and cash equivalents	14	609,743	485,318	214,245	205,603
Total current assets		1,290,077	1,128,764	448,205	225,990
TOTAL ASSETS		4,620,981	4,139,630	3,692,985	3,021,088
EQUITY AND LIABILITIES					
Capital and reserves	15				
Capital issued		1,373,833	1,373,833	1,373,833	1,373,833
Reserves		434,927	366,815	434,927	366,815
Accumulated profits		1,783,273	1,279,120	1,783,273	1,279,120
Total capital and reserves		3,592,033	3,019,768	3,592,033	3,019,768
Minority interest					
Subsidiary companies		8,193	7,226	-	-
Non-current liabilities					
Interest-bearing loans and borrowings	16 (a), 17	200,978	523,831	-	-
Total non-current liabilities		200,978	523,831	-	-
Current liabilities					
Trade and other payables	18	658,385	511,969	3,827	1,320
Interest-bearing loans and borrowings	16 (b), 17	161,392	76,836	97,125	-
Total current liabilities		819,777	588,805	100,952	1,320
TOTAL EQUITY AND LIABILITIES		4,620,981	4,139,630	3,692,985	3,021,088

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.

AS Eesti Telekom and subsidiary companies
Cash flow statement

(in thousand of kroons)		CONSOLIDATED		PARENT COMPANY	
	Note	2000	1999	2000	1999
Cash flow from operating activities					
Profit before taxation and minority interest		1,096,575	904,883	1,090,933	580,262
Adjustments for:					
Depreciation and amortisation		969,305	881,059	1,003	676
Increase in employee benefits		-	10,343	-	-
Profit/loss from sales and write-off of fixed assets		(3,704)	2,725	88	36
Income from subsidiaries and associated companies		310	(648)	(1,097,574)	(592,829)
Interest income/expense net		280	19,805	(26,647)	(25,388)
Other non-cash adjustments		(684)	4,864	-	-
Operating profit before working capital changes		2,062,082	1,823,031	(32,197)	(37,243)
Change in current receivables		(330)	(121,455)	(37)	(270)
Change in inventories		(7,567)	(33,901)	6	(16)
Change in current liabilities		190,147	78,492	(246)	(5,502)
Cash generated from operations		2,244,332	1,746,167	(32,474)	(43,031)
Interest paid		(22,219)	(39,394)	-	-
Income tax paid (-) / received (+)		(50,718)	(158,784)	3,956	17,000
Net cash from operating activities		2,171,395	1,547,989	(28,518)	(26,031)
Cash flow used in investing activities					
Purchase of property, plant and equipment		(1,206,949)	(981,152)	(1,679)	(3,168)
Purchase of licences		(31,842)	(31,782)	(130)	-
Acquisition of subsidiaries, net of cash acquired	11	(12,000)	(11,502)	-	-
Acquisition of associated companies		(17,409)	-	-	-
Purchase of investments, shares and other		(108,024)	(65,868)	(100,200)	(65,729)
Proceeds from sales of property, plant and equipment		10,686	2,853	219	48
Proceeds from sales of investments		99,840	70,262	99,840	65,449
Loans granted		(91)	-	(360,534)	-
Cash receipts from repayment of loans		210	-	205,057	-
Cash receipts from settlement of long-term receivables		-	753	-	-
Dividends received		7	240	620,046	150,198
Interest received		22,198	21,032	29,833	29,349
Net cash used in investing activities		(1,243,374)	(995,164)	492,452	176,147
Cash flow used in financing activities					
Issuance of unsecured short-term bonds		94,251	-	94,251	-
Repayment of non-convertible long-term debt		(6,971)	(7,383)	-	-
Repayment of long-term borrowings		(334,989)	(119,505)	-	-
Settlement of finance lease liabilities		(6,024)	(5,577)	-	-
Proceeds from short-term borrowings		-	56,000	-	-
Repayment of short-term borrowings		-	(56,000)	-	-
Dividends paid		(549,543)	(62,757)	(549,543)	(62,757)
Dividends paid to minority shareholders		(320)	(144,307)	-	-
Net cash used in financing activities		(803,596)	(339,529)	(455,292)	(62,757)
Net increase/decrease in cash and cash equivalents		124,425	213,296	8,642	87,359
Cash and cash equivalents at beginning of year		485,318	272,022	205,603	118,244
Cash and cash equivalents at end of year	14	609,743	485,318	214,245	205,603

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.

AS Eesti Telekom and subsidiary companies
Statement of changes in equity

(in thousand of kroons)	Note	CONSOLIDATED 2000	CONSOLIDATED 1999	PARENT COMPANY 2000	PARENT COMPANY 1999
Capital issued					
1999:					
137,383,178 ordinary shares par value EEK 10.00 per share, fully paid		1,373,832	1,373,832	1,373,832	1,373,832
1 preferred share par value EEK 1000.00 per share, fully paid		1	1	1	1
2000:					
137,383,178 ordinary shares par value EEK 10.00 per share, fully paid					
1 preferred share par value EEK 1000.00 per share, fully paid					
Total capital issued		1,373,833	1,373,833	1,373,833	1,373,833
Share premium					
Opening balance		309,964	4,525	309,964	4,525
Premium on ordinary shares		-	305,439	-	305,439
Closing balance		309,964	309,964	309,964	309,964
Legal reserve					
Opening balance		56,851	25,478	56,851	25,478
Amounts transferred from accumulated profits		68,112	31,373	68,112	31,373
Closing balance		124,963	56,851	124,963	56,851
Accumulated profits					
Opening balance		1,279,120	821,731	1,279,120	821,731
Adjustments to opening accumulated profits	3	(54,322)	(28,743)	(54,322)	(28,743)
Net profit for the period		1,176,130	580,262	1,176,130	580,262
Amounts transferred to legal reserve		(68,112)	(31,373)	(68,112)	(31,373)
Dividends paid		(549,543)	(62,757)	(549,543)	(62,757)
Closing balance		1,783,273	1,279,120	1,783,273	1,279,120

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.

Notes to the financial statements

Note 1
Significant accounting policies

The significant accounting policies adopted in the preparation of the financial statements of AS Eesti Telekom (the parent company) and its subsidiary companies (the Group) are set out below. The financial statements were authorised for issue by the Directors March 2, 2001.

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 directly or indirectly 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 recognised as income or expense at the same time as 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 9.

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 8.

Inventories

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

Cost is based on the weighted average cost principle in AS EMT and on the first-in, first-out principle in AS Eesti Telefon 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

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 liabilites 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 empolyees' 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 of the Group's resources by others 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.

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 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 an 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 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 on the income statement

(in thousand of kroons)	CONSOLIDATED		PARENT COMPANY	
	2000	1999	2000	1999
Profit before tax was derived after including the following items:				
(a) Net sales				
Telecommunication services	3,633,174	3,291,161	-	-
Goods	228,583	196,852	-	-
Other services	21,079	42,276	-	-
Other net sales	47,318	38,234	-	-
Total	3,930,154	3,568,523	-	-
(b) Other revenue				
Profit from sales of fixed assets	8,922	1,174	-	3
Foreign exchange gain	9,811	6,026	34	18
Prior period income	12,040	5,646	-	-
Interest on arrears and penalties	1,958	7,616	-	-
Other revenue	11,098	7,252	269	73
Total	43,829	27,714	303	94
(c) Personnel expenses				
Wages and salaries	356,811	338,020	9,600	7,100
Social charges	121,637	112,948	3,358	2,476
Pension expenses	-	10,343	-	-
Other personnel expenses	6,046	4,897	109	58
Total	484,494	466,208	13,067	9,634
(d) Other expenses				
Loss from sales of fixed assets	159	85	30	-
Write-off of fixed assets	5,060	3,814	58	39
Foreign exchange loss	10,422	10,362	29	469
Prior period expenses	7,024	10,736	-	-
Bad debts	18,011	30,100	-	-
Sponsorship	10,167	5,496	3,164	1,451
Local taxes	263	2,971	-	-
Other expenses	6,956	6,592	166	69
Total	58,062	70,156	3,447	2,028
(e) Net financing items				
Interest income	22,722	16,974	29,522	25,388
Interest expense	(23,003)	(36,779)	(2,875)	-
Net foreign exchange gain/loss	(251)	(3,735)	(874)	487
Other financial income	314	424	-	-
Other financial expenses	(11,636)	(27,924)	-	-
Total	(11,854)	(51,040)	25,773	25,875

Note 3
Taxation

(in thousand of kroons)	CONSOLIDATED		PARENT COMPANY	
	2000	1999	2000	1999
Income tax expense				
Major components of tax expense:				
Current tax expense	-	140,530	-	-
Deferred tax expense relating to the origination and reversal of temporary differences	-	83,598	-	-
Deferred tax income relating to the origination and reversal of temporary differences	-	(67,862)	-	-
Income tax expenses	-	156,266	-	-

The Group's applicable tax rate until 2000 year was 26%.

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

Accounting profit	1,096,575	904,883	1,090,933	580,262
Tax at the applicable tax rate of 0% (1999: 26%)	-	235,270	-	150,868
Differences attributable to the tax effect of items that are not assessable in determining taxable profit	-	(75,734)	-	(151,458)
Differences attributable to the tax effect of items that are not deductible in determining taxable profit	-	117,960	-	590
Investment and other allowances	-	(121,230)	-	-
Income tax expense	-	156,266	-	-

The Income Tax Act which became effective in Estonia on January 1, 2000 replaced the taxation of earnings with the taxation of dividends distributed to individuals and non-residents, and other disbursements 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" lost its substance and deferred tax assets and liabilities, as defined in IAS 12 Income Taxes, can no longer arise. In view of this, at the preparation of the annual accounts for 1999 the deferred tax liability and asset were written off the balance sheet.

At 31 December 1999 AS Eesti Telefon had an income tax receivable of EEK 85,197 thousand relating to the tax that was to be prepaid at prior dividend distributions. AS Eesti Telefon's sole shareholder is AS Eesti Telekom, a resident legal person. Therefore, a dividend distribution does not give rise to an income tax liability. At the preparation of the annual accounts for 1999 the Income Tax Act did not provide a mechanism for realising the asset and it was expensed as an extraordinary item. The Amendment to the Income Tax Act which became effective in summer 2000 allows AS Eesti Telefon to transfer its income tax receivable to the parent company who can offset it against the income tax payable on dividends. The Amendment provided a mechanism for the realisation of an asset that had been expensed. In the annual financial statements for 2000, the amount has been recognised as extraordinary income.

Note 4
Property, plant and equipment

(in thousand of kroons)	CONSOLIDATED		PARENT COMPANY	
	2000	1999	2000	1999
Land, buildings and constructions (at cost)	724,167	743,050	-	-
Accumulated depreciation	(398,574)	(418,965)	-	-
	325,593	324,085	-	-
Plant and equipment (at cost)	5,841,544	4,891,385	5,585	4,375
Accumulated depreciation	(2,982,753)	(2,339,133)	(1,816)	(1,509)
	2,858,791	2,552,252	3,769	2,866
Leased plant and equipment	21,258	50,688	-	-
Accumulated depreciation	(1,452)	(48,676)	-	-
	19,806	2,012	-	-
Constructions in progress	26,213	22,485	-	-
Advance payments for non-current assets	3,685	33,814	-	502
Total property, plant and equipment	3,234,088	2,934,648	3,769	3,368

The acquisition cost of land was EEK 6,785 thousand in 1999 and EEK 11,784 thousand in 2000.

	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
2000										
Opening net carrying amount	324,085	-	2,552,252	2,866	2,011	-	22,485	-	33,814	502
Additions	40,707	-	1,257,973	2,181	20,832	-	940,907	-	15,936	99
Disposals	(59,589)	-	(307,813)	(970)	(50,262)	-	(937,179)	-	(46,065)	(601)
Depreciation	20,390	-	(643,621)	(308)	47,225	-	-	-	-	-
Closing net carrying amount	325,593	-	2,858,791	3,769	19,806	-	26,213	-	3,685	-
1999										
Opening net carrying amount	383,339	-	2,323,392	958	11,876	-	61,027	-	19,014	-
Additions	31,378	-	1,003,193	2,778	-	-	745,692	-	46,194	502
Disposals	(9,405)	-	(87,466)	(556)	(17,925)	-	(784,234)	-	(31,394)	-
Acquisitions through business combinations	-	-	1,042	-	-	-	-	-	-	-
Depreciation	(81,227)	-	(687,909)	(314)	8,060	-	-	-	-	-
Closing net carrying amount	324,085	-	2,552,252	2,866	2,011	-	22,485	-	33,814	502

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

Note 5
Goodwill

(in thousand of kroons)		CONSOLIDATED		PARENT COMPANY	
	Note	2000	1999	2000	1999
Goodwill (at cost)		43,872	31,337	-	-
Accumulated amortisation		(17,076)	(7,166)	-	-
		26,796	24,171	-	-
Movements in goodwill					
Opening balance		31,337	17,099	-	-
Accumulated amortisation		(7,166)	(2,999)	-	-
		24,171	14,100	-	-
Goodwill acquired during the year	10, 12	12,535	14,238	-	-
Amortisation		(9,910)	(4,167)	-	-
Closing balance		26,796	24,171	-	-

Note 6
Licences, patents and trademarks

(in thousand of kroons)	CONSOLIDATED		PARENT COMPANY	
	2000	1999	2000	1999
Licences, patents and trademarks (at cost)	121,568	100,882	1,413	-
Accumulated amortisation	(80,761)	(55,128)	(32)	-
	40,807	45,754	1,381	-
Movements in licences, patents and trademarks costs				
Opening balance	100,882	68,934	-	-
Accumulated amortisation	(55,128)	(18,099)	-	-
Additions (net)	35,447	32,153	1,413	-
Disposals	(14,762)	(205)	-	-
Amortisation	(25,632)	(37,029)	(32)	-
Closing balance	40,807	45,754	1,381	-

Note 7
Investments in subsidiaries and associates

(in thousand of kroons)		CONSOLIDATED		PARENT COMPANY	
	Note	2000	1999	2000	1999
Investments in:					
Subsidiary companies	8	-	-	2,883,393	2,405,923
Associated companies	9	17,849	2,760	-	-
		17,849	2,760	2,883,393	2,405,923

Note 8
Investments in subsidiaries

	Country of incorporation	Ownership interest 2000	Ownership interest 1999
Parent company:			
AS Eesti Telekom	Estonia		
Significant subsidiaries:			
AS Eesti Telefon	Estonia	100%	100%
AS EMT	Estonia	100%	100%

Note 9
Investments in associates

	Country of incorporation	Ownership interest 2000	Ownership interest 1999
AS ETYP	Estonia	50%	0%
AS EsData	Estonia	30%	30%
OÜ Voicecom	Estonia	26%	0%

In September 2000 AS Eesti Telefon invested in AS ETYP, a joint venture with Eesti Ühispank, EEK 15,000 thousand. The company was established to create the most reliable and most widely used Internet environment in Estonia.

At the end of December AS EMT acquired a 26 percent interest in OÜ Voicecom. The acquisition cost of the stake amounted to EEK 2,409 thousand and goodwill of EEK 1,830 thousand was recognised. The company's core activity is design of computer software and hardware.

Note 10
Other investments

(in thousand of kroons)	CONSOLIDATED 2000	CONSOLIDATED 1999	PARENT COMPANY 2000	PARENT COMPANY 1999
Non-current investments in other enterprises:				
Rocca al Mare Suurhall	1,200	840	1,200	840
Hansapank	48	48	-	-
Mgine Technologies Oy	7,823	-	-	-
	9,071	888	1,200	840

As of 31.12.2000 Group owned 1,369 shares of Hansapank with a market value of EEK 190 thousand. In October 2000, AS EMT acquired a 5 percent interest in Mgine Technologies Oy, a company engaged in the development of positioning and personalisation solutions.

Note 11
Acquisition of subsidiaries

In November 1999 AS Eesti Telefon acquired 70 percent of the shares of AS Telefonipood, owner of a leading mobile and fixed phone sales network. The purchase price of the shares was conditional, being bound to the company's profit for 2000. Alternatively, a previously agreed additional payment could be made.

AS Eesti Telefon resorted to the latter option and made an additional payment of EEK 4,748 thousand. This increased the amount of the goodwill that was recognised as a result of the transaction. In December 2000, AS Eesti Telefon acquired the remaining 30 percent interest in AS Telefonipood for EEK 10,286 thousand. The transaction was recognised under the purchase method and increased goodwill by EEK 5,957 thousand.

The effect of the acquisition on the Group's assets and liabilities in 1999 and changes in goodwill in 2000:

(in thousand of kroons)		CONSOLIDATED	
	Note	2000	1999
Fixed assets		399	1,042
Inventories		2,788	3,778
Trade receivables		2,844	3,151
Other receivables		188	883
Cash and bank accounts		1,114	498
Short-term liabilities		(3,005)	(4,242)
Deferred tax liabilities		-	(96)
Net identifiable assets and liabilities		4,328	5,014
Initially recognised goodwill		-	14,238
Adjustment for additional purchase price		4,748	-
Goodwill from acquisition of 30% of shares		5,957	-
Goodwill total	5	10,705	14,238
Total purchase price		15,034	19,252
Unpaid in the current year		(10,286)	(7,252)
Settlement of purchase liability		7,252	-
Cash acquired		-	(498)
Net cash outflow		12,000	11,502

In November 2000 the Supervisory Board of AS Eesti Telefon decided to establish a subsidiary that would deal with the construction and maintenance of telecommunication networks. The share capital of the subsidiary will amount to EEK 15 million.

For the establishment of the subsidiary, AS Connecto, AS Eesti Telefon made a monetary contribution of EEK 3 million. The remainder of the share capital will be provided in the form of contributions in kind: real estate, equipment and materials. AS Connecto was entered in the Commercial Register on 8 January 2001.

Note 12
Trade and other receivables

(in thousand of kroons)	CONSOLIDATED		PARENT COMPANY	
	2000	1999	2000	1999
(a) Non-current				
Intra-group receivables	-	-	355,037	384,967
Other receivables	2,293	2,646	-	-
	2,293	2,646	355,037	384,967
(b) Current				
Accounts receivable (trade)	374,897	372,105	18	-
Intra-group receivables	-	-	201,442	15,413
Accrued income	58,986	83,683	1,251	685
Tax receivables	46,563	4,891	30,946	4,001
Other receivables	50,665	41,112	289	268
	531,111	501,791	233,946	20,367

Note 13
Inventories

(in thousand of kroons)	CONSOLIDATED		PARENT COMPANY	
	2000	1999	2000	1999
Raw materials and consumables	117,943	102,543	-	-
Merchandise purchased for resale	27,989	24,233	6	8
Advance payments to suppliers	3,025	14,121	8	12
Work in progress	266	758	-	-
	149,223	141,655	14	20

Note 14
Cash and cash equivalents

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

Note 15
Equity

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 preferred share. The holder of the preferred share is entitled to a preference dividend of EEK 10,000, 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.

Basic earnings per share (in kroons) have been calculated as follows:
EEK 8.56 = (1,176,130,000 - 10,000) : 137,383,178

As the company has no dilutive potential ordinary shares, the diluted earnings per share equal basic earnings per share.

In 2001 the Eesti Telekom Group will launch a new motivation system consisting of two components: a share option scheme and an incentive programme. The extraordinary general meeting of shareholders of AS Eesti Telekom that took place on 15 December 2000 decided to issue convertible bonds in the framework of the share option scheme. The issue price of the convertible bonds was set at 10 kroons. The bonds may be exchanged for the shares of AS Eesti Telekom in two stages: from 2 May to 2 June 2003 (A series) and from 2 May to 2 June 2004 (B series). The subscription price of the shares for which convertible bonds may be exchanged is the average price, weighted to turnover, of AS Eesti Telekom share at the Tallinn Stock Exchange between the period 1 January to 31 January 2001 (A series), and from 1 April to 30 April 2001 (B series), yet not a price that is lower than the weighted average price of the A-share, weighted to turnover, on 14 December 2000, i.e. EEK 90.62. A maximum of 850,000 shares will be issued in exchange for the convertible bonds, which will increase share capital by 0.62 percent. If all convertible bonds are exchanged for shares, the maximum amount of the new share capital will, after the expiry of the exchange deadline specified in the convertible bonds' terms and conditions, be EEK 1,382,332,780.

Note 16
Interest-bearing loans and borrowings

(in thousand of kroons)		CONSOLIDATED		PARENT COMPANY	
	Note	2000	1999	2000	1999
(a) Non-current					
Bank loans (secured)	17 (a, b)	167,060	474,550	-	-
Nonconvertible long-term debt	17 (c)	33,918	42,029	-	-
Other non-current liabilities	11	-	7,252	-	-
		200,978	523,831	-	-

In line with the changes in the management and funding of the Group's liquid assets and with a view to reducing financial expenses, AS Eesti Telefon settled long-term debt of EEK 192,000 thousand in advance.

Non convertible long-term debt includes pension liabilities of EEK 8,974 thousand.

	Note	2000	1999	2000	1999
(b) Current					
Bank loans, current portion (secured)	17 (a, b)	40,489	67,989	-	-
Unsecured debt	17 (c, d)	104,274	6,987	97,125	-
Finance lease obligations	19 (b)	16,629	1,860	-	-
		161,392	76,836	97,125	-

Note 17
Details of loans

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

(in thousand of kroons)			CONSOLIDATED		PARENT COMPANY	
	Interest rate	Note	2000	1999	2000	1999
(a) Bank loans with fixed interest			64,575	73,185	-	-
incl. FIM loans	7.50%		64,575	73,185	-	-
(b) Bank loans with floating interest			142,974	469,354	-	-
incl. DEM loans	6 months' EUROLIBOR + 0.55%		69,817	93,091	-	-
DEM loans	6 months' EUROLIBOR + 0.45%		-	192,000	-	-
FIM loans	6 months' EURIBOR + 0.48%		73,157	81,763	-	-
EEK loans	TALIBOR + 0.375%		-	102,500	-	-
			207,549	542,539	-	-
Less: Current portion of bank loans		16 (b)	(40,489)	(67,989)	-	-
Non-current portion of bank loans		16 (a)	167,060	474,550	-	-
(c) Nonconvertible long-term debt						
SEK (with floating interest)	K1 + margin*		31,485	38,826	-	-
Pension liability	-		9,582	10,190	-	-
			41,067	49,016	-	-
Less: Current portion of nonconvertible long-term debt		16 (b)	(7,149)	(6,987)	-	-
Nonconvertible long-term debt		16 (a)	33,918	42,029	-	-

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

(d) Nonconvertible short-term debt						
Bonds issued	6.10%	16 (b)	97,125	-	97,125	-

In July 2000 AS Eesti Telekom issued 100,000 bonds with a par value of EEK 1,000 and an interest rate of 6.1 percent per annum. The redemption date of the bonds is 20 July 2001.

(in thousand of kroons)	CONSOLIDATED						
	2001	2002	2003	2004	2005	2006	2007–2016
(e) Repayment of bank loans and nonconvertible long-term debt							
Repayment of bank loans	40,489	143,787	23,273	-	-	-	-
Repayment of nonconvertible long-term debt	104,272	7,601	8,146	8,831	2,798	609	5,933

Note 18
Trade and other payables

(in thousand of kroons)	CONSOLIDATED		PARENT COMPANY	
	2000	1999	2000	1999
Current				
Accounts payable (trade)	361,996	174,763	398	546
Intra-group payables	-	-	28	35
Customer prepayments for goods and services	6,619	7,138	-	-
Taxes payable	36,844	115,270	566	615
Accrued expenses	194,195	159,237	2,835	124
Other payables	14,457	14,258	-	-
Other prepaid revenue	44,274	41,303	-	-
	658,385	511,969	3,827	1,320

Note 19
Finance and operating lease

(in thousand of kroons)		CONSOLIDATED		PARENT COMPANY	
	Note	2000	1999	2000	1999
(a) Operating lease payments					
Minimum lease payments under non-cancellable operating leases, not provided for:					
– not later than in one year		17,606	22,289	-	-
– between one and two years		11,755	12,295	-	-
– between two and three years		4,990	7,930	-	-
– between three and four years		99	3,371	-	-
		34,450	45,885	-	-
(b) Finance lease payments					
Finance lease payments, both principal and finance charge, are payable as follows:					
– not later than one year		17,185	1,920	-	-
		17,185	1,920	-	-
Less: Finance charges		(556)	(60)	-	-
Current portion of obligations under finance leases	16 (b)	16,629	1,860	-	-

Note 20
Related parties

(in thousand of kroons)	CONSOLIDATED		PARENT COMPANY	
	2000	1999	2000	1999
(a) The total remuneration of directors and executive officers				
Members of the Council and Management Board	14,261	9,550	4,680	2,978
(b) Telecommunication services provided				
Sonera Ltd	77,532	85,659	-	-
Telia AB	25,576	27,726	-	-
EsData AS	3,770	3,830	-	-
(c) Other sales				
Telia AB	5	-	-	-
Advokaadibüroo Tark & Co	22	-	-	-
(d) Telecommunication services purchased				
Sonera Ltd	32,614	47,418	-	-
Telia AB	27,604	29,633	-	-
EsData AS	269	358	125	214
(e) Other services puchased				
Baltic Tele AB	1,037	4,010	-	-
Sonera Ltd	4,308	4,513	19	100
Telia AB	3,744	3,194	-	-
Advokaadibüroo Tark & Co	2,128	1,389	228	51
EsData AS	4	13	-	-

Transactions with related parties were conducted under market terms.

Note 21
Segment information

For management purposes, the Group has been divided 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 the national telecommunication network, to provide telecommunication services and related value added services, to provide international connections, and to provide, produce, market and sell related services.
- 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 and abroad.
- Other: largely comprises the activities of the parent company.

(in thousand of kroons)	Fixed network telecom.		Mobile telecom.		Other operations		Eliminations		Consolidated	
	2000	1999	2000	1999	2000	1999	2000	1999	2000	1999
(a) Business segments										
Revenue										
External										
– rendering of services and sales	2,432,575	2,244,949	1,497,087	1,322,580	-	-	-	-	3,929,662	3,567,529
– other	24,837	12,814	18,950	14,892	42	8	-	-	43,829	27,714
Inter-segmental services	247,772	213,048	411,113	364,124	261	86	(659,146)	(577,258)	-	-
Total revenue	2,705,184	2,470,811	1,927,150	1,701,596	303	94	(659,146)	(577,258)	3,973,491	3,595,243
Result										
Segment result: profit from operations	471,368	397,494	668,942	595,370	(32,414)	(38,442)	843	853	1,108,739	955,275
Income from associated companies									-	648
Foreign exchange gain									1,192	510
Other financial income									33,591	17,398
Expenses from associated companies									(310)	-
Interest expense									(33,558)	(36,760)
Foreign exchange loss									(1,443)	(4,245)
Other financial expenses									(11,636)	(27,943)
Extraordinary income									85,197	-
Extraordinary expenses									-	(85,197)
Income tax expenses (-) / income (+)									-	(156,266)
Minority interest									(5,642)	(83,158)
Net profit									1,176,130	580,262
Other information										
Segments assets	2,747,681	2,602,452	1,198,969	1,039,870	37,668	8,342	-	-	3,984,318	3,650,664
Investments in associates									17,849	2,760
Cash									609,743	485,318
Investments in other enterprises									9,071	888
Consolidated total assets									4,620,981	4,139,630
Segment liabilities	437,123	319,501	181,185	75,868	3,233	670	-	-	621,541	396,039
Interest-bearing liabilities									362,370	593,415
Taxes payable									36,844	123,182
Consolidated total liabilities									1,020,755	1,112,636
Capital expenditure	840,121	704,046	396,861	305,720	1,809	3,168	-	-	1,238,791	1,012,934
Depreciation and amortisation of segment assets	691,522	652,660	276,780	227,723	1,003	676	-	-	969,305	881,059

Note 22
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.

At the beginning of 2000 the bank accounts of AS Eesti Telekom, AS Eesti Telefon and AS EMT were combined into a group account both at Hansapank and Eesti Ühispank. The purpose of the combination was to improve the management of liquid assets. The group account will also be used for funding the subsidiaries.

Group funding and liquid asset and financial risk management are the responsibilities of the Treasury who fulfils its obligations in accordance with the rules approved by the Council of AS Eesti Telekom.

(a) Interest rate risk

The interest rates and repayment terms of the Group's loans are disclosed in note 17 to the financial statements.

(b) Credit risk

Credit risk represents the accounting loss that would be recognised at the reporting date if counterparties fail to perform 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 reliable Estonian banks. The management does not expect the customers to fail to meet their obligations. The Group keeps its free monetary assets and conducts currency swap and forward transactions with Estonian banks which have at least a Baa 1 credit rating and foreign banks which have at least an A2 credit rating.

(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

To hedge the currency risk arising from liabilities denominated in foreign currencies, one of the group companies has concluded currency swap transactions and the Group's group account includes foreign currency assets. The swap contracts valid December 31, 2000 amounted to FIM 110 million. Certain amounts of foreign currency will be exchanged annually with a peak in 2002.

(in thousand of kroons)	CONSOLIDATED	
	2000	1999
Foreign currency swap transactions	289,471	609,652
Unrealised gains	5,429	6,087

Note 23
Contingencies

On 29 December 2000 the Republic of Estonia and AS Eesti Telefon concluded an agreement on the termination of the Concession Agreement. Under the agreement, AS Eesti Telefon has various obligations relating to the provision of telephone connections to all persons who have applied for it, the technical state of the public telephone network, and the speed at which telephone connection applications are satisfied. Inability to fulfil the obligations will result in financial penalties. According to management estimates, realisation of penalties of a significant nature, however, is not likely.

Guarantees

(in thousand of kroons)	CONSOLIDATED		PARENT COMPANY	
	2000	1999	2000	1999
Guarantees granted to employees	807	807	200	200

Contingent income tax liability

Under the Income Tax Act which became effective on 1 January 2000, dividends distributed to individuals and non-residents are subject to income tax at the rate of 26/74. The income tax payable on dividends may be reduced by the income tax paid on the retained profits of 1994–1999 and the income tax paid on the retained profits of 1994–1999 that has been transferred by the subsidiaries.

Dividends can be distributed from retained profits. If AS Eesti Telekom distributed all of its unrestricted equity at the shareholder structure of February 27, 2001, there would arise an income tax liability of 173 million. As the Management Board has not made the profit distribution proposal yet, the actual income tax liability may prove smaller than the amount given above.

Note 24
Events after the balance sheet date

AS Eesti Telefon had an extended legal dispute with AS Ritabell, a mobile communication operator, in respect of inter-network tariffs. In the annual financial statements for 2000 and prior periods AS Eesti Telefon reported the expenses and obligations relating to the dispute with prudence. In January 2001 the parties reached an out of court agreement. At the realisation of the agreement, in 2001 AS Eesti Telefon will earn significant non-recurring income.

Note 25
Employees

The average number of employees during 2000 was 3,029 (1999: 3,209).

Note 26
Ultimate parent of the Group

The ultimate parent of the Group is AS Eesti Telekom, situated at Roosikrantsi str 2, 10119 Tallinn, Estonia.

Auditor's report to the shareholders of AS Eesti Telekom

We have audited the accompanying financial statements of AS Eesti Telekom, comprising the balance sheet as of 31 December 2000, 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 AS Eesti Telekom as of 31 December 2000, 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, 28 February 2001
KPMG Estonia

Andres Root,
Authorised Public Accountant

MANAGEMENT BOARD

Jaan Männik

Krister Björkqvist

COUNCIL

Aare Tark,
Chairman of the Council,
Attorney at Law and Chairman of the Board of Law Office Tark & Co

Brian Epp,
Director of Global Telecoms and Media Group of Chase Manhattan Bank

Mart Nurk,
Vice President of Telia AB

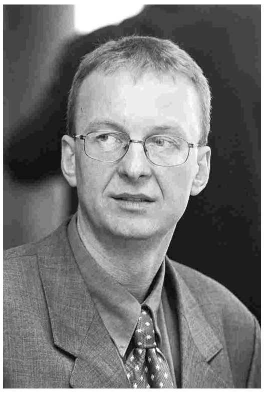
Annika E. Christiansson,
Senior Vice President and Head of Strategic Business Development of Telia Mobile AB International

Lauri Tapani Holopainen,
Vice President of Sonera Oyj

Madis Üürike,
Advisor at the Estonian Ministry of Finance

Mikko Pirinen,
Senior Vice President of Sonera Oyj

Jaak Leimann,
Professor at Tallinn Technical University



Andrus Villem,
Advisor to the Minister of Transport and Communications of Estonia

Veiko Tali,
Deputy Head of Department, Estonian Ministry of Finance

INFORMATION FOR INVESTORS

Annual General Meeting

The Annual General Meeting of the shareholders of Eesti Telekom will be held on Wednesday, May 23, 2001 at 2.00 p.m. at National Library (Rahvusraamatukogu), at the address Tõnismägi 2, Tallinn.

Dividends

The dividends will be paid to shareholders who on the dividend record date, June 6, 2001, have been entered into the Company's Shareholders Register, kept by Estonian Central Depository for Securities. The Management Board will propose to the Annual General Meeting that the dividend shall be paid on June 20, 2001.

Financial reviews

Eesti Telekom's Annual Report will be published in English and Estonian. The Annual Report can be ordered from the company, fax +372 6311224, phone +372 6311212. Eesti Telekom's Annual Report is also available on the Internet and it can be read and ordered via Internet at www.telekom.ee.

In 2001, the company's interim reports will be issued on the following dates:

- Interim Report for January–March: April 26;
- Interim Report for January–June: July 19;
- Interim Report for January–September: October 18.

Eesti Telekom will publish printed interim reports in English and Estonian and they will also be available on the Internet at the address www.telekom.ee.

The stock exchange and press releases published by the company can also be found at Eesti Telekom's Internet page.

Equity research

At least the following banks and security brokerage houses have analysed Eesti Telekom as a portfolio investment in 2000.

- ABN Amro (phone +44 20 76785328)
- Aros Maizels Equities (phone +358 9 12340425)
- CAIB (phone +44 20 73096518)
- Donaldson, Lufkin & Jenrette (phone +44 20 76556342)
- Dresdner Kleinwort Wasserstein (phone +44 20 76238000)
- Eesti Ühispank (phone +372 6656645)
- Hansapank (phone +372 6131670)
- HSBC Securitas (phone +44 20 76210011)
- Lazard Brothers & Co (phone +44 20 75882721)
- Nomura International (phone +44 20 75212000)
- Suprema Securities (phone +372 6405700)
- Trigon Capital (phone +372 6676230)
- William de Broe (phone +44 20 75887511)

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