

29 May 2000

**FIRST QUARTER RESULTS OF 2000**  
**'A year for changes'**

Estonian Telecom, the leading provider of telecommunication services in Estonia, today announces its results for the three months ended March 31 2000.

**Highlights**

- Revenue up 15% to **939 mln kroons** (US\$ 59 mln)
- EBITDA up 24% to **503 mln kroons** (US\$ 32 mln)
- EBITDA margin 54% up from 50%
- Profit before tax up 40% to **247 mln kroons** (US\$ 16 mln)
- Earnings per share up 106% to **1.79 kroons** (US\$ 0.11)
- Net gearing -5%

Commenting on the results the Chairman, Toomas Sõmera, said:

*“Year 2000 started with strong results following our focus on innovation and efficiency.”*

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## **CHAIRMAN'S STATEMENT**

Year 2000 has started with strong growth indicators for Estonian Telecom Group. The total revenue has increased by 15% to 939 mln kroons and profit before taxes increased by 40% to 247 mln kroons. To my belief, an essential part of the growth results from the success of the Group keeping up with recent developments of the World telecommunications industry: innovative and diversified services in mobile and data communication areas, complex solutions, signifying customer relations management. Another factor of equal importance to the development of the Group is the expected changes of the Estonian market: the opening of the fixed communications area for new entrants which in 2001.

### **Revenue**

Total revenue of Estonian Telecom Group in three months of 2000 amounted to 939 mln kroons. Both major business segments of Estonian Telecom: fixed network telecommunications and mobile telecommunication, contributed to the growth.

Total revenue from fixed network services were up by 15% amounting to 667 mln kroons.

Local call revenue were the fastest growing part of the revenue exceeding 1999 result by 34%. The main factor behind the growth has been Internet.

Total number of Internet dial-up minutes in three months of 2000 is almost 160% higher than the corresponding figure for 1999. Currently, dial-up minutes are over 31% of the total minute volumes, including local, domestic, international and mobile calls. Even though the data communications market has been open for competition from the very beginning, the provider of fixed line services, Estonian Telephone Company, has succeeded to maintain and even strengthen its position. By the end of the period, the company had 39 thousand dial-up clients which corresponds to a 49% market share. The market share is growing steadily. In order to get even better results, active marketing actions are planned in the nearest future. Also, development of value added services has high priority.

In the first quarter of 2000 Estonian Telephone Company started to advertise the trademark "et", a trademark for telecommunication services and solutions. The packages that relate to fixed telephone and data services, (in cooperation with Estonian Mobile Telephone Company, the provider of mobile communication services) mobile telephone services, ISDN and IN-network based services, are expected to give a competitive advantage to the Group in the future telecommunications market

Call revenues in total increased by 13% and formed 62% of the total revenue. Main line revenues grew by 10% and formed 23% of the total. Number of clients of the company at the end of March 2000 was 513,000. Total revenue per client was up 7% compared to the corresponding period in 1999, amounting to 1 232 kroons.

Total revenue from mobile telecommunication services were up by 14% to 421 mln kroons. During the first three months of 2000, 15.7 thousand new clients joined the operator raising the total number of subscribers to 259.6 thousand, including 76.9 thousand prepaid card customers. Addition of prepaid card customers has slowed down in the beginning of 2000 with more new customers choosing traditional subscription-based packages. SMS and data services keep growing at an impressive speed. The result of the three months of 2000 exceeded three months of 1999 by 125%. In total, SMS and data services form almost 2% of the sales of Estonian Mobile Telephone Company.

### **Operating Expenses**

Operating expenses of Estonian Telecom Group amounted to 436 mln kroons, up only by 6%. Ratio of operating expenses into total revenue has fallen to 46% from the 50% level a year earlier.

70% decrease in the parent company, Estonian Telecom Ltd, operating expenses contributes essentially to the consolidated result. Three months expenses of 1999 of Estonian Telecom were affected by the costs related to the IPO, listing of the shares of the company on Tallinn and London Stock Exchanges and restructuring.

Continuing decrease of the headcount in Estonian Telephone Company from 2 771 at the end of December 1999 to 2 614 by the end of March 2000, also contributed to the limited growth of operating expenses. Ratio of operating expenses into total revenue in Estonian Telephone Company Group has fallen from 56% to 54%. Operating expenses of Estonian Mobile Telephone Group were up by 12%. Ratio of the expenses into total revenue has remained on 48% level.

### **Depreciation and Amortisation**

In the period under review, depreciation and amortisation of Estonian Telecom Group increased by 34 mln kroons (16%) to 247 million kroons. A fastened amortisation of NMT network in total amount of 14 mln kroons by Estonian Mobile Telephone Company took place in the first quarter of 2000 contributing to relatively high growth of the item.

### **Profit**

Net profit of Estonian Telecom Group in the first quarter of 2000 amounted to 246 mln kroons. Restructuring of the Group that took place in the first half of 1999 makes it impossible to compare net profits of the period with the corresponding period in 1999.

	Fixed network telecommunications	Mobile telecommunications	Consolidated
EBIT, mEEK	129	134	256
margin, %	19%	32%	27%
growth, %	40%	6%	33%
EBITDA, mEEK	302	209	503
margin, %	45%	50%	54%
growth, %	19%	16%	24%

Earnings per share in the first quarter of 2000 increased by 106% to 1.79 kroons (3 months of 1999: 0.87 kroons per share).

### **Investments**

Estonian Telecom Group invested 244 mln kroons in three months of 2000.

One of the most remarkable projects in year 2000 is "Tallinn 100" (100% digitalisation of Tallinn). During this three months all the planning and testing has been finished for the replacement of electromechanical exchanges with digital exchanges. RAS-1000 (development of radio-link telephone connections) and the Country Road (Internet connections to the public sector institutions in rural areas) shall be mentioned as other ongoing investment projects in fixed communications area.

In total, fixed line penetration increased to 35.6 main lines per 100 inhabitants with digitalisation rate 57.6% by the end of March 2000.

The majority of investments of the mobile area focussed on building and improving of base stations, exchanges and other network equipment. On December 10, 2000, Estonian Mobile Telephone Company will close its NMT-450 network. Clients of the network will be offered to subscribe to the company's GSM networks at favourable terms as the coverage of GSM 900 and GSM 1800 networks has achieved practically the same level.

### **Development and Research**

To be successful in the modern telecommunication market in the long term, emphasis has to be put on the development of new services.

Estonian Telephone Company has successfully launched its ADSL based broadband product portfolio on March 1. The portfolio consists of three products (ADSL Light, ADSL Plus and ADSL Premium) and covers most of the market demand. Due to the fast development of the Internet currently the market seems to be ready for broadband connections – the market need for year 2000 is expected to be around 1000, the number of clients will double. Estonian Telephone Company is also working actively on network rollout and in June, ADSL connections are available in all major cities within two weeks delivery time.

The company is integrating different technologies in order to provide advanced communication solutions. In the near future several WEB based VoIP (Voice over

IP), UMS (Universal messaging) solutions and WEB/WAP based value added applications will be launched.

In March 2000, Estonian Telephone Company, Estonian Mobile Telephone Company together with another Estonian company, Privador Ltd, started a joint project to analyse the creation of PKI (Public Key Infrastructure). This offers consumers a fast and secure authentication method to access to a number of electronic services, eg forwarding electronic documents and digital signatures. The PKI is named to be the cornerstone of information society, allowing users to communicate via networks and identify each other safely. Initially the infrastructure is created on the client bases of Estonian Telephone Company and Estonian Mobile Telephone Company, but wider founding consortia will also be considered, to include for example major banks of Estonia. Privador participates in the project as the technical adviser and consultant. The PKI infrastructure based services will be also offered to the State Agencies, allowing to accelerate the introduction of SmartCard based ID cards, replacing the paper passports and helping to create the all-electronic interface between State and its citizens.

Early April, a three-way frame agreement to create the testing environment for GPRS (General Packet Radio Services) services, named as project WAY (Wireless Application Odyssey) was signed by Ericsson Estonia, Tallinn Technical University and Estonian Mobile Telephone Company. The test environment, as open facility for IT companies and students, will be used to stimulate the creation of specific software applications, to be run in GPRS infrastructure of Estonian Mobile Telephone Company or to be sold to other operators of GSM systems in the world. This will ensure the competitive advantage to introduce new packet data based services on GSM infrastructure, when the GPRS system will be operational in the beginning of next year. Within the frameworks of the WAY project, a modern research centre will be opened at Tallinn Technical University, giving new boost to rise the value of telecommunications education and to stimulate research activities.

A three-way agreement to facilitate the implementation of MPS (Mobile Positioning System) services for Estonian Rescue Board was signed in April by Estonian Rescue Board, Estonian Mobile Telephone Company and Ericsson. The positioning services will enable to locate all callers of emergency number 112 in electronic maps of Rescue Board emergency centres, enabling to shorten the time between the call and the help to be delivered. Also the fleet management functions will be offered to the vehicles of Rescue Board, to automatically choose the nearest vehicle to reach the emergency spot and to choose the shortest route. Mobile emergency positioning service will be offered knowingly as the first country in the world. The applications software will be jointly created by agreement parties and Regio, the leading electronic map company of Estonia. Also commercial location based services will be offered to consumers.

WAP (Wireless Applications Protocol) services were introduced by Estonian Mobile Telephone Company in April.

## **Organisation**

Starting from January 1 2000, a centralised Treasury function was started at Estonian Telecom level.

On April 1, 2000, Internal Audit Department was established at Estonian Telecom Ltd. Internal Audit is an independent body reporting directly to the Audit Committee consisting of representatives of the Supervisory Council and the Management Board of Estonian Telecom.

It has been decided to concentrate Risk Management functions of the Group to the parent company level as well. The process of establishing a risk assessment and management system has been started. The system is expected to start functioning by the end of 2000.

## **Annual General Meeting**

The Annual General Meeting of the shareholders of Estonian Telecom took place on May 25, 2000. The company's new Supervisory Council was elected. Mr. Andres Root from KPMG Estonia was appointed to audit Estonian Telecom Ltd. in 2000.

The General Meeting passed a decision concerning the distribution of dividends for the financial year of 1999. The number of A-series shares eligible for dividends was 137 383 178. It was decided to pay out 203 327 103 kroons or 1.48 kroons per share to the shareholders as ordinary dividends, and to pay out 346 205 609 kroons or 2.52 kroons per share to the shareholders as "Anniversary Dividends". 10 000 kroons was decided to pay out to the Government as the owner of one B-series share.

## **Taxation**

A draft on amending the Income Tax Act effective from January 1, 2000 has been approved by the Government of the Republic of Estonia and sent to the Parliament. The draft aims at amending several principles of the act. If accepted, this would have a positive impact on Estonian Telecom Ltd: the amount of income tax payable at the distribution of dividends would significantly decrease and it would become possible to cover part of the income tax liability with extraordinary expenses of 1999 that resulted from the new Income Tax Act.

## **Opening telecommunication market for competition**

The new Telecommunications Law was approved by the Parliament on February 9, 2000. The law will regulate telecommunications market and favour competition after January 1, 2001 when special rights of Estonian Telephone Company for providing fixed communication services will expire.

Also, negotiations are about to start in May 2000 between the Ministry of Transport and Communications and Estonian Telephone Company aimed on amending the Concession Agreement.

**ESTONIAN TELECOM AND SUBSIDIARY  
COMPANIES**  
INCOME STATEMENT

In thousands of Estonian kroons

	<b>3 mths to 31 March 00</b>	<b>3 mths to 31 March 99</b>	<b>1999</b>
<b>Revenue</b>			
Net sales	929 023	812 027	3 568 523
Change in work-in-progress	-285	175	-994
Other revenue	10 380	6 733	27 714
<b>Total revenue</b>	<b>939 118</b>	<b>818 935</b>	<b>3 595 243</b>
<b>Operating expenses</b>			
Materials, consumables, supplies and services	203 204	183 385	837 516
Other operating expenses	97 104	98 211	385 029
Personnel expenses	115 560	109 262	466 208
Other expenses	20 335	22 215	70 156
<b>Total expenses</b>	<b>436 203</b>	<b>413 073</b>	<b>1 758 909</b>
<b>Profit from operations before depreciation</b>	<b>502 915</b>	<b>405 862</b>	<b>1 836 334</b>
Depreciation, amortisation and value adjustments of current assets	247 362	213 215	881 059
<b>Profit from operations</b>	<b>255 553</b>	<b>192 647</b>	<b>955 275</b>
Income from subsidiaries and associated companies	-103	146	648
Other net financing items	-8 405	-16 854	-51 040
<b>Profit before tax</b>	<b>247 045</b>	<b>175 939</b>	<b>904 883</b>
Income tax expenses (-) / income (+)	0	-30 860	-156 266
<b>Profit after tax</b>	<b>247 045</b>	<b>145 079</b>	<b>748 617</b>
Minority interest	1 432	81 311	83 158
<b>Net profit from ordinary activities</b>	<b>245 613</b>	<b>63 768</b>	<b>665 459</b>
Extraordinary item	0	0	85 197
<b>Net profit for the period</b>	<b>245 613</b>	<b>63 768</b>	<b>580 262</b>
<b>Earnings per share</b>			
Basic earnings per share (in kroons)	1,79	0,87	4,78
Diluted earnings per share (in kroons)	1,79	0,87	4,78

**ESTONIAN TELECOM AND SUBSIDIARY COMPANIES**  
BALANCE SHEET

In thousands of Estonian kroons

	31-Mar-00	31-Dec-99	31-Mar-99
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	647,252	485,318	350,413
Short-term investments	40,000	-	48,936
Trade receivables	360,581	372,105	359,358
Other receivables	52,101	30,795	27,902
Accrued income	76,143	83,683	51,192
Prepaid expenses	15,568	15,208	94,227
Inventories	123,166	141,656	114,719
<b>Total current assets</b>	<b>1,314,811</b>	<b>1,128,765</b>	<b>1,046,747</b>
<b>Non-current assets</b>			
Long term financial assets	6,142	6,294	4,211
Deferred tax assets	-	-	109,700
Tangible assets	2,901,888	2,934,647	2,781,571
Intangible assets	57,606	69,925	57,063
<b>Total non-current assets</b>	<b>2,965,636</b>	<b>3,010,866</b>	<b>2,952,545</b>
<b>TOTAL ASSETS</b>	<b>4,280,447</b>	<b>4,139,631</b>	<b>3,999,292</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Current liabilities</b>			
Interest bearing loans and borrowings	49,343	76,836	99,455
Customer prepayments	7,269	7,138	9,883
Accounts payable to suppliers	166,551	174,762	151,270
Other payables	376	1,949	1
Tax liabilities	121,643	115,270	137,721
Accrued expenses	176,842	159,176	298,236
Provisions	8,188	12,370	-
Prepaid revenue	44,353	41,303	42,436
<b>Total current liabilities</b>	<b>574,565</b>	<b>588,804</b>	<b>739,002</b>
<b>Non-current liabilities</b>			
Interest bearing loans and borrowings	424,910	516,579	594,017
Other long-term payables	7,252	7,252	-
Deferred tax liabilities	-	-	68,265
<b>Total non-current liabilities</b>	<b>432,162</b>	<b>523,831</b>	<b>662,282</b>
<b>Minority interest</b>	<b>8,337</b>	<b>7,226</b>	<b>3,231</b>

**31-Mar-00 31-Dec-99 31-Mar-99**



<b>Equity</b>			
Issued capital	1,373,833	1,373,833	1,373,833
Agio	309,966	309,966	309,966
Legal reserve	56,851	56,851	25,478
Retained earnings	1,279,120	698,859	821,732
Net profit for the period	245,613	580,262	63,768
<b>Total equity</b>	<b>3,265,383</b>	<b>3,019,770</b>	<b>2,594,777</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>4,280,447</b>	<b>4,139,631</b>	<b>3,999,292</b>

**ESTONIAN TELECOM AND SUBSIDIARY COMPANIES**  
**CASH FLOW STATEMENT**

In thousands of Estonian kroons

	<b>3 mths to 31 March 00</b>	<b>3 mths to 31 March 99</b>
<b>Cash flow from operating activities</b>		
Profit before tax and minority interest	247,045	175,939
Adjustments for:		
Depreciation	247,362	213,215
Profit/Loss from sales and write-off of fixed assets	-486	-203
Income from subsidiaries and associated companies	103	-146
Interests income/ - expense (net)	1,971	7,222
Other non-cash adjustments	1,221	2,118
Operating profit before working capital changes	<u>497,216</u>	<u>398,145</u>
Change in current receivables	-1,491	-85,970
Change in inventories	18,490	-10,742
Change in current liabilities (except loans)	15,136	62,037
Adjusted cash generated from operations	<u>529,351</u>	<u>363,470</u>
Interest paid	-8,310	-15,679
Income tax paid	0	-19,937
<b>Net cash flow from operating activities</b>	<u><b>521,041</b></u>	<u><b>327,854</b></u>
<b>Cash flow from investing activities</b>		
Purchase of property, plant and equipment	-203,186	-189,727
Purchase of licenses	-815	-1,054
Purchase of shares and other securities	-40,000	-55,927
Proceeds from sales of property, plant and equipment	2,175	418
Proceeds from sales of shares and other securities	10	11,671
Cash receipts from loan repayment	85	32
Loan granted	-50	0
Interest received	3,326	5,654
<b>Net cash flow from investing activities</b>	<u><b>-238,455</b></u>	<u><b>-228,933</b></u>
<b>Cash flow from financing activities</b>		
Repayment of non-convertible long-term debt	-1,722	-2,150
Repayment of long-term borrowings	-118,440	-17,440
Payment of finance lease liabilities	-282	-940
Dividends paid to minority shareholders	-208	0
<b>Net cash flow from financing activities</b>	<u><b>-120,652</b></u>	<u><b>-20,530</b></u>
<b>Net increase / - decrease in cash and cash equivalents</b>	<u><b>161,934</b></u>	<u><b>78,391</b></u>
<b>Cash and cash equivalents at beginning of year</b>	<b>485,318</b>	<b>272,022</b>
<b>Cash and cash equivalents at end of the period</b>	<u><b>647,252</b></u>	<u><b>350,413</b></u>

**ESTONIAN TELECOM AND SUBSIDIARY COMPANIES****STATEMENT OF CHANGES IN EQUITY**

In thousands of Estonian kroons

	<b>31 March 00</b>	<b>31 March 99</b>
<b>Issued capital</b>		
137 383 178 ( <u>1998</u> : 63 883 178; <u>1997</u> : 73 500 000) ordinary shares at EEK 10.00 per share, fully paid	1 373 832	1 373 832
1 (1998: 1) preferential share at EEK 1000.00 per share, fully paid	1	1
Total	<u>1 373 833</u>	<u>1 373 833</u>
<b>Share premium</b>		
Opening balance	4 525	4 525
Premium on ordinary shares issued	<u>305 441</u>	<u>305 441</u>
Closing balance	<u>309 966</u>	<u>309 966</u>
<b>Legal reserves</b>		
Opening balance	56 851	25 478
Amounts transferred from accumulated profits	<u>-</u>	<u>-</u>
Closing balance	<u>56 851</u>	<u>25 478</u>
<b>Accumulated profits</b>		
Opening balance	1 279 120	821 732
Net profit for the period	<u>245 613</u>	<u>63 768</u>
Closing balance	<u>1 524 733</u>	<u>885 500</u>

## ESTONIAN TELECOM AND SUBSIDIARY COMPANIES

### Notes to the financial statements for the 31 March 2000 (unaudited)

In thousands of Estonian kroons

#### 1. Accounting policies

The consolidated interim financial statements for the 1st quarter of 2000 are prepared in accordance with the International Accounting Standards (IAS). In all material respects the same accounting principles have been followed as in preparation of the financial statements for 1999.

In the opinion of the company's Management Board, the financial statements give a true and fair view of the financial position of the Company.

These financial statements are not audited or reviewed by the auditors.

#### 2. Capital expenditure

	<b>Three months ended 31 March 2000</b>	
	Property, plant and equipment	Intangible assets
Opening carrying value	2,934,647	69,925
Additions	203,186	815
Disposals	(25,441)	-
Depreciation / amortisation	(210,504)	(13,134)
Closing carrying value	2,901,888	57,606

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

### 3. Borrowings

	<b>31 March 00</b>	<b>31 Dec 99</b>
Current	49,343	76,836
Non-current	432,162	523,831
	<u>481,505</u>	<u>600,667</u>

The movements in the borrowings:

	<b>31 March 00</b>
<b>Opening balance</b>	600,667
Repayments of borrowings	(120,444)
Other movements	1,282
<b>Closing balance</b>	<u>481,505</u>

### 4. Earnings per share

The calculation of basic earnings per share (in kroons):

$$\text{EEK } 1,79 = 245\,613\,000 : 137\,383\,278$$

## 5. Segment information

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

Activities of the divisions are :

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

### Business segments

	Fixed network telecommunication		Mobile telecommunication		Other operations		Eliminations		Consolidated	
	3 months 2000	3 months 1999	3 months 2000	3 months 1999	3 months 2000	3 months 1999	3 months 2000	3 months 1999	3 months 2000	3 months 1999
<b>Revenue</b>										
External - rendering of services and sales	601 175	528 315	327 563	283 887	-	-	-	-	928 738	812 202
- other	8 007	3 852	2 361	2 874	12	7	-	-	10 380	6 733
Inter-segment services	58 149	48 266	91 279	83 525	30	-	(149 458)	(131 791)	-	-
Total revenue	667 331	580 433	421 203	370 286	42	7	(149 458)	(131 791)	939 118	818 935
<b>Result</b>										
Segment result - profit from operations	129 012	92 829	134 479	126 969	(8 148)	(27 371)	210	220	255 553	192 647
Income / - expenses from associated companies									(103)	146
Other net financing items									(8 405)	(16 854)
Income tax expenses (-) / income (+)									-	(30 860)
Minority interest									(1 432)	(81 311)
Net profit									245 613	63 768