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HALF-YEAR RESULTS OF 2000 'A year of changes'

Estonian Telecom, the leading provider of telecommunication services in Estonia, today announces its half-year results, for the six months ended June 30, 2000.

Highlights

- Revenue up 15% to **1,947 mln kroons** (US\$ 121 mln)
- EBITDA up 17% to **1,032 mln kroons** (US\$ 64 mln)
- EBITDA margin **53%**
- Profit before tax up 31% to **544 mln kroons** (US\$ 34 mln)
- Earnings per share up 56% to **3.94 kroons** (US\$ 0.24)
- Net gearing **-14%**

Commenting on results the Chairman, Toomas Sõmera, said:

“Remarkable progress has been achieved in one of our priorities – customer orientation, and in the development of internal co-operation as well as partnerships with other organisations during the first half of the year. Complex solutions have been launched for our business customers. The first combined product of the mobile and the fixed operator has been provided to our private clients.”

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CHAIRMAN'S STATEMENT

Strong growth of Estonian Telecom Group continued in the first half of 2000 certified by good financial results. Remarkable progress has been achieved in the development of internal co-operation as well as partnership with other organisations. Our priority remains to give better and more flexible service to both existing and new customers to achieve a competitive advantage under free competition.

Revenue and Expenditure

Total revenue of Estonian Telecom Group in the first half of 2000 amounted to 1,947 mln kroons, up by 15%. Operating expenses of the Group were 914 mln kroons up by 12%. EBITDA margin of the Group continued to grow reaching 53% by the end of the half-year (52% in the first half of 1999 and 51% in 1999 in total).

Total revenue from fixed network services amounted to 1,357 mln kroons, up by 15%. Local call revenue were the fastest growing part of the revenue exceeding the corresponding result in 1999 by 29%. The growth is fuelled by internet dial-up. In June 2000, 38% of the local call minutes were dial-up minutes. By the end of the first half-year of 2000 more than 40 thousand customers used the dial-up service provided by Estonian Telephone Company, the fixed line operator of Estonian Telecom Group. The company estimates its market share to be around 50%. Revenue from trunk, international and mobile calls were up by 2%, 5% and 8% correspondingly. Main line revenue grew by 9% and other revenue declined by 4%.

Expenses relating to fixed network services amounted to 740 mln kroons, up by 11%. A factor behind this expenses growth is the continuing decline in the number of employees. By the end of June 2000, the total number of employees of Estonian Telephone Company had fallen to 2,541 (2,772 on December 31, 1999). By the end of June there were 201 main lines per employee, thus exceeding the interim benchmark of 200.

Depreciation in the fixed network area was 345 mln kroons, up by 7%.

Total operating result of fixed network communications was 272 mln kroons (192 mln in 1999), up by 41%.

Total revenue from mobile communication services were up by 17% to 919 mln kroons. The revenue growth accelerated in the second quarter of 2000 when total revenue grew by 19% compared to the same period in 1999. Record number of new customers joined Estonian Mobile Telephone company, the mobile operator of Estonian Telecom Group in the second quarter. During the first 3 months of 2000, 15 thousand new subscribers were gained. During the second quarter of the year the total number of customers grew by 33 thousand reaching 292 thousand by the end of June which corresponds to about 63 per cent market share. 92 thousand customers used the prepaid service. The growing number of prepaid customers as well as several advantaged facilities offered to both existing and new customers continued falling trend of average revenue per user. In June 1999 the monthly ARPU was 589 kroons. By June 2000 it had fallen to 469 kroons.

However, activities attracting new customers accelerated expenditure growth. Total operating expenses related to mobile communications amounted to 486 mln kroons, up by 22%. Main reasons for the increase were marketing costs, including subsidised handsets new subscribers, and higher staff costs.

Depreciation and amortisation in the segment of mobile communications amounted to 132 mln kroons, up by 21%. The relatively high growth results from fastened amortisation of NMT network which the company intends to close by December 2000.

Total operating result of mobile communications was 301 mln kroons (281 mln in 1999), up by 7%.

Net Profit

Net profit of Estonian Telecom Group in the first half-year of 2000 amounted to 541 mln kroons. Restructuring of the Group that took place in the first half of 1999 makes it impossible to compare net profit of the period with the corresponding period in 1999. Also, amendments into Income Tax Law which, instead of the taxation of corporate income, foresees taxation of dividend distributions, fringe benefits, representation costs and other disbursements, have made net profits of the two periods incomparable.

Earnings per share in the first half year of 2000 increased by 56% to 3.94 kroons (2.52 kroons per share in 6 months of 1999).

Investments

Estonian Telecom Group invested 570 mln kroons in six months of 2000.

One of the most remarkable projects in year 2000 is "Tallinn 100" (100% digitalisation of Tallinn) in the course of which about 62,000 electromechanical exchanges will be replaced with digital exchanges. About 50% of the replacements were done by the end of June. Digitalisation in Estonia in total had risen to 60.5%. By the end of 2000, 70% digitalisation rate is expected. RAS-1000 (development of radio-link telephone connections) shall be mentioned as another ongoing investment project in fixed communications area. In total, there were 35.5 main telephone lines per 100 inhabitants by the end of June. Fast growing use of mobile phones gives us reason to expect fixed telephone penetration to stabilise at 38% level.

The majority of investments of the mobile area focus on building and improving base stations, exchanges and other network equipment.

Changes in Equity

Several changes have taken place in the equity of Estonian Telecom Group in the first half of 2000.

On May 25, 2000, the Annual General Meeting of Estonian Telecom Ltd. approved allocation of profit suggested by the Management Board. According to the decision, 68 mln kroons were transferred into legal reserves. 549 mln kroons were decided to pay out as dividends, of which 203 mln kroons as ordinary dividends and 346 mln kroons as “Anniversary” dividends. EEK 4 per share was paid out to the shareholders of A-series shares. EEK 10 000 was paid out to the shareholder of B-series share (the Estonian State). The list of shareholders, on the basis of which dividends were distributed, was determined on June 9, 2000. The dividends were paid out on July 12, 2000.

Due to the changes in the Income Tax Law, no dividend taxes has to be paid in year 2000.

Restructuring Equity and Liabilities

The amount of long term interest bearing loans and borrowings fell by 290 mln kroons during the six months of 2000 caused by both regular and anticipatory repayment of long term bank loans by Estonian Telephone Company. The centralised Treasury function started from January 1 2000 at Estonian Telecom Ltd level made it reasonable to replace a part of external loans with inter-company loans at more favourable terms. Thus the net financing costs amounted to 10 mln kroons compared to 31 mln kroons in 1999.

An increase in current liabilities compared to the end of December 1999 results from accrued dividends of Estonian Telecom Ltd in the amount of 550 mln which were paid out in July 2000.

Net gearing of Estonian Telecom Group as at June 30 2000 was -14% (4% on December 31 1999). 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 Estonian Telecom bonds was the very first securities issue in Estonia that could be subscribed through the internet.

Contingencies

A court case has been instituted against Estonian Telephone Company in the amount of 55 mln kroons by an insolvent company OÜ Albufent. The opinion of the respondent is that the claim is unfounded. However, if the decision of the court on the issue will be in favour of the petitioner, OÜ Albufent, no negative effect on financial results of Estonian Telephone Company will follow, by opinion of the management of the company.

Changes in Technologies and Services

A wide range of the products and services has been launched by the operating subsidiaries of the Group in last few years targeted at better meeting the needs of our clients. However, the technical character of these products sometimes makes it

difficult for the clients to make the best choice. In the first quarter of 2000 Estonian Telephone Company started to advertise the trademark “et”, a trademark for telecommunication services and solutions, packages that relate to fixed telephone and data services, (in co-operation with Estonian Mobile Telephone Company) mobile telephone services, ISDN and IN-network based services. The first solution offered under the trade mark was “Home-Line”; calls at favoured rates between mobile phones and a fixed phone of a household. By now, telecommunication solutions for private houses, retailers and small offices have been worked out integrating voice and data communication services most likely to be needed by these kinds of clients.

The ratio of data communication revenue has tremendously increased during the last year. The trend has made the development of data communication area another priority for Estonian Telephone Company. On March 1 the company successfully launched its ADSL based broadband product portfolio. The portfolio consists of three products (ADSL Light, ADSL Plus and ADSL Premium) and covers most of the market demand. The company is integrating different technologies in order to provide advanced communication solutions. The first WEB based VoIP service “Web-Phone 800” has been launched allowing calls to free-of-charge numbers from multi-media computers.

Triumphal march of internet has put a seal on activities of Estonian Mobile Telephone Company as well. In April 2000 the company introduced a Wireless Application Protocol service for its contractual clients. WAP offers the possibility of using internet services through a mobile telephone. It is possible to find information on foreign currency exchange rates and share prices, weather reports, etc. In co-operation with other companies, Lexicon of Foreign Words is provided, bank account balances can be read, etc. EMT clients can also read their e-mails by phone.

A three-way agreement to create the testing environment for General Packet Radio Services, named as project WAY was signed by Ericsson Estonia, Tallinn Technical University and Estonian Mobile Telephone Company in April. The project shall ensure the competitive advantage for the company to introduce new packet data services on GSM infrastructure, when GPRS system will be operational in the beginning of 2001.

Widening in Co-operation

Limited number of population in Estonia and by western standards relatively low purchasing power make it hard to maintain high revenue growth ratios based on traditional telecommunication services only. Estonian Telecom Group is intending to participate actively in intertwine of telecommunications area with neighbouring areas of businesses. Several co-operation agreements have been concluded during the first half of 2000 aimed at developing and offering services based on experiences of different fields of activities.

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 Public Key Infrastructure. This offers consumers a fast and secure authentication method to access 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. In May 2000, EMT, ETC and the major commercial banks in Estonia, Hansapank and Eesti Ühispank, started a project to develop a joint PKI that allows for the swift and secure use of several services via telephone and internet.

A three-way agreement to facilitate the implementation of Mobile Positioning System service in Estonia 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 function is close to being offered to the vehicles of Rescue Board, to automatically choose the nearest vehicle to reach the emergency spot and to choose the shortest route. The applications software is jointly created by agreement parties and Regio, the leading electronic map company of Estonia.

In May 2000 Estonian Telephone Company and Eesti Ühispank started the final negotiations for the establishment of a separate joint venture to create the most credible and commonly used internet environment. The joint venture intends to offer services in all major areas of e-commerce beyond the parent companies' main fields of activity. It intends to provide portal services, mediation services through various trading environments and client mediation, logistics services as well as software and IT solutions.

In co-operation with municipal authorities of the two largest towns in Estonia, Tallinn and Tartu, Estonian Mobile Telephone Company prepared and launched a new service that allows its clients to pay by mobile phone for parking their car in those towns. During July 2000, the first month the service was offered, approximately two thousand clients used the option.

An e-billing project was prepared by Estonian Mobile Telephone Company and Hansapank in the first half of 2000. As an outcome of the project, starting from July 1, 2000, mutual clients of the mobile operator and the bank were offered the option to subscribe for their mobile phone bill to go to their hanza.net e-mail box and also to pay for it by the internet-bank.

Changes in Management Structures

The Annual General Meeting of the shareholders of Estonian Telecom elected the company's new Supervisory Board. Mr. Aare Tark was re-elected to be Chairman of the Supervisory Board.

The new elected Supervisory Board recalled from the Management Board of Estonian Telecom Ltd. Mr. Mart Nurk who was elected to the Supervisory Board.

On May 31, 2000 the letter of resignation was submitted by Mr. Toomas Sõmera, Chairman of the Management Board of Estonian Telecom. The Supervisory Board accepted the letter of resignation.

ESTONIAN TELECOM AND SUBSIDIARY COMPANIES
INCOME STATEMENT

In thousands of Estonian kroons

	6 mths to 30 June 00	6 mths to 30 June 99	1999
Revenue			
Net sales	1,921,074	1,686,501	3,568,523
Change in work-in-progress	-38	-678	-994
Other revenue	25,838	13,269	27,714
Total revenue	1,946,873	1,699,092	3,595,243
Operating expenses			
Materials, consumables, supplies and services	447,153	378,564	837,516
Other operating expenses	200,870	184,547	385,029
Personnel expenses	228,129	216,363	466,208
Other expenses	38,242	40,441	70,156
Total expenses	914,394	819,915	1,758,909
Profit from operations before depreciation	1,032,479	879,177	1,836,334
Depreciation, amortisation and value adjustments of current assets	477,459	431,483	881,059
Profit from operations	555,020	447,694	955,275
Income from subsidiaries and associated companies	-174	437	648
Other net financing items	-10,348	-30,998	-51,040
Profit before tax	544,497	417,133	904,883
Income tax expenses (-) / income (+)	0	-69,918	-156,266
Profit after tax	544,497	347,215	748,617
Minority interest	3,194	81,825	83,158
Net profit from ordinary activities	541,303	265,390	665,459
Extraordinary item	0	0	85,197
Net profit for the period	541,303	265,390	580,262
Earnings per share			
Basic earnings per share (in kroons)	3.94	2.52	4.78
Diluted earnings per share (in kroons)	3.94	2.52	4.78

ESTONIAN TELECOM AND SUBSIDIARY COMPANIES
BALANCE SHEET

In thousands of Estonian kroons

	30-Jun-00	31-Dec-99	30-Jun-99
ASSETS			
Current assets			
Cash and cash equivalents	648,637	485,318	290,467
Short-term investments	40,000	-	54,407
Trade receivables	390,201	372,105	366,368
Other receivables	34,691	30,795	28,812
Accrued income	76,110	83,683	79,805
Prepaid expenses	18,227	15,208	97,061
Inventories	148,392	141,656	131,699
Total current assets	1,356,258	1,128,765	1,048,619
Non-current assets			
Long term financial assets	6,339	6,293	5,560
Deferred tax assets	-	-	109,700
Tangible assets	2,941,941	2,934,647	2,774,104
Intangible assets	53,319	69,925	55,825
Total non-current assets	3,001,599	3,010,865	2,945,189
TOTAL ASSETS	4,357,857	4,139,630	3,993,808
EQUITY AND LIABILITIES			
Current liabilities			
Interest bearing loans and borrowings	48,845	76,836	151,466
Customer prepayments	6,034	7,138	9,016
Accounts payable to suppliers	223,781	174,762	140,697
Other payables	0	1,949	-
Tax liabilities	56,167	115,270	85,871
Accrued expenses	716,001	159,176	191,518
Provisions	6,047	12,370	-
Prepaid revenue	46,037	41,303	39,446
Total current liabilities	1,102,913	588,804	618,014
Non-current liabilities			
Interest bearing loans and borrowings	226,134	516,579	565,936
Other long-term payables	7,252	7,252	-
Deferred tax liabilities	-	-	72,474
Total non-current liabilities	233,386	523,831	638,410
Minority interest	10,078	7,227	3,744
Equity			
Issued capital	1,373,833	1,373,833	1,373,833
Share premium	309,964	309,964	309,964
Legal reserve	124,963	56,851	56,851
Retained earnings	661,416	698,859	727,602
Net profit for the period	541,303	580,262	265,390
Total equity	3,011,480	3,019,768	2,733,640
TOTAL EQUITY AND LIABILITIES	4,357,857	4,139,630	3,993,808

ESTONIAN TELECOM AND SUBSIDIARY COMPANIES
CASH FLOW STATEMENT

In thousands of Estonian kroons

	6 mths to 30 June 00	6 mths to 30 June 99
Cash flow from operating activities		
Profit before tax and minority interest	544,497	417,133
Adjustments for:		
Depreciation	477,459	431,483
Profit/Loss from sales and write-off of fixed assets	-2,996	607
Income from subsidiaries and associated companies	174	-437
Net interests (income-/expense+)	19	13,003
Other non-cash adjustments	-220	3,765
Operating profit before working capital changes	<u>1,018,933</u>	<u>865,554</u>
Change in current receivables	-14,631	-111,410
Change in inventories	-6,736	-27,722
Change in current liabilities (except loans)	48,421	39,980
Adjusted cash generated from operations	<u>1,045,987</u>	<u>766,402</u>
Interest paid	-14,638	-21,030
Income tax paid	-54,723	-114,224
Net cash flow from operating activities	<u>976,626</u>	<u>631,148</u>
Cash flow used in investing activities		
Purchase of property, plant and equipment	-458,405	-391,783
Purchase of licenses	-11,177	-9,514
Purchase of shares and other securities	-100,200	-63,334
Proceeds from sales of property, plant and equipment	4,598	615
Proceeds from sales of shares and other securities	60,000	13,671
Cash receipts from loan repayment	187	77
Loan granted	-50	0
Interest received	11,074	12,729
Net cash used in investing activities	<u>-493,973</u>	<u>-437,539</u>
Cash flow used in financing activities		
Repayment of nonconvertible long-term debt	-3,482	-4,357
Repayment of long-term borrowings	-314,745	-46,745
Proceeds from short term borrowings	0	56,000
Payment of finance lease liabilities	-850	-2,155
Dividends paid to minority shareholders	-208	-115,150
Dividends paid	0	-62,757
Income tax paid on dividends	-49	0
Net cash flow used in financing activities	<u>-319,334</u>	<u>-175,164</u>
Net increase / - decrease in cash and cash equivalents	<u>163,319</u>	<u>18,445</u>
Cash and cash equivalents at beginning of year	<u>485,318</u>	<u>272,022</u>
Cash and cash equivalents at end of period	<u>648,637</u>	<u>290,467</u>

ESTONIAN TELECOM AND SUBSIDIARY COMPANIES
STATEMENT OF CHANGES IN EQUITY

In thousands of Estonian kroons

	30-Jun-00	30-Jun-99
Issued capital		
137 383 178 ordinary shares at EEK 10.00 per share, fully paid	1,373,832	1,373,832
1 preferential share at EEK 1000.00 per share, fully paid	1	1
Total	<u>1,373,833</u>	<u>1,373,833</u>
Share premium		
Opening balance	309,964	4,525
Premium on ordinary shares issued	-	305,439
Closing balance	<u>309,964</u>	<u>309,964</u>
Legal reserves		
Opening balance	56,851	25,478
Amounts transferred from accumulated profits	68,112	31,373
Closing balance	<u>124,963</u>	<u>56,851</u>
Accumulated profits		
Opening balance	1,279,120	821,732
Net profit for the period	541,303	265,390
Amounts transferred to legal reserves	(68,112)	(31,373)
Dividends declared	(549,542)	(62,757)
Income tax on dividends	(49)	-
Closing balance	<u>1,202,720</u>	<u>992,992</u>

ESTONIAN TELECOM AND SUBSIDIARY COMPANIES

Notes to the financial statements as at 30 June 2000

In thousands of Estonian kroons

1. Accounting policies

The consolidated interim financial statements for the 6 months 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.

2. Capital expenditure

	Six months ended 30 June 2000	
	Property, plant and equipment	Intangible assets
Opening carrying value	2,934,647	69,925
Additions	458,405	11,177
Disposals	(89,372)	(12,981)
Depreciation / amortisation	(361,739)	(14,802)
Closing carrying value	2,941,941	53,319

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

3. Borrowings

	30/06/2000	31/12/1999
Current	48,845	76,836
Non-current	<u>233,386</u>	<u>523,831</u>
	<u>282,231</u>	<u>600,667</u>

The movements in the borrowings:

	30/06/2000
Opening balance	600,667
Repayments of borrowings	(319,077)
Other movements	<u>641</u>
Closing balance	<u>282,231</u>

4. Earnings per share

Basic earnings per share (in kroons) accounted is following :

EEK 3.94 =541 293 000 :137 383 278

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

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	
	6 months 2000	6 months 1999	6 months 2000	6 months 1999	6 months 2000	6 months 1999	6 months 2000	6 months 1999	6 months 2000	6 months 1999
Revenue										
External - rendering of services and sales	1,213,172	1,076,804	707,863	609,019	-	-	-	-	1,921,035	1,685,823
- other	19,436	7,389	6,379	5,866	23	14	-	-	25,838	13,269
Inter-segment services	124,583	99,574	204,409	171,246	60	3	(329,052)	(270,823)	-	-
Total revenue	1,357,191	1,183,767	918,651	786,131	83	17	(329,052)	(270,823)	1,946,873	1,699,092
Result										
Segment result - profit from operations	272,130	192,427	300,690	280,564	(18,221)	(25,728)	421	431	555,020	447,694
Income / - expenses from associated companies									(174)	437
Other net financing items									(10,348)	(30,998)
Income tax expenses (-) / income (+)									-	(69,918)
Minority interest									(3,194)	(81,825)
Net profit									541,303	265,390