Financial Statements
of
Estonian Telecom Ltd and
Subsidiary Companies

2000

CONTENTS

Consolidated and Parent Company Financial Statements

Estonian Telecom Limited and Subsidiary Companies

Income statement for year ended 31 December 2000

In thousands of kroons (EEK)

		GROUP		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 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 set out on pages 7 to 27.

Estonian Telecom Limited and Subsidiary Companies

Balance sheet as at 31 December 2000

In thousands of kroons (EEK)

		CONSOLIDATED		PARENT COMPANY	
	Note	**2000**	**1999**	**2000**	**1999**
A S S E T S					
Non-current assets					
Property, plant and equipment	4	3,234,088	2,934,647	3,769	3,368
Goodwill	5	26,796	24,171	-	-
Licenses, 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
		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
		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	1,279,121	1,783,273	1,279,120
		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	-	-
		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	-
		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 set out on pages 7 to 27.

Estonian Telecom Limited and Subsidiary Companies
Cash flow statements for the year ended 31 December 2000
In thousands of kroons (EEK)

		GROUP		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 licenses		(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 set out on pages 7 to 27.

Estonian Telecom Limited and Subsidiary Companies

Statements of changes in equity as at 31 December 2000

In thousands of kroons (EEK)

	Note	CONSOLIDATED		PARENT COMPANY	
		2000	**1999**	**2000**	**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 preference 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 preference share					
par value EEK 1000.00 per share, fully paid					
		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 set out on pages 7 to 27.

Notes to the financial statements for the year ended 31 December 2000

Financial statements are prepared in thousand of kroons (EEK)

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 on the 2 of March 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 by the parent company. When an entity began or ceased to be controlled during the year, the results are included only from the date control commenced or up to the date control ceased. Control is presumed to exist where more than one half of a subsidiary's voting power is controlled by the parent company, or the parent company is able to govern the financial and operation policies of a subsidiary, or control the removal or appointment of a majority of a subsidiary's board of directors.

All intercompany transactions and balances have been eliminated.

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

Foreign currency

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

Hedging

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

Property, plant and equipment

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

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

The rates of depreciation used are as follows:

• Buildings	3 - 8%
• Plant and equipment	15 - 40%
• Furniture, fixtures and fittings	10 - 50%

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

Leased assets

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

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

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

Goodwill

Goodwill represents the excess of the cost of acquisition over the fair value of the net identifiable assets acquired of a controlled entity. Goodwill is recognised as an asset in the Group's consolidated financial statements and is amortised on a straight-line basis. The period of amortisation is the period of time during which benefits are expected to arise and does not exceed 5 years.

Licences, patents and trademarks

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

Research and development

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

Investments

Valuation

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

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

Disposals

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

Associates

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

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

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

Subsidiaries

A listing of the Group's subsidiaries is set out in note 9.

Inventories

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

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

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

Taxation

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 by others of the Group's resources are recognised when it is probable that the economic benefits associated with the transaction will flow to the Group and the revenue can

be measured reliably. Interest income is recognised as it accrues (taking into account the effective yield on the asset) unless collectibility is in doubt. Royalty income is recognised on an accrual basis in accordance with the substance of the relevant agreement. Dividend income is recognised when the shareholder's right to receive payment is established.

Segment information

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

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

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

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

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

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

Notes to the financial statements for the year ended 31 December 2000

In thousands of kroons (EEK)

2. Additional information on the income statement

		CONSOLIDATED		PARENT COMPANY	
	Note	**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

Notes to the financial statements for the year ended 31 December 2000

In thousands of kroons (EEK)

3. Taxation

The Income Tax Act which became effective in Estonia on 1 January 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 Estonian Telephone Company Ltd had an income tax receivable of EEK 85,197,000 relating to the tax that was to be prepaid at prior dividend distributions. Estonian Telephone Company's sole shareholder is Estonian Telecom Ltd, 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 Estonian Telephone Company Ltd 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.

Income tax expense

	CONSOLIDATED		PARENT COMPANY	
	2000	**1999**	**2000**	**1999**
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:

	CONSOLIDATED		PARENT COMPANY	
	2000	**1999**	**2000**	**1999**
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	-	-

In thousands of kroons (EEK)

4. Property, plant and equipment

	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 6,785,000 in 1999 and EEK 11,784,000 in 2000.

In thousands of kroons (EEK)

4. Property, plant and equipment (Continued)

2000	Land & buildings		Plant and equipment		Leased plant & equipment		Fixed assets under		Advance payments for	
	Consolidated	Parent	Consolidated	Parent	Consolidated	Parent	Consolidated	Parent	Consolidated	Parent
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)
Acquisitions through business combinations	-	-	-	-	-	-	-	-	-	-
Disposals of subsidiaries	-	-	-	-	-	-	-	-	-	-
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	Land & buildings		Plant and equipment		Leased plant & equipment		Fixed assets under		Advance payments for	
	Consolidated	Parent	Consolidated	Parent	Consolidated	Parent	Consolidated	Parent	Consolidated	Parent
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.

In thousands of kroons (EEK)

5. Goodwill

	Note	CONSOLIDATED		PARENT COMPANY	
		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	-	-

6. Licenses, patents and trademarks

	CONSOLIDATED		PARENT COMPANY	
	2000	**1999**	**2000**	**1999**
Licenses, 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 licenses, 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	-

Notes to the financial statements for the year ended 31 December 2000

In thousands of kroons (EEK)

7. Investments in subsidiaries and associates

		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

8. Investments in subsidiaries

	Country of incorporation	Ownership interest	
		2000	**1999**
Parent company :			
Estonian Telecom Limited	Estonia		
The parent company is domiciled in Estonia			
Significant subsidiaries			
Estonian Telephone Ltd.	Estonia	100%	100%
Estonian Mobile Telephone Ltd.	Estonia	100%	100%

9. Investments in associates

	Country of incorporation	Ownership interest	
		2000	**1999**
1. ETYP AS	Estonia	50%	0%
2. Esdata AS	Estonia	30%	30%
3. OÜ Voicecom	Estonia	26%	0%

In September 2000 Estonian Telephone Company Ltd invested in ETYP AS, a joint venture with Union Bank of Estonia, EEK 15,000,000. The company was established to create the most reliable and most widely used Internet environment in Estonia.

At the end of December Estonian Mobile Telephone Company Ltd acquired a 26 percent interest in OÜ Voicecom. The acquisition cost of the stake amounted to EEK 2,409,000 and goodwill of EEK 1,830,000 was recognised. The company's core activity is design of computer software and hardware.

10. Other investments

	CONSOLIDATED		PARENT COMPANY	
	2000	**1999**	**2000**	
Non-current investments in other enterprises:				
1. Rocca al Mare Suurhall	1,200	840	1,200	840
2. Hansapank	48	48	-	-
3. Mgine Technologies OY	7,823	-	-	-
	9,071	888	1,200	840

As of 31.12.2000 the Group owned 1,369 shares of Hansapank with a market value of EEK 190,000.

In October 2000, Estonian Mobile Telephone Company Ltd acquired a 5 percent interest in Mgine Technologies OY, a company engaged in the development of positioning and personalisation solutions.

In thousands of kroons (EEK)

11. Acquisition of subsidiaries

In November 1999 Estonian Telephone Company Ltd 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. Estonian Telephone Company resorted to the latter option and made an additional payment of EEK 4,748,000. This increased the amount of the goodwill that was recognised as a result of the transaction. In December 2000, Estonian Telephone Company Ltd acquired the remaining 30 percent interest in AS Telefonipood for EEK 10,286,000. The transaction was recognised under the purchase method and increased goodwill by EEK 5,957,000.

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

	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		-	11,502

In November 2000 the Supervisory Board of Estonian Telephone Company Ltd 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, Estonian Telephone Company 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.

Notes to the financial statements for the year ended 31 December 2000

In thousands of kroons (EEK)

12. Trade and other receivables

	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

13. Inventories

	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

14. Cash and cash equivalents

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

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 preference share. The holder of the preference 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 Estonian Telecom 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 Estonian Telecom 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 Estonian Telecom 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 the Estonian Telecom 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 the exchange deadline specified in the convertible bonds' terms and conditions, be EEK 1,382,332,780.

In thousands of kroons (EEK)

16. Interest-bearing loans and borrowings

		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, Estonian Telephone Company Ltd settled long-term debt of EEK 192,000,000 in advance.

Non convertible long-term debt includes pension liabilities of EEK 8,974,000.

		CONSOLIDATED		PARENT COMPANY	
	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	-

In thousands of kroons (EEK)

17. Details of loans

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

	Interest rate	Note	CONSOLIDATED 2000	CONSOLIDATED 1999	PARENT COMPANY 2000	PARENT COMPANY 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	-	-
(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 Estonian Telecom 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.

(e) Repayment of bank loans and nonconvertible long-term debt

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

Notes to the financial statements for the year ended 31 December 2000

In thousands of kroons (EEK)

18. Trade and other payables

	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

19. Finance and operating lease

	CONSOLIDATED		PARENT COMPANY	
	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	-	-

	Note	CONSOLIDATED		PARENT COMPANY	
		2000	**1999**	**2000**	**1999**
(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	-	-

Notes to the financial statements for the year ended 31 December 2000

In thousands of kroons (EEK)

20. Related parties

	CONSOLIDATED		PARENT COMPANY	
	2000	**1999**	**2000**	**1999**
(a) Directors and executive officers				
The total remuneration of directors and officers is as follows :				
Members of the Supervisory Board and Management Board	14,261	9,550	4,680	2,978

	CONSOLIDATED		PARENT COMPANY	
	2000	**1999**	**2000**	**1999**
(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.

In thousands of kroons (EEK)

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 telecommunications 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.

(a) Business segments

	Fixed network telecommunication		Mobile telecommunication		Other operations		Eliminations		Consolidated	
	2000	**1999**	**2000**	**1999**	**2000**	**1999**	**2000**	**1999**	**2000**	**1999**
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
Income from other financial investments									-	-
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

In thousands of kroons (EEK)

Other information

	Fixed network telecommunication services		Mobile communications		Other operations		Eliminations		Consolidated	
	2000	**1999**	**2000**	**1999**	**2000**	**1999**	**2000**	**1999**	**2000**	**1999**
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
Deferred tax assets									-	-
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
Deferred tax liabilities									-	-
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

In thousands of kroons (EEK)

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 Estonian Telecom, Estonian Telephone Company and Estonian Mobile Telephone Company were combined into a group account both at Hansapank and Union Bank of Estonia. 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 Supervisory Board of Estonian Telecom.

(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 failed 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 at 31 December 2000 amounted to FIM 110 million.
Certain amounts of foreign currency will be exchanged annually with a peak in 2002.

	CONSOLIDATED	
	2000	**1999**
Foreign currency swap transactions	289,471	609,652
Unrealised gains	5,429	6,087

In thousands of kroons (EEK)

23. Contingencies

On 29 December 2000 the Republic of Estonia and Estonian Telephone Company Ltd concluded an agreement on the termination of the Concession Agreement. Under the agreement, Estonian Telephone Company 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 monetary penalties. According to management estimates, realisation of penalties of a significant nature, however, is not likely.

Guarantees

	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 undistributed profits of 1994-1999 and the income tax paid on the undistributed profits of 1994-1999 that has been transferred by the subsidiaries.

Dividends can be distributed from undistributed profits. If Estonian Telecom Ltd 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.

24. Events after the balance sheet date

Estonian Telephone Company Ltd 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 Estonian Telephone Company 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 Estonian Telephone Company will earn significant non-recurring income.

25. Employees

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

26. Ultimate parent of the Group

The ultimate parent of the Group is Estonian Telecom Company Limited, situated at Roosikrantsi str 2, 10119 Tallinn, Estonia