Consolidated and Parent Company
Financial Statements
of
AS Eesti Telekom Ltd
2001

AS Eesti Telekom and Subsidiary Companies

Consolidated and Parent Company Financial Statements

Contents

AS Eesti Telekom and Subsidiary Companies

Income statements for the year ended 31 December 2001

Financial statements are prepared in thousands of euros (EUR)

	Note	CONSOLIDATED		PARENT COMPANY	
		2001	**2000 Restated**	**2001**	**2000 Restated**
Revenue					
Net sales	3 (a)	265,516	251,182	-	-
Change in work-in-progress		34	(31)	-	-
Capitalized self-constructed assets		5,568	-	-	-
Other revenue	3 (b)	2,714	2,801	15	19
Total revenue		**273,832**	**253,952**	**15**	**19**
Operating expenses					
Materials, consumables, supplies and services		(82,492)	(59,559)	-	-
Other operating expenses		(31,634)	(28,308)	(605)	(972)
Personnel expenses	3 (c)	(34,177)	(30,962)	(558)	(835)
Other expenses	3 (d)	(2,117)	(2,311)	(126)	(220)
Total operating expenses		**(150,420)**	**(121,140)**	**(1,289)**	**(2,027)**
Profit (loss) from operations before depreciation		**123,412**	**132,812**	**(1,274)**	**(2,008)**
Depreciation and amortisation	3 (e), 5, 7	(72,582)	(61,950)	(81)	(64)
Profit (loss) from operations		**50,830**	**70,862**	**(1,355)**	**(2,072)**
Income (+) / expenses (-) from subsidiaries and associates		1,715	(20)	51,539	70,144
Other net financing items	3 (f)	(749)	(758)	1,576	1,647
Profit before tax		**51,796**	**70,084**	**51,760**	**69,719**
Income tax expense on dividends	4	(1,977)	(3,474)	(1,977)	(3,468)
Profit after tax		**49,819**	**66,610**	**49,783**	**66,251**
Minority interest		(36)	(359)	-	-
Net profit from ordinary activities		**49,783**	**66,251**	**49,783**	**66,251**
Extraordinary income	4	-	5,445	-	5,445
Net profit for the period		**49,783**	**71,696**	**49,783**	**71,696**
Earnings per share	15 (f)				
Basic earnings per share (in euros)		0.36	0.52	0.36	0.52
Diluted earnings per share (in euros)		0.36	0.52	0.36	0.52

The consolidated and parent company financial statements are to be read in conjunction with the Notes to and forming part of the consolidated and parent company financial statements set out on pages 7 to 34.

AS Eesti Telekom and Subsidiary Companies

Balance sheets as at 31 December 2001

Financial statements are prepared in thousands of euros (EUR)

		CONSOLIDATED		PARENT COMPANY	
	Note	**2001**	**2000 Restated**	**2001**	**2000 Restated**
ASSETS					
Non-current assets					
Property, plant and equipment	5	194,538	206,695	147	241
Goodwill	7	947	1,713	-	-
Licenses, patents and trademarks		2,641	2,608	64	88
Investments in subsidiaries and associates	8 – 9	1,147	1,141	186,635	184,282
Other investments	10	176	580	77	77
Other non-current assets	11 (a)	369	146	21,040	22,691
Total non-current assets		**199,818**	**212,883**	**207,963**	**207,379**
Current assets					
Inventories	12	6,648	9,538	-	1
Trade and other receivables	11 (b)	34,604	33,850	11,964	14,952
Cash and cash equivalents	13	29,669	38,970	11,386	13,693
Total current assets		**70,921**	**82,358**	**23,350**	**28,646**
Total assets		***270,739***	***295,241***	***231,313***	***236,025***
EQUITY AND LIABILITIES					
Capital and reserves	15				
Issued capital		87,804	87,804	87,804	87,804
Reserves		28,591	27,797	28,591	27,797
Accumulated profits		114,668	113,972	114,668	113,972
Total capital and reserves		**231,063**	**229,573**	**231,063**	**229,573**
Minority interest					
Subsidiary companies		-	524	-	-
Total minority interests		**-**	**524**	**-**	**-**
Non-current liabilities					
Interest - bearing loans and borrowings	16 (a), 17, 18	3,139	12,845	29	-
Total non-current liabilities		**3,139**	**12,845**	**29**	**-**
Current liabilities					
Trade and other payables	19	30,902	41,984	221	245
Interest - bearing loans and borrowings	16 (b), 17	5,635	10,315	-	6,207
Total current liabilities		**36,537**	**52,299**	**221**	**6,452**
Total equity and liabilities		***270,739***	***295,241***	***231,313***	***236,025***

The consolidated and parent company financial statements are to be read in conjunction with the Notes to and forming part of the consolidated and parent company financial statements set out on pages 7 to 34.

AS Eesti Telekom and Subsidiary Companies

Statements of changes in equity as at 31 December 2001

Financial statements are prepared in thousands of euros (EUR)

	Note	Issued capital	Reserves		Accumulated profits	Total
			Share premium	Legal reserves		
31 December 1999		**87,804**	**19,810**	**3,634**	**81,751**	**192,999**
Amounts transferred to legal reserve		-	-	4,353	(4,353)	-
Dividends paid	15	-	-	-	(35,122)	(35,122)
Net profit for the period		-	-	-	71,696	71,696
31 December 2000		**87,804**	**19,810**	**7,987**	**113,972**	**229,573**
Amounts transferred to legal reserve	15	-	-	794	(794)	-
Dividends paid	15	-	-	-	(48,293)	(48,293)
Net profit for the period		-	-	-	49,783	49,783
31 December 2001		**87,804**	**19,810**	**8,781**	**114,668**	**231,063**

The consolidated and parent company financial statements are to be read in conjunction with the Notes to and forming part of the consolidated and parent company financial statements set out on pages 7 to 34.

AS Eesti Telekom and Subsidiary Companies

Cash flow statements for the year ended 31 December 2001

Financial statements are prepared in thousands of euros (EUR)

		CONSOLIDATED		PARENT COMPANY	
	Note	**2001**	**2000**	**2001**	**2000**
Cash flow from operating activities					
Profit before taxation and minority interest		51,796	70,084	51,760	69,719
Adjustments for:					
Depreciation and amortisation		72,582	61,950	81	64
Profit (-) / loss (+) from sales and write-off of fixed assets		94	(237)	15	6
Income (-) / expense (+) from subsidiaries and associated companies		(1,715)	20	(51,539)	(70,144)
Profit (-) / loss (+) from revaluation of investments	10	500	-	-	-
Interest income / expense net	3	(196)	18	(1,927)	(1,703)
Other non-cash adjustments		(19)	(43)	7	-
Operating profit before working capital changes		123,042	131,792	(1,603)	(2,058)
Change in current receivables		(3,618)	73	(9)	(2)
Change in inventories		2,889	(484)	1	0
Change in current liabilities		(10,188)	12,059	105	(16)
Cash generated from operations		112,125	143,440	(1,506)	(2,076)
Interest paid		(970)	(1,420)	(69)	-
Income tax paid (-) / received (+)		-	(3,241)	-	253
Net cash from operating activities		111,155	138,779	(1,575)	(1,823)
Cash flow used in investing activities					
Purchase of property, plant and equipment		(58,454)	(77,138)	(27)	(107)
Purchase of licenses		(2,296)	(2,035)	(83)	(8)
Acquisition of subsidiaries, net of cash acquired	22	(926)	(767)	-	-
Acquisition of associated companies	9	(383)	(1,113)	-	-
Purchase of investments, shares and other	10	(97)	(523)	-	(23)
Proceeds from sales of property, plant and equipment		730	683	43	14
Proceeds from sales of investments	23	2,780	-	-	-
Loans granted		(305)	(6)	(20,382)	(23,042)
Cash receipts from repayment of loans		5	13	22,932	13,105
Cash receipts from settlement of long-term receivables		-	-	-	-
Dividends received		12	-	49,185	39,628
Interest received		1,245	1,419	2,257	1,907
Net cash used in investing activities		(57,689)	(79,467)	53,925	31,474
Cash flow used in financing activities					
Proceeds from long-term debt		28	-	28	-
Repayment of long-term debt		(1)	-	(1)	-
Issuance of unsecured short-term bonds		-	6,024	-	6,024
Repayment of unsecured short-term bonds		(6,391)	-	(6,391)	-
Proceeds form nonconvertible long-term debt		-	-	-	-
Repayment of non-convertible long-term debt		(334)	(446)	-	-
Repayment of long-term borrowings	17	(6,713)	(21,410)	-	-
Settlement of finance lease liabilities	16	(1,063)	(385)	-	-
Proceeds from short-term borrowings		5,000	-	5,000	-
Repayment of short-term borrowings		(5,000)	-	(5,000)	-
Dividends paid		(48,293)	(35,122)	(48,293)	(35,122)
Dividends paid to minority shareholders		-	(20)	-	-
Net cash used in financing activities		(62,767)	(51,359)	(54,657)	(29,098)
Net increase / - decrease in cash and cash equivalents		**(9,301)**	**7,953**	**(2,307)**	**553**
Cash and cash equivalents at beginning of year	13	38,970	31,017	13,693	13,140
Cash and cash equivalents at end of year	13	29,669	38,970	11,386	13,693

The consolidated and parent company financial statements are to be read in conjunction with the Notes to and forming part of the consolidated and parent company financial statements set out on pages 7 to 34.

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 (together referred as the Group) are set out below. The financial statements were authorised for issue by the Supervisory Council on the 24^{th} of April 2002.

The consolidated financial statements are presented in thousands of euros, unless indicated otherwise. The Group's measurement currency is Estonian kroon. The consolidated financial statements are presented in euros as in reporting currency of the Group for informational purposes. In translation from kroon to euro the same exchange rate is used throughout the consolidated financial statements, as kroon is pegged to euro with fixed exchange rate of 15.64664 kroons per euro.

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.

The financial statements present fairly the financial position, financial performance and cash flows of the enterprise.

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 inter-company 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.

Shares and Other Securities

Shares and other securities which are intended to be disposed during the following financial year and which maturity date is one year or less from the balance sheet date are recorded as short-term financial investments. Short-term financial investments are recorded on the Balance Sheet at lower of cost or net realizable value and the change in value is recorded as financial income and expense in the Income Statement.

Receivables

Receivables recorded on the Balance Sheet are valued based on the probability of receiving payment. Accounts receivable, which are not expected to be collected, are expensed during the financial year and reported on the Balance Sheet under the heading “Allowance for doubtful receivables”. Receivables, the collection of which is not feasible or economically justified, are considered to be uncollectible and written-off from the Balance Sheet. Previously expensed receivables, which were collected during the financial year, are recorded on the same expense account as a reverse entry.

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. When the recoverable amount of an asset has declined below its carrying amount, the carrying amount is reduced to reflect the decline in value. In determining the recoverable amount of assets, expected cash flows are discounted to their present values. Freehold land is not depreciated. Fixed assets are recorded at acquisition cost, which comprises of purchase price, non-refundable taxes and other expenditures directly related to taking the fixed asset object into use. 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.

Licenses, patents and trademarks

Licenses, 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 (over five years, as a rule).

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 and information about there are set out in note 9.

Subsidiaries

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

A listing of the Group' s subsidiaries is set out in note 8.

Other long-term financial Investments

Miscellaneous long-term receivables and loans are valued individually and recorded based on the probability of receiving payment according to the prudence principle.

Portfolio investments

Portfolio investments are valued at the lower of cost or net realizable value.
Information about portfolio investments is set out in note 10.

Inventories

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

Cost is based on the weighted average cost principle in AS EMT and on the first-in, first-out principle in AS Eesti Telefon and includes expenditure incurred in acquiring the inventories and bringing them to their existing condition and location.

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

Taxation

The Income Tax Act that became effective in Estonia on 1 January 2000 replaces the taxation of earnings with the taxation of dividend distributions and other payments that have the characteristics of a profit distribution. Because of fundamental changes in the principles of taxation, the term *tax base of assets and liabilities* will lose its substance and deferred income tax assets and liabilities defined in IAS 12 can no longer arise.

Liabilities

Liabilities with payment terms over one year after the end of the balance sheet date are considered to be long-term liabilities. Other liabilities are reported as short-term liabilities.

Liabilities which have arisen during the financial year or prior periods, which have legal or contractual basis, which are expected to result in the outflow of resources and which can be reliably measured but for which the actual payment amount and payment date has not been definitely determined, are recorded as provisions on the Balance Sheet. Provisions are measured based on the management's estimates, experience and when necessary the assessments of independent experts.

Potential liabilities, guarantees and warranties are disclosed in the Notes to the Financial Statements as contingent liabilities.

Vacation payment expenses are recorded in the period the vacation has been earned which means when the right to claim the vacation by an employee occurs. Vacation payment earned or the change is recorded in the Income Statement as an expense and on the Balance Sheet as a short-term liability.

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

The discounted pension liability has been calculated using actuarial assumptions.

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 dates. 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 liabilities are those operating activities of a segment and that are directly attributable to the segment.

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).

Reclassification

During 2001, the following comparative financial information has been reclassified:

		CONSOLIDATED	PARENT COMPANY
<u>a) Income statement</u>			
Operating expenses			
Materials, consumables, supplies and services			
	Beginning balance	(59,175)	-
	Reclassification	(384)	-
	Reclassified balance	(59,559)	-
Other operating expenses			
	Beginning balance	(27,291)	-
	Reclassification	(1,017)	-
	Reclassified balance	(28,309)	-
Personnel expenses			
	Beginning balance	(30,965)	-
	Reclassification	3	-
	Reclassified balance	(30,962)	-
Other expenses			
	Beginning balance	(3,711)	-
	Reclassification	1,400	-
	Reclassified balance	(2,311)	-
Income (+)/ expense (-) from subsidiaries and associates			
	Beginning balance	-	70,150
	Reclassification	-	(6)
	Reclassified balance	-	70,144
Income tax expense on dividends			
	Beginning balance	-	-
	Reclassification	(3,474)	(3,468)
	Reclassified balance	(3,474)	(3,468)
Minority interest			
	Beginning balance	(361)	-
	Reclassification	2	-
	Reclassified balance	(359)	-
<u>b) Balance sheet</u>			
Assets			
Trade and other receivables			
	Beginning balance	33,944	-
	Reclassification	(94)	-
	Reclassified balance	33,850	-
Liabilities			
Trade and other payables			
	Beginning balance	42,078	-
	Reclassification	(94)	-
	Reclassified balance	41,984	-

2. Segment information

A business segment is a distinguishable division of the Group that is engaged in providing a group of related services or products, and which is subject to risks and returns that are different from those of the other business segments.

Eesti Telekom Group activities have been divided into three segments: fixed network telecommunications, mobile telecommunications, and other activities.

Fixed network telecommunications – this segment deals with operating the national telecommunications network, with providing fixed telecommunication services and related value added services and to provide, produce, market and sell related services. The companies belonging to this segment group are AS Eesti Telefon, AS Telefonipood, and AS Connecto.

Mobile communications – this segment deals with operating mobile networks and systems, and with producing, marketing and selling services related thereto. The companies belonging to this segment group are AS EMT, AS Esmofon, AS Esmofon Tartu, and AS Mobile Wholesale.

Other activities – this segment covers the activities of the parent company AS Eesti Telekom.

In 2001 report the structure of the segments information has been changed with the objective to provide data in more interest to investors. Year 2000 data were restated to make it comparable with 2001.

The segment turnovers presented in the report represent the inter-company income and expenses of the three segments. The inter-company turnovers of the companies belonging to the same segment have not been presented in this report.

Inter-company transactions were conducted under market terms.

(a) Business segments

	Fixed network telecommunication		Mobile telecommunication		Other activities		Eliminations		Consolidated	
	2001	**2000** Restated	**2001**	**2000** Restated	**2001**	**2000** Restated	**2001**	**2000** Restated	**2001**	**2000** Restated
Revenue										
Net sales	157,214	155,501	108,302	95,681	-	-	-	-	265,516	251,182
Other revenue	6,417	1,557	1,897	1,211	2	2	-	-	8,316	2,770
Inter-segment revenue	19,937	14,883	31,487	19,132	13	17	(51,437)	(34,032)	-	-
Total revenue	**183,568**	**171,941**	**141,686**	**116,024**	**15**	**19**	**(51,437)**	**(34,032)**	**273,832**	**253,952**
Operating expenses										
Materials, consumables, supplies and services	(44,426)	(30,321)	(38,066)	(29,238)	-	-	-	-	(82,492)	(59,559)
Other operating expenses	(23,765)	(21,139)	(7,296)	(6,231)	(573)	(938)	-	-	(31,634)	(28,308)
Personnel expenses	(26,888)	(25,447)	(6,731)	(4,680)	(558)	(835)	-	-	(34,177)	(30,962)
Other expenses	(990)	(1,542)	(1,001)	(549)	(126)	(220)	-	-	(2,117)	(2,311)
Inter-segment expenses	(31,475)	(19,126)	(19,930)	(14,872)	(32)	(34)	51,437	34,032	-	-
Total operating expenses	**(127,544)**	**(97,575)**	**(73,024)**	**(55,570)**	**(1,289)**	**(2,027)**	**51,437**	**34,032**	**(150,420)**	**(121,140)**
Profit (loss) from operations before depreciation and amortisation	56,024	74,366	68,662	60,454	(1,274)	(2,008)	-	-	123,412	132,812
Depreciation and amortisation *)	(52,221)	(44,220)	(20,303)	(17,700)	(81)	(64)	23	34	(72,582)	(61,950)
Profit from operations	**3,803**	**30,146**	**48,359**	**42,754**	**(1,355)**	**(2,072)**	**23**	**34**	**50,830**	**70,862**
Income / (expenses) from subsidiaries and associated companies	1,832	(20)	(117)	-	51,539	70,144	(51,539)	(70,144)	1,715	(20)
Foreign exchange gain	7	40	-	-	(7)	(56)	-	-	14	(16)
Other financial income / (expenses)	(2,463)	(3,190)	131	745	1,569	1,703	-	-	(763)	(742)
Extraordinary income	-	-	-	-	-	5,445	-	-	-	5,445
Income tax on dividends	-	-	-	(6)	(1,977)	(3,468)	-	-	(1,977)	(3,474)
Minority interest	(36)	(296)	-	(63)	-	-	-	-	(36)	(359)
Net profit	**3,143**	**26,680**	**48,373**	**43,430**	**49,783**	**71,696**	**(51,516)**	**(70,110)**	**49,783**	**71,696**

*) Depreciation and amortisation includes value adjustments of reducing the carrying amount of property, plant and equipment to its recoverable amount. In 2001 a value adjustment of 6,008 thousand euros was made.

(b) Other information by segments

	Fixed network telecommunication		Mobile telecommunication		Other activities		Eliminations		Consolidated	
	2001	**2000 Restated**	**2001**	**2000 Restated**	**2001**	**2000 Restated**	**2001**	**2000 Restated**	**2001**	**2000 Restated**
Non-current assets	128,752	149,997	70,576	62,562	207,963	207,379	(207,473)	(207,055)	199,818	212,883
Current assets	28,435	29,978	35,238	39,319	23,350	28,646	(16,102)	(15,585)	70,921	82,358
Total assets	**157,187**	**179,975**	**105,814**	**101,881**	**231,313**	**236,025**	**(223,575)**	**(222,640)**	**270,739**	**295,241**
Capital and reserves	94,603	97,212	92,092	87,152	231,063	229,573	(186,695)	(184,364)	231,063	229,573
Minority interest	-	423	-	101	-	-	-	-	-	524
Non-current liabilities	23,356	34,962	532	574	29	-	(20,778)	(22,691)	3,139	12,845
Current liabilities	39,228	47,378	13,190	14,054	221	6,452	(16,102)	(15,585)	36,537	52,299
Total equity and liabilities	**157,187**	**179,975**	**105,814**	**101,881**	**231,313**	**236,025**	**(223,575)**	**(222,640)**	**270,739**	**295,241**
Capital expenditure	31,713	54,914	29,489	30,451	28	198	-	-	61,230	85,563

3. Additional information on the income statement

	CONSOLIDATED		PARENT COMPANY	
	2001	**2000 Restated**	**2001**	**2000 Restated**
Profit before tax was derived after including the following items :				
(a) Net sales				
Telecommunication services	244,427	232,202	-	-
Goods	15,697	14,609	-	-
Other services	3,390	1,347	-	-
Other net sales	2,002	3,024	-	-
Total	265,516	251,182	-	-
(b) Other revenue				
Profit from sales of fixed assets	492	570	1	-
Foreign exchange gain	410	628	0	2
Prior period income	31	769	-	-
Interest on arrears and penalties	118	125	-	-
Other revenue	1,663	709	14	17
Total	2,714	2,801	15	19
(c) Personnel expenses				
Wages and salaries	(25,346)	(22,804)	(406)	(613)
Social charges	(8,535)	(7,775)	(144)	(215)
Pension expenses	-	-	-	-
Other personnel expenses	(296)	(383)	(8)	(7)
Total	(34,177)	(30,962)	(558)	(835)
(d) Other expenses				
Loss from sales of fixed assets	(27)	(10)	(16)	(2)
Write-off of fixed assets	(559)	(323)	(1)	(4)
Foreign exchange loss	(462)	(666)	(1)	(2)
Prior period expenses	-	(449)	-	-
Bad debts	-	(59)	-	-
Sponsorship	(580)	(650)	(84)	(202)
Local taxes	(20)	(17)	-	-
Other expenses	(469)	(137)	(24)	(10)
Total	(2,117)	(2,311)	(126)	(220)
(e) Depreciation and amortisation				
Depreciation	(69,570)	(58,906)	(55)	(62)
Amortisation	(3,012)	(3,044)	(26)	(2)
Total	(72,582)	(61,950)	(81)	(64)
(f) Other net financing items				
Interest income	1,197	1,452	2,135	1,887
Interest expense	(1,001)	(1,470)	(208)	(184)
Net foreign exchange gain / loss	14	(16)	7	(56)
Other financial income	17	20	-	-
Other financial expenses	(976)	(744)	(358)	-
Total	(749)	(758)	1,576	1,647

4. 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.

At 31 December 1999 AS Eesti Telefon had an income tax receivable of 5,445 thousand euros relating to the tax that was to be prepaid at prior dividend distributions. AS Eesti Telefon's sole shareholder is AS Eesti Telekom, a resident legal person. Therefore, a dividend distribution does not give rise to an income tax liability. At the preparation of the annual accounts for 1999 the Income Tax Act did not provide a mechanism for realising the asset and it was expensed as an extraordinary item.

The Amendment to the Income Tax Act, which became effective in summer 2000 allows AS Eesti Telekom 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.

AS Eesti Telekom used the transferred income tax receivable for the dividend tax settlement in amount of 53,468 thousand euros in 2000 and in amount of 1,977 thousand euros in 2001.

Income tax on dividends expense

	CONSOLIDATED		PARENT COMPANY	
	2001	**2000**	**2001**	**2000**
Tax expense components:				
Current tax expense	-	(5)	-	-
Usage of dividend tax receivables	(1,977)	(3,469)	(1,977)	(3,468)
Income tax expense on dividends	(1,977)	(3,474)	(1,977)	(3,468)

5. Property, plant and equipment

(a) Consolidated

	Land and buildings	Plant and equipment	Other equipment and fixtures	Properties under construction	Advance payments for non-current assets	**Total**
At cost						
At 31 December 1999	**47,489**	**299,405**	**16,450**	**1,437**	**2,161**	**366,942**
Additions	2,556	73,041	8,690	60,135	1,018	145,440
Reconstruction	45	-	-	-	-	45
Disposals and written off (-)	(3,808)	**(20,213)**	**(2,672)**	-	-	(26,693)
Reclassification	-	-	-	(59,897)	(2,944)	(62,841)
At 31 December 2000	**46,282**	**352,233**	**22,468**	**1,675**	**235**	**422,893**
Additions	**5,032**	**41,404**	**13,144**	42,089	464	102,133
Reconstruction	**20**	-	-	-	-	20
Disposals and written off (-)	**(664)**	(10,009)	(2,722)	-	-	(13,395)
Disposed of on disposal of a subsidiary (-)	-	(178)	(607)	(34)	-	(819)
Reclassification	-	-	-	**(42,696)**	(609)	(43,305)
At 31 December 2001	**50,670**	**383,450**	**32,283**	**1,034**	**90**	**467,527**
Accumulated depreciation						
At 31 December 1999	**(26,777)**	**(143,490)**	**(9,118)**	**-**	**-**	**(179,385)**
Charge for the year	(2,463)	(51,920)	(4,523)	-	-	(58,906)
Eliminated on disposals and written off (-)	3,766	16,013	2,313	-	-	22,092
At 31 December 2000	**(25,474)**	**(179,397)**	**(11,328)**	**-**	**-**	**(216,199)**
Charge for the year	(3,510)	(59,759)	(6,301)	-	-	(69,570)
Eliminated on disposals and written off (-)	604	9,390	2,343	-	-	12,337
Eliminated on disposals of a subsidiary (-)	-	96	347	-	-	443
At 31 December 2001	**(28,380)**	**(229,670)**	**(14,939)**	**-**	**-**	**(272,989)**
Carrying amount						
At 31 December 2000	**20,808**	**172,836**	**11,140**	**1,675**	**235**	**206,695**
At 31 December 2001	**22,291**	**153,780**	**17,344**	**1,034**	**90**	**194,538**

Note: Depreciation and amortisation includes value adjustments of reducing the carrying amount of property, plant and equipment to its recoverable amount. In 2001 a value adjustment of 6,008 thousand euros was made.

(b) Parent company

	Plant and equipment	Other equipment and fixtures	Advance payments for non-current assets	**Total**
At cost				
At 31 December 1999	**109**	**170**	**32**	**311**
Additions	48	92	6	146
Disposals (-)	(37)	(8)	-	(45)
Written off (-)	-	(17)	-	(17)
Reclassification	-	-	(38)	(38)
At 31 December 2000	**120**	**237**	**-**	**357**
Additions	19	8	-	27
Disposals (-)	(66)	(34)	-	(100)
Written off (-)	-	(30)	-	(30)
At 31 December 2001	**73**	**181**	**-**	**254**
Accumulated depreciation				
At 31 December 1999	**(39)**	**(57)**	**-**	**(96)**
Charge for the year	(19)	(43)	-	(62)
Eliminated on disposals and written off (-)	27	15	-	42
At 31 December 2000	**(31)**	**(85)**	**-**	**(116)**
Charge for the year	(15)	(40)	-	(55)
Eliminated on disposals and written off (-)	23	41	-	64
At 31 December 2001	**(23)**	**(84)**	**-**	**(107)**
Carrying amount				
At 31 December 2000	**89**	**152**	**-**	**241**
At 31 December 2001	**50**	**97**	**-**	**147**

6. Leased plant and equipment (consolidated)

	Plant and equipment
At cost	
At 31 December 2000	**1,359**
Reclassification	(1,359)
At 31 December 2001	-
Accumulated depreciation	
At 31 December 2000	**(93)**
Reclassification	93
At 31 December 2001	-
Carrying amount	
At 31 December 2000	***1,266***
At 31 December 2001	***-***

7. Intangible assets

	CONSOLIDATED			PARENT COMPANY	
	Goodwill	Licenses, patents and trademarks	**Total**	Licenses, patents and trademarks	**Total**
At cost					
At 31 December 1999	**2,003**	**6,448**	**8,451**	**-**	**-**
Additions	801	2,118	2,919	90	90
Disposals (-)	-	(796)	(796)	-	-
At 31 December 2000	**2,804**	**7,770**	**10,574**	**90**	**90**
Additions	168	2,214	2,382	1	1
Disposals (-)	-	(229)	(229)	-	-
At 31 December 2001	**2,972**	**9,755**	**12,727**	**91**	**91**
Accumulated depreciation					
At 31 December 1999	**(458)**	**(3,526)**	**(3,984)**	**-**	**-**
Charge for the year	(633)	(2,411)	(3,044)	(2)	(2)
Eliminated on disposals and written off (-)	-	775	775	-	-
At 31 December 2000	**(1,091)**	**(5,162)**	**(6,253)**	**(2)**	**(2)**
Charge for the year	(933)	(2,079)	(3,012)	(26)	(26)
Eliminated on disposals and written off (-)	-	127	127	-	-
At 31 December 2001	**(2,024)**	**(7,114)**	**(9,138)**	**(28)**	**(28)**
Carrying amount					
At 31 December 2000	**1,713**	**2,608**	**4,321**	**88**	**88**
At 31 December 2001	**947**	**2,641**	**3,588**	**64**	**64**

8. Investments in subsidiaries

	Country of incorporation	Ownership interest		Principal activity	Owner
		2001	**2000**		
AS Eesti Telefon	Estonia	100%	100%	Network services for operators, data communication and Internet products, voice communication solutions and Internet content services for business and residential customers	AS Eesti Telekom
AS Telefonipood	Estonia	100%	100%	Retail sales of telecommunication products and services	AS Eesti Telefon
AS Teabeliiin	Estonia	0%	60%	Information on phone numbers by phone	AS Eesti Telefon
AS Connecto	Estonia	100%	100%	Construction and maintenance of telecommunication networks	AS Eesti Telefon
AS EMT	Estonia	100%	100%	Construction and operating of mobile networks, providing mobile communication services	AS Eesti Telekom
AS Esmofon	Estonia	100%	100%	Retail sales of telecommunication products and services	AS EMT
AS Esmofon Tartu	Estonia	100%	68%	Retail sales of telecommunication products and services	AS EMT
AS Mobile Wholesale	Estonia	100%	100%	Wholesale of mobile phones	AS EMT

In February 2001, AS Esmofon acquired an additional 32% of AS Esmofon Tartu shares, thereby becoming 100% shareholder of AS Esmofon Tartu. (See also note 22)

On 11 April 2001, AS Eesti Telefon signed a contract with AS Eniro Eesti for the sale of shares, based on which, AS Eesti Telefon sold to AS Eniro Eesti 60% of the shares of AS Teabeliin for the price of 2.78 million euros. (See also note 23).

On 19 July 2001, an entry was made into the Commercial Register replacing the business name of a subsidiary of EMT, AS Tarvin, with AS Mobile Wholesale. The new field of activity for the subsidiary is the wholesale of mobile phones.

9. Investments in associates

	2001	**2000**
Cost of investments	1,676	1,292
Share of post-acquisition profit, net of dividends received	(529)	(151)
	1,147	1,141

Details of the Group's associates at 31 December 2001 are as follows:

	Country of incorporation	Ownership interest		Principal activity
		2001	**2000**	
AS Intergate	Estonia	50%	50%	Venture capital investments into companies with innovative technologies
AS Sertifitseerimiskeskus	Estonia	50%	0%	Providing certification and related services
Esdata AS	Estonia	30%	30%	Internet and data communication services, VoiP long distance calls and equipment hosting services
OÜ Voicecom	Estonia	26%	26%	Designing and providing software for mobile related services

On 16 February 2001, AS Eesti Telefon, AS EMT and the two largest commercial banks in Estonia, AS Hansapank and AS Eesti Ühispank, concluded a contract for jointly establishing AS Sertifitseerimiskeskus. The firm will provide certification services based upon the existing official standards. Each of the partner firms is a 25% shareholder of AS Sertifitseerimiskeskus.

10. Other investments

	CONSOLIDATED		PARENT COMPANY	
	2001	**2000**	**2001**	**2000**
Non-current investments in other enterprises:				
AS Rocca al Mare Suurhall	172	77	77	77
AS Hansapank	3	3	-	-
Foundation Vaata Maailma	1	-	-	-
OY Mgine Technologies	500	500	-	-
	676	580	77	77

As of 31 December 2001 the Group owned 1,369 shares of AS Hansapank with a market value of EUR 14 thousand. Remaining investments are not quoted on any stock exchange, which makes it difficult to determine their market value.

	CONSOLIDATED		PARENT COMPANY	
	2001	**2000**	**2001**	**2000**
Movement in other investments				
Opening balance	580	57	77	54
Additions	96	523	-	23
Impairments (-)	(500)	-	-	-
Closing balance	176	580	77	77

OY Mgine Technologies acquired in 2000 was renamed in 2001 to OY Reach-U Solutions. As a result of the bankruptcy of OY Reach-U Solutions, the change in the value of the long-term investment is recorded as financial expense.

11. Trade and other receivables

	CONSOLIDATED		PARENT COMPANY	
	2001	**2000**	**2001**	**2000**
(a) Non-current assets				
Intra-group receivables	-	-	20,778	22,691
Long-term receivables from associates	262	-	262	-
Other receivables	102	146	-	-
Long-term accounts receivables	5	-	-	-
	369	146	21,040	22,691
(b) Trade and other receivables				
Accounts receivable - trade	25,777	25,682	0	1
Intra-group receivables	-	-	11,898	12,874
Receivables from associated companies	33	24	5	-
Accrued income	6,342	3,676	30	80
Tax receivables	365	2,976	4	1,978
Other receivables	2,087	1,492	27	19
	34,604	33,850	11,964	14,952

12. Inventories

	CONSOLIDATED		PARENT COMPANY	
	2001	**2000**	**2001**	**2000**
Raw, materials and consumables	3,786	7,538	-	-
Merchandise purchased for resale	2,318	1,789	-	-
Advance payments to suppliers	493	194	-	1
Work in progress	51	17	-	-
	6,648	9,538	-	1

In 2001, the inventories were written down in the total amount 383 thousand euros based on the estimated decline of the realization value below their acquisition cost.

13. Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances with banks and short-term investments.

14. Finance lease receivables

a) *Finance lease receivables*

	CONSOLIDATED	
	2001	**2000**
Gross investments in leases		
Within 1 year	-	23
1-5 years	152	33
Over 5 years	-	-
Total	152	56
Lease payment receivables		
Within 1 year	53	17
1-5 years	26	3
Over 5 years	-	-
Total	79	20

The interest income from the lease payments for the financial year was 11 thousand euros and is recorded in the income statement under the heading "Other net financing items".

The interest rate of the financial lease agreements is 8 -15 %.

b) *Operating lease receivables*

The cost and accumulated depreciation of assets leased under operating lease agreements is as follows:

	CONSOLIDATED			
	2001		**2000**	
	Acquisition cost	Accumulated depreciation	Acquisition cost	Accumulated depreciation
Fixtures and IT equipment	108	31	72	12

Depreciation and rental income under operating leases recognised during the financial year in the income statement is as follows:

	CONSOLIDATED	
	2001	**2000**
Depreciation		
Fixtures and IT equipment	19	12
Rental income		
Fixtures and IT equipment	16	10

Parent Company does not have any finance or operating lease agreement.

15. Capital and reserves

a) Issued capital

	CONSOLIDATED		PARENT COMPANY	
	2001	**2000**	**2001**	**2000**
Issued capital				
Ordinary shares par value 10.00 kroons per share, fully paid	137,383,178	137,383,178	137,383,178	137,383,178
Preference share par value 1,000.00 kroons per share, fully paid	1	1	1	1
	137,383,179	137,383,179	137,383,179	137,383,179

Non-cash payments have been made for 63,883,178 shares in the total value 56 923 thousand euros.

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 639.11 euros, and one vote at the shareholders' general meeting.

b) Reserves

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. 794 thousand euros were transferred to the legal reserve in 2001.

c) Dividends

Dividends in total amount of 48,293 thousand euros were paid out in 2001. At the balance sheet date the Management Board proposed a dividend of EUR 0.35 per ordinary share (2000 year: 0.35 EUR, i. e. 0.1 EUR "extraordinary dividend") and EUR 639.11 per preference share (2000 year: 639.11 EUR). As the dividends have not been approved by the annual general meeting, they are not recognised as a liability.

d) Re-acquiring of shares

The Annual General Meeting, on 23 May 2001, authorised AS Eesti Telekom to acquire, within one year from the adoption of the resolution (i.e. until 23 May 2002) AS Eesti Telekom ordinary shares, so that the total nominal value of own shares held by AS Eesti Telekom would not exceed 1/20 of the share capital of AS Eesti Telekom, and that the price payable per share would not exceed the highest price paid for the ordinary shares of AS Eesti Telekom on the Tallinn Stock Exchange on the day of acquiring the shares. AS Eesti Telekom has to pay for the shares from the company's assets in excess of its share capital, reserve capital, and share premium. The amount of shares to be acquired each time, shall be determined on each occasion separately by a resolution of AS Eesti Telekom's Supervisory Council. As of 31 December 2001, no shares have been re-acquired by AS Eesti Telekom.

e) Employees' share option

Information is presented in the Note 18.

f) ***Earnings per share***

Basic earnings per share (in euros) have been calculated as follows:

EUR 0.36 = (49 783 000 – 639.11) : 137 383 178

In view of the fact that in 2001 the average price of the shares of AS Eesti Telekom at the Estonian Central Depository for Securities was 4.41 euros, the options relating to the bonds do not have a dilutive effect and diluted earnings per share equal basic earnings per share.

16. Interest-bearing loans and borrowings

		CONSOLIDATED		PARENT COMPANY	
	Note	**2001**	**2000**	**2001**	**2000**
(a) Non-current					
Bank loans (secured)	17 (a,b)	1,487	10,677	-	-
Non-convertible long-term debt	17 (c)	1,623	2,168	-	-
Convertible bonds	18	29	-	29	-
		3,139	12,845	29	-

In line with the changes in the management and funding of the Group's current assets and with a view to reducing financial expenses, the Group settled long-term debt of EUR 4,125 thousand in advance.

Non-convertible long-term debt includes pension liabilities of EUR 532 thousand.

		CONSOLIDATED		PARENT COMPANY	
	Note	**2001**	**2000**	**2001**	**2000**
(b) Current					
Bank loans - current portion (secured)	17 (a, b)	5,064	2,588	-	-
Unsecured debt	17 (c, d)	571	6,664	-	6,207
Finance lease liability	20 (b)	-	1,063	-	-
		5,635	10,315	-	6,207

17. Details of loans

The details of the Group's loans are as follows:

	Interest rate	Note	CONSOLIDATED 2001	CONSOLIDATED 2000	PARENT COMPANY 2001	PARENT COMPANY 2000
(a) Bank loans with fixed interest			3,577	4,127	-	-
incl. EUR loans	7.50%		3,577	4,127	-	-
(b) Bank loans with floating interest			2,974	9,138	-	-
incl. EUR loans	6 months' EURIBOR+0.55%		2,974	4,462	-	-
EUR loans	6 months' EURIBOR+0.48%		-	4,676	-	-
			6,551	13,265	-	-
Less: Current portion of bank loans		16 (b)	(5,064)	(2,588)	-	-
Non-current portion of bank loans		16 (a)	1,487	10,677	-	-

On January 18, 2001, AS Eesti Telekom entered into borrowing agreement with a syndicate of international banks for raising 40 million Euro debt. The maturity date of the loan is 5 years and the annual interest rate is Euribor+0,775%. The syndicate consists of Bankgesellschaft Berlin AG, the Dai-Ichi Kangyo Bank Ltd, Landesbank Schleswig Holstein Girozentrale, Leonia Bank plc, Swedbank and AS Hansapank. As of 30 December 2001 the loan has not been drawn down.

(c) Non-convertible long-term debt

	Interest Rate	Note	CONSOLIDATED 2001	CONSOLIDATED 2000	PARENT COMPANY 2001	PARENT COMPANY 2000
SEK (with floating interest)	K1+margin. *)		1,619	2,012	-	-
Pension liability	-		573	612	-	-
Factoring			2	-	-	-
			2,194	2,625	-	-
Less : Current portion of nonconvertible long-term debt		16 (b)	(571)	(457)	-	-
Non-convertible long-term debt		16 (a)	1,623	2,168	-	-

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

(d) Non-convertible short-term debt

	Interest Rate	Note	CONSOLIDATED 2001	CONSOLIDATED 2000	PARENT COMPANY 2001	PARENT COMPANY 2000
Bonds issued	6.10%	16 (b)	-	6,207	-	6,207

In July 2000 AS Eesti Telekom issued 100,000 bonds with a par value of EUR 63.91 and an interest rate of 6.1 percent per annum. The redemption date of the bonds was 20 July 2001.

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

	CONSOLIDATED	
	Bank loans	Non-convertible long term debt
2002	5,064	571
2003	1,487	500
2004	-	539
2005	-	172
2006	-	40
Thereafter	-	371
Total	6,551	2,194

18. Convertible loan

Employees' share option

At the beginning of 2001, Eesti Telekom group launched a new motivation system for its employees. As a part of the system, AS Eesti Telekom issued bonds with the issue price of 0.64 euros per bond. The bonds are accompanied by an option that allows the holder to exchange them for the parent company's ordinary shares either in spring 2003 (A series) or in spring 2004 (B series). The subscription price of the shares is 5.79 euros.

From 18 December 2000 until 5 January 2001, 144 employees of the Group subscribed 20,750 A series bonds and 20,750 B series bonds during the primary subscription. The Management Board of AS Eesti Telekom approved all subscription applications. By 31 December 2001, bonds had been bought back from the employees who had left the Group and re-issued to newly hired managerial personnel. As of 31 December, 21,250 A series and 21,250 B series bonds had been issued, which can be exchanged for 212,500 AS Eesti Telekom ordinary share in 2003 and for 212,500 AS Eesti Telekom ordinary shares in 2004, respectively.

Each bond shall bear interest on its nominal amount at the rate of 7 % per annum.

	CONSOLIDATED		PARENT COMPANY	
	2001	**2000**	**2001**	**2000**
Nominal value of convertible loan bonds issued	27	-	27	-
Interest charged	2	-	2	-
	29	-	29	-

19. Trade and other payables

	CONSOLIDATED		PARENT COMPANY	
	2001	**2000**	**2001**	**2000**
Current liabilities				
Accounts payable-trade	16,677	23,145	55	26
Intra-group payables	-	-	49	96
Customer prepayments for goods and services	590	423	-	-
Taxes payable	2,090	1,582	23	36
Accrued expenses	9,756	13,080	94	87
Other payables	1,128	924	-	-
Other prepaid revenue	661	2,830	-	-
	30,902	41,984	221	245

20. Finance and operating lease

	CONSOLIDATED		PARENT COMPANY	
	2001	**2000**	**2001**	**2000**
(a) Operating lease payments				
Minimum lease payments under non-cancellable operating leases, not provided for:				
- not later than in one year	2,406	1,126	-	-
- between one and two years	2,068	751	-	-
- between two and three years	1,506	319	-	-
- between three and four years	651	6	-	-
- between four and five years	51	-	-	-
	6,682	2,202	-	-

	CONSOLIDATED		PARENT COMPANY	
	2001	**2000**	**2001**	**2000**
(b) Finance lease payments				
Finance lease payments, both principal and interest charge, are payable as follows :				
- not later than one year	-	1,099	-	-
	-	1,099	-	-
Less : Interest charge	-	(36)	-	-
Current portion of finance lease liability	-	1,063	-	-

21. Financial instruments

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

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

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

(a) Interest rate risk

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

(b) Credit risk

Credit risk represents the accounting loss that would be recognised at the reporting date if counter parties failed to perform as contracted. The Group does not have significant exposure to any individual customer or counter party. 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 2001 amounted to EUR 13,7 million.

	CONSOLIDATED		PARENT COMPANY	
	2001	**2000**	**2001**	**2000**
Foreign currency swap transactions	22,149	18,501	5,891	0
Unrealised gains	145	167	(2)	0

22. Acquisition of subsidiaries

In February 2001, AS Esmofon acquired additional 32% of AS Esmofon Tartu shares becoming 100% shareholder of AS Esmofon Tartu.

In 2001, AS Eesti Telefon repaid a debt related to acquisition of 30% ownership in AS Telefonipood in December 2000.

The effect of the acquisition on changes in goodwill and cash flow in 2001:

		2001		2000
	Note	AS Esmofon Tartu (32%)	AS Telefoni-pood	AS Telefonipood (30%)
Fixed assets		26	-	26
Inventories		25	-	178
Trade receivables		8	-	182
Other receivables		10	-	12
Cash and bank accounts		60	-	71
Short-time liabilities		(25)	-	(192)
Minority interest in current year before acquisition		(3)	-	-
Net identifiable assets and liabilities		101	-	277
Adjustment for additional purchase price		168	-	684
Goodwill total	7	168	-	684
Total purchase price		269	-	961
Unpaid in the current year		-	-	(657)
Settlement of purchase liability		-	657	463
Net cash outflow		269	657	767

23. Disposal of subsidiary

On 11 April 2001, AS Eesti Telefon signed a contract with AS Eniro Eesti for the sale of shares, based on which, AS Eesti Telefon sold to AS Eniro Eesti 60% of the shares of AS Teabeliin for the price of 43.5 million kroons.

The main field of activities of AS Teabeliin was providing information on phone numbers by phone.

The disposal was completed on 30 April 2001, on which date control of AS Eesti Teabeliin passed to the acquirer.

The net assets of AS Teabeliin at the date of disposal and at 31 December 2000 were as follows:

	30 April 2001	31 December 2000
Property, plant and equipment	308	312
Trade receivables	113	115
Other receivables	108	99
Cash and bank balances	797	734
Short-term payables	(180)	(196)
Net identifiable assets and liabilities	1,146	1,064
AS Eesti Telefon 60% interest	688	
Gain on disposal	2,092	
Total consideration	2,780	
Satisfied in:		
Cash	2,780	
Net cash inflow arising on disposal:		
Cash consideration	2,780	

24. Related parties

	CONSOLIDATED		EMAETEVÕTE	
	2001	**2000**	**2001**	**2000**
(a) Directors and executive officers				
The total remuneration of directors and officers is as follows:	426	515	208	299

	CONSOLIDATED		EMAETEVÕTE	
	2001	**2000**	**2001**	**2000**
(b) Telecommunication services provided				
Sonera Ltd	4,232	4,955	-	-
Telia AB	1,999	1,635	-	-
Esdata AS	225	241	-	-
Intergate AS	5	-	-	-
Sertifitseerimiskeskuse AS	10	-	-	-
Voicecom OÜ	6	7	-	-
AdvokaadibürooTark & Co	23	24	-	-
(c) Other sales				
Telia AB	-	0	-	-
AS Eesti Telefon	-	-	5	11
AS EMT	-	-	9	6
Sertifitseerimiskeskuse AS	2	-	-	-
Voicecom OÜ	0	0	-	-
AdvokaadibürooTark & Co	1	1	-	-
(d) Telecommunication services purchased				
Sonera Ltd	2,426	2,084	-	-
Telia AB	2,037	1,764	-	-
AS Eesti Telefon	-	-	16	17
AS EMT	-	-	17	15
AS Esmofon	-	-	0	2
Esdata AS	18	17	8	8
Voicecom OÜ	169	43	-	-
(e) Other services purchased				
Sonera Ltd	331	275	-	1
Telia AB	112	239	-	-
Baltic Tele AB	101	66	-	-
Esdata AS	-	0	-	-
Voicecom OÜ	18	-	-	-
AdvokaadibürooTark & Co	88	136	8	15
(f) Financial income				
AS Eesti Telefon	-	-	1,671	1,256
AS EMT	-	-	37	-
AS Mobile Wholesale	-	-	3	-
Sertifitseerimiskeskuse AS	5	-	5	-

Transactions with related parties were conducted under market terms.

25. Contingencies

The Competition Board appealed to a higher court in respect of the judgment passed by the Tallinn Administrative Court on 17 of January 2002, by which the decision of the Competition Board was cancelled upon the petition of AS Eesti Telefon, subsidiary of AS Eesti Telekom.

On 24 April 2001, the Competition Board issued a decision, based on the Competition Act, prohibiting AS Eesti Telefon to implement a per-minute price of 0.021 euros at peak time, 0.017 euros at off-peak time and at 0.008 euros at night for voice calls in its network. The Competition Board obliged AS Eesti Telefon to implement a price lower than the tariffs established since April 2001. Pursuant to the Competition Act, a fine in the amount of up to 5% of the net sales for the year preceding the decision to impose a fine can be imposed for the abuse of a dominant position.

AS Eesti Telefon is of the opinion that the basic price between 0.008 and 0.021 euros for calls within the network is cost-based. Therefore, AS Eesti Telefon disagreed with the decision of the Competition Board and contested the decision at the Tallinn Administrative Court on 23 May 2001. The Tallinn Administrative Court satisfied the complaint of AS Eesti Telefon and cancelled the decision of the Competition Board of 17 of January 2002.

Guarantees

	CONSOLIDATED		PARENT COMPANY	
	2001	**2000**	**2001**	**2000**
Guarantees granted to employees	19	52	13	13
Guarantees granted to AS Hansapank for JSC Lithuanian Railways*)	100	-	-	-

Note: *) Guarantees agreement will be expire on 17 February 2002.

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 AS Eesti Telekom distributed all of its unrestricted equity at the shareholder structure, formed during years, there would arise an income tax liability of EUR 19 million. The Management Board has proposed that 48,293 thousand euros be distributed as dividends. The proposal has to be approved by the general meeting of shareholders. At the shareholder structure, formed during years, and taking into consideration the requirements of the Income Tax Act, the distribution would cause income tax liability 5,965 thousand euros.

26. Events after the balance sheet date

AS Eesti Telefon, a 100%-owned subsidiary of AS Eesti Telekom, has decided to sell a minority interest in 100% owned AS Connecto. The purpose of the sale is to find a strategic partner for the subsidiary who would accelerate expansion of AS Connecto into other Baltic states. AS Eesti Telefon will maintain its control over operations of the company. Management of AS Eesti Telefon has choosen AS LHV to act as financial advisor of the sale. AS Connecto, which is fully owned by AS Eesti Telekom's 100%-owned subsidiary AS Eesti Telefon, acquired on 11 February 2002 all of the shares of network construction company SIA Link, which operates in Latvia.

In accordance with the purchase and sale agreement, AS Connecto purchased 100 % of the shares of SIA Link from SIA Fortech, which belongs to the MicroLink Group. With the purchase of SIA Link, AS Connecto intends to expand its strategic activities, i.e. the construction of fixed-line networks, radio networks and internal networks, to the other Baltic States. SIA Link was founded on 28 September 2000, and is involved mainly with the construction of indoor networks and wireless exterior connections. SIA Link has 20 employees and the company's annual turnover total roughly 639,000 euros.

27. Employees

The average number of employees during 2001 was 2 673 and during 2000 the number of employees was 3,029.

28. Ultimate parent of the Group

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

INDEPENDENT AUDITORS' REPORT

To the Management Board and Shareholders of AS Eesti Telekom:

We have audited the accompanying consolidated balance sheet of AS Eesti Telekom and subsidiaries ("the Group") as of 31 December 2001, and the related consolidated statements of income, cash flows and changes in equity of the Group for the year then ended. These financial statements are the responsibility of AS Eesti Telekom's management. The consolidated financial statements of the Group as of 31 December 2000, were audited by another auditor whose report dated 28 February 2001, expressed an unqualified opinion on those statements.

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

In our opinion the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2001, and the results of their operations, cash flows and changes in equity for the year then ended, in accordance with International Accounting Standards.

Deloitte & Touche	Villu Vaino
Tallinn, Estonia	Certified auditor
24 April 2002	