EESTI TELEKOM

19 July 2001

FIRST HALF-YEAR RESULTS OF 2001

'THE FIRST YEAR IN FULL COMPETITION'

Eesti Telekom, the leading provider of telecommunication services in Estonia, today announces its results for the six months ended 30 June 2001.

Financial highlights

	6 months 2001	6 months 2000	Change, %
Total revenue, mEEK	**2,117**	1,947	9
EBITDA, mEEK	**1,016**	1,031	-1
EBITDA margin, %	**48**	53	
EBIT, mEEK	**495**	555	-11
EBIT margin, %	**23**	29	
Profit before tax, mEEK	**531**	544	-2
Net profit for the period	**499**	541	-8
EPS, EEK	**3.64**	3.94	-8
No of A- shares	**137,383,178**	137,383,178	0
Investments, mEEK	**481**	570	-16
Net gearing, %	**2**	-14	

Commenting on the results the Chairman, Jaan Männik, said:

"Eesti Telekom has succeeded to maintain its profitability level in the fully liberalised market. Competition and regulatory measures are expected to put increasing pressure on the margins."

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CHAIRMAN'S STATEMENT

Eesti Telekom has succeeded to maintain its profitability level in the fully liberalised market. Competition and regulatory measures are expected to put increasing pressure on the margins.

Revenue, expenses and profit

The first half-year of 2001 ended for Eesti Telekom group with total revenue of 2,117 mln kroons and net profit of 499 mln kroons. Compared to the same period last year, total revenue were up by 9% and net profit down by 8%. Both revenue and net profit were influenced by some extraordinary factors:

- An insolvent company, OÜ Albufent had initiated a court case against AS Eesti Telefon in the amount of 55 mln kroons. On February 6, 2001, OÜ Albufent submitted to the Tallinn City Court an application to drop unconditionally the claim against AS Eesti Telefon. On February 19, 2001, the Tallinn City Court issued a decree to end the proceedings in the aforementioned case. Over years, AS Eesti Telefon had built up a reserve amounting to 46 mln kroons against the claim, which the company was now able to release through the profit and loss account.
- On April 11, 2001, AS Eesti Telefon, signed an agreement on the sale of shares to Eniro Eesti AS. In accordance with the agreement AS Eesti Telefon sold 60% of its subsidiary AS Teabeliin to Eniro Eesti AS, a subsidiary of Eniro AB. The sales price of the shares was 43.5 mln Estonian kroons. 32 mln kroon capital gain from the transaction is accounted as revenue from subsidiaries.
- In accordance with IAS 12, the principles of accounting for the income tax calculated on dividends has changed. Until now, income tax on dividends was subtracted from the retained profits. Starting from 2001, the tax is accounted through profit and loss account. 2000 statements have been adjusted to ensure comparability.
- New interconnection agreements concluded between Eesti Telefon and mobile operators in the beginning of 2001 have had a positive influence on the total revenue and expenses of the period of both Eesti Telefon Group and EMT Group.

Total revenue from fixed network communications (Eesti Telefon Group) in the first half-year of 2001 amounted to 1,504 mln kroons, increasing by 11%. The main circumstance affecting the result of the segment has been the opening of competition on the fixed voice communications market from January 1, 2001. International calls tariffs have fallen up to ten times. At the same time, there has not been a notable fall in the price payable to other (international) operators. As a result, revenue from the service has fallen but expenses related to it have remained the same. By the end of the first half-year, Eesti Telefon estimated its loss of the market share to be 29% (by number of outgoing call minutes). Still, thanks to several bonus packages and discounts Eesti Telefon's market share seems to be stabilised. Revenue from international calls in the first half-year of 2001 were 43% lower than the same period last year. There has been less intensive competition on domestic calls market. As at the end of June, Eesti Telefon estimated its market share to be 93%. Revenue from the service was 5% higher than last year. Revenue from calls to mobile networks was down by 34%, compared to the first-half of 2000. The company estimated its market share to be 76%.

To compensate for the loss of revenue from the traditional voice communication services, Eesti Telefon has entered the market with several new products and services in the data communication and software solutions area. In co-operation with a world leading software company SAS, analysis software is offered for business clients. In June, a software solution for communication and teamwork was launched that enables clients to implement the most recent software solutions with very limited investments. Also from June, Eesti Telefon in co-operation with AS Privador introduced a solution named Secure Distant Working for Atlas, which enhances considerably the usage of home or mobile offices. The new solution enables a secure and confidential access to documents, databases, and e-mail and web applications of the local network of a company. In May the company installed the first Internet kiosk in Estonia.

Total expenses of Eesti Telefon group amounted to 998 mln kroons, up by 36%. Personnel expenses of the group grew by 7%. Total number of employees of the parent company Eesti Telefon has fallen to 1,797.

Profit from operations before depreciation amounted to 506 mln kroons (margin 34%), down by 18%. Net profit for the period was 147 mln kroons, down by 39%.

Total revenues from mobile communications (EMT group) in the first half-year of 2001 amounted to 1,056 mln kroons, up by 23%. The fastest growing component of revenue in the first half of 2001 was SMS revenue that has doubled compared to the same period last year. New possibilities for SMS communications (SMS from Internet portals, SMS to television shows, etc.) should guarantee popularity and growth for the service also for the coming periods. Unfortunately, share of SMS revenue in total revenue is still quite moderate. Another influencing factor behind the revenue growth was increase in total call minutes. Several promotional activities have accelerated the increase in the client-base. Total number of EMT's customers grew by 34.3 thousand during the first six months of 2001 reaching 361.7 thousand by the end of June. The number of prepaid card users grew by 10 thousand reaching 118.4 thousand. As other Estonian mobile operators haven't released their end June customer numbers yet, market share of EMT can only be estimated to be around 55.5-56.6%. Despite several reductions in minute tariffs of EMT's call packages and promotional campaigns that were organised, monthly ARPU in June was higher in comparison with the end of the first quarter or December 2000 (469, 466 and 398 kroons per month respectively).

Total expenses of EMT group amounted 534 mln kroons, up by 25%. Mobile communications EBITDA was 552 mln kroons (margin 49%), up by 21%. 381 mln kroons were earned as net profit.

Investments

Eesti Telekom group invested 481 mln kroons in the first half-year of 2001 (2000: 570 mln kroons).

292 mln kroons were invested by Eesti Telefon group. The number of main lines per 100 inhabitants was 35.7 at the end of June 2001 (285 lines per employee). Digitalisation rate has reached 72.2%.

Data communications remain to be an investment priority for Eesti Telefon. The number of ADSL connections at the end of June was 11 thousand corresponding to the penetration of 0.8 lines per 100 inhabitants.

There was an essential expansion in volume of international Internet connections of Eesti Telefon in the first half-year of 2001. In March, the direct Internet transit volume with Sweden doubled raising the total international Internet transit volume of the company to 84 Mb/sec. From June 1, the premier pan-European carrier's carrier, Pangea Ltd., provides a wholly-owned pan-European network connection into and out of Estonia, lifting the total international Internet transit volume by additional third to 150 Mb/sec.

Quality and security of the data communications are equally important for Eesti Telefon as quantitative characteristics of the connections. A new server accommodation corresponding to high security requirements was opened on June 20, 2001. The accommodation shall guarantee maintenance of Eesti Telefon customers' data even under extreme circumstances.

Development of telecommunication solutions for corporate customers has continued. Medical institutions are turning into an important client for Eesti Telefon. In addition to communication solutions for two hospitals and an outpatients clinic launched in earlier periods, a new 5 mln kroons solution for the Tallinn Central Hospital was completed in April this year. The solution comprises telephone, computer and security systems of the six hospital buildings connecting into a network 450 phones and 200 computer terminals. In June, a voice and data communications solutions was completed for the Läänemaa Hospital connecting 100 phones and 50 computer terminals. In longer perspective, the kind of solutions could be developed also for other hospitals, drug stores and medical centres for both internal and communicating to each other.

Launching the pilot project of an IP-based call handling system for a shipping company Tallink is another example of a new solution. The aim of this solution is to connect the operators of the company working in different offices and port terminals, starting with Estonia and continuing with Finland and Sweden.

139 mln kroons were invested by EMT group. The majority of the investments went into the construction and improvement of base stations, and exchanges. Technical testing of GPRS network took place during the first half-year of 2001. On July 1, 2001, EMT put GPRS, as the first operator in Estonia, into commercial use. GPRS can be used everywhere in Estonia where GSM is available. Data transfer speed of GPRS is currently up to 53 Kb/sec depending upon the phone and network load. The speed will increase in the future.

EMT treats GPRS as an intermediate stage from GSM to UMTS. Distribution of UMTS licenses in Estonia is expected in the first half of 2002. A proposal was made by a special commission to the government of Estonia not to sell the third generation licenses in Estonia in an auction but to organise a “beauty contest”. The proposal is to issue four licenses to participants of the contest corresponding to certain criteria. No detailed information on the criteria has been published yet.

In order to be ready for challenges of the new technologies the cornerstone was set for EMT’s new technology centre in March. GPRS, and in the future the third generation UMTS equipment, will be located at the technology centre. The total value of the technology equipment will approximately amount to half a billion Estonian kroons. In May, a Mobile Applications Initiative Centre was opened at Tallinn Technical University in co-operation with EMT. The centre, the first of its kind in Estonia, is a mobile communications testing environment for training and development purposes. This environment enables the modelling of GPRS and UMTS networks. The aim of the centre is to develop specific software for mobile operators that could be implemented in Estonia as well as abroad. EMT invested 1.4 mln kroons into the project.

As both subsidiaries of Eesti Telekom group have associated their future with data communications area, they also decided to participate in a joint project of Estonian entrepreneurs and the government named “Look @ World”. The project is aimed at supporting the use of Internet, improving the quality of life in Estonia and the competitive position of the state in Europe. An intention of the participants is to boost Internet penetration in Estonia to 74 per cent, thus taking Estonia past Finland in that category in three years. Both Eesti Telefon and EMT will invest 30 mln kroons into the project during the next three years.

Regulatory issues

Estonia has only a very limited history of acting as a fully liberal telecommunications market. Regulations and supervisory mechanisms are still in development stage. As a consequence, regulatory issues have been in focus during all the period under review.

On February 13, 2001, the Estonian Parliament adopted the Amendment Act to the Telecommunications Act stipulating for operators with significant market power the upper limits for interconnection charges effective until December 31, 2001. In May, the Legal Chancellor of Estonia expressed his opinion on the issue. He found the Amendment Act to be constitutional and in public interests as it supports market competition through access network of Eesti Telefon. Eesti Telekom, however, still considers stipulating limits for interconnection charges (in addition to the cost-based pricing requirement) to be unjustified treatment of Eesti Telefon. Implementation of the limits would in the short run reduce profit of Eesti Telekom group and its value for the shareholders. In the long run, should the limits remain effective for a longer period than just until the end of 2001, investments into development of telecommunication network will be reviewed, this could have an impact on the development of entire telecommunications sector in Estonia.

As a response to the Amendment Act, Eesti Telefon changed classification and tariffs of its calls from April 1, 2001. As of this date, local and trunk calls were replaced by national calls with unitary tariffs. Following the recommendations of the National Communications Board, methodologies for calculation of end-customer and interconnection costs were unified. The same tariffs became effective for all Estonian operators. The National Communications Board has confirmed that the methodology behind the new tariffs is in accordance with the laws.

Reaction from the Competition Board followed the changes made by Eesti Telefon. On April 24, 2001, based on the Competition Act, a prescript was made to Eesti Telefon to cancel the tariffs of 0.34 kroons per minute at peak hours, 0.28 kroons per minute at off-peak hours and 0.14 kroons per minute at night effective from April 1, 2001. Lower tariffs were suggested by the Competition Board for the service calculated on bases of justified pricing, traditional proportions between the price-rise and the CPI growth rate, and acceptable return on equity. The Competition Board has also sent a claim to the Administrative Court. The maximum fine, in case Eesti Telefon will lose the case, is 125.3 mln kroons – 5% of the net sales of the company in 2000.

The position of Eesti Telefon is that tariffs 0.14-0.34 kroons per minute are justified and cost-based. An auditing company KPMG audited the cost calculation system of Eesti Telefon. The Communications Board has not disputed the system. Eesti Telefon has followed requirements of the Telecommunications Act and disagrees with the precept. The company disputed the precept and the claim in Court on May 23, 2001. The reading of the case is expected in August.

Estonian Parliament has introduced the implementation act of the law of property act which stipulates the right of way issues for Eesti Telefon. We are in process of calculating the amounts to be paid to the landowners, if any.

At the end of 2000, Eesti Telefon was recognised as the only undertaking with significant market power in Estonia. In May 2001, a letter was presented to the Communications Board by the Competition Board according to which EMT is an undertaking dominating the mobile phone services market since it controls over 40 per cent of the turnover of the said market and its dominating position enables it to operate in the market to an appreciable extent independently of competitors. The determination as an undertaking dominating the market does not mean the determination as undertaking with significant market power pursuant to the Telecommunications Act. The Communications Board has not determined EMT as undertaking with significant market power in accordance with the procedures prescribed for by the Telecommunications Act. However, EMT plans to meet the representatives of the Communications Board and other authorities to explain its position.

The events described above indicate that regulatory activities are about to become one of the most important factor affecting development and financial performance of Eesti Telekom group. Participation in developing the regulatory environment has become a priority of Eesti Telekom.

Annual General Meeting of shareholders

Annual General Meeting of shareholders of AS Eesti Telekom took place on May 23, 2001. The meeting approved Annual Report 2000 and the allocation proposal of the net profit. It was decided to pay to the owners of A-shares ordinary dividends 4.00 kroons per share (in total 550 mln kroons or 49% of the net profit of 2000). Also, payment of "extraordinary dividends" 1.50 kroons per share (in total 206 mln kroons) to the owners of A-shares was decided. The owner of B-share was entitled to 10,000 kroons of dividends.

The General Meeting authorised AS Eesti Telekom to acquire within one year up to 5 per cent of the shares of A-series of AS Eesti Telekom. The management of AS Eesti Telekom sees two possible reasons for the repurchase:

1. The repurchase could take place if the price of the shares of the company falls to unreasonably low level, by the opinion of the management and the council. In this case the repurchase would support the share price. In accordance with the laws of Estonia, the shares acquired could be kept as treasury stock for only one year and thereafter must be expropriated.
2. The repurchase could be arranged for M&A purposes.

Timo Virtanen was elected to be a new member of the supervisory council of Eesti Telekom where he replaced Mikko Pirinen. Remaining nine members of the council were re-elected for one more term. Aare Tark continues as the chairman of the council.

The meeting appointed Villu Vaino from AS Deloitte & Touche Audit to audit Eesti Telekom in 2001.

AS EESTI TELEKOM AND SUBSIDIARY COMPANIES
INCOME STATEMENTS
In thousands of Estonian kroon (EEK)

	Note	6 mths to 30 June 01	6 mths to 30 June 00 (restated)	12 mths to 31 Dec 2000 (restated)
Revenue				
Net sales		2,031,444	1,921,074	3,930,154
Change in work-in-progress		3,750	-38	-492
Capitalised self-constructed assets		17,657	0	0
Other revenue	**7**	63,971	25,838	43,829
Total revenue		**2,116,822**	**1,946,874**	**3,973,491**
Operating expenses				
Materials, consumables, supplies and services		597,970	448,463	925,884
Other operating expenses		221,238	200,870	427,007
Personnel expenses		258,331	228,129	484,494
Other expenses		23,298	38,242	58,062
Total expenses		**1,100,837**	**915,704**	**1,895,447**
Profit from operations before depreciation		**1,015,985**	**1,031,170**	**2,078,044**
Depreciation and amortisation		521,066	476,149	969,305
Profit from operations		**494,919**	**555,021**	**1,108,739**
Income/ -expenses from associated companies (net)		32,684	-174	-310
Other net financing items		3,335	-10,350	-11,854
Profit before tax		**530,938**	**544,497**	**1,096,575**
Income tax on dividends	**1**	30,932	73	54,349
Profit after tax		**500,006**	**544,424**	**1,042,226**
Minority interest		557	3,170	5,615
Net profit from ordinary activities		**499,449**	**541,254**	**1,036,611**
Extraordinary items		0	0	85,197
Net profit for the period		**499,449**	**541,254**	**1,121,808**
Earnings per share				
Basic earnings per share (in kroons)	**6d**	3.64	3.94	8.17
Diluted earnings per share (in kroons)		3.64	3.94	8.17

EESTI TELEKOM

AS EESTI TELEKOM AND SUBSIDIARY COMPANIES
BALANCE SHEETS
In thousands of Estonian kroon (EEK)

	Note	30 June 2001	31 Dec 2000 (corrected)	30 June 2000 (corrected)
ASSETS				
Current assets				
Cash and cash equivalents		245,254	609,743	648,637
Short-term investments		0	0	40,000
Trade receivables, net		395,985	374,897	390,201
Other receivables		38,300	33,214	34,691
Accrued income		95,520	58,986	76,110
Prepaid expenses		27,606	64,014	18,227
Inventories		160,566	149,223	148,392
Total current assets		**963,231**	**1,290,077**	**1,356,258**
Non-current assets				
Long term financial assets	**3,4**	36,824	29,213	6,339
Tangible assets, net	**2**	3,127,977	3,234,088	2,941,941
Intangible assets, net	**2**	56,255	67,603	53,319
Total non-current assets		**3,221,056**	**3,330,904**	**3,001,599**
TOTAL ASSETS		**4,184,287**	**4,620,981**	**4,357,857**
EQUITY AND LIABILITIES				
Current liabilities				
Interest bearing loans and borrowings	**5**	207,890	161,392	48,845
Customer prepayments		6,083	6,619	6,034
Accounts payable to suppliers		204,518	361,996	223,782
Other payables		647	119	0
Tax liabilities		129,714	36,844	56,167
Accrued expenses		133,290	194,195	716,001
Provisions		6,427	14,338	6,047
Prepaid revenue		43,401	44,274	46,038
Total current liabilities		**731,970**	**819,777**	**1,102,914**
Non-current liabilities				
Interest bearing loans and borrowings	**5**	116,452	200,978	226,134
Other long-term payables		0	0	7,252
Total non-current liabilities		**116,452**	**200,978**	**233,386**
Minority interest		**0**	**8,193**	**10,078**
Equity	**6**			
Issued capital		1,373,833	1,373,833	1,373,833
Share premium		309,964	309,964	309,964
Statutory legal reserve		137,384	124,963	124,963
Retained earnings		1,015,235	661,465	661,465
Net profit for the period		499,449	1,121,808	541,254
Total equity		**3,335,865**	**3,592,033**	**3,011,479**
TOTAL EQUITY AND LIABILITIES		**4,184,287**	**4,620,981**	**4,357,857**

AS EESTI TELEKOM AND SUBSIDIARY COMPANIES
CASH FLOW STATEMENTS
In thousands of Estonian kroon (EEK)

	Note	6 mths to 30 June 01	6 mths to 30 June 00
Cash flow from operating activities			
Profit before taxes and minority interest		530,938	544,497
Adjustments for:			
Depreciation		521,066	476,149
Profit/loss from sales and write-off of fixed assets		-4,702	-2,996
Income/ expense from subsidiaries and associates		-32,684	174
Interests income/ expense, net		-4,572	19
Other non-cash adjustments		2,340	1,090
Operating profit before working capital changes		1,012,386	1,018,933
Change in current receivables		-72,994	-14,631
Change in inventories		-11,343	-6,736
Change in current liabilities (except loans)		-122,103	48,421
Adjusted cash generated from operations		805,946	1,045,987
Interests paid		-12,391	-14,638
Income tax paid		0	-54,772
Net cash flow from operating activities		**793,555**	**976,577**
Cash flow from investing activities			
Purchase of tangible assets		-399,618	-458,405
Purchase of licenses		-9,466	-11,177
Purchase of shares, investments and other		-71,986	-100,200
Proceeds from sales of tangible assets		7,520	4,598
Proceeds from sales of investments		50,000	60,000
Proceeds from sales of associates		43,500	0
Loans granted		-319	-50
Cash receipts from repayment of loans		52	0
Cash receipts from settlement of long-term receivables		0	187
Dividends received		1	0
Interests received		17,735	11,074
Net cash flow from investing activities		**-362,581**	**-493,973**
Cash flow from financing activities			
Proceeds from convertible long-term debt		438	0
Repayment of convertible long-term debt		-8	0
Repayment of nonconvertible long-term debt		-3,402	-3,482
Repayment of long-term borrowings		-20,245	-314,745
Payment of finance lease liabilities		-16,629	-850
Dividends paid	**6**	-755,617	0
Dividends paid to minority shareholders		0	-208
Net cash flow from financing activities		**-795,463**	**-319,285**
Net increase / - decrease in cash and cash equivalents		**-364,489**	**163,319**
Cash and cash equivalents at beginning of year		**609,743**	**485,318**
Cash and cash equivalents at end of period		**245,254**	**648,637**

AS EESTI TELEKOM AND SUBSIDIARY COMPANIES
STATEMENTS OF CHANGES IN EQUITY
In thousands of Estonian kroon (EEK)

	Note	Issued capital	Share premium	Reserves	Retained earnings	Net profit for the period	Total
31 December 1999		**1,373,833**	**309,964**	**56,851**	**698,858**	**580,262**	**3,019,768**
Net profit for the previous period transferred into retained earnings		0	0	0	580,262	-580,262	0
Amounts transferred to reserves		0	0	68,112	-68,112	0	0
Dividends declared		0	0	0	-549,543	0	-549,543
Net profit for the period		0	0	0	0	541,254	541,254
30 June 2000		**1,373,833**	**309,964**	**124,963**	**661,465**	**541,254**	**3,011,479**
31 December 2000		**1,373,833**	**309,964**	**124,963**	**661,465**	**1,121,808**	**3,592,033**
Net profit for the previous period transferred into retained earnings		0	0	0	1,121,808	-1,121,808	0
Amounts transferred to reserves	**6a**	0	0	12,421	-12,421	0	**0**
Dividends paid	**6a**	0	0	0	-755,617	0	**-755,617**
Net profit for the period		0	0	0	0	499,449	**499,449**
30 June 2001		**1,373,833**	**309,964**	**137,384**	**1,015,235**	**499,449**	**3,335,865**

AS EESTI TELEKOM AND SUBSIDIARY COMPANIES
NOTES TO THE FINANCIAL STATEMENTS AS OF 30 JUNE 2001
In thousands of Estonian kroon (EEK)

1. Accounting policies and measurement basis used in preparation of interim financial statements

The consolidated interim financial statements for the 6 months period ended 30 June 2001 are prepared in accordance with the International Accounting Standards (IAS 34). In all material respects the same accounting principles have been followed as in the preparation of financial statements for 2000.

In comparison to 2000, the principles for calculating income tax on dividends have been changed in accordance with IAS 12 in the consolidated financial statements. Until present time, the income tax on dividends was recorded as expense from the retained earnings, however, starting from 2001, this expense is recorded on the income statement. The financial figures for 2000 have been adjusted accordingly for comparability.

During 2000, the Income Tax Law of the Republic of Estonia was amended allowing companies to use such prepayments or to transfer the right for deduction to the resident firm or the receiver of the dividend.

As at 31 December 1999, the balance of unused excess withheld and transferred income tax on dividends of AS Eesti Telefon was in the amount of 85,197 thousand kroons. The right for using the prepayment was transferred to AS Eesti Telekom as a parent company and it was used for covering the Group's income tax on dividends paid as follows: in 2000 - 54, 265 thousand kroons and in 2001 - 30,932 thousand kroons.

Historical cost has been used as the general ***measurement basis***.

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.

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.

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.

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.

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

2. Tangible and intangible assets

	Tangible assets	Intangible assets
At cost		
31 December 1999	**5,741,421**	**132,219**
Additions	458,405	11,177
Disposals	-89,372	-12,981
30 June 2000	**6,110,454**	**130,415**
31 December 2000	**6,616,868**	**165,440**
Additions	399,618	12,091
Disposals	-71,922	-504
30 June 2001	**6,944,564**	**177,027**
Accumulated depreciation		
31 December 1999	**-2,806,774**	**-62,294**
Depreciation	-451,032	-25,117
Depreciation on disposals (-)	89,293	10,315
30 June 2000	**-3,168,513**	**-77,096**
31 December 2000	**3,382,780**	**97,838**
Depreciation	-498,128	-22,938
Depreciation on disposals (-)	64,321	4
30 June 2001	**3,816,587**	**120,772**
Closing net carrying amount		
30 June 2000	**2,941,941**	**53,319**
30 June 2001	**3,127,977**	**56,255**

3. Investments in subsidiaries

	Ownership interest		Owner
	30 June 2001	31 Dec 2000	
AS Eesti Telefon	100%	100%	AS Eesti Telekom
AS Telefonipood	100%	100%	AS Eesti Telefon
AS Teabeliin	0%	60%	AS Eesti Telefon
AS Connecto	100%	100%	AS Eesti Telefon
AS EMT	100%	100%	AS Eesti Telekom
AS Esmofon	100%	100%	AS EMT
AS Esmofon Tartu	100%	68%	AS Esmofon
AS Tarvin	100%	100%	AS EMT

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

On April 11, 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.

4. Investments in associates

	Ownership interest	
	30 June 2001	31 Dec 2000
AS Intergate	50%	50%
AS Sertifitseerimiskeskus	50%	0%
AS EsData	30%	30%
AS Voicecom	26%	26%

On February 16, 2001, AS Eesti Telefon, AS EMT and two biggest commercial banks in Estonia, AS Hansapank and AS Ühispank, signed an establishment contract of AS Sertifitseerimiskeskus. Sertifitseerimiskeskus will be providing services relating to certification based on the public key infrastructure. The share of every shareholder in AS Sertifitseerimiskeskus is 25 %.

5. Borrowings

	30 June 01	31 Dec. 00
Current	207,890	161,392
Non-current	116,452	200,978
	324,342	362,370

The movements in the borrowings:

Opening balance 31.12.2000	362,370
Proceeds from borrowings	438
Repayments of borrowings	(40,284)
Other movements	1,818
Closing balance 30.06.2001	**324,342**

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 June 2001 the loan has not been drawn down.

6. Equity

(a) Changes in equity resulting from resolutions of the Annual General Meeting of shareholders

The holders of ordinary shares of AS Eesti Telekom are entitled to receive dividends as declared by the general meeting and are entitled to one vote per share at the general meeting.

The company has issued one preferred share. The holder of the preferred share in entitled to preference dividend of 10,000 kroons, and one vote at the shareholders' general meeting.

AGM of the shareholders of AS Eesti Telekom on May 23, 2001, decided to pay the total of 755,608 thousand kroons, i.e. 5 kroons 50 sents (i.e. 1 kroon 50 sents "extraordinary dividend") per share to the holders of ordinary shares and the total of 10,000 kroons, i.e. 10,000 kroons per share to the holder of the preferred share.

It was decided to enter 12,421 thousand kroons in the mandatory reserve capital.

(b) Acquiring own shares

The AGM on May 23, 2001 authorised AS Eesti Telekom to acquire within one year from the adoption of the resolution (i.e. until May 23, 2002) AS Eesti Telekom ordinary shares so that the total of nominal values of own shares held by AS Eesti Telekom would not exceed 1/20 of the share capital of AS Eesti Telekom and 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. No shares have been acquired by AS Eesti Telekom up until June 30, 2001.

(c) Employees' share option

In the beginning of 2001, Eesti Telekom group launched a new motivation system. As a part of the system, bonds were issued by AS Eesti Telekom with the issue price of 10 kroons 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 90,62 kroons. From December 18, 2000 until January 5, 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 June 30, 2001, the bonds had been brought back form the employees who had left the group and re-issued to newly hired managerial personnel. As at June 30, 21,500 A series and 21,500 B series bonds had been issued what can be exchanged for 215,000 AS Eesti Telekom ordinary share in 2003 and for 215,000 AS Eesti Telekom ordinary share in 2004, respectively.

(d) Earnings per share

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

EEK 3,64 = (499,449,000 - 10 000) : 137 383 178

In view of the fact that in the first half-year of 2001 the average price of the shares of AS Eesti Telekom at Estonian Central Depository for Securities was 77.36 kroons, the options relating to the bonds do not have a dilutive effect and diluted earnings per share equal basic earnings per share.

7. Provisions

A claim in the amount of 55 million kroons had been issued against AS Eesti Telefon by a company in bankruptcy, OÜ Albufent. On February 6, 2001, OÜ Albufent submitted Tallinna Linnakohus a statement by which a claim against Eesti Telefon was unconditionally withdrawn. On February 19, Tallinna Linnakohus closed the court case with its decree. During several years, Eesti Telefon had provisioned 46 million kroons for this contingent liability what could now be liquidated though income statement.

8. Segment information

A business segment is a distinguishable division of the Group that is engaged in providing a group of related services or products and that is subject to risks and returns that are different from those of the other business segments. Eesti Telekom group has been divided into three segments: fixed network telecommunications, mobile telecommunications and other activities.

- **a.** **Fixed network telecommunications** – the field of activity is to operate the national telecommunications network, to provide fixed telecommunication services and related value added services, and to provide, produce, market and sell related services. Companies of the group belonging to the segment are AS Eesti Telefon, AS Telefonipood, AS Connecto.
- **b.** **Mobile communications** – the field of activity is to operate mobile networks and systems and to produce, market and sell services related thereto. Companies of the group belonging to the segment are AS EMT, AS Esmofon, AS Esmofon Tartu and AS Tarvin.
- **c.** **Other activities** – comprises the activities of the parent company AS Eesti Telekom.

The segment turnovers presented in the report represent intercompany income and expenses of the three segments. The intercompany turnovers of the companies belonging to the same segment have been eliminated in the preparation of the report.

	Fixed network telecommunications		Mobile telecommunications		Other operations		Eliminations		Consolidated	
	6 months 2001	**6 months 2000**	**6 months 2001**	**6 months 2000**	**6 months 2001**	**6 months 2000**	**6 months 2001**	**6 months 2000**	**6 months 2001**	**6 months 2000**
Revenue										
Net sales	1,252,004	1,213,210	779,440	707,864	0	0			2,031,444	1,921,074
Other revenue	75,617	19,398	9,759	6,379	2	23			85,378	25,800
Inter-segment revenue	176,151	117,014	266,894	146,107	151	60	-443,196	-263,181	0	0
Total revenue	**1,503,772**	**1,349,622**	**1,056,093**	**860,350**	**153**	**83**			**2,116,822**	**1,946,874**
Operating expenses										
Materials, consumables, supplies and services	350,743	232,305	247,227	216,158	0	0			597,970	448,463
Other operating expenses	163,397	145,317	52,588	47,020	5,253	8,533			221,238	200,870
Personnel expenses	205,788	192,486	48,011	29,889	4,532	5,754			258,331	228,129
Other expenses	11,381	17,260	10,105	17,777	1,812	3,205			23,298	38,242
Inter-segment expenses	266,754	145,969	176,084	116,888	358	324	-443 196	-263,181	0	0
Total expenses	**998,063**	**733,337**	**534,015**	**427,732**	**11,955**	**17,816**			**1,100,837**	**915,704**
EBITDA	**505,709**	**616,285**	**522,078**	**432,618**	**-11,802**	**-17,733**			**1,015,985**	**1,031,170**
Depreciation and amortisation	370,833	343,996	149,908	131,928	588	488	-263	-263	521,066	476,149
EBIT	**134,876**	**272,289**	**372,170**	**300,690**	**-12,390**	**-18,221**			**494,919**	**555,021**
Income/ -expenses from subsidiaries and associated companies	32,590	-174	94	0	527,935	546,982	-527 935	-546,982	32,684	-174
Other net financing items	-20,043	-29,601	8,542	6,758	14,836	12,493			3,335	-10,350
Income tax expenses (-)/ income (+)	0	0	0	-73	-30 932	0			-30,932	-73
Minority interest	557	2,629	0	541	0	0			557	3,170
Extraordinary item	0	0	0	0	0	0			0	0
Net profit	**146,866**	**239,885**	**380,806**	**306,834**	**499,449**	**541,254**			**499,449**	**541,254**
Non-current assets	2,250,937	2,167,880	965,858	830,104	2,972,139	2,693,061	-2,967,878	-2,689,446	3,221,056	3,001,599
Current assets	517,185	520,792	306,500	301,241	532,411	871,211	-392,865	-336,986	963,231	1,356,258
Total assets	**2,768,122**	**2,688,672**	**1,272,358**	**1,131,345**	**3,504,550**	**3,564,272**			**4,184,287**	**4,357,857**
Owners' equity	**1,577,915**	**1,343,468**	**1,064,856**	**990,941**	**3,335,865**	**3,011,479**	-2,642,771	-2,334,409	**3,335,865**	**3,011,479**
Minority interest	0	8,943	0	1,135	0	0			0	10,078
	0		0		0					
Non-current liabilities	432,485	579,145	8,645	9,278	430	0	-325,108	-355,037	116,452	233,386
Current liabilities	757,722	757,116	198,857	129,991	168,255	552,793	-392,865	-336,986	731,970	1,102,914
Total equity and liabilities	**2 768 122**	**2,688,672**	**1 272 358**	**1,131,345**	**3 504 550**	**3,564,272**			**4,184,287**	**4,357,857**
Cash flow from operating activities	295,866	591,728	425,063	386,138	51,168	-16,762	21,458	15,473	793,555	976,577
Cash flow used in capital expenditure	-277,655	-335,235	-133,740	-133,113	-314	-1,234			-411,709	-469,582
Cash flow from/ used in other investing activities	35,070	3,385	7,214	7,554	700,802	356,290	-693,960	-391,620	49,128	-24,391
Cash flow from / used in financing activities	-66,537	-228,469	-646,241	-466,962	-755,187	0	672,502	376,146	-795,463	-319,285
Net change in cash	**-13,254**	**31,409**	**-347,704**	**-206,383**	**-3,531**	**338,294**			**-364,489**	**163,319**

INDEPENDENT ACCOUNTANTS' REPORT

To the Board of Directors and Stockholders of AS Eesti Telekom:

We have reviewed the accompanying consolidated balance sheet of AS Eesti Telekom and subsidiaries ("the Group") as of June 30, 2001, and the related consolidated statements of income, stockholders' equity and cash flows for the six-month period then ended June 30, 2001. These financial statements are the responsibility of the Group's management.

We conducted our review in accordance with the International Standards on Auditing applicable to review engagements. A review of interim financial information consists principally of applying analytical procedures to financial data and of making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to such consolidated financial statements for them to be in conformity with generally accepted accounting principles.

The consolidated balance sheet of AS Eesti Telekom and subsidiaries as of December 31, 2000, and the related consolidated statements of income, stockholders' equity, and cash flows for the year then ended, were audited by other auditors in accordance with generally accepted auditing standards; and in their report dated February 28, 2001, they expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet as of December 31, 2000 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

Deloitte & Touche
Tallinn,
July 18, 2001