18 October 2001

# THE FINANCIAL RESULTS OF THE FIRST NINE MONTHS OF 2001

## 'THE FIRST YEAR IN FULL COMPETITION'

Eesti Telekom, the leading provider of telecommunication services in Estonia, today announces its results for the nine month period ending 30 September 2001.

**Financial highlights**

| | **9 months 2001** | 9 months 2000 | Change, % |
|---|---|---|---|
| Total revenues, mEEK | **3,199** | 2,951 | 8 |
| EBITDA, mEEK | **1,501** | 1,600 | -6 |
| EBITDA margin, % | **47** | 54 | |
| EBIT, mEEK | **721** | 885 | -19 |
| EBIT margin, % | **23** | 30 | |
| Profits before taxes, mEEK | **744** | 876 | -15 |
| Net profits for the period | **713** | 871 | -18 |
| EPS, EEK | **5.19** | 6.34 | -18 |
| No. of A- shares | **137,383,178** | 137,383,178 | |
| Investments, mEEK | **738** | **863** | -14 |
| Net gearing, % | **-1.5** | -4.4 | |

Commenting on these financial results, Chairman, Jaan Männik, stressed:

*"These are complicated times for the world economy as a whole, and also for the telecommunications sector. Despite this, the Eesti Telekom Group has remained in good health"*

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## CHAIRMAN'S STATEMENT

Estonia is usually treated as an emerging market. For the economy as a whole, this kind of approach is reasonable. However, when we look at the telecommunications sector, we find a fully liberalised market, developed technologies and services in both the fixed and mobile communication areas, high mobile phone penetration, and developing data communications. Based on these indicators, it seems much more reasonable to compare the Estonian telecommunications market with Western European markets instead of with those of emerging economies. Therefore, in this analysis, the financial results of the Eesti Telekom group shall be assessed on this very basis.

Considering the current economic situation, I find Eesti Telekom to be in good financial condition. Our balance sheet has an advantageous structure with hardly any borrowings. Net gearing is close to zero. We have been moderate in taking risks. At the same time, we have paid out high dividends, dividend yield is close to 10.

### Revenues, expenses and profits

The first nine months of 2001 ended for the Eesti Telekom group with total revenues of 3,199 mln kroons, operating expenses of 1,698 mln kroons, and a net profit of 713 mln kroons. Compared to the same period last year, total revenues have increased by 8%, operating expenses have increased by 26%, and net profits have decreased by 18%. All three financial indicators have been influenced by several unusual factors:

- An insolvent company, OÜ Albufent, had filed a law suit against AS Eesti Telefon in the amount of 55 mln kroons. On 6 February 2001, OÜ Albufent submitted an application to the Tallinn City Court to unconditionally drop the claim against AS Eesti Telefon. On 19 February 2001, the Tallinn City Court issued a decree ending the proceedings in the aforementioned case. But over the years, AS Eesti Telefon had built up a monetary reserve, amounting to 46 mln kroons, to deal with this claim. Since the case was dismissed, the company was now able to release this sum through the profit and loss account.
- On 11 April 2001, AS Eesti Telefon concluded an agreement for 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. The capital gain from the transaction, in the amount of 32 min kroons, is accounted as revenue from subsidiaries.
- In accordance with IAS 12, the principles of accounting for the income tax calculated on dividends have changed. Until now, income tax on dividends was subtracted from the retained profits. Starting in 2001, the tax is accounted through the profit and loss account. To ensure accurate comparability, the financial statements for 2000 have been adjusted accordingly.
- New interconnection agreements concluded at the beginning of 2001 between Eesti Telefon and mobile operators have had an influence on the nine month total revenues and expenses of both the Eesti Telefon Group and the EMT Group.

The nine month financial results for the Eesti Telefon Group have been strongly influenced by the full liberalisation of the fixed communications market on 1 January 2001, and several regulatory measures applied to the parent company. The total revenues of the Group, for the nine month period, were 2,197 mln kroons, which is an increase of 9%, if compared to the same period last year. However, the majority of the growth resulted from the abovementioned unusual factors. Among the main revenue categories of AS Eesti Telefon, domestic call revenues grew by 3%, revenues from mobile communications by 21%, and dial-up revenues by 48%, compared to the same period last year. Revenues from data communications and Internet connections grew by 136%. Revenues from international calls fell by 46%, and main line revenues by 7%. During the last three months, Eesti Telefon's voice communications market share has stabilised. At the end of September, the company estimated its market share of total call minutes, domestic call minutes, and mobile minutes to be to be 91%, 91%, and 76% respectively. Eesti Telefon estimated its market share of international call minutes to be 71%. Since the end of June, the market share has stabilised.

To compensate for falling revenues from traditional voice communications, Eesti Telefon has made a powerful entry into the rental services and IT solutions market. Based on the ASP (Applications Service Provider) business model, the company offers analytical software Atlas Oraakel, communication and teamwork solution Atlas Maestro, Internet-based time-scheduling application Atlas E-administrator, Web-based accounting software rental service B24, rental of e-shopping applications, IP-based voice communication solutions, and call-handling systems.

The operating expenses of the Eesti Telefon Group were 1,499 mln kroons, up by 410 mln kroons or 38%, of which increase in interconnection expenses amounts to 343 mln kroons. Since the beginning of the year, number of employees at Eesti Telefon Group has been reduced by 250 people. Due to reduction compensation, it has had a negative effect on operating expenses of the year. In the future, positive impact is expected. The net profits of the Eesti Telefon Group amounted to 149 mln kroons, down by 59%.

Total revenues of the EMT Group are growing continuously. For instance, the total nine month revenues of the Group amounted to 1,626 mln kroons, up by 282 mln kroons or 21%, of which increase in interconnection revenues amounts to 213 kroons. The fastest growing components of revenue are still the revenues from SMS and prepaid call cards. A recent promotion campaign for Simpel prepaid cards, as well as seasonal factors, have helped to attract new customers, and to encourage the more active use of the service. As of the end of September 2001, EMT had a total of 376 thousand customers, of whom 125 thousand (33.3%) were prepaid customers and 251 thousand were contractual clients. The estimated market share of EMT, based upon the number of customers, was 55.5-56.5%. As a result of promotional activities, the September ARPU of 436 kroons per customer was somewhat lower than the corresponding figure three months earlier, but still higher than the ARPU of 398 kroons in December 2000.

The operating expenses of the EMT Group were 807 mln kroons, up by 165 mln kroons or 26%, of which increase in interconnection fees amounts to 113 mln kroons. The EBITDA of the Group amounted to 819 mln kroons (a growth of 17%). During the third quarter, an increase in the EBITDA margin appeared, reaching 52% (a nine month margin of 50%). The net profit for the period was 595 mln kroons, up by 17%, compared to the same period in 2000.

**Balance sheet and cash flow**

At the end of September, the total assets of the Eesti Telekom Group amounted to 4,147 mln kroons, down by 3%. But the share of long-term assets, in the total assets of the Group, has risen. On the equity and liabilities side, the share of interest bearing liabilities has fallen. In July 2001, Eesti Telekom repurchased bonds, which had been issued a year ago, in the amount of 100 mln kroons. Since the beginning of the year, Eesti Telekom Group has paid back long-term loans in the amount of 89 mln kroons. At the end of the third quarter, the net gearing of the Eesti Telekom Group was –1.5%.

The total cash flow of the Group was –414 mln kroons. This negative cash flow resulted primarily from financial outflows in the total amount of –976 mln kroons, including dividend payout of 756 mln kroons and the repayment of interest bearing liabilities. Cash flow from investment activities totalled –620 mln kroons, and cash flow from operating activities totalled 1,183 mln kroons.

## Investments

The Eesti Telekom group invested 738 mln kroons in the first nine months of 2001, 14% less than in 2000. There has been a reduction in both Eesti Telefon's and EMT's investments.

378 mln kroons were invested by the Eesti Telefon Group during the period being studied. The number of main lines per 100 inhabitants was 35.5 at the end of September 2001 (301 lines per employee). The digitalisation rate has reached 73.2%. The marked increase of ADSL-connections has continued. By the end of September, 13.8 thousand ADSL connections were installed, 30 times more than the previous year. By the end of 2001, Eesti Telefon expects the number of ADSL connections to grow to 17 thousand, or 1.3 connections per 100 inhabitants. Since it is not technically possible to provide ADSL connections everywhere in Estonia, and not every client uses Internet long enough for the ADSL-connection to pay off, a new Internet service called Atlas Weekend was launched by Eesti Telefon in September. For a monthly

fee, the service provides an unlimited Internet connection, with no call set-up charge or minute fee on weekends and public holidays.

Resulting from changes in the business environment, the Supervisory Council of Eesti Telefon approved a decrease in planned investments of 100 to 200 mln kroons in 2001. The aim of this reduction is to increase the profitability of Eesti Telefon. After the reduction, the total investments, in 2001, for the Eesti Telekom Group totalled 1.1-1.2 bln kroons.

To increase its efficiency, Eesti Telefon has also decided to sell 17 office buildings and technical facilities with a total area of 21,500 square metres. Most of these premesis are telephone relay stations, which have become obsolete as a result of digitalisation. Also, the current head-office of the company will be put up for sale. Eesti Telefon expects to save 5 mln kroons per year by cutting operating expenses by this sale.

So as to promote higher efficiency, and so as to be able to concentrate on its main activities, Eesti Telefon will turn over all its customer service activities to Hallo!, a chain store belonging to AS Telefonipood, a 100% subsidiary of Eesti Telefon. At the same time, the number of customer service places which Eesti Telefon offers will be doubled to 39.

309 mln kroons were invested by the EMT Group. One of the most important events of the first nine months of 2001 was the launching of the GPRS network, as a commercial endeavour, on 1 July 2001. EMT was thereby the first operator in Estonia to launch a GPRS. The service can be made use of everywhere in Estonia where GSM is available. During the first three months, EMT has received positive feedback from its GPRS customers. The number of clients is still limited, but the number of new users is growing constantly. One obstacle slowing down expansion has been the lack of handsets. Nokia's introduction of the 8310 handset should solve this problem.

EMT intends to support the development of GPRS in many ways. For instance, a promotional campaign has been launched that allows surfing at lower rates during night hours. A strategic partnership agreement with Delfi of Microlink, the largest Internet portal in Estonia, was concluded in August. The agreement will be the basis for the joint development of mobile Internet solutions. 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 ideal for personnel training and product development. In this setting, new GPRS and UMTS networks can be designed. In order to be ready for the challenges presented by new technological developments, the cornerstone for EMT's new technology centre was laid in March. GPRS, and in the future, third generation UMTS equipment, will be located at this centre which will be ready by November this year.

EMT treats GPRS as an intermediate stage from GSM to UMTS. The Ministry of Roads and Communications is preparing the necessary legislation for issuing third generation mobile phone service licenses. Among other things, these amendments to the Telecommunications Act will establish the principles for holding a license competition, will authorise the appropriate government agency to establish the rules and regulations for holding the competition and determine the participation fees. The Ministry believes that the competition will be officially announced in either December 2001 or January 2002. It is expected that four licenses will be issued in Estonia on the basis of a "beauty contest". The expected launch of the third generation technology will be in 2003-2004.

## Regulatory issues

The nine month financial results of Eesti Telekom have been influenced by some unexpected developments in the regulatory system. Government regulatory activities will likely continue to play an important role in the future.

On 13 February 2001, the Estonian Parliament adopted an amendment to the Telecommunications Act, which set the upper limits for interconnection service fees (effective until 31 December 2001) that the major operators could charge. Eesti Telekom considers the stipulating of limits for interconnection service fees (in addition to the cost-based pricing requirement) to be unjustified and unfair. Eesti Telefon filed suit to overturn an 18 April ruling of the Communications Board that forced Eesti Telefon to reduce the interconnection service fees which Eesti Telefon was charging other operators, so that they would be in accordance with the amendment. Eesti Telefon also requested that the Communications Board ruling be suspended for the duration of the case, which the Court refused to do. The case will next be heard by the Superior Court. Since no leeway has so far been granted, Eesti Telefon has started to follow the ruling by discounting its cost-based interconnection service fees. New interconnection contracts have already been concluded with some operators, and more contracts are in the process of being concluded. Eesti Telefon estimates that these new interconnection contracts will influence this year's finacial results negatively by about 18 mln kroons. Eesti Telefon's application to have the Board ruling suspended is again being argued in Court shortly.

As a response to the amendment, Eesti Telefon changed the classification of and tariffs for calls on 1 April 2001. As of that date, local and trunk calls were replaced by national calls with unitary tariffs. Following the recommendations of the National Communications Board, methodologies for the calculation of end-customer and interconnection costs were unified. The same tariffs became effective for all Estonian operators. The Competition Board reacted on 24 April 2001, by ruling that, in accordance with the Competition Act, Eesti Telefon must cancel these new tariffs. Lower tariffs were recommended by the Competition Board for the service calculated on the bases of justified pricing, traditional proportions between the price-rise and the CPI growth rate, and acceptable return on equity. The Competition Board also filed a case against Eesti Telefon in the Administrative Court. The maximum fine, in case Eesti Telefon loses the case, is 125.3 mln kroons, or 5% of the net sales of the company in 2000.

The position of Eesti Telefon is that their tariffs are justified and cost-based. The company presented its case in Court on 23 May 2001. The Court is expected to make its judgement in October.

On 14 September 2001, the Communications Board notified EMT and Eesti Telefon of the Board's intention to classify them, in 2002, as firms which control a major market segment.

As in the current year, Eesti Telefon would be classified as a company with a significant share of the market in the sphere of general fixed telephone services, permanent connection services, and interconnection services. EMT would be classified as a company with a significant share of the market in the sphere of general interconnection and general mobile phone services. According to the Telecommunications Law, EMT has until 19 November 2001 to argue this classification decision, which EMT intends to do, since it finds that its activities do not in any way hinder or endanger free competition and the rapid development of the mobile phone system in Estonia.

The Communications Board has to make a final decision regarding these classifications by 1 December 2001, at the latest. If the Board still decides to classify EMT as a company with a significant share of the market, it will mean that additional regulations will be imposed upon EMT's interconnection services and cost-based pricing system. This would have a negative impact on the financial results of the whole Eesti Telekom Group. The exact extent of this negative impact is difficult to predict at the moment, but the first rough estimates indicate that the negative effect on the net profits of 2002 could be as much as 100-250 mln kroons.

Estonian Parliament has introduced the implementation act of law of property act which stipulates the right of way issues for Eesti Telefon. We have not reserved any potential amounts to be paid to the landowners.

## Annual General Meeting

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

The Annual General Meeting also authorised AS Eesti Telekom to acquire, within one year (up until 23 May 2002), up to 5% of the A-series shares of AS Eesti Telekom.

EESTI TELEKOM

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

| | Note | 9 mths to 30 Sept 01 | 9 mths to 30 Sept 00 (restated) | 12 mths to 31 Dec 2000 (restated) |
|---|---|---|---|---|
| **Revenues** | | | | |
| Net sales | | 3,078,638 | 2,920,283 | 3,930,154 |
| Change in work-in-progress | | 4,352 | -353 | -492 |
| Capitalised self-constructed assets | | 45,039 | 0 | 0 |
| Other revenues | **7** | 71,181 | 30,910 | 43,829 |
| **Total revenues** | | **3,199,210** | **2,950,840** | **3,973,491** |
| **Operating expenses** | | | | |
| Materials, consumables, supplies and services | | 941,250 | 678,138 | 925,884 |
| Other operating expenses | | 350,662 | 291,402 | 427,007 |
| Personnel expenses | | 372,970 | 338,408 | 484,494 |
| Other expenses | | 33,011 | 42,985 | 58,062 |
| **Total expenses** | | **1,697,893** | **1,350,933** | **1,895,447** |
| **Profits from operations before depreciation** | | **1,501,317** | **1,599,907** | **2,078,044** |
| Depreciation and amortisation | | 780,607 | 714,828 | 969,305 |
| **Profits from operations** | | **720,710** | **885,079** | **1,108,739** |
| Income/ expenses from associated companies (net) | | 28,854 | -140 | -310 |
| Other net financing items | | -5,243 | -9,119 | -11,854 |
| **Profis before tax** | | **744,321** | **875,820** | **1,096,575** |
| Income tax on dividends | **1** | 30,932 | 112 | 54,349 |
| **Profits after tax** | | **713,389** | **875,708** | **1,042,226** |
| Minority interest | | 557 | 4,646 | 5,615 |
| **Net profits from ordinary activities** | | **712,832** | **871,062** | **1,036,611** |
| Extraordinary income | | 0 | 0 | 85,197 |
| **Net profits for the period** | | **712,832** | **871,062** | **1,121,808** |
| **Earnings per share** | | | | |
| Basic earnings per share (in kroons) | **6d** | 5,19 | 6.34 | 8.17 |
| Diluted earnings per share (in kroons) | | 5,19 | 6.34 | 8.17 |

EESTI TELEKOM

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

| | Note | 30 Sept 2001 | 31 Dec 2000 (corrected) | 30 Sept 2000 (corrected) |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Current assets** | | | | |
| Cash and cash equivalents | | 196,079 | 609,743 | 518,875 |
| Trade receivables, net | | 402,182 | 374,897 | 388,531 |
| Other receivables | | 56,825 | 33,214 | 41,306 |
| Accrued income | | 98,541 | 58,986 | 93,726 |
| Prepaid expenses | | 20,364 | 64,014 | 19,094 |
| Inventories | | 157,925 | 149,223 | 134,294 |
| **Total current assets** | | **931,916** | **1,290,077** | **1,195,826** |
| **Non-current assets** | | | | |
| Long term financial assets | **3,4** | 35,962 | 29,213 | 21,217 |
| Tangible assets, net | **2** | 3,131,601 | 3,234,088 | 3,004,459 |
| Intangible assets, net | **2** | 47,463 | 67,603 | 49,998 |
| **Total non-current assets** | | **3,215,026** | **3,330,904** | **3,075,674** |
| **TOTAL ASSETS** | | **4,146,942** | **4,620,981** | **4,271,500** |
| **EQUITY AND LIABILITIES** | | | | |
| **Current liabilities** | | | | |
| Interest bearing loans and borrowings | **5** | 40,234 | 161,392 | 162,727 |
| Customer prepayments | | 8,364 | 6,619 | 6,296 |
| Accounts payable to suppliers | | 190,365 | 361,996 | 224,918 |
| Other payables | | 0 | 119 | 0 |
| Tax liabilities | | 61,463 | 36,844 | 63,490 |
| Accrued expenses | | 132,926 | 194,195 | 202,595 |
| Provisions | | 16,613 | 14,338 | 4,658 |
| Prepaid revenues | | 45,996 | 44,274 | 45,969 |
| **Total current liabilities** | | **495,961** | **819,777** | **710,653** |
| **Non-current liabilities** | | | | |
| Interest bearing loans and borrowings | **5** | 101,733 | 200,978 | 208,008 |
| **Total non-current liabilities** | | **101,733** | **200,978** | **208,008** |
| **Minority interest** | | **0** | **8,193** | **11,552** |
| **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 | | 713,832 | 1,121,808 | 871,062 |
| **Total equity** | | **3,549,248** | **3,592,033** | **3,341,287** |
| **TOTAL EQUITY AND LIABILITIES** | | **4,146,942** | **4,620,981** | **4,271,500** |

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

| | Note | 9 mths to 30 Sept 01 | 9 mths to 30 Sept 00 |
|---|---|---|---|
| **Cash flow from operating activities** | | | |
| Profits before tax and minority interest | | 744,321 | 875,820 |
| Adjustments for: | | | |
| Depreciation | | 780,607 | 714,828 |
| Profit/loss from sales and write-off of fixed assets | | -4,403 | -4,767 |
| Income/ expense from subsidiaries and associates | | -28,854 | 140 |
| Interest income/ expense, net | | -2,790 | 1,460 |
| Other non-cash adjustments | | 1,867 | -3,094 |
| Operating profits before working capital changes | | 1,490,748 | 1,584,387 |
| Change in current receivables | | -93,554 | -36,006 |
| Change in inventories | | -8,701 | 7,361 |
| Change in current liabilities (except loans) | | -189,300 | 85,496 |
| Adjusted cash generated from operations | | 1,199,193 | 1,641,238 |
| Interest paid | | -16,574 | -26,512 |
| Income tax paid | | 0 | -54,750 |
| **Net cash flow from operating activities** | | **1,182,619** | **1,559,976** |
| **Cash flow from/used in investing activities** | | | |
| Purchase of tangible assets | | -653,887 | -731,301 |
| Purchase of licenses | | -11,992 | -16,052 |
| Purchase of shares, investments, and other | | -71,996 | -115,200 |
| Proceeds from sales of tangible assets | | 9,479 | 8,134 |
| Proceeds from sales of investments | | 50,000 | 99,840 |
| Proceeds from sales of associates | | 43,500 | 0 |
| Loans granted | | -4,393 | -65 |
| Cash receipts from repayment of loans | | 58 | 315 |
| Dividends received | | 181 | 7 |
| Interest received | | 18,878 | 22,983 |
| **Net cash flow used in investing activities** | | **-620,172** | **-731,339** |
| **Cash flow from/used in financing activities** | | | |
| Proceeds from convertible long-term debt | | 438 | 0 |
| Repayment of convertible long-term debt | | -10 | 0 |
| Proceeds from non-convertible long-term debt | | 0 | 94,251 |
| Repayment of non-convertible long-term debt | | -103,559 | -5,236 |
| Repayment of long-term borrowings | | -100,734 | -330,684 |
| Payment of finance lease liabilities | | -16,629 | -3,548 |
| Proceeds from short-term borrowings | | 78,233 | 0 |
| Repayment of short-term borrowings | | -78,233 | 0 |
| Dividends paid | | -755,617 | -549,543 |
| Dividends paid to minority shareholders | | 0 | -320 |
| **Net cash flow used in financing activities** | | **-976,111** | **-795,080** |
| **Net increase / -decrease in cash and cash equivalents** | | **-413,664** | **33 557** |
| **Cash and cash equivalents at beginning of year** | | **609,743** | **485 318** |
| **Cash and cash equivalents at end of period** | | **196,079** | **518 875** |

# 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 paid | | 0 | 0 | 0 | -549,543 | 0 | -549,543 |
| Net profit for the period | | 0 | 0 | 0 | 0 | 871,062 | 782,788 |
| **30 Sept 2000** | | **1,373,833** | **309,964** | **124,963** | **661,465** | **871,062** | **3,341,287** |
| **31 December 2000** | | **1,373,833** | **309,964** | **124,963** | **661,465** | **1,176,130** | **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 | 712,832 | 712,832 |
| **30 Sept 2001** | | **1,373,833** | **309,964** | **137,384** | **1,015,235** | **712,832** | **3,549,248** |

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

The consolidated interim financial statements for the nine month period ending 30 September 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 in 2001, this expense is recorded on the income statement. The financial figures for 2000 have, for comparability, been adjusted accordingly.

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 of 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 the 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 a true and fair view of the financial position of the Company.

## 9. Tangible and intangible assets

| | Tangible assets | Intangible assets |
|---|---|---|
| **At cost** | | |
| **31 December 1999** | **5,741,421** | **132,219** |
| Additions | 731,301 | 16,052 |
| Disposals | -97,177 | -10,739 |
| **30 September 2000** | **6,375,545** | **137,532** |
| **31 December 2000** | **6,616,868** | **165,440** |
| Additions | 653,887 | 14,752 |
| Disposals | -101,033 | -824 |
| **30 September 2001** | **7,169,722** | **179,368** |
| **Accumulated depreciation** | | |
| **31 December 1999** | **2,806,774** | **62,294** |
| Depreciation | 679,204 | 35,624 |
| Depreciation on disposals (-) | -114,891 | -10,384 |
| **30 September 2000** | **3,371,087** | **87,534** |
| **31 December 2000** | **3,382,780** | **97,838** |
| Depreciation | 746,499 | 34,108 |
| Depreciation on disposals (-) | -91,158 | -41 |
| **30 September 2001** | **4,038,121** | **131,905** |
| **Closing net carrying amount** | | |
| **30 September 2000** | **3,004,458** | **49,998** |
| **30 September 2001** | **3,131,601** | **47,463** |

EESTI TELEKOM

## 9. Investments in subsidiaries

| | Ownership interest | | Owner |
|---|---|---|---|
| | 30 Sept 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 Mobile Wholesale | 100% | 100% | AS EMT |

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

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.

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 wholesaling of mobile phones..

## 9. Investments in associates

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

On 16 February 2001, AS Eesti Telefon, AS EMT, and the two biggest commercial banks in Estonia, AS Hansapank and AS 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.

## 9. Borrowings

| | 30 Sept 01 | 31 Dec. 00 |
|---|---|---|
| Current | 40,234 | 161,392 |
| Non-current | 101,733 | 200,978 |
| | **141,967** | **362,370** |

Movements in the borrowings:

| | |
|---|---|
| **Opening balance 31.12.2000** | 362,370 |
| Proceeds from borrowings | 78,671 |
| Repayments of borrowings | (299,166) |
| Other movements | 92 |
| **Closing balance 30.09.2001** | **141,967** |

On 18 January 2001, AS Eesti Telekom entered into a borrowing agreement with a syndicate of international banks for raising 40 million Euro. 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.

## 9. Equity

### (a) Changes in equity resulting from resolutions adopted by 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 is entitled to a preference dividend of 10,000 kroons, and one vote at the shareholders' general meeting.

AGM of the shareholders of AS Eesti Telekom, on 23 May 2001, decided to pay a 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. Dividends in the total amount of 755 617 thousand kroons were paid out on 20 June 2001 to the shareholders listed as shareholders on 6 June 2001 at 8 a.m.

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

### (b) Re-acquiring of shares

The AGM, 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 30 September 2001, no shares have been re-acquired by AS Eesti Telekom.

### (c) 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, 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 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 30 September 2001, bonds had been bought back form the employees who had left the Group and re-issued to newly hired managerial personnel. As of 30 September, 21,375 A series and 21,375 B series bonds had been issued, which can be exchanged for 213,750 AS Eesti Telekom ordinary share in 2003, and for 213,750 AS Eesti Telekom ordinary shares in 2004, respectively.

### (d) Earnings per share

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

EEK 5.19 = (712,832,000 - 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 the Estonian Central Depository for Securities was 70.98 kroons, the options relating to the bonds do not have a dilutive effect and diluted earnings per share equal basic earnings per share.

## 9. Provisions

A claim in the amount of 55 million kroons had at one time been filed against AS Eesti Telefon by a company in bankruptcy, OÜ Albufent. On 6 February 2001, OÜ Albufent unconditionally withdrew the suit which it had filed against Eesti Telefon in Tallinna Municipal Court. On 19 February, Tallinna Municipal Court officially closed the case. The 46 mln kroon reserve which Eesti Telefon had, for several years, kept for covering this contingency, could then be absorbed by way of the the income statement.

## 8. Reserves

AS Eesti Telefon changed classification and tariffs of its calls from April 1, 2001. 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 new tariffs 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. AS Eesti Telefon has made reserves in amount of 15 mln kroons against the possible claim.

## 9. 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 has been divided into three segments: fixed network telecommunications, mobile telecommunications, and other activities.

- **a.** **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, AS Connecto.
- **b.** **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, AS Tarvin.
- **c.** **Other activities** – this segment covers the activities of the parent company AS Eesti Telekom.

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.

| | Fixed network telecommunications | | Mobile telecommunications | | Other operations | | Eliminations | | Consolidated | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **9 months 2001** | **9 months 2000** | **9 months 2001** | **9 months 2000** | **9 months 2001** | **9 months 2000** | **9 months 2001** | **9 months 2000** | **9 months 2001** | **9 months 2000** |
| **Revenue** | | | | | | | | | | |
| Net sales | 1,846,043 | 1,812,726 | 1,232,595 | 1,107,557 | 0 | 0 | | | 3,078,638 | 2,920,283 |
| Other revenue | 105,157 | 21,692 | 15,398 | 8,842 | 17 | 23 | | | 120,572 | 30,557 |
| Inter-segment revenue | 245,642 | 179,131 | 377,927 | 227,483 | 181 | 223 | -623,750 | -406,837 | 0 | 0 |
| **Total revenue** | **2,196,842** | **2,013,549** | **1,625,920** | **1,343,882** | **198** | **246** | | | **3,199,210** | **2,950,840** |
| **Operating expenses** | | | | | | | | | | |
| Materials, consumables, supplies and services | 541,673 | 347,561 | 399,577 | 330,577 | 0 | 0 | | | 941,250 | 678,138 |
| Other operating expenses | 266,350 | 215,729 | 77,359 | 63,729 | 6,953 | 11,944 | | | 350,662 | 291,402 |
| Personnel expenses | 298,428 | 278,218 | 68,411 | 50,034 | 6,131 | 10,156 | | | 372,970 | 338,408 |
| Other expenses | 15,092 | 20,741 | 16,010 | 18,934 | 1,909 | 3,310 | | | 33,011 | 42,985 |
| Inter-segment expenses | 377,767 | 227,388 | 245,532 | 178,999 | 451 | 450 | -623,750 | -406,837 | 0 | 0 |
| **Total expenses** | **1,499,310** | **1,089,637** | **806,889** | **642,273** | **15,444** | **25,860** | | | **1,697,893** | **1,350,933** |
| **EBITDA** | **697,532** | **923,912** | **819,031** | **701,609** | **-15,246** | **-25,614** | | | **1,501,317** | **1,599,907** |
| Depreciation and amortisation | 549,333 | 512,757 | 230,672 | 201,715 | 918 | 750 | -316 | -394 | 780,607 | 714,828 |
| **EBIT** | **148,199** | **411,155** | **588,359** | **499,894** | **-16,164** | **-26,364** | | | **720,710** | **885,079** |
| Income/ -expenses from subsidiaries and associated companies | 30,263 | -140 | -1,409 | 0 | 744,694 | 873,731 | -744,694 | -873,731 | 28,854 | -140 |
| Other net financing items | -28,897 | -40,838 | 8,420 | 8,024 | 15,234 | 23,695 | | | -5,243 | -9,119 |
| Income tax expenses (-)/ income (+) | 0 | 0 | 0 | -112 | -30,932 | 0 | | | -30,932 | -112 |
| Minority interest | 557 | 3,938 | 0 | 744 | 0 | 0 | | | 557 | 4,646 |
| **Net profit** | **149,008** | **366,239** | **595,370** | **507,098** | **712,832** | **871 ,062** | | | **712,832** | **871,062** |
| Non-current assets | 2,155,301 | 2,199,994 | 1,051, 814 | 872,245 | 3,192,495 | 3,019,500 | -3,184,584 | -3,016,065 | 3,215,026 | 3,075,674 |
| Current assets | 530,754 | 508,150 | 386,114 | 465,862 | 358,676 | 419,138 | -343,628 | -197,324 | 931,916 | 1,195,826 |
| **Total assets** | **2,686,055** | **2,708,144** | **1,437,928** | **1,338,107** | **3,551,171** | **3,438,638** | | | **4,146,942** | **4,271,500** |
| **Owners' equity** | **1,580,054** | **1,469,822** | **1,279,422** | **1,191,206** | **3,549,248** | **3,341,287** | -2,859,476 | -2,661,027 | **3,549,248** | **3,341,287** |
| Minority interest | 0 | 10,252 | 0 | 1,300 | 0 | 0 | | | 0 | 11,552 |
| Non-current liabilities | 417,926 | 553,919 | 8,487 | 9,126 | 428 | 0 | -325,108 | -355,037 | 101,733 | 208,008 |
| Current liabilities | 688,075 | 674,151 | 150,019 | 136,475 | 1,495 | 97,351 | -343,628 | -197,324 | 495,961 | 710,653 |
| **Total equity and liabilities** | **2,686,055** | **2,708,144** | **1,437,928** | **1,338,107** | **3,551,171** | **3,438,638** | | | **4,146,942** | **4,271,500** |
| Cash flow from operating activities | 459,994 | 914 ,081 | 723,443 | 657,086 | -26,339 | -28,352 | 25,521 | 17,161 | 1,182,619 | 1,559,976 |
| Cash flow used in capital expenditure | -364,367 | -521,727 | -301,197 | -224,384 | -314 | -1,242 | | | --665,878 | -747,353 |
| Cash flow from/ used in other investing activities | 35,915 | -9,678 | 6,108 | 11,210 | 748,270 | 547,852 | -744,587 | -533,370 | 45,706 | 16,014 |
| Cash flow from / used in financing activities | -143,310 | -386,073 | -696,678 | -469,924 | -855,189 | -455,292 | 719,066 | 516,209 | -976,111 | -795,080 |
| **Net change in cash** | **-11,768** | **-3,397** | **-268,324** | **-26,012** | **-133,572** | **62,966** | | | **-413,664** | **33,557** |