

7 February 2002

THE PRELIMINARY FINANCIAL 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 financial year ending 31 December 2001.

Financial highlights

	2001	2000	Gain/loss %
Total revenues, mEEK	4,285	3,973	8
EBITDA, mEEK	1,937	2,078	-7
EBITDA margin, %	45	52	
EBIT, mEEK	795	1,109	-28
EBIT margin, %	19	28	
Profits before taxes, mEEK	818	1,097	-25
Net profits for the period, mEEK	787	1,122	-30
EPS, EEK	5.73	8.17	-30
No. of A- shares	137,383,178	137,383,178	
Investments ^{*)} , mEEK	969	1,268	-23
Net gearing, %	-9.0	-6.9	

^{*)} excl. purchase of commercial papers

Commenting on these financial results, Chairman Jaan Männik stressed the following: “In 2001, the Estonian Telekom group proved its adaptability – to deal with the changes in the market environment, to go along with technological innovations, and to comply with the diversifying needs of its customers.”

For further information, please contact:

Krister Björkqvist
CFO

+372 6272 465

Hille Võrk
Financial Manager

+372 6 272 460

Address
Roosikrantsi 2
10119 Tallinn

Telefon
+372 6311212
Faks
+372 6311224

E-post
mailbox@telekom.ee

Kodulehekülg
www.telekom.ee

CHAIRMAN'S STATEMENT

The year 2001 was a complicated and challenging one for the Eesti Telekom group. The market opened up for full competition, so that, especially during the first half of the year, we had to act under the extremely strong price pressure created by the new entrants. At the same time, the regulatory environment was in continuous change, resulting in the implementation to several new limitations for the dominant market operators. Now, at the beginning of 2002, I would say that we successfully faced all the challenges that we were confronted with, and much more stability is expected from the coming year.

In addition to dealing with our competitors, and adapting to regulations, several new technological developments were introduced. GPRS was launched into commercial use. Penetration of ADSL lines rose above the Western European average. Both operators of the group launched several new, innovative services in traditional, as well as new service areas. Co-operation with domestic and foreign telecommunication and media companies has allowed expansion of our activities into areas outside traditional telecommunications, which is very important, taking into account the limited size of the Estonian market.

Revenues, expenses, and profits

In 2001, consolidated revenues of the Eesti Telekom Group amounted to 4,285 mln EEK, showing a rise of 8%, compared to the year 2000. EBITDA of the Group was 1,937 mln EEK, down by 7 % with an EBITDA margin of 45%. Operating expenses grew by 24%, compared to the year 2000, to 2,347 mln EEK. Net profit of the Eesti Telekom Group in 2001 amounted to 787 mln EEK, showing a fall of 30 %. Earnings per share were 5.73 EEK. The consolidated financial results have been influenced by several unusual factors:

- An insolvent company, OÜ Albufent, had filed a lawsuit against AS Eesti Telefon in the amount of 55 mln EEK. 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 EEK, 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 its 60% of AS Teabeliin to Eniro Eesti AS, a subsidiary of Eniro AB. The sales price of the shares was 43.5 mln EEK. The capital gain from the transaction, in the amount of 32 mln EEK, 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 significant influence on the total revenues and expenses of both the Eesti Telefon Group and the EMT Group.
- Following first year of competition Eesti Telefon has reviewed its assets under IAS 36 and made a 100 mln EEK write-off.

The year 2001 was a challenging one for AS Eesti Telefon, the fixed line operator of the Group. The fixed communications market became wide open for competition on 1 January 2001. Several other operators entered the market, causing a significant reduction in international calls tariffs. However, AS Eesti Telefon faced the challenge by making its tariffs more flexible, with the introduction of bonus packages, and with various other promotional activities. In the middle of the year, the rate of the tariff reductions slowed down, and market shares of Eesti Telefon stabilised. At the end of December 2001, the company estimated its market share of total call minutes, domestic call minutes, and mobile minutes to be 91%, 90%, and 75% respectively. Eesti Telefon estimated its market share of international call minutes to be 70%. Another step

for maintaining customers was taken in January 2002. New price-packages were introduced, which allow customers with different communication needs to choose between different combinations of monthly fee and minute tariffs, thus optimising their expenditures on communications.

AS Eesti Telefon does not want to limit its activities with traditional voice communications. Several new services were launched in 2001. 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, equipment hosting service Atlas Tele-hotel, rental space for video and audio records Atlas Real-Time, Web-based accounting software rental service B24, rental of e-shopping applications, IP-based voice communication solutions, and call-handling systems. During year 2001, Eesti Telefon started co-operation with several foreign partners: Wicom Communications, SAS, Microsoft, Infonet.

Among the main revenue categories of AS Eesti Telefon, domestic call revenues grew by 1%, revenues from mobile communications by 17%, and dial-up revenues by 21%, compared to 2000. Revenues from data communications and Internet connections grew by 144%. Revenues from international calls fell by 46%, and main line revenues by 6%.

To increase its efficiency, Eesti Telefon has also reviewed its cost structure. As a result, the decision was made to sell 17 office buildings and technical facilities with a total area of 21,500 square metres. Most of these premises were analog exchange premises, which had 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 EEK per year by cutting operating expenses with this sale.

In order to promote higher efficiency, and to be able to concentrate on its main activities, Eesti Telefon turned 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 Eesti Telefon customer service centres doubled to 39.

The number of employees of AS Eesti Telefon fell to 1,552 by the end of the year 2001 (December 2000:2,379).

The consolidated total revenues of the Eesti Telefon group in 2001 amounted to 2,872 mln EEK, a rise of 7 %, compared to the year 2000. The increase in interconnection revenue amounted to 204 mln EEK. Operating expenses of the group rose by 30 %, to 1,989 mln EEK, of which, interconnection expenses amount to 430 mln EEK. The EBITDA and the net profit of the Eesti Telefon group were 883 mln EEK and 49 mln EEK respectively, down by 24 % and 88 %.

A survey of the Estonian Communications Board shows that by the end of 2001, mobile penetration in Estonia had reached 52%. The same source estimated AS EMT's (the mobile operator of the Eesti Telekom Group) market share to be 54%. AS EMT itself reported its number of clients at the end of 2001 to be 382.7 thousand. The net growth in the number of customers in 2001 was 54.3 thousand. By the end of December 2001, the company had 127 thousand prepaid customers (net growth of 18.6 thousand) and 255.7 post-paid customers (net growth of 35.7 thousand). Monthly ARPU in 2001 was 452 EEK per customer (449 EEK per customer in 2000).

An important development in 2001 was the launch of GPRS. The feedback from customers has been positive. Also, several new value added services became available for the operator's customers. With the orientation to younger customers, co-operation was started with several Internet portals and TV channels. It became possible for customers to load logos or sounds from the Internet, send SMS from a portal, or to a TV SMS-chat. M-parking and m-commerce were developed further. EMT started to make it possible for appliances to be remote controlled by mobile telephone.

The total revenues of the EMT group amounted to 2,217 mln EEK, up by 402 mln EEK or 22 %, of which, interconnection revenues amount to 293 EEK. The operating expenses of the EMT Group were 1,143 mln EEK, up by 273 mln EEK or 31 %, of which, interconnection fees amount to 163 mln EEK. The EBITDA

of the group amounted to 1,074 mln EEK (a growth of 14 %). The EBITDA margin reached 48%. The net profit for the year was 765 mln EEK, up by 13 %, compared to the year 2000.

Balance sheet and cash flow

At the end of December 2001, the total assets of the Eesti Telekom group amounted to 4,243 mln EEK (December 2000: 4,621 mln EEK). There has been a reduction in both long term and short term debt obligations. In July 2001, AS Eesti Telekom repurchased one-year bonds in the total amount of 100 mln EEK. AS Eesti Telekom made loan repayments, both scheduled and pre-scheduled. At the end of 2001, the net gearing of the Eesti Telekom group was -9.0%.

The net operating cash flow was strong, amounting to 1,736 mln EEK. The total cash flow of the group was -206 mln EEK. The negative total cash flow resulted from financial outflows in the total amount of 982 mln EEK (incl. dividend payouts of 756 mln EEK) and investing activities in the total amount of 960 mln EEK.

Investments

In 2001, the Eesti Telekom group invested, excluding investments into commercial papers, 969 mln EEK in 2001 (24% less than in 2000). The Eesti Telefon group invested 508 mln EEK, the EMT group 459 mln EEK. Resulting from changes in the business environment, in 2001, Eesti Telefon decreased its planned investments by 300 mln EEK. The aim of this reduction was to increase the profitability of investments. The main investments area for Eesti Telefon was ADSL network. The majority of investments made by EMT went into base stations, exchanges, and IT systems.

The number of main lines per 100 inhabitants was 34.9 at the end of December 2001 (December 2000: 35.9). In total, 501,691 Eesti Telefon main lines were in use in December 2001. The number of lines per employee was 321. The digitalisation rate has reached 71.8% (December 2000: 71.2%). By the end of the year 17 thousand ADSL connections were installed, or 1.2 connections per 100 inhabitants.

One of the most important investment areas for AS EMT was GPRS. The GPRS network, as a commercial endeavour, was launched on 1 July 2001. The service can be used everywhere in Estonia where GSM is available. EMT intends to support the development of GPRS in Estonia. 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. These facilities are also suitable for designing new GPRS and UMTS networks.

Both subsidiaries of the Eesti Telekom group are also supporting the development of the general telecommunications environment in Estonia. On 16 February 2001, Eesti Telefon, EMT, and two major commercial banks signed an agreement for the establishment of AS Sertifitseerimiskeskus (Certification Centre Ltd.) The centre will provide certification related services, based upon the essential public infrastructure. By statute, the centre will deal basically with certification and timestamps. 12 mln EEK have been invested into the founding of AS Sertifitseerimiskeskus, 3 mln EEK by each participant in the project. At the beginning of 2002, the Parliament of Estonia made electronic ID-cards compulsory for all Estonian residents, which increased the significance of the PKI project.

On 7 March 2001, several Estonian companies, including Eesti Telefon and EMT, together with the government, introduced the look@world project, aimed at promoting the use of Internet, thereby improving the quality of life in Estonia and the nation's competitiveness in Europe. One aim of the participants is to raise Internet penetration of Estonia, in three years, to 74 %, thus surpassing Finland. Both Eesti Telefon and EMT will invest 30 mln EEK into the project during the next three years. Eesti Telefon's main contribution within the framework of the project will be to give access to Internet services to as many people as possible, irregardless of where they live, or their income; establish a permanent Internet connection for non-profit organisations at preferential rates; develop an infrastructure needed for essential consumer services and an Internet environment; and support Internet training programs. EMT's contribution would be to provide access to Internet at all times and everywhere, coordinate co-operation

between the public and private sectors, establish an innovation centre, and support and promote information technological schooling and training programs.

An important investment project in 2002 will be UMTS. The Ministry of Roads and Communications is preparing the necessary legislation for issuing third generation mobile phone service licenses. It is expected that four licenses will be issued. The expected launch of the third generation technology will be in 2003-2004.

Regulatory issues

2001 was the first year of full competition in the Estonian telecommunications market. Numerous regulative acts became effective and had to be implemented. Several debates between operators and regulatory authorities rose out of the different interpretations of the acts.

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 considered the stipulating of limits for interconnection service fees (on top of a 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 the fees would be in accordance with the amendment. Eesti Telefon requested that the Communications Board ruling be suspended for the duration of the case, which the Court refused to do. On 10 December 2001, Tallinn Administrative Court decided in favour of the Communications Board. However, Eesti Telefon had already started to implement the ruling, by discounting its cost-based interconnection service fees. New interconnection contracts had already been concluded with some operators.

On 21 December 2001, the Communications Board ordered AS Eesti Telefon to lower the regional level interconnection tariffs in 2002, so that they would be in accordance with the Telecommunications Act and the methodology of accounting the costs of an operator of a telecommunications network as established by a decree of the Government. Eesti Telefon will comply and lower the tariffs by 1 cent.

On 1 April 2001, Eesti Telefon changed the classification and tariffs of calls. As of that date, local and long distance 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 basis of justified pricing, traditional proportions between the price-rise and the CPI growth rate, and acceptable return on equity. The Competition Board filed a case against Eesti Telefon in the Administrative Court. A fine of up to 5% of annual net sales can be imposed for abuse of the position of dominant market operator.

Eesti Telefon is of the opinion that the price between 14 and 34 cents for a call within the network is cost-based. Eesti Telefon did not accept the complaint by the Competition Board, and on 23 May 2001, took the case to Tallinn Administrative Court. On 17 January 2002, Tallinn Administrative Court decided in favour of Eesti Telefon, and dismissed the Competition Board's complaint.

On 13 November 2001, AS EMT was declared to be an operator with significant market power in the general mobile service market in 2002. EMT decided to contest the Directive in court, because it found that the directive was not in conformity with law. Along with the administrative appeal, EMT also applied for suspending the performance of the directive. Court satisfied the application by its ruling of January 18, 2002, as it considered EMT's application to be grounded. AS EMT was not declared to be an operator with significant market power in interconnection services market. On 26 November, the Communications Board declared AS Eesti Telefon to be an operator with significant market power, in 2002, in the public telephone service market, public leased line service market, and public interconnection service market.

The Estonian Parliament has passed the implementation act of the property statutes, which stipulate the right of way issues for Eesti Telefon. At the moment, we have not reserved any funds for the settlement of potential landowners' claims.

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. 12,421 thousand EEK were entered as the mandatory reserve capital. It was decided that the owners of A-shares be paid ordinary dividends of 4.00 EEK per share (in total, 550 mln EEK, or 49% of the net profit of 2000). Also, it was decided that an "extraordinary dividends" payment of 1.50 EEK per share (in total, 206 mln EEK) be made to the owners of A-shares. The owner of B-share was entitled to 10,000 EEK of the dividends. The rest of the accumulated net profit, in the amount of 1,068,854 thousand EEK, was retained undistributed.

The Annual General Meeting also authorised AS Eesti Telekom to acquire, within one year (until 23 May 2002), up to 5% of the A-series shares of AS Eesti Telekom. Up until now, no shares have been re-acquired by AS Eesti Telekom.

AS EESTI TELEKOM AND SUBSIDIARY COMPANIES
INCOME STATEMENT

In thousand of Estonian kroons (EEK)

	2001	2000 (restated)
Revenue		
Net sales	4,154,438	3,930,154
Change in work-in-progress	529	-492
Capitalized self-constructed assets	87,112	0
Other revenue	42,430	43,829
Total revenue	4,284,509	3,973,491
Operating expenses		
Materials, consumables, supplies and services	1,284,402	925,884
Other operating expenses	484,943	431,658
Personnel expenses	534,697	484,444
Other expenses	43,314	53,461
Total expenses	2,347,356	1,895,447
Profit from operations before depreciation	1,937,153	2,078,044
Depreciation	1,141,661	969,305
Profit from operations	795,492	1,108,739
Income/ -expenses from subsidiaries and	26,829	-310
Other net financing items	-3,897	-11,854
Profit before tax	818,424	1,096,575
Income tax on dividends	30,932	54,349
Profit after tax	787,492	1,042,226
Minority interest	557	5,615
Net profit from ordinary activities	786,935	1,036,611
Extraordinary item	0	85,197
Net profit for the period	786,935	1,121,808
Earnings per share		
Basic earnings per share (in kroons)	5.73	8.17
Diluted earnings per share (in kroons)	5.73	8.17

**AS EESTI TELEKOM AND SUBSIDIARY COMPANIES
BALANCE SHEET**

In thousand of Estonian kroons (EEK)

	31 Dec 2001	31 Dec 2000 (restated)
ASSETS		
Current assets		
Cash and cash equivalents	403,659	609,743
Short-term investments	60,584	0
Trade receivables, net	403,347	401,838
Other receivables	6,982	6,272
Accrued income	103,761	58,987
Prepaid expenses	28,235	64,014
Inventories	109,751	149,223
Total current assets	1,116,319	1,290,077
Non-current assets		
Long term financial assets	34,292	29,213
Tangible assets, net	3,036,007	3,234,088
Intangible assets, net	56,139	67,603
Total non-current assets	3,126,438	3,330,904
TOTAL ASSETS	4,242,757	4,620,981
EQUITY AND LIABILITIES		
Current liabilities		
Interest bearing loans and borrowings	88,146	161,392
Customer prepayments	9,237	6,619
Accounts payable to suppliers	258,838	361,995
Other payables	168	119
Tax liabilities	35,274	24,746
Accrued expenses	150,853	206,294
Provisions	17,432	14,338
Prepaid revenue	10,350	44,274
Total current liabilities	570,298	819,777
Non-current liabilities		
Interest bearing loans and borrowings	49,108	200,978
Other long-term payables	0	0
Total non-current liabilities	49,108	200,978
Minority interest	0	8,193
Equity		
Issued capital	1,373,833	1,373,833
Share premium	309,964	309,964
Statutory legal reserve	137,384	124,963
Retained earnings	1,015,235	661,465
Net profit for the period	786,935	1,121,808
Total equity	3,623,351	3,592,033
TOTAL EQUITY AND LIABILITIES	4,242,757	4,620,981

AS EESTI TELEKOM AND SUBSIDIARY COMPANIES
CASH FLOW STATEMENT

In thousand of Estonian kroons (EEK)

	12 mths	12 mths
	31 Dec 2001	31 Dec 2000
Cash flow from operating activities		
Profit before tax and minority interest	818,424	1,096,575
Adjustments for:		
Depreciation	1,141,661	969,305
Profit/loss from sales and write-off of fixed assets	1,473	-3,704
Profit/loss from sale of investments	0	0
Income/ expense from subsidiaries and associates	-26,829	310
Profit/loss from value adjustment of shares	0	0
Interests income/ expense, net	-3,069	280
Other non-cash adjustments	-250	-684
Operating profit before working capital changes	1,931,410	2,062,082
Change in current receivables	-56,865	-330
Change in inventories	39,472	-7,567
Change in current liabilities (except loans)	-161,525	190,147
Adjusted cash generated from operations	1,752,492	2,244,332
Interest paid	-15,901	-22,219
Income tax paid	0	-50,718
Net cash flow from operating activities	1,736,591	2,171,395
Cash flow from investing activities		
Purchase of tangible assets	-912,745	-1,206,949
Purchase of licenses	-35,928	-31,842
Purchase of shares, investments and other	-132,580	-137,433
Proceeds from sales of tangible assets	11,427	10,686
Proceeds from sales of investments	50,000	99,840
Proceeds from sales of associates	43,500	0
Loans granted	-4,806	-91
Cash receipts from repayment of loans	84	210
Cash receipts from settlement of long-term receivables		
Dividends received	181	7
Interest received	20,275	22,198
Net cash flow from investing activities	-960,592	-1,243,374
Cash flow from financing activities		
Proceeds from convertible long-term debt	440	0
Repayment of convertible long-term debt	-15	0
Proceeds from nonconvertible long-term debt	0	94,251
Repayment of nonconvertible long-term debt	-105,223	-6,971
Proceeds from long-term borrowings	0	0
Repayment of long-term borrowings	-105,039	-334,989
Proceeds from finance lease liabilities	0	0
Payment of finance lease liabilities	-16,629	-6,024
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 from financing activities	-982,083	-803,596
Net increase / - decrease in cash and cash equivalents	-206,084	124,425
Cash and cash equivalents at beginning of year	609,743	485,318
Cash and cash equivalents at end of period	403,659	609,743

**AS EESTI TELEKOM AND SUBSIDIARY COMPANIES
STATEMENT OF CHANGES IN EQUITY**

In thousand of Estonian kroon (EEK)

	Issued capital	Share premium	Reserves	Retained earnings	Net profit for the period	Total
31-Dec-99	1,373,833	309,964	56,851	698,858	580,262	3,019,768
Net profit for the period transferred into retained earnings	0	0	0	580,262	-580,262	0
Amounts transferred to reserves	0	0	0	68,112	-68,112	0
Dividends paid	0	0	0	-549,543	0	-549,543
Net profit for the period	0	0	0	0	1,121,808	1,121,808
31-Dec-00	1,373,833	309,964	124,963	661,465	1,121,808	3,592,033
Net profit for the period transferred into retained earnings	0	0	0	1,121,808	-1,121,808	0
Amounts transferred to reserves		0	0	12,421	-12,421	0
Dividends paid	0	0	0	-755,617	0	-755,617
Net profit for the period	0	0	0	0	786,935	786,935
31-Dec-01	1,373,833	309,964	137,384	1,015,235	786,935	3,623,351

AS EESTI TELEKOM AND SUBSIDIARY COMPANIES
NOTES FOR THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2001
In thousands of Estonian kroons (EEK)

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

The preliminary consolidated financial statements for 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. 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.

2. Tangible and intangible assets

In thousand of Estonian kroons (EEK)

	Tangible assets	Intangible assets
<u>At cost</u>		
31 December 1999	5,741,421	132,219
Additions	1,293,111	45,667
Disposals	-417,664	-12,446
31 December 2000	6,616,868	165,440
Additions	918,377	37,269
Disposals	-220,937	-3,578
31 Dec 2001	7,314,308	199,131
<u>Accumulated depreciation</u>		
31 December 1999	2,806,774	62,294
Depreciation	921,669	47,636
Depreciation on disposals (-)	-345,663	-12,093
31 December 2000	3,382,780	97,837
Depreciation	1094,530	47,131
Depreciation on disposals (-)	-199,009	-1,977
31 Dec 2001	4,278,301	142,992
<u>Closing net carrying amount</u>		
31 Dec 2000	3,234,088	67,603
31 Dec 2001	3,036,007	56,139

3. Investments in subsidiaries

	<u>Ownership interest</u>		Owner
	31 Dec 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..

4. Investments in associates

	Ownership interest	
	31 Dec 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.

5. Borrowings

In thousand of Estonian kroons (EEK)

	31 Dec 2001	31 Dec 2000
Current	88,146	161,392
Non-current	49,108	200,978
	137,254	362,370

Movements in the borrowings:

Opening balance	362,370
Proceeds from borrowings	78,673
Repayments of borrowings	(305,139)
Other movements	1,350
Closing balance	137,254

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.

6. 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 cents (i.e. 1 kroon 50 cents "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 31 December 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 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.

(d) Earnings per share

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

$$EEK\ 5.73 = (786,935,000 - 10,000) : 137,383,178$$

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 69.01 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 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. 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.

- **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.
- **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.
- **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.

In thousand of Estonian kroons (EEK)

	Fixed network telecommunications		Mobile telecommunications		Other operations		Eliminations		Consolidated	
	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000
Revenue										
Net sales	2,459,869	2,433,067	1,694,569	1,497,087	0	0			4,154,438	3,930,154
Other revenue	100,332	24,345	29,714	18,950	25	42			130,071	43,337
Inter-segment revenue	311,940	232,872	492,658	299,355	211	261	-804,809	-532,488	0	0
Total revenue	2,872,141	2,690,284	2,216,941	1,815,392	236	303			4,284,509	3,973,491
Operating expenses										
Materials, consumables, supplies and services	689,168	474,414	595,234	451,470	0	0			1,284,402	925,884
Other operating expenses	371,634	330,761	104,344	86,229	8,965	14,668			484,943	431,658
Personnel expenses	420,656	398,165	105,310	73,212	8,731	13,067			534,697	484,444
Other expenses	15,473	24,121	25,877	25,893	1,964	3,447			43,314	53,461
Inter-segment expenses	492,466	299,259	311,837	232,697	506	532	-804,809	-532,488	0	0
Total expenses	1,989,397	1,526,720	1,142,602	869,501	20,166	31,714			2,347,356	1,895,447
EBITDA	882,744	1,163,564	1,074,339	945,891	-19,930	-31,411			1,937,153	2,078,044
Depreciation	823,077	691,879	317,676	276,949	1,266	1,003	-358	-526	1,141,661	969,305
EBIT	59,667	471,685	756,663	668,942	-21,196	-32,414			795,492	1,108,739
Income/ -expenses from subsidiaries and associated companies	28,664	-310	-1,835	0	914,409	1,097,517	-914,409	-1,097,517	26,829	-310
Other net financing items	-38,424	-49,278	9,873	11,651	24,654	25,773			-3,897	-11,854
Income tax expenses (-)/ income (+)	0	0	0	-84	-30,932	-54,265			-30,932	-54,349
Minority interest	557	4,632	0	983	0	0			557	5,615
Extraordinary item	0	0	0	0	0	85,197			0	85,197
Net profit	49,350	417,465	764,701	679,526	886,935	1,121,808			786,935	1,121,808
Non-current assets	2,008,481	2,346,970	1,110,291	978,873	3,361,923	3,244,780	-3,354,257	-3,239,719	3,126,438	3,330,904
Current assets	450,864	469,043	551,310	615,217	365,339	448,205	-251,194	-242,388	1,116,319	1,290,077
Total assets	2,459,345	2,816,013	1,661,601	1,594,090	3,727,262	3,692,985			4,242,757	4,620,981
Owners' equity	1,480,397	1,521,047	1,448,752	1,363,635	3,723,351	3,592,033	-3,029,149	-2,884,682	3,623,351	3,592,033
Minority interest	0	6,618	0	1,575	0	0			0	8,193
Non-current liabilities	365,432	547,042	8,330	8,974	454	0	-325,108	-355,038	49,108	200,978
Current liabilities	613,516	741,306	204,519	219,906	3,457	100,952	-251,194	-242,387	570,298	819,777
Total equity and liabilities	2,459,345	2,816,013	1,661,601	1,594,090	3,727,262	3,692,985			4,242,757	4,620,981
Cash flow from operating activities	708,699	1,213,900	1,024,577	969,958	-24,643	-28,518	27,958	16,055	1,736,591	2,171,395
Cash flow used in capital expenditure	-495,058	-840,121	-451,897	-396,861	-1,718	-1,809			-948,673	-1,238,791
Cash flow used in investing activities	37,592	-22,610	7,149	4,390	784,872	494,261	-841,532	-480,624	-11,919	-4,583
Cash flow from / used in financing activities	-248,556	-340,352	-691,909	-472,522	-855,192	-455,292	813,574	464,570	-982,083	-803,596
Net change in cash	2,677	10,817	-112,080	104,965	-96,681	8,642			-206,084	124,425