18 July 2002

THE FINANCIAL RESULTS OF THE FIRST SIX MONTHS OF 2002

Eesti Telekom, the leading provider of telecommunication services in Estonia, hereby announces its results for the six-month period ended 30 June 2002.

Financial highlights

	6 months 2002	6 months 2001	Change, %
Total revenues, mEEK	**2,272**	2,071	10
EBITDA, mEEK	**1,090**	1,016	7
EBITDA margin, %	**48**	49	
EBIT, mEEK	**578**	495	17
EBIT margin, %	**25**	24	
Profits before taxes, mEEK	**572**	531	8
Net profits for the period, mEEK	**479**	499	-4
EPS, EEK	**3.48**	3.64	-4
No. of A- shares	**137,383,178**	137,383,178	
Investments, mEEK	**207**	430	-52
Net gearing, %	**-12.0**	2.4	
ROA, %	**23**	23	
ROE, %	**33**	31	

Commenting on these financial results, Chairman Jaan Männik stressed:

"Several favourable trends in the operations of the Group have continued to prevail during the first half-year of 2002. Measures oriented on efficiency improvement have started to show positive results."

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CHAIRMAN'S STATEMENT

Results of the first half-year of 2002 were favourable for the Eesti Telekom Group. Although the Estonian mobile market has been intensively penetrated, AS EMT, the mobile operator of the Group, has still found new possibilities for increasing its revenues and profits. The fixed market was liberalized on January 1, 2001. AS Eesti Telefon, the fixed communications operator, has adjusted to the existing working environment and has been able to stabilize its market shares.

Last year, we talked extensively about measures meant for improving efficiency. Our investing policy and the structure of our tangible assets were reviewed. Changes were made in our customer service sphere. As a result, the profit margins of almost all the companies of the Group improved in the first half of 2002.

The Eesti Telekom Group cash flow has continued to be positive. Net gearing has reached –12%.

Revenues, expenses and profit

In the first half of 2002, consolidated revenues of the Eesti Telekom Group amounted to 2,272 mln EEK, showing a rise of 10% compared to the first half-year of 2001. Operating expenses were 1,182 mln EEK, up by 12%. EBITDA of the Group was 1,090 mln EEK (margin 48%), showing a rise of 7%. Depreciation for the period was 2% lower than a year ago. EBIT of the Group was up by 17%, amounting to 578 mln EEK. On June 19, 2002, AS Eesti Telekom paid out dividends in the amount of 756 mln EEK to its shareholders for the year 2001. Income tax on dividends amounted to 94 mln EEK (31 mln EEK in 2001). The net profit of the Eesti Telekom Group in the first half-year of 2002 was 479 mln EEK, or 3.48 EEK per share.

Outcomes of the first six months of 2001 and 2002 were influenced by the following extraordinary factors:

	2002	2001
Total revenues	AS Eesti Telefon sold property with a capital gain of 54 mln EEK.	
Total expenses		AS Eesti Telefon released a 46 mln EEK reserve related to the OÜ Albufent claim.
Income from associates		AS Eesti Telefon sold its ownership in AS Teabeliin. 33 mln EEK of profit were accounted as income from associates.

The consolidated revenues of the Eesti Telefon Group amounted to 1,326 mln EEK, down by 9% compared to the same period in 2001. Operating expenses were 799 mln EEK, down by 16%. EBITDA of the Group was 527 mln EEK. The EBITDA margin has risen to 40%. Depreciation during the first six months of the year was significantly lower than in 2001 (down by 9%). EBIT of the group was up by 40%, amounting to 188 mln EEK. The Eesti Telefon Group earned 174 mln EEK of net profit in the first half-year of 2002 (up by 18%, compared to the same period in 2001).

The operating revenues of AS Eesti Telefon were down by 11%, compared to the same period in 2001. Revenues from all categories of voice-communication services to end-customers were down: domestic call revenues by 17%, dial-up revenues by 41%, international call revenues by 9%, and revenues from calls to mobile networks by 14%. On the positive side, revenues from monthly fees were up by 26%. Revenues from data communications and the Internet grew by 89%. In the first half of 2002, Eesti Telefon made a capital gain of 54 mln EEK from the selling of various assets, which is categorized under "other revenues".

Market shares of AS Eesti Telefon have been stable. The company estimates its share of total call minutes, domestic call minutes, fixed to mobile minutes, and international call minutes to be 89%, 89%, 75%, and 71%, respectively.

The operating expenses of AS Eesti Telefon were down by 18%. The largest part of the decrease was due to lower interconnection costs resulting from directing a large part of mobile calls directly from the network of one operator to the network of another. Personnel expenses were down by 10%. The number of employees of AS Eesti Telefon had fallen to 1,418 by the end of June 2002 (June 2001: 1,797).

The total revenues of the EMT Group amounted to 1,164 mln EEK, up by 10%. The operating expenses of the Group were 590 mln EEK, also up by 10%. EBITDA of the EMT Group was 574 mln EEK, with a margin of 49%. The net profit of the Group was 405 mln EEK, up by 6%, compared to the same period in 2001.

The number of customers of AS EMT reached 406 thousand by the end of June. The company had 267 thousand contractual customers and 139 thousand prepaid-card users. Monthly ARPU (Average Revenues Per User) has been traditionally high over the summer. Monthly ARPU in June 2002 was 451 EEK (June 2001: 469 EEK, December 2001: 439 EEK).

EMT's revenues from all main categories were up during the first half-year of 2002. Revenues from SMS had the highest growth-rate, exceeding the corresponding figure in 2001 by 28%. The growth resulted from a wider customer base and new services being offered by EMT. A good example is the multi-SMS service, which allows enterprisers to send messages via Internet to their numerous customers' mobile phones, or offers consumers the possibility of paying for purchases by mobile phone. For instance, at the recent exceedingly popular beer festival in Tallinn, it was possible to pay for a glass of beer by mobile phone. In February, Sonera, the Finnish mobile operator, and EMT successfully demonstrated the roaming and interconnection capability of the multimedia messaging service (MMS) between the various pay GPRS networks available to the consumer. The successful implementation of this service showed that mobile subscribers can send and receive multimedia messages even through other networks. Sonera and EMT also demonstrated how multimedia messages can be exchanged between the subscribers of different operators. In June, EMT continued testing MMS in Estonia in cooperation with Ericsson. But, despite rapid growth, SMS revenues were only 3% of the total revenues of AS EMT during the first half-year of 2002, thereby showing that there is still plenty of space for future growth.

Balance sheet and cash flows

At the end of June, 2002, the total assets of the Eesti Telekom Group amounted to 4,037 mln EEK (December 2001: 4,236 mln EEK). Tangible assets were reduced, from the beginning of the year, by 324 mln EEK. Current and non-current interest bearing liabilities of the Group were reduced by 18 mln EEK. By the end of the period, net debt of the Group amounted to –399 mln EEK, and net gearing was –12%.

Net cash inflows of the Group in the first half of 2002 amounted 55 mln EEK. Net operating cash flow was 950 mln EEK (first half-year of 2001: 795 mln EEK). The operating cash flow does not include income tax on dividends in the amount of 94 mln EEK. Cash outflow into investing activities was essentially smaller than a year ago: 121 mln EEK in 2002, 364 mln EEK in 2001. Cash outflow into financing activities was 774 mln EEK, including dividends of 756 mln EEK.

Investments

The Eesti Telefon Group invested 110 mln EEK during the first half of 2002 (first half-year of 2001: 291 mln EEK). The majority of the investments went into improving the quality of the network. By the end of June, the digitalisation rate had risen to 74.1% (December 2001: 71.8%). 5,400 new ADSL connections were installed during the six-month period. The total number of Atlas ADSL connections reached 22,300 (a penetration of 1,7 lines per 100 people). In May, the speed of most ADSL Internet permanent connection packages was as much as doubled, allowing customers to better enjoy the various multi-media and content services. If, up until now, ADSL services could primarily be enjoyed by the consumers and firms located in the more highly populated areas, then in July 2002, Eesti Telefon began to offer a new wireless Internet permanent connection Atlas RDSL. New connection functions through radio waves and gives rural consumers also an opportunity to make use of a practical and even faster Internet permanent connection.

The number of main lines in use at the end of June was 472 thousand (a penetration of 34.7 lines per 100 people). The number of main lines, compared to the beginning of the year, has been reduced by 29 thousand. Mainly residential customers have been giving up their fixed lines. The number of lines per employee was 326.

The second biggest sphere of investment for Eesti Telefon, during the first half-year, was the development of an in-house IT network. In February, the Group expanded through the acquisition of a new firm. So as to extend its activities beyond Estonia, AS Connecto, a subsidiary of the Group, acquired 100 % of the shares of the network construction company SIA Connecto Latvia (previously SIA Link), which operates in Latvia. In April, AS Eesti Telefon invested an additional 5 mln EEK into the Group associated firm AS Sertifitseerimiskeskus.

The EMT Group invested 97 mln EEK during the first half-year (2001: 138 mln EEK). The majority of investments made by EMT went into base stations and exchanges. AS EMT also made also a 5 mln EEK investment into AS Sertifitseerimiskeskus.

On May 21, 2002, the Ministry of Roads and Communications presented to the *Riigikogu* (Parliament) an amendment for the Telecommunications Act, which establishes the conditions for the issuing of the third generation mobile network licenses. According to the Ministry's proposal, the licenses would be issued on a tender basis. The participation fee in the tender would be 50 mln EEK. The Ministry's plan is to issue four third generation licenses. The tender is expected to take place in the beginning of 2003. It is the opinion of the management of AS EMT, that for a small market like Estonia, four licenses are too many. If four licenses are issued, the capacity of the frequency band of each operator would be quite limited, leading to lower efficiency of investments, and higher prices for the final consumers.

Relations with state regulators

During the second quarter of 2002, two legal disputes between AS Eesti Telefon and certain government agencies came to an end.

On April 24, 2001, the Competition Board issued a precept, based on the Competition Act, prohibiting Eesti Telefon from levying a per-minute rate of 34 cents at peak time, 28 cents at off-peak time, and 14 cents at night for voice calls in its network. Eesti Telefon was expected to levy a rate lower than the aforementioned rates. According to the Competition Act, a fine in the amount of up to 5% of the net sales for the year preceding the decision to impose the fine can be imposed for the abuse of a market dominant position.

Eesti Telefon was of the opinion that the aforementioned rates were cost-based, and contested the precept at the Tallinn Administrative Court on May 23, 2001. The Tallinn Administrative Court agreed with Eesti Telefon and nullified the precept of the Competition Board on January 17, 2002. The Competition Board appealed to a higher court, but the Circuit Court confirmed the Administrative Court's decision.

On April 18, 2001, the Communications Board issued a precept to Eesti Telefon, which required Eesti Telefon to provide interconnection services below the cost of the service. Eesti Telefon contested the precept. In June 2002, Eesti Telefon decided to end the actions concerning the legality of the precept, and the conformity of the underlying provisions of the Telecommunications Act to the Constitution, because the legal action had lost its meaning for Eesti Telefon. Namely, these provisions of the Telecommunications Act expired on December 31, 2001. Thus, the cause of the legal action became null and void.

Potential change in the ownership structure

On March 26, 2002, Sonera of Finland and Telia of Sweden, the strategic partners of AS Eesti Telekom, announced that they are planning to merge. Telia will make a purchase offer to the shareholders of Sonera, offering 1.51440 Telia shares for one Sonera share. The Sonera and Telia merger plan was presented to the European Union for approval, which was given on July 10, 2002. However, the approval is dependent upon the fulfilment of certain conditions by Sonera and Telia.

Annual General Meeting of the Shareholders

The Annual General Meeting of the Shareholders of AS Eesti Telekom took place on May 17, 2002. The meeting approved Annual Report 2001, and the proposal for allocation of net profit. It was decided that the owners of A-shares would be paid dividends of 5.50 EEK per share (in total 756 mln EEK, or 97% of the net profit of 2001). The owner of B-share was entitled to dividends of 10,000 EEK.

The list of shareholders entitled to dividends was fixed on June 5, 2002 and dividends were paid out on June 19, 2002.

The General Meeting authorised AS Eesti Telekom to acquire, within one year, AS Eesti Telekom A-series shares, so that the total nominal value of own shares held by AS Eesti Telekom would not exceed the legal limits, and so that the price payable per share would not exceed the highest price paid for an AS Eesti Telekom A share on the Tallinn Stock Exchange, on the day of acquiring the shares. Any possible share buy-back shall be approved by AS Eesti Telekom council.

Kennet Rådne, Heido Vitsur, Raivo Vare, and Aimo Eloholma were elected to be new members of the Supervisory Council of Eesti Telekom, where they replaced Mart Nurk, Andrus Villem, Madis Üürike, and Timo Virtanen. The remaining six members of the council were re-elected for one more term. Aare Tark continues as the chairman of the Council.

Villu Vaino from AS Deloitte & Touche Audit continues to audit Eesti Telekom in 2002.

Definitions

Net debt – long term and short term debt, less cash and cash equivalents and short term investments
ROA – Net profit for the period expressed as percentage of average total assets
ROE – Pre-tax profit for the period expressed, as percentage of average equity

AS EESTI TELEKOM AND SUBSIDIARY COMPANIES
QUARTERLY DATA
mln EEK

	Q2 2001	Q3 2001	Q4 2001	Q1 2002	Q2 2002
Total revenue	1,067	1,082	1,132	1,052	1,220
Total expenses	588	597	702	545	637
EBITDA	479	485	430	507	583
margin	45%	45%	38%	48%	48%
Depreciation	260	260	355	257	255
EBIT	219	225	75	250	328
margin	21%	21%	7%	24%	27%
Income from associates	33	-4	-2	-2	-1
Other net income	3	-8	-6	2	-5
Profit before tax	255	213	67	250	322
Income tax	-31	0	0	0	-94
Profit after tax	224	213	67	250	228
Minority interest	0	0	0	0	0
Net profit for the period	224	213	67	250	228
Operating cash flows	509	389	547	377	573
Investments	-175	-257	-273	-71	-51
Cash flows before dividends and loan repayments	334	132	274	306	522
Dividends	-756	0	0	0	-756
Loan repayments	-14	-181	-6	-13	-6
Net change in cash	-436	-49	268	293	-240
Total assets	4,184	4,147	4,236	4,405	4,037
- current assets	963	932	1,110	1,466	1,240
- cash and cash equivalents	245	196	464	758	519
- non-current assets	3,221	3,215	3,126	2,939	2,797
Total equity	3,336	3,549	3,615	3,866	3,339
Minority interest	0	0	0	0	0
Total liabilities	848	598	621	539	698
- ST borrowings	208	40	88	87	83
- LT borrowings	116	102	49	38	36

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

	Note	6 mths to 30 June 02	6 mths to 30 June 01 Restated	2001
Revenue				
Net sales		2,195,973	2,031,444	4,154,438
Change in work-in-progress		3,501	3,750	529
Capitalized self-constructed assets		5,847	17,657	87,112
Other revenue		66,265	17,920	42,461
Total revenue		**2,271,586**	**2,070,771**	**4,284,540**
Operating expenses				
Materials, consumables, supplies and services		697,694	582,370	1,290,730
Other operating expenses		220,004	198,449	494,962
Personnel expenses		246,780	258,297	534,754
Other expenses		17,078	15,670	33,118
Total expenses		**1,181,556**	**1,054,786**	**2,353,564**
Profit from operations before depreciation and amortisation		**1,090,030**	**1,015,985**	**1,930,976**
Depreciation and amortisation	**2**	511,830	521,066	1,135,661
Profit from operations		**578,200**	**494,919**	**795,315**
Income/ expenses from subsidiaries and associated companies (net)		-3,513	32,684	26,828
Other net financing items		-2,261	3,335	-11,719
Profit before tax		**572,426**	**530,938**	**810,424**
Income tax on dividends		93,660	30,932	30,932
Profit after tax		**478,766**	**500,006**	**779,492**
Minority interest		0	557	557
Net profit from ordinary activities		**478,766**	**499,449**	**778,935**
Net profit for the period		**478,766**	**499,449**	**778,935**
Earnings per share	**6 (e)**			
Basic earnings per share (in kroons)		3.48	3.64	5.67
Diluted earnings per share (in kroons)		3.48	3.64	5.67

AS EESTI TELEKOM AND SUBSIDIARY COMPANIES
BALANCE SHEET

In thousands of Estonian kroons (EEK)

	Note	30 June 2002	31 Dec 2001	30 June 2001 Restated
ASSETS				
Current assets				
Cash and cash equivalents		518,781	464,217	245,254
Trade receivables, net		469,534	403,324	427,102
Other receivables		12,364	10,715	7,183
Accrued income		120,508	99,242	95,520
Prepaid expenses		14,223	28,159	27,606
Inventories		104,085	104,013	160,566
Total current assets		**1,239,495**	**1,109,670**	**963,231**
Non-current assets				
Long term financial assets	**4**	32,749	26,464	36,824
Tangible assets, net	**2**	2,719,860	3,043,869	3,127,977
Intangible assets, net	**2**	44,494	56,139	56,255
Total non-current assets		**2,797,103**	**3,126,472**	**3,221,056**
TOTAL ASSETS		**4,036,598**	**4,236,142**	**4,184,287**
EQUITY AND LIABILITIES				
Current liabilities				
Interest bearing loans and borrowings	**5**	83,219	88,166	207,890
Customer prepayments		3,636	9,237	6,083
Accounts payable to suppliers		130,838	260,932	204,518
Other payables		0	168	647
Tax liabilities		215,853	32,697	119,367
Accrued expenses		214,381	152,644	143,637
Provisions		12,369	17,482	6,427
Prepaid revenue		1,626	10,350	43,401
Total current liabilities		**661,922**	**571,676**	**731,970**
Non-current liabilities				
Interest bearing loans and borrowings	**5**	36,108	49,115	116,452
Total non-current liabilities		**36,108**	**49,115**	**116,452**
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	137,384	137,384
Retained earnings		1,038,621	1,015,235	1,015,235
Net profit for the period		478,766	778,935	499,449
Total equity		**3,338,568**	**3,615,351**	**3,335,865**
TOTAL EQUITY AND LIABILITIES		**4,036,598**	**4,236,142**	**4,184,287**

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

	Note	6 mths to 30 June 02	6 mths to 30 June 01 Restated
Cash flows from operating activities			
Profit before tax and minority interest		572,426	530,938
Adjustments for:			
Depreciation and amortisation	2	511,830	521,066
Profit/loss from disposal of fixed assets		-52,693	-4,702
Income/ expense from subsidiaries and associates, net		3,513	-32,684
Interests income/ expense, net		-7,141	-4,572
Other non-cash adjustments		699	2,302
Operating profit before working capital changes		1,028,634	1,012,348
Change in current receivables		-73,961	-72,955
Change in inventories		1,019	-11,343
Change in current liabilities (except loans)		-1,800	-122,054
Adjusted cash generated from operations		953,892	805,996
Interest paid		-4,051	-10,971
Net cash flows provided by operating activities		**949,841**	**795,025**
Cash flows from investing activities			
Purchase of tangible assets		-185,544	-399,618
Purchase of licenses		-11,135	-9,466
Purchase of shares, investments and other		-10,000	-21,986
Proceeds from sales of tangible assets		74,487	7,520
Proceeds from sales of associates		0	43,500
Loans granted		-128	-319
Cash receipts from repayment of loans		24	52
Dividends received		96	1
Interest received		11,005	16,265
Net cash flows used in investing activities		**-121,195**	**-364,051**
Cash flows from financing activities			
Proceeds from convertible long-term debt	5	32	438
Repayment of convertible long-term debt	5	-8	-8
Proceeds from nonconvertible long-term debt	5	1,235	0
Repayment of nonconvertible long-term debt	5	-3,783	-3,402
Repayment of long-term borrowings	5	-15,941	-20,245
Payment of finance lease liabilities		0	-16,629
Dividends paid	6	-755,617	-755,617
Net cash flows used in financing activities		**-774,082**	**-795,463**
Net increase / (decrease) in cash and cash equivalents		**54,564**	**-364,489**
Cash and cash equivalents at beginning of year		**464,217**	**609,743**
Cash and cash equivalents at end of period		**518,781**	**245,254**

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

	Issued capital	Share premium	Reserves	Retained earnings	Net profit for the period	Total
31 December 2000	**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	**0**
Dividends paid	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**
31 December 2001	**1,373,833**	**309,964**	**137,384**	**1,015,235**	**778,935**	**3,615,351**
Net profit for the period transferred into retained earnings	0	0	0	778,935	-778,935	**0**
Dividends paid	0	0	0	-755,617	0	**-715,617**
Foreign exchange differences	0	0	0	68	0	**68**
Net profit for the period	0	0	0	0	478,766	**478,766**
30 June 2002	**1,373,833**	**309,964**	**137,384**	**1,038,621**	**478,766**	**3,338,568**

Foreign exchange differences result from conversation of financial statements of SIA Connecto Latvia, a fully-owned subsidiary of AS Connecto, registered in Latvia, from Latvian latts into Estonian kroons.

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

The consolidated interim financial statements for the six months period ending 30 June 2002 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 2001.

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 prevailing at the transaction date. At the balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange prevailing 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.

Interests, 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.

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

Restatement

At the end of 2001 balance sheet and income statement accounts were partly reclassified.
Respective changes have been made to first half-year 2001 accounts to make them comparable as follows:

	Beginning balance 30 June 2001 in thousand of EEK	**Restatement in thousand of EEK**	**Restated balance 30 June 2001 in thousand of EEK**
a) Income statement			
Revenue			
Other revenue	63,971	-46,051	17,920
Operating expenses			
Materials, consumables, supplies and services	597,970	-15,600	582,370
Other operating expenses	221,238	-22,789	198,449
Personnel expenses	258,331	-34	258,297
Other expenses	23,298	-7,628	15,670
b) Balance sheet			
Assets			
Trade receivables, net	395,985	31,117	427,102
Other receivables	38,300	-31,117	7,183
Equity and liabilities			
Tax liabilities	129,714	-10,347	119,367
Accrued expenses	133,290	10,347	143,637

Restatement of the income statement accounts is related to the following main factors:

- Until December 2001, release by AS Eesti Telefon of the 46,051 thousand EEK reserve related to the OÜ Albufent claim, was accounted as an increase in "Other revenue". In Annual Report 2001, the transaction was accounted as a reduction in "Materials, consumables, supplies and services" (-18,450 thousand EEK) and "Other operating expenses" (-27,601 thousand EEK). In interests of comparability, the same change has been made into first half-year 2001 income statement.
- Up until December 2001, AS EMT accounted expenses related to bad debts as "Other expenses". Starting from December 2001, the category of expenses has been accounted as "Other operating expenses". In interests of comparability, 5,277 thousand EEK of bad debts of AS EMT have been added to "Other operating expenses" in June 30, 2001, income statement and the same amount has been subtracted from "Other expenses".

Restatement of the balance sheet accounts is related to the following circumstances:

- Until December 2001, AS Eesti Telefon accounted claims on international operators as "Other receivables". In Annual Report 2001, the claims are accounted as "Trade receivables". The same correction has been made into June 30, 2001, balance sheet.
- Restatement of tax liabilities and accrued expenses in the first half-year of 2001 was caused by a tax liability, payable in the next accounting period, that was transferred into accrued expenses.

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

	Tangible assets	Intangible assets
Cost value		
31 December 2000	**6,616,868**	**165,440**
Additions	402,331	12,091
Disposals	-74,637	-504
30 June 2001	**6,944,562**	**177,027**
31 December 2001	**7,315,244**	**199,131**
Additions	188,522	11,922
Disposals	-140,723	-242
30 June 2002	**7,363,043**	**210,811**
Accumulated depreciation		
31 December 2000	**3,382,780**	**97,837**
Depreciation	498,127	22,939
Disposals (-)	-64,322	-4
30 June 2001	**3,816,585**	**120,772**
31 December 2001	**4,271,375**	**142,992**
Depreciation	488,530	23,300
Disposals (-)	-116,722	25
30 June 2002	**4,643,183**	**166,317**
Net book value		
30 June 2001	**3,127,977**	**56,255**
30 June 2002	**2,719,860**	**44,494**

3. Investments in subsidiaries

	Ownership interest		Owner
	30 June 2002	31 Dec. 2001	
AS Eesti Telefon	100%	100%	AS Eesti Telekom
AS Telefonipood	100%	100%	AS Eesti Telefon
AS Connecto	100%	100%	AS Eesti Telefon
SIA Connecto Latvia	100%	0%	AS Connecto
AS EMT	100%	100%	AS Eesti Telekom
AS Esmofon	100%	100%	AS EMT
AS Esmofon Tartu	100%	100%	AS Esmofon
AS Mobile Wholesale	100%	100%	AS EMT

AS Connecto acquired on February 11, 2002 all of the shares of network construction company SIA Connecto Latvia (SIA Link), which operates in Latvia. In accordance with the sale and purchase agreement, AS Connecto purchased 100 % of the shares of SIA Link from SIA Fortech, which belongs to the MicroLink Group.

4. Investments in associates

	Ownership interest	
	30 June 2002	31 Dec. 2001
AS Intergate	50%	50%
AS Sertifitseerimiskeskus	50%	50%
AS EsData	30%	30%
AS Voicecom	26%	26%

5. Borrowings

	30 June 2002	31 Dec. 2001
Current	83,219	88,166
Non-current	36,108	49,115
	119,327	**137,281**

The movements in the borrowings can be analysed as follows:

Opening balance 31 Dec 2001	137,281
Proceeds from borrowings	1,267
Repayments of borrowings	(19,732)
Other movements	511
Closing balance 30 June 2002	**119,327**

6. Equity

a) Share capital

	30 June 2002	30 June 2001
Share capital issued		
Ordinary shares par value 10 EEK per share, fully paid	137,383,178	137,383,178
Preference share par value 1000 EEK	[illegible]	[illegible]
	137,383,179	137,383,179

The holders of ordinary shares are entitled to receive dividends as declared by the general meeting and are entitled to one vote per share at the general meetings of the shareholders of the parent company.

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

The AGM on May 17, 2002, decided to pay to all holders of ordinary shares 755,607 thousand EEK, i.e. 5.50 EEK per ordinary share and to pay to the holder of preference share 10 thousand EEK, i.e. 10 thousand EEK per preference share.

The rest of the accumulated net profit in the amount of 1,038,553 thousand EEK was retained as undistributed.

b) Reserves

Reserves include the statutory legal reserve required by the Commercial Code. Subject to the approval of the general meeting, the reserve may be used for covering losses, if the latter cannot be covered with unrestricted equity, and for increasing share capital.

c) Re-acquiring of shares

The AGM, on May 17, 2002, authorised AS Eesti Telekom to acquire within one year from the adoption of this resolution (i.e. until 17 May 2003) AS Eesti Telekom shares of A-series so that the total of nominal values of own shares held by AS Eesti Telekom would not exceed the legal limits and the price payable per share would not exceed the highest price paid for the A share of AS Eesti Telekom on the Tallinn Stock Exchange on the day of acquiring the shares. 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 June 2002, no shares have been re-acquired by AS Eesti Telekom.

d) Employees' share option

At the beginning of 2001, Eesti Telekom group launched a motivation system for its employees. As a part of the system, bonds were issued by AS Eesti Telekom with the issue price of 10 EEK 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 EEK. 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 June 2002, bonds had been bought back form the employees who had left the Group and re-issued to newly hired managerial personnel. As of 30 June, 22,375 A series and 22,375 B series bonds had been issued, which can be exchanged for 223,750 AS Eesti Telekom ordinary share in 2003, and for 223,750 AS Eesti Telekom ordinary shares in 2004, respectively.

e) Earnings per share

The calculation of basic earnings per share is the following:

EEK 3.48 = (478,766,000 – 10,000) : 137,383,178

In view of the fact that in the six months of 2002 the average price of the shares of AS Eesti Telekom at the Estonian Central Depository for Securities was 78.51 EEK, the options relating to the bonds do not have a dilutive effect and diluted earnings per share equal basic earnings per share.

7. Share information

AS Eesti Telekom shares are quoted in the main list of the Tallinn Stock Exchange and in the main list of GDRs on the London Stock Exchange. On February 25, 2002, the HEX trading system was adopted by the Tallinn Stock Exchange. AS Eesti Telekom shares have been traded according to the HEX system since that date. AS Eesti Telekom GDRs have been traded according to the International Order Book system since March 18, 2002.

The highest price of an AS Eesti Telekom share on the Tallinn Stock Exchange, during the period under review, was 90.12 EEK, the lowest price was 68.25 EEK, and the average price was 78.51 EEK.

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

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

Mobile telecommunications – 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 Mobile Wholesale.

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.

Inter-company transactions were conducted under market terms.

	Fixed network telecommunications		Mobile telecommunications		Other operations		Eliminations		Consolidated	
	6 months 2002	**6 months 2001 Restated**	**6 months 2002**	**6 months 2001 Restated**	**6 months 2002**	**6 months 2001 Restated**	**6 months 2002**	**6 months 2001**	**6 months 2002**	**6 months 2001 Restated**
Revenue										
Net sales	1,188,375	1,252,004	1,007,598	779,440	0	0			2,195,973	2,031,444
Other revenue	68,711	29,567	6,847	9,758	55	2			75,613	39,327
Inter-segment revenue	68,857	176,151	149,463	266,894	60	151	-218,380	-443,196	0	0
Total revenue	**1,325,943**	**1,457,722**	**1,163,908**	**1,056,092**	**115**	**153**			**2,271,586**	**2,070,771**
Operating expenses										
Materials, consumables, supplies and services	287,372	332,293	410,322	250,077	0	0			697,694	582,370
Other operating expenses	159,688	138,180	54,066	55,016	6,250	5,253			220,004	198,449
Personnel expenses	193,307	205,754	49,916	48,011	3,557	4,532			246,780	258,297
Other expenses	9,236	9,030	6,768	4,828	1,074	1,812			17,078	15,670
Inter-segment expenses	149,424	266,753	68,853	176,085	103	358	-218,380	-443,196	0	0
Total expenses	**799,027**	**952,010**	**589,925**	**534,017**	**10,984**	**11,955**			**1,181,556**	**1,054,786**
EBITDA	**526,916**	**505,712**	**573,983**	**522,075**	**-10,869**	**-11,802**			**1,090,030**	**1,015,985**
Depreciation and amortisation	338,449	370,833	172,788	149,908	678	588	-85	-263	511,830	521,066
EBIT	**188,467**	**134,879**	**401,195**	**372,167**	**-11, 547**	**-12,390**			**578,200**	**494,919**
Income/ expenses from subsidiaries and associated companies	-1,938	32,590	-1,575	94	578,242	527,935	-578,242	-527,935	-3,513	32,684
Other net financing items	-12,964	-20,043	4,904	8,542	5,799	14,836			-2,261	3,335
Income tax expenses (-)/ income (+)	0	0	0	0	-93,660	-30,932			-93,660	-30,932
Minority interest	0	557	0	0	0	0			0	557
Net profit	**173,565**	**146,869**	**404,524**	**380,803**	**478,834**	**499,449**			**478,766**	**499,449**
Non-current assets	1,768,970	2,250,937	1,021,153	965,858	3,020,000	2,972,139	-3,013,020	-2,967,878	2,797,103	3,221,056
Current assets	583,765	517,185	347,956	306,500	480,345	532,411	-172,571	-392,865	1,239,495	963,231
Total assets	**2,352,735**	**2,768,122**	**1,369,109**	**1,272,358**	**3,500,345**	**3,504,550**			**4,036,598**	**4,184,287**
Owners' equity	**1,629,267**	**1,577,914**	**1,088,575**	**1,064,856**	**3,338,568**	**3,335,865**	-2,717,842	-2,642,770	**3,338,568**	**3,335,865**
Minority interest	0	0	0	0	0	0			0	0
Non-current liabilities	323,056	432,485	7,991	8,645	239	430	-295,178	-325,108	36,108	116,452
Current liabilities	400,412	757,723	272,543	198,857	161,538	168,255	-172,571	-392,865	661,922	731,970
Total equity and liabilities	**2,352,735**	**2,768,122**	**1,369,109**	**1,272,358**	**3,500,345**	**3,504,550**			**4,036,598**	**4,184,287**
Cash flow from operating activities	339,844	295,866	547,026	425,064	45,382	51,168	17,589	22,927	949,841	795,025
Cash flow used in capital expenditure	-104,576	-115,562	-92,085	-60,481	-18	-314			-196,679	-176,357
Cash flow from / used in other investing activities	67,164	-127,022	4,208	-66,045	860,186	700,802	-856,074	-695,429	75,484	-187,694
Cash flow from / used in financing activities	-208,755	-66,536	-648,219	-646,242	-755,593	-755,187	838,485	672,502	-774,082	-795,463
Net change in cash and cash equivalents	**93,677**	**-13,254**	**-189,070**	**-347,704**	**149,957**	**-3,531**			**54,564**	**-364,489**

REVIEW REPORT

To the Management Board and shareholders of AS Eesti Telekom:

We have reviewed the accompanying consolidated balance sheets of AS Eesti Telekom and its subsidiaries ("the Group") as at 30 June 2002 and 2001 and the related consolidated statements of income, cash flows and changes in shareholders' equity for the periods from 1 January to 30 June 2002 and 2001, respectively. These consolidated financial statements are the responsibility of the AS Eesti Telekom management. Our responsibility is to issue a report on these financial statements based on our review.

We conducted our review in accordance with the International Standards on Auditing applicable to review engagements. These Standards require that we plan and perform the review to obtain moderate assurance as to whether the financial statements are free of material misstatement. A review is limited primarily to inquiries of Group's personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit conducted in accordance with International Auditing Standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. We have not performed an audit, and accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated financial statements are not presented fairly, in all material respects, in accordance with International Accounting Standards.

Deloitte & Touche

17 July 2002