

**ESTONIAN SECURITIES MARKET
YEARBOOK**

1.550
1998
894300

TALLINN STOCK EXCHANGE

**ESTONIAN CENTRAL
DEPOSITORY FOR SECURITIES**

MAJOR EVENTS IN 1998

Macro-Economic Highlights

- Standard & Poor's affirmed a BBB+ rating to Estonia in late 1998. Moody's assigned Estonia a single A1 issuer rating for domestic currency obligations in February 1999.
- Current account deficit fell to 8.6% of GDP in 1998 from the previous year's level of 12%.
- Foreign direct investment grew to EEK 24.3 billion in 1998 from EEK 16.5 billion the year before. FDI per capita stood at \$1,249 at the end of the year, being one of the highest figures among Central European states.
- GDP growth in 1998 was 4.0% according to preliminary data, compared to 11.4% in 1997.
- 1998 Consumer Price Index fell to 8.2% from 11.2% a year ago.

TSE and ECDS Highlights

- On 4 April 1998, the Stock Exchanges of Tallinn and Riga signed an agreement on market surveillance, and on 26 June 1998 on sharing of online trading information, which would enable Estonian brokers a real-time overview of the Latvian market and vice versa.
- Starting from last year, free of payment transfers between the Estonian and Latvian depositories are made in real-time, in addition to free transfer of Estonian and Latvian securities, which has been possible since 1997 between both countries.
- The International Finance Corporation (IFC) included 12 Estonian securities in its Frontier Markets index series in April.

- Five new companies were listed on the TSE – hotel service company Reval Hotelligrupp, brewery Saku Õlletehas, meat factory Rakvere Lihakombinaat, confectionery Kalev and real estate company Pro Kapital. The total number of listed securities was 37 at the end of 1998.
- TSE publishes and distributes free of charge all issuers' announcements in the English language since November.
- TSE tightened information disclosure requirements and membership requirements, and revised certain procedures in the trading rules of its Rules and Regulations. ECDS started preparations of the new version of its Rules.
- TSE supplemented its electronic trading system with new datafeeds to accomplish better quality online communication between the Exchange and its member firms. ECDS prepared to replace its software system with a new, more secure and Y2K compliant software Depository 2000, which was successfully launched on 11 January 1999.
- Mr. Ivar Lukk, Chairman of the Supervisory Board of both TSE and ECDS left the Board, to be replaced by Mr. Peeter Saks, the new Chairman of TSE since 5 October 1998, and Mr. Rein Parelo, the new Chairman of ECDS since 17 June 1998.
- Mr. Gert Tiivas became the new Managing Director of TSE on 1 September 1998 to replace Ms. Helo Meigas, who joined the Bank of Estonia as a Vice Governor. Mr. Jaanus Erlemann became the new Managing Director of ECDS on 1 September 1998 to replace Mr. Martti Kuldma, who now heads Tradenet Systems.
- Due to consolidation and restructuring processes in the financial sector, the number of ECDS account operators decreased from 11 to 4. The number of Stock Exchange member firms decreased from 25 to 20.
- The Registry Department of ECDS started allocating CFI-codes to securities. During the year, all the instruments received CFI-codes in addition to the ISIN-s that have been used so far.
- ECDS stopped calculating the ECDS index from 1 January 1999.
- The number of securities accounts at ECDS increased from 61,463 to 64,770 by the end of the year.



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Peeter Saks

Chairman of the Supervisory Board of TSE

CHAIRMAN'S STATEMENT

After the spectacular downturn of the Estonian equity market at the end of 1997, 1998 was a year marked by expectations ranging from extreme pessimism to guarded optimism. External developments, namely the confidence crises towards emerging market economies which swept through East Asia, Russia and Latin America, held investors—particularly foreign, but also domestic—in constant suspense, often causing them to stay on the sidelines while reassessing the risks and awaiting clearer skies. The worsened external environment was quickly reflected in internal developments, putting brakes on the Estonian economy and bringing about a shakeout first in the financial sector and then in the real sector.

Against this background, we claim with conviction that 1998 has left the Estonian economy and capital markets stronger, more stable and mature than ever before. Economic growth was sustained as restructuring and reorientation away from the collapsed Russian markets took place in many sectors. Consolidation and entry of strategic foreign investors left the banking sector on a strong footing. All in all, Estonia proved that it can successfully navigate in these stormy times, build on its reputation as an attractive and trustworthy investment destination, clearly differentiating herself in investors' perception from those states near and afar that cannot.

The two cornerstone institutions of the Estonian securities market—the Tallinn Stock Exchange and the Estonian Central Depository for Securities—also withstood the test of difficult times and showed their continued resilience and ability to remain on the vanguard of capital market development. Just as in the macro-economy, for the TSE and the ECDS 1998 was a year of building a stronger foundation for the future, adapting to the changed market situation and giving a renewed emphasis to the strategic objective of deeper regional cooperation.

After the racing growth of 1996 and 1997, the relative quiet of last year provided us with the breathing space to significantly improve the functionality, reliability and security of our technology, both on the depository and trading systems side. Just as important, several changes to the rules governing the mostly self-regulatory securities market should have a significant impact on ensuring its better transparency and trustworthiness—hence, its attractiveness—in the future. Tightening of information disclosure requirements for listed companies as well as setting higher prudential requirements on brokers and improving surveillance should raise the overall market quality and decrease systemic risk.

1998 was a year of various challenges for many of our members and account operators. Consolidation in the banking sector and the reorganisation of several smaller brokerages brought about a substantial drop in their numbers. However, as quality is preferable to quantity, we believe that this trend has meant the

A black and white portrait of Rein Parelo, a man with short hair and glasses, wearing a dark suit, white shirt, and patterned tie. He is standing in front of a background of vertical bars.

Rein Parelo

Chairman of the Supervisory Board of ECDS

strengthening of market participants and of their ability to successfully cope with the ever-increasing competition.

Last year saw the accomplishment of first tangible results in the long and complex process of integrating the Baltic securities markets. In addition to several agreements that were concluded by the TSE and the ECDS with their Latvian counterparts, we have come very close to the implementation of the Multimarket project, which is the first step towards establishing a single point of entry to the Baltic stock markets. Intensifying talks with our neighbours, based on a common conviction that further cooperation is desirable in order to increase the attractiveness of the Baltic equity markets, leave us optimistic that further progress on this track is attainable in the not too distant future. Of course, we regard Baltic integration not as a final destination, but rather as a stepping stone to participation in wider, regional cooperation schemes.

1998 also saw several changes among the board and top management of our organisations. Mr. Ivar Lukk, Chairman of the Supervisory Board of both the TSE and ECDS, as well as Mr. Meerits and Mr. Viik, directors of the TSE, left the Board. Both Ms. Helo Meigas, Chairman of the Management Board of the TSE, and Mr. Martti Kuldma, Chairman of the Management Board of the ECDS, moved to take on new challenges as the Vice Governor of the Central Bank, and as the chief executive of a software house, respectively. It is difficult to overestimate the vital roles these individuals played in the establishment and development of our organisations and we thank all of them for their dedicated service.

We enter 1999 with the hope that efforts made in past years will help us to constantly improve the services provided to our clients—investors, member firms, listed companies and the public at large. Naturally, we see no place for complacency: much more remains to be done in order to participate fully in the increasingly competitive, yet integrating, European capital markets.

Further progress in regional cooperation, increasing market transparency and investor protection, and launching new products and services to meet your changing demands are our utmost priorities in 1999. Bolstering our own efforts, the improving global and domestic macro-economic conditions, expected infrastructure company listings, continuing integration with the EU, among other factors, give us good reasons to believe that the goals of long-term attractiveness and stability of the Estonian securities market are attainable.

A stylized blue ink signature of Peeter Saks.

Peeter Saks

*Chairman of the Supervisory Board
Tallinn Stock Exchange*

A stylized blue ink signature of Rein Parelo.

Rein Parelo

*Chairman of the Supervisory Board
Estonian Central Depository for Securities*



Gert Tiivas
Chairman of the Management Board

MANAGEMENT REPORT OF THE TALLINN STOCK EXCHANGE

1998 was a far different year than the one before. Whereas 1997 had been characterised by an unprecedented rise and fall in the nascent Estonian equity market, combined with record-breaking levels of market turnover, numbers of new listings and new members, 1998 was relatively modest on all those measures.

Yet we consider it an extremely valuable year. Firstly, because it provided us, just as the rest of the market participants, with the test of having to quickly adjust to diametrically different market circumstances. Having passed this test, we believe, has made us a stronger and more mature institution, able to cope in both good times and bad. Secondly, it gave us the much needed opportunity to take a step back, rethink our priorities and strategic objectives. This should allow us to better focus on building a stronger foundation for the future by concentrating our efforts where they can be most effective in meeting the needs of our shareholders.

Round-up of 1998

As of the end of 1998, 37 securities were traded on the TSE. Six were listed on the Main List, 19 on the Secondary List, nine on the Bonds' List and two on the Funds' List. The Privatisation Vouchers were traded on the Free Market. Throughout the year, five new companies were listed on the Secondary List, three of which were transferred there from the Free Market. In addition, 11 previously listed issuers listed their supplementary share issues. The shares of one issuer were delisted, and trade in another issuer's securities on the Free Market was indefinitely suspended.

Consolidation and reorganisation processes in the financial services sector decreased the number of Exchange members from 25 the year before to 20 at the close of 1998. Two new members joined the Exchange, three merged with other members, and the membership status of five was terminated. Also, as of the end of the year, the status of seven members was suspended either based on their own application or because they failed to meet certain membership criteria. All in all, at year's end, 13 members had the right to use the TSE trading system.

In 1998, the TSE Rules and Regulations were amended in the sections of "Requirements to Issuers" and "Membership Requirements" to increase the transparency of the issuers and credibility of the members and decrease systemic risks. According to the new information disclosure requirements, the issuers' financial statements must comply with International Accounting Standards (IAS). Other areas amended inc-

lude the requirement to disclose transactions with related entities. The changes to the Rules and Regulations also increased the minimum capital requirements for member firms, established the requirement for capital adequacy, and set minimum requirements for internal auditors and company by-laws. Furthermore, the financial statements of Exchange members must now comply with IAS.

Co-operation with the Riga Stock Exchange was intensified – the exchanges entered into agreements on market surveillance in April, and on sharing of online trading information in June. At the end of the year, the TSE finished the preparatory work to implement the first phase of the so-called Multimarket version of the trading system, which should enable Estonian brokers to view real-time price information of the Riga Stock Exchange, and vice versa. The negotiations with the Riga Stock Exchange and the National Stock Exchange of Lithuania to move towards the establishment of a common Baltic exchange were continued and have reached a more intensive phase.

Together with our Baltic colleagues, we need to participate more actively in evolving regional co-operation arrangements. The meeting with the presidents of the five Nordic exchanges last November was the first useful step, enabling us to learn more closely of each others' activities and goals, as well as to start planning for common steps in the future.

Further improvements were made to the trading system during 1998. In the spring, an improved datafeed was launched to information vendors. It was developed into an outgoing and incoming broker feeds at the end of summer. In October, the Exchange realised the plan to use a single network services provider, which enables us to increase network reliability and security through centralising network monitoring and the use of duplicate physical network channels between the trading system and the network provider.

Working towards the goal to provide foreign investors with better access to the Estonian securities market, the TSE started to publish all issuers' announcements in the English language as of November. Furthermore, a substantial amount of effort has been spent to lay out the new architecture of our Web-based free information service.

In order to implement remote membership status, TSE management has prepared the necessary changes to the Rules and Regulations. The general principles, approved by the Supervisory Board in January 1999, include non-discrimination of foreign members regarding exchange fees, waiver of the general requirement to hold Exchange shares, ability to conduct business in the English language, among others. The final establishment of the remote member status awaits the position of government regulators regarding licensing and related procedures.

In 1998, the Listing Committee held a total of 18 meetings. The Committee intensified its surveillance activities to secure better investor access to company information. There were 16 cases where sanctions were applied for violations of the TSE Rules and Regulations, the total volume of penalties amounting to EEK 1,220,000. The Supervisory Board has taken a decision to transfer revenues from sanctions to the Guarantee Fund.

The TSE Court of Arbitration resolved one appeal filed in 1997 and three filed in 1998. At the end of the year, four additional appeals were in the process.

Financial Results

Revenues earned by the TSE in 1998 totalled EEK 9.6 million, a 8.2% increase compared with the respective figures for 1997. The main share of the Exchange's net revenues, above 50%, was earned from transaction fees. Membership fees amounted to 9.2% of total revenues. The new listing fees and annual fees from listed companies accounted 8.6% and 16.9% of total revenues, respectively.

The total expenses in 1998 were EEK 8.3 million. The salary expense accounted for the largest share, 28.1%, of operating expenses. The number of employees at the end of the year was 16, whereas the average number of employees during the period was 14. EEK 360,000 was paid in compensation to the Chairman of the Management Board, who also serves as the Managing Director. The other members of the Management and Supervisory Boards were not remunerated. Service fees, mainly for services purchased from the Estonian Central Depository for Securities, made up the largest share among the other operating expenses.

The 1998 net profit amounted to EEK 1.2 million, of which the operating profit was EEK 1.2 million. It is important to note that the profit is equivalent to the sanctions imposed, i.e. the financial result of normal business activity was a zero profit.

The size of the balance sheet increased to EEK 12.1 million, which is 25% higher than the respective figure in 1997. The largest increase occurred on the account of current assets (20.6%). Current investments are reflected on the account of marketable securities (increase of 51.7% from 1997). Accounts receivable include the annual fees of listed companies and transaction fees. In 1998, 93% of the total investments in non-current assets were made to improve the systems and software used.

Shareholders' equity at the end of the year amounted to EEK 8.2 million (increase of 67.8%, compared to the 1997 year-end figures), growing due to the accumulation of the current year's net profit and increases in share capital.

Priorities for 1999

One of the main priorities of the TSE in 1999 is to intensify co-operation with the stock exchanges of the other Baltic countries. We aim at implementing two-way real-time information feeds between the exchanges as well as making it easier for our members to trade on the other two exchanges. Establishment of a Baltic List made up of regional blue-chips, the harmonisation of rules and regulations and better information exchange are also on the agenda.

We are of the opinion that the establishment of a single entry point to the Baltic securities market—a common Baltic trading system with common rules—would be of highest value to investors and members alike, resulting in the greatest savings to them, as well as allowing everyone to benefit from economies of scale in new systems and product development.

In order to fully benefit from the growing integration of global capital markets, the TSE must increase its openness in several dimensions concurrently with advancing regional co-operation. First, the Exchange must finalise legal and technical solutions to enable remote members to access the market at the lowest possible cost.

Secondly, all future development of the TSE trading system must be based on the principle of greater openness in order to enable its smooth integration with other systems in the future.

Third, the TSE must make continuous efforts to improve investors' access to information about Estonian companies and the securities market as a whole. For that purpose, we intend to enhance the scope of information available free of charge on our Web-page and improve its user-friendliness by adding search engines. Also, we plan to add the issuers' news in English to the trading system's ticker.

Finally, we consider raising market transparency and trustworthiness as one of our top priorities for 1999. To this end, the Exchange will work diligently to ensure that the new Securities Market Act, planned to be adopted in 1999, will be comprehensive and tough simultaneously with being minimally intrusive and bureaucratic. We plan to add to the TSE Rules and Regulations a take-over code in order to secure equal protection of the rights of all investors in situations of mergers, acquisitions, and restructuring of listed companies.

We aim to constantly improve surveillance over members and issuers. For that purpose, the Surveillance Committee, has begun its activities in February 1999. The Exchange intends to develop and apply further technical solutions to automatise surveillance procedures and create an insider register in co-operation with the Securities Inspectorate. The amendments made to the Rules and Regulations last summer, establishing higher requirements for the prudential ratios and the conduct of internal audit, have become effective as of the beginning of 1999. Capital adequacy requirements and interim reporting guidelines for members will be established.

In 1999, we plan to take steps to develop a more active fixed income securities market in Estonia. Work has begun to identify the factors which have stood in the way of the activation of secondary market bond trading thus far. At the same time, the derivatives exchange project has currently been put on hold due to the relative lack of interest among market participants.

All of this undoubtedly adds up to quite an ambitious agenda for 1999. Yet, if we wish to keep pace with the dynamic developments in global capital markets and continuously increase the attractiveness of the Estonian securities market—in short, to better meet our clients' needs and expectations—we must strive towards achieving these goals.



Gert Tiivas

Chairman of the Management Board



MANAGEMENT REPORT OF THE ESTONIAN CENTRAL DEPOSITORY FOR SECURITIES

Retrospect

The events in the Estonian securities market in 1998 can be viewed as reverberations of the Southeast-Asian crisis of autumn 1997. Analogously with the overall financial sector, the consequences of the market descent of 1997 were reflected on the ECDS, as a financial sector infrastructure company, only in 1998. Decline in the average daily number of trades and total market capitalisation of the Estonian securities market were the key indicators, which also had an impact on the 1998 income figures of the ECDS. When the financial results of 1997 remained relatively unaffected by the crisis, then by the end of 1998, the ECDS had to state a loss of nearly EEK 800,000.

Despite the decelerating market activity, the total market turnover remained almost at the level of 1997. This was due to trades of large blocks during the consolidation process in the financial sector and the entry of new strategic investors into several leading enterprises. Activity was also high in the fixed income market, the share of which in the annual turnover increased in 1998 to the level of 70%, compared to 40% during 1997.

Mergers and the overall restructuring in the banking sector decreased the number of active account operators from 11 to 4. We consider this event's impact on the securities market as mostly positive, since it brings about the strengthening

of market participants and raises the quality of services offered; also it can be considered a sign of maturation of the securities market.

Despite the decelerated increase in the numbers, new investors continued to enter the market. The number of securities accounts opened was 3,300, increasing the total number of securities accounts to the level of 64,770 by the end of the year. Furthermore, this trend was also manifested by the increase in the number of shareholders' lists and debt instruments registered at the ECDS.

In 1998, the ECDS earned EEK 10.8 million in total revenues. The transaction fees (EEK 2.7 million), annual fees (EEK 2.2 million), account maintenance fee of legal persons (EEK 1.4 million) and registration fees (EEK 1 million) made up the main share of revenues.

The total expenses of the ECDS were EEK 11.4 million in 1998. The number of employees remained the same during the year. The total volume of annual salaries paid to the staff of 15 employees was EEK 2.3 million, which accounted for the largest share, or 20.2%, of operating expenses. EEK 636,700 was paid to the members of the Management Board, who were also serving as the top management of the company. The members of the Supervisory Board were not remunerated.

Activities

One of the main priorities of both last and the current year is increasing the company's effectiveness. To release additional human resources

for developing new products and services, the ECDS took advantage of the quietness of the market and started to optimise its daily routines. The company also created its business model, which will be gradually specified and improved to achieve a greater degree of flexibility and operativeness.

A significant step towards the creation of a stronger foundation for future developments was the introduction of the new software program Depository 2000. Starting from January 1999, all registry entries will be made via the new, Windows-based, Y2K and security requirements compliant software. The Y2K problem will certainly remain one of the key issues this year.

Further steps were taken towards intensifying Baltic co-operation. Starting from May 1998, free of payment securities transactions between the Latvian and Estonian central depositories are effected in real time. The operating principles of the system fully correspond with the standards of the ECSDA WG1. During the year 1999, we also hope to accomplish the DVP realisation between the two depositories.

Future Developments

In 1999, we will continue to endeavour to effectiveness, flexibility and operativeness, since not all goals set in 1998 were met. However, proceeding from the current situation in economy and financial sector, we still cannot predict rapid economic growth or significant rise in market activity for 1999.

In order to increase market transparency and investor protection, the ECDS intends to bring the regulations concerning the activities of the ECDS to a new qualitative level, keeping in mind also the new Law on Securities Register, which will hopefully be adopted by the Parliament in 1999.

The Republic of Estonia is striving to become a member of European Union from the beginning of 2003. This goal has induced the launch of several important projects to improve the infrastructure of the financial sector. For that purpose, the ECDS has to reorganise its clearing and settle-

ment system in respect to the DNS and RTGS projects initiated by the Bank of Estonia.

Considering the overall effectiveness of the securities market, the ECDS also intends to increase the number of its member firms, creating additional models for brokerage firms for participation in the system. Achievement of the goals established does not depend solely on the efforts of the ECDS; the efforts of other market participants are also of high importance.

It is important to increase market transparency. The ECDS intends to work on several projects, which are focused on providing investors with better access to information, including featuring market statistics in the Internet and reorganising the system of issuing statements to investors, to name just a few.

In addition to the above, we must also keep pace with the rapid changes and consolidation processes taking place on the global scale. The past years have clearly revealed the dependence of the Estonian securities market, as well as the entire economy, on the events of the global economy. Both the ECDS and TSE have a significant role to play in the implementation and smoothing of the integration processes, where the co-operation between the institutions of the Baltic states is only the first step in a long journey. Thus, openness to new challenges and opportunities must become the cornerstone of our strategy.



Jaanus Erleemann
Chairman of the Management Board



OVERVIEW OF THE TALLINN STOCK EXCHANGE

TALLINN STOCK EXCHANGE

Address:	Rävala 6 Tallinn 10143 Estonia
E-mail:	tse@tse.ee
Web-site:	http://www.tse.ee
Local trading hours:	1000AM – 1400PM
Settlement:	DVP T+3
Trading system:	Electronic quote-driven and order-driven trading models
Instruments traded:	Equities, bonds, closed-end funds
Main index:	TALSE
Date of opening:	3 June 1996

Organisational Structure

The Tallinn Stock Exchange (TSE) is licensed by the Ministry of Finance under the 1993 Securities Market Act. It is a self-regulatory organisation, issuing and enforcing its own Rules and Regulations. The market is also supervised by the Securities Inspectorate, which operates under the Ministry of Finance.

As of 31 December 1998, the TSE had 27 shareholders, mostly banks and brokerage firms, but also the Central Bank of Estonia and the Ministry of Finance. All shareholders hold relatively equal stakes in the TSE.

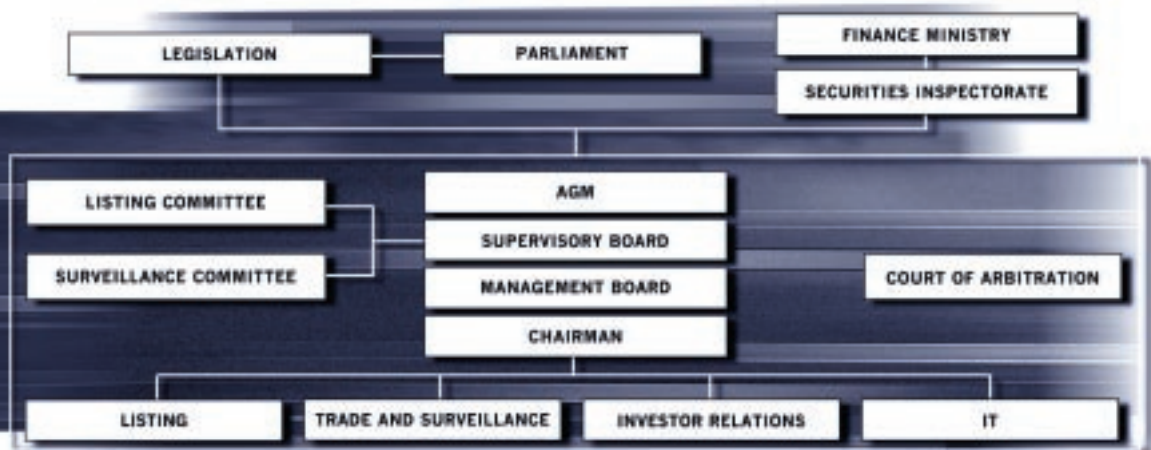
The supreme authority on the Exchange is held by the general meeting of shareholders, which elects representatives to the Supervisory Board, currently composed of seven directors.

The Supervisory Board nominates the members of the Management Board, currently consisting of six officers. The Supervisory Board also nominates the members of the Listing Committee, which is responsible for listing decisions, and the Surveillance Committee, which conducts supervision over market participants.

Disputes between the Exchange, its members and their clients are settled by the independent permanent Court of Arbitration. The Exchange is headed by the managing director, who is also the Chairman of the Management Board. The staff of 15 is divided into four departments - listing department, trading and surveillance department, investor relations department, and information technology department.

Short History

The Tallinn Stock Exchange was established on 19 April 1995, as a non-profit corporation. The founding members included 10 commercial banks, nine brokerage firms, Hüvitusfond (the State Compensation Fund), the Bank of Estonia, and the Ministry of Finance, each holding an equal share. The Exchange was opened for trading on 3 June 1996, with 11 securities listed.



Trading System

The Exchange has developed an electronic online interactive trading system, which enables remote access by linking the database server of the Exchange with the terminals of its members. The brokers can display real-time quotes for listed stocks and enter new orders, whereas all transactions are negotiated over the telephone before they are entered into the trading system. The system also distributes issuers' announcements, transactions executed, statistics and other relevant trading data.

The TSE operates two trading models, the quote-driven Dealer Market System (DMS) and the order-driven Public Order Book (POB), which are both continuous trading models. All trades under both models are negotiated over the telephone. Member firms are obliged to execute client trades at the best available market price.

DMS is the main trading model and requires that a security have at least two recognized dealers (market makers), who are obliged to give bid and offer quotations on a continuous basis. Transactions are made at the best displayed bid or offer price.

If there are less than two market makers registered for a security, it is traded in the Public Order Book. The POB is used for transactions with less liquid securities and for transactions with securities on the free market. All the Exchange member firms are allowed to enter limit orders into the trading system for a security that is traded in the POB. They must enter limit orders received from

their clients immediately into the trading system. Before entering an order, the intermediary is required to check whether there are matching orders allowing it to immediately execute the client's order. If there are several orders at the same price in the system, the first one entered takes priority.

The Exchange will transfer a security from the public order book to the dealer market if at least two recognized dealers register as market makers for that security.

Membership Requirements

Investors transact with the Exchange through member firms, which have the exclusive right to use the trading system. A legal entity can become a member of the Exchange after meeting the following requirements:

- a status of legal entity registered in Estonia, providing investment services,
- hold a securities intermediary license from the Ministry of Finance,
- hold at least 10 shares in the Exchange (for a total nominal value of EEK 100,000),
- have minimum share capital of EEK 1 million,
- employ at least one full-time Approved Trader having passed an exam of the Exchange,
- make a contribution to the Exchange's Guarantee Fund.

Member firms are required to disclose to the Exchange their audited annual reports, semi-annual reports and quarterly reports. In addition, member firms must also inform the Exchange immediately of any changes in their business

activities or financial situation that might have an impact on their financial health.

In order to increase the financial stability of its members and protect the interests of investors, the Exchange has the right to impose additional prudential and financial requirements to non-credit institution members, including the requirements for minimum capital, capital adequacy, liquidity of assets, compulsory reserves, position risks, and investment exposure.

Clearing and Settlement

Member firms must report all transactions immediately, but no later than within five minutes after the conclusion of the transaction, to the Exchange. After receiving the trade report, the Exchange publishes the transaction. Following that, the member firm sends to the Exchange a Settlement Details Report including all relevant account numbers and investor information. The trading system of the Exchange is connected to the system of the Estonian Central Depository for Securities, which carries out the settlement of all Exchange transactions on the basis of DVP at T+3. A member firm is responsible for the execution of all transactions it has reported to the Exchange.

In order to guarantee the fulfillment of the transactions, the Exchange has established a Guarantee Fund. Before a member firm can begin trading on the Exchange, it is required to deposit money into the Guarantee Fund account held at the Bank of Estonia. The Guarantee Fund can be

used to cover the expenses incurred by the Exchange in settling the transactions that a member fails to settle.

Listing Structure, Requirements

All securities listed on the TSE must be dematerialised, freely negotiable and registered with the Securities Inspectorate and the Estonian Central Depository for Securities. The Listing Committee of the Exchange decides whether a security meets the requirements for listing. The listing requirements, set out in the TSE Rules and Regulations, ensure that investors get full and adequate information regarding the issuer and its financial health.

Securities listed on the TSE are divided between five different lists: the Main List, the Secondary List, the Funds' List, the Bonds' List and the Free Market.

The minimum market capitalisation requirement for the **Main List** securities is EEK 300 million. Upon listing, the company must present the audited annual reports for the preceding three years. The shares must be distributed to at least 300 investors.

The minimum market capitalisation requirement for the **Secondary List** securities is EEK 10 million and the shares must be distributed to at least 100 investors. The company must present the audited annual reports for the preceding two years.

The total market value of each bond issue to be listed on the **Bonds' List** must be at least EEK 10 million and the application must cover all bonds,

Listing Requirements for Shares

	MAIN LIST	SECONDARY LIST	FREE MARKET
Basic	Freely transferable Registered with the Securities Inspectorate and the Central Depository Minimum 25 pct of the same type of shares traded publicly		
Disclosure of financial reports	Min 3 yrs audited results	Min 2 yrs audited results	Exchange has right to ask audited results for the last financial year
Market capitalisation	Min 300 mln EEK	Min 10 mln EEK	-
Distribution of shares	Min 300 investors, each holding shares in total value of 10,000 EEK, or 1,000 investors	Min 100 investors	Min 100 investors

ranked pari passu. The issuer must present the audited annual reports for the preceding two years, and have earned a net profit for the previous year.

The minimum market capitalisation requirement of the securities on the **Funds' List** is EEK 5 million. The issuer has to demonstrate to the Listing Committee that the fund manager has adequate expertise and experience and the fund adheres to adequate risk diversification principles.

The **Free Market** is a pre-list of the Exchange, established for trading securities which do not qualify for listing, or for which an issuer has not yet applied for listing. Securities can be listed there for a period of one year, after which time they have to apply for official listing or be removed from the Free Market. To be admitted to the Free Market, the securities must fulfil the basic listing requirements and be distributed between a minimum of 100 investors.

Index

The TSE index TALSE is a market capitalisation-weighted index. It reflects the movements of all shares listed on the Main and Secondary Lists. The base value of TALSE is 100 and the base date is 3 June 1996.

Information Distribution

Information on the Tallinn Stock Exchange is available via Reuters, Bloomberg, Bridge Telerate, Datastream, Internet Securities, Telekurs, Baltic News Service and local media channels.

Real-time trading information is publicly available, free of charge, on the TSE Internet homepage at <http://online.tse.ee>, and daily updated statistics at <http://www.tse.ee/stat/>

The Exchange, together with the Estonian Central Depository for Securities, also publishes the monthly Estonian Securities Market overview.

Exchange Fees

The Exchange's transaction fee is EEK 35 per transaction for both sides. The commission rates charged by brokers generally range from 0.4% to

1% of the transaction volume. A complete list of fees for the various services provided by the TSE is available at the Exchange's Internet homepage at <http://www.tse.ee/rules/>

Taxation

Estonia has a proportional income tax system. The income tax rate for both legal and natural persons is 26%. Subjects for taxation include capital gains, interests paid by the Estonian residents and government, and dividends from business enterprises registered in Estonia. Estonia has concluded tax treaties with numerous foreign countries.

Investor Protection

The Exchange's Conduct of Business Rules stipulate that the member firm, its employees and members of supervisory bodies must follow the principles of fair and equitable trading, to act knowledgeably and with care, always giving priority to the interests of its clients. A member firm is required to execute the client's order at the best possible price available at the time of transaction. After receiving an order from a client, a member firm is required to effect the transaction without unreasonable delay. Should the client not be satisfied with the actions taken or resolutions offered by the member firm, an appeal can be submitted to the Court of Arbitration of the Exchange.

No person with access to confidential information can conclude transactions or give investment recommendations based on that information. Issuers' management and supervisory body members, auditors and related persons cannot deal in the issuers' securities from the end of the accounting period to a week after the period's financial results are published.

Information Disclosure Requirements

The TSE Rules and Regulations set strict requirements for information disclosure for issuers of listed securities. All listed companies must submit all price-sensitive information first to the Exchange, which will publish it immediately via its trading and news system.

Issuers must present financial reports for every

three, six and nine months of the financial year, as well as the audited annual reports drawn up in accordance with Exchange rules, Estonian accounting legislation and International Accounting Standards. Issuers must also submit information on significant changes in their business activities, significant transactions and investments, mergers and acquisitions, meetings of shareholders, transactions with related persons, corporate actions and others.

Planned Amendments in the Rules and Regulations

Remote Membership

The Supervisory Board approved the principles of remote membership status of the Exchange in January 1999. It has authorised the Management Board to prepare necessary amendments to the TSE Rules and Regulations. The goal is to provide low cost access to the exchange to non-resident brokerages with the least bureaucratic and technological hassles possible. Currently, the Rules and Regulations allow only legal entities registered in Estonia to become members of the Exchange.

Takeover Code

The Exchange plans to supplement its Rules and Regulations with a code regulating issuer and member behavior in mergers and acquisitions, takeovers and other such events.

Listing Rules of Fixed Income Securities

Substantial revisions to this section of the Rules and Regulations are envisaged in order to take account of recent market developments and streamline the listing process of fixed income securities.

Market Supervision and Surveillance

In order to increase the effectiveness and capacity of the TSE as a self-regulatory institution in the discharge of its market supervision and surveillance duties, revisions of the respective parts of the Rules and Regulations are on the agenda.

Management of Tallinn Stock Exchange

Supervisory Board of the Tallinn Stock Exchange

Peeter Saks (chairman)	Talinvest Suprema Väärtpaberid	Talinvest Suprema Securities
Helo Meigas	Eesti Pank	Bank of Estonia
Margus Schults	Eesti Ühispank	Union Bank of Estonia
Tarmo Jüristo	Hansa Investments	Hansa Investments
Rain Lõhmus	Hansapank	Hansabank
Tarmo Pedjasaar	ICI Trust	ICI Trust
Kalev Tanner	Cresco Väärtpaberid	Cresco Securities

Management Board of the Tallinn Stock Exchange

Gert Tiivas (chairman)	Tallinna Väärtpaberibörs	Tallinn Stock Exchange
Margus Uudam	Hüvitusfond	Compensation Fund
Jaanus Erlemann	Eesti Väärtpaberite Keskdepositoorium	Estonian Central Depository for Securities
Toomas Tsopp	Eesti Ühispank	Union Bank of Estonia
Jüri Käo	Norma	Norma
Hilma Naaber	Riigikogu kantselei	Chancellery of Parliament

Tallinn Stock Exchange Listing Committee

Riho Rasmann (chairman)	Eesti Ühispank	Union Bank of Estonia
Kalle Norberg	Optiva Pank	Optiva Bank
Toomas Luman	EE Grupp	EE Group
Mart Mägi	Eesti Kindlustus	Estonian Insurance
Henn Oit	Eesti Pank	Bank of Estonia
Indrek Rahumaa	Balti Cresco Investeerimisgrupp	Baltic Cresco Investment Group
Sten Soosaar	Talinvesti Varahaldus	Talinvest Asset Management

Tallinn Stock Exchange Surveillance Committee

Kilvar Kessler (chairman)	Advokaadibüroo Tark & Co	Law Office Tark & Co
Ago Haabpiit	Endine TVB kauplemis- ja järelevalve-osakonna juhataja	Previous head of Trading and Surveillance Department of TSE
Urmas Kaarlep	PriceWaterhouseCoopers	PriceWaterhouseCoopers
Andres Kurgpõld	Eesti Panga Pangainspeptsioon	Banking Supervision Department of the Bank of Estonia
Marek Mägi	Väärtpaberiinspeptsioon	Securities Inspectorate
Gert Tiivas	Tallinna Väärtpaberibörs	Tallinn Stock Exchange
Kaido Tropp	Kindlustusinspeptsioon	Insurance Inspectorate

Tallinn Stock Exchange Court of Arbitration

Joel Aasmäe	Hansapank	Hansabank
Taivo Kivistik	Hansatee Grupp	Hansatee Group
Veiko-Joel Kokk	Hansapank	Hansabank
Sten Luiga	Advokaadibüroo Tark & Co	Law Office Tark & Co
Raino Paron	Advokaadibüroo Raidla & Partnerid	Law Office Raidla & Partners
Tarmo Pedjasaar	ICI Trust	ICI Trust
Üllar Talviste	Advokaadibüroo HETA	Law Office HETA
Liivia Toomik	Eesti Ühispank	Union Bank of Estonia



OVERVIEW OF THE ESTONIAN CENTRAL DEPOSITORY FOR SECURITIES

ESTONIAN CENTRAL DEPOSITORY FOR SECURITIES

Address:	Rävala 6 Tallinn 10143 Estonia
E-mail:	depo@depo.ee
Web-site:	http://www.depo.ee
Register:	electronic
Securities:	dematerialised
Settlement:	T ... T+30
First entries:	November 1994

Its main functions include depositing dematerialised securities, registering security ownership, loans and pledging, processing and clearing security transactions, and providing information services.

The ECDS provides services to its account operators, issuers, state authorities and investors. In case of need, courts and tax department are entitled to make specific legal inquiries. The ECDS also provides indirect access to the system for financial intermediaries not holding the ECDS account operator status.

Estonian Central Depository for Securities in General

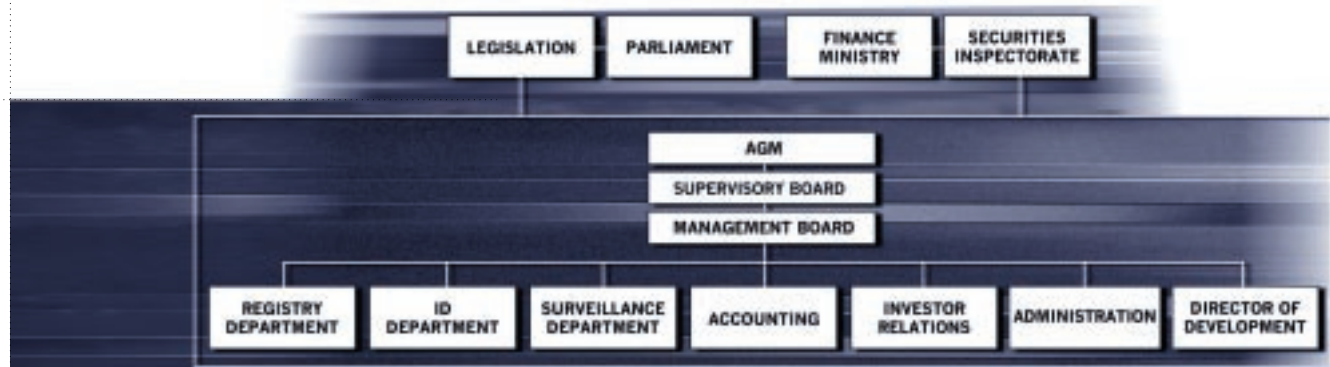
The Estonian Central Depository for Securities as the main register of the state was founded on 30 March 1994 by seven commercial banks, the Bank of Estonia (central bank), the Ministry of Finance and Hüvitusfond (State Compensation Fund). The share capital of the ECDS is EEK 2.8 million, which is divided into 28 shares with nominal value of EEK 10,000. The establishment of the ECDS proceeded from the need for a register for dematerialised (book-entry) securities.

The ECDS is a limited liability company operating under the Central Register Statutes, which arranges, maintains, uses and controls the entries, and guarantees the accuracy of information possessed by the securities register.

Organisational Structure of the ECDS

The supreme authority on the ECDS is held by the Annual General Meeting of Shareholders. The daily operations of the ECDS are managed by the four-member Management Board, elected by the Supervisory Board for the period of one year. The Supervisory Board of the ECDS consists of six members and is elected for three years.

The ECDS and the TSE, as financial sector infrastructure companies, have entered into a general co-operation agreement. Pursuant to the agreement, several employees of the ECDS administration, accounting and IT departments work also for the TSE. Furthermore, various administration and rent expenses are shared between the two companies.



Services to Issuers

Registration of Securities

Companies registered with the ECDS can take advantage of several services provided by the ECDS, including central management of issues of shares, fund units or bonds, payment agent services, and assembling the shareholders' meetings.

The ECDS provides its services to the issuers on a contractual basis. To electronically register its shares and bonds, the issuer provides the ECDS with all necessary documents, including the list of security owners, their account numbers, and description of securities held. However, the Rules of the ECDS prohibit partial registration of a security issue.

Within five banking days from the date the ECDS receives the list of security holders, the respective securities will be transferred to the owners' accounts via primary entry, recording the holders' rights and registration details. A unique ISIN-code will be assigned to every security issue.

Increase and Reduction of Share Capital

The issuer must inform the ECDS of all events, which could affect the rights of security holders, including any decisions regarding changes in the volume of share capital. Each decrease or increase of the issuer's share capital can not be registered in ECDS before it is registered in the Commercial Register.

Following the resolution of the Shareholders' General Meeting to increase the volume of share capital, the ECDS will register the shares to be issued as subscription notes under a temporary

ISIN-code. After registration of the aforementioned corporate event in the Commercial Register, the subscription notes will be diverted into common shares and attributed a permanent ISIN-code identical to this of initially registered securities.

Reduction of share capital can be done by either cancelling the shares, or decreasing their nominal value. These registry procedures will be effected after the registration of the event at the Commercial Register upon the relevant decision of the issuer's Shareholders' General Meeting.

Subscription for Securities

Another service offered by the ECDS to the issuers is assistance with the arrangement of securities sale and purchase offerings. Investors will submit the offerings to the account operators, who will forward them to the ECDS. The ECDS will provide the service of recording deposit payments, if such payments are required by the subscription principles, and check the correspondence of the offerings and deposit payments to the conditions stipulated in the issuer's prospectus.

After the end of the subscription period, the ECDS will return the offering results to the issuer, who determines the distribution principles. Proceeding from these, the ECDS will compose the distribution list and make the relevant registry entries.

Payment of Dividends and Interest

The ECDS also serves the issuers as a payment agent by effecting dividend, interest and other payments to the issuer's security holders.

The issuer is obliged to provide the ECDS with information needed to make the payments at least five days prior to the record date of fixing the security holders' list. On the value date, the issuer will transfer the full amount of payment to the account of the ECDS. The same day after the ECDS account at central bank is credited, the ECDS will make payments to investors' current accounts and withhold the amount of income tax, when necessary.

Disclosure of Register Information

The issuers can obtain a paper-version or an electronic list of their security holders at any time. Excerpts from the register data can be issued to legally authorised bodies, such as courts and tax department, but not to unauthorised third parties without the issuer's prior consent. The ECDS also provides the issuers with an access to statistical analyses of the registration data.

Shareholders' Meetings

The ECDS has implemented a special computer system for providing the service of arranging shareholders' meetings. The system uses the database of the ECDS and enables to simplify the registration of the meeting participants, counting the votes, and making inquiries on the voting results.

Services to Investors (via Account Operators)

The services offered to investors include opening, closing, crediting and debiting different type of security accounts, registration of borrowings and pledges, payment of dividends and interests, issuing information about holdings and allocations, changing account operators etc.

According to the single-level market model operated by the ECDS, the investors communicate with the ECDS only through the account operators. According to the Estonian legislation every Estonian investor has to open the security account at the ECDS on his own name, only non-residents holding the respective license have the right to open nominee accounts. It means that the ECDS has the direct access to every security account. The process of transmitting information to investors is centralised, i.e. the registration

advice after every movement on the security account and the annual statement on holdings are sent to the investors directly by the ECDS. A securities intermediary company licensed by the Ministry of Finance as a credit institution can start operating as an account operator, after a relevant application has been approved by the ECDS Supervisory Board and the company has become a shareholder of the ECDS. The shares can either be bought from a shareholder of the ECDS or new shares can be issued by the ECDS. In latter case, a respective decision of the Shareholders' General Meeting is necessary.

An account operator is a legal entity with limited access to the central register. The operators can only control the movements and transfers on the accounts of their own clients, but they do not have access to information about the transactions of other account operators. An account operator is required to operate in conformity with legal acts and the Rules of the ECDS. It is responsible for the timely transmission of information necessary for making registry entries, to the ECDS, and the accuracy of data entered by it to the registry. The account operators must archive all documentation based on which the transactions are made. The ECDS is entitled to request the base documents regarding any transaction details at any point of time.

Settlement of Transactions

The most common type of transactions are buy and sell. The ECDS executes buy and sell orders either as free of payment delivery, or as delivery versus payment.

The Rules and Regulations of the TSE and Rules of the ECDS prohibit short selling transactions.

In case a counterpart does not have the necessary amount of securities on its account on the value date, the transaction will be postponed.

Free of Payment Delivery

In cases of free of payment (FOP) delivery, the cash payments are not controlled by the ECDS. Certain security transactions, such as pledging, presenting and bequeathing, are executed as FOP transfers. In case of FOP trade, real-time transfer

on gross basis is effected at the time stipulated in the order or as soon as the orders from both transaction parties have been entered into the system.

Delivery Versus Payment

In case of delivery versus payment (DVP), the securities are transferred on gross basis. The funds are cleared on the basis of bilateral netting between the account operators via the Clearing Department of the Bank of Estonia.

For purposes of clearing security transactions on the inter-bank market, the ECDS is authorised to instruct the Clearing Department of the Bank of Estonia to debit the net value of concluded transactions from the accounts of relevant account operators.

The ECDS electronic system will conduct settlement after receipt of the respective instructions from both transaction parties. If data in the settlement instructions match and the securities requested are available on the securities account of a seller, the ECDS will freeze the necessary amount of securities on day T (matching day).

On the value date, the ECDS will send the clearing instructions to the Clearing Department of the Bank of Estonia for debiting and crediting the corresponding accounts of the account operators in the clearing amounts for the transactions of that date. After the Clearing Department has submitted a confirmation regarding the clearing sums to the ECDS (3 PM), the securities are transferred to new owners.

In case of DVP, the buyer is guaranteed the securities and the seller is guaranteed the payment. All stock exchange transactions are executed on the basis of DVP and settled on the third day after the transaction is agreed (T+3). Off-Exchange DVP transactions are settled according to the investor's order on the day between T+1 to T+30, where T is matching date. DVP between the accounts of one account operator can be settled on the day T. Such transaction will be effected as FOP transfer, whereas a respective note will be added.

Management of Estonian Central Depository for Securities

Supervisory Board of Estonian Central Depository for Securities

Rein Parelo (Chairman)	Eesti Ühispank	Union Bank of Estonia
Andrus Kluge	Eesti Krediitipank	Estonian Credit Bank
Lelo Liive	EV Rahandusministeerium	Estonian Ministry of Finance
Sven Meimer	Eesti Pank	Bank of Estonia
Peep Soone	Eesti Energia	Estonian Energy
Kristel Talvar	Hansapank	Hansabank

Management Board of Estonian Central Depository for Securities

Jaanus Erlemann (Chairman)	Eesti Väärtpaberite Keskdepositoorium	Estonian Central Depository for Securities
Ahto Kink	Eesti Väärtpaberite Keskdepositoorium	Estonian Central Depository for Securities
Jaak Madis	Eesti Väärtpaberite Keskdepositoorium	Estonian Central Depository for Securities
Gert Tiivas	Tallinna Väärtpaberibörs	Tallinn Stock Exchange

Securities' Transaction (DVP)

Transaction date	Activity
9.00-17.00	Forwarding transaction notes to the ECDS by account operator.
17.00- value date	Matching, rejection of non-suitable transactions. After account operator has confirmed the transaction details, the securities will be freed.
Value date	
13.00-14.00	ECDS sends the clearing instructions to the Bank of Estonia.
15.00	ECDS receives confirmation on clearing from the Bank of Estonia.
15.00-16.00	ECDS registers the securities to the name of new owner.

Time Schedule of Exchange Transaction

Transaction date	Activity
10.00-14.00	Agreement on the transaction.
10.00-14.00	Matching in the Exchange system, information about trades transferred to the ECDS system.
Transaction date +2	
Up to 17.00	Changing and amending of transaction details by brokers in the Exchange system, information about trades transferred to the ECDS system.
Up to 17.00	Account operators confirm the transaction (whether the registry entries match with the orders given by investors).
Value date	
9.00-11.00	Counterparts can fix their short sellings using FOP transfers. Amending of details of default transaction in the ECDS system (based on the instructions from the Stock Exchange).
11.00-13.00	Account Operator confirms the amounts to be debited from the Stock Exchange member's account.
13.00-14.00	ECDS composes the clearing instructions and sends the file to the Bank of Estonia.
15.00	ECDS receives the clearing confirmation from the Bank of Estonia.
15.00-16.00	ECDS registers the securities to the name of the new owner.

TALLINN STOCK EXCHANGE MEMBER FIRMS AS OF 31-DEC-98

Name	Address	City, Zip	Telephone	Fax	WWW
AMG Investeeringud	Sakala 16	Tallinn 10141	372 6 277 420	372 6 277 411	www.amg.ee
Beeta Varahaldus	Ahtri 6	Tallinn 10151	372 6 259 851	372 6 259 845	www.beeta.ee
Cresco Väärtpaberid	Tartu mnt. 14	Tallinn 10117	372 6 108 792	372 6 108 799	www.cresco.ee
Eesti Krediidipank	Narva mnt. 4	Tallinn 15014	372 6 405 053	372 6 313 534	
Eesti Ühispank	Tornimäe 2	Tallinn 15010	372 6 656 823	372 6 656 802	www.eyp.ee
ERA Pank*	Vallikraavi 2	Tartu 51003	372 7 440 449	372 7 440 404	www.erapank.ee
EVEA Pank*	Narva mnt 40	Tallinn 15159	372 6 314 210	372 6 312 063	www.evb.ee
Handelsbanken Aktoris*	Pärnu mnt. 15	Tallinn 10141	372 6 651 748	372 6 651 750	
Hansa Investment Securities	Pärnu mnt. 15	Tallinn 10141	372 6 679 233	372 6 679 231	www.hansainvest.ee
Hansapank	Liivalaia 8	Tallinn 15040	372 6 131 652	372 6 131 545	www.hansa.ee
HF Kapital*	Ahtri 10a	Tallinn 10151	372 6 103 516	372 6 103 501	
HT Finants	Sadama 4	Tallinn 10111	372 6 409 852	372 6 409 873	
ICI Trust	Ülikooli 12	Tartu 51003	372 7 305 900	372 7 305 902	www.ici.ee
Kawe Kapital	Pärnu mnt. 15	Tallinn 10141	372 6 651 702	372 6 651 701	
Optiva Pank	Narva mnt. 11	Tallinn 10502	372 6 302 184	372 6 302 123	www.forex.ee
Sthenos Grupp	Pärnu mnt. 16	Tallinn 10101	372 6 314 276	372 6 314 277	www.sthenos.ee
Talinvest Suprema Väärtpaberid	Pärnu mnt. 10	Tallinn 10148	372 6 405 784	372 6 405 701	www.tss.ee
Tempelman Väärtpaberid	Pärnu mnt. 6-6	Tallinn 10148	372 6 314 582	372 6 314 327	www.tempelman.ee
Traader*	Lai 31-226	Tallinn 10133	372 6 466 265	372 6 314 209	
Väärtpaberiparisnikud*	Narva mnt 11e-111	Tallinn 10151	372 6 118 353	372 6 118 351	

*Membership suspended

ACTIVE ACCOUNT OPERATORS OF ECDS AS OF 31-DEC-98

Name	Address	City, Zip	Telephone	Fax	WWW
Eesti Krediidipank	Narva mnt. 4	Tallinn 15014	372 6 405 000	372 6 616 037	
Eesti Ühispank	Tornimäe 2	Tallinn 15010	372 6 104 100	372 6 104 102	www.eyp.ee
Hansapank	Liivalaia 8	Tallinn 15040	372 6 131 310	372 6 131 410	www.hansa.ee
Optiva Pank	Narva mnt. 11	Tallinn 15015	372 6 302 100	372 6 302 200	www.forex.ee

In addition to the active account operators the following shareholders have access to the ECDS registry system:

Hüvitusfond	Pärnu mnt. 15	Tallinn 10141	372 6 651 800	372 6 651 801	www.hyvitusfond.ee
Eesti Pank	Estonia 13	Tallinn 15095	372 6 310 911	372 6 310 836	www.ee/epbe