

**ESTONIAN
SECURITIES
MARKET**
YEARBOOK 2000

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MAJOR EVENTS IN 2000

Trading statistics

TALSE index gained 10% during the year, making the Estonian securities market one of the best performing in the whole world. The total turnover of the TSE was up 24 %.

New organisation

TSE and ECDS formed a group under single strategic management, completing the restructuring of the two key securities market infrastructure companies.

International integration

Preparatory assignments for international integration of the TSE were in focus during the year, including rules screening and harmonisation with EU, and signing a letter of intent with Scandinavian stock exchange alliance NOREX.

Take-overs

The year saw a number of take-over bids, which were for the first time done in well-regulated environment after the adoption of take-over rules.

New central registry law

Parliament adopted the new law on central securities registry, the regulation of which was so far absent in Estonian legislation. The law became effective as of 1 January 2001.

Investor education campaign

TSE launched long-term investor education campaign with the organisation of first investment fair in Estonia among other activities.

Key Macro-Economic Data

	1996	1997	1998	1999	2000	2001
GDP growth, %	3.9	10.6	4	-1.1	6.4**	5...6*
CPI growth, %	23.1	11.2	8.2	3.3	4.1	4.2...5.3*
C/A deficit of GDP, %	9.2	12.1	9.2	5.8	6.5...7.2*	5.9...8*
*forecast	Source: Central Bank of Estonia					
**preliminary						

Key Figures of Tallinn Stock Exchange

	TALSE index at end of period	Change %	Turnover		Trades	Average daily turnover		No of traded securities	Equity capitalisation	
			mln EEK	mln EUR		mln EEK	mln EUR		mln EEK	mln EUR
1996*	160.32	60.32	2,294.41	146.64	19,837	15.58	1.00	25	8,776.16	560.90
1997	265.35	65.51	21,841.47	1,395.92	125,235	86.31	5.52	38	15,638.59	999.49
1998	90.74	-65.80	13,351.58	853.32	94,172	52.77	3.37	36	6,927.68	442.76
1999	125.51	38.31	4,473.58	285.91	44,656	17.68	1.13	38	27,929.21	1,785.00
2000	138.24	10.15	5,537.67	353.92	36,694	21.80	1.39	33	30,227.11	1,931.86
Jan-2000	138.46	10.32	646.10	41.29	5,333	30.77	1.97	38	30,826.51	1,970.17
Feb-2000	165.45	19.50	790.64	50.53	5,640	39.53	2.53	39	36,834.26	2,354.14
Mar-2000	171.86	3.87	479.45	30.64	3,533	20.85	1.33	39	38,156.91	2,438.67
Apr-2000	157.88	-8.13	319.88	20.44	2,792	16.84	1.08	38	35,488.87	2,268.15
May-2000	140.26	-11.16	294.83	18.84	2,663	13.40	0.86	38	31,741.57	2,028.66
Jun-2000	136.85	-2.44	269.10	17.20	1,963	12.81	0.82	37	30,856.27	1,972.08
Jul-2000	138.45	1.17	200.38	12.81	1,624	9.54	0.61	37	30,713.57	1,962.96
Aug-2000	146.06	5.50	566.66	36.22	2,805	24.64	1.57	37	32,015.79	2,046.18
Sep-2000	135.64	-7.13	857.83	54.83	2,657	40.85	2.61	35	30,041.62	1,920.01
Oct-2000	140.53	3.60	429.99	27.48	2,835	19.55	1.25	35	31,133.68	1,989.80
Nov-2000	139.47	-0.75	432.53	27.64	3,041	19.66	1.26	34	30,504.06	1,949.57
Dec-2000	138.24	-0.88	250.29	16.00	1,808	13.17	0.84	33	30,227.11	1,931.86
*June - December 1996										



KALEV TANNER_CHAIRMAN OF SUPERVISORY BOARD



CHAIRMAN'S STATEMENT

2000 was characterised by strong economic growth in Estonia as the recovery, which had started in the second half of 1999, continued nicely throughout the year. Solid macro-economic performance and good earnings in the corporate sector were reflected in the above 10% growth of the TALSE index, which was one of the highest globally amid volatility and setbacks experienced in markets around the world.

Tallinn Stock Exchange (TSE) and Estonian Central Depository for Securities (ECDS) undertook a number of strategic initiatives for the development of the Estonian securities market.

Efficiency is the key characteristic of the completed restructuring of TSE and ECDS, during which a slim and flexible organisation under single strategic management was formed in the course of 2000. It has resulted in a stronger and better capitalised company with improved capacity to grow and evolve, so as

to be able to offer a full range of securities services on an integrated, cost-efficient basis.

Much headway was made during the year in preparing to integrate the Estonian securities market with international networks. Careful study of the technological alternatives to find the most sensible solution and thorough screening of our rules so as to be prepared for swift harmonisation were undertaken. Integration is an absolute necessity if we want to create the preconditions for a well-functioning capital market. This preparatory work now largely completed, strategic decisions can be made in 2001.

Another hallmark of the year was a major improvement of the securities market regulatory framework. The new law on the central registry of securities was adopted and work on the much-awaited new securities market act almost completed. By the end of 2001, we should be able to boast a securities market legal infrastructure up to modern international standards.



GERT TIIVAS_CHAIRMAN OF MANAGEMENT BOARD



TSE started to actively promote savings and investment culture in Estonia in order to raise the public awareness of the benefits of long-term stock market investments. In 2001 we intend to build upon the success of the fair "Money Compass" and associated events. We are optimistic that the gradually improving living standards, upcoming pension reform and the better availability of global investment products should over time lead to a broad and active retail investor base in Estonia.

Recognising the perils of forecasting the future, it is with confidence that we face 2001. It should be the year to start enjoying the first fruits of the hard work done in laying the foundation for an efficiently operating marketplace.

We want to be the choice exchange for listing for local companies. We want to offer exciting opportunities for investors, both Estonian and foreign, to grow their capital, while being protected by good rules and

supervision. We want to run an efficient registry, which sets the standard for others in terms of technological advancement. We want to have the Estonian market seamlessly integrated with European networks. We want the whole group to have customer focus, innovation and trustworthiness as its guiding values.

KALEV TANNER

CHAIRMAN OF SUPERVISORY BOARD

GERT TIIVAS

CHAIRMAN OF MANAGEMENT BOARD

Since the end of 2000, there has been a significant new development in TSE's international integration plans: the offer by HEX Group of Finland to start strategic co-operation. The aim of the co-operation, which includes operational as well as ownership aspects, is to build a well-functioning securities market in Estonia.

OVERVIEW OF TSE AND ECDS ACTIVITIES IN 2000

2000 marked the birth of a stronger and more efficient securities market infrastructure body, as the consolidation process of Tallinn Stock Exchange (TSE) and Estonian Central Depository for Securities (ECDS) was completed.

One of the priorities during the year was the harmonisation of our securities market regulation with the European Union's ahead of Estonia's entry into the EU and upcoming international integration of the

TSE. As a result, Estonia entered 2001 with a new law on the central securities registry and the new securities market act was sent to the parliament for approval.

The successful start of the campaign to promote savings and investments culture in Estonia proved that such work should be continued to increase the awareness of benefits of stock market investment among retail investors.

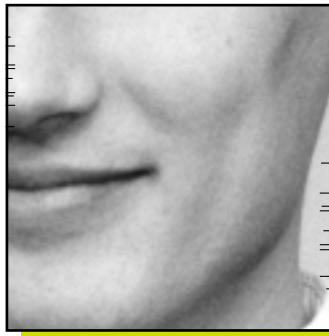
Organisation

In 2000 TSE and ECDS completed the restructuring process, forming a group under single strategic management, which enables a more effective and better co-ordinated development of the Estonian market.

The group was formed through acquisition of all ECDS shares by TSE. For this purpose, TSE issued new shares to ECDS shareholders in equal amount with the currently outstanding ones, i.e. 50% of increased share capital.

According to the new structure, the group is comprised of three companies:

- Tallinn Stock Exchange — parent company, whose tasks include group strategic management, listing of securities, market supervision, public relations, strategic and technological development;
- Estonian Central Depository for Securities — fully-owned subsidiary of TSE, whose task is to keep the Estonian central securities registry;



■ Clearing house — fully-owned subsidiary of TSE, to be launched in 2001, whose core business is clearing and settlement of securities transactions, risk management and other securities related transactions and operations. Establishment of the clearing house enables the TSE group to separate the risks related with clearing and settlement of securities transactions from registry keeping and core activities of the exchange.

The supervisory board elected Kalev Tanner of Baltic Cresco Investment Group as its new chairman in September. Other members of the new supervisory board include Arvo Juhkami (Optiva Pank), Sven Kuning (Eesti Ühispank), Andres Lipstok (Member of Parliament), Rain Lõhmus (LHV), Allan Martinson (Microlink), Helo Meigas, Priit Põldoja (Hansapank) and Peeter Saks (Suprema Securities).

Regulation

TSE continued active participation in the development of the securities market regulation in Estonia. The year's highlights were the passage of the regulation of take-over bids and the new law on the central securities registry, as well as preparation of

the new securities market act, which should be adopted in 2001.

The Parliament adopted the new **law on central securities registry**, effective as of 2001, which filled a major gap in the field of securities market regulation. Market participants can now operate in a well-regulated environment that better meets the requirements of the rapidly developing securities market. Among other things, the law allows to expand the circle of account operators and regulates the use of nominee accounts in accordance with international practice. Under the new law, all Estonian public limited companies are required to be registered at the central registry, thereby enhancing the transparency and trustworthiness of the Estonian economy in general.

The **regulation of take-over bids** for public companies was added to the securities market act to eliminate one of the most critical regulatory shortcomings—minority shareholder protection. The amended law, passed in February 2000, is in line with a respective draft European Union directive and stipulates that a person obtaining a controlling interest in a listed company must make a take-over bid to all



other shareholders at equal and fair conditions. The offerors must follow the TSE take-over rules, according to which the TSE may also block the take-over bid if it is not made in line with the rules. The rules create legal certainty and transparency to offerors, target companies and shareholders alike.

The **access of securities intermediaries from the European Union member states to the Estonian market** was considerably simplified. The amendments in the legislation, finance ministry's decrees, and rules and regulations of the TSE, make it substantially simpler for foreign brokers to start trading in Estonia. Among the major changes is the possibility to operate as a remote member on the TSE without a need to open a local branch office in Estonia.

TSE has actively participated in the preparation of the draft of the new **securities market act**, which was sent to the parliament at the end of 2000 and is expected to be passed in the first half of 2001. The new law has been long overdue. It should bring Estonian regulation fully in line with the requirements of the European Union, better meet the needs of all securities market participants and afford greater protection to investors.

A draft law on the **unified financial supervisory authority** was also sent to the parliament in December. A single supervisory authority, based on the current banking, insurance and securities market inspectorates, will be created in 2002. The unified authority should substantially enhance the effectiveness of the supervision of the financial markets.

International co-operation

TSE continued preparations for entry into strategic co-operation with an international stock exchange partner. Several joint projects were carried out with other Baltic exchanges.

One of the major tasks during the year was screening of TSE rules for their harmonisation with the European regulations ahead of integration. In May a letter of intent was signed with NOREX, giving the three Baltic bourses the option to participate in the Scandinavian stock exchange alliance along with the bourses of Sweden, Denmark, Norway and Iceland. A thorough technological feasibility study was conducted together with OM Technology to explore all aspects of linking TSE's market into the NOREX network.



TOOMAS MÖLDER, HEAD OF IT DEPT

Baltic List, a list of 15 Baltic blue-chip shares, was launched on January 3, 2000 by the Tallinn, Riga and Vilnius stock exchanges. The list makes it easier for foreign investors to track the largest and most liquid shares from all three markets.

A joint statistics publication and Internet web-site were launched together with the other Baltic exchanges. The web-site is an entry point to the Baltic capital markets, featuring online trading information of the Baltic List, monthly statistical bulletins and other key data on the three markets. Other common Baltic projects included holding an open house during the EBRD annual meetings in Riga in May and a joint presentation of Baltic bourses and listed companies for international investor community in London in November.

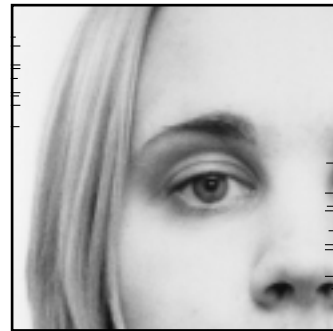
In June TSE was granted the corresponding member status in the Federation of European Securities Exchanges (FESE). The membership status gives TSE representation in the federation, enabling better access to information and exchange of experiences as well as participation in discussion forums about securities markets development, and in European legislation development processes.

In May TSE with Financial Times hosted the biannual European stock exchanges forum in Tallinn. Senior executives from 20 European bourses attended the forum. The agenda included stock exchange alliances, regulation and supervision related topics.

Information availability

In May TSE and ECDS launched their revamped **Internet homepages**, which have greatly improved the quality and scope of information available on the Estonian securities market. The user-friendliness of the homepages was significantly enhanced by new search engines for listed company announcements, trading statistics and central securities registry. The new web site also features market depth data in real time and shareholders' lists having substantial holdings in listed companies.

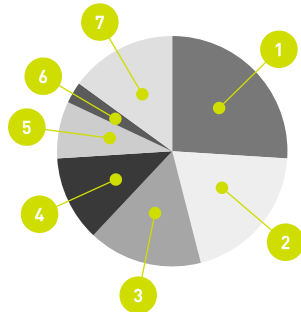
This year TSE also launched a **WAP service** for real-time trading information and general information about the Exchange. The service, offered free of charge, is available on <http://online.tse.ee/index.wml>



EVA PALU_HEAD OF INVESTOR RELATIONS DEPT

Where do I invest my savings? *

- 1. Bank deposit 26%
- 2. Shares 20%
- 3. Real estate 16%
- 4. Entrepreneurship 12%
- 5. Investment funds 8%
- 6. Bonds 3%
- 7. No savings 15%



* based on survey conducted during Money Compass 2000 investment fair

Investor education and promotion

TSE launched a campaign to **promote savings and investment culture** among the general public in Estonia, as the number and activity of retail investors is currently rather low, partly due to poor awareness of investment possibilities.

In October, TSE together with Reuters and local business daily Äripäev organised the **first money and capital market fair** for retail investors in Estonia, Money Compass 2000, which attracted up to 4,000 visitors in two days. All major market participants were represented with stands and a num-

ber of seminars and discussion forums on investment related topics were held.

In co-operation with Eesti Telekom and Hansapank, TSE produced a short film on how to become a shareholder. The educational, yet humorous movie makes an attractive and useful addition to the study programmes of high schools, universities, as well as professional training centres of financial institutions.

The investment promotion activities also included a virtual share investment game organised in co-operation with business daily Äripäev.

Investing activity of retail investors should also increase due to the significantly reduced trading costs for small investors made possible by changes in TSE's price structures instituted in late December.

Development of public bond market

TSE took several steps to promote the activation of **public fixed income securities market** in Estonia. Major regulative changes include recognition of bond programmes, simplified rules for listing, especially for low-risk debt securities, as well as lower listing fees.



TSE started to calculate yields for listed fixed income securities and bond market's average yield index Bondway, published in real time on the TSE homepage. This provides better visibility and easier tracking of bond market yields for investors.

In May TSE held a seminar on the potential of public debt market in Estonia to discuss with leading companies, municipalities and financial institutions the essential issues of debt market from both issuer's and investor's point of view. Speakers included senior representatives from the Estonian central bank, Hansapank, Svensk Exportkredit, SEB and others.

Pension reform

Estonia is taking steps to move from its current pay-as-you-go pension system to a three-tier scheme offering greater incentives for contributions to private pensions. The "second pillar," to be launched in 2002, will offer additional pension coverage by mandatory as well as voluntary contributions for new entrants to the job market and others that choose to participate.

ECDS has started a **project to offer logistical and technological solutions for launch of the second**

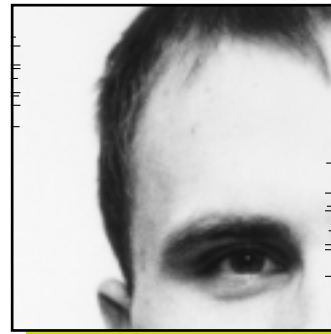
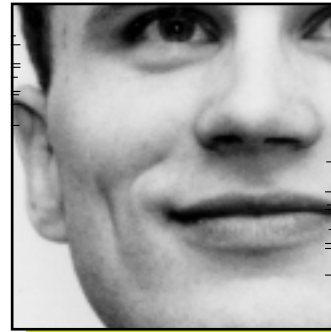
pillar of the pension reform. It includes management of pension accounts, collection of decisions of tax payers, information exchange with the tax department and issuance of pension fund units. ECDS helps to outline the part of the law that deals with management of pension accounts.

New clearing system

Preparations for launch of the **new securities clearing system**, scheduled for the second half of 2001, were started. The main functions of the system are the collection of data on securities transactions, verification of transactions, calculation and settlement of transactions-related payments and management of clearing risks.

Financial results

Due to the acquisition of ECDS by TSE, the financial results were consolidated for the first time in 2000. Consolidated revenues of the group amounted to EEK 14.3 million (EUR 0.9 million). TSE own revenues were EEK 9.6 million (EUR 0.6 million) and ECDS's EEK 12.1 million (EUR 0.8 million.) The group posted EEK 1.5 million (EUR 0.1 million) net profit.



Priorities for 2001

- 2001 should see the international integration project of the Tallinn Stock Exchange come to completion, as preparatory work will have been finished.
- TSE will continue its efforts to further improve the regulative environment of the securities market. New securities market act is to be adopted by the parliament during first half of 2001. Preparations are under way for many other laws that have a substantial impact on the activities and strategy of the TSE group, such as the law on unified financial supervisory agency, law on investor guarantee fund and law on pension reform.
- Launch of the pension reform and the consolidation of information on major Estonian firms will present new opportunities to broaden the range of services offered by ECDS. An efficient and client-friendly internet based information and services delivery will be the aim.
- Proceeding from the restructuring of TSE and ECDS, the subsidiary AS Arvelduskoda (Clearing House Ltd.) will begin its operations in 2001. The core business of the clearing house will be clearing and settlement of securities transactions, risk management, and other securities related services.
- TSE will continue the campaign to promote the savings and investment culture among Estonian retail investors. Together with the pension reform and improving living standards, the increased awareness of investment opportunities should be a major driver affecting the number of investors in the long run.