



## FINAL 1998 ANNUAL RESULTS

### Market Overview

The Swedish mobile telecommunications market experienced another, successive year of strong growth in 1998. While full year figures for the market are not yet available, the penetration (number of mobile customers compared with the total population) as of the end of September was approximately 43%. This was an increase of over 7 percentage points from the 36% level at the end of 1997 and compares with a total increase of just under 8 percentage points for the full year in 1997. At the end of September there were over 3.8 million mobile telephone customers in Sweden, up 651,000 since the end of 1997. Nearly 75% of these net customer additions were prepaid users, up from 35% for all of 1997, reflecting the strong growth trend in this segment.

In 1998 Europolitan had its best year ever in customer growth, with a total of 200,000 net customer additions, including 88,000 activated Europolitan EASY prepaid cards, raising the year-end customer base to 624,000. This compares with 143,000 net new customers during the previous year, including 7,000 activated prepaid cards. Europolitan significantly expanded distribution of prepaid cards during 1998, but the company's main focus continued to be on acquiring traditional subscription customers who on average produce higher revenue. Growth in the business segments continued to be favorable. Partly as a result of Europolitan's customer loyalty and retention programs, the churn rate for the year improved somewhat compared with 1997.

Although Europolitan's share of the total number of mobile customers increased from 13% to 15% during the first nine months of 1998, its share of net subscription additions (excluding prepaid) was nearly 50%. This was also reflected in an even higher proportionate market share of revenue.

During the year Europolitan launched a number of new products and services across various segments of the market:

- Mobile Text Telephone service for the hearing impaired
- LAN Direkt for mobile corporate users
- Personal Answering Service for small and medium size businesses.

Mobile access to *europolitan @ internet* service was complemented with fixed network access during 1998, enabling customers to dial up Europolitan's internet service via a fixed line, for example from their PC and modem at home.

Europolitan's wireless office concept developed well during the year, supported by the increased availability of dual band (GSM 900/1800) terminals. Several corporations are now using the wireless office service, with between 200 and 1,200 users each.



Europolitan Stores, the Group's direct sales channel, expanded its presence with the opening of four new outlets during the year, bringing the total number of stores to 24 by year-end. Sales through Europolitan Stores continued at a steady pace.

Traffic in Europolitan's GSM network increased significantly during 1998. Total minutes carried over the network increased by 58%, while average minutes of use per subscriber (excluding prepaid customers) grew 8%. Value added services continued to grow strongly as well. The volume of "Eurotext" SMS messages generated by subscribers increased nearly three-fold during the year, with year-end penetration of this service among Europolitan subscribers (excluding prepaid customers) above 70%. Europolitan's voicemail service "Eurovoice" was being used by over 90% of the subscriber base (excluding prepaid customers) at the end of 1998.

### **Operating Revenue**

Consolidated revenue (net sales plus other income) increased by 48% to SEK 3,281 million (SEK 2,222 million), driven by a larger customer base, higher average usage per subscriber (excluding prepaid customers) and continued strong growth in value-added services. Including capitalized expenses for own use, operating revenue totaled SEK 3,311 million (SEK 2,243 million).

During 1998 average monthly revenue per subscriber increased 3% to SEK 548 from SEK 531 in 1997. Including prepaid customers, the average monthly revenue declined 4.5% to SEK 507 (SEK 531), reflecting lower usage in the prepaid segment.

### **Operating Expenses**

Operating expenses, including capitalized expenses for own use, increased to SEK 2,271 million (SEK 1,836 million), due to higher traffic, customer acquisition costs and greater depreciation expense of SEK 332 million (SEK 260 million).

### **Net Financial Results**

Income before tax rose to SEK 983 million (SEK 375 million). After deducting the remaining, available estimated tax loss carry forward, a tax expense of SEK 228 million (SEK 0) was incurred, resulting in net income after tax of SEK 755 million (SEK 375 million).

### **Capital Expenditures**

Investment in fixed assets increased to SEK 642 million (SEK 555 million) to support the continued strong growth in customers, airtime usage and services. Capital expenditures consisted mainly of equipment for the mobile telecommunications network.



## **Financing**

Europolitan retired the remaining 440 outstanding preference shares in January 1998 for a total consideration of SEK 536 million. In May 1998 the Company paid its first common dividend of SEK 4.50 per share for a total payment of SEK 184 million. As a consequence, borrowings during the year peaked at SEK 1.3 billion in the second quarter. At year-end debt to financial institutions totaled SEK 876 million (SEK 790 million), while undrawn bank borrowing facilities were SEK 787 million (SEK 906 million).

## **1998 Fourth Quarter Highlights**

- Customer growth was at the same level as previous quarters, with 50,000 net new customers added, including 22,000 Europolitan EASY prepaid cards. Growth in the corporate and SME segments continued strongly. Due to market conditions, growth in new subscriptions occurred primarily during the latter part of the quarter.
- The churn rate rose in the fourth quarter compared with earlier quarters, due primarily to higher disconnections of private subscription plans. This trend was driven by seasonal factors as well as the wide availability and established position of prepaid service.
- Europolitan significantly expanded distribution of its Europolitan EASY prepaid cards through an agreement signed with Pressbyrån in December. This adds over 400 points of sale around Sweden.
- Although seasonally higher expenses occurred in the fourth quarter related to customer acquisition, advertising and marketing, the operating cash flow margin improved substantially to 39% from 23% for the same period in 1997.
- Free cash flow (cash flow after investing activities) was SEK 219 million (SEK –65 million) in the fourth quarter, with capital expenditures of SEK 143 million (SEK 222 million) at the lowest quarterly level during 1998.
- During the fourth quarter Europolitan announced three new initiatives to develop and commercialize advanced services over GSM:
  - Together with Aspiro AB, a Swedish company specializing in mobile business and information services, Europolitan entered into an agreement to develop interactive internet services based on Wireless Application Protocol (WAP), to be integrated as a browser in the next generation of mobile phones.
  - Europolitan signed a cooperation agreement with Unwire AB, a Swedish company developing telematics (machine-to-machine communications) products and terminals, for the joint development of telematics services for payment terminals using cash cards and credit cards. A number of such terminals have been installed and are in field testing.



- Europolitan in collaboration with Nokia will begin field trials of the GSM Intranet Office (GIO) based on Internet Protocol (IP) that will enable corporate customers to connect and operate their mobile and fixed telephones and computer systems through the company's local area network (LAN). This is a natural evolution of Europolitan's existing wireless office service. Field trials of GIO will commence in the first half, with commercial launch expected in late 1999.

### **Parent Company Results**

In 1998 the Group's parent company, Europolitan Holdings AB, had revenue of SEK 16.8 million and a pre-tax loss of SEK -5.5 million. Investments were less than SEK 15 thousand. The parent company's change in liquid funds was SEK 85 thousand, while external financing increased by SEK 130 million.

### **Year 2000**

Europolitan established a project team in 1997 to prepare the Company for the potential impacts of the millenium change, referred to as "Year 2000" or "Y2K". During 1998 substantial progress was made in identifying, analyzing, testing and upgrading Europolitan's critical business systems. This work continues and is expected to be completed no later than June 1999. Further logistical and planning work is underway to support the Company's operational readiness at the year-end. In addition, Europolitan has consulted extensively with all key suppliers to enhance their state of readiness with regard to Europolitan's needs as well as to anticipate and plan for contingencies.

### **Annual General Meeting**

The Annual General Meeting will be held at 6:00 p.m. on Wednesday, April 28, 1999 at Salén Konferens & Matsalar, Norrlandsgatan 15 in Stockholm.

### **Dividend**

The Board of Directors and the President will propose to the Annual General Meeting a dividend of SEK 9.00 per share based on the number of shares before the split referenced below. In setting the dividend proposal the Board has given consideration to Europolitan's continued strong financial position, reflected in the full year results, and the ongoing capital investment needs to support future growth prospects.

### **Share Split**

The Board of Directors have decided to propose to the Annual General Meeting to change the Articles of Association so that the par value of the shares is changed from SEK 2.50 to SEK 0.25 resulting in a split of each existing common share of Europolitan Holdings AB into ten new common shares.



### **Annual Report**

The Company's 1998 Annual Report will be distributed to the shareholders and will be available at the head office of Europolitan Holdings AB, Biblioteksgatan 11, Stockholm, as of April 14, 1999.

### **Quarterly Report**

Europolitan's First Quarter Report will be published on April 20, 1998.

### **Swedish Annual Accounts Act**

The financial information herein is presented according to the requirements of the Swedish Annual Accounts Act (1995:1554) and has not been audited.

Stockholm, January 28, 1999

The Board of Directors

Europolitan Holdings AB

For further information, please contact:

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Europolitan Holdings AB's financial reports and additional information regarding Europolitan can also be obtained on the Internet at <http://www.europolitan.se>.

## COMPARISON OF KEY FIGURES

### 12 MONTHS - Full Year

|  | 12 Months Ended Dec 31, |         | Change  | Percent |
|--|-------------------------|---------|---------|---------|
|  | 1998                    | 1997    |         |         |
| Customers (End of Period)  | 624 000                 | 424 000 | 200 000 | 47%     |
| Net Customer Additions   | 200 000                 | 143 000 | 57 000  | 40%     |
| Average Monthly Revenue per Customer * (SEK)                                     | 507                     | 531     | -24     | -5%     |
| Average Monthly Revenue per Subscriber * (SEK)<br>(excluding prepaid EASY cards) | 548                     | 531     | 17      | 3%      |
| Net sales plus other income (SEK mil)  | 3 281                   | 2 222   | 1 059   | 48%     |
| Operating Cash Flow ** (SEK mil)   | 1 385                   | 676     | 709     | 105%    |
| Operating Cash Flow Margin (%)   | 42%                     | 30%     | 12%     | 40%     |
| Pre-tax Income (SEK mil)   | 983                     | 375     | 608     | 162%    |
| Capital Expenditures (SEK mil)   | 642                     | 555     | 87      | 16%     |
| Free Cash Flow *** (SEK mil)   | 637                     | 79      | 558     | 706%    |

### 3 MONTHS - Fourth Quarter

|  | 3 Months Ended Dec 31, |         | Change  | Percent |
|--|------------------------|---------|---------|---------|
|  | 1998                   | 1997    |         |         |
| Customers (End of Period)  | 624 000                | 424 000 | 200 000 | 47%     |
| Net Customer Additions   | 50 000                 | 70 000  | -20 000 | -29%    |
| Average Monthly Revenue per Customer * (SEK)                                     | 493                    | 530     | -37     | -7%     |
| Average Monthly Revenue per Subscriber * (SEK)<br>(excluding prepaid EASY cards) | 559                    | 530     | 29      | 5%      |
| Net sales plus other income (SEK mil)  | 894                    | 648     | 246     | 38%     |
| Operating Cash Flow ** (SEK mil)   | 346                    | 148     | 198     | 134%    |
| Operating Cash Flow Margin (%)   | 39%                    | 23%     | 16%     | 69%     |
| Pre-Tax Income (SEK mil)   | 244                    | 71      | 173     | 244%    |
| Capital Expenditures (SEK mil)   | 143                    | 222     | -79     | -36%    |
| Free Cash Flow *** (SEK mil)   | 219                    | -65     | 284     | -       |

\* Europolitan AB Revenue (net sales plus other income)

\*\* Cash Supplied from Operations, excluding financial items

\*\*\* Cash Flow after Investing Activities

## CONSOLIDATED INCOME STATEMENT

(Unaudited in SEK million)

|  | Three Months Ended<br>December 31, |                  | 12 Months Ended<br>December 31, |                   |
|--|------------------------------------|------------------|---------------------------------|-------------------|
|  | <u>1998</u>                        | <u>1997</u>      | <u>1998</u>                     | <u>1997</u>       |
| Net sales plus other income  | 894                                | 648              | 3 281                           | 2 222             |
| Capitalized expenses for own use   | <u>8</u>                           | <u>6</u>         | <u>30</u>                       | <u>21</u>         |
| <b>Total Operating Revenue</b>   | <b>902</b>                         | <b>654</b>       | <b>3 311</b>                    | <b>2 243</b>      |
| Operating Expenses   | <u>- 648</u>                       | <u>- 576</u>     | <u>-2 271</u>                   | <u>-1 836</u>     |
| <b>Operating Income before Financial Items</b>   | <b>254</b>                         | <b>78</b>        | <b>1 040</b>                    | <b>407</b>        |
| Financial items, Net   | <u>- 10</u>                        | <u>- 7</u>       | <u>- 57</u>                     | <u>- 32</u>       |
| <b>Income after Financial Items</b>  | <b>244</b>                         | <b>71</b>        | <b>983</b>                      | <b>375</b>        |
| Tax *  | <u>- 73</u>                        | <u>0</u>         | <u>- 228</u>                    | <u>0</u>          |
| <b>Net Income</b>  | <b><u>171</u></b>                  | <b><u>71</u></b> | <b><u>755</u></b>               | <b><u>375</u></b> |
| Net Income per Share (SEK)<br>(fully diluted, adjusted for preference share dividends) | 4.17                               | 1.50             | 18.36                           | 8.03              |
| Share Price (SEK) - end of period  | 795                                | 303              | 795                             | 303               |

\* Tax calculated by applying corporate tax rate of 28% to pre-tax income less estimated tax loss carry forward.

## CONSOLIDATED BALANCE SHEET

(Unaudited in SEK million)

|  | <b>December 31,</b> |                     |
|--|---------------------|---------------------|
|  | <b><u>1998</u></b>  | <b><u>1997</u></b>  |
| <b>ASSETS</b>  |                     |                     |
| Fixed Assets   | 2 191               | 1 866               |
| Construction in Progress                                       | 108                 | 132                 |
| <b>Total Fixed Assets</b>                                      | <b>2 299</b>        | <b>1 998</b>        |
| Inventory  | 52                  | 32                  |
| Accounts Receivable  | 201                 | 152                 |
| Other Current Assets   | 238                 | 162                 |
| Cash and Bank Deposits   | 25                  | 22                  |
| <b>Total Current Assets</b>                                    | <b>516</b>          | <b>368</b>          |
| <b>TOTAL ASSETS</b>  | <b><u>2 815</u></b> | <b><u>2 366</u></b> |
| <b>SHAREHOLDERS' EQUITY, PROVISIONS, AND LIABILITIES</b>       |                     |                     |
| <b>Total Shareholders' Equity</b>                              | <b>1 247</b>        | <b>1 211</b>        |
| <b>Provisions</b>  |                     |                     |
| Pension Fund   | 7                   | 3                   |
| Deferred Tax   | 228                 | 0                   |
| <b>Total Provisions</b>  | <b>235</b>          | <b>3</b>            |
| Long Term Liabilities to Financial Institutions                | 848                 | 760                 |
| Short Term Liabilities to Financial Institutions               | 28                  | 30                  |
| <b>Total Liabilities to Financial Institutions</b>             | <b>876</b>          | <b>790</b>          |
| Accounts Payable   | 131                 | 170                 |
| Other Liabilities  | 326                 | 192                 |
| <b>Total Current Liabilities</b>                               | <b>457</b>          | <b>362</b>          |
| <b>TOTAL SHAREHOLDERS' EQUITY, PROVISIONS, AND LIABILITIES</b> | <b><u>2 815</u></b> | <b><u>2 366</u></b> |



## CONSOLIDATED STATEMENT OF CASH FLOWS

(Unaudited in SEK million)

|   | <b>3 Months Ended<br/>December 31,</b> |                       | <b>12 Months Ended<br/>December 31,</b> |                       |
|---|--|-----------------------|---|-----------------------|
|   | <b><u>1998</u></b>                     | <b><u>1997</u></b>    | <b><u>1998</u></b>                      | <b><u>1997</u></b>    |
| <b>Cash Supplied from Operations</b>            |  |                       |   |                       |
| Net income                                      | 171                                    | 71                    | 755                                     | 375                   |
| Deferred tax                                    | 73                                     | 0                     | 228                                     | 0                     |
| Depreciation and amortization                   | 91                                     | 71                    | 332                                     | 260                   |
| Loss on disposal of fixed assets                | 0                                      | - 1                   | 9                                       | 6                     |
| Allocation to pension fund reserve              | <u>1</u>                               | <u>0</u>              | <u>4</u>                                | <u>3</u>              |
| <b>Total Cash Supplied from Operations</b>      | <b>336</b>                             | <b>141</b>            | <b>1 328</b>                            | <b>644</b>            |
| <br>Change in Working Capital                   | <br>26                                 | <br>16                | <br>- 49                                | <br>- 10              |
| <br><b>Cash Flow from Operating Activities</b>  | <br><b>362</b>                         | <br><b>157</b>        | <br><b>1 279</b>                        | <br><b>634</b>        |
| <br>Capital Expenditures                        | <br>- 143                              | <br>- 222             | <br>- 642                               | <br>- 555             |
| <br><b>Cash Flow after Investing Activities</b> | <br><b>219</b>                         | <br><b>- 65</b>       | <br><b>637</b>                          | <br><b>79</b>         |
| <br>Issuance of share options                   | <br>0                                  | <br>3                 | <br>0                                   | <br>3                 |
| Redemption of preference shares                 | 0                                      | 0                     | - 536                                   | - 300                 |
| Change in liabilities to financial institutions | - 228                                  | 60                    | 86                                      | 217                   |
| Cash dividend                                   | <u>0</u>                               | <u>0</u>              | <u>- 184</u>                            | <u>0</u>              |
| <b>Cash Flow from Financing Activities</b>      | <b>- 228</b>                           | <b>63</b>             | <b>- 634</b>                            | <b>- 80</b>           |
| <br><b>Change in Cash</b>                       | <br><b><u>- 9</u></b>                  | <br><b><u>- 2</u></b> | <br><b><u>3</u></b>                     | <br><b><u>- 1</u></b> |