

# Business Review

## Trading

HEX offers Finnish and foreign members efficient, technologically advanced stock exchange services for Finnish stocks, derivatives, bonds and other share instruments - such as covered warrants.

In addition to these services, Trading business unit provide investors, vendors of market information and other interested parties with vital market information - such as index, share price and turnover information.

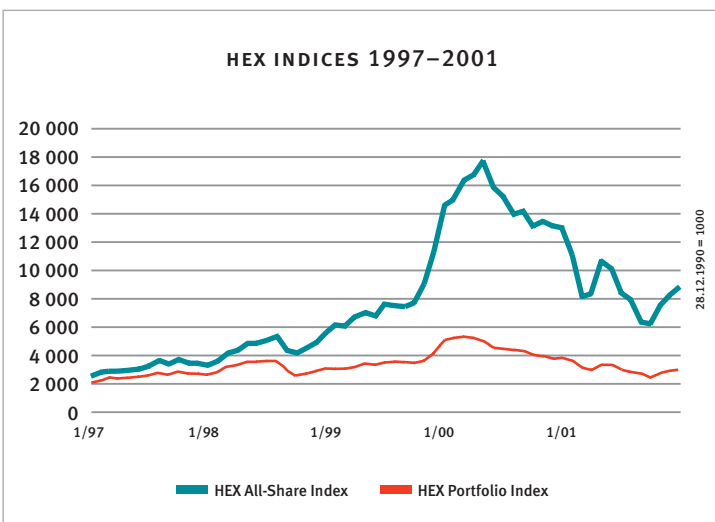
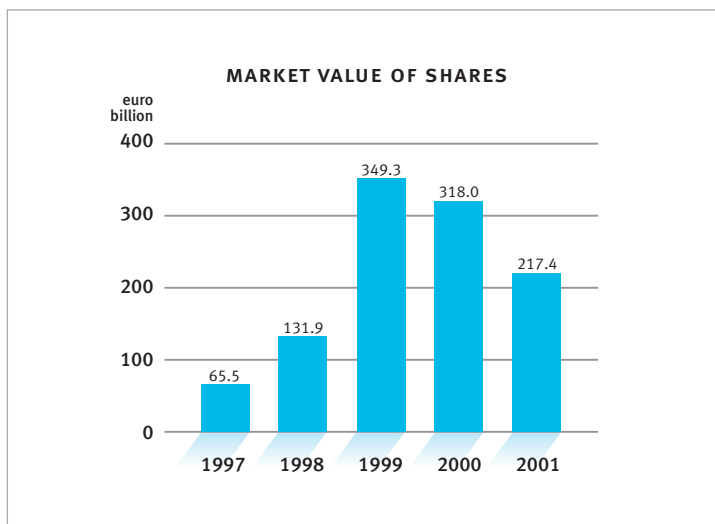
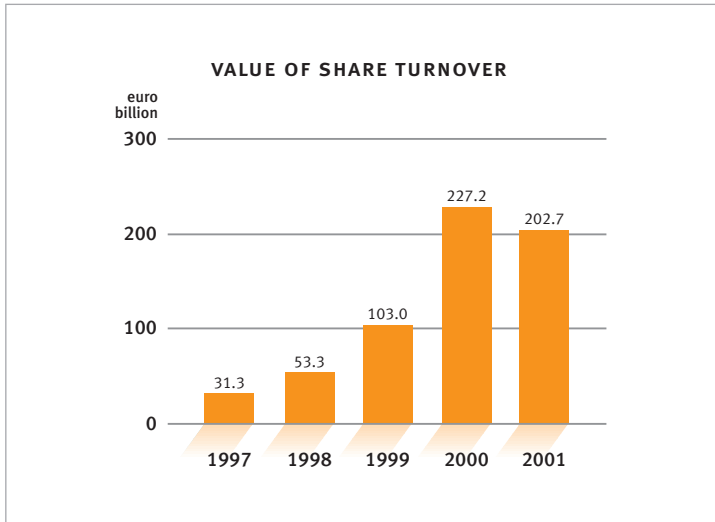
In derivative operations, HEX has entered into cooperation with the world's largest derivatives market, Swiss-German Eurex. The most liquid derivatives are traded in the trading system of Eurex, while HEX is in charge of marketing Eurex products and membership in the Nordic and Baltic countries.

### Slower share trading

Share trading in 2001 fell slightly short of the previous year's results. The value of share trading for the whole year totalled 203 billion euro, while the corresponding figure in 2000 was 227 billion euro. The year-on-year decrease was thus 11 per cent. Measured by the number of shares, however, trading increased by 79.6 per cent from the previous year, ending at 11 billion shares. The year-end market value of the shares listed on Helsinki Exchanges amounted to 217 billion euro (318 billion euro in 2000).

The busiest trading month was January, with 25.1 billion euro, whereas the slowest months were July and December, each of which amounted to 11.9 billion euro worth of trading. The average daily turnover was 814 million euro. Trading focused on the shares of the Main list with an annual turnover of 202 billion euro. The terrorist attacks of 11 September had no significant effect on trading.

By far the most traded shares were those of Nokia Corporation, which reached a 77.1 per cent share of the combined euro-denominated turnover of all lists. The second most traded company was Sonera Corporation, with a share of 4.4 per cent.



On the last trading day of the year, the HEX All-Share Index closed at 8,805.0 (13,033.7 in 2000), translating to a 32.4 per cent year-on-year decrease. Measured by the balanced HEX Portfolio Index, share prices dropped by 22.3 per cent. Share prices reached their peak on 5 January when the All-Share Index closed at 12,871.9 points, and were at their lowest on 11 September when they dropped to 5,583.6 points.

Cooperation with Eurex continued successfully in 2001, with Nokia becoming the second most traded option on Eurex. Finnish equity and index derivatives were involved in a total of 18,914,923 contracts in Eurex and HEX, while the corresponding figure in 2000 was 6,391,376.

The company's new products, covered warrants, were favourably received. The euro-denominated turnover of covered warrants was 119 million euro, while the number of warrants traded amounted to 516 million. Covered warrant trading was launched in December 2000 and a total of 112 covered warrants were issued in 2001.

### Increase in the number of members

Membership of Helsinki Exchanges drew interest from several European brokers in 2001 and eight new members launched operations during the year. The introduction of new members to Helsinki Exchanges supported HEX's goal to concentrate the liquidity of Finnish blue chip corporations in Finland. The fact that brokers are interested in the Helsinki market also proves that HEX is competitive in terms of trading costs.

At the year-end, HEX had 38 members. They operated from Helsinki, Stockholm, London and Paris.

### Growing demand for market information

The demand for market information also increased, with the number of new vendors reaching a total of 32. Strong consolidation was also experienced in the field, affecting the vendors of market information, the total number of whom was 100 at year-

end (85 in 2000). In addition, 64 vendors used the webhosting service introduced in 2001. Thirty-one vendors distribute real-time market information to their customers.

### Evening trading introduced

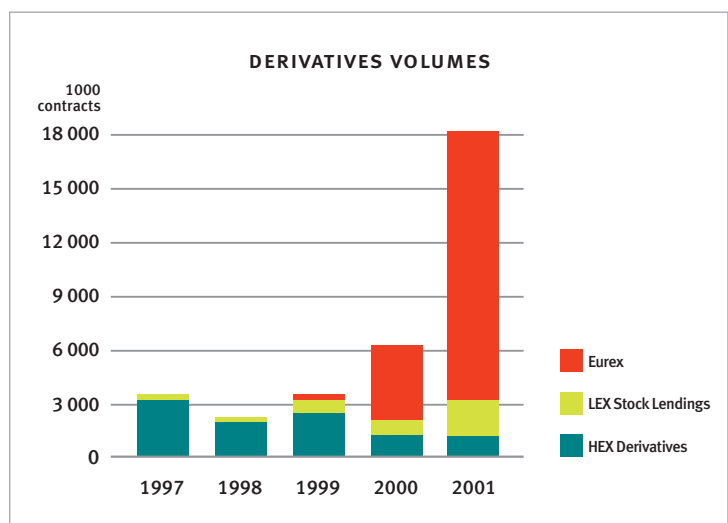
In April, HEX launched evening trading. Evening trading starts after a short break following continuous trading and goes on until 9 pm. Continuous trading still ends at 6 pm, at which time the closing prices are determined for the following trading day.

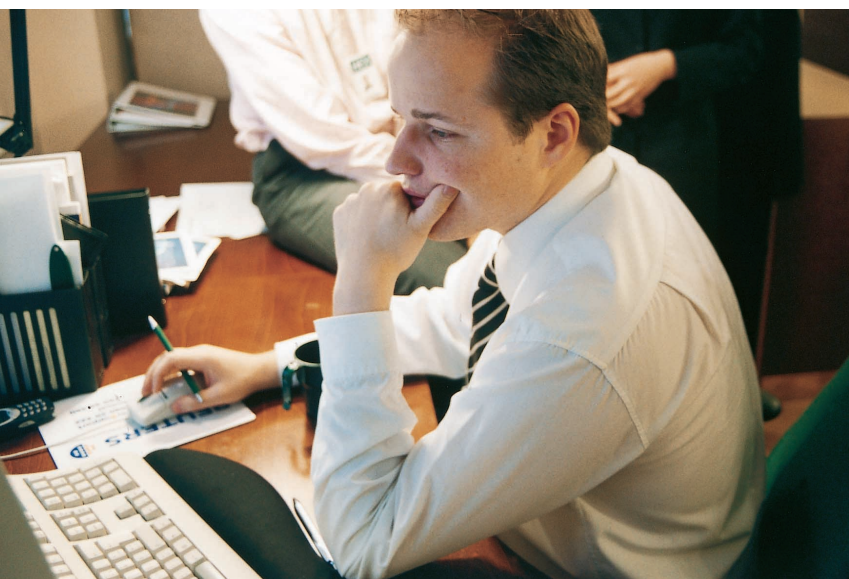
Evening trading was launched in response to changes in demand. The increasing popularity of individual and online investing requires a new kind of flexibility. Evening trading is also one of the general European development trends. The average share of the euro-denominated evening trading was roughly six per cent. Measured in the number of shares, the share of evening trading amounted to approximately eight per cent.

HEX actively monitored evening trading and surveyed the experiences of customers. One of the findings was that two-thirds of the turnover of evening trading took place during the first hour. Based on the feedback received, a decision was made in December to cut back evening trading by one hour. The change will take effect on 2 April 2002.

### Changes to indices

The name of the FOX index calculated by HEX changed to HEX25 on 1 September. In this connection, the HEX20 Index was discontinued as it overlapped with HEX25. The renaming aimed at promoting the index internationally as the Finnish Blue Chip index. The HEX25 Index is based on the 25 most traded shares in the previous calendar half-year and is used, among other things, as a comparative index in portfolio management. It is also used as the underlying asset of options and futures in derivatives trading. The HEX25 Index has a 10 per cent weight limit.





In July, HEX introduced a new HEXTech Index based on technology shares. The calculation of the index started from 1,000 points and it includes the ten most traded technology shares on Helsinki Exchanges. The shares are reviewed every six months. The maximum weight of a single company is limited to 20 per cent.

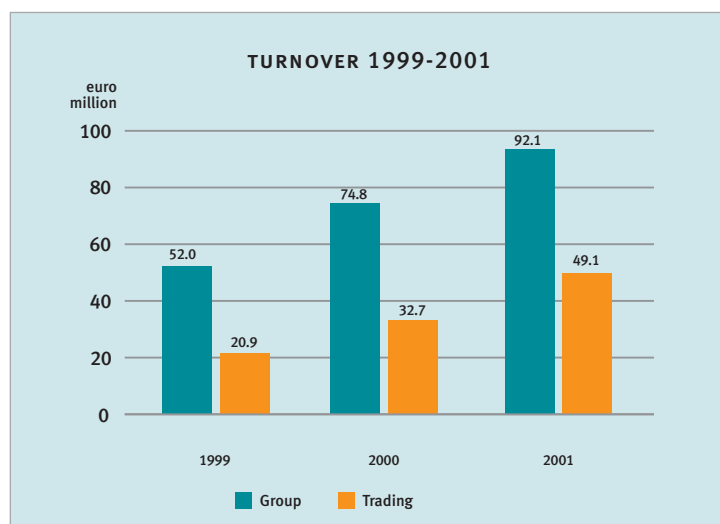
Trading in HEXTech futures and options started at the beginning of September. The underlying used for HEXTech derivative products is a calculated HEXTech share basket that includes the number of ten-euro index units determined by the HEXTech Index.

### HEX and Euronext aim to facilitate cross-memberships

HEX and Euronext signed an agreement in late September to facilitate cross-memberships, as well as technical access to each other's cash markets. The agreement does not include ownership arrangements.

Cross-membership offers the members of both marketplaces new opportunities for developing their activities. Thanks to the technical solutions included in the cooperation agreement, members located at their own offices can trade shares on both HEX and Euronext. Members of HEX can access Euronext markets using the remote member link of the NSC system used by Euronext.

To enable cost-efficient access to the Finnish stock markets, HEX will build an Access Point at Euronext. The connections are expected to be in use by the end of 2002.



## Trading day at Helsinki Exchanges

9.00 – 9.40 am	Opening Session Bids and Offers		
9.40 – 10.00 am	Matching Opening Price		
10.00 am – 18.00 pm	Continuous Trading		
	Registration of Contract Deals	Automated Matching	
		Round Lots	Odd Lots
18.00 pm	Closing Prices		
18.03 – 18.30 pm	After Market Trading I		
18.03 – 20.00 pm	Evening Trading		
8.30 – 9.00 am following day	After Market Trading II		

## Trading day at Tallinn Stock Exchange

10.00 – 14.00 pm	Continuous Trading		
14.00 – 14.30 pm	After Market Trading		



### Members

• Helsinki (1) • London (2) • Paris (3) • Stockholm (4) • Amsterdam (5)

### Baltic Operations

• Tallinn (6)

### Eurex

• Frankfurt (7)

### Links

• Amsterdam (5) • Frankfurt (7) • Paris (3) • Zürich (8)

### Euronext

• Amsterdam (5) • Brussels (9) • Paris (3)

### Access Points

• Amsterdam (5) • London (2) • Tallinn (6) • Stockholm (4)

### Vendors of market information

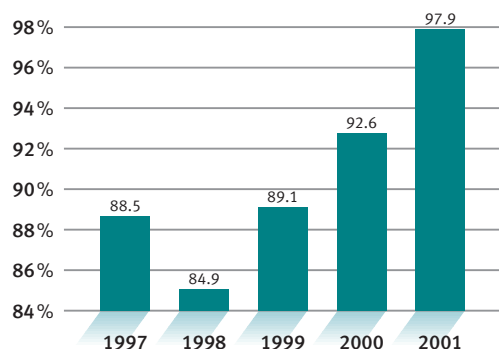
• Amsterdam (5) • Brussels (9) • Chicago (10) • Copenhagen (11) • Dallas (12) • Frankfurt (7)  
 • Geneve (13) • Göteborg (14) • Helsinki (1) • London (2) • Los Angeles (15) • Luxemburg (16)  
 • Marienhamn (17) • Madrid (18) • Milan (19) • Montreal (20) • Munich (21) • New York (22)  
 • Oslo (23) • Paris (3) • San Diego (24) • Stockholm (4) • Stuttgart (25) • Zurich (8)



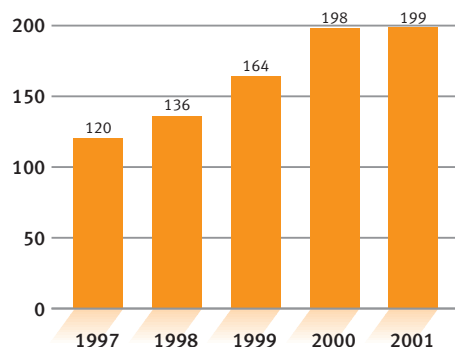
# International Marketplace



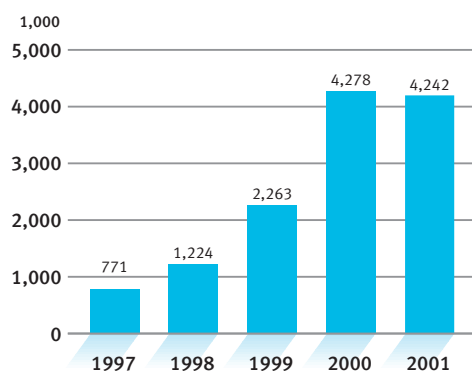
HEX TRADES SETTLED IN T+3 (%)



COMPANIES IN BOOK-ENTRY SYSTEM



CLEARING TRANSACTIONS IN THE EQUITY SYSTEM



## Settlement and Depository

The Settlement and Depository business unit provides account operators, clearing parties and other central securities depositories settlement and custodial services related to the shares and debt instruments in the book-entry system. Services utilising the standardized STP (Straight Through Processing) interface are independently available to all market parties.

### Settlement

The total value of cleared debt instruments amounted to some 397 billion euro, while the corresponding figure in 2000 was 490 billion euro.

In 2001, the equity clearing system processed a total of 4.2 million transactions (2000: 4.3 million) with a sum total of 465 billion euro (550 billion euro).

A total of 97.85 per cent of stock exchange trades were cleared within the settlement period (T+3) defined in marketplace rules (92.6 per cent in 2000). The positive development of the clearing rate was stimulated by the creation of a centralized book-entry register in 2000, as well as more efficient stock-lending activities. In addition, HEX, as well as other market participants, has actively worked to make the clearing process more efficient.

In March, settlement services adopted registration applications in machine-language form as part of the Group's aim to move to an STP-based, real-time process including the entire value chain.

Construction of the new real-time clearing system, HEXClear, also made progress. The system is scheduled for implementation in equity clearing during 2002 and will later be expanded to include all equities and debt instruments. The system design aimed to take into consideration both the multi-tier ownership structure of the book-entry system and the CCP clearing model, which has become the prevailing one in Europe.

In the CCP (Central Counterparty) model, the clearing party acts as a centralised counterparty and assumes responsibility, against collateral, for clearing trades on time. In the past year, HEX evaluated the



influence of the centralised counterparty system on the Finnish markets and took part in a joint Nordic preliminary survey.

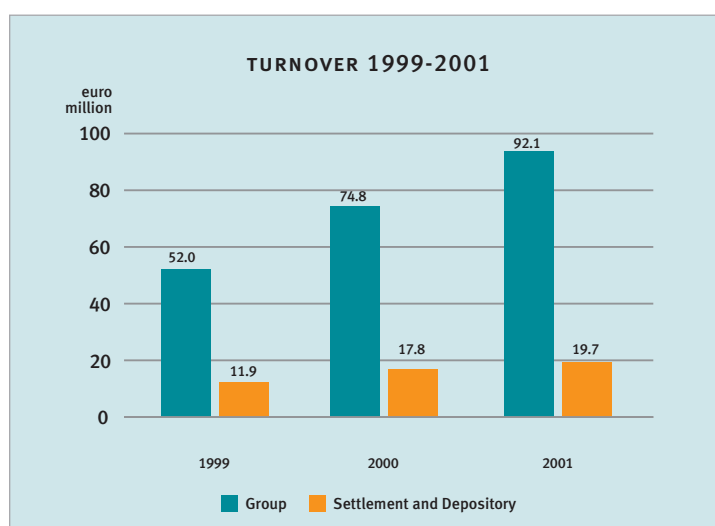
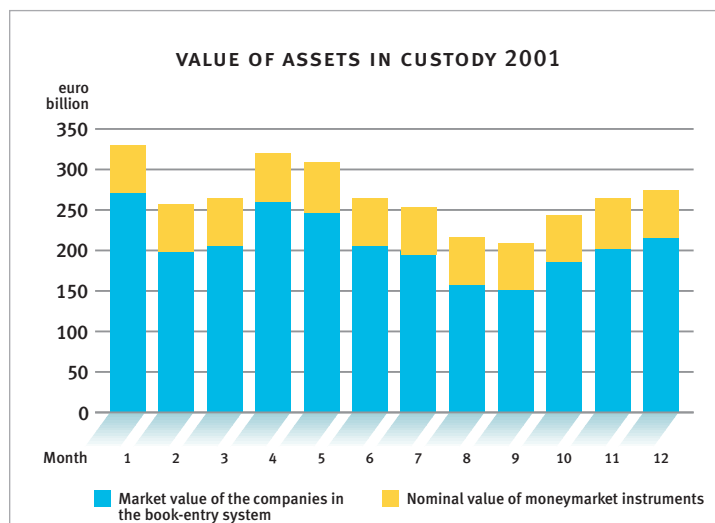
HEX continues to actively participate in the international standardisation work carried out by the European Central Securities Depository Association (ECSDA). International standards will promote the move towards real-time processes on the securities markets. Activities in 2001 focused particularly on the corporate action-related standards of central securities depositories.

A decision was made to build a link for cross-border transactions of securities to the Swedish Central Securities Depository VPC AB. The link is expected to be finished in 2002. The possibility of building a link to the Estonian Central Securities Depository, EVK, has also been looked into.

## Depository

The book-entry system included 199 companies at year-end. The number of book-entry securities holders increased by 40,000, with the system having 891,000 holders and 1.2 million book-entry accounts by the end of the year (851,000 holders and 1.1 million accounts in 2000). The market value of the companies in the book-entry system at the end of 2001 amounted to 217 billion euro, 71 per cent, or 154 billion euro, of which was in foreign ownership (2000: total value 318 billion euro, foreign ownership 234 billion euro). During the year under review, the companies paid 5.6 billion euro in dividend (5.6 billion euro in 2000).

Development of the Finnish book-entry system continued. Last year's activities focused on updating the interfaces of the book-entry registers centralised in the previous year, the goal being to create real-time processes throughout the value chain. An open data communication interface was implemented between HEX and other parties, which also makes it easier for parties to enter into the book-entry system.



Machine-readable registration applications were adopted in March, while May saw the introduction of a message interface between the centralised register and the account operators. These reforms enable the transfer of up-to-date trading data and other book-entry account transactions to book-entry accounts, as well as the transfer of book-entry accounts from one account operator to another.

## Issuer Services

HEX offers companies the key to successful business operations in capital markets by introducing companies in need of capital and recognition to investors and a vast distribution network of market information.

Issuer Services is in charge of the entry of shares and other financial instruments into the book-entry system, their stock exchange listing and subsequent equity arrangements. The unit also deals with other matters of listed companies and companies included in the book-entry system, such as tasks related to shareholders' meetings, shareholders' registers or insider issues. In addition, Issuer Services offers consultancy and information services to listed companies and companies with plans for listing.

### Weak listing

The instability of markets caused interest in initial public offerings to wane. However, a full ten companies were listed in 2001 (2000: 23), seven of which entered the Main List. In addition, one company moved from the NM List to the Main List. The listings reflected the trend typical of the market situation - most new listed companies came through divisions or mergers. 16 new companies joined the book-entry system during the year.

A total of 175 share series from 155 companies were traded on Helsinki Exchanges at the turn of the year, of which 109 on the Main List (108), 30 on the I List (32), 16 on the NM List (17) and 1 on the Pre List (2). By the end of the year, the book-entry system held shares of 199 companies.

The corporate actions carried out in 2001 focused on the financing of corporate mergers and acquisitions. Some of the biggest included the share issues of Sonera Corporation and M-real Corporation, as well as the rights issue related to UPM-Kymmene's corporate acquisition. The market value of the 223 corporate actions carried out in 2001 totalled 410 million euro (198 actions with a value of 653 million euro in 2000).

The shareholders' meeting services of HEX were in great demand during the year. The interest of foreign shareholders in shareholders' meetings

## Companies listed in 2001

<b>MAIN LIST</b>	
Avesta Polarit Oyj Abp	30.1.2001
Componenta Plc	19.3.2001
CapMan Plc	2.4.2001
Kyro Corporation	2.4.2001
Tecnomen Corporation	2.4.2001
Lassila & Tikanoja Plc	1.10.2001
J.W.Suominen Group Plc	1.10.2001

### I LIST

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### NM LIST

Done Solutions Corporation	1.10.2001
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### PRE LIST

Mgine Holding Oyj	1.10.2001
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### RE-LISTINGS

SysOpen Plc (from NM List to Main List)	3.9.2001
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Total new companies 2001: 9

Total new listings 2001: 10

increased considerably after the Finnish Companies' Act was modified to facilitate nominee registered shareholders' participation in shareholders' meetings. HEX developed shareholder register services related to foreign shareholders and enabled the viewing of temporary registers of foreign shareholders at HEXGate.

### Covered warrants listed actively

Trading in covered warrants, which was launched in December 2000, increased and the range of listed covered warrants has quickly increased in versatility. At year-end, trading targeted 112 covered warrants, with the number of issuers amounting to five. The underlying of covered warrants includes both domestic and foreign shares and indices. The available covered warrants represent European call and put warrants.

The product range was further expanded by developing index shares (ETF, Exchange Traded Fund), which refer to the shares of index funds traded on the stock exchange. Trading in index shares was launched in February 2002. The first traded index share was based on the HEX25 Index.

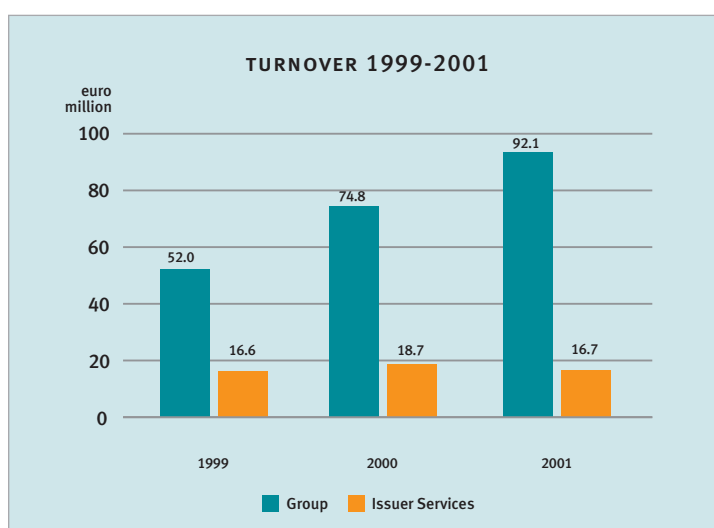
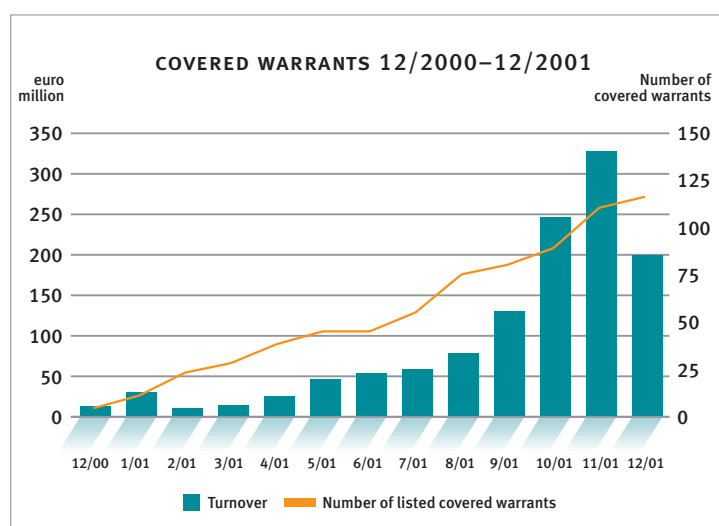


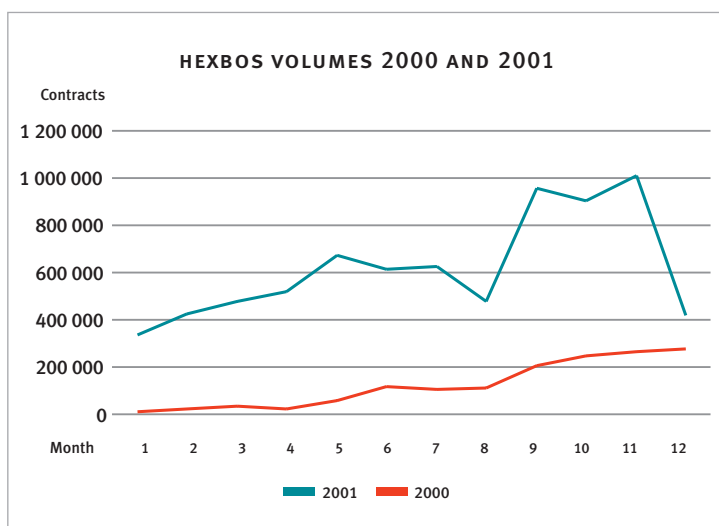
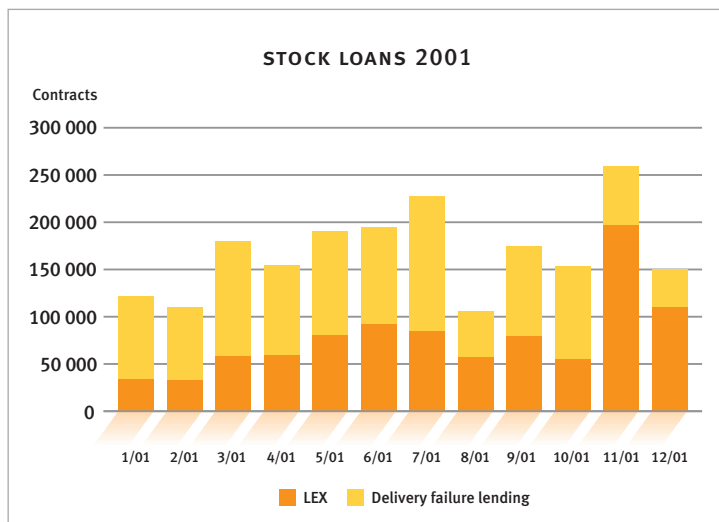
### Added versatility in option services

The option rights for the management and personnel of listed companies were combined into a separate option list for the purpose of publishing market information. Trading involved 31 new option rights and the number of listed option series at year-end totalled 38. Option rights are traded in the same way as shares. Public listing improves the trading opportunities of option holders and other investors, improves the price formation of options and facilitates the monitoring of option values. A new option monitoring service was developed for companies issuing option rights. The service produces monitoring information about the transactions of option right holders. Companies can use this information, among other things, in payroll management.

### Recommendations and guidelines for listed companies

HEX presented listed companies with a recommendation concerning the naming practices of releases, which took effect in the beginning of March. The guidelines concerning the acquisition of the listed companies' own shares were renewed in April. October marked the third anniversary of the list reform and Issuer Services launched a project focusing on the functionality of the list structure and the role of lead managers.





## Securities Services

The Securities Services business unit provides parties operating in the securities and derivatives markets with such services of the value chain of securities processes which do not belong to the parties' core business and the efficiency of which improves with economies of scale.

The unit designs services as an impartial service provider. It aims to increase the number of services and improve their quality, as well as make market operations more efficient. The value-added services offered by the Securities Services unit is one of the Group's strategic areas and was heavily invested in 2001.

In late September, HEX acquired 95 per cent of the share capital of Sampo Custody Services Ltd from Sampo Bank Plc. As a result, the company's name was changed to HEX Back Office and Custody Services Ltd (HBO). The company continues operations as a subsidiary of the HEX Group and as part of the Securities Services business unit. The deal provided the Securities Services business unit with the required permissions for settlement and depository operations, an existing customer base, and a skilled staff.

HBO takes care of all activities subsequent to the securities trades of customers. The company's customer base consists mainly of institutional investors, investment funds and other professional investors. One of the most important new offerings will be the outsourcing service offered to members, who can outsource their back office operations to HBO if they so wish. HBO's first outsourcing customer was Sampo. In addition to providing a cost-efficient process, the service aims to make the clearing process more fluent and minimise the risks related to operations.

Book-entry Services maintained their strong market position. The market share of Book-entry

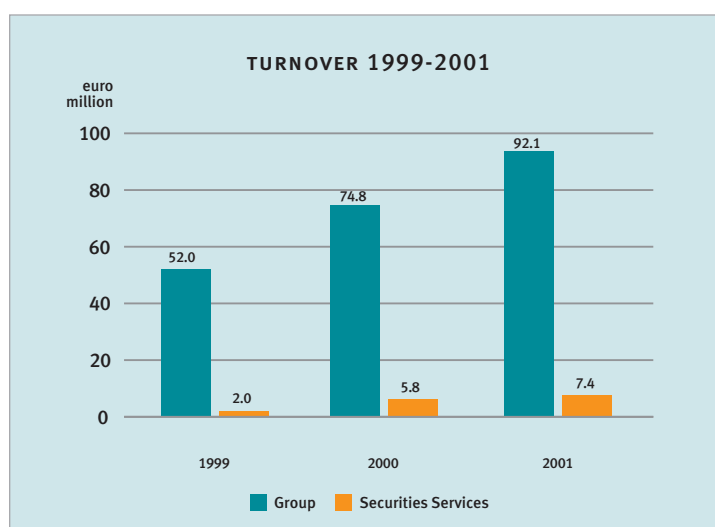




Services accounted for nearly ten per cent of the total depository value in December 2001. The HEX Book-entry Services took care of some 40 per cent of clearing transactions.

The slow markets also affected the number of derivatives contracts cleared through HEXBos, particularly in the summer. In the autumn, however, markets began to recover, until the number of contracts again fell heavily in December.

A total of 2,004,210 LEX stock lending agreements (2000: 868,066) were made in the course of the year. The busiest month in this respect was November, with its 258,193 agreements. The premium level dropped in 2001, implying better prices for lenders and a consequent increase in lending volumes.





## **eHEX**

The business idea of eHEX is to offer a wide range of cost-efficient outsourcing services to B-to-B partners, using the best possible technical solutions as well as versatile electronic distribution channels.

The products of eHEX include HEX Global Market Information service, the IR service for listed companies, portfolio analyses and the Broker Platform product. The monthly fund report and HEX-Star rating for funds help investors select the funds best suited to them. eHEX also developed a Brokerage for hire service concept, the starting point of which was to offer market parties a cost-efficient way of producing investment services.

### **Investor relations service for listed companies**

A new investor relations service for listed companies was launched in early April. The service is produced by eHEX and offers listed companies the opportunity to outsource the presentation of uniform and comparable investor information on the Internet. The service enables listed companies to more easily implement their investor relations strategies and considerably improve the flow of information to investors.

Easy access to comparable information gives investors equal chances to evaluate the future development of listed companies and the bases for price formation, as well as make justified investment decisions. The production of reliable and beneficial information for the investor is one of the critical success factors of HEX.

The information offered by the investor relations services includes the ownership information of insiders and the main shareholders, as well as net changes to this information. The content produced by the service is based, among other things, on the trading information produced by the HETI trading system, the ownership information in the shareholders' register maintained by the Central Securities Depository, HEX's experience in investor relations and its technological skills concerning net-



work solutions. After its launch, the IR service was adopted by three listed companies.

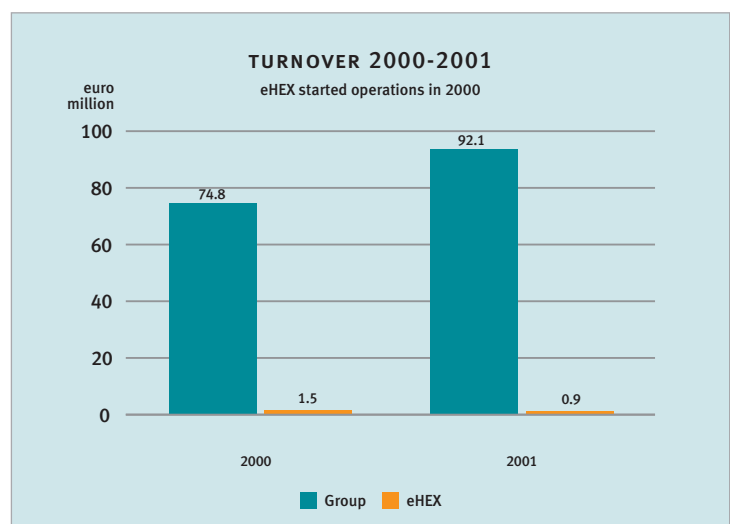
### Increased number of funds in the mutual fund report

During the year under review, eHEX also developed fund service operations. The number of funds included in the mutual fund report increased considerably from the 500 at the end of the first quarter to the year-end figure of more than 700. The increase in the number of foreign funds was especially notable. A new contract was signed with the Finnish Association of Mutual Funds concerning the production and publication of the Mutual Fund report. The issues in the new contract will be implemented stepwise in 2002.

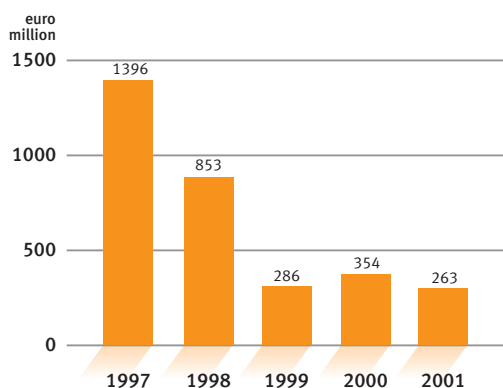
The HEXport product introduced in 2000 got its final form in 2001 and active sales of the product were initiated. The HEXport portfolio analysis is based on the customer providing HEX with detailed information on the portfolio content and transactions during the review period. Based on this information, HEX produces a detailed and informative analysis of the return and risks of the portfolio and analyses the reasons for the portfolio's success. The customers of the HEXport portfolio analysis include institutional investors who want to evaluate the success of their asset management. The HEXport product family also includes comparison reports that compare the risks and returns of various portfolios with similar profiles.

### eHEX Broker Platform

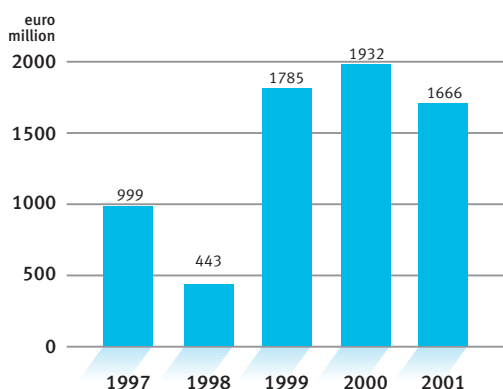
A new, revised version of the eHEX Broker Platform application was introduced towards the end of the year. The Broker Platform gives members the opportunity to outsource the development and maintenance of their online trading systems. eHEX has been offering its online trading system to members since November 2000.



VALUE OF SHARE TURNOVER AT TALLINN STOCK EXCHANGE



MARKET VALUE OF SHARES AT TALLINN STOCK EXCHANGE



TALSE INDEX



## Baltic Operations

The Baltic operations offer efficient trading, registration and information services to customers in the Baltic and other countries, with the aim of creating operational and seamlessly integrated Baltic equity markets using HEX's trading platform.

Share trading on the Tallinn Stock Exchange amounted to 262.7 million euro in 2001, falling short of trading in 2000, which totalled 353.9 million euro. The TALSE Index, which describes the development of the stock exchange, rose by 4.7 per cent in 2001, ending at 144.7 points.

A full 551 companies were registered in the Estonian Central Securities Depository, EVK, during the year under review and the number of registered companies reached 772. According to the Estonian companies act, all joint-stock companies must register in the Central Securities Depository by the end of 2002.

The international market situation also influenced the initial public offering markets on the Tallinn Stock Exchange: no new companies were listed. In August, the TSE listing committee decided to remove the shares of the real estate company Pro Kapital Grupp as of 29 September due to breaches of regulations.

Cooperation projects between the TSE Group and HEX were launched in May with functional and technical definition projects concerning trading, settlement and depository. A market model between



TSE and HEX, and the technical operating environment and plans for implementation, were completed during the period under review.

Trading in securities listed on the Tallinn Stock Exchange was scheduled to start in the HEX system in early 2002. In accordance with the stance of the Bank of Estonia, trading will take place in euros but investors can also place transaction orders in kroons. If they so wish, investors can also view share price information in kroons.

The Estonian government approved the Pension Fund Act in September. The new pension fund system offers persons entering working life, as well as other interested persons, additional pension security through obligatory as well as optional payments. The pension fund system will give a significant thrust to private investment and will offer long-term resources for the capital markets. The Estonian Ministry of Finance selected EVK, part of the TSE Group, to be the supplier of the system's infrastructure.

The new Estonian Securities Markets Act was approved in October and entered into force at the beginning of 2002. The Act will largely harmonise the Estonian securities markets legislation with the regulations of the European Union.

