

Baltic Horizons

Although it is a relatively small and young market, the NASDAQ OMX Tallinn stock exchange offers quite interesting opportunities to investors. The economy of Estonia has undergone significant changes in the past 20 years in its transition from a Russia-oriented economy towards West European structure. More importantly, as part of the NASDAQ OMX Group and due to its close regional ties, Tallinn provides easy access to the entire Baltic region.

Could you give us some background information on the NASDAQ OMX Tallinn stock exchange?

When was it established?

The NASDAQ OMX Tallinn stock exchange is a relatively young exchange. Its first trading day was in June, 1996. The exchange was established in 1995 by local market participants, the Central bank, and the Ministry of Finance. In order to facilitate electronic trading, the electronic Central Securities Registry was already established in 1994.

In 2001, the majority of the exchange was acquired by the Helsinki Stock Exchange. The Central Bank still owns about 2%; other market participants stayed too. A few years later, the Helsinki Stock Exchange merged with the Stockholm exchange operator OM Group. Later, they formed the Group OMX, which owned the exchanges in Finland, Sweden, Denmark, Estonia, Latvia, Lithuania and Iceland.

After the merger between NASDAQ and OMX in 2008, the NASDAQ OMX Tallinn stock exchange is now part of the NASDAQ OMX Group. Currently, NASDAQ OMX owns about 62% of NASDAQ OMX Tallinn stock exchange, and the rest is owned by local market participants.

How has the Estonian economy changed in the last 15 years? What are its major sectors?

When Estonia regained its independence from the Soviet Union in 1991 (Republic of



ANDRUS ALBER is Chairman of the Management Board of NASDAQ OMX Tallinn stock exchange.

Alber started his career as an economist at the Balance of Payments Department at Eesti Pank (Bank of Estonia) in 1992. From May 2000 to August 2001 he was the Economic Adviser to the President of the Republic of Estonia. In August 2001, Alber became an Adviser to the Executive Director of the International Monetary Fund. He continued his work at the Bank of Estonia, becoming Adviser to the Governor at Eesti Pank. He has been Chairman of the Management Board of NASDAQ OMX Tallinn since February 2007.

Alber holds an MA in International Relations from the Fletcher School of Law and Diplomacy, Tufts University, USA. In 1993, he obtained a diploma in Economics from the Department of Economics, Tallinn Technical University, Estonia.

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Estonia was established in 1918 but was later occupied by the Soviet Union in 1940), the country's economy was closely connected to the Russian economy. Very quickly, however, we restructured our economy. Today, about 70% to 75% of Estonia's foreign trade is with the EU, Latvia, and Lithuania. Now Russia accounts for only about 5% of the total Estonian foreign trade.

More importantly, we liberalized our economy extremely quickly and the result was a huge inflow of foreign direct investments. During the last 15 years, we have had one of the highest levels of investment inflow per capita in Central and Eastern Europe. That capital helped to rearrange the economy very quickly. Today, the general economic structure is quite similar to that of the countries in Western Europe, where two-thirds of the economy is related to various services.

The second largest sector is industry. Agriculture accounts for only about 4% of the GDP. The financial sector also attracted foreign investments very quickly, and about 98% of the financial sector is dominated by Nordic banks, while local ownership is very limited.

What is the population of Estonia and what are the major demographic trends?

Currently, the population is 1.35 million people, so we're a rather small country. There are about 600,000 households because, just like in Western Europe, the birth rate is not that high, and the average family is between two and three people.

What type of investors participate on the exchange?

We have institutional and retail investors, as well as local and foreign investors. About half of the capital invested is Estonian, followed by capital from Finland, Sweden, and Luxembourg, because many foreign funds are registered in Luxembourg.

The local individual investors are not as active as in Nordic countries, because our experience on the stock market is not that long. We don't have generations of investing families and the respective investment culture. Nevertheless, probably about 10% of the workforce is actively investing.

About 85% of the workforce, however, participate in the exchange indirectly through pension funds. Following a pension reform, now we have a three-pillar pension system. In the second and third pillars, the retirement money is invested in funds that you can choose yourself. Of course, pension funds invest not only in the Estonian market, but in world markets as well.

Could you explain your three-pillar retirement system in more detail?

The first pillar represents the classical pay-as-you-go system, where the social tax is paid by the employer, the state collects the money in a state pension fund, and distributes it to the people already in retirement.

The second pillar is voluntary for the majority of the workforce, but is mandatory for the young people, who join the labor market. Nevertheless, the majority of the people have already joined this system. They pay 2% of their salary into the pension fund, and then the state adds 4% to their personal account. They can choose the pension fund themselves among different funds that are privately managed by banks and fund managers.

The third pillar is entirely voluntary and the state doesn't contribute anything directly. You can add any amount to your pension fund and receive the money when you retire. The contributions can be partially deducted from the taxable income. However, the third pillar is not that popular as only about 15,000 people have joined it. There are no restrictions about the geographical location

of investments; the only limits refer to the type of instruments. But there is no obligation to invest on the Estonian Stock Market.

How many companies are listed on the Estonian Stock Market and what is the total market capitalization?

Currently, there are 18 listed companies with total market cap of about 1.5 billion euro. A year ago, however, when the global investor sentiment was more positive, the market cap was about 4 billion euro.

Initially, most of the listed stocks were from the banking sector, but during the years the banks either merged or were bought out by Nordic banks. Now the main sectors are industry and services. The largest company is Estonian Telecom with market cap of 600 million euro, followed by a shipping company Tallink, and Tallinn Water, which is an infrastructure company. Another large company is the casino operator Olympic Entertainment Group.

We usually have one or two IPOs in a year and the last IPO was in June 2007, when a real estate company, Arco Vara, joined the market. In the spring of 2007 the Ekspress Group, a publishing newspaper company, was listed. The average daily trading volume is about 2.5 to 3 million euro per day and about 400 to 500 transactions a day.

Are the large utility companies privatized and publicly trading?

The largest utility is Tallinn Water Company, where a substantial part is owned by the Tallinn municipality and the water tariffs are controlled by the city. The energy company is fully owned by the state, but the government discusses the possibility to list a minority package on the exchange. The energy company needs new investments and one of the options is to get additional capital through the stock exchange. But nothing has been decided yet. The gas company is majority owned by German, Finnish, and Russian

companies like Gazprom and EON, so it is not listed on the stock exchange. In general, the Estonian government has privatized most of companies and only few infrastructure companies are still government owned. Nevertheless, we are actively explaining to the government and politicians the benefits of listing those few state companies on the stock market as well.

Can they access the market online? What's the exchange ability for electronic trading?

We have had only electronic trading from the start, but individual investors cannot trade directly on the market. They have to do it through brokers or banks, but they can use the Internet banking of their broker. In Estonia, the Internet banking is extremely widely used. Basically, everybody who has a bank account uses Internet banking, so I suppose that the majority of orders are made online.

What is the trading cost for the general public? Has it come down over the years?

The costs have been rather stable. Since people cannot trade directly on the stock market, it depends on how much the banks and trading houses charge for the transactions. Typically, a small-scale transaction of 1,000 euro would cost about 3 to 4 euro to execute.

The execution is typically settled in three days. If necessary, however, it can be done in the same day. The NASDAQ OMX Tallinn stockexchange has a fully-owned subsidiary, the Estonian Central Securities Depository, and all the clearing and settlement is done through our own subsidiary.

What market data is available to the public or the local media companies? Do you distribute it for free?

The information that is delayed 15 minutes is free of charge and available on our web site. The banks and companies that need to show our statistics to their clients,

or to quote our information, have to pay. Companies like Reuters and Bloomberg are paying for the data feed.

Importantly, as we are part of a larger group, we cooperate very closely with Latvia and Lithuania, and we jointly provide information for the same price. If customers are already buying information about Sweden, Denmark, or Finland, they can also get information about our market through the same feed.

What are the other expressions of regional cooperations and how do investors benefit from it?

We have very close cooperation with Latvia and Lithuania, because we belong to the same group, where NASDAQ OMX owns over 90% of the local stock exchange operators in those countries. We have tried to harmonize the trading and the listing rules as much as possible. Of course, we operate in three different jurisdictions and we have separate financial supervisor authorities. So, we cannot entirely harmonize our regulations, but we have achieved substantial results.

For example, a foreign or a local bank that wants to trade on the three Baltic exchanges, can become a so-called Pan-Baltic member. Filing just one paperwork, they get access to the three stock exchanges at the same time. The same refers for individual investors. Our trading, settlement, and custody services are also arranged in a way that allows having only one account in your home country with securities from all the Baltic countries. On the combined Baltic markets, we currently have about 100 listed stocks, and that provides a much broader area for investors.

All the brokers, who are members of the Pan Baltic arrangement, can see information about the three stock exchanges. The difference is that in Estonia we trade in euros, while Latvia and Lithuania use the local currencies. That will change, however, once all the three countries will join the euro

zone in 2011 or 2012. Even today, we are looking for possibilities to start trading in euro in all three.

I realize that there are a lot of similarities among the three markets, but what are the differences?

The Riga Stock Exchange in Latvia is the smallest one as only 2% to 3% of all the Baltic trading is done there. About two-thirds of the trading is done in Tallinn, and about one-third is done in Lithuania.

Another difference is the investor base. In Lithuania, for example, there are mainly retail investors, while in Estonia the exchange is dominated by institutional investors. The reason most probably is related to the fact the Estonia provides the easiest access to foreign capital. As I said, our banking sector is dominated by foreign banks, while in Lithuania there is significant local ownership. We are more open to foreign capital, and I think that's the reason for attracting more institutional investors.

What's your policy regarding the education of investors? How do you bring new people to the market?

We have an investor education program called 'InvestMentor'. Together with the market participants, we organize investment fairs for the general public, mainly for retail investors. Each year we publish investment books that we send free of charge to all the high schools and universities, as well as to bookshops for sale. Together with some newspapers, we publish inserts dedicated to the basics of investing.

Also, we have our own investment education web page. We give lectures at universities to professors and PhD students, and we discuss the developments in the global markets, the logic behind investing, etc. We also give out every year a prize for best BA and MA level thesis on Baltic securities market. So, we approach the education of investors in multiple ways. **T**

NASDAQ OMX Tallinn

Website www.nasdaqomxbaltic.com
 Address NASDAQ OMX Tallinn
 Tartu mnt. 2, 10145,
 Tallinn, Estonia
 Telephone +372 640 8800
 Inception 1996

TSE INFORMATION	
Members of the Exchange	32
Trading Sessions	10:00 - 16:00
Official Index	OMX Tallinn
Index Return - 2008	-62.98%

MARKETS	
Equity list	
Bond list	
Fund list	
Alternative market First North	

NUMBER OF LISTINGS	
Companies	18

MARKET PERFORMANCE	
Total Market Cap	EUR 1,442 million
Mkt Cap Change in 2008	-65.82%
Annual Turnover - 2008	EUR 617 million
Turnover Change in 2008	-60.00%

KEY EXECUTIVES	
Chairman of NASDAQ OMX Tallinn	Andrus Alber

Data through: 12/31/2008; Source: NASDAQ OMX Tallinn

About ExchangeTalk

Through its interview series, Ticker reaches out to stock exchanges worldwide.

Our interviews reveal the size and diversity of the available investment options as well as the depth of global capital markets.

The format of the publication is also designed to inform readers of the growth in the investing community across developed and emerging markets.

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