



Changes in calculation of Baltic stock indices from July 1, 2005

The purpose of this document is to introduce the changes in the calculation of the Baltic indices, which will take effect on July 1, 2005. The changes to the rules for the Baltic all-share indices (RIGSE, TALSE, VILSE) and the Baltic Benchmark index (BALTIX) are based on the pan Nordic index calculation rules maintained by NOREX¹. The rule changes of BALTIX will reflect the NOREX rules, but they will not be included in the actual rules. The "Rules for the construction and maintenance of the NOREX Exchanges' All-share, Sector and Benchmark Indices" are a result of the harmonization process in which all the Nordic exchanges and their members have had the possibility to participate.

1. Calculation

1.1. Dividend adjustment

In the current formula the dividend adjustment is made by adding the amount of the dividend to the price of the dividend-paying share in the numerator. In the new formula the amount of the dividend is subtracted from the share price in the denominator. In practice the change means that the adjustment in the new model takes place in the opening index basket on the dividend ex-date whereas in the current model the dividend is adjusted only after the first trade is made with the dividend-paying share. In the current model the adjustment for some illiquid shares can take place several days or even weeks after the ex-dividend date. The new model makes the dividend adjustment whether there were trades or not.

$$I_t = \frac{\sum_{i=1}^n (q_{i,t} \times p_{i,t})}{\sum_{i=1}^n [q_{i,t} \times (p_{i,t-1} - d_{i,t}) \times a_{i,t}]} \times I_{t-1}$$

I = Index value

t = time of calculation

q_i = number of shares *i*

p_i = price of share *i* (NOREX price algorithm)

n = amount of shares in the Index

d_i = dividend for share *i*

a_i = corporate action adjustment factor for share *i*

1.2. NOREX Price Algorithm

To represent the price of a share in the index formula, the NOREX Exchanges apply the following rule:

¹ www.norex.com



- If an officially registered trading price for an index stock has not been quoted on the relevant trading day, the last quoted trading price shall be used in the calculation.
- If a bid has been quoted that is higher than the last quoted trading price, the bid shall be applied in the calculation.
- If an offer has been quoted that is lower than the last quoted trading price, the offer shall be applied in the calculation.
- If either the closing bid or offer is used as the closing value, this price will be viewed as the last traded price in the calculation of the index on the following day, until a new official trade price is registered.

The purpose of the NOREX Price Algorithm is to attain a price for index calculation, which is more precise for illiquid shares than the last quoted price.

The calculation of BALTIX remains to be based on the official last quoted trading price for the security or the price at the close of the Index on the previous day.

2. Adjustments

During index calculation the Baltic stock exchanges make adjustments in order to uphold the principles of index calculation and to ensure that the indices reflect the true value of the underlying portfolio. As a result of the adjustments, the index values are comparable regardless of the period or specific point of time.

2.1. Merger / take-over

In case of merger or takeover the share in question will be excluded from the index effective on the day the acquiring company controls at least 90% of the outstanding shares in the acquired company.

The term "control" is here defined as when either, (a) the acquiring company notifies the Exchanges of their control or receiving accepts of at least 90 per cent, (b) the transaction is registered in the Exchanges trading system or (c) the shares are registered with the CSDs.

For the calculation of BALTIX - if a company's shares are at least 90 per cent owned by one owner, the shares are to be excluded from the index calculation during the next quarterly review, if the Baltic Exchanges do not decide otherwise.

2.2. Spin-off

In addition to the currently used exclusion rule a new "valuation method" will be introduced for spin-off adjustments. The aim is to attain a value for the spun-off share or right so that exclusion can be avoided on the ex-date. The value of the share/right can be calculated with the following three methods:

1. When the share/right is listed on another exchange.
2. When the company informs the public about the value.
3. The median value of valuations from members (minimum 5 valuations).



If none of the above-mentioned methods is applicable the Exchanges have the possibility to exclude the share/right for the ex-date or until an appropriate price are available.

This document is not a rule or a part thereof, and is to be regarded only as a general non-binding guidance to the indices calculation rules, which come to effect on July 1, 2005. The complete rules (Rules for the construction and maintenance of the NOREX Exchanges' All-share, Sector and Benchmark Indices) can be found on the Baltic stock exchanges and NOREX web pages (www.omxgroup.com and www.norex.com).