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The role of the Oslo Stock Exchange in value creation

Many people see a stock exchange as little more than a place to buy and sell shares. What is often forgotten is that the Oslo Stock Exchange also represents an important institution in the overall social framework, and serves many different purposes. More specifically, the Oslo Stock Exchange makes an essential contribution in a number of ways to the everyday process of value creation in Norwegian business and industry. This is to everyone's advantage, directly or indirectly.

The Oslo Stock Exchange forms a bridge between investors and companies. Investors are always looking for the best possible return on their capital, and it is this capital which companies in turn need in order to create value. The major role of the Oslo Stock Exchange is accordingly to recruit companies which investors find attractive, and to create the conditions in which their shares can be traded as efficiently as possible.

An idea for a product or a patent can be the seed for a whole new industrial operation which will go on to create value. In the initial phases of a new venture it is often possible to find sufficient capital from the founders of the business, their families, local banks and similar sources. However the capital needed will often then grow to a level which is greater than the original founders and their banking connections are able or willing to contribute. In order for the ambition to create value to succeed, the company must then make contact with players which have the necessary capital to invest, and persuade them that their particular business has a future.

Someone has to play the role of providing a venue for good ideas so that they attract the attention of sources of capital. This is the job of the Oslo Stock Exchange. By listing their shares on the stock exchange, companies gain an exposure to a large and discerning universe of investors, both Norwegian and international. Sound and innovative ideas can quickly come to fruition when the risk involved is shared amongst many investors.

The Oslo Stock Exchange is an arena in which companies compete for interest from investors. In this competition the main victors are those who can show good earnings or create confidence in their ability to generate good earnings in the future. Investors are always on the lookout for investments which offer a good return, and capital flows of its own accord to the companies which investors believe will produce the best results in the process of value creation.

A market place such as the Oslo Stock Exchange attracts a large number of investors who critically evaluate the companies listed on

the exchange and make their buying and selling decisions against this background. This process puts a price ticket on companies - the share price - which reflects from minute to minute investors' expectations and their demands for return on their investment. Companies can use their own shares as a means of payment, and this makes the share price an indicator of whether they are offering a strong or weak "currency". The market place accordingly itself becomes part of the process of value creation.

The price companies have to pay for exposure to this market lies in the requirement to produce all the information which investors need to arrive at a fair evaluation of a company's value, and to make this information available to everyone at the same time. This can often be a painful process, but it is necessary in order to expose fully a company's potential.

From time to time the situation arises where one party, for a variety of possible reasons, chooses to set such a high value on a company's potential that it is prepared to pay a significantly higher price for the



whole company than is represented by the share price traded on the stock exchange. There are always complaints when this leads to well-known and sound companies disappearing from the stock exchange. However it is important to remember that restructuring is a natural part of the continual process of value cre-

ation which takes place in business, and the Oslo Stock Exchange must accordingly play its role as a catalyst. When a purchaser bids a higher price for a company this creates value for the investors holding shares in the target company and this in turn will find its way to new businesses with the potential for growth and a need for capital.

The business vision of the Oslo Stock Exchange is to create better links with and between investors. We can fulfil our function in the process of value creation of which we are a part by generating increasing interest for the securities traded in the market place we represent. The value created not only takes the form of new jobs and the income they create through taxes and duties, but also takes the form of ownership. It has been the case for many years that long-term investment in shares offers a superior return on savings, and this has become apparent to more and more savers over time. Whilst the concept of a "stock market investor" can seem quite alien to many of us, in reality it is your and my savings that are being invested.

By creating general interest for investing savings in shares we can not only offer a good return but also create interest in long-term growth and the process of value creation. This also serves to ensure that business and industry has access to the capital it needs.

Sven Arild Andersen
President & CEO

A market for everyone

The historic stock exchange building at Tollbugata in Oslo is home to three separate marketplaces which offer Norwegian and international investors the opportunity to buy and sell shares, bonds and derivatives through their broker.

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By leaps and bounds into 2000

On 5 February 1999, the Oslo Stock Exchange became a fully paid up member of the information technology age, with an efficient, fair, open and reliable new trading system.

Andre Hellum, head of IT at the OSE, uses words like raw power and top intelligence when he talks about the new trading system. All Greek to the computer illiterate. He explains patiently about response times and open standards. This is the stuff computer peoples dreams are made of, while the rest of us yawn. How is all this relevant to those who use the system, but prefer to employ the brain elsewhere?

A well functioning computer system is one that the user hardly spares a thought, a badly functioning one a constant source of irritation. What was high tech in the late 80's, had become incredible cumbersome by the late 90's. While the rest of the world communicated electronically, OSE dealers had to pick up the phone to close their deals. In the new system, orders to sell and buy at the same price are automatically matched. The ticker - the computer strip showing the

The Oslo Stock Exchange is a powerful centre for a growing securities market where close links with investors reflect their confidence in the market and its efficient operation. In competition with other stock exchanges, the Oslo Stock Exchange represents a forum for value creation, and a shop window for initiative and enterprise which forms the basis to grow and develop the businesses of the future.

A new era

Investment firms no longer have to send their representatives to the Oslo Stock Exchange building in order to trade. These days the investment firms which are members of the Oslo Stock Exchange look after their customers from their own offices, which can in principle be anywhere in the

The total number of transactions carried out in the stock market rose by almost 60 per cent in 1999.



An extraction of the mural "Sjøfarten" by Gerhard Munthe.

details of all the trades as they happen - have speeded up. In the first year the new trading system has been in operation, the number of transactions have tripled.

The new system is more user friendly, not just for the end users, but also for the IT people at the OSE and in member companies.

"We have exchanged a rather eccentric system for standard technology," says Hellum. This means that the building blocks in the current system are available and known technology. The advantages for the OSE is that know-how and expertise is more easily available, and that there are more people around to discuss problems with. Standardised technology also makes it easier for external users to hook up to the system, both in terms of the practical job and in terms of the skills and know-how required.

An additional benefit of the new system, is that it enables the brokers to distribute data feeds from the system to their own clients. Previously, this was not technically possible. Now, anyone may receive into their private computer, almost as much information as the broker does to his. The only difference is that the

broker can see which broking house have placed which orders, information not available to other users. Data feeds from a broker usually comes at a charge, but information updated every 15 minutes is available free of charge on the web. Investors may also set up agreements to place orders with broking houses electronically, orders which are automatically entered into the trading system. But giving broad access carries its own problems.

"The challenge of an open system like this, is hackers. A lot of effort has gone into setting up security systems, so called closed open networks and fire walls to protect the systems integrity," Hellum points out. The OSE participates in international forums for computer security.

"The advantage of this system, is that we have someone with which to discuss security issues. That didn't use to be the case." Hellum seems pretty confident that the OSE is well protected against what he calls "our friends with their baseball caps back to front". And a year into operation, neither his "friends" nor technical hiccups have managed to bring the system down. That's what Hellum calls 100 per cent availability. On the first day of the new millennium, a

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world. Currently 33 investment firms are linked to the Oslo Stock Exchange from their offices in Norwegian towns and cities, two firms link up with the Oslo market from Stockholm and one from Copenhagen. In February 2000 Morgan Stanley and Co. International was linked into Oslo from their offices in London. Remote membership serves to open up Norwegian companies to the interest of a far wider world of investors.

All trading in shares and bonds moved on to a new electronic trading system during 1999. The system provides an ever more demanding investor public with a technological platform of the highest international standard, with impressive functionality and reliability. The new

trading system has reduced the cost of trading, opened the market place for new user groups and has increased market liquidity. The in-built flexibility and scalability of the system ensure that increasing activity and rapid growth in volumes have no effect on its operational reliability.

The number of transactions carried out in the equity market in 1999 increased by almost 60 per cent from 1998. Growth has continued into the current year, and January saw almost 80 per cent more trades than the average monthly figure for 1999. The key to ensuring a high level of liquidity and correct market pricing is that the new system serves to concentrate market activity into a single central order book to the greatest extent possible. The fact that

an impressive 90 per cent of all deals are matched automatically demonstrates the success of the electronic order book and confirms the heavy use to which it is put by the brokers in the market.

The new trading system started up for equity trading in February of last year. Trading in bonds was moved on to the new platform in September, allowing the remaining old-style technology to be closed down. This left the Oslo Stock Exchange very well placed to deal with the Y2K transition. A further enhancement carried out in September saw the trading system upgraded to allow securities to be listed in currencies other than the Norwegian krone. There has not as yet been any great interest from

A market for everyone

IT-responsible
Andre Hellum



By leaps and bounds into 2000

▶ Saturday, the OSE ran test trades, making sure the system was completely millennium bug free. And to the disappointment of the press that had turned up for the first proper trading day, it went like clockwork. Hellum has even managed to avoid the most troublesome teething troubles. It's been running smoothly from the word go.

"When we started the project two years ago, we hired in consultants to run the old system, and used our own employees to develop the new system. That way, we didn't have to train our staff in the critical start up period."

The proof that the new system is working, is in the number of fault reports and complaints Hellum receives from the users.

"Under the old trading system, we received around 800 calls a week from members with system troubles. Now, we're down to 25 a week," says Hellum.

A lot of this success is due to a comprehensive system of back up solutions. What Hellum calls "no single point of failure in the architecture". What this means in practise, is that if one machine is down, there will be another ready to take over. If the OSE server breaks down, a hot standby, located at the other side of

town, takes over without the users even noticing. This system of standbys is brought all the way out to the broking companies. If a problem occurs, a standby takes over automatically. And then Hellum's team have to sort the problem out. This system of standbys, combined with new advanced electronic surveillance of the system, means that it takes a lot before the users are touched by problems occurring in the system.

The IT department's new surveillance centre, next door to the market surveillance centre, resembles a James Bond film set. To huge flat screens gives an overview of all units that are hooked up to the trading system, giving colour coded warnings of minor and major problems. At a click of the mouse, IT staff gets up a map of all machines at a particular broking house, showing them which is the affected machine, and what sort of problem they have on their hands. In this way, any small problem may be detected when it occurs, and can be dealt with immediately, often without the user even noticing the irregularity. And if the big worst case scenario hits, the OSE server has a nervous break down and the hot standby explodes, well, then Hellum has another backup: a complete separate system which he can have up and running within 24 hours.

In the
derivatives market
daily transaction
numbers
increased by
113 per cent.

issuers for the listing of securities denominated in other currencies such as the Euro, but the Oslo Stock Exchange wanted to be well prepared and able to offer this alternative immediately whenever it might become of interest to issuers.

Internet based share dealing is becoming increasingly popular and will play a major role in the future growth of securities markets. A number of the investment firms active on the Oslo Stock Exchange are committing sizeable resources to making use of the opportunities which our new trading system offers for rapid, cheap and efficient investor access to the Norwegian market. The automatic order matching system guarantees equal treatment of

all investors. In addition market information has become more easily accessible and cheaper to access, and this too is attracting new types of investor to the Norwegian market.

Although the prices the Oslo Stock Exchange charges to supply real-time information were sharply reduced during 1999, the total income generated by these services was significantly higher for the year thanks to growing investor interest in the Norwegian equity market. The sale of real-time information is a significant source of income for stock exchanges around the world. In the Norwegian market this information is sold through the wholly owned subsidiary Oslo Børs Informasjon AS,

But driving a Porsche on a gravel path is rather pointless. And as the new trading system opened, the OSE, VPS (the registry of securities) and NOS (the futures and options clearing house) were able to inaugurate a common new electronic highway. This is a faster and more user friendly alternative for all the broking companies, which have to relate to these three institutions.

The world of IT moves fast and there is little time to sit back and enjoy the heady smell of fresh laurels. As soon as the new trading system was in place, the need for a new electronic market surveillance system became pressing. In December, a new market surveillance system was up and running. Another IT advance in the last year of the millennium is the datawarehouse. This is a system for gathering all available OSE data, and produce quality controlled statistics and analysis. An important key word is consistency. A user should be able to easily find out how a particular figure or analysis came into being. If turnover figures are produced, it should be possible to find out how the underlying figures were calculated, where they came from and how "turnover" is defined in the datawarehouse. The slightly belated IT revolution at the OSE has made it an attractive employer, in an area where a

lot of organisations are labouring under recruitment problems.

"OSE staff get to lay their hands on first rate technology and data communication. We have managed to attract highly skilled staff, and keep them," Hellum says. A couple of years back, this was a department people left. Today the picture is the opposite.

Smarting up on the technology also gives OSE some advantages when they are now about to embark on negotiations for a new common Scandinavian trading system.

"We have acquired the know-how and the skills to test and receive large commissions. Our new system provides a good benchmark against which to test functionality. We know what we are doing, and what our requirements are. That is a good position from which to negotiate." ■

An extraction of the mural "Sjøfarten" by Gerhard Munthe.

which also offers a broad range of other products.

Equity derivatives have been traded electronically since 1997, when the Oslo Stock Exchange entered into the world's first cross-border stock exchange co-operation. For the past three years derivative trading has taken place through the same trading system - OM Click Exchange System - as is used by the OM Stockholm Exchange and its London based subsidiary the OMLX Exchange. The derivatives market has grown strongly as Norwegian institutional investors have come to appreciate the many positive aspects of derivatives trading. In addition Norwegian derivatives have gained increasing popularity amongst fore-



ign investors. The number of contracts traded daily increased by 113 per cent in 1999 to 14, 532. This market too has seen growth continue in the early weeks of the new millennium, and the daily average number of trades reached 20,818 in January.

At the customer's service

Growth in the derivatives market also reflects the active co-operation between the Oslo Stock Exchange and the Norwegian Futures and Options Clearing House in marketing derivatives which was initiated during 1999. Significant resources have been committed to training ►

A market for everyone

and education, and the web site www.opsjoner.com forms the basis for the work carried out.

An important criteria for the success of any stock exchange is that the path to all relevant information is kept as short as possible. We accordingly use the Internet as our main channel for communication with investors. Our principal aim has been to distribute as broad a range of detailed information as possible to a wide recipient group, and this has resulted in more than 60,000 daily hits to our home pages at www.ose.no. A particularly popular service is the opportunity to have all notices issued by stock exchange listed companies delivered directly to

a subscriber's own e-mail address. This is a unique - and free - service which our users clearly appreciate, not least because it allows the ordinary private investor to have access to the same information as the professionals. Companies also find that having the Oslo Stock Exchange rapidly distribute their information in this way represents a valuable additional service. We intend to expand our use of the Internet further in the near future to embrace a significant part of our other areas of communication with the dealing world and with listed companies.

The Oslo Stock Exchange attaches considerable importance to raising the profile of the Norwegian market

place amongst new investors, and in particular to marketing the products traded here. We have pursued this objective by holding roadshows in international financial centres. London and New York were the venues chosen in 1999, giving a number of Norwegian companies the chance to present themselves to some of the most important players in the global securities market. We are continually and actively involved in helping listed companies to make contact with new investors, and holding seminars about specific industries forms part of this. Seminars were held last year with a specific focus on both offshore and Internet companies. Similarly the Oslo Ship Finance Forum has become a well

Keeping a beady eye on the market

Reorganised, focused, technologically advanced: In two years, Sverre Lilleng, a former public prosecutor with the serious fraud office, has professionalised the Market Surveillance department of the Oslo Stock Exchange.

"We have singled out market surveillance from our other market activities," says Lilleng. In his office, three computer screens tell him what's going on in the market. The other four in his team are hunched over their own screens, where a new electronic surveillance system called SMARTS, keeps an eye on the day's trade. When the OSE switched to a new trading system with automatic matching in February 1999, the need for electronic market monitoring became more pressing.

"We saw it from the first day the new trading system was in operation. When you get 100 transactions in a few seconds, the ticker moves so fast it's not humanly possible to register everything. On top of that, you are supposed to monitor several hundred securities - both stocks and bonds - continuously. In that situation, separating a normal development from an abnormal one becomes a very difficult job," explains Lilleng. With the new software, his department can set up alarms for any imaginable deviation, be it with regard to prices, volumes, transaction sizes, volatility or any other parameter one may care to mention. The potential is almost unlimited, when there is a powerful computer to compare the current with the past. The system sets off between 100 and 150 alarms daily, mostly notifying perfectly normal changes, some warranting closer scrutiny.



An extraction of the mural "Sjøfarten" by Gerhard Munthe.

established event which attracts considerable international interest.

Something for everyone

The Oslo Stock Exchange has been a market place for shares and bonds since 1881, and offers a broad range of products. The list of companies quoted on the stock exchange represents a major cross section of Norwegian trade and industry, and growing companies are keen to add their shares to this list. Year 2000 opened with 130 classes of shares issued by 117 companies quoted on the Main List of the Oslo Stock Exchange, as well as 78 companies with one share class each quoted on the SMB List.

The SMB List is subject to the same rules and regulations as the Main List, and investors in these companies have the same rights and duties as apply to investment in any share on the Oslo Stock Exchange. Primary capital certificates issued by Norwegian savings banks have been listed in Oslo since 1991. The number of savings banks with listed primary capital certificates has increased steadily over the years to now number 21.

The All Share Index has been the benchmark index for the Oslo Stock Exchange since 1983. This index reflects the performance of all shares listed on the Main List. There are separate indices for the SMB List

A new electronic surveillance system - SMARTS - came into use in December, and has so far been an unqualified success.

"With the new system, we are able to uncover cases we would never have found before, and look into a lot of cases we wouldn't even have noticed previously."

And when the machines take over the job of uncovering the irregularities, the employees can concentrate on looking into them. Also, the actual job of investigating irregularities has become easier, and the information more accessible with SMARTS.

"We can dig deep, in a way we were not able to before," says Lilleng, and points to his four computer screens, where the electronic surveillance system shows details of the market in a way that is easy to take in. The developments in one share - spread, trading prices, volumes and company news - can all be seen in the same graphic computer diagram, giving a good overview of the situation. SMARTS also makes it easy to look into the actual movements in a security at any given point in time. In what order were the orders placed? Who was the first to change his price? Everything is registered and stored in the system. Time previously spent mapping out the actual course of events is saved, freeing up time to investigate trades warranting investigation, and to prepare better documentation.

"We have looked into the routines for preparing case reports. How should a case be put together here, before

we pass it on to Kredittilsynet (The Banking, Insurance and Securities Commission)? A case must present all the relevant information, set out in a logical order. All the institutions and bodies involved at various stages of an insider trading case influence the final outcome. Every document that originates from us is now properly quality controlled," says Lilleng. Following on from this, Lilleng has worked to improve the cooperation between the bodies involved in suspected cases of illegal insider trading, namely the Oslo Stock Exchange, Kredittilsynet and Økokrim (The Serious Fraud Squad).

"In the past two years, we have developed quite a close relationship with both Kredittilsynet and Økokrim. We have strengthened our ties with Kredittilsynet, and given them more information on what we are actually doing. They have responded by increasing their efforts in this area," says Lilleng. However, he has one complaint:

"At the base of the whole discussion about insider trading and the lack of guilty verdicts, lie the regulations. This is an area where it is very difficult to put forward conclusive evidence. There have been cases where both the press, OSE and Kredittilsynet, believe illegal trading has taken place, but which have never got as far as a courtroom."

Lilleng hopes that this situation is soon to be improved. In ►

A market for everyone

Two new tools were developed and brought into use in 1999: the matching halt and special observation.

and for the Primary Capital Certificate List.

The Oslo Stock Exchange is the world's leading stock exchange for shipping shares. No other exchange lists such a large number of companies from this sector as the 31 companies currently listed on the Oslo Stock Exchange. The total number includes 10 foreign shipping companies which find the Oslo market's experience and understanding of shipping shares so attractive that it is natural to list their shares here. The number of companies from the IT and telecommunications sector listed on the Oslo Stock Exchange is growing strongly, and accounted for 34 of the total number of listed companies at the end of 1999.

Activity in the Norwegian bond market is dominated by the five most liquid government bonds, whilst banks and insurance companies are most active in the primary market. Norwegian government issues dominate both the primary and secondary markets for commercial paper.

Equity derivatives were first introduced on the Oslo Stock Exchange in May 1990. Trade was initially in share options on 5 stocks, but this was soon supplemented by options on the OBX index. This index tracks the 25 most traded shares on the Oslo Stock Exchange, and its composition is reviewed every six months.

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Sverre Lilleng,
head of Market Surveillance
department



Keeping a beady eye on the market

▶ a joint effort, Kredittilsynet, Økokrim and OSE have put together a proposal to change many of the regulations at the heart of the Securities Trading Act. In January 2000, this work culminated in a formal proposal from Kredittilsynet to the Ministry of Finance.

Lilleng has also looked to the broking houses in his efforts to advance the reputation of the Norwegian market place. New brokers now need an OSE course to get their licence, but that is only part of the story.

"The requirements for becoming an OSE-representative have been raised. More theoretical knowledge is now required than was previously the case, and candidates have to prove to us that they fulfil the requirements."

All the players in the market, whether issuers, traders or investors, benefit from a well functioning market place. Even so, there will always be situations where an issuing company's need for secrecy is at odds with the market's need for information. In the last couple of years, there has been a shift in favour of the needs of the market. "What do investors need?" is the overriding question.

One of the most tangible proofs of this shift, is the increased powers of the Market Surveillance Department to intervene more actively in the market place. At their disposal,

they have two new tools: "matching halt" and "special observation", as well as trading suspension.

When the Stock Exchange knows there is price sensitive information about a company which may not yet be released to the market, it can issue a statement saying that a particular company has been put under special observation. This is done if the trading patterns change, and there is reason to suspect leaks. Such instances may e.g. occur when a company is in the middle of negotiating a large contract, is acquiring another company, or is in merger talks. The use of special observation can be seen as a warning that price sensitive information may be imminent, and may reduce the disadvantages of being a market outsider. It is also a warning to those who have confidential information that movements in these securities will be followed closely, to deter insider trading.

Under a matching halt, the automatic matching function in the trading system is suspended, and orders in the system are no longer binding. Unofficial trading can continue. A matching halt usually lasts a couple of minutes, and can be used when the market receives new, highly price sensitive company information. The need for such a tool became greater when the OSE switched to a trading system with automatic matching in 1999.

Today's market lists options and forwards on 12 stocks, options and futures on the OBX and futures on two government bonds. In addition the connection to the Swedish market gives access to trading in 36 Swedish share options, as well as 30 on the Swedish OMX index and 30 on the Nordic FTSE NOREX index.

Investors

Institutional investors are playing an ever greater role in financial markets. This investor group sets high standards on behalf of its customers, not only in terms of the quality of each national stock exchange, but also in terms of the efficiency and reliability of the entire national securities chain. Institutional investors are also more demanding of companies in

terms of their commitment to shareholder value and earnings performance. The customers represented by these institutional investors are often typical pension funds and mutual funds.

Internationalisation represents another important trend in financial markets. Foreign investors now hold almost one-third of all shares listed on the Oslo Stock Exchange, and are party to well over half of all the transactions that take place through the trading system.

Internet based trading has made investing in shares a much more accessible means of saving. The investing public is now able to take advantage of the significantly better

performance which stock markets can offer over a longer time horizon by buying shares quickly, easily and more cheaply through the Internet.

Propriety

Investors need to have confidence that all the players in a market they find attractive are treated equally. It is essential for there to be a liquid market that companies maintain a high quality throughout the process of producing and distributing information to the market. The Oslo Stock Exchange regulations stipulate minimum requirements for listed companies in this respect, and companies are actively monitored to ensure that they satisfy these requirements. In cases where companies breach their duty to disclose information the Stock Exchange Board can impose violation charges of up to 10 times the annual quotation fee. At the current level of quotation fee, this can mean to NOK 6 million for the largest companies.

Effective monitoring of the behaviour of all players in the market creates

"The matching halt gives the traders and the investors time to take their orders out of the system, so they can absorb the information before they resume trading," explains Lilleng. The matching halt can also be used when there is an abnormal price development in a security.

"Then, the halt is used to give us time to find out what the background to this development might be," says Lilleng.

At times, the market regulators may intervene more directly in pricing, for instance when they suspect attempts at price manipulation. Lilleng's department is particularly alert to these, and has the powers to make official transactions unofficial. Manipulators also risk having the incident reported to Kredittilsynet.

"This works. We get positive feedback. Some growling, certainly, but that only confirms that we are doing our job," says Lilleng with a smile, admitting that market surveillance is a difficult job.

"But we like challenges, and are prepared to meet them."



confidence, and this in turn is a necessary condition for there to be good liquidity in the market. The Oslo Stock Exchange has significantly strengthened its market surveillance operations over recent years. Its experienced staff, helped by the very latest in electronic systems, are well equipped to meet the new challenges which changes in trading patterns and investor behaviour will create. ■

An extraction of the mural "Sjøfarten" by Gerhard Munthe.

Report of the Board

National stock exchanges are facing increasing global competition for investors, member firms and issuers. The development of new technology and the disappearance of national and other barriers to trading are making securities markets more open and generating increasing competition.

In addition Norwegian companies are increasingly interested in having their shares quoted on other stock exchanges. It is also the case that Norwegian companies are particularly exposed to mergers and acquisitions, and the decision on where the companies formed by such transactions will be listed is likely to depend on where they have the major part of their operations.

In order to meet the challenges that these changes represent, the Oslo Stock Exchange implemented a broadly based programme of strategic work in 1999. The work carried out was based on extensive supporting material, including analyses of trends and developments in international financial markets. Together with the results of wide-ranging contacts with both Norwegian and foreign users and user groups, this provided the basis for in-depth analysis. The results of this work led to the strategy and choice of strategic direction that the Board has adopted in order to position the Oslo Stock Exchange to meet the far-reaching changes that are taking place in financial markets.

The Oslo Stock Exchange represents an important part of the value-creating network which securities trading in Norway involves. Against this background the Board believes that the right strategic direction can be identified on four levels:

1. Market-orientated focus on customer requirements and expectations
2. Create confidence and credibility for the Oslo Stock Exchange as a national marketplace

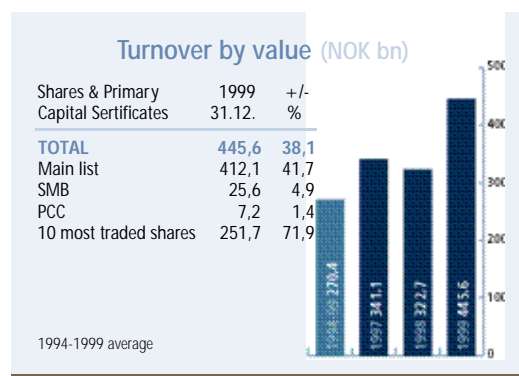
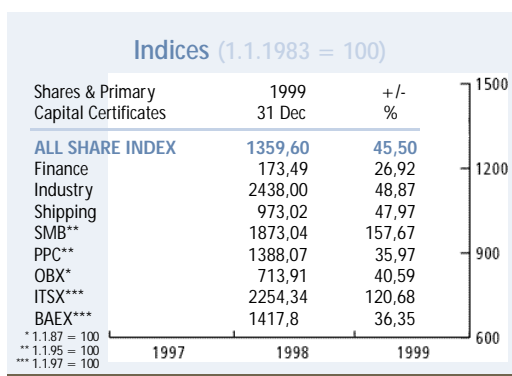
3. Contribute to increasing the efficiency of the Norwegian securities chain
4. Increase the Oslo Stock Exchange's competitive strength by participating in an international stock exchange alliance.

The main driving factor behind all four of these strategic pointers is the increasing globalisation of all securities markets. New technology creates new market places for trading which significantly increase the opportunities for investors to trade across national frontiers, and often offer cheaper ways to trade. This means that stock exchanges are exposed to the risk of rapid and extensive change in their traditional customer catchment areas. An active involvement in an international stock exchange alliance will offer Norwegian players the basis of a broader market and an increased range of products, and this will in turn contribute to lifting the quality of the Norwegian securities market.

A market-orientated stock exchange

The Oslo Stock Exchange intends to be recognised as a fair, liquid and market-orientated stock exchange, and demonstrates this principally by offering high quality and cost-effective marketplace services and a proactive and open supervision function, together with market-orientated product development and a willingness to embrace change and implement its consequences.

An important step in this direction was taken on 5 February 1999



when the new electronic share trading system came into use. This represented a determining factor in ensuring continued growth of the Norwegian marketplace. The Oslo Stock Exchange's users now have available a system which offers all the functionality that today's investors expect, and it is moreover a system which can easily be adapted to changing requirements. The system opened the door for remote membership, and on 6 September 1999 it was extended to also include trading in interest rate instruments. Three remote members based in Stockholm took advantage of the new system from the start, and the Stock Exchange Board has since admitted 8 new members of which 2 are remote members.

The new trading system has been an unqualified success for the Oslo Stock Exchange, and it has offered almost 100 per cent operational reliability since its very first day. The introduction of the new trading system has removed the need for members' stock exchange representatives to be physically present in order to trade in the stock market. The system has also led to a modernisation of trading, and this has contributed to greater price transparency, the opportunity of remote membership for foreign investment firms and Internet based trading for investors via stock exchange member firms. The new trading system also provides a significant increase in capacity, and the higher level of activity seen on the Oslo Stock Exchange during 1999 can be attributed to this improvement in capacity. The new trading system has also made it possible to list securities denominated in currencies other

than the Norwegian krone. The Oslo Stock Exchange has not as yet seen any great interest amongst issuers to list securities in other currencies, but it is expected that such listings will be seen during 2000.

The Norwegian market has also seen a significant increase in liquidity, both for share trading and derivative trading. Turnover in shares increased by 38 per cent, while derivatives saw a 107 per cent increase in turnover.

Confidence and credibility

Considerable emphasis was placed during 1999 on building confidence and credibility to ensure that the Oslo Stock Exchange is seen as a well-regulated marketplace. This has included a renewed focus on both the exercise of the Oslo Stock Exchange's supervision responsibilities and better communication in respect of supervisory issues.

The new trading system, together with the new trading regulations which came into force on 5 February 1999, has given the Oslo Stock Exchange new tools in relation to the process of price quotation. The Oslo Stock Exchange is now better placed to regulate price quotation by making active use of matching halts and special observation, and is more able to warn market players of situations where the pricing of particular securities may be subject to uncertainty. The availability of the new tools, and the manner in which they have been exercised, has been generally recognised as contributing

to an increase in the quality of the Oslo marketplace.

In order to strengthen further its surveillance function the Oslo Stock Exchange implemented an electronic surveillance system in December 1999. This system has been developed by the same supplier as the trading system. This too will contribute to the quality of the marketplace over time as the Oslo Stock Exchange gains experience of the new system and combines its use with the newly established insider register developed in co-operation with the Norwegian Central Securities Depository.

The Oslo Stock Exchange is actively involved in increasing the level of professionalism in the Norwegian securities market through measures such as pro-active communication with players in the market, including support for listed companies in technical areas of stock exchange practice.

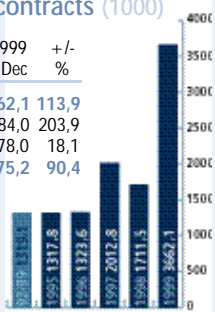
The Oslo Stock Exchange's stronger focus on the day-to-day operation of the market is reflected in the establishment of a separate department for the central marketplace functions. The objective is to offer our customers better service, greater efficiency and higher quality day-to-day operation of the marketplace.

Co-operation in Norway

The Oslo Stock Exchange is a driving force in strengthening the efficiency of the securities chain in the Norwegian market. This requires close co-operation with other cen- ➤

Turnover by no. of contracts (1000)

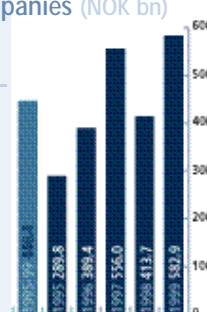
| Options & Futures | 1999 31 Dec | +/- % |
|--------------------------------|----------------|--------------|
| TOTAL OPTIONS | 3662,1 | 113,9 |
| Share options | 2684,0 | 203,9 |
| OBX-index options | 978,0 | 18,1 |
| TOTAL OBX-INDEX FUTURES | 675,2 | 90,4 |



1992-1999 average

Market value all companies (NOK bn)

| Shares & Primary Capital Certificates | 1999 31 Dec | +/- % |
|--|----------------|-------------|
| TOTAL | 582,9 | 40,9 |
| Main List | 514,6 | 35,9 |
| SMB | 51,6 | 125,3 |
| PPC | 16,7 | 27,5 |



1995-1999 average

tral players in the Norwegian market. During 1999 the Oslo Stock Exchange, the Norwegian Futures and Options Clearing House and the Norwegian Central Securities Depository worked closely together in accordance with a document setting out a number of central issues which was agreed in December 1998.

The three institutions worked on preparing for the transition to the year 2000 as a joint project, and the results of this co-operation were extremely good. In addition a significant joint marketing effort aimed at improving the profile of the Norwegian derivatives market seems to have been a major contributor to the record growth seen in the market in 1999.

International alliance

One important conclusion that the Stock Exchange Board has drawn from the strategic work carried out by the Oslo Stock Exchange is that it is essential to seek to establish strategic alliances that extend beyond Norway. The Stock Exchange Board has considered various alternatives with a view to attracting as much as possible of the international activity in Norwegian securities - which is principally London based - to our own order book, and has already taken concrete steps towards creating a stock exchange alliance to strengthen the Norwegian market.

As the first step in forming a broader international stock exchange alliance, the Copenhagen Stock Exchange, the OM Stockholm Exchange and the Oslo Stock Exchange signed a letter of intent in November 1999 for the Oslo Stock Exchange to participate in the NOREX stock exchange alliance. The alliance is based on co-operation between independent exchanges, and is intended to create a common marketplace for financial instruments. The partners share the objective of making this marketplace one of the world's most efficient securities markets.

It is intended that a final form of stock exchange agreement will be

signed by the three parties before the close of the first quarter of 2000. In parallel with this, negotiations are taking place with OM Technology for the introduction of that company's trading system. It is expected that OM Technology will be able to provide a system at least as good as the Oslo Stock Exchange's current system in terms of the price and quality.

It should be stressed that the kind of co-operation envisaged by the letter of intent does not represent the final step in the Nordic stock exchanges' efforts to strengthen their position against global competition. The co-operation can accordingly be extended to include other stock exchanges, other alliances of stock exchanges or other players. The Oslo Stock Exchange will give any such expansion careful consideration on the basis of what is needed to strengthen the competitive position of the Oslo market and promote our customers' interests.

Organisation

The Stock Exchange Board took the initiative in 1995 to propose changes to the Stock Exchange Act of 1988. The Ministry of Finance appointed a commission of enquiry in spring 1997, which delivered its recommendations in December 1998 (NOU 1999:3). These recommendations were circulated for discussion by interested parties in 1999, and in its reply to the Ministry, the Oslo Stock Exchange expressed broad agreement with many of the recommendations made. However the Stock Exchange Board has drawn particular attention to its view that the rapid pace of change in financial markets internationally makes it necessary for stock exchanges in general to be organised as joint stock companies. It is also the Board's view that such a company must also be permitted to carry on related activities in the same corporate entity as the stock exchange operations themselves.

Kjell Frønsdal left his position as President and Chief Executive Officer of the Oslo Stock Exchange on 6 August 1999. Tor G. Birkeland took

on the role of Acting President and Chief Executive Officer until 1 January 2000, at which time Sven Arild Andersen took up his appointment as the new President and Chief Executive Officer.

The Oslo Stock Exchange had 90 employees at the end 1999, including one part-time employee at the branch office in Bergen and 14 employees in the subsidiary company Oslo Børs Informasjon AS. The Trondheim branch office was closed on 30 December 1999, and the Bergen office will be closed at the end of the first half of 2000.

Financial results

The consolidated accounts for 1999 show an operating loss of NOK 18.7 million, and the result for the year is a loss of NOK 12.3 million which it is proposed be covered from equity.

Total operating revenue amounted to NOK 154.9 million in 1999, an increase of NOK 27.5 million from 1998. The increase in revenue between 1998 and 1999 is due in particular to the sales of information by Oslo Børs Informasjon AS. Higher revenues reflected increased demand for the company's products and a revised price structure. Further growth in revenue is expected in 2000, but not on the same scale as the increase seen in 1999. Increased volumes in the derivative market and equity trading have contributed to an increase in revenue in certain segments. This was particularly the case for derivatives.

Operating expenses amounted to NOK 173.6 million in 1999, representing an increase of NOK 62.5 million from 1998. This relatively large increase was due in part to non-recurring costs of NOK 17 million, of which NOK 7.7 million relates to remuneration payments in connection with restructuring and NOK 8.5 million arose as a loss on disposal of assets when the ownership of remote gateways (RGWs) was transferred to stock exchange members with effect from 31 December 1999. The depreciation charge for the year increased by NOK 18 milli-

on as a result of the implementation of the new trading system. The depreciation period for the trading system, which is now fully developed for both equities and bonds, is estimated to be five years. The book value of the trading system at 31 December 1999 amounted to NOK 81.1 million. Ordinary operating costs increased by NOK 27 million (24 per cent) of which salaries and other personnel related costs accounted for NOK 7.5 million whilst IT related costs accounted for NOK 14.7 million.

The increase in personnel and IT costs reflects the higher level of activity taking place through the new trading system and the development of a new department for market administration and surveillance, as well as increased marketing activity for derivatives and for the sale of information through Oslo Børs Informasjon AS.

Ordinary operating costs are not expected to increase to the same extent in the years immediately ahead, but the NOREX project may lead to additional costs for the Oslo

Stock Exchange next year.

Oslo Børs Informasjon AS reported a loss before tax of NOK 0.7 million in 1999 as compared to a profit of NOK 2.8 million in 1998. The company's equity at 31 December 1999 amounted to NOK 7.5 million.

The Oslo Stock Exchange had consolidated equity at year-end of NOK 174.8 million.

For the reasons set out above, the Oslo Stock Exchange believes it is well placed to cater for the Norwegian security market's need for a liquid and efficient market-



From left Oddleif Hatlem, Jarle Berge, Georg Størmer, Tom Knoff, Frode Hassel, Kristin Normann Aarum, Johan Solbu Braaten.

Profit and loss account

| OSLO BØRS | | NOTE | FIGURES IN NOK 1,000 | GROUP | |
|---------------------------|---------|------|--|---------|---------|
| 1999 | 1998 | | | 1999 | 1998 |
| OPERATING REVENUES | | | | | |
| 132 240 | 112 921 | 1 | Operating revenues | 154 862 | 127 388 |
| OPERATING COSTS | | | | | |
| 55 395 | 42 911 | 3,13 | Salaries and related costs | 64 703 | 48 722 |
| 24 026 | 9 968 | 10 | Depreciation | 26 455 | 11 609 |
| 8 500 | 0 | 10 | Loss on disposal of fixed assets | 8 500 | 0 |
| 61 283 | 45 848 | 13 | Other operating costs | 73 910 | 50 763 |
| 149 204 | 98 727 | | TOTAL OPERATING COSTS | 173 568 | 111 094 |
| -16 964 | 14 194 | | OPERATING PROFIT | -18 706 | 16 294 |
| -747 | 2 808 | | Income from investment in subsidiaries | | |
| 5 513 | 7 649 | | Financial revenues | 6 285 | 8 378 |
| -118 | -98 | | Financial expenses | -147 | -118 |
| 4 648 | 10 359 | | NET FINANCIAL ITEMS | 6 138 | 8 260 |
| -12 316 | 24 553 | | ORDINARY PRE-TAX PROFIT | -12 568 | 24 554 |
| | | 5 | Tax | 252 | -720 |
| -12 316 | 24 553 | | PROFIT FOR THE YEAR | -12 316 | 23 834 |
| ALLOCATIONS | | | | | |
| -12 316 | 24 553 | | Transferred from/to equity | | |
| -12 316 | 24 553 | | TOTAL ALLOCATIONS | | |

The Cash flow analysis and Notes form an integral part of these Accounts


Balance

| OSLO BØRS | | NOTE | FIGURES IN NOK 1,000 | GROUP | |
|--|----------------|------|--|----------------|----------------|
| 1999 | 1998 | | | 1999 | 1998 |
| FIXED ASSETS | | | | | |
| Immaterial assets | | | | | |
| | | 5 | Deferred tax allowances | 723 | 470 |
| Fixed assets | | | | | |
| 6 374 | 6 622 | 10 | Property | 6 374 | 6 621 |
| 86 360 | 80 321 | 10 | Trading system, other equipment, etc. | 90 263 | 86 004 |
| 92 734 | 86 943 | | Total fixed assets | 96 637 | 92 625 |
| Financial assets | | | | | |
| 7 454 | 8 200 | 7 | Investment in subsidiary | | |
| 21 957 | 42 962 | 4 | Bonds and other receivables | 21 957 | 42 973 |
| 4 183 | 3 349 | 6 | Pension fund assets | 4 079 | 3 215 |
| 33 594 | 54 511 | | Total financial assets | 26 036 | 46 188 |
| 126 328 | 141 454 | | Total fixed assets | 123 396 | 139 283 |
| CURRENT ASSETS | | | | | |
| Receivables | | | | | |
| 14 633 | 6 573 | 2 | Accounts receivable | 8 510 | 8 971 |
| 12 902 | 19 736 | 9 | Other receivables | 6 921 | 6 670 |
| 27 535 | 26 309 | | Total receivables | 15 431 | 15 641 |
| 49 622 | 38 691 | 15 | Bank deposits | 67 023 | 55 746 |
| 77 157 | 65 000 | | Total current assets | 82 454 | 71 387 |
| 203 485 | 206 454 | | TOTAL ASSETS | 205 850 | 210 670 |
| EQUITY | | | | | |
| Retained profit and other equity reserves | | | | | |
| 7 454 | 8 200 | 11 | Reserve for valuation differences | | |
| 167 357 | 178 927 | 11 | Other equity | 174 811 | 187 127 |
| 174 811 | 187 127 | | Total retained profit and other equity reserves | 174 811 | 187 127 |
| 174 811 | 187 127 | | Total equity | 174 811 | 187 127 |
| LIABILITIES | | | | | |
| Provision for future liabilities | | | | | |
| 6 322 | 2 038 | 14 | Pension liabilities | 6 322 | 2 038 |
| Current liabilities | | | | | |
| 8 546 | 4 768 | | Trade creditors | 9 319 | 6 059 |
| | | 5 | Tax payable | 0 | 720 |
| 6 401 | 4 852 | | Payroll tax and other deductions | 7 227 | 5 452 |
| 7 405 | 7 669 | 4 | Other current liabilities | 8 171 | 9 274 |
| 22 352 | 17 289 | | Total current liabilities | 24 717 | 21 505 |
| 28 674 | 19 327 | | Total liabilities | 31 039 | 23 543 |
| 203 485 | 206 454 | | TOTAL LIABILITIES AND EQUITY | 205 850 | 210 670 |

Oslo, 15 February 2000


Tom Knoff


Jarle Bergo


Georg Størmer


Johan Solbu Braaten


Frode Hassel


Kristin Normann Aarum


Oddleif Hatlem

Cash flow analyses

| FIGURES IN NOK 1,000 | OSLO BØRS | | GROUP | |
|--|----------------|----------------|----------------|----------------|
| | 1999 | 1998 | 1999 | 1998 |
| Cash flow from operational activities | | | | |
| Ordinary pre-tax profit | -12 316 | 21 746 | -12 568 | 24 554 |
| Income from subsidiary | 747 | 0 | 0 | 0 |
| Tax paid in the period | 0 | 0 | -720 | -622 |
| Gain/loss on sale of fixed assets | 8 417 | -124 | 8 417 | -100 |
| Depreciation of fixed operating assets | 24 026 | 9 968 | 26 455 | 11 609 |
| Change in accounts receivable | -8 060 | 1 805 | 461 | 1 823 |
| Change in trade creditors | 3 778 | 2 991 | 3 260 | 3 785 |
| Change in pension fund assets | 3 450 | 30 | 3 420 | -56 |
| Items classified as investment activity (reclass. bonds) | | 421 | | 421 |
| Change in other accruals | 8 121 | -8 874 | 424 | -158 |
| Net cash flow from operational activities | 28 163 | 27 963 | 29 149 | 41 256 |
| Cash flow from investment activities | | | | |
| Increase in long term liabilities | 21 005 | -180 | 21 016 | -180 |
| Receipts from sale of fixed assets | 220 | 662 | 220 | 892 |
| Payments for purchase of fixed assets | -38 457 | -66 030 | -39 108 | -71 904 |
| Net cash flow from investment activities | -17 232 | -65 548 | -17 872 | -71 192 |
| Net change in cash and liquid assets | 10 931 | -37 585 | 11 277 | -29 936 |
| Cash and liquid assets at start of the period | 38 691 | 76 276 | 55 746 | 85 682 |
| Cash and liquid assets at end of the period | 49 622 | 38 691 | 67 023 | 55 746 |

Notes

Accounting principles

Parent company accounts

The Annual Accounts of the Oslo Stock Exchange consist of the unconsolidated (parent company) accounts and the consolidated (group) accounts. The unconsolidated company accounts show the financial condition and the profit for the year of the parent company alone.

Group accounts

The group comprises the Oslo Stock Exchange and Oslo Børs Informasjon AS, a wholly owned subsidiary. The group accounts show the financial condition and profit for the year when the companies making up the group are treated as a single commercial entity. The purchase value method is used on consolidation. This means that the purchase price of the shares in the subsidiary is eliminated against equity in the subsidiary at the time of purchase / formation. Internal transactions, receivables and liabilities are eliminated.

Restatement of historic figures

The opening balance for 1999 has been restated to reflect the effect of the new Accounting Act. The effect on the parent company and group accounts is detailed in the notes.

Classification of income and expenditure in the profit and loss statement

Revenues and costs which are related to normal operations are classified as operating revenues and operating costs and are both included in the calculation of operating profit. Financial items are taken into account following the calculation of operating profit but before arriving at ordinary pre-tax profit. The activities of the Oslo Stock Exchange are not subject to taxation but the activities of its subsidiary are subject to taxation. The consolidated accounts take account of tax payable following net financial items. The profit or loss for the year of the parent company is applied directly to equity.

Transactions

All transactions are recorded at the consideration applicable at the time the transaction takes place. (The transactions principle).

Income and costs

Income is recognised to profit and loss when it is earned (earnings principle). Costs are recognised to profit and loss as they are incurred and in the same period as the income to which they relate (the principle of matching). Classification of assets and liabilities in the balance sheet

Classification of assets and liabilities in the balance sheet

Assets which are to be held or used over the long term are classified as fixed assets in the balance sheet. Other assets are classified as current assets. Receivables due for payment within one year are always classified as current assets. Liabilities which fall due for payment in full within the coming year are classified as current liabilities in the balance sheet. Pension liabilities are classified in the balance sheet as provisions and liabilities.

Values attached to assets and liabilities

Current assets are valued at the lower of acquisition cost and actual value. Current liabilities are recorded as the nominal amount received when the liability was created.

Fixed assets are initially recorded at their acquisition cost and are then depreciated on a straight line method over a planned period. Financial assets held as fixed assets are valued at acquisition cost, but shares in the subsidiary are treated in accordance with equity method of accounting in the parent company accounts.

Pension costs and pension liabilities are recognised in accordance with the provisional Norwegian Accounting Standard for pensions accounting.

All entries in the accounts in respect of tax relate to the subsidiary company Oslo Børs Informasjon AS and are treated in the accounts in accordance with the provisional Norwegian Accounting Standard for tax.

Note 1 Breakdown of operating revenues by area of activity

FIGURES IN NOK 1,000

| Oslo Børs | | | Group | |
|----------------|----------------|---------------------------------|----------------|----------------|
| 1999 | 1998 | | 1999 | 1998 |
| 43 850 | 47 754 | Quotation fees | 43 850 | 47 754 |
| 7 387 | 6 886 | Listing/prospectus fees | 7 387 | 6 886 |
| 31 849 | 27 938 | Membership fees | 31 849 | 27 938 |
| 13 844 | 9 055 | Dealing fees - options | 13 844 | 9 055 |
| 31 650 | 17 651 | Sales revenue | 54 727 | 32 237 |
| 3 660 | 3 637 | Other income | 3 205 | 3 518 |
| 132 240 | 112 921 | Total operating revenues | 154 862 | 127 388 |

Note 2 Accounts receivable/losses on accounts receivable

Accounts receivable are recorded at their nominal value less provisions for expected losses.

The provision for expected losses amounts to NOK 0 for the Oslo Stock Exchange and NOK 75 for the group.

The group recognised realised losses on receivables of NOK 58 in 1999.

Note 3 Analysis of profit and loss account items

| Oslo Børs | | | Group | |
|---------------|---------------|--|---------------|---------------|
| 1999 | 1998 | | 1999 | 1998 |
| | | Salaries and other personnel expenses | | |
| 37 602 | 32 454 | Salaries | 44 678 | 37 132 |
| 2 721 | 2 325 | Pension expenses | 3 180 | 2 663 |
| 6 714 | 5 450 | Social security payments | 7 862 | 6 175 |
| 8 358 | 2 682 | Other benefits | 8 983 | 2 752 |
| 55 395 | 42 911 | Salaries and other personnel expenses | 64 703 | 48 722 |

Note 4 Analysis of balance sheet items

| Oslo Børs | | | Group | |
|---------------|---------------|------------------------------------|---------------|---------------|
| 1999 | 1998 | | 1999 | 1998 |
| | | Bonds and other receivables: | | |
| 20 607 | 40 815 | Bonds | 20 607 | 40 815 |
| | 797 | Loans to employees | | 797 |
| 1 350 | 1 350 | Other long term receivables | 1 350 | 1 361 |
| 21 957 | 42 962 | Bonds and other receivables | 21 957 | 42 973 |
| | | Other current liabilities: | | |
| 3 157 | 2 800 | Salaries, holiday pay etc. | 3 798 | 3 193 |
| 200 | 1 000 | Deferred revenues | 199 | 2 255 |
| 4 048 | 3 869 | Other accruals | 4 174 | 3 826 |
| 7 405 | 7 669 | Other current liabilities | 8 171 | 9 274 |

Bonds held:

The portfolio consisted of holdings in Norwegian Government bonds 92/99 (S462) nominal value NOK 20,000 and 92/02 (S463) nominal value NOK 20,000. Funds invested in S462 which matured in 1999 were transferred to liquid assets as bank deposits. Holdings of bonds have been classified as fixed assets since 31.12.1994 on the assumption that they will be held to maturity. These holdings are recognised in the accounts as generating interest equivalent to their effective yield. Changes in the market level of return on such bonds accordingly have no effect on profit and loss or the balance sheet. Any premium at the date the bonds were classified as fixed assets is amortised over the period to maturity.

Note 5 Tax expense/deferred tax allowances

The following table provides a specification of the difference between pre-tax profit for accounting purposes and the year's tax base for the group, as well as details of the tax charge for the year.

| Oslo Børs | | | Group | |
|-----------|------|-----------------------------------|-------------|------------|
| 1999 | 1998 | | 1999 | 1998 |
| | | Pre-tax profit | -998 | 2 808 |
| | | Permanent differences | 97 | 26 |
| | | Change in temporary differences | 816 | -263 |
| | | Tax base for the year | -85 | 2 571 |
| | | Tax due at 28% | 0 | 720 |
| | | Change in deferred tax allowances | -252 | 0 |
| | | Tax of the year | -252 | 720 |

The following table provides a specification of temporary timing differences and a calculation of deferred tax/tax allowances at the end of the financial year.

| Oslo Børs | | Group | | |
|-----------|------|---|---------------|---------------|
| 1999 | 1998 | 1999 | 1998 | |
| | | Fixed assets | -2 325 | -1 471 |
| | | Receivables | -66 | -75 |
| | | Pension liabilities | -104 | -134 |
| | | Losses carried forward | -85 | |
| | | Total temporary timing differences | -2 580 | -1 680 |
| | | Deferred tax/tax allowances, 28% | -723 | -470 |

The application of the equity method of accounting to the parent company's holding of shares in the subsidiary Oslo Børs Informasjon AS means that tax due is already deducted from the profit recognised.

The tax charge/tax allowances shown in the group profit and loss account consist of tax payable and the change in deferred tax allowances for the subsidiary company. Tax payable is calculated on the basis of the taxable income for the year, while the change in deferred tax allowances is calculated on the basis of temporary timing differences between the year's income for accounting and tax purposes.

Deferred tax allowances in the group accounts are calculated on the basis of the temporary timing differences which exist at the end of the accounting year between accounting and tax values and losses carried forward.

Timing differences and losses carried forward which reduce tax payable are set off against timing differences which increase tax payable and are reversed in the same period.

Note 6 Pension costs and liabilities

The Oslo Stock Exchange has arranged a collective pension scheme through Storebrand Livsforsikring. Liability in respect of pensions is calculated as the discounted present value of the future pension benefits accrued at the date of the balance sheet, assuming that employees' entitlement to pension benefits accrues linearly over their working life. Pension fund assets are recognised at their actual value and netted against pension liabilities in the balance sheet. The net liability for pensions is reported as a long term liability.

The net pension cost for the period is included in salaries and other personnel expenses, and consists of the net discounted present value of pension rights accrued for the year, the interest accrued on pension liability, the expected return on pension fund assets, the expensed effect of any change in the pension scheme or the estimates used, the expensed difference between actual and expected yield and the accrued liability for social security payments.

The effect of any changes in the pension scheme or the estimates used, as well as any difference between the actual and expected return on pension fund assets are treated as changes in estimates and charged to profit and loss for the year in which they arise.

The following assumptions are applied in calculating pension liability:

| | 1999 | 1998 |
|--|--------|--------|
| Expected return on pension funds | 8,00 % | 8,00 % |
| Discount rate | 7,00 % | 7,00 % |
| Expected rate of increase in salaries and basic state pension | 3,30 % | 3,30 % |
| Expected rate of increase in pension benefits under the scheme | 2,50 % | 2,50 % |
| Average rate for employer's social security payments | | |
| No. of employees included in the scheme in total | 65 | 58 |
| No. of parent company employees included in the schem | 75 | 66 |

Pension costs and pension liabilities of the parent company and group are as follows:

| Oslo Børs | | Group | | |
|--------------|--------------|--|--------------|--------------|
| 1999 | 1998 | 1999 | 1998 | |
| | | Net pension costs: | | |
| 2 062 | 1 687 | accrued for the year | 2 565 | 1 949 |
| 1 028 | 930 | Interest on pension liability | 1 086 | 1 020 |
| -1 423 | -1 377 | Expected return on pension fund assets | -1 536 | -1 481 |
| 1 667 | 1 240 | Net pension costs before employer's social security payments | 2 115 | 1 488 |
| 353 | 323 | Accrued social security payments | 426 | 358 |
| | | Change in estimated values | -16 | |
| 2 020 | 1 563 | Net pension costs including employer's social security payments | 2 525 | 1 846 |

Notes

| Oslo Børs | | | Group | |
|--|--------------|--|--------------|--------------|
| 1999 | 1998 | | 1999 | 1998 |
| Financial condition of the pension scheme: | | | | |
| -17 559 | -15 680 | Calculated pension liability | -18 951 | -17 329 |
| 20 248 | 19 526 | Pension fund assets | 22 002 | 21 092 |
| 2 689 | 3 846 | Net pension assets before employer's social security payments | 3 051 | 3 763 |
| | | Accrued social security payments | | -12 |
| 1 494 | -497 | Effect of changes in assumptions not recognised to profit and loss | 1 028 | -536 |
| 4 183 | 3 349 | Net pension assets | 4 079 | 3 215 |

Note 7 Shares in subsidiary company

The parent company accounts record the company's interest in the subsidiary Oslo Børs Informasjon AS in accordance with the equity method of accounting. This means that the investment in this subsidiary is valued in accordance with the subsidiary's equity. The subsidiary's profit or loss for the year is recognised as income or expense. The accounting effect of the introduction of this method was applied to the reserve for valuation differences in the parent company's accrued equity.

Note 8 Receivables and payables between companies in the same group

| Oslo Børs | | | Group | |
|----------------------|---------------|----------------------------------|-------|------|
| 1999 | 1998 | | 1999 | 1998 |
| Current receivables: | | | | |
| 8 733 | | Accounts receivable - subsidiary | | |
| 8 097 | 16 152 | Other receivables - subsidiary | | |
| 16 830 | 16 152 | Total current receivables | | |

The parent company has not issued any guarantees nor pledged any assets in support of its subsidiary.

Note 9 Loans and guarantees for officers and senior employees, shareholders etc.

The following table shows the loans made and/or security issued for individual members of the Board and senior management:

| Name | Position/title | Total loans/ security issued | Interest rate /term |
|--------------------------|------------------|---------------------------------|------------------------|
| Kjell Frønsdal | Former President | 626 | 5 % / 1 year |
| Loans to other employees | | 132 | |
| Total | | 758 | |

Note 10 Fixed assets

| Oslo Børs | Property | Vehicles, fittings etc. | Trading system | Operating assets not depreciated | Total |
|--|----------|----------------------------|-------------------|--|---------|
| Acquisition cost and ordinary depreciation | | | | | |
| Acquisition cost 1 January | 12 312 | 23 885 | 74 864 | 305 | 111 366 |
| Additions during the year | | 2 336 | 36 109 | 12 | 38 457 |
| Disposals during the year | 350 | 11 200 | | 11 550 | |
| Acquisition cost 31 December | 12 312 | 25 871 | 99 773 | 317 | 138 273 |
| Acc. ord. depreciation 1 January | 5 690 | 15 780 | 2 954 | | 24 424 |
| Ordinary depreciation for the year | 248 | 5 336 | 18 445 | | 24 029 |
| Acc. ord. depreciation for assets sold | | 213 | 2 700 | | 2 913 |
| Acc. ord. depreciation 31 December | 5 938 | 20 903 | 18 699 | 0 | 45 540 |
| Book value 31 December | 6 374 | 4 968 | 81 074 | 317 | 92 733 |
| Rates (%) of ordinary depreciation | 2 | 10-33 | 20 | 0 | |
| Book gain/loss on assets sold | 0 | -8 417 | 0 | 0 | -8 417 |

Group

| | Property | Vehicles, fittings etc. | Trading system | Operating assets not depreciated | Total |
|---|----------|----------------------------|-------------------|--|---------|
| Acquisition cost and ordinary depreciation | | | | | |
| Acquisition cost 1 January | 12 312 | 35 874 | 74 864 | 305 | 123 355 |
| Additions during the year | 0 | 2 987 | 36 109 | 12 | 39 108 |
| Disposals during the year | 0 | 5 168 | 11 200 | | 16 368 |
| Acquisition cost 31 December | 12 312 | 33 693 | 99 773 | 317 | 146 095 |
| Acc. ord. depreciation 1 January | 5 690 | 22 087 | 2 954 | 0 | 30 731 |
| Ordinary depreciation for the year | 248 | 7 765 | 18 445 | 0 | 26 458 |
| Acc. ord. depreciation for assets sold | 0 | 5 031 | 2 700 | 0 | 7 731 |
| Acc. ord. depreciation 31 December | 5 938 | 24 821 | 18 699 | 0 | 49 458 |
| Book value 31 December | 6 374 | 8 872 | 81 074 | 317 | 96 637 |
| Rates (%) of ordinary depreciation | 2 | 10-33 | 20 | 0 | |
| Book gain/loss on assets sold | 0 | -8 417 | 0 | 0 | -8 417 |

The cost of the new trading system has been capitalised, and depreciation of this asset started on 21 October 1998. It was decided that Remote Gateways should be transferred free of charge to current member firms (who have paid a connection fee in this respect). This caused a loss on disposal of NOK 8,500.

Note 11 Equity

| | Oslo Børs | | | Group | | |
|--|--------------------------|-----------------|----------------|--------------------------|-----------------|----------------|
| | Valuation differences | Other equity | TOTAL | Valuation differences | Other equity | TOTAL |
| Re-statement of equity as a result of the new Accounting Act | | | | | | |
| Equity 31 December 1998 | | 178 927 | 178 927 | 186 657 | 186 657 | |
| Deferred tax allowances booked | | | 470 | 470 | | |
| Introduction of equity method | | | 8 200 | | 8 200 | |
| Equity 1 January 1999 | 8 200 | 178 927 | 187 127 | 0 | 187 127 | 187 127 |
| Change in equity for the year | | | 0 | | | |
| Profit for the year | | -12 316 | -12 316 | | -12 316 | -12 316 |
| Equity 31 December 1999 | 8 200 | 166 611 | 174 811 | 0 | 174 811 | 174 811 |

25

Note 12 No. of employees

| Oslo Børs | | Group | |
|-----------|------|-----------------------------|------|
| 1999 | 1998 | 1999 | 1998 |
| 79 | 74 | Average number of employees | 93 |
| | | | 84 |

Note 13 Remuneration of officers, senior management, the auditor etc.

| Remuneration | President | Stock Exchange | |
|--------------------------------------|--------------|----------------|------------|
| | 1.1 - 8.8.99 | Board | Councilt |
| Salary and other remuneration | 728 | 949 | 243 |

An additional amount of NOK 6,100 (including pension liabilities of NOK 3,276) was incurred in addition to the salary and other remuneration shown above in respect of former President and C.E.O.

Kjell Frønsdal leaving the service of the Oslo Stock Exchange.

Fees paid to the auditor for 1999 amounted to NOK 170 for audit and NOK 90 for advisory services.

Note 14 Pension liabilities

The Oslo Stock Exchange established a voluntary early retirement scheme for all employees in 1997, effective from the age of 64 years. The scheme offers a pension equivalent to 60% of gross salary. For certain managers, based on seniority and the management position in question, the scheme is available from age 60. The liabilities arising from this scheme are calculated in accordance with the standards laid down by the Norwegian Accounting Board, and are expensed as an operating expense and capitalised in the balance sheet in the amount of NOK 3,046. In addition provision has been made for the pension entitlement of the former President and C.E.O. of the Oslo Stock Exchange in the amount of NOK 3,276.

Note 15 Restricted funds

An amount of NOK 3,671 of the parent company's total bank deposits is restricted for payment of payroll tax and other deductions due from the Oslo Stock Exchange. The equivalent figure for the group as a whole is NOK 4,458.

Auditors report for 1999

REVISJONSFIRMAET KJELSTRUP OG WIGGEN ANS



(Translation from Norwegian)

To the Stock Exchange Council

Subscribed members:

Ulf F. Kjølstrup
Erik Wiggen
Erik Olsen
Peter Høvd
Per Hanning Lø

AUDITOR'S REPORT FOR 1999

We have audited the annual financial statements of the Oslo Stock Exchange as of 31 December 1999, showing a loss of NOK 12 316 000 for the parent company and a loss of NOK 12 316 000 for the group. We have also audited the information in the Board of Directors' report concerning the financial statements, the going concern assumption, and the proposal for the coverage of the loss. The financial statements comprise the balance sheet, the statements of income and cash flows, the accompanying notes and the group accounts. These financial statements are the responsibility of the Board of Directors and the President of the Stock Exchange. Our responsibility is to express an opinion on these financial statements and on the other information according to the requirements of the Norwegian Act on Auditing and Auditors.

We have conducted our audit in accordance with the Norwegian Act on Auditing and Auditors and good auditing practice. Good auditing practice require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. To the extent required by law and good auditing practice an audit also comprises a review of the management of the Stock Exchange's financial affairs and its accounting and internal control systems. We believe that our audit provides a reasonable basis for our opinion.

In our opinion,

- the financial statements are prepared in accordance with the law and regulations and present the financial position of the Stock Exchange and of the Group as of December 31, 1999, and the results of its operations and its cash flows for the year then ended, in accordance with good accounting practice
- the Stock Exchange's management has fulfilled its duty to prepare a proper and clearly set out registration and documentation of accounting information in accordance with the law and good accounting practice
- the information in the Board of Directors' report concerning the financial statements, the going concern assumption, and the proposal for the coverage of the loss are consistent with the financial statements and comply with the law and regulations.

Oslo, 15 February 2000

Revisjonsfirmaet Kjølstrup & Wiggen ANS
Translation, not to be signed

Ulf F. Kjølstrup
State Authorised Public Accountant (Norway)

Note: The translation to English has been prepared for information purposes only

Organisation

OSLO BØRS COUNCIL 1 JANUARY 1999

Chairman

Borger A. Lenth

Deputy Chairman

Solveig Sollie

Members

Gunnar Jørgensen

Jan A. Halvorsen

Eli Telhaug

Torkild Varran

Lena Sparr Johnsen

Lars Trondsgaard

Tone Ofstad

Gyda Berg

Kjersti Tøgård Trøbråten

Gro Granden

Else Bøthun

Kristian Lund

Hanne Bøvold

Thor Jørgen Guttormsen

Siv Elisabeth Østlien Jacobsen

Atle Johnsen

Karin Joys Vabø

Tor E. Hernæs

Georg Størmer (until 31 December 1999)

Lisbeth Lindberg

Hilde E. Johansen

Lasse E. Ruud

Jan Hellstrøm

Bernt Bangstad

Hege Sjø

Deputy Members

Monica Smith-Sørensen

Cathrine Hellandsvik

Vibeke Parr

Inger Nergård

Erik Garaas

Olaug Svarva

Ingeborg B. Holtskog Olebakken

Terje Ruud

Eirik Bunæs

Henning Strand

Per Broch Mathisen

Frede Aas Rognlien

Edith Midelfart

Geir Brufrot

Aase Aamdal Lundgaard

Henning Strøm

Elin Heio Kobro

Tor Lund

Hanne Rieker

Egil Blakstad

Astrid E. Sørsgaard

Tom Kolvig

Kari S. Hansen

Lars Inge Pettersen

Organisation

Norwegian Shareholders Organisation

Ministry of Labour and Government Administration

Ministry of Finance

The Norwegian Financial Services Association

The Norwegian Financial Services Association

State Social Security Fund

Ministry of Justice

Association of Local Authorities

Banking, Insurance and Securities Commission

The Norwegian Confederation of Trade Unions

The Norwegian Central Bank

Norwegian Association of Stockbrokers

Norwegian Association of Stockbrokers

Norwegian Shipholders Association

Norwegian Futures & Options Clearing House

Norwegian Accounting Standards Board

Norwegian Association of Financial Analysts

Ministry of Trade and Industry

Confederation of Norwegian Business and Industry

Confederation of Norwegian Business and Industry

Norwegian Savings Banks Association

Mutual Funds Association

The Norwegian Central Securities Depository

Staff representative

Staff representative

Organisation

THE STOCK EXCHANGE BOARD

| | |
|--|---|
| Ole Lund, Chairman (until 31 January 2000) | Advokatfirmaet BAHR |
| Tom Knoff, Deputy Chairman | Christiania Markets |
| Frode Hassel | Bolig- og Næringsbanken ASA |
| Kristin Normann Aarum | Department of Private Law, Faculty of Law, University of Oslo |
| Johan Solbu Braaten | Carnegie Fondsforsvaltning AS |
| Jarle Berge | The Central Bank of Norway |
| Georg Størmer | Norsk Hydro ASA |
| Oddleif Hatlem | staff representative |

THE STOCK EXCHANGE APPEALS COMMITTEE

| | |
|----------------------------------|---------------------------|
| Tore Schei (until 30 April 1999) | High Court Judge |
| Björg Ven | Advokatene Haavind & Haga |
| John Giverholt | Orkla ASA |
| Anne Cathrine Høeg Rasmussen | Advokatfirmaet Schjødt AS |
| Ellen Moe | Borgarting Lagmannsrett |

THE ACCOUNTING COMMITTEE

| | |
|-----------------------|---|
| Atle Johnsen | Norges Handelshøyskole |
| Finn Berg Jacobsen | Arthur Andersen & Co. |
| Harald Jægtnes | Den norske Bank ASA |
| Jan Syversen | Norwegian Tax Payer Association |
| Trond Tømte | PricewaterhouseCoopers DA |
| Roy Myklebust | Sundal Collier & Co. ASA |
| Aase Aamdal Lundgaard | Deloitte & Touche Statsautoriserte Revisorer AS |

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The history of the Oslo Stock Exchange

The Oslo Stock Exchange has a long and fascinating history. From its origins as an exchange for commodities and foreign currency, the stock exchange's role has developed over the years and has come to play a very important role for Norwegian business and industry in general and the securities market in particular. Its development has been matched by the growth of new technology which has both supported the activities of all the players who use the market and encouraged a growing interest in securities amongst the Norwegian public as a whole. This article provides some insights into the history of the Oslo Stock Exchange through the years from the first issue of shares in 1816 to the introduction last year of a revolutionary new electronic trading system to meet the challenges of the new millennium.

Background

The 'Oslo Exchange' originally fulfilled two functions. It was both a venue for the exchange of currencies and an auction house for 'commercial goods, ships and shares in ships'. Twice a week the exchange quoted prices for 'spesidaler and skilling', the Norwegian currency of the time, against the currencies of Germany, England, Holland, France and Denmark. Trade in commodities did not achieve any real scale until the beginning of the 1900s. However the early days of commodity trading then saw an active business in sugar, flour, potato flour, food oils, foodstuffs, soft soap, herring oil and meal and fish catches.

It was currency trading which first gave rise to daily price-fixing. This started in 1907, and remained a function of the Oslo exchange until 31 August 1991. Commodity trading activities ceased in 1963, but the one exception to this was prices for eggs, which were still quoted until a new system of agricultural price setting brought even this to an end at the close of 1974. This marked the end of a long and rich tradition in the history of the Oslo Exchange.

An exchange for financial securities

Shares and bonds were relatively unknown in Norway prior to 1880. The first issue of shares in the modern sense of the word was probably a transaction carried out in connection with plans to establish Norges Bank

in 1816. However this issue was a complete flop, and a system of compulsory deposits had to be used instead. The concept of issuing shares only started to become more accepted in the 1870s as the Norwegian financial economy became more established.

The first steps in establishing a market for shares in the Norwegian capital were initiated by two bankers, N.A. Andersen and S.C. Andersen, in December 1880, and on 1 March 1881 the new exchange started to quote prices for securities. However this formed just a small part of the activities of the Oslo Exchange at that time. Prices were quoted only once a month by calling in the two broking firms then active in the Norwegian capital.

There was however some increase in activity towards the end of the nineteenth century, with prices quoted on the securities exchange twice a month. It became rapidly apparent that rules and regulations were needed to govern the quotation of prices. This was followed some little while later by the requirement for companies to publish their accounts. It can accordingly be seen that the 'Exchange Committee' of the time established the basic principles for price quotation in the very early years of the fledgling securities exchange.

Rise and fall

Trading in securities on the Oslo Stock Exchange grew strongly in the 1980s



thanks to an upturn in the Norwegian economy and a number of political measures that encouraged investment in securities. This period also saw the Oslo Stock Exchange become the venue for major financial operations arising from corporate acquisitions, restructuring and mergers.

The events of October 1987 accordingly came as a shock to most players in the securities market. There was a dramatic fall in share prices in New York on Friday 16 October, with further falls on Monday and Tuesday of the following week. The Oslo market saw its largest ever one-day fall on Tuesday 20 October, when share prices fell by 19%.

This reflected a particularly unfortunate combination of major falls in international stock markets at a time when the Norwegian economy was moving into recession. The global crash accordingly came to have a greater and more long-lasting effect on the Oslo Stock Exchange than on other stock exchanges around the world.

Turnover in shares on the Oslo Stock Exchange picked up again in 1989, and in 1990 the All Share Index reached a new all-time high of 666.35 on 2 August. However on the same day Iraq invaded Kuwait, and the All Share Index fell back over the rest of 1990 by 46%. Over the next two years the combination of a banking crisis in the domestic market and currency turbulence in international mar-

kets served to reinforce an air of pessimism in the Oslo market.

The first signs of a recovery came when the European currency system was reorganised and the Norwegian krone allowed to float on 10 December 1992. The previous all-time high for the Oslo All Share Index seen in August 1990 was finally consigned to the history books on 27 January 1994, and the index has since move steadily upwards to reach new all-time highs. The most recent record is 1,422.73 achieved on 6 May 1998, and the market was close to breaching even this level on a number of occasions in 1999 and 2000. However the stock market has also experienced tougher times over this recent period, particularly in late 1998 when the oil price fell below USD 10 per barrel and the Norwegian central bank increased interest rates several times. 1999 saw a recovery in the market's prospects, with oil prices more than doubled and a significant reduction in Norwegian interest rates. As might be expected these developments brought the stock market back towards new highs.

Modernisation of the market

Norway has been at the forefront of developments to rationalise settlement routines for securities trading and to make the registration of shareholdings more efficient. The Oslo Stock Exchange played a major role in bringing about the establishment of

the Norwegian Central Securities Depository in 1985 and in establishing a new regulatory framework for securities registration.

1988 saw a number of important developments for the Norwegian securities market. A new Stock Exchange Act came into force which gave the Oslo Stock Exchange responsibility for operating the securities market place, exercising control functions and managing the distribution of prices and prices information. The same year also saw the introduction of an electronic trading system for the Oslo Stock Exchange. The old auction model of trading was replaced by a system offering continuous trading in all listed securities throughout the entire trading day.

The Oslo Stock Exchange went on to introduce an even more revolutionary electronic trading system for shares in anticipation of the new millennium. The new system is based on the automatic matching of orders in an electronic order book, and came into use for share trading on 5 February 1999 with bond trading added in September of the same year. The new system brought about an end to the traditional arrangement for brokers to trade from the stock exchange building by making it possible for member firms to trade from their own offices. The new system also makes it possible to buy and sell securities through the Internet. More information on the current trading system can be found at www.ose.no. ■





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