

GROUND RULES FOR THE MANAGEMENT OF THE FTSE New EU Index

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SECTION 1

1.0 INTRODUCTION

- 1.1 This paper sets out the Ground Rules for the management of the FTSE New EU Index, calculated by FTSE. Copies of these Ground Rules are available from FTSE (see Appendix D).
- 1.2 The FTSE New EU Index is designed to represent the performance of the three largest listed companies in each of the Eastern European Countries joining the EU under phase 1 (see Appendix C).
- 1.3 The index is calculated and published in Euro.
- 1.4 The FTSE New EU Index is calculated in real time and published every minute during the hours of calculation (see Appendix B).
- 1.5 The FTSE New EU Index is a Capital index.

SECTION 2

2.0 INDEX MANAGEMENT

- 2.1 The FTSE New EU Index is managed by the FTSE Index Review Board.
- 2.2 The FTSE Index Review Board undertakes the reviews of the FTSE New EU Index, and ensures that constituent changes and index calculations are made in accordance with the Ground Rules.
- 2.3 FTSE is responsible for the calculation of the FTSE New EU Index. FTSE will maintain records of the market capitalisation of all constituents and will make changes to the constituents and their weightings in accordance with the Ground Rules.
- 2.4 The FTSE New EU Index will be reviewed annually in June, at the same time as the FTSE Emerging Europe review. (See the FTSE Global Equity Index Series Ground Rules, available from FTSE, Appendix D).
- 2.5 FTSE is also responsible for monitoring the performance of the FTSE New EU Index throughout the day and will determine whether the status of each index should be 'firm', 'indicative', 'held' or 'part'. FTSE will inform the FTSE Index Review Board of the reasons for all such occasions at the next regular meeting.

SECTION 3

3.0 STATUS OF INDICES

3.1 The FTSE New EU Index is calculated in real time and may exist in the following states:

(a) **Firm**

The index is being calculated using trade prices from the relevant local stock exchanges for all constituents during the hours of the Official Index Period (see Appendix B).

The Official Closing Index for the FTSE New EU Index is the last index value calculated at the end of the firm period.

(b) **Closed**

When the index has ceased all calculations for the day, the message '**CLOSED**' is displayed against the index value.

(c) **Held**

During the firm period, the index has exceeded pre-set operating parameters and calculation has been suspended pending resolution of the problem. The message '**HELD**' is displayed against the last index value calculated.

(d) **Indicative**

If there is a system problem or a situation in the market that is judged to be affecting the quality of the constituent prices at any time when the index is being calculated, the index will be declared indicative. The message '**IND**' will be displayed against the index value.

(e) **Part**

If the index is being calculated during the normal Official Index Period hours, but there are less than 75% of the constituents by capitalisation available with firm prices, then the index will be displayed with the message '**PART**' to indicate that only a proportion of the securities prices are included. With the exception of the message '**PART**', the index will continue to be calculated and displayed as if it were firm.

3.2 The official opening and closing hours of the FTSE New EU Index are set out in Appendix B. Variations to the official hours of the indices are published by FTSE as appropriate.

3.3 The FTSE New EU Index is calculated on European public holidays whenever at least one market is trading. It is not calculated on 25th December or 1st January.

SECTION 4

4.0 ELIGIBLE SECURITIES

- 4.1 Only securities listed on the eligible markets of the relevant Stock Exchange that are fully listed by way of ordinary shares or common stock, and incorporated and resident in that country for tax purposes, are eligible for the FTSE New EU Index (see Appendix C).
- 4.2 Where a stock exchange has two or more market sections the primary section is eligible. Where there are less than ten securities listed on the primary section, securities listed on the secondary section are also eligible (see Appendix C).
- 4.3 The entire quoted equity capital of a constituent company is included in the calculation of its market capitalisation.
- 4.4 The index calculation is based upon the full market capitalisation of the constituents. Constituents are not free float adjusted.
- 4.5 Where a company's shares are issued partly, or nil, paid and the call dates are already determined and known, the market price will, for the purposes of calculating its market capitalisation, be adjusted so as to include all such calls (i.e. the fully paid price).
- 4.6 Where a company lists multiple lines of equity capital, only the main line of stock i.e. the largest by full market capitalisation is eligible.
- 4.7 Convertible preference shares and loan stocks are excluded until converted.
- 4.8 The FTSE Index Review Board must be satisfied that an accurate and reliable price exists for the purposes of determining the market value of a company. The FTSE Index Review Board may exclude a security from the FTSE New EU Index if it considers that an accurate and reliable price is not available. The FTSE New EU Index uses the last trade prices from the relevant stock exchanges, when available.

SECTION 5

5.0 INDEX QUALIFICATION CRITERIA

- 5.1 The FTSE New EU Index is comprised of the three largest listed companies by full market capitalisation from each of the eligible countries, which qualify under Rule 3.0 as eligible for inclusion in the index (see Appendix C).
- 5.2 The reserve list is comprised of the next two largest companies by full market capitalisation from each of the eligible countries, which qualify under Rule 3.0 as eligible for inclusion in the index (see Appendix C).
- 5.3 All constituents of the index and the reserve list must be listed on the main section of the relevant stock exchange, unless there is an insufficient number, in which situation stocks will be included from the secondary market sections where otherwise eligible (see Appendix C).

SECTION 6

6.0 REVIEW OF CONSTITUENTS

6.1 General

6.1.1 The rules for adding and deleting companies at the annual review are designed to provide stability in the selection of constituents of the FTSE New EU Index while ensuring that the index continues to be representative of the eligible markets by including or excluding those companies whose full market capitalisation has risen or fallen significantly.

6.2 Review Dates

6.2.1 The FTSE New EU Index is reviewed annually in June, at the same time as the FTSE Emerging Europe review.

6.2.2 The data on which the annual review is undertaken will be from the close of the last business day in March.

6.2.3 Changes arising from the annual review will be implemented after the close of business on the third Friday in June, at the same time as the FTSE Emerging Europe review.

6.3 Responsibilities and Reporting

6.3.1 FTSE is responsible for conducting the annual review of constituents for the FTSE New EU Index and will recommend to the FTSE Index Review Board any constituents to be added or deleted as part of the annual review.

6.4 Rules for Addition and Deletion at the Annual Review

6.4.1 The constituents of the FTSE New EU Index are determined using the following methodology:

6.4.2 A primary universe of stocks is created by combining all eligible stocks from each eligible country's primary eligible markets.

6.4.3 A secondary universe is then created using the eligible secondary markets, as defined in Appendix C.

6.4.4 The two market universes are then ranked by full market capitalisation.

6.4.5 The new index constituent list comprises the largest three securities in each country from the primary market universe. If there are fewer than three securities available for any country, the additional stocks are selected from the secondary market universe, largest first.

6.4.6 Each eligible country will therefore be represented in the FTSE New EU Index by three constituent securities.

6.4.7 The reserve list comprises the two next largest non-constituent securities from each country, selected from the primary market universe. If there are fewer than two available, securities are selected from the secondary market universe, largest first.

SECTION 6

- 6.4.8 The reserve list securities will remain the same until the next annual review, unless there are corporate actions that dictate otherwise. (See Rule 7.0).
- 6.4.9 The reserve list securities will be used to replace any constituents leaving the index in the reserve constituents' country for any reason between reviews.

SECTION 7

7.0 CHANGES TO CONSTITUENT COMPANIES

7.1 Removal

- 7.1.1 A constituent company will cease to be a constituent of the FTSE New EU Index if it delists from its primary exchange, or becomes ineligible under Rule 4.0.
- 7.1.2 If an index constituent company is removed from the index, the largest reserve list security for that country is added to the index, in accordance with rule 7.1.3. The reserve list security will be added to the index at the same time that the index constituent is removed.
- 7.1.3 The reserve list will be re-ranked by full market cap using the closing value two days prior to the implementation of the change, and the largest stock will be selected for replacement in the index.
- 7.1.4 The reserve list security will not be replaced unless both reserve list securities from that country are either added to the index or cease to be eligible as described in rule 7.1.1.
- 7.1.5 If the two securities in the reserve list of any single country are either added to the index or cease to be eligible as described in rule 7.1.1, the next two highest ranking stocks (See 6.4.7) at the time of the previous annual review will form the new reserve list. FTSE is responsible for publishing this new reserve list.
- 7.1.6 Where a constituent is removed from the index after the FTSE Index Review Board has met and approved periodic changes to the index but before the periodic changes have been implemented, the highest ranking security by full market capitalisation from the new Reserve List will replace the deleted company.

7.2 Additions & New Issues

- 7.2.1 A security will only be eligible to be added to the index if it is eligible in all respects at the annual review.
- 7.2.2 New issues will be eligible for inclusion in the index at the index annual review following their issue, index if they meet the eligibility requirements in all other respects.

7.3 Mergers, Restructuring and Complex Takeovers

- 7.3.1 If the effect of a merger or takeover is that one constituent is absorbed by another, the resulting company will remain a constituent of the index and a vacancy will be created. This vacancy will be filled by the largest reserve list security from the same country at the time of the event. The removal and replacement of these stocks will be simultaneous.
- 7.3.2 If a constituent is taken over by an eligible non-constituent, the original constituent will be removed and replaced by the merged entity. In the event that the merged entity is ineligible for the index, it will be replaced by the largest reserve list security from the same country at the time of the event. The removal and replacement of these stocks will be simultaneous.

SECTION 7

- 7.3.3 If a constituent company is split so as to form two or more companies, the two or more companies arising from the split will be eligible for inclusion in the index if they qualify in all other respects. If the new companies are ineligible then a vacancy will be created. If two or more companies are eligible, the smallest constituent(s) at the market close on the day of the event will be deleted. The removal and replacement of these stocks will be simultaneous. At no point will there be more than three companies representing one country in the index.
- 7.3.4 If the FTSE Index Review Board decides to include a new issue as a constituent security other than as part of the normal annual review procedure, this decision must be publicly announced at the earliest practicable time.
- 7.3.5 If a constituent is removed from the index due to a larger security entering the index at any time other than the annual review, that constituent will become part of the reserve list and the smallest constituent in the reserve list, two day prior to the change, will be removed.

SECTION 8

8.0 Changes to Constituent Weightings

- 8.1 For the purposes of computing the FTSE New EU Index, the number of shares in issue for each constituent security is expressed to the nearest share and, to prevent a large number of insignificant weighting changes, the number of shares in issue for each constituent security is amended only when the total shares in issue held within the index system changes by more than 10% on a cumulative basis.
- 8.2 If a corporate action is applied to an index constituent which involves a change in the number of shares in issue, the change in the number of shares will be applied simultaneously with the corporate action.
- 8.3 Changes of shares in issue not arising from corporate actions, amounting to less than 10% of the number of shares in issue but more than 1%, will be made quarterly, after the close of business on the third Friday of March, June, September and December.
- 8.4 If accumulated changes in the number of shares in issue add up to 10% or more, they are implemented between quarters. A minimum of 4 days notice will be given to users of the index.
- 8.5 Any exceptions to the above arrangements will be agreed with the Chairman of the FTSE Index Review Board, and notified to all users in advance of implementation.
- 8.6 All adjustments are made before the start of the index calculation on the day concerned, unless market conditions prevent this.

SECTION 9

9.0 AMENDMENTS TO THE GROUND RULES

- 9.1 In the event that the FTSE Index Review Board or any of those responsible for the operation and administration of the FTSE New EU Index consider that an exception should be made to any of the Ground Rules, the issue must be brought to the attention of the Chairman or Deputy Chairman (or their deputies) of the FTSE Index Review Board, who will normally put the matter to the full FTSE Index Review Board for a decision. If, however, the matter is urgent, the Chairman and Deputy Chairman (or their deputies) are collectively empowered to authorise an exception on behalf of the FTSE Index Review Board but must immediately notify, and subsequently refer the matter to, a meeting of the FTSE Index Review Board. Where an exception is granted to the Ground Rules, it shall not be deemed to create a precedent for future decisions of the FTSE Index Review Board.

SECTION 10

10.0 CALCULATION

10.1 Prices

10.1.1 The FTSE New EU Index uses actual trade prices for securities with local stock exchange quotations. Reuters real-time spot currency rates are used in the index calculation.

10.1.2 The FTSE New EU Index uses real-time share prices and currency spot rates .

10.2 Calculation Frequency

10.2.1 The FTSE New EU Index is published every minute during the official index period, using last trade prices (see Appendix B)

10.3 Algorithm

10.3.1 The index algorithm and calculation method are detailed in Appendix A.

APPENDIX A
Index Algorithm and Calculation Method

The indices are calculated using the algorithm described below.

$$\sum \frac{(p_i^n \cdot e_i^n) \cdot s_i^n}{d}$$

$$i = 1, 2, 3, \dots, n$$

| | | | |
|---|---|-----------------|---|
| n | = | | The number of securities in the index. |
| P | = | Price | The latest trade price of the component security (or the price at the close of the index on the previous day) |
| e | = | Exchange Rate | The exchange rate required to convert the security's home currency into the index's base currency. |
| s | = | Shares in Issue | The number of shares in issue used by FTSE for the security, as defined in these Ground Rules. |
| d | = | Divisor | A figure that represents the total issued share capital of the index at the base date. The divisor can be adjusted to allow changes in the issued share capital of individual securities to be made without distorting the index. |

INDEX OPENING AND CLOSING HOURS

APPENDIX B

| | OPEN | CLOSE |
|-------------------|-------------|--------------|
| Index: | | |
| FTSE New EU Index | 09.00 | 17.30 |

All times are CET

APPENDIX C
Eligible Countries and Markets

Only Securities that are fully listed on the following market sections, of the following exchanges, by way of ordinary shares or common stock may be eligible for the index.

| Country | Exchange Location | Primary Market Section | Secondary Market Section | Opening Hours CET |
|----------------|-------------------|------------------------|--------------------------|-------------------|
| Cyprus | Nicosia | Main Market | N/A | 0930 – 1200 |
| Czech Republic | Prague | Main Market | Secondary Market | 0930 – 1600 |
| Estonia | Tallinn | Main Market | I List | 0900 – 1300 |
| Hungary | Budapest | Category A | N/A | 0900 – 1630 |
| Latvia | Riga | Official List | Second List | 0900 – 1300 |
| Lithuania | Vilnius | Official List | Current List | 0900 – 1300 |
| Malta | Valetta | Official List | N/A | 1015 – 1115 |
| Poland | Warsaw | Main List | N/A | 1000 – 1600 |
| Slovakia | Bratislava | Main List | Parallel List | 1100 – 1400 |
| Slovenia | Ljubljana | Official List | N/A | 0930 – 1300 |

APPENDIX D

FURTHER INFORMATION

Further information on the FTSE New EU Index is available from FTSE, who also welcomes comments on these Ground Rules and on the index.

Enquiries should be addressed in the first instance to:

UK

Client Services
FTSE
12th Floor
10 Upper Bank Street
London
E14 5NP

+44 (0) 20 7866 1810
+44 (0) 20 7866 8958 (fax)

e-mail: info@ftse.com

USA - East Coast

Client Services
FTSE
22nd Floor
199 Water Street
New York
NY 10038

+1 212 771 6980
+1 212 771 6610 (fax)

e-mail: info@ftse.com

USA - West Coast

Client Services
FTSE Americas Inc.
251 Post Street,
Suite 200,
San Francisco, CA 94108

+1 415 445 5660
+1 415 445 5666 (fax)

e-mail: info@ftse.com

Germany

Client Services
FTSE
Nibelungenplatz 3
60318 Frankfurt
GERMANY

+49 69 15685143
+49 69 15976604 (fax)

e-mail: info@ftse.com

France

Client Services
FTSE
40 rue La Boétie
75008 Paris

+33 (0) 1 53 76 82 88
+33 (0) 1 53 76 82 71 (fax)

e-mail: info@ftse.com

Spain

Client Services
FTSE
Paseo de la Castellana 66,
28046 Madrid,
Spain

+34 (0) 91 411 37 87

e-mail: info@ftse.com

Hong Kong

Client Services
FTSE
Suite 609-612
One International Finance Centre
Hong Kong

+852 2230 5800
+852 2230 5804 (fax)

e-mail: info@ftse.com

Japan

Client Services
FTSE
Yamato Seimei Building 21F,
1-1-7 Uchisaiwaicho,
Chiyoda-Ku,
Tokyo
JAPAN

+81 3 3581 2811
+81 3 3581 1423 (fax)

e-mail: info@ftse.com

In Singapore please ring +65 223 3738

Web site: www.ftse.com

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