FTSE

GROUND RULES FOR THE MANAGEMENT OF THE

FTSE RUSSIA IOB 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 Russia IOB Index. Copies of the Ground Rules are available from www.ftse.com.

1.2 The FTSE Russia IOB Index represents the performance of the 15 biggest Russian companies by full market capitalisation trading on the London Stock Exchange's International Order Book (IOB) under the form of Russian depositary receipts (DRs).

1.3 A Price Index is calculated in real-time and published in US dollars.

1.4 A Total Return Index is published at the end of each working day. The Total Return Index is based on ex dividend adjustments.

1.5 The FTSE Russia IOB Index is capped at review as detailed in Rule 5.1.3.

1.6 The FTSE Russia IOB Index has a starting value of 1000, as at 22nd September 2006.

SECTION 2

2.0 STATUS OF INDEX

2.1 A Price Index will be calculated on a real-time basis in US Dollars. A Price and Total Return Index will also be calculated on an end of day basis in US Dollar, Sterling and Euro. The FTSE Russia IOB Index may exist in the following states.

a) Firm

i. The Index is being calculated during Official Market Hours (see Appendix A). No message will be displayed against the Index value.

ii. The Official Closing Price for FTSE Russia IOB Index will be the London Stock Exchange's International Order Book (IOB) Official Closing Price (see Appendix A).

b) Closed

The Index has ceased all calculations for the day. The message 'CLOSE' will be displayed against the Index value calculated by FTSE.

c) Held

During Official Market Hours, an Index has exceeded pre-set operating parameters and the calculation has been suspended pending resolution of the problem. The message 'HELD' will be displayed against the last Index value calculated by FTSE.

d) Indicative

If there is a system problem or situation in the market that is judged to affect the quality of the constituent prices at any time when the Index is being calculated, the Index will be declared indicative (e.g. normally where a 'fast market' exists in the depositary receipt market). The message 'IND' will be displayed against the Index value calculated by FTSE.

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.

2.2 The official opening and closing hours of the FTSE Russia IOB Index are set out in Appendix A. Variations to the official hours of the Index will be published by FTSE.

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SECTION 3

3.0 MANAGEMENT RESPONSIBILITIES

3.1 FTSE International Limited (FTSE)

3.1.1 FTSE is responsible of the operation of the FTSE Russia IOB 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. FTSE will carry out reviews and implement the resulting constituent changes as required by the Ground Rules.

3.1.2 Changes to constituent weightings will be made by FTSE in accordance with the Ground Rules. FTSE is responsible for publicising and keeping a record of all changes to constituent weightings. The weightings of constituents in the real time Index shall be used in the calculation of the end of day Index.

3.1.3 FTSE is also responsible for monitoring the performance of the FTSE Russia IOB Index throughout the day and will determine whether the status of the Index should be Firm, Closed, Indicative, Held or Part (see Rule 2.1).

SECTION 4

4.0 ELIGIBLE COMPANIES

4.1 All Russian depositary receipts trading on the London Stock Exchange's International Order Book are eligible for inclusion in the FTSE Russia IOB Index.

4.1.1 When determining nationality, FTSE Russia IOB eligible securities are those deemed by the London Stock Exchange to have significant operations in Russia and included in the index universe. The eligible securities are published monthly on the London Stock Exchange website.

4.2 **Free Float**

4.2.1 The FTSE Russia IOB Index is adjusted for free float and foreign ownership limits. Free float restrictions include:

- Shares directly owned by State, Regional, Municipal and Local governments (excluding shares held by independently managed pension schemes for governments).
- Shares held by Sovereign Wealth Funds where each holding is 10% or greater. If the holding subsequently decreases below 10%, the shares will remain restricted until the holding falls below 7%.
- Shares held by directors, senior executives and managers of the company, and by their family and direct relations, and by companies that they control.
- Shares held within employee share plans.
- Shares held by public companies or by non-listed subsidiaries of public companies.
- Shares held by founders, promoters, former directors, founding venture capital and private equity firms, private companies and individuals (including employees) where the holding is 10% or greater. If the holding subsequently decreases below 10%, the shares will remain restricted until the holding falls below 7%.
- All shares where the holder is subject to a lock-in clause (for the duration of that clause).
- Shares held for publicly announced strategic reasons, including shares held by several holders acting in concert.

4.2.2 For clarity, holdings not considered as restricted free float include:

- Portfolio holdings (such as pension and insurance funds)
- Nominee holdings (unless they represent restricted free float as defined by Rule 4.2.1)
- Holdings by investment companies
- ETFs

4.2.3 Free float restrictions will be calculated using available published information. The initial weighting of a constituent in the index will be applied in the following bands.

a)	free float less than or equal to 15%	=	see Rule 4.2.4
b)	free float greater than 15% but less than or equal to 20%	=	20%
c)	free float greater than 20% but less than or equal to 30%	=	30%
d)	free float greater than 30% but less than or equal to 40%	=	40%
e)	free float greater than 40% but less than or equal to 50%	=	50%
f)	free float greater than 50% but less than or equal to 75%	=	75%
g)	free float greater than 75%	=	100%

SECTION 4

4.2.4 A Security that has a free float of less than 5% will be ineligible for the index. A security that has a free float greater than 5% but less than or equal to 15% will be eligible for the index providing the security's full market capitalisation (before the application of any investability weight) is greater than USD 2.5bn. The actual free float will be rounded up to the next highest whole percentage number.

4.2.5 Foreign ownership limits, if any, will be applied after calculating the actual free float restriction, but before applying the above bands. If the foreign ownership limit is more restrictive than the free float restriction, the precise foreign ownership limit is applied.

4.2.6 If the foreign ownership limit is less restrictive or equal to the free float restriction, the free float restriction is applied.

4.2.7 A constituent's free float will also be reviewed and adjusted if necessary upon identification of information which necessitates a change in free float weighting following a corporate event. If the corporate event includes a corporate action which affects the index, any change in free float will be implemented at the same time as the corporate action. If there is not a corporate action, the change in free float will be applied as soon as practicable after the corporate event, subject to Rule 4.2.8 below.

4.2.8 Following the application of an initial free float restriction, a constituent's free float will only be changed if its actual free float moves to more than 5 percentage points above the minimum or 5 percentage points below the maximum of an adjacent new band. This 5 percentage points threshold does not apply if the change is greater than one band; therefore a movement of 10 percentage points for the bands between 20% and 50% and 25 percentage points for the bands between 50% and 100% will not be subject to the 5 percentage point threshold.

4.3 Convertible preference shares and loan stocks will be excluded until converted.

4.4 Companies engaged primarily in owning stakes in a diversified range of companies and other investments but not taking a controlling interest (e.g. Investment Trusts) will be eligible, subject to passing the relevant entry criteria.

4.5 The following investment entities are regarded as ineligible:

Non-Corporate Investment Entities such as Exchange Traded Funds (ETFs), currency funds and those funds whose prices are a direct derivation of their underlying holdings (e.g. mutual funds) are excluded.

4.6 New issues will become eligible for inclusion at the next periodic review of constituents providing they have, since the commencement of Official non-conditional trading, a minimum trading record of at least 25 trading days prior to the date of the review.

4.7 To be considered eligible for index inclusion, at review companies are screened for liquidity. Please refer to Rule 5.3 below for an explanation of the Liquidity Rule.

SECTION 5

5.0 PERIODIC REVIEW OF CONSTITUENTS

5.1 Review Dates

5.1.1 The FTSE Russia IOB Index is reviewed quarterly in March, June, September and December. The Index constituents will be compiled using data available after the close of business on the last working day of February, May, August and November.

5.1.2 Changes arising from the reviews, including capping, are implemented after the close of business on the third Friday of March, June, September and December.

5.1.3 At the quarterly review, the constituents of the FTSE Russia IOB Index are capped at 25% using prices adjusted for corporate actions as at the close of business on the second Friday in March, June, September and December. The capping is implemented after close of business on the third Friday in March, June, September and December based on the constituents, shares in issue and free float on the next trading day following the third Friday of the review month.

5.2 Rules for Insertion and Deletion at the Periodic Review

5.2.1 The rules for inserting and deleting constituents at the periodic review are designed to provide stability in the selection of constituents of the FTSE Russia IOB Index while ensuring that the Index continues to be representative of the market.

5.2.2 The eligible universe of stocks is ranked according to their full market capitalisation i.e. before the application of any investability weighting, with the current Index constituents highlighted.

5.2.3 Buffers are implemented when reviewing the Index to provide stability and reduce turnover. The objective of buffers is to exclude or include those constituents which have risen or fallen significantly.

a) A company will be inserted at the periodic review if it rises to the 12th position or above, when eligible companies are ranked by full market capitalisation.

b) A company will be deleted at the periodic review if it falls to the 18th position or below, when eligible companies are ranked by full market capitalisation.

5.2.4 At review a constant number of constituents will be maintained for the FTSE Russia IOB Index. Where a greater number of companies qualify to be inserted in the Index than those qualifying to be deleted (see Rule 5.2.3 above), the lowest ranking constituents presently included in the Index will be deleted to ensure that an equal number of companies are inserted and deleted at the periodic review. Likewise, where a greater number of companies qualify to be deleted than those qualifying to be inserted (see Rule 5.2.3 above), the highest ranking companies which are presently not included in the Index will be inserted to match the number of companies being deleted at the periodic review.

5.3 Liquidity Rule

5.3.1 The liquidity rule is applied after taking into account the constituents' free float adjusted weightings and the relevant prospective capped weightings.

5.3.2 An average daily market value traded is calculated for each eligible universe company over the previous six months prior to the date of the review.

5.3.3 Securities must be sufficiently liquid to be traded. Constituents that prevent the Index from trading US$200 million within less than one day will fail the liquidity rule and be excluded. For example, if a constituent does not trade its proportion of the US$200 million to their relevant Index weighting within less than one trading day, it will fail the liquidity test and be considered ineligible for Index inclusion. Where a constituent fails the liquidity rule the next highest ranking stock by full market capitalisation is added and the process is repeated until the liquidity rule is passed and the 15 constituents have been selected.

5.3.4 Please note that for New Issues, the first 5 trading days will not be included in the daily average market value traded figure.

5.3.5 In exceptional market conditions, if trading volumes are very low, FTSE may reduce the trading figure in order to avoid a large number of constituents being removed from the FTSE Russia IOB Index. This discretion may not be applied to individual companies. If FTSE intends to exercise this discretion, it must make a public statement to that effect prior to the periodic review implementation.

SECTION 6

6.0 CHANGES TO CONSTITUENT COMPANIES

6.1 Intra-review Changes (Additions)

6.1.1 If a new issue is so large (i.e. it ranks 5^{th} or above, before the application of individual constituent investability weightings) that the effectiveness of the index as a market indicator would be significantly and adversely affected by its omission, the new issue will be included as a constituent of the FTSE Russia IOB Index after the close of business on the first day of official trading. In all cases, advance notification confirming the timing of the inclusion of the new constituent will be given accordingly.

6.2 Intra-review Changes (Deletions)

6.2.1 An existing constituent is removed from the FTSE Russia IOB Index if it is no longer a part of the eligible universe as detailed in Section 4. For example, a constituent would be deleted from the Index if it no longer trades on the IOB platform. In this instance, the vacancy is not filled and the FTSE Russia IOB Index will remain with less than 15 constituents until the next quarterly review.

6.3 Mergers, Restructuring and Complex Takeovers

6.3.1 If a FTSE Russia IOB Index constituent is acquired by a non-constituent, it will be replaced with the acquiring company providing it meets the eligibility criteria as defined in Section 4. If the acquiring company is not eligible for index inclusion, the vacancy will not be filled and the FTSE Russia IOB Index will remain with less than 15 constituents until the next quarterly review.

6.3.2 Where two Index constituents merge or one Index constituent is acquired by another constituent, a vacancy will be created. The vacancy will not be filled and the FTSE Russia IOB Index will remain with less than 15 constituents until the next quarterly review.

6.3.3 If an Index constituent has a complex reorganisation or demerger, the newly spun-off company will not be considered for inclusion in the Index unless it remains part of the eligible universe (see Section 4) and its full market capitalisation is greater than the smallest Index constituent. If it is eligible for inclusion, the index may have more than 15 constituents until the next quarterly review.

6.4 Suspension of Dealing

6.4.1 If a constituent is suspended, it may remain in the Index, at the price at which it is suspended, for up to 10 business days. During this time, FTSE may delete the constituent immediately either at its suspension price, or at zero.

6.4.2 Where a suspension of a constituent lasts beyond noon on the tenth business day (and the option to remove the constituent has not been exercised), the constituent will normally be deleted from the Index on the eleventh trading day at zero or the suspension price. Where suspension is for a reason not to the detriment of the constituent, it may be retained or removed at its suspension price.

6.4.3 If a suspended company is deleted from the Index, it is not replaced until the next quarterly review.

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SECTION 6

6.5 **Reinclusion of Suspended Constituents**

6.5.1 Companies which after reinclusion are larger than the smallest constituent of the Index shall be re-instated in the Index at the price at which they were removed and the lowest ranking constituent will be selected for removal providing there are 15 Index constituents. The re-instatement will happen after the close of business on the first day after the stock reinclusion.

6.5.2 Should a deleted constituent that has been suspended at a price other than zero (which would normally be the suspension price) deemed to be of nil value, this stock will be included for one day's calculation in the Index from which it was removed to enable the fall in the stock's value to be reflected in the Index value. In this situation, the stock will be re-included at the suspension price, and its price will be zero throughout that day's calculation, including the closing price.

6.5.3 If there is a reinclusion and the company has been suspended over a continuous period lasting more than a year, FTSE reserves the right to treat the company as a new issue for the purposes of Index eligibility.

SECTION 7

7.0 CHANGES TO THE CLASSIFICATION OF CONSTITUENT COMPANIES

7.1 **Classification Structure**

7.1.1 The FTSE Russia IOB Index constituents are classified into Industries, Supersectors, Sectors and sub-sectors, as defined by the Industry Classification Benchmark (ICB).

7.1.2 Details of the Industry Classification Benchmark are available from FTSE (see Appendix B) and published on the FTSE web site (www.ftse.com).

7.2 **Classification Changes**

7.2.1 Changes to the classification of a company within the FTSE Russia IOB Index will be advised by the ICB Advisory Committee and the necessary adjustments will be made to the relevant industry sectors at the same time that the constituent changes are implemented.

7.2.2 Where a constituent is the subject of a merger, restructure or complex takeover which results in a constituent (or part of a constituent) being absorbed by another the industry classification of the resulting constituent(s) will be reviewed by the ICB Advisory Committee.

7.2.3 Any adjustment resulting from a change in a company's classification under Rule 7.2.2 will be implemented at the same time that any relevant constituent changes are implemented in the Index.

7.2.4 Periodic changes to the industry classification of a company are agreed and announced by FTSE. Such changes will be implemented after the close of the Index calculation on the third Friday in March, June, September and December.

SECTION 8

8.0 CHANGES TO CONSTITUENT WEIGHTINGS

8.1 For the purposes of computing the FTSE Russia IOB Index, the number of shares that each depositary receipt represents 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 is amended only when the total shares in issue held within the Index system changes by more than 1% on a cumulative basis. Changes will become effective at open on the next trading day following the third Friday of March, June, September, and December (subject to Rule 8.2 and 8.3).

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 shares will be applied simultaneously with the corporate action.

8.3 If accumulated changes in the number of shares in issue add up to 10% or more or when an accumulated share change represents US$2 billion of a company's total market capitalisation, they are implemented between quarters. A minimum of 4 days notice will be given to users of the Index. WM/Reuters Spot Rates will be used in case that it is needed to convert the market capitalisation into USD. The US$2 billion threshold may be adjusted annually in December by FTSE. If an adjustment is made, it will be applied for the first time at the next quarterly review.

8.4 All adjustments are made before the start of the Index calculation on the day concerned, unless market conditions prevent this.

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SECTION 9

9.0 INDICES ALGORITHM AND CALCULATION METHOD

9.1 Prices

9.1.1 Automatic trade prices will be used in the intra-day pricing in the FTSE Russia IOB Index. The closing prices used in the FTSE Russia IOB Index will be the London Stock Exchange's International Order Book (IOB) Official Closing Prices.

9.2 Dividends

9.2.1 The FTSE Russia IOB Index uses dividends reported by the relevant DR depositary bank and applied on the ex-date specified by that bank.

9.3 Index Calculation

9.3.1 The Index will be displayed to two decimal points. The Index is calculated using the algorithm described below:

$$\sum_{i=1}^{N} \frac{(p_i \times e_i \times s_i \times f_i \times c_i)}{d}$$

Where,

- $i = 1, 2, \ldots, N$
- N is the number of securities in the Index.
- p_i is the latest trade price of the component security (or the price at the close of the Index on the previous day).
- e_i is the exchange rate required to convert the security's currency into the Index's base currency.
- s_i is the number of shares in issue used by FTSE for the security, as defined in these Ground Rules.
- f_i is the Investability Weighting Factor to be applied to a security to allow amendments to its weighting, expressed as a number between 0 and 1, where 1 represents a 100% free float. This factor is published by FTSE for each security in the underlying index.
- c_i is the Capping Factor to be applied to a security to correctly weight that security in the index. This factor maps the investable market capitalisation of each stock to a notional market capitalisation for inclusion in the Index. This factor is published by FTSE for each security in the Index.
- d is the 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.

9.4 Index Calculation Frequency

9.4.1 A Price Index will be calculated on a real-time basis in US Dollars. A Price and Total Return Index will also be calculated on an end of day basis in US Dollar, Sterling and Euro.

APPENDIX A

INDEX OPENING AND CLOSING HOURS

The Index is calculated during the opening hours of the London Stock Exchange's International Order Book (IOB).

Index	Open	Close
FTSE Russia IOB Index		
Monday to Friday	08:15	15:40

Notes:

1. The IOB continuous trading hours starts at 09:00 in which orders are automatically executed against one another. The continuous trading hours ends with a closing auction where an official closing price is set at 15:40.

2. All times are UK Time.

3. Reuters real time exchange rates are used in the real-time index calculations.

4. The Index will not be calculated on UK Public Holidays.

APPENDIX B

FURTHER INFORMATION

For further information on the FTSE Russia IOB Index, please visit www.ftse.com or contact FTSE via e-mail at info@ftse.com.