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Ground Rules for the Management of the FTSE/CySE 20 Index



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SECTION 1

1.0 PURPOSE OF INDEX

- 1.1 The FTSE/CySE 20 Index has been designed to provide a real time measure of the Cyprus Stock Market on which index-linked derivatives could be traded.

SECTION 2

2.0 MANAGEMENT RESPONSIBILITIES

2.1. There are three groups involved in the management of the FTSE/CySE 20 Index:

2.1.1 FTSE/CySE Index Advisory Committee

2.1.2 FTSE International Limited (FTSE)

2.1.3 Cyprus Stock Exchange (CySE)

2.2 FTSE/CySE Advisory Committee.

The Advisory Committee has been established by FTSE and the Cyprus Stock Exchange to ensure that the management and ongoing operation of the FTSE/CySE 20 Index is independent and transparent. The Chairman of the Cyprus Stock Exchange is ex-officio Chairman of the Advisory Committee and there are six other members representing the trading and investment community in Cyprus and internationally. The Managing Director of FTSE or his representative also sits on the Advisory Committee.

The Committee meets twice a year and will review and approve all constituent changes to ensure that such changes are implemented in accordance with the Ground Rules. The Advisory Committee will also be responsible for ensuring that the Ground Rules follow best market practice and will review and approve all changes to the Rules.

2.3 Cyprus Stock Exchange.

The Cyprus Stock Exchange is responsible for the daily operation of the index. CySE will monitor all corporate actions and price changes and implement all constituent and weighting changes to the Index.

2.4 FTSE International Limited.

FTSE is responsible for monitoring changes to the index and auditing its operation and will advise the CySE on the treatment of complex corporate actions. FTSE will present an audit report to the Advisory Committee twice per year. The Committee may recommend changes to the operation of the index following consideration of the audit report. The Managing Director of FTSE or his representative will act as the Auditor to the index.

SECTION 3

3.0 ELIGIBLE SECURITIES

- 3.1 All classes of ordinary shares in issue incorporated and resident in Cyprus for tax purposes are eligible for inclusion in the index, subject to conforming with Rules 3.2 to 3.7.
- 3.2 Shares must have their primary listing on the Cyprus Stock Exchange.
- 3.3 Where a company lists multiple lines of equity capital, each line shall be eligible and priced separately.
- 3.4 Where a company's shares are issued 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).
- 3.5 Convertible preference shares and loan stocks will be excluded until converted.
- 3.6 Companies whose business is primarily that of holding equity and other investments will be excluded. Funds whose prices are a direct derivation of underlying holdings will be excluded.
- 3.7 Eligible securities are subject to investibility screens.

Free Float - 30% of the stock's shares in issue must, in the opinion of the FTSE/CySE 20 Index Advisory Committee, be publicly available for investment and must not be in the hands of a single party or parties acting in concert. Stocks with less than 30% free float will be ineligible for the index.

Price - the Advisory Committee must be satisfied that an accurate and reliable price for the purposes of determining the market value of a company exists.

Liquidity - Securities (other than new issues) which do not trade on at least 50% of the business days in the six calendar months preceding the review will not be eligible for inclusion in the index. Any period when a share is suspended will be excluded from the above calculation.

- 3.8 The initial weighting of a constituent in the index will be applied in the following bands.
- | | | |
|--|---|------------|
| a) free float less than 30% | = | Ineligible |
| b) free float greater than 30% but less than or equal to 40% | = | 40% |
| c) free float greater than 40% but less than or equal to 50% | = | 50% |
| d) free float greater than 50% but less than or equal to 75% | = | 75% |
| e) free float greater than 75% | = | 100% |

- 3.9 Following the application of an initial free float restriction, a constituent's free float will only be changed if its actual free float is more than 5 percentage points above the minimum or 5 percentage points below the maximum of an adjacent band. This 5 percentage points threshold does not apply to the 30% limit in Rule 3.8.

SECTION 4

4.0 INDEX QUALIFICATION CRITERIA

- 4.1 The largest 20 securities valued by full market capitalisation after applying all investibility screens will be eligible for inclusion in the index.

SECTION 5

5.0 PERIODIC REVIEW OF CONSTITUENTS

5.1 The Advisory Committee will meet semi-annually in April and October to review the constituents of the index. The constituent reviews will be based on data collected as at the end of March and September respectively. Details of the outcome of the review will be published as soon as possible after the FTSE / CySE Index Advisory Committee meeting has concluded. Constituent changes will be implemented after the close of business on the last trading days in May and November respectively.

5.2 The periodic review of constituents will be conducted using the following steps:

1. Create database of all securities listed on the Cyprus Stock Exchange;
2. Apply all liquidity tests set out in Ground Rules;
3. Exclude securities which do not fulfil criteria set out in Ground Rules;
4. Rank all eligible securities by market capitalisation, largest first and smallest last;
5. Existing constituents which have fallen to position 31 or below will qualify to be removed from the index at the periodic review;
6. Securities which have risen to position 10 or above will qualify to be included in the index at the periodic review; and
7. Where a greater number of securities qualify to be included in the index than those qualifying to be removed, the lowest ranking securities presently included in the index will be removed to ensure that the number of securities remains constant. Likewise, where a greater number of securities qualify to be removed from the index than those qualifying for inclusion, the highest ranking securities which are presently not in the index will be included to match the number of securities being removed at the periodic review.
8. Adjust share weightings for availability to all investors.

SECTION 6

6.0 CHANGES TO CONSTITUENT COMPANIES

6.1 Removal and Replacement

6.1.1 If a constituent is delisted, or ceases to have a firm quotation, or is subject to a takeover offer which has been declared wholly unconditional or has, in the opinion of the Chairman and Auditor of the Advisory Committee (or their nominated representatives), ceased to be a viable constituent as defined by the Ground Rules, it will be removed from the list of constituents and replaced by the highest ranking non-constituent security eligible as at close of business on the day preceding the inclusion of the replacement security.

6.1.2 The removal and replacement are effected simultaneously, before the start of business on the day following the day on which the event justifying removal was announced. Announcement after close of business are normally deemed to be made on the following business day. In the case of a takeover, the qualifying event is an announcement that the offer has been declared wholly unconditional.

6.2 Mergers, Restructuring and Complex Takeovers

6.2.1 If the effect of a merger or takeover is that one constituent is absorbed by another constituent the resulting company will remain a constituent of the Index, and a vacancy will be created. This vacancy will be filled by selecting the highest ranking non-constituent security eligible as at close of business on the day preceding the inclusion on the replacement security.

6.2.2 If a constituent company is taken over by a non-constituent company, the original constituent will be removed and replaced by the highest ranking non-constituent security eligible. Any eligible company resulting from the takeover will be eligible to become the replacement company if it is ranked higher than any other non-constituent.

6.2.3 If a constituent company is split so as to form two or more companies, then the resulting companies will be eligible for inclusion as index constituents if their market capitalisation (s) are large enough to qualify, and if they qualify in all other respects. The lowest ranking constituent of the index is removed.

SECTION 6

6.3 New Issues

- 6.3.1 If, in the view of the Advisory Committee, a new issue is so large (i.e. amounting to 5% or more of the total capitalisation of the index) that the effectiveness of the index as a market indicator would be significantly and adversely affected by its omission, the Advisory Committee may decide to include the new issue as a constituent of the index at the earliest practicable opportunity. In such a case, the timing of the inclusion of the new constituent will be at the discretion of the Advisory Committee, although it will usually be on the second day of trading. The security which is the lowest ranking constituent of the index will be selected for removal.
- 6.3.2 New issues of companies which do not qualify for early entry but which meet the criteria for eligible securities set out in Rule 3 will be eligible for inclusion in the next review.
- 6.3.3 The Advisory Committee may, at its discretion, defer the inclusion at a review of a new issue until the next review, or such other time as it may determine, if it has reason to believe that the security may not meet the liquidity criteria set out in Rule 3.7
- 6.3.4 If the Advisory Committee decides to include a new issue as a constituent security other than as part of the normal periodic review procedure, this decision must be publicly announced at the earliest practicable time.

6.4 Suspension of Dealing

- 6.4.1 Where a suspension of a constituent lasts for more than 30 calendar days, it will be deleted from the index on the 31st day at a price of zero. When a stock is otherwise removed following suspension of its quote, the stock will be removed at its suspension price unless otherwise decided by the Advisory Committee.

SECTION 7

7.0 CHANGES TO CONSTITUENT WEIGHTINGS

- 7.1 Adjustments to reflect a major change in the amount or structure of a constituent company's issued capital must be made before the start of business on the day on which the change takes effect (e.g. the Ex Date for a rights or capitalisation issue).
- 7.2 Adjustments to reflect less significant changes (e.g. the issue of an additional block of shares under an employees' equity scheme) would be implemented as soon as possible following the announcement of the change.

SECTION 8

8.0 AMENDMENTS TO THE GROUND RULES

- 8.1 Changes and exceptions to these Ground Rules can be authorised only by the Advisory Committee. In the event that the Advisory Committee or any of those responsible for the operation and administration of the 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 Auditor (or their representatives), who will normally put the matter to the Advisory Committee for a decision. If, however, the matter is urgent, the Chairman and Auditor (or their representatives) are empowered to authorise an exception on behalf of the Advisory Committee but must immediately notify, and subsequently refer the matter to, a meeting of the Advisory Committee. Where an exception is granted to the Ground Rules, it shall not be deemed to create a precedent for future decisions of the Advisory Committee.

SECTION 9

9.0 PUBLICATION OF INFORMATION

9.1 FTSE and the Cyprus Stock Exchange shall ensure that the following information on the indices is widely published:

9.1.1 Index values

9.1.2 List of constituents

9.1.3 Changes to constituents

9.1.4 Changes and amendments to the Ground Rules

9.1.5 Details of any recalculations or calculation amendments.

9.2 Constituent prices, weightings and other stock data together with statistics on the indices are available from FTSE and the Cyprus Stock Exchange.

APPENDIX A

INDICES ALGORITHM AND CALCULATION METHOD

1. Prices
 - 1.1. The index will use last trade prices for securities. Prices are sourced from the Cyprus Stock Exchange.
2. Calculation Frequency
 - 2.1. The index will be calculated every minute during the opening hours of the Cyprus Stock Exchange using real time prices. (Currently 1030 to 1200, Cyprus time)
3. Index Calculation
 - 3.1. The index will be displayed to two decimal points.
 - 3.2. The index is calculated using the following formula:

$$\sum_{i=1}^n \frac{Xi \cdot Wi \cdot Ai}{d}$$

Where:

- X_i = The latest trade price of the i^{th} component security (or the price at the close of the index on the previous day).
- n = The number of securities in the index.
- W_i = The weighting for the i^{th} component security (equal to the number of ordinary shares issued by the company).
- A_i = The percentage of capitalisation available to all investors. (Free float)
- d = The divisor (a figure which represents the total issued share capital of the Index at the base date and which can be adjusted to allow changes in the issued share capital of individual constituents to be made without distorting the Index).

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