



BUCHAREST STOCK EXCHANGE

THE INDEX MANAGEMENT RULES FOR BET[®] Bucharest Exchange Trading[®] Index

Disclaimer:

This document provides the principles and rules underlying the construction and the management of BET index (*Bucharest Exchange Trading Index*). BVB reserves the right to manage BET index transparently, neutrally and in the best possible manner, in the spirit of this index rules. However, BVB doesn't assume any responsibility for any errors or changes in the way the respective rules are applied in certain circumstances, nor for any loss that might derive from this.

Approved by BVB Index Committee on April 11, 2012

Available on line: www.bvb.ro

This document was translated from Romanian. The Romanian version of "The Index Management Rules for BET" is the BVB official document.

CONTENTS

1. INTRODUCTION	3
2. CALCULATION PRINCIPLES	3
2.1 <i>Basic Aspects</i>	3
2.2 <i>Composition and selection criteria</i>	4
2.3 <i>Weighting factors</i>	4
3. CALCULATION FORMULA.....	5
4. ADJUSTMENT PROCEDURES	6
4.1 <i>Periodical reviews and adjustments</i>	6
4.2 <i>Operational adjustments</i>	7
4.2.1 <i>Split/Consolidation</i>	7
4.2.2 <i>Bonus shares offer</i>	8
4.2.3 <i>The right to subscribe to new shares at a price lower than the market price</i>	8
5. BVB INDEX COMMITTEE	8
5.1 <i>Overview</i>	8
5.2 <i>Members</i>	9
5.3 <i>Decision making</i>	9
6. INDEX DISSEMINATION AND COPYRIGHT	10

1. INTRODUCTION

- 1.1 This document presents the rules regarding the calculation principles, the index member companies' selection criteria, the calculation formula and the index management principles of BET (Bucharest Exchange Trading Index).
- 1.2 In "The index management rules for BET", unless the context requires otherwise, the following abbreviations shall have the following meanings:
 - "**BVB**" means "Bucharest Stock Exchange";
 - "**BET**" means "Bucharest Exchange Trading" Index;
 - "**BVB Index Committee**" or "**Index Committee**" means the committee of capital market specialists which makes the BVB index management rules, decides upon the index composition, is in charge of the adjustments needed by corporate events and informs the public regarding any changes or events related to the BVB indices.
- 1.3 The present rules and any amendments of this document are adopted by the BVB Index Committee.
- 1.4 BET index is a market capitalization weighted index of the individual index member companies, adjusted as per the principles presented in this document.
- 1.5 BET index in national currency (RON) is calculated and disseminated by BVB in real time, in every day BVB is open for trading.
- 1.6 BET index denominated in EUR and USD is published daily, after the closing of the trading session, using the currency exchange ratio published by the National Bank of Romania for that day.
- 1.7 All relevant information regarding BET index are going to be made available for public through press releases or BVB web page, www.bvb.ro.
- 1.8 BVB holds all rights for BET index as the full owner of the index.

2. CALCULATION PRINCIPLES

2.1 Basic Aspects

- 2.1.1 BET index was launched on September 19, 1997, with a start value of 1.000 points, being the first index developed by BVB.
- 2.1.2 BET is the reference index for the BVB market, it's methodology allowing it to be used as underlying for derivatives (futures, options, etc) and structured products (warrants, certificates, etc).
- 2.1.3 BET is a free float capitalization weighted index of the most liquid companies listed on BVB.
- 2.1.4 The number of BET member companies is 10, with the possibility of increasing them depending on the future listings on the Romanian capital market.
- 2.1.5 Similar with the methodology of the other indices developed by BVB, BET index methodology reflects the price evolution of the companies traded on the main market segment ("Regular").
- 2.1.6 In case of corporate events with a significant impact on the market price of the BET member companies (like: splits, consolidations, share capital increases, etc.), the periodical or operational index adjustment will be done so that the continuity of BET index values will be assured, thereby avoiding the artificial price influence by those events.
- 2.1.7 The index will not be adjusted for dividend payments.

2.2 Composition and selection criteria

- 2.2.1 BET index basket is made out of the most 10 liquid companies listed on the BVB regulated market, Ist and IInd category, with the exception of the financial investment companies traded on the BVB regulated market and of the investment funds.
- 2.2.2 For the new listed companies on BVB following a privatisation process or an IPO, these can become a BET member through the decision of the BVB Index Committee.
- 2.2.3 The following financial instruments are not eligible to be included in BET index: privatisation vouchers, fund units, as any other instruments decided by the BVB Index Committee.
- 2.2.4 As the general rule, the selection criteria for the companies to be included in BET index are:
- a) liquidity: the liquidity coefficient is obtained as follows:

$$\text{Coefficient}_{\text{liquidity}} = \frac{\sum_{\substack{i=1,N \\ j=\{1,3,6,9,12\}}} Av_{i,j} \times j}{31}$$

$Av_{i,j}$: The weight of the traded value for company i in the total traded value of the regulated market, for time interval j (1 month, 3 months, 6 months, 9 months, 12 months). There are taken into account only the trades registered for the “Regular” market segment.

j : time interval for calculating $Av_{i,j}$

For being included in the BET index basket, there are selected the companies with the highest liquidity, in descending order of the liquidity coefficient. The liquidity coefficient is computed half-yearly, before the periodical meetings of the BVB Index Committee of March and September, and represents the source for selection of the companies eligible to be included in the index.

- b) Other aspects considered as relevant by the BVB Index Committee, when it is the case: company’s financial and legal situation, company’s transparency, market participants’ interest, etc.
- 2.2.5 BVB Index Committee can decide upon a company being included in BET index, even if the selection criteria mentioned at 2.2.4 in the present document are not partially met.

2.3 Weighting factors

The individual weight of the companies included in BET is determined by the market capitalization of each company of the index, adjusted with the free float factor and the representation factor.

(market capitalization of a index member company = price x number of shares x free float factor x representation factor x price correction factor).

2.3.1 Free float factor

- a. The free float of a BET member company represents its number of issued shares available for trading by market participants.
- b. For a company, the free float in absolute value is estimated as being the total number of shares issued by a company, from which are excluded the “treasury stocks”, the shares held by the State or other governmental agencies, strategic investors, majority shareholders, as any holding of at least 5% of other investor categories, with the exception of insurance companies, pension funds, mutual and investment funds.
- c. For a company, the free float in relative value, as percentage, is determined as the ration between the free float in absolute value and the total number of shares issued and registered in the Shareholders Registry.
- d. The weight of every individual member company of BET index is adjusted with the correspondent free float factor, so that it will not be possible that a company with a large market capitalization but a small free float to heavily influence the index value and that it will reflect the realistic investment opportunities in the individual shares.
- e. In BET index, for a company, the free float can take the following values: {0.1; 0.2; 0.3; 0.4; 0.5; 0.6; 0.7; 0.8; 0.9; 1}, by excess approximation of the relative free float value of that company.
- f. The free float factor that adjusts the market capitalization of every individual company is revised quarterly, if necessary, by the Index Committee on the basis of the shareholders structure supplied by the depository which administrates the shareholders registry.

2.3.2 Representation factor

- a. The purpose of applying the representation factor is to cap the weight of a company in the BET index.
- b. Applying the representation factor ensures that an index member cannot exceed the maximum weighting cap of 20% in BET, at the adjusting time.
- c. The representation factors can take values between 0,001 and 1,00.
- d. The representation factors are analysed and recalculated quarterly on the occasion of the periodical review of the index.
- e. In case of an important operational adjustment that follows a new company listing or the inclusion/exclusion of a company in/from the index which significantly affects the individual company weighting in the index, an immediate review of the representation factors will be considered.

3. CALCULATION FORMULA

BET index calculation formula is:

$$BET_T = BET_{T-1} \cdot \frac{\sum_{i=1,N} p_{i,T} \times q_{i,T} \times Ff_i \times R_i \times c_{i,T}}{\sum_{i=1,N} p_{i,T-1} \times q_{i,T} \times Ff_i \times R_i \times c_{i,T-1}}$$

BET_T value of BET at time T

BET_{T-1} value of BET at time T-1

$p_{i,T}$	price of i-th stock at time T;
$p_{i,T-1}$	price of i-th stock at time T-1;
$q_{i,T}$	number of shares of i-th stock at time T;
Ff_i	free float factor of i-th stock; it is calculated with 2 digits and can take the following values {0.1; 0.2; 0.3; 0.4; 0.5; 0.6; 0.7; 0.8; 0.9; 1}.
R_i	representation factor of i-th stock ; it is calculated with 3 digits; belongs to (0,1] interval;
$c_{i,T}$	price correction factor for i-th stock at time T, of operational review; it is calculated with 6 digits;
$c_{i,T-1}$	price correction factor for i-th stock at time T-1, of operational review; it is calculated with 6 digits;
N	number of companies included in BET.

The calculation formulas for BET USD and BET EUR are:

$$\text{BET USD}_T = (\text{BNR exchange rate for USD at time T-1} / \text{BNR exchange rate for USD at time T}) \times (\text{BET RON}_T / \text{BET RON}_{T-1}) \times \text{BET USD}_{T-1}$$

$$\text{BET EUR}_T = (\text{BNR exchange rate for EUR at time T-1} / \text{BNR exchange rate for EUR at time T}) \times (\text{BET RON}_T / \text{BET RON}_{T-1}) \times \text{BET EUR}_{T-1}$$

4. ADJUSTMENT PROCEDURES

- a. BET adjustment procedures are made to maintain the continuity of the index values in order to avoid the artificial price influence of the corporate events which have a significant impact on the price.
- b. Periodical reviews and adjustments are done quarterly and the operational ones are done immediately or in accordance with the stipulations applicable for the situation that needed such an operation. (see 2.1.6)

4.1 Periodical reviews and adjustments

- a. BVB Index Committee meets quarterly for reviewing the BET index composition and for the periodical adjustment of the index.
- b. Periodical adjustment have as purpose the updating of the BET index members weight following to:
 - i. Corporate events (share capital increases, etc);
 - ii. Changes of the index composition that follows an inclusion/exclusion of a company
 - iii. Market price evolution of the index members' shares.
- c. Usually, the periodical reviews and adjustments are made five trading days before the end of the futures contracts quarterly cycle March-June-September-December, so that it will become effective in the first trading day following the futures contracts expiry date.
- d. If there is the case that on the date of quarterly revision an index member company is suspended from trading or in any other exceptional cases, the BVB Index Committee may decide upon postponing the quarterly adjustment related procedures or upon changing the date at which the quarterly revision is made and/or the date on which they become effective. If a decision of such a postponement is taken, with regard to revision and/or adjustment operations, as well as the date on which they become effective, BVB will inform the public in due time about this decision and the reasons for being taken. If it is possible, the Index Committee will communicate a new date for which the quarterly adjustment will be done and a will become effective.

4.1.1 Corporate events

- a. In case the number of shares issued by a BET member company changes following a share capital increase/decrease, a split/consolidation, between two periodical reviews, the new number of issued shares, registered in the Shareholders Registry¹, will be included in the index in the next quarterly review.
- b. In case of other corporate events, the periodical adjustments are to be done as per the stipulations of the present document.

4.1.2 Inclusion and exclusion of companies in/from the index

- a. In case the inclusion criteria for the most liquid eligible companies are valid it will be recalculated all the representation factors, so that the maximum weight of 20% will be respected, as per 2.3.2.
- b. Decisions regarding the inclusion or exclusion of new companies in/from the index are taken by the BVB Index Committee on half-yearly basis, during the periodical meetings of March and September, and are made available for public at the moment they are taken.
- c. Quarterly reviews of the index in which the BVB Index Committee is going to decide upon the inclusion/exclusion of some companies in/from the index are held in the first week of the last month of the current quarter.
- d. Exceptionally, the BVB Index Committee meets in urgency time and can decide upon the exclusion/inclusion of a company in/from the index. In this specific situations, the Index Committee' decisions are going to be made public immediately.

4.2 Operational adjustments

- a. Operational adjustments are made to correct the artificial influences of a corporate event on the market price of a BET index member.
- b. The operational adjustments are technically implemented through the price correction factor $c_{i,T}$. This factor is taken into account for index calculation starting the first trade on the main market "Regular" of the trading day in which the trading price changes accordingly to the corporate event announced by the index member company (ex-date).
- c. The operational adjustments can refer to the following corporate events, without being limited to: split, consolidation, bonus shares, the right to subscribe to new shares at a price lower than the market price, etc.
- d. For company i , the price correction factor, c_i , is rebased to 1 at every index quarterly adjustment if this is done in the same time with the modification of the shares number issued and registered in the Shareholders Registry.

4.2.1 Split/Consolidation

In case an index member decides upon a shares split/consolidation, the price correction factor $c_{i,T}$ is determined as follows:

$$c_{i,T} = \frac{q_{i,T}}{q_{i,T-1}}$$

$q_{i,T}$: Number of shares of i-th stock at time T;
 $q_{i,T-1}$: Number of shares of i-th stock at time T-1.

4.2.2 Bonus shares offer

In case an index member decides upon a bonus shares offer, the price correction factor $c_{i,T}$ is determined as follows:

$$c_{i,T} = 1 + \frac{q_{i,bonus}}{q_{i,T-1}}$$

$q_{i,bonus}$: Number of bonus shares of i-th stock;
 $q_{i,T-1}$: Initial number of shares of i-th stock at time T-1.

4.2.3 The right to subscribe to new shares at a price lower than the market price

In case an index member decides upon the right to subscribe to new shares at a price lower than the market price, the price correction factor $c_{i,T}$ is determined as follows:

$$c_{i,T} = \frac{p_{i,T-1}}{p_{i,T-1} - \left[\frac{(p_{i,T-1} - p_s)}{(R_s + 1)} \right]}$$

$p_{i,T-1}$: Price of i-th stock at time T-1;
 p_s : Subscription price for the new shares issued;
 R_s : Subscription ratio for the new shares.

In case the index members announce other types of corporate events than the ones presented above, BVB Index Committee will calculate and disseminate to the public the new price correction factor $c_{i,T}$ which will be taken into account for index calculation. Likewise, BVB Index Committee will announce the public the $c_{i,T}$ value when two or more types of corporate events are overlapping at the same time.

5. BVB INDEX COMMITTEE

5.1 Overview

BVB Index Committee is organised in accordance with the stipulations of the Regulation of the Organization and Functioning of BVB and the decisions of BVB Board of Governors, and operates based upon the proxy delegated to it.

¹ This reference is needed due to the long period of time (generally 2-3 months) between the share capital increase/decrease, split/consolidation, decision is taken by the AGM and the effective registry date of the new shares in the Shareholders Registry.

5.2 Members

5.2.1 Voting members

- a. The nomination and the revoke of the BVB Index Committee' voting members is taken by the BVB Board of Governors.
- b. The Index Committee has 7 members:
 - A voting member from the BVB Board of Governors BVB, the Index Committee President;
 - A voting member, BVB CEO;
 - A voting member, natural entity, representative of Participants to the BVB trading system from the research, development, actuary, new products, or asset management department;
 - A member of CFA Association Romania;
 - Non voting members, representatives of the BVB employees, selected for nomination by the BVB CEO.
- c. The voting rights are distributed as follows: 5 voting members and 2 non voting members, representatives of the BVB employees. Each voting member has one voting right. The delegated vote is not accepted.
- d. In case of position vacancy, the President of the Index Committee will select for nomination to the Board of Governors another representative for exercising the mandate until its expiry. It is considered a definitive impossibility of mandate exercise any events that creates an unavailability of 30 consecutive days.
- e. The term of a mandate for a BVB Index Committee member is of 2 years, counting from the date it was nominated by the BVB Board of Governors.
- f. The decision making principle is the simple majority. The Index Committee has quorum when at the meeting session are present at least 3 voting right members, of which one is the President, another is the Participants' representative, as well as at least 1 non voting right member, representative of the BVB employees.
- g. The President can invite to the BVB Index Committee meetings: members of the Board of Governors, of CFA Association Romania, specialists from the research, development, actuary, new products, or asset management department of Participants to the BVB trading system, specialists from financial institutions which issue financial products underlying BVB indices, as well as academic capital market experts.

5.2.2 Obligations and responsibilities

- a. BVB Index Committee takes decisions regarding the composition, calculation methodology and the adjustment of BVB indices, and makes development proposals to the BVB Board of Governors regarding the BVB index policy.
- b. Index Committee members have the obligation to maintain confidential all the data and information they have been in contact with as members of the Index Committee, to act in good faith, in the interest of the capital market, the investors and their protection.

5.3 Decision making

5.3.1 In general, BVB Index Committee holds it's sessions in the first week of the quarterly month, meaning March, June, September and December, for deciding upon the following:

- i. Periodical and operational review of the index, through:

- inclusion/exclusion/replacement of companies' in/from/of BET;
- doing the periodical adjustment of the index.

ii. General problems and strategic index policy.

5.3.2 Besides the periodical index review and adjustment meetings, BVB Index Committee can meet in urgency time for operational adjustments, as well as in other extraordinary meetings.

5.3.3 For decision making the simple majority of votes is needed.

5.3.4 The President of the Index Committee leads the meeting.

6. INDEX DISSEMINATION AND COPYRIGHT

6.1 The index values as any changes in the index composition are published on the BVB web site, www.bvb.ro. Index real-time data is available through data vendors and the BVB website, through the offered data monitoring products. The closing values of the index are included in the daily market report, the monthly bulletins and other BVB statistical products.

6.2 The naming "Bucharest Exchange Trading" and the abbreviation "BET" are protected by the legislation regarding the protection of the intellectual and industrial property rights. Bucharest Stock Exchange reserves the property right of the "BET Index" product. The use of the index as underlying for derivatives and/or structured products is prohibited without the previous valid agreement of BVB.