



BUCHAREST STOCK EXCHANGE

BET-TR[®] INDEX MANAGEMENT RULES

Bucharest Exchange Trading Total Return[®] Index

Disclaimer

This document provides the principles and rules underlying the construction and the management of *BET-TR (Bucharest Exchange Trading Total Return)* index. BVB reserves the right to manage BET-TR index transparently, neutrally and the best possible manner, in the spirit of this index rules. 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.

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Available on line: www.bvb.ro

This document was translated from Romanian. The Romanian version of the *BET-TR Management Rules* is the BVB official document.

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1. INTRODUCTION

1.1. This document presents the rules regarding the calculation principles, the selection criteria for the index constituents, the calculation formula and the index management principles of BET-TR (Bucharest Exchange Trading Total Return).

1.2. Within the *BET-TR Management Rules*, unless otherwise stated, the following abbreviations shall have the following meanings:

- “BVB” represents the Bucharest Stock Exchange S.A.;
- “BET” represents the Bucharest Exchange Trading index;
- “BET-TR” represents the Bucharest Exchange Trading Total Return index;
- “IC” represents BVB’s Index Committee, i.e. the committee of capital market specialists which prepares BVB indices management rules, decides upon the indices composition, is in charge of the adjustments required by corporate events and informs the public regarding any changes or events related to BVB indices.

1.3. The rules herein and any amendments to this document are adopted by BVB’s Index Committee and are approved by BVB’s Board of Governors.

1.4. BET-TR index is a total return free float market capitalization weighted index, adjusted as per the principles presented in this document.

1.5. BET-TR will be adjusted for the dividends distributed by the companies included in the index.

1.6. BET-TR index in national currency (RON) is calculated and disseminated by BVB in real time, on each day BVB is open for trading.

1.7. BET-TR index denominated in EUR and USD is published daily, after the closing of the trading session, using the currency exchange ratios published by the National Bank of Romania (NBR) for that day.

1.8. All relevant information regarding BET-TR index are made available to the public through press releases or BVB’s webpage, www.bvb.ro.

1.9. BVB holds all rights for BET-TR index as full owner of the index.

2. CALCULATION PRINCIPLES

2.1. Basic information

2.1.1. BET-TR index was launched on 22 September 2014 with a start value of 4,910.39 points as of 21 September 2012 (base date), equal to the closing value of BET index on the base date. BET-TR will be calculated retroactively starting with 24 September 2012.

2.1.2. Due to its methodology, BET-TR index can be used as underlying for derivatives (futures, options etc) and structured products (warrants, certificates etc).

2.1.3. The number of BET-TR constituents is 10, with the possibility of increasing their number depending on the future listings on the Romanian capital market as well as on any other relevant events with impact on the listed companies.

2.1.4. BET-TR is a free float market capitalization weighted index of the most liquid companies listed on BVB, to which adjustments are made for dividends distributed by companies included in the index.

2.1.5. Similarly with the methodology of the other indices developed by BVB, BET-TR index takes into consideration the transactions registered 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-TR constituents (such as: splits, consolidations, share capital increases etc), the periodical or operational index adjustments will be done so that the continuity of BET-TR index values is ensured, thereby avoiding artificial price influences from such events.

2.2. Composition and selection criteria

2.2.1. BET-TR index includes the most liquid 10 Romanian companies listed on BVB’s regulated market, with the exception of the financial investment companies traded on BVB’s regulated market.

2.2.2. In the case of newly-listed companies on BVB following a privatization process or an IPO, these companies can become BET-TR constituents following the decision of BVB’s Index Committee.

2.2.3. The following financial instruments are not eligible to be included in BET-TR index: privatization vouchers, fund units, as any other instruments selected by BVB’s Index Committee.

2.2.4. As a general rule, the selection criteria for the companies to be included in BET-TR index are:

- a. liquidity: the liquidity coefficient for each company is determined as follows:

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

where:

$Av_{i,j}$ the weight of the traded value for company i in total traded value of the regulated market for time period j (1 month, 3 months, 6 months, 9 months, 12 months). Only the traded registered on the “Regular market segment are taken into account.

j time period for calculating $Av_{i,j}$

In order to determine the companies eligible for inclusion in BET-TR index, companies are sorted in descending order according to the liquidity coefficient and those with the highest coefficient are selected. The liquidity coefficient is computed half-yearly, before the periodical meetings of the IC in March and September.

- b. other features considered relevant by the IC, as the case may be: the company’s financial and legal standing, the company’s transparency, market participants’ interest etc.
- c. the IC may limit the number of companies in a certain sector to no more than 6. The IC may reduce this limit.
- d. companies must observe additional requirements, as follows: reporting in English, IFRS reporting, the quality of Investor Relations activities (disclosure through BVB’s website and/or another platform designated

by BVB, meetings/conference calls with analysts & investors). Each of these obligations will become effective as of January 2015.

The IC may modify, enlarge, narrow etc the range and content of these obligations.

2.2.5. The IC can decide upon a company being included in BET-TR index, even if the selection criteria mentioned at 2.2.4 in this document are only partially met.

2.3. Weighting factors

The weight of each BET-TR constituent is determined by adjusting its market capitalization by the free float factor and representation factor.

$$\text{free float market capitalization of an index constituent} = \text{price} \times \text{number of shares outstanding} \times \text{free float factor} \times \text{representation factor} \times \text{price correction factor}$$

2.3.1. The free float factor

- a. The free float factor of a BET-TR constituent represents the number of shares issued and available for trading.
- b. For a company, the free float in absolute value is estimated as being the total number of shares issued by the company, of which the following are excluded:
 - treasury stocks,
 - the shares held by the State or other government agencies, strategic investors, majority shareholders,
 - any holding of at least 30% owned by insurance companies, pension funds, mutual and investment funds,
 - any holding of at least 5% owned by other investor categories.
- c. A company's free float expressed as a percentage is determined as the ratio between the free float in absolute value and the total number of shares issued and registered in the shareholders' registry.
- d. The weight of each constituent of BET-TR index is adjusted with the corresponding free float factor, so that a company with a large market capitalization but a small free float cannot heavily influence the index and that the index reflects the realistic investment opportunities of the individual shares.
- e. In BET-TR index, for each constituent, the free float factor can take one of the following values: {0.1, 0.2, 0.3, 0.4, 0.5, 0.6, 0.7, 0.8, 0.9, 1.0}, by rounding up the relative free float value of that company.
- f. The free float factor that adjusts the market capitalization of each index constituent is revised quarterly by the Index Committee, if necessary, based on the shareholders' structure available.

2.3.2. The representation factor

- a. The purpose of applying the representation factor is to cap the weight of a company in BET-TR index.
- b. Applying the representation factor ensures that an index constituent cannot exceed the maximum weighting cap of 20% in BET-TR, at the date of the adjustment.
- c. The representation factors can take values between 0.001 and 1.0.

- d. The representation factors are analyzed and recalculated quarterly on the occasion of the periodical review of the index.
- e. In case of an important operational adjustment that follows the inclusion/exclusion of a company in/from the index which significantly affects the companies' weightings in the index, an immediate review of the representation factors will be considered.

3. CALCULATION FORMULA

The calculation formula for BET-TR index is:

$$\text{BET - TR}_T = \text{BET - TR}_{T-1} \times \frac{\sum_{i=1}^N p_{i,T} \times q_{i,T} \times Ff_i \times R_i \times c_{i,T}}{\sum_{i=1}^N p_{i,T-1} \times q_{i,T} \times Ff_i \times R_i \times c_{i,T-1}}$$

where:

BET-TR_T value of BET-TR at time T

BET-TR_{T-1} value of BET-TR at time T-1

p_{i,T} price of the i-th stock at time T

p_{i,T-1} price of the i-th stock at time T-1

q_{i,T} number of shares of the i-th stock at time T

Ff_i the free float factor of the i-th stock; it is calculated with two decimal places and can take the following values: {0.1, 0.2, 0.3, 0.4, 0.5, 0.6, 0.7, 0.8, 0.9, 1.0}

R_i the representation factor of the i-th stock; it is calculated with 3 decimal places; it can take values between 0 and 1

c_{i,T} the price correction factor for the i-th stock at time T on operating review dates; it is calculated with 6 decimal places

c_{i,T-1} the price correction factor for the i-th stock at time T-1 on operating review dates; it is calculated with 6 decimal places

N the number of companies included in BET-TR

The calculation formulas for BET-TR USD and BET-TR EUR are:

BET-TR USD_T = (NBR exchange rate for USD at time T-1 / NBR exchange rate for USD at time T) x (BET-TR RON_T / BET-TR RON_{T-1}) x BET-TR USD_{T-1}

BET-TR EUR_T = (NBR exchange rate for EUR at time T-1 / NBR exchange rate for EUR at time T) x (BET-TR RON_T / BET-TR RON_{T-1}) x BET-TR EUR_{T-1}

4. ADJUSTMENT PROCEDURES

- a. BET-TR 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 adjustments are done immediately or in accordance with the stipulations applicable for the situation, as needed.

4.1. Periodical reviews and adjustments

- a. BVB's Index Committee meets quarterly for reviewing the BET-TR index composition and for the periodical adjustment of the index.
- b. Periodical adjustments have as purpose the update of BET-TR constituents' weights following:
 - i. corporate events (share capital increases etc);
 - ii. changes of the index composition following the inclusion/exclusion of a company;
 - iii. the market price evolution of the index constituents' 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 they become effective on the first trading day following the futures contract expiry date.
- d. If on the date of the quarterly revision and/or adjustment an index constituent is suspended from trading or in any other exceptional cases, the 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 possible, the Index Committee will communicate the new date when the quarterly adjustment will be done and the date when the adjustment becomes effective.

4.1.1. Corporate events

- a. If the number of shares issued by a BET-TR constituent changes between two periodical reviews following a share capital increase/decrease, a split/consolidation, the new number of shares issued as registered in the shareholders' registry¹ will be included in the index at the next quarterly review.
- b. In case of other corporate events, the periodical adjustments are to be done according to the stipulations of this document.

4.1.2. Inclusion and exclusion of companies in/from the index

- a. After the selection of the index constituent companies, all representation factors will be recalculated, so that the maximum weight of 20% is respected, as per 2.3.2.

¹ This reference is needed given 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.

- b. Decisions regarding the inclusion and exclusion of new companies in and from the index are taken by the Index Committee on a half-yearly basis, during the periodical meetings of March and September and are made available to the public at the moment they are taken.
- c. Quarterly reviews of the index in which the Index Committee decides upon the inclusion/exclusion of companies in/from the index are held in the first week of the last month of the quarter.
- d. Exceptionally, the Index Committee meets urgently and can decide upon the inclusion and exclusion of a company in and from the index. In such situations, the Index Committee's decisions are made public immediately.

4.2. Operational adjustments

- a. Operational adjustments are made to correct the artificial influences of corporate events on BET-TR index.
- 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 when the trading price changes according to the corporate event announced by the index constituent (*ex-date*).
- c. The operational adjustments may refer to the following corporate events, without being limited to: splits, consolidations, bonus shares issues, the right to subscribe to new shares at a lower price than the market price etc.
- d. In the case of stock splits/consolidations, bonus share issues, share capital increases or other changes of the number of shares outstanding that require an operational adjustment, for company i the price correction factor $c_{i,T}$ is rebased to 1 at every index quarterly adjustment if this is done at the same time with the change of the number of shares issued and registered in the shareholders' registry. In the case of cash dividends distributions, the price correction factor $c_{i,T}$ will be rebased to 1 at the September quarterly adjustment for annual dividends. In other cases, when other cash distributions take place during the year, the timing of the rebasement will be announced at the time of the operational adjustment.

4.2.1. Split/Consolidation

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

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

where:

$q_{i,T}$ number of shares of stock i at time T

$q_{i,T-1}$ number of shares of stock i at time $T-1$

4.2.2. Bonus share issue

If an index constituent carries out a bonus share issue, the price correction factor $c_{i,T}$ is determined as follows:

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

where:

$q_{i,bonus}$ number of bonus shares for stock i

$q_{i,T-1}$ initial number of shares for stock i at time T-1

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

If an index constituent offers to its shareholders the right to subscribe new shares at a lower price than the market price, the price correction factor $c_{i,T}$ is determined as follows:

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

where:

$p_{i,T-1}$ price of stock i at time T-1

p_s subscription price for the new shares

R_s subscription ratio for the new shares

4.2.4. Distribution of cash dividends

If an index constituent decides to distribute cash dividends to its shareholders, regardless of their source, the price correction factor $c_{i,T}$ is determined as follows:

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

where:

$p_{i,T-1}$ closing price of symbol i at time T-1

$D_{i,T}$ dividend payable for symbol i, for which time T is the *ex-date*

When index constituents announce other types of corporate events than those presented above, BVB's 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. Also, BVB's Index Committee will notify the public regarding the $c_{i,T}$ factor value when two or more types of corporate events overlap on the same date.

If other adjustments are needed to ensure the continuity and the relevance of the index, BVB's Index Committee will calculate the adjustments and notify the public accordingly.

5. THE INDEX COMMITTEE

5.1. Overview

BVB's Index Committee is organized in accordance with the stipulations of the Regulation on the Organization and Functioning of BVB and the decisions of BVB's Board of Governors, and operates in line with the powers delegated by the Board.

5.2. Members of the Index Committee

5.2.1. Members with voting rights

- a. The nomination and revocation of BVB's Index Committee members are made by BVB's Board of Governors.
- b. The Index Committee has 7 members:
 - a voting member from BVB's Board of Governors, the President of the Index Committee;
 - a voting member, BVB's General Manager;
 - voting members, natural persons, representatives of Participants to BVB's trading system from the research, development, actuary, new products or asset management department;
 - a voting member from CFA Association Romania;
 - non-voting members selected from BVB's employees by BVB's General Manager.
- c. The voting rights are distributed as follows: 5 voting members and 2 non-voting members (BVB employees). Each voting member has one voting right. The delegation of voting rights is not accepted.
- d. In case of vacancy, the President of the Index Committee will submit a nomination for approval of the Board of Governors. The new mandate will be valid until the expiration of the previous member mandate. Any event that leads to the inability of exercising of a member's duties for 30 consecutive days is deemed to be a definitive impossibility of exercising the member's mandate.
- e. The term of a mandate of a member in BVB's Index Committee is 2 years, counting from the date of appointment by BVB's Board of Governors.
- f. The decision making principle is the simple majority. The Index Committee has quorum when at least 3 voting members are present at the meeting, of which one is the President, another is a representative of a Participant, as well as one non-voting member (BVB employee).
- g. The President can invite to Index Committee meetings: members of the Board of Governors, of CFA Association Romania, specialists from research, development, actuary, new products or asset management departments of Participants to BVB's trading system, credit institutions, specialists from financial institutions issuing financial products underlying BVB indices, as well as academic capital market experts.

5.2.2. Obligations and responsibilities

- a. BVB's Index Committee takes decisions regarding the composition, calculation methodology and the adjustment of BVB indices, and makes proposals to BVB's Board of Governors regarding the strategy of BVB indices.

b. Index Committee members have the obligation to maintain confidentiality with regard to 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, of investors and their protection.

c. The President of BVB's Index Committee will be notified with regard to any conflict of interest before the start of the meeting. The members of the Index Committee in conflict of interest to any of the items of the meeting agenda will abstain from debate and voting.

5.3. Decision making process

5.3.1. In general, BVB's Index Committee holds its sessions in the first week of the last month of each quarter, i.e. in 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-TR
 - performing the periodical adjustment of the index
- ii. general issues and strategic index policy.

5.3.2. Apart from periodical index review and adjustment meetings, BVB's Index Committee can meet urgently for operational adjustments, as well as in other extraordinary circumstances.

5.3.3. For decision making, the simple majority is needed.

5.3.4. The President of the Index Committee chairs the meeting.

6. INDEX DISSEMINATION AND COPYRIGHT

6.1. The index values, as well as any changes in the index composition, are published on BVB's website www.bvb.ro. Index real-time data is available via data vendors and BVB's website, implicitly as part of BVB's data monitoring products. The closing values of the index are included in the daily market statistics, in monthly bulletins and other BVB statistical products.

6.2. The designation "Bucharest Exchange Trading Total Return" and the abbreviation "BET-TR" are protected by legislation related to the protection of intellectual and industrial property rights. The Bucharest Stock Exchange reserves the property right of BET-TR index. The use of the index as underlying for derivatives and/or structured products is prohibited without BVB's prior consent.