

GROUND RULES FOR THE MANAGEMENT OF THE FTSE/ATHEX MID & SMALL CAP FACTOR WEIGHT INDEX



**A T H E N S
E X C H A N G E S . A .**

FTSE

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SECTION 1

1.0 INTRODUCTION

- 1.1 This paper sets out the methodology for the management of the FTSE/ATHEX Mid & Small Cap Factor Weight Index, which is calculated by ATHEX.
- 1.2 The FTSE/ATHEX Mid & Small Cap Factor Weight Index represents the performance of the 20 stocks on the ATHEX Market with the largest composite value, growth and profitability score.
- 1.3 The FTSE/ATHEX Mid & Small Cap Factor Weight Index is calculated real time by ATHEX and disseminated every 30 seconds.
- 1.4 The FTSE/ATHEX Mid & Small Cap Factor Weight Index has a starting value of 1,000 points, as at 22 October 2012.

SECTION 2

2.0 MANAGEMENT RESPONSIBILITIES

There are three groups involved in the management of the indices:

- a) FTSE/ATHEX Indices Advisory Committee
- b) FTSE International Limited (FTSE)
- c) Athens Exchange (ATHEX)

2.1 FTSE/ATHEX Advisory Committee

2.1.1 The Advisory Committee has been established by FTSE and the Athens Exchange to ensure that the management and the ongoing operation of the indices are independent and transparent. The Chairman of the Athens Exchange is ex-officio Chairman of the Advisory Committee and there are six other members, three representing the trading and investment community in Athens and three representing the international investment industry.

2.1.2 The Committee meets at least twice a year and reviews and approves all constituent changes to ensure that such changes are implemented in accordance with the Ground Rules. The Advisory Committee is also responsible for ensuring that the Ground Rules continue to reflect best market practice and will review and approve all changes to the Rules.

2.2 FTSE International Limited (FTSE)

2.2.1 FTSE is responsible for monitoring changes to the indices, auditing its operation and advising the ATHEX 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 indices following consideration of the audit report. FTSE is the Auditor to the indices.

2.3 Athens Exchange (ATHEX)

2.3.1 The Athens Exchange is responsible for the daily operation of the index. ATHEX monitors all corporate actions and price changes and implements all constituent and weighting changes to the indices.

SECTION 3

3.0 ELIGIBLE SECURITIES

3.1 The FTSE/ATHEX Mid & Small Cap Factor Weight Index

- 3.1.1 All classes of ordinary shares in issue are eligible for inclusion in the index subject to conforming to Sections 3 and 4.
- 3.1.2 Convertible preference shares and loan stocks are ineligible.
- 3.1.3 Companies classified into Supersector codes 8300 (Banks), 8500 (Insurance) and 8600 (Real Estate) of the Industry Classification Benchmark (ICB) will be excluded from the index.
- 3.1.4 Exchange Traded Funds (ETF's) and funds whose prices are a direct derivation of underlying holdings will be excluded.
- 3.1.5 The universe of eligible constituents is stocks listed on Athens Exchange that are trading in the «Main Market» and «Low Dispersion» segment of ATHEX. On final selection process the stocks trading into «Low Dispersion» segment will be excluded from inclusion in the index.
- 3.1.6 The Advisory Committee must be satisfied that an accurate and reliable price is available for the purposes of determining the market value of a company.
- 3.1.7 Those stocks that are traded by Call Auction or are transferred to Call Auction trading are not eligible for inclusion in either index.
- 3.1.8 Stocks must be traded on a continuous basis throughout the full ATHEX trading day.
- 3.1.9 The index will consist of 20 stocks with the largest company final ranking value.

SECTION 4

4.0 INVESTABILITY SCREENS

Eligible securities are subject to investability screens:

4.1 Free Float

Shares in issue must, in the opinion of the FTSE/ATHEX Indices Advisory Committee, be publicly available for investment. The Advisory Committee will adjust share weightings where cross-holdings exist or where free float is restricted.

4.1.1 Restricted free float includes:

- 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 with which they are affiliated.
- 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.
- Shares that are subject to on-going contractual agreements (such as swaps) where they would ordinarily be treated as restricted.

4.1.2 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 4.1.1)
- Holdings by investment companies *
- ETFs

* Where any single portfolio holding is 30% or greater it will be regarded as strategic and therefore restricted. The shares will remain restricted until the holding falls below 27%.

If in addition to the above restricted holdings, the company's shareholders are subject to legal restrictions, including foreign ownership restrictions, that are more restrictive, the legal restriction will be applied.

4.1.3 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%	=	ineligible
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

- 4.1.4 A constituent's free float will also be reviewed and adjusted if necessary 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.
- 4.1.5 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 new band. This 5 percentage points threshold does not apply if the change is greater than 10 percentage points for the bands between 20% and 50% and 25 percentage points for the bands between 50% and 100% or to the 15% limit in Rule 4.1.3.

SECTION 5

5.0 PERIODIC REVIEW OF CONSTITUENTS

- 5.1 The FTSE/ATHEX Mid & Small Cap Factor Weight Index will be reviewed annually every May based on the annual financial statements of the ATHEX listed companies. The constituent reviews will be based on data collected as at the end of March. Market capitalisation will be calculated on the last trading date of March.
- 5.2 Changes arising from the annual review will be implemented after the close of business on the last Friday of May, in line with the implementation of the review of the FTSE/ATHEX Index Series.
- 5.3 The review of the FTSE/ATHEX Mid & Small Cap Factor Weight Index and the calculation of the final raking value of a company are carried out as follows, using the following ratios as calculated by the company's annual financial statements:

A. Profitability Ratios

- Net Margin = Net Income t / Sales t
- Return on Equity (ROE) = Net Income t / [(Book Value t + Book Value $t-1$) / 2]
- Return on Assets (ROA) = EBIT t / [(Total Assets t + Total Assets $t-1$) / 2]

B. Value Ratios

- Book Value to Price (BPR) = Book Value t / Full Mkt Cap t
- Dividend Yield (DY) = Total Dividends t / Full Mkt Cap t
- Cash Flow Yield (CFY) = Cash Flow t / Full Mkt Cap t

C. Growth Ratios

- Sales Growth
- Earnings (Net Income) Growth

D. Debt Ratios

- Debt Ratio (DB) = (Debt t – Cash & Cash Equivalents t) / EBITDA t

- 5.4 Financial data that is not yet available and/or cannot be derived from pre-existing companies, for example, companies such as recent listings, or recently merged companies or investment entities that do not report the necessary fundamental values will be ineligible for inclusion in the index.

5.5 Review Process

- A. For the eligible universe calculate for each company:
- Profitability ratios for the last three fiscal year financial statements. The final value of each ratio is the average of the 3 year ratios.
 - Value ratios for the last fiscal year financial statement.
 - Growth ratios for the last three fiscal year financial statements. The final value of each ratio is the average of the 3 year ratios.
 - Debt ratio for the last fiscal year financial statement.
- B. For every company normalise each ratio within the industry that the company is classified in order to give comparable scale to each ratio, using the cross-sectional mean and standard deviation respectively of stocks in industry from the eligible universe at each rebalance point.

For example the normalised Net Margin of stock i :

$$\text{Norm Net Margin}(i) = [\text{Net Margin}(i) - \text{Mean Net Margin}(j)] / \text{Std Dev Net Margin}(j)$$

SECTION 5

C. Combining Factors

Aggregate the normalised Profitability, Value and Growth ratios by summing the normalised individual stock Profitability, Value and Growth ratios for each stock. E.g. Normalised Profitability (i) = Norm Net Margin(i) + Norm ROE(i) + Norm ROA(i)

D. Final Score

Sum the aggregate normalised Profitability, Value and Growth factors to obtain company's final score excluding companies with negative value to all three factors

E. Rank all companies based on their final score excluding from the rank:

- Companies with negative EBITDA
- Companies in the top 25% of the eligible universe by their Debt Ratio
- Companies that are constituents of the FTSE/ATHEX Large Cap and FTSE/ATHEX Mid Cap Indices

F. Select the top 20 companies of the rank. Non-constituents of the FTSE/ATHEX Mid & Small Cap Factor Weight Index that have reached position 15 or above will qualify for entry into the index. Existing constituents which have fallen to position 26 or below will be removed from the index at the annual review.

5.6 Capping Dates

- 5.6.1 The constituents of FTSE/ATHEX Mid & Small Cap Factor Weight Index are capped semi-annually at the close of business on the last Friday of May and November. The capping is implemented using prices adjusted for corporate actions as at the close of business on the Friday before the last Friday of May and November based on the constituents, shares in issue and free float.

5.7 Capping Methodology

5.7.1 Step 1

No individual company in the Index can be greater than 20%. A company with a weight greater than 20% is capped at 20% capping weight. *

Step 2

Reweight and re-rank all companies by resulting weights largest to smallest. Find the highest ranked company by accumulated weight that is greater than 48%. This company and the companies ranked before it form the top capping group.

If the lowest ranked company in the top capping group is less than 5%, no further capping is needed. Otherwise proportionately cap the uncapped companies in the top capping group such that top capping group has an aggregate weight of 48% in the index. **

If the result of this round of capping causes any issues in the top capping group to fall below 4.75%, the weights of those companies will be capped at 4.75%.

Step 3

If the individual weights of the remaining lower ranking uncapped companies are greater than 4.75%, they will be capped at 4.75%.

* In the case more than two companies require 20% capping, then the top capping weight will be revaluated.

** Companies capped at 20% will not be capped further.

SECTION 5

5.8 Reserve Lists

- 5.8.1 FTSE and ATHEX will be responsible for publishing the five highest ranking eligible non-constituents of the FTSE/ATHEX Mid & Small Cap Factor Weight Index. The appropriate Reserve List will be used in the event that one or more constituents is deleted from an index during the period up to (but not including) the next annual review.

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 unconditionally accepted or has, in the opinion of the Chairman and Auditor of the Advisory Committee (or their nominated deputies), 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 eligible security from the FTSE/ATHEX Mid & Small Cap Factor Weight Index Reserve List as at the close of business two days prior to the effective date of the deletion.
- 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. Announcements 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 unconditionally accepted.
- 6.1.3 If, between the meeting of the advisory committee and the implementation of the review, a vacancy in the index occurs, it will be replaced by the highest-ranking eligible non-constituent from the new reserve list. If the company to be removed is one previously announced as a forthcoming removal due to the index review, it will normally be replaced by the highest-ranking company (at the review date) previously announced as an addition at the index review.

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 within the same index, the resulting company will remain a constituent of the appropriate index, and a vacancy will be created. This vacancy will be filled by selecting the highest ranking eligible non-constituent security from the Reserve List as at the close of business two days prior to the replacement being required.
- 6.2.2 If the effect of a merger or takeover is that a constituent of one of the indices is absorbed by a constituent of a lower index, the resulting company is eligible for inclusion as the replacement company in the higher index. The replacement constituent is the highest ranking eligible security from the Reserve List as at the close of business two days prior to the replacement being required. If the effect of a merger or takeover is that a constituent of an index is absorbed by a constituent of a higher index, the newly formed entity remains a constituent of the higher Index and the vacancy in the lower Index is filled by the highest ranking eligible non-constituent security from the Reserve List.
- 6.2.3 If a constituent company is taken over by a non-constituent company, the original constituent will be removed and replaced by the highest ranking eligible non-constituent security from the Reserve List as at the close of business two days prior to the replacement being required. Any eligible company resulting from the takeover will be eligible to become the replacement company, in either index, if it is ranked higher than any other non-constituent.
- 6.2.4 The Advisory Committee may, at its discretion, defer the inclusion at a review of a new issue until the next review, or to any other time as it may determine, if it has reason to believe that the security may not meet the selection criteria set out in Sections 4 and 5.

SECTION 6

6.3 Suspension of Dealing

- 6.3.1 Where a suspension of a constituent lasts beyond noon on the second day, the Chairman and Auditor will consult members of the Advisory Committee to consider whether the constituent should be removed. When a stock has been suspended for ten consecutive trading days (and the Committee has not exercised a discretion to remove it), it will be deleted from the index on the eleventh trading 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. The replacement security will be the highest ranking eligible non-constituent security from the Reserve List as at the close of business two days prior to the replacement being required.

SECTION 7

7.0 CHANGES TO CONSTITUENT WEIGHTINGS

- 7.1 For the purposes of computing the FTSE/ATHEX Indices, the number of shares in issue for each constituent security is expressed to the nearest share.
- 7.2 If a constituent's corporate action requires a price and/or shares in issue adjustment according to the current ATHEX regulations, the change in the number of shares in issue will be applied simultaneously with the corporate action.
- 7.3 Any exceptions to the above arrangements will be agreed with the Chairman of the FTSE/ATHEX Indices Advisory Committee and notified to all users in advance of implementation.
- 7.4 All adjustments are made before the start of the index calculation on the day concerned, unless market conditions prevent this.

SECTION 8

8.0 AMENDMENTS TO 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 deputies), 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 deputies) 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.

APPENDIX A

INDICES ALGORITHM AND CALCULATION METHOD

1. Prices

- 1.1 The indices will use last trade prices for securities.

2. Calculation Frequency

- 2.1 The indices will be calculated every 30 seconds during the opening hours of the Athens Exchange using real time prices.

3. Calculation of the Indices

- 3.1 The indices will be displayed to two decimal places.
- 3.2 The indices are calculated using the following formula:

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

Where,

- $i = 1, 2, \dots, N$
- 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).
- s_i is the number of shares in issue used by FTSE for the security, as defined in these Ground Rules.
- 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.
- f_i is the Free Float Band to be applied to each security, where 100 represents a 100% free float. This factor is published by FTSE for each security in the underlying 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.

APPENDIX B

INDEX OPENING AND CLOSING HOURS

Index	Open	Close
FTSE/ATHEX Mid & Small Cap Factor Weight Index	08:30 (GMT)	15:20 (GMT)

APPENDIX C

PUBLICATION OF INFORMATION

1. FTSE and the Athens Exchange shall ensure that the following information on the indices is widely published:
 - a) Ground Rules
 - b) Index values
 - c) List of constituents
 - d) Changes to constituents
 - e) Changes and amendments to the Ground Rules
 - f) Details of any recalculations or calculation amendments
2. Constituent prices, weightings and other stock data together with statistics on the indices are available on subscription from FTSE and the Athens Exchange.

APPENDIX D

FURTHER INFORMATION

For further information on the FTSE/ATHEX Mid & Small Cap Factor Weight Index, please contact FTSE or ATHEX, who will also welcome comments on these Ground Rules. Contact details can also be found on:

Website FTSE: www.ftse.com

Website ATHEX: www.athex.gr

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