



CENTRAL EUROPEAN BLUE CHIP INDEX (CETOP) MANUAL OF THE BUDAPEST STOCK EXCHANGE LTD.

Budapest, September 1, 2016

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1 General principles

1.1 Creation of the index

- 1.1.1 The Council of the Budapest Stock Exchange passed resolution No 127/2001 to approve of the calculation and publication of CETOP20 starting January 1, 2002. As of September 1, 2016 the official short name of the index: CETOP. CETOP index was created by changing the name of CETOP20 index.
- 1.1.2 The development and maintenance of the CETOP index is being performed by the Index Committee of the Budapest Stock Exchange (hereinafter: Index Committee). The members of the Index Committee are independent market experts, who are appointed by the Board of Directors in order to make sure that all the trader, issuer and the investor side are represented.

1.2 Expectations the index is to fulfill

- 1.2.1 CETOP is a free float weighted share price index.
- 1.2.2 CETOP reflects changes in the market value adjusted for free float of joint stock companies included in the index basket. The index basket stands for a theoretical market portfolio to model the structure of securities typical of the market as a whole. The index was created to show the change in value of this package of securities as compared to base date and hence function as a measure of value on the market. As such, the most important role of the index is to give the most accurate reflection on the status of the securities market as a whole and to follow market changes and processes as closely as possible.

1.3 Basic principles related to the index

- 1.3.1 The basket of the CETOP index may only include ordinary shares of joint stock companies listed in an official category at an exchange that meet the following requirements:
- a) The company is listed on at least one of the CETOP member countries' exchange (Hungary, Czech Republic, Poland, Slovakia, Slovenia, Croatia, Romania).
 - b) The instrument is available for foreign investors and there are no restrictions related to the settlement and custody services for the instrument.
 - c) Neither preference shares nor any shares that grant other extra rights may be included in the basket.
 - d) Holding companies with 75% of assets invested into shares included in the index are not eligible for inclusion.
 - e) Equity funds and portfolio companies are not eligible for inclusion in the CETOP basket.
- 1.3.2 Different share series issued by the same joint stock company and series of ordinary shares granting dividends for a fraction of a year may be included in the index as separate securities.
- 1.3.3 Newly listed share series shall be traded for at least 3 weeks on the exchange before they can be included in the index.
- 1.3.4 The Index Committee is authorized to deal with certain issues related to the CETOP index as set out in this Manual.

2 Description of the index

2.1 Calculation times

The CETOP index is calculated once a day on each Exchange day at the time specified in Section [2.5.1](#).

2.2 Index name

Official Hungarian name:	Közép-európai Blue Chip Index
Official English name:	Central European Blue Chip Index
Official short name:	CETOP

2.3 Base parameters of the index

Base Value of CETOP index:	1,000 points on January 1, 2001
Base Capitalization of CETOP index:	HUF 32,353,535,826.01 on January 1, 2001

2.4 CETOP countries

Share series listed on at least one of the following countries' exchange can be members of the CETOP index: Hungary, Czech Republic, Poland, Slovakia, Slovenia, Croatia, Romania.

2.5 Index formula

$$CETOP_t = \text{Base Value} * \left[\frac{\sum_{i=1}^N (P_{i,t} * Q_i * FF_i * WF_{i,t})}{\text{Base Capitalization}} \right] * AF_t$$

2.5.1 Index variables

CETOP_t	the value of CETOP calculated once a day at time "t", rounded to 2 decimals
i	share series included in the index
N	the number of share series included in the index
t	time of index calculation (on Exchange days, 10 minutes after the time when close prices are available on all CETOP markets)
P_{i,t}	the close price of a certain share at time "t", expressed in euro (conversion from local currency to euro is carried out by using the mathematical average of the spot local FX/EURO bid and offer rates published by REUTERS at time "t")
Q_i	number of equities included in the index basket from a particular share series
FF_i	free float factor of the particular share series, rounded to 4 decimals
WF_{i,t}	weighting factor ensuring that the weight of the particular share series is calculated based on the amount of shares to be included in the index basket (Section 3.6), rounded to 6 decimals
AF_t	adjustment factor to ensure the continuity of the index, rounded to 10 decimals

The above parameters may be amended due to certain corporate events as described in Section [4.2](#).

2.6 The composition of the index basket

At the time of defining the new composition of the CETOP index, the index basket contains not more than 25 share series. The CEO has the power to decide on the inclusion in or the removal from the basket of a particular series.

3 Basket review

3.1 Basket review procedure and dates

The index is reviewed at predetermined dates twice a year. The steps associated with the review are taken at the following dates:

- a) Share series to be included in the evaluation are specified and conformity with the indicators is checked twice a year, on March 1 and September 1. The examination of the eligibility of a share series will always cover the preceding six months, i.e. the period from March 1 to August 31 or September 1 to February 28 (29), as applicable. The list of shares to be included in the indices, as well as the number of listed equities (Q_i), free float (FF_i) and weighting factor (WF_i) values pertaining to these shares, are determined in this phase.
- b) The new AF factor is determined after trading closes on the last trading day before the basket with the new composition takes effect.
- c) The effective date of the basket with the new composition, i.e. the day when the index is first calculated with values corresponding to the new basket composition, is the first trading day after the third Friday of March and September, respectively.

3.2 Specifying the equities to be included in the evaluation

Shares of new countries from Central Europe may only be included in the index basket only after the amendment of the Index Manual and by the resolution of the CEO, at basket revision dates.

3.2.1 The evaluation shall be performed for all share series listed on the exchanges; however, no evaluation is carried out with respect to:

- a) series of non-ordinary shares;
- b) share series that are not available for foreign investors or there are any restrictions related to their settlement and custody services;
- c) share series that became listed on the exchanges within a period of 3 weeks prior to the review;
- d) share series of a joint stock company whose bankruptcy or liquidation procedures have been disclosed to the public;
- e) share series that are not members of any CETOP country's main index.

3.2.2 When determining the basket composition, the number of shares to be included in the basket from a single country shall be no more than 7.

3.3 Determining the indicators for equities to be included in the evaluation

When introducing a new share series in or removing one from the basket, for each share selected in accordance with Section [3.2](#), the ratio the share represents within total market turnover in the past six months as well as the percentage ratio of each share to full market capitalization must be calculated. Shares ranked into descending order on the basis of the weighted average of the two percentage ratios, where the weight of the ratio to total turnover is 60%, while that of the ratio to capitalization is 40% will be the basis of the global ranking.

$$W_i = 0.6 * wforg_i + 0.4 * wkap_i, \text{ where}$$

$wforg_i$ – the ratio of turnover in the particular share to total market turnover in the past six months
 $wkap_i$ – the market capitalization of the share in proportion to total market capitalization
 W_i – the basis of ranking the whole CETOP market (hereinafter: global ranking)

3.4 Global ranking and stabilization procedure

The global ranking set in line with Section [3.3](#) and the stabilization procedure detailed in Sections [3.4.2](#) and [3.4.3](#) forms the basis to the further steps of selecting 25 shares.

- 3.4.1 Progressing the global ranking set by the w_i in descending order- – taking Section [3.2.2](#) also into account - the first 20 shares are selected.
- 3.4.2 The relative order of the 10 shares following the last (20th) share selected in accordance with the above procedure forms the stabilization zone, where no shares are selected that breach the country limit rule (Section [3.2.2](#)) In the stabilization zone the ranking of the shares are the following:
- Shares included in the current basket are moved to the top of the ranking.
 - If several shares are included in the current basket, their order will be determined by their original position in the global ranking.
 - The order of shares that are not included in the current basket will also be determined by their original position in the global ranking.
- 3.4.3 The first 5 share series of the global ranking will then also be selected among the 25 share series. Further steps set out in Sections [3.5](#), [3.6](#), [3.7](#) and [3.8](#) shall be carried out in respect of this 25 share series.

3.5 The method of determining the free float (FF_i)

The free float of individual share series shall be determined on the basis of the latest information available to the Exchange.

- 3.5.1 When determining the free float for a particular share series (FF_i), all the equities making up the company stock as evidenced in the company's share registry shall qualify as being publicly held except for the following:
- any shareholder holding more than 5% of all the equities;
 - the portion of equities held by custodians for which the certificate issued asserts that a particular natural or legal person or a business without corporate entity holds at least 5% of all the equities.
- 3.5.2 In respect of the above, shareholders treated as forming a single group of owners by Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises shall be considered as a single shareholder.
- 3.5.3 Free float shall be calculated to 4 decimal points. (Rounding shall be carried out after totalling the non free float items.)
- 3.5.4 When applying Sections [3.5.1](#), [3.5.2](#) and [3.5.3](#) the Index Committee – after taking all circumstances into consideration – has the right to make a different decision.

3.6 Determining the weighting factors (WF_i)

The basis for determining the WFi of each share series shall be the capitalization of the particular shares calculated for the days set out in Section 3.1 during the review process (listed quantity of the share series on the review day (Q_i) * close price on that day in euro (P_i), hereinafter Cap_i) and the free float (FF_i) set out in Section 3.5 Based on this and by applying degression (Section 3.6.3) as well as the 40% country limit rule (Section 3.6.5) the weighting factors (WF_i) of each share series shall be determined.

3.6.1 Using the capitalization figures of all the series included in the index basket (Cap_i) and their free float rates (FF_i), the free float adjusted capitalization (Cap_{iFF}) shall be determined for each series.

$$\text{Cap}_{iFF} = \text{Cap}_i * \text{FF}_i$$

3.6.2 Using the free float adjusted capitalisation figures of each series included in the index basket, the ratio of each series (r_{iFF}) shall be calculated:

$$r_{iFF} = \frac{\text{Cap}_{iFF}}{\sum \text{Cap}_{iFF}}$$

3.6.3 Using this calculated ratio, the following method shall be used to calculate adjusted capitalisation (DegrCap_i) for each series included in the index basket as follows:

- | | |
|---|---|
| a) If $r_{iFF} < 5\%$, then | $\text{DegrCap}_i = \text{Cap}_{iFF}$ |
| b) If $5\% \leq r_{iFF} \leq 10\%$, then | $\text{DegrCap}_i = \text{Cap}_{iFF} * (5\% + (r_{iFF} - 5\%) * 50\%) / r_{iFF}$ |
| c) If $10\% < r_{iFF}$, then | $\text{DegrCap}_i = \text{Cap}_{iFF} * (7,5\% + (r_{iFF} - 10\%) * 10\%) / r_{iFF}$ |

3.6.4 If the total weight of the shares of a CETOP country compared to the total basket capitalization exceeds 40% after the degression, then all DegrCap_i values of the shares of the given country are decreased (proportionally) until the total weight of the shares of the given country reaches 40%. If this action entails that the total weight of the shares of another CETOP countries exceeds 40%, then the weight limitation shall be carried out also for this country simultaneously with the weight limitation of the previous country. This process shall be continued until the total weight of the shares of each affected CETOP country reaches 40%.

$$\text{DegrCap}_i \rightarrow \text{LimitCap}_i, \text{ where } \sum_{\text{country}} (\text{LimitCap}_i) \leq 0,4 * \sum (\text{LimitCap}_i)$$

3.6.5 The number of equities included in the basket per share series (q_i) calculated as follows:

$$q_i = \frac{\text{LimitCap}_i}{\text{close price}}, \text{ rounded to 0 decimals.}$$

3.6.6 The weighting factor for each share series (WF_i) is determined as follows:

$$\text{WF}_i = \frac{q_i}{\text{FF}_i * Q_i}$$

3.7 Share series with low weight

Share series with less than 0.5% weight ((LimitCap_i / Sum(LimitCap_i)) after the calculation set out in Section 3.6 will not be included in the CETOP index. (In this case the number of the share series in the index basket falls below 25, and the weights of the share series included in the CETOP index will increase slightly.)

3.8 Specifying the share series to be actually admitted to the index

Based on the basket composition generated in accordance with the provisions of Sections 3.3, 3.4, 3.5, 3.6 and 3.7, the Index Committee examines the possibilities of a basket modification and, with the right of diverging from the rules in special cases, makes a proposal to the CEO for the new index basket. Based on the proposal the CEO decides on the share series to be actually admitted to the new index basket.

3.9 Determining the adjustment factor of the new index basket (AF_{new})

The new basket is introduced on the first trading day after the third Friday of March and September, as applicable. After determining the adjustment factor of the new index basket (AF_{new}), the appropriate modifications to the composition of the basket shall be made on the exchange day before the new basket becomes effective.

3.9.1 The method of calculating AF_{new}

$$AF_{new} = \frac{\sum_{i=1}^N (P_{i,t} * Q_{i,t} * FF_{i,t} * WF_{i,t})_{old}}{\sum_{i=1}^N (P_{i,t} * Q_{i,t} * FF_{i,t} * WF_{i,t})_{new}} * AF_{old} \quad , \text{ where}$$

$\sum_{i=1}^N (P_{i,t} * Q_{i,t} * FF_{i,t} * WF_{i,t})_{new}$

the numerator of the index calculated with the new basket composition developed during the review

$\sum_{i=1}^N (P_{i,t} * Q_{i,t} * FF_{i,t} * WF_{i,t})_{old}$

the numerator of the index calculated with the basket composition valid on the day the AF factor is calculated, after closing

AF_{new}

AF factor of the new index basket

AF_{old}

AF factor of the old index basket

4 Changing the index basket

4.1 Changing the index basket as a result of an ordinary index review

4.1.1 Steps to be taken prior to changing the index basket

- 4.1.1.1 After performing the calculations set forth in Sections [3.3](#), [3.4](#), [3.5](#), [3.6](#) and [3.7](#), and taking into account the results thereof, the Index Committee discusses the options for changing the basket of the index (share series to be admitted into the index). The Index Committee decides on recommended changes to the index basket by a simple majority of votes.
- 4.1.1.2 Following this the Index Committee fixes the free float figures (FF_i), the amounts of shares listed on the relevant exchange (Q_i) and the weighting factors (WF_i) of the share series included in the new index basket.
- 4.1.1.3 Based on the proposal of the Index Committee the CEO decides on the modification of the index basket at least a week prior to the day of the index basket change. In the event the decision of the CEO diverges from the proposal of the Index Committee, the justification must be included in the decision. On the day of the decision, the CEO also informs the press and the investors on changes to the index basket in a release, listing the group of securities to be included in and removed from the basket. The release also contains the free float figures (FF_i), the amounts of shares listed on the relevant exchange (Q_i) and the weighting factors (WF_i) of the share series included in the new index basket.
- 4.1.1.4 The Index Committee determines the new AF factor as set forth in Section [3.9](#).
- 4.1.2 The Index Committee effectuates the changes to the index basket at the date set in the CEO resolution and publishes a release on the new AF factor on the first exchange day after the basket change at the latest.

4.2 Amending the index basket due to corporate actions

4.2.1 Changes in the composition of the index basket

- a) Unpredictable corporate events:
- bankruptcy or liquidation procedures
- b) Previously announced corporate events:
- capital reduction
 - de-merger
 - takeover
 - merger
 - reverse split of different share series of a joint stock company
 - continuous conversion of various share series of a joint stock company
 - split of identical share series of a joint stock company
 - delisting of a joint stock company from the CETOP member country's stock exchange, translisting
 - squeeze-out procedure

4.2.2 Events leaving the index basket unchanged but modifying certain variables only

Corporate actions:

- in certain cases, the corporate actions listed under Section [4.2.1 b\)](#), except for mergers
- in certain cases, capital increase
- share splits (altering denominations)
- changes in free float

4.2.3 Corporate actions

4.2.3.1 Capital increase

Subscription to new shares, transformation of net assets other than nominal capital into equity or the conversion of convertible bonds into shares to increase the equity capital of a company and the court registration thereof.

4.2.3.1.1 If capital increase is effected by subscription to new shares, the ordinary shares issued through the capital increase by CETOP basket companies will, once listed on the relevant exchange, be included in the basket at the next basket review or immediately, depending on the decision of the Index Committee, while Q_i is increased and AF is adjusted.

(Modifications: AF, Q_i)

4.2.3.1.2 If capital increase is effected by converting assets over and above nominal capital into equity by issuing bonus shares, then the ordinary shares issued through the capital increase by CETOP basket companies will be included into the index according to the procedure set forth by KELER Zrt. on the first exchange day when the ordinary shares already traded on the exchange are first traded without entitlement. At the same time, WF_i is increased.

(Modifications: WF_i)

4.2.3.1.3 If capital increase is effected by converting convertible bonds into shares, or in case shareholders have the right of first refusal in respect of the new shares issued through the capital increase, then the Index Committee decides on modifying the basket and shall make its resolution public within at least two weeks.

4.2.3.2 Capital reduction

A reduction of equity capital by withdrawing own shares held by a joint stock company, by swapping or stamping shares or by otherwise decreasing the number thereof through a similar procedure (share consolidation) or by withdrawing shares and refunding to shareholders payments made against shares and the court registration thereof.

4.2.3.2.1 If capital is reduced by withdrawing own shares held by a joint stock company or by swapping shares, then the reduction of nominal capital (i. e. the decrease in the number of ordinary shares) affecting CETOP basket companies will be reflected in the index basket after court registration (or possibly after the event is published), by reducing Q_i along with the adjustment of AF at the next review date or immediately, depending on the decision of the Index Committee.

(Modifications: AF, Q_i or AF, N and i)

4.2.3.2.2 If capital is reduced by share consolidation, the reduction of nominal capital (decrease in the number of ordinary shares) affecting CETOP basket companies will be reflected in the index basket immediately after court registration, by the reduction of Q_i .

(Modifications: Q_i)

4.2.3.2.3 If capital is reduced by stamping own shares held by a joint stock company, the operation requires no adjustment of the index basket.

4.2.3.3 Bankruptcy or liquidation procedures

All joint stock companies under bankruptcy or liquidation shall be removed from the index. The date of removal from the basket shall be the date at which the executive of the debtor company discloses under the extraordinary reporting requirement that an application requesting that bankruptcy procedures be launched has been submitted to the court, or the date at which the Company Gazette publishes the court order to liquidate the debtor company, as applicable.

If that occurs, the share series shall be removed from the index basket with immediate effect with the due adjustment of AF.

In this case the Index Committee may also decide to repeat the basket limitation procedure, which will, in turn, entail the modification of the WF_i of other share series.

(Modifications: AF, N and i and, pending the decision of the Index Committee, certain WF_i values also)

4.2.3.4 Delisting of a joint stock company from the CETOP market's exchange, translisting

When delisting or translisting a company, the shares of the company are removed from the index basket by applying the rules specified for bankruptcy or liquidation proceedings (Section [4.2.3.3](#)), unless the Index Committee decides otherwise, on the day they are delisted or translisted, along with the adjustment of AF.

In this case the Index Committee may also decide to repeat the basket limitation procedure, which will, in turn, entail the modification of the WF_i of other share series.

(Modifications: AF, N and i and, pending the decision of the Index Committee, certain WF_i values also)

4.2.3.5 Squeeze-out procedure

Unless the Index Committee decides otherwise, the particular share series shall be removed from the index basket on the last day of the squeeze-out procedure, after closing, at the bid price of the squeeze-out and with the due adjustment of the AF factor.

In this case the Index Committee may also decide to repeat the basket limitation procedure, which will, in turn, entail the modification of the WF_i of other share series.

(Modifications: AF, N and i and, pending the decision of the Index Committee, certain WF_i values also)

4.2.3.6 Series split

Splitting a series of ordinary shares of a joint stock company into two or more different series of ordinary shares without changing the size of nominal capital and the court registration thereof.

4.2.3.6.1 If one of the share series created by the split grants the same rights as the original series, the operation in respect of that series shall be treated subject to the rules of a reduction of nominal capital by share withdrawal (Section [4.2.3.2.1](#) [4.2.3.2.1](#)).

4.2.3.6.2 If the split creates new share series granting different rights than the original series, the original series shall be removed from the basket by applying the rules specified for bankruptcies (Section [4.2.3.3](#))

4.2.3.7 De-merger

Court registration and listing on the exchange of two or more companies incorporated upon winding up and delisting a de-merged company.

4.2.3.7.1 If the de-merging company is wound up without legal succession, the rules specified for bankruptcies (Section [4.2.3.3](#)) shall be applied, with the due removal of the company from the basket, effective on the day the company is delisted.

4.2.3.7.2 If one of the new companies incorporated upon de-merger is the legal successor of the original company, the Index Committee will decide on whether or not the legal successor may remain in the index, and shall publish its decision within at least two weeks.

4.2.3.8 Takeover

Raising the equity of the company taking over, the court registration thereof and stock exchange listing of the shares arising from the equity increase upon winding up and delisting the target company.

The company taken over is removed from the index basket on the day of delisting by applying the rules specified for bankruptcies (Section [4.2.3.3](#)), while the other company shall be subject to the rules applied in case of capital increase by subscription to new shares (Section [4.2.3.1.1](#)).

4.2.3.9 Merger

Merger of two or more companies after winding-up (delisting), court registration and stock exchange listing of the new company.

The companies are removed from the index basket by applying the rules specified for bankruptcies (Section [4.2.3.3](#)) on the day they are delisted.

4.2.3.10 Reverse split of different share series of a joint stock company

Combining different share series (bearer and registered, granting dividends for a full year or a fraction thereof) of a joint stock company included in the index basket by increasing the number of shares within a series with those in the other series at a given time and thereby creating shares of identical type.

4.2.3.10.1 The Q_i value of the series that will incorporate reverse split series will be increased with the number of shares in the latter on the merger date by applying the rules specified for capital increase (Section [4.2.3.1.1](#)). The series subject to the reverse split will be removed from the basket at the same time by applying Section [4.2.3.3](#).

4.2.3.10.2 If a new series is created when reverse split is performed on the original series, such original series shall be removed from the index by applying the rules specified for bankruptcies as set forth in Section [4.2.3.3](#).

4.2.3.11 Continuous conversion of various share series of a joint stock company

Continuous conversion of one share series of a joint stock company included in the index basket into another (bearer into registered or vice versa) series before a specified date to create shares of identical type.

As this is a case grouped under Section [4.2.3.10](#), the rules set forth there shall apply.

4.2.3.12 Share split (altering denominations)

An increase in the number and a reduction of the face value of shares by exchanging or stamping shares without a corresponding change in equity, and the court registration thereof.

Q_i shall be increased on the first day of the share split.

(Modifications: Q_i)

4.2.3.13 Granting subscription rights to shareholders

In the event the right to subscribe to issues is granted to shareholders, the issuing joint stock company confers the right upon its shareholders to subscribe to a specific number of equities, typically at a price below the current market rate.

4.2.3.13.1 In the event the right to subscribe is granted to all existing shareholders and such shareholders may subscribe to a v_i number of shares at a price of ii for each q_i quantity held, and if the closing price on the date when the equities are last traded with the subscription entitlement is p_i , then the rules set forth for capital increase via the issue of bonus shares (Section [4.2.3.1.2](#)) shall be used in respect of the quantity of equities of $(1-ii/p_i) * v_i$ (rounded to the nearest full number), whilst the quantity of equities of $(ii/p_i) * v_i$ (rounded to the nearest full number) shall be subject to the rules of capital increase via subscribing to a new issue at market price (Section [4.2.3.1.1](#)).

4.2.3.13.2 If the right to subscribe is not granted to all shareholders, or if $p_i < ii$, the event will not induce an adjustment in the index.

4.2.3.14 Changes in the free float

If a significant change in an index member joint stock company's free float occurs, the Index Committee has the right to modify the index basket. In this case the Index Committee may decide to determine the amount of shares included in the basket for the particular share again by using the new free float number and the parameters that were used at the previous limitation procedure, while leaving the parameters of the other index member share series unchanged. However, the Index Committee may also decide to recalculate the amount of shares included in the basket for all index members.

(Modifications: AF, FF_i, WF_i; or AF, FF_i, all WF_i-s)

4.2.3.15 When applying Section [4.2.3](#), the Index Committee – after taking all circumstances into consideration – has the right to make a different decision.

4.2.3.16 In other cases not regulated above, the Index Committee decides individually on the modification of the index basket.

5 Legal issues

5.1 Protection of the index

The Index manual is to be protected by copyright. CETOP is protected by a unique trademark.

5.2 Publication

Index related information (index values, composition of index baskets, calculation parameters, decisions, releases, etc.) are published via the website of the Exchange (www.bse.hu).

5.3 Utilization of CETOP

Utilization of CETOP – in accordance with the relevant legislation – is primarily subject to the laws on copyright and trademark protection.

Use of the index by financial services providers within the framework of financial products is subject to the conclusion of a license agreement.

6 Miscellaneous

- 6.1 During the index review in September 2016, the 25 share series – in relation with steps set out in Sections 3.5, 3.6, 3.7 and 3.8 shall be carried out – will be selected based on the global ranking without applying the stabilization procedure.