

Rules for the
Management of the
Storm Indices

20 December 2006
Version: 2.2

TABLE OF CONTENTS

1. Index Overview.....	3
2. Eligible Securities & Weightings.....	4
3. Amendments to the Rules	6
4. Half Yearly Review of Constituents	7
5. Changes to Constituent Companies Other than at Periodic Reviews ...	9
6. Changes to Constituent Weightings	11

Appendices

A. Indices Algorithm and Calculation Method.....	12
B. Technology Index Description	13
C. Stocks with split market capitalisation.....	14

SECTION 1

OVERVIEW

A total market index, made up of 3 sub-indices, has been created to provide a broad spectrum of investment for the Australian market. The aim of the sub indices is to breakdown the market into groups of stocks influenced by different market drivers.

All sub indices will be subject to two formal semi-annual reviews each year. The half yearly reviews will relate to the whole of the previous six-months, that is September to February for the March review, and March to August for the September review.

PURPOSE OF INDEX

- 1.1 Four indices have been created with an aim of providing a broad based universe for investment in the Australian market.
 - Australian Broadmarket Index
 - Australian Industrials Index
 - Australian Resources Index
 - Australian Technology Index
- 1.2 The broadmarket index is the sum of the market capitalisations of the 3 underlying sub-indices.
- 1.3 Each of the sub-indices is designed to capture and represent the performance of Australian companies that fall into the relevant sector of the Australian Market.
- 1.4 In broad terms, the Australian Technology Index captures those companies that derive, or are likely to derive in the near future, the majority of their revenues from exposure to the 'technology' space. The index attempts to focus on companies that have a proprietary idea, process or product rather than those that are simply users of technology. In order to prevent the index being dominated by a few stocks, the index may contain only a proportion of certain large stocks' market capitalisation. The remainder of the capitalisation is captured by the Australian Industrials Index. Further details of this sub-index is included as Appendix B.
- 1.5 The Australian Resources Index captures Australia's natural energy and mining related stocks. The companies included are typically involved in the exploration, appraisal and production of oil, gas, metals and minerals.
- 1.6 The Australian Industrial Index, in general terms, contains the remainder of the Australian stocks that are neither classified as Technology or Resource stocks. The majority of this index is dominated by stocks that fall into the financial,

media and capital goods sectors. These industries have become the dominant proportion of the Australian stock market.

- 1.7 In the absence of a rule to the contrary within this document, normal market convention will apply to each of the indices.

SECTION 2

2.0 ELIGIBLE SECURITIES & WEIGHTINGS

2.1 All Australian listed shares that have a market capitalisation of AUD\$30 million or more and that can be clearly defined as equity securities are eligible for inclusion in the *Storm Index*. Securities that are debt securities, options, warrants or hybrids (with a delta less than one) are not eligible for inclusion.

2.2 The following definitions are required to understand the eligibility criteria described in Rule 2.3:

- Adjusted Capitalisation is calculated as:

$$0.40 \times \text{Current free-float market capitalisation} + 0.60 \times \text{Median free-float market capitalisation} = \text{Adjusted Capitalisation}$$

- Current free-float market capitalisation is calculated using the closing price on the last trading day of either February (for the first half yearly review) or August (for the second half yearly review).
- Median free-float market capitalisation is calculated using six-months of trading data determined as per Rule 2.6.
- Index Adjusted Hurdle is calculated as:

$$\text{Index Adjusted Hurdle} = \text{Base Capitalisation} \times \text{Sector Index return}$$

- Base Capitalisations is the Index Adjusted Hurdle calculated at the half yearly review performed immediately before the current review. For all Sector indices, the initial base capitalisation was set on 1 March 2005 at AUD\$30million.

$$\text{Index Adjusted Hurdle}_{\text{last review}} \times \text{Sector Index return} = \text{Index Adjusted Hurdle}_{\text{current review}}$$

- Sector Index return is the price return of the applicable Sector Index (i.e. Australian Industrials Index, Australian Resources Index or Australian Technology Index) for the period determined as per rule 2.6. The selection of the appropriate sector index depends on the industry classification of the stock.

2.3 To qualify for inclusion, companies must;

- have an Adjusted Capitalisation equal or greater than the Index Adjusted Hurdle; and
- have an apparent free-float of at least 30%; and
- have a maximum number of 10 no trade days within the review period (N.B. suspended stocks are subject to rule 5.3); and
- have a relative liquidity of at least 30% with respect to their peers within the Australian Broadmarket index.

2.4 Constituents will be included at their market capitalisation weights although some stocks will have their capitalisation split between the Industrial and Technology indices. Those stocks, and the proportion contained in each index, is included as Appendix C. The proportion of the market capitalisation will be fixed from the inception of the indices unless impacted by a corporate action that dictates a change to this treatment. Appendix C also provides a historic perspective on the evolution of the various weightings.

2.5 All candidates for inclusion should have an Adjusted Capitalisation of at least 0.05% of the total Adjusted Capitalisation of the Sector Index for which it qualifies, in order to warrant inclusion in that index. This ensures that the stock's performance has some materiality to the return of the index.

2.6 Index constituents will be subject to two formal reviews each year in March and September. The data used to determine whether a stock has adequate liquidity and capitalisation within the review will relate to the whole of the previous six months, that is September to February and March to August respectively.

2.7 Free-float will be assessed using the most up to date information available on the day immediately prior to the implementation of the review.

2.8 In exceptional circumstances, the index calculator reserves the right to re-weight constituents between the half-yearly reviews subject to agreement with *Storm Financial*.

2.9 *Storm Financial*, in consultation with the index calculator and managers that utilise the Indices, has absolute discretion as to whether a company is eligible for inclusion.

SECTION 3

AMENDMENTS TO THE RULES

- 3.1 Changes and exceptions to these Rules can be only be authorised by joint agreement between *Storm Financial* and the index calculator. Such amendments will be made in consultation with any investment managers utilising the indices.
- 3.2 If, however, the matter is urgent, the index calculator is empowered to authorise an exception to the Rules. Where this occurs, the index calculator must immediately notify, and subsequently refer the matter to, *Storm Financial* and the any investment managers utilising the index the indices.
- 3.3 Where an exception is granted to the Rules under Rule 3.2, it shall not be deemed to create a precedent for future decisions.

SECTION 4

HALF YEARLY REVIEW OF CONSTITUENTS

- 4.1 The indices will be subject to two formal semi-annual reviews each year in March and September. The constituent review will be based on data collected after the close of the index calculation on the last trading day of February & August.
- 4.2 Changes as a result of the review will be published on the *Storm Financial* web site (www.stormfinancial.com.au) before the 20th of the month in which the review takes place. Changes will be implemented at the open of the first Australian Stock Exchange trading day for April & October using the corporate action adjusted closing price on the last Australian Stock Exchange trading day of the previous month.
- 4.3 All potential new constituents for the various indices will be subject to the requirements of all rules in Section 2.
- 4.4 Any stock that qualifies for inclusion within the Technology Index, but would have a free-float market capitalisation larger than 4% of this index, will be subject to its free-float market capitalisation being split between the Technology Index and the Industrials Index. From the time of inclusion within these indices, the proportion of the free-float market capitalisation allocated to the Technology index will be fixed unless a corporate action dictates a change to this treatment. Appendix C will be updated to reflect such an event.
- 4.5 The following definitions are required to understand the exclusion criteria described in Rule 4.6:
- Index Adjusted Hurdle for exclusions is calculated as:
$$\text{Index Adjusted Hurdle} = \text{Base Capitalisation}_{\text{for exclusions}} \times \text{Sector Index return}$$
 - Base Capitalisation for exclusions is the Index Adjusted Hurdle calculated at the half yearly review performed immediately before the current review. For all Sector indices, the initial base capitalisation was set on 1 March 2005 at AUD\$20million.
 - Adjusted Capitalisation and Sector Index return as defined in Rule 2.2.
- 4.6 Existing constituents are subject to slightly less onerous rules than those set out in Rule 2.3. However, securities will be automatically removed from the relevant index if they fail at least one of the tests below:
- their Adjusted Capitalisation is below the Index Adjusted Hurdle. Stocks that have their capitalisation split between the Industrial and Technology index will be primarily assessed with respect to the Technology Index.
 - their apparent free-float falls below 30%.
 - the stocks' relative liquidity with respect to their peers within the Australian Broadmarket index has fallen below 20%.

- 4.7 Existing constituents that pass all the criteria in Rule 4.6 but fail the standard qualification rules (Rule 2.3) for two consecutive six-month review periods, will be automatically removed from the index.
- 4.8 The number of shares on issue will be considered to be that which has been advised to the Australian Stock Exchange Official List at the open on the first Australian Stock Exchange trading day of April and October. The index calculator will be the final arbiter of the number of shares included within the various indices.
- 4.9 Free-float will be assessed using the most up to date information available on the day immediately prior to the implementation of the review.
- 4.10 Sector classification will be based on data collected for the preparation of the half yearly review.

SECTION 5

CHANGES TO CONSTITUENT COMPANIES OTHER THAN AT PERIODIC REVIEWS

5.1 *Removal and Replacement*

5.1.1 If a constituent ceases to be a component of All ordinaries Index or has, in the opinion of the index calculator (in consultation with any investment managers utilising the indices and *Storm Financial*), ceased to be a viable constituent as defined by these Rules, it will be removed from the Index.

5.1.2 The removal is effected four business days after the event justifying removal was announced. Announcements after close of the index calculation are deemed to be made on that Australian Stock Exchange trading day. In the case of a takeover, the qualifying event is an announcement that the offer has been declared wholly unconditional and the bidder has obtained a relevant interest of at least 70% in the target company. If the offer is not declared unconditional, then the qualifying event is an announcement that the bidder company has obtained a relevant interest of at least 90% in the target company.

5.2 *Mergers, Restructuring and Complex Takeovers*

5.2.1 If the effect of a merger or takeover is that one constituent is absorbed by another constituent, the resulting company will remain a constituent of the Index. The market capitalisation within the Index will simply be the combined weight of the two constituents allowing for any adjustments as a result of the corporate action.

5.2.2 If a constituent company is taken over by a non-constituent company, the original constituent will be removed. Any eligible company resulting from the take over will be immediately eligible for consideration within the indices and will be treated in the same manner as a new issue. The liquidity test will apply to the acquiring company.

5.2.3 If a constituent company is split so as to form two or more companies, then the resulting companies will be eligible for inclusion as index constituents if they qualify in all other respects.

5.3 *Suspension of Dealing*

5.3.1 Suspended companies will be retained in the Index at the last determined price prior to suspension.

5.3.2 Companies that are placed into liquidation will be removed from the Index on the day the announcement is made. The price of the company will be set to zero before the company is removed at the close of that day.

5.4 *New Issues*

5.4.1 *Fast Entrants*

5.4.1.1 All new issues will be eligible for inclusion subject to the criteria set out in Section 2 except that such inclusions do not have to fulfil the liquidity requirements detailed under this Rule if the index calculator, in consultation with any investment managers utilising the indices and *Storm Financial*, believes that they will do so once listed. The index calculator will include the new issue as a constituent of the Index at the earliest practicable opportunity. Under normal circumstances, this will be at the start of the second day of trading using the closing price on the first day of trading

5.4.2 *Initial Public Offerings (IPOs)*

5.4.2.1 New issues eligible for inclusion in the indices, that do not qualify as fast entrants as defined under Rule 5.4.1, will become eligible for inclusion at the next half-yearly review of constituents. Notwithstanding Rule 2.3, new issues will qualify for inclusion providing they have, since the commencement of trading, a minimum trading record of at least 45 trading days prior to the date of the review and turnover of a minimum of 2% of their free-float shares in issue, per month in each of the two months (excluding the first 5 days of trading).

5.4.3 *Changes in Share Base*

5.4.3.1 Changes in shares on issue, in the primary line of existing securities, will be immediately effected if the new or removed shares on issue have a Sector Index weight of less than 0.05%. Inclusions are subject to any weighting factor that may apply to the primary line of stock.

5.4.3.2 Changes in shares on issue, in the primary line of existing securities, may NOT be immediately effected if the new or removed shares on issue have a Sector Index weight of 0.05% or more. A delay of four business days will apply in this case. The four business days will start to count from the day after an Appendix 3B related to the issuance or removal of such shares is made public. Inclusions are subject to any weighting factor that may apply to the primary line of stock.

5.4.4 *Issuance of secondary lines*

5.4.4.1 Issuance of shares in secondary lines of existing securities will qualify for immediate inclusion subject to any weighting factor that may apply to the primary line of stock.

5.5 *Changes in sector classification*

- 5.5.1 Changes in sector classification of stocks included in the Technology index will be effected as part of the half yearly review.
- 5.5.2 Changes in sector classification of stocks included in the Resources or Industrial indices will be effected immediately after notification of the event is received, if the new sector classification would result in the stock becoming a constituent of the Industrial or Resources index only. Changes affecting the Technology index will only be effected as part of the half yearly review.

SECTION 6

CHANGES TO CONSTITUENT WEIGHTINGS

- 6.1 The number of shares in the indices will be the number of shares that have been reported to, and are publicly available from, the Australian Stock Exchange Official List. The index calculator will be the final arbiter of the number of shares included within the indices.
- 6.2 Adjustments to reflect a change in the amount or structure of a constituent company's issued capital must be made before the start of the index calculation on the day on which the change takes effect (e.g. the Ex Date for a rights or capitalisation issue).
- 6.3 Adjustments to reflect less significant changes (e.g. the issue of an additional block of shares under an employees' equity scheme) will be implemented before the start of the index calculation on the day following recognition of the change by the Australian Stock Exchange Official List.
- 6.4 All adjustments will be made before the start of the index calculation on the day concerned, unless market conditions prevent this.

APPENDIX A

INDICES ALGORITHM AND CALCULATION METHOD

- 1.1 The close of day Index will use the last trade price in accordance with market standard practice.
- 1.2 The Indices will be displayed to 2 decimal points.
- 1.3 The Indices will be calculated in Australian dollars.
- 1.4 The base index level for the Technology Index will be set at same level as the current Storm Hi-tech Index, at the time of inception. All other indices will commence with the same index value as the comparable S&P/ASX Index.
- 1.5 The indices commenced on 1 July 2004 (using the closing prices from 30 June 2004)
- 1.6 The Indices will be calculated using the following “replication” formula:

Price Index

Index Value =

$$\frac{\text{Market Cap. of Index Constituents}}{\text{Opening Market Cap. of Index Constituents}} \times \text{Previous Index Close Value}$$

Accumulation Index

Index Value =

$$\frac{\text{Market Cap. of Index Constituents} + \text{Gross Dividends}}{\text{Opening Market Cap of Index Constituents}} \times \text{Previous Index Close Value}$$

- 1.6 *Dividends*
 - 1.6.1 The dividends used are the actual gross dividends for each stock, which are applied to the stock on the relevant ex dividend date.

APPENDIX B

TECHNOLOGY INDEX DESCRIPTION

- 1.1 The main aim of the Technology Index is to try to capture the essence of the technology related business sector. That is, to put together a group of stocks that could be considered to operate in the “technology” space whether this is telecommunications, internet, software or biotechnology.
- 1.2 Many companies can claim to be highly geared to technology, but the index attempts to focus on those that have a proprietary idea, process or product, that is the dominant, or likely to become the dominant source of that company’s revenue/earnings.
- 1.3 Where companies provide services related to the technology industry, but do not necessarily make their money from the manufacture or provision of technology, they have been excluded. An excellent example of this is IT recruitment. Recruiting for IT or any other industry is essentially the same no matter what the industry. Another example is pharmaceutical distribution. A number of biotechnology and pharmaceutical stocks have been excluded for this reason.
- 1.4 The index attempts to recognise companies that conduct research and development but exclude those purely involved in marketing and distribution.
- 1.5 Large users of technology do not necessarily qualify as technology companies. Banks for example would certainly be the largest users of software and systems, but the banks provide financial services and do not sell the technology, only the service.
- 1.6 A small number of media companies have been included in the index where they have on-line businesses and are key providers of content. It is felt that these companies will play a critical role in digital television and will form key content portals for the Australian market.
- 1.7 Holding companies, whose only business is to invest in other technology companies, have been excluded.
- 1.8 Stocks are likely to fall into one of the classifications listed below:
 - Aerospace & Defence
 - Application Software, IT Consultancy and Data Processing
 - Biotechnology & Pharmaceuticals
 - Communications Equipment & Telecom Services
 - Electronic Equipment Manufacturers & Computer Hardware
 - Health Care Equipment

- Internet Software & Services
- Systems and home entertainment Software
- Media (as suppliers of “content” to other Hi Tech businesses)
- Semiconductors

APPENDIX C

STOCKS WITH SPLIT MARKET CAPITALISATION

Code	Stock	Industrials Proportion	Technology Proportion
ASX	Australian Stock Exchange	0.653	0.347
BCA	Baycorp Advantage	0.3928	0.6072
COH	Cochlear	0.755	0.245
CPU	Computershare	0.66848	0.33152
CSL	CSL	0.917	0.083
NWS	News Corporation	0.995877	0.004123
NESLV	News Corp Non-Voting	0.994387	0.005613
PGL	Progen Industries	0.471	0.529
RMD	Resmed Inc	0.681	0.319
SFE	SFE Corporation (taken over)	0.576	0.424
SGT	Singapore Telecomm.	0.563748	0.436252
TEL	Telecom Corp of New Zealand	0.4511041	0.04889585
TLS	Telstra Corporation.	0.982544	0.017456

Explanation

At inception of the original Technology Index in May 2000 it was recognised that unless a “cap” was applied to the market capitalisation of stocks such as Telstra and News Corp that the index would not be sufficiently diversified, with the performance of the index completely dominated by a handful of stocks. To address this issue, at the index’s inception, larger constituents were included with their market capitalisation weights subject to a cap of 4.0% of the total index.

In addition, according to the original rules, where constituent companies had multiple lines, and the total market capitalisation weight of the all lines added together exceeded the cap of 4%, all lines were included in the index with the same weighting factor applied to each line, such that the total weight for all constituent lines of the company equalled the 4% cap weight.

Originally, the cap was allowed to float between the half-yearly reviews, but was reset to 4% at the time of the next review. In October, 2002 this rule was relaxed and stock weights were allowed to float freely. At this time, the number of shares included in the original technology index was fixed. The far right-hand column of the above table

contains the proportion of shares in the original technology index. To provide a level of consistency, this proportion was carried through to the new Technology Index described in this document.

For new large constituents joining the index, a cap of 4% of the Technology Index at the time of inclusion will continue to be applied. At the time of inception of the new Index (May 2004) Baycorp Advantage (BCA) and SFE Corporation (SFE) were subject to this rule. The application of this discipline is described in rule 4.4.

To ensure that the full market capitalisation of any stocks effected by the above rules is included within the set of Storm Indices, and that no double counting of market capitalisation occurs, the residual market capitalisation of impacted stocks not included in the Technology Index will be included in the Industrials Index. The portion included in the Industrial Indices is depicted in the above table.