



Index Methodology Guide

ISE Industry Indexes

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Chapter 1. Introduction

This document summarizes the methodology and rules used to construct, calculate, and maintain ISE's Industry Indexes, including:

1. ISE Gold
2. ISE Integrated Oil & Gas
3. ISE Oil & Gas Services
4. ISE U.S. Regional Banks
5. ISE Semiconductors
6. ISE Bio-Pharmaceuticals
7. ISE Homebuilders
8. ISE *SINdex*

ISE's Industry Indexes are designed to track the performance of the most highly capitalized publicly traded companies in specific industry sectors. The Indexes are calculated and maintained by Standard & Poor's based on a methodology developed by ISE in consultation with Standard & Poor's.

Chapter 2. Index descriptions

ISE's Industry Indexes track the combined performance of publicly traded companies in the following specific industries:

1. ISE Gold

The ISE Gold Index includes companies that own or operate gold mines, or are involved in the production of gold and related products.

2. ISE Integrated Oil & Gas

The ISE Integrated Oil & Gas Index includes companies engaged in the exploration, production, refining, marketing and transportation of oil and gas.

3. ISE Oil & Gas Services

The ISE Oil & Gas Services Index includes oil and gas drilling contractors, equipment manufacturers and suppliers, and service providers involved in drilling, evaluation and completion of oil and gas wells.

4. ISE U.S. Regional Banks

The ISE U.S. Regional Banks Index includes companies active in small and medium corporate lending and retail banking. Regional banks operate in limited regions within the U.S. Companies primarily engaged in investment banking, brokerage, and asset management are not included in the index. Thrifts and mortgage banks are also not included.

5. ISE Semiconductors

The ISE Semiconductors Index includes manufacturers of semiconductors and related equipment.

6. ISE Bio-Pharmaceuticals

The ISE Bio-Pharmaceuticals Index includes companies primarily engaged in researching, developing, manufacturing, producing, or marketing pharmaceuticals or other products based on biotechnology research.

7. ISE Homebuilders

The ISE Homebuilders Index includes residential construction companies and prefabricated house manufacturers.

8. ISE SINDEX

The ISE SINDEX includes owners and operators of casinos and gaming facilities, producers of beer and malt liquors, distillers, vintners and producers of other alcoholic beverages, and manufacturers of cigarettes and other tobacco products.

Each Industry Index attempts to capture at least two-thirds of the entire industry's market capitalization. Due to the non-uniform weight distribution across entire industries, an equal-weighted methodology or a "modified" market capitalization-weighted methodology is used to adjust the weighting of component stocks.

Individual component weightings are limited to 25% at semi-annual reviews for modified capitalization-weighted indexes. This modification prevents a few large component stocks from dominating the index and distorting an index return that is representative of an industry sector. The modified approach promotes portfolio diversification by retaining the economic attributes of capitalization ranking.

The equal-weighted methodology ensures each component stock is equally represented in the index. This methodology is used when there is an especially wide divergence in the market values of those components. Quarterly rebalancing events are used to "re-set" the weighting of each component such that each component has an equal influence on the index performance.

The Indexes are calculated on a price and total return basis. The price Indexes are calculated in real-time and disseminated via the Options Price Reporting Authority (OPRA) and market data vendors every day the U.S. equity markets are open. The total return Indexes are calculated on an end-of-day basis. Both sets of values will soon be freely available on ISE's website, www.iseoptions.com.

The ISE Industry Indexes contain a maximum of 20 different component stocks. New companies are added to the Indexes when an existing component is removed. Companies may not apply, and may not be nominated, for inclusion in the Indexes. Companies are added or removed by the ISE based on the methodology described herein. Whenever possible, ISE will publicly announce changes to the index on its website at least five trading days in advance of the actual change.

Chapter 3. Index construction

This chapter outlines and defines the key steps in constructing and calculating the indexes, including: eligibility requirements, formulas, initial component selection, and special adjustments.

3.1. Base date and value

The Indexes have the following base dates and values:

Index	Base date	Base value	# of Components (as of 04/12/05)	Weighting*
ISE Gold	12/31/99	25	20	MCW
ISE Oil & Gas Services	12/31/98	25	20	MCW
ISE Integrated Oil	12/31/98	100	17	MCW
ISE U.S. Regional Banks	12/31/98	50	20	MCW
ISE Semiconductors	12/31/98	50	20	MCW
ISE Biotech & Pharmaceuticals	12/31/98	50	20	MCW
ISE Homebuilders	12/31/00	10	16	MCW
ISE S IN dex	12/31/98	25	20	EW

*MCW = modified capitalization-weighted; EW = equal-weighted

3.2. Component eligibility and other requirements

All of the following requirements must be met in order for a company to be eligible for inclusion:

1. Common stock listed on the New York Stock Exchange (NYSE), American Stock Exchange (AMEX), or Nasdaq National Market System (NASDAQ). Initial Public Offerings must be listed for at least 6 months.
2. Public float of at least 25% of the stock
3. Operating company and not a closed-end fund, exchange-traded fund (ETF), holding company, investment vehicle, or royalty trust

Special requirement for the U.S. Regional Banks Index:

1. Components stocks must be U.S. companies
2. American Depository Receipts (ADRs) and American Depository Shares (ADSs) are not eligible

The following market capitalization, liquidity, and weighting concentration requirements must also be satisfied for all indexes:

1. Each component stock has a market capitalization of at least \$75 million, except that for each of the lowest weighted component securities in the index that in the aggregate account for no more than 10% of the weight of the index, the market capitalization is at least \$50 million.
2. Trading volume of each component stock has been at least one million shares for each of the last six months, except that for each of the lowest weighted component securities in the index that in the aggregate account for no more

than 10% of the weight of the index, trading volume has been at least 500,000 shares for each of the last six months.

3. No single component stock represents more than 30% of the weight of the index, and the five highest weighted component securities in the index do not in the aggregate account for more than 65% of the weight of the index. This particular requirement will be satisfied at least on the first day of January and July of each year. ISE applies weight-adjustment factors, shown in the equations below, to address component over-weighting.
4. In a modified cap-weighted index, the lesser of the five highest weighted component securities in the index or the highest weighted component securities in the index that in the aggregate represent at least 30% of the total number of component securities in the index each have had an average monthly trading volume of at least 2,000,000 shares over the past six months.

3.3. Industry classification

Index component selection is mostly based on the industries defined in the Global Industry Classification Standard (GICSSM) developed by Standard & Poor's and MSCI.

GICS codes were used as a guideline to define industries. ISE may substitute components in a GICS code for others that it deems to be more relevant to the intended industry.

3.4. Weighting and float-adjustment

ISE Indexes are weighted by float-adjusted market capitalization, rather than full market capitalization, to reflect the actual number of shares available to investors. Float adjustments are made using S&P's methodology.

The float-adjusted number of shares for each stock is determined by assigning each stock an availability factor. That factor represents the percentage of shares deemed available (i.e., tradable) on the open market, and is developed by excluding certain types of holdings. Shares may be excluded for three reasons: corporate cross-holdings, private control block holdings, or government holdings. Private control blocks are considered to be any entity acting alone or in concert that possess a holding greater than or equal to 10% of the issue's total capitalization.

3.5. Dividend treatment

The price indexes do not take normal dividend payments into account. Dividends are accounted for in the total return indexes by reinvesting them on a daily basis. ISE uses the ex-dividend date to determine the total daily dividends for each day. Special dividends require an index divisor adjustment (as described in Chapter 4) to prevent such distributions from distorting the price index.

3.6. Index equations

The price indexes are calculated using the following basic equations:

For modified capitalization-weighted indexes,

$$\text{Index Value} = \frac{\text{Combined Adjusted Market Value of All Components}}{\text{Divisor}}$$

For equal-weighted indexes,

$$\text{Index Value} = \frac{\text{Combined Market Value of Assigned Shares of All Components}}{\text{Divisor}}$$

Both methodologies are represented by the following equation:

$$I(t) = \frac{\sum_{i=1}^n P_{i(t)} \times S_{i(t)} \times WAF_{i(t)}}{D(t)}$$

where:

$I(t)$ = Index value at time (t)

$D(t)$ = Divisor at time (t)

n = Number of stocks in the index

t = The time the index is calculated

$P_{i(t)}$ = Price of stock (i) at time (t)

$S_{i(t)}$ = Float-adjusted number of shares of stock (i) at time (t)

$WAF_{i(t)}$ = Weight adjustment factor of stock (i) at time (t)

The initial index divisor is determined using the following equation:

$$D_{(0)} = \frac{\sum_{i=1}^n P_{i(0)} \times S_{i(0)} \times WAF_{i(0)}}{I_{(0)}}$$

where:

$I_{(0)}$ = Base index value at base date

D_0 = Initial divisor at base date

n = Number of stocks in the index

$P_{i(0)}$ = Closing price of stock (i) at base date

$S_{i(0)}$ = Float-adjusted number of shares of stock (i) at base date

$WAF_{i(0)}$ = Weight adjustment factor of stock (i) at base date

Changes to the index composition require divisor adjustments in order to retain index continuity before and after specific events (as outlined in Chapter 4 – Index Maintenance). Divisor changes are made according to the following formula:

$$D_{(t+1)} = D_{(t)} \times \frac{\sum_{i=1}^n P_{i(t+1)} \times S_{i(t+1)} \times WAF_{i(t+1)}}{\sum_{i=1}^n P_{i(t)} \times S_{i(t)} \times WAF_{i(t)}}$$

where:

$D_{(t+1)}$ = Divisor after changes are made to the index

$P_{i(t+1)}$ = Price of each stock after index changes

$S_{i(t+1)}$ = Number of shares of each stock after index changes

$WAF_{i(t+1)}$ = Weight adjustment factor of each stock after index changes

$D_{(t)}$ = Divisor before changes are made to the index

$P_{i(t)}$ = Price of each stock prior to index changes

$S_{i(t)}$ = Float-adjusted number of shares of each stock prior to index changes

$WAF_{i(t)}$ = Weight adjustment factor of each stock prior to index changes

3.7. Initial component selection

The following steps are taken to select the initial components for each Industry Index:

1. Rank all common stocks for the Industry Index using the applicable GICS codes shown in Section 3.2. Stocks shall be ranked in descending order by unadjusted market capitalization
2. Remove companies that do not meet the component eligibility requirements

3. If a component has multiple share classes, include the most liquid issue for that company and remove the remaining classes
4. Select the top 20 companies (maximum) of the industry by market capitalization
5. (a) If the index is modified cap-weighted, adjust individual weightings such that no component represents more than 25%. Even though the weighting limit is 30% for a single component, all components accounting for over 25% of the index market value are adjusted to 25% to avoid unscheduled rebalancing events. Adjust the market capitalization of the five highest weighted component stocks in each index such that they account for no more than 60% of the index weight in aggregate.

(b) If the index is equal-weighted, adjust each component's weighting to $1/n$, where 'n' equals the number of component stocks in the index.

Index component lists are provided in Appendix A.

Chapter 4. Index maintenance

This chapter describes the circumstances that require index changes, as well as the details on performing those changes.

4.1. Divisor changes

Changes to the Index composition due to corporate actions or component eligibility changes may require Index Divisor adjustments. The following adjustments are necessary for modified cap-weighted indexes:

Component change	Adjustment
Component Replacement	Add market value of company to be added, subtract market value for company to be removed
Share Issuance (when change is $\geq 5\%$)	Add newly issued shares to existing shares outstanding
Share Repurchase (when change is $\geq 5\%$)	Subtract repurchased shares from existing shares outstanding
Spinoff*	Subtract the following from the price of the parent company: $\left(\frac{\text{Spinoff stock price}}{\text{Share exchange ratio}} \right)$
Special Cash Dividend	Subtract special dividend from share price
Rights Offering	Subtract the following from the price of the parent company: $\left(\frac{\text{Price of rights}}{\text{Rights ratio}} \right)$

Divisor changes are usually made on the date the corporate action becomes effective. For example, ISE uses the ex-dividend date rather than the payment date to determine when making divisor adjustments.

*Special note on Spinoffs: If a company being spun off is only trading on a “when-issued” basis, the “when-issued” price will be used to adjust the parent company’s closing price.

4.2. Details of share changes

The number of common shares outstanding for each component stock in a modified cap-weighted index is reviewed every Friday. Share changes of less than 5% are updated on a quarterly basis, becoming effective after the close on the third Friday of March, June, September, and December. The Index Divisor is adjusted at that time to compensate for such share changes. Whenever possible, changes are announced on ISE’s publicly available website at least five trading days prior to the effective date.

Share changes greater than 5% are adjusted after the close on the Wednesday of the following week. The Index Divisor change also becomes effective after the close on that day. Whenever possible, changes are announced on ISE’s publicly available website at least one trading day prior to the effective date.

Unscheduled share changes due to corporate actions may be processed the same day they are announced, depending on the time the details are received by Standard

& Poor's. In such cases, the Index Divisor changes may become effective that same day, and immediately announced on ISE's publicly available website.

Stock splits and reverse splits do not require Index Divisor adjustments because the corresponding change to the stock price equally offsets the number of shares outstanding, therefore not affecting the component's market capitalization.

4.3. Scheduled component changes

Each component's eligibility and ranking is reviewed at scheduled times throughout the year. The procedures below summarize how modified cap-weighted and equal-weighted indexes are reviewed or rebalanced.

4.3.1. Procedures for reviewing modified cap-weighted indexes

Modified cap-weighted indexes have a semi-annual review in June and December each year. Component changes are made after the close on the third Friday of June and December, and become effective at the opening on the next trading day. Changes are announced on ISE's publicly available website at least five trading days prior to the effective date.

1. Rank all eligible stocks by market capitalization using the requirements of Chapter 3.2.
2. Rank all current component stocks in the Indexes by market capitalization.
3. Remove any component stock that fails to meet the eligibility requirements.
4. Add any non-component stock that meets the eligibility requirements, such that the total number of components is at most 20.
5. Adjust the market capitalization of components with more than 25% of the index weight such that no component represents more than 25% of the index weight.
6. Adjust the market capitalization of the five highest weighted component stocks in each index such that they account for no more than 60% of the index weight in aggregate.

4.3.2. Procedures for rebalancing equal-weighted indexes

Equal-weighted indexes are rebalanced quarterly in March, June, September, and December each year. Changes are made after the close on the third Friday of those months, and become effective at the opening on the next trading day. Changes are announced on ISE's publicly available website at least five trading days prior to the effective date.

1. Rank all eligible stocks by market capitalization using the requirements of Chapter 3.2.
2. Rank all current component stocks in the Indexes by market capitalization.
3. Remove any component stock that fails to meet the eligibility requirements.
4. Add any non-component stock that meets the eligibility requirements, such that the total number of components is at most 20.
5. Adjust the market capitalization of components such that all components have equal weighting.

4.4. Unscheduled component changes

Component changes may occur between scheduled review and rebalancing events if a specific corporate event makes an existing component ineligible. The following events may require a component's replacement:

Event	Action
Merger or acquisition	If a merger or acquisition results in one component absorbing another, the resulting company will remain a component and the absorbed company will be replaced. If a component company is absorbed by a non-component company, the original component will be removed and replaced.
Spin-off	If a component splits or spins off a portion of its business to form one or more new companies, the resulting company with the highest market value will remain a component as long as it meets the eligibility requirements. The remaining companies will be evaluated for eligibility and possible addition to the index.
Bankruptcy	A component will be removed and replaced immediately after bankruptcy filing.
Delisting	A component will be removed and replaced immediately after being delisted from its primary market.

ISE maintains a Component Replacement Pool (CRP) for each Index at all times for contingency purposes. The CRP contains at least three companies that meet the eligibility requirements, where possible, and are ranked by market value. Components removed from the Index are replaced with those from the CRP in descending order by market value. Whenever possible, interim component changes are announced on ISE's publicly available website five trading days prior to component changes becoming effective.

Chapter 5. Index calculation and dissemination

This chapter summarizes calculation and dissemination practices, quality assurance practices, and the circumstances requiring calculation corrections.

5.1. Price and total return calculation

Price and total return indexes are calculated by Standard & Poor's. The price index is calculated on a real-time basis, and the total-return Index is calculated and disseminated on an end-of-day basis. ISE Indexes are calculated using the last traded price for each company in the Index from the relevant exchanges and markets.

Index values are rounded to two decimal places and divisors are rounded to 14 decimal places.

5.2. Calculation frequency and dissemination

The price Indexes are calculated on a real-time basis beginning when the first traded price of any of the Index components is received by Standard & Poor's. Prices are delivered to ISE every 15 seconds and subsequently published to the Options Price Reporting Authority at that frequency. Total-return Index values are posted on ISE's publicly available website, www.iseoptions.com.

If trading in a stock is suspended prior to the market opening, the stock's adjusted closing price from the previous day will be used in the Index calculation until trading commences. If trading in a stock is suspended while the relevant market is open, the last traded price for that stock will be used for all subsequent Index calculations until trading resumes.

5.3. Input data

Standard & Poor's uses various quality assurance tools to audit, monitor, and maintain the accuracy of its input data. While every reasonable effort is taken to ensure high standards of data integrity, there is no guarantee against errors. Please refer to the Data Correction section for more detail.

The index closing price is calculated using the closing prices issued by the primary exchange for each component stock in the index. If the primary exchange changes the closing price of a component stock, the new price will be used to calculate the index closing price. A final check of closing prices is done between one hour and one and one half hours after the close of markets. This timeframe may be expanded at S&P's discretion on days where trading volume is unusually large at the close. For example, futures and options expiration dates, and large index rebalancing dates often result in unusually large volume. Only changes received prior to this final check are used in the closing price calculation.

5.4. Data correction

Incorrect index component data, corporate action data, or Index Divisors will be corrected upon detection. If such errors are discovered within five days of occurrence, they will be corrected that same day. If discovered after five days, adjustments will be handled on a case-by-case basis depending on the significance of

the error and the feasibility of a correction. Announcements will be made on ISE's publicly available website prior to the change becoming effective.

Incorrect intraday index tick data will not be corrected. However, incorrect opening and closing values will be corrected as soon as possible after detection.

Appendices

This section provides additional information related to the indexes in particular as well as changes to this document.

Appendix A. Index components as of April 12, 2005
ISE Gold

<u>Symbol</u>	<u>Issue Name</u>
NEM	Newmont Mining Corp
ABX	Barrick Gold Corp
PDG	Placer Dome Inc
GFI	Gold Fields Ltd
AU	Anglogold Ashanti
GG	Goldcorp Inc
KGC	Kinross Gold Corp
GLG	Glamis Gold Ltd
HMY	Harmony Gold Mining Co
MDG	Meridian Gold Inc
AEM	Agnico-Eagle Mines Ltd
BGO	Bema Gold Co
IAG	IAMGOLD Corp
EGO	Eldorado Gold Corp
CBJ	Cambior Inc
KRY	Crystallex Intl Corp
GSS	Golden Star Resources Ltd
GOLD	Randgold Resources Ltd
DROOY	DRDGOLD Ltd

ISE Oil & Gas Services

<u>Symbol</u>	<u>Issue Name</u>
SLB	Schlumberger Ltd
ECA	EnCana Corp
DVN	Devon Energy Corp
BR	Burlington Resources Inc
APC	Anadarko Petroleum Corp
APA	Apache Corp
HAL	Halliburton Co
BHI	Baker Hughes Inc
RIG	Transocean Inc
TRP	TransCanada Corp
CNQ	Canadian Natural Resources
SSL	Sasol Ltd
TLM	Talisman Energy Inc
VLO	Valero Energy Corp
KMG	Kerr-Mcgee Corp
EOG	EOG Resources
XTO	XTO Energy Inc
UCL	Unocal Corp
KMI	Kinder Morgan Inc
EPD	Enterprise Product Partners LP

ISE Integrated Oil & Gas

<u>Symbol</u>	<u>Issue Name</u>
XOM	Exxon Mobil Corp
BP	BP
TOT	Total Fina Elf B
RD	Royal Dutch Petroleum Co
CVX	ChevronTexaco Corp
SC	Shell Transport & Trading Reg
E	ENI SpA
COP	ConocoPhillips
REP	Repsol-YPF SA
OXY	Occidental Petroleum
SU	Suncor Energy Inc
MRO	Marathon Oil Corp
PBR	Petrobras SA
MUR	Murphy Oil Corp
SNP	China Petroleum & Chemical H
AHC	Amerada Hess Corp
PKZ	PetroKazakhstan Inc A

ISE U.S. Regional Banks

<u>Symbol</u>	<u>Issue Name</u>
STI	SunTrust Banks Inc (GA)
NCC	National City Corp (OH)
BBT	BB&T Corp
FITB	Fifth Third Bancorp (OH)
RF	Regions Financial Corp
PNC	PNC Finl Services Group
KEY	KeyCorp (OH)
NFB	North Fork Bancorp (NY)
MI	Marshall & Ilsley Corp (WI)
ASO	AmSouth Bancorp (AL)
MTB	M&T Bank Corp
BPOP	Popular Inc (Puerto Rico)
SNV	Synovus Financial Corp (GA)
BNK	Banknorth Group Inc
ZION	Zions Bancorp (UT)
CBSS	Compass Bancshares
HBAN	Huntington Bancshares (OH)
FHN	First Horizon National Corp
CBH	Commerce Bancorp (NJ)
UB	UnionBanCal Corp

ISE Semiconductors

<u>Symbol</u>	<u>Issue Name</u>
INTC	Intel Corp.
TXN	Texas Instruments
TSM	Taiwan Semiconductor
AMAT	Applied Materials
ADI	Analog Devices
MXIM	Maxim Integrated Prod
LLTC	Linear Technology Corp.
STM	STMicroelectronics NV
XLNX	Xilinx, Inc
UMC	United Micro Elec.
KLAC	KLA-Tencor Corp.
ASML	ASML Holding NV
BRCM	Broadcom Corporation
ALTR	Altera Corp.
MRVL	Marvell Technology Group Ltd
MU	Micron Technology
AMD	Advanced Micro Devices
NSM	National Semiconductor
IFX	Infineon Technologies AG
MCHP	Microchip Technology

ISE Bio-Pharmaceuticals

<u>Symbol</u>	<u>Issue Name</u>
JNJ	Johnson & Johnson
PFE	Pfizer, Inc.
GSK	GlaxoSmithKline plc
NVS	Novartis AG
AMGN	Amgen
SNY	Sanofi-Aventis SA
ABT	Abbott Labs
AZN	AstraZeneca
MRK	Merck & Co.
LLY	Lilly (Eli) & Co.
WYE	Wyeth
BMY	Bristol-Myers Squibb
SGP	Schering-Plough
BIIB	BIOGEN IDEC Inc.
DNA	Genentech
TEVA	Teva Pharmaceuticals
FRX	Forest Laboratories
GENZ	Genzyme Corp.
GILD	Gilead Sciences
ELN	Elan Corporation plc

ISE Homebuilders

<u>Symbol</u>	<u>Issue Name</u>
DHI	D.R. Horton
CTX	Centex Corp.
LEN	Lennar Corp
PHM	Pulte Homes, Inc.
KBH	KB Home
TOL	Toll Brothers
RYL	Ryland Group
SPF	Standard Pacific
MDC	M.D.C. Hldgs
BZH	Beazer Homes USA Inc.
HOV	Hovnanian Enterprises Inc.
MTH	Meritage Homes Corp.
WCI	WCI Communities Inc.
CHB	Champion Enterpr
MHO	M/I Homes
BHS	Brookfield Homes Corp.

ISE S/Index

<u>Symbol</u>	<u>Issue Name</u>
MO	Altria Group, Inc.
DEO	Diageo
BUD	Anheuser-Busch
IGT	International Game Technology
UST	UST Inc.
HET	Harrah's Entertainment
RAI	Reynolds American Inc.
CZR	Caesars Entertainment, Inc.
ABV	AmBev
STZ	Constellation Brands
TAP	Molson Coors Brewing Co.
MBG	Mandalay Resort Group
MGG	MGM Mirage
BFb	Brown-Forman Corp.
GTK	GTECH Holdings Corp.
STN	Station Casinos Inc.
WYNN	Wynn Resorts Ltd.
BYD	Boyd Gaming Corp.
AZR	Aztar Corp
CG	Loews Corp. - Carolina Group

Appendix B. Document change history

A history of significant changes to this document is shown in the table below.

Issue	Date	Change
0.1	January 21, 2005	First draft
0.2	February 10, 2005	Second draft
0.3	March 2, 2005	Third draft – portfolios added
0.4	March 7, 2005	Fourth draft – added equal-weighted methodology
0.5	April 12, 2005	Fifth draft – added base dates and values



INTERNATIONAL SECURITIES EXCHANGE.