

FTSE4GOOD ENVIRONMENTAL LEADERS EUROPE 40 INDEX

FTSE4Good Environmental Leaders Europe 40 Index is designed to identify European companies with leading environmental practices. These are the companies that are doing more to manage their environmental risks and impacts whilst reducing their environmental footprint.

INDEX COMPOSITION

The index comprises the best scoring European companies in the FTSE4Good Index Series, as rated against the environmental theme of the FTSE4Good Index Series. To be included in the index, a constituent needs to obtain the highest “best practice” environmental rating of 5.

In order to achieve this rating, companies are required to demonstrate that they have robust environmental policies and management systems that are tailored to manage the specific environmental risks and impacts relating to that company’s business, as well as the sector in which it operates. This means that the greater the company’s environmental risks and impacts, the more it has to do in terms of its environmental policies and management systems. In addition, they need to be transparent, reporting publicly on their key environmental performance data.

INDEX CONSTRUCTION

The index is constructed by taking all European companies in the FTSE4Good Index Series that have obtained an environmental rating of 5, ranking them by full market capitalisation, and then selecting the top 40 to be included in the index. The index is then weighted by those companies’ free-float adjusted market capitalisation. As from the last review in March 2007, there are 56 European companies in the FTSE4Good Index Series with an environmental score of 5. If for any reason, 40 companies are not available, then a number lower than 40 may be included (i.e. there is a maximum of 40).

TRANSPARENT, RULES DRIVEN RATINGS METHODOLOGY

The FTSE4Good criteria are designed to be fully transparent and have been developed using a thorough market consultation process involving a broad range of stakeholders, including experts in environmental issues and corporate social responsibility, the corporate and investment community, governmental bodies and NGOs.

INDEX GOVERNANCE

Index governance is overseen by the independent FTSE4Good Policy Committee, made up of leading global responsible investment market practitioners and experts in the principles and criteria used for determining the social responsibility of corporate entities. The Committee is responsible for the management of the FTSE4Good selection criteria and may also approve changes to the index rules. In addition there is a dedicated FTSE4Good Ratings Sub-committee.

CONSTITUENT REVIEWS

The constituents are reviewed semi-annually in March and September using the market data as at the close of the last business day in February and August. The environmental data used to assess the constituents is provided by the Ethical Investment Research Service (EIRIS) and its network of international partners.

INDEX CONSTRUCTION



INDEX FEATURES

- The index is designed for the creation of derivatives, index tracking funds and ETFs
- Stocks are free-float weighted to ensure that only the investable opportunity set is included within the index
- Stocks are liquidity screened to ensure that the index is tradable
- Capital and total return indices are available for this index
- The index is calculated in Euro

Meeting the Needs of Responsible Investors

Investment products based on the FTSE4Good Environmental Leaders Europe 40 Index appeal to a broad range of institutional and retail investors who are looking to:

- Only invest in companies that demonstrate best practice environmental management
- Minimise environmental risks within their portfolios
- Capitalise on the benefits of strong environmental management such as eco-efficiencies and an improved brand image
- Actively encourage companies to be more responsible

The index has been designed to be used as a basis for index tracker funds and a range of structured products.

SELECTION CRITERIA AND PROCESS

All companies in the FTSE4Good Index Series are given an environmental rating from 1 to 5 according to their environmental performance.

- 5 – Best practice
- 4 – Goes beyond good practice
- 3 – Good practice
- 2 – Meets some elements of good practice
- 1 – Meet few or no criteria elements (laggard companies)

Company Risk Category

To obtain their rating, companies are first categorised as having a high, medium or low environmental risk/impact, according to the sector in which they operate. High impact sectors include sectors such as agriculture, air transport, construction, vehicle manufacture and waste. Medium impact sectors include electronic and electrical equipment, property developers and public transport, and low impact sectors include information technology, media and telecommunications.

FTSE recognises that companies within a specific sector operate under different business models which may significantly influence the extent and nature of their environmental risks and impacts. In instances such as these, the company-specific factors are taken into account and reflected in the company's categorisation.

Company Environmental Score

In order to achieve a best practice rating of 5, companies in each risk category need to meet the following criteria:

	ENVIRONMENTAL POLICY REQUIREMENTS	ENVIRONMENTAL MANAGEMENT SYSTEM (EMS) REQUIREMENTS	ENVIRONMENTAL REPORTING REQUIREMENTS
HIGH ENVIRONMENTAL RISK/ IMPACT COMPANIES	Policy is publicly available, covers the whole group* and meets 5 core and 3 desirable indicators (including 'moves to environmental sustainability')	EMS covers more than 66% of company activities and either: (a) Meets 6 indicators, or (b) ISO14001 certification, or (c) EMAS registration	Report meets 4 core indicators, 3 desirable indicators and is independently verified
MEDIUM ENVIRONMENTAL RISK/ IMPACT COMPANIES	Policy is publicly available, covers the whole group* and meets either: (a) 5 core and 1 desirable indicator, or (b) 4 core and 2 desirable indicators	EMS either: (a) Covers over 66% of company and meets 5 indicators (including documented objectives and targets in all key areas) or (b) Covers at least 33% of company and meets indicators, or (c) ISO14001 certification or EMAS registration covers at least 33% of company	Report meets 4 core indicators and is independently verified
LOW ENVIRONMENTAL RISK/ IMPACT COMPANIES	Policy is publicly available and meets either: (a) 4 core indicators, or (b) 3 core and 1 desirable indicator	EMS either: (a) Covers 33% of company and meets 4 indicators, or (b) Covers less than 33% of company and meets 6 indicators, or (c) ISO14001 certification or EMAS registration covers less than 33% of company	Report meets: (a) 4 core indicators, or (b) 3 core and 2 desirable

ENVIRONMENTAL POLICY INDICATORS	ENVIRONMENTAL MANAGEMENT SYSTEM (EMS) INDICATORS	ENVIRONMENTAL REPORTING INDICATORS
<p>Core Indicators</p> <ul style="list-style-type: none"> • Policy refers to all key issues • Responsibility for policy at board or department level • Commitment to use of targets • Commitment to monitoring and audit • Commitment to public reporting <p>Desirable Indicators</p> <ul style="list-style-type: none"> • Globally applicable corporate standards • Commitment to stakeholder involvement • Policy addresses product or service impact • Strategic moves towards sustainability 	<ul style="list-style-type: none"> • Presence of environmental policy • Identification of significant impacts • Documented objectives and targets in key areas • Outline of processes and responsibilities, manuals, action plans, procedures • Internal audits against the requirements of the system (not limited to legal compliance) • Internal reporting and management review 	<p>Core Indicators</p> <ul style="list-style-type: none"> • Text of environmental policy • Description of main impacts • Quantitative data • Performance measured against targets <p>Desirable Indicators</p> <ul style="list-style-type: none"> • Outline of an EMS • Non-compliance, prosecution, fines, accidents • Financial dimensions • Independent verification • Stakeholder dialogue • Coverage of sustainability issues

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