

FTSE

**GROUND RULES FOR THE
MANAGEMENT OF THE
FTSE4Good ENVIRONMENTAL
LEADERS EUROPE 40 INDEX**



FTSE4Good



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SECTION 1

1.0 INTRODUCTION

- 1.1 This paper sets out the Ground Rules for the management of the FTSE4Good Environmental Leaders Europe 40 Index. Much of the governance and methodology is drawn from the FTSE4Good Index Series and as such this methodology is to be read in conjunction with the FTSE4Good Index Series Ground Rules which are available at www.ftse.com.
- 1.2 The FTSE4Good Environmental Leaders Europe 40 Index has been designed to identify the top 40 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.
- 1.3 The FTSE4Good Environmental Leaders Europe 40 Capital Index is calculated in Euro on a real time basis.
- 1.4 Capital and Total Return Indices are available on an end of day basis in Euro, USD, GBP and JPY.
- 1.5 The base value for the Capital and Total Return indices is 5000 as at 29th June 2001.



SECTION 2

2.0 INDEX MANAGEMENT

- 2.1 FTSE is responsible for the calculation of the FTSE4Good Environmental Leaders Europe 40 Index.
- 2.2 Index governance is overseen by the 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.
- 2.3 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.
- 2.4 The environmental data used to assess the constituents is provided by the Ethical Investment Research Service (EIRIS) and its network of international partners.
- 2.5 For more information on index management please refer to Section 2 of the FTSE4Good Index Series Ground Rules.



SECTION 3

3.0 ELIGIBLE COMPANIES

- 3.1 The FTSE4Good Environmental Leaders Europe 40 Index is based on the European constituents of the FTSE4Good Index Series.
- 3.2 For more information regarding the eligible universe please refer to Section 3 of the FTSE4Good Index Series Ground Rules.

SECTION 4

4.0 INDEX QUALIFICATION CRITERIA & PERIODIC REVIEW OF CONSTITUENTS

4.1 Review Dates

- 4.1.1 The Index will be reviewed semi-annually in March and September using data as at the close of business on the last day in February and August.
- 4.1.2 The semi-annual review and capping will be implemented after the close of business on the third Friday in March and September, in-line with the FTSE4Good Index Series.
- 4.1.3 Details of the outcome of the semi-annual review will be announced as soon as possible after the semi-annual FTSE4Good Policy Committee meeting has concluded.

4.2 Review Process

- 4.2.1 The constituents of the index will be selected from the FTSE4Good Europe Index subject to the Environmental Scoring Methodology and full market capitalisation as detailed below. All European FTSE4Good Index Series constituents are assigned an environmental score between 1 and 5 and only the companies that have an environmental scoring of 5 (best practice) will be selected (subject to Rule 4.5.4). They are then ranked by full market capitalisation and the top 40 companies will be selected as constituents of the index. 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).

4.3 Environmental Scoring Methodology

- 4.3.1 The constituents are reviewed using the FTSE4Good Environmental Scoring Methodology by the independent FTSE4Good Policy Committee according to data from the research providers Ethical Investment Research Service (EIRIS).
- 4.3.2 The FTSE4Good Responsible Investment Unit has developed a FTSE4Good Ratings product that provides more granular detail with respect to company performance against the FTSE4Good selection criteria. The index universe comprises of the top scoring European companies in the FTSE4Good Index Series, when rated against the environmental criteria of the FTSE4Good Index Series. To be included in the index universe, a constituent needs to obtain the highest "best practice" environmental rating of 5 (subject to Rule 4.5.4).
- 4.3.3 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.



SECTION 4

4.3.4 All European 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 – Meets few or no criteria elements (laggard companies)

4.4 **Company Risk Category**

4.4.1 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.

4.4.2 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.

4.4.3 For more details regarding the Environmental Rating please refer to www.ftse.com

4.5 **Buffers**

4.5.1 Buffers are implemented when reviewing the Index to provide stability and reduce turnover. The objective of buffers is to exclude or include those constituents which have risen or fallen significantly.

4.5.2 A company will be included in the Index if it is above the 35th position when companies are ranked by full market capitalisation.

4.5.3 A company will be excluded from the Index if it falls below the 45th position when companies are ranked by full market capitalisation.

4.5.4 Environmental Rating Buffer: If at a review a constituent company of the FTSE4Good Environmental Leaders Europe 40 Index receives an environmental rating below 5 they will remain in the index if they received a rating of 5 at the previous review. Therefore those constituent companies that receive an environmental rating below 5 in two consecutive reviews will be deleted.

SECTION 4

4.6 Reserve List

4.6.1 A reserve list will be maintained for the FTSE4Good Environmental Leaders Europe 40 Index. The reserve list will contain the ten highest ranking non-constituents where available. The reserve list will be used in the event that one or more constituents are deleted from FTSE4Good Environmental Leaders Europe 40 Index during the period up to the next semi-annual review. FTSE will make available the ten highest ranking non-constituents. If the eligible universe has less than 50 stocks then the reserve list will have less than 10 stocks. If the eligible universe has equal or less than 40 stocks then there will be no reserve list.

4.7 Capping Dates

4.7.1 At the semi-annual review, the constituents of the FTSE4Good Environmental Leaders Europe 40 Index are capped using prices adjusted for corporate actions as at the close of business on the second Friday in March and September. The capping is implemented after close of business on the third Friday in March and September based on the constituents, shares in issue and free float on the next trading day following the third Friday of the review month.

4.8 Capping Methodology

4.8.1 Any constituent whose weight is greater than 10% of the index will be capped at 10%. The weights of all lower ranking constituents are increased correspondingly. The weights of lower ranking constituents are then checked and if they exceed 10% they are also capped at 10%. This process is repeated until no constituent weight exceeds 10%.

SECTION 5

5.0 CHANGES TO CONSTITUENT COMPANIES

5.1 Intra-review Additions and Deletions

- 5.1.1 When a constituent is added to the underlying universe (Section 3), it will only be considered for inclusion at the next semi-annual review. For more information regarding new issues intra-review please refer to Rule 6.2 of the FTSE4Good Index Series Ground Rules.
- 5.1.2 If a constituent of the FTSE4Good Environmental Leaders Europe 40 Index ceases to be a constituent of the FTSE4Good Index Series it will be removed from the FTSE4Good Environmental Leaders Europe 40 Index. The constituent will be replaced by the highest ranking company in the reserve list by full market capitalisation five days prior to the event being implemented.

5.2 Mergers and Take-overs

- 5.2.1 If a constituent is acquired by a non-constituent, the company will be removed from the FTSE4Good Environmental Leaders Europe 40 Index and the highest ranking company by full market capitalisation will be added from the reserve list five days prior to the event being implemented.
- 5.2.2 Where two index constituents merge, or one index constituent is acquired by another constituent, the resulting new company will be eligible for inclusion in the FTSE4Good Environmental Leaders Europe 40 Index and the highest ranking eligible reserve list company will be added to the index five days prior to the event being implemented.
- 5.2.3 In the case of a constituent taken over by a non-constituent, the resultant entity will not be eligible for inclusion in the FTSE4Good Environmental Leaders Europe 40 Index, unless it was a member of the eligible universe at the last period review. The eligibility of the resultant entity will be assessed in full at the next semi-annual review. If such an event occurs in a FTSE4Good Environmental Leaders Europe 40 Index, the highest ranking eligible reserve list company will be added to the index.

5.3 Spin-off

- 5.3.1 If an index constituent has a complex reorganisation or demerger, the newly spun-off company will remain eligible for inclusion into the index as long as it remains a constituent in the FTSE4Good Europe Index. The eligibility of the resulting companies will be assessed in full at the next semi-annual review.

5.4 Suspension of Dealing

- 5.4.1 If a constituent is the subject of a suspension, it may remain in the index at the price at which it is halted for up to 10 business days. During this time, FTSE may agree to delete the constituent immediately either at its trading halt price or at zero. The constituent will be replaced by the highest ranking company in the reserve list by full market capitalisation five days prior to the event being implemented.



SECTION 5

- 5.4.2 Where a suspension of a constituent lasts beyond noon on the tenth business day (and the option to remove the constituent has not been exercised), the constituent will normally be deleted from the index on the eleventh trading day at zero or the trading halt price. Where the trading halt is for a reason not to the detriment of the constituent, FTSE may decide, following advice from the relevant Regional Index Advisory Committee, to retain or remove the stock at its trading halt price. If removed, the constituent will be replaced by the highest ranking company in the reserve list by full market capitalisation five days prior to the event being implemented.
- 5.4.3 A company whose trading halt is lifted after it has been removed from an index, will be reviewed for index eligibility at the next semi-annual review.



APPENDIX A

FURTHER INFORMATION

Further information on the FTSE4Good Environmental Leaders Europe 40 Index is available from FTSE or on the website www.ftse.com. FTSE will also welcome any comments on the Ground Rules.

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