



FTSE4Good Index Series Inclusion Criteria

CONTENTS

FTSE4Good Inclusion Criteria	1
FTSE4Good Criteria Development	2
Environmental Criteria	3
Social & Stakeholder Criteria	4
Human Rights Criteria	5
Supply Chain Labour Standards Criteria	7
Countering Bribery Criteria	10



FTSE4Good Inclusion Criteria

Key Objectives and Features

Key Objectives

1. To provide a tool for responsible investors to identify and invest in companies that meet globally recognised corporate responsibility standards.
2. To provide asset managers with a socially responsible investment (SRI) benchmark and a tool for socially responsible investment products.
3. To contribute to the development of responsible business practice around the world.

Key Features

1. Evolving selection criteria to reflect changes in globally accepted corporate responsibility standards and codes of conduct over time.
2. Challenging yet achievable criteria that encourage companies to strive to meet them.
3. Higher impact companies have to meet higher standards.
4. Transparent criteria and methodology.
5. Criteria based on internationally respected codes and principles with new criteria subjected to a widespread consultation and approved by an independent oversight committee.

Company Assessment Process

To qualify for inclusion in the FTSE4Good Index Series, companies must be in one of the following starting universes: the FTSE All-Share Index (UK), or FTSE Developed Index (Global).

For inclusion, eligible companies must meet criteria requirements in five areas:

- Working towards environmental sustainability
- Developing positive relationships with stakeholders
- Up-holding and supporting universal human rights
- Ensuring good supply chain labour standards
- Countering bribery

Excluded Companies

Companies that have been identified as having business interests in the following industries are excluded from the FTSE4Good Index Series:

- Tobacco Producers
- Companies manufacturing either whole, strategic parts, or platforms for nuclear weapon systems
- Companies manufacturing whole weapons systems
- Owners or operators of nuclear power stations
- Companies involved in the extraction¹ or processing of uranium

It is the FTSE4Good Policy Committee's intention to replace exclusion criteria with performance-based criteria supported by public consultation.

EIRIS Research

FTSE works in association with the Ethical Investment Research Service (EIRIS) and its network of international partners² to research company corporate responsibility performance. FTSE4Good indices are reviewed semiannually in September and March, by the FTSE4Good Policy Committee. The research process is undertaken around these dates, with the distribution of an extensive questionnaire in June and an update of the companies' Corporate Responsibility (CR) data in November of each year. EIRIS manages the research and analysis globally in order to cover the FTSE4Good Index eligible universe³, either directly or through a network of partner research organisations.

A variety of mechanisms are employed to access the most up-to-date relevant data:

- Scrutiny of annual reports
- Research of company websites
- Written questionnaires and liaison with companies where appropriate
- Other publicly available material
- In addition, factsheets detailing the information held by EIRIS are distributed to companies on a regular basis for updating and review

1 - Note that FTSE is developing selection criteria for uranium extraction companies which will replace this exclusion in 2006. Please see www.ftse.com/ftse4good for further details.

2 - Centre for Australian Ethical Research (CAER, Australia), Ethifinance (France), Avanzi (Italy), Stock-at-Stake (Belgium), Institut für Markt-Umwelt-Gesellschaft (IMUG, Germany), and Fundacion Ecologia y Desarrollo (FED, Spain).

3 - The eligible universe for the FTSE4Good Index Series is the FTSE Developed Index and the FTSE All-Share Index.

FTSE4Good Criteria Development

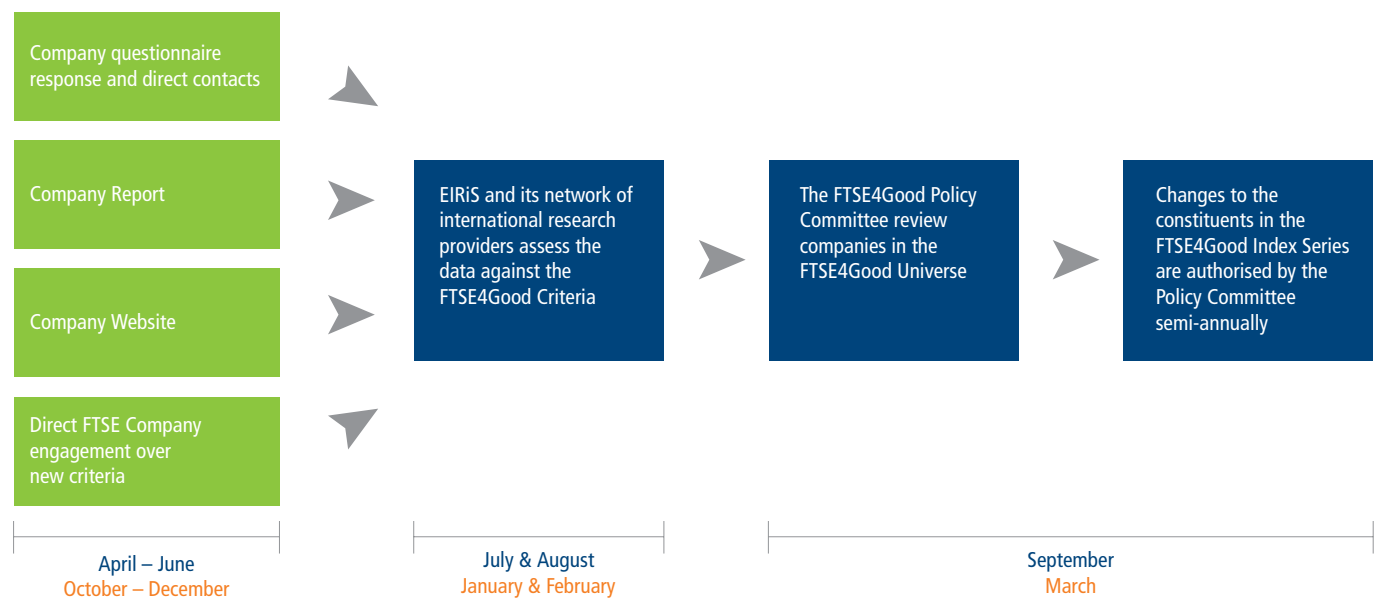
Evolving Criteria

The FTSE4Good criteria are designed to reflect a broad consensus on what constitutes good corporate responsibility practice globally. Using a widespread market consultation process, the criteria are regularly revised and updated to ensure that they reflect developments in corporate responsibility thinking and trends in socially responsible investment as they evolve.

Since FTSE4Good was launched in July 2001, the inclusion criteria have been enhanced annually:

- 2002: Environmental criteria strengthened
- 2003: Human Rights criteria strengthened
- 2004 – 2005: Supply Chain Labour Standards Criteria introduced
- 2005 – 2006: Countering Bribery Criteria introduced

FTSE4Good Company Selection Process



FTSE4Good Index Series

All companies in the eligible universe that meet the FTSE4Good criteria are members of one of the FTSE4Good benchmark indices. These are the FTSE4Good Global, FTSE4Good UK, FTSE4Good Europe, FTSE4Good US, and FTSE4Good Japan. Similar to other FTSE indices, companies are ranked in the indices according to their free-float and liquidity adjusted market capitalisation. Companies in the FTSE4Good Tradeable indices are the largest 100 (for FTSE4Good Global 100, or FTSE4Good US 100) or 50 stocks (FTSE4Good UK 50, or FTSE4Good Europe 50) in the benchmark indices.

Implementation Timetable

Companies wishing to be added to the FTSE4Good Index Series will need to meet all the new criteria for their impact category. Existing constituents are given a timetable for the implementation of new criteria to allow for engagement, and encourage companies to improve their practices and disclosure.

Environmental Criteria

Companies are classified as high, medium or low impact based on the environmental footprint of their activities. The higher the environmental impact of the company's operations, the more stringent the inclusion criteria.

Financial Services companies with significant equity holdings/commercial loan provision are classified as medium impact. Therefore these companies can meet the Environmental Management Systems (EMS) part of the criteria through their approach to environmental considerations in investments/lending. This could be through the following (not all below will be relevant for different types of financial services companies):

- Significant Socially Responsible Investment products (with environmental criteria)
- Engagement programme with investee companies based wholly or in part on environmental issues
- Incorporation of environmental credit risk assessment into the loans process (this needs to be beyond usual practices e.g. contaminated land)
- Provision of specialist environmental loans
- Integration of financial and environmental factors in fundamental analysis

High Impact Sectors	Medium Impact Sectors	Low Impact Sectors
Agriculture Air Transport Airports Building Materials (includes Quarrying) Chemicals and Pharmaceuticals Construction Major Systems Engineering Fast Food Chains Food, Beverages and Tobacco Forestry and Paper Mining & Metals Oil and Gas Power Generation Road Distribution and Shipping Supermarkets Vehicle Manufacture Waste Water Pest Control	DIY & Building Supplies Electronic and Electrical equipment Energy and Fuel Distribution Engineering and Machinery Financials not elsewhere classified (see right) Hotels, Catering and Facilities Management Manufacturers not elsewhere classified Ports Printing & Newspaper Publishing Property Developers Retailers not elsewhere classified Vehicle Hire Public Transport	Information Technology Media Consumer / Mortgage Finance Property Investors Research & Development Leisure not elsewhere classified - (Gyms and Gaming) Support Services Telecoms Wholesale Distribution

	High Impact Companies	Medium Impact Companies	Low Impact Companies
Policy	<p>Policy must cover the whole group and either:</p> <ul style="list-style-type: none"> • meet all five core indicators plus one desirable indicator • or meet four core plus two desirable indicators 	<p>Policy must cover the whole group and meet four indicators, three of which must be core.</p>	<p>Companies must have published a policy statement including one commitment indicator.</p>
Management	<p>If environmental management systems (EMS) are applied to between one and two-thirds of company activities, all six indicators must be met, and targets must be quantified.</p> <p>If EMS are applied to more than two-thirds of company activities, the company must meet five of the indicators. One of these indicators must be documented objectives and targets in all key areas.</p> <p>Companies with ISO certification and EMAS registrations are considered to meet all six indicators.</p>	<p>EMS must cover one third of the company and meet four indicators.</p> <p>If the EMS covers less than one third of the company's operations, the company must meet six indicators, including quantitative objectives and targets. ISO14001 certified or EMAS registered systems are considered to meet all six indicators.</p>	<p>No requirement.</p>
Reporting	<p>The Report must have been published within the last three years, cover the whole group, and meet three core indicators.</p> <p>Reports which do not cover the whole group must meet all four indicators.</p> <p>or</p> <p>three core indicators together with two desirable indicators.</p>	<p>No requirement.</p>	<p>No requirement.</p>
	<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>Indicators</p> <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>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
	<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 	

Social & Stakeholder Criteria

To qualify for inclusion, all companies must disclose information that meets at least two of the seven indicators below either globally or in their home operating country.

Indicators	
Policy	<ul style="list-style-type: none"> • Adopting an equal opportunities policy and/or including a commitment to equal opportunities or diversity in their annual report or web-site • Adopting a Code of Ethics or Business Principles
Management	<ul style="list-style-type: none"> • Providing evidence of equal opportunities systems including one or more of: <ul style="list-style-type: none"> – monitoring of the policy and workforce composition – flexible working arrangements and family benefits (meaning at least three of the following - flexible working time, child care support, job sharing, career breaks, or maternity or paternity pay beyond the legal requirements) – more than 10% of managers being women or the proportion of managers who are women or from ethnic minorities exceeding two fifths of their representation in the workforce concerned • Providing evidence of health and safety systems including one or more of: <ul style="list-style-type: none"> – Awards – details of health and safety training – published accidents rates • Providing evidence of training and employee development systems including one or more of: <ul style="list-style-type: none"> – annual training reviews for staff (more than 25% of those staff where figures are available) – providing significant data on time and money spent on training • Providing evidence of systems to maintain good employee relations including union recognition agreements or other consultative arrangements (covering more than 25% of staff where figures are available).
Reporting	<ul style="list-style-type: none"> • One of the following: <ul style="list-style-type: none"> – Making charitable donations in excess of £50,000 – Operating payroll giving schemes – Providing gifts in kind or staff secondments to community schemes – Assigning responsibility for charitable donations or community relations to a senior manager

To warrant inclusion in the indices, companies involved in the manufacture and marketing of breast milk substitutes must meet the FTSE4Good Criteria on Breast Milk Substitutes Marketing. Further information can be found at www.ftse.com/ftse4good.

Human Rights Criteria

In 2003 FTSE Group announced changes to the FTSE4Good Index Series selection criteria relating to up-holding and supporting universal human rights. The new criteria were formed on the basis of a broad public human rights consultation during 2002. This involved taking into account almost 200 responses from corporations, fund managers, non-government organisations and private investors.

In line with the new environmental criteria companies have been divided into groups according to their potential impact. The higher the potential human rights impact of the company's operations, the more stringent the criteria it needs to meet to be included in the index. Companies currently have been divided into two groups, the Global Resource Sector & companies with a significant involvement in countries of concern (see next page).

Global Resource Sector

The group of companies identified as potentially having the highest impact on human rights, are those found in the Global Resource Sector (oil, gas and mining*). This sector is defined as those companies with with global upstream operations in oil, gas or mining:

- Global is defined as operations that extend to non-OECD countries
- Upstream operations are exploration and production that includes companies such as rig operators and contract drillers
- Downstream operations include refining, marketing and selling and are not included for these criteria

* Companies defined in the ICB sector 0573 'Oil equipment and services' are considered to face lower human rights risks than other global resource companies and therefore have lower requirements. These criteria requirements will therefore be the same as those for companies that have a 'significant involvement in countries of concern'

Human Rights Criteria for the Global Resource Sector		
	New Criteria	Details
Policy	Public Policy	The company has published policies covering human rights issues that are clearly communicated globally (in local languages where appropriate)
	Board Responsibility	The strategic responsibility for the human rights policy/ies rests with one or more Board members or senior managers who reports directly to the CEO
	ILO Core Labour standards Or UN Global Compact / SA8000 / OECD Guidelines	A statement of commitment to respect all the ILO core labour standards globally. The core conventions relate to: equal opportunities, freedom of association/ collective bargaining, forced labour and child labour. Alternatively signatories to the UN Global Compact or SA8000, or whose policy states support for the OECD Guidelines for Multi-national Enterprises are considered to meet this requirement
	UDHR	A clear statement of support for the Universal Declaration of Human Rights
	Guidelines on armed security guards	Guidelines governing the use of armed security guards based on UN Basic principles on the Use of Force and Firearms by Law Enforcement Officials or the Code of Conduct for Law Enforcement Officials. Alternatively signatories to the Voluntary Principles on Security and Human Rights meet this requirement
	Indigenous people	A stated commitment to respecting indigenous peoples' rights
Management	Implementing policy criteria and monitoring	Monitoring the implementation of its human rights policy including the existence of procedures to remedy any non-compliance.
	Employee Human Rights training	Training for employees globally in its human rights policy
	Stakeholder consultation	Consulting with independent local stakeholders in the countries of concern
	Human Rights Impact Assessment	Evidence of a human rights impact assessment which includes the company identifying the major human rights issues it faces and integrating human rights concerns into its risk assessment procedures
Reporting	Produce a human rights report	Reporting on the human rights policy and performance to the public in a published format
	Cover policies and management systems	Covering policies and management systems as a minimum

Significant Involvement in Countries of Concern

Companies with significant involvement in countries with the greatest human rights concern have been identified as potentially having a significant impact. Therefore these companies are also required to meet the human rights criteria, but at an intermediate level. Details on the criteria are given below.

- Significant involvement is defined as having 1000+ employees or GBP100m in turnover or assets in these countries through a 20%+ equity stake in subsidiaries or associates incorporated there
- Countries of concern - The list is drawn up and reviewed each year by EIRIS in the light of human rights developments using a variety of sources. EIRIS uses the latest Freedom House list of 'not free' countries to identify those with significant levels of corporate investment and then amends that list in the light of further information including the annual reports from Human Rights Watch and Amnesty International

List of countries of concern adopted March 2005 by the FTSE4Good Policy Committee

Afghanistan	Iran	Saudi Arabia
Algeria	Iraq	Somalia
Angola	Ivory Coast	Sudan
Brunei	Kazakhstan	Syria
Burma	Lebanon	Tunisia
Cameroon	Libya	United Arab Emirates
China	North Korea	Vietnam
Colombia	Oman	Zimbabwe
Democratic Republic of Congo	Pakistan	
Egypt	Rwanda	

Human Rights Criteria for Companies with Significant Involvement in Countries of Concern

	New Criteria	Details
Policy	ILO Core Labour standards Or UN Global Compact / SA8000 / OECD Guidelines	A public statement of commitment to respect all the ILO core labour standards globally. The core conventions relate to: equal opportunities, freedom of association/ collective bargaining, forced labour and child labour. Alternatively signatories to the UN Global Compact or SA8000, or whose policy states support for the OECD Guidelines for Multi-national Enterprises are considered to meet this requirement
	Board Responsibility	The strategic responsibility for the human rights policy/ies rests with one or more Board members or senior managers who reports directly to the CEO
	UDHR or Global H. Rights Communication	Alternatively a clear statement of support for the Universal Declaration of Human Rights Or communication of the human rights policy to employees globally
	The company must meet at least two of the following four criteria	
Management	Implementing policy criteria and monitoring	Monitoring the implementation of its human rights policy including the existence of procedures to remedy any non-compliance.
	Employee Human Rights training	Training for employees globally in its human rights policy
	Stakeholder consultation	Consulting with independent local stakeholders in the countries of concern
	Human Rights Impact Assessment	Evidence of a human rights impact assessment which includes the company identifying the major human rights issues it faces and integrating human rights concerns into its risk assessment procedures

Supply Chain Labour Standards Criteria

The FTSE4Good Policy Committee has recognised that supply chain labour standards are of increasing concern and has therefore overseen the development, by FTSE Group, of a new set of FTSE4Good criteria covering this issue. These criteria have been developed on the basis of broad consultation over an 18-month period involving input from many stakeholders, including corporations, fund managers, non-government organisations and private investors. This led to the announcement of the following criteria in 2004.

Principles and Initiatives in Supply Chain Management

There is general consensus that workers' rights are universal. This is demonstrated by internationally agreed core labour rights that have been established through the International Labour Organisation (ILO) as summarised in its Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy¹. The FTSE4Good criteria uses the ILO standards as a starting point.

In addition there are many groups currently working on Supply Chain Labour Standards. The following multi stakeholder initiatives² support businesses in engaging with these issues, and explicitly draw from the ILO Core Conventions. The approaches of these groups have been used to further develop the proposed criteria in this document:

- The Ethical Trading Initiative
- The Fair Labour Association
- Social Accountability International

Definition of the Supply Chain

For the purposes of the FTSE4Good Index Criteria, Supply Chain is defined as: The distribution channel of a product, from its sourcing, to its delivery to the end consumer (also known as the value chain). It includes the growing of crops and acquisition of raw materials, manufacturing products, distributing finished goods to retailers and sale to the final consumer. The supply chain is typically comprised of a chain of companies, each contributing to the final product such as supplying component parts, or further adding value.

The Criteria

All companies have suppliers with whom they have a direct commercial relationship ("first-tier suppliers"), this is where they have the most influence. Although research shows that labour standards are of greatest concern beyond the first-tier suppliers, engaging with these first tier suppliers remains a key challenge for many companies. Therefore the FTSE4Good Supply Chain Labour Standards Criteria are currently only applicable to the management of first-tier suppliers³.

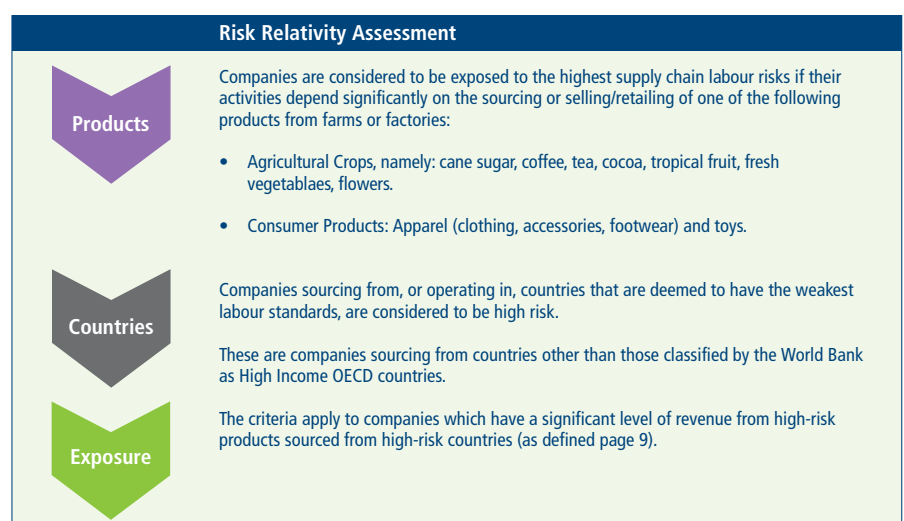
Companies affected by the new criteria

Some industry sectors are exposed to higher levels of supply chain risk owing to the nature of their business. To reflect this, the FTSE4Good criteria for Supply Chain Labour Standards are applicable initially only to companies identified as exposed to these highest risks.

The process below sets out to identify high-risk companies by applying a three stage screening system. These screens cover three areas based on an evaluation of:

- The products the company sells
- The countries that it sources from, and
- The exposure in these markets in terms of revenue

Companies identified will be required to meet the criteria to enter the index or to maintain their inclusion.



1 - <http://www.ilo.org/public/english/standards/norm/whatare/fundam/index.htm> ; and ILO 1988, ILO Declaration on Fundamental Principles and Rights at Work and its Follow-Up, ISBN 92-2-110829-5

2 - www.ethicaltrade.org; www.fairlabor.org; www.cepa.org

3 - FTSE recognises that for some industries first tier suppliers (commonly importers, agents and wholesalers) may be removed from potential problems at source. Therefore in the future, FTSE will consider criteria that will require companies to work with first tier suppliers to communicate and promote the requirements back down their supply chain. Companies have greater influence over own brand suppliers than those of proprietary branded products. Therefore the criteria are currently only applicable to own brand suppliers. FTSE also recognises that while best practice may mean that companies also apply supply chain labour standards to proprietary brands, focus on own brand is acceptable for the current FTSE4Good criteria.

Criteria and Implementation Timetable

High-risk companies (as defined by the Risk Relativity Assessment), which are already constituents of the FTSE4Good Series, must have already met the Policy and Systems Minimum Criteria. They must meet the Policy and Systems Final Criteria by 1st July 2006. The Reporting Criteria will then be implemented on 1st January 2007. All high risk companies now wishing to join the index for the first time, will be required to meet the Policy, Systems and Reporting criteria in full.

	Minimum Criteria (Policy or Systems)	Final Criteria 1st July 2006 (Policy and Systems)	1st January 2007 (Reporting)
Policy	<ul style="list-style-type: none"> Policy/code (or other relevant documentation) to commit to, or clearly be based on (and contain the principles of), the four ILO Core Convention areas: <ul style="list-style-type: none"> – Equality/Discrimination – Forced Labour – Child Labour – Worker Representation* Policy/code must be available on request. Please note that companies that are members of The Ethical Trading Initiative, The Fair Labour Association, or audited to Social Accountability International's SA8000 will be considered to be demonstrating commitment to the four ILO Core Convention areas. 	<ul style="list-style-type: none"> In addition to meeting the minimum criteria the policy/code (or other relevant documentation) should also be extended to address: <ul style="list-style-type: none"> • Health & Safety • In addition one of the following areas, as appropriate to the supply chain, and subject to ILO conventions: <ul style="list-style-type: none"> – Working hours – Wages – Disciplinary procedures The policy/code must be publicly available. 	As above
	OR	AND	
Management	<ul style="list-style-type: none"> Communication of a relevant policy /code, position or concern to suppliers (at least in some regions) Some monitoring of supply chain (for example identification of supply chain, supplier numbers, assessment of where the issues are by country or product) 	<ul style="list-style-type: none"> Some visiting/auditing of suppliers (e.g. some risk assessment to identify the highest priority suppliers/products/countries and some substantial supplier visits or audits) Policy/code should be communicated to suppliers globally (e.g. first tier – those with whom the company has a direct trading relationship) Strategic responsibility for the policy/code implementation shall rest with one or more board members or senior executives/managers Training of relevant employees (e.g. compliance/audit teams or equivalent, buying teams, managers and workers in suppliers) on the policy/code Policy/code has procedures to remedy any non-compliance** 	As above
Reporting		No requirement	Report (or other form of communication) is publicly available and covers both policy and management systems.

* Worker Representation: Companies must address Freedom of Association and/or Collective Bargaining/Representation to meet "Minimum Criteria". Companies must meet Freedom of Association and Collective Bargaining/Representation to meet "Final Criteria".

** Where a company's suppliers in its supply chain have been alleged to be in breach of the ILO Core Convention areas, it must have taken visible, demonstrable or quantifiable measures or steps to prove it has investigated these allegations effectively.

Further details on the Risk Relativity Assessment

Products

Companies in the following sectors will automatically be subject to the Products Screen: Clothing & Footwear, Leisure Equipment, Other Textiles & Leather, Food Processors, Discount & Superstores & Warehouses, Retailers-Hardlines, Retailers-Multi Department, Retailers-Soft Goods, Food & Drug Retailers.

Countries

As defined by the World Bank Country Classification as High Income and Other High Income / Middle Income Countries as at 1st September 2004 (<http://www.worldbank.org/data/countryclass/classgroups.htm>). The countries listed below are those considered not to be at risk:

High Income OECD:

Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Iceland, Ireland, Italy, Japan, Korean Rep, Luxembourg, Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, UK, US.

Other High Income:

Andorra, Aruba, Bahamas, Bahrain, Barbados, Bermuda, Brunei, Cayman Islands, Channel Islands, Cyprus, Faeroe Islands, French Polynesia, Greenland, Guam, Hong Kong, Isle of Man, Israel, Kuwait, Liechtenstein, Macao, Malta, Monaco, Netherlands Antilles, New Caledonia, Puerto Rico, Qatar, San Marino, Singapore, Slovenia, Taiwan, United Arab Emirates, Virgin Islands.

Significant Exposure is defined as:

More than one-third of total company revenue from high risk products sourced from high risk countries; or more than £100m revenue from sale of the high risk products sourced from high risk countries.

Countering Bribery Criteria

The FTSE4Good Policy Committee has recognised that countering bribery is a topic of increasing concern and has therefore overseen the development, by FTSE Group of a new set of FTSE4Good Index criteria covering this issue. These criteria have been developed on the basis of broad consultation over an 18-month period involving input from many stakeholders, including corporations, fund managers, government representatives, non-governmental organisations, business associations and private investors.

There are many organisations and associations currently working processes for countering bribery¹ however the FTSE4Good Criteria for Countering Bribery take the Transparency International Business Principles for Countering Bribery² as a starting point. Bribery is defined as *“an offer or receipt of any gift, loan, fee, reward or other advantage to or from any person as an inducement to do something which is dishonest, illegal or a breach of trust in the conduct of the enterprise’s business.”*³

Which Companies Need to Meet these Criteria?

All companies face the potential risk of being drawn into bribery to some degree, irrespective of the sector, country, or business activity, and evidence of significant bribery could constitute a sufficient reason for removing any company from the FTSE4Good index unless there is mitigating evidence of anti-bribery systems and effective remedial action. It is FTSE’s declared intention to require all companies to address bribery in the future.

High Risk Companies

To begin with, these criteria first apply only to companies that have been identified as having the highest levels of exposure to risk of engaging in bribery. The relative need to adopt special measures to prevent bribery is a function of the unique level of risk of engaging in bribery that each company faces. That level of risk varies widely in certain locations and contexts. These criteria will initially apply only to companies that have

been identified as having the highest levels of exposure to risk of engaging in bribery. The process used to identify companies as high risk has three filters:

- Sector
- Country
- Public contracts

A company found to be high risk in all three filters is identified as a company that is high risk overall in the area of bribery.

High Risk Companies – ALL three filters must apply to each company before they are designated ‘High Risk’

Sectors

Companies from the following ICB (Industry Classification Benchmark) sectors and sub-sectors⁴ are considered more likely to have the highest levels of exposure to risk of engaging in bribery:

- Oil & Gas Producers; Oil Equipment, Services, & Distribution; Chemicals; Industrial Metals; Mining; Construction & Materials; Aerospace & Defense; General Industrials; Electronic & Electrical Equipment; Industrial Engineering; Support Services; Electricity; Gas, Water, & Multi-Utilities.
- Pharmaceuticals; Hotels; Fixed Line Telecommunications; Mobile Telecommunications; Software & Computer Services; Technology Hardware & Equipment.

Countries

Companies operating in countries that are deemed to have the highest risk, or perceived risk of, levels of bribery:

- Countries scoring 4 or less on the Transparency International Corruption Perceptions Index.
- Countries scoring 0 or less (negative) on the World Bank Governance Indicators list.

For a list of the countries please see page 11.

Public Contracts

Companies that are involved in any way with government/public contracts, or where a government licence is critical to the operation of their business, are considered as having the highest levels of exposure to risk of engaging in bribery.

1 - Global Compact 10th Principle against Corruption; UN Convention Against Corruption; OECD Convention on Combating Bribery of Foreign Public Officials; ICC Rules to Combat Extortion and Bribery.

2 - The Transparency International Business Principles for Countering Bribery is an international multi-stakeholder business initiative designed to complement the UN and OECD conventions, which provide a tool to enterprises to develop effective approaches to bribery.

3 - Source: Transparency International Business Principles for Countering Bribery and Guidance.

4 - Related business activities, as defined by EIRIS, will also be used to identify high-risk companies. Therefore, some companies may still need to meet the criteria even if they are not classified in the above sectors/subsectors. Other companies that do fall within the above sectors/subsectors will not be classified as high-risk if they are not involved in high-risk business activities.

High Risk Country List

Countries scoring 0 or less (negative) scores on the World Bank Governance Indicators List* or countries scoring 4 or less on the Transparency International Corruption Perceptions Index** are considered high risk. Using this methodology, all the following countries are classified as high risk, and this list will be reviewed annually:

- Countries in both Transparency International and World Bank lists: Albania, Algeria, Angola, Argentina, Armenia, Azerbaijan, Bangladesh, Belarus, Belize, Benin, Bolivia, Bosnia-Herzegovina, Brazil, Cameroon, Chad, China, Colombia, Congo, Congo Dem Rep, Cote D'Ivoire, Cuba, Dominican Republic, Ecuador, Egypt, Ethiopia, Gabon, Gambia, Georgia, Ghana, Guatemala, Haiti, Honduras, India, Indonesia, Iran, Iraq, Jamaica, Kazakhstan, Kyrgyz Republic, Kenya, Kyrgyz Republic, Lebanon, Libya, Macedonia, Malawi, Mali, Mexico, Moldova, Mongolia, Morocco, Mozambique, Myanmar, Nepal, Nicaragua, Niger, Nigeria, Palestinian Authority, Pakistan, Panama, Papua New Guinea, Paraguay, Peru, Philippines, Romania, Russia, Senegal, Sierra Leone, Sri Lanka, Sudan, Syria, Tajikistan, Tanzania, Thailand, Turkey, Turkmenistan, Uganda, Ukraine, Uzbekistan, Venezuela, Vietnam, Yemen, Zambia, Zimbabwe. Countries in Transparency International list only: Croatia, Eritrea, Latvia, Madagascar, Poland, Saudi Arabia, Serbia and Montenegro, Slovakia. Countries in World Bank list only: Afghanistan, Bulgaria, Burkina Faso, Burundi, Cambodia, Central African Republic, Comoros, Djibouti, El Salvador, Equatorial Guinea, Guinea, Guinea-Bissau, Guyana, Jordan, Kiribati, North Korea, Laos, Lesotho, Liberia, Macao, Marshall Islands, Micronesia, Rwanda, Samoa, Sao Tome and Principe, Solomon Islands, Somalia, Swaziland, East Timor, Togo, Tonga, Trinidad and Tobago, Vanuatu

* World Bank Governance Indicators List source: <http://www.worldbank.org/wbi/governance/pubs/govmatters4.html> revised regularly, currently every 2 years.

** TI CPI source: http://www.transparency.org/policy_and_research/surveys_indices/cpi researched and issued annually

Criteria for High Risk Companies

(NB: Further company guidance on these criteria will be available from FTSE Group on request)

	Policy	Management	Reporting
Criteria Indicators	<ul style="list-style-type: none"> • Prohibits giving and receiving bribes; ¹ • Commits to obeying all relevant laws; • Commits to restricting and controls facilitation payments; • Commits to restricting giving and receiving gifts; • Policy is publicly available. 	<ul style="list-style-type: none"> • Communicates policy to employees; • Trains relevant employees; • Compliance mechanisms (e.g. assurance, audits, monitoring, board reports); • Provides secure communication channels for employees to seek advice or voice concerns (e.g. , hotlines, advicelines, whistle-blowing procedures for protection, internal reporting mechanisms); • Procedures to remedy non-compliance. ² 	<ul style="list-style-type: none"> • Policy is publicly disclosed; • Compliance mechanisms are publicly disclosed.

Implementation Timetable for High Risk Companies

High risk companies currently FTSE4Good Index constituents must meet the criteria to remain in the index, according to the timetable of phased deadlines below.

	Sectors	Policy..... OR.....Management	Policy... AND... ...Management	Reporting
Phase 1 Sectors	<ul style="list-style-type: none"> • Oil & Gas Producers; Oil Equipment, Services, & Distribution; Chemicals; Industrial Metals; Mining; Construction & Materials; Aerospace & Defense; General Industrials; Electronic & Electrical Equipment; Industrial Engineering; Support Services; Electricity; Gas, Water, & Multi-Utilities. 	1st July 2006	1st January 2007	1st July 2007
Phase 2 Sectors	<ul style="list-style-type: none"> • Pharmaceuticals; Hotels; Fixed Line Telecommunications; Mobile Telecommunications; Software & Computer Services; Technology Hardware & Equipment. 	1st January 2007	1st July 2007	1st January 2008

NB: All high risk companies currently not in FTSE4Good Index Series, will need to meet the criteria in full to gain inclusion.

¹ Companies that are signatories to the UN Global Compact may be considered committed to this criteria indicator.

² Where there is a significant and credible controversy/allegation that a company, its business partners, including suppliers, contractors or agents are committing bribery, the company must have taken visible, demonstrable or quantifiable steps to prove it has investigated these allegations effectively and in a timely manner.

ABOUT FTSE GROUP

FTSE Group (FTSE) is a world-leader in the creation and management of indices. With offices in Beijing, London, Frankfurt, Hong Kong, Madrid, Paris, New York, San Francisco, and Tokyo, FTSE services clients in 77 countries worldwide. It calculates and manages the FTSE Global Equity Index Series, which includes world-recognised indexes ranging from the FTSE All-World Index to the FTSE4Good series and the FTSEurofirst Index Series, as well as domestic indices such as the prestigious FTSE 100 Index. The company has collaborative arrangements with the ATHEX, AMEX, Cyprus, Euronext, JSE, London, Madrid, NASDAQ, Singapore and Taiwan exchanges, as well as Nomura Securities, Hang Seng and Xinhua Finance of China. FTSE also has a collaborative agreement with Dow Jones Indexes to develop a single sector classification system for global investors, Industry Classification Benchmark (ICB).

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