

**GROUND RULES FOR THE
MANAGEMENT OF THE
FTSE CDP CARBON STRATEGY
INDEX SERIES**

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SECTION 1

1.0 INTRODUCTION

- 1.1 This paper sets out the Ground Rules for the Management of the FTSE CDP Carbon Strategy Index Series. Copies of the Ground Rules are available from www.ftse.com/carbon.
- 1.2 FTSE CDP Carbon Strategy Index Series are carbon-risk-tilted versions of FTSE's established benchmark indices. The constituent companies remain the same but the weights of the companies are varied on the basis of their exposure to carbon risk relative to their sector peers. The overall weights of each sector are the same as for their benchmark indices, but some companies in each sector are over-weighted, while others are under-weighted. The FTSE CDP Carbon Strategy Index Series has been created in partnership with Carbon Disclosure Project (CDP) and ENDS Carbon.
- 1.3 The FTSE CDP Carbon Strategy Index Series is made up of the following Indices:
- FTSE CDP Carbon Strategy All-Share Index (calculated in GBP)
 - FTSE CDP Carbon Strategy 350 Index (calculated in GBP)
 - FTSE CDP Carbon Strategy Australia 200 Index (calculated in AUD)
 - FTSE CDP Carbon Strategy Australia 300 Index (calculated in AUD)
 - FTSE CDP Carbon Strategy Japan Index (calculated in JPY)
 - FTSE CDP Carbon Strategy Europe Index (calculated in USD)
- 1.4 For more information on the qualifying criteria on the underlying indices, please refer to the UK Series, FTSE ASFA Australia Index Series and FTSE Global Equity Index Series Ground Rules. These Ground Rules are available from the FTSE website www.ftse.com.
- 1.5 Price and Total Return versions will be calculated for each index. The FTSE CDP Carbon Strategy Index Series is calculated in real time.

SECTION 2

2.0 STATUS OF INDEX

2.1 The FTSE CDP Carbon Strategy Index Series are calculated in real time. They may exist in the following states.

a) Firm

The Indices are active and being calculated during Official Market hours (see Appendix A).

b) Closed

When the indices have ceased all calculations for the day, the message 'CLOSED' is displayed against the index value.

c) Held

During the firm period, the index has exceeded pre-set operating parameters and calculation has been suspended pending resolution of the problem. The message 'HELD' is displayed against the last index value calculated.

d) Indicative

If there is a system problem or a situation in the market that is judged to be affecting the quality of the constituent prices at any time when the index is being calculated, the index will be declared indicative. The message 'IND' will be displayed against the index value.

e) Part

If the index is being calculated during the normal Official Index Period hours, but there are less than 75% of the constituents by capitalisation available with firm prices, then the index will be displayed with the message 'PART' to indicate that only a proportion of the securities prices are included. With the exception of the message 'PART', the index will continue to be calculated and displayed as if it were firm.

2.2 The official opening and closing hours of the FTSE CDP Carbon Strategy Index Series is set out in Appendix A. Variations to the official hours of the Index will be published by FTSE.

2.3 The FTSE CDP Carbon Strategy Index Series is calculated and published on all days when the relevant exchange is open for trading

SECTION 3

3.0 MANAGEMENT RESPONSIBILITIES

3.1 FTSE International Limited (FTSE)

3.1.1 FTSE is responsible for the operation of the FTSE CDP Carbon Strategy Index Series. FTSE maintains records of the market capitalisation of all constituents, and makes changes to the constituents and their weightings in accordance with the Ground Rules. FTSE conducts the index reviews and implements the resulting constituent changes as required by the Ground Rules.

3.1.2 Changes to constituent weightings are made by FTSE in accordance with the Ground Rules. FTSE is responsible for recording all constituent weighting changes. Constituent weightings in the real time indices shall be used in the calculation of the end of day indices.

3.1.3 FTSE is also responsible for monitoring the performance of the FTSE CDP Carbon Strategy Index Series throughout the day and will determine whether the status of each index should be Firm, Indicative, Held or Part (see Rule 2.1).

3.2 Carbon Disclosure Project (CDP)

3.2.1 The Carbon Disclosure Project (CDP) holds the largest database of corporate climate change information in the world. It represents some 655 institutional investors, with combined assets under management in excess of \$78 trillion. CDP supplies the core data carbon for the indices.

3.3 ENDS Carbon

3.3.1 ENDS Carbon is a carbon benchmarking and performance ratings specialist. It is a sister company of the ENDS Report, the leading technical environmental regulation publication. ENDS Carbon is responsible for company analysis and scoring for the indices. ENDS Carbon will provide a carbon risk factor for every stock in the FTSE CDP Carbon Strategy Index Series at each periodic review. FTSE will then use these factors for the calculation of the indices.

3.4 Re-Calculations

3.4.1 The FTSE CDP Carbon Strategy Index Series is recalculated whenever errors or distortions occur that are deemed to be significant. Users of the Index Series are notified.

3.5 Status of These Ground Rules

3.5.1 These Ground Rules are a guide to the policies and procedures applying at the date of publication to the operation and maintenance of the FTSE CDP Carbon Strategy Index Series. They have been prepared and approved by FTSE. However, these policies and procedures, and their precise application, are subject to variation and periodic review.

3.5.2 The purpose of publishing this guide is to provide information about the general basis on which decisions relating to the calculation and publication of the FTSE CDP Carbon Strategy Index Series are currently made.

SECTION 3

3.5.3 In light of the intended purpose of this guide, and the likely variation and periodic review of the policies and procedures it contains, no liability whether as a result of negligence or otherwise is accepted by FTSE, CDP, or ENDS Carbon (or any person concerned with the preparation or publication of this guide) for any losses, damages, claims and expenses suffered by any person as a result of:

- Any reliance on this guide, and/or
- Any errors or inaccuracies in this guide, and/or
- Any non-application or misapplication of the policies or procedures described in this guide, and/or
- Any errors or inaccuracies in the compilation or any constituent data

SECTION 4

4.0 ELIGIBLE SECURITIES

4.1 For each index in the FTSE CDP Carbon Strategy Index Series, the underlying index constituents remain the same but the weights of the companies are varied on the basis of their exposure to carbon risk relative to their sector peers. The overall weights of each sector are the same as for their benchmark indices, but some companies in each sector are over-weighted, while others are under-weighted. More information on the carbon risk assessment methodology for the FTSE CDP Carbon Strategy Index Series can be found at www.ftse.com/carbon.

4.2 FTSE CDP Carbon Strategy All-Share Index

The universe of eligible constituents is all the constituents of the FTSE All-Share Index.

4.3 FTSE CDP Carbon Strategy 350 Index

The universe of eligible constituents is all the constituents of the FTSE 350 Index.

4.4 FTSE CDP Carbon Strategy Australia 200 Index

The universe of eligible constituents is all the constituents of the FTSE ASFA Australia 200 Index.

4.5 FTSE CDP Carbon Strategy Australia 300 Index

The universe of eligible constituents is all the constituents of the FTSE ASFA Australia 300 Index.

4.6 FTSE CDP Carbon Strategy Japan Index

The universe of eligible constituents is all the constituents of the FTSE All-World Japan Index.

4.7 FTSE CDP Carbon Strategy Europe Index

The universe of eligible constituents is all the constituents of the FTSE All-World Developed Europe Index.

SECTION 5

5.0 PERIODIC REVIEW OF CONSTITUENTS

5.1 Review Dates

- 5.1.1 The FTSE CDP Carbon Strategy Index Series applies a carbon-risk adjusted weighting scheme to the constituents of an underlying FTSE index. Along with using the free-float adjusted market capitalisation that is used in the underlying index, the FTSE CDP Carbon Strategy indices use stock weights determined by exposure to carbon risk relative to sector peers.
- 5.1.2 The constituents of the FTSE CDP Carbon Strategy Index Series Index will be reviewed periodically in line with the underlying indices. For more information, please refer to the relevant Ground Rules for the underlying index.
- 5.1.3 If any constituents IPO during the year and are eligible to enter the underlying index, they will be included in the FTSE CDP Carbon Strategy Index Series with a neutral carbon risk adjustment factor (i.e. at their standard net market cap weight), which will be updated accordingly at the next periodic review for the relevant index.

5.2 Steps for Conducting a Review

- 5.2.1 ENDS Carbon will provide a carbon risk factor for every stock in each index for the FTSE CDP Carbon Strategy Index Series at each periodic review in the relevant index. FTSE will then apply these factors to the net market cap of each stock for the calculation of the indices.

5.3 Reserve List

- 5.3.1 In the event that one or more constituents are deleted from the FTSE CDP Carbon Strategy 350 Index during the period up to the next quarterly review the constituent(s) will be taken from the reserve list of the index. The reserve list and the effects of a stock being deleted will be the same as that of the FTSE 350 Index

SECTION 6

6.0 CHANGES TO CONSTITUENT COMPANIES

6.1 Additions

- 6.1.1 If a constituent is added to the underlying universe (see Section 4), it will be added to the respective FTSE CDP Carbon Strategy Index on the same date as the underlying index.
- 6.1.2 If a constituent is promoted to the FTSE CDP Carbon Strategy 350 Index from the FTSE CDP Carbon Strategy All-Share Index, it will be added to the FTSE CDP Carbon Strategy 350 Index using the same carbon risk adjustment factor as calculated for that stock in the FTSE CDP Carbon Strategy All-Share Index until the next quarterly review.
- 6.1.3 If a new IPO is added to the underlying universe, it will be added to the respective FTSE CDP Carbon Index with a carbon risk adjustment factor of 1 (i.e. at their standard investable market capitalisation weight).

6.2 Deletions and Replacements

- 6.2.1 If a constituent is delisted from its stock exchange, ceases to have a firm quotation or deleted from the underlying index, it will be removed from the FTSE CDP Carbon Strategy Index Series.
- 6.2.2 If a constituent is removed from the FTSE CDP Carbon Strategy 350 Index a vacancy will be created. This vacancy will be filled in line with the FTSE 350 Index (i.e. by selecting the highest ranking security by full market cap from the Reserve List). The replacement stock will be added to the FTSE CDP Carbon Strategy 350 Index using same carbon risk adjustment factor as calculated for that stock in the FTSE CDP Strategy All-Share Index.
- 6.2.3 The reserve list of the FTSE CDP Carbon Strategy 350 Index is based on the reserve list of the FTSE 350 Index.
- 6.2.4 Constituents will be deleted from the indices when confirmation is received that acceptance levels have reached a minimum of 85% and that any new shares of the bidding company (if applicable) are listed (exceptionally, for constituents of the UK Index, the qualifying announcement is that the offer has been declared wholly unconditional). A company will be deleted following a takeover if the remaining free float is 15% or less and will not be reconsidered for index inclusion until the completion of a year's trading record.

6.3 Mergers, Restructuring and Complex Takeovers

6.3.1 Mergers / Takeovers between Constituents

If the effect of a merger or takeover is that one constituent in the FTSE CDP Carbon Strategy Index Series is absorbed by another constituent, then the existing constituent is deleted on the effective date of the acquisition and the resulting company will remain a constituent. The new merged entity would have the same carbon risk factor as the parent company before the merger. Should such an event occur that a vacancy is created in the FTSE CDP Carbon Strategy 350 Index, this vacancy will be filled as described in Rule 6.2.

SECTION 6

6.3.2 Mergers / Takeovers between a Constituent and a Non-Constituent

In the case of a constituent taken over by a non-constituent, the resultant entity will be eligible for inclusion in the FTSE CDP Carbon Strategy Index Series in line with the underlying index. The same carbon risk adjustment factor as for the company taken over will be applied to this entity. Should such an event occur that a vacancy is created in the FTSE CDP Carbon Strategy 350 Index, this vacancy will be filled as described in Rule 6.2.

If an existing constituent takes over a non-constituent, the new merged entity will remain in the index with same carbon risk factor as before until the next periodic review.

If an existing constituent is acquired for cash, or ineligible paper, or by a non-quoted company in its own or another country, then the existing constituent is deleted on the effective date of the acquisition from the relevant Index. Should such an event occur that a vacancy is created in the FTSE CDP Carbon Strategy 350 Index, this vacancy will be filled as described in Rule 6.2.

6.4 Splits and Demergers

6.4.1 If an index constituent has a de-merger, and if the entity that has been spun-off remains in the underlying index, the same carbon risk adjustment factor as for the parent company will be applied to this entity. If the spun-off entity will not be a constituent of the underlying index, it will also not be eligible for inclusion in the FTSE CDP Carbon Strategy Index Series.

6.5 Suspension of Dealing

6.5.1 Where a constituent is suspended it may remain in the FTSE CDP Carbon Strategy Index Series, at the price at which it is suspended for up to 10 business days. During this time on advice from FTSE may agree to delete the constituent immediately either at its suspension price or at a value of zero. This change will be effected after the close of the index calculation and prior to the start of the index calculation on the following day. Removing a constituent at zero indicates that the stock is believed to be valueless.

6.5.2 When 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, either at its suspension price or at zero.

6.6 Re-listing of Suspended Constituents

6.6.1 If a suspended constituent is relisted, it will be included (with the carbon risk adjustment factor used at the time of suspension) in the FTSE CDP Carbon Strategy Index Series if it is included in the underlying index and on the same day as it joins the underlying index.

SECTION 7

7.0 INDICES ALGORITHM AND CALCULATION METHOD

7.1 Prices

7.1.1 The FTSE CDP Carbon Strategy Index Series will use actual mid prices or last trade prices where available on the relevant stock exchanges.

7.2 Calculation Frequency

7.2.1 The FTSE CDP Carbon Strategy Index Series will be calculated in real-time and published every 15 seconds during their opening hours using real time prices.

7.3 Index Calculation

7.3.1 All indices within the FTSE CDP Carbon Strategy Index Series will be displayed to two decimal points.

7.3.2 The FTSE CDP Carbon Strategy Index Series is calculated using the following formula:

$$\frac{\sum_{i=1}^n ((p_i \cdot e) \cdot s_i \cdot f_i \cdot c_i)}{d}$$

n = 1,2,3.....,N

n =	The number of constituents in the Index.
p = Price	The latest traded depositary receipt or H share's price (or the price at the close of the Index on the previous day).
e = Exchange Rate	The exchange rate required to convert the DR or H share's trading currency into the Index's base currency.
s = Shares in Issue	The number of shares that each depositary receipt represents used by FTSE, as defined in these Ground Rules.
f = Investability Weight	The factor to be applied to each constituent to allow amendments to its weighting, expressed as a number between 0 and 1, where 1 represents a 100% free float. The Investability Weight factor for each constituent is published by FTSE.
c = Carbon Risk Factor	The carbon risk factor to be applied to each security based on a security's exposures to carbon risks relative to sector peers. The factor will be calculated by ENDS Carbon.
d = Divisor	A figure that represents the total issued share capital of the Index at the base date. The divisor can be adjusted to allow changes in the issued share capital of individual constituents to be made without distorting the Index.

APPENDIX A

INDEX OPENING AND CLOSING HOURS

Index	Open	Close
FTSE CDP Carbon Strategy All-Share Index	08:00	16:30
FTSE CDP Carbon Strategy 350 Index	08:00	16:30
FTSE CDP Carbon Strategy Australia 200 Index	00:00	06:15
FTSE CDP Carbon Strategy Australia 300 Index	00:00	06:15
FTSE CDP Carbon Strategy Japan Index	23:50	06:45
FTSE CDP Carbon Strategy Europe Index	08:00	16:30

Notes:

- Closing prices will be Official Closing Price from the relevant stock exchanges.
- Timings are London hours (GMT or BST).

APPENDIX B

FURTHER INFORMATION

Further information on the FTSE CDP Carbon Strategy Index Series is available from FTSE who will also welcome comments on these Ground Rules.

Website: www.ftse.com

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