FTSE4Good IBEX Index

Inclusion Criteria

BME BOLSAS Y MERCADOS ESPAÑOLES

FTSE THE INDEX COMPANY

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1. Introduction

1.1 FTSE4Good IBEX Overview

ABOUT FTSE4GOOD IBEX

FTSE4Good IBEX is a responsible investment index that has been created through collaboration between Bolsas y Mercados Españoles (BME) and FTSE Group. The index is made up of all of the companies from BME's IBEX 35 Index and the FTSE Spain All-Cap Index that meet the FTSE4Good IBEX environmental and social inclusion criteria. The FTSE4Good IBEX Index is part of the FTSE4Good Index Series and provides a tool for socially responsible investment, as well as a benchmark to enhance current corporate responsibility practices through the evolution of the selection criteria.

The FTSE4Good IBEX criteria are detailed in this publicly available document, which is designed as a reference tool for all stakeholders, particularly eligible companies, who would like to understand what companies need to do in order to be included in the FTSE4Good IBEX Index.

COMPANY ELIGIBILITY AND SELECTION

In order for a company to be eligible, its stock must be included in the IBEX 35 Index and/or a Spanish constituent in the FTSE Spain All-Cap Index. All eligible companies are assessed against environmental and social criteria for inclusion.

	COMPANY SELECTION PROCESS			
	Eligible Universe	Excluded Sectors	Inclusion Criteria[1]	Indices
Details	• FTSE Spain All Cap Index (part of the FTSE Global Equity Index Series) • IBEX 35	• Tobacco Producers • Companies manufacturing, or testing and developing, whole weapons systems • Companies manufacturing either whole, strategic parts, or platforms for nuclear weapon systems • Owners or operators of nuclear power stations	**Environment** • Environmental Management • Climate Change **Social** • Human & Labour Rights • Supply Chain Labour Standards • Countering Bribery	FTSE4Good IBEX Index

* Currently under review.

1 In addition to those listed in the table, there are FTSE4Good criteria for companies involved in the manufacture and marketing of breast milk substitutes and companies involved in uranium mining. As none of the current eligible FTSE4Good IBEX companies are active in these businesses, these criteria are not listed in this document. For more information on these criteria visit www.ftse.com/ftse4good

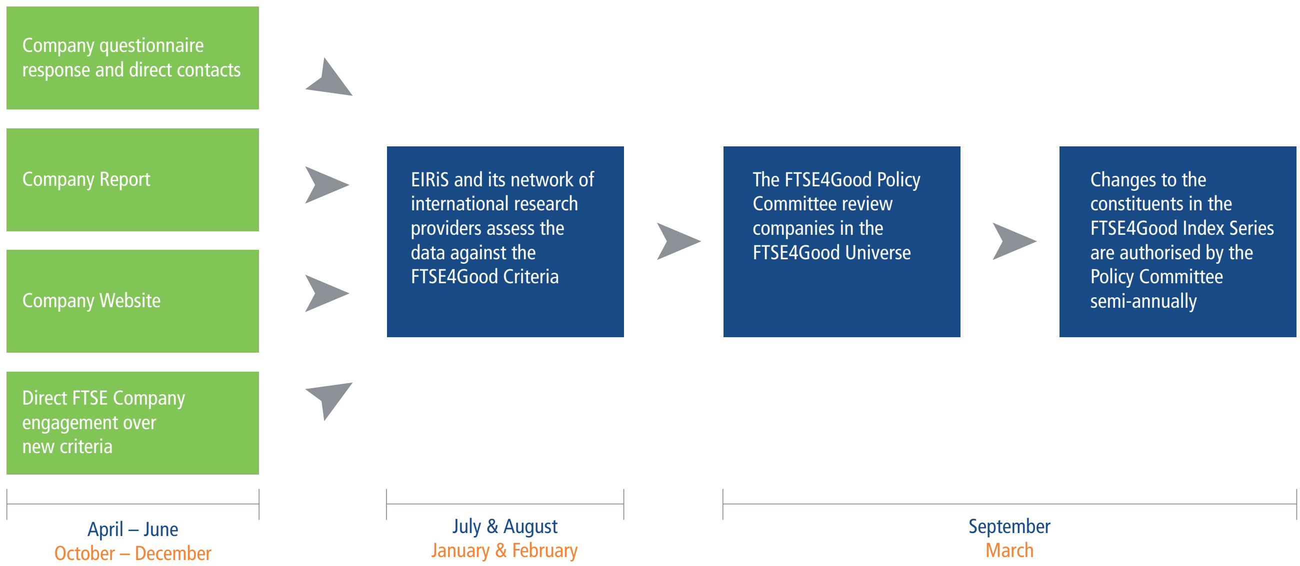
1.2 Index Research and Governance

EIRIS AND ECODES RESEARCH

All eligible companies are assessed against the FTSE4Good IBEX inclusion criteria by our research provider, the Ethical Investment Research Service (EIRIS) and their Spanish research partner Ecodes (Fundacion Ecologia y Desarrollo). The research is primarily based on publicly available information such as company websites and Annual/CSR reports, with additional questionnaires and company profiles sent for further clarification.

THE FTSE4GOOD POLICY COMMITTEE

The index is reviewed in March and September and is overseen by the independent FTSE4Good Policy Committee. The Committee is made up of corporate responsibility and responsible investment experts and practitioners from around the world (including Spanish representation).



CRITERIA DEVELOPMENT

The FTSE4Good IBEX Index will feature the same set of corporate responsibility inclusion criteria that is used for the existing FTSE4Good Series. The inclusion criteria are regularly revised and enhanced to reflect the latest trends in corporate responsibility practice and responsible investment as they evolve. Overseen and approved by an independent committee of experts, a broad range of stakeholders help shape the criteria, including companies, investors, NGOs, governmental bodies, consultants and academics. The inclusion criteria are designed to reflect a broad consensus on what constitutes good corporate responsibility practice.

COMPANY ENGAGEMENT

Companies wishing to be added to the FTSE4Good IBEX Index will need to meet all of the existing criteria to gain inclusion. Companies already in the FTSE4Good IBEX Index will be given a timetable for the implementation of new criteria to allow FTSE's Responsible Investment Unit (RIU) to engage directly with each affected company. The goal of the FTSE4Good engagement program is to help companies already included in the index understand the improvements they need to make and by when in order to maintain inclusion, and to provide guidance and support in meeting the criteria.

1.3 Index Development and Roadmap of Future Criteria

ROADMAP OF CRITERIA REQUIREMENTS FOR COMPANIES IN FTSE4GOOD IBEX

Certain criteria will be phased in over time with FTSE4Good IBEX constituent companies. In particular, the small cap companies (see below for definition) will be given additional time to meet the full environmental inclusion requirements. Additionally, the newest FTSE4Good criteria have not yet been fully rolled out in the existing global index series, so phased implementation of these criteria will also take place for FTSE4Good IBEX (with longer deadlines for small cap companies). Please see the table below for the "roadmap" of future criteria requirements for companies included in FTSE4Good IBEX.

INCLUSION CRITERIA	SMALL CAP COMPANIES	LARGE AND MID CAP COMPANIES
Environment	Implementation of full criteria in future is required to stay in FTSE4Good IBEX	Implementation of full criteria already complete
New Criteria • Climate Change • Human & Labour Rights*	Implementation of full criteria in future is required to stay in FTSE4Good IBEX (given more time than Large/Mid caps)	Implementation of full criteria in future is required to stay in FTSE4Good IBEX

*NB: new criteria are for "low risk" companies only; high and medium risk companies had existing criteria requirements (see Section 3 for details).

Further explanation is below and complete details of the FTSE4Good IBEX environmental and social inclusion requirements follow in Section 2 and Section 3.

SMALL CAP COMPANIES

The launch of FTSE4Good IBEX presents small capitalisation companies (small caps) with a first opportunity to be included in the FTSE4Good Index Series. Because this is the first time that small caps have been exposed to the FTSE4Good inclusion criteria, these companies will be given additional time from launch of the index to meet the full requirements. Small cap companies will be defined as: eligible companies that are classified as small cap in the FTSE Spain All-Cap Index (i.e. not large or mid cap), and are not included in the IBEX 35.

Small cap companies have the same criteria requirements as the large and mid cap companies, but will be given more time to meet the Environmental criteria. Over time these companies will need to meet the criteria in full. Section 2.1 includes full details on the implementation of the Environmental criteria for all FTSE4Good IBEX companies.

LARGE AND MID CAP COMPANIES

Companies that are classified as large or mid cap in the FTSE Spain All-Cap Index have been eligible for the existing FTSE4Good European and Global indices. Therefore no adjustments to the inclusion requirements for these companies have been made.

NEW CRITERIA AND IMPLEMENTATION TIMELINES

As described in Section 1.2, the FTSE4Good inclusion criteria are regularly enhanced to reflect the latest trends in corporate responsibility practice and responsible investment. New criteria will be introduced to the FTSE4Good IBEX Index in line with the rest of the FTSE4Good Series except for small cap companies, which will receive a delayed timeline for implementation (similar to the Environmental criteria).

The newest FTSE4Good inclusion criteria are for Climate Change, which were introduced to the existing FTSE4Good Series in March 2007 and Human & Labour Rights, which were introduced in March 2008. Sections 2.2 and 3.1 respectively include full details on the implementation of these criteria for all FTSE4Good IBEX companies.

2.1 Environmental Management Criteria

ENVIRONMENTAL MANAGEMENT IMPACT CATEGORIES

All companies are classified as high, medium or low impact based on sector classification and business activities. The criteria requirements are risk-relative; meaning companies with higher environmental impacts will need to do more to meet the criteria.

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 * 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

* Financial Services companies with significant equity holdings or providing commercial loans are classified as medium impact. These companies can meet the Environmental Management Systems (EMS) part of the criteria through their approach to environmental considerations in investments/lending. (See criteria requirements for details)

SMALL CAP ENVIRONMENTAL REQUIREMENTS TIMETABLE

As highlighted in Section 1.3, small cap companies will be given a phased timeline for the implementation of the full FTSE4Good IBEX Index Environmental management criteria (see table).

ENVIRONMENTAL IMPACT	2008	2009	2010
High	Meet two of: Policy, Management Systems, or Reporting	Meet in full (March): Policy, Management Systems, and Reporting	–
Medium	Meet one of: Policy or Management Systems	Meet in full (September): Policy and Management Systems	–
Low	No requirements yet	No requirements yet	Meet in full (March): Policy

2. Environment

2.1 Environmental Management Criteria (continued)

ENVIRONMENTAL MANAGEMENT CRITERIA REQUIREMENTS

	HIGH IMPACT COMPANIES	MEDIUM IMPACT COMPANIES	LOW IMPACT COMPANIES
POLICY	Policy must be publicly available, cover the whole group and meet either: • all five core indicators plus one desirable indicator • four core plus two desirable indicators	Policy must be publicly available, cover the whole group and meet four indicators, three of which must be core. *	Policy must be publicly available, cover the whole group and meet one indicator.
POLICY	Core Indicators • 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	Desirable Indicators • Globally applicable corporate standards • Commitment to stakeholder involvement • Policy addresses product or service impact • Strategic moves towards sustainability	
MANAGEMENT SYSTEMS	If environmental management systems (EMS) covers between one and two-thirds of company activities, all six indicators must be met, and targets must be quantified. If EMS covers 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. Companies with ISO certification and EMAS registrations are considered to meet all six indicators.	EMS must cover one third of the company and meet four indicators. 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. *	No requirement.
MANAGEMENT SYSTEMS	Indicators • 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		
REPORTING	The Report must have been published within the last three years, cover the whole group, and meet three core indicators. Reports which do not cover the whole group must meet all four indicators. or Three core indicators together with two desirable indicators.	No requirement.	No requirement.
REPORTING	Core Indicators • Text of environmental policy • Description of main impacts • Quantitative data • Performance measured against targets	Desirable Indicators • Outline of an EMS • Non-compliance, prosecution, fines, accidents • Financial dimensions • Independent verification • Stakeholder dialogue • Coverage of sustainability issues	

* Financial service companies classified as medium impact may take an alternative route to meet the management systems component of the criteria through their approach to environmental considerations in investment/lending. This can be through meeting one of the following (not all below will be relevant for different types of financial services companies):

- Significant 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

2.2 Climate Change Criteria

CRITERIA SUMMARY

The impact of climate change is likely to have an increasing influence on the global environment, society and on the economic value of companies. As a result, investors, governments and wider society expect companies to take responsibility for identifying and reducing their climate change impacts. Consequently there will also be opportunities for companies to capitalise on related business opportunities.

These criteria are not yet set at a level compatible with the substantial emissions reductions expected to be necessary to stabilise atmospheric GHG concentrations at a sustainable level. Instead, this reflects what is currently possible for leading companies within the current regulatory and business environment. In future, as governments' policies, international frameworks and corporate responses mature, the criteria will become more congruent with the demands of long-term sustainability.

COMPANIES THAT NEED TO MEET THE CRITERIA

All companies have some level of associated greenhouse gas (GHG) emissions. However, these FTSE4Good criteria initially prioritise companies in those industries with the highest levels of associated emissions, and thus the greatest need to address this issue. Therefore companies have been classified into high or medium operational impact according to the approximate magnitude of their operational GHG emissions.

Within the medium impact subsectors, some may be considered to have higher operational climate impacts than the others and will be considered for re-categorisation to high impact at a later date. In addition, a number of companies have been identified as having a particularly high product-related impact, and these companies will be required to meet specific additional criteria to address their product impacts.

CLIMATE CHANGE IMPACT CATEGORIES

	HIGH OPERATIONAL IMPACT	MEDIUM OPERATIONAL IMPACT	
ADDITIONAL HIGH PRODUCT IMPACT	• Exploration & Production † • Integrated Oil & Gas † • Coal †	• Aerospace † • Automobiles †	
SECTORS & SUBSECTORS (FROM ICB)[2]	• Diamonds & Gemstones • General Mining • Gold Mining • Platinum & Precious Metals • Commodity Chemicals • Aluminium • Nonferrous Metals • Steel • Building Materials & Fixtures • Airlines • Electricity • Delivery Services	• Specialty Chemicals* • Paper* • Heavy Construction* • Defence • Commercial Vehicles & Trucks Trucking • Waste & Disposal Services • Tires	• Brewers* • Distillers & Vintners* • Soft Drinks* • Farming & Fishing* • Food Products * • Home Construction • Pharmaceuticals • Travel & Tourism • Multiutilities • Water

* Sectors to be reviewed at a later date for consideration or re-categorisation to high impact.
† Subsectors that have been identified as having additional high product impact

IMPLEMENTATION TIMETABLE

As highlighted in Section 1.3, the Climate Change criteria were introduced in March 2007 and are still being rolled-out with existing FTSE4Good constituents (i.e. Large and Mid cap companies). Small cap companies that are classified as high-risk for these criteria will be given a additional time to meet the full requirements (see table).

LARGE/MID CAP COMPANIES	1st Jan 2008	1st July 2008	1st Jan 2009	1st July 2009
Policy & Governance and Disclosure	H	M (Policy or Disclosure)		
Management & Strategy or Performance		H	M (Policy and Disclosure)	
Performance			H	
Product				H
SMALL CAP COMPANIES	**1st Jan 2009**	**1st July 2009**	**1st Jan 2010**	**1st July 2010**
Policy & Governance and Disclosure	H	M (Policy or Disclosure)		
Management & Strategy or Performance		H	M (Policy and Disclosure)	
Performance			H	
Product				H

2 Sector categorisation is primarily based on the ICB (FTSE and Dow Jones Industry Classification Benchmark) classification; http://www.icbenchmark.com/. In certain cases, a company may be involved in a diverse range of business activities. In such cases, companies will be assessed by EIRIS for business related activities to identify additional companies that should be categorised as high-risk companies.

2.2 Climate Change Criteria (continued)

	HIGH OPERATIONAL IMPACT	MEDIUM OPERATIONAL IMPACT	ADDITIONAL HIGH PRODUCT IMPACT
POLICY & GOVERNANCE	• Board level or senior executive responsibility for climate change related issues (individual or committee). • Public statement/policy identifying climate change as relevant to business activities and the need to address climate change as a key concern*.	• Board level or senior executive responsibility for climate change related issues (individual or committee). • Public statement/policy identifying climate change or energy consumption as relevant to business activities and the need to address climate change as a key concern*.	• Responsibility: No additional requirement. • Public statement/ policy should also include a commitment to reduce product related emissions or climate change impact.
MANAGEMENT & STRATEGY	At least **one** of these must be met (unless the company meets the performance requirements): • Long-term strategic goal of significant quantified reductions of operational GHG emissions or carbon intensity improvement over more than five years, which should be publicly available. • Short/medium-term management targets for quantified GHG operational emissions reduction over less than five years.	No requirements yet: Criteria for medium impact companies are initially focused on disclosure rather than management.	No requirements yet: For companies with product-related emissions reduction targets are currently regarded as impractical so commitment is established separately in policy.
DISCLOSURE	Public disclosure of **both** the following: • Total operational CO_2 or GHG emissions as tonnes of CO_2 equivalent. • Sector metric where established as an industry norm. For example, for cement companies, kg CO_2 per tonne of cement or efficiency ratio.	Public disclosure of **one** of the following: • Total operational CO_2 or GHG emissions as tonnes of CO_2 equivalent or operational energy consumption. • Sector metric where established as an industry norm. e.g. $kgCO_2$ /t cement or efficiency ratio.	Public disclosure of product related emissions/efficiency. This will vary for different sectors: • Oil & Gas: end user emissions. • Coal mining: end user emissions. • Automobiles: fuel efficiency. • Aerospace: fuel efficiency.
PERFORMANCE	At least **one** of the following must be met: • Route A: At least a 5% reduction in carbon intensity over the last two years. • Route B: The Company is able to demonstrate that for the previous two years it has been in the top quartile of companies in its sub-sector when assessed on accepted carbon efficiency metrics. • Route C: A Transformational Initiative[3] or a combination, providing they are quantified and significant.	No requirements yet: As the understanding of how to measure performance increases, performance requirements will be introduced for medium impact companies.	Automobile and Aerospace companies must meet **one** of the following: • Emissions Reductions: Fuel efficiency improvements above average for subsector. • Eco-efficiency Metrics: Above average fuel efficiency relative to subsector peers. • A Transformational Initiative3 to reduce product emissions. NB: Oil & Gas and Mining: no further "product" requirement at this time, but still need to meet performance criteria for their operational impact.

* These criteria recognise that companies have a valid and important role to play in the development of effective and appropriate regulation, and companies are encouraged to play a constructive part in the public policy process. However, the assessment of a company against these FTSE4Good criteria may take into account any credible evidence that a company has deliberately and consistently misrepresented the scientific consensus on climate change (as represented by the IPCC reports), or attempted to undermine public policy frameworks that aim to reduce greenhouse gas emissions (including, but not limited to, those regarding mandatory emission reductions).

3 A transformational initiative is a strategic initiative that makes a significant contribution to the reduction of GHG emissions. FTSE will consult a panel of climate change experts and industry sector data will be assessed to identify significance levels. Example categories include buying 'low carbon electricity' and fuel switching; demand side management; research, development and production of low carbon technologies; generation of renewable energy; product/service innovation; carbon capture and storage; supply chain/upstream emissions reductions; new business models; breakthrough project.

3.1 Human Rights Criteria

CRITERIA SUMMARY

All companies are classified as having high, medium or low impact, based on sector classification and location of operations. The criteria requirements are risk-relative, meaning companies with higher human & labour rights impacts will need to do more to meet the criteria.

HUMAN & LABOUR RIGHTS CRITERIA IMPACT CATEGORIES

HIGH IMPACT (GLOBAL RESOURCE SECTOR)	MEDIUM IMPACT (SIGNIFICANT INVOLVEMENT IN COUNTRIES OF CONCERN)	LOW IMPACT (ALL OTHERS)
The group of companies identified as potentially having the highest human rights risks are those found in the Global Resource Sector. This refers to the oil, gas and mining companies with global upstream operations. [4] • 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 from any sector with significant involvement in countries with the greatest human rights concern are required to meet the medium impact human rights criteria. • 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 incorporated associates • Countries of concern – the full list is below. It is reviewed periodically by EIRIS using a variety of sources including the Freedom House List of 'not free' countries and annual reports from Human Rights Watch and Amnesty International. In addition, all companies with significant abattoir or intensive-farming operations need to meet the medium impact human rights criteria requirements.	All companies not identified as high or medium impact will be required to meet the low impact human rights criteria.

LIST OF COUNTRIES OF CONCERN ADOPTED SEPTEMBER 2007 BY THE FTSE4GOOD POLICY COMMITTEE		
Afghanistan	Egypt	Russia
Algeria	Eritrea	Rwanda
Angola	Ethiopia	Saudi Arabia
Azerbaijan (with Nagorno-Karabakh)	Equatorial Guinea	Somalia
Belarus	Haiti	Sudan
Burma	Iran	Swaziland
Burundi	Iraq	Syria
Cameroon	Laos	Togo
Chad	Lebanon	Turkmenistan
China (except for Hong Kong and Taiwan)	Libya	Uganda
Colombia	Nepal	Uzbekistan
Congo (Democratic Republic of)	Nigeria	Vietnam
Cote d'Ivoire	North Korea	Zimbabwe
Cuba	Pakistan (with Kashmir)	

SMALL CAP LOW IMPACT HUMAN & LABOUR RIGHTS INTRODUCTION TIMETABLE

As highlighted in Section 1.3, the Human & Labour Rights criteria for low impact companies were introduced in March 2008. All of the existing FTSE4Good constituents (i.e. Large and Mid cap companies) in FTSE4Good IBEX already meet these new requirements. Small cap companies will be given until the September 2009 review to meet the full low impact Human & Labour Rights criteria.

4 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 been categorised as medium impact.

3. Social

3.1 Human Rights Criteria (continued)

HUMAN RIGHTS CRITERIA REQUIREMENTS

	HIGH IMPACT COMPANIES (GLOBAL RESOURCE SECTOR)	MEDIUM IMPACT COMPANIES (SIGNIFICANT INVOLVEMENT IN COUNTRIES OF CONCERN)	LOW IMPACT COMPANIES
	Companies must meet the relevant indicators for policy, management systems and reporting	Companies must meet the relevant indicators for policy and management systems	Companies must meet one of following indicators in policy or management systems
POLICY	The policy must be publicly available and cover the following indicators:	The policy must be publicly available and cover the following indicators:	The policy must be publicly available and cover the following indicator:
POLICY	• Meet the following: A statement of commitment to respect all the ILO Core Labour Standards globally: - Non discrimination - Forced labour - Child labour - Collective bargaining and freedom of association Note: Companies that are signatories to the UN Global Compact/OECD Guidelines for Multinational Enterprises, or are certified to the SA 8000 standard will be considered to meet this indicator • Board Responsibility for human rights issues • Statement of support for the Universal Declaration of Human Rights (UDHR) • Global Communication of human rights policy including in local languages • Guidelines on armed security guards • Indigenous people rights, including land rights	• Meet the following: A statement of commitment to respect all the ILO Core Labour Standards globally: - Non discrimination - Forced labour - Child labour - Collective bargaining and freedom of association Note: Companies that are signatories to the UN Global Compact/OECD Guidelines for Multinational Enterprises, or are certified to the SA 8000 standard will be considered to meet this indicator • **One** of the following: - Board Responsibility for human rights issues - Statement of support for the Universal Declaration of Human Rights (UDHR) - Global Communication of human rights policy including in local languages	• Demonstrate commitment to the ILO Core Convention on Equality/Discrimination: by adopting an equal opportunities policy and/or including a commitment to equal opportunities or diversity in their annual report or web-site
MANAGEMENT SYSTEMS	The company must provide evidence that meets **all** of the following four indicators:	The company must provide evidence that meets **at least two** of the following indicators:	The company must provide evidence that meets the following indicators:
MANAGEMENT SYSTEMS	• Monitoring the implementation of its human rights policy including the existence of procedures to remedy any non-compliance • Global training on human rights policy • Human rights consultation with independent local stakeholders • Identification of human rights risks and integration into risk assessment procedures	• Monitoring the implementation of its human rights policy including the existence of procedures to remedy any non-compliance • Global training on human rights policy • Human rights consultation with independent local stakeholders • Identification of human rights risks and integration into risk assessment procedures	• Demonstrate commitment to the ILO Core Convention on Equality/Discrimination through Equal Opportunities Systems consisting of one or more of: - Monitoring of the policy and workforce composition - Flexible working arrangements and family benefits (meaning at least three of 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 • Employee Relations: - 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	In addition to a publicly available policy, details and/or descriptions of the management systems must also be disclosed.	No requirement.	No requirement.

3.2 Supply Chain Labour Standards Criteria

CRITERIA SUMMARY

Based on the general consensus that worker's rights are universal, the FTSE4Good Supply Chain Labour Standards criteria are based primarily on the International Labour Organization (ILO) Core Labour Standards.[5] 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).

Although research shows that labour standards are of greatest concern beyond the first-tier suppliers, the FTSE4Good Supply Chain Labour Standards Criteria are currently only applicable to the management of suppliers with whom they have a direct commercial relationship (first-tier suppliers)[6].

COMPANIES THAT NEED TO MEET THE CRITERIA

Some companies are exposed to higher levels of supply chain risk owing to the nature of their business. To reflect this, these criteria are applicable initially to companies with the highest risk of exposure. High risk companies are identified by measuring the revenue generated by high risk products in high risk countries.

SUPPLY CHAIN LABOUR STANDARDS CRITERIA IMPACT CATEGORIES

ALL THREE FILTERS MUST APPLY TO EACH COMPANY BEFORE THEY ARE DESIGNATED 'HIGH RISK'	
Products	Companies are considered to be exposed to the highest supply chain labour risks if their activities depend significantly on the sourcing or selling/retailing of one of the following products from farms or factories*: • Agricultural Crops, namely: cane sugar, coffee, tea, cocoa, tropical fruit, fresh vegetables, flowers. • Consumer Products: Apparel (clothing, accessories, footwear) and toys.
Countries	Companies sourcing from, or operating in, countries that are deemed to have the weakest labour standards, are considered to be high risk. These are companies sourcing from countries other than those classified by the World Bank as High Income OECD countries. (Details of non-high risk countries are listed below)
Exposure	The criteria apply to companies which have a significant level of revenue from high-risk products sourced from high-risk countries 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.

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

NON-HIGH RISK COUNTRIES FOR SUPPLY CHAIN LABOUR STANDARDS
Companies defined by the World Bank Country Classification as High Income and Other High Income / Middle Income Countries as of 1st September 2004 (http://www.worldbank.org/data/countryclass/classgroups.htm) are listed in the 'non-high risk countries' below. 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.

5 This is summarised in its Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy: 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.

6 FTSE recognises that for some industries first tier suppliers (commonly importers, agents and wholesalers) may be removed from potential problems at the 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 further 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 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.

3.2 Supply Chain Labour Standards Criteria (continued)

SUPPLY CHAIN LABOUR STANDARDS CRITERIA REQUIREMENTS

POLICY	The policy/code must be publicly available, specifically relevant to suppliers and meet all the following indicators:
	• ILO Core Labour Standards – - Equal Opportunities - Forced Labour - Child Labour - Freedom of Association & Collective Bargaining Note: 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 meet this indicator • Health & Safety • **One** of the following areas must be covered: -Working hours -Wages -Disciplinary procedures
MANAGEMENT	The company must meet **all** the following indicators:
	• Visiting/auditing of some suppliers (e.g. some risk assessment to identify the highest priority suppliers/products/countries and some substantial supplier visits or audits) • Policy is 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[7]
REPORTING	The company must produce a report (or other form of communication) that is publicly available and covers both policy and management systems

3.3 Countering Bribery Criteria

CRITERIA SUMMARY

The FTSE4Good Criteria for countering bribery are based largely on the Transparency International Business Principles for Countering Bribery.[8] 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.[9]

COMPANIES THAT NEED TO MEET THE 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 intention to require all companies to address bribery in the future.

The 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. A company involved in high risk business sectors and countries with a public contract are identified as being high risk overall in the area of bribery.

7 Where there is significant and credible controversy/allegation that a company's supplier has breached the ILO Core convention areas, the company must have taken visible, demonstrable or quantifiable measures or steps to prove it has investigated these allegations effectively.

8 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. Other key initiatives such as 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 have also been taken into consideration.

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

COUNTERING BRIBERY CRITERIA IMPACT CATEGORIES

ALL THREE FILTERS MUST APPLY TO EACH COMPANY BEFORE THEY ARE DESIGNATED 'HIGH RISK'	
Sectors	Companies in the following sectors are considered more likely to have the highest levels of exposure to risk of engaging in bribery.[10] Oil & Gas Producers; Oil Equipment, Services, & Distribution; Chemicals; Industrial Metals; Mining; Construction & Materials; Aerospace & Defence; 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 high risk countries please see page 13
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.

HIGH RISK COUNTRY LIST

The following countries are classified as high risk, and this list will be reviewed periodically.

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

COUNTERING BRIBERY CRITERIA REQUIREMENTS

POLICY	The policy/code is available and covers the following indicators:
	•Prohibits giving and receiving bribes;[11] • Commits to obeying all relevant laws; • Commits to restricting and controlling facilitation payments; • Commits to restricting giving and receiving gifts; • Policy is publicly available.
MANAGEMENT	The company must provide evidence that meets the following indicators:
	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. [12]
REPORTING	• Policy is publicly disclosed; • Compliance mechanisms are publicly disclosed.

10 Sector categorisation is primarily based on the ICB (FTSE and Dow Jones Industry Classification Benchmark) classification; http://www.icbenchmark.com/. In certain cases, a company may be involved in a diverse range of business activities. In such cases, companies will be assessed by EIRIS for business related activities to identify additional companies that should be categorised as high-risk companies.
11 Companies that are signatories to the UN Global Compact may be considered committed to this criteria indicator.
12 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

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