

STANDARD
& POOR'S

S&P/BUSINESSWEEK
GLOBAL INNOVATION INDEX
INDEX METHODOLOGY

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Introduction

Innovation has always been a key characteristic of successful companies. Whether in developing new products, improving production techniques or developing new and unique marketing strategies, companies that have been innovative have often outperformed their competitors.

The S&P/BusinessWeek Global Innovation Index is comprised of innovative companies from around the world. The index is based on *The Most Innovative Companies Rankings*, an annual report prepared by BusinessWeek¹ in partnership with The Boston Consulting Group.

The list of the Most Innovative Companies is derived from an innovation survey conducted annually. The 1,500 largest companies in the world, as measured by market capitalization, are included in the survey. The survey is directed towards the ten highest-ranking executives in charge of innovation at each company. Along with several general questions regarding innovation, respondents are asked to name the most innovative company outside their industry. Companies are ranked by the number of votes they receive.

Highlights

- The S&P/BusinessWeek Global Innovation Index consists of 25 of the most innovative listed companies in the world as determined by the BusinessWeek annual innovation survey.
- The index can include any stock trading on a major exchange in a developed market.
- To be eligible for the index a stock must have a minimum float-adjusted market capitalization of US\$ 500 million and a minimum average daily value traded of US\$ 3 million.
- Each company's weight in the index is based on a combination of two rankings – (1) each company's ranking in the BusinessWeek survey and (2) a quantitative ranking based on fundamental factors used to estimate innovation.

¹ Founded in 1929 and published by the McGraw-Hill Companies, BusinessWeek magazine is the market leader, with more than 4.7 million readers each week in 140 countries. Local language editions include Chinese, Russian, and Bahasa Indonesian. Launched in 1994, BusinessWeek.com is the preeminent provider of daily, essential business news, information, and services to business decision-makers. Reaching 85% of the nation's households, BusinessWeek Weekend delivers important business, consumer and financial news to television viewers every week.

Index Family

The S&P/BusinessWeek Global Innovation Index belongs to the S&P Global Thematic Indices. This series offers liquid exposure to emerging investment themes. Other indices in this series are the S&P Global Alternative Energy Index, the S&P Global Clean Energy Index, the S&P Global Eco Index, the S&P Global Infrastructure Index, the S&P Global Nuclear Energy Index, the S&P Global Timber & Forestry Index and the S&P Global Water Index

S&P Global Alternative Energy Index. Designed to measure investable opportunities in the complete alternative energy space, the S&P Global Alternative Energy Index is the combination of the S&P Global Clean Energy Index and the S&P Global Nuclear Index, both defined below.

S&P Global Clean Energy Index. The S&P Global Clean Energy Index is comprised of 30 of the largest publicly traded companies in clean energy related businesses that meet specific investability requirements. The index is designed to provide liquid exposure to the leading publicly listed companies in the global clean energy business, from both developed markets and emerging markets.

S&P Global Eco Index. The S&P Global Eco Index is comprised of 30 of the largest publicly listed companies in ecology-related industries that meet specific investability requirements. The index is designed to provide liquid exposure to the leading publicly listed companies in these industries.

S&P Global Infrastructure Index. The S&P Global Infrastructure Index is comprised of 75 of the largest publicly listed infrastructure companies that meet specific investability requirements. The index is designed to provide liquid exposure to the leading publicly listed companies in the global infrastructure industry, from both developed markets and emerging markets.

S&P Global Nuclear Energy Index. The S&P Global Nuclear Energy Index is comprised of 20 of the largest publicly traded companies in nuclear energy related businesses that meet investability requirements. The index is designed to provide liquid exposure to the leading publicly listed companies in the global nuclear energy business from both developed markets and emerging markets.

S&P Global Timber & Forestry Index. The S&P Global Timber & Forestry Index is comprised of 25 of the largest publicly traded companies engaged in the ownership, management or the upstream supply chain of forests and timberlands.

S&P Global Water Index. The S&P Global Water Index is comprised of 50 of the largest publicly traded companies in water-related businesses that meet specific investability requirements. The index is designed to provide liquid exposure to the leading publicly listed companies in the global water industry, from both developed markets and emerging markets.

For more information on any of these indices, please refer to their methodology documents.

Eligibility Criteria

Index Eligibility

To be eligible for the index a company must be publicly listed and appear on the BusinessWeek annual list of the World's Most Innovative Companies. The 25 highest ranked companies that meet the eligibility requirements below are included in the index.

Eligibility Factors

Market Capitalization. All companies must have at least US\$ 500 million in float-adjusted market capitalization, defined at the share class level, as of the data reference date prior to the annual index reconstitution.

Liquidity. All index constituents must have a minimum average daily value traded of US\$ 3 million for the preceding 6 months, as of the data reference date prior to the annual index reconstitution.

Domicile. Companies domiciled in a developed market country and trading on a major developed market exchange are eligible. Emerging market companies are eligible if they have an ADR or GDR listed on a major developed market exchange.

Timing of Changes

The index is rebalanced once a year in April. The annual rebalancing of the index is effective after the market close of the last trading date in April. The reference date for the data used in the review is the last trading date of the prior March. New constituents and index shares are made available to clients with a one-week notice.

Additions. No companies are added between rebalancings.

Deletions. Between rebalancing periods, a company may be deleted from the S&P/BusinessWeek Global Innovation Index due to corporate events such as mergers, acquisitions, takeovers or delistings.

Index Construction

Approaches

The S&P/BusinessWeek Global Innovation Index is calculated by means of the divisor methodology used in most Standard & Poor's equity indices. The index uses a weight scheme based on a combination of two sets of ratings -- one based on the BusinessWeek/BCG annual survey and one based on quantitative factors.

There are two steps in the creation of the S&P/BusinessWeek Global Innovation Index. The first is the selection of the companies; the second is the weighting of the index constituents.

Constituent Selection

All companies appearing on the BusinessWeek list of the World's Most Innovative Companies comprise the initial selection universe. Companies which do not meet the eligibility requirements listed in the prior section are excluded. The remaining companies are sorted based on their ranking in the BusinessWeek survey and assigned a survey rank, with the top 25 ranking companies being chosen for the index.

Constituent Weightings

At each rebalancing, the weight for each index constituent is set in the following manner:

1. **Qualitative Score** - Each company maintains its survey ranking from the company selection process with the top ranked company given a score of 25, the next ranked company given a score of 24, and so forth.
2. **Quantitative Score** - Each company is assigned a quantitative ranking based on three factors – three-year earnings growth, three-year sales growth and research and development as a percentage of sales. Raw values for each factor are calculated for each company in the index. These values are standardized, by dividing the difference between each stock's raw score and the mean of the entire set by the standard deviation of the entire set. The three standardized values are summed and companies are ranked in descending order. The top ranked company is given a score of 25; the next ranked company is given a score of 24, and so forth.
3. **Composite Score** - A composite score is calculated for each company by summing the qualitative score and the quantitative score.
4. Each company's weight in the index is initially set to its composite score divided by the sum of all composite scores.

5. Every stock is given an initial Adjustment Factor (AF) of 1. The Maximum Company Weight (MW) and Maximum Sector Weight (SW) are set to 10% and 30%, respectively.

6. The weight for each stock in the index is calculated as follows:

$$W_i = \frac{AF_i * Score_i}{\sum_{i=1}^N (Score)_i * (AF)_i}$$

$$W_s = \sum W_i \text{ for all companies within GICS® sector S.}$$

$$N = \text{Number of constituents}$$

7. The adjustment factor for each stock is modified as follows:

If $W_i \geq MW$

Then $AF_i = AF_{i, previous} * 0.9$

Else $AF_i = AF_{i, previous}$

8. The adjustment factor for the Maximum Sector Weight is modified as follows:

$W_s \geq SW$

Then $AF_i = AF_{i, previous} * 0.9$, for every stock i in sector S

Else $AF_i = AF_{i, previous}$

9. If, for every stock, $W_i < MW$ and $W_s < SW$ then the process is complete and the weights derived in step 6 are used. If not, steps 6, 7 and 8 are repeated until all stocks meet the weight and liquidity requirements. (Note: No further adjustments are made for stocks which have $AF=0.1$.)

Index Calculations

The index is calculated by means of the divisor methodology used in Standard & Poor's equity indices. The index value is simply the index market value divided by the index divisor:

$$Index Value = \frac{Index Market Value}{Index Divisor} \quad (1)$$

$$Index Market Value = \sum_{i=1}^N (Index Shares)_i * (Price)_i \quad (2)$$

Index Shares are set at the time of rebalancing in the following manner such that for the i^{th} constituent:

$$Index Shares_i = \frac{(1000000 * W_i)}{Price_{rebalancing day close, i}} \quad (3)$$

where W_i is the weight for the i^{th} constituent at the rebalancing as described in the previous section, and $Price_{rebalancing day close, i}$ is its price at the close of the rebalancing date.

In order to maintain basket series continuity, it is also necessary to adjust the divisor at the rebalancing.

Therefore,

$$\begin{aligned} (\textit{Divisor})_{\textit{after rebalancing}} &= \\ & \frac{(\textit{Index Market Value})_{\textit{after rebalancing}}}{(\textit{Index Value})_{\textit{before rebalancing}}} \end{aligned} \quad (4)$$

Index Maintenance

Rebalancing

The index is rebalanced annually in April. The rebalancing of the index is effective after the market close of the last trading date in April. The data reference date is the last business day of the prior March. New constituents and index weights are made available to clients with a one-week notice.

Base Date

The base value of the S&P/BusinessWeek Global Innovation Index is 1000 on May 20, 2005. Index history begins on May 20, 2005. Daily price returns and total returns are available starting from that date.

Corporate Actions

Corporate Action	Adjustment Made to Index	Divisor Adjustment
Spin-Off	No weight change. The price is adjusted to the Price of the Parent Company minus (the Price of the Spin-off company/Share Exchange Ratio). Index Shares change so that the company's weight remains the same as its weight before the spin-off.	No
Rights Offering	The price is adjusted to the Price before the rights issuance minus (the Price of the Rights Offering/Rights Ratio). Index Shares change so that the company's weight remains the same as its weight before the rights offering.	No
Stock Split	Index Shares are multiplied by and the price is divided by the split factor.	No
Share Issuance or Reduction	None	No
Special Dividends	The price of the stock making the special dividend payment is reduced by the per-share special dividend amount after the close of trading on the day before the ex-date.	Yes
Delisting	The stock is removed. No replacements are made.	Yes
Merger or acquisition	If the surviving company is already an index member, it is retained in the index. If the surviving company does not belong to one of the eligible countries as required in the criteria, it is removed.	Yes, if there is a removal.

Exchange Rate

WM/Reuters foreign exchange rates are taken daily at 4:00 PM Greenwich Mean Time (GMT) and used in the calculation of the US\$ and Euro indices. These mid-market fixings are calculated by The WM Company based on Reuters data and appear on Reuters pages WMRA.

Index Data

Total Return Indices

The basket has a total return counterpart, which assumes dividends are reinvested in the basket after the close on the ex-date. On any given date t ,

$$\text{Total Return Multiplier}_t = \frac{[\text{Index Value}_t + \text{Index Dividend Points}_t]}{\text{Index Value}_{t-1}} \quad (6)$$

$$\text{Total Return Index Value}_t = (\text{Total Return Index Value}_{t-1}) * (\text{Total Return Multiplier}) \quad (7)$$

$$\text{Index Dividend Points}_t = \sum_{i=1}^N (\text{Index Shares})_{i,t} * (\text{Ex - dividends})_{i,t} / \text{Index Divisor}_t \quad (8)$$

Index Dividend Points are zero on those dates in which no basket constituents are going ex-dividends, while on other dates it is a positive number. Therefore, returns calculated from Total Return Index Value will always be greater than or equal to the Index Value.

Index Governance

Index Committee

An Index Committee maintains the S&P Global Thematic index series. The Index Committee members are all full-time professional members of Standard & Poor's staff. The Index Committee meets as needed. At each meeting, the Index Committee reviews pending corporate actions that may affect index constituents, statistics comparing the composition of the indices to the market, and any significant market events. In addition, the Index Committee may revise index policy covering rules for selecting companies, share counts, the liquidity threshold, the market capitalization threshold, or other matters.

Standard & Poor's considers information about changes to its indices and related matters to be potentially market moving and material. Therefore, all Index Committee discussions are confidential.

Index Policy

Announcements

Index rebalancing announcements are made at 05:15 PM Eastern Time five business days before the effective date on the Web site at www.indices.standardandpoors.com.

No separate announcements are made for routine corporate actions whose index implications are discussed in this document. If required, special or unusual events may warrant a posting on the aforementioned Web site.

Holiday Schedule

The index is calculated daily, throughout the calendar year. The only days the index is not calculated are on days when all exchanges where the S&P/BusinessWeek Global Innovation Index constituents are listed are officially closed or if WM Reuters' exchange rates services are not published.

A complete holiday schedule for the year is available on Standard & Poor's Web site at www.indices.standardandpoors.com.

Unscheduled Market Closures

In situations where an exchange is forced to close early due to unforeseen events, such as computer or electric power failures, weather conditions or other events, Standard & Poor's will calculate the closing price of the indices based on (1) the closing prices published by the exchange, or (2) if no closing price is available, the last regular trade reported for each stock before the exchange closed. In all cases, the prices will be from the exchange listing included in the index. If an exchange fails to open due to unforeseen circumstances, the index will use the prior day's closing prices. If all exchanges fail to open, Standard & Poor's may determine not to publish the index for that day.

Index Dissemination

Index Products

Daily data are available through Standard & Poor's FTP server as well as Standard & Poor's Web site www.indices.standardandpoors.com.

Significant news about index level revisions or constituent changes is released to subscribers by e-mail and Web site at www.indices.standardandpoors.com.

Tickers

Index returns are available on most vendor platforms.

Index	Bloomberg
S&P/BusinessWeek Global Innovation	SPBWIV
S&P/BusinessWeek Global Innovation Total Return	SPBWIVTR
S&P/BusinessWeek Global Innovation (EURO)	SPBWIVE
S&P/BusinessWeek Global Innovation Total Return (EURO)	SPBWIVET

FTP

Daily stock level, index data and corporate action files are available via FTP on subscription.

For further information, please refer to Standard & Poor's Web site at www.indices.standardandpoors.com or contact a Standard & Poor's account manager

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