

STANDARD
& POOR'S

S&P DIVIDEND GROWTH BASKETS

INDEX METHODOLOGY

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Introduction

Sustainable dividend income and capital appreciation potential are both important for total return expectations. Since 1926 dividends have contributed nearly a third of the total return of the S&P 500, while capital gains have contributed two-thirds. Further, corporate managers use stable and increasing dividends as a signal of confidence in their firm's prospects, while investors consider such track records a sign of corporate maturity and strength.

The S&P Dividend Growth Baskets measure the performance of certain baskets of stocks that have a consistent record of paying increasing dividends. There are separate baskets of constituent stocks for the U.S. and Europe. This methodology document outlines the constituent selection process and basket calculation algorithm.

Eligibility Criteria

The S&P Dividend Growth U.S. Basket

To qualify for membership of the U.S. basket, a stock must satisfy the following primary criteria:

1. Be a member of the S&P 500.
2. Have increased dividends every year for at least 25 consecutive years.
3. Have a market capitalization of at least US\$ 3 billion as of the Reference Date.
4. Have an average daily trading volume of at least US\$ 5 million during the Reference Period.

For purposes of evaluating dividend increases, calendar years (as opposed to fiscal years) and ex-dates are used. A dividend initiation or re-initiation does not count as a dividend increase. Both regular and special dividend payments are considered. The initiation calendar year may include payment of all four quarterly dividends, or only one, two or three quarterly payments. Standard & Poor's makes evaluations on a best-effort basis using S&P *Compustat* and S&P *Dividend Record* data. Evaluations of dividend growth are made only once a year in December.

Additionally, the U.S. Basket has to meet the following two secondary criteria:

A. Stock Diversification Criteria – The minimum number of constituent stocks in the U.S. Basket should be 40.

If the number of constituent stocks in the U.S. Basket is fewer than 40, then:

- The S&P 500 constituent stocks with history of increased dividends of more than 20 consecutive years, also satisfying the primary criteria on market capitalization and liquidity above, are added as constituent stocks in the U.S. Basket in decreasing order of dividend yield until the Stock Diversification Criteria is satisfied.

- If the Stock Diversification Criteria is still not satisfied, the remaining constituents of the S&P 500 satisfying the primary criteria on market capitalization and liquidity are added as constituent stocks in the U.S. Basket in decreasing order of dividend yield until the Stock Diversification Criteria is satisfied. Dividend yield is calculated as the total dividends paid during the 12 months preceding the Reference Date, divided by the price on the Reference Date. Members of the S&P 500 that have reduced dividends in the 12 months preceding the Reference Date, as determined by Standard & Poor's, are not considered for inclusion.

B. Sector Diversification Criteria – Constituent stocks in the U.S. Basket are classified by sector in accordance with the Global Industry Classification Standard (GICS®)¹. Such classification should not result in constituent stocks in a particular GICS sector accounting for more than a 30% weight in the U.S. Basket.

If the Sector Diversification Criteria is not satisfied following the initial selection of constituent stocks, the following steps are taken:

- The S&P 500 constituent stocks with history of increased dividends of more than 20 consecutive years, also satisfying the primary criteria on market capitalization and liquidity above, are added as constituent stocks in the U.S. Basket in decreasing order of dividend yield until the Sector Diversification Criteria is satisfied.
- If the Sector Diversification Criteria is still not satisfied, the remaining constituents of the S&P 500 from alternative sectors satisfying the primary criteria on market capitalization and liquidity are added as constituent stocks in the U.S. Basket in decreasing order of dividend yield until the Sector Diversification Criteria is satisfied. Dividend yield is calculated as the total dividends paid during the 12 months preceding the Reference Date, divided by the price on the Reference Date. Members of the S&P 500 that have reduced dividends in the 12 months preceding the Reference Date, as determined by Standard & Poor's, are not considered for inclusion.
- If the number of constituent stocks in the U.S. Basket reaches 100, no further constituent stocks shall be added.

¹ The Global Industry Classification Standard (GICS®) was developed by and is the exclusive property and a trademark of Standard & Poor's, a division of The McGraw-Hill Companies, Inc. and MSCI Barra.

S&P Dividend Growth Europe Basket

To qualify for membership of the Europe basket, a stock must satisfy the following criteria:

1. Be a member of the S&P Europe 350.
2. Have increased dividends every year for at least 7 consecutive years.
3. Have a market capitalization of at least US\$ 3 billion as of the Reference Date.
4. Have an average daily trading volume of at least US\$ 5 million during the Reference Period.

For purposes of evaluating dividend increases, calendar years (as opposed to fiscal years) and ex-dates are used. A dividend initiation or re-initiation does not count as a dividend increase. Only regular dividend payments are considered. The initiation calendar year may include payment of all four quarterly dividends, or only one, two or three quarterly payments. Standard & Poor's makes evaluations on a best-effort basis using the S&P/Citigroup Global Index Series data. Evaluations of dividend growth are made only once a year in December.

Additionally, the Europe Basket has to meet the following two secondary criteria:

A. Stock Diversification Criteria – The minimum number of constituent stocks in the Europe Basket should be 40.

If the number of constituent stocks in the Europe Basket is fewer than 40, then:

- The S&P Europe 350 constituent stocks with history of increased dividends of more than 5 consecutive years, also satisfying the primary criteria on market capitalization and liquidity above, are added as constituent stocks in the Europe Basket in decreasing order of dividend yield until the Stock Diversification Criteria is satisfied.
- If the Stock Diversification Criteria is still not satisfied, the remaining constituents of the S&P Europe 350 satisfying the primary criteria on market capitalization and liquidity are added as constituent stocks in the Europe Basket in decreasing order of dividend yield until the Stock Diversification Criteria is satisfied. Dividend yield is calculated as the total dividends paid during the 12 months preceding the Reference Date, divided by the price on the Reference Date. Members of the S&P Europe 350 that have reduced dividends in the 12 months preceding the Reference Date, as determined by Standard & Poor's, are not considered for inclusion.

B. Sector Diversification Criteria – Constituent stocks in the Europe Basket are classified by sector in accordance with GICS. Such classification should not result in constituent stocks in a particular GICS sector accounting for more than a 30% weight in the Europe Basket.

If the Sector Diversification Criteria is not satisfied following the initial selection of constituent stocks, the following steps are taken:

- The S&P Europe 350 constituent stocks with history of increased dividends of more than 5 consecutive years, also satisfying the primary criteria on market capitalization and liquidity above, are added as constituent stocks in the Europe Basket in decreasing order of dividend yield until the Sector Diversification Criteria is satisfied.
- If the Sector Diversification Criteria is still not satisfied, the remaining constituents of the S&P Europe 350 from alternative sectors satisfying the primary criteria on market capitalization and liquidity are added as constituent stocks in the Europe Basket in decreasing order of dividend yield until the Sector Diversification Criteria is satisfied. Dividend yield is calculated as the total dividends paid during the 12 months preceding the Reference Date, divided by the price on the Reference Date. Members of the S&P Europe 350 that have reduced dividends in the 12 months preceding the Reference Date, as determined by Standard & Poor's, are not considered for inclusion.
- If the number of constituent stocks in the Europe Basket reaches 100, no further constituent stocks shall be added.

Calculation Algorithm

The S&P Dividend Growth Europe and the S&P Dividend Growth U.S. Baskets are calculated by means of the divisor methodology used for the S&P Equal Weight Indices. The initial divisor is set to have a base index value of 100 on December 15, 2000. The S&P Dividend Growth Europe Price Return Basket and the S&P Dividend Growth U.S. Price Return Basket Values are simply each basket market value divided by its respective basket divisor:

$$\text{Price Return Basket Value} = \text{Basket Market Value} / \text{Basket Divisor} \quad (1)$$

$$\text{Basket Market Value} = \sum_{i=1}^N (\text{Basket Stocks})_i * (\text{Price})_i \quad (2)$$

$$\text{Basket Stock}_i = \text{IWF}_i * 1,000,000,000 \quad (3)$$

Once a year, on the relevant Rebalancing Date, investable weight factors (IWFs) are set so that each constituent stock has equal weight. IWFs for all constituent stocks are calculated using Equation 4 below, with Weight = 1/N, where N is the number of constituent stocks in the relevant Basket.

$$(\text{IWF})_{i, \text{ after rebalancing}} = \frac{\text{Weight} \times \sum_{i=1}^N (\text{Price})_{i, \text{ rebalancing date}}}{(\text{Price})_{i, \text{ rebalancing date}}} \quad (4)$$

The basket is never exactly equally weighted except at the close of trading on the final trading date of the Rebalancing Period.

The Price Return Basket Value shown in Equation 1 refers to price returns only and does not incorporate dividends. The Total Return Basket Value will add net dividends, as identified by Basket Dividend Points in equation (7), to the Price Return Basket Value. Dividends will be added on the ex-date. The Total Return Basket Value on any given date t is as follows:

$$\text{Total Return Multiplier}_t = \frac{[\text{Price Return Basket Value}_t + \text{Basket Dividend Points}_t]}{\text{Price Return Basket Value}_{t-1}} \quad (5)$$

$$\begin{aligned}
 & \text{Total Return Basket Value}_t = \\
 & (\text{Total Return Basket Value}_{t-1}) * (\text{Total Return Multiplier}_t) \quad (6)
 \end{aligned}$$

$$\begin{aligned}
 & \text{Basket Dividend Points}_t = \\
 & \sum_{i=1}^N (1 - \text{Tax Rate}_{i,t}) * \text{Basket Stocks}_{i,t} * (\text{Ex-dividends})_{i,t} / \text{Basket Divisor}_t \quad (7)
 \end{aligned}$$

The Tax Rate refers to withholding taxes on dividends imposed on a Luxembourg based holding company investing as a non-resident investor. Standard & Poor's revises these rates annually in the second quarter of the year. The principal source for the rates is the annual Ernst & Young Worldwide Corporate Tax Guide. Standard & Poor's also consults other sources. The Appendix lists the tax rates used for different countries from 2000 to 2005.

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

Index Maintenance

Frequency

The baskets are rebalanced annually, on the Reference Date immediately preceding the relevant Rebalancing Dates.

Rebalancing

Refer to the Appendix for the definitions of all defined terms below.

Each calendar year, on the relevant Reference Date immediately preceding the relevant Rebalancing Date, stocks will be selected, according to the criteria described in the section *Eligibility Criteria*, to be included in the relevant Baskets as the new constituent stocks.

To facilitate the creation of derivatives and structured products, the rebalancing will take place during the relevant Rebalancing Period.

During this period, the Price Return Basket Value will be determined as the weighted average of the old basket of stocks and an equally weighted basket of the newly selected constituents, with the weighting for the equally weighted basket of the newly selected constituents increasing linearly (from 0 to 100%).

Assume “J” is a generic Rebalancing Date within the Rebalancing Period (J=1,2,...,10). J=0 on the date preceding the first Rebalancing Date. Furthermore, “i” and “k” are any of the stocks comprising the Basket immediately prior to and immediately after the relevant Rebalancing Period, respectively. N and M denote the number of stocks comprising the Basket immediately prior to and immediately after the relevant Rebalancing Period, respectively.

On any Rebalancing Date J, the Price Return Basket Value is:

$$\text{Price Return Basket Value}_J = \frac{\text{Basket Market Value}_J}{\text{Basket Divisor}_J} \quad (8)$$

where the Basket Market Value on Rebalancing Date J is given by:

$$\text{Basket Market Value}_J = \left[1 - \frac{J}{10}\right] * \sum_{i=1}^N [(Basket Stocks)_{i,0} * (Price)_{i,J}] + \left[\frac{J}{10}\right] * \sum_{k=1}^M [(Basket Stocks)_{k,J} * (Price)_{k,J}] \quad (9)$$

Note that since the Basket Stocks for the relevant Basket of the newly selected constituent stocks is updated on each relevant Rebalancing Date J, the relevant Basket of the newly selected constituent stocks is equally weighted on each Rebalancing Date J.

The Basket Divisor for any J=1,.....,10 is updated according to:

$$Basket\ Divisor_J = \frac{Basket\ Market\ Value_J}{Basket\ Market\ Value'_J} * Basket\ Divisor_{J-1} \quad (10)$$

with Basket Divisor₀ set to equal the Basket Divisor prior to the rebalancing and, for avoidance of doubt, Basket Divisor₁₀ is the Basket Divisor which applies to the period following the rebalancing.

Finally Basket Market Value'_J is given by:

$$Basket\ Market\ Value'_J = \left[1 - \frac{J-1}{10} \right] * \sum_{i=1}^N [(Basket\ Stocks)_{i,0} * (Price)_{i,J}] + \left[\frac{J-1}{10} \right] * \sum_{k=1}^M [(Basket\ Stocks)_{k,J-1} * (Price)_{k,J}] \quad (11)$$

In the event that any Rebalancing Date (other than the Rebalancing Valuation Date) is a Disrupted Day, as defined the Appendix, (an “Affected Rebalancing Date”),

- (1) the Basket Market Value will not be calculated on such day, but
- (2) such date will, nevertheless, be counted as a Rebalancing Date and the next succeeding Rebalancing Date (which is not a Disrupted Day) will be a day on which
 - (a) the rebalancing that would otherwise have been carried out on the Affected Rebalancing Date will be carried on such succeeding Rebalancing Date (in addition to the rebalancing that Standard & Poor’s will otherwise carry out on such date), and
 - (b) such Affected Rebalancing Date will be counted as a Rebalancing Date for the purposes of J with respect to the calculations set forth in (5), (6), (7) and (8) above.

In the event that the last scheduled Rebalancing Date in a Rebalancing Period is a Disrupted Day, the Rebalancing Valuation Date for such Rebalancing Period will be the next succeeding Scheduled Trading Day that is not a Disrupted Day.

The Reference Date shall not coincide with the first Rebalancing Date and the last Rebalancing Date must coincide with the third Friday of December. To satisfy these requirements, Standard & Poor’s may reduce the Rebalancing Period to fewer than 10 days or may choose to move the Reference Date forward.

Corporate Actions

Parent Index action affecting constituent stocks	Adjustment made to the Basket	Divisor adjustment required?
Constituent change	If the constituent being dropped is a member of the basket, it is removed from the basket.	Yes
Changes in shares outstanding	The weight of the stock is unchanged.	No
Spin-off	The weight of the stock is unchanged. The price is adjusted to the Price of the Parent Company minus (the Price of the Spin-off company/Share Exchange Ratio). To keep the weight of the stock in the basket unchanged following the price change, the IWF is adjusted for the stock whose price is being changed.	No
Rights Offering	The weight of stock is unchanged. The price is adjusted to the Price of the Parent Company minus (the Price of the Rights Offering/Rights Ratio). To keep the weight of the stock unchanged in the basket unchanged, the IWF is adjusted for the stock whose price is being changed.	No
Stock Split	The Basket Stocks are multiplied by and the price is divided by the split factor.	No
Special Dividends	The price of the stock is reduced by the per share special dividend amount after the close of trading on the day before the ex-date.	Yes

The Parent Index refers to the S&P 500 for the U.S. basket and the S&P Europe 350 for the Europe basket. The list of changes above does not constitute the full range of corporate actions. In general, the corporate actions shall follow the adjustments made to the relevant Parent Indices and use the methodology used for Standard & Poor's equal weighted indices.

Index Dissemination

Total Return Basket Values, Price Return Basket Values and Basket Dividend Points will be disseminated on a daily basis on our corporate Web site at www.indices.standardandpoors.com and through third-party data vendors.

Tickers

Index	Bloomberg
S&P Dividend Growth U.S. Basket (Price Return)	SPDGUDP
S&P Dividend Growth U.S. Basket (Total Return)	SPDGUDT
S&P Dividend Growth Europe Basket (Price Return)	SPDGEEP
S&P Dividend Growth Europe Basket (Total Return)	SPDGEET

Appendix

Definitions

"Basket" means the S&P Dividend Growth Europe Basket (the "Europe Basket") or the S&P Dividend Growth U.S. Basket (the "U.S. Basket").

"Component Security" means any security in the relevant Parent Index that is a member of S&P Dividend Growth Basket as published by Standard & Poor's.

"Disrupted Day" means any Scheduled Trading Day on which: (i) Standard & Poor's fails to publish the prices for all of the Component Securities in which the Exchange was scheduled to be open for trading its regular trading session; or (ii) a Market Disruption Event has occurred.

"Early Closure" means the closure of the Exchange, on any Exchange Business Day, with respect to any Component Security prior to its Scheduled Closing Time, unless such earlier closing is announced by such Exchange at least one hour prior to the earlier of (a) the actual closing time for the regular trading session on such Exchange or (b) the submission deadline for orders to be entered into the Exchange system for execution at the relevant Valuation Time.

"Exchange" means each exchange on which any Component Security is principally traded, as determined by Standard & Poor's.

"Exchange Business Day" means any Scheduled Trading Day in which the Exchange is scheduled to be open for trading for its regular trading session, where Standard & Poor's publishes the prices for all of the Component Securities.

"Exchange Disruption" means any event (other than an Early Closure) that, as determined by Standard & Poor's, disrupts or impairs the ability of market participants to effect transactions in or obtain market values for any Component Security on the Exchange.

"Market Disruption Event" means the occurrence or existence, with respect to any Component Security, of:

(1) (a) a Trading Disruption with respect to such Component Security, which Standard & Poor's determines is material, at any time during the one hour period that ends at the relevant Valuation Time, with respect to the Exchange on which such Component Security is principally traded;

(b) an Exchange Disruption with respect to such Component Security, which Standard & Poor's determines is material, at any time during the one hour period that ends at the relevant Valuation Time, with respect to the Exchange on which such Component Security is principally traded;
or

(2) an Early Closure with respect to such Component Security; and the aggregate of all Component Securities in which a Trading Disruption, an Exchange Disruption or an Early Closure occurs or exists, comprises 20 % or more of the aggregate number of all Component Securities for which the Exchange was scheduled to be open for trading for its regular trading session.

"Parent Index" means the S&P 500 for the U.S. Basket and the S&P Europe 350 for the Europe Basket.

"Price" is the official closing price of the relevant Component Security at the Valuation Time on the relevant Exchange, as published in the Parent Index. U.S. dollar prices are used for the U.S. Basket and Euro prices are used for the Europe Basket. In case of the Europe Basket, the exchange rate used is the closing rate reported by Reuters as of the close of London trading.

"Rebalancing Period" is the 10 Scheduled Trading Days prior to and including the third Friday of each December in any calendar year (each Scheduled Trading Day during the Rebalancing Period is referred to as a **"Rebalancing Date"**).

"Reference Date" is the first Scheduled Trading Day of December in any calendar year.

"Reference Period" is each Scheduled Trading Day during the period from, and including, the 6 months preceding the relevant Reference Date to, and including, the relevant Reference Date.

"Reference Valuation Date" is the final Rebalancing Date in any relevant Rebalancing Period.

"Scheduled Closing Time" means the scheduled weekday closing time of a given Exchange on a Scheduled Trading Day, without regard to after hours or any other trading outside of the regular trading session hours.

"Scheduled Trading Day" is any day on which Standard & Poor's is scheduled to publish the prices for all of the Component Securities in which the Exchange is scheduled to be open for trading for its regular trading session.

"Trading Disruption" means any suspension of or limitation imposed on trading by the relevant Exchange, or otherwise, whether by reason of movements in price exceeding limits permitted by the relevant Exchange or otherwise relating to any Component Security on the Exchange with respect to such Component Security.

Dividend Withholding Taxes

	2000	2001	2002	2003	2004	2005
Austria	25	25	25	25	25	25
Belgium	25	25	25	25	25	25
Denmark	28	28	28	28	28	28
Finland	29	29	29	29	29	28
France	25	25	25	25	25	25
Germany	25	25	20	20	20	20
Great Britain	0	0	0	0	0	0
Greece	0	0	0	0	0	0
Iceland	15	15	15	15	15	15
Ireland	22	22	20	20	20	20
Italy	27	27	27	27	27	27
Luxembourg	25	25	25	20	20	20
Netherlands	25	25	25	25	25	25
Norway	25	25	25	25	25	25
Portugal	25	25	25	25	25	25
Spain	15	15	15	15	15	15
Sweden	30	30	30	30	30	30
Switzerland	35	35	35	35	35	35
USA	30	30	30	30	30	30

Source: Standard & Poor's. All rates in percentages. These rates are reviewed each year in the second quarter. Standard & Poor's uses the Ernst & Young Worldwide Corporate Tax Guide as the principal source, and also refers to additional sources.

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