

**STANDARD
& POOR'S**

S&P EUROPE 350 DIVIDEND ARISTOCRATS

INDEX METHODOLOGY

August 2006

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Introduction

Historically, dividends have contributed approximately a third of total equity return while capital gains have contributed the remainder. Sustainable dividend income and capital appreciation potential are both important to total return expectations.

The S&P Europe 350 Dividend Aristocrats index is designed to measure the performance of large cap, blue chip companies within the S&P Europe 350 that have followed a managed-dividends policy of consistently increasing dividends every year for at least 10 years.

Highlights

The S&P Europe 350 Dividend Aristocrats index is equal-weighted and constituents are reviewed once a year in December. The portfolio is calculated and maintained in a manner consistent with other S&P equal weight indices.

Drawn from the S&P Europe 350, the index portfolio has both capital growth and dividend income characteristics, as opposed to portfolios that are pure yield or pure capital appreciation oriented.

By equally weighting the index constituents, the S&P Europe 350 Dividend Aristocrats index best represents the performance of this group of stocks and treats each constituent as a distinct investment opportunity without regard to its size.

Companies included in the S&P Europe 350 Dividend Aristocrats index come from a broad spectrum of industries. Unlike stocks that focus only on high dividend yields, which are typically from the Financials and Utilities sectors, the “Aristocrats” are well diversified across all sectors.

Eligibility Criteria

Index Eligibility

To qualify for membership in the S&P Europe 350 Dividend Aristocrats index, a stock must satisfy the following criteria:

1. Be a member of the S&P Europe 350 index
2. Have increased dividends every year for at least 10 consecutive years

Calendar years and ex-dates are used for the dividend analysis, with the data being reviewed every December. New members are added on the third Friday of December based on a review of the dividend payments of all S&P Europe 350 constituents.

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. Evaluations are made on a best-effort basis using the S&P/Citigroup Broad Market Index (BMI) Europe stock level dividend history and Bloomberg.

Timing of Changes

Index constituent weight adjustments occur after the closing of the third Friday of each quarter ending month.

Index constituent membership is reviewed once a year in December. The reference date for such additions and deletions is after the closing of the last trading date of November.

Additions. At each annual rebalancing, a company is added to the index if it is a member of the S&P Europe 350 and has increased dividends every year for at least 10 consecutive years.

No additions are made to the index between annual rebalancings.

Deletions. Index constituents may be deleted from the index for the following reasons:

- During the December rebalancing, if the company's calendar year dividends did not increase from the previous calendar year
- Between rebalancings, if the stock is removed from the S&P Europe 350

Index Construction

Approaches

The index is equal-weighted with constituents re-weighted every quarter.

Due to price changes in index constituents, they will not always have equal weights. This will likely occur between quarterly rebalancing periods. Therefore, any return computation starting from a non-rebalancing date will not match the arithmetic average of returns of S&P Europe 350 constituents between those two dates.

Index Calculations

The index will be calculated by means of the divisor method used for S&P equal weight indices. The initial divisor is set to have a base index value of 100 on December 20, 2002. The index value is simply the index market value divided by the index divisor:

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

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

$$\text{Index Shares}_i = \text{IWF}_i \times 1,000,000,000 \quad (3)$$

At the beginning of each quarterly rebalancing Investable Weight Factors (IWFs) are set so that each constituent has equal weight. IWFs for all constituents are calculated using Equation 4 below, with Weight = 1/N, where N is the number of stocks in the index.

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

“Index Shares” and “Index Market Value” are artificial constructs. Index Shares shown in the equations here are artificial constructs bearing no relation to a stock’s actual shares outstanding. These might include fractions, and might be less than 1. Therefore, the Index Market Value is also an artificial construct bearing no relation to the market capitalization of the stocks in the index.

Index Maintenance

Rebalancing

The index is rebalanced to equal weights on the third Friday of each quarter-ending month.

This date also coincides with the conventional date for quarterly share adjustments of the S&P Europe 350.

At the rebalancing, constituents will be assigned Index Shares as given in Equation 3. In order to maintain index series continuity, it is also necessary to adjust the divisor.

$$(\text{Index Value})_{\text{before rebalance}} = (\text{Index Value})_{\text{after rebalance}} \quad (5)$$

Therefore,

$$(\text{Divisor})_{\text{after rebalance}} = \frac{(\text{Index Market Value})_{\text{after rebalance}}}{(\text{Index Value})_{\text{before rebalance}}} \quad (6)$$

Index Adjustments

S&P Europe 350 Corporate Action	Adjustment Made to Aristocrats	Divisor adjustment for Aristocrats
Constituent change	If the constituent being deleted is a member of the Aristocrats, then it is removed from the Aristocrats index.	A divisor adjustment is made to ensure the index level after the deletion is equal to the index level before the deletion.
Share changes between quarterly share adjustments	None.	None.
Quarterly share changes	There is no direct adjustment. However, on the same date the index rebalancing will take place, with each stock's IWF assigned as per Equation 4.	The rebalancing causes an adjustment as calculated in Equation 6.
Spin-Off	The price is adjusted to the Price of Parent Company minus (Price of Spin-off Company/ Share Exchange Ratio).	None.

S&P Europe 350 Corporate Action	Adjustment made to Aristocrats	Divisor adjustment for Aristocrats
Rights Offering	The price is adjusted to Price of Parent Company minus (Price of Rights Subscription/Rights Ratio). The IWF changes so that the weight of the company is the same as before the rights offering.	None.
Stock Split	Index Shares are multiplied by and price is divided by the split factor.	None.
Share Issuance or Share Repurchase	None.	None.
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 ex-date.	A divisor adjustment is made to ensure the index level after the price adjustment is equal to the index level before the price adjustment.

Base Date

Daily returns are available from December 20, 2002. The base value for both the price return and total return series on that date is 100. The index is calculated on an end-of-day basis.

Index Data

Total Return Index

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

$$\text{Total Return Multiplier}_t = \frac{[\text{Index Value}_t + \text{Index Dividend Points}_t]}{\text{Index Value}_{t-1}} \quad (7)$$

$$\text{Total Return Index Value}_t = (\text{Total Return Index Value}_{t-1}) \times (\text{Total Return Multiplier}_t) \quad (8)$$

$$\text{Index Dividend Points}_t = \sum_{i=1}^N (\text{Index Shares})_{i,t} \times (\text{Ex - dividends})_{i,t} / \text{Divisor}_t \quad (9)$$

Index Governance

Index Committee

The European Index Committee maintains Standard & Poor's European indices. The members of the Index Committee are full-time professional members of Standard & Poor's staff. The Index Committee meets quarterly. 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, companies that are being considered as candidates for addition to an index, and any significant market events. In addition, the Index Committee may revise index policy covering rules for selecting companies, treatment of dividends, share counts or other matters.

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

Index Policy

Announcements

Announcements of the annual rebalancing for the S&P Europe 350 Dividend Aristocrats index in December are made after the European markets close. There are no separate corporate action announcements other than annual rebalancing. For regular corporate action activity on S&P Europe 350 constituents, please refer to S&P Europe 350 announcements.

Holiday Schedule

The S&P Europe 350 Dividend Aristocrats index is calculated when European equity markets are open.

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 primary exchange for each stock in the index. If an exchange fails to open due to unforeseen circumstances, then 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.

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