



2007
Environmental, Social and Governance
Ratings Criteria

SOCRATES
The Corporate Social Ratings MonitorSM

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INTRODUCTION

[KLD Research & Analytics, Inc.](#) (KLD) has conducted research into the environmental, social and governance (ESG) performance and controversial business involvement (CBI) performance of listed companies since 1988. Money managers, investment advisors, academics, NGOs and media institutions rely on KLD's research.

KLD's research database is [SOCRATES](#) - The Corporate Social Ratings MonitorSM. This document lists the ratings and definitions for issues covered by KLD in SOCRATES. The criteria are of two types: Environmental, Social and Governance (ESG) and Controversial Business Involvement (CBI). ESG criteria measure corporate social responsibility across a range of issues that impact a company's various stakeholders. CBI criteria measure a company's level of involvement in industries such as gambling and tobacco.

SOCRATES contains complete ESG and CBI reports on every Russell 3000® and S&P 500® company as well as CBI coverage for the global investable universe.

Environmental, Social and Governance Ratings Criteria

ENVIRONMENT RATINGS

Climate Change

STRENGTHS

Clean Energy. The company has taken significant measures to reduce the contributions of its operations to global climate change and air pollution through the use of renewable energy, other clean fuels, or through the introduction of energy efficient programs or sale of products promoting energy efficiency.

CONCERNS

Climate Change. The company derives substantial revenues, directly or indirectly, from the sale of coal or oil and its derivative fuel products.

Products and Services

STRENGTHS

Beneficial Products & Services. The company derives substantial revenues from the development of innovative products with environmental benefits, including remediation products, environmental services, or products that promote the efficient use of energy.

CONCERNS

Ozone Depleting Chemicals. The company manufactures ozone depleting chemicals such as HCFCs, methyl chloroform, methylene chloride, or bromines.

Agricultural Chemicals. The company is a substantial producer of agricultural chemicals, including pesticides.

Operations and Management

STRENGTHS

Pollution Prevention. The company has strong pollution prevention programs, including both emissions and toxic-use reduction programs.

Recycling. The company is either a substantial user of recycled materials in its manufacturing processes, or a major firm in the recycling industry.

Management Systems. The company has demonstrated a superior commitment to management systems through ISO 14001 certification and other voluntary programs.

CONCERNS

Hazardous Waste. The company has substantial liabilities for hazardous waste, or has recently paid significant fines or civil penalties for waste management violations.

Regulatory Problems. The company has recently paid substantial fines or civil penalties for, or it has a pattern of controversies regarding, violations of air, water, or other environmental regulations.

Substantial Emissions. The company's emissions of toxic chemicals into the air and water from individual plants are notably high.

Other

STRENGTHS

Other Strengths. The company has undertaken noteworthy environmental initiatives not covered by other KLD ratings.

CONCERNS

Other Concerns. The company has been involved in an environmental controversy not covered by other KLD ratings.

SOCIAL RATINGS

Community

STRENGTHS

Charitable Giving. The company has been exceptionally generous in its giving.

Innovative Giving. The company has an innovative giving program that supports nonprofit organizations, particularly those promoting self-sufficiency among the economically disadvantaged.

Non-US Charitable Giving. The company has innovative giving programs outside of the U.S., or dedicates a significant percentage of its overall charitable giving to programs outside of the U.S.

Support for Education. The company is either a leader in its support for primary or secondary public school education, or the company has offered significant support for youth job-training programs.

Support for Housing. The company is a prominent participant in public/private partnerships that support housing initiatives for the economically disadvantaged.

Volunteer Programs. The company has an exceptionally strong employee volunteer program.

Other Strengths. The company has either an exceptionally strong in-kind giving program or engages in other positive community activities not covered by other KLD ratings.

CONCERNS

Investment Controversies. The company's lending or investment practices are controversial.

Negative Economic Impact. The company's actions have resulted in major controversies concerning the quality of life, tax base, or property values in the community.

Tax Disputes. The company has recently been involved in major tax disputes involving Federal, state, local or non-U.S. government authorities, or is involved in controversies over its tax obligations to the community.

Other Concerns. The company is involved in a community controversy not covered by other KLD ratings.

Diversity

STRENGTHS

Board of Directors. Women and/or minorities hold a significant proportion of the seats on the company's board of directors.

CEO. The company's chief executive officer is a woman or a member of a minority group.

Employment of the Disabled. The company has innovative hiring or other human resource programs for the disabled, or it has a superior reputation as an employer of the disabled.

Gay & Lesbian Policies. The company has progressive policies toward its gay and lesbian employees.

Promotion. The company has made substantive progress in the promotion of women and/or minorities to senior executive line positions.

Women & Minority Contracting. The company has a strong record of purchasing and/or contracting with businesses owned by women or minorities.

Work/Life Benefits. The company has outstanding programs addressing employee work/life concerns.

Other Strengths. The company has made a notable commitment to diversity that is not covered by other KLD ratings.

CONCERNS

Controversies. The company has either paid substantial fines or civil penalties as a result of diversity-related controversies, or has been involved in other major diversity-related controversies.

Non-Representation. The company has no women on its board of directors or among its senior line executives.

Other Concerns. The company is involved in diversity controversies not covered by other KLD ratings.

Employee Relations

STRENGTHS

Health and Safety. The company has strong health and safety programs.

Retirement Benefits. The company has a strong retirement benefits program.

Union Relations. The company has taken exceptional steps to treat its unionized workforce fairly.

Cash Profit Sharing. The company has a cash profit-sharing program through which it has recently made distributions to a majority of its workforce.

Employee Involvement. The company strongly encourages employee involvement through active participation in management decision-making, and/or through ownership in the company by granting stock options to a majority of its employees.

Other Strengths. The company has strong employee relations initiatives not covered by other KLD ratings.

CONCERNS

Union Relations. The company has a history of notably poor union relations.

Health and Safety. The company recently has either paid substantial fines or civil penalties for willful violations of employee health and safety standards, or it has been otherwise involved in major health and safety controversies.

Retirement Benefits. The company has either a substantially under funded defined benefit pension plan, or an otherwise inadequate retirement benefits program.

Workforce Reductions. The company has made significant reductions in its workforce in recent years.

Other Concerns. The company is involved in an employee relations controversy that is not covered by other KLD ratings.

Human Rights

STRENGTHS

Labor Rights. The company has undertaken outstanding or innovative initiatives primarily related to labor rights in its supply chain, or has particularly good union relations outside the U.S.

Relations with Indigenous Peoples. The company has established relations with indigenous peoples near its proposed or current operations (either in or outside the U.S.) that respect their sovereignty, land, culture, human rights, and intellectual property.

Other Strengths. The company has undertaken exceptional human rights initiatives not covered by other KLD ratings.

CONCERNS

Labor Rights. The company's operations have had major recent controversies primarily related to labor standards in its supply chain.

Relations with Indigenous Peoples. The company has been involved in serious controversies with indigenous peoples (either in or outside the U.S.) that indicate the company has not respected their sovereignty, land, culture, human rights, and/or intellectual property.

Burma. The company has operations or direct investment in, or sourcing from, Burma.

Other Concerns. The company's operations have been the subject of major recent human rights controversies not covered by other KLD ratings.

Product

STRENGTHS

Benefits to Economically Disadvantaged. The company has as part of its basic mission the provision of products or services for the economically disadvantaged.

Quality. The company has a long-term, well-developed, company-wide quality program, or it has a quality program widely recognized as exceptional.

R&D/Innovation. The company leads its industry in the research and development of innovative products.

Other Strengths. The company's products have social benefits that are highly unusual or unique for its industry and not covered by other KLD ratings.

CONCERNS

Antitrust. The company has recently paid substantial fines or civil penalties for antitrust violations such as price fixing, collusion, or predatory pricing, or is involved in major controversies or regulatory actions related to antitrust allegations.

Marketing/Contracting Controversy. The company has either been involved in a major marketing or contracting controversy, or has paid a substantial fine or civil penalty relating to advertising practices, consumer fraud, or government contracting.

Safety. The company has either paid substantial fines or civil penalties, or is involved in a major recent controversy or regulatory action, relating to the safety of its products or services.

Other Concerns. The company has major controversies with its franchises, is an electric utility with nuclear safety problems, defective product issues, or is involved in other product-related controversies not covered by other KLD ratings.

GOVERNANCE RATINGS

Reporting

STRENGTHS

Political Accountability. The company has shown markedly responsible leadership on public policy issues and/or has an exceptional record of transparency and accountability concerning its political involvement in state or federal-level U.S. politics, or in non-U.S. politics.

Transparency. The company is particularly effective in reporting on a wide range of social and environmental performance measures, or is exceptional in reporting on one particular measure.

CONCERNS

Political Accountability. The company has been involved in noteworthy controversies on public policy issues and/or has a very poor record of transparency and accountability concerning its political involvement in state or federal-level U.S. politics, or in non-U.S. politics.

Transparency. The company is distinctly weak in reporting on a wide range of social and environmental performance measures.

Structure

STRENGTHS

Compensation. The company pays a low level of compensation to its CEO or its board members.

Ownership. The company owns between 20% and 50% of another firm that has a positive environmental, social or governance record, or a firm with a positive environmental, social or governance record owns 20% or more of the company.

CONCERNS

Compensation. The company pays a high level of compensation to its CEO or its board members.

Ownership. The company owns between 20% and 50% of another firm that has a negative environmental, social or governance record, or a firm with a negative environmental, social or governance record owns 20% or more of the company.

Accounting. The company is involved in significant accounting-related controversies.

Other

STRENGTHS

Other Strengths. The company has a unique and positive corporate culture, or has undertaken a noteworthy corporate governance initiative not covered by KLD's other ratings.

CONCERNS

Other Concerns. The company is involved with a corporate governance controversy not covered by other KLD ratings.

Controversial Business Involvement Ratings Criteria

Abortion

Manufacturer. The report includes publicly traded companies that are engaged in the development or manufacture of abortifacient products, including: methotrexate, misoprostol and/or RU 486.

Owners or Operators of Acute Care Facilities. The report includes publicly traded companies that own or operate one or more acute care hospitals or surgical centers that may provide general medical services, including abortions.

Ownership by an Abortion Company. KLD also includes all companies that are more than 50% owned by a company with abortion involvement.

Ownership of an Abortion Company. KLD includes companies that own more than 20% of another company with abortion involvement. When a company owns 50% or more of company with abortion involvement, KLD treats the abortion company as a consolidated subsidiary.

Adult Entertainment

Distributor. The company that derives 15% or more of total revenues from the rental, sale, or distribution (wholesale or retail) of adult entertainment media products.

Owner and Operator. The company owns and/or operates an adult entertainment establishment.

Producer. The company produces adult media products including movies, magazines, books, calendars, and websites.

Provider. The company offers pay-per-view adult entertainment.

Ownership by an Adult Entertainment Company. The company is more than 50% owned by a company with adult entertainment involvement.

Ownership of an Adult Entertainment Company. The company owns more than 20% of another company with adult entertainment involvement. (When a company owns more than 50% of company with adult entertainment involvement, KLD treats the adult entertainment company as a consolidated subsidiary.)

Alcohol

Licensing. The company licenses its company or brand name to alcohol products.

Manufacturer. The company is involved in the manufacture alcoholic beverages including beer, distilled spirits, or wine.

Manufacturer of Products Necessary for Production of Alcoholic Beverages. The company derives 15% or more of total revenues from the supply of raw materials and other products necessary for the production of alcoholic beverages.

Retailer. The company derives 15% or more of total revenues from the distribution (wholesale or retail) of alcoholic beverages.

Ownership by an Alcohol Company. The company is more than 50% owned by a company with alcohol involvement.

Ownership of an Alcohol Company. The company owns more than 20% of another company with alcohol involvement. (When a company owns more than 50% of company with alcohol involvement, KLD treats the alcohol company as a consolidated subsidiary.)

Contraceptives

Licensing. The report includes publicly traded companies that license its company or brand name to contraceptive products.

Manufacturer. The report includes publicly traded companies that are engaged in the manufacture of contraceptive products.

Ownership by a Contraceptives Company. KLD also includes companies that are more than 50% owned by a company with contraceptive involvement.

Ownership of a Contraceptives Company. KLD includes companies that own more than 20% of another company with contraceptive involvement. When a company owns 50% or more of company with contraceptive involvement, KLD treats the contraceptive company as a consolidated subsidiary.

Firearms

Manufacturer. The company is engaged in the production of small arms ammunition or firearms, including, pistols, revolvers, rifles, shotguns, or sub-machine guns.

Retailer. The company derives 15% or more of total revenues from the distribution (wholesale or retail) of firearms and small arms ammunition.

Ownership by a Firearms Company. The company is more than 50% owned by a company with firearms involvement.

Ownership of a Firearms Company. The company owns more than 20% of another company with firearms involvement. (When a company owns more than 50% of company with firearms involvement, KLD treats the firearms company as a consolidated subsidiary.)

Gambling

Licensing. The company licenses its company or brand name to gambling products.

Manufacturer. The company produces goods used exclusively for gambling, such as slot machines, roulette wheels, or lottery terminals.

Owner and Operator. The company owns and/or operates casinos, racetracks, bingo parlors, or other betting establishments, including casinos; horse, dog, or other race tracks that permit wagering; lottery operations; on-line gambling; pari-mutuel wagering facilities; bingo; Jai-alai; and other sporting events that permit wagering.

Supporting Products or Services. The company provides services in casinos that are fundamental to gambling operations, such as credit lines, consulting services, or gambling technology and technology support.

Ownership by a Gambling Company. The company is more than 50% owned by a company with gambling involvement.

Ownership of a Gambling Company. The company owns more than 20% of another company with gambling involvement. (When a company owns more than 50% of company with gambling involvement, KLD treats the gambling company as a consolidated subsidiary.)

Military

Manufacturer of Weapons or Weapons Systems. The company derives more than 2% of revenues from the sale of conventional weapons or weapons systems, or earned \$50 million or more from the sale of conventional weapons or weapons systems, or earned \$10 million or more from the sale of nuclear weapons or weapons systems.

Manufacturer of Components for Weapons or Weapons Systems. The company derives more than 2% of revenues from the sale of customized components for conventional weapons or weapons systems, or earned \$50 million or more from the sale of customized components for conventional

weapons or weapons systems, or earned \$10 million or more from the sale of customized components for nuclear weapons or weapons systems.

Ownership by a Military Company. The company is more than 50% owned by a company with military involvement.

Ownership of a Military Company. The company owns more than 20% of another company with military involvement. (When a company owns more than 50% of company with military involvement, KLD treats the military company as a consolidated subsidiary.)

Nuclear Power

Ownership of Nuclear Power Plants. The company has an ownership interest or operates nuclear power plant(s). Does not include publicly traded companies that are an owner or operator of a nuclear plant that has shut down and is being decommissioned.

Construction & Design of Nuclear Power Plants. The company designs, engineers, and constructs nuclear power plants and nuclear reactors for use in nuclear power plants; including companies that design nuclear reactors and engineer and/or construct nuclear power plants.

Nuclear Power Fuel & Key Parts. The company supplies nuclear fuel material and key parts used in nuclear plants and reactors. Fuel includes mining of uranium and conversion, enrichment, and fabrication of uranium. Key parts include manufacture or sale of specialized parts for use in nuclear power plants including but not exclusive to steam generators, control rod drive mechanisms, reactor vessels, cooling systems, containment structures, fuel assemblies, and digital instrumentation & controls.

The rating does not include companies that store, dispose, or reprocess nuclear fuel waste nor manufacturers of general power plant parts unless altered for specific use in nuclear power plants

Nuclear Power Service Provider. The company is involved in the transport of nuclear power materials and nuclear plant maintenance.

Ownership by a Nuclear Power Company. The company is more than 50% owned by a company with nuclear power involvement.

Ownership of a Nuclear Power Company. The company owns more than 20% of another company with nuclear power involvement. If company ownership of company with nuclear power involvement is greater than 50%, KLD treats subsidiary as a consolidated subsidiary.

Tobacco

Licensing. The company licenses its company name or brand name to tobacco products.

Manufacturer. The company produces tobacco products, including cigarettes, cigars, pipe tobacco, and smokeless tobacco products.

Manufacturer of Products Necessary for Production of Tobacco Products. The company derives 15% or more of total revenues from the production and supply of raw materials and other products necessary for the production of tobacco products.

Retailer. The company derives 15% or more of total revenues from the distribution (wholesale or retail) of tobacco products.

Ownership by a Tobacco Company. The company is more than 50% owned by a company with tobacco involvement.

Ownership of a Tobacco Company. The company owns more than 20% of another company with tobacco involvement. (When a company owns more than 50% of company with tobacco involvement, KLD treats the tobacco company as a consolidated subsidiary.)