

**STANDARD
& POOR'S**

S&P JAPAN ECO INDEX

INDEX METHODOLOGY

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Introduction

The S&P Japan Eco Index is comprised of 25 of the largest publicly traded Japanese companies in ecology-related businesses that meet specific investability requirements. The index is designed to provide exposure to the leading Japanese securities that are involved in a wide range of environmentally friendly businesses.

Highlights

The S&P Japan Eco Index includes 25 of the largest publicly traded stocks in three clusters: alternative energy, environmental services, and water. To ensure investability, a minimum market capitalization of ¥10 billion and a minimum 3-month average daily value traded of ¥50 million are required.

The index is based on a modified capitalization weighting scheme that ensures stock level diversification.

Eligibility Criteria

Index Eligibility

The universe, from which the S&P Japan Eco Index is drawn, is all publicly listed Japanese companies in Standard & Poor's CapitalIQ (CIQ) database with specific terms related to alternative energy, environmental services, and water in their business description. Companies are identified based on their membership and the level of involvement within each cluster. Some companies may be involved in more than one cluster. The definitions of each cluster and its sub-clusters are as follows:

Alternative Energy	Alternative Energy Production
	<ol style="list-style-type: none"> 1. Construction, Operation and Maintenance of Nuclear and Hydroelectric Power Plants. 2. Fuel Cells Technology and Equipment 3. Geo Thermal Energy Production. 4. Photovoltaic Modules and Systems. 5. Solar Energy Production. 6. Wind Energy Production.
	Related Technology, Equipment & Services
	<ol style="list-style-type: none"> 1. Nuclear Materials, Equipment and Services. 2. Wind Turbines & Other Wind Energy Equipment. 3. Other Technology, Equipment & Services related to Alternative Energy Production.
Environmental Services	Innovative Products Using Alternative Energy Sources
	<ol style="list-style-type: none"> 1. Green Vehicles (Electric/Solar/Fuel Cell Vehicles) and related Technology & Infrastructure, such as Energy Density Batteries, Battery Swapping and Exchanging Infrastructure.
	Environmental Services
	<ol style="list-style-type: none"> 1. Collection, Transportation, Treatment and Recycling of Waste. 2. Waste Management. 3. Solid Waste Processing and Utilization. 4. Refuse and Waste Treatment Facilities.
	Related Technology & Equipment
	<ol style="list-style-type: none"> 1. Waste Processing and Utilization Systems. 2. Refuse Burning Power Generating Systems. 3. Manufacture of Refuse/Septic Tanks and Equipment.

Water	Water Production & Treatment
	<ol style="list-style-type: none"> 1. Water Treatment Facilities and Plants. 2. Sea Water Desalination Facilities. 3. Soil and Groundwater Remediation, Chemical Cleaning and Maintenance Services. 4. Construction, Repairing, Servicing and Maintenance of Pumping Plants and Waterworks.
	Water Technology & Equipment
	<ol style="list-style-type: none"> 1. Water Treatment Systems 2. Water Production and Filtration Equipment. 3. Manufacture of Commercial and Residential Plumbing Equipment. 4. Water Saving Equipment & Technology.

The universe of qualifying constituents are, then, reviewed to get further details on their relative exposure to the alternative energy, environmental services and water clusters. Exposure scores are classified as follows:

Set Name	Description	Exposure Score
Primary	Primary business is alternative energy, environmental services or water.	1.0
Secondary	Multi industry with significant exposure in alternative energy, environmental services or water.	0.75
Tertiary	Multi industry with sizable exposure in alternative energy, environmental services or water.	0.50
Quaternary	Marginal exposure.	0.25
Eliminated	No exposure.	0.0

Companies with an exposure score of 1 or 0.75 or 0.5 or 0.25 become the universe for the S&P Japan Eco Index.

Eligibility Factors

The universe is, then, narrowed down to an investable set of stocks based on the following criteria:

Market Capitalization. Stocks must have a total market capitalization above a Market Capitalization Threshold as of the reference date of each year. The Market Capitalization Threshold is currently ¥ 10 billion.

Liquidity. Stocks must have three-month average daily trading value above a Liquidity Threshold as of the reference date of each year. The Liquidity Threshold is currently ¥50 million.

Exchange Listing. Stocks must be listed on Japanese exchanges.

Stocks passing these criteria form the Investable Universe.

The reference date for the eligibility screens above is the last trading day of June of each year. The Market Capitalization Threshold and Liquidity Threshold are subject to change on an annual basis according to market conditions.

Index Construction

Approaches

The methodology employs a modified market capitalization-weighting scheme, using the divisor methodology used in most Standard & Poor's equity indices.

There are two steps in the creation of the Index. The first is the selection of the 25 companies; the second is the weighting of the index constituents.

Constituent Selection

The selection of index constituents is done as follows:

1. Companies in the Investable Universe are ranked in descending order of their exposure scores. Companies with an Exposure Score of 1 become index constituents.
2. In the event of fewer than 25 qualifying companies with an Exposure Score of 1, the largest companies within the universe with an Exposure Score of 0.75 are added till the count reaches 25.
3. In the event of fewer than 25 qualifying companies with an Exposure Score of 1 or 0.75, the largest companies within the universe with an Exposure Score of 0.5 are added till the count reaches 25.
4. In the event of fewer than 25 qualifying companies with an Exposure Score of 1, 0.75 or 0.5, S&P first looks to see if there is not yet any representation on one of the sub-clusters. If not, the largest company with an Exposure Score of 0.25 that belongs to that sub-cluster is the next to be added to the index. Otherwise, the largest companies within the group with an Exposure Score of 0.25 are added till the count reaches 25.

Constituent Weightings

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

1. Every stock is given an initial Index Capitalization (*IC*) equal to its exposure score multiplied by its market cap. A Maximum Weight (*MW*) is set to 8% for stocks with an Exposure Score of 1, 6% for stocks with an Exposure Score of 0.75, 4% for stocks with an Exposure Score of 0.5 and 2% for stocks with an Exposure Score of 0.25. The weight of the i^{th} stock in the index is defined as follows:

$$\text{Weight of Stock}_i = \frac{IC_i}{\sum_{i=1}^{25} (IC)_i}$$

2. The IC for each stock is, then, modified as follows:

If $\text{Weight of Stock}_i > MW$

then $IC_i = IC_{i, \text{previous}} - (5\% * IC_{i, \text{previous}})$

else $IC_i = IC_{i, \text{previous}}$

3. If every $\text{Weight of Stock}_i < MW$, then the process is complete and the weights derived in Step 2 are used. If not, Steps 1 and 2 are repeated until all stocks meet the maximum weight requirements.

The MW parameter is the maximum weight of the corresponding stock at the rebalancing. This parameter can be changed depending upon market circumstances at rebalancing. Steps 1 through 3 modify the market cap-weighting scheme in a looped manner until the MW constraints are satisfied for all index constituents.

Index Calculations

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

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

For more information on the Index Calculation Methodology, please refer to the Modified Market Capitalization Weighted Indices section of Standard and Poor's Index Mathematics Methodology.

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

$$(\text{Index Value})_{\text{before rebalancing}} = (\text{Index Value})_{\text{after rebalancing}} \quad (2)$$

Therefore,

$$(\text{Divisor})_{\text{after rebalancing}} = \frac{(\text{Index Market Value})_{\text{after rebalancing}}}{(\text{Index Value})_{\text{before rebalancing}}} \quad (3)$$

Index Maintenance

Rebalancing

Frequency. Index rebalancings occur after the closing on the third Friday of July of each year. The rebalancing reference date is the last trading day of June. No companies are added to the Index between rebalancings.

Corporate Actions

Corporate Action	Adjustment made to index	Divisor adjustment?
Spin-off	No weight change. The price is adjusted to Price of the Parent Company minus (Price of the Spun-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 of Parent Company minus (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 Share Repurchase	None. Actual shares outstanding of the company play no role in the daily index calculation.	No
Special Dividends	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 dividend ex-date.	Yes
Delisting, acquisition or any other corporate action resulting in the deletion of the stock from the Index	Stock is dropped from the Index. No intra-year replacements are made.	Yes

Base Date

The index base date is July 15th, 2005. The base value, for both the price return and total return series, is 1000. Daily returns are available from July 15th, 2005.

Index Data

Total Return Indices

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 :

$$\text{Total Return Multiplier}_t = \frac{[\text{Index Value}_t + \text{Index Dividend Points}_t]}{\text{Index Value}_{t-1}} \quad (4)$$

$$\text{Total Return Index Value}_t = (\text{Total Return Index Value}_{t-1}) * (\text{Total Return Multiplier}_t) \quad (5)$$

$$\text{Index Dividend Points}_t = \sum_{i=1}^N (\text{Index Shares})_{i,t} * (\text{Ex - dividends})_{i,t} / \text{Divisor}_t \quad (6)$$

Index Governance

Index Committee

An Index Committee maintains the S&P Japan Eco index. The Index Committee meets regularly. 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 indices and related matters to be potentially market moving and material. Therefore, all Index Committee discussions are confidential.

Index Policy

Announcements

All corporate actions that reflect changes to index constituents are normally announced five days ahead of the effective date. These announcements are posted on the Web site and sent to clients by email.

All corporate actions are announced via Standard and Poor's Index Services Web site at www.indices.standardandpoors.com.

Holiday Schedule

The S&P Japan Eco Index is calculated daily on all business days of the year when the Japanese equity market is 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 the 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. If the exchange fails to open due to unforeseen circumstances, the index will use the prior day's closing prices or Standard & Poor's may determine not to publish the index for that day.

Index Dissemination

Complete data for index replication (including share counts, tickers and data on index levels and returns) are available through Standard & Poor's index data group for subscription via FTP.

Tickers

	Bloomberg	Reuters
S&P Japan Eco Index - Price Return (Yen)	SPGTJEJP	.SPGTJEJP
S&P Japan Eco Index - Total Return (Yen)	SPGTJEJT	.SPGTJEJT

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