

**STANDARD
& POOR'S**

S&P JAPANESE INDICES

INDEX METHODOLOGY

April 2008

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Introduction

Standard & Poor's indices are liquid, tradable, easily replicable and global in scope. Standard & Poor's global indices are real-time market capitalization-weighted indices that include the largest and the most liquid stocks from around the world. The S&P Japan 500 index, consisting of the S&P/TOPIX 150, the S&P Japan MidCap 100, and the S&P Japan SmallCap 250, covers approximately 88% of Japanese equity market capitalization.

Partnership

Standard & Poor's and the Tokyo Stock Exchange together created the S&P/TOPIX 150 index, which is a real-time, float adjusted index.

Highlights

S&P Japan 500 is an index drawn from the Japanese equity markets. It is designed for investors seeking broad market exposure through an index that is efficient to replicate.

The 500 constituents are all leading companies from the Japanese equity markets and from each of the 10 sectors of the Global Industry Classification Standard (GICS[®]). Each stock is analyzed for size and liquidity.

Index Family

Each component index of the S&P Japan 500 index has its own distinct evolution and history, but all feature a consistent methodology. The members of this family of indices include the S&P/TOPIX 150, the S&P Japan MidCap 100, and the S&P Japan SmallCap 250.

S&P/TOPIX 150. The index includes highly liquid securities selected from each major sector of the Tokyo market. S&P/TOPIX 150 is made up of leading companies from leading industries, and not by the size of the company. The index constituents are derived from a universe of eligible companies listed on the Tokyo Stock Exchange.

S&P Japan MidCap 100. The index is float adjusted, covering the mid cap segment of the Japanese equities market. The index constituents are derived from a universe of eligible companies listed on the Tokyo, Osaka or JASDAQ exchanges. As a guideline, to be eligible for inclusion in the S&P Japan MidCap 100, the constituent size should range between JPY 100 billion and JPY 500 billion in unadjusted market capitalization.

S&P Japan SmallCap 250. The index is float adjusted, covering the small cap segment of the Japanese equities market. The index constituents are derived from a universe of eligible companies listed on the Tokyo, Osaka or JASDAQ exchanges. As a guideline, to be eligible for inclusion in the S&P Japan SmallCap 250, the constituent size should fall below JPY 100 billion in unadjusted market capitalization.

Representation

The S&P Japan 500 index mirrors the sector weights of the broader universe of stocks from the Japanese markets. This policy ensures that, with 500 stocks, investors are approximating the sectors within the country.

Eligibility Criteria

S&P Japan 500 offers investors exposure to the most liquid stocks from the Japanese equity markets. The index is designed to provide investors with a tradable and easily replicable snapshot of investable Japan. The 500 stocks have been selected on the basis of their size, liquidity, and sector representation.

Standard & Poor's global indices are constructed with a fixed number of constituents. The aim is not to replicate a fixed percentage of the market capitalization, but to design a highly liquid and tradable index whose total market capitalization is large enough to approximate the market segment it is capturing while keeping the number of stocks at a minimum. This creates a highly cost-effective, easily replicable trading instrument that provides an excellent barometer of the market's performance. The fixed number of stocks also ensures minimum turnover as changes are made due to corporate activity or a reduction in a stock's size or liquidity that makes it ineligible for inclusion.

Index Eligibility

The index constituents are drawn from a universe of stocks representing approximately 88% of the market capitalization of the Japanese equity markets.

Eligibility Factors

Market Capitalization. S&P Japan 500 is designed to include liquid investable stocks from the Japanese markets. Market capitalization is a key criterion for stock selection. Stocks are included if they fall within the appropriate market cap range for their representative index.

S&P/TOPIX 150 is made up of leading companies from leading industries, and does not have specific market cap criterion.

As a guideline, a candidate's unadjusted market capitalization should range between JPY 100 billion and JPY 500 billion and fall below JPY 100 billion to be eligible for inclusion in the S&P Japan MidCap 100 and the S&P Japan SmallCap 250, respectively. The market capitalization of a potential addition to an index is looked at in the context of its short- and medium-term historical trends, as well as those of its industry. These ranges are reviewed from time to time to assure consistency with market conditions.

A stock's weight in an index is determined by the float-adjusted market capitalization of the stock. All strategic holdings are classified as either corporate, private or government holdings and are removed from the float-adjusted market capitalization.

Due to the high level of strategic-ownership in Japanese companies, constituents are float-adjusted to adequately reflect the investable market. In Japan, all holdings by the top 10 shareholders of each company are excluded.

Please refer to the Investable Weight Factor section for details.

Liquidity. Index constituents are ranked according to liquidity, measured by dollar value traded. Annual value traded, float turnover and days traded are also analyzed on a monthly basis to ensure ample liquidity.

Domicile. The stock has to be listed on a stock exchange in Japan. The company has to be established in Japan.

Eligible Securities. All common and preferred shares (which are of an equity and not of a fixed income nature) are eligible for inclusion in the Standard & Poor's indices. Convertible stock, bonds, warrants, rights, and preferred stock that provide a guaranteed fixed return are not eligible.

Sector Classification. Stocks are classified by the Global Industry Classification Standard (GICS[®]). Standard & Poor's global indices provide geographic and economic balance over the 10 GICS Sectors. These sectors, consistent throughout all the Standard & Poor's indices, are Consumer Discretionary, Consumer Staples, Energy, Financials, Health Care, Industrials, Information Technology, Materials, Telecommunication Services and Utilities.

Timing of Changes

Additions. An index addition generally is made only if a vacancy is created by an index deletion. Index additions are made according to market size and liquidity, with a view to preserving sector representation in the index.

Deletions. Deletions can occur due to acquisitions, mergers and spin offs or due to bankruptcies or suspension. Companies may also be removed when they no longer represent the market.

Index Construction

Approaches

S&P Japan 500 is calculated using a base-weighted aggregate methodology. That means the level of an index reflects the total market value of all the component stocks relative to a particular base period. The total market value of a company is determined by multiplying the price of its stock by the number of shares available after float adjustment. An indexed number is used to represent the result of this calculation in order to make the value easier to work with and track over time. It is much easier to graph a chart based on indexed values than one based on actual market values. The index is calculated in real time.

On any given day, the index value is the quotient of the total available market capitalization of the index's constituents and its divisor. Continuity in index values is maintained by adjusting the divisor for all changes in the constituents' share capital after the base date. This includes additions and deletions to the index, rights issues, share buybacks and issuances, spin-offs, and adjustments in availability. The divisor's time series is, in effect, a chronological summary of all changes affecting the base capital of the index. The divisor is adjusted such that the index value at an instant just prior to a change in base capital equals the index value at an instant immediately following that change.

Please refer to the Index Mathematics document for details on index level calculation.

Index Maintenance

Changes in the index level should reflect changes in the total market capitalization of the index that are caused by price movements in the market. They should not reflect changes in the market capitalization of the index, or of the individual stocks, that are caused by corporate actions such as dividend payments, stock splits, distributions to shareholders, mergers, or acquisitions. When a corporate action affects the price of a security – such as when the price drops on a special distribution ex-date – the price of the security is adjusted to reflect the ex-date and the index divisor is adjusted to offset any change in the total market value of the index.

When a stock is replaced by another stock, the index divisor is adjusted so that the change in index market value that results from the addition or deletion does not change the index level.

Please refer to the Index Mathematics document for mathematical formulae and tables defining specific corporate actions.

Rebalancing

All share changes of 5% and over are done at the effective date, or as soon as reliable information is available. Changes of less than 5% are applied on the third Friday of March, June, September and December. The rebalancing for Investable Weight Factors (IWFs) take place once a year, on the third Friday of September, unless there is a significant corporate event that will affect more than 5% of the company's shares. IWFs are also adjusted on the ex-date when a private placement takes place.

Corporate Actions

Maintaining the S&P Japan 500 index includes monitoring and completing the adjustments for company additions and deletions, share changes, stock splits, stock dividends, and stock price adjustments due to restructurings or spin-offs. Some corporate actions, such as stock splits and stock dividends, require simple changes in the common shares outstanding and the stock prices of the companies in the index. Other corporate actions, such as share issuances, change the market value of an index and require an index divisor adjustment to prevent the value of the index from changing.

Adjusting the index divisor for a change in market value leaves the value of the index unaffected by the corporate action. This helps keep the value of the index accurate as a barometer of stock market performance, and ensures that the movement of the index does not reflect the corporate actions of the companies in it. Divisor adjustments are made after the close of trading and after the calculation of the closing value of the index. Any change in the index divisor also affects the corresponding sub-indices and divisors. Each sub-index is maintained in the same manner as the headline index.

Corporate actions such as splits, stock dividends, spin-offs, rights offerings, and share changes are applied on the ex-date.

Please refer to the Index Mathematics document for a summary of index maintenance adjustments.

Currency of Calculation

S&P Japan 500, S&P Japan MidCap 100, and S&P Japan SmallCap 250 are all calculated in Japanese Yen. The S&P/TOPIX 150 is calculated in Japanese Yen and U.S. dollars.

Exchange Rate

Real-time spot Forex rates, as supplied by Reuters, are used for ongoing index calculation. The end-of-day value of the index is calculated using the real-time spot exchange rate provided by Reuters at the time the index is closed.

Base Date

The index has a base date of December 31, 1997, which is when the calculation began. Its own history has been calculated back to December 30, 1992.

Investable Weight Factor (IWF)

Investable Weight Factor = 1 – Sum of the % held by 10 major shareholders

All issues in the S&P Japan 500 are assigned a float factor, called an Investable Weight Factor (IWF). The IWF ranges between 0 and 1 and is an adjustment factor that accounts for the publicly available shares of a company. The company's adjusted market capitalization determines an equity issue's relative weight in the index.

Standard & Poor's identifies the following shareholders whose holdings are considered to be control blocks and are subject to float adjustment:

1. Holdings by banks and trust banks (excludes account in trust or pension funds)
2. Holdings by insurance companies
3. Holdings by current or former officers and directors of the company, founders of the company, or family trusts of officers, directors or founders.
4. Holdings by other publicly traded corporations, venture capital firms, private equity firms, strategic partners or leveraged buy-out groups.
5. Holdings by shareholders whose shares have not changed in over two years.

Exceptions to the Rule:

Holdings by investors whose interests are not strategic in nature but are for investment purposes will be ignored completely. These include mutual funds, pension funds, and other institutional investors. It is common for domestic and international fund managers to have exposures in companies that put them in the category of “block owners” by most definitions. However, the nature of the funds management business is plainly to buy and sell shares when there is value in doing so, and not to seek control or remove shares from circulation. Ordinarily these shares are considered part of float.

Total Return Index

Both a price return and a total return series are calculated. Gross cash dividends are applied on the ex-date of the dividend.

Index Governance

Index Committee

Each of Standard & Poor's global indices is the responsibility of an Index Committee that monitors overall policy guidelines and methodologies, as well as additions and deletions to these indices. The Index Committee is composed of Standard & Poor's staff specialized in the various regional equity markets. In some cases, regional committees include non-Standard & Poor's staff as minority members.

It is the sole responsibility of the Index Committee to decide on all matters relating to methodology, maintenance, constituent selection and index procedures. The Index Committee makes decisions based on all publicly available information, and Index Committee discussions are kept confidential to avoid any unnecessary impact on market trading. As the number of stocks in Standard & Poor's global indices is fixed, changes in the index are generally driven by corporate activity or the inability of a stock to reflect the market due to a large change in size or liquidity. This minimizes turnover, as changes are not based on small changes in size that cross some arbitrarily defined thresholds.

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. Quarterly changes are also announced five days before the ex-date.

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

Holiday Schedule

The S&P Japan 500 is calculated on all business days.

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

Recalculation Policy

Standard & Poor's attempts to avoid incorrect data that affects the indices on a best-efforts basis. Incorrect share calculations, corporate actions, and exchange rates are corrected immediately.

Index Precision

The level of precision for index calculation is as follows:

- Index values are published rounded to two decimal places.
- Shares outstanding are expressed in units.
- Investable Weight Factors (IWF) are rounded to two decimal places except for the IWF changes due to a private placement.
- Index values are calculated to six decimal places.

Index Dissemination

Market-sensitive announcements, including the additions or deletions of stocks in index, are normally made when markets are closed. In general, announcements are made at 04:15 PM Eastern Time.

Tickers

Daily index values, corporate actions, index weights and portfolios can be received via Standard & Poor's FTP site. Additionally, daily index values can be viewed on Bloomberg and Reuters. The tickers are as below:

Index (Price Return)	Bloomberg	Reuters
S&P Japan 500	SPJ500	.SPJ
S&P/TOPIX 150	SPTPX	.SPTPX
S&P Japan MidCap 100		.SPJMID
S&P Japan SmallCap 250	SJP250	.SPJSML

FTP

Daily stock level and index data is available via FTP on subscription.

For further information, please refer to Standard & Poor's Index Services Web site at www.indices.standardandpoors.com.

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