

TOPIX Moves to Free-Float

Tokyo Stock Exchange, Inc. (TSE) announced on July 23, 2004 that it will introduce free-float adjusted indices, a conclusion reached through consultation studies based on public comments that TSE sought until the end of April 2004. This change reflects requests from various users that free-float adjustment methodology should be introduced, and aims to minimize supply and demand distortion of share prices as index funds have increased in number in Japan.

■ **What is the TOPIX index?**

TOPIX is a market capitalization-weighted index based on all domestic common stocks listed on the TSE First Section, calculated and published by TSE. As the leading index in Japan, TOPIX is widely used as a benchmark for the Japanese market and is utilized as an economic indicator by the Japanese government. Additionally, financial products such as TOPIX Futures and TOPIX Options, TOPIX-ETF, and TOPIX-linked bonds and warrants attract many non-resident investors.

■ **How will TSE introduce free-float adjustment methodology for TOPIX?**

In order to minimize the adjustment's impact in index funds and subsequently in the market, Free-Float Weight (FFW) will be introduced in three phases as outlined below. The first and second phases will start after the close of trading one business day before the last business day of October 2005 and February 2006 respectively. The introduction of free-float adjustment methodology will be completed after the close of trading one business day before the last business day of June 2006.

■ **Which indices will be free-float adjusted?**

After October 2005, free-float adjustment methodology will be applied in the same way as TOPIX to all indices calculated and published by TSE except Tokyo Stock Exchange REIT Index. These indices include TOPIX Core 30, TOPIX 100, TOPIX Mid 400, TOPIX 500, TOPIX 1000 and other sub-indices, including 33 TOPIX Sector Indices.

■ **Does TSE provide provisional TOPIX?**

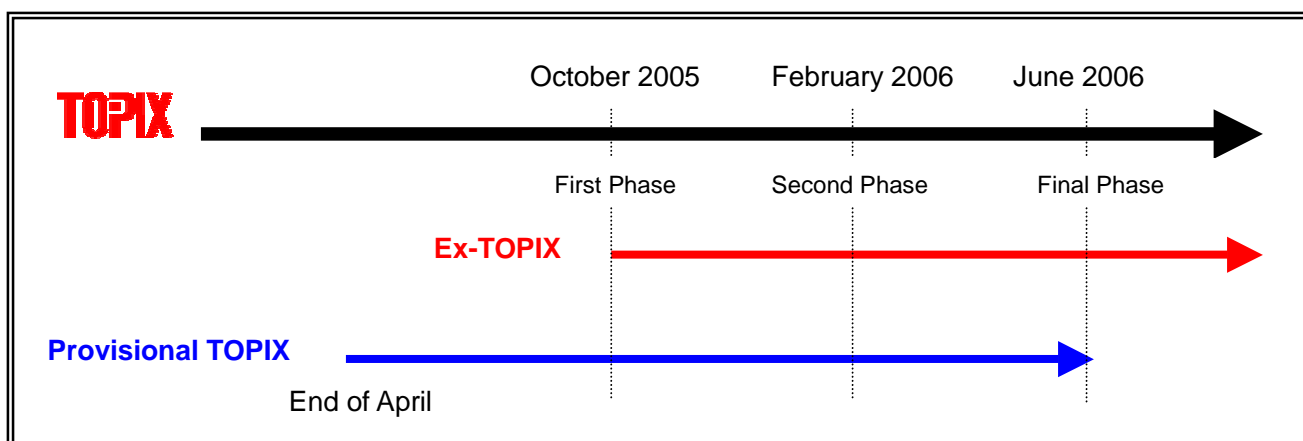
Yes. To provide a view of market movements with fully free-float adjusted indices in advance, TSE has been calculating "Provisional TOPIX" on a closing basis since April 28, 2005, and it will be discontinued with the index value on the last business day of June 2006, when the introduction of FFW will be complete.

TSE is calculating and publishing the following indices as provisional indices:

TOPIX, TOPIX New Index Series (TOPIX Core 30, TOPIX Large 70, TOPIX 100, TOPIX Mid 400, TOPIX 500, TOPIX 1000, TOPIX Small), TOPIX Electric Appliances Index, TOPIX Transportation Equipment Index and TOPIX Banks Index. The indices values are available through TSE's website.

■ **Will TSE continue to calculate existing TOPIX (total market capitalization-weighted index)?**

Yes. Considering its role as an economic indicator in the past and the needs from TOPIX users, TSE will continue calculation and publication of existing TOPIX on a real-time basis. However, starting on the last business day of October 2005, this index will be called "Ex-TOPIX."



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■ **How are listed shares deemed to be free-float or non free-float shares?**

Non free-float shares

TSE considers the following shares as non free-float shares:

- Shares held by top 10 major shareholders
- Shares held by the board of directors
- Treasury stocks
- Other shares that TSE deems to be not available for trading in the market

Free-float shares

TSE may treat shares held by the top 10 major shareholders as free-float shares when TSE deems shares held by securities depository and the like as available for trading in the market according to publicly available documents. (Please refer to the "Tokyo Stock Exchange Index Guide" published on TSE's website on April 28, 2005 for more details.)

Definition

Free-Float Weight (FFW) = 1 – Fixed Weight

Fixed Weight = Non Free-Float Shares / Listed Shares

Rounding up of FFW

FFW will be rounded up to the nearest 0.05 at the periodical review and rounded up to the nearest 0.01 at the extraordinary review.

Documents

In the interest of transparency and fairness of information, TSE will use Periodic Securities Reports (prepared according to Securities and Exchange Law of Japan) and publicly available documents issued by listed companies when calculating FFW.

■ **How often will TSE review FFW?**

Periodical Review

FFW will be reviewed annually. Effective dates vary by the settlement term of listed companies as follows:

Settlement Term of Listed Companies	Effective Date (After close of trading)
January – March	One business day before last business day of October
April – June	One business day before last business day of January
July – September	One business day before last business day of April
October – December	One business day before last business day of July

FFW for each term will be announced on the first business day of the month of the effective date.

Extraordinary Review

FFW may also be reviewed in the following cases:

Allocation of new shares to a third party, strategic exercise of preferred shares or equity warrants, company spin-off, merger, stock-swap, take over bid (TOB) and other events TSE judges as appropriate reason to review

■ **How will TOPIX futures and options be affected by the introduction of free-float?**

The underlying indices for index futures and options will be changed to free-float adjusted indices in three phases starting October 2005. The SQ calculation methodology will also be changed:

<http://www.tse.or.jp/english/option/topixffloat.html>

■ **What is the most efficient and reliable source for detailed information about TOPIX?**

TSE's Tokyo Market Information (TMI) service offers extensive index-related information. Please visit TSE's website to register for a free trial:

<http://www.tse.or.jp/english/guide/tmi/index.html#b>

■ **For more information:**

Launch of Provisional TOPIX and other indices (April 28, 2005):

http://www.tse.or.jp/english/news/2005/200504/050428_a.html

Publication of Provisional Indices and Ex-TOPIX with the Introduction of Free-Float Adjusted Indices (April 1, 2005):

http://www.tse.or.jp/english/news/2005/200504/050401_b.html

Introduction of Free-Float Adjusted Indices (July 23, 2004):

http://www.tse.or.jp/english/news/2004/200407/040723_a.html

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