

# Russell/Nomura Prime Index

## 2005 guide

The Russell/Nomura Prime Index is one of the Russell/Nomura Japan Equity Index series and is designed to serve as a benchmark for passive investment. The Prime Index has the following characteristics.

1. It represents Japan's top 1,000 stocks, determined by float-adjusted market capitalization, and has broad market coverage.
2. It includes stocks from a broad universe of Japan equities, including those listed on JASDAQ, and does not limit inclusion to the First Section of the Tokyo Stock Exchange.
3. It is adjusted in detail for free float, thereby reflecting more accurately actual investment opportunities.
4. It employs "banding" methods when membership is rebalanced at the annual reconfiguration in order to limit frequent replacement caused by small fluctuations of market capitalization. Also, a "negative-list" method is used to help prevent the inclusion of stocks of especially low liquidity.
5. It continuously includes stocks that are tentatively delisted due to mergers or equity transfers and revises the float ratio in the event of private placements.
6. There are value and growth indexes based on the stocks in the Prime Index. There are also 33 industrial indexes based on the stocks in the Prime Index.
7. Futures contracts for the index are scheduled to start being traded on the Osaka Securities Exchange on 25 April 2005.

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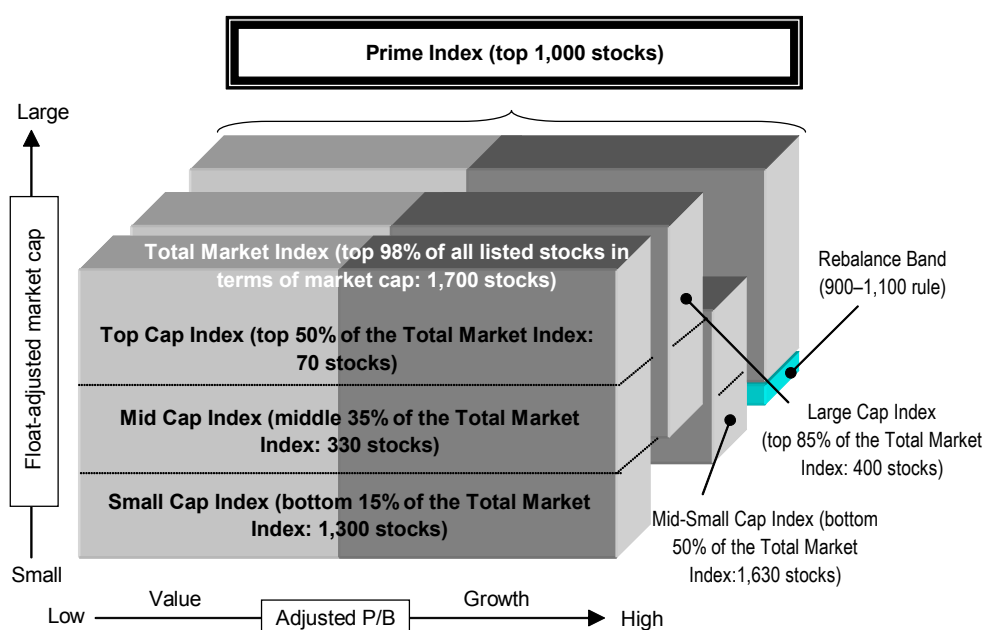
Nomura research sites:

[www.nomura.com/research](http://www.nomura.com/research)

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Please read the important disclosures on the back page of this report.

### Russell/Nomura Japan Equity Indexes



Note: No. of stocks as of 1 December 2004.

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## ■ Outline of the Prime Index

The Russell/Nomura Prime Index was jointly developed by Nomura Securities Financial & Economic Research Center and Russell Investment Group.

### 1. Name

Russell/Nomura Prime Index

### 2. Characteristics

The Russell/Nomura Prime Index is a benchmark index suited for passive investment strategies, has broad market coverage, and takes into account liquidity.

It is one of the Russell/Nomura Japanese Equity Indexes and is based on market cap adjusted for free float.

Stocks listed on all markets, including JASDAQ, are eligible for inclusion in the index. Stocks are not only chosen from the First Section of the Tokyo Stock Exchange (TSE-1).

The Prime Value and Prime Growth indexes are based on the stocks in the Prime Index. There are also 33 industrial indexes based on the stocks in the Prime Index.

The index has a version in which dividend payouts are included and one in which they are not.

The index is calculated based on the share price for each stock on its main market (the Nomura composite share price).

The index is calculated on a daily basis. A real-time calculation of the index is also available.<sup>1</sup>

The stock selection method is clearly defined in order to eliminate arbitrary selection.

### 3. Base date

Data for the index have been backdated to 30 December 1996.

### 4. Other

Futures contracts for the index are scheduled to start being traded on the Osaka Securities Exchange on 25 April 2005.

(1) Only the Prime Index is calculated in real time. The Prime Value, Prime Growth, and industrial indexes are calculated on a daily basis only.

## ■ Selection rules for the Prime Index

### (1) 1,000 largest stocks in terms of float-adjusted market capitalization

The Prime Index is made up of the largest stocks in terms of market capitalization adjusted for free float. Specifically, the index is made up of the 1,000 largest stocks in terms of float-adjusted market capitalization of the Russell/Nomura Total Market Index, which are determined by a regular reconfiguration of the Russell/Nomura Japan Equity Indexes.<sup>2</sup> A “banding” method is used to limit replacements resulting from small changes in market capitalization and a “negative list” is used to help prevent the inclusion of stocks with low liquidity. The “negative list” takes precedence over “banding.”<sup>3</sup>

### (2) Negative list (exclusion of low-liquidity stocks)

This rule is meant to restrict the inclusion of stocks with exceptionally low liquidity. Stocks ranked 2,001st or lower<sup>4</sup> in terms of average monthly trading value in the one year to the base date for the regular reconfiguration are not included.

### (3) Banding method (900–1,100 rule)

This rule is meant to limit the frequent replacement of stocks owing to small changes in market capitalization. Stocks ranked 900 or higher in terms of float-adjusted market capitalization are automatically included, regardless of whether or not they were included in the index prior to the rebalancing. Stocks ranked 901 to 1,100 are included in the index only if they were included in the index prior to the rebalancing, until 1,000 stocks have been selected. If 1,000 stocks are not selected after going through the 1,100 stocks in this way, stocks ranked between 901 and 1,100 that were not included in the index prior to the rebalancing are selected.

### (4) Other rules

The other rules for the Prime Index are the same as those for the Russell/Nomura Japan Equity Indexes. The following are the main characteristics.

- (a) The index is reconfigured once a year (the first trading day of December every year<sup>5</sup>).
- (b) Newly listed large-caps stocks are included every quarter (refer to section (1) of the appendix).
- (c) The index is adjusted for free float (refer to section (2) of the appendix).
- (d) Stocks that are tentatively delisted due to mergers or equity transfers are continuously included in the index (refer to section (3) of the appendix).
- (e) The index is calculated based on the share price for each stock on its main market (the Nomura composite share price) (refer to section (4) of the appendix).

(2) Stocks are selected on the basis of market capitalization as of the base date for the regular reconfiguration (the end of the calendar month two months prior to the reconfiguration). For example, in the case of the regular reconfiguration of 1 December 2004, market capitalizations as of end-October 2004 were used. After the regular reconfiguration, the number of stocks in the index may decrease owing to mergers or increase owing to the quarterly inclusion of newly listed stocks.

(3) The negative list and banding rules are applied only to the Prime Index, and not to the other Russell/Nomura Japan Equity Indexes.

(4) The ranking is based on the sample of stocks eligible for inclusion in the event of a regular reconfiguration of the Russell/Nomura Japan Equity Indexes.

(5) Prior to 2002, regular reconfigurations were carried out on the first trading day of January, and in 2002 the regular reconfiguration was carried out on the first trading day of February. As a rule, index changes are posted on the Nomura Securities website <http://www.nomura.co.jp/QR/FRCNRI> about two weeks before the changes take effect.

**(5) Prime Value and Prime Growth indexes**

The Prime Value and Prime Growth indexes are based on the stocks in the Prime Index (refer to section (5) of the appendix). There are also 33 industrial indexes based on the Prime Index.

**(6) More detailed selection rules**

For more details on selection rules, refer to Russell/Nomura Japan Equity Indexes (2005 version), issued in English on 20 April 2005.

## ■ Features of the Prime Index

### (1) Summary of Russell/Nomura Japan Equity Indexes

1. Comparison of market cap and number of stocks		
	No. of stocks	% of total market cap
Total	1,700	100.0
Value	1,231	51.9
Growth	796	48.1
Large	400	85.9
Value	271	42.7
Growth	251	43.2
Top	70	51.1
Value	45	24.6
Growth	50	26.5
Mid	330	34.8
Value	226	18.1
Growth	201	16.7
Mid-Small	1,630	48.9
Value	1,186	27.3
Growth	746	21.6
Small	1,300	14.1
Value	960	9.2
Growth	545	4.9
<b>Prime</b>	<b>1,000</b>	<b>96.4</b>
Value	718	49.6
Growth	514	46.8

Note: Data as of 1 December 2004 following the regular reconfiguration, except for market caps, which are as of end-November 2004.

Source: Nomura

### (2) Market coverage

Since the Prime Index includes listed stocks that do not belong to TSE-1, there are fewer stocks in the Prime Index than in TOPIX, but the ratio of the Prime Index's market cap to the total market cap is approximately the same as that of TOPIX.

2. Comparison of market cap and number of stocks				
	Total market	Russell/Nomura Prime Index	TOPIX	TOPIX 1,000
Market cap (¥trn)	366	329	336	324
% of total market	-	90	92	89
No. of stocks	3,718	1,000	1,587	999
Non-TSE-1 stocks	2,125	73	0	0

Note: Data as of end-November 2004, except for the Prime Index data, which are as of 1 December 2004 following the regular reconfiguration. Market cap figures are not adjusted for free float.

Source: Nomura

### (3) Constituent stocks by stock exchange

The Prime Index includes 73 stocks not listed on TSE-1.

#### 3. Prime Index's constituent stocks by stock exchange

TSE			OSE		NSE	FSE	JASDAQ	OSE-H	Total
1	2	Mothers	1	2					
927	20	11	4	2	2	0	32	2	1,000

Note: Data as of end-November 2004, except for the Prime Index data, which are as of 1 December 2004 following the regular reconfiguration. Stocks listed on multiple markets are divided here according to the following order of preference: Tokyo Stock Exchange, Osaka Securities Exchange, Nagoya Stock Exchange, Fukuoka Stock Exchange, Sapporo Stock Exchange, JASDAQ, OSE-Hercules (formerly NASDAQ Japan). This is not necessarily the same as the market from which each stock's market price is taken.

Source: Nomura

### (4) Ratio of stable shareholdings

#### 4. Ratio of stable shareholdings by sector in the Prime Index (%)

Fishery, agriculture & forestry	36.35	Precision instruments	32.82
Mining	57.53	Other products	38.70
Construction	38.92	Electric power & gas	28.21
Foods	44.11	Land transportation	34.34
Textiles & apparel	29.30	Marine transportation	37.96
Pulp & paper	33.53	Air transportation	34.03
Chemicals	32.40	Warehousing & harbor transport services	36.54
Pharmaceuticals	28.88	Information & communication	56.54
Oil & coal products	39.18	Wholesale	39.85
Rubber products	39.86	Retail	46.40
Glass & ceramic products	38.79	Banks	39.54
Iron & steel	31.74	Securities & commodity futures	33.36
Nonferrous metals	23.62	Insurance	29.01
Metal products	40.48	Other financing	47.73
Machinery	38.56	Real estate	34.80
Electric appliances	28.00	Services	47.59
Transport equipment	45.62		
		Total	38.68

Note: Data as of end-November 2004, except for the Prime Index data, which are as of 1 December 2004 following the regular reconfiguration. Ratio of stable shareholdings is the market cap of stable shareholdings divided by the total market cap unadjusted for free float.

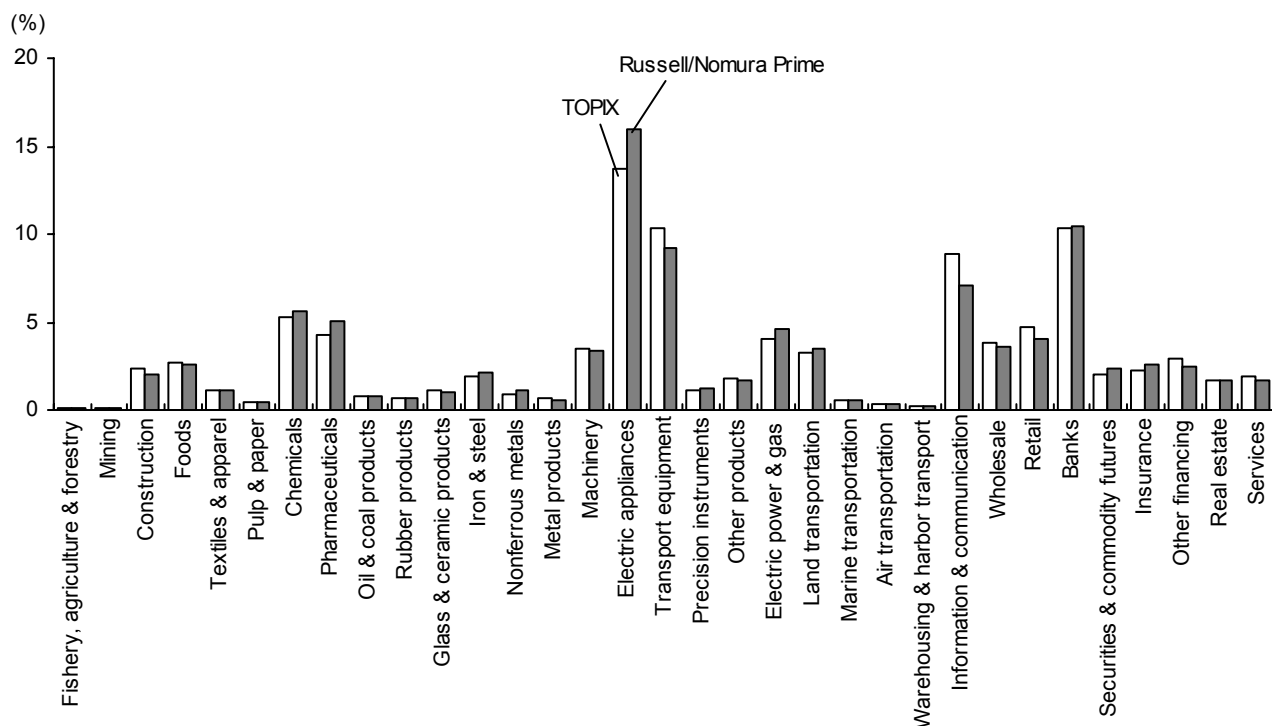
Source: Nomura

## (5) Sector weighting

The market cap weightings of the electric appliance and pharmaceutical sectors in the Prime Index are substantially larger than those in the TOPIX. The market cap weightings of the information & communication and transport equipment are significantly smaller than those in the TOPIX.

### 5. Sector weight comparison: Prime Index versus TOPIX

	Russell/ Nomura Prime a %	TOPIX b %	Difference (a-b) x 100 bps		Russell/ Nomura Prime a %	TOPIX b %	Difference (a-b) x 100 bps
Fishery, agriculture & forestry	0.10	0.10	-0.24	Precision instruments	1.26	1.16	10.54
Mining	0.09	0.15	-6.24	Other products	1.73	1.79	-6.63
Construction	2.05	2.35	-30.53	Electric power & gas	4.62	4.06	56.64
Foods	2.57	2.64	-7.16	Land transportation	3.50	3.21	28.26
Textiles & apparel	1.11	1.07	3.78	Marine transportation	0.60	0.61	-1.90
Pulp & paper	0.49	0.50	-0.51	Air transportation	0.37	0.35	1.87
Chemicals	5.58	5.30	27.18	Warehousing & harbor transport	0.19	0.21	-1.79
Pharmaceuticals	5.05	4.32	72.48	Information & communication	7.07	8.89	-181.81
Oil & coal products	0.79	0.80	-1.23	Wholesale	3.56	3.86	-30.68
Rubber products	0.68	0.70	-1.38	Retail	3.99	4.72	-73.00
Glass & ceramic products	1.07	1.10	-3.39	Banks	10.50	10.33	17.12
Iron & steel	2.08	1.95	13.18	Securities & commodity futures	2.40	2.08	32.01
Nonferrous metals	1.15	0.92	22.40	Insurance	2.56	2.20	36.20
Metal products	0.51	0.63	-12.13	Other financing	2.44	2.87	-42.71
Machinery	3.38	3.54	-15.67	Real estate	1.67	1.64	3.29
Electric appliances	15.98	13.71	227.25	Services	1.69	1.86	-16.59
Transport equipment	9.18	10.37	-118.60				
				Total	100.00	100.00	



Note: Data as of end-November 2004, except for the Prime Index data, which are as of 1 December 2004 following the regular reconfiguration. The Prime Index's market cap figures are adjusted for free float, but those for TOPIX are not.

Source: Nomura



**(6) Annual reconfiguration of stock constituency****6. Prime Index's annual reconfiguration and number of stocks**

Date of annual reconfiguration	No. of stocks following reconfiguration				
	Prime Index	Out	In	Prime Value	Prime Growth
Jan 1998	1,000	57	63	805	476
Jan 1999	1,000	33	39	801	425
Jan 2000	1,000	117	123	792	410
Jan 2001	1,000	56	62	776	430
Feb 2002	1,000	63	69	802	397
Dec 2002	1,000	32	38	783	410
Dec 2003	1,000	53	59	740	472
Dec 2004	1,000	45	56	718	514

Source: Nomura

**7. Prime Index's annual reconfiguration and turnover ratio**

(%)

	Prime	Value	Growth
Jan 1998	1.44	17.92	13.76
Jan 1999	3.02	12.89	14.17
Jan 2000	3.46	31.47	25.60
Jan 2001	2.72	18.90	21.05
Feb 2002	2.39	17.01	15.86
Dec 2002	2.17	13.46	13.26
Dec 2003	2.11	19.31	20.31
Dec 2004	3.40	17.70	20.70
Average	2.59	18.58	18.09

Note: Turnover ratio is  $[\sum |\text{market cap weighting before reconfiguration} - \text{market cap weighting after reconfiguration}| \div 2]$ , and based on the share prices at the end of each month. In other words, the figures indicate the one-way turnover in the case of an index fund constructed by actually investing in all of the constituent stocks of the benchmark index.

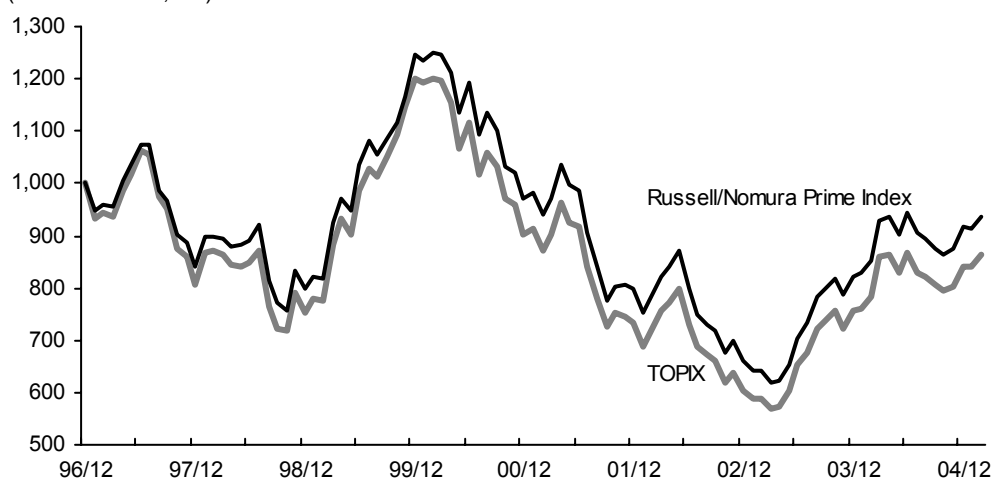
Source: Nomura

## (7) Historical performance

As the Prime Index is adjusted for free float and its composition differs from that of the TOPIX, its performance diverges to some extent from that of the TOPIX. The Prime Index's historical performance has exceeded that of the TOPIX.

### 8. Prime Index performance (vs TOPIX, Dec 1996–Feb 2005)

(End-Dec 96 = 1,000)

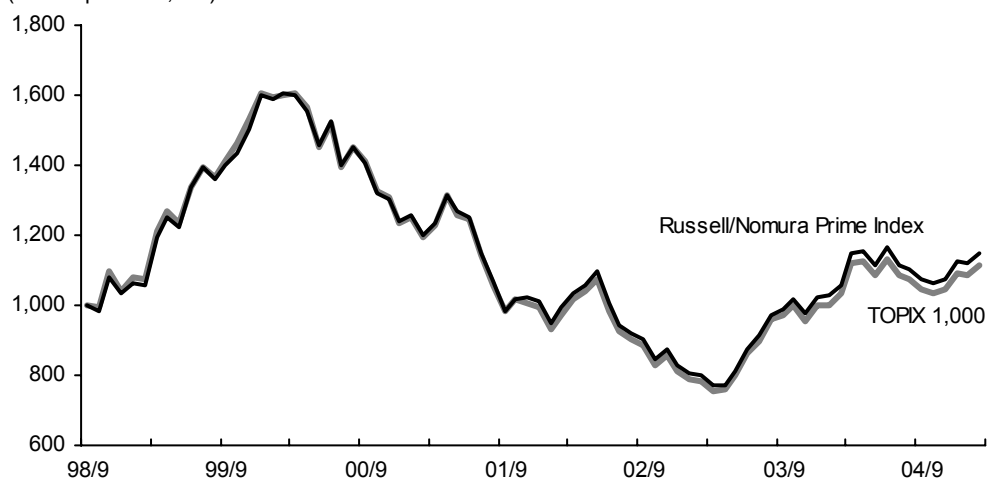


Note: Returns for both indexes are calculated inclusive of dividends. The Prime Index is adjusted for free float, but the TOPIX is not.

Source: Nomura, based on data from Tokyo Stock Exchange and other sources

### 9. Prime Index performance (vs TOPIX 1,000, Sep 1998–Feb 2005)

(End-Sep '98 = 1,000)

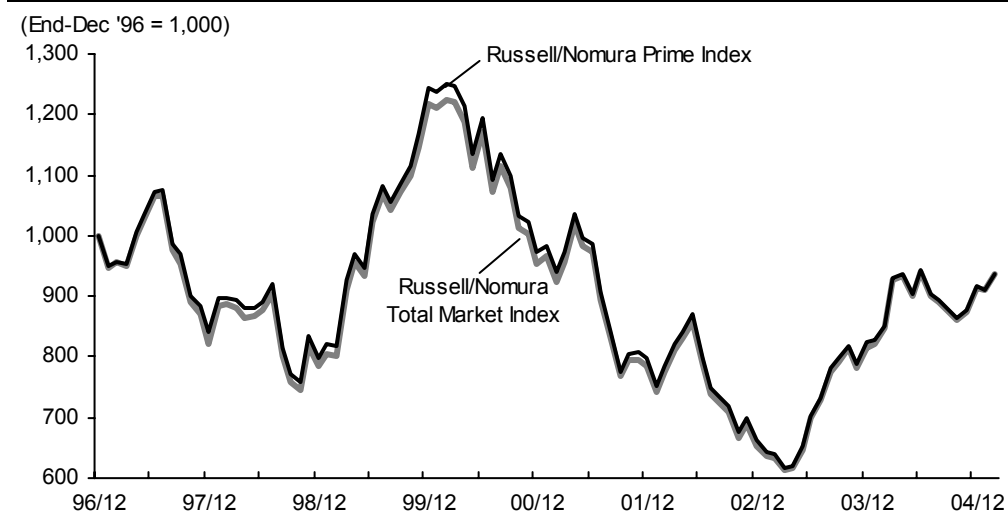


Note: Returns for both indexes are calculated exclusive of dividends. TOPIX 1,000 values are only available from September 1998 onward. The Prime Index is adjusted for free float, but the TOPIX 1,000 is not.

Source: Nomura, based on data from Tokyo Stock Exchange and other sources

The performance of the Russell/Nomura Total Market Index and the Prime Index show very close correlation.

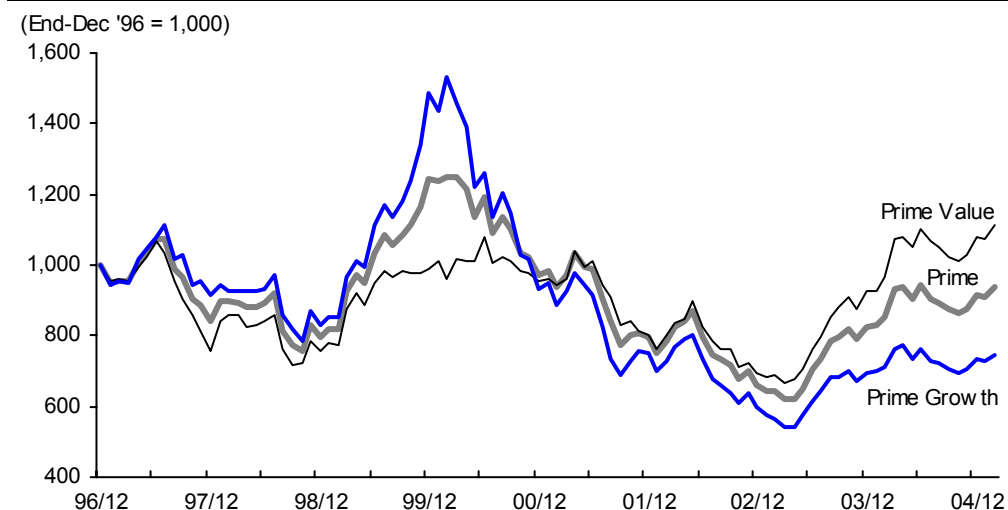
#### 10. Prime Index performance (vs Russell/Nomura Total Market Index, Dec 1996–Feb 2005)



Note: Indexes include dividends  
Source: Nomura

The performances of the Prime Value and Prime Value indexes diverge significantly. In recent years, the Prime Value Index has tended to outperform.

#### 11. Index performance (Dec 1996–Feb 2005)



Note: Indexes include dividends  
Source: Nomura

## ■ Data publication service

Data for the Russell/Nomura Prime Index can be obtained via the following channels.

- Index values are published in the following media:
  - Reuters (FRCNRI)
  - QUICK (NRIJ500)
  - Our website (<http://www.nomura.co.jp/QR/FRCNRI>)
  - Bloomberg (RNJI)

- More detailed data

More detailed data on index values and individual stock information can be obtained through Nomura Research Institute services e-Aurora and IDS.

For information, contact:

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## ■ Appendix

### (1) Treatment of newly listed stocks <sup>6</sup>

Newly listed stocks for each quarter are considered for inclusion at the end of the following month, and if they are in the Nomura/Russell Large Cap Index in terms of float-adjusted market capitalization (the number of stocks included in December is determined by the number of stocks in the index at the completion of the regular reconfiguration), they are included in the index as of the first business day of the second following month.

Listing date	Determination date	Inclusion date
Jan–Mar	End of Apr	First business day in Jun
Apr–Jun	End of Jul	First business day in Sep
Jul–Sep	End of Oct	First business day in Dec (included in regular reconfiguration)
Oct–Dec	End of Jan	First business day in Mar

### (2) Adjustment for free float

The number of free-float shares is the total number of share outstanding minus stable shareholdings. The stable shareholding ratio is the number of stocks in stable shareholdings divided by the total number of shares outstanding. We calculate stable shareholdings using the following data.

- 1) Toyo Keizai's major shareholder data
- 2) Declarations of marketable securities holdings contained in company securities filings

The data used is the latest data available as of the regular reconfiguration date. When duplicate data exists, we give preference to data by major shareholders. However, we exclude from stable shareholdings shares thought to be for purely investment purposes. <sup>7</sup> The stable shareholding ratios used in calculating the index are two-year moving averages of single-year stable shareholding ratios. <sup>8</sup> Barring private placements, stock swaps, mergers, etc, stable shareholder ratios are reviewed at the time of the regular reconfiguration. <sup>9</sup>

(6) These rules were adopted for the stocks added in June 2002 and thereafter.

(7) Stocks held for purely investment purposes include those in funds managed by domestic trust banks and life insurers (eg, pension funds, investment trusts), as well as those held by foreign banks, venture capital companies, etc.

(8) From the January 1998 regular reconfiguration through December 2003, three-year moving averages were used. In the January 1997 regular reconfiguration and before, only single-year figures were used.

(9) On the adjustment date for the issuance of new shares for private placement (five days following the issuance), the stable shareholder ratio is adjusted as follows:

$$\text{Adjusted shareholder ratio} = (\text{stable shareholder ratio prior to adjustment} \times \text{no. of shares outstanding used for calculation of index prior to private placement} + \text{no. of shares transferred due to private placement}) \div (\text{no. of shares outstanding used for calculation of index prior to private placement} + \text{no. of shares transferred due to private placement})$$

The shares issued according to the private placement can be viewed as stable shareholdings. This adjusted shareholder ratio calculation is designed so that the number of shares excluding stable shareholdings used in calculating the index does not change due to the private placement. This rule has been applied since 1 December 2004.

**(3) Stock swaps, stock transfers, and mergers <sup>10</sup>**

Based on the following rules, changes to stocks in the index are made in a timely manner in the event of stock swaps, stock transfers, and the like, taking into consideration the numerous forms of corporate reorganization. We make changes to stocks in the index in the event of corporate reorganization after looking at each case individually and the company's post-reorganization state. The objective is to maintain the continuity of the constituent stocks and avoid temporary exclusions from the indexes.

- Stock swaps, mergers, etc

When a stock is delisted because the company will become a wholly owned subsidiary or because of a merger, it is excluded on the day of the merger. Following delisting, and until exclusion, the company's valuation will be based on the market value of the wholly owning parent or surviving company multiplied by the merger or exchange ratio. The stable shareholding ratios of the wholly owning parent or the merging company change based on the merger or exchange ratio.

- Stock transfers

In the case of an unlisted parent company that assumes the operations of another company and lists in a short period of time, the stock of the wholly owned subsidiary is removed from the index on the date of the parent company's listing. The price of the delisted subsidiary used until it is removed is the price on the day before the delisting. The stock of the parent company is included in the indexes on the date of the listing.

**(4) Nomura composite share prices**

If a stock is listed on multiple markets, the Nomura composite share price is used for calculating the index. The Nomura composite share price is the price on the exchange we think gives the most appropriate price for the stock, as determined by the ratio of trades made per listed stock and trading volume.

**(5) Value/growth classification**

Composition and composition ratios for the value and growth indexes are determined using a non-linear probability function for each stock. The function determines the probability of each stock falling under value or growth investment style classifications, and involves calculating share price adjusted for unrealized gains/losses divided by equity capital (adjusted P/B ratio). The sum of the probabilities for both styles for each stock is 100%. Some stocks may be included in both the Prime Value and Prime Growth indexes. Barring private placements, stock swaps, mergers, etc, these probabilities are reviewed at the time of the regular reconfiguration.

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(10) Effective from changes occurring since April 2002.

## ■ Reference

Russell/Nomura Japan Equity Indexes (2004 version), Financial & Economic Research Center, Nomura Securities, 9 June 2004.

Russell/Nomura Japan Equity Indexes (2005 version), Financial & Economic Research Center, Nomura Securities, issued in English on 20 April 2005.

**Price targets:**

Price targets, if discussed, reflect in part the analyst's estimates for the company's earnings. The achievement of any price target may be impeded by general market and macroeconomic trends, and by other risks related to the company or the market, and may not occur if the company's earnings fall short of estimate.

**The Nomura rating system:**

- A rating of "1", or "**Strong buy**," indicates that the analyst expects the stock to outperform the Benchmark by 15% or more over the next six months.
- A rating of "2", or "**Buy**," indicates that the analyst expects the stock to outperform the Benchmark by 5% or more but less than 15% over the next six months.
- A rating of "3", or "**Neutral**," indicates that the analyst expects the stock to either outperform or underperform the Benchmark by less than 5% over the next six months.
- A rating of "4", or "**Reduce**," indicates that the analyst expects the stock to underperform the Benchmark by 5% or more but less than 15% over the next six months.
- A rating of "5", or "**Sell**," indicates that the analyst expects the stock to underperform the Benchmark by 15% or more over the next six months.
- Stocks labelled "Not rated" or shown as "No rating" are not in Nomura's regular research coverage.

**Nomura sector opinions:**

A "**Bullish**" stance, indicates that the analyst expects the sector to outperform the Benchmark during the next six months.

A "**Neutral**" stance, indicates that the analyst expects the sector to perform in line with the Benchmark during the next six months.

A "**Bearish**" stance, indicates that the analyst expects the sector to underperform the Benchmark during the next six months.

Benchmarks are as follows: **Japan:** TOPIX; **United States:** S&P 500 (except as shown below); **Asia**, by region and class of stock—**Australia:** ASX All Ordinaries Index; **China:** Hang Seng Index; **Hong Kong:** Hang Seng Index, Hang Seng China Affiliated Corp Index, Hang Seng China Enterprises Index, HK Growth Enterprises Index; **Indonesia:** Jakarta Composite Index; **Korea:** Korea Composite Index, Kosdaq Composite Index; **Malaysia:** Kuala Lumpur Comp Index, Kuala Lumpur 2nd Board; **Singapore:** STI Index; **Taiwan:** Weighted Index, Taiwan Gre Tai Securities Market Index; **Thailand:** Stock Exchange of Thailand; **Europe**, by sector - **Biotech:** FTSE Techmark Mediscience; **Pharma:** FTSE W Europe Pharm & Biotech; **Hardware/Semiconductors:** FTSE W Europe IT Hardware; **Telecoms:** FTSE W Europe Telecom Services; **Transport & Logistics:** FTSE W Europe Transport (FTSE W US Cyclical SVS for UPS & FedEx); **Auto & Components:** FTSE W Europe Auto & Parts; **Communications equipment:** FTSE W Europe IT Hardware (four-company analyst coverage group for Lucent Technologies).

**For three-year daily stock-price and rating history charts:**

For three-year daily stock-price and rating history charts of NSI-rated US stocks recommended in this report, current as of the last calendar quarter and showing a distribution of investment ratings on all such US stocks by rating category and investment banking relationship, please request the latest issue of Nomura publication "Three-year stock price charts and rating distribution." To request this publication, please contact H. Omiya, US Equity Sales Desk, Nomura Securities International, Inc., 2 World Financial Center, Building B, New York, New York 10281, Telephone: 212-667-9210, E-mail: homiya@us.nomura.com.

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