

Guide
to the

Dow Jones Islamic Market Index



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1. INTRODUCTION

The Dow Jones Islamic Market Index (DJIM) is an Islamic equity benchmark index. It is a subset of Dow Jones Global Indexes (DJGI) family, which includes stocks from 34 countries and covers the 10 economic sectors, 18 market sectors, 51 industry groups and 89 subgroups defined by the Dow Jones Global Classification Standard. The Dow Jones Islamic Market Index excludes any stock whose company's primary business is impermissible according to Shari`ah law.

The purpose of the Dow Jones Islamic Market Index is to provide a definitive standard for measuring stock market performance for Islamic investors on a global basis, in accordance with Dow Jones Indexes's established index methodology and the Islamic investment guidelines established by the index's Shari`ah Supervisory Board. The methodology used to construct and maintain the index aims to produce an investable index in which all constituent stocks are readily accessible and well traded.

2. KEY FEATURES

2.1. Base Date and Value

The Dow Jones Islamic Market Index is based on December 31, 1995. The base value is set at 1000.

2.2. Index Formula

The index is calculated with Laspeyres's formula. A detailed explanation of the formula is provided in section 8.2 of *Guide to the Dow Jones Global Indexes*.

2.3. Weighting

The Dow Jones Islamic Market Index is weighted by free-float market capitalization, rather than full market capitalization, to reflect the actual number of shares available to investors. Detail on the free-float rules is provided in section 7 of *Guide to the Dow Jones Global Indexes*.

2.4. Prices and Currency Values

The index is computed on the basis of last prices and the latest available currency rates. It does not include reinvested dividends.

In the event of a suspension of a quotation during a trading session, the last traded price is used for all subsequent index computations. If a quotation is suspended before trading begins, the closing price (or adjusted closing price, if there are corporate actions) from the previous day is used to calculate the index. If there is a stock exchange holiday, the last available stock price is used for the index calculation. All stock prices are converted into U.S. dollars. The currency rates are taken on a real-time basis, and for each currency the bid price is used.

2.5. Publication

The Dow Jones Islamic Market Index is calculated real-time and is disseminated as soon as the first opening price for a component is received. The real-time values and intraday high and low values are disseminated every 15 seconds to the CBOT for further dissemination to downstream information vendors. To ensure that the last traded prices of all stocks are included in the last index calculation of the day, the index is calculated until 5:30 p.m. (New York Time).

The official closing value for the index is calculated using the closing price of each component stock. For stocks that did not trade on the current day, the closing prices or adjusted closing prices from the previous trading day are used.

At 5:30 p.m. EST, the closing value of the index is calculated and disseminated via a summary message. The summary message also includes intraday highs and lows and 52-week highs and lows.

2.6. Computational Precision

Index values are rounded to two decimal places and divisors are rounded to eight integers. Any values derived by the index engine from a corporate action used for divisor adjustments and index computations are rounded to seven decimal places. Component share values reflect the full numbers.

3. UNIVERSE CREATION AND COMPONENT SELECTION

3.1. Definition of the Index Universe

The DJIM universe corresponds with the pool of stocks contained in the Dow Jones Global Indexes. For detail on the selection of stocks to the Dow Jones Global Indexes, please refer to section 4 of *Guide to the Dow Jones Global Indexes*.

DJIM components are selected by filtering the index universe through screens for business activities and financial ratios to remove stocks that are not suitable for Islamic investment purposes.

3.2. Screens for Acceptable Business Activities

Based on the Shari`ah Supervisory Board established parameters, the businesses listed below are inconsistent with Shari`ah law. The majority of Shari`ah scholars and boards hold that these industries and their financial instruments are inconsistent with Shari`ah precepts and hence are not suitable for Islamic investment purposes. Although no universal consensus exists among contemporary Shari`ah scholars on the prohibition of tobacco companies and the defense industry, most Shari`ah boards have advised against investment in companies involved in these activities.

- Alcohol
- Tobacco
- Pork-related products
- Conventional financial services (banking, insurance, etc.)
- Weapons and defense
- Entertainment (hotels, casinos/gambling, cinema, pornography, music, etc.)

During the component selection process, each company in the index universe is examined based on its revenue allocation. If the company has business activities in any one of the following industry groups or sub-groups defined by the Dow Jones Global Classification Standard, it is considered inappropriate for Islamic investment purposes and is excluded from the index.

- ADV Advertising
- BNK Banks, including: Banks, Ex-S&L (BKS) and Savings & Loans (SAL)
- BRD Broadcasting
- CNO Casinos
- DST Distillers & Brewers
- FDR Food Retailers & Wholesalers
- FIS Diversified Financial
- INS Insurance, including: Full-Line Insurance (INF), Life Insurance (INL) and Property & Casualty Insurance (INP)
- LOD Lodging
- MOV Entertainment
- RES Restaurants
- SCR Investment Services
- TOB Tobacco

3.3. Screens for Acceptable Financial Ratios

After removing companies with unacceptable primary business activities, the remaining stocks are evaluated according to several financial ratio filters. The filters are based on criteria set up by the Shari`ah Supervisory Board to remove companies with unacceptable levels of debts or impure interest income.

1. Exclude companies if Total Debt divided by Trailing 12-Month Average Market Capitalization is greater than or equal to 33%.
(Note: Total Debt = Short-Term Debt + Current Portion of Long-Term Debt + Long-Term Debt)
2. Exclude companies if the sum of Cash and Interest Bearing Securities divided by Trailing 12-Month Average Market Capitalization is greater than or equal to 33%.
3. Exclude companies if Accounts Receivables divided by Total Assets is greater than or equal to 45%.
(Note: Accounts Receivables = Current Receivables + Long-Term Receivables)

Companies passing the screens detailed in sections 3.2 and 3.3 are included as components of the Dow Jones Islamic Market Index.

4. PERIODIC REVIEW

4.1. Composition Review Dates and Process

The composition of the Dow Jones Islamic Market Index is reviewed quarterly with changes implemented on the third Friday in March, June, September and December. Market data from the end of January, April, July and October are used as the basis for the revision process. Changes to the index are implemented after the official closing values have been established. All adjustments are made before the start of the next quarterly cycle.

The review process is carried out by repeating the universe creation and component selection processes as described in Section 3.

Any component removed from the Dow Jones Global Indexes is subsequently removed from the Dow Jones Islamic Market Index.

4.2. Announcement Period

Preliminary changes in DJIM constituents resulting from the periodic review are announced one week prior to the implementation date. Final changes, including final shares, float factor and 10%-cap factor are announced on the Wednesday prior to the implementation date (i.e. on the third Wednesday of March, June, September and December).

4.3. Update of Component Weightings

The number of shares is updated quarterly using data from the end of January, April, July and October.

If there should be a change of more than 10% in the number of shares for one index component, the current number is adjusted immediately on the day the change occurs following an announcement period of at least two days. Otherwise, the changes are made at the next update. All share numbers and all changes are published as soon as they are available. Changes in the share numbers due to stock dividends, splits and other corporate actions are adjusted immediately.

5. ONGOING REVIEW

In addition to the quarterly and annual composition reviews, the Dow Jones Islamic Market Index is reviewed on an ongoing basis. A change in the index is necessary should an extraordinary event such as a delisting, bankruptcy, merger, takeover, etc. affect an index component. In these cases, the event is taken into account as soon as it becomes effective. In exceptional cases the usual one-week announcement period may be shortened.

5.1. Change of Primary Market Listing

When a company's primary market listing changes, it is removed from the selection list of its former exchange. It remains in the index only if its new exchange is eligible for the index.

5.2. New Eligible Securities

When a new issue qualifies for and is added to the Dow Jones Global Indexes, it is evaluated according to the Shari'ah analysis described in Section 3 to determine whether it will be included in the Dow Jones Islamic Market Index.

6. CALCULATION AND ADJUSTMENTS

6.1. Input Data

Prices and currency rates are sourced from Bridge Information Systems. Share numbers are obtained from Mueller and the Nasdaq for U.S. securities and from Extel for non-U.S. securities. The companies themselves may be used as an additional source. Corporate actions are sourced from the exchanges for U.S. securities and from Extel for non-U.S. securities. Financial data are provided by Worldscope. Data filters, audits and quality assurance tools are used to monitor and maintain the accuracy of the input data. Static data are verified against secondary sources and active data are monitored in real-time.

6.2. Divisor Adjustments

Adjustments to the base date market capitalization (or divisor) are implemented quarterly and annually for the composition and weighting changes of the index to maintain its representation of the underlying market. In addition, to maintain the index's continuity, adjustments to the base date value market capitalization are performed as often as necessary. Adjustments are made whenever there is a change in the composition of the index, such as an addition or deletion. Corporate actions and capital changes such as mergers, acquisitions, spin-offs, rights offerings, repurchases of shares, public offerings and special cash or stock distributions of other than the same stock may also call for adjustments to be made. Such adjustments are necessary to prevent the value of the index from changing due to such events. On the third Friday in a quarter-end month, the index is calculated with the old weightings for the last time. New weightings, following the quarterly review, are applied before the start of the next trading day. By adjusting the base date market capitalization the index value remains constant before and after the event.

The formula for divisor adjustments is provided in Section 8.4.1 of *Guide to the Dow Jones Global Indexes*; detail on the impact of corporate actions is provided in Section 8.4.2 of that document. The current index divisor is disseminated via major data vendors and at www.djindexes.com.

6.3. Adjustments for Corporate Actions

To maintain a high standard of data integrity, a series of procedures have been implemented to ensure accuracy, timeliness and consistency. Input prices are monitored using a variety of computerized range-check warning systems for both ticker plant and real-time index systems. Redundant sources of market data and corporate action information are also used. Various verifications and audit tasks are performed to ensure the quality of the real-time data feeds and related market data.

While every effort is taken to ensure the accuracy of the information used for index calculation, there is no guarantee that the indexes will be error-proof. An index error may occur due to incorrect or missing data, including trading prices, exchange rates, shares outstanding and corporate actions due to operation errors or other reasons. Detail on Dow Jones Indexes' data correction policy is provided in Section 9 of *Guide to the Dow Jones Global Indexes*.

7. DECISION-MAKING BODIES

7.1. Changes and Other Matters Regarding the Index

The Shari`ah Supervisory Board counsels Dow Jones on matters relating to the Shari`ah compliance of the index's eligible components. Dow Jones Indexes provide quarterly updates on the index components to the Shari`ah Supervisory Board. Dow Jones will review new Shari`ah proposals from the Shari`ah Supervisory Board.

7.2. Changes to the Guide

All issues relating to business decisions, including index composition changes, are within the province of the DJIM Steering Committee. The Shari`ah Supervisory Board is encouraged to put forth recommendations for changes to the DJIM Steering Committee which in turn makes the ultimate business decision.

7.3. Members of the DJIM Shari`ah Supervisory Board

Name	Country
Shaykh Nizam Yaquby	Bahrain
Shaykh Dr. Mohd Daud Bakar	Malaysia
Shaykh Justice Muhammad Taqi Usmani	Pakistan
Shaykh Dr. Mohamed A. Elgari	Saudi Arabia
Shaykh Abdul Sattar Abu Ghuddah	Syria
Shaykh Yusuf Talal DeLorenzo	United States

To discuss licensing or customization possibilities, please contact:

Rushdi Siddiqui
Global Director, Islamic Index Group

tel: +1 212 597 5740

E-mail: rushdi.siddiqui@dowjones.com

Or for general inquiries, contact us at:

Dow Jones Indexes

P.O. Box 300

Princeton, NJ 08543

tel: +1 609 520 7799

fax: +1 609 520 7030

www.djindexes.com

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