Press Release

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Changes to the Nikkei Average constituents and Selection Rules

Nihon Keizai Shimbun, Inc. (Nikkei) announces the changes to the constituents of the Nikkei Stock Average (Nikkei Average or Nikkei 225) and the revised rules to select Nikkei Average constituents.

Nikkei has been consulting with a group of scholars and professionals regarding the necessity and contents of the changes in the selection rules of the Nikkei Average constituents. Based on the results of such discussions, Nikkei changes constituent selection rules. Revised rules become effective on April 24. 30 constituents are changed accordingly and the index with new constituents starts on the same day. List of added and removed constituents are attached hereto.

1. Purpose and Background

Nikkei Average is widely known as an index of 225 stocks selected from the first section of the Tokyo Stock Exchange and is calculated by adjusted average of the prices. These basic characteristics of the index are unchanged. Rules to select 225 stocks are revised and announced today.

Current rules were set in 1990. Since then, economic and industrial environment changed dramatically. Especially toward the end of 1990s, speed of the changes were accelerated by rapid development of Information Technology (IT). IT has a profound effect not only on high-technology industry but on the more conventional industries. Nikkei decided to revise the rules to reflect such changes in the economy.

Nikkei Average is not a blue chip index nor an index for the new economy. Nikkei Average aims at representing the market with 225 highly liquid stocks. It contains not only companies with cutting edge technologies but those in conventional industries in order to reflect the activities of the wider range of listed companies.

To cope with the speed of the changes, Nikkei shortened the period to evaluate the liquidity of the stocks from 10 to 5 years. Stock market is being divided into two-tiers now, one with very high prices and the other at par value or lower. Under such conditions, Nikkei decided to change the measurers of liquidity to treat high and low price stocks on the same ground. Trade value (used be trade volume) and price fluctuations ratio (ratio of high and low prices) per volume (used be difference of high and low prices) are the new measurers. By these changes in the rules and subsequent changes in the constituents, we believe Nikkei Average will become an even better barometer of the market.

2. Summary of revisions

a. Constituents are selected from 450 most liquid stocks ("high liquidity group") in the first section of the Tokyo Stock Exchange. Those stocks ranked higher than 75 become constituents automatically.

b. High liquidity group stocks are sorted to 6 industrial sectors. They are 1:Technology, 2:Financials, 3:Consumer goods, 4:Materials, 5:Capital goods / others, 6:Transportation / Utilities. These sectors are aggregated from Nikkei 36 industrial classifications. Appropriate number of stocks in each sector is calculated from the number of high liquidity stocks in each sector. If 30 stocks belong to Technology in high liquidity group, 15 is the appropriate number of stocks in the Nikkei Average from Technology. Constituents are adjusted to meet appropriate number.

c. Measures of the liquidity are (1) trading value for the past 5 years, and (2) price fluctuation ratio per volume observed for the past 5 years. They were changed from trading volume (10 years) and price fluctuation (difference of high and low prices, 10 years) respectively.

d. Constituents are reviewed annually under normal circumstances. Number of stocks in each sector is re-balanced to the appropriate number. Those stocks in high liquidity group may be removed from the index due to such re-balance, which is different from current rule where high liquidity stocks are not removed.

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