

Nikkei 225 High Dividend Yield Stock 50 Index

Index Guidebook

Nikkei Inc.

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(December 12, 2016 version)

1: Introduction

“Nikkei 225 High Dividend Yield Stock 50 Index is a stock index comprised of 50 high yield stocks weighted by “Dividend Yield Weight Method”.

2: Name

(Japanese)

Official : 日経平均高配当株 50 指数

Abbreviation : 日経高配当株 50

(English)

Official : Nikkei 225 High Dividend Yield Stock 50 Index

Abbreviation : Nikkei High Dividend Yield 50

3: Constituents Management

(1) Basic Point

The number of constituents of the Nikkei 225 High Dividend Yield Stock 50 Index (Nikkei High Dividend Yield 50) is 50 in principle. The Periodic Review is conducted at the end of June every year. Although the Extraordinary Removal in the constituents results in the index calculation with less than 50 issues, the constituent will not be added until the total number of the constituents becomes less than 45. The number will be back to 50 at the Periodic Review.

(2) Universe

The index constituents are selected from the Nikkei Stock Average (Nikkei 225) constituents.

(3) Periodic Review

- The Base Date of the Periodic Review shall be the final business day of May of each year. After 2017, the 50 constituent stocks shall be selected by the process described below and the constituent change shall be effective on the final business day of the following month. The constituent change on the Periodic Review will be announced a sufficient period in advance of the effective date.
- For the Nikkei 225 constituents, they are ranked by the Expected Dividend Yields(based on the Nikkei’s forecasts) on the Base Date to screen higher dividend yield stocks, and 50 issues are selected based on the levels of Expected Dividend Yields in the order of priority of the following step ① to ③. Nikkei

will not include in the index companies without any disclosures of the last earning reports in the accounting period ending up to March in the last fiscal year for the ranking in principle.

- ① Stocks in the top 25 in terms of higher Expected Dividend Yields
- ② Current constituents in the top 100 in terms of higher Expected Divided Yields
- ③ Current non-constituents

However, for the each step of ① to ③, Nikkei will not adopt companies as the constituents, either of which (a) have recorded net losses for three consecutive accounting terms (annual), (b) are not expected to pay year-end dividends, and (c) have earned high ranking places due to a special reason such as a plunge in the share price etc.. In case that companies have the same Expected Dividend Yield, the company with higher liquidity (average daily trading values for a one year) will be prioritized for the candidates of the index constituents.

(4) Extraordinary Removal/Replacement

- In case that a constituent is removed from the Nikkei Stock Average (Nikkei 225), the constituent stock will be deleted from the index on the same day as the removal from the Nikkei 225.
- On the final business day of each month (except March to May), if a company's expected dividend changes to zero, the stock will be removed from the index on the 7th business day of the following month.
- As a result of the Extraordinary Removals, new constituents will not be added for the removals on condition that the number of the index constituents becomes 45 or more,
- If it is apparent that the number of the constituents becomes less than 45, the new constituents shall be added so that the number becomes 45. The new constituent is determined based on the ranking of Expected Dividend Yield on the final business day of the last month as the Base Date, which is compiled in the same way as the ranking compiled on the Base Date of the Periodic Review. The non-constituent stock with highest Expected Dividend Yield will be added so that the number of the index constituents becomes 45. However, Nikkei will not adopt in the index companies, either of which (a) have recorded net losses for three consecutive accounting terms (annual), (b) are not expected to pay year-end dividends, and (c) have earned high ranking places due to some special reason such as a plunge in the stock price etc.. Nikkei announces the issue to add a sufficient period in advance of the effective date.

(5) Constituents in the past and on the launch date

- With regards to the constituents used for the retroactive index calculations (see

4-(7) mentioned afterwards), Nikkei shall choose 50 issues with highest Expected Dividend Yields from the Nikkei 225 constituents on the Base Date of the each year before 2015, excluding company recording net losses for three consecutive accounting terms disclosed as of the Base Date, and change the constituents on the final business day of the following month. The rule of the Extraordinary Replacements described in the above (4) has been applied.

- The constituents in the period between the Inception Date (December 28, 2001) and the timing of the periodic constituent changes in 2002 are selected on the Inception Date as the Base Date in the way described in the previous paragraph and applied on the same day.
- The index constituents as of the launch date shall be selected on May 31st 2016 as the Base Date. Nikkei chooses 50 issues with highest Expected Dividend Yields from the Nikkei 225 constituents on the Base Date, excluding a company whose expected dividend becomes zero, applying a rule that a company recording net losses for three consecutive accounting terms disclosed as of the base date shall be excluded. The component change has been conducted on the final business date of June 2016

4 : Index Calculation

(1) Basic Point

- Nikkei introduces the “Dividend Yield Weight Method” to calculate the index. The liquidity based on the daily average trading values for the past one year shall be taken into account additionally. Nikkei uses the Expected Dividend Yields using the Nikkei’s forecasts on annual dividends.
- The index level on December 28 2001, the Inception Date is 10000.
- The unit of the index is “points”. 3th digit is rounded to make the index have 2 digits after the decimal point.
- Calculated on an end-of-day basis, using the share prices on the Tokyo Stock Exchange.

(2) Calculation Formula

- The daily index value shall be calculated by the following formula.

$$\text{Index value} = \Sigma \{ \text{Share price} \times \text{Weight Factor} \} \div \text{Divisor}$$

(3) Share price

- Prices used for the calculation are selected in the following order of priority.
① Special Quote or sequential trade quote、② Closing price、③ Base price
(The base price is obtained based on the priority order of ex-rights theoretical price, the last special quote price or sequential trade quote price on the previous day, and the closing price on the previous day.)

(4) Weight Factor

- The Weight Factor used for the index calculation (number of shares for the index) shall be compiled on the Base Date of the Periodic Review by the following formula. It is rounded down to integer number, truncating after the decimal points

$$\text{Weight Factor} = \frac{\text{Expected Dividend Yield} \times \text{Liquidity Factor}}{\text{Share Price on the Base Date}} \times 10^8$$

① Expected Dividend Yield (%)

The Expected Dividend Yield shall be calculated by dividing the expected annual dividend per share on the Base Date by the share price on the day. The dividend yield for the index calculation is capped at 5%, which means that the yield exceeding 5% is changed to 5%. The unit of the figures is percent (%) and rounded down to two places of decimals, truncating after the third decimal points.

② Liquidity Factor

The Liquidity Factor is a factor to adjust the weight of the index constituent corresponding to the relative liquidity in the Nikkei 225 components, which is defined as the daily average trading values for the past one year.

The factor shall be defined as 1 for the top 45 constituents with the highest liquidities, followed by the factor of 0.8 for those in the 46th to 90th places, 0.6 for those in the 91st to 135th places, 0.4 for those in the 136th to 180th places, and 0.2 for those in the 181st to 225th places in terms of the liquidity measures.

③ Weight Cap

At the timing of the Periodic Review, in determining the Weight Factor by the above method, if the weight of an index constituent, in all of the index constituents exceeds 5 %, the Weight Factor shall be

adjusted to make the weight of the constituent within 5%.

④ Split or reverse split of the constituent stock

After the Weight Factors are assigned, if an index constituent company makes a stock split or reverse split, the Weight Factor shall be adjusted corresponding to the ratio of the split or reverse split on the ex-date.

- For the Extraordinary Replacement in case that the number of the index constituents is below 45, the Weight Factors shall be determined based on the data on the Base Date used for the selection of the new constituents to add in the index while the Weight Factors of the other issues, i.e. continuing constituents remain unchanged.

(5) Divisor

- The Divisor on December 28th 2001, the Inception Date is determined by the following formula.

$$\text{Divisor} = \Sigma \{ \text{Share prices} \times \text{Weight Factor on the Inception Date} \} \div 10000$$

- After the Inception Date, the Divisor will be changed every time when the index constituents are changed by using the following formula.

$$\begin{aligned} \text{Divisor tomorrow} &= \text{Divisor today} \\ &\times (\Sigma \{ \text{base prices next day of the index constituents for the next day} \\ &\quad \times \text{Weight Factor for the next day} \}) \\ &\div (\Sigma \{ \text{base prices today of the today's constituents} \\ &\quad \times \text{today's Weight Factor} \}) \end{aligned}$$

- 5th digit is rounded to make the Divisor have 4 digits after the decimal point.

(6) Modification of the index value

- If any event occurs and comes out at a later date where it is necessary to modify the index value, as a general rule, Nikkei reflects the modified data into the index value on the index calculation date coming subsequently after the event comes out, as the date when the event occurs. Retroactive calculation for the modification will not be conducted in principle.

(7) Retroactive calculation in the past

- The index is retroactively calculated to the Inception Date (December 28th 2001=10000) on an end-of-day basis.
- The constituents used for the retroactive calculation are determined described in 3-(5).

5: Others

(1) Total Return Index calculation

Nikkei calculates “Nikkei 225 High Dividend Yield Stock 50 Index (Total Return)” and “Nikkei 225 High Dividend Yield Stock 50 Index (Net Total Return)” as the related indexes of the “Nikkei 225 High Dividend Yield Stock 50 Index” by adding the dividends and the net dividends excluding taxes respectively. These indexes are calculated on an end-of-day basis.

The “Nikkei 225 High Dividend Yield Stock 50 Index (Total Return)” measures the performance of the Nikkei 225 High Dividend Yield 50, including the both movements in the index prices and the reinvestment of the dividend incomes from the constituent stocks at the closing ex-dividend dates, corresponding to the Weight Factor. The Nikkei 225 High Dividend Yield Stock 50 Index (Net Total Return) will use the dividends after the deductions of the tax for the calculation.

The basic points for the index calculation such as the way to use dividends shall adhere to the Nikkei 225 Total Return Index and the Nikkei 225 Net Total Return Index.

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The above-mentioned disclaimers shall be applied to the Nikkei Stock Average, the base, i.e. universe for the constituents of the Nikkei225 High Dividend Yield Stock 50 Index.

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