

Nikkei Stock Index 300 Index Guidebook

(Tentative Version, to be effective from April 4, 2022)

Nikkei Inc.

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(September 13, 2021 version)

1: Summary

The Nikkei Stock Index 300 (Nikkei 300) is an index, which was developed for the purpose of representing movement of overall Japanese stock markets accurately with smaller number of the constituent stocks, has been published since October 1993. It is a market value weighted index with its base value of 100 on October 1st 1982, and has been calculated at 5-second intervals since July 18th 2017 although the index had been calculated at one minute intervals since January 31st 1994 and at 15-second intervals since January 4th 2010.

The constituents of the Nikkei 300 are selected from the Tokyo Stock Exchange (TSE) Prime Market based on the representativeness of the market and industrial sectors, considering liquidities and financial performances. Basically, the index has been composed by stocks with large market values in each 36 industrial sectors, has been corresponded to changes in the market conditions by conducting the Periodic Review for the constituents once a year.

2: Constituents Management

(1) Basic Point

Nikkei conducts changes in the Nikkei 300 constituents to correspond to changes in the market conditions in the following procedures. This rule has taken effective since February 1st, 2002. Necessary amendment could be added on the current rule in line with changes in market and economic situations, the related law and regulations in the future.

(2) Selection of the Universe

The universe for the selection of the constituents shall be determined after excluding issues falling into the following criteria

- i) Issues with significantly low pricing ratios among stocks of the TSE Prime Market
- ii) Issues with significantly low trading volumes among stocks of the TSE Prime Market
- iii) Issues with significantly low turnover ratio, i.e. volume-to-outstanding shares ratios among stocks of the TSE Prime Market
- iv) Issues with abrupt shift in ranking, in the TSE Prime Market, of turnover ratios for the past 2 years
- v) Listed companies with no consecutive dividend payments for some considerable period of time
- vi) Listed companies with consecutive negative figures of the pretax profits (red

figures of ordinary profits) for some considerable period of time
vii) Listed companies with excessive debts for consecutive accounting periods.

(3) Periodic Review

Nikkei works on the Periodic Reviews in September every year and the additions or removals in the constituents usually become effective as of the beginning of October. There could be no changes as a result of the Periodic Review. Issues which did not take two years after being listed on the TSE could not be candidates for the additions in principle and there is no upper limit for the number of changes in the constituents for a review. In conducting the Periodic Review, after selecting the abovementioned universe, issues to be added or deleted shall be selected by the processes of i) Selection of candidate stocks and ii) Adjustment Process.

i) Selection of candidate stocks

Issues which fit into the following criteria should be candidate stocks to be added or deleted.

- 1) Remove issues which are not included in the universe in the current year by the selection of the universe.
- 2) Add issues which significantly contribute to increase in overall market values of the universe (for the past three-year average), however not add the issue whose share of market value is relatively low in the industry it belongs to.
- 3) Remove issues whose share of the market value becomes relatively low in the industry it belongs to, among the previous year's constituent stocks.
- 4) Add issues whose share of the market value becomes relatively high in the industry it belongs to, among the previous year's non-constituent stocks.

The Nikkei Industrial classification (36 sectors) shall be used for the processes.

ii) Adjustment Process

In case that the number of the candidate stocks to be added is not identical to that to be removed, the following method is used to make the number 300.

- 1) Add in order of precedence the largest non-constituent stocks in the industry with the lowest coverage ratio (ratio of constituent market value to overall market value in the industry) in the case of shortage, less than 300.
- 2) Delete in order of precedence the constituent stock with the lowest share of market value in the industry in the case of excess, more than 300.

(4) Extraordinary Replacement

<Events of subjects>

Stocks which meet the following criteria are deleted from the index.

- i) Designated as “Securities to be delisted” or “Securities on Alert”
- ii) Delisted due to corporate restructuring such as merger, share exchange or share transfer
- iii) Transfer to the market other than the Prime

A constituent designated as “a security under supervision” remains to be a constituent at the time of designation. However, Nikkei may replace such a constituent with a pre-announcement when it is highly inappropriate to keep the stock as a constituent, e.g. probability of delisting is extremely high.

<How to add issues>

In case of that a removed issue falling into the above criteria appears, Nikkei add the largest non-constituent stock in the industry with the lowest coverage ratio (ratio of constituent market value to overall market value in the industry) based on the market value in each industry of the universe, in principle.

When such deletion is scheduled close to the Periodic Review, additional stocks may be selected in a part of the periodic review process.

<Effective dates for constituent changes>

In principle, for each reason under 3(1), constituents are deleted and added as follows. The effective date is announced for each event.

- i) Designated as a “Security to be delisted” or “Securities on Alert”: five business days after the designation.
- ii) Delisted due to corporate restructuring such as merger, share exchange or share transfer: effective date of the event.
- iii) Transfer to the market other than the Prime: effective date of the event.
- iv) In case that a constituent designated as a stock under supervision is deemed as highly inappropriate and will be deleted, the announcement will be made approximately two weeks before its effective date. Even if such a constituent is designated as a stock to be delisted before the pre-announced effective date, the pre-announced effective date survives.

(5) Special note for the constituent management

<Exceptional rules for addition>

In view of diversification in corporate restructuring, procedures as exemplified below may be applied. Application of this procedure is determined for each case.

- i) Under following cases, a stock of a company which will succeed the substance of the delisting company will be added in principle, where such company is listed or will be listed within a short period on the Tokyo Stock Exchange Prime

Market.

- Stock of a surviving company in merger (constituent is merged by non-constituent)
 - Stock of a newly established company by stock exchange or transfer (shares of a constituent is exchanged with those of the new company, i.e. its parent company)
- ii) When a company is split and multiple companies maintain listing on the Tokyo Stock Exchange Prime Market, a stock of a company which succeeds the major operation will become a constituent.

<Exceptional treatment for rebalance>

For both Periodic Review and Extraordinary Replacement, deletion and addition are made effective on the same day to keep the number of constituents at 300. However, when necessary, as exemplified below, the index may be calculated with less than 300 constituents. Base Market Value is adjusted at time when constituents are deleted or added to maintain the continuity of the index.

- When a constituent is delisted by share exchange or transfer and the succeeding company such as the newly formed parent company or an unlisted company which becomes the parent by receiving the shares may be listed in short period. If such a succeeding company becomes a constituent, it is added to fill the vacancy after the deletion.

<Decision of addition/deletion>

Stocks selected by the procedure above are “Candidates” for addition and deletion. They are presented to the committee comprised of academics and market professionals. Based on the comments from the committee, Nikkei Inc. will finally determine and announce the changes.

3: Calculation method

(1) Basic Point

- Stock index based on market capitalization
- Unit of points and two decimal places
- Index value on October 1, 1982 was 100 points
- Use stock prices of the Tokyo Stock Exchange (TSE) and calculate and publish the index every 5 seconds on the real-time basis while the TSE opens, start the calculation 5 seconds after the opening.

(2) Formula

$$\text{Index Value} = \frac{\text{Current Market Value}}{\text{Base Market Value}} \times 100$$

$$\text{Current Market Value} = \Sigma (\text{Stock Price} \times \text{Number of issued shares}^*)$$

(*)"Number of issued shares" defined as the number of issued shares on the calculation date, excluding the government-owned shares.

(3) Stock Price

Priority in the usage of prices is as follows:

- i) Current special quote or sequential trade price
- ii) Current price (last traded price)
- iii) Standard price (defined as ex-rights theoretical price, special quote or sequential trade price on the previous day, or closing price on the previous day in order of priority)

(4) Adjustment for base market value

In any event that changes market value due to reasons other than fluctuations in the stock market, the base market value shall be modified to maintain the continuity of the index in the following ways:

- i) Event which require adjustments
 - a. Change in the constituents (deletion/addition)
 - b. Change in the number of shares due to the following events
 - Paid-in capital increase
 - Capital increase through a public offering or third-party allocation of shares
 - Merger
 - Execution of warrant
 - Conversion into common shares for convertible bond and preferred shares
 - Cancellation of treasury stock(Stock split or reverse stock split does not require the adjustment)
- ii) Timing for adjustments
 - a. Date of changes in case of change in the constituents
 - b. Ex-date in case of paid-in capital increase
 - c. Next business day after the paid-in date in case of capital increase through a

- public offering or third-party allocation of shares
- d. Date of merger
- e. Next business day after the publication date through the TSE Target system in case of execution of warrant, conversion into common shares for convertible bond and preferred shares, and cancellation of treasury stock

iii) Method for adjustments

$$\text{Base Market Value on adjustment date} = \text{Base Market Value on previous day} \times \frac{\text{Market Value on previous day} + \text{Sum of adjustment value}^*}{\text{Market Value on previous day}}$$

(*)“Sum of adjustment value” is summation for the adjustment value of each constituent defined as follows:

Event	Formula to calculate the adjustment value
Addition	+ Stock price on previous day × Number of issued shares
Deletion	− Stock price on previous day × Number of issued shares
Capital Increase etc	+ Paid-in price × Number of increasing shares
Public Offering	+ Offered price × Number of increasing shares
Conversion etc	+ Stock price on previous day × Number of increasing shares
Cancellation of treasury stock	− Stock price on previous day × Number of decreasing shares

4: Others

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Appendix : Change history of Index Guidebook

December 30, 2011 version	Initial version
July 18, 2017 version	Due to the calculation intervals change(every 5 sec.), revise the description in “1:Summary” and “3:Calculation method (1)Basic Point”
June 15, 2020 version	<ul style="list-style-type: none"> - Revise the description in “2: Constituents Management (4) Extraordinary Replacement <Events of subjects> and <Effective dates for constituent changes>” - Delete an example in “2: Constituents Management (5) Special note for the constituent management < Exceptional treatment for rebalance >”
April 4, 2022 version (Tentative)	Revise description in “1:Summary” and “(2)Selection of the Universe”, “(4)Extraordinary Replacement” and “(5)Special note for the constituent management” in “2:Constituents Management”