



ICEX Equity Indices

ICEX calculates and publishes indices which indicate in a simple and comprehensible manner the performance of securities listed on the Exchange. This document discusses the indices in more detail, explaining, for instance, what premises underlie their calculation.

Equity indices

Equity indices are calculated at 30-second intervals during the trading day and distributed through the ICEX trading system. The official closing values of indices are calculated after the markets close and the time limit for cancelling on- and off-exchange trades has expired.

The equity indices are: the ICEX Main Index and ICEX Growth Index (all-share indices), ICEX-15 and sector indices. These indices are so-called Paasche indices, i.e. they measure the changes in market capitalisation of the companies included in the index from their base date. The weighting of companies in the all-share and sector indices is based on their market cap. The weighting of companies in the ICEX-15 index is based on their free-float adjusted market capitalisation (see definition on p. 2).

The base values of all the indices were set as of 1 January 1998. The base values of the sector indices were set at 100 while the base values of the ICEX-15 and ICEX Main and ICEX Growth Index were set at 1000.

ICEX Main and ICEX Growth Index

Underlying these all-share indices are the equities of all Icelandic companies listed on the ICEX Main and Growth lists. The all-share indices are calculated for each list separately, i.e. ICEX Main and ICEX Growth. No index is calculated for the ICEX Alternative Market.

Sector indices

Companies are classified according to their business activity and are included in a sector index if more than 50% of their revenues arise from activities in the sector concerned. A company in a sector index can be listed on either of the exchange lists or the ICEX Alternative Market.

If a new company is listed on ICEX, its shares are included in the all-share indices and the relevant sector index on the 4th trading day after its shares are listed. If a company is delisted, it disappears from the index as of the date of delisting.



ICEX-15 Index

Companies are selected for the ICEX-15 Index twice each year, on 10 December and 10 June. They form the base for the index for six months, from 1 January to 30 June or from 1 July to 31 December. A total of 15 companies on the ICEX Main List are selected for the index. Companies where a take-over bid obligation has arisen, mutual funds and foreign limited-liability companies are exempt from inclusion in the Index. Selection to the Index is made according to the following rules:

- Companies are ranked according to trading volume each trading day during a preceding 12-month period, either from 1 December to 30 November or from 1 June to 31 May. Companies are awarded 1 point for each trading day where the company's shares were among the 15 most-traded shares. Only on-exchange trading is considered. If two or more companies have the same turnover in 15th place, the company with the largest free-float adjusted market cap is awarded the point. If listed companies merge during the reference period, their trading each day shall be combined and the turnover points then awarded according to their combined turnover.
- If a company has not been listed for the entire reference period, but for at least three months, its points shall be calculated for the days it was listed, with the exception of the first three trading days. The company's point total is then adjusted proportionally based on the number of trading days when it was listed (minus three) and the total number of trading days of the reference period.
- The 20 companies receiving the highest number of points are ranked according to free-float adjusted market cap. If more than one company have an equal number of points in 20th position, the company with the highest free-float adjusted market cap shall be selected.

Free float is defined as those shares which are generally freely available for trading. Measurements of free float are based on the guidelines applicable to benchmark indices in harmonised NOREX methodology. Excluded from free float are shares held by the following parties, provided they are among the 10 largest shareholders:

- (i) *Public ownership.* Shares owned by municipalities, however, do not restrict free float;
- (ii) *Controlling shareholders.* Shares are considered to be owned by a controlling shareholder if the shareholder in question owns a holding of 30% or more. Holdings of over 10% also restrict free float if two such stakes exceed 40%. Shareholdings of over 10% in a company in the same sector are also considered as non-free float;
- (iii) *Insiders, including the company itself.* This is based on a list of insiders provided by the Financial Supervisory Authority;
- (iv) If two companies own shares in each other (cross-holdings) these are classified as non-free float.



It should be reiterated that all the restrictions mentioned here apply only if the party concerned is among the company's 10 largest shareholders. The free-float adjustment is based solely on public information on the company's 10 largest shareholders. The free float percentage is generally only reviewed when decisions are made (twice each year) on changes to the composition of the index. If free float is above 15% it is rounded off to the nearest 5%. If it is less than 15% it is rounded off to the nearest 1%.

- Of the 20 companies receiving the greatest number of turnover points, the 15 largest, based on free-float adjusted market cap at the end of the period, are selected for the ICEX-15 Index, provided they fulfil spread criteria. The spread criteria are: i) the difference between the best bid and ask price at the end of the trading day is no more than 1.5% on average; ii) bid and ask orders are present in the trading system at the end of at least 95% of trading days. Companies among the 15 largest, based on market cap, could thus be replaced by companies with a lower market cap (among the 20 abovementioned companies) if the bid-ask spread exceeded 1.5% on average at market closing, or if orders are not present in the orderbook at the closing of at least 95% of trading days.

ICEX-15 will always contain 15 companies. This means that a company among the 15 largest (according to float-adjusted market capitalization) is only replaced if there is another company among those in places 16-20 that satisfies the spread criteria. Float-adjusted market capitalization determines the replacement priority, i.e. the company with the highest market cap of those in places 16-20 which satisfy the spread criteria is the first one to be admitted into the index and the smallest one among the 15 largest which do not fulfill the spread criteria is the first one to be replaced. Replacement on the basis of spread criteria continues in this manner until either all companies in ICEX-15 fulfill the spread criteria or no other companies among the aforementioned 20 companies satisfy them.

If listed companies merge during the reference period, the spread of the company which gives the lower average for criteria i) is used and the frequency of bids for the company which gives the more favourable outcome for criteria ii). Spread at the end of trading day is calculated as follows:

$$s = \frac{a - b}{(a + b)/2} \quad (1)$$

where:

s is spread

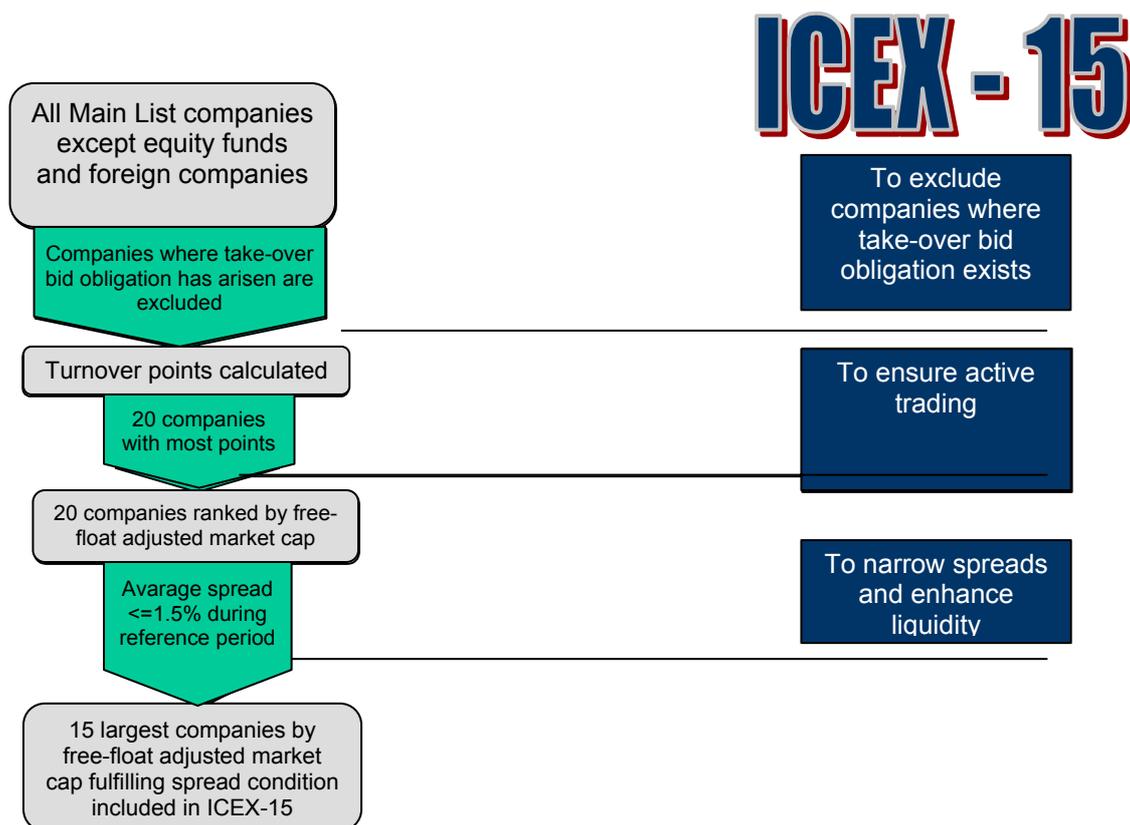
a is best ask and

b is the best bid price



ICEX may choose to exclude orders when calculating the spread if the spread at the end of the trading day is not in line with the spread in the orderbook of the company in question during the trading day.

- The companies selected for the ICEX-15 Index are to publish all their announcements in English during the period of their inclusion in the Index. The contents of the English announcements must be comparable to that of the Icelandic ones and must be issued concurrently. English versions must be provided for at least 90% of all the company's announcements during the period it is included in the Index. If a company fails to fulfil this condition for two six-month periods in a row, it cannot be considered for inclusion when the next ICEX-15 is decided.





Calculation of indices

The calculation of equity indices is performed using the *Paasche* index formula (2) below:

$$I_t = \frac{\sum_{i=1..m} (p_t^i \times n_t^i)}{\sum_{i=1..m} (p_{t-1}^i \times n_t^i)} \times I_{t-1} \quad (2)$$

where:

I_t is the index at time t , $I_o = 100$ or 1000 ,

p_t^i is the reference price of an equity i at time t ,

n_t^i is the number of shares in company i at time t ,

m is the number of companies in the index.

Reference price

- A company is included in calculations of indices on the 4th day of its listing.
- The methodology for finding the reference price in each instance used in the calculation of indices can be found in a document on official closing prices on the ICEX website: http://news.icex.is/attachments/other/ICEX_Dailyofficialprices.pdf
- ICEX may decide to exclude certain trades or bids from index calculations if it deems them to be abnormal in any respect or for some other reason, e.g. if one of the parties to a transaction has given notice that it intends to seek its cancellation.

Changes in share capital

Should there be changes in share capital, e.g. resulting from issuing of new shares or take-over, this does not affect the value of the index (in accordance with equation 2).

Impact of cancelled trades

Should a trade, which previously influenced the calculation of an index and would have otherwise formed a reference price for the next index calculation, be cancelled, the preceding transaction price, or most favourable bid or ask price according to the above rules on closing prices, shall be used as reference. Indices shall not be re-calculated retroactively. The index value calculated upon market closing shall be considered the closing value for that day.