

Outlook for FY17–18 corporate earnings

Quarterly Update

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Summary and major assumptions

Overview of FY16 corporate earnings

In this report, we collate and analyze earnings forecast data issued by our analysts. For FY16, sales for companies in the Russell/Nomura Large Cap Index (ex financials) declined 3.3% y-y and recurring profits grew 3.6% y-y. Net profits rose a high 10.8% y-y. Compared with our previous estimates issued in March 2017 (based on data collated on 20 February 2017), these growth rates are 0.4ppt higher for sales and 2.0ppt higher for recurring profits. Sales fell for a second consecutive fiscal year. Recurring profits declined sharply in H1, and it was unclear whether the streak of profit growth could be maintained, but in the end a downturn was avoided. Recurring profits thus rose for five consecutive fiscal years beginning in FY12. Looking back over the data since FY70, profits also rose for five consecutive years in FY76-80. The longest stretch of profit growth was the six consecutive fiscal years in FY02-07, and this record could be matched if profits rise in FY17 as well.

In FY16 Q4, recurring profits at companies in the Russell/Nomura Large Cap Index (ex financials) rose 71.7% y-y on a 3.8% increase in sales. While profits rose despite a sales decline in Q3, with sales down 2.7% and recurring profits up 5.9%, Q4 returned to growth in both sales and profits for the first time in six quarters, since FY15 Q2. This also marks the sharpest profit growth in the economic expansion phase since 2012. When excluding Toshiba, trading companies, and consumer electronics companies, however, profits rose by only slightly over 10%, suggesting that the high profit growth rate was largely the result of a rebound from low figures a year earlier and other special factors.

Overview of the FY17 corporate earnings outlook

For FY17, our analysts look for sales growth of 4.6% y-y and recurring profit growth of 11.1% for companies in the Russell/Nomura Large Cap Index (ex financials). The current forecasts represent downward revisions of 0.8ppt for sales growth and 3.5ppt for recurring profit growth.

Our forex assumptions for FY17 are USD/JPY of 108.0 (previously 114.0) and EUR/JPY of 115.0 (previously 120.0). Our WTI assumption is \$50.0/bbl (\$50.0/bbl). As our USD/JPY assumption is roughly flat y-y, our forecasts assume a roughly neutral impact from forex.

The average ROE for Russell/Nomura Large Cap Index stocks was 8.2% in FY16, up 0.5% from 7.7% in FY15. ROE had declined for two consecutive fiscal years from the peak of 8.9% in FY13, but has now finally begun to bounce back. We now forecast 9.0% in FY17 and 9.1% in FY18. If these forecasts prove accurate, not only profits but also capital productivity will have returned to the levels seen prior to the collapse of Lehman Brothers.

Fig. 1: Overview of consolidated earnings forecasts for the Russell/Nomura Large Cap Index

(% y-y, except where noted)

		No. of cos	New					Old	
			FY14	FY15	FY16	FY17E	FY18E	FY16E	FY17E
Sales	Russell/Nomura Large Cap (ex financials)	302	4.6	-0.4	-3.3	4.6	2.3	-3.7	5.4
	Manufacturing	176	4.3	0.2	-4.3	4.9	2.7	-4.5	6.6
	Basic materials	39	0.6	-9.0	-5.6	10.7	0.8	-6.3	11.4
	Processing	80	5.7	3.1	-4.4	3.4	3.2	-4.4	5.4
	Nonmanufacturing (ex financials)	126	5.0	-1.2	-1.8	4.1	1.9	-2.6	3.7
	Russell/Nomura Small Cap (ex financials)	1,038	3.6	1.8	-0.5	4.2	2.1	-0.6	4.1
Operating profits	Russell/Nomura Large Cap (ex financials)	302	5.2	8.7	2.9	10.2	8.0	-2.8	14.7
	Manufacturing	176	5.8	2.9	-0.5	11.6	10.0	-5.0	20.0
	Basic materials	39	-14.0	8.6	9.4	18.9	7.9	8.8	18.7
	Processing	80	14.7	-2.0	-3.6	11.1	11.9	-10.4	25.5
	Nonmanufacturing (ex financials)	126	4.2	18.6	7.5	8.3	5.4	0.1	7.8
	Russell/Nomura Small Cap (ex financials)	1,038	4.3	10.5	7.2	7.2	6.0	4.4	10.8
Recurring profits	Russell/Nomura Large Cap	334	6.9	-0.6	1.4	10.6	7.5	0.8	12.7
	Russell/Nomura Large Cap (ex financials)	302	7.0	1.5	3.6	11.1	8.1	1.6	14.6
	Manufacturing	176	7.2	-1.9	0.2	12.8	9.8	-3.5	21.0
	Basic materials	39	-8.9	-7.4	12.1	22.3	7.8	10.7	24.2
	Processing	80	15.3	-4.2	-3.1	11.7	11.7	-8.5	25.0
	Nonmanufacturing	158	6.5	0.6	2.5	8.7	5.4	4.8	5.6
	Nonmanufacturing (ex financials)	126	6.6	7.1	8.4	8.9	5.9	9.0	6.6
	Russell/Nomura Small Cap	1,132	3.1	3.7	5.8	8.2	5.6	1.8	11.9
	Russell/Nomura Small Cap (ex financials)	1,038	5.0	4.1	8.8	8.0	6.1	4.1	13.4
Net profits	Russell/Nomura Large Cap	334	7.4	-3.9	8.5	13.2	7.5	9.8	11.6
	Russell/Nomura Large Cap (ex financials)	302	8.0	-4.7	10.8	16.2	8.3	11.1	15.2
	Manufacturing	176	10.2	-4.8	-1.5	22.7	10.5	0.7	22.1
	Basic materials	39	-11.0	-27.1	58.4	18.6	9.8	53.3	25.0
	Processing	80	15.7	-3.0	-14.0	31.5	12.1	-9.2	28.5
	Nonmanufacturing	158	4.6	-3.0	18.2	5.4	4.6	18.5	2.8
	Nonmanufacturing (ex financials)	126	4.2	-4.6	30.9	8.3	5.2	28.0	6.2
	Russell/Nomura Small Cap	1,132	2.2	1.9	17.3	15.9	4.9	11.7	18.9
	Russell/Nomura Small Cap (ex financials)	1,038	3.9	0.0	21.7	16.3	5.5	15.1	21.8

Note: Latest estimates as of 24 May 2017. Previous estimates as of 20 February 2017.

Source: Nomura

Fig. 2: Major assumptions

As of 14 April 2017						As of 17 January 2017					
	Industrial production 2010 base year	Overnight call rate / Policy rate (FY-end)	WTI	Exchange rate (avg)		Industrial production 2010 base year	Overnight call rate / Policy rate (FY-end)	WTI	Exchange rate (avg)		
				% y-y	%				\$/bbl	USD/JPY	EUR/JPY
FY16	Estimate 1.3	-0.10	47.9	108.3	118.8	0.8	-0.10	47.5	108.4	118.5	
FY17	3.0	-0.10	50.0	108.0	115.0	2.2	-0.10	50.0	114.0	120.0	
FY18	0.7	-0.10	50.0	108.0	115.0						
FY16 H1	-0.7	-0.10	45.3	105.2	118.1	-0.7	-0.20	45.3	105.2	118.1	
FY16 H2	Estimate 3.2	-0.10	50.5	111.5	119.5	2.3	-0.10	49.6	111.7	119.0	
FY17 H1	4.3	-0.10	50.0	108.0	115.0	2.9	-0.10	50.0	114.0	120.0	
FY17 H2	1.8	-0.10	50.0	108.0	115.0	1.6	-0.10	50.0	114.0	120.0	
FY18 H1	0.9	-0.10	50.0	108.0	115.0						
FY18 H2	0.5	-0.10	50.0	108.0	115.0						

Note: WTI is term-average WTI crude oil futures price. The above assumptions are not Nomura forecasts but assumptions on which Nomura analysts base their earnings forecasts.

Source: Nomura

Contributions to recurring profit growth by sector

Overview of FY16 corporate earnings

In FY16, recurring profits increased in eight of the 19 sectors and declined in 11.

The largest contributions to growth were from the trading companies, electrical machinery & precision equipment, chemical, housing & real estate, and construction sectors. Trading companies benefited from a rebound from major impairment in FY15 and a recovery in commodity prices. In electrical machinery & precision equipment, earnings were roughly flat when excluding Toshiba. Toshiba's pretax profits were substantially affected by the removal of the US Westinghouse Group from consolidation after being classified as a discontinued operation following its filing for Chapter 11 bankruptcy protection. Results for the chemicals sector were pushed up by a recovery in the oil subsector, which had recorded weak earnings the previous two fiscal years. For housing and real estate, while office vacancies reached the lowest level since July 2008, demand has been slow to recover for detached housing and apartments. Construction sector earnings were driven by improvement in gross margins at general contractors.

Sectors that made large negative contributions to profit growth include autos, financials, utilities, machinery, services, and transportation. While automakers saw a positive profit impact from cost reductions, this was not sufficient to cancel out the adverse impact of the stronger yen. The financials and services sectors were unable to avoid an impact from negative interest rates. The utilities sector faced fallout from delays in restarting nuclear power stations and electricity rate cuts triggered by the full deregulation of the electricity retail market. In the machinery sector, in addition to the strong yen impact, shipbuilding and heavy machinery companies were affected by reduced production and delays in reducing costs in commercial aircraft businesses, and ship & offshore structure businesses were burdened by additional expenses. In transportation, containership rates deteriorated as a result of excess supply, and the shipping subsector fell into losses.

Overview of the FY17 corporate earnings outlook

For FY17, we project that recurring profits will increase in 18 of the 19 sectors and decrease in one.

Sectors from which we expect large contributions to overall profit growth include electrical machinery & precision equipment, financials, chemicals, automobiles, and machinery. In electrical machinery & precision equipment, the demand base is widening for semiconductors and parts, and we think the business environment is likely to remain firm for some time. We look to an ongoing recovery for cyclical operations (businesses that track economic cycles) as well as growth in demand from structural factors such as cloud computing, the shift to electric powertrains in autos, and increased use of FA, and from restructuring benefits. In financials, while FY16 earnings were weak, earnings in customer facing operations at the major banks are recovering. We expect focus on management attitudes towards business restructuring, such as overhead ratio improvements. We expect a large contribution to profit growth in the chemicals sector from the oil subsector. In autos, sales in the US market appear to be hitting a ceiling. While many companies are taking a more cautious stance toward auto loans, we expect little change in automakers' generally strong profitability in the US. In Asia we see polarization in the market environment between China and ex-China, with ex-China showing favorable trends overall. In machinery, the global machinery cycle remains in an upward phase. Order recovery has been particularly strong in China, in part due to initial strength seen in a recovery phase following sustained sluggishness. We expect growth to fall to a sustainable level, but think that underlying upward momentum will continue.

We forecast a profit decline for the construction sector. However, we do not currently expect any major change in earnings momentum for the sector, and our forecast for a decline stems largely from FY16 earnings coming in well above our forecasts. Gross margins are already high, and we think the boost from sales growth will become more important when considering future profit growth. In FY17, we think the boost from the increase in public works spending included in the FY16 supplementary budget should at least be fully reflected in companies' earnings.

Fig. 3: Contributions to recurring profit growth by sector for the Russell/Nomura Large Cap Index

FY16				FY17E			
Increase in profits		Growth		Contribution		Contribution (%)	
						(ex financials)	
8 sectors							
Trading companies	233.4	266.5	129.3				
Electrical machinery, precision equipment	27.8	151.1	73.3				
Chemicals	16.1	72.2	35.0				
Housing, real estate	22.4	58.6	28.5				
Construction	30.5	25.0	12.2				
Food	8.3	19.8	9.6				
Software	21.1	10.3	5.0				
Household goods	5.8	5.8	2.8				
Decrease in profits							
11 sectors							
Media	-1.0	-0.5	-0.3				
Retailing	-1.4	-3.5	-1.7				
Steel, nonferrous metals	-5.5	-5.6	-2.7				
Telecommunications	-1.4	-8.3	-4.0				
Pharmaceuticals, healthcare	-5.4	-14.5	-7.0				
Transportation	-5.2	-21.0	-10.2				
Services	-9.6	-26.4	-12.8				
Machinery	-17.9	-68.8	-33.4				
Utilities	-36.2	-102.3	-49.7				
Financials	-8.1	-106.1	-				
Automobiles	-11.6	-152.4	-74.0				
Increase in profits							
18 sectors							
Electrical machinery, precision equipment	14.6	13.4	15.4				
Financials	8.2	12.7	-				
Chemicals	14.2	9.8	11.2				
Automobiles	6.6	9.8	11.2				
Machinery	23.9	9.8	11.2				
Telecommunications	12.1	9.2	10.5				
Steel, nonferrous metals	67.3	8.4	9.6				
Trading companies	12.9	6.4	7.4				
Retailing	13.8	4.6	5.3				
Software	28.2	2.5	2.9				
Housing, real estate	5.7	2.4	2.8				
Pharmaceuticals, healthcare	7.1	2.4	2.8				
Food	6.6	2.4	2.7				
Services	6.9	2.3	2.6				
Transportation	4.4	2.2	2.5				
Household goods	9.8	1.4	1.6				
Utilities	2.2	0.5	0.6				
Media	1.9	0.1	0.2				
Decrease in profits							
1 sector							
Construction	-2.3	-0.3	-0.4				
FY18E							
Increase in profits							
18 sectors							
Automobiles	10.7	21.8	23.9				
Electrical machinery, precision equipment	13.1	17.7	19.4				
Telecommunications	8.4	9.2	10.1				
Financials	4.2	8.9	-				
Machinery	11.6	7.5	8.3				
Chemicals	6.4	6.5	7.1				
Transportation	7.1	4.8	5.3				
Retailing	8.7	4.2	4.6				
Food	8.5	4.1	4.5				
Steel, nonferrous metals	13.3	3.5	3.9				
Housing, real estate	4.4	2.5	2.8				
Trading companies	3.0	2.2	2.4				
Household goods	9.9	2.0	2.2				
Software	13.1	1.9	2.1				
Services	4.1	1.8	2.0				
Utilities	3.0	0.9	1.0				
Construction	2.7	0.5	0.5				
Pharmaceuticals, healthcare	0.0	0.0	0.0				
Decrease in profits							
1 sector							
Media	-0.8	-0.1	-0.1				

Source: Nomura

Revisions to recurring profit estimates (versus old estimates)

Overview of FY16 corporate earnings

Recurring profits in FY16 came in ahead of our estimates in nine of 19 sectors and below them in 10.

Results exceeded our forecasts the most for electrical machinery & precision equipment, transportation, construction, and steel & nonferrous metals. Roughly 83% of the overshoot in electrical machinery & precision equipment can be explained by Toshiba. Apart from weak trends for some products for smartphones, demand was solid overall, and was compounded by a recovery in industrial products, demand expansion from the shift to electric cars meeting new environmental standards, and benefits from structural reforms. The transportation sector saw improvement in containership and dry bulk market conditions in the shipping subsector. Gross margins continued to rise steadily in the construction sector. In steel & nonferrous metals, optical fiber, general electronic materials, and construction machinery-related demand looks generally favorable, and automotive demand was firm overall. Under this environment, both sale prices and volumes surpassed our assumptions for blast furnace steelmakers. For wire & cable, we believe that the string of major agreements between major telecom carrier Verizon Communications and optical fiber manufacturers suggests that supply-demand for optical fiber is likely to remain tight in North America over the medium term.

Sectors for which earnings came in well below our forecasts include financials and telecommunications. In financials, earnings undershot noticeably for megabanks, trust banks, and regional banks. Domestic net interest income declined as a result of negative interest rates, and the rise in US long-term interest rates in the wake of the presidential election led to deterioration in bond income, particularly from foreign bonds. The telecommunications sector faced a major impact from Softbank Group, with a profit decline in domestic business, impairment in distribution business, and losses in financial products.

Overview of the FY17 corporate earnings outlook

We have raised our FY17 recurring profit forecasts for 11 of the 19 sectors and lowered them for eight. We revised our USD/JPY assumption for FY17 from 114.0 to a stronger 108.0, and we expect an impact on companies with high forex sensitivity.

The largest upward revisions were for our estimates for sectors such as utilities, transportation, and construction. In the utilities sector, we assume the restart of some nuclear reactors. We therefore expect reductions in overall cost, including fixed expenses and fuel costs. In transportation, while we had previously expected a second consecutive fiscal year of losses for shipping companies, we now expect a return to the black. Containership rates have bottomed as a result of overseas bankruptcies and industry realignment, and we believe that the worst is over for dry bulker rates. We think earnings will improve on cost savings in the wake of fixed asset impairments. We have revised up our forecasts for the construction sector to reflect the steady buildup of orders and the ongoing improvement in gross margins.

Our downward revisions were large for the autos, telecommunications, and steel & nonferrous metals sectors. Our revisions in the autos sector mainly reflect changes to our forex assumptions. In the telecommunications sector, competition is heating up in the US mobile phone industry. We raised our handset depreciation expense forecast for Sprint to reflect changes to leased devices as a percentage of sales, and this affected our forecasts for Softbank Group. As we now expect a stronger yen, our forecasts for inventory valuation gains/losses in the steel & nonferrous metals sector were affected. With China still in a state of oversupply, we think export margins are likely to be relatively unstable.

Fig. 4: Revisions to recurring profit estimates (versus old estimates) for the Russell/Nomura Large Cap Index

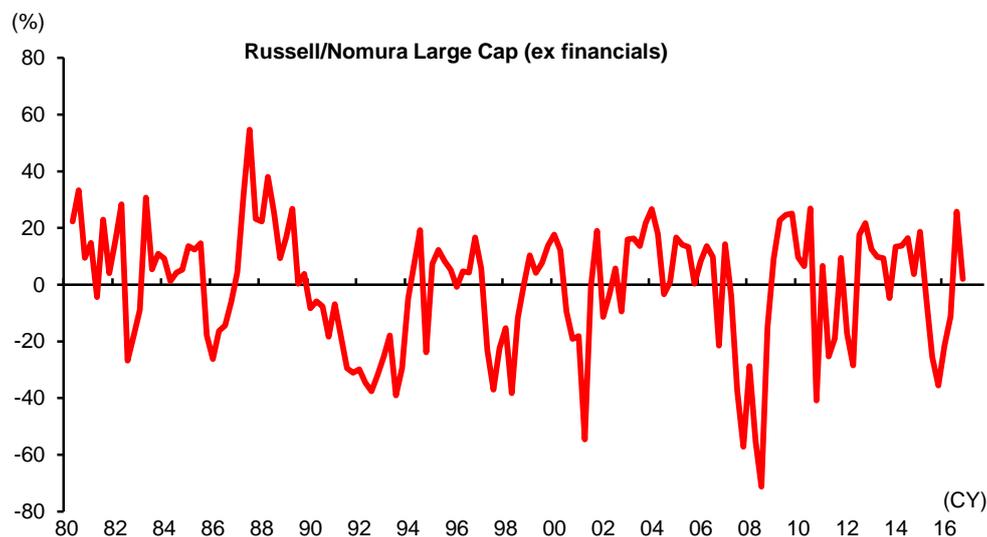
FY16					FY17E				
[Upward revisions] 9 sectors					[Upward revisions] 11 sectors				
	New ¥bn	Old ¥bn	Revision ¥bn	Change %		New ¥bn	Old ¥bn	Revision ¥bn	Change %
Electrical machinery, precision equipment	3,996	3,169	828	26.1	Utilities	1,031	865	166	19.2
Transportation	2,204	2,097	107	5.1	Transportation	2,347	2,240	107	4.8
Construction	617	536	81	15.2	Pharmaceuticals, healthcare	1,624	1,554	70	4.5
Housing, real estate	1,845	1,771	73	4.1	Trading companies	2,476	2,407	69	2.9
Utilities	1,038	998	40	4.0	Housing, real estate	1,977	1,929	48	2.5
Steel, nonferrous metals	549	515	34	6.6	Services	1,540	1,492	48	3.2
Retailing	1,435	1,418	17	1.2	Construction	591	545	46	8.4
Food	1,487	1,472	15	1.0	Chemicals	3,470	3,429	41	1.2
Household goods	613	605	9	1.4	Food	1,667	1,637	30	1.9
					Media	325	316	8	2.6
					Household goods	682	679	3	0.4
[Downward revisions] 10 sectors					[Downward revisions] 8 sectors				
	New ¥bn	Old ¥bn	Revision ¥bn	Change %		New ¥bn	Old ¥bn	Revision ¥bn	Change %
Media	318	323	-4	-1.3	Software	502	515	-13	-2.6
Software	341	351	-10	-2.7	Financials	7,416	7,432	-15	-0.2
Chemicals	3,002	3,012	-10	-0.3	Machinery	2,230	2,250	-19	-0.9
Pharmaceuticals, healthcare	1,465	1,479	-13	-0.9	Retailing	1,679	1,712	-33	-1.9
Services	1,437	1,477	-40	-2.7	Steel, nonferrous metals	917	962	-45	-4.7
Machinery	1,813	1,867	-55	-2.9	Electrical machinery, precision equipment	4,646	4,697	-51	-1.1
Trading companies	2,192	2,253	-61	-2.7	Telecommunications	3,763	3,894	-131	-3.4
Automobiles	6,716	6,779	-63	-0.9	Automobiles	7,016	7,742	-726	-9.4
Telecommunications	3,339	3,627	-288	-7.9					
Financials	6,931	7,333	-401	-5.5					

Note: Latest estimates as of 24 May 2017, previous estimates as of 20 February 2017.

Source: Nomura

Fig. 5: Revision index for the Russell/Nomura Large Cap Index

	(yy/m)	15/9	15/12	16/3	16/6	16/9	16/12	17/3	17/6 (%)
Russell/Nomura Large Cap		21.8	-3.6	-24.0	-36.4	-22.1	-9.6	26.0	1.5
Russell/Nomura Large Cap (ex financials)		18.7	-4.3	-25.6	-35.6	-21.5	-11.1	25.8	2.0
Manufacturing		19.4	-19.4	-38.5	-41.4	-33.9	-18.4	40.1	-6.8
Basic materials		19.6	-17.4	-27.3	-29.5	-20.5	-13.6	32.5	5.1
Processing		-1.1	-35.6	-75.9	-73.4	-59.5	-22.8	61.3	-26.3
Nonmanufacturing (ex financials)		17.5	18.3	-7.3	-27.4	-4.0	-0.8	5.6	14.3



Note: (1) Calculated by Nomura based on revisions to recurring profit forecasts. Excludes consolidated subsidiaries. (2) Revision index = (number of upward revisions – number of downward revisions) ÷ number of constituent companies.

Source: Nomura

Russell/Nomura Large Cap Index: earnings indicators

Fig. 6: Percentage change in sales by sector

(% y-y, except where noted)

		No. of cos	FY12	FY13	FY14	FY15	FY16E Old	FY16E New	FY17E Old	FY17E New	FY18E New
Industrial groups	Russell/Nomura Large Cap (ex financials)	302	2.7	12.5	4.6	-0.4	-3.7	-3.3	5.4	4.6	2.3
	Manufacturing	176	3.0	12.3	4.3	0.2	-4.5	-4.3	6.6	4.9	2.7
	Basic materials	39	-0.5	13.2	0.6	-9.0	-6.3	-5.6	11.4	10.7	0.8
	Processing	80	4.8	13.2	5.7	3.1	-4.4	-4.4	5.4	3.4	3.2
	Nonmanufacturing (ex financials)	126	2.2	12.7	5.0	-1.2	-2.6	-1.8	3.7	4.1	1.9
Broad sectors	Materials	39	-0.5	13.2	0.6	-9.0	-6.3	-5.6	11.4	10.7	0.8
	Machinery, autos	43	10.0	15.4	7.8	5.7	-3.8	-3.1	6.4	3.6	3.3
	Electronics	37	-1.6	10.1	2.7	-0.9	-5.3	-6.3	3.8	3.2	3.2
	Consumer, distribution	100	0.8	11.2	3.7	-1.4	-3.1	-2.2	3.7	3.3	3.2
	Information	24	3.4	20.1	9.6	5.7	0.6	0.1	5.9	5.7	3.0
	Utilities, infrastructure	59	5.3	10.0	5.2	-1.3	-3.1	-2.5	3.4	4.6	-0.4
Sectors	Chemicals	31	0.8	12.5	-1.1	-9.9	-6.8	-5.8	10.5	10.1	1.3
	Steel, nonferrous metals	8	-4.3	15.1	4.7	-6.8	-5.2	-5.1	13.8	12.1	-0.2
	Machinery	24	2.2	15.4	11.1	3.3	-3.5	-2.9	5.8	5.2	4.0
	Autos	19	12.5	15.5	6.9	6.5	-3.9	-3.2	6.5	3.1	3.1
	Electrical machinery, precision equipment	37	-1.6	10.1	2.7	-0.9	-5.3	-6.3	3.8	3.2	3.2
	Pharmaceuticals, healthcare	25	2.0	7.8	0.6	5.2	-2.4	-2.7	3.3	1.7	2.2
	Food products	20	3.3	5.4	6.7	1.6	-1.9	-1.8	6.5	5.7	3.1
	Household goods	12	4.4	9.9	11.5	6.0	-5.1	-4.1	4.0	2.2	3.9
	Trading companies	7	-1.0	14.0	2.7	-9.7	-7.1	-4.6	3.3	4.1	2.1
	Retailing	22	3.7	10.0	5.7	7.3	1.1	2.2	4.6	1.4	6.1
	Services	14	1.5	3.5	-0.4	4.1	-1.1	-2.7	1.3	3.9	2.2
	Software	10	-4.0	3.6	1.4	-0.1	1.9	2.9	15.5	14.7	3.1
	Media	5	4.8	10.5	5.1	12.0	-0.8	-1.3	2.2	3.2	2.0
	Telecommunications	9	3.8	24.4	10.9	5.5	0.7	0.0	5.3	5.0	3.1
	Construction, engineering	5	7.5	6.8	7.2	1.7	-0.7	0.2	3.0	2.1	3.1
	Housing, real estate	18	6.1	14.5	7.9	4.3	5.1	5.1	3.4	5.8	3.1
	Transportation	25	3.4	7.2	3.4	0.3	-3.2	-3.1	2.4	3.4	-4.7
Utilities	11	5.9	11.0	4.7	-7.7	-9.8	-8.2	4.7	5.8	0.2	

Note: Figures exclude listed consolidated subsidiaries. Latest estimates as of 24 May 2017, previous estimates as of 20 February 2017.

Source: Nomura

Fig. 7: Percentage change in recurring profits by sector

(% y-y, except where noted)

		No. of cos	FY12	FY13	FY14	FY15	FY16E Old	FY16E New	FY17E Old	FY17E New	FY18E New
Industrial groups	Russell/Nomura Large Cap	334	12.8	37.4	6.9	-0.6	0.8	1.4	12.7	10.6	7.5
	Russell/Nomura Large Cap (ex financials)	302	7.7	39.7	7.0	1.5	1.6	3.6	14.6	11.1	8.1
	Manufacturing	176	10.3	43.3	7.2	-1.9	-3.5	0.2	21.0	12.8	9.8
	Basic materials	39	-19.2	33.5	-8.9	-7.4	10.7	12.1	24.2	22.3	7.8
	Processing	80	36.4	58.2	15.3	-4.2	-8.5	-3.1	25.0	11.7	11.7
	Nonmanufacturing	158	15.2	31.9	6.5	0.6	4.8	2.5	5.6	8.7	5.4
	Nonmanufacturing (ex financials)	126	3.5	34.0	6.6	7.1	9.0	8.4	6.6	8.9	5.9
Broad sectors	Materials	39	-19.2	33.5	-8.9	-7.4	10.7	12.1	24.2	22.3	7.8
	Machinery, autos	43	42.5	47.6	16.2	1.9	-11.7	-13.0	17.4	10.3	10.9
	Electronics	37	19.7	92.9	13.0	-19.7	1.7	27.8	45.3	14.6	13.1
	Consumer, distribution	100	-4.1	15.7	-9.0	-7.6	21.0	19.8	6.9	9.8	5.1
	Information	24	7.3	16.2	8.0	4.3	7.8	0.2	8.2	12.8	8.3
	Utilities, infrastructure	59	30.2	102.6	28.3	37.3	-8.9	-3.8	3.6	3.7	5.0
	Financials	32	34.8	29.3	6.5	-8.6	-2.8	-8.1	3.5	8.2	4.2
Sectors	Chemicals	31	-19.2	16.3	-21.7	21.6	15.7	16.1	13.4	14.2	6.4
	Steel, nonferrous metals	8	-18.9	119.5	24.0	-54.6	-11.4	-5.5	87.8	67.3	13.3
	Machinery	24	-5.1	31.9	23.7	-6.6	-15.5	-17.9	21.6	23.9	11.6
	Autos	19	72.8	53.0	13.9	4.7	-10.6	-11.6	16.2	6.6	10.7
	Electrical machinery, precision equipment	37	19.7	92.9	13.0	-19.7	1.7	27.8	45.3	14.6	13.1
	Pharmaceuticals, healthcare	25	-4.9	14.0	-15.3	39.2	-4.3	-5.4	1.9	7.1	0.0
	Food products	20	9.1	13.0	4.9	-0.5	7.2	8.3	5.7	6.6	8.5
	Household goods	12	0.1	20.3	11.0	3.3	5.9	5.8	10.5	9.8	9.9
	Trading companies	7	-15.1	25.9	-20.6	-62.2	242.7	233.4	6.8	12.9	3.0
	Retailing	22	-2.5	5.6	-4.8	13.4	-2.6	-1.4	18.1	13.8	8.7
	Services	14	16.6	12.8	-2.4	-5.6	-7.0	-9.6	0.7	6.9	4.1
	Software	10	8.4	14.9	22.6	-11.4	24.5	21.1	28.4	28.2	13.1
	Media	5	7.6	10.8	11.0	10.4	0.3	-1.0	-1.9	1.9	-0.8
	Telecommunications	9	7.2	16.8	6.5	5.6	7.1	-1.4	6.8	12.1	8.4
	Construction, engineering	5	-1.0	25.3	38.4	92.4	13.3	30.5	3.7	-2.3	2.7
	Housing, real estate	18	20.8	29.5	4.6	11.3	17.5	22.4	7.4	5.7	4.4
	Transportation	25	30.9	15.1	10.4	13.3	-9.8	-5.2	7.6	4.4	7.1
	Utilities	11	LI	SP	1,682.0	146.7	-38.7	-36.2	-11.6	2.2	3.0
	Financials	32	34.8	29.3	6.5	-8.6	-2.8	-8.1	3.5	8.2	4.2

Note: (1) Figures exclude listed consolidated subsidiaries. Latest estimates as 24 May 2017, previous estimates as of 20 February 2017. (2) LI = losses increasing; LS = losses shrinking; SL = switch to losses; SP = switch to profits.

Source: Nomura

Fig. 8: Recurring profits by sector

(¥bn, except where noted)

		No. of cos	FY12	FY13	FY14	FY15	FY16E Old	FY16E New	FY17E Old	FY17E New	FY18E New
Industrial groups	Russell/Nomura Large Cap	334	26,521	36,708	38,488	39,670	41,081	41,339	46,296	45,898	49,342
	Russell/Nomura Large Cap (ex financials)	302	20,556	28,994	30,350	32,151	33,748	34,408	38,864	38,482	41,618
	Manufacturing	176	12,917	18,323	19,085	19,524	18,898	19,641	22,950	22,253	24,425
	Basic materials	39	3,101	3,931	3,325	3,177	3,527	3,551	4,392	4,388	4,732
	Processing	80	7,167	11,295	12,834	12,880	11,815	12,524	14,688	13,891	15,510
	Nonmanufacturing	158	13,604	18,385	19,403	20,146	22,183	21,698	23,346	23,645	24,918
	Nonmanufacturing (ex financials)	126	7,639	10,671	11,265	12,627	14,851	14,766	15,915	16,229	17,193
Broad sectors	Materials	39	3,101	3,931	3,325	3,177	3,527	3,551	4,392	4,388	4,732
	Machinery, autos	43	5,480	8,052	9,213	9,835	8,646	8,528	9,992	9,246	10,256
	Electronics	37	1,687	3,243	3,621	3,045	3,169	3,996	4,697	4,646	5,254
	Consumer, distribution	100	5,829	6,841	6,151	6,048	8,704	8,630	9,481	9,668	10,160
	Information	24	3,039	3,645	3,841	4,087	4,301	3,999	4,725	4,589	4,970
	Utilities, infrastructure	59	1,419	3,281	4,198	5,959	5,402	5,704	5,579	5,946	6,245
	Financials	32	5,965	7,714	8,138	7,519	7,333	6,931	7,432	7,416	7,724
Sectors	Chemicals	31	2,606	2,851	2,059	2,583	3,012	3,002	3,429	3,470	3,693
	Steel, nonferrous metals	8	495	1,080	1,266	594	515	549	962	917	1,039
	Machinery	24	1,416	1,855	2,306	2,264	1,867	1,813	2,250	2,230	2,490
	Autos	19	4,064	6,197	6,908	7,571	6,779	6,716	7,742	7,016	7,767
	Electrical machinery, precision equipment	37	1,687	3,243	3,621	3,045	3,169	3,996	4,697	4,646	5,254
	Pharmaceuticals, healthcare	25	1,170	1,314	1,113	1,578	1,479	1,465	1,554	1,624	1,625
	Food products	20	1,107	1,306	1,341	1,383	1,472	1,487	1,637	1,667	1,809
	Household goods	12	371	477	471	507	605	613	679	682	749
	Trading companies	7	1,706	2,026	1,740	657	2,253	2,192	2,407	2,476	2,551
	Retailing	22	1,110	1,277	1,087	1,386	1,418	1,435	1,712	1,679	1,825
	Services	14	364	441	399	538	1,477	1,437	1,492	1,540	1,603
	Software	10	173	245	324	352	351	341	515	502	567
	Media	5	227	251	271	322	323	318	316	325	322
	Telecommunications	9	2,639	3,150	3,246	3,414	3,627	3,339	3,894	3,763	4,081
	Construction, engineering	5	122	181	212	462	536	617	545	591	607
	Housing, real estate	18	956	1,264	1,363	1,604	1,771	1,845	1,929	1,977	2,063
	Transportation	25	1,406	1,799	1,963	2,267	2,097	2,204	2,240	2,347	2,513
	Utilities	11	-1,065	37	660	1,627	998	1,038	865	1,031	1,062
Financials	32	5,965	7,714	8,138	7,519	7,333	6,931	7,432	7,416	7,724	

Note: Figures exclude listed consolidated subsidiaries. Latest estimates as 24 May 2017, previous estimates as of 20 February 2017.

Source: Nomura

Fig. 9: Percentage change in quarterly sales and profits (FY16 Q1–FY16 Q4)

		% y-y															
		Sales				Operating profits				Recurring profits				Net profits			
		Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Industrial groups	Russell/Nomura Large Cap	-	-	-	-	-	-	-	-	-18.7	-6.0	6.1	51.5	-20.3	1.0	20.7	110.5
	Russell/Nomura Large Cap (ex financials)	-6.5	-7.8	-2.7	3.8	-8.6	-9.8	-3.6	55.1	-16.5	-9.5	5.9	71.7	-19.5	-3.3	21.5	161.3
	Manufacturing	-7.6	-8.9	-3.9	4.3	-10.2	-17.6	-18.8	64.2	-21.1	-17.1	-6.7	80.2	-22.0	-16.2	5.3	60.9
	Basic materials	-13.5	-12.1	-2.3	8.8	-26.4	-7.2	29.1	60.4	-42.7	-5.5	59.3	88.3	-46.7	4.8	179.1	SP
	Processing	-7.1	-9.1	-4.3	4.0	-13.5	-21.5	-34.9	87.8	-23.3	-21.1	-23.5	105.3	-24.8	-19.7	-22.3	30.1
	Nonmanufacturing (ex financials)	-4.9	-6.3	-0.9	3.1	-6.6	0.2	18.4	39.2	-10.3	0.5	25.0	55.0	-16.1	15.0	44.6	SP
Broad sectors	Basic materials	-13.5	-12.1	-2.3	8.8	-26.4	-7.2	29.1	60.4	-42.7	-5.5	59.3	88.3	-46.7	4.8	179.1	SP
	Machinery, autos	-6.0	-8.4	-3.1	5.4	-12.0	-29.0	-21.2	4.7	-20.5	-24.7	-9.8	10.8	-26.0	-26.4	-12.9	44.9
	Electronics	-8.9	-10.1	-6.3	1.5	-18.4	-2.9	-68.6	740.0	-31.3	-12.6	-60.2	1,460.0	-20.9	-1.8	SL	-13.0
	Consumption, distribution	-5.1	-7.4	-1.6	3.3	-1.0	-6.5	21.8	104.5	-5.7	-2.8	22.1	187.7	-8.1	-3.9	50.3	SP
	Information	2.1	-1.8	-1.2	2.7	17.3	6.3	12.7	-2.2	4.6	1.1	32.5	-50.3	17.0	65.8	27.1	157.9
	Utilities, infrastructure	-5.6	-4.7	-1.3	1.4	-14.2	-2.9	4.5	-12.1	-13.9	-2.9	9.2	-5.7	-26.9	-12.3	39.9	796.8
	Financials	-	-	-	-	-	-	-	-	-27.5	12.9	6.9	-20.6	-23.4	23.4	17.7	-7.2
Sectors	Chemicals	-13.2	-12.7	-2.1	9.4	-16.5	1.0	38.6	54.3	-31.1	1.5	54.8	73.8	-28.7	23.3	159.7	SP
	Steel, nonferrous metals	-14.2	-10.5	-2.7	7.3	-65.8	-34.1	-8.3	88.4	-84.2	-28.9	93.1	180.5	-95.9	-30.1	452.3	2,865.4
	Machinery	-6.3	-6.6	-3.3	4.0	-19.6	-35.0	-20.2	-8.0	-39.7	-30.0	0.3	-2.4	-34.6	-38.9	0.9	31.4
	Automobiles	-5.9	-8.9	-3.1	5.9	-9.8	-27.3	-21.4	10.4	-15.1	-23.4	-12.6	15.9	-23.7	-23.3	-16.2	50.5
	Electrical machinery, precision equipment	-8.9	-10.1	-6.3	1.5	-18.4	-2.9	-68.6	740.0	-31.3	-12.6	-60.2	1,460.0	-20.9	-1.8	SL	-13.0
	Pharmaceuticals, healthcare	0.4	-4.3	-3.4	-1.0	42.0	-29.3	-5.5	-36.9	31.2	-28.6	4.3	-33.2	38.4	-19.3	9.7	-7.4
	Food products	-2.8	-1.7	-2.9	-0.3	2.2	-0.7	11.0	-6.6	0.6	-2.4	12.4	-2.4	-8.3	-25.6	148.0	7.8
	Household goods	-2.7	-3.8	-7.6	1.6	4.5	10.5	-14.0	12.5	-5.9	18.0	-8.9	19.6	19.3	29.1	-13.0	5.7
	Trading companies	-14.3	-15.2	-1.0	7.4	-23.4	10.4	193.3	SP	-23.3	26.3	133.8	SP	-28.5	22.6	282.9	SP
	Retailing	1.4	-0.6	2.9	4.2	5.8	10.0	6.7	9.5	-0.4	6.3	13.0	17.0	-7.8	-22.4	20.0	21.2
	Services	0.3	-7.0	-3.9	0.1	-25.9	-18.9	-5.5	11.2	-26.3	-18.4	-4.3	11.6	-31.0	17.0	-4.3	SL
	Software	1.4	-4.4	0.9	13.6	21.0	-19.4	28.4	23.4	-64.5	-0.1	71.9	79.1	-48.3	154.9	103.2	53.6
	Media	5.2	1.3	-7.0	4.8	44.2	-4.8	-2.8	-7.9	46.5	-2.6	-6.8	-12.4	63.5	-2.1	-8.6	-6.9
	Telecommunications	1.8	-1.9	-0.6	1.3	15.8	9.0	12.9	-4.0	7.1	1.4	33.1	-65.9	19.2	63.3	21.2	193.1
	Construction, engineering	-2.0	-3.9	-2.7	8.0	44.6	47.8	27.9	10.6	23.7	53.9	33.8	16.2	25.9	67.8	35.0	35.0
	Housing, real estate	4.1	1.7	8.5	5.7	11.1	7.6	24.2	21.1	25.3	7.3	29.2	31.9	25.3	6.7	28.6	127.3
	Transportation	-4.8	-6.2	-2.6	1.1	-11.6	-10.8	1.5	-0.2	-14.5	-11.5	5.9	4.5	-19.0	-49.4	20.4	SP
	Utilities	-13.8	-8.3	-6.9	-3.8	-31.5	-10.6	-36.3	-91.5	-31.9	-11.2	-45.0	SL	-53.4	7.9	162.2	LI
Financials	-	-	-	-	-	-	-	-	-27.5	12.9	6.9	-20.6	-23.4	23.4	17.7	-7.2	

Note: (1) Q1 = Feb–Apr, Mar–May, or Apr–Jun; Q2 = May–Jul, Jun–Aug, or Jul–Sep; Q3 = Aug–Oct, Sep–Nov, or Oct–Dec; Q4 = Nov–Jan, Dec–Feb, or Jan–Mar. (2) Figures are for companies that had announced results (either full year, Q1, Q2, or Q3) by 24 May 2017. (3) Excludes consolidated subsidiaries. (4) LI = losses increasing; LS = losses shrinking; SL = switch to losses; SP = switch to profits.

Source: Nomura

Fig. 10: Valuation indicators

		P/E			P/CF			P/B		Dividend yield			ROE			
		FY16	FY17E	FY18E	FY16	FY17E	FY18E	FY16	FY17E	FY16	FY17E	FY18E	FY15	FY16	FY17E	FY18E
		x	x	x	x	x	x	x	x	%	%	%	%	%	%	%
Industrial groups	Russell/Nomura Large Cap	17.2	15.2	14.1	-	-	-	1.37	1.32	1.92	2.08	2.22	7.7	8.2	9.0	9.1
	Russell/Nomura Large Cap (ex loss-making cos)	16.0	15.2	14.1	-	-	-	1.46	1.32	1.86	2.09	2.22	8.9	9.3	9.0	9.1
	Russell/Nomura Large Cap (ex financials)	18.8	16.1	14.9	8.7	8.5	8.1	1.55	1.49	1.82	2.00	2.14	7.9	8.5	9.5	9.7
	Manufacturing	20.7	16.8	15.2	9.6	9.4	8.7	1.65	1.57	1.87	2.09	2.24	8.1	8.1	9.7	10.0
	Basic materials	17.7	14.0	12.7	7.5	6.5	6.0	1.14	1.08	1.74	1.91	2.04	3.9	6.6	8.0	8.2
	Processing	19.8	15.1	13.5	8.6	8.6	7.9	1.55	1.47	1.99	2.26	2.43	9.3	8.0	10.0	10.6
	Nonmanufacturing	14.3	13.6	13.0	-	-	-	1.14	1.11	1.98	2.07	2.19	7.3	8.2	8.4	8.3
	Nonmanufacturing (ex financials)	16.3	15.2	14.5	7.7	7.5	7.2	1.41	1.37	1.74	1.86	1.97	7.6	8.9	9.2	9.2
Broad sectors	Basic materials	17.7	14.0	12.7	7.5	6.5	6.0	1.14	1.08	1.74	1.91	2.04	3.9	6.6	8.0	8.2
	Machinery, autos	14.3	12.8	11.5	6.9	7.7	7.1	1.35	1.28	2.39	2.69	2.93	11.0	9.7	10.3	10.8
	Electronics	43.9	19.9	17.4	12.9	10.3	9.4	1.94	1.84	1.43	1.68	1.75	5.7	4.6	9.5	10.1
	Consumption, distribution	23.3	20.1	19.0	13.7	12.4	11.9	1.72	1.68	1.84	1.99	2.09	6.2	7.5	8.5	8.6
	Information	13.4	17.5	15.8	6.4	7.1	6.8	1.93	1.91	1.57	1.72	1.87	10.8	15.0	11.1	11.6
	Utilities, infrastructure	15.8	13.1	13.0	6.7	6.3	6.2	1.34	1.26	1.57	1.65	1.75	8.9	8.8	10.0	9.4
	Financials	10.5	10.2	9.9	-	-	-	0.73	0.70	2.70	2.76	2.87	7.0	7.1	7.0	6.9
Sectors	Chemicals	16.9	14.2	13.1	8.0	7.1	6.7	1.30	1.21	1.79	1.85	1.95	4.1	7.8	8.9	8.9
	Steel, nonferrous metals	21.8	13.0	11.5	6.0	4.8	4.5	0.77	0.76	1.55	2.13	2.37	3.4	3.6	5.9	6.4
	Machinery	22.4	19.0	16.9	12.6	11.3	10.4	1.77	1.68	1.61	1.81	1.90	9.0	8.1	9.1	9.6
	Automobiles	12.0	11.0	9.9	5.6	6.6	6.1	1.21	1.14	2.78	3.15	3.47	11.8	10.3	10.7	11.2
	Electrical machinery, precision equipment	43.9	19.9	17.4	12.9	10.3	9.4	1.94	1.84	1.43	1.68	1.75	5.7	4.6	9.5	10.1
	Pharmaceuticals, healthcare	26.5	26.3	25.9	17.3	16.4	17.1	2.35	2.25	1.84	1.97	2.01	8.6	8.9	8.7	8.5
	Food products	23.5	23.5	21.9	14.6	14.6	13.8	2.83	2.65	1.74	1.95	2.14	10.4	12.2	11.7	11.8
	Household goods	28.2	27.3	24.7	18.8	18.0	16.7	3.33	3.38	1.17	1.27	1.38	10.3	12.1	12.8	13.2
	Trading companies	8.6	7.6	7.4	5.7	5.1	5.0	0.81	0.75	3.31	3.67	3.78	0.8	9.9	10.3	9.8
	Retailing	33.9	24.9	21.8	15.2	12.9	11.7	2.21	2.26	1.38	1.45	1.56	7.7	6.6	9.2	10.1
	Services	51.5	25.4	24.2	20.2	14.4	13.8	1.04	1.04	1.86	1.98	2.03	6.1	2.0	4.2	4.2
	Software	30.5	30.2	26.7	22.8	22.9	20.8	3.04	3.11	1.43	1.64	1.84	7.8	10.3	10.4	11.3
	Media	17.6	19.2	18.1	12.3	13.0	12.4	1.30	1.27	1.59	1.57	1.57	7.4	7.4	6.7	6.8
	Telecommunications	11.2	15.3	13.9	5.0	5.6	5.4	1.84	1.79	1.62	1.77	1.91	11.9	17.2	12.0	12.4
	Construction	9.9	10.0	9.7	8.7	8.6	8.4	1.53	1.45	2.19	2.37	2.56	13.4	16.5	15.4	14.2
	Housing, real estate	15.4	14.5	13.8	11.0	10.4	10.0	1.58	1.49	1.84	2.00	2.05	8.4	10.6	10.7	10.4
	Transportation	20.5	14.6	13.6	7.8	6.8	6.5	1.48	1.39	1.15	1.28	1.36	8.0	7.4	9.9	9.9
	Utilities	12.4	9.9	12.0	3.0	2.8	3.0	0.83	0.77	1.85	1.54	1.81	9.5	6.9	8.0	6.3
	Financials	10.5	10.2	9.9	-	-	-	0.73	0.70	2.70	2.76	2.87	7.0	7.1	7.0	6.9
Russell/Nomura Small Cap	18.2	16.0	15.3	-	-	-	1.28	1.15	1.69	1.76	1.82	6.5	7.2	7.4	7.3	
Russell/Nomura Small Cap (ex financials)	19.1	16.6	15.8	10.2	9.0	8.7	1.42	1.28	1.64	1.72	1.75	6.6	7.6	7.9	7.9	

Note: Estimates and share prices as of 24 May 2017 close.

Source: Nomura

What are the Russell/Nomura Japan Equity Indexes?

The Russell/Nomura Japan Equity Indexes are Japanese equity indexes developed jointly by FTSE Russell Indexes and the Global Research Division, Financial Engineering & Technology Research Center, Nomura Securities Co., Ltd.

Russell/Nomura Japan Equity Indexes should be useful in:

- Determining investment strategies (strategic asset allocation)
- Determining manager structures
- Devising asset management benchmarks
- Supporting portfolio management activities
- Evaluating the performance of various investment styles
- Managing risk

Russell/Nomura Japan Equity Indexes have the following characteristics:

- They are share price indexes that are weighted by free-float adjusted market capitalization and cover the top 98% of all listed stocks in terms of float-adjusted market capitalization, thereby offering broad market coverage
- In addition to stocks listed on the First Section of the Tokyo Stock Exchange (TSE-1), they include stocks listed on other exchanges
- Because the indexes take into consideration the stable shareholding ratio, they reflect the stocks that are actually available for investment
- There are style indexes for large and small companies and for value and growth stocks
- The Prime Index consists of the top 1,000 stocks in the Total Market Index by market cap excluding stable shareholdings
- Stocks are selected quantitatively based on clearly defined criteria
- The composition of each index is reviewed once a year.

Complete details of rules for the Russell/Nomura Japan Equity Index can be found in the Russell/Nomura Japan Equity Index Rulebook.

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As at 31 March 2017.

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When Japanese government bonds (JGBs) for individual investors are purchased via public offerings, only the purchase price shall be paid, with no sales commission charged. As a rule, JGBs for individual investors may not be sold in the first 12 months after issuance. When JGBs for individual investors are sold before maturity, an amount calculated via the following formula will be subtracted from the par value of the bond plus accrued interest: (1) for 10-year variable rate bonds, an amount equal to the two preceding coupon payments (before tax) x 0.79685 will be used, (2) for 5-year and 3-year fixed rate bonds, an amount equal to the two preceding coupon payments (before tax) x 0.79685 will be used.

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Investment trusts invest mainly in securities such as Japanese and foreign equities and bonds, whose prices fluctuate. Investment trust unit prices fluctuate owing to price fluctuations in the underlying assets and to foreign exchange rate fluctuations. As such, investment trusts carry the risk of losses. Fees and risks vary by investment trust. Maximum applicable fees are subject to change; please thoroughly read the written materials provided, such as prospectuses or documents delivered before making a contract.

In interest rate swap transactions and USD/JPY basis swap transactions (“interest rate swap transactions, etc.”), only the agreed transaction payments shall be made on the settlement dates. Some interest rate swap transactions, etc. may require pledging of margin collateral. In some of these cases, transaction payments may exceed the amount of collateral. There shall be no advance notification of required collateral value or collateral ratios as they vary depending on the transaction. Interest rate swap transactions, etc. carry the risk of losses owing to fluctuations in market prices in the interest rate, currency and other markets, as well as reference indices. Losses incurred as such may exceed the value of margin collateral, in which case margin calls may be triggered. In the event that both parties agree to enter a replacement (or termination) transaction, the interest rates received (paid) under the new arrangement may differ from those in the original arrangement, even if terms other than the interest rates are identical to those in the original transaction. Risks vary by transaction. Please thoroughly read the written materials provided, such as documents delivered before making a contract and disclosure statements.

In OTC transactions of credit default swaps (CDS), no sales commission will be charged. When entering into CDS transactions, the protection buyer will be required to pledge or entrust an agreed amount of margin collateral. In some of these cases, the transaction payments may exceed the amount of margin collateral. There shall be no advance notification of required collateral value or collateral ratios as they vary depending on the financial position of the protection buyer. CDS transactions carry the risk of losses owing to changes in the credit position of some or all of the referenced entities, and/or fluctuations of the interest rate market. The amount the protection buyer receives in the event that the CDS is triggered by a credit event may undercut the total amount of premiums that he/she has paid in the course of the transaction. Similarly, the amount the protection seller pays in the event of a credit event may exceed the total amount of premiums that he/she has received in the transaction. All other conditions being equal, the amount of premiums that the protection buyer pays and that received by the protection seller shall differ. In principle, CDS transactions will be limited to financial instruments business operators and qualified institutional investors.

No account fee will be charged for marketable securities or monies deposited. Transfers of equities to another securities company via the Japan Securities Depository Center are subject to a transfer fee of up to ¥10,800 per issue transferred depending on volume.

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