

# **Outlook for FY13–14 corporate earnings**

## Quarterly Update

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# Summary and major assumptions

## Overview of the FY13 corporate earnings outlook

In this report, we collate earnings forecast data issued by our analysts, and then analyze that data. For FY13, our analysts forecast sales growth of 10.3% y-y and recurring profit growth of 36.1% for companies in the Russell/Nomura Large Cap Index (ex financials). Compared with our previous forecasts (published in June, based on data collated on 26 May), these figures represent an upward revision of 1.8ppt for sales and a downward revision of 0.1ppt for recurring profits. Our absolute recurring profit growth forecast had been revised upward for the last two quarters, but this pattern of upward revisions has ended for now. That said, the number of companies for which our analysts have raised their estimates remains higher than the number of companies for which they have lowered their estimates. Excluding the utilities sector, which is projected to record recurring losses for a third consecutive year, our recurring profit growth forecast has increased by 0.9ppt from 29.6% to 30.5%. Our latest estimates assume USD/JPY of 98.9 and EUR/JPY of 128.2 over full-year FY13 (versus our previous assumptions of 97 and 126, respectively).

In FY13 Q1, recurring profits at companies in the Russell/Nomura Large Cap Index (ex financials) increased 44.7% y-y, well ahead of the 24.8% growth recorded in FY12 Q4. Recurring profits in Q1 were equivalent to 56% of full-year company guidance, in our view testifying to the strength of corporate earnings momentum. The weaker yen provided significant benefits to Japanese companies during the quarter, and the broad-based recovery in corporate earnings was evidenced by 17 of 19 sectors contributing to Q1 profit growth.

Projected sales growth of 10.3% y-y for FY13 is eclipsed only by the 15.1% growth recorded in FY89 during the asset bubble. Not only are emergency stimulus measures to support the Japanese economy beginning to have an effect, but we also see exports regaining momentum from FY13 H2 as economic recovery in the US and the weaker yen boost export volumes.

## Overview of the FY14 corporate earnings outlook

For FY14, our analysts forecast sales growth of 3.0% y-y and recurring profit growth of 12.0% for companies in the Russell/Nomura Large Cap Index (ex financials). These figures represent upward revisions of 0.1ppt for sales and 0.4ppt for recurring profits versus our previous forecasts. However, our absolute recurring profit forecast has edged down by ¥28.4bn versus our previous forecast. For full-year FY14, we assume USD/JPY of 99 (97 previously) and EUR/JPY of 128 (126). Whereas we look for the weaker yen to have a sizeable y-y impact on corporate earnings in FY13, we anticipate no marked fluctuations in forex in FY14 and accordingly see both sales and recurring profit growth returning to a more normal trajectory.

The previous peak for recurring profits was in FY07. Based on our bottom-up forecasts, we project that recurring profits will reach 89% of the peak level in FY13 and recover the peak in FY14. Meanwhile, we project that ROE will improve only as far as 9.5% in FY14, versus the FY07 level of 10.4%. With the FY14 recurring margin projected to improve more or less to the FY07 level, we believe corporate earnings have reached the stage where further ROE improvement hinges on stemming the decline in corporate leverage.

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

(% y-y, except where noted)

		No. of cos	New				Old	
			FY11	FY12	FY13E	FY14E	FY13E	FY14E
Sales	Russell/Nomura Large Cap (ex financials)	295	1.4	2.7	10.3	3.0	8.5	2.9
	Manufacturing	179	0.2	3.0	10.0	3.0	8.5	3.1
	Basic materials	47	4.8	-0.5	10.7	1.0	7.7	0.6
	Processing	81	-2.0	4.8	10.8	4.1	9.8	4.4
	Nonmanufacturing (ex financials)	116	3.0	2.2	10.8	3.1	8.6	2.5
	Russell/Nomura Small Cap (ex financials)	1,039	3.4	2.5	7.0	3.8	6.1	3.2
Operating profits	Russell/Nomura Large Cap (ex financials)	295	-18.6	4.5	35.0	12.1	35.3	11.3
	Manufacturing	179	-14.2	7.5	38.4	10.2	36.8	10.7
	Basic materials	47	-9.8	-22.6	33.2	9.0	30.5	12.6
	Processing	81	-20.6	29.1	48.3	11.2	45.9	11.2
	Nonmanufacturing (ex financials)	116	-24.6	-0.4	29.6	15.4	33.0	12.2
	Russell/Nomura Small Cap (ex financials)	1,039	-2.5	-2.1	26.0	11.0	25.0	9.3
Recurring profits	Russell/Nomura Large Cap	332	-12.1	12.8	28.7	10.1	26.5	9.9
	Russell/Nomura Large Cap (ex financials)	295	-19.5	7.7	36.1	12.0	36.2	11.6
	Manufacturing	179	-17.9	10.3	41.5	10.5	39.4	11.4
	Basic materials	47	-7.1	-19.2	26.9	7.9	23.0	13.2
	Processing	81	-29.3	36.4	58.0	12.0	55.4	12.1
	Nonmanufacturing	153	-5.9	15.2	16.9	9.6	14.8	8.3
	Nonmanufacturing (ex financials)	116	-21.7	3.5	27.4	14.6	31.0	11.8
	Russell/Nomura Small Cap	1,128	6.5	3.9	17.8	9.6	15.3	8.7
	Russell/Nomura Small Cap (ex financials)	1,039	0.5	4.5	18.4	10.4	16.6	9.3
Net profits	Russell/Nomura Large Cap	332	-25.3	36.3	55.6	8.3	51.8	7.9
	Russell/Nomura Large Cap (ex financials)	295	-35.2	26.7	79.4	9.8	77.7	9.4
	Manufacturing	179	-42.9	30.8	83.6	10.0	77.5	10.9
	Basic materials	47	-34.6	-30.8	92.6	8.3	79.0	14.4
	Processing	81	-57.2	77.5	117.5	11.3	110.0	12.1
	Nonmanufacturing	153	-2.6	41.0	33.2	6.5	31.4	4.8
	Nonmanufacturing (ex financials)	116	-19.2	20.4	72.6	9.4	78.1	7.0
	Russell/Nomura Small Cap	1,128	10.4	2.0	58.7	9.8	54.1	9.2
	Russell/Nomura Small Cap (ex financials)	1,039	1.2	-2.0	70.0	10.9	66.0	10.2

Note: (1) Latest estimates as of 20 August 2013. Previous estimates as of 26 May 2013.

Source: Nomura

Fig. 2: Major assumptions

		Industrial production % y-y		Uncollateralized overnight call rate FY-end, %	WTI CIF, \$/barrel	Forex rate			
		2010 basis	2005 basis			average, \$/¥	average, €/¥		
Annual	FY12	-2.9	-3.4	0-0.10	92.1	83.1	107.1		
	FY13E	New	3.3	-	0-0.10	98.6	98.9	128.2	
		Old	2.4	4.2	0-0.10	93.0	97.0	126.0	
	FY14E	New	3.5	-	0-0.10	100.0	99.0	128.0	
Old		2.5	2.5	0-0.10	93.0	97.0	126.0		
Semiannual	FY12	H1	1.1	0.1	0-0.10	92.9	79.3	100.6	
		H2	-6.9	-6.8	0-0.10	91.3	86.8	113.6	
	FY13E	H1	New	-0.4	-	0-0.10	97.1	98.8	128.4
			Old	-0.9	1.3	0-0.10	93.0	97.0	126.0
		H2	New	6.7	-	0-0.10	100.0	99.0	128.0
			Old	5.7	7.1	0-0.10	93.0	97.0	126.0
	FY14E	H1	New	4.5	-	0-0.10	100.0	99.0	128.0
			Old	3.4	3.4	0-0.10	93.0	97.0	126.0
H2		New	2.6	-	0-0.10	100.0	99.0	128.0	
		Old	1.6	1.6	0-0.10	93.0	97.0	126.0	

Note: Macroeconomic assumptions as of 12 July 2013. Previous assumptions as of 11 April 2013. The above figures represent assumptions on which Nomura analysts formulate their earnings estimates, and may differ from Nomura economic forecasts.

Source: Nomura

# Contributions to recurring profit growth by sector

## Overview of the FY13 corporate earnings outlook

For FY13, we forecast that recurring profits will increase (or losses will contract) in all 19 sectors. Sectors from which we expect substantial contributions to overall profit growth are automobiles, electrical machinery & precision equipment, and utilities. We assume the yen will weaken from USD/JPY of 83.1 in FY12 to 98.9 in FY13, and we think the biggest contributions to profit growth will come from sectors whose earnings benefit most from a weaker yen.

The autos sector has much higher forex sensitivity than other sectors and earnings have been buoyed by the weaker yen. In addition, automakers are benefiting from brisk sales in Japan and the US, two markets in which sales volumes are large. The US economy has managed to avoid a major slowdown, and we estimate that US new car sales will rise 5.4% y-y in 2013, to 15.3mn vehicles. While we think auto sales in Japan will be hit by the withdrawal of eco-car subsidies, we expect a surge in demand equivalent to around 200,000 vehicles prior to the April 2014 rise in the consumption tax rate, so we see little need for concern about sales volume. Other factors offering stability from a profit perspective include (1) the low likelihood that raw material prices will have a major negative impact on earnings, as material prices are stable, (2) indications from sector companies that they plan to continue reducing COGS, and (3) continued prudence on the part of automakers toward investments to expand capacity. In the electrical machinery & precision instrument sector, earnings improvement in consumer electronics businesses accounts for nearly half of the projected FY13 profit growth contribution, with the next biggest projected contribution coming from industrial electronics. Consumer electronics manufacturers are targeting a return to profit in FY13 after two years of structural reforms. In industrial electronics, we look for profits to be boosted by an upturn in NAND flash memory prices and benefits from structural reforms in SoC, analog semiconductor, microcontroller and TV businesses. In the utilities sector, we project a slight decline in the nuclear power capacity factor, but we look for electricity rate hikes and further cost reductions to contribute to earnings.

## Overview of the FY14 corporate earnings outlook

For FY14, we forecast that all 19 sectors will either increase recurring profits y-y or move into the black at the recurring level. As with FY13, we think the biggest contributors to profit growth will be the utilities, automobiles, and electrical machinery & precision instruments sectors. We anticipate a more or less neutral y-y forex effect on earnings, as we assume USD/JPY of 99 for FY14, versus 98.9 for FY13.

We project that the utilities sector will move into the black at the recurring level, albeit marginally, in FY14 as electricity rate hikes have a greater impact and the nuclear capacity factor rises from the FY13 level. In the autos sector, firm momentum in global vehicle sales should provide support to earnings. We estimate that US new car sales will advance 6.5% y-y in 2014, to 16.3mn vehicles. In the electrical machinery & precision instruments sector, we look for the earnings improvement among consumer electronics companies to ease off, but anticipate a larger contribution to profit growth from industrial electronics. We think business segments in which industrial electronics companies have strengthened their presence—chiefly IT services, social infrastructure, factory automation (FA) systems and automotive equipment—will make a stable contribution to profit growth.

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

(%)

FY13E				FY14E			
Increase in profit				Increase in profit			
19 sectors	Growth	Contribution	Contribution (ex financials)	19 sectors	Growth	Contribution	Contribution (ex financials)
Automobiles	55.5	29.3	30.0	Utilities	SP	25.7	26.3
Electrical machinery, precision equipment	93.9	20.6	21.1	Automobiles	9.4	17.1	17.5
Utilities	LS	11.1	11.4	Electrical machinery, precision equipment	14.9	13.9	14.3
Steel, nonferrous metals	114.0	7.3	7.5	Machinery	15.7	7.8	8.0
Telecommunications	14.5	5.0	5.2	Chemicals	6.1	4.8	4.9
Trading companies	21.5	4.5	4.6	Steel, nonferrous metals	12.4	3.8	3.9
Machinery	22.5	4.1	4.2	Retailing	9.2	3.6	3.7
Chemicals	9.5	3.0	3.1	Food	8.8	3.3	3.4
Pharmaceuticals, healthcare	17.7	2.7	2.8	Pharmaceuticals, healthcare	8.1	3.2	3.3
Financials	3.0	2.4	-	Telecommunications	3.4	3.0	3.0
Software	74.2	2.1	2.1	Transportation	5.8	2.8	2.9
Retailing	12.1	1.9	1.9	Housing, real estate	8.6	2.7	2.8
Food	11.8	1.8	1.8	Financials	1.4	2.4	-
Transportation	7.8	1.6	1.6	Trading companies	2.7	1.5	1.6
Housing, real estate	12.5	1.6	1.6	Software	13.8	1.5	1.5
Household goods	10.8	0.6	0.6	Household goods	9.2	1.2	1.2
Services	6.3	0.3	0.3	Services	6.3	0.8	0.8
Construction	4.1	0.1	0.1	Media	9.8	0.7	0.7
Media	2.6	0.1	0.1	Construction	9.3	0.4	0.4
<b>Decrease in profit</b>				<b>Decrease in profit</b>			
0 sector	Growth	Contribution	Contribution (ex financials)	0 sector	Growth	Contribution	Contribution (ex financials)
-	-	-	-	-	-	-	-

Note: SP = switch to profit, LS = losses shrinking, LI = losses increasing.

Source: Nomura

# Revisions to recurring profit estimates (versus old estimates)

## Overview of the FY13 corporate earnings outlook

We have raised our FY13 forecasts for nine of 19 sectors and lowered them for 10. We now assume a weaker yen for FY13, and have changed our USD/JPY assumption from 97 to 98.9 and our EUR/JPY assumption from 126 to 128.2.

We have made large upward revisions for sectors such as financials, automobiles, chemicals, and steel & nonferrous metals. Within the financials sector, we have made upward revisions to our forecasts for the banking subsector on improvement in net interest income and fee & commission income as well as merger synergies at some companies, and for the insurance subsector on the strength of overseas subsidiaries and improved earnings from domestic automobile insurance as a result of upping premiums. In the autos sector, we expect a slowdown in some emerging markets such as Thailand and India, but demand is strong in the US and Japan (areas where volumes are high), and we also expect Chinese businesses to improve quarter by quarter. Internal factors in the form of new product development and COGS reductions are also having a positive effect. Upward revisions for materials sectors (chemicals, steel & nonferrous metals) largely reflect the impact of upward revision for the autos sector. The upward revision for the chemicals sector reflects (1) benefits in the diversified chemicals subsector from favorable demand for automotive products, and (2) an increase in inventory valuation gains in the oil products subsector resulting from rising crude oil prices. However, while oil product margins (chiefly for gasoline) have been firm of late, the margin outlook has been revised down in view of sluggish diesel prices and the risk that higher prices will depress demand. In the steel & nonferrous metals sector, domestic steel demand has been steadier than we expected and we now look for negotiations over domestic long-term contract prices to work more in favor of steelmakers than we previously envisaged.

Meanwhile, we have made large downward revisions for utilities, telecommunications, electrical machinery & precision instruments, and software. Our downward revision for utilities reflects deterioration in gains/losses under the fuel cost adjustment system caused by higher crude oil prices and the weaker yen, and higher costs for alternative fuels to cover closed nuclear facilities. In the telecommunications sector, the business environment is upbeat—as evidenced by strong mobile net adds—but we have lowered our forecast for the sector as a whole due to the considerable impact of special factors such as mergers and acquisitions at some companies. In the electrical machinery & precision instruments sector, we have made a larger downward revision for precision instruments. June 2013 digital camera shipments fell y-y for the 14th month in succession, with shipments of digital compact cameras below 3mn units for the first time since April 2003. Some companies have moved to downsize their businesses at a faster pace than the market is contracting, in view of the substantial impact of margin erosion owing to price discounting. We have adopted a cautious stance on the software sector mainly because we expect users to hold off on purchases of game consoles ahead of the next generation of offerings, and because we see a risk of high development costs for next-generation console games.

## Overview of the FY14 corporate earnings outlook

We have raised our FY14 forecasts for 12 of 19 sectors and lowered them for seven. We assume a weaker yen for FY14, and have changed our USD/JPY assumption from 97 to 99 and our EUR/JPY assumption from 126 to 128.

We have made large upward revisions for sectors such as financials, automobiles, and steel & nonferrous metals, in a similar pattern to our FY13 revisions. We have also raised our FY14 forecast for machinery, for which we have lowered our FY13 forecast. Machinery demand in Japan and China is in a nascent recovery at present, having corrected in FY12. Although we are not optimistic about mining machinery demand, it looks likely that FY13 Q2 marked the trough for the sector. Machinery makers in Japan remain highly competitive and we look for sustained growth in overseas market share to come strongly to the fore in FY14.

We have made large downward revisions for the chemicals, telecommunications, software, and electrical machinery & precision instruments sectors. These downward revisions again follow the FY13 pattern, with the exception of chemicals, for which we have made a sizeable downward revision for FY14 to reflect a projected erosion in margins on oil products (especially diesel) in the oil products subsector.

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

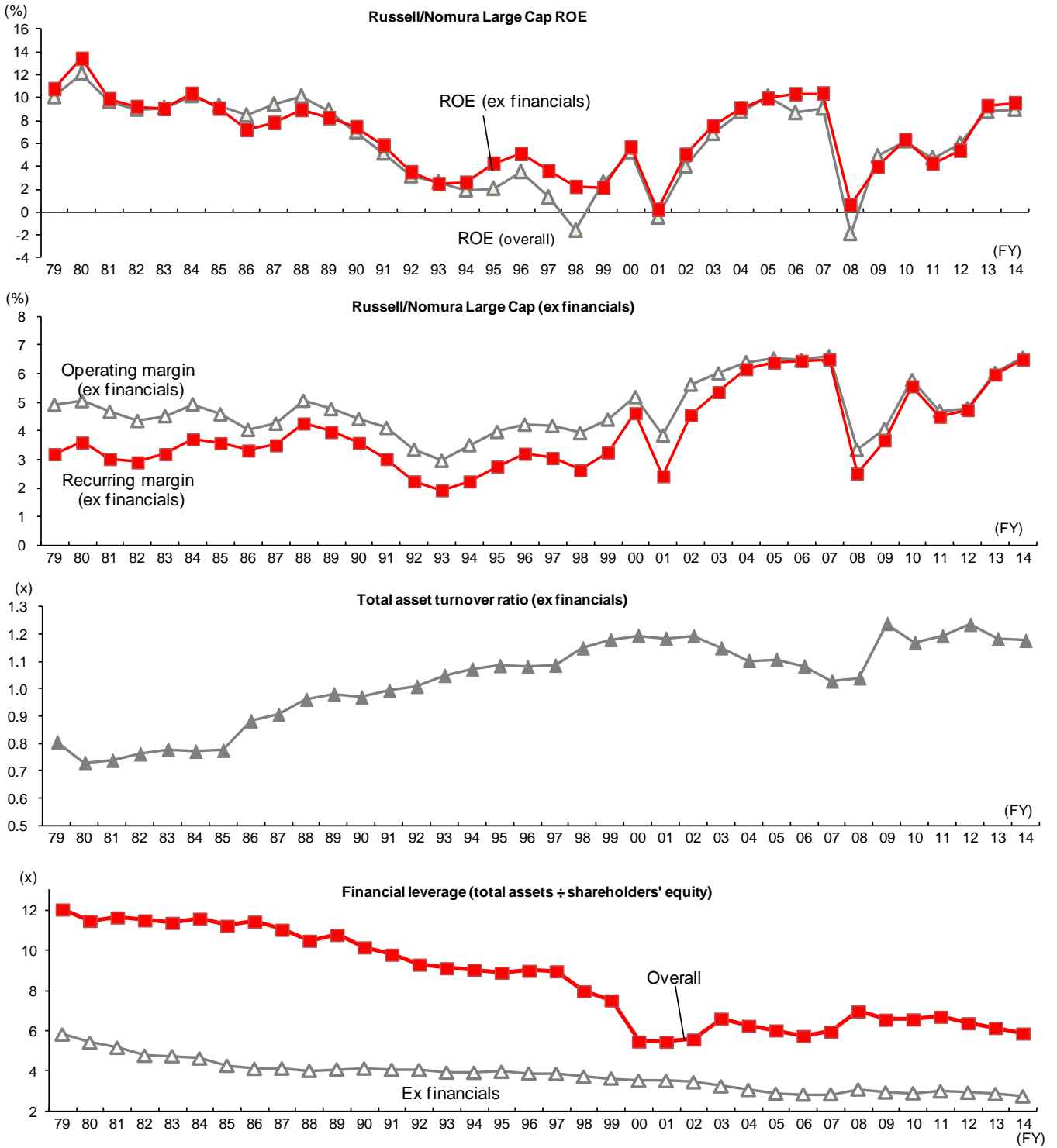
FY13E					FY14E				
[Upward revisions] 9sectors					[Upward revisions] 12 sectors				
	New	Old	Revision	Change		New	Old	Revision	Change
	¥bn	¥bn	¥bn	%		¥bn	¥bn	¥bn	%
Financials	6,148	5,543	606	10.9	Financials	6,233	5,633	600	10.7
Automobiles	6,297	6,027	270	4.5	Automobiles	6,892	6,635	257	3.9
Chemicals	2,697	2,631	66	2.5	Steel, nonferrous metals	1,184	1,151	33	2.9
Steel, nonferrous metals	1,053	1,003	50	5.0	Machinery	1,992	1,973	19	1.0
Housing, real estate	1,099	1,082	17	1.6	Utilities	682	663	19	2.9
Household goods	440	424	16	3.8	Household goods	480	461	18	4.0
Services	416	415	1	0.2	Media	256	242	13	5.4
Food	1,292	1,291	1	0.0	Transportation	1,784	1,771	13	0.7
Media	233	232	1	0.3	Housing, real estate	1,193	1,182	11	0.9
					Food	1,406	1,400	6	0.4
[Downward revisions] 10sectors					[Downward revisions] 7sectors				
	New	Old	Revision	Change		New	Old	Revision	Change
	¥bn	¥bn	¥bn	%		¥bn	¥bn	¥bn	%
Trading companies	1,956	1,959	-3	-0.2	Construction	165	174	-9	-5.2
Transportation	1,686	1,692	-6	-0.3	Retailing	1,480	1,502	-21	-1.4
Construction	151	157	-6	-3.8	Trading companies	2,009	2,037	-28	-1.4
Machinery	1,722	1,729	-8	-0.4	Electrical machinery, precision equipment	3,745	3,826	-81	-2.1
Retailing	1,356	1,366	-10	-0.7	Software	422	506	-85	-16.7
Pharmaceuticals, healthcare	1,377	1,421	-44	-3.1	Telecommunications	3,147	3,244	-97	-3.0
Software	371	428	-57	-13.4	Chemicals	2,862	2,963	-101	-3.4
Electrical machinery, precision equipment	3,260	3,334	-74	-2.2					
Telecommunications	3,044	3,205	-160	-5.0					
Utilities	-210	-19	-191	N.M.					

Note: Latest estimates as of 20 August 2013, previous estimates as of 26 May 2013.

Source: Nomura



**Fig. 5: Breakdown of factors affecting ROE**

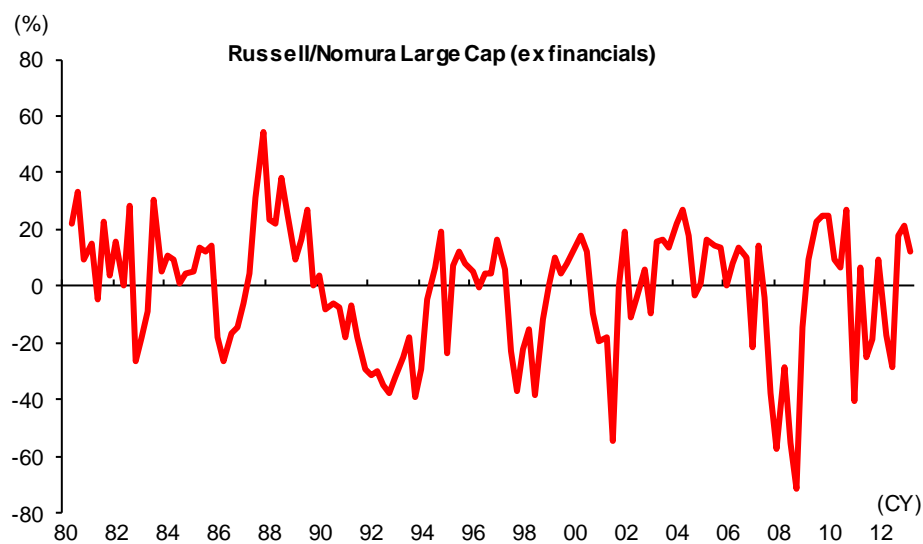


Note: (1) Figures for FY13 onward are estimates as of 20 August 2013.

Source: Nomura

**Fig. 6: Revision index for the Russell/Nomura Large Cap Index**

	(yy/m)	12/3	12/6	12/9	12/12	13/3	13/6	13/9
Russell/Nomura Large Cap		-12.6	8.7	-15.0	-25.0	19.2	25.3	14.5
Russell/Nomura Large Cap (ex financials)		-18.9	9.5	-17.2	-28.5	17.6	21.7	12.5
Manufacturing		-33.9	15.4	-31.9	-41.2	23.5	20.1	23.5
Basic materials		-50.9	3.6	-40.0	-61.1	31.9	25.5	38.3
Processing		-34.1	24.1	-40.2	-41.4	30.9	29.6	16.0
Nonmanufacturing (ex financials)		7.4	-0.9	8.3	-6.5	8.5	24.1	-4.3



Note: (1) Excludes consolidated subsidiaries. (2) Revision index = (number of upward revisions - number of downward revisions) ÷ number of companies.

Source: Nomura

# Russell/Nomura Large Cap Index: earnings indicators

Fig. 7: Percentage change in sales by sector

		No. of cos	FY08	FY09	FY10	FY11	FY12	(% y-y, except where noted)			
								FY13E Old	FY13E New	FY14E Old	FY14E New
Industrial groups	Russell/Nomura Large Cap (ex financials)	295	-7.7	-13.0	6.1	1.4	2.7	8.5	10.3	2.9	3.0
	Manufacturing	179	-10.8	-11.8	7.0	0.2	3.0	8.5	10.0	3.1	3.0
	Basic materials	47	-5.3	-20.8	13.2	4.8	-0.5	7.7	10.7	0.6	1.0
	Processing	81	-15.2	-10.7	6.3	-2.0	4.8	9.8	10.8	4.4	4.1
	Nonmanufacturing (ex financials)	116	-3.3	-14.4	4.9	3.0	2.2	8.6	10.8	2.5	3.1
Broad sectors	Materials	47	-5.3	-20.8	13.2	4.8	-0.5	7.7	10.7	0.6	1.0
	Machinery, autos	45	-17.0	-13.0	7.4	-0.1	10.0	12.3	13.8	5.5	5.2
	Electronics	36	-13.0	-8.0	5.2	-4.3	-1.6	6.4	6.5	2.7	2.4
	Consumer, distribution	88	-4.2	-14.9	5.7	3.3	0.8	9.1	9.5	2.7	2.7
	Information	22	-1.9	-3.5	0.4	1.5	3.4	8.0	21.2	2.4	5.1
	Utilities, infrastructure	57	0.7	-11.0	2.5	2.2	5.3	5.4	6.3	2.1	2.4
Sectors	Chemicals	36	-5.3	-19.5	13.0	6.5	0.8	5.1	8.8	1.2	1.4
	Steel, nonferrous metals	11	-5.3	-23.1	13.6	0.7	-4.3	15.0	16.2	-0.9	-0.2
	Machinery	24	-8.4	-16.2	8.3	5.0	2.2	10.4	12.9	7.6	7.4
	Autos	21	-19.3	-12.1	7.1	-1.6	12.5	12.8	14.1	4.9	4.6
	Electrical machinery, precision equipment	36	-13.0	-8.0	5.2	-4.3	-1.6	6.4	6.5	2.7	2.4
	Pharmaceuticals, healthcare	21	2.7	3.6	1.1	3.0	2.0	2.7	5.0	1.7	1.7
	Food products	18	6.5	-6.5	0.7	-0.9	3.3	5.9	4.7	2.2	2.4
	Household goods	12	-7.8	-5.8	1.8	2.9	4.4	4.0	7.4	4.5	2.8
	Trading companies	8	-7.5	-23.4	10.2	6.1	-1.0	12.6	12.3	2.5	2.8
	Retailing	20	0.9	-3.7	1.8	-2.5	3.7	7.3	8.7	4.0	3.5
	Services	9	-0.3	-3.5	0.1	-2.4	1.5	2.9	2.9	2.1	2.1
	Software	8	3.7	-14.0	-17.6	-14.9	-4.0	31.6	22.4	5.7	3.9
	Media	6	-3.9	-5.7	4.5	1.9	4.8	3.9	10.2	1.9	3.6
	Telecommunications	8	-2.5	-0.9	2.4	3.5	3.8	6.0	23.6	2.0	5.6
	Construction, engineering	5	2.5	-16.1	-16.0	7.7	7.5	-0.1	1.7	1.5	-0.8
	Housing, real estate	15	0.0	-3.6	5.4	2.7	6.1	9.3	9.6	4.0	3.9
	Transportation	24	-4.0	-12.0	3.4	-0.7	3.4	3.0	3.2	1.6	1.7
Utilities	13	6.1	-11.9	5.9	3.4	5.9	6.8	8.6	1.4	3.0	

Note: (1) Figures exclude listed consolidated subsidiaries. (2) Latest estimates as of 20 August 2013, previous estimates as of 26 May 2013.

Source: Nomura

Fig. 8: Percentage change in operating profits by sector

(% y-y, except where noted)

		No. of cos	FY08	FY09	FY10	FY11	FY12	FY13E Old	FY13E New	FY14E Old	FY14E New
Industrial groups	Russell/Nomura Large Cap (ex financials)	295	-53.2	-6.2	49.8	-18.6	4.5	35.3	35.0	11.3	12.1
	Manufacturing	179	-71.9	8.0	74.3	-14.2	7.5	36.8	38.4	10.7	10.2
	Basic materials	47	-59.1	-47.8	101.5	-9.8	-22.6	30.5	33.2	12.6	9.0
	Processing	81	-88.2	117.4	110.6	-20.6	29.1	45.9	48.3	11.2	11.2
	Nonmanufacturing (ex financials)	116	-15.0	-16.4	25.7	-24.6	-0.4	33.0	29.6	12.2	15.4
Broad sectors	Materials	47	-59.1	-47.8	101.5	-9.8	-22.6	30.5	33.2	12.6	9.0
	Machinery, autos	45	-87.5	110.6	106.5	-10.9	42.9	43.6	48.8	10.1	10.0
	Electronics	36	-89.3	126.5	116.1	-32.7	6.7	50.7	47.1	13.5	14.0
	Consumer, distribution	88	-7.5	-19.4	17.5	0.8	-6.4	18.2	16.4	7.6	8.4
	Information	22	-6.0	-2.6	6.3	-3.7	4.3	24.3	23.1	4.7	6.6
	Utilities, infrastructure	57	-30.1	-10.3	35.2	-57.7	10.4	60.1	51.9	23.4	30.9
Sectors	Chemicals	36	-66.2	-31.0	94.5	-1.1	-21.3	11.0	13.9	12.4	6.4
	Steel, nonferrous metals	11	-47.7	-71.8	125.0	-37.1	-30.2	149.6	151.0	13.1	16.2
	Machinery	24	-44.1	-42.0	124.8	6.1	-7.9	26.7	26.5	13.9	15.4
	Autos	21	SL	SP	98.0	-19.8	77.2	49.5	56.6	9.0	8.4
	Electrical machinery, precision equipment	36	-89.3	126.5	116.1	-32.7	6.7	50.7	47.1	13.5	14.0
	Pharmaceuticals, healthcare	21	-21.0	13.3	-8.7	-7.6	-6.9	21.6	17.0	5.3	7.6
	Food products	18	-8.2	-7.8	11.5	4.1	9.0	13.5	12.7	7.7	8.3
	Household goods	12	-29.8	-0.9	12.1	0.5	-2.3	11.6	15.7	8.8	8.6
	Trading companies	8	12.8	-58.1	69.7	6.3	-24.8	28.7	25.2	6.6	7.6
	Retailing	20	-7.6	-3.9	21.8	7.5	-3.5	15.0	13.8	10.8	10.7
	Services	9	-26.6	15.2	4.5	-15.9	15.3	9.0	9.2	6.1	6.2
	Software	8	-11.5	-24.8	-32.8	-53.3	-32.9	160.5	137.4	18.9	8.0
	Media	6	-18.9	-9.8	37.6	3.6	19.4	5.2	7.7	4.7	10.3
	Telecommunications	8	-3.5	6.4	14.2	3.1	5.9	17.9	17.6	2.9	6.2
	Construction, engineering	5	-53.5	SL	10,835.6	18.3	-10.8	21.3	18.1	11.2	9.5
	Housing, real estate	15	-24.1	-22.3	29.0	0.6	12.6	14.5	15.9	7.3	6.7
	Transportation	24	-26.2	-42.0	51.5	-17.3	20.4	6.4	5.9	3.1	4.0
Utilities	13	-41.8	108.7	17.0	SL	LI	SP	SP	224.4	767.5	

Note: (1) Figures exclude listed consolidated subsidiaries. (2) Latest estimates as of 20 August 2013, previous estimates as of 26 May 2013. (3) SP = switch to profits; SL = switch to losses, LS = losses shrinking, LI = losses increasing.

Source: Nomura

Fig. 9: Percentage change in recurring profits by sector

(% y-y, except where noted)

		No. of cos	FY08	FY09	FY10	FY11	FY12	FY13E Old	FY13E New	FY14E Old	FY14E New
Industrial groups	Russell/Nomura Large Cap	332	-79.7	97.3	43.8	-12.1	12.8	26.5	28.7	9.9	10.1
	Russell/Nomura Large Cap (ex financials)	295	-64.1	8.6	58.7	-19.5	7.7	36.2	36.1	11.6	12.0
	Manufacturing	179	-81.7	36.1	91.0	-17.9	10.3	39.4	41.5	11.4	10.5
	Basic materials	47	-64.3	-52.4	133.9	-7.1	-19.2	23.0	26.9	13.2	7.9
	Processing	81	SL	SP	143.6	-29.3	36.4	55.4	58.0	12.1	12.0
	Nonmanufacturing	153	-76.7	165.1	14.7	-5.9	15.2	14.8	16.9	8.3	9.6
	Nonmanufacturing (ex financials)	116	-26.7	-8.1	27.6	-21.7	3.5	31.0	27.4	11.8	14.6
Broad sectors	Materials	47	-64.3	-52.4	133.9	-7.1	-19.2	23.0	26.9	13.2	7.9
	Machinery, autos	45	-91.7	225.7	116.1	-11.5	42.5	42.2	47.0	11.0	10.8
	Electronics	36	SL	SP	200.1	-54.9	19.7	98.3	93.9	14.7	14.9
	Consumer, distribution	88	-23.8	-5.0	16.7	5.9	-4.1	14.1	15.2	6.6	6.9
	Information	22	-12.5	1.3	3.3	0.0	7.3	24.8	17.8	3.3	4.9
	Utilities, infrastructure	57	-39.2	-9.2	48.7	-70.2	30.2	79.7	68.2	30.2	40.3
	Financials	37	SL	SP	-8.2	33.7	34.8	-7.1	3.0	1.6	1.4
Sectors	Chemicals	36	-71.6	-32.2	116.2	1.8	-19.2	6.8	9.5	12.6	6.1
	Steel, nonferrous metals	11	-53.3	-78.7	201.0	-34.3	-18.9	103.8	114.0	14.8	12.4
	Machinery	24	-47.3	-38.6	125.8	7.9	-5.1	23.0	22.5	14.1	15.7
	Autos	21	SL	SP	111.8	-20.8	72.8	48.8	55.5	10.1	9.4
	Electrical machinery, precision equipment	36	SL	SP	200.1	-54.9	19.7	98.3	93.9	14.7	14.9
	Pharmaceuticals, healthcare	21	-27.9	13.1	-8.6	-9.0	-4.9	21.5	17.7	4.7	8.1
	Food products	18	-15.3	7.2	10.2	5.2	9.1	11.8	11.8	8.4	8.8
	Household goods	12	-27.7	-0.4	9.2	1.9	0.1	6.8	10.8	8.9	9.2
	Trading companies	8	-27.7	-29.7	55.1	22.6	-15.1	14.8	21.5	4.0	2.7
	Retailing	20	-9.1	-4.2	22.2	7.9	-2.5	12.9	12.1	9.9	9.2
	Services	9	-29.4	17.0	4.9	-14.7	16.6	6.1	6.3	6.2	6.3
	Software	8	-23.6	-10.7	-41.9	-53.5	8.4	101.2	74.2	18.2	13.8
	Media	6	-17.3	-11.5	34.9	14.5	7.6	2.3	2.6	4.4	9.8
	Telecommunications	8	-8.8	6.8	13.4	6.2	7.2	20.6	14.5	1.2	3.4
	Construction, engineering	5	-61.6	SL	1,102.5	49.0	-1.0	8.2	4.1	10.9	9.3
	Housing, real estate	15	-29.9	-21.8	35.3	-0.9	20.8	10.8	12.5	9.3	8.6
	Transportation	24	-32.5	-54.2	90.6	-18.9	30.9	8.2	7.8	4.7	5.8
	Utilities	13	-65.2	291.9	20.7	SL	LI	LS	LS	SP	SP
	Financials	37	SL	SP	-8.2	33.7	34.8	-7.1	3.0	1.6	1.4

Note: (1) Figures exclude listed consolidated subsidiaries. (2) Latest estimates as of 20 August 2013, previous estimates as of 26 May 2013. (3) SP = switch to profits; SL = switch to losses, LS = losses shrinking, LI = losses increasing.

Source: Nomura

Fig. 10: Percentage change in net profits by sector

(% y-y, except where noted)

		No. of cos	FY08	FY09	FY10	FY11	FY12	FY13E Old	FY13E New	FY14E Old	FY14E New
Industrial groups	Russell/Nomura Large Cap	332	SL	SP	34.6	-25.3	36.3	51.8	55.6	7.9	8.3
	Russell/Nomura Large Cap (ex financials)	295	-94.6	148.8	63.4	-35.2	26.7	77.7	79.4	9.4	9.8
	Manufacturing	179	SL	SP	158.2	-42.9	30.8	77.5	83.6	10.9	10.0
	Basic materials	47	SL	-66.4	361.6	-34.6	-30.8	79.0	92.6	14.4	8.3
	Processing	81	SL	SP	324.4	-57.2	77.5	110.0	117.5	12.1	11.3
	Nonmanufacturing	153	SL	SP	-14.6	-2.6	41.0	31.4	33.2	4.8	6.5
	Nonmanufacturing (ex financials)	116	-42.3	2.4	-4.9	-19.2	20.4	78.1	72.6	7.0	9.4
Broad sectors	Materials	47	SL	-66.4	361.6	-34.6	-30.8	79.0	92.6	14.4	8.3
	Machinery, autos	45	SL	SP	254.0	-16.9	58.6	43.1	50.8	10.1	9.3
	Electronics	36	SL	SP	603.9	SL	LS	SP	SP	17.6	17.4
	Consumer, distribution	88	-43.7	11.5	22.7	5.9	9.3	12.9	15.5	4.8	5.6
	Information	22	-33.7	13.4	-0.6	-2.0	9.9	37.2	18.5	4.4	9.2
	Utilities, infrastructure	57	-53.6	13.5	-76.7	SL	LS	SP	SP	10.6	15.6
	Financials	37	SL	SP	-26.7	24.7	66.7	-14.2	-4.5	0.2	1.4
Sectors	Chemicals	36	SL	-6.6	305.9	-21.7	-30.5	37.1	40.1	14.2	9.5
	Steel, nonferrous metals	11	-78.4	-94.0	631.7	-78.5	-33.1	485.7	602.1	14.8	5.8
	Machinery	24	-65.0	-42.6	225.1	4.9	-0.0	25.4	23.8	12.7	14.6
	Autos	21	SL	SP	268.5	-26.5	94.6	48.7	59.5	9.4	7.9
	Electrical machinery, precision equipment	36	SL	SP	603.9	SL	LS	SP	SP	17.6	17.4
	Pharmaceuticals, healthcare	21	-62.6	115.7	-14.6	-29.4	45.6	7.7	4.9	0.9	6.2
	Food products	18	-35.2	12.1	-3.5	18.7	20.0	21.5	22.5	3.9	5.9
	Household goods	12	-46.4	-13.8	31.7	-20.8	32.9	18.0	19.0	8.9	11.8
	Trading companies	8	-32.0	-22.7	56.6	25.8	-11.9	12.6	19.6	4.1	3.1
	Retailing	20	-36.3	-20.7	82.3	24.9	2.0	11.9	14.5	10.8	8.0
	Services	9	-87.7	324.3	-0.9	-38.2	103.2	6.1	6.3	6.7	6.8
	Software	8	-45.9	-3.5	-46.5	-61.2	51.8	75.2	53.7	17.6	13.6
	Media	6	-93.6	171.0	15.1	57.8	-7.7	-0.4	-9.3	4.4	21.2
	Telecommunications	8	-24.9	14.1	15.7	3.2	9.2	36.6	17.2	2.3	7.4
	Construction, engineering	5	SL	LI	SP	-81.6	440.1	14.7	5.5	13.2	14.4
	Housing, real estate	15	-45.5	-18.5	74.0	-16.3	54.1	16.6	21.1	12.8	10.1
	Transportation	24	-38.9	-63.5	127.9	-37.9	59.5	30.6	31.2	3.7	4.7
	Utilities	13	SL	SP	SL	LI	LS	SP	SP	25.8	71.0
	Financials	37	SL	SP	-26.7	24.7	66.7	-14.2	-4.5	0.2	1.4

Note: (1) Figures exclude listed consolidated subsidiaries. (2) Latest estimates as of 20 August 2013, previous estimates as of 26 May 2013. (3) SP = switch to profits; SL = switch to losses, LS = losses shrinking, LI = losses increasing.

Source: Nomura

Fig. 11: Recurring profits by sector

(¥bn, except where noted)

		No. of cos	FY08	FY09	FY10	FY11	FY12	FY13E Old	FY13E New	FY14E Old	FY14E New
Industrial groups	Russell/Nomura Large Cap	332	7,091	17,598	26,483	23,168	26,521	33,919	34,385	37,290	37,862
	Russell/Nomura Large Cap (ex financials)	295	11,144	13,464	22,701	18,302	20,556	28,376	28,237	31,657	31,629
	Manufacturing	179	3,885	6,376	13,404	11,132	12,917	17,861	18,136	19,897	20,049
	Basic materials	47	2,123	1,236	3,638	3,588	3,101	3,634	3,750	4,114	4,046
	Processing	81	-208	2,824	7,302	5,052	7,167	11,091	11,279	12,434	12,629
	Nonmanufacturing	153	3,206	11,223	13,079	12,037	13,604	16,058	16,248	17,393	17,812
	Nonmanufacturing (ex financials)	116	7,259	7,089	9,297	7,170	7,639	10,515	10,100	11,761	11,579
Broad sectors	Materials	47	2,123	1,236	3,638	3,588	3,101	3,634	3,750	4,114	4,046
	Machinery, autos	45	633	1,866	4,354	3,731	5,480	7,757	8,019	8,608	8,884
	Electronics	36	-841	958	2,948	1,321	1,687	3,334	3,260	3,826	3,745
	Consumer, distribution	88	4,405	4,504	5,556	5,869	5,829	6,876	6,836	7,328	7,306
	Information	22	2,396	2,667	2,758	2,783	3,039	3,865	3,647	3,993	3,825
	Utilities, infrastructure	57	2,428	2,234	3,447	1,010	1,419	2,910	2,724	3,789	3,823
	Financials	37	-4,053	4,134	3,781	4,867	5,965	5,543	6,148	5,633	6,233
Sectors	Chemicals	36	1,011	996	2,658	2,959	2,606	2,631	2,697	2,963	2,862
	Steel, nonferrous metals	11	1,112	240	979	629	495	1,003	1,053	1,151	1,184
	Machinery	24	967	564	1,406	1,472	1,416	1,729	1,722	1,973	1,992
	Autos	21	-334	1,302	2,948	2,260	4,064	6,027	6,297	6,635	6,892
	Electrical machinery, precision equipment	36	-841	958	2,948	1,321	1,687	3,334	3,260	3,826	3,745
	Pharmaceuticals, healthcare	21	1,048	1,278	1,209	1,215	1,170	1,421	1,377	1,488	1,489
	Food products	18	616	734	901	938	1,107	1,291	1,292	1,400	1,406
	Household goods	12	306	305	355	338	371	424	440	461	480
	Trading companies	8	1,491	1,048	1,626	1,993	1,706	1,959	1,956	2,037	2,009
	Retailing	20	702	831	1,105	1,071	1,110	1,366	1,356	1,502	1,480
	Services	9	241	309	361	313	364	415	416	441	442
	Software	8	443	562	324	148	173	428	371	506	422
	Media	6	138	166	235	239	227	232	233	242	256
	Telecommunications	8	1,816	1,939	2,199	2,396	2,639	3,205	3,044	3,244	3,147
	Construction, engineering	5	58	-5	95	123	122	157	151	174	165
	Housing, real estate	15	750	504	770	737	956	1,082	1,099	1,182	1,193
	Transportation	24	1,352	682	1,313	1,049	1,406	1,692	1,686	1,771	1,784
	Utilities	13	269	1,053	1,270	-898	-1,065	-19	-210	663	682
	Financials	37	-4,053	4,134	3,781	4,867	5,965	5,543	6,148	5,633	6,233

Note: (1) Figures exclude listed consolidated subsidiaries. (2) Latest estimates as of 20 August 2013, previous estimates as of 26 May 2013.

Source: Nomura

Fig. 12: Percentage change in quarterly sales and profits (FY12 Q2-FY13 Q1)

		% y-y															
		Sales				Operating profits				Recurring profits				Net profits			
		Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Industrial groups	Russell/Nomura Large Cap	-	-	-	-	-	-	-	-	-2.5	36.6	25.4	50.0	-22.8	337.3	32.9	99.1
	Russell/Nomura Large Cap (ex financials)	0.0	2.4	3.6	9.4	-2.3	10.1	21.5	36.7	-1.4	21.0	24.8	44.7	-30.4	206.6	32.6	105.7
	Manufacturing	0.0	2.9	4.1	9.3	-0.8	13.0	29.2	36.3	-2.2	23.9	32.4	44.3	-54.5	363.5	103.1	78.6
	Basic materials	-4.8	2.3	6.0	9.6	-14.3	10.1	25.7	77.3	-13.4	19.2	25.7	79.2	-61.1	376.9	8.7	639.7
	Processing	2.0	3.3	3.4	10.0	7.3	23.1	32.3	40.1	7.3	41.3	36.9	52.2	-80.2	SP	146.0	85.7
	Nonmanufacturing	-	-	-	-	-	-	-	-	-2.8	48.2	17.6	55.1	5.5	322.0	-17.9	117.6
	Nonmanufacturing (ex financials)	0.1	1.9	2.9	9.5	-4.4	6.3	4.4	37.3	-0.3	17.2	8.3	45.2	2.6	122.7	SL	154.9
Broad sectors	Basic materials	-4.8	2.3	6.0	9.6	-14.3	10.1	25.7	77.3	-13.4	19.2	25.7	79.2	-61.1	376.9	8.7	639.7
	Machinery, autos	7.7	5.9	5.2	12.3	28.1	5.6	36.9	38.1	42.5	5.4	28.8	40.2	36.4	53.6	46.6	51.8
	Electronics	-4.6	0.0	1.0	6.7	-19.8	81.6	25.0	48.3	-66.3	761.5	56.8	118.0	SL	SP	SP	9,412.8
	Consumption, distribution	-2.5	1.1	2.5	10.0	-16.2	-6.8	13.7	9.0	-13.7	0.3	14.6	12.7	-5.7	13.4	42.3	6.5
	Information	3.0	2.3	3.3	7.2	-0.9	0.4	2.0	34.8	5.7	8.8	-3.1	40.6	-18.8	48.0	-12.5	47.1
	Utilities, infrastructure	5.5	3.9	3.7	7.0	16.8	53.2	-10.4	72.5	26.3	122.6	SP	132.3	191.4	SP	LI	SP
	Financials	-	-	-	-	-	-	-	-	-7.7	116.7	27.4	68.2	10.9	SP	33.5	80.5
Sectors	Chemicals	-3.6	2.4	5.1	7.7	-6.0	19.2	16.2	61.3	-1.1	24.5	13.3	56.9	-25.0	147.0	2.7	152.6
	Steel, nonferrous metals	-8.2	1.9	8.9	15.0	-48.7	-36.5	126.3	150.2	-57.2	-4.8	152.3	167.6	SL	SP	33.4	SP
	Machinery	0.1	-0.3	2.9	12.2	-23.0	-18.5	16.2	7.5	-13.9	-3.3	7.6	22.9	-28.0	24.4	26.8	25.9
	Automobiles	10.1	7.7	5.9	12.4	63.4	20.3	45.9	48.1	77.0	10.1	38.6	45.3	76.8	73.0	54.0	59.0
	Electrical machinery, precision equipment	-4.6	0.0	1.0	6.7	-19.8	81.6	25.0	48.3	-66.3	761.5	56.8	118.0	SL	SP	SP	9,412.8
	Pharmaceuticals, healthcare	1.9	0.2	3.5	4.7	-10.0	-7.5	25.4	-11.0	-13.6	-2.8	32.8	-9.4	6.4	25.6	SP	-21.6
	Food products	0.8	3.7	3.5	4.0	0.5	10.0	20.7	8.9	-2.8	14.4	28.2	8.4	8.9	36.2	58.2	5.7
	Household goods	0.7	7.5	2.6	13.7	-2.1	-0.8	-1.6	36.3	0.1	3.4	7.0	41.2	4.2	44.5	105.5	14.5
	Trading companies	-5.0	-0.9	1.1	12.5	-38.1	-32.4	12.9	25.6	-22.3	-12.6	9.5	27.1	-13.6	-2.1	-10.8	18.6
	Retailing	-0.5	5.9	6.8	9.9	-16.0	1.3	2.3	2.9	-17.0	4.6	3.5	6.5	-24.2	-1.6	-5.6	8.5
	Services	0.7	-0.2	0.5	3.7	-2.8	8.0	56.1	33.2	-0.2	13.3	49.9	42.0	18.7	53.4	SP	55.6
	Software	-3.9	-12.4	7.5	7.6	-34.6	-57.4	9.9	46.4	SP	-19.5	-12.7	305.5	SP	-15.6	117.8	315.5
	Media	4.8	1.6	0.7	5.6	13.5	-0.4	2.3	-34.6	-1.3	2.9	-25.8	-38.4	-3.6	28.6	-54.9	-60.2
	Telecommunications	3.3	4.8	3.5	7.5	0.1	11.7	1.7	39.3	0.8	15.3	1.1	40.1	-26.5	75.7	-8.9	48.9
	Construction, engineering	5.8	6.2	7.7	7.2	9.3	39.6	-58.1	-13.4	20.8	54.5	-50.6	27.0	41.5	SP	113.6	87.6
	Housing, real estate	7.5	1.7	7.2	12.1	17.2	-4.9	12.9	38.7	22.0	-0.8	26.7	57.4	22.6	289.4	55.1	89.5
	Transportation	1.8	2.0	3.5	4.9	14.4	2.5	11.2	7.0	19.4	8.9	35.7	12.1	47.7	57.9	LI	32.4
	Utilities	7.8	6.6	0.5	6.4	LS	LS	LI	LS	LS	LS	LI	LS	LS	SP	LI	SP
	Financials	-	-	-	-	-	-	-	-	-7.7	116.7	27.4	68.2	10.9	SP	33.5	80.5

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 20 August 2013. (3) Excludes consolidated subsidiaries. (4) SP = switch to profits; SL = switch to losses; LS = losses shrinking; LI = losses increasing.

Source: Nomura



Fig. 13: Share-price indicators

		Cons P/E		Cons P/CF		Cons P/B		Dividend yield		Cons ROE		
		FY13E	FY14E	FY13E	FY14E	FY12	FY13E	FY13E	FY14E	FY12E	FY13E	FY14E
		x	x	x	x	x	x	%	%	%	%	%
Industrial groups	Russell/Nomura Large Cap	14.7	13.6	-	-	1.32	1.26	1.97	2.14	5.9	8.8	9.0
	Russell/Nomura Large Cap (ex loss-making cos)	14.3	13.4	-	-	1.39	1.26	1.99	2.17	8.2	9.1	9.0
	Russell/Nomura Large Cap (ex financials)	15.4	14.0	7.2	6.7	1.45	1.38	1.96	2.15	5.3	9.3	9.5
	Manufacturing	15.0	13.7	8.0	7.4	1.48	1.40	2.05	2.29	5.4	9.6	9.9
	Basic materials	13.3	12.3	5.7	5.3	1.02	0.97	2.00	2.08	3.8	7.5	7.7
	Processing	14.3	12.8	7.8	7.2	1.54	1.44	1.98	2.27	5.1	10.4	10.7
	Nonmanufacturing (ex financials)	14.4	13.5	-	-	1.17	1.13	1.87	1.97	6.4	8.0	8.1
Broad sectors	Basic materials	13.3	12.3	5.7	5.3	1.02	0.97	2.00	2.08	3.8	7.5	7.7
	Machinery, autos	13.1	12.0	8.1	7.5	1.65	1.50	2.07	2.45	8.9	12.0	12.0
	Electronics	17.9	15.2	7.1	6.6	1.35	1.32	1.78	1.90	-1.2	7.5	8.4
	Consumption, distribution	15.0	14.2	9.3	8.9	1.52	1.44	2.38	2.48	9.4	9.9	9.8
	Information	16.7	15.3	5.4	5.0	1.67	1.60	1.85	2.04	8.9	9.8	10.2
	Utilities, infrastructure	20.8	18.0	6.2	5.8	1.42	1.38	1.25	1.45	-0.7	6.8	7.5
	Financials	11.8	11.6	-	-	0.85	0.82	2.04	2.05	8.2	7.0	6.8
Sectors	Chemicals	14.0	12.8	6.1	5.6	1.02	0.98	2.15	2.17	4.7	7.2	7.5
	Steel, nonferrous metals	11.9	11.2	4.9	4.8	1.02	0.95	1.65	1.85	1.4	8.3	8.1
	Machinery	18.6	16.2	11.2	10.2	1.73	1.61	1.49	1.65	7.8	9.0	9.6
	Automobiles	11.7	10.8	7.3	6.8	1.62	1.46	2.30	2.76	9.3	13.1	12.9
	Electrical machinery, precision equipment	17.9	15.2	7.1	6.6	1.35	1.32	1.78	1.90	-1.2	7.5	8.4
	Pharmaceuticals, healthcare	20.8	19.6	14.1	13.7	1.78	1.71	2.54	2.63	8.6	8.4	8.5
	Food products	17.5	16.5	10.4	10.0	2.07	1.98	2.21	2.61	10.1	11.7	11.7
	Household goods	22.1	19.8	11.8	11.0	2.03	1.84	1.67	1.71	8.0	8.6	9.0
	Trading companies	6.8	6.6	4.8	4.6	0.84	0.76	3.51	3.64	11.3	11.6	10.9
	Retailing	18.8	17.4	10.1	9.4	1.77	1.61	1.61	1.77	8.5	8.9	9.0
	Services	24.3	22.7	11.4	11.1	1.55	1.65	2.54	1.77	6.5	6.9	7.1
	Software	21.9	19.3	15.9	14.6	1.96	1.91	2.00	2.26	5.5	9.0	9.6
	Media	23.8	19.6	16.3	14.6	1.37	1.32	1.40	1.40	6.6	5.6	6.6
	Telecommunications	15.2	14.2	4.3	4.0	1.66	1.59	1.88	2.08	9.9	10.7	10.9
	Construction	22.4	19.5	13.4	12.3	1.16	1.10	1.41	1.41	4.8	5.0	5.5
	Housing, real estate	24.7	22.4	14.7	13.8	1.98	1.91	1.15	1.24	7.1	8.0	8.3
	Transportation	15.5	14.8	5.6	5.4	1.40	1.34	1.43	1.48	6.1	9.0	8.7
Utilities	32.4	19.0	3.3	3.1	1.03	1.01	1.07	1.77	-15.9	3.2	5.3	
Financials	11.8	11.6	-	-	0.85	0.82	2.04	2.05	8.2	7.0	6.8	
RN Small Cap	15.3	13.9	-	-	1.05	0.97	2.37	2.38	4.5	6.5	6.9	
RN Small Cap (ex financials)	15.8	14.2	7.5	7.1	1.13	1.04	2.41	2.44	4.3	6.7	7.2	

Note: (1) Estimates as of 20 August 2013. share prices are as of 20 August 2013 close.

Source: Nomura

# What are the Russell/Nomura Japan Equity Indexes?

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- They reflect the stocks that are actually available for investment, as stable shareholdings are excluded from market capitalization figures.
- There are sub-indexes for different sizes of company based on market capitalization.
- There are sub-indexes for growth and value stocks.
- Sub-indexes for growth and value stocks are based on P/B ratios adjusted for unrealized gains/losses on marketable securities and unrecognized retirement benefit obligations.
- The Prime Index consists of the top 1,000 stocks in the Total Market Index by market cap excluding stable shareholdings.
- Clear definitions mean that there is no arbitrariness in stock-selection methods.
- The composition of each index is reviewed once a year.

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Transactions involving Japanese equities (including Japanese REITs, Japanese ETFs, and Japanese ETNs) are subject to a sales commission of up to 1.365% (tax included) of the transaction amount (or a commission of ¥2,730 (tax included) for transactions of ¥200,000 or less). When Japanese equities are purchased via OTC transactions (including offerings), only the purchase price shall be paid, with no sales commission charged. However, Nomura Securities may charge a separate fee for OTC transactions, as agreed with the customer. Japanese equities carry the risk of losses owing to price fluctuations. Japanese REITs carry the risk of losses owing to fluctuations in price and/or earnings of underlying real estate. Japanese ETFs carry the risk of losses owing to fluctuations in the underlying indexes or other benchmarks.

Transactions involving foreign equities are subject to a domestic sales commission of up to 0.9975% (tax included) of the transaction amount (which equals the local transaction amount plus local fees and taxes in the case of a purchase or the local transaction amount minus local fees and taxes in the case of a sale) (for transaction amounts of ¥750,000 and below, maximum domestic sales commission is ¥7,455 tax included). Local fees and taxes in foreign financial instruments markets vary by country/territory. When foreign equities are purchased via OTC transactions (including offerings), only the purchase price shall be paid, with no sales commission charged. However, Nomura Securities may charge a separate fee for OTC transactions, as agreed with the customer. Foreign equities carry the risk of losses owing to factors such as price fluctuations and foreign exchange rate fluctuations.

Margin transactions are subject to a sales commission of up to 1.365% (tax included) of the transaction amount (or a commission of ¥2,730 (tax included) for transactions of ¥200,000 or less), as well as management fees and rights handling fees. In addition, long margin transactions are subject to interest on the purchase amount, while short margin transactions are subject to fees for the lending of the shares borrowed. A margin equal to at least 30% of the transaction amount and at least ¥300,000 is required. With margin transactions, an amount up to roughly 3.3x the margin may be traded. Margin transactions therefore carry the risk of losses in excess of the margin owing to share price fluctuations. For details, please thoroughly read the written materials provided, such as listed securities documents or documents delivered before making a contract.

Transactions involving convertible bonds are subject to a sales commission of up to 1.05% (tax included) of the transaction amount (or a commission of ¥4,200 (tax included) if this would be less than ¥4,200). When convertible bonds are purchased via OTC transactions (including offerings), only the purchase price shall be paid, with no sales commission charged. However, Nomura Securities may charge a separate fee for OTC transactions, as agreed with the customer. Convertible bonds carry the risk of losses owing to factors such as interest rate fluctuations and price fluctuations in the underlying stock. In addition, convertible bonds denominated in foreign currencies also carry the risk of losses owing to factors such as foreign exchange rate fluctuations.

When bonds are purchased via public offerings, secondary distributions, or other OTC transactions with Nomura Securities, only the purchase price shall be paid, with no sales commission charged. Bonds carry the risk of losses, as prices fluctuate in line with changes in market interest rates. Bond prices may also fall below the invested principal as a result of such factors as changes in the management and financial circumstances of the issuer, or changes in third-party valuations of the bond in question. In addition, foreign currency-denominated bonds also carry the risk of losses owing to factors such as foreign exchange rate fluctuations.

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.

When inflation-indexed JGBs are purchased via public offerings, secondary distributions (uridashi deals), or other OTC transactions with Nomura Securities, only the purchase price shall be paid, with no sales commission charged. Inflation-indexed JGBs carry the risk of losses, as prices fluctuate in line with changes in market interest rates and fluctuations in the nationwide consumer price index.

Purchases of investment trusts (and sales of some investment trusts) are subject to a purchase or sales fee of up to 5.25% (tax included) of the transaction amount. Also, a direct cost that may be incurred when selling investment trusts is a fee of up to 2.0% of the unit price at the time of redemption. Indirect costs that may be incurred during the course of holding investment trusts include, for domestic investment trusts, an asset management fee (trust fee) of up to 5.25% (tax included, annualized basis) of the net assets in trust, as well as fees based on investment performance. Other indirect costs may also be incurred. For foreign investment trusts, indirect fees may be incurred during the course of holding such as investment company compensation.

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.

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 ¥10,500 (tax included) per issue transferred depending on volume.

#### **Nomura Securities Co., Ltd.**

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