

Outlook for FY24–25 corporate earnings

Quarterly Update

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Summary and major assumptions

Sales up 3.9%, operating profits up 13.1%, recurring profits up 15.0%, net profits up 14.8% in FY23

We have aggregated FY23 results and FY24–25 earnings forecasts by Nomura analysts for constituents of the Russell/Nomura Large Cap Index (sales and operating profits exclude financials, same basis hereafter). Sales rose by 3.9% y-y, operating profits by 13.1%, recurring profits by 15.0% and net profits by 14.8% in FY23. In addition to economic activity normalizing further after being constrained during the pandemic, we think profit growth was stronger than sales growth because of factors such as improvement in the terms of trade stemming from raw material prices settling down and corporations hiking prices from the prior fiscal year. Sales growth exceeded the forecast in the previous such exercise, conducted on 1 March 2024, by 0.6ppt, operating profit growth undershot by 0.6ppt, recurring profit growth was 2.1ppt higher than forecast and net profit growth was 4.6ppt higher.

Our analysts forecast growth of 3.3% in sales, 9.3% in operating profits, 6.3% in recurring profits and 4.2% in net profits in FY24

Our analysts' forecasts for FY24 are for growth of 3.3% y-y in sales, 9.3% in operating profits, 6.3% in recurring profits and 4.2% in net profits. Versus the previous such exercise conducted on 1 March 2024, they have raised their sales growth forecast by 1.1ppt while lowering their operating profit growth forecast by 0.2ppt, keeping their recurring profit growth forecast unchanged, and lowering their net profit growth forecast by 2.0ppt. They think that yen depreciation and other factors noted above that contributed to profit growth in FY23 will have less of an impact in FY24. They therefore expect growth in sales and profits to be slower in FY24 than in FY23, but nevertheless think that profits will remain on an upward trend.

We have also aggregated earnings forecasts by Nomura analysts for FY25 for the first time. As well as expecting solid overseas economies, they expect a switch to y-y growth in real wages. Profit growth at major Japanese companies as a whole is likely to improve versus forecasts for FY24.

Revision Index shows roughly equal mix between upward and downward revisions

The Revision Index (RI) for the Russell/Nomura Large Cap Index (which shows the difference between the percentage of companies for which estimates were raised and the percentage for which estimates were lowered) is +2.1% for June 2024 (based on changes to FY24 recurring profit estimates between 2 March 2024 and 3 June 2024). As was the case last time (in the period between 2 December 2023 and 1 March 2024), the mix of upward and downward revisions is roughly equal. There was a change in the superior momentum seen over the past several quarters in nonmanufacturing industries, with recovery evident in some manufacturing industries.

Dividend payout ratio forecast to rise to 37.1% in FY24

The dividend payout ratio fell from 36.4% in FY22 to 34.0% in FY23. The pace of dividend hikes did not keep up with the strong growth in net profits. However, 73.4% of companies increased DPS or restored the dividend in FY23, up from 68.5% in FY22. Our analysts forecast that around two-thirds of companies will hike their dividend in FY24 versus FY23, and that the dividend payout ratio will rise to 37.1%. We expect shareholder returns to improve as companies also carry out share buybacks.

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

										(%)
Items	Category	No. of cos	New					Old		
			FY21 Actual	FY22 Actual	FY23 Actual	FY24E E	FY25E E	FY23E E	FY24E E	
Sales (% y-y)	Russell/Nomura Large Cap (ex financials)	264	14.1	17.2	3.9	3.3	3.6	3.3	2.2	
	Manufacturing	147	15.2	17.4	6.9	4.3	3.9	6.0	2.8	
	Basic materials	33	28.8	24.2	-2.7	5.7	5.2	-2.9	2.1	
	Processing	75	13.3	16.4	10.6	3.6	3.6	9.4	2.8	
	Nonmanufacturing (ex financials)	117	12.8	16.9	0.1	1.8	3.2	0.0	1.3	
	Russell/Nomura Small Cap (ex financials)	999	7.3	11.0	4.0	4.5	4.3	4.0	4.6	
Operating profits (% y-y)	Russell/Nomura Large Cap (ex financials)	264	58.3	6.9	13.1	9.3	9.5	13.7	9.5	
	Manufacturing	147	58.2	3.9	7.6	14.2	10.0	9.6	12.1	
	Basic materials	33	148.5	-6.4	-18.9	21.5	13.2	-13.8	16.2	
	Processing	75	52.9	6.9	22.0	10.4	8.1	21.8	9.0	
	Nonmanufacturing (ex financials)	117	58.5	13.3	23.7	1.1	8.5	21.6	5.0	
	Russell/Nomura Small Cap (ex financials)	999	37.8	3.5	17.1	12.8	11.4	16.5	14.1	
Recurring profits (% y-y)	Russell/Nomura Large Cap	289	34.1	4.2	15.0	6.3	8.7	12.9	6.3	
	Russell/Nomura Large Cap (ex financials)	264	34.5	7.7	10.9	5.0	8.3	9.6	5.7	
	Manufacturing	147	56.9	2.7	12.3	8.4	9.8	11.4	8.5	
	Basic materials	33	164.2	-7.2	-14.6	18.0	13.0	-12.5	11.5	
	Processing	75	47.8	4.4	26.8	3.7	7.9	23.7	5.0	
	Nonmanufacturing	142	14.7	5.8	18.0	4.2	7.7	14.6	4.0	
	Nonmanufacturing (ex financials)	117	8.8	15.8	8.9	0.0	6.0	7.1	1.7	
	Russell/Nomura Small Cap	1,085	45.0	0.7	18.5	7.5	10.5	15.1	10.8	
	Russell/Nomura Small Cap (ex financials)	999	50.1	0.4	18.4	7.9	10.7	15.3	11.3	
After-tax profits (% y-y)	Russell/Nomura Large Cap	289	38.9	3.1	14.8	4.2	8.7	10.2	6.2	
	Russell/Nomura Large Cap (ex financials)	264	39.5	6.5	10.8	3.0	8.2	7.0	6.0	
	Manufacturing	147	66.8	-3.1	15.8	5.1	9.9	13.8	6.8	
	Basic materials	33	308.5	-18.8	-17.7	22.1	14.4	-14.9	18.0	
	Processing	75	51.4	-1.4	29.3	1.1	8.0	24.8	3.4	
	Nonmanufacturing	142	15.1	10.5	13.7	3.2	7.4	6.4	5.5	
	Nonmanufacturing (ex financials)	117	7.6	23.0	4.1	-0.2	5.5	-2.2	4.7	
	Russell/Nomura Small Cap	1,085	72.2	1.5	23.7	12.5	7.6	20.8	13.3	
	Russell/Nomura Small Cap (ex financials)	999	84.9	0.3	25.5	14.1	7.4	23.0	14.6	

Note: Latest estimates as of 3 June 2024; previous estimates as of 1 March 2024.

Source: Nomura

Fig. 2: Key earnings estimate assumptions

As of 18 Apr 2024							As of 18 Jan 2024							
		Industrial production 2020 base year % y-y	Policy rate (FY-end) %	WTI \$/bbl	Exchange rate (avg) USD/JPY EUR/JPY				Industrial production 2020 base year % y-y	Policy rate (FY-end) %	WTI \$/bbl	Exchange rate (avg) USD/JPY EUR/JPY		
FY	FY23	-1.9	0.00	77.8	144.53	156.75			-1.1	-0.10	76.6	143.60	155.20	
	FY24	2.6	0.25	80.0	150.00	160.00			1.0	0.00	70.0	145.00	155.00	
	FY25	2.6	0.25	75.0	150.00	160.00			-	-	-	-	-	
Half-yearly	FY23	H1	-1.4	-0.10	78.0	140.90	153.36			-1.3	-0.10	78.0	140.90	153.36
	FY23	H2	-2.3	0.00	77.6	148.16	160.13			-0.8	-0.10	75.2	146.40	157.00
	FY24	H1	1.0	0.00	80.0	150.00	160.00			0.4	0.00	70.0	145.00	155.00
	FY24	H2	4.1	0.25	80.0	150.00	160.00			1.7	0.00	70.0	145.00	155.00
	FY25	H1	2.6	0.25	75.0	150.00	160.00			-	-	-	-	-
	FY25	H2	2.6	0.25	75.0	150.00	160.00			-	-	-	-	-

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

Source: Nomura

Contributions to recurring profit growth by sector

Overview of FY23 results

In FY23, recurring profits rose in 9 of 19 sectors and fell in the other 10 sectors.

The largest contributions to recurring profit growth came from automobiles, financials, utilities and telecommunications. In the automobiles sector, automakers were able to increase production substantially now that the semiconductor shortage has been resolved, and the product mix also improved. There was a contribution from favorable market conditions, especially in North America, despite high interest rates, owing to price hikes and tailwinds from yen weakness. In the financials sector, positive factors for major banks included an increase in loans as a result of an upturn in the Japanese economy, as well as banks' own efforts to control overheads and boost margins, for example via improved spreads. Factors that hit profits in FY22—such as substantial accounting costs arising from the sale of subsidiary company shares and insurance benefit payouts for hospitalizations owing to a resurgence in COVID-19 infections in Japan—dropped out in FY23. At utilities companies, gains/losses related to the fuel cost adjustment scheme improved, and profits were boosted by electricity rate hikes and a fall in fuel costs as a result of the restart of nuclear reactors. In telecommunications, there was a major contribution from improvement in gains/losses on investments at SoftBank Group.

Sectors that made major negative contributions to profits included transportation, chemicals, trading companies, and pharmaceuticals & healthcare. The shipping subsector accounted for a large portion of the profit decline in the transportation sector. Containership spot rates fell on a y-y basis, and rates fell at Ocean Network Express (ONE), the equity-method affiliate of the three major Japanese shipping companies. In the chemicals sector, multiple factors depressed profits, such as sluggish demand for petrochemicals stemming from the stalled economic recovery in China, weak demand in H1 for semiconductor materials and wafers owing to inventory adjustments at semiconductor manufacturers and the booking of impairment losses related to goodwill and patents on pharmaceuticals. In the trading companies sector, there was a fallback from healthy energy trading transactions in FY22, and an impact from price declines at coking coal businesses. The pharmaceuticals & healthcare sector was affected by pharmaceuticals for which development was stopped and the booking of impairment losses related to consolidated subsidiaries.

Overview of FY24–25 forecasts

For FY24, our analysts expect recurring profits to increase in 15 out of 19 sectors and fall in 4.

Sectors that our analysts expect to make large positive contributions to overall profits include financials, chemicals, electrical machinery & precision equipment, machinery and pharmaceuticals & healthcare. In financials, our analysts see numerous positive factors including higher profits from market-related operations and an increase in transactions with large companies, efforts to boost margins, for example via improved spreads and overhead controls, and growth in asset management earnings from the sale of strategic shareholdings by insurance companies. In chemicals, our analysts expect improved demand for electronic materials as the semiconductor industry recovers, and a pickup in petrochemicals. They also expect a substantial increase in reaction to huge impairment losses posted by several companies in FY23. In electrical machinery & precision equipment, our analysts forecast a wide-ranging recovery in demand, with recovery and expansion in the market for semiconductor production equipment stemming from an increase in demand for semiconductors for generative AI applications, and a recovery in shipments of electronic parts for automotive applications. They also expect a contribution from the disappearance of transitory costs related to overseas businesses posted by some companies in FY23. In machinery, our analysts expect the disappearance of costs related to aircraft engines in international joint development projects in the heavy machinery field, and profit growth in the aircraft and defense fields. They also forecast the disappearance of automobile engine certification-related costs. They forecast profit growth in the pharmaceuticals & healthcare sector, mainly owing to the dropout of the above impairment losses booked in FY23.

Sectors expected to make major negative contributions to overall profit growth are utilities and automobiles. In utilities, gains under the fuel cost adjustment scheme are set to drop out. In automobiles, our analysts expect an increase in the cost of investments in human capital and next-generation technologies at Toyota Motor.

In FY25, our analysts forecast a switch to y-y growth in real wages as well as solid overseas economies. Profit growth at major Japanese companies as a whole is likely to improve versus forecasts for FY24. Our analysts forecast recurring profit growth in 18 sectors, with trading companies being the exception.

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

FY23				FY24E			
Increase in profits (%)				Increase in profits (%)			
9 sectors	Growth	Contribution	Contribution (ex financials)	15 sectors	Growth	Contribution	Contribution (ex financials)
Automobiles	61.2	57.7	88.9	Financials	14.9	32.7	-
Financials	49.9	35.1	-	Chemicals	24.8	25.2	37.5
Utilities	1,868.3	31.6	48.6	Electrical machinery, precision equipment	10.4	18.7	27.9
Telecommunications	32.6	8.8	13.5	Machinery	18.7	13.7	20.4
Services	13.6	2.8	4.4	Pharmaceuticals, healthcare	28.1	11.8	17.5
Retailing	12.2	2.7	4.2	Telecommunications	13.9	10.1	15.0
Food	11.0	2.2	3.4	Household goods	37.2	5.3	7.8
Software	12.9	1.9	2.9	Transportation	7.6	5.2	7.7
Machinery	3.8	1.3	2.0	Trading companies	3.7	5.1	7.5
Decrease in profits (%)				Food	9.5	4.3	6.3
10 sectors	Growth	Contribution	Contribution (ex financials)	Retailing	7.2	3.6	5.3
Electrical machinery, precision equipment	-0.8	-0.8	-1.2	Services	7.4	3.5	5.2
Media	-36.8	-0.9	-1.4	Construction	42.1	3.1	4.6
Household goods	-13.0	-1.0	-1.6	Media	63.6	1.9	2.8
Construction	-26.2	-1.3	-2.0	Housing, real estate	1.0	0.7	1.0
Housing, real estate	-4.5	-1.5	-2.3	Decrease in profits (%)			
Steel, nonferrous metals	-9.6	-1.8	-2.7	4 sectors	Growth	Contribution	Contribution (ex financials)
Pharmaceuticals, healthcare	-21.8	-5.8	-9.0	Steel, nonferrous metals	-0.5	-0.2	-0.3
Trading companies	-11.2	-8.2	-12.6	Software	-8.2	-2.7	-4.1
Chemicals	-16.2	-9.1	-14.0	Automobiles	-3.6	-11.3	-16.8
Transportation	-28.1	-13.8	-21.2	Utilities	-45.2	-30.6	-45.5
FY25E							
Increase in profits (%)							
18 sectors	Growth	Contribution	Contribution (ex financials)				
Electrical machinery, precision equipment	16.6	22.5	27.9				
Financials	11.3	19.4	-				
Chemicals	10.9	9.4	11.7				
Telecommunications	13.4	7.5	9.4				
Pharmaceuticals, healthcare	19.1	7.0	8.6				
Machinery	11.5	6.8	8.5				
Steel, nonferrous metals	20.3	5.2	6.4				
Housing, real estate	9.8	4.4	5.5				
Services	12.4	4.3	5.4				
Retailing	8.9	3.2	4.0				
Food	8.4	2.8	3.5				
Automobiles	1.2	2.4	3.0				
Software	10.9	2.3	2.8				
Household goods	15.2	2.0	2.5				
Utilities	6.7	1.7	2.1				
Construction	21.9	1.5	1.9				
Media	17.9	0.6	0.7				
Transportation	1.1	0.6	0.7				
Decrease in profits (%)							
1 sectors	Growth	Contribution	Contribution (ex financials)				
Trading companies	-3.8	-3.7	-4.6				

Note: SP = switch to profits; SL = switch to losses; LS = losses shrinking.

Source: Nomura

Revisions to recurring profit forecasts (versus old forecasts)

Overview of FY23 results

FY23 recurring profits overshot our forecasts in 9 of 19 sectors and undershot them in 10.

The largest overshoots (in value terms) were in sectors such as automobiles, financials and utilities. There were substantial contributions in the automobile sector from COGS improvements at Toyota Motor, as well as from yen depreciation and price hikes. In the financials sector, earnings from client-facing operations were healthy, including business with large corporations in Japan and abroad, and higher yen interest rates and active capital markets also led to results exceeding our forecasts. Utilities beat our forecasts because of a higher-than-expected nuclear capacity factor at electric power businesses.

The largest undershoots (in value terms) were in chemicals, pharmaceuticals & healthcare and telecommunications. In chemicals, as demand deteriorated, some companies posted impairment losses on pharmaceutical patents and goodwill, carbon fiber for wind turbines, and petrochemical businesses. In pharmaceuticals & healthcare, the main reasons for results undershooting our forecasts were the posting of impairment losses on intangible fixed assets and increased SG&A and R&D costs owing to yen depreciation. The undershoot in telecommunications was because of the booking of provisions related to overseas businesses.

Overview of the corporate earnings outlook for FY24

Our analysts have raised their FY24 recurring profit forecasts for 10 out of 19 sectors and lowered them for 8, with no change for steel & nonferrous metals.

Their upward revisions (in value terms) are particularly large for financials, trading companies, chemicals, and automobiles. In financials, they have factored gains on the sale of securities into asset management incomes as they expect an increase in sales of strategic holdings by insurance companies. They also factored in strong earnings at the major banks' core businesses and higher yen interest rates, as seen in FY23 results too. For trading companies, they factored into their forecasts a solid business environment, including recent commodity market prices. For chemicals, our analysts raised their assumptions for oil and petroleum product margins at oil wholesalers. The upward revision for the automobiles sector reflects COGS improvements and a change in the forex assumption in the direction of a weaker yen.

Our analysts have made substantial downward revisions (in value terms) to their forecasts for sectors such as pharmaceuticals & healthcare and housing & real estate. The main reasons for the downward revision for the pharmaceuticals & healthcare sector are higher R&D and SG&A costs, lower margins owing to generics, and drug price revisions. For housing & real estate, our analysts revised their forecasts to reflect higher construction costs, including materials and personnel costs, the booking of restructuring costs, and a heavier interest rate burden.

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

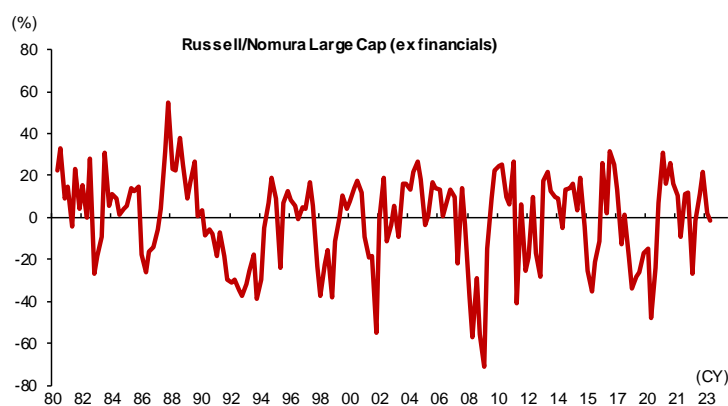
FY23					FY24E				
[Upward revisions] 9 sectors					[Upward revisions] 10 sectors				
	New ¥bn	Old ¥bn	Revision ¥bn	Change %		New ¥bn	Old ¥bn	Revision ¥bn	Change %
Automobiles	12,827	12,244	583.0	4.8	Financials	10,442	9,410	1,031.2	11.0
Financials	8,892	8,373	519.1	6.2	Trading companies	5,819	5,514	305.1	5.5
Utilities	2,804	2,411	392.9	16.3	Chemicals	5,254	4,999	254.8	5.1
Steel, nonferrous metals	1,388	1,301	87.2	6.7	Automobiles	12,466	12,230	236.1	1.9
Software	1,366	1,307	59.3	4.5	Food	2,033	1,953	79.7	4.1
Services	2,006	1,949	56.9	2.9	Machinery	3,602	3,546	55.8	1.6
Retailing	2,124	2,072	52.2	2.5	Household goods	802	767	34.9	4.6
Media	132	128	4.1	3.2	Services	2,126	2,095	30.4	1.5
Construction	301	297	3.8	1.3	Retailing	2,192	2,178	14.5	0.7
					Transportation	3,053	3,040	12.6	0.4
[Downward revisions] 10 sectors					[Downward revisions] 8 sectors				
	New ¥bn	Old ¥bn	Revision ¥bn	Change %		New ¥bn	Old ¥bn	Revision ¥bn	Change %
Machinery	2,986	2,987	-1.5	-0.1	Telecommunications	3,420	3,428	-8.3	-0.2
Food	1,869	1,874	-4.7	-0.2	Electrical machinery, precision equipment	8,231	8,243	-11.6	-0.1
Housing, real estate	2,608	2,616	-7.9	-0.3	Media	204	216	-12.0	-5.6
Household goods	585	600	-15.5	-2.6	Software	1,265	1,287	-22.0	-1.7
Transportation	2,972	3,002	-29.8	-1.0	Construction	428	479	-51.0	-10.7
Electrical machinery, precision equipment	7,419	7,453	-34.1	-0.5	Utilities	1,538	1,622	-83.5	-5.1
Trading companies	5,481	5,517	-36.4	-0.7	Housing, real estate	2,720	2,862	-142.0	-5.0
Telecommunications	3,010	3,140	-129.2	-4.1	Pharmaceuticals, healthcare	2,215	2,583	-368.2	-14.3
Pharmaceuticals, healthcare	1,762	1,901	-138.9	-7.3					
Chemicals	3,988	4,195	-206.6	-4.9					

Note: Latest estimates as of 3 June 2024; previous estimates as of 1 March 2024. No changes to FY24 earnings outlook for Steel, nonferrous metals.

Source: Nomura

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

	(yy/m)	22/9	22/12	23/3	23/6	23/9	23/12	24/3	24/6
Russell/Nomura Large Cap		11.5	9.1	-24.7	-0.7	10.4	20.2	2.4	2.1
Russell/Nomura Large Cap (ex financials)		13.2	11.7	-27.1	-1.1	10.9	21.5	1.9	-1.5
Manufacturing		22.1	4.1	-43.1	-1.4	0.7	18.2	-7.5	6.1
Basic materials		44.8	0.0	-30.0	-40.0	-46.7	16.7	-18.2	-6.1
Processing		10.8	2.7	-50.7	12.3	23.3	23.6	-4.0	5.3
Nonmanufacturing (ex financials)		2.5	20.8	-8.2	-0.8	23.0	25.4	13.7	-11.1



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)

		(% y-y)							
	No. of cos	FY20	FY21	FY22	FY23 Old E	FY23 New Actual	FY24E Old E	FY24E New E	FY25E New E
Industrial groups									
Russell/Nomura Large Cap (ex financials)	264	-7.5	14.1	17.2	3.3	3.9	2.2	3.3	3.6
Manufacturing	147	-8.0	15.2	17.4	6.0	6.9	2.8	4.3	3.9
Basic materials	33	-12.1	28.8	24.2	-2.9	-2.7	2.1	5.7	5.2
Processing	75	-7.7	13.3	16.4	9.4	10.6	2.8	3.6	3.6
Nonmanufacturing (ex financials)	117	-6.8	12.8	16.9	-0.0	0.1	1.3	1.8	3.2
Broad sectors									
Materials	33	-12.1	28.8	24.2	-2.9	-2.7	2.1	5.7	5.2
Machinery, autos	42	-10.4	13.9	19.7	14.5	15.5	3.5	4.6	3.8
Electronics	33	-3.0	12.5	11.4	-0.0	1.7	1.4	1.4	3.1
Consumer, distribution	80	-4.4	15.6	14.6	-0.3	0.6	0.9	1.4	3.0
Information	23	-0.6	6.0	7.2	3.0	3.6	3.6	2.8	4.6
Utilities, infrastructure	53	-12.2	6.0	23.6	2.1	0.7	2.4	4.2	2.8
Sectors									
Chemicals	27	-12.4	27.8	26.3	-5.8	-5.5	1.9	6.8	2.3
Steel, nonferrous metals	6	-11.3	31.5	18.2	5.9	5.9	2.4	3.0	12.3
Machinery	24	-5.5	17.8	18.0	5.5	7.4	4.3	6.0	4.5
Autos	18	-11.8	12.8	20.2	17.3	18.0	3.3	4.2	3.6
Electrical machinery, precision equipment	33	-3.0	12.5	11.4	-0.0	1.7	1.4	1.4	3.1
Pharmaceuticals, healthcare	15	-2.1	7.4	10.9	6.4	7.2	3.0	4.7	2.2
Food products	13	-3.9	2.0	12.3	7.3	7.4	4.5	6.0	3.2
Household goods	11	-7.4	9.2	10.2	1.8	2.2	4.9	6.6	4.2
Trading companies	10	-5.8	30.3	19.4	-5.4	-5.6	-2.4	-0.9	2.8
Retailing	15	-3.4	13.7	15.0	2.9	3.3	3.4	4.5	3.8
Services	16	-4.0	3.1	5.5	1.0	7.2	2.7	-3.0	3.0
Software	12	9.2	3.8	3.3	8.5	9.0	2.5	1.2	8.8
Media	3	-12.9	19.7	12.2	2.7	3.1	4.6	6.0	2.5
Telecommunications	8	-0.6	5.4	7.5	2.0	2.6	3.8	2.9	3.8
Construction, engineering	5	-9.8	5.8	11.8	9.6	9.6	5.2	5.0	3.6
Housing, real estate	19	-4.3	8.4	8.7	3.8	5.0	5.8	6.6	4.1
Transportation	21	-28.2	15.5	25.5	5.0	5.0	3.7	4.3	2.5
Utilities	8	-3.1	-4.1	44.1	-4.5	-9.9	-3.2	1.2	1.4

Note: (1) Figures exclude listed consolidated subsidiaries. (2) Latest estimates as of 6 June 2024; previous estimates as of 1 March 2024.

Source: Nomura

Fig. 7: Percentage change in recurring profits by sector (% y-y)

										(% y-y)
	No. of cos	FY20	FY21	FY22	FY23 Old	FY23 New Actual	FY24E Old	FY24E New	FY25E New	
					E		E	E	E	
Industrial groups										
Russell/Nomura Large Cap	289	4.5	34.1	4.2	12.9	15.0	6.3	6.3	8.7	
Russell/Nomura Large Cap (ex financials)	264	5.6	34.5	7.7	9.6	10.9	5.7	5.0	8.3	
Manufacturing	147	7.6	56.9	2.7	11.4	12.3	8.5	8.4	9.8	
Basic materials	33	13.7	164.2	-7.2	-12.5	-14.6	11.5	18.0	13.0	
Processing	75	8.7	47.8	4.4	23.7	26.8	5.0	3.7	7.9	
Nonmanufacturing	142	2.0	14.7	5.8	14.6	18.0	4.0	4.2	7.7	
Nonmanufacturing (ex financials)	117	3.3	8.8	15.8	7.1	8.9	1.7	-0.0	6.0	
Broad sectors										
Materials	33	13.7	164.2	-7.2	-12.5	-14.6	11.5	18.0	13.0	
Machinery, autos	42	-7.0	57.8	3.9	40.5	45.9	2.5	0.6	3.5	
Electronics	33	34.8	36.0	5.3	-0.7	-0.8	10.1	10.4	16.6	
Consumer, distribution	80	-12.0	56.6	11.5	-3.7	-4.2	8.8	10.0	6.3	
Information	23	157.0	-60.0	0.3	23.7	22.2	7.9	8.5	12.9	
Utilities, infrastructure	53	-68.8	137.7	33.9	12.3	17.1	-2.7	-10.4	6.4	
Financials	25	-1.4	31.9	-18.3	41.1	49.9	10.1	14.9	11.3	
Sectors										
Chemicals	27	-11.6	119.1	-5.2	-11.6	-16.2	13.9	24.8	10.9	
Steel, nonferrous metals	6	SP	555.9	-13.0	-15.3	-9.6	4.4	-0.5	20.3	
Machinery	24	-5.0	61.7	6.6	3.7	3.8	16.8	18.7	11.5	
Autos	18	-7.7	56.5	2.9	53.9	61.2	-1.0	-3.6	1.2	
Electrical machinery, precision equipment	33	34.8	36.0	5.3	-0.7	-0.8	10.1	10.4	16.6	
Pharmaceuticals, healthcare	15	11.8	6.5	18.2	-15.6	-21.8	38.3	28.1	19.1	
Food products	13	0.6	10.0	17.7	11.3	11.0	5.0	9.5	8.4	
Household goods	11	-23.6	30.0	-14.6	-10.7	-13.0	27.9	37.2	15.2	
Trading companies	10	-26.8	208.6	18.6	-10.6	-11.2	-2.1	3.7	-3.8	
Retailing	15	-17.7	20.0	20.5	9.5	12.2	9.7	7.2	8.9	
Services	16	-14.3	36.1	-12.8	9.6	13.6	8.9	7.4	12.4	
Software	12	39.6	14.4	-5.8	8.0	12.9	-2.4	-8.2	10.9	
Media	3	SL	SP	-36.1	-38.8	-36.8	79.0	63.6	17.9	
Telecommunications	8	207.6	-74.9	9.9	37.8	32.6	9.5	13.9	13.4	
Construction, engineering	5	-13.4	-22.8	2.1	-27.2	-26.2	61.0	42.1	21.9	
Housing, real estate	19	-10.8	24.1	10.2	-4.2	-4.5	8.0	1.0	9.8	
Transportation	21	SL	SP	92.2	-27.4	-28.1	6.0	7.6	1.1	
Utilities	8	-15.3	-61.2	SL	1,592.6	1,868.3	-32.8	-45.2	6.7	
Financials	25	-1.4	31.9	-18.3	41.1	49.9	10.1	14.9	11.3	

Note: (1) Figures exclude listed consolidated subsidiaries. (2) Latest estimates as of 3 June 2024; previous estimates as of 1 March 2024. (3) SP = switch to profits, SL = switch to losses. LS = losses shrinking. LI = losses increasing.

Source: Nomura

Fig. 8: Recurring profits by sector (absolute amount, ¥1bn)

		(¥bn)							
	No. of cos	FY20	FY21	FY22	FY23 Old	FY23 New	FY24E Old	FY24E New	FY25E New
					E	Actual	E	E	E
Industrial groups									
Russell/Nomura Large Cap	289	40,173	53,958	55,567	63,368	64,522	68,001	69,358	75,425
Russell/Nomura Large Cap (ex financials)	264	34,590	46,630	49,619	54,995	55,630	58,591	58,916	63,805
Manufacturing	147	18,613	29,038	29,102	32,555	32,824	35,872	36,153	39,678
Basic materials	33	2,721	7,020	6,195	5,496	5,377	6,549	6,804	7,688
Processing	75	12,114	17,723	18,300	22,684	23,232	24,020	24,300	26,224
Nonmanufacturing	142	21,560	24,920	26,464	30,813	31,698	32,130	33,204	35,747
Nonmanufacturing (ex financials)	117	15,977	17,592	20,516	22,440	22,806	22,719	22,763	24,127
Broad sectors									
Materials	33	2,721	7,020	6,195	5,496	5,377	6,549	6,804	7,688
Machinery, autos	42	6,492	10,244	10,594	15,231	15,813	15,777	16,069	16,629
Electronics	33	5,622	7,479	7,706	7,453	7,419	8,243	8,231	9,595
Consumer, distribution	80	8,260	13,236	14,424	13,914	13,827	15,090	15,186	16,137
Information	23	9,589	3,820	3,709	4,575	4,509	4,930	4,888	5,520
Utilities, infrastructure	53	1,906	4,831	6,990	8,327	8,686	8,002	7,738	8,235
Financials	25	5,583	7,328	5,948	8,373	8,892	9,410	10,442	11,620
Sectors									
Chemicals	27	2,425	5,218	4,715	4,195	3,988	4,999	5,254	5,824
Steel, nonferrous metals	6	296	1,802	1,480	1,301	1,388	1,550	1,550	1,864
Machinery	24	1,670	2,637	2,853	2,987	2,986	3,546	3,602	4,017
Autos	18	4,822	7,608	7,741	12,244	12,827	12,230	12,466	12,611
Electrical machinery, precision equipment	33	5,622	7,479	7,706	7,453	7,419	8,243	8,231	9,595
Pharmaceuticals, healthcare	15	1,810	1,983	2,253	1,901	1,762	2,583	2,215	2,637
Food products	13	1,373	1,533	1,660	1,874	1,869	1,953	2,033	2,204
Household goods	11	596	778	694	600	585	767	802	925
Trading companies	10	1,663	5,203	6,172	5,517	5,481	5,514	5,819	5,595
Retailing	15	1,310	1,651	1,824	2,072	2,124	2,178	2,192	2,388
Services	16	1,509	2,086	1,821	1,949	2,006	2,095	2,126	2,389
Software	12	1,172	1,381	1,214	1,307	1,366	1,287	1,265	1,403
Media	3	-2	327	209	128	132	216	204	240
Telecommunications	8	8,419	2,112	2,286	3,140	3,010	3,428	3,420	3,878
Construction, engineering	5	636	501	408	297	301	479	428	521
Housing, real estate	19	1,878	2,509	2,706	2,616	2,608	2,862	2,720	2,987
Transportation	21	-1,573	1,446	4,011	3,002	2,972	3,040	3,053	3,086
Utilities	8	965	375	-135	2,411	2,804	1,622	1,538	1,641
Financials	25	5,583	7,328	5,948	8,373	8,892	9,410	10,442	11,620

Note: Figures exclude listed consolidated subsidiaries. Index composition for period through FY23 differs from index composition from FY24 onwards. Accordingly, prior-year comparison base for y-y changes has been altered, thereby resulting in different y-y figures than before. Latest estimates as of 3 June 2024; previous estimates as of 1 March 2024.

Source: Nomura

Fig. 9: Percentage change in quarterly sales and profits (FY23 Q1–FY23 Q4)

	% y-y															
	Sales				Operating profits				Recurring profits				Net profits			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Industrial groups																
Russell/Nomura Large Cap	-	-	-	-	-	-	-	-	34.1	-12.1	35.5	12.4	51.3	-20.7	47.6	2.3
Russell/Nomura Large Cap (ex financials)	5.6	2.2	3.2	4.4	10.1	19.3	17.5	5.8	32.6	-18.1	33.1	10.0	48.5	-27.6	46.3	4.3
Manufacturing	9.1	5.2	6.3	6.4	-2.0	5.2	16.2	13.6	2.8	4.9	23.2	21.4	14.0	8.3	24.1	15.5
Basic materials	-4.6	-5.9	-2.3	1.9	-46.1	-8.5	36.8	-12.5	-43.5	-13.1	64.5	-13.3	-44.7	-14.1	78.7	-27.0
Processing	15.0	9.2	10.3	7.6	25.8	13.2	20.0	24.9	30.7	14.7	24.5	33.9	42.1	18.9	26.9	25.0
Nonmanufacturing	-	-	-	-	-	-	-	-	89.7	-26.3	48.7	3.4	132.6	-40.8	77.1	-8.9
Nonmanufacturing (ex financials)	1.3	-1.7	-0.8	1.9	34.9	52.7	19.9	-6.0	115.8	-39.6	47.8	-4.9	179.1	-54.5	88.4	-8.9
Broad sectors																
Basic materials	-4.6	-5.9	-2.3	1.9	-46.1	-8.5	36.8	-12.5	-43.5	-13.1	64.5	-13.3	-44.7	-14.1	78.7	-27.0
Machinery, autos	20.5	14.8	14.5	11.5	58.0	40.9	32.8	38.5	50.6	38.9	33.6	57.8	60.9	50.4	36.0	43.0
Electronics	5.1	-0.9	2.3	0.5	-13.6	-18.3	1.4	6.5	-2.9	-16.5	10.8	2.0	11.8	-16.7	13.9	3.6
Consumption, distribution	-0.7	-2.4	0.7	5.0	2.5	3.4	-3.1	11.8	-10.3	-3.6	-3.3	12.6	-6.4	-6.1	-3.2	14.8
Information	4.5	3.7	3.1	3.0	4.5	6.6	2.7	-0.4	SP	-91.8	398.3	6.4	SP	SL	SP	71.1
Utilities, infrastructure	7.8	1.7	-3.6	-1.3	97.5	153.9	44.8	-24.3	29.0	57.6	20.5	-28.3	17.5	24.3	58.1	-43.6
Financials	-	-	-	-	-	-	-	-	44.1	75.9	51.1	33.3	69.4	115.0	55.0	-9.1
Sectors																
Chemicals	-9.0	-9.9	-4.4	0.8	-49.7	-7.6	49.8	-24.3	-45.7	-12.8	97.3	-26.0	-47.5	-15.1	132.4	-35.1
Steel, nonferrous metals	8.6	6.4	4.2	4.8	-35.3	-11.6	10.0	34.2	-36.5	-14.0	11.6	40.8	-37.1	-10.9	22.8	-15.0
Machinery	11.1	3.7	6.7	5.6	18.5	-31.0	17.4	6.5	11.4	-33.8	24.9	10.8	13.4	-39.2	34.6	8.0
Automobiles	23.4	18.1	16.9	13.4	76.0	72.8	37.6	54.1	65.5	67.2	36.1	78.0	79.3	91.6	36.4	58.4
Electrical machinery, precision equipment	5.1	-0.9	2.3	0.5	-13.6	-18.3	1.4	6.5	-2.9	-16.5	10.8	2.0	11.8	-16.7	13.9	3.6
Pharmaceuticals, healthcare	9.7	8.7	2.0	8.5	18.5	-30.4	-28.9	-24.1	8.1	-33.8	-31.8	-19.4	60.0	-33.7	-27.9	0.5
Food products	6.8	6.7	6.8	9.0	-6.1	21.1	16.9	14.3	-4.7	15.2	30.3	21.1	-5.0	27.1	29.1	7.5
Household goods	3.4	0.5	-2.5	7.5	-20.2	-0.6	-29.1	10.6	-20.1	3.5	-24.1	20.2	-21.9	0.5	-23.3	55.0
Trading companies	-10.1	-10.3	-1.5	-0.0	-12.8	-8.1	5.9	24.1	-23.1	-15.0	-5.0	7.8	-22.7	-17.0	-4.8	11.8
Retailing	7.8	0.5	2.4	2.5	9.1	19.5	20.0	15.6	-0.6	15.6	23.2	30.2	-5.3	-0.7	30.5	29.6
Services	6.0	3.9	0.8	18.7	12.2	25.6	1.8	36.8	9.0	28.3	2.5	28.6	-16.0	26.6	1.7	25.7
Software	25.0	7.1	2.0	4.2	46.4	4.5	0.9	-12.8	32.9	0.9	16.3	0.2	32.7	-14.4	13.7	-15.6
Media	4.8	0.6	4.1	4.0	-65.7	-18.8	-57.2	-4.8	-56.3	-22.2	-68.7	11.6	-56.9	-81.7	SL	78.2
Telecommunications	0.9	3.4	3.2	2.7	-4.4	8.9	7.7	5.3	SP	-98.9	1,683.0	10.3	SP	SL	SP	143.6
Construction, engineering	12.7	11.9	10.7	4.7	-21.5	-15.0	-80.8	0.6	-18.4	-16.4	-74.6	5.8	4.4	-12.9	-73.3	34.0
Housing, real estate	2.9	7.4	5.4	4.6	-8.5	11.1	6.4	-6.3	-12.4	4.3	6.5	-13.8	-1.4	5.4	10.4	-11.8
Transportation	8.5	3.5	2.5	7.4	41.1	57.8	20.4	1.6	-37.2	-36.8	-14.5	-12.3	-48.9	-54.3	-21.2	8.7
Utilities	10.8	-7.8	-20.7	-15.9	SP	SP	SP	-68.1	69,375.9	SP	SP	-63.5	SP	SP	SP	-86.5
Financials	-	-	-	-	-	-	-	-	44.1	75.9	51.1	33.3	69.4	115.0	55.0	-9.1

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 3 June 2024. (3) Excludes listed consolidated subsidiaries. (4) SP = switch to profits; SL = switch to losses; LS = losses shrinking; LI = losses increasing.

Source: Nomura

Fig. 10: Valuation indicators

	P/E (x)			P/CF (x)			P/B (x)		Dividend yield (%)			ROE (%)		
	FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY23	FY24E	FY25E	FY23	FY24E	FY25E
Industrial groups														
Russell/Nomura Large Cap	17.5	16.8	15.4	-	-	-	1.58	1.54	1.90	2.19	2.38	9.6	9.3	9.7
Russell/Nomura Large Cap (ex loss-making cos)	16.8	16.4	15.1	-	-	-	1.61	1.55	1.92	2.22	2.42	10.2	9.6	10.0
Russell/Nomura Large Cap (ex financials)	18.0	17.4	16.1	10.0	10.1	9.5	1.69	1.62	1.82	2.06	2.23	10.0	9.5	9.8
Manufacturing	18.6	17.6	16.0	10.3	10.5	9.7	1.75	1.66	1.78	2.06	2.26	10.0	9.6	10.1
Basic materials	15.6	12.4	10.8	7.1	6.1	5.5	1.10	1.03	2.48	2.64	2.95	7.4	8.5	9.3
Processing	17.5	17.3	16.0	10.1	10.9	10.2	1.80	1.71	1.58	1.89	2.08	11.1	10.1	10.4
Nonmanufacturing	16.4	15.9	14.8	-	-	-	1.43	1.42	2.05	2.34	2.53	9.3	9.0	9.4
Nonmanufacturing (ex financials)	17.2	17.2	16.3	9.5	9.5	9.2	1.61	1.56	1.88	2.07	2.17	9.9	9.2	9.3
Broad sectors														
Basic materials	15.6	12.4	10.8	7.1	6.1	5.5	1.10	1.03	2.48	2.64	2.95	7.4	8.5	9.3
Machinery, autos	13.0	13.1	12.7	7.6	8.6	8.3	1.35	1.29	2.08	2.52	2.75	11.3	10.1	9.9
Electronics	25.9	24.8	21.3	14.6	14.5	13.1	2.61	2.47	1.10	1.28	1.43	10.7	10.3	11.2
Consumption, distribution	21.7	20.5	19.5	13.2	12.7	12.3	2.06	2.00	1.78	2.05	2.16	10.0	9.9	10.0
Information	28.2	25.3	21.7	11.1	10.5	9.8	1.93	1.92	2.01	1.96	2.05	7.3	7.7	8.7
Utilities, infrastructure	10.9	12.0	11.3	6.2	6.5	6.2	1.07	1.02	2.27	2.56	2.72	10.4	8.7	8.8
Financials	14.6	13.1	11.7	-	-	-	1.08	1.14	2.55	3.09	3.51	8.0	8.4	9.5
Sectors														
Chemicals	18.9	13.7	12.2	8.2	6.8	6.3	1.23	1.17	2.24	2.40	2.67	6.8	8.7	9.4
Steel, nonferrous metals	8.8	8.8	7.4	4.6	4.4	3.7	0.75	0.68	3.52	3.64	4.15	9.0	8.0	9.0
Machinery	22.5	18.7	16.7	13.1	11.5	10.5	1.70	1.64	1.69	2.00	2.19	8.3	8.9	9.5
Automobiles	10.8	11.5	11.4	6.3	7.7	7.5	1.23	1.17	2.27	2.78	3.03	12.4	10.5	10.0
Electrical machinery, precision equipment	25.9	24.8	21.3	14.6	14.5	13.1	2.61	2.47	1.10	1.28	1.43	10.7	10.3	11.2
Pharmaceuticals, healthcare	28.7	28.7	24.3	15.7	15.2	14.3	2.21	2.18	2.00	2.15	2.23	8.2	7.7	8.8
Food products	20.7	18.7	17.2	12.8	11.9	11.2	1.99	1.92	2.49	3.00	3.31	10.1	10.4	10.9
Household goods	36.6	28.1	24.5	19.5	16.6	15.2	2.90	2.78	1.48	1.63	1.73	8.2	10.1	11.0
Trading companies	13.0	12.5	13.2	8.9	8.9	9.2	1.61	1.52	2.24	2.78	2.87	13.3	12.5	11.2
Retailing	29.0	26.7	24.4	14.5	13.6	12.7	2.79	2.76	1.20	1.30	1.40	10.1	10.6	10.9
Services	29.8	29.5	26.4	18.3	18.2	17.0	2.04	2.04	1.04	1.08	1.11	7.0	6.9	7.6
Software	25.9	27.3	24.7	21.9	23.0	21.0	4.25	4.06	2.10	1.74	1.90	17.3	15.2	15.7
Media	44.2	20.9	17.8	16.3	12.7	11.7	1.54	1.93	2.48	2.11	2.21	3.5	9.3	10.5
Telecommunications	29.1	24.5	20.5	8.5	8.0	7.4	1.49	1.47	1.93	2.08	2.12	5.5	6.0	7.1
Construction	18.0	13.8	11.4	12.9	10.7	9.1	1.09	1.08	3.00	3.44	3.98	6.4	7.9	9.4
Housing, real estate	13.9	13.2	12.1	9.7	9.2	8.6	1.27	1.21	2.58	2.79	2.99	9.5	9.4	9.6
Transportation	11.9	11.7	11.7	6.1	6.1	6.1	1.09	1.06	2.07	2.36	2.39	9.7	9.2	8.8
Utilities	5.7	9.7	9.0	3.0	3.7	3.6	0.74	0.70	1.73	2.10	2.28	14.1	7.4	7.5
Financials	14.6	13.1	11.7	-	-	-	1.08	1.14	2.55	3.09	3.51	8.0	8.4	9.5
Russell/Nomura Small Cap	16.4	14.6	13.6	-	-	-	1.13	1.10	2.26	2.55	2.60	7.2	7.6	7.9
Russell/Nomura Small Cap (ex financials)	17.0	15.0	14.0	8.8	8.4	8.0	1.23	1.18	2.21	2.52	2.56	7.6	8.1	8.3

Note: As of 3 June 2024.

Source: Nomura

What are the Russell/Nomura Japan Equity Indexes?

The Russell/Nomura Japan Equity Indexes are Japanese equity indexes developed jointly by Nomura Fiduciary Research & Consulting Co., Ltd. and Frank Russell Company.

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 Indexes rulebook.

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As at 31 March 2024.

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STOCKS

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Transactions involving convertible bonds are subject to a sales commission of up to 1.10% (tax included) of the transaction amount (or a commission of ¥4,400 (tax included) if this would be less than ¥4,400). 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. The notional principal of inflation-indexed JGBs changes in line with the rate of change in nationwide CPI inflation from the time of its issuance. The amount of the coupon payment is calculated by multiplying the coupon rate by the notional principal at the time of payment. The maturity value is the amount of the notional principal when the issue becomes due. For J17 and subsequent issues, the maturity value shall not undercut the face amount. Purchases of investment trusts (and sales of some investment trusts) are subject to a purchase or sales fee of up to 5.5% (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 5.5% (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.

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.

Transfers of equities to another securities company via the Japan Securities Depository Center are subject to a transfer fee of up to ¥11,000 (tax included) per issue transferred depending on volume. No account fee will be charged for marketable securities or monies deposited.

Nomura Securities Co., Ltd.

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