

# Financial Section

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Financial Section

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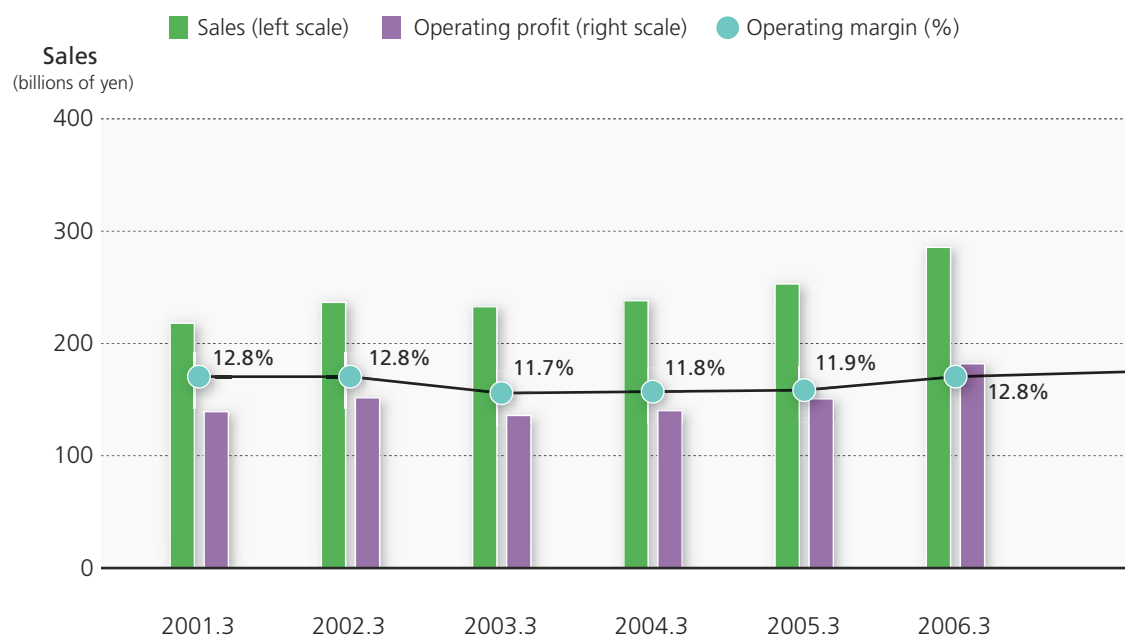
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# Consolidated 11-year Financial Summary

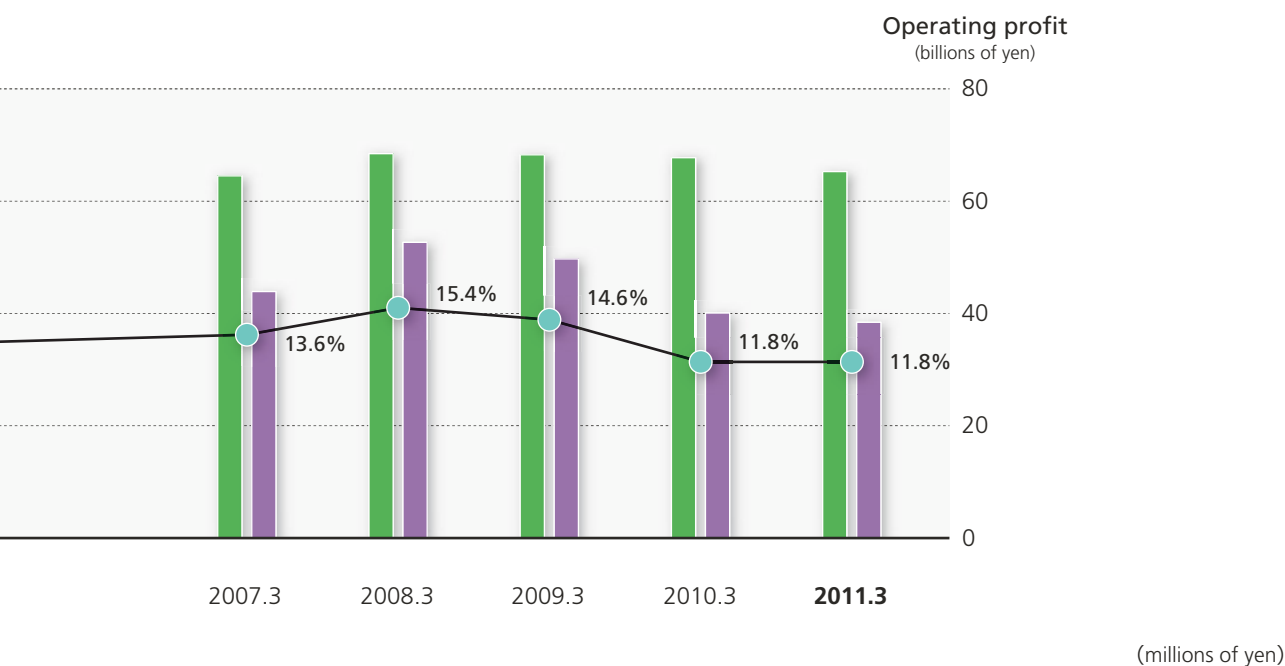
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Sales	217,984	236,569	232,743	238,067	252,963	285,585
Cost of sales	160,643	173,636	173,545	178,096	190,732	213,706
Selling, general and administrative expenses	29,497	32,568	32,034	31,948	32,071	35,409
Operating profit	27,842	30,364	27,164	28,022	30,159	36,469
Ordinary profit	31,550	32,953	27,627	29,293	30,987	38,252
Income before income taxes	43,629	39,009	27,177	32,927	27,361	37,535
Net income	25,381	22,363	15,459	18,269	16,303	22,518
Net income per share (yen) <sup>(Note 2)</sup>	1	4	4	8	20	28
Net assets (at year-end)	165,171	195,564	185,350	229,331	231,766	209,301
Total assets (at year-end)	289,104	299,892	256,798	326,799	317,341	311,786
Number of employees (persons) (at year-end)	3,847	4,313	4,619	4,791	4,848	5,013
<b>Ratios (%)</b>						
ROE <sup>(Note 3)</sup>	19.8	12.4	8.1	8.8	7.1	10.2
ROA <sup>(Note 4)</sup>	13.8	11.2	9.9	10.0	9.6	12.2
Operating margin	12.8	12.8	11.7	11.8	11.9	12.8
Net income to sales ratio	11.6	9.5	6.6	7.7	6.4	7.9
Equity ratio	57.1	65.2	72.2	70.2	73.0	67.1

Notes: 1. Amounts of less than million yen were rounded down.  
 2. Net income per share has been retroactively restated for the prior fiscal years.  
 3. ROE = (Net income / Average net assets) x 100  
 4. ROA = (Ordinary profit / Average total assets) x 100



322,531	342,289	341,279	338,629	<b>326,328</b>	Sales
234,578	238,537	240,854	245,641	<b>233,119</b>	Cost of sales
					Selling, general and
44,055	51,087	50,711	52,911	<b>54,782</b>	administrative expenses
43,897	52,664	49,713	40,077	<b>38,426</b>	Operating profit
46,099	55,517	51,731	40,947	<b>40,073</b>	Ordinary profit
46,744	47,987	44,181	37,328	<b>39,853</b>	Income before income taxes
27,019	28,157	24,513	21,856	<b>23,188</b>	Net income
36	50	52	52	<b>52</b>	Net income per share (yen) <sup>(Note 2)</sup>
216,232	207,363	205,466	220,237	<b>231,074</b>	Net assets (at year-end)
371,458	362,447	354,487	363,368	<b>380,032</b>	Total assets (at year-end)
					Number of employees
5,303	5,711	6,118	6,263	<b>6,594</b>	(persons) (at year-end)
<b>Ratios (%)</b>					
12.7	13.3	11.9	10.3	<b>10.3</b>	ROE <sup>(Note 3)</sup>
13.5	15.1	14.4	11.4	<b>10.8</b>	ROA <sup>(Note 4)</sup>
13.6	15.4	14.6	11.8	<b>11.8</b>	Operating margin
8.4	8.2	7.2	6.5	<b>7.1</b>	Net income to sales ratio
58.1	57.0	57.7	60.3	<b>60.5</b>	Equity ratio

# Management's Discussion and Analysis of Financial Condition and Results of Operations

## •Business Overview

In the current fiscal year, the Japanese economy was following the path of a gradual recovery at the start of the period with exports and production increasing. However, from the summer onwards, the pace of such increase weakened and the economy came to a standstill. After entering 2011, the economy was observed to be picking up but then the Great East Japan Earthquake struck in March, causing damage to production facilities, materials procurement difficulties, electricity shortages and other issues, which led to a large drop in production activities. Although companies' investment plans in information systems initially showed signs of recovery, companies remained cautious towards making such investment throughout the year and the business environment became increasingly difficult for the information services industry.

Operating in such an environment, Nomura Research Institute and its consolidated subsidiaries ("the NRI Group") carried out its business activities with the combined strength of the Group, allowing it to seamlessly provide services encompassing consulting through to system development and operations. In the current fiscal year, aiming to realize growth in the medium

to long term, the NRI Group worked on strengthening the earnings structure and expanding the client base. In addition, the NRI Group has launched an earthquake recovery assistance project team and has started providing recommendations toward recovery from the earthquake.

For the current fiscal year, sales totaled ¥326,328 million (down 3.6% year on year), owing mainly to declines in the Financial IT Solutions and Industrial IT Solutions segments compared with the previous fiscal year. Despite an increase in costs associated with projects aimed at strengthening the earnings structure and expanding the client base, cost of sales decreased to ¥233,119 million (down 5.1%) as a result of efforts to reduce subcontracting costs. Gross profit was ¥93,209 million (up 0.2%). Selling, general and administrative expenses was ¥54,782 million (up 3.5%) due to increases in personnel expenses accompanying an increase in personnel and costs arising from office expansion in the previous fiscal year. Operating profit was ¥38,426 million (down 4.1%), ordinary profit was ¥40,073 million (down 2.1%), and net income was ¥23,188 million (up 6.1%).

## •Business Results by Segment

The business results by segment (sales includes intersegment sales) are as follows.

As the Company adopted the "Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" effective from the current fiscal year, the segmentation was changed. Accordingly, the comparison with the previous fiscal year below is based on the figures for the previous fiscal year after applying the reclassification of segments.

### Consulting

There was an increase in both management consulting and system consulting projects both due to the increase of projects related to China and other emerging countries and large projects aimed at execution support.

As a result, the Consulting segment posted sales of ¥19,409 million (up 7.9% from the previous fiscal year) and operating profit of ¥1,217 million (up 855.4%).

### Financial IT Solutions

In terms of sales, consulting projects to the insurance sector increased, but development projects and product sales to the securities sector declined. On the cost front, there were increases in software amortization expenses and costs associated with strategic projects aimed at strengthening the earnings structure, but subcontracting costs decreased.

As a result, the Financial IT Solutions segment posted sales of ¥201,833 million (down 3.5% from the previous fiscal year) and operating profit of ¥19,429 million (down 2.1%).

### Industrial IT Solutions

In terms of sales, development projects to the manufacturing and services sectors declined in reaction to a high level in the previous fiscal year, when there were some major projects. Also, product sales decreased owing to the drop in development projects associated with new equipment installation. On the cost front, additional costs were incurred related to projects aimed at expanding the client base.

As a result, the Industrial IT Solutions segment posted sales of ¥90,111 million (down 6.0% from the previous fiscal year) and operating profit of ¥5,770 million (down 31.5%).

### IT Platform Services

In terms of sales to external customers, although system management and operation services declined, development projects and product sales increased, causing sales to stay at about the same level as the previous fiscal year. However intersegment sales declined. On the cost front, subcontracting costs and depreciation and amortization expenses declined.

As a result, the IT Platform Services segment posted sales of ¥67,649 million (down 2.4% from the previous fiscal year) and operating profit of ¥9,230 million (up 8.3%).

**Others**

Others posted sales of ¥11,415 million (down 5.5% from the previous fiscal year) and operating profit of ¥292 million

(compared with an operating loss of ¥467 million in the previous fiscal year).

**•Results of Operations of Fiscal 2010****<1> Sales and operating revenue**

As mentioned in "Business Overview", sales were ¥326,328 million (down 3.6% year on year) and operating profit was ¥38,426 million (down 4.1%). As a result, operating margin remained almost the same level as the previous fiscal year at 11.8%.

**<2> Non-operating income/expenses and ordinary profit**

Non-operating income amounted to ¥1,805 million (up 15.0% year on year), attributable to increased gains on equity investment partnerships and dividend income. Non-operating expenses amounted to ¥158 million (down 77.3%). The main factors behind this were reduced investment loss on equity method accompanying improved performance of equity method affiliated companies. Non-operating profit totaled ¥1,646 million (up 89.3%).

Ordinary profit, therefore, came to ¥40,073 million (down 2.1%).

**<3> Extraordinary income/loss, provision for income taxes, and net income**

Extraordinary income of ¥182 million (down 6.4% year on year) resulted mainly from the sale of NTT Business Information Service, Inc. Extraordinary loss of ¥402 million (down 89.4%) resulted from impairment loss on shares and effects from application of accounting standards for asset retirement obligations. Overall, extraordinary loss was ¥219 million, compared to extraordinary loss of ¥3,618 million the previous year.

With the application of tax-effect accounting, the provision for income taxes came to ¥16,663 million (up 7.7%) and the effective tax rate was 41.8%. Minority interests in gain totaling ¥1 million (compared to minority interest in loss of 4 million yen for the previous fiscal year) were also recorded.

Net income for the year came to ¥23,188 million (up 6.1%).

**•Basic Policy Regarding Profit Distribution, and Dividend Payments for Current and Next Fiscal Year****<1> Policy for distribution of profits**

NRI considers the ongoing growth of its corporate value to be the most important return to its shareholders. Its basic policy for distribution of profits is to provide accurate and stable dividends while paying full consideration to the need for sufficient retained earnings for its long-term business development. The Company's actual decisions regarding standards are based on the operating revenue and cash flow situation, but it aims for a consolidated dividend payout ratio of 30%.

Retained earnings will be utilized as a source for business expansion, including investing in facilities for enhancing shared-online services; expanding system management and operations services; cultivating new businesses and improving the productivity of system development; and investing in facilities, R&D, and human resources development for the purpose of quality improvement. Retained earnings may also be utilized to purchase treasury stock, as part of its flexible capital management

aimed at improving capital efficiency and responding to the changes in the business environment.

As stipulated in Article 459 of the Companies Act, NRI stipulates in its Articles of Incorporation that it may pay dividends from retained earnings by a resolution of the Board of Directors with record dates of 30th September and 31st March.

**<2> Payment of dividends from retained earnings**

NRI decided to pay cash dividends of ¥26 per share to shareholders on the record date of the end of fiscal 2010 (31st March, 2011). Combined with interim cash dividends paid in November 2010 (the record date of interim dividends was 30th September, 2010), the annual dividend payment will be ¥52 per share, for a consolidated dividend payout ratio of 43.7%.

The payments of dividends from retained earnings with record dates falling in the current fiscal year are listed below.

Date of Board resolution	Total cash dividends	Cash dividends per share	Record date
29th October, 2010	5,061 million yen	26 yen	30th September, 2010
18th May, 2011	5,062 million yen	26 yen	31st March, 2011

## •Analysis of Financial Position at the End of Fiscal 2010

### <1> Summary

At the end of the year under review (31st March, 2011), current assets were ¥177,593 million (up 28.9% from the end of the previous fiscal year), fixed assets were ¥202,439 million (down 10.3%), current liabilities were ¥68,160 million (up 1.4%), fixed liabilities were ¥80,797 million (up 6.4%), total net assets were ¥231,074 million (up 4.9%) and total assets were ¥380,032 million (up 4.6%).

The main changes from the end of the previous fiscal year are as follows.

Regarding assets, accounts receivable and other receivables increased ¥3,256 million and securities increased ¥34,941 million. Software amounted to ¥10,898 million, investment securities fell ¥9,734 million, mainly due to redemption of bonds of ¥6,000 million and falling stock prices. Regarding liabilities, accounts payable decreased ¥1,673 million. The current portion of long-term debt was ¥2,607 million accompanying introduction of the trust-type employee stock ownership incentive plan. Long-term debt was ¥9,176 million.

### <2> Securities

Securities totaled ¥124,891 million (up 24.9% from the end of the previous fiscal year) and accounted for 32.9% of total assets. Securities include short-term investment securities under current assets, and investment securities and investments in affiliates under fixed assets.

#### *i. Short-term investment securities under current assets*

An increase in cash on hand, a reduction in length of investment terms, and other factors caused an increase in securities.

Short-term investment securities under current assets, therefore, ended the year at ¥79,661 million (up 78.1% from the end of the previous fiscal year). All of these investments were in bond investment trusts (cash equivalents) and short-term bonds with less than one year remaining until maturity.

#### *ii Investment securities and investments in affiliates under fixed assets*

Declines in the market prices for equity shares held and shortened investment terms for funds under management resulted in ¥45,230 million (down 18.2% from the end of the previous fiscal year) for investment securities and investment in affiliates under fixed assets. Making up this total were ¥21,521 million in marketable securities, ¥15,328 million in equity shares for which it was deemed extremely difficult to determine a market price, ¥7,999 million in bonds, and ¥379 million in investment fund shares and other investments.

For more details on securities held, please refer to "Investments" in "Notes to the Consolidated Financial Statements" section of "Consolidated Financial Statements."

### <3> Software

Software and software suspense accounts make up the majority of intangible fixed assets. Together, software and software suspense accounts totaled ¥57,133 million as of the end of the fiscal year under review (down 15.7% from the end of the previous fiscal year), making up 15.0% of total assets. With the decline of shared-online services development for the financial industry, software investment for this fiscal year was ¥10,121 million (down 33.3%).

## •Cash Flows

Net cash provided by operating activities in the fiscal year under review totaled ¥48,777 million (down 16.0% compared with the previous fiscal year). The major contributing factors were as follows. Income before income taxes was ¥39,853 million (up 6.8%), depreciation and amortization was ¥30,665 million (down 0.8%), and income taxes paid was ¥15,319 million (down 26.1%). Net cash used in investing activities was ¥27,723 million (up 71.4%). The major contributing factors were the acquisition of property and equipment such as facilities, machinery and equipment at data centers and an increase in software

and other intangibles relating to the development of shared-online services.

Net cash provided by financial activities totaled income of ¥1,590 million (expenditure of ¥10,348 million in the previous fiscal year). The major contributing factors were debt financing accompanying the introduction of the trust-type employee stock ownership incentive plan and dividend payments.

As a result of the above, cash and cash equivalents at the end of the current fiscal year totaled ¥82,085 million (up 37.3% from the end of the previous fiscal year).

# Facilities

During fiscal 2010, the NRI Group's total capital expenditures came to ¥20,755 million. This mainly comprised development of shared-online services to expand high value-added services in Financial IT Solution Services and capital expenditures related to data centers and office expansions in IT Platform Services.

## •Major Facilities

### (1) NRI

Name of office (Location)	Name of segment by business type	Buildings and structures (millions of yen)	Machinery (millions of yen)	Equipment (millions of yen)	Land		Lease assets (millions of yen)	Software (millions of yen)	Total (millions of yen)	Employees (persons)
					Area (m <sup>2</sup> )	Amount (millions of yen)				
Marunouchi Center (Chiyoda-ku, Tokyo)	Consulting and others	493	0	178	—	—	0	2,127	2,799	1,018 [150]
Kiba Center (Koto-ku, Tokyo)	Financial IT Solutions, IT Platform Services and others	1,293	23	612	—	—	0	29,908	31,837	1,102 [271]
Yokohama Center (Hodogaya-ku, Yokohama)	Industrial IT Solutions, IT Platform Services and others	924	42	1,505	—	—	—	5,900	8,373	1,553 [299]
Yokohama Minato Center (Kanagawa-ku, Yokohama)	Financial IT Solutions and others	1,299	47	491	—	—	—	12,066	13,904	1,025 [276]
Osaka Center (Kita-ku, Osaka)	Industrial IT Solutions and others	35	0	23	—	—	—	3	62	71 [3]
Hiyoshi Data Center (Kohoku-ku, Yokohama)	Platform Services	5,867	633	228	14,112	4,952	—	131	11,812	55 [73]
Yokohama Data Center 1 (Hodogaya-ku, Yokohama)	Platform Services	6,643	2,729	1,408	(6,748)	—	187	15	10,984	51 [193]
Yokohama Data Center 2 (Tsuzuki-ku, Yokohama)	Platform Services	10,081	489	568	4,602	2,312	0	—	13,452	7 [8]
Osaka Data Center (Shimonoe-ku, Osaka)	Platform Services	6,069	512	302	13,200	2,221	0	0	9,106	27 [32]
Yokohama Learning Center (Hodogaya-ku, Yokohama)	Company-wide (common use)	174	0	78	—	—	—	35	289	34 [9]
Shiodome Center (Minato-ku, Tokyo)	Industrial IT Solutions and others	72	0	40	—	—	—	187	301	149 [28]

Notes: 1. The figures are book values as of 31st March, 2011.

2. A portion of land and buildings are rented (including subleasing to domestic subsidiaries) with annual rental expense of ¥11,760 million. Leased land area is listed inside brackets ( ).

3. In the "Employees" column, the numbers in square brackets [ ] represent the average number of temporary employees throughout the year.

4. The descriptions listed in "Name of segment" are the main segment categories under which each office operates.

5. In the "Name of office" column, a representative office for each region is listed and offices in the same proximity are included in the listings.

**(2) Domestic and Overseas Subsidiaries**

Name of office (Location)	Name of segment by business type	Buildings and structures (millions of yen)	Machinery (millions of yen)	Equipment (millions of yen)	Land		Lease assets (millions of yen)	Software (millions of yen)	Total (millions of yen)	Employees (persons)
					Area (m <sup>2</sup> )	Amount (millions of yen)				
<b>(Domestic Subsidiary)</b>										
NRI Network Communications, Ltd. Head Office and others (Kita-ku, Osaka)	Others	166	—	229	—	—	—	157	552	277 [65]
NRI Secure Technologies Head Office and others (Miinato-ku, Tokyo)	Industrial IT Solutions and others	99	—	615	—	—	8	984	1,707	192 [40]
NRI Workplace Services, Ltd. Head Office and others/ Dormitory (Hodogaya-ku, Yokohama)	Company-wide (common use)	655	—	11	7,385	1,805	—	2	2,475	107 [43]
NRI Data iTech, Ltd. Head Office and others (Koto-ku, Tokyo)	Industrial IT Solutions and others	36	—	28	—	—	—	41	106	137 [24]
<b>(Overseas Subsidiary)</b>										
Nomura Research Institute (Beijing), Ltd. (Beijing, China)	Industrial IT Solutions and others	7	—	51	—	—	—	43	101	98 [—]

Notes: 1. The figures are book values as of 31st March, 2011.

2. A portion of land and buildings are rented with annual rental expense of ¥89 million. Annual rental expense does not include sublease amounts from NRI.

3. In the "Employees" column, the numbers in square brackets [ ] represent the average number of temporary employees throughout the year.

4. The breakdown of the land of NRI Workplace Services, Ltd., is given below.

Category	Name	Location	Area (m <sup>2</sup> )
Dormitory	Hiyoshi Dormitory	Kohoku-ku Yokohama	5,621
	Higashiterao Dormitory	Tsurumi-ku Yokohama	1,764

## •Capital Expenditure Plans for Fiscal 2011

We have capital expenditure plans of ¥43,000 million for fiscal 2011, and the breakdown by business segment is listed below. Other than these, there are no plans to dispose of or sell major facilities, excluding the disposal or sale of facilities for regular updating.

Name of Segment	Facilities	Planned investment (millions of yen)	Major items and purpose
Consulting	Software	50	Personal computers and others
	Hardware		
Financial IT Solutions	Software	10,800	Software for internal use to provide services for finance industry and other clients, software development for sale purposes, etc.
	Hardware	4,200	Equipment for system development, computer systems installed in data centers, equipment to provide network operation services, etc.
Industrial IT Solutions	Software	5,700	Software development for internal use to provide services for clients in the distribution, manufacturing, service, and other industries; software development for sale etc.
	Hardware	1,300	Equipment for system development, computer systems installed in data centers, equipment to provide network operation services, etc.
IT Platform Services	Facilities in centers	20,000	Data center construction, acquisition of related facilities, etc.
Others	Software	500	Software for internal use to provide client services, servers, etc.
	Hardware		
Company-wide (common use)	Office facilities	450	Property equipment, furniture, fixtures, etc.
Total		43,000	

Note: Regarding the planned capital expenditures, a portion of the data center's costs, ¥11,782 million, was appropriated by disposal of treasury shares through the allocation of new shares to a third party. We plan to appropriate the remainder of the planned capital expenditures with treasury shares.

# Research and Developments

The NRI Group's research and development activities are concentrated in three areas:

- Research and feasibility studies, development of prototypes, and experimental trials, all of which lead to the development of new businesses and products
- Research into advanced information technologies, platform technologies, and production and development technologies
- Surveys and research on new social systems

Research and development activities are routinely pursued by the Advanced Information Technology Division, which is in charge of technology development for the NRI Group, and the Center for Strategic Management and Innovation, which is in charge of policy recommendations and advanced technology functions. In addition, individual business divisions, in pursuing mid- to long-term development of business and new products engage in research and development activities via cross-functional arrangements as necessary. In addition to introducing R&D strategies, we have introduced R&D meetings to provide opportunities to select R&D projects in priority areas from a company-wide perspective. These meetings serve as a forum for investigating projects from the planning stage through applications of results. In fiscal 2009, our research and development expenses amounted to ¥3,564 million. The research and development activities by each segment are as follows.

## Consulting

As investigative research into new social systems, we conducted a questionnaire survey of 10,000 consumers specific to the financial services field. Continuing from fiscal 2009, we conducted surveys and research on the latest trends in China, India, Russia, and emerging countries.

Our research and development expenses for the segment amounted to ¥462 million.

## Financial IT Solutions

We undertook research and development on cutting-edge solutions for new business and new product development. We also developed front-end solutions for securities, searched for whole-sale business opportunities, conducted research on cultivating banking-related business, enterprise risk management (ERM), and cultivating internal controls-related business, and conducted surveys of the financial IT market and service trends in the United States and Europe.

Our research and development expenses for the segment amounted to ¥1,276million.

## Industrial IT Solutions

We took steps toward standardization in the form of research and development related to OpenID\*<sup>1</sup> protocol and conducted technology and product assessments.

Our research and development expenses for the segment amounted to ¥388 million.

## IT Platform Services

Our research efforts included creation of an IT roadmap of promising medium-term technology trends, cloud computing technologies,\*<sup>2</sup> next-generation databases, and IT modernization.\*<sup>3</sup> We also conducted research on automating testing for system development, tools to support project management for system development, and technologies to sophisticate user interfaces.

Our research and development expenses for the segment amounted to ¥958 million.

\*1 OpenID: A technology that facilitates common user IDs to be used for multiple Internet services

\*2 Cloud computing: A computer configuration that can provide extensive IT resources as services through the Internet

\*3 IT modernization: A method to modernize or optimize existing system assets such as mainframe computers

# Management Policy and Tasks

## (1) Basic Management Policy

The NRI Group's corporate statement is "Dream up the future." We view our mission as the combination of "Winning the trust of clients and prospering together with them" and "Gaining insight into the paradigms of a future society and propelling its realization." Based on our corporate statement, we have formulated our management basic strategy of "Navigation and Solution," where "Navigation" refers to proposing the directions that clients, and therefore society, should take, and "Solution" means realizing client goals even when it involves taking responsibility.

## (2) Management Goal and Management Indices

The management objective of the NRI Group is to enhance its corporate value by continuously expanding its business. As management indices, we focus on operating profit and operating cash flows, which express a business's profitability, and seek to increase these figures.

## (3) Medium-term Management Strategy

Taking advantage of information technology is essential to corporate management. The information service industry is increasingly demanding visible evidence of the return on investments and the speedy delivery of new services. In addition, as clients' businesses transcend national and industry boundaries, the realization of global response and functional links that cross industry barriers is becoming important for providing an edge over competitors in the information service industry. In the construction and operation of information systems for companies, a shift is underway toward outsourcing some operations to external specialists instead of the company itself conducting the operations independently. Companies also increasingly do not own their own systems, but rather use IT functions provided as third-party services.

In response to these changes in the business environment, NRI is developing business under the following management strategy.

- Utilizing our strengths in the financial sector, expand and advance our services based on cross-industry, cross-market business platforms
- In addition to services for the financial sector, expand the industrial sectors and domains in which we have expertise by providing services and attracting industry-leading clients in industrial sectors
- Establish a second NRI for China and other Asian market, where the market is projected to grow in the future

Under this strategy, the NRI Group aims to achieve sustained growth while improving productivity, ensuring quality, and reforming the mindsets and improving the skills of the human resources supporting these productivity and quality gains.

## (4) Management Tasks

The Great East Japan Earthquake has tremendously affected Japanese society as a whole, and the severe business environment is projected to continue, with the moderate recovery in the domestic economy expected to experience a temporary slowdown.

In this situation, the information services industry is expected to contribute to the transition from disaster response to recovery and economic development through effective and efficient construction of information systems, an important part of social infrastructure, and the stable provision of uninterrupted service. NRI will endeavor to maintain and ensure stable operations in addition to rapidly expanding and advancing shared-online services as cross-industry and cross-market business platforms. Power shortages are currently a concern in Japan, and based on government policy, we are formulating and implementing an action plan to reduce the amount of power consumed in data centers and offices.

In the future, in order to sustain business growth in the medium and long term, expanding our client base is essential. A large proportion of the NRI Group's clients are securities companies and others in the domestic financial sector. As a way to also avoid the risk of sales fluctuations from this industry-specific concentration, we believe expanding our number of industry-related clients and global development are key. Therefore, we intend to attract clients in industrial fields by integrating our consultant and system engineering services. In addition, we will continue to hire and train human resources in Asia, primarily in China, to ensure that we can serve Japanese client companies' global development. In order to definitively and efficiently make progress toward these aims, we will mobilize internal and external resources, including collaborating with companies in Japan and abroad that have technologies, experience, and excellent customers and conducting M&A.

We will also increase standardization and enhance our system of checks to execute system development according to plan. In addition, we will continually improve our programs to professionally develop the next-generation of human resources and reinforce our systems to prevent system disruptions before they happen.

# Business and Other Risks

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Financial Section

Items that could have an important influence on investor judgments in the NRI Group's business and other operations are outlined below.

The risks that we list here are representative risks inherent to our business as of 31st March, 2011, but the potential risks are not limited to those listed below. Furthermore, items herein relating to future events are based on judgments by the NRI Group as of the end of the fiscal year under review.

## (1) Risks Concerning the Business Environment

**<1> Price competition in the information services industry**  
Competition is fierce among service providers in the information services industry. Intense price competition could occur in the future as a result of the continuing participation by new service providers from other industries, emergence of overseas providers, and an increase in demand for packaged products.

Under these business circumstances, the NRI Group strives to differentiate its services from those of its competitors by offering high value-added services that enhance its ability to offer end-to-end services from consulting to system development and system management and operation. We are also striving to improve productivity.

However, if price competition becomes more intense than forecast, the NRI Group's business performance may be adversely affected.

## <2> Stability of management and operation services business

Expansion of system management and operation services requires various investments such as real estate for data centers and equipment for operations and software. Return on such investments is obtained over the long term through client contracts. Many contracts for system management and operation services span more than one year or are automatically renewed in the case of one-year contracts. Accordingly, sales are deemed relatively stable; moreover, the NRI Group strives to achieve steady return on investments through careful management of works in progress and continuous credit control of clients.

Nevertheless, there is no guarantee that this stability in sales of system management and operation will continue in the future; each time a client business undergoes a merger or bankruptcy, or when a client decides to overhaul its information systems strategies, there is a possibility that it will not renew its contract with the NRI Group.

## <3> Capital relationship with Nomura Holdings, Inc., and its affiliates

As of 31st March, 2011, Nomura Holdings, Inc., held 37.3% of the voting rights of NRI (including 30.9% of indirectly held voting rights, and of that 21.6% is held by its wholly owned subsidiary Nomura Asset Management Co., Ltd.). In addition, affiliated companies, including JAFCO Co., Ltd., held 8.0% of NRI's voting rights.

However, there is no guarantee that the current stability of the percentage of shares held by Nomura Holdings, Inc., and its

affiliates will continue in the future.

## <4> Hazard risks

As a result of the advance of globalization of business activity and widely networked environment, significant damage may be caused by unexpected events such as disasters and system failures, requiring the reinforcement of a crisis management system.

The NRI Group has prepared a contingency plan (emergency response plan) outlining the emergency response system and action guidelines in the event a large-scale disaster, disruption, accident, or other incident occurs that affects the business and execution of operations. While taking proactive measures and conducting repeated drills, we will work to upgrade and reinforce our crisis management structure, including preparing the infrastructure necessary for business continuation and establishing a structure to achieve smoother business continuation. The data centers held by the NRI Group meet the highest Japanese standards for disaster preparation, in terms of security measures and earthquake resistance among other aspects. We intend to further reinforce our backup systems for the NRI Group's information assets contained within these data centers as well as take measures based on standards agreed upon with clients regarding their information assets in our keeping.

However, in the event of a contingency or situation that exceeds the capabilities of one company, in which business disruption is unavoidable, provision of services at the standards agreed upon with clients may not be feasible and could potentially affect the NRI Group's performance.

## (2) Risks Concerning Business Strategy

### <1> Dependence on specific business categories and clients

The NRI Group sales showed strong dependence on specific business sectors and clients. In fiscal 2010, the NRI Group's combined sales to financial services accounted for slightly less than 70% of total sales. Moreover, the NRI Group's combined sales to its major clients, Nomura Holdings, Inc. and its subsidiaries, and Seven & i Holdings Co., Ltd. and its subsidiaries, amounted to exceed one-third of consolidated sales.

The NRI Group possesses the operational know-how gleaned from its businesses for the financial sector and large-scale and advanced system construction and operation expertise. The NRI Group is aggressively cultivating new clients, and is differentiating itself from its competitors by utilizing these strengths in services for other sectors. In terms of its approach to major competitors by becoming even more adept in its areas of strength, it is strengthening its client relationships through strategic deployment of human resources.

However, it is possible that in the future the NRI Group will experience an enormous impact on business performance if the business environment is transformed as a result of changes to the legal system in a specific sector, if the business circumstances of our major clients change, or they radically reexamine their information systems strategies. There is also a possibility that the NRI Group, against expectations, will be unable to secure new clients.

### <2> *Technological changes in the information services industry*

In the information services industry, we must constantly respond to match market needs that change as information technology evolves.

Acknowledging such a changing business climate, the NRI Group is striving to respond rapidly to technological innovations by being active in investigation and research of advanced, basic, and developmental IT technologies through implementing a cross-sectional system.

However, if technological innovations advance in a wide range of areas, and if our response to these changes is delayed, it could adversely affect the NRI Group's business performance.

### <3> *Human resources*

The NRI Group believes that the specialized expertise of our employees is the foundation of our high value-added services. In addition, hiring and fostering highly specialized human resources and establishing personnel systems and workplace environments that allow these individuals to demonstrate their full potential is necessary to build long-term trusting relationships between the NRI Group and its clients and ultimately enable the Group to achieve medium- to long-term growth.

We at the NRI Group perceive our employees as valuable "human assets," and we are dedicated to creating a system that allows us to secure and develop these assets. We are striving to recruit top-level specialized staff through our internship system, while focusing on the work-life balance of employees, constructing a personnel system that accommodates diverse working methods and values, and implementing improvements to the working environment. As part of our strategies for personnel development systems, we offer assistance to and subsidize our employees to obtain various licenses and qualifications and hold many human resource development seminars at a facility dedicated to employee education and training. We encourage employees to improve themselves by taking advantage of the NRI Group's in-house certification scheme.

Despite these efforts, if we fail to secure and develop professionals who can respond to the highly specialized demands of our clients, the NRI Group's performance could suffer. Furthermore, if workplace conditions worsen and cause employees' mental and physical health to deteriorate, this could possibly lead to a drop in worker productivity and attrition.

### <4> *Investment in software*

The NRI Group invests in software to expand its business, including product sales, shared-online services and outsourcing services. In many cases the software is designed for specific use and cannot be readily readapted for other applications, which means that careful consideration must go into the decision to make such an investment.

At the NRI Group, we exhaustively discuss the legitimacy of each business plan before commencing software development. We also have an internal system whereby regular checks on the plan's progress enable prompt revision to the plan when

necessary, both in the development stage and after completion. However, with this type of software investment, there is never a total guarantee that the initial investment will be recovered, and there is a chance the capital will not be recovered and a loss will be incurred.

### <5> *Investment in stocks*

With a view to cultivating future business opportunities, the NRI Group invests in various companies as well as in the equity of its clients after examining the expected return on investments in order to strengthen business ties. As of 31st March, 2011, the NRI Group's stock investments accounted for less than 10% of total assets.

In the event of bankruptcy or business deterioration of a company in which the NRI Group has invested, the Group may incur an impairment loss or be unable to recover the amount of its investment. Moreover, the marketable shares have the inherent risk of market price fluctuations due to changes in the economic climate and corporate profitability, which, in turn, could affect the NRI Group's financial position.

## **(3) Risks Concerning Business Management**

### <1> *Quality*

The NRI Group aims to provide clients with high value-added services by taking advantage of its total capabilities from consulting through system development and system management and operation by following a basic strategy of "Navigation and Solution," which is to propose strategies to achieve those objectives, and provide measures to bring such strategies to fruition. Our clients expect a high-quality service.

#### i. Consulting services

In our consulting services, we are working hard to establish systems that offer high-quality services such as the provision of infrastructure that allows the company-wide sharing of information on the expertise accumulated within the NRI Group.

In addition, we are committed to continuing to improve quality in the future by conducting client satisfaction surveys, analyzing results and providing feedback.

However, if we are unable to provide the high-quality service that our clients expect, this may hinder prospects for future business contracts.

#### ii. System development

Generally, system development projects are undertaken on a contract basis. We are obliged, under such a contract, to complete an information system and deliver it by the specified deadline. However, there may be times when more man-hours are required than initially estimated because of the customer's requests for a more advanced and complex system as well as requirement changes made before completion, which may delay delivery. Even after delivery, more work than expected may be needed to complete the contract, such as carrying out additional improvements on system performance. In particular, long-term projects that take several years to complete have a

higher likelihood of being affected by requirement changes to respond to the changes in both technology and the surrounding environment.

Information systems are important social infrastructure, and quality management and risk management are essential from the development stage to achieve stable operation after system completion. We strongly recognize that, for systems in the financial services sector in particular, the systems not only involve the reliability of NRI's client, but also the entire financial market.

Therefore in order to deal with these situations, the NRI Group is making efforts to ensure that project estimate examination before contract signing as well as project management after contract signing are done properly, for example, improving the management abilities of our project managers through training programs, and providing quality management systems based on ISO (International Organization for Standardization) 9001. In particular, we have established exclusive examination bodies, such as the system development committee, for projects over a certain size in order to thoroughly review the progress of projects through system delivery and operation. We will further develop examinations for and improvements to the system development process for systems in the financial services sector.

However, in the event that extra costs are incurred, such as an increase in man-hours or performance improvement work conducted after delivery, the project's final profitability may deteriorate. Moreover, if the client's business is harmed because of a delay in delivery or because of problems with the delivered information system, not only may we be liable for the loss, but the situation might damage the reputation of the NRI Group.

### iii. System management and operation services

The information systems developed by the NRI Group are often important platforms for client business and it is essential that these systems operate stably after completion. Regarding financial sector systems, in particular, there are cases in which credibility is on the line not only for our clients but also for entire financial markets, and we are keenly aware of the weight of that reality.

The NRI Group is seeking to improve the quality of system management and operation. We are constantly striving to maintain and improve the quality of services we provide, based on the ISO27001 information security management system, and ISO20000 IT service management system. Concerning financial sector systems, we perform management status and other inspections on a prioritized basis and are formulating measures for responding to failures in the unlikely event they occur.

Still, in cases where stable operation according to the standard agreed upon with the client cannot be achieved for reasons including human error such as neglecting to follow correct operating procedures, malfunction of the equipment and others, not only may the NRI Group's business performance be adversely affected, but it may also be detrimental to the reputation of the NRI Group.

## <2> Subcontracting partners

To improve productivity and make use of the highly specialized know-how of outside corporations, the NRI Group is outsourcing some business operations. Many of these outsourcing operations are carried out under subcontracting contracts.

### i. Good business relationships with subcontractors

In fiscal 2010, our subcontractors were responsible for a little more than 50% of the Group's actual production. It is essential to secure top-level subcontractors and maintain a good business relationship with them in order to carry out the Group's operation. At the NRI Group, we strive to secure superior subcontracting partners by performing corporate screening regularly and searching for new collaborating partners both domestically and overseas.

Furthermore, we are conducting activities to raise productivity and quality, including activities with subcontracting partners, through such measures as sharing of project risks with ePartner Contracts, a contracted business partner with high levels of specialized business expertise, and demands for greater security and thorough information management on the part of subcontracting partners. Our subcontracting partners are not only in Japan, but also in various overseas locations, including China. Currently, Chinese companies account for more than 10% of subcontracting costs. We are therefore striving to strengthen this system of cooperation by regularly dispatching executives to China to visit subcontracting partners and check status of projects.

In spite of all these efforts, in case we fail to secure superior subcontracting partners or maintain a good business relationship with them, we might not be able to conduct business smoothly. Especially in subcontracting to a subcontracting partner overseas, an unexpected event might occur caused by political, economic, or social factors in Japan.

### ii. Contract work

There have been calls for appropriate responses to so-called disguised contract work for business outsourcing carried out under service contracts.

The NRI Group has formulated guidelines relating to contract work to raise common awareness of this problem and to allow the awareness to take root in the Company. In addition, we host meetings to explain our policies to subcontracting partners as part of our drive for entirely appropriate business outsourcing.

In spite of these efforts, if work outside the scope of the contract work is carried out, the NRI Group may lose credibility.

## <3> Intellectual property rights

We are witnessing a growing importance of intellectual property rights related to information systems and software, such as patents for business models related to e-commerce.

With these circumstances in mind, in the development of information systems, the NRI Group is constantly investigating whether it is possibly breaching another party's patent. Furthermore, through education, training and other measures,

we are raising employee awareness of intellectual property rights. At the same time, we recognize that intellectual property is an important business resource, so by proactively investing in applications for patents, we are rigorously protecting the intellectual property of the NRI Group.

If despite these measures, the product or service of the NRI Group breaches the intellectual property rights of a third party, not only would this potentially make the NRI Group liable for reparation, but the Company might also be ordered to stop using an information system, or service, which could interfere with business execution. There is also the possibility that the NRI Group's intellectual property could be breached.

#### <4> *Assets and liabilities related to retirement benefits*

The NRI Group has established a defined contribution pension system and a retirement allowance system as its defined-benefit system. The allowance for employee retirement benefits will fluctuate according to changes in the amount of retirement benefit obligations and pension plan assets. Retirement benefit obligations are calculated using a number of assumptions and estimates, such as employment termination trends and discount rates. A change in any of these factors could change the amount.

Meanwhile, pension plan assets fluctuate according to trends in the stock market and interest rates.

Therefore, the pension plan assets run the risk of fluctuating with changes in the shares' market prices.

Moreover, if any change in the pension plan is adopted, it could affect the liabilities of retirement benefit obligations.

#### **(4) Risks Concerning Information Security**

With the penetration of Internet infrastructure, dissemination of all kinds of information throughout society has become instantaneous. While these technological advances have broadened the range of users and increased convenience, they have also heightened the risk of information leaks, for example through improper external access. The question of security management is now being closely scrutinized by society in general. In the information services industry, where we constantly handle clients' confidential data, more sophisticated information security management and comprehensive employee training is needed.

In the area of personal information management, we have obtained Privacy Mark certification accrediting our management system to protect personal information. We conduct appropriate management of confidential information, and a portion of our business has obtained Information Security Management System certification. Among the steps we take to consistently maintain a high level of security, we have systems that control entering and exiting of buildings, ensure rigorous computer security management, and conduct training sessions on protection of personal information. Particularly in our data centers, where we operate our clients' backbone systems, we have introduced stricter entry/exit controls such as x-ray scanning of articles being brought into and out of the facilities.

However, if information leaks occur despite our efforts, it may not only harm our business results, but also damage the reputation of the NRI Group.

# Significant Accounting Policies and Estimates

The accompanying financial statements for the NRI Group have been prepared in accordance with generally accepted accounting principles and practices in Japan. The compilation of these financial statements has required certain assumptions and estimates that may influence the assets and liabilities at the end of the fiscal year and the income and expenses during the accounting period. An estimate deemed reasonable from historical experience or circumstances may differ from the actual results when an assumption or condition changes. The following are major assumptions and estimates used in the application of significant accounting policies that may greatly influence the NRI Group's financial statements.

## <1> *The percentage-of-completion method*

The NRI Group in principle uses the percentage-of-completion method for recognizing sales of subcontracted software development and consulting projects. In practice, cost of sales is recognized as incurred for individual projects, and sales are recorded in accordance with the rate of accrued cost on the work in progress (actual costs incurred as a percentage of total estimated costs for each project).

Revenues are recorded regardless of billings to clients, while the corresponding amounts are recorded under accounts receivable including development.

Unlike the completed contracts method, which records revenue in one lump sum at the time of completion or delivery, the percentage-of-completion method has the advantage of lending legitimacy to the profit and loss statement as a fair reflection of profit/loss during the period in question.

The percentage-of-completion method is adopted on the assumption that overall costs as a percent of each project, which are the bases for revenue recognition, may be reasonably estimated at the time orders are received and at the end of each month. Since improving our project management structure, we at NRI Group have been accurately estimating costs at the time orders are received and appropriately evaluating works in progress. Should a project deviate from the initial estimates to a degree beyond the prescribed limits, the estimates must be revised immediately. Because of these measures, we are confident that such revenues are being recorded with a high level of accuracy.

## <2> *Accounting method for software*

In the amortization of software packages, shared-online and outsourcing services, instead of recording subcontracting costs and labor costs for the development of information systems as expenses, these amounts may be recorded as assets for NRI Group investments in software or recorded in the software suspense accounts. In such cases, sale of the completed information system to the client or the provision of services generates product sales revenue and system management and operation revenue, in turn enabling the Group to collect its returns on its development investments in the medium to long term.

Based on this system of recovering investments, software for sale including the packaged products are amortized based on

the forecasted sales quantity or sales revenue with the bottom limit amount set according to the uniform distribution method, based on the remaining valid period of generally three years.

Amortization of the software used by the Company to provide customer services as part of shared-online services is carried out according to the fixed amount method for the usable period, which is a maximum of five years. In addition to the above amortization, in cases where rapid change occurs in a business environment, we may estimate the amount recoverable and record the loss.

## <3> *Accounting method for employee retirement benefits*

Accounting for employee retirement benefits requires numerous assumptions and estimates, such as employment termination trends, and agreement on certain basic rates, such as the discount rate and the expected rate of return on pension plan assets. In calculating these basic rates, the NRI Group has adopted estimates that are both reasonable and conservative.

The discount rate, which is one of the important basic rates, is reviewed each year by comparing it to the yields of highly safe long-term bonds. For the fiscal year under review, we used the same discount rate as in the previous year, 2.1%.

Actuarial differences occur as a result of discrepancies between the estimated amounts of the expected return on plan assets and the actual return itself and also because of changes in estimated amounts such as the discount rate. Over the last five years, the NRI Group recorded actuarial differences of (favorable differences are denoted in parentheses) ¥4,789 million, ¥7,940 million, ¥5,764 million, ¥(3,141) million, and 1,404 million for the years ended 31st March, 2007, 2008, 2009, 2010, and 2011 respectively.

Actuarial differences are amortized by the straight-line method over a defined period not exceeding the average remaining service time (15 years) of the participants in the plan and is recognized as a pension cost. Unrecognized actuarial loss at the end of the fiscal year under review stood at ¥4,870 million.

## <4> *Deferred income tax assets*

The NRI Group records deferred income tax assets with a reasonable estimate of future taxable income and careful judgment of its collectability. Since future taxable income is estimated from the results of past business performance, there is a possibility of fluctuation in the amount of deferred income tax assets if the estimate of taxable income differs from actual results due to changes in the business environment.

## <5> *Accounting procedures for the trust-type employee stock ownership incentive plan*

NRI introduced a trust-type employee stock ownership incentive plan in March 2011. The NRI Group Employee Stock Ownership Association Exclusive Trust (hereafter "the Trust") set up to introduce this plan has acquired in advance a lump sum of NRI stock from the NRI Group commensurate with the amount of stock expected to be acquired by the NRI Group Employee Stock Ownership Association during the five-year period from

the Trust's establishment. This stock is sold when the NRI Group Employee Stock Ownership Association acquires it. NRI guarantees the debt financing undertaken for the Trust to acquire NRI shares, and as a result, accounting for NRI and the Trust is integrated. NRI stock held by the Trust, Trust assets, including debt financing, liabilities, expenses, and profit are recorded, including in financial statements. Therefore, the Trust debt financing is treated as NRI debt financing, and NRI stock held by the Trust is treated as NRI treasury stock. Furthermore, NRI stock that NRI sells to the Trust is not recognized as transferred at the time it is sold to the Trust. When the Trust subsequently sells the stock to the NRI Group Employee Stock Ownership Association, the stock is treated as having been transferred from NRI to the NRI Group Employee Stock Ownership Association. As the amount equivalent to gain on sale of Trust stock is dividends to beneficiaries after conclusion of the trust, the amount equivalent to gain on sale of Trust stock is treated as an expense of the fiscal year in question.



## **Consolidated Financial Statements Nomura Research Institute, Ltd.**

*At 31st March, 2011 and 2010 and  
for the years ended 31st March, 2011, 2010 and 2009  
with Report of Independent Auditors*

Nomura Research Institute, Ltd.  
Consolidated Financial Statements  
31st March, 2011, 2010 and 2009

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## Report of Independent Auditors

The Board of Directors  
Nomura Research Institute, Ltd.

We have audited the accompanying consolidated balance sheets of Nomura Research Institute, Ltd. and its consolidated subsidiaries as of 31st March, 2011 and 2010, and the related consolidated statements of income and comprehensive income, changes in net assets, and cash flows for each of the three years ended 31st March, 2011, 2010 and 2009, all expressed in Japanese yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Nomura Research Institute, Ltd. and its consolidated subsidiaries at 31st March, 2011 and 2010, and the consolidated results of their operations and their cash flows for each of the three years ended 31st March, 2011, 2010 and 2009, in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended 31st March, 2011 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 2 to the consolidated financial statements.

*Ernst & Young ShinNihon LLC*

22nd June, 2011

## Nomura Research Institute, Ltd.

## Consolidated Balance Sheets

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars (Note 2)</i>
	<b>31st March,</b>		<b>31st March,</b>
	<b>2011</b>	<b>2010</b>	<b>2011</b>
<b>Assets</b>			
Current assets:			
Cash and bank deposits ( <i>Notes 3 and 11</i> )	¥ 16,758	¥ 15,056	\$ 201,539
Short-term investment securities ( <i>Notes 3, 4 and 11</i> )	79,661	44,720	958,040
Accounts receivable and other receivables ( <i>Notes 3 and 5</i> )	71,289	68,033	857,354
Inventories	256	432	3,079
Deferred income taxes ( <i>Note 9</i> )	6,825	7,268	82,081
Other current assets	2,876	2,305	34,588
Allowance for doubtful accounts	(71)	(70)	(854)
Total current assets	177,594	137,744	2,135,827
Property and equipment ( <i>Note 6</i> ):			
Land	12,323	12,323	148,202
Buildings, net	34,399	32,376	413,698
Machinery and equipment, net	11,532	14,231	138,690
Leased assets, net ( <i>Note 13</i> )	197	35	2,369
Property and equipment, net	58,451	58,965	702,959
Software and other intangibles	57,641	68,319	693,217
Investment securities ( <i>Notes 3 and 4</i> )	43,965	53,699	528,743
Investments in affiliates ( <i>Notes 3 and 4</i> )	1,265	1,604	15,213
Deferred income taxes ( <i>Note 9</i> )	19,390	19,238	233,193
Long-term loans receivable ( <i>Note 3</i> )	7,706	7,593	92,676
Lease investment assets	343	534	4,125
Other assets ( <i>Note 7</i> )	13,774	15,792	165,653
Allowance for doubtful accounts	(96)	(120)	(1,155)
Total assets	<u>¥380,033</u>	<u>¥363,368</u>	<u>\$4,570,451</u>

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars (Note 2)</i>
	<b>31st March,</b>		<b>31st March,</b>
	<b>2011</b>	<b>2010</b>	<b>2011</b>
<b>Liabilities and Net Assets</b>			
Current liabilities:			
Accounts payable (Note 3)	¥ 22,481	¥ 24,155	\$ 270,367
Current portion of long-term loans payable (Note 3)	2,607	–	31,353
Lease obligations	223	293	2,682
Accrued expenses	16,774	16,628	201,732
Income taxes payable	9,425	9,879	113,349
Other current liabilities	16,650	16,240	200,240
Total current liabilities	68,160	67,195	819,723
Convertible bonds (Note 3)	49,997	49,997	601,287
Long-term loans payable (Note 3)	9,176	–	110,355
Lease obligations	339	328	4,077
Long-term accrued expenses	–	1,458	–
Deferred income taxes (Note 9)	1	1	12
Allowance for employees' retirement benefits (Note 8)	20,689	24,152	248,815
Asset retirement obligations	596	–	7,168
Commitments and contingent liabilities (Note 19)			
Net assets (Notes 10 and 12):			
Shareholders' equity:			
Common stock:			
Authorized – 750,000,000 shares at 31st March, 2011 and 2010			
Issued – 225,000,000 shares at 31st March, 2011 and 2010	18,600	18,600	223,692
Additional paid-in capital	14,994	15,018	180,325
Retained earnings	264,866	251,800	3,185,400
Treasury stock, at cost:			
– 30,277,343 shares at 31st March, 2011 and 30,378,314 shares at 31st March, 2010	(72,285)	(72,526)	(869,333)
Total shareholders' equity	226,175	212,892	2,720,084
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities (Note 4)	6,258	8,436	75,262
Foreign currency translation adjustment	(2,675)	(2,256)	(32,171)
Total accumulated other comprehensive income	3,583	6,180	43,091
Share subscription rights (Note 20)	1,317	1,155	15,839
Minority interests	–	10	–
Total net assets	231,075	220,237	2,779,014
Total liabilities and net assets	¥380,033	¥363,368	\$4,570,451

See accompanying notes to consolidated financial statements.

## Nomura Research Institute, Ltd.

## Consolidated Statements of Income and Comprehensive Income

	<i>Millions of yen</i>			<i>Thousands of U.S. dollars (Note 2)</i>
	<b>Year ended 31st March,</b>			<b>Year ended 31st March,</b>
	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2011</b>
Sales	¥326,329	¥338,630	¥341,279	\$3,924,582
Cost of sales	233,120	245,642	240,854	2,803,608
Gross profit	93,209	92,988	100,425	1,120,974
Selling, general and administrative expenses (Notes 14 and 15)	54,782	52,911	50,712	658,833
Operating profit	38,427	40,077	49,713	462,141
Other income (expenses):				
Interest and dividend income	1,585	1,367	1,861	19,062
Equity in earnings (losses) of affiliates	(12)	(564)	143	(144)
Interest expense	(8)	(13)	(13)	(96)
Impairment loss on software (Note 16)	-	-	(3,050)	-
Gain (loss) on investment securities (Notes 4 and 16)	130	(841)	(3,386)	1,563
Loss on investments in affiliates (Note 16)	-	-	(762)	-
Office integration and relocation expenses (Note 16)	-	(2,778)	-	-
Impact of applying lease accounting standards	-	-	(352)	-
Impact of applying accounting standard for asset retirement obligations	(364)	-	-	(4,378)
Other, net	96	80	27	1,155
	1,427	(2,749)	(5,532)	17,162
Income before income taxes and minority interests	39,854	37,328	44,181	479,303
Provision for income taxes (Note 9):				
Current	14,865	17,402	23,560	178,773
Deferred	1,799	(1,926)	(3,892)	21,636
	16,664	15,476	19,668	200,409
Income before minority interests	23,190	21,852	24,513	278,894
Minority interests in gain (loss)	2	(4)	-	24
Net income (Note 12)	¥ 23,188	¥ 21,856	¥ 24,513	\$ 278,870
Minority interests in gain	¥ 2	¥ -	¥ -	\$ 24
Income before minority interests	23,190	-	-	278,894
Other comprehensive income (Note 17)				
Valuation difference on available-for-sale securities	(2,178)	-	-	(26,194)
Foreign currency translation adjustment	(406)	-	-	(4,883)
Share of other comprehensive income of associates accounted for using equity method	(13)	-	-	(156)
Total other comprehensive income	(2,597)	-	-	(31,233)
Comprehensive income (Note 17)	¥ 20,593	¥ -	¥ -	\$ 247,661
(Comprehensive income attributable to)				
Comprehensive income attributable to owners of the parent	¥ 20,591	¥ -	¥ -	\$ 247,637
Comprehensive income attributable to minority interests	2	-	-	24

See accompanying notes to consolidated financial statements.

## Nomura Research Institute, Ltd.

## Consolidated Statements of Changes in Net Assets

*Millions of yen*

	Shareholders' equity					Accumulated other comprehensive income					Total net assets
	Common stock	Additional paid-in capital	Retained earnings	Treasury stock, at cost	Total shareholders' equity	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Total accumulated other comprehensive income	Share subscription rights	Minority interests	
<b>Balance at 31st March, 2008</b>	¥18,600	¥14,884	¥225,780	¥(61,161)	¥198,103	¥9,650	¥ (997)	¥ 8,653	¥ 608	¥ -	¥ 207,364
Purchases of treasury stock	-	-	-	(11,871)	(11,871)	-	-	-	-	-	(11,871)
Disposition of treasury stock	-	-	-	279	279	-	-	-	-	-	279
Net income	-	-	24,513	-	24,513	-	-	-	-	-	24,513
Cash dividends paid	-	-	(10,232)	-	(10,232)	-	-	-	-	-	(10,232)
Gain on disposition of treasury stock	-	91	-	-	91	-	-	-	-	-	91
Net changes other than in shareholders' equity	-	-	-	-	-	(3,799)	(1,162)	(4,961)	284	-	(4,677)
<b>Balance at 31st March, 2009</b>	18,600	14,975	240,061	(72,753)	200,883	5,851	(2,159)	3,692	892	-	205,467
Purchases of treasury stock	-	-	-	(1)	(1)	-	-	-	-	-	(1)
Disposition of treasury stock	-	-	-	228	228	-	-	-	-	-	228
Net income	-	-	21,856	-	21,856	-	-	-	-	-	21,856
Cash dividends paid	-	-	(10,117)	-	(10,117)	-	-	-	-	-	(10,117)
Gain on disposition of treasury stock	-	43	-	-	43	-	-	-	-	-	43
Net changes other than in shareholders' equity	-	-	-	-	-	2,585	(97)	2,488	263	10	2,761
<b>Balance at 31st March, 2010</b>	18,600	15,018	251,800	(72,526)	212,892	8,436	(2,256)	6,180	1,155	10	220,237
Disposition of treasury stock	-	-	-	241	241	-	-	-	-	-	241
Net income	-	-	23,188	-	23,188	-	-	-	-	-	23,188
Cash dividends paid	-	-	(10,122)	-	(10,122)	-	-	-	-	-	(10,122)
Loss on disposition of treasury stock	-	(24)	-	-	(24)	-	-	-	-	-	(24)
Net changes other than in shareholders' equity	-	-	-	-	-	(2,178)	(419)	(2,597)	162	(10)	(2,445)
<b>Balance at 31st March, 2011</b>	¥18,600	¥14,994	¥264,866	¥(72,285)	¥226,175	¥ 6,258	¥(2,675)	¥ 3,583	¥1,317	¥ -	¥ 231,075

*Thousands of U.S. dollars (Note 2)*

	Shareholders' equity					Accumulated other comprehensive income					Total net assets
	Common stock	Additional paid-in capital	Retained earnings	Treasury stock, at cost	Total shareholders' equity	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Total accumulated other comprehensive income	Share subscription rights	Minority interests	
<b>Balance at 31st March, 2010</b>	\$223,692	\$180,613	\$3,028,263	\$(872,231)	\$2,560,337	\$101,456	\$(27,132)	\$ 74,324	\$13,890	\$ 120	\$2,648,671
Disposition of treasury stock	-	-	-	2,898	2,898	-	-	-	-	-	2,898
Net income	-	-	278,870	-	278,870	-	-	-	-	-	278,870
Cash dividends paid	-	-	(121,733)	-	(121,733)	-	-	-	-	-	(121,733)
Loss on disposition of treasury stock	-	(288)	-	-	(288)	-	-	-	-	-	(288)
Net changes other than in shareholders' equity	-	-	-	-	-	(26,194)	(5,039)	(31,233)	1,949	(120)	(29,404)
<b>Balance at 31st March, 2011</b>	\$223,692	\$180,325	\$3,185,400	\$(869,333)	\$2,720,084	\$ 75,262	\$(32,171)	\$ 43,091	\$15,839	\$ -	\$2,779,014

See accompanying notes to consolidated financial statements.

## Nomura Research Institute, Ltd.

## Consolidated Statements of Cash Flows

	<i>Millions of yen</i>			<i>Thousands of U.S. dollars (Note 2)</i>
	<b>Year ended 31st March,</b>			<b>Year ended 31st March,</b>
	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2011</b>
<b>Cash flows from operating activities</b>				
Income before income taxes and minority interests	¥ 39,854	¥ 37,328	¥ 44,181	\$ 479,303
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:				
Depreciation and amortization	30,666	30,916	20,763	368,803
Interest and dividend income	(1,585)	(1,367)	(1,861)	(19,062)
Interest expense	8	13	13	96
Impairment loss on software	-	-	3,050	-
Loss (gain) on investment securities	(130)	841	3,386	(1,563)
Loss on investments in affiliates	-	-	762	-
Impact of applying lease accounting standards	-	-	352	-
Impact of applying accounting standard for asset retirement obligations	364	-	-	4,378
Changes in operating assets and liabilities:				
Accounts receivable and other receivables, net of advance payments received	(1,727)	8,980	2,759	(20,770)
Allowance for doubtful accounts	(23)	(12)	119	(277)
Accounts payable	(4,305)	(4,782)	(6,043)	(51,774)
Inventories	176	(179)	(96)	2,117
Allowance for employees' retirement benefits and welfare pension plan	(3,463)	(1,427)	(148)	(41,648)
Other	2,872	7,064	(367)	34,540
Subtotal	62,707	77,375	66,870	754,143
Interest and dividends received	1,395	1,425	1,994	16,777
Interest paid	(5)	(13)	(13)	(60)
Income taxes paid	(15,319)	(20,727)	(22,670)	(184,233)
Net cash provided by operating activities	48,778	58,060	46,181	586,627
<b>Cash flows from investing activities</b>				
Payments for time deposits	(1,129)	-	(6,874)	(13,578)
Proceeds from time deposits	331	6,009	6,930	3,981
Increase in short-term investment securities	(19,933)	-	(7,973)	(239,723)
Proceeds from sales and redemption of short-term investment securities	6,300	-	28,000	75,767
Acquisition of property and equipment	(9,565)	(12,499)	(14,105)	(115,033)
Proceeds from sales of property and equipment	5	10	-	60
Increase in software and other intangibles	(10,211)	(15,116)	(57,863)	(122,802)
Proceeds from sales of software and other intangibles	-	3	-	-
Payments for asset retirement obligations	(64)	-	-	(770)
Increase in investment securities	(31)	(3,436)	(20,776)	(373)
Proceeds from sales and redemption of investment securities	6,558	8,447	2,251	78,870
Proceeds from sales of investments in subsidiaries resulting in change in scope of consolidation	-	665	-	-
Increase in investments in affiliates	(15)	(299)	(616)	(180)
Other	30	41	32	359
Net cash used in investing activities	¥(27,724)	¥(16,175)	¥(70,994)	\$(333,422)

## Nomura Research Institute, Ltd.

## Consolidated Statements of Cash Flows (continued)

	<i>Millions of yen</i>			<i>Thousands of U.S. dollars (Note 2)</i>
	<b>Year ended 31st March,</b>			<b>Year ended 31st March,</b>
	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2011</b>
<b>Cash flows from financing activities</b>				
Increase in short-term loans payable	¥ 3,500	¥ 6,500	¥ –	\$ 42,093
Decrease in short-term loans payable	(3,500)	(6,500)	–	(42,093)
Proceeds from long-term loans payable	11,783	–	–	141,708
Proceeds from issuance of short-term bonds	9,997	–	–	120,229
Redemption of short-term bonds	(10,000)	–	–	(120,265)
Repayment of obligation under finance leases	(69)	(235)	(389)	(830)
Proceeds from sales of treasury stock	–	–	73	–
Purchases of treasury stock	–	(1)	(11,871)	–
Cash dividends paid	(10,121)	(10,113)	(10,228)	(121,720)
Net cash used in financing activities	<u>1,590</u>	<u>(10,349)</u>	<u>(22,415)</u>	<u>19,122</u>
Effect of exchange rate changes on cash and cash equivalents	(335)	11	(68)	(4,029)
Net increase (decrease) in cash and cash equivalents	22,309	31,547	(47,296)	268,298
Cash and cash equivalents at beginning of year	59,776	28,229	75,525	718,894
Cash and cash equivalents at end of year (Note 11)	<u>¥ 82,085</u>	<u>¥ 59,776</u>	<u>¥ 28,229</u>	<u>\$ 987,192</u>

See accompanying notes to consolidated financial statements.

## Nomura Research Institute, Ltd.

## Notes to the Consolidated Financial Statements

31st March, 2011

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Financial Section

**1. Significant Accounting Policies*****Description of Business***

The NRI Group (Nomura Research Institute, Ltd. (the “Company”) and its 15 consolidated subsidiaries) and its affiliates (2 companies) engage in the following four business services: “consulting services,” comprised of research, management consulting and system consulting; “system development & application sales,” comprised of system development and the sales of package software products; “system management & operation services,” comprised of outsourcing services, multi-user system services, and information services; and “product sales.” Information on the Company’s operations by segment is included in Note 21.

***Basis of Presentation***

The accompanying consolidated financial statements of the Company and its consolidated subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Law.

In addition, the notes to the consolidated financial statements include information which is not required under accounting principles generally accepted in Japan but is presented herein as additional information.

Certain reclassifications have been made to present the accompanying consolidated financial statements in a format which is familiar to readers outside Japan.

The amounts included herein are expressed in millions of yen and thousands of U.S. dollars, with fractional amounts rounded off, unless otherwise noted.

***Basis of Consolidation and Application of Equity Method***

The accompanying consolidated financial statements for the years ended 31st March, 2011, 2010 and 2009 include the accounts of the Company and any significant companies which are controlled directly or indirectly by the Company. All subsidiaries (15, 14 and 16 for the years ended 31st March, 2011, 2010 and 2009, respectively) have been consolidated. The major consolidated subsidiary is Nomura Research Institute (Beijing), Ltd. as of 31st March, 2011.

## 1. Significant Accounting Policies (continued)

### *Basis of Consolidation and Application of Equity Method (continued)*

The Company's investments in affiliated companies over which it has the ability to exercise significant influence are accounted for by the equity method, and, accordingly, the Company's share of such affiliates' income is included in consolidated income. All affiliated companies (2 for each of the years ended 31st March, 2011, 2010 and 2009) have been accounted for by the equity method.

Investments in two affiliated companies, Nihon Clearing Services Co., Ltd. and MC NRI Global Solutions Inc., are accounted for by the equity method for the year ended 31st March, 2011.

Nomura Research Institute (Dalian), Ltd., a newly established subsidiary during the year ended 31st March, 2011, is included in the scope of consolidation.

### *Cash Equivalents*

Cash equivalents, as presented in the consolidated statements of cash flows, are defined as low-risk, highly liquid, short-term investments maturing within three months from their respective acquisition dates which are readily convertible into cash.

### *Investment Securities*

The Company holds investment securities in its major shareholder, Nomura Holdings, Inc. The Company's investment in Nomura Holdings, Inc. is included in "Investments in affiliates."

The Company and its consolidated subsidiaries determine the appropriate classification of investment securities as either trading, held-to-maturity or available-for-sale securities based on their holding objectives. Available-for-sale securities include marketable securities and non-marketable securities.

Securities held for trading purposes are stated at market value and the cost of securities sold is determined by the moving average method.

Held-to-maturity securities are carried at amortized cost.

Marketable securities classified as available-for-sale securities are stated at market value as of the balance sheet date and the cost of securities sold is determined by the moving average method. Unrealized gain or loss on marketable securities classified as available-for-sale securities is included as a separate component of net assets, net of the applicable taxes.

Non-marketable securities classified as available-for-sale securities are stated at cost and the cost of securities sold is determined by the moving average method.

### *Inventories*

Inventories are stated at cost based on the identified cost method (in cases where profitability has declined, the book value is reduced accordingly).

## 1. Significant Accounting Policies (continued)

### *Depreciation of Property and Equipment (other than leased assets)*

Property and equipment is stated at cost. Depreciation is calculated principally by the declining-balance method over the estimated useful lives of the related assets. The Company and its domestic consolidated subsidiaries individually estimated the useful lives of a portion of their machinery and equipment by determining when the machinery and equipment can be judged to be significantly obsolete because of advancements in technology. Buildings (excluding structures attached to the buildings) acquired on or after 1st April, 1998 by the Company and its domestic consolidated subsidiaries are depreciated by the straight-line method over their respective estimated useful lives.

### *Amortization of Software and Other Intangibles (other than leased assets)*

Development costs of computer software to be sold are amortized based on the estimated volume of sales or the estimated sales revenue with the minimum amortization amount calculated by the straight-line method based on a useful life of three years. Software intended for use by the Company for the purpose of rendering customer services is being amortized by the straight-line method over useful lives of up to five years.

Intangible assets other than computer software to be sold and software intended for internal use are amortized by the straight-line method over their respective estimated useful lives.

### *Depreciation and Amortization of Leased Assets*

Leased tangible assets under finance lease transactions that do not transfer ownership are depreciated by the declining-balance method over the lease period. Leased intangible assets under finance lease transactions that do not transfer ownership are amortized by the straight-line method over the lease period.

### *Allowance for Doubtful Accounts*

The allowance for doubtful accounts has been provided based on the Company's and its consolidated subsidiaries' historical experience with respect to write-offs and an estimate of the amount of specific uncollectible accounts.

### *Retirement and Severance Benefits for Employees*

The allowance for employees' retirement benefits has been provided on an accrual basis as of the balance sheet date based on an estimate of the projected benefit obligation and the employees' pension plan assets. The retirement benefit obligation at transition was fully expensed upon transition. Prior service cost is amortized by the straight-line method over a period which falls within the average remaining years of service (15 years) of the participants in the plan. Actuarial gain or loss is amortized in the year following the year in which the gain or loss is recognized by the straight-line method over a defined period not exceeding the average remaining period of employment (15 years) of the participants in the plan and is recognized as a pension cost.

## 1. Significant Accounting Policies (continued)

### *Revenue Recognition*

In principle, revenues arising from made-to-order software and consulting projects are recognized by the percentage-of-completion method. The percent completed is estimated by the ratio of the costs incurred to the estimated total costs.

### *Research and Development Expenses*

Research and development expenses are charged to selling, general and administrative expenses as incurred.

### *Appropriation of Capital Surplus and Retained Earnings*

Under the Corporation Law of Japan, the appropriation of capital surplus and retained earnings with respect to a given period is made by resolution of the shareholders at a general meeting or by resolution of the Board of Directors. Appropriations from capital surplus and retained earnings are reflected in the consolidated financial statements applicable to the period in which such resolutions are approved.

### *Accounting Change*

Effective the year ended 31st March, 2011, the “Accounting Standard for Equity Method of Accounting for Investments” (Accounting Standards Board of Japan (“ASBJ”) Statement No. 16) and “Practical Solution on Unification of Accounting Policies Applied to Associates Accounted for Using the Equity Method” (Practical Issues Task Force (“PITF”) Statement No. 24) has been applied. There was no impact on the consolidated financial statements as a result of the adoption of this new accounting standard.

Effective the year ended 31st March, 2011, the “Accounting Standard for Asset Retirement Obligations” (ASBJ Statement No. 18) and “Guidance on Accounting Standard for Asset Retirement Obligations” (ASBJ Guidance No. 21) has been applied. As a result of this change, operating profit for the year ended 31st March, 2011 increased by ¥36 million (\$433 thousand) and income before income taxes and minority interests decreased by ¥328 million (\$3,945 thousand) from the corresponding amounts which would have been recorded under the previous method. The amount of asset retirement obligations with this revision was ¥699 million (\$8,406 thousand).

### *Change in Methods of Presentation*

Effective the year ended 31st March, 2011, “Income before minority interests” is presented in the consolidated statements of income and comprehensive income, pursuant to the “Cabinet Office Ordinance for Amendments to the Regulations on the Terminology, Format, and Preparation of Financial Statements” (Cabinet Office Ordinance No. 5), which is based on the “Accounting Standard for Consolidated Financial Statements” (ASBJ Statement No. 22). “Income before minority interests” in the accompanying consolidated statements of income and comprehensive income for the year ended 31st March, 2010, has been presented to conform to the current year’s presentation.

## 1. Significant Accounting Policies (continued)

### *Accounting for Trust-type Employee Stock Ownership Incentive Plan*

The Company introduced a “Trust-type Employee Stock Ownership Incentive Plan” in March 2011. The purpose of introducing this plan is to promote the Company’s perpetual growth by providing incentives to employees (including employees of consolidated subsidiaries; the same shall apply in this section) for increasing the Company’s corporate value in the mid- to long-term and by enhancing benefits and welfare of employees.

This is an incentive plan under which gains from the Company’s share price appreciation are returned to all the employee beneficiaries who participate in the Employee Stock Ownership Group (the “ESOP Group”). The “Employee Stock Ownership Trust” (the “ESOP Trust”) was established exclusively for the ESOP Group to carry out this plan. The ESOP Trust acquired a number of the Company’s shares, which the ESOP Group would acquire over a period of five years subsequent to the establishment of the ESOP Trust. Then, the ESOP Trust sells them each time the ESOP Group makes an acquisition of the Company’s shares. When the share price appreciates and earnings have accumulated in the ESOP Trust upon its maturity, a cash distribution of the funds will be made to each beneficiary in proportion to the respective beneficiary’s contribution. Since the Company guarantees the loans of the ESOP Trust taken out to purchase the Company’s shares, the Company is obligated to pay the remaining liabilities of the ESOP Trust under a guarantee agreement if any loan liabilities remain upon maturity of the ESOP Trust.

The Company accounts for the transactions involving the ESOP Trust as its own. Therefore, the Company’s shares owned by the ESOP Trust, the assets, liabilities, expenses and income of the ESOP Trust are included in the accompanying consolidated financial statements.

## 2. U.S. Dollar Amounts

The Company maintains its books of account in yen. The U.S. dollar amounts included in the accompanying consolidated financial statements and the notes thereto represent the arithmetic results of translating yen into dollars at ¥83.15 = U.S.\$1.00, the rate of exchange prevailing on 31st March, 2011. The U.S. dollar amounts are included solely for the convenience of the reader and the translation is not intended to imply that the assets and liabilities which originated in yen have been or could be readily converted, realized or settled in U.S. dollars at the above or any other rate.

### 3. Financial Instruments

#### 1) Qualitative information

##### (a) Policy for financial instruments

In the course of business operations, the Company raises short-term funds through bank loans and commercial paper, and raises long-term funds through bank loans and issuances of corporate bonds. The Company manages funds by utilizing low-risk financial instruments. It is the policy of the Company to only enter into derivative transactions to reduce risks, and not for speculative purposes.

##### (b) Details of financial instruments and related risk and risk management system

Although accounts receivable and other receivables, are exposed to customers' credit risk, the historical loan loss ratio is low and those receivables are usually settled in a short period of time. The Company tries to reduce credit risk by managing due dates and balances of each customer, as well as monitoring and analyzing customers' credit status. The Company has little exposure of foreign currency exchange risk, since those receivables are mostly in Japanese yen. Investment securities, comprised of shares of companies with which the Company has operational relationships, bonds and bond investment trusts, are exposed to issuers' credit risk, risks of volatility of market prices, and foreign currency exchange and interest rates. To reduce these risks, the Company monitors market value and the issuers' financial status periodically. Long-term loans receivable is comprised of deposits and guarantee money due January 2017. Accounts payable are settled in a short period of time. Redemption of the convertible bonds, issued by the Company for capital expenditures, is March 2014. Long-term loans payable relates to the borrowing by the ESOP Trust to introduce the "Trust-type Employee Stock Ownership Incentive Plan." Repayment is April 2016. Variable interest rates applied to long-term loans payable are exposed to interest rate fluctuation risk. The Company reduces liquidity risk relating to raising funds by developing a cash flow plan to manage all surplus funds in the Group, and by ensuring the maintenance of stable fund suppliers.

##### (c) Supplementary explanation of the fair value of financial instruments

The fair value of financial instruments is based on their quoted market price, and when there is no quoted market price available, fair value is based on management assumption. Since various assumptions and factors are reflected in estimating the fair value, differences in the assumptions and factors may result in different indications of fair value.

### 3. Financial Instruments (continued)

#### 2) Fair value of financial instruments

The carrying amount of financial instruments on the consolidated balance sheets as of 31st March, 2011 and 2010 and estimated fair value are shown in the following table. The following table does not include financial instruments for which it is extremely difficult to determine fair values (see Note 2).

	<i>Millions of yen</i>					
	<b>31st March, 2011</b>			<b>31st March, 2010</b>		
	<b>Carrying amount</b>	<b>Estimated fair value</b>	<b>Difference</b>	<b>Carrying amount</b>	<b>Estimated fair value</b>	<b>Difference</b>
<b>Assets:</b>						
Cash and bank deposits	¥ 16,758	¥ 16,758	¥ –	¥ 15,056	¥ 15,056	¥ –
Accounts receivable and other receivables	71,289	71,289	–	68,033	68,033	–
Short-term investment securities, investment securities, and investments in affiliates	109,183	109,183	–	84,092	84,092	–
Long-term loans receivable	7,706	8,107	401	7,593	7,911	318
Total	<u>¥204,936</u>	<u>¥205,337</u>	<u>¥ 401</u>	<u>¥174,774</u>	<u>¥175,092</u>	<u>¥ 318</u>
<b>Liabilities:</b>						
Accounts payable	¥ 22,481	¥ 22,481	¥ –	¥ 24,155	¥ 24,155	¥ –
Convertible bonds	49,997	48,797	(1,200)	49,997	47,897	(2,100)
Long-term loans payable*	11,783	11,783	–	–	–	–
Total	<u>¥ 84,261</u>	<u>¥ 83,061</u>	<u>¥(1,200)</u>	<u>¥ 74,152</u>	<u>¥ 72,052</u>	<u>¥(2,100)</u>

\* Long-term loans payable included the current portion of long-term loans payable totaling ¥2,607 million (\$31,353 thousand) as of 31st March, 2011.

	<i>Thousands of U.S. dollars</i>		
	<b>31st March, 2011</b>		
	<b>Carrying amount</b>	<b>Estimated fair value</b>	<b>Difference</b>
<b>Assets:</b>			
Cash and bank deposits	\$ 201,539	\$ 201,539	\$ –
Accounts receivable and other receivables	857,354	857,354	–
Short-term investment securities, investment securities, and investments in affiliates	1,313,085	1,313,085	–
Long-term loans receivable	92,676	97,499	4,823
Total	<u>\$2,464,654</u>	<u>\$2,469,477</u>	<u>\$ 4,823</u>
<b>Liabilities:</b>			
Accounts payable	\$ 270,367	\$ 270,367	\$ –
Convertible bonds	601,287	586,855	(14,432)
Long-term loans payable	141,708	141,708	–
Total	<u>\$1,013,362</u>	<u>\$ 998,930</u>	<u>\$(14,432)</u>

### 3. Financial Instruments (continued)

#### 2) Fair value of financial instruments (continued)

Note 1: Methods to determine the estimated fair value of financial instruments.

##### Assets

- a. Cash and bank deposits, accounts receivable and other receivables  
Their carrying amount approximates the fair value due to the short maturity of these instruments.
- b. Short-term investment securities, investment securities and investments in affiliates  
The fair value of stocks is based on quoted market prices. The fair value of bonds is based on either quoted market prices or prices provided by the financial institution making markets in these securities.
- c. Long-term loans receivable  
Long-term loans receivable consists of deposits and guarantee money. The fair value of long-term receivables is based on the present value of the total future cash flows, which are the principal and the interest, discounted by risk free rate relating to the time remaining until maturity.

##### Liabilities

- a. Accounts payable  
Their carrying amount approximates the fair value due to the short maturity of these instruments.
- b. Convertible bonds  
The fair value of convertible bonds is based on the quoted market price.
- c. Long-term loans payable  
Long-term loans payable, to which variable rates are applied, approximates the carrying amount because it reflects market interest rates within a short period of time.

Note 2: The following financial instruments are not included in short-term investment securities, investment securities and investments in affiliates because no quoted market price is available and it is extremely difficult to determine the fair value.

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	<b>31st March, 2011</b>	<b>31st March, 2010</b>	<b>31st March, 2011</b>
Unlisted companies' shares	¥15,328	¥15,471	\$184,341
Investments in partnerships	380	460	4,570

\*1. Unlisted companies' shares are not measured at fair value because they have no market prices on exchanges, and it is extremely difficult to determine fair value. Unlisted companies' shares included investments in affiliates accounted for under the equity method totaling ¥830 million (\$9,982 thousand) and ¥915 million as of 31st March, 2011 and 2010, respectively.

\*2. For investments in partnerships, if fair value for part or all of the components is extremely difficult to determine, such components are not measured at fair value.

### 3. Financial Instruments (continued)

#### 2) Fair value of financial instruments (continued)

Note 3: Redemption schedule for receivables and marketable securities with maturities at 31st March, 2011 and 2010

	<i>Millions of yen</i>					
	<b>31st March, 2011</b>			<b>31st March, 2010</b>		
	<b>Due within one year</b>	<b>Due after one year through five years</b>	<b>Due after five years through ten years</b>	<b>Due within one year</b>	<b>Due after one year through five years</b>	<b>Due after five years through ten years</b>
Cash and bank deposits	¥16,758	¥ –	¥ –	¥15,056	¥ –	¥ –
Accounts receivable	54,691	–	–	52,874	–	–
Investment securities:						
Available-for-sale securities with maturity date:						
Government bonds	–	–	1	–	–	–
Corporate bonds	18,010	3,000	–	6,000	5,000	–
Other	500	–	–	–	–	–
Long-term loans receivable	–	–	8,400	–	–	8,400
	<u>¥89,959</u>	<u>¥3,000</u>	<u>¥8,401</u>	<u>¥73,930</u>	<u>¥5,000</u>	<u>¥8,400</u>

\* Other receivables are not included as there is no applicable redemption schedule.

	<i>Thousands of U.S. dollars</i>		
	<b>31st March, 2011</b>		
	<b>Due within one year</b>	<b>Due after one year through five years</b>	<b>Due after five years through ten years</b>
Cash and bank deposits	\$ 201,539	\$ –	\$ –
Accounts receivable	657,739	–	–
Investment securities:			
Available-for-sale securities with maturity date:			
Government bonds	–	–	12
Corporate bonds	216,597	36,079	–
Other	6,013	–	–
Long-term loans receivable	–	–	101,022
	<u>\$1,081,888</u>	<u>\$36,079</u>	<u>\$101,034</u>

### 3. Financial Instruments (continued)

#### 2) Fair value of financial instruments (continued)

Note 4: Repayment schedule for convertible bonds and long-term loans payable at 31st March, 2011 and 2010

		<i>Millions of yen</i>				
		<b>31st March, 2011</b>				
	<b>Due within one year</b>	<b>Due after one year through two years</b>	<b>Due after two years through three years</b>	<b>Due after three years through four years</b>	<b>Due after four years through five years</b>	
Convertible bonds	¥ –	¥ –	¥49,997	¥ –	¥ –	
Long-term loans payable	2,607	2,556	2,505	2,452	1,663	
	<u>¥2,607</u>	<u>¥2,556</u>	<u>¥52,502</u>	<u>¥2,452</u>	<u>¥1,663</u>	

		<i>Millions of yen</i>				
		<b>31st March, 2010</b>				
	<b>Due within one year</b>	<b>Due after one year through two years</b>	<b>Due after two years through three years</b>	<b>Due after three years through four years</b>	<b>Due after four years through five years</b>	
Convertible bonds	¥–	¥–	¥–	¥49,997	¥–	
	<u>¥–</u>	<u>¥–</u>	<u>¥–</u>	<u>¥49,997</u>	<u>¥–</u>	

		<i>Thousands of U.S. dollars</i>				
		<b>31st March, 2011</b>				
	<b>Due within one year</b>	<b>Due after one year through two years</b>	<b>Due after two years through three years</b>	<b>Due after three years through four years</b>	<b>Due after four years through five years</b>	
Convertible bonds	\$ –	\$ –	\$601,287	\$ –	\$ –	
Long-term loans payable	31,353	30,740	30,126	29,489	20,000	
	<u>\$31,353</u>	<u>\$30,740</u>	<u>\$631,413</u>	<u>\$29,489</u>	<u>\$20,000</u>	

#### 4. Investments

The Company did not hold any trading securities or held-to-maturity securities with determinable market value at 31st March, 2011 and 2010.

The following is a summary of the information concerning available-for-sale securities included in short-term investment securities, investment securities and investments in affiliates at 31st March, 2011 and 2010:

##### *Securities classified as available-for-sale securities*

	<i>Millions of yen</i>					
	<b>31st March, 2011</b>			<b>31st March, 2010</b>		
	<b>Acquisition cost</b>	<b>Carrying amount</b>	<b>Unrealized gain (loss)</b>	<b>Acquisition cost</b>	<b>Carrying amount</b>	<b>Unrealized gain (loss)</b>
Equity securities	¥ 25,543	¥ 36,020	¥10,477	¥25,617	¥39,866	¥14,249
Bonds:						
Government bonds	1	1	-	-	-	-
Corporate bonds	21,079	21,050	(29)	14,015	14,062	47
	21,080	21,051	(29)	14,015	14,062	47
Other	66,928	66,990	62	45,274	45,180	(94)
Total	<u>¥113,551</u>	<u>¥124,061</u>	<u>¥10,510</u>	<u>¥84,906</u>	<u>¥99,108</u>	<u>¥14,202</u>

	<i>Thousands of U.S. dollars</i>		
	<b>31st March, 2011</b>		
	<b>Acquisition cost</b>	<b>Carrying amount</b>	<b>Unrealized gain (loss)</b>
Equity securities	\$ 307,192	\$ 433,193	\$126,001
Bonds:			
Government bonds	12	12	-
Corporate bonds	253,506	253,157	(349)
	253,518	253,169	(349)
Other	804,906	805,652	746
Total	<u>\$1,365,616</u>	<u>\$1,492,014</u>	<u>\$126,398</u>

Securities whose estimated fair value is deemed extremely difficult to measure were included in the above table. Impairment losses on the securities classified as available-for-sale securities as a result of a permanent decline in value for the years ended 31st March, 2011 and 2010 were ¥46 million (\$553 thousand) and ¥1,025 million, consisting of ¥37 million (\$445 thousand) and ¥704 million for securities whose fair value is determinable and ¥9 million (\$108 thousand) and ¥321 million for securities whose estimated fair value is deemed extremely difficult to measure. The Company has established a policy for the recognition of impairment losses under the following conditions as of 31st March, 2011 and 2010:

- i) For securities whose fair value has declined by 30% or more and for which a recovery to fair value is not deemed probable.
- ii) For securities whose estimated fair value is deemed extremely difficult to measure, the Company recognizes impairment if the net asset value of the investment has declined by 50% or more and for which a recovery to acquisition cost is not deemed probable.

#### 4. Investments (continued)

##### *Securities classified as available-for-sale securities (continued)*

Proceeds from sales of available-for-sale securities during the years ended 31st March, 2011, 2010 and 2009 were as follows:

	<i>Millions of yen</i>			<i>Thousands of</i>
	<b>31st March,</b>			<i>U.S. dollars</i>
	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>31st March,</b>
				<b>2011</b>
Proceeds	¥226	¥2,335	¥2,041	\$2,718
Gross gain	168	195	373	2,020
Gross loss	—	—	—	—

#### 5. Accounts Receivable and Other Receivables

For projects that have not been completed as of the balance sheet date, the percentage-of-completion method is applied and the estimated revenue to be earned from each project has been included in accounts receivable and other receivables in the amounts of ¥16,598 million (\$199,615 thousand) and ¥15,159 million at 31st March, 2011 and 2010, respectively.

#### 6. Property and Equipment

Property and equipment is summarized as follows:

	<i>Years</i>	<i>Millions of yen</i>		<i>Thousands of</i>
		<b>31st March,</b>		<i>U.S. dollars</i>
		<b>2011</b>	<b>2010</b>	<b>31st March,</b>
	<b>Useful</b>			<b>2011</b>
	<b>Life</b>			
Land		¥ 12,323	¥ 12,323	\$ 148,202
Buildings	15 – 50	68,519	64,616	824,041
Machinery and equipment	3 – 15	53,145	53,707	639,146
Leased assets		599	764	7,204
Accumulated depreciation		(76,135)	(72,445)	(915,634)
Property and equipment, net		¥ 58,451	¥ 58,965	\$ 702,959

## 7. Other Assets

Other assets consisted of the following:

	<i>Millions of yen</i>		<i>Thousands of</i>
	<b>31st March,</b>		<i>U.S. dollars</i>
	<b>2011</b>	<b>2010</b>	<b>31st March,</b>
Lease deposits	¥10,687	¥12,436	\$128,527
Other	3,087	3,356	37,126
Other assets	¥13,774	¥15,792	\$165,653

Other includes golf club memberships.

## 8. Retirement and Severance Benefits

The Company has a defined benefit pension plan, a lump-sum payment plan and a defined contribution pension plan. In addition to the plans, an extra retirement payment may be provided. The Company also has an employee retirement benefit trust. The Company's certain consolidated subsidiaries have defined benefit lump-sum payment plans and defined contribution pension plans.

The following table sets forth the funded and accrued status of the retirement and severance benefit plans and the amounts recognized in the accompanying consolidated balance sheets at 31st March, 2011 and 2010 for the Company's and its consolidated subsidiaries' defined benefit plans:

	<i>Millions of yen</i>		<i>Thousands of</i>
	<b>31st March,</b>		<i>U.S. dollars</i>
	<b>2011</b>	<b>2010</b>	<b>31st March,</b>
Retirement benefit obligation	¥(66,032)	¥(61,038)	\$(794,131)
Plan assets at fair value	42,808	35,849	514,829
Unfunded retirement benefit obligation	(23,224)	(25,189)	(279,302)
Unrecognized actuarial gain	4,871	3,568	58,581
Unrecognized prior service cost	(2,336)	(2,531)	(28,094)
Unfunded retirement benefit obligation recognized on the balance sheets	¥(20,689)	¥(24,152)	\$(248,815)

Plan assets at fair value include those of the employee retirement benefit trust of ¥6,409 million (\$77,078 thousand) and ¥6,670 million at 31st March, 2011 and 2010, respectively.

## 8. Retirement and Severance Benefits (continued)

The amortization period of prior service gain is 15 years (amortized by the straight-line method over a period which falls within the average remaining years of service of the participants in the plan).

The amortization period of actuarial gain or loss is 15 years (amortized by the straight-line method over periods which fall within the average remaining years of service of the participants in the plan from the fiscal year following the respective fiscal year of occurrence).

The components of retirement benefit expenses for the years ended 31st March, 2011, 2010 and 2009 are outlined as follows:

	<i>Millions of yen</i>			<i>Thousands of U.S. dollars</i>
	<b>31st March,</b>			<b>31st March,</b>
	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2011</b>
Service cost	¥3,928	¥3,558	¥3,402	\$47,240
Interest cost	1,245	1,174	1,104	14,973
Expected return on plan assets	(438)	(331)	(342)	(5,268)
Recognized actuarial (gain) loss	102	312	(73)	1,227
Recognized prior service gain	(195)	(195)	(195)	(2,345)
Subtotal	4,642	4,518	3,896	55,827
Other	1,617	1,507	1,386	19,447
Total	¥6,259	¥6,025	¥5,282	\$75,274

Contributions to the defined contribution pension plan are included in “Other” in the table presented above.

The assumptions used in accounting for the above plans are summarized as follows:

	<b>31st March,</b>		
	<b>2011</b>	<b>2010</b>	<b>2009</b>
Discount rates at the end of the year	2.1%	2.1%	2.1%
Expected rate of return on plan assets	1.5	1.5	1.5

## 9. Income Taxes

The significant components of deferred income tax assets and liabilities were as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	<b>31st March,</b>		<b>31st March,</b>
	<b>2011</b>	<b>2010</b>	<b>2011</b>
Deferred income tax assets:			
Employees' retirement benefits	¥11,210	¥13,201	\$134,817
Depreciation	11,486	11,190	138,136
Accrued bonuses	4,933	4,390	59,327
Other	3,106	3,988	37,354
	<u>30,735</u>	<u>32,769</u>	<u>369,634</u>
Deferred income tax liabilities:			
Valuation difference on available-for-sale securities	(4,253)	(5,766)	(51,149)
Special tax-purpose reserve	(245)	(470)	(2,946)
Undistributed earnings of foreign subsidiaries	(22)	(27)	(265)
Other	(1)	(1)	(12)
	<u>(4,521)</u>	<u>(6,264)</u>	<u>(54,372)</u>
Deferred income tax assets, net	<u>¥26,214</u>	<u>¥26,505</u>	<u>\$315,262</u>

Income taxes applicable to the Company and its consolidated subsidiaries consisted of corporation, inhabitants' and enterprise taxes which, in the aggregate, resulted in a statutory tax rate of approximately 40.6% for the years ended 31st March, 2011, 2010 and 2009.

Reconciliations of the differences between the statutory income tax rates and the effective income tax rates after deferred tax effect in the consolidated statements of income for the years ended 31st March, 2011 and 2010 have been omitted because the differences were immaterial in the consolidated statements of income.

A reconciliation for the year ended 31st March, 2009 was as follows:

	<b>31st March, 2009</b>
Statutory income tax rate	40.6%
Reconciliation:	
Non-taxable permanent differences such as dividends received	(0.5)
Non-deductible permanent differences such as entertainment expenses	1.1
Changes in non-deductible write-down of investment securities and other temporary difference items	5.0
Reversal of deferred tax liability due to the change in tax law on dividends received from foreign subsidiaries	(1.8)
Others, net	0.1
Effective income tax rate after deferred tax effect	<u>44.5%</u>

## 10. Net Assets

The Corporation Law of Japan provides that an amount equal to at least 10% of the amount to be disbursed as distributions of capital surplus and retained earnings be appropriated to the legal reserve until the sum of the legal reserve and additional paid-in capital equals 25% of the common stock account. The legal reserve and the additional paid-in capital account are available for appropriation by resolution of the shareholders. In accordance with the Corporation Law, the Company provides a legal reserve which is included in retained earnings. This reserve amounted to ¥570 million (\$6,855 thousand) and ¥570 million at 31st March, 2011 and 2010, respectively.

### *Shares in Issue and Treasury stock*

The total number and periodic changes in the number of shares in issue and the total number and periodic changes in the number of shares of treasury stock for the year ended 31st March, 2011 are summarized as follows:

	<b>31st March, 2011</b>	
	<b>Shares in issue</b>	<b>Treasury stock</b>
Number of shares at 31st March, 2010	225,000,000	30,378,314
Increase in number of shares	–	29
Decrease in number of shares	–	101,000
Number of shares at 31st March, 2011	<u>225,000,000</u>	<u>30,277,343</u>

- \*1 The increase of 29 shares of treasury stock was due to the purchases of odd-lot shares. The decrease of 101,000 shares of treasury stock was due to the exercise of stock options.
- \*2 Treasury stock included 6,201,500 shares of the Company owned by the ESOP Trust as of 31st March, 2011.

Share subscription rights recorded in the accompanying consolidated balance sheets at 31st March, 2011 relate to the Company's stock option plans described in Note 20.

## 10. Net Assets (continued)

### Dividends

The following appropriations of cash dividends to shareholders of common stock were approved at meetings of the Board of Directors held on 14th May, 2010 and 29th October, 2010 and were paid to shareholders of record as of 31st March, 2010 and 30th September, 2010, respectively, during the year ended 31st March, 2011:

	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>
Cash dividends approved on 14th May, 2010 (¥26.00 = U.S.\$0.31 per share)	¥5,060	\$60,854
Cash dividends approved on 29th October, 2010 (¥26.00 = U.S.\$0.31 per share)	5,062	60,879

The following appropriation of cash dividends, which has not been reflected in the accompanying consolidated financial statements for the year ended 31st March, 2011, was approved at a meeting of the Board of Directors held on 18th May, 2011 and went into effect on 3rd June, 2011:

	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>
Cash dividends (¥26.00 = U.S.\$0.31 per share)	¥5,063	\$60,890

\* Dividends of ¥161 million (\$1,936 thousand) paid to the ESOP Trust are not included in total dividends amount.

## 11. Cash and Cash Equivalents

A reconciliation between cash and bank deposits in the accompanying consolidated balance sheets and cash and cash equivalents in the accompanying consolidated statements of cash flows at 31st March, 2011 and 2010 is as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	<b>31st March,</b>		<b>31st March,</b>
	<b>2011</b>	<b>2010</b>	<b>2011</b>
Cash and bank deposits	¥16,758	¥15,056	\$201,539
Short-term investment securities	79,661	44,720	958,040
Time deposits with maturities of more than three months when deposited	(782)	–	(9,405)
Bond and other investments maturing in more than three months from the acquisition date	(13,552)	–	(162,982)
Cash and cash equivalents	<u>¥82,085</u>	<u>¥59,776</u>	<u>\$987,192</u>

## 12. Per Share Data

Per share data is summarized as follows:

	<i>Yen</i>			<i>U.S. dollars</i>
	<b>31st March,</b>			<b>31st March,</b>
	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2011</b>
Earnings per share	¥119.11	¥112.32	¥125.54	\$1.43
Diluted earnings per share	112.21	105.81	118.29	1.35

	<i>Yen</i>		<i>U.S. dollars</i>
	<b>31st March,</b>		<b>31st March,</b>
	<b>2011</b>	<b>2010</b>	<b>2011</b>
Net assets per share	¥1,179.92	¥1,125.63	\$14.19

The computation of earnings and net assets per share is based on the weighted-average number of shares of common stock outstanding during each year and the number of shares of common stock outstanding at each balance sheet date, respectively.

The computation of earnings per share and diluted earnings per share for the years ended 31st March, 2011, 2010 and 2009 is as follows:

	<i>Millions of yen</i>			<i>Thousands of U.S. dollars</i>
	<b>31st March,</b>			<b>31st March,</b>
	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2011</b>
Numerator:				
Earnings	¥23,188	¥21,856	¥24,513	\$278,870
Earnings not available to common shareholders	(-)	(-)	(-)	(-)
Earnings available to common shareholders	¥23,188	¥21,856	¥24,513	\$278,870
	<i>Thousands of shares</i>			
Denominator:				
Weighted-average number of shares of common stock outstanding – basic *1	194,677	194,587	195,266	194,677
Potentially dilutive shares of common stock – Convertible bonds *2	11,836	11,836	11,836	11,836
Potentially dilutive shares of common stock – Stock options	135	132	130	135
Weighted-average number of shares of common stock outstanding – diluted	206,648	206,555	207,232	206,648

\*1 NRI shares owned by the ESOP Trust are included in treasury stock.

\*2 The conversion price for the 1st unsecured convertible bonds with stock acquisition rights was adjusted from ¥4,224 to ¥4,222.90 effective from 30th March, 2011.

**12. Per Share Data (continued)**

The following potentially issuable shares of common stock would have an antidilutive effect and thus have not been included in the diluted earnings per share calculation for the years ended 31st March, 2011, 2010 and 2009:

	<i>Shares</i>		
	<b>31st March,</b>		
	<b>2011</b>	<b>2010</b>	<b>2009</b>
a) 3rd share subscription rights	–	0*	39,000
b) 4th share subscription rights	0**	224,500	224,500
c) 6th share subscription rights	367,500	392,500	392,500
d) 8th share subscription rights	415,000	415,000	415,000
e) 10th share subscription rights	417,500	417,500	417,500
f) 12th share subscription rights	440,000	440,000	–
g) 14th share subscription rights	445,000	–	–

\* The exercise period ended 30th June, 2009.

\*\* The exercise period ended 30th June, 2010.

The computation of net assets per share at 31st March, 2011 and 2010 is summarized as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	<b>31st March,</b>		<b>31st March,</b>
	<b>2011</b>	<b>2010</b>	<b>2011</b>
Numerator:			
Net assets	¥231,075	¥220,237	\$2,779,014
Share subscription rights	(1,317)	(1,155)	(15,839)
Minority interests	(–)	(10)	(–)
Net assets attributable to common stock	<u>¥229,758</u>	<u>¥219,072</u>	<u>\$2,763,175</u>
<i>Thousands of shares</i>			
Denominator:			
Number of shares of common stock outstanding	194,723	194,622	194,723

\* NRI shares owned by the ESOP Trust are included in treasury stock.

### 13. Leases

#### 1) As lessee

The Company leases mainly computers and related devices, some of which are classified as finance leases. Please refer to 1. Significant Accounting Policies for depreciation method applied to leased assets.

Future minimum lease payments for noncancelable operating leases at 31st March, 2011 and 2010 are summarized as follows:

	<i>Millions of yen</i>		<i>Thousands of</i>
	<b>31st March,</b>		<i>U.S. dollars</i>
	<b>2011</b>	<b>2010</b>	<b>31st March,</b>
Future minimum lease payments:			<b>2011</b>
Due within one year	¥ 7,097	¥ 7,703	\$ 85,352
Thereafter	19,216	27,381	231,100
Total	<u>¥26,313</u>	<u>¥35,084</u>	<u>\$316,452</u>

#### 2) As lessor

There were no finance lease transactions as lessor for the years ended 31st March, 2011 and 2010.

Future minimum lease payments to be received from operating leases as lessor at 31st March, 2011 and 2010 are summarized as follows:

	<i>Millions of yen</i>		<i>Thousands of</i>
	<b>31st March,</b>		<i>U.S. dollars</i>
	<b>2011</b>	<b>2010</b>	<b>31st March,</b>
Future minimum lease payments to be received:			<b>2011</b>
Due within one year	¥9,013	¥ 9,139	\$108,394
Thereafter	59	8,800	710
Total	<u>¥9,072</u>	<u>¥17,939</u>	<u>\$109,104</u>

#### 14. Selling, General and Administrative Expenses

The details of selling, general and administrative expenses for the years ended 31st March, 2011, 2010 and 2009 are summarized as follows:

	<i>Millions of yen</i>			<i>Thousands of U.S. dollars</i>
	<b>31st March,</b>			<b>31st March,</b>
	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2011</b>
Personnel expenses	¥30,447	¥28,576	¥26,198	\$366,170
Rent	5,126	4,444	4,429	61,648
Subcontractor costs	6,832	7,271	8,168	82,165
Other	12,377	12,620	11,917	148,850
Total	<u>¥54,782</u>	<u>¥52,911</u>	<u>¥50,712</u>	<u>\$658,833</u>

#### 15. Research and Development Expenses

Research and development expenses included in selling, general and administrative expenses for the years ended 31st March, 2011, 2010 and 2009 are summarized as follows:

	<i>Millions of yen</i>			<i>Thousands of U.S. dollars</i>
	<b>31st March,</b>			<b>31st March,</b>
	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2011</b>
Research and development expenses	¥3,564	¥3,561	¥4,104	\$42,862

#### 16. Other Income (Expenses)

##### 1) Gain (loss) on investment securities

Gain on investment securities for the year ended 31st March, 2011 consisted of gain on investment securities of ¥168 million (\$2,020 thousand) and loss on investment securities of ¥38 million (\$457 thousand). The gain on investment securities consisted principally of gain on the sales of shares of NTT Business Information Service, Inc., and the loss on investment securities consisted principally of impairment loss on SecuAvail Inc. as a result of the impairment having been deemed other than temporary.

Loss on investment securities for the year ended 31st March, 2010 consisted of gain on investment securities of ¥195 million and loss on investment securities of ¥1,036 million. The gain on investment securities consisted principally of gain on the sales of shares of Mitsubishi UFJ Financial Group, Inc., and the loss on investment securities consisted principally of impairment loss on Daiko Clearing Services Corporation as a result of the impairment having been deemed other than temporary.

Loss on investment securities for the year ended 31st March, 2009 consisted of gain on investment securities of ¥373 million and loss on investment securities of ¥3,759 million. The gain on investment securities consisted principally of gain on the sales of shares of Mitsubishi UFJ Financial Group, Inc., and the loss on investment securities consisted principally of impairment loss on Seven & i Holdings Co., Ltd. as a result of the impairment having been deemed other than temporary.

**16. Other Income (Expenses) (continued)**

## 2) Loss on investments in affiliates

Loss on investments in affiliates for the year ended 31st March, 2009 consisted of gain on investments in affiliates of ¥252 million and loss on investments in affiliates of ¥1,014 million. The gain on investments in affiliates consisted principally of gain on sales of investments in Insurance System & Technology, Ltd., and the loss on investments in affiliates consisted principally of loss on sales of investments in NRI Learning Network, Ltd. and impairment loss on investments in Nomura Holdings, Inc.

## 3) Impairment loss on software

Due to a rapid change in the business environment because of the money market crisis, the Company recorded impairment loss on software, which is used for financial service businesses, in the consolidated statement of income for the year ended 31st March, 2009.

## 4) Office integration and relocation expenses

Office integration and relocation expenses for the year ended 31st March, 2010 arose primarily from the integration of certain offices and the relocation to Yokohama Minato Center.

**17. Consolidated Statements of Comprehensive Income**

Comprehensive income for the year ended 31st March, 2010 is summarized as follows:

	<i>Millions of yen</i>
	<b>31st March, 2010</b>
Comprehensive income attributable to owners of the parent	¥24,344
Comprehensive income attributable to minority interests	(4)
Total	<u>¥24,340</u>

Other comprehensive income for the year ended 31st March, 2010 is summarized as follows:

	<i>Millions of yen</i>
	<b>31st March, 2010</b>
Valuation difference on available-for-sale securities	¥2,585
Foreign currency translation adjustment	(90)
Share of other comprehensive income of associates accounted for using equity method	(7)
Total	<u>¥2,488</u>

(Additional information)

Effective the year ended March 31, 2011, the “Accounting Standard for Presentation of Comprehensive Income” (ASBJ Statement No. 25) has been applied. The items “Accumulated other comprehensive income” and “Total accumulated other comprehensive income” for the previous year ended March 31, 2010 in the accompanying consolidated balance sheets correspond to “Valuation and translation adjustments” and “Total valuation and translation adjustments.”

## 18. Related Party Transactions

Related party transactions for the years ended 31st March, 2011, 2010 and 2009 and the respective balances at 31st March, 2011 and 2010 were as follows:

### 1) Transactions

Related party	Nature of transaction	Millions of yen			Thousands of U.S. dollars
		31st March,			31st March,
		2011	2010	2009	2011
a) Major shareholder: Nomura Holdings, Inc.	Sales	¥41,037	¥49,211	¥74,070	\$493,530
	Purchase of back office operation information system hardware and software for retail domestic securities *1	–	–	38,419	–
b) Major shareholder's subsidiaries: Nomura Securities Co., Ltd.	Purchase of back office operation information system hardware and software for retail domestic securities *2	–	–	*2	–
The Nomura Trust & Banking Co., Ltd.	Money held in trust related to acquisition of treasury stock	–	–	15,010	–
	Charges for acquisition of treasury stock	–	–	8	–
	Borrowings	9,283	–	–	111,642
	Payments of interest	1	–	–	12

\*1 Based on an agreement between Nomura Holdings Inc., Nomura Securities Co., Ltd. and the Company, the Company purchased from the two parties certain hardware and software assets as a single package. The terms and conditions of the agreement were determined through discussions among the three parties based on an objective appraisal the value of the package as a whole. As per the agreement, the amount shown above is the total acquisition cost that the Company has paid to the two parties.

\*2 The transaction is the same as \*1 presented above.

### 2) Balances

Related party	Nature of transaction	Millions of yen		Thousands of U.S. dollars
		31st March,		31st March,
		2011	2010	2010
a) Major shareholder: Nomura Holdings, Inc.	Accounts receivable and other receivables	¥5,149	¥5,237	\$ 61,924
b) Major shareholder's subsidiaries: The Nomura Trust & Banking Co., Ltd.	Long-term loans payable	9,283	–	111,642

## 19. Contingent Liabilities

There were no material contingent liabilities at 31st March, 2011 and 2010.

## 20. Stock Option Plans

The Company issued the following share subscription rights for the purchase of new shares of common stock in accordance with the former Commercial Code of Japan or the Corporation Law of Japan.

For the years ended 31st March, 2011, 2010 and 2009, the Company recognized and allocated share-based compensation cost as follows:

	<i>Millions of yen</i>			<i>Thousands of U.S. dollars</i>
	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2011</b>
Cost of sales	¥173	¥243	¥281	\$2,081
Selling, general and administrative expenses	206	290	299	2,477
<b>Total</b>	<b>¥379</b>	<b>¥533</b>	<b>¥580</b>	<b>\$4,558</b>

A description of each stock option plan as of 31st March, 2011 is summarized as follows:

	<b>4th stock option plan</b>	<b>6th stock option plan</b>	<b>8th stock option plan</b>
Grantee categories and numbers of grantees	32 directors, managing officers or employees of the Company, and 12 directors of its subsidiaries	36 directors or managing officers of the Company, and 6 directors of its subsidiaries	37 directors, managing officers or employees of the Company, and 6 directors of its subsidiaries
Number of shares reserved	407,500	400,000	422,500
Grant date	1st July, 2005	11th September, 2006	10th July, 2007
Vesting conditions	Holders must be in continuous employment from the grant date to the vesting date of 30th June, 2007	Holders must be in continuous employment from the grant date to the vesting date of 30th June, 2009	Holders must be in continuous employment from the grant date to the vesting date of 30th June, 2010
Service period	From 1st July, 2005 to 30th June, 2007	From 1st July, 2006 to 30th June, 2009	From 1st July, 2007 to 30th June, 2010
Exercisable period	1st July, 2007 to 30th June, 2010	1st July, 2009 to 30th June, 2013	1st July, 2010 to 30th June, 2014

**20. Stock Option Plans (continued)**

	<b><u>10th stock option plan</u></b>	<b><u>11th stock option plan</u></b>	<b><u>12th stock option plan</u></b>
Grantee categories and numbers of grantees	36 directors or managing officers of the Company, and 6 directors of its subsidiaries	39 directors, managing officers or employees of the Company, and 6 directors of its subsidiaries	39 directors or managing officers of the Company, and 7 directors of its subsidiaries
Number of shares reserved	417,500	95,500	440,000
Grant date	8th July, 2008	8th July, 2008	15th July, 2009
Vesting conditions	Holders must be in continuous employment from the grant date to the vesting date of 30th June, 2011	Holders must be in continuous employment from the grant date to the vesting date of 30th June, 2009	Holders must be in continuous employment from the grant date to the vesting date of 30th June, 2012
Service period	From 1st July, 2008 to 30th June, 2011	From 1st July, 2008 to 30th June, 2009	From 1st July, 2009 to 30th June, 2012
Exercisable period	1st July, 2011 to 30th June, 2015	1st July, 2009 to 30th June, 2010	1st July, 2012 to 30th June, 2016
	<b><u>13th stock option plan</u></b>	<b><u>14th stock option plan</u></b>	<b><u>15th stock option plan</u></b>
Grantee categories and numbers of grantees	42 directors, managing officers or employees of the Company, and 7 directors of its subsidiaries	39 directors or managing officers of the Company, and 8 directors of its subsidiaries	41 directors, managing officers or employees of the Company, and 8 directors of its subsidiaries
Number of shares reserved	102,000	445,000	103,000
Grant date	15th July, 2009	18th August, 2010	18th August, 2010
Vesting conditions	Holders must be in continuous employment from the grant date to the vesting date of 30th June, 2010	Holders must be in continuous employment from the grant date to the vesting date of 30th June, 2013	Holders must be in continuous employment from the grant date to the vesting date of 30th June, 2011
Service period	From 1st July, 2009 to 30th June, 2010	From 1st July, 2010 to 30th June, 2013	From 1st July, 2010 to 30th June, 2011
Exercisable period	1st July, 2010 to 30th June, 2011	1st July, 2013 to 30th June, 2017	1st July, 2011 to 30th June, 2012

## 20. Stock Option Plans (continued)

A description of each stock option plan as of 31st March, 2010 is summarized as follows:

	<u>3rd stock option plan</u>	<u>4th stock option plan</u>	<u>6th stock option plan</u>
Grantee categories and numbers of grantees	34 directors, managing officers or employees of the Company, and 12 directors of its subsidiaries	32 directors, managing officers or employees of the Company, and 12 directors of its subsidiaries	36 directors or managing officers of the Company, and 6 directors of its subsidiaries
Number of shares reserved	422,500	407,500	400,000
Grant date	24th June, 2004	1st July, 2005	11th September, 2006
Vesting conditions	Holders must be in continuous employment from the grant date to the vesting date of 30th June, 2006	Holders must be in continuous employment from the grant date to the vesting date of 30th June, 2007	Holders must be in continuous employment from the grant date to the vesting date of 30th June, 2009
Service period	From 1st July, 2004 to 30th June, 2006	From 1st July, 2005 to 30th June, 2007	From 1st July, 2006 to 30th June, 2009
Exercisable period	1st July, 2006 to 30th June, 2009	1st July, 2007 to 30th June, 2010	1st July, 2009 to 30th June, 2013
	<u>8th stock option plan</u>	<u>9th stock option plan</u>	<u>10th stock option plan</u>
Grantee categories and numbers of grantees	37 directors, managing officers or employees of the Company, and 6 directors of its subsidiaries	40 directors, managing officers or employees of the Company, and 6 directors of its subsidiaries	36 directors or managing officers of the Company, and 6 directors of its subsidiaries
Number of shares reserved	422,500	96,500	417,500
Grant date	10th July, 2007	10th July, 2007	8th July, 2008
Vesting conditions	Holders must be in continuous employment from the grant date to the vesting date of 30th June, 2010	Holders must be in continuous employment from the grant date to the vesting date of 30th June, 2008	Holders must be in continuous employment from the grant date to the vesting date of 30th June, 2011
Service period	From 1st July, 2007 to 30th June, 2010	From 1st July, 2007 to 30th June, 2008	From 1st July, 2008 to 30th June, 2011
Exercisable period	1st July, 2010 to 30th June, 2014	1st July, 2008 to 30th June, 2009	1st July, 2011 to 30th June, 2015

**20. Stock Option Plans (continued)**

	<u>11th stock option plan</u>	<u>12th stock option plan</u>	<u>13th stock option plan</u>
Grantee categories and numbers of grantees	39 directors, managing officers or employees of the Company, and 6 directors of its subsidiaries	39 directors or managing officers of the Company, and 7 directors of its subsidiaries	42 directors, managing officers or employees of the Company, and 7 directors of its subsidiaries
Number of shares reserved	95,500	440,000	102,000
Grant date	8th July, 2008	15th July, 2009	15th July, 2009
Vesting conditions	Holders must be in continuous employment from the grant date to the vesting date of 30th June, 2009	Holders must be in continuous employment from the grant date to the vesting date of 30th June, 2012	Holders must be in continuous employment from the grant date to the vesting date of 30th June, 2010
Service period	From 1st July, 2008 to 30th June, 2009	From 1st July, 2009 to 30th June, 2012	From 1st July, 2009 to 30th June, 2010
Exercisable period	1st July, 2009 to 30th June, 2010	1st July, 2012 to 30th June, 2016	1st July, 2010 to 30th June, 2011

The following table summarizes options activity under the stock option plans referred to above during the year ended 31st March, 2011:

	<u>4th stock option plan</u>	<u>6th stock option plan</u>	<u>8th stock option plan</u>	<u>10th stock option plan</u>	<u>11th stock option plan</u>	<u>12th stock option plan</u>	<u>13th stock option plan</u>	<u>14th stock option plan</u>	<u>15th stock option plan</u>
Non-vested:									
Beginning of the year	-	-	422,500	417,500	-	440,000	102,000	-	-
Granted	-	-	-	-	-	-	-	445,000	103,000
Forfeited	-	-	-	-	-	-	-	-	-
Vested	-	-	(422,500)	-	-	-	(102,000)	-	-
End of the year	-	-	-	417,500	-	440,000	-	445,000	103,000
Vested:									
Beginning of the year	224,500	400,000	-	-	24,000	-	-	-	-
Vested	-	-	422,500	-	-	-	102,000	-	-
Exercised	-	-	-	-	(24,000)	-	(77,000)	-	-
Forfeited	(224,500)	-	-	-	-	-	-	-	-
End of the year	-	400,000	422,500	-	-	-	25,000	-	-

## 20. Stock Option Plans (continued)

The following table summarizes options activity under the stock option plans referred to above during the year ended 31st March, 2010:

	3rd stock option plan	4th stock option plan	6th stock option plan	8th stock option plan	9th stock option plan	10th stock option plan	11th stock option plan	12th stock option plan	13th stock option plan
Non-vested:									
Beginning of the year	–	–	400,000	422,500	–	417,000	95,500	–	–
Granted	–	–	–	–	–	–	–	440,000	102,000
Forfeited	–	–	–	–	–	–	–	–	–
Vested	–	–	(400,000)	–	–	–	(95,500)	–	–
End of the year	–	–	–	422,500	–	417,000	–	440,000	102,000
Vested:									
Beginning of the year	39,000	224,500	–	–	26,500	–	–	–	–
Vested	–	–	400,000	–	–	–	95,500	–	–
Exercised	–	–	–	–	(24,000)	–	(71,500)	–	–
Forfeited	(39,000)	–	–	–	(2,500)	–	–	–	–
End of the year	–	224,500	400,000	–	–	–	24,000	–	–

Price information per option for each stock option plan as of 31st March, 2011 is summarized as follows:

	<i>Yen</i>								
	4th stock option plan	6th stock option plan	8th stock option plan	10th stock option plan	11th stock option plan	12th stock option plan	13th stock option plan	14th stock option plan	15th stock option plan
Exercise price	¥2,319	¥3,282	¥3,680	¥2,650	¥ 1	¥2,090	¥ 1	¥2,010	¥ 1
Average price on exercise	–	–	–	–	2,056	–	1,823	–	–
Fair value on grant date	–	865	1,030	631	2,572	539	2,012	284	1,534
	<i>U.S. dollars</i>								
	4th stock option plan	6th stock option plan	8th stock option plan	10th stock option plan	11th stock option plan	12th stock option plan	13th stock option plan	14th stock option plan	15th stock option plan
Exercise price	\$27.89	\$39.47	\$44.26	\$31.87	\$ 0.01	\$25.14	\$ 0.01	\$24.17	\$ 0.01
Average price on exercise	–	–	–	–	24.73	–	21.92	–	–
Fair value on grant date	–	10.40	12.39	7.59	30.93	6.48	24.20	3.42	18.45

Price information per option for each stock option plan as of 31st March, 2010 is summarized as follows:

	<i>Yen</i>								
	3rd stock option plan	4th stock option plan	6th stock option plan	8th stock option plan	9th stock option plan	10th stock option plan	11th stock option plan	12th stock option plan	13th stock option plan
Exercise price	¥2,284	¥2,319	¥3,282	¥3,680	¥ 1	¥2,650	¥ 1	¥2,090	¥ 1
Average price on exercise	–	–	–	–	1,777	–	2,115	–	–
Fair value on grant date	–	–	865	1,030	3,619	631	2,572	539	2,012

The exercise price and fair value on grant date as of 31st March, 2011 reflect the five-for-one stock split on 1st April, 2007.

**20. Stock Option Plans (continued)**

Fair value as of the grant date for stock options which were issued during the year ended 31st March, 2011 was estimated using the Black-Scholes option pricing model with the following assumptions:

	<u>14th stock option plan</u>	<u>15th stock option plan</u>
Expected volatility *1	37.8%	27.6%
Expected remaining period *2	4 years and 10 months	1 year and 4 months
Expected dividend yield *3	¥52 per share	¥52 per share
Risk-free interest rate *4	0.285%	0.126%

- \*1 Expected volatility is estimated based on the recent actual stock price in relation to the expected remaining period for each plan.
- \*2 As it is difficult to estimate the expected remaining period in a reasonable manner, it is determined to be the period from the grant date to the mid-point of the exercisable period.
- \*3 Expected dividend yield is the expected annual dividend amount for the year ended 31st March, 2011 as of the date of the grant.
- \*4 Risk-free interest rate represents the interest rate of governmental bonds whose remaining period corresponds to the expected remaining period of stock options.

Because it is difficult to estimate the forfeited number of stock options for future periods, estimation of the vested number is based upon actual forfeitures in prior periods.

Fair value as of the grant date for stock options which were issued during the year ended 31st March, 2010 was estimated using the Black-Scholes option pricing model with the following assumptions:

	<u>12th stock option plan</u>	<u>13th stock option plan</u>
Expected volatility *1	37.2%	54.6%
Expected remaining period *2	5 years	1 year and 6 months
Expected dividend yield *3	¥52 per share	¥52 per share
Risk-free interest rate *4	0.683%	0.191%

- \*1 Expected volatility is estimated based on the actual stock price in the period from July 2004 to July 2009 for the 12th stock option plan, and in the period from January 2008 to July 2009 for the 13th stock option plan.
- \*2 As it is difficult to estimate the expected remaining period in a reasonable manner, it is determined to be the period from the grant date to the mid-point of the exercisable period.
- \*3 Expected dividend yield is the expected annual dividend amount for the year ended 31st March, 2010 as of the date of the grant.
- \*4 Risk-free interest rate represents the interest rate of governmental bonds whose remaining period corresponds to the expected remaining period of stock options.

Because it is difficult to estimate the forfeited number of stock options for future periods, estimation of the vested number is based upon actual forfeitures in prior periods.

## 21. Segment Information

### *Segment Information*

#### 1) Outline of reportable segments

The Company's reportable segments have been determined on the basis that separate financial information for such segments is available and evaluated periodically by the supreme decision-making body in deciding the allocation of management resources and in assessing the business performances of such segments. The Company consists of divisions basically based on services, customers and markets, and those divisions engage in consulting services; system development and application sales; system management and operation services; and product sales. Therefore, the Company has classified its reportable segments as follows: Consulting, Financial IT Solutions, Industrial IT Solutions and IT Platform Services.

#### Consulting

In addition to management consulting, which provides assistance for formulation and execution of management and business strategies, organizational reform etc., system consulting is provided for all aspects of IT management including valuation and diagnosis of IT assets, formulation of IT strategies and support for system operation.

#### Financial IT Solutions

Customers in the financial sector, who usually belong to the securities, insurance, or banking industries, are provided with services including system consulting, system development and system management and operation. Specifically, in addition to providing system development and outsourcing services to each customer, this segment provides industry-standard business platforms such as "THE STAR," a total securities back-office system, "I-STAR," a multi-user system for the wholesale securities sector, "T-STAR," a multi-user system for asset management firms, "BESTWAY," a system for over-the-counter sales of investment trusts, and "e-JIBAI," a multi-user system for automobile liability insurance.

#### Industrial IT Solutions

The main customers in this segment include not only the distribution, manufacturing and service sectors, but also governments and other public agencies. The services provided include system consulting, system development and system management and operation. Services including information security services and IT platform architecture tools are also provided to customers from a broad range of industry sectors.

#### IT Platform Services

Services including system operation, management and administration of data centers and IT platform and network architecture related services are provided to mainly the Financial IT Solutions segment and Industrial IT Solutions segment. This segment also conducts research for the development of new business operations and new products related to IT solutions and research related to leading-edge information technologies.

## 21. Segment Information (continued)

### Segment Information (continued)

- 2) Methods of calculating net sales, profit (loss), assets and other items by reportable segment

The accounting policies for reportable segments are generally the same as described in “Significant Accounting Policies.” Segment profit is based on operating profit. Intersegment sales or transfers are based on current market prices.

- 3) Net sales, profit (loss), assets and other items by reportable segment

<i>Millions of yen</i>									
Year ended 31st March, 2011									
	Reportable segment					Others *1	Total	Adjustment *2	Consolidated *3
	Consulting	Financial IT Solutions	Industrial IT Solutions	IT Platform Services	Subtotal				
Net sales:									
Sales to external customers	¥19,356	¥201,768	¥85,234	¥11,322	¥317,680	¥ 8,321	¥326,001	¥ 328	¥326,329
Intersegment sales or transfers	53	66	4,878	56,327	61,324	3,095	64,419	(64,419)	–
Total	19,409	201,834	90,112	67,649	379,004	11,416	390,420	(64,091)	326,329
Segment profit	¥ 1,218	¥ 19,429	¥ 5,770	¥ 9,231	¥ 35,648	¥ 292	¥ 35,940	¥ 2,487	¥ 38,427
Segment assets	¥ 8,856	¥100,865	¥34,977	¥51,322	¥196,020	¥ 5,642	¥201,662	¥178,371	¥380,033
Other items:									
Depreciation and amortization	¥ 70	¥ 16,127	¥ 3,608	¥ 8,399	¥ 28,204	¥ 480	¥ 28,684	¥ 1,982	¥ 30,666
Increase in tangible and intangible fixed assets	80	8,260	4,051	7,064	19,455	306	19,761	995	20,756

\*1 Some subsidiaries provide system development and system management and operation services that are not included in the above reportable segments.

\*2 Descriptions of adjustments are as follows:

- (a) Individual items included in adjustment of segment profit were all immaterial amounts.
- (b) The segment asset adjustment of ¥178,371 million is comprised of corporate assets not allocated to a reportable segment of ¥179,974 million and the eliminations of intersegment receivables of ¥(1,603) million.
- (c) Individual items included in adjustment of depreciation and amortization were all immaterial amounts.
- (d) Individual items included in adjustment of increase in tangible and intangible fixed assets were all immaterial amounts.

\*3 Segment profit is adjusted to operating profit in the consolidated statements of income and comprehensive income.

## 21. Segment Information (continued)

### Segment Information (continued)

#### 3) Net sales, profit (loss), assets and other items by reportable segment (continued)

*Millions of yen*

	Year ended 31st March, 2010								
	Reportable segment					Others *1	Total	Adjustment *2	Consolidated *3
	Consulting	Financial IT Solutions	Industrial IT Solutions	IT Platform Services	Subtotal				
Net sales:									
Sales to external customers	¥17,945	¥209,033	¥90,966	¥11,391	¥329,335	¥ 8,964	¥338,299	¥ 331	¥338,630
Intersegment sales or transfers	49	158	4,894	57,907	63,008	3,118	66,126	(66,126)	–
Total	17,994	209,191	95,860	69,298	392,343	12,082	404,425	(65,795)	338,630
Segment profit (loss)	¥ 127	¥ 19,846	¥ 8,425	¥ 8,526	¥ 36,924	¥ (468)	¥ 36,456	¥ 3,621	¥ 40,077
Segment assets	¥ 8,570	¥105,854	¥36,909	¥51,843	¥203,176	¥ 6,538	¥209,714	¥153,654	¥363,368
Other items:									
Depreciation and amortization	¥ 79	¥ 15,937	¥ 3,272	¥ 9,467	¥ 28,755	¥ 510	¥ 29,265	¥ 1,651	¥ 30,916
Increase in tangible and intangible fixed assets	81	12,242	5,608	7,082	25,013	434	25,447	3,554	29,001

\*1 Some subsidiaries provide system development and system management and operation services that are not included in the above reportable segments.

\*2 Descriptions of adjustments are as follows:

- (a) Individual items included in adjustment of segment profit were all immaterial amounts.
- (b) The segment asset adjustment of ¥153,654 million is comprised of corporate assets not allocated to a reportable segment of ¥155,170 million and the eliminations of intersegment receivables of ¥(1,516) million.
- (c) Individual items included in adjustment of depreciation and amortization were all immaterial amounts.
- (d) Individual items included in adjustment of increase in tangible and intangible fixed assets were all immaterial amounts.

\*3 Segment profit is adjusted to operating profit in the consolidated statements of income and comprehensive income.

**21. Segment Information (continued)****Segment Information (continued)**

## 3) Net sales, profit (loss), assets and other items by reportable segment (continued)

*Thousands of U.S. dollars*

Year ended 31st March, 2011									
	Reportable segment				Subtotal	Others	Total	Adjustment *	Consolidated
	Financial Consulting	Financial IT Solutions	Industrial IT Solutions	IT Platform Services					
Net sales:									
Sales to external customers	\$232,784	\$2,426,554	\$1,025,063	\$136,164	\$3,820,565	\$100,072	\$3,920,637	\$ 3,945	\$3,924,582
Intersegment sales or transfers	638	794	58,665	677,414	737,511	37,222	774,733	(774,733)	–
Total	233,422	2,427,348	1,083,728	813,578	4,558,076	137,294	4,695,370	(770,788)	3,924,582
Segment profit	\$ 14,648	\$ 233,662	\$ 69,393	\$111,016	\$ 428,719	\$ 3,512	\$ 432,231	\$ 29,910	\$ 462,141
Segment assets	\$106,506	\$1,213,049	\$ 420,649	\$617,222	\$2,357,426	\$ 67,854	\$2,425,280	\$2,145,171	\$4,570,451
Other items:									
Depreciation and amortization	\$ 842	\$ 193,951	\$ 43,391	\$101,010	\$ 339,194	\$ 5,773	\$ 344,967	\$ 23,836	\$ 368,803
Increase in tangible and intangible fixed assets	962	99,339	48,719	84,955	233,975	3,680	237,655	11,966	249,621

\* The segment asset adjustment of \$2,145,171 thousand is comprised of corporate assets of \$2,164,450 thousand not allocated to a reportable segment and the eliminations of intersegment receivables of \$(19,279) thousand.

(Additional information)

Effective the year ended 31st March, 2011, the “Accounting Standard for Disclosures about Segments of an Enterprise and Related Information” (ASBJ Statement No. 17) and “Guidance on Accounting Standard for Disclosures about Segments of an Enterprise and Related Information” (ASBJ Guidance No. 20) has been applied.

**21. Segment Information (continued)****Related information**

## 1) Information by products and services

Sales to external customers classified by products and services for the year ended 31st March, 2011 is summarized as follows:

	<b>31st March, 2011</b>		
	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>	<i>Change</i>
Consulting services	¥ 32,967	\$ 396,476	14.1%
System development and application sales	117,076	1,408,010	(7.7)
System management and operation services	166,580	2,003,367	(0.3)
Product sales	9,706	116,729	(39.0)
Total	<u>¥326,329</u>	<u>\$3,924,582</u>	<u>(3.6)%</u>

## 2) Information by geographical area

Information by geographical area is omitted, because sales and tangible fixed assets in the domestic segment constituted more than 90% of total sales and tangible fixed assets for the years ended 31st March, 2011.

## 3) Information by major customer

	<b>31st March, 2011</b>				
	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>	<i>Percentage of total sales</i>	<i>Change</i>	<i>Related segment</i>
Nomura Holdings, Inc.	¥75,886	\$912,640	23.3%	(12.1)%	Financial IT solutions
Seven & i Holdings Co., Ltd.	39,644	476,777	12.1	(2.4)	Industrial IT solutions, Financial IT solutions

\* In principle, sales from subsidiaries of major customers are included in the above table.

**Information about impairment loss on fixed assets for each reportable segment**

Year ended 31st March, 2011

Not applicable.

**Information about amortized amount of goodwill and unamortized balance of goodwill for each reportable segment**

Year ended 31st March, 2011

Not applicable.

**Information about gains on negative goodwill for each reportable segment**

Year ended 31st March, 2011

Not applicable.

## 21. Segment Information (continued)

### *Business segments*

Business segment information is presented under the following two categories:

- the consulting services business, which includes research services; management consulting services; and system consulting services.
- the IT solutions services business, which includes developing and managing computer systems and selling software packages; providing outsourcing services, multi-user systems and information services; and selling computer equipment and related products.

Business segment information of the Company and its consolidated subsidiaries for the years ended 31st March, 2010 and 2009 is summarized as follows:

<i>Millions of yen</i>					
<b>Year ended 31st March, 2010</b>					
	<b>Consulting services</b>	<b>IT solutions services</b>	<b>Total</b>	<b>Eliminations and corporate</b>	<b>Consolidated</b>
<b>I. Sales and operating profit</b>					
Sales to external customers	¥28,884	¥309,746	¥338,630	¥ –	¥338,630
Intersegment sales or transfers	469	670	1,139	(1,139)	–
Total sales	29,353	310,416	339,769	(1,139)	338,630
Operating expenses	29,418	270,274	299,692	(1,139)	298,553
Operating profit (loss)	¥ (65)	¥ 40,142	¥ 40,077	¥ –	¥ 40,077
<b>II. Total assets, depreciation and amortization and capital expenditures</b>					
Total assets	¥18,686	¥226,803	¥245,489	¥117,879	¥363,368
Depreciation and amortization	441	30,475	30,916	–	30,916
Capital expenditures	735	28,265	29,000	–	29,000
<i>Millions of yen</i>					
<b>Year ended 31st March, 2009</b>					
	<b>Consulting services</b>	<b>IT solutions services</b>	<b>Total</b>	<b>Eliminations and corporate</b>	<b>Consolidated</b>
<b>I. Sales and operating profit</b>					
Sales to external customers	¥32,866	¥308,413	¥341,279	¥ –	¥341,279
Intersegment sales or transfers	528	943	1,471	(1,471)	–
Total sales	33,394	309,356	342,750	(1,471)	341,279
Operating expenses	29,268	263,769	293,037	(1,471)	291,566
Operating profit	¥ 4,126	¥ 45,587	¥ 49,713	¥ –	¥ 49,713
<b>II. Total assets, depreciation and amortization and capital expenditures</b>					
Total assets	¥18,980	¥241,317	¥260,297	¥94,191	¥354,488
Depreciation and amortization	491	20,272	20,763	–	20,763
Capital expenditures	356	69,727	70,083	–	70,083

## 21. Segment Information (continued)

### *Geographical segments*

Because sales and assets in the domestic segment constituted more than 90% of total sales and assets for the years ended 31st March, 2010 and 2009, geographical segment information has not been presented.

### *Overseas sales*

Because overseas sales constituted less than 10% of consolidated sales for the years ended 31st March, 2010 and 2009, no disclosure of overseas sales has been made.

## 22. Subsequent Events

Not applicable.

[Appendix 1]

## SUMMARY OF CERTAIN SIGNIFICANT DIFFERENCES BETWEEN JAPANESE AND U.S. GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

The accompanying consolidated financial statements of the Company have been prepared in conformity with Japanese GAAP, which differs from U.S. GAAP in certain material respects. Such differences are discussed below and address only those differences related to the consolidated financial statements. In addition, no attempt has been made to identify disclosure, presentation or classification differences that would affect the manner in which transactions and events are presented in the financial statements.

The significant differences between Japanese GAAP and U.S. GAAP which would affect the determination of consolidated net income and shareholders' equity of the Company are set out below:

### **1. Trust-type Employee Stock Ownership Incentive Plan**

The Company introduced a "Trust-type Employee Stock Ownership Incentive Plan" in March 2011. Please see Note 1, "Significant Accounting Policies: *Accounting of Trust-type Employee Stock Ownership Incentive Plan*" for an outline of this plan and corresponding accounting treatment under Japanese GAAP.

U.S. GAAP requires the adoption of ASC 718 for an Employee Stock Ownership Plan ("ESOP"), which is an employee retirement and severance benefit plan using company treasury stock to make the employees' property. However, the incentive plan introduced by the Company differs from an ESOP, and ASC 718 is not applied.



# NRI Group (As of 1st August, 2011)

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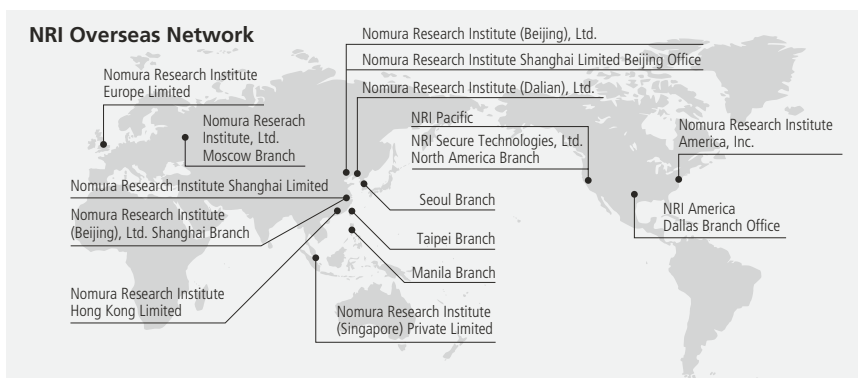
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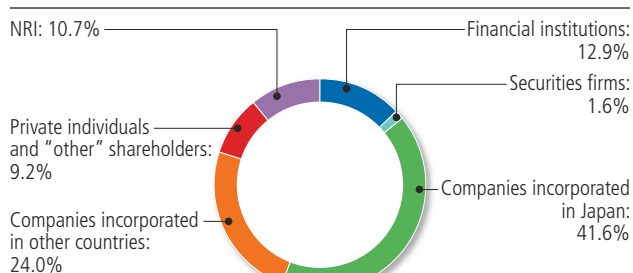
# Corporate Data

## Corporate Outline

<b>Name</b>	Nomura Research Institute, Ltd.
<b>Head office address</b>	Marunouchi Kitaguchi Building, 1-6-5 Marunouchi, Chiyoda-ku, Tokyo 100-0005, Japan Tel. +81(3)5533-2111
<b>Capital</b>	18,600 million yen
<b>Representative</b>	President, CEO & COO Tadashi Shimamoto
<b>Number of employees</b>	5,560 (6,594 in the entire NRI Group) (As of 31st March, 2011)

## Breakdown of Shares by Shareholder Category

(As of 31st March, 2011)



## Major Shareholders (As of 31st March, 2011)

Shareholders	Number of shares held (thousands)	Percentage of shares held (%)
Nomura Asset Management Co., Ltd.	43,387	19.28
Nomura Facilities, Inc.	18,600	8.27
JAFCO Co., Ltd.	15,005	6.67
Nomura Holdings, Inc.	13,000	5.78
CBNY-ORBIS FUNDS		
(Standing Proxy Agent: Citibank Japan Ltd.)	8,155	3.62
NRI Group Employee Stock Ownership Association	7,310	3.25
CBNY-ORBIS SICAV		
(Standing Proxy Agent: Citibank Japan Ltd.)	6,463	2.87
Japan Trustee Services Bank, Ltd. (Trust Account)	6,401	2.84
The Nomura Trust and Banking Co., Ltd.		
(NRI Group Employee Stock Ownership Association Exclusive Trust Account)	6,201	2.76
The Master Trust Bank of Japan, Ltd. (Trust Account)	5,122	2.28

Note: NRI owns 24,075 thousand shares of the treasury stock, but the figure excludes the shares mentioned above.

## Stock Data (As of 31st March, 2011)

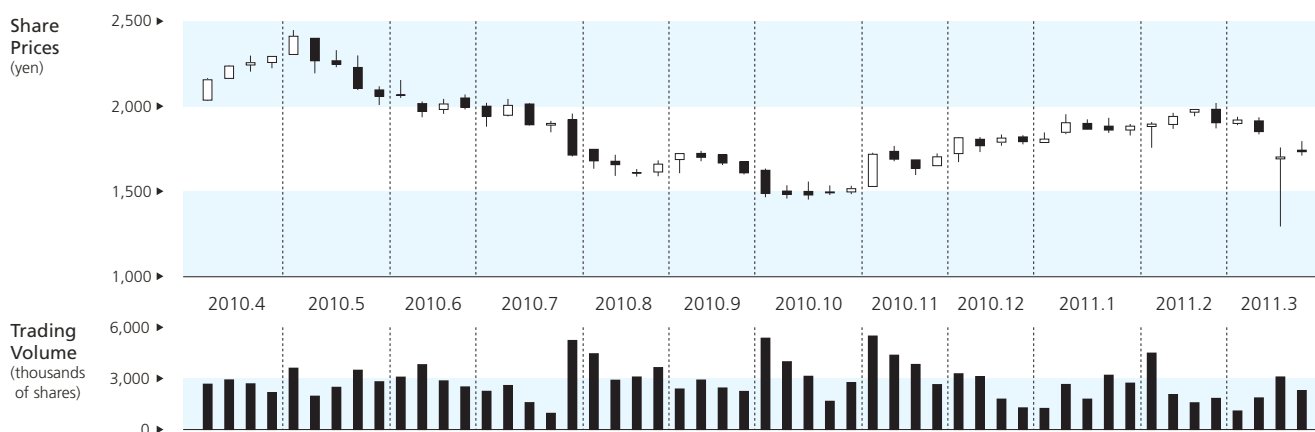
Total number of issuable shares	750,000,000
Total number of issued shares	225,000,000
Number of shareholders	16,845

## Shareholder Information

- In line with the electronic share certificate system, changes in the shareholder's address, purchase requests and other procedures should in principle be handled through the account management institution (securities company or other institution) with which the shareholder holds an account. Please contact the securities company or other institution with which you hold an account. Please note that the custodian of the shareholders register (Mitsubishi UFJ Trust and Banking Corporation) cannot handle such procedures.
- Mitsubishi UFJ Trust and Banking is the account management institution for procedures involving shares recorded in special accounts, so please contact the special account management institution (Mitsubishi UFJ Trust and Banking) indicated below. Business can be conducted at any Mitsubishi UFJ Trust and Banking branch in Japan.
- Dividend payments that have not yet been received will be paid at the main branch of Mitsubishi UFJ Trust and Banking.

<b>Fiscal year</b>	1st April to 31st March of the following year
<b>Ordinary general meeting of shareholders</b>	Every June
<b>Unit of share sales</b>	100 shares
<b>Method of public notice</b>	Electronic notification (However, if electronic notification is not possible due to an accident or other unavoidable circumstances, notice will be published in the Nihon Keizai Shimbun newspaper.) The Company's website: <a href="http://www.nri.co.jp/">http://www.nri.co.jp/</a>
<b>Custodian of shareholder register</b>	Mitsubishi UFJ Trust and Banking Corporation 1-4-5 Marunouchi, Chiyoda-ku, Tokyo, Japan
<b>Account management institution of special accounts</b>	Mitsubishi UFJ Trust and Banking Corporation
<b>Transfer agent</b>	Securities Agent Department, Mitsubishi UFJ Trust and Banking Corporation 1-4-5 Marunouchi, Chiyoda-ku, Tokyo, Japan
<b>(address for inquiries and posts)</b>	Securities Agent Department, Mitsubishi UFJ Trust and Banking Corporation 7-10-11 Higashisuna, Koto-ku, Tokyo 137-8081 Tel: 0120-232-711 (toll-free)

## Stock Performance





**Nomura Research Institute, Ltd.**

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