

# Integrated Report 2014

(Year ended 31st March, 2014)

**Nomura Research Institute**

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### Cautionary Note on Forward-Looking Statements:

This Integrated Report is prepared for the purpose of providing information on our performance in the year ended 31st March, 2014 and our strategy for the coming years, not for the purpose of attracting investment in stocks issued by Nomura Research Institute, Ltd. (NRI). In addition, this report contains absolutely no guarantees or pledges. The opinions and outlook contained herein reflect the views of management at the time of preparation. We do not offer any guarantees or pledges as to the accuracy or completeness of such information, which, moreover, is subject to alteration without advance notice. NRI holds all rights to each and every part of the integrated report, which may not be reproduced, transmitted or otherwise duplicated by any means, whether electronic or mechanical, whatever the purpose, without our express permission.

## Editorial Policy for the Integrated Report 2014

Beginning with this year's report, NRI has begun to provide a holistic picture of our corporate value creation activities in a more concise and clear manner. This is accomplished by connecting important financial and non-financial information related to corporate value. We believe this will enable us to engage all of our stakeholders, including the typical target of institutional investors, in a much deeper way. Further details and additional information can be found on our corporate website and through other communication tools. We encourage our stakeholders to refer to use these resources to learn more about NRI.

(For the purpose of convenience within this report "NRI" is used to refer to the Company and in certain places the entire NRI Group.)

### •Corporate Website

<http://www.nri.com/global/>



All corporate activities

#### Financial information

•Investor Relations  
<http://www.nri.com/global/ir/index.html>

#### Non-financial information

•CSR  
<http://www.nri.com/global/company/contribution.html>

•Corporate Opinion  
<http://www.nri.com/global/opinion/index.html>

### •Other Communication Tools

#### Corporate Brochure



#### CSR Reports

##### •CSR Book 2014

The year's CSR activities summarized in plain, clear language



##### •CSR Report 2014 in PDF format

The year's CSR activities and relevant information related to three key CSR priorities explained in detail

<http://www.nri.com/global/company/contribution.html>  
(It will be issued in December 2014)



##### •The Online CSR Activity File

A detailed and up-to-date explanation of NRI's business activities from a CSR perspective

<http://www.nri.com/jp/csr/activities/>  
(In Japanese only)



# Message from the President

Nomura Research Institute, Ltd.

Integrated Report 2014

Message from the President



*Tadashi Shimamoto*

**Tadashi Shimamoto**

President & CEO,  
Representative Director,  
Member of the Board

NRI was established in 1988 as a merged entity of the former Nomura Research Institute, Ltd., Japan's first private think tank, and Nomura Computer Systems Co., Ltd., which was in charge of Nomura Securities Co., Ltd.'s information systems. Over the years we have grown into a corporate group that seamlessly provides progressive consulting and IT services with a unique forward-looking spirit. We aim to contribute to our clients and society while building a new future by creating and providing a number of business systems, including industry-standard business platforms (shared online services).

For the year ended 31st March, 2014, NRI achieved a third straight year of growth in both sales and profit on a consolidated basis. We have been steadily producing positive results in Vision 2015, our long-term management strategy, which was first put in place during the year ended 31st March, 2009. We have also focused efforts on developing workplaces where our diverse pool of human resources can thrive, as well as on activities that help maintain and improve service quality. Going forward, our goal will be to further accelerate these efforts and enhance corporate value over the medium to long term.

I sincerely hope you will understand the process behind NRI's value creation and related initiatives being undertaken through this integrated report.

We will continue to do our utmost to fulfill your expectations and more.

## Corporate Philosophy

# Dream up the future.

Dream up the future. That's the NRI corporate philosophy.

Today, the world is changing so fast that no one can read the future. We have placed ourselves on the leading edge, creating and innovating for the future while keeping an eye focused on society.

By creating new value, we will make a positive contribution to society that will benefit our world.

"Dream up the future" is about creating and innovating the future, which is how NRI continues to enhance our strength and challenge the status quo.

NRI has two missions to our clients and society embodied by the words "Progressive" and "Trust."

"Quality" stands as the foundation for these two missions.



## History of NRI

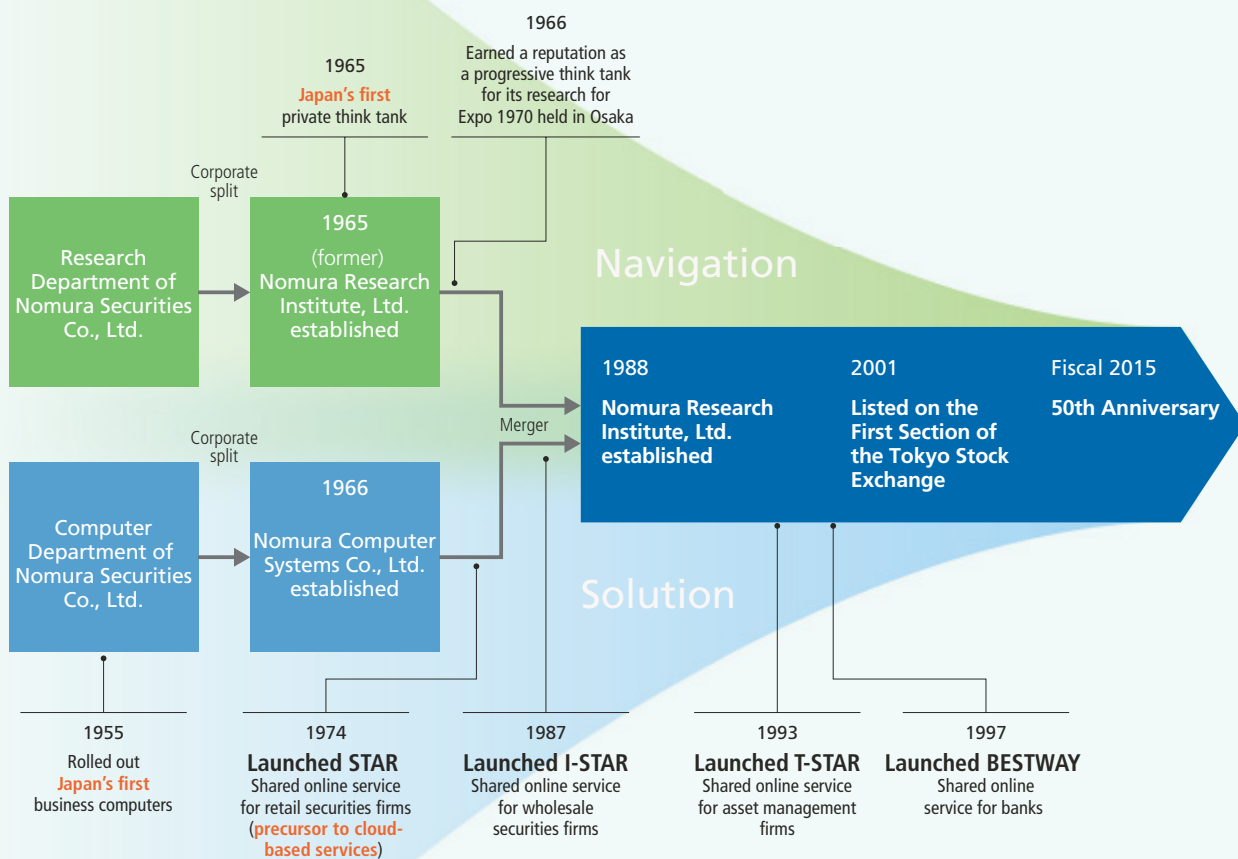
### Business Expansion through “Progressive” and “Trust”

NRI expanded our business operations by inheriting “Progressive” DNA from our two predecessor companies and building the “Trust” of clients through our forward-looking initiatives.

### [Navigation]

Discovering issues faced by companies and society and guiding the way to the solutions

Providing research and consulting services to numerous companies and governments as Japan’s first private think tank



### [Solution]

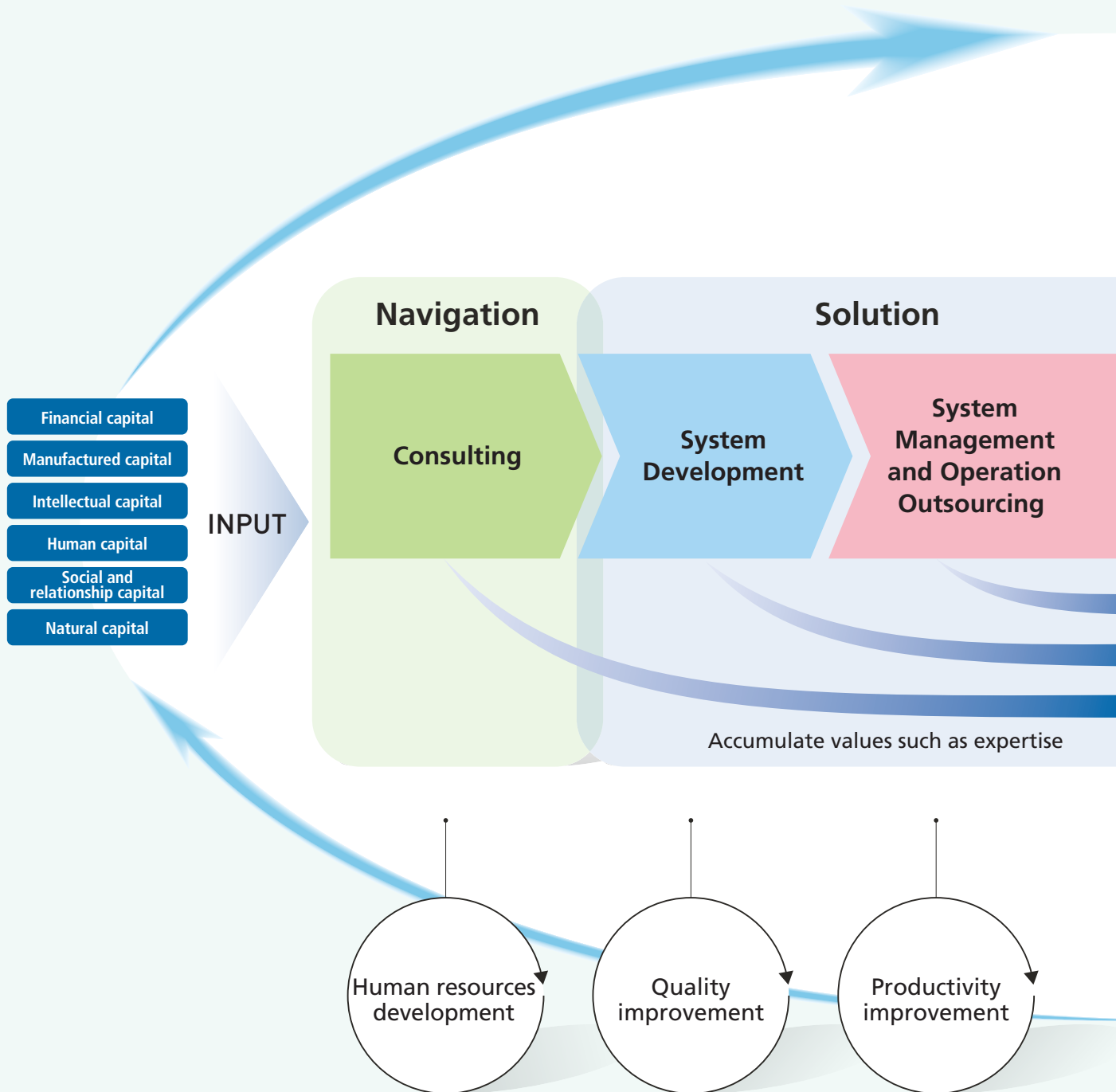
Resolving issues faced by companies and society utilizing IT services

In addition to the development and operation of custom made systems for individual clients, NRI also provides pioneering industry-standard business platforms (shared online services) and was among the first in the industry to recognize the trend among Japanese companies of “shifting from ownership to use” of information systems.

See pages 12 and 13 for more details. ⇨

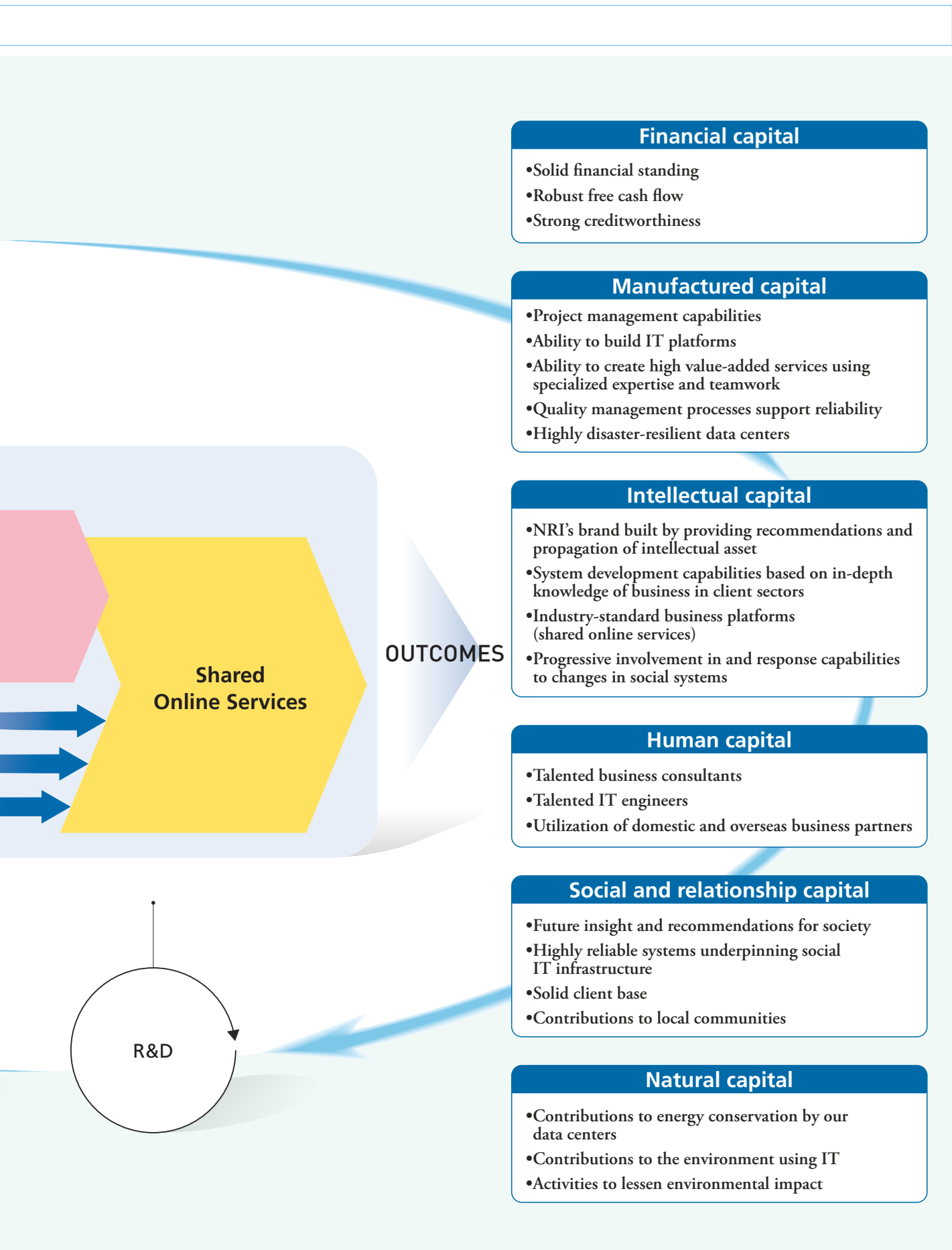
## NRI's Value Creation Process (Navigation × Solution)

NRI will continue to fulfill our mission to society and enhance our corporate value by expanding our business operations to deliver the synergistic effects of "Navigation" and "Solution."



See pages 13 and 14 for more details. ⇨

Note: The value creation process, including the six types of capital above, references the International Integrated Reporting Framework released in December 2013 by the International Integrated Reporting Council (IIRC).



### Financial capital

- Solid financial standing
- Robust free cash flow
- Strong creditworthiness

### Manufactured capital

- Project management capabilities
- Ability to build IT platforms
- Ability to create high value-added services using specialized expertise and teamwork
- Quality management processes support reliability
- Highly disaster-resilient data centers

### Intellectual capital

- NRI's brand built by providing recommendations and propagation of intellectual asset
- System development capabilities based on in-depth knowledge of business in client sectors
- Industry-standard business platforms (shared online services)
- Progressive involvement in and response capabilities to changes in social systems

### Human capital

- Talented business consultants
- Talented IT engineers
- Utilization of domestic and overseas business partners

### Social and relationship capital

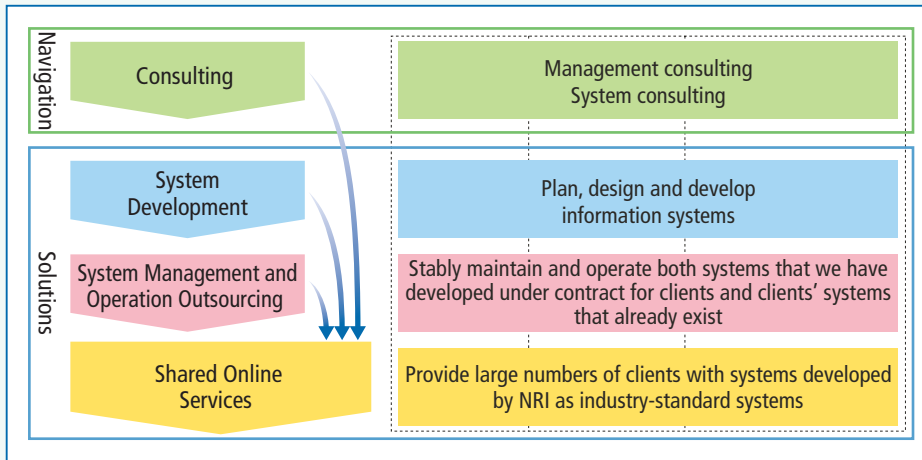
- Future insight and recommendations for society
- Highly reliable systems underpinning social IT infrastructure
- Solid client base
- Contributions to local communities

### Natural capital

- Contributions to energy conservation by our data centers
- Contributions to the environment using IT
- Activities to lessen environmental impact



## Unique Business Model



### Broad range of services and solid client base

	Asset management, etc.	Insurance	Securities	Banking
<b>Consulting</b>	Management consulting / System consulting			
<b>System Development / System Management and Operation Outsourcing</b>	Nomura Asset Management Japan Investor Solutions & Technologies	JAPAN POST INSURANCE MS&AD Insurance Group Holdings Sony Life Insurance	Tokio Marine & Nichido Fire Insurance Nomura Securities Mitsubishi UFJ Morgan Stanley Securities SBI SECURITIES	Seven Bank The Nomura Trust & Banking
<b>Shared Online Services</b>	T-STAR 68 firms FundWeb e-AURORA Daybreak/PL SmartBridge Advance 20 firms	e-JIBAI InsCOSMIC InsDirect	STAR 63 firms (Note 2) I-STAR 28 firms (Note 3) BESTWAY 109 firms	SYNTAX TriMaster Value Direct 13 firms
	Service	Distribution	Manufacturing	Public, other
<b>Consulting</b>	Management consulting / System consulting			
<b>System Development / System Management and Operation Outsourcing</b>	Kumon Educational Japan Recruit Holdings	Seven-Eleven Japan 7-Eleven (USA) KOKUBU	Ajinomoto SAPPORO BREWERIES ONWARD KASHIYAMA	
<b>Shared Online Services</b>		BizMart 36 firms	Perma Document Global SCM Solutions	Ageless 80 714 organizations

See pages 13 and 14 for more details. ⇨

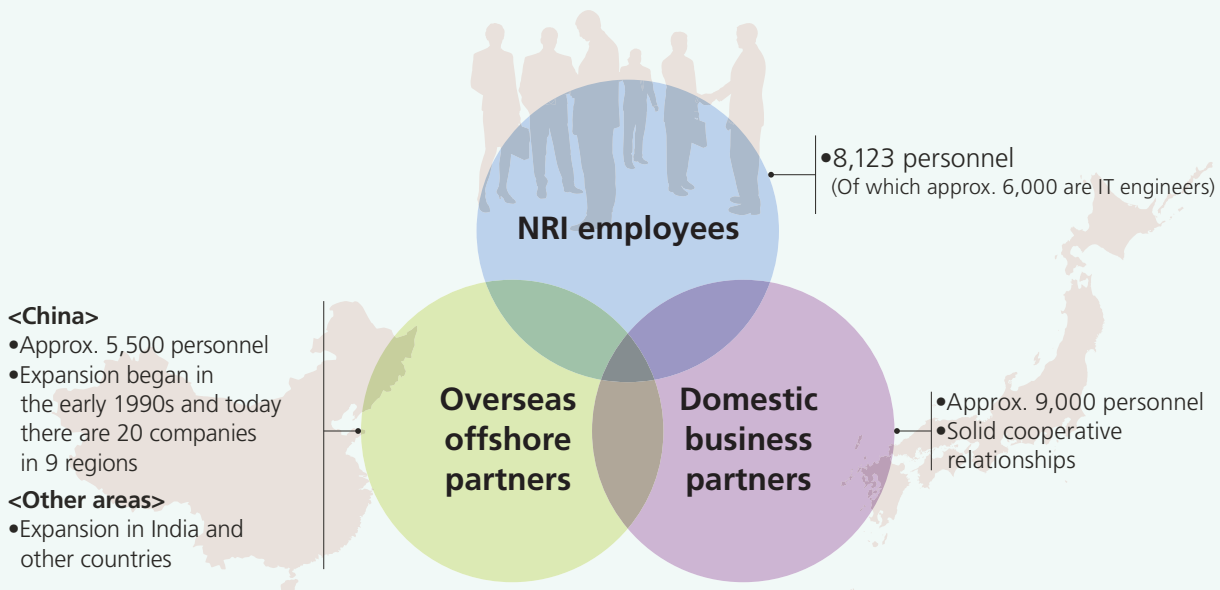
Notes: 1. The number of clients is as of 31st March 2014.  
 2. The STAR client figure includes firms using only select services.  
 3. The I-STAR client figure excludes users of subsystems.



## Human Resources and Data Centers Underpin NRI's Business Model

### Highly capable human resources

By effectively mobilizing NRI's employees, domestic business partners, and offshore partners mainly in China, NRI can provide high value-added services.

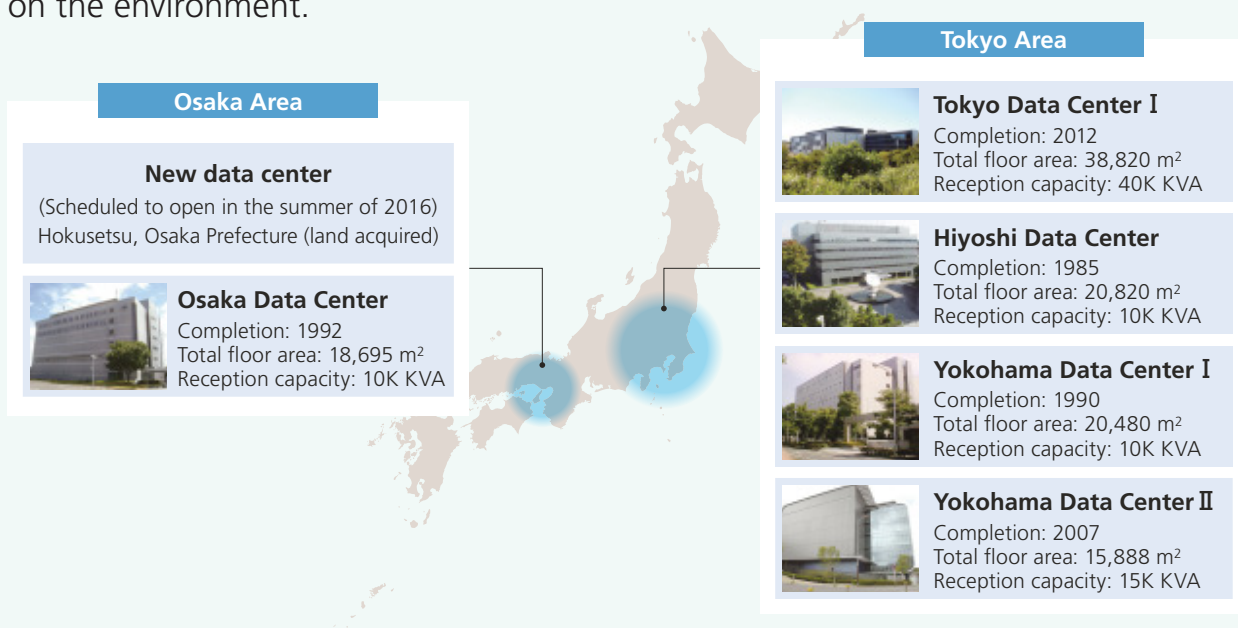


See pages 36 and 37 for more about human resources development. →

Note: The number of personnel is as of 31st March 2014.

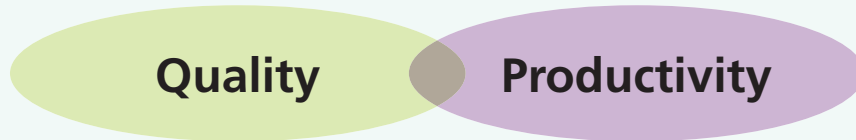
### Highly reliable data centers

NRI's data centers feature fire and earthquake resistance as well as advanced security and monitoring systems for satisfying the trust of clients and society. Our data centers are also designed to have less CO<sub>2</sub> emissions and less impact on the environment.



## Quality and Productivity Underpin Progressive and Trust

NRI has dedicated ourselves to achieving high and consistent quality as a company that provides information systems that serve as social infrastructure. At the same time, we are also focusing efforts on continually improving productivity.



- Stable operations of systems up and running
- Improving quality and productivity of system development projects



Activities for continual improvements

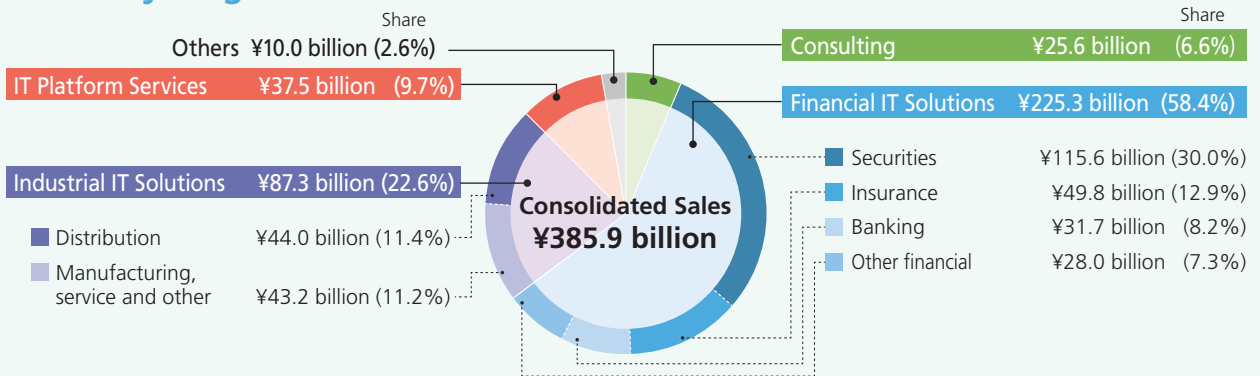
See pages 38 and 39 for more about quality management. ⇨

## Business Composition

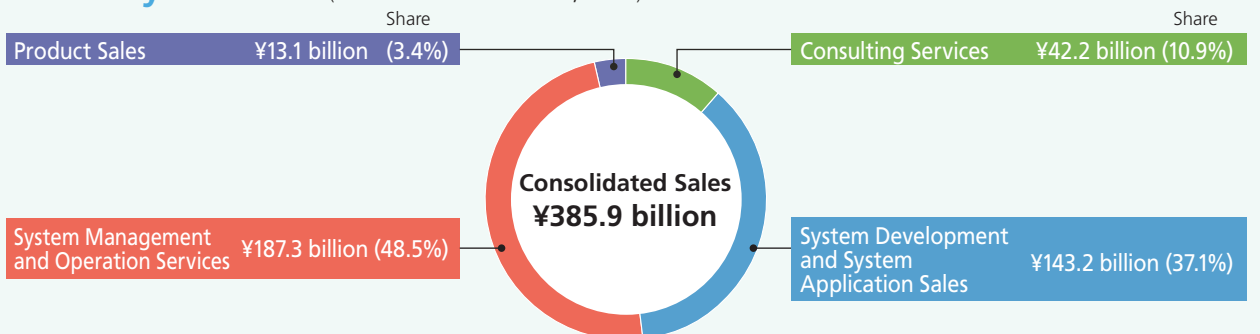
NRI aims to support society, business and individuals find success mainly via operations in the four segments of Consulting, Financial IT Solutions, Industrial IT Solutions, and IT Platform Services. NRI is strong in financial IT solutions, particularly in the securities sector, where it is able to draw upon the vast amount of knowhow it possesses as a result of the circumstances of our founding.

Additionally, we have a stable profit structure underpinned by a large percentage of system management and operating services that can expect to receive sustained orders.

### Sales by Segment (Year ended 31st March, 2014)



### Sales by Service (Year ended 31st March, 2014)

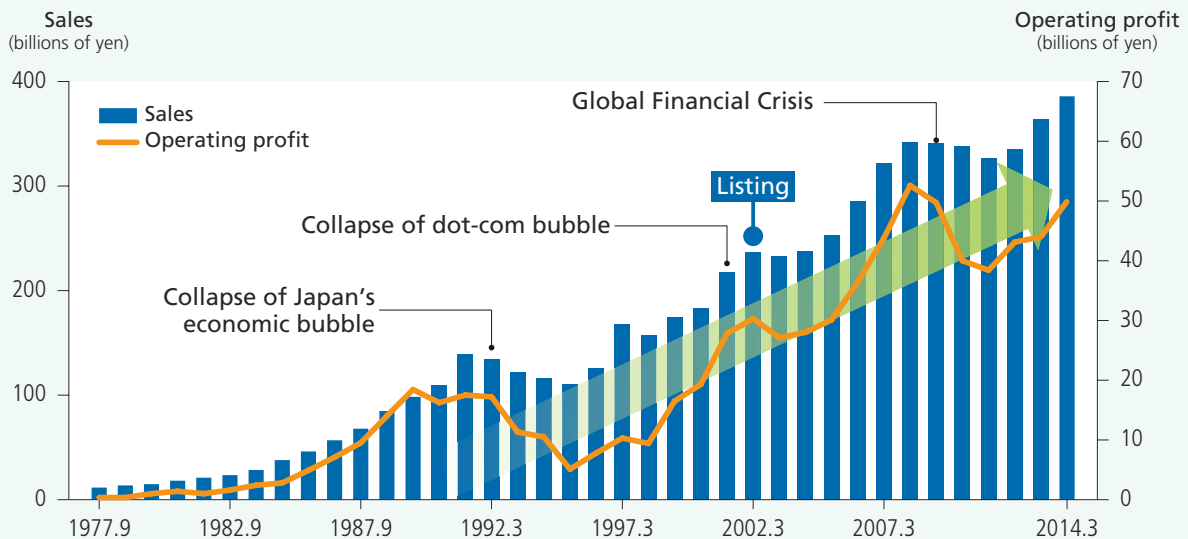


Notes: 1. Amounts of less than 100 million yen were rounded down.  
2. Sales by segment include intersegment sales or transfers.

## Sustainable Growth and High Profitability

### Stable Growth

Although short-term earnings fluctuate in line with the economic climate, NRI has to date maintained underlying long-term growth in both sales and profit.

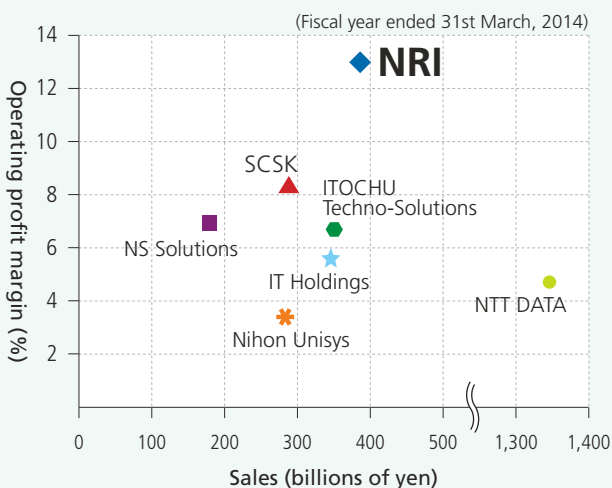


Notes: 1. Figures through 1987 are combined totals for former Nomura Research Institute and Nomura Computer Systems.  
 2. Figures for 1988-1996 are non-consolidated, figures for 1997 onward are consolidated.  
 3. Owing to change of fiscal year-end, 1989 was six-month accounting period (October 1988-March 1989).  
 For convenience, graph shows six-month figures x 2.

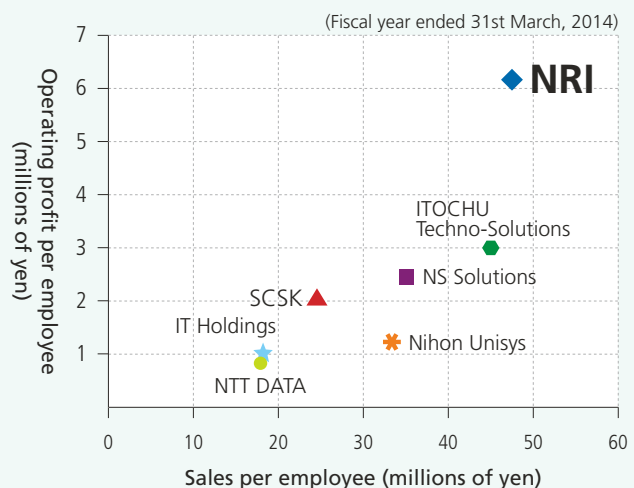
### High Levels of Profitability and Productivity

NRI's profitability (operating profit margin) and productivity (sales and operating profit per employee) are the highest in the industry.

Industry-wide Comparison of Sales and Operating Profit Margin



Industry-wide Comparison of Sales and Operating Profit per Employee



Source: Compiled by NRI from the above companies' financial statements

# Financial and Non-Financial Highlights

Nomura Research Institute, Ltd.

Financial and Non-Financial Highlights

## Sales

Up **6.1%** ↑

**¥385.9** billion

Sales rose 6.1% year on year, to ¥385.9 billion, marking the third consecutive year of positive increases, as every business segment enjoyed an increase in sales, driven by Consulting, Financial IT Solutions for banks and asset management firms, Industrial IT Solutions for the manufacturing and services sectors, and IT Platform Services.

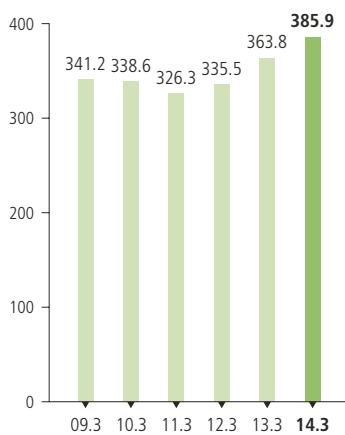
## Operating Profit

Up **13.3%** ↑

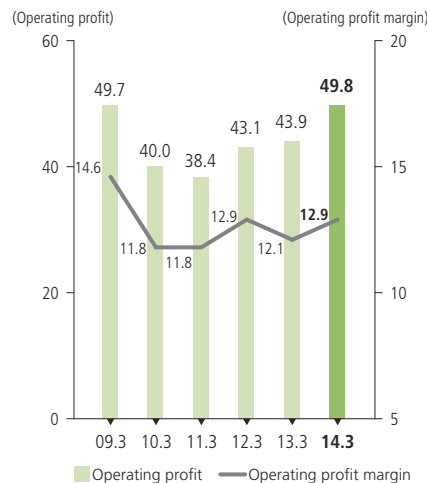
**¥49.8** billion

Operating profit increased 13.3% year on year, to ¥49.8 billion, the third consecutive year of growth, given a boost in operating rates from an increase in sales, an increase in system management and operation services mainly for securities firms attributed to strong stock market conditions, and improved profitability from reinforced project management.

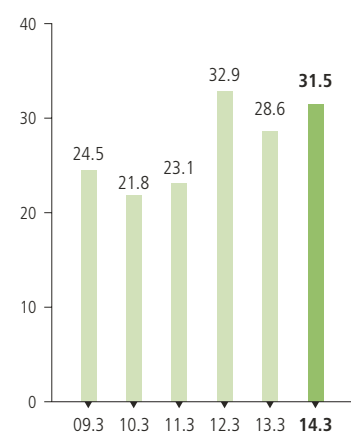
**Sales** (billions of yen)



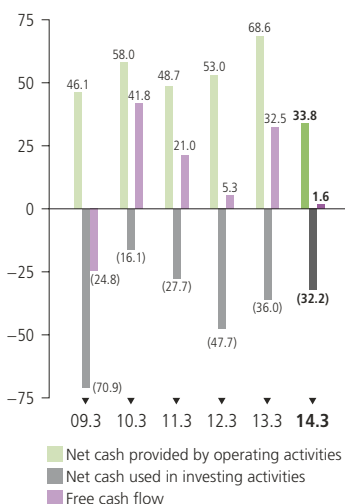
**Operating profit / Operating profit margin** (billions of yen / %)



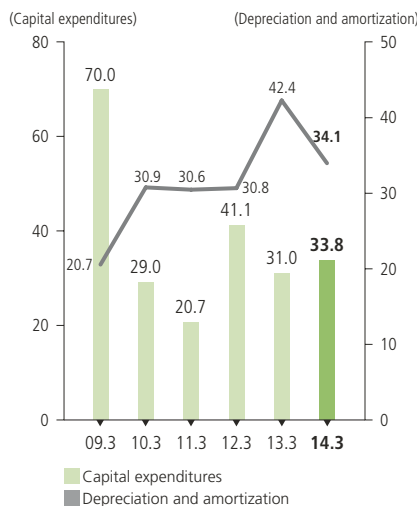
**Net income** (billions of yen)



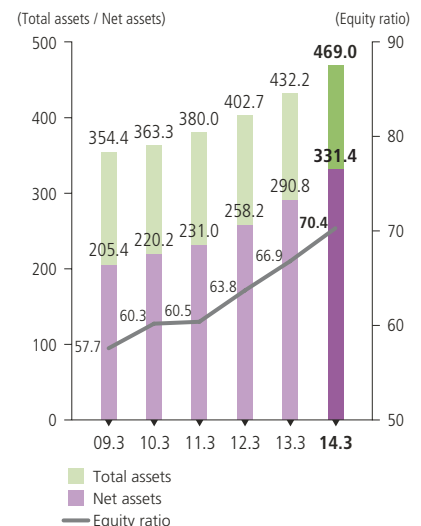
**Cash flows** (billions of yen)



**Capital expenditures / Depreciation and amortization** (billions of yen)



**Total assets / Net assets / Equity ratio** (billions of yen / %)



Note: Amounts of less than 100 million yen were rounded down.

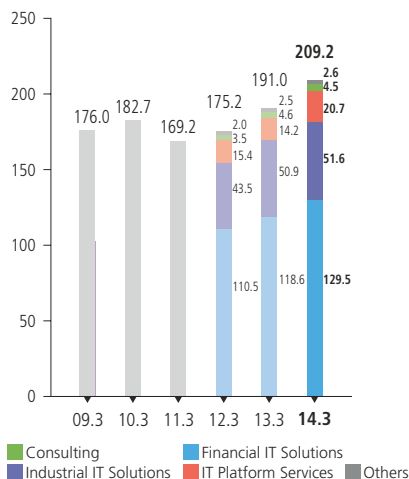
# Net Income

Up **10.2%** ↑

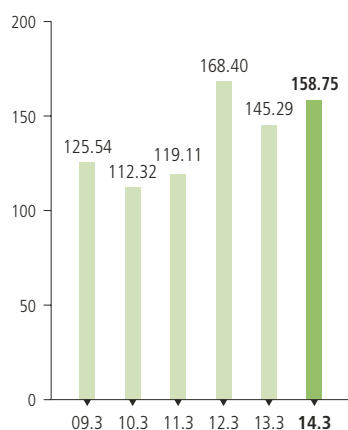
# ¥31.5 billion

Net income rose 10.2% year on year, to ¥31.5 billion, thanks to the increase in operating profit and gains realized from non-operating profit, such as dividend income and equity in the earnings of affiliates.

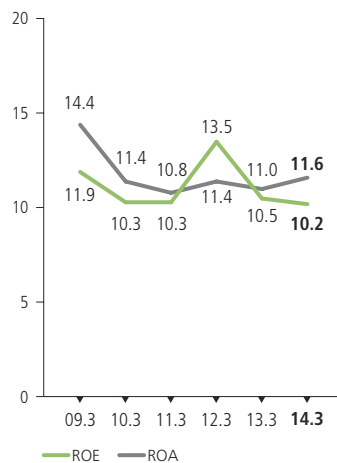
## Order backlog (billions of yen)



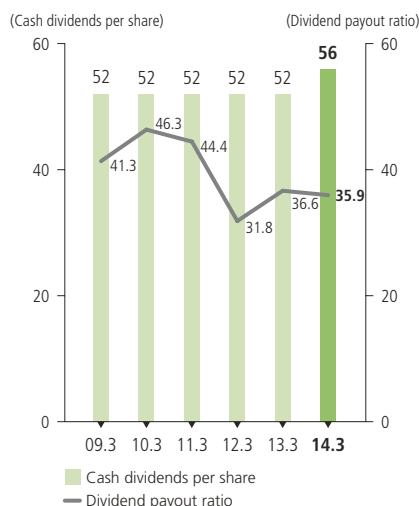
## EPS (yen)



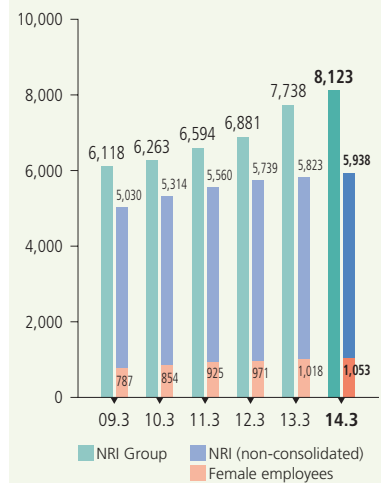
## ROE/ROA (%)



## Cash dividends per share / Dividend payout ratio (yen/%)

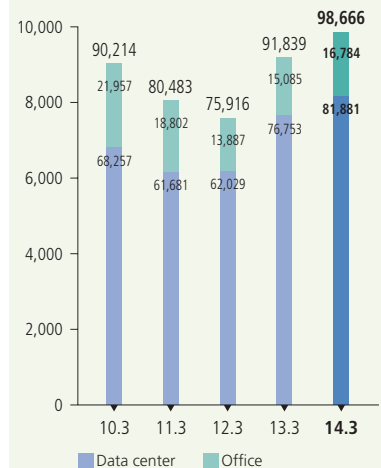


## Number of employees (persons)



As of 31st March, 2014, NRI employs 1,053 female employees on a non-consolidated basis, which accounts for about 20% of our workforce. We have made strides in making our workplaces more female-friendly and as a result the number of female managers is steadily increasing. We are committed to fostering a culture where all employees can thrive regardless of gender.

## CO<sub>2</sub> emissions (non-consolidated) (ton-CO<sub>2</sub>)



Nearly 80% of NRI's CO<sub>2</sub> emissions on a non-consolidated basis are attributed to data centers. During the fiscal year ended 31st March, 2014, electricity usage by offices and data centers remained largely unchanged from a year earlier, but overall CO<sub>2</sub> emissions increased due to deterioration in the real emission factor.

\*Calculated by multiplying the amount of electricity used by NRI on a non-consolidated basis by the real emission factor of Tokyo Electric Power Company released by the Ministry of Economy, Trade and Industry.

# Interview with Top Management

Nomura Research Institute, Ltd.

Interview with Top Management



NRI is aiming to carry the torch of innovation for our clients and society with the ultimate goal of achieving sustainable growth for all.

President & CEO Tadashi Shimamoto discussed NRI's business model for providing high value-added services established over the many years since our founding as well as the progress and outlook toward achieving the targets of Vision 2015, NRI's long-term management strategy which now has two years remaining.

## Question 1

Can you tell us about NRI's corporate philosophy?

**A.** NRI's corporate philosophy is "Dream up the future." This embodies our commitment to proactively provide recommendations and implement solutions for creating a brighter tomorrow. Our mission based on this corporate philosophy represents NRI's very identity. First is our forward-looking spirit. Second is our approach to addressing issues from the standpoint of the client. I refer to the former as "Progressive" and the later as "Trust." NRI has continually pursued our businesses with these two missions in mind since NRI was founded.

The concept "Progressive" was inherited from the two predecessor companies, who were leaders of the times in their own right. Taking a closer look at these two companies, we find that the former Nomura Research Institute, Ltd. was Japan's first private think tank established from the Research Department of Nomura Securities Co., Ltd., while Nomura Computer Systems Co., Ltd. was established from the Computer Department of Nomura Securities Co., Ltd., which had just rolled out Japan's first business computers. These two companies merged in 1988 to

form today's NRI. This was also the first merger in Japan involving a think tank and an IT services firm. Since then, we have provided forward-thinking recommendations and information, and been a pioneer in IT services for the financial sector.

As for "Trust," NRI has established long-term partnerships with some of Japan's leading companies, including Nomura Holdings, Inc. and Seven & i Holdings Co., Ltd. I believe this is proof that NRI is recognized as a true partner not only for our "Progressive" approach, but also for the consulting services with the in-depth understanding of our clients and information systems which we have built and stably operated.

See page 2 for more about NRI's corporate philosophy and page 3 for our history. ⇨

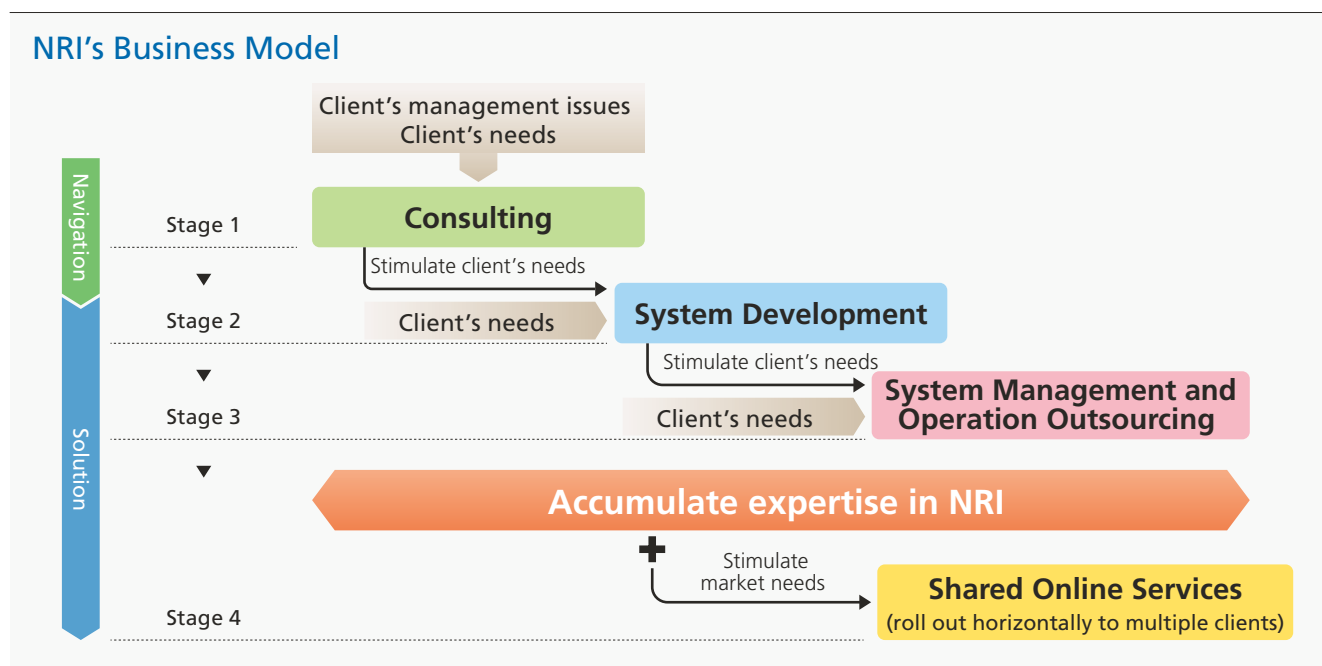
**Question 2**

Based on NRI's corporate philosophy, through what kind of process will NRI deliver new value to NRI's clients?

**A.** This process will be separated into four stages based on our business model of "Navigation x Solution"\* (see the figure below).

During the Navigation stage (Stage 1), our consultants work with the client to better understand clients' issues and needs, and then they recommend a strategy and reforms for each aspect of the client's business operations and finally help the client to create an action plan. The power of our Solutions comes into play in Stage 2 and beyond for those issues that can be solved with IT. During Stage 2 we develop and construct information systems based on the action plan. This is where NRI's strengths of having both consulting and IT service divisions can be fully leveraged. In Stage 3 we begin operating the information system we developed. By outsourcing system operation to NRI, clients can focus on their core businesses, reduce

\*"Navigation" refers to the processes from identifying problems to resolving issues, while "Solution" refers to the process for executing the actual solutions. These two aspects function synergistically together.







IT costs, and receive other advantages. Stage 4 is where NRI's true value shines. Here, NRI builds proprietary shared online services for industries using our industry expertise and know-how accumulated through system development for individual clients. These shared online services are then provided to multiple clients. One excellent example of this process is the STAR integrated back-office system for retail securities firms. When many clients shift their own custom made systems to shared online services offered through NRI's data centers, they will not only be able to streamline IT costs, but also reduce their CO<sub>2</sub> emissions and other impacts on the environment. NRI was among the first to recognize the trend among Japanese companies of "shifting from ownership to use" of information systems and began offering shared online services at an early stage.

The number of firms that can provide services in all four of these stages in an integrated manner is extremely limited. **Spanning more than 25 years since the merger, this is a business model truly unique to NRI, which has leveraged synergies between Navigation and Solution to build relationships of trust through communication with clients and accumulate know-how.**

### Question 3

How will you improve NRI's value creation process and continually enhance corporate value in the future?

**A.** The key will be to continually improve the quality of each outcome resulting from the value creation process. For example, I believe that NRI will be able to enhance our corporate value by further evolving industry-standard business platforms (shared online services) and ensuring they create value for clients.

It's important to know your client if you want to know what kind of value they are looking for. For that reason, we increase opportunities for us to know about the frontlines of our clients through our trainee program and temporary transfers, and strive to understand their individual needs. Additionally, we are moving forward with open innovation trials where we work together with clients to create services that leverage cutting-edge technologies tailored to the actual needs of their business. We will also continue working toward the improvement of NRI's value creation process to provide services that generate even greater value for our clients.

**At the same time, we are strengthening initiatives that combine and leverages NRI's know-how and human resources.** As we grow, our values, including people, know-how and solutions, tend to scatter widely about. First, we aim to visualize these values to be delivered to clients through flexible combinations. Also, we are focused on developing the core human resources that will drive these and other efforts.

See pages 4 and 5 for more about NRI's value creation process. ⇨

**Question 4**

**How would you assess NRI's progress under Vision 2015 at present?**

**A.** During the year ended 31st March, 2014, Vision 2015 reached its sixth year. Vision 2015 has four key components: (1) Increased advancement of services in the financial sector including the improvement of industry-standard business platforms (shared online services); (2) Expansion into the industrial sectors; (3) Reinforcement and expansion of business in China and Asia; and (4) Productivity improvement and human resource development. Meanwhile, the goals for Vision 2015 are 7% annual growth, an operating profit margin of 13% or more, and a strong business portfolio. Immediately after the plan started we suffered our first setback in the form of the global financial crisis, which caused a drop in profits on lower sales for three consecutive years. We turned things around, however, and have since achieved three consecutive years of higher profits on higher sales, culminating in the year ended 31st March, 2014 seeing sales of ¥385.9 billion, up 6.1% year on year, and operating profit of ¥49.8 billion, up 13.3% year on year. Also, our operating profit margin was 12.9%. Our shared online services in the financial sector enjoyed further growth following the start of NISA (a tax-exempt investment account for small investments) and other factors, while in industrial sectors we saw steady results in our prime account strategy\* in which we were able to expand business with existing clients. We are also finally starting to see several benefits from our initiatives during more difficult times.

\*A strategy aimed at expanding the client base and building solid relationships with leading companies through sustained marketing efforts involving both Consulting and IT Solutions divisions.

See pages 28 to 34 for more about the business strategies. ⇨

**Management Vision Driving toward Further Growth: Vision 2015**

Developing a strong and future-oriented business portfolio

Growth potential:  
To achieve **7% growth**  
Earning capacity:  
Operating profit margin of  
**13% or more**  
A strong **business portfolio**

**Increased advancement of services in financial sector**

Providing industry-standard business platforms to meet wide-ranging needs for more clients in financial sector

**Expansion into industrial sectors**

Expanding the range of companies we serve and the services we offer, principally in consumer industries\* directly reaching people

\*Industries that have direct contact with consumers such as distribution firms and consumer goods manufacturers

**Reinforcement and expansion of business in China and Asia**

Building another NRI in China/Asia and contributing to enterprises and society through "Navigation × Solution"

**Productivity improvement and human resource development**

Under the slogan, "Challenge the Status Quo, Innovate Ourselves" instituting a human resources training program that looks beyond the bounds of established frameworks

**Vision 2015**

### Question 5

What are NRI's targets and challenges for the remaining two years of Vision 2015?

**A.** Our focus for the financial sector will be on improving shared on-line services, starting with STAR, and expanding the client base for these services. One of the examples will be responding to the new Social Security and Tax Number System\* being rolled out in Japan as of January 2016. We have taken the lead in researching and investigating how this system will impact the operations of private companies and we will propose specific services.

In the industrial sectors, we have added Ajinomoto Co., Inc. and a major telecom company to our list of major clients, next to Seven & i Holdings Co., Ltd. We will step up our marketing efforts around a select few targets and continually expand business with existing clients.

Globally, we have put the infrastructure in place and now it is time to expand our business with a focus on supporting Japanese companies' business development in Asia.

As for our productivity improvement, the entire company is working on the NRI Keep-Up the Quality Activity, which seeks to reduce and eliminate unprofitable projects and issues with systems in operation. For example, by improving the quality and productivity of system development projects for new clients, which we have tended to have issues with in the past, we will be able to further improve profit margins. In terms of human resources development, we are working on personnel development system improvement tailored to our diverse pool of human resources. It will also be important for us to build a foundation for workplaces where female employees and global human resources can thrive.

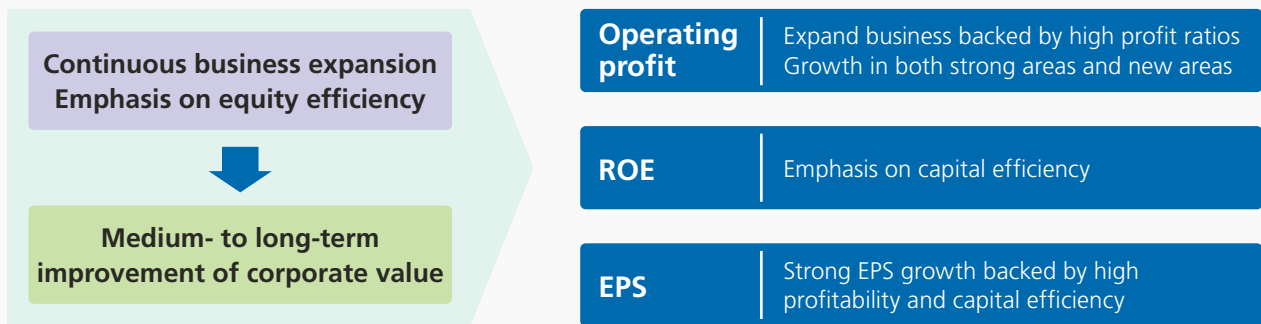
\*A new system that will be implemented in Japan in which all citizens will be assigned a number that will be used for administrative, tax payment and other purposes.

### Question 6

What is your vision for enhancing corporate value over the long-term beyond Vision 2015?

**A.** We are currently in the process of reviewing our post-2015 vision. Vision 2015 uses the motto "Challenge the Status Quo, Innovate Ourselves" to symbolize NRI's reform from within. Looking ahead, NRI will need to have an impact on our surroundings. First is the IT services sector. As a member of this sector, we will need to exercise our leadership to help innovate the sector and market it to society. Second, as a leader in the financial IT services sector, we should recommend a future vision for the financial sector and work together to innovate and achieve this vision. As a result, we will be able to use "Navigation x Solution" to change Japanese society for the better.

### New Management Indicators



#### Question 7

What is your policy on medium- to long-term capital allocations, including business investments and dividends?

**A.** NRI will seek out sustainable growth and proactively endeavor to grow our businesses over the medium to long term. Business investments will continue to focus on medium- to long-term growth, including response to regulatory changes in the financial sector, investments in shared online services to create all-new services, the acquisition of clients' IT assets aimed at expanding the client base, and M&A.

Our dividend policy is to make stable dividends while continuing with investments in our businesses. In January 2014, we increased our target dividend payout ratio from 30% to 35%. Our goal will be to continue to return profits to shareholders and utilize our capital for the most effective means.

From the year ending 31st March, 2015 management will prioritize return on equity (ROE) and earnings per share (EPS), in addition to operating profit and operating cash flow. Our focus will be to enhance corporate value over the medium to long term through strong growth in EPS underpinned by a high margin and efficient use of capital.



Special Feature:

# NRI's Value Creation

NRI's mission is to create our own value by generating value for clients and society through our business activities. This is why we focus on a strategy for our core business and the development of our "human assets," which represent one of our most important drivers for delivering more value-added and higher quality services. We are also creating value through our unique CSR activities that include recommendations for society and helping to develop the next generation of leaders.

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**Value Creation that Leverages Our Business Strengths**

(Interview with the Senior Executive Managing Director  
in charge of Supervising of Business Divisions) 19

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**Important Elements Underpinning Value Creation**

(Interview with the Senior Executive Managing Director  
in charge of Supervising of Corporate Administration) 22

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**Generating Medium- to Long-term Corporate Value**

(Interview with the Senior Executive Vice President) 25

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## Mitsuru Sawada

Representative Director, Member of the Board,  
Senior Executive Managing Director  
in charge of Supervising of Business Divisions

### Q1. As one of the most profitable firms in the IT services sector, what are NRI's strengths?

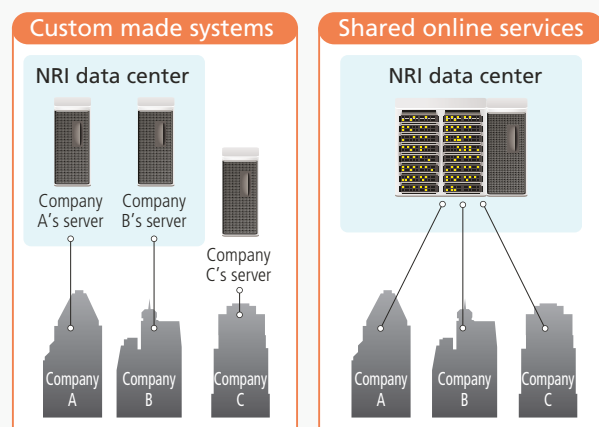
**One of our strengths is in our consulting business, which is among the largest and most advanced in Japan.** Through our management consulting and systems consulting functions, we are able to identify the challenges our clients face and define a clear direction for solutions. Additionally, our business analysts (BA) provide IT strategy plans and assistance with IT plan execution, which has earned them a great deal of acclaim from our clients.

Given the rapid advancements in information technology and the loss of know-how from generational turnover, many Japanese companies are faced with a shortage of skilled workers in their IT departments who can completely upgrade existing information systems or launch systems for new businesses. This is where our BAs, who have advanced skills and operational backgrounds, can provide both systems and operational support, which is another one of our strengths. **Our**

**BAs understand and get deeply involved with client operations, which has helped us to establish an overwhelmingly high rate of repeat business.**

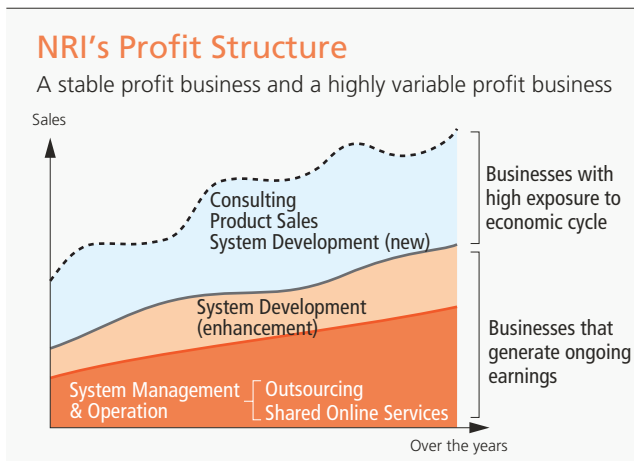
**Another one of our strengths is shared online services, which are cloud-based services.** We use various formats to deliver our IT services. These include developing custom made systems for individual clients and shared online services that we develop proprietarily for use by multiple clients. Custom made systems

### Custom Made Systems and Shared Online Services



enable highly detailed designs based on the client's requirements, which make them an optimal solution when clients want to set themselves apart from peers, but the cost of development needs to be paid for by one company. However, the cost of developing shared online services can be spread across multiple companies and these systems are easier to modify to respond to regulatory changes. Recognizing the advantages and disadvantages of both, NRI is able to propose the most ideal IT service solution to our clients. In the realm of shared online services, **we can fully leverage our know-how gained from the development of custom made systems to deliver a system with great cost performance for client business domains that don't necessarily need to be set apart from others.**

**Management, operations and enhancements at NRI's data centers for custom made systems and the provision of shared online services are generating ongoing earnings that account for a large share of NRI's overall business, which serves as another one of our strengths.** Our stable profit structure enables us not only to systematically plan for



the next step, but also serves as a factor supporting our performance during cyclical downturns in the economy.

[See page 8 for our business composition. ⇨](#)

## Q2. What is your outlook on the business environment?

**The annual growth rate of Japan's entire IT services sector will be only about 1% to 2%. However, Japanese companies are faced with the tasks of reinforcing existing businesses, expanding globally, and streamlining IT costs, so I believe there is a lot of room for NRI's growth (see figure below).**

There are three trends in the external environment that I anticipate are poised to expand NRI's business opportunities. First is "shift from ownership to use" of information systems. There has been a growing trend among Japanese companies of switching from constructing and operating proprietary information systems to using external services such as outsourcing and generic applications. Second is the increasing number of IT departments of the clients that are not able to adapt to environmental changes using their own capabilities. Cutbacks in information system investments during previous downturns have meant many companies are faced with outdated and antiquated systems, resulting in growing demand for support and assistance. Third is the acceleration in the global expansion of our clients driven by economic growth in Asia.

These trends provide NRI with excellent opportunities to leverage our strengths. Our lineup of shared online services, including STAR, an integrated back-office

### External Environment and Business Opportunities

#### External environment

- "Shift from ownership to use"
- More and more IT departments are not able to adapt to environmental changes using their own capabilities
- Economic growth in Asia

#### NRI's business opportunities

- Expansion of **industry-standard business platforms (shared online services)**
- IT department support consulting**  
Support needed to reconstruct systems  
Expansion of business opportunities through capital ties, including M&A, etc.
- Expansion of support accompanying **acceleration in global expansion by clients**



system for retail securities firms, represents a perfect solution for our clients looking to “shift from ownership to use.” NRI can also exploit our strengths in helping companies to reform and reinforce their IT departments through collaboration between our consulting and IT services. In terms of global expansion, we have built up our business by providing consulting and IT services to Japanese companies aiming for growth in the Asia region.

At the same time, to transform these opportunities into actual, positive results, quality must be maintained and continually improved to ensure the stable operations of the information systems that we develop and operate on behalf of our clients.

### Q3. Can you describe the future direction of each business?

Consulting will work to reinforce its industry-leading presence both quantitatively and qualitatively. Shoring up Consulting will lead to further growth in our IT services business.

Financial IT Solutions will further expand the shared online services business with an eye on systems that respond to regulatory changes.

Industrial IT Solutions has seen positive results from the prime account strategy and going forward it will work on further expanding our client base. This business will also work on enterprise resource planning (ERP) solutions as part of our efforts to capture opportunities emerging from “shift from ownership to use” of information systems.

In terms of our global expansion, first, our goal will be to achieve growth by supporting Japanese companies that are making inroads into China and other Asian region. Also, in April 2014, we incorporated the IT Solutions Division (Dallas Branch) of Nomura Research Institute America, Inc., our business hub in North America, and changed its name to Nomura Research Institute IT Solutions America, Inc. This will form our new hub in expanding our business presence in North America.

See pages 28 to 34 for more about business strategies. ⇨

### Q4. What is your view and outlook on R&D?

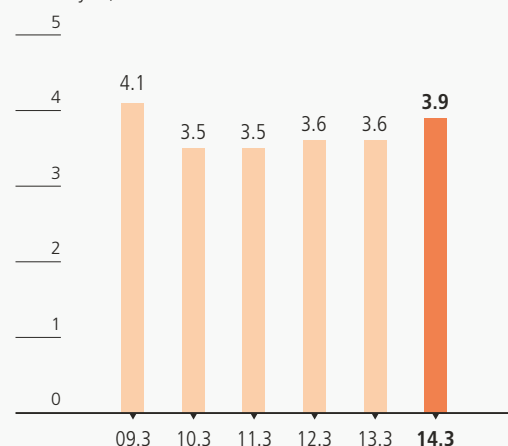
**NRI’s R&D is focused more on applied research into information technologies than basic research. Currently, we are working to find information technologies that helps clients streamline and expand their businesses.** Our research extends further than studies into the latest IT trends and verification and development methods to include joint research and experimental trials with clients for utilizing new technologies.

One specific example of this is “NRI Mirai (Future) Garage” initiative launched in September 2012. Activities are carried out around workshops held based on the needs of participating companies. By combining the needs and know-how of participating companies with NRI’s systems development technologies, consulting and research results, both parties can come up with fresh, new ideas they might not have discovered alone and work together to make these ideas a reality. Our BAs are an important part of this process. Going forward, we will work even harder to connect R&D activities to our actual businesses.

Realizing progressiveness through R&D and achieving higher quality, more stable operations from improvements in IT platform technologies represent the driving force behind repeat business, and for that reason we will continue to focus our attention here.

#### Research and Development Expenses

(Billions of yen)



# Important Elements Underpinning Value Creation

Nomura Research Institute, Ltd.

Special Feature: NRI's Value Creation



## Hiroshi Itano

Member of the Board, Senior Executive Management Director in charge of Supervising of Corporate Administration, Risk Management and Compliance

**Q1. What are the important elements underpinning NRI's ability to create and maintain corporate value?**

**I believe the creation of corporate value requires strong human resources ("human assets"), which play the lead role, and mechanisms where these "human assets" can perform at a high level.**

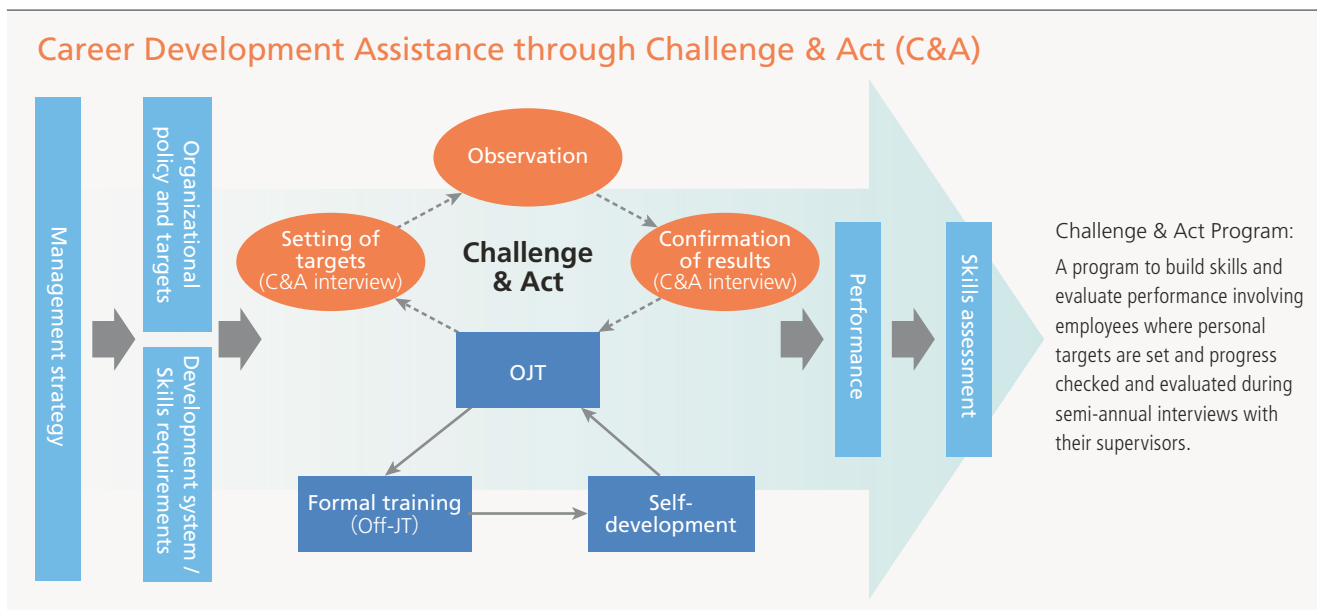
Most of the value NRI provides to clients and society is created by people (our employees). The key is to hire and develop talent with a long-term perspective in mind. This talent includes consultants and system engineers who will serve on the frontlines of our businesses. Providing opportunities and venues for these people to maximize their skills and abilities is also critical.

The management environment and operating environment surrounding NRI and our clients is changing at a rapid pace. This is why I believe it is important to develop and constantly improve mechanisms that can provide clients with high quality and high value-added services, while complying with in-house and outside rules and flexibly responding to these changes.

**Q2. How do you plan on enhancing NRI's "human assets," the most important element of the equation?**

First, in order to develop human resources that can thrive in various domains in the long term, **it is important to have a hiring system in place that is unaffected by short-term business sentiment.** In this sense, it will be key for NRI to get the word out to the hiring market that we hire talented people in a stable manner with a long-term perspective. We place a great deal of care and detail into our recruiting activities because we want prospective employees to have a solid understanding of who we are.

Furthermore, it is extremely vital for NRI to have human resources that can provide high-quality services to clients. There are two types of "high quality." First is the quality (feasibility and effectiveness) of strategy and business proposals that help enhance the value of the client's business and second is the quality (stability and efficiency) of constructing and operating information systems, which are one way of achieving the first type of quality.



Human resources that can plan business and marketing strategies from the client's point of view as well as human resources that can propose and execute information systems and operational reforms for achieving this strategy are responsible for the first type of quality.

In turn, human resources that have sophisticated engineering and project management skills essential to systems development, based on the experience and know-how NRI has accumulated in constructing countless information systems since our inception, are responsible for the second type of quality.

To develop these types of human resources, **I believe it is essential for employees and their supervisors to regularly discuss growth targets and progress and for employees to seize opportunities to challenge themselves and grow.** NRI has established the "Challenge & Act (C&A) Program" as a platform supporting this communication (see the figure above). We are promoting various initiatives centered on on-the-job-training (OJT), formal training and self-development and fostering a corporate culture that develops human resources that can deliver high-quality work.

**It is also important to find the right people from NRI's diverse talent pool to tackle innovation.** We have mechanisms in place to encourage R&D in various fields and push employees to create new businesses, and a training program involving senior

management to develop the selected future leaders of our company. We are also promoting the development of human resources that are highly adept at international business, by making further improvements to our overseas training programs.

See pages 36 and 37 for more about human resources development. ⇨

### Q3. What types of mechanisms does NRI have in place that enables NRI's "human assets" to perform at a high level?

NRI uses our "Navigation" function to receive research and consulting projects on cutting-edge themes from companies and the government. Using our "Solution" function, NRI constructs and operates the information systems of individual clients, as well as building and offering industry-standard business platforms (shared online services) to a number of sectors.

In recent years, our system development projects for clients have grown increasingly larger and more complex and now involve fundamental operational reforms by the client and the rebuilding of information systems that facilitate this process.

Given this, NRI will not be able to aggressively tackle new themes and promote businesses that enhance value for client with the power of our people

alone. **We will need to work together with trustworthy business partners.** NRI follows a basic philosophy to prosper together with our domestic business partners in Japan as well as our overseas offshore partners in China, India and other parts of the world. In line with this philosophy, we have established mechanisms for maintaining continuous and sound relationships.



Also, **I think it is important to check and back up organization-wide system development projects.** During such projects, the business division in charge systematically manages the quality of the entire project. For more difficult projects, experts assembled from across the Company meet to discuss risks and check the effectiveness of measures. In addition to these checks, we are also working on innovations in the methods that help deliver higher quality system development.

[See pages 38 and 39 for more about quality management. ⇨](#)

While aggressively tackling business challenges is needed, **proper business activities and proper actions of executive officers and employees that comply with laws, regulations and rules are absolutely essential to maintaining and sustaining strong relationships with clients and society.** NRI is focusing particular attention on ensuring information security and improving the workplace environment for employees, and we engage in our operations with a sense of understanding that even a minor compliance

violation can have serious repercussions on management.

Ultimately, the awareness and action of each and every executive officer and employee is responsible for ensuring compliance. To avoid compliance violations from a lack of awareness and other unacceptable incidents, we strive to provide well-modulated education and training on various compliance matters.

All divisions in charge of a business at NRI have an Operational Administration Department. This organization supports frontlines operations and manages the controls and risks of these operations, based on the various business scenarios at each division.

These Operational Administration Departments and headquarters share information regularly and work together to ensure the same consistent level of business management across the entire company. Situations that require difficult decisions or responses are taken up by management at weekly meetings of the Senior Management Committee and decided upon at monthly Board of Directors' meetings where outside directors with a wealth of management experience provide input.

[See pages 44 to 47 for more about corporate governance. ⇨](#)

## Q4. **What do you want to emphasize in the further enhancement of NRI's corporate value going forward?**

**"Progressive," "Trust" and "Quality" stand as three keywords symbolizing NRI's roots.**

NRI was Japan's first authentic private think tank. NRI was also the first to introduce and utilize business computers. Our stance has and always will be to face challenges head on and finish the job to the end. This has earned the trust and respect of countless clients. We are thoroughly committed to the quality of Navigation and Solution, our unique services.

**I hope to sublimate our roots into the culture of our company** so that our stance of maintaining an emphasis on the roots of our business can be passed down and reinforced from generation to generation.



## Masahiro Muroi

Senior Executive Vice President,  
Representative Director, Member of the Board

### Q1. How do you define corporate value at NRI?

In March 2014, NRI received the 2014 Integrity Award\* Grand Prize. This is a prominent award given to companies carrying out superior efforts in terms of CSR, corporate ethics, compliance and internal control, based on the view that corporate management with integrity is very important and corporate management with integrity emphasizing CSR is highly competitive in the market over the medium to long term. What made us happiest about being recognized with this award was the high marks given to our standards of conduct for daily business and our approach to corporate value.

\*This award is organized by the Integrity Award Advisory Panel and sponsored by the Japan Corporate Governance Network, which is one of the few organizations in Japan for independent directors (outside directors and outside corporate audit & supervisory board members).



Ceremony for the 2014 Integrity Award

Companies must achieve their performance targets and strengthen their financial standing. **In addition to this, NRI believes corporate value is found within our relationships of trust with our many stakeholders, including client companies, society, shareholders, employees and business partners. This unique value cannot be defined by financial data alone.**



NRI plays a number of important roles in supporting Japanese society. First, we carry out a wide variety of research, recommendations and consulting activities aimed at the development of client companies and society. The other is the provision of information systems that serve as an important piece of infrastructure in modern society and which are used as the core systems supporting the operations of companies in the finance sector, including securities firms, insurance firms, banks, and asset management firms, and companies in the distribution, manufacturing and services sectors as well. NRI is able to fulfill this role responsibly because of our deep, ongoing relationships with clients and society. In turn, this is supported by our corporate actions based on the philosophy of “prosper together with clients,” which involves understanding the mutual benefits for both parties and not simply pursuing short-term, one-sided gains. This demonstrates that “Trust,” which is cultivated through our good work and honest dealings with clients, forms an important element of NRI’s corporate value.

**To continually enhance corporate value, we will faithfully carry out CSR activities unique to NRI and take measures to address environmental issues. Carrying out honest management that emphasizes our CSR in the medium to long term is what leads to a strong reputation in the markets.**

## Q2. What are the most important key priorities behind NRI’s CSR activities?

Although multifaceted CSR activities are being carried out by a variety of different departments, here I would like to showcase three key priorities unique to NRI.

First is our contribution to building a sustainable society for the future. NRI carries out our independent studies and research activities and makes the findings public in various forums, books, magazines, reports, and on our website. These target a wide swath of subject matter, from society to industry, management and IT, and provide recommendations on helping to build a sustainable society for the future. Recent themes have included the 2030 Japan Value Creation Project (see page 41) and NISA (a tax-exempt investment account for small investments). NRI helped to make ISAs a reality in Japan by working with the regulator based on the research carried out on the UK’s existing ISA system. Our early development of NISA solutions for financial institutions helped support those companies that would be involved in the system.

Second is providing information infrastructure that is vital to people’s lives. This represents a contribution to society through our business activities. NRI has

### Key CSR Priorities

Three key priorities give impetus to the NRI Group’s CSR activities.

- 1 Building a sustainable society for the future**

While society has sought to become affluent and has continued along the path of growth to that end, limits can also be seen with that approach. From “macro” problems such as overpopulation, the depletion of natural resources, and global warming, to “micro” problems pertaining to the economies, industries, and living standards in each country and region, issues have piled up which cannot be just passed on to future generations. The NRI Group will contribute to finding solutions for these issues facing society through the recommendations it makes based on our surveys and research and our efforts at building frameworks for a new society.
- 2 Providing the information infrastructure that is vital to people’s lives**

Information systems in modern-day society are one of the services essential for the nation’s economy and industry, and therefore for people’s lives to function. They also enable limited resources to be applied efficiently, and generate new processes and value. The designing, development, and reliable operation of such information systems is at the core of the NRI Group’s business. By continuing to build, operate and safeguard trusted information systems, we will be providing a support on which society and people’s lives can rest.
- 3 Developing human resources who can generate innovation**

In order to realize our corporate philosophy of Dream up the future, people skilled in exploring new value and frameworks and in creating innovation will be essential. In order to develop these human resources, NRI is proceeding with our efforts, which include building structures and environments receptive to different modes of work for different people, and establishing processes for training those people and evaluating their work. It is also important to foster today’s students, on whose shoulders the future of this country and the world rest. The NRI Group has committed ourselves to a range of different policies that will serve as support for the training of young people.

been providing shared online services for more than four decades now. The best known of these services is STAR, which enables securities firms to avoid the cost and hassle of having their own proprietary system and focus on their core business. NRI can also reduce redundant work in society through system changes on STAR to address new legislation and tax reform. By providing similar shared online services to many different sectors, such as investment trust, internet banking and compulsory automobile liability insurance, among others, we are helping to grow these sectors and reduce social costs.

Third is developing human resources who will generate innovations. NRI has a workforce of more than 8,000 talented professionals. We have a wide range of job types, including management consultants, IT consultants, system engineers, and project managers and many of our people are among the best in their field. These human resources actively take part in educational activities held at elementary schools, junior high schools, high schools and universities to help teach the next generation of leaders.

See pages 40 to 43 for more about CSR. ⇨

### Q3. How is NRI addressing environmental issues?

As a company “dreaming up the future,” NRI makes various recommendations for addressing environmental issues and provides IT services to clients and society that help reduce environmental impact. Contributing to environmental problems is one of the most important issues in our thoughts and practice.

We have named our employee-led environmental protection activities “Green Style Activities” and throughout the year we conserve electricity, provide environmental education to raise awareness, and conduct environmental classes for children in the community. NRI’s operations mean that it never pollutes the environment with waste from factories or other facilities. However, we have five data centers that operate groups of huge information systems, which means electricity

usage is the largest impact NRI has on the environment. Therefore, we have installed an environmental management system at all of our data centers and obtained ISO14001 certification, the international standard. In particular, the Tokyo Data Center I, our newest and most cutting-edge facility, features an innovative and energy-saving double-deck structure\*, which received the METI Minister’s Awards at the Green IT Awards 2013.

\*A structure where server equipment and utilities such as air conditioning and generators are completely separated on independent floors. This separation of heat source and cooling system makes air conditioning even more efficient and flexible.

Additionally, our shared online services, which I spoke about in my response to question two, not only help to reduce redundancies in society, but are also eco-friendly. A large number of clients share a single shared online service operated at an NRI data center. This helps to reduce overall energy usage and CO<sub>2</sub> emissions in the process. Shared online services are like a public bus with many different passengers, while proprietary systems made by individual companies are like a private car. The public bus has lower energy usage and also reduces costs and problems.

See page 43 for CO<sub>2</sub> emissions attributed to shared online services. ⇨

NRI’s environmental initiatives have only just begun. Many challenges still remain, such as enhancing our environmental management promotion system, responding to the needs of biodiversity, and providing environmental education opportunities to our Group companies around the world. In order to further strengthen these efforts, **we set up the Environmental Promotion Committee in April 2014 and are moving forward with even more committed and dedicated Group-wide efforts.**



Ceremony for the Green IT Awards 2013



## Business Overview by Segment

### Characteristics and Strengths

#### Consulting

Our services range from policy recommendations, strategy consulting and operational consulting offering support for business reform to system consulting for all phases of IT management. We also have a strong track record in the Asian market, where we have been tapped for numerous consulting projects by Japanese companies as well as local companies and governments in China and other parts of Asia.

#### Financial IT Solutions

NRI provides IT solutions, including system consulting, system development, operation outsourcing, and shared online services mainly for such industries as securities, insurance, banking, and other financial sectors (asset management, consumer financing, etc.). NRI aims to strengthen business in sectors including securities and asset management while also expanding business in the banking and insurance industries to attract new clients and broaden the use of shared online services.

#### Industrial IT Solutions

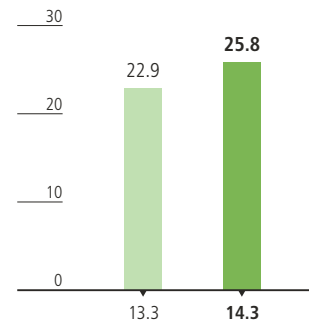
Operations in this segment comprise system consulting, system development and system operation services for the distribution, manufacturing, service and public sectors. Information systems applying our know-how in areas such as the building of supply chain management (SCM) systems and client management are one of our strengths, and we also broadly make available cross-industry shared online services that support e-commerce.

#### IT Platform Services

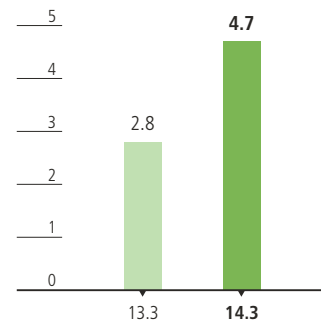
Operations in this segment comprise the provision of services such as the management and operation of data centers and IT platform/network construction to the Financial IT Solutions and Industrial IT Solutions businesses. This business also provides IT platform solutions and information security services to clients in various industries. We also carry out research toward development of new IT solution businesses and products, and research in cutting-edge information technology.

### Results for the Year

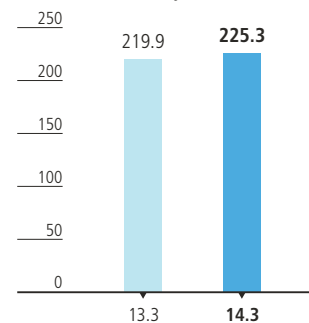
Sales (billions of yen)



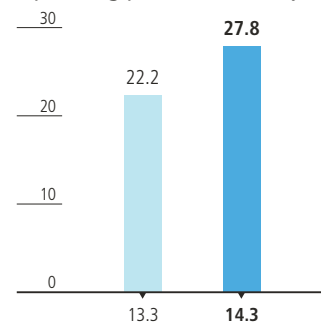
Operating profit (billions of yen)



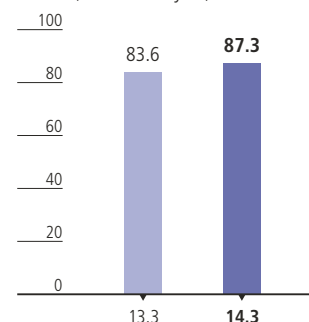
Sales (billions of yen)



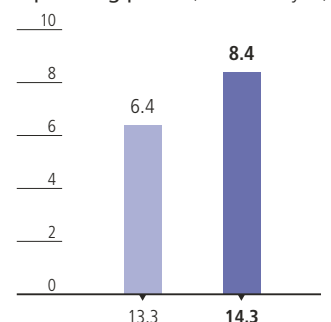
Operating profit (billions of yen)



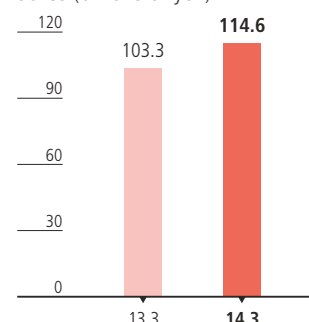
Sales (billions of yen)



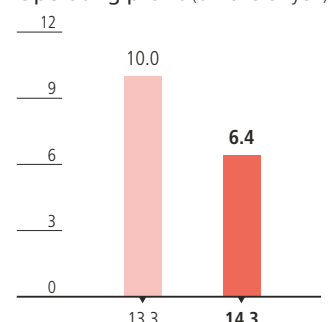
Operating profit (billions of yen)



Sales (billions of yen)



Operating profit (billions of yen)



Notes: 1. Amounts of less than 100 million yen were rounded down.  
2. Each segment includes intersegment sales.

## Progress Update

### Consulting

#### The Consulting Segment under Vision 2015

With approximately 700 consultants, our domestic consulting operation is the largest in Japan as well as being a market leader in terms of quality. At NRI, we are stepping up our efforts to help clients improve their competitiveness using our ability to provide integrated services that extend from business consulting to system consulting. Based on our strong track record in providing consulting services to many clients in the industrial sectors, Consulting works together with IT solutions departments to expand the client base in this sector through the prime account strategy.

We now have a network of overseas bases, mainly in China and other Asian regions, at which we deploy around 200 consultants. In addition to winning consulting service projects from Japanese companies, we have also carried out a number of similar projects for local companies and local governments outside of Japan.

See page 15 for more about Vision 2015, our long-term management strategy. ⇨



#### Results from the Fiscal Year Ended 31st March, 2014

With a recovery in corporate earnings, more Japanese companies have begun to consider their growth strategies and make operational reforms with an eyes on the future as well as proactively invest in information systems. As a result, we saw an increase in strategy consulting, business consulting and systems consulting projects during the fiscal year under review. There was also an increase in the number of consulting projects for the public sector, centered on consulting services supporting government planning and execution.

#### Measures for Future Growth

Japan continues to move forward with its structural reforms both in the public and private sector, which should cause demand for strategy consulting, business consulting and systems consulting at elevated levels. NRI will maintain our growth and expand our client base by accurately recognizing and responding to the needs of our clients.

The IT departments of our clients face a number of issues, including aging information systems and a shortage of qualified personnel with the skills to handle systems for new businesses. This is why we will strengthen our services for helping client IT departments to restructure and reinforce their operations.

Overseas we will further expand our services, including consulting provided to local companies and local governments.

See page 34 for more about global business. ⇨

## Financial IT Solutions

### The Financial IT Solutions Segment under Vision 2015

Under Vision 2015, Financial IT Solutions is working hard to increase advancement into services for the financial sector, including improvement of industry-standard business platforms (shared online services). Shared online services represent high value-added, universal services developed by NRI for specific sectors based on our knowledge and know-how gained from our strength of building custom made systems for individual clients. These services align with the trend among Japanese companies to “shift from ownership to use” of information systems and as such we are working to expand this business further.

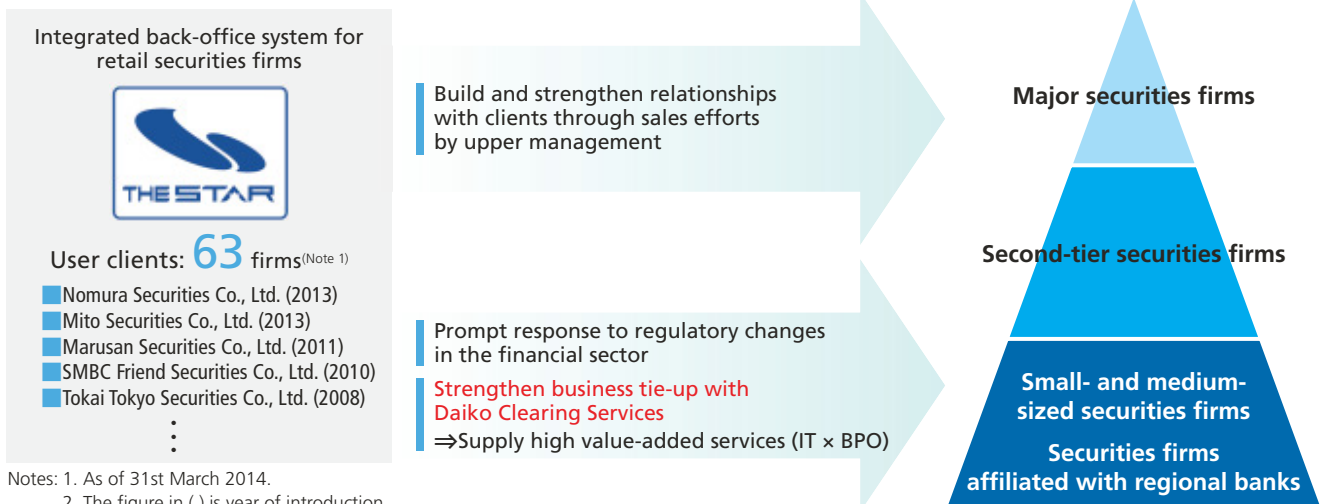
### Results from the Fiscal Year Ended 31st March, 2014

NRI excels at providing systems to securities firms and we successfully increased the number of clients using STAR shared online service, an integrated back-office system for retail securities firms, by 12 over the past year, bringing the total to 63. STAR is one of NRI’s signature shared online services, having undergone development and version upgrades for more than four decades. To date it is being used by a number of

second- and mid-tier securities firms, making it the de facto standard in the industry. In January 2013 STAR was rolled out at Nomura Securities Co., Ltd., which upgraded its status as an industry-standard business platform because the system was expanded to accommodate the needs of one of the largest securities firms in Japan. The introduction of NISA (a tax-exempt investment account for small investments) in January 2014 has also served to provide clients with a sense of the benefits and value provided by our shared online services. NRI made the necessary system changes to STAR to accommodate the start of NISA and eliminate any burden placed on individual clients. This approach is what helped increase the number of clients using the service. In this same manner, we have also increased the number of clients using BESTWAY, an account management system for over-the-counter sales of investment trusts, and Value Direct, our internet banking solution.

Additionally, we are expanding the number of clients using NRI Advisor Platform, a proposal-oriented marketing support solution for financial institutions, and SmartBridge Advance, a solution for the front-office operations of asset management firms, and other systems by leveraging the strengths of these new shared online services’ connectivity with STAR and other solutions.

### Expanding the STAR Business



## Measures for Future Growth

For the securities sector, we continue to make progress on the project to revamp Nomura Securities Co., Ltd.'s domestic systems that was initially started in the fiscal year ended 31st March, 2011. In addition to successfully completing this project, we will strive to provide support for the future IT strategy of Nomura Securities Co., Ltd. and other Nomura Group companies as a key strategic partner.

Next is the expansion of our STAR business. In April 2014 we made Daiko Clearing Services Corporation a consolidated subsidiary and expect this to lead to new business opportunities. Daiko Clearing Services Corporation provides a range of business process outsourcing (BPO) services for the securities sector, which spans from account opening and data entry to forwarding stock orders to exchanges, confirming the deposit of funds, stock transfers, settlements and transaction reporting. The synergistic effects realized by combining these services with STAR will result in even greater value-added services and further expand the business. Following our success with Nomura Securities Co., Ltd., we are also carrying out relationship building with our clients with the goal of having another major securities company implement the STAR services.

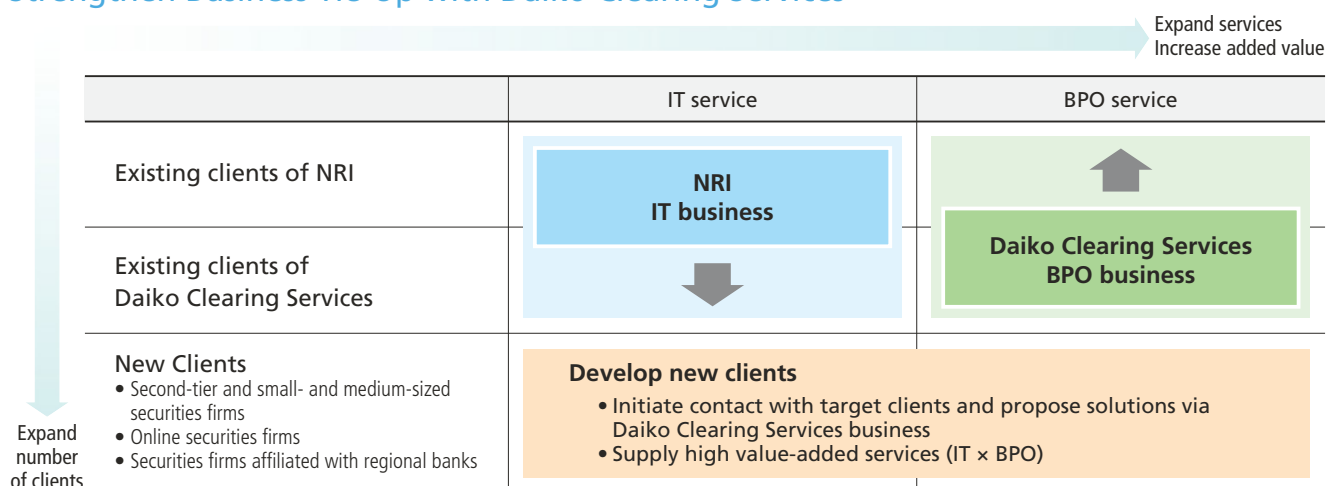
For the insurance sector, there are several system renewal and redevelopment projects underway and our

goal is to expand the business by steadily responding to emerging needs for system development.

For the banking sector, we are steadily expanding our BESTWAY and Value Direct businesses. The banking sector represents a very large market for IT investments, and as a result there is still room for NRI to capture growing demand.

The January 2016 start of the Social Security and Tax Number System is the next big regulatory change on the horizon. The changes that will occur for financial institutions with this system are even greater than NISA, which will include administrative work to report numbers and the management of number data after the system takes effect. This will require a huge amount of labor by companies to comply with these requirements. NRI was among the first in the industry to focus attention on this number system, carrying out independent research on the effects it will have on private sector companies and holding discussions with various companies, industry groups, local governments and the national government. In the future, we will draw up efficient migration plans and develop new systems for these plans to expand not only shared online services but also other business opportunities with clients. Other regulatory changes are slated to take place in the future, such as the unified tax on financial products and the launch of the new BOJ-NET. We will consistently capture demand for systems and services for these changes.

## Strengthen Business Tie-Up with Daiko Clearing Services



## Industrial IT Solutions

### The Industrial IT Solutions Segment under Vision 2015

This segment is working on our expansion into the industrial sectors, which is one of the targets of Vision 2015. Until now, both our consulting and IT solutions divisions have collaborated on the prime account strategy to capture major solutions project from leading companies in the industrial sectors, we have continually expanded our client base. At the same time, we are proactively expand business with existing clients with which we have established a solid relationship.

### Results from the Fiscal Year Ended 31st March, 2014

During the fiscal year ended 31st March, 2014 our consulting and IT solutions divisions worked closely together and achieved success in expanding business with clients. In addition to Ajinomoto Co., Inc., with which we concluded a strategic business alliance and welcomed a systems subsidiary to the NRI Group in April 2012, we expanded business for a major telecom company. Together with our long-standing relationship with Seven & i Holdings Co., Ltd., these clients have grown to become major clients in the industrial sectors. Additionally, the number of enterprise resource planning (ERP) projects and projects supporting the IT

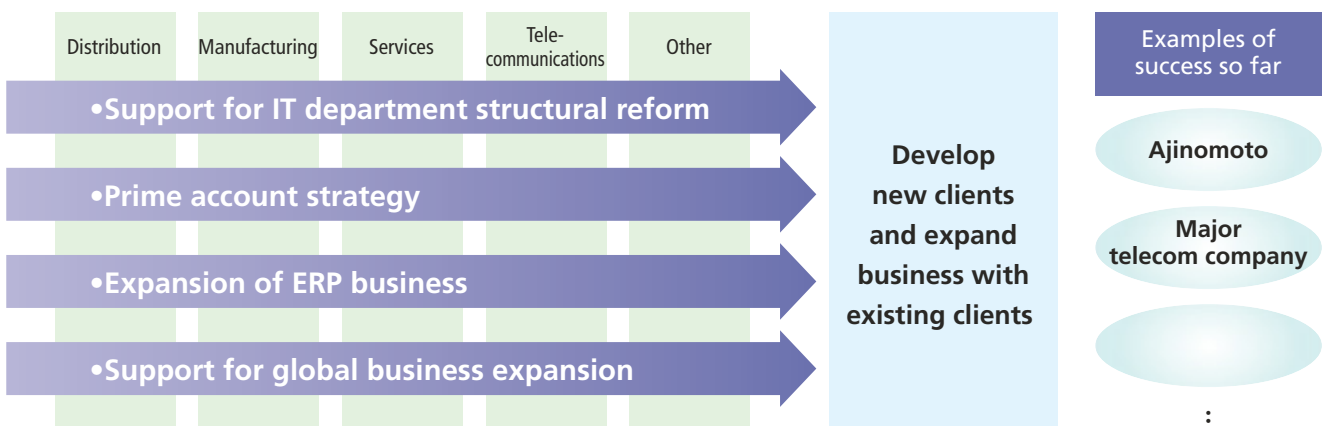
department restructuring of client companies is on the rise.

### Measures for Future Growth

Our long-term goal is to solidify relationships with major clients, including those highlighted earlier, by providing proposals and information systems essential to the growth strategy of each. Companies in Japan have restarted proactive investments in information systems to replace aging core systems and develop systems for new businesses. As a result, we expect there to be rising demand from clients for supporting the restructuring and reinforcement of their IT departments. Leveraging NRI's strengths in being able to support both operations and systems, we will continue with our efforts to further expand our client base. In February 2014, we concluded an equity and business alliance with Marubeni Corporation and acquired a 20% stake in Marubeni IT Solutions Inc., established in April 2014 by Marubeni Corporation. Through this relationship, we will seek to support the many domestic and international operations of Marubeni Corporation, a general trading company, using IT services as well as creating new services.

In addition to the above, we will also strengthen systems development using SAP and other ERP, support the global expansion of clients, and step up marketing efforts in the Kansai and Chubu regions of Japan.

### Expanding the Client Base



## IT Platform Services

### The IT Platform Services Segment under Vision 2015

This segment plays an important role in underpinning NRI's business model by providing data center operations and the development of IT platforms and networks for the Financial IT Solutions and Industrial IT Solutions segments. Opened in November 2012, Tokyo Data Center I (T1DC) is a state-of-the-art facility featuring the highest standards of equipment and flexible scalability, making it fully capable of housing information systems for financial institutions that require the highest degree of reliability. T1DC is positioned as the core hub of NRI's shared online services and NRI Financial Cloud\*<sup>1</sup>. The facility is also highly environmentally friendly.

\*<sup>1</sup> NRI Financial Cloud is a service that provides IT infrastructure in the cloud for the provision of shared online services for the financial sector. Using the facilities of one of the most efficient and cutting-edge data centers built, these high integration services aim to reduce IT infrastructure costs while delivering the required IT controls and operations especially for the financial sector.

### Results from the Fiscal Year Ended 31st March, 2014

Corporate earnings in Japan are recovering and many companies have actively restarted investments in information systems, which were cut back extensively during the economic downturn following the Global Financial Crisis of 2008. Given this, we saw an increase in the number of IT platform development projects during the fiscal year under review. Additionally, we made progress with setting up the NRI Financial Cloud at T1DC and Yokohama Data Center II and worked on improving cost efficiencies. We also reinforced our various inspections and drills activities to enhance the quality of data center operations.

### Measures for Future Growth

IT platform development projects should continue to see elevated demand.

We are currently moving forward with the construction of a new data center in the Osaka area, with the opening slated for summer 2016. In April 2014, NRI concluded a basic agreement on the new data center with TIS Inc. of the IT Holdings Group. By partnering with TIS Inc., we will be able to respond to growing data center demand in the Osaka area as well as expand the size of the data center and deliver high-quality services that satisfy Tier 4 and FISC Guidelines\*<sup>2</sup> at a reasonable cost, making it possible to contribute to clients' businesses.

In recent years, steps are being taken to reinforce information security across society and this is expected to result in business opportunities for NRI. Company awareness toward the need for BCP/DR\*<sup>3</sup> is also growing and NRI's highly advanced data centers can meet this demand.

\*<sup>2</sup>: Tier is a rating standard for data centers, with 4 the highest level. The Center for Financial Industry Information Systems (FISC) is a public interest incorporated foundation established by the contributions of financial institutions and information system companies to set guidelines for safety measures, security and auditing of information systems used by financial institutions.

\*<sup>3</sup>: Business Continuity Plan (BCP) and Disaster Recovery (DR): preparations and emergency response measures that will enable a business to continue operating in the event of major earthquakes and other disasters.

### New data center in Osaka area

- Tier 4 specifications
- Security and control services in compliance with security standards\* for financial institutions

\*FISC Guidelines

#### [Overview of Data Center Facilities]

Location: Hokusetsu, Osaka Prefecture

Planned opening: Summer 2016

Total floor area: Approx. 15,000m<sup>2</sup>

Building: Seismically isolated structure specially designed for a data center



## Global Business

### The Global Business under Vision 2015

One of the most important targets for our global businesses is strengthening and expanding our business presence in China and other Asian regions. Until now NRI has primarily expanded our business for the Japan market, but to achieve further growth we believe it will be important to expand our overseas business. There has been a rise in the number of Japanese companies planning on aggressively expanding in China and other Asian regions. To capture this demand, we are building a framework to support companies both in terms of consulting and IT services. In the consulting business, we are expanding our scope of services for local governments and companies, in addition to those Japanese companies setting up operations there.

### Results from the Fiscal Year Ended 31st March, 2014

We are making improvements to our overseas network with the goal of business expansion in mind. During the fiscal year under review we added to our workforce primarily in China and India and now we employ more than 800 personnel overseas. This means we have secured the necessary resources for growth. We have also seen an increase in the number of business inquiries and orders for consulting and system development projects by Japanese companies expanding into China and other Asian regions. In addition, our global SCM

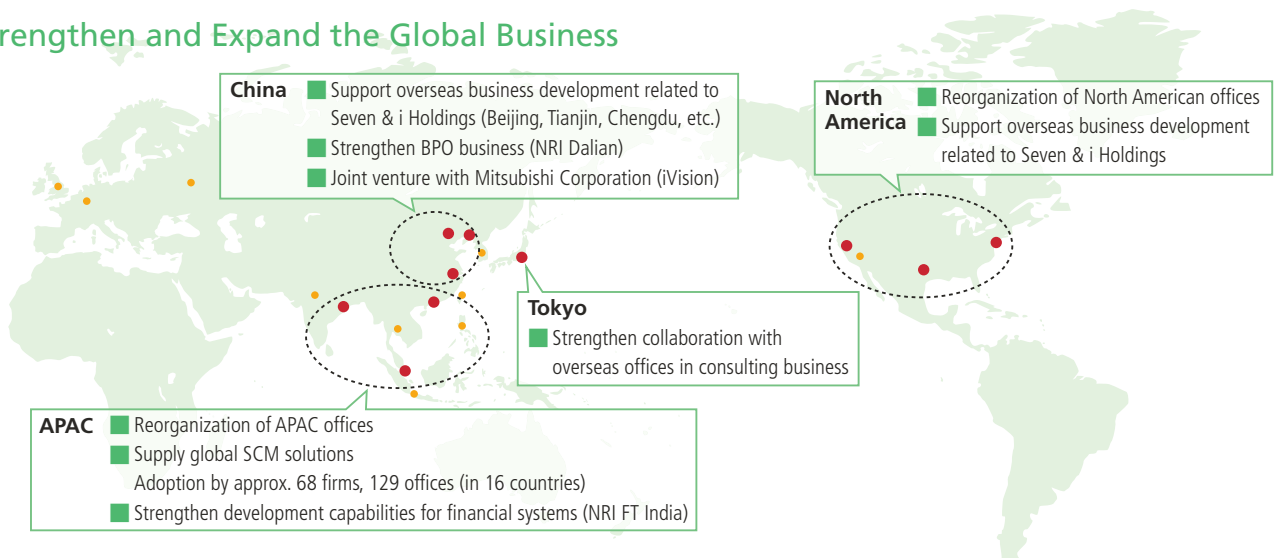
solutions\* that we have been providing to the sales offices and productions sites of Japanese manufacturers and wholesalers in ASEAN respond to the needs for offices to implement compact and highly cost effective systems. This has helped to steadily increase the number of clients using these solutions.

\*Outsourcing services for various operational support systems geared toward Japanese companies with overseas operations. These services range from support for core operations using enterprise resource planning (ERP), the sharing of operational information globally, visualization of the supply chain, and data communication between companies.

### Measures for Future Growth

We will leverage our growing network and workforce to accelerate business growth globally. In the consulting business, we will strengthen coordination between Tokyo and our overseas offices for various industries and fields (public sector and social infrastructure related) to generate greater expertise and pursue theme-based development and sales. In the IT services business, we will provide further assistance to our Japanese clients entering Asia for the first time or expanding their presence in the region. In April 2014, we reorganized our North American operations by incorporating Nomura Research Institute America, Inc.'s Dallas Branch as Nomura Research Institute IT Solutions America, Inc. as a local subsidiary. This company will support the expansion of Seven & i Holdings Co., Ltd. while also helping to pave the way for the expansion of our North American operations.

### Strengthen and Expand the Global Business



# Initiatives Supporting NRI's Value Creation

NRI is focusing efforts on human resources development and reinforcement and quality control measures for our services in order to support sustainable value creation. At the same time, NRI is developing systems and structures to build a relationship of trust with society and help to build a better tomorrow together with stakeholders through our unique social contributions.

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<b>Quality Management</b>	38
<b>CSR</b>	40
<b>Corporate Governance</b>	44
<b>Members of the Board, Audit &amp; Supervisory Board Members and Senior Managing Directors</b>	48

# Human Resources Development

Nomura Research Institute, Ltd.

**People are our most important management resource for delivering added value. NRI's human resources development seeks to make the hidden talents of our highly motivated people blossom and to develop "human assets" with the ability to achieve success on the frontlines of our business.**

## NRI's Human Resources Development Mechanisms

A professional possessing advanced expert knowledge, strives to pursue their own goals, unafraid to innovate and take on difficult challenges. This is the ideal model of NRI employee. NRI has established career fields that help visualize the diverse background of employees and that seek to define future areas and skill levels for each and every employee. There are 22 different career fields for employees in accordance with our business plan. There are seven levels denoting skill levels for each of these fields. We encourage employees to select more than one career field and the skill levels promote a balance between the pursuit of a specialization and cross-functional skills.

### Career Fields

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22
Corporate strategy consultant	Business consultant	Systems consultant	Business strategist	Sales representative / Marketing manager	Project manager (Construction)	Project manager (Enhancement)	Application architect	IT Infrastructure architect	Application specialist	Common application infrastructure specialist	IT platform specialist	IT services manager	IT security specialist	Researcher	Data scientist	Project management specialist	Quality control specialist	Business administration staff	Corporate management / Headquarters staff	Systems engineer	Consultant

NRI has developed a human resources training program that integrates on-the-job training, classroom lecture and group discussion, and self-education study.

One part of our on-the-job training is to assign an "instructor" to new employees on one-on-one basis, imparting necessary knowledge and skills for the job. NRI also has a cross-functional training systems linking our consulting and systems divisions, as well as trainee systems at NRI and client locations overseas.

NRI believes that even having gained and imprinted experience and expertise through on-the-job training, there are skills and lessons that can only be learned through classroom lecture and group discussions. We

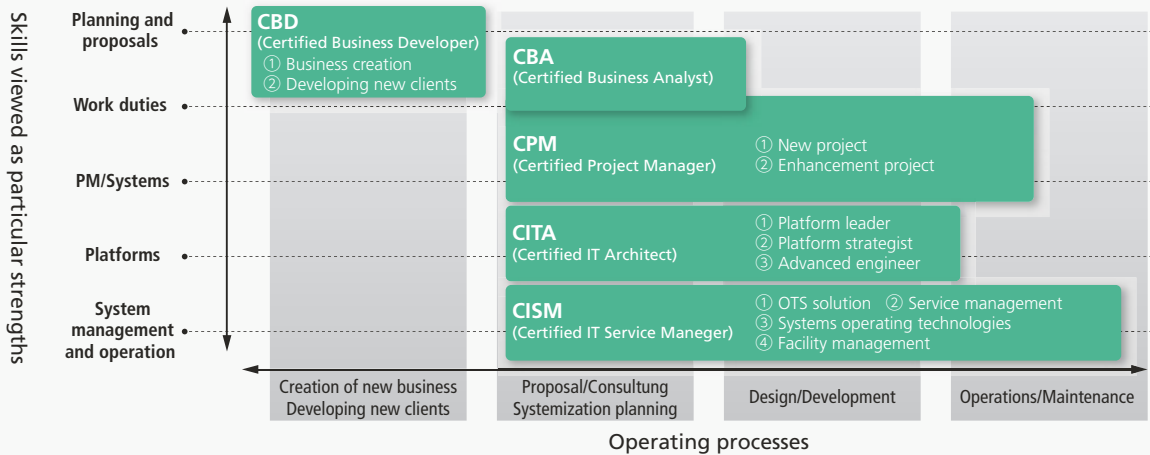
provide a variety of programs depending upon seniority/title, as well as courses in career advancement training enhancing management and leadership skills. To develop the human resources that will help expand NRI's operations globally, we have programs that enable employees to study abroad at a business school and programs in China and India that teach about system development in the local language.

Another way we develop highly skilled and knowledgeable experts is to support individuals in their acquisition of certifications such as the Information Technology Engineer. NRI has even developed our own internal certification programs. The purpose of our internal certification program is to promote the development of core human resources and demonstrate NRI's vision for our professional human resources. There are currently five types of certification available. Employees with a strong track record and who take part in designated training programs as well as have other external certifications receive the internal certification. The number of employees certified in-house continues to rise each year.

### NRI's Global Human Resources Development Program



## Internal Certification Program



## Fostering a Culture Where Employees Can Grow Autonomously

NRI uses various formats to foster a culture where employees can pursue self-development independently.

The NRInnovation! Forum (NIF) encourages group-wide discussions and interaction across organizations on the themes of human resources training program,

global training, female professional career counseling and business creation. We maintain a daily commitment to mutually respect one another and engage in activities that challenge the status quo and innovate ourselves.



### NRInnovation! Forum

<b>Human Resources Training Program</b>	Instill a greater awareness and appreciation of our human resources training program
<b>Global Training</b>	Learn more about our global business activities and partners; gain an awareness and appreciation of the need for NRI to be a globally competitive business, and act accordingly
<b>Female Professional Career Counseling NWN (NRI Women's Network)</b>	Share and incorporate career-related expertise; encourage female employees to take a more active role in their own careers by gaining various professional experiences
<b>Business Creation</b>	Instill a company-wide awareness of an entrepreneurial business model to encourage a new approach to work and new avenues of business growth

**NRInnovation! Forum General Meeting**  
(Message from the President, results presentations, and discussions, etc.)

Ongoing discussions

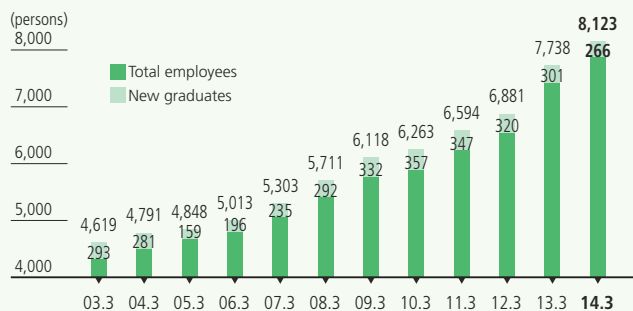
## [NRI Human Resources Data]

### Certification Holders

	2013.3	2014.3
Information technology engineer <sup>Note 1</sup>		
IT Strategist	165	209
System architect	766	816
Project manager	579	657
Network specialist	827	861
Database specialist	560	625
Information security specialist	700	836
IT service manager	297	320
Systems auditor	277	298
Securities analyst <sup>Note 2</sup>	218	224

Notes: 1. Information technology engineer is a holder of a national certification offered by the Information-Technology Promotion Agency, which serves as the testing body designated by the Minister of Economy, Trade and Industry.  
 2. Securities analyst is a holder of a national certification offered by the Securities Analysts Association of Japan.  
 3. The number of certification holders refers to the number of employees with certification at NRI, including those transferred temporarily to other companies.

### NRI's Employees



- Consultants
- System consultants
- Application engineers
- Technical engineers
- ...etc.

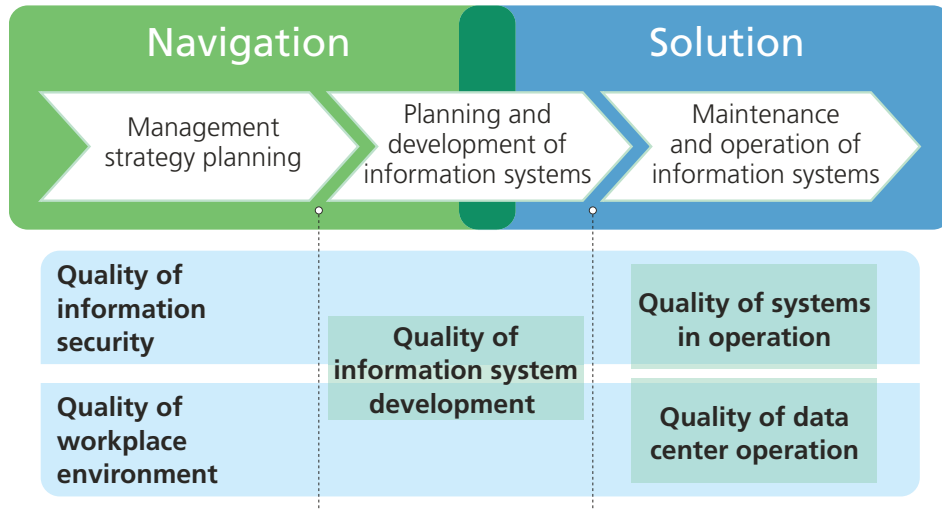
Personnel: **8,123**

(Of which approx. 6,000 are IT engineers)  
(As of 31st March, 2014)

# Quality Management

Nomura Research Institute, Ltd.

Ever since our founding NRI has emphasized a consistent commitment to quality. We continually work to improve the quality of services, fully aware of our responsibility to deliver and operate information systems that serve as a key component of social infrastructure.

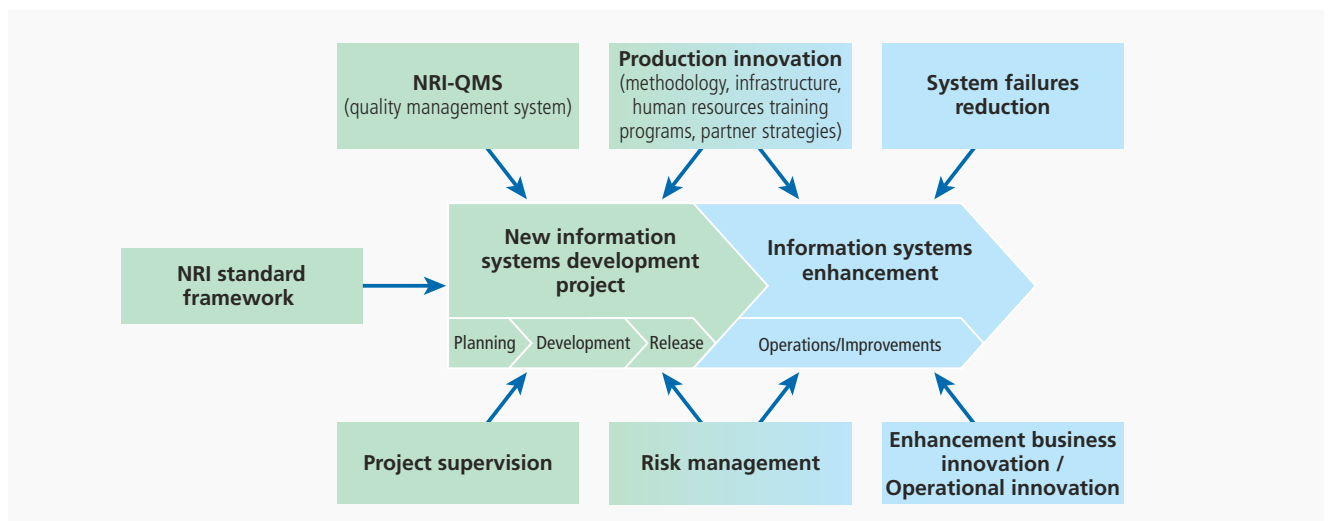


## Initiatives to Improve the Quality of Information Systems

Each division is responsible for quality control over systems development, operations, and consulting services projects. In addition, NRI has established the Quality Management & Systems Development Innovation Division as an organization to propose and support quality control activities for each division.

### •A 360-Degree Quality Improvement Support System

We at NRI pride ourselves on being an organization possessing world-leading experience in quality control and production process innovation in every stage. From systems development to systems maintenance and operations, every individual at NRI must be conscious of improving quality. Each employee needs to understand how vital their role is to supporting our system.





•Project Supervision Activities

The Quality Management & Systems Development Innovation Division provides both supervisory and Project Management Office functions for each individual division, when they develop a new information system.

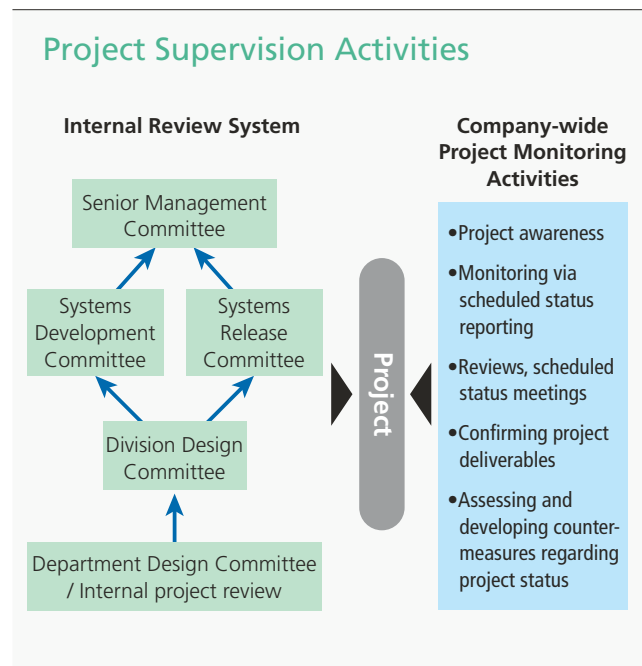
In addition to “project management” for project implementation and success, NRI has a “project supervision” function to propose quality improvements, and to identify and resolve issues early on.

Experts from across the Company meet to review projects as part of the Systems Development Committee and Systems Release Committee meetings. These, coupled with project monitoring, play an important role within NRI’s overall quality management activities.

•Quality of Enhancement Projects

Operating and maintaining completed information systems of a high quality not only builds solid relationships with clients, but also provides opportunities to improve and propose new solutions for the streamlining and further growth of clients’ businesses. For this reason, NRI refers to operations and maintenance projects as “enhancement projects,” which are assigned the same level of importance as projects to develop new information systems.

Additionally, the stable operation of information systems requires not only the quality of the information



system itself, but also the quality of the data center that operates and manages the information system. To eliminate serious system disruptions and provide stable and secure services, NRI carries out re-inspections of our system platform, holds meetings of the Systems Disruption Elimination Committee, visualizes risks from disruptions, conducts drill based on scenarios of a large-scale disruption at our data centers, and performs inspections of data centers.

**Quality of Information Security**

NRI has established an advanced information security framework at our offices, data centers and partner companies that serves as a standard for society. This framework ensures that NRI continues to be a trusted partner by our clients and society. Under the leadership of the Chief Information Security Officer, NRI complies

with and responds to changes in laws and advancements in information technology to proactively create in-house regulations and rules, obtain Information Security Management System (ISMS) certification and Privacy Mark certification, and train our employees.

**Quality of Workplace Environment**

NRI carries out a multitude of initiatives to foster a workplace environment where employees can work healthily and positively. These include utilizing a diverse pool of human resources, developing global business professionals, and making constant improvements to our labor environment. By curbing prolonged working

hours and changing employee mindsets, NRI is able to promote a work-life balance where employees can fully contribute their skills and talents while also considering their own health and their family life. This is the type of workplace environment that will help NRI achieve even greater growth in the future.



## NRI Group's CSR Policy

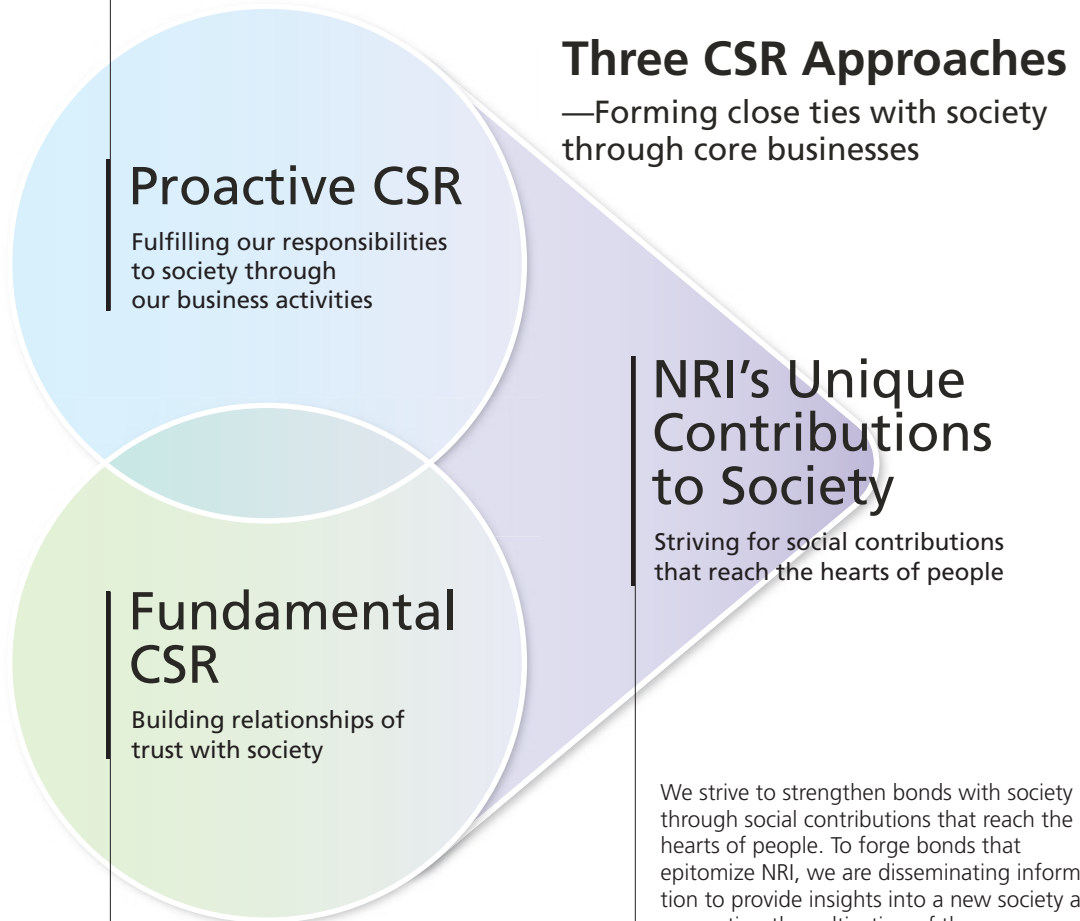
The first objective of NRI Group's CSR is to fulfill our social responsibilities through our business activities.

At the same time, we strive to avoid business errors and impropriety and endeavor to deepen social trust.

Above all, we aim to contribute to society through the cumulative effect of our daily activities.

We reach out to people through social contributions to create solid bonds with stakeholders.

The first objective of NRI's CSR activities is to fulfill our responsibilities to society through our business activities. This incorporates advocating a new order for future society and building information systems that support society. Navigation × Solution is the essence of CSR activity for us; we have only to continue conducting this business to fulfill our social responsibilities. By helping clients hone their competitiveness and improve their performance, and by working toward the sustainable growth of the Japanese economy, we are helping to create a better society.



### Three CSR Approaches

—Forming close ties with society through core businesses

#### Proactive CSR

Fulfilling our responsibilities to society through our business activities

#### Fundamental CSR

Building relationships of trust with society

#### NRI's Unique Contributions to Society

Striving for social contributions that reach the hearts of people

We strive to strengthen bonds with society through social contributions that reach the hearts of people. To forge bonds that epitomize NRI, we are disseminating information to provide insights into a new society and supporting the cultivation of the younger generation and managers who will bear the responsibilities of the next generation. Along with our stakeholders, we are striving aggressively to build the framework for a better society. We take every opportunity to foster communications with stakeholders and to pass on easily comprehensible information on the positive CSR activities that we conduct in the pursuit of our business to parties inside and outside NRI.

In the execution of our business activities, we take the utmost care to avoid errors and impropriety.

To build relationships of trust with society and protect the NRI Group's corporate value, we comply with all pertinent laws and regulations and avoid violating social and cultural morals. To achieve these goals, we are building and thoroughly maintaining our practical systems and frameworks.

## Engagement with Stakeholders

Our core stakeholders are our clients, employees and their families, shareholders and investors, and business partners, but in a broader sense, our stakeholders encompass consumers, the media, regional communities, industry organizations, competitors, governments, educational and research institutes and students as well as NGOs and NPOs. While maintaining close communication with our various stakeholders in ways suited to their particular qualities, we intend to build a better future society and stronger bonds of trust with society.

### Propagation of Intellectual Assets and Recommendations

NRI helps create a future vision for Japan and contributes to social frameworks through our research, propagation of intellectual assets and consulting activities.

#### •Propagation of Intellectual Assets and Recommendation Activities

NRI has carried out studies and research activities in various fields since our founding, the results of which provide recommendations on the future vision of Japan through reports and books as well as forums, among other events.

The biannual IT Roadmap Seminar and the book series IT Roadmap are among the first to study and analyze rapidly changing technology trends around the world. Both have earned a strong reputation for providing guidelines to companies on how to properly invest in IT.

In addition, the 2030 Japan Value Creation Project, being carried out by the 2030 Japanese Value Creation Department of the Center for Strategic Management & Innovation, is closely examining the practices of 100 innovators that are working to change society and business. The goal of the projects is to create high

quality and appealing businesses in 2030, and provide recommendations on solutions for Japan to maintain its dynamic society.

#### •Proactive Involvement in Creating Social Systems

Systems that help change society are essential to Japan's dynamism.

We proactively disseminate information and provide recommendations to the national government and local governments with regards to NISA (a tax-exempt investment account for small investment), which began in 2014, and Japan's new Social Security and Tax Number System slated to start in 2016. We also support infrastructure development and help develop markets not only in Japan, but Asia, as well, contributing to each country's industrial development in the process.

We proudly believe that our research and recommendations truly pave the way for a dynamic society.



Japan in 2020:  
The Age of Innovators



IT Roadmap 2014



Research and recommendations on NISA

## Personal Development

### NRI's Unique Approach to Personal Development Supporting the Future Leaders of Society

#### •NRI's Unique Contributions to Society through our Business Activities

To achieve our corporate philosophy of "Dream up the future," NRI is committed to drawing out and nurturing the skills of youth, who will serve as the leaders of tomorrow. Based on the belief that children and students should be able to make their own educational and career choices to become adults who contribute their skills to society, we are utilizing our experiences and know-how from our businesses to provide a variety of programs for personal development.

#### •Career Education Programs for Elementary, Junior High and High School Students



Information Systems Secrets—supporting our convenience, a class at a local elementary school



Consultant for a Day Program, providing a chance to experience working in society

Our career education programs include an information system learning program for elementary and junior high school students called the Information Systems Secrets—supporting our convenience, the IT Strategic Experience Program for junior high and high school students, as well as the Consultant for a Day Program and Team Building Exercises for high school students. Each of these programs incorporates NRI's experiences and knowledge gained from the development and operation of information systems, management consulting services and research activities carried out by NRI as part of our daily operations.

#### •Providing Opportunities to Deliberate on the Future of Society and Make Proposals



Dream Up the Future Campus broadening discussions about the future of society



Participants in NRI Student Essay Contests that gives students a chance to share their recommendations for the future

NRI continues with our activities to provide opportunities for students to deliberate on the future of Japan and the world, and to make their own proposals.

The Dream Up the Future Campus is geared toward university undergraduate and graduate students and brings together NRI employees with the students to broaden discussions about the future.

The NRI Student Essay Contests has been held annually since 2006 and provides an outlet for high school, study abroad, as well as university undergraduate and graduate students to provide recommendations for the future of Japan and the world. It also provides an opportunity for students to present their own unique ideas to society. In 2013 the contests received 1,518 submissions, the largest amount to date.

## Environmental Protection



Contributing to Reduction of Environmental Impact through Green by NRI and Green of NRI Activities

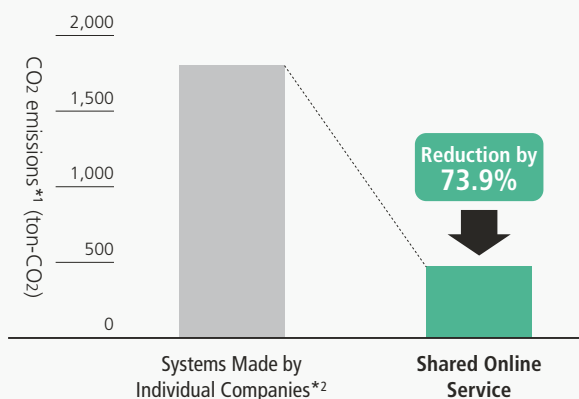
### Green by NRI

Green by NRI refers to our contributions to helping clients reduce their impact on the environment through more efficient business operations and improved productivity achieved through our policy recommendations, consulting services and system development and operations.

•Significantly reducing CO<sub>2</sub> emissions from the use of shared online services

NRI provides various shared online services to multiple companies in many different fields. In the case of STAR, an integrated back-office system for retail securities firms, estimates have shown that CO<sub>2</sub> emissions can be reduced by 73.9% compared to when clients own and operate their own equivalent systems.

#### Comparison of Annual CO<sub>2</sub> Emissions between Shared Online Service and Proprietary Systems Made by Individual Companies



\*1. Calculated by multiplying electricity usage by the real emission factor of Tokyo Electric Power Company released by the Ministry of Economy, Trade and Industry

\*2. Calculated using an estimate of the approximate curve from a regression analysis of sample data, assuming that a client using STAR operates a similar system on their own.

### Green of NRI

Green of NRI refers to the NRI Group's activities to reduce our own environmental impacts by making our data centers, office buildings and IT equipment more energy efficient and through environmental measures such as energy saving efforts carried out by each and every one of our employees.

•Data Center with Advanced Environmental Performance

NRI's Tokyo Data Center I features truly advanced environmental performance. It uses a unique double-deck structure that isolates servers from building facilities to achieve more efficient air conditioning, while its use of high-temperature chilled water\* and free cooling (an air conditioning method that uses the outside air during winter and between periods) makes it possible to operate the system using about half the power of conventional systems. As a result, the data center causes significantly less CO<sub>2</sub> emissions.

\*The water temperature is between 14 and 15 degrees Celsius, which reduces electricity usage compared to conventional methods that use chilled water with a temperature of 7 degrees Celsius.



Tokyo Data Center I

•Green Energy Certificates

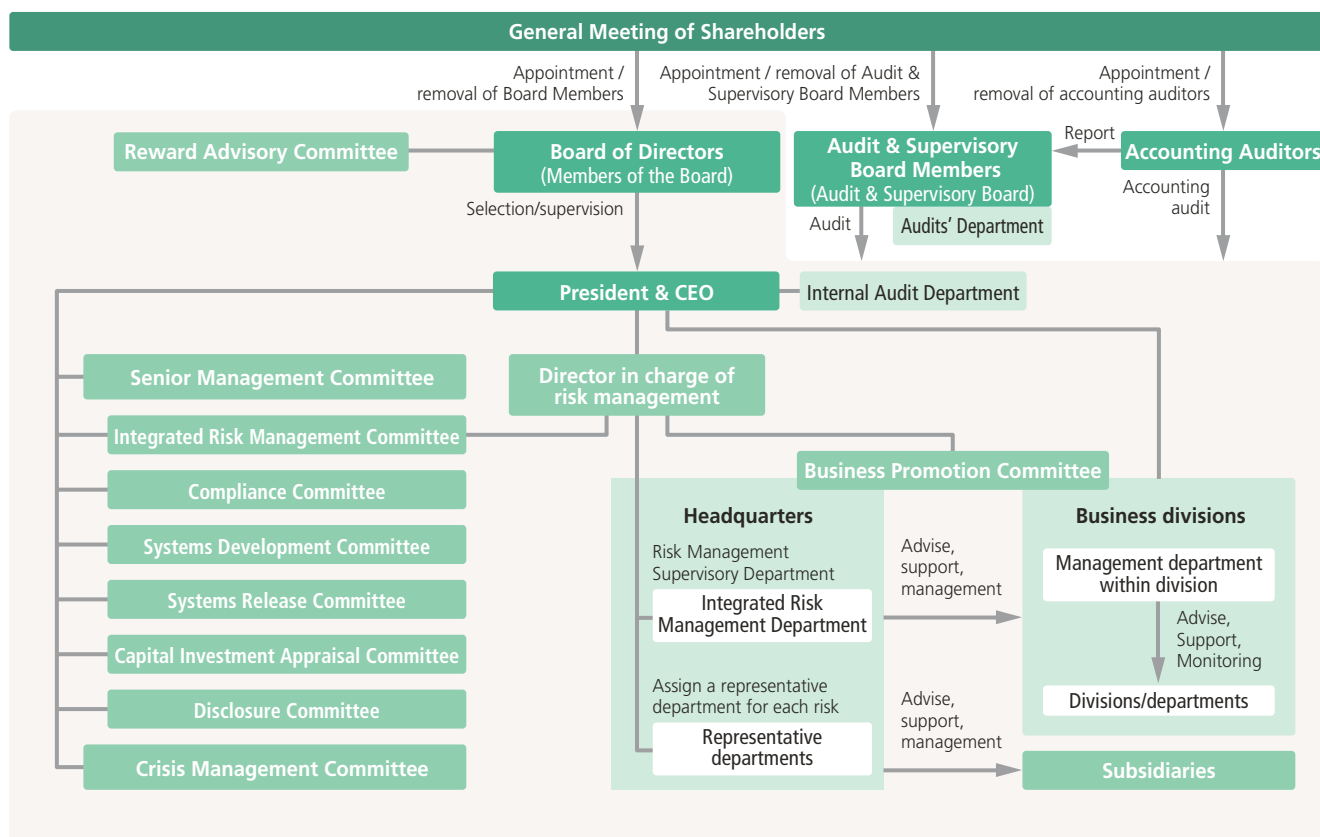
In March 2014, NRI purchased the Certificate of Green Power issued by Japan Natural Energy Company Limited. This certificate offsets 220,000kWh of electricity, or 10% of that used by the Marunouchi Center, which houses the NRI headquarters, in the year ended 31st March, 2013 using green energy produced from biomass power generation.

# Corporate Governance (As of 20th June, 2014)

Nomura Research Institute, Ltd.

## Basic Policy on Corporate Governance

NRI considers that the key objective of corporate governance is to increase our corporate value by making prompt and accurate decisions for our business execution and implementing fair and efficient management, which is transparent to all our stakeholders. NRI is a company with Audit & Supervisory Board. NRI makes effective use of Audit & Supervisory Board Members and the Audit & Supervisory Board, while building the system's discussed below to further enhance NRI's corporate governance. We believe that NRI's corporate governance system, underpinned by the organizational arrangements of a company with an Audit & Supervisory Board, is functioning effectively.



### [Roles and Activities of Committees]

Reward Advisory Committee	Comprised of outside experts, the Committee deliberates on the system and standards for executive compensation, from the standpoint of fairness and objectivity.
Senior Management Committee	The Committee meets in principle once every week to deliberate on important issues involving corporate management in order to achieve consistent business execution and decision making.
Integrated Risk Management Committee	The Committee deliberates on important issues concerning risk management based on instructions given by the President.
Compliance Committee	The Committee deliberates on the issues concerning the promotion of ethical and compliance management covering the improvement of structure to comply with corporate ethics and laws and the prevention of violation reoccurrences, based on instructions given by the President.
Systems Development Committee	The Committee deliberates on important issues concerning systems development, based on instructions given by the President.
Systems Release Committee	The Committee deliberates on important issues concerning system releases, based on instructions given by the President.
Capital Investment Appraisal Committee	The Committee deliberates on important issues concerning commercialization investments and contract software development investment projects, based on instructions given by the President.
Disclosure Committee	The Committee deliberates important issues concerning the disclosure of financial reports and other documents, based on instructions given by the President.
Crisis Management Committee	The Committee is established based on the orders of the President to execute and support prompt responses to a crisis whenever they may occur.
Business Promotion Committee	The Committee involves administrative departments from the headquarters and management departments within business divisions and seeks to establish highly effective and efficient internal controls.



## Measures Aimed at Ensuring Meaningful General Meeting of Shareholders

To help invigorate the General Meeting of Shareholders and facilitate the exercise of voting rights, we take steps such as setting meeting dates with the aim of maximizing shareholder attendance and sending meeting notices early on, and have adopted an internet-based system for exercising voting rights and a platform that allows institutional investors to exercise voting rights electronically. We also undertake activities to improve communications with shareholders. One example is the holding of management debriefing sessions following the General Meeting of Shareholders to explain the status of NRI's business and future initiatives primarily to individual investors.

## Business Management and Execution System

NRI has nine Members of the Board, including two Outside Members of the Board. Members of the Board are elected for a one-year term, creating a management system that can respond quickly to changes in the business environment and clarifying all management responsibilities for each fiscal year. By inviting Outside Members of the Board, NRI will energize the Board of Directors and realize fairer, more transparent management. In selecting these Members of the Board, NRI places particular emphasis on independence, considerable experience and the ability to provide an objective perspective on NRI's business execution.

The Board of Directors, in principle, convenes once a month and on an extraordinary basis as needs dictate. Jurisdiction and responsibility for business execution are largely delegated to Senior Managing Directors, while the Board of Directors is responsible for decisions that become the basis for our business execution and for the supervision of business execution. NRI has established the Reward Advisory Committee, made up of the outside experts to provide advice on Members of the Board compensation.

Senior Managing Directors appointed through a resolution by the Board of Directors are responsible for the execution of business based on policies adopted by the Board. Representative directors hold a Senior Management Committee with Senior Managing Directors once a week and deliberate on the key issues for general business to coordinate our business activities and build consensus in executing business operations.

## Audit & Supervisory System

Currently, NRI has five Audit & Supervisory Board Members, including three Outside Audit & Supervisory Board Members\*. In addition to participating on the Board of Directors and on other important committees, Audit & Supervisory Board Members may request reports from employees and executives to provide impartial supervision of business execution by the Members of the Board. The Outside Audit & Supervisory Board Members are selected for their ability to formulate fair opinions and to audit the Members of the Board business execution objectively in order to maintain impartiality and independence of the corporate auditing system. The Audit & Supervisory Board discusses and decides auditing policies and other important matters related to auditing and formulate and express audit opinions. In carrying out audits, Audit & Supervisory Board Members coordinate with the accounting auditors and the Internal Audit Department over such matters as receiving reports on the audit plans and current status of audits from the accounting auditors as well as the results of internal audits from the Internal Audit Department, which is responsible for promoting internal controls. In addition, the Audit & Supervisory Board Members appropriately receive internal control status reports providing information such as monitoring results on compliance with various regulations from the Risk Management Supervisory Department. To ensure that audits are effectively conducted by the Audit & Supervisory Board Members, the Audits' Department has been established to support the work of the Audit & Supervisory Board Members. To determine the personnel for this department, the representative directors or directors responsible for personnel consult with the Audit & Supervisory Members, while maintaining the independence of the department.

\* Among the Audit & Supervisory Board Members, Kiyotaka Yamazaki holds professional qualifications as a Certified Public Accountant and has significant expertise in finance and accounting.



## Executive Compensation

### [Executive Compensation Amounts]

Executive compensation for the fiscal year ended 31st March, 2014 is as shown below.

Category	Total compensation (millions of yen)	Compensation by type (millions of yen)				No. of eligible individuals (persons)
		Basic compensation	Bonus	Stock options	Other	
Members of the Board (Excluding Outside Members of the Board)	512	269	126	114	3	9
Audit & Supervisory Board Members (Excluding Outside Audit & Supervisory Board Members)	85	66	17	—	1	2
Outside Members of the Board and Outside Audit & Supervisory Board Members	95	86	8	—	0	7

(Notes) 1. "No. of eligible individuals" in the table above is the number of eligible individuals, and not the number of individuals currently in office.  
2. Also includes contributions for the defined contribution pension plan and insurance premiums for casualty insurance.

### [Policies for the Determination of Member of the Board Compensation and Other Matters]

Maximum total Member of the Board compensation is ¥1.0 billion annually (including stock options, but excluding employee salaries for Members of the Board who serve concurrently as employees). The Reward Advisory Committee, which is comprised of outside experts, was established to enhance transparency regarding Member of the Board compensation and other such matters. The committee deliberates matters regarding compensation systems and standards from an objective and fair perspective. Using the results of the committee's inquiries, the Board of Directors sets policies for the determination of Member of the Board compensation and other matters.

The compensation system for Members of the Board is based on executive position, but, in the interest of enhancing business results, the system emphasizes connections to business performance. The standards employed by the system have been set with reference to market standards and trends and other factors, with the goal of establishing standards appropriate for a leading company in the information services industry.

The compensation system for Members of the Board is outlined below:

a. Basic Compensation

Basic compensation consists of fixed pay (basic pay and position pay), which is compensation based on each Member of the Board's post, and variable pay, which is based on our business performance in the previous fiscal year.

b. Bonus

The bonus is based on our business performance during the current fiscal year, while taking into consideration individual evaluations.

c. Stock-based Compensation (Stock options)

The NRI Group, to provide incentives for improving our performance and enhancing morale over the medium to long term, and to align employee interests with those of shareholders, grants stock options as stock-based compensation. Two types of stock options — one with an exercise price set at market price and another with an exercise price of ¥1 per share — are granted in accordance with executive position. Note that, based on the Stock Ownership Guidelines for Executive Officers, Members of the Board are expected to hold more than a certain number of shares of NRI's stock, in accordance with their respective positions.

Outside Members of the Board do not receive the variable pay portion of the basic compensation, bonus shares, or stock-based compensation.

### [Policies for the Determination of Audit & Supervisory Board Member Compensation and Other Matters]

Maximum total Audit & Supervisory Board Member compensation is ¥250 million. Policies for the determination of Audit & Supervisory Board Member compensation and other matters are set through discussions among the Audit & Supervisory Board Members. The role of the Audit & Supervisory Board Members is to audit the Members of the Board in the performance of their duties and to do so from an independent standpoint. However, given that

the Audit & Supervisory Board Members (full-time) share with the Members of the Board the objective of realizing sound, sustainable growth for the NRI Group, their compensation, in addition to a fixed amount, includes a variable portion that changes in accordance with our business performance.

Levels of compensation have been set based on the need to secure human resources capable of playing important roles in the establishment and operation of effective corporate governance.

The compensation system for Audit & Supervisory Board Members is outlined below:

a. Basic Compensation

Basic compensation consists of fixed pay (basic pay and position pay) based on each Audit & Supervisory Board Member's career, knowledge, responsibilities, and variable pay (for Audit & Supervisory Board Members (full-time) only) based on our business performance level in the previous fiscal year.

b. Bonus

The bonus is only paid to Audit & Supervisory Board Members (full-time), and it is based on our business performance during the current fiscal year.

## Internal Controls and Compliance

In order to develop an effective internal control system for the entire NRI Group and to provide continuous improvements to the system, we have appointed a director in charge of risk management and established the Risk Management Supervisory Department. In addition, the Integrated Risk Management Committee meets to check company-wide internal control status as appropriate. The Business Promotion Committee, which all business divisions attend, also works to ensure that the internal control system is implemented. Each of the major risks associated with our business activities is discussed and addressed by a committee with the necessary expertise as occasion arises and are controlled by the representative department in collaboration with the business division in an appropriate manner.

In addition, in order to ensure the effectiveness of our ethics and compliance systems, NRI has appointed a Chief Ethics Officer and Compliance Officer, established the Compliance Committee, and set regulations on "the principles of corporate activities," a code of ethics, basic business practices and compliance. NRI continuously carries out training and educational activities on risk management and compliance to enhance the system and improve efficiency. The Basic Policy establishes the scope of these activities and states that the NRI Group will maintain absolutely no relationship with any antisocial forces including any business activities. Representative departments are in charge of gathering information on these issues and ensuring that management does not engage in transactions with such organizations.

The Internal Audit Department (22 employees), which functions directly under the President, audits the NRI Group to ensure the effectiveness of risk management and compliance systems and to maintain the efficiency of the business execution of the Members of the Board. The results of such audits are reported to the President and other directors, and when corrections or improvements are required, the Risk Management Supervisory Department, the representative departments and the business divisions, collaborate to introduce improvements. In addition, the Internal Audit Department works to cooperate with the accounting auditor through regular exchange of opinions regarding plans for conducting internal audit and their results.

## Promoting Information Disclosure

In order to improve management transparency and achieve accountability to shareholders, investors and other stakeholders, NRI is striving to enhance the level of information disclosure and IR functions, as well as ensuring the timely disclosure of information. To enhance the reliability of disclosure materials, we have formed the Disclosure Committee to assist in the preparation process of financial statements and financial reports and confirm their fairness. Moreover, targeting individual investors, we hold several company presentation meetings as well as expanding the NRI website by adding pages targeting individual investors.

# Members of the Board, Audit & Supervisory Board Members

Nomura Research Institute, Ltd.

Members of the Board, Audit & Supervisory Board Members and Senior Managing Directors

## Members of the Board



**Akihisa Fujinuma**

Chairman, Member of the Board



**Akira Maruyama**

Vice Chairman, Member of the Board



**Tadashi Shimamoto**

President & CEO,  
Representative Director,  
Member of the Board



**Masahiro Muroi**

Senior Executive Vice President,  
Representative Director,  
Member of the Board  
Assistant to the President & CEO



**Mitsuru Sawada**

Representative Director,  
Member of the Board,  
Senior Executive Managing Director  
in charge of Supervising of Business Divisions



**Hiroshi Itano**

Member of the Board,  
Senior Executive Managing Director  
in charge of Supervising of Corporate  
Administration, Risk Management and  
Compliance



**Keiichi Ishibashi**

Member of the Board  
(Director, Vice Chairman of  
Daiko Clearing Services Corporation)



**Takashi Sawada** (Note 1)

Member of the Board  
(President and CEO of Revamp Corporation)



**Shohei Utsuda** (Note 1)

Member of the Board  
(Director, Chairman of the Board of  
MITSUI & CO., LTD.)

## Audit & Supervisory Board Members



**Mamoru Suenaga**  
Audit & Supervisory Board Member  
(full-time)



**Sawaaki Yamada**  
Audit & Supervisory Board Member  
(full-time)



**Minoru Aoki** (Note 2)  
Audit & Supervisory Board Member  
(full-time)



**Hisatsugu Nonaka** (Note 2)  
Audit & Supervisory Board Member



**Kiyotaka Yamazaki** (Note 2)  
Audit & Supervisory Board Member  
(Managing Partner (CEO) of GYOSEI & CO.)

Notes:

1. Takashi Sawada and Shohei Utsuda are Outside Directors. NRI specifies both as Independent Directors pursuant to the regulations of the Tokyo Stock Exchange and has notified them to the said stock exchange.
2. Minoru Aoki, Hisatsugu Nonaka and Kiyotaka Yamazaki are Outside Audit & Supervisory Board Members. NRI specifies Hisatsugu Nonaka and Kiyotaka Yamazaki as Independent Audit & Supervisory Board Members pursuant to the regulations of the Tokyo Stock Exchange and has notified them to the said stock exchange.

## Senior Managing Directors (excluding those also serving as Members of the Board)

Senior Corporate Managing Directors

Toshio Hirota  
Yoshihito Mitsugi  
Shin Kusunoki  
Harumi Saitou  
Shingo Konomoto  
Tatsuya Watahiki  
Yutaka Harada  
Ayumu Ueno  
Yoshihiko Murowaki  
Masaki Takimoto  
Hiroshi Funakura

Senior Managing Directors

Shigeki Higashiyama  
Hajime Ueda  
Masahiro Fuchida  
Kenji Yokoyama  
Tomoyasu Miura  
Yoshio Usumi  
Yoshio Murata  
Takuhiro Sakata  
Fumihiko Sagano  
Yasuo Fukami  
Yasuki Okai

Shigeki Hayashi  
Yoichi Inada  
Hiroshi Masutani  
Katsuhiko Fujita  
Akio Yamamoto  
Tomoshiro Takemoto  
Hirofumi Tatematsu  
Shuji Tateno  
Hidenori Anzai  
Minoru Yokote  
Namiki Kubo

# Consolidated 11-year Financial Summary

Nomura Research Institute, Ltd.

Consolidated 11-year Financial Summary

	2004.3	2005.3	2006.3	2007.3	2008.3	2009.3
<b>For the year</b>						
Sales	238,067	252,963	285,585	322,531	342,289	341,279
Cost of sales	178,096	190,732	213,706	234,578	238,537	240,854
Selling, general and administrative expenses	31,948	32,071	35,409	44,055	51,087	50,711
EBITDA <sup>(Note 3)</sup>	45,772	48,561	53,043	63,692	69,181	70,476
Operating profit	28,022	30,159	36,469	43,897	52,664	49,713
Ordinary profit	29,293	30,987	38,252	46,099	55,517	51,731
Net income	18,269	16,303	22,518	27,019	28,157	24,513
Capital expenditures	24,244	17,351	18,343	29,903	36,438	70,083
Depreciation and amortization	17,750	18,402	16,574	19,795	16,517	20,763
Research and development expenses	2,216	1,646	2,501	2,864	4,915	4,104
<b>At year-end</b>						
Net assets	229,331	231,766	209,301	216,232	207,363	205,466
Total assets	326,799	317,341	311,786	371,458	362,447	354,487
Number of employees (persons)	4,791	4,848	5,013	5,303	5,711	6,118
<b>Cash flows</b>						
Cash flows from operating activities	29,312	27,569	48,875	39,583	31,806	46,180
Cash flows from investing activities	(19,143)	(81,981)	17,853	(18,578)	(47,925)	(70,994)
Cash flows from financing activities	(1,508)	(3,928)	(54,828)	44,040	(23,537)	(22,414)
Cash and cash equivalents at the end of year	96,812	38,677	50,752	115,854	75,524	28,228
<b>Per share information (yen)</b> <sup>(Note 4)</sup>						
Net income (EPS)	79.89	72.46	103.94	132.95	138.52	125.54
Net assets	1,017.94	1,030.09	1,030.55	1,060.84	1,038.68	1,051.65
Cash dividends	8	20	28	36	50	52
<b>Stock information</b> (based on the closing price as of 31st March)						
Stock price (yen) <sup>(Note 4)</sup>	2,368	2,000	2,886	3,470	2,605	1,530
Market capitalization (billions of yen)	532.8	450.0	649.3	780.7	586.1	344.3
<b>Ratios (%)</b>						
ROE	8.8	7.1	10.2	12.7	13.3	11.9
ROA	10.0	9.6	12.2	13.5	15.1	14.4
Operating profit margin	11.8	11.9	12.8	13.6	15.4	14.6
EBITDA margin	19.2	19.2	18.6	19.7	20.2	20.7
Equity ratio	70.2	73.0	67.1	58.1	57.0	57.7
Dividend payout ratio	9.9	27.6	26.2	27.1	35.7	41.3

Notes: 1. Amounts of less than million yen were rounded down.

2. From the current fiscal year, NRI adopted the "Practical Solution on Transactions of Delivering NRI's Own Stock to Employees etc. through Trusts." Figures for prior years have been retroactively restated.

3. EBITDA was calculated by adding back depreciation and amortization to operating profit.

4. Per share information and stock price have been retroactively restated for prior years to reflect the effect of stock splits.

(millions of yen)

	2010.3	2011.3	2012.3	2013.3	2014.3	
	338,629	326,328	335,554	363,891	<b>385,932</b>	<b>For the year</b>
	245,641	233,119	235,515	262,315	<b>276,664</b>	Sales
	52,911	54,782	56,886	57,608	<b>59,450</b>	Cost of sales
	70,992	69,091	74,027	86,441	<b>83,934</b>	Selling, general and administrative expenses
	40,077	38,426	43,152	43,967	<b>49,816</b>	EBITDA <sup>(Note 3)</sup>
	40,947	40,073	44,686	45,858	<b>52,360</b>	Operating profit
	21,856	23,188	32,920	28,612	<b>31,527</b>	Ordinary profit
						Net income
	29,000	20,755	41,165	31,048	<b>33,878</b>	Capital expenditures
	30,915	30,665	30,875	42,474	<b>34,118</b>	Depreciation and amortization
	3,561	3,564	3,643	3,643	<b>3,903</b>	Research and development expenses
						<b>At year-end</b>
	220,237	231,074	258,276	290,818	<b>331,408</b>	Net assets
	363,368	380,032	402,784	432,222	<b>469,010</b>	Total assets
	6,263	6,594	6,881	7,738	<b>8,123</b>	Number of employees (persons)
						<b>Cash flows</b>
	58,060	48,777	53,067	68,600	<b>33,839</b>	Cash flows from operating activities
	(16,175)	(27,723)	(47,731)	(36,019)	<b>(32,234)</b>	Cash flows from investing activities
	(10,348)	1,590	(10,438)	(10,723)	<b>(8,773)</b>	Cash flows from financing activities
	59,775	82,085	77,043	99,623	<b>92,792</b>	Cash and cash equivalents at the end of year
						<b>Per share information (yen) <sup>(Note 4)</sup></b>
	112.32	119.11	168.40	145.29	<b>158.75</b>	Net income (EPS)
	1,125.63	1,179.92	1,309.39	1,464.11	<b>1,657.15</b>	Net assets
	52	52	52	52	<b>56</b>	Cash dividends
						<b>Stock information (based on the closing price as of 31st March)</b>
	2,130	1,836	2,053	2,416	<b>3,260</b>	Stock price (yen) <sup>(Note 4)</sup>
	479.3	413.1	461.9	543.6	<b>733.5</b>	Market capitalization (billions of yen)
						<b>Ratios (%)</b>
	10.3	10.3	13.5	10.5	<b>10.2</b>	ROE
	11.4	10.8	11.4	11.0	<b>11.6</b>	ROA
	11.8	11.8	12.9	12.1	<b>12.9</b>	Operating profit margin
	21.0	21.2	22.1	23.8	<b>21.7</b>	EBITDA margin
	60.3	60.5	63.8	66.9	<b>70.4</b>	Equity ratio
	46.3	44.4	31.8	36.6	<b>35.9</b>	Dividend payout ratio



# Management's Discussion and Analysis of Financial

Nomura Research Institute, Ltd.

## •Business Overview

In the current fiscal year ended 31st March, 2014, the Japanese economy recovered at a moderate pace amid yen depreciation and strong gains in the equity market. Business confidence improved and companies were more upbeat about investment in information systems.

Operating in such an environment, NRI carried out our business activities leveraging the combined strengths of NRI, allowing it to seamlessly provide services encompassing consulting through to system development and operations. In order to realize medium- to long-term growth, NRI is also pushing ahead with growth measures in new fields while developing our strengths further.

NISA (a tax-exempt investment account for small investments) were introduced in January 2014. In response, NRI started providing shared online services for NISA products. With further revisions to financial systems in the pipeline, NRI will steadily respond to regulatory changes, such as the Social Security and Tax Number System and the unified tax on financial products, in order to further expand our shared online services business.

In April 2014, NRI acquired additional shares in affiliated company Daiko Clearing Services Corporation in order to strengthen cooperation with NRI in the securities back-office business. As a result, Daiko Clearing Services Corporation became a consolidated subsidiary. Leveraging the subsidiary's know-how, NRI plans to offer IT solution services with higher added value.

In the overseas business, NRI is establishing a system to provide consulting and IT solution services, mainly in Asia, an area that offers NRI significant scope for business expansion. NRI's goal is to provide support to Japanese companies mov-

ing into overseas markets and expand service provision to local governments and companies. As part of efforts to strengthen operations in North America, NRI realigned our corporate structure in the region in April 2014, switching from a single-company system to a three-company system, including a holding company. Also, in human resources, NRI will push ahead with efforts to foster a work force capable of conducting global business, including steps to further upgrade our overseas training systems.

In the current fiscal year, NRI's sales increased to ¥385,932 million (up 6.1% year on year). Subcontracting costs rose on the back of an increase in system development projects, but depreciation and amortization expenses were lower than the previous fiscal year, when NRI booked sales on major application sales. As a result, cost of sales was ¥276,664 million (up 5.5%) and gross profit was ¥109,267 million (up 7.6%). Selling, general and administrative expenses were ¥59,450 million (up 3.2%) due to an increase in subcontracting costs related to research and development and in personnel expenses due to an increase in personnel to support future business expansion. Operating profit was ¥49,816 million (up 13.3%), the operating profit margin was 12.9% (up 0.8 percentage points), ordinary profit was ¥52,360 million (up 14.2%) and net income was ¥31,527 million (up 10.2%).

From the current fiscal year, NRI adopted the "Practical Solution on Transactions of Delivering NRI's Own Stock to Employees etc. through Trusts" (Accounting Standards Board of Japan (ASBJ) Practical Issues Task Force (PITF) No. 30). NRI has retroactively applied this change in accounting policy to financial results for the previous fiscal year to enable year-on-year comparisons.

## •Business Results by Segment

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

### Consulting

Our services range from policy recommendations, strategy consulting and operational consulting offering support for business reform to system consulting for all phases of IT management.

Overseas, NRI invested in an Indian market research company and made it an affiliated company in order to strengthen our research and consulting business base in India. In addition to supporting Japanese companies moving into overseas markets, particularly in Asia where business expansion is expected, NRI is also expanding service provision to local governments and companies.

In the current fiscal year, business consulting increased on the back of improved corporate earnings. Consulting for the public sector also increased, mainly comprising consulting to assist the formulation and implementation of policy.

As a result of the above, the Consulting segment posted sales of ¥25,820 million (up 12.7% year on year) and operating profit of ¥4,708 million (up 68.1%).

### Financial IT Solutions

In this segment, the main clients are in the financial sector, including the securities, insurance and banking sectors. The segment provides system consulting, system development and system management and operation services, and it provides IT solutions such as shared online services.

NISA (a tax-exempt investment account for small investments) were introduced in January 2014. In response, NRI started providing shared online services for NISA products. With further revisions to financial systems in the pipeline, NRI will steadily respond to regulatory changes, such as the Social Security and Tax Number System and the unified tax on financial products, in order to further expand our shared online services business.

In addition, NRI secured more clients for our front office systems, which support consulting-based sales of financial products, and for our shared internet banking system.

During the current fiscal year, sales generated from system development and application sales in the securities and insurance sectors declined. However, there was an increase in system management and operation services, mainly in the securities sector, due to the start of STAR services for major clients in the securities sector and increased activity in equities markets. Costs increased on some projects and NRI incurred some costs related to system disruption in system management and operation services for the securities sector, but profitability improved year on year due to a small impact from unprofitable projects.

As a result of the above, the Financial IT Solutions segment posted sales of ¥225,345 million (up 2.5% year on year) and operating profit of ¥27,809 million (up 24.8%).

## Industrial IT Solutions

This segment provides system consulting, system development, system management and operation services, and other services to the distribution, manufacturing, service and public sectors.

In this segment, NRI has been making efforts to provide IT solution proposals while working closely with the Consulting segment, which has a large number of clients in the industrial sectors, to expand the client base. Also, as individual companies are finding it increasingly difficult to handle IT themselves, NRI is using our system consulting and IT solutions services to help companies restructure their IT divisions.

During the current fiscal year, the segment posted an increase in sales, mainly from system development using ERP packages to help enhance management efficiency and from system development for the telecommunications sector. Although there was an increase in costs related to projects aimed at expanding the client base, profitability improved due to efforts to strengthen project management.

As a result of the above, the Industrial IT Solutions segment posted sales of ¥87,389 million (up 4.5% year on year) and

operating profit of ¥8,408 million (up 29.8%).

## IT Platform Services

Operations in this segment comprise the provision of services such as the management and operation of data centers and IT platform/network construction to the Financial IT Solutions and Industrial IT Solutions businesses. This business also provides IT platform solutions and information security services to clients in various industries. We also carry out research toward development of new IT solution businesses and products, and research in cutting-edge information technology.

In this segment, NRI has been making efforts to expand our client base by not only renewing clients' IT platforms, but also by proposing IT platform solutions to clients that help them improve their businesses and revenues. In the data center business, NRI plans to build a new data center in the Osaka area. The new data center is scheduled to start operations in the fiscal year ending 31st March, 2017.

During the current fiscal year, sales to external clients increased, centered on system development and application sales, partly reflecting IT platform architecture and IT platform renewal projects. Some projects became unprofitable due to increases in subcontracting costs and personnel expenses, while NRI also incurred costs related to the start of operations at Tokyo Data Center I. Consequently, profitability declined in this segment.

As a result of the above, the IT Platform Services segment posted sales of ¥114,624 million (up 10.9% year on year) and operating profit of ¥6,470 million (down 35.7%).

## Others

The Others segment comprises subsidiaries and others that provide system development and system management and operation services not included in the other four segments.

The Others segment posted sales of ¥15,332 million (up 20.5% year on year) and operating profit of ¥1,281 million (up 12.7%).

## •Results of Operations of the Fiscal Year ended 31st March, 2014

### <1> Sales and operating profit

As mentioned in "Business Overview," sales were ¥385,932 million (up 6.1% year on year) and operating profit was ¥49,816 million (up 13.3%). As a result, the operating profit margin was 12.9% (up 0.8 percentage points).

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

Non-operating income totaled ¥2,791 million (up 46.1% year on year) because of an increase in dividend income from securities held and non-operating expenses were ¥247 million (¥19 million for the previous fiscal year) as a result of bond issuance cost and interest expense due to the issuance of corporate bonds. Non-operating profit was thus ¥2,544 million (up 34.5%), and ordinary profit came to ¥52,360 million (up 14.2%).

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

Extraordinary income amounted to ¥349 million (compared with an extraordinary loss of ¥2,988 million in the previous fiscal year). This was mainly because extraordinary income consisted of ¥303 million in reversal of share-based compensation and ¥61 million in gain on sale of investment securities while extraordinary loss consisted of ¥16 million in loss on valuation of investment securities.

With the application of tax-effect accounting, the effective tax rate was 40.2% and provision for income taxes came to ¥21,175 million (up 48.5%).

As a result of the above, net income for the year came to ¥31,527 million (up 10.2%).

## •Basic Policy Regarding Profit Distribution, and Dividend Payments for Current Fiscal Year

### (1) Policy for distribution of profits

NRI considers the ongoing growth of our corporate value to be the most important return to our shareholders. NRI's basic policy on the payment of dividends from surplus is to continue to provide stable dividends while securing sufficient retained earnings for our medium- to long-term business development, based on standards such as the operating revenue and cash flow situation. NRI has targeted a consolidated dividend payout ratio of 30%, but this was raised to 35% from the current fiscal year in order to increase the returns it provides to shareholders.

Retained earnings will be utilized as a source of funds for business expansion, including capital investment and R&D investment to enhance existing businesses and cultivate new businesses, investment in human resources development, and strategic investment such as M&A. Retained earnings may also be utilized to purchase treasury stock, as part of NRI's flexible capital management aimed at improving capital efficiency and responding to changes in the business environment.

In accordance with Article 459 of the Companies Act, NRI

stipulates in our Articles of Incorporation that we may pay dividends from surplus by a resolution of the Board of Directors based on record dates of 30th September and 31st March.

### (2) Payment of dividends from surplus

Based on the policy above and business results for the current fiscal year, NRI increased the dividend by ¥4.00 per share to ¥30 per share with the record date of the end of the current fiscal year (31st March, 2014).

Combined with interim cash dividends paid in November 2013 (the record date for interim dividends was 30th September, 2013), the annual dividend payment was ¥56 per share, resulting in a consolidated dividend payout ratio of 35.9%\*.

\*Consolidated dividend payout ratio = Total annual cash dividends (including dividends for the trust exclusive for NRI Group Employee Stock Ownership Group) / Consolidated net income

The payments of dividends from surplus 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
25th October, 2013	5,247 million yen	26 yen	30th September, 2013
14th May, 2014	6,064 million yen	30 yen	31st March, 2014

Note: The total cash dividends include dividends for the trust exclusive for NRI Group Employee Stock Ownership Group (portion decided by resolution in October 2013 was ¥81 million and the planned portion to be decided by resolution in May 2014 is ¥84 million).

## •Analysis of Financial Position at the End of the Fiscal Year ended 31st March, 2014

### <1> Summary

At the end of the current fiscal year (31st March, 2014), current assets increased ¥18,915 million to ¥208,121 million (up 10.0% year on year) and noncurrent assets increased ¥17,872 million to ¥260,888 million (up 7.4%). Current liabilities decreased ¥38,365 million to ¥79,841 million (down 32.5%) and noncurrent liabilities increased ¥34,563 million to ¥57,759 million (up 149.0%). Net assets increased ¥40,590 million to ¥331,408 million (up 14.0%) and total assets increased ¥36,787 million to ¥469,010 million (up 8.5%).

### <2>Accounts receivable and other receivables

In the current fiscal year, a large number of projects were completed in March. As a result, accounts receivable increased ¥13,085 million to ¥67,125 million (up 24.2% year on year). In addition, accounts receivable including development increased ¥11,011 million to ¥33,501 million (up 49.0%), reflecting larger system development projects with longer time frames.

### <3> Securities

Short-term investment securities declined ¥6,382 million to

¥83,803 million (down 7.1% year on year) and investment securities increased ¥6,388 million to ¥94,766 million (up 7.2%). Some securities reached maturity, but there was an increase in the value of NRI's shareholdings. Short-term investment securities are comprised of bond investment trusts (cash equivalents) and short-term bonds maturing within one year. Investment securities are comprised ¥54,847 million in equities (up 28.5%), ¥39,662 million in bonds (down 12.9%) and ¥257 million in equity investment partnerships and other investments (up 46.4%).

Investments in affiliates increased ¥1,350 million to ¥11,791 million (up 12.9%), owing to the acquisition of additional shares of Daiko Clearing Services Corporation and shares of Market Xcel Data Matrix Private Limited.

### <4> Fixed assets

Under property and equipment, buildings, net decreased ¥2,428 million to ¥38,073 million (down 6.0% year on year), machinery and equipment, net increased ¥1,190 million to ¥5,454 million (up 27.9%) and tools, furniture and fixtures increased ¥587 million to ¥7,066 million (up 9.1%). Property and equipment, net

decreased ¥688 million to ¥62,767 million (down 1.1%) and accounted for 13.4% of total assets. NRI invested ¥11,217 million (down 24.6%) in property and equipment during the fiscal year mostly comprising of capital expenditures relating to data centers.

#### <5> Software

Software (including software suspense accounts) decreased ¥118 million to ¥40,997 million (down 0.3% year on year), accounting for 8.7% of total assets. Software investment during the fiscal year was ¥22,655 million (up 40.3%), the bulk of which related to the development of shared online services.

#### <6> Retirement benefits

From the current fiscal year, NRI adopted the "Accounting Standard for Retirement Benefits" (ASBJ Statement No. 26 of 17th May, 2012) and the "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25 of 17th May, 2012), resulting in a change in the way retirement benefits are booked. Due to an increase in pension assets, net defined bene-

fit asset were ¥20,304 million, and due to a transfer of ¥15,000 million to an employee retirement benefit trust, net defined benefit liability were ¥4,542 million (as of the end of the previous fiscal year, provision for retirement benefits were ¥17,964 million).

#### <7> Others

During the current fiscal year, NRI record bonds of ¥30,000 million and long-term loans payable of ¥20,000 million as a result of procuring funds. In the previous fiscal year, NRI recorded ¥49,996 million in convertible bonds. These convertible bonds were eliminated from the balance sheet after reaching maturity in March 2014.

In addition, accounts payable increased ¥5,606 million to ¥26,103 million (up 27.4% year on year) and accounts payable-other declined ¥1,042 million to ¥3,695 million (down 22.0%), while accrued expenses increased ¥254 million to ¥5,097 million (up 5.3%) and provision for loss on orders received increased ¥2,504 million to ¥3,083 million (up 432.4%).

## •Cash Flow Position

Cash and cash equivalents as of the end of year (31st March, 2014) stood at ¥92,792 million down ¥6,830 million from the end of the previous fiscal year.

Net cash provided by operating activities in the current fiscal year was ¥33,839 million, a decrease of ¥34,760 million compared with the previous fiscal year. This reflected the contribution of ¥15,000 million to an employee retirement benefit trust and changes in accounts receivable and other receivables, net of advance payments received switching to a large increase.

Net cash used in investing activities was ¥32,234 million, a decline of ¥3,785 million from the previous fiscal year. Cash was mainly used for the acquisition of property and equipment

related to data centers, the purchase of software and other intangibles related to the development of shared online services, and the purchase of investment securities for fund management purposes.

Net cash used in financing activities was ¥8,773 million, a decline of ¥1,949 million from the previous fiscal year. The main uses of cash were ¥49,994 million for the redemption of convertible bonds and ¥10,477 million for cash dividends paid. The main sources of cash were ¥30,000 million from the proceeds from issuance of bonds and ¥20,000 million from the proceeds from loans payable.

# Facilities

Nomura Research Institute, Ltd.

During the fiscal year ended 31st March, 2014, NRI's total capital expenditures (including intangible fixed assets) came to ¥33,878 million. Major capital expenditures included development of shared online services to improve high value-added services in financial IT solutions and capital expenditure in data center related facilities in IT platform services.

The breakdown by business segment is listed below.

Other than these, there are no disposal or sale of major facilities, excluding the disposal or sale of facilities for regular updating.

Name of segment	Investment (millions of yen)
Consulting	52
Financial IT Solutions	19,590
Industrial IT Solutions	4,226
IT Platform Services	8,821
Others	848
Company-wide (common-use)	337
<b>Total</b>	<b>33,878</b>

## •Major Facilities

The major facilities of NRI are as follows.

### (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)				
Centers (Chiyoda-ku, Tokyo and other areas)	All segments	2,737	32	2,030	—	—	—	28,653	33,454	5,346 [1,065]
Data centers (Tama-shi, Tokyo and other areas)	IT Platform Services	33,852	4,948	3,127	44,958 [6,748]	9,572	15	1	51,517	135 [279]

Notes: 1. Figures are book values as of 31st March, 2014.

2. Some of the land and buildings at the offices in the listings above are rented, with annual rental expense of ¥9,776 million (includes land and buildings that are sublet to domestic subsidiaries). Leased land area is shown in square brackets [ ].

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

4. For the offices in the listings above, centers include office facilities and software and system development facilities and data centers are mainly data center facilities.

**(2) Domestic and Overseas Subsidiaries**

Name of company and 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 Subsidiaries)</b>										
NRI Netcom, Ltd. Headquarters (Kita-ku, Osaka)	Others	127	—	157	—	—	—	104	389	300 [87]
NRI Secure Technologies, Ltd. Headquarters (Chiyoda-ku, Tokyo)	IT Platform Services	193	—	871	—	—	—	381	1,445	216 [44]
NRI Workplace Services, Ltd. Headquarters (Hodogaya-ku, Yokohama)	Company-wide (common use)	528	—	13	7,385	1,805	—	6	2,353	145 [46]
NRI Data iTech, Ltd. Headquarters (Koto-ku, Tokyo)	IT Platform Services	23	—	16	—	—	—	6	45	159 [38]
NRI Process Innovation, Ltd. Headquarters (Kanagawa-ku, Yokohama)	Financial IT Solutions	7	2	12	—	—	—	66	88	150 [85]
NRI System Techno, LTD. Headquarters (Hodogaya-ku, Yokohama)	Industrial IT Solutions	36	—	32	—	—	1	53	124	328 [16]
<b>(Overseas Subsidiaries)</b>										
Nomura Research Institute (Beijing), Ltd. (Beijing, China)	Industrial IT Solutions	5	—	90	—	—	—	114	211	153 [1]
Nomura Research Institute Shanghai, Limited Headquarters (Shanghai, China)	Consulting	3	—	63	—	—	—	5	71	103 [—]
Nomura Research Institute Financial Technologies India Private Limited Headquarters (Kolkata, India)	Financial IT Solutions	—	—	60	2,023	13	—	36	110	292 [5]

Notes: 1. Figures are book values as of 31st March, 2014.

2. As individual facilities of subsidiaries are small, facilities are not listed individually but grouped together under each subsidiary.

3. Some of the land and buildings at the offices in the listings above are rented, with annual rental expense of ¥303 million (excluding rent for land and buildings sublet from NRI).

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

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

6. The facilities of the offices in the listings above are mainly office facilities and software and system development facilities. The facilities of NRI Workplace Services, Ltd. are mainly dormitories.



## •Capital Expenditure Plans for the Fiscal Year ending 31st March, 2015

We have capital expenditure plans a total of ¥34,000 million for the fiscal year ending 31st March, 2015, 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	Planned investment (millions of yen)	Major items and purposes
Consulting	50	•Office facilities
Financial IT Solutions	16,000	<ul style="list-style-type: none"> <li>•Software for internal use to provide services for financial industry and other clients, software development for sale purposes</li> <li>•Equipment for system development to provide services for financial industry and other clients, equipment to provide services installed in data centers</li> </ul>
Industrial IT Solutions	6,000	<ul style="list-style-type: none"> <li>•Software development for internal use to provide services for clients in the distribution, manufacturing, service, and other industries; software development for sale</li> <li>•Equipment for system development to provide services for clients in the distribution, manufacturing, service and other industries; equipment to provide services installed in data centers</li> </ul>
IT Platform Services	11,000	<ul style="list-style-type: none"> <li>•Construction of data center*</li> <li>•Acquisition of data center related facilities</li> <li>•Development of software for internal use relating to cloud services and IT platform services</li> </ul>
Others	800	•Software for internal use to provide client services, office equipment
Company-wide (common use)	150	•Office facilities
<b>Total</b>	<b>34,000</b>	

\* We plan to build a data center in Osaka Prefecture scheduled for completion in 2016.

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

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

Research and development activities are routinely pursued by the IT Platform Innovation Business Division, which is in charge of technology development for NRI, and the Center for Strategic Management & Innovation, which is in charge of policy recommendations and advanced technology functions. Further, individual business divisions, in pursuing medium- 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 the fiscal year ended 31st March, 2014, our research and development expenses amounted to ¥3,903 million. The research and development activities by each segment are as follows.

## Consulting

In the consumer field, we conducted a questionnaire survey of 10,000 consumers on the subject of financial services. In the industrial field, we carried out the research to realize corporate innovation, research on upgrading business strategy in China, and research on the long-term outlook for ASEAN countries and Japanese corporate strategy in ASEAN.

Research and development expenditure in the segment amounted to ¥781 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 firms and marketing support solutions that make use of investment product information. We conducted research related to the expansion of business process outsourcing (BPO) services, carried out the survey of consumer awareness of the NISA (a tax-exempt investment account for small investments), and conducted surveys on the financial IT market and service trends in the United States and Europe.

Our research and development expenses for the segment amounted to ¥1,502 million.

## Industrial IT Solutions

We conducted research on Sales & Operation Planning (S&OP)\*<sup>1</sup> and performed operation testing for Enterprise Resource Planning (ERP) system solutions.

Our research and development expenses for the segment amounted to ¥376 million.

## IT Platform Services

Our efforts included the creation of an IT roadmap of promising medium-term technology trends, the development of interfaces for smartphone, tablets and other devices, research on the use of wearable devices\*<sup>2</sup>, research on marketing technologies, research on the use of Big Data\*<sup>3</sup>, among other initiatives. Our research and development activities related to OpenID\*<sup>4</sup> protocol focused on standardization efforts and the evaluation of technologies and products. We also conducted research on the expanding of the development framework.

Our research and development expenses for the segment amounted to ¥916 million.

## Others

In addition to the above, we worked to further improve quality control by building an application production platform environment and studying tools for its introduction and conducting research to expand the functionality of project management support tools.

Our research and development expenses for the segment amounted to ¥326 million.

\*1 S&OP: Process that integrates business planning with procurement, production, sales and other planning to enable decision-making focused at the management level

\*2 Wearable devices: Terminals designed to be worn on the body.

\*3 Big Data: Huge, complex data arrays that cannot be managed with existing technology

\*4 OpenID: A technology that facilitates common user IDs to be used for multiple internet service

# Management Policy and Tasks

Nomura Research Institute, Ltd.

## (1) Basic Management Policy

NRI's corporate philosophy is "Dream up the future." NRI views our mission as the combination of "Building client trust and prospering together with them" and "Discerning new social paradigms and assuming the role of implementing such paradigms." Based on our corporate philosophy, 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 we involve taking responsibility.

## (2) Management Goal and Management Indices

The management objective of NRI is to enhance our corporate value by continuously expanding our 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. We also focus on ROE from the perspective of capital efficiency and work to increase sustainable shareholder value through EPS growth.

## (3) Medium- to Long-term Management Strategy

With IT use in business management becoming increasingly sophisticated, needs are increasing for faster and cheaper information system set-up and operation. In the set-up and operation of corporate information systems, 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. These third-party service providers must improve their ability to provide services. In addition, as clients' businesses transcend national and industry boundaries, achieving global response and functional links that cross industry barriers is increasingly important in the information service industry.

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

- To provide industry-standard business platforms, mainly in financial sector, and expand and upgrade the services we provide
- In industrial sectors, to expand industries and operations in which we specialize by providing services and attracting industry-leading clients, mainly wholesalers/retailers and businesses such as food or clothing manufacturers, etc. catering to consumers
- To expand our operations in the Asian region, for example China, India and the ASEAN economies, where future market growth is expected.

Under this strategy, NRI aims to achieve sustained growth in Japan and abroad while improving productivity, ensuring quality, and changing the mindset and improving the skills of our human resources to support these efforts, as well as formulating a system and environment capable of realizing the full potential of diverse personnel.

## (4) Management Tasks

When investing in information systems, companies are increasingly looking for systems that will keep pace with the rapidly changing IT environment, and they are also seeking to establish or strengthen structures that will enable business continuity in the event of a disaster or other emergency. Clients' expectations of information services companies are thus rising, but at the same time they are becoming increasingly focused on the cost of investment versus the benefits. Against this backdrop, NRI is expanding and upgrading our shared online services, which, as industry-standard business platforms, offer outstanding return on investment. At the same time, we are focused on designing and developing optimal information systems, ensuring stable system operation, protecting data in the event of disasters, and further strengthening information asset backup systems within our data centers.

Expanding our client base will be essential if we are to achieve growth over the medium to long term. A considerable proportion of NRI's clients are securities firms. To reduce the risk of sales fluctuations arising from a high exposure to a specific sector, we believe it is crucial to broaden our client base in the banking sector and in industry-related fields, and to expand overseas. In the banking sector, we are looking to expand the functionality of our shared online services, and we will also be looking to leverage business alliances with other companies to offer proposals to clients. In industrial fields, we will be looking to attract new clients by integrating the consulting and system engineering functions. We will also respond to the needs of distribution firms and other domestic clients who are expanding overseas. In terms of global expansion, we intend to acquire new clients in Asia, where prospects for market growth are favorable, by opening more offices mainly in the ASEAN region and enhancing our business promotion framework. In addition, we will be looking to hire and train local personnel and improve our domestic human resources development programs with a view to ensuring that our people can operate in a global business environment. To ensure steady and efficient progress toward these aims, we will be proactive in the use of external resources. This will mean business collaboration and M&As with domestic and foreign companies that have the requisite new technologies, experience, and superior networks.

Building the trust of our valued clients is essential if we are to maintain our client base. To achieve this, NRI aims to further improve the quality of our services. We will promote the standardization of development techniques in order to implement system development efforts according to plan, as well as our know-how for realizing stable system operations, and strengthen our development and operation monitoring system. NRI will also continuously provide employee education and training geared toward supporting these initiatives. As an information services provider, we will further fortify our information security management and data center management and administration efforts.

Items that could have an important influence on investor judgments in NRI'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, 2014, but the potential risks are not limited to those listed below. Furthermore, items herein relating to future events are based on judgments by NRI as of the end of the fiscal year under review.

## **(1) Risks Concerning the Management Strategies**

### **<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, NRI strives to differentiate our services from those of our competitors by offering high value-added services that enhance our 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, NRI's business performance may be adversely affected.

### **<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, NRI is striving to respond rapidly to technological innovations by being active in investigation and research of advanced, basic, and developmental IT technologies through implementing 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 NRI's business performance.

### **<3> 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, NRI 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 NRI.

### **<4> Investment in software**

NRI invests in software to expand our 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 NRI, 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> Dependence on specific business categories and clients**

NRI sales showed strong dependence on specific business sectors and clients. In the fiscal year ended 31st March, 2014, sales of Financial IT Solutions to external clients mainly in the financial sector accounted for 60% of total sales. Moreover, NRI's combined sales to our major clients, Nomura Holdings, Inc. and its subsidiaries, and Seven & i Holdings Co., Ltd. and its subsidiaries, accounted for one-third of consolidated sales.

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

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

### **<6> Investments, M&As, alliances**

NRI invests in various companies with a view to developing future business opportunities, and it also takes equity stakes in clients to strengthen business relationships, considering expected return on investment. NRI also undertakes M&As and forms business alliances with a view to strengthening the operating base.

Such actions involve careful prior examination of the target company's financial standing and its business activities, and decisions are made only after all the necessary information has been gathered and due diligence exercised.

Nomura Research Institute, Ltd.

Despite this approach, there is a possibility that investments, M&As, and alliances have an adverse impact on NRI's performance in the event that unforeseen problems arise after deals have been completed, or that the expected benefits fail to materialize.

#### <7> *Capital relationship with Nomura Holdings, Inc., and its affiliates*

As of 31st March, 2014, Nomura Holdings, Inc., held 38.0% of the voting rights of NRI (including 31.6% of indirectly held voting rights). In addition, affiliated companies (JAFCO Co., Ltd. and Takagi Securities Co., Ltd.) held 8.8% of NRI's voting rights.

There is no guarantee that the percentage of voting rights held by Nomura Holdings, Inc., and its affiliates will remain stable. Furthermore, the exercise of voting rights by Nomura Holdings, Inc., and its affiliates may not necessarily be aligned with the interests of other NRI shareholders.

#### **(2) Business continuation**

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.

NRI has prepared a contingency plan (emergency response plan) outlining the emergency response system and action guidelines in the event a large-scale disaster, large-scale system 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 NRI meet the highest Japanese standards for disaster preparation, in terms of security measure and earthquake resistance among other aspects. We intend to further reinforce our backup systems for NRI'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 interruption of operations is unavoidable, provision of services at the standards agreed upon with clients may not be feasible and could potentially affect NRI's performance.

#### **(3) Intellectual property rights**

NRI is 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, NRI 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 NRI.

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

#### **(4) Laws and regulations**

NRI is subject to domestic and overseas laws and regulations when conducting our business activities. NRI has established a compliance structure and makes every effort to ensure compliance with laws and regulations.

However, there is a possibility that the breach of laws and regulations or the implementation of new laws and regulations could have a negative impact on NRI's operations and performance.

#### **(5) 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 NRI constantly handles 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, in the event that information leaks occur despite our efforts, factors such as claims for compensation for damages from clients and others and a loss of confidence in NRI could potentially affect NRI's performance.

#### **(6) Quality of services**

NRI aims to provide clients with high value-added services by taking advantage of our 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 objec-

tives, 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 sharing of information on the expertise accumulated within NRI. 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 person-hours are required than initially estimated because of the client'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, NRI 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 Systems 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 person-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 NRI.

#### *iii. System management and operation services*

The information systems developed by NRI 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.

NRI 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.

Data centers play a crucial role in the economy and society, and we are keenly aware of their importance. NRI has in place an operating structure that enhances security and regularly evaluates and verifies their operating status.

Nevertheless, there is a possibility that the stability of data-center operations may not meet the standards agreed to with clients despite our efforts, as a result of human failure to follow correct operating procedures, equipment failure, or power outages and other infrastructure-related problems. Such adverse developments could not only have a negative impact on our performance but could also damage the reputation of NRI.

#### **(7) Subcontracting partners**

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

#### *i. Good business relationships with subcontractors*

In the fiscal year ended 31st March, 2014, our subcontractors were responsible for 50% of NRI's actual production. It is essential to secure top-level subcontractors and maintain a good business relationship with them in order to carry out NRI's operation.

At NRI, 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 e-Partner 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 15% 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 which are different from those in Japan.

**ii. Contract work**

There have been calls for appropriate responses in compliance with labor-related laws when contracting business outsourcing work carried out under service contracts.

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

If despite these efforts, work outside the scope of the contract work is carried out and disguised contract issues and so forth arise, NRI may lose credibility.

**(8) Human resources**

NRI 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 NRI and our clients and ultimately enable NRI to achieve medium- to long-term growth.

We 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 strive to recruit highly capable staff with specialized skills, 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 resources development seminars at a facility dedicated to employee education and training. We encourage employees to improve themselves by taking advantage of NRI's internal certification program.

Despite these efforts, if we fail to secure and develop professionals who can respond to the highly specialized demands of our clients, NRI'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.

**(9) Securities holdings**

NRI holds stocks of client companies with a view to strengthening business ties and bonds for investment purposes.

In the event of business deterioration or bankruptcy at an issuer, NRI may incur an impairment loss or be unable to recover our investment. Moreover, market prices for these securities fluctuate in line with the economic environment, market trends, and

earnings at issuers. Such fluctuations can affect NRI's financial position.

**(10) Assets and liabilities related to retirement benefit**

NRI has established a defined contribution pension system and a retirement allowance system as our 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.

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

## Significant Accounting Policies and Estimates

The accompanying financial statements for NRI 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 influence the stated value of assets, liabilities, income and expenditure. An estimate deemed reasonable in view of historical experience or current circumstances may differ from the actual figure, owing to the inherent uncertainty of estimates.

The significant accounting policies used in the preparation of NRI's consolidated financial statements are described in Consolidated Financial Statements and Notes to the Consolidated Financial Statements (Significant Accounting Policies). We think the following accounting policies and estimates in particular could have significant influence on NRI's financial statements.

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

NRI in principle uses the percentage-of-completion method for recognizing sales and cost of sales of subcontracted software development and consulting projects. In practice, cost of sales is recognized as incurred, 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). Receivables corresponding to sales on projects that are incomplete at the end of the fiscal year are recorded on the consolidated balance sheet as accounts receivable including development.

The percentage-of-completion method is adopted on the assumption that for each project it is possible to reasonably estimate the total costs and rate of work in progress, which form the basis for recognition of sales. We have put in place a project management structure that enables us to accurately estimate costs at the time orders are received and to monitor work in progress. We revise our estimates immediately if a project deviates beyond prescribed limits from initial estimates. Accordingly, we are confident that such revenues are recorded with a high level of accuracy.

### <2> *Accounting method for software*

In the development of software packages, and the development of information systems for 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 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 NRI to collect our returns on our 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 NRI to provide services as part of shared online services is carried out according to the straight-line 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*

Retirement benefit obligations and pension assets are calculated based on certain forward-looking estimates including discount rate, long-term expected rate of return on pension assets, among others. The discount rate used in calculating retirement benefit obligations is determined based on the yield of highly stable bonds. The long-term expected rate of return on pension assets is determined factoring in future earnings forecasts and historical operating results.

Discrepancies between estimates and results, and changes in estimates, may impact future retirement benefit obligations and retirement benefit expenses.

### <4> *Deferred income tax assets*

NRI 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 tax system and the business environment.

### <5> *Transactions of Delivering NRI's Own Stock to Employees etc. through Trusts*

NRI introduced a "Trust-type Employee Stock Ownership Incentive Plan" in March 2011. The plan was set up to enable all employees who are members of the NRI Group Employee Stock Ownership Group to benefit from gains in NRI's share price. The Employee Stock Ownership Trust (hereafter the "ESOP Trust"), which was set up for this incentive plan, acquired the number of NRI's shares which the ESOP Group would have acquired over a period of five years subsequent to the establishment of the ESOP Trust. Then, the ESOP Trust sells them to the ESOP Group each time the ESOP Group is to acquire NRI's shares. When the share price appreciates and earnings have accumulated in the ESOP Trust, a cash distribution of the funds will be made to beneficiaries upon its termination. Since NRI guarantees the loans of the ESOP Trust taken out to purchase NRI's shares, NRI is obligated to pay the remaining liabilities of the ESOP Trust under a guarantee agreement if any obligations remain unsettled upon termination of the ESOP Trust.

NRI includes the assets and liabilities of the ESOP Trust at the end of the fiscal year in the accompanying consolidated balance sheet. NRI recognizes the transfer of treasury stock when NRI sells treasury stock to the ESOP Trust and records the acquisition costs of NRI's shares that the ESOP Trust owns at the end of the fiscal year in the net assets section as treasury stock. As for the earnings on stock in the ESOP Trust, NRI records them in the liabilities section as a suspense account to be settled. NRI records

Nomura Research Institute, Ltd.

the losses on stock in the ESOP Trust in the assets section as a suspense account to be settled and also a provision when it is expected that the outstanding loans used to purchase shares will remain unsettled at the termination of the ESOP Trust.

## **Consolidated Financial Statements**

**Nomura Research Institute, Ltd.**

*At 31st March, 2014 and for the year then ended  
with Independent Auditor's Report*

Nomura Research Institute, Ltd.  
Consolidated Financial Statements

31st March, 2012 (unaudited) , 2013 and 2014

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## Independent Auditor's Report

The Board of Directors  
 Nomura Research Institute, Ltd.

We have audited the accompanying consolidated financial statements of Nomura Research Institute, Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2014, and the consolidated statements of income and comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

### *Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Nomura Research Institute, Ltd. and its consolidated subsidiaries as at March 31, 2014, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

### *Convenience Translation*

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 2.

*Ernst & Young ShinNihon LLC*

June 19, 2014  
 Tokyo, Japan



## Nomura Research Institute, Ltd.

## Consolidated Balance Sheet

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars (Note 2)</i>
	<b>31st March,</b>		<b>31st March,</b>
	<b>2013</b>	<b>2014</b>	<b>2014</b>
<b>Assets</b>			
Current assets:			
Cash and bank deposits ( <i>Notes 3 and 12</i> )	¥ 10,274	¥ 9,886	\$ 96,093
Short-term investment securities ( <i>Notes 3, 4 and 12</i> )	90,186	83,804	814,580
Accounts receivable and other receivables ( <i>Notes 3 and 6</i> )	76,530	100,627	978,101
Inventories	224	1,264	12,286
Deferred income taxes ( <i>Note 10</i> )	7,251	8,136	79,082
Other current assets	4,815	4,503	43,769
Allowance for doubtful accounts	(74)	(99)	(962)
Total current assets	189,206	208,121	2,022,949
Property and equipment ( <i>Note 7</i> ):			
Land	12,141	12,154	118,138
Buildings, net	40,502	38,074	370,082
Machinery and equipment, net	10,743	12,521	121,704
Leased assets, net ( <i>Note 14</i> )	70	19	185
Property and equipment, net	63,456	62,768	610,109
Software and other intangibles	42,854	42,713	415,173
Investment securities ( <i>Notes 3 and 4</i> )	88,378	94,767	921,142
Investments in affiliates ( <i>Notes 3 and 4</i> )	10,441	11,791	114,609
Deferred income taxes ( <i>Note 10</i> )	14,381	3,135	30,472
Long-term loans receivable ( <i>Note 3</i> )	7,937	8,056	78,305
Lease investment assets	436	663	6,444
Net defined benefit asset ( <i>Note 9</i> )	–	20,304	197,356
Other assets ( <i>Note 8</i> )	15,179	16,775	163,054
Allowance for doubtful accounts	(46)	(83)	(807)
Total assets	¥432,222	¥469,010	\$4,558,806

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars (Note 2)</i>
	<b>31st March,</b>		<b>31st March,</b>
	<b>2013</b>	<b>2014</b>	<b>2014</b>
<b>Liabilities and Net Assets</b>			
Current liabilities:			
Accounts payable (Note 3)	¥ 20,498	¥ 26,104	\$ 253,733
Current portion of convertible bonds (Note 3)	49,996	–	–
Current portion of long-term loans payable (Note 3)	2,453	2,280	22,162
Lease obligations, current	268	251	2,440
Accrued expenses	18,664	20,128	195,645
Income taxes payable	11,318	13,345	129,714
Advance payments received	5,184	7,025	68,283
Asset retirement obligations	3	–	–
Provision for loss on orders received	579	3,083	29,967
Other current liabilities	9,245	7,626	74,125
Total current liabilities	118,208	79,842	776,069
Bonds (Note 3)	–	30,000	291,602
Long-term loans payable (Note 3)	4,250	22,055	214,376
Lease obligations	342	459	4,462
Deferred income taxes (Note 10)	38	39	379
Provision for retirement benefits (Note 9)	17,965	–	–
Net defined benefit liability (Note 9)	–	4,543	44,158
Asset retirement obligations	601	608	5,910
Other long-term liabilities	–	55	534
Commitments and contingent liabilities (Note 20)			
Net assets (Notes 11 and 13):			
Shareholders' equity:			
Common stock:			
Authorized – 750,000 thousand shares at 31st March, 2013 and 2014			
Issued – 225,000 thousand shares at 31st March, 2013 and 2014	18,600	18,600	180,793
Additional paid-in capital	14,800	15,003	145,830
Retained earnings	303,299	325,476	3,163,647
Treasury stock, at cost:			
– 27,385 thousand shares at 31st March, 2013 and 25,651 thousand shares at 31st March, 2014	(63,666)	(59,870)	(581,940)
Total shareholders' equity	273,033	299,209	2,908,330
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities (Note 4)	17,937	24,037	233,640
Deferred losses on hedges (Note 5)	–	(38)	(369)
Foreign currency translation adjustment	(1,640)	(968)	(9,409)
Remeasurements of defined benefit plans (Note 9)	–	8,110	78,830
Total accumulated other comprehensive income	16,297	31,141	302,692
Share subscription rights (Note 21)	1,410	973	9,458
Minority interests	78	86	836
Total net assets	290,818	331,409	3,221,316
Total liabilities and net assets	¥432,222	¥469,010	\$4,558,806

See accompanying notes to consolidated financial statements.

## Nomura Research Institute, Ltd.

## Consolidated Statement 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>2012</b>	<b>2013</b>	<b>2014</b>	<b>2014</b>
	<b>(Unaudited)</b>			
Sales	¥335,555	¥363,891	¥385,932	\$3,751,283
Cost of sales (Note 15)	235,516	262,316	276,664	2,689,191
Gross profit	100,039	101,575	109,268	1,062,092
Selling, general and administrative expenses (Notes 16 and 17)	56,886	57,608	59,451	577,868
Operating profit	43,153	43,967	49,817	484,224
Other income (expenses):				
Interest and dividend income	1,363	1,268	1,923	18,692
Interest expense	(71)	(6)	(59)	(573)
Equity in earnings of affiliates	111	339	533	5,181
Bonds issuance cost	-	-	(91)	(885)
Commission paid	-	(1)	(46)	(447)
Loss on property and equipment	-	(7,732)	-	-
Gain (loss) on investment securities (Note 4)	(130)	(75)	45	437
Gain on bargain purchase	-	4,661	-	-
Gain on investments in affiliates (Note 4)	8,564	-	-	-
Special dividend income	3,011	-	-	-
Reversal of share-based compensation (Note 21)	73	158	304	2,955
Other, net	131	291	284	2,760
	13,052	(1,097)	2,893	28,120
Income before income taxes and minority interests	56,205	42,870	52,710	512,344
Provision for income taxes (Note 10):				
Current	19,501	16,679	18,971	184,399
Deferred	3,783	(2,418)	2,204	21,423
	23,284	14,261	21,175	205,822
Income before minority interests	32,921	28,609	31,535	306,522
Income (loss) attributable to minority interests	-	(4)	8	78
Net income (Note 13)	¥ 32,921	¥ 28,613	¥ 31,527	\$ 306,444
Income (loss) attributable to minority interests	¥ -	¥ (4)	¥ 8	\$ 78
Income before minority interests	32,921	28,609	31,535	306,522
Other comprehensive income (Note 18):				
Valuation difference on available-for-sale securities	1,708	9,701	6,092	59,215
Deferred losses on hedges (Note 5)	-	-	(38)	(369)
Foreign currency translation adjustment	94	898	638	6,201
Remeasurements of defined benefit plans, net of tax (Note 9)	-	-	10,366	100,758
Share of other comprehensive income of affiliates	6	307	61	593
Total other comprehensive income	1,808	10,906	17,119	166,398
Comprehensive income	¥ 34,729	¥ 39,515	¥ 48,654	\$ 472,920
Comprehensive income attributable to:				
Comprehensive income attributable to owners of the parent	¥ 34,729	¥ 39,519	¥ 48,646	\$ 472,842
Comprehensive income attributable to minority interests	-	(4)	8	78

See accompanying notes to consolidated financial statements.

## Nomura Research Institute, Ltd.

## Consolidated Statement of Changes in Net Assets

<i>Millions of yen</i>					
Shareholders' equity					
	Common stock	Additional paid-in capital	Retained earnings	Treasury stock, at cost	Total shareholders' equity
<b>Balance at 1st April, 2011 (unaudited)</b>	¥18,600	¥14,994	¥264,866	¥(72,285)	¥226,175
Disposition of treasury stock	-	-	-	3,444	3,444
Loss on disposition of treasury stock	-	(194)	(735)	-	(929)
Net income	-	-	32,921	-	32,921
Cash dividends paid	-	-	(10,145)	-	(10,145)
Net changes other than in shareholders' equity	-	-	-	-	-
<b>Balance at 1st April, 2012 (unaudited)</b>	¥18,600	¥14,800	¥286,907	¥(68,841)	¥251,466
Cumulative effect of changes in accounting policies	-	-	(2,412)	2,369	(43)
Balance as restated	18,600	14,800	284,495	(66,472)	251,423
Purchase of treasury stock	-	-	-	(0)	(0)
Disposition of treasury stock	-	-	-	2,806	2,806
Loss on disposition of treasury stock	-	-	(57)	-	(57)
Net income	-	-	28,613	-	28,613
Cash dividends paid	-	-	(10,456)	-	(10,456)
Change of scope of equity method	-	-	704	-	704
Net changes other than in shareholders' equity	-	-	-	-	-
<b>Balance at 1st April, 2013</b>	¥18,600	¥14,800	¥303,299	¥(63,666)	¥273,033
Cumulative effect of changes in accounting policies	-	-	1,126	-	1,126
Balance as restated	18,600	14,800	304,425	(63,666)	274,159
Purchase of treasury stock	-	-	-	(0)	(0)
Disposition of treasury stock	-	-	-	3,796	3,796
Gain on disposition of treasury stock	-	203	-	-	203
Net income	-	-	31,527	-	31,527
Cash dividends paid	-	-	(10,476)	-	(10,476)
Net changes other than in shareholders' equity	-	-	-	-	-
<b>Balance at 31st March, 2014</b>	¥18,600	¥15,003	¥325,476	¥(59,870)	¥299,209

<i>Millions of yen</i>								
Accumulated other comprehensive income								
	Valuation difference on available-for-sale securities	Deferred losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Share subscription rights	Minority interests	Total net assets
<b>Balance at 1st April, 2011 (unaudited)</b>	¥ 6,258	¥ -	¥(2,675)	¥ -	¥ 3,583	¥1,317	¥ -	¥231,075
Disposition of treasury stock	-	-	-	-	-	-	-	3,444
Loss on disposition of treasury stock	-	-	-	-	-	-	-	(929)
Net income	-	-	-	-	-	-	-	32,921
Cash dividends paid	-	-	-	-	-	-	-	(10,145)
Net changes other than in shareholders' equity	1,708	-	100	-	1,808	103	-	1,911
<b>Balance at 1st April, 2012 (unaudited)</b>	¥ 7,966	¥ -	¥(2,575)	¥ -	¥ 5,391	¥1,420	¥ -	¥258,277
Cumulative effect of changes in accounting policies	-	-	-	-	-	-	-	(43)
Balance as restated	7,966	-	(2,575)	-	5,391	1,420	-	258,234
Purchase of treasury stock	-	-	-	-	-	-	-	(0)
Disposition of treasury stock	-	-	-	-	-	-	-	2,806
Loss on disposition of treasury stock	-	-	-	-	-	-	-	(57)
Net income	-	-	-	-	-	-	-	28,613
Cash dividends paid	-	-	-	-	-	-	-	(10,456)
Change of scope of equity method	-	-	-	-	-	-	-	704
Net changes other than in shareholders' equity	9,971	-	935	-	10,906	(10)	78	10,974
<b>Balance at 1st April, 2013</b>	¥17,937	¥ -	¥(1,640)	¥ -	¥16,297	¥1,410	¥78	¥290,818
Cumulative effect of changes in accounting policies	-	-	-	(2,274)	(2,274)	-	-	(1,148)
Balance as restated	17,937	-	(1,640)	(2,274)	14,023	1,410	78	289,670
Purchase of treasury stock	-	-	-	-	-	-	-	(0)
Disposition of treasury stock	-	-	-	-	-	-	-	3,796
Gain on disposition of treasury stock	-	-	-	-	-	-	-	203
Net income	-	-	-	-	-	-	-	31,527
Cash dividends paid	-	-	-	-	-	-	-	(10,476)
Net changes other than in shareholders' equity	6,100	(38)	672	10,384	17,118	(437)	8	16,689
<b>Balance at 31st March, 2014</b>	¥24,037	¥(38)	¥ (968)	¥ 8,110	¥31,141	¥ 973	¥86	¥331,409

## Nomura Research Institute, Ltd.

## Consolidated Statement of Changes in Net Assets (continued)

<i>Thousands of U.S. dollars (Note 2)</i>							
<b>Shareholders' equity</b>							
	<b>Common stock</b>	<b>Additional paid-in capital</b>	<b>Retained earnings</b>	<b>Treasury stock, at cost</b>	<b>Total shareholders' equity</b>		
<b>Balance at 1st April, 2013</b>	\$180,793	\$143,857	\$2,948,085	\$(618,837)	\$2,653,898		
Cumulative effect of changes in accounting policies	-	-	10,945	-	10,945		
Balance as restated	180,793	143,857	2,959,030	(618,837)	2,664,843		
Purchase of treasury stock	-	-	-	(0)	(0)		
Disposition of treasury stock	-	-	-	36,897	36,897		
Gain on disposition of treasury stock	-	1,973	-	-	1,973		
Net income	-	-	306,444	-	306,444		
Cash dividends paid	-	-	(101,827)	-	(101,827)		
Net changes other than in shareholders' equity	-	-	-	-	-		
<b>Balance at 31st March, 2014</b>	<u>\$180,793</u>	<u>\$145,830</u>	<u>\$3,163,647</u>	<u>\$(581,940)</u>	<u>\$2,908,330</u>		

<i>Thousands of U.S. dollars (Note 2)</i>								
<b>Accumulated other comprehensive income</b>								
	<b>Valuation difference on available-for- sale securities</b>	<b>Deferred losses on hedges</b>	<b>Foreign currency translation adjustment</b>	<b>Remeasurements of defined benefit plans</b>	<b>Total accumulated other comprehensive income</b>	<b>Share subscription rights</b>	<b>Minority interests</b>	<b>Total net assets</b>
<b>Balance at 1st April, 2013</b>	\$174,349	\$ -	\$(15,941)	\$ -	\$158,408	\$13,705	\$758	\$2,826,769
Cumulative effect of changes in accounting policies	-	-	-	(22,103)	(22,103)	-	-	(11,158)
Balance as restated	174,349	-	(15,941)	(22,103)	136,305	13,705	758	2,815,611
Purchase of treasury stock	-	-	-	-	-	-	-	(0)
Disposition of treasury stock	-	-	-	-	-	-	-	36,897
Gain on disposition of treasury stock	-	-	-	-	-	-	-	1,973
Net income	-	-	-	-	-	-	-	306,444
Cash dividends paid	-	-	-	-	-	-	-	(101,827)
Net changes other than in shareholders' equity	59,291	(369)	6,532	100,933	166,387	(4,247)	78	162,218
<b>Balance at 31st March, 2014</b>	<u>\$233,640</u>	<u>\$(369)</u>	<u>\$ (9,409)</u>	<u>\$ 78,830</u>	<u>\$302,692</u>	<u>\$ 9,458</u>	<u>\$836</u>	<u>\$3,221,316</u>

See accompanying notes to consolidated financial statements.

## Nomura Research Institute, Ltd.

## Consolidated Statement 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>2012</b>	<b>2013</b>	<b>2014</b>	<b>2014</b>
	<b>(Unaudited)</b>			
<b>Cash flows from operating activities</b>				
Income before income taxes and minority interests	¥ 56,205	¥ 42,870	¥ 52,710	\$ 512,344
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:				
Depreciation and amortization	30,875	42,475	34,118	331,629
Interest and dividend income	(4,374)	(1,268)	(1,923)	(18,692)
Interest expense	71	6	59	573
Loss on property and equipment	–	7,732	–	–
Loss (gain) on investment securities	130	75	(45)	(437)
Gain on bargain purchase	–	(4,661)	–	–
Gain on investments in affiliates	(8,564)	–	–	–
Changes in operating assets and liabilities:				
Accounts receivable and other receivables, net of advance payments received	(5,728)	1,834	(22,038)	(214,210)
Allowance for doubtful accounts	(42)	(7)	59	573
Accounts payable	1,482	(4,217)	5,716	55,560
Inventories	78	(18)	(1,041)	(10,119)
Provision for retirement benefits	(3,438)	(1,728)	(17,568)	(170,762)
Net defined benefit asset	–	–	(5,414)	(52,624)
Net defined benefit liability	–	–	3,666	35,634
Provision for loss on orders received	–	169	2,504	24,339
Other	834	(570)	(2,234)	(21,714)
Subtotal	67,529	82,692	48,569	472,094
Interest and dividends received	4,499	1,528	2,347	22,813
Interest paid	(72)	(56)	(86)	(836)
Income taxes paid	(18,889)	(15,564)	(16,990)	(165,144)
Net cash provided by operating activities	53,067	68,600	33,840	328,927
<b>Cash flows from investing activities</b>				
Payments for time deposits	(782)	(1,111)	(922)	(8,962)
Proceeds from time deposits	853	1,051	951	9,244
Purchase of short-term investment securities	(13,234)	–	–	–
Proceeds from sales and redemption of short-term investment securities	14,910	11,800	–	–
Acquisition of property and equipment	(20,848)	(15,668)	(11,734)	(114,055)
Proceeds from sales of property and equipment	34	1,158	1	10
Purchase of software and other intangibles	(21,399)	(16,162)	(22,620)	(219,868)
Proceeds from sales of software and other intangibles	346	0	–	–
Payments for asset retirement obligations	(31)	(40)	(0)	(0)
Purchase of investment securities	(29,285)	(21,415)	(7,474)	(72,648)
Proceeds from sales and redemption of investment securities	5,351	6,614	10,450	101,575
Purchase of investments in affiliates	–	(2,264)	(903)	(8,777)
Proceeds from sales of investments in affiliates (Note 19)	16,326	–	–	–
Other	27	17	17	165
Net cash used in investing activities	¥(47,732)	¥(36,020)	¥(32,234)	\$(313,316)



## Nomura Research Institute, Ltd.

## Consolidated Statement 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>2012</b>	<b>2013</b>	<b>2014</b>	<b>2014</b>
	<b>(Unaudited)</b>			
<b>Cash flows from financing activities</b>				
Increase in short-term loans payable	¥ 6,922	¥ 554	¥ 1,380	\$ 13,414
Decrease in short-term loans payable	(6,922)	(554)	(1,380)	(13,414)
Proceeds from long-term loans payable	–	–	20,000	194,401
Repayment of long-term loans payable	(2,575)	(2,506)	(2,368)	(23,017)
Proceeds from issuance of bonds	–	–	29,909	290,717
Redemption of convertible bonds	–	–	(49,994)	(485,944)
Repayment of obligation under finance leases	(53)	(107)	(128)	(1,244)
Proceeds from sales of treasury stock	2,337	2,344	4,285	41,650
Purchase of treasury stock	–	(0)	(0)	(0)
Cash dividends paid	(10,148)	(10,454)	(10,477)	(101,837)
Net cash used in financing activities	(10,439)	(10,723)	(8,773)	(85,274)
Effect of exchange rate changes on cash and cash equivalents	63	722	336	3,265
Net increase (decrease) in cash and cash equivalents	(5,041)	22,579	(6,831)	(66,398)
Cash and cash equivalents at beginning of year	82,085	77,044	99,623	968,342
Cash and cash equivalents at end of year <i>(Note 12)</i>	¥ 77,044	¥ 99,623	¥ 92,792	\$ 901,944

See accompanying notes to consolidated financial statements.

## Nomura Research Institute, Ltd.

## Notes to the Consolidated Financial Statements

31st March, 2012 (unaudited) , 2013 and 2014

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

The NRI Group (Nomura Research Institute, Ltd. (the “Company”) and its 21 consolidated subsidiaries) and its affiliates (4 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 NRI Group’s operations by segment is included in Note 22.

***Basis of Presentation***

The accompanying consolidated financial statements of the NRI Group 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.

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

The accompanying consolidated financial statements for the years ended 31st March, 2012, 2013 and 2014 include the accounts of the Company and all companies which are controlled directly or indirectly by the Company. All subsidiaries (15, 21 and 21 for the years ended 31st March, 2012, 2013 and 2014, respectively) have been consolidated. The major consolidated subsidiaries are NRI Netcom, Ltd., NRI SecureTechnologies, Ltd., and NRI System Techno, LTD. as of 31st March, 2014.

The NRI Group’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 NRI Group’s share of such affiliates’ income or loss is included in consolidated income. All affiliated companies (2, 3 and 4 for the years ended 31st March, 2012, 2013 and 2014, respectively) have been accounted for by the equity method. The affiliated companies are Nippon Clearing Services Co., Ltd., MC NRI GLOBAL SOLUTIONS, INC., Daiko Clearing Services Corporation (“Daiko Clearing Services”) and Market Xcel Data Matrix Private Limited as of 31st March, 2014.

The NRI Group acquired shares of Market Xcel Data Matrix Private Limited during the year ended 31st March, 2014. As a result, Market Xcel Data Matrix Private Limited is newly accounted for by the equity method.

## 1. Significant Accounting Policies (continued)

### *Cash Equivalents*

Cash equivalents, as presented in the consolidated statement 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 NRI Group 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 NRI Group determines the appropriate classification of investment securities as either trading, held-to-maturity or available-for-sale securities based on its 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).

### *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. 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 by the straight-line method over a useful life of three years, based on the estimated volume of sales or the estimated sales revenue with the minimum amortization amount. Software intended for use by the NRI Group for the purpose of rendering customer services is being amortized by the straight-line method over useful lives of up to five years.

Other intangible assets are amortized by the straight-line method over their respective estimated useful lives.

## 1. Significant Accounting Policies (continued)

### *Depreciation and Amortization of Leased Assets*

Leased tangible assets under finance leases that do not transfer ownership are mainly depreciated by the declining-balance method over the lease period. Leased intangible assets under finance leases 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 NRI Group's historical experience with respect to write-offs and an estimate of the amount of specific uncollectible accounts.

### *Provision for Loss on Orders Received*

To prepare for future losses subsequent to the balance sheet date on orders received, a provision has been provided for loss orders received outstanding, when a loss is probable and the amount can be reasonably estimated as of the balance sheet date.

### *Retirement and Severance Benefits for Employees*

In calculating retirement benefit obligations, the NRI Group has adopted the benefit formula basis as the method for attributing the expected retirement benefits to accounting periods. Actuarial gain and loss is amortized by the straight-line method over a defined period, not exceeding the average remaining service period of the employees (10 to 15 years) from the next fiscal year after the incurrence. Prior service cost is amortized by the straight-line method over a defined period, not exceeding the average remaining service period of the employees (15 years).

### *Revenue Recognition*

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.

### *Derivatives and Hedging Activities*

The NRI Group uses derivative financial instruments such as forward foreign exchange contracts and interest rate swap contracts as means of hedging exposure to currency and interest rate risks.

Derivatives are stated at fair value with gains or losses recognized in the consolidated statement of income and comprehensive income. For derivatives used for hedging purposes, the gains and losses are deferred until the hedged item is recognized.

Forward foreign exchange contracts are entered into for the purpose of hedging the currency risk associated with foreign currency receivables and payables, including forecasted transactions, and interest rate swap contracts are entered into for the purpose of hedging the interest rate risk associated with the underlying borrowings.

## 1. Significant Accounting Policies (continued)

### *Derivatives and Hedging Activities (continued)*

As for the hedging instruments and hedged items, an evaluation of hedge effectiveness is performed for each hedging transaction. However, if the material conditions of the hedging instrument and the hedged item are the same and the hedging relationship is expected to be highly effective, an evaluation of the effectiveness is omitted.

### *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.

### *Changes in Accounting Policies*

#### *(Accounting for Retirement Benefits)*

The NRI Group has adopted “Accounting Standard for Retirement Benefits” (Accounting Standards Board of Japan (ASBJ) Statement No. 26 of 17th May, 2012) and “Guidance on Accounting Standard for Retirement Benefits” (ASBJ Guidance No. 25 of 17th May, 2012) from the year ended 31st March, 2014. Under these accounting standards, unrecognized actuarial gains and losses and unrecognized prior service costs after tax are recorded in the net assets section as a component of accumulated other comprehensive income, and the amounts of retirement benefit obligations minus pension assets are recorded as a net defined benefit liability (or as a net defined benefit asset if the amounts of pension assets exceeds the retirement benefit obligations). In addition, the NRI Group reviewed the calculation method regarding retirement benefit obligations and service costs and changed the method of attributing expected retirement benefits to accounting periods from the straight-line basis to the benefit formula basis.

In accordance with transitional treatment in paragraph 37 of “Accounting Standard for Retirement Benefits”, at the beginning of the year ended 31st March, 2014, the amount of the impact resulting from recognition of net defined benefit liability was added to, or deducted from, remeasurements of defined benefit plans in accumulated other comprehensive income. In addition, the amount of the impact resulting from changes of calculation method of retirement benefit obligations and prior service costs was added to, or deducted from, retained earnings.

As a result, as of 1st April, 2013, ¥19,569 million (\$190,212 thousand) was recorded as net defined benefit liability and accumulated other comprehensive income decreased by ¥2,274 million (\$22,103 thousand) and retained earnings increased by ¥1,126 million (\$10,945 thousand). The amounts of the impacts on net assets per share and earnings per share are immaterial.

## 1. Significant Accounting Policies (continued)

### *Changes in Accounting Policies (continued)*

#### *(Application of Practical Solution on Transactions of Delivering the Company's Own Stock to Employees etc. through Trusts)*

The Company has adopted "Practical Solution on Transactions of Delivering the Company's Own Stock to Employees etc. through Trusts" (Practical Issues Task Force No. 30 of 25th March, 2013) and changed the corresponding accounting policy.

Before the change in the accounting policy, the Company had recognized the transfer of treasury stock not when the Company sold treasury stock to the "Employee Stock Ownership Trust" (the "ESOP Trust") but when the ESOP Trust sold its holdings of treasury stock to the Employee Stock Ownership Group (the "ESOP Group"). Also, the Company had treated the earnings on stock in the ESOP Trust as expenses during the corresponding year that the gain was realized as the earnings would be distributed to the beneficiaries after termination of the ESOP Trust.

Due to the change in the accounting policy, the Company recognizes the transfer of treasury stock when the Company sells treasury stock to the ESOP Trust and records the acquisition costs of the Company's shares that the ESOP Trust owns at the end of period in the net assets section as treasury stock. As for the earnings on stock in the ESOP Trust, the Company includes them in the liabilities section as a suspense account to be settled. The Company includes losses on stock in the ESOP Trust in the assets section as a suspense account to be settled and also records a provision when it is expected that the outstanding loans used to purchase shares will remain unsettled at termination of the ESOP Trust.

This change in the accounting policy has been applied retrospectively, and the accompanying consolidated financial statements for the year ended 31st March, 2013 were adjusted accordingly. As a result, as of 31st March, 2013, retained earnings, treasury stock and net assets decreased by ¥1,759 million, ¥1,715 million and ¥44 million, respectively. The amounts of the impacts on net assets per share and earnings per share are immaterial.

As of 1st April, 2012, retained earnings, treasury stock and net assets decreased by ¥2,412 million, ¥2,369 million and ¥43 million, respectively.

### *Accounting Standards to Be Applied*

#### *(Accounting Standards for Business Combinations)*

On 13th September, 2013, the ASBJ issued "Accounting Standard for Business Combinations" (ASBJ Statement No. 21), "Guidance on Accounting Standard for Business Combinations and Business Divestitures" (ASBJ Guidance No. 10), "Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22) and other revised accounting standards related to business combinations.

Under these revised accounting standards, the accounting treatment for changes in a parent's ownership interest in a subsidiary when that parent retains control over the subsidiary in the additional acquisition of shares in the subsidiary and acquisition related costs were revised. In addition, the presentation method of net income was amended, the name "minority interests" was changed to "non-controlling interests," and provisional accounting treatments were revised.

The date of application of these revised accounting standards is under consideration.

The impact of the application of these accounting standards on the consolidated financial statements is currently being evaluated.



## 1. Significant Accounting Policies (continued)

### *Additional Information*

#### *(Transactions of Delivering the Company's Own Stock to Employees etc. through Trusts)*

The Company introduced a "Trust-type Employee Stock Ownership Incentive Plan" in March 2011. The purpose of this plan is to promote the Company's perpetual growth by providing incentives to employees for increasing the Company's corporate value in the mid- to long-term and to enhance benefits and the welfare of employees.

This is an incentive plan under which gains from the Company's share price appreciation are distributed to all participants in the ESOP Group. The ESOP Trust was established exclusively for the ESOP Group to carry out this plan. The ESOP Trust acquired the number of the Company's shares, which the ESOP Group would have acquired over a period of five years subsequent to the establishment of the ESOP Trust. Then, the ESOP Trust sells them to the ESOP Group each time the ESOP Group is to acquire of the Company's shares. When the share price appreciates and earnings have accumulated in the ESOP Trust, upon its termination, a cash distribution of the funds will be made to beneficiaries. 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 obligations remain unsettled upon termination of the ESOP Trust.

The Company includes the assets and liabilities of the ESOP Trust at the end of the fiscal year in the accompanying consolidated balance sheet. The Company recognizes the transfer of treasury stock when the Company sells treasury stock to the ESOP Trust and records the acquisition costs of the Company's shares that the ESOP Trust owns at the end of the fiscal year in the net assets section as treasury stock. As for the earnings on stock in the ESOP Trust, the Company records them in the liabilities section as a suspense account to be settled. The Company records the losses on stock in the ESOP Trust in the assets section as a suspense account to be settled and also a provision when it is expected that the outstanding loans used to purchase shares will remain unsettled at the termination of the ESOP Trust.

¥6,690 million (corresponding to 3,521 thousand shares of the Company held by the ESOP Trust) and ¥5,353 million (\$52,031 thousand) (corresponding to 2,817 thousand shares of the Company held by the ESOP Trust) and the loan payable of the ESOP Trust of ¥6,703 million and ¥4,335 million (\$42,136 thousand) are recorded in the accompanying consolidated balance sheet as of 31st March, 2013 and 2014, respectively.

## 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  $¥102.88 = \text{U.S.}\$1.00$ , the rate of exchange prevailing on 31st March, 2014. 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 NRI Group raises short-term funds through bank loans and commercial paper, and raises long-term funds through bank loans and issuances of corporate bonds. The NRI Group manages funds by utilizing low-risk financial instruments. The NRI Group's policy is 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 NRI Group tries to reduce credit risk by managing due dates and balances of each customer, as well as monitoring and analyzing customers' credit status. Accounts payable as operating payables are usually settled in a short period of time. Although operating receivables and payables denominated in foreign currencies are exposed to exchange rate fluctuation risk, the risk is partially hedged by forward foreign exchange contracts. Investment securities, comprised of shares of companies with which the NRI Group 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 NRI Group monitors market value and the issuers' financial status periodically. Long-term loans receivable is a construction assistance fund receivable due January 2017. Bonds and long-term loans payable, which are mainly for fund raising related to capital investments, are exposed to fluctuation risk of interest rates. The interest-rate risk related to bonds is hedged by interest rate swap contracts. As, for liquidity risk, the Company reduces the risk by managing the NRI Group's overall funds with the cash flow forecast and ensuring stable sources of funding. Derivatives transactions are forward foreign exchange transactions to hedge the exchange rate fluctuation risk associated with receivables and payables in foreign currencies, including forecasted transactions and interest rate swap transactions to hedge the interest rate fluctuation risk associated with the borrowings. Hedge accounting has been applied to all derivative transactions. Although these are exposed to the credit risk of financial institutions, the NRI Group reduces the risk by doing business only with highly rated financial institutions. In executing of the transactions, the treasury department acts in accordance with the resolution at the board of directors, defining hedging transactions and related authority. Transaction results are regularly reported to the board of directors. An evaluation of hedge effectiveness is performed for each transaction. However, if the material conditions of the hedging instrument and the hedged item are the same and there is high effectiveness for each hedge transaction, an evaluation of hedge effectiveness is omitted.

##### (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 sheet as of 31st March, 2013 and 2014 and estimated fair value are shown in the following table. The following table does not include non-marketable securities whose fair value is not readily determinable (see Note 2).

	<i>Millions of yen</i>					
	<b>31st March, 2013</b>			<b>31st March, 2014</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	¥ 10,274	¥ 10,274	¥ -	¥ 9,886	¥ 9,886	¥ -
Accounts receivable and other receivables	76,530	76,530	-	100,627	100,627	-
Short-term investment securities, investment securities, and investments in affiliates	180,870	178,257	(2,613)	178,994	176,636	(2,358)
Long-term loans receivable	7,937	8,367	430	8,056	8,376	320
<b>Total</b>	<b>¥275,611</b>	<b>¥273,428</b>	<b>¥(2,183)</b>	<b>¥297,563</b>	<b>¥295,525</b>	<b>¥(2,038)</b>
<b>Liabilities:</b>						
Accounts payable	¥ 20,498	¥ 20,498	¥ -	¥ 26,104	¥ 26,104	¥ -
Bonds	-	-	-	30,000	30,057	57
Convertible bonds *1	49,996	49,996	-	-	-	-
Long-term loans payable *2	6,703	6,703	-	24,335	24,335	-
<b>Total</b>	<b>¥ 77,197</b>	<b>¥ 77,197</b>	<b>¥ -</b>	<b>¥ 80,439</b>	<b>¥ 80,496</b>	<b>¥ 57</b>
Derivative transactions *3	¥ -	¥ -	¥ -	¥ (58)	¥ (58)	¥ -

	<i>Thousands of U.S. dollars</i>		
	<b>31st March, 2014</b>		
	<b>Carrying amount</b>	<b>Estimated fair value</b>	<b>Difference</b>
<b>Assets:</b>			
Cash and bank deposits	\$ 96,093	\$ 96,093	\$ -
Accounts receivable and other receivables	978,101	978,101	-
Short-term investment securities, investment securities, and investments in affiliates	1,739,833	1,716,913	(22,920)
Long-term loans receivable	78,305	81,415	3,110
<b>Total</b>	<b>\$2,892,332</b>	<b>\$2,872,522</b>	<b>\$(19,810)</b>
<b>Liabilities:</b>			
Accounts payable	\$ 253,733	\$ 253,733	\$ -
Bonds	291,602	292,155	553
Convertible bonds *1	-	-	-
Long-term loans payable *2	236,538	236,538	-
<b>Total</b>	<b>\$ 781,873</b>	<b>\$ 782,426</b>	<b>\$ 553</b>
Derivative transactions *3	\$ (564)	\$ (564)	\$ -

\*1 Convertible bonds as of 31st March, 2013 are the current portion of convertible bonds.

\*2 Long-term loans payable included the current portion of long-term loans payable totaling ¥2,453 million and ¥2,280 million (\$22,162 thousand) as of 31st March, 2013 and 2014, respectively.

\*3 Receivables and payables arising from derivative transactions are offset and presented as a net amount with liabilities shown in parentheses.

### 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

Their carrying amount approximates the fair value due to the short maturity of these instruments.

##### b. Accounts receivable and other receivables

Their carrying amount approximates the fair value due to the generally short maturities of these instruments. For those receivables due after one year, the present value is further discounted by the rate corresponding to the credit risk and the amount is presented in the consolidated balance sheet, therefore, the carrying amount approximates fair value.

##### c. 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.

##### d. 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. Bonds

The fair value of bonds is based on the quoted market price.

##### c. Long-term loans payable

The fair value of long-term loans payable, to which variable rates are applied, approximates the carrying amount because the variable rates reflect market interest rates over a short term. Those with fixed interest rate, on the other hand, are calculated by discounting the total amount of principal and interest by an interest rate assumed to be applied if the similar loans were newly executed.

##### Derivative transactions

The fair values are calculated based on the quoted price obtained from counterparty financial institutions.

### 3. Financial Instruments (continued)

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

Note 2: Non-marketable securities whose fair value is not readily determinable are as follows.

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	<b>31st March,</b>		<b>31st March,</b>
	<b>2013</b>	<b>2014</b>	<b>2014</b>
Unlisted companies' shares *1	¥7,959	¥11,110	\$107,990
Investments in partnerships *2	176	257	2,498

\*1. Unlisted companies' shares are not measured at fair value because they have no market prices on exchanges, and their fair value is not readily determinable. Unlisted companies' shares included investments in affiliates accounted for under the equity method totaling ¥1,069 million and ¥1,359 million (\$13,210 thousand) as of 31st March, 2013 and 2014, respectively.

\*2. For investments in partnerships, when all or a part of the asset of partnership consist of non-marketable securities whose fair value is not readily determinable, such components are not measured at fair value.

Note 3: Redemption schedule for cash and bank deposits, receivables and marketable securities with maturities at 31st March, 2013 and 2014

	<i>Millions of yen</i>					
	<b>31st March, 2013</b>			<b>31st March, 2014</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	¥10,274	¥ –	¥ –	¥ 9,886	¥ –	¥ –
Accounts receivable	53,959	80	1	65,989	1,137	–
Investment securities:						
Available-for-sale securities with maturities:						
Government bonds	10,000	35,001	–	35,000	10,001	–
Corporate bonds	–	–	–	–	4,500	–
Long-term loans receivable	–	8,400	–	–	8,400	–
	<u>¥74,233</u>	<u>¥43,481</u>	<u>¥ 1</u>	<u>¥110,875</u>	<u>¥24,038</u>	<u>¥ –</u>

\* Other receivables are not included in the above table as there is no applicable redemption schedule.

	<i>Thousands of U.S. dollars</i>		
	<b>31st March, 2014</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	\$ 96,093	\$ –	\$–
Accounts receivable	641,417	11,052	–
Investment securities:			
Available-for-sale securities with maturities:			
Government bonds	340,202	97,210	–
Corporate bonds	–	43,740	–
Long-term loans receivable	–	81,649	–
	<u>\$1,077,712</u>	<u>\$233,651</u>	<u>\$–</u>

### 3. Financial Instruments (continued)

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

Note 4: Repayment schedule for convertible bonds, bonds and long-term loans payable at 31st March, 2013 and 2014

		<i>Millions of yen</i>				
		<b>31st March, 2013</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	¥49,996	¥ –	¥ –	¥ –	¥ –	
Long-term loans payable *	2,453	2,416	1,834	–	–	
	<u>¥52,449</u>	<u>¥2,416</u>	<u>¥1,834</u>	<u>¥ –</u>	<u>¥ –</u>	

		<i>Millions of yen</i>				
		<b>31st March, 2014</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>	
Bonds	¥ –	¥ –	¥15,000	¥ –	¥15,000	
Long-term loans payable *	2,280	2,055	–	–	20,000	
	<u>¥2,280</u>	<u>¥2,055</u>	<u>¥15,000</u>	<u>¥ –</u>	<u>¥35,000</u>	

		<i>Thousands of U.S. dollars</i>				
		<b>31st March, 2014</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>	
Bonds	\$ –	\$ –	\$145,801	\$ –	\$145,801	
Long-term loans payable *	22,162	19,975	–	–	194,401	
	<u>\$22,162</u>	<u>\$19,975</u>	<u>\$145,801</u>	<u>\$ –</u>	<u>\$340,202</u>	

\* ¥6,703 million and ¥4,335 million (\$42,136 thousand) out of long-term loans payable at 31st March, 2013 and 2014 represent borrowings by the ESOP Trust upon introduction of the “Trust-type Employee Stock Ownership Incentive Plan.” Under the loan contracts, the timing of the installment payments is determined, but the amount of each installment payment is not specified. Therefore, the repayment schedule was calculated at an estimated amount by reference to the acquisition price of the Company’s shares that the ESOP Group was expected to purchase from the ESOP Trust.



#### 4. Investments

The NRI Group did not hold any held-to-maturity securities with determinable market value at 31st March, 2013 and 2014.

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, 2013 and 2014:

##### *Securities Classified as Available-for-Sale Securities*

	<i>Millions of yen</i>					
	31st March, 2013			31st March, 2014		
	Acquisition cost	Carrying amount	Unrealized gain (loss)	Acquisition cost	Carrying amount	Unrealized gain (loss)
Equity securities	¥ 17,506	¥ 43,263	¥25,757	¥ 20,338	¥ 55,509	¥35,171
Bonds:						
Government bonds	45,451	45,516	65	45,146	45,166	20
Corporate bonds	–	–	–	4,513	4,496	(17)
	45,451	45,516	65	49,659	49,662	3
Other	90,411	90,362	(49)	74,058	74,061	3
Total	¥153,368	¥179,141	¥25,773	¥144,055	¥179,232	¥35,177

	<i>Thousands of U.S. dollars</i>		
	31st March, 2014		
	Acquisition cost	Carrying amount	Unrealized gain (loss)
Equity securities	\$ 197,687	\$ 539,551	\$341,864
Bonds:			
Government bonds	438,822	439,016	194
Corporate bonds	43,867	43,701	(166)
	482,689	482,717	28
Other	719,848	719,878	30
Total	\$1,400,224	\$1,742,146	\$341,922

Non-marketable securities whose fair value is not readily determinable were included in the above table. "Acquisition cost" in the above table is the carrying amount after recognizing impairment loss. Impairment loss on available-for-sale securities whose fair value is not readily determinable as a result of a permanent decline in value for the years ended 31st March, 2013 and 2014 amounted to ¥69 million and ¥16 million (\$156 thousand), respectively. The NRI Group has established a policy for the recognition of impairment losses under the following conditions:

- i) For marketable securities whose fair value has declined by 30% or more, the NRI Group recognizes impairment loss except in cases where the decline in fair value is expected to be recoverable.
- ii) For non-marketable securities whose fair value is not readily determinable, of which net asset value has declined by 50% or more, the NRI Group recognizes impairment loss except in cases where the decline in fair value is expected to be recoverable.

#### 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, 2012, 2013 and 2014 were as follows:

	<i>Millions of yen</i>			<i>Thousands of</i>
	<b>31st March,</b>			<i>U.S. dollars</i>
	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>31st March,</b>
				<b>2014</b>
Proceeds ( <i>Note 19</i> )	¥16,546	¥2	¥67	\$651
Gross gain	8,714	–	46	447
Gross loss	(22)	–	–	–

Non-marketable securities whose fair value is not readily determinable were included in the above table.

## 5. Derivative Transactions and Hedging Activities

There were no derivative transactions during the year ended 31st March, 2013. There were no derivative transactions to which hedge accounting was not applied during the year ended 31st March, 2014.

For the derivative transactions to which hedge accounting was applied as of 31st March, 2014, the contract amounts and estimated fair values of the hedging instruments are as follows.

	<i>Millions of yen</i>		
	<b>31st March, 2014</b>		
	<b>Contract amount</b>		
	<b>Total</b>	<b>Settled over one year</b>	<b>Estimated fair value *1</b>
Forward foreign exchange contracts for accounts payable, accounted for by deferral hedge accounting method: Buy: CNY	¥ 890	¥ 69	¥ (2)
Interest rate swap contracts for bonds, accounted for by deferral hedge accounting method: Fixed rate receipt, fixed rate payment *2	¥30,000	¥30,000	¥(56)
	<i>Thousands of U.S. dollars</i>		
	<b>31st March, 2014</b>		
	<b>Contract amount</b>		
	<b>Total</b>	<b>Settled over one year</b>	<b>Estimated fair value *1</b>
Forward foreign exchange contracts for accounts payable, accounted for by deferral hedge accounting method: Buy: CNY	\$ 8,651	\$ 671	\$ (19)
Interest rate swap contracts for bonds, accounted for by deferral hedge accounting method: Fixed rate receipt, fixed rate payment *2	\$291,602	\$291,602	\$(544)

\*1 The fair values are calculated based on the quoted price obtained from the counterparty financial institutions.

\*2 These derivative transactions are used to hedge the fluctuation risk of interest rates until the interest determination date, which are used as the basis of bonds' fixed interest payments.

## 6. 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 ¥22,490 million and ¥33,501 million (\$325,632 thousand) at 31st March, 2013 and 2014, respectively.

## 7. Property and Equipment

Property and equipment at 31st March, 2013 and 2014 is summarized as follows:

	<i>Years</i> <b>Useful Life</b>	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
		<b>31st March,</b>		<b>31st March,</b>
		<b>2013</b>	<b>2014</b>	<b>2014</b>
Land		¥ 12,141	¥ 12,154	\$ 118,138
Buildings	15 – 50	78,756	82,567	802,556
Machinery and equipment	3 – 15	55,780	58,826	571,792
Leased assets		545	359	3,490
Accumulated depreciation		(83,766)	(91,138)	(885,867)
Property and equipment, net		<u>¥ 63,456</u>	<u>¥ 62,768</u>	<u>\$ 610,109</u>

## 8. Other Assets

Other assets at 31st March, 2013 and 2014 consisted of the following:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	<b>31st March,</b>		<b>31st March,</b>
	<b>2013</b>	<b>2014</b>	<b>2014</b>
Lease deposits	¥10,839	¥11,270	\$109,545
Other	4,340	5,505	53,509
Other assets	<u>¥15,179</u>	<u>¥16,775</u>	<u>\$163,054</u>

“Other” includes golf club memberships.

## 9. 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 set up employee retirement benefit trusts for defined benefit pension plans as of 31st March, 2013 and also set up for defined benefit lump-sum payment plans during the year ended 31st March, 2014. Certain consolidated subsidiaries have defined benefit pension plans, defined benefit lump-sum payment plans, employees’ pension fund trusts and defined contribution pension plans. A description of multi-employer pensions is also included in this note.

## 9. Retirement and Severance Benefits (continued)

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 sheet at 31st March, 2013 for the NRI Group's defined benefit plans and defined contribution pension plans:

	<i>Millions of yen</i>
	<b>31st March, 2013</b>
Retirement benefit obligation	¥(90,743)
Plan assets at fair value	69,423
Unfunded retirement benefit obligation	(21,320)
Unrecognized actuarial gain and loss	5,699
Unrecognized prior service cost	(1,947)
Net retirement benefit obligation	(17,568)
Prepaid pension cost	397
Provision for retirement benefits	¥(17,965)

Certain consolidated subsidiaries adopt the simplified method for calculating retirement benefit obligations.

Plan assets at fair value include those of the employee retirement benefit trust of ¥8,109 million at 31st March, 2013.

The substitutional portion of the employees' pension fund is included in the above table.

Prior service liability is amortized by the straight-line method over a defined period, not exceeding the average remaining service period of the employees (15 years).

Actuarial gain and loss is amortized by the straight-line method over a defined period, not exceeding the average remaining service period of the employees (15 years and 10 to 15 years ended 31st March, 2012 and 2013, respectively) from the next fiscal year after the incurrence.

The components of retirement benefit expenses for the years ended 31st March, 2012 and 2013 for the NRI Group's defined benefit plans and defined contribution plans are outlined as follows:

	<i>Millions of yen</i>	
	<b>31st March,</b>	
	<b>2012</b>	<b>2013</b>
Service cost	¥4,070	¥4,834
Interest cost	1,332	1,362
Expected return on plan assets	(546)	(676)
Recognized actuarial gain and loss	196	515
Recognized prior service liability	(195)	(195)
Subtotal	4,857	5,840
Other	1,728	1,809
Total	¥6,585	¥7,649

## 9. Retirement and Severance Benefits (continued)

Retirement benefit expenses for the consolidated subsidiaries that adopt the simplified method are included in “Service cost.”

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

The amount of employee contributions to the employees’ pension fund is excluded from the above table.

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

	<b>31st March,</b>	
	<b>2012</b>	<b>2013</b>
Discount rate at the end of the year	1.8%	1.4%
Expected rate of return on plan assets	1.5	1.5

Weighted-average rates are used as of 31st March, 2013 in the above table.

The changes in defined benefit obligations for defined benefit plans for the year ended 31st March, 2014 are as follows:

	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>
	<b>31st March, 2014</b>	<b>31st March, 2014</b>
Balance at 1st April, 2013	¥88,992	\$865,008
Service cost	5,560	54,044
Interest cost	1,278	12,422
Actuarial gain and loss incurred	(1,688)	(16,407)
Benefits paid	(1,560)	(15,163)
Other	153	1,486
Balance at 31st March, 2014	<u>¥92,735</u>	<u>\$901,390</u>

The changes in plan assets for defined benefit plans for the year ended 31st March, 2014 are as follows:

	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>
	<b>31st March, 2014</b>	<b>31st March, 2014</b>
Balance at 1st April, 2013	¥ 69,423	\$ 674,795
Expected return on plan assets	915	8,894
Actuarial gain and loss incurred	14,326	139,250
Contributions	10,103	98,202
Benefits paid	(1,270)	(12,344)
Contributions to set up employee retirement benefit trust	15,000	145,801
Balance at 31st March, 2014	<u>¥108,497</u>	<u>\$1,054,598</u>



## 9. Retirement and Severance Benefits (continued)

The reconciliation of defined benefit obligations and plan assets for the defined benefit plans to net defined benefit asset and net defined benefit liability recognized in the consolidated balance sheet as of 31st March, 2014 is as follows:

	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>
	<b>31st March, 2014</b>	<b>31st March, 2014</b>
Funded defined benefit obligations	¥ 91,905	\$ 893,323
Plan assets	(108,497)	(1,054,598)
Subtotal	(16,592)	(161,275)
Unfunded defined benefit obligations	831	8,077
Net amount of liabilities and assets recognized in the consolidated balance sheet	(15,761)	(153,198)
Net defined benefit liability	4,543	44,158
Net defined benefit asset	(20,304)	(197,356)
Net amount of liabilities and assets recognized in the consolidated balance sheet	¥ (15,761)	\$ (153,198)

- \* Employee retirement benefit trusts have been set up for defined benefit lump-sum payment plans. The defined benefit lump-sum payment plans are included in funded defined benefit obligations above. Employee retirement benefit trusts for defined benefit lump-sum payment plans are also included in plan assets above.

The components of retirement benefit expenses for defined benefit plans for the year ended 31st March, 2014 are outlined as follows:

	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>
	<b>31st March, 2014</b>	<b>31st March, 2014</b>
Service cost	¥5,560	\$54,044
Interest cost	1,278	12,422
Expected return on plan assets	(915)	(8,894)
Recognized actuarial gain and loss	196	1,905
Recognized prior service cost	(195)	(1,895)
Other	2	19
Retirement benefit expenses for defined benefit plans	¥5,926	\$57,601

## 9. Retirement and Severance Benefits (continued)

Actuarial gain and loss and prior service cost (before tax) recognized in remeasurements of defined benefit plans, net of tax, in other comprehensive income for the year ended 31st March, 2014 are as follows:

	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>
	<b>31st March, 2014</b>	<b>31st March, 2014</b>
Actuarial gain and loss	¥16,296	\$158,398
Prior service cost	(195)	(1,895)
Total	<u>¥16,101</u>	<u>\$156,503</u>

Unrecognized actuarial gain and loss and unrecognized prior service cost (before tax) recognized in remeasurements of defined benefit plans in accumulated other comprehensive income as of 31st March, 2014 are as follows:

	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>
	<b>31st March, 2014</b>	<b>31st March, 2014</b>
Unrecognized actuarial gain and loss	¥10,852	\$105,482
Unrecognized prior service cost	1,753	17,039
Total	<u>¥12,605</u>	<u>\$122,521</u>

The major breakdown of plan assets as of 31st March, 2014 is as follows:

	<b>31st March, 2014</b>
Equity securities	58.2%
Debt securities	31.2%
Other	10.6%
Total	<u>100.0%</u>

23.0% of an employee retirement benefit trust set up for defined benefit pension plans and defined benefit lump-sum payment plans is included in "Total" in the above table.

The long-term expected rate of return on plan assets for defined plan assets is determined by considering revenue projections by the Company and actual performance.

Actuarial assumptions for defined benefit plans as of 31st March, 2014 are as follows:

Discount rate at the end of the year	1.6%
Expected long-term rate of return on plan assets	1.5%

Weighted-average rates are used in the above table.

The required contribution for defined contribution pension plans of the NRI Group was ¥1,846 million (\$17,943 thousand) as of 31st March, 2014.

## 10. Income Taxes

The significant components of deferred income tax assets and liabilities at 31st March, 2013 and 2014 were as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	<b>31st March, 2013</b>	<b>31st March, 2014</b>	<b>31st March, 2014</b>
Deferred income tax assets:			
Provision for retirement benefits	¥ 8,283	¥ –	\$ –
Net defined benefit liability	–	9,164	89,075
Depreciation	13,425	11,918	115,844
Accrued bonuses	5,230	5,340	51,905
Other	3,205	4,084	39,696
	<u>30,143</u>	<u>30,506</u>	<u>296,520</u>
Deferred income tax liabilities:			
Valuation difference on available-for-sale securities	(8,043)	(11,418)	(110,984)
Special tax-purpose reserve	(300)	(342)	(3,324)
Reserve for special depreciation	–	(137)	(1,332)
Undistributed earnings of foreign subsidiaries	(103)	(101)	(982)
Net defined benefit asset	–	(7,228)	(70,257)
Other	(103)	(48)	(466)
	<u>(8,549)</u>	<u>(19,274)</u>	<u>(187,345)</u>
Deferred income tax assets, net	<u>¥21,594</u>	<u>¥ 11,232</u>	<u>\$ 109,175</u>

Income taxes applicable to the NRI Group consisted of corporation, inhabitants' and enterprise taxes which, in the aggregate, resulted in statutory tax rates of approximately 40.6%, 38.0% and 38.0% for the years ended 31st March, 2012, 2013 and 2014, respectively.

Reconciliations of the differences between the statutory income tax rates and the effective income tax rates after deferred tax effect in the consolidated statement of income and comprehensive income for the years ended 31st March, 2013 and 2014 are as follows:

	<b>31st March,</b>	
	<b>2013</b>	<b>2014</b>
Statutory income tax rate	38.0%	38.0%
Reconciliation:		
Non-deductible permanent differences, such as entertainment expenses	0.7	0.6
Non-taxable permanent differences, such as dividend income	(0.4)	(0.6)
Decrease in deferred income tax assets due to tax rate changes	–	2.4
Changes in non-deductible write-downs of investment securities and other items whose schedule of reversal is uncertain	(1.2)	(0.3)
Gain on bargain purchase	(4.1)	–
Others, net	0.3	0.1
Effective income tax rate after deferred tax effect	<u>33.3%</u>	<u>40.2%</u>

## 10. Income Taxes (continued)

A reconciliation of the difference between the statutory income tax rate and the effective income tax rate after the deferred tax effect in the consolidated statement of income and comprehensive income for the year ended 31st March, 2012 has been omitted because the difference was immaterial.

On 31st March, 2014, the “Act to Partially Revise the Income Tax Act and Others” (Act No. 10 of 2014) was promulgated. As a result, the Special Reconstruction Corporation Tax will be repealed effective the fiscal year beginning 1st April, 2014. In response to the revision, the applicable statutory tax rate to calculate deferred income tax assets and liabilities expected to reverse after 31st April, 2014 has been reduced from 38.0% to 35.6%.

As a result, net deferred income tax assets decreased by ¥1,235 million (\$12,004 thousand) and income tax expense increased by the same amount as of and for the fiscal year ended 31st March, 2014.

## 11. Net Assets

The Corporation Law of Japan provides that earnings in an amount equal to at least 10% of dividends of capital surplus and retained earnings shall be appropriated to the legal reserve until the aggregate amount of the legal reserve and additional paid-in capital equals 25% of the stated capital. 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 and ¥570 million (\$5,540 thousand) at 31st March, 2013 and 2014, respectively.

### *Shares Issued and Treasury Stock*

The total number and periodic changes in the number of shares issued and treasury stock for the years ended 31st March, 2013 and 2014 are summarized as follows:

	<i>Thousands of shares</i>	
	<b>Shares issued</b>	<b>Treasury stock *1 and 2</b>
Number of shares at 31st March, 2012	225,000	28,835
Increase in number of shares	–	0
Decrease in number of shares	–	1,450
Number of shares at 31st March, 2013	225,000	27,385
Increase in number of shares	–	0
Decrease in number of shares	–	1,734
Number of shares at 31st March, 2014	<u>225,000</u>	<u>25,651</u>

\*1 The number of common shares of treasury stock increased by 0 thousand due to the purchases of odd-lot shares for the years ended 31st March, 2013 and 2014. The number of common shares of treasury stock decreased by 1,345 thousand and 703 thousand due to the transfer of treasury stock from the ESOP Trust to the ESOP Group and decreased by 105 thousand and 1,030 thousand due to the exercise of stock options for the years ended 31st March, 2013 and 2014, respectively, and decreased by 0 thousand due to the exercise of convertible bonds for the year ended 31st March, 2013 and 2014.

\*2 Treasury stock included 3,521 thousand and 2,817 thousand common shares of the Company owned by the ESOP Trust as of 31st March, 2013 and 2014, respectively.

Share subscription rights recorded in the accompanying consolidated balance sheet at 31st March, 2014 relate to the Company's stock option plans described in Note 21.

## 11. Net Assets

### Dividends

#### 1) Dividends paid

31st March, 2013					
Resolution	Type of shares	Total dividends (Millions of yen)	Dividends per share (Yen)	Cut-off date	Effective date
Meeting of the Board of Directors on 17th May, 2012 *1	Common Stock	¥5,226	¥26.00	31st March, 2012	4th June, 2012
Meeting of the Board of Directors on 26th October, 2012 *2	Common Stock	¥5,228	¥26.00	30th September, 2012	30th November, 2012

\*1 Dividends of ¥126 million paid to the ESOP Trust are included in the total dividends amount.

\*2 Dividends of ¥109 million paid to the ESOP Trust are included in the total dividends amount.

31st March, 2014							
Resolution	Type of shares	Total dividends (Millions of yen)	Total dividends (Thousands of U.S. dollars)	Dividends per share (Yen)	Dividends per share (U.S. dollars)	Cut-off date	Effective date
Meeting of the Board of Directors on 15th May, 2013 *1	Common Stock	¥5,229	\$50,826	¥26.00	\$0.25	31st March, 2013	3rd June, 2013
Meeting of the Board of Directors on 25th October, 2013 *2	Common Stock	¥5,247	\$51,001	¥26.00	\$0.25	30th September, 2013	29th November, 2013

\*1 Dividends of ¥92 million (\$894 thousand) paid to the ESOP Trust are included in the total dividends amount.

\*2 Dividends of ¥81 million (\$787 thousand) paid to the ESOP Trust are included in the total dividends amount.

## 11. Net Assets (continued)

### Dividends (continued)

- 2) Dividends whose cut-off date is in the current fiscal year and whose effective date is in the following fiscal year

31st March, 2013						
Resolution	Type of shares	Total dividends (Millions of yen)	Dividends per share (Yen)	Cut-off date	Effective date	Source of dividends
Meeting of the Board of Directors on 15th May, 2013 *	Common Stock	¥5,229	¥26.00	31st March, 2013	3rd June, 2013	Retained earnings

- \* Dividends of ¥92 million paid to the ESOP Trust are included in the total dividends amount.

31st March, 2014								
Resolution	Type of shares	Total dividends (Millions of yen)	Total dividends (Thousands of U.S. dollars)	Dividends per share (Yen)	Dividends per share (U.S. dollars)	Cut-off date	Effective date	Source of dividends
Meeting of the Board of Directors on 14th May, 2014 *	Common Stock	¥6,065	\$58,952	¥30.00	\$0.29	31st March, 2014	2nd June, 2014	Retained earnings

- \* Dividends of ¥85 million (\$826 thousand) paid to the ESOP Trust are included in the total dividends amount.

## 12. Cash and Cash Equivalents

A reconciliation between cash and bank deposits in the accompanying consolidated balance sheet and cash and cash equivalents in the accompanying consolidated statement of cash flows at 31st March, 2013 and 2014 is as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	<b>31st March, 2013</b>	<b>2014</b>	<b>31st March, 2014</b>
Cash and bank deposits	¥10,274	¥ 9,886	\$ 96,093
Short-term investment securities	90,186	83,804	814,580
Time deposits with maturities of more than three months when deposited	(837)	(898)	(8,729)
Cash and cash equivalents	<u>¥99,623</u>	<u>¥92,792</u>	<u>\$901,944</u>



### 13. Per Share Data

Earnings per share for the years ended at 31st March, 2012, 2013, and 2014 and net assets per share at 31st March, 2013 and 2014 are summarized as follows:

	<i>Yen</i>			<i>U.S. dollars</i>
	<b>31st March,</b>			<b>31st March,</b>
	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2014</b>
Earnings per share	¥168.40	¥145.29	¥158.75	\$1.54
Diluted earnings per share	158.69	136.98	149.46	1.45

	<i>Yen</i>		<i>U.S. dollars</i>
	<b>31st March,</b>		<b>31st March,</b>
	<b>2013</b>	<b>2014</b>	<b>2014</b>
Net assets per share	¥1,464.11	¥1,657.15	\$16.11

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, 2012, 2013 and 2014 is as follows:

	<i>Millions of yen</i>			<i>Thousands of U.S. dollars</i>
	<b>31st March,</b>			<b>31st March,</b>
	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2014</b>
Numerator:				
Earnings	¥32,921	¥28,613	¥31,527	\$306,444
Earnings not attributable to common shareholders	(-)	(-)	(-)	(-)
Earnings attributable to common shareholders	¥32,921	¥28,613	¥31,527	\$306,444
Denominator:				
Weighted-average number of shares of common stock outstanding – basic *	195,492	196,937	198,594	
Potentially dilutive shares of common stock:				
Convertible bonds	11,839	11,839	11,742	
Stock options	119	100	597	
Total	11,958	11,939	12,339	
Weighted-average number of shares of common stock outstanding – diluted	207,450	208,876	210,933	

\* The Company's shares owned by the ESOP Trust are included in treasury stock.

The weighted-average numbers of shares the ESOP Trust owned were 4,155 thousand and 3,139 thousand during the years ended 31st March, 2013 and 2014, respectively.

### 13. 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, 2012, 2013 and 2014:

	<i>Shares</i>		
	<b>31st March,</b>		
	<b>2012</b>	<b>2013</b>	<b>2014</b>
a) 6th share subscription rights	340,000	280,000	–
b) 8th share subscription rights	367,500	315,000	255,000
c) 10th share subscription rights	417,500	335,000	–
d) 12th share subscription rights	440,000	428,000	–
e) 14th share subscription rights	445,000	445,000	–
f) 16th share subscription rights	392,500	392,500	–
g) 18th share subscription rights	–	385,000	–
h) 20th share subscription rights	–	–	385,000

The computation of net assets per share at 31st March, 2013 and 2014 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>2013</b>	<b>2014</b>	<b>2014</b>
Numerator:			
Net assets	¥290,818	¥331,409	\$3,221,316
Share subscription rights	(1,410)	(973)	(9,458)
Minority interests	(78)	(86)	(836)
Net assets attributable to common stock	<u>¥289,330</u>	<u>¥330,350</u>	<u>\$3,211,022</u>
<i>Thousands of shares</i>			
Denominator:			
Number of shares of common stock outstanding *	197,615	199,349	199,349

\* The Company's shares owned by the ESOP Trust are included in treasury stock.

The ESOP Trust owned 3,521 thousand and 2,817 thousand shares of the Company as of 31st March, 2013 and 2014, respectively.

**14. Leases**

## 1) As lessee

Future minimum lease payments for noncancelable operating leases at 31st March, 2013 and 2014 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>2013</b>	<b>2014</b>	<b>2014</b>
Future minimum lease payments:			
Due within one year	¥ 5,579	¥ 3,832	\$ 37,247
Thereafter	11,689	9,355	90,931
Total	<u>¥17,268</u>	<u>¥13,187</u>	<u>\$128,178</u>

## 2) As lessor

Future minimum lease payments to be received from operating leases as lessor at 31st March, 2013 and 2014 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>2013</b>	<b>2014</b>	<b>2014</b>
Future minimum lease payments to be received:			
Due within one year	¥129	¥21	\$204
Thereafter	14	4	39
Total	<u>¥143</u>	<u>¥25</u>	<u>\$243</u>

**15. Provision for Loss on Orders Received Included in Cost of Sales**

Provision for loss on orders received included in cost of sales amounted to ¥165 million and ¥2,504 million (\$24,339 thousand) for the years ended 31st March, 2013 and 2014, respectively.

**16. Selling, General and Administrative Expenses**

The details of selling, general and administrative expenses for the years ended 31st March, 2012, 2013 and 2014 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>2012</b>	<b>2013</b>	<b>2014</b>	<b>2014</b>
Personnel expenses	¥31,491	¥31,676	¥32,034	\$311,372
Rent	4,716	4,701	4,685	45,538
Subcontractor costs	8,401	8,823	9,640	93,702
Other	12,278	12,408	13,092	127,256
Total	<u>¥56,886</u>	<u>¥57,608</u>	<u>¥59,451</u>	<u>\$577,868</u>

## 17. Research and Development Expenses

Research and development expenses included in selling, general and administrative expenses amounted to ¥3,643 million, ¥3,643 million and ¥3,903 million (\$37,937 thousand) for the year ended 31st March, 2012, 2013 and 2014, respectively.

## 18. Consolidated Statements of Income and Comprehensive Income

Reclassification adjustments relating to other comprehensive income for the years ended 31st March, 2013 and 2014 are summarized as follows.

	<i>Millions of yen</i>		<i>Thousands of</i>
	<b>31st March,</b>	<b>2014</b>	<b>31st March,</b>
	<b>2013</b>		<b>2014</b>
Valuation difference on available-for-sale securities			
Amount arising during the fiscal year	¥13,941	¥ 9,415	\$ 91,514
Reclassification adjustments	–	(11)	(107)
Valuation difference on available-for-sale securities	13,941	9,404	91,407
Deferred losses on hedges			
Amount arising during the fiscal year	–	(58)	(564)
Deferred losses on hedges	–	(58)	(564)
Foreign currency translation adjustment			
Amount arising during the fiscal year	898	638	6,201
Foreign currency translation adjustment	898	638	6,201
Remeasurements of defined benefit plans			
Amount arising during the fiscal year	–	16,013	155,648
Reclassification adjustments	–	87	846
Remeasurements of defined benefit plans	–	16,100	156,494
Share of other comprehensive income of affiliates accounted for using the equity method			
Amount arising during the fiscal year	307	14	136
Reclassification adjustments	–	47	457
Share of other comprehensive income of affiliates accounted for using the equity method	307	61	593
Total other comprehensive income before tax effect adjustment	15,146	26,145	254,131
Tax effect	(4,240)	(9,026)	(87,733)
Total other comprehensive income	¥10,906	¥17,119	\$166,398

## 18. Consolidated Statements of Income and Comprehensive Income (continued)

Tax effects relating to components of other comprehensive income for the years ended 31st March, 2013 and 2014 are summarized as follows:

	<i>Millions of yen</i>		<i>Thousands of</i>
	<b>31st March,</b>		<b>31st March,</b>
	<b>2013</b>	<b>2014</b>	<b>2014</b>
Valuation difference on available-for-sale securities			
Before-tax amount	¥13,941	¥ 9,404	\$ 91,407
Tax benefit (expense)	(4,240)	(3,312)	(32,192)
Net-of-tax amount	9,701	6,092	59,215
Deferred losses on hedges			
Before-tax amount	–	(58)	(564)
Tax benefit (expense)	–	20	195
Net-of-tax amount	–	(38)	(369)
Foreign currency translation adjustment			
Before-tax amount	898	638	6,201
Tax benefit (expense)	–	–	–
Net-of-tax amount	898	638	6,201
Remeasurements of defined benefit plans			
Before-tax amount	–	16,100	156,494
Tax benefit (expense)	–	(5,734)	(55,736)
Net-of-tax amount	–	10,366	100,758
Share of other comprehensive income of affiliates accounted for using the equity method			
Before-tax amount	307	61	593
Tax benefit (expense)	–	–	–
Net-of-tax amount	307	61	593
Total other comprehensive income			
Before-tax amount	15,146	26,145	254,131
Tax benefit (expense)	(4,240)	(9,026)	(87,733)
Net-of-tax amount	¥10,906	¥17,119	\$166,398

## 19. Related Party Transactions

Related party transactions for the years ended 31st March, 2012, 2013 and 2014 and the respective balances at 31st March, 2013 and 2014 were as follows:

### 1) Transactions

Related party	Nature of transaction	Millions of yen			Thousands of U.S. dollars	
		31st March,			31st March,	
		2012	2013	2014	2014	2014
a) Major shareholder: Nomura Holdings, Inc.	Sales *1	¥51,750	¥66,427	¥58,051	\$564,259	—
	Exchange of shares *2	17,873	—	—	—	—
b) Major shareholder's subsidiaries: The Nomura Trust & Banking Co., Ltd.	Repayment of borrowings *3	2,028	1,973	—	—	—
	Payments of interest *3	53	39	—	—	—
Nomura Real Estate Development Co., Ltd. *4	Rent *5	1,637	1,637	—	—	—

### 2) Balances

Related party	Nature of transaction	Millions of yen		Thousands of U.S. dollars	
		31st March,		31st March,	
		2013	2014	2014	2014
a) Major shareholder: Nomura Holdings, Inc.	Accounts receivable and other receivables *1	¥7,542	¥10,001	\$97,210	—
b) Major shareholder's subsidiaries: The Nomura Trust & Banking Co., Ltd.	Long-term loans payable *3	5,281	—	—	—
Nomura Real Estate Development Co., Ltd. *4	Long-term loans receivable *5	7,937	—	—	—
	Lease deposits *5	1,793	—	—	—

\*1 The terms and conditions of the agreements were determined in the same way as ordinary transactions with non-related parties through discussions with consideration of costs associated with system development, application sales and system management and operation.

\*2 The share exchange involved shares of Nomura Land and Building Co., Ltd. owned by the Company and shares of Nomura Holdings, Inc. The Company received 118 shares of Nomura Holdings, Inc. for each Nomura Land and Building Co., Ltd. share in reference to the valuation results provided by third-party appraisers and the results of the calculation after applying the average market share price method.

The amount above was calculated based on the market value as of the effective date.

The Company sold the shares of Nomura Holdings, Inc. that it received in the exchange to a third party, and a gain on the sale of the shares is recognized as "Gain on investments in affiliates" in the accompanying consolidated statement of income and comprehensive income for the year ended 31st March, 2012.

\*3 The borrowing represents loans by the ESOP Trust upon introduction of the "Trust-type Employee Stock Ownership Incentive Plan." The term of the borrowing is five years (final repayment is in April 2016), with variable interest rates. The borrowing is being repaid semiannually in installments, and the borrowing rate has been determined based on the Company's credit risk.



## 19. Related Party Transactions (continued)

- \*4 Nomura Real Estate Development Co., Ltd., which was a subsidiary of the Company's major shareholder "Nomura Holdings, Inc.," ceased to be a Nomura Holdings Inc.'s subsidiary and related party of the Company as of 21st March, 2013. In the above table, however, transactions with Nomura Real Estate Development Co., Ltd. cover transactions to the end of the year ended 31st March, 2013, and balances are those as of 31st March, 2013.
- \*5 Long-term loans receivable is a construction assistance fund receivable corresponding to an office lease deposit to be refunded in a lump sum 10 years after the initial guarantee deposit was made (January 2017). The difference between the initial fair value, calculated as the disbursement amount discounted by the market interest rate, and the initial loan amount is recognized as a long-term prepaid expense and is being allocated as rent expense over 10 years (amount is not included in the transaction amount of the rent presented above). The difference between the initial fair value and the reimbursement amount is being allocated as an interest receivable over 10 years.

With regard to the rent, as presented above, the Company pays rent and a lease deposit (guarantee deposit), which were determined by considering market prices of similar properties.

## 20. Contingent Liabilities

There were no material contingent liabilities at 31st March, 2013 and 2014.

## 21. 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, 2012, 2013 and 2014, the Company recognized and allocated share-based compensation cost as follows:

	<i>Millions of yen</i>			<i>Thousands of U.S. dollars</i>
	<b>31st March,</b>			<b>31st March,</b>
	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2014</b>
Cost of sales	¥167	¥158	¥240	\$2,333
Selling, general and administrative expenses	184	158	225	2,187
Total	¥351	¥316	¥465	\$4,520

For the years ended 31st March, 2012, 2013 and 2014, the Company recognized reversal of share-based compensation as follows:

	<i>Millions of yen</i>			<i>Thousands of U.S. dollars</i>
	<b>31st March,</b>			<b>31st March,</b>
	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2014</b>
Reversal of share-based compensation	¥73	¥158	¥304	\$2,955

## 21. Stock Option Plans (continued)

A description of each stock option plan as of 31st March, 2014 is summarized as follows:

	<u>6th stock option plan</u>	<u>8th stock option plan</u>	<u>10th stock option plan</u>
Grantee categories and numbers of grantees	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	36 directors or managing officers of the Company, and 6 directors of its subsidiaries
Number of shares reserved	400,000	422,500	417,500
Grant date	11th September, 2006	10th July, 2007	8th July, 2008
Vesting conditions	Holder must be in continuous employment from the grant date to the vesting date of 30th June, 2009	Holder must be in continuous employment from the grant date to the vesting date of 30th June, 2010	Holder must be in continuous employment from the grant date to the vesting date of 30th June, 2011
Service period	From 1st July, 2006 to 30th June, 2009	From 1st July, 2007 to 30th June, 2010	From 1st July, 2008 to 30th June, 2011
Exercisable period	1st July, 2009 to 30th June, 2013	1st July, 2010 to 30th June, 2014	1st July, 2011 to 30th June, 2015
	<u>12th stock option plan</u>	<u>14th stock option plan</u>	<u>16th stock option plan</u>
Grantee categories and numbers of grantees	39 directors or managing officers of the Company, and 7 directors of its subsidiaries	39 directors or managing officers of the Company, and 8 directors of its subsidiaries	37 directors or managing officers of the Company, and 5 directors of its subsidiaries
Number of shares reserved	440,000	445,000	392,500
Grant date	15th July, 2009	18th August, 2010	11th July, 2011
Vesting conditions	Holder must be in continuous employment from the grant date to the vesting date of 30th June, 2012	Holder must be in continuous employment from the grant date to the vesting date of 30th June, 2013	Holder must be in continuous employment from the grant date to the vesting date of 30th June, 2014
Service period	From 1st July, 2009 to 30th June, 2012	From 1st July, 2010 to 30th June, 2013	From 1st July, 2011 to 30th June, 2014
Exercisable period	1st July, 2012 to 30th June, 2016	1st July, 2013 to 30th June, 2017	1st July, 2014 to 30th June, 2018

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

	<u>17th stock option plan</u>	<u>18th stock option plan</u>	<u>19th stock option plan</u>
Grantee categories and numbers of grantees	38 directors, managing officers or employees of the Company, and 5 directors of its subsidiaries	35 directors or managing officers of the Company, and 6 directors of its subsidiaries	36 directors, managing officers or employees of the Company, and 6 directors of its subsidiaries
Number of shares reserved	90,500	385,000	88,500
Grant date	11th July, 2011	13th July, 2012	13th July, 2012
Vesting conditions	Holder must be in continuous employment from the grant date to the vesting date of 30th June, 2012	Holder must be in continuous employment from the grant date to the vesting date of 30th June, 2015	Holder must be in continuous employment from the grant date to the vesting date of 30th June, 2013
Service period	From 1st July, 2011 to 30th June, 2012	From 1st July, 2012 to 30th June, 2015	From 1st July, 2012 to 30th June, 2013
Exercisable period	1st July, 2012 to 30th June, 2013	1st July, 2015 to 30th June, 2019	1st July, 2013 to 30th June, 2014
	<u>20th stock option plan</u>	<u>21st stock option plan</u>	
Grantee categories and numbers of grantees	35 directors or managing officers of the Company, and 5 directors of its subsidiaries	36 directors, managing officers or employees of the Company, and 5 directors of its subsidiaries	
Number of shares reserved	385,000	88,500	
Grant date	12th July, 2013	12th July, 2013	
Vesting conditions	Holder must be in continuous employment from the grant date to the vesting date of 30th June, 2016	Holder must be in continuous employment from the grant date to the vesting date of 30th June, 2014	
Service period	From 1st July, 2013 to 30th June, 2016	From 1st July, 2013 to 30th June, 2014	
Exercisable period	1st July, 2016 to 30th June, 2020	1st July, 2014 to 30th June, 2015	

## 21. Stock Option Plans (continued)

The following table summarizes options activity under the stock option plans referred to above during the year ended 31st March, 2014:

	<i>Number of shares</i>										
	6th stock option plan	8th stock option plan	10th stock option plan	12th stock option plan	14th stock option plan	16th stock option plan	17th stock option plan	18th stock option plan	19th stock option plan	20th stock option plan	21st stock option plan
Non-vested:											
Beginning of the year	–	–	–	–	445,000	392,500	–	385,000	88,500	–	–
Granted	–	–	–	–	–	–	–	–	–	385,000	88,500
Forfeited	–	–	–	–	–	–	–	–	–	–	–
Vested	–	–	–	–	(445,000)	–	–	–	(88,500)	–	–
End of the year	–	–	–	–	–	392,500	–	385,000	–	385,000	88,500
Vested:											
Beginning of the year	280,000	315,000	335,000	428,000	–	–	19,000	–	–	–	–
Vested	–	–	–	–	445,000	–	–	–	88,500	–	–
Exercised	–	–	(227,500)	(378,000)	(332,500)	–	(19,000)	–	(73,000)	–	–
Forfeited	(280,000)	(60,000)	–	–	–	–	–	–	–	–	–
End of the year	–	255,000	107,500	50,000	112,500	–	–	–	15,500	–	–

\* For the stock options which become unexercisable, the Company has applied the same accounting treatment as to forfeited stock options. The numbers of stock options presented above reflect such accounting treatment.

Price information per option for each stock option plan as of 31st March, 2014 is summarized as follows:

	<i>Yen</i>										
	6th stock option plan	8th stock option plan	10th stock option plan	12th stock option plan	14th stock option plan	16th stock option plan	17th stock option plan	18th stock option plan	19th stock option plan	20th stock option plan	21st stock option plan
Exercise price	¥3,282	¥3,680	¥2,650	¥2,090	¥2,010	¥1,869	¥ 1	¥1,766	¥ 1	¥3,420	¥ 1
Average price on exercise	–	–	3,288	3,088	3,333	–	2,960	–	3,308	–	–
Fair value on grant date	865	1,030	631	539	284	460	1,792	412	1,690	859	3,343
	<i>U.S. dollars</i>										
	6th stock option plan	8th stock option plan	10th stock option plan	12th stock option plan	14th stock option plan	16th stock option plan	17th stock option plan	18th stock option plan	19th stock option plan	20th stock option plan	21st stock option plan
Exercise price	\$31.90	\$35.77	\$25.76	\$20.31	\$19.54	\$18.17	\$ 0.01	\$17.17	\$ 0.01	\$33.24	\$ 0.01
Average price on exercise	–	–	31.96	30.02	32.40	–	28.77	–	32.15	–	–
Fair value on grant date	8.41	10.01	6.13	5.24	2.76	4.47	17.42	4.00	16.43	8.35	32.49

The exercise price and fair value on the grant date as of 31st March, 2014 reflect the five-for-one stock split on 1st April, 2007.

## 21. Stock Option Plans (continued)

Fair value as of the grant date for stock options which were issued during the year ended 31st March, 2014 was estimated using the Black-Scholes option pricing model with the following assumptions:

	<u>20th stock option plan</u>	<u>21st stock option plan</u>
Expected volatility *1	33.7%	23.0%
Expected remaining period *2	4.97 years	1.47 years
Expected dividend yield *3	¥52 per share	¥52 per share
Risk-free interest rate *4	0.291%	0.118%

- \*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, 2014 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.

## 22. Segment Information

### *Segment Information*

#### 1) Outline of reportable segments

The NRI Group's reportable segments, for which separate financial information is available, are evaluated periodically by management in deciding the allocation of management resources and in assessing business performances. The NRI Group has classified its segments, comprehensively considering services, customers and markets totally, and four segments have been determined as reportable segments.

#### 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.

## 22. Segment Information (continued)

### *Segment Information (continued)*

#### 1) Outline of reportable segments (continued)

##### 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 and IT solutions, such as multi-user systems.

##### 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.

##### 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. Customers in various sectors are provided with IT Platform solution and information security services.

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.

#### 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.



## 22. Segment Information (continued)

### Segment Information (continued)

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

		<i>Millions of yen</i>								
		Year ended 31st March, 2012								
		Reportable segment					Others *1	Total	Adjustment *2	Consolidated *3
		Financial Consulting	Industrial IT Solutions	Industrial IT Solutions	IT Platform Services	Subtotal				
Net sales:										
Sales to external customers		¥21,686	¥202,628	¥71,919	¥ 30,789	¥327,022	¥ 8,520	¥335,542	¥ 13	¥335,555
Intersegment sales or transfers		122	91	317	74,069	74,599	3,282	77,881	(77,881)	–
Total		21,808	202,719	72,236	104,858	401,621	11,802	413,423	(77,868)	335,555
Segment profit		¥ 3,011	¥ 21,435	¥ 4,259	¥ 11,230	¥ 39,935	¥ 727	¥ 40,662	¥ 2,491	¥ 43,153
Segment assets		¥10,505	¥101,371	¥26,053	¥ 74,488	¥212,417	¥ 5,893	¥218,310	¥184,474	¥402,784
Other items:										
Depreciation and amortization		¥ 78	¥ 16,331	¥ 1,371	¥ 11,086	¥ 28,866	¥ 364	¥ 29,230	¥ 1,645	¥ 30,875
Investment in affiliates		–	729	–	–	729	158	887	–	887
Increase in tangible and intangible fixed assets		94	19,566	3,913	16,903	40,476	342	40,818	347	41,165

\*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 immaterial.
- (b) The segment asset adjustment of ¥184,474 million is comprised of corporate assets not allocated to a reportable segment of ¥186,003 million and the eliminations of intersegment receivables of ¥(1,529) million.
- (c) Individual items included in adjustment of depreciation and amortization were immaterial.
- (d) Individual items included in adjustment of increase in tangible and intangible fixed assets were immaterial.

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

## 22. Segment Information (continued)

### Segment Information (continued)

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

<i>Millions of yen</i>									
Year ended 31st March, 2013									
	Reportable segment				Subtotal	Others *1	Total	Adjustment *2	Consolidated *3
	Consulting	Financial IT Solutions	Industrial IT Solutions	IT Platform Services					
Net sales:									
Sales to external customers	¥22,761	¥219,755	¥83,615	¥ 28,850	¥354,981	¥ 8,908	¥363,889	¥ 2	¥363,891
Intersegment sales or transfers	148	162	48	74,526	74,884	3,812	78,696	(78,696)	–
Total	22,909	219,917	83,663	103,376	429,865	12,720	442,585	(78,694)	363,891
Segment profit	¥ 2,801	¥ 22,280	¥ 6,478	¥ 10,061	¥ 41,620	¥ 1,137	¥ 42,757	¥ 1,210	¥ 43,967
Segment assets	¥11,436	¥ 91,287	¥34,788	¥ 72,704	¥210,215	¥ 8,085	¥218,300	¥213,922	¥432,222
Other items:									
Depreciation and amortization	¥ 71	¥ 27,952	¥ 1,680	¥ 11,138	¥ 40,841	¥ 383	¥ 41,224	¥ 1,251	¥ 42,475
Investment in affiliates	–	9,582	–	–	9,582	282	9,864	–	9,864
Increase in tangible and intangible fixed assets	75	12,469	3,150	14,211	29,905	723	30,628	420	31,048

\*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 immaterial.
- (b) The segment asset adjustment of ¥213,922 million is comprised of corporate assets not allocated to a reportable segment of ¥215,646 million and the eliminations of intersegment receivables of ¥(1,724) million.
- (c) Individual items included in adjustment of depreciation and amortization were immaterial.
- (d) Individual items included in adjustment of increase in tangible and intangible fixed assets were immaterial.

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

## 22. Segment Information (continued)

### Segment Information (continued)

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

<i>Millions of yen</i>									
<b>Year ended 31st March, 2014</b>									
	<b>Reportable segment</b>				<b>Subtotal</b>	<b>Others *1</b>	<b>Total</b>	<b>Adjustment *2</b>	<b>Consolidated *3</b>
	<b>Consulting</b>	<b>Financial IT Solutions</b>	<b>Industrial IT Solutions</b>	<b>IT Platform Services</b>					
Net sales:									
Sales to external customers	¥25,631	¥225,314	¥87,322	¥ 37,580	¥375,847	¥ 10,085	¥385,932	¥ –	¥385,932
Intersegment sales or transfers	190	32	68	77,044	77,334	5,248	82,582	(82,582)	–
Total	25,821	225,346	87,390	114,624	453,181	15,333	468,514	(82,582)	385,932
Segment profit	¥ 4,708	¥ 27,809	¥ 8,409	¥ 6,471	¥ 47,397	¥ 1,281	¥ 48,678	¥ 1,139	¥ 49,817
Segment assets	¥14,658	¥101,925	¥36,865	¥ 80,138	¥233,586	¥ 9,044	¥242,630	¥226,380	¥469,010
Other items:									
Depreciation and amortization	¥ 75	¥ 18,265	¥ 2,047	¥ 12,096	¥ 32,483	¥ 489	¥ 32,972	¥ 1,146	¥ 34,118
Investment in affiliates	136	10,609	–	–	10,745	384	11,129	–	11,129
Increase in tangible and intangible fixed assets	52	19,591	4,227	8,822	32,692	849	33,541	338	33,879

\*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 immaterial.
- (b) The segment asset adjustment of ¥226,380 million is comprised of corporate assets not allocated to a reportable segment of ¥228,204 million and the eliminations of intersegment receivables of ¥(1,824) million.
- (c) Individual items included in adjustment of depreciation and amortization were immaterial.
- (d) Individual items included in adjustment of increase in tangible and intangible fixed assets were immaterial.

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

## 22. Segment Information (continued)

### Segment Information (continued)

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

<i>Thousands of U.S. dollars</i>									
<b>Year ended 31st March, 2014</b>									
	<b>Reportable segment</b>				<b>Subtotal</b>	<b>Others</b>	<b>Total</b>	<b>Adjustment *</b>	<b>Consolidated</b>
	<b>Consulting</b>	<b>Financial IT Solutions</b>	<b>Industrial IT Solutions</b>	<b>IT Platform Services</b>					
Net sales:									
Sales to external customers	\$249,135	\$2,190,066	\$848,775	\$ 365,280	\$3,653,256	\$ 98,027	\$3,751,283	\$ –	\$3,751,283
Intersegment sales or transfers	1,847	311	661	748,872	751,691	51,011	802,702	(802,702)	–
<b>Total</b>	<b>250,982</b>	<b>2,190,377</b>	<b>849,436</b>	<b>1,114,152</b>	<b>4,404,947</b>	<b>149,038</b>	<b>4,553,985</b>	<b>(802,702)</b>	<b>3,751,283</b>
<b>Segment profit</b>	<b>\$ 45,762</b>	<b>\$ 270,305</b>	<b>\$ 81,736</b>	<b>\$ 62,899</b>	<b>\$ 460,702</b>	<b>\$ 12,451</b>	<b>\$ 473,153</b>	<b>\$ 11,071</b>	<b>\$ 484,224</b>
Segment assets	\$142,478	\$ 990,717	\$358,330	\$ 778,946	\$2,270,471	\$ 87,908	\$2,358,379	\$2,200,427	\$4,558,806
Other items:									
Depreciation and amortization	\$ 729	\$ 177,537	\$ 19,897	\$ 117,574	\$ 315,737	\$ 4,753	\$ 320,490	\$ 11,139	\$ 331,629
Investment in affiliates	1,322	103,120	–	–	104,442	3,733	108,175	–	108,175
Increase in tangible and intangible fixed assets	506	190,426	41,087	85,750	317,769	8,252	326,021	3,285	329,306

\* The segment asset adjustment of \$2,200,427 thousand is comprised of corporate assets of \$2,218,156 thousand not allocated to a reportable segment and the eliminations of intersegment receivables of \$(17,729) thousand.

## 22. Segment Information (continued)

### Related information

#### 1) Information by products and services

Sales to external customers classified by products and services for the years ended 31st March, 2012, 2013 and 2014 is summarized as follows:

	<i>Millions of yen</i>	<i>YoY Change</i>		
<b>31st March, 2012</b>				
Consulting services	¥ 36,099	9.5%		
System development and application sales	125,557	7.2		
System management and operation services	164,084	(1.5)		
Product sales	9,815	1.1		
Total	<u>¥335,555</u>	<u>2.8%</u>		
	<i>Millions of yen</i>	<i>YoY Change</i>		
<b>31st March, 2013</b>				
Consulting services	¥ 39,079	8.3%		
System development and application sales	140,478	11.9		
System management and operation services	174,990	6.6		
Product sales	9,344	(4.8)		
Total	<u>¥363,891</u>	<u>8.4%</u>		
	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>	<i>YoY Change</i>	
<b>31st March, 2014</b>				
Consulting services	¥ 42,233	\$ 410,507	8.1%	
System development and application sales	143,213	1,392,039	1.9	
System management and operation services	187,361	1,821,161	7.1	
Product sales	13,125	127,576	40.5	
Total	<u>¥385,932</u>	<u>\$3,751,283</u>	<u>6.1%</u>	

#### 2) Information by geographical area

Information by geographical area is omitted, because sales and tangible fixed assets in Japan constituted more than 90% of total sales and tangible fixed assets for the years ended 31st March, 2013 and 2014.

## 22. Segment Information (continued)

### Related information (continued)

#### 3) Information by major customer

	<i>Millions of yen</i>	<i>Percentage of total sales</i>	<i>Change</i>	<i>Related segment</i>
<b>31st March, 2012</b>				
Nomura Holdings, Inc.	¥89,474	26.7%	17.9%	Financial IT Solutions
Seven & i Holdings Co., Ltd.	39,998	11.9	0.9	Industrial IT Solutions and Financial IT Solutions

\* Sales to subsidiaries of major customers and sales to major customers through leasing companies are included in the above table.

	<i>Millions of yen</i>	<i>Percentage of total sales</i>	<i>Change</i>	<i>Related segment</i>
<b>31st March, 2013</b>				
Nomura Holdings, Inc.	¥100,984	27.8%	12.9%	Financial IT Solutions
Seven & i Holdings Co., Ltd.	44,984	12.4	12.5	Industrial IT Solutions and Financial IT Solutions

\* Sales to subsidiaries of major customers and sales to major customers through leasing companies are included in the above table.

	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>	<i>Percentage of total sales</i>	<i>YoY Change</i>	<i>Related segment</i>
<b>31st March, 2014</b>					
Nomura Holdings, Inc.	¥90,688	\$881,493	23.5%	(10.2)%	Financial IT Solutions
Seven & i Holdings Co., Ltd.	40,888	397,434	10.6	(9.1)	Industrial IT Solutions and Financial IT Solutions

\* Sales to subsidiaries of major customers and sales to major customers through leasing companies are included in the above table.

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

Years ended 31st March, 2012, 2013 and 2014

Not applicable.

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

Year ended 31st March, 2012

Not applicable.

Years ended 31st March, 2013 and 2014

Information is omitted because the amount is immaterial.

## 22. Segment Information (continued)

### *Information about gains on bargain purchase for each reportable segment*

Years ended 31st March, 2012 and 2014

Not applicable.

Year ended 31st March, 2013

In the Financial IT Solutions segment, the NRI Group acquired additional shares of Daiko Clearing Services during the year ended 31st March, 2013. As a result, Daiko Clearing Services is newly accounted for by the equity method. A gain on bargain purchase of ¥4,661 million was recorded by the Company as an extraordinary gain for the year ended 31st March, 2013 in relation to this transaction.

## 23. Subsequent Events

### *Business combination through acquisition*

A resolution for the acquisition of additional shares of Daiko Clearing Services, which was an affiliate accounted for by the equity method, to make it a consolidated subsidiary was approved at the Board of Directors' meeting held on 14th March, 2014. The Company concluded a share transfer agreement dated 14th March, 2014 and completed the acquisition of shares on 1st April, 2014.

1) An outline of this business combination is as follows:

(a) Name of acquired company and business

Name of acquired company: Daiko Clearing Services

Business: Back-office business, IT service business, securities brokerage business and financial business

(b) Main reasons for business combination

The purpose of the business combination is to strengthen the collaborative relationship with Daiko Clearing Services primarily for the securities back-office business and related businesses. The Company intends to develop a system to provide a wide range of customers with higher value-added services by utilizing IT solution services of the Company and the know-how regarding back-office services of Daiko Clearing Services

(c) Date of business combination

1st April, 2014

(d) Legal form of business combination

Acquisition of shares by cash

(e) Name of company after business combination

The company's name is unchanged.



## 23. Subsequent Events (continued)

### *Business combination through acquisition (continued)*

- (f) Percentage of voting rights acquired by the Company  
 Percentage of voting rights held by the Company immediately prior to this business combination: 41.3%  
 Percentage of voting rights acquired on the date of the business combination: 9.8%  
 Percentage of voting rights held after the acquisition: 51.1%

- (g) Main reason for determination of the acquiring company  
 The Company acquired a majority of the voting rights and clearly has control over the decision-making body of the acquiree.

#### 2) Details on acquisition cost of the acquired company

		<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>
Consideration Paid	Fair value of shares of acquired company held immediately prior to the business combination	¥7,832	\$76,128
	Cash used to additionally acquire the shares of acquired company	1,863	18,108
Direct Costs	Advisory costs, etc.	20	194
Acquisition Cost		<u>¥9,715</u>	<u>\$94,430</u>

#### 3) Difference between acquisition cost and total cost of individual investments leading to the acquisition

Loss on step acquisition in the amount of ¥1,664 million (\$16,174 thousand) resulted from the difference between the acquisition cost and the total cost of individual investments leading to the acquisition.

#### 4) Amount of gain on negative goodwill and reason for recognition.

A gain on negative goodwill of ¥3,374 million (\$32,795 thousand) will be recorded for the year ending 31st March, 2015 because the market value of the net assets acquired on the date of the business combination exceeded the acquisition cost.

#### 5) Information on assets acquired and liabilities assumed on the date of the business combination

	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>
Current assets	¥41,655	\$404,889
Fixed assets	12,385	120,383
Total assets	<u>54,040</u>	<u>525,272</u>
Current liabilities	26,234	254,996
Fixed liabilities	2,873	27,926
Total liabilities	<u>¥29,107</u>	<u>\$282,922</u>

[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: *Transactions of Delivering the Company's Own Stock to Employees etc. through Trusts*" 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 30th June, 2014)

Nomura Research Institute, Ltd.

NRI Group

## Nomura Research Institute, Ltd.

<http://www.nri.com>

### Marunouchi Center (Headquarters)

Marunouchi Kitaguchi Building,  
1-6-5 Marunouchi, Chiyoda-ku,  
Tokyo 100-0005, Japan

### Kiba Center

<Tower N>  
Tower N, 1-5-15 Kiba, Koto-ku,  
Tokyo 135-0042, Japan  
<Tower S>  
Tower S, 1-5-25 Kiba, Koto-ku,  
Tokyo 135-0042, Japan

### Yokohama Center

NRI Tower, 134 Godo-cho, Hodogaya-ku,  
Yokohama 240-0005, Japan

### Yokohama Minato Center

Dia Building,  
1-7 Kinkou-cho, Kanagawa-ku,  
Yokohama 221-0056, Japan

### Osaka Center

Aqua Dojima West Tower,  
1-4-16 Dojimahama, Kita-ku,  
Osaka 530-0004, Japan

### Moscow Branch

## NRI Netcom, Ltd.

Aqua Dojima West Tower,  
1-4-16 Dojimahama, Kita-ku,  
Osaka 530-0004, Japan  
Shiodome City Center,  
1-5-2 Higashi Shinbashi, Minato-ku,  
Tokyo 105-7114, Japan  
<http://www.nri-net.com>

## NRI SecureTechnologies, Ltd.

Tokyo Sankei Building,  
1-7-2 Otemachi, Chiyoda-ku,  
Tokyo 100-0004, Japan  
<http://www.nri-secure.co.jp>

### North America Branch (CA, U.S.A.)

## NRI Workplace Services, Ltd.

NRI Tower, 134 Godo-cho, Hodogaya-ku,  
Yokohama 240-0005, Japan

## NRI Data iTech, Ltd.

Tower S, 1-5-25 Kiba, Koto-ku,  
Tokyo 135-0042, Japan  
<http://www.n-itech.com>

## NRI Cyber Patent, Ltd.

Nippon Building, 2-6-2 Otemachi,  
Chiyoda-ku, Tokyo 100-0004, Japan  
<http://www.patent.ne.jp>

## NRI Social Information System Services, Ltd.

Tower S, 1-5-25 Kiba, Koto-ku,  
Tokyo 135-0042, Japan  
<http://www.nri-social.co.jp>

## NRI Process Innovation, Ltd.

Dia Building,  
1-7 Kinkou-cho, Kanagawa-ku,  
Yokohama 221-0056, Japan

## NRI System Techno, LTD.

NRI Tower, 134 Godo-cho, Hodogaya-ku,  
Yokohama 240-0005, Japan  
<http://www.nri-st.co.jp>

## Daiko Clearing Services Corporation

13-1, Nihonbashikabutocho, Chuo-ku,  
Tokyo 103-0026, Japan  
<http://www.daiko-sb.co.jp>

## Nomura Research Institute Holdings America, Inc. (NY, U.S.A.)

## Nomura Research Institute America, Inc. (NY, U.S.A.)

## Nomura Research Institute IT Solutions America, Inc. (TX, U.S.A.)

Pacific Branch (CA, U.S.A.)

## Nomura Research Institute Europe Limited (London, U.K.)

Luxembourg Branch

## Nomura Research Institute (Beijing), Ltd.

<http://www.nri.com.cn/beijing/jp>  
\*In Japanese or Chinese only

### Shanghai Branch

<http://shanghai.nri.com.cn/jp>  
\*In Japanese or Chinese only

## Nomura Research Institute Shanghai Limited

<http://consulting.nri.com.cn>  
\*In Japanese or Chinese only

### Beijing Branch

<http://consulting.nri.com.cn>  
\*In Japanese or Chinese only

## Nomura Research Institute (Dalian), Ltd.

## Nomura Research Institute Asia Pacific Private Limited (NRI APAC) (Singapore)

<http://www.nrisg.com/english/index.html>

### Manila Branch

Jakarta Representative Office  
(Jakarta, Indonesia)

## Nomura Research Institute Hong Kong Limited

<http://www.nrihk.com>  
\*In Japanese only

## Nomura Research Institute Taiwan Co., Ltd

<http://www.nri.com.tw>  
\*In Japanese only

## Nomura Research Institute Seoul Co., Ltd.

<http://www.nri-seoul.co.kr>  
\*In Japanese or Korean only

## Nomura Research Institute India Private Limited

(Gurgaon, Haryana, India)  
<http://india.nri.com>

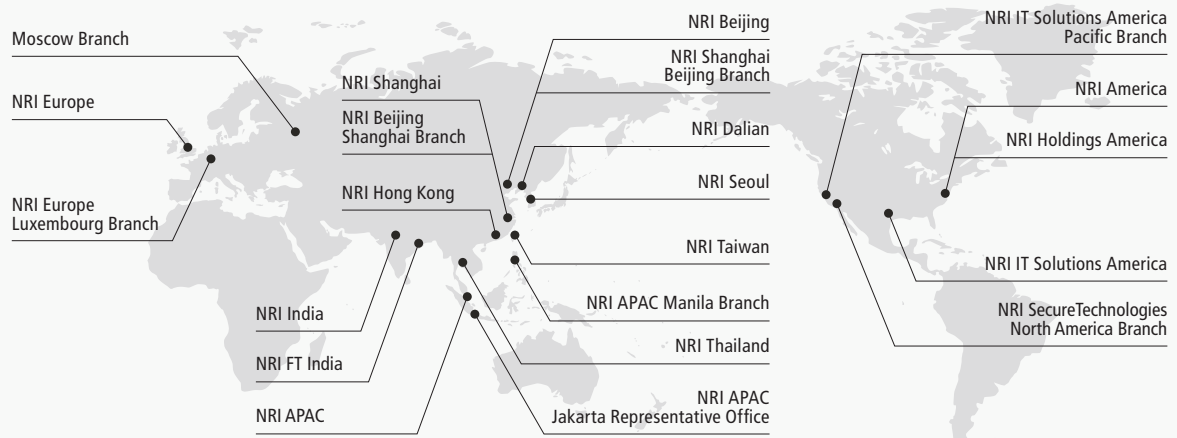
## Nomura Research Institute Financial Technologies India Pvt. Ltd. (NRI FT India) (Kalkata, India)

<http://www.nrifintech.com>

## Nomura Research Institute Thailand (Bangkok, Thailand)

For more about NRI Group offices around the world:  
<http://www.nri.com/global/company/map/index.html>

## NRI Group Worldwide Offices

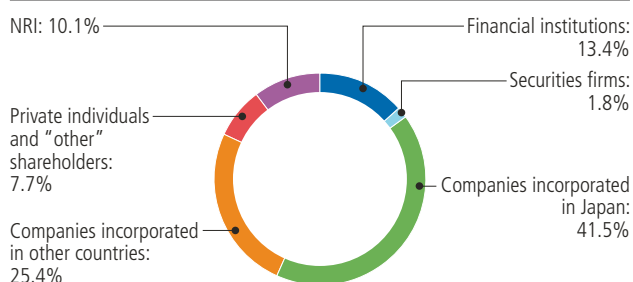


## Corporate Outline

<b>Name</b>	Nomura Research Institute, Ltd.
<b>Headquarters address</b>	Marunouchi Kitaguchi Building, 1-6-5 Marunouchi, Chiyoda-ku, Tokyo 100-0005, Japan
<b>Capital</b>	18,600 million yen
<b>Representative</b>	President & CEO Tadashi Shimamoto
<b>Number of employees</b>	5,938 (8,123 in the entire NRI Group) (As of 31st March, 2014)

## Breakdown of Shares by Shareholder Category

(As of 31st March, 2014)



## Major Shareholders (As of 31st March, 2014)

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
State Street Bank and Trust Company 505223 (Standing Agent: Mizuho Corporate Bank, Ltd., settlement division)	9,016	4.01
State Street Bank and Trust Company (Standing Agent: The Hongkong and Shanghai Banking Corporation, Tokyo branch)	7,919	3.52
NRI Group Employee Stock Ownership Group	6,901	3.07
Japan Trustee Services Bank, Ltd. (Trust Account)	5,680	2.52
The Master Trust Bank of Japan, Ltd. (Trust Account)	4,620	2.05
National Mutual Insurance Federation of Agricultural Cooperatives (Standing Agent: The Master Trust Bank of Japan, Ltd.)	4,238	1.88

Note: NRI owns 22,833 thousand shares of the treasury stock, but the figure excludes the shares mentioned above.

## Stock Data (As of 31st March, 2014)

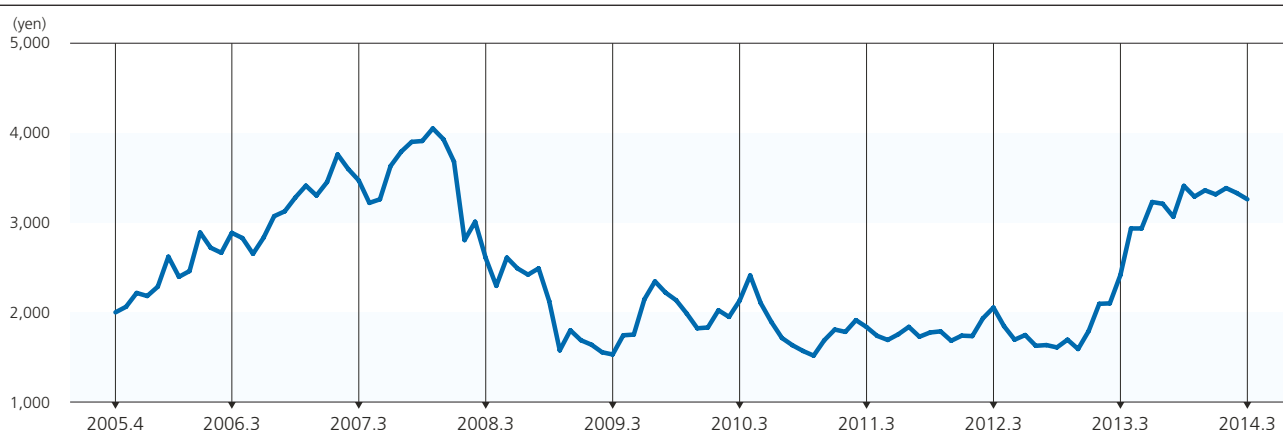
Total number of issuable shares	750,000,000
Total number of issued shares	225,000,000
Number of shareholders	12,314

## 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.) NRI's website: <a href="http://www.nri.com">http://www.nri.com</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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