

NETEASE.COM, INC.
Form 6-K
November 08, 2007
Table of Contents

FORM 6-K

SECURITIES AND EXCHANGE COMMISSION

Washington D.C. 20549

REPORT OF FOREIGN ISSUER

PURSUANT TO RULE 13a-16 OR 15d-16 OF THE SECURITIES EXCHANGE ACT OF 1934

For the month of November 2007

Commission File Number: 000-30666

NETEASE.COM, INC.

26/F, SP Tower D

Tsinghua Science Park Building 8

No. 1 Zhongguancun East Road, Haidian District

Beijing 100084, People's Republic of China

(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F Form 40-F

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):

Indicate by check mark whether by furnishing the information contained in this Form, the registrant is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

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Yes _____ No X

If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82- N.A.

The index of exhibits may be found at Page 2

Table of Contents

NETEASE.COM, INC.

Form 6-K

TABLE OF CONTENTS

Signatures

Page

Page 3

Press Release Regarding Earnings Results for the Third Quarter of 2007 dated November 8, 2007

Exhibit 99.1

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

NETEASE.COM, INC.

By: /s/ Onward Choi

Name: Onward Choi

Title: Acting Chief Financial Officer

Date: November 8, 2007

Table of Contents

Exhibit 99.1

Press Release

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NetEase.com Reports Third Quarter 2007

Unaudited Financial Results

(Beijing November 8, 2007) NetEase.com, Inc. (NASDAQ: NTES), one of China's leading Internet and online game services providers, today announced its unaudited financial results for the quarter ended September 30, 2007.

William Ding, Chief Executive Officer and Director of NetEase stated, "During the third quarter of 2007, we continued to expand our research and development for new games, including fee-based and casual games. Westward Journey Online III was commercialized on September 12 and our newest expansion pack for Fantasy Westward Journey was released on September 25.

Mr. Ding continued, "We are pleased with our progress in creating and commercializing new ad space inventory via our free email services, which continue to lead the Chinese email market. We are committed to building our capacity and market share in the high growth domestic market by improved content and integrating our different products as the Beijing 2008 Olympic Games draw closer. In addition, we have added significant enhancements to our search engine, including more user-friendly and highly competitive features.

Third Quarter 2007 Financial Results

Total revenues for the third quarter of 2007 were RMB571.1 million (US\$76.2 million), compared to RMB558.0 million (US\$74.5 million) and RMB571.9 million (US\$76.3 million) for the preceding quarter and the third quarter of 2006, respectively.

Revenues from online games were RMB468.7 million (US\$62.5 million) for the third quarter of 2007, compared to RMB475.1 million (US\$63.4 million) and RMB467.9 million (US\$62.4 million) for the preceding quarter and the third quarter of 2006, respectively.

Table of Contents

Revenues from advertising services were RMB85.5 million (US\$11.4 million) for the third quarter of 2007, compared to RMB65.3 million (US\$8.7 million) and RMB83.4 million (US\$11.1 million) for the preceding quarter and the third quarter of 2006, respectively.

Revenues from wireless value-added services and others were RMB16.9 million (US\$2.3 million) for the third quarter of 2007, compared to RMB17.5 million (US\$2.3 million) and RMB20.6 million (US\$2.8 million) for the preceding quarter and the third quarter of 2006, respectively.

Gross profit for the third quarter of 2007 was RMB441.9 million (US\$59.0 million), compared to RMB437.8 million (US\$58.4 million) and RMB448.1 million (US\$59.8 million) for the preceding quarter and the third quarter of 2006, respectively. The quarter-over-quarter increase in gross profit was primarily due to higher advertising services revenue in the third quarter of 2007. The year-over-year decrease in gross profit was mainly due to the decrease in wireless value-added services revenue.

Gross margin for the online game business for the third quarter of 2007 was 89.4%, compared to 90.2% and 89.4% for the preceding quarter and the third quarter of 2006, respectively. The quarter-over-quarter decrease was primarily due to lower game revenues resulting from increased competition coupled with higher cost of revenues. Higher cost of revenues was mainly the result of increased headcount and higher operational costs incurred during the third quarter of 2007. The year-over-year gross margin remained relatively stable.

Gross margin for the advertising business for the third quarter of 2007 was 54.0%, compared to 47.2% and 56.1% for the preceding quarter and the third quarter of 2006, respectively. The quarter-over-quarter increase in gross margin was primarily driven by the increase in advertising services revenue coupled with a lesser extent of increase in content costs in the third quarter of 2007. The year-over-year decline in gross margin was primarily driven by increased content costs incurred during the third quarter of 2007.

Gross loss margin for the wireless value-added services and others business for the third quarter of 2007 was 33.3%, compared to gross loss margin of 28.1% and gross profit margin of 3.4% for the preceding quarter and the third quarter of 2006, respectively. Both the quarter-over-quarter and year-over-year deepening in gross loss margin was primarily due to decreased revenue from wireless value-added services while operating expenses remained relatively fixed.

Total operating expenses for the third quarter of 2007 were RMB179.0 million (US\$23.9 million), compared to RMB142.8 million (US\$19.1 million) and RMB131.5 million (US\$17.5 million) for the preceding quarter and the third quarter of 2006, respectively. Both the quarter-over-quarter and year-over-year increase was primarily driven by increased spending on the advertising and marketing promotion of Westward Journey Online III and Fantasy Westward Journey, and higher staff-related cost as a result of an increase in research and development headcount.

Net profit for the third quarter of 2007 totaled RMB260.2 million (US\$34.7 million), compared to RMB312.6 million (US\$41.7 million) and RMB314.8 million (US\$42.0 million) for the preceding quarter and the third quarter of 2006, respectively. In June 2007, the Company received a reinvestment incentive tax refund of RMB24.4 million (US\$3.2 million), which significantly reduced the Company's income tax expense for the second quarter of 2007. NetEase reported basic and diluted earnings per American depositary share (ADS) of US\$0.28 and US\$0.27 for the third quarter of 2007, respectively. The Company reported basic and diluted earnings per ADS of US\$0.34 and US\$0.31 and US\$0.33 and US\$0.30 for the preceding quarter and the third quarter of 2006, respectively.

Table of Contents

Other Information

As of September 30, 2007, the Company's total cash and time deposit balance was RMB3.1 billion (US\$410.9 million), compared to RMB3.9 billion (US\$525.6 million) and RMB3.8 billion (US\$505.0 million) as of December 31, 2006 and September 30, 2006, respectively. In addition, there was a restricted cash balance of RMB749.7 million (US\$100.1 million) as of September 30, 2007 primarily related to the Company's committed revolving loan facility, which is effective for a period from May 17, 2007 to July 31, 2008. The loan facility can be used by the Company at its discretion to fund any redemption requests made by the holders of its zero coupon convertible subordinated notes in accordance with the terms of those notes. As of September 30, 2007, the Company reclassified the callable obligations of the convertible notes as short-term payable in accordance with the terms of issue. Cash flow generated from operating activities was approximately RMB339.2 million (US\$45.3 million) for the third quarter of 2007, compared to RMB331.0 million (US\$44.2 million) and RMB344.5 million (US\$46.0 million) for the preceding quarter and the third quarter of 2006, respectively.

On July 2, 2007, the Company's Board authorized a share repurchase program of up to US\$120 million of the Company's outstanding ADSs. As of September 30, 2007 the Company had spent in aggregate a total purchase consideration of approximately US\$30.8 million (including transaction costs). The share repurchase program will end on July 1, 2008.

** The United States dollar (US\$) amounts disclosed in this press release are presented solely for the convenience of the reader. Translations of amounts from RMB into United States dollars for the convenience of the reader were calculated at the noon buying rate of US\$1.00 = RMB7.4928 on September 28, 2007 in The City of New York for the cable transfers of RMB as certified for customs purposes by the Federal Reserve Bank of New York. No representation is made that the RMB amounts could have been, or could be, converted into US\$ at that rate on September 28, 2007, or at any other certain date. The percentages stated are calculated based on RMB.

Conference Call

NetEase's management team will host a conference call at 8:00 pm Eastern Time on Wednesday, November 7, 2007, (Beijing/Hong Kong Time: 9:00 am, Thursday, November 8, 2007). Chief Executive Officer William Ding, Acting Chief Financial Officer Onward Choi, and Co-Chief Operating Officer Michael Tong will be on the call to discuss the quarterly results and answer questions.

Interested parties may participate in the conference call by dialing 800-257-2101 (international: 303-262-2140), 10-15 minutes prior to the initiation of the call. A replay of the call will be available by dialing 800-405-2236 (international 303-590-3000), and entering pass code 11100033#. The replay will be available through November 23, 2007.

This call is being webcast live and archived, and will be available for 12 months on NetEase's corporate web site at <http://corp.netease.com>, Investor Info: Earnings Call.

Table of Contents

About NetEase

NetEase.com, Inc. is a leading China-based Internet technology company that pioneered the development of applications, services and other technologies for the Internet in China. NetEase's online communities and personalized premium services have established a large and stable user base for the NetEase websites which are operated by its affiliates. In particular, NetEase provides online game services to Internet users through the licensing or in-house development of massively multi-player online role-playing games, including Fantasy Westward Journey, Westward Journey Online II, Westward Journey Online III and Datang.

NetEase also offers online advertising on its websites which enables advertisers to reach its substantial user base. In addition, NetEase has paid listings on its search engine and web directory and classified ads services, as well as an online mall, which provides opportunities for e-commerce and traditional businesses to establish their own storefront on the Internet. NetEase also offers wireless value-added services such as news and information content, matchmaking services, music and photos from the Web which are sent over SMS, MMS, WAP, IVR and Color Ring-back Tone technologies.

Other community services which the NetEase websites offer include instant messaging, online personal ads, matchmaking, alumni clubs, personal home pages and community forums. NetEase is also the largest provider of free e-mail services in China. Furthermore, the NetEase websites provide various channels of content. NetEase aggregates news content on world events, sports, science and technology, and financial markets, as well as entertainment content such as cartoons, games, astrology and jokes, from over one hundred international and domestic content providers.

* * *

This press release contains statements of a forward-looking nature. These statements are made under the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. You can identify these forward-looking statements by terminology such as will, expects, anticipates, future, intends, plans, believes, estimates and similar statements. The accuracy of these statements may be impacted by a number of business risks and uncertainties that could cause actual results to differ materially from those projected or anticipated, including risks related to: the risk that NetEase will not be able to adequately address feedback from gamers to enhance the appeal of Tianxia II; the risk that the online game market will not continue to grow or that NetEase will not be able to maintain its leading position in that market, which could occur if, for example, its new online games or expansion packs and other improvements to its existing games do not become as popular as management anticipates; the ability of NetEase to effectively market its games and other services and achieve a positive return on its marketing expenditures; the risk that changes in Chinese government regulation of the online game market may limit future growth of NetEase's revenue or cause revenue to decline; the risk that NetEase may not be able to continuously develop new and creative online services; the risk that NetEase will not be able to control its expenses in future periods; competition in NetEase's existing and potential markets; governmental uncertainties (including possible changes in the effective tax rates applicable to NetEase and its subsidiaries and affiliates), general competition and price pressures in the marketplace; the risk that security, reliability and confidentiality concerns may impede broad use of the Internet and e-commerce and other services; the risk that

Table of Contents

fluctuations in the value of the Renminbi with respect to other currencies could adversely affect NetEase's business and financial results; and other risks outlined in NetEase's filings with the Securities and Exchange Commission. NetEase does not undertake any obligation to update this forward-looking information, except as required under applicable law.

Table of Contents

NETEASE.COM, INC.

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

	December 31, 2006 RMB	September 30, 2007 RMB	September 30, 2007 USD (Note 1)
Assets			
Current assets:			
Cash	1,206,476,526	1,205,421,516	160,877,311
Time deposits	2,731,396,687	1,873,027,445	249,976,971
Restricted cash		749,654,640	100,050,000
Accounts receivable, net	131,724,899	137,729,916	18,381,635
Prepayments and other current assets	33,913,350	68,962,853	9,203,883
Deferred tax assets	25,674,468	19,817,948	2,644,932
Total current assets	4,129,185,930	4,054,614,318	541,134,732
Non-current assets:			
Non-current rental deposits	3,353,209	3,074,885	410,379
Property, equipment and software, net	224,207,833	198,828,716	26,535,970
Prepayment for land use right		26,956,800	3,597,694
Investment in an associated company		2,300,059	306,969
Deferred tax assets	5,502,361	7,121,072	950,389
Other long-term assets	11,458,497	11,741,367	1,567,020
Total non-current assets	244,521,900	250,022,899	33,368,421
Total assets	4,373,707,830	4,304,637,217	574,503,153
Liabilities and Shareholders Equity			
Current liabilities:			
Zero-coupon convertible subordinated notes due July 15, 2023		664,836,144	88,730,000
Accounts payable	105,555,248	88,763,443	11,846,499
Salary and welfare payables	54,924,038	43,493,267	5,804,675
Taxes payable	95,476,498	80,602,592	10,757,339
Deferred revenue	385,720,720	369,061,304	49,255,459
Deferred tax liabilities	3,391,754		
Accrued liabilities	31,340,217	33,158,852	4,425,429
Total current liabilities	676,408,475	1,279,915,602	170,819,401
Long-term payable:			
Zero-coupon convertible subordinated notes due July 15, 2023	780,253,918		
Other long-term payable	11,377,256	10,200,000	1,361,307
Total long-term payable	791,631,174	10,200,000	1,361,307
Total liabilities	1,468,039,649	1,290,115,602	172,180,708
Shareholders equity	2,905,668,181	3,014,521,615	402,322,445

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Total liabilities and shareholders equity	4,373,707,830	4,304,637,217	574,503,153
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The accompanying notes are an integral part of this press release.

Table of Contents

NETEASE.COM, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Quarter Ended			
	September 30, 2006 RMB	June 30, 2007 RMB	September 30, 2007 RMB	September 30, 2007 USD (Note 1)
Revenues:				
Online game services	467,910,918	475,149,731	468,651,024	62,546,848
Advertising services	83,359,202	65,328,019	85,478,302	11,408,059
Wireless value-added services and others	20,632,782	17,494,877	16,946,709	2,261,732
Total revenues	571,902,902	557,972,627	571,076,035	76,216,639
Business taxes	(23,297,732)	(21,926,013)	(23,420,856)	(3,125,782)
Total net revenues	548,605,170	536,046,614	547,655,179	73,090,857
Total cost of revenues	(100,461,056)	(98,267,119)	(105,710,714)	(14,108,306)
Gross profit	448,144,114	437,779,495	441,944,465	58,982,551
Operating expenses:				
Selling and marketing expenses	(46,106,919)	(49,272,271)	(83,189,695)	(11,102,618)
General and administrative expenses	(46,650,953)	(48,380,093)	(48,276,202)	(6,443,012)
Research and development expenses	(38,730,988)	(45,110,176)	(47,515,112)	(6,341,436)
Total operating expenses	(131,488,860)	(142,762,540)	(178,981,009)	(23,887,066)
Operating profit	316,655,254	295,016,955	262,963,456	35,095,485
Other income (expenses):				
Investment income	104,838	117,317	116,843	15,594
Interest income	24,631,766	28,409,895	29,194,435	3,896,332
Other, net	1,588,129	(8,934,188)	(12,164,815)	(1,623,533)
Profit before tax	342,979,987	314,609,979	280,109,919	37,383,878
Income tax	(28,200,106)	(2,013,483)	(19,946,757)	(2,662,123)
Net profit	314,779,881	312,596,496	260,163,162	34,721,755
Earnings per share, basic	0.10	0.10	0.09	0.01
Earnings per ADS, basic	2.44	2.52	2.13	0.28
Earnings per share, diluted	0.09	0.09	0.08	0.01
Earnings per ADS, diluted	2.26	2.35	1.99	0.27
Weighted average number of ordinary shares outstanding, basic	3,225,819,282	3,100,597,113	3,053,681,518	3,053,681,518
Weighted average number of ADS outstanding, basic	129,032,771	124,023,885	122,147,261	122,147,261

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Weighted average number of ordinary shares outstanding, diluted	3,485,412,140	3,318,874,571	3,261,550,487	3,261,550,487
Weighted average number of ADS outstanding, diluted	139,416,486	132,754,983	130,462,019	130,462,019

The accompanying notes are an integral part of this press release.

Table of Contents

NETEASE.COM, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Quarter Ended

	September 30, 2007 RMB	September 30, 2007 USD (Note 1)
96	260,163,162	34,721,755
48	24,019,586	3,205,689
72	26,072,433	3,479,665
37	1,067,169	142,426
38)	696,754	92,990
12	11,262,944	1,503,169
	199,941	26,684
80)	(16,898,211)	(2,255,260)
36)	2,411,864	321,891
31	2,060,348	274,977
30)	(5,356,345)	(714,866)
08	(12,339,449)	(1,646,841)

08	(10,472,826)	(1,397,719)
13)	9,217,774	1,230,218
72)	39,167,706	5,227,379

77)

	MHCB					MHBK					MHIS	Others
	Domestic	Inter-national	Trading and others	MHSC	Others	Retail banking	Corporate banking	Trading and others				
274,557	117,100	71,400	86,057	(4,767)	59,201	435,225	406,388	180,400	188,600	37,388	498	28,338
236,741	84,100	47,100	105,541	87,526	35,727	211,142	174,189	24,300	85,000	64,889	30,431	6,520
511,298	201,200	118,500	191,598	82,758	94,929	646,368	580,578	204,700	273,600	102,278	30,930	34,859
175,840	66,700	46,000	63,140	112,053	53,028	457,470	418,213	183,400	167,400	67,413	30,615	8,642
					(39,593)	(11,312)						(11,312)

335,458	134,500	72,500	128,458	(29,295)	2,307	177,584	162,365	21,300	106,200	34,865	315	14,903
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Notes:

- (1) Gross profits (excluding the amounts of credit costs of trust accounts) is reported instead of sales reported by general corporations.
- (2) Others , Others , and Others include elimination of transactions between companies within the Global Corporate Group, the Global Retail Group, and the Global Asset & Wealth Management Group, respectively. Others includes elimination of transactions between the Global Groups.

2. The difference between total Net business profits (excluding the amounts of credit costs of trust accounts, before reversal of (provision for) general reserve for losses on loans) and the recorded amounts in Consolidated Statement of Income, and the contents of the difference (Matters relating to adjustment to difference).

The total amount of the above net business profits (excluding the amounts of credit costs of trust accounts, before reversal of (provision for) general reserve for losses on loans) derived from internal management reporting and the amount of Income before income taxes and minority interests recorded in Consolidated Statement of Income are different.

The contents of the difference for the nine months ended December 31, 2011 are as follows:

*Millions of yen***Net business profits****(excluding the amounts of credit costs of trust accounts,**

	Amount
before reversal of (provision for) general reserve for losses on loans)	
Total amount of the above segment information	518,715
Credit Costs of Trust Accounts	
General and Administrative Expenses (non-recurring Losses)	(57,557)
Expenses related to Portfolio Problems (including reversal of (provision for) general reserve for losses on loans)	(27,784)
Net Gains (Losses) related to Stocks	(108,637)
Net Extraordinary Gains (Losses)	76,131
Others	42,155
 Income before income taxes and minority interests recorded in Consolidated Statement of Income	 443,022

(NOTES TO SECURITIES)

Notes as of December 31, 2011

In addition to Securities on the quarterly consolidated balance sheet, Negotiable Certificates of Deposit in Cash and Due from Banks, certain items in Other Debt Purchased and certain items in Other Assets are also included. Unlisted stocks and others, the fair values of which are extremely difficult to determine, are excluded.

1. Bonds Held to Maturity:

As of December 31, 2011	Amount on Consolidated BS	Fair Value	Millions of yen Unrealized Gains/Losses (Net)
Japanese Government Bonds	¥ 1,650,713	¥ 1,663,555	¥ 12,841
Japanese Corporate Bonds	¥ 1,001	¥ 1,003	¥ 1
Total	¥ 1,651,715	¥ 1,664,558	¥ 12,842

Note: Fair value is primarily based on the market price at the consolidated balance sheet date.

2. Other Securities:

As of December 31, 2011	Acquisition Cost	Amount on Consolidated BS	Millions of yen Unrealized Gains/Losses (Net)
Japanese Stocks	¥ 2,309,034	¥ 2,232,263	¥ (76,770)
Japanese Bonds	32,786,609	32,832,677	46,067
Japanese Government Bonds	28,672,898	28,717,018	44,119
Japanese Local Government Bonds	259,341	262,526	3,184
Japanese Corporate Bonds	3,854,369	3,853,132	(1,237)
Other	9,307,704	9,169,538	(138,166)
Foreign Bonds	7,107,679	7,126,202	18,523
Other Debt Purchased	881,452	877,628	(3,824)
Other	1,318,573	1,165,707	(152,865)
Total	¥ 44,403,349	¥ 44,234,479	¥ (168,869)

- Notes:
- Net Unrealized Gains include ¥10,032 million (of loss), which was recognized in the consolidated statement of income by applying the fair-value hedge method and others.
 - Fair value of Japanese stocks is determined based on the average quoted market price over the month preceding the consolidated balance sheet date. Fair value of securities other than Japanese stocks is determined at the quoted market price, if available, or other reasonable value at the consolidated balance sheet date.
 - Certain Other Securities which have readily determinable fair value are devalued to the fair value, and the difference between the acquisition cost and the fair value is treated as the loss for the third quarter (impairment (devaluation)), if the fair value (primarily the closing market price at the consolidated balance sheet date) has significantly deteriorated compared with the acquisition cost (including amortized cost), and unless it is deemed that there is a possibility of a recovery in the fair value. The amount of

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impairment (devaluation) for the third quarter was ¥122,755 million.

The criteria for determining whether a security s fair value has significantly deteriorated are outlined as follows:

Securities whose fair value is 50% or less of the acquisition cost;

Securities whose fair value exceeds 50% but is 70% or less of the acquisition cost and the quoted market price maintains a certain level or lower.

4. Floating-rate Japanese Government Bonds

For Floating-rate Japanese Government Bonds within Securities, based on our determination that current market prices may not reflect the fair value due to the extremely limited volume of actual transactions, our domestic consolidated banking subsidiaries and a domestic consolidated trust banking subsidiary have applied reasonably calculated prices as the book value at the end of the third quarter.

In deriving the reasonably calculated prices, we used the Discounted Cash Flow Method as well as other methods. The price decision variables include the yield of 10-year Japanese Government Bonds and the volatilities of interest rate swap options for 10-year Japanese Government Bonds as underlying assets.

5. Securitization Products

With respect to the credit investments in securitization products made as an alternative to loans by the European and North American offices of our domestic consolidated banking subsidiaries, given the current situation in which the volume of actual transactions is extremely limited and there exists a considerable gap between the offers and bids of sellers and buyers, we determined that valuations obtained from brokers and information vendors cannot be deemed to be the fair value, and we applied reasonably calculated prices based on the reasonable estimates of our management as fair value.

In deriving reasonably calculated prices based on the reasonable estimates of our management mentioned above, we used the Discounted Cash Flow Method. The price decision variables include default rates, recovery rates, pre-payment rates and discount rates, and the subject Securities included Residential Mortgage-Backed Securities, Collateralized Loan Obligations, Commercial Mortgage-Backed Securities and other Asset Backed Securities.

(NOTES TO MONEY HELD IN TRUST)

Notes as of December 31, 2011

1. Money Held in Trust Held to Maturity:

There was no Money Held in Trust held to maturity.

2. Other in Money Held in Trust (other than for investment purposes and held to maturity purposes)

As of December 31, 2011	Acquisition Cost	Amount on Consolidated BS	<i>Millions of yen</i> Unrealized Gains/Losses (Net)
Other in Money Held in Trust	¥ 993	¥ 908	¥ (84)

Note: Fair value of Other is determined at the quoted market price, if available, or other reasonable value at the consolidated balance sheet date and other.

(SUBSEQUENT EVENTS)

There is no applicable information.