

Consolidated Financial Statements

Nomura Research Institute, Ltd.

*At 31st March, 2005 and 2006 and
for the years ended 31st March, 2004, 2005 and 2006
with Report of Independent Auditors*

and

*At 30th September, 2006 and for the six months ended
30th September, 2005 and 2006 (unaudited)*

Nomura Research Institute, Ltd.

Consolidated Financial Statements

At 31st March, 2005 and 2006 and
for the years ended 31st March, 2004, 2005 and 2006
with Report of Independent Auditors

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At 30th September, 2006 and for the six months ended
30th September, 2005 and 2006 (unaudited)

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Report of Independent Auditors

The Board of Directors and Shareholders
Nomura Research Institute, Ltd.

We have audited the accompanying consolidated balance sheets of Nomura Research Institute, Ltd. and its consolidated subsidiaries as of 31st March, 2005 and 2006, and the related consolidated statements of income, changes in net assets, and cash flows for each of the three years in the period ended 31st March, 2006, all expressed in Japanese yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Nomura Research Institute, Ltd. and its consolidated subsidiaries at 31st March, 2005 and 2006, and the consolidated results of their operations and their cash flows for each of the three years in the period ended 31st March, 2006 in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended 31st March, 2006 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 2 to the consolidated financial statements.

Ernst & Young ShinNihon

23rd June, 2006

Nomura Research Institute, Ltd.

Consolidated Balance Sheets

	<i>Millions of yen</i>			<i>Thousands of U.S. dollars (Note 2)</i>	
	31st March,		30th September,	31st March,	30th September,
	2005	2006	2006	2006	2006
			(Unaudited)		(Unaudited)
Assets					
Current assets:					
Cash and bank deposits (<i>Note 14</i>)	¥ 18,524	¥ 26,005	¥ 14,673	\$ 220,568	\$ 124,453
Short-term investment securities (<i>Notes 3 and 14</i>)	52,224	44,439	55,540	376,921	471,077
Accounts receivable and other receivables (<i>Notes 5 and 20</i>)	56,696	56,898	64,008	482,595	542,901
Inventories	758	1,237	2,383	10,492	20,212
Deferred income taxes (<i>Note 12</i>)	6,049	7,656	7,673	64,936	65,081
Other current assets	1,320	1,604	2,296	13,606	19,473
Allowance for doubtful accounts	(56)	(60)	(67)	(509)	(568)
Total current assets	135,515	137,779	146,506	1,168,609	1,242,629
Property and equipment (<i>Note 6</i>):					
Land	9,257	11,282	11,292	95,691	95,776
Buildings, net	16,400	15,878	15,561	134,673	131,985
Machinery and equipment, net	11,638	12,805	14,099	108,610	119,584
Construction in progress	–	–	217	–	1,841
Property and equipment, net	37,295	39,965	41,169	338,974	349,186
Software and other intangibles	22,418	20,421	21,058	173,206	178,609
Investment securities (<i>Notes 3 and 20</i>)	107,673	97,683	71,648	828,524	607,701
Investments in affiliates (<i>Note 3</i>)	2,158	3,822	3,710	32,417	31,467
Deferred income taxes (<i>Note 12</i>)	1,490	1,615	497	13,698	4,215
Other assets (<i>Notes 7 and 20</i>)	10,838	10,531	10,808	89,322	91,672
Allowance for doubtful accounts	(46)	(29)	(23)	(246)	(195)
Total assets	¥317,341	¥311,787	¥295,373	\$2,644,504	\$2,505,284

See accompanying notes to consolidated financial statements.

Nomura Research Institute, Ltd.

Consolidated Balance Sheets

	<i>Millions of yen</i>			<i>Thousands of U.S. dollars (Note 2)</i>	
	31st March,		30th September,	31st March,	30th September,
	2005	2006	2006	2006	2006
			(Unaudited)		(Unaudited)
Liabilities and Net Assets					
Current liabilities:					
Long-term debt due within one year (<i>Note 9</i>)	¥ 240	¥ 240	¥ 120	\$ 2,036	\$ 1,018
Accounts payable	19,793	29,453	30,581	249,813	259,381
Accrued expenses (<i>Note 8</i>)	12,507	14,948	14,919	126,785	126,539
Income taxes payable	12,048	13,002	9,824	110,280	83,325
Other current liabilities	5,413	7,260	7,532	61,578	63,885
Total current liabilities	50,001	64,903	62,976	550,492	534,148
Long-term debt (<i>Note 9</i>)	840	–	–	–	–
Allowance for employees' retirement benefits (<i>Note 10</i>)	22,698	23,315	23,309	197,752	197,701
Deferred income taxes (<i>Note 12</i>)	11,162	14,268	3,211	121,018	27,235
Other long-term liabilities (<i>Notes 11 and 20</i>)	873	–	–	–	–
Commitments and contingent liabilities (<i>Note 21</i>)					
Net assets (<i>Notes 13 and 15</i>):					
Shareholders' equity:					
Common stock:					
Authorized – 150,000,000 shares at 31st March, 2005 and 2006 and 30th September, 2006					
Issued – 45,000,000 shares at 31st March, 2005 and 2006 and 30th September, 2006	18,600	18,600	18,600	157,761	157,761
Additional paid-in capital	14,800	14,800	14,800	125,530	125,530
Retained earnings	170,018	186,670	196,391	1,583,291	1,665,742
Treasury stock, at cost:					
– 558 shares at 31st March, 2005, 4,380,480 shares at 31st March, 2006 and 4,358,603 shares at 30th September, 2006	(6)	(48,133)	(47,893)	(408,253)	(406,217)
Total shareholders' equity	203,412	171,937	181,898	1,458,329	1,542,816
Valuation and translation adjustments:					
Unrealised gain on other securities (<i>Note 3</i>)	28,988	37,369	23,586	316,955	200,051
Translation adjustments	(633)	(5)	291	(42)	2,468
Total valuation and translation adjustments	28,355	37,364	23,877	316,913	202,519
Share subscription rights (<i>Note 13</i>)	–	–	102	–	865
Total net assets	231,767	209,301	205,877	1,775,242	1,746,200
Total liabilities and net assets	¥317,341	¥311,787	¥295,373	\$2,644,504	\$2,505,284

See accompanying notes to consolidated financial statements.

Nomura Research Institute, Ltd.

Consolidated Statements of Income

	<i>Millions of yen</i>					<i>Thousands of U.S. dollars (Note 2)</i>	
	Year ended 31st March,			Six months ended 30th September,		Year ended 31st March,	Six months ended 30th September,
	2004	2005	2006	2005	2006	2006	2006
				(Unaudited)			(Unaudited)
Sales (Note 20)	¥238,068	¥252,963	¥285,585	¥132,503	¥146,452	\$2,422,265	\$1,242,171
Cost of sales (Note 20)	178,097	190,732	213,707	99,110	106,038	1,812,613	899,389
Gross profit	59,971	62,231	71,878	33,393	40,414	609,652	342,782
Selling, general and administrative expenses (Notes 17, 18 and 20)	31,949	32,072	35,409	16,933	19,574	300,331	166,022
Operating profit	28,022	30,159	36,469	16,460	20,840	309,321	176,760
Other income (expenses):							
Interest and dividend income (Note 20)	875	702	1,150	680	1,117	9,754	9,474
Equity in earnings of affiliates	401	227	563	194	467	4,775	3,961
Tender offer expense of treasury stock	-	-	(82)	-	-	(696)	-
Interest expense (Note 9)	(84)	(215)	(7)	(4)	(1)	(59)	(8)
Loss on property and equipment	(317)	(203)	(145)	-	-	(1,230)	-
Loss on real estate put option (Note 19)	(1,197)	-	-	-	-	-	-
Loss on impairment of software (Note 19)	-	(6,526)	-	-	-	-	-
(Loss) gain on investment securities (Notes 3, 19 and 20)	1,176	3,882	(572)	(298)	(8)	(4,852)	(68)
Gain on investments in affiliates (Note 19)	3,977	-	-	-	-	-	-
Gain on liquidation of a special purpose company (Note 19)	-	209	-	-	-	-	-
Head office relocation expenses (Note 19)	-	(981)	-	-	-	-	-
Other, net	74	107	159	53	72	1,350	610
Income before income taxes	4,905	(2,798)	1,066	625	1,647	9,042	13,969
Provision for income taxes (Note 12):							
Current	18,198	15,646	19,368	6,989	9,535	164,275	80,873
Deferred	(3,540)	(4,588)	(4,351)	(275)	(534)	(36,904)	(4,529)
	14,658	11,058	15,017	6,714	9,001	127,371	76,344
Net income (Note 15)	¥ 18,269	¥ 16,303	¥ 22,518	¥ 10,371	¥ 13,486	\$ 190,992	\$ 114,385

See accompanying notes to consolidated financial statements.

Nomura Research Institute, Ltd.

Consolidated Statements of Changes in Net Assets

Millions of yen

	Shareholders' equity				Valuation and translation adjustments					Total net assets
	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Total shareholders' equity	Unrealised gain on other securities	Translation adjustments	Total valuation and translation adjustments	Share subscription rights	
Balance at 31st March, 2003	¥18,600	¥14,800	¥140,334	¥ (2)	¥173,732	¥ 11,799	¥(181)	¥11,618	¥ -	¥185,350
Purchases of treasury stock	-	-	-	(2)	(2)	-	-	-	-	(2)
Net income	-	-	18,269	-	18,269	-	-	-	-	18,269
Cash dividends paid	-	-	(900)	-	(900)	-	-	-	-	(900)
Bonuses to directors and statutory auditors	-	-	(283)	-	(283)	-	-	-	-	(283)
Net changes other than in shareholders' equity	-	-	(710)	-	(710)	28,283	(676)	27,607	-	26,897
Balance at 31st March, 2004	18,600	14,800	156,710	(4)	190,106	40,082	(857)	39,225	-	229,331
Purchases of treasury stock	-	-	-	(2)	(2)	-	-	-	-	(2)
Net income	-	-	16,303	-	16,303	-	-	-	-	16,303
Cash dividends paid	-	-	(2,700)	-	(2,700)	-	-	-	-	(2,700)
Bonuses to directors and statutory auditors	-	-	(295)	-	(295)	-	-	-	-	(295)
Net changes other than in shareholders' equity	-	-	-	-	-	(11,094)	224	(10,870)	-	(10,870)
Balance at 31st March, 2005	18,600	14,800	170,018	(6)	203,412	28,988	(633)	28,355	-	231,767
Purchases of treasury stock	-	-	-	(48,528)	(48,528)	-	-	-	-	(48,528)
Disposition of treasury stock	-	-	-	401	401	-	-	-	-	401
Net income	-	-	22,518	-	22,518	-	-	-	-	22,518
Cash dividends paid	-	-	(5,845)	-	(5,845)	-	-	-	-	(5,845)
Loss on disposition of treasury stock	-	-	(21)	-	(21)	-	-	-	-	(21)
Net changes other than in shareholders' equity	-	-	-	-	-	8,381	628	9,009	-	9,009
Balance at 31st March, 2006	¥18,600	¥14,800	¥186,670	¥(48,133)	¥171,937	¥ 37,369	¥ (5)	¥37,364	¥ -	¥209,301

Thousands of U.S. dollars (Note 2)

	Shareholders' equity				Valuation and translation adjustments					Total net assets
	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Total shareholders' equity	Unrealised gain on other securities	Translation adjustments	Total valuation and translation adjustments	Share subscription rights	
Balance at 31st March, 2005	\$157,761	\$125,530	\$1,442,053	\$ (51)	\$1,725,293	\$245,869	\$(5,369)	\$240,500	\$ -	\$1,965,793
Purchases of treasury stock	-	-	-	(411,603)	(411,603)	-	-	-	-	(411,603)
Disposition of treasury stock	-	-	-	3,401	3,401	-	-	-	-	3,401
Net income	-	-	190,992	-	190,992	-	-	-	-	190,992
Cash dividends paid	-	-	(49,576)	-	(49,576)	-	-	-	-	(49,576)
Loss on disposition of treasury stock	-	-	(178)	-	(178)	-	-	-	-	(178)
Net changes other than in shareholders' equity	-	-	-	-	-	71,086	5,327	76,413	-	76,413
Balance at 31st March, 2006	\$157,761	\$125,530	\$1,583,291	\$(408,253)	\$1,458,329	\$316,955	\$ (42)	\$316,913	\$ -	\$1,775,242

Nomura Research Institute, Ltd.

Consolidated Statements of Changes in Net Assets (continued)

Millions of yen

	Shareholders' equity				Valuation and translation adjustments					
	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Total shareholders' equity	Unrealised gain on other securities	Translation adjustments	Total valuation and translation adjustments	Share subscription rights	Total net assets
Balance at 31st March, 2006	¥18,600	¥14,800	¥186,670	¥(48,133)	¥171,937	¥ 37,369	¥ (5)	¥ 37,364	¥ -	¥209,301
Purchases of treasury stock	-	-	-	(2)	(2)	-	-	-	-	(2)
Disposition of treasury stock	-	-	-	242	242	-	-	-	-	242
Net income	-	-	13,486	-	13,486	-	-	-	-	13,486
Cash dividends paid	-	-	(3,655)	-	(3,655)	-	-	-	-	(3,655)
Loss on disposition of treasury stock	-	-	(110)	-	(110)	-	-	-	-	(110)
Net changes other than in shareholders' equity	-	-	-	-	-	(13,783)	296	(13,487)	102	(13,385)
Balance at 30th September, 2006	¥18,600	¥14,800	¥196,391	¥(47,893)	¥181,898	¥ 23,586	¥291	¥ 23,877	¥102	¥205,877

Thousands of U.S. dollars (Note 2)

	Shareholders' equity				Valuation and translation adjustments					
	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Total shareholders' equity	Unrealised gain on other securities	Translation adjustments	Total valuation and translation adjustments	Share subscription rights	Total net assets
Balance at 31st March, 2006	\$157,761	\$125,530	\$1,583,291	\$(408,253)	\$1,458,329	\$316,955	\$ (42)	\$ 316,913	\$ -	\$1,775,242
Purchases of treasury stock	-	-	-	(17)	(17)	-	-	-	-	(17)
Disposition of treasury stock	-	-	-	2,053	2,053	-	-	-	-	2,053
Net income	-	-	114,385	-	114,385	-	-	-	-	114,385
Cash dividends paid	-	-	(31,001)	-	(31,001)	-	-	-	-	(31,001)
Loss on disposition of treasury stock	-	-	(933)	-	(933)	-	-	-	-	(933)
Net changes other than in shareholders' equity	-	-	-	-	-	(116,904)	2,510	(114,394)	865	(113,529)
Balance at 30th September, 2006	\$157,761	\$125,530	\$1,665,742	\$(406,217)	\$1,542,816	\$200,051	\$2,468	\$ 202,519	\$865	\$1,746,200

See accompanying notes to consolidated financial statements.

Nomura Research Institute, Ltd.
Consolidated Statements of Cash Flows

	<i>Millions of yen</i>				<i>Thousands of U.S. dollars (Note 2)</i>		
	Year ended 31st March,			Six months ended 30th September,		Year ended	Six months ended
	2004	2005	2006	2005	2006	31st March, 2006	30th September, 2006
Cash flows from operating activities							
Income before income taxes	¥ 32,927	¥ 27,361	¥ 37,535	¥ 17,085	¥ 22,487	\$ 318,363	\$ 190,729
Adjustments to reconcile income before income taxes to net cash provided by operating activities:							
Depreciation and amortisation	17,750	18,403	16,574	7,714	7,910	140,577	67,091
Interest and dividend income	(875)	(702)	(1,150)	(680)	(1,117)	(9,754)	(9,474)
Interest expense	84	215	7	4	1	59	8
Loss on property and equipment	317	203	145	-	-	1,230	-
Loss on real estate put option	1,197	-	-	-	-	-	-
Loss on impairment of software	-	6,526	-	-	-	-	-
Loss (gain) on investment securities	(1,176)	(3,882)	572	298	8	4,852	68
Gain on investments in affiliates	(3,977)	-	-	-	-	-	-
Gain on liquidation of a special purpose company	-	(209)	-	-	-	-	-
Changes in operating assets and liabilities:							
Accounts receivable and other receivables, net of advance payments received	(8,866)	(4,880)	894	(949)	(7,280)	7,583	(61,747)
Allowance for doubtful accounts	7	18	(13)	(1)	1	(110)	8
Accounts payable	(1,158)	(364)	9,617	(586)	1,124	81,569	9,534
Inventories	154	(658)	(479)	(526)	(1,146)	(4,063)	(9,720)
Allowance for employees' retirement benefits and welfare pension plan	348	73	617	266	(6)	5,233	(51)
Other	2,428	1,608	1,747	(307)	(1,415)	14,817	(12,002)
Subtotal	39,160	43,712	66,066	22,318	20,567	560,356	174,444
Interest and dividends received	859	742	1,188	885	1,273	10,076	10,797
Interest paid	(85)	(215)	(7)	(4)	(1)	(59)	(8)
Income taxes paid	(10,621)	(16,669)	(18,371)	(11,726)	(12,680)	(155,818)	(107,549)
Net cash provided by operating activities	29,313	27,570	48,876	11,473	9,159	414,555	77,684
Cash flows from investing activities							
Payments for time deposits	-	(6,148)	(6,778)	(6,533)	(7,288)	(57,489)	(61,815)
Proceeds from time deposits	-	-	6,523	6,293	7,029	55,327	59,618
Increase in short-term investment securities	-	(25,984)	(18,265)	(17,865)	(10,982)	(154,919)	(93,147)
Proceeds from sales and redemption of short-term investment securities	-	-	31,214	11,456	12,910	264,750	109,500
Acquisition of property and equipment	(12,651)	(8,052)	(9,800)	(3,414)	(3,923)	(83,121)	(33,274)
Proceeds from sales of property and equipment	138	837	473	33	10	4,012	85
Increase arising from liquidation of special purpose company	-	213	-	-	-	-	-
Increase in software and other intangibles	(11,396)	(9,327)	(8,212)	(4,367)	(5,534)	(69,652)	(46,938)
Proceeds from sales of software and other intangibles	138	113	60	54	5	509	42
Increase in investment securities	(337)	(39,889)	(11,976)	(2,396)	(37)	(101,578)	(314)
Proceeds from sales and redemption of investment securities	1,521	6,131	34,590	239	3,409	293,384	28,914
Increase in investments in affiliates	-	-	(60)	(60)	-	(509)	-
Proceeds from sales of investments in affiliates	4,472	-	9	-	-	76	-
Acquisition of businesses	(280)	-	-	-	-	-	-
Other	(748)	124	76	38	40	643	340
Net cash (used in) provided by investing activities	(19,143)	(81,982)	17,854	(16,522)	(4,361)	151,433	(36,989)
Cash flows from financing activities							
Proceeds from long-term debt	-	1,200	-	-	-	-	-
Repayment of long-term debt	(608)	(2,430)	(840)	(120)	(120)	(7,125)	(1,018)
Proceeds from sales of treasury stock	-	-	380	32	132	3,223	1,120
Purchases of treasury stock	(2)	(2)	(48,528)	(1,000)	(2)	(411,603)	(17)
Cash dividends paid	(899)	(2,696)	(5,841)	(3,596)	(3,653)	(49,542)	(30,984)
Net cash used in financing activities	(1,509)	(3,928)	(54,829)	(4,684)	(3,643)	(465,047)	(30,899)
Effect of exchange rate changes on cash and cash equivalents	(609)	206	174	91	28	1,476	238
Net increase (decrease) in cash and cash equivalents	8,052	(58,134)	12,075	(9,642)	1,183	102,417	10,034
Cash and cash equivalents at beginning of period	88,760	96,812	38,678	38,678	50,753	328,058	430,475
Cash and cash equivalents at end of period	¥ 96,812	¥ 38,678	¥ 50,753	¥ 29,036	¥ 51,936	\$ 430,475	\$ 440,509

See accompanying notes to consolidated financial statements.

Nomura Research Institute, Ltd.

Notes to the Consolidated Financial Statements

1. Significant Accounting Policies

Description of Business

Nomura Research Institute, Ltd. (the “Company”) is a leading provider in Japan of IT solutions services and consulting services. IT solutions services include the development, installation, operation and management of computer systems and networks, asset management analyses, and information services and sales of related products. Consulting services include conducting research on macroeconomic trends, providing management consulting advice, and rendering system consulting services and information services. Information on the Company’s operations by segment is included in Note 23.

Basis of Presentation

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

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

The accompanying consolidated financial statements for the years ended 31st March, 2004, 2005 and 2006 and for the six months ended 30th September, 2005 and 2006 include the accounts of the Company and any significant companies which are controlled directly or indirectly by the Company. All subsidiaries (18, 19 and 19 for the years ended 31st March, 2004, 2005 and 2006, respectively, and 19 and 18 for the six months ended 30th September, 2005 and 2006, respectively) have been consolidated. The major consolidated subsidiary is NRI Holding America, Inc. NRI Data Service, Ltd., which had been a major wholly-owned consolidated subsidiary, was excluded from the scope of consolidation as a result of its merger with the Company. Effective the year ended 31st March, 2005, NRI Garden Network, Ltd., was initially consolidated.

All significant intercompany balances and transactions have been eliminated in consolidation.

1. Significant Accounting Policies (continued)

Basis of Consolidation (continued)

The Company's investments in affiliated companies over which it has the ability to exercise significant influence are accounted for by the equity method, and, accordingly, the Company's share of such affiliates' income is included in consolidated income. Investments in two affiliated companies are accounted for by the equity method and one of these, Nomura Fund Research And Technologies Co., Ltd., is a major affiliated company. NIWS Co., Ltd. had been an affiliate accounted for by the equity method, but was excluded from the scope of the equity method due to sales of the investment on the occasion of its offering of stock sales during the year ended 31st March, 2004. Prior to such sales, the net income of the investee had been accounted for by the equity method.

Cash Equivalents

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

Investment Securities

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

The Company and its consolidated subsidiaries determine the appropriate classification of investment securities as either trading, held-to-maturity or other securities based on their holding objectives. Other 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 debt securities are carried at amortised cost.

Marketable securities classified as other 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. Unrealised gain or loss on marketable securities classified as other securities is included as a component of net assets, net of the applicable taxes. If the fair value of marketable securities classified as other securities declines significantly, such securities are written down to fair value thus establishing a new cost basis, and the amount of each write-down is charged to income as an impairment loss unless its fair value is deemed to be recoverable. The Company has established a policy for the recognition of impairment losses under the following conditions:

- i) All securities whose fair value has declined by more than 50%, and
- ii) Securities whose fair value has declined by more than 30% but less than 50% and for which a recovery to fair value is not deemed probable.

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

1. Significant Accounting Policies (continued)

Derivative Financial Instruments

Derivative financial instruments are generally required to be stated at fair value. Interest-rate swaps meet the criteria for special hedge accounting under which interest on the swap agreements is accrued as incurred. Hedge accounting is utilised, although no evaluation of the effectiveness of the interest-rate swaps which meet the above conditions is undertaken, as permitted by the accounting standard for financial instruments.

Inventories

Inventories are stated at cost based on the identified cost method.

Depreciation of Property and Equipment

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

Amortisation of Software and Other Intangibles

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

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

Allowance for Doubtful Accounts

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

Goodwill

Goodwill is expensed at the time of the related acquisition.

1. Significant Accounting Policies (continued)

Retirement and Severance Benefits for Employees

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

Bonuses to Directors and Statutory Auditors

In prior years, bonuses to directors and statutory auditors had been accounted for as appropriations from retained earnings. However, effective the year ended 31st March, 2005, the Company and its consolidated subsidiaries adopted Practical Solution Report No. 13, "Tentative Treatment of Accounting for Directors' Bonuses" (issued by the Accounting Standards Board of Japan) and the bonuses were accounted for as expenses and directly charged to income in the year to which such bonuses relate. As a result, selling, general and administrative expenses for the year ended 31st March, 2005 increased by ¥256 million and operating profit and income before income taxes decreased by the same amount compared with the amounts which would have been recorded under the previous method.

Effective the year ended 31st March, 2006, the Company has not accrued bonuses to directors and statutory auditors in accordance with a revision of its incentive program.

Accrual for Retirement Benefits for Directors and Statutory Auditors

In the prior year, the Company and its domestic consolidated subsidiaries provided an accrual for retirement benefits for directors and statutory auditors at the amount which would have been required to be paid if all directors and statutory auditors resigned as of the balance sheet date, in accordance with the Company's or its domestic consolidated subsidiaries' internal regulations.

Effective the year ended 31st March, 2006, the Company has not provided such accruals for retirement benefits for directors and statutory auditors in accordance with the discontinuation of the retirement benefit program for these officers.

Leases

Where finance leases do not transfer ownership of the leased property to the lessee, the leased property is not capitalised and the related rental and lease expenses are charged to income as incurred.

Revenue Recognition

In principle, revenues arising from research, consulting projects and system development projects are recognised by the percentage-of-completion method and revenues from other projects are recognised when the related services have been rendered.

1. Significant Accounting Policies (continued)

Research and Development Expenses

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

Appropriation of Capital Surplus and Retained Earnings

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

New Accounting Standard

- (a) Effective the six months ended 30th September, 2006, the Company has adopted a new accounting standard entitled "Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Accounting Standards Board of Japan Statement No. 5) and "Guidance on Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Accounting Standards Board of Japan Guidance No. 8). The amount corresponding to conventional total shareholders' equity was ¥205,774 million at 30th September, 2006. In this connection, the financial statements as of and for the years ended 31st March, 2004, 2005 and 2006 and as of and for the six months ended 30th September, 2005 have been restated to conform to the presentation of the financial statements as of and for the six months ended 30th September, 2006.
- (b) Effective the six months ended 30th September, 2006, the Company adopted a new accounting standard entitled "Accounting Standard for Share-based Payments" (Accounting Standards Board of Japan Statement No. 8) and "Guidance on Accounting Standard for Share-based Payments" (Accounting Standards Board of Japan Guidance No. 11). As a result, operating profit and income before income taxes decreased by ¥102 million for the six months ended 30th September, 2006 from the amounts which would have been recorded under the previous method.
- (c) Effective the six months ended 30th September, 2006, the Company adopted a new accounting standard entitled "Accounting Standard for Business Divestitures" (Accounting Standards Board of Japan Statement No. 7) and "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (Accounting Standards Board of Japan Guidance No. 10).

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 ¥117.90 = U.S.\$1.00, the rate of exchange prevailing on 30th September, 2006. 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, realised or settled in U.S. dollars at the above or any other rate.

3. Investments

The Company did not hold any trading securities or held-to-maturity securities with determinable market value at 31st March, 2005 and 2006 or at 30th September, 2006.

The following is a summary of the market value information concerning other securities included in short-term investment securities, investment securities and investments in affiliates at 31st March, 2005 and 2006 and 30th September, 2006:

a) Marketable securities classified as other securities

	<i>Millions of yen</i>					
	Acquisition cost		Carrying amount		Unrealised gain (loss)	
	31st March,					
	2005	2006	2005	2006	2005	2006
Equity securities	¥ 3,770	¥14,137	¥ 52,709	¥77,086	¥48,939	¥62,949
Debt securities:				5		
Government debt securities	28,062	–	28,111	–	49	–
Corporate debt securities	19,867	12,207	19,778	12,191	(89)	(16)
Other	10,856	1,712	10,858	1,711	2	(1)
Other	4,627	2,995	4,527	2,978	(100)	(17)
Total	¥67,182	¥31,051	¥115,983	¥93,966	¥48,801	¥62,915

	<i>Millions of yen</i>		
	Acquisition cost	Carrying amount	Unrealised gain (loss)
	30th September, 2006		
	<i>(Unaudited)</i>		
Equity securities	¥14,142	¥53,880	¥39,738
Debt securities:			
Government debt securities	9,995	9,995	–
Corporate debt securities	3,000	3,000	–
Other	–	–	–
Other	1,626	1,604	(22)
Total	¥28,763	¥68,479	¥39,716

	<i>Thousands of U.S. dollars</i>					
	Acquisition cost	Carrying amount	Unrealised gain (loss)	Acquisition cost	Carrying amount	Unrealised gain (loss)
	31st March, 2006			30th September, 2006		
	<i>(Unaudited)</i>					
Equity securities	\$119,907	\$653,825	\$533,918	\$119,949	\$456,997	\$337,048
Debt securities:						
Government debt securities	–	–	–	84,775	84,775	–
Corporate debt securities	103,537	103,401	(136)	25,445	25,445	–
Other	14,520	14,512	(8)	–	–	–
Other	25,403	25,259	(144)	13,791	13,605	(186)
Total	\$263,367	\$796,997	\$533,630	\$243,960	\$580,822	\$336,862

3. Investments (continued)

a) Marketable securities classified as other securities (continued)

Investment partnerships, which are evaluated at market value derived from its components, were included in other.

Proceeds from sales of marketable securities classified as other securities during the years ended 31st March, 2004, 2005 and 2006 were as follows:

	<i>Millions of yen</i>			<i>Thousands of U.S. dollars</i>
	2004	2005	2006	2006
Proceeds	¥1,521	¥6,032	¥40,013	\$339,381
Gross gain	1,217	5,524	724	6,141
Gross loss	–	(86)	(98)	(831)

There were no losses on devaluation of the marketable securities classified as other securities as a result of a permanent decline for the years ended 31st March, 2004, 2005 and 2006 or for the six months ended 30th September, 2005 and 2006.

b) Non-marketable securities classified as other securities

	<i>Millions of yen</i>			<i>Thousands of U.S. dollars</i>	
	31st March,	30th September,	30th September,	31st March,	30th September,
	2005	2006	2006	2006	2006
			(Unaudited)		(Unaudited)
Other securities:					
Equity securities	¥16,964	¥15,256	¥15,243	\$129,398	\$129,288
Money management funds	4,552	6,553	6,557	55,581	55,615
Free financial funds	12,000	15,000	13,005	127,226	110,305
Cash reserve funds	–	–	4,001	–	33,936
Commercial paper	11,898	13,973	21,983	118,516	186,454

Investments in affiliates which are included in equity securities include investments in net assets of affiliated companies accounted for under the equity method totaling ¥658 million and ¥1,196 million (\$10,144 thousand) at 31st March, 2005 and 2006, respectively.

3. Investments (continued)

c) Maturities of debt securities

Maturities of debt securities classified as other securities at 31st March, 2006 are summarised as follows:

	<i>Millions of yen</i>			
	31st March, 2006			
	Debt securities			
	Government debt securities	Corporate debt securities	Other	Other
Due within one year	¥ –	¥12,200	¥15,685	¥1,000
Due after one year through five years	–	–	–	–
Due after five years	–	–	–	–
	<u>¥ –</u>	<u>¥12,200</u>	<u>¥15,685</u>	<u>¥1,000</u>

	<i>Thousands of U.S. dollars</i>			
	31st March, 2006			
	Debt securities			
	Government debt securities	Corporate debt securities	Other	Other
Due within one year	\$ –	\$103,478	\$133,036	\$8,482
Due after one year through five years	–	–	–	–
Due after five years	–	–	–	–
	<u>\$ –</u>	<u>\$103,478</u>	<u>\$133,036</u>	<u>\$8,482</u>

4. Derivatives

The Company and certain of its consolidated subsidiaries enter into interest-rate swap agreements in order to manage certain risk arising from adverse fluctuation in the interest rates on their bank loans. Interest-rate swaps are used to hedge significant risk arising from fluctuation in the interest rates. No derivative transactions for trading purposes are permitted under the Company's internal regulations. Although the Company and certain of its subsidiaries are exposed to credit risk in the event of non-performance by the counterparties, such risk is minimised by selecting counterparties with high credit ratings. Transactions are centrally controlled at the Company, and internal approval is necessary for entering into derivative transactions in accordance with internal approval policies.

All derivatives held by a consolidated subsidiary at 31st March, 2004 were for hedging purposes. The Company had no open derivatives positions at 31st March, 2006 and 30th September, 2006. Because all derivatives positions were closed at 31st March, 2005, the related information on their respective market value has not been presented.

5. Accounts Receivable and Other Receivables

For projects which have not been completed as of the balance sheet date, the percentage-of-completion method is applied and the estimated revenue to be earned from each project has been included in accounts receivable and other receivables in the amounts of ¥16,301 million, ¥12,271 million (\$104,080 thousand) and ¥22,669 million (\$192,373 thousand) (unaudited) at 31st March, 2005 and 2006 and 30th September, 2006, respectively.

6. Property and Equipment

Property and equipment are summarised as follows:

	<i>Years</i>	<i>Millions of yen</i>			<i>Thousands of U.S. dollars</i>	
		31st March,	30th September,	30th September,	31st March,	30th September,
Useful	life	2005	2006	2006	2006	2006
				(Unaudited)		(Unaudited)
Land		¥ 9,257	¥ 11,282	¥ 11,292	\$ 95,691	\$ 95,776
Buildings	15 – 50	38,143	38,972	39,360	330,551	333,842
Machinery and equipment	3 – 15	41,863	41,256	43,409	349,924	368,185
Construction in progress		–	–	217	–	1,841
Accumulated depreciation		(51,968)	(51,545)	(53,109)	(437,192)	(450,458)
Property and equipment, net		¥ 37,295	¥ 39,965	¥ 41,169	\$ 338,974	\$ 349,186

7. Other Assets

Other assets consisted of the following:

	<i>Millions of yen</i>			<i>Thousands of U.S. dollars</i>	
	31st March,	30th September,	30th September,	31st March,	30th September,
	2005	2006	2006	2006	2006
			(Unaudited)		(Unaudited)
Lease deposits	¥ 9,356	¥ 9,112	¥ 9,102	\$77,286	\$77,201
Other	1,482	1,419	1,706	12,036	14,471
Other assets	¥10,838	¥10,531	¥10,808	\$89,322	\$91,672

Other includes golf club memberships.

8. Accrued Expenses

Accrued expenses included bonuses to directors and statutory auditors in the aggregate amount of ¥256 million at 31st March, 2005. There were no such transactions for the year ended 31st March, 2006 or for the six months ended 30th September, 2006.

9. Long-Term Debt

At 31st March, 2005 and 2006 and 30th September, 2006, no short-term bank borrowings were outstanding.

Long-term debt consisted of the following:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>	
	31st March, 2005	30th September, 2006	31st March, 2006	30th September, 2006
		(Unaudited)		(Unaudited)
Loans principally from banks	¥ 1,080	¥240	¥120	\$2,036
Less current portion	240	240	120	2,036
Long-term debt	¥ 840	¥ –	¥ –	\$ –

The weighted-average interest rate on long-term debt due within one year was 0.7% at 31st March, 2005 and 2006 and 30th September, 2006, and the weighted-average interest rate on the non-current portion of long-term debt was 0.7% at 31st March, 2005.

10. Retirement and Severance Benefits

Employees of the Company and its domestic consolidated subsidiaries who terminate their employment are entitled, under most circumstances, to lump-sum payments and/or annuity payments determined by reference to their current basic rate of pay, length of service and the conditions under which termination occurs.

The Company established an employees' retirement benefit trust as of 28th March, 2003 by contributing certain marketable securities to it.

The Company and certain of its consolidated subsidiaries have also adopted defined contribution pension plans.

The following table sets forth the funded and accrued status of the retirement and severance benefit plans and the amounts recognised in the consolidated balance sheets at 31st March, 2005 and 2006 for the Company's and its consolidated subsidiaries' defined benefit plans:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	31st March, 2005	2006	31st March, 2006
Retirement benefit obligation	¥(62,096)	¥(65,274)	\$(553,639)
Plan assets at fair value	42,900	54,536	462,561
Unfunded retirement benefit obligation	(19,196)	(10,738)	(91,078)
Unrecognised actuarial gain	(3,502)	(12,577)	(106,674)
Unfunded retirement benefit obligation recognised on the balance sheets	¥(22,698)	¥(23,315)	\$(197,752)

10. Retirement and Severance Benefits (continued)

Plan assets at fair value include the employees' retirement benefit trust of ¥10,129 million and ¥11,949 million (\$101,349 thousand) at 31st March, 2005 and 2006, respectively.

The components of retirement benefit expenses for the years ended 31st March, 2004, 2005 and 2006 are outlined as follows:

	<i>Millions of yen</i>			<i>Thousands of U.S. dollars</i>
	31st March,			31st March,
	2004	2005	2006	2006
Service cost	¥3,671	¥4,092	¥4,122	\$34,962
Interest cost	1,043	1,027	1,090	9,245
Expected return on plan assets	(335)	(429)	(492)	(4,173)
Recognised actuarial gain	–	(538)	(269)	(2,282)
Subtotal	4,379	4,152	4,451	37,752
Other	284	288	297	2,519
Total	¥4,663	¥4,440	¥4,748	\$40,271

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

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

	31st March,		
	2004	2005	2006
Discount rates at the end of the year	1.8%	1.8%	1.9%
Expected rate of return on plan assets	1.5%	1.5%	1.5%

11. Other Long-Term Liabilities

Other long-term liabilities included an accrual for retirement benefits for directors and statutory auditors in the amount of ¥873 million at 31st March, 2005. No such transactions were recorded for the year ended 31st March, 2006 or for the six months ended 30th September, 2006.

12. Income Taxes

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

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	31st March,		31st March,
	2005	2006	2006
Deferred income tax assets:			
Employees' retirement benefits	¥ 9,011	¥ 11,616	\$ 98,524
Depreciation	5,641	4,798	40,696
Accrued bonuses	3,217	3,805	32,273
Other	4,045	5,033	42,689
	<u>21,914</u>	<u>25,252</u>	<u>214,182</u>
Deferred income tax liabilities:			
Unrealised gain on other securities	(19,813)	(25,542)	(216,641)
Special tax-purpose reserve	(5,662)	(4,617)	(39,160)
Other	(62)	(90)	(765)
	<u>(25,537)</u>	<u>(30,249)</u>	<u>(256,566)</u>
Deferred income tax liabilities, net	<u>¥ (3,623)</u>	<u>¥ (4,977)</u>	<u>\$ (42,384)</u>

Income taxes applicable to the Company and its consolidated subsidiaries consist of corporation, inhabitants' and enterprise taxes which, in the aggregate, resulted in a statutory tax rate of approximately 42.0 per cent for the year ended 31st March, 2004. Due to amendments to the Japanese tax regulations, the statutory tax rate was reduced to approximately 40.6 per cent for the year ended 31st March, 2005.

The effective tax rates reflected in the accompanying consolidated statements of income differ from the statutory tax rate primarily as a result of the effect of permanently nondeductible expenses; however, such differences were not material for the years ended 31st March, 2005 and 2006.

The following is a reconciliation of the significant components between the statutory tax rate and the effective tax rate after the deferred tax effect for the year ended 31st March, 2004. A reconciliation is required when there is a significant difference between these two tax rates.

	<u>31st March, 2004</u>
Statutory tax rate	42.0%
Reconciliation:	
Permanently non-taxable items such as dividends received	(0.5)
Permanently nondeductible items such as entertainment expenses	0.8
Special tax deduction	(1.8)
Consolidation adjustments such as equity in earnings of affiliates	0.8
Loss on real estate put option	1.5
Other	1.8
Effective tax rate after deferred tax effect	<u>44.5%</u>

12. Income Taxes (continued)

Due to the introduction of Taxation of Corporations by the Size of their Businesses, the enterprise tax levied by corporate size-based taxation is accounted for as a component of selling, general and administrative expenses effective the year ended 31st March, 2005 in accordance with Practical Solution Report No. 12, "Presentation for Corporate Size-Based Aspect of Corporate Income Tax on Income Statement" (issued by the Accounting Standards Board of Japan). As a result, selling, general and administrative expenses for the year ended 31st March, 2005 increased by ¥515 million and operating profit and income before income taxes decreased by the same amount compared with the amounts which would have been recorded under the previous method.

13. Net Assets

The Corporation Law of Japan provides that an amount equal to at least 10% of the amount to be disbursed as distributions of capital surplus and retained earnings be appropriated to the legal reserve until the sum of the legal reserve and additional paid-in capital equals 25% of the common stock account. The legal reserve and the additional paid-in capital account are available for appropriation by resolution of the shareholders. In accordance with the Corporation Law, the Company provides a legal reserve which is included in retained earnings. This reserve amounted to ¥570 million (\$4,835 thousand) at both 31st March, 2005 and 2006.

The total number and periodic changes in the number of shares in issue and the total number and periodic changes in the number of shares of treasury stock are summarised as follows:

	30th September, 2006	
	Shares issued	Treasury stock
Number of shares at beginning of year	45,000,000	4,380,480
Increase in number of shares	–	123
Decrease in number of shares	–	22,000
Number of shares, at 30th September, 2006	<u>45,000,000</u>	<u>4,358,603</u>

Share subscription rights recorded in the consolidated balance sheet at 30th September, 2006 relate to the Company's stock option plan described in Note 22.

The following appropriation of retained earnings applicable to the year ended 31st March, 2006 was approved at a meeting of the shareholders held on 23rd June, 2006 and went into effect on 26th June, 2006:

	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>
Year-end cash dividends (¥90.00 = U.S.\$0.76 per share)	¥3,656	\$31,009

Unrealised gain on other securities was not available for the payment of cash dividends.

14. Cash and Cash Equivalents

A reconciliation between cash and bank deposits in the consolidated balance sheets at 31st March, 2005 and 2006 and 30th September, 2006 and cash and cash equivalents in the corresponding statements of cash flows is as follows:

	<i>Millions of yen</i>			<i>Thousands of U.S. dollars</i>	
	31st March, 2005	2006	30th September, 2006 (Unaudited)	31st March, 2006	30th September, 2006 (Unaudited)
Cash and bank deposits	¥ 18,524	¥ 26,005	¥ 14,673	\$ 220,568	\$124,453
Short-term investment securities	52,224	44,439	55,540	376,921	471,077
Time deposits with maturities of more than three months when deposited	(6,148)	(6,778)	(7,288)	(57,489)	(61,815)
Bonds and other investments maturing in more than three months from the acquisition date	(25,922)	(12,913)	(10,989)	(109,525)	(93,206)
Cash and cash equivalents	<u>¥ 38,678</u>	<u>¥ 50,753</u>	<u>¥ 51,936</u>	<u>\$ 430,475</u>	<u>\$440,509</u>

There were no significant non-cash transactions for the year ended 31st March, 2004, 2005 and 2006.

Components of net cash used in the acquisition of a business for the year ended 31st March, 2004 are summarised as follows:

	<i>Millions of yen</i>
	31st March, 2004
Net cash used in acquisition of a business:	
Tangible fixed assets acquired	¥ 12
Intangible assets acquired	268
Cash used in acquisition	<u>¥280</u>

There were no such transactions for the years ended 31st March, 2005 and 2006.

15. Per Share Data

Per share data is summarised as follows:

	<i>Yen</i>				
	31st March,			30th September,	
	2004	2005	2006	2005	2006
				(Unaudited)	(Unaudited)
Earnings per share	¥399.44	¥362.30	¥519.72	¥230.86	¥331.94
Diluted earnings per share	399.42	362.29	519.31	230.78	331.43

	<i>Yen</i>		
	31st March,		30th September,
	2005	2006	2006
			(Unaudited)
Net assets per share	¥5,150.44	¥5,152.73	¥5,063.17

	<i>U.S. dollars</i>	
	31st March,	30th September,
	2006	2006
		(Unaudited)
Earnings per share	\$ 4.41	\$ 2.82
Diluted earnings per share	4.40	2.81
Net assets per share	43.70	42.94

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 outstanding at each balance sheet date, respectively.

15. Per Share Data (continued)

The computation of earnings per share and diluted earnings per share for the years ended 31st March, 2004, 2005 and 2006 and the six months ended 30th September, 2005 and 2006 is as follows:

	<i>Millions of yen</i>				
	31st March,			30th September,	
	2004	2005	2006	2005	2006
	(Unaudited)				
Numerator:					
Earnings:	¥18,269	¥16,303	¥22,518	¥10,371	¥13,486
Earnings not available to common stockholders:					
Bonuses to directors and statutory auditors	(295)	(-)	(-)	(-)	(-)
Earnings available to common stockholders	<u>¥17,974</u>	<u>¥16,303</u>	<u>¥22,518</u>	<u>¥10,371</u>	<u>¥13,486</u>
Denominator:					
(Weighted-average number of shares of common stock):					
Denominator for earnings per share	44,999,873	44,999,553	43,327,189	44,922,612	40,628,950
Potentially dilutive shares of common stock	2,018	1,457	34,124	15,276	61,789
Denominator for diluted earnings per share	<u>45,001,891</u>	<u>45,001,010</u>	<u>43,361,313</u>	<u>44,937,888</u>	<u>40,690,739</u>
	<i>Thousands of U.S. dollars</i>				
	31st March,		30th September,		
	2006		2006		
	(Unaudited)				
Numerator:					
Earnings:	\$190,992	\$114,385			
Earnings not available to common stockholders:					
Bonuses to directors and statutory auditors	(-)	(-)			
Earnings available to common stock	<u>\$190,992</u>	<u>\$114,385</u>			
Denominator:					
(Weighted-average number of shares of common stock):					
Denominator for earnings per share	43,327,189	40,628,950			
Potentially dilutive shares of common stockholders	34,124	61,789			
Denominator for diluted earnings per share	<u>43,361,313</u>	<u>40,690,739</u>			

15. 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, 2004, 2005 and 2006 and the six months ended 30th September, 2005 and 2006:

	<i>Yen</i>				
	31st March,		30th September,		
	2004	2005	2006	2005	2006
	(Unaudited)				
a) Share subscription rights to 805 units issued on 27th June, 2002:					
Number of shares reserved for new shares issuable upon exercise of share subscription rights	80,500	80,500	68,000	68,000	68,000
Exercise price per share	¥ 17,913	¥ 17,913	¥ 17,913	¥ 17,913	¥ 17,913
Average share price for the exercise period	¥10,488.54	¥10,268.33	¥12,108.25	¥10,861.94	¥14,445.76
b) Share subscription rights to 845 units issued on 24th June, 2004:					
Number of shares reserved for new shares issuable upon exercise of share subscription rights	–	84,500	–	81,500	–
Exercise price per share	–	¥ 11,418	–	¥ 11,418	–
Average share price for the exercise period	–	¥9,924.71	–	¥10,861.94	–
c) Share subscription rights to 815 units issued on 1st July, 2005:					
Number of shares reserved for new shares issuable upon exercise of share subscription rights	–	–	–	81,500	–
Exercise price per share	–	–	–	¥ 11,594	–
Average share price for the exercise period	–	–	–	¥11,292.38	–
d) Share subscription rights to 800 units issued on 11th September, 2006:					
Number of shares reserved for new shares issuable upon exercise of share subscription rights	–	–	–	–	80,000
Exercise price per share	–	–	–	–	¥ 16,409
Average share price for the exercise period	–	–	–	–	¥15,872.86

15. Per Share Data (continued)

	<i>U.S. dollars</i>	
	<u>31st March, 2006</u>	<u>30th September, 2006</u>
	(Unaudited)	
a) Share subscription rights to 805 units issued on 27th June, 2002:		
Number of shares reserved for new shares issuable upon exercise of share subscription rights	68,000	68,000
Exercise price per share	\$151.93	\$151.93
Average share price for the exercise period	\$102.70	\$122.53
b) Share subscription rights to 845 units issued on 24th June, 2004:		
Number of shares reserved for new shares issuable upon exercise of share subscription rights	–	–
Exercise price per share	–	–
Average share price for the exercise period	–	–
c) Share subscription rights to 815 units issued on 1st July, 2005:		
Number of shares reserved for new shares issuable upon exercise of share subscription rights	–	–
Exercise price per share	–	–
Average share price for the exercise period	–	–
d) Share subscription rights to 800 units issued on 11th September, 2006:		
Number of shares reserved for new shares issuable upon exercise of share subscription rights	–	80,000
Exercise price per share	–	\$139.18
Average share price for the exercise period	–	\$134.63

The computation of net assets per share at 31st March, 2005 and 2006 and 30th September, 2006 is summarised as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>	
	<u>31st March, 2005</u>	<u>30th September, 2006</u>	<u>31st March, 2006</u>	<u>30th September, 2006</u>
	(Unaudited)		(Unaudited)	
Numerator:				
Net assets	¥231,767	¥209,301	¥205,877	\$1,775,242
Less subscription rights to shares	–	–	102	865
Net assets related to shares of common stock	¥231,767	¥209,301	¥205,775	\$1,775,242
Denominator:				
Number of shares of common stock outstanding	44,999,442	40,619,520	40,641,397	40,619,520

16. Leases

1) As lessee

The following *pro forma* amounts represent the acquisition costs, accumulated depreciation and net book value of the leased assets as of 31st March, 2005 and 2006 and 30th September, 2006 which would have been reflected in the consolidated balance sheets if finance lease accounting had been applied to the finance leases currently accounted for as operating leases:

	<i>Millions of yen</i>					
	<u>Acquisition costs</u>		<u>Accumulated depreciation</u>		<u>Net book value</u>	
	31st March,					
	2005	2006	2005	2006	2005	2006
Machinery and equipment	¥ 9,957	¥6,001	¥6,446	¥3,672	¥3,511	¥2,329
Software	898	157	744	103	154	54
Total	<u>¥10,855</u>	<u>¥6,158</u>	<u>¥7,190</u>	<u>¥3,775</u>	<u>¥3,665</u>	<u>¥2,383</u>

	<i>Millions of yen</i>		
	<u>Acquisition costs</u>	<u>Accumulated depreciation</u>	<u>Net book value</u>
	30th September, 2006		
	(Unaudited)		
Machinery and equipment	¥5,544	¥3,565	¥1,979
Software	42	20	22
Total	<u>¥5,586</u>	<u>¥3,585</u>	<u>¥2,001</u>

	<i>Thousands of U.S. dollars</i>					
	<u>Acquisition costs</u>	<u>Accumulated depreciation</u>	<u>Net book value</u>	<u>Acquisition costs</u>	<u>Accumulated depreciation</u>	<u>Net book value</u>
	31st March, 2006			30th September, 2006		
	(Unaudited)					
Machinery and equipment	\$50,899	\$31,145	\$19,754	\$47,023	\$30,237	\$16,786
Software	1,332	874	458	356	170	186
Total	<u>\$52,231</u>	<u>\$32,019</u>	<u>\$20,212</u>	<u>\$47,379</u>	<u>\$30,407</u>	<u>\$16,972</u>

16. Leases (continued)

1) As lessee (continued)

Lease payments, depreciation and interest expense for these finance leases for the years ended 31st March, 2004, 2005 and 2006 and for the six months ended 30th September, 2005 and 2006 are summarised as follows:

	<i>Millions of yen</i>			<i>Thousands of U.S. dollars</i>
	31st March,			31st March,
	2004	2005	2006	2006
Lease payments	¥3,391	¥2,659	¥1,903	\$16,141
Depreciation	3,246	2,554	1,827	15,496
Interest expense	115	77	49	416

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	30th September,		30th September,
	2005	2006	2006
	(Unaudited)		(Unaudited)
Lease payments	¥1,019	¥686	\$5,818
Depreciation	976	656	5,564
Interest expense	29	21	178

Future minimum lease payments for finance leases accounted for as operating leases and noncancelable operating leases subsequent to 31st March, 2005 and 2006 and 30th September, 2006 are summarised as follows:

	<i>Millions of yen</i>				<i>Thousands of U.S. dollars</i>	
	Finance leases		Operating leases		Finance leases	Operating leases
	31st March,		31st March,		31st March,	
	2005	2006	2005	2006	2006	
Future minimum lease payments due:						
Within one year	¥2,212	¥1,610	¥123	¥177	\$13,656	\$1,501
Thereafter	2,798	2,297	414	369	19,483	3,130
Total	¥5,010	¥3,907	¥537	¥546	\$33,139	\$4,631

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>	
	Finance leases	Operating leases	Finance leases	Operating leases
	30th September, 2006		30th September, 2006	
	(Unaudited)		(Unaudited)	
Future minimum lease payments due:				
Within one year	¥1,572	¥228	\$13,333	\$1,934
Thereafter	1,993	360	16,904	3,053
Total	¥3,565	¥588	\$30,237	\$4,987

16. Leases (continued)

2) As lessor

There were no finance lease transactions for the years ended 31st March, 2004, 2005 and 2006 or for the six months ended 30th September, 2005 and 2006.

Future minimum lease income from subleases accounted for as finance leases and operating leases subsequent to 31st March, 2005 and 2006 and 30th September, 2006 is summarised as follows:

	<i>Millions of yen</i>				<i>Thousands of U.S. dollars</i>	
	Subleases*		Operating leases		Subleases*	Operating leases
	31st March,		31st March,		31st March,	
	2005	2006	2005	2006	2006	
Future minimum lease income due:						
Within one year	¥ 915	¥ 946	¥116	¥142	\$ 8,024	\$1,204
Thereafter	1,763	2,077	294	145	17,617	1,230
Total	<u>¥2,678</u>	<u>¥3,023</u>	<u>¥410</u>	<u>¥287</u>	<u>\$25,641</u>	<u>\$2,434</u>

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>	
	Operating		Operating	
	Subleases*	leases	Subleases*	leases
	30th September, 2006		30th September, 2006	
	(Unaudited)		(Unaudited)	
Future minimum lease income due:				
Within one year	¥1,038	¥142	\$ 8,804	\$1,204
Thereafter	2,222	75	18,846	636
Total	<u>¥3,260</u>	<u>¥217</u>	<u>\$27,650</u>	<u>\$1,840</u>

* The corresponding amounts of sublease income have been included in lessees' future minimum lease payments.

17. Selling, General and Administrative Expenses

The details of selling, general and administrative expenses for the years ended 31st March, 2004, 2005 and 2006 and for the six months ended 30th September, 2005 and 2006 are summarised as follows:

	<i>Millions of yen</i>					<i>Thousands of U.S. dollars</i>	
	31st March,			30th September,		31st March,	30th September,
	2004	2005	2006	2005	2006	2006	2006
				(Unaudited)		(Unaudited)	
Personnel expenses	¥17,474	¥17,722	¥18,594	¥ 9,193	¥10,778	\$157,710	\$ 91,416
Rent	3,505	3,370	3,259	1,646	1,718	27,642	14,572
Subcontractor costs	3,355	3,254	4,600	1,934	2,331	39,016	19,771
Other	7,615	7,726	8,956	4,160	4,747	75,963	40,263
Total	<u>¥31,949</u>	<u>¥32,072</u>	<u>¥35,409</u>	<u>¥16,933</u>	<u>¥19,574</u>	<u>\$300,331</u>	<u>\$166,022</u>

18. Research and Development Costs

Research and development costs included in selling, general and administrative expenses for the years ended 31st March, 2004, 2005 and 2006 and for the six months ended 30th September, 2005 and 2006 are summarised as follows:

<i>Millions of yen</i>					<i>Thousands of U.S. dollars</i>	
31st March,			30th September,		31st March,	30th September,
2004	2005	2006	2005	2006	2006	2006
			(Unaudited)			(Unaudited)
¥2,217	¥1,647	¥2,502	¥1,079	¥1,173	\$21,221	\$9,949

19. Other Income (Expenses)

1) Loss on real estate put option

Loss on real estate put option for the year ended 31st March, 2004 was a loss incurred on a real estate put option upon execution by the option holder transacted at the securitised Osaka Data Center.

2) Loss on impairment of software

Loss on impairment of software for the year ended 31st March, 2005 was recognised as a result of the revaluation of software costs due to drastic changes in the clients' business environment.

3) (Loss) gain on investment securities

Gain on investment securities for the year ended 31st March, 2004 consisted of gain on investment securities of ¥1,217 million and loss on investment securities of ¥41 million. Gain on investment securities consisted principally of gain on the sale of shares of WORLD NICHIEI FRONTIER Securities Co., Ltd. (formerly WORLD NICHIEI Securities Co., Ltd.). Loss on investment securities consisted principally of loss on the devaluation of shares of POWEREDCOM, Inc. as a result of their decline in value which was deemed permanent.

Gain on investment securities for the year ended 31st March, 2005 consisted of gain on investment securities of ¥5,524 million and loss on investment securities of ¥1,642 million. Gain on investment securities consisted principally of gain on the sale of shares of NIWS Co. HQ, Ltd. Loss on investment securities consisted principally of loss on the devaluation of shares of Saitama Development Co., Ltd. and Japan Investor Solutions & Technologies Co., Ltd. as a result of their decline in value which was deemed permanent.

19. Other Income (Expenses) (continued)

3) (Loss) gain on investment securities (continued)

Gain on investment securities for the year ended 31st March, 2006 consisted of gain on investment securities of ¥724 million (\$6,141 thousand) and loss on investment securities of ¥1,296 million (\$10,993 thousand). Gain on investment securities consisted principally of gain on the sale of shares of Monex Beans Holdings, Inc. Loss on investment securities consisted principally of loss on the devaluation of shares of IY Card Service Co., Ltd., BELL NET CORPORATION and 7dream.com as a result of their decline in value which was deemed permanent and loss on the sale of an investment in OmniTrust Security System, Inc.

Loss on investment securities for the six months ended 30th September, 2005 consisted principally of a loss on the sale of an investment in OmniTrust Security System, Inc. and a loss on the devaluation of shares of BELL NET CORPORATION as a result of their decline in value which was deemed permanent.

Loss on investment securities of ¥7 million (\$59 thousand) for the six months ended 30th September, 2006 consisted of a loss on the devaluation of shares of Nippon BS Broadcasting Corporation as a result of their decline in value which was deemed permanent.

4) Gain on investments in affiliates

Gain on investments in affiliates for the year ended 31st March, 2004 consisted of gain on sales of investments in affiliates of ¥3,784 million and gain on changes in equity of ¥193 million.

Gain on sales of investments in affiliates for the year ended 31st March, 2004 related to the sale of shares of NIWS Co. HQ, Ltd.

Gain on changes in equity for the year ended 31st March, 2004 related to the changes in equity of NIWS Co. HQ, Ltd. resulting from sales of its treasury stock.

There were no such transactions for the years ended 31st March, 2005 and 2006 or for the six months ended 30th September, 2005 and 2006.

5) Gain on liquidation of a special purpose company

Gain on liquidation of a special purpose company for the year ended 31st March, 2005 was a gain on the liquidation of South Plaza Co., Ltd.

6) Head office relocation expenses

Head office relocation expenses for the year ended 31st March, 2005 arose from the relocation of the head office of the Company and certain of its consolidated subsidiaries.

20. Related Party Transactions

Related party transactions for the years ended 31st March, 2004, 2005 and 2006 and the respective balances at 31st March, 2005 and 2006 were as follows:

1) Transactions

Related party	Nature of transaction	Millions of yen			Thousands of U.S. dollars
		31st March,			31st March,
		2004	2005	2006	2006
a) Major shareholder: Nomura Holdings, Inc.	Sales	¥43,892	¥36,284	¥42,380	\$359,457
b) Major shareholders' subsidiaries: Nomura Real Estate Development Co., Ltd.	Rent	3,579	–	–	–
Nomura Securities Co., Ltd.	Sales	–	16,495	28,337	241,207
	Sales of investment securities	–	5,605	–	–
	Gain on above sales	–	5,511	–	–
	Payment for tender offer expenses of treasury stock	–	–	80	681
Nomura Facilities, Inc.	Purchases of treasury stock	–	–	44,000	374,532

2) Balances

Related party	Nature of transaction	Millions of yen		Thousands of U.S. dollars
		31st March,		31st March,
		2005	2006	2006
a) Major shareholder: Nomura Holdings, Inc.	Accounts receivable and other receivables	¥4,668	¥6,841	\$58,024
b) Major shareholders' subsidiaries: Nomura Securities Co., Ltd.	Accounts receivable and other receivables	3,216	3,177	26,947

* Nomura Real Estate Development Co., Ltd. was no longer a related party as of 30th September, 2006.

21. Contingent Liabilities

There were no material contingent liabilities at 31st March, 2005 and 2006.

22. Stock Option Plans

The Company issued share subscription rights for the purchase of new shares of common stock as permitted by Articles 280-20 and 280-21 of the former Commercial Code of Japan until the year ended 31st March, 2006.

Effective the six months ended 30th September, 2006, the Company issued share subscription rights for the purchase of new shares of common stock as permitted by the Corporation Law of Japan.

The status of the share subscription rights at 30th September, 2006 is presented below:

- 1) Stock option plan whose exercise price is determined based on marketable value of the Company's shares

The terms of the share subscription rights require that the holder be a Director or an Officer of the Company or one of its domestic subsidiaries, or be in an equivalent position, at the time of exercise. An eligible person or inheritor can exercise a share subscription right under certain circumstances such as death, expiration of the term of the subscription right and so forth. The transfer or pledge of a share subscription right, or similar actions, is prohibited. The closing market prices for ordinary transactions of the Company's shares on the Tokyo Stock Exchange for the last five consecutive days prior to the exercise date must be ¥20,000 or more per share, ¥11,100 or more per share and ¥12,600 or more per share for the share subscription rights issued on 27th June, 2002, 12th August, 2003 and 24th June, 2004, respectively, to be exercisable by the holder. The closing market prices for ordinary transactions of the Company's shares on the Tokyo Stock Exchange for the given five consecutive days of the exercise period must be ¥12,800 or more per share and ¥18,100 or more per share for the share subscription rights issued on 1st July, 2005 and 11th September, 2006, respectively, to be exercisable by the holder. Other terms and conditions are defined by resolution of the Board of Directors.

The following tables summarise information on the stock options outstanding as of 30th September, 2006 and 31st October, 2006:

- i) Share subscription rights issued on 27th June, 2002 (1st Stock Option Plan)

	30th September, 2006	31st October, 2006
Number of share subscription rights outstanding	680	680
Number of shares reserved	68,000	68,000
Exercise price	¥17,913	¥17,913
Exercise period	1st July, 2004 to 30th June, 2007	1st July, 2004 to 30th June, 2007
Offering price for the new shares	¥17,913	¥17,913
Capital increase per share	¥ 8,957	¥ 8,957

22. Stock Option Plans (continued)

- 1) Stock option plan whose exercise price is determined based on marketable value of the Company's shares (continued)

30 rights and 3,000 shares included in "Number of share subscription rights outstanding" and "Number of shares reserved," respectively, as of 30th September, 2006 and 31st October, 2006 cannot be exercised because of the holders' waiver of rights or retirements.

- ii) Share subscription rights issued on 12th August, 2003 (2nd Stock Option Plan)

	30th September, 2006	31st October, 2006
Number of share subscription rights outstanding	360	350
Number of shares reserved	36,000	35,000
Exercise price	¥10,088	¥10,088
Exercise period	1st July, 2005 to 30th June, 2008	1st July, 2005 to 30th June, 2008
Offering price for the new shares	¥10,088	¥10,088
Capital increase per share	¥ 5,044	¥ 5,044

- iii) Share subscription rights issued on 24th June, 2004 (3rd Stock Option Plan)

	30th September, 2006	31st October, 2006
Number of share subscription rights outstanding	755	755
Number of shares reserved	75,500	75,500
Exercise price	¥11,418	¥11,418
Exercise period	1st July, 2006 to 30th June, 2009	1st July, 2006 to 30th June, 2009
Offering price for the new shares	¥11,418	¥11,418
Capital increase per share	¥ 5,709	¥ 5,709

- iv) Share subscription rights issued on 1st July, 2005 (4th Stock Option Plan)

	30th September, 2006	31st October, 2006
Number of share subscription rights outstanding	815	815
Number of shares reserved	81,500	81,500
Exercise price	¥11,594	¥11,594
Exercise period	1st July, 2007 to 30th June, 2010	1st July, 2007 to 30th June, 2010
Offering price for the new shares	¥11,594	¥11,594
Capital increase per share	¥ 5,797	¥ 5,797

22. Stock Option Plans (continued)

1) Stock option plan whose exercise price is determined based on marketable value of the Company's shares (continued)

v) Share subscription rights issued on 11th September, 2006 (6th Stock Option Plan)

	30th September, 2006	31st October, 2006
Number of share subscription rights outstanding	800	800
Number of shares reserved	80,000	80,000
Exercise price	¥16,409	¥16,409
Exercise period	1st July, 2009 to 30th June, 2013	1st July, 2009 to 30th June, 2013
Offering price for the new shares	¥20,731	¥20,731
Capital increase per share	¥10,366	¥10,366

2) Stock option plan whose exercise price is 1 yen per share

Share subscription rights to purchase 19,100 new shares of the Company's common stock were granted to the Company's directors, officers and employees who were in the equivalent positions of directors and officers, and the directors of its domestic subsidiaries on 1st July, 2005 (5th Stock Option Plan). The share subscription rights are each exercisable at the cost of 1 yen. These share subscription rights are exercisable over a one-year period from 1st July, 2006 to 30th June, 2007 provided that the holder as of the exercise date be a director or an officer or a statutory auditor of the Company or one of its domestic subsidiaries, or be in an equivalent position.

Share subscription rights to purchase 18,900 new shares of the Company's common stock were granted to the Company's directors, officers and employees who were in the equivalent positions of directors and officers, and the directors of its domestic subsidiaries on 11th September, 2006 (7th Stock Option Plan). The share subscription rights are each exercisable at the cost of 1 yen. These subscription rights are exercisable over a one-year period from 1st July 2007 to 30th June 2008 provided that the holder as of the exercise date be a director, an officer or a statutory auditor of the Company or one of its domestic subsidiaries, or be in an equivalent position.

22. Stock Option Plans (continued)

3) Stock option plan recorded in consolidated balance sheet

The Company issued the following share subscription rights for the purchase of new shares in accordance with the Corporation Law of Japan. Effective the six months ended 30th September, 2006, for newly-issued share subscription rights, share-based compensation cost is to be evaluated based on the fair value of the stock options and recognised in the consolidated statements of income. Share-based compensation cost amounted to ¥101 million, of which ¥53 million was included in cost of sales and ¥48 million was included in selling, general and administrative expenses in the consolidated statement of income for the six months ended 30th September, 2006. The status of these share subscription rights at 30th September, 2006 and 31st October, 2006 is presented below:

i) Share subscription rights issued on 11th September, 2006 (6th Stock Option Plan)

	<u>30th September, 2006</u>	<u>31st October, 2006</u>
Grantee categories and numbers of grantees	8 directors and 28 managing officers of the Company, and 6 directors of its domestic subsidiaries	8 directors and 28 managing officers of the Company, and 6 directors of its domestic subsidiaries
Grant date	11th September, 2006	11th September, 2006
Vesting conditions	No vesting conditions	No vesting conditions
Service period	Not prescribed	Not prescribed
Fair value per share option at the grant date	¥ 4,322	¥ 4,322

ii) Share subscription rights issued on 11th September, 2006 (7th Stock Option Plan)

	<u>30th September, 2006</u>	<u>31st October, 2006</u>
Grantee categories and numbers of grantees	8 directors and 32 managing officers of the Company, and 6 directors of its domestic subsidiaries	8 directors and 32 managing officers of the Company, and 6 directors of its domestic subsidiaries
Grant date	11th September, 2006	11th September, 2006
Vesting conditions	No vesting conditions	No vesting conditions
Service period	Not prescribed	Not prescribed
Fair value per share option at the grant date	¥15,733	¥15,733

23. Segment Information

Business segment

Business segment information prior to 1st April, 2006 was presented under the following two categories:

- the systems solutions services business, which includes developing and managing computer systems, selling software packages and selling computer equipment and related products.
- the consulting/knowledge services business, which includes research services, management consulting services and support services relating to the asset management business.

Effective the six months ended 30th September, 2006, the Company has revised its business segments to “Consulting services” and “IT solution services” in order to better reflect its business operations based on similarities of the type and nature of the services rendered. These business segments are summarised as follows:

- the consulting services business, which includes research services, management consulting services (both of which were previously included in the consulting/knowledge segment) and system consulting services (which was previously included in the system solutions services segment).
- the IT solutions services business, which includes developing and managing computer systems, selling software packages, selling computer equipment and related products (which were previously included in the system solutions services segment), and support services relating to the asset management business (which was previously included in the consulting/knowledge services segment).

Segment information prior to 1st April, 2006 has been presented based on the former business segments. In accordance with Japanese GAAP, however, only segment information on sales and operating profit for the year ended 31st March, 2006 and for the six months ended 30th September, 2005 has been disclosed based on the new business segments in the latter part of the set of tables presented below.

The business segment information of the Company and its consolidated subsidiaries for the years ended 31st March, 2004, 2005 and 2006 and for the six months ended 30th September, 2005 and 2006 is summarised as follows. However, in accordance with accounting standards generally accepted in Japan, segment information prior to 1st April, 2006, has not been restated and has instead been presented using the former business segments. In order to keep consistencies in figures, segment information on sales and operating profit for the year ended 31st March, 2006 and the six months ended 30th September, 2005 has been reclassified and presented based on the new business segments in the latter part of the tables below.

23. Segment Information (continued)

Business segments (continued)

Millions of yen

Year ended 31st March, 2004					
	System solutions services	Consulting/knowledge services	Total	Eliminations and corporate	Consolidated
I. Sales and operating profit					
Sales to external customers	¥195,045	¥43,023	¥238,068	¥ –	¥238,068
Intersegment sales or transfers	3,466	1,549	5,015	(5,015)	–
Total sales	198,511	44,572	243,083	(5,015)	238,068
Operating expenses	176,212	38,844	215,056	(5,010)	210,046
Operating profit	¥ 22,299	¥ 5,728	¥ 28,027	¥ (5)	¥ 28,022
II. Total assets, depreciation and amortisation and capital expenditures					
Total assets	¥122,076	¥27,286	¥149,362	¥177,438	¥326,800
Depreciation and amortisation	15,154	2,596	17,750	–	17,750
Capital expenditures	21,879	2,370	24,249	(4)	24,245

Millions of yen

Year ended 31st March, 2005					
	System solutions services	Consulting/knowledge services	Total	Eliminations and corporate	Consolidated
I. Sales and operating profit					
Sales to external customers	¥213,230	¥39,733	¥252,963	¥ –	¥252,963
Intersegment sales or transfers	2,756	1,865	4,621	(4,621)	–
Total sales	215,986	41,598	257,584	(4,621)	252,963
Operating expenses	191,503	35,905	227,408	(4,604)	222,804
Operating profit	¥ 24,483	¥ 5,693	¥ 30,176	¥ (17)	¥ 30,159
II. Total assets, depreciation and amortisation and capital expenditures					
Total assets	¥124,868	¥22,819	¥147,687	¥169,654	¥317,341
Depreciation and amortisation	16,025	2,381	18,406	(3)	18,403
Capital expenditures	15,216	2,155	17,371	(20)	17,351

Millions of yen

Year ended 31st March, 2006					
	System solutions services	Consulting/knowledge services	Total	Eliminations and corporate	Consolidated
I. Sales and operating profit					
Sales to external customers	¥241,001	¥44,584	¥285,585	¥ –	¥285,585
Intersegment sales or transfers	3,467	2,525	5,992	(5,992)	–
Total sales	244,468	47,109	291,577	(5,992)	285,585
Operating expenses	213,136	41,951	255,087	(5,971)	249,116
Operating profit	¥ 31,332	¥ 5,158	¥ 36,490	¥ (21)	¥ 36,469
II. Total assets, depreciation and amortisation and capital expenditures					
Total assets	¥127,591	¥25,739	¥153,330	¥158,457	¥311,787
Depreciation and amortisation	13,999	2,597	16,596	(22)	16,574
Capital expenditures	15,498	2,891	18,389	(45)	18,344

23. Segment Information (continued)

Business segments (continued)

Corporate assets included under “Eliminations and corporate” at 31st March, 2004, 2005 and 2006 amounted to ¥178,295 million, ¥170,480 million and ¥159,681 (\$1,354,377 thousand), respectively, and consisted principally of surplus funds and investment securities.

Thousands of U.S. dollars

Year ended 31st March, 2006					
	System solutions services	Consulting/ knowledge services	Total	Eliminations and corporate	Consolidated
I. Sales and operating profit					
Sales to external customers	\$2,044,114	\$378,151	\$2,422,265	\$ –	\$2,422,265
Intersegment sales or transfers	29,406	21,416	50,822	(50,822)	–
Total sales	2,073,520	399,567	2,473,087	(50,822)	2,422,265
Operating expenses	1,807,769	355,818	2,163,587	(50,643)	2,112,944
Operating profit	\$ 265,751	\$ 43,749	\$ 309,500	\$ (179)	\$ 309,321
II. Total assets, depreciation and amortisation and capital expenditures					
Total assets	\$1,082,197	\$218,312	\$1,300,509	\$1,343,995	\$2,644,504
Depreciation and amortisation	118,736	22,027	140,763	(186)	140,577
Capital expenditures	131,450	24,521	155,971	(382)	155,589

Millions of yen

Six months ended 30th September, 2005 (Unaudited)					
	System solutions services	Consulting/ knowledge services	Total	Eliminations and corporate	Consolidated
I. Sales and operating profit					
Sales to external customers	¥111,216	¥21,287	¥132,503	¥ –	¥132,503
Intersegment sales or transfers	1,591	1,119	2,710	(2,710)	–
Total sales	112,807	22,406	135,213	(2,710)	132,503
Operating expenses	98,551	20,208	118,759	(2,716)	116,043
Operating profit	¥ 14,256	¥ 2,198	¥ 16,454	¥ 6	¥ 16,460

Millions of yen

Six months ended 30th September, 2006 (Unaudited)					
	Consulting services	IT solutions services	Total	Eliminations and corporate	Consolidated
I. Sales and operating profit					
Sales to external customers	¥13,332	¥133,120	¥146,452	¥ –	¥146,452
Intersegment sales or transfers	137	607	744	(744)	–
Total sales	13,469	133,727	147,196	(744)	146,452
Operating expenses	11,368	114,988	126,356	(744)	125,612
Operating profit	¥ 2,101	¥ 18,739	¥ 20,840	¥ –	¥ 20,840

23. Segment Information (continued)

Business segments (continued)

Thousands of U.S. dollars

Six months ended 30th September, 2006 (Unaudited)					
	Consulting services	IT solutions services	Total	Eliminations and corporate	Consolidated
I. Sales and operating profit					
Sales to external customers	\$113,079	\$1,129,092	\$1,242,171	\$ –	\$1,242,171
Intersegment sales or transfers	1,162	5,149	6,311	(6,311)	–
Total sales	114,241	1,134,241	1,248,482	(6,311)	1,242,171
Operating expenses	96,421	975,301	1,071,722	(6,311)	1,065,411
Operating profit	\$ 17,820	\$ 158,940	\$ 176,760	\$ –	\$ 176,760

As mentioned above, segment information on sales and operating profit for the year ended 31st March, 2006 and the six months ended 30th September, 2005 have been reclassified using the new business segments as follows:

Millions of yen

Year ended 31st March, 2006					
	Consulting services	IT solutions services	Total	Eliminations and corporate	Consolidated
I. Sales and operating profit					
Sales to external customers	¥26,293	¥259,292	¥285,585	¥ –	¥285,585
Intersegment sales or transfers	406	1,141	1,547	(1,547)	–
Total sales	26,699	260,433	287,132	(1,547)	285,585
Operating expenses	22,907	227,757	250,664	(1,548)	249,116
Operating profit	¥ 3,792	¥ 32,676	¥ 36,468	¥ 1	¥ 36,469

Thousands of U.S. dollars

Year ended 31st March, 2006					
	Consulting services	IT solutions services	Total	Eliminations and corporate	Consolidated
I. Sales and operating profit					
Sales to external customers	\$223,011	\$2,199,254	\$2,422,265	\$ –	\$2,422,265
Intersegment sales or transfers	3,444	9,678	13,122	(13,122)	–
Total sales	226,455	2,208,932	2,435,387	(13,122)	2,422,265
Operating expenses	194,292	1,931,781	2,126,073	(13,129)	2,112,944
Operating profit	\$ 32,163	\$ 277,151	\$ 309,314	\$ 7	\$ 309,321

Millions of yen

Six months ended 30th September, 2005 (Unaudited)					
	Consulting services	IT solutions services	Total	Eliminations and corporate	Consolidated
I. Sales and operating profit					
Sales to external customers	¥11,771	¥120,732	¥132,503	¥ –	¥132,503
Intersegment sales or transfers	206	425	631	(631)	–
Total sales	11,977	121,157	133,134	(631)	132,503
Operating expenses	10,289	106,385	116,674	(631)	116,043
Operating profit	¥ 1,688	¥ 14,772	¥ 16,460	¥ –	¥ 16,460

23. Segment Information (continued)

Business segments (continued)

In prior years, bonuses to directors and statutory auditors had previously been accounted for as appropriations from retained earnings. However, effective the year ended 31st March, 2005, the Company and its domestic consolidated subsidiaries charged the bonuses directly to income in the year to which such bonuses relate. As a result, operating expenses in the system solutions services segment and the consulting/knowledge services segment for the year ended 31st March, 2005 increased by ¥211 million and ¥45 million, respectively, and operating profit for these segments decreased by the same amounts compared with the amounts which would have been recorded under the previous method.

Following the introduction of Taxation of Corporations by the Size of their Businesses, the enterprise tax levied by corporate size-based taxation is accounted for as a component of selling, general and administrative expenses effective the year ended 31st March, 2005. As a result, operating expenses in the system solutions services segment and the consulting/knowledge services segment for the year ended 31st March, 2005 increased by ¥388 million and ¥127 million, respectively, and operating profit for these segments decreased by the same amount compared with the amounts which would have been recorded under the previous method.

As a result of the adoption of the Accounting Standard for Share-based Payments and Guidance on Accounting Standard for Share-based Payments, share-based compensation cost has been accounted for as a component of selling, general and administrative expenses effective the six months ended 30th September 2006. As a result, operating expenses in the consulting services segment and the IT solutions services segment for the six months ended 30th September, 2006 increased by ¥17 million (\$144 thousand) and ¥84 million (\$712 thousand), respectively, and operating profit for these segments decreased by the same amounts compared with the amounts which would have been recorded under the previous method.

Geographical segments

Because sales and assets in the domestic segment constituted more than 90% of total sales and assets for the years ended 31st March, 2004, 2005 and 2006 and the six months ended 30th September, 2005 and 2006, geographical segment information has not been presented.

Overseas sales

Because overseas sales constituted less than 10% of consolidated sales for the years ended 31st March, 2004, 2005 and 2006 and the six months ended 30th September, 2005 and 2006, no disclosure of overseas sales has been made.

24. Business Combination

During the six-month period ended 30th September, 2006, the Company merged with its wholly-owned subsidiary, NRI Data Services, Ltd., which is engaged in operating and monitoring information systems and also provides telecommunication system services. This business combination was implemented in order to enhance the Company's management efficiency and to contribute to the competitiveness of the Group, to strengthen integrated management and to enable the Company to respond promptly to its customers' needs. As a result of this transaction, NRI Data Services, Ltd. was discontinued and its business operations have been absorbed into the Company. There were no new shares issued nor was there any increase in capital relating to this merger.

This transaction has been eliminated as an intercompany transaction, since it was a transaction between two companies under common control. Therefore, this accounting treatment had no impact on the accompanying consolidated financial statements for the six months ended 30th September, 2006.

25. Subsequent Events

- 1) The following appropriation of cash dividends, which has not been reflected in the consolidated financial statements for the six months ended 30th September 2006, was approved at a meeting of the Board of Directors held on 26th October, 2006:

	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>
Cash dividends (¥70.00 = U.S.\$0.59 per share)	¥2,845	\$24,131

25. Subsequent Events (continued)

2) At the meeting of the Board of Directors held on 15th November, 2006, a resolution for the 1st issue of convertible bonds with warrants for share subscription rights to new shares was approved as follows:

1. Total amount of issue: ¥50 billion
2. Issue price: ¥100 per ¥100 par value (face value of each bond: ¥1,000,000)
3. Interest rate: The bonds bear no interest.
4. Redemption date: 31st March, 2014 (redemption at ¥100 per ¥100 par value)
5. Payment date: 5th December, 2006 (will be formally decided on in the period from 27th November, 2006 to 29th November, 2006)
6. Application of funds: Investment in software development, fund for purchase of equipment for system development and construction of a data center, deposit for the new location, and operating capital
7. Details of new stock acquisition rights:
 - (1) Type of stock covered by new stock acquisition rights: Common stock of the Company
 - (2) Total number of new stock acquisition rights: Number of shares of common stock which will be newly issued or disposed of at exercise request represent the total amount of the convertible bonds divided by the conversion price stated in (3) below. Fractions of less than 1 share are rounded down and will not be adjusted in cash.
 - (3) Conversion price: The conversion price is the closing price market on the Tokyo Stock Exchange on a day between 27th November, 2006 to 29th November, 2006 (if there is no closing price for that day, then the closing price of the prior day will be used) multiplied by a factor decided on that day between 123% to 128%.

Fractions below ¥1 are rounded down.

If the amount calculated using the mathematical formula outlined above is below ¥14,314, then the issue of the convertible bonds will be canceled.
8. Exercise period for new share subscription rights: From 4th January, 2007 to 28th March, 2014

[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. Leases Capitalized as Assets

Under Japanese GAAP, for finance leases where ownership is not deemed to be transferred from the lessor to the lessee, the lessee may choose not to capitalize lease expenses and may account for the lease in a manner similar to that applicable to operating leases. The Company's policy is to account for finance leases in a manner similar to operating leases.

U.S. GAAP requires that leases which transfer essentially all the risks and rewards of ownership of the leased assets from the lessor to the lessee to be capitalized.

2. Impairment of Long-Lived Assets

Japanese GAAP requires carrying tangible and intangible fixed assets at cost less depreciation, and requires review for impairment of such assets for financial statements issued for fiscal years beginning after 31st March, 2005 whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If the expected future cash flows are less than the carrying amount of such an asset, an impairment loss is recognized.

U.S. GAAP requires review and recognition of impairment of long-lived assets and certain identifiable intangibles to be held and used on such a basis as described in Japanese GAAP above.

3. Transferors of Real Estate to Special Purpose Entities

In Japan, an accounting standard for transferors of real estate to special purpose entities was issued in July 2000. Retroactive application of this standard is not mandatory. This accounting standard is similar to the US GAAP of sales of real estate.

Prior to the adoption of this standard, the related accounting practices under Japanese GAAP were not clearly established. Therefore, under Japanese GAAP, real estate sales contracts were examined on a case-by-case basis in applying the full accrual method.

4. Compensated Absences

Under Japanese GAAP, there is no specific accounting standard for compensated absences and this liability is not generally recognized in Japan.

Under U.S. GAAP, an employer accrues the liability for employees' compensation for future absences if certain conditions are met.

5. Stock Option Plans

Under Japanese GAAP, generally, no liability and expense are recognized until the subscription rights are exercised. However, for stock options issued after May 1st 2006, compensation costs are evaluated based on the fair value of stock options and recognized in income statements.

Under U.S. GAAP, stock options are accounted for under the fair value method or the intrinsic value method. When the intrinsic value method is applied, pro forma disclosures as if the fair value method would have been applied, are required. From periods beginning after 15th December 2005, the fair value method is required under U.S. GAAP.

6. Interest Rate Swap

Under Japanese GAAP, as for interest rate swaps used for converting receipts or payments of interest on an asset or a liability, if principal terms of the interest rate swaps such as notional amount, index of interest rates, date and interval of interest payments, contract period are essentially the same as those of the hedged asset or liability, such interest rate swaps may not be measured at fair value, but the related interests may be adjusted to the interests on the hedged asset or liability on an accrual basis.

Under U.S. GAAP, interest rate swaps are measured at fair value in any case. If interest rate swaps meet the criteria for the fair value hedge accounting, the hedged items are also measured at fair value to match the income statement impact. If interest rate swaps meet the criteria for the cash flow hedge accounting, the valuation difference on the interest rate swaps is directly recognized as a component of equity.

7. Bonuses to Directors and Statutory Auditors

Under Japanese GAAP, it is allowed that bonuses to directors are accounted for as an appropriation of retained earnings and are recorded after approval by the shareholders, which the Company followed until the year ended March 31, 2004.

Under U.S. GAAP, such bonuses are accounted for as expenses and are charged to income in the year to which the bonus was earned.

8. Revenue Recognition

Under Japanese GAAP, recognition of software revenue is permitted by various methods including the percentage-of-completion method, the policy followed by the Company.

Under U.S. GAAP, software revenue is recognized when all the following criteria are met: persuasive evidence of an arrangement exists, delivery has occurred and no future elements to be delivered are essential to the functionality of the delivered elements, the vendor's fee is fixed or determinable and collectibility is probable.

9. Guarantor's Accounting for Guarantees

Under Japanese GAAP, a guarantor does not recognize a liability for a guarantee in its statement of financial position unless it is probable that payments will be required under that guarantee.

Under U.S. GAAP, at the inception of a guarantee, the guarantor recognizes a liability in its statement of financial position for the fair value of all guarantees issued or modified after December 31st, 2002, even if it is not probable that payments will be required under that guarantee.

[Appendix (2)]

SUBSIDIARIES AND AFFILIATES

The Company conducts its business together with its subsidiaries and affiliates (being companies over which the Company holds significant influence with respect to its finances, operations or businesses).

At 30th September, 2006, the Company had 18 subsidiaries, all of which were consolidated subsidiaries.

At the same date, the Company had 2 affiliates, all of which were accounted for by the equity method in the Company's financial statements.

The following table sets forth information on the Company's direct and indirect subsidiaries and affiliates as of 30th September, 2006.

<u>Name</u>	<u>Country</u>	<u>Main Business</u>	<u>Issued Capital</u> (thousands)	<u>Equity held by the Company</u> (%)
Subsidiaries				
NRI Network Communications, Ltd.	Japan	Software development and sales, mainly in the Kansai area	¥450,000	100.0
NRI Learning Network, Ltd.	Japan	Training related to information and telecommunications systems	¥300,000	100.0
NRI Garden Network, Ltd.	Japan	Software development for petroleum product sales industry	¥350,000	100.0
NRI SecureTechnologies, Ltd.	Japan	Network security services	¥450,000	100.0
NRI Cyber Patent, Ltd.	Japan	Provide patent and other intellectual property information to subscribers	¥300,000	100.0
NRI WEBrandia, Ltd.	Japan	Web Site development and management	¥200,000	100.0
NRI Shared Services, Ltd.	Japan	Office and real estate management	¥450,000	100.0
Insurance System & Technology, Ltd.	Japan	Software development for non-life insurance industry	¥495,000	100.0
NRI Data i Tech, Ltd.	Japan	Maintaining systems equipment of Nomura Holdings and its subsidiaries and affiliates	¥10,000	100.0
NRI Holding America Inc.	USA	U.S. holding company	U.S.\$14,500	100.0
Nomura Research Institute America, Inc.	USA	Research and development and operation of information management systems in the U.S.	U.S.\$12,000	100.0
NRI Pacific Inc.	USA	Research on developments in the U.S. information technology industry	U.S.\$2,000	100.0
NRI Investment America, Inc.	USA	Investments in companies or venture capital funds in the information technology industry	U.S.\$6,000	100.0

Name	Country	Main Business	Issued Capital (thousands)	Equity held by the Company (%)
Subsidiaries(continued)				
Nomura Research Institute Europe Limited	England	Research and development and operation of information management systems in Europe	£1,350	100.0
Nomura Research Institute Beijing Limited	China	Development and operation of information management systems in China	U.S.\$3,000	100.0
Nomura Research Institute Shanghai Limited	China	Consulting in China	U.S.\$2,550	100.0
Nomura Research Institute Hong Kong Limited	China	Research and development and operation of information management systems in Asia	HK\$16,181	100.0
Nomura Research Institute (Singapore) Private Limited	Singapore	Research and development and operation of information management systems in Asia	Sing\$1,400	100.0
Affiliates				
Nomura Funds Research and Technologies Co., Ltd.	Japan	Management of fund-of-funds, valuation of funds, pension consulting	¥400,000	49.0
Nippon Clearing Services Co., Ltd	Japan	Back-office services for mid-tier securities companies	¥300,000	40.0

MAJOR SHAREHOLDERS

Shareholders	Number of Shares Owned (thousands)	Ratio of Voting Rights (%)
Nomura Asset Management Co., Ltd.	8,677	19.28
Nomura Facilities, Inc.	3,720	8.27
JAFCO Co., Ltd.	3,080	6.84
Nomura Holdings, Inc.	2,600	5.78
Japan Trustee Services Bank, Ltd. (Trust Account)	2,594	5.77
The Master Trust Bank of Japan, Ltd.(Trust Account)	2,032	4.52
NRI Group Employee Stock Ownership Association	1,062	2.36
The Goldman Sachs Group, Inc.	594	1.32
TAKAGI SECURITIES CO., LTD.	550	1.22
State Street Bank and Trust Company 505103	510	1.13

*NRI owns 4,358 thousand shares.