# Consolidated Financial Statements

## Nomura Research Institute, Ltd.

*At 31st March, 2003 and 2004 and*
*for the years ended 31st March, 2002, 2003 and 2004*
*with Report of Independent Certified Public Accountants*

# Nomura Research Institute, Ltd.

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At 31st March, 2003 and 2004 and
for the years ended 31st March, 2002, 2003 and 2004 with
Report of Independent Certified Public Accountants

## Index to Consolidated Financial Statements

SHIN NIHON & CO.
A MEMBER OF ERNST & YOUNG GLOBAL

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# Report of Independent Certified Public Accountants

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, 2003 and 2004, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended 31st March, 2004, 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, 2003 and 2004, and the consolidated results of their operations and their cash flows for each of the three years in the period ended 31st March, 2004 in conformity with accounting principles generally accepted in Japan.

As described in Note 1, Nomura Research Institute, Ltd. and its consolidated subsidiaries changed its policy, for the year ended 31st March, 2004, to amortize unrecognised actuarial gain or loss over a defined period, not exceeding the average remaining period of employment(15 years), by the straight-line method and recognise as a pension cost starting from the fiscal year following the fiscal year in which such gain or loss are incurred.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended 31st March, 2004 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.

Shin Nihon & Co.

23th June, 2004

Nomura Research Institute, Ltd.

# Consolidated Balance Sheets

| | *Millions of yen* | | *Thousands of U.S. dollars (Note 2)* |
|---|---|---|---|
| | **31st March,** | | **31st March,** |
| | **2003** | **2004** | **2004** |
| **Assets** | | | |
| Current assets: | | | |
| Cash and bank deposits *(Note 14)* | ¥ 26,739 | ¥ 17,085 | $ 161,652 |
| Short-term investment securities *(Notes 3 and 14)* | 62,021 | 79,727 | 754,347 |
| Accounts receivable and other receivables *(Notes 5 and 20)* | 42,000 | 51,318 | 485,552 |
| Inventories | 254 | 100 | 946 |
| Deferred income taxes *(Note 12)* | 3,459 | 5,137 | 48,604 |
| Other current assets | 1,105 | 936 | 8,858 |
| Allowance for doubtful accounts | (40) | (51) | (483) |
| Total current assets | 135,538 | 154,252 | 1,459,476 |
| Property and equipment *(Notes 6 and 8)*: | | | |
| Land | 7,635 | 9,857 | 93,263 |
| Buildings, net | 12,365 | 16,806 | 159,012 |
| Machinery and equipment, net | 10,274 | 9,999 | 94,607 |
| Property and equipment, net | 30,274 | 36,662 | 346,882 |
| Software and other intangibles | 33,817 | 32,505 | 307,550 |
| Investment securities *(Notes 3 and 20)* | 33,767 | 86,171 | 815,318 |
| Investments in affiliates *(Note 3)* | 8,781 | 2,326 | 22,008 |
| Deferred income taxes *(Note 12)* | 1,248 | 1,336 | 12,641 |
| Other assets *(Notes 7 and 20)* | 13,410 | 13,581 | 128,499 |
| Allowance for doubtful accounts | (37) | (33) | (312) |
| Total assets | ¥256,798 | ¥326,800 | $3,092,062 |

| | Millions of yen | | Thousands of U.S. dollars (Note 2) |
|---|---|---|---|
| | **31st March,** | | **31st March,** |
| | **2003** | **2004** | **2004** |
| **Liabilities and shareholders' equity** | | | |
| Current liabilities: | | | |
| Long-term debt due within one year *(Notes 8 and 9)* | ¥ 608 | ¥ 208 | $ 1,968 |
| Accounts payable | 21,313 | 20,155 | 190,699 |
| Accrued expenses | 9,325 | 11,114 | 105,157 |
| Income taxes payable | 5,128 | 12,705 | 120,210 |
| Other current liabilities | 4,107 | 5,403 | 51,121 |
| Total current liabilities | 40,481 | 49,585 | 469,155 |
| Long-term debt *(Notes 8 and 9)* | 2,310 | 2,102 | 19,888 |
| Allowance for employees' retirement benefits *(Note 10)* | 22,277 | 22,625 | 214,069 |
| Deferred income taxes *(Note 12)* | 5,554 | 22,267 | 210,682 |
| Other long-term liabilities *(Notes 11 and 20)* | 826 | 890 | 8,423 |
| Commitments and contingent liabilities *(Note 21)* | | | |
| Shareholders' equity *(Notes 13, 15 and 20)*: | | | |
| Common stock | | | |
| Authorised – 150,000,000 shares at 31st March, 2003 and 2004, respectively | | | |
| Issued – 45,000,000 shares at 31st March, 2003 and 2004, respectively | 18,600 | 18,600 | 175,986 |
| Additional paid-in capital | 14,800 | 14,800 | 140,032 |
| Retained earnings | 140,334 | 156,710 | 1,482,733 |
| Unrealised gain on other securities *(Note 3)* | 11,799 | 40,082 | 379,241 |
| Translation adjustments | (181) | (857) | (8,109) |
| Treasury stock, at cost – 100 shares at 31st March, 2003 and 279 shares at 31st March, 2004 | (2) | (4) | (38) |
| Total shareholders' equity | 185,350 | 229,331 | 2,169,845 |
| Total liabilities and shareholders' equity | ¥ 256,798 | ¥ 326,800 | $3,092,062 |

*See accompanying notes to consolidated financial statements.*

Nomura Research Institute, Ltd.

# Consolidated Statements of Income

| | *Millions of yen* | | | *Thousands of U.S. dollars (Note 2)* |
|---|---|---|---|---|
| | **Year ended 31st March,** | | | **Year ended 31st March,** |
| | **2002** | **2003** | **2004** | **2004** |
| Sales *(Note 20)* | ¥236,569 | ¥232,744 | ¥238,068 | $2,252,512 |
| Cost of sales *(Note 20)* | 173,636 | 173,545 | 178,097 | 1,685,088 |
| Gross profit | 62,933 | 59,199 | 59,971 | 567,424 |
| Selling, general and administrative expenses *(Notes 17, 18 and 20)* | 32,568 | 32,035 | 31,949 | 302,290 |
| Operating profit | 30,365 | 27,164 | 28,022 | 265,134 |
| Other income (expenses): | | | | |
| Interest and dividend income *(Note 20)* | 2,385 | 343 | 875 | 8,279 |
| Equity in earnings of affiliates | 297 | 168 | 401 | 3,794 |
| Interest expense *(Note 9)* | (135) | (99) | (84) | (795) |
| Loss on property and equipment | (320) | (638) | (317) | (2,999) |
| Loss on real estate put option *(Note 19)* | – | – | (1,197) | (11,326) |
| (Loss) gain on investment securities *(Notes 3, 19 and 20)* | (516) | (166) | 1,176 | 11,127 |
| Gain on investments in affiliates *(Note 19)* | – | 542 | 3,977 | 37,629 |
| Actuarial loss *(Notes 10 and 19)* | (1,195) | (6,942) | – | – |
| Reversal of allowance for the welfare pension plan *(Notes 10 and 19)* | 8,147 | – | – | – |
| Gain on securities contributed to an employee retirement benefit trust *(Notes 3, 10, 14 and 19)* | – | 6,736 | – | – |
| Other, net | (18) | 69 | 74 | 700 |
| | 8,645 | 13 | 4,905 | 46,409 |
| Income before income taxes | 39,010 | 27,177 | 32,927 | 311,543 |
| Provision for income taxes *(Note 12)*: | | | | |
| Current | 11,426 | 10,687 | 18,198 | 172,183 |
| Deferred | 5,220 | 1,031 | (3,540) | (33,494) |
| | 16,646 | 11,718 | 14,658 | 138,689 |
| Net income *(Note 15)* | ¥ 22,364 | ¥ 15,459 | ¥ 18,269 | $ 172,854 |

*See accompanying notes to consolidated financial statements.*

# Nomura Research Institute, Ltd.

## Consolidated Statements of Changes in Shareholders' Equity

| | *Millions of yen* | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Common stock** | **Additional paid-in capital** | **Retained earnings** | **Unrealised gain on other securities** | **Translation adjustments** | **Treasury stock** | **Total shareholders' equity** |
| **Balance at 31st March, 2001** | ¥10,100 | ¥2,400 | ¥104,290 | ¥48,518 | ¥(136) | ¥– | ¥165,172 |
| Issuance of 2,000,000 new shares | 8,500 | 12,400 | – | – | – | – | 20,900 |
| Purchase of treasury stock | – | – | – | – | – | (2) | (2) |
| Net income | – | – | 22,364 | – | – | – | 22,364 |
| Cash dividends paid | – | – | (215) | – | – | – | (215) |
| Bonuses to directors and statutory auditors | – | – | (303) | – | – | – | (303) |
| Unrealised gain on other securities | – | – | – | (12,925) | – | – | (12,925) |
| Translation adjustments | – | – | – | – | 573 | – | 573 |
| **Balance at 31st March, 2002** | 18,600 | 14,800 | 126,136 | 35,593 | 437 | (2) | 195,564 |
| Net income | – | – | 15,459 | – | – | – | 15,459 |
| Cash dividends paid | – | – | (900) | – | – | – | (900) |
| Bonuses to directors and statutory auditors | – | – | (361) | – | – | – | (361) |
| Unrealised gain on other securities | – | – | – | (23,794) | – | – | (23,794) |
| Translation adjustments | – | – | – | – | (618) | – | (618) |
| **Balance at 31st March, 2003** | 18,600 | 14,800 | 140,334 | 11,799 | (181) | (2) | 185,350 |
| Purchase of treasury stock | – | – | – | – | – | (2) | (2) |
| Net income | – | – | 18,269 | – | – | – | 18,269 |
| Cash dividends paid | – | – | (900) | – | – | – | (900) |
| Bonuses to directors and statutory auditors | – | – | (283) | – | – | – | (283) |
| Unrealised gain on other securities | – | – | – | 28,283 | – | – | 28,283 |
| Decrease due to exclusion of affiliates accounted for by the equity method | – | – | (710) | – | – | – | (710) |
| Translation adjustments | – | – | – | – | (676) | – | (676) |
| **Balance at 31st March, 2004** | ¥18,600 | ¥14,800 | ¥156,710 | ¥ 40,082 | ¥(857) | ¥(4) | ¥229,331 |

Nomura Research Institute, Ltd.

# Consolidated Statements of Changes in Shareholders' Equity(continued)

| | *Thousands of U.S. dollars (Note 2)* | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Common stock** | **Additional paid-in capital** | **Retained earnings** | **Unrealised gain on other securities** | **Translation adjustments** | **Treasury stock** | **Total shareholders' equity** |
| **Balance at 31st March, 2003** | $175,986 | $140,032 | $1,327,789 | $ 111,638 | $ (1,713) | $(19) | $1,753,713 |
| Purchase of treasury stock | – | – | – | – | – | (19) | (19) |
| Net income | – | – | 172,854 | – | – | – | 172,854 |
| Cash dividends paid | – | – | (8,515) | – | – | – | (8,515) |
| Bonuses to directors and statutory auditors | – | – | (2,678) | – | – | – | (2,678) |
| Unrealised gain on other securities | – | – | – | 267,603 | – | – | 267,603 |
| Decrease due to exclusion of affiliates accounted for by the equity method | – | – | (6,717) | – | – | – | (6,717) |
| Translation adjustments | – | – | – | – | (6,396) | – | (6,396) |
| **Balance at 31st March, 2004** | $175,986 | $140,032 | $1,482,733 | $ 379,241 | $(8,109) | $(38) | $2,169,845 |

*See accompanying notes to consolidated financial statements.*

## Nomura Research Institute, Ltd.

## Consolidated Statements of Cash Flows

| | *Millions of yen* | | | *Thousands of U.S. dollars (Note 2)* |
|---|---|---|---|---|
| | **Year ended 31st March,** | | | **Year ended 31st March,** |
| | **2002** | **2003** | **2004** | **2004** |
| **Cash flows from operating activities** | | | | |
| Income before income taxes | ¥ 39,010 | ¥ 27,177 | ¥ 32,927 | $ 311,543 |
| Adjustments to reconcile income before income taxes to net cash provided by operating activities: | | | | |
| Depreciation and amortisation | 12,420 | 13,244 | 17,750 | 167,944 |
| Interest and dividend income | (2,385) | (343) | (875) | (8,279) |
| Interest expense | 135 | 99 | 84 | 795 |
| Loss on property and equipment | 320 | 638 | 317 | 2,999 |
| Loss on real estate put option | – | – | 1,197 | 11,326 |
| Loss (gain) on investment securities | 516 | 166 | (1,176) | (11,127) |
| Gain on investments in affiliates | – | (542) | (3,977) | (37,629) |
| Changes in operating assets and liabilities: | | | | |
| Accounts receivable and other receivables, net of advance payments received | (9,976) | 1,644 | (8,866) | (83,887) |
| Allowance for doubtful accounts | (5) | (11) | 7 | 66 |
| Accounts payable | 6,724 | (7,435) | (1,158) | (10,957) |
| Inventories | 138 | (39) | 154 | 1,457 |
| Allowance for employees' retirement benefits and welfare pension plan *(Note 14)* | (9,526) | 628 | 348 | 3,293 |
| Other | (1,014) | (7,334) | 2,428 | 22,974 |
| Subtotal | 36,357 | 27,892 | 39,160 | 370,518 |
| Interest and dividends received | 1,168 | 877 | 859 | 8,128 |
| Interest paid | (143) | (102) | (85) | (804) |
| Income taxes paid | (20,089) | (14,055) | (10,621) | (100,492) |
| Net cash provided by operating activities | 17,293 | 14,612 | 29,313 | 277,350 |
| **Cash flows from investing activities** | | | | |
| Acquisition of property and equipment | (7,006) | (4,734) | (12,651) | (119,699) |
| Proceeds from sales of property and equipment | 428 | 14 | 138 | 1,306 |
| Increase in software and other intangibles | (15,879) | (16,221) | (11,396) | (107,825) |
| Proceeds from sales of software and other intangibles | 72 | 63 | 138 | 1,306 |
| Increase in investment securities | (2,167) | (5,921) | (337) | (3,189) |
| Proceeds from sales and redemption of investment securities | – | 7,010 | 1,521 | 14,391 |
| Increase in investments in affiliates | (30) | — | — | — |
| Proceeds from sales of investments in affiliates | 14 | 178 | 4,472 | 42,312 |
| Acquisition of businesses *(Note 14)* | — | — | (280) | (2,649) |
| Other | (169) | 616 | (748) | (7,077) |
| Net cash used in investing activities | (24,737) | (18,995) | (19,143) | (181,124) |
| **Cash flows from financing activities** | | | | |
| Net repayment of short-term borrowings | (100) | – | – | – |
| Repayment of long-term debt | (2,608) | (608) | (608) | (5,753) |
| Proceeds from issuance of new stock | 20,900 | – | – | – |
| Purchase of treasury stock | (2) | – | (2) | (19) |
| Cash dividends paid | (215) | (896) | (899) | (8,506) |
| Net cash (used in) provided by financing activities | 17,975 | (1,504) | (1,509) | (14,278) |
| Effect of exchange rate changes on cash and cash equivalents | 549 | (556) | (609) | (5,762) |
| Net increase (decrease) in cash and cash equivalents | 11,080 | (6,443) | 8,052 | 76,186 |
| Cash and cash equivalents at beginning of year | 84,123 | 95,203 | 88,760 | 839,813 |
| Cash and cash equivalents at end of year *(Note 14)* | ¥ 95,203 | ¥ 88,760 | ¥ 96,812 | $ 915,999 |

*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 system solutions services and consulting/knowledge services. System solutions services include the development, installation, operation and management of computer systems and networks. In conjunction with these services, the Company also procures systems equipment and related products for its clients’ systems. Consulting/knowledge services include research on macroeconomic trends, management consulting advice, asset management analyses 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, 2002, 2003 and 2004 include the accounts of the Company and significant companies which are controlled directly or indirectly by the Company. All subsidiaries, (fourteen, sixteen and eighteen for the years ended 31st March, 2002, 2003 and 2004, respectively) have been consolidated. The major consolidated subsidiary is NRI Data Service, Ltd. Effective for the year ended 31st March, 2004, NRI WEBrandia, Ltd. and Insurance System & Technology, Ltd. have been initially consolidated.

All significant intercompany balances and transactions have been eliminated in consolidation. 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 the Company’s share of those affiliates’ income is included in consolidated income. NIWS Co., Ltd. had been an affiliate accounted for by the equity method, but 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. The net income of the investee before the sales is accounted for by the equity method.

## 1. Significant Accounting Policies(continued)

### *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 the acquisition date) which are readily convertible to cash.

### *Investment Securities*

The Company holds investment securities in its major shareholders, The Nomura Holdings, Inc. (formerly The Nomura Securities Co., Ltd.) and Nomura Land and Building Co., Ltd. The Nomura Holdings, Inc. is included in "Investments in affiliates". Nomura Land and Building Co., Ltd. had also been included in "Investments in affiliates" at 31st March 2003, but included in "Investment securities" at 31st March, 2004 in the balance sheets due to a decrease in ownership percentage during the year ended 31st March, 2004. The Company's accounting policy for those investments is the same as its accounting policy for investment securities described below.

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 objective. 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.

Debt securities held-to-maturity 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 shareholders' equity, net of the applicable taxes. Under this accounting standard, if the fair value of the marketable securities classified as other securities has declined 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 the fair value is deemed to be recoverable. The Company has established a policy for the recognition of an impairment loss under the following conditions:

i) All securities whose fair value has declined by more than 50%;

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 has been 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 has been used, although no evaluation of the effectiveness of the interest rate swaps which meet the above conditions has been undertaken, as is permitted by the accounting standard for financial instruments.

### *Inventories*

Inventories are stated at cost determined 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 have 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 have been depreciated by the straight-line method over the 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 have 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 expensed upon transition. Prior to 1st April, 2003, actuarial gain or loss had been charged to income as incurred, however, the Company changed its policy, for the year ended 31st March, 2004, to amortize unrecognised actuarial gain or loss over a defined period, not exceeding the average remaining period of employment (15 years), by the straight-line method and recognise as a pension cost starting from the fiscal year following the fiscal year in which such gain or loss are incurred.

The Company performed a thorough review of its employees' retirement benefit plan, and adopted a defined contribution pension plan in the year ended 31st March, 2003, and also established a trust in March 2003 to provide pension benefits for its qualified pension plan by contributing certain equity securities of an entity that is also an affiliated company of Nomura Holding, Inc. As a result, this specific contributed equity security accounts for a material percentage of the total investment portfolio of the pension plan asset, and thus it became very likely that significant actuarial gain or loss may result from fluctuations in the fair value of this equity securitiy. If the previous accounting method was consistently applied to charge the actuarial gain or loss to income as incurred, it may cause unusual fluctuation in both annual pension cost and net income.

Since a significant actuarial gain was incurred during the year ended 31st March, 2004 due to a material increase in the fair value of the securities and the effect was recognized as material, the Company changed its accounting policy for recognition of actuarial gain or loss as described above in order to eliminate the unexpected significant effect to periodic income and to maintain appropriate periodical accounting for profit and loss.

Accordingly, no actuarial gain or loss is recognised for the year ended 31st March, 2004. Had the Company followed the same method as applied in the year ended 31st March, 2003, income before income tax would have been increased by ¥8,077 million ($76,422 thousand) for the year ended 31st March, 2004.

### *Accrual for Retirement Benefits for Directors and Statutory Auditors*

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

### *Leases*

Where financing 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.

## 1. Significant Accounting Policies (continued)

***Revenue Recognition***

In principle, revenue arising from research, consulting projects and system development projects is recognised based on the percentage-of-completion method and revenue from other projects is recognised when these services have been rendered.

***Research and Development Expenses***

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

***Appropriation of retained earnings***

Under the Commercial Code of Japan, the appropriation of retained earnings with respect to a given financial period is made by resolution of the shareholders at a general meeting held subsequent to the close of the financial year. The accounts for that period do not, therefore, reflect such appropriations. See Note 24.

## 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 ¥105.69 = US$1.00, the rate of exchange prevailing on 31st March, 2004. 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 following is a summary of market value information regarding other securities included in short-term investment securities, investment securities and investments in affiliates at 31st March, 2003 and 2004:

a) Marketable securities classified as other securities

| | *Millions of yen* | | | | | |
|---|---|---|---|---|---|---|
| | **Acquisition cost** | | **Carrying amount** | | **Unrealised gain** | |
| | **31st March,** | | | | | |
| | **2003** | **2004** | **2003** | **2004** | **2003** | **2004** |
| Equity securities | ¥3,008 | ¥3,029 | ¥23,366 | ¥70,589 | ¥20,358 | ¥67,560 |

| | *Thousands of U.S. dollars* | | |
|---|---|---|---|
| | **Acquisition cost** | **Carrying amount** | **Unrealised gain** |
| | **31st March, 2004** | | |
| Equity securities | $28,659 | $667,887 | $639,228 |

Proceeds from sales of marketable securities classified as other securities during the year ended 31st March, 2002, 2003 and 2004 were as follows:

| | *Millions of yen* | | | *Thousands of U.S. dollars* |
|---|---|---|---|---|
| | **2002** | **2003** | **2004** | **2004** |
| Proceeds | ¥– | ¥6,839 | ¥1,521 | $14,391 |
| Gross gain | – | 6,736 | 1,217 | 11,515 |

During the year ended 31st March, 2002, no marketable securities classified as other securities were sold.

The Company transferred certain marketable securities to an employee retirement benefit trust during the year ended 31st March, 2003. The proceeds and gross gains on the securities contributed to the employee retirement benefit trust were ¥6,839 million and ¥6,736 million, respectively.

Losses on devaluation of the marketable securities classified as other securities as a result of the permanent decline totaled ¥119 million and ¥171 million for the years ended 31st March, 2002 and 2003. There were no such losses for the year ended 31st March, 2004.

The equity securities of NIWS Co., Ltd. had been accounted for by the equity method, however, due to the sale of a part of the investment during the year ended 31st March, 2004, it is classified as other securities and stated at market value at 31st March, 2004. As the result, investment securities increased by ¥13,558 million ($128,281 thousand), and unrealised gain on marketable securities classified as other securities increased by ¥8,029 million ($75,967 thousand) .

## 3. Investments (continued)

b) Non-marketable securities classified as other securities

| | *Millions of yen* | | *Thousands of U.S. dollars* |
|---|---|---|---|
| | **31st March,** | | **31st March,** |
| | **2003** | **2004** | **2004** |
| Other securities: | | | |
| Equity securities | ¥17,488 | ¥17,478 | $165,370 |
| Other (money management funds) | 20,018 | 20,021 | 189,431 |
| Other (free financial funds) | 17,009 | 27,010 | 255,559 |
| Other (commercial paper) | 24,994 | 32,696 | 309,357 |

Investments in affiliates include investments in net assets of affiliate companies accounted for under the equity method totaling ¥1,694 million and ¥430 million ($4,069 thousand) at 31st March, 2003 and 2004, respectively.

Investments in affiliates include marketable equity securities accounted for under the equity method, carried at ¥1,285 million at 31st March, 2003. Corresponding aggregate quoted market values were ¥5,602 million at 31st March, 2003. There were no such investments at 31st March, 2004.

## 4. Derivatives

The Company and certain of its consolidated subsidiaries enter into interest rate swap agreements in order to manage certain risks arising from adverse fluctuations in the interest rates on their bank loans. Those interest rate swaps are used to hedge especially significant risks from fluctuations in the interest rates, and 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 risks in the event of nonperformance by the counterparties, such risks are minimized 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.

Because all derivatives held by a certain consolidated subsidiary at 31st March, 2003 and 2004 were for hedging purposes, 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 considered to be earned from each project has been included in accounts receivable and other receivables in amounts of ¥10,797 million and ¥18,877 million ($178,607 thousand) for the years ended 31st March, 2003 and 2004, respectively.

## 6. Property and Equipment

Property and equipment are summarised as follows:

| | *Years* | *Millions of yen* | | *Thousands of U.S. dollars* |
|---|---|---|---|---|
| | | **31st March,** | | **31st March,** |
| | **Useful life** | **2003** | **2004** | **2004** |
| Land | | ¥ 7,635 | ¥ 9,857 | $ 93,263 |
| Buildings | 15 – 50 | 32,140 | 37,790 | 357,555 |
| Machinery and equipment | 3 – 15 | 41,745 | 40,070 | 379,128 |
| Accumulated depreciation | | (51,246) | (51,055) | (483,064) |
| Property and equipment, net | | ¥ 30,274 | ¥ 36,662 | $ 346,882 |

## 7. Other Assets

Other assets consisted of the following:

| | *Millions of yen* | | *Thousands of U.S. dollars* |
|---|---|---|---|
| | **31st March,** | | **31st March,** |
| | **2003** | **2004** | **2004** |
| Lease deposits | ¥10,066 | ¥9,622 | $ 91,040 |
| Investment partnerships | 2,108 | 2,212 | 20,929 |
| Other | 1,236 | 1,747 | 16,530 |
| Other assets | ¥13,410 | ¥13,581 | $128,499 |

Other includes golf club memberships.

## 8. Pledged Assets

The following assets at 31st March, 2003 and 2004 were pledged as collateral for obligations of the Company:

| | *Millions of yen* | | *Thousands of U.S. dollars* |
|---|---|---|---|
| | **31st March,** | | **31st March,** |
| | **2003** | **2004** | **2004** |
| Land | ¥2,682 | ¥2,682 | $25,376 |
| Buildings, net | 1,130 | 1,102 | 10,427 |
| | ¥3,812 | ¥3,784 | $35,803 |

## 8. Pledged Assets (continued)

The obligations secured by such collateral at 31st March, 2003 and 2004 were:

| | *Millions of yen* | | *Thousands of U.S. dollars* |
|---|---|---|---|
| | **31st March,** | | **31st March,** |
| | **2003** | **2004** | **2004** |
| Long-term debt due within one year | ¥ 208 | ¥ 208 | $ 1,968 |
| Long-term debt | 2,310 | 2,102 | 19,888 |
| | ¥2,518 | ¥2,310 | $21,856 |

## 9. Long-Term Debt

At 31st March, 2003 and 2004, no short-term bank borrowings were outstanding.

Long-term debt consisted of the following:

| | *Millions of yen* | | *Thousands of U.S. dollars* |
|---|---|---|---|
| | **31st March,** | | **31st March,** |
| | **2003** | **2004** | **2004** |
| Loans principally from banks and insurance companies due through 2015 | ¥2,918 | ¥2,310 | $21,856 |
| Less current portion | 608 | 208 | 1,968 |
| Long-term debt | ¥2,310 | ¥2,102 | $19,888 |

The weighted average interest rate on long-term debt due within one year was 2.4% at 31st March, 2003 and 3.3% at 31st March, 2004 and the weighted average interest rates on the noncurrent portion of long-term debt were 3.3% and 3.3% at 31st March, 2003 and 2004, respectively.

The annual maturities of long-term debt subsequent to 31st March, 2004 are summarised as follows:

| Years to maturities | *Millions of yen*<br>**31st March, 2004** | *Thousands of U.S. dollars*<br>**31st March, 2004** |
|---|---|---|
| Due within one year | ¥ 208 | $ 1,968 |
| Due in 1 – 2 years | 208 | 1,968 |
| Due in 2 – 3 years | 208 | 1,968 |
| Due in 3 – 4 years | 208 | 1,968 |
| Due after 4 years | 1,478 | 13,984 |
| Total | ¥2,310 | $21,856 |

## 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 as described below, determined by reference to their current basic rate of pay, length of service and the conditions under which the termination occurs.

The Company and certain of its domestic consolidated subsidiaries have noncontributory defined benefit pension plans funded through trust banks and insurance companies (the "employee pension plans").

In addition, substantially all employees of the Company and employees of its consolidated domestic subsidiaries were covered under an industry-wide, multi-employer welfare pension plan administered by the Japan Securities Dealers Employees' Pension Fund in coordination with the contributory governmental welfare pension plan (the "welfare pension plan") until the withdrawal of the Company and certain of its domestic consolidated subsidiaries from the welfare pension plan during the year ended 31st March, 2002. The welfare pension plan consisted of a contributory and a non-contributory portion. The non-contributory portion of the welfare pension plan was funded as an additional portion of the contributory governmental welfare pension plan in conformity with the funding requirements and with the applicable regulations stipulated by the Japanese government.

During the year ended 31st March, 2000, the Company noted that the welfare pension plan was facing certain difficulties due to the low rate of return on the plan assets, primarily as a result of the low interest rates in Japan and the decrease in the number of participants. The Company and certain of its domestic consolidated subsidiaries calculated the future benefit payment obligation in excess of the fair value of the assets funded for the welfare pension plan, and recorded a liability of ¥10,574 million for the year ended 31st March, 2000 and increased this liability by ¥974 million which arose primarily as a result of a change of the discount rate for the year ended 31st March, 2001. However, the allowance for the welfare pension plan was reversed as of 31st March, 2002 because of the withdrawal from the welfare pension plan. Upon withdrawal, ¥3,401 million of the allowance was contributed to the fund and the remaining ¥8,147 million was recorded in other income for the year ended 31st March, 2002. The required contributions to the welfare pension plan until the withdrawal from the welfare pension plan were accounted for as service cost based on the revised accounting standard for retirement benefits for employees, Supplement No. 12.

The Company and certain of its consolidated subsidiaries additionally adopted defined contribution pension plan effective April, 2002.

The company established an employee retirement benefit trust as of 28th March, 2003 by contributing certain marketable securities. As stated in Note 3, "Investments," the fair value of these securities at contribution was ¥6,839 million.

### 10. Retirement and Severance Benefits (continued)

The following table sets forth the funded and accrued status of the retirement and severance benefit plans, and the amounts recognised in the consolidated balance sheets at 31st March, 2003 and 2004 for the Company's and its consolidated subsidiaries' defined benefit plans:

| | *Millions of yen* | | *Thousands of U.S. dollars* |
|---|---|---|---|
| | **31st March,** | | **31st March,** |
| | **2003** | **2004** | **2004** |
| Retirement benefit obligation | ¥(50,743) | ¥(58,378) | $(552,351) |
| Plan assets at fair value | 28,466 | 43,830 | 414,703 |
| Unfunded retirement benefit obligation | (22,277) | (14,548) | (137,648) |
| Unrecognised actuarial gain | — | (8,077) | (76,421) |
| Unfunded retirement benefit obligation recognised on the balance sheets | ¥(22,277) | ¥(22,625) | $(214,069) |

Plan assets at fair value includes the employee retirement benefit trust of ¥6,161 million and ¥15,222 million ($144,025 thousand) at 31st March, 2003 and 2004, respectively.

Prior to 1st April, 2003, actuarial gain or loss had been charged to income as incurred, however, the Company changed its policy, for the year ended 31st March, 2004, to amortize unrecognised actuarial gain or loss over a defined period, not exceeding the average remaining period of employment (15 years), by the straight-line method and recognise as a pension cost starting from the fiscal year following the fiscal year in which such gain or loss are incurred. Accordingly, no actuarial gain or loss is recognised for the year ended 31st March, 2004.

The components of retirement benefit expenses for the years ended 31st March, 2002, 2003 and 2004 are outlined as follows:

| | *Millions of yen* | | | *Thousands of U.S. dollars* |
|---|---|---|---|---|
| | **31st March,** | | | **31st March,** |
| | **2002** | **2003** | **2004** | **2004** |
| Service cost | ¥3,467 | ¥ 3,381 | ¥ 3,671 | $34,734 |
| Interest cost | 961 | 989 | 1,043 | 9,868 |
| Expected return on plan assets | (312) | (330) | (335) | (3,170) |
| Actuarial loss | 1,195 | 6,942 | – | – |
| Sub total | ¥5,311 | ¥10,982 | ¥4,379 | $41,432 |
| Other | – | 268 | 284 | 2,688 |
| Total | ¥5,311 | ¥11,250 | ¥4,663 | $44,120 |

Contributions to the welfare pension plan made by the time of the Company's withdrawal from the welfare pension plan are included in service cost presented above.

In addition to the above, the special contribution of ¥3,401 million was made at the time of the Company's withdrawal from the welfare pension plan at 31st March, 2002.

Contributions to the defined contribution pension plan are included in other presented above.

## 10. Retirement and Severance Benefits (continued)

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

| | 31st March, | | |
|---|---|---|---|
| | **2002** | **2003** | **2004** |
| Discount rate at end of the year | 2.3% | 2.1% | 1.8% |
| 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 amounts of ¥826 million and ¥890 million ($8,421 thousand) at 31st March, 2003 and 2004, respectively.

## 12. Income Taxes

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

| | *Millions of yen* | | *Thousands of U.S. dollars* |
|---|---|---|---|
| | **31st March,** | | **31st March,** |
| | **2003** | **2004** | **2004** |
| Deferred income tax assets: | | | |
| Employees' retirement benefits | ¥ 8,167 | ¥ 8,706 | $ 82,373 |
| Depreciation | 2,368 | 3,199 | 30,268 |
| Accrued bonuses | 2,148 | 3,039 | 28,754 |
| Other | 2,324 | 3,176 | 30,050 |
| | 15,007 | 18,120 | 171,445 |
| Deferred income tax liabilities: | | | |
| Unrealised gain on other securities | (8,543) | (27,396) | (259,211) |
| Special tax-purpose reserve | (7,147) | (6,488) | (61,387) |
| Other | (164) | (30) | (284) |
| | (15,854) | (33,914) | (320,882) |
| Deferred tax liabilities, net | ¥ (847) | ¥ (15,794) | $ (149,437) |

Due to the changes in Japanese Local Tax Law and introduction of Taxation of Corporations by the Size of their Businesses, the Company's aggregate statutory tax rate will decrease effective 1st April, 2004. As a result, net deferred tax assets and liabilities, and provisions for income taxes of the Company and its consolidated subsidiaries for the year ended 31st March, 2003 decreased ¥91 million for the related impact on the temporary differences expected to reverse after 1st April, 2004.

## 12. Income Taxes (continued)

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 per cent. for each of the years ended 31st March, 2002, 2003 and 2004.

The effective tax rates reflected in the accompanying consolidated statements of income differ from the statutory tax rate primarily due to the effect of permanent nondeductible expenses; however, such difference was not material at 31st March, 2002 and 2003.

Following is the significant components of reconciling items, for the year ended 31st March, 2004, of the statutory income tax rate to the effective income tax rate after deferred tax effect, which is required when there is a significant difference between those rates.

| | **31st March, 2004** |
|---|---|
| Statutory income tax rate | 42.0% |
| Reconciliation: | |
| Items permanently non-taxable such as dividend received | △0.5% |
| Items permanently non-deductible 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% |
| Others | 1.8% |
| Effective income tax rate after deferred tax effect | 44.5% |

## 13. Shareholders' Equity

On 1st October, 2001, an amendment (the "Amendment") to the Commercial Code of Japan (the "Code") became effective. The Amendment eliminates the stated par value of the Company's outstanding shares, which resulted in all outstanding shares having no par value as of 1st October, 2001. The Amendment also provides that all share issuances after 30th September, 2001 will be of shares with no par value. Prior to the date on which the Amendment became effective, the Company's shares had a par value of ¥50 per share.

The Code provides that an amount equal to at least 10% of the amount to be disbursed as distributions of earnings should 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 Code also stipulates that, to the extent that the sum of additional paid-in capital account and the legal reserve exceed 25% of the common stock account, the amount of any such excess is available for appropriation by resolution of the shareholders. In accordance with the Code, the Company has provided a legal reserve which is included in retained earnings. This reserve amounted to ¥570 million and ¥570 million ($5,393 thousand) as of 31st March, 2003 and 2004, respectively.

Unrealised gain on other securities is not available for dividends.

Unrealised gain on other securities includes unrealised losses of ¥10 million and ¥41 million ($388 thousand) on investment partnerships recorded as other assets for the years ended 31st March, 2003 and 2004, respectively.

## 14. Cash and Cash Equivalents

A reconciliation between cash and bank deposits in the consolidated balance sheets at 31st March, 2003 and 2004 and cash and cash equivalents in the corresponding statements of cash flows is as follows:

| | *Millions of yen* | | *Thousands of U.S. dollars* |
|---|---|---|---|
| | **31st March,** | | **31st March,** |
| | **2003** | **2004** | **2004** |
| Cash and bank deposits | ¥26,739 | ¥17,085 | $161,652 |
| Short-term investments maturing within three months from the acquisition dates | 62,021 | 79,727 | 754,347 |
| Cash and cash equivalents | ¥88,760 | ¥96,812 | $915,999 |

## 14. Cash and Cash Equivalents (continued)

Components of significant non-cash transactions and net cash used for acquisition of businesses for the year ended 31st March, 2003 and 2004 are as follows:

| | *Millions of yen* | | *Thousands of U.S. dollars* |
|---|---|---|---|
| | **31st March,** | | **31st March,** |
| | **2003** | **2004** | **2004** |
| Non-cash transactions: | | | |
| Employee's retirement benefit fund trust | | | |
| Contribution of investment securities into employees' retirement benefit fund trust – book value | ¥ 103 | ¥– | $– |
| Gain on securities contributed to an employee retirement benefit trust | 6,736 | – | – |
| Contribution of investment securities into employees' retirement benefit fund trust – fair value | ¥6,839 | ¥– | $– |

| | *Millions of yen* | | *Thousands of U.S. dollars* |
|---|---|---|---|
| | **31st March,** | | **31st March,** |
| | **2003** | **2004** | **2004** |
| Net cash used for acquisition of businesses: | | | |
| Tangible fixed asset acquired | ¥ – | ¥ 12 | $ 114 |
| Intangible fixed asset acquired | – | 268 | 2,535 |
| Cash provided for acquisition | ¥ – | ¥ 280 | $ 2,649 |

Contribution of investment securities into an employees retirement benefit trust – fair value is included in "Allowance for employees' retirement benefits and welfare pension plan" in the cash flow statements for the year ended 31st March, 2003. There were no such transactions for the year ended 31st March, 2004.

## 15. Per Share Data

The per share data are summarised as follows:

| | *Yen* | | |
|---|---|---|---|
| | **31st March,** | | |
| | **2002** | **2003** | **2004** |
| Earnings per share | ¥504.96 | ¥337.26 | ¥399.44 |
| Diluted earnings per share | ¥– | ¥– | ¥399.42 |

## 15. Per Share Data (continued)

| | *Yen* | |
|---|---|---|
| | **31st March,** | |
| | **2003** | **2004** |
| Shareholders’ equity per share | ¥4,112.61 | ¥5,089.72 |

| | *U.S. dollars* |
|---|---|
| | **31st March, 2004** |
| Earnings per share | $ 3.78 |
| Diluted earnings per share | $ 3.78 |
| Shareholders’ equity per share | $48.16 |

The computation of earnings and shareholders’ equity 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. Diluted earnings per share is not presented as potential common shares have an antidilutive effect for the years ended 31st March, 2002 and 2003.

The Company and its domestic consolidated subsidiaries have adopted Accounting Standards No. 2, “Accounting Standard for Earning per Share”, and Financial Accounting Standards Implementation Guidance No. 4, “Implementation Guidance for Accounting Standard for Earnings per Share” which were issued by Financial Accounting Standards Foundation from the year ended 31st March, 2003, and the per share data as of and for the years ended 31st March, 2002 were restated in accordance with new method.

## 15. Per Share Data (continued)

The computation of earnings per share and diluted earnings per share for the years ended 31st March, 2002, 2003 and 2004 are as follows:

| | *Millions of Yen* | | | *Thousands of U.S. dollars* |
|---|---|---|---|---|
| | **31st March,** | | | **31st March,** |
| | **2002** | **2003** | **2004** | **2004** |
| Numerator: | | | | |
| Earnings | ¥22,364 | ¥15,459 | ¥18,269 | $172,854 |
| Earnings not available to common stockholders: | | | | |
| Bonus to directors and statutory auditors | (361) | (283) | (295) | (2,791) |
| Earnings available to common stockholders | ¥22,003 | ¥15,176 | ¥17,974 | $170,063 |
| Denominator (Weighted average shares): | | | | |
| Denominator for earnings per share | 43,573,749 | 44,999,900 | 44,999,873 | 44,999,873 |
| Potential dilutive common shares-stock options | – | – | 2,018 | 2,018 |
| Denominator for diluted earnings per share | 43,573,749 | 44,999,900 | 45,001,891 | 45,001,891 |

The following potential common shares have an antidilutive effect, and thus are not included in the diluted earnings per share calculation for the year ended 31st March, 2003 and 2004 :

| | *Yen* | | *U.S. dollars* |
|---|---|---|---|
| | **31st March,** | | **31st March,** |
| | **2003** | **2004** | **2004** |
| Number of shares reserved for the purpose of new share issuance against exercise of the subscription rights (shares) * | 80,500 | 80,500 | 80,500 |
| Exercise price per share | ¥17,913 | ¥17,913 | $169.49 |
| Average stock price for the period that subscription rights are outstanding | ¥12,059.30 | ¥10,488.54 | $99.24 |

* The subscription rights of 805 units (80,500 shares) issued on 27th June, 2002.

## 16. Leases

1) Lessee

The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of the leased assets as of 31st March, 2003 and 2004, 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:

| | *Millions of yen* | | | | | |
|---|---|---|---|---|---|---|
| | **Acquisition costs** | | **Accumulated depreciation** | | **Net book value** | |
| | **31st March,** | | | | | |
| | **2003** | **2004** | **2003** | **2004** | **2003** | **2004** |
| Machinery and equipment | ¥16,135 | ¥12,866 | ¥8,763 | ¥7,775 | ¥7,372 | ¥5,091 |
| Software | 1,132 | 960 | 546 | 612 | 586 | 348 |
| Total | ¥17,267 | ¥13,826 | ¥9,309 | ¥8,387 | ¥7,958 | ¥5,439 |

| | *Thousands of U.S. dollars* | | |
|---|---|---|---|
| | **Acquisition costs** | **Accumulated depreciation** | **Net book value** |
| | **31st March, 2004** | | |
| Machinery and equipment | $121,734 | $73,564 | $48,170 |
| Software | 9,083 | 5,791 | 3,292 |
| Total | $130,817 | $79,355 | $51,462 |

Lease payments, depreciation and interest expense for these finance leases for the years ended 31st March, 2002, 2003 and 2004 are summarised as follows:

| | *Millions of yen* | | | *Thousands of U.S. dollars* |
|---|---|---|---|---|
| | **31st March,** | | | **31st March,** |
| | **2002** | **2003** | **2004** | **2004** |
| Lease payments | ¥3,445 | ¥3,757 | ¥3,391 | $32,084 |
| Depreciation | 3,258 | 3,569 | 3,246 | 30,712 |
| Interest expense | 187 | 150 | 115 | 1,088 |

## 16. Leases (continued)

1) Lessee (continued)

Future minimum lease payments on finance leases accounted for as operating leases and noncancelable operating leases as of 31st March, 2003 and 2004 are summarised as follows:

| | *Millions of yen* | | | | *Thousands of U.S. dollars* | |
|---|---|---|---|---|---|---|
| | **Finance leases** | | **Operating leases** | | **Finance leases** | **Operating leases** |
| | **31st March,** | | **31st March,** | | **31st March, 2004** | |
| | **2003** | **2004** | **2003** | **2004** | | |
| Future minimum lease payments due: | | | | | | |
| Within one year | ¥3,677 | ¥2,875 | ¥278 | ¥161 | $27,202 | $1,523 |
| Thereafter | 5,342 | 3,850 | 413 | 370 | 36,427 | 3,501 |
| Total | ¥9,019 | ¥6,725 | ¥691 | ¥531 | $63,629 | $5,024 |

2) Lessor

The following amounts represents the acquisition costs, accumulated depreciation and net book value of the leased assets relating to finance leases accounted for as operating leases at 31st March, 2003 and 2004.

| | *Millions of yen* | | | | | |
|---|---|---|---|---|---|---|
| | **Acquisition costs** | | **Accumulated depreciation** | | **Net book value** | |
| | **31st March,** | | | | | |
| | **2003** | **2004** | **2003** | **2004** | **2003** | **2004** |
| Machinery and equipment | ¥957 | ¥– | ¥ 957 | ¥– | ¥– | ¥– |
| Software | 63 | – | 63 | – | – | – |
| Total | ¥1,020 | ¥– | ¥1,020 | ¥– | ¥– | ¥– |

| | *Thousands of U.S. dollars* | | |
|---|---|---|---|
| | **Acquisition costs** | **Accumulated depreciation** | **Net book value** |
| | **31st March, 2004** | | |
| Machinery and equipment | $– | $– | $– |
| Software | – | – | – |
| Total | $– | $– | $– |

## 16. Leases (continued)

2) Lessor (continued)

Lease revenue, depreciation and interest income for these finance leases for the years ended 31st March, 2002, 2003 and 2004 are summarised as follows:

| | *Millions of yen* | | | *Thousands of U.S. dollars* |
|---|---|---|---|---|
| | **Year ended 31st March,** | | | **Year ended 31st March,** |
| | **2002** | **2003** | **2004** | **2004** |
| Lease revenue | ¥501 | ¥131 | ¥– | $– |
| Depreciation | 412 | 102 | – | – |
| Interest income | 55 | 10 | – | – |

Future minimum lease income for finance leases as of 31st March, 2003 and 2004 is summarised as follows:

| | *Millions of yen* | | | | *Thousands of U.S. dollars* | |
|---|---|---|---|---|---|---|
| | **Finance leases** | | **Subleases*** | | **Finance leases** | **Sub-leases*** |
| | **31st March,** | | **31st March,** | | **31st March, 2004** | |
| | **2003** | **2004** | **2003** | **2004** | | |
| Future minimum lease income due: | | | | | | |
| Within one year | ¥– | ¥– | ¥ 916 | ¥ 960 | $– | $ 9,083 |
| Thereafter | – | – | 1,372 | 1,587 | – | 15,016 |
| Total | ¥– | ¥– | ¥2,288 | ¥2,547 | $– | $24,099 |

* Approximately the same amount has been included in the lessees' future minimum lease payments due.

## 17. Selling, General and Administrative Expenses

The details of selling, general and administrative expenses for the years ended 31st March, 2002, 2003 and 2004 are summarised as follows:

| | *Millions of yen* | | | *Thousands of U.S. dollars* |
|---|---|---|---|---|
| | **31st March,** | | | **31st March,** |
| | **2002** | **2003** | **2004** | **2004** |
| Personnel expenses | ¥14,818 | ¥15,669 | ¥17,474 | $165,333 |
| Rent | 4,103 | 3,737 | 3,505 | 33,163 |
| Subcontractor costs | 5,136 | 5,511 | 3,355 | 31,744 |
| Other | 8,511 | 7,118 | 7,615 | 72,050 |
| Total | ¥32,568 | ¥32,035 | ¥31,949 | $302,290 |

## 18. Research and Development Costs

Research and development costs included in selling, general and administrative expenses for the years ended 31st March, 2002, 2003 and 2004 are summarised as follows:

| *Millions of yen* | | | *Thousands of U.S. dollars* |
|---|---|---|---|
| **31st March,** | | | **31st March,** |
| **2002** | **2003** | **2004** | **2004** |
| ¥3,051 | ¥2,509 | ¥2,217 | $20,976 |

## 19. Other Income (Expenses)

1) Loss on real estate put option

Loss on real estate put option is a loss incurred on real estate put option by execution of option holder on the securitised Osaka Data Center.

2) Gain on investment securities

Gain on investment securities for the year ended 31st March, 2004 consisted principally of gain on the sale of shares of WORLD NICHIEI FRONTIER Securities Co., Ltd. (formerly WORLD NICHIEI Securities Co., Ltd.)

3) Loss on investment securities

Loss on investment securities for the year ended 31st March, 2002 consisted principally of loss on the devaluation of shares of 7dream.com and ARGO 21 Corp. as a result of their decline in value which was deemed permanent.

Loss on investment securities for the year ended 31st March, 2003 consisted principally of loss on the devaluation of shares of ARGO 21 Corp. as a result of their decline in value which was deemed permanent, net of gain on the sale of an investment in equity of Nomura CITIC International Economic Consultants Co., Ltd.

Loss on investment securities for the year ended 31st March, 2004 consisted principally of loss on the devaluation of shares of POWEREDCOM, Inc. as a result of their decline in value which was deemed permanent.

## 19. Other Income (Expenses) (continued)

4) Gain on investments in affiliates

Gain on investments in affiliates for the years ended 31st March, 2002, 2003 and 2004 is summarised as follows:

| | *Millions of yen* | | | *Thousands of U.S. dollars* |
|---|---|---|---|---|
| | **31st March,** | | | **31st March,** |
| | **2002** | **2003** | **2004** | **2004** |
| Gain on sales of investments in affiliates | ¥– | ¥137 | ¥3,784 | $35,803 |
| Gain from changes in equity | – | 405 | 193 | 1,826 |
| | ¥– | ¥542 | ¥3,977 | $37,629 |

Gain on sales of investments in affiliates for the year ended 31st March, 2003 and 2004 relates to the sale of shares of NIWS Co., Ltd.

Gain from changes in equity for the year ended 31st March, 2003 reflects a gain of ¥545 million from changes in equity of NIWS Co., Ltd. due to a public offering and a loss of ¥140 million from changes in equity of NIWS Co., Ltd. due to its purchase of treasury stock.

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

5) Actuarial loss

Actuarial loss for the years ended 31st March 2002 and 2003 arose primarily as a result of a change in the discount rates and other basic assumption, and lower actual return on pension plan assets.

6) Reversal of allowance for the welfare pension plan

Reversal of allowance for the welfare pension plan for the year ended 31st March, 2002 resulted from the Company’s withdrawal from the welfare pension plan.

7) Gain on securities contributed to an employee retirement benefit trust

Gain results from contribution of a part of equity securities to an employee retirement benefit trust for the year ended 31st March, 2003.

## 20. Related Party Transactions

Related party transactions for the years ended 31st March, 2002, 2003 and 2004 and the respective balances at 31st March, 2003 and 2004 were as follows:

1) Transactions

| | | *Millions of yen* | | | *Thousands of U.S. dollars* |
|---|---|---|---|---|---|
| | | **31st March,** | | | **31st March,** |
| **Related party** | **Nature of transaction** | **2002** | **2003** | **2004** | **2004** |
| a) Major shareholders | | | | | |
| Nomura Holdings, Inc. | Sales | ¥48,967 | ¥48,690 | ¥43,892 | $415,290 |
| (formerly The Nomura | Redemption of deposit | – | 4,000 | – | – |
| Securities Co., Ltd.) *1 | Sale of investment in Nomura-CITIC International Economic Consultants Co., Ltd. | – | 45 | – | – |
| | Gain on above sale | – | 41 | – | – |
| b) Major shareholders' subsidiaries | | | | | |
| Nomura Real Estate Development Co., Ltd. | Rent | 3,865 | 3,777 | 3,579 | 33,863 |
| N.F. Biru Investments Co., Ltd. *2 | Redemption of bond | – | 7,000 | – | – |
| | Interest received | 201 | 269 | – | – |
| The Nomura Securities Co., Ltd. *1 *3 | Subscription received for new stocks | 20,900 | – | – | – |
| | Underwriting commission of new stocks | (1,100) | – | – | – |
| Nomura Financial | Loan | 20,000 | – | – | – |
| Resources Corporation | Interest received on loan | 2 | – | – | – |

## 20. Related Party Transactions (continued)

2) Balances

| Related party | Nature of transaction | *Millions of yen* 31st March, 2003 | 2004 | *Thousands of U.S. dollars* 31st March, 2004 |
|---|---|---|---|---|
| a) Major shareholders Nomura Holdings, Inc. (formerly The Nomura Securities Co., Ltd.) *1 | Accounts receivable and other receivables | ¥6,997 | ¥4,994 | $47,251 |
| b) Major shareholders' subsidiaries Nomura Real Estate Development Co., Ltd. | Lease deposits paid | 3,543 | 3,542 | 33,513 |

*1 The former Nomura Securities Co., Ltd. separated its securities and other businesses and became a holding company of the current Nomura Securities Co., Ltd. on 1st October, 2001. Accordingly, the former Nomura Securities Co., Ltd. changed its business name to Nomura Holdings, Inc. on the same date. As a result, the securities and other businesses of the former Nomura Securities Co., Ltd. were transferred to the current Nomura Securities Co., Ltd.

Transactions with Nomura Holdings, Inc. and the current Nomura Securities Co., Ltd. were equal to those with the former Nomura Securities. Sales to Nomura Holdings, Inc. and the current Nomura Securities Co., Ltd. totaled ¥50,752 million for the year ended 31st March, 2002.

*2 The bond is redempted on 25th, March 2003 before maturity with additional interest of 1% principal.

*3 For issuance of the Company's new stocks, the capital subscription was paid to the Company at subscription price of ¥10,450 per share and the new stocks were issued at ¥11,000 per share.

## 21. Contingent Liabilities

In March 1999, the Company entered into a trust agreement (effective from 30th March, 1999 to 22nd March, 2004) for real estate management and disposal, and contributed land and buildings which had been used as its Osaka Data Center to the trust in exchange for a beneficial interest in this trust, for which Daiwa Bank was engaged as custodian. The Daiwa Bank has the option of selling the real estate to one of the Company's domestic subsidiaries if the price of the real estate declined below a specific level. The Company then sold this beneficial interest to South Plaza Co., which is a domestic special purpose company. South Plaza Co. issued unsecured bonds as a means of securitisation and the Company guaranteed these bonds.

The Company guaranteed unsecured bonds issued by South Plaza Co. in amounts of ¥10,464 million at 31st March, 2003. Along with the expiration of the trust agreement, no such guarantees exist at 31st March, 2004 as described above.

## 22. Stock Option Plan

The Company issued subscription rights to purchase new shares in accordance with regulation under article 280-20 and 280-21 of Japanese Commercial Code. Following is the status of the subscription rights at 31st March, 2004. No subsequent changes in the status of the subscription rights occurred through 31st May, 2004.

805 Units of subscription rights to purchase new shares were issued on 27th June, 2002 and 80,500 ordinary shares are reserved for exercise of the subscription rights. The Exercise price is ¥17,913 per share and the exercise period is from 1st July, 2004 to 30th June, 2007. The Company will issue new shares upon the exercise of the subscription rights, and the offering price of the new shares and the capital increase per share are ¥17,913 and ¥8,957, respectively.

830 Units of subscription rights to purchase new shares were issued on 12th August, 2003 and 83,000 ordinary shares are reserved for exercise of the subscription rights. The Exercise price is ¥10,088 per share and the exercise period is from 1st July, 2005 to 30th June, 2008. The Company will issue new shares upon the exercise of the subscription rights, and the offering price of the new shares and the capital increase per share are ¥10,088 and ¥5,044, respectively.

The terms of the subscription rights require that person be a Director or an Officer of the Company or one of its domestic subsidiaries, or be in an equal position, at the time of exercise. An eligible person or his inheritor can exercise a subscription right under certain other circumstances, such as death, expiration of term, etc. Transfer or pledge of the subscription right, or similar actions, are prohibited. The ordinary transaction closing prices on the Tokyo Stock Exchange for the last five consecutive days prior to the exercise date must be ¥20,000 or more per share and ¥11,100 or more per share for the subscription rights issued on 27th June, 2002 and 12th August, 2003, respectively, to be exercised by the holder of the subscription rights. Other terms and condition are defined in the subscription rights agreement for new shares appointment entered into the Company and the holder of the subscription rights.

## 23. Segment Information

Business segment information is presented under two categories:

- the systems solution 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 providing investigation/ research services, management consulting services and support services relating to the asset management business and the Company’s e-commerce information technology business.

## 23. Segment Information (continued)

The business segment information of the Company and its consolidated subsidiaries for the years ended 31st March, 2002, 2003 and 2004 is summarised as follows:

*Business segments*

| | *Millions of yen* | | | | |
|---|---|---|---|---|---|
| | **Year ended 31st March, 2002** | | | | |
| | **System solutions services** | **Consulting/ knowledge services** | **Total** | **Eliminations and corporate** | **Consoli-dated** |
| I. Sales and operating profit | | | | | |
| Sales to external customers | ¥199,758 | ¥36,811 | ¥236,569 | ¥ – | ¥236,569 |
| Intersegment sales or transfers | 2,758 | 1,567 | 4,325 | (4,325) | – |
| Total sales | 202,516 | 38,378 | 240,894 | (4,325) | 236,569 |
| Operating expenses | 174,981 | 35,541 | 210,522 | (4,318) | 206,204 |
| Operating profit | ¥ 27,535 | ¥ 2,837 | ¥ 30,372 | ¥ (7) | ¥ 30,365 |
| II. Total assets, depreciation and amortisation and capital expenditures | | | | | |
| Total assets | ¥106,019 | ¥22,944 | ¥128,963 | ¥170,930 | ¥299,893 |
| Depreciation and amortisation | 9,043 | 3,377 | 12,420 | – | 12,420 |
| Capital expenditures | 19,271 | 3,456 | 22,727 | – | 22,727 |

| | *Millions of yen* | | | | |
|---|---|---|---|---|---|
| | **Year ended 31st March, 2003** | | | | |
| | **System solutions services** | **Consulting/ knowledge services** | **Total** | **Eliminations and corporate** | **Consoli-dated** |
| I. Sales and operating profit | | | | | |
| Sales to external customers | ¥194,469 | ¥38,275 | ¥232,744 | ¥ – | ¥232,744 |
| Intersegment sales or transfers | 3,473 | 1,747 | 5,220 | (5,220) | – |
| Total sales | 197,942 | 40,022 | 237,964 | (5,220) | 232,744 |
| Operating expenses | 174,297 | 36,488 | 210,785 | (5,205) | 205,580 |
| Operating profit | ¥ 23,645 | ¥ 3,534 | ¥ 27,179 | ¥ (15) | ¥ 27,164 |
| II. Total assets, depreciation and amortisation and capital expenditures | | | | | |
| Total assets | ¥110,961 | ¥23,820 | ¥134,781 | ¥122,017 | ¥256,798 |
| Depreciation and amortisation | 10,047 | 3,197 | 13,244 | – | 13,244 |
| Capital expenditures | 17,694 | 2,779 | 20,473 | (17) | 20,456 |

| | *Millions of yen* | | | | |
|---|---|---|---|---|---|
| | **Year ended 31st March, 2004** | | | | |
| | **System solutions services** | **Consulting/ knowledge services** | **Total** | **Eliminations and corporate** | **Consoli-dated** |
| 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 |

## 23. Segment Information (continued)

Corporate assets included under "Eliminations and corporate" at 31st March, 2002, 2003 and 2004 amounted to ¥171,356 million, ¥122,817 million and ¥178,295 million ($1,686,962 thousand), respectively, and consisted principally of surplus funds and investment securities.

| | *Thousands of U.S. dollars* | | | | |
|---|---|---|---|---|---|
| | **Year ended 31st March, 2004** | | | | |
| | **System solutions services** | **Consulting/ knowledge services** | **Total** | **Eliminations and corporate** | **Consoli-dated** |
| I. Sales and operating profit | | | | | |
| Sales to external customers | $1,845,444 | $407,068 | $2,252,512 | $ – | $2,252,512 |
| Intersegment sales or transfers | 32,794 | 14,656 | 47,450 | (47,450) | – |
| Total sales | 1,878,238 | 421,724 | 2,299,962 | (47,450) | 2,252,512 |
| Operating expenses | 1,667,253 | 367,528 | 2,034,781 | (47,403) | 1,987,378 |
| Operating profit | $ 210,985 | $ 54,196 | $ 265,181 | $ (47) | $ 265,134 |
| II. Total assets, depreciation and amortisation and capital expenditures | | | | | |
| Total assets | $1,155,038 | $258,170 | $1,413,208 | $1,678,854 | $3,092,062 |
| Depreciation and amortisation | 143,382 | 24,562 | 167,944 | – | 167,944 |
| Capital expenditures | 207,011 | 22,424 | 229,435 | (38) | 229,397 |

*Geographical segments*

Because sales in the domestic segment constituted more than 90% of total segment sales for the years ended 31st March, 2002, 2003 and 2004, geographical segment information has not been presented.

*Overseas sales*

Because overseas sales were less than 10% of consolidated sales for the years ended 31st March, 2002, 2003 and 2004, no disclosure of overseas sales has been made.

## 24. Subsequent Event

1) On 23rd June, 2004, a stock option plan in accordance with the Commercial Code of Japan was approved at the annual general meeting of the Company's shareholders. Under this plan, subscription rights to purchase up to 90,000 new shares of the Company's common stock are to be granted to the Company's directors, officers, employees who are equivalent to directors and officers, and the directors of its domestic subsidiaries. The subscription rights are exercisable at 105% of the average closing price of Company's shares of common stock on the Tokyo Stock Exchange for the month prior to the month in which the subscription rights are issued, or at the closing price on the date of issuance, whichever is higher. These subscription rights are exercisable over a three-year period from 1st July, 2006 to 30th June, 2009 provided that person, 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 equal position.

   Approval of the Board of Directors is necessary in order to transfer ownership of the subscription rights.

**24. Subsequent Event (continued)**

2) The following appropriations of retained earnings of the Company, which have not been reflected in the consolidated financial statements for the year ended 31st March, 2004, were approved at a meeting of the shareholders held on 23rd June, 2004:

| | *Millions of yen* | *Thousands of U.S. dollars* |
|---|---|---|
| Year-end cash dividends (¥40.00 = $0.38 per share) | ¥1,800 | $17,031 |
| Directors' bonuses inclusive of statutory auditors' portion of ¥21 million ($198 thousand) | 203 | 1,921 |

**[ 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 April 1, 2005 wherever 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 accounting principles generally accepted in Japan 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. Accounting for 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, there is no specific accounting standard for stock option plans. Generally, if subscription rights have no intrinsic value at the date of issuance, no expense for the issuance of share subscription rights is recognized.

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 was being applied, are required. Such disclosure is not currently required under Japanese 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 as the Company follows.

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

## 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 31,2002, 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 31st March, 2004, the Company had 18 subsidiaries, all of which were consolidated subsidiaries.
At the same date, the Company had three 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 31st March, 2004.

| Name | Country | Main Business | Issued Capital (thousands) | Equity held by the Company (per cent.) |
|---|---|---|---|---|
| **Subsidiaries** | | | | |
| NRI Data Services, Ltd. | Japan | Data center operation; on-site operation of information and telecommunications systems | ¥1,000,000 | 100.0 |
| 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 SecureTechnologies, Ltd. | Japan | Network security services | ¥450,000 | 100.0 |
| NRI Shared Services, Ltd. | Japan | Office and real estate management | ¥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 |
| 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 |
| Nomura Research Institute Europe Limited | England | Research and development and operation of information management systems in Europe | £1,350 | 100.0 |

| Name | Country | Main Business | Issued Capital (thousands) | Equity held by the Company (per cent.) |
|---|---|---|---|---|
| **Subsidiaries(continued)** | | | | |
| 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.$1,500 | 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) | Percentage of Shares Outstanding |
|---|---|---|
| Nomura Asset Management Co., Ltd. | 8,677 | 19.28 |
| Nomura Land and Building Co., Ltd. | 7,920 | 17.60 |
| JAFCO Co., Ltd. | 3,380 | 7.51 |
| The Master Trust Bank of Japan, Ltd.(Trust Account) | 2,682 | 5.96 |
| Nomura Holdings, Inc. | 2,600 | 5.78 |
| Japan Trustee Services Bank, Ltd. (Trust Account) | 2,210 | 4.91 |
| State Street Bank and Trust Company | 1,005 | 2.24 |
| NRI Group Employee Stock Ownership Association | 1,000 | 2.22 |
| WORLD NICHIEI FRONTIER Securities Co., Ltd. | 686 | 1.53 |
| Takagi Securities Co., Ltd. | 550 | 1.22 |

*At 18th May, 2004, Nomura Land and Building Co., Ltd. is no longer a major shareholder as a result of selling 7,720,000 shares to Nomura Realty Capital Management Co., Ltd. Nomura Realty Capital Management Co., Ltd., instead, became a major shareholder.