

Consolidated Financial Statements

Nomura Research Institute, Ltd.

*At 31st March, 2001 and 2002 and
for the years ended 31st March, 2000, 2001 and 2002 with
Report of Independent Certified Public Accountants
and
At 30th September, 2002 and for the six months ended
30th September, 2001 and 2002 (unaudited)*

Nomura Research Institute, Ltd.

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At 31st March, 2001 and 2002 and
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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, 2001 and 2002, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended 31st March, 2002, all expressed in Japanese yen. Our audits were made in accordance with auditing standards, procedures and practices generally accepted and applied in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated financial statements, expressed in Japanese yen, present fairly the consolidated financial position of Nomura Research Institute, Ltd. and its consolidated subsidiaries at 31st March, 2001 and 2002, and the consolidated results of their operations and their cash flows for each of the three years in the period ended 31st March, 2002 in conformity with accounting principles and practices generally accepted in Japan applied on a consistent basis.

As described in Note 1, Nomura Research Institute, Ltd. and its consolidated subsidiaries adopted new accounting standards for consolidation, research and development costs, and tax-effect accounting in the preparation of their consolidated financial statements for the year ended 31st March, 2000. In addition, Nomura Research Institute, Ltd. and its consolidated subsidiaries also adopted new accounting standards for financial instruments and employees' retirement benefits in the preparation of their consolidated financial statements for the year ended 31st March, 2001.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended 31st March, 2002 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.



26th June, 2002

See Note 1 which explains the basis of preparation of the consolidated financial statements of Nomura Research Institute, Ltd. under Japanese accounting principles and practices.

Nomura Research Institute, Ltd.

Consolidated Balance Sheets

	(Millions of yen)		(Thousands of U.S. dollars)	
	31st March, 2001	31st March, 2002	30th September, 2002 (Unaudited)	30th September, 2002 (Unaudited)
Assets				
Current assets:				
Cash and bank deposits (Note 14)	¥ 64,131	¥ 33,181	¥ 19,940	\$ 162,576
Short-term investment securities (Notes 3 and 14)	20,001	62,022	60,424	492,654
Accounts receivable and other receivables (Notes 5 and 20)	34,172	43,998	42,411	345,789
Inventories	353	215	195	1,590
Deferred income taxes (Note 12)	3,355	3,385	3,124	25,471
Other current assets	1,463	927	1,419	11,570
Allowance for doubtful accounts	(90)	(84)	(41)	(335)
Total current assets	123,385	143,644	127,472	1,171,170
				1,039,315
Property and equipment (Notes 6 and 8):				
Land	8,089	7,635	7,635	62,250
Buildings, net	12,519	12,931	12,479	101,745
Machinery and equipment, net	11,405	11,256	10,890	88,789
Property and equipment, net	32,013	31,822	31,004	252,784
Software and other intangibles	16,973	25,736	30,936	252,230
Investment securities (Notes 3 and 20)	94,901	75,921	63,872	520,767
Investments in affiliates (Note 3)	8,985	8,748	9,057	73,844
Deferred income taxes (Note 12)	1,715	1,075	1,033	8,423
Other assets (Notes 7 and 20)	11,135	12,951	12,741	103,881
Allowance for doubtful accounts	(3)	(4)	(12)	(98)
Total assets	¥289,104	¥299,893	¥276,103	\$2,445,112
				\$2,251,146

See accompanying notes to consolidated financial statements.

Nomura Research Institute, Ltd.

Consolidated Balance Sheets

	(Millions of yen)		(Thousands of U.S. dollars)	
	31st March, 2001	31st March, 2002	30th September, 2002 (Unaudited)	30th September, 2002 (Unaudited)
Liabilities and shareholders' equity				
Current liabilities:				
Short-term borrowings (Note 9)	¥ 100	¥ —	¥ —	\$ —
Long-term debt due within one year (Notes 8 and 9)	2,608	608	608	4,957
Accounts payable	22,024	28,748	19,297	234,391
Accrued expenses	9,976	10,134	9,475	82,625
Income taxes payable	17,159	8,496	4,587	69,270
Other current liabilities	6,007	5,045	4,668	41,134
Total current liabilities	57,874	53,031	38,635	432,377
Long-term debt (Notes 8 and 9)	3,526	2,918	2,614	23,791
Allowance for employees' retirement benefits (Note 10)	19,732	21,754	22,033	177,366
Allowance for the welfare pension plan (Note 10)	11,548	—	—	—
Deferred income taxes (Note 12)	26,258	21,510	15,616	175,377
Other long-term liabilities (Notes 11 and 20)	4,994	5,116	4,762	41,712
Commitments and contingent liabilities (Note 21)				
Shareholders' equity (Notes 13, 15 and 20):				
Common stock				
Authorised — 150,000,000 shares at 31st March, 2001 and 31st March, 2002 and 30th September, 2002, respectively				
Issued — 43,000,000 shares at 31st March, 2001 and 45,000,000 shares at 31st March, 2002 and 30th September, 2002, respectively	10,100	18,600	18,600	151,651
Additional paid-in capital	2,400	14,800	14,800	120,669
Retained earnings	104,290	126,136	132,773	1,028,422
Unrealised gain on other securities (Note 3)	48,518	35,593	26,289	290,200
Translation adjustments	(136)	437	(17)	3,563
Treasury stock, at cost				
— 100 shares at 31st March, 2002 and 30th September, 2002, respectively	—	(2)	(2)	(16)
Total shareholders' equity	165,172	195,564	192,443	1,594,489
Total liabilities and shareholders' equity	¥289,104	¥299,893	¥276,103	\$2,445,112
				\$2,251,146

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,		Six months ended 30th September,	Year ended 31st March,		Six months ended 30th September,
	2000	2001		2002	2001	
			(Unaudited)			(Unaudited)
Sales (Note 20)	¥183,616	¥217,984	¥109,099	¥113,774	\$1,928,813	\$927,632
Cost of sales (Note 20)	138,395	160,643	80,981	84,628	1,415,703	689,996
Gross profit	45,221	57,341	28,118	29,146	513,110	237,636
Selling, general and administrative expenses (Notes 17, 18 and 20)	25,906	29,498	16,070	15,967	265,536	130,184
Operating profit	19,315	27,843	12,048	13,179	247,574	107,452
Other income (expenses):						
Interest and dividend income (Note 20)	1,533	3,368	2,145	109	19,446	889
Equity in earnings of affiliates	113	350	135	79	2,422	644
Interest expense (Note 9)	(168)	(140)	(75)	(51)	(1,101)	(416)
Loss on property and equipment (Note 20)	(756)	(5,456)	(320)	(57)	(2,609)	(464)
(Loss) gain on investment securities (Notes 3, 19 and 20)	(705)	25,437	(516)	(121)	(4,207)	(987)
Gain on investments in affiliates (Notes 19 and 20)	813	—	—	542	—	4,419
Provision for net retirement benefit obligation at transition (Note 10)	—	(344)	—	—	—	—
Actuarial loss (Notes 10 and 19)	—	(6,122)	—	—	(9,743)	—
Provision for the welfare pension plan (Note 10)	(10,574)	(974)	—	—	—	—
Reversal of allowance for the welfare pension plan (Notes 10 and 19)	—	—	—	—	—	—
Other, net	19	(333)	(80)	52	(147)	424
Income before income taxes	(9,725)	15,786	10,146	553	70,486	4,509
	9,590	43,629	22,194	13,732	318,060	111,961
Provision for income taxes (Note 12):						
Current	9,880	22,129	3,039	4,685	93,160	38,198
Deferred	(5,420)	(3,882)	6,213	1,149	42,560	9,368
Net income (Note 15)	4,460	18,247	9,252	5,834	135,720	47,566
	¥ 5,130	¥ 25,382	¥ 12,942	¥ 7,898	\$ 182,340	\$64,395

See accompanying notes to consolidated financial statements.

Nomura Research Institute, Ltd.

Consolidated Statements of Changes in Shareholders' Equity

	<i>Millions of yen</i>						
	<u>Common stock</u>	<u>Additional paid-in capital</u>	<u>Retained earnings</u>	<u>Unrealised gain on other securities</u>	<u>Translation adjustments</u>	<u>Treasury stock</u>	<u>Total shareholders' equity</u>
Balance at 31st March, 1999	¥10,100	¥ 2,400	¥ 68,692	¥ –	¥ –	¥–	¥ 81,192
Net income	–	–	5,130	–	–	–	5,130
Cumulative effect of adoption of tax- effect accounting	–	–	4,689	–	–	–	4,689
Increase resulting from merger of a consolidated subsidiary	–	–	1,201	–	–	–	1,201
Cash dividends paid	–	–	(215)	–	–	–	(215)
Bonuses to directors and statutory auditors	–	–	(160)	–	–	–	(160)
Balance at 31st March, 2000	10,100	2,400	79,337	–	–	–	91,837
Net income	–	–	25,382	–	–	–	25,382
Cash dividends paid	–	–	(215)	–	–	–	(215)
Bonuses to directors and statutory auditors	–	–	(214)	–	–	–	(214)
Unrealised gain on other securities	–	–	–	48,518	–	–	48,518
Translation adjustments	–	–	–	–	(136)	–	(136)
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	<u>¥18,600</u>	<u>¥14,800</u>	<u>¥126,136</u>	<u>¥ 35,593</u>	<u>¥437</u>	<u>¥(2)</u>	<u>¥195,564</u>

Nomura Research Institute, Ltd.

Consolidated Statements of Changes in Shareholders' Equity

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, 2001	\$ 82,348	\$ 19,568	\$ 850,306	\$ 395,581	\$(1,109)	\$ –	\$1,346,694
Issuance of 2,000,000 new shares	69,303	101,101	–	–	–	–	170,404
Purchase of treasury stock	–	–	–	–	–	(16)	(16)
Net income	–	–	182,340	–	–	–	182,340
Cash dividends paid	–	–	(1,753)	–	–	–	(1,753)
Bonuses to directors and statutory auditors	–	–	(2,471)	–	–	–	(2,471)
Unrealised gain on other securities	–	–	–	(105,381)	–	–	(105,381)
Translation adjustments	–	–	–	–	4,672	–	4,672
Balance at 31st March, 2002	<u>\$151,651</u>	<u>\$120,669</u>	<u>\$1,028,422</u>	<u>\$ 290,200</u>	<u>\$ 3,563</u>	<u>\$(16)</u>	<u>\$1,594,489</u>

See accompanying notes to consolidated financial statements.

Nomura Research Institute, Ltd.

Consolidated Statements of Changes in Shareholders' Equity (Unaudited)

Millions of yen

	Common stock	Additional paid-in capital	Retained earnings	Unrealized gain on other securities	Translation adjustments	Treasury stock	Total shareholders' equity
Balance at 31st March, 2002	¥18,600	¥14,800	¥126,136	¥35,593	¥ 437	¥(2)	¥195,564
Net income	–	–	7,898	–	–	–	7,898
Cash dividends paid	–	–	(900)	–	–	–	(900)
Bonuses to directors and statutory auditors	–	–	(361)	–	–	–	(361)
Unrealised gain on other securities	–	–	–	(9,304)	–	–	(9,304)
Translation adjustments	–	–	–	–	(454)	–	(454)
Balance at 30th September, 2002	<u>¥18,600</u>	<u>¥14,800</u>	<u>¥132,773</u>	<u>¥26,289</u>	<u>¥ (17)</u>	<u>¥(2)</u>	<u>¥192,443</u>

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, 2002	\$151,651	\$120,669	\$1,028,422	\$290,200	\$ 3,563	\$(16)	\$1,594,489
Net income	–	–	64,395	–	–	–	64,395
Cash dividends paid	–	–	(7,338)	–	–	–	(7,338)
Bonuses to directors and statutory auditors	–	–	(2,944)	–	–	–	(2,944)
Unrealised gain on other securities	–	–	–	(75,858)	–	–	(75,858)
Translation adjustments	–	–	–	–	(3,702)	–	(3,702)
Balance at 30th September, 2002	<u>\$151,651</u>	<u>\$120,669</u>	<u>\$1,082,535</u>	<u>\$214,342</u>	<u>\$ (139)</u>	<u>\$(16)</u>	<u>\$1,569,042</u>

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,		Six months ended 30th September,	Year ended		Six months ended 30th September,
	2001	2002		2001	2002	
	2000		(Unaudited)	2002		(Unaudited)
Cash flows from operating activities						
Income before income taxes	¥ 9,590	¥ 39,010	¥ 22,194	¥ 13,732	\$ 318,060	\$ 111,961
Adjustments to reconcile income before income taxes to net cash provided by operating activities:						
Depreciation and amortisation	13,005	12,420	5,900	5,744	101,264	46,832
Interest and dividend income	(1,533)	(2,385)	(2,145)	(109)	(19,446)	(889)
Interest expense	168	135	75	51	1,101	416
Loss on property and equipment	765	320	126	57	2,609	464
Loss (gain) on investment securities	705	516	—	121	4,207	987
Gain on investments in affiliates	(813)	—	—	(542)	—	(4,419)
Changes in operating assets and liabilities:						
Accounts receivable and other receivables, net of advance payments received	(1,537)	(9,976)	(10,373)	1,616	(81,337)	13,176
Allowance for doubtful accounts	(26)	(5)	(6)	(35)	(41)	(285)
Accounts payable	(430)	6,724	(319)	(9,451)	54,823	(77,057)
Inventories	(196)	44	(78)	20	1,125	163
Allowance for employees' retirement benefits and welfare	10,920	(9,526)	(11,120)	279	(77,668)	2,275
Other	1,974	(147)	(3,202)	(2,530)	(8,268)	(20,628)
Subtotal	32,592	36,357	1,052	8,953	296,429	72,996
Interest and dividends received	1,605	1,168	900	584	9,523	4,762
Interest paid	(148)	(147)	(80)	(52)	(1,166)	(424)
Income taxes paid	(6,818)	(11,453)	(17,300)	(8,594)	(163,791)	(70,069)
Net cash provided by (used in) operating activities	27,231	17,293	(15,428)	891	140,995	7,265
Cash flows from investing activities						
Acquisition of property and equipment	(10,146)	(7,006)	(3,758)	(2,314)	(57,122)	(18,867)
Proceeds from sales of property and equipment	423	428	270	34	3,490	277
Increase in software and other intangibles	(8,384)	(15,879)	(6,839)	(8,189)	(129,466)	(66,767)
Proceeds from sales of software and other intangibles	—	72	58	19	587	155
Increase in investment securities	(739)	(2,167)	(1,254)	(4,206)	(17,668)	(34,293)
Proceeds from sales of investment securities	403	—	(30)	—	—	—
Increase in investments in affiliates	(400)	(197)	(30)	—	(245)	—
Proceeds from sales of investments in affiliates	8,295	60	—	178	114	1,451
Other	49	(624)	(1)	369	(1,378)	3,009
Net cash (used in) provided by investing activities	(10,499)	14,546	(11,554)	(14,109)	(201,688)	(115,035)
Cash flows from financing activities						
Net repayment of short-term borrowings	(2,393)	(400)	(100)	—	(815)	—
Proceeds from long-term debt	—	4,169	—	—	—	—
Repayment of long-term debt	(3,470)	(5,635)	(1,304)	(304)	(21,264)	(2,479)
Proceeds from issuance of new stock	—	20,900	(1,304)	(304)	170,403	—
Purchase of treasury stock	—	—	—	—	(16)	—
Cash dividends paid	(215)	(215)	(215)	(895)	(1,753)	(7,297)
Net cash provided by (used in) financing activities	(6,078)	(2,081)	(1,619)	(1,199)	146,555	(9,776)
Effect of exchange rate changes on cash and cash equivalents	(964)	784	(201)	(422)	4,476	(3,441)
Net increase (decrease) in cash and cash equivalents	9,690	49,731	(28,802)	(14,839)	90,338	(120,987)
Cash and cash equivalents at beginning of year	24,702	34,392	84,123	95,203	685,879	776,217
Cash and cash equivalents at end of year (Note 14)	¥ 34,392	¥ 84,123	¥ 55,321	¥ 80,364	\$ 776,217	\$ 655,230

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 have been compiled from those prepared by the Company and its consolidated subsidiaries as required under the Securities and Exchange Law of Japan and have been prepared in accordance with accounting principles and practices generally accepted and applied in Japan, which may differ in certain material respects from accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

In addition, the notes to the consolidated financial statements include information which is not required under accounting principles and practices generally accepted in Japan but is presented herein as additional information. As described in the discussions below, since Nomura Research Institute, Ltd. and its consolidated subsidiaries have adopted new accounting standards for financial instruments and employees’ retirement benefits in the preparation of their consolidated financial statements for the year ended 31st March, 2001, the information required under those new accounting standards are not available for the year ended 31st March, 2000.

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

1. Significant Accounting Policies (continued)

Basis of Consolidation

In accordance with a revised accounting standard for consolidation which became effective 1st April, 1999, the accompanying consolidated financial statements for the years ended 31st March, 2000, 2001 and 2002 and for the six months ended 30th September, 2001 and 2002 include the accounts of the Company and significant companies which are controlled directly or indirectly by the Company. All subsidiaries, (eleven, thirteen, fourteen, fourteen and fifteen for the years ended 31st March, 2000, 2001 and 2002 and for the six months ended 30th September, 2001 and 2002, respectively) have been consolidated. The major consolidated subsidiary is NRI Data Service, Ltd. Effective the six months ended 30th September, 2002, Nomura Research Institute Shanghai Limited has 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. The major affiliate accounted for by the equity method is NIWS Co. ViewPalette Planning, Inc., which was both established and liquidated during the year ended 31st March 2002, was excluded from the scope of the consolidation for the six months ended 30th September, 2002.

Cash Equivalents

Cash equivalents, as presented in the statements of cash flows, are defined as low-risk, highly liquid and 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, which are included in "investments in affiliates" in the balance sheets. The Company's accounting policy for those investments is the same as the accounting policy for investment securities described below.

Years ended 31st March, 2000

Listed investment securities are stated principally at the lower of cost or market, and the cost of such securities sold has been determined by the moving average method. Non-listed investment securities are stated at cost and the cost of such securities sold during the year has been determined by the moving average method.

1. Significant Accounting Policies (continued)

Investment Securities (continued)

Year ended 31st March, 2001 and 2002 and six months ended 30th September, 2001 and 2002

The Company and its consolidated subsidiaries adopted a new accounting standard for financial instruments issued by the Business Accounting Deliberation Council, which became effective 1st April, 2000. This standard requires that securities be classified by their holding objectives into “trading”, “held-to-maturity” and “other” securities. 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.

As a result of the adoption of this standard, income before income taxes for the year ended 31st March, 2001 decreased by ¥488 million from the amount which would have been recorded under the method followed in the prior year. In addition, investment securities, investments in affiliates and other assets reflected at 31st March, 2001 were higher than the corresponding amounts which would have been recorded under the method followed in the prior year by ¥81,879 million, ¥878 million and ¥405 million, respectively. As a result, total assets at 31st March, 2001 increased by ¥83,162 million over the amount which would have been recorded if the previous year’s method had been followed.

1. Significant Accounting Policies (continued)

Derivative Financial Instruments

Derivative financial instruments are generally required to be stated at fair value. However, the Company and certain consolidated subsidiaries may from time to time enter into interest rate swap agreements in order to manage certain risks arising from adverse fluctuations in the interest rates on their bank loans. The Company and certain consolidated subsidiaries have implemented internal regulations under which they will so hedge any significant interest rate risks. These 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.

A revised accounting standard for research and development costs issued by the Business Accounting Deliberation Council became effective 1st April, 1999. The Company, however, as permitted under the revised standard, has continued to follow the former accounting policy both for software to be sold and software intended for internal use if the development was commenced during or prior to the year ended 31st March, 1999. Under this prior accounting policy, software to be sold was recorded as an inventory item and was amortised based on its estimated volume of sales. Subcontractor costs related to software intended for internal use were recorded as long-term prepaid expenses and amortised by the straight-line method over their estimated useful lives.

Intangible assets other than computer software to be sold and software intended for internal use were amortised by the straight-line method over their estimated useful lives for the years ended 31st March, 2001 and 2002 and the six months ended 30th September, 2002.

1. Significant Accounting Policies (continued)

Allowance for Doubtful Accounts

The allowance for doubtful accounts was provided at the maximum amount allowable for income tax purposes, plus an estimate of the amount of specific uncollectible accounts, for the year ended 31st March, 2000.

For the years ended 31st March, 2001 and 2002 and the six months ended 30th September, 2002, 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.

Retirement and Severance Benefits for Employees

The allowance for the welfare pension plan was estimated and provided in order to prepare for future payments under the welfare pension plan needed to cover the portion of the pension liability exceeding the fair appraisal value of the pension plan assets, allocated to the Company and certain of its domestic consolidated subsidiaries for the years ended 31st March, 2000 and 2001.

The allowance for employees' retirement benefits was provided at the unamortised total amount which would have been required to have been paid if all eligible employees voluntarily terminated their employment at the balance sheet date, less the benefits to be covered by the employee pension plans, through the year ended 31st March, 2000.

The Company and its domestic consolidated subsidiaries adopted a revised accounting standard for employees' retirement benefits, which was issued by the Business Accounting Deliberation Council and became effective on 1st April, 2000. As a result, the allowance for employees' retirement benefits for the year ended 31st March, 2001 and 2002 and for the six months ended 30th September, 2001 and 2002 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. Actuarial gain or loss is charged to income as incurred.

The effect of the adoption of the new standard for retirement benefits was to decrease operating profit and income before income taxes by ¥686 million and ¥7,152 million, respectively, for the year ended 31st March, 2001.

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.

1. Significant Accounting Policies (continued)

Translation Adjustments

The Company and its consolidated subsidiaries adopted a revised accounting standard for foreign currency translation effective 1st April, 2000. Adoption of this standard had no material impact on the consolidated financial position or results of operations for the year ended 31st March, 2001, except for the reclassification of translation adjustments from a component of assets to shareholders' equity.

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.

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.

Income Taxes

Effective 1st April, 1999, the Company and its consolidated subsidiaries adopted tax-effect accounting in accordance with an accounting standard issued by the Business Accounting Deliberation Council in March 1998. As a result, net income increased by ¥5,396 million for the year ended 31st March, 2000 and retained earnings increased by ¥10,085 million as of 31st March, 2000. The cumulative effect of this change at 1st April, 1999 was credited directly to retained earnings and was reported as "Cumulative effect of adoption of tax-effect accounting" in the consolidated statement of changes in shareholders' equity for the year ended 31st March, 2000.

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 13.

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 ¥122.65 = US\$1.00, the rate of exchange prevailing on 30th September, 2002. 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, 2001 and 2002 and 30th September, 2002:

a) Marketable securities classified as other securities

<i>Millions of yen</i>		
Acquisition cost	Carrying amount	Unrealised gain
31st March, 2001		
Equity securities	¥2,602	¥85,360
		¥82,758

<i>Millions of yen</i>		
Acquisition cost	Carrying amount	Unrealised gain
31st March, 2002		
Equity securities	¥3,085	¥64,662
		¥61,577

<i>Millions of yen</i>		
Acquisition cost	Carrying amount	Unrealised gain
30th September, 2002		
(Unaudited)		
Equity securities	¥2,966	¥48,309
		¥45,343

<i>Thousands of U.S. dollars</i>		
Acquisition cost	Carrying amount	Unrealised gain
31st March, 2002		
Equity securities	\$25,153	\$527,208
		\$502,055

<i>Thousands of U.S. dollars</i>		
Acquisition cost	Carrying amount	Unrealised gain
30th September, 2002		
(Unaudited)		
Equity securities	\$24,183	\$393,877
		\$369,694

3. Investments (continued)

Proceeds from sales of marketable securities classified as other securities during the year ended 31st March, 2001 were as follows:

	<i>Millions of yen</i>
Proceeds	¥30,185
Gross gain	26,496
Gross loss	797

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

Losses on devaluation of the marketable securities classified as other securities as a result of the permanent decline totaled ¥119 million (\$970 thousand) and ¥121 million (\$987 thousand) for the year ended 31st March, 2002 and six months ended 30th September, 2002, respectively.

b) Non-marketable securities classified as other securities

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>	
	<u>31st March,</u> <u>2001</u>	<u>2002</u>	<u>31st</u> <u>March,</u> <u>2002</u>	<u>30th</u> <u>September,</u> <u>2002</u>
			(Unaudited)	(Unaudited)
Noncurrent:				
Equity securities	¥10,642	¥11,810	¥16,014	\$ 96,290
Domestic bonds due within five years	7,000	7,000	7,000	57,073
Other (money management funds)	20,001	20,016	20,017	163,196
Other (free financial funds)	–	30,008	30,008	244,664
Other (commercial paper)	–	11,998	10,399	97,823
			97,823	84,786

Investments in affiliates include investments in net assets of affiliate companies accounted for under the equity method totaling ¥884 million and ¥1,197 million (\$9,759 thousand) at 31st March, 2001 and 2002, respectively.

Investments in affiliates include marketable equity securities accounted for under equity method, carried at ¥1,205 million (\$9,825 thousand) at 30th September, 2002. Corresponding aggregate quoted market values were ¥4,740 million (\$38,647 thousand). There was no investment in affiliates for which market value is available at 31st March, 2001 and 2002.

4. Derivatives

Because all derivatives held by a certain consolidated subsidiary at 31st March, 2001 and 2002 and 30th September, 2001 and 2002 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 ¥6,218 million, ¥7,720 (\$62,943 thousand) and ¥14,568 million (\$118,777 thousand) (unaudited) for the years ended 31st March, 2001 and 2002 and the six months ended 30th September, and 2002, 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, 2001	2002	30th September, 2002 (Unaudited)	31st March, 2002	30th September, 2002 (Unaudited)
Land		¥ 8,089	¥ 7,635	¥ 7,635	\$ 62,250	\$ 62,250
Buildings	15 – 50	30,613	31,652	31,824	258,068	259,470
Machinery and equipment	3 – 15	43,296	42,975	43,582	350,387	355,336
Accumulated depreciation		(49,985)	(50,440)	(52,037)	(411,251)	(424,272)
Property and equipment, net		<u>¥ 32,013</u>	<u>¥ 31,822</u>	<u>¥ 31,004</u>	<u>\$ 259,454</u>	<u>\$ 252,784</u>

7. Other Assets

Other assets consisted of the following:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>		
	31st March, 2001	2002	30th September, 2002 (Unaudited)	31st March, 2002	30th September, 2002 (Unaudited)
Lease deposits	¥ 6,862	¥ 8,517	¥ 9,039	\$ 69,441	\$ 73,698
Investment partnerships	2,193	2,503	2,143	20,408	17,472
Other	2,080	1,931	1,559	15,744	12,711
Other assets	<u>¥11,135</u>	<u>¥12,951</u>	<u>¥12,741</u>	<u>\$105,593</u>	<u>\$103,881</u>

Other includes golf club memberships.

8. Pledged Assets

The following assets at 31st March, 2001 and 2002 and 30th September, 2002 were pledged as collateral for obligations of the Company:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>	
	31st March,		30th	31st
	2001	2002	September,	March,
			(Unaudited)	(Unaudited)
Land	¥2,682	¥2,682	¥2,682	\$21,867
Buildings, net	1,197	1,159	1,144	9,450
	<u>¥3,879</u>	<u>¥3,841</u>	<u>¥3,826</u>	<u>\$31,317</u>

The obligations secured by such collateral at 31st March, 2001 and 2002 and 30th September, 2002 were:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>	
	31st March,		30th	31st
	2001	2002	September,	March,
			(Unaudited)	(Unaudited)
Long-term debt due within one year	¥ 208	¥ 208	¥ 208	\$ 1,696
Long-term debt	2,726	2,518	2,414	20,530
	<u>¥2,934</u>	<u>¥2,726</u>	<u>¥2,622</u>	<u>\$22,226</u>

9. Short-Term Borrowings and Long-Term Debt

Unsecured short-term borrowings at 31st March, 2001 represent short-term bank borrowings, which were scheduled to mature within one year at weighted average interest rate of 0.7%. At 31st March, 2002 and 30th September, 2002, no short-term bank borrowings were recorded.

Long-term debt consisted of the following:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>	
	31st March,		30th	31st
	2001	2002	September,	March,
			(Unaudited)	(Unaudited)
Loans principally from banks and insurance companies due through 2015	¥6,134	¥3,526	¥3,222	\$28,748
Less current portion	2,608	608	608	4,957
Long-term debt	<u>¥3,526</u>	<u>¥2,918</u>	<u>¥2,614</u>	<u>\$23,791</u>

9. Short-Term Borrowings and Long-Term Debt (continued)

The weighted average interest rates on long-term debt due within one year were 1.9%, 2.4% and 2.4% at 31st March, 2001 and 2002 and 30th September, 2002, respectively, and the weighted average interest rate on the noncurrent portion of long-term debt were 3.0%, 3.1 % and 3.2% at 31st March, 2001 and 2002 and 30th September, 2002, respectively.

The annual maturities of long-term debt subsequent to 31st March, 2002 and 30th September, 2002 are summarised as follows:

<u>Years to maturities</u>	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>	
	<u>31st March, 2002</u>	<u>30th September, 2002</u>	<u>31st March, 2002</u>	<u>30th September, 2002</u>
		(Unaudited)		(Unaudited)
Due within one year	¥ 608	¥ 608	\$ 4,957	\$ 4,957
Due in 1 – 2 years	608	408	4,957	3,327
Due in 2 – 3 years	208	208	1,696	1,696
Due in 3 – 4 years	208	208	1,696	1,696
Due after 4 years	1,894	1,790	15,442	14,594
Total	<u>¥3,526</u>	<u>¥3,222</u>	<u>\$28,748</u>	<u>\$26,270</u>

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 six months ended 30th September, 2001. 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.

10. Retirement and Severance Benefits (continued)

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 (\$27,729 thousand) of the allowance was contributed to the fund and the remaining ¥8,147 million (\$66,425 thousand) 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 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, 2001 and 2002 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,		31st March,
	2001	2002	2002
Retirement benefit obligation	¥(40,546)	¥(43,727)	\$(356,518)
Plan assets at fair value	20,814	21,973	179,152
Unfunded retirement benefit obligation recognised on the balance sheets	<u>¥(19,732)</u>	<u>¥(21,754)</u>	<u>\$(177,366)</u>

In addition to the above pension plan assets, the assets of the welfare pension plan amounted to ¥22,757 million at 31st March, 2001.

The components of retirement benefit expenses for the years ended 31st March, 2001 and 2002 are outlined as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	31st March,		31st March,
	2001	2002	2002
Service cost	¥ 3,242	¥3,467	\$28,268
Interest cost	999	961	7,835
Expected return on plan assets	(310)	(312)	(2,544)
Provision for net retirement benefit obligation at transition	344	-	-
Actuarial loss	6,122	1,195	9,743
Total	<u>¥10,397</u>	<u>¥5,311</u>	<u>\$43,302</u>

10. Retirement and Severance Benefits (continued)

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 (\$27,729 thousand) was made at the time of the Company's withdrawal from the welfare pension plan.

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

	31st March,	
	2001	2002
Discount rate at end of the year	2.4%	2.3%
Expected rate of return on plan assets	1.5%	1.5%

Discount rate at 1st April, 2000 was 3.0 per cent.

11. Other Long-Term Liabilities

Other long-term liabilities included an accrual for retirement benefits for directors and statutory auditors in amounts of ¥995 million, ¥1,116 million (\$9,099 thousand) and ¥762 million (\$6,213 thousand) (unaudited) at 31st March, 2001 and 2002 and 30th September, 2002, respectively.

12. Income Taxes

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

	<i>Millions of yen</i>		<i>Thousands of</i>
	31st March,		31st March,
	2001	2002	2002
Deferred income tax assets:			
Employees' retirement benefits	¥ 6,876	¥ 7,759	\$ 63,261
Welfare pension plan	4,850	–	–
Depreciation	3,811	3,163	25,789
Accrued bonuses	1,577	2,040	16,633
Other	2,752	2,613	21,305
	19,866	15,575	126,988
Deferred income tax liabilities:			
Unrealised gain on other securities	(35,133)	(25,774)	(210,143)
Special tax-purpose reserve	(5,861)	(6,798)	(55,426)
Other	(60)	(53)	(432)
	(41,054)	(32,625)	(266,001)
Deferred tax liabilities, net	¥(21,188)	¥(17,050)	\$(139,013)

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 statutory tax rate of approximately 42 per cent. for each of the years ended 31st March, 2000, 2001 and 2002. 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. The difference in these tax rates for the year ended 31st March, 2000 was considered to be immaterial after the deduction of the additional tax paid during the year from the computation of the effective tax rate.

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 shares 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 ¥525 million and ¥570 million (\$4,647 thousand) as of 31st March, 2001 and 2002, respectively.

Unrealised gain on other securities is not available for dividends.

On 18th May, 2000, the Board of Directors of the Company approved a resolution for a stock split (from a par value of ¥500 to ¥50) effective 8th August, 2000, which resulted in an increase of 38,700,000 in the number of shares of common stock in issue. An amendment to the Articles of Incorporation of the Company to reflect this stock split was approved at a shareholders' meeting held on 30th June, 2000.

Unrealised gain on other securities includes an unrealised gain of ¥517 million, an unrealised loss of ¥122 million (\$995 thousand) and an unrealized loss of ¥10 million (\$82 thousand) (unaudited) on investment partnerships recorded as other assets for the years ended 31st March, 2001 and 2002 and for the six months ended 30th September, 2002.

14. Cash and Cash Equivalents

A reconciliation between cash and bank deposits in the consolidated balance sheets at 31st March, 2001 and 2002 and 30th September, 2002 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>	
	<u>31st March, 2001</u>	<u>2002</u>	<u>30th September, 2002</u> (Unaudited)	<u>31st March, 2002</u>	<u>30th September, 2002</u> (Unaudited)
Cash and bank deposits	¥64,131	¥33,181	¥19,940	\$270,534	\$162,576
Short-term investments maturing within three months from the acquisition dates	20,001	62,022	60,424	505,683	492,654
Total	84,132	95,203	80,364	776,217	655,230
Time deposits with a maturity of more than three months when deposited	(9)	–	–	–	–
Cash and cash equivalents	<u>¥84,123</u>	<u>¥95,203</u>	<u>¥80,364</u>	<u>\$776,217</u>	<u>\$655,230</u>

15. Per Share Data

The per share data are summarised as follows:

	<i>Yen</i>				
	<u>2000</u>	<u>31st March, 2001</u>	<u>2002</u>	<u>30th September, 2001</u> (Unaudited)	<u>2002</u> (Unaudited)
Net income per share	¥114.33	¥583.23	¥504.96	¥300.99	¥175.50

	<i>Yen</i>		
	<u>31st March, 2001</u>	<u>2002</u>	<u>30th September, 2002</u> (Unaudited)
Shareholders' equity per share	¥3,834.15	¥4,337.86	¥4,276.52

	<i>U.S. dollars</i>	
	<u>31st March, 2002</u>	<u>30th September, 2002</u> (Unaudited)
Net income per share	\$ 4.12	\$ 1.43
Shareholders' equity per share	35.37	34.87

The computation of basic net income 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. Diluted net income per share is not presented as potential common shares have an antidilutive effect.

The Company and its domestic consolidated subsidiaries have adopted revised accounting standards for earning per share which was issued by Financial Accounting Standards Foundation from the six months period ended 30th September, 2002, and the per share data as of and for the years ended 31st March, 2000 and 2001 and as of and six months ended 30th September, 2001 were restated in accordance with new method.

15. Per Share Data (continued)

The computation of net income per share for the years ended 31st March, 2000, 2001 and 2002, and six months ended 30th September, 2001 and 2002 is as follows:

	<i>Yen</i>				
	31st March,			30th September,	
	2000	2000	2002	2001	2002
Numerator:				(Unaudited)	
Net income	¥5,130	¥25,382	¥22,364	¥12,942	¥7,898
Income not available to common stockholders:					
Bonus to directors and statutory auditors	(214)	(303)	(361)	–	–
Income available to common stockholders	¥4,916	¥25,079	¥22,003	¥12,942	¥7,898
Denominator:					
Weighted average shares	43,000,000	43,000,000	43,573,749	43,000,000	44,999,900

	<i>U.S. dollars</i>	
	31st March, 2002	30th September, 2002
	(Unaudited)	
Numerator:		
Net income	\$182,340	\$64,395
Income not available to common stockholders:		
Bonus to directors and statutory auditors	(2,944)	–
Income available to common stockholders	179,396	64,395

The following potential common shares have an antidilutive effect, and thus are not included in the diluted net income per share calculation for the six months ended 30th September, 2002 :

	30th September, 2002	
	<i>Yen</i>	<i>U.S. dollars</i>
	(Unaudited)	
Number of shares reserved for the subscription rights (shares)*	80,500	80,500
Exercise price per share	¥17,913	\$146.05
Average stock price for the period that subscription rights are outstanding	¥15,156.97	\$123.58

* 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, 2001 and 2002 and 30th September, 2002, 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,					
	<u>2001</u>	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>	<u>2002</u>
Machinery and equipment	¥14,518	¥15,326	¥6,137	¥7,997	¥8,381	¥7,329
Software	733	1,045	158	344	575	701
Total	¥15,251	¥16,371	¥6,295	¥8,341	¥8,956	¥8,030

	<i>Millions of yen</i>		
	<u>Acquisition costs</u>	<u>Accumulated depreciation</u>	<u>Net book value</u>
	30th September, 2002		
	<i>(Unaudited)</i>		
Machinery and equipment	¥16,837	¥9,467	¥7,370
Software	1,059	453	606
Total	¥17,896	¥9,920	¥7,976

	<i>Thousands of U.S. dollars</i>		
	<u>Acquisition costs</u>	<u>Accumulated depreciation</u>	<u>Net book value</u>
	31st March, 2002		
Machinery and equipment	\$124,957	\$65,202	\$59,755
Software	8,520	2,804	5,716
Total	\$133,477	\$68,006	\$65,471

	<i>Thousands of U.S. dollars</i>		
	<u>Acquisition costs</u>	<u>Accumulated depreciation</u>	<u>Net book value</u>
	30th September, 2002		
	<i>(Unaudited)</i>		
Machinery and equipment	\$137,277	\$77,187	\$60,090
Software	8,634	3,693	4,941
Total	\$145,911	\$80,880	\$65,031

16. Leases (continued)

1) Lessee (continued)

Lease payments, depreciation and interest expense for these finance leases are summarised as follows:

	<i>Millions of yen</i>			<i>Thousands of U.S. dollars</i>
	31st March,			31st March,
	2000	2001	2002	2002
Lease payments	¥2,684	¥2,899	¥3,445	\$28,088
Depreciation	2,560	2,779	3,258	26,563
Interest expense	178	172	187	1,525

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	30th September,		30th September,
	2001	2002	2002
	(Unaudited)		(Unaudited)
Lease payments	¥1,654	¥1,818	\$14,823
Depreciation	1,577	1,726	14,073
Interest expense	87	78	636

Future minimum lease payments on finance leases accounted for as operating leases and noncancelable operating leases 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,	
	2001	2002	2001	2002	2002	
Future minimum lease payments due:						
Within one year	¥ 3,385	¥3,678	¥223	¥293	\$29,988	\$2,389
Thereafter	6,960	5,753	592	532	46,906	4,337
Total	¥10,345	¥9,431	¥815	¥825	\$76,894	\$6,726

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>	
	Finance leases	Operating leases	Finance leases	Operating leases
	30th September, 2002		30th September, 2002	
	(Unaudited)		(Unaudited)	
Future minimum lease payments due:				
Within one year	¥3,735	¥363	\$30,453	\$2,960
Thereafter	5,522	543	45,022	4,427
Total	¥9,257	¥906	\$75,475	\$7,387

16. Leases (continued)

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, 2001 and 2002 and 30th September, 2002.

	<i>Millions of yen</i>					
	Acquisition costs		Accumulated depreciation		Net book value	
	31st March,					
	2001	2002	2001	2002	2001	2002
Machinery and equipment	¥1,193	¥1,169	¥731	¥1,078	¥462	¥ 91
Software	142	142	86	131	56	11
Total	¥1,335	¥1,311	¥817	¥1,209	¥518	¥102

	<i>Millions of yen</i>		
	Acquisition costs	Accumulated depreciation	Net book value
	30th September, 2002		
	(Unaudited)		
Machinery and equipment	¥1,060	¥1,056	¥4
Software	105	104	1
Total	¥1,165	¥1,160	¥5

	<i>Thousands of U.S. dollars</i>		
	Acquisition costs	Accumulated depreciation	Net book value
	31st March, 2002		
Machinery and equipment	\$ 9,531	\$8,789	\$742
Software	1,158	1,068	90
Total	\$10,689	\$9,857	\$832

	<i>Thousands of U.S. dollars</i>		
	Acquisition costs	Accumulated depreciation	Net book value
	30th September, 2002		
	(Unaudited)		
Machinery and equipment	\$8,643	\$8,610	\$33
Software	856	848	8
Total	\$9,499	\$9,458	\$41

16. Leases (continued)

2) Lessor (continued)

Lease revenue, depreciation and interest income for these finance leases are summarised as follows:

	<i>Millions of yen</i>			<i>Thousands of U.S. dollars</i>
	Year ended 31st March,			Year ended 31st March,
	2000	2001	2002	2002
Lease revenue	¥1,113	¥765	¥501	\$4,085
Depreciation	871	597	412	3,359
Interest income	377	143	55	448

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	Six months ended 30th, September		Six months ended 30th September, 2002
	2001	2002	2002
	(Unaudited)		(Unaudited)
Lease revenue	¥285	¥121	\$987
Depreciation	238	97	791
Interest income	35	9	73

Future minimum lease income for finance leases is summarised as follows:

	<i>Millions of yen</i>				<i>Thousands of U.S. dollars</i>	
	Finance leases		Subleases*		Finance leases	Subleases*
	31st March, 2002		31st March, 2002		31st March, 2002	
Future minimum lease income due:						
Within one year	¥501	¥131	¥ 872	¥ 990	\$1,068	\$ 8,072
Thereafter	139	–	1,658	1,867	–	15,222
Total	¥640	¥131	¥2,530	¥2,857	\$1,068	\$23,294

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>	
	Finance leases	Subleases*	Finance leases	Subleases*
	30th September, 2002		30th September, 2002	
	(Unaudited)		(Unaudited)	
Future minimum lease income due:				
Within one year	¥10	¥1,005	\$82	\$ 8,194
Thereafter	–	1,760	–	14,350
Total	¥10	¥2,765	\$82	\$22,544

* 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 are summarised as follows:

	<i>Millions of yen</i>					<i>Thousands of U.S. dollars</i>	
	31st March,			30th September,		31st	30th
	2000	2001	2002	2001	2002	March,	September,
						2002	2002
				(Unaudited)			(Unaudited)
Personnel expenses	¥12,383	¥13,503	¥14,818	¥ 7,556	¥ 7,929	\$120,815	\$ 64,647
Rent	3,050	2,690	4,103	2,152	1,832	33,453	14,937
Subcontractor costs	3,719	5,183	5,136	2,687	2,707	41,875	22,071
Other	6,754	8,122	8,511	3,675	3,499	69,393	28,529
Total	¥25,906	¥29,498	¥32,568	¥16,070	¥15,967	\$265,536	\$130,184

18. Research and Development Costs

Research and development costs included in selling, general and administrative expenses are summarised as follows:

	<i>Millions of yen</i>					<i>Thousands of U.S. dollars</i>	
	31st March,			30th September,		31st	30th
	2000	2001	2002	2001	2002	March,	September,
						2002	2002
				(Unaudited)			(Unaudited)
	¥2,453	¥2,620	¥3,051	¥1,350	¥1,168	\$24,876	\$9,523

19. Other Income (Expenses)

1) Gain on investment securities

Gain on investment securities for the year ended 31st March, 2001 consisted principally of gain on the sale of 19,955,708 shares of Kokusai Securities Co., Ltd. net of the loss on the sale of 61,500 shares of Nomura Finance Co., Ltd.

2) Loss on investment securities

Loss on investment securities for the year ended 31st March, 2000 consisted principally of loss on the devaluation of shares of Nomura Finance Co., Ltd.

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.

19. Other Income (Expenses) (continued)

3) Gain on investments in affiliates

Gain on investments in affiliates for the years ended 31st March, 2000, 2001 and 2002 and for the six months ended 30th September, 2001 and 2002 is summarised as follows:

	<i>Millions of yen</i>				<i>Thousands of U.S. dollars</i>		
	31st March,			30th September,		31st	30th
	2000	2001	2002	2001	2002	March,	September,
				<i>(Unaudited)</i>		2002	2002
							<i>(Unaudited)</i>
Gain on sales of investments in affiliates	¥1,836	¥ –	¥ –	¥ –	¥137	\$ –	\$1,117
Gain on liquidation of an affiliate	1	–	–	–	–	–	–
Gain from changes in equity	–	–	–	–	405	–	3,302
Loss on sales of investments in affiliates	(408)	–	–	–	–	–	–
Loss on liquidation of affiliates	(616)	–	–	–	–	–	–
	<u>¥ 813</u>	<u>¥ –</u>	<u>¥ –</u>	<u>¥ –</u>	<u>¥542</u>	<u>\$ –</u>	<u>\$4,419</u>

Gain on sales of investments in affiliates for the year ended 31st March, 2000 reflects sales of 768,700 shares of Nomura Asset Management Co., Ltd. Gain on sales of investments in affiliates for the six months ended 30th September, 2002 relates to the sales of 1,890 shares of NIWS Co.

Gain on the liquidation of an affiliate for the year ended 31st March, 2000 relates to the liquidation of Nomura Research International Company Limited.

Gain from changes in equity for the six months ended 30th September, 2002 reflects a gain of ¥545 million (\$4,444 thousand) (unaudited) from changes in equity of NIWS Co. due to a public offering and a loss of ¥140 million (\$1,142 thousand) (unaudited) from changes in equity of NIWS Co. due to its purchase of treasury stock.

Loss on sales of investments in affiliates for the year ended 31st March, 2000 mainly relates to the sale of 12,500 shares of Nomura Europe Investment Holding B.V.

Loss on the liquidation of affiliates for the year ended 31st March, 2000 relates to the liquidations of Naigai Data Service Co., Ltd. and Nomura Computer Systems Europe Limited in amounts of ¥415 million and ¥201 million, respectively.

4) Actuarial loss

Actuarial loss for the years ended 31st March, 2001 and 2002 arose primarily as a result of a change in the discount rates and lower actual return on pension plan assets than expected.

19. Other Income (Expenses) (continued)

5) Reversal of allowance for the welfare pension plan

Reversal of allowance for the welfare pension plan for the six months ended 30th September, 2001 and for the year ended 31st March, 2002 resulted from the Company's withdrawal from the welfare pension plan.

20. Related Party Transactions

Related party transactions for the years ended 31st March, 2000, 2001 and 2002 and the respective balances at 31st March, 2001 and 2002 were as follows:

1) Transactions

Related party	Nature of transaction	Millions of yen			Thousands of
		31st March,			U.S. dollars
		2000	2001	2002	31st March, 2002
a) Major shareholders					
Nomura Holdings, Inc. (formerly The Nomura Securities Co., Ltd.) *1	Sales	¥36,462	¥46,421	¥48,967	\$399,242
	Sale of investment in Nomura Investor Relations Co., Ltd.	134	—	—	—
	Gain on above sale	54	—	—	—
	Sale of investment in Nomura Satellite Communications Co., Ltd.	131	—	—	—
	Gain on above sale	11	—	—	—
	Sale of investment securities of Nomura Research and Advisory Co., Ltd.	110	—	—	—
	Gain on above sale	60	—	—	—
	Sale of investment in Nomura Asset Management Co., Ltd.	6,918	—	—	—
	Gain on above sale	1,827	—	—	—
Nomura Land and Building Co., Ltd.	Sale of investment in Nomura Europe Investment Holding B.V.	384	—	—	—
	Loss on above sale	518	—	—	—
Nomura Asset Management Co., Ltd.	Sale of investment in Axa Rosenberg Investment Management Co., Ltd.	86	—	—	—
	Loss on above sale	13	—	—	—
	Sale of investment securities of Nomura Asset Management U.S.A. Inc.	249	—	—	—
	Loss on above sale	147	—	—	—

20. Related Party Transactions (continued)

1) Transactions (continued)

Related party	Nature of transaction	Millions of yen			Thousands of
		31st March,			U.S. dollars
		2000	2001	2002	31st March, 2002
b) Consolidated subsidiary					
NRI Shared Service Co., Ltd.	Sale of land and buildings	¥ –	¥4,119	¥ –	\$ –
	Gain on above sale *	–	53	–	–
	Loss on above sale	–	4,516	–	–
	* This gain has been eliminated in the process of consolidation.				
c) Major shareholders' subsidiaries					
Nomura Real Estate Development Co., Ltd.	Rent	3,974	3,703	3,865	31,512
Nomura Finance Co., Ltd.	Purchase of leased assets and lease receivables	1,411	–	–	–
N.F. Biru Investments Co., Ltd.	Interest received	202	202	201	1,639
The Nomura Securities Co., Ltd. *1 *2	Subscription received for new stocks	–	–	20,900	170,404
	Underwriting commission of new stocks	–	–	(1,100)	(8,967)
Nomura Financial Resources Corporation	Loan	–	–	20,000	163,066
	Interest received on loan	–	–	2	16

2) Balances

Related party	Nature of transaction	Millions of yen		Thousands of
		31st March,		U.S. dollars
		2001	2002	31st March, 2002
a) Major shareholders				
Nomura Holdings, Inc.(formerly The Nomura Securities Co., Ltd) *1	Accounts receivable and other receivables	¥4,794	¥5,768	\$47,028
	Lease deposits received	4,000	4,000	32,613
b) Major shareholders' subsidiaries				
Nomura Real Estate Development Co., Ltd.	Lease deposits paid	2,984	3,543	28,887
N.F. Biru Investments Co., Ltd.	Investment securities (bonds)	7,000	7,000	57,073

*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.

20. Related Party Transactions (continued)

2) Balances (continued)

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 (\$413,795 thousand) and the corresponding accounts receivable amounted to ¥5,879 million (\$47,933 thousand) as of 31st March, 2002.

- *2 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

The Company guaranteed unsecured bonds issued by South Plaza Co. in amounts of ¥10,992 million, ¥10,728 million (\$87,468 thousand) and ¥10,596 million (\$86,392 thousand) (unaudited) at 31st March, 2001 and 2002 and 30th September, 2002, respectively. 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. Cash flows generated by the real estate assets in the trust are being utilised for the future repayment of the principal of the bonds and payment of interest on the bonds.

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 30th September, 2002. No subsequent changes in the status of the subscription rights occurred through 30th November, 2002.

805 Units of subscription rights to purchase new shares were issued and 80,500 ordinary shares are reserved for exercise of the subscription rights. The Exercise price is 17,913 yen (\$146.05) 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 yen (\$146.05) and 8,957 yen (\$73.03), respectively.

22. Stock Option Plan (continued)

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 yen (\$163.07) or more per share for the subscription rights 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.

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.

The business segment information of the Company and its consolidated subsidiaries for the years ended 31st March, 2000, 2001 and 2002 and for the six months ended 30th September, 2001 and 2002 is summarised as follows:

Business segments

	<i>Millions of yen</i>				
	Year ended 31st March, 2000				
	System solutions services	Consulting/knowledge services	Total	Eliminations and corporate	Consolidated
I. Sales and operating profit					
Sales to external customers	¥155,201	¥28,415	¥183,616	¥ –	¥183,616
Intersegment sales or transfers	2,018	342	2,360	(2,360)	–
Total sales	157,219	28,757	185,976	(2,360)	183,616
Operating expenses	138,700	27,962	166,662	(2,361)	164,301
Operating profit	<u>¥ 18,519</u>	<u>¥ 795</u>	<u>¥ 19,314</u>	<u>¥ 1</u>	<u>¥ 19,315</u>
II. Total assets, depreciation and amortisation and capital expenditures					
Total assets	¥ 90,259	¥23,116	¥113,375	¥54,899	¥168,274
Depreciation and amortisation	11,080	1,925	13,005	–	13,005
Capital expenditures	12,581	6,810	19,391	(30)	19,361

23. Segment Information (continued)

Business segments (continued)

Millions of yen

Year ended 31st March, 2001					
System solutions services	Consulting/knowledge services	Total	Eliminations and corporate	Consolidated	
I. Sales and operating profit					
Sales to external customers	¥185,351	¥32,633	¥217,984	¥ –	¥217,984
Intersegment sales or transfers	2,489	1,620	4,109	(4,109)	–
Total sales	187,840	34,253	222,093	(4,109)	217,984
Operating expenses	160,979	33,264	194,243	(4,102)	190,141
Operating profit	¥ 26,861	¥ 989	¥ 27,850	¥ (7)	¥ 27,843
II. Total assets, depreciation and amortisation and capital expenditures					
Total assets	¥ 85,839	¥23,435	¥109,274	¥179,830	¥289,104
Depreciation and amortisation	10,357	3,303	13,660	–	13,660
Capital expenditures	13,943	3,447	17,390	–	17,390

Millions of yen

Year ended 31st March, 2002					
System solutions services	Consulting/knowledge services	Total	Eliminations and corporate	Consolidated	
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

Corporate assets included under “Eliminations and corporate” at 31st March, 2000, 2001 and 2002 amounted to ¥55,107 million, ¥180,809 million and ¥171,356 million (\$1,397,114 thousand), respectively, and consisted principally of surplus funds and investment securities.

Millions of yen

Six months ended 30th September, 2001 (Unaudited)					
System solutions services	Consulting/knowledge services	Total	Eliminations and corporate	Consolidated	
I. Sales and operating profit					
Sales to external customers	¥90,857	¥18,242	¥109,099	¥ –	¥109,099
Intersegment sales or transfers	1,310	747	2,057	(2,057)	–
Total sales	92,167	18,989	111,156	(2,057)	109,099
Operating expenses	81,611	17,494	99,105	(2,054)	97,051
Operating profit	¥10,556	¥ 1,495	¥ 12,051	¥ (3)	¥ 12,048

23. Segment Information (continued)

Business segments (continued)

Millions of yen

Six months ended 30th September, 2002 (Unaudited)					
System solutions services	Consulting/knowledge services	Total	Eliminations and corporate	Consolidated	
I. Sales and operating profit					
Sales to external customers	¥94,954	¥18,820	¥113,774	¥ –	¥113,774
Intersegment sales or transfers	1,744	852	2,596	(2,596)	–
Total sales	96,698	19,672	116,370	(2,596)	113,774
Operating expenses	84,744	18,437	103,181	(2,586)	100,595
Operating profit	¥11,954	¥ 1,235	¥ 13,189	¥ (10)	¥ 13,179

Thousands of U.S. dollars

Year ended 31st March, 2002					
System solutions services	Consulting/knowledge services	Total	Eliminations and corporate	Consolidated	
I. Sales and operating profit					
Sales to external customers	\$1,628,683	\$300,130	\$1,928,813	\$ –	\$1,928,813
Intersegment sales or transfers	22,487	12,776	35,263	(35,263)	–
Total sales	1,651,170	312,906	1,964,076	(35,263)	1,928,813
Operating expenses	1,426,669	289,776	1,716,445	(35,206)	1,681,239
Operating profit	\$ 224,501	\$ 23,130	\$ 247,631	\$ (57)	\$ 247,574
II. Total assets, depreciation and amortization and capital expenditures					
Total assets	\$ 864,403	\$187,069	\$1,051,472	\$1,393,640	\$2,445,112
Depreciation and amortization	73,730	27,534	101,264	–	101,264
Capital expenditures	157,122	28,178	185,300	–	185,300

Thousands of U.S. dollars

Six months ended 30th September, 2002 (Unaudited)					
System solutions services	Consulting/knowledge services	Total	Eliminations and corporate	Consolidated	
I. Sales and operating profit					
Sales to external customers	\$774,187	\$153,445	\$927,632	\$ –	\$927,632
Intersegment sales or transfers	14,219	6,946	21,165	(21,165)	–
Total sales	788,406	160,391	948,797	(21,165)	927,632
Operating expenses	690,942	150,322	841,264	(21,084)	820,180
Operating profit	\$ 97,464	\$ 10,069	\$107,533	\$ (81)	\$107,452

Geographical segments

Because sales in the domestic segment constituted more than 90% of total segment sales for the years ended 31st March, 2000, 2001 and 2002 and the six months ended 30th September, 2001 and 2002, geographical segment information has not been presented.

23. Segment Information (continued)

Overseas sales

Because overseas sales were less than 10% of consolidated sales for the years ended 31st March, 2000, 2001 and 2002 and the six months ended 30th September, 2001 and 2002, no disclosure of overseas sales has been made.

[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. Valuation of Securities

Until the year ended March 31, 2000, under Japanese GAAP, investments in marketable securities as well as non-marketable securities, could be stated at cost. Effective the financial year commencing on or after April 1, 2000, the current market value and unrealized gains or losses on securities held for trading purposes are to be recognized based on the market value method and to be charged to income. Debt securities held-to-maturity are to be stated by the amortized cost method and the amortized costs are to be charged to income. Marketable securities other than securities held for trading purposes and debt securities held-to-maturity are to be stated by the market value and the related unrealized gains or losses are recognized and presented as a component of shareholders' equity, net of the applicable taxes.

The new standard is effective for the financial years beginning on or after April 1, 2000, and requires the classification of certain investments in debt securities and equity securities similar to the classification under U.S. GAAP.

The Company has neither securities held for trading purposes nor debt securities held-to-maturity as of March 31, 2000, 2001 and 2002, and September 30, 2001 and 2002.

Under U.S. GAAP, investments in equity securities which have readily determinable fair values, except for all investments accounted for by the equity method, and all investments in debt securities, are to be classified in three categories and accounted for as follows:

- (i) Debt securities which the enterprise has the positive intent and ability to hold to maturity are classified as held-to-maturity securities and reported at amortized cost. Unrealized gains and losses are not reported in the financial statements until realized or until a decline in fair value below cost is deemed to be other than temporary.
- (ii) Debt and marketable equity securities which are acquired and held principally for the purpose of selling them in the near term are classified as trading securities and reported at fair value, with unrealized gains and losses included in earnings.
- (iii) Debt and equity securities not classified as either held-to-maturity securities or trading securities are classified as other securities and reported at fair value, with unrealized gains and losses excluded from earnings and reported as a separate component of shareholders' equity.

2. 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.

3. Impairment of Long-Lived Assets

Japanese GAAP requires carrying tangible and intangible fixed assets at cost less depreciation, and does not require any review for impairment of such assets.

U.S. GAAP requires review for impairment of long-lived assets and certain identifiable intangibles to be held and used 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.

4. 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.

5. 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.

6. 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.

7. 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.

8. Accounting for Employees' Retirement Benefits

Until the year ended March 31, 2000, under Japanese GAAP, provisions were generally made for the amount which would be required to be paid under unfunded lump-sum benefit plans if all eligible employees voluntarily terminated their services at the balance sheet date. Contributions to non contributory defined pension plans were expensed when they were paid. Effective the fiscal year commencing on or subsequent to April 1, 2000, a new method of accounting for retirement benefits is to be applied. The new accounting method employs an approach similar to that of U.S. GAAP, but will also reflect the special characteristics of retirement benefits in Japan.

Under U.S. GAAP, pension costs are recognized and computed using a particular actuarial approach known as the projected unit credit method.

9. Foreign Currency Translation

Until the year ended March 31, 2000, under Japanese GAAP, monetary accounts denominated in a foreign currency were translated as stated below.

- (i) Foreign currencies and short-term monetary accounts are translated at the rate prevailing on the balance sheet date. The resulting translation gain or loss is included in the determination of net income for the year.
- (ii) Long-term monetary accounts and non-monetary accounts are translated at the applicable historical exchange rates prevailing at the time of the transactions.

Effective the financial year commencing on or after April 1, 2000, monetary receivables and payables denominated in foreign currencies are to be translated at the current exchange rates in effect as of the balance sheet date. Translation adjustments resulting from translating the foreign currency financial statements of foreign subsidiaries are to be accumulated and reported as a component of shareholders' equity.

Under U.S. GAAP, monetary assets and liabilities denominated in a foreign currency, whether short-term or long-term, are translated at the exchange rate at the balance sheet date. Exchange differences are recorded in the income statement.

The financial statements of foreign subsidiaries where the local currency is the functional currency are translated into Yen in accordance with FASB Statement No. 52, Foreign Currency Translation. All balance sheet accounts are translated using the exchange rates in effect at the balance sheet date. Income statement amounts are translated using the exchange rate in effect during the year. Translation adjustments resulting from translating the foreign currency financial statements of subsidiaries are accumulated and reported as a component of shareholders' equity.

10. Bonuses to Directors and Statutory Auditors

Under Japanese GAAP, bonuses to directors are accounted for as an appropriation of retained earnings and are recorded after approval by the shareholders.

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

11. 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.

[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, 2002, the Company had 15 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 30th September, 2002.

<u>Name</u>	<u>Country</u>	<u>Main Business</u>	<u>Issued Capital (thousands)</u>	<u>Equity held by the Company (per cent.)</u>
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 Secure Technologies, 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 Shared Services, Ltd.	Japan	Office and real estate management	¥450,000	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
Nomura Research Institute Shanghai Limited	China	Research and 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

Name	Country	Main Business	Issued Capital (thousands)	Equity held by the Company (per cent.)
Subsidiaries (continued)				
Nomura Research Institute (Singapore) Private Limited	Singapore	Research and development and operation of information management systems in Asia	Sing\$1,400	100.0
Affiliates				
Nippon Clearing Services Co., Ltd	Japan	Back-office services for mid-tier securities companies	¥300,000	40.0
NIWS Co., Ltd.	Japan	Software development and sales	¥1,596,500	26.0
Nomura Funds Research and Technologies Co., Ltd.	Japan	Management of fund-of-funds, valuation of funds, pension consulting	¥400,000	49.0

MAJOR SHAREHOLDERS

Shareholders	Number of Shares Owned (thousands)	Percentage of Shares Outstanding
Nomura Land and Building Co., Ltd.	13,970	31.04
Nomura Asset Management Co., Ltd.	8,677	19.28
Jafco Co., Ltd.	3,880	8.62
Nomura Holdings, Inc.	2,150	4.78
Japan Trustee Services Bank, Ltd.	1,810	4.02
Mitsui Asset Trust and Banking Company, Ltd.	1,595	3.55
The Master Trust Bank of Japan, Ltd.	1,404	3.12
UFJ Trust Bank Ltd.	910	2.02
World Nichiei Securities Co., Ltd.	830	1.85
NRI Group Employee Stock Ownership Association	825	1.83