Perspectives on Japanese SI Market

Akihisa Fujinuma, President, CEO & COO

Nomura Research Institute, Ltd.

July, 2002
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Such forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and actual results may differ from those in the forward-looking statements as a result of various factors.

The Company does not undertake to revise forward-looking statements to reflect future events or circumstances.
Today’s Presentation

■ SI Market in Japanese IT Industry
  (1) SI Market in IT Industry
  (2) Conceptual Framework of SI Market
  (3) Major SI Companies

■ Collective Strength of NRI
  (1) Provider of “Total Solutions” Services
  (2) Highly Talented & Specialized Professionals
  (3) Two Business Models to Provide System Solutions
  (4) Navigating & Coordinating Client’s Needs
  (5) System Design for Client’s Business Growth
  (6) Technology: Reliability vs. Maturity
  (7) R&D Focused on the Future Clients’ Needs
  (8) Strength in Platform Technologies
  (9) Utilizing External Resources

■ Focusing Business Areas

■ Strengthen Corporate Governance
SI Market in IT Industry

Enterprise

Devices
(Semiconductor,
Hard Disk,
Display, etc.)

Main Frame
Storage
Network
UNIX Server
PC Server
Home PC

Software Services

ERP
RDBMS
IDC

System Integration Market
(outsourcing, included)

Hardware

Consumer

4

Consumer Electronics
(Cellular phone, Digital Camera, etc.)

Game

4

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Conceptual Framework of SI Market

Hardware Venders
- Fujitsu
- NEC
- Hitachi
- IBM

System Integrators
- Primary
  - (NRI, NTT Data, Accenture, etc.)
- Secondary
- Third, Fourth,…..
- China
- India

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## Major SI Companies

<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td></td>
<td>6/28/2002 Sales Operating profit Operating Margin Net income ROA ROE</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hitachi, Ltd. (Consolidated)</td>
<td>2,587 7,994 -117 -1.5 -484 -5.5 -18.7</td>
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<tr>
<td>Fujitsu, Ltd. (Consolidated)</td>
<td>1,674 5,007 -74 -1.5 -383 -3.2 -37.0</td>
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<tr>
<td>NEC Corp. (Consolidated)</td>
<td>1,381 5,101 -56 -1.1 -312 -9.4 -42.2</td>
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<tr>
<td>NTT Data Corp.</td>
<td>1,346 802 59 7.4 26 4.3 6.6</td>
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<tr>
<td>NRI</td>
<td>742 237 30 12.8 22 11.2 12.4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Oracle Corporation Japan *</td>
<td>655 88 32 36.3 18 31.6 24.8</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trend Micro Inc. **</td>
<td>443 31 9 30.3 2 17.5 8.5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>CSK Corp.</td>
<td>319 424 15 3.6 14 1.5 15.8</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Itouch Techno - Science Corp.</td>
<td>283 345 22 6.3 12 12.4 13.2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hitachi Software Engineering Co.,Ltd.</td>
<td>267 207 13 6.5 7 7.2 6.5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Obic Co.,Ltd.</td>
<td>259 40 9 23.7 6 12.7 8.5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>NEC Soft, Ltd.</td>
<td>259 93 9 9.7 4 13.1 11.5</td>
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<tr>
<td>Sumisho Computer Systems Corp.</td>
<td>196 69 8 11.6 4 11.7 7.0</td>
<td></td>
<td></td>
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<tr>
<td>Net One Systems Co.,Ltd.</td>
<td>183 80 7 8.9 4 12.7 12.8</td>
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<tr>
<td>Fuji Soft ABC</td>
<td>181 113 12 10.2 6 11.0 10.8</td>
<td></td>
<td></td>
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<tr>
<td>Hitachi Information Systems,Ltd.</td>
<td>167 140 8 5.6 5 8.1 8.2</td>
<td></td>
<td></td>
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<tr>
<td>Fujitsu Support and Service Inc.</td>
<td>161 222 11 5.0 5 8.5 11.1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Information Services Int’l – Dentsu,Ltd.</td>
<td>150 72 5 7.4 3 10.7 8.6</td>
<td></td>
<td></td>
</tr>
<tr>
<td>TIS Inc.</td>
<td>149 147 9 6.0 4 6.7 6.2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nippon System Development Co.,Ltd.</td>
<td>116 42 7 16.8 3 17.2 12.1</td>
<td></td>
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</tr>
</tbody>
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Collective Strength of NRI
Provider of “Total Solutions” services

SOLUTION

ANALYSIS

Consulting/ Knowledge Services

E-Government
CRM
SCM
Financial system reform readiness
Information security
Digital content distribution

System Solutions Services
Collective Strength of NRI
Highly Talented & Specialized Professionals

<table>
<thead>
<tr>
<th></th>
<th>NRI</th>
<th>NTT Data</th>
<th>Hitachi Software</th>
<th>TIS</th>
<th>Hitachi Information systems</th>
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<tbody>
<tr>
<td>System analysts</td>
<td>1</td>
<td>5</td>
<td>4</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>System inspectors</td>
<td>1</td>
<td>5</td>
<td>3</td>
<td>4</td>
<td>2</td>
</tr>
<tr>
<td>Project managers</td>
<td>2</td>
<td>5</td>
<td>3</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td>Application engineers</td>
<td>1</td>
<td>5</td>
<td>2</td>
<td>4</td>
<td>3</td>
</tr>
<tr>
<td>System operators and managers</td>
<td>1</td>
<td>5</td>
<td>4</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Network specialists</td>
<td>1</td>
<td>4</td>
<td>3</td>
<td>2</td>
<td>5</td>
</tr>
<tr>
<td>Top grade systems administrators</td>
<td>2</td>
<td>4</td>
<td>3</td>
<td>5</td>
<td>1</td>
</tr>
<tr>
<td>Database specialists</td>
<td>1</td>
<td>4</td>
<td>3</td>
<td>2</td>
<td>5</td>
</tr>
</tbody>
</table>

(Note)  1. Ranking based on qualified staff as a % of total staff
2. Parent basis, figures for the year up to March 2001
3. Figures for qualified staff are disclosed by the companies. Figures for total staff from ‘Shikiho’
Collective Strength of NRI
Two Business Models to Provide System Solutions

Consigned Development Projects

Wants
Needs
Basic Specifications
Specifications
Software Products

Strength of NRI

Seeds

Multi-user Services

Plan of New Model
Needs
Basic Specifications
Specifications
Software Products

New Regulation, Seeds of New Products
Analysis Of Each Client
Standard Business Processing Model

Business Area of Other SI Companies

Consigned Development Projects

Business Area of Other SI Companies
Collective Strength of NRI
Navigating & Coordinating Client’s Needs

Providing ‘Best’ System Solution

Power to Navigate

Power to Coordinate

Highly Talented & Specialized Professionals

Deregulation
New Technologies

Client’s Needs
Client’s Wants

Project Mgmt
Mobilization Capability

Business Knowledge
Platform Technology
Business Experiences
Collective Strength of NRI
System Designed for Client’s Business Growth

Design the initial system architecture ready for continuous system upgrades as client’s business grow.

Renewal of infrastructure to attain higher cost-performance as technologies progress.
Collective Strength of NRI
Technology: Reliability vs. Cutting edge

Advanced technologies

Advanced Development Technologies
Advanced Platform Technologies
Advanced User Technologies

Core Technologies

Legacy Technologies

Mature technologies

Development technologies
Platform technologies
User technologies

Research & evaluate new technologies

Introduce emerging and highly reliable Core technologies to our client’s systems

Java
Wireless LAN
Unix server

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Collective Strength of NRI
R&D Focused on the Future Clients’ Needs

X: Advanced Technologies
Y: Core Technologies
Z: Mature Technologies

I: Development Technologies
II: Platform Technologies
III: User Technologies

[ R&D area ]
Challenging to highly advanced technologies relating ‘Ubiquitous’ Network

[ SI Application area ]
Increase in Upper Core Technology area

Technology which NRI handled from September 2001 till February 2002
Collective Strength of NRI
Strength in Platform Technologies

Framework required to improve system development capabilities

- Handle multiple vendors
- Respond quickly to new technologies
- Guarantee reliability and connectivity

Develop “Object Works” as NRI middleware
Customizable to accommodate individual client’s needs

NRI’s Middleware

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Re-organize subcontractors (approx. 300 companies with 6,000 employees) into the following groups:
- Core partners
- Technical specializations

Utilize offshore development in China: Started up using “Bridge” teams
- Five partner companies in China (Shanghai, Beijing, & Dalian)
- Local development system: 230 professionals (March 2002)
- Organizing “Bridge” teams with both NRI and local Chinese companies employing systems engineers (SEs) fluent in both Japanese and Chinese.
Focusing Business Areas

- System planning, design, development and operation
- Consulting and Knowledge Solutions
- System Platform Solutions
  - Platform design, development, maintenance
  - Network design, development, maintenance
  - Network security

Service Industry
- Insurance Industry
- Securities Industry
- Distribution Industry
- Public Sector
- Manufacturing Industry

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Focusing Business Areas

- Service Industry
- Insurance Industry
- Securities Industry
- Distribution Industry
- Public Sector
- Manufacturing Industry

- SI Outsourcing
- Multi User Systems

- Nomura Securities
- Kokusai Securities
- Seven-Eleven Japan
- Ito-Yokado
- Postal Service Agency

- STAR
- I-STAR
- T-STAR
- BESTWAY
- BizMart
- AGELESS80

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Strengthen Corporate Governance

- Reorganize Board of Directors
  - Reduce number of directors: 23 => 14 directors
  - Shorten term of directors: 2 => 1 year
  - Introduce executive officer system: Separate management and execution
  - Appoint outside director: Mr. Kunio Takeda (President, Takeda Chemical Industries, Ltd.)

- Strengthen Board of Corporate Auditors
  - Establish Office of Auditors
  - Appoint outside corporate auditor: Mr. Hiroshi Izumitani (Executive Vice President, Murata Manufacturing Co., Ltd.)