

**Consolidated Financial Statements**

**Nomura Research Institute, Ltd.**

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

Nomura Research Institute, Ltd.

Consolidated Financial Statements

At 31st March, 2005 and 2006 and  
for the years ended 31st March, 2004, 2005 and 2006

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## Report of Independent Auditors

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

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

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

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

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

*Ernst & Young ShinNihon*

23rd June, 2006

Nomura Research Institute, Ltd.

Consolidated Balance Sheets

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars (Note 2)</i>
	<b>31st March,</b>		<b>31st March,</b>
	<b>2005</b>	<b>2006</b>	<b>2006</b>
<b>Assets</b>			
Current assets:			
Cash and bank deposits (Note 14)	¥ 18,524	¥ 26,005	\$ 221,357
Short-term investment securities (Notes 3 and 14)	52,224	44,439	378,269
Accounts receivable and other receivables (Notes 5 and 20)	56,696	56,898	484,321
Inventories	758	1,237	10,529
Deferred income taxes (Note 12)	6,049	7,656	65,169
Other current assets	1,320	1,604	13,653
Allowance for doubtful accounts	(56)	(60)	(511)
Total current assets	<u>135,515</u>	<u>137,779</u>	<u>1,172,787</u>
Property and equipment (Note 6):			
Land	9,257	11,282	96,033
Buildings, net	16,400	15,878	135,155
Machinery and equipment, net	11,638	12,805	108,998
Property and equipment, net	<u>37,295</u>	<u>39,965</u>	<u>340,186</u>
Software and other intangibles	22,418	20,421	173,825
Investment securities (Notes 3 and 20)	107,673	97,683	831,486
Investments in affiliates (Note 3)	2,158	3,822	32,533
Deferred income taxes (Note 12)	1,490	1,615	13,747
Other assets (Notes 7 and 20)	10,838	10,531	89,641
Allowance for doubtful accounts	(46)	(29)	(247)
Total assets	<u>¥317,341</u>	<u>¥311,787</u>	<u>\$2,653,958</u>

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars (Note 2)</i>
	<b>31st March,</b>		<b>31st March,</b>
	<b>2005</b>	<b>2006</b>	<b>2006</b>
<b>Liabilities and shareholders' equity</b>			
Current liabilities:			
Long-term debt due within one year (Note 9)	¥ 240	¥ 240	\$ 2,043
Accounts payable	19,793	29,453	250,707
Accrued expenses (Note 8)	12,507	14,948	127,239
Income taxes payable	12,048	13,002	110,674
Other current liabilities	5,413	7,260	61,797
Total current liabilities	50,001	64,903	552,460
Long-term debt (Note 9)	840	–	–
Allowance for employees' retirement benefits (Note 10)	22,698	23,315	198,459
Deferred income taxes (Note 12)	11,162	14,268	121,451
Other long-term liabilities (Notes 11 and 20)	873	–	–
Commitments and contingent liabilities (Note 21)			
Shareholders' equity (Notes 13 and 15):			
Common stock			
Authorised – 150,000,000 shares at 31st March, 2005 and 2006, respectively			
Issued – 45,000,000 shares at 31st March, 2005 and 2006, respectively	18,600	18,600	158,325
Additional paid-in capital	14,800	14,800	125,979
Retained earnings	170,018	186,670	1,588,951
Unrealised gain on other securities (Note 3)	28,988	37,369	318,088
Translation adjustments	(633)	(5)	(43)
Treasury stock, at cost			
– 558 shares at 31st March, 2005 and 4,380,480 shares at 31st March, 2006	(6)	(48,133)	(409,712)
Total shareholders' equity	231,767	209,301	1,781,588
Total liabilities and shareholders' equity	¥317,341	¥ 311,787	\$2,653,958

See accompanying notes to consolidated financial statements.

Nomura Research Institute, Ltd.

Consolidated Statements of Income

	<i>Millions of yen</i>			<i>Thousands of U.S. dollars (Note 2)</i>
	<b>Year ended 31st March,</b>			<b>Year ended 31st March,</b>
	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2006</b>
Sales (Note 20)	¥238,068	¥252,963	¥285,585	\$2,430,924
Cost of sales (Note 20)	178,097	190,732	213,707	1,819,092
Gross profit	59,971	62,231	71,878	611,832
Selling, general and administrative expenses (Notes 17, 18 and 20)	31,949	32,072	35,409	301,405
Operating profit	28,022	30,159	36,469	310,427
Other income (expenses):				
Interest and dividend income (Note 20)	875	702	1,150	9,789
Equity in earnings of affiliates	401	227	563	4,792
Tender offer expense of the treasury stock	–	–	(82)	(698)
Interest expense (Note 9)	(84)	(215)	(7)	(60)
Loss on property and equipment	(317)	(203)	(145)	(1,234)
Loss on real estate put option (Note 19)	(1,197)	–	–	–
Impairment loss on software (Note 19)	–	(6,526)	–	–
(Loss) gain on investment securities (Notes 3, 19 and 20)	1,176	3,882	(572)	(4,869)
Gain on investments in affiliates (Note 19)	3,977	–	–	–
Gain on liquidation of a special purpose company (Note 19)	–	209	–	–
Head office relocation cost (Note 19)	–	(981)	–	–
Other, net	74	107	159	1,354
	4,905	(2,798)	1,066	9,074
Income before income taxes	32,927	27,361	37,535	319,501
Provision for income taxes (Note 12):				
Current	18,198	15,646	19,368	164,862
Deferred	(3,540)	(4,588)	(4,351)	(37,036)
	14,658	11,058	15,017	127,826
Net income (Note 15)	¥ 18,269	¥ 16,303	¥ 22,518	\$ 191,675

See accompanying notes to consolidated financial statements.

Nomura Research Institute, Ltd.

Consolidated Statements of Changes in Shareholders' Equity

	<i>Millions of yen</i>						
	<b>Common stock</b>	<b>Additional paid-in capital</b>	<b>Retained earnings</b>	<b>Unrealised gain on other securities</b>	<b>Translation adjustments</b>	<b>Treasury stock</b>	<b>Total shareholders' equity</b>
<b>Balance at 31st March, 2003</b>	¥18,600	¥14,800	¥140,334	¥11,799	¥(181)	¥ (2)	¥185,350
Purchase of treasury stock	–	–	–	–	–	(2)	(2)
Net income	–	–	18,269	–	–	–	18,269
Cash dividends paid	–	–	(900)	–	–	–	(900)
Bonuses to directors and statutory auditors	–	–	(283)	–	–	–	(283)
Unrealised gain on other securities	–	–	–	28,283	–	–	28,283
Decrease due to exclusion of affiliates accounted for by the equity method	–	–	(710)	–	–	–	(710)
Translation adjustments	–	–	–	–	(676)	–	(676)
<b>Balance at 31st March, 2004</b>	18,600	14,800	156,710	40,082	(857)	(4)	229,331
Purchase of treasury stock	–	–	–	–	–	(2)	(2)
Net income	–	–	16,303	–	–	–	16,303
Cash dividends paid	–	–	(2,700)	–	–	–	(2,700)
Bonuses to directors and statutory auditors	–	–	(295)	–	–	–	(295)
Unrealised gain on other securities	–	–	–	(11,094)	–	–	(11,094)
Translation adjustments	–	–	–	–	224	–	224
<b>Balance at 31st March, 2005</b>	18,600	14,800	170,018	28,988	(633)	(6)	231,767
Purchase of treasury stock	–	–	–	–	–	(48,528)	(48,528)
Disposal of treasury stock	–	–	–	–	–	401	401
Net income	–	–	22,518	–	–	–	22,518
Cash dividends paid	–	–	(5,845)	–	–	–	(5,845)
Loss on disposal of treasury	–	–	(21)	–	–	–	(21)
Unrealised gain on other securities	–	–	–	8,381	–	–	8,381
Translation adjustments	–	–	–	–	628	–	628
<b>Balance at 31st March, 2006</b>	¥18,600	¥14,800	¥186,670	¥37,369	¥ (5)	¥(48,133)	¥209,301

	<i>Thousands of U.S. dollars (Note 2)</i>						
	<b>Common stock</b>	<b>Additional paid-in capital</b>	<b>Retained earnings</b>	<b>Unrealised gain on other securities</b>	<b>Translation adjustments</b>	<b>Treasury stock</b>	<b>Total shareholders' equity</b>
<b>Balance at 31st March, 2005</b>	\$158,325	\$125,979	\$1,447,208	\$246,748	\$(5,388)	\$ (51)	\$1,972,821
Purchase of treasury stock	–	–	–	–	–	(413,075)	(413,075)
Disposal of treasury stock	–	–	–	–	–	3,414	3,414
Net income	–	–	191,675	–	–	–	191,675
Cash dividends paid	–	–	(49,753)	–	–	–	(49,753)
Loss on disposal of treasury	–	–	(179)	–	–	–	(179)
Unrealised gain on other securities	–	–	–	71,340	–	–	71,340
Translation adjustments	–	–	–	–	5,345	–	5,345
<b>Balance at 31st March, 2006</b>	\$158,325	\$125,979	\$1,588,951	\$318,088	\$ (43)	\$(409,712)	\$1,781,588

See accompanying notes to consolidated financial statements.

Nomura Research Institute, Ltd.

Consolidated Statements of Cash Flows

	<i>Millions of yen</i>			<i>Thousands of U.S. dollars (Note 2)</i>
	<b>Year ended 31st March,</b>			<b>Year ended 31st March, 2006</b>
	<b>2004</b>	<b>2005</b>	<b>2006</b>	
<b>Cash flows from operating activities</b>				
Income before income taxes	¥ 32,927	¥ 27,361	¥ 37,535	\$ 319,501
Adjustments to reconcile income before income taxes to net cash provided by operating activities:				
Depreciation and amortization	17,750	18,403	16,574	141,079
Interest and dividend income	(875)	(702)	(1,150)	(9,789)
Interest expense	84	215	7	60
Loss on property and equipment	317	203	145	1,234
Loss on real estate put option	1,197	–	–	–
Impairment loss on software	–	6,526	–	–
Loss (gain) on investment securities	(1,176)	(3,882)	572	4,869
Gain on investments in affiliates	(3,977)	–	–	–
Gain on liquidation of a special purpose company	–	(209)	–	–
Changes in operating assets and liabilities:				
Accounts receivable and other receivables, net of advance payments received	(8,866)	(4,880)	894	7,610
Allowance for doubtful accounts	7	18	(13)	(111)
Accounts payable	(1,158)	(364)	9,617	81,861
Inventories	154	(658)	(479)	(4,077)
Allowance for employees' retirement benefits and welfare pension plan	348	73	617	5,252
Other	2,428	1,608	1,747	14,871
Subtotal	39,160	43,712	66,066	562,360
Interest and dividends received	859	742	1,188	10,112
Interest paid	(85)	(215)	(7)	(60)
Income taxes paid	(10,621)	(16,669)	(18,371)	(156,375)
Net cash provided by operating activities	29,313	27,570	48,876	416,037
<b>Cash flows from investing activities</b>				
Payments for time deposits	–	(6,148)	(6,778)	(57,695)
Proceeds from time deposits	–	–	6,523	55,524
Increase in short-term investment securities	–	(25,984)	(18,265)	(155,473)
Proceeds from sales and redemption of short-term investment securities	–	–	31,214	265,696
Acquisition of property and equipment	(12,651)	(8,052)	(9,800)	(83,418)
Proceeds from sales of property and equipment	138	837	473	4,026
Increase in liquidation of a special purpose company	–	213	–	–
Increase in software and other intangibles	(11,396)	(9,327)	(8,212)	(69,901)
Proceeds from sales of software and other intangibles	138	113	60	511
Increase in investment securities	(337)	(39,889)	(11,976)	(101,941)
Proceeds from sales and redemption of investment securities	1,521	6,131	34,590	294,433
Increase in investments in affiliates	–	–	(60)	(511)
Proceeds from sales of investments in affiliates	4,472	–	9	77
Acquisition of businesses	(280)	–	–	–
Other	(748)	124	76	647
Net cash (used in) provided by investing activities	(19,143)	(81,982)	17,854	151,975
<b>Cash flows from financing activities</b>				
Proceeds from long-term debt	–	1,200	–	–
Repayment of long-term debt	(608)	(2,430)	(840)	(7,150)
Proceeds from sales of treasury stock	–	–	380	3,235
Purchase of treasury stock	(2)	(2)	(48,528)	(413,075)
Cash dividends paid	(899)	(2,696)	(5,841)	(49,719)
Net cash used in financing activities	(1,509)	(3,928)	(54,829)	(466,709)
Effect of exchange rate changes on cash and cash equivalents	(609)	206	174	1,480
Net increase (decrease) in cash and cash equivalents	8,052	(58,134)	12,075	102,783
Cash and cash equivalents at beginning of year	88,760	96,812	38,678	329,231
Cash and cash equivalents at end of year	¥ 96,812	¥ 38,678	¥ 50,753	\$ 432,014

See accompanying notes to consolidated financial statements.



# Nomura Research Institute, Ltd.

## Notes to the Consolidated Financial Statements

### 1. Significant Accounting Policies

#### *Description of Business*

Nomura Research Institute, Ltd. (the “Company”) is a leading provider in Japan of system solutions services and consulting/knowledge services. System solutions services include the development, installation, operation and management of computer systems and networks. In conjunction with these services, the Company also procures systems equipment and related products for its clients’ systems. Consulting/knowledge services include research on macroeconomic trends, management consulting advice, asset management analyses and information services. Information on the Company’s operations by segment is included in Note 23.

#### *Basis of Presentation*

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

In addition, the notes to the consolidated financial statements include information which is not required under accounting principles generally accepted in Japan but is presented herein as additional information.

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

#### *Basis of Consolidation*

The accompanying consolidated financial statements for the years ended 31st March, 2004, 2005 and 2006 include the accounts of the Company and significant companies which are controlled directly or indirectly by the Company. All subsidiaries, (eighteen, nineteen and nineteen for the years ended 31st March, 2004, 2005 and 2006, respectively) have been consolidated. The major consolidated subsidiary is NRI Data Service, Ltd. Effective for the year ended 31st March, 2005, NRI Garden Network, Ltd., had been initially consolidated.

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

## **1. Significant Accounting Policies (continued)**

The Company's investments in affiliated companies over which it has the ability to exercise significant influence are accounted for by the equity method and accordingly, the Company's share of those affiliates' income is included in consolidated income.

Investments in two affiliated companies are accounted for by the equity method, of which Nomura Fund Research And Technologies Co., Ltd. is a major affiliated company. NIWS Co. HQ Ltd. had been an affiliate accounted for by the equity method, but was excluded from the scope of the equity method due to sales of the investment on the occasion of its offering of stock sales during the year ended 31st March, 2004. Prior to such sales, the net income of the investee had been accounted for by the equity method.

### ***Cash Equivalents***

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

### ***Investment Securities***

The Company holds investment securities in its major shareholders, The Nomura Holdings, Inc. The Nomura Holdings, Inc. is included in "Investments in affiliates." The Company and its consolidated subsidiaries determine the appropriate classification of investment securities as either trading, held-to-maturity or other securities based on their holding objectives. Other securities include marketable securities and non-marketable securities.

Securities held for trading purposes are stated at market value and the cost of securities sold is determined by the moving average method.

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. If the fair value of the marketable securities classified as other securities has declined significantly, such securities are written down to fair value thus establishing a new cost basis, and the amount of each write-down is charged to income as an impairment loss, unless the fair value is deemed to be recoverable. The Company has established a policy for the recognition of an impairment loss under the following conditions:

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

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

## **1. Significant Accounting Policies (continued)**

### ***Derivative Financial Instruments***

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

### ***Inventories***

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

### ***Depreciation of Property and Equipment***

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

### ***Amortisation of Software and Other Intangibles***

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

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

### ***Allowance for Doubtful Accounts***

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

### ***Goodwill***

Goodwill is expensed at the time of the related acquisition.

## **1. Significant Accounting Policies (continued)**

### ***Retirement and Severance Benefits for Employees***

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

### ***Bonuses to Directors and Statutory Auditors***

In prior years, bonuses to directors and statutory auditors had been accounted for as a decrease in retained earnings by its appropriation. However, commencing from the year ended 31st March, 2005, the Company and its consolidated subsidiaries have adopted Practical Solution Report No. 13, "Tentative Treatments of Accounting for Director's Bonuses" which were issued by the Accounting Standards Board of Japan and the bonuses are accounted for as expenses and are charged to income in the year to which the bonus relates. As a result, selling, general and administrative expenses for the year ended 31st March, 2005, increased by ¥256 million and operating profit and income before income taxes decreased by the same amount.

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

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

In the prior year the Company and its domestic consolidated subsidiaries provide an accrual for retirement benefits for directors and statutory auditors at the amount which would have been 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.

From the year ended 31st March, 2006, the Company has not provided accruals for retirement benefits for directors and statutory auditors in accordance with abolishment of retirement benefit program.

### ***Leases***

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

## **1. Significant Accounting Policies (continued)**

### ***Revenue Recognition***

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

### ***Research and Development Expenses***

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

### ***Appropriation of Retained Earnings***

Under the Commercial Code of Japan, the appropriation of retained earnings with respect to a given financial period is made by resolution of the shareholders at a general meeting held subsequent to the close of the financial year, and the interim cash dividend is made by resolution of the board of directors. The appropriation of retained earnings and the interim cash dividend are reflected to the financial statements in the period in which those resolutions are made by the respective organization.

### ***New Accounting Standard***

From the year ended 31st March, 2006, the Company adopted the new accounting standard for impairment of fixed asset, "Opinion Concerning Establishment of Accounting Standard for Impairment of Fixed Assets" issued by the Business Accounting Deliberation Council and the Financial Accounting Standard Implementation Guidance No.6, "Implementation Guidance for the Accounting Standard for Impairment of Fixed Assets". The adoptions of these standards do not have a material effect on the Company's consolidated results of operations and financial position.

## **2. U.S. Dollar Amounts**

The Company maintains its books of account in yen. The U.S. dollar amounts included in the accompanying consolidated financial statements and the notes thereto represent the arithmetic results of translating yen into dollars at ¥117.48 = US\$1.00, the rate of exchange prevailing on 31st March, 2006. The U.S. dollar amounts are included solely for the convenience of the reader and the translation is not intended to imply that the assets and liabilities which originated in yen have been or could be readily converted, realised or settled in U.S. dollars at the above or any other rate.

### 3. Investments

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

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, 2005 and 2006:

#### a) Marketable securities classified as other securities

	<i>Millions of yen</i>					
	<b>Acquisition cost</b>		<b>Carrying amount</b>		<b>Unrealised gain (loss)</b>	
	<b>31st March,</b>		<b>31st March,</b>		<b>31st March,</b>	
	<b>2005</b>	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>	<b>2006</b>
Equity securities	¥ 3,770	¥14,137	¥ 52,709	¥77,086	¥48,939	¥62,949
Debt securities:						
Government						
debt securities	28,062	–	28,111	–	49	–
Corporate debt						
securities	19,867	12,207	19,778	12,191	(89)	(16)
Other	10,856	1,712	10,858	1,711	2	(1)
	58,785	13,919	58,747	13,902	(38)	(17)
Other	4,627	2,995	4,527	2,978	(100)	(17)
<b>Total</b>	<b>¥67,182</b>	<b>¥31,051</b>	<b>¥115,983</b>	<b>¥93,966</b>	<b>¥48,801</b>	<b>¥62,915</b>

	<i>Thousands of U.S. dollars</i>		
	<b>Acquisition cost</b>	<b>Carrying amount</b>	<b>Unrealised gain (loss)</b>
	<b>31st March, 2006</b>		
Equity securities	\$120,335	\$656,163	\$535,828
Debt securities:			
Government debt securities	–	–	–
Corporate debt securities	103,907	103,771	(136)
Other	14,573	14,564	(9)
	118,480	118,335	(145)
Other	25,494	25,349	(145)
<b>Total</b>	<b>\$264,309</b>	<b>\$799,847</b>	<b>\$535,538</b>

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

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

	<i>Millions of yen</i>			<i>Thousands of U.S. dollars</i>
	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2006</b>
Proceeds	¥1,521	¥6,032	¥40,013	\$340,594
Gross gain	1,217	5,524	724	6,163
Gross loss	–	(86)	(98)	(834)

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

### 3. Investments (continued)

a) Marketable securities classified as other securities (continued)

b) Non-marketable securities classified as other securities

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	<b>31st March,</b>		<b>31st March,</b>
	<b>2005</b>	<b>2006</b>	<b>2006</b>
Other securities:			
Equity securities	¥16,964	¥15,256	\$129,860
Money management funds	4,552	6,553	55,780
Free financial funds	12,000	15,000	127,681
Commercial paper	11,898	13,973	118,939

Investments in affiliates which are included in equity securities include investments in net assets of affiliate companies accounted for under the equity method totaling ¥658 million and ¥1,196 million (\$10,181 thousand) at 31st March, 2005 and 2006, respectively.

c) Maturities of debt securities

Maturities of debt securities classified as other securities at 31st March, 2005 and 2006 are as follows:

	<i>Millions of yen</i>			
	<b>31st March, 2005</b>			
	<b>Debt securities</b>			
	<b>Government debt securities</b>	<b>Corporate debt securities</b>	<b>Other</b>	<b>Other</b>
Due within one year	¥ 8,000	¥12,300	¥22,690	¥2,430
Due after one year through five years	20,000	7,500	–	–
Due after five years	–	–	–	–
	<b>¥28,000</b>	<b>¥19,800</b>	<b>¥22,690</b>	<b>¥2,430</b>

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

### 3. Investments (continued)

#### c) Maturities of debt securities (continued)

	<i>Thousands of U.S. dollars</i>			
	<b>31st March, 2006</b>			
	<b>Debt securities</b>			
	<b>Government debt securities</b>	<b>Corporate debt securities</b>	<b>Other</b>	<b>Other</b>
Due within one year	\$ –	\$103,847	\$133,512	\$8,512
Due after one year through five years	–	–	–	–
Due after five years	–	–	–	–
	<u>\$ –</u>	<u>\$103,847</u>	<u>\$133,512</u>	<u>\$8,512</u>

### 4. Derivatives

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

All derivatives held by a consolidated subsidiary at 31st March, 2004 were for hedging purposes. There were no derivative instruments at 31st March, 2005 and 2006. Because all derivatives were cancelled at 31st March, 2005, the related information on their respective market value has not been presented.

### 5. Accounts Receivable and Other Receivables

For projects which have not been completed as of the balance sheet date, the percentage-of-completion method is applied and the estimated revenue to be earned from each project has been included in accounts receivable and other receivables in amounts of ¥16,301 million and ¥12,271 million (\$104,452 thousand) at 31st March, 2005 and 2006, respectively.



## 6. Property and Equipment

Property and equipment are summarised as follows:

	<i>Years</i>	<i>Millions of yen</i>		<i>Thousands of</i>
		<i>31st March,</i>		<i>U.S. dollars</i>
		<b>2005</b>	<b>2006</b>	<b>31st March, 2006</b>
Land		¥ 9,257	¥ 11,282	\$ 96,033
Buildings	15 – 50	38,143	38,972	331,733
Machinery and equipment	3 – 15	41,863	41,256	351,176
Accumulated depreciation		(51,968)	(51,545)	(438,756)
Property and equipment, net		<u>¥ 37,295</u>	<u>¥ 39,965</u>	<u>\$ 340,186</u>

## 7. Other Assets

Other assets consisted of the following:

	<i>Millions of yen</i>		<i>Thousands of</i>
	<i>31st March,</i>		<i>U.S. dollars</i>
	<b>2005</b>	<b>2006</b>	<b>31st March, 2006</b>
Lease deposits	¥ 9,356	¥ 9,112	\$77,562
Other	1,482	1,419	12,079
Other assets	<u>¥10,838</u>	<u>¥10,531</u>	<u>\$89,641</u>

Other includes golf club memberships.

## 8. Accrued Expenses

Accrued expenses included bonuses to directors and statutory auditors in the amount of ¥256 million at 31st March, 2005. There is no such transaction for the year ended 31st March, 2006.

## 9. Long-Term Debt

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

Long-term debt consisted of the following:

	<i>Millions of yen</i>		<i>Thousands of</i>
			<i>U.S. dollars</i>
	<b>31st March,</b>		<b>31st March,</b>
	<b>2005</b>	<b>2006</b>	<b>2006</b>
Loans principally from banks	¥1,080	¥240	\$2,043
Less current portion	240	240	2,043
Long-term debt	¥ 840	¥ –	\$ –

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

## 10. Retirement and Severance Benefits

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

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

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

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

	<i>Millions of yen</i>		<i>Thousands of</i>
			<i>U.S. dollars</i>
	<b>31st March,</b>		<b>31st March,</b>
	<b>2005</b>	<b>2006</b>	<b>2006</b>
Retirement benefit obligation	¥(62,096)	¥(65,274)	\$(555,618)
Plan assets at fair value	42,900	54,536	464,215
Unfunded retirement benefit obligation	(19,196)	(10,738)	(91,403)
Unrecognised actuarial gain	(3,502)	(12,577)	(107,056)
Unfunded retirement benefit obligation recognised on the balance sheets	¥(22,698)	¥(23,315)	\$(198,459)

## 10. Retirement and Severance Benefits (continued)

Plan assets at fair value include the employee retirement benefit trust of ¥10,129 million and ¥11,949 million (\$101,711 thousand) at 31st March, 2005 and 2006, respectively.

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

	<i>Millions of yen</i>			<i>Thousands of U.S. dollars</i>
	<b>31st March,</b>			<b>31st March,</b>
	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2006</b>
Service cost	¥3,671	¥4,092	¥4,122	\$35,087
Interest cost	1,043	1,027	1,090	9,278
Expected return on plan assets	(335)	(429)	(492)	(4,188)
Actuarial loss	–	(538)	(269)	(2,290)
Subtotal	4,379	4,152	4,451	37,887
Other	284	288	297	2,528
Total	¥4,663	¥4,440	¥4,748	\$40,415

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

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

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

## 11. Other Long-Term Liabilities

Other long-term liabilities included an accrual for retirement benefits for directors and statutory auditors in the amount of ¥873 million at 31st March, 2005. There is no such transaction for the year ended 31st March, 2006.

## 12. Income Taxes

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

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	<b>31st March,</b>		<b>31st March,</b>
	<b>2005</b>	<b>2006</b>	<b>2006</b>
Deferred income tax assets:			
Employees' retirement benefits	¥ 9,011	¥ 11,616	\$ 98,876
Depreciation	5,641	4,798	40,841
Accrued bonuses	3,217	3,805	32,388
Other	4,045	5,033	42,842
	<u>21,914</u>	<u>25,252</u>	<u>214,947</u>
Deferred income tax liabilities:			
Unrealised gain on other securities	(19,813)	(25,542)	(217,416)
Special tax-purpose reserve	(5,662)	(4,617)	(39,300)
Other	(62)	(90)	(766)
	<u>(25,537)</u>	<u>(30,249)</u>	<u>(257,482)</u>
Deferred income tax liabilities, net	<u>¥ (3,623)</u>	<u>¥ (4,997)</u>	<u>\$ (42,535)</u>

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

The effective tax rates reflected in the accompanying consolidated statements of income differ from the statutory tax rate primarily due to the effect of permanent nondeductible expenses, however, such differences were not material for the year ended 31st March, 2005 and 2006.

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

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

## 12. Income Taxes (continued)

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

## 13. Shareholders' Equity

The Commercial Code of Japan (the "Code") provides that an amount equal to at least 10% of the amount to be disbursed as distributions of earnings should be appropriated to the legal reserve until the sum of the legal reserve and additional paid-in capital equals 25% of the common stock account. The Code also stipulates that, to the extent that the sum of additional paid-in capital account and the legal reserve exceed 25% of the common stock account, the amount of any such excess is available for appropriation by resolution of the shareholders. In accordance with the Code, the Company has provided a legal reserve which is included in retained earnings. This reserve amounted to ¥570 million (\$4,852 thousand) as of both 31st March, 2005 and 2006.

Unrealised gain on other securities is not available for dividends.

## 14. Cash and Cash Equivalents

A reconciliation between cash and bank deposits in the consolidated balance sheets at 31st March, 2005 and 2006 and 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>
	<b>31st March,</b>		<b>31st March,</b>
	<b>2005</b>	<b>2006</b>	<b>2006</b>
Cash and bank deposits	¥ 18,524	¥ 26,005	\$ 221,357
Short-term investment securities	52,224	44,439	378,269
Time deposits with maturities of more than three months when deposited	(6,148)	(6,778)	(57,695)
Bond and other investments maturing in more than three months from the acquisition date	(25,922)	(12,913)	(109,917)
Cash and cash equivalents	<u>¥ 38,678</u>	<u>¥ 50,753</u>	<u>\$ 432,014</u>

#### 14. Cash and Cash Equivalents (continued)

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

Components of net cash used for acquisition of businesses for the year ended 31st March 2004 are as follows:

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

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

#### 15. Per Share Data

The per share data are summarised as follows:

	<i>Yen</i>		
	<u>31st March,</u>		
	<u>2004</u>	<u>2005</u>	<u>2006</u>
Earnings per share	¥399.44	¥362.30	¥519.72
Diluted earnings per share	¥399.42	¥362.29	¥519.31

	<i>Yen</i>	
	<u>31st March,</u>	
	<u>2005</u>	<u>2006</u>
Shareholders' equity per share	¥5,150.44	¥5,152.73

	<i>U.S. dollars</i>
	<u>31st March,</u>
	<u>2006</u>
Earnings per share	\$ 4.42
Diluted earnings per share	\$ 4.42
Shareholders' equity per share	\$43.86

The computation of earnings and shareholders' equity per share is based on the weighted average number of shares of common stock outstanding during each year and the number of shares outstanding at each balance sheet date, respectively.

## 15. Per Share Data (continued)

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

	<i>Millions of Yen</i>			<i>Thousands of U.S. dollars</i>
	<b>31st March,</b>			<b>31st March,</b>
	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2006</b>
Numerator:				
Earnings	¥18,269	¥16,303	¥22,518	\$191,675
Earnings not available to common stockholders:				
Bonus to directors and statutory auditors	(295)	(-)	(-)	(-)
Earnings available to common stockholders	<u>¥17,974</u>	<u>¥16,303</u>	<u>¥22,518</u>	<u>\$191,675</u>
Denominator (weighted average shares):				
Denominator for earnings per share	44,999,873	44,999,553	43,327,189	43,327,189
Potential dilutive common shares-stock options	2,018	1,457	34,124	34,124
Denominator for diluted earnings per share	<u>45,001,891</u>	<u>45,001,010</u>	<u>43,361,313</u>	<u>43,361,313</u>

The following potential common shares have an antidilutive effect, and thus are not included in the diluted earnings per share calculation for the year ended 31st March, 2004, 2005 and 2006:

	<i>Yen</i>			<i>U.S. dollars</i>
	<b>31st March,</b>			<b>31st March,</b>
	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2006</b>
a) Subscription rights of 805 units issued on 27th June, 2002				
Number of shares reserved for the purpose of new share issuance against exercise of the subscription rights (shares)	80,500	80,500	68,000	68,000
Exercise price per share	¥ 17,913	¥ 17,913	¥ 17,913	\$152.48
Average stock price for the period that subscription rights are outstanding	¥10,488.54	¥10,268.33	¥12,108.25	\$103.07
b) Subscription rights of 845 units issued on 24th June, 2004				
Number of shares reserved for the purpose of new share issuance against exercise of the subscription rights (shares)	-	84,500	-	-
Exercise price per share	-	¥ 11,418	-	-
Average stock price for the period that subscription rights are outstanding	-	¥9,924.71	-	-

## 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, 2005 and 2006, which would have been reflected in the consolidated balance sheets if finance lease accounting had been applied to the finance leases currently accounted for as operating leases:

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

	<i>Thousands of U.S. dollars</i>		
	<b>Acquisition costs</b>	<b>Accumulated depreciation</b>	<b>Net book value</b>
	<b>31st March, 2006</b>		
Machinery and equipment	\$51,081	\$31,256	\$19,825
Software	1,336	877	459
Total	<u>\$52,417</u>	<u>\$32,133</u>	<u>\$20,284</u>

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

	<i>Millions of yen</i>			<i>Thousands of U.S. dollars</i>
	<b>31st March,</b>			<b>31st March,</b>
	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2006</b>
Lease payments	¥3,391	¥2,659	¥1,903	\$16,199
Depreciation	3,246	2,554	1,827	15,552
Interest expense	115	77	49	417

Future minimum lease payments for finance leases accounted for as operating leases and noncancelable operating leases as of 31st March, 2005 and 2006 are summarised as follows:

	<i>Millions of yen</i>				<i>Thousands of U.S. dollars</i>	
	<b>Finance leases</b>		<b>Operating leases</b>		<b>Finance leases</b>	<b>Operating leases</b>
	<b>31st March,</b>		<b>31st March,</b>		<b>31st March,</b>	
	<b>2005</b>	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2006</b>	
Future minimum lease payments due:						
Within one year	¥2,212	¥1,610	¥123	¥177	\$13,704	\$1,507
Thereafter	2,798	2,297	414	369	19,552	3,141
Total	<u>¥5,010</u>	<u>¥3,907</u>	<u>¥537</u>	<u>¥546</u>	<u>\$33,256</u>	<u>\$4,648</u>



## 16. Leases (continued)

### 2) Lessor

There were no transactions for finance leases for the year ended 31st March, 2004, 2005 and 2006.

Future minimum lease income for subleases as finance leases and operating leases as of 31st March, 2005 and 2006 is summarised as follows:

	<i>Millions of yen</i>				<i>Thousands of U.S. dollars</i>	
	<b>Subleases*</b>		<b>Operating leases</b>		<b>Subleases*</b>	<b>Operating leases</b>
	<b>31st March,</b>		<b>31st March,</b>		<b>31st March,</b>	
	<b>2005</b>	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2006</b>	
Future minimum lease income due:						
Within one year	¥ 915	¥ 946	¥116	¥142	\$ 8,052	\$1,209
Thereafter	1,763	2,077	294	145	17,680	1,234
Total	<u>¥2,678</u>	<u>¥3,023</u>	<u>¥410</u>	<u>¥287</u>	<u>\$25,732</u>	<u>\$2,443</u>

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

## 17. Selling, General and Administrative Expenses

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

	<i>Millions of yen</i>			<i>Thousands of U.S. dollars</i>
	<b>31st March,</b>			<b>31st March,</b>
	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2006</b>
Personnel expenses	¥17,474	¥17,722	¥18,594	\$158,274
Rent	3,505	3,370	3,259	27,741
Subcontractor costs	3,355	3,254	4,600	39,156
Other	7,615	7,726	8,956	76,234
Total	<u>¥31,949</u>	<u>¥32,072</u>	<u>¥35,409</u>	<u>\$301,405</u>

## 18. Research and Development Costs

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

	<i>Millions of yen</i>			<i>Thousands of U.S. dollars</i>
	<b>31st March,</b>			<b>31st March,</b>
	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2006</b>
	¥2,217	¥1,647	¥2,502	\$21,297

## 19. Other Income (Expenses)

### 1) Loss on real estate put option

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

### 2) Impairment loss on software

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

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

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

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

Gain on investment securities for the year ended 31st March, 2006 consisted of gain on investment securities of ¥724 million (\$6,163 thousand) and loss on investment securities of ¥1,296 million (\$11,032 thousand). Gain on investment securities consisted principally of gain on the sale of shares of Monex Beans Holdings, Inc. Loss on investment securities consisted principally of loss on the devaluation of shares of IY Card Service Co., Ltd., BELL NET CORPORATION and 7dream.com. as a result of their decline in value which was deemed permanent and of loss on the sale of an investment of OmniTrust Security System, Inc.

### 4) Gain on investments in affiliates

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

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

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

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

There were no such transaction for the year ended 31st March, 2005 and 2006.

### 5) Gain on liquidation of a special purpose company

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

### 6) Head office relocation cost

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

## 20. Related Party Transactions

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

### 1) Transactions

Related party	Nature of transaction	Millions of yen			Thousands of
		31st March,			U.S. dollars
		2004	2005	2006	31st March, 2006
a) Major shareholders Nomura Holdings, Inc.	Sales	¥43,892	¥36,284	¥42,380	\$360,742
b) Major shareholders' subsidiaries Nomura Real Estate Development Co., Ltd.*	Rent	3,579	-	-	-
The Nomura Securities Co., Ltd.	Sales	-	16,495	28,337	241,207
	Sales of investment securities	-	5,605	-	-
	Gain on above sales	-	5,511	-	-
	Payment for tender offer expenses of the treasury stock	-	-	80	681
Nomura Facilities, Inc.	Purchase of the treasury stock	-	-	44,000	374,532

### 2) Balances

Related party	Nature of transaction	Millions of yen		Thousands of
		31st March,		U.S. dollars
		2005	2006	31st March, 2006
a) Major shareholders Nomura Holdings, Inc.	Accounts receivable and other receivables	¥4,668	¥6,841	\$58,231
b) Major shareholders' subsidiaries The Nomura Securities Co., Ltd.	Accounts receivable and other receivables	3,216	3,177	27,043

\* Nomura Real Estate Development Co., Ltd was no longer a related party as of 31st March, 2005.

## 21. Contingent Liabilities

There were not material contingent liabilities at 31st March, 2005 and 2006.

## 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 the Commercial Code of Japan. Following is the status of the subscription rights at 31st March, 2006.

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

The terms of the subscription rights require that holders 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 inheritor can exercise a subscription right under certain other circumstances, such as death, expiration of term, etc. Transfer or pledge of the subscription right, or similar actions, are prohibited. The ordinary transaction closing prices on the Tokyo Stock Exchange for the last five consecutive days prior to the exercise date must be ¥20,000 or more per share, ¥11,100 or more per share and ¥12,600 or more per share for the subscription rights issued on 27th June, 2002, 12th August, 2003 and 24th June, 2004, respectively, to be exercised by the holder of the subscription rights. The ordinary transaction closing prices on the Tokyo Stock Exchange for the given five consecutive days in the exercise period must be ¥12,800 or more per share for the subscription rights issued on 1st July, 2005. Other terms and conditions are defined by the resolution of the board of directors. The following tables summarize information on stock options outstanding as of 31st March, 2006 and 31st May, 2006:

- i) Subscription rights issued on 27th June, 2002

	<u>31st March, 2006</u>	<u>31st May, 2006</u>
Number of subscription rights outstanding	805	680
Number of shares reserved	80,500	68,000
Exercise price	¥17,913	¥17,913
Exercise period	1st July, 2004 to 30th June, 2007	1st July, 2004 to 30th June, 2007
Offering price of the new shares	¥17,913	¥17,913
Capital increase per share	¥ 8,957	¥ 8,957

125 rights and 12,500 shares, respectively, are included in “Number of subscription rights outstanding” and “Number of shares reserved” as of 31st March, 2006, which cannot be exercised because of holders' waivers of rights or retirements.

## 22. Stock Option Plan (continued)

### ii) Subscription rights issued on 12th August, 2003

	<u>31st March, 2006</u>	<u>31st May, 2006</u>
Number of subscription rights outstanding	453	395
Number of shares reserved	45,300	39,500
Exercise price	¥10,088	¥10,088
Exercise period	1st July, 2005 to 30th June, 2008	1st July, 2005 to 30th June, 2008
Offering price of the new shares	¥10,088	¥10,088
Capital increase per share	¥ 5,044	¥ 5,044

30 rights and 3,000 shares, respectively, are included in “Number of subscription rights outstanding” and “Number of shares reserved” as of 31st March, 2006, which cannot be exercised because of holders’ waivers of rights.

### iii) Subscription rights issued on 24th June, 2004

	<u>31st March, 2006</u>	<u>31st May, 2006</u>
Number of subscription rights outstanding	845	815
Number of shares reserved	84,500	81,500
Exercise price	¥11,418	¥11,418
Exercise period	1st July, 2006 to 30th June, 2009	1st July, 2006 to 30th June, 2009
Offering price of the new shares	¥11,418	¥11,418
Capital increase per share	¥ 5,709	¥ 5,709

30 rights and 3,000 shares, respectively, are included in “Number of subscription rights outstanding” and “Number of shares reserved” as of 31st March, 2006, which cannot be exercised because of holders’ waivers of rights.

### iv) Subscription rights issued on 1st July, 2005

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

## 22. Stock Option Plan (continued)

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

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

## 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 research services, management consulting services and support services relating to the asset management business.

The business segment information of the Company and its consolidated subsidiaries for the years ended 31st March, 2004, 2005 and 2006 is summarised as follows:

### *Business segments*

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

## 23. Segment Information (continued)

### Business segments (continued)

<i>Millions of yen</i>					
<b>Year ended 31st March, 2005</b>					
	<b>System solutions services</b>	<b>Consulting/ knowledge services</b>	<b>Total</b>	<b>Eliminations and corporate</b>	<b>Consoli- dated</b>
I. Sales and operating profit					
Sales to external customers	¥213,230	¥39,733	¥252,963	¥ –	¥252,963
Intersegment sales or transfers	2,756	1,865	4,621	(4,621)	–
Total sales	215,986	41,598	257,584	(4,621)	252,963
Operating expenses	191,503	35,905	227,408	(4,604)	222,804
Operating profit	¥ 24,483	¥ 5,693	¥ 30,176	¥ (17)	¥ 30,159
II. Total assets, depreciation and amortisation and capital expenditures					
Total assets	¥124,868	¥22,819	¥147,687	¥169,654	¥317,341
Depreciation and amortisation	16,025	2,381	18,406	(3)	18,403
Capital expenditures	15,216	2,155	17,371	(20)	17,351
<i>Millions of yen</i>					
<b>Year ended 31st March, 2006</b>					
	<b>System solutions services</b>	<b>Consulting/ knowledge services</b>	<b>Total</b>	<b>Eliminations and corporate</b>	<b>Consoli- dated</b>
I. Sales and operating profit					
Sales to external customers	¥241,001	¥44,584	¥285,585	¥ –	¥285,585
Intersegment sales or transfers	3,467	2,525	5,992	(5,992)	–
Total sales	244,468	47,109	291,577	(5,992)	285,585
Operating expenses	213,136	41,951	255,087	(5,971)	249,116
Operating profit	¥ 31,332	¥ 5,158	¥ 36,490	¥ (21)	¥ 36,469
II. Total assets, depreciation and amortisation and capital expenditures					
Total assets	¥127,591	¥25,739	¥153,330	¥158,457	¥311,787
Depreciation and amortisation	13,999	2,597	16,596	(22)	16,574
Capital expenditures	15,498	2,891	18,389	(45)	18,344

Corporate assets included under “Eliminations and corporate” at 31st March, 2004, 2005 and 2006 amounted to ¥178,295 million, ¥170,480 million and ¥159,681 million (\$1,359,219 thousand), respectively, and consisted principally of surplus funds and investment securities.

## 23. Segment Information (continued)

### *Business segments (continued)*

*Thousands of U.S. dollars*

	<b>Year ended 31st March, 2006</b>				
	<b>System solutions services</b>	<b>Consulting/knowledge services</b>	<b>Total</b>	<b>Eliminations and corporate</b>	<b>Consolidated</b>
I. Sales and operating profit					
Sales to external customers	\$2,051,422	\$379,502	\$2,430,924	\$ –	\$2,430,924
Intersegment sales or transfers	29,511	21,493	51,004	(51,004)	–
Total sales	<u>2,080,933</u>	<u>400,995</u>	<u>2,481,928</u>	<u>(51,004)</u>	<u>2,430,924</u>
Operating expenses	1,814,232	357,091	2,171,323	(50,826)	2,120,497
Operating profit	<u>\$ 266,701</u>	<u>\$ 43,904</u>	<u>\$ 310,605</u>	<u>\$ (178)</u>	<u>\$ 310,427</u>
II. Total assets, depreciation and amortisation and capital expenditures					
Total assets	\$1,086,066	\$219,092	\$1,305,158	\$1,348,800	\$2,653,958
Depreciation and amortisation	119,161	22,106	141,267	(188)	141,079
Capital expenditures	131,920	24,609	156,529	(383)	156,146

In prior years, bonuses to directors and statutory auditors had been accounted for as a decrease in retained earnings by its appropriation. However, the Company and its domestic consolidated subsidiaries charged the bonuses to income in the year to which the bonus relates from the year ended 31st March, 2005. As a result, operating expenses of System solutions services segment and Consulting/knowledge services segment for the year ended 31st March, 2005 increased by ¥211 million and ¥45 million, respectively, and operating profit for those segments decreased by the same amount.

Due to the introduction of Taxation of Corporation by the Size of their Businesses, the enterprise tax amount levied by corporate size-based aspect taxation is accounted for as selling, general and administrative expenses from the year ended 31st March, 2005. As a result, operating expenses of System solutions services segment and Consulting/knowledge services segment for the year ended 31st March, 2005 increased by ¥388 million and ¥127 million, respectively, and operating profit for those segments decreased by the same amount.

### *Geographical segments*

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

### *Overseas sales*

Because overseas sales were less than 10% of consolidated sales for the years ended 31st March, 2004, 2005 and 2006, no disclosure of overseas sales has been made.



## 24. Subsequent Event

The following appropriations of retained earnings of the Company, which have not been reflected in the consolidated financial statements for the year ended 31st March, 2006, were approved at a meeting of the shareholders held on 23rd June, 2006:

	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>
	<hr/>	<hr/>
Year-end cash dividends (¥ 90= \$ 0.77 per share)	¥3,656	\$31,120

## **[Appendix (1)]**

### **SUMMARY OF CERTAIN SIGNIFICANT DIFFERENCES BETWEEN JAPANESE AND U.S. GENERALLY ACCEPTED ACCOUNTING PRINCIPLES**

The accompanying consolidated financial statements of the Company have been prepared in conformity with Japanese GAAP, which differs from U.S. GAAP in certain material respects. Such differences are discussed below and address only those differences related to the consolidated financial statements. In addition, no attempt has been made to identify disclosure, presentation or classification differences that would affect the manner in which transactions and events are presented in the financial statements.

The significant differences between Japanese GAAP and U.S. GAAP which would affect the determination of consolidated net income and shareholders' equity of the Company are set out below:

#### **1. Leases Capitalized as Assets**

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

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

#### **2. Impairment of Long-Lived Assets**

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

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

#### **3. Transferors of Real Estate to Special Purpose Entities**

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

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

#### **4. Compensated Absences**

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

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

#### **5. Stock Option Plans**

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

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

#### **6. Interest Rate Swap**

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

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

#### **7. Bonuses to Directors and Statutory Auditors**

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

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

#### **8. Revenue Recognition**

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

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

## **9. Guarantor's Accounting for Guarantees**

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

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

[Appendix (2)]

**SUBSIDIARIES AND AFFILIATES**

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

At 31<sup>st</sup> March, 2006, the Company had 19 subsidiaries, all of which were consolidated subsidiaries.

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

The following table sets forth information on the Company's direct and indirect subsidiaries and affiliates as of 31<sup>st</sup> March, 2006.

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

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

\*On April 1, 2006, NRI Data Services, Ltd. merged with the parent company, and thus no longer exist.

#### MAJOR SHAREHOLDERS

<b>Shareholders</b>	<b>Number of Shares Owned (thousands)</b>	<b>Ratio of Voting Rights (%)</b>
Nomura Asset Management Co., Ltd.	8,677	21.36
Nomura Facilities, Inc.	3,720	9.16
JAFCO Co., Ltd.	3,180	7.83
Nomura Holdings, Inc.	2,600	6.40
Japan Trustee Services Bank, Ltd. (Trust Account)	2,215	5.45
The Master Trust Bank of Japan, Ltd.(Trust Account)	1,906	4.69
NRI Group Employee Stock Ownership Association	1,070	2.64
TAKAGI SECURITIES CO., LTD.	550	1.35
The Goldman Sachs Group, Inc.	504	1.24
The Bank of New York Company, Inc	495	1.22

\*NRI owns 4,380 thousand shares.

\*Nomura Facilities, Inc. which was a principal shareholder at the end of the previous fiscal year, merged with Nomura Asset Properties Co., Ltd. at 1<sup>st</sup> April, 2005, and Nomura Asset Properties Co., Ltd., the surviving company, became a principal shareholder. Nomura Asset Properties Co., Ltd. changed its name to Nomura Facilities, Inc. at the same date.