

Consolidated Financial Statements

Nomura Research Institute, Ltd.

*At 31st March, 2003 and 2004 and
for the years ended 31st March, 2002, 2003 and 2004 with
Report of Independent Certified Public Accountants
and
At 30th September, 2004 and for the six months ended
30th September, 2003 and 2004 (unaudited)*

Nomura Research Institute, Ltd.

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30th September, 2003 and 2004 (unaudited)

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Report of Independent Certified Public Accountants

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

We have audited the accompanying consolidated balance sheets of Nomura Research Institute, Ltd. and its consolidated subsidiaries as of 31st March, 2003 and 2004, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended 31st March, 2004, all expressed in Japanese yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Nomura Research Institute, Ltd. and its consolidated subsidiaries at 31st March, 2003 and 2004, and the consolidated results of their operations and their cash flows for each of the three years in the period ended 31st March, 2004 in conformity with accounting principles generally accepted in Japan.

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

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended 31st March, 2004 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 2.

Shin Nihon & Co.

23rd June, 2004

Nomura Research Institute, Ltd.

Consolidated Balance Sheets

	(Millions of yen)			(Thousands of U.S. dollars) (Note 2)	
	31st March,		30th September,	31st March,	30th September,
	2003	2004	2004	2004	2004
			(Unaudited)		(Unaudited)
Assets					
Current assets:					
Cash and bank deposits (Note 15)	¥ 26,739	¥ 17,085	¥ 20,494	\$ 153,850	\$ 184,548
Short-term investment securities (Notes 3 and 15)	62,021	79,727	43,108	717,938	388,186
Accounts receivable and other receivables (Notes 5 and 21)	42,000	51,318	49,930	462,116	449,617
Inventories	254	100	489	900	4,403
Deferred income taxes (Note 13)	3,459	5,137	4,406	46,258	39,676
Other current assets	1,105	936	2,133	8,429	19,207
Allowance for doubtful accounts	(40)	(51)	(50)	(459)	(450)
Total current assets	135,538	154,252	120,510	1,389,032	1,085,187
Property and equipment (Notes 6 and 8):					
Land	7,635	9,857	9,857	88,762	88,762
Buildings, net	12,365	16,806	17,051	151,337	153,543
Machinery and equipment, net	10,274	9,999	11,153	90,041	100,433
Property and equipment, net	30,274	36,662	38,061	330,140	342,738
Software and other intangibles					
Investment securities (Notes 3 and 21)	33,817	32,505	33,193	292,706	298,901
Investments in affiliates (Note 3)	33,767	86,171	93,519	775,966	842,134
Deferred income taxes (Note 13)	8,781	2,326	1,939	20,946	17,461
Other assets (Notes 7 and 21)	1,248	1,336	1,358	12,031	12,229
Allowance for doubtful accounts	13,410	13,581	13,317	122,295	119,918
	(37)	(33)	(33)	(297)	(297)
Total assets	¥256,798	¥326,800	¥301,864	\$2,942,819	\$2,718,271

See accompanying notes to consolidated financial statements.

Nomura Research Institute, Ltd.

Consolidated Balance Sheets

	(Millions of yen)			(Thousands of U.S. dollars) (Note 2)	
	31st March,		30th September,	31st March,	30th September,
	2003	2004	2004 (Unaudited)	2004	2004 (Unaudited)
Liabilities and shareholders' equity					
Current liabilities:					
Long-term debt due within one year (Notes 8 and 10)	¥ 608	¥ 208	¥ 208	\$ 1,873	\$ 1,873
Accounts payable	21,313	20,155	17,939	181,495	161,540
Accrued expenses (Note 9)	9,325	11,114	11,575	100,081	104,232
Income taxes payable	5,128	12,705	4,143	114,408	37,308
Other current liabilities	4,107	5,403	6,157	48,654	55,442
Total current liabilities	40,481	49,585	40,022	446,511	360,395
Long-term debt (Notes 8 and 10)	2,310	2,102	1,998	18,928	17,992
Allowance for employees' retirement benefits (Note 11)	22,277	22,625	22,733	203,737	204,710
Deferred income taxes (Note 13)	5,554	22,267	13,852	200,513	124,737
Other long-term liabilities (Notes 12 and 21)	826	890	808	8,015	7,276
Commitments and contingent liabilities (Note 22)					
Shareholders' equity (Notes 14, 16 and 21):					
Common stock					
Authorised – 150,000,000 shares at 31st March, 2003 and 31st March, 2004 and 30th September, 2004, respectively					
Issued – 45,000,000 shares at 31st March, 2003 and 31st March, 2004 and 30th September, 2004, respectively	18,600	18,600	18,600	167,492	167,492
Additional paid-in capital	14,800	14,800	14,800	133,273	133,273
Retained earnings	140,334	156,710	161,497	1,411,166	1,454,273
Unrealised gain on other securities (Note 3)	11,799	40,082	28,044	360,937	252,535
Translation adjustments	(181)	(857)	(484)	(7,717)	(4,358)
Treasury stock, at cost					
– 100, 279 and 528 shares at 31st March, 2003 and 31st March, 2004 and 30th September, 2004, respectively	(2)	(4)	(6)	(36)	(54)
Total shareholders' equity	185,350	229,331	222,451	2,065,115	2,003,161
Total liabilities and shareholders' equity	¥256,798	¥ 326,800	¥301,864	\$2,942,819	\$2,718,271

See accompanying notes to consolidated financial statements.

Nomura Research Institute, Ltd.

Consolidated Statements of Income

	<i>Millions of yen</i>					<i>Thousands of U.S. dollars (Note 2)</i>	
	Year ended 31st March,			Six months ended 30th September,		Year ended 31st March,	Six months ended 30th September,
	2002	2003	2004	2003	2004	2004	2004
				(Unaudited)			(Unaudited)
Sales (Note 21)	¥236,569	¥232,744	¥238,068	¥113,309	¥115,167	\$2,143,791	\$1,037,073
Cost of sales (Note 21)	173,636	173,545	178,097	85,150	86,844	1,603,755	782,026
Gross profit	62,933	59,199	59,971	28,159	28,323	540,036	255,047
Selling, general and administrative expenses (Notes 18, 19 and 21)	32,568	32,035	31,949	16,052	16,004	287,699	144,115
Operating profit	30,365	27,164	28,022	12,107	12,319	252,337	110,932
Other income (expenses):							
Interest and dividend income (Note 21)	2,385	343	875	104	483	7,879	4,349
Equity in earnings of affiliates	297	168	401	221	93	3,611	837
Interest expense (Note 10)	(135)	(99)	(84)	(44)	(38)	(756)	(342)
Loss on property and equipment	(320)	(638)	(317)	(100)	(191)	(2,855)	(1,720)
Loss on real estate put option (Note 20)	–	–	(1,197)	–	–	(10,779)	–
(Loss) gain on investment securities (Notes 3, 20 and 21)	(516)	(166)	1,176	(41)	(598)	10,590	(5,385)
Gain on investments in affiliates (Note 20)	–	542	3,977	1,751	–	35,813	–
Gain on liquidation of a special purpose company (Note 20)	–	–	–	–	209	–	1,882
Actuarial loss (Notes 11 and 20)	(1,195)	(6,942)	–	–	–	–	–
Reversal of allowance for the welfare pension plan (Notes 11 and 20)	8,147	–	–	–	–	–	–
Gain on securities contributed to an employee retirement benefit trust (Notes 3, 11, 15 and 20)	–	6,736	–	–	–	–	–
Head office relocation cost (Note 20)	–	–	–	–	(982)	–	(8,843)
Other, net	(18)	69	74	56	67	666	604
	8,645	13	4,905	1,947	(957)	44,169	(8,618)
Income before income taxes	39,010	27,177	32,927	14,054	11,362	296,506	102,314
Provision for income taxes (Note 13):							
Current	11,426	10,687	18,198	6,558	3,956	163,872	35,623
Deferred	5,220	1,031	(3,540)	(396)	524	(31,878)	4,719
	16,646	11,718	14,658	6,162	4,480	131,994	40,342
Net income (Note 16)	¥ 22,364	¥ 15,459	¥ 18,269	¥ 7,892	¥ 6,882	\$ 164,512	\$ 61,972

See accompanying notes to consolidated financial statements.

Nomura Research Institute, Ltd.

Consolidated Statements of Changes in Shareholders' Equity

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

Nomura Research Institute, Ltd.

Consolidated Statements of Changes in Shareholders' Equity (continued)

Thousands of U.S. dollars (Note 2)

	<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, 2003	\$167,492	\$133,273	\$1,263,701	\$106,249	\$(1,630)	\$(18)	\$1,669,067
Purchase of treasury stock	–	–	–	–	–	(18)	(18)
Net income	–	–	164,512	–	–	–	164,512
Cash dividends paid	–	–	(8,104)	–	–	–	(8,104)
Bonuses to directors and statutory auditors	–	–	(2,549)	–	–	–	(2,549)
Unrealised gain on other securities	–	–	–	254,688	–	–	254,688
Decrease due to exclusion of affiliates accounted for by the equity method	–	–	(6,394)	–	–	–	(6,394)
Translation adjustments	–	–	–	–	(6,087)	–	(6,087)
Balance at 31st March, 2004	<u>\$167,492</u>	<u>\$133,273</u>	<u>\$1,411,166</u>	<u>\$360,937</u>	<u>\$(7,717)</u>	<u>\$(36)</u>	<u>\$2,065,115</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	Unrealised gain on other securities	Translation adjustments	Treasury stock	Total shareholders' equity
Balance at 31st March, 2004	¥18,600	¥14,800	¥156,710	¥ 40,082	¥(857)	¥(4)	¥229,331
Purchase of treasury stock	–	–	–	–	–	(2)	(2)
Net income	–	–	6,882	–	–	–	6,882
Cash dividends paid	–	–	(1,800)	–	–	–	(1,800)
Bonuses to directors and statutory auditors	–	–	(295)	–	–	–	(295)
Unrealised gain on other securities	–	–	–	(12,038)	–	–	(12,038)
Translation adjustments	–	–	–	–	373	–	373
Balance at 30th September, 2004	<u>¥18,600</u>	<u>¥14,800</u>	<u>¥161,497</u>	<u>¥28,044</u>	<u>¥(484)</u>	<u>¥(6)</u>	<u>¥222,451</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, 2004	\$167,492	\$133,273	\$1,411,166	\$360,937	\$ (7,717)	\$ (36)	\$2,065,115
Purchase of treasury stock	–	–	–	–	–	(18)	(18)
Net income	–	–	61,972	–	–	–	61,972
Cash dividends paid	–	–	(16,209)	–	–	–	(16,209)
Bonuses to directors and statutory auditors	–	–	(2,656)	–	–	–	(2,656)
Unrealised gain on other securities	–	–	–	(108,402)	–	–	(108,402)
Translation adjustments	–	–	–	–	3,359	–	3,359
Balance at 30th September, 2004	<u>\$167,492</u>	<u>\$133,273</u>	<u>\$1,454,273</u>	<u>\$252,535</u>	<u>\$(4,358)</u>	<u>\$(54)</u>	<u>\$2,003,161</u>

See accompanying notes to consolidated financial statements.

Nomura Research Institute, Ltd.
Consolidated Statements of Cash Flows

	<i>Millions of yen</i>					<i>Thousands of U.S. dollars (Note 2)</i>	
	Year ended 31st March,			Six months ended 30th September,		Year ended 31st March,	Six months ended 30th September,
	2002	2003	2004	2003	2004	2004	2004
			(Unaudited)			(Unaudited)	
Cash flows from operating activities							
Income before income taxes	¥ 39,010	¥ 27,177	¥ 32,927	¥14,054	¥11,362	\$ 296,506	\$ 102,314
Adjustments to reconcile income before income taxes to net cash provided by operating activities:							
Depreciation and amortisation	12,420	13,244	17,750	6,270	7,050	159,838	63,485
Interest and dividend income	(2,385)	(343)	(875)	(104)	(483)	(7,879)	(4,349)
Interest expense	135	99	84	44	38	756	342
Loss on property and equipment	320	638	317	100	191	2,855	1,720
Loss on real estate put option	-	-	1,197	-	-	10,779	-
Loss (gain) on investment securities	516	166	(1,176)	41	598	(10,590)	5,385
Gain on investments in affiliates	-	(542)	(3,977)	(1,751)	-	(35,813)	-
Gain on liquidation of a special purpose company	-	-	-	-	(209)	-	(1,882)
Changes in operating assets and liabilities:							
Accounts receivable and other receivables, net of advance payments received	(9,976)	1,644	(8,866)	(5,819)	2,279	(79,838)	20,522
Allowance for doubtful accounts	(5)	(11)	7	(12)	(1)	63	(9)
Accounts payable	6,724	(7,435)	(1,158)	(1,434)	(2,220)	(10,428)	(19,991)
Inventories	138	(39)	154	(43)	(389)	1,387	(3,503)
Allowance for employees' retirement benefits and welfare pension plan (Note 15)	(9,526)	628	348	395	108	3,134	973
Other	(1,014)	(7,334)	2,428	1,222	(1,227)	21,864	(11,049)
Subtotal	36,357	27,892	39,160	12,963	17,097	352,634	153,958
Interest and dividends received	1,168	877	859	351	557	7,735	5,016
Interest paid	(143)	(102)	(85)	(43)	(38)	(765)	(342)
Income taxes paid	(20,089)	(14,055)	(10,621)	(5,252)	(12,734)	(95,642)	(114,670)
Net cash provided by operating activities	17,293	14,612	29,313	8,019	4,882	262,962	43,962
Cash flows from investing activities							
Increase in time deposits	-	-	-	-	(6,231)	-	(56,110)
Increase in short-term investment securities	-	-	-	-	(3,589)	-	(32,319)
Acquisition of property and equipment	(7,006)	(4,734)	(12,651)	(1,755)	(3,630)	(113,922)	(32,688)
Proceeds from sales of property and equipment	428	14	138	32	13	1,243	117
Increase in software and other intangibles	(15,879)	(16,221)	(11,396)	(5,688)	(5,234)	(102,620)	(47,132)
Proceeds from sales of software and other intangibles	72	63	138	46	83	1,243	747
Increase in investment securities	(2,167)	(5,921)	(337)	(45)	(28,181)	(3,035)	(253,769)
Proceeds from sales and redemption of investment securities	-	7,010	1,521	12	397	13,697	3,575
Increase in investments in affiliates	(30)	-	-	-	-	-	-
Proceeds from sales of investments in affiliates	14	178	4,472	1,890	-	40,270	-
Acquisition of businesses (Note 15)	-	-	(280)	-	-	(2,521)	-
Other	(169)	616	(748)	27	33	(6,737)	298
Net cash used in investing activities	(24,737)	(18,995)	(19,143)	(5,481)	(46,339)	(172,382)	(417,281)
Cash flows from financing activities							
Net repayment of short-term borrowings	(100)	-	-	-	-	-	-
Repayment of long-term debt	(2,608)	(608)	(608)	(304)	(104)	(5,475)	(937)
Proceeds from issuance of new stock	20,900	-	-	-	-	-	-
Purchase of treasury stock	(2)	-	(2)	-	(2)	(18)	(18)
Cash dividends paid	(215)	(896)	(899)	(898)	(1,797)	(8,095)	(16,181)
Net cash (used in) provided by financing activities	17,975	(1,504)	(1,509)	(1,202)	(1,903)	(13,588)	(17,136)
Effect of exchange rate changes on cash and cash equivalents	549	(556)	(609)	(450)	331	(5,484)	2,981
Net increase (decrease) in cash and cash equivalents	11,080	(6,443)	8,052	886	(43,029)	72,508	(387,474)
Cash and cash equivalents at beginning of year	84,123	95,203	88,760	88,760	96,812	799,280	871,788
Cash and cash equivalents at end of year (Note 15)	¥ 95,203	¥ 88,760	¥96,812	¥89,646	¥53,783	\$871,788	\$484,314

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 24.

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.

1. Significant Accounting Policies (continued)

Basis of Consolidation

The accompanying consolidated financial statements for the years ended 31st March, 2002, 2003 and 2004 and for the six months ended 30th September, 2003 and 2004 include the accounts of the Company and significant companies which are controlled directly or indirectly by the Company. All subsidiaries, (fourteen, sixteen, eighteen, seventeen and nineteen for the years ended 31st March, 2002, 2003 and 2004 and for the six months ended 30th September, 2003 and 2004, respectively) have been consolidated. The major consolidated subsidiary is NRI Data Service, Ltd. Effective for the six months ended 30th September, 2004, NRI Garden Network, Ltd. 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. NIWS Co., Ltd. had been an affiliate accounted for by the equity method, but excluded from the scope of the equity method due to sales of the investment on the occasion of its offering of stock sales during the year ended 31st March, 2004. The net income of the investee before the sales 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.

1. Significant Accounting Policies (continued)

Investment Securities

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

The Company and its consolidated subsidiaries determine the appropriate classification of investment securities as either trading, held-to-maturity or other securities based on their holding 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. 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.

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.

1. Significant Accounting Policies (continued)

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

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

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

Accordingly, no actuarial gain or loss is recognised for the year ended 31st March, 2004. Had the Company followed the same method as applied in the year ended 31st March, 2003, income before income taxes would have been increased by ¥8,077 million (\$72,733 thousand) for the year ended 31st March, 2004, and for the six months ended 30th September, 2004, retirement benefit expenses would have been decreased by ¥269 million (\$2,422 thousand) (unaudited) and operating profit and income before income taxes would have been increased by the same amount.

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, 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 from the six months ended 30th September, 2004. As a result, selling, general and administrative expenses for the six months ended 30th September, 2004 increased by ¥119 million (\$1,072 thousand) (unaudited) and operating profit and income before income taxes decreased by the same amount.

1. Significant Accounting Policies (continued)

Accrual for Retirement Benefits for Directors and Statutory Auditors

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

Leases

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

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.

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 ¥111.05= US\$1.00, the rate of exchange prevailing on 30th September, 2004. The U.S. dollar amounts are included solely for the convenience of the reader and the translation is not intended to imply that the assets and liabilities which originated in yen have been or could be readily converted, realised or settled in U.S. dollars at the above or any other rate.

3. Investments

The following is a summary of market value information regarding other securities included in short-term investment securities, investment securities and investments in affiliates at 31st March, 2003 and 2004 and 30th September, 2004:

a) Marketable securities classified as other securities

	Acquisition cost	<i>Millions of yen</i> Carrying amount	Unrealised gain
	31st March, 2003		
Equity securities	¥3,008	¥23,366	¥20,358

	Acquisition cost	<i>Millions of yen</i> Carrying amount	Unrealised gain
	31st March, 2004		
Equity securities	¥3,029	¥70,589	¥67,560

	Acquisition cost	<i>Millions of yen</i> Carrying amount	Unrealised gain
	30th September, 2004		
		(Unaudited)	
Equity securities	¥34,844	¥82,089	¥47,245

	Acquisition cost	<i>Thousands of U.S. dollars</i> Carrying amount	Unrealised gain
	31st March, 2004		
Equity securities	\$27,276	\$635,651	\$608,375

	Acquisition cost	<i>Thousands of U.S. dollars</i> Carrying amount	Unrealised gain
	30th September, 2004		
		(Unaudited)	
Equity securities	\$313,769	\$739,208	\$425,439

3. Investments (continued)

a) Marketable securities classified as other securities (continued)

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

	<i>Millions of yen</i>			<i>Thousands of U.S. dollars</i>
	2002	2003	2004	2004
Proceeds	¥–	¥6,839	¥1,521	\$13,697
Gross gain	–	6,736	1,217	10,959

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

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

Losses on devaluation of the marketable securities classified as other securities as a result of the permanent decline totaled ¥119 million and ¥171 million for the years ended 31st March, 2002 and 2003. There were no such losses for the years ended 31st March, 2004 and the six months ended 30th September, 2003 and 2004.

The equity securities of NIWS Co., Ltd. had been accounted for by the equity method, however, due to the sale of a part of the investment during the year ended 31st March, 2004, it is classified as other securities and stated at market value at 31st March, 2004. As a result, investment securities increased by ¥13,558 million (\$122,089 thousand), and unrealised gain on marketable securities classified as other securities increased by ¥8,029 million (\$72,301 thousand).

b) Non-marketable securities classified as other securities

	<i>Millions of yen</i>			<i>Thousands of U.S. dollars</i>	
	31st March, 2003	31st March, 2004	30th September, 2004 (Unaudited)	31st March, 2004	30th September, 2004 (Unaudited)
Other securities:					
Equity securities	¥17,488	¥17,478	¥16,433	\$157,389	\$147,978
Other (money management funds)	20,018	20,021	9,522	180,288	85,745
Other (free financial funds)	17,009	27,010	2,000	243,224	18,010
Other (commercial paper)	24,994	32,696	27,998	294,426	252,121

3. Investments (continued)

b) Non-marketable securities classified as other securities (continued)

Investments in affiliates include investments in net assets of affiliate companies accounted for under the equity method totaling ¥1,694 million and ¥430 million (\$3,872 thousand) at 31st March, 2003 and 2004, respectively.

Investments in affiliates include marketable equity securities accounted for under the equity method, carried at ¥1,285 million at 31st March, 2003. Corresponding aggregate quoted market values were ¥5,602 million at 31st March, 2003. There were no such investments at 31st March, 2004 and 30th September, 2004.

4. Derivatives

The Company and certain of its consolidated subsidiaries enter into interest rate swap agreements in order to manage certain risks arising from adverse fluctuations in the interest rates on their bank loans. Those interest rate swaps are used to hedge especially significant risks from fluctuations in the interest rates, and no derivative transactions for trading purposes are permitted under the Company's internal regulations. Although the Company and certain of its subsidiaries are exposed to credit risks in the event of non-performance 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.

Because all derivatives held by a certain consolidated subsidiary at 31st March, 2003 and 2004 and 30th September, 2004 were for hedging purposes, the related information on their respective market value has not been presented.

5. Accounts Receivable and Other Receivables

For projects which have not been completed as of the balance sheet date, the percentage-of-completion method is applied and the estimated revenue considered to be earned from each project has been included in accounts receivable and other receivables in amounts of ¥10,797 million, ¥18,877 million (\$169,986 thousand) and ¥24,383 million (\$219,568 thousand) (unaudited) for the years ended 31st March, 2003 and 2004 and the six months ended 30th September, 2004, respectively.

6. Property and Equipment

Property and equipment are summarised as follows:

	<i>Years</i> Useful life	<i>Millions of yen</i>			<i>Thousands of U.S. dollars</i>	
		31st March, 2003	2004	30th September, 2004	31st March, 2004	30th September, 2004
				(Unaudited)		(Unaudited)
Land		¥ 7,635	¥ 9,857	¥ 9,857	\$ 88,762	\$ 88,762
Buildings	15 – 50	32,140	37,790	38,052	340,297	342,656
Machinery and equipment	3 – 15	41,745	40,070	41,223	360,828	371,211
Accumulated depreciation		(51,246)	(51,055)	(51,071)	(459,747)	(459,891)
Property and equipment, net		<u>¥ 30,274</u>	<u>¥ 36,662</u>	<u>¥ 38,061</u>	<u>\$ 330,140</u>	<u>\$ 342,738</u>

7. Other Assets

Other assets consisted of the following:

	<i>Millions of yen</i>			<i>Thousands of U.S. dollars</i>	
	31st March, 2003	2004	30th September, 2004	31st March, 2004	30th September, 2004
			(Unaudited)		(Unaudited)
Lease deposits	¥ 10,066	¥ 9,622	¥ 9,632	\$ 86,646	\$ 86,736
Investment partnerships	2,108	2,212	2,271	19,919	20,450
Other	1,236	1,747	1,414	15,730	12,732
Other assets	<u>¥13,410</u>	<u>¥13,581</u>	<u>¥13,317</u>	<u>\$122,295</u>	<u>\$119,918</u>

Other includes golf club memberships.

8. Pledged Assets

The following assets at 31st March, 2003 and 2004 and 30th September, 2004 were pledged as collateral for obligations of the Company:

	<i>Millions of yen</i>			<i>Thousands of U.S. dollars</i>	
	31st March, 2003	2004	30th September, 2004	31st March, 2004	30th September, 2004
			(Unaudited)		(Unaudited)
Land	¥2,682	¥2,682	¥2,682	\$24,151	\$24,151
Buildings, net	1,130	1,102	1,088	9,924	9,798
	<u>¥3,812</u>	<u>¥3,784</u>	<u>¥3,770</u>	<u>\$34,075</u>	<u>\$33,949</u>

8. Pledged Assets (continued)

The obligations secured by such collateral at 31st March, 2003 and 2004 and 30th September, 2004 were:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>	
	<u>31st March,</u> <u>2003</u>	<u>2004</u>	<u>31st March,</u> <u>2004</u>	<u>30th September,</u> <u>2004</u>
				(Unaudited)
Long-term debt due within one year	¥ 208	¥ 208	¥ 208	\$ 1,873
Long-term debt	2,310	2,102	1,998	18,928
	<u>¥2,518</u>	<u>¥2,310</u>	<u>¥2,206</u>	<u>\$20,801</u>
				<u>\$19,865</u>

9. Accrued Expenses

Accrued expenses included bonuses to directors and statutory auditors in amount of ¥119 million (\$1,072 thousand) (unaudited) at 30th September, 2004.

10. Long-Term Debt

At 31st March, 2003 and 2004, and 30th September, 2004, no short-term bank borrowings were outstanding.

Long-term debt consisted of the following:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>	
	31st March, 2003	30th September, 2004	31st March, 2004	30th September, 2004
		(Unaudited)		(Unaudited)
Loans principally from banks and insurance companies due through 2015	¥2,918	¥2,310	\$20,801	\$19,865
Less current portion	608	208	1,873	1,873
Long-term debt	<u>¥2,310</u>	<u>¥2,102</u>	<u>\$18,928</u>	<u>\$17,992</u>

The weighted average interest rates on long-term debt due within one year was 2.4%, 3.3% and 3.3% at 31st March, 2003 and 2004 and 30th September, 2004, respectively, and the weighted average interest rates on the noncurrent portion of long-term debt were 3.3%, 3.3% and 3.3% at 31st March, 2003 and 2004 and 30th September, 2004, respectively.

The annual maturities of long-term debt subsequent to 31st March, 2004 and 30th September, 2004 are summarised as follows:

<u>Years to maturities</u>	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>	
	31st March, 2004	30th September, 2004	31st March, 2004	30th September, 2004
		(Unaudited)		(Unaudited)
Due within one year	¥ 208	¥ 208	\$ 1,873	\$ 1,873
Due in 1 – 2 years	208	208	1,873	1,873
Due in 2 – 3 years	208	208	1,873	1,873
Due in 3 – 4 years	208	208	1,873	1,873
Due after 4 years	1,478	1,374	13,309	12,373
Total	<u>¥2,310</u>	<u>¥2,206</u>	<u>\$20,801</u>	<u>\$19,865</u>

11. 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 non-contributory defined benefit pension plans funded through trust banks and insurance companies (the “employee pension plans”).

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

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

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

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

11. Retirement and Severance Benefits (continued)

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

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	31st March,		31st March,
	2003	2004	2004
Retirement benefit obligation	¥(50,743)	¥(58,378)	\$(525,691)
Plan assets at fair value	28,466	43,830	394,687
Unfunded retirement benefit obligation	(22,277)	(14,548)	(131,004)
Unrecognised actuarial gain	—	(8,077)	(72,733)
Unfunded retirement benefit obligation recognised on the balance sheets	<u>¥(22,277)</u>	<u>¥(22,625)</u>	<u>\$(203,737)</u>

Plan assets at fair value includes the employee retirement benefit trust of ¥6,161 million and ¥15,222 million (\$137,073 thousand) at 31st March, 2003 and 2004, respectively.

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

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

	<i>Millions of yen</i>			<i>Thousands of U.S. dollars</i>
	31st March,			31st March,
	2002	2003	2004	2004
Service cost	¥3,467	¥ 3,381	¥ 3,671	\$ 33,057
Interest cost	961	989	1,043	9,392
Expected return on plan assets	(312)	(330)	(335)	(3,016)
Actuarial loss	1,195	6,942	—	—
Subtotal	<u>5,311</u>	<u>10,982</u>	<u>4,379</u>	<u>39,433</u>
Other	—	268	284	2,557
Total	<u>¥5,311</u>	<u>¥11,250</u>	<u>¥4,663</u>	<u>\$41,990</u>

11. 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 was made at the time of the Company's withdrawal from the welfare pension plan at 31st March, 2002.

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

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

	31st March,		
	2002	2003	2004
Discount rate at the end of the year	2.3%	2.1%	1.8%
Expected rate of return on plan assets	1.5%	1.5%	1.5%

12. Other Long-Term Liabilities

Other long-term liabilities included an accrual for retirement benefits for directors and statutory auditors in amounts of ¥826 million, ¥890 million (\$8,014 thousand) and ¥808 million (\$7,276 thousand) (unaudited) at 31st March, 2003 and 2004 and 30th September, 2004, respectively.

13. 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,
	2003	2004	2004
Deferred income tax assets:			
Employees' retirement benefits	¥ 8,167	¥ 8,706	\$ 78,397
Depreciation	2,368	3,199	28,807
Accrued bonuses	2,148	3,039	27,366
Other	2,324	3,176	28,600
	15,007	18,120	163,170
Deferred income tax liabilities:			
Unrealised gain on other securities	(8,543)	(27,396)	(246,700)
Special tax-purpose reserve	(7,147)	(6,488)	(58,424)
Other	(164)	(30)	(270)
	(15,854)	(33,914)	(305,394)
Deferred income tax liabilities, net	¥ (847)	¥ (15,794)	\$ (142,224)

13. Income Taxes (continued)

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

Income taxes applicable to the Company and its consolidated subsidiaries consist of corporation, inhabitants' and enterprise taxes which, in the aggregate, resulted in a statutory tax rate of approximately 42 per cent for each of the years ended 31st March, 2002, 2003 and 2004.

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

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

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

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 six months ended 30th September, 2004 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 six months ended 30th September, 2004 increased by ¥213 million (\$1,918 thousand) (unaudited) and operating profit and income before income taxes decreased by the same amount.

14. 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 ¥570 million, ¥570 million (\$5,133 thousand) and ¥570 million (\$5,133 thousand) (unaudited) as of 31st March, 2003 and 2004 and 30th September, 2004, respectively.

Unrealised gain on other securities is not available for dividends.

Unrealised gain on other securities includes unrealised losses of ¥10 million, ¥41 million (\$369 thousand) and ¥15 million (\$135 thousand) (unaudited) on investment partnerships recorded as other assets as of 31st March, 2003 and 2004 and 30th September, 2004.

15. Cash and Cash Equivalents

A reconciliation between cash and bank deposits in the consolidated balance sheets at 31st March, 2003, 2004 and 30th September, 2004 and cash and cash equivalents in the corresponding statements of cash flows is as follows:

	<i>Millions of yen</i>			<i>Thousands of U.S. dollars</i>	
	31st March, 2003	2004	30th September, 2004	31st March, 2004	30th September, 2004
			(Unaudited)		(Unaudited)
Cash and bank deposits	¥26,739	¥17,085	¥20,494	\$153,850	\$184,548
Short-term investments maturing within three months from the acquisition dates	62,021	79,727	–	717,938	–
Short-term investment securities	–	–	43,108	–	388,186
Time deposits with maturities of more than three months when deposited	–	–	(6,231)	–	(56,110)
Bond and other investments maturing in more than three months from the acquisition date	–	–	(3,588)	–	(32,310)
Cash and cash equivalents	<u>¥88,760</u>	<u>¥96,812</u>	<u>¥53,783</u>	<u>\$871,788</u>	<u>\$484,314</u>

15. Cash and Cash Equivalents (continued)

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

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	31st March,		31st March,
	2003	2004	2004
Non-cash transactions:			
Employee's retirement benefit fund trust			
Contribution of investment securities into employees' retirement benefit fund trust – book value	¥ 103	¥–	\$–
Gain on securities contributed to an employee retirement benefit trust	6,736	–	–
Contribution of investment securities into employees' retirement benefit fund trust – fair value	¥6,839	¥–	\$–
	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	31st March,		31st March,
	2003	2004	2004
Net cash used for acquisition of businesses:			
Tangible fixed asset acquired	¥–	¥ 12	\$ 108
Intangible fixed asset acquired	–	268	2,413
Cash provided for acquisition	¥–	¥ 280	\$ 2,521

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

16. Per Share Data

The per share data are summarised as follows:

	<i>Yen</i>				
	31st March,			30th September,	
	2002	2003	2004	2003	2004
				(Unaudited)	(Unaudited)
Earnings per share	¥504.96	¥337.26	¥399.44	¥175.37	¥152.94
Diluted earnings per share	¥–	¥–	¥399.42	¥–	¥152.92

	<i>Yen</i>		
	31st March,	30th September,	
	2003	2004	2004
			(Unaudited)
Shareholders' equity per share	¥4,112.61	¥5,089.72	¥4,943.43

	<i>U.S. dollars</i>	
	31st March,	30th September,
	2004	2004
		(Unaudited)
Earnings per share	\$ 3.60	\$ 1.38
Diluted earnings per share	3.60	1.38
Shareholders' equity per share	45.83	44.52

The computation of earnings and shareholders' equity per share is based on the weighted average number of shares of common stock outstanding during each period and the number of shares outstanding at each balance sheet date, respectively. Diluted earnings per share is not presented as potential common shares have an antidilutive effect for the year ended 31st March, 2002 and 2003 and the six months ended 30th September, 2003.

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

16. Per Share Data (continued)

The computation of earnings per share and diluted earnings per share for the years ended 31st March, 2002, 2003 and 2004, and the six months ended 30th September, 2003 and 2004 is as follows:

	<i>Millions of yen</i>				
	31st March,			30th September,	
	2002	2003	2004	2003	2004
				(Unaudited)	
Numerator:					
Earnings	¥22,364	¥15,459	¥18,269	¥7,892	¥6,882
Earnings not available to common stockholders:					
Bonus to directors and statutory auditors	(361)	(283)	(295)	–	–
Earnings available to common stockholders	<u>¥22,003</u>	<u>¥15,176</u>	<u>¥17,974</u>	<u>¥7,892</u>	<u>¥6,882</u>
Denominator					
(Weighted average shares):					
Denominator for earnings per share	43,573,749	44,999,900	44,999,873	44,999,900	44,999,644
Potential dilutive common shares-stock options	–	–	2,018	–	5,711
Denominator for diluted earnings per share	<u>43,573,749</u>	<u>44,999,900</u>	<u>45,001,891</u>	<u>44,999,900</u>	<u>45,005,355</u>

16. Per Share Data (continued)

	<i>Thousands of U.S. dollars</i>	
	31st March, 2004	30th September, 2004
		(Unaudited)
Numerator:		
Earnings	\$164,512	\$61,972
Earnings not available to common stockholders:		
Bonus to directors and statutory auditors	(2,656)	–
Earnings available to common stockholders	<u>\$161,856</u>	<u>\$61,972</u>
Denominator		
(Weighted average shares):		
Denominator for earnings per share	44,999,873	44,999,644
Potential dilutive common shares-stock options	<u>2,018</u>	<u>5,711</u>
Denominator for diluted earnings per share	<u>45,001,891</u>	<u>45,005,355</u>

16. Per Share Data (continued)

The following potential common shares have an antidilutive effect, and thus are not included in the diluted earnings per share calculation for the year ended 31st March, 2003 and 2004 and the six months ended 30th September, 2003 and 2004. No potential common shares existed for the year ended 31st March, 2002.

	<i>Yen</i>				<i>U.S. dollars</i>	
	31st March,		30th September,		31st March,	30th September,
	2003	2004	2003	2004	2004	2004
			(Unaudited)			(Unaudited)
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	80,500	80,500	80,500	80,500
Exercise price per share	¥ 17,913	¥ 17,913	¥ 17,913	¥ 17,913	\$161.31	\$ 161.31
Average stock price for the period that subscription rights are outstanding	¥12,059.30	¥10,488.54	¥8,673.25	¥10,833.39	\$94.45	\$ 97.55
b) Subscription rights of 830 units issued on 12th August, 2003						
Number of shares reserved for the purpose of new share issuance against exercise of the subscription rights (shares)	–	–	83,000	–	–	–
Exercise price per share	–	–	¥ 10,088	–	–	–
Average stock price for the period that subscription rights are outstanding	–	–	¥10,022.06	–	–	–
c) 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	–	84,500
Exercise price per share	–	–	–	¥ 11,418	–	\$102.82
Average stock price for the period that subscription rights are outstanding	–	–	–	¥10,343.68	–	\$93.14

17. Leases

1) Lessee

The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of the leased assets as of 31st March, 2003 and 2004 and 30th September, 2004, which would have been reflected in the consolidated balance sheets if finance lease accounting had been applied to the finance leases currently accounted for as operating leases:

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

	<i>Millions of yen</i>		
	Acquisition costs	Accumulated depreciation	Net book value
	30th September, 2004		
	(Unaudited)		
Machinery and equipment	¥10,838	¥6,752	¥4,086
Software	926	677	249
Total	¥11,764	¥7,429	¥4,335

	<i>Thousands of U.S. dollars</i>		
	Acquisition costs	Accumulated depreciation	Net book value
	31st March, 2004		
Machinery and equipment	\$115,857	\$70,014	\$45,843
Software	8,645	5,511	3,134
Total	\$124,502	\$75,525	\$48,977

	<i>Thousands of U.S. dollars</i>		
	Acquisition costs	Accumulated depreciation	Net book value
	30th September, 2004		
	(Unaudited)		
Machinery and equipment	\$97,595	\$60,802	\$36,793
Software	8,339	6,096	2,243
Total	\$105,934	\$66,898	\$39,036

17. Leases (continued)

1) Lessee (continued)

Lease payments, depreciation and interest expense for these finance leases for the years ended 31st March, 2002, 2003 and 2004 and for the six months ended 30th September, 2003 and 2004 are summarised as follows:

	<i>Millions of yen</i>			<i>Thousands of U.S. dollars</i>
	31st March,			31st March,
	2002	2003	2004	2004
Lease payments	¥3,445	¥3,757	¥3,391	\$30,536
Depreciation	3,258	3,569	3,246	29,230
Interest expense	187	150	115	1,036

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	30th September,		30th September,
	2003	2004	2004
	(Unaudited)		(Unaudited)
Lease payments	¥1,743	¥1,379	\$12,418
Depreciation	1,665	1,321	11,896
Interest expense	64	42	378

Future minimum lease payments for finance leases accounted for as operating leases and noncancelable operating leases as of 31st March, 2003 and 2004 and as of 30th September, 2004 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,	
	2003	2004	2003	2004	2004	
Future minimum lease payments due:						
Within one year	¥3,677	¥2,875	¥278	¥161	\$25,889	\$1,450
Thereafter	5,342	3,850	413	370	34,669	3,332
Total	¥9,019	¥6,725	¥691	¥531	\$60,558	\$4,782

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>	
	Finance leases	Operating leases	Finance leases	Operating leases
	30th September, 2004		30th September, 2004	
	(Unaudited)		(Unaudited)	
Future minimum lease payments due:				
Within one year	¥2,495	¥137	\$22,467	\$1,234
Thereafter	3,238	328	29,158	2,954
Total	¥5,733	¥465	\$51,625	\$4,188

17. 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, 2003. There were no such balances at 31st March, 2004 and 30th September, 2004.

	<i>Millions of yen</i>		
	<u>Acquisition costs</u>	<u>Accumulated depreciation</u>	<u>Net book value</u>
	<u>31st March, 2003</u>		
Machinery and equipment	¥ 957	¥ 957	¥-
Software	63	63	-
Total	<u>¥1,020</u>	<u>¥1,020</u>	<u>¥-</u>

Lease revenue, depreciation and interest income for these finance leases for the years ended 31st March, 2002 and 2003 are summarized as follows. There were no such transactions for the year ended 31st March, 2004 and the six months ended 30th September, 2003 and 2004.

	<i>Millions of yen</i>	
	<u>Year ended 31st March,</u>	
	<u>2002</u>	<u>2003</u>
Lease revenue	¥501	¥131
Depreciation	412	102
Interest income	55	10

17. Leases (continued)

2) Lessor (continued)

Future minimum lease income for subleases as finance leases and operating leases as of 31st March, 2003 and 2004 and as of 30th September, 2004 is summarised as follows:

	<i>Millions of yen</i>				<i>Thousands of U.S. dollars</i>	
	Subleases*		Operating leases		Subleases*	Operating leases
	31st March,		31st March,		31st March,	
	2003	2004	2003	2004	2004	
Future minimum lease income due:						
Within one year	¥ 916	¥ 960	¥–	¥–	\$ 8,645	\$–
Thereafter	1,372	1,587	–	–	14,291	–
Total	<u>¥2,288</u>	<u>¥2,547</u>	<u>¥–</u>	<u>¥–</u>	<u>\$22,936</u>	<u>\$–</u>

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>	
	Subleases*	Operating leases	Subleases*	Operating leases
	30th September, 2004		30th September, 2004	
	(Unaudited)		(Unaudited)	
Future minimum lease income due:				
Within one year	¥1,007	¥ 21	\$ 9,068	\$ 189
Thereafter	1,909	133	17,190	1,198
Total	<u>¥2,916</u>	<u>¥154</u>	<u>\$26,258</u>	<u>\$1,387</u>

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

18. Selling, General and Administrative Expenses

The details of selling, general and administrative expenses for the years ended 31st March, 2002, 2003 and 2004 and for the six months ended 30th September, 2003 and 2004 are summarised as follows:

	<i>Millions of yen</i>					<i>Thousands of U.S. dollars</i>	
	31st March,			30th September,		31st March,	30th September,
	2002	2003	2004	2003	2004	2004	2004
				(Unaudited)			(Unaudited)
Personnel expenses	¥14,818	¥15,669	¥17,474	¥ 8,740	¥ 8,961	\$157,353	\$ 80,693
Rent	4,103	3,737	3,505	1,749	1,675	31,562	15,083
Subcontractor costs	5,136	5,511	3,355	1,705	1,553	30,212	13,985
Other	8,511	7,118	7,615	3,858	3,815	68,572	34,354
Total	<u>¥32,568</u>	<u>¥32,035</u>	<u>¥31,949</u>	<u>¥16,052</u>	<u>¥16,004</u>	<u>\$287,699</u>	<u>\$144,115</u>

19. Research and Development Costs

Research and development costs included in selling, general and administrative expenses for the years ended 31st March, 2002, 2003 and 2004 and for the six months ended 30th September, 2003 and 2004 are summarised as follows:

<i>Millions of yen</i>					<i>Thousands of U.S. dollars</i>	
31st March,			30th September,		31st March,	30th September,
2002	2003	2004	2003	2004	2004	2004
			(Unaudited)			(Unaudited)
¥3,051	¥2,509	¥2,217	¥922	¥593	\$19,964	\$5,340

20. Other Income (Expenses)

1) Loss on real estate put option

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

2) Gain on investment securities

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

3) Loss on investment securities

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

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

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

Loss on investment securities for the six months ended 30th September, 2004 consisted principally of loss on the devaluation of shares of Japan Investor Solutions & Technologies Co., Ltd. as a result of their decline in value which was deemed permanent.

20. Other Income (Expenses) (continued)

4) Gain on investments in affiliates

Gain on investments in affiliates for the years ended 31st March, 2002, 2003 and 2004 and for the six months ended 30th September, 2003 and 2004 is summarised as follows:

	<i>Millions of yen</i>					<i>Thousands of U.S. dollars</i>	
	31st March,			30th September,		31st March,	30th September,
	2002	2003	2004	2003	2004	2004	2004
				(Unaudited)			(Unaudited)
Gain on sales of investments in affiliates	¥ –	¥137	¥3,784	¥1,558	¥–	\$34,075	\$–
Gain from changes in equity	–	405	193	193	–	1,738	–
	<u>¥ –</u>	<u>¥542</u>	<u>¥3,977</u>	<u>¥1,751</u>	<u>¥–</u>	<u>\$35,813</u>	<u>\$–</u>

Gain on sales of investments in affiliates for the years ended 31st March, 2003 and 2004 and for the six months ended 30th September, 2003 relates to the sale of shares of NIWS Co., Ltd.

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

Gain from changes in equity for the six months ended 30th September, 2003 and for the year ended 31st March, 2004 relates to the changes in equity of NIWS Co., Ltd. due to its sales of treasury stock.

5) Gain on liquidation of a special purpose company

Gain on liquidation of a special purpose company is a gain incurred on the liquidation of South Plaza Co., Ltd.

6) Actuarial loss

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

7) Reversal of allowance for the welfare pension plan

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

20. Other Income (Expenses) (continued)

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

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

9) Head office relocation cost

Head office relocation cost arose from relocation of head office of the Company and certain of its consolidated subsidiaries.

21. Related Party Transactions

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

1) Transactions

Related party	Nature of transaction	Millions of yen			Thousands of
		2002	2003	2004	U.S. dollars
		31st March,			31st March,
					2004
a) Major shareholders					
Nomura Holdings, Inc. (formerly The Nomura Securities Co., Ltd.) *1	Sales	¥48,967	¥48,690	¥43,892	\$395,245
	Redemption of deposit	–	4,000	–	–
	Sale of investment in Nomura- CITIC International Economic Consultants Co., Ltd.	–	45	–	–
	Gain on above sale	–	41	–	–
b) Major shareholders' subsidiaries					
Nomura Real Estate Development Co., Ltd.*2	Rent	3,865	3,777	3,579	32,229
N.F. Biru Investments Co., Ltd. *3	Redemption of bond	–	7,000	–	–
	Interest received	201	269	–	–
The Nomura Securities Co., Ltd. *1 *4	Subscription received for new stocks	20,900	–	–	–
	Underwriting commission of new stocks	(1,100)	–	–	–
Nomura Financial Resources Corporation	Loan	20,000	–	–	–
	Interest received on loan	2	–	–	–

21. Related Party Transactions (continued)

2) Balances

Related party	Nature of transaction	Millions of yen		Thousands of
		31st March,		U.S. dollars
		2003	2004	31st March, 2004
a) Major shareholders Nomura Holdings, Inc. (formerly The Nomura Securities Co., Ltd.) *1	Accounts receivable and other receivables	¥6,997	¥4,994	\$44,971
b) Major shareholders' subsidiaries Nomura Real Estate Development Co., Ltd.*2	Lease deposits paid	3,543	3,542	31,896

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

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

*2 Nomura Real Estate Development Co., Ltd is no longer a related party as of 30th September, 2004.

*3 The bond was redeemed on 25th March, 2003 before maturity with additional interest of 1% principal.

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

22. Contingent Liabilities

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

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

23. 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, 2004. No subsequent changes in the status of the subscription rights occurred through 31st October, 2004.

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

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

845 Units of subscription rights to purchase new shares were issued on 24th June, 2004 and 84,500 ordinary shares are reserved for exercise of the subscription rights. The exercise price is ¥11,418 per share and the exercise period is from 1st July, 2006 to 30th June, 2009. 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 ¥11,418 and ¥5,709, respectively.

23. 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 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. Other terms and conditions are defined by the resolution of the board of directors.

24. 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, 2002, 2003 and 2004 and for the six months ended 30th September, 2003 and 2004 is summarised as follows:

Business segments

	<i>Millions of yen</i>				
	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

24. Segment Information (continued)

Business segments (continued)

Millions of yen

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

Millions of yen

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

Corporate assets included under “Eliminations and Corporate” at 31st March, 2002, 2003 and 2004 amounted to ¥171,356 million, ¥122,817 million and ¥178,295 (\$1,605,538 thousand), respectively, and consisted principally of surplus funds and investment securities.

Millions of yen

Six months ended 30th September, 2003 (Unaudited)					
	System solutions services	Consulting/ knowledge services	Total	Eliminations and corporate	Consolidated
I. Sales and operating profit					
Sales to external customers	¥92,090	¥21,219	¥113,309	¥ –	¥113,309
Intersegment sales or transfers	1,733	789	2,522	(2,522)	–
Total sales	93,823	22,008	115,831	(2,522)	113,309
Operating expenses	84,573	19,150	103,723	(2,521)	101,202
Operating profit	¥ 9,250	¥ 2,858	¥ 12,108	¥ (1)	¥ 12,107

24. Segment Information (continued)

Business segments (continued)

Millions of yen

Six months ended 30th September, 2004 (Unaudited)					
	System solutions services	Consulting/ knowledge services	Total	Eliminations and corporate	Consolidated
I. Sales and operating profit					
Sales to external customers	¥96,011	¥19,156	¥115,167	¥ –	¥115,167
Intersegment sales or transfers	1,295	858	2,153	(2,153)	–
Total sales	97,306	20,014	117,320	(2,153)	115,167
Operating expenses	87,594	17,407	105,001	(2,153)	102,848
Operating profit	¥ 9,712	¥ 2,607	¥ 12,319	¥ –	¥ 12,319

Thousands of U.S. dollars

Year ended 31st March, 2004					
	System solutions services	Consulting/ knowledge services	Total	Eliminations and corporate	Consolidated
I. Sales and operating profit					
Sales to external customers	\$1,756,371	\$387,420	\$2,143,791	\$ –	\$2,143,791
Intersegment sales or transfers	31,211	13,949	45,160	(45,160)	–
Total sales	1,787,582	401,369	2,188,951	(45,160)	2,143,791
Operating expenses	1,586,781	349,788	1,936,569	(45,115)	1,891,454
Operating profit	\$ 200,801	\$ 51,581	\$ 252,382	\$ (45)	\$ 252,337

II. Total assets, depreciation and amortisation and capital expenditures					
Total assets	\$1,099,289	\$245,709	\$1,344,998	\$1,597,821	\$2,942,819
Depreciation and amortisation	136,461	23,377	159,838	–	159,838
Capital expenditures	197,019	21,342	218,361	(36)	218,325

Thousands of U.S. dollars

Six months ended 30th September, 2004 (Unaudited)					
	System solutions services	Consulting/ knowledge services	Total	Eliminations and corporate	Consolidated
I. Sales and operating profit					
Sales to external customers	\$864,575	\$172,498	\$1,037,073	\$ –	\$1,037,073
Intersegment sales or transfers	11,661	7,727	19,388	(19,388)	–
Total sales	876,236	180,225	1,056,461	(19,388)	1,037,073
Operating expenses	788,780	156,749	945,529	(19,388)	926,141
Operating profit	\$ 87,456	\$ 23,476	\$ 110,932	\$ –	\$ 110,932

24. Segment Information (continued)

Prior to 1st April, 2003, actuarial gain or loss had been charged to income as incurred, however, the Company changed its policy, for the year ended 31st March, 2004, to amortise unrecognised actuarial gain or loss over a defined period, not exceeding the average remaining period of employment (15 years), by the straight-line method and recognise as a pension cost starting from the fiscal year following the fiscal year in which such gain or loss is incurred. As a result, operating expenses of System solutions services segment and Consulting/knowledge services segment for the six months ended 30th September, 2004 decreased by ¥191 million (\$1,720 thousand) (unaudited) and ¥78 million (\$702 thousand) (unaudited), respectively, and operating profit for those segments increased by the same amount.

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 six months ended 30th September, 2004. As a result, operating expenses of System solutions services segment and Consulting/knowledge services segment for the six months ended 30th September, 2004 increased by ¥98 million (\$883 thousand) (unaudited) and ¥21 million (\$189 thousand) (unaudited), 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 six months ended 30th September, 2004. As a result, operating expenses of System solutions services segment and Consulting/knowledge services segment for the six months ended 30th September, 2004 increased by ¥162 million (\$1,459 thousand) (unaudited) and ¥51 million (\$459 thousand) (unaudited), respectively, and operating profit for those segments decreased by the same amount.

Geographical segments

Because sales and assets in the domestic segment constituted more than 90% of total segment sales and assets for the years ended 31st March, 2002, 2003 and 2004 and the six months ended 30th September, 2003 and 2004, geographical segment information has not been presented.

Overseas sales

Because overseas sales were less than 10% of consolidated sales for the years ended 31st March, 2002, 2003 and 2004 and the six months ended 30th September, 2003 and 2004, no disclosure of overseas sales has been made.

25. Subsequent Event

The following interim cash dividend, which has not been reflected in the consolidated financial statements for the six months ended 30th September, 2004, was approved at a meeting of the board of directors held on 28th October, 2004.

	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>
Interim cash dividend (¥20.00 = \$0.18 per share)	¥900	\$8,104

[Appendix (1)]

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

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

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

1. Leases Capitalized as Assets

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

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

2. Impairment of Long-Lived Assets

Japanese GAAP requires carrying tangible and intangible fixed assets at cost less depreciation, and requires review for impairment of such assets for financial statements issued for fiscal years beginning after April 1, 2005 wherever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If the expected future cash flows are less than the carrying amount of such an asset, an impairment loss is recognized.

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

3. Transferors of Real Estate to Special Purpose Entities

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

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

4. Accounting for Compensated Absences

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

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

5. Stock Option Plans

Under Japanese GAAP, there is no specific accounting standard for stock option plans. Generally, if subscription rights have no intrinsic value at the date of issuance, no expense for the issuance of share subscription rights is recognized.

Under U.S. GAAP, stock options are accounted for under the fair value method or the intrinsic value method. When the intrinsic value method is applied, pro forma disclosures as if the fair value method was being applied, are required. Such disclosure is not currently required under Japanese GAAP.

6. Interest Rate Swap

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

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

7. Bonuses to Directors and Statutory Auditors

Under Japanese GAAP, it is allowed that bonuses to directors are accounted for as an appropriation of retained earnings and are recorded after approval by the shareholders as the Company follows 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 relates.

8. Revenue Recognition

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

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

9. Guarantor's Accounting for Guarantees

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

[Appendix (2)]

SUBSIDIARIES AND AFFILIATES

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

At 30th September, 2004, 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 30th September, 2004.

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

Name	Country	Main Business	Issued Capital (thousands)	Equity held by the Company (per cent.)
Subsidiaries(continued)				
Nomura Research Institute Europe Limited	England	Research and development and operation of information management systems in Europe	£1,350	100.0
Nomura Research Institute Beijing Limited	China	Development and operation of information management systems in China	U.S.\$3,000	100.0
Nomura Research Institute Shanghai Limited	China	Consulting in China	U.S.\$1,500	100.0
Nomura Research Institute Hong Kong Limited	China	Research and development and operation of information management systems in Asia	HK\$16,181	100.0
Nomura Research Institute (Singapore) Private Limited	Singapore	Research and development and operation of information management systems in Asia	Sing\$1,400	100.0
Affiliates				
Nomura Funds Research and Technologies Co., Ltd.	Japan	Management of fund-of-funds, valuation of funds, pension consulting	¥400,000	49.0
Nippon Clearing Services Co., Ltd	Japan	Back-office services for mid-tier securities companies	¥300,000	40.0

MAJOR SHAREHOLDERS

Shareholders	Number of Shares Owned (thousands)	Percentage of Shares Outstanding
Nomura Asset Management Co., Ltd.	8,677	19.28
Nomura Facilities, Inc.	7,720	17.16
JAFCO Co., Ltd.	3,380	7.51
The Master Trust Bank of Japan, Ltd.(Trust Account)	3,002	6.67
Nomura Holdings, Inc.	2,600	5.78
Japan Trustee Services Bank, Ltd. (Trust Account)	2,015	4.48
NRI Group Employee Stock Ownership Association	1,024	2.28
WORLD NICHIEI FRONTIER Securities Co., Ltd.	680	1.51
TAKAGI SECURITIES CO., LTD.	550	1.22
State Street Bank and Trust Company	458	1.02

*At 18th May, 2004, Nomura Land and Building Co., Ltd. is no longer a major shareholder as a result of selling 7,720,000 shares to Nomura Facilities, Inc.(old corporate name “Nomura Realty Capital Management Co., Ltd.”). Nomura Facilities, Inc., instead, became a major shareholder.