

Consolidated Financial Statements

Nomura Research Institute, Ltd.

*At 31st March, 2004 and 2005 and
for the years ended 31st March, 2003, 2004 and 2005
with Report of Independent Auditors*

Nomura Research Institute, Ltd.

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Report of Independent Auditors

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

We have audited the accompanying consolidated balance sheets of Nomura Research Institute, Ltd. and its consolidated subsidiaries as of 31st March, 2004 and 2005, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended 31st March, 2005, all expressed in Japanese yen. These financial statements are the responsibility of the Company's management. Our responsibility is to independently 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, 2004 and 2005, and the consolidated results of their operations and their cash flows for each of the three years in the period ended 31st March, 2005 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 are incurred.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended 31st March, 2005 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 2 to the consolidated financial statements.



23rd June, 2005

Nomura Research Institute, Ltd.

Consolidated Balance Sheets

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars (Note 2)</i>
	31st March,		31st March,
	2004	2005	2005
Assets			
Current assets:			
Cash and bank deposits (<i>Note 15</i>)	¥ 17,085	¥ 18,524	\$ 172,605
Short-term investment securities (<i>Notes 3 and 15</i>)	79,727	52,224	486,619
Accounts receivable and other receivables (<i>Notes 5 and 21</i>)	51,318	56,696	528,289
Inventories	100	758	7,063
Deferred income taxes (<i>Note 13</i>)	5,137	6,049	56,364
Other current assets	936	1,320	12,301
Allowance for doubtful accounts	(51)	(56)	(522)
Total current assets	154,252	135,515	1,262,719
Property and equipment (<i>Notes 6 and 8</i>):			
Land	9,857	9,257	86,256
Buildings, net	16,806	16,400	152,814
Machinery and equipment, net	9,999	11,638	108,442
Property and equipment, net	36,662	37,295	347,512
Software and other intangibles	32,505	22,418	208,889
Investment securities (<i>Notes 3 and 21</i>)	86,171	107,673	1,003,289
Investments in affiliates (<i>Note 3</i>)	2,326	2,158	20,108
Deferred income taxes (<i>Note 13</i>)	1,336	1,490	13,884
Other assets (<i>Notes 7 and 21</i>)	13,581	10,838	100,988
Allowance for doubtful accounts	(33)	(46)	(429)
Total assets	¥326,800	¥317,341	\$2,956,960

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars (Note 2)</i>
	31st March,		31st March,
	2004	2005	2005
Liabilities and shareholders' equity			
Current liabilities:			
Long-term debt due within one year (Notes 8 and 10)	¥ 208	¥ 240	\$ 2,236
Accounts payable	20,155	19,793	184,430
Accrued expenses (Notes 9)	11,114	12,507	116,539
Income taxes payable	12,705	12,048	112,262
Other current liabilities	5,403	5,413	50,439
Total current liabilities	49,585	50,001	465,906
Long-term debt (Notes 8 and 10)	2,102	840	7,827
Allowance for employees' retirement benefits (Note 11)	22,625	22,698	211,498
Deferred income taxes (Note 13)	22,267	11,162	104,007
Other long-term liabilities (Notes 12 and 21)	890	873	8,135
Commitments and contingent liabilities (Note 22)			
Shareholders' equity (Notes 14 and 16):			
Common stock			
Authorised – 150,000,000 shares at 31st March, 2004 and 2005, respectively			
Issued – 45,000,000 shares at 31st March, 2004 and 2005, respectively	18,600	18,600	173,313
Additional paid-in capital	14,800	14,800	137,905
Retained earnings	156,710	170,018	1,584,215
Unrealised gain on other securities (Note 3)	40,082	28,988	270,108
Translation adjustments	(857)	(633)	(5,898)
Treasury stock, at cost			
– 279 shares at 31st March, 2004 and 558 shares at 31st March, 2005	(4)	(6)	(56)
Total shareholders' equity	229,331	231,767	2,159,587
Total liabilities and shareholders' equity	¥ 326,800	¥ 317,341	\$2,956,960

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,			Year ended 31st March,
	2003	2004	2005	2005
Sales (Note 21)	¥232,744	¥238,068	¥252,963	\$2,357,091
Cost of sales (Note 21)	173,545	178,097	190,732	1,777,227
Gross profit	59,199	59,971	62,231	579,864
Selling, general and administrative expenses (Notes 18, 19 and 21)	32,035	31,949	32,072	298,845
Operating profit	27,164	28,022	30,159	281,019
Other income (expenses):				
Interest and dividend income (Note 21)	343	875	702	6,541
Equity in earnings of affiliates	168	401	227	2,115
Interest expense (Note 10)	(99)	(84)	(215)	(2,003)
Loss on property and equipment	(638)	(317)	(203)	(1,892)
Loss on real estate put option (Note 20)	–	(1,197)	–	–
Impairment loss on software (Note 20)	–	–	(6,526)	(60,809)
(Loss) gain on investment securities (Notes 3, 20 and 21)	(166)	1,176	3,882	36,172
Gain on investments in affiliates (Note 20)	542	3,977	–	–
Gain on liquidation of a special purpose company (Note 20)	–	–	209	1,947
Actuarial loss (Notes 11 and 20)	(6,942)	–	–	–
Gain on securities contributed to an employee retirement benefit trust (Notes 3, 11, 15 and 20)	6,736	–	–	–
Head office relocation cost (Note 20)	–	–	(981)	(9,141)
Other, net	69	74	107	998
	13	4,905	(2,798)	(26,072)
Income before income taxes	27,177	32,927	27,361	254,947
Provision for income taxes (Note 13):				
Current	10,687	18,198	15,646	145,788
Deferred	1,031	(3,540)	(4,588)	(42,751)
	11,718	14,658	11,058	103,037
Net income (Note 16)	¥ 15,459	¥ 18,269	¥ 16,303	\$ 151,910

See accompanying notes to consolidated financial statements.

Nomura Research Institute, Ltd.

Consolidated Statements of Changes in Shareholders' Equity

Millions of yen

	Common stock	Additional paid-in capital	Retained earnings	Unrealised gain on other securities	Translation adjustments	Treasury stock	Total shareholders' equity
Balance at 31st March, 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
Purchase of treasury stock	-	-	-	-	-	(2)	(2)
Net income	-	-	16,303	-	-	-	16,303
Cash dividends paid	-	-	(2,700)	-	-	-	(2,700)
Bonuses to directors and statutory auditors	-	-	(295)	-	-	-	(295)
Unrealised gain on other securities	-	-	-	(11,094)	-	-	(11,094)
Translation adjustments	-	-	-	-	224	-	224
Balance at 31st March, 2005	¥18,600	¥14,800	¥170,018	¥28,988	¥(633)	¥(6)	¥231,767

Nomura Research Institute, Ltd.

Consolidated Statements of Changes in Shareholders' Equity (continued)

Thousands of U.S. dollars (Note 2)

	Common stock	Additional paid-in capital	Retained earnings	Unrealised gain on other securities	Translation adjustments	Treasury stock	Total shareholders' equity
Balance at 31st March, 2004	\$173,313	\$137,905	\$1,460,212	\$373,481	\$ (7,985)	\$(37)	\$2,136,889
Purchase of treasury stock	–	–	–	–	–	(19)	(19)
Net income	–	–	151,910	–	–	–	151,910
Cash dividends paid	–	–	(25,158)	–	–	–	(25,158)
Bonuses to directors and statutory auditors	–	–	(2,749)	–	–	–	(2,749)
Unrealised gain on other securities	–	–	–	(103,373)	–	–	(103,373)
Translation adjustments	–	–	–	–	2,087	–	2,087
Balance at 31st March, 2005	<u>\$173,313</u>	<u>\$137,905</u>	<u>\$1,584,215</u>	<u>\$270,108</u>	<u>\$ (5,898)</u>	<u>\$(56)</u>	<u>\$2,159,587</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,			Year ended 31st March,
	2003	2004	2005	2005
Cash flows from operating activities				
Income before income taxes	¥ 27,177	¥ 32,927	¥ 27,361	\$ 254,947
Adjustments to reconcile income before income taxes to net cash provided by operating activities:				
Depreciation and amortization	13,244	17,750	18,403	171,478
Interest and dividend income	(343)	(875)	(702)	(6,541)
Interest expense	99	84	215	2,003
Loss on property and equipment	638	317	203	1,892
Loss on real estate put option	-	1,197	-	-
Impairment loss on software	-	-	6,526	60,809
Loss (gain) on investment securities	166	(1,176)	(3,882)	(36,172)
Gain on investments in affiliates	(542)	(3,977)	-	-
Gain on liquidation of a special purpose company	-	-	(209)	(1,947)
Changes in operating assets and liabilities:				
Accounts receivable and other receivables, net of advance payments received	1,644	(8,866)	(4,880)	(45,471)
Allowance for doubtful accounts	(11)	7	18	168
Accounts payable	(7,435)	(1,158)	(364)	(3,392)
Inventories	(39)	154	(658)	(6,131)
Allowance for employees' retirement benefits and welfare pension plan	628	348	73	680
Other	(7,334)	2,428	1,608	14,982
Subtotal	27,892	39,160	43,712	407,305
Interest and dividends received	877	859	742	6,914
Interest paid	(102)	(85)	(215)	(2,003)
Income taxes paid	(14,055)	(10,621)	(16,669)	(155,321)
Net cash provided by operating activities	14,612	29,313	27,570	256,895
Cash flows from investing activities				
Increase in time deposits	-	-	(6,148)	(57,287)
Increase in short-term investment securities	-	-	(25,984)	(242,117)
Acquisition of property and equipment	(4,734)	(12,651)	(8,052)	(75,028)
Proceeds from sales of property and equipment	14	138	837	7,799
Increase in liquidation of a special purpose company	-	-	213	1,985
Increase in software and other intangibles	(16,221)	(11,396)	(9,327)	(86,908)
Proceeds from sales of software and other intangibles	63	138	113	1,053
Increase in investment securities	(5,921)	(337)	(39,889)	(371,683)
Proceeds from sales and redemption of investment securities	7,010	1,521	6,131	57,128
Proceeds from sales of investments in affiliates	178	4,472	-	-
Acquisition of businesses	-	(280)	-	-
Other	616	(748)	124	1,156
Net cash used in investing activities	(18,995)	(19,143)	(81,982)	(763,902)
Cash flows from financing activities				
Proceeds from long-term debt	-	-	1,200	11,182
Repayment of long-term debt	(608)	(608)	(2,430)	(22,643)
Purchase of treasury stock	-	(2)	(2)	(19)
Cash dividends paid	(896)	(899)	(2,696)	(25,121)
Net cash used in financing activities	(1,504)	(1,509)	(3,928)	(36,601)
Effect of exchange rate changes on cash and cash equivalents	(556)	(609)	206	1,919
Net increase (decrease) in cash and cash equivalents	(6,443)	8,052	(58,134)	(541,689)
Cash and cash equivalents at beginning of year	95,203	88,760	96,812	902,088
Cash and cash equivalents at end of year	¥ 88,760	¥ 96,812	¥ 38,678	\$ 360,399

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.

Basis of Consolidation

The accompanying consolidated financial statements for the years ended 31st March, 2003, 2004 and 2005 include the accounts of the Company and significant companies which are controlled directly or indirectly by the Company. All subsidiaries, (sixteen, eighteen and nineteen for the years ended 31st March, 2003, 2004 and 2005, respectively) have been consolidated. The major consolidated subsidiary is NRI Data Service, Ltd. Effective for the year ended 31st March, 2005, NRI Garden Network, Ltd., 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 accordingly, 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 is excluded from the scope of the equity method due to sales of the investment on the occasion of its offering of stock sales during the year ended 31st March, 2004. Prior to such sales, the net income of the investee had been accounted for by the equity method.

1. Significant Accounting Policies (continued)

Cash Equivalents

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

Investment Securities

The Company holds investment securities in its major shareholders, The Nomura Holdings, Inc. The Nomura Holdings, Inc. is included in “Investments in affiliates”.

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

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

Debt securities held-to-maturity are carried at amortised cost.

Marketable securities classified as other securities are stated at market value as of the balance sheet date and the cost of securities sold is determined by the moving average method. Unrealised gain or loss on marketable securities classified as other securities is included as a component of shareholders' equity, net of the applicable taxes. 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.

From the year ended 31st March, 2005, the Company has changed presentation of investment partnerships, which had previously been included in the caption of other assets, to investment securities based on amendment on the Securities and Exchange Law of Japan. The amount of investment partnerships is ¥2,097 million (\$19,540 thousand) at 31st March, 2005 .

1. Significant Accounting Policies (continued)

Derivative Financial Instruments

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

Inventories

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

Depreciation of Property and Equipment

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

Amortisation of Software and Other Intangibles

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

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

Allowance for Doubtful Accounts

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

Goodwill

Goodwill is expensed at the time of the related acquisition.

1. Significant Accounting Policies (continued)

Retirement and Severance Benefits for Employees

The allowance for employees' retirement benefits has been provided on an accrual basis as of the balance sheet date based on an estimate of the projected benefit obligation and the employees' pension plan assets. The retirement benefit obligation at transition was expensed upon transition. 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.

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 for the year ended 31st March, 2004.

Bonuses to Directors and Statutory Auditors

In prior years, bonuses to directors and statutory auditors had been accounted for as a decrease in retained earnings by its appropriation. However, commencing from the year ended 31st March, 2005, the Company and its consolidated subsidiaries have adopted Practical Solution Report No.13, "Tentative Treatments of Accounting for Director's Bonuses" which were issued by the Accounting Standards Board of Japan and the bonuses are accounted for as expenses and are charged to income in the year to which the bonus relates. As a result, selling, general and administrative expenses for the year ended 31st March, 2005, increased by ¥256 million (\$2,385 thousand) 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 ¥107.32 = US\$1.00, the rate of exchange prevailing on 31st March, 2005. 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, 2004 and 2005:

a) Marketable securities classified as other securities

	<i>Millions of yen</i>					
	Acquisition cost		Carrying amount		Unrealised gain (loss)	
	31st March,					
	2004	2005	2004	2005	2004	2005
Equity securities	¥3,029	¥ 3,770	¥70,589	¥ 52,709	¥67,560	¥48,939
Debt securities	-	58,785	-	58,747	-	(38)
Government debt securities	-	28,062	-	28,111	-	49
Corporate debt securities	-	19,867	-	19,778	-	(89)
Other	-	10,856	-	10,858	-	2
Other	-	4,627	-	4,527	-	(100)
Total	¥3,029	¥67,182	¥70,589	¥115,983	¥67,560	¥48,801

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

	<i>Thousands of U.S. dollars</i>		
	Acquisition cost	Carrying amount	Unrealised gain (loss)
	31st March, 2005		
Equity securities	\$ 35,129	\$ 491,139	\$456,010
Debt securities	547,754	547,400	(354)
Government debt securities	261,480	261,936	456
Corporate debt securities	185,119	184,290	(829)
Other	101,155	101,174	19
Other	43,114	42,182	(932)
Total	\$625,997	\$1,080,721	\$454,724

Proceeds from sales of marketable securities classified as other securities during the year ended 31st March, 2003, 2004 and 2005 were as follows:

3. Investments (continued)

	<i>Millions of yen</i>			<i>Thousands of U.S. dollars</i>
	2003	2004	2005	2005
Proceeds	¥6,839	¥1,521	¥6,032	\$56,206
Gross gain	6,736	1,217	5,524	51,472
Gross loss	-	-	(86)	(801)

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 a permanent decline totaled ¥171 million for the years ended 31st March, 2003. There were no such losses for the years ended 31st March, 2004 and 2005.

b) Non-marketable securities classified as other securities

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	31st March,		31st March,
	2004	2005	2005
Other securities:			
Equity securities	¥17,478	¥16,964	\$158,069
Money management funds	20,021	4,552	42,415
Free financial funds	27,010	12,000	111,815
Commercial paper	32,696	11,898	110,865

Investments in affiliates include investments in net assets of affiliate companies accounted for under the equity method totaling ¥430 million and ¥658 million (\$6,131 thousand) at 31st March, 2004 and 2005, respectively.

3. Investments (continued)

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

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

	<i>Thousands of U.S. dollars</i>			
	31st March, 2005			
	Debt securities			
	Government debt securities	Corporate debt securities	Other	Other
Due within one year	\$ 74,543	\$114,611	\$211,424	\$22,643
Due after one year through five years	186,359	69,884	-	-
Due after five years	-	-	-	-
	\$260,902	\$184,495	\$211,424	\$22,643

4. Derivatives

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

Because all derivatives held by a consolidated subsidiary at 31st March, 2004 were for hedging purposes and all derivatives were cancelled at March 31st, 2005, the related information on their respective market value has not been presented.

5. Accounts Receivable and Other Receivables

For projects which have not been completed as of the balance sheet date, the percentage-of-completion method is applied and the estimated revenue considered to be earned from each project has been included in accounts receivable and other receivables in amounts of ¥18,877 million and ¥16,301 million (\$151,892 thousand) at 31st March, 2004 and 2005, respectively.

6. Property and Equipment

Property and equipment are summarised as follows:

	<i>Years</i>	<i>Millions of yen</i>		<i>Thousands of</i>
		31st March,		<i>U.S. dollars</i>
		2004	2005	31st March,
	Useful life			2005
Land		¥ 9,857	¥ 9,257	\$ 86,256
Buildings	15 – 50	37,790	38,143	355,414
Machinery and equipment	3 – 15	40,070	41,863	390,076
Accumulated depreciation		(51,055)	(51,968)	(484,234)
Property and equipment, net		<u>¥ 36,662</u>	<u>¥37,295</u>	<u>\$347,512</u>

7. Other Assets

Other assets consisted of the following:

	<i>Millions of yen</i>		<i>Thousands of</i>
	31st March,		<i>U.S. dollars</i>
	2004	2005	31st March,
Lease deposits	¥ 9,622	¥ 9,356	\$ 87,179
Investment partnerships	2,212	–	–
Other	1,747	1,482	13,809
Other assets	<u>¥13,581</u>	<u>¥10,838</u>	<u>\$100,988</u>

Other includes golf club memberships.

8. Pledged Assets

The following assets at 31st March, 2004 were pledged as collateral for obligations of the Company. At 31st March, 2005, there was no pledged asset.

	<i>Millions of yen</i>
	31st March,
	2004
Land	¥2,682
Buildings, net	1,102
	<u>¥3,784</u>

8. Pledged Assets (continued)

The obligations secured by the above collateral at 31st March, 2004 were:

	<i>Millions of yen</i>
	<u>31st March,</u>
	<u>2004</u>
Long-term debt due within one year	¥ 208
Long-term debt	2,102
	<u>¥2,310</u>

9. Accrued Expenses

Accrued expenses included bonuses to directors and statutory auditors in the amount of ¥256 million (\$2,385 thousand) at 31st March, 2005. Prior to 1st April, 2004, bonuses to directors and statutory auditors had been accounted for as a decrease in retained earnings by its appropriation in the period approved.

10. Long-Term Debt

At 31st March, 2004 and 2005, no short-term bank borrowings were outstanding.

Long-term debt consisted of the following:

	<i>Millions of yen</i>		<i>Thousands of</i>
	<u>31st March,</u>		<u>U.S. dollars</u>
	<u>2004</u>	<u>2005</u>	<u>31st March,</u>
			<u>2005</u>
Loans principally from banks due through 2015	¥2,310	¥ 1,080	\$10,063
Less current portion	208	240	2,236
Long-term debt	<u>¥2,102</u>	<u>¥ 840</u>	<u>\$ 7,827</u>

The weighted average interest rates on long-term debt due within one year were 3.3% at 31st March, 2004 and 0.7 % at 31st March, 2005 and the weighted average interest rates on the non-current portion of long-term debt were 3.3% and 0.7 % at 31st March, 2004 and 2005, respectively.

10. Long-Term Debt (continued)

The annual maturities of long-term debt subsequent to 31st March, 2005 are summarised as follows:

Years to maturities	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>
	31st March, 2005	31st March, 2005
Due within one year	¥ 240	\$ 2,236
Due in 1 – 2 years	240	2,236
Due in 2 – 3 years	240	2,236
Due in 3 – 4 years	240	2,236
Due after 4 years	120	1,119
Total	<u>¥1,080</u>	<u>\$10,063</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, determined by reference to their current basic rate of pay, length of service and the conditions under which the termination occurs.

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

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

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, 2004 and 2005 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, 2004	31st March, 2005	31st March, 2005
Retirement benefit obligation	¥(58,378)	¥(62,096)	\$(578,606)
Plan assets at fair value	43,830	42,900	399,739
Unfunded retirement benefit obligation	(14,548)	(19,196)	(178,867)
Unrecognised actuarial gain	(8,077)	(3,502)	(32,631)
Unfunded retirement benefit obligation recognised on the balance sheets	<u>¥(22,625)</u>	<u>¥(22,698)</u>	<u>\$(211,498)</u>

Plan assets at fair value include the employee retirement benefit trust of ¥15,222 million and ¥10,129 million (\$94,381 thousand) at 31st March, 2004 and 2005, respectively.

11. Retirement and Severance Benefits (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.

The components of retirement benefit expenses for the years ended 31st March, 2003, 2004 and 2005 are outlined as follows:

	<i>Millions of yen</i>			<i>Thousands of</i>
	31st March,			<i>U.S. dollars</i>
	2003	2004	2005	31st March,
				2005
Service cost	¥ 3,381	¥ 3,671	¥ 4,092	\$38,129
Interest cost	989	1,043	1,027	9,570
Expected return on plan assets	(330)	(335)	(429)	(3,997)
Actuarial loss	6,942	–	(538)	(5,014)
Sub total	10,982	4,379	4,152	38,688
Other	268	284	288	2,684
Total	¥11,250	¥ 4,663	¥ 4,440	\$41,372

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,		
	2003	2004	2005
Discount rate at the end of the year	2.1%	1.8%	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 ¥890 million and ¥873 million (\$8,135 thousand) at 31st March, 2004 and 2005, 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,		<i>U.S. dollars</i>
	2004	2005	31st March,
			2005
Deferred income tax assets:			
Employees' retirement benefits	¥ 8,706	¥ 9,011	\$ 83,964
Depreciation	3,199	5,641	52,562
Accrued bonuses	3,039	3,217	29,976
Other	3,176	4,045	37,691
	<u>18,120</u>	<u>21,914</u>	<u>204,193</u>
Deferred income tax liabilities:			
Unrealised gain on other securities	(27,396)	(19,813)	(184,616)
Special tax-purpose reserve	(6,488)	(5,662)	(52,758)
Other	(30)	(62)	(578)
	<u>(33,914)</u>	<u>(25,537)</u>	<u>(237,952)</u>
Deferred income tax liabilities, net	<u>¥ (15,794)</u>	<u>¥ (3,623)</u>	<u>\$ (33,759)</u>

Income taxes applicable to the Company and its consolidated subsidiaries consist of corporation, inhabitants' and enterprise taxes which, in the aggregate, resulted in a statutory tax rate of approximately 42.0 per cent for each of the years ended 31st March, 2003 and 2004. Due to amendments to the Japanese tax regulations, the statutory income tax rate has been reduced to approximately 40.6 per cent from the year ended 31st March 2005.

The effective tax rates reflected in the accompanying consolidated statements of income differ from the statutory tax rate primarily due to the effect of permanent nondeductible expenses, however, such differences were not material for the year ended 31st March, 2003 and 2005.

13. Income Taxes (continued)

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%
Other	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 year ended 31st March, 2005 in accordance with Practical Solution Report No.12, "Presentation for Corporate Size-Based Aspect of Corporate Income Tax on Income Statement" which were issued by the Accounting Standards Board of Japan. As a result, selling, general and administrative expenses for the year ended 31st March, 2005 increased by ¥515 million (\$4,799 thousand) and operating profit and income before income taxes decreased by the same amount.

14. Shareholders' Equity

The Commercial Code of Japan (the "Code") provides that an amount equal to at least 10% of the amount to be disbursed as distributions of earnings should be appropriated to the legal reserve until the sum of the legal reserve and additional paid-in capital equals 25% of the common stock account. The Code also stipulates that, to the extent that the sum of additional paid-in capital account and the legal reserve exceed 25% of the common stock account, the amount of any such excess is available for appropriation by resolution of the shareholders. In accordance with the Code, the Company has provided a legal reserve which is included in retained earnings. This reserve amounted to ¥570 million (\$5,311 thousand) as of both the 31st March, 2004 and 2005.

Unrealised gain on other securities is not available for dividends.

Unrealised gain on other securities includes unrealised losses of ¥41 million on investment partnerships recorded as other assets for the years ended 31st March, 2004.

15. Cash and Cash Equivalents

A reconciliation between cash and bank deposits in the consolidated balance sheets at 31st March, 2004 and 2005 and cash and cash equivalents in the corresponding statements of cash flows is as follows:

	<i>Millions of yen</i>		<i>Thousands of</i>
	31st March,		<i>U.S. dollars</i>
	2004	2005	31st March,
			2005
Cash and bank deposits	¥17,085	¥18,524	\$172,605
Short-term investments maturing within three months from the acquisition dates	79,727	–	–
Short-term investment securities	–	52,224	486,619
Time deposits with maturities of more than three months when deposited	–	(6,148)	(57,287)
Bond and other investments maturing in more than three months from the acquisition date	–	(25,922)	(241,538)
Cash and cash equivalents	<u>¥96,812</u>	<u>¥38,678</u>	<u>\$360,399</u>

Non cash transactions for the year ended 31st March, 2003 were as shown below. There were no significant non-cash transactions for the years ended 31st March, 2004 and 2005.

	<i>Millions of yen</i>
	31st March,
	2003
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	<u>6,736</u>
Contribution of investment securities into employees' retirement benefit fund trust – fair value	<u>¥6,839</u>

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 years ended 31st March, 2004 and 2005.

15. Cash and Cash Equivalents (continued)

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

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

There were no such transactions for the years ended 31st March, 2003 and 2005.

16. Per Share Data

The per share data are summarised as follows:

	<i>Yen</i>		
	<u>31st March,</u>		
	<u>2003</u>	<u>2004</u>	<u>2005</u>
Earnings per share	¥337.26	¥399.44	¥362.30
Diluted earnings per share	¥ –	¥399.42	¥362.29

	<i>Yen</i>	
	<u>31st March,</u>	
	<u>2004</u>	<u>2005</u>
Shareholders' equity per share	¥5,089.72	¥5,150.44

	<i>U.S. dollars</i>
	<u>31st March,</u>
	<u>2005</u>
Earnings per share	\$ 3.38
Diluted earnings per share	\$ 3.38
Shareholders' equity per share	\$47.99

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

16. Per Share Data (continued)

The computation of earnings per share and diluted earnings per share for the years ended 31st March, 2003, 2004 and 2005 is as follows:

	<i>Millions of Yen</i>			<i>Thousands of U.S. dollars</i>
	31st March,			31st March,
	2003	2004	2005	2005
Numerator:				
Earnings	¥15,459	¥18,269	¥16,303	\$151,910
Earnings not available to common stockholders:				
Bonus to directors and statutory auditors	(283)	(295)	(–)	(–)
Earnings available to common stockholders	<u>¥15,176</u>	<u>¥17,974</u>	<u>¥16,303</u>	<u>\$151,910</u>
Denominator				
<i>(Weighted average shares):</i>				
Denominator for earnings per share	44,999,900	44,999,873	44,999,553	44,999,553
Potential dilutive common shares-stock options	–	2,018	1,457	1,457
Denominator for diluted earnings per share	<u>44,999,900</u>	<u>45,001,891</u>	<u>45,001,010</u>	<u>45,001,010</u>

The following potential common shares have an antidilutive effect, and thus are not included in the diluted earnings per share calculation for the year ended 31st March, 2003, 2004 and 2005.

	<i>Yen</i>			<i>U.S. dollars</i>
	31st March,			31st March,
	2003	2004	2005	2005
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
Exercise price per share	¥17,913	¥17,913	¥17,913	\$166.91
Average stock price for the period that subscription rights are outstanding				
	¥12,059.30	¥10,488.54	¥10,268.33	\$95.68
b) Subscription rights of 845 units issued on 24th June, 2004				
Number of shares reserved for the purpose of new share issuance against exercise of the subscription rights (shares)				
	–	–	84,500	84,500
Exercise price per share	–	–	¥11,418	\$106.39
Average stock price for the period that subscription rights are outstanding				
	–	–	¥9,924.71	\$92.48

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, 2004 and 2005, 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,					
	2004	2005	2004	2005	2004	2005
Machinery and equipment	¥12,866	¥ 9,957	¥7,775	¥6,446	¥5,091	¥3,511
Software	960	898	612	744	348	154
Total	¥13,826	¥10,855	¥8,387	¥7,190	¥5,439	¥3,665

	<i>Thousands of U.S. dollars</i>		
	Acquisition costs	Accumulated depreciation	Net book value
	31st March, 2005		
Machinery and equipment	\$ 92,779	\$60,063	\$32,716
Software	8,367	6,933	1,434
Total	\$101,146	\$66,996	\$34,150

Lease payments, depreciation and interest expense for these finance leases for the years ended 31st March, 2003, 2004 and 2005 are summarised as follows:

	<i>Millions of yen</i>			<i>Thousands of U.S. dollars</i>
	31st March,			31st March,
	2003	2004	2005	2005
Lease payments	¥3,757	¥3,391	¥2,659	\$24,776
Depreciation	3,569	3,246	2,554	23,798
Interest expense	150	115	77	717

17. Leases (continued)

1) Lessee (continued)

Future minimum lease payments for finance leases accounted for as operating leases and noncancelable operating leases as of 31st March, 2004 and 2005 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,	
	2004	2005	2004	2005	2005	
Future minimum lease payments due:						
Within one year	¥2,875	¥2,212	¥161	¥123	\$20,611	\$1,146
Thereafter	3,850	2,798	370	414	26,072	3,858
Total	<u>¥6,725</u>	<u>¥5,010</u>	<u>¥531</u>	<u>¥537</u>	<u>\$46,683</u>	<u>\$5,004</u>

2) Lessor

Lease revenue, depreciation and interest income for these finance leases for the years ended 31st March, 2003 are summarised as follows. There were no balances for finance leases at 31st March, 2004 and 2005 as there were no such transactions for the years ended 31st March, 2004 and 2005.

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

Future minimum lease income for subleases as finance leases and operating leases as of 31st March, 2004 and 2005 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,	
	2004	2005	2004	2005	2005	
Future minimum lease income due:						
Within one year	¥ 960	¥ 915	¥-	¥116	\$ 8,526	\$1,081
Thereafter	1,587	1,763	-	294	16,428	2,739
Total	<u>¥2,547</u>	<u>¥2,678</u>	<u>¥-</u>	<u>¥410</u>	<u>\$24,954</u>	<u>\$3,820</u>

* The corresponding amounts of sublease 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, 2003, 2004 and 2005 are summarised as follows:

	<i>Millions of yen</i>			<i>Thousands of</i>
	31st March,			<i>U.S. dollars</i>
	2003	2004	2005	31st March,
				2005
Personnel expenses	¥15,669	¥17,474	¥17,722	\$165,132
Rent	3,737	3,505	3,370	31,401
Subcontractor costs	5,511	3,355	3,254	30,321
Other	7,118	7,615	7,726	71,991
Total	¥32,035	¥31,949	¥32,072	\$298,845

19. Research and Development Costs

Research and development costs included in selling, general and administrative expenses for the years ended 31st March, 2003, 2004 and 2005 are summarised as follows:

	<i>Millions of yen</i>			<i>Thousands of</i>
	31st March,			<i>U.S. dollars</i>
	2003	2004	2005	31st March,
				2005
	¥2,509	¥2,217	¥1,647	\$15,347

20. Other Income (Expenses)

1) Loss on real estate put option

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

2) Impairment loss on software

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

20. Other Income (Expenses) (continued)

3) (Loss) gain on investment securities

Loss on investment securities for the year ended 31st March, 2003 consisted of loss on investment securities of ¥207 million and gain on investment securities of ¥41 million. Loss on investment securities 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. Gain on investment securities was realised from the sale of an investment in equity of Nomura CITIC International Economic Consultants Co., Ltd.

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

Gain on investment securities for the year ended 31st March, 2005 consisted of gain on investment securities of ¥5,524 million (\$51,472 thousand) and loss on investment securities of ¥1,642 million (\$15,300 thousand). Gain on investment securities consisted principally of gain on the sale of shares of NIWS Co., Ltd. Loss on investment securities consisted principally of loss on the devaluation of shares of Saitama Development Co., Ltd. and Japan Investor Solutions & Technologies Co., Ltd. as a result of their decline in value which was deemed permanent.

4) Gain on investments in affiliates

Gain on investments in affiliates for the years ended 31st March, 2003, 2004 and 2005 is summarised as follows:

	<i>Millions of yen</i>			<i>Thousands of</i>
	31st March,			31st March,
	2003	2004	2005	2005
Gain on sales of investments in affiliates	¥137	¥3,784	¥-	\$-
Gain from changes in equity	405	193	-	-
	<u>¥542</u>	<u>¥3,977</u>	<u>¥-</u>	<u>\$-</u>

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

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

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

20. Other Income (Expenses) (continued)

5) Gain on liquidation of a special purpose company

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

6) Actuarial loss

Actuarial loss for the years ended 31st March, 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) 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.

8) Head office relocation cost

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

21. Related Party Transactions

Related party transactions for the years ended 31st March, 2003, 2004 and 2005 and the respective balances at 31st March, 2004 and 2005 were as follows:

1) Transactions

Related party	Nature of transaction	Millions of yen			Thousands of
		31st March,			U.S. dollars
		2003	2004	2005	31st March, 2005
a) Major shareholders					
Nomura Holdings, Inc.	Sales	¥48,690	¥43,892	¥36,284	\$338,092
	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.*1	Rent	3,777	3,579	–	–
N.F. Biru Investments Co., Ltd. *2	Redemption of bond	7,000	–	–	–
	Interest received	269	–	–	–
The Nomura Securities Co., Ltd.	Sales	–	–	16,495	153,699
	Sales of investment securities	–	–	5,605	52,227
	Gain on above sales	–	–	5,511	51,351

21. Related Party Transactions (continued)

2) Balances

Related party	Nature of transaction	Millions of yen		Thousands of
		31st March, 2004	2005	U.S. dollars 31st March, 2005
a) Major shareholders Nomura Holdings, Inc.	Accounts receivable and other receivables	¥4,994	¥4,668	\$43,496
b) Major shareholders' subsidiaries				
Nomura Real Estate Development Co., Ltd.*1	Lease deposits paid	3,542	–	–
The Nomura Securities Co., Ltd.	Accounts receivable and other receivables	–	3,216	29,966

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

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

22. Contingent Liabilities

There were not material contingent liabilities at 31st March, 2004 and 2005.

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 31st March, 2005. No subsequent changes in the status of the subscription rights occurred through 31st May, 2005.

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.

The terms of the subscription rights require that a person be a Director or an Officer of the Company or one of its domestic subsidiaries, or be in an equal position, at the time of exercise. An eligible person or his inheritor can exercise a subscription right under certain other circumstances, such as death, expiration of term, etc. Transfer or pledge of the subscription right, or similar actions, are prohibited. The ordinary transaction closing prices on the Tokyo Stock Exchange for the last five consecutive days prior to the exercise date must be ¥20,000 or more per share and ¥11,100 or more per share 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.

24. Segment Information (continued)

The business segment information of the Company and its consolidated subsidiaries for the years ended 31st March, 2003, 2004 and 2005 is summarised as follows:

Business segments

		<i>Millions of yen</i>			
		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

		<i>Millions of yen</i>			
		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

		<i>Millions of yen</i>			
		Year ended 31st March, 2005			
	System solutions services	Consulting/ knowledge services	Total	Eliminations and corporate	Consolidated
I. Sales and operating profit					
Sales to external customers	¥213,230	¥39,733	¥252,963	¥ –	¥252,963
Intersegment sales or transfers	2,756	1,865	4,621	(4,621)	–
Total sales	215,986	41,598	257,584	(4,621)	252,963
Operating expenses	191,503	35,905	227,408	(4,604)	222,804
Operating profit	¥ 24,483	¥ 5,693	¥ 30,176	¥ (17)	¥ 30,159
II. Total assets, depreciation and amortisation and capital expenditures					
Total assets	¥124,868	¥22,819	¥147,687	¥169,654	¥317,341
Depreciation and amortisation	16,025	2,381	18,406	(3)	18,403
Capital expenditures	15,216	2,155	17,371	(20)	17,351

24. Segment Information (continued)

Corporate assets included under “Eliminations and corporate” at 31st March, 2003, 2004 and 2005 amounted to ¥122,817 million, ¥178,295 million and ¥170,480 million (\$1,588,520 thousand), respectively, and consisted principally of surplus funds and investment securities.

<i>Thousands of U.S. dollars</i>					
Year ended 31st March, 2005					
	System solutions services	Consulting/knowledge services	Total	Eliminations and corporate	Consolidated
I. Sales and operating profit					
Sales to external customers	\$1,986,862	\$370,229	\$2,357,091	\$ –	\$2,357,091
Intersegment sales or transfers	25,680	17,378	43,058	(43,058)	–
Total sales	<u>2,012,542</u>	<u>387,607</u>	<u>2,400,149</u>	<u>(43,058)</u>	<u>2,357,091</u>
Operating expenses	1,784,411	334,560	2,118,971	(42,899)	2,076,072
Operating profit	<u>\$ 228,131</u>	<u>\$ 53,047</u>	<u>\$ 281,178</u>	<u>\$ (159)</u>	<u>\$ 281,019</u>
II. Total assets, depreciation and amortisation and capital expenditures					
Total assets	\$1,163,511	\$212,626	\$1,376,137	\$1,580,823	\$2,956,960
Depreciation and amortisation	149,320	22,186	171,506	(28)	171,478
Capital expenditures	141,782	20,080	161,862	(187)	161,675

In prior years, bonuses to directors and statutory auditors had been accounted for as a decrease in retained earnings by its appropriation. However, the Company and its domestic consolidated subsidiaries charged the bonuses to income in the year to which the bonus relates from the year ended 31st March, 2005. As a result, operating expenses of System solutions services segment and Consulting/knowledge services segment for the year ended 31st March, 2005 increased by ¥211 million (\$1,966 thousand) and ¥45 million (\$419 thousand), respectively, and operating profit for those segments decreased by the same amount.

Due to the introduction of Taxation of Corporation by the Size of their Businesses, the enterprise tax amount levied by corporate size-based aspect taxation is accounted for as selling, general and administrative expenses from the year ended 31st March, 2005. As a result, operating expenses of System solutions services segment and Consulting/knowledge services segment for the year ended 31st March, 2005 increased by ¥388 million (\$3,615 thousand) and ¥127 million (\$1,184 thousand), 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, 2003, 2004 and 2005, 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, 2003, 2004 and 2005, no disclosure of overseas sales has been made.

25. Subsequent Event

- 1) On 23rd June, 2005, two types of stock option plan in accordance with the Commercial Code of Japan were approved at the annual general meeting of the Company's shareholders as follows:

1) Stock option whose exercisable price is determined based on marketable value
Subscription rights to purchase up to 90,000 new shares of the Company's common stock are to be granted to the Company's directors, officers, employees who are equivalent to directors and officers, and the directors of its domestic subsidiaries. The subscription rights are exercisable at 105% of the average closing price of Company's shares of common stock on the Tokyo Stock Exchange for the month prior to the month in which the subscription rights are issued, or at the closing price on the date of issuance, whichever is higher. These subscription rights are exercisable over a four-year period from 1st July, 2007 to 30th June, 2011 provided that the holder as of the exercise date be a director or an officer or a statutory auditor of the Company or one of its domestic subsidiaries, or be in an equal position.

2) Stock option whose exercisable price is 1 yen per 1 share
Subscription rights to purchase up to 20,000 new shares of the Company's common stock are to be granted to the Company's directors, officers, employees who are equivalent to directors and officers, and the directors of its domestic subsidiaries. The subscription rights are exercisable at the cost of 1 yen. These subscription rights are exercisable over a five-year period from 1st July, 2006 to 30th June, 2011 provided that the holder as of the exercise date be a director or an officer or a statutory auditor of the Company or one of its domestic subsidiaries, or be in an equal position.

- 2) The following appropriations of retained earnings of the Company, which have not been reflected in the consolidated financial statements for the year ended 31st March, 2005, were approved at a meeting of the shareholders held on 23rd June, 2005:

	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>
Year-end cash dividends (¥ 80= \$ 0.75per share)	¥3,600	\$33,545

- 3) At a board of directors held on 27th April, 2005, the Company resolved to repurchase shares of its treasury stock to provide for the exercise of stock options, pursuant to the Commercial Code of Japan. The total number of shares to be repurchased is up to 100,000 shares of the common stock and the total cost of shares to be repurchased is up to ¥1,000 million. Based on this resolution, the Company executed aggregate repurchases from 6th May, 2005 to 11th May, 2005 as follows:

Total number of shares repurchased : 96,900 shares
Total cost of shares repurchased : ¥999 million (\$9,309 thousand)

[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 whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If the expected future cash flows are less than the carrying amount of such an asset, an impairment loss is recognized.

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

3. Transferors of Real Estate to Special Purpose Entities

In Japan, an accounting standard for transferors of real estate to special purpose entities was issued in July 2000. Retroactive application of this standard is not mandatory. This accounting standard is similar to the U.S. 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, no liability and expense are recognized until the subscription rights are exercised.

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. From periods beginning after 15th December 2005, the fair value method will be required under U.S. GAAP.

6. Interest Rate Swap

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

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

7. Bonuses to Directors and Statutory Auditors

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

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

8. Revenue Recognition

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

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

9. Guarantor's Accounting for Guarantees

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

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

[Appendix (2)]

SUBSIDIARIES AND AFFILIATES

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

At 31st March, 2005, 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 31st March, 2005.

<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.\$2,550	100.0
Nomura Research Institute Hong Kong Limited	China	Research and development and operation of information management systems in Asia	HK\$16,181	100.0
Nomura Research Institute (Singapore) Private Limited	Singapore	Research and development and operation of information management systems in Asia	Sing\$1,400	100.0
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.	3,180	7.07
Nomura Holdings, Inc.	2,600	5.78
The Master Trust Bank of Japan, Ltd. (Trust Account)	2,498	5.55
Japan Trustee Services Bank, Ltd. (Trust Account)	1,894	4.21
NRI Group Employee Stock Ownership Association	1,080	2.40
TAKAGI SECURITIES CO., LTD.	550	1.22
The Chase Manhattan Bank, N.A. London	473	1.05
SEVEN-ELEVEN JAPAN CO., LTD.	430	0.96

*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.(former corporate name “Nomura Realty Capital Management Co., Ltd.”). Nomura Facilities, Inc., instead, became a major shareholder.

*At 1st April, 2005, Nomura Facilities, Inc. was merged into Nomura Asset Properties Co., Ltd. Nomura Asset Properties Co., Ltd., which is a surviving company, changed its name to Nomura Facilities, Inc., became a major shareholder.