



Dream up the future.



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Note:

This Annual Report was prepared for the purpose of providing information on our performance in the year ended 31st March, 2005 and our strategy for the coming years, not for attracting investment in stocks issued by NRI. In addition, this report carries absolutely no guarantees or pledges. The opinions and outlooks contained herein reflect the views of management at the time of preparation. We do not offer any guarantees or pledges regarding the accuracy or completeness of such information, which, moreover, is subject to alteration without advance notice. Nomura Research Institute, Ltd. holds all rights to each and every part of the Annual Report, which may not be reproduced, transmitted or otherwise duplicated by any means, whether electronic or mechanical, whatever the purpose, without its express permission.

Dream up the future.

“Dream up the future.” is the NRI Group philosophy of gaining insight into the paradigms of a future society and creating appropriate new business models.

The NRI Group continues to embrace the challenge to provide our clients “Navigation and Solution” services insatiably, as a company that dreams up future society.

To Our Shareholders

We at Nomura Research Institute, Ltd. (NRI) are deeply grateful for your valuable support of our activities. On the occasion of the release of this Annual Report 2005, I would like to report our performance during the year and our outlook for the future.

The Japanese economy continued on a path toward recovery this year, including an increase in capital expenditures triggered by improved corporate profits. In the information service industry, while demand started to show signs of recovery, a full-fledged recovery has yet to occur.

Under these circumstances, we bolstered our sales activities and business base as well as undertook large-scale projects with major clients. As a result, we increased both sales and profit; on a consolidated basis, sales increased 6.3% year-on-year to 252.9 billion yen and operating profit increased 7.6% year-on-year to 30.1 billion yen. Net income, however, decreased 10.8% year-on-year to 16.3 billion yen due to one-off factors. We revised our dividend policy and, as a result, raised our annual per-share dividend to 100 yen, which is a rise of 60 yen from the previous year.

For the future as well, we shall strive to improve our performance by furnishing our clients with total services, which begin with the identification of problems and end with their solutions, through the provision of our "Navigation and Solution" services that draw on our all-around capability from consulting through to system development and operation.

We hope we can count on your ongoing support in these endeavors.

August 2005



Akihisa Fujinuma

President and Representative Director, CEO and COO
Nomura Research Institute, Ltd.



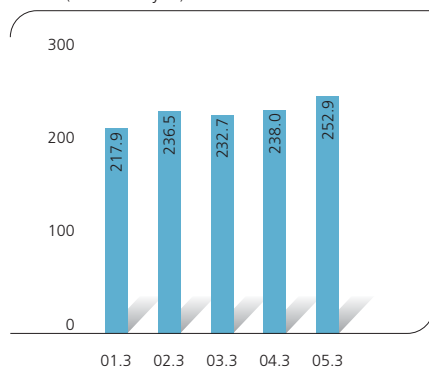
Profile of the President

Mr. Akihisa Fujinuma joined Nomura Computer Systems Corporation, Ltd. (the current Nomura Research Institute, Ltd.) in 1974, upon receiving a Master's degree in control engineering from the Tokyo Institute of Technology Graduate School. He was appointed Executive Managing Director and Sector COO of the Securities and Insurance Solution Sector in 2001 and assumed his current post in April 2002.

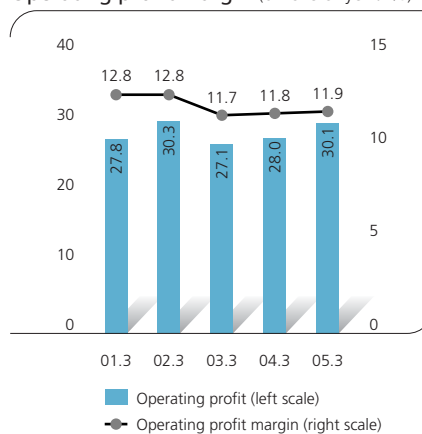
The source of the "Navigation and Solution" services we offer is undoubtedly the all-around capability of the NRI Group. Having accumulated a wealth of practical business know-how in the financial, distribution, public and other sectors, the NRI Group furnishes solutions for a wide breadth of management tasks, such as formulating strategies for management, business and IT, as well as reforming the personnel system, increasing corporate value and developing technology.

To solve client problems, we form a team composed of specialists in all relevant fields from both NRI and other firms in the NRI Group. The team members pool their rich expertise in making assessments and analyses from a variety of viewpoints to offer total solutions.

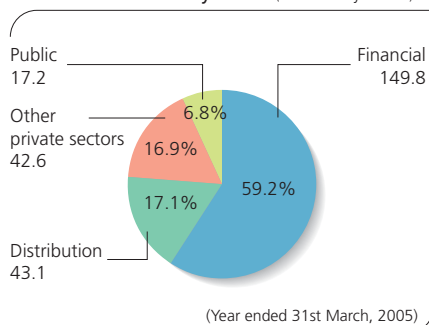
Sales (billions of yen)



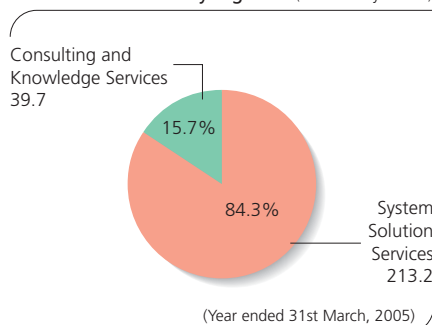
Operating profit / Operating profit margin (billions of yen / %)



Breakdown of sales by sector (billions of yen / %)



Breakdown of sales by segment (billions of yen / %)



*Amount of less than 100 million yen were rounded down.

Consulting and Knowledge Services

In consulting and knowledge services, NRI wields knowledge to solve client problems and create new business. As Japan's first genuine private-sector institute of survey and research, we have a 40-year history of furnishing diverse services in a broad range of fields, including industry, corporate management and community-building.

Management Consulting

We support management innovation with thorough know-how and firm commitments.

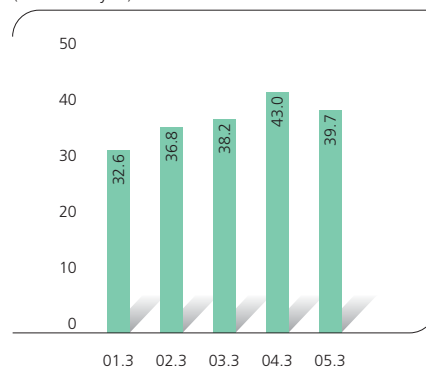
System Consulting

We draw on our far-flung expertise to propose optimal strategies for IT management.

Financial Knowledge Solutions

We have services to support operations of asset by investors.

Consulting and Knowledge Services Sales (billions of yen)



*Amount of less than 100 million yen were rounded down.

System Solution Services

In system solution services, NRI harnesses the latest IT in providing support from system conception and designs to development and operation as a steadfast partner in customer programs of business and operational reform in the financial, distribution, service, manufacturing and public sectors.

Financial IT Solutions

We build optimal systems that anticipate the changes in the business climate in the financial sector. We invest in systems that become industry standards and also support the growth of the market.

Distribution IT Solutions

We provide "Navigation and Solution" services that are attuned to the distribution revolution.

Industrial IT Solutions

We furnish assistance with corporate programs of business process reengineering, generation of new business, and higher efficiency.

Public-Sector IT Solutions

We can construct optimal systems without the constraint of specific vendors.

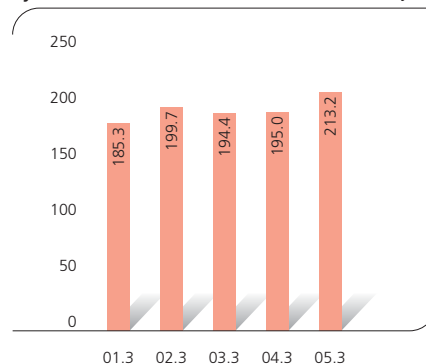
IT Outsourcing Solutions

We provide services for stable operation around the clock, 365 days a year.

IT Platform Solutions

We fabricate the best IT platforms for the business of the particular client.

System Solution Services Sales (billions of yen)



*Amount of less than 100 million yen were rounded down.



I would like to present a review of our performance in the year ended 31st March, 2005 and our outlook for the future.

*Amount of less than 100 million yen were rounded down.

[Performance]

• Key points of our performance in the year ended 31st March, 2005

Strong sales in our business with major clients and the financial sector, particularly the securities field, were a leading force in the company's overall performance. Sales in the financial sector increased 20% year-on-year and made up approximately 60% of total sales.

As a result, sales for this year increased 6.3% year-on-year to 252.9 billion yen and operating profit increased 7.6% year-on-year to 30.1 billion yen. Net income, however, decreased 10.8% year-on-year to 16.3 billion yen due to one-off factors, such as impairment loss on software and head office relocation cost.

• Return to shareholders

We consider the most important return to shareholders is an ongoing increase of our corporate value. It is our basic policy to pay a reasonable dividend on a consistent basis while keeping in mind the need for sufficient retained earnings for our long-term development. In practical terms, the criteria used to decide dividend payments are operating revenue and the cash flow situation. Nevertheless, beginning from this fiscal year, we have decided to aim for a **consolidated dividend payout ratio** of 30 percent. As a result, we increased the per-share dividend payment from 40 yen to 100 yen for this fiscal year.

Consolidated dividend payout ratio:

The ratio of total dividends paid to shareholders to net income (consolidated basis).

• Approaches during the year

In the year ended 31st March, 2005, we handled large projects for the Nomura Securities Group and the Ito-Yokado Group, which resulted in a significant increase in sales to these groups.

For the Nomura Securities Group, we have been developing next-generation systems to expand its global business and enhance contact with its customers in the domestic retail business.

For the Ito-Yokado Group, we are developing a corporate group system to share system resources within its group to realize reductions in IT costs.

We consider our current partnerships with these two groups as a tremendous asset and place considerable importance on further strengthening our relationship. While responding to the major projects of the two groups in sure ways, we look forward to providing high-quality proposals attuned to the new themes that eventuate.

During the year, we also made significant achievements in various projects besides those related to the two groups.

In November 2004, we completed the introduction of a large-scale back-office system for UFJ Tsubasa Securities Co., Ltd. For the next fiscal year, we will be working on system integration to cope with the mergers of financial groups.

We also supported the construction, maintenance and operation of a mutual funds sales system for JAPAN POST, and we handled a major system expansion to double the capacity to accommodate an increase of customer accounts for online securities trading. In the insurance sector, we were involved with "e-JIBAI", a joint automobile liability insurance system, launched in November 2004.

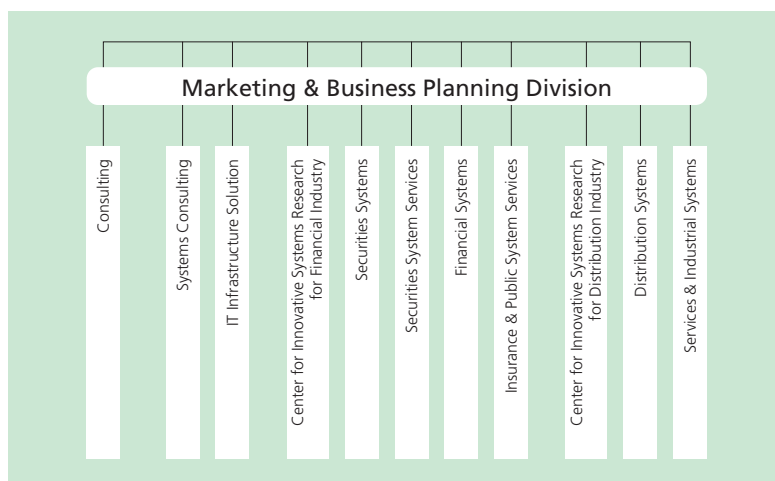
We also undertook many projects in the consulting sector, such as supporting the development of management and business strategies for corporations and projects related to corporate revitalization and CSR.

In April 2005, we undertook organizational restructuring. Firstly, we instituted the Marketing & Business Planning Division, as a structure to facilitate horizontal communication within the company, which will take on the business promotion activities that have been ongoing onsite and make the activities accessible to the entire company. Furthermore, the new organizational structure, as shown below, will promote horizontal integration, which will enable the optimal use of our resources, especially human resources, such as personnel assignment to large projects with greater flexibility.

We have established "Center for Innovative Systems Research for Financial Industry" and "Center for Innovative Systems Research for Distribution Industry". Amid the accelerating pace of change within the business world, we will continue to enhance our efforts to furnish our clients with an extra level of proposal service.

CSR (Corporate Social Responsibility):
The broad social responsibilities that a corporation has when carrying out its business activities.

Establishment of Marketing & Business Planning Division



[Future Outlook]

• Measures for the medium to long term

In the information service industry, we are starting to see evidence of demand recovering and this demand is expected to gradually grow. Under these circumstances, NRI is focused on achieving higher growth than that of the industry in the medium to long term.

NRI is preparing for building a business base for the medium to long term by refining the capabilities that we have thus far developed, such as “consulting based on industry knowledge”, “project management with business understanding” and “**basic information technology**”, and by utilizing a variety of specialties we have accumulated within the company.

To achieve this, in the consulting business, we will strengthen our Asian business where future growth prospects are high by constructing a 100-person workforce at three bases in Asia (Seoul, Taipei and Shanghai).

In addition, our dedicated organization is working on business activities to acquire large-scale projects, including business expansion through **M&A**, where necessary.

Amid financial function reorganization, we expect business opportunities in the financial sector to expand, including those related to securities market reforms, risk management and security needs. We see expected social changes as big business opportunities and our business proposals are focused in this area.

In the distribution sector, we are offering coordination systems, as a “linkage strategy” between the manufacturer, wholesaler and retailer, that are seamlessly linked. This is a field where we can draw from our vast experience accumulated thus far in our development of systems specifically designed for the distribution industry.



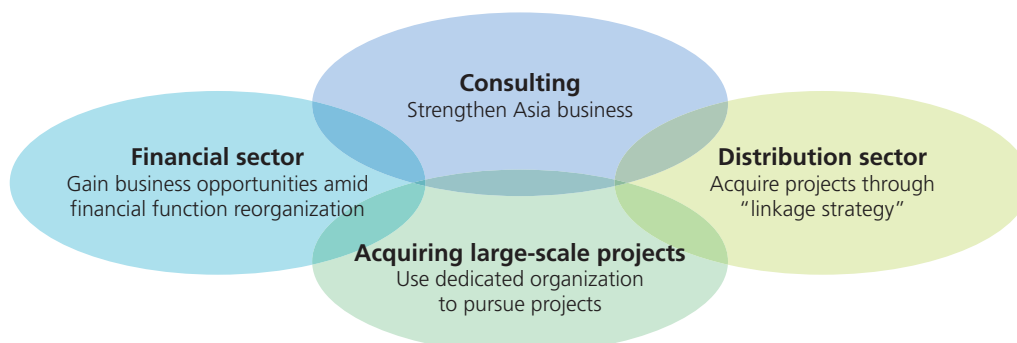
Basic information technology:

The technology required to support information systems, which not only includes the technology necessary to construct the system architecture, such as technology related to computers, networks and databases, but also the technology related to disaster recovery and network security.

M&A (Mergers & Acquisitions):

The merging of one company with another or one company acquiring another. It can be used more broadly to encompass partnerships and joint ventures.

Medium to Long Term Strategies for Acquiring New Business Bases



• **Promoting self-reform**

NRI has applied itself to finding innovative ways to system operation and improving the productivity and efficiency of **enhancement work**.

At the Yokohama Data Center, we are striving for efficiency in system operation by for example reducing the number of personnel each year that need to be permanently stationed there.

In our system development business, we continue to promote the use of **DevelopersNet**, which serves as a specialized tool for establishing standards and procedures. This system enables us to raise the productivity of enhancement work. In April 2005, we instituted a new committee, the "Enhancement Work Innovation Committee", which is an ongoing undertaking to search for more efficient ways of doing business.

Enhancement work:

Services that NRI offers, aimed at enhancing a client's business, ranging from the proposal of business improvements to actualize such improvements, in addition to system maintenance, which upgrades systems in accordance with customer requests for improvement.

DevelopersNet:

A system developed by NRI, which serves as a management support tool for system development projects. (see page 15)

• **Outlook for offshore development**

During the year, **offshore development** in China continued in good kilter, and we increased the number of subcontractors from 16 firms in 6 regions to 21 firms in 7 regions. The amounts of offshore development also rose from 3.5 billion yen in the previous year to 6.4 billion yen this year, a rise of more than 80%.

In addition, the range of application of offshore development broke away from only dealing with the financial sector and expanded to include the distribution sector and other industries.

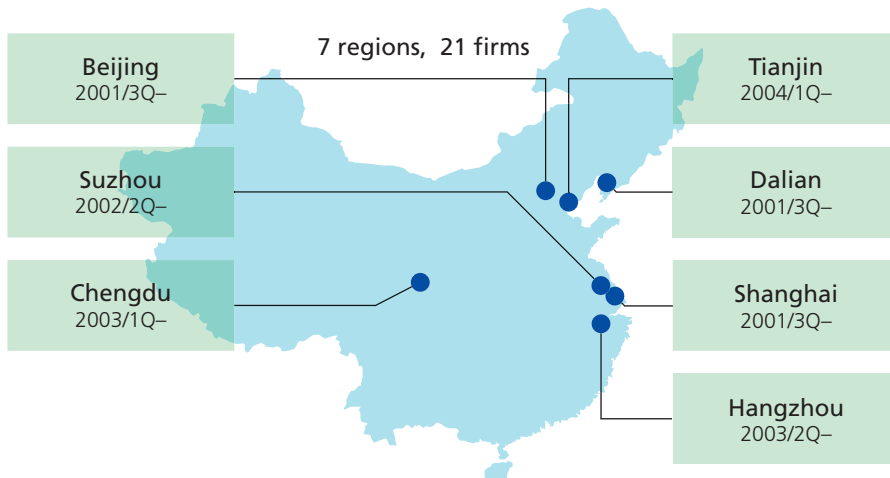
We shall strive to strengthen our management base since project management, quality management and security management are becoming more important as offshore development spreads.

We are researching and investigating opportunities for our offshore development activities in India and Vietnam for the future.

Offshore development:

Development commissioned to system development firms in other countries, such as China and India.

Development Commissioned to Firms in China (As of 31st March, 2005)



[Human Resource Development]

In order for us to provide high-value-added services to our clients, it is essential that we place continual importance on securing and training highly specialized personnel.

NRI has been earning a reputation from outside the company for its high quantity of highly talented personnel. To ensure we maintain this edge in the future, in the next fiscal year we are looking to accumulate even higher levels of specialty knowledge by providing all employees with the opportunity to receive advanced education with a focus being placed on acquisition of information processing licenses and NRI's own in-house certification. (see page 18)

We have also introduced our own internal venture system called ABCI (Advanced Business Creation Initiative), which promotes the creation of niche businesses that can be small in scale.

We continue to contribute to economic and corporate growth as a most reliable partner who can create added value for clients and expand corporate value.



—Consulting—

NRI provides services in survey and research, management consulting, system consulting and other areas for numerous entities, including companies, government agencies and municipalities, in a broad spectrum of fields. In scope, these services span such tasks as the drafting of corporate strategy, support for the execution of management innovation, proposal of policies and assistance with their implementation. The high quality of our personnel is the characteristic of NRI, which is indicated by realistic proposals and effective support for their execution that our in-house corps of many researchers and consultants in a wide assortment of specialized domains make.

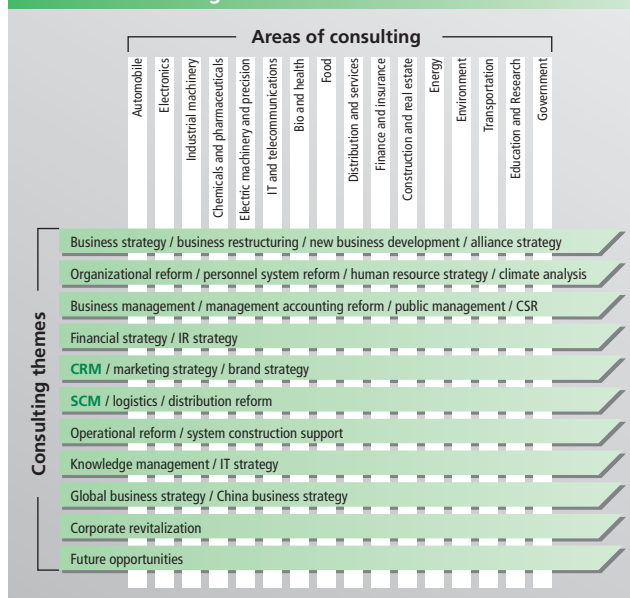
During this fiscal year, we achieved big results from projects relating to corporate rehabilitation and support for formulation of corporate business planning. In addition, in line with a rising interest in corporate social responsibility (CSR), our CSR consulting business performed well by utilizing a management technique called **Balanced Score Card**, which is to make the CSR activities connect and develop such basic activities as observance of law into ways of becoming more competitive for the future.

Using a reservoir of our practical know-how as a base, we are engaged in R&D relating to the development and growth of the Japanese and global economies and industries, and we focused on information activities and on making proposals as well.

Balanced Score Card:

A business management technique that is used to define business performance according to multi faceted criteria rather than simply quantitative financial performance so that well-balanced management can be achieved.

Areas of consulting



CRM (Customer Relationship Management):

A management scheme designed to maintain and strengthen customer relations.

SCM (Supply Chain Management):

A management scheme for cross-organizational integration in order to optimally manage the business flow as a whole by controlling procurement through to production, sales and logistics.

This year, we focused on research and development of next-generation management and business styles and the new socio-economic system, particularly emphasizing survey and research in fields related to China and other parts of Asia.

Specifically, we conducted survey and research related to management reform of Japanese corporations with operations in China, advanced case studies of risk management in China, and business strategies for global corporations of Asia, including Taiwan and Korea, in China. We also conducted research of next-generation organization models for Japanese corporations; survey and research in new fields of growth in the electronics, IT and telecommunications sectors; and research into the changes in companies, society and the IT market in five years from now.

We also took a positive approach to information activities, as a part of our role as a social and economic navigator, by publishing printed materials and having employees submit articles to newspapers.

We believe that the consulting business targeting Asian countries, such as China, is set to expand further. Already NRI is actively undertaking businesses in Asia, such as providing a "Japan Desk" in Korea, which is a service designed to attract and support Japanese corporations and has received an official commendation from the Korean government. In addition to our existing undertakings, we aim to build structures to meet the needs of not just Japan but other Asian countries by expanding personnel numbers in our overseas bases.



—Financial Sector—

NRI holds a broad range of business knowledge and know-how based on a wealth of experience gained through system development for the financial sector, especially the securities industry. By drawing on these strengths, we are expanding our business base through providing our clients with **system integration services** and developing multi-user system services and package systems.

Sales in the financial sector already make up about 60% of total sales, which makes it NRI's major business sector.

System integration services:

A total service package, including everything from the initial draft proposal of an information system to its installation and maintenance.

Case profile 1: UFJ Tsubasa Securities

In November 2004, NRI introduced a new back-office system for UFJ Tsubasa Securities Co., Ltd. This system was introduced in response to UFJ Tsubasa Securities' complete review of business operations and systems.

The design of the new system is based on NRI's THE STAR system, and it includes some customized functions that we jointly developed with UFJ Tsubasa Securities.

THE STAR is a system that NRI developed using its extensive business knowledge and know-how gained through system development for the securities industry.

THE STAR (total securities back-office system)



(Strategy of securities Total business partner Associated system Re-engineering)

THE STAR is a system for the processing of all securities firm's back-office work, including custody, delivery, settlement and clearing of security. It was the first core system in the industry to be fully retooled for operation based on distributed servers. It features excellent web-based operability, high instantaneity for straight through processing (STP) and ease of connection with outside systems.

STP (Straight Through Processing):

End-to-end processing, via standard networks, in all securities transaction phases, from placement of orders and execution to confirmation and settlement, both inside and outside the company.

Case profile 2: E*TRADE SECURITIES Co., Ltd.

NRI is providing services for an online trading system to E*TRADE SECURITIES Co., Ltd. When developing this system, NRI designed the basic system architecture with much importance placed on realizing improved response. We achieved a significant reduction in hardware investment costs as well as a reduction in running costs.

During this fiscal year, we enhanced the online trading system in just over six months to double capacity in order to respond to the increased number of trading accounts.

Case profile 3: JAPAN POST

In April 2005, NRI was awarded a contract from JAPAN POST for construction, maintenance and operation of a computer system to launch over-the-counter sales of investment trusts. We will supply the services based on our BESTWAY package software, which will enable us to support the entire construction of the clerical tasks necessary for over-the-counter sales of investment trusts at a post office, from over-the-counter sales procedure and back-office operations through to management and sales administration operations.

BESTWAY (financial retail business system)



BESTWAY supports the development and operation of sales management and account management systems for the sale of investment trusts. It is the system of choice for more than 100 firms because of its support of a variety of financial products and its compatibility with investment trust sales networks and analysis systems. It also meets the demands of rapidly expanding retail sales, which include handling Japanese 401k plans and variable annuities.

—System Development—

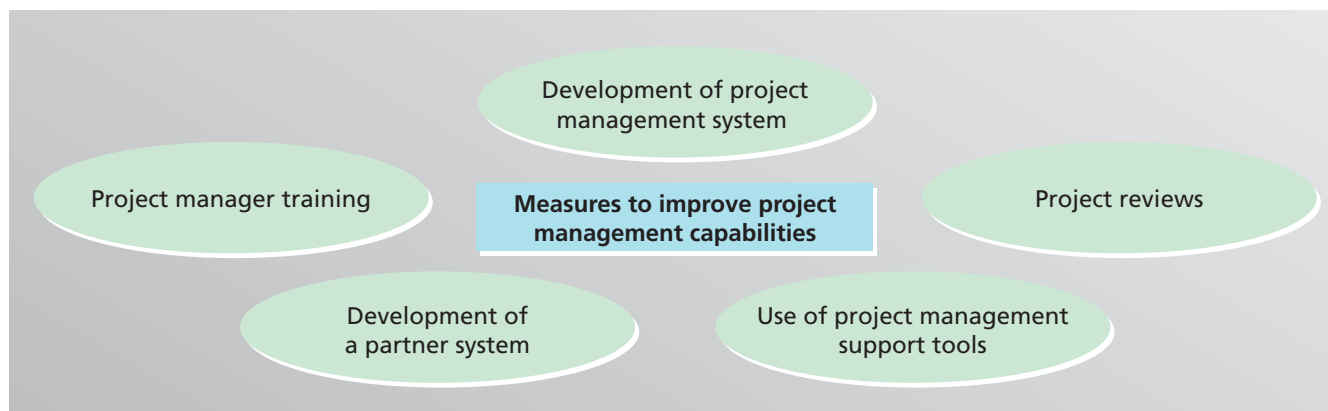
In order to provide our clients with the best information system solutions, it is essential to be equipped with a high level of system development proficiency. To develop a system, we must first accurately grasp the client's demands, design a project plan and then manage the project using resources from both within and outside the company.

NRI has undertaken many large-scale projects through providing system services to the leading companies in their industry. The project management experience gained by carrying out these large-scale projects is utilized in NRI's system development.

To improve on its project management capabilities, NRI provides project manager training through educational training programs, maintains and develops project management systems based on ISO9001-compliant quality management systems and conducts project reviews at Quality Management Division. In addition to developing a partner system, which enables us to utilize outside resources, we also use project management support tools to support business standardization and communication for system development.

ISO9001:

International standard for quality management systems established by the ISO (International Organization for Standardization).



Using outside resources (ePartner contracts)

NRI has contracts with partner firms in regard to many system development business activities. The contents of these contracts cover a broad range of areas from system requirement definitions to program development. NRI considers cooperation with partner firms as being essential for smooth system development.

We especially aim to conclude “**ePartner agreement**” with firms that have a high level of specialist know-how and IT capabilities, and we strive to improve quality and productivity more effectively. Also, we are providing these partner firms with proactive personnel training support.

ePartner agreement:

A type of contract concluded with selected partner firms. As of 31st March, 2005, NRI had concluded ePartner contracts with a total of 10 firms in Japan and China.

Project management support tool DevelopersNet

In order to promote project management, it is essential to establish smooth communication with both the client and partner firms. NRI utilizes a project management support tool that it developed, called “DevelopersNet”.

Through the use of this tool, we share information relating to themes and tasks among the client, partner firms and NRI and improve the quality of communication.

Result of implementation (after implementation)

Client	NRI	Partner firm
	Integrated management for requests / inquiry items	
		Integrated management for work items
	Integrated management for themes / tasks / problems	
	Document management	

—System Operation—

NRI aims to build long-lasting, trusting relationships with its clients. In order to achieve this, we feel it is immensely important to realize stable operations of the system after completion as well as high standards of quality on the completed information system.

NRI also provides a range of services for system operation, with the scale of sales in system management and operations approaching 40% of total sales.

In order to operate a stable and highly reliable system, it has become an important theme to develop measures for information system failure when a disaster occurs as well as to conduct the system maintenance daily according to plan. At NRI, we carry out operation schedule management and monitor operation status for the information system and establish measures for a system failure at a time of disaster.

Operation management tools

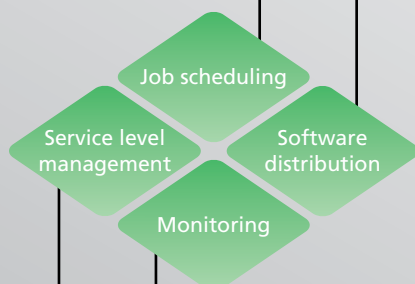
In February 2004, NRI started sales of “eXsenju”, a tool for the management of system operation. This tool is equipped with such functions as schedule management for system processing and monitoring of the working status of systems, and, while it integrates the functions and operability of existing products, it is an integrated operation management tool that has an innovative new design specifically tailored to the needs of the system administrator.

Including older versions, NRI’s operation management tools are used by clients at about 6,000 sites, and we continually make functional enhancements to these products.

Key features of eXsenju

Distribution of software to servers and PCs on the network

Flexible scheduling adjusted to suit the system configuration



Selection of monitoring items and central monitoring to suit system configuration

Graph display of monitoring results as required

Disaster recovery measures

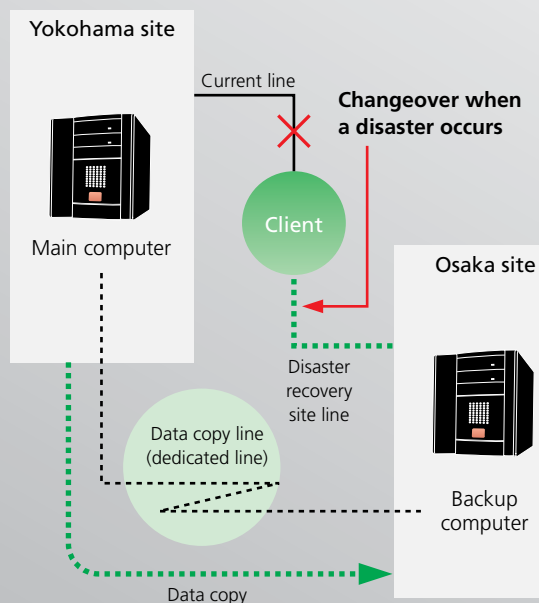
To ensure that the stable operation of a client’s business can be maintained during a disaster, NRI provides disaster recovery services and carries out disaster contingency planning for multi-user system services.

As disaster recovery measures for I-STAR, NRI’s multi-user system service, we have a backup computer installed in the data center that is in regular use and also in a data center in a different location. Even if a disaster occurred at the regular data center, causing damage to system functions, operations could switch to the backup computer at the other site and the service would continue to be available without interruption. This scope of application of this disaster recovery service of I-STAR has been expanded since February 2005, and many clients are now using this highly reliable service.

I-STAR:

A back-office system for wholesale securities firms.

Outline of I-STAR / disaster recovery (DR) service



—Approaches to Information Security—

In today's society, it is possible to disseminate all sorts of information instantly due to such developments as the spread of the Internet. As such a technology develops, while its user base grows and the level of convenience increases, security management has become a major issue in society as a whole.

Prompted by such events as the full enforcement of the Personal Information Protection Law in April 2005, all companies in Japan are facing a multitude of challenges relating to information security suited for their own company.

Within the information service industry, there are many occasions where confidential customer information is handled and so this industry in particular requires more vigilant approaches. As a member of this industry, NRI carries out thorough security management by establishing internal regulations concerning information security and carrying out security measures. We are placing particular focus on ensuring adequate security education, such as continually holding training related to information management and the protection of personal information. In addition, we focus on security management at the data centers, such as carrying out thorough checks on items that are brought into and out of the computer room by using X-ray scanning equipment in addition to a security system that allows entry only by IC cards.

Furthermore using our specialist knowledge of such security technology, we also provide our clients with a range of services related to the management of information security. NRI Secure Technologies, Ltd., an NRI Group company dedicated to information security, provides a wide range of services, including information security and consulting, while NRI Learning Network, Ltd., an NRI Group company dedicated to education and training, provides education services related to security.

Personal information management related services

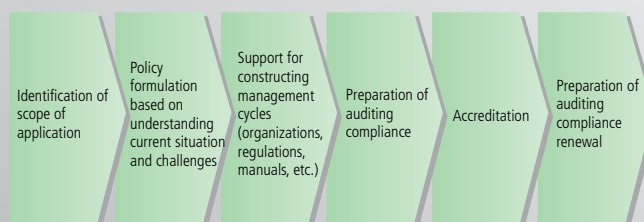
NRI provides consulting services for corporate management of personal information as well as other services relating to corporate human resource development.

In addition to providing support for the acquisition of the **JISQ15001 Privacy Mark**, an accreditation system related to the handling of personal data, NRI provides support and consulting for the creation of systems that can effectively protect and manage personal information.

JISQ15001 Privacy Mark:

Standard on the requirements for the compliance program on personal information protection by Japan Information Processing Development Corporation (JIPDEC).

Support flow for constructing a personal information protection management system



It is important to establish an organizational system focused on the establishment of a continuous operational structure for the reform, formulation, and implementation of personal information protection education.

NRI offers a "personal information protection" study course as an instruction material through its NetTutor, an e-learning system.

A screen display of NetTutor, a course on personal information protection



—Human Assets Development—

Human assets, the source of NRI's total capability

For NRI's total capability, the foundation upon which we can build a trusting relationship with the clients is our employees. NRI employees are all professionals armed with a high level of specialized knowledge, such as researchers, management consultants, system consultants, application engineers or infrastructure engineers. NRI is striving to improve its intellectual productivity by fostering its valuable employees, its human assets, as well as constructing an organization and a culture that encourage cooperation between professionals and constructing a system that enables the constant sharing of the abundant knowledge (intellectuality) that has accumulated within the company.

Creating a culture geared for best performance and fostering human assets

NRI adopts perspectives and arrangements befitting its corps of professionals in the aspects of career building and treatment.

In 1994, NRI became the first firm in Japan to instate a new personnel system that interlinks goal management with performance ratings and continues to reform its personnel system to better serve professionals.

For human resource development, NRI is striving to nurture the growth of these "human assets" rapidly and endow them with professional capabilities and is contributing for its employees to make such a mark as professionals in their respective fields of competence. We have in place more than 100 different programs, including human resources development seminars and external training at any given time, as well as the support for helping employees obtain licenses or other qualifications and personal career counseling. Our employees can freely select which training they require. Our intranet human resource development portal site "Lykeion" provides information on seminars and allows employees to apply for them online. It also provides the user with relevant career building information based on his or her assignment, post and seminar record.

Furthermore, in our development of human resources, we put emphasis on fostering proposal-oriented sales professionals, who can create business by accurately grasping diversity and complexity of client needs, and fostering tomorrow's management executives who can lead NRI in the next generation.

Professionals with official licenses

(As of 31st March, 2005)

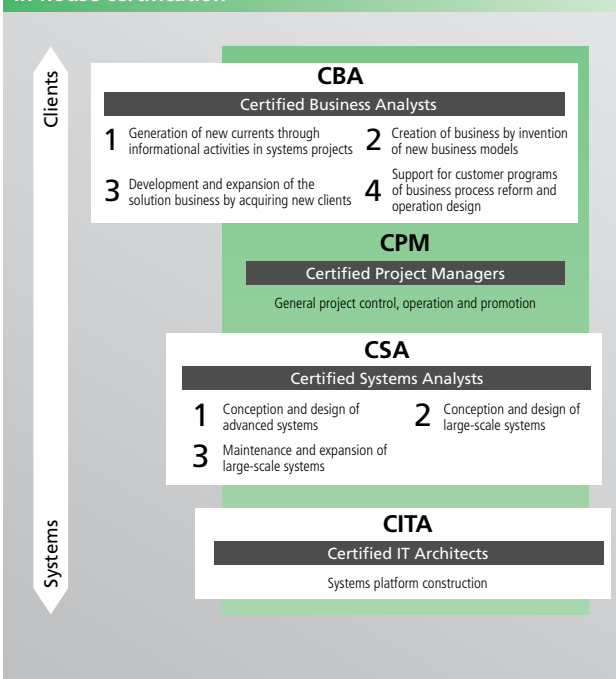
Information-Technology Engineers:	
Systems Auditors	149
Systems Analysts	157
Project Managers	210
Application Systems Engineers	497
Network Systems Engineers	418
Database Systems Engineers	192
Systems Management Engineers	101
Information Systems Security Administrators	166
Senior Systems Administrators	45
Security Analysts	156

In-house certification scheme

To cultivate a highly specialized staff, we not only provide support for acquisition of official licenses but also have instituted our own scheme for certifying in-house qualifications. The in-house qualifications are categorized into four specialist areas. (see the table below)

NRI will continue its support of all certification schemes in the future, whether they be in-house or external schemes.

Investment in personnel for growth: scheme of in-house certification



CSR

Within the context of CSR (Corporate Social Responsibility), emphasis is placed on the fact that companies show initiative in the integrative management of the business challenges and risks for the economy, the society, the environment and others through dialog with **stakeholders** and strive to improve their corporate value through these activities. For the past few years, CSR has become topical in Japan in response to a rising interest in environmental problems and the continual occurrence of corporate misconduct and breach of laws and regulations.

We believe the best social contribution suited for NRI is to give NRI know-how back to society through the information activities, and therefore we continue to proactively provide information on "future society". As means of informational activities, we promote forums and seminars, such as the "NRI New Year Forum" and "Miraisohatsu Forum", and the public disclosure of our in-house research activities results through the Internet and publications. We are also actively engaged in environmental conservation and in expanding support for education.

Activities during the year

NRI contributes to society through its support of various "human assets" development activities. We dispatch lecturers to universities and provide support for social education for high school students and university students and support for research activities at educational institutions. During the year, students from three universities and one high school visited NRI as part of external classes.

As part of NRI's contribution to decreasing environmental burdens, we have implemented energy-saving and resource-saving activities at our computer center (acquired **ISO14001** certification in March 2005).

In our new NRI headquarters at the Marunouchi Center, where we relocated to in September 2004, we are equipped with an environmental infrastructure suitable for a paperless work style, such as a wireless LAN network.

On 1st October, 2004, the Corporate Social Responsibility Department was established as an organization directly controlled by the president.



Visit by Takasaki High School students



Marunouchi Center

Stakeholder:

An individual or a corporate entity that has stakes in the continuation or growth of a company or corporate business activity. The term typically refers to shareholders, clients, employees, creditors, suppliers, local communities and others.

ISO14001:

International standard for environmental management systems established by the ISO (International Organization for Standardization).

Corporate Governance

At NRI, we consider the chief objectives of corporate governance to be prompt and appropriate decision making in execution of business to increase corporate value and the practice of fair and efficient management that is highly transparent to shareholders and other investors. NRI applies the corporate auditing system, and in order to strengthen corporate governance it is enhancing the General Meeting of Shareholders, expediting decision making by the Board of Directors and reinforcing supervisory capabilities, increasing the auditing abilities of corporate auditors, reviewing executive compensation and attaining a higher level of information disclosure.

Approaches for the year and in the future

In order to improve the corporate value of NRI, we are reviewing the executive compensation system (including corporate vice presidents). In March 2005, we abolished a retirement allowance program for executives that had undertones of a seniority-based system, and in April 2005 we introduced a compensation system linked to corporate performance and stock price. Specifically, within the scope that was approved at the General Meeting of Shareholders, a compensation system based on corporate performance was introduced as a monthly cash compensation in addition to the compensation relating to work post, experience and other factors.

In addition to conventional stock options, we have introduced equity compensation stock options as a compensation linked to stock price. The equity compensation stock option is a type of

stock option whose exercisable price is one yen per share when exercising the stock acquisition rights. Stock options are subject to approval each year at the General Meeting of Shareholders.

In June 2005, we established a compensation advisory committee comprised of knowledgeable members outside of the company to improve the level of transparency by deliberating the compensation of directors and corporate vice presidents objectively and fairly and, therefore, to help reinforce our corporate governance.

Furthermore, to improve management transparency, we are striving to improve and enhance the level of information disclosure and IR functions through carrying out timely disclosure of information and accountability to both our shareholders and the market. As part of this policy, we have instituted an information disclosure committee, aiming to ensure our disclosures, such as our financial statement reports, are given an extra level of credibility.

Financial Section

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Consolidated Financial Five-Year Summary

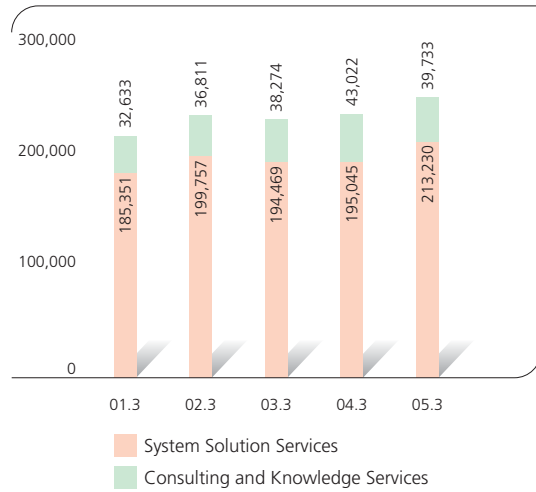
For the years ended 31st March

	Millions of yen				
	2001.3	2002.3	2003.3	2004.3	2005.3
For the year:					
Sales	217,984	236,569	232,743	238,067	252,963
System Solution Services	185,351	199,757	194,469	195,045	213,230
Consulting and Knowledge Services	32,633	36,811	38,274	43,022	39,733
Cost of sales	160,643	173,636	173,545	178,096	190,732
Operating profit	27,842	30,364	27,164	28,022	30,159
Income before income taxes	43,629	39,009	27,177	32,927	27,361
Net income	25,381	22,363	15,459	18,269	16,303
Orders received	233,167	241,038	235,874	242,647	262,411
System Solution Services	197,508	203,628	195,105	202,121	222,299
Consulting and Knowledge Services	35,658	37,409	40,768	40,526	40,112
Capital expenditures	17,390	22,727	20,456	24,244	17,351
Research and development costs	2,620	3,051	2,508	2,216	1,646
Depreciation and amortization	13,659	12,419	13,244	17,750	18,402
At year-end:					
Total assets	289,104	299,892	256,798	326,799	317,341
Shareholders' equity	165,171	195,564	185,350	229,331	231,766
Order backlog	96,974	101,218	104,074	108,548	117,923
System Solution Services	81,638	85,357	85,854	92,825	101,895
Consulting and Knowledge Services	15,335	15,860	18,220	15,723	16,027
Yen					
Per share:					
Net income (EPS)	583	505	337	399	362
Shareholders' equity	3,834	4,338	4,113	5,090	5,150
Cash dividends	5	20	20	40	100
Other information:					
Operating profit margin (%)	12.8	12.8	11.7	11.8	11.9
Return on sales (%)	11.6	9.5	6.6	7.7	6.4
Return on equity (%)	19.8	12.4	8.1	8.8	7.1
Equity ratio (%)	57.1	65.2	72.2	70.2	73.0

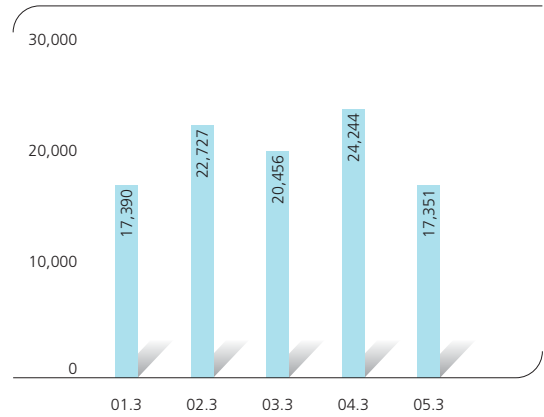
Notes: 1. The amounts recorded are rounded down to the nearest one million yen. Per share information is rounded to the nearest yen, and other information to the first decimal place.

2. Per share information has been recalculated retroactively to the prior years.

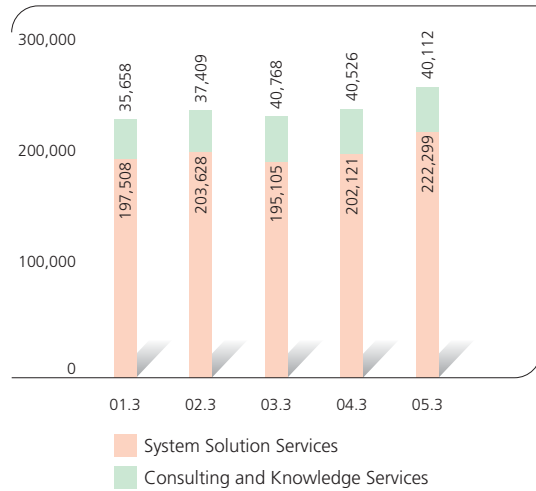
Sales (millions of yen)



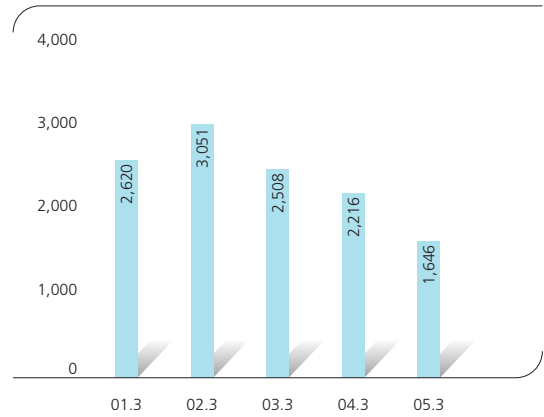
Capital expenditures (millions of yen)



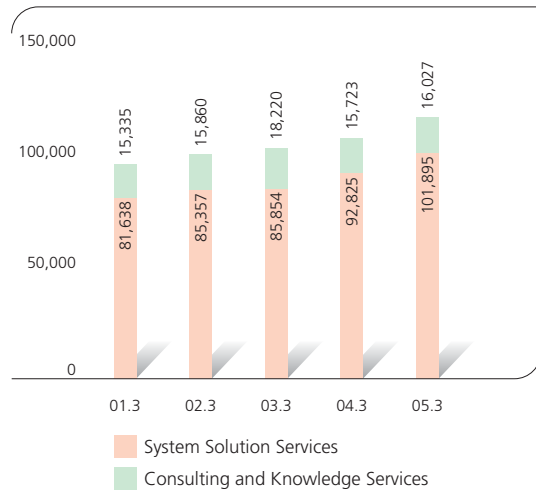
Orders received (millions of yen)



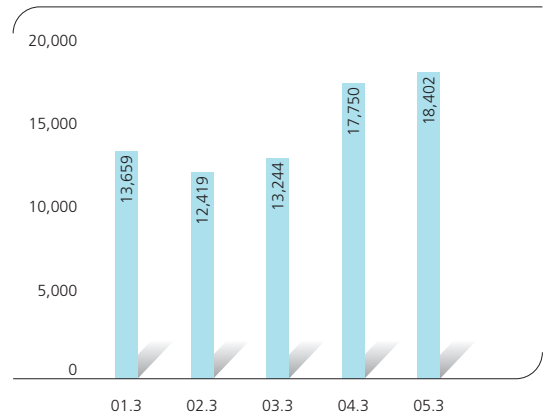
Research and development costs (millions of yen)



Order backlog (millions of yen)



Depreciation and amortization (millions of yen)



Business Outline for Fiscal 2004 (Year ended 31st March, 2005)

*Amount of less than one million yen were rounded down.

[Outline of Business Results]

(1) Business Results

The Japanese economy during fiscal 2004 continued on a path toward recovery, though modestly, including an increase in capital expenditures triggered by improved corporate profits. In our outlook for the domestic economy, while we need to be mindful of inventory adjustment in information system related assets and the trends in crude oil prices and other factors, the domestic economy is expected to continue on a steady growth path accompanied by a solid recovery of the world economy.

In the information service industry, while demand seems to have started showing signs of recovery, it is expected to take a little more time to increase the certainty of recovery. In addition, while customers are requesting more advanced information systems, demands for shorter development periods and competitive prices are getting stronger. We are therefore required to strive harder to meet customers' strict needs.

Under these business circumstances, the NRI Group (the Company and its consolidated subsidiaries) has been continuously striving to strengthen its business activities and business base. In addition to strengthening our strategic proposal activities to major clients, we selectively allocate our business resources in response to large-scale projects. In order to expand our customer base, by taking advantage of our total capability to offer an end-to-end service from consulting through to system development and management, we concentrated our sales activities on acquiring outsourcing service contracts. As part of measures to tighten security and carry out business with higher efficiency, in September 2004 we established the Marunouchi Center and moved our headquarters from Otemachi to Marunouchi. We plan to integrate the six separate offices in the Tokyo region into either the Marunouchi Center or the Kiba Center. In order to promote the corporate social responsibility (CSR) activities of the NRI Group, the Corporate Social Responsibility Department was established in October 2004. In addition, we established NRI Garden Network, Ltd. in July 2004, an information system company for the petroleum product sales industry.

As for business results by sector, in the financial sector, business has been brisk thanks to an increase in system management and operations as well as system development for the securities and banking industries. On the other hand, sales to the distribution sector, other private sectors and the public sector remained stagnant mainly due to a decrease in sales because of repercussions arising from carrying out large-scale projects in the previous year.

In respect to costs, while outsourcing costs increased due to a significant increase in system development projects, the gross profit rate remained close to that of the previous fiscal year because of further strengthening project management as well as promoting standardization of the system development and maintenance business. As for selling, general and administrative expenses, as a result of our ongoing efforts to effectively reduce the costs, we were able to hold down the expenses to a level similar to the previous year in spite of such factors as the introduction of Taxation of Corporations by the Size of Their Business.

As for extraordinary profit / loss, the Company posted gain on sales of investment securities of 5,524 million yen, while the Company posted impairment loss on software of 6,526 million yen as a result of reevaluation of its software assets in view of sudden changes in the customer business environment.

As a result of the above, during fiscal 2004, the Company posted sales of 252,963 million yen (up 6.3% from the previous year), operating profit of 30,159 million yen (up 7.6%), ordinary profit of 30,987 million yen (up 5.8%) and net income of 16,303 million yen (down 10.8%). The order backlog for fiscal 2004 amounted to 117,923 million yen (up 8.6%) due to an increase in system management and operations services for the financial and distribution sectors.

<Segment information>

Business results by segment are as follows.

System Solution Services

As for the financial sector, sales were led by system development projects for securities firms, mainly for our major clients in the securities industry. We also undertook large-scale projects, including system integration due to mergers of financial institutions and system construction for the banking industry. As a result, sales in system development and system application sales were strong. As for the system management and operations business, system operations for the securities industry and network operations for the banking industry performed well. In regard to product sales, the number of projects involving the introduction of equipment as part of system development projects increased and sales results were favorable. As a result, our financial services business on a whole had strong sales.

As for the distribution sector, while system development and system management and operations for major clients increased, overall sales remained stagnant, mainly due to a decrease in sales because of repercussions arising from carrying out a system development project for volume retailers in the previous year.

Our performance in other private sectors remained sluggish as well due to a decrease in product sales.

In respect to costs, while outsourcing costs increased due to an increase in system development projects, we strived hard to reduce costs by strengthening project management as well as promoting standardization of the system development and maintenance business.

As a result, system solution services recorded sales (sales to external customers) of 213,230 million yen (up 9.3% from the previous year) and operating profit of 24,483 million yen (up 9.8%). A sales breakdown of the system solution services segment is as follows: system development and system application sales of 89,386 million yen (up 14.1%), system management and operations sales of 97,559 million yen (up 4.3%) and product sales and others of 26,284 million yen (up 13.3%).

The system development and system application sales order backlog was 13,976 million yen (up 3.7%) due to an increase in system development projects for major clients. The system management and operations order backlog was 87,918 million yen (up 10.8%) due to outsourcing project orders from new clients in addition to the favorable performance of system operation for the financial sector and the distribution sector. Total order backlog for system solution services was 101,895 million yen (up 9.8%)

Consulting and Knowledge Services

Our consulting services related to corporate revitalization and CSR, in addition to support services for creating management strategies and visions as well as business strategies and plans, performed well mainly for the financial sector. On the other hand, impacted by a reduction of sales because of repercussions arising from having carried out large-scale projects for the public sector and by a transfer of the economic and capital market research department to the Nomura Securities Group, sales on a whole remained sluggish.

In terms of costs, outsourcing costs decreased due to the impact of a large-scale project in the previous year.

As a result, the consulting and knowledge services segment recorded sales (sales to external customers) of 39,733 million yen (down 7.6% from the previous year) and operating profit of 5,692 million yen (down 0.6%).

Total order backlog for consulting and knowledge services was 16,027 million yen (up 1.9%).

(2) Cash Flow

Fiscal 2004 cash flows from operating activities were 27,569 million yen, while cash flows from investing activities and financing activities produced deficits of 81,981 million yen and 3,928 million yen, respectively. As a result, cash and cash equivalents at the end of the year decreased by 58,134 million yen to 38,677 million yen.

(Cash flows from operating activities)

Because of the increased income in the previous year, the amount of income taxes paid was 16,668 million yen (up 56.9% from the previous year), which resulted in income before income taxes of 27,361 million yen (down 16.9%). While accounts receivable and other receivables increased with an increase in sales, the amount of accounts receivable and other receivables, net of advance payments received, only increased by 4,880 million yen due to ongoing recovery of accounts receivable and other receivables mainly from system development. On the other hand, due to an increase in depreciation and amortization associated with the acquisition of the Osaka Data Center in fiscal 2003, depreciation and amortization rose to 18,402 million yen (up 3.7%). Consequently, net cash provided by operating activities amounted to 27,569 million yen (down 5.9%).

(Cash flows from investing activities)

We used 6,148 million yen to acquire term deposits for the purpose of investment targeted for fund management in the medium to long term beginning from fiscal 2004, and we used 25,983 million yen to acquire short-term investment securities and 39,888 million yen to acquire investment securities. We also used 8,051 million yen (down 36.4% from the previous year) for acquisition of property and equipment, including the acquisition of property and equipment for the Marunouchi Center and the update of equipment for system operation mainly for the financial sector. Due to the impact of acquiring the land and building for the Osaka Data Center in fiscal 2003, the amount of investment in tangible fixed assets, was substantially reduced in fiscal 2004. We used 9,327 million yen (down 18.2%) to acquire intangible fixed assets, such as development of a multi-user system for the financial sector. Consequently, net cash used in investing activities amounted to 81,981 million yen (up 328.3%).

(Cash flows from financing activities)

Through the execution of increased year-end dividends and interim dividends, we paid cash dividends of 2,695 million yen (up 200.0% from the previous year). Also, by repaying 2,370 million yen of long-term debt and borrowing 1,200 million yen, we were able to change to more favorable borrowing conditions. As a result, net cash used in financing activities amounted to 3,928 million yen (up 160.4%).

[Production, Orders and Sales]

(1) Actual Production

① Actual production

Actual production for fiscal 2004 for each segment by type of business is shown below.

Segment by type of business	Amount (millions of yen)	Change from previous year (%)
System Solution Services	139,809	9.5
System development and system application sales	66,171	20.2
System management and operations	73,638	1.3
Consulting and Knowledge Services	24,779	(12.3)
Total	164,588	5.5

Notes: 1. Amounts are based on manufacturing costs.
2. Figures do not include consumption tax and other items.

② Subcontracting costs

Subcontracting cost and its ratio to total production for fiscal 2004 for each segment are shown below.

Segment by type of business	Amount (millions of yen)	Ratio to total production (%)	Change from previous year (%)
System Solution Services	64,049	45.8	11.4
System development and system application sales	39,804	60.2	22.7
System management and operations	24,245	32.9	(3.2)
Consulting and Knowledge Services	9,123	36.8	(10.1)
Total	73,173	44.5	8.2

Notes: 1. Amounts are based on manufacturing costs.
2. Figures do not include consumption tax and other items.

(2) Orders Received and Order Backlog

Orders received and order backlog for fiscal 2004 for each segment are shown below.

Segment by type of business	Orders received (millions of yen)	Change from previous year (%)	Order backlog (millions of yen)	Change from previous year (%)
System Solution Services	222,299	10.0	101,895	9.8
System development and system application sales	89,900	5.0	13,976	3.7
System management and operations	106,114	13.8	87,918	10.8
Product sales	26,284	13.3	—	—
Consulting and Knowledge Services	40,112	(1.0)	16,027	1.9
Total	262,411	8.1	117,923	8.6

Notes: 1. Amounts are based on sales prices.
2. Figures do not include consumption tax and other items.
3. For services that are provided regularly and are paid for on a usage basis, expected sales during the following year are recorded as orders received at the end of each fiscal year.

(3) Actual Sales

Actual sales for fiscal 2004 for each segment are shown below.

Segment by type of business	Sales (millions of yen)	Change from previous year (%)
System Solution Services	213,230	9.3
System development and system application sales	89,386	14.1
System management and operations	97,559	4.3
Product sales	26,284	13.3
Consulting and Knowledge Services	39,733	(7.6)
Total	252,963	6.3

Notes: 1. Sales to major clients and ratio to total sales are shown below.

Client	For fiscal 2003 (From 1st April, 2003 to 31st March, 2004)		For fiscal 2004 (From 1st April, 2004 to 31st March, 2005)	
	Sales (millions of yen)	Ratio to total sales (%)	Sales (millions of yen)	Ratio to total sales (%)
Nomura Holdings, Inc.	59,423	25.0	67,000	26.5
Ito-Yokado Co., Ltd.	24,855	10.4	30,597	12.1

As a general rule, sales to subsidiaries of major clients are included in the transaction value of the parent company.

- Figures indicate sales to outside clients, excluding internal sales or transfers between service segments.
- Figures do not include consumption tax and other items.

Sales by sector and ratio to total sales are shown below.

	Figures for fiscal 2003 (From 1st April, 2003 to 31st March, 2004)		Figures for fiscal 2004 (From 1st April, 2004 to 31st March, 2005)	
	Sales (millions of yen)	Ratio to total sales (%)	Sales (millions of yen)	Ratio to total sales (%)
Financial	125,104	52.5	149,864	59.2
Distribution	44,676	18.8	43,138	17.1
Other private sectors	48,427	20.3	42,668	16.9
Public	19,859	8.3	17,291	6.8
Total	238,067	100.0	252,963	100.0

Notes: 1. As a general rule, sales to subsidiaries are included in the sector to which the parent company belongs.

- Figures do not include consumption tax and other items.

[Management Tasks]

Investment in information systems by companies is showing signs of recovery along with the economic recovery afoot in Japan. Meanwhile, customers are requesting more advanced information systems and demands for shorter development periods and competitive prices are getting stronger. The information service industry is faced with the challenge of meeting the strict needs of clients.

In such a business environment, the NRI Group (the Company and its consolidated subsidiaries) recognizes that the key management tasks are to handle large-scale projects for major clients properly, to further strengthen sales capabilities and to enhance earning capacity.

For large-scale projects for major clients, we established a dedicated organization in April 2005 for the proposal of IT strategies and aim to devote more than human resources. Through handling these large projects, we are improving our cutting-edge project management capabilities, which will broaden the scope of the Group's total capabilities for future business growth.

We recognize the need to strengthen our earning capacity as our ongoing challenge. We aim to improve our quality and productivity by further standardizing the operations involved in system development and maintenance and management of system operation and by improving project management functions. We also aim for efficient operation by conducting a drastic review of our indirect services. Through undertaking these measures, we are developing a high-value-added multi-user system and other systems based on know-how accumulated within the NRI Group.

To strengthen our sales capabilities, we will further improve our total capabilities from consulting through to system development and system operation in line with our basic strategy of "Navigation and Solution", which is to grasp the essence of the customer's management objectives, to propose strategies to achieve them and to provide measures to bring such strategies to fruition as results. We will also focus on acquiring new projects by taking advantage of our system foundation technology. Through these activities, we strive to build a solid relationship of trust with our clients.

It is our human assets that are the key to the growth of the NRI Group, so in order to achieve medium to long term growth, it is essential to foster our human resources systematically. In addition to our project manager training scheme that we have focused on, we place an emphasis on fostering proposal-oriented sales professionals, who can create business by accurately grasping diversity and complexity of client needs, and fostering tomorrow's management executives who can lead NRI in the next generation. We aim to foster our human assets through on-the-job training as well as by providing the support deliberately developed by the Human Resource Development Division. Furthermore, we will continue to focus on our training programs and offer employees benefits suitable for professionals.

With such recent developments as the full enforcement of the Personal Information Protection Law in April 2005, corporate security measures have become a major issue to the extent that the stance which a company takes on this issue is starting to affect the company's competitiveness. Within the NRI Group, the Security Management Center has in place stringent security management, such as establishing rules that apply to NRI-affiliated companies and conducting internal security seminars. In addition to setting security measures within the Group, as for access to equipment and usage of data, we will establish rules, as may be necessary, per individual project through consultation with the client.

To facilitate the promotion of the corporate social responsibility (CSR) activities of the NRI Group, we established the Corporate Social Responsibility Department in October 2004. The NRI Group will carry out its activities with high aspirations for its management philosophy of "Accomplishing the trust of our clients and prospering together with them" and "Gaining insight into the paradigms of a future society and propelling its realization".

[Business and Other Risks]

1. Inherent Risks

The following summarizes the major attributes of the NRI Group's (NRI and its consolidated subsidiaries') operations and inherent risks.

(1) Dependence on specific business sectors and clients

NRI Group sales show relatively strong dependence on specific business sectors and clients. Currently, combined sales to the financial and distribution sectors account for around three-quarters of our total sales. The Group's two major customers are the Nomura Securities Group (Nomura Holdings, Inc. and its subsidiaries) and the Ito-Yokado Group (Ito-Yokado Co., Ltd. and its subsidiaries). Combined sales to these two groups make up almost 40% of our total sales, due to an increase in their strategic investment in information systems.

The NRI Group has been distinguished by its business know-how in the financial and distribution sectors, which it has acquired by responding to the advanced needs of its customers as well as the development and operation of large-scale and cutting-edge high tech systems. And we believe such know-how is our strength that we have to differentiate ourselves from others. Taking advantage of this strength, the NRI Group will aggressively strive to acquire new clientele while strengthening its ties with the existing customers the Group has nurtured over a long period of time.

Changes, however, in the business conditions of those major customers and reconsideration of their investment strategies in information systems, as well as some changes to laws and the business climate relating to certain industries, may seriously affect the business results of the Group. Also, we must accept the fact that there is no guarantee that sales to particular clients will continue to grow in the future.

For our sales by sector and by major client for the past two fiscal years, please refer to "[Production, Orders and Sales] (3) Actual Sales".

(2) Possibilities of intensified competition

In the information service industry, competition has been intensifying among service providers and customer demands for competitive pricing are increasing. Even with clearer signs of economic recovery on the horizon, intense price competition may continue.

The NRI Group believes that falling profitability can be offset to some extent by distinguishing itself with high-value-added services and improving productivity. To those ends, we intend to take various measures to increase our productivity as well as further fortify our total capabilities, from consulting to system development and management, which is the NRI Group's strength.

The Group intends to continually build a firm relationship of trust with its clients by promoting these measures and by proposing and realizing precise management solutions in response to its clients' management tasks. However, in the event that competition intensifies beyond our expectations, the Group's performance may be adversely affected.

(3) Information system development

Generally, system development projects are undertaken on a contract basis. We are obliged, under such a contract, to complete an information system and deliver it by the specified deadline. For this reason, a project deemed profitable at the time of the contract signing may end up incurring more costs for completion of the contract than expected. The project may require more man-hours than the initial estimate due to requirement changes made till the time of completion or it may incur additional costs for system performance improvements even after delivery. In addition, customers' demands for shorter development periods of information systems and their functions are getting more advanced and complex. As a result, a project may require more expenses than initially expected to meet these demands. The Group receives orders for long-term projects that may last several years. In such projects, the requirements are likely to change due to changes in the surrounding environment and technology.

Therefore, in order to deal with these situations, we are improving the management abilities of our project managers through training programs as well as providing quality management systems based on ISO 9001*. In other words, we are attempting to ensure that project estimates and examination as well as project management after the contract signing are done properly. In particular, we have established exclusive examination bodies, such as the system development committee, for large-scale projects in order to thoroughly review projects at each stage of progress.

Despite the Group's efforts in information system development as described above, in the event a project requires more man-hours than initially estimated and / or incurs additional expenses, the project's final profitability may deteriorate, which in turn may adversely affect the Group's business results.

*: ISO 9001 is an international standard for quality management systems established by the ISO (International Organization for Standardization).

(4) Stable operations of information systems

We at the NRI Group are striving to build long-term relationships of trust with our clients. For this reason, it is essential not only to guarantee quality during the development of systems but also to assure stable operation once they are completed.

The Group has long been making aggressive efforts to enhance and improve the quality of system operation. We are continuously striving to maintain and improve the quality of the services we provide, based on the ISO 9001 quality management system, ISMS*, and other standards. There have been no major problems with stable operations of our system.

Still, in case of human error, such as a neglect to follow the correct operating procedures, an equipment malfunction, and / or a failure to achieve stable operations to the level agreed with the client in the event of a system failure due to a natural disaster and other factors, the Group's business results may be directly and adversely affected. Furthermore, if the customers lose their trust in the quality the Group provides, that may have an indirect but lasting effect on the Group's business results.

*: ISMS refers to the Japan Information Processing Development Corporation (JIPDEC) standard for information security management systems, based on a conformity assessment scheme.

(5) Business stability in system management and operations

Contracts for system management and operations are generally renewed automatically, regardless of whether they are multi-year or single-year contracts. For this reason, it is fairly easy to predict the profitability of the business. In addition, compared to the system development and system application sales business, the system management and operations business has smaller sales fluctuations and performances of the past five years have grown steadily.

Expansion of the system management and operations business requires investments in a building for a data center and software as described later, and also it requires careful management of works in progress and continuous credit control of the clients. The Group's performance has never been seriously hurt by corporate bankruptcies.

However, there is no guarantee that stable profitability in system management and operations will continue in the future. For example, mergers and bankruptcies of our corporate clients could hinder contract renewals, adversely affecting the Group's performance.

(6) Investment in software

The Group makes periodic investment in software to expand its business, including multi-user services. In most cases, software is designed for a specific use, which means that it is not easy to use for other applications, unlike property and equipment. Consequently, investment in software must follow thorough consideration.

At the NRI Group, we exhaustively discuss the legitimacy of each business plan before developing any software. We also have a system whereby regular checks on the plan's progress enable prompt revision to the plan when necessary, both in the development stage and after completion. In this way, investment is strictly managed, so we are confident that our risk management structure is fully functional.

However, since returns on investments are never one hundred percent guaranteed and changes in the business climate may force us to change profit forecasts, the recovery of the investment may become more difficult than originally planned. In such a case, we may estimate the recoverability appropriately and record the loss.

(7) Hiring and fostering highly specialized professionals

At the Group, we believe that the specialized expertise of our employees is the foundation of the high-value-added services we provide. Also, nurturing highly specialized human resources is necessary in order to build long-term relationships with clients and therefore enable the Group to achieve medium to long term growth.

Because we perceive our employees as valuable "human assets", we are dedicated to creating a system and an environment conducive to their development. Specifically, we offer assistance to and subsidize our employees to obtain various licenses and qualifications. We also offer more than 100 different types of human resources development seminars at the Yokohama Learning Center, an establishment dedicated to employee training. We are striving to foster and develop highly specialized professionals with the latest and most advanced expertise by encouraging the employees to improve themselves through taking advantage of our sophisticated in-house certification scheme.

However, failing to hire and foster professionals who can respond to the highly specialized demands of our customers could adversely affect the Group's performance in the medium to long term.

(8) Outsourcing of operations

To raise productivity and to make use of the highly specialized know-how of outside corporations, information service companies may outsource some of their system development and system management and operations businesses.

The Group mainly outsources system development programming and some of its system management and operations. Our subcontractors include not only domestic corporations but also overseas corporations, including Chinese corporations. At present, subcontractors are responsible for more than 40% of production. To ensure that our operations run smoothly, it is essential to secure superior cooperating companies and maintain good business ties with them.

At the Group, we strive to secure superior cooperating companies by collecting corporate information, performing corporate screening regularly and searching for new collaboration partners both domestic and abroad, as well as by sharing project risks with our "ePartner contract" companies. By sharing project risks with these firms, we hope to improve our own and our collaborating companies' productivity and quality. We believe that this approach will allow us to maintain favorable working relationships with the cooperating companies based on mutual trust.

In spite of all those efforts, in case we fail to secure superior cooperating companies or maintain good business relationships with them, we might not be able to conduct business operations smoothly, which may adversely affect our business results.

For the ratio of subcontracting costs to production by segment, please refer to "Production, Orders and Sales: (1) Actual Production, (2) Subcontracting costs".

(9) Information security management

With the widespread use of the Internet, the dissemination of information is instantaneous. While such advances in technology have increased the number of users and made life much more convenient, information security management has become a major issue in society as a whole, including full enforcement of the Personal Information Protection Law. In the information service industry, where we are constantly handling clients' confidential data, there is an even greater demand for security.

Therefore, the NRI Group carries out thorough security management procedures, which include our Security Management Division taking a leading role in establishing internal protocols for related firms and supporting the management of the security measures. Particularly, we focus on security management at our data centers, such as carrying out thorough checks on items that are brought in and out of the computer room using X-ray scanning equipment in addition to a security system that allows entry only with IC cards. We also focus on providing adequate security education for the employees of our cooperating companies and temporary employees as well as our own employees and executives, such as continually providing training related to information management and the protection of personal information. All of our employees and executives will continue to make concerted efforts in information security measures in order to protect our customers' information assets.

However, if information leaks were to occur, despite our best efforts, it may not only adversely affect our business results, it may also damage our credibility.

2. Risks Accompanying Changes in Financial Position

The following sums up the major attributes of the NRI Group's (NRI and its consolidated subsidiaries') financial position and attendant risks.

(1) Investment securities

In order to manage funds, the Group invests in Venture Capital Investment Limited Partnerships (VCILP), short-term investment securities, government and corporate debt securities and others. Also, with a view to cultivating future business opportunities, the Group holds equity investments in various firms. At the same time, in order to strengthen business ties, the Group also invests in the equity of its clients after carefully examining the expected return on its investments.

As of the end of March 2005, marketable securities accounted for approximately half of the Group's total assets. Of those, equity securities accounted for some 20% of total assets.

Marketable equity securities have the inherent risk of market price fluctuations due to changes in the economic climate and corporate profitability, which in turn could hurt the Group's financial position. Non-marketable shares are mainly evaluated by

the cost method, which is based on the moving average method. However, if the financial conditions of the companies deteriorate significantly, the Group may recognize impairment losses on their securities. Moreover, in the event of bankruptcy of a company the Group invested in, it might not be able to recover a part or the whole of the investment.

The Group has its internal regulations defined for the debt securities it holds as part of its fund management and invests conservatively giving due consideration to capital safety. Still, their principals are not guaranteed. Also, the Group might not be able to recover either a part of, or the whole of, its investments in "VCILP" and other businesses in the case such organizations' financial conditions deteriorate significantly.

For details on the Group's investment securities, please refer to "Consolidated Financial Statements, Notes to the Consolidated Financial Statements (Investments)".

(2) Retirement benefits liabilities

The Company and its domestic consolidated subsidiaries have established a qualified pension plan and retirement lump-sum allowance for their employees as a defined contribution pension system. The allowance for employee retirement benefits will fluctuate according to changes in the amount of retirement benefit obligations and pension plan assets.

Retirement benefit obligations are calculated using a number of assumptions and estimates, such as employment termination trends, discount rates and the expected rate of return on pension plan assets. A change in any of these factors could change the amount.

The pension plan assets generally fluctuate depending on the trends in the stock market and with the interest rates. At the end of March 2005, of the Group's pension plan assets of 42,899 million yen, 10,128 million yen was invested in the shares of the employee retirement benefit trust. Consequently, the Group's pension plan assets run the risk of fluctuating with the changes in the shares' market prices.

For more details, please refer to "Consolidated Financial Statements, Notes to the Consolidated Financial Statements (Retirement and Severance Benefits)".

3. Risks Inherent in the Relationship with Nomura Holdings, Inc. and Other Affiliates

As of the end of March 2005, Nomura Holdings, Inc., the Nomura Securities Group's holding company, held 42.2% (including a 36.5% share of indirectly owned stock) of the Company's shares. Thus, Nomura Holdings is one of our other affiliated companies. In addition, Nomura Holdings' other affiliates, such as JAFCO Co., Ltd., owned 7.5% of the Company's shares. The percentage of shares held by Nomura Holdings, Inc. and its affiliates will not necessarily remain unchanged.

The Nomura Securities Group is our biggest customer and therefore appropriate terms and conditions are agreed upon for every transaction.

For more details, please refer to "Consolidated Financial Statements, Notes to the Consolidated Financial Statements (Related Party Transactions)".

*: The aforementioned risks are the most common risks inherent to our business as of the end of March 2005. Actual risks are not limited to these risks.

[Research and Development Activities]

The NRI Group's (the Company and its consolidated subsidiaries') research and development activities consist of the following:

1. Research of basic and advanced information technologies and of production and development technologies.
2. Basic research and feasibility studies for development of new businesses and products, development of prototypes and proving tests.
3. Surveys and research on new socioeconomic systems

These R&D activities are conducted on an ongoing basis at the Advanced Information Technology Division, the technology development arm of the Group, and at the Center for Knowledge Exchange & Creation, the Group's think tank. In addition, each of our divisions is actively involved in business and product development from a medium to long term perspective. These activities may be handled through the collaboration system among divisions by means of horizontal organizational structures.

The Research and Development Committee, comprised of specialists in each field, oversees the management of R&D activities. The committee examines each project, in terms of the usability for our business, from the planning stage to the eventual utilization of the project results, improving the quality of our R&D activities.

In fiscal 2004, our R&D costs amounted to 1,646 million yen. The R&D activities for each segment are reported below.

System Solution Services

We started the development of new system solution models with a view to creating strategic products and services. One example is the examination of a new industry infrastructure that would enable greater product information control and application in the distribution sector and the development of related solution models. Another example is our research of BPM (Business - Process - Management) solutions to contribute to the technology advances of corporate activities by restructuring operational processes. In addition to researching the ways to improve legacy migration*, we also conducted survey and research into the trends in financial services catering for individuals and the use of IT in Europe. To raise productivity and quality, we pursued applied research following the development of methods for the visualization of process to define core requirements, which is to reflect business needs efficiently into system design, and for the enhancement of project management. We also continued the research of the techniques of system design and system construction by utilizing open-source technology.

Consequently, our R&D costs for System Solution Services came to 1,140 million yen.

Consulting and Knowledge Services

We carried out survey and research into next-generation management, business styles and new socioeconomic systems, especially emphasizing fields relevant to China and Asia. For example, we surveyed and researched ways to reform management of Japanese firms operating in China, advanced examples of risk management in China and business strategies in China of Asian-based global corporations (including Taiwanese and Korean). We also researched next-generation organizational models for Japanese firms; new growth areas in the fields of electronics, information technology and telecommunications; and the changes for companies, society and the IT market in five years from now.

Consequently, our R&D costs for Consulting and Knowledge Services amounted to 506 million yen.

* Legacy migration is the system solution that transfers existing systems (Legacy Systems), mainly constructed on mainframe computers, to such platforms as UNIX or Windows® by using program conversion tools.

Note: Windows® is a registered trademark of Microsoft Corporation in the U.S.A. and other countries.

[Analysis of Financial Position and Business Results]

1. Significant Accounting Policies and Estimates

The accompanying financial statements for the NRI Group (NRI and its consolidated subsidiaries) have been prepared in accordance with generally accepted accounting principles and practices in Japan. The compilation of these financial statements requires certain assumptions and estimates that may influence the assets and the liabilities at the end of the fiscal year and the income and expenses during the accounting period. An estimate deemed reasonable from historical experience or circumstances may differ from the actual results when the assumption or a condition changes. The following are major assumptions and estimates used in the application of significant accounting policies that may greatly influence the Group's financial statements.

(1) Percentage-of-completion method

The Group, in principle, has adopted the percentage-of-completion method to recognize revenue from research and consulting projects and information system development projects. Based on this method, the cost of sales for each project is recognized on an accrual basis, and the corresponding revenues are recorded according to the rate of accrued cost on works in progress (the ratio of actual costs incurred to the total estimated cost for each project). Revenues are recorded regardless of billings to clients, while the corresponding amounts are recorded under accounts receivable, including development. Unlike the completed contracts method, which records revenue in one lump sum at the time of completion or delivery, the percentage-of-completion method has the advantage of lending legitimacy to the profit and loss statement as a fair reflection of the profit / loss during the period in question.

The percentage-of-completion method is adopted on the assumption that the costs of each project, which are the bases for revenue recognition, may be reasonably estimated at the time orders are received and at the end of each month. Since the improvement of our project management structure, we have been accurately estimating costs at the time orders are received and have been appropriately evaluating works in progress. And should a project deviate from the initial estimates to a degree beyond the prescribed limits, the estimates must be revised immediately. Because of these measures, we are confident that such revenues are being recorded with a high level of accuracy.

(2) Accounting method for software

In the amortization of software packages and multi-user system services, instead of recording subcontracting costs and labor costs for the development of their basic information systems as expenses, these amounts may be recorded under the Group's investments in software or recorded in the software suspense accounts. In such cases, sale of the completed information system to the client or the provision of services generates product sales revenue and system application revenue, which in turn enables the Group to collect its returns on its development investments in the medium to long term. Since software assets are indispensable to the Group's business operations, we will continue to aggressively develop software with well-considered business plans.

However, software assets are not guaranteed to be one hundred percent recoverable. In cases where changes occur in the Group's operating environment, we may appropriately estimate the amount recoverable and record the loss.

(3) Accounting method for employee retirement benefits

Accounting for employee retirement benefits requires numerous assumptions and estimates, such as employment termination trends, and agreement on certain basic rates, such as the discount rate and the expected rate of return on pension plan assets. In calculating these basic rates, the Group has adopted estimates that are both reasonable and conservative. Past history shows that the discount rate, a crucial rate of the basic rates, had been revised conservatively every year since the commencement of employee retirement benefits accounting. The discount rate remained at 1.8% for fiscal 2004, the same as the previous year.

Actuarial differences occur as a result of discrepancies between the estimated amounts of the expected return on plan assets and the actual return itself and also because of changes in estimated amounts, such as the discount rate. Over the last five years, the Group recorded actuarial losses of 6,122 million yen, 1,194 million yen, and 6,942 million yen, actuarial gain of 8,077 million yen, and actual loss of 4,037 million yen for the years ended 31st March, 2001, 2002, 2003, 2004, and 2005, respectively.

Until the fiscal year ended in March 2003, we recorded actual differences in the whole amount in the fiscal year in which they occurred. However, starting fiscal 2004, actual differences will be recorded from the following term using the straight-line method over a fixed number of years (15 years) within the average remaining service time. Now, the unrecognized actuarial gain at the end of fiscal 2004 was 3,501 million yen.

Furthermore, in order to construct a solid foundation for our pension plan, the Company contributed a portion of its shareholdings to the employee retirement benefit trust on 28th March, 2003. As of the end of March 2005, pension plan assets totaled 42,899 million yen, which includes the employee retirement benefit trust of 10,128 million yen.

2. Analysis of Business Results for Fiscal 2004

The following is a comparison of the business results of fiscal 2004 with these of fiscal 2003.

Summary of consolidated statements of income

Item	Year ended	Year ended	Compared with	
	31st March, 2004	31st March, 2005	previous year	
	Amount	Amount	Amount	Rate of
	(millions of yen)	(millions of yen)	(millions of yen)	Change (%)
Sales	238,067	252,963	14,895	6.3
Cost of sales	178,096	190,732	12,635	7.1
Gross profit	59,971	62,230	2,259	3.8
Selling, general and administrative expenses	31,948	32,071	122	0.4
Operating profit	28,022	30,159	2,136	7.6
Non-operating income	1,700	1,172	(528)	(31.0)
Non-operating expenses	429	344	(85)	(19.9)
Ordinary profit	29,293	30,987	1,694	5.8
Extraordinary profit	5,314	5,965	651	12.3
Extraordinary loss	1,680	9,592	7,911	470.7
Income before income taxes	32,927	27,361	(5,566)	(16.9)
Provision for income taxes	14,657	11,058	(3,599)	(24.6)
Net income	18,269	16,303	(1,966)	(10.8)

(1) Sales

Sales for fiscal 2004 amounted to 252,963 million yen (a 6.3% increase from the previous year). As for sales by sector, sales to the financial sector, on the whole, were up with increases in system development and system management and operations for securities and banking firms. On the other hand, sales to the distribution sector and other private and public sectors were down, as they were significantly affected by the repercussion of a large project.

(2) Cost of sales, selling, general and administrative expenses and operating profit

Cost of sales amounted to 190,732 million yen (a 7.1% increase from the previous year). In spite of our efforts to reduce costs by further strengthening project management as well as standardizing system development and maintenance, costs increased on the whole due to an increase in outsourcing costs resulting from a large increase in system development projects.

As for selling, general and administrative expenses, as a result of our ongoing efforts to effectively reduce the costs, we were able to hold down the expenses to 32,071 million yen (an increase of 0.4%), a level similar to the previous year, in spite of such factors as the introduction of Taxation of Corporations by the Size of Their Business.

As a result of these developments, operating profit was 30,159 million yen (up 7.6%) for fiscal 2004.

(3) Non-operating income / expenses and ordinary profit

The Company posted non-operating income of 1,172 million yen (a 31.0% decrease from the previous year). The major components include 474 million yen in dividend income (down 24.5%), 273 million yen in interest income (up 62.9%) and 226 million yen in equity in earnings of affiliates (down 43.4%).

Non-operating expenses amounted to 344 million yen (down 19.9%). The major components include 214 million yen in interest expense (up 154.8%) and 91 million yen in investor partnerships dues (down 66.1%).

As a result of these factors, ordinary profit for fiscal 2004 amounted to 30,987 million yen (up 5.8%).

An explanation of the major factors for increases and decreases are given below.

① Dividend income

The decrease in dividend income was primarily due to the absence of dividends this year from Izumi Securities Co., Ltd. (currently SMBC Friend Securities Co., Ltd.), which had been received in the previous year.

② Interest income

The increase in interest income was primarily due to an increase in interest from time deposits and government debt securities since the commencement of fund managed investment.

③ Equity in earnings of affiliates

The decrease in the equity in earnings of affiliates was primarily due to the exclusion of NIWS Co., Ltd. from the scope of the equity method from this year, which had been accounted for by the equity method in the previous year.

④ Interest expense

The increase in the amount of interest paid was primarily due to the cancellation of interest rate swap agreements by the repayment of long-term debt.

(4) Extraordinary profit / loss and income before income taxes

The Company posted extraordinary profit of 5,965 million yen for fiscal 2004 (a 12.3% increase from the previous year). Gain on sales of investment securities amounted to 5,524 million yen.

The Company recorded an extraordinary loss of 9,592 million yen (up 470.7%) for fiscal 2004, major components of which were 6,526 million yen loss on devaluation of software and 1,555 million yen loss on devaluation of investment securities.

As a result, income before income taxes totaled 27,361 million yen for fiscal 2004 (down 16.9%).

The primary causes are explained below.

① Gain on sales of investment securities

The gain was primarily due to the sales of the shares of NIWS Co., Ltd.

② Loss on devaluation of software

The loss on devaluation of software was a result of reevaluating the value of software assets in consideration of a sudden change of the client business environment.

③ Loss on devaluation of investment securities

The loss was primarily due to a drop in value of the stocks of Saitama Kaihatsu Co., Ltd. and Japan Investor Solutions and Technology Co., Ltd.

(5) Provision of income taxes and net income

Provision for income taxes (including corporate, residential and enterprise taxes) totaled 11,058 million yen (a 24.6% decrease from the previous year).

The income tax rate on income before income taxes decreased from a rate of 44.5% in fiscal 2003 to a rate of 40.4% in fiscal 2004. This decrease was primarily due to the reduction in the effective tax rate and the special tax deductions received under the IT Investment Promotion Taxation System.

Consequently, the Company posted net income of 16,303 million yen (a decrease of 10.8%) in fiscal 2004.

3. Analysis of Financial Position at the End of Fiscal 2004

The following is a comparison of balance sheets at the end of fiscal 2004 and the end of fiscal 2003. For a summary of cash flow for fiscal 2004, please refer to "Outline of Business Results: (2) Cash Flow".

Summary of consolidated balance sheets

Item	31st March, 2004 Amount (millions of yen)	31st March, 2005 Amount (millions of yen)	Compared with previous year-end Amount (millions of yen)	Item	31st March, 2004 Amount (millions of yen)	31st March, 2005 Amount (millions of yen)	Compared with previous year-end Amount (millions of yen)
Assets				Liabilities			
Current assets	154,252	135,515	(18,737)	Current liabilities	49,585	50,001	416
Cash and bank deposits	17,085	18,524	1,438	Accounts payable	20,154	19,792	(362)
Accounts receivable and other receivables	32,441	40,395	7,953	Income taxes payable	12,704	12,048	(656)
Short-term investment securities	79,726	52,224	(27,502)	Other current liabilities	16,725	18,159	1,434
Other current assets	24,998	24,371	(627)	Fixed liabilities	47,883	35,573	(12,310)
Fixed assets	172,547	181,826	9,278	Deferred income taxes	22,266	11,162	(11,104)
Tangible fixed assets	36,661	37,295	633	Allowance for employees' retirement benefits	22,625	22,697	72
Buildings	16,805	16,399	(405)	Other long-term liabilities	2,991	1,713	(1,278)
Machinery	5,082	5,558	475	Total liabilities	97,468	85,574	(11,894)
Equipment	4,916	6,080	1,164	Shareholder's equity			
Land	9,856	9,256	(600)	Common stock	18,600	18,600	—
Intangible fixed assets	32,505	22,418	(10,086)	Additional paid-in capital	14,800	14,800	—
Investment and other assets	103,380	122,112	18,731	Retained earnings	156,710	170,018	13,308
Investment securities	86,170	107,672	21,502	Unrealized gain on other securities	40,081	28,987	(11,094)
Investments in affiliates	2,325	2,157	(168)	Translation adjustments	(857)	(632)	224
Long-term pledged assets	9,621	9,355	(265)	Treasury stock	(3)	(6)	(2)
Other intangible assets	5,262	2,926	(2,336)	Total shareholders' equity	229,331	231,766	2,435
Total assets	326,799	317,341	(9,458)	Total liabilities and shareholders' equity	326,799	317,341	(9,458)

(1) Summary

Total assets at the end of March 2005 decreased 9,458 million yen from the previous year-end to 317,341 million yen. Current assets at the end of March 2005 decreased 18,737 million yen from the previous year-end to 135,515 million yen. The main factor for this decrease was that a portion of capital that had been managed with short-term investment securities was diverted to investments in debt securities with a remaining life exceeding one year. On the other hand, accounts receivable and other receivables increased by 7,953 million yen from the previous year-end as a result of the increase in sales. The Group is confident that it can secure sufficient working capital during fiscal 2005.

Fixed assets at the end of March 2005 increased by 9,278 million yen from the previous year-end to 181,826 million yen. The main factor contributing to this increase was an increase in investment securities. In spite of the countering factors of the sales of the NIWS Co., Ltd. shares and others, and the market value evaluation of our shareholdings, an increase in investment for the purpose of funding medium to long term working capital resulted in a 21,502 million yen increase in investment securities to 107,672 million yen. Intangible fixed assets decreased by 10,086 million yen compared with the previous year-end to 22,418 million yen, primarily due to the cycle of software investments completed and accounting for the loss on devaluation of some software assets.

Liabilities at the end of March 2005 decreased by 11,894 million yen compared with the end of the previous year to 85,574 million yen. A main reason for this decrease was an 11,104 million yen decrease in deferred income taxes to 11,162 million yen due to the sales and the market value evaluation of investment securities.

Shareholders' equity at the end of March 2005 increased 2,435 million yen compared with the end of the previous year to 231,766 million yen. While retained earnings increased by 13,308 million yen reflecting favorable business results, unrealized gain on other securities decreased by 11,094 million yen due to the change in the market value of investment securities.

(2) Investment securities

Investment securities at the end of March 2005 include 52,224 million yen of short-term investment securities under current assets, 107,672 million yen of investment securities under fixed assets and 2,157 million yen of investments in affiliates

under fixed assets for a total of 162,055 million yen. The percentage of investment securities to total assets is 51.1%. In the summary of consolidated balance sheets up until fiscal 2003, equity investments for "VCILP" and others was included under the "other intangible assets" part of "investment and other assets". However, from fiscal 2004 they are included under "investment securities" (2,211 million yen in fiscal 2003 and 2,097 million yen in fiscal 2004).

The components of the 52,224 million yen in short-term investment securities under current assets are 4,551 million yen in money management funds, 12,000 million yen in free financial funds and 35,672 million yen in debt securities and others. The components of the 109,830 million yen in investment securities under fixed assets are 70,330 million yen in shares (including affiliate company shares), 37,402 million yen in debt securities and others and 2,097 million yen in equity investments for "VCILP" and others. Of these investment securities, 115,982 million yen worth are marketable securities, while 46,072 million yen worth are non-marketable securities. Of the investment securities that are marketable, 17,411 million yen worth had book values that did not exceed acquisition costs and the difference from the acquisition costs was 203 million yen.

Of the shares, 52,708 million yen are marketable, while 17,622 million yen are non-marketable. Shareholdings that make up more than 5% (3,516 million yen) of the total include shares of JAFCO Co., Ltd. (28,252 million yen reported on the balance sheet), shares of NIWS Co., Ltd. (9,193 million yen), shares of Nomura Land and Building Co., Ltd. (7,439 million yen) and shares of Recruit Co., Ltd. (4,080 million yen). In addition to the JAFCO shares mentioned, the Company is also contributing 1,490,000 JAFCO shares as a trust fund for the employee retirement benefit trust. Of the marketable shares, there were none that had book values that did not exceed acquisition costs.

As of the end of March 2005, there were no investment securities held for trading purposes, nor any debt securities held-to-maturity.

For details, please refer to "Notes to the Consolidated Financial Statements (Investments)" and "Financial Statements, <4> Appendix, Tables of Investment Securities".

(3) Software

The greater part of intangible fixed assets is comprised of software and software suspense accounts. Investment in software related items for fiscal 2004 totaled 9,312 million yen, a fall of 2,118 million yen compared with the previous year. In addition, the devaluation loss of 6,526 million yen was booked as unrealized loss on software as a result of reevaluating software assets in consideration of a sudden change in the client business environment.

As a result, the Group's software and software suspense accounts for fiscal 2004 totaled 21,561 million yen, a decrease of 9,986 million yen compared with the previous year, and the component ratio to total assets dropped from 9.7% in the previous year to 6.8%.

* Projections for the future contained in this report were deemed valid at the end of fiscal 2004; however, they are by no means guaranteed by the Group.

Equipment and Infrastructure

*Amount of less than one million yen were rounded down.

[Outline of Capital Expenditures]

In fiscal 2004, in addition to purchasing equipment relating to multi-user system development and system operation, we acquired real estate and equipment for the establishment of the Marunouchi Center, which resulted in the capital expenditures of 17,351 million yen. The funds for capital expenditures were provided by NRI.

Capital expenditures by business segment were as follows.

System Solution Services

For this segment in fiscal 2004, we invested a total of 15,216 million yen for the development of the multi-user system for the financial sector, such as the securities industry and others, and the upgrade of equipment for system operation.

Consulting and Knowledge Services

For this segment in fiscal 2004, we invested a total of 2,154 million yen for multi-user system development for asset management and investment information for the financial sector and others.

[Plans for Facility Construction and Disposal]

For the fiscal year ending 31st March, 2006, projected capital expenditures for facilities amount to 18,500 million yen. The components by business segment are listed below.

	Facilities	Planned investment (millions of yen)	Major items and purpose
System Solution Services	Software	8,000	Development of internal-use software for providing customer service and software for sales
	Hardware	8,500	Equipment for system development and equipment for providing maintenance and operation services for computer systems and networks
Consulting and Knowledge Services	Software	300	Development of internal-use software for providing knowledge solution services
	Hardware	200	Equipment for providing knowledge solution services
Company-wide (common use)	Software	1,200	Software purchase for use in internal systems
	Office facilities	300	Renewal of property and installation of personal computers and other equipment
Total		18,500	—

Notes: 1. Figures above do not include consumption tax and other items.

2. The planned capital expenditures for facilities will be provided by the Company's retained earnings.

3. There are no plans for the disposal or sale of major facilities, excluding those scheduled for regular repairs.

Company Status

*Amount of less than one million yen were rounded down.

[Shares]

Subscription Rights

① Subscription Rights (Date of resolution at an ordinary general meeting of shareholders: 26th June, 2002; Date of issue: 27th June, 2002)

	As of the end of fiscal year (31st March, 2005)	As of the end of the month preceding the filing date (31st May, 2005)
Number of subscription rights	805	805
Purpose of subscription rights and class of stock	Common stock	Same as left
Number of shares issued for subscription rights	80,500	80,500
Amount payable when exercising subscription rights	17,913 yen per share	17,913 yen per share
Period for exercising subscription rights	From 1st July, 2004 to 30th June, 2007	From 1st July, 2004 to 30th June, 2007
Issue price and amount of capitalization of new shares issued when exercising subscription rights	Issue price: 17,913 yen Amount of capitalization: 8,957 yen	Issue price: 17,913 yen Amount of capitalization: 8,957 yen
Conditions of execution of subscription rights	<p>① At the time of exercising subscription rights, the grantee must be a director, an executive officer or in an equivalent position at NRI or a domestic subsidiary.</p> <p>However, in cases recognized as constituting sufficient cause, such as death or expiration of term of office, the rights may be exercised by the grantee (or his or her heir in the case of death) during a prescribed period of time.</p> <p>② The closing price for NRI common stock in ordinary transactions at the TSE must be at least 20,000 yen per share for five consecutive business days immediately preceding the day of application to exercise subscription rights.</p> <p>③ In addition to the above, NRI may stipulate other conditions pertaining to the execution of subscription rights in contracts on allocation of such rights concluded with grantees.</p>	Same as left
Items related to transfer of subscription rights	Rights cannot be transferred, pledged or otherwise furnished to a third party.	Same as left

② Subscription Rights (Date of resolution at an ordinary general meeting of shareholders: 24th June, 2003; Date of issue: 12th August, 2003)

	As of the end of fiscal year (31st March, 2005)	As of the end of the month preceding the filing date (31st May, 2005)
Number of subscription rights	830	830
Purpose of subscription rights and class of stock	Common stock	Same as left
Number of shares issued for subscription rights	83,000	83,000
Amount payable when exercising subscription rights	10,088 yen per share	10,088 yen per share
Period for exercising subscription rights	From 1st July, 2005 to 30th June, 2008	From 1st July, 2005 to 30th June, 2008
Issue price and amount of capitalization of new shares issued when exercising subscription rights	Issue price: 10,088 yen Amount of capitalization: 5,044 yen	Issue price: 10,088 yen Amount of capitalization: 5,044 yen
Conditions of execution of subscription rights	<p>① At the time of exercising subscription rights, the grantee must be a director, an executive officer or in an equivalent position at NRI or a domestic subsidiary. However, in cases recognized as constituting sufficient cause, such as death or expiration of term of office, the rights may be exercised by the grantee (or his or her heir in the case of death) during a prescribed period of time.</p> <p>② The closing price for NRI common stock in ordinary transactions at the TSE must be at least 11,100 yen per share for five consecutive business days immediately preceding the day of application to exercise subscription rights.</p> <p>③ In addition to the above, NRI may stipulate other conditions pertaining to the execution of subscription rights in contracts on allocation of such rights concluded with grantees.</p>	
Items related to transfer of subscription rights	Rights cannot be transferred, pledged or otherwise furnished to a third party.	Same as left

③ Subscription Rights (Date of resolution at an ordinary general meeting of shareholders: 23rd June, 2004; Date of issue: 24th June, 2004)

	As of the end of fiscal year (31st March, 2005)	As of the end of the month preceding the filing date (31st May, 2005)
Number of subscription rights	845	845
Purpose of subscription rights and class of stock	Common stock	Same as left
Number of shares issued for subscription rights	84,500	84,500
Amount payable when exercising subscription rights	11,418 yen per share	11,418 yen per share
Period for exercising subscription rights	From 1st July, 2006 to 30th June, 2009	From 1st July, 2006 to 30th June, 2009
Issue price and amount of capitalization of new shares issued when exercising subscription rights	Issue price: 11,418 yen Amount of capitalization: 5,709 yen	Issue price: 11,418 yen Amount of capitalization: 5,709 yen
Conditions of execution of subscription rights	<p>① At the time of exercising subscription rights, the grantee must be a director, an executive officer or in an equivalent position at NRI or a domestic subsidiary.</p> <p>However, in cases recognized as constituting sufficient cause, such as death or expiration of term of office, the rights may be exercised by the grantee (or his or her heir in the case of death) during a prescribed period of time.</p> <p>② The closing price for NRI common stock in ordinary transactions at the TSE must be at least 12,600 yen per share for five consecutive business days immediately preceding the day of application to exercise subscription rights.</p> <p>③ In addition to the above, NRI may stipulate other conditions pertaining to the execution of subscription rights at meetings of its board of directors.</p>	Same as left
Items related to transfer of subscription rights	Rights cannot be transferred, pledged or otherwise furnished to a third party.	Same as left

Stock Option Plan

① Resolution at an ordinary general meeting of shareholders on 26th June, 2002

Date of resolution	26th June, 2002
Category and number of grantees	NRI directors and executive officers: 31 Directors of NRI subsidiaries in Japan: 12
Purpose of subscription rights and class of stock	Please refer to "Subscription Rights"
Number of shares issued for subscription rights	Same as above
Amount payable when exercising subscription rights	Same as above
Period for exercising subscription rights	Same as above
Conditions of execution of subscription rights	Same as above
Items related to transfer of subscription rights	Same as above

② Resolution at an ordinary general meeting of shareholders on 24th June, 2003

Date of resolution	24th June, 2003
Category and number of grantees	NRI directors and executive officers: 33 Directors of NRI subsidiaries in Japan: 11
Purpose of subscription rights and class of stock	Please refer to "Subscription Rights"
Number of shares issued for subscription rights	Same as above
Amount payable when exercising subscription rights	Same as above
Period for exercising subscription rights	Same as above
Conditions of execution of subscription rights	Same as above
Items related to transfer of subscription rights	Same as above

③ Resolution at an ordinary general meeting of shareholders on 23rd June, 2004

Date of resolution	23rd June, 2004
Category and number of grantees	NRI directors, executive officers and employees (equivalent to directors): 34 Directors of NRI subsidiaries in Japan: 12
Purpose of subscription rights and class of stock	Please refer to "Subscription Rights"
Number of shares issued for subscription rights	Same as above
Amount payable when exercising subscription rights	Same as above
Period for exercising subscription rights	Same as above
Conditions of execution of subscription rights	Same as above
Items related to transfer of subscription rights	Same as above

④ Resolution at an ordinary general meeting of shareholders on 23rd June, 2005

The ordinary general meeting of shareholders on 23rd June, 2005 adopted a resolution to issue the following two kinds of subscription rights.

Date of resolution	23rd June, 2005
Category and number of grantees	NRI directors, executive officers and employees (equivalent to directors) and directors of NRI subsidiaries in Japan (number not yet determined)
Purpose of subscription rights and class of stock	Common stock
Number of shares issued for subscription rights	No more than 90,000 shares *1
Amount payable when exercising subscription rights	The amount payable per share (hereinafter called "exercise price") will be either 1.05 times the average of the closing price of NRI's common stock in ordinary transactions at the TSE on all days (except those without a closing price) of the month immediately preceding the month when the subscription rights were issued (to be rounded up to the nearest yen), or the closing price on the date of issuance (if there is no closing price on the date of issuance, then the closing price of the day immediately before the issuance date), whichever is higher. *2
Period for exercising subscription rights	To be determined by the board of directors, sometime between 1st July, 2007 and 30th June, 2011.
Conditions of execution of subscription rights	① At the time of exercising subscription rights, the grantee must be a director, an executive officer or in an equivalent position at NRI or a domestic subsidiary. However, in cases recognized by the board of directors as constituting sufficient cause, such as death or expiration of term of office, the rights may be exercised by the grantee (or his or her heir in the case of death) during a prescribed period of time. ② Subscription rights may not be exercised unless the closing price for NRI common stock in ordinary transactions at the TSE is more than 1.1 times the "exercise price" at the time (rounded up to the nearest 100 yen) for five consecutive business days. ③ In addition to the above provisions, other conditions may be established at the board of directors' meeting.
Items related to transfer of subscription rights	The subscription rights cannot be transferred without the approval of the board of directors.

Notes: 1. In the case the number of applicable shares per subscription right is adjusted based on the following, the number of shares per subscription right will also be adjusted accordingly.

When NRI executes a split or reverse-split of its common stock, the number of shares per one subscription right (100 shares) will be adjusted according to the formula below. Any fraction of one share will be rounded down.

$$\text{Number of shares after adjustment} = \text{Number of shares before adjustment} \times \text{split or reverse ratio}$$

In the event NRI merges with another company, carries out a corporate partition or takes any other actions that require adjustment of the number of shares per subscription right, NRI will also adjust the number of shares as necessary.

2. When NRI executes a split or reverse-split of its common stock after the date of the subscription rights issuance, the "exercise price" will be adjusted according to the formula below. Any fraction of one yen will be rounded up.

$$\text{"Exercise price" after adjustment} = \text{"Exercise price" before adjustment} \times \frac{1}{\text{split or reverse ratio}}$$

In cases where NRI issues new shares or disposes of treasury stocks (excluding the exercise of subscription rights) below market price, the amount payable will be adjusted in accordance with the formula shown below. Any fraction of yen will be rounded up.

$$\text{"Exercise price" after adjustment} = \text{"Exercise price" before adjustment} \times \frac{\text{outstanding shares} + \frac{\text{newly issued shares} \times \text{amount payable per share}}{\text{market price per share}}}{\text{outstanding shares} + \text{newly issued shares}}$$

In the above formula, "outstanding shares" refers to the total number of NRI shares minus the treasury stocks held by NRI. In cases where NRI disposes of its treasury stocks, "newly issued shares" should be replaced with "treasury stocks to be disposed of".

Furthermore, in the event NRI merges with another company, carries out a corporate partition or takes any other actions that require adjustment of the "exercise price", NRI will also adjust the "exercise price".

Date of resolution	23rd June, 2005
Category and number of grantees	NRI directors, executive officers and employees (equivalent to directors) and directors of NRI subsidiaries in Japan (number not yet determined)
Purpose of subscription rights and class of stock	Common stock
Number of shares to be issued for subscription rights	No more than 20,000 shares (Note)
Amount payable when exercising subscription rights	1 yen per share
Period for exercising subscription rights	To be determined by the board of directors, within a range of 1st July, 2006 to 30th June, 2011.
Conditions of execution of subscription rights	<p>① At the time of exercising subscription rights, the grantee must be a director, an executive officer or in an equivalent position at NRI or a domestic subsidiary.</p> <p>However, in cases recognized by the board of directors as constituting sufficient cause, such as death or expiration of term of office, the rights may be exercised by the grantee (or his or her heir in the case of death) during a prescribed period of time.</p> <p>② In addition to the above provisions, other conditions may be established at the board of directors' meeting.</p>
Items related to transfer of subscription rights	The subscription rights cannot be transferred without the approval of the board of directors.

Note: In the case the number of applicable shares per subscription right is adjusted based on the following, the number of shares per subscription right will also be adjusted accordingly.

When NRI executes a split or reverse-split of its common stock, the number of shares per one subscription right (100 shares) will be adjusted according to the formula below. Any fraction of one share will be rounded down.

$$\text{Number of shares after adjustment} = \text{Number of shares before adjustment} \times \text{split or reverse ratio}$$

In the event NRI merges with another company, carries out a corporate partition or takes any other actions that require adjustment of the number of shares per subscription right, NRI will also adjust the number of shares as necessary.

[Status of Acquisition of Treasury Stocks]

(1) [Status of Acquisition of Treasury Stocks by Resolution at the Ordinary General Meeting of Shareholders or at the Board of Directors' Meeting]

① [Status of acquisition of treasury stocks in the previous term]

[Category of shares] Common stock

A [Status of acquisition by resolution at the ordinary general meeting of shareholders]

There was none.

B [Status of acquisition from the subsidiaries]

There was none.

C [Status of acquisition by resolution at the board of directors' meeting]

Category	Number of shares	As of 23rd June, 2005
		Total value (yen)
Resolution status at the board of directors' meeting (Resolved on 27th April, 2005)	100,000	1,000,000,000
Treasury stocks acquired during the previous term	96,900	999,336,000
Total number and total value of remaining authorized capital stock	3,100	664,000
Percentage of stocks remaining	3.1	0.1

D [Status of disposal of treasury stocks]

Category	Number of shares disposed, retired or transferred	As of 23rd June, 2005
		Total value of shares disposed (yen)
Treasury stocks disposed by following a procedure similar to that of issuing new shares	—	—
Treasury stocks retired	—	—
Transfer of treasury stocks due to a merger, a share exchange or a corporate partition	—	—

E [Status of treasury stocks]

Category	As of 23rd June, 2005
	Number of shares
Number of treasury stocks owned	96,900

② [Resolution concerning the acquisition of treasury stocks at the current ordinary general meeting of shareholders]

Category	Type of stock	Number of shares	As of 23rd June, 2005
			Total value (yen)
Resolution concerning acquisition of treasury stocks	—	—	—

Note: At the ordinary general meeting of shareholders held on 23rd June, 2004, an amendment was made to a by-law of the articles of incorporation, in accordance with Article 211-3 Clause 1.2 of the Japanese Commercial Code, stipulating that treasury stocks can be acquired with a resolution of the board of directors.

[Dividend Policy]

We consider that the most important return to our shareholders is an ongoing increase in our corporate value. It is our basic policy to pay a reasonable dividend on a consistent basis while keeping in mind the need for sufficient retained earnings for our long-term business development. In practical terms, the criteria used to decide dividend payments are operating revenue and the cash flow situation. We aim for a consolidated dividend payout ratio of 30 percent.

Retained earnings will be utilized as the source for business expansion, including investments in enhancing multi-user system services, cultivating new businesses and improving the quality of system development and investments in facilities, R&D and human resource development for the purpose of quality improvement.

Consolidated Financial Statements

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

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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 <i>(Notes 8 and 10)</i>	¥ 208	¥ 240	\$ 2,236
Accounts payable	20,155	19,793	184,430
Accrued expenses <i>(Notes 9)</i>	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 <i>(Notes 8 and 10)</i>	2,102	840	7,827
Allowance for employees' retirement benefits <i>(Note 11)</i>	22,625	22,698	211,498
Deferred income taxes <i>(Note 13)</i>	22,267	11,162	104,007
Other long-term liabilities <i>(Notes 12 and 21)</i>	890	873	8,135
Commitments and contingent liabilities <i>(Note 22)</i>			
Shareholders' equity <i>(Notes 14 and 16)</i> :			
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 <i>(Note 3)</i>	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.

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, 2005
	2003	2004	2005	
Sales <i>(Note 21)</i>	¥ 232,744	¥ 238,068	¥ 252,963	\$ 2,357,091
Cost of sales <i>(Note 21)</i>	173,545	178,097	190,732	1,777,227
Gross profit	59,199	59,971	62,231	579,864
Selling, general and administrative expenses <i>(Notes 18, 19 and 21)</i>	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 <i>(Note 21)</i>	343	875	702	6,541
Equity in earnings of affiliates	168	401	227	2,115
Interest expense <i>(Note 10)</i>	(99)	(84)	(215)	(2,003)
Loss on property and equipment	(638)	(317)	(203)	(1,892)
Loss on real estate put option <i>(Note 20)</i>	–	(1,197)	–	–
Impairment loss on software <i>(Note 20)</i>	–	–	(6,526)	(60,809)
(Loss) gain on investment securities <i>(Notes 3, 20 and 21)</i>	(166)	1,176	3,882	36,172
Gain on investments in affiliates <i>(Note 20)</i>	542	3,977	–	–
Gain on liquidation of a special purpose company <i>(Note 20)</i>	–	–	209	1,947
Actuarial loss <i>(Notes 11 and 20)</i>	(6,942)	–	–	–
Gain on securities contributed to an employee retirement benefit trust <i>(Notes 3, 11, 15 and 20)</i>	6,736	–	–	–
Head office relocation cost <i>(Note 20)</i>	–	–	(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 <i>(Note 13)</i> :				
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 <i>(Note 16)</i>	¥ 15,459	¥ 18,269	¥ 16,303	\$ 151,910

See accompanying notes to consolidated financial statements.

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

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.

Consolidated Statements of Cash Flows

*Thousands of
U.S. dollars
(Note 2)*

	<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

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)	
	2004	2005	31st March,		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>
		<i>31st March,</i>		<i>U.S. dollars</i>
		<i>2004</i>	<i>2005</i>	<i>31st March,</i>
<i>Useful life</i>			<i>2005</i>	
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		¥ 36,662	¥ 37,295	\$ 347,512

7. Other Assets

Other assets consisted of the following:

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

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

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		<u>2,102</u>
	¥	<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 U.S. dollars</i>
	<u>31st March,</u>		<u>31st March,</u>
	<u>2004</u>	<u>2005</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	¥	1,080	\$	10,063

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,		31st March,	
	2004	2005	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	¥ (22,625)	¥ (22,698)	\$	(211,498)

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 U.S. dollars</i>
	31st March,			31st March,
	2003	2004	2005	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>
	<i>31st March,</i>		<i>U.S. dollars</i>
	<i>2004</i>	<i>2005</i>	<i>31st March,</i>
			<i>2005</i>
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>
	<i>31st March,</i>		<i>U.S. dollars</i>
	<i>2004</i>	<i>2005</i>	<i>31st March,</i>
			<i>2005</i>
Cash and bank deposits	¥ 17,085	¥ 18,524	\$ 172,605
Short-term investments maturing within three months from the acquisition dates	79,727	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	¥ 96,812	¥ 38,678	\$ 360,399

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>	
	<i>31st March,</i>	
	<i>2003</i>	
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	

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		<u>268</u>
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, 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</i>
	<i>31st March,</i>			<i>U.S. dollars</i>
	<i>2003</i>	<i>2004</i>	<i>2005</i>	<i>31st March,</i>
				<i>2005</i>
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	¥ 15,176	¥ 17,974	¥ 16,303	\$ 151,910
Denominator				
(Weighted average shares):				
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	44,999,900	45,001,891	45,001,010	45,001,010

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>
	<i>31st March,</i>			<i>31st March,</i>
	<i>2003</i>	<i>2004</i>	<i>2005</i>	<i>2005</i>
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	¥ 6,725	¥ 5,010	¥ 531	¥ 537	\$ 46,683	\$ 5,004

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	¥ 2,547	¥ 2,678	¥ –	¥ 410	\$ 24,954	\$ 3,820

* 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 U.S. dollars</i>
	31st March,			31st March,
	2003	2004	2005	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 U.S. dollars</i>
	31st March,			31st March,
	2003	2004	2005	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>
	<i>31st March,</i>			<i>U.S. dollars</i>
	<i>2003</i>	<i>2004</i>	<i>2005</i>	<i>31st March,</i>
				<i>2005</i>
Gain on sales of investments in affiliates	¥ 137	¥ 3,784	¥ –	\$ –
Gain from changes in equity	405	193	–	–
	¥ 542	¥ 3,977	¥ –	\$ –

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,			31st March,
		2003	2004	2005	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,		U.S. dollars
		2004	2005	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	Consoli- dated
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	2,012,542	387,607	2,400,149	(43,058)	2,357,091
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)

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

[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.

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.

Name	Country	Main Business	Issued Capital (thousands)	Equity held by the Company (per cent.)
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.

Directors and Corporate Auditors



Akihisa Fujinuma
President and
Representative Director,
CEO and COO



Hitoshi Okuda
Representative Director,
Corporate Executive
Vice President



Takashi Narusawa
Representative Director,
Corporate Executive
Vice President



Hisashi Imai
Director,
Corporate Executive
Vice President



Takao Shiino
Director,
Corporate Senior
Vice President



Masahiro Muroi
Director,
Corporate Senior
Vice President



Shigeru Hirota
Director,
Corporate
Vice President



Kunio Takeda
Director *¹



Hironobu Goto
Corporate Auditor



Ryoichi Kobayashi
Corporate Auditor



Kenji Okada
Corporate Auditor



Masato Tanaka
Corporate Auditor *²



Hiroshi Izumitani
Corporate Auditor *²

Executive Officers (excluding those also serving as directors)

Corporate Executive Vice President

Takayoshi Kurinomaru

Corporate Senior Vice Presidents

Takashi Yakabe
Mamoru Suenaga
Toshiyuki Koyama
Tadashi Shimamoto
Mitsuru Sawada
Jun Suzuki
Koji Yamada
Toshinobu Ukawa

Corporate Vice Presidents

Masaki Tochizawa
Sawaaki Yamada
Yoshihito Mitsugi
Shiro Tanikawa
Keiichi Ishibashi
Kouichi Miyachi
Shin Kusunoki
Haruo Yanagi
Yoshiyuki Kurihara

Akira Horibe
Harumi Saitou
Shingo Konomoto
Masaki Fukui
Tetsuo Shibauchi
Hiroshi Itano
Hideaki Nakano

Notes:

1. An outside director appointed in accordance with Paragraph 2, Subsection 7, Section 2, Article 188 of the Commercial Code.
2. Outside statutory auditors appointed in accordance with Section 1, Article 18 of the Law Concerning Exceptions to the Commercial Code Related to Auditing of Joint-Stock Companies, etc.

Nomura Research Institute, Ltd.

<http://www.nri.co.jp>

Head Office / Marunouchi Center

Marunouchi Kitaguchi Building,
1-6-5 Marunouchi, Chiyoda-ku,
Tokyo 100-0005, Japan
Tel. +81(3)5533-2111

Nippon Building Center

Nippon Building, 2-6-2 Otemachi,
Chiyoda-ku, Tokyo 100-0004, Japan
Tel. +81(3)5533-2111

Kiba Center

Tower S, 1-5-25 Kiba, Koto-ku,
Tokyo 135-0042, Japan
Tel. +81(3)5533-2111

Yokohama Center

134 Godo-cho, Hodogaya-ku,
Yokohama 240-0005, Japan
Tel. +81(45)333-8100

Osaka Center

Aqua Dojima West Tower,
1-4-16 Dojimahama, Kita-ku,
Osaka 530-0004, Japan
Tel. +81(6)4797-2700

Seoul Branch

11th Fl. Youngpoong Bldg.,
33 Seorin-Dong, Chongro-ku,
Seoul, 110-752 Korea
Tel. +82(2)399-5111

Taipei Branch

13F-E, No.168, Tun-Hwa N. Rd.,
Taipei, Taiwan R.O.C.
Tel. +886(2)2718-7620

Manila Branch

27th Fl. Yuchengco Tower, RCBC Plaza
6819 Ayala cor. Sen. Gil J. Puyat Avenues
1200 Makati City, Philippines
Tel. +63(2)757-1946

NRI Data Services, Ltd.

129-6 Godo-cho, Hodogaya-ku,
Yokohama 240-0005, Japan
Tel. +81(45)336-1000
<http://www.nridata.co.jp>

NRI Data iTech, Ltd.

Marunouchi Kitaguchi Building,
1-6-5 Marunouchi, Chiyoda-ku,
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<http://www.n-itech.com>

NRI Network Communications, Ltd.

Aqua Dojima West Tower,
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Osaka 530-0004, Japan
Tel. +81(6)4797-2800
<http://www.nri-net.com>

NRI Learning Network, Ltd.

Otemachi Building, 1-6-1 Otemachi,
Chiyoda-ku, Tokyo 100-0004, Japan
Tel. +81(3)3282-1311
<http://learningnet.nri.co.jp>

NRI Garden Network, Ltd.

134 Godo-cho, Hodogaya-ku,
Yokohama 240-0005, Japan
Tel. +81(45)335-9560
<http://www.nri-garden.net>

NRI Secure Technologies, Ltd.

Marunouchi Kitaguchi Building,
1-6-5 Marunouchi, Chiyoda-ku,
Tokyo 100-0005, Japan
Tel. +81(3)5220-2022
<http://www.nri-secure.co.jp>

NRI Cyber Patent, Ltd.

Marunouchi Kitaguchi Building,
1-6-5 Marunouchi, Chiyoda-ku,
Tokyo 100-0005, Japan
Tel. +81(3)5208-1011
<http://www.patent.ne.jp>

NRI WEBrandia, Ltd.

Marunouchi Kitaguchi Building,
1-6-5 Marunouchi, Chiyoda-ku,
Tokyo 100-0005, Japan
Tel. +81(3)5533-2211
<http://webrandia.jp>

NRI Shared Services, Ltd.

134 Godo-cho, Hodogaya-ku,
Yokohama 240-0005, Japan
Tel. +81(45)336-8600

Insurance System & Technology, Ltd.

CN-2 Building, 2-8-3 Kiba,
Koto-ku, Tokyo 135-0042, Japan
Tel. +81(3)5639-1455
<http://www.instechno.co.jp>

NRI Holding America Inc.

Nomura Research Institute America, Inc.
2 World Financial Center,
Building B, 19Fl.
New York, NY 10281-1198, U.S.A.
Tel. +1(212)667-1670

NRI Pacific Inc.

1400 Fashion Island Blvd., #1010,
San Mateo, CA 94404, U.S.A.
Tel. +1(650)638-7250

Nomura Research Institute Europe Limited

Nomura House,
1 St.Martin's-le-Grand,
London EC1A 4NP, England
Tel. +44(20)7521-2000

Nomura Research Institute (Beijing), Ltd.

608, Raycom Infotech Park Tower A,
2 Kexueyuan-Nanlu, Haidian District,
Beijing 100080, China
Tel. +86(10)8286-1555

Nomura Research Institute Shanghai Limited

Room 601, Kerry Center,
No.1515 Nan Jing Road West,
Shanghai 200040, China
Tel. +86(21)5298-6700

Nomura Research Institute Hong Kong Limited

30th Fl. Two International Finance Centre,
8 Finance Street,
Central, Hong Kong
Tel. +852(2536)1900

Nomura Research Institute (Singapore)**Private Limited**

6 Battery Rd. #36-01,
Singapore 049909, Singapore
Tel. +65(6225)8441

Corporate Outline

Name	Nomura Research Institute, Ltd.
Head office address	Marunouchi Kitaguchi Building, 1-6-5 Marunouchi, Chiyoda-ku, Tokyo 100-0005, Japan Tel. +81(3)5533-2111
History	Apr. 1965: establishment of Nomura Research Institute, Ltd. (NRI) Jan. 1966: establishment of Nomura Computing Center, Ltd. (NCC) Jan. 1988: merger of NRI and NCC
Capital	JPY18,600,000,000
Number of employees	3,426 (4,848 in the entire NRI Group)

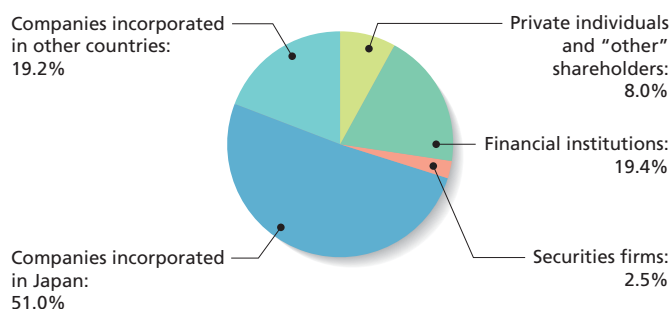
Major Shareholders

Shareholders	Number of shares held (thousands)	Shareholding rate (%)
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
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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

Stock Data

Total number of shares	150,000,000
Total number of shares issued	45,000,000
Number of shareholders	12,878

Breakdown of Shares by Shareholder Category

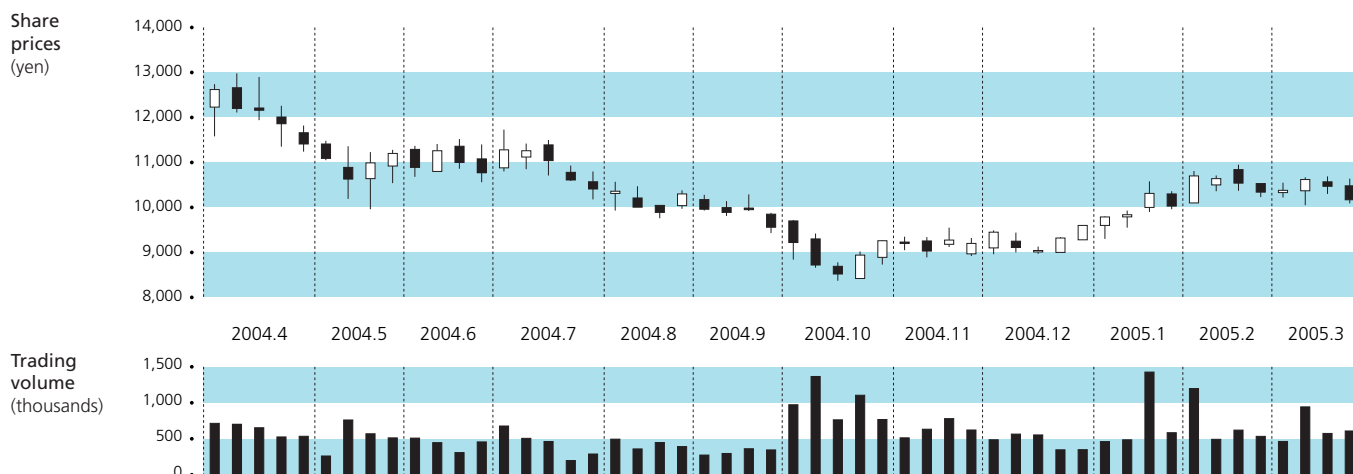


Shareholder Memo

Fiscal year-end	31st March, every year
Ordinary general meeting of shareholders	Every June
Transfer agent	UFJ Trust Bank Limited 1-4-3 Marunouchi, Chiyoda-ku, Tokyo, Japan
Transfer agent office (address for inquiries and posts)	Securities Agent Department, UFJ Trust Bank Limited, 7-10-11 Higashisuna, Koto-ku, Tokyo 137-8081, Japan Tel: +81(3)5683-5111
Mediation offices	All branch offices of UFJ and all offices (head and branch) of Nomura Securities, nationwide
Unit of share sales	100 shares
Newspaper of public notice	<i>Nihon Keizai Shimbun</i> (Japan Economic Journal) Settlement notices are posted on our website: http://www.nri.co.jp/

Inquiries IR Department
Nomura Research Institute, Ltd.
E-mail: ir@nri.co.jp

Stock Performance





Nomura Research Institute, Ltd.

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