


The NRI logo consists of the letters 'NRI' in a bold, white, sans-serif font. The 'N' and 'R' are connected, and the 'I' is a single vertical bar. The logo is positioned in the top left corner of the slide.


NRI

Nomura
Research
Institute

Annual Report 2003

A close-up photograph of two hands shaking in a firm grip. The hands are wearing white shirts with dark cuffs. The background is a warm, reddish-brown color.


What's our goal?

A photograph of a globe showing the continents of North and South America. The globe is set against a light green background with a subtle grid pattern.

What's our mission?

What's our advantage?

And what can we do for your future?

A background image featuring a dense, overlapping pattern of financial data, including numbers and percentages, in a golden-yellow color. The text is slightly blurred, giving a sense of motion or a large volume of data.

What's our technology?

What's our strategy?

What's our operation?

A photograph of two men in business suits walking away from the camera on a train platform. The man on the right is carrying a briefcase. The background shows a train and a blue sky.

What's our knowledge?

Dream up the future.

“Dream up the future” is a statement expressing the NRI Group philosophy of foreseeing the paradigms of tomorrow and creating new business models for them.

We have take upon ourselves the challenging mission of ushering in an ever-new future through knowledge creation and integration.

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Dream up the Future.
Nomura Research Institute





We at Nomura Research Institute, Ltd. (NRI) are deeply grateful for your valuable support of our activities. On the occasion of the release of the Annual Report 2003, I would once again like to profile the orientation of our business.

Our aspirations

The age of industrialization that predominated for the last century or so is being succeeded by a new age placing paramount importance on knowledge and information. In these times, information technology (IT) has become a powerful tool for the resolution of all sorts of problems facing civil society. At NRI, we aspire to the provision of forerunning services to many clients in the vanguard of business today in order to help them prosper, enhance our corporate value, and ultimately to contribute to socioeconomic innovation and advancement.

Our features and advantages

NRI's business model is based on total support for clients in all phases, from the discovery of problems to their solution, through activities in the two segments: consulting and knowledge

services, and system solution services. The wellsprings of our competitiveness lie in our vast store of excellent intellectual properties accumulated over the years and our sophisticated capabilities of IT utilization. These are backed by our corps of the finest professionals in Japan.

Toward stable growth over the medium to long term


As the head of our company, I deeply regret the decrease in our income and profit in the harsh business climate that prevailed in fiscal 2002 (ended 31st March, 2003). For fiscal 2003 (ending 31st March, 2004), we are taking a number of steps with a view to increasing both. Besides reinforcing arrangements for cultivation of new fields as exemplified by our institution of 'Business Development Committee' for company-wide sharing of sales information, we implement the measures for developing new customers by means of new goods and services as well as action for reducing all kinds of cost.

Expansion of business in Asia

To build up our business in China and other Asian countries now experiencing fast-past economic growth, we have opened up offices in Shanghai and Beijing. Japanese companies may be expected to site more locations in these markets, and thereby create more business opportunities for us. In addition, partnership with Chinese software firms has become a crucial priority for higher levels of productivity.

Although conditions in Japan are forecast to remain harsh in fiscal 2003, we are determined to continue offering services that are of genuine value to our clients through a concerted effort by all of the members of the NRI Group. We hope we can count on your ongoing support in these endeavors.

June, 2003



Akihisa Fujinuma, President, CEO and COO
Nomura Research Institute, Ltd.

* Details of our performance and business development for the future are presented in the Interview with President Fujinuma section.

Interview with President Fujinuma

—Now entering his second year at the top, President Fujinuma was interviewed about NRI's future business deployment.

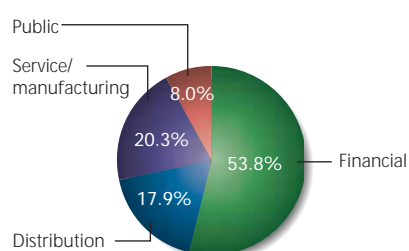


Summary of consolidated business results and the situation in each segment

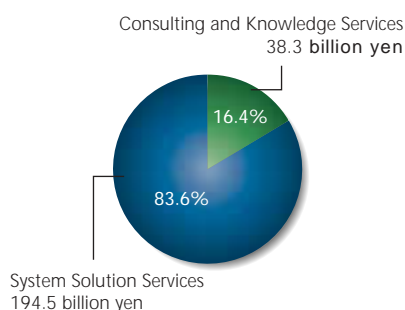
Q. Did your performance in fiscal 2002 (ended 31st March, 2003) fall short of your objectives?

A. We experienced difficulties in the segment of system solution services, one of our main ones. Besides the curtailment or postponement of IT investment plans by financial institutions and other firms, the demand associated with development of large-scale systems for the former Postal Service Agency (the current Japan Post) had basically run its course. As a result, the yearly income from system development & system application sales fell by 11.3 percent from fiscal 2001 (ended 31st March, 2002). Although we managed to increase income from our system management & operations and product sales, which account for nearly 50 percent of our total consolidated sales, this was not enough to offset the drop in system development & system application sales. As a result, the total sales revenue from our system solution services dipped by 2.6 percent. In our other major segment of consulting and knowledge services, the keen concern about a decline in the first quarter spurred a revision of our sales setup and put us on the road to recovery in the second half. For the year, sales showed firm growth of 4.0 percent. However, our consolidated result in fiscal 2002 represented declines in both income and profit; we posted sales of 232.7 billion yen, down 1.6 percent, and operating profit of 27.2 billion yen, down 10.5 percent. We therefore were not able to meet the expectations of our shareholders. As the management chief, I have taken this outcome very seriously and am determined to do my utmost to justify the trust placed in us by the market.

Sales breakdown by customer sector



Sales breakdown by segment



The coming business climate

Q. The future of the Japanese economy remains clouded in uncertainty, and corporate inclinations to invest are receding as well. What is your reading of the coming business climate?

A. The information service industry grew at high annual rates in excess of 10 percent from 1996 until 2002, but we believe the climate in the market came to a major turning point in the second half of last year. Over the medium to long term, we anticipate growth to come down to the range of 5 – 8 percent, and competition is obviously going to intensify as a result. However, a key question is how this scenario of lower growth will be looked from the customer side. It is clear that criteria applied in selecting service suppliers, while including lower costs, are bound to shift in the direction of quality.

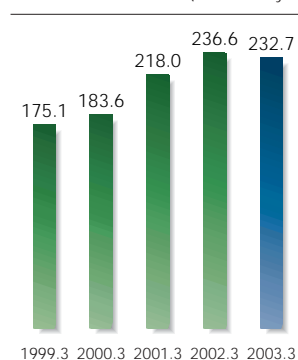
Information systems are crucial tools for coming out on top of the competition, and are now linked directly to the core of management strategy. For these reasons, with full use of our deep store of expertise and human resources NRI has built up over the years in the



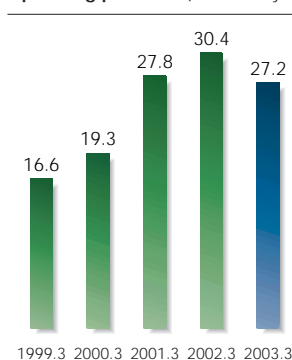
| Financial highlights (consolidated) | | | | | (Billions of yen) |
|-------------------------------------|--------|--------|--------|--------|-------------------|
| | 1999.3 | 2000.3 | 2001.3 | 2002.3 | 2003.3 |
| Sales | 175.1 | 183.6 | 218.0 | 236.6 | 232.7 |
| Operating profit | 16.6 | 19.3 | 27.8 | 30.4 | 27.2 |
| Net income | 8.1 | 5.1 | 25.4 | 22.4 | 15.5 |
| Total assets | 152.2 | 168.3 | 289.1 | 299.9 | 256.8 |
| Shareholders' equity | 81.2 | 91.8 | 165.2 | 195.6 | 185.4 |
| Earnings per share | | | | | |
| (EPS: net income per share) | ¥186 | ¥114 | ¥583 | ¥505 | ¥337 |

- Notes: 1. Amounts of less than 100 million yen (1 yen in the case of EPS) were rounded.
2. Effective 8th August, 2000, stock with a face value of 500 yen per share was split into 10 shares, each with a face value of 50 yen. The figures for EPS before FY1999 (ended on 31st March, 2000) are conversions in terms of this 50-yen face value. EPS figures for FY2000 (ended 31st March, 2001) were calculated on the premise of execution of the stock split at the start of the term.
3. The figures for EPS were calculated in accordance with the EPS accounting standards in Section 2 of the Corporate Accounting Standards (as of 25th September, 2002).

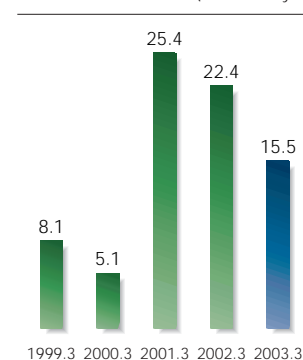
Sales (Billions of yen)



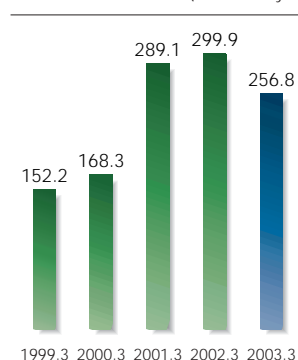
Operating profit (Billions of yen)



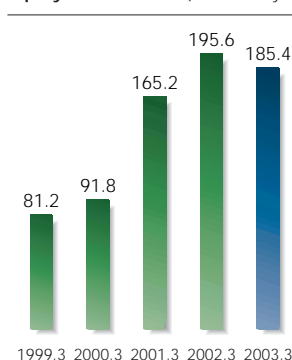
Net income (Billions of yen)



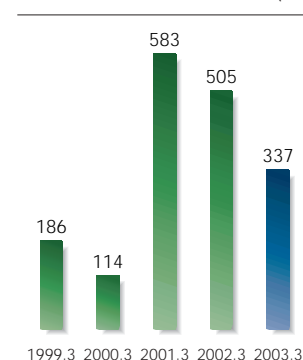
Total assets (Billions of yen)

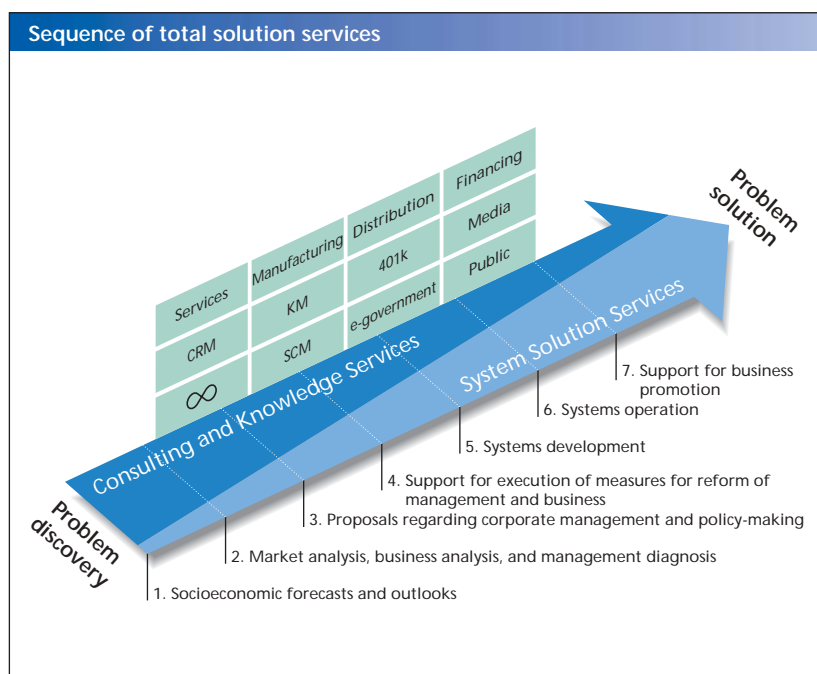


Shareholders' equity (Billions of yen)



EPS (Yen)





areas of system integration (SI) and knowledge services, I am sure our business can achieve growth at rates higher than those forecast for the industry as a whole.

NRI's advantage

Q. Many firms call themselves system integrators, and a lot of them also use the term "total solutions." What advantage does NRI have on them?

A. I think our advantage lies in our supply of truly one-stop services. Besides possessing a research and consulting capability as a navigation function for finding problems affecting our customers and showing the way to their resolution, we also have a solution function, in that we can handle the entire process from design and development to

operation of systems for actually solving the problems. However, the basic sequence of doing studies and analyses, carrying out the basic design, and building and operating the system is common to many firms offering SI and system consulting services. As such, in answer to your question, I must go a little further. At NRI, we emphasize "business expertise," meaning knowledge of the industries to which customers belong and the attributes of their business. As I see it, the depth and breadth of this expertise are our biggest advantage and the source of our competitive strength. In any field, consultants can offer valuable proposals only after getting a firm grasp of the customer's business and clear understanding of the situation. In this sense, you could say that our advantage lies in an operation permeated by our philosophy of keeping the trust of our clients and prospering together with them.

Q. People are apt to think that the key factor in development of excellent systems is prompt incorporation of the latest technology. Is this so?

A. We make a special point of collecting data on and assessing the latest technologies; we have long maintained overseas offices for this purpose, for example. Nevertheless, technology has a life cycle of its own; it is born, grows to maturity, and finally goes out of use. It consequently may not be wise to apply the latest technology indiscriminately in customer systems. The critical question is whether or not the customer will be able to use the system with confidence for a long time. For the customer, the main concerns are the widespread diffusion of the new technology and availability of support for it over the long term.

Enhancement of sales power

Q. Although NRI is known to have a lot of first-rate personnel, how does it measure up as regards sales to new customers and the marketing of new solutions?

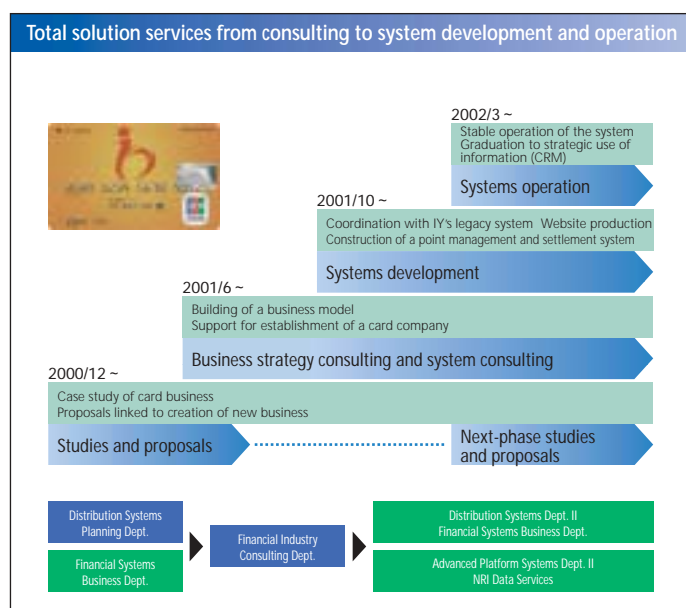
A. It cannot be denied that we have enjoyed the chain reaction of one job naturally bringing others. The Ito Yokado Group, for example, always gives us a call when it embarks on a new venture, thanks to the bonds of trust we have forged through many projects for it already. Take, for instance, our IY card business. The requisite studies and proposals by our knowledge division were followed in order by the building of a business model by our consulting division and the construction and operation of the actual system by our system division. This is what we mean by delivering genuine ‘one-stop solutions’ mobilizing all of our capabilities. It is a good example of how trust breeds trust. In such cases, we have been able to win orders smoothly through interaction among our divisions. However, due to our integration of production and sales activities, it is true that we have to put more effort into sales among new customers that have to be approached slowly and the marketing of new solutions. We regard more powerful sales activities as a major task for further advancement, and have instituted a “Business Development Committee” directly under the president’s office.

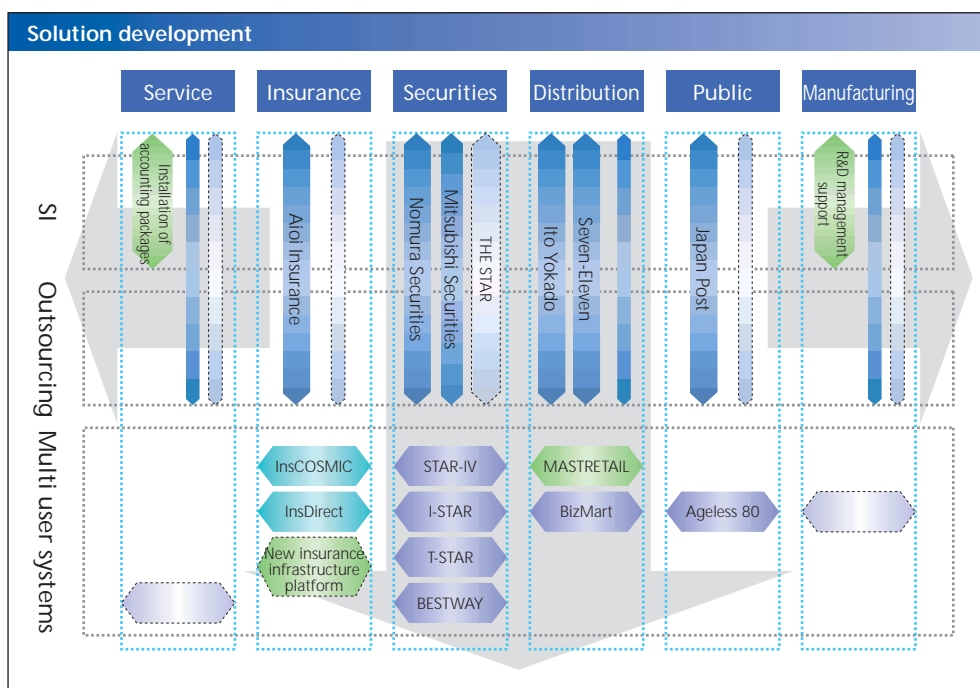
Q. Please tell us about the “Business Development Committee.”

A. Formerly, we held separate sales conferences for each market or sector. This arrangement is a good one for deeper cultivation of customer or product fields, but is not conducive to the development of new markets over the longer run or the sharing of sales information across divisional boundaries. It was to resolve this drawback and bring together sales information for company wide sharing that we set up this committee. Its mission is to heighten interdivisional coordination, determine our overall approach to new business and long-range tasks, and monitor action.

Q. As president, how are you involved in sales activities?

A. I devote a lot of my schedule to sales. Although I naturally seldom make pitches for particular contracts myself, I do make a point of meeting with my counterparts at customer firms in person. This is because I believe it is important to maintain firm ties of communication with customers if we want to win major jobs from them on a long-term basis.

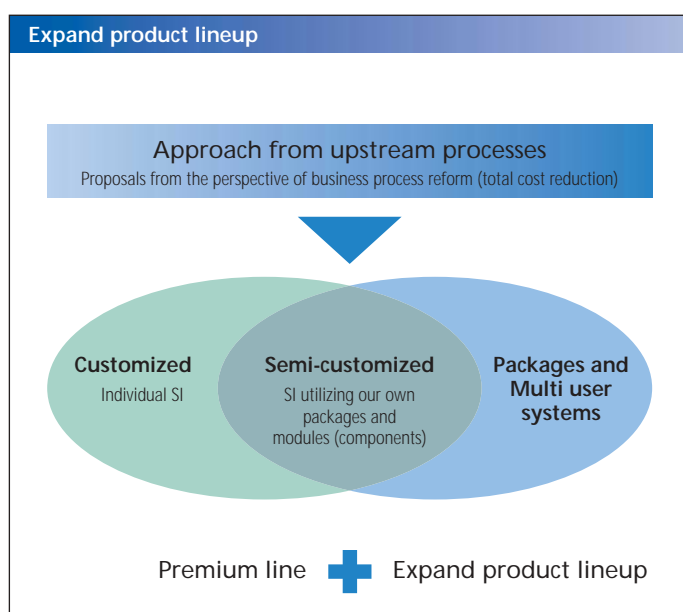




Business strategy

Q. What is the basic framework of NRI's business strategy?

A. In our system solution business, success hinges on the ability to build ties of trust with the customer. In the case of new customers, we try to win their trust by first demonstrating our capabilities through our SI and consulting services, in the hope that they will outsource the system operation to us. We have also developed services for multi user systems drawing on the knowledge we have accumulated through many SI projects over the years, and are promoting their utilization. In other words, we are bolstering the business model we've built for the securities and distribution sectors, and want to apply it to other sectors. To broaden our approaches to cultivation of new customers, we intend to expand our product lineup and offer SI services of a "semi-customized" nature applying our own package software and modules.



Q. In what specific industries do you want to develop business?

A. In the securities field, we are going to expand our circle of customers with the multi user systems STAR-IV, our newly developed bureau system, and apply software components in SI services for semi-major firms in that business. In essence, our plan is to shorten developmental lead time, lower costs, and boost earning power by making the most of our accumulated stock of intellectual properties.

Similarly, we have a number of package commodities such as MASTRETAIL in the distribution field and InsCOSMIC, InsDirect, and a new insurance infrastructure platform in the insurance field. We plan to apply them in our SI services and thereby expand our circle of customers in these fields. We are also setting our sights on the manufacturing and service sectors, where we have yet to cultivate many fields. While there are many ways of effecting entry, we have in mind support for the incor-

poration of accounting packages utilizing the package software of other firms for the service sector, and input of R&D data management systems for the manufacturing sector. Upon entry, we will do our best to gain the trust of our customers through our goods and services, and link this to a gradual expansion of our business.

Q. What is your strategy for business in consulting and knowledge services?

A. In the consulting business, it is difficult to tell potential customers about our experience in detail because of the duty for strict preservation of client confidentiality. I want to emphasize to all of our shareholders that NRI is the No. 1 consulting firm in all of Japan. We are distinguished by our unique ability to make practicable proposals and offer support for their implementation by combining Western-style consulting tools and techniques by consultants with thorough knowledge of business as practiced in Japan. This is why we were able to post a growth rate of 4 percent in sales of these services while our competitors struggled.

In this business, we assist Japan's leading firms with strategy for management, organization, staffing, marketing, and R&D. And for governmental agencies, we furnish help with planning on the national, regional, and local levels; policy-making on environment, energy, and disaster prevention; and planning for transport and logistics systems.

In our knowledge services, we offer financial information and are developing data analysis tools to numerous firms involved mainly in managing assets. We are also doing business in new areas that are coming to the fore in this age of information networks, including network security services, patent-related information services, and platforms for contents distribution.

Q. How about your think-tank activities?

A. The term "ubiquitous networks" that has recently come to the fore is one of the key words that we introduced into Japan. The adjective "ubiquitous" comes from the Latin word "ubique," meaning "everywhere at once." As this suggests, the "ubiquitous network society" would be characterized by network application in all areas. Communications networks will link not only personal computers but also cell phones, personal digital assistants (PDA), car navigation systems, game machines, and even home electrical products, such that all people will be able to exchange information freely at any time or place. At NRI, we believe the ubiquitous network could have the power to change the shape of society and also drive the resurgence of Japanese industry. In our role as a think tank, we intend to come up with concepts that will spearhead socioeconomic innovation and devise visions for the future. We see this as important also for social contribution of the sort only we could make, and shall continue to put resources into activities of proposal to society at large.

Q. NRI has 11 offices in other countries. Don't you intend to build up your overseas business?

A. NRI began planting locations in other countries early on. We opened our New York office in 1967 and our London office in 1972. Through these and other offices, we have gathered information, surveyed the economic and securities market, and provided services in system management.



Beginning in the mid 1990s, we set up a location in Silicon Valley and aggressively developed locations in the fast-growing Asian region to reinforce services for host-country governments as well as Japanese-affiliated firms there. As this indicates, we have been avid about globalizing our business and information-gathering activities. Our prime focus for the future will be business in China and other parts of East Asia. We are already moving on this front; we opened offices in Shanghai and Beijing last year, and have long had others in Hong Kong and Taipei. Over the coming years, we want to increase our sales in this region by high annual rates in the range of 20 - 30 percent, or perhaps even 50 percent, if possible. Eventually, we hope to derive at least 10 percent of our Group income from sales in our Asian business.

Prospects for fiscal 2003 (ending 31st March, 2004)

Q. NRI has already unveiled its plans for increasing its sales to 245 billion yen and its operating profit to 28 billion yen in fiscal 2003. How do you intend to attain these targets?

A. To increase our sales, we have to get more new customers by making our system solution services more competitive. At the same time, we must curtail expenditures to boost our earning power. This will apply regardless of how the times change. The measures we took last year are gradually beginning to yield effects. Although it is hard to maintain levels of quality while holding down costs, the most vital thing is to cut spending for outsourcing. As means to this end, we are going to intensify work at cooperating companies and promote offshore development in China.

Q. In your view, what indicators should investors watch?

A. We have almost no interest-bearing liabilities. The single most important item is therefore how much we earn in our core business. This is to say that, as a growing firm, we most emphasize operating profit and operating cash flow, which indicate our income and profit in this business. We also pay close attention to the return on assets (ROA), which shows how efficiently the total capital spent on the company is being used to reap profit. We are aiming for a higher ROA.

NRI Group

Q. Companies are said to be in an age of consolidated management. What are your plans for the NRI Group?

A. We are, of course, making an all-out effort to maintain our existing customer base. Beyond that, one of our major objectives is to continue getting involved in new markets and further solidifying our position as a supplier of total solutions by drawing on the synergy of the entire Group. In addition, we want to establish one or two subsidiaries a year that are built for swift action, which is important in the case of certain business models. This should enable us to heighten income and profit on the Group level and give more play to the talents of our young employees in particular.

Corporate governance

Q. What are your views on corporate governance?

A. We place a tremendous amount of importance on it, and are taking some concrete action for it. We are tightening management supervision by putting outside directors on our board and using the services of outside auditors. We instated the system of corporate officers to separate management from execution. We have also shortened the tenure of directors and corporate offices to a single year in order for clearer accountability. Furthermore, we want to look into the option of establishing U.S.-style corporate governance committees that has come into the limelight lately while first making sure that it is suited to business in Japan. We are also doing our best to disclose information to and survey the opinions of our shareholders and investors by bolstering our IR activities. In these and other ways, we shall forge ahead with our endeavors to acquire and keep the trust of all in the market.

Corporate culture and NRI's future

Q. Could you tell us once again about NRI's aspirations for the future?

A. Nomura Computer Systems, one of the companies involved in the merger that created today's NRI, was founded through detachment of the computer division of The Nomura Securities, the first firm in Japan to install computers for commercial use. Nomura Research Institute, the other company involved, was Japan's first private-sector think tank. The merger of the two in 1988 anticipated the emerging needs for the "fusion of consulting and system services." In this sense, it is in our genes to mold new business models with our own hands ahead of competitors; indeed, it is part of our corporate identity. I share this genetic heritage and am determined to carry on the tradition of creating new business models.





What's Our Core Business?

Consulting and Knowledge Services

In our consulting and knowledge services, we wield expertise to solve the problems saddling customers and generate new business for them. In keeping with our standing as the first full-blown private-sector think tank to be established in Japan, we have been providing such services in spheres including economics, finances, industries, corporate management, and community life for more than 35 years.

The NRI Group furnishes services in research, management consulting, and system consulting to numerous clients including companies in all industries as well as national agencies and local governments. These services cover the whole spectrum from the drafting of corporate strategy and support for management reform to policy-making recommendations and assistance for their implementation. Our sterling reputation for the quality of our staff and breadth of our coverage derives from our employment of a large corps of specialized researchers and consultants in a wide variety of domains to make proposals that are both practical and specific, and to support their execution.

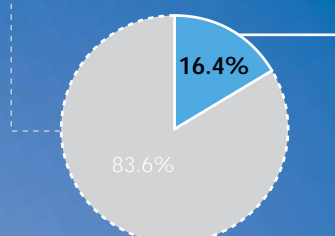
For institutional investors such as investment advisors, investment trusts, insurance companies, and trust banks, we offer (systematized) knowledge services in financial information, analytical tools for management of assets, and other areas, based on our wealth of data from survey and research programs and our own analytical know-how. We have also made a solid name for ourselves in connection with data services related to systemic design for instatement of defined contribution plans (the Japanese version of the 401k plans in the United States) and numerous other types of investment information.

Outline of fiscal 2002 (ended 31st March, 2003)

In our consulting and knowledge services, circumstances initially remained very difficult. The trend toward higher selectivity and cutback in expenditures among companies and administrative authorities from the start of the year into the summer led to a reduction in the pool of projects and contraction of programs, while the time lapse from first contact to contracting lengthened. Beginning in autumn, however, business gradually picked up and orders expanded, mainly in connection with programs for structural reform among companies and agencies, in response to growing needs for support in a number of respects. These included the revision of models for corporate management, drafting of strategy for China and growth over the medium to long term, and revamping of the management of special public corporations. With the start of 2003, we made big strides along with the rise of a deep-seated demand deriving from large-scale projects led by national agencies to promote IT installation and thereby raise the competitiveness of the country's industry. Furthermore, besides augmenting our investment information services and developing our services in distribution of information through the Internet, we strengthened the foundation of our business in network security and patent information.

As a result, in these services, we registered sales of 38.3 billion yen and operating profit of 3.5 billion yen, for respective increases of 4.0 and 24.6 percent from the previous year.

FY2002 sales:
232.7 billion yen

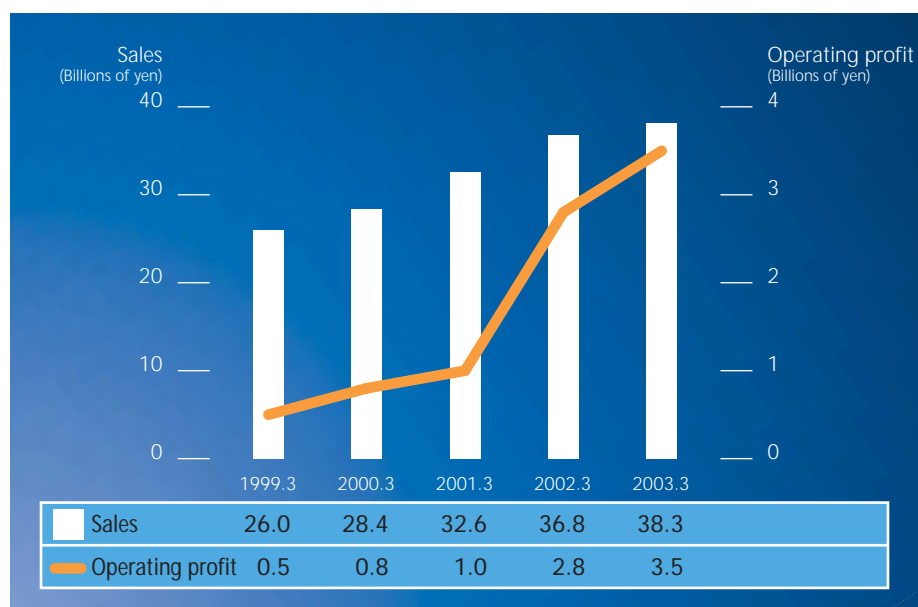


Consulting and Knowledge Services

| Services | Amount (Billions of yen) | As percentage of total (%) |
|---|--------------------------|----------------------------|
| System Solution Services | 194.5 | 83.6 |
| System Development & System Application Sales | 83.1 | 35.7 |
| System Management & Operations | 90.2 | 38.8 |
| Product Sales | 21.2 | 9.1 |
| Consulting and Knowledge Services | 38.3 | 16.4 |
| Total | 232.7 | 100.0 |

Notes: 1. Figures indicate sales to outside clients, exclusive of internal sales or transfers between service segments.
2. Amounts of less than 100 million yen were rounded. Figures do not include consumption tax and other taxes.

Trend of sales and operating profit



Notes: 1. Figures indicate sales to outside clients, exclusive of internal sales or transfers between service segments.
2. Amounts of less than 100 million yen were rounded. Figures do not include consumption tax and other taxes.



What's Our Core Business?

System Solution Services

In our system solution services, we harness the latest IT in providing support from system conception and design to development and operation as a steadfast partner in customer programs of business and operational reform, in all sectors (financial, distribution, service, manufacturing, and public).

To accommodate the diversity of customer needs, we offer a large assortment of services. Our system integration (SI) services encompass everything from consultation about particular systems to the related planning, design, and development. Through our outsourcing services, we handle all maintenance and management chores for the systems constructed. We also furnish bureau service for multi user systems by a plural number of customers. In recent years, we have been putting a lot of know-how gained through our development of business systems into software packages.

NRI is characterized by the high share of its sales occupied by system management & operations service, a stable income source. In fiscal 2002, this share came to 38.8 percent on the consolidated basis.

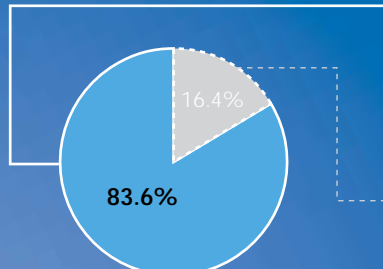
We are also making active approaches to the provision of solutions applying the latest network technology as well as proposal of business models to system development and operations in the field of electronic commerce (EC). As a whole, the NRI Group offers the complete spectrum of services in areas including management service provider (MSP) business, network security management, patent information, Internet platform design and construction, and Internet data center operation.

Outline of fiscal 2002 (ended 31st March, 2003)

In our system development & system applications services, sales held firm in the first half due to the demand associated with the rebuilding and start-up of information systems accompanying the merger of financial institutions and integration of data centers, as well as development of systems to cope with the tax and other institutional revisions in the financial sector. However, the picture changed beginning in the summer as the trend toward curtailing or postponing projects for IT investment, especially in the financial sector, was compounded by the cyclic subsidence of orders for large-scale system development in the public sector. As a result, sales for the entire year were down from fiscal 2001 (ended 31st March, 2002). In the system management & operations service sales traced a favorable trend, thanks partly to the expansion of processing loads along with the widening of client firm transactions in the distribution sector. Furthermore, our continued efforts to propose total systems led to an increase in our product sales, especially equipment.

As for the result, our sales in system solution services amounted to 194.5 billion yen (down 2.6 percent from the previous year), and our operating profit, 23.6 billion yen (down a corresponding 14.1 percent). Sales breakdown of this services came to 83.1 billion yen (down 11.3 percent) in system management & system application sales, 90.2 billion yen (up 3.8 percent) in system management & operations sales, and 21.2 billion yen (up 10.3 percent) in product sales.

FY2002 sales:
232.7 billion yen

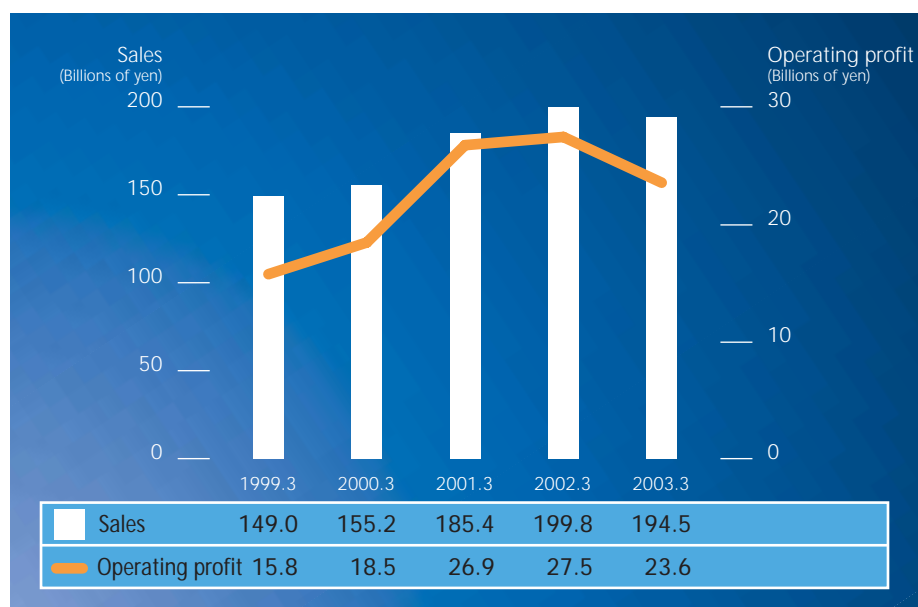


System Solution Services

| Services | Amount (Billions of yen) | As percentage of total (%) |
|---|--------------------------|----------------------------|
| System Solution Services | 194.5 | 83.6 |
| System Development & System Application Sales | 83.1 | 35.7 |
| System Management & Operations | 90.2 | 38.8 |
| Product Sales | 21.2 | 9.1 |
| Consulting and Knowledge Services | 38.3 | 16.4 |
| Total | 232.7 | 100.0 |

Notes: 1. Figures indicate sales to outside clients, exclusive of internal sales or transfers between service segments.
2. Amounts of less than 100 million yen were rounded. Figures do not include consumption tax and other taxes.

Trend of sales and operating profit



Notes: 1. Figures indicate sales to outside clients, exclusive of internal sales or transfers between service segments.
2. Amounts of less than 100 million yen were rounded. Figures do not include consumption tax and other taxes.

Human Asset Development

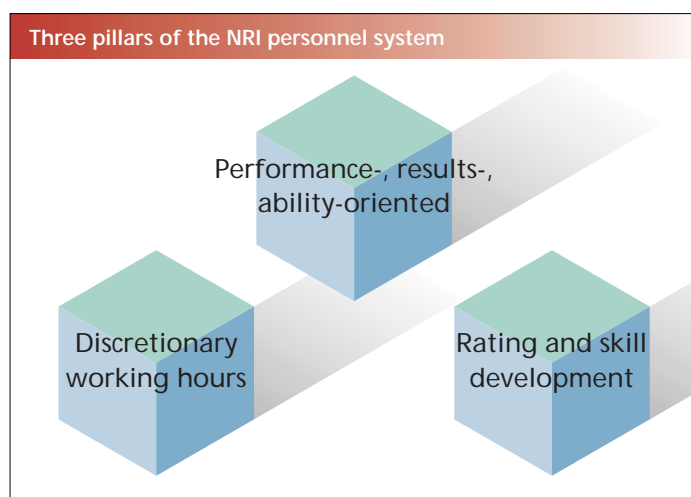
—The professionals making NRI work

Organization and culture that produce best performance in its setup for employment, the NRI Group is not bound by the conventional practices in Japan; it adopts perspectives and arrangements befitting its corps of professionals in the aspects of career-building and treatment. Precisely because our human resources constitute all of our assets, making the most of these "human assets" is a top priority of ours.

The three basic elements behind the Group personnel system may be summed up in the words "performance-, results-, ability-oriented," "discretionary working hours," and "rating and skill development." In 1994, NRI became one of the first firms in Japan to institute a new personnel system with target-based management and interlinked performance ratings. Since then, we have sharpened our focus on results and abilities in our ongoing bid to make our system even more professional in character.

Development of "human assets" at the NRI Group

We consider our employees to be our most important management resource and the wellspring of all our added value. It is the task of human resource development to find ways of rapidly nurturing the growth of these precious "human assets" and endowing them with professional capabilities, and to put the tasks into practice. It is precisely because of this setup that our employees have made such a mark as professionals in their respective career fields. Similarly, the effectiveness of our setup for turning out professional is also evidenced by the extensive activities of our employees in all sectors. The existence of NRI Learning Network as a subsidiary dedicated to developing human resources is another manifestation of our zeal on this front. Equipped for services in support for obtaining licenses (or other qualifications) and in personal career counseling, it also runs more than 100 types of human resource development training seminars at any given time as well as programs for instruction at external organizations. Our employees therefore can get all the instruction and training they want and need. We have also been working to construct provisions for support of human resource development using the Intranet. In March, 2003, we renewed the related portal site "Lykeion" to augment its functions, which had been confined to display of information on seminars and acceptance of applications for them, to supply information for career-building adapted to the particular employee accessing, based on his or her assignment, post, and seminar record.



In-house human resource development portal site "Lykeion"
Standing display of information on scheduled seminars plus provision of advice for career-building by the employee in question; a treasury of tips for raising skill levels





Sophisticated in-house certification scheme

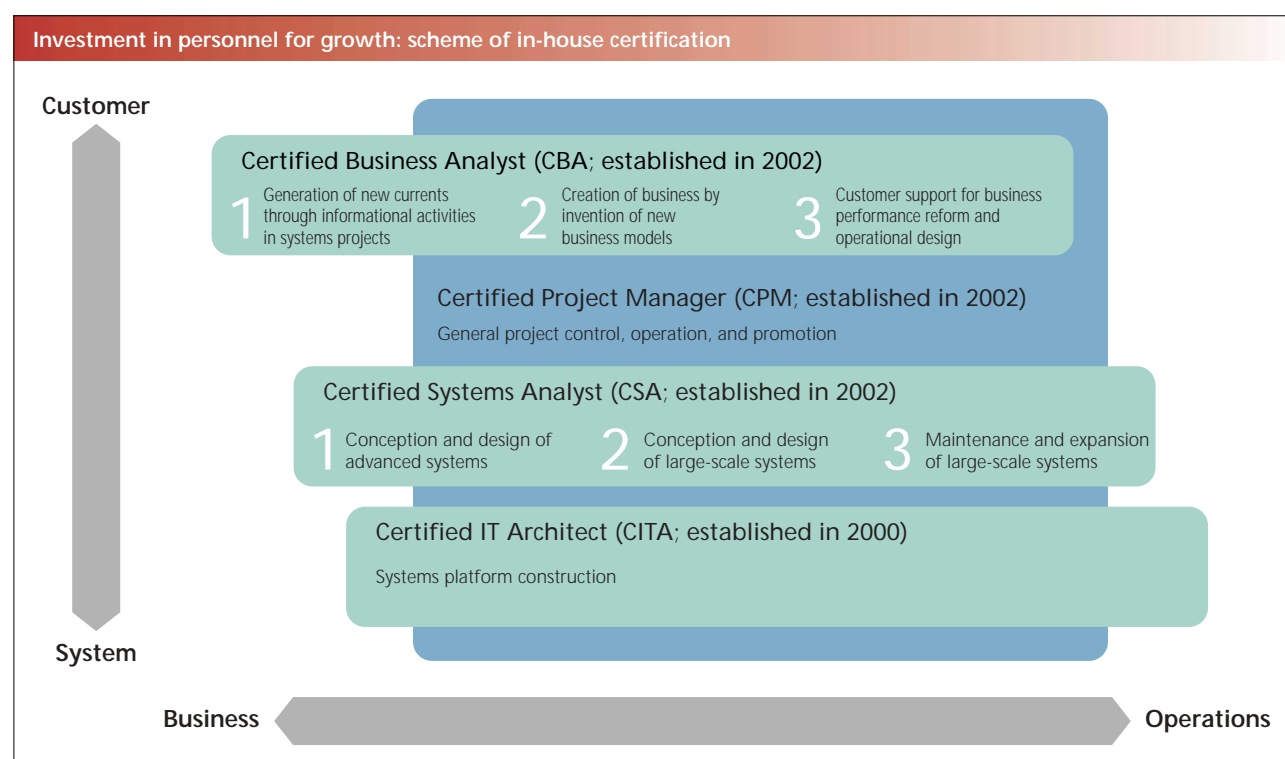
Employees of the NRI Group belong to career fields such as researcher, consultant, application engineer, and technical engineer. Each and every one is a professional in possession of seasoned competence in his or her field. To produce a highly specialized staff and to help them obtain official licenses, the Group has instituted its own scheme for certifying qualifications.

In respect of type of expertise, these internally certified qualifications fall into four major categories: practical project management (CPM), in-depth knowledge of customer business (CSA), high-level system technology (CITA), and ability to devise and create new business models (CBA).

Each is a coveted goal of our younger employees. While we pride ourselves on the excellence of our human resources, only about 1 percent of all of our employees are certified project managers (CPM). As this suggests, the scheme applies the most demanding standards and permits certification of only those candidates with the best of knowledge and ability.

Turning know-how from "human asset" development into business

The various instructional programs created in the NRI Group for grooming professionals are also being put to widespread use by other companies. We are developing business in them for the training of consultants, IT engineers, and management executives, mainly through NRI Learning Network.



Research and Development



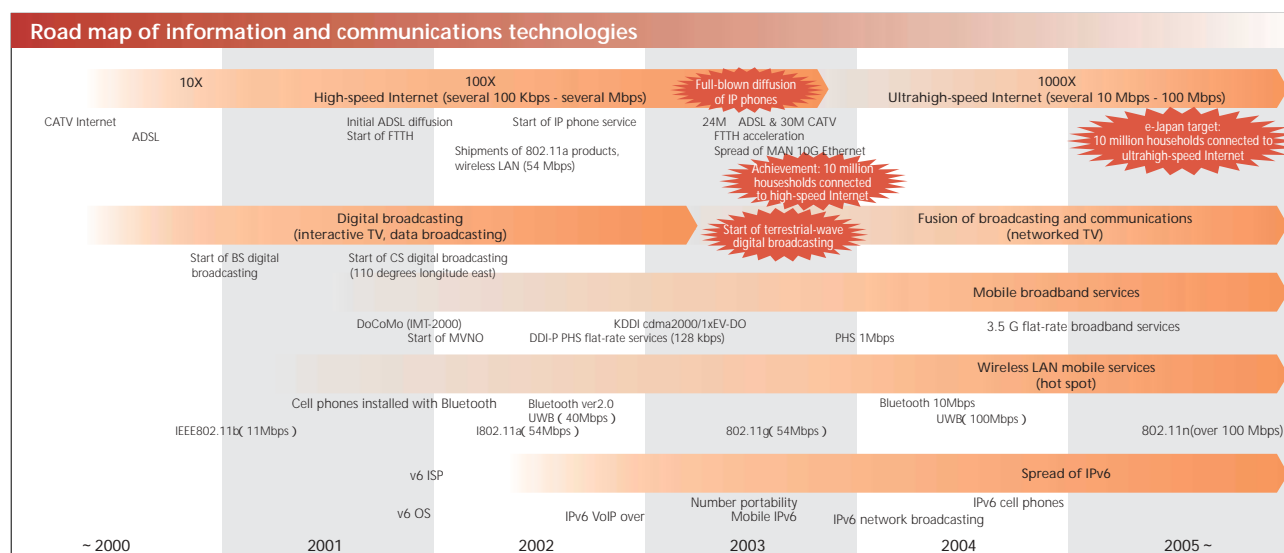
As a critical advantage, our “human assets” are joined by our investment for the future on items such as R&D, which is a vital support of our vaunted total solution capability. We pursue vigorous research and development programs of all types. Besides research of advanced technology, we execute programs aimed at finding dependable technology for customers (technology-creating R&D), feasibility studies for prospective new businesses and products (business-creating R&D), and surveys and research of innovative socio-economic systems (society-creating R&D).

While some programs are undertaken on the divisional level, work on subjects of company wide significance is sited at our Advanced Information Technology Division, Center for

Knowledge Exchange & Creation, and overseas offices.

The Research & Development Committee reporting directly to the board of directors scrutinizes R&D projects at each phase, from their conception to use of their results. With an emphasis on investment efficiency, it is striving for even higher levels of quality in our R&D activities. Programs undertaken with corporate budget are to attach importance to the creation of new goods and services and/or improvement in productivity and quality.

Past R&D projects have given birth to many new goods and services that are now part of NRI's business. They have even spawned several subsidiaries, including NRI Secure Technologies and NRI Cyber Patent.



Urgent issues for 2003

- 1) Fast-paced advances in ultrahigh-speed networks (24M ADSL, 30M CATV, 54M outdoor wireless LAN) and bundling of data, telephone, and broadcasting
- 2) Share of the total population occupied by Internet users: one-fourth (over 10 million Internet households)
- 3) IP services for non-PC users (widespread diffusion of IP phones and start of terrestrial-wave digital broadcasting)

In the area of intellectual properties, we encourage the acquisition of patents for more research results and publicity for them outside the company. In a recent case, in June, 2003, we obtained a registered patent for a processing system for electronic securities issuance, transfer, certification,

deletion, and the related processing procedure (Patent No. 3428876). The system in question issues, transfers, certifies, and deletes “electronic securities” with digital signatures. We hope to build new services and system solutions around it.

Strategy for China

—Launch of Asian business



Japanese firms are stepping up their participation in the burgeoning Chinese market. There is a growing need for consulting and system solution services based there. In response, NRI opened up an office in Shanghai in July, 2002 and another in Beijing in October of the same year.

China as a market

In the case of many Japanese firms, participation in the Chinese market takes the form of production there for export of the output back to Japan. In spite of their huge investment in China, they consequently do not have a very big presence there. Growth in the Chinese market requires a focus on the domestic demand. NRI's mission in this context is to assist the development of business there by Japanese firms and, by extension, contribute to China's economic advancement.

As noted above, in July, 2002, we established a Chinese affiliate, Nomura Research Institute Shanghai Limited, to serve as a center for consulting services. This Shanghai office is prepared to cope with a variety of needs, especially for consulting services for management and business strategy, and aid for local business development. It also furnishes support in all fields, starting with surveys of the market and competition and continuing with the drafting of strategy and help with its execution.

China as a system development power

China's appeal is not confined to the potential of its market. In recent years, NRI has begun to site system development there. We have long been aware of Chinese capabilities in this area, and began to accept Chinese system engineers into our training programs on our own initiative. Through these and other measures, we have built up our development of systems in China in partnership with Chinese firms. In October, 2002, we established another affiliate, Nomura Research Institute (Beijing) Limited, to function as a center of system construction and operation. We have consequently established a solid presence in China.

Our plans aim at prompt action to support the existing leading company in Japan's distribution sector to site their offices in China while expanding services for customers in other sectors as well. We also intend shift from Japan to China for our development of various systems, beginning with THE STAR, our new-age securities system that is a subject of much investment in light of its future promise. For this purpose, we are recruiting and grooming first-rate Chinese talent to swell the ranks of system engineers doing this development. We also plan to strengthen our partnerships with quality Chinese firms and install schemes for system operation at an early date.

While actively drawing on the business and people power of China with its immense potential, we are aiming for an expansion of our business there and, indeed, the rest of Asia, with the driving force supplied by our unmatched total solutions.



Financial Section

Business Outline

Business Results for FY2002 (ended 31st March, 2003)

Policy for the Future

Other Major Matters

In fiscal 2002 (ended 31st March, 2003), Japan remained in harsh economic circumstances. Although there was a slight upturn led by export in the first half, growth decelerated as the climate of export, mainly to other Asian countries, deteriorated in the second half. Apprehensions about the future economic course deepened due to the worsening and protraction of deflation, sagging stock quotations, the problem of non performing loans held by banks, and worries about the U.S. economy due to the Iraq crisis. Nevertheless, some signs of recovery in capital investment, albeit slight, appeared on the horizon around the end of the term.

The year was also a hard one for the information services industry. It saw a definite trend toward the contraction and postponement of investment on IT, which had been holding firm, as well as a slowing growth of the market beginning in summer. Although they had been in double digits, rates of growth in the market dropped nearly to zero toward the term's close. Meanwhile, firms on the "winning" side upped their IT investment as the gap between them and the others widened.

In this atmosphere, the NRI Group drew on its synergy in making proposals for reforming management to bolster corporate competitiveness and constructing information systems to support such reform. For public-sector customers, we offered support for the execution of extensive restructuring and recommendations for administrative campaigns to promote IT. In China, which is a focus of much attention for both its huge market and wealth of human resources, we established a subsidiary, Nomura Research Institute Shanghai Limited for supply of consulting and knowledge services in July, 2002 and Nomura Research Institute (Beijing) Limited for information system development and operation in October, 2002. We also concluded agreements with Chinese research institutes for programs of research interchange, and otherwise stepped up our development of business in China as well as in other Asian countries. To attain higher levels of quality, earning power, and productivity, we took measures such as tightening and bolstering control of projects, instating the scheme of e-partner contracts for closer cooperation with firms doing system development on commission, and making preparations for development outsourcing in China. It might be added that, when business in the marketplace really began to slacken around the end of the year, we responded by redoubling our efforts to improve the efficiency of our activities and working to curtail costs in all areas. In February, 2003, we closed our Ochanomizu Center and opened our Kiba Center, mainly to consolidate our system development activities.

In anticipation of a future shortage of reserves for employee pensions, we contributed a portion of our shareholdings to an employee retirement benefit trust, and consequently posted an other income of 6.7 billion yen due to the difference between the book value of this stock and the outlay for setting up the fund. Similarly, we posted an other expenses of 6.9 billion yen for making up the actuarial difference in retirement pay due to revision of discount rates because of the decline in long-term interest rates and the worsening of return from management of pension assets.

In spite of these endeavors, the results for the year showed sales of 232.7 billion yen (down 1.6 percent from the previous year), operating profit of 27.2 billion yen (down 10.5 percent), and net income of 15.5 billion yen (down 30.9 percent).

Sales

Sales increased in the segment of consulting and knowledge services but decreased in that of system solution services. On the consolidated basis, they totaled 232.7 billion yen, down 3.8 billion yen (1.6 percent) from the previous year. The main causes were the cutback of investment in information systems among companies and postponement of investment decision due to the darkening business climate, the slumping tone of trade on the Tokyo Stock Exchange, and the withdrawal of certain foreign securities firms from the Japanese market.

Operating profit

With a view to improving our productivity and earning power while reducing our costs, we tightened and strengthened control of projects, instated the scheme of e-partnership contracts for closer cooperation with firms carrying out system development assignments for us, and made preparations for outsourcing development in China. Nevertheless, our operating profit amounted to 27.2 billion yen, a drop of 3.2 billion yen (10.5 percent) from the previous year.

Net income

In anticipation of a future shortage of reserves for employee pensions, we directed some of our shareholdings to an employee retirement benefit trust, and posted an other income of 6.7 billion yen due to the difference between the book value of this stock and the outlay for setting up the fund. In addition, we posted an other expenses of 6.9 billion yen for actuarial loss in retirement pay due to revision of discount rates because of the decline in long-term interest rates and the worsening of return from management of pension assets. Coupled with the absence of the special factor that operated in fiscal 2001 (ended 31st March, 2002), for example, the 8.2 billion yen in other income from the reversal of the employee pension fund allowance, we recorded net income of 15.5 billion yen, down 6.9 billion yen (30.9 percent) from the previous year.

Total assets

Our total assets fell by 43 billion yen (14.4 percent) to 256.8 billion yen as the increase in intangible fixed assets due to investment in securities-related software, particularly for our multi user systems for securities firms, was outweighed by the decrease in valuation of investment securities because of the slump on the stock market.

Shareholders' equity

At 185.4 billion yen, our shareholders' equity (net assets) represented a decrease of 10.2 billion yen (5.2 percent) from the previous year. This decrease was caused by the drop in the value of our securities holdings and difference on other securities valuation.

EPS

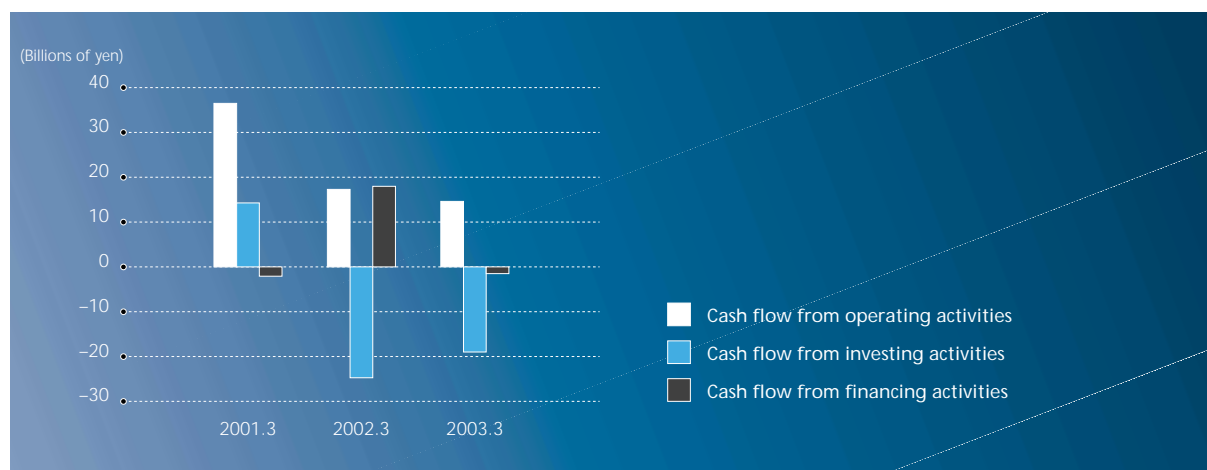
Our earnings per share came to 337 yen, down by 167 yen (33.2 percent) from the previous year because of the lower net income.

Cash flow

Cash flow generated by our operating activities during the year came to 14.6 billion yen. That from our investing activities produced a deficit of 19.0 billion yen. Cash flow used in financing activities amounted 1.5 billion yen. As a consequence, cash and cash equivalents at term-end declined by 6.4 billion yen from the end of fiscal 2001 to 88.8 billion yen.

| | 2001.3 | 2002.3 | 2003.3 |
|-------------------------------------|--------|--------|--------|
| Cash flow from operating activities | 36.5 | 17.3 | 14.6 |
| Cash flow from investing activities | 14.5 | (24.7) | (19.0) |
| Cash flow from financing activities | (2.1) | 18.0 | (1.5) |
| Term-end cash and cash equivalents | 84.1 | 95.2 | 88.8 |

Note: Amounts of less than 100 million yen were rounded.



Cash flow from operating activities

Our income before income taxes amounted to 27.2 billion yen, a decrease of 30.3 percent from the previous year, while depreciation and amortization costs reached 13.2 billion yen, up 6.6 percent. Owing to the decline in sales and other factors, accounts receivable decreased by 1.6 billion yen, and this helped to improve the cash flow. Meanwhile, accounts payable, which was on a high level, decreased by 7.4 billion yen due to factors including the buildup in accounts payable related to central government projects at the end of the previous term. The cash flow was also worsened by the increase of 1.5 billion yen in guarantee deposits accompanying the establishment of the Kiba Center and the repayment of 4.0 billion yen in deposits for the Hiyoshi Data Center. Although our income tax payment was lower than previous year's at 14.1 billion yen, our cash flow from operating activities fell by 15.5 percent from the previous year to 14.6 billion yen.

The year also saw a gain on securities contributed to an employee retirement benefit trust and actuarial loss as a result of a change in the discount rate and other basic assumption, and lower actual return on pension assets, but these were not accompanied by an inflow or outflow of funds, and did not have any effect on the cash flow from operating activities.

Cash flow from investing activities

In spite of the office-related investments along with the establishment of the Kiba Center and other facilities, our investment in property and equipment as sets such as system operating equipment and computers ran its course overall, and our total acquisition of such assets was held to 4.7 billion yen (down 32.4 percent from the previous year). Our development of a multi user systems for securities firms was partly responsible for our use of 16.2 billion yen to acquire intangible fixed assets (up 2.2 percent). Although we recovered 7.0 billion yen along with the redemption of investment securities before the due date, we spent 5.9 billion yen to purchase securities for the purpose of strengthening ties of medium- to long-term cooperation with transaction partners. As a result, net cash used in investing activities was down 23.2 percent, to 19.0 billion yen.

Cash flow from financing activities

In fiscal 2002, we made dividend payments totaling 0.9 billion yen and repayments of 0.6 billion yen on long-term debts. As a result, net cash used in financing activities declined to 1.5 billion yen.

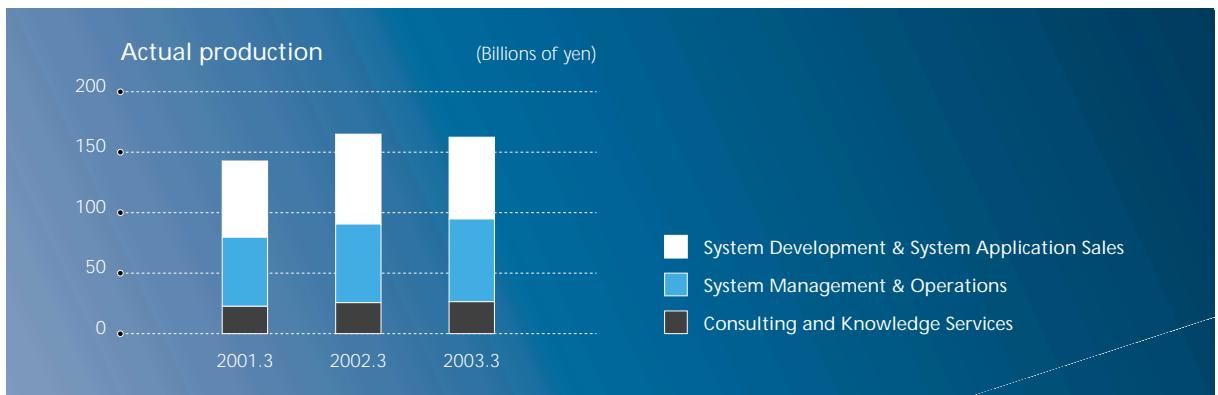
Production, Orders, and Sales

Actual production

| | 2001.3 | 2002.3 | 2003.3 | (Billions of yen) |
|---|--------|--------|--------|-------------------------------|
| Segment by type of business | | | | Change from previous year (%) |
| System Solution Services | 120.2 | 139.4 | 136.0 | (2.4) |
| System Development & System Application Sales | 63.0 | 74.3 | 67.6 | (9.0) |
| System Management & Operations | 57.1 | 65.0 | 68.4 | 5.2 |
| Consulting and Knowledge Services | 22.7 | 25.7 | 26.4 | 3.0 |
| Total | 142.8 | 165.0 | 162.5 | (1.5) |

Notes: 1. Amounts are based on manufacturing cost.

2. Amounts of less than 100 million yen were rounded. Figures do not include consumption tax and other items.

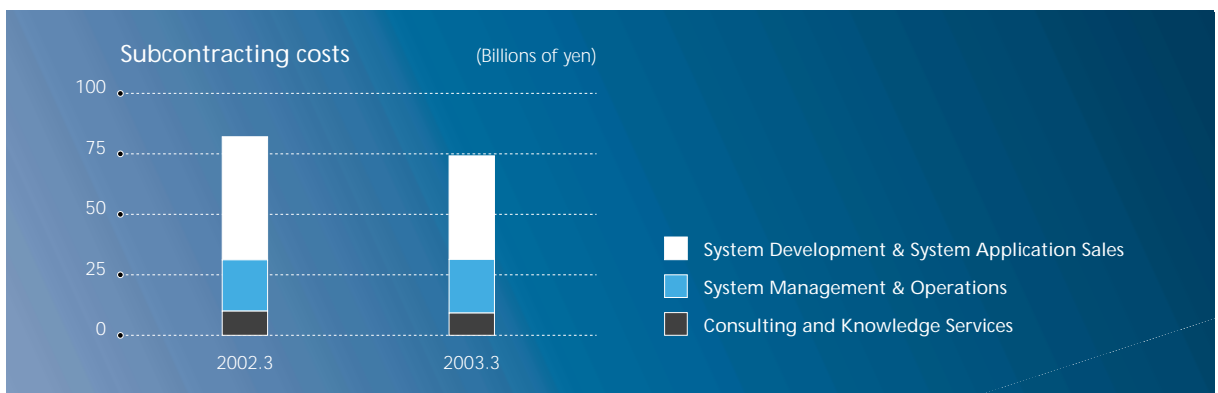


Subcontracting costs (disclosure beginning with fiscal 2001)

| | 2002.3 | 2003.3 | (Billions of yen) |
|---|---|---|-------------------------------|
| Segment by type of business | As percentage of the total production (%) | As percentage of the total production (%) | Change from previous year (%) |
| System Solution Services | 72.2 | 51.8 | 65.0 |
| System Development & System Application Sales | 50.9 | 68.5 | 42.8 |
| System Management & Operations | 21.3 | 32.7 | 22.2 |
| Consulting and Knowledge Services | 10.1 | 39.2 | 9.2 |
| Total | 82.2 | 49.8 | 74.3 |

Notes: 1. Amounts are based on manufacturing cost.

2. Amounts of less than 100 million yen were rounded. Figures do not include consumption tax and other items.



Orders received

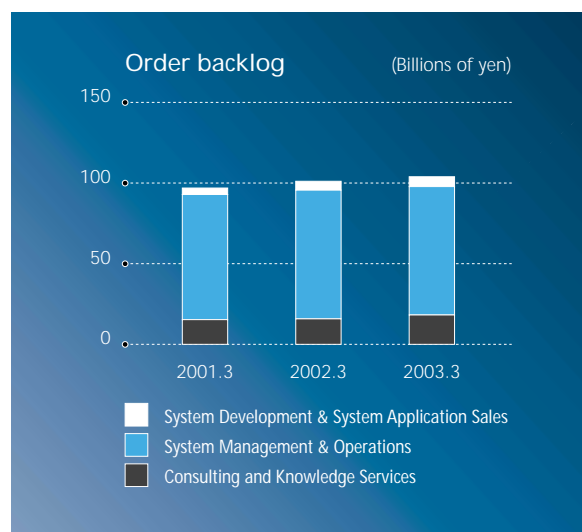
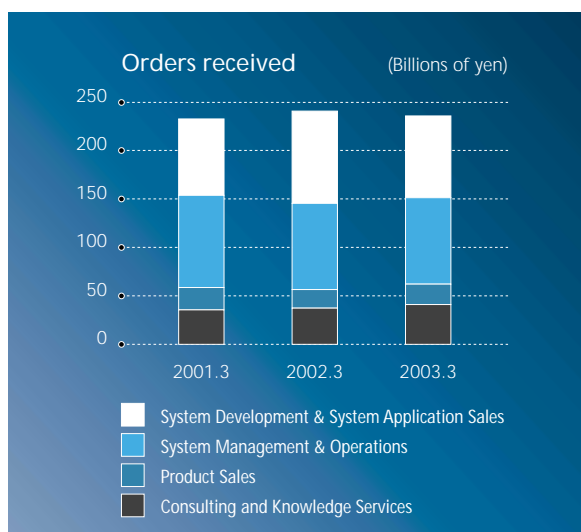
(Billions of yen)

| Segment by type of business | 2001.3 | | 2002.3 | | 2003.3 | | | |
|---|-----------------|---------------|-----------------|---------------|-----------------|-------------------------------|---------------|-------------------------------|
| | Orders received | Order backlog | Orders received | Order backlog | Orders received | Change from previous year (%) | Order backlog | Change from previous year (%) |
| System Solution Services | 197.5 | 81.6 | 203.6 | 85.4 | 195.1 | (4.2) | 85.9 | 0.6 |
| System Development & System Application Sales | 79.0 | 4.0 | 95.3 | 5.5 | 83.8 | (12.1) | 6.2 | 11.4 |
| System Management & Operations | 95.4 | 77.6 | 89.1 | 79.8 | 90.1 | 1.1 | 79.7 | (0.2) |
| Product Sales | 23.1 | — | 19.2 | — | 21.2 | 10.3 | — | — |
| Consulting and Knowledge Services | 35.7 | 15.3 | 37.4 | 15.9 | 40.8 | 9.0 | 18.2 | 14.9 |
| Total | 233.2 | 97.0 | 241.0 | 101.2 | 235.9 | (2.1) | 104.1 | 2.8 |

Notes: 1. Amounts are based on sales prices.

2. Amounts of less than 100 million yen were rounded. Figures do not include consumption tax and other items.

3. For services that are provided on a continuous basis and are paid for on the basis of usage, expected sales during the next year are recorded as orders received at the end of each fiscal year.



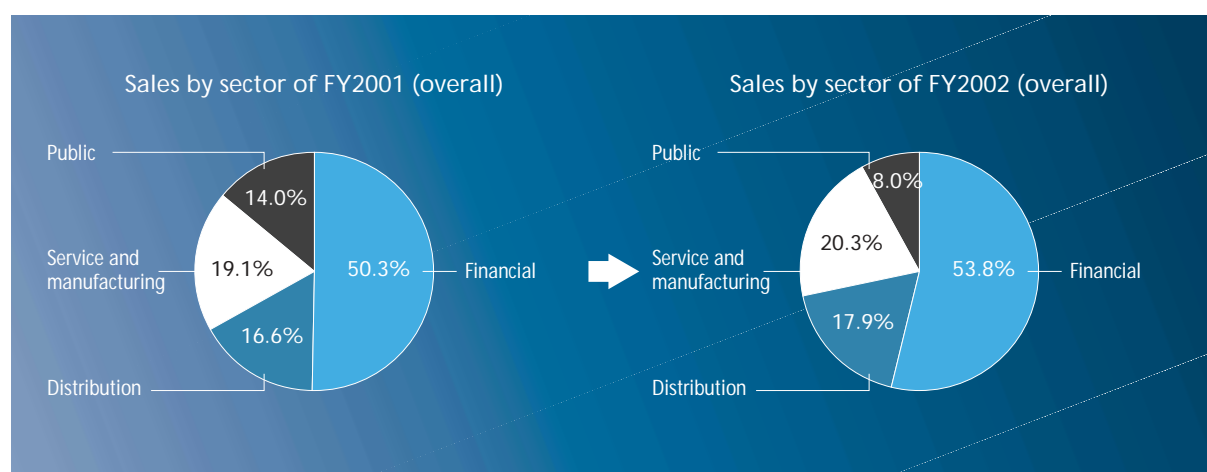
Sales by sector and sales component ratios

(Billions of yen)

| Sales by industry | 2002.3 | | 2003.3 | |
|---------------------------|--------|---------------------|--------|---------------------|
| | Amount | Component ratio (%) | Amount | Component ratio (%) |
| Financial | 119.0 | 50.3 | 125.3 | 53.8 |
| Nomura Holdings | 61.7 | 26.1 | 63.6 | 27.3 |
| Distribution | 39.2 | 16.6 | 41.7 | 17.9 |
| Service and manufacturing | 45.2 | 19.1 | 47.1 | 20.3 |
| Public sector | 33.1 | 14.0 | 18.6 | 8.0 |
| Total | 236.6 | 100.0 | 232.7 | 100.0 |

Notes: 1. Amounts of less than 100 million yen were rounded. Figures do not include consumption tax and other items.

2. Beginning with fiscal 2002, the tabulation method was modified to include the sales of subsidiaries in the sector to which the parent belongs as a general rule, in light of the spread of the practice of disclosing consolidated information and the trend toward corporate reorganization. The corresponding changes were also made for fiscal 2001.



Capital expenditure, etc.

In fiscal 2002, we made investments for items such as software development, installation of additional machinery and equipment due to the expansion of our outsourcing business, renewal of computers used in development, and the furnishing of offices in the new Kiba Center. Taken together, these investments totaled 20.5 billion yen (after elimination of intersegment transactions).

This amount includes investment on software. Investments were funded with retained earnings and part of the proceeds of public share issue.

System Solution Services

In this segment, we invested a total of 17.7 billion yen for development of software for financial services, purchase of system operation equipment along with the expansion of our outsourcing business, and renewal of computers used in development.

Consulting and Knowledge Services

In this segment, we invested a total of 2.8 billion yen for development of software for financial information services related to assets management and investment data as well as renewal of personal computers for operational use.

Research and development activities

The NRI Group's research and development activities consist of the following.

1. Research of advanced and basic information technologies and of production and development technologies (technology-creating R&D)
2. Basic research for development of new business and products, related feasibility studies, development of prototypes, and proving tests (business-creating R&D)
3. Surveys and research concerning new socioeconomic systems (society-creating R&D)

These activities are based at NRI's Advanced Information Technology Division and Center for Knowledge Exchange and Creation. In addition, the Research and Development Committee, which directly reports to our Board of Directors, examines all phases from project planning to use of the results to ensure a further qualitative improvement in R&D activities. Besides doing our utmost to make extensive use of results in our business activities, we also offer proposals and publicize based on the results of studies and research concerning socioeconomic systems at large. In fiscal 2002, our R&D expenditures amounted to 2.5 billion yen.

System Solution Services

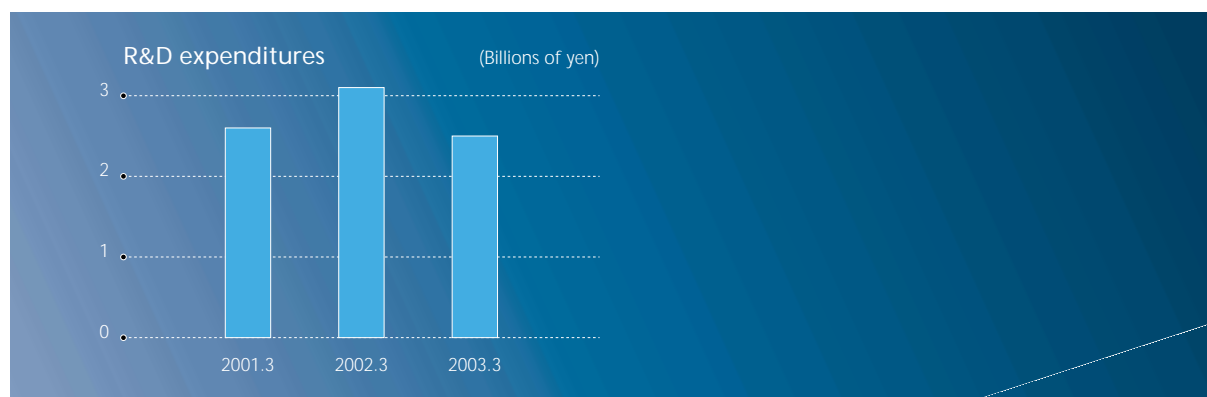
We researched innovative business models for the coming management climate and carried out R&D programs for the creation of new system solution models applying the latest technology. For higher levels of productivity and quality in software development, we continued with our research for practical application of techniques utilizing cutting-edge software, fabrication of components for software development, and research of techniques of software combination. With a view to making system maintenance and operation more efficient, we established procedural theory for management in maintenance operations as well as standards and methodology for emergency support in response to system failure. Our expenditures for research and development in this segment consequently came to 1.7 billion yen.

Consulting and Knowledge Services

We conducted investigation and research concerning next-generation styles of management and business as well as new socioeconomic systems. More specifically, we executed programs of proving studies for the setup and methodology of futuristic in-house training, research of innovation in the service business, and studies of business models for new-age IT services in the financial sector. Our R&D expenditures in this segment came to 0.8 billion yen.

| | 2001.3 | 2002.3 | 2003.3 |
|------------------|--------|--------|--------|
| R&D expenditures | 2.6 | 3.1 | 2.5 |

Note: Amounts of less than 100 million yen were rounded. Figures do not include consumption tax and other items.



Management tasks

The circumstances in the information service industry are becoming increasingly tough owing to developments such as the deflationary spiral and the protracted economic slump, which are causing firms to curtail their investment, slowing growth, and heightening pressures for lower costs, as in other industries. In these dire straits, we consider the key management tasks of the NRI Group to be more powerful sales, more competitive goods and services, higher productivity, and better human resources to achieve these agenda.

To reinforce our sales setup, we have newly instituted a Business Development Committee, which is to encourage an inter-departmental sharing of information on major sales projects and prepare organizations for sales of large-scale or new goods and services by inducing a company-wide synergy.

To increase the competitive strength of our goods and services, we are going to redouble our holistic approaches encompassing all areas from the upstream needs of the customer such as Business Performance Reform proposals to system development and operation. This is necessary if we are to solidify our position as a partner that can be trusted by customer to deliver total solutions.

Besides tightening project control and standardizing the process of system development, we are taking various measures of rationalization for increased productivity. These include the definition of an operational process and establishment of methods of quantified control also for system operation and maintenance. At the same time, we plan to make arrangements for smoother subcontracting of system development. To this end, we intend to organize the quality firms cooperating with us (through the conclusion of e-partner agreements) for better coordination with them. We also want to initiate subcontracting for a wide range of processes in China, just as in Japan, that is from the upstream ones to operation and maintenance after system start-up.

In the aspect of human resources, we are going to continue improving our training and qualification programs, and will offer treatment fully befitting a professional status.

As a matter of top priority, we are aspiring to high levels of transparency and fairness in our management. In fiscal 2002, we instated a stock option plan for our directors and officers for a further increase in our corporate value through the identification of shareholder and executive interests. We are also aiming for a fuller disclosure of information both for higher transparency and better execution of our responsibility to provide our shareholders with explanations.

Hard times tend to focus more attention on the ethics of corporate behavior. The state of its ethics can have a great bearing on a company's competitiveness, and this is making full compliance even more important. In the NRI Group, we have established a standing compliance conference to make provisions for observance of related laws and regulations and to prevent violations, as well as to furnish instruction on compliance as necessary to raise in-house awareness on the subject. Furthermore, we have completely renovated the ethical compliance program to ensure fair and forthright corporate activity through a concerted effort by each and every one of our employees, and thereby to contribute to socioeconomic advancement as envisioned in our management philosophy.

Plans for facility construction, disposal, etc.

For the fiscal year ending 31st March, 2004, we are planning to make capital investments of 25.6 billion yen on facilities. This investment is to be financed by retained earnings. We do not have any plans for the scrapping or sale of major facilities, excluding that required for regular renewal.

| Segment by type of business | Facilities | Planned investment (billions of yen) | Major items and purpose |
|-----------------------------------|-------------------|---|--|
| System Solution Services | Software | 8.2 | Development of software for internal use in provision of customer services and of software for sale |
| | Hardware | 4.8 | System development equipment, and equipment for provision of operation services for computer systems and networks |
| | Center facilities | 8.7 | Acquisition of the Osaka Data Center based on the property sale option agreement concluded with Daiwa Bank in March, 1999 (the acquisition is tentatively scheduled for March, 2004) |
| Consulting and Knowledge Services | Software | 2.3 | Development of software for internal use in provision of knowledge solution services |
| | Hardware | 0.8 | Equipment for providing knowledge solution services |
| Company-wide (common use) | Software | 0.3 | Software purchased for use in internal systems |
| | Office facilities | 0.5 | Renewal of property and installation of personal computers, etc. |
| Total | | 25.6 | — |

Note: Amounts of less than 100 million yen were rounded. Figures do not include consumption tax and other items.

Other Major Matters

Managerial principal contracts, etc.

Principal contracts concerning the liquidation of the Osaka Data Center

NRI concluded contracts for the liquidation of its Osaka Data Center in March, 1999 in order to diversify sources of funds, compress assets, and improve its return on assets (ROA). The table below outlines the principal contracts concluded by us, South Plaza (a special-purpose company established in accordance with the Commercial Code), and NRI Data Service for the liquidation of real assets.

| Month and year concluded | Contract | Partner | Description |
|--------------------------|---|-------------------|--|
| March 1999 | Trust agreement for management and disposal of real estate | Daiwa Bank | We shall entrust the land, building, and cash of our Osaka Data Center to Daiwa Bank for the purposes of management, operation, and disposal, in the interest of the beneficiary for the period from 30th March, 1999 to 22nd March, 2004. |
| March 1999 | Agreement for assignment of beneficial interest in trust | South Plaza | We shall assign, with the consent of Daiwa Bank, our beneficial interest in trust to South Plaza under the trust agreement for management and disposal of real estate. |
| March 1999 | Agreement for underwriting unsecured debentures of South Plaza (with NRI guarantees and a special clause restricting liable assets) (restricted to qualified institutional investors) | Nomura Securities | South Plaza shall issue unsecured debentures (principal and interest guaranteed by us) supported by the cash flow arising from such liable assets as the beneficial interest in trust mentioned above. Nomura Securities shall underwrite the entire issue on a bought deal basis. |
| March 1999 | Real estate disposal option contract | Daiwa Bank | Daiwa Bank shall acquire, within the trust period under this contract, the option to sell the land and building of the Osaka Data Center to NRI Data Service at the price prescribed in the agreement. If it does not exercise this option and sells the assets at a price higher than said prescribed one, NRI Data Service shall have the right of first refusal until the date prescribed in the agreement. |

Notes: 1. The Osaka Data Center had previously been used by NRI Data Service under a lease from us. As a result of the agreement noted above, NRI Data Service concluded a building lease agreement with Daiwa Bank for use of the Center in March, 1999.
2. Effective 1st March, 2003, the trade name of Daiwa Bank was changed Risona Bank.

Stock option plan

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

| | |
|---|--|
| Date resolved | 26th June, 2002 |
| Category and number of grantees | NRI directors and executive officers: 31 Directors of NRI subsidiaries in Japan: 12 |
| Purpose of reservation rights and class of stock | Common stock |
| Number of shares | 80,500 shares |
| Amount payable when exercising reservation rights | 17,913 yen per share |
| Period for exercising reservation rights | 1st July, 2004 — 30th June, 2007 |
| Conditions of execution of reservation rights | 1) At the time of exercising reservation rights, the grantee must be a director, executive officer, or official in an equivalent position of NRI or a domestic subsidiary. However, in cases recognized as constituting sufficient cause such as death or expiration of terms of office, the rights may be exercised by the grantee (or his or her heir in case of death) during a prescribed period of time. 2) The closing quotation for NRI's common stock in ordinary transactions at the TSE must be at least 20,000 yen per share on the five transaction days immediately preceding the day of application for exercise of reservation rights. 3) In addition to the above provisions, NRI may stipulate other conditions pertaining to execution of reservation rights in contracts for allocation of such rights concluded with grantees. |
| Items related to transfer of reservation rights | Rights cannot be transferred, pledged, or otherwise furnished to a third party. |

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

| | |
|---|--|
| Date resolved | 24th June, 2003 |
| Category and number of grantees | NRI directors and executive officers, and directors of NRI domestic subsidiaries, determined by the NRI board of directors (number not yet determined) |
| Purpose of reservation rights and class of stock | Common stock |
| Number of shares | No more than 90,000 shares |
| Amount payable when exercising reservation rights | The amount payable will be 1.05 times the average of the closing quotation for NRI's common stock in ordinary transactions at the TSE on all days (except those without closing quotations) of the month immediately preceding the month containing the day on which the reservation rights are issued. Any fraction of one yen will be rounded upward. However, if the amount so calculated is less than the closing quotation on the day of issue of reservation rights (or the closing quotation on the nearest preceding day in the absence of such a closing quotation), then the amount payable will be equal to said closing quotation. |
| Period for exercising reservation rights | 1st July, 2005 — 30th June, 2008 |
| Conditions of execution of reservation rights | 1) At the time of exercising reservation rights, the grantee must be a director, executive officer, or official in an equivalent position of NRI or a domestic subsidiary. However, in cases recognized as constituting sufficient cause such as death or expiration of terms of office, the rights may be exercised by the grantee (or his or her heir in case of death) during a prescribed period of time. 2) In addition to the above provisions, NRI may stipulate other conditions pertaining to execution of reservation rights in contracts for allocation of such rights concluded with grantees. |
| Items related to transfer of reservation rights | Rights cannot be transferred, pledged, or otherwise furnished to a third party. |

Notes: 1. When NRI executes a stock split or reverse stock split, the number of shares will be adjusted in accordance with the formula shown below.
Any fraction of one share will be rounded downward.

Number of shares after adjustment = number of shares before adjustment \times split (or reverse) ratio

NRI will also adjust the number of shares as necessary in the following case: (i) NRI merges and the surviving or resulting company takes over its obligations concerning reservation rights, or (ii) NRI carries out a corporate partition and the resulting company or the company that takes over the business as a result takes over its obligations concerning reservation rights.

2. When NRI executes a stock split or reverse stock split, the amount payable will be adjusted in accordance with the formula shown below.
Any fraction of one yen will be rounded upward.

Amount payable after adjustment = amount payable before adjustment \times (1/split or reverse split ratio)

NRI will also adjust the amount payable as necessary in the following case: (i) NRI merges and the surviving or resulting company takes over its obligations concerning reservation rights, or (ii) NRI carries out a corporate partition and the resulting company or the company that takes over the business as a result takes over its obligations concerning reservation rights.

Acquisition of treasury stock

1) Status of acquisition of treasury stock in the previous term

No such stock

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

| Category | Type of stock | Number of shares | Total value (yen) |
|--|---------------|------------------|-------------------|
| Resolution concerning acquisition of treasury stock | Common stock | 500,000 | 4,000,000,000 |
| Resolution concerning acquisition for cancellation due to the revaluation difference | — | — | — |
| Total | — | — | 4,000,000,000 |

Note: The treasury stock accounted for 1.1 percent of the total number of outstanding shares on the day of closure of general meeting of shareholders.

Dividend policy

We consider an ongoing increase in our corporate value to be the greatest return we can make to our shareholders. It is our basic policy to pay a reasonable level of dividends on a stable basis while bearing in mind the need for sufficient retained earnings for the long-term development of our business as well as the levels of profit and cash flow.

Retained earnings will be used for future business development. They will be invested in the enhancement of multi user systems that are expected to grow rapidly in the future, in development to cultivate new business and improve system development efficiency, in facilities, research and development, the training of personnel as measures to further enhance quality management in order to support our future growth.

Financial Statements

Consolidated Financial Statements

At 31st March, 2002 and 2003 and
for the years ended 31st March, 2001, 2002 and 2003
with Report of Independent Certified Public Accountants

Index to Consolidated Financial Statements

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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, |
| | 2002 | 2003 | 2003 |
| Assets | | | |
| Current assets: | | | |
| Cash and bank deposits <i>(Note 14)</i> | ¥ 33,181 | ¥ 26,739 | \$ 222,454 |
| Short-term investment securities <i>(Notes 3 and 14)</i> | 62,022 | 62,021 | 515,982 |
| Accounts receivable and other receivables <i>(Notes 5 and 20)</i> | 43,998 | 42,000 | 349,418 |
| Inventories | 215 | 254 | 2,113 |
| Deferred income taxes <i>(Note 12)</i> | 3,385 | 3,459 | 28,777 |
| Other current assets | 927 | 1,105 | 9,193 |
| Allowance for doubtful accounts | (84) | (40) | (333) |
| Total current assets | 143,644 | 135,538 | 1,127,604 |
| Property and equipment <i>(Notes 6 and 8):</i> | | | |
| Land | 7,635 | 7,635 | 63,520 |
| Buildings, net | 12,931 | 12,365 | 102,870 |
| Machinery and equipment, net | 11,256 | 10,274 | 85,474 |
| Property and equipment, net | 31,822 | 30,274 | 251,864 |
| Software and other intangibles | 25,736 | 33,817 | 281,339 |
| Investment securities <i>(Notes 3 and 20)</i> | 75,921 | 33,767 | 280,923 |
| Investments in affiliates <i>(Note 3)</i> | 8,748 | 8,781 | 73,053 |
| Deferred income taxes <i>(Note 12)</i> | 1,075 | 1,248 | 10,383 |
| Other assets <i>(Notes 7 and 20)</i> | 12,951 | 13,410 | 111,565 |
| Allowance for doubtful accounts | (4) | (37) | (308) |
| Total assets | ¥ 299,893 | ¥ 256,798 | \$ 2,136,423 |

| | <i>Millions of yen</i> | | <i>Thousands of U.S. dollars (Note 2)</i> |
|---|------------------------|-------------|---|
| | 31st March, | | 31st March, |
| | 2002 | 2003 | 2003 |
| Liabilities and shareholders' equity | | | |
| Current liabilities: | | | |
| Long-term debt due within one year <i>(Notes 8 and 9)</i> | ¥ 608 | ¥ 608 | \$ 5,058 |
| Accounts payable | 28,748 | 21,313 | 177,313 |
| Accrued expenses | 10,134 | 9,325 | 77,579 |
| Income taxes payable | 8,496 | 5,128 | 42,662 |
| Other current liabilities | 5,045 | 4,107 | 34,168 |
| Total current liabilities | 53,031 | 40,481 | 336,780 |
| Long-term debt <i>(Notes 8 and 9)</i> | 2,918 | 2,310 | 19,218 |
| Allowance for employees' retirement benefits <i>(Note 10)</i> | 21,754 | 22,277 | 185,334 |
| Deferred income taxes <i>(Note 12)</i> | 21,510 | 5,554 | 46,206 |
| Other long-term liabilities <i>(Notes 11 and 20)</i> | 5,116 | 826 | 6,872 |
| Commitments and contingent liabilities <i>(Note 21)</i> | | | |
| Shareholders' equity <i>(Notes 13, 15 and 20)</i> : | | | |
| Common stock | | | |
| Authorised – 150,000,000 shares at 31st March, 2002 and 2003, respectively | | | |
| Issued – 45,000,000 shares at 31st March, 2002 and 2003, respectively | 18,600 | 18,600 | 154,742 |
| Additional paid-in capital | 14,800 | 14,800 | 123,128 |
| Retained earnings | 126,136 | 140,334 | 1,167,504 |
| Unrealised gain on other securities <i>(Note 3)</i> | 35,593 | 11,799 | 98,162 |
| Translation adjustments | 437 | (181) | (1,506) |
| Treasury stock, at cost | | | |
| – 100 shares at 31st March, 2002 and 2003, respectively | (2) | (2) | (17) |
| Total shareholders' equity | 195,564 | 185,350 | 1,542,013 |
| Total liabilities and shareholders' equity | ¥ 299,893 | ¥ 256,798 | \$ 2,136,423 |

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, 2003 |
| | 2001 | 2002 | 2003 | |
| Sales <i>(Note 20)</i> | ¥ 217,984 | ¥ 236,569 | ¥ 232,744 | \$ 1,936,306 |
| Cost of sales <i>(Note 20)</i> | 160,643 | 173,636 | 173,545 | 1,443,802 |
| Gross profit | 57,341 | 62,933 | 59,199 | 492,504 |
| Selling, general and administrative expenses <i>(Notes 17, 18 and 20)</i> | 29,498 | 32,568 | 32,035 | 266,514 |
| Operating profit | 27,843 | 30,365 | 27,164 | 225,990 |
| Other income (expenses): | | | | |
| Interest and dividend income <i>(Note 20)</i> | 3,368 | 2,385 | 343 | 2,854 |
| Equity in earnings of affiliates | 350 | 297 | 168 | 1,398 |
| Interest expense <i>(Note 9)</i> | (140) | (135) | (99) | (824) |
| Loss on property and equipment <i>(Note 20)</i> | (5,456) | (320) | (638) | (5,308) |
| (Loss) gain on investment securities <i>(Notes 3, 19 and 20)</i> | 25,437 | (516) | (166) | (1,381) |
| Gain on investments in affiliates <i>(Note 19)</i> | — | — | 542 | 4,509 |
| Provision for net retirement benefit obligation at transition <i>(Note 10)</i> | (344) | — | — | — |
| Actuarial loss <i>(Notes 10 and 19)</i> | (6,122) | (1,195) | (6,942) | (57,754) |
| Provision for the welfare pension plan <i>(Note 10)</i> | (974) | — | — | — |
| Reversal of allowance for the welfare pension plan <i>(Notes 10 and 19)</i> | — | 8,147 | — | — |
| Gain on securities contributed to an employee retirement benefit trust <i>(Notes 3, 10, 14 and 19)</i> | — | — | 6,736 | 56,040 |
| Other, net | (333) | (18) | 69 | 574 |
| | 15,786 | 8,645 | 13 | 108 |
| Income before income taxes | 43,629 | 39,010 | 27,177 | 226,098 |
| Provision for income taxes <i>(Note 12)</i> : | | | | |
| Current | 22,129 | 11,426 | 10,687 | 88,910 |
| Deferred | (3,882) | 5,220 | 1,031 | 8,578 |
| | 18,247 | 16,646 | 11,718 | 97,488 |
| Net income <i>(Note 15)</i> | ¥ 25,382 | ¥ 22,364 | ¥ 15,459 | \$ 128,610 |

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, 2000 | ¥ 10,100 | ¥ 2,400 | ¥ 79,337 | ¥ – | ¥ – | ¥ – | ¥ 91,837 |
| Net income | – | – | 25,382 | – | – | – | 25,382 |
| Cash dividends paid | – | – | (215) | – | – | – | (215) |
| Bonuses to directors and statutory auditors | – | – | (214) | – | – | – | (214) |
| Unrealised gain on other securities | – | – | – | 48,518 | – | – | 48,518 |
| Translation adjustments | – | – | – | – | (136) | – | (136) |
| Balance at 31st March, 2001 | 10,100 | 2,400 | 104,290 | 48,518 | (136) | – | 165,172 |
| Issuance of 2,000,000 new shares | 8,500 | 12,400 | – | – | – | – | 20,900 |
| Purchase of treasury stock | – | – | – | – | – | (2) | (2) |
| Net income | – | – | 22,364 | – | – | – | 22,364 |
| Cash dividends paid | – | – | (215) | – | – | – | (215) |
| Bonuses to directors and statutory auditors | – | – | (303) | – | – | – | (303) |
| Unrealised gain on other securities | – | – | – | (12,925) | – | – | (12,925) |
| Translation adjustments | – | – | – | – | 573 | – | 573 |
| Balance at 31st March, 2002 | 18,600 | 14,800 | 126,136 | 35,593 | 437 | (2) | 195,564 |
| Net income | – | – | 15,459 | – | – | – | 15,459 |
| Cash dividends paid | – | – | (900) | – | – | – | (900) |
| Bonuses to directors and statutory auditors | – | – | (361) | – | – | – | (361) |
| Unrealised gain on other securities | – | – | – | (23,794) | – | – | (23,794) |
| Translation adjustments | – | – | – | – | (618) | – | (618) |
| Balance at 31st March, 2003 | ¥ 18,600 | ¥ 14,800 | ¥ 140,334 | ¥ 11,799 | ¥ (181) | ¥ (2) | ¥ 185,350 |

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, 2002 | \$ 154,742 | \$ 123,128 | \$ 1,049,384 | \$ 296,115 | \$ 3,636 | \$ (17) | \$ 1,626,988 |
| Net income | – | – | 128,610 | – | – | – | 128,610 |
| Cash dividends paid | – | – | (7,488) | – | – | – | (7,488) |
| Bonuses to directors and statutory auditors | – | – | (3,002) | – | – | – | (3,002) |
| Unrealised gain on other securities | – | – | – | (197,953) | – | – | (197,953) |
| Translation adjustments | – | – | – | – | (5,142) | – | (5,142) |
| Balance at 31st March, 2003 | \$ 154,742 | \$ 123,128 | \$ 1,167,504 | \$ 98,162 | \$ (1,506) | \$ (17) | \$ 1,542,013 |

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

| | <i>Millions of yen</i> | | | <i>Thousands of U.S. dollars (Note 2)</i> |
|---|------------------------|----------|----------|---|
| | Year ended 31st March, | | | Year ended 31st March, |
| | 2001 | 2002 | 2003 | 2003 |
| Cash flows from operating activities | | | | |
| Income before income taxes | ¥ 43,629 | ¥ 39,010 | ¥ 27,177 | \$ 226,098 |
| Adjustments to reconcile income before income taxes to net cash provided by operating activities: | | | | |
| Depreciation and amortisation | 13,660 | 12,420 | 13,244 | 110,183 |
| Interest and dividend income | (3,368) | (2,385) | (343) | (2,854) |
| Interest expense | 140 | 135 | 99 | 824 |
| Loss on property and equipment | 5,456 | 320 | 638 | 5,308 |
| Loss (gain) on investment securities | (25,437) | 516 | 166 | 1,381 |
| Gain on investments in affiliates | — | — | (542) | (4,509) |
| Changes in operating assets and liabilities: | | | | |
| Accounts receivable and other receivables, net of advance payments received | (2,501) | (9,976) | 1,644 | 13,677 |
| Allowance for doubtful accounts | (29) | (5) | (11) | (92) |
| Accounts payable | 3,925 | 6,724 | (7,435) | (61,855) |
| Inventories | 44 | 138 | (39) | (324) |
| Allowance for employees' retirement benefits and welfare pension plan (<i>Note 14</i>) | 8,148 | (9,526) | 628 | 5,225 |
| Other | (147) | (1,014) | (7,334) | (61,015) |
| Subtotal | 43,520 | 36,357 | 27,892 | 232,047 |
| Interest and dividends received | 4,562 | 1,168 | 877 | 7,296 |
| Interest paid | (147) | (143) | (102) | (849) |
| Income taxes paid | (11,453) | (20,089) | (14,055) | (116,930) |
| Net cash provided by operating activities | 36,482 | 17,293 | 14,612 | 121,564 |
| Cash flows from investing activities | | | | |
| Acquisition of property and equipment | (6,824) | (7,006) | (4,734) | (39,384) |
| Proceeds from sales of property and equipment | 2,023 | 428 | 14 | 116 |
| Increase in software and other intangibles | (10,668) | (15,879) | (16,221) | (134,950) |
| Proceeds from sales of software and other intangibles | 668 | 72 | 63 | 525 |
| Increase in investment securities | (77) | (2,167) | (5,921) | (49,260) |
| Proceeds from sales and redemption of investment securities | 30,185 | — | 7,010 | 58,319 |
| Increase in investments in affiliates | (197) | (30) | — | — |
| Proceeds from sales of investments in affiliates | 60 | 14 | 178 | 1,481 |
| Other | (624) | (169) | 616 | 5,125 |
| Net cash (used in) provided by investing activities | 14,546 | (24,737) | (18,995) | (158,028) |
| Cash flows from financing activities | | | | |
| Net repayment of short-term borrowings | (400) | (100) | — | — |
| Proceeds from long-term debt | 4,169 | — | — | — |
| Repayment of long-term debt | (5,635) | (2,608) | (608) | (5,058) |
| Proceeds from issuance of new stock | — | 20,900 | — | — |
| Purchase of treasury stock | — | (2) | — | — |
| Cash dividends paid | (215) | (215) | (896) | (7,454) |
| Net cash (used in) provided by financing activities | (2,081) | 17,975 | (1,504) | (12,512) |
| Effect of exchange rate changes on cash and cash equivalents | 784 | 549 | (556) | (4,626) |
| Net increase in cash and cash equivalents | 49,731 | 11,080 | (6,443) | (53,602) |
| Cash and cash equivalents at beginning of year | 34,392 | 84,123 | 95,203 | 792,038 |
| Cash and cash equivalents at end of year (<i>Note 14</i>) | ¥ 84,123 | ¥ 95,203 | ¥ 88,760 | \$ 738,436 |

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 23.

Basis of Presentation

The accompanying consolidated financial statements of the Company and its consolidated subsidiaries have been compiled from those prepared by the Company and its consolidated subsidiaries as required under the Securities and Exchange Law of Japan and have been prepared in accordance with accounting principles and practices generally accepted and applied in Japan, which may differ in certain material respects from accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

In addition, the notes to the consolidated financial statements include information which is not required under accounting principles and practices 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, 2001, 2002 and 2003 include the accounts of the Company and significant companies which are controlled directly or indirectly by the Company. All subsidiaries, (thirteen, fourteen and sixteen for the years ended 31st March, 2001, 2002 and 2003, respectively) have been consolidated. The major consolidated subsidiary is NRI Data Service, Ltd. Effective the year ended 31st March, 2003, Nomura Research Institute (Beijing), Ltd. and Nomura Research Institute Shanghai, Ltd. have been initially consolidated.

All significant intercompany balances and transactions have been eliminated in consolidation. The Company's investments in affiliated companies over which it has the ability to exercise significant influence are accounted for by the equity method and the Company's share of those affiliates' income is included in consolidated income. The major affiliate accounted for by the equity method is NIWS Co. ViewPalette Planning, Inc., which was both established and liquidated during the year ended 31st March, 2002, was excluded from the scope of the consolidation for the year ended 31st March, 2003.

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. (formerly The Nomura Securities Co., Ltd.) and Nomura Land and Building Co., Ltd. which are included in “investments in affiliates” in the balance sheets. The Company’s accounting policy for those investments is the same as its accounting policy for investment securities described below.

The Company and its consolidated subsidiaries adopted a new accounting standard for financial instruments issued by the Business Accounting Deliberation Council which became effective 1st April, 2000. This standard requires that securities be classified by their holding objectives into “trading,” “held-to-maturity” and “other” securities. 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.

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 have been provided on an accrual basis as of the balance sheet date based on an estimate of the projected benefit obligation and the employees' pension plan assets. The retirement benefit obligation at transition was expensed upon transition. Actuarial gain or loss is charged to income as incurred.

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. The accounts for that period do not, therefore, reflect such appropriations. See Note 24.

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 ¥120.20 = US\$1.00, the rate of exchange prevailing on 31st March, 2003. 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, 2002 and 2003:

a) Marketable securities classified as other securities

| | <i>Millions of yen</i> | | | | | |
|-------------------|------------------------|---------|-----------------|----------|-----------------|----------|
| | Acquisition cost | | Carrying amount | | Unrealised gain | |
| | 31st March, | | 31st March, | | 31st March, | |
| | 2002 | 2003 | 2002 | 2003 | 2002 | 2003 |
| Equity securities | ¥ 3,085 | ¥ 3,008 | ¥ 64,662 | ¥ 23,366 | ¥ 61,577 | ¥ 20,358 |

| | <i>Thousands of U.S. dollars</i> | | |
|-------------------|----------------------------------|-----------------|-----------------|
| | Acquisition cost | Carrying amount | Unrealised gain |
| | 31st March, 2003 | | |
| Equity securities | \$ 25,025 | \$ 194,393 | \$ 169,368 |

Proceeds from sales of marketable securities classified as other securities during the year ended 31st March, 2001, 2002 and 2003 were as follows:

| | <i>Millions of yen</i> | | | <i>Thousands of U.S. dollars</i> |
|------------|------------------------|------|---------|----------------------------------|
| | 2001 | 2002 | 2003 | 2003 |
| Proceeds | ¥ 30,185 | ¥ — | ¥ 6,839 | \$ 56,897 |
| Gross gain | 26,496 | — | 6,736 | 56,040 |
| Gross loss | 797 | — | — | — |

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

The Company transferred certain marketable securities to an employee retirement benefit trust. The proceeds and gross gains on the securities contributed to the employee retirement benefit trust were ¥6,839 million (\$56,897 thousand) and ¥6,736 million (\$56,040 thousand), respectively.

Losses on devaluation of the marketable securities classified as other securities as a result of the permanent decline totaled ¥119 million, ¥171 million (\$1,423 thousand), for the year ended 31st March, 2002 and 2003 respectively.

3. Investments (continued)

b) Non-marketable securities classified as other securities

| | <i>Millions of yen</i> | | <i>Thousands of U.S. dollars</i> |
|--------------------------------------|------------------------|-------------|----------------------------------|
| | 31st March, | | 31st March, |
| | 2002 | 2003 | 2003 |
| Noncurrent: | | | |
| Equity securities | ¥ 11,810 | ¥ 17,488 | \$145,490 |
| Domestic bonds due within five years | 7,000 | — | — |
| Other (money management funds) | 20,016 | 20,018 | 166,539 |
| Other (free financial funds) | 30,008 | 17,009 | 141,506 |
| Other (commercial paper) | 11,998 | 24,994 | 207,937 |

Investments in affiliates include investments in net assets of affiliate companies accounted for under the equity method totaling ¥1,197 million and ¥1,694 million (\$14,093 thousand) at 31st March, 2002 and 2003, respectively.

Investments in affiliates include marketable equity securities accounted for under equity method, carried at ¥1,285 million (\$10,691 thousand) at 31st March, 2003. Corresponding aggregate quoted market values were ¥5,602 million (\$46,606 thousand) at 31st March, 2003. There were no such investment at 31st March, 2002.

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 minimized by selecting counterparties with high credit ratings. Transactions are centrally controlled at the Company, and internal approval is necessary for entering into derivative transactions in accordance with internal approval policies.

Because all derivatives held by a certain consolidated subsidiary at 31st March, 2002 and 2003 were for hedging purposes, the related information on their respective market value has not been presented.

5. Accounts Receivable and Other Receivables

For projects which have not been completed as of the balance sheet date, the percentage-of-completion method is applied and the estimated revenue considered to be earned from each project has been included in accounts receivable and other receivables in amounts of ¥7,720 million and ¥10,797 million (\$89,825 thousand) for the years ended 31st March, 2002 and 2003, respectively.

6. Property and Equipment

Property and equipment are summarised as follows:

| | <i>Years</i> | <i>Millions of yen</i> | | <i>Thousands of U.S. dollars</i> |
|-----------------------------|--------------|------------------------|----------|----------------------------------|
| | | 31st March, | | 31st March, |
| | Useful life | 2002 | 2003 | 2003 |
| Land | | ¥ 7,635 | ¥ 7,635 | \$ 63,520 |
| Buildings | 15 – 50 | 31,652 | 32,140 | 267,388 |
| Machinery and equipment | 3 – 15 | 42,975 | 41,745 | 347,296 |
| Accumulated depreciation | | (50,440) | (51,246) | (426,340) |
| Property and equipment, net | | ¥ 31,822 | ¥ 30,274 | \$ 251,864 |

7. Other Assets

Other assets consisted of the following:

| | <i>Millions of yen</i> | | <i>Thousands of U.S. dollars</i> |
|-------------------------|------------------------|----------|----------------------------------|
| | 31st March, | | 31st March, |
| | 2002 | 2003 | 2003 |
| Lease deposits | ¥ 8,517 | ¥ 10,066 | \$ 83,744 |
| Investment partnerships | 2,503 | 2,108 | 17,537 |
| Other | 1,931 | 1,236 | 10,284 |
| Other assets | ¥ 12,951 | ¥ 13,410 | \$ 111,565 |

Other includes golf club memberships.

8. Pledged Assets

The following assets at 31st March, 2002 and 2003 were pledged as collateral for obligations of the Company:

| | <i>Millions of yen</i> | | <i>Thousands of U.S. dollars</i> |
|----------------|------------------------|---------|----------------------------------|
| | 31st March, | | 31st March, |
| | 2002 | 2003 | 2003 |
| Land | ¥ 2,682 | ¥ 2,682 | \$ 22,313 |
| Buildings, net | 1,159 | 1,130 | 9,401 |
| | ¥ 3,841 | ¥ 3,812 | \$ 31,714 |

8. Pledged Assets (continued)

The obligations secured by such collateral at 31st March, 2002 and 2003 were:

| | <i>Millions of yen</i> | | <i>Thousands of U.S. dollars</i> |
|------------------------------------|------------------------|---------|----------------------------------|
| | 31st March, | | 31st March, |
| | 2002 | 2003 | 2003 |
| Long-term debt due within one year | ¥ 208 | ¥ 208 | \$ 1,730 |
| Long-term debt | 2,518 | 2,310 | 19,218 |
| | ¥ 2,726 | ¥ 2,518 | \$ 20,948 |

9. Long-Term Debt

At 31st March, 2002 and 2003, no short-term bank borrowings were outstanding.

Long-term debt consisted of the following:

| | <i>Millions of yen</i> | | <i>Thousands of U.S. dollars</i> |
|---|------------------------|---------|----------------------------------|
| | 31st March, | | 31st March, |
| | 2002 | 2003 | 2003 |
| Loans principally from banks and insurance companies due through 2015 | ¥ 3,526 | ¥ 2,918 | \$ 24,276 |
| Less current portion | 608 | 608 | 5,058 |
| Long-term debt | ¥ 2,918 | ¥ 2,310 | \$ 19,218 |

The weighted average interest rate on long-term debt due within one year was 2.4% at 31st March, 2002 and 2003, and the weighted average interest rates on the noncurrent portion of long-term debt were 3.1% and 3.3% at 31st March, 2002 and 2003, respectively.

The annual maturities of long-term debt subsequent to 31st March, 2003 are summarised as follows:

| <u>Years to maturities</u> | <i>Millions of yen</i> | <i>Thousands of U.S. dollars</i> |
|----------------------------|------------------------|----------------------------------|
| | 31st March, 2003 | 31st March, 2003 |
| Due within one year | ¥ 608 | \$ 5,058 |
| Due in 1 – 2 years | 208 | 1,730 |
| Due in 2 – 3 years | 208 | 1,730 |
| Due in 3 – 4 years | 208 | 1,730 |
| Due after 4 years | 1,686 | 14,028 |
| Total | ¥ 2,918 | \$ 24,276 |

10. Retirement and Severance Benefits

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

The Company and certain of its domestic consolidated subsidiaries have noncontributory defined benefit pension plans funded through trust banks and insurance companies (the “employee pension plans”).

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

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

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

The company established an employee retirement benefit trust as of 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.

10. Retirement and Severance Benefits (continued)

The following table sets forth the funded and accrued status of the retirement and severance benefit plans, and the amounts recognised in the consolidated balance sheets at 31st March, 2002 and 2003 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, |
| | 2002 | 2003 | 2003 |
| Retirement benefit obligation | ¥ (43,727) | ¥ (50,743) | \$ (422,155) |
| Plan assets at fair value | 21,973 | 28,466 | 236,821 |
| Unfunded retirement benefit obligation recognised on the balance sheets | ¥ (21,754) | ¥ (22,277) | \$ (185,334) |

Plan assets at fair value includes the employee retirement benefit trust of ¥6,161 million (\$51,256 thousand) at 31st, March, 2003.

The components of retirement benefit expenses for the years ended 31st March, 2001, 2002 and 2003 are outlined as follows:

| | <i>Millions of yen</i> | | | <i>Thousands of U.S. dollars</i> |
|---|------------------------|---------|----------|----------------------------------|
| | 31st March, | | | 31st March, |
| | 2001 | 2002 | 2003 | 2003 |
| Service cost | ¥ 3,242 | ¥ 3,467 | ¥ 3,381 | \$ 28,128 |
| Interest cost | 999 | 961 | 989 | 8,228 |
| Expected return on plan assets | (310) | (312) | (330) | (2,745) |
| Provision for net retirement benefit obligation at transition | 344 | — | — | — |
| Actuarial loss | 6,122 | 1,195 | 6,942 | 57,754 |
| Sub total | ¥ 10,397 | ¥ 5,311 | ¥ 10,982 | \$ 91,365 |
| Other | — | — | 268 | 2,229 |
| Total | ¥ 10,397 | ¥ 5,311 | ¥ 11,250 | \$ 93,594 |

Contributions to the welfare pension plan made by the time of the Company's withdrawal from the welfare pension plan are included in service cost presented above.

In addition to the above, the special contribution of ¥3,401 million was made at the time of the Company's withdrawal from the welfare pension plan at 31st March, 2002.

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

10. Retirement and Severance Benefits (continued)

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

| | 31st March, | | |
|--|-------------|------|------|
| | 2001 | 2002 | 2003 |
| Discount rate at end of the year | 2.4% | 2.3% | 2.1% |
| Expected rate of return on plan assets | 1.5% | 1.5% | 1.5% |

11. Other Long-Term Liabilities

Other long-term liabilities included an accrual for retirement benefits for directors and statutory auditors in amounts of ¥1,116 million and ¥826 million (\$6,872 thousand) at 31st March, 2002 and 2003, respectively.

12. Income Taxes

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

| | <i>Millions of yen</i> | | <i>Thousands of U.S. dollars</i> |
|-------------------------------------|------------------------|----------|----------------------------------|
| | 31st March, | | 31st March, |
| | 2002 | 2003 | 2003 |
| Deferred income tax assets: | | | |
| Employees' retirement benefits | ¥ 7,759 | ¥ 8,167 | \$ 67,945 |
| Depreciation | 3,163 | 2,368 | 19,700 |
| Accrued bonuses | 2,040 | 2,148 | 17,870 |
| Other | 2,613 | 2,324 | 19,335 |
| | 15,575 | 15,007 | 124,850 |
| Deferred income tax liabilities: | | | |
| Unrealised gain on other securities | (25,774) | (8,543) | (71,073) |
| Special tax-purpose reserve | (6,798) | (7,147) | (59,459) |
| Other | (53) | (164) | (1,364) |
| | (32,625) | (15,854) | (131,896) |
| Deferred tax liabilities, net | ¥ (17,050) | ¥ (847) | \$ (7,046) |

Income taxes applicable to the Company and its consolidated subsidiaries consist of corporation, inhabitants' and enterprise taxes which, in the aggregate, resulted in a statutory tax rate of approximately 42 per cent. for each of the years ended 31st March, 2001, 2002 and 2003. The effective tax rates reflected in the accompanying consolidated statements of income differ from the statutory tax rate primarily due to the effect of permanent nondeductible expenses; however, such difference was not material. Due to the changes in Japanese Local Tax Law and introduction of Taxation of Corporations by the Size of their Businesses, the Company's aggregate statutory tax rate will decrease effective 1st April, 2004. As a result, net deferred tax assets and liabilities, and provisions for income taxes of the Company and its consolidated subsidiaries for the year ended 31st March, 2003 decreased ¥91 million (\$757 thousand) for the related impact on the temporary differences expected to reverse after 1st April, 2004.

13. Shareholders' Equity

On 1st October, 2001, an amendment (the "Amendment") to the Commercial Code of Japan (the "Code") became effective. The Amendment eliminates the stated par value of the Company's outstanding shares, which resulted in all outstanding shares having no par value as of 1st October, 2001. The Amendment also provides that all share issuances after 30th September, 2001 will be of shares with no par value. Prior to the date on which the Amendment became effective, the Company's shares had a par value of ¥50 per share.

The Code provides that an amount equal to at least 10% of the amount to be disbursed as distributions of earnings should be appropriated to the legal reserve until the sum of the legal reserve and additional paid-in capital equals 25% of the common stock account. The Code also stipulates that, to the extent that the sum of additional paid-in capital account and the legal reserve exceed 25% of the common stock account, the amount of any such excess is available for appropriation by resolution of the shareholders. In accordance with the Code, the Company has provided a legal reserve which is included in retained earnings. This reserve amounted to ¥570 million and ¥570 million (\$4,742 thousand) as of 31st March, 2002 and 2003, respectively.

Unrealised gain on other securities is not available for dividends.

On 18th May, 2000, the Board of Directors of the Company approved a resolution for a stock split (from a par value of ¥500 to ¥50) effective 8th August, 2000, which resulted in an increase of 38,700,000 in the number of shares of common stock in issue. An amendment to the Articles of Incorporation of the Company to reflect this stock split was approved at a shareholders' meeting held on 30th June, 2000.

Unrealised gain on other securities includes unrealised losses of ¥122 million and ¥10 million (\$83 thousand) on investment partnerships recorded as other assets for the years ended 31st March, 2002 and 2003, respectively.

14. Cash and Cash Equivalents

A reconciliation between cash and bank deposits in the consolidated balance sheets at 31st March, 2002 and 2003 and cash and cash equivalents in the corresponding statements of cash flows is as follows:

| | <i>Millions of yen</i> | | <i>Thousands of U.S. dollars</i> |
|--|------------------------|-----------------|----------------------------------|
| | 31st March, | | 31st March, |
| | 2002 | 2003 | 2003 |
| Cash and bank deposits | ¥ 33,181 | ¥ 26,739 | \$ 222,454 |
| Short-term investments maturing within three months from the acquisition dates | 62,022 | 62,021 | 515,982 |
| Cash and cash equivalents | <u>¥ 95,203</u> | <u>¥ 88,760</u> | <u>\$ 738,436</u> |

14. Cash and Cash Equivalents (continued)

Components of significant non-cash transactions for the year ended 31st March, 2003 are as follows:

| | <i>Millions of yen</i> | <i>Thousands of U.S. dollars</i> |
|--|----------------------------|--------------------------------------|
| | <u>31st March, 2003</u> | <u>31st March, 2003</u> |
| Employees' retirement benefit fund trust | | |
| Contribution of investment securities into employees' retirement benefit fund trust – book value | ¥ 103 | \$ 857 |
| Gain on securities contributed to an employee retirement benefit trust | 6,736 | 56,040 |
| Contribution of investment securities into employees' retirement benefit fund trust – fair value | ¥ 6,839 | \$ 56,897 |

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. There were no such transactions for years ended March 31st, 2001 and 2002.

15. Per Share Data

The per share data are summarised as follows:

| | <i>Yen</i> | | |
|--------------------------------|-------------------------|-------------|-------------|
| | <u>31st March,</u> | | |
| | <u>2001</u> | <u>2002</u> | <u>2003</u> |
| Net income per share | ¥ 583.23 | ¥ 504.96 | ¥ 337.26 |
| | <i>Yen</i> | | |
| | <u>31st March,</u> | | |
| | <u>2002</u> | <u>2003</u> | |
| Shareholders' equity per share | ¥ 4,337.86 | ¥ 4,112.61 | |
| | <i>U.S. dollars</i> | | |
| | <u>31st March, 2003</u> | | |
| Net income per share | \$ 2.81 | | |
| Shareholders' equity per share | \$ 34.21 | | |

The computation of basic net income 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 net income per share is not presented as potential common shares have an antidilutive effect.

15. Per Share Data (continued)

The Company and its domestic consolidated subsidiaries have adopted Accounting Standards No. 2, "Accounting Standard for Earning per Share", and Financial Accounting Standards Implementation Guidance No. 4, "Implementation Guidance for Accounting Standard for Earnings per Share" which were issued by Financial Accounting Standards Foundation from the year ended 31st March, 2003, and the per share data as of and for the years ended 31st March, 2001 and 2002 were restated in accordance with new method.

The computation of net income per share for the years ended 31st March, 2001, 2002 and 2003 is as follows:

| | <i>Millions of Yen</i> | | | <i>Thousands of U.S. dollars</i> |
|--|------------------------|------------|------------|----------------------------------|
| | 31st March, | | | 31st March, |
| | 2001 | 2002 | 2003 | 2003 |
| Numerator: | | | | |
| Net income | ¥ 25,382 | ¥ 22,364 | ¥ 15,459 | \$ 128,610 |
| Income not available to common stockholders: | | | | |
| Bonus to directors and statutory auditors | (303) | (361) | (283) | (2,354) |
| Income available to common stockholders | ¥ 25,079 | ¥ 22,003 | ¥ 15,176 | \$ 126,256 |
| Denominator: | | | | |
| Weighted average shares | 43,000,000 | 43,573,749 | 44,999,900 | 44,999,900 |

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

| | <i>Yen</i> | <i>U.S. dollars</i> |
|--|------------------|---------------------|
| | 31st March, 2003 | 31st March, 2003 |
| Number of shares reserved for the purpose of new share issuance against exercise of the subscription rights (shares) * | 80,500 | 80,500 |
| Exercise price per share | ¥ 17,913 | \$ 149.03 |
| Average stock price for the period that subscription rights are outstanding | ¥ 12,059.30 | \$ 100.33 |

* The subscription rights of 805 units (80,500 shares) issued on 27th June, 2002.

16. Leases

1) Lessee

The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of the leased assets as of 31st March, 2002 and 2003, 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, | | | |
| | 2002 | 2003 | 2002 | 2003 | 2002 | 2003 |
| Machinery and equipment | ¥ 15,326 | ¥ 16,135 | ¥ 7,997 | ¥ 8,763 | ¥ 7,329 | ¥ 7,372 |
| Software | 1,045 | 1,132 | 344 | 546 | 701 | 586 |
| Total | ¥ 16,371 | ¥ 17,267 | ¥ 8,341 | ¥ 9,309 | ¥ 8,030 | ¥ 7,958 |

| | <i>Thousands of U.S. dollars</i> | | |
|-------------------------|----------------------------------|--------------------------|----------------|
| | Acquisition costs | Accumulated depreciation | Net book value |
| | 31st March, 2003 | | |
| | | | |
| Machinery and equipment | \$ 134,234 | \$ 72,904 | \$ 61,330 |
| Software | 9,418 | 4,542 | 4,876 |
| Total | \$ 143,652 | \$ 77,446 | \$ 66,206 |

Lease payments, depreciation and interest expense for these finance leases for the years ended 31st March, 2001, 2002 and 2003 are summarised as follows:

| | <i>Millions of yen</i> | | | <i>Thousands of U.S. dollars</i> |
|------------------|------------------------|---------|---------|----------------------------------|
| | 31st March, | | | 31st March, |
| | 2001 | 2002 | 2003 | 2003 |
| Lease payments | ¥ 2,899 | ¥ 3,445 | ¥ 3,757 | \$ 31,256 |
| Depreciation | 2,779 | 3,258 | 3,569 | 29,692 |
| Interest expense | 172 | 187 | 150 | 1,248 |

16. Leases (continued)

1) Lessee (continued)

Future minimum lease payments on finance leases accounted for as operating leases and noncancelable operating leases as of 31st March, 2002 and 2003 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, | |
| | 2002 | 2003 | 2002 | 2003 | 2003 | |
| Future minimum lease payments due: | | | | | | |
| Within one year | ¥ 3,678 | ¥ 3,677 | ¥ 293 | ¥ 278 | \$ 30,591 | \$ 2,313 |
| Thereafter | 5,753 | 5,342 | 532 | 413 | 44,443 | 3,436 |
| Total | <u>¥ 9,431</u> | <u>¥ 9,019</u> | <u>¥ 825</u> | <u>¥ 691</u> | <u>\$ 75,034</u> | <u>\$ 5,749</u> |

2) Lessor

The following amounts represents the acquisition costs, accumulated depreciation and net book value of the leased assets relating to finance leases accounted for as operating leases at 31st March, 2002 and 2003.

| | <i>Millions of yen</i> | | | | | |
|-------------------------|------------------------|----------------|--------------------------|----------------|----------------|------------|
| | Acquisition costs | | Accumulated depreciation | | Net book value | |
| | 31st March, | | 31st March, | | 31st March, | |
| | 2002 | 2003 | 2002 | 2003 | 2002 | 2003 |
| Machinery and equipment | ¥ 1,169 | ¥ 957 | ¥ 1,078 | ¥ 957 | ¥ 91 | ¥ – |
| Software | 142 | 63 | 131 | 63 | 11 | – |
| Total | <u>¥ 1,311</u> | <u>¥ 1,020</u> | <u>¥ 1,209</u> | <u>¥ 1,020</u> | <u>¥ 102</u> | <u>¥ –</u> |

| | <i>Thousands of U.S. dollars</i> | | |
|-------------------------|----------------------------------|--------------------------|----------------|
| | Acquisition costs | Accumulated depreciation | Net book value |
| | 31st March, 2003 | | |
| | | | |
| Machinery and equipment | \$ 7,962 | \$ 7,962 | \$ – |
| Software | 524 | 524 | – |
| Total | <u>\$ 8,486</u> | <u>\$ 8,486</u> | <u>\$ –</u> |

16. Leases (continued)

2) Lessor (continued)

Lease revenue, depreciation and interest income for these finance leases for the years ended 31st March, 2001, 2002 and 2003 are summarised as follows:

| | <i>Millions of yen</i> | | | <i>Thousands of U.S. dollars</i> |
|-----------------|------------------------|-------|-------|----------------------------------|
| | Year ended 31st March, | | | Year ended 31st March, |
| | 2001 | 2002 | 2003 | 2003 |
| Lease revenue | ¥ 765 | ¥ 501 | ¥ 131 | \$ 1,090 |
| Depreciation | 597 | 412 | 102 | 849 |
| Interest income | 143 | 55 | 10 | 83 |

Future minimum lease income for finance leases as of 31st March, 2002 and 2003 is summarised as follows:

| | <i>Millions of yen</i> | | | | <i>Thousands of U.S. dollars</i> | |
|----------------------------------|------------------------|------|-------------|---------|----------------------------------|-------------|
| | Finance leases | | Subleases* | | Finance leases | Sub-leases* |
| | 31st March, | | 31st March, | | 31st March, | |
| | 2002 | 2003 | 2002 | 2003 | 2003 | |
| Future minimum lease income due: | | | | | | |
| Within one year | ¥ 131 | ¥ – | ¥ 990 | ¥ 916 | ¥ – | \$ 7,621 |
| Thereafter | – | – | 1,867 | 1,372 | – | 11,414 |
| Total | ¥ 131 | ¥ – | ¥ 2,857 | ¥ 2,288 | ¥ – | \$ 19,035 |

* Approximately the same amount has been included in the lessees' future minimum lease payments due.

17. Selling, General and Administrative Expenses

The details of selling, general and administrative expenses for the years ended 31st March, 2001, 2002 and 2003 are summarised as follows:

| | <i>Millions of yen</i> | | | <i>Thousands of U.S. dollars</i> |
|---------------------|------------------------|----------|----------|----------------------------------|
| | 31st March, | | | 31st March, |
| | 2001 | 2002 | 2003 | 2003 |
| Personnel expenses | ¥ 13,503 | ¥ 14,818 | ¥ 15,669 | \$ 130,358 |
| Rent | 2,690 | 4,103 | 3,737 | 31,090 |
| Subcontractor costs | 5,183 | 5,136 | 5,511 | 45,849 |
| Other | 8,122 | 8,511 | 7,118 | 59,217 |
| Total | ¥ 29,498 | ¥ 32,568 | ¥ 32,035 | \$ 266,514 |

18. Research and Development Costs

Research and development costs included in selling, general and administrative expenses for the years ended 31st March, 2001, 2002 and 2003 are summarised as follows:

| <i>Millions of yen</i> | | | <i>Thousands of U.S. dollars</i> |
|------------------------|---------|---------|----------------------------------|
| 31st March, | | | 31st March, |
| 2001 | 2002 | 2003 | 2003 |
| ¥ 2,620 | ¥ 3,051 | ¥ 2,509 | \$ 20,874 |

19. Other Income (Expenses)

1) Gain on investment securities

Gain on investment securities for the year ended 31st March, 2001 consisted principally of gain on the sale of 19,955,708 shares of Kokusai Securities Co., Ltd., net of loss on the sale of 61,500 shares of Nomura Finance Co., Ltd.

2) Loss on investment securities

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

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

3) Gain on investments in affiliates

Gain on investments in affiliates for the years ended 31st March, 2001, 2002 and 2003 is summarised as follows:

| | <i>Millions of yen</i> | | | <i>Thousands of U.S. dollars</i> |
|--|------------------------|------|-------|----------------------------------|
| | 31st March, | | | 31st March, |
| | 2001 | 2002 | 2003 | 2003 |
| Gain on sales of investments in affiliates | ¥ — | ¥ — | ¥ 137 | \$ 1,140 |
| Gain from changes in equity | — | — | 405 | 3,369 |
| | ¥ — | ¥ — | ¥ 542 | \$ 4,509 |

Gain on sales of investments in affiliates for the year ended 31st March, 2003 relates to the sale of 1,890 shares of NIWS Co.

Gain from changes in equity for the year ended 31st March, 2003 reflects a gain of ¥545 million (\$4,534 thousand) from changes in equity of NIWS Co. due to a public offering and a loss of ¥140 million (\$1,165 thousand) from changes in equity of NIWS Co. due to its purchase of treasury stock.

19. Other Income (Expenses) (continued)

4) Actuarial loss

Actuarial loss for the years ended 31st March 2001, 2002 and 2003 arose primarily as a result of a change in the discount rate and other basic assumption, and lower actual return on pension plan assets.

5) Reversal of allowance for the welfare pension plan

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

6) 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.

20. Related Party Transactions

Related party transactions for the years ended 31st March, 2001, 2002 and 2003 and the respective balances at 31st March, 2002 and 2003 were as follows:

1) Transactions

| Related party | Nature of transaction | Millions of yen | | | Thousands of U.S. dollars |
|---|---|-----------------|----------|----------|---------------------------|
| | | 31st March, | | | 31st March, |
| | | 2001 | 2002 | 2003 | 2003 |
| a) Major shareholders | | | | | |
| Nomura Holdings, Inc. | Sales | ¥ 46,421 | ¥ 48,967 | ¥ 48,690 | \$ 405,075 |
| (formerly The Nomura Securities Co., Ltd.) *1 | Redemption of deposit | — | — | 4,000 | 33,278 |
| | Sale of investment in Nomura-CITIC International Economic Consultants Co., Ltd. | — | — | 45 | 374 |
| | Gain on above sale | — | — | 41 | 341 |
| b) Consolidated subsidiary | | | | | |
| NRI Shared Service Co., Ltd. | Sale of land and buildings | 4,119 | — | — | — |
| | Gain on above sale * | 53 | — | — | — |
| | Loss on above sale | 4,516 | — | — | — |
| | * This gain has been eliminated in the process of consolidation. | | | | |
| c) Major shareholders' subsidiaries | | | | | |
| Nomura Real Estate Development Co., Ltd. | Rent | 3,703 | 3,865 | 3,777 | 31,423 |
| N.F. Biru Investments Co., Ltd. *2 | Redemption of bond | — | — | 7,000 | 58,236 |
| | Interest received | 202 | 201 | 269 | 2,238 |
| The Nomura Securities Co., Ltd. *1 *3 | Subscription received for new stocks | — | 20,900 | — | — |
| | Underwriting commission of new stocks | — | (1,100) | — | — |
| Nomura Financial Resources Corporation | Loan | — | 20,000 | — | — |
| | Interest received on loan | — | 2 | — | — |

20. Related Party Transactions (continued)

2) Balances

| Related party | Nature of transaction | Millions of yen | | Thousands of U.S. dollars | |
|---|-------------------------------|-----------------|---------|---------------------------|--|
| | | 31st March, | | 31st March, | |
| | | 2002 | 2003 | 2003 | |
| a) Major shareholders | | | | | |
| Nomura Holdings, Inc. | Accounts receivable and other | | | | |
| (formerly The Nomura Securities Co., Ltd.) *1 | receivables | ¥ 5,768 | ¥ 6,997 | \$ 58,211 | |
| | Lease deposits received | 4,000 | — | — | |
| b) Major shareholders' subsidiaries | | | | | |
| Nomura Real Estate Development Co., Ltd. | Lease deposits paid | 3,543 | 3,543 | 29,476 | |
| N.F. Biru Investments Co., Ltd. | Investment securities (bonds) | 7,000 | — | — | |

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

Transactions with Nomura Holdings, Inc. and the current Nomura Securities Co., Ltd. were equal to those with the former Nomura Securities. Sales to Nomura Holdings, Inc. and the current Nomura Securities Co., Ltd. totaled ¥50,752 million and the corresponding accounts receivable amounted to ¥5,879 million as of 31st March, 2002.

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

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

21. Contingent Liabilities

The Company guaranteed unsecured bonds issued by South Plaza Co. in amounts of ¥10,728 million and ¥10,464 million (\$87,055 thousand) at 31st March, 2002 and 2003, respectively. In March 1999, the Company entered into a trust agreement (effective from 30th March, 1999 to 22nd March, 2004) for real estate management and disposal, and contributed land and buildings which had been used as its Osaka Data Center to the trust in exchange for a beneficial interest in this trust, for which Daiwa Bank was engaged as custodian. The Daiwa Bank has the option of selling the real estate to one of the Company's domestic subsidiaries if the price of the real estate declined below a specific level. The Company then sold this beneficial interest to South Plaza Co., which is a domestic special purpose company. South Plaza Co. issued unsecured bonds as a means of securitisation and the Company guaranteed these bonds. Cash flows generated by the real estate assets in the trust are being utilised for the future repayment of the principal of the bonds and payment of interest on the bonds.

22. Stock Option Plan

The Company issued subscription rights to purchase new shares in accordance with regulation under article 280-20 and 280-21 of Japanese Commercial Code. Following is the status of the subscription rights at 31st March, 2003. No subsequent changes in the status of the subscription rights occurred through 31st May, 2003.

805 Units of subscription rights to purchase new shares were issued and 80,500 ordinary shares are reserved for exercise of the subscription rights. The Exercise price is 17,913 yen (\$149.03) 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 yen (\$149.03) and 8,957 yen (\$74.52), respectively.

The terms of the subscription rights require that person be a Director or an Officer of the Company or one of its domestic subsidiaries, or be in an equal position, at the time of exercise. An eligible person or his inheritor can exercise a subscription right under certain other circumstances, such as death, expiration of term, etc. Transfer or pledge of the subscription right, or similar actions, are prohibited. The ordinary transaction closing prices on the Tokyo Stock Exchange for the last five consecutive days prior to the exercise date must be 20,000 yen (\$166.39) or more per share for the subscription rights to be exercised by the holder of the subscription rights. Other terms and condition are defined in the subscription rights agreement for new shares appointment entered into the Company and the holder of the subscription rights.

23. Segment Information

Business segment information is presented under two categories:

- the system solution services business, which includes developing and managing computer systems, selling software packages and selling computer equipment and related products.
- the consulting and knowledge services business, which includes providing investigation/research services, management consulting services and support services relating to the asset management business and the Company's e-commerce information technology business.

23. Segment Information (continued)

The business segment information of the Company and its consolidated subsidiaries for the years ended 31st March, 2001, 2002 and 2003 is summarised as follows:

Business segments

| Millions of yen | | | | | |
|--|---------------------------------|--------------------------------------|-----------|----------------------------------|-------------------|
| Year ended 31st March, 2001 | | | | | |
| | System solutions services | Consulting/ knowledge services | Total | Eliminations and corporate | Consoli- dated |
| I. Sales and operating profit | | | | | |
| Sales to external customers | ¥ 185,351 | ¥ 32,633 | ¥ 217,984 | ¥ – | ¥ 217,984 |
| Intersegment sales or transfers | 2,489 | 1,620 | 4,109 | (4,109) | – |
| Total sales | 187,840 | 34,253 | 222,093 | (4,109) | 217,984 |
| Operating expenses | 160,979 | 33,264 | 194,243 | (4,102) | 190,141 |
| Operating profit | ¥ 26,861 | ¥ 989 | ¥ 27,850 | ¥ (7) | ¥ 27,843 |
| II. Total assets, depreciation and amortisation and capital expenditures | | | | | |
| Total assets | ¥ 85,839 | ¥ 23,435 | ¥ 109,274 | ¥ 179,830 | ¥ 289,104 |
| Depreciation and amortisation | 10,357 | 3,303 | 13,660 | – | 13,660 |
| Capital expenditures | 13,943 | 3,447 | 17,390 | – | 17,390 |
| Millions of yen | | | | | |
| Year ended 31st March, 2002 | | | | | |
| | System solutions services | Consulting/ knowledge services | Total | Eliminations and corporate | Consoli- dated |
| I. Sales and operating profit | | | | | |
| Sales to external customers | ¥ 199,758 | ¥ 36,811 | ¥ 236,569 | ¥ – | ¥ 236,569 |
| Intersegment sales or transfers | 2,758 | 1,567 | 4,325 | (4,325) | – |
| Total sales | 202,516 | 38,378 | 240,894 | (4,325) | 236,569 |
| Operating expenses | 174,981 | 35,541 | 210,522 | (4,318) | 206,204 |
| Operating profit | ¥ 27,535 | ¥ 2,837 | ¥ 30,372 | ¥ (7) | ¥ 30,365 |
| II. Total assets, depreciation and amortisation and capital expenditures | | | | | |
| Total assets | ¥ 106,019 | ¥ 22,944 | ¥ 128,963 | ¥ 170,930 | ¥ 299,893 |
| Depreciation and amortisation | 9,043 | 3,377 | 12,420 | – | 12,420 |
| Capital expenditures | 19,271 | 3,456 | 22,727 | – | 22,727 |
| Millions of yen | | | | | |
| Year ended 31st March, 2003 | | | | | |
| | System solutions services | Consulting/ knowledge services | Total | Eliminations and corporate | Consoli- dated |
| 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 |

23. Segment Information (continued)

Corporate assets included under "Eliminations and corporate" at 31st March, 2001, 2002 and 2003 amounted to ¥180,809 million, ¥171,356 million and ¥122,817 million (\$1,021,772 thousand), respectively, and consisted principally of surplus funds and investment securities.

| <i>Thousands of U.S. dollars</i> | | | | | |
|--|---------------------------------|--------------------------------------|--------------|----------------------------------|-------------------|
| Year ended 31st March, 2003 | | | | | |
| | System solutions services | Consulting/ knowledge services | Total | Eliminations and corporate | Consoli- dated |
| I. Sales and operating profit | | | | | |
| Sales to external customers | \$ 1,617,878 | \$ 318,428 | \$ 1,936,306 | \$ — | \$ 1,936,306 |
| Intersegment sales or transfers | 28,894 | 14,534 | 43,428 | (43,428) | — |
| Total sales | 1,646,772 | 332,962 | 1,979,734 | (43,428) | 1,936,306 |
| Operating expenses | 1,450,058 | 303,561 | 1,753,619 | (43,303) | 1,710,316 |
| Operating profit | \$ 196,714 | \$ 29,401 | \$ 226,115 | \$ (125) | \$ 225,990 |
| II. Total assets, depreciation and amortisation and capital expenditures | | | | | |
| Total assets | \$ 923,136 | \$ 198,170 | \$ 1,121,306 | \$ 1,015,117 | \$ 2,136,423 |
| Depreciation and amortisation | 83,586 | 26,597 | 110,183 | — | 110,183 |
| Capital expenditures | 147,205 | 23,119 | 170,324 | (141) | 170,183 |

Geographical segments

Because sales in the domestic segment constituted more than 90% of total segment sales for the years ended 31st March, 2001, 2002 and 2003, 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, 2001, 2002 and 2003, no disclosure of overseas sales has been made.

24. Subsequent Event

- On 24th June, 2003, a stock option plan in accordance with the Commercial Code of Japan was approved at the annual general meeting of the Company's shareholders. Under this plan, 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 and officers and the directors of its domestic subsidiaries subject to the approval of the Board of Directors. 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 three-year period from 1st July, 2005 to 30th June, 2008 provided that the directors, as of the exercise date, remain in their positions with the Company and its domestic subsidiaries.

Approval of the Board of Directors is necessary in order to transfer ownership of the subscription rights.

24. Subsequent Event (continued)

- 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, 2003, were approved at a meeting of the shareholders held on 24th June, 2003:

| | <i>Millions of yen</i> | <i>Thousands of U.S. dollars</i> |
|---|------------------------|--------------------------------------|
| Year-end cash dividends (¥20.00 = \$0.17 per share) | ¥ 900 | \$ 7,488 |
| Directors' bonuses inclusive of statutory auditors' portion of ¥22 million (\$183 thousand) | 188 | 1,564 |

Report of Independent Certified Public Accountants

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

We have audited the accompanying consolidated balance sheets of Nomura Research Institute, Ltd. and its consolidated subsidiaries as of 31st March, 2002 and 2003, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended 31st March, 2003, all expressed in Japanese yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis and 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, 2002 and 2003, and the consolidated results of their operations and their cash flows for each of the three years in the period ended 31st March, 2003 in conformity with accounting principles and practices generally accepted in Japan.

As described in Note 1, Nomura Research Institute, Ltd. and its consolidated subsidiaries adopted new accounting standards for financial instruments and employees' retirement benefits in the preparation of their consolidated financial statements for the year ended 31st March, 2001.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended 31st March, 2003 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.



24th June, 2003

See Note 1 which explains the basis of preparation of the consolidated financial statements of Nomura Research Institute, Ltd. under Japanese accounting principles and practices.

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 does not require any review for impairment of such assets.

U.S. GAAP requires review for impairment of long-lived assets and certain identifiable intangibles to be held and used wherever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If the expected future cash flows are less than the carrying amount of such an asset, an impairment loss is recognized.

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, if subscription rights have no intrinsic value at the date of issuance, no expense for the issuance of share subscription rights is recognized.

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

6. Interest Rate Swap

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

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

7. Bonuses to Directors and Statutory Auditors

Under Japanese GAAP, bonuses to directors are accounted for as an appropriation of retained earnings and are recorded after approval by the shareholders.

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

8. Revenue Recognition

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

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

9. Guarantor's Accounting for Guarantees

Under Japanese GAAP, a guarantor does not recognize a liability for a guarantee in its statement of financial position unless it is probable that payments will be required under that guarantee. Under U.S. GAAP, at the inception of a guarantee, the guarantor recognizes a liability in its statement of financial position for the fair value of all guarantees issued or modified after 31st December, 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, 2003, the Company had 16 subsidiaries, all of which were consolidated subsidiaries.

At the same date, the Company had three 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, 2003.

| Name | Country | Main Business | Issued Capital (thousands) | Equity held by the Company (percent) |
|--|---------|--|----------------------------------|---|
| 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 SecureTechnologies, Ltd. | Japan | Network security services | ¥450,000 | 100.0 |
| NRI Shared Services, Ltd. | Japan | Office and real estate management | ¥450,000 | 100.0 |
| NRI Cyber Patent, Ltd. | Japan | Provide patent and other intellectual property information to subscribers | ¥300,000 | 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 |
| Nomura Research Institute Europe Limited | England | Research and development and operation of information management systems in Europe | £1,350 | 100.0 |
| Nomura Research Institute Beijing Limited | China | Development and operation of information management systems in China | U.S.\$3,000 | 100.0 |
| Nomura Research Institute Shanghai Limited | China | Consulting in China | U.S.\$1,500 | 100.0 |

| Name | Country | Main Business | Issued Capital (thousands) | Equity held by the Company (percent) |
|--|-----------|--|-------------------------------|---|
| Subsidiaries (continued) | | | | |
| 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 | | | | |
| Nippon Clearing Services Co., Ltd. | Japan | Back-office services for mid-tier securities companies | ¥300,000 | 40.0 |
| NIWS Co., Ltd. | Japan | Software development and sales | ¥1,596,500 | 26.0 |
| Nomura Funds Research and Technologies Co., Ltd. | Japan | Management of fund-of-funds, valuation of funds, pension consulting | ¥400,000 | 49.0 |

MAJOR SHAREHOLDERS

| Shareholders | Number of Shares Owned (thousands) | Percentage of Shares Outstanding |
|---|---------------------------------------|-------------------------------------|
| Nomura Land and Building Co., Ltd. | 13,520 | 30.04 |
| Nomura Asset Management Co., Ltd. * | 8,677 | 19.28 |
| JAFCO Co., Ltd. | 3,880 | 8.62 |
| Nomura Holdings, Inc. ** | 2,600 | 5.78 |
| The Master Trust Bank of Japan, Ltd.(Trust Account) | 1,909 | 4.24 |
| Japan Trustee Services Bank, Ltd. (Trust Account) | 1,785 | 3.97 |
| NRI Group Employee Stock Ownership Association | 884 | 1.96 |
| WORLD NICHIEI Securities Co., Ltd. | 818 | 1.82 |
| UFJ Trust Bank Limited (Trust Account-A) | 552 | 1.23 |
| TAKAGI SECURITIES CO., LTD. | 550 | 1.22 |

* Nomura Asset Management Co., Ltd. has lent all of its holding equity securities to Nomura Securities Co., Ltd. based on a securities lending agreement (that permits borrower to sell those securities.).

** Nomura Holdings, Inc. has lent all of its holding equity securities to Nomura Securities Co., Ltd. based on a securities lending agreement (that permits borrower to sell those securities.). Nominee of those securities are Nomura Securities Co., Ltd.

Directors and corporate auditors



Shozo Hashimoto
Chairman and Director



Kiyochika Ohta
Vice Chairman and Director



Hironobu Goto
Vice Chairman and Director



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



Takashi Yakabe
Director
Corporate Senior Vice President



Hisashi Imai
Director
Corporate Senior Vice President



Takayoshi Kurinomaru
Director
Corporate Senior Vice President



Jun Umeda
Director
Corporate Senior Vice President



Hisao Kayo
Director
Corporate Senior Vice President



Takao Shiino
Director
Corporate Senior Vice President



Masahiro Muroi
Director
Corporate Senior Vice President



Mamoru Suenaga
Director
Corporate Senior Vice President



Kunio Takeda
Director*¹



Osamu Takahashi
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 Senior Vice President:
Toshiyuki Koyama

Corporate Vice President:
Shin Takeuchi
Jun Suzuki
Yoshitaka Sugiyama
Tadashi Shimamoto
Mitsuru Sawada
Akira Yasuoka
Masaki Tochizawa

Nobuo Murakami
Koji Yamada
Yoshiaki Ogawa
Toshinobu Ukawa
Sawaaki Yamada
Shigenori Nagata
Yoshihito Mitsugi

Shiro Tanikawa
Keiichi Ishibashi
Kouichi Miyauchi
Shin Kusunoki

Notes:

1. An outside director appointed in accordance with Paragraph 2, Subsection 7, Section 2, Article 188 of the Commercial Code.
2. An outside statutory auditor 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.

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Kiba Center
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Koto-ku, Tokyo 135-0042, Japan
Tel. 03-5255-1800

Yokohama Center
134 Godocho, Hodogaya-ku,
Yokohama 240-8511, Japan
Tel. 045-333-8100

Osaka Center
Aqua Dojima West Tower, 1-4-16 Dojimahama,
Kita-ku, Osaka 530-0004, Japan
Tel. 06-4797-2700

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, RCB Plaza
6819 Ayala cor Sen. Gil J. Puyat Avenues,
1200 Makati City, Philippines
Tel. +63(2)757-1946

NRI Data Services, Ltd.

129-6 Godocho, Hodogaya-ku,
Yokohama 240-8513, Japan
Tel. 045-336-1000
<http://www.nridata.co.jp>

NRI Network Communications, Ltd.

Aqua Dojima West Tower, 1-4-16 Dojimahama,
Kita-ku, Osaka 530-0004, Japan
Tel. 06-4797-2800
<http://www.nri-net.com>

NRI Learning Network, Ltd.

Otemachi Building, 1-6-1 Otemachi,
Chiyoda-ku, Tokyo 100-0004, Japan
Tel. 03-3282-1311
<http://learningnet.nri.co.jp>

NRI Secure Technologies, Ltd.

Otemachi Building, 1-6-1 Otemachi,
Chiyoda-ku, Tokyo 100-0004, Japan
Tel. 03-5220-2022
<http://www.nri-secure.co.jp>

NRI Shared Services, Ltd.

134 Godocho, Hodogaya-ku,
Yokohama 240-0005, Japan
Tel. 045-336-8600

NRI Cyber Patent, Ltd.

Otemachi Building, 1-6-1 Otemachi,
Chiyoda-ku, Tokyo 100-0004, Japan
Tel. 03-5208-1011
<http://www.patent.ne.jp>

NRI Webrandia, Ltd.

Nippon Building, 2-6-2 Otemachi,
Chiyoda-ku, Tokyo 100-0004, Japan
Tel. 03-5201-2800
<http://webrandia.nri.co.jp>

NRI Holding America Inc.

Nomura Research Institute America, Inc.
40 Wall St. 34th Fl.
New York, NY 10005, U.S.A.
Tel. +1(212)607-2900

Washington Office

The Homer Bldg. 601 13th St. N.W. #320
South Washington, D.C.
20005-3807, U.S.A.
Tel. +1(202)783-6013

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) Limited

6F, Raycom Infotech Park Tower A,
2 Kexueyuan-Nanlu, Haidian District,
Beijing, 100080, China
Tel. +86(10)8286-1555

Nomura Research Institute Shanghai Limited

Room601, Kerry Center,
No.1515 Nan Jing Road West,
Shanghai 200040, China
Tel. +86(21)5298-6700

Nomura Research Institute Hong Kong Limited

20th Fl. Citibank Tower
3 Garden Rd.
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 Data (as of 31st March, 2003)

Corporate outline

| |
|---|
| Name |
| Nomura Research Institute, Ltd. |
| Head office address |
| Shin-Otemachi Building, 2-2-1 Otemachi, Chiyoda-ku, Tokyo 100-0004, Japan |
| 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 |
| 3,279 (4,619 in the entire NRI Group) |

Professionals

| | |
|---|-----|
| Information technology engineers | |
| Systems auditors | 109 |
| Systems analysts | 122 |
| Project managers | 132 |
| Application engineers | 429 |
| Network systems engineers | 333 |
| Database systems engineers | 122 |
| Systems management engineers | 57 |
| Senior systems administrators | 28 |
| Securities analysts | 144 |

Top ten shareholders

| Shareholders | Number of shares held (thousands) | Shareholding rate (%) |
|--|-----------------------------------|-----------------------|
| Nomura Land and Building Co., Ltd. | 13,520 | 30.04 |
| Nomura Asset Management Co., Ltd. * ¹ | 8,677 | 19.28 |
| JAFCO Co., Ltd. | 3,880 | 8.62 |
| Nomura Holdings, Inc. * ² | 2,600 | 5.78 |
| The Master Trust Bank of Japan, Ltd. (Trust Account) | 1,909 | 4.24 |
| Japan Trustee Services Bank, Ltd. (Trust Account) | 1,785 | 3.97 |
| NRI Group employee Stock Ownership Association | 884 | 1.96 |
| World Nichiei Securities Co., Ltd. | 818 | 1.82 |
| UFJ Trust Bank Limited (Trust Account-A) | 552 | 1.23 |
| Takagi Securities Co., Ltd. | 550 | 1.22 |

Notes: 1. Nomura Asset Management Co., Ltd. has lent all of its holding equity securities to Nomura Securities Co., Ltd. based on a securities lending agreement (that permits borrower to sell those securities).
2. Nomura Holdings, Inc. has lent all of its holding equity securities to Nomura Securities Co., Ltd. based on a securities lending agreement (that permits borrower to sell those securities). Nominee of those securities are Nomura Securities Co., Ltd.

Notes:

* This annual report was prepared for the purpose of presenting information on NRI's fiscal 2002 (ended 31st March, 2003) result and its strategy for the future, not of attracting investment in the securities issued by NRI or making some type of guarantee or pledge. The opinions and forecasts contained herein represent NRI's estimates at the time of the report's preparation; NRI does not make any guarantee or pledge about the accuracy or completeness of this information, which is also subject to future change without notice.

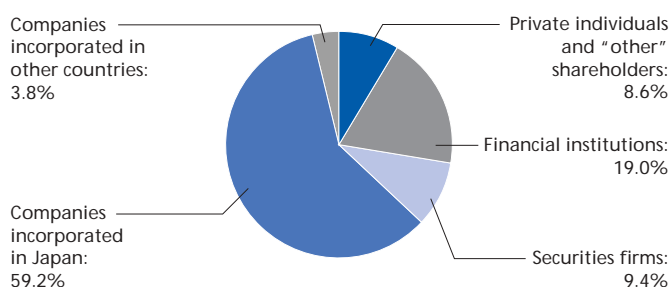
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* In some cases, the names of products are trademarks.

Stock data

| | |
|-------------------------------|-------------|
| Total number of shares | 150,000,000 |
| Total number of shares issued | 45,000,000 |
| Number of shareholders | 15,164 |

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: 03-5683-5111

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

Nippon Keizai Shinbun (Japan Economic Journal)

Settlement notices are posted on our website: <http://www.nri.co.jp/>

Inquiries

IR Unit, Finance Department
Nomura Research Institute, Ltd.

TEL: (03) 5255-0442

FAX: (03) 5255-1992

E-mail: ir@nri.co.jp



Nomura Research Institute, Ltd.

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