

Financial Section

Consolidated Financial Five-Year Summary

For the years ended 31st March

	2000.3	2001.3	2002.3	2003.3	Millions of yen 2004.3
For the year:					
Net sales	183,616	217,984	236,569	232,743	238,067
Consulting and Knowledge Services	28,415	32,633	36,811	38,274	43,022
System Solution Services	155,201	185,351	199,757	194,469	195,045
Cost of sales	138,395	160,643	173,636	173,545	178,096
Operating profit	19,315	27,842	30,364	27,164	28,022
Income before income taxes	9,590	43,629	39,009	27,177	32,927
Net income	5,130	25,381	22,363	15,459	18,269
Orders received	194,593	233,167	241,038	235,874	242,647
Consulting and Knowledge Services	29,273	35,658	37,409	40,768	40,526
System Solution Services	165,320	197,508	203,628	195,105	202,121
Capital expenditures	19,301	17,390	22,727	20,456	24,244
Research and Development costs	2,453	2,620	3,051	2,508	2,216
Depreciation and amortisation	13,005	13,659	12,419	13,244	17,750
At year-end:					
Total assets	168,274	289,104	299,892	256,798	326,799
Shareholders' equity	91,837	165,171	195,564	185,350	229,331
Order backlog	81,966	96,974	101,218	104,074	108,548
Consulting and Knowledge Services	12,453	15,335	15,860	18,220	15,723
System Solution Services	69,513	81,638	85,357	85,854	92,825
yen					
Per share:					
Net income (EPS)	114	583	504	337	399
Shareholders' equity	2,130	3,834	4,337	4,112	5,089
Cash dividend	5	5	20	20	40
Other information:					
Operating profit margin (%)	10.5	12.8	12.8	11.7	11.8
Return on sales (%)	2.8	11.6	9.5	6.6	7.7
Return on equity (%)	5.9	19.8	12.4	8.1	8.8
Equity ratio (%)	54.6	57.1	65.2	72.2	70.2

Notes: 1. Per Share information has been recalculated retroactively to the prior years.

2. The amounts recorded are rounded down to the nearest one million yen.

Business Climate

With real GDP for the October to December 2003 term showing unprecedented growth for the first time in 13 and a half years, the Japanese economy during this fiscal 2003, ended 31st March, 2004 showed it was headed for a recovery. The prospects are high that this gradual recovery will continue, led by companies. Moreover, even if the economy turns bearish in the short-term, no drastic downturn is expected while exports and investments in plants and equipment remain steady. A slowdown in the growth rate reflecting the sluggish growth of the world economy, if anything, should have the effect of reinforcing the stability and durability of the recovery.

In the information service industry, certain segments have shown promising signs of recovery. However, due to the prevailing bearish tendency, a full recovery is expected to take a little more time. Our corporate clients have also shown a definite trend of investing in information systems only if they can realize benefits from the investment.

In this business climate, we at the NRI Group (the Company and its consolidated subsidiaries) are continually striving to strengthen our business foundation. For cross-departmental projects and new large-scale projects, we have set up a company-wide structure for devising operating strategies and for allowing operation promotion/support to be performed more easily. To strengthen our insurance systems business, we established in November 2003 Insurance System & Technology, Ltd. (InsTechno), a 100%-owned subsidiary that designs and develops information systems for insurance companies. On the other hand, since we sold our stake in NIWS Co., Ltd., it is no longer an affiliate of the NRI Group.

Business Results

Fiscal 2003 saw both income and profits rise with sales of 238.0 billion yen (up 2.3% from the previous year), operating profit of 28.0 billion yen (up 3.2%), ordinary profit of 29.2 billion yen (up 6.0%), and net income of 18.2 billion yen (up 18.2%). In connection with the securitization of real estate, there was an extraordinary loss of 1.1 billion yen from the exercise of the option to sell the land formerly occupied by the Osaka Data Center. On the other hand, there was an extraordinary profit of 3.7 billion yen primarily from the sales of the NIWS Co., Ltd. shares. Moreover, the order backlog for fiscal year 2003 reached 108.5 billion yen (up 4.3%).

Sales by sector

The drop in sales to major securities companies, as well as the completion of large development orders received in the first half of the year, including those for the mergers of securities companies, contributed to the overall sluggish sales to the financial services sector, while sales to the distribution industry generally increased. In addition, major product sales projects and new large-scale development projects for private-sector firms helped maintain steady growth, while large-scale consulting accounts for the central and regional governments further boosted sales.

Costs

We, at NRI, have been vigorously cutting costs, especially in system development, by such measures as tightening project control. However for fiscal 2003, the start of new services raised depreciation costs significantly, resulting in an overall increase in fixed expenses. As for selling, general and administrative expenses, we have been able to keep fiscal 2003 amounts to the same level as fiscal 2002, owing to the company-wide effort to improve operational efficiency and cut costs in spite of higher sales expenses from the fortification of our operating activities.

Business Results by Segment

Consulting and Knowledge Services

In the public sector, we conducted *Survey and research concerning constituent technology for platforms for support of corporate partnerships and business launch through IT* for the Ministry of Public Management, Home Affairs, Posts and Telecommunications. We also actively participated in plans to construct an e-government. In the private sector, we successfully undertook projects involving devising corporate growth strategies, supporting management reforms, including developing management strategies, plans, and visions, and pursuing structural reforms, such as the split-up of companies and mergers and reforms of the personnel system and organization. We have been particularly active in our consulting service for corporate restructuring. Our specialized team assesses corporate value, draws up corporate restructuring plans and supports their execution and suggests various finance schemes. Increased use of investment information services owing to the resumption of active trading on the stock market and a heightened awareness for information security have both helped boost the network security business.

As a result, the Consulting and Knowledge Services segment recorded sales (sales to external customers) of 43 billion yen (up 12.4% from the previous year). And reflecting the above-mentioned large-scale projects and the mergers of a number of corporate clients, operating profit rose dramatically to 5.7 billion yen (up 62.1%), while the order backlog fell to 15.7 billion yen (down 13.7%) due to the completion of the above projects.

System Solution Services

In the financial services industry, business has been brisk in system management and operation services due to the full-scale launch of STAR-IV services and outsourcing services for Aioi Insurance Co., Ltd. We were also involved in many major projects, such as the introduction of a next-generation securities system, THE STAR, development of banking information systems for non-banking clients who entered the field, development of a front system, and reconstruction of a basic platform for E*Trade Securities. As for E*Trade Securities, in addition to our current system development and fund management services, we have also started a full outsourcing system service for their new on-line trading system. Moreover, we are pioneering new services, such as our agreement with UFJ Bank Limited to provide government bond back office services. Nevertheless, these new projects only served to compensate for the drop in sales to major securities companies and the sales decrease due to the completion of major projects for corporate mergers in the first half of the fiscal year. Consequently, overall financial services industry sales remained stagnant.

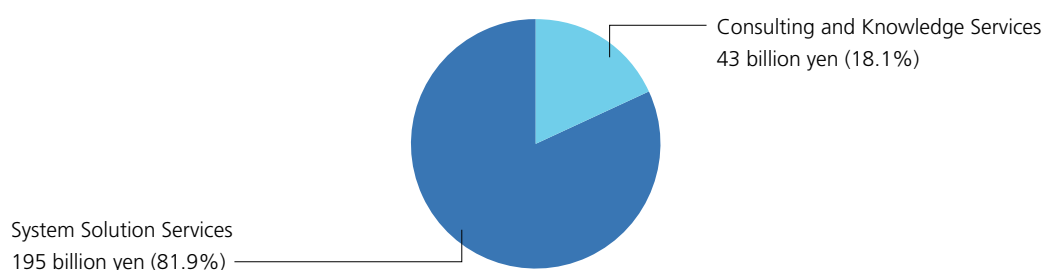
Sales to the distribution sector, on the other hand, fared better on the whole, as we undertook large projects for wholesalers and general merchandise stores and managed to increase sales to major retailers in system development and application and system management and operation services. We also developed MASTRETAIL/SM, a basic merchandising system for retailers, in order to widen our client base in the retailing industry.

We also made a concerted effort to cut costs by fortifying project management in system development and system application and by outsourcing development projects to China. However, we were unable to compensate for the drop in system development sales. Depreciation and amortisation also rose significantly in system management and operation services due to the switch to the STAR-IV system. Although product sales remained strong, profitability on the whole fell, reflecting the current low-pricing trend. Therefore, for the purpose of strengthening ties with system development subcontractors, which were until now exclusively domestic, we signed ePartner contracts with two Chinese companies. We intend to continue efforts to bring subcontracting costs to reasonable levels, both by improving domestic productivity and by outsourcing to China.

As for results, the System Solution Services segment recorded sales (sales to external customers) of 195 billion yen (up 0.3% from the previous year) and operating profit of 22.2 billion yen (down 5.7%). System Solution Services sales can be broken down to system development & system application sales of 78.3 billion yen (down 5.7%), system management & operation of 93.5 billion yen (up 3.6%), and product sales of 23.2 billion (up 9.5%).

The system development & system application order backlog was 13.4 billion yen (up 118.6%) while that of system management & operations was 79.3 billion yen (down 0.4%), bringing the total order backlog for System Solution Services to 92.8 billion yen (up 8.1%).

Sales for FY 2003: 238 billion yen



Segment by type of business	Amount	(Billions of yen) Component ratio (%)
Consulting and Knowledge Services	43.0	18.1
System Solution Services	195.0	81.9
System development & system application sales	78.3	32.9
System management & operations	93.5	39.3
Product sales	23.2	9.7
Total	238.0	100.0

Notes: 1. Figures indicate sales to outside clients, excluding internal sales or transfer between service segments.

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

Trend of sales and operating profit

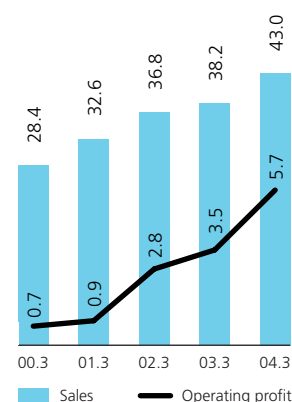
Consulting and Knowledge Services

	(Billions of yen)				
	2000.3	2001.3	2002.3	2003.3	2004.3
Sales	28.4	32.6	36.8	38.2	43.0
Operating profit	0.7	0.9	2.8	3.5	5.7

Notes: 1. Sales figures indicate sales to external customers, excluding intersegment sales or transfers between service segments.
2. Amounts of less than 100 million yen were rounded down. Figures do not include consumption tax and other items.

Consulting and Knowledge Services

(billions of yen)



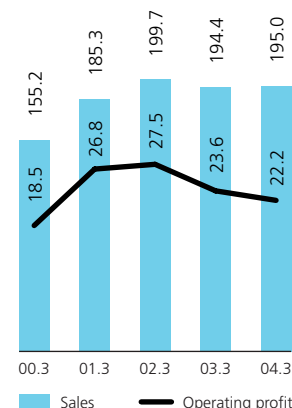
System Solution Services

	(Billions of yen)				
	2000.3	2001.3	2002.3	2003.3	2004.3
Sales	155.2	185.3	199.7	194.4	195.0
Operating profit	18.5	26.8	27.5	23.6	22.2

Notes: 1. Sales figures indicate sales to external customers, excluding intersegment sales or transfers between service segments.
2. Amounts of less than 100 million yen were rounded down. Figures do not include consumption tax and other items.

System Solution Services

(billions of yen)



Cash Flow

Fiscal 2003 cash flows from operating activities was 29.3 billion yen, while cash flows from investing and financing activities produced deficits of 19.1 billion yen and 1.5 billion yen, respectively. As a result, cash and cash equivalents at the end of the year increased by 8.0 billion yen from the previous year-end to 96.8 billion yen.

Cash flows from operating activities

Reflecting the fiscal year's strong results, income before income taxes rose 5.7 billion yen to 32.9 billion yen (up 21.2% from the previous year). Furthermore, due to the increase in depreciation and amortisation, mainly for our software assets, depreciation and amortisation rose by 4.5 billion yen to a total of 17.7 billion yen. Consequently, net cash provided by operating activities amounted to 29.3 billion yen (up 100.6%).

Cash flows from investing activities

Although expenditure to acquire tangible fixed assets is on a declining trend, for this year, cash used to acquire assets such as the Osaka Data Center hit a high of 12.6 billion yen (a 167.2% increase from the previous year). Expenditure to acquire intangible fixed assets was amounted to 11.3 billion yen (down 29.7%), due to the development of multi-user systems for securities companies having run its course, among other factors. For the express purpose of strengthening system operations for insurance companies, we received a transfer of business from STS Co., Ltd. Additionally, sales of affiliated companies' shares and investment securities boosted cash flow by 5.9 billion yen. Moreover, with the abolition of the employee housing loan system due to the revamping of the personnel structure and the ensuing lump-sum repayment of the loans from the employees, coupled with the repurchase of employee housing loans from the transferee, we recovered 7.9 billion yen in employee long-term housing loans, but used 8.3 billion yen to repurchase these loans. Consequently, net cash used in investing activities increased 0.8% (from the previous year) to 19.1 billion yen.

Cash flows from financing activities

As for financing activities, we made dividend payments of 0.8 billion yen and repayments of 0.6 billion yen on long-term debt. As a result, net cash used in financing activities increased 0.3% (from the previous year) to 1.5 billion yen.

Production and Orders

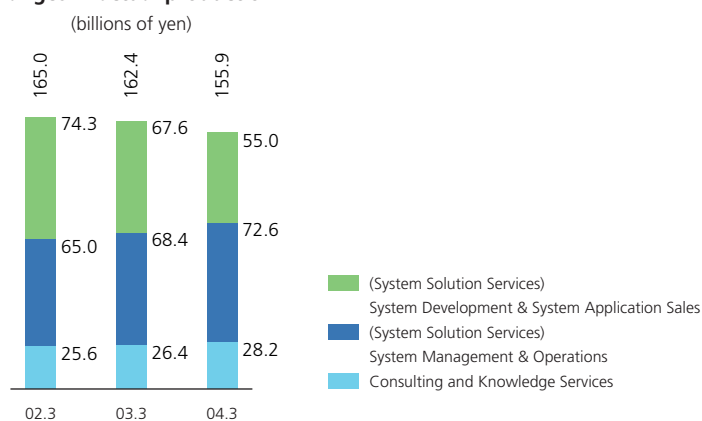
Actual production

Segment by type of business	2002.3	2003.3	2004.3	(Billions of yen)
				Changes from previous year (%)
Consulting and Knowledge Services	25.6	26.4	28.2	6.9
System Solution Services	139.3	136.0	127.6	(6.1)
System development & system application sales	74.3	67.6	55.0	(18.6)
System management & operations	65.0	68.4	72.6	6.2
Total	165.0	162.4	155.9	(4.0)

Notes: 1. Amounts are based on manufacturing costs.

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

Changes in actual production



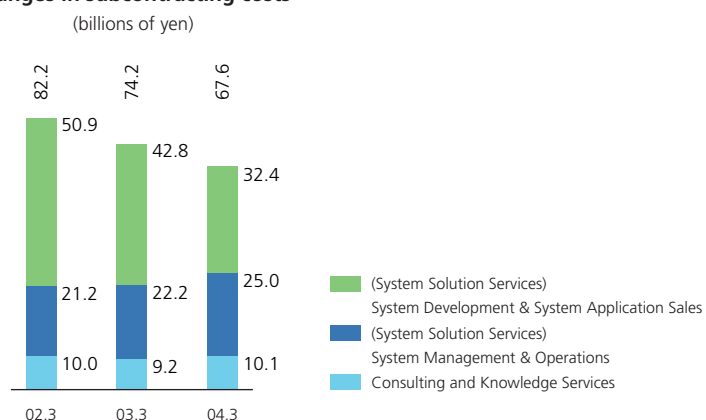
Subcontracting costs

Segment by type of business	2002.3		2003.3		2004.3		Changes from previous year (%)
	Amount	As percentage of the total production (%)	Amount	As percentage of the total production (%)	Amount	As percentage of the total production (%)	
Consulting and Knowledge Services	10.0	39.2	9.2	34.9	10.1	35.9	9.8
System Solution Services	72.1	51.8	65.0	47.8	57.4	45.0	(11.6)
System development & system application sales	50.9	68.5	42.8	63.3	32.4	58.9	(24.2)
System management & operations	21.2	32.7	22.2	32.5	25.0	34.5	12.7
Total	82.2	49.8	74.2	45.7	67.6	43.4	(8.9)

Notes: 1. Amounts are based on manufacturing costs.

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

Changes in subcontracting costs



Orders received

(Billions of yen)

Segment by type of business	2002.3		2003.3		2004.3		Change from previous year (%)	Order backlog	Change from previous year (%)
	Orders received	Order backlog	Orders received	Order backlog	Orders received	Change from previous year (%)			
Consulting and Knowledge Services	37.4	15.8	40.7	18.2	40.5	(0.6)	15.7	(13.7)	
System Solution Services	203.6	85.3	195.1	85.8	202.1	3.6	92.8	8.1	
System development & system application sales	95.3	5.5	83.7	6.1	85.6	2.2	13.4	118.6	
System management & operations	89.1	79.8	90.1	79.6	93.2	3.5	79.3	(0.4)	
Product sales	19.2	—	21.1	—	23.2	9.5	—	—	
Total	241.0	101.2	235.8	104.0	242.6	2.9	108.5	4.3	

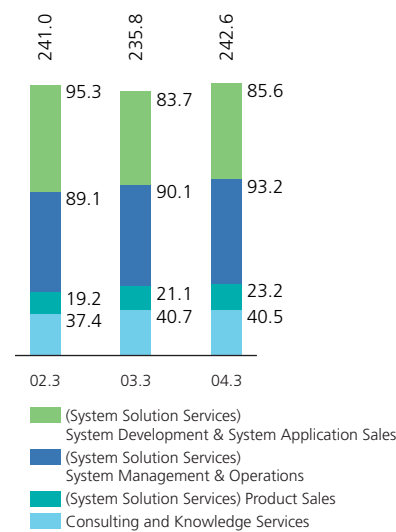
Notes: 1. Amounts are based on sales prices.

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

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

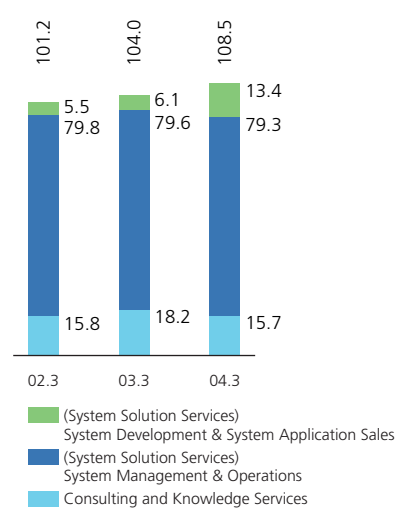
Trend of orders received

(billions of yen)



Trend of order backlog

(billions of yen)



Sales by sector and sales component ratios

(Billions of yen)

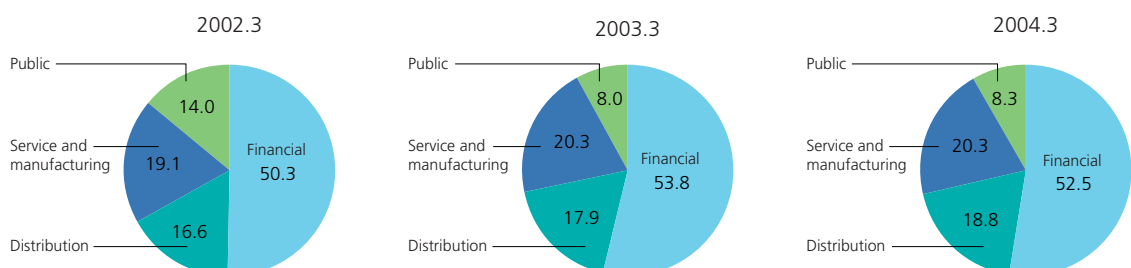
Sales by industry	2002.3		2003.3		2004.3	
	Amount	Component ratio (%)	Amount	Component ratio (%)	Amount	Component ratio (%)
Financial	119.0	50.3	125.2	53.8	125.1	52.5
Nomura Holdings	61.6	26.1	63.6	27.3	59.4	25.0
Distribution	39.2	16.6	41.6	17.9	44.6	18.8
Service and manufacturing	45.1	19.1	47.1	20.3	48.4	20.3
Public sector	33.1	14.0	18.6	8.0	19.8	8.3
Total	236.5	100.0	232.7	100.0	238.0	100.0

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

2. As a general rule, the sales of subsidiaries are included in the sector to which the parent company belongs.

Sales by sector (overall)

(%)



Outline of Capital Expenditures

In fiscal 2003, we made investments for items such as software development, installation of additional machinery and equipment due to the expansion of our outsourcing business, upgrade of computers used in development, and the acquisition of the Osaka Data Center. These investments, whose funds were provided by NRI, totaled 24.2 billion yen (after elimination of intersegment transactions).

Consulting and Knowledge Services

In this segment, we invested a total of 2.3 billion yen for the development of asset management and investment data software for financial information services, as well as the upgrading of personal computers.

Systems Solution Services

In this segment, we invested a total 21.8 billion yen for the development of software for financial services, the purchase of system operation equipment for the expansion of our outsourcing business, the upgrading of computers used in development, and the acquisition of the Osaka Data Center.

Research and development activities

The NRI Group's research and development (R&D) activities consist of the following:

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

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

The Research and Development Committee, comprising specialists in each field, oversees R&D activities. The committee examines each project from the planning stage to the eventual utilization of the project results, improving the quality of our R&D activities. In fiscal 2003, our R&D costs amounted to 2.2 billion yen.

Consulting and Knowledge Services

We researched next-generation management and business styles and new socioeconomic systems, specifically, service innovations, information systems investment, application of information systems, and IT governance in the information-processing industry. Furthermore, for the purpose of collecting basic information that serves as the foundation of our proposals to clients and the basis for our business development decisions, we conducted a survey on consumer awareness and behavior in both Japan and China. Finally, in order to better serve as a think tank for society, we embarked on an extensive study concerning the state of structural reform in Japan. As a result, our R&D costs for Consulting and Knowledge Services came to 0.6 billion yen.

System Solution Services

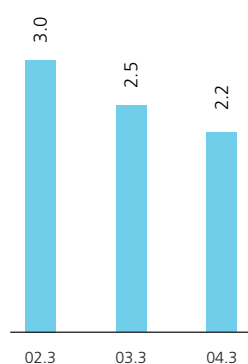
We started development of new system solution models with a view to creating strategic products and services. One example is our research on a new industry infrastructure that would enable greater product information control and application in the distribution industry and our development of related solution models. Another example is our study of BPM (Business – Process – Management) solutions to incorporate advanced technologies into corporate activities by restructuring operations. We also tested solutions and developed prototypes for new technologies such as RFID*¹ and XNS technology*², which will be essential for the coming age of ubiquitous networking. To raise productivity and quality, we not only developed a method for visualization of process to define core issues as well as fortify project management, but we also studied development and construction of systems using open-sourcing technology. Consequently, our R&D costs for System Solution Services came to 1.5 billion yen.

*1 RFID is wireless identification technology, such as IC tags.

*2 XNS enables the management of ID (Identification number) while protecting the subject's privacy.

Research and development costs

(billions of yen)



	2002.3	2003.3	2004.3
Research and development costs	3.0	2.5	2.2

(Billions of yen)

Management Tasks

Information services industry clients have become more demanding and discerning when investing in information systems. Yet from summer onward, we began to see auspicious signs such as a gradual increase in the number of customer inquiries.

The NRI Group recognizes that the most important managerial task facing the Group is to build a system that will strengthen sales, expand our business foundation, and foster growth.

Strengthening sales capabilities

We will continue to fortify our sales system, which benefits from the company's collective strength in the sales of new or large-scale goods and services. By strengthening our sales promotion and support bases—by encouraging effective use of sales information—we hope for more efficient and extensive sales activities that are more in tune with clients needs. The strength of the Group lies in the all-inclusive "Navigation & Solution" services, which encompasses every stage from consulting to system development and application. We intend to fortify this base by reinforcing our system consulting function and our system foundation technology. We are committed to establishing strong relationships with clients by proposing optimal solutions to their management problems and helping them realize their goals.

Expanding business base

We will concentrate management resources on key clients and markets. To cultivate new clientele and expand our business base, we will package the Group's valuable know-how and further promote such package softwares. Furthermore, we plan to enter markets with medium to long term growth potential, such as those in China and other countries in Asia.

Developing structure to promote growth

Human resources are our most valuable asset for growth, so we will continue to focus on our training programs and offer employees benefits suitable for professionals. Furthermore, in addition to the scientific measures we have been implementing to improve quality and productivity in the system development and maintenance process, we intend to standardize the system application process and operations in the supporting departments. We hope these measures will further improve quality and productivity.

In response to recent developments, corporate security measures, including the protection of personal data, have become a major issue, to the extent that the stance a company takes on this issue can make or break it. At the Group, we have established a full-time task force that updates and enforces in-house regulations and raises employee awareness to ensure their implementation. We are determined to improve corporate security and maintain our reputation as a socially responsible company.

Plans for Facility Construction and Disposal

For the fiscal year ending March 31, 2005, projected capital expenditure for facilities is 14.8 billion yen, which will be provided by retained earnings. There are no plans for the disposal or sale of major facilities, excluding those scheduled for regular repairs.

Segment by type of business	Facilities	Planned investment (Billions of yen)	Major items and purpose
Consulting and Knowledge Services	Software	1.5	Development of internal use software for providing knowledge solution services
	Hardware	0.4	Equipment for providing knowledge solution services
System Solution Services	Software	6.2	Development of internal use software for providing customer services and software for sale
	Hardware	4.5	System development equipment and equipment for providing operation services for computer systems and networks
Company-wide (common use)	Software	0.1	Software for use in internal systems
	Office facilities	2.1	Renewal of property and installation of personal computers and other equipment
Total		14.8	—

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

Significant Accounting Policies and Estimates

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

The percentage-of-completion method

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

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

Accounting method for software

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

However, software assets are not guaranteed to be one hundred percent recoverable. In cases where changes occur in the Group's operating plan, additional costs, such as depreciation costs, may result.

Accounting method for employee retirement benefits

Accounting for employee retirement benefits requires numerous assumptions and estimates, such as employment termination trends, and agreement on certain basic rates, such as the discount rate and the expected rate of return on pension plan assets. In calculating these basic rates, the Group has adopted estimates that are both reasonable and conservative. Past history shows that the discount rate, a crucial rate in employee retirement benefits, has been revised conservatively every year since the commencement of employee retirement benefits accounting. The discount rate for fiscal 2003 has been revised from 2.1% in the previous year to 1.8%.

Actuarial differences have occurred as a result of discrepancies between the estimated amount of the expected return on plan assets and the actual return itself and also because of changes in the discount rate. The Group recorded actuarial losses of 6.1 billion yen, 1.1 billion yen, and 6.9 billion yen for the years ended 31st March, 2001, 2002, and 2003, respectively. For the year ended 31st March, 2004, the Group recorded an actuarial gain of 8.0 billion yen. Until the previous year, actuarial differences were recorded in the fiscal year in which they occurred, but beginning the fiscal year ended March 2004, we have changed our accounting policies. For details, please see the section, "Change in accounting policy," below.

Furthermore, in order to construct a solid foundation for our pension plan, the Company contributed a portion of its shareholdings to the employee retirement benefit trust in 28th March, 2003. As of 31st March, 2004, pension plan assets totaled 43.8 billion yen, including the employee retirement benefit trust of 15.2 billion yen.

Change in accounting policy

Beginning fiscal 2003, we have changed our policy of reporting actuarial differences in the accounting of the employee retirement benefit plan. Formerly, the Group recorded actuarial differences in whole amounts in the fiscal year in which they occurred. However, starting fiscal 2003, actuarial differences will be recorded from the following term using the straight line method over a fixed number of years (15 years) within the average remaining service time when such differences arise.

During the year ended March 31, 2003, the Group adopted a defined contribution pension plan. Concurrently, in March 2003 it established an employee retirement benefit trust for qualified retirement pensions and contributed shares of an entity that is also an affiliate of Nomura Holdings, Inc. to the fund. The consequences of these developments were that each issue of these shares began to acquire greater weight in the plan assets portfolio and there was a greater possibility for huge actuarial differences arising from the fluctuation in stock prices. In such cases, continuing to record the entire difference in the fiscal year in which it occurred would drastically affect the pension plan costs during each fiscal year, and would greatly distort the period's profit/loss.

In view of the above, and in response to the large actuarial difference caused by the sharp rise of the stock price and its marked effects in fiscal 2003, the Group has changed its policy on dealing with such differences. This change in policy has, in effect, eliminated the drastic effects each short-lived change in individual stock prices could have on the period's profit/loss and has given legitimacy to the profit/loss statement as a true reflection of the profit/loss.

With this change, extraordinary income decreased by 8.0 billion yen, compared with the amount recorded by the previous accounting method. Similarly, income before income taxes also decreased by the same amount.

Analysis of Business Results for Fiscal 2003

The following is a comparison of the business results of fiscal 2003 with that of fiscal 2002.

[Summary of consolidated statements of income]

Items	Year ended March 31st, 2003	Year ended March 31st, 2004	(Billions of yen)	
			Compared to previous year (Amount)	Compared to previous year (%)
Sales	232.7	238.0	5.3	2.3
Cost of sales	173.5	178.0	4.5	2.6
Gross profit	59.1	59.9	0.7	1.3
Selling, general and administrative expenses	32.0	31.9	(0.0)	(0.3)
Operating profit	27.1	28.0	0.8	3.2
Non-operating income	1.1	1.7	0.5	42.9
Non-operating expenses	0.7	0.4	(0.2)	(41.0)
Ordinary profit	27.6	29.2	1.6	6.0
Extraordinary profit	7.3	5.3	(2.0)	(27.9)
Extraordinary loss	7.8	1.6	(6.1)	(78.5)
Income before income taxes	27.1	32.9	5.7	21.2
Provision for income taxes	11.7	14.6	2.9	25.1
Net income	15.4	18.2	2.8	18.2

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

Sales

Sales for fiscal 2003 came to 238.0 billion yen (a 2.3% increase from the previous year). As far as sales by sector, sales to the financial services sector, on the whole, were down with the decrease in sales to major clients in the securities industry together with the completion in the first half of large-scale development projects accompanying the merger of a number of securities companies. On the other hand, sales to the distribution industry were generally up. Owing to the large-scale system development and system application projects, sales to other segments of the private sector also rose. Additionally, large-scale consulting projects for the public sector further boosted sales.

Cost of sales, selling, general and administrative expenses, and operating profit

Cost of sales amounted to 178.0 billion yen (a 2.6% increase from the previous year). In spite of our efforts to reduce costs, by tightening project management for example, fixed expenses, on the whole, rose with the drastic increase in depreciation costs due to new services in fiscal 2003.

As for selling, general and administrative expenses, the increase in selling expenses accompanying the strengthening of sales activities was offset by the company-wide campaign to reduce costs by improving efficiency. As a result, we were able to hold down selling, general and administrative expenses to 31.9 billion yen (a decrease of 0.3%), a level similar to the previous year.

Overall, operating profit was 28.0 billion yen (up 3.2%) for fiscal 2003.

Non-operating income/expenses and ordinary profit

The Company posted a non-operating income of 1.7 billion yen (a 42.9% increase from the previous year). The major components include 0.6 billion yen in dividends received (up 113.4%) and 0.3 billion yen in income from investment partnerships (up 516.6%).

Non-operating expenses amounted to 0.4 billion yen (down 41.0%), a major component of which was 0.2 billion yen in expenses from investor partnerships (down 43.3%).

In summary, ordinary profit for fiscal 2003 was 29.2 billion yen (up 6.0%).

1) Dividends received

The increase in dividends received was primarily due to those from Izumi Securities Co., Ltd. In fiscal 2002, the dividends from Izumi Securities Co., Ltd. amounted to 1.0 million yen, while in fiscal 2003, the amount rose to 0.3 billion yen.

2) Income from investor partnerships

The increase in income from investor partnerships was due to dividends that were paid out on the sales proceeds of the leased assets by a "tokumei kumiai (silent partnership)" proprietor when the lessee prematurely terminated a leveraged lease.

Extraordinary profit/loss and income before income taxes

The Company posted extraordinary profit of 5.3 billion yen for fiscal 2003 (a 27.9% decrease from the previous year). Income from the sales of investment securities amounted to 1.2 billion yen, while gain on sales of investments in affiliates totaled 3.7 billion yen. The primary reason for this decrease in extraordinary profit for fiscal 2003 is because income of 6.7 billion yen from the establishment of an employee retirement benefit trust was posted in fiscal 2002.

The Company recorded an extraordinary loss of 1.6 billion yen (down 78.5%) for fiscal 2003, a major component of which was the 1.1 billion yen loss on the real estate put option. A major factor contributing to this decrease of extraordinary loss was the posting of a 6.9 billion yen loss in fiscal 2002 for an actuarial loss incurred from the employee retirement plan.

As a result, income before income taxes totaled 32.9 billion yen for fiscal 2003 (up 21.2%).

1) Gain on sales of investment securities

The gain was primarily due to the sale of shares of the former WORLD NICHIEI SECURITIES Co., Ltd. (currently WORLD NICHIEI FRONTIER Securities Co., Ltd.).

2) Gain on sales of investments in affiliates

The gain was primarily due to the sale of share of NIWS Co., Ltd. In addition, as a result of NIWS Co., Ltd. disposing of its treasury stock, the Company posted a gain of 100 million yen from the changes in equity.

3) Loss on the real estate put option

The loss refers to the difference between the acquisition price and the market price in the re-acquisition of the Osaka Data Center, as stipulated in the Real Estate Disposal Option Contract.

Provision for income taxes and net income

Provisions for income taxes (including corporate, residential, and enterprise taxes) totaled 14.6 billion yen (a 25.1% increase from the previous year). The income tax rate on income before income taxes rose 1.4% from a rate of 43.1% in fiscal 2002 to 44.5% in fiscal 2003. This rise is due primarily to the extraordinary losses, including the loss on the real estate put option. Consequently, the Company posted net income of 18.2 billion yen (an increase of 18.2%) in fiscal 2003.

Analysis of Financial Position at the End of Fiscal 2003

The following is a comparison of the balance sheets at the end of fiscal 2003 and the end of fiscal 2002. For a summary of cash flow for fiscal 2003, refer to "Business Outline for Fiscal 2003: Cash Flow."

[Summary of consolidated balance sheets]

				(Billions of yen)			
Items	March 31st, 2003	March 31st, 2004	Compared with previous year	Items	March 31st, 2003	March 31st, 2004	Compared with previous year
Assets				Liabilities			
Current assets	135.5	154.2	18.7	Current liabilities	40.4	49.5	9.1
Cash and bank deposits	26.7	17.0	(9.6)	Accounts payable	21.3	20.1	(1.1)
Accounts receivable and other receivables	31.2	32.4	1.2	Income taxes payable	5.1	12.7	7.5
Short-term investment securities	62.0	79.7	17.7	Other current liabilities	14.0	16.7	2.6
Other current assets	15.5	24.9	9.4	Fixed liabilities	30.9	47.8	16.9
Fixed assets	121.2	172.5	51.2	Deferred income taxes	5.5	22.2	16.7
Tangible fixed assets	30.2	36.6	6.3	Allowance for employee's retirement benefits	22.2	22.6	0.3
Buildings	12.3	16.8	4.4	Other long-term liabilities	3.1	2.9	(0.1)
Machinery	5.1	5.0	(0.0)	Total liabilities	71.4	97.4	26.0
Equipment	5.1	4.9	(0.2)	Shareholders' equity			
Land	7.6	9.8	2.2	Common stock	18.6	18.6	—
Intangible fixed assets	33.8	32.5	(1.3)	Additional paid-in capital	14.8	14.8	—
Investment and other assets	57.1	103.3	46.2	Retained earnings	140.3	156.7	16.3
Investment securities	33.7	86.1	52.4	Unrealized gain on other securities	11.7	40.0	28.2
Investments in affiliates	8.7	2.3	(6.4)	Translation adjustments	(0.1)	(0.8)	(0.6)
Long-term pledged assets	10.0	9.6	(0.4)	Treasury stock	(0.0)	(0.0)	(0.0)
Other intangible assets	4.5	5.2	0.7	Total shareholders' equity	185.3	229.3	43.9
Total assets	256.7	326.7	70.0	Total liabilities and shareholders' equity	256.7	326.7	70.0

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

Summary

Total assets at the end of March 2004 rose 70.0 billion yen on the year to 326.7 billion yen. This increase can be attributed primarily to the change in the market value of investment securities, resulting from the rise in stock prices of shares held by the Company. An increase in the backlog of projects from previous periods has resulted in the increase of accounts receivable, while the acquisition of tangibles, including the Osaka Data Center, has resulted in the increase of building and land assets. Moreover, the market price evaluation of marketable securities increased the unrealized gain on other securities in shareholders' equity and also raised deferred income tax liabilities.

Current assets at the end of March 2004 grew 18.7 billion yen on the year to 154.2 billion yen. The main reason for this increase was the 8.0 billion yen increase in both cash and cash equivalents and an equivalent rise in accounts receivable including those from the projects under development. In the above [Summary of consolidated balance sheets], accounts receivable including those from the projects under development have been included under other current assets. Short-term investment securities include those short-term investments maturing within three months from the acquisition date, which are recorded under cash and cash equivalents in the cash flow statements. The increase in cash and cash equivalents reflects the decrease of 9.6 billion yen in cash and bank deposits and the increase of 17.7 billion yen in short-term investment securities.

Fixed assets at the end of March 2004 rose 51.2 billion yen from the previous year-end to 172.5 billion yen. The main factors contributing to this increase were the 6.6 billion yen increase in building and land assets, which accompanied the acquisition of the Osaka Data Center, and the 52.4 billion yen rise in investment securities resulting from the market value evaluation of investment securities. Primary factors contributing to the growth in investment securities were the market value evaluation of shares that had been continuously held by the Company, as well as the reclassification of the Company's shareholdings in Nomura Land and Building Co., Ltd. and NIWS Co., Ltd. from investments in affiliates to investment securities. The 5.8 billion yen rise in investment securities was due to Nomura Land and Building Co., Ltd.'s selling of a portion of the Company's shares and the ensuing curtailment of its voting rights in the Company. As for the Company's shares in NIWS Co., Ltd., the Company's sales of some of these shares entailed the curtailment of the Company's voting rights in NIWS Co., Ltd., which resulted in the 13.5 billion yen increase in investment securities and the 8.0 billion yen increase in unrealized gains on other securities.

Liabilities at the end of March 2004 rose 26.0 billion yen compared with the end of the previous year to 97.4 billion yen. The main reasons for this increase include the market value evaluation of investment securities under fixed assets and the ensuing increase of 16.7 billion yen in deferred income taxes, in addition to the 7.5 billion yen rise in income taxes payable under current liabilities with favorable operating results.

Shareholders' equity at the end of March 2004 increased 43.9 billion yen compared with the end of the previous year to 229.3 billion yen. The primary factors for this growth were a 16.3 billion yen rise in retained earnings reflecting favorable business results and the effects of the market value evaluation of investment securities and the ensuing 28.2 billion yen increase in unrealized gains on other securities.

Investment securities

Investment securities at the end of March 2004 include 79.7 billion yen of short-term investment securities under current assets, 86.1 billion yen of investment securities, and 2.3 billion yen of investment in affiliates under fixed assets for a total of 168.2 billion yen. The percentage of investment securities to total assets is 51.5%.

The components of short-term investments under current assets are 20.0 billion yen in money management funds, 27.0 billion yen in free financial funds, and 32.6 billion yen in commercial paper. In the cash flow statement, they are classified as short-term investments maturing within three months from the acquisition date and included under cash and cash equivalents.

Investment securities under fixed assets include 88.0 billion yen of investment securities, excluding investment in affiliates, and comprise 26.9% of total assets. Of these investment securities, 70.5 billion yen worth of shares are marketable, while 17.4 billion yen of shares are non-marketable. Shareholdings that make up more than 5% (4.4 billion yen) of the total include shares of JAFCO Co., Ltd. (42.6 billion yen reported on the balance sheets), shares of NIWS Co., Ltd. (13.5 billion yen reported), and shares of Nomura Land and Building Co., Ltd. (5.8 billion yen reported).

Of the other marketable securities, at the end of March 2004, all of their book values exceeded acquisition costs. There were also no securities held for trading purposes, nor any held-to-maturity.

Software

The greater part of intangible fixed assets is comprised of software and software suspense accounts. The Group's software and software suspense accounts totaled 33.1 billion yen at the end of March 2003 and 31.5 billion yen at the end of March 2004, and their component ratios to total assets were 12.9% and 9.7%, respectively. The Group's investments in software were down 4.6 billion yen compared with the previous year to 11.4 billion yen due to the fact that development projects for multi user system services for securities companies had run their course.

* Projections for the future contained in this report were deemed valid at the end of fiscal 2003; however, they are by no means guaranteed by the Group.

Inherent Risks

The following summarizes the major attributes of the NRI Group's operations and inherent risks.

Dependence on specific business categories and clients

NRI Group sales showed relatively strong dependence on specific business sectors and clients. Combined sales to the financial services and distribution industries account for 70% of our total sales. Dependence on a particular sector may be interpreted as one of our strengths, but it also carries the possibility that sudden changes in the sector or the laws regulating such sector will have a great effect.

The Group's two major customers are the Nomura Securities Group (Nomura Holdings, Inc. and its subsidiaries) and the Ito-Yokado Group (Ito-Yokado Co., Ltd. and its subsidiaries). Combined sales to these two groups are more than 30% of total sales and such dependency could have a big difference on results.

The NRI Group has traditionally been distinguished by its business know-how in the financial services and distribution industries, which it has acquired by responding to the advanced needs of its customers, as well as the development and application of large-scale and cutting-edge high tech systems. These very strengths have also helped us aggressively acquire new clientele. The development of the multi user system services tailor-made for securities companies is a good example of our ingenuity. This system is now widely acknowledged to have set the standard in the industry. The NRI Group also intends to strengthen relationships with existing customers by further improving its industry know-how. The Group has been making a concerted effort to this end by faithfully adhering to its philosophy, "Keeping the trust of our clients and prospering together with them." But we must also accept the fact that there is no guarantee that sales to a particular client will continue to grow.

Intensified competition

Information services businesses are taking the present slump in demand as a sign to shift their priorities from profitability to securing sales. As a result, competition has increased significantly over the past few years. Even with a clear economic recovery on the horizon, intense competition is expected to continue.

The NRI Group believes that falling profitability can be offset to some extent by distinguishing itself with high-value-added services and improving productivity. To this end, we intend to fortify our system consulting service and upgrade our basic system technology, which are the foundations of the Group's major asset, the Navigation and Solution services, which covers consulting to system development/application. At the same time, we will pursue various measures to raise productivity.

The Group will continue to uphold policies that prioritize profitability over the expansion of sales. We intend to continually build a firm relationship of trust with our clients, by proposing and realizing management solutions in response to our clients' needs. However, in the event that competition intensifies beyond our expectations, the Group's performance may be adversely affected.

Information system development

Generally, system development projects are undertaken on a contract basis. For this reason, a project deemed profitable at the time of the contract signing, may end up requiring more man hours than the initial estimate or may incur additional expenses after completion or delivery. As a result, the project's profitability may fall short of initial expectations. The Group receives orders for long-term projects that may last several years. In such projects, requirements are likely to change due to the changes in the surrounding environment and technology.

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

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

Stable operations of information systems

We at the NRI Group are striving to build a long-term relationship of trust with our clients. For this reason, it is essential not only to guarantee quality during the development of systems but also to assure stable operation once they are completed. There have been no major problems so far. However, the possibility exists that operation procedures will not be followed or a system failure will occur, resulting in failure to meet clients' expectations. Such circumstances can directly hurt the Group's performance. Furthermore, doubts about the quality of the Group's products can have indirect but lasting effects on the Group's performance.

In 1982, the Group was the first business in Japan to be awarded the Information Processing Services Computer Safety Measures Enforcement Business certification by the former Ministry of International Trade and Industry. Since then we can boast of a long history of improvements to the quality of our systems operations. Our efforts to improve service quality continue to this day, as illustrated by our adoption of the ISO 9001 quality management system, ISMS*¹, and the JISQ15001 Privacy Mark*². The NRI Group will continue to seek customers' trust by providing systems that run smoothly.

*¹ ISMS refers to the Japan Information Processing Development Corporation (JIPDEC) standard for information security management systems, based on a conformity assessment scheme.

*² The JISQ15001 Privacy Mark is JIPDEC's standard on the requirements for the compliance program on personal information protection.

Business stability in system management and operations

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

Although system management and operations remain a relatively reliable source of income, there is no guarantee that profitability will continue indefinitely. For example, mergers and bankruptcies of our corporate clients could hinder contract renewals, adversely affecting the Group's performance.

Expansion of the system management and operations business requires investment, as well as careful monitoring of our clients' business progress and credit control. Fortunately, the Group's clientele includes many of the soundest companies in Japan, and the Group's performance has never been seriously hurt by corporate bankruptcies.

Investment in software

The Group makes periodic investment to expand its business, including the multi-user services. In recent years, the majority of our investments have been in software. In most cases, software is designed for a specific use, which means it is not easy to resell, unlike tangible fixed assets. Consequently, investment in software must follow thorough consideration.

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

However, since returns on investments are never one hundred percent guaranteed, and changes in the business climate may also change profit forecasts, the recovery of the investment may become more difficult than expected. In such cases, additional depreciation costs may occur. Moreover, even in cases where returns on investments are as initially planned, the circumstances of the start-up of a business may temporarily increase depreciation costs and hurt the Group's performance.

Hiring and fostering highly specialized professionals

At the Group, we believe that the specialized expertise of our employees provides the foundation of the value-added services we provide. Because we perceive our employees as valuable "human assets," we are dedicated to creating an environment conducive to their development. We offer assistance and subsidies to our employees so they can obtain various licenses and qualifications. Employees can take more than a hundred different types of human resources development seminars at the Yokohama Learning Center, an institution established just for employee training. Employees can also take advantage of our sophisticated in-house certification scheme, which turns out highly specialized professionals with the latest and most advanced expertise.

Nurturing highly specialized human resources is necessary to build long-term relationships with clients. Furthermore, failing to hire and foster professionals who can respond to the highly specialized demands of our customers could adversely affect the Group's performance in the medium to long term.

Outsourcing of operations

To raise productivity, the information services companies outsource some of their system development and system management and operation businesses.

The Group mainly outsources system development programming and some of its system management and operations. In Consulting and Knowledge Services also, we subcontract some database building operations. At present, subcontractors are responsible for more than 40% of production. To ensure that our operations run smoothly, it is essential to secure the cooperation of superior companies and maintain good business ties with them. If we fail to do so, the Group may suffer grave consequences in its performance.

At the Group, we strive to continuously select superior cooperating companies and share project risks with our "ePartner agreement" companies. By sharing project risks with these firms, we hope to improve our own and our collaborating companies' productivity and quality. We believe that this approach will allow us to maintain favorable working relationships based on mutual trust.

Information security management

With the widespread use of the Internet, the dissemination of information is instantaneous. Such advances in technology have increased the number of users and made life much more convenient. But at the same time, society faces the major issue of how to ensure security, especially how to protect personal data. In the information services industry, where we are constantly handling clients' confidential data, there is an even greater demand for security. Therefore, the NRI Group has established a full-time task force on information security management. This task force raises awareness of the issue among employees so that necessary precautions will be taken. In particular, we have tightened security management at our data centers by establishing an IC card-based entry/exit system and X-raying luggage brought into the computer room, for example. We are educating not only our employees about security but also our directors, employees of companies we work with, and temp staff. The Group will continue to fulfill its societal responsibility by making a concerted effort to deal with information security. However, if information leaks occur despite our efforts, it will damage both our performance and our credibility.

Risks Accompanying Changes in Financial Position

The following sums up the major attributes of NRI's financial position and attendant risks.

Investment securities and Investments in affiliates

The Group holds low-risk, short-term marketable securities in order to manage funds and holds equity investments in various firms with a view to cultivating future business opportunities. In order to strengthen business ties, the Group also invests in the equity of its clients after carefully examining the expected return on its investments. As of the end of March 2004, investment securities accounted for approximately half of the Group's total assets.

Investment securities have the inherent risk of market price fluctuations due to changes in the economic climate and corporate profitability, which, in turn, could hurt not only the assets portion but also the liabilities and shareholders' equity portion of the balance sheet. At the end of March 2004, the shares of the top two companies held by the Group accounted for nearly 20% of total assets. Therefore, the market prices of its shareholdings will greatly affect the Group's financial position.

Non-marketable securities are evaluated by the cost method, which is based on the moving average method. However, if the financial conditions of the companies deteriorate significantly, the Group may recognize impairment losses on their shares. Moreover, even in the case of the most low-risk securities, there are no guarantees on their principal.

Retirement benefits liabilities

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

At the end of March 2004, the Group's retirement benefit obligations were nearly 20% of total assets. Retirement benefit obligations are calculated using a number of assumptions and estimates, such as employment termination trends, discount rates, and the expected rate of return on pension plan assets. A change in any one of these factors could significantly change the amount. As for pension plan assets, fluctuations generally arise as a result of movements in the stock market and changes in interest rates. At present, the shares contributed to the employee retirement benefit trust make up a large percentage of the Group's pension plan assets. Consequently, the Group's pension plan assets run the risk of fluctuating with the changes in the shares' prices.

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

At the end of March 2004, Nomura Holdings, Inc., the Nomura Securities Group's holding company, held 25.1% of the Company's shares. In addition, affiliates JAFCO Co., Ltd. and Nomura Land and Building Co., Ltd. owned 7.5% and 17.6% of the Company's shares respectively.

The percentage of shares held by Nomura Holdings, Inc. and its affiliates will not necessarily remain unchanged, however.

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

On 18th May, 2004, Nomura Land and Building Co., Ltd. sold 7.72 million of its shares in the Company to Nomura Realty Capital Management Co., Ltd., a subsidiary of Nomura Holdings, Inc. As a result, Nomura Land and Building Co., Ltd. now holds 0.4% of the Company's shares and Nomura Holdings, Inc. increased its shareholdings to 42.2%.

* The aforementioned risks are the most common risks as of the end of March 2004. Actual risks are not limited to these risks.

Major Management Contracts

Major contracts concerning the liquidation of the Osaka Data Center

The said contracts all expired during fiscal 2003.

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

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

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

Date resolved	23rd June, 2004
Category and number of grantees	NRI directors, executive officers, and employees (equivalent to directors) and directors of NRI subsidiaries in Japan (numbers not yet determined)
Purpose of subscription rights and class of stock	Common stock
Number of shares	No more than 90,000 shares* ¹
Amount payable when exercising subscription rights	The amount payable ("exercise price") will be 1.05 times the average of the closing price for NRI's common stock in ordinary transactions at the TSE on all days (except those without closing prices) of the month immediately preceding the month when the subscription rights were issued. Any fraction of one yen will be rounded up. However, if the amount so calculated is less than the closing price on the day of issue of subscription rights (or the closing price on the most recent preceding day in the absence of such a closing price), then the amount payable will be equal to said closing price.* ²
Period for exercising subscription rights	1st July, 2006 — 30th June, 2009
Conditions of execution of subscription rights	1) At the time of exercising subscription rights, the grantee must be a director, statutory auditor, executive officer, employee, or in an equivalent position at NRI or a domestic subsidiary. However, in cases recognized as constituting sufficient cause such as death or expiration of term of office, the rights may be exercised by the grantee (or his or her heir in case of death) during a prescribed period of time. 2) In addition to the above provisions, other conditions may be established at the meeting of the board of directors.
Items related to transfer of subscription rights	Rights cannot be transferred, pledged, or otherwise furnished to a third party.

Notes: 1. When NRI executes a stock split or a 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. However such adjustments will be made on the portion of shares subject to the subscription rights, but upon which the rights have not been exercised.

Number of shares after adjustment = number of shares before adjustment X split or reverse ratio

NRI will also adjust the number of shares as necessary in the following cases: (i) NRI merges and the surviving or resulting company takes over its obligations concerning subscription rights, (ii) NRI carries out a corporate partition and the resulting company takes over its obligations concerning subscription rights, or (iii) in similar cases where NRI deems necessary.

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 up.

Amount payable after adjustment = amount payable before adjustment X $\frac{1}{\text{split or reverse ratio}}$

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

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

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

NRI will also adjust the number of shares as necessary in the following cases (i) NRI merges and the surviving or resulting company takes over its obligations concerning subscription rights, (ii) NRI carries out a corporate partition and the resulting company takes over its obligations concerning subscription rights, or (iii) in similar cases where NRI deems necessary.

Acquisition of Treasury Stock

1) Status of acquisition of treasury stock in the previous term (acquisition by resolution at ordinary general shareholders' meeting)

As of 23rd June, 2004

Category	Number of shares (Common stock)	Total value (yen)
Resolution status at ordinary general meeting of shareholders (resolved on 24th June, 2003)	500,000	4,000,000,000
Treasury stock acquired during previous term	—	—
Total number and total value of remaining authorized capital stock	500,000	4,000,000,000
Ratio of treasury stock to be acquired (%)	100.0	100.0

Notes: 1. The authorized capital stock above divided by the total number of outstanding shares on the day of the previous general meeting of shareholders accounted for 1.1%.

2. After consideration of both economic and market trends, no treasury stock was acquired.

2) Resolution concerning the acquisition of treasury stock at the ordinary general meeting of shareholders

As of 23rd June, 2004.

Category	Type of stock	Number of shares	Total value (yen)
Resolution concerning acquisition of treasury stock	—	—	—

Note: At the ordinary general meeting of shareholders on 23rd June, 2004, an amendment was made to a by-law of the articles of incorporation, stipulating that treasury stock can be acquired with a resolution of the board of directors.

Dividend Policy

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

Retained earnings will be invested to enhance multi user system services, which are expected to grow rapidly in the future, to cultivate new businesses and raise system development efficiency, to improve facilities, to engage in research and development, to develop human resources, and to further enhance quality management.

Consolidated Financial Statements

At 31st March, 2003 and 2004 and
for the years ended 31st March, 2002, 2003 and 2004
with Report of Independent Certified Public Accountants

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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,
	2003	2004	2004
Assets			
Current assets:			
Cash and bank deposits <i>(Note 14)</i>	¥ 26,739	¥ 17,085	\$ 161,652
Short-term investment securities <i>(Notes 3 and 14)</i>	62,021	79,727	754,347
Accounts receivable and other receivables <i>(Notes 5 and 20)</i>	42,000	51,318	485,552
Inventories	254	100	946
Deferred income taxes <i>(Note 12)</i>	3,459	5,137	48,604
Other current assets	1,105	936	8,858
Allowance for doubtful accounts	(40)	(51)	(483)
Total current assets	135,538	154,252	1,459,476
Property and equipment <i>(Notes 6 and 8)</i> :			
Land	7,635	9,857	93,263
Buildings, net	12,365	16,806	159,012
Machinery and equipment, net	10,274	9,999	94,607
Property and equipment, net	30,274	36,662	346,882
Software and other intangibles	33,817	32,505	307,550
Investment securities <i>(Notes 3 and 20)</i>	33,767	86,171	815,318
Investments in affiliates <i>(Note 3)</i>	8,781	2,326	22,008
Deferred income taxes <i>(Note 12)</i>	1,248	1,336	12,641
Other assets <i>(Notes 7 and 20)</i>	13,410	13,581	128,499
Allowance for doubtful accounts	(37)	(33)	(312)
Total assets	¥ 256,798	¥ 326,800	\$ 3,092,062

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars (Note 2)</i>
	<u>31st March,</u>		<u>31st March,</u>
	<u>2003</u>	<u>2004</u>	<u>2004</u>
Liabilities and shareholders' equity			
Current liabilities:			
Long-term debt due within one year <i>(Notes 8 and 9)</i>	¥ 608	¥ 208	\$ 1,968
Accounts payable	21,313	20,155	190,699
Accrued expenses	9,325	11,114	105,157
Income taxes payable	5,128	12,705	120,210
Other current liabilities	4,107	5,403	51,121
Total current liabilities	<u>40,481</u>	<u>49,585</u>	<u>469,155</u>
Long-term debt <i>(Notes 8 and 9)</i>	2,310	2,102	19,888
Allowance for employees' retirement benefits <i>(Note 10)</i>	22,277	22,625	214,069
Deferred income taxes <i>(Note 12)</i>	5,554	22,267	210,682
Other long-term liabilities <i>(Notes 11 and 20)</i>	826	890	8,423
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, 2003 and 2004, respectively			
Issued – 45,000,000 shares at 31st March, 2003 and 2004, respectively	18,600	18,600	175,986
Additional paid-in capital	14,800	14,800	140,032
Retained earnings	140,334	156,710	1,482,733
Unrealised gain on other securities <i>(Note 3)</i>	11,799	40,082	379,241
Translation adjustments	(181)	(857)	(8,109)
Treasury stock, at cost			
– 100 shares at 31st March, 2003 and 279 shares at 31st March, 2004	(2)	(4)	(38)
Total shareholders' equity	<u>185,350</u>	<u>229,331</u>	<u>2,169,845</u>
Total liabilities and shareholders' equity	<u>¥ 256,798</u>	<u>¥ 326,800</u>	<u>\$ 3,092,062</u>

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, 2004
	2002	2003	2004	
Sales <i>(Note 20)</i>	¥ 236,569	¥ 232,744	¥ 238,068	\$ 2,252,512
Cost of sales <i>(Note 20)</i>	173,636	173,545	178,097	1,685,088
Gross profit	62,933	59,199	59,971	567,424
Selling, general and administrative expenses <i>(Notes 17, 18 and 20)</i>	32,568	32,035	31,949	302,290
Operating profit	30,365	27,164	28,022	265,134
Other income (expenses):				
Interest and dividend income <i>(Note 20)</i>	2,385	343	875	8,279
Equity in earnings of affiliates	297	168	401	3,794
Interest expense <i>(Note 9)</i>	(135)	(99)	(84)	(795)
Loss on property and equipment	(320)	(638)	(317)	(2,999)
Loss on real estate put option <i>(Note 19)</i>	–	–	(1,197)	(11,326)
(Loss) gain on investment securities <i>(Notes 3, 19 and 20)</i>	(516)	(166)	1,176	11,127
Gain on investments in affiliates <i>(Note 19)</i>	–	542	3,977	37,629
Actuarial loss <i>(Notes 10 and 19)</i>	(1,195)	(6,942)	–	–
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	–	–
Other, net	(18)	69	74	700
	8,645	13	4,905	46,409
Income before income taxes	39,010	27,177	32,927	311,543
Provision for income taxes <i>(Note 12)</i> :				
Current	11,426	10,687	18,198	172,183
Deferred	5,220	1,031	(3,540)	(33,494)
	16,646	11,718	14,658	138,689
Net income <i>(Note 15)</i>	¥ 22,364	¥ 15,459	¥ 18,269	\$ 172,854

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

Consolidated Statements of Changes in Shareholders' Equity(continued)

Thousands of U.S. dollars (Note 2)

	Common stock	Additional paid-in capital	Retained earnings	Unrealised gain on other securities	Translation adjustments	Treasury stock	Total shareholders' equity
Balance at 31st March, 2003	\$ 175,986	\$ 140,032	\$ 1,327,789	\$ 111,638	\$ (1,713)	\$ (19)	\$ 1,753,713
Purchase of treasury stock	–	–	–	–	–	(19)	(19)
Net income	–	–	172,854	–	–	–	172,854
Cash dividends paid	–	–	(8,515)	–	–	–	(8,515)
Bonuses to directors and statutory auditors	–	–	(2,678)	–	–	–	(2,678)
Unrealised gain on other securities	–	–	–	267,603	–	–	267,603
Decrease due to exclusion of affiliates accounted for by the equity method	–	–	(6,717)	–	–	–	(6,717)
Translation adjustments	–	–	–	–	(6,396)	–	(6,396)
Balance at 31st March, 2004	<u>\$ 175,986</u>	<u>\$ 140,032</u>	<u>\$ 1,482,733</u>	<u>\$ 379,241</u>	<u>\$ (8,109)</u>	<u>\$ (38)</u>	<u>\$ 2,169,845</u>

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,
	2002	2003	2004	2004
Cash flows from operating activities				
Income before income taxes	¥ 39,010	¥ 27,177	¥ 32,927	\$ 311,543
Adjustments to reconcile income before income taxes to net cash provided by operating activities:				
Depreciation and amortisation	12,420	13,244	17,750	167,944
Interest and dividend income	(2,385)	(343)	(875)	(8,279)
Interest expense	135	99	84	795
Loss on property and equipment	320	638	317	2,999
Loss on real estate put option	—	—	1,197	11,326
Loss (gain) on investment securities	516	166	(1,176)	(11,127)
Gain on investments in affiliates	—	(542)	(3,977)	(37,629)
Changes in operating assets and liabilities:				
Accounts receivable and other receivables, net of advance payments received	(9,976)	1,644	(8,866)	(83,887)
Allowance for doubtful accounts	(5)	(11)	7	66
Accounts payable	6,724	(7,435)	(1,158)	(10,957)
Inventories	138	(39)	154	1,457
Allowance for employees' retirement benefits and welfare pension plan (<i>Note 14</i>)	(9,526)	628	348	3,293
Other	(1,014)	(7,334)	2,428	22,974
Subtotal	36,357	27,892	39,160	370,518
Interest and dividends received	1,168	877	859	8,128
Interest paid	(143)	(102)	(85)	(804)
Income taxes paid	(20,089)	(14,055)	(10,621)	(100,492)
Net cash provided by operating activities	17,293	14,612	29,313	277,350
Cash flows from investing activities				
Acquisition of property and equipment	(7,006)	(4,734)	(12,651)	(119,699)
Proceeds from sales of property and equipment	428	14	138	1,306
Increase in software and other intangibles	(15,879)	(16,221)	(11,396)	(107,825)
Proceeds from sales of software and other intangibles	72	63	138	1,306
Increase in investment securities	(2,167)	(5,921)	(337)	(3,189)
Proceeds from sales and redemption of investment securities	—	7,010	1,521	14,391
Increase in investments in affiliates	(30)	—	—	—
Proceeds from sales of investments in affiliates	14	178	4,472	42,312
Acquisition of businesses (<i>Note 14</i>)	—	—	(280)	(2,649)
Other	(169)	616	(748)	(7,077)
Net cash used in investing activities	(24,737)	(18,995)	(19,143)	(181,124)
Cash flows from financing activities				
Net repayment of short-term borrowings	(100)	—	—	—
Repayment of long-term debt	(2,608)	(608)	(608)	(5,753)
Proceeds from issuance of new stock	20,900	—	—	—
Purchase of treasury stock	(2)	—	(2)	(19)
Cash dividends paid	(215)	(896)	(899)	(8,506)
Net cash (used in) provided by financing activities	17,975	(1,504)	(1,509)	(14,278)
Effect of exchange rate changes on cash and cash equivalents	549	(556)	(609)	(5,762)
Net increase (decrease) in cash and cash equivalents	11,080	(6,443)	8,052	76,186
Cash and cash equivalents at beginning of year	84,123	95,203	88,760	839,813
Cash and cash equivalents at end of year (<i>Note 14</i>)	¥ 95,203	¥ 88,760	¥ 96,812	\$ 915,999

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

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

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

Basis of Consolidation

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

1. Significant Accounting Policies(continued)

Cash Equivalents

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

Investment Securities

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

The Company and its consolidated subsidiaries determine the appropriate classification of investment securities as either trading, held-to-maturity or other securities based on their holding objective. 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. Prior to 1st April, 2003, actuarial gain or loss had been charged to income as incurred, however, the Company changed its policy, for the year ended 31st March, 2004, to amortize unrecognised actuarial gain or loss over a defined period, not exceeding the average remaining period of employment (15 years), by the straight-line method and recognise as a pension cost starting from the fiscal year following the fiscal year in which such gain or loss are incurred.

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

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

Accordingly, no actuarial gain or loss is recognised for the year ended 31st March, 2004. Had the Company followed the same method as applied in the year ended 31st March, 2003, income before income tax would have been increased by ¥8,077 million (\$76,422 thousand) for the year ended 31st March, 2004.

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.

1. Significant Accounting Policies (continued)

Revenue Recognition

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

Research and Development Expenses

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

Appropriation of retained earnings

Under the Commercial Code of Japan, the appropriation of retained earnings with respect to a given financial period is made by resolution of the shareholders at a general meeting held subsequent to the close of the financial year. 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 ¥105.69 = US\$1.00, the rate of exchange prevailing on 31st March, 2004. The U.S. dollar amounts are included solely for the convenience of the reader and the translation is not intended to imply that the assets and liabilities which originated in yen have been or could be readily converted, realised or settled in U.S. dollars at the above or any other rate.

3. Investments

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

a) Marketable securities classified as other securities

	<i>Millions of yen</i>					
	Acquisition cost		Carrying amount		Unrealised gain	
			31st March,			
	2003	2004	2003	2004	2003	2004
Equity securities	¥ 3,008	¥ 3,029	¥ 23,366	¥ 70,589	¥ 20,358	¥ 67,560

	<i>Thousands of U.S. dollars</i>		
	Acquisition cost	Carrying amount	Unrealised gain
	31st March, 2004		
Equity securities	\$ 28,659	\$ 667,887	\$ 639,228

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

	<i>Millions of yen</i>			<i>Thousands of U.S. dollars</i>
	2002	2003	2004	2004
Proceeds	¥ –	¥ 6,839	¥ 1,521	\$ 14,391
Gross gain	–	6,736	1,217	11,515

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

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

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

The equity securities of NIWS Co., Ltd. had been accounted for by the equity method, however, due to the sale of a part of the investment during the year ended 31st March, 2004, it is classified as other securities and stated at market value at 31st March, 2004. As the result, investment securities increased by ¥13,558 million (\$128,281 thousand), and unrealised gain on marketable securities classified as other securities increased by ¥8,029 million (\$75,967 thousand).

3. Investments (continued)

b) Non-marketable securities classified as other securities

	<i>Millions of yen</i>		<i>Thousands of</i>
	<i>31st March,</i>		<i>U.S. dollars</i>
	<i>2003</i>	<i>2004</i>	<i>31st March,</i>
			<i>2004</i>
Other securities:			
Equity securities	¥ 17,488	¥ 17,478	\$ 165,370
Other (money management funds)	20,018	20,021	189,431
Other (free financial funds)	17,009	27,010	255,559
Other (commercial paper)	24,994	32,696	309,357

Investments in affiliates include investments in net assets of affiliate companies accounted for under the equity method totaling ¥1,694 million and ¥430 million (\$4,069 thousand) at 31st March, 2003 and 2004, respectively.

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

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, 2003 and 2004 were for hedging purposes, the related information on their respective market value has not been presented.

5. Accounts Receivable and Other Receivables

For projects which have not been completed as of the balance sheet date, the percentage-of-completion method is applied and the estimated revenue considered to be earned from each project has been included in accounts receivable and other receivables in amounts of ¥10,797 million and ¥18,877 million (\$178,607 thousand) for the years ended 31st March, 2003 and 2004, 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>
		<i>31st March,</i>		<i>31st March,</i>
		<i>2003</i>	<i>2004</i>	<i>2004</i>
	<i>Useful life</i>			
Land		¥ 7,635	¥ 9,857	\$ 93,263
Buildings	15 – 50	32,140	37,790	357,555
Machinery and equipment	3 – 15	41,745	40,070	379,128
Accumulated depreciation		(51,246)	(51,055)	(483,064)
Property and equipment, net		¥ 30,274	¥ 36,662	\$ 346,882

7. Other Assets

Other assets consisted of the following:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	<i>31st March,</i>		<i>31st March,</i>
	<i>2003</i>	<i>2004</i>	<i>2004</i>
Lease deposits	¥ 10,066	¥ 9,622	\$ 91,040
Investment partnerships	2,108	2,212	20,929
Other	1,236	1,747	16,530
Other assets	¥ 13,410	¥ 13,581	\$ 128,499

Other includes golf club memberships.

8. Pledged Assets

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

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	<i>31st March,</i>		<i>31st March,</i>
	<i>2003</i>	<i>2004</i>	<i>2004</i>
Land	¥ 2,682	¥ 2,682	\$ 25,376
Buildings, net	1,130	1,102	10,427
	¥ 3,812	¥ 3,784	\$ 35,803

8. Pledged Assets (continued)

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

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	31st March,		31st March,
	2003	2004	2004
Long-term debt due within one year	¥ 208	¥ 208	\$ 1,968
Long-term debt	2,310	2,102	19,888
	¥ 2,518	¥ 2,310	\$ 21,856

9. Long-Term Debt

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

Long-term debt consisted of the following:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	31st March,		31st March,
	2003	2004	2004
Loans principally from banks and insurance companies due through 2015	¥ 2,918	¥ 2,310	\$ 21,856
Less current portion	608	208	1,968
Long-term debt	¥ 2,310	¥ 2,102	\$ 19,888

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

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

Years to maturities	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>
	31st March, 2004	31st March, 2004
Due within one year	¥ 208	\$ 1,968
Due in 1 – 2 years	208	1,968
Due in 2 – 3 years	208	1,968
Due in 3 – 4 years	208	1,968
Due after 4 years	1,478	13,984
Total	¥ 2,310	\$ 21,856

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, 2003 and 2004 for the Company's and its consolidated subsidiaries' defined benefit plans:

	<i>Millions of yen</i>		<i>Thousands of</i>
	<u>31st March,</u>		<i>U.S. dollars</i>
	<u>2003</u>	<u>2004</u>	<u>31st March,</u> <u>2004</u>
Retirement benefit obligation	¥ (50,743)	¥ (58,378)	\$ (552,351)
Plan assets at fair value	28,466	43,830	414,703
Unfunded retirement benefit obligation	(22,277)	(14,548)	(137,648)
Unrecognised actuarial gain	—	(8,077)	(76,421)
Unfunded retirement benefit obligation recognised on the balance sheets	¥ (22,277)	¥ (22,625)	\$ (214,069)

Plan assets at fair value includes the employee retirement benefit trust of ¥6,161 million and ¥15,222 million (\$144,025 thousand) at 31st March, 2003 and 2004, respectively.

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

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

	<i>Millions of yen</i>			<i>Thousands of</i>
	<u>31st March,</u>			<i>U.S. dollars</i>
	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>31st March,</u> <u>2004</u>
Service cost	¥ 3,467	¥ 3,381	¥ 3,671	\$ 34,734
Interest cost	961	989	1,043	9,868
Expected return on plan assets	(312)	(330)	(335)	(3,170)
Actuarial loss	1,195	6,942	—	—
Sub total	¥ 5,311	¥ 10,982	¥ 4,379	\$ 41,432
Other	—	268	284	2,688
Total	¥ 5,311	¥ 11,250	¥ 4,663	\$ 44,120

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,		
	2002	2003	2004
Discount rate at end of the year	2.3%	2.1%	1.8%
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 ¥826 million and ¥890 million (\$8,421 thousand) at 31st March, 2003 and 2004, 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,
	2003	2004	2004
Deferred income tax assets:			
Employees' retirement benefits	¥ 8,167	¥ 8,706	\$ 82,373
Depreciation	2,368	3,199	30,268
Accrued bonuses	2,148	3,039	28,754
Other	2,324	3,176	30,050
	<u>15,007</u>	<u>18,120</u>	<u>171,445</u>
Deferred income tax liabilities:			
Unrealised gain on other securities	(8,543)	(27,396)	(259,211)
Special tax-purpose reserve	(7,147)	(6,488)	(61,387)
Other	(164)	(30)	(284)
	<u>(15,854)</u>	<u>(33,914)</u>	<u>(320,882)</u>
Deferred tax liabilities, net	¥ (847)	¥ (15,794)	\$ (149,437)

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 for the related impact on the temporary differences expected to reverse after 1st April, 2004.

12. Income Taxes (continued)

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

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

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

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

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 (\$5,393 thousand) as of 31st March, 2003 and 2004, respectively.

Unrealised gain on other securities is not available for dividends.

Unrealised gain on other securities includes unrealised losses of ¥10 million and ¥41 million (\$388 thousand) on investment partnerships recorded as other assets for the years ended 31st March, 2003 and 2004, respectively.

14. Cash and Cash Equivalents

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

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	<u>31st March,</u>		<u>31st March,</u>
	<u>2003</u>	<u>2004</u>	<u>2004</u>
Cash and bank deposits	¥ 26,739	¥ 17,085	\$ 161,652
Short-term investments maturing within three months from the acquisition dates	62,021	79,727	754,347
Cash and cash equivalents	<u>¥ 88,760</u>	<u>¥ 96,812</u>	<u>\$ 915,999</u>

14. Cash and Cash Equivalents (continued)

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

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>	
	31st March,		31st March,	
	2003	2004	2004	
Non-cash transactions:				
Employee's retirement benefit fund trust				
Contribution of investment securities into employees' retirement benefit fund trust – book value	¥ 103	¥ –	\$ –	
Gain on securities contributed to an employee retirement benefit trust	6,736	–	–	
Contribution of investment securities into employees' retirement benefit fund trust – fair value	¥ 6,839	¥ –	\$ –	

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>	
	31st March,		31st March,	
	2003	2004	2004	
Net cash used for acquisition of businesses:				
Tangible fixed asset acquired	¥ –	¥ 12	\$ 114	
Intangible fixed asset acquired	–	268	2,535	
Cash provided for acquisition	¥ –	¥ 280	\$ 2,649	

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

15. Per Share Data

The per share data are summarised as follows:

	<i>Yen</i>		
	31st March,		
	2002	2003	2004
Earnings per share	¥ 504.96	¥ 337.26	¥ 399.44
Diluted earnings per share	¥ –	¥ –	¥ 399.42

15. Per Share Data (continued)

	<i>Yen</i>	
	31st March,	
	2003	2004
Shareholders' equity per share	¥ 4,112.61	¥ 5,089.72
	<i>U.S. dollars</i>	
	31st March, 2004	
Earnings per share	\$ 3.78	
Diluted earnings per share	\$ 3.78	
Shareholders' equity per share	\$ 48.16	

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

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, 2002 were restated in accordance with new method.

15. Per Share Data (continued)

The computation of earnings per share and diluted earnings per share for the years ended 31st March, 2002, 2003 and 2004 are as follows:

	<i>Millions of Yen</i>			<i>Thousands of U.S. dollars</i>
	31st March,			31st March,
	2002	2003	2004	2004
Numerator:				
Earnings	¥ 22,364	¥ 15,459	¥ 18,269	\$ 172,854
Earnings not available to common stockholders:				
Bonus to directors and statutory auditors	(361)	(283)	(295)	(2,791)
Earnings available to common stockholders	<u>¥ 22,003</u>	<u>¥ 15,176</u>	<u>¥ 17,974</u>	<u>\$ 170,063</u>
Denominator				
(Weighted average shares):				
Denominator for earnings per share	43,573,749	44,999,900	44,999,873	44,999,873
Potential dilutive common shares-stock options	—	—	2,018	2,018
Denominator for diluted earnings per share	<u>43,573,749</u>	<u>44,999,900</u>	<u>45,001,891</u>	<u>45,001,891</u>

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

	<i>Yen</i>		<i>U.S. dollars</i>
	31st March,		31st March,
	2003	2004	2004
Number of shares reserved for the purpose of new share issuance against exercise of the subscription rights (shares) *	80,500	80,500	80,500
Exercise price per share	¥ 17,913	¥ 17,913	\$ 169.49
Average stock price for the period that subscription rights are outstanding	¥ 12,059.30	¥ 10,488.54	\$ 99.24

* 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, 2003 and 2004, which would have been reflected in the consolidated balance sheets if finance lease accounting had been applied to the finance leases currently accounted for as operating leases:

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

	<i>Thousands of U.S. dollars</i>		
	Acquisition costs	Accumulated depreciation	Net book value
	31st March, 2004		
Machinery and equipment	\$ 121,734	\$ 73,564	\$ 48,170
Software	9,083	5,791	3,292
Total	\$ 130,817	\$ 79,355	\$ 51,462

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

	<i>Millions of yen</i>			<i>Thousands of U.S. dollars</i>
	31st March,			31st March,
	2002	2003	2004	2004
Lease payments	¥ 3,445	¥ 3,757	¥ 3,391	\$ 32,084
Depreciation	3,258	3,569	3,246	30,712
Interest expense	187	150	115	1,088

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, 2003 and 2004 are summarised as follows:

	<i>Millions of yen</i>				<i>Thousands of U.S. dollars</i>	
	Finance leases		Operating leases		Finance leases	Operating leases
	31st March,		31st March,		31st March,	
	2003	2004	2003	2004	2004	
Future minimum lease payments due:						
Within one year	¥ 3,677	¥ 2,875	¥ 278	¥ 161	\$ 27,202	\$ 1,523
Thereafter	5,342	3,850	413	370	36,427	3,501
Total	<u>¥ 9,019</u>	<u>¥ 6,725</u>	<u>¥ 691</u>	<u>¥ 531</u>	<u>\$ 63,629</u>	<u>\$ 5,024</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, 2003 and 2004.

	<i>Millions of yen</i>					
	Acquisition costs		Accumulated depreciation		Net book value	
	31st March,		31st March,		31st March,	
	2003	2004	2003	2004	2003	2004
Machinery and equipment	¥ 957	¥ –	¥ 957	¥ –	¥ –	¥ –
Software	63	–	63	–	–	–
Total	<u>¥ 1,020</u>	<u>¥ –</u>	<u>¥ 1,020</u>	<u>¥ –</u>	<u>¥ –</u>	<u>¥ –</u>

	<i>Thousands of U.S. dollars</i>		
	Acquisition costs	Accumulated depreciation	Net book value
	31st March, 2004		
Machinery and equipment	\$ –	\$ –	\$ –
Software	–	–	–
Total	<u>\$ –</u>	<u>\$ –</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, 2002, 2003 and 2004 are summarised as follows:

	<i>Millions of yen</i>			<i>Thousands of U.S. dollars</i>	
	Year ended 31st March,			Year ended 31st March,	
	2002	2003	2004	2004	
Lease revenue	¥ 501	¥ 131	¥ –	\$	–
Depreciation	412	102	–		–
Interest income	55	10	–		–

Future minimum lease income for finance leases as of 31st March, 2003 and 2004 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,	
	2003	2004	2003	2004	2004	
Future minimum lease income due:						
Within one year	¥ –	¥ –	¥ 916	¥ 960	\$ –	\$ 9,083
Thereafter	–	–	1,372	1,587	–	15,016
Total	¥ –	¥ –	¥ 2,288	¥ 2,547	\$ –	\$ 24,099

* 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, 2002, 2003 and 2004 are summarised as follows:

	<i>Millions of yen</i>			<i>Thousands of U.S. dollars</i>	
	31st March,			31st March,	
	2002	2003	2004	2004	
Personnel expenses	¥ 14,818	¥ 15,669	¥ 17,474	\$	165,333
Rent	4,103	3,737	3,505		33,163
Subcontractor costs	5,136	5,511	3,355		31,744
Other	8,511	7,118	7,615		72,050
Total	¥ 32,568	¥ 32,035	¥ 31,949	\$	302,290

18. Research and Development Costs

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

<i>Millions of yen</i>			<i>Thousands of U.S. dollars</i>
31st March,			31st March,
2002	2003	2004	2004
¥ 3,051	¥ 2,509	¥ 2,217	\$ 20,976

19. Other Income (Expenses)

1) Loss on real estate put option

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

2) Gain on investment securities

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

3) Loss on investment securities

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

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

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

19. Other Income (Expenses) (continued)

4) Gain on investments in affiliates

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

	<i>Millions of yen</i>			<i>Thousands of</i>
	<i>31st March,</i>			<i>U.S. dollars</i>
	<i>2002</i>	<i>2003</i>	<i>2004</i>	<i>31st March,</i>
				<i>2004</i>
Gain on sales of investments in affiliates	¥ –	¥ 137	¥ 3,784	\$ 35,803
Gain from changes in equity	–	405	193	1,826
	¥ –	¥ 542	¥ 3,977	\$ 37,629

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

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

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

5) Actuarial loss

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

6) 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.

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

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

20. Related Party Transactions

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

1) Transactions

Related party	Nature of transaction	Millions of yen			Thousands of U.S. dollars
		31st March,			31st March,
		2002	2003	2004	2004
a) Major shareholders					
Nomura Holdings, Inc. (formerly The Nomura Securities Co., Ltd.) *1	Sales	¥ 48,967	¥ 48,690	¥ 43,892	\$ 415,290
	Redemption of deposit	–	4,000	–	–
	Sale of investment in Nomura-CITIC International Economic Consultants Co., Ltd.	–	45	–	–
	Gain on above sale	–	41	–	–
b) Major shareholders' subsidiaries					
Nomura Real Estate Development Co., Ltd.	Rent	3,865	3,777	3,579	33,863
N.F. Biru Investments Co., Ltd. *2	Redemption of bond	–	7,000	–	–
	Interest received	201	269	–	–
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
		31st March,		U.S. dollars
		2003	2004	31st March, 2004
a) Major shareholders Nomura Holdings, Inc. (formerly The Nomura Securities Co., Ltd.) *1	Accounts receivable and other receivables	¥ 6,997	¥ 4,994	\$ 47,251
b) Major shareholders' subsidiaries Nomura Real Estate Development Co., Ltd.	Lease deposits paid	3,543	3,542	33,513

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

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

*2 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

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.

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

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

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

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

The terms of the subscription rights require that person be a Director or an Officer of the Company or one of its domestic subsidiaries, or be in an equal position, at the time of exercise. An eligible person or his inheritor can exercise a subscription right under certain other circumstances, such as death, expiration of term, etc. Transfer or pledge of the subscription right, or similar actions, are prohibited. The ordinary transaction closing prices on the Tokyo Stock Exchange for the last five consecutive days prior to the exercise date must be ¥20,000 or more per share and ¥11,100 or more per share for the subscription rights issued on 27th June, 2002 and 12th August, 2003, respectively, 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 systems solution services business, which includes developing and managing computer systems, selling software packages and selling computer equipment and related products.
- the consulting/knowledge services business, which includes providing investigation/research services, management consulting services and support services relating to the asset management business and the Company's e-commerce information technologybusiness.

23. Segment Information (continued)

The business segment information of the Company and its consolidated subsidiaries for the years ended 31st March, 2002, 2003 and 2004 is summarised as follows:

Business segments

<i>Millions of yen</i>					
Year ended 31st March, 2002					
	System solutions services	Consulting/knowledge services	Total	Eliminations and corporate	Consolidated
I. Sales and operating profit					
Sales to external customers	¥ 199,758	¥ 36,811	¥ 236,569	¥ –	¥ 236,569
Intersegment sales or transfers	2,758	1,567	4,325	(4,325)	–
Total sales	202,516	38,378	240,894	(4,325)	236,569
Operating expenses	174,981	35,541	210,522	(4,318)	206,204
Operating profit	¥ 27,535	¥ 2,837	¥ 30,372	¥ (7)	¥ 30,365

II. Total assets, depreciation and amortisation and capital expenditures					
Total assets	¥ 106,019	¥ 22,944	¥ 128,963	¥ 170,930	¥ 299,893
Depreciation and amortisation	9,043	3,377	12,420	–	12,420
Capital expenditures	19,271	3,456	22,727	–	22,727

<i>Millions of yen</i>					
Year ended 31st March, 2003					
	System solutions services	Consulting/knowledge services	Total	Eliminations and corporate	Consolidated
I. Sales and operating profit					
Sales to external customers	¥ 194,469	¥ 38,275	¥ 232,744	¥ –	¥ 232,744
Intersegment sales or transfers	3,473	1,747	5,220	(5,220)	–
Total sales	197,942	40,022	237,964	(5,220)	232,744
Operating expenses	174,297	36,488	210,785	(5,205)	205,580
Operating profit	¥ 23,645	¥ 3,534	¥ 27,179	¥ (15)	¥ 27,164

II. Total assets, depreciation and amortisation and capital expenditures					
Total assets	¥ 110,961	¥ 23,820	¥ 134,781	¥ 122,017	¥ 256,798
Depreciation and amortisation	10,047	3,197	13,244	–	13,244
Capital expenditures	17,694	2,779	20,473	(17)	20,456

<i>Millions of yen</i>					
Year ended 31st March, 2004					
	System solutions services	Consulting/knowledge services	Total	Eliminations and corporate	Consolidated
I. Sales and operating profit					
Sales to external customers	¥ 195,045	¥ 43,023	¥ 238,068	¥ –	¥ 238,068
Intersegment sales or transfers	3,466	1,549	5,015	(5,015)	–
Total sales	198,511	44,572	243,083	(5,015)	238,068
Operating expenses	176,212	38,844	215,056	(5,010)	210,046
Operating profit	¥ 22,299	¥ 5,728	¥ 28,027	¥ (5)	¥ 28,022

II. Total assets, depreciation and amortisation and capital expenditures					
Total assets	¥ 122,076	¥ 27,286	¥ 149,362	¥ 177,438	¥ 326,800
Depreciation and amortisation	15,154	2,596	17,750	–	17,750
Capital expenditures	21,879	2,370	24,249	(4)	24,245

23. Segment Information (continued)

Corporate assets included under "Eliminations and corporate" at 31st March, 2002, 2003 and 2004 amounted to ¥171,356 million, ¥122,817 million and ¥178,295 million (\$1,686,962 thousand), respectively, and consisted principally of surplus funds and investment securities.

<i>Thousands of U.S. dollars</i>					
Year ended 31st March, 2004					
	System solutions services	Consulting/ knowledge services	Total	Eliminations and corporate	Consoli- dated
I. Sales and operating profit					
Sales to external customers	\$ 1,845,444	\$ 407,068	\$ 2,252,512	\$ –	\$ 2,252,512
Intersegment sales or transfers	32,794	14,656	47,450	(47,450)	–
Total sales	1,878,238	421,724	2,299,962	(47,450)	2,252,512
Operating expenses	1,667,253	367,528	2,034,781	(47,403)	1,987,378
Operating profit	<u>\$ 210,985</u>	<u>\$ 54,196</u>	<u>\$ 265,181</u>	<u>\$ (47)</u>	<u>\$ 265,134</u>
II. Total assets, depreciation and amortisation and capital expenditures					
Total assets	\$ 1,155,038	\$ 258,170	\$ 1,413,208	\$ 1,678,854	\$ 3,092,062
Depreciation and amortisation	143,382	24,562	167,944	–	167,944
Capital expenditures	207,011	22,424	229,435	(38)	229,397

Geographical segments

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

Overseas sales

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

24. Subsequent Event

- 1) On 23rd June, 2004, 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, officers, employees who are equivalent to directors and officers, and the directors of its domestic subsidiaries. The subscription rights are exercisable at 105% of the average closing price of Company's shares of common stock on the Tokyo Stock Exchange for the month prior to the month in which the subscription rights are issued, or at the closing price on the date of issuance, whichever is higher. These subscription rights are exercisable over a three-year period from 1st July, 2006 to 30th June, 2009 provided that person, as of the exercise date, be a director or an officer or a statutory auditor of the Company or one of its domestic subsidiaries, or be in an equal position.

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, 2004, were approved at a meeting of the shareholders held on 23rd June, 2004:

	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>
Year-end cash dividends (¥40.00 = \$0.38 per share)	¥ 1,800	\$ 17,031
Directors' bonuses inclusive of statutory auditors' portion of ¥21 million (\$198 thousand)	203	1,921

Report of Independent Certified Public Accountants

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

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

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

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

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

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

Shin Nihon & Co.

23th June, 2004

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

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

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

1. Leases Capitalized as Assets

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

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

2. Impairment of Long-Lived Assets

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

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

3. Transferors of Real Estate to Special Purpose Entities

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

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

4. Accounting for Compensated Absences

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

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

5. Stock Option Plans

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

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

6. Interest Rate Swap

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

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

7. Bonuses to Directors and Statutory Auditors

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

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

8. Revenue Recognition

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

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

9. Guarantor's Accounting for Guarantees

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

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, 2004, the Company had 18 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, 2004.

Name	Country	Main Business	Issued Capital (thousands)	Equity held by the Company (per cent.)
Subsidiaries				
NRI Data Services, Ltd.	Japan	Data center operation; on-site operation of information and telecommunications systems	¥1,000,000	100.0
NRI Network Communications, Ltd.	Japan	Software development and sales, mainly in the Kansai area	¥450,000	100.0
NRI Learning Network, Ltd.	Japan	Training related to information and telecommunications systems	¥300,000	100.0
NRI 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 WEBrandia, Ltd.	Japan	Web Site development and management	¥200,000	100.0
Insurance System & Technology, Ltd.	Japan	Software development for non-life insurance industry	¥495,000	100.0
NRI Data i Tech, Ltd.	Japan	Maintaining systems equipment of Nomura Holdings and its subsidiaries and affiliates	¥10,000	100.0
NRI Holding America Inc.	USA	U.S. holding company	U.S.\$14,500	100.0
Nomura Research Institute America, Inc.	USA	Research and development and operation of information management systems in the U.S.	U.S.\$12,000	100.0
NRI Pacific Inc.	USA	Research on developments in the U.S. information technology industry	U.S.\$2,000	100.0
NRI Investment America, Inc.	USA	Investments in companies or venture capital funds in the information technology industry	U.S.\$6,000	100.0
Nomura Research Institute Europe Limited	England	Research and development and operation of information management systems in Europe	£1,350	100.0

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

MAJOR SHAREHOLDERS

Shareholders	Number of Shares Owned (thousands)	Percentage of Shares Outstanding
Nomura Asset Management Co., Ltd.	8,677	19.28
Nomura Land and Building Co., Ltd.	7,920	17.60
JAFCO Co., Ltd.	3,380	7.51
The Master Trust Bank of Japan, Ltd.(Trust Account)	2,682	5.96
Nomura Holdings, Inc.	2,600	5.78
Japan Trustee Services Bank, Ltd. (Trust Account)	2,210	4.91
State Street Bank and Trust Company	1,005	2.24
NRI Group Employee Stock Ownership Association	1,000	2.22
WORLD NICHIEI FRONTIER Securities Co., Ltd.	686	1.53
Takagi Securities Co., Ltd.	550	1.22

*At 18th May, 2004, Nomura Land and Building Co., Ltd. is no longer a major shareholder as a result of selling 7,720,000 shares to Nomura Realty Capital Management Co., Ltd. Nomura Realty Capital Management Co., Ltd., instead, became a major shareholder.

Directors and Corporate Auditors



Shozo Hashimoto
Chairman and Director



Kiyochika Ohta
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



Hisashi Imai
Director,
Corporate Executive
Vice President



Hisao Kayo
Director,
Corporate Senior
Vice President



Takao Shiino
Director,
Corporate Senior
Vice President



Masahiro Muroi
Director,
Corporate Senior
Vice President



Kunio Takeda
Director *1



Hironobu Goto
Corporate Auditor



Ryoichi Kobayashi
Corporate Auditor



Kenji Okada
Corporate Auditor



Masato Tanaka
Corporate Auditor *2



Hiroshi Izumitani
Corporate Auditor *2

Executive Officers (excluding those also serving as directors)

Corporate Executive Vice President
Takayoshi Kurinomaru

Corporate Senior Vice Presidents
Takashi Yakabe
Mamoru Suenaga
Toshiyuki Koyama
Tadashi Shimamoto
Mitsuru Sawada

Corporate Vice Presidents
Jun Suzuki
Yoshitaka Sugiyama
Masaki Tochizawa
Koji Yamada
Yoshiaki Ogawa
Toshinobu Ukawa
Sawaaki Yamada
Yoshihito Mitsugi
Shiro Tanikawa
Keiichi Ishibashi
Shigeru Hirota
Kouichi Miyauchi
Shin Kusunoki
Akira Horibe
Harumi Saito
Shingo Konomoto

Notes:

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

Nomura Research Institute, Ltd.

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

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(From 27th September, 2004)

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Nippon Building Center

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Kiba Center

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Osaka Center

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Seoul Branch

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33 Seorin-Dong, Chongro-ku,
Seoul, 110-752, Korea
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Taipei Branch

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Tel. +886(2)2718-7620

Manila Branch

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

NRI Data Services, Ltd.

129-6 Godo-cho, Hodogaya-ku,
Yokohama 240-8513, Japan
Tel. +81(45)336-1000
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NRI Network Communications, Ltd.

Aqua Dojima West Tower, 1-4-16 Dojimahama,
Kita-ku, Osaka 530-0004, Japan
Tel. +81(6)4797-2800
<http://www.nri-net.com>

NRI Learning Network, Ltd.

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

NRI Garden Network, Ltd.

(Established on 1st July, 2004)
134 Godo-cho, Hodogaya-ku,
Yokohama 240-8511, Japan
Tel. +81(45)335-9560
<http://www.nri-garden.net>

NRI Secure Technologies, Ltd.

Otemachi Building, 1-6-1 Otemachi,
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Tel. +81(3)5220-2022
<http://www.nri-secure.co.jp>

NRI Cyber Patent, Ltd.

Otemachi Building, 1-6-1 Otemachi,
Chiyoda-ku, Tokyo 100-0004, Japan
Tel. +81(3)5208-1011
<http://www.patent.ne.jp>

NRI WEBrandia, Ltd.

Nippon Building, 2-6-2 Otemachi,
Chiyoda-ku, Tokyo100-0004, Japan
Tel. +81(3)5201-2800
<http://webrandia.nri.co.jp>

NRI Shared Services, Ltd.

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

Insurance System & Technology, Ltd.

(Established on 4th November, 2003)
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Koto-ku, Tokyo 135-0042, Japan
Tel. +81(3)5639-1455
<http://www.instechno.co.jp>

NRI Holding America Inc.

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

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

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

Nomura Research Institute Hong Kong Limited

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

Nomura Research Institute (Singapore)

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

Corporate outline

Name

Nomura Research Institute, Ltd.

Head office address

Shin Otemachi Building, 2-2-1 Otemachi, Chiyoda-ku, Tokyo 100-0004, Japan

(From 27th September, 2004)

Marunouchi Kitaguchi Building, 1-6-5 Marunouchi, Chiyoda-ku,

Tokyo 100-0005, Japan

Tel. +81(3)5533-2111

History

Apr. 1965: establishment of Nomura Research Institute, Ltd. (NRI)

Jan. 1966: establishment of Nomura Computing Center, Ltd. (NCC)

Jan. 1988: merger of NRI and NCC

Capital

JPY18,600,000,000

Number of employees

3,393 (4,791 in the entire NRI Group)

Professionals

Information technology engineers

Systems auditors	132
Systems analysts	140
Project managers	167
Application engineers	463
Network systems engineers	378
Database systems engineers	163
Systems management engineers	81
Senior systems administrators	35

Securities analysts

143

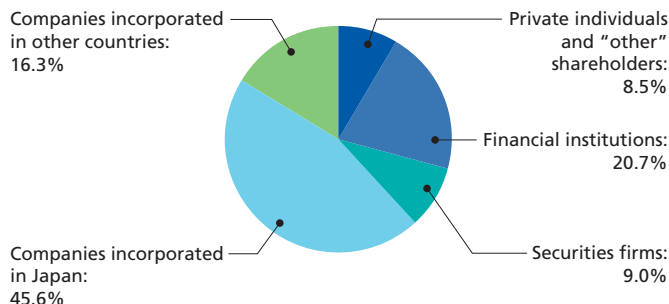
Major shareholders

Shareholders	Number of shares held (thousands)	Shareholding rate (%)
Nomura Asset Management Co., Ltd.	8,677	19.28
Nomura Land and Building Co., Ltd.	7,920	17.60
JAFCO Co., Ltd.	3,380	7.51
The Master Trust Bank of Japan, Ltd. (Trust Account)	2,682	5.96
Nomura Holdings, Inc.	2,600	5.78
Japan Trustee Services Bank, Ltd. (Trust Account)	2,210	4.91
State Street Bank and Trust Company	1,005	2.24
NRI Group Employee Stock Ownership Association	1,000	2.22
WORLD NICHIEI FRONTIER Securities Co., Ltd.	686	1.53
Takagi Securities Co., Ltd.	550	1.22

Stock data

Total number of shares	150,000,000
Total number of shares issued	45,000,000
Number of shareholders	14,638

Breakdown of shares by shareholder category



Shareholder memo

Fiscal Year end

31st March, every year

Ordinary general meeting of shareholders

Every June

Transfer agent

UFJ Trust Bank Limited

1-4-3 Marunouchi, Chiyoda-ku, Tokyo, Japan

Transfer agent office (address for inquiries and posts)

Securities Agent Department, UFJ Trust Bank Limited,

7-10-11 Higashisuna, Koto-ku, Tokyo 137-8081, Japan

Tel: +81(3)5683-5111

Mediation offices

All branch offices of UFJ and all offices (head and branch) of Nomura Securities, nationwide

Unit of share sales

100 shares

Newspaper of public notice

Nihon Keizai Shimbun (Japan Economic Journal)

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

Inquiries

IR Department

Nomura Research Institute, Ltd.

E-mail: ir@nri.co.jp

Stock performance





Nomura Research Institute, Ltd.

Shin Otemachi Building, 2-2-1 Otemachi,
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