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Consolidated Financial Five-Year Summary

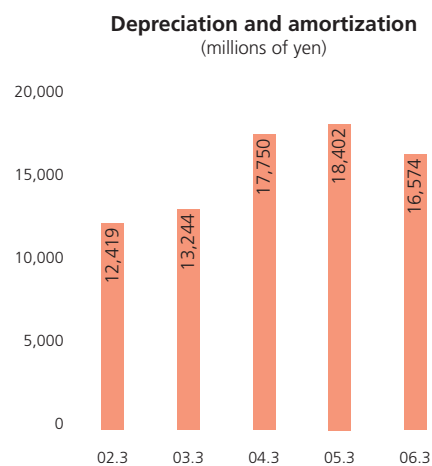
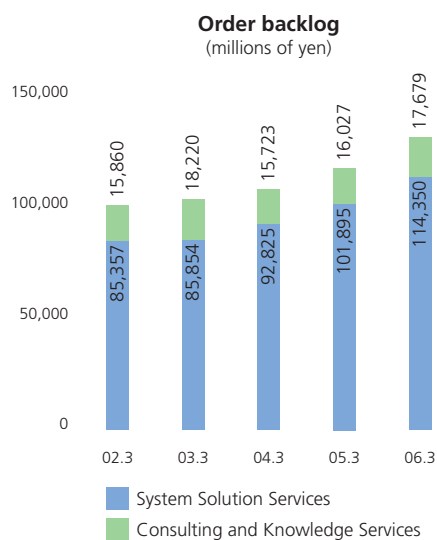
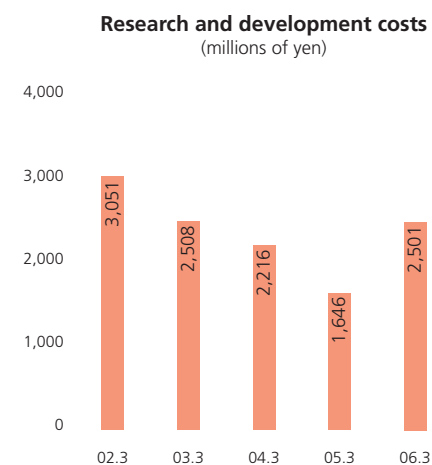
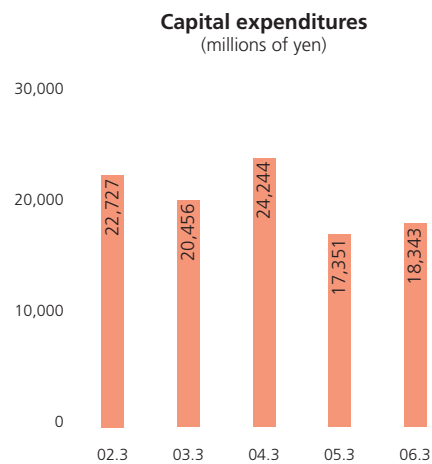
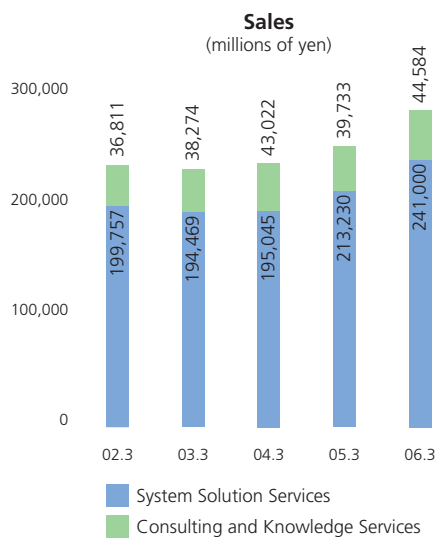
For the years ended 31st March

Millions of yen

	2002.3	2003.3	2004.3	2005.3	2006.3
For the year:					
Sales	236,569	232,743	238,067	252,963	285,585
System Solution Services	199,757	194,469	195,045	213,230	241,000
Consulting and Knowledge Services	36,811	38,274	43,022	39,733	44,584
Cost of sales	173,636	173,545	178,096	190,732	213,706
Operating profit	30,364	27,164	28,022	30,159	36,469
Income before income taxes	39,009	27,177	32,927	27,361	37,535
Net income	22,363	15,459	18,269	16,303	22,518
Orders received	241,038	235,874	242,647	262,411	300,100
System Solution Services	203,628	195,105	202,121	222,299	253,398
Consulting and Knowledge Services	37,409	40,768	40,526	40,112	46,701
Capital expenditures	22,727	20,456	24,244	17,351	18,343
Research and development costs	3,051	2,508	2,216	1,646	2,501
Depreciation and amortization	12,419	13,244	17,750	18,402	16,574
At year-end:					
Total assets	299,892	256,798	326,799	317,341	311,786
Shareholders' equity	195,564	185,350	229,331	231,766	209,301
Order backlog	101,218	104,074	108,548	117,923	132,030
System Solution Services	85,357	85,854	92,825	101,895	114,350
Consulting and Knowledge Services	15,860	18,220	15,723	16,027	17,679
Yen					
Per share:					
Net income (EPS)	504	337	399	362	519
Shareholders' equity	4,338	4,113	5,090	5,150	5,152
Cash dividends	20	20	40	100	140
Other information:					
Operating profit margin (%)	12.8	11.7	11.8	11.9	12.8
Return on sales (%)	9.5	6.6	7.7	6.4	7.9
Return on equity (%)	12.4	8.1	8.8	7.1	10.2
Equity ratio (%)	65.2	72.2	70.2	73.0	67.1

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

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



Business Outline for Fiscal 2005 (Year ended 31st March, 2006)

1. Outline of Business Results

(1) Business Circumstances

The Japanese economy during fiscal 2005 continued the recovery. In addition to an increase in capital expenditure fueled by improved corporate profits, unemployment was lower and we saw a modest increase in personal consumption.

In the information service industry, in addition to a broad-ranging growth in demand in the financial services sector, demand in the non-manufacturing and other sectors also continued the path towards the recovery. Meanwhile however, our clients' requests are putting greater emphasis on deadlines, costs and security measures while also requiring more sophisticated proposal content. We are therefore required to strive harder to provide the right solution for these clients' needs.

Under these business circumstances, the NRI Group (the Company and its consolidated subsidiaries) has been continuously striving to strengthen its operating activities and business base in line with our basic strategy of "Navigation and Solution" by taking advantage of our total capacity to offer an end-to-end service from consulting through to system development and management as well as selectively allocating our human resources to large-scale projects. We established an organization dedicated to the research and proposal of industry-specific solutions and actively provided in-depth IT (information technology) strategy proposals for our clients. We also gained new clients in the distribution and manufacturing sectors through continued expansion of our operating activities including outsourcing service contracts. In response to this growth we acquired land in February 2006 to build a new state-of-the-art data center to service our growing outsourcing service contracts and fulfill the needs of sophisticated contingency measures for our clients.

(2) Business Results for Fiscal 2005

The sales and profit of the Company for fiscal 2005 were up significantly from the previous fiscal year, posting sales of 285,585 million yen (up 12.9% from the previous year), operating profit of 36,469 million yen (up 20.9%), and net income of 22,518 million yen (up 38.1%).

The order backlog for fiscal 2005 amounted to 132,030 million yen (up 12.0%) because of an increase in demand for system management and operations services for the financial services sector and receiving large-scale project orders for the public sector.

Business Results by Sector

The sector of strongest growth was the financial services sector. Our performance in this sector was strong overall because of an increase in projects for major clients, and good results in system development projects and system operation for securities industry. Also in the distribution sector the business has been brisk, mainly in regard to projects for major clients.

Costs

By proactively engaging Chinese companies for system development, strengthening project management, and carrying out system operation business more efficiently, we were able to minimize the increase in cost of sales, and as a result the gross profit margin was improved compared to the previous year. On the other hand, selling, general and administrative expenses increased because of an increase in costs for security and prior investment for the research and development activities. The influence of the extraordinary profit/loss was minor for fiscal 2005.

Business Results by Segment (System Solution Services)

In the System Solution Services segment, the sector of strongest growth was the financial services sector. While sales of this sector was led by the projects for major clients, we also undertook the system integration projects caused by mergers of financial institutions and the system development projects for securities industry. As for system management and operations services, system operations for the securities industry and insurance industry, and network operations for the banking industry performed well. Performance was also favorable in regard to product sales as there was an increase in projects, mainly for major clients, which involved either the introduction of new equipment such as in the system development for securities industry or the updating of systems.

We also enjoyed good sales results in the distribution sector from system development and system application sales due to an increase in system development projects and other projects. As for system management and operations services, system operation for major clients also progressed strongly. For the public sector the trend was also positive with increases in both system development and system operation.

In terms of costs, although there was an increase in subcontracting costs accompanying the operations of large-scale system development projects, the substantial efficiency gains in respect to system operation business kept a lid on the increase in its operating costs.

As a result, the System Solution Services segment recorded sales (sales to external customers) of 241,000 million yen (up 13.0% from the previous year) and operating profit of 31,332 million yen (up 28.0%). The sales breakdown of these services is as follows: system development and system application sales of 104,395 million yen (up 16.8%), system management and operations sales of 106,212 million yen (up 8.9%) and product sales 30,392 million yen (up 15.6%).

The system development and system application sales order backlog was 20,695 million yen (up 48.1%) due to large-scale project orders for the public sector and strong orders for the insurance industry. The system management and operations order backlog was 92,633 million yen (up 5.4%) due to strong demand from the financial services sector. Total order backlog for System Solution Services segment was 114,350 million yen (up 12.2%).

(Consulting and Knowledge Services)

In the Consulting and Knowledge Services segment, there was a strong positive trend in all areas of consulting. In addition to an increase in consulting for the private sector, such as support services for creating corporate management strategies and visions, corporate reorganization and business strategies and plans, there was also an increase in projects for central government agencies such as assistance for conducting trials in society. Performance was strong also for our asset management related services including the existing investment information service and our new investment advisor service, which were both benefited from a bullish stock market.

On the other hand, costs for this segment also increased because we recently explored updating our asset management related services and outlaid prior investment for new business development.

As a result, the Consulting and Knowledge Services segment recorded sales (sales to external customers) of 44,584 million yen (up 12.2% from the previous year), and operating profit of 5,158 million yen (down 9.4%). Total order backlog for the Consulting and Knowledge Services segment was 17,679 million yen (up 10.3%) due to strong demand for both asset management related services and consulting services.

(3) Cash Flows

Fiscal 2005 cash flows were 48,875 million yen from operating activities, 17,853 million yen from investing activities and a deficit of 54,828 million yen from financing activities. As a result, cash and cash equivalents at end of the year increased by 12,075 million yen to 50,752 million yen.

Cash Flows from Operating Activities

Due to the strong business results, income before income taxes was 37,535 million yen (up 37.2% from the previous year). In addition, depreciation and amortization amounted to 16,574 million yen (down 9.9%). Furthermore, accounts payable increased by 9,616 million yen. On the other hand, the amount of the income taxes paid was 18,371 million yen (up 10.2%). As a result, net cash provided by operating activities amounted to 48,875 million yen (up 77.3%).

Cash Flows from Investing Activities

Aside from equipment for system operation and land acquisition for building a new data center, we also developed a multi-user system. As a result, we used 9,799 million yen (up 21.7% from the previous year) to acquire property and equipment and 8,211 million yen (down 12.0%) to acquire software and other intangibles as well as 18,264 million yen (down 29.7%) to acquire short-term investment securities and 11,975 million yen (down 70.0%) to acquire investment securities, principally for the fund management. We meanwhile gained 65,803 million yen on sales and redemption of short-term investment securities and investment securities. As a result, net cash provided by investing activities amounted to 17,853 million yen.

Cash Flows from Financing Activities

We used 48,527 million yen for purchase of treasury stock. In addition, the amount of cash dividends paid was 5,840 million yen (up 116.7% from the previous year). As a result, net cash used in financing activities amounted to 54,828 million yen.

2. Production, Orders and Sales

(1) Actual Production

<1> Actual production

Segment by type of business	Amount (millions of yen)	Changes from previous year (%)
System Solution Services	156,607	12.0
System development and system application sales	81,570	23.3
System management and operations	75,037	1.9
Consulting and Knowledge Services	28,960	16.9
Total	185,568	12.7

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

<2> Subcontracting costs (Subcontracting costs and its ratio to total production for fiscal 2005)

Segment by type of business	Amount (millions of yen)	Ratio to total production (%)	Changes from previous year (%)
System Solution Services	76,128	48.6	18.9
System development and system application sales	50,566	62.0	27.0
System management and operations	25,561	34.1	5.4
Consulting and Knowledge Services	11,207	38.7	22.8
Total	87,335	47.1	19.4

Notes: 1. Of the above amounts, the subcontracting costs to Chinese companies and its ratio to total subcontracting costs are shown below.

	Fiscal 2004 (From 1st April, 2004 to 31st March, 2005)		Fiscal 2005 (From 1st April, 2005 to 31st March, 2006)		Changes from previous year (%)
	Amount (millions of yen)	Ratio to total subcontracting costs (%)	Amount (millions of yen)	Ratio to total subcontracting costs (%)	
Subcontracting costs to Chinese companies	6,459	8.8	10,019	11.5	55.1

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

(2) Orders Received and Order Backlog

Segment by type of business	Orders received (millions of yen)	Changes from previous year (%)	Order backlog (millions of yen)	Changes from previous year (%)
System Solution Services	253,398	14.0	114,350	12.2
System development and system application sales	111,155	23.6	20,695	48.1
System management and operations	110,829	4.4	92,633	5.4
Product sales	31,414	19.5	1,021	—
Consulting and Knowledge Services	46,701	16.4	17,679	10.3
Total	300,100	14.4	132,030	12.0

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

(3) Actual Sales

<1> Sales by segment

Segment by type of business	Sales (millions of yen)	Changes from previous year (%)
System Solution Services	241,000	13.0
System development and system application sales	104,395	16.8
System management and operations	106,212	8.9
Product sales	30,392	15.6
Consulting and Knowledge Services	44,584	12.2
Total	285,585	12.9

Notes: 1. Sales to major clients and its ratio to total sales are shown below. As a general rule, sales to subsidiaries of major clients are included in sales to the parent company.

Client	Fiscal 2004 (From 1st April, 2004 to 31st March, 2005)				Fiscal 2005 (From 1st April, 2005 to 31st March, 2006)	
	Figures previously recorded		Figures based on new grouping criteria		Sales (millions of yen)	Ratio to total sales (%)
	Sales (millions of yen)	Ratio to total sales (%)	Sales (millions of yen)	Ratio to total sales (%)		
Nomura Holdings, Inc.	67,000	26.5	67,102	26.5	88,725	31.1
Seven & I Holdings Co., Ltd.*	30,597	12.1	31,808	12.6	34,907	12.2

- Sales via lease companies are included in the sales to the clients who receive the final service etc.
The new grouping method is used from fiscal 2005, but it is also being retroactively applied to the previous year (Figures based on new grouping criteria).
- Figures indicate sales to outside clients, excluding internal sales or transfer between service segments.
- *Note: The figures for the previous fiscal year are the sales and its ratio to total sales for Ito-Yokado Co., Ltd.
- Figures do not include consumption tax and other items.

<2> Sales by sector

Segment by type of business	For fiscal 2004 (From 1st April, 2004 to 31st March, 2005)				For fiscal 2005 (From 1st April, 2005 to 31st March, 2006)	
	Figures previously recorded		Figures based on new grouping criteria		Sales (millions of yen)	Ratio to total sales (%)
	Sales (millions of yen)	Ratio to total sales (%)	Sales (millions of yen)	Ratio to total sales (%)		
Financial services	149,864	59.2	152,326	60.2	178,168	62.4
Distribution	43,138	17.1	46,204	18.3	49,681	17.4
Other private sectors	42,668	16.9	35,712	14.1	36,720	12.9
Public	17,291	6.8	18,714	7.4	21,014	7.4
Total	252,963	100.0	252,963	100.0	285,585	100.0

- Notes: 1. As a general rule, sales to subsidiaries are included in the sector to which the parent company belongs.
- Sales via lease companies are included in the sales to the clients who receive the final service. The new grouping method is used from fiscal 2005, but it is also being retroactively applied to the previous year (Figures based on new grouping criteria).
 - Figures do not include consumption tax and other items.

3. Management Tasks

Accompanying the current economic recovery is a growing demand within companies to invest in information systems. Meanwhile, the client demands for information systems are becoming increasingly sophisticated and greater emphasis is being placed on deadlines, cost and security measures. Furthermore IT service providers to corporations are receiving increasingly stronger requests related to client corporation's internal controls and the information services industry is being asked to find solutions for an evermore greater number of demanding needs.

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

Proper Handling of Large-scale Projects

We bring large-scale projects for major clients to a successful completion by selectively allocating our human resources such as establishing a dedicated organization for proposal of IT strategies and a dedicated organization for quality management. Moreover, once we accept a new large-scale project order, we faithfully commit ourselves to seeing the project out to its end. Through handling these large projects, we are improving our cutting-edge project management capabilities, which will broaden the scope of the Group's total capabilities for future business growth.

Enhancing Profitability

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

Strengthening Sales Capacity

We are striving to further improve our total capabilities from consulting through to system development and system operations in line with our basic strategy of "Navigation and Solution", which is to grasp the essence of the customer's management objectives, to propose strategies to achieve them, and to provide measures to bring such strategies to fruition as results. We will also focus on

acquiring new projects by taking advantage of our system foundation technology. Through these activities, we strive to build a solid relationship of trust with our clients.

Fostering Human Assets

It is our human assets that are fundamental to the growth of the NRI Group and so we are investing much energy into systematically fostering our human assets. In our project manager training scheme, which we have been working on for a while, we aim to develop young talented employees by giving opportunities in the form of practical experience as well as by actively utilizing in-house accreditation systems. In addition to this, we place an emphasis on fostering proposal-oriented sales professionals, who can create business by accurately grasping complex and diverse client needs and fostering future management executives who can lead NRI in the next generation. We aim to foster our human assets through strategically planned support developed by Human Resource Development Division. Furthermore, we will continue to enhance our training programs and employee benefits suitable for professions.

Security Management

Under the recent stern scrutiny of corporate security management, how a company handles its security management is having a strong influence on the company's competitive strength. At the NRI Group, we are constantly enhancing our stringent security management through measures such as introducing advanced security technology and tightening access rules and we plan to further tighten our security in the future. In addition to setting security measures for our systems within the entire Group, as for access to equipments and usage of data, we will handle the security issues by establishing rules, as may be necessary, per individual project through consultation with the client.

Internal Controls

In response to the Company Law that took effect in May 2006, corporations must improve internal controls inside the company such as having to provide a system to ensure that the execution of the duties of the board of directors complies with laws and the articles of incorporation. In April 2006, the Company appointed an executive director to be in charge of internal controls and we established the Internal Control Promotion Department and the Internal Control Committee to build more effective internal control systems for the entire NRI Group. We will continue our efforts to further strengthen our internal control system into the future.

Corporate Social Responsibility (CSR)

The NRI Group acknowledges that contribution to society through its business activities and research activities is the source of CSR activities and will carry out its corporate activities in line with high aspirations of its management philosophy of "Winning the trust of our clients and prospering together with them" and "Gaining insight into the paradigms of a future society and propelling its realization."

4. Business and Other Risks

The following summarizes the major attributes of the NRI Group's (NRI and its consolidated subsidiaries) operations and inherent risks. The risks that we list here are the representative risks inherent to our business as of the end of March 2006, and it is not limited to the following risks that may actually arise.

(1) Risks Concerning the Business Environment

<1> Price competition in the information service industry

There is fierce competition amongst service providers in the information service industry and clients' demands for competitive pricing is getting stronger. Moreover, there is likelihood that price competition will continue in the future due to the participation of new service providers from other industries, the emergence of overseas companies and the increase in demands for package products.

In these business circumstances, the NRI Group is striving to differentiate our service from competitors by offering the high-value-added services through further enhancement of our total capacity to offer an end-to-end service from consulting through to system development and operation. However if price competition continues to intensify further than our forecast, the NRI Group's business performance may be adversely affected.

<2> Stability of management and operations contracts with clients

Expansion of the system management and operations business requires various investments such as real estate for a data center, equipment for operations and software, and returns from such investment are obtained over the long-term through client contracts.

The NRI Group is working hard to steadily get a return on investment amounts through careful management of works in progress and continuous credit control of clients. Although we look to secure multi-year contracts for systems management and operations, we may be required to operate on single-year contracts. Even when we operate on single-year contracts however, the contracts are often

renewed automatically based on a trusting relationship with our client, so we view sales to be comparatively stable.

Nevertheless, there is no guarantee that this stability in sales for systems management and operations will continue in the future; each time a client business undergoes a merger, or bankruptcy, or when a client decides to drastically reexamine its information systems strategies, there is a possibility that they will not renew their contract with the NRI Group.

<3> Capital relationship with Nomura Holdings, Inc. and its affiliates

As of the end of March 2006, Nomura Holdings, Inc. held 37.1% of the voting rights of the Company (including 30.7% of indirectly held voting rights, and of that 21.4% is held by its wholly-owned subsidiary Nomura Asset Management Co., Ltd.). In addition, its affiliated companies such as JAFCO Co., Ltd. held 8.3% of the Company's voting rights.

However, there is no guarantee that the current stability of the percentage of shares held by Nomura Holdings, Inc. and its affiliates will continue in the future.

(2) Risks Concerning Business Strategy

<1> Dependence on specific business categories and clients

The NRI Group sales showed strong dependence on specific business sectors and clients. For fiscal 2005, the NRI Group's combined sales to the financial services and distribution industries accounted for a little less than 80% of our total sales. Moreover, NRI Group's combined sales to our major clients, Nomura Holdings, Inc. and its subsidiaries, and Seven & I Holdings Co., Ltd. and its subsidiaries, amounted to a little more than 40% of total sales.

The NRI Group sees its greatest defining strengths that set the Group apart from the competition are its business know-how in the financial services and distribution industries, which the Group has gained from extensive experience in accurately meeting the advanced needs of clients; and its know-how of development and operations of large-scale and cutting-edge high tech systems. We are working to further strengthen relationships with our major clients that we have cultivated over many years through our establishment of a dedicated organization to propose IT (information technology) strategies for specific industry sectors as well as our strategic assignment of our personnel to projects for major clients. Taking advantage of these strengths, we also will be proactively working to acquire new clients.

However, it is possible that in the future the NRI Group could experience an enormous impact on business performance if the business environment changed rapidly, which

might arise out of changes to the legal system in a specific sector, or if the business circumstances of our major clients changed or they radically reexamine their information systems strategies. There is also a possibility that the NRI Group, against expectations, is unable to secure new clients.

<2> Technological changes in the information service industry

In the information service industry we have to constantly respond to match market needs that change as information technology evolves.

Acknowledging such a changing business climate, the NRI Group is striving to respond rapidly to technological innovations by being proactively involved in investigation and research of advanced, basic and developmental IT technologies.

However if our response to rapid changing technology is slow, it could adversely affect the NRI Group's business performance.

<3> Investment in human resources

We believe that the specialized expertise of our employees is the foundation of the high-value-added services we provide. Also, hiring and fostering highly specialized human resources and establishing personnel systems and workplace environments that allow these individuals to demonstrate their full potential is necessary to build long-term trusting relationships between the NRI Group and our clients and ultimately enable the Group to achieve medium to long-term growth.

We at the NRI Group perceive our employees as valuable "human assets," and are dedicated to creating a system that allows us to secure these assets and develop them. Specifically, to secure these talented specialists we are actively holding employment seminars and internship programs. As part of our strategies for personnel development systems, we offer assistance to and subsidize our employees to obtain various licenses and qualifications and hold many human resources development seminars at a facility dedicated for employee education and training. We are striving to foster and develop highly specialized professionals with the latest and most advanced expertise, by encouraging the employees to improve themselves through taking advantage of the NRI Group's in-house certification scheme. In addition to this, we are committed to structuring our human resources system and equipping our workplace environment to accommodate a wide range of employees with diverse work styles and values through measures such as expanding our childcare assistance scheme.

Despite the above efforts, if we fail to secure and develop professionals who can respond to the highly specialized

demands of our clients, the NRI Group's performance could be adversely affected. Also, if workplace conditions deteriorate, that could possibly lead to an exodus of personnel or a drop in worker productivity.

<4> Investment in software

The NRI Group invests in software to expand its business, including product sales, multi-user services and outsourcing services. In many cases the software is designed for specific use and it cannot be readily readapted for other applications, which means that careful consideration must be put into when deciding to make such an investment.

At the NRI Group, we exhaustively discuss the legitimacy of each business plan before commencing software development. We also have an internal system whereby regular checks on the plan's progress enable prompt revision to the plan when necessary, both in the development stage and after completion.

However, with this type of software investment, there is never a total guarantee that the initial investment will be recovered and there is a chance of the capital not being recovered and a loss being recorded.

<5> Investment in stocks

With a view to cultivate future business opportunities, the NRI Group invests in various companies as well as the equity of its clients after carefully examining the expected return on investments in order to strengthen business ties. At the end of March 2006, the NRI Group's stock investments accounted for more than 30% of total assets.

In the event of bankruptcy or business deterioration of a company the Group invests in, the Group may incur an impairment loss or might not be able to recover the amount of its investment. Moreover, the marketable shares have the inherent risk of market price fluctuations due to changes in the economic climate and corporate profitability, which, in turn, could affect the Group's financial position.

(3) Risks Concerning Business Management

<1> Quality

The NRI Group aims to provide clients with high-value-added services by taking advantage of our total capabilities from consulting through to system development and system operations by following a basic strategy of "Navigation and Solution", which is to grasp the essence of the client's management objectives, propose strategies to achieve those objectives and provide measures to bring such strategies to fruition as results, and our clients expect from us a high quality service.

i. Consulting services

In our consulting services, we are working hard to establish systems that offer high quality services such as the provision of infrastructure that allows the company-wide sharing of information on the know-hows accumulated within the company. In addition to this, we are committed to continuing to improve quality in the future through conducting client satisfaction surveys, analyzing results and providing feedback.

However, if we are unable to provide the high quality service that our clients expect, this may hinder prospects for future business contracts.

ii. System development

Generally, system development projects are undertaken on a contract basis. We are obliged, under such a contract, to complete an information system and deliver it by the specified deadline. However, there are many possible scenarios, where work other than what was envisaged at the signing of the contract, may be required to complete such a contract. For example, a project may require more man-hours than the initial estimate due to requirement changes made before completion, which may delay the delivery, or the project may require additional improvements on system performance even after delivery. In addition, customers are demanding shorter development periods for information systems, while the functions that the clients demand are getting more advanced and complex. As a result, a project may require more work than initially expected to meet these demands. The NRI Group receives orders for long-term projects that may take several years. In such projects, it is highly likely that requirements change due to the changes in the surrounding environment and technology.

Therefore, in order to deal with these situations, we are making efforts to ensure that project estimate examination before the contract signing as well as project management after the contract signing are done properly by taking various measures such as improving the management abilities of our project managers through training programs, and providing quality management systems based on ISO 9001*. In particular, we have established exclusive examination bodies, such as the system development committee, for projects over a certain size in order to thoroughly review the projects according to their progress right through to when the system is delivered and is in stable operation.

However, in the event that extra costs are incurred, such as an increase in man-hours or performance improvement work conducted after delivery, the project's final profitability may deteriorate. Moreover, if the client's business is harmed because of a delay in delivery or because of faults with the delivered information system, not only may we be

liable to pay reparation for loss, it also may be detrimental to the reputation of the NRI Group.

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

iii. System management and operations service

The information systems that the NRI Group develops are often important platforms for client business and it is absolutely essential that these systems operate stably after completion.

The NRI Group has long been making aggressive efforts to enhance and improve the quality of system operation. We are continuously striving to maintain and improve the quality of services we provide, based on the ISO 9001 quality management system, ISMS* and other certification standards.

Still, in cases where stable operation according to the standard agreed to with the client cannot be achieved for reasons including a human error such as neglecting to follow the correct operating procedures, malfunction of the equipments, or the occurrence of a disaster, not only may the NRI Group's business performance be adversely affected, it also may be detrimental to the reputation of the NRI Group.

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

<2> Subcontracting partners

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

The NRI Group mainly outsources the programming of its information system development business and also some of its system management and operations services. In fiscal 2005, subcontractors were responsible for less than 50% of the actual production. To ensure that the NRI Group's operations run smoothly, it is essential to secure the cooperation of superior subcontracting partners and maintain good business ties with them.

At the NRI Group therefore, we strive to secure superior subcontracting partners by collecting corporate information on the subcontracting partner, performing corporate screening regularly and searching for new collaborating partners both domestically and overseas. We are also striving to improve productivity and quality of the Group including the subcontracting partners by sharing project risks with our "ePartner contract" companies, who are our major subcontracting partners, and demanding the subcontracting partners to rigorously comply with security and information management.

Our subcontracting partners are not only in Japan; they are also spread out in various overseas locations, especially

China. Currently, Chinese companies account more than 10% of subcontracting costs. We are therefore striving to strengthen this system of cooperation by regularly dispatching executives to China to visit the subcontracting partners and check the project status.

In spite of all those efforts, in case we fail to secure superior subcontracting partners or maintain a good business relationship with them, we might not be able to conduct business operations smoothly. Especially in subcontracting to a subcontracting partner overseas, an unexpected event may occur caused by a political, economical and social factor that is different from Japan.

<3> Intellectual property rights

We are witnessing a growing importance of intellectual property rights related to information systems and software, such as patents for business models related to electronic commercial transactions.

With these circumstances in mind, in development of information systems, the NRI Group is constantly investigating if there is a possibility of breaching another party's patent. Furthermore, through education, training and other measures, we are raising our employee's awareness of intellectual property rights. At the same time, we recognize that intellectual property is an important business resource, so through proactively investing in applications for patents, we are rigorously protecting the intellectual property of the NRI Group.

If, despite the above measures, the product or service of the NRI Group breaches the intellectual property rights of a third party; not only would this potentially make the NRI Group liable for reparation, we may be ordered to stop using an information system, and be forced to stop a service, which could have a major impact on business execution. There is also the possibility that the NRI Group's intellectual property could be breached.

<4> Assets and liabilities related to retirement benefits

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

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

The pension plan assets, meanwhile, generally fluctuate depending on the trends in the stock market and with the interest rates. At the end of the March 2006, of the NRI Group's pension plan assets of 54,535 million yen, 6,660 million yen was invested in the shares of the employee retirement benefit trust. Consequently, the NRI Group's pension plan assets run the risk of fluctuating with the changes in the shares' market prices.

(4) Risks Concerning Information Security

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

We are keenly aware of this situation and the NRI Group carries out thorough security management, including measures to ensure compliance with the Personal Information Protection Law by, for example, our main departments taking a leading role in establishing protocol and security measures to help in the management of information. We have, for instance, introduced an entry/exit control system, we are conducting training relating to the protection of personal information and the management of information as well as thoroughness of personal computer security measures, and we are working hard to constantly maintain an advanced security level. Particularly, in our data centers where we manage our clients' systems and store important information, we have introduced stricter entry/exit controls such as X-ray scanning of articles being brought in and out of the facilities.

However, if information leaks occur despite our efforts, it may not only adversely affect our business results, but also may be detrimental to the reputation of the NRI Group.

5. Important Business Contracts

There was none.

6. Research and Development Activities

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

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

The above research and development activities are conducted on an ongoing basis at the Advanced Information Technology Division, the technology development arm of the NRI Group, and at the Center for Knowledge Exchange & Creation, the Group's think tank. In addition, each of our divisions is actively involved in business and product development from a medium to long term perspective. These activities may be handled through the collaboration system among divisions by means of horizontal organizational structures. Taking the primary role in the management of research and development is the Research and Development Committee, which is comprised of specialists in each field. The committee examines the appropriateness of each project, in terms of the usability for our business, from the project planning stage to the eventual utilization of the project results, improving the quality of our research and development activities.

In fiscal 2005, our research and development costs amounted to 2,501 million yen. The research and development activities by each segment are as follows.

System Solution Services

As part of research into new businesses and new product development, we carried out research related to technological appraisal of a next-generation on-line securities trading model, development of quantification models for data in written works and authentication systems for e-money centers. In the field of information technology, we created a report entitled "The 2010 IT Road Map" to state our outlook for technology trends in the mid-term. We also carried out research into basic technology to strengthen information security within companies and research into technology for systems that utilize RFID(*1). In addition, we worked on building a test automation process for system development in order to improve productivity and quality, and made inroads in developments relating to making system development architecture (design concepts and basic designs) sharable, and techniques to visualize the progress and quality of system development.

Consequently, our research and development costs for System Solution Services came to 1,312 million yen.

Consulting and Knowledge Services

As part of research into new businesses and product development, we worked on development of marketing techniques that utilize Internet surveys and organizational analysis tools. We also conducted survey and research related to GDS(*2) and field surveys related to automation of wholesale trading activities for buying and selling of securities. As part of our research into social systems, we carried out research into strategies to manage official debt and measures for the declining birthrate and the aging society, and we conducted surveys relating to the broadband market. We also created a report to state our outlook of the future image of Japan in 2010, covering a variety of fields including financial and distribution issues. In regard to relationships in China, we conducted surveys on market trends for information services in China and designed and constructed brand evaluation methods for Japanese companies in China, as well as established a system of collaborative study with a Chinese university.

Consequently, our research and development costs for Consulting and Knowledge Services amounted to 1,189 million yen.

*1: RFID (Radio Frequency Identification) is a technique for identifying and managing products by attaching a small data embedded chip to them. It is becoming increasingly popular for the distribution of consumable goods such as foods.

*2: GDS (Global Data Synchronization) is a system specification to standardize product information for manufacturing and distribution. North American and European private organizations are currently pushing for GDS to become the global standard.

7. Analysis of Financial Position and Business Results

Projections for the future contained in this report were deemed valid at the end of fiscal 2005; however, the accuracy of these projections are by no means guaranteed by the NRI Group (the Company and its consolidated subsidiaries).

(1) 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 requires certain assumptions and estimates that may influence the assets and 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 NRI Group's financial statements.

<1> The percentage-of-completion method

The NRI Group, in principle, has adopted the percentage-of-completion method to recognize revenue from research and consulting projects, and information system development projects. Based on this method, the cost of sales for each project is recognized on an accrual basis, and the corresponding revenues are recorded according to the rate of accrued cost on works in progress (the ratio of actual costs incurred to the total estimated cost for each project). Revenues are recorded regardless of billings to clients, while the corresponding amounts are recorded under accounts receivable including development.

Unlike the completed contracts method, which records revenue in one lump sum at the time of completion or delivery, the percentage-of-completion method has the advantage of lending legitimacy to the profit and loss statement as a fair reflection of the profit/loss during the period in question.

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

<2> Accounting method for software

In the amortization of software packages and multi-user system services, instead of recording subcontracting costs and labor costs for the development of information systems as expenses, these amounts may be recorded under assets for the NRI Group's investments in software or recorded in the software suspense accounts. In such cases, sale of the completed information system to the client or the provision of services generates product sales revenue and system management and operations revenue, which in turn enables the Group to collect its returns on its development investments in the medium to long term.

Based on the above system of recovering investments, the package products are amortized based on the forecasted sales quantity or forecasted sales revenue with the bottom limit amount set according to the uniform distribution

method, based on the remaining valid period of generally 3 years. Amortization of the software used by the Company to provide customer services as part of multi-user services is carried out according to the fixed amount method for the usable period, which is a maximum of 5 years. In addition to the above amortization, in cases where rapid change occurs in a business environment, we may appropriately estimate the amount recoverable and record the loss.

For more details, please refer to "4. Business and Other Risks, (2) Risks Concerning Business Strategy, <4> Investment in software."

<3> Accounting method for employee retirement benefits

Accounting for employee retirement benefits requires numerous assumptions and estimates, such as employment termination trends, and agreement on certain basic rates, such as the discount rate and the expected rate of return on pension plan assets. In calculating these basic rates, the NRI Group has adopted estimates that are both reasonable and conservative. The discount rate, a crucial rate of the basic rates, has been revised each year since the commencement of employee retirement benefits accounting. The discount rate is calculated based on the rate of return of long-term bonds having a relatively low risk. This year's discount rate changed from last year's 1.8% to 1.9%.

Actuarial differences occur as a result of discrepancies between the estimated amounts of the expected return on plan assets and the actual return itself and also because of changes in estimated amounts such as the discount rate. Over the last five years, the NRI Group recorded actuarial differences of (favorable differences are denoted in parentheses) 1,194 million yen, 6,942 million yen, (8,077 million yen), 4,037 million yen and (9,344 million yen) for the years ended 31st March, 2002, 2003, 2004, 2005, and 2006 respectively.

Until the fiscal year ended in March 2003, we recorded actuarial difference in whole amounts in the fiscal year in which they occurred. However, from the end of March 2004, actuarial differences are being recorded from the following term using the straight-line method over a fixed number of years (15 years) within the average remaining service time. The unrecognized actuarial difference (favorable difference) at the end of March 2006 was 12,576 million yen.

As of the end of March 2006, pension plan assets totaled 54,535 million yen, which includes the employee retirement benefit trust of 11,949 million yen.

(2) Analysis of Business Results for Fiscal 2005

The following is a comparison of the business results of fiscal 2005 with those of fiscal 2004.

Summary of consolidated statements of income

Items	Year ended 31st March, 2005	Year ended 31st March, 2006	Changes from previous year	
	Amount (millions of yen)	Amount (millions of yen)	Amount (millions of yen)	Rate of change (%)
Sales	252,963	285,585	32,622	12.9
Cost of sales	190,732	213,706	22,974	12.0
Gross profit	62,230	71,878	9,647	15.5
Selling, general and administrative expenses	32,071	35,409	3,337	10.4
Operating profit	30,159	36,469	6,309	20.9
Non-operating income	1,172	1,943	771	65.8
Non-operating expenses	344	160	(183)	(53.4)
Extraordinary profit	5,965	724	(5,241)	(87.9)
Extraordinary loss	9,592	1,441	(8,150)	(85.0)
Income before income taxes	27,361	37,535	10,173	37.2
Provision for income taxes	11,058	15,017	3,959	35.8
Net income	16,303	22,518	6,214	38.1

<1> Sales

Sales for fiscal 2005 amounted to 285,585 million yen (a 12.9% increase from the previous year). In terms of business performance trends by industry, the industry with the strongest growth was the financial services sector. Our overall favorable performance was mainly due to an increase in projects for major clients, and favorable results in system development projects and system operation for the securities industry. Sales for the distribution sector also performed well, mainly due to projects for major clients.

<2> Cost of sales, selling, general and administrative expenses, and operating profit

Cost of sales amounted to 213,706 million yen (a 12.0% increase from the previous year). By proactively engaging Chinese companies for system development, enhancing project management and carrying out system operation affairs more efficiently we managed to minimize the increase in cost of sales and as a result the gross profit margin was better than the previous year.

Selling, general and administrative expenses amounted to 35,409 million yen (up 10.4%) because of security cost increase and prior investment such as research and development costs.

As a result of the above, operating profit amounted to 36,469 million yen (up 20.9%).

<3> Non-operating income/expenses

The Company posted a non-operating income of 1,943 million yen (a 65.8% increase from the previous year). The major components include 562 million yen in equity in earnings of affiliates (up 148.3%), 540 million yen in dividend income (up 13.8%), 403 million yen in interest received (up 47.5%) and 259 million yen in investment partnerships income (up 470.0%).

Non-operating expenses amounted to 160 million yen (down 53.4%). The major components include 82 million yen in costs for takeover bid (TOB) of treasury stock and 53 million yen in investment partnerships due (down 41.9%).

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

i. Equity in earnings of affiliates

Nomura Funds Research and Technologies Co., Ltd. had good business results.

ii. Dividend income

The increase in dividend income was primarily due to increased dividends received from NIWS Co. HQ Ltd. and a resumption of dividends for the shares of ARGO 21 Corporation.

iii. Interest income

The increase in interest income was mainly due to an increase in interest received from bonds and time deposits that are for investment for fund management purposes.

iv. Costs for a TOB of treasury stock

This is the cost required to make a TOB of treasury stock in November 2005.

<4> Extraordinary profit/loss and income before income taxes

As a result of posting the extraordinary profit of 724 million yen (down 87.9% from the previous year) and extraordinary loss of 1,441 million yen (down 85.0%), income before income taxes amounted to 37,535 million yen (up 37.2%).

A breakdown of the major factors for extraordinary profit/loss is given below.

i. 724 million yen in gain on sales of investment securities (down 86.9%)

The main factor was the sale of Monex Beans Holdings, Inc. shares.

ii. 1,198 million yen in loss on devaluation of investment securities (down 23.0%)

The main factor was an impairment loss on shares of IY Card Service Co., Ltd., Bellnet Co., Ltd. and 7dream.com Co., Ltd.

<5> Provision for income taxes and net income

Because of fiscal 2005's good business results, provisions for income taxes (including corporate, residential and enterprise taxes) totaled 15,017 million yen (a 35.8% increase from the previous year).

As a result of the above, the Company posted 22,518 million yen in net income for fiscal 2005 (up 38.1%).

(3) Analysis of Financial Position at the End of Fiscal 2005

The following is a comparison of balance sheets at the end of fiscal 2005 and the end of fiscal 2004. For a summary of cash flow for fiscal 2005, refer to "1. Outline of Business Results: (3) Cash Flows."

Summary of consolidated balance sheets

Items	31st March, 2005	31st March, 2006	Changes from previous year
	Amount (millions of yen)	Amount (millions of yen)	Amount (millions of yen)
Assets			
Current assets	135,515	137,779	2,263
Cash and bank deposits	18,524	26,004	7,480
Accounts receivable and other receivables	40,395	44,627	4,232
Short-term investment securities	52,224	44,438	(7,785)
Other current assets	24,371	22,708	(1,663)
Fixed assets	181,826	174,007	(7,818)
Tangible fixed assets	37,295	39,964	2,669
Buildings	16,399	15,878	(521)
Machinery	5,558	5,761	203
Equipment	6,080	7,043	962
Land	9,256	11,281	2,025
Intangible fixed assets	22,418	20,420	(1,997)
Investment and other assets	122,112	113,622	(8,490)
Investment securities	107,672	97,683	(9,989)
Investments in affiliates	2,157	3,821	1,663
Long-term pledged assets	9,355	9,111	(243)
Other intangible assets	2,926	3,005	79
Total assets	317,341	311,786	(5,554)

Items	31st March, 2005	31st March, 2006	Changes from previous year
	Amount (millions of yen)	Amount (millions of yen)	Amount (millions of yen)
Liabilities			
Current liabilities	50,001	64,902	14,901
Accounts payable	19,792	29,453	9,660
Income taxes payable	12,048	13,002	953
Other current liabilities	18,159	22,447	4,287
Fixed liabilities	35,573	37,582	2,009
Deferred income taxes	11,162	14,267	3,105
Allowance for employees' retirement benefits	22,697	23,314	617
Other long-term liabilities	1,713	0	(1,713)
Total liabilities	85,574	102,485	16,910
Shareholders' equity			
Common stock	18,600	18,600	—
Additional paid-in capital	14,800	14,800	—
Retained earnings	170,018	186,670	16,652
Unrealized gain on other securities	28,987	37,369	8,381
Translation adjustments	(632)	(5)	627
Treasury stock	(6)	(48,133)	(48,126)
Total shareholders' equity	231,766	209,301	(22,465)
Total liabilities and shareholders' equity	317,341	311,786	(5,554)

<1> Summary

Total assets at the end of March 2006 decreased by 5,554 million yen from the previous year-end to 311,786 million yen.

Current assets at the end of March 2006 increased 2,263 million yen from the previous year-end to 137,779 million yen. The major factors for this increase were increased cash and bank deposits and an increase in

accounts receivable and other receivables due to an increase in sales, while short-term investment securities decreased due to the sale and redemption.

Fixed assets at the end of March 2006 decreased by 7,818 million yen from the previous fiscal year to 174,007 million yen, due to a decrease in investment securities and a decrease in intangible fixed assets despite an increase in land. While there was an increase due to market valuation, investment securities decreased by 9,989 million yen to 97,683 million yen due to the sale and redemption. Land on the other hand, increased 2,025 million yen to 11,281 million yen primarily because we acquired land to establish a data center.

Current liabilities increased by 14,901 million yen from the previous year to 64,902 million yen because of an increase in accounts payable.

Fixed liabilities increased by 2,009 million yen from the previous year to 37,582 million yen due to an increase in deferred income taxes because of the change in market value of investment securities.

Shareholders' equity decreased by 22,465 million yen from the previous year to 209,301 million yen. Main factors were retained earnings, which increased by 16,652 million yen due to good business results, and treasury stock, which increased by 48,126 million yen to 48,133 million yen due to acquisition of treasury stock by TOB. The acquisition of treasury stock was primarily funded by capital acquired from the sales of short-term investment securities and investment securities.

The NRI Group is confident that it can secure sufficient working capital in the coming fiscal year and plans to fund investments in facilities decided as of 31st March, 2006 using internal funds.

<2> Investment securities

Investment securities at the end of March 2006 included 44,438 million yen in short-term investment securities under current assets, and 97,683 million yen in investment securities and 3,821 million yen in investments in affiliates under fixed assets. The total amount of investment securities was down 16,111 million yen from the previous year to 145,943 million yen. The percentage of investment securities to total assets dropped from the previous year from 51.1% to 46.8%.

The components of the 44,438 million yen in short-term investment securities under current assets are 6,552 million yen in money management funds, 15,000 million yen in free financial funds, and 22,886 million yen in debt securities and others. The components of the 97,683 million yen in investment securities under fixed assets are 89,716 million yen in shares, 5,988 million yen in debt securities and others

and 1,977 million yen in equity investments for Venture Capital Investment Limited Partnerships and others.

Of the total amount of investment securities, 93,966 million yen worth of investment securities are marketable, while 51,977 million yen worth are non-marketable. Of the investment securities that are marketable, 15,611 million yen worth had book values that did not exceed acquisition costs and the difference from the acquisition costs was 68 million yen.

Of the shares, which make up 30.0% of total assets, 77,085 million yen are marketable while 16,452 million yen are non-marketable. Shareholdings that make up more than 1% of total assets (3,117 million yen) include shares of JAFCO Co., Ltd. (37,278 million yen reported on the consolidated balance sheets), shares of Seven & I Holdings Co., Ltd. (13,990 million yen), shares of NIWS Co. HQ Ltd. (7,726 million yen), shares of Nomura Land and Building Co., Ltd. (7,439 million yen), shares of Takagi Securities Co., Ltd (5,405 million yen) and shares of Recruit Co., Ltd. (4,080 million yen). In addition to the JAFCO shares mentioned above, the Company also holds 750,000 JAFCO shares as a trust fund for employee retirement benefit trust. Of the marketable shares, there were none that had book values which did not exceed acquisition costs.

As of the end of March 2006, there were no investment securities held for trading purposes, nor any debt securities held-to-maturity.

For details, please refer to "4. Business and Other Risks, (2) Risks Concerning Business Strategy, <5> Investment in stocks."

For more details, please refer to "Consolidated financial statements, Notes to the Consolidated Financial Statements (Notes 3 and 20)."

<3> Software

The greater part of intangible fixed assets is comprised of software and software suspense accounts. Investment in software related items for fiscal 2005 totaled 8,305 million yen, a decrease of 1,007 million yen compared with the previous year.

As a result, the NRI Group's software and software suspense accounts at the end of fiscal 2005 amounted to 19,645 million yen, a decrease of 1,916 million yen compared with the previous year, and their component ratio to total assets dropped from 6.8% in the previous year to 6.3%.

For more details, please refer to "4. Business and Other Risks, (2) Risks Concerning Business Strategy, <4> Investment in software."

Facilities

1. Outline of Capital Expenditures

In fiscal 2005, in addition to purchasing equipment relating to our multi-user system development and system operations, we also acquired land to establish a new data center, which resulted in capital expenditures of 18,343 million yen. Funds for capital expenditures were provided internally.

System Solution Services

For this segment in fiscal 2005, we invested a total of 15,498 million yen for the development of multi-user systems for the securities industry and service systems for the

distribution industry as well as purchase of equipment for system operations and acquisition of land to establish a new data center.

Consulting and Knowledge Services

For this segment in fiscal 2005, we invested a total of 2,890 million yen for the development of multi-user systems for the financial service sector mainly for the asset management-related services.

2. Major Facilities

The major facilities of the NRI Group (the Company and its consolidated subsidiaries) are given below:

(1) Nomura Research Institute, Ltd.

Name of office (Location)	Name of segment by business type	Land		Buildings and structures (millions of yen)	Machinery (millions of yen)	Equipment (millions of yen)	Software (millions of yen)	Total (millions of yen)	Employees (no. of people)
		Area (m ²)	Amount (millions of yen)						
Marunouchi Center (Chiyoda-ku Tokyo)	Consulting and Knowledge Services	—	—	786	0	451	49	1,287	779 [91]
Nippon Building Center (Chiyoda-ku Tokyo)	System Solution Services	—	—	546	19	303	2,878	3,748	872 [112]
Kiba Center (Koto-ku Tokyo)	System Solution Services	—	—	249	17	323	4,662	5,253	420 [84]
Yokohama Center (Hodogaya-ku Yokohama)	System Solution Services	—	—	597	73	1,483	6,377	8,533	1,192 [133]
Osaka Center (Kita-ku Osaka)	System Solution Services	—	—	53	10	30	2	96	41 [1]
Hiyoshi Data Center (Kohoku-ku Yokohama)	System Solution Services	14,112	4,952	3,410	196	190	—	8,749	— [—]
Yokohama Data Center (Hodogaya-ku Yokohama)	System Solution Services	(6,748)	—	3,684	2,617	1,891	616	8,810	— [—]
Yokohama Learning Center (Hodogaya-ku Yokohama)	Company-wide (common use)	—	—	112	—	94	61	268	25 [6]

Notes: 1. The figures are book values as of 31st March 2006.

2. A portion of land and buildings are rented (including subleasing to domestic subsidiaries) and the annual rental expense is 7,113 million yen. The land area that is leased is listed within brackets ().

3. The employee figures listed in the square brackets [] are temporary employees.

4. The descriptions listed in "Name of segment by business type" are the main segment category that each office operates under.

5. In the "Name of office" column, a representative office for each region is listed and offices in the same proximity are included in the listings.

6. In addition to the above, we acquired land in Tsuzuki-ku Yokohama (surface area 4,602 m², 2,302 million yen) in February 2006 to establish a new data center.

(2) Domestic and Overseas Subsidiaries

Name of office (Location)	Name of segment by business type	Land		Buildings and structures (millions of yen)	Machinery (millions of yen)	Equipment (millions of yen)	Software (millions of yen)	Total (millions of yen)	Employees (no. of people)
		Area (m ²)	Amount (millions of yen)						
(Domestic subsidiary)									
NRI Data Services, Ltd. Head Office/Yokohama Data Center (Hodogaya-ku Yokohama)	System Solution Services	—	—	322	1,713	796	642	3,475	283 [120]
NRI Data Services, Ltd. Nippon Building Center (Chiyoda-ku Tokyo)	System Solution Services	—	—	72	17	183	75	348	256 [46]
NRI Data Services, Ltd. Hiyoshi Data Center (Kohoku-ku Yokohama)	System Solution Services	—	—	0	0	20	1	22	57 [18]
NRI Data Services, Ltd. Osaka Data Center (Suminoe-ku Osaka)	System Solution Services	13,200	2,221	4,923	491	128	51	7,815	37 [4]
NRI Data Services, Ltd. Tokyo Print Center (Koto-ku Tokyo)	System Solution Services	—	—	38	32	3	108	182	8 [41]
NRI Network Communications, Ltd. Head Office and others (Kita-ku Osaka)	System Solution Services	—	—	41	—	145	37	224	167 [9]
NRI Secure Technologies, Ltd. Head Office and others (Chiyoda-ku Tokyo)	Consulting and Knowledge Services	—	—	21	—	250	183	455	69 [15]
NRI Shared Services, Ltd. Head Office and others/Dormitory (Hodogaya-ku Yokohama)	Company-wide (common use)	7,385	1,805	756	—	14	6	2,583	120 [40]
Insurance System & Technology, Ltd. Head Office and others (Koto-ku Tokyo)	System Solution Services	—	—	0	—	5	5	11	64 [—]
NRI Data i Tech, Ltd. Head Office and others (Chiyoda-ku Tokyo)	System Solution Services	—	—	3	—	11	7	22	104 [17]
(Overseas subsidiary)									
Nomura Research Institute Hong Kong Limited (Hong Kong, China)	System Solution Services	—	—	—	—	73	—	73	87 [30]

Notes: 1. The figures are book values as of 31st March, 2006.

2. A portion of land and buildings are rented and the annual rental expense is 259 million yen. The annual rental expense does not include the subleasing portions from NRI.

3. The employee figures listed in the square brackets [] are temporary employees.

4. The breakdown of the land of NRI Shared Services, Ltd. is given below. We sold the Yamato Dormitory in March 2006.

Category	Name	Location	Area (m ²)
Dormitory	Hiyoshi Dormitory	Kohoku-ku, Yokohama	5,621
	Higashiterao Dormitory	Tsurumi-ku, Yokohama	1,764

5. The major leased equipments at NRI Data Services, Ltd. are listed below.

Name	Name of segment by business type	Quantity	Lease term	Lease amount (yearly) (millions of yen)	Outstanding balance on lease agreement (millions of yen)
System server and peripherals	System Solution Services	1 set	5 years	128	167
System server and peripherals	System Solution Services	1 set	5 years	111	202

3. Plans for Facility Construction and Disposal

We have already decided on an investment of 41,400 million yen as part of capital expenditure plans during and after fiscal 2006. In the fiscal year ending March 2007, we plan to dispose of building and structure amounting to 600 million yen (book value) as a result of relocating head office functions. Other than that, there are no plans for the disposal or sale of major facilities, excluding the disposal and sale of facilities scheduled for regular updating.

The breakdown of planned capital expenditures by business segment is as follows:

Name of segment by business type	Facilities	Planned investment (already decided)		Major items and purpose
		Year ending 31st March, 2007 (millions of yen)	Year ending 31st March, 2008 (millions of yen)	
System Solution Services	Software	10,500	—	Development of internal use software for providing customer service and software for sale
	Hardware	11,000	—	Equipment for system development and equipment for providing maintenance and operation services for computer systems and networks
	Data center facilities	4,900	5,200	Acquisition of buildings etc. for new data center
Consulting and Knowledge Services	Software	4,400	—	Development of internal use software for providing knowledge solution services
	Hardware	1,100	—	Equipment for providing knowledge solution services
Company-wide (common use)	Software	100	—	Software purchase for use in internal systems
	Office facilities	4,000	200	Computers etc. and acquisition of property and facilities
Total		36,000	5,400	—

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

2. The planned capital expenditures will be provided by the Company's internal funds.

Company Status

1. Shares (As of 31st March, 2006)

(1) Treasury Stocks

Name of the owner	Location of the owner	Number of shares owned in the owner's name	Number of shares owned in someone else's name	Number of total shares owned	Ratio of the shares owned to the total outstanding shares (%)
Nomura Research Institute, Ltd.	1-6-5 Marunouchi, Chiyoda-ku, Tokyo	4,380,400	—	4,380,400	9.73
Total	—	4,380,400	—	4,380,400	9.73

(2) Stock Option Plan

The Company has adopted a stock option plan. The numbers of grantees indicated below are as of the end of May of corresponding year.

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

Date of resolution	26th June, 2002
Category and number of grantees	NRI directors and executive officers: 29 Directors of NRI subsidiaries in Japan: 7
Class of stock issued for subscription rights purposes	Common stock
Number of shares issued for subscription rights	80,500 (As of 31st May, 2006: 68,000 shares)
Amount payable when exercising subscription rights	17,913 yen per share
Period for exercising subscription rights	From 1st July, 2004 to 30th June, 2007
Conditions of execution of subscription rights	<ol style="list-style-type: none"> 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. 2. The closing price for NRI common stock in ordinary transactions at the TSE must be at least 20,000 yen per share for five consecutive business days immediately preceding the day of application to exercise subscription rights. 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.
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 of resolution	24th June, 2003
Category and number of grantees	NRI directors and executive officers: 17 Directors of NRI subsidiaries in Japan: 5
Class of stock issued for subscription rights purposes	Common stock
Number of shares issued for subscription rights	45,300 (As of 31st May, 2006: 39,500 shares)
Amount payable when exercising subscription rights	10,088 yen per share
Period for exercising subscription rights	From 1st July, 2005 to 30th June, 2008
Conditions of execution of subscription rights	<ol style="list-style-type: none"> 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. 2. The closing price for NRI common stock in ordinary transactions at the TSE must be at least 11,100 yen per share for five consecutive business days immediately preceding the day of application to exercise subscription rights. 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.
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 of resolution	23rd June, 2004
Category and number of grantees	NRI directors, executive officers and employees (equivalent to directors): 33 Directors of NRI subsidiaries in Japan: 12
Class of stock issued for subscription rights purposes	Common stock
Number of shares issued for subscription rights	84,500 (As of 31st May, 2006: 81,500 shares)
Amount payable when exercising subscription rights	11,418 yen per share
Period for exercising subscription rights	From 1st July, 2006 to 30th June, 2009
Conditions of execution of subscription rights	<ol style="list-style-type: none">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.2. The closing price for NRI common stock in ordinary transactions at the TSE must be at least 12,600 yen per share for five consecutive business days immediately preceding the day of application to exercise subscription rights.3. In addition to the above, NRI may stipulate other conditions pertaining to the execution of subscription rights at its board of directors meeting.
Items related to transfer of subscription rights	Rights cannot be transferred, pledged, or otherwise furnished to a third party.

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

Date of resolution	23rd June, 2005
Category and number of grantees	NRI directors, executive officers and employees (equivalent to directors): 32 Directors of NRI subsidiaries in Japan: 12
Class of stock issued for subscription rights purposes	Common stock
Number of shares issued for subscription rights	81,500 (As of 31st May, 2006: 81,500 shares)
Amount payable when exercising subscription rights	11,594 yen per share
Period for exercising subscription rights	From 1st July, 2007 to 30th June, 2010
Conditions of execution of subscription rights	<ol style="list-style-type: none">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 by the board of directors as constituting sufficient cause, such as death or expiration of term of office, the rights may be exercised by the grantee (or his or her heir in case of death) during a prescribed period of time.2. The closing price for NRI common stock in ordinary transactions at the TSE must be at least 12,800 yen per share for five consecutive business days immediately preceding the day of application to exercise subscription rights.3. In addition to the above, NRI may stipulate other conditions pertaining to the execution of subscription rights at its board of directors meeting.
Items related to transfer of subscription rights	Rights cannot be transferred, pledged, or otherwise furnished to a third party.

<5> Resolution at an ordinary general meeting of shareholders on 23rd June, 2005

Date of resolution	23rd June, 2005
Category and number of grantees	NRI directors, executive officers and employees (equivalent to directors): 36 Directors of NRI subsidiaries in Japan: 12
Class of stock issued for subscription rights purposes	Common stock
Number of shares issued for subscription rights	19,100 (As of 31st May, 2006: 19,100 shares)
Amount payable when exercising subscription rights	1 yen per share
Period for exercising subscription rights	From 1st July, 2006 to 30th June, 2007
Conditions of execution of subscription rights	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 by the board of directors as constituting sufficient cause, such as death or expiration of term of office, the rights may be exercised by the grantee (or his or her heir in case of death) during a prescribed period of time. 2. In addition to the above, NRI may stipulate other conditions pertaining to the execution of subscription rights at its board of directors meeting.
Items related to transfer of subscription rights	Rights cannot be transferred, pledged, or otherwise furnished to a third party.

2. Dividend Policy

The Company considers the ongoing growth of our corporate value to be the most important return to its shareholders. Our basic policy for distribution of profits is to provide accurate and stable dividends while paying full consideration to the need for sufficient retained earnings for our long-term business development. Our actual decisions are based on the operating revenue and cash flow situation but we aim for a consolidated dividend payout ratio of 30 percent.

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

At the ordinary general meeting of shareholders held on 23rd June, 2006, an amendment was made to change the articles of incorporation in accordance with Article 459, Paragraph 1 of the Company Law, stipulating that payment of dividends from retained earnings may be made with a resolution of the board of directors.

Note: Date of resolution by the board of directors for interim cash dividends for fiscal 2005 was on 27th October, 2005.

Nomura Research Institute, Ltd.

Consolidated Financial Statements

At 31st March, 2005 and 2006 and
for the years ended 31st March, 2004, 2005 and 2006

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Report of Independent Auditors

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

We have audited the accompanying consolidated balance sheets of Nomura Research Institute, Ltd. and its consolidated subsidiaries as of 31st March, 2005 and 2006, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended 31st March, 2006, 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, 2005 and 2006, and the consolidated results of their operations and their cash flows for each of the three years in the period ended 31st March, 2006 in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended 31st March, 2006 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 2 to the consolidated financial statements.

Ernst & Young ShinNihon

23rd June, 2006

Nomura Research Institute, Ltd.

Consolidated Balance Sheets

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars (Note 2)</i>
	31st March,		31st March,
	2005	2006	2006
Assets			
Current assets:			
Cash and bank deposits <i>(Note 14)</i>	¥ 18,524	¥ 26,005	\$ 221,357
Short-term investment securities <i>(Notes 3 and 14)</i>	52,224	44,439	378,269
Accounts receivable and other receivables <i>(Notes 5 and 20)</i>	56,696	56,898	484,321
Inventories	758	1,237	10,529
Deferred income taxes <i>(Note 12)</i>	6,049	7,656	65,169
Other current assets	1,320	1,604	13,653
Allowance for doubtful accounts	(56)	(60)	(511)
Total current assets	135,515	137,779	1,172,787
Property and equipment <i>(Note 6)</i>:			
Land	9,257	11,282	96,033
Buildings, net	16,400	15,878	135,155
Machinery and equipment, net	11,638	12,805	108,998
Property and equipment, net	37,295	39,965	340,186
Software and other intangibles	22,418	20,421	173,825
Investment securities <i>(Notes 3 and 20)</i>	107,673	97,683	831,486
Investments in affiliates <i>(Note 3)</i>	2,158	3,822	32,533
Deferred income taxes <i>(Note 12)</i>	1,490	1,615	13,747
Other assets <i>(Notes 7 and 20)</i>	10,838	10,531	89,641
Allowance for doubtful accounts	(46)	(29)	(247)
Total assets	¥ 317,341	¥ 311,787	\$ 2,653,958

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars (Note 2)</i>
	<u>31st March,</u>		<u>31st March,</u>
	<u>2005</u>	<u>2006</u>	<u>2006</u>
Liabilities and shareholders' equity			
Current liabilities:			
Long-term debt due within one year (Note 9)	¥ 240	¥ 240	\$ 2,043
Accounts payable	19,793	29,453	250,707
Accrued expenses (Note 8)	12,507	14,948	127,239
Income taxes payable	12,048	13,002	110,674
Other current liabilities	5,413	7,260	61,797
Total current liabilities	<u>50,001</u>	<u>64,903</u>	<u>552,460</u>
Long-term debt (Note 9)	840	—	—
Allowance for employees' retirement benefits (Note 10)	22,698	23,315	198,459
Deferred income taxes (Note 12)	11,162	14,268	121,451
Other long-term liabilities (Notes 11 and 20)	873	—	—
Commitments and contingent liabilities (Note 21)			
Shareholders' equity (Notes 13 and 15):			
Common stock			
Authorised — 150,000,000 shares at 31st March, 2005 and 2006, respectively			
Issued — 45,000,000 shares at 31st March, 2005 and 2006, respectively	18,600	18,600	158,325
Additional paid-in capital	14,800	14,800	125,979
Retained earnings	170,018	186,670	1,588,951
Unrealised gain on other securities (Note 3)	28,988	37,369	318,088
Translation adjustments	(633)	(5)	(43)
Treasury stock, at cost			
— 558 shares at 31st March, 2005 and 4,380,480 shares at 31st March, 2006	(6)	(48,133)	(409,712)
Total shareholders' equity	<u>231,767</u>	<u>209,301</u>	<u>1,781,588</u>
Total liabilities and shareholders' equity	<u>¥ 317,341</u>	<u>¥ 311,787</u>	<u>\$ 2,653,958</u>

See accompanying notes to consolidated financial statements.

Nomura Research Institute, Ltd.

Consolidated Statements of Income

	<i>Millions of yen</i>			<i>Thousands of U.S. dollars (Note 2)</i>
	Year ended 31st March,			Year ended 31st March,
	2004	2005	2006	2006
Sales <i>(Note 20)</i>	¥ 238,068	¥ 252,963	¥ 285,585	\$ 2,430,924
Cost of sales <i>(Note 20)</i>	178,097	190,732	213,707	1,819,092
Gross profit	59,971	62,231	71,878	611,832
Selling, general and administrative expenses <i>(Notes 17, 18 and 20)</i>	31,949	32,072	35,409	301,405
Operating profit	28,022	30,159	36,469	310,427
Other income (expenses):				
Interest and dividend income <i>(Note 20)</i>	875	702	1,150	9,789
Equity in earnings of affiliates	401	227	563	4,792
Tender offer expense of the treasury stock	–	–	(82)	(698)
Interest expense <i>(Note 9)</i>	(84)	(215)	(7)	(60)
Loss on property and equipment	(317)	(203)	(145)	(1,234)
Loss on real estate put option <i>(Note 19)</i>	(1,197)	–	–	–
Impairment loss on software <i>(Note 19)</i>	–	(6,526)	–	–
(Loss) gain on investment securities <i>(Notes 3, 19 and 20)</i>	1,176	3,882	(572)	(4,869)
Gain on investments in affiliates <i>(Note 19)</i>	3,977	–	–	–
Gain on liquidation of a special purpose company <i>(Note 19)</i>	–	209	–	–
Head office relocation cost <i>(Note 19)</i>	–	(981)	–	–
Other, net	74	107	159	1,354
	4,905	(2,798)	1,066	9,074
Income before income taxes	32,927	27,361	37,535	319,501
Provision for income taxes <i>(Note 12)</i> :				
Current	18,198	15,646	19,368	164,862
Deferred	(3,540)	(4,588)	(4,351)	(37,036)
	14,658	11,058	15,017	127,826
Net income <i>(Note 15)</i>	¥ 18,269	¥ 16,303	¥ 22,518	\$ 191,675

See accompanying notes to consolidated financial statements.

Nomura Research Institute, Ltd.

Consolidated Statements of Changes in Shareholders' Equity

Millions of yen

	Common stock	Additional paid-in capital	Retained earnings	Unrealised gain on other securities	Translation adjustments	Treasury stock	Total shareholders' equity
Balance at 31st March, 2003	¥ 18,600	¥ 14,800	¥ 140,334	¥ 11,799	¥ (181)	¥ (2)	¥ 185,350
Purchase of treasury stock	—	—	—	—	—	(2)	(2)
Net income	—	—	18,269	—	—	—	18,269
Cash dividends paid	—	—	(900)	—	—	—	(900)
Bonuses to directors and statutory auditors	—	—	(283)	—	—	—	(283)
Unrealised gain on other securities	—	—	—	28,283	—	—	28,283
Decrease due to exclusion of affiliates accounted for by the equity method	—	—	(710)	—	—	—	(710)
Translation adjustments	—	—	—	—	(676)	—	(676)
Balance at 31st March, 2004	18,600	14,800	156,710	40,082	(857)	(4)	229,331
Purchase of treasury stock	—	—	—	—	—	(2)	(2)
Net income	—	—	16,303	—	—	—	16,303
Cash dividends paid	—	—	(2,700)	—	—	—	(2,700)
Bonuses to directors and statutory auditors	—	—	(295)	—	—	—	(295)
Unrealised gain on other securities	—	—	—	(11,094)	—	—	(11,094)
Translation adjustments	—	—	—	—	224	—	224
Balance at 31st March, 2005	18,600	14,800	170,018	28,988	(633)	(6)	231,767
Purchase of treasury stock	—	—	—	—	—	(48,528)	(48,528)
Disposal of treasury stock	—	—	—	—	—	401	401
Net income	—	—	22,518	—	—	—	22,518
Cash dividends paid	—	—	(5,845)	—	—	—	(5,845)
Loss on disposal of treasury	—	—	(21)	—	—	—	(21)
Unrealised gain on other securities	—	—	—	8,381	—	—	8,381
Translation adjustments	—	—	—	—	628	—	628
Balance at 31st March, 2006	¥ 18,600	¥ 14,800	¥ 186,670	¥ 37,369	¥ (5)	¥ (48,133)	¥ 209,301

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, 2005	\$ 158,325	\$ 125,979	\$ 1,447,208	\$ 246,748	\$ (5,388)	\$ (51)	\$ 1,972,821
Purchase of treasury stock	—	—	—	—	—	(413,075)	(413,075)
Disposal of treasury stock	—	—	—	—	—	3,414	3,414
Net income	—	—	191,675	—	—	—	191,675
Cash dividends paid	—	—	(49,753)	—	—	—	(49,753)
Loss on disposal of treasury	—	—	(179)	—	—	—	(179)
Unrealised gain on other securities	—	—	—	71,340	—	—	71,340
Translation adjustments	—	—	—	—	5,345	—	5,345
Balance at 31st March, 2006	\$ 158,325	\$ 125,979	\$ 1,588,951	\$ 318,088	\$ (43)	\$ (409,712)	\$ 1,781,588

See accompanying notes to consolidated financial statements.

Nomura Research Institute, Ltd.

Consolidated Statements of Cash Flows

	<i>Millions of yen</i>			<i>Thousands of U.S. dollars (Note 2)</i>
	Year ended 31st March,			Year ended 31st March,
	2004	2005	2006	2006
Cash flows from operating activities				
Income before income taxes	¥ 32,927	¥ 27,361	¥ 37,535	\$ 319,501
Adjustments to reconcile income before income taxes to net cash provided by operating activities:				
Depreciation and amortization	17,750	18,403	16,574	141,079
Interest and dividend income	(875)	(702)	(1,150)	(9,789)
Interest expense	84	215	7	60
Loss on property and equipment	317	203	145	1,234
Loss on real estate put option	1,197	—	—	—
Impairment loss on software	—	6,526	—	—
Loss (gain) on investment securities	(1,176)	(3,882)	572	4,869
Gain on investments in affiliates	(3,977)	—	—	—
Gain on liquidation of a special purpose company	—	(209)	—	—
Changes in operating assets and liabilities:				
Accounts receivable and other receivables, net of advance payments received	(8,866)	(4,880)	894	7,610
Allowance for doubtful accounts	7	18	(13)	(111)
Accounts payable	(1,158)	(364)	9,617	81,861
Inventories	154	(658)	(479)	(4,077)
Allowance for employees' retirement benefits and welfare pension plan	348	73	617	5,252
Other	2,428	1,608	1,747	14,871
Subtotal	39,160	43,712	66,066	562,360
Interest and dividends received	859	742	1,188	10,112
Interest paid	(85)	(215)	(7)	(60)
Income taxes paid	(10,621)	(16,669)	(18,371)	(156,375)
Net cash provided by operating activities	29,313	27,570	48,876	416,037
Cash flows from investing activities				
Payments for time deposits	—	(6,148)	(6,778)	(57,695)
Proceeds from time deposits	—	—	6,523	55,524
Increase in short-term investment securities	—	(25,984)	(18,265)	(155,473)
Proceeds from sales and redemption of short-term investment securities	—	—	31,214	265,696
Acquisition of property and equipment	(12,651)	(8,052)	(9,800)	(83,418)
Proceeds from sales of property and equipment	138	837	473	4,026
Increase in liquidation of a special purpose company	—	213	—	—
Increase in software and other intangibles	(11,396)	(9,327)	(8,212)	(69,901)
Proceeds from sales of software and other intangibles	138	113	60	511
Increase in investment securities	(337)	(39,889)	(11,976)	(101,941)
Proceeds from sales and redemption of investment securities	1,521	6,131	34,590	294,433
Increase in investments in affiliates	—	—	(60)	(511)
Proceeds from sales of investments in affiliates	4,472	—	9	77
Acquisition of businesses	(280)	—	—	—
Other	(748)	124	76	647
Net cash (used in) provided by investing activities	(19,143)	(81,982)	17,854	151,975
Cash flows from financing activities				
Proceeds from long-term debt	—	1,200	—	—
Repayment of long-term debt	(608)	(2,430)	(840)	(7,150)
Proceeds from sales of treasury stock	—	—	380	3,235
Purchase of treasury stock	(2)	(2)	(48,528)	(413,075)
Cash dividends paid	(899)	(2,696)	(5,841)	(49,719)
Net cash used in financing activities	(1,509)	(3,928)	(54,829)	(466,709)
Effect of exchange rate changes on cash and cash equivalents	(609)	206	174	1,480
Net increase (decrease) in cash and cash equivalents	8,052	(58,134)	12,075	102,783
Cash and cash equivalents at beginning of year	88,760	96,812	38,678	329,231
Cash and cash equivalents at end of year	¥ 96,812	¥ 38,678	¥ 50,753	\$ 432,014

See accompanying notes to consolidated financial statements.

Nomura Research Institute, Ltd.

Notes to the Consolidated Financial Statements

1. Significant Accounting Policies

Description of Business

Nomura Research Institute, Ltd. (the "Company") is a leading provider in Japan of system solutions services and consulting/knowledge services. System solutions services include the development, installation, operation and management of computer systems and networks. In conjunction with these services, the Company also procures systems equipment and related products for its clients' systems. Consulting/knowledge services include research on macroeconomic trends, management consulting advice, asset management analyses and information services. Information on the Company's operations by segment is included in Note 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, 2004, 2005 and 2006 include the accounts of the Company and significant companies which are controlled directly or indirectly by the Company. All subsidiaries, (eighteen, nineteen and nineteen for the years ended 31st March, 2004, 2005 and 2006, respectively) have been consolidated. The major consolidated subsidiary is NRI Data Service, Ltd. Effective for the year ended 31st March, 2005, NRI Garden Network, Ltd., had been initially consolidated.

All significant intercompany balances and transactions have been eliminated in consolidation.

1. Significant Accounting Policies (continued)

The Company's investments in affiliated companies over which it has the ability to exercise significant influence are accounted for by the equity method and accordingly, the Company's share of those affiliates' income is included in consolidated income.

Investments in two affiliated companies are accounted for by the equity method, of which Nomura Fund Research And Technologies Co., Ltd. is a major affiliated company. NIWS Co. HQ Ltd. had been an affiliate accounted for by the equity method, but was excluded from the scope of the equity method due to sales of the investment on the occasion of its offering of stock sales during the year ended 31st March, 2004. Prior to such sales, the net income of the investee had been accounted for by the equity method.

Cash Equivalents

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

Investment Securities

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

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

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

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

Marketable securities classified as other securities are stated at market value as of the balance sheet date and the cost of securities sold is determined by the moving average method. Unrealised gain or loss on marketable securities classified as other securities is included as a component of shareholders' equity, net of the applicable taxes. 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 has been provided on an accrual basis as of the balance sheet date based on an estimate of the projected benefit obligation and the employees' pension plan assets. The retirement benefit obligation at transition was expensed upon transition. Actuarial gain or loss is amortised over a defined period, not exceeding the average remaining period of employment (15 years), by the straight-line method and recognises as a pension cost.

Bonuses to Directors and Statutory Auditors

In prior years, bonuses to directors and statutory auditors had been accounted for as a decrease in retained earnings by its appropriation. However, commencing from the year ended 31st March, 2005, the Company and its consolidated subsidiaries have adopted Practical Solution Report No. 13, "Tentative Treatments of Accounting for Director's Bonuses" which were issued by the Accounting Standards Board of Japan and the bonuses are accounted for as expenses and are charged to income in the year to which the bonus relates. As a result, selling, general and administrative expenses for the year ended 31st March, 2005, increased by ¥256 million and operating profit and income before income taxes decreased by the same amount.

From the year ended 31st March, 2006, the Company has not accrued bonuses to directors and statutory auditors in accordance with the revision of the incentive program.

Accrual for Retirement Benefits for Directors and Statutory Auditors

In the prior year the Company and its domestic consolidated subsidiaries provide an accrual for retirement benefits for directors and statutory auditors at the amount which would have been 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.

From the year ended 31st March, 2006, the Company has not provided accruals for retirement benefits for directors and statutory auditors in accordance with abolishment of retirement benefit program.

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, and the interim cash dividend is made by resolution of the board of directors. The appropriation of retained earnings and the interim cash dividend are reflected to the financial statements in the period in which those resolutions are made by the respective organization.

New Accounting Standard

From the year ended 31st March, 2006, the Company adopted the new accounting standard for impairment of fixed asset, "Opinion Concerning Establishment of Accounting Standard for Impairment of Fixed Assets" issued by the Business Accounting Deliberation Council and the Financial Accounting Standard Implementation Guidance No.6, "Implementation Guidance for the Accounting Standard for Impairment of Fixed Assets". The adoptions of these standards do not have a material effect on the Company's consolidated results of operations and financial position.

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 ¥117.48 = US\$1.00, the rate of exchange prevailing on 31st March, 2006. 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 Company does not hold any trading securities or held-to-maturity securities with market value at 31st March, 2005 and 2006.

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, 2005 and 2006:

a) Marketable securities classified as other securities

	<i>Millions of yen</i>					
	Acquisition cost		Carrying amount		Unrealised gain (loss)	
	31st March,		31st March,		31st March,	
	2005	2006	2005	2006	2005	2006
Equity securities	¥ 3,770	¥ 14,137	¥ 52,709	¥ 77,086	¥ 48,939	¥ 62,949
Debt securities:						
Government debt securities	28,062	—	28,111	—	49	—
Corporate debt securities	19,867	12,207	19,778	12,191	(89)	(16)
Other	10,856	1,712	10,858	1,711	2	(1)
	58,785	13,919	58,747	13,902	(38)	(17)
Other	4,627	2,995	4,527	2,978	(100)	(17)
Total	¥ 67,182	¥ 31,051	¥ 115,983	¥ 93,966	¥ 48,801	¥ 62,915

	<i>Thousands of U.S. dollars</i>		
	Acquisition cost	Carrying amount	Unrealised gain (loss)
	31st March, 2006		
Equity securities	\$ 120,335	\$ 656,163	\$ 535,828
Debt securities:			
Government debt securities	—	—	—
Corporate debt securities	103,907	103,771	(136)
Other	14,573	14,564	(9)
	118,480	118,335	(145)
Other	25,494	25,349	(145)
Total	\$ 264,309	\$ 799,847	\$ 535,538

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

Proceeds from sales of marketable securities classified as other securities during the year ended 31st March, 2004, 2005 and 2006 were as follows:

	<i>Millions of yen</i>			<i>Thousands of U.S. dollars</i>
	2004	2005	2006	2006
Proceeds	¥ 1,521	¥ 6,032	¥ 40,013	\$ 340,594
Gross gain	1,217	5,524	724	6,163
Gross loss	—	(86)	(98)	(834)

There were no losses on devaluation of the marketable securities classified as other securities as a result of a permanent decline for the years ended 31st March, 2004, 2005 and 2006.

3. Investments (continued)

a) Marketable securities classified as other securities (continued)

b) Non-marketable securities classified as other securities

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	31st March,		31st March,
	2005	2006	2006
Other securities:			
Equity securities	¥ 16,964	¥ 15,256	\$ 129,860
Money management funds	4,552	6,553	55,780
Free financial funds	12,000	15,000	127,681
Commercial paper	11,898	13,973	118,939

Investments in affiliates which are included in equity securities include investments in net assets of affiliate companies accounted for under the equity method totaling ¥658 million and ¥1,196 million (\$10,181 thousand) at 31st March, 2005 and 2006, respectively.

c) Maturities of debt securities

Maturities of debt securities classified as other securities at 31st March, 2005 and 2006 are as follows:

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

	<i>Millions of yen</i>			
	31st March, 2006			
	Debt securities			
	Government debt securities	Corporate debt securities	Other	Other
Due within one year	¥ —	¥ 12,200	¥ 15,685	¥ 1,000
Due after one year through five years	—	—	—	—
Due after five years	—	—	—	—
	¥ —	¥ 12,200	¥ 15,685	¥ 1,000

3. Investments (continued)

c) Maturities of debt securities (continued)

	<i>Thousands of U.S. dollars</i>			
	31st March, 2006			
	Debt securities			
	Government debt securities	Corporate debt securities	Other	Other
Due within one year	\$ –	\$ 103,847	\$ 133,512	\$ 8,512
Due after one year through five years	–	–	–	–
Due after five years	–	–	–	–
	<u>\$ –</u>	<u>\$ 103,847</u>	<u>\$ 133,512</u>	<u>\$ 8,512</u>

4. Derivatives

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

All derivatives held by a consolidated subsidiary at 31st March, 2004 were for hedging purposes. There were no derivative instruments at 31st March, 2005 and 2006. Because all derivatives were cancelled at 31st March, 2005, the related information on their respective market value has not been presented.

5. Accounts Receivable and Other Receivables

For projects which have not been completed as of the balance sheet date, the percentage-of-completion method is applied and the estimated revenue to be earned from each project has been included in accounts receivable and other receivables in amounts of ¥16,301 million and ¥12,271 million (\$104,452 thousand) at 31st March, 2005 and 2006, respectively.

6. Property and Equipment

Property and equipment are summarised as follows:

	<i>Years</i>	<i>Millions of yen</i>		<i>Thousands of</i>
		<i>31st March,</i>		<i>U.S. dollars</i>
		<i>2005</i>	<i>2006</i>	<i>31st March,</i>
	<i>Useful</i>			<i>2006</i>
	<i>life</i>			
Land		¥ 9,257	¥ 11,282	\$ 96,033
Buildings	15 – 50	38,143	38,972	331,733
Machinery and equipment	3 – 15	41,863	41,256	351,176
Accumulated depreciation		(51,968)	(51,545)	(438,756)
Property and equipment, net		¥ 37,295	¥ 39,965	\$ 340,186

7. Other Assets

Other assets consisted of the following:

		<i>Millions of yen</i>		<i>Thousands of</i>
		<i>31st March,</i>		<i>U.S. dollars</i>
		<i>2005</i>	<i>2006</i>	<i>31st March,</i>
				<i>2006</i>
Lease deposits		¥ 9,356	¥ 9,112	\$ 77,562
Other		1,482	1,419	12,079
Other assets		¥ 10,838	¥ 10,531	\$ 89,641

Other includes golf club memberships.

8. Accrued Expenses

Accrued expenses included bonuses to directors and statutory auditors in the amount of ¥256 million at 31st March, 2005. There is no such transaction for the year ended 31st March, 2006.

9. Long-Term Debt

At 31st March, 2005 and 2006, no short-term bank borrowings were outstanding.

Long-term debt consisted of the following:

	<i>Millions of yen</i>		<i>Thousands of</i>
	<i>31st March,</i>		<i>U.S. dollars</i>
	<i>2005</i>	<i>2006</i>	<i>31st March,</i>
			<i>2006</i>
Loans principally from banks	¥ 1,080	¥ 240	\$ 2,043
Less current portion	240	240	2,043
Long-term debt	¥ 840	¥ –	\$ –

The weighted average interest rates on long-term debt due within one year were 0.7% at 31st March, 2005 and 0.7% at 31st March, 2006 and the weighted average interest rates on the non-current portion of long-term debt were 0.7% at 31st March, 2005.

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, determined by reference to their current basic rate of pay, length of service and the conditions under which the termination occurs.

The Company and certain of its consolidated subsidiaries also adopted defined contribution pension plan.

The Company established an employee retirement benefit trust as of 28th March, 2003 by contributing certain marketable securities.

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, 2005 and 2006 for the Company's and its consolidated subsidiaries' defined benefit plans:

	<i>Millions of yen</i>		<i>Thousands of</i>
	<i>31st March,</i>		<i>U.S. dollars</i>
	<i>2005</i>	<i>2006</i>	<i>31st March,</i>
			<i>2006</i>
Retirement benefit obligation	¥ (62,096)	¥ (65,274)	\$ (555,618)
Plan assets at fair value	42,900	54,536	464,215
Unfunded retirement benefit obligation	(19,196)	(10,738)	(91,403)
Unrecognised actuarial gain	(3,502)	(12,577)	(107,056)
Unfunded retirement benefit obligation recognised on the balance sheets	¥ (22,698)	¥ (23,315)	\$ (198,459)

10. Retirement and Severance Benefits (continued)

Plan assets at fair value include the employee retirement benefit trust of ¥10,129 million and ¥11,949 million (\$101,711 thousand) at 31st March, 2005 and 2006, respectively.

The components of retirement benefit expenses for the years ended 31st March, 2004, 2005 and 2006 are outlined as follows:

	<i>Millions of yen</i>			<i>Thousands of U.S. dollars</i>
	31st March,			31st March,
	2004	2005	2006	2006
Service cost	¥ 3,671	¥ 4,092	¥ 4,122	\$ 35,087
Interest cost	1,043	1,027	1,090	9,278
Expected return on plan assets	(335)	(429)	(492)	(4,188)
Actuarial loss	–	(538)	(269)	(2,290)
Subtotal	4,379	4,152	4,451	37,887
Other	284	288	297	2,528
Total	¥ 4,663	¥ 4,440	¥ 4,748	\$ 40,415

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

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

	31st March,		
	2004	2005	2006
Discount rate at the end of the year	1.8%	1.8%	1.9%
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 the amount of ¥873 million at 31st March, 2005. There is no such transaction for the year ended 31st March, 2006.

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,
	2005	2006	2006
Deferred income tax assets:			
Employees' retirement benefits	¥ 9,011	¥ 11,616	\$ 98,876
Depreciation	5,641	4,798	40,841
Accrued bonuses	3,217	3,805	32,388
Other	4,045	5,033	42,842
	<u>21,914</u>	<u>25,252</u>	<u>214,947</u>
Deferred income tax liabilities:			
Unrealised gain on other securities	(19,813)	(25,542)	(217,416)
Special tax-purpose reserve	(5,662)	(4,617)	(39,300)
Other	(62)	(90)	(766)
	<u>(25,537)</u>	<u>(30,249)</u>	<u>(257,482)</u>
Deferred income tax liabilities, net	<u>¥ (3,623)</u>	<u>¥ (4,997)</u>	<u>\$ (42,535)</u>

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

The effective tax rates reflected in the accompanying consolidated statements of income differ from the statutory tax rate primarily due to the effect of permanent nondeductible expenses, however, such differences were not material for the year ended 31st March, 2005 and 2006.

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.

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

12. Income Taxes (continued)

Due to the introduction of Taxation of Corporation by the Size of their Businesses, the enterprise tax amount levied by corporate size-based aspect taxation is accounted for as selling, general and administrative expenses from the year ended 31st March, 2005 in accordance with Practical Solution Report No. 12, "Presentation for Corporate Size-Based Aspect of Corporate Income Tax on Income Statement" which were issued by the Accounting Standards Board of Japan. As a result, selling, general and administrative expenses for the year ended 31st March, 2005 increased by ¥515 million and operating profit and income before income taxes decreased by the same amount.

13. Shareholders' Equity

The Commercial Code of Japan (the "Code") provides that an amount equal to at least 10% of the amount to be disbursed as distributions of earnings should be appropriated to the legal reserve until the sum of the legal reserve and additional paid-in capital equals 25% of the common stock account. The Code also stipulates that, to the extent that the sum of additional paid-in capital account and the legal reserve exceed 25% of the common stock account, the amount of any such excess is available for appropriation by resolution of the shareholders. In accordance with the Code, the Company has provided a legal reserve which is included in retained earnings. This reserve amounted to ¥570 million (\$4,852 thousand) as of both 31st March, 2005 and 2006.

Unrealised gain on other securities is not available for dividends.

14. Cash and Cash Equivalents

A reconciliation between cash and bank deposits in the consolidated balance sheets at 31st March, 2005 and 2006 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>2005</u>	<u>2006</u>	<u>2006</u>
Cash and bank deposits	¥ 18,524	¥ 26,005	\$ 221,357
Short-term investments maturing within three months from the acquisition dates	52,224	44,439	378,269
Time deposits with maturities of more than three months when deposited	(6,148)	(6,778)	(57,695)
Bond and other investments maturing in more than three months from the acquisition date	(25,922)	(12,913)	(109,917)
Cash and cash equivalents	<u>¥ 38,678</u>	<u>¥ 50,753</u>	<u>\$ 432,014</u>

14. Cash and Cash Equivalents (continued)

There were no significant non-cash transactions for the years ended 31st March, 2004, 2005 and 2006.

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

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

There were no such transactions for the years ended 31st March, 2005 and 2006.

15. Per Share Data

The per share data are summarised as follows:

	<i>Yen</i>					
	<u>31st March,</u>					
	<u>2004</u>		<u>2005</u>		<u>2006</u>	
Earnings per share	¥	399.44	¥	362.30	¥	519.72
Diluted earnings per share	¥	399.42	¥	362.29	¥	519.31

	<i>Yen</i>			
	<u>31st March,</u>			
	<u>2005</u>		<u>2006</u>	
Shareholders' equity per share	¥	5,150.44	¥	5,152.73

	<i>U.S. dollars</i>	
	<u>31st March, 2006</u>	
Earnings per share	\$	4.42
Diluted earnings per share	\$	4.42
Shareholders' equity per share	\$	43.86

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.

15. Per Share Data (continued)

The computation of earnings per share and diluted earnings per share for the years ended 31st March, 2004, 2005 and 2006 is as follows:

	<i>Millions of Yen</i>			<i>Thousands of U.S. dollars</i>
	<u>31st March,</u>			<u>31st March,</u>
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2006</u>
Numerator:				
Earnings	¥ 18,269	¥ 16,303	¥ 22,518	\$ 191,675
Earnings not available to common stockholders:				
Bonus to directors and statutory auditors	(295)	(-)	(-)	(-)
Earnings available to common stockholders	<u>¥ 17,974</u>	<u>¥ 16,303</u>	<u>¥ 22,518</u>	<u>\$ 191,675</u>
Denominator (weighted average shares):				
Denominator for earnings per share	44,999,873	44,999,553	43,327,189	43,327,189
Potential dilutive common shares-stock options	2,018	1,457	34,124	34,124
Denominator for diluted earnings per share	<u>45,001,891</u>	<u>45,001,010</u>	<u>43,361,313</u>	<u>43,361,313</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, 2004, 2005 and 2006:

	<i>Yen</i>			<i>U.S. dollars</i>
	<u>31st March,</u>			<u>31st March,</u>
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2006</u>
a) Subscription rights of 805 units issued on 27th June, 2002				
Number of shares reserved for the purpose of new share issuance against exercise of the subscription rights (shares)	80,500	80,500	68,000	68,000
Exercise price per share	¥ 17,913	¥ 17,913	¥ 17,913	\$ 152.48
Average stock price for the period that subscription rights are outstanding	¥ 10,488.54	¥ 10,268.33	¥ 12,108.25	\$ 103.07
b) Subscription rights of 845 units issued on 24th June, 2004				
Number of shares reserved for the purpose of new share issuance against exercise of the subscription rights (shares)	-	84,500	-	-
Exercise price per share	-	¥ 11,418	-	-
Average stock price for the period that subscription rights are outstanding	-	¥ 9,924.71	-	-

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, 2005 and 2006, 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,		31st March,		31st March,	
	2005	2006	2005	2006	2005	2006
Machinery and equipment	¥ 9,957	¥ 6,001	¥ 6,446	¥ 3,672	¥ 3,511	¥ 2,329
Software	898	157	744	103	154	54
Total	¥ 10,855	¥ 6,158	¥ 7,190	¥ 3,775	¥ 3,665	¥ 2,383

	<i>Thousands of U.S. dollars</i>		
	Acquisition costs	Accumulated depreciation	Net book value
	31st March, 2006		
Machinery and equipment	\$ 51,081	\$ 31,256	\$ 19,825
Software	1,336	877	459
Total	\$ 52,417	\$ 32,133	\$ 20,284

Lease payments, depreciation and interest expense for these finance leases for the years ended 31st March, 2004, 2005 and 2006 are summarised as follows:

	<i>Millions of yen</i>			<i>Thousands of U.S. dollars</i>
	31st March,			31st March,
	2004	2005	2006	2006
Lease payments	¥ 3,391	¥ 2,659	¥ 1,903	\$ 16,199
Depreciation	3,246	2,554	1,827	15,552
Interest expense	115	77	49	417

Future minimum lease payments for finance leases accounted for as operating leases and noncancelable operating leases as of 31st March, 2005 and 2006 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,	
	2005	2006	2005	2006	2006	
Future minimum lease payments due:						
Within one year	¥ 2,212	¥ 1,610	¥ 123	¥ 177	\$ 13,704	\$ 1,507
Thereafter	2,798	2,297	414	369	19,552	3,141
Total	¥ 5,010	¥ 3,907	¥ 537	¥ 546	\$ 33,256	\$ 4,648

16. Leases (continued)

2) Lessor

There were no transactions for finance leases for the year ended 31st March, 2004, 2005 and 2006.

Future minimum lease income for subleases as finance leases and operating leases as of 31st March, 2005 and 2006 is summarised as follows:

	<i>Millions of yen</i>				<i>Thousands of U.S. dollars</i>	
	Subleases*		Operating leases		Subleases*	Operating leases
	31st March,		31st March,			
	2005	2006	2005	2006	31st March, 2006	
Future minimum lease income due:						
Within one year	¥ 915	¥ 946	¥ 116	¥ 142	\$ 8,052	\$ 1,209
Thereafter	1,763	2,077	294	145	17,680	1,234
Total	<u>¥ 2,678</u>	<u>¥ 3,023</u>	<u>¥ 410</u>	<u>¥ 287</u>	<u>\$ 25,732</u>	<u>\$ 2,443</u>

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

17. Selling, General and Administrative Expenses

The details of selling, general and administrative expenses for the years ended 31st March, 2004, 2005 and 2006 are summarised as follows:

	<i>Millions of yen</i>			<i>Thousands of U.S. dollars</i>
	31st March,			31st March,
	2004	2005	2006	2006
Personnel expenses	¥ 17,474	¥ 17,722	¥ 18,594	\$ 158,274
Rent	3,505	3,370	3,259	27,741
Subcontractor costs	3,355	3,254	4,600	39,156
Other	7,615	7,726	8,956	76,234
Total	<u>¥ 31,949</u>	<u>¥ 32,072</u>	<u>¥ 35,409</u>	<u>\$ 301,405</u>

18. Research and Development Costs

Research and development costs included in selling, general and administrative expenses for the years ended 31st March, 2004, 2005 and 2006 are summarised as follows:

	<i>Millions of yen</i>			<i>Thousands of U.S. dollars</i>
	31st March,			31st March,
	2004	2005	2006	2006
	¥ 2,217	¥ 1,647	¥ 2,502	\$ 21,297

19. Other Income (Expenses)

1) Loss on real estate put option

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

2) Impairment loss on software

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

3) (Loss) gain on investment securities

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

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

Gain on investment securities for the year ended 31st March, 2006 consisted of gain on investment securities of ¥724 million (\$6,163 thousand) and loss on investment securities of ¥1,296 million (\$11,032 thousand). Gain on investment securities consisted principally of gain on the sale of shares of Monex Beans Holdings, Inc. Loss on investment securities consisted principally of loss on the devaluation of shares of IY Card Service Co., Ltd., BELL NET CORPORATION and 7dream.com. as a result of their decline in value which was deemed permanent and of loss on the sale of an investment of OmniTrust Security System, Inc.

4) Gain on investments in affiliates

Gain on investments in affiliates for the year ended 31st March, 2004 consisted of gain on sales of investments in affiliates of ¥3,784 million and gain from changes in equity of ¥193 million.

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

19. Other Income (Expenses) (continued)

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

There were no such transaction for the year ended 31st March, 2005 and 2006.

5) Gain on liquidation of a special purpose company

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

6) Head office relocation cost

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

20. Related Party Transactions

Related party transactions for the years ended 31st March, 2004, 2005 and 2006 and the respective balances at 31st March, 2005 and 2006 were as follows:

1) Transactions

Related party	Nature of transaction	Millions of yen			Thousands of
		31st March,			U.S. dollars
		2004	2005	2006	31st March, 2006
a) Major shareholders Nomura Holdings, Inc.	Sales	¥ 43,892	¥ 36,284	¥ 42,380	\$ 360,742
b) Major shareholders' subsidiaries					
Nomura Real Estate Development Co., Ltd.*	Rent	3,579	–	–	–
The Nomura Securities Co., Ltd.	Sales	–	16,495	28,337	241,207
	Sales of investment securities	–	5,605	–	–
	Gain on above sales	–	5,511	–	–
	Payment for tender offer expenses of the treasury stock	–	–	80	681
Nomura Facilities, Inc.	Purchase of the treasury stock	–	–	44,000	374,532

2) Balances

Related party	Nature of transaction	Millions of yen		Thousands of
		31st March,		U.S. dollars
		2005	2006	31st March, 2006
a) Major shareholders Nomura Holdings, Inc.	Accounts receivable and other receivables	¥ 4,668	¥ 6,841	\$ 58,231
b) Major shareholders' subsidiaries The Nomura Securities Co., Ltd.	Accounts receivable and other receivables	3,216	3,177	27,043

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

21. Contingent Liabilities

There were not material contingent liabilities at 31st March, 2005 and 2006.

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 the Commercial Code of Japan. Following is the status of the subscription rights at 31st March, 2006.

1) Stock option plan whose exercise price is determined based on marketable value of the Company's share

The terms of the subscription rights require that holders 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 inheritor can exercise a subscription right under certain other circumstances, such as death, expiration of term, etc. Transfer or pledge of the subscription right, or similar actions, are prohibited. The ordinary transaction closing prices on the Tokyo Stock Exchange for the last five consecutive days prior to the exercise date must be ¥20,000 or more per share, ¥11,100 or more per share and ¥12,600 or more per share for the subscription rights issued on 27th June, 2002, 12th August, 2003 and 24th June, 2004, respectively, to be exercised by the holder of the subscription rights. The ordinary transaction closing prices on the Tokyo Stock Exchange for the given five consecutive days in the exercise period must be ¥12,800 or more per share for the subscription rights issued on 1st July, 2005. Other terms and conditions are defined by the resolution of the board of directors. The following tables summarize information on stock options outstanding as of 31st March, 2006 and 31st May, 2006:

i) Subscription rights issued on 27th June, 2002

	31st March, 2006	31st May, 2006
Number of subscription rights outstanding	805	680
Number of shares reserved	80,500	68,000
Exercise price	¥ 17,913	¥ 17,913
Exercise period	1st July, 2004 to 30th June, 2007	1st July, 2004 to 30th June, 2007
Offering price of the new shares	¥ 17,913	¥ 17,913
Capital increase per share	¥ 8,957	¥ 8,957

125 rights and 12,500 shares, respectively, are included in "Number of subscription rights outstanding" and "Number of shares reserved" as of 31st March, 2006, which cannot be exercised because of holders' waivers of rights or retirements.

22. Stock Option Plan (continued)

ii) Subscription rights issued on 12th August, 2003

	<u>31st March, 2006</u>	<u>31st May, 2006</u>
Number of subscription rights outstanding	453	395
Number of shares reserved	45,300	39,500
Exercise price	¥ 10,088	¥ 10,088
Exercise period	1st July, 2005 to 30th June, 2008	1st July, 2005 to 30th June, 2008
Offering price of the new shares	¥ 10,088	¥ 10,088
Capital increase per share	¥ 5,044	¥ 5,044

30 rights and 3,000 shares, respectively, are included in “Number of subscription rights outstanding” and “Number of shares reserved” as of 31st March, 2006, which cannot be exercised because of holders’ waivers of rights.

iii) Subscription rights issued on 24th June, 2004

	<u>31st March, 2006</u>	<u>31st May, 2006</u>
Number of subscription rights outstanding	845	815
Number of shares reserved	84,500	81,500
Exercise price	¥ 11,418	¥ 11,418
Exercise period	1st July, 2006 to 30th June, 2009	1st July, 2006 to 30th June, 2009
Offering price of the new shares	¥ 11,418	¥ 11,418
Capital increase per share	¥ 5,709	¥ 5,709

30 rights and 3,000 shares, respectively, are included in “Number of subscription rights outstanding” and “Number of shares reserved” as of 31st March, 2006, which cannot be exercised because of holders’ waivers of rights.

iv) Subscription rights issued on 1st July, 2005

	<u>31st March, 2006</u>	<u>31st May, 2006</u>
Number of subscription rights outstanding	815	815
Number of shares reserved	81,500	81,500
Exercise price	¥ 11,594	¥ 11,594
Exercise period	1st July, 2007 to 30th June, 2010	1st July, 2007 to 30th June, 2010
Offering price of the new shares	¥ 11,594	¥ 11,594
Capital increase per share	¥ 5,797	¥ 5,797

22. Stock Option Plan (continued)

2) Stock option plan whose exercise price is 1 yen per 1 share

Subscription rights to purchase 19,100 new shares of the Company's common stock were granted to the Company's directors, officers, employees who are equivalent to directors and officers, and the directors of its domestic subsidiaries on 1st July, 2005. The subscription rights are exercisable at the cost of 1 yen. These subscription rights are exercisable over one-year period from 1st July, 2006 to 30th June, 2007, provided that the holder as of the exercise date be a director or an officer or a statutory auditor of the Company or one of its domestic subsidiaries, or be in an equal position.

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 research services, management consulting services and support services relating to the asset management business.

The business segment information of the Company and its consolidated subsidiaries for the years ended 31st March, 2004, 2005 and 2006 is summarised as follows:

Business segments

	<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)

Business segments (continued)

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

<i>Millions of yen</i>					
Year ended 31st March, 2006					
	System solutions services	Consulting/ knowledge services	Total	Eliminations and corporate	Consoli- dated
I. Sales and operating profit					
Sales to external customers	¥ 241,001	¥ 44,584	¥ 285,585	¥ –	¥ 285,585
Intersegment sales or transfers	3,467	2,525	5,992	(5,992)	–
Total sales	244,468	47,109	291,577	(5,992)	285,585
Operating expenses	213,136	41,951	255,087	(5,971)	249,116
Operating profit	¥ 31,332	¥ 5,158	¥ 36,490	¥ (21)	¥ 36,469
II. Total assets, depreciation and amortisation and capital expenditures					
Total assets	¥ 127,591	¥ 25,739	¥ 153,330	¥ 158,457	¥ 311,787
Depreciation and amortisation	13,999	2,597	16,596	(22)	16,574
Capital expenditures	15,498	2,891	18,389	(45)	18,344

Corporate assets included under “Eliminations and corporate” at 31st March, 2004, 2005 and 2006 amounted to ¥178,295 million, ¥170,480 million and ¥159,681 million (\$1,359,219 thousand), respectively, and consisted principally of surplus funds and investment securities.

23. Segment Information (continued)

Business segments (continued)

<i>Thousands of U.S. dollars</i>					
Year ended 31st March, 2006					
	System solutions services	Consulting/ knowledge services	Total	Eliminations and corporate	Consoli- dated
I. Sales and operating profit					
Sales to external customers	\$ 2,051,422	\$ 379,502	\$ 2,430,924	\$ –	\$ 2,430,924
Intersegment sales or transfers	29,511	21,493	51,004	(51,004)	–
Total sales	<u>2,080,933</u>	<u>400,995</u>	<u>2,481,928</u>	<u>(51,004)</u>	<u>2,430,924</u>
Operating expenses	1,814,232	357,091	2,171,323	(50,826)	2,120,497
Operating profit	<u>\$ 266,701</u>	<u>\$ 43,904</u>	<u>\$ 310,605</u>	<u>\$ (178)</u>	<u>\$ 310,427</u>
II. Total assets, depreciation and amortisation and capital expenditures					
Total assets	\$ 1,086,066	\$ 219,092	\$ 1,305,158	\$ 1,348,800	\$ 2,653,958
Depreciation and amortisation	119,161	22,106	141,267	(188)	141,079
Capital expenditures	131,920	24,609	156,529	(383)	156,146

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

Due to the introduction of Taxation of Corporation by the Size of their Businesses, the enterprise tax amount levied by corporate size-based aspect taxation is accounted for as selling, general and administrative expenses from the year ended 31st March, 2005. As a result, operating expenses of System solutions services segment and Consulting/knowledge services segment for the year ended 31st March, 2005 increased by ¥388 million and ¥127 million, respectively, and operating profit for those segments decreased by the same amount.

Geographical segments

Because sales and assets in the domestic segment had constituted more than 90% of total segment sales and assets for the years ended 31st March, 2004, 2005 and 2006, 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, 2004, 2005 and 2006, no disclosure of overseas sales has been made.

24. Subsequent Event

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, 2006, were approved at a meeting of the shareholders held on 23rd June, 2006:

	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>
	<hr/>	<hr/>
Year-end cash dividends (¥ 90 = \$ 0.77 per share)	¥ 3,656	\$ 31,120

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 31st March, 2005 whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If the expected future cash flows are less than the carrying amount of such an asset, an impairment loss is recognized.

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

3. Transferors of Real Estate to Special Purpose Entities

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

Prior to the adoption of this standard, the related accounting practices under Japanese GAAP 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. 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, generally, no liability and expense are recognized until the subscription rights are exercised. However, for stock options issued after May 1st 2006, compensation costs are evaluated based on the fair value of stock options and recognized in income statements.

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 would have been applied, are required. From periods beginning after 15th December 2005, the fair value method is required under U.S. GAAP.

6. Interest Rate Swap

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

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

7. Bonuses to Directors and Statutory Auditors

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

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

8. Revenue Recognition

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

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

9. Guarantor's Accounting for Guarantees

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

Under U.S. GAAP, at the inception of a guarantee, the guarantor recognizes a liability in its statement of financial position for the fair value of all guarantees issued or modified after December 31st, 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, 2006, the Company had 19 subsidiaries, all of which were consolidated subsidiaries.

At the same date, the Company had 2 affiliates, all of which were accounted for by the equity method in the Company's financial statements.

The following table sets forth information on the Company's direct and indirect subsidiaries and affiliates as of 31st March, 2006.

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

Name	Country	Main Business	Issued Capital (thousands)	Equity held by the Company (%)
Subsidiaries(continued)				
Nomura Research Institute Europe Limited	England	Research and development and operation of information management systems in Europe	£ 1,350	100.0
Nomura Research Institute Beijing Limited	China	Development and operation of information management systems in China	U.S.\$ 3,000	100.0
Nomura Research Institute Shanghai Limited	China	Consulting in China	U.S.\$ 2,550	100.0
Nomura Research Institute Hong Kong Limited	China	Research and development and operation of information management systems in Asia	HK\$ 16,181	100.0
Nomura Research Institute (Singapore) Private Limited	Singapore	Research and development and operation of information management systems in Asia	Sing\$ 1,400	100.0
Affiliates				
Nomura Funds Research and Technologies Co., Ltd.	Japan	Management of fund-of-funds, valuation of funds, pension consulting	¥ 400,000	49.0
Nippon Clearing Services Co., Ltd	Japan	Back-office services for mid-tier securities companies	¥ 300,000	40.0

*On April 1, 2006, NRI Data Services, Ltd. merged with the parent company, and thus no longer exist.

[Appendix (3)]

MAJOR SHAREHOLDERS

Shareholders	Number of Shares Owned (thousands)	Ratio of Voting Rights (%)
Nomura Asset Management Co., Ltd.	8,677	21.36
Nomura Facilities, Inc.	3,720	9.16
JAFCO Co., Ltd.	3,180	7.83
Nomura Holdings, Inc.	2,600	6.40
Japan Trustee Services Bank, Ltd. (Trust Account)	2,215	5.45
The Master Trust Bank of Japan, Ltd.(Trust Account)	1,906	4.69
NRI Group Employee Stock Ownership Association	1,070	2.64
TAKAGI SECURITIES CO., LTD.	550	1.35
The Goldman Sachs Group, Inc.	504	1.24
The Bank of New York Company, Inc	495	1.22

*NRI owns 4,380 thousand shares.

*Nomura Facilities, Inc. which was a principal shareholder at the end of the previous fiscal year, merged with Nomura Asset Properties Co., Ltd. at 1st April, 2005, and Nomura Asset Properties Co., Ltd., the surviving company, became a principal shareholder. Nomura Asset Properties Co., Ltd. changed its name to Nomura Facilities, Inc. at the same date.