

**Consolidated Financial Statements**

**Nomura Research Institute, Ltd.**

*At 31st March, 2006 and 2007 and  
for the years ended 31st March, 2005, 2006 and 2007  
with Report of Independent Auditors*

Nomura Research Institute, Ltd.

Consolidated Financial Statements

At 31st March, 2006 and 2007 and  
for the years ended 31st March, 2005, 2006 and 2007

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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, 2006 and 2007, and the related consolidated statements of income, changes in net assets, and cash flows for each of the three years in the period ended 31st March, 2007, 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, 2006 and 2007, and the consolidated results of their operations and their cash flows for each of the three years in the period ended 31st March, 2007 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, 2007 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*

22nd June, 2007

Nomura Research Institute, Ltd.

Consolidated Balance Sheets

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars (Note 2)</i>
	<b>31st March,</b>		<b>31st March,</b>
	<b>2006</b>	<b>2007</b>	<b>2007</b>
<b>Assets</b>			
Current assets:			
Cash and bank deposits (Note 12)	¥ 26,005	¥ 20,941	\$ 177,331
Short-term investment securities (Notes 3 and 12)	44,439	112,536	952,968
Accounts receivable and other receivables (Notes 5 and 18)	56,898	68,703	581,785
Inventories	1,237	294	2,490
Deferred income taxes (Note 10)	7,656	8,409	71,208
Other current assets	1,604	1,775	15,031
Allowance for doubtful accounts	(60)	(74)	(627)
Total current assets	137,779	212,584	1,800,186
Property and equipment (Note 6):			
Land	11,282	11,292	95,622
Buildings, net	15,878	18,069	153,010
Machinery and equipment, net	12,805	16,305	138,073
Construction in progress	–	3,813	32,289
Property and equipment, net	39,965	49,479	418,994
Software and other intangibles	20,421	19,652	166,415
Investment securities (Notes 3 and 18)	97,683	65,875	557,837
Investments in affiliates (Note 3)	3,822	2,873	24,329
Deferred income taxes (Note 10)	1,615	572	4,844
Long-term loans receivable	–	7,264	61,512
Other assets (Notes 7 and 18)	10,531	13,182	111,628
Allowance for doubtful accounts	(29)	(23)	(195)
Total assets	¥311,787	¥371,458	\$3,145,550

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars (Note 2)</i>
	<b>31st March,</b>		<b>31st March,</b>
	<b>2006</b>	<b>2007</b>	<b>2007</b>
<b>Liabilities and Net Assets</b>			
Current liabilities:			
Long-term debt due within one year ( <i>Note 8</i> )	¥ 240	¥ –	\$ –
Accounts payable	29,453	33,202	281,158
Accrued expenses	14,948	20,583	174,299
Income taxes payable	13,002	12,839	108,722
Other current liabilities	7,260	14,115	119,528
Total current liabilities	64,903	80,739	683,707
Convertible bonds ( <i>Note 8</i> )	–	50,000	423,406
Allowance for employees' retirement benefits ( <i>Note 9</i> )	23,315	23,352	197,748
Deferred income taxes ( <i>Note 10</i> )	14,268	1,134	9,603
Commitments and contingent liabilities ( <i>Note 19</i> )			
Net assets ( <i>Notes 11 and 13</i> ):			
Shareholders' equity:			
Common stock:			
Authorised – 150,000,000 shares at 31st March, 2006 and 2007			
Issued – 45,000,000 shares at 31st March, 2006 and 2007	18,600	18,600	157,507
Additional paid-in capital	14,800	14,800	125,328
Retained earnings	186,670	206,990	1,752,816
Treasury stock, at cost:			
– 4,380,480 shares at 31st March, 2006 and 4,291,620 shares at 31st March, 2007	(48,133)	(47,157)	(399,331)
Total shareholders' equity	171,937	193,233	1,636,320
Valuation and translation adjustments:			
Unrealised gain on other securities ( <i>Note 3</i> )	37,369	22,194	187,941
Translation adjustments	(5)	499	4,226
Total valuation and translation adjustments	37,364	22,693	192,167
Share subscription rights ( <i>Note 11</i> )	–	307	2,599
Total net assets	209,301	216,233	1,831,086
Total liabilities and net assets	¥311,787	¥371,458	\$3,145,550

*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>
	<b>Year ended 31st March,</b>			<b>Year ended 31st March,</b>
	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2007</b>
Sales ( <i>Note 18</i> )	¥252,963	¥285,585	¥322,532	\$2,731,239
Cost of sales ( <i>Note 18</i> )	190,732	213,707	234,579	1,986,443
Gross profit	62,231	71,878	87,953	744,796
Selling, general and administrative expenses ( <i>Notes 15, 16 and 18</i> )	32,072	35,409	44,056	373,071
Operating profit	30,159	36,469	43,897	371,725
Other income (expenses):				
Interest and dividend income ( <i>Note 18</i> )	702	1,150	1,556	13,176
Equity in earnings of affiliates	227	563	511	4,327
Tender offer expense of treasury stock	–	(82)	–	–
Interest expense ( <i>Note 8</i> )	(215)	(7)	(1)	(8)
Loss on property and equipment	(203)	(145)	–	–
Loss on impairment of software ( <i>Note 17</i> )	(6,526)	–	–	–
Gain (loss) on investment securities ( <i>Notes 3, 17 and 18</i> )	3,882	(572)	2,074	17,563
Gain on liquidation of a special purpose company ( <i>Note 17</i> )	209	–	–	–
Bond issuance cost	–	–	(60)	(508)
Office integration and relocation expenses ( <i>Note 17</i> )	(981)	–	(1,429)	(12,101)
Other, net	107	159	196	1,660
	(2,798)	1,066	2,847	24,109
Income before income taxes	27,361	37,535	46,744	395,834
Provision for income taxes ( <i>Note 10</i> ):				
Current	15,646	19,368	22,148	187,552
Deferred	(4,588)	(4,351)	(2,423)	(20,518)
	11,058	15,017	19,725	167,034
Net income ( <i>Note 13</i> )	¥ 16,303	¥ 22,518	¥ 27,019	\$ 228,800

See accompanying notes to consolidated financial statements.

Nomura Research Institute, Ltd.

Consolidated Statements of Changes in Net Assets

*Millions of yen*

	Shareholders' equity				Valuation and translation adjustments					Total net assets
	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Total shareholders' equity	Unrealised gain on other securities	Translation adjustments	Total valuation and translation adjustments	Share subscription rights	
<b>Balance at 31st March, 2004</b>	¥18,600	¥14,800	¥156,710	¥ (4)	¥190,106	¥ 40,082	¥(857)	¥ 39,225	¥ -	¥229,331
Purchases of treasury stock	-	-	-	(2)	(2)	-	-	-	-	(2)
Net income	-	-	16,303	-	16,303	-	-	-	-	16,303
Cash dividends paid	-	-	(2,700)	-	(2,700)	-	-	-	-	(2,700)
Bonuses to directors and statutory auditors	-	-	(295)	-	(295)	-	-	-	-	(295)
Net changes other than in shareholders' equity	-	-	-	-	-	(11,094)	224	(10,870)	-	(10,870)
<b>Balance at 31st March, 2005</b>	18,600	14,800	170,018	(6)	203,412	28,988	(633)	28,355	-	231,767
Purchases of treasury stock	-	-	-	(48,528)	(48,528)	-	-	-	-	(48,528)
Disposition of treasury stock	-	-	-	401	401	-	-	-	-	401
Net income	-	-	22,518	-	22,518	-	-	-	-	22,518
Cash dividends paid	-	-	(5,845)	-	(5,845)	-	-	-	-	(5,845)
Loss on disposition of treasury stock	-	-	(21)	-	(21)	-	-	-	-	(21)
Net changes other than in shareholders' equity	-	-	-	-	-	8,381	628	9,009	-	9,009
<b>Balance at 31st March, 2006</b>	18,600	14,800	186,670	(48,133)	171,937	37,369	(5)	37,364	-	209,301
Purchases of treasury stock	-	-	-	(4)	(4)	-	-	-	-	(4)
Disposition of treasury stock	-	-	-	980	980	-	-	-	-	980
Net income	-	-	27,019	-	27,019	-	-	-	-	27,019
Cash dividends paid	-	-	(6,501)	-	(6,501)	-	-	-	-	(6,501)
Loss on disposition of treasury stock	-	-	(198)	-	(198)	-	-	-	-	(198)
Net changes other than in shareholders' equity	-	-	-	-	-	(15,175)	504	(14,671)	307	(14,364)
<b>Balance at 31st March, 2007</b>	¥18,600	¥14,800	¥206,990	¥(47,157)	¥193,233	¥ 22,194	¥ 499	¥22,693	¥307	¥216,233

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

	Shareholders' equity				Valuation and translation adjustments					Total net assets
	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Total shareholders' equity	Unrealised gain on other securities	Translation adjustments	Total valuation and translation adjustments	Share subscription rights	
<b>Balance at 31st March, 2006</b>	\$157,507	\$125,328	\$1,580,744	\$(407,596)	\$1,455,983	\$316,445	\$ (42)	\$ 316,403	\$ -	\$1,772,386
Purchases of treasury stock	-	-	-	(34)	(34)	-	-	-	-	(34)
Disposition of treasury stock	-	-	-	8,299	8,299	-	-	-	-	8,299
Net income	-	-	228,800	-	228,800	-	-	-	-	228,800
Cash dividends paid	-	-	(55,051)	-	(55,051)	-	-	-	-	(55,051)
Loss on disposition of treasury stock	-	-	(1,677)	-	(1,677)	-	-	-	-	(1,677)
Net changes other than in shareholders' equity	-	-	-	-	-	(128,504)	4,268	(124,236)	2,599	(121,637)
<b>Balance at 31st March, 2007</b>	\$157,507	\$125,328	\$1,752,816	\$(399,331)	\$1,636,320	\$187,941	\$4,226	\$ 192,167	\$2,599	\$1,831,086

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>
	<b>Year ended 31st March,</b>			<b>Year ended 31st March,</b>
	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2007</b>
<b>Cash flows from operating activities</b>				
Income before income taxes	¥ 27,361	¥ 37,535	¥ 46,744	\$ 395,834
Adjustments to reconcile income before income taxes to net cash provided by operating activities:				
Depreciation and amortisation	18,403	16,574	19,796	167,635
Interest and dividend income	(702)	(1,150)	(1,556)	(13,176)
Interest expense	215	7	1	8
Loss on property and equipment	203	145	-	-
Loss on impairment of software	6,526	-	-	-
(Gain) loss on investment securities	(3,882)	572	(2,074)	(17,563)
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	(4,880)	894	(11,826)	(100,144)
Allowance for doubtful accounts	18	(13)	8	68
Accounts payable	(364)	9,617	3,786	32,060
Inventories	(658)	(479)	936	7,926
Allowance for employees' retirement benefits and welfare pension plan	73	617	37	313
Other	1,608	1,747	4,378	37,074
Subtotal	43,712	66,066	60,230	510,035
Interest and dividends received	742	1,188	1,644	13,921
Interest paid	(215)	(7)	(1)	(8)
Income taxes paid	(16,669)	(18,371)	(22,289)	(188,746)
Net cash provided by operating activities	27,570	48,876	39,584	335,202
<b>Cash flows from investing activities</b>				
Payments for time deposits	(6,148)	(6,778)	(7,641)	(64,705)
Proceeds from time deposits	-	6,523	7,203	60,996
Increase in short-term investment securities	(25,984)	(18,265)	(30,951)	(262,097)
Proceeds from sales and redemption of short-term investment securities	-	31,214	33,910	287,154
Acquisition of property and equipment	(8,052)	(9,800)	(11,686)	(98,958)
Proceeds from sales of property and equipment	837	473	285	2,413
Increase arising from liquidation of a special purpose company	213	-	-	-
Increase in software and other intangibles	(9,327)	(8,212)	(12,435)	(105,301)
Proceeds from sales of software and other intangibles	113	60	11	93
Increase in investment securities	(39,889)	(11,976)	(343)	(2,905)
Proceeds from sales and redemption of investment securities	6,131	34,590	8,673	73,444
Proceeds from sales of investments in subsidiaries	-	-	322	2,727
Increase in investments in affiliates	-	(60)	-	-
Proceeds from sales of investments in affiliates	-	9	1,256	10,636
Increase in long-term loans receivable	-	-	(7,246)	(61,360)
Other	124	76	62	526
Net cash (used in) provided by investing activities	(81,982)	17,854	(18,580)	(157,337)
<b>Cash flows from financing activities</b>				
Proceeds from long-term debt	1,200	-	-	-
Repayment of long-term debt	(2,430)	(840)	(240)	(2,032)
Proceeds from issuance of convertible bonds	-	-	50,000	423,406
Proceeds from sales of treasury stock	-	380	782	6,622
Purchases of treasury stock	(2)	(48,528)	(4)	(34)
Cash dividends paid	(2,696)	(5,841)	(6,497)	(55,018)
Net cash provided by (used in) financing activities	(3,928)	(54,829)	44,041	372,944
Effect of exchange rate changes on cash and cash equivalents	206	174	56	474
Net increase (decrease) in cash and cash equivalents	(58,134)	12,075	65,101	551,283
Cash and cash equivalents at beginning of period	96,812	38,678	50,753	429,782
Cash and cash equivalents at end of period	¥ 38,678	¥ 50,753	¥ 115,854	\$ 981,065

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 IT solutions services and consulting services. IT solutions services include the development, installation, operation and management of computer systems and networks, asset management analyses, and information services and sales of related products. Consulting services include conducting research on macroeconomic trends, providing management consulting advice, and rendering system consulting services and information services. Information on the Company’s operations by segment is included in Note 21.

#### *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, 2005, 2006 and 2007 include the accounts of the Company and significant companies which are controlled directly or indirectly by the Company. All subsidiaries, (19, 19 and 14 for the years ended 31st March, 2005, 2006 and 2007, respectively) have been consolidated. The major consolidated subsidiary is Nomura Research Institute America, Inc. Effective the year ended 31st March, 2007, NRI Data Service, Ltd., which had been a major wholly-owned consolidated subsidiary, has been excluded from the scope of consolidation resulting from its merger with the Company. On 1st October, 2006, the Company sold all its shares of common stock of NRI Garden Network, Ltd., which had been a wholly-owned consolidated subsidiary, and accordingly, it was excluded from the scope of consolidation. The results of its operations and cash flows through 1st October, 2006 have been consolidated into the Company.

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

## **1. Significant Accounting Policies (continued)**

### ***Basis of Consolidation (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 for the year ended 31st March, 2007, one of which is Nomura Funds Research & Technologies Co., Ltd., and the other is Nihon Clearing Services Co., Ltd. Nomura Funds Research & Technologies Co., Ltd., which had been a major affiliated company, was excluded from the scope of the equity method as a result of a sale of all its shares during the year ended 31st March, 2007. The results of its operations through 1st October, 2006 have been included in the accompanying consolidated statement of income for the year ended 31st March, 2007.

### ***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 their acquisition dates which are readily convertible into cash.

### ***Investment Securities***

The Company holds investment securities in its major shareholder, Nomura Holdings, Inc. 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.

Held-to-maturity debt securities 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 net assets, net of the applicable taxes. If the fair value of marketable securities classified as other securities declines 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 impairment loss under the following conditions:

- i) All securities whose fair value has declined by more than 50%, and
- 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.

## **1. Significant Accounting Policies (continued)**

### ***Investment Securities (continued)***

Non-marketable securities classified as other securities are stated at cost and the cost of securities sold is determined by the moving average method.

### ***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 is utilised, although no evaluation of the effectiveness of the interest-rate swaps which meet the above condition is undertaken, as 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 are depreciated by the straight-line method over their respective estimated 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.

## **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 fully expensed upon transition. Actuarial gain or loss is amortised by the straight-line method over a defined period not exceeding the average remaining period of employment (15 years) and is recognised as a pension cost.

### ***Accrual for Retirement Benefits for Directors and Statutory Auditors***

Until the year ended 31st March, 2005, the Company and its domestic consolidated subsidiaries provided an accrual for retirement benefits for directors and statutory auditors at the amount which would have been required to be paid if all directors and statutory auditors resigned as of the balance sheet date in accordance with the Company's or its domestic consolidated subsidiaries' internal regulations.

Effective the year ended 31st March, 2006, the Company has not provided such accrual for retirement benefits for directors and statutory auditors in accordance with the discontinuation of the retirement benefit program for these officers.

### ***Leases***

Where finance leases do not transfer ownership of the leased property to the lessee, the leased property is not capitalised and the related rental and lease expenses are charged to income as incurred.

### ***Revenue Recognition***

In principle, revenues arising from research, consulting projects and system development projects are recognised by the percentage-of-completion method and revenues from other projects are recognised when the related services have been rendered.

### ***Research and Development Expenses***

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

### ***Bond Issuance Costs***

Bond issuance costs are expensed upon payment.

## **1. Significant Accounting Policies (continued)**

### ***Appropriation of Capital Surplus and Retained Earnings***

Under the Corporation Law of Japan, the appropriation of capital surplus and retained earnings with respect to a given period is made by resolution of the shareholders at a general meeting or by resolution of the Board of Directors. Appropriations from capital surplus and retained earnings are reflected in the financial statements in the period in which such resolutions are approved.

### ***New Accounting Standards***

- (a) Effective the year ended 31st March, 2007, the Company has adopted a new accounting standard entitled “Accounting Standard for Presentation of Net Assets in the Balance Sheet” (Accounting Standards Board of Japan Statement No. 5) and “Guidance on Accounting Standard for Presentation of Net Assets in the Balance Sheet” (Accounting Standards Board of Japan Guidance No. 8). The amount corresponding to total shareholders’ equity under the previous method of presentation amounted to ¥215,926 (\$1,828,487 thousand) million at 31st March, 2007. In this connection, the financial statements as of and for the years ended 31st March, 2005 and 2006 have been restated to conform to the presentation of the financial statements as of and for the year ended 31st March, 2007.
- (b) Effective the year ended 31st March, 2007, the Company has adopted a new accounting standard entitled “Accounting Standard for Share-based Payments” (Accounting Standards Board of Japan Statement No. 8) and “Guidance on Accounting Standard for Share-based Payments” (Accounting Standards Board of Japan Guidance No. 11). As a result, operating profit and income before income taxes decreased by ¥307 million (\$2,599 thousand) for the year ended 31st March, 2007 from the amounts which would have been recorded under the previous method.
- (c) Effective the year ended 31st March, 2007, the Company has adopted a new accounting standard entitled “Accounting Standard for Business Divestitures” (Accounting Standards Board of Japan Statement No. 7) and “Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures” (Accounting Standards Board of Japan Guidance No. 10).

## **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 ¥118.09 = U.S.\$1.00, the rate of exchange prevailing on 31st March, 2007. 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 did not hold any trading securities or held-to-maturity securities with determinable market value at 31st March, 2006 and 2007.

The following is a summary of market value information concerning other securities included in short-term investment securities, investment securities and investments in affiliates at 31st March, 2006 and 2007:

a) Marketable securities classified as other securities

	<i>Millions of yen</i>					
	<u>Acquisition cost</u>		<u>Carrying amount</u>		<u>Unrealised gain (loss)</u>	
	<u>31st March,</u>		<u>31st March,</u>		<u>31st March,</u>	
	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>
Equity securities	¥14,137	¥14,118	¥77,086	¥51,141	¥62,949	¥37,023
Debt securities:						
Government						
debt securities	–	17,982	–	17,982	–	–
Corporate debt						
securities	12,207	4,000	12,191	4,000	(16)	–
Other	1,712	–	1,711	–	(1)	–
	<u>13,919</u>	<u>21,982</u>	<u>13,902</u>	<u>21,982</u>	<u>(17)</u>	<u>–</u>
Other	2,995	1,343	2,978	1,646	(17)	303
Total	<u>¥31,051</u>	<u>¥37,443</u>	<u>¥93,966</u>	<u>¥74,769</u>	<u>¥62,915</u>	<u>¥37,326</u>

	<i>Thousands of U.S. dollars</i>		
	<u>Acquisition</u>	<u>Carrying</u>	<u>Unrealised</u>
	<u>Cost</u>	<u>amount</u>	<u>gain (loss)</u>
	<u>31st March, 2007</u>		
Equity securities	\$119,553	\$433,068	\$313,515
Debt securities:			
Government			
debt securities	152,274	152,274	–
Corporate debt			
securities	33,872	33,872	–
Other	–	–	–
	<u>186,146</u>	<u>186,146</u>	<u>–</u>
Other	11,373	13,939	2,566
Total	<u>\$317,072</u>	<u>\$633,153</u>	<u>\$316,081</u>

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

### 3. Investments (continued)

#### a) Marketable securities classified as other securities (continued)

Proceeds from sales of marketable securities classified as other securities for the years ended 31st March, 2005, 2006 and 2007 were as follows:

	<i>Millions of yen</i>			<i>Thousands of U.S. dollars</i>
	<b>31st March,</b>			<b>31st March,</b>
	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2007</b>
Proceeds	¥6,032	¥40,013	¥2,110	\$17,868
Gross gain	5,524	724	2,081	17,622
Gross loss	(86)	(98)	–	–

There were no losses on devaluation of marketable securities classified as other securities as a result of a permanent decline for the years ended 31st March, 2005, 2006 and 2007.

#### b) Non-marketable securities classified as other securities

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	<b>31st March,</b>		<b>31st March,</b>
	<b>2006</b>	<b>2007</b>	<b>2007</b>
Other securities:			
Equity securities	¥15,256	¥15,543	\$131,620
Money management funds	6,553	6,565	55,593
Free financial funds	15,000	37,025	313,532
Cash reserve funds	–	8,002	67,762
Commercial paper	13,973	38,961	329,926

Investments in affiliates which are included in equity securities include investments in net assets of affiliated companies accounted for under the equity method totaling ¥1,196 million and ¥418 million (\$3,540 thousand) at 31st March, 2006 and 2007, respectively.

#### c) Maturities of debt securities

Maturities of debt securities classified as other securities at 31st March, 2006 and 2007 are summarised as follows:

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

### 3. Investments (continued)

#### c) Maturities of debt securities (continued)

	<i>Millions of yen</i>			
	<b>31st March, 2007</b>			
	<b>Debt securities</b>			
	<b>Government debt securities</b>	<b>Corporate debt securities</b>	<b>Other</b>	<b>Other</b>
Due within one year	¥18,000	¥4,000	¥39,000	¥ –

  

	<i>Thousands of U.S. dollars</i>			
	<b>31st March, 2007</b>			
	<b>Debt securities</b>			
	<b>Government debt securities</b>	<b>Corporate debt securities</b>	<b>Other</b>	<b>Other</b>
Due within one year	\$152,426	\$33,872	\$330,257	\$ –

### 4. Derivatives

The Company and certain of its consolidated subsidiaries enter into interest-rate swap agreements in order to manage certain risk arising from adverse fluctuation in the interest rates on their bank loans. Interest-rate swaps are used to hedge significant risk arising from fluctuation in interest rates. 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 risk in the event of nonperformance by the counterparties, such risk is 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 for the year ended 31st March, 2005 were for hedging purposes. The Company had no open derivatives positions at 31st March, 2006 and 2007. Because all derivatives positions were closed 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 the amounts of ¥12,271 million and ¥17,148 million (\$145,211 thousand) at 31st March, 2006 and 2007, 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>2006</i>	<i>2007</i>	<i>31st March,</i>
	<b>Useful life</b>			<b>2007</b>
Land		¥ 11,282	¥ 11,292	\$ 95,622
Buildings	15 – 50	38,972	42,471	359,649
Machinery and equipment	3 – 15	41,256	45,194	382,708
Construction in progress		–	3,813	32,289
Accumulated depreciation		(51,545)	(53,291)	(451,274)
Property and equipment, net		¥ 39,965	¥ 49,479	\$ 418,994

## 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>2006</i>	<i>2007</i>	<i>31st March,</i>
			<b>2007</b>
Lease deposits	¥ 9,112	¥10,195	\$ 86,332
Other	1,419	2,987	25,296
Other assets	¥10,531	¥13,182	\$111,628

Other includes golf club memberships.

## 8. Long-Term Debt

At 31st March, 2006 and 2007, 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>2006</i>	<i>2007</i>	<i>31st March,</i>
			<b>2007</b>
Loans principally from banks	¥240	¥ –	\$ –
Convertible bonds	–	50,000	423,406
Less current portion	240	–	–
Long-term debt	¥ –	¥50,000	\$423,406

The weighted-average interest rate on long-term debt due within one year was 0.7% at 31st March, 2006. Convertible bonds bare no interest rate.

## 9. 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 termination occurs.

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

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

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, 2006 and 2007 for the Company's and its consolidated subsidiaries' defined benefit plans:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	<b>31st March,</b>		<b>31st March,</b>
	<b>2006</b>	<b>2007</b>	<b>2007</b>
Retirement benefit obligation	¥(65,274)	¥(74,048)	\$(627,047)
Plan assets at fair value	54,536	57,590	487,679
Unfunded retirement benefit obligation	(10,738)	(16,458)	(139,368)
Unrecognised actuarial gain	(12,577)	(6,894)	(58,380)
Unfunded retirement benefit obligation recognised on the balance sheets	<u>¥(23,315)</u>	<u>¥(23,352)</u>	<u>\$(197,748)</u>

Plan assets at fair value include the employee retirement benefit trust of ¥11,949 million and ¥10,794 million (\$91,405 thousand) at 31st March, 2006 and 2007, respectively.

The components of retirement benefit expenses for the years ended 31st March, 2005, 2006 and 2007 are outlined as follows:

	<i>Millions of yen</i>			<i>Thousands of U.S. dollars</i>
	<b>31st March,</b>			<b>31st March,</b>
	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2007</b>
Service cost	¥4,092	¥4,122	¥4,138	\$35,041
Interest cost	1,027	1,090	1,199	10,153
Expected return on plan assets	(429)	(492)	(639)	(5,411)
Recognised actuarial gain	(538)	(269)	(892)	(7,554)
Subtotal	4,152	4,451	3,806	32,229
Other	288	297	315	2,668
Total	<u>¥4,440</u>	<u>¥4,748</u>	<u>¥4,121</u>	<u>\$34,897</u>

Contributions to the defined contribution pension plan are included in "Other" in the table presented above.

## 9. Retirement and Severance Benefits (continued)

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

	<b>31st March,</b>		
	<b>2005</b>	<b>2006</b>	<b>2007</b>
Discount rates at the end of the year	1.8%	1.9%	2.1%
Expected rate of return on plan assets	1.5%	1.5%	1.5%

## 10. 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>
	<b>31st March,</b>		<b>31st March,</b>
	<b>2006</b>	<b>2007</b>	<b>2007</b>
Deferred income tax assets:			
Employees' retirement benefits	¥ 11,616	¥ 11,639	\$ 98,560
Depreciation	4,798	5,944	50,334
Accrued bonuses	3,805	4,943	41,858
Other	5,033	4,440	37,599
	<u>25,252</u>	<u>26,966</u>	<u>228,351</u>
Deferred income tax liabilities:			
Unrealised gain on other securities	(25,542)	(15,122)	(128,055)
Special tax-purpose reserve	(4,617)	(3,109)	(26,327)
Undistributed earnings of foreign subsidiaries	–	(885)	(7,494)
Other	(90)	(3)	(26)
	<u>(30,249)</u>	<u>(19,119)</u>	<u>(161,902)</u>
Deferred income tax assets (liabilities), net	<u>¥ (4,997)</u>	<u>¥ 7,847</u>	<u>\$ 66,449</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 40.6 per cent for the years ended 31st March, 2005, 2006 and 2007.

The effective tax rates reflected in the accompanying consolidated statements of income differ from the statutory tax rate primarily as a result of the effect of permanent nondeductible expenses; however, such differences were not material for the years ended 31st March, 2005, 2006 and 2007.

## 11. Net Assets

The Corporation Law of Japan provides that an amount equal to at least 10% of the amount to be disbursed as distributions of capital surplus and retained earnings 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 legal reserve and the additional paid-in capital account are available for appropriation by resolution of the shareholders. In accordance with the Corporation Law, the Company provides a legal reserve which is included in retained earnings. This reserve amounted to ¥570 million and ¥570 million (\$4,827 thousand) at 31st March, 2006 and 2007, respectively.

The total number and periodic changes in the number of shares in issue and the total number and periodic changes in the number of shares of treasury are summarised as follows:

	<b>31st March, 2007</b>	
	<b>Shares in issue</b>	<b>Treasury stock</b>
Number of shares at beginning of year	45,000,000	4,380,480
Increase in number of shares	–	240
Decrease in number of shares	–	89,100
Number of shares at 31st March, 2007	<u>45,000,000</u>	<u>4,291,620</u>

Share subscription rights recorded in the consolidated balance sheet at 31st March, 2007 relate to the Company's stock option plan described in Note 20.

Unrealised gain on other securities was not available for the payment of cash dividends.

The following cash dividends to shareholders of common stock were approved at a meeting of the Company's shareholders held on 23rd June, 2006 and a meeting of the Board of Directors held on 26th October, 2006, and were paid to shareholders of record as of 31st March, 2006 and 30th September, 2006, respectively, during the year ended 31st March, 2007:

	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>
Cash dividends approved on 23rd June, 2006 (¥90.00 = U.S.\$0.76 per share)	¥3,656	\$30,959
Cash dividends approved on 26th October, 2006 (¥70.00 = U.S.\$0.59 per share)	2,845	24,092

## 12. Cash and Cash Equivalents

A reconciliation between cash and bank deposits in the consolidated balance sheets at 31st March, 2006 and 2007 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>
	<b>31st March, 2006</b>	<b>2007</b>	<b>31st March, 2007</b>
Cash and bank deposits	¥ 26,005	¥ 20,941	\$177,331
Short-term investment securities	44,439	112,536	952,968
Time deposits with maturities of more than three months when deposited	(6,778)	(7,641)	(64,705)
Bonds and other investments maturing in more than three months from acquisition date	(12,913)	(9,982)	(84,529)
Cash and cash equivalents	<u>¥ 50,753</u>	<u>¥115,854</u>	<u>\$981,065</u>

There were no significant non-cash transactions for the years ended 31st March, 2005, 2006 and 2007.

NRI Garden Network, Ltd. was excluded from the scope of consolidation as a result of the sale of all its shares of common stock during the year ended 31st March, 2007. Components of assets and liabilities of NRI Garden Network, Ltd., the amount of the sale, and the proceeds from the sale are summarised as follows:

	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>
	<b>31st March, 2007</b>	<b>31st March, 2007</b>
Current assets	¥ 579	\$ 4,903
Noncurrent assets	266	2,252
Current liabilities	(199)	(1,685)
Amount of the sale	646	5,470
Cash and cash equivalents of the subsidiary	(323)	(2,735)
Proceeds from the sale of the subsidiary	<u>¥ 323</u>	<u>\$ 2,735</u>

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

### 13. Per Share Data

Per share data is summarised as follows:

	<i>Yen</i>		
	<b>31st March,</b>		
	<b>2005</b>	<b>2006</b>	<b>2007</b>
Earnings per share	¥362.30	¥519.72	¥664.77
Diluted earnings per share	362.29	519.31	650.95

	<i>Yen</i>	
	<b>31st March,</b>	
	<b>2006</b>	<b>2007</b>
Net assets per share	¥5,152.73	¥5,304.20

	<i>U.S. dollars</i>	
	<b>31st March, 2007</b>	
Earnings per share	\$ 5.63	
Diluted earnings per share	5.51	
Net assets per share	44.92	

The computation of earnings and net assets per share is based on the weighted-average number of shares of common stock outstanding during each year and the number of shares of common stock outstanding at each balance sheet date, respectively.

The computation of earnings per share and diluted earnings per share for the years ended 31st March, 2005, 2006 and 2007 is as follows:

	<i>Millions of yen</i>			<i>Thousands of U.S. dollars</i>
	<b>31st March,</b>			<b>31st March,</b>
	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2007</b>
Numerator:				
Earnings	¥16,303	¥22,518	¥27,019	\$228,800
Earnings not available to common stockholders	—	—	—	—
Earnings available to common stockholders	¥16,303	¥22,518	¥27,019	\$228,800
Denominator:				
(Weighted-average number of shares of common stock):				
Denominator for earnings per share	44,999,553	43,327,189	40,644,174	40,644,174
Potentially dilutive shares of common stock	1,457	34,124	862,919	862,919
Denominator for diluted earnings per share	45,001,010	43,361,313	41,507,093	41,507,093

### 13. Per Share Data (continued)

The following potentially issuable shares of common stock would have an antidilutive effect and thus have not been included in the diluted earnings per share calculation for the years ended 31st March, 2005, 2006 and 2007:

	<i>Yen</i>			<i>U.S. dollars</i>
	<b>31st March,</b>			<b>31st March,</b>
	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2007</b>
a) Share subscription rights to 805 units issued on 27th June, 2002:				
Number of shares reserved for new shares issuable upon exercise of share subscription rights	80,500	68,000	65,000	65,000
Exercise price per share	¥ 17,913	¥ 17,913	¥ 17,913	\$151.69
Average share price for the exercise period	¥10,268.33	¥12,108.25	¥15,905.61	\$134.69
b) Share subscription rights to 845 units issued on 24th June, 2004:				
Number of shares reserved for new shares issuable upon exercise of share subscription rights	84,500	–	–	–
Exercise price per share	¥ 11,418	–	–	–
Average share price for the exercise period	¥9,924.71	–	–	–

### 13. Per Share Data (continued)

The computation of net assets per share at 31st March, 2006 and 2007 is summarised as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	<b>31st March,</b>		<b>31st March,</b>
	<b>2006</b>	<b>2007</b>	<b>2007</b>
Numerator:			
Net assets	¥209,301	¥216,233	\$1,831,086
Less subscription rights to shares	–	(307)	(2,599)
Net assets related to shares of common stock	<u>¥209,301</u>	<u>¥215,926</u>	<u>\$1,828,487</u>
Denominator:			
Number of shares of common stock outstanding	40,619,520	40,708,380	40,708,380

### 14. Leases

#### 1) As lessee

The following *pro forma* amounts represent the acquisition costs, accumulated depreciation and net book value of the leased assets as of 31st March, 2006 and 2007 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>					
	<b>Acquisition costs</b>		<b>Accumulated depreciation</b>		<b>Net book value</b>	
	<b>31st March,</b>		<b>31st March,</b>		<b>31st March,</b>	
	<b>2006</b>	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>	<b>2007</b>
Machinery and equipment	¥6,001	¥4,743	¥3,672	¥3,318	¥2,329	¥1,425
Software	157	42	103	25	54	17
Total	<u>¥6,158</u>	<u>¥4,785</u>	<u>¥3,775</u>	<u>¥3,343</u>	<u>¥2,383</u>	<u>¥1,442</u>

	<i>Thousands of U.S. dollars</i>		
	<b>Acquisition costs</b>	<b>Accumulated depreciation</b>	<b>Net book value</b>
	<b>31st March, 2007</b>		
Machinery and equipment	\$40,164	\$28,097	\$12,067
Software	356	212	144
Total	<u>\$40,520</u>	<u>\$28,309</u>	<u>\$12,211</u>



#### 14. Leases (continued)

##### 1) As lessee (continued)

Lease payments, depreciation and interest expense for these finance leases for the years ended 31st March, 2005, 2006 and 2007 are summarised as follows:

	<i>Millions of yen</i>			<i>Thousands of U.S. dollars</i>
	<b>31st March,</b>			<b>31st March,</b>
	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2007</b>
Lease payments	¥2,659	¥1,903	¥1,235	\$10,458
Depreciation	2,554	1,827	1,181	10,001
Interest expense	77	49	36	305

Future minimum lease payments for finance leases accounted for as operating leases and noncancelable operating leases subsequent to 31st March, 2006 and 2007 are summarised as follows:

	<i>Millions of yen</i>				<i>Thousands of U.S. dollars</i>	
	<b>Finance leases</b>		<b>Operating leases</b>		<b>Finance leases</b>	<b>Operating leases</b>
	<b>31st March,</b>		<b>31st March,</b>		<b>31st March,</b>	
	<b>2006</b>	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2007</b>	
Future minimum lease payments due:						
Within one year	¥1,610	¥1,339	¥177	¥251	\$11,339	\$2,125
Thereafter	2,297	1,558	369	458	13,193	3,878
Total	<u>¥3,907</u>	<u>¥2,897</u>	<u>¥546</u>	<u>¥709</u>	<u>\$24,532</u>	<u>\$6,003</u>

##### 2) As lessor

There were no finance lease transactions for the years ended 31st March, 2005, 2006 and 2007.

Future minimum lease income from subleases accounted for as finance leases and operating leases subsequent to 31st March, 2006 and 2007 is summarised as follows:

	<i>Millions of yen</i>				<i>Thousands of U.S. dollars</i>	
	<b>Subleases*</b>		<b>Operating leases</b>		<b>Subleases*</b>	<b>Operating leases</b>
	<b>31st March,</b>		<b>31st March,</b>		<b>31st March,</b>	
	<b>2006</b>	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2007</b>	
Future minimum lease income due:						
Within one year	¥ 946	¥1,130	¥142	¥ 88	\$ 9,569	\$ 745
Thereafter	2,077	2,034	145	58	17,224	491
Total	<u>¥3,023</u>	<u>¥3,164</u>	<u>¥287</u>	<u>¥146</u>	<u>\$26,793</u>	<u>\$1,236</u>

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

## 15. Selling, General and Administrative Expenses

The details of selling, general and administrative expenses for the years ended 31st March, 2005, 2006 and 2007 are summarised as follows:

	<i>Millions of yen</i>			<i>Thousands of U.S. dollars</i>
	<b>31st March,</b>			<b>31st March,</b>
	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2007</b>
Personnel expenses	¥17,722	¥18,594	¥21,778	\$184,419
Rent	3,370	3,259	3,582	30,333
Subcontractor costs	3,254	4,600	5,882	49,809
Other	7,726	8,956	12,814	108,510
Total	¥32,072	¥35,409	¥44,056	\$373,071

## 16. Research and Development Costs

Research and development costs included in selling, general and administrative expenses for the years ended 31st March, 2005, 2006 and 2007 are summarised as follows:

	<i>Millions of yen</i>			<i>Thousands of U.S. dollars</i>
	<b>31st March,</b>			<b>31st March,</b>
	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2007</b>
Research and development costs	¥1,647	¥2,502	¥2,865	\$24,261

## 17. Other Income (Expenses)

### 1) Loss on impairment of software

Loss on impairment of software for the year ended 31st March, 2005 was recognised as a result of the revaluation of software costs due to drastic changes in the clients business environment.

### 2) Gain (loss) on investment securities

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.

## 17. Other Income (Expenses) (continued)

### 2) Gain (loss) on investment securities (continued)

Loss on investment securities for the year ended 31st March, 2006 consisted of gain on investment securities of ¥724 million and loss on investment securities of ¥1,296 million. 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 loss on the sale of an investment in OmniTrust Security Systems, Inc.

Gain on investment securities for the year ended 31st March, 2007 consisted of gain on investment securities of ¥2,081 million (\$17,622 thousand) and loss on investment securities of ¥7 million (\$59 thousand). 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 Nippon BS Broadcasting Corporation as a result of their decline in value which was deemed permanent.

### 3) 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 on the liquidation of South Plaza Co., Ltd.

### 4) Office integration and relocation expenses

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

Office integration and relocation expenses for the year ended 31st March, 2007 arose primarily from the integration of certain offices and the relocation to Kiba Center.

## 18. Related Party Transactions

Related party transactions for the years ended 31st March, 2005, 2006 and 2007 and the respective balances at 31st March, 2006 and 2007 were as follows:

### 1) Transactions

Related party	Nature of transaction	Millions of yen			Thousands of U.S. dollars
		31st March,			31st March,
		2005	2006	2007	2007
a) Major shareholder: Nomura Holdings, Inc.	Sales	¥36,284	¥42,380	¥88,508	\$749,496
b) Major shareholder's subsidiaries: Nomura Securities Co., Ltd.	Sales	16,495	28,337	—	—
	Sales of investment securities	5,605	—	2,101	17,792
	Gain on above sales	5,511	—	2,074	17,563
	Payment for tender offer expenses of treasury stock	—	80	—	—
	Receipt of payment for convertible bonds	—	—	50,000	423,406
	Underwriting commission of convertible bonds	—	—	1,250	10,585
Nomura Facilities, Inc.	Purchases of treasury stock	—	44,000	—	—
c) Directors and principal private shareholders, etc: Ken Ohno (Director of the Company)	Grant of stock options *1	—	—	13	110

\*1 These stock options were granted to Mr. Ken Ohno for his position as a director of a subsidiary, and evaluated based on the fair value of the stock options.

### 2) Balances

Related party	Nature of transaction	Millions of yen		Thousands of U.S. dollars
		31st March,		31st March,
		2006	2007	2007
a) Major shareholder: Nomura Holdings, Inc.	Accounts receivable and other receivables	¥6,841	¥10,100	\$85,528
b) Major shareholder's subsidiaries: Nomura Securities Co., Ltd.	Accounts receivable and other receivables	3,177	—	—
c) Directors and principal private shareholders, etc: Ken Ohno (Director of the Company)	Grant of stock options *1	—	6	51

\*1 These stock options were granted to Mr. Ken Ohno for his position as a director of a subsidiary, and evaluated based on the fair value of the stock options.

## 19. Contingent Liabilities

There were no material contingent liabilities at 31st March, 2006 and 2007.

## 20. Stock Option Plans

The Company issued the following share subscription rights for the purchase of new shares of common stock in accordance with the former Commercial Code of Japan or the Corporation Law of Japan.

Effective the year ended 31st March, 2007, the Company has issued subscription rights for the purchase of new shares of common stock in accordance with the Corporation Law of Japan. For such newly-issued share subscription rights, share-based compensation cost is to be evaluated based on the fair value of the stock options and recognised in the consolidated statements of income.

For the year ended 31st March, 2007, the Company recognised and allocated share-based compensation costs as follows:

	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>
Cost of sales	¥162	\$1,371
Selling, general and administrative expenses	145	1,228
	<u>¥307</u>	<u>\$2,599</u>

A description of each stock option plan is summarised as follows:

	<u>1st stock option plan</u>	<u>2nd stock option plan</u>	<u>3rd stock option plan</u>
Grantee categories and numbers of grantees	31 directors or managing officers of the Company, and 12 directors of its domestic subsidiaries	33 directors or managing officers of the Company, and 11 directors of its domestic subsidiaries	34 directors, managing officers or employees of the Company, and 12 directors of its domestic subsidiaries
Number of shares reserved	80,500	83,000	84,500
Grant date	27th June, 2002	12th August, 2003	24th June, 2004
Vesting conditions	No vesting conditions	No vesting conditions	No vesting conditions
Service period	Not prescribed	Not prescribed	Not prescribed
Exercise period	1st July, 2004 to 30th June, 2007	1st July, 2005 to 30th June, 2008	1st July, 2006 to 30th June, 2009

## 20. Stock Option Plans (continued)

	<u>4th stock option plan</u>	<u>5th stock option plan</u>	<u>6th stock option plan</u>
Grantee categories and numbers of grantees	32 directors or managing officers of the Company, and 12 directors of its domestic subsidiaries	36 directors or managing officers of the Company, and 12 directors of its domestic subsidiaries	8 directors and 28 managing officers of the Company, and 6 directors of its domestic subsidiaries
Number of shares reserved	81,500	19,100	80,000
Grant date	1st July, 2005	1st July, 2005	11th September, 2006
Vesting conditions	No vesting conditions	No vesting conditions	No vesting conditions
Service period	Not prescribed	Not prescribed	Not prescribed
Exercise period	1st July, 2007 to 30th June, 2010	1st July, 2006 to 30th June, 2007	1st July, 2009 to 30th June, 2013
	<u>7th stock option plan</u>		
Grantee categories and numbers of grantees	8 directors and 32 managing officers of the Company, and 6 directors of its domestic subsidiaries		
Number of shares reserved	18,900		
Grant date	11th September, 2006		
Vesting conditions	No vesting conditions		
Service period	Not prescribed		
Exercise period	1st July, 2007 to 30th June, 2008		

The following table summarises options activity under the stock option plans referred to above during the year ended 31st March, 2007:

	<u>1st stock option plan</u>	<u>2nd stock option plan</u>	<u>3rd stock option plan</u>	<u>4th stock option plan</u>	<u>5th stock option plan</u>	<u>6th stock option plan</u>	<u>7th stock option plan</u>
Non-vested:							
Beginning of the year	80,500	–	84,500	81,500	19,100	–	–
Granted	–	–	–	–	–	80,000	18,900
Forfeited	(12,500)	–	(3,000)	–	–	–	–
Vested	–	–	(81,500)	–	(19,100)	–	–
End of the year	68,000	–	–	81,500	–	80,000	18,900
Vested:							
Beginning of the year	–	45,300	–	–	–	–	–
Vested	–	–	81,500	–	19,100	–	–
Exercised	–	(26,100)	(45,300)	–	(17,700)	–	–
Forfeited	–	(3,000)	–	–	–	–	–
End of the year	–	16,200	36,200	–	1,400	–	–

## 20. Stock Option Plans (continued)

As each stock option plan has no vesting conditions, the number of vested options in the above table represents the number of options which became exercisable.

Price information on each stock option is summarised as follows:

	<i>Yen</i>						
	<b>1st stock option plan</b>	<b>2nd stock option plan</b>	<b>3rd stock option plan</b>	<b>4th stock option plan</b>	<b>5th stock option plan</b>	<b>6th stock option plan</b>	<b>7th stock option plan</b>
Exercise price	¥17,913	¥10,088	¥11,418	¥11,594	¥ 1	¥16,409	¥ 1
Average price on exercise	–	15,958	17,245	–	15,920	–	–
Fair value on grant date	–	–	–	–	–	4,322	15,733

	<i>U.S. dollars</i>						
	<b>1st stock option plan</b>	<b>2nd stock option plan</b>	<b>3rd stock option plan</b>	<b>4th stock option plan</b>	<b>5th stock option plan</b>	<b>6th stock option plan</b>	<b>7th stock option plan</b>
Exercise price	\$151.69	\$ 85.43	\$ 96.69	\$98.18	\$ 0.01	\$138.95	\$ 0.01
Average price on exercise	–	135.13	146.03	–	134.81	–	–
Fair value on grant date	–	–	–	–	–	36.60	133.23

Excluding the 5th and 7th stock option plans, the respective exercise prices of the stock option plans have been adjusted to reflect the stock split that was completed on 1st April, 2007 as follows:

	<i>Yen</i>	<i>U.S. dollars</i>
	<b>After adjustment</b>	<b>After adjustment</b>
1st stock option plan	¥3,583	\$30.34
2nd stock option plan	2,018	17.09
3rd stock option plan	2,284	19.34
4th stock option plan	2,319	19.64
6th stock option plan	3,282	27.79

Fair value as of the grant date was estimated using a Black-Scholes option pricing model with the following assumptions:

	<b>6th stock option plan</b>	<b>7th stock option plan</b>
Expected volatility *1	34.2%	29.7%
Expected remaining period *2	4 years and 10 months	1 year and four months
Expected dividend yield *3	¥170 per share	¥170 per share
Risk-free interest rate *4	1.178%	0.556%

\*1 Expected volatility is estimated based on the actual stock price in the period from December 2001 to September 2006 for the 6th stock option plan, and in the period from May 2005 to September 2006 for the 7th stock option plan.

\*2 As it is difficult to estimate the expected remaining period in a reasonable manner, it is determined to be the period from the grant date to the mid-point of the exercisable period.

## **20. Stock Option Plans (continued)**

- \*3 Expected dividend yield is the expected annual dividend amount for the year ended 31st March, 2007 as of the date of the grant.
- \*4 Risk-free interest rate represents the interest rate of governmental bonds whose remaining period corresponds to the expected remaining period of stock options.

Because it is difficult to estimate the forfeited number on stock options for future periods, estimation of the vested number is based upon actual forfeitures in prior periods.

## **21. Segment Information**

### ***Business segments***

Business segment information prior to 1st April, 2006 was presented under the following two categories:

- the systems solutions 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.

Effective the year ended 31st March, 2007, the Company has revised its business segments to “Consulting services” and “IT solutions services” in order to better reflect its business operations based on similarities of the type and nature of the services rendered. These business segments are summarised as follows:

- the consulting services business, which includes research services, management consulting services (both of which were previously included in the consulting/knowledge service segment) and system consulting services (which was previously included in the system solutions services segment).
- the IT solutions services business, which includes developing and managing computer systems, selling software packages, selling computer equipment and related products (which were previously included in the system solutions services segment), and support services relating to the asset management business (which was previously included in the consulting/knowledge services segment).



## 21. Segment Information (continued)

### *Business segments (continued)*

Business segment information of the Company and its consolidated subsidiaries for the years ended 31st March, 2005, 2006 and 2007 is summarised as follows. However, in accordance with accounting standards generally accepted in Japan, segment information prior to 1st April, 2006 has not been restated and has instead been presented using the former business segments. In order to keep consistencies in figures, segment information on sales and operating profit, and total assets, depreciation and amortisation and capital expenditures for the year ended 31st March, 2006 has been reclassified and presented based on the new business segments in the latter part of the set of tables presented below.

<i>Millions of yen</i>					
<b>Year ended 31st March, 2005</b>					
	<b>System solutions services</b>	<b>Consulting/ knowledge services</b>	<b>Total</b>	<b>Eliminations and corporate</b>	<b>Consolidated</b>
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>					
<b>Year ended 31st March, 2006</b>					
	<b>System solutions services</b>	<b>Consulting/ knowledge services</b>	<b>Total</b>	<b>Eliminations and corporate</b>	<b>Consolidated</b>
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

## 21. Segment Information (continued)

### Business segments (continued)

<i>Millions of yen</i>					
<b>Year ended 31st March, 2007</b>					
	<b>Consulting services</b>	<b>IT solutions services</b>	<b>Total</b>	<b>Eliminations and corporate</b>	<b>Consoli- dated</b>
<b>I. Sales and operating profit</b>					
Sales to external customers	¥ 29,870	¥ 292,662	¥ 322,532	¥ –	¥322,532
Intersegment sales or transfers	267	1,389	1,656	(1,656)	–
Total sales	30,137	294,051	324,188	(1,656)	322,532
Operating expenses	25,693	254,598	280,291	(1,656)	278,635
Operating profit	¥ 4,444	¥ 39,453	¥ 43,897	¥ –	¥ 43,897
<b>II. Total assets, depreciation and amortisation and capital expenditures</b>					
Total assets	¥ 17,024	¥ 148,945	¥ 165,969	¥ 205,489	¥ 371,458
Depreciation and amortisation	257	19,539	19,796	–	19,796
Capital expenditures	820	29,083	29,903	–	29,903
<i>Thousands of U.S. dollars</i>					
<b>Year ended 31st March, 2007</b>					
	<b>Consulting services</b>	<b>IT solutions services</b>	<b>Total</b>	<b>Eliminations and corporate</b>	<b>Consoli- dated</b>
<b>I. Sales and operating profit</b>					
Sales to external customers	\$ 252,943	\$2,478,296	\$2,731,239	\$ –	\$2,731,239
Intersegment sales or transfers	2,261	11,762	14,023	(14,023)	–
Total sales	255,204	2,490,058	2,745,262	(14,023)	2,731,239
Operating expenses	217,572	2,155,965	2,373,537	(14,023)	2,359,514
Operating profit	\$ 37,632	\$ 334,093	\$ 371,725	\$ –	\$ 371,725
<b>II. Total assets, depreciation and amortisation and capital expenditures</b>					
Total assets	\$ 144,161	\$1,261,284	\$1,405,445	\$1,740,105	\$3,145,550
Depreciation and amortisation	2,176	165,459	167,635	–	167,635
Capital expenditures	6,944	246,278	253,222	–	253,222

## 21. Segment Information (continued)

### *Business segments (continued)*

As mentioned above, segment information on sales and operating profit, and total assets, depreciation and amortisation and capital expenditures for the year ended 31st March, 2006 has been reclassified using the new business segments as follows:

	<i>Millions of yen</i>				
	<b>Year ended 31st March, 2006</b>				
	<b>Consulting services</b>	<b>IT solutions services</b>	<b>Total</b>	<b>Eliminations and corporate</b>	<b>Consoli- dated</b>
I. Sales and operating profit					
Sales to external customers	¥ 26,293	¥ 259,292	¥ 285,585	¥ –	¥ 285,585
Intersegment sales or transfers	406	1,141	1,547	(1,547)	–
Total sales	26,699	260,433	287,132	(1,547)	285,585
Operating expenses	22,907	227,757	250,664	(1,548)	249,116
Operating profit	¥ 3,792	¥ 32,676	¥ 36,468	¥ 1	¥ 36,469
II. Total assets, depreciation and amortisation and capital expenditures					
Total assets	¥ 15,968	¥ 128,972	¥ 144,940	¥ 166,847	¥ 311,787
Depreciation and amortisation	393	16,181	16,574	–	16,574
Capital expenditures	292	18,052	18,344	–	18,344

As a result of the adoption of “Accounting Standard for Share-based Payments” and “Guidance on Accounting Standard for Share-based Payments,” share-based compensation cost has been accounted for as a component of selling, general and administrative expenses effective the year ended 31st March, 2007. As a result, operating expenses in the consulting services segment and the IT solutions services segment for the year ended 31st March, 2007 increased by ¥54 million (\$458 thousand) and ¥253 million (\$2,142 thousand), respectively, and operating profit for these segments decreased by the same amounts compared with the amounts which would have been recorded under the previous method.

### *Geographical segments*

Because sales and assets in the domestic segment constituted more than 90% of total sales and assets for the years ended 31st March, 2005, 2006 and 2007, geographical segment information has not been presented.

### *Overseas sales*

Because overseas sales constituted less than 10% of consolidated sales for the years ended 31st March, 2005, 2006 and 2007, no disclosure of overseas sales has been made.

## 22. Business Combinations

Effective the year ended 31st March, 2007, the Company has merged with its wholly-owned subsidiary, NRI Data Services, Ltd., which was engaged in operating and monitoring information systems and also provided telecommunication system services. This business combination was implemented in order to enhance the Company's management efficiency, contribute to the competitiveness of the Group, strengthen integrated management and enable the Company to respond promptly to its customers' needs. As a result of this transaction, NRI Data Services, Ltd. was discontinued and its business operations have been absorbed into the Company. There were no new share issuances nor was there any increase in capital relating to this merger.

In addition, effective the year ended 31st March, 2007, Nomura Research Institute America, Inc., a wholly-owned subsidiary of the Company engaged in research investigation, and development and operation of IT systems, merged with NRI Holding America Inc., NRI Pacific Inc. and NRI Investment America, Inc. which were also wholly-owned subsidiaries of the Company. This business combination was implemented in order to restructure the group's business bases in North America and to enhance the Company's management efficiency.

These transactions have been eliminated as intercompany transactions since they were transactions between companies under common control. Therefore, these accounting treatments had no impact on the accompanying consolidated financial statements for the year ended 31st March, 2007.

## 23. Subsequent Events

- 1) The following appropriation of retained earnings of the Company, which has not been reflected in the consolidated financial statements for the year ended 31st March 2007, was approved by resolution of the Board of Directors at a meeting held on 15th May, 2007:

	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>
Year-end cash dividends (¥110 = U.S.\$0.93 per share)	¥4,478	\$37,920

- 2) Based on a resolution of the Board of Directors on 26th January, 2007, the Company has implemented a five-for-one stock split of its shares of common stock on 1st April, 2007.

Details regarding the stock split are summarised as follows:

- (1) Method of stock split:

All shares of common stock held by shareholders listed or recorded on the final register of shareholders and the final register of beneficial shareholders as of 31st March, 2007 are to be split into five shares.

## 23. Subsequent Events (continued)

### (2) Number of shares:

Number of shares in issue before the stock split:	45,000,000
Increase in number of shares as a result of the stock split:	180,000,000
Number of shares in issue after the stock split:	225,000,000

Per share information for the years ended 31st March, 2006 and 2007 with the assumption that this stock split took place at the beginning of each fiscal year is summarised as follows:

	<i>Yen</i>		<i>U.S. dollars</i>
	<b>31st March,</b>		<b>31st March,</b>
	<b>2006</b>	<b>2007</b>	<b>2007</b>
Net assets per share	¥1,030.55	¥1,060.84	\$8.98
Net income per share	103.94	132.95	1.13
Diluted net income per share	103.86	130.19	1.10

### 3) On 22nd June, 2007, issuance of two types of stock option plans in accordance with the Corporation Law of Japan was approved by resolution of the Board of Directors as follows:

#### (1) Stock option whose exercisable price is determined based on marketable value

Subscription rights to purchase 422,500 new shares of the Company's common stock are to be granted to the Company's directors, officers, employees who are in positions equivalent to directors or officers, and the directors of its domestic subsidiaries. The subscription rights are exercisable at 105% of the average closing market price of the Company's shares of common stock on the Tokyo Stock Exchange for the month prior to the month in which the subscription rights are issued, or at the closing price on the date of issuance, whichever is higher. These subscription rights are exercisable over a four-year period from 1st July, 2010 to 30th June, 2014.

#### (2) Stock option whose exercisable price is 1 yen per share

Subscription rights to purchase 96,500 new shares of the Company's common stock are to be granted to the Company's directors, officers, employees who are in positions equivalent to directors or officers, and the directors of its domestic subsidiaries. Each subscription right is exercisable at the cost of 1 yen. These subscription rights are exercisable over one-year period from 1st July, 2008 to 30th June, 2009.

## **[Appendix 1]**

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

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

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

#### **1. Leases Capitalized as Assets**

Under Japanese GAAP, for finance leases where ownership is not deemed to be transferred from the lessor to the lessee, the lessee may choose not to capitalize lease expenses and may account for the lease in a manner similar to that applicable to operating leases. The Company's policy is to account for finance leases in a manner similar to operating leases. However, from the period beginning on and after 1st April, 2009, all finance leases will be required to be capitalized.

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. 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.

#### **4. Stock Option Plans**

Under Japanese GAAP, in previous years, no liability and expense were recognized until the subscription rights were exercised. However, for stock options issued after 1st May 2006, compensation costs are evaluated based on the fair value of stock options and recognized in income statements.

Under U.S. GAAP, from the beginning of the annual reporting period that begins after 15th December, 2005, fair-value-based method applies to all stock options. Additionally, compensation cost for the portion of awards for which the requisite service has not been rendered that are outstanding as of the required effective date shall be recognized as the requisite service is rendered on or after the effective date, based on grant-date fair value of those awards.

#### **5. 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.

#### **6. 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.

#### **7. Guarantor's Accounting for Guarantees**

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

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

[Appendix 2]

**SUBSIDIARIES AND AFFILIATES**

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

At 31<sup>st</sup> March, 2007, the Company had 14 subsidiaries, all of which were consolidated subsidiaries.

At the same date, the Company had 1 affiliate, 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 affiliate as of 31<sup>st</sup> March, 2007.

<b>Name</b>	<b>Country</b>	<b>Main Business</b>	<b>Issued Capital (thousands)</b>	<b>Equity held by the Company (%)</b>
<b>Subsidiaries</b>				
NRI Network Communications, Ltd.	Japan	Software development and sales, mainly in the Kansai area	¥450,000	100.0
NRI Learning Network, Ltd.	Japan	Training related to information and telecommunications systems	¥300,000	100.0
NRI SecureTechnologies, Ltd.	Japan	Network security services	¥450,000	100.0
NRI 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
NRI Data i Tech, Ltd.	Japan	Maintaining systems equipment of Nomura Holdings and its subsidiaries and affiliates	¥10,000	100.0
Insurance System & Technology, Ltd.	Japan	Software development for non-life insurance industry	¥495,000	100.0
Nomura Research Institute America, Inc.	USA	Research and development and operation of information management systems in the U.S.	U.S.\$31,444	100.0
Nomura Research Institute Europe Limited	England	Research and development and operation of information management systems in Europe	£1,350	100.0
Nomura Research Institute Beijing Limited	China	Development and operation of information management systems in China	U.S.\$3,000	100.0
Nomura Research Institute Shanghai Limited	China	Consulting in China	U.S.\$6,050	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



<u>Name</u>	<u>Country</u>	<u>Main Business</u>	<u>Issued Capital</u> (thousands)	<u>Equity held by the Company</u> (%)
<b>Affiliate</b>				
Nippon Clearing Services Co., Ltd	Japan	Back-office services for mid-tier securities companies	¥300,000	40.0

#### MAJOR SHAREHOLDERS

<u>Shareholders</u>	<u>Number of Shares Owned</u> (thousands)	<u>Ratio of Voting Rights</u> (%)
Nomura Asset Management Co., Ltd.	8,677	19.28
Nomura Facilities, Inc.	3,720	8.27
JAFCO Co., Ltd.	3,050	6.78
Nomura Holdings, Inc.	2,600	5.78
Japan Trustee Services Bank, Ltd. (Trust Account)	2,078	4.62
The Master Trust Bank of Japan, Ltd.(Trust Account)	1,869	4.15
NRI Group Employee Stock Ownership Association	996	2.21
The Goldman Sachs International	593	1.32
Japan Trustee Services Bank, Ltd. (Trust Account4)	586	1.30
TAKAGI SECURITIES CO.,LTD.	550	1.22

\*NRI owns 4,291 thousand shares.