NOMURA HOLDINGS INC
Form 20-F
June 27, 2003
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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

¨ **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended March 31, 2003

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission file number:1-15270

Nomura Horudingusu Kabushiki Kaisha

(Exact name of registrant as specified in its charter)

Nomura Holdings, Inc.

(Translation of registrant s name into English)

9-1, Nihonbashi 1-chome

Chuo-ku, Tokyo 103-8645

Japan	**Japan**
(Jurisdiction of incorporation or organization)	**(Address of principal executive offices)**

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange On Which Registered
Common Stock*	**New York Stock Exchange**

Securities registered or to be registered pursuant to Section 12(g) of the Act:

None

(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None

(Title of Class)

Indicate the number of outstanding shares of each of the issuer s classes of capital or common stock as of the close of the period covered by the annual report.

As of March 31, 2003, 1,965,919,860 shares of Common Stock were outstanding, including 10,084,292 shares represented by 10,084,292 American Depositary Shares.

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 ¨ Item 18 x

* Not for trading, but only in connection with the registration of the American Depositary Shares, each representing one share of Common Stock.

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As used in this annual report, references to Nomura are to The Nomura Securities Co., Ltd. when the references relate to the period prior to, and including, September 30, 2001 and to Nomura Holdings, Inc. when the references relate to the period after, and including, October 1, 2001. See History and Development of the Company under Item 4.A of this annual report. Also, as used in this annual report, references to we , our and us are to Nomura and, except as the context otherwise requires, its subsidiaries.

As used in this annual report, yen or ¥ means the lawful currency of Japan, and dollar or $ means the lawful currency of the United States of America.

As used in this annual report, U.S. GAAP means accounting principles generally accepted in the United States of America, and Japanese GAAP means accounting principles generally accepted in Japan. Data derived from U.S. GAAP financial statements are rounded to the nearest applicable digit, while data derived from Japanese GAAP financial statements are truncated.

As used in this annual report, ADS means an American Depositary Share, currently representing one share of Nomura s common stock, and ADR means an American Depositary Receipt evidencing one or more ADSs. See Rights of Holders of ADSs under Item 10.B of this annual report.

Amounts shown in this annual report have been rounded off to the nearest indicated digit unless otherwise specified. In tables and graphs with rounded figures, sums may not add up due to rounding.

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PART I

Item 1. Identity of Directors, Senior Management and Advisors.

Not applicable.

Item 2. Offer Statistics and Expected Timetable.

Not applicable.

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Item 3. Key Information.

A. Selected Financial Data.

U.S. GAAP Selected Financial Data

The following selected financial data as of March 31, 2001, 2002 and 2003 and for the years ended March 31, 2000, 2001, 2002 and 2003 has been derived from our consolidated financial statements included in this annual report and the annual report on Form 20-F for the year ended March 31, 2002. The following selected financial data as of March 31, 2000 has been derived from our consolidated financial statements included in our Registration Statement on Form 20-F (File No. 1-15270), which we filed with the Securities and Exchange Commission on December 13, 2001. These financial statements were prepared in accordance with U.S. GAAP.

You should read the following selected financial data in conjunction with Item 5, Operating and Financial Review and Prospects , of this annual report and our consolidated financial statements included in this annual report.

	Year Ended March 31,				
	2000	2001	2002	2003	2003(4)
	(yen amounts in millions, except per share data)				(dollar amounts in millions, except per share data)
Income statement data:					
Revenue	¥ 1,499,781	¥ 1,469,298	¥ 1,825,399	¥ 840,919	$ 7,122
Interest expense	437,131	553,643	504,048	274,645	2,326
Net revenue	1,062,650	915,655	1,321,351	566,274	4,796
Non-interest expenses	690,430	759,483	1,148,379	518,865	4,394
Income before income taxes and cumulative effect of accounting change	372,220	156,172	172,972	47,409	402
Income tax expense	168,671	98,762	4,926	37,295	316
Income before cumulative effect of accounting change	203,549	57,410	168,046	10,114	86
Cumulative effect of accounting change				109,799	930

Net income	¥	203,549	¥	57,410	¥	168,046	¥	119,913	$	1,016
Balance sheet data (period end):										
Total assets	¥	14,610,868	¥	17,146,024	¥	17,758,273	¥	21,169,446	$	179,296
Shareholders equity		1,410,976		1,436,428		1,604,929		1,642,328		13,910
Common stock		182,796		182,797		182,800		182,800		1,548
Number of shares issued		1,962,977,247		1,962,977,841		1,965,919,860		1,965,919,860		
Return on equity[(1)]:		15.3%		4.0%		11.1%		7.4%		
Per share data:										
Income before cumulative effect of accounting change basic[(2)]	¥	103.71	¥	29.25	¥	85.57	¥	5.17	$	0.04
Net income basic[(2)]		103.71		29.25		85.57		61.26		0.52
Income before cumulative effect of accounting change diluted[(2)]		103.17		29.25		85.32		5.17		0.04
Net income diluted[(2)]		103.17		29.25		85.32		61.26		0.52
Shareholders equity[(3)]		719.93		731.77		816.48		846.40		7.17
Cash dividends[(3)]		15.00		17.50		15.00		15.00		0.13

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Notes:
(1) Calculated by dividing net income by average shareholders equity.
(2) Calculated using the weighted average number of shares outstanding for the year (excluding treasury shares held by us).
(3) Calculated using the number of shares outstanding (excluding treasury shares held by us) at year end.
(4) Calculated using the yen-dollar exchange rate of $1.00 = ¥118.07, the noon buying rate in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York on March 31, 2003.

Japanese GAAP Selected Financial Data

The following selected financial data has been derived from our consolidated financial statements that were prepared in accordance with Japanese GAAP. These Japanese GAAP consolidated financial statements were included in our annual securities reports which we previously filed with the Japanese authorities pursuant to the Securities and Exchange Law of Japan. Starting with the year ended March 31, 2003, we no longer prepare Japanese GAAP consolidated financial statements and instead disclose U.S. GAAP consolidated financial statements for domestic reporting purposes. Accordingly, there is no Japanese GAAP financial data for the year ended March 31, 2003.

	Year Ended March 31			
	1999[4]	2000	2001	2002
	(Yen amounts in millions except per share data)			
Income statement data:				
Revenue	¥ 625,350	¥ 1,089,416	¥ 1,299,399	¥ 1,121,743
Interest expense	429,953	314,873	512,697	416,397
Net revenue	195,397	774,542	786,702	705,346
Selling, general, and administrative expenses	519,344	450,009	512,318	550,857
Operating income (loss)	(323,947)	324,532	274,383	154,489
Income (loss) before income taxes	(595,190)	263,388	322,699	162,126
Net income (loss)	¥ (397,544)	¥ 146,298	¥ 181,666	¥ 102,756
Balance sheet data (period end):				
Total assets	¥ 17,111,087	¥ 18,821,897	¥ 20,529,135	¥ 18,177,716
Shareholders equity	1,304,071	1,420,433	1,642,408	1,704,988
Common stock	182,795	182,795	182,796	182,799
Number of shares issued	1,962,977,247	1,962,977,247	1,962,977,841	1,965,919,860
Per share data:				
Net income (loss) basic[2]	¥ (202.52)	¥ 74.55	¥ 92.54	¥ 52.32
Net income (loss) diluted[2]	(202.52)	74.24	92.29	52.22
Shareholders equity[3]	664.34	724.75	836.70	867.38
Cash dividends[3]	10.00	15.00	17.50	15.00

Notes:
(1) All yen amounts have been truncated at the indicated digit.
(2) Calculated using the weighted average number of shares outstanding for the year (excluding treasury shares held by us).
(3) Calculated using the number of shares outstanding (excluding treasury shares held by us) at year end.

(4) In the year ended March 31, 1999, tax effect accounting was introduced. Deferred tax assets and liabilities were recorded for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. This accounting change was not reflected retroactively in the prior fiscal years. The effect of this accounting change on our Japanese GAAP financial statements for the year ended March 31, 1999 was to decrease net loss by ¥190,725 million and increase shareholders equity by ¥377,464 million.

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There are significant differences between Japanese GAAP and U.S. GAAP. They primarily relate to the statement of cash flows, disclosure of segment information, the scope of consolidation, accounting for derivatives, accounting for goodwill, accounting for investments in certain equity securities, accounting for lease transactions, accounting for accrued compensated absences, accounting for employee retirement and severance benefits, accounting for the impairment of long-lived assets, earnings per share and comprehensive income. Also, under Japanese GAAP, a restatement of prior years financial statements reflecting the effect of a change in accounting principle is not permitted.

Foreign Exchange

Fluctuations in exchange rates between the Japanese yen and U.S. dollar will affect the U.S. dollar equivalent of the yen price of our shares and ADSs and the U.S. dollar amounts received on conversion of cash dividends. We have translated some Japanese yen amounts presented in this annual report into U.S. dollars solely for your convenience. The rate we used for the translations was ¥118.07 equal to $1.00, which was the noon buying rate in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York on March 31, 2003. These translations do not imply that the yen amounts actually represent, or have been or could be converted into, equivalent amounts in U.S. dollars.

Year ended March 31,	High	Low	Average*	Year end
1999	¥ 147.14	¥ 108.83	¥ 128.10	¥ 118.43
2000	124.45	101.53	110.02	102.73
2001	125.54	104.19	111.64	125.54
2002	134.77	115.89	125.64	132.70
2003	133.40	115.71	121.10	118.07

Calendar year 2002	High	Low
December	124.99	118.38

Calendar year 2003	High	Low
January	120.18	117.80
February	121.30	117.14
March	121.42	116.47
April	120.55	118.25
May	119.50	115.94
June (through June 26)	119.32	117.46

* Average rate represents the average of rates available on the last day of each month during the period.

The noon buying rate for Japanese yen on June 26, 2003 was $1.00 = ¥119.32.

B. Capitalization and Indebtedness.

Not applicable.

C. Reasons for the Offer and Use of Proceeds.

Not applicable.

D. Risk Factors.

You should carefully consider the risks described below before making an investment decision. If any of the risks described below actually occurs, our business, financial condition or results of operations could be adversely affected. In that event, the trading prices of our shares and ADSs could decline, and you may lose all or part of your investment. Additional risks not currently known to us or that we now deem immaterial may also harm us and affect your investment.

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Market fluctuations could harm our businesses

Our businesses are materially affected by conditions in the financial markets and economic conditions in Japan and elsewhere around the world. Market downturns can occur not only as a result of purely economic factors, but also as a result of war, act of terrorism, natural disasters or other similar events. A sustained market downturn can adversely affect our business and can result in substantial losses. Even in the absence of a prolonged market downturn, we may incur substantial losses due to market volatility.

Our brokerage and asset management revenues may decline

A market downturn could result in a decline in the revenues we receive from commissions because of a decline in the volume of brokered securities transactions that we execute for our customers. Also, in most cases, we charge fees for managing our clients portfolios that are based on the value of their portfolios. A market downturn that reduces the value of our clients portfolios, increases the amount of withdrawals or reduces the amount of new investments in these portfolios would reduce the revenue we receive from our asset management businesses.

Our investment banking revenues may decline

Unfavorable financial or economic conditions would likely reduce the number and size of transactions for which we provide securities underwriting, financial advisory and other investment banking services. Our investment banking revenues, which include fees from these services, are directly related to the number and size of the transactions in which we participate and would therefore decrease if there is a sustained market downturn.

We may incur significant losses from our trading and investment activities

We maintain large trading and investment positions in the fixed income and equity markets, both for our own account and for the purpose of facilitating our customers trades. Our positions consist of various types of asset, including financial derivatives transactions in the interest rate, credit, equity, currency, commodity, real estate and other markets. Market fluctuations can adversely affect the value of these assets. To the extent that we own assets, or have long positions, a market downturn could result in losses if the value of these long positions decreases. Furthermore, to the extent that we have sold assets we do not own, or have short positions, a market upturn could expose us to potentially unlimited losses as we attempt to cover our short positions by acquiring assets in a rising market. We utilize various hedging techniques to mitigate these position risks. We can incur losses if the markets move in a way we have not anticipated, as a result of specific events such as the terrorist attack on September 11, 2001 or the Russian economic crisis in 1998. Also, we face losses if the level of market volatility differs from our expectation, which may occur particularly in the emerging markets. In addition, we commit capital to take relatively large position for underwriting or warehousing assets to facilitate certain capital market transactions. We may incur significant losses from these activities.

Holding large and concentrated positions of securities and other assets may expose us to large losses

Concentration of risk can expose us to large losses in our market-making, block trading and underwriting businesses. We have committed substantial amounts of capital to these businesses. This often requires us to take large positions in the securities of a particular issuer or issuers in a particular industry, country or region. For example, we previously held a large inventory for commercial mortgage-backed securities in our U.S. operations, the value of which seriously deteriorated after bond investors took flight from these investments in August 1998.

Extended market decline can reduce liquidity and lead to material losses

Extended market decline can reduce the level of market activity. If we cannot properly close out our associated positions, in particular over-the-counter derivatives, we may incur substantial losses due to the difficulty of monitoring prices in a less liquid market.

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Our hedging strategies may not prevent losses

We use a variety of instruments and strategies to hedge our exposure to various types of risk. If our hedging strategies are not effective, we may incur losses. We base many of our hedging strategies on historical trading patterns and correlations. For example, if we hold a long position in an asset, we may hedge this position by taking a short position in an asset where the short position has, historically, moved in a direction that would offset a change in value in the long position. However, historical trading patterns and correlations may not continue, and these hedging strategies may not be fully effective in mitigating our risk exposure in all market environments or against all types of risk.

Our risk management policies and procedures may not be fully effective in managing market risk

Our policies and procedures to identify, monitor and manage risks may not be fully effective. Some of our methods of managing risk are based upon observed historical market behavior. This historical market behavior may not continue in future periods. As a result, we may suffer losses by being unable to predict future risk exposures that could be significantly greater than the historical measures indicate. Other risk management methods that we use also rely on our evaluation of information regarding markets, clients or other matters, which information is publicly available or otherwise accessible by us. This information may not be accurate, complete, up-to-date or properly evaluated, in which case we may be unable to properly assess our risks.

Market risk may increase the other risks that we face

In addition to the potentially adverse effects on our businesses described above, market risk could exacerbate other risks that we face. For example, the risks associated with new products through financial engineering/innovation may be increased by market risk. Also, if we incur substantial trading losses, our need for liquidity could rise sharply while our access to cash may be impaired. Furthermore, if there is a market downturn, our customers and counterparties could incur substantial losses of their own, thereby weakening their financial condition and, as a result, increasing our credit risk exposure to them. Our liquidity risk and credit risk are described below.

Liquidity risk could impair our ability to fund operations and jeopardize our financial condition

Liquidity, or having ready access to cash, is essential to our businesses. In addition to maintaining a readily available cash position, we seek to enhance our liquidity through repurchase and securities lending transactions, access to long-term debt, diversification of our short-term funding sources such as commercial paper, and by holding a portfolio of highly liquid assets. We bear the risk that we may lose liquidity under certain circumstances, including the following:

We may be unable to access the debt capital markets

We depend on continuous access to the debt capital markets to finance our day-to-day operations. An inability to raise money in the long-term or short-term debt markets, or to engage in repurchase agreements and securities lending, could have a substantial negative effect on our liquidity. For example, lenders could refuse to extend the credit necessary for us to conduct our business because of their assessment of our long-term or short-term financial prospects:

- if we incur large trading losses,
- if the level of our business activity decreases due to a market downturn, or
- if regulatory authorities take significant action against us.

Our ability to borrow in the debt markets also could be impaired by factors that are not specific to us, such as a severe disruption of the financial markets or negative views about the prospects for the investment banking, securities or financial services industries generally. For example, in 1998 and 1999, as a result of concerns

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regarding asset quality and the failure of several large Japanese financial institutions, some international lenders charged an additional risk premium to Japanese financial institutions for short-term borrowings in the interbank market and restricted the availability of credit they were willing to extend. As concern about banks and other financial institutions in Japan continues, this additional risk premium, commonly known as Japan premium , may be imposed again.

In particular, we may be unable to access the short-term debt markets

We depend primarily on the issuance of commercial paper and short-term bank loans as a principal source of unsecured short-term funding of our operations. Our liquidity depends largely on our ability to refinance these borrowings on a continuous basis. Investors who hold our outstanding commercial paper and other short-term debt instruments have no obligation to purchase new instruments when the outstanding instruments mature. We may be unable to obtain short-term financing from banks to make up any shortfall.

We may be unable to sell assets

If we are unable to borrow in the debt capital markets or if our cash balances decline significantly, we will need to liquidate our assets or take other actions in order to meet our maturing liabilities. In volatile or uncertain market environments, overall market liquidity may decline. In a time of reduced market liquidity, we may be unable to sell some of our assets, which could adversely affect our liquidity, or we may have to sell assets at depressed prices, which could adversely affect our results of operations and financial conditions. Our ability to sell our assets may be impaired by other market participants seeking to sell similar assets into the market at the same time. For example, after the Russian economic crisis in 1998, the liquidity of some of our assets, including Russian bonds and other assets, such as commercial mortgage-backed securities, was significantly reduced by simultaneous attempts by us and other market participants to sell similar assets.

Lowering of our credit ratings could increase our borrowing costs

Our borrowing costs and our access to the debt capital markets depend significantly on our credit ratings. Rating agencies may reduce or withdraw their ratings or place us on credit watch with negative implications. A reduction in our credit ratings, or being placed on credit watch with negative implications, could increase our borrowing costs and limit our access to the capital markets. This, in turn, could reduce our earnings and adversely affect our liquidity. For example, in 1998, after a series of credit rating downgrades, we experienced an increase in borrowing costs and reduced access to short-term funding sources particularly in connection with our operations in Europe and the United States.

Event risk may cause losses in our trading and investment assets as well as market and liquidity risk

Event risk refers to potential losses in value we may suffer through unpredictable events that cause large unexpected market price moves. These include not only the events such as the terrorist attack on September 11, 2001 and the Russian economic crisis in 1998 that resulted in losses to our business but also the following types of events that could cause losses on our trading and investment assets:

sudden and significant changes in credit ratings with regard to our trading and investment assets by rating agencies that have significant presence and influence on the market,

sudden changes in trading, tax, accounting and other related rules which may make our trading strategy obsolete or less competitive, or

the failure of corporate actions such as M&A with respect to our trading and investment assets.

Losses caused by financial or other problems of third parties may expose us to credit risk

Our counterparties are from time to time indebted to us as a result of transactions or contracts, including loans, commitments to lend, other contingent liabilities, and derivatives transactions such as swaps and options.

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We may incur material losses when our counterparties default on their obligations to us due to bankruptcy, deterioration in their creditworthiness, lack of liquidity, operational failure, an economic or political event, or other reasons. This risk may arise from:

- holding securities of third parties,
- entering into swap or other derivative contracts under which counterparties have obligations to make payments to us,
- executing securities, futures, currency or derivative trades that fail to settle at the required time due to non-delivery by the counterparty or systems failure by clearing agents, exchanges, clearing houses or other financial intermediaries, or
- extending credit to our clients through bridge or margin loans or other arrangements.

Problems related to third party credit risk may include the following:

Defaults by a large financial institution could adversely affect the financial markets generally and us specifically

The commercial soundness of many financial institutions is closely interrelated as a result of credit, trading, clearing or other relationships among the institutions. As a result, concern about, or a default by, one institution could lead to significant liquidity problems or losses in, or defaults by, other institutions. This may adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms and exchanges, with which we interact on a daily basis. Actual defaults, increases in perceived default risk and other similar events could arise in the future and could have an adverse effect on the financial markets and on us. We may suffer financially if major Japanese financial institutions fail or experience severe liquidity or solvency problems.

There can be no assurance as to the accuracy of the information about, or the sufficiency of the collateral we use in managing, our credit risk

We regularly review our credit exposure to specific customers or counterparties and to specific countries and regions that we believe may present credit concerns. Default risk, however, may arise from events or circumstances that are difficult to detect, such as fraud. We may also fail to receive full information with respect to the risks of a counterparty. In addition, in cases where we have extended credit against collateral, we may find that we have insufficient value in the collateral. For example, if sudden declines in market values reduce the value of our collateral, we may become undersecured.

Our customers and counterparties may be unable to perform their obligations to us as a result of economic or political conditions

Country, regional and political risks are components of credit risk, as well as market risk. Economic or political pressures in a country or region, including those arising from local market disruptions or currency crises, may adversely affect the ability of clients or counterparties located in that country or region to obtain credit or foreign exchange, and therefore to perform their obligations owed to us.

Operational risk may disrupt our businesses, result in regulatory action against us or limit our growth

We face the following types of operational risk, and if such risk materializes, we could suffer financial losses, disruption in our business, litigation from relevant parties, regulatory intervention or reputational damage:

- suffering damages due to failure to settle securities transactions,
- suffering damages due to failure by officers or employees to perform proper administrative activities prescribed in regular procedures,

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- suffering damages due to suspension or malfunction of systems, most of which are developed and maintained by our affiliate, Nomura Research Institute, Ltd.,

- suffering as a result of the destruction of our facilities or systems due to large-scale disasters or criminal actions, or

- suffering damages due to a temporary shutdown of some of our subsidiaries or branches based on infectious diseases, including Severe Acute Respiratory Syndrome (SARS).

Our business is subject to substantial legal and regulatory risk and to regulatory changes

Substantial legal liability or a significant regulatory action against us could have a material financial effect or cause reputational harm to us, which in turn could seriously damage our business prospects. Also, material changes in regulations applicable to us or to our market could adversely affect our business.

Our exposure to legal liability is significant

We face significant legal risks in our businesses. These risks include liability under securities or other laws for materially false or misleading statements made in connection with securities underwriting and other transactions, potential liability for advice we provide in corporate transactions and disputes over the terms and conditions of complex trading arrangements. We also face the possibility that counterparties will claim that we failed to inform them of the risks or that they were not authorized or permitted to enter into a transaction with us and that their obligations to us are not enforceable. During a prolonged market downturn, we would expect claims against us to increase. We may also face significant litigation. The cost of defending such litigation may be substantial and our involvement in litigation may damage our reputation. These risks may be difficult to assess or quantify and their existence and magnitude may remain unknown for substantial periods of time.

Extensive regulation of our businesses limits our activities and may subject us to significant penalties

The financial services industry is subject to extensive regulation. We are subject to regulation by governmental and self-regulatory organizations in Japan and in virtually all other jurisdictions in which we operate. These regulations are designed to ensure the integrity of the financial markets and to protect customers and other third parties who deal with us. These regulations are not designed to protect our shareholders and often limit our activities, through net capital, customer protection and market conduct requirements. We face the risk that regulatory authorities may intervene in our businesses through extended investigation and surveillance activity, adoption of costly or restrictive new regulations or judicial or administrative proceedings that may result in substantial penalties. We could be fined, prohibited from engaging in some of our business activities, or be subject to the temporary or long-term suspension or revocation of our legal authorization to conduct business. Our reputation could also suffer from the adverse publicity that any administrative or judicial sanction against us may create. As a result of such sanction, we may lose business opportunities for a period of time, even after the sanction is lifted, if and to the extent that our customers, especially governmental institutions, decide not to engage us for their financial transactions.

Material changes in regulations applicable to us or to our market could adversely affect our business

If regulations that apply to our businesses are introduced, modified or removed, we could be adversely affected directly or through resulting changes in market conditions. For example, full deregulation of stock brokerage commission rates in October 1999 has intensified competition in the Japanese stock brokerage market. Also, in September 2002, the Financial Services Agency of Japan abolished restrictions on sharing common office space between banks and their affiliated securities companies. In accordance with this deregulation, some major banks have started to provide office space in their branches to affiliated securities companies and as a result we may face more intensive competition with the bank industry. Furthermore, we may face additional regulations on trading or other activities that may lead to a reduction of the market liquidity, trading volume or market participants. Such regulatory action may damage the Japanese markets as our main revenue source.

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Misconduct by an employee, Director or Executive Officer could harm us and is difficult to detect and deter

We face the risk that misconduct by an employee, Director or Executive Officer could occur. Misconduct by an employee, Director or Executive Officer could bind us to transactions that exceed authorized limits or present unacceptable risks, or hide from us unauthorized or unsuccessful activities, which, in either case, may result in unknown and unmanaged risks or losses. Misconduct by an employee, Director or Executive Officer could also involve the improper use or disclosure of confidential information, which could result in regulatory sanctions, legal liability and serious reputational or financial damage to us. We may not always be able to deter misconduct by an employee, Director or Executive Officer and the precautions we take to prevent and detect misconduct may not be effective in all cases.

The financial services industry is intensely competitive and rapidly consolidating

The businesses we are in are intensely competitive, and we expect them to remain so. We compete on the basis of a number of factors, including transaction execution, our products and services, innovation, reputation and price. In recent years, we have experienced intense price competition in brokerage, underwriting and other businesses. There has also been increased competition in terms of delivery of value-added services to customers, such as corporate advisory services, especially from non-Japanese firms entering or expanding operations in the Japanese market.

Deregulation in Japan has increased competition in the Japanese securities industry

Since the late 1990s, the financial services sector in Japan has been deregulated. Banks and other types of financial institutions can compete with us to a greater degree than they could before deregulation in the areas of financing and investment trusts. Moreover, since the full deregulation of stock brokerage commission rates in October 1999, competition in the domestic brokerage market has intensified. A number of securities companies in Japan, especially small and medium-sized firms, including those that specialize in on-line securities brokerage, have started offering securities brokerage services at low commission rates. In response to commission deregulation, we also restructured our stock brokerage commissions to offer lower commissions depending on the trading amount and the type of customer account. We may continue to experience pricing pressures in the future.

Competition with non-Japanese firms in the Japanese market is increasing

Competition from non-Japanese firms has also increased such as through their presence in Japan, especially in the areas of securities underwriting and corporate advisory services.

Increased global consolidation in the financial services industry means increased competition for us

In recent years, there has been substantial consolidation and convergence among companies in the financial services industry. In particular, a number of large commercial banks, insurance companies and other broad-based financial services firms have established or acquired broker-dealers or have merged with other financial institutions in Japan and overseas. Many of these firms have the ability to offer a wide range of products, including loans, deposit-taking, insurance, brokerage, asset management and investment banking services. This diversity of services offered may enhance their competitive position. They also have the ability to supplement their investment banking and securities business with commercial banking, insurance and other financial services revenues in an effort to gain market share. As these large, consolidated firms increase their market share, we may experience increased price competition in our business.

Our ability to expand internationally will depend on our ability to compete successfully with financial institutions in international markets

We believe that significant challenges and opportunities will arise for us outside of Japan. In order to take advantage of these opportunities, we will have to compete successfully with financial institutions based in

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important non-Japanese markets, including the United States, Europe and Asia. Some of these financial institutions are larger, better capitalized and have a stronger local presence and a longer operating history in these markets**.**

Our revenues may decline due to competition from alternative trading systems

Securities and futures transactions are now being conducted through the Internet and other alternative, non-traditional trading systems. It appears that the trend toward alternative trading systems will continue and probably accelerate. A dramatic increase in electronic trading may adversely affect our commission and trading revenues, reduce our participation in the trading markets and access to market information, and lead to the creation of new and stronger competitors.

We may not be able to realize gains we expect on our private equity investments in Europe

We hold substantial private equity investments in Europe, as discussed in Principal Finance Group under Item 5.A of this annual report. We hold this investment at fair value, but given the large size and illiquid nature, the general partner of the fund controlling these investments may not be able to realize the value of these underlying investments at a level, at the time or in the way the general partner may wish. Inability to dispose of these underlying investments could have a material impact on our future financial statements.

We may not be able to dispose of our operating investments at the time or with the speed we would like

As discussed in more detail in Results of Operations under Item 5.A of this annual report, we hold substantial amounts of operating investments, which refer to investments in equity securities of companies not affiliated with us which we hold on a long-term basis in order to promote existing and potential business relationships. A substantial portion of these investments consists of equity securities of public companies in Japan. Under U.S. GAAP, depending on market conditions, we may record significant unrealized gains or losses on our operating investments, which would have a substantial impact on our income statement. Depending on the conditions of the Japanese equity markets, we may not be able to dispose of these equity securities when we would like to do so or as quickly as we may wish.

Our investments in publicly-traded shares of affiliates accounted for under the equity method in our consolidated financial statements may decline significantly over a period of time and result in our incurring an impairment loss

We have equity investments in affiliates accounted for under the equity method in our consolidated financial statements whose shares are publicly traded. Under U.S. GAAP, if there is a decline in the fair value, *i.e.*, the market price, of the shares we hold in such affiliates over a period of time, and we determine, based on the guidance of Accounting Principles Board Opinion No. 18, The Equity Method of Accounting for Investments in Common Stock , that the decline is other than temporary, then we must record an impairment loss for the applicable fiscal period. We discuss our investment in JAFCO Co., Ltd., one of our affiliates, in Results of Operations under Item 5.A of this annual report.

We may incur significant unrealized losses on subordinated bonds issued by Japanese banks, which we purchased from the money management fund we manage

In January 2002, the Investment Trust Association of Japan, a self-regulatory organization, established new rules on management of money management funds, in its effort to regain investors confidence in money management funds, some of which had invested in bonds issued by Enron Corp. and thereby suffered substantial losses in their asset value. In compliance with these new rules, which specified, with respect to assets included in an investment trust, limitations on the remaining maturity, average maturity and exposure on a single issuer, and minimum criteria on credit ratings to be obtained, we purchased subordinated bonds issued by major Japanese banks from the money management fund we manage. As of March 31, 2003, we held subordinated bonds amounting to an aggregate face value of ¥153.5 billion. Japanese banks have been facing financial difficulties principally related to substantial amounts of bad loans on their balance sheets. Depending on the future financial performance of Japanese banks, the subordinated bonds we purchased may substantially lose their value, and we may have to record unrealized losses which would be recognized currently in income.

We may face an outflow of customers assets due to losses of cash reserve funds or bonds we offered

We offer many types of product to meet various needs of our customers with different risk profiles. Cash reserve funds, such as money management funds, money reserve funds and long-term bond investment trusts, are categorized as low-risk products. Such cash reserve funds may fall below par value as a result of defaults on bonds contained in the portfolio. In addition, bonds that we offer may default or experience delays in their obligation to pay interest and/or principal. For example, in September 2001 we experienced a large-scale default in bonds issued by Mycal Corporation, and in January 2001 we faced delayed payments of interest on and principal of Argentine government bonds. Such losses in the products we offer may result in the loss of customer confidence and lead to an outflow of customer assets from our custody.

Because of daily price range limitations under Japanese stock exchange rules, you may not be able to sell your shares of Nomura s common stock at a particular price on any particular trading day, or at all

Stock prices on Japanese stock exchanges are determined on a real-time basis by the equilibrium between bids and offers. These exchanges are order-driven markets without specialists or market makers to guide price formation. To prevent excessive volatility, these exchange set daily upward and downward price fluctuation limits for each stock, based on the previous day s closing price. Although transactions may continue at the upward or downward limit price if the limit price is reached on a particular trading day, no transactions may take place outside these limits. Consequently, an investor wishing to sell at a price above or below the relevant daily limit may not be able to sell his or her shares at such price on a particular trading day, or at all.

Under Japan s unit share system, holders of our shares constituting less than one unit are subject to significant transfer, voting and other restrictions

Pursuant to the Commercial Code of Japan relating to joint stock corporations and certain related legislation, our Articles of Incorporation provide that 1,000 shares of our stock constitute one unit . The Commercial Code imposes significant restrictions and limitations on holdings of shares that constitute less than a whole unit. Holders of shares constituting less than one unit do not have the right to vote or any other right relating to voting. The transferability of shares constituting less than one unit is significantly limited. Under the unit share system, holders of shares constituting less than a unit have the right to require us to purchase their shares. Also, holders of shares constituting less than a unit may request us to the effect that we sell shares which become a full unit of shares, together with the less than a unit shares owned by the registered shareholders. However, holders of ADSs are unable to withdraw underlying shares representing less than one unit. Therefore, as a practical matter, they cannot require us to purchase these underlying shares. As a result, holders of ADSs representing shares in lots of less than one unit may not have access to the Japanese markets to sell their shares through the withdrawal mechanism.

As a holder of ADSs, you will have fewer rights than a shareholder has and you will have to act through the depositary to exercise these rights

The rights of the shareholders under Japanese law to take actions including voting their shares, receiving dividends and distributions, bringing derivative actions, examining the company s accounting books and records and exercising appraisal rights are available only to holders of record. Because the depositary, through its custodian agent, is the record holder of the shares underlying the ADSs, only the depositary can exercise those rights in connection with the deposited shares. The depositary will make efforts to vote the shares underlying

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your ADSs as instructed by you and will pay to you the dividends and distributions collected from us. However, in your capacity as an ADS holder, you will not be able to bring a derivative action, examine our accounting books and records or exercise appraisal rights except through the depositary.

Rights of shareholders under Japanese law may be more limited than under the laws of jurisdictions within the United States

Our Articles of Incorporation, our Regulations of the Board of Directors and the Japanese Commercial Code govern our corporate affairs. Legal principles relating to such matters as the validity of corporate procedures, directors and executive officers fiduciary duties and shareholders rights may be different from those that would apply if we were a non-Japanese company. Shareholders rights under Japanese law may not be as extensive as shareholders rights under the laws of jurisdictions within the United States. You may have more difficulty in asserting your rights as a shareholder than you would as a shareholder of a corporation organized in a jurisdiction within the United States.

It may not be possible for investors to effect service of process within the United States upon us or our Directors or Executive Officers, or to enforce against us or those persons judgments obtained in United States courts predicated upon the civil liability provisions of the federal securities laws of the United States

We are a limited liability, joint-stock corporation incorporated under the laws of Japan. Most of our Directors and Executive Officers reside in Japan. Many of our assets and the assets of these persons are located in Japan and elsewhere outside the United States. It may not be possible, therefore, for U.S. investors to effect service of process within the United States upon us or these persons or to enforce against us or these persons judgments obtained in United States courts predicated upon the civil liability provisions of the federal securities laws of the United States. We believe that there is doubt as to the enforceability in Japan, in original actions or inactions for enforcement of judgment of U.S. courts, of liabilities predicated solely upon the federal securities laws of the United States.

Special Note Regarding Forward-looking Statements

This annual report contains forward-looking statements that are based on our current expectations, assumptions, estimates and projections about our business, our industry and capital markets around the world. These forward-looking statements are subject to various risks and uncertainties. Generally, these forward-looking statements can be identified by the use of forward-looking terminology such as may , will , expect , anticipate , estimate , plan or similar words. These statements discuss future expectations, identify strategies, contain projections of our results of operations or financial condition, or state other forward-looking information.

Known and unknown risks, uncertainties and other factors may cause our actual results, performance, achievements or financial position to differ materially from any future results, performance, achievements or financial position expressed or implied by any forward-looking statement contained in this annual report. Such risks, uncertainties and other factors are set forth in this Item 3.D and elsewhere in this annual report.

Item 4. Information on the Company.

A. History and Development of the Company.

Nomura was incorporated in Japan on December 25, 1925 under the Commercial Code of Japan when the securities division of The Osaka Nomura Bank, Ltd. became a separate entity specializing in the trading and distribution of debt securities in Japan. Nomura was the first Japanese securities company to develop its business internationally with the opening in 1927 of a representative office in New York, which actively traded non-yen-denominated debt securities. In Japan, we broadened the scope of our business when we began trading in equity securities in 1938 and when we organized the first investment trust in Japan in 1941.

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Since the end of World War II, we have played a leading role in most major developments in the Japanese securities market. These developments include the re-establishment of investment trusts in the 1950s, the introduction of public stock offerings by Japanese companies in the 1960s, the development of the over-the-counter bond market in the 1970s, the introduction of new types of investment trust such as the medium-term Japanese government bond investment trusts in the 1980s, and the growth of the corporate bond and initial public offering markets in the 1990s.

Our post-World War II expansion overseas accelerated in 1961, when Nomura acquired a controlling interest in Nomura International (Hong Kong) Limited for the purpose of conducting broker-dealer activities in the Hong Kong capital market. Subsequently, we established a number of other overseas subsidiaries, including Nomura Securities International, Inc. in the United States in 1969 as a broker dealer and Nomura International Limited, now Nomura International plc, in the United Kingdom in 1981, which acts as an underwriter and a broker, as well as various other overseas affiliates, branches and representative offices.

In recent years, we have sought to take advantage of new opportunities presented by deregulation of the Japanese financial market and by developments in information technology. For example, to increase retail customers access to our services, we have taken advantage of the Internet to offer on-line brokerage and related services.

On October 1, 2001, we adopted a holding company structure. In connection with this reorganization, Nomura changed its name from The Nomura Securities Co., Ltd. to Nomura Holdings, Inc. Nomura continues to be listed on the Tokyo Stock Exchange and other stock exchanges on which it was previously listed. A wholly-owned subsidiary of Nomura assumed Nomura s securities businesses and is named Nomura Securities Co., Ltd.

In December 2001, we were listed on the New York Stock Exchange.

We have also strengthened our mergers and acquisitions and other financial advisory businesses by acquiring majority interests in Nomura Corporate Advisors Co., Ltd., formerly Nomura Wasserstein Perrella Co., Ltd., in November 1999. Nomura Corporate Advisors became a wholly-owned subsidiary of Nomura in September 2000 and merged with Nomura Securities in April 2002.

We have also enhanced our asset management business through the acquisition of a majority interest in Nomura Asset Management Co., Ltd. in March 2000. Nomura Asset Management became a wholly-owned subsidiary of Nomura in December 2001.

On June 26, 2003, we adopted the Committee System under which we established a Nomination Committee, an Audit Committee and a Compensation Committee.

The address of Nomura s registered office is 9-1, Nihonbashi 1-chome, Chuo-ku, Tokyo 103-8645, Japan, telephone number: 81-3-5255-1000.

B. Business Overview.

Overview

We are the leading securities and investment banking firm in Japan and have worldwide operations. As of March 31, 2003, we operated offices in more than 20 countries and regions including Japan, the United States, the United Kingdom, Singapore and Hong Kong. As of the same date, we employed 14,385 people, with 11,583 in Japan and 2,802 outside Japan.

Our customers include individuals, corporations, financial institutions, governments and governmental agencies.

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Our businesses consist of the following three business segments:

Domestic Retail principally investment consultation services to retail customers; and

Global Wholesale principally fixed income and equity trading, investment banking, and merchant banking in and outside Japan; and

Asset Management principally development and management of investment trusts, and investment advisory services.

For a discussion on revenues by category of activity and geographic market, see Results of Operations under Item 5.A of this annual report.

Our Business Strategy

Our Corporate Goals and Principles

We seek to establish ourselves firmly as a globally competitive Japanese financial institution . We believe that the Japanese securities market has the potential to grow rapidly, and we will seek to realize our vision by strengthening our base in the domestic securities businesses and by focusing our group resources both in Japan and abroad to our key businesses.

We attach great importance to management of our business with a focus on shareholder value. We intend to maintain an average return on equity of 10 to 15% on a consolidated basis over the medium- to long-term.

In executing our business strategy, we focus on business segments, which are linked along global business lines, not on individual legal entities. We seek to establish a competitive business base by enhancing the professional competence of each of these business lines, while at the same time strengthening the linkages among these business lines.

Our Current Challenges

The Japanese economy and securities market continue to face difficult circumstances. In this environment, we need to respond effectively to the various needs of our customers and the market, and provide services through the capital markets, both at home and abroad based on our accumulated experience, knowledge and expertise.

In the Domestic Retail segment, we seek to provide products and services focusing on the core values of our customers by maintaining the flexibility and capacity to quickly supply domestic and overseas products. Core values are those values that our customers consider to be most important in their financial asset management. We are promoting the shifting of individual financial assets from cash and deposits to higher yielding assets and seeking to broaden our customer base through enhancement of our structure tailored to deliver services focusing on the core values of customers with respect to various financial products. In addition, we are promoting a greater awareness of the importance of the capital markets and the value of holding securities products among individual investors.

In the Global Wholesale segment, we seek to increase our participation in corporate reorganizations, particularly in Japan. Among the areas that we believe have future growth potential are mergers and acquisitions, corporate revitalization, finance business for asset mobilization, and principal investments. We are promoting a globalization strategy by accommodating the various needs of our customers.

In the Asset Management segment, we aim to strengthen our investment management business and improve investment performance through the establishment of a management structure that enables us to generate medium- to long-term value-added, for example by centralizing management systems and strengthening research functions. Also, by expanding our marketing channels and diversifying our product base, we endeavor to increase assets under management and revenues.

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Domestic Retail

The business operations of Domestic Retail are headquartered in Tokyo. In this business segment, we conduct business activities mainly for individuals and corporations in Japan through a network of 128 branches nationwide as of the end of March 2003. We offer investment consultation service and maintenance services to meet the medium- to long-term needs of our customers. The aggregate market value of our retail client assets was ¥27.1 trillion as of the end of March 2003. We discuss retail client assets in Operating Results under Item 5.A of this annual report.

In order to execute our business strategy described above in *Our Current Challenges*, we have various methods to deliver our services to our clients. Examples include face-to-face meetings with our staff, either in our branches or by visiting our customers, and communications through Nomura Home Trade, an Internet-based trading services or our call center.

We capitalize on the linkages among the Domestic Retail, Global Wholesale and Asset Management segments to offer to our customers various financial instruments such as stocks, bonds, investment trusts and variable annuity insurance products, for the short, medium, and long terms, with different risk levels. We seek to provide information that can only come from Nomura to customers through various media such as our investor reports, automatic voice mail system (Telephone-Answer), direct mailing and internet-based trading services (Nomura Home Trade).

Global Wholesale

We facilitate customer transactions and trade for our own account by market-making and trading fixed income and equity securities, including related derivatives, in Japan and overseas. We also provide a broad range of investment banking services, including underwriting, financial advisory and other financing services. Also we conduct proprietary transactions, including arbitrage and merchant banking transactions.

Fixed Income

We offer clients global access to the fixed income markets and solutions to their financing needs.

In our trading operations, our offices in Tokyo, Hong Kong, London and New York work closely with one another to ensure that clients receive access to coverage across the globe. We have a number of client-focused trading teams, with particular expertise in trading domestic and international debt and other fixed income related products, including government securities, agency securities, municipal securities, credit products, money market products, foreign exchange and asset backed securities. In the field of interest rate, credit and other derivatives trading, we utilize our risk management capabilities and risk tolerance capacity to provide services that respond to the investment requirements of our clients.

We recognize that investors possess differing investment needs. Through our global sales and trading network, including our capital markets, syndication, securitization and asset finance teams, we provide investors around the world with the services and products that match their investment needs in a timely manner. We are seeking to strengthen our track record in euro bonds based on our leadership in the yen bond market for over a decade.

Our research team covers Japan s domestic economy and markets, and the global economy. In our research activities, analysts specializing in economic, credit and quantitative research provide investors with timely up-to-the-minute research and insights on the major issues of the moment. By combining our research power with our sales, trading, origination and syndication capabilities, we seek to provide tailor-made services to our clients.

Equity

Our equity sales, trading and market-making activities cover domestic and foreign equity and equity-related products such as convertible debt, warrants, equity index products, equity swaps, options and other structured

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products. We also deal with large block orders arising from the liquidation of cross-shareholdings or basket transactions from the reallocation of pension funds asset portfolios utilizing our execution and distribution capabilities. We are members of major stock exchanges around the world. In addition, we deal in stock borrowing and stock loan transactions in support of our domestic and international trading, asset management and custody services.

Investment Banking

We provide a broad range of investment banking services, including underwriting, financial advisory and other financing services.

Underwriting. We manage and participate in the underwriting of offerings of debt, equity and other securities in Japan and other major financial markets. We also arrange private placements and engage in other capital raising activities. We are one of the leading equity and fixed income securities underwriters in Japan. We are also one of the leading yen Eurobond underwriters. In addition, we are active in underwriting fixed income securities of supranational, governments, government agencies and corporate issuers in Europe.

Financial Advisory Services. We provide financial advisory services on business transactions including mergers and acquisitions, divestitures, spin-offs, restructurings, capital structuring and leverage buyouts. Our involvement in initial public offerings, reorganizations and other corporate restructurings enhance our opportunities to offer customers other advisory and investment banking services.

Structured Finance. We engage in the structured finance business, which involves, among other things, arranging the issuance of securities backed by assets such as real estate, leases, loans and other financial products.

Merchant Banking

We invest our own capital to actively assist in corporate reorganizations with a goal of maximizing our returns on investment by raising corporate value in Japan. In July 2000, we established a wholly owned subsidiary, Nomura Principal Finance Co., Ltd., to develop this business in Japan. In Europe, we have private equity investments managed by Terra Firma, an independent asset management group. Terra Firma was established following reorganization in March 2002 of our principal finance business, and is operated by former Nomura employees. For a further description of this reorganization, see Principal Finance Group under Item 5.A of this annual report.

Asset Management

In Asset Management, we conduct asset management business and defined contribution plan business.

Asset Management Business

We conduct our asset management business primarily through Nomura Asset Management, the largest asset management company in Japan in terms of assets under management of investment trust. Nomura Asset Management manages various investment trusts, ranging from low risk/low return products to high risk/high return products, and develops new products to respond to various investor needs. Investment trusts are distributed to the investors through our network in the Domestic Retail segment, as well as through financial institutions such as securities companies (including those outside our group) and banks. Investment trusts are also offered as instruments in defined contribution plans. We also provide investment advisory services to public pensions, private pensions, governments and their agencies, central banks and institutional investors.

In addition to Nomura Asset Management, Nomura Corporate Research and Asset Management Inc., or NCRAM, performs asset management mainly for high yield bonds and high yield loans in the United States, and Nomura Main trust GmbH and Main trust KAGmbH are subsidiaries in Germany.

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Defined Contribution Plan Business

We also provide services relating to defined contribution pension plans, such as support for plan implementation (plan design), product selection, provision of information to subscribers, trust services, product supply, and investor education.

Our Research Activities

We provide fundamental research on the macro economies of different countries and international capital flows, financial markets, industries and companies.

We produce industry-wide, company-specific and other research reports based on our research activities. We distribute these research reports to our retail customers in Japan and to our institutional customers in and outside Japan.

Nomura Research Institute, Ltd., our affiliate, produces macroeconomic and other general research reports, which we purchase and distribute to our customers.

Our Information Technology

We believe that information technology is one of the key factors to the success of our overall business and intend to develop and maintain a technology platform to fill the various needs of our clients.

We provide our customers with electronic access to our products and services through the technology platform. For our retail customers, we have introduced Nomura Home Trade, at *www.nomura.co.jp/hometrade*, which provides our retail customers with on-line trading capabilities and current status reports on asset portfolios, investments and transactions and investment information, including our research reports through the internet or mobile phones. For institutional customers, we have introduced BondNavigator, a web site at *www.bondnavi.com*, through which we provide on-line information and trading tools on the fixed income market. In addition to these, we have made many strategic investments and participate in a number of institutional trading networks.

Competition

We encounter intense competition in all aspects of our business and compete on a global basis with other securities firms and financial institutions, in particular, other leading globally integrated financial services firms. A number of competitive factors affect our business, including:

- the quality, range and prices of our services,
- our ability to originate innovative financial products and services,
- our ability to maintain and develop customer relationships,
- our general reputation, and
- our ability to commit capital resources and to retain qualified employees.

Our competitive position is also affected by a variety of factors that influence the overall condition of the global financial markets, such as:

- the monetary and fiscal policies of national governments and international economic organizations, and
- political, economic and regulatory developments in Japan, the United States and other major industrialized countries, as well as in developing countries.

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In Japan, we compete with other domestic securities companies and non-Japanese securities companies. Since the late 1990s, competition with leading global securities and investment banking firms with substantial operations in Japan has become more intense as the financial services sector in Japan has become increasingly deregulated, the level of participation by overseas investors in the Japanese securities market has risen, and some of our domestic competitors have consolidated or formed alliances with other financial institutions in Japan or overseas securities and investment banking firms. We also compete with other types of financial institutions in Japan, such as banks with securities company subsidiaries, with respect to both providing financing and the investment of customers funds.

Since stock brokerage commission rates were deregulated in October 1999, competition in the domestic stock brokerage market has intensified. A number of securities companies in Japan, especially small and medium-sized firms, started offering securities brokerage services at low commission rates. We seek to compete against these companies not on the basis of commission rates but by offering high-value added services such as our research, consultation and trading execution. At the same time, we realize that there is no assurance that we will be able to maintain our current commission rates on a long-term basis, and for that reason we continue to monitor market trends carefully.

We compete with Japanese and non-Japanese asset management companies. We are a leading provider of asset management services in Japan. Recognizing the opportunities available in Japan for asset management business, new entrants, in particular major non-Japanese asset management companies, and asset management companies with operations in Japan are allocating more resources to expand their operations. This is causing competition in this business to intensify.

Overseas, we compete with major investment banking firms. Some of our competitors in the overseas markets have a stronger local presence and longer operating history in these markets than we do. We are competitive with respect to Japan-related financial products, such as global sales and trading activities and underwriting activities in Japanese equity securities and fixed income products denominated in yen, and in certain non-Japan-related areas.

Regulation

Japan

Regulation of Securities Industry. The Securities and Exchange Law regulates most aspects of securities transactions and the securities industry, including the public offering, private placement and secondary trading of securities, the on-going disclosure by securities issuers, tender offers for securities, the organization and operations of securities exchanges and self-regulatory associations, and the registration of securities companies. The Financial Services Agency, which was established in July 2000, is generally delegated the authority of the Prime Minister under the Securities and Exchange Law. The Securities and Exchange Surveillance Commission, an external agency of the Financial Services Agency which is independent from the Agency s other bureaus, is vested with authority to conduct day-to-day monitoring of the securities market and to investigate irregular activities that hinder the fair trading of securities. Furthermore, the Financial Services Agency delegates certain authority delegated to it by the Prime Minister to the Local Finance Bureau. In addition, securities companies are subject to extensive regulations regarding the scope of business in which they may engage under the Securities and Exchange Law. Securities companies are also subject to the rules and regulations of the Japanese stock exchanges and the Japan Securities Dealers Association, a self-regulatory association of securities companies.

Under the Securities and Exchange Law, a securities company may conduct, in addition to businesses incidental to the securities business, certain businesses specified under the Securities and Exchange Law, such as investment advisory business, investment trust management business and financial futures trading.

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Business practices of securities companies are also subject to various regulatory requirements. In addition, the Financial Services Agency or the Local Finance Bureau regularly conducts inspections and examinations of securities companies. A violation of applicable laws and regulations can result in various administrative sanctions, including the revocation of registration or authorization, the suspension of business and an order to discharge a director or executive officer who has not complied with applicable laws and regulations.

Securities companies are not allowed to directly conduct banking and other financial services, except for those specified in the Securities and Exchange Law. Securities companies may, however, own a majority of shares in banks and other financial services institutions. Such subsidiaries conducting banking and financial services are also regulated by relevant laws and regulations. The Nomura Trust and Banking Co., Ltd. is a subsidiary of Nomura and conduct banking and certain financial services.

The Securities and Exchange Law generally prohibits banks and other financial institutions from engaging directly in the securities business, with limited exceptions including dealing in, and underwriting of, government, government-guaranteed and municipal bonds and offering and selling of investment trust certificates. Banks and certain other financial institutions may, however, engage in the securities business, through their securities subsidiaries. Recent deregulation allowing securities companies to share office with banks may further encourage bank financial groups to promote their securities business through their securities affiliates.

To enhance investor protection, Japanese securities companies must segregate customer assets and are required to be a member of one of two investor protection funds approved by the government under the Securities and Exchange Law. Each investor protection fund is funded through assessments on securities companies that are members of the fund. The investor protection fund of which Nomura Securities is a member provides protection of up to ¥10 million per customer, in the event of failure of a securities company that is a member of the fund. The investor protection fund covers claims related to customer securities deposited with the failed securities company and certain other claims of customers.

Overseas

Our overseas offices and subsidiaries are also subject to various laws and governmental rules and regulations applicable in those countries where such offices and subsidiaries carry on their respective operations, including those promulgated and enforced by the Securities and Exchange Commission, the New York Stock Exchange and the National Association of Securities Dealers, Inc. in the United States, and by The Financial Services Authority and the London Stock Exchange in the United Kingdom. Failure to comply with such laws, rules or regulations could result in fines, suspension or expulsion, which could have a material adverse effect upon us.

Regulatory Capital Rules

Japan

Under the Securities and Exchange Law, securities companies are required to maintain adjusted capital at specified levels as compared with the quantified total of their business risks on a non-consolidated basis. Article 52 of the Securities and Exchange Law requires securities companies to file month-end reports regarding their capital adequacy ratio, *i.e.,* the ratio of adjusted capital to a quantified total of business risks, to the Financial Services Agency, or the Local Finance Bureau, and to disclose their capital adequacy ratio to the public on a quarterly basis. A securities company must also file a report on a daily basis with the Financial Services Agency or the Local Finance Bureau if its capital adequacy ratio falls below 140%. Article 56-2 of the Securities and Exchange Law determines the actions which the Prime Minister through the Financial Services Agency may take if the ratio falls further: if the ratio falls below 120%, the Prime Minister may order the securities company to change its method of business or to deposit its property in trust, or order other measures for the public interest and investor protection if necessary. A securities company whose ratio falls below 100% may be subject to

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additional proceedings, including temporary suspension of its business and revocation of its registration as a securities company if there is no prospect that the ratio will recover three months after the suspension came into effect.

Adjusted capital is defined as shareholders equity less illiquid assets. Shareholders equity mainly consists of stated capital, additional paid-in capital, legal reserve, retained earnings, reserve for securities transactions and certain other reserves, certain allowances for doubtful accounts, net unrealized gain/loss in the market value of investment securities, and subordinated debt. The illiquid assets generally include non-current assets, certain deposits and advances and prepaid expenses. The business risks are divided into three categories: (i) market risks (*i.e.,* risks of asset values being eroded when they are liquidated due to decline in their market value), (ii) counterparty risks (*i.e.,* risks of loss that may be caused by the default of a counterparty on its commitment) and (iii) basic risks (*i.e.,* risks to be monitored in carrying out daily business routines, such as administrative problems with securities transaction and clerical mistakes), each quantified in the manner specified in a ministerial ordinance under the Securities and Exchange Law.

We closely monitor Nomura Securities capital adequacy ratio on a continuous basis. Since the introduction of the capital adequacy requirement in Japan in 1989, we have at all times been in compliance with these requirements. We believe that we will continue to be in compliance with all applicable capital adequacy requirements in the foreseeable future.

Overseas

In the United States, Nomura Securities International is a registered broker-dealer, registered futures commission merchant and a member firm of the New York Stock Exchange. As such, Nomura Securities International is subject to the minimum net capital requirements of the United States Securities and Exchange Commission, the New York Stock Exchange and the Commodity Futures Trading Commission. These requirements specify minimum levels of capital that United States broker-dealers are required to maintain and limit the amount of leverage that such broker-dealers may use in their businesses. As a primary dealer in United States government securities, Nomura Securities International is also subject to the capital adequacy requirements under the Government Securities Act of 1986.

Nomura International in the United Kingdom is regulated by The Financial Services Authority and is subject to capital requirements of that authority.

In addition, certain of our other subsidiaries are subject to various securities and banking regulations, and capital adequacy requirements promulgated by the regulatory and exchange authorities of the countries in which such subsidiaries operate. We believe that each such subsidiary is, and will in the foreseeable future be, in compliance with such requirements in all material respects.

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C. Organizational Structure.

The following table lists Nomura and its significant subsidiaries and their respective countries of incorporation. Indentation indicates the principal parent of each subsidiary. Proportions of ownership interest include indirect ownership.

Name	Country	Ownership Interest
		(%)
Nomura Holdings, Inc.	Japan	
Nomura Securities Co., Ltd.	Japan	100
Nomura Asset Management Co., Ltd.	Japan	100
The Nomura Trust & Banking Co., Ltd.	Japan	100
Nomura Babcock & Brown Co., Ltd.	Japan	100
Nomura Capital Investment Co., Ltd.	Japan	100
Nomura Investor Relations Co., Ltd.	Japan	100
Nomura Principal Finance Co., Ltd.	Japan	100
The Nomura Fundnet Securities Co., Ltd.	Japan	100
Nomura Funds Research and Technologies Co., Ltd.	Japan	51
Nomura DC Planning Co., Ltd.	Japan	100
Nomura Human Capital Solutions Co., Ltd.	Japan	100
Nomura Research & Advisory Co., Ltd.	Japan	100
Nomura Business Services Co., Ltd.	Japan	100
Nomura Satellite Communications Co., Ltd.	Japan	100
Nomura Holding America Inc.	United States	100
Nomura Securities International, Inc.	United States	100
Nomura Corporate Research and Asset Management Inc.	United States	100
Nomura Asset Capital Corporation	United States	100
The Capital Company of America, LLC	United States	100
Nomura Derivative Products, Inc.	United States	100
Nomura Global Financial Products, Inc.	United States	100
Nomura Securities (Bermuda) Ltd.	Bermuda	100
Nomura Europe Holdings plc	United Kingdom	100
Nomura International plc	United Kingdom	100
Nomura Bank International plc	United Kingdom	100
Banque Nomura France	France	100
Nomura Bank (Luxembourg) S.A.	Luxemburg	100
Nomura Bank (Deutschland) GmbH	Germany	100
Nomura Bank (Switzerland) Ltd.	Switzerland	100
Nomura Italia S.I.M. p.A.	Italy	100
Nomura Funding Facility Corporation Limited	Ireland	100
Nomura Global Funding plc	United Kingdom	100
Nomura Europe Finance N.V.	The Netherlands	100
Nomura Principal Investment plc	United Kingdom	100
Nomura Asia Holding N.V.	The Netherlands	100
Nomura Investment Banking (Middle East) E.C.	Bahrain	100
Nomura International (Hong Kong) Limited	Hong Kong	100
Nomura Singapore Limited	Singapore	100
Nomura Advisory Services (Malaysia) Sdn. Bhd.	Malaysia	100
Nomura Australia Limited	Australia	100
PT Nomura Indonesia	Indonesia	80

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D. Property, Plants and Equipment.

Our Properties

Our principal head office is located in Tokyo, Japan and occupies 806,336 square feet of office space. Our other major offices in Japan are our Osaka branch office, which occupies 131,150 square feet, our Nagoya branch office, which occupies 77,338 square feet, and the head office of Nomura Asset Management in Tokyo, which occupies 161,696 square feet. We own the head office building of Nomura Asset Management which was built during the year ended March 31, 2003. We lease most of our other office space in Japan. Nomura Land and Building Co., Ltd., which is accounted for under the equity method of accounting in our consolidated financial statements, is the lessor of a substantial portion of our leased office space in Japan, including our Tokyo headquarters and Nagoya branch office.

Our major offices outside Japan are the London head office of Nomura International, which occupies 410,277 square feet, and the New York head office of Nomura Securities International, which occupies 283,845 square feet. We own the land and building for the London head office of Nomura International. We lease most of our other overseas office space.

As of March 31, 2003, the aggregate book value of the land and buildings we owned was ¥75.8 billion, and the aggregate book value of equipment we owned, including communications and data processing facilities, was ¥30.0 billion. We lease other equipment we use in our operations.

Item 5. Operating and Financial Review and Prospects.

A. Operating Results.

You should read the following discussion of our operating and financial review and prospects together with Item 3.A Selected Financial Data of this annual report and our consolidated financial statements included elsewhere in this annual report.

This discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of factors, including, but not limited to, those under Item 3.D Risk Factors and elsewhere in this annual report.

Business Environment

Japan

The Japanese economy experienced a recession in 2001 primarily due to a global high technology recession, but started recovering in early 2002 owing to inventory adjustments and economic turnarounds in the United States and Asia. Since mid-2002, however, the economy has stagnated as the recovery in domestic demand has been weak and export growth has slowed. In the spring of 2003, growth had yet to show signs of recovery. In October 2002, the Japanese government announced its Program for Financial Revival to accelerate the disposal of non-performing loans at major Japanese banks as a necessary step to revive the economy. At the same time, the government decided to establish the Industrial Revitalization Corporation of Japan to coordinate the disposal of bad debt and revitalization of Japanese industries and corporations. This new organization started operations in May 2003.

Following the downturn during the year ended March 31, 2002, Japanese corporate earnings rebounded strongly in the year ended March 31, 2003, despite a weak macro economy. We expect Japanese corporate earnings to continue rising in the year ending March 31, 2004, even while sales growth may remain sluggish, owing to the ongoing efforts by Japanese companies to improve profitability through the restructuring of operations and overhauling of existing employment practices.

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While Japanese corporate earnings have been generally recovering since 2002, equity prices had continued their downward trend, reflecting the deterioration in supply and demand conditions. TOPIX, a benchmark for the overall stock market in Japan, was at 1,060.19 points at the end of March 2002, down 17% from the end of March 2001, and at the end of March 2003, it stood at 788.00 points, representing a further decline of 26%. Likewise, the Nikkei Average fell 15% to ¥11,024.94 at the end of March 2002 compared with the end of March 2001, and further fell 28% to ¥7,972.71 at the end of March 2003.

Yields on newly issued 10-year Japanese Government Bonds, or JGBs, stayed generally between 1.0% and 1.6% in 2001, but began declining in 2002 and was at around 0.6% in 2003. This decline was due to the weak demand for funds as Japanese companies tried to reduce debt, additional monetary easing measures undertaken by the Bank of Japan in the form of higher targets for the current account balance and increased purchases of long-term JGBs, and the increased investment in bonds by institutional investors as the investment performance of equities deteriorated.

Although the U.S. dollar traded in a range between ¥115 and ¥125 per U.S. dollar in 2001, the yen started to weaken from the end of 2001, pushing the U.S. dollar s trading range for the first half of 2002 to between ¥125 and ¥135 per U.S. dollar. However, that trading range returned to between ¥115 and ¥125 per U.S. dollar in the second half of 2002. Meanwhile, the Euro traded mostly between US$0.85 to US$0.95 per Euro in 2001 and then began strengthening from mid-2002. In May 2003, the U.S. dollar weakened due to concerns over the size of the U.S. current account deficit, falling to near ¥115 per U.S. dollar, while the Euro climbed to around Euro1.15 per U.S. dollar.

Overseas

Outside Japan, in 2002, the economies of the major developed nations began to recover after finally shaking off the effects of the previous year s high technology recession. However, with the exception of Asia, recoveries faltered in the second half of the year as corporate accounting scandals in the United States, such as Enron and Worldcom, undermined investors faith in corporate results, and geopolitical tensions over Iraq led to a spike in crude oil prices. The quick end to the hostilities in Iraq saw crude oil prices fall back, but the economies have yet to return to a recovery footing.

The U.S. economy was dealt a heavy blow by the September 11, 2001 terrorist attacks in New York and Washington, D.C., but began to recover soon thereafter on the back of strong consumer spending and housing investment, supported by the decline in long-term and short-term interest rates. Capital expenditure in the corporate sector languished throughout 2002 as the excessive investment of the information technology bubble came to light and the corporate accounting scandals emerged in the first half of the year. Nevertheless, real GDP growth, shored up by the household sector, was 2.4% in 2002, up from 0.3% in 2001. The U.S. economy began to lose steam once again, however, as tensions mounted over Iraq at the end of 2002. Despite the swift end to the Iraqi war that began in March 2003, unemployment continues to rise and business sentiment remains depressed.

The Federal Funds rate, which peaked at 6.5% in 2000, was cut to 1.25% in November 2002, its lowest level in 40 years. The yield on 10-year U.S. Treasuries, which moved in the range of 4.5% to 5.5% from 2001 up to the first half of 2002, fell dramatically in the summer of 2002 as the corporate accounting scandals broke out and stock prices fell. Yields have since remained in the range of 3.5% to 4.25%. The Dow Jones Industrial Average fell below 8,000 immediately after September 11, 2001, but recovered to 10,000 in the first half of 2002. The Dow then spiraled downward as more corporate accounting irregularities were uncovered and the Iraqi situation became increasingly tense, and has been fluctuating between 7,500 and 9,000 since the second half of 2002.

The European economies followed a similar pattern, recovering in step with the U.S. economy in the first half of 2002, only to see the recovery fizzle out as it did in the United States and Japan. There are no signs of recovery yet in 2003. In March 2003, the European Central Bank lowered interest rates to 2.5%, down from the

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peak of 4.75% in 2000. European stock markets have generally been stagnating since the collapse of the information technology bubble.

The Asian economies outside Japan have remained generally robust, even after the U.S., European, and Japanese economies peaked out in the second half of 2002. The outbreak of SARS in spring 2003, however, has been causing concern in the Asian economies.

Results of Operations

Overview

The following table provides selected consolidated income statement information for the years indicated.

	Year Ended March 31,			
	2001	2002	2003	
	(yen amounts in millions; dollar amounts in millions)			
Non-interest revenues	¥ 950,357	¥ 1,324,858	¥ 438,995	$ 3,718
Net interest revenue	(34,702)	(3,507)	127,279	1,078
Net revenue	915,655	1,321,351	566,274	4,796
Non-interest expenses	759,483	1,148,379	518,865	4,394
Income before income taxes	156,172	172,972	47,409	402
Income tax expense	98,762	4,926	37,295	316
Cumulative effect of accounting change(1)			109,799	930
Net income	¥ 57,410	¥ 168,046	¥ 119,913	$ 1,016
Return on equity	4.0%	11.1%	7.4%	

(1) Cumulative effect of accounting change represents the write-off of the remaining unamortized negative goodwill associated with the acquisition of additional shares of Nomura Asset Management Co., Ltd.

Net revenue decreased by 57% from ¥1,321,351 million for the year ended March 31, 2002 to ¥566,274 million for the year ended March 31, 2003. The decline in net revenue is primarily due to the fact that the results of operations for the year ended March 31, 2002 included the consolidated results of the Principal Finance Group, (the PFG entities), as explained in Principal Finance Group below. We ceased to control the PFG entities on March 27, 2002 and, accordingly, they were not consolidated with our results of operations for the year ended March 31, 2003. PFG entities product sales and PFG entities rental income accounted for ¥471,984 million of net revenue for the year ended March 31, 2002. Also, net revenue for the year ended March 31, 2002 included a gain on private equity investments in the amount of ¥232,472 million, relating to the deconsolidation of the PFG entities. This gain was derived mainly from the difference between the fair value of our investments in the PFG entities and their historical cost balance sheet value at that date. In addition, we recorded a gain on sales of PFG entities in the amount of

¥116,324 million for the year ended March 2002, which was derived from sales of certain PFG entities. For the year ended March 31, 2003, the decline in net revenue on account of the PFG entities as discussed above more than offset increases in commissions, fees from investment banking, net gains on trading and net interest for that year compared with the previous year.

Net interest revenue amounted to ¥127,279 million for the year ended March 31, 2003, while we had net interest expenses for the preceding two fiscal years. Net interest revenue is a function of the level and mix of total assets and liabilities, which includes trading assets and financing and lending transactions, and the level, term structure and volatility of interest rates. Net interest revenue is an integral component of trading activity. In assessing the profitability of our overall business and of our Global Wholesale business in particular, we view net interest revenue and non-interest revenues in aggregate.

Net revenue increased by 44% from ¥915,655 million for the year ended March 31, 2001, to ¥1,321,351 million for the year ended March 31, 2002. The increase was mainly due to gains of ¥116,324 million on the

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disposal of certain PFG entities and a gain on private equity investments of ¥232,472 million. Prior to March 27, 2002, the results of the PFG entities were consolidated in our financial statements, and PFG entities rental income and PFG entities product sales increased due partly to the full year effect of certain PFG entities acquired during the year ended March 31, 2001, as well as the impact of one PFG entity acquired during the year ended March 31, 2002. These increases offset a decrease in commissions in the amount of ¥49,840 million and a decrease in net gain on trading in the amount of ¥145,761 million.

In our consolidated income statement, we include under Revenue profit (loss) on investments in equity securities. We recorded losses on such investments in the amounts of ¥98,968 million for the year ended March 31, 2001, ¥55,860 million for the year ended March 31, 2002 and ¥41,288 million for the year ended March 31, 2003. This line item includes unrealized gains and losses on operating investments, and gains and losses realized upon disposition of operating investments. Operating investments refer to our investments in unaffiliated companies, which we hold on a long-term basis in order to promote existing and potential business relationships. In our consolidated financial statements, operating investments are recorded at market value, with unrealized gains and losses on these investments being recognized currently in income.

Non-interest expenses decreased by 55% from ¥1,148,379 million for the year ended March 31, 2002 to ¥ 518,865 million for the year ended March 31, 2003. The decrease in non-interest expenses was mainly due to the deconsolidation of the PFG entities, whose expenses, such as the PFG entities cost of goods sold of ¥200,871 million and PFG entities expenses associated with rental income of ¥111,529 million, were included in the non-interests expenses for the year ended March 31, 2002. This decrease was partially offset by an impairment loss in the amount of ¥21,165 million on our investment in JAFCO, one of our affiliates as discussed below.

Non-interest expenses increased by 51% from ¥759,483 million for the year ended March 31, 2001 to ¥1,148,379 million for the year ended March 31, 2002 mainly due to increases in PFG entities cost of goods sold and PFG entities expenses associated with rental income which were contributed from some of newly acquired PFG entities for the year ended March 31, 2002. The increase also reflects an increase in compensation and benefits and an impairment loss in the amount of ¥92,441 million on our investment for the year ended March 31, 2002 in JAFCO.

Income before income taxes was ¥156,172 million for the year ended March 31, 2001, ¥172,972 million for the year ended March 31, 2002 and ¥ 47,409 million for the year ended March 31, 2003.

We are subject to a number of different taxes in Japan which, in the aggregate, represented a statutory tax rate of approximately 42% for the years ended March 31, 2001 and 2002. For the year ended March 31, 2003, we adopted a consolidation tax system as permitted under the Japanese tax low. In addition to the basic corporate tax rate, a 2% surtax will be imposed until the year ending March 31, 2004. Our foreign subsidiaries are subject to income taxes of the countries in which they operate. Reflecting the surtax, the tax rate was approximately 44 % for the year ended March 31, 2003.

Income tax expense for the year ended March 31, 2003 was ¥37,295 million, representing an effective tax rate of 78.7%. The effective tax rate was significantly above the statutory tax rate of 44% mainly due to the following two reasons. First, new Japanese tax legislation was issued in March 2003, reducing the standard enterprise tax rate and creating new taxes on capital and certain expenses defined in the law. This legislation will be effective on April 1, 2004, and will result in a domestic statutory tax rate of approximately 40%. As a result of the future lower statutory tax rate, deferred tax assets were reduced and, accordingly, this increased the effective tax rate for the year ended March 31, 2003 by approximately 16%. Second, deferred tax assets were decreased with respect to the movement of valuation allowance of certain foreign subsidiaries relating to their operating loss carry forwards for tax purposes and, accordingly, this increased the effective tax rate for the year ended March 31, 2003 by approximately 12%.

Income tax expenses for the year ended March 31, 2002, was ¥4,926 million, representing an effective tax rate of 2.8%. The effective tax rate was significantly below our statutory tax rate of 42% mainly due to the

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following two reasons. First, the 2002 effective tax rate was affected by the change in accounting for PFG entities following the change in our PFG business structure. As discussed in Principal Finance Business below, on March 27, 2002, we ceased to control the PFG entities. As a result, we deconsolidated the PFG entities and recorded a corresponding gain on private equity investments of ¥232,472 million. There was no net tax effect related to this gain, and accordingly this reduced the effective tax rate for the year ended March 31, 2002 by approximately 25%. Second, the lower tax rate applicable to income of our foreign operations (mainly our U.K. operation which recorded a material gain on sale of certain PFG entities) reduced the effective tax rate by approximately 14%.

Income tax expense for the year ended March 31, 2001 was ¥98,762 million, representing an effective tax rate of 63.2%. The higher effective tax rate was due mainly to increase in valuation allowance for operating tax loss carry forwards (mainly for our U.S. operations), which increased the effective tax rate by approximately 19%.

We wrote off negative goodwill arising with respect to Nomura Asset Management Co., Ltd. a previous business combination upon adoption of SFAS No. 142 and recorded, as cumulative effect of accounting change, a gain of ¥109,799 million for the year ended March 31, 2003. For further information on this gain, see Note 3 to our consolidated financial statements included in this annual report.

Net income was ¥57,410 million for the year ended March 31, 2001, ¥168,046 million for the year ended March 31, 2002 and ¥119,913 for the year ended March 31, 2003. Our return on equity was 4.0% for the year ended March 31, 2001, 11.1% for the year ended March 31, 2002 and 7.4% for the year ended March 31, 2003.

Results by Business Segment

As discussed in Overview under Item 4.B of this annual report, our business segments are Domestic Retail, Global Wholesale and Asset Management. Gain (loss) on investment securities, corporate items and other financial adjustments are included as Other operating results outside our business segments in our segment information. Unrealized gain (loss) on investments in equity securities held for relationship purposes and the effects of consolidation and deconsolidation of the PFG entities and other private equity investee companies are classified as reconciling items outside our segment information. You should read the following segment information in conjunction with Item 4.B of this annual report and Note 16 to our consolidated financial statements included in this annual report. Reconciliation of our segment results of operations and consolidated financial statements is set forth in Note 16.

Domestic Retail

In Domestic Retail, we receive commissions and fees from investment consultation services which we provide mainly to individual customers in Japan. Additionally, we receive operational fees from asset management companies in connection with the administration services of investment trust certificates that we distribute. We also receive agent commissions from insurance companies for the variable annuity insurance products we sell as an agent.

Operating Results of Domestic Retail

	Year Ended March 31,			
	2001	2002	2003	
	(yen amounts in millions; dollar amounts in millions)			
Non-interest revenues	¥ 260,193	¥ 226,156	¥ 246,938	$ 2,091
Net interest revenue	6,236	2,949	2,313	20
Net revenue	266,429	229,105	249,251	2,111
Non-interest expenses	215,638	208,621	213,562	1,808
Income before income taxes	¥ 50,791	¥ 20,484	¥ 35,689	$ 303

Net revenue for the year ended March 31, 2003 reached ¥249,251 million, increasing 9% from ¥229,105 million for the year ended March 31, 2002. This was due to the fact that the placements and sales of bonds increased, while commissions and fees in stock brokerage and asset management fees decreased. The decrease in commissions and fees in stock brokerage was caused by the decline in sales amounts mainly due to the downturn in the stock market. Additionally, the decrease in asset management fees was caused by decreases in the balances for Long-Term Bond Investment Trusts and also by decreases in trust fees due to a drop in distribution ratios for Long-Term Bond Investment Trusts, and decline in the balances for stock investment trusts due to the downturn in the stock market. These decreases in commissions and fees were offset by an increase in revenue reflecting the increase in the placements and sales of foreign bonds.

Net revenue decreased by 14% from ¥266,429 million for the year ended March 31, 2001 to ¥229,105 million for the year ended March 31, 2002, mainly due to decreases in commissions and asset management and portfolio service fees. Commissions revenue decreased mainly due to the decline of agency transaction volumes associated with stagnant equity markets in Japan. Asset management and portfolio service fees decreased mainly due to the redemption of the Medium-term Japanese Government Bond Fund in September 2001 and a decrease in the outstanding balances of stock investment trusts. However, increases in selling commissions from medium term notes and foreign currency bond partially offset this decrease.

Non-interest expenses for the year ended March 31, 2003 were ¥213,562 million, increasing 2% from ¥208,621 million for the year ended March 31, 2002 mainly due to increases in compensation and benefits. Non-interest expenses for the year ended March 31, 2002 were ¥208,621 million, decreasing 3% from ¥215,638 million for the year ended March 31, 2001, mainly due to declines in compensation and benefits.

Income before income taxes were ¥50,791 million for the year ended March 31, 2001, ¥20,484 million for the year ended March 31, 2002, and ¥35,689 million for the year ended March 31, 2003.

The graph below shows the revenue breakdown by instrument in terms of Domestic Retail non-interest revenues for the years ended March 31, 2001, 2002, and 2003.

As described above, equity commissions and asset management fees decreased for the year ended March 31, 2003. Such decreases were offset by an increase in revenue reflecting the increase in the placements and sales of foreign bonds. Of Domestic Retail non-interest revenues for the year ended March 31, 2002, 72% were composed of revenue for equities, investment trusts distribution, and asset management fees. However, this figure declined to 57% for the year ended March 31, 2003. On the other hand, revenue from bonds increased from 28% for the year ended March 31, 2002 to 40% for the year ended March 31, 2003, and the commissions for

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variable annuity insurance steadily increased to 3% for the year ended March 31, 2003. The decrease in revenue due to downturn of Japan stock markets and decline in our client assets were more than offset by the further progress in our value-added investment consultation services and diversification of our products.

Client assets

The following graph shows amounts and details regarding client assets relating to Domestic Retail at March 31, 2001, 2002, and 2003. Our client assets consist of customers assets, excluding assets of financial institutions, held in our custody, and assets relating to the variable annuity insurance products.

Client Assets

(Note) The data above includes assets relating to corporate employees investment plans and assets of regional corporations, excluding assets of financial institutions, in our custody, and assets relating to variable annuity insurance products. Accordingly, the data for previous year presented as Retail customer assets held in custody in the annual report for the year ended March 31, 2002, is shown as adjusted in the above graph. For each of the three years shown in the above graph, an insignificant portion of client assets was attributable to other instruments. Because of its insignificant size, this portion is not shown in the above graph. The amount of this portion was ¥0.05 trillion, ¥0.03 trillion and ¥0.22 trillion for the years ended March 31, 2001, 2002 and 2003, respectively.

Client assets declined by ¥1.9 trillion from ¥28.9 trillion at March 31, 2002 to ¥27.1 trillion at March 31, 2003, due to the declines in the balances of bond investment trusts and stock assets.

Due to declines in distribution ratios of Long-Term Bond Investment Trusts since April 2002, placements of those investment trusts have decreased. At the same time, cancellations of Long-Term Bond Investment Trusts have increased. Thus, the assets in respect of bond investment trusts decreased by ¥2.5 trillion from ¥8.4 trillion at March 31, 2002 to ¥5.9 trillion at March 31, 2003.

Also, due to a 28% drop of the Nikkei Stock Average based on the downturn of the stock market, equity assets decreased ¥1.6 trillion to ¥9.5 trillion at March 31, 2003 from ¥11.1 trillion at March 31, 2002.

On the other hand, due to continuing extremely low interest rates and growing needs for asset diversification, the needs regarding domestic and foreign bonds have been high, for both individuals or corporations. This has caused a steady expansion of bond assets held in custody. Bond assets held in custody increased by ¥1.7 trillion and reached ¥8.4 trillion at March 31, 2003, from ¥6.7 trillion at March 31, 2002.

Global Wholesale

In Global Wholesale, we earn fees, commissions and other revenues by providing sales and trading services, and investment banking services mainly to global institutional customers. In our sales and trading activities, we facilitate customer transactions and trade for our own account by market-making and trading fixed income and

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equity securities. We also provide a broad range of investment banking services, including underwriting and financial advisory services. Also, we conduct proprietary transactions, including arbitrage and principal finance transactions. Through March 27, 2002, our investments in PFG entities had been treated as private equity positions for business segment information purposes.

Operating Results of Global Wholesale

	Year Ended March 31,			
	2001	2002	2003	
	(yen amounts in millions; dollar amounts in millions)			
Non-interest revenues	¥ 487,644	¥ 385,430	¥ 196,675	$ 1,666
Net interest revenue	(24,839)	54,505	101,794	862
Net revenue	462,805	439,935	298,469	2,528
Non-interest expenses	210,062	248,657	207,436	1,757
Income before income taxes	¥ 252,743	¥ 191,278	¥ 91,033	$ 771

Net revenue was ¥462,805 million, ¥439,935 million and ¥298,469 million for the years ended March 31, 2001, 2002 and 2003, respectively.

Non-interest expenses were ¥210,062 million, ¥248,657 million and ¥207,436 million for the years ended March 31, 2001, 2002 and 2003, respectively.

As discussed in Overview under Item 4.B of this annual report, our Global Wholesale consists of four business lines: Fixed Income, Equity, Investment Banking and Merchant Banking.

Fixed Income

We cover fixed income related products, including government securities, agency securities, municipal securities, credit products, money market products, foreign exchange, asset backed securities and various derivatives products. Our strategy is to enhance customer-driven transactions and focus on maintaining our presence as a market leader in yen bond markets globally. We have enhanced our execution capabilities for trading in structured medium-term notes to meet strong demand from our high-net-worth clients and regional institutions in Domestic Retail.

The table below shows our market share of Japanese Government bond auctions and secondary bond trading, in terms of the principal amounts of bonds purchased, for the years indicated. Secondary bond trading refers to the trading of bonds originally issued in Japan in the over-the-counter market and on exchanges in Japan, but excludes *gensaki* and inter-dealer transactions.

	Year Ended March 31,		
	2001	2002	2003
Share in Japanese Government bond auctions	13%	15%	15%
Share in secondary bond trading	15%	15%	14%

Operating Results of Fixed Income

	Year Ended March 31,			
	2001	2002	2003	
	(yen amounts in millions; dollar amounts in millions)			
Net revenue	¥ 78,390	¥ 90,753	¥ 153,966	$ 1,304
Non-interest expenses	56,171	66,739	76,759	650
Income before income taxes	¥ 22,219	¥ 24,014	¥ 77,207	$ 654

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Net revenue increased by 70% from ¥90,753 million for the year ended March 31, 2002 to ¥153,966 million for the year ended March 31, 2003, mainly due to an increase in net gain on trading relating to medium-term notes and foreign currency bonds.

Net revenue increased by 16% from ¥78,390 million for the year ended March 31, 2001 to ¥90,753 million for the year ended March 31, 2002 due mainly to our success in trading in structured medium-term notes to meet strong demand from high-net-worth clients and regional institutions in Domestic Retail.

Non-interest expenses increased by 15% from ¥66,739 million for the year ended March 31, 2002 to ¥76,759 million for the year ended March 31, 2003 mainly due to increases in compensation and benefits in our overseas operations.

Non-interest expenses increased by 19% from ¥56,171 million for the year ended March 31, 2001 to ¥66,739 million for the year ended March 31, 2002 due mainly to an increase in compensation and benefits in our overseas operations.

Income before income taxes was ¥22,219 million for the year ended March 31, 2001, ¥24,014 million for the year ended March 31, 2002 and ¥77,207 million for the year ended March 31, 2003.

Equity

We focus on transactions by customer order flow as well as arbitrage trading. In recent years, many Japanese corporations which have needed to restructure their balance sheets have accelerated their liquidation of cross-shareholdings of other Japanese corporations. Utilizing our strong client base, solution providing services and execution capabilities, we have been handling large block orders resulting from such liquidations. We expect such restructuring to continue during the year ending March 31, 2004.

Furthermore, through our global sales network we often handle orders for baskets of various stocks from domestic and foreign large corporations and public pension funds. In the year ended March 31, 2003, we continued to strengthen our sales network into a global organization, which enables us to meet the 24-hour demand from large global customers through out Tokyo, London and New York offices.

The following table sets forth the closing level of the TOPIX and the Nikkei 225, which are both stock market indices in Japan, as of the dates indicated, and the percentage changes from the closing level at the date one year before:

Stock Market Index	**March 31,**

	2001	2002	2003
TOPIX	1,277.27	1,060.19	788.00
	-25.1%	-17.0%	-25.7%
Nikkei 225 (Nikkei Stock Average)	12,999.70	11,024.94	7,972.71
	-36.1%	-15.2%	-27.7%

In the Japanese stock market, in May 2002, the Nikkei Stock Average rallied to a high for the year in response to a bottoming out declaration announced by the Japanese government. However, since then the Nikkei Stock Average has generally declined as, among other factors, corporate accounting scandals undermined investors faith in corporate results in the United States, and concerns rose about the direction of the U.S. economy. Also, the Nikkei Stock Average dropped below the 8,000 mark in March 2003, due to the war in Iraq

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and the deterioration in supply and demand conditions. The following table shows our market share of Japanese equity trading for the years indicated.

	Year Ended March 31,		
Nomura s Share in	**2001**	**2002**	**2003**
Total equity trading market in Japan	11%	10%	9%
Off-floor/off-exchange equity trading market in Japan	21%	19%	20%

Operating Results of Equity

	Year Ended March 31,			
	2001	**2002**	**2003**	
	(yen amounts in millions; dollar amounts in millions)			
Net revenue	¥ 241,291	¥ 125,076	¥ 82,025	$ 694
Non-interest expenses	73,617	66,475	65,675	556
Income before income taxes	¥ 167,674	¥ 58,601	¥ 16,350	$ 138

Net revenue decreased by 34% from ¥125,076 million for the year ended March 31, 2002 to ¥82,025 million for the year ended March 31, 2003, mainly due to a decrease in customers order flow, such as block trading, resulting from a stagnant Japanese equity market.

Net revenue decreased by 48% from ¥241,291 million for the year ended March 31, 2001 to ¥125,076 million for the year ended March 31, 2002 due partially to a stagnant Japanese equity market. Also, the results for the year ended March 31, 2002 did not reflect block trades which took place in large numbers and volume in connection with the reorganization of the Nikkei Stock Average which occurred during the year ended March 31, 2001.

Non-interest expenses decreased by 1% from ¥66,475 million for the year ended March 31, 2002 to ¥65,675 million for the year ended March 31, 2003 mainly due to decreases in compensation and benefits in our overseas operations.

Non-interest expenses decreased by 10% from ¥73,617 million for the year ended March 31, 2001 to ¥66,475 million for the year ended March 31, 2002 due mainly to a decrease in performance-linked compensation overseas.

Income before income taxes was ¥167,674 million for the year ended March 31, 2001, ¥58,601 million for the year ended March 31, 2002, and ¥16,350 million for the year ended March 31, 2003.

Investment Banking

We offer various investment banking services, such as underwriting and advisory activities. We underwrite offerings of bonds, stocks, and other instruments in the major global markets of Japan, Europe, and the U.S. The following table shows changes in our market share in the underwriting market for bonds and stocks in Japan.

	Year Ended March 31,		
	2001	**2002**	**2003**
Share in Japanese IPOs	44%	36%	49%
Share in Japanese Public Offerings	16%	34%	44%
Share in Japanese Straight Bonds	22%	21%	23%
Share in Japanese Samurai Bonds	18%	38%	14%

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We have been enhancing our M&A and financial advisory capabilities for cross border deals as well as Japanese deals. According to Thomson Financial, the amounts of announced M&A deals which involved Japanese parties was $63,090 million and our share was 32.4% for the year ended December 31, 2002.

Merchant Banking

In October 2001, we established the Merchant Banking division within Global Wholesale, which combines our principal finance business in Japan and Europe, and other private equity businesses in Japan and Europe.

In our principal finance business, we generally take controlling stakes in mature businesses that have strong cash flows and offer potential for strong capital appreciation. We also take minority positions in start up type enterprises or investments through private equity funds in our private equity business. In Japan, Nomura Principal Finance Co., Ltd. has been developing private equity business in the field of buy-outs and corporate revitalization. The business has also been developed through investment in funds managed by the Nomura Research & Advisory Co., Ltd. in Japan. As explained in Principal Finance Group below, since March 27, 2002, our principal finance investments in Europe have been controlled and managed by Terra Firma.

In the financial analysis below, the operating results of merchant banking for the year ended March 31, 2001 are included in the investment banking category.

Operating Results of Investment Banking and Merchant Banking

	Year Ended March 31,			
	2001	2002	2003	
	(yen amounts in millions; dollar amounts in millions)			
Investment Banking:				
Net revenue	¥ 143,124	¥ 88,349	¥ 69,125	$ 585
Non-interest expenses	80,274	57,406	56,374	477
Income before income taxes	¥ 62,850	¥ 30,943	¥ 12,751	$ 108
Merchant Banking:				
Net revenue	¥	¥ 135,757	¥ (6,647)	$ (56)
Non-interest expenses		58,037	8,628	73
Income before income taxes	¥	¥ 77,720	¥ (15,275)	$ (129)

Investment Banking and Merchant Banking:				
Net revenue	¥ 143,124	¥ 224,106	¥ 62,478	$ 529
Non-interest expenses	80,274	115,443	65,002	550
Income before income taxes	¥ 62,850	¥ 108,663	¥ (2,524)	$ (21)

Net revenue for Investment Banking and Merchant Banking decreased by 72 % from ¥224,106 million for the year ended March 31, 2002 to ¥62,478 million for the year ended March 31, 2003. Net revenue in Merchant Banking was adversely impacted by the worldwide recession, which depressed asset values and limited exit opportunities. Investment gains realized through exit transactions in Japan were offset by a decline in the fair value of investments in Europe. Net revenue in Investment Banking decreased partly due to a decrease in order flow relating to the Japanese equity market. Public offering activities were stagnant during the year ended March 31, 2003 in the Japanese capital market, although the number of M&A deals increased.

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Net revenue increased by 57% from ¥143,124 million for the year ended March 31, 2001 to ¥224,106 million for the year ended March 31, 2002 mainly due to gains resulting from the disposal of assets held by Angel Street Capital Limited and Tutor Street Capital, both PFG entities, and securitization by Annington Holdings plc, another PFG entity, in Merchant Banking. These gains were offset by a decrease in net revenue in Investment Banking due mainly to a decrease in volume of public stock offerings in Japan reflecting the stagnant Japanese equity market.

Non-interest expenses decreased by 44% from ¥115,443 million for the year ended March 31, 2002 to ¥65,002 million for the year ended March 31, 2003 mainly due to decreases in compensation and benefits reflecting the performance of Merchant Banking.

Non-interest expenses increased by 44% from ¥80,274 million for the year ended March 31, 2001 to ¥115,443 million for the year ended March 31, 2002 mainly due to an increase in compensation and benefits reflecting the improved performance of Merchant Banking.

Income before income taxes was ¥62,850 million for the year ended March 31, 2001 and ¥108,663 million for the year ended March 31, 2002, and loss before income taxes was ¥2,524 million for the year ended March 31, 2003.

Asset Management

In Asset Management, principally conducted through Nomura Asset Management, we develop and manage investment trusts, which we and other financial institutions distribute, and earn management fees for the portfolio management of investment trusts. We also provide investment advisory services for pension funds and other institutional customers. Net revenues mainly consist of asset management and portfolio service fees. Additionally, in the defined contribution business, we receive commissions as a defined contribution pension plan administrator.

Operating Results of Asset Management

	Year Ended March 31,			
	2001	2002	2003	
	(yen amounts in millions; dollar amounts in millions)			
Non-interest revenues	¥ 58,237	¥ 46,840	¥ 34,828	$ 295
Net interest revenue	1,810	367	2,232	19
Net revenue	60,047	47,207	37,060	314
Non-interest expenses	39,537	37,031	33,866	287
Income before income taxes	¥ 20,510	¥ 10,176	¥ 3,194	$ 27

Net revenue decreased by 21% from ¥47,207 million for the year ended March 31,2002 to ¥37,060 million for the year ended March 31, 2003, due to decreases in asset management and portfolio service fees reflecting declines in the outstanding balance of our Long-term Bond Investment Trusts.

Net revenue decreased by 21% from ¥60,047 million for the year ended March 31, 2001 to ¥47,207 million for the year ended March 31, 2002, mainly due to decreases in asset management and portfolio service fees caused primarily by the redemption of the Medium-term Japanese Government Bond Fund in September 2001 and a decrease in the outstanding balance of stock investment trusts.

Non-interest expenses decreased by 9% from ¥37,031 million for the year ended March 31, 2002 to ¥33,866 million for the year ended March 31,2003 partly due to a decrease in compensation and benefits.

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Non-interest expenses decreased by 6% from ¥39,537 million for the year ended March 31, 2001 to ¥37,031 million for the year ended March 31, 2002, due partly to a decrease in performance-linked compensation in accordance with a decrease in its revenue.

Income before income taxes was ¥20,510 million for the year ended March 31, 2001, ¥10,176 million for the year ended March 31, 2002, and ¥3,194 million for the year ended March 31, 2003.

Nomura Asset Management s assets under management

	As of March 31,		
	2001	**2002**	**2003**
	(yen amounts in billions)		
Publicly offered stock investment trusts	¥ 2,645	¥ 3,199	¥ 3,168
Publicly offered bond investment trusts	13,331	10,388	7,253
Privately placed investment trusts	162	181	238
Investment advisory	4,904	4,447	3,578
Total	¥ 21,042	¥ 18,214	¥ 14,237

(Note) There are some assets that are calculated in a partially overlapping manner, due to funds of funds.

Asset Management Business of Nomura Asset Management

The assets under management of Nomura Asset Management accounted for ¥14.2 trillion for the year ended March 31, 2003, reflecting a decrease by ¥6.8 trillion from the year ended March 31, 2001, and a decrease of ¥4.0 trillion from the year ended March 31, 2002. As of March 31, 2003, the assets under management of Nomura Asset Management included publicly offered stock investment trusts in the aggregate principle amount of ¥3.2 trillion, publicly offered bond investment trusts in the aggregate principal amount of ¥7.3 trillion, privately placed investment trusts in the aggregate principal amount of ¥0.2 trillion, and investment advisory activities covering assets in the amount of ¥3.6 trillion.

With respect to publicly offered stock investment trusts, in a trend that started in the year ended March 31, 2002 and continued through the year ended March 31, 2003, a number of Exchange Traded Funds, to which Japanese financial institutions contributed stocks, in relation to their unwinding of cross-shareholdings, were established. Additionally, there was a substantial inflow of customer assets into foreign bond investment trusts, which are classified as stock investment trusts in Japan. During the year ended March 31, 2003, the Nikkei Stock Average dropped to ¥7,972 at year end from ¥11,024 at the beginning of the year, representing a decline of about 28%.

As a result, the total net assets of stock investment trusts managed by Nomura Asset Management as of March 31, 2003 amounted to ¥3,168 billion, representing ¥30 billion, or about 1%, a decrease from ¥3,199 billion as of March 31, 2002. In addition, during the year ended March 31, 2003, some of our major clients terminated investment advisory contracts with Nomura Asset Management, and, as a result, investment advisory assets of Nomura Asset Management decreased to ¥3,578 billion as of March 31, 2003 from ¥4,447 billion as of March 31, 2002.

With respect to publicly offered bond investment trusts, net assets declined about ¥3 trillion in each of the years ended March 31, 2002 and 2003. In the year ended March 31, 2002, Nomura Asset Management experienced difficult business circumstances relating to Enron s bankruptcy in the United States in late 2001. In November 2001, Enron s bankruptcy prevented some asset management companies in Japan from keeping the unit price of their Money Management Funds, or MMFs, at the original investment value of ¥10,000. This triggered large withdrawals from MMFs, mainly by listed corporations and financial institutions, and has damaged the investment trusts industry in Japan, including other investment trust management companies,

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including Nomura Asset Management whose MMFs unit prices remained above the original investment value. Nomura Asset Management s MMFs decreased in terms of the principal amount by 54% from ¥3.9 trillion at the end of September 2001 to ¥1.8 trillion at the end of March 2002, and to ¥1.3 trillion at the end of March 2003. On January 18, 2002, the Investment Trusts Association of Japan announced new rules for MMFs. These new rules are intended to help the investment trusts industry regain investors confidence in MMFs. With respect to assets included in an investment trust, these rules specify limitations on the remaining maturity, average maturity and exposure in a single issuer, and minimum criteria on credit ratings to be obtained. Nomura Asset Management has introduced the new rules to the management and asset structures of its MMFs.

For the year ended March 31, 2003, the aggregate principal amount of MMFs decreased by ¥500 billion, representing a 26% change. Due to a change of the appraisal method for composite bonds and general declines in interest rates, the net assets for the publicly offered bond investment trusts, whose targeted distribution amounts dropped greatly, decreased by ¥2,269.5 billion from ¥6,299.5 billion at March 31, 2002 to ¥4,030.0 billion at March 31, 2003. At the same time, the net assets for publicly offered bond investment trusts decreased to ¥7.3 trillion as of March 31, 2003, compared with ¥10.4 trillion at March 31, 2002.

The following table shows Nomura Asset Management s share, in terms of net asset value, in the Japanese asset management market as of the dates indicated. Nomura Asset Management s market share in publicly offered investment trusts declined to 30% as of March 31, 2003 because of an overall increase in the market size of publicly offered stock investment trusts.

The share of Nomura Asset Management in the fund market of Japan

	As of March 31,		
	2001	**2002**	**2003**
Total of publicly offered investment trusts	30%	33%	30%
Stock investment trusts	18%	21%	19%
Bond investment trusts	35%	40%	40%

Defined contribution pension plan in Japan

In connection with the defined contribution business in Japan, we offer various services. Among other things, we provide consulting and support for plan implementation (plan design), product selection, provision of information to subscribers, trust services, product supply, and investor education. As of the end of March 2003, there were 36 companies with respect to which we, through Nomura DC Planning Co., Ltd., were entrusted with the administration and management of defined contribution plans, and the total number of participants in those plans was about 160, 000 persons, which was the largest in Japan.

Other Operating Results

Other operating results include gain (loss) on investment securities, equity in earnings (losses) of affiliates, amortization of goodwill, gain (loss) on sales of tangible assets, other losses arising from long-lived assets and cancellation of company agreements, corporate items and other financial adjustments. We introduced certain methodologies to allocate Headquarters expenses creating global Headquarters account for our three business segments effective April 1, 2002 in order to better allocate the expenses based on benefits received by each segment. Had we not applied the current allocation methodologies for the year ended March 31, 2003, income before income taxes for Domestic Retail, Global Wholesale and Asset Management would have been ¥ 42,758 million, ¥ 99,734 million and ¥ 3,883 million, respectively. Please refer to Note 16 to the consolidated financial statements for a reconciliation of segment results to income statement information.

Loss before income taxes in other operating results decreased from ¥143,397 million for the year ended March 31, 2002 to ¥40,705 million for the year ended March 31, 2003.

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Loss before income taxes in other operating results increased from ¥60,455 million for the year ended March 31, 2001 to ¥143,397 million for the year ended March 31, 2002, mainly due to the impairment loss on our investment in JAFCO.

Among our listed affiliates that are accounted for under the equity method in our consolidated financial statements, JAFCO, which is in the business of investing in and enhancing the equity value of non-listed companies, currently comprises a substantial portion of the aggregate carrying amount of our equity investments. During the years ended March 31, 2002 and 2003, the overall decline in market conditions in Japan led to a decrease in revenues relating to JAFCO-backed initial public offerings, and this contributed to a substantial decline in JAFCO s share price. As a result, we determined that there was an other-than-temporary loss on our investment in JAFCO, and we recorded an impairment loss on that investment in the amount of ¥92,441 million and ¥21,165 million for the year ended March 31, 2002 and 2003, respectively. This loss is included in Non-interest expenses Other in our consolidated income statement for these years. For further information on these losses, see Note 14 to our consolidated financial statements included in this annual report.

Investments in Equity Securities Held for Relationship Purposes

In our consolidated financial statements, operating investments, which refer to investments in equity securities of companies not affiliated with us which we hold on a long-term basis in order to promote existing and potential business relationships, are treated in accordance with U.S. GAAP for broker-dealers they are recorded at market value, with unrealized gains and losses on these investments being recognized in income.

Our operating investments share the following characteristics, which are based on customary business practices in Japan:

- We primarily acquire operating investments for business relationship purposes, and not for generating capital gains. We do so in order to promote existing and potential business relationships with Japanese financial institutions and corporations.

- We generally hold these investments for the long term, commensurate with our longstanding business relationships with the investees. We generally do not dispose of these investments for the purpose of realizing short-term capital gains.

- We do not, as a matter of business practice, generally dispose of these investments without consulting with the investees beforehand. We have a business incentive in not disposing of an operating investment without such prior consultation, because an investee may interpret the disposal as an indication that we were placing less value on our business relationship with the investee and might, as retaliation, reduce or terminate the business it brings to us, thereby causing substantial harm to our business.

In pursuing our business strategy, we continuously review our business relationships with Japanese companies that are the investees of our operating investments.

In light of the characteristics of our operating investments as explained above, we do not include the unrealized profit/ (loss) on these investments in our segment information.

Effect of Consolidation/Deconsolidation of the PFG Entities

Prior to March 27, 2002, under U.S. GAAP, the PFG entities financial position and results of operations were included in our consolidated financial statements because of our controlling financial interests in the PFG entities. We held controlling financial interests in each of the PFG entities through warrants, which enabled us to purchase equity interests in them. As described in Principal Finance Group below, on March 27, 2002, we contributed most of our interests in certain of the PFG entities to Terra Firma Capital Partners I (TFCPI), a limited partnership involved in the private equity business, in exchange for a limited partnership interest. The general partner of the limited partnership assumed control of these investments, together with one other PFG entity, Annington, which was not transferred to the partnership. Accordingly, we ceased consolidating the PFG entities at that time. The effects of consolidation and deconsolidation of the PFG entities are reflected in our consolidated financial statements but not in our segment information. This is because we view and treat our PFG businesses as private equity investments and because we manage these businesses based on management s estimate of fair value. Our financial exposure is limited to the fair value of our direct investments. For a further explanation of this accounting treatment, see Note 16 to our consolidated financial statements included in this annual report.

Summary of Regional Contribution

For a summary of our net revenue, income before income taxes and identifiable assets by geographic region, see Note 16 to our consolidated financial statements included in this annual report.

Regulatory Capital Requirements

Many of our business activities are subjected to statutory capital requirements, including those of Japan, the United Kingdom, the United States and certain other countries in which we operate.

In Japan, we are subject to the capital adequacy rule of the Financial Services Agency. This rule requires the maintenance of a capital adequacy ratio of not less than 120%. The calculation of a capital adequacy ratio is described in Regulatory Capital Rules *Japan* under Item 4.B of this annual report. As of March 31, 2003, we had a capital adequacy ratio of 260.2% compared to 231.6% as of March 31, 2002.

Some of our subsidiaries are subject to various regulatory requirements that may limit cash dividends and advances to the Japanese parent company and that may establish minimum capital requirements. These subsidiaries are in compliance with all applicable regulatory capital adequacy requirements.

Translation Exposure

A significant portion of our business is conducted in currencies other than yen most significantly, U.S. dollars, British pounds and Euros. In foreign countries where we operate, our business is conducted in the currencies of those countries. We prepare financial statements of our foreign operations in their functional currencies prior to consolidation into our financial statements. Translation exposure is the risk arising from the effect of fluctuations in exchange rates on the net assets of our foreign subsidiaries. Translation exposure is not recognized in our statements of operations unless and until we dispose of, or liquidate, the relevant foreign subsidiary, which historically has not occurred, and which we do not expect to occur, frequently.

Critical Accounting Policies

Use of estimates

In presenting the consolidated financial statements, management makes estimates regarding certain financial instrument and investment valuations, the outcome of litigation, the recovery of the carrying value of goodwill, the allowance for loan losses, the realization of deferred tax assets and other matters that affect the reported amounts of assets and liabilities as well as the disclosure in the financial statements. Estimates, by their nature, are based on judgment and available information. Therefore, actual results may differ from estimates, which could have a material impact on the consolidated financial statements and, it is possible that such adjustments could occur in the near term.

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Fair value for financial instruments

Fair value of financial instruments is based on quoted market prices, broker or dealer quotations or an estimation by management of the amounts expected to be realized upon settlement under current market conditions. Fair value of exchange-traded securities and certain exchange-traded derivative contracts are generally based on quoted market prices or broker/dealer quotations. Where quoted market prices or broker/dealer quotations are not available, prices for similar instruments or valuation pricing models are considered in the determination of fair value. Valuation pricing models consider time value, volatility and other statistical measurements for the relevant instruments or for instruments with similar characteristics. These models also incorporate adjustments relating to the administrative costs of servicing future cash flow and market liquidity adjustments. These adjustments are fundamental components of the fair value calculation process.

Trading assets and trading liabilities, including derivative contracts, are recorded at fair value, and unrealized gains and losses are reflected in trading revenues. Fair values are based on quoted market prices or broker/dealer quotations where possible. If quoted market prices or broker/dealer quotations are not available or if the liquidation of our positions would reasonably be expected to impact quoted market prices, fair value is determined based on valuation pricing models that take into consideration time value and volatility factors underlying the financial instrument.

Valuation pricing models and their underlying assumptions impact the amount and timing of unrealized gains and losses recognized, and the use of different valuation models or underlying assumptions could produce different financial results. Changes in the fixed income, equity, foreign exchange and commodity markets will impact our estimates of fair value in the future, potentially affecting trading revenues. To the extent financial contracts have extended maturity dates, our estimates of fair value may involve greater subjectivity due to the lack of transparent market data available upon which to base underlying modeling assumptions.

In determining fair value, we set forth five categories of financial instruments as described below:

	Billions of yen		Translation into billions of U.S. dollars	
	March 31, 2003			
	Assets	Liabilities	Assets	Liabilities
Trading securities, including securities pledged as collateral(1)	¥ 8,474	¥ 3,375	$ 72	$ 29
Non-trading debt securities	270		2	
Investments in equity securities	138		1	
Private equity investments	271		2	
Derivative contracts[(1)]	541	514	5	4

(1) Securities options are classified as derivative contracts.

The following table sets forth the valuation of trading securities, non-trading debt securities, investment in equity securities and private equity investments by level of price transparency:

	Billions of yen		
	March 31, 2003		
	With price transparency	With little or no price transparency	Total
Trading securities inventory	¥ 7,883	¥ 591	¥ 8,474
Trading securities sold but not yet purchased	3,366	9	3,375
Non-trading debt securities	94	176	270
Investments in equity securities	93	45	138
Private equity investments		271	271

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The fair value of trading securities, non-trading debt securities, and investments in equity securities is generally obtained from quoted market prices or broker/dealer quotations with reasonable level of price transparency, or priced with reference to comparable financial instruments whose parameters can be directly observed.

The types of instruments valued in this manner include listed equity, major sovereign government and agency bonds, supernational bonds, municipal bonds, corporates, liquid mortgage backed securities and money market instruments.

Certain trading and non-trading debt securities are less liquid and priced using management s best estimate of fair value. These type of instruments include non-investment grade and distressed corporates debt, emerging market debts, mortgage and commercial loans, mortgage derivatives, non-investment grade peace of structured notes, and notes with embedded exotic option.

Private equity investments

We had been actively involved in the private equity business, through our U.K. based Principal Finance Group (PFG). As a result of a review to determine the optimum structure to run this business going forward, on March 27, 2002. We restructured PFG and, as a result, contributed our investments in certain of our remaining investee companies (the PFG entities) to Terra Firma Capital Partners I (TFCP I), a limited partnership which is engaged in the private equity business. As a result of our contribution of our investments in the PFG entities to TFCP I in exchange for a limited partnership interest, Terra Firma Investments (GP) Limited (Terra Firma), the general partner of TFCP I, which is independent of us, assumed control of these investments, together with one investment, Annington Holdings plc, which was not transferred to the partnership. Accordingly we ceased consolidating the investments on such date. Terra Firma Capital Partners Limited (TFCPL) has been established by some of our former employees to advise Terra Firma in relation to the management of TFCP I as well as to raise and to invest of additional capital obtained from third parties. With effect from March 27, 2002, we account for our investments managed and controlled by Terra Firma (collectively referred to as the Terra Firma investments) at fair value in accordance with accounting practice for broker-dealers.

As stated above, the investments controlled and managed by Terra Firma are carried at fair value. Corresponding changes in the fair value of these investments are included in gains/losses on private equity investments. The determination of fair value is significant to our financial condition and results of operations and requires management to make judgements based on complex factors.

As the underlying investments are in non-publicly listed companies, there are no external quoted market prices available. As a result, our Risk Management unit meets with TFCPL and the management teams of the underlying investments to discuss, among other things, Terra Firma s valuation of the investments, current business performance, actual versus budgeted results, revised full year projections and the status of major initiatives to boost sales, or reduce operating costs. Terra Firma also provides regular performance reports for each investment. The information obtained from these meetings and reports, together with comparisons made to similar quoted businesses and, in the case of any property based investments, input from external advisors allows us to produce our own estimates of the fair value for each underlying investment.

In estimating fair value, we estimate the price that would be obtained between a willing buyer and a willing seller dealing at arm s length.

Valuations are typically based on projected future cash flows to be generated from the underlying investment, discounted at a weighted average cost of capital. The cost of capital is estimated, where possible, by reference to quoted comparables with a similar risk profile. Cash flows are derived from the bottom up, with detailed projections prepared by management of each respective investment. These projections will reflect the business drivers specific to each investment.

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Examples of the factors affecting the business valuations are set out in the table below:

Sector	Valuation Factors
Hotels	Room rate achieved and occupancy, which in turn are driven by business and leisure travel. Revenue from conference facilities and food and beverage sales. Staff and other costs and central overheads.
Real Estate	Sales values, leaseback and open market rental values achieved, driven by underlying demand for housing in both the homeowner and rental markets. Property holding and refurbishment and head office costs. Availability and cost of finance.
Consumer Finance	Number of rental agreements outstanding, average revenue per rental agreement (taking into account arrears), rental acquisition costs, rental maintenance costs, as well as overheads and head office costs.
Retail	Market share, changes in market size, underlying trends in consumer behavior. Gross margin and operating costs, including outlet overheads and head office costs.
Services	Contract terms negotiated at beginning of contract. Initial contract set up costs and capital expenditure. Ongoing servicing costs, including staff costs and central overheads. Additional contracts and additional non-contracted works. Availability and cost of finance.

Where possible, these valuations are compared with price/earnings data for comparable quoted companies or recent market price data for comparable transactions. Any significant differences are analyzed and consideration given to whether this analysis indicates an adjustment to the Discounted Cash Flow valuation is required. While it is likely that certain potential purchasers may have special interests in the relevant investments that would allow them to justify a premium price, such as synergy or strategic benefits, no such premium has been included within the valuation models. Conversely, no discounts have been taken for the fact that there may only be a limited number of potential purchasers of the investments. These valuations are then stress tested to assess the impact of particular risk factors. Examples of such stress tests include:

- Stressing exit assumptions, either by altering the timing or the exit multiple used. In particular, using exit multiples in line with 5-year lows of trading multiples for similar companies are considered

- Stressing growth assumptions, to assume lower growth. Where possible, the impact of a mild recession is considered

- Removing or curtailing any assumptions about increases in operating margins.

An assessment of the results of the fair value exercise and the stress tests allows the final estimated valuation to be established. The fair value of Terra Firma investments represents the sum of the fair values of the individual investments less any performance bonuses that may be payable, either to the management team of a particular business or to Terra Firma.

For recently acquired investments (i.e., those acquired within 12 months), fair value is equal to acquisition cost unless there has been a material change to the operating performance of the specific investment or a significant event has occurred in the marketplace.

The estimated fair value of Terra Firma investments was ¥265,714 million and ¥265,742 million at March 31, 2002 and 2003, respectively. Of these amounts, the respective percentages at March 31, 2002 and 2003 were 47% and 64% for Real Estate, 9% and 6% for the Services Sector and the remaining balance of 44% and 30% for the Consumer Businesses, which include Retail, Consumer Finance and Hotels.

The use of different valuation models, methodologies or assumptions could produce materially different estimates of fair value, which could materially affect the results of operations or statement of financial condition.

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Derivative contracts

Derivative contracts consist of listed derivatives and OTC derivatives. The fair values of listed derivatives are generally determined from quoted market prices. OTC derivatives are valued using valuation models. Listed derivative and OTC derivative assets and liabilities are shown below:

	Billions of yen		Translation into billions of U.S. dollars	
	March 31, 2003			
	Assets	Liabilities	Assets	Liabilities
Listed derivatives	¥ 21	¥ 14	$ 0	$ 0
OTC derivatives	520	500	5	4
	¥ 541	¥ 514	$ 5	$ 4

The fair values of OTC derivative assets and liabilities at March 31, 2003 by remaining contractual maturity are shown below:

	Billions of yen						
	Years to Maturity						
	Less than 1 year	1 to 3 years	3 to 5 years	5 to 7 years	More than 7 years	Cross-maturity netting (1)	Total fair value
OTC derivative assets	¥ 133	¥ 307	¥ 241	¥ 229	¥ 683	¥ (1,073)	¥ 520
OTC derivative liabilities	102	259	258	213	776	(1,108)	500

Note: (1) This item represents the netting of payable balances with receivable balances for the same counterparty across maturity band categories. Receivable and payable balances with the same counterparty in the same maturity category, however, are netted within the maturity category.

Fair values for OTC derivatives are estimated using price models based on net present value of estimated future cash flows. Price transparency for OTC derivative varies depending on product type, maturity and the complexity of the contract. Foreign exchange forwards, interest rate swaps and cross currency swaps in major currencies are the types of derivative contracts with high degree of price transparency as they are valued with model with readily observable market parameters. Long dated foreign exchange options, credit basket default swaps, swaps with multiple call feature and other complex derivatives often valued with correlations and volatilities that needs some estimates and judgment, and they are less transparent in pricing.

Transfers of financial assets

We account for the transfer of financial assets in accordance with Statement of Financial Accounting Standards (SFAS) No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities (SFAS 140). This statement requires that we account for the transfer of financial assets, occurring after March 31, 2001, as a sale when we relinquished control over the asset. SFAS 140 deems control to be relinquished when the following conditions are met: (a) the assets have been isolated from the transferor (even in bankruptcy or other receivership), (b) the transferee has the right to pledge or exchange the assets received and (c) the transferor has not maintained effective control over the transferred assets. In connection with its securitization activities, we utilize special purposes entities principally for (but not limited to) the securitization of commercial and residential mortgages, home equity loans, government and corporate bonds, and lease and trade receivables. We derecognized financial assets transferred in securitizations provided that control over such assets has effectively been relinquished.

We have historically used special purpose entities or, SPE vehicles, as conduits and have generally not retained a financial interest in the asset securitizations. In conduit transactions, we serve as the administrator.

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Conduits provide clients with a way to access liquidity in the commercial paper markets by allowing clients to sell assets to the conduit, which in return issues commercial paper to fund the purchases. The commercial paper issued by the conduits is supported with sufficient collateral and other credit enhancements to receive at least an A-1 or P-1 rating. We may obtain an interest in the financial assets in the future, which may include residual interests in the special purpose entities established to facilitate the securitization. Any such interests would be included in *Securities inventory* within our balance sheet. We record our securities inventory, including such interests, at fair value with any changes in fair value included in revenues.

Accounting Developments

In June 2002, the FASB issued SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities. The statement specifies the accounting for certain employee termination benefits, contract termination costs and costs to consolidate facilities or relocate employees and is effective for exit and disposal activities initiated after December 31, 2002. The implementation of SFAS No. 146 did not have a material impact on our financial condition or results of operations for the year ended March 31, 2003.

In November 2002, the FASB issued FIN No. 45, Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others. FIN No. 45 specifies the disclosures to be made about obligations under certain issued guarantees and requires a liability to be recognized for the fair value of a guarantee obligation. The recognition and measurement provisions of the interpretation apply prospectively to guarantees issued or amended after December 31, 2002. The disclosure provisions are effective with our year ended March 31, 2003. The implementation of FIN No. 45 did not have a material impact on our financial condition or results of operations for the year ended March 31, 2003.

In January 2003, the FASB released FIN No. 46, which clarifies when an enterprise should consolidate an entity that meets the definition of a variable interest entity, or a VIE. A VIE is an entity in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties, and may include many types of SPEs. FIN No. 46 requires that an enterprise shall consolidate a VIE if that enterprise has a variable interest that will absorb a majority of the VIE s expected losses, receive a majority of the VIE s expected residual returns, or both. FIN No. 46 is effective immediately for newly created VIEs after January 31, 2003. The effective date for VIEs that existed before February 1, 2003 is July 1, 2003.

With respect to certain VIEs created before February 1, 2003, we believe that it is reasonably possible that we will either be required to disclose additional information about such entities in which we hold a significant variable interest or of which we will be the primary beneficiary as of July 1, 2003. At March 31, 2003, in connection with our Global Wholesale business, the aggregate size of these entities in which our interest is either significant or of which we could be deemed to be the primary beneficiary was ¥818 billion ($7 billion), of which ¥271 billion ($2 billion) is already recorded on the consolidated balance sheet at that date. Our variable interests associated with these entities, primarily the Terra Firma investments, financial asset-backed securitizations, credit-linked notes, and collateralized debt and loan obligation entities, are ¥271 billion ($2 billion), which represents our maximum exposure to loss at March 31, 2003. Our variable interests of ¥271 billion ($2 billion) are already recorded on the consolidated balance sheet at that date.

It is reasonably possible that, as a result of consolidating certain entities that are not currently consolidated, FIN No. 46 could have a material impact on our consolidated financial statements in the future, although adopting FIN No. 46 will not materially change our economic exposure with respect to these entities. This is especially true for the Terra Firma investments; should we conclude that FIN No. 46 applies to these investments and that either all, or some, require re-consolidation. See Principal Finance Group discussed below with respect to the impact of de-consolidation in March 2002.

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We purchase and sell interests in entities that may be deemed to be VIEs in our market-making capacity in the ordinary course of our Global Wholesale business. As a result of these activities, it is reasonably possible that such entities may be consolidated and deconsolidated at various points in time. Therefore, the variable interests referred to above may not be held by us at March 31, 2004. We are currently assessing the potential impact of adoption of FIN No. 46.

In April 2003, the FASB issued SFAS No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities . SFAS No. 149 amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No. 133. The new guidance amends SFAS No. 133 for decisions made as part of the Derivatives Implementation Group (DIG) process that effectively required amendments to SFAS No. 133, and decisions made in connection with other FASB projects dealing with financial instruments and in connection with implementation issues raised in relation to the application of the definition of a derivative and characteristics of a derivative that contains financing components. In addition, it clarifies when a derivative contains a financing component that warrants special reporting in the statement of cash flows. SFAS No. 149 is effective for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003. We are currently assessing the impact of SFAS No. 149 on the consolidated financial statements.

In May 2003, the FASB issued SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity . SFAS No. 150 requires an issuer to classify certain financial instruments with characteristics of both liabilities and equity as liabilities (or an asset in some circumstances). Many of those instruments were previously classified as equity. Under SFAS No. 150, certain financial instruments issued in the form of shares that are mandatorily redeemable, that embody an obligation to repurchase the issuer s equity shares, and that the issuer must or may settle by issuing a variable number of its equity shares, are classified as liabilities. SFAS 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. We are currently assessing the impact of SFAS No. 150 on the consolidated financial statements.

Principal Finance Group

Background

In the period from 1995 to March 2002, we made a series of 16 private equity investments in various businesses, for a total investment of ¥678 billion. We refer to this business as the Principal Finance Group, or PFG, business. The businesses in which we had invested, referred to as the PFG entities , are primarily located in the United Kingdom, Germany and the United States, and are in basic service industries with stable operating results and cash flows.

Examples of companies we have bought and sold in this area include: AT&T Capital Corporation, a U.S. leasing and commercial finance company; Angel Train Contracts, a privatized U.K. rolling stock company; William Hill, a major U.K. bookmaker; and Angel Street Capital Limited, a U.K. pub company. Current investments include: Le Grand Cap Limited, a U.K. pub company; Carmelite Capital Limited, a consumer rental company with operations primarily in Western Europe; Annington Holdings plc and Deutsche Annington Holdings Limited, residential property rental companies in the United Kingdom and Germany, respectively; and Thresher Wines Capital Limited, the largest specialist off-license retailer in the United Kingdom.

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PFG Portfolio

A summary of the principal operating PFG entities as of March 27, 2002, immediately prior to the reorganization described below, were as follows:

Name of Company	Activity	Location
Carmelite Capital Limited	Rental and sale of consumer Electronics	United Kingdom
Thresher Wines Capital Limited	Sale of beer, wine and spirits	United Kingdom
Annington Holdings plc	Investment in properties	United Kingdom
Deutsche Annington Holdings Limited	Investment in properties	Germany
Meridien Capital Limited	Hotels	United Kingdom

We invested in these businesses for capital appreciation purposes, which we expected to realize after a five to seven year holding period, although we exited some investments for significant returns in a shorter period. Value is generated through fundamentally changing strategy, hiring and empowering new management, and achieving operational efficiencies in each of the companies acquired.

Prior to the reorganization described below, for financial reporting purposes, the PFG entities financial position and results of operations were recorded using purchase accounting at the date of the acquisition and were consolidated in our consolidated financial statements because we had controlling financial interests in the PFG entities. We held these controlling financial interests through our holding of warrants to purchase equity interests in the PFG entities.

PFG Reorganization

On March 27, 2002, we contributed our interests in certain of the PFG entities to Terra Firma Capital Partners I (TFCPI), a limited partnership in exchange for a limited partnership interest. Terra Firma Investments (GP) Limited (Terra Firma), the general partner of TFCP I, which is independent of us, assumed control of these investments. Terra Firma also assumed control of one other PFG entity, Annington, via a discretionary management agreement. For all of these investments (referred to as Terra Firma investments), we assumed the role of a passive investor and we ceased consolidating the PFG entities at that time. On that date, we began accounting for our Terra Firma investments at fair value in accordance with the accounting practices for broker-dealers and include this investment in Private equity investments in our consolidated balance sheet. This accounting treatment is effective only for periods on and after March 27, 2002. Thus, our operating results for the year ending March 31, 2003 will not be directly comparable to prior years regarding the PFG entities.

We recognized revenue amounting to ¥232,472 million through the deconsolidation of the PFG entities. This gain is a result of the March 31,2002 estimated fair value exceeding the carrying value of the investment. The carrying value was the cost of the investment less book losses incurred during the period of ownership. In other words, the 2002 gain on deconsolidation is primarily the reversal of losses that had previously been consolidated. The fair value of our investments in Terra Firma investments shows their economic value which is a more meaningful representation of the risk we incur. Fair value is typically derived from projected future cash flows to be generated by the investment, discounted at its weighted average cost of capital and, in some cases, real estate property valuations received from independent valuation specialists as discussed in Critical Accounting Policies above. As of March 31, 2003, the estimated aggregate fair value of Terra Firma investments was ¥265,742 million.

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B. Liquidity and Capital Resources.

Liquidity

Cash Flow

Our cash flows are primarily related to the operating and financing activities undertaken in connection with our trading and market-making businesses. Following is summary information on consolidated cash flows for the year ended March 31, 2003:

	Year Ended March 31, 2003 (in billions)
Net cash provided by operating activities	¥ 34.1
Net income	119.9
Trading assets and private equity investments	(1,182.1)
Trading liabilities	1,242.3
Other, net	(146.0)
Net cash provided by investing activities	134.1
Decrease in non-trading debt securities, net	152.2
Other, net	(18.1)
Net cash used in financing activities	(24.6)
Increase in long-term borrowings, net	330.2
Decrease in short-term borrowings, net	(290.8)
Other, net	(64.0)
Effect of exchange rate changes	(9.0)
Net increase in cash and cash equivalents	¥ 134.6

Liquidity Objective

We maintain a highly liquid balance sheet comprised primarily of marketable securities matched with a liability structure that ensures that liquidity is available regardless of market conditions. We aim to withstand market shocks for periods lasting over one year without raising additional unsecured financing or forcing the liquidation of assets, although we may from time to time decide to sell assets in the course of normal business or for strategic purposes. Our management establishes our overall liquidity policies.

Liquidity Policy

In order to meet our liquidity objective, we have designed the following liquidity policies:

Ensure Appropriate Funding Mix. We aim to maintain enough long-term debt and equity to meet the cash capital requirements of all of our assets. Liquidity is measured by our ability in a stress condition to finance those assets using secured funding, including repurchase agreements and securities lending transactions. We finance the cash capital needs of our assets with long-term debt and equity, and we calculate such needs using conservative estimates of the assets secured borrowing power.

Consistent with the aim of maintaining an appropriate funding mix, we have reduced our reliance on short-term unsecured financing, thereby diminishing the effect of a potential liquidity event. As of March 31, 2003, our long-term unsecured financing totaled ¥1,955.4 billion, well over the short-term unsecured financing amount of ¥914.0 billion. For the most part, our long-term debt is issued on a variable rate basis, and is linked to short-term money market indices to avoid interest rate risk arising from a change in the shape of the yield curve. All of our structured notes are hedged with financial instruments in order to realize a scheduled cash flow.

Maintain a Liquidity Portfolio. We aim to maintain a portfolio of cash and highly liquid securities that could be converted to cash through sale or pledge so that we could satisfy immediate liquidity requirements. As

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of March 31, 2003, we maintained a ¥1,629.1 billion liquidity portfolio that consisted of cash, cash equivalents and government securities, mostly denominated in Japanese yen and U.S. dollar, as shown in the table below:

	March 31, 2003
	(in billions)
Liquidity Portfolio	¥ 1,629.1
Cash, Cash Equivalent and Deposits	913.8
Overnight Call Loans	113.6
Government Securities	601.8
Net Liquidity Value of Other Unencumbered Assets	1,085.3

We have structured our liquidity portfolio under the assumption that in some instances legal and regulatory requirements may restrict the flow of funds between entities in our consolidated group, and that funds or securities may not be freely transferable from a subsidiary to the parent company. The cost of and availability to a company of unsecured funding generally are dependent on credit ratings and could be adversely affected by a debt rating downgrade or deterioration in certain of the company s financial ratios or other measures of financial performance. For example, cost of issuing commercial paper may rise due to a downgrade of our short-term debt ratings. The structuring of our liquidity portfolio hence takes into consideration the following:

- upcoming maturities of unsecured debt,
- potential buy backs of our outstanding debt,
- collateral outflows related to derivatives transactions,
- market halt due to a large-scale disaster, and
- difficulty in issuing new debt due to downgrade of our short-term and or long-term debt ratings.

As of March 31, 2003, the aggregate value of the liquidity portfolio and the estimated net liquidity value of other unencumbered assets was ¥2,714.4 billion, which represented 297% of our total short-term unsecured financing.

Diversify Funding Sources. We seek to reduce refinancing risk by maintaining well-diversified sources of unsecured funding. We diversify funding by product and market. We benefit by distributing a significant portion of our liabilities through our own sales force to a large diversified global client base.

As of March 31, 2003, our unsecured funding sources were as follows:

	March 31, 2003	
	(yen amounts in billions)	
Short-Term Unsecured Debt Total[1]	¥ 914.0	20.3%
Short-Term Bank Borrowing	117.1	
Other Loans	15.8	
Commercial Paper	251.2	
Deposit at Banking Entities	233.5	
Certificate of Deposits	22.7	
Bonds and Notes maturing within one year	273.7	
Long-Term Unsecured Debt Total	1,955.4	43.3%
Long-Term Bank Borrowing	296.4	
Other Loans	155.4	
Bonds and Notes	1,503.6	
Equity	1,642.3	36.4%

(1) Short-Term Unsecured Debt does not include secured loan from Bank of Japan.

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Maintain Committed Bank Facilities. We maintain undrawn committed revolving credit facilities with a group of global banks in order to provide contingent financing sources. Almost all of these facilities have maturities of less than one year, so that the maturity dates of these facilities are spotted evenly in order to prevent having excessive maturities of facilities in one day or any given period. We do not believe that any of the covenant requirements in any of the facilities will impair our ability to obtain funding under the facilities. The undrawn portion of these facilities amounted to ¥921.4 billion as of March 31, 2003.

Reduce Refinancing Risk. In order to manage refinancing risk, we set limits for the amount of debt maturing each year and during any quarter. We maintain a detailed contingency funding plan that is updated periodically to assure ample liquidity in the event that our access to financing is impaired.

Credit Ratings

The cost and availability of unsecured funding generally are dependent on credit ratings. Our long-term and short-term debt were rated by several recognized credit rating agencies. As of March 31, 2003, the credit ratings of Nomura Holdings and Nomura Securities provided by such credit rating agencies were as follows:

	Short-term Debt	Senior Debt
Nomura Holdings, Inc.		
Standard & Poor s	A-2	BBB
Moody s Investors Service	P-2	Baa2
Rating and Investment Information, Inc.	a-1	A+
Japan Credit Rating Agency, Ltd.	Not rated	AA
Nomura Securities Co., Ltd.		
Standard & Poor s	A-2	BBB+
Moody s Investors Service	P-2	Baa1
Rating and Investment Information, Inc.	a-1	A+
Japan Credit Rating Agency, Ltd.	Not rated	AA

We believe that our credit ratings include the credit rating agencies assessment of the general operating environment, our positions in the markets in which we compete, reputation, movements and volatility of our earnings, risk management policies, liquidity and capital management. An adverse change in any of these factors could result in a reduction in our credit ratings, and that could, in turn, increase our borrowing costs and limit our access to the capital markets or require us to post additional collateral and permit counterparties to terminate transactions pursuant to certain of our contractual obligations.

Capital

Capital Adequacy

We aim to maintain sufficient capital at all times to withstand losses due to extreme market movements. Our senior management is responsible for implementing and enforcing capital policies. This includes the determination of our balance sheet size and required capital levels. We continuously review our equity capital base to ensure that it can support the economic risk inherent in our business. There are also regulatory requirements for minimum capital of entities that operate in regulated securities businesses.

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Our capital was ¥1,642.3 billion as of March 31, 2003 compared with ¥1,604.9 billion as of March 31, 2002. The following table sets forth our shareholders equity, total assets, adjusted assets and leverage ratios:

	March 31,	
	2002	2003
	(yen amounts in billions)	
Shareholders equity	¥ 1,604.9	¥ 1,642.3
Total assets	17,758.3	21,169.4
Adjusted assets(1)	11,908.4	13,585.4
Leverage ratio(2)	11.1x	12.9x
Adjusted leverage ratio(3)	7.4x	8.3x

Notes:

(1) Adjusted assets represent total assets less securities purchased under agreements to resell and the receivable for securities pledged as collateral.
(2) Leverage ratio equals total assets divided by shareholders equity.
(3) Adjusted leverage ratio equals adjusted assets divided by shareholders equity.

During the year ended March 31, 2003, we repurchased 22 million shares of our common stock. In April 2003, we repurchased additional 3 million shares. Between June 26, 2003, the date of our ordinary general meeting of shareholders in 2004, and the date of the next ordinary general meeting of shareholders, we are authorized to repurchase up to 100 million shares for up to ¥150 billion. See Rights of Our Shareholders Repurchase by Us of Shares under Item 10.B of this annual report.

Capital Policy

Capital adequacy is an important strategic objective of our financial management. We have devised a global risk management methodology that seeks to ensure our capital is adequate to cover the economic risks inherent to our businesses, including market risk, credit risk, event risk, and market liquidity risk. Under this methodology, we calculate the required capital levels of our businesses based on our trading strategies. To determine our aggregate required capital level, we use a portfolio methodology that is based on conservative diversification assumptions. Adequacy on a legal entity basis is driven by a combination of regional economic needs together with regulatory requirements and rating agency guidelines. We constantly review our capital base and our business mix to ensure it delivers return on equity commensurate to our risk profile, the market circumstances, and our peer group.

Contractual Obligations, Contingent Liabilities and Commitments

In connection with our operating activities, we enter into certain contractual obligations, contingent liabilities and commitments. The following table shows our significant contractual obligations, contingent liabilities and commitments, which may require future payments at March 31, 2003:

	Total contractual amount	Years to Maturity				Cross maturity netting(2)
		Less than 1 year	1 to 3 years	4 to 5 years	More than 5 years	
	(in millions)					
Long-term debt	¥ 2,269,370	¥ 313,933	¥ 433,138	¥ 400,694	¥ 1,121,605	¥
Operating leases	34,269	5,344	8,324	6,671	13,930	
Commitments to extend credit and note issuance facilities	218,862	44,663	129,779	1,082	43,338	
Derivative contracts(1)	513,905	114,155	260,296	258,298	988,783	(1,107,627)
Standby letters of credit and other guarantees	49,449	49,209			240	

Notes:

(1) Represents the liability balance of derivative contracts at March 31, 2003. Securities options are classified as derivative contracts.

(2) This item represents netting of payable balances with receivable balances for the same counterparty across maturity band categories. Receivable and payable balances with the same counterparty in the same maturity category, however, are net within the maturity category.

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At March 31, 2003, we have commitments to enter into resale and repurchase agreements of ¥1,957 billion ($ 17 billion) and ¥3,514 billion ($30 billion), respectively.

We have ¥28 billion ($0.2billion) of investment commitments in connection with our private equity and other merchant banking activities at March 31, 2003

C. Research and Development, Patents and Licenses, etc.

Not applicable.

D. Trend Information.

The information required by this item is set forth in Item 5.A of this annual report.

E. Off-Balance Sheet Arrangements.

Not applicable.

F. Tabular Disclosure of Contractual Obligations.

Not applicable.

Item 6. Directors and Senior Management and Employees.

A. Directors and Senior Management.

Directors

The following table provides information about Nomura s Directors as of June 26, 2003. With respect to the information under Business Experience below, some of the Directors changed their titles upon our adoption of the holding company structure on October 1, 2001 and the Committee System on June 26, 2003, as described in Item 6.C of this annual report.

Name **(Date of Birth)**	**Current Positions and Principal** **Positions outside the Company**	**Business Experience**	
Junichi Ujiie	Chairman of the Board of Directors	Nov. 1975	Joined Nomura
(Oct. 12, 1945)	Chairman of the Nomination Committee	Jun. 1990	Director
	Chairman of the Compensation Committee	Jun. 1995	Managing Director
	Senior Managing Director	May 1997	President & CEO
		Apr. 2003	Chairman
Nobuyuki Koga	Director	Apr. 1974	Joined Nomura
(Aug. 22, 1950)	President & Chief Executive Officer	Jun. 1995	Director
	Representative Executive Officer	Apr. 1999	Managing Director
	President & Chief Executive Officer and Director of Nomura Securities Co., Ltd.	Jun. 2000	Executive Vice President
		Apr. 2003	President & CEO
Hiroshi Toda	Director	Apr. 1975	Joined Nomura
(Sep. 12, 1951)	Deputy President & Chief Operating Officer	Jun. 1997	Director
	Representative Executive Officer	Jun. 2000	Executive Managing Director
	Deputy President & Chief Operating Officer and Director of Nomura Securities Co., Ltd.	Oct. 2001	Director
		Apr. 2003	Executive Vice President & COO
		Jun. 2003	Deputy President & COO
Kazutoshi Inano	Director	Apr. 1976	Joined Nomura
(Sep. 4, 1953)	Deputy President & Co-Chief Operating Officer	Jun. 1997	Director
	Representative Executive Officer	Jun. 2000	Executive Managing Director
	President & Chief Executive Officer and Director of Nomura Asset Management Co., Ltd.	Oct. 2001	Director
		Apr. 2003	Executive Vice President & Co-COO
		Jun. 2003	Deputy President & Co-COO

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Name (Date of Birth)	Current Positions and Principal Positions outside the Company	Business Experience	
Takashi Fujita	Director	Apr. 1971	Joined Nomura
(Jul. 30, 1948)	Director of Nomura Securities Co., Ltd.	Jun. 1996	Director
		Jun. 2000	Managing Director
		Jun. 2001	Statutory Auditor
		Sep. 2001	Retired from Statutory Auditor
		Oct. 2001	Statutory Auditor of Nomura Securities Co., Ltd. (currently, Director of Nomura Securities Co., Ltd.)
		Apr. 2003	Advisor
		Jun. 2003	Director
Shozo Kumano	Director	Apr. 1970	Joined Nomura
(Jul. 28, 1947)	Director of Nomura Asset Management Co., Ltd.	Jun. 1994	Director
		May 1997	Advisor
		Jun. 1997	Statutory Auditor
		Jun. 2000	Retired from Statutory Auditor
		Jun. 2000	Statutory Auditor of Nomura Real Estate Development Co., Ltd.
		Jun. 2002	Retired from Office of Nomura Real Estate Development Co., Ltd.
		Jun. 2002	Statutory Auditor of Nomura Asset Management Co., Ltd. (currently, Director of Nomura Asset Management Co., Ltd.)
		Apr. 2003	Advisor
		Jun. 2003	Director
Masaharu Shibata	Director	Jun. 1994	President & CEO of NGK Insulators, Ltd.
(Feb. 21, 1937)	Member of the Nomination Committee	Oct. 2001	Director
	Member of the Compensation Committee	Jun. 2002	Chairman & CEO of NGK Insulators, Ltd.
	Director of Nomura Securities Co., Ltd.		
	Chairman & CEO of NGK Insulators, Ltd.		
Hideaki Kubori	Director	Apr. 1998	Chairman of Hibiya Park Law Office
(Aug. 29, 1944)	Member of the Nomination Committee	Apr. 2001	President of Daini Tokyo Bar Association
	Member of the Compensation Committee	Oct. 2001	Director
	Director of Nomura Securities Co., Ltd. Chairman of Hibiya Park Law Office	Mar. 2002	Retired from President of Daini Tokyo Bar Association
Haruo Tsuji	Director	Jun. 1998	Corporate Advisor of Sharp Corporation
(Dec. 6, 1932)	Chairman of the Audit Committee	Jun. 2001	Statutory Auditor
		Jun. 2003	Retired from Statutory Auditor

	Director of Nomura Securities Co., Ltd.							
&nbs-		$	-					
Total Other Contractual Commitment	$	2,251	$	2,251	$ -	$ -	$ -	

(a) Includes the extension of Messrs. Gatoff's and Norbitz' employment agreements for which no non-renewal notices were provided within the required 180 days of December 31, 2009.

Inflationary Impact

We do not believe that general inflation has materially impacted earnings since 2006. However, since then, we have experienced significant cost increases for certain food products, distribution costs and utilities. Our commodity costs for beef have been very volatile since fiscal 2004. During the fiscal 2010 period, the market price of hot dogs was approximately 0.5% higher than during the fiscal 2009 period. During that same period, our cost of beef has been approximately 5.7% higher than the fiscal 2009 period. This disparity is due to the varying affects that the purchase commitments had on the fiscal 2010 period and fiscal 2009 period results, which lowered our costs by 0.8% and 5.7%, respectively. To date, the cost of hot dogs has not increased as rapidly as we experienced during the period May through September 2008, when the cost of hot dogs reached the highest level since the inception of our Branded Product Program. Consequently, the resulting benefit of the purchase commitment was not as significant during the fiscal 2010 period. Since January 2009, the cost of beef and beef trimmings has been relatively stable. However, we are unable to predict the future cost of our hot dogs and expect to experience price volatility for our beef products during fiscal 2010. During the fiscal 2010 period we experienced lower costs for corn oil and cheese which were partly offset by higher costs for potatoes. We may seek to enter into a purchase commitment for corn oil in the future. Additionally, we continue to experience the volatility in oil prices on our distribution costs for our food products and utility costs in our Company-owned restaurants.

From time to time, various Federal and New York State legislators have proposed changes to the minimum wage requirements. The Federal and New York State minimum wages were increased to $7.25 per hour, effective July 24, 2009. This increase was the final scheduled increase pursuant to existing legislation where our Company-owned restaurants are located. This wage increase is not expected to have a material impact on our results of operations or financial position as the vast majority of our employees are paid at a rate higher than the minimum wage. Although we only operate five Company-owned restaurants, we believe that significant increases in the minimum wage could have a significant financial impact on our financial results and the results of our franchisees. Continued increases in labor, food and other operating expenses could adversely affect our operations and those of the restaurant industry and we might have to further reconsider our pricing strategy as a means to offset reduced operating margins.

The Company's business, financial condition, operating results and cash flows can be impacted by a number of factors, including but not limited to those set forth above in "Management's Discussion and Analysis of Financial Condition and Results of Operations," any one of which could cause our actual results to vary materially from recent results or from our anticipated future results. For a discussion identifying additional risk factors and important factors that could cause actual results to differ materially from those anticipated, also see the discussions in "Forward-Looking Statements" and "Notes to Consolidated Financial Statements" in this Form 10-Q and "Risk Factors" in our Form 10-K for our fiscal year ended March 29, 2009.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Cash and Cash Equivalents

We have historically invested our cash and cash equivalents in short term, fixed rate, highly rated and highly liquid instruments which are reinvested when they mature throughout the year. Although our existing investments are not considered at risk with respect to changes in interest rates or markets for these instruments, our rate of return on short-term investments could be affected at the time of reinvestment as a result of intervening events. As of June 28, 2009, Nathans' cash and cash equivalents aggregated $9,011,000. Earnings on these cash and cash equivalents would increase or decrease by approximately $23,000 per annum for each 0.25% change in interest rates.

Marketable Securities

We have invested our marketable securities in intermediate term, fixed rate, highly rated and highly liquid instruments. These investments are subject to fluctuations in interest rates. As of June 28, 2009, the market value of Nathans' marketable securities aggregated $25,265,000. Interest income on these marketable securities would increase or decrease by approximately $63,000 per annum for each 0.25% change in interest rates. The following chart presents the hypothetical changes in the fair value of the marketable investment securities held at June 28, 2009 that are sensitive to interest rate fluctuations (in thousands):

	Valuation of securities Given an interest rate Decrease of X Basis points			Fair	Valuation of securities Given an interest rate Increase of X Basis points		
	(150BPS)	(100BPS)	(50BPS)	Value	+50BPS	+100BPS	+150BPS
Municipal notes and bonds	$ 26,399	$ 26,071	$ 25,692	$ 25,265	$ 24,817	$ 24,369	$ 23,928

Borrowings

The interest rate on our prior borrowings was generally determined based upon the prime rate and was subject to market fluctuation as the prime rate changed, as determined within each specific agreement. At June 28, 2009, we had no outstanding indebtedness. If we were to borrow money in the future, such borrowings would be based upon the then prevailing interest rates. We do not anticipate entering into interest rate swaps or other financial instruments to hedge our borrowings. Accordingly, we do not believe that fluctuations in interest rates would have a material impact on our financial results.

Commodity Costs

The cost of commodities is subject to market fluctuation. In January 2009, we entered a purchase commitment, as amended, to acquire 2,592,000 pounds of hot dogs at $1.685 per pound from April 2009 through September 2009. In January 2008, we entered into a purchase commitment to acquire approximately 1,785,000 pounds of hot dogs at $1.535 per pound from April 2008 through August 2008. During the fiscal 2010 period, the market price of hot dogs was approximately 0.5% higher than the fiscal 2009 period. However, our cost of beef was approximately 5.7% higher during the fiscal 2010 period than the fiscal 2009 period. This disparity is due to the varying effects that the purchase commitments had on the fiscal 2010 period and fiscal 2009 period results, which lowered our costs by 0.8% and 5.7%, respectively. We may attempt to enter into similar arrangements for hot dogs and other products in the future. With the exception of those commitments, we have not attempted to hedge against fluctuations in the prices of the commodities we purchase using future, forward, option or other instruments. As a result, we expect that the majority of our future commodities purchases will be subject to changes in the prices of such commodities. Generally, we have attempted to pass through permanent increases in our commodity prices to our customers, thereby reducing the impact of long-term increases on our financial results. A short-term increase or decrease of 10.0% in the cost of our food and paper products for the thirteen weeks ended June 28, 2009 would have increased or decreased our cost of sales by approximately $658,000.

Foreign Currencies

Foreign franchisees generally conduct business with us and make payments in United States dollars, reducing the risks inherent with changes in the values of foreign currencies. As a result, we have not purchased future contracts, options or other instruments to hedge against changes in values of foreign currencies and we do not believe fluctuations in the value of foreign currencies would have a material impact on our financial results.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer, Chief Operating Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as required by Exchange Act Rule 13a-15. Based on that evaluation, the Chief Executive Officer, Chief Operating Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective to ensure that the information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms and that such information is accumulated and communicated to our management, including our principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Controls

There were no changes in our internal controls over financial reporting that occurred during the thirteen weeks ended June 28, 2009 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Limitations on the Effectiveness of Controls

We believe that a control system, no matter how well designed and operated, cannot provide absolute assurance that the objectives of the control system are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected. Our disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives and our Chief Executive Officer, Chief Operating Officer and Chief Financial Officer have concluded that such controls and procedures are effective at the reasonable assurance level.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

We and our subsidiaries are from time to time involved in ordinary and routine litigation. Management presently believes that the ultimate outcome of such ordinary and routine litigation individually or in the aggregate, will not have a material adverse effect on our financial position, cash flows or results of operations. Nevertheless, litigation is subject to inherent uncertainties and unfavorable rulings could occur. An unfavorable ruling could include money damages and, in such event, could result in a material adverse impact on our results of operations for the period in which the ruling occurs.

On March 20, 2007, a personal injury lawsuit was initiated seeking unspecified damages against the Company's subtenant and the Company's master landlord at a leased property in Huntington, New York. The claim relates to damages suffered by an individual as a result of an alleged "trip and fall" on the sidewalk in front of the leased property, maintenance of which is the subtenant's responsibility. Although the Company was not named as a defendant in the lawsuit, under its master lease agreement the Company may have an obligation to indemnify the master landlord in connection with this claim. The Company did not maintain its own insurance on the property concerned at the time of the incident; however, the Company is named as an additional insured under its subtenant's liability policy. Accordingly, if the master landlord is found liable for damages and seeks indemnity from the Company, the Company believes that it would be entitled to coverage under the subtenant's insurance policy. Additionally, under the terms of the sublease, the subtenant is required to indemnify the Company, regardless of insurance coverage.

The Company is party to a License Agreement with SMG, Inc. ("SMG") dated as of February 28, 1994, as amended (the "License Agreement") pursuant to which: (i) SMG acts as the Company's exclusive licensee for the manufacture, distribution, marketing and sale of packaged Nathan's Famous frankfurter product at supermarkets, club stores and other retail outlets in the United States; and (ii) the Company has the right, but not the obligation, to require SMG to produce frankfurters for the Nathan's Famous restaurant system and Branded Product Program. On July 31, 2007, the Company provided notice to SMG that the Company has elected to terminate the License Agreement, effective July 31, 2008 (the "Termination Date"), due to SMG's breach of certain provisions of the License Agreement. SMG has disputed that a breach has occurred and has commenced, together with certain of its affiliates, an action in state court in Illinois seeking, among other things, a declaratory judgment that SMG did not breach the License Agreement. The Company filed its own action on August 2, 2007, in New York State court seeking a declaratory judgment that SMG has breached the License Agreement and that the Company has properly terminated the License Agreement. On January 23, 2008, the New York court granted SMG’s motion to dismiss the Company’s case in New York on the basis that the dispute was already the subject of a pending lawsuit in Illinois. The Company has answered SMG's complaint and asserted its own counterclaims which seek, among other things, a declaratory judgment that SMG did breach the License Agreement and that the Company has properly terminated the License Agreement. On July 31, 2008, SMG and Nathan’s entered into a Stipulation pursuant to which Nathan’s agreed that it would not effectuate the termination of the License Agreement on the grounds alleged in the present litigation until such litigation has been successfully adjudicated, and SMG agreed that in such event, Nathan’s shall have the option to require SMG to continue to perform under the License Agreement for an additional period of up to six months to ensure an orderly transition of the business to a new licensee/supplier. Each of the parties has moved for summary judgment in its favor.

On July 31, 2009, the Company was served with a class action complaint filed in the Superior Court of the State of New Jersey, Essex County (the "Complaint"). In addition to Nathan's Famous, Inc., the Complaint names as defendants Kraft Foods, Sara Lee Corporation, ConAgra Foods, Inc., and Marathon Enterprises, Inc. (and together with Nathan's Famous, Inc., the "Defendants"). The named class plaintiffs purport to represent consumers who have purchased processed meat products that were distributed and sold in New Jersey from July 22, 2003 through July 22,

2009. The Complaint alleges, among other things, that Defendants violated the New Jersey Consumer Fraud Act (N.J.S.A. 56:8-2) (the "Act") by omitting material information about their respective processed meat products for the purpose of inducing consumers to purchase the products. The Complaint seeks injunctive relief, attorneys' fees and costs incurred in bringing the lawsuit. The named plaintiffs are further seeking combined damages in the amount of $900.00. If a violation of the Act is found to have occurred, named plaintiffs are entitled to trebled damages in the combined amount of $2,700.00. The Company is presently evaluating its response to the Complaint; however, management believes that any liability will not have a material impact on the financial condition of the Company.

Item 1A. Risk Factors.

You should carefully consider the factors discussed in Part I, “Item 1A. Risk Factors” in the Annual Report on Form 10-K for the fiscal year ended March 29, 2009, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K are not the only risks facing Nathan's. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

ISSUER PURCHASES OF EQUITY SECURITIES

Period (A)	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans	(d) Maximum Number of Shares that May Yet Be Purchased Under the Plan
March 30, 2009 April 26, 2009	-0-	$ -	-0-	306,194
April 27, 2009 May 24, 2009	-0-	$ -	-0-	306,194
May 25, 2009 June 28, 2009	-0-	$ -	-0-	306,194
Total	-0-	$ -	-0-	306,194

A) Represents the Company's fiscal periods during the first quarter ended June 28, 2009.

On September 14, 2001, Nathan's was authorized to purchase up to 1,000,000 shares of its common stock. Pursuant to its first stock repurchase program, we repurchased 1,000,000 shares of common stock in open market transactions and a private transaction at a total cost of $3,670,000. On October 7, 2002, Nathan's was authorized to purchase up to 1,000,000 additional shares of its common stock. Nathan's concluded the second authorized stock repurchase program of 1,000,000 shares of common stock at a cost of approximately $5,416,000. On November 5, 2007, Nathan's Board of Directors authorized the purchase of up to an additional 500,000 shares of its common stock on behalf of the Company. On June 11, 2008, Nathan's and Mutual Securities, Inc. ("MSI") entered into an agreement (the "first 10b5-1 Agreement") pursuant to which MSI was authorized to purchase shares of the Company's common stock having a value of up to an aggregate $6 million. Purchases under the first 10b5-1 Agreement have been completed. On February 5, 2009, Nathan's and MSI entered into a second agreement (the "second 10b5-1 Agreement") pursuant to which MSI has been authorized to purchase shares of the Company's common stock, having a value of up to an aggregate $3.6 million, which purchases commenced on March 16, 2009. Both the first and the second 10b5-1 Agreements were adopted under the safe harbor provided by Rule 10b5-1 of the Securities Exchange Act of 1934 in order to assist the Company in implementing its previously announced stock repurchase plans, for the purchase of up to 500,000 shares. The first 10b5-1 plan was completed and the second 10b5-1 Agreement shall terminate no later than March 15, 2010.

Through June 28, 2009, Nathan's purchased a total of 2,693,806 shares of common stock at a cost of approximately $18,798,000 pursuant to its stock repurchase plans previously authorized by the Board of Directors. None of these repurchased shares were repurchased during the thirteen-week period ended June 28, 2009. On November 13, 2008, Nathan's Board of Directors authorized a fourth stock repurchase plan for the purchase of up to 500,000 shares of the Company's common stock, under which 193,806 shares were repurchased at a cost of $2,400,000 as of June 28, 2009.

On June 30, 2009, Nathan's Board of Directors authorized its fifth stock repurchase plan for the purchase of up to 500,000 shares of its common stock on behalf of the Company and the Company repurchased 238,129 shares of common stock at a cost of $3,015,000 in a privately- negotiated transaction with Prime Logic Capital, LLC.

After giving effect to the repurchase made on June 30, 2009, there are 306,194 and 261,871 shares remaining to be purchased pursuant to the fourth and fifth stock repurchase plans, respectively.

Purchases may be made from time to time, depending on market conditions, in open market or privately negotiated transactions, at prices deemed appropriate by management. There is no set time limit on the repurchases to be made under the fourth and fifth stock repurchase plans.

Item 6. Exhibits

3.1 Certificate of Incorporation. (Incorporated by reference to Exhibit 3.1 to Registration Statement on Form S-1 No. 33- 56976.)

3.2 Amendment to the Certificate of Incorporation, filed December 15, 1992. (Incorporated by reference to Exhibit 3.2 to Registration Statement on Form S-1 No. 33-56976.)

3.3 By-Laws, as amended. (Incorporated by reference to Exhibit 3.1 to Form 8-K dated November 1, 2006.)

4.1 Specimen Stock Certificate. (Incorporated by reference to Exhibit 4.1 to Registration Statement on Form S-1 No. 33-56976.)

4.2 Form of Rights Certificate. (Incorporated by reference to Exhibit A to Form 8-K dated June 6, 2008.)

4.3 Rights Agreement dated as of June 4, 2008 between Nathan's Famous, Inc. and American Stock Transfer and Trust Company. (Incorporated by reference to Exhibit 4.2 to Form 8-K dated June 6, 2008.)

10.1 *Stock Purchase Agreement dated June 30, 2009 among Nathan's Famous, Inc., Prime Logic Capital LLC and Cantor Fitzgerald & Co.

31.1 *Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 *Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 *Certification by Eric Gatoff, CEO, Nathan's Famous, Inc., pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 *Certification by Ronald G. DeVos, CFO, Nathan's Famous, Inc., pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

*Filed herewith.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

NATHAN'S FAMOUS, INC.

Date: August 7, 2009	By:	/s/Eric Gatoff Eric Gatoff Chief Executive Officer (Principal Executive Officer)
Date: August 7, 2009	By:	/s/Ronald G. DeVos Ronald G. DeVos Vice President - Finance and Chief Financial Officer (Principal Financial and Accounting Officer)

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Exhibit Index

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