

NOMURA



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NOMURA INTERNATIONAL PLC

YEAR ENDED 31 MARCH 2006

DIRECTORS' REPORT

The directors present their report and the financial statements for the year ended 31st March 2006.

REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENTS

Nomura International plc ("the Company") is the London based securities broker/dealer operating company within the Nomura Group headed by Nomura Holdings, Inc. The Company's activities include:

- Trading and sales in fixed income and equity products, including related derivatives;
- Investment banking services;
- Asset and principal finance business;
- Corporate finance and private equity.

The Company has a branch sales office in Spain and a representative office in Vienna.

The Company reported a loss on ordinary activities before tax of £149,937,000 in the financial year ending 31 March 2006.

We have characterised our year as being of two distinct halves. The first half produced disappointing results due to a combination of two factors in particular: investment in new business; and dislocation in the credit markets which negatively impacted our Global Markets division. The second half showed improved performance across all business areas. The turn around in the Japanese economy, with the shift from savings to investment, provided a platform for our European product development and origination efforts.

In December 2005 Nomura Europe Holdings plc., the Company's parent, acquired Code Securities, a sector specialist Investment Bank focussing exclusively on the Pharmaceutical, Biotech and Medical Technology sectors which offers a range of advisory, fundraising and broking services. The Company works closely with Code Securities to enhance capabilities in the sector.

We continued to focus on keeping a tight control of our infrastructure costs, whilst at the same time ensuring that we have the right level of human and capital resources to support our business development growth going forward.

These financial statements have been prepared on a company only basis and do not include the results and net assets of the Company's subsidiary undertakings.

Transactions and balances with the Company's related parties are set out in note 22 to the financial statements.

RISK MANAGEMENT

The Company manages market, operational and credit risk through the Risk Management Committee, which is chaired by the Chief Risk Officer. In addition, the Company manages conflicts issues, legal and reputational risk through dedicated committees. The Company uses a wide range of models and techniques to manage market risk, some of which are proprietary and others widely used in the market.

The principal risks facing the company and further risk management information are described in note 17 to the financial statements.

NOMURA INTERNATIONAL PLC**YEAR ENDED 31 MARCH 2006****DIRECTORS REPORT (CONTINUED)****EMPLOYEE MATTERS**

The Company's aim is to ensure each and every individual is shown respect, treated fairly and courteously and has equal access to further opportunity and reward based on contribution to the Company.

The Company operates an equal opportunities policy. The Company has taken great steps to ensure all employees are aware of their obligations in ensuring that the environment remains an atmosphere conducive to good working and high performance.

The Company is committed to taking positive action to promote equality of opportunity, which includes provision for disabled people and those who have become disabled while employed by the Company. The Company's recruitment, training and promotion procedures are all based on the requirements of a particular position.

Full internal communication and access to training and development opportunities support this philosophy.

The turnover and length of service of staff are respectively below and above our direct competitors. In the coming year it is intended to continue to invest in building our human capital by extending our graduate recruitment scheme to support the growth anticipated in investment banking and other areas, and by increasing our investment in learning and development activities both regionally and through international programmes.

ENVIRONMENT

As a group, Nomura is keen to follow environmental best practice guidelines and do what it can to reduce the Group's environmental impact.

Environmental policy is a key consideration in operating our premises. The transformation of Nomura House through the Tardis Project includes many initiatives that help us reduce energy consumption and manage the waste that we do create in the most efficient ways possible.

RESULTS AND DIVIDEND

The results for the year are set out on page 8.

No interim dividends were paid (2005: £nil). The directors do not recommend the payment of a final dividend (2005: £nil).

The loss transferred from reserves for the year amounted to £114,328,000 (2005: as restated £141,947,000).

FIXED ASSETS

Movements in fixed assets are shown in note 6 to the financial statements. Additions in the year relate to the ongoing refurbishment of the Company's main business premises.

NOMURA INTERNATIONAL PLC**YEAR ENDED 31 MARCH 2006****DIRECTORS REPORT (CONTINUED)****DIRECTORS AND THEIR INTERESTS**

The directors during all or part of the year were:

Yugo Ishida	Director (President from 1 st April 2005)
Hiromi Yamaji	Resigned as director 5 th April 2005
Lord Marshall of Knightsbridge	Chairman (Non-executive director)
Sir Peter Walters	Non-executive director
Masanori Itatani	Non-executive director
Masafumi Nakada	Non-executive director (appointed 11 th April 2005)
Akira Maruyama	Non-executive director (resigned 1 st April 2005)
David Benson	Executive director (appointed 30 th September 2005)

Yugo Ishida owns one share each in two subsidiaries, Nomura Nominees Limited and Nomura Gilts Limited.

DIRECTORS' INDEMNITIES

During the year the company had in force an indemnity provision in favour of one or more directors of Nomura Structured Holdings plc. against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 1985.

DONATIONS

No political donations were made during the year (2005: £nil). Charitable donations of £115,015 (2005: £98,200) have been made.

CREDITORS' PAYMENT POLICY

The Company does not follow any code or standard on payment practice with its suppliers but it is the policy of the Company to agree terms of payment when orders for goods or services are placed and to pay in accordance with those terms. Creditor days as at 31st March 2006 were 14 (2005: 14).

DISCLOSURE OF INFORMATION TO AUDITORS

The directors who were members of the board at the time of approving the directors' report are listed above. Having made enquiries of fellow directors and of the Company's auditors, each of these directors confirms that:

- to the best of each director's knowledge and belief, there is no information relevant to the preparation of their report of which the Company's auditors are unaware; and
- each director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Company's auditors are aware of that information.

NOMURA INTERNATIONAL PLC**YEAR ENDED 31 MARCH 2006****DIRECTORS REPORT (CONTINUED)****AUDITORS**

The Auditors, Ernst & Young LLP, have expressed their willingness to continue in office and a resolution re-appointing them as Auditors and authorising the Directors to determine their remuneration will be proposed at the Annual General Meeting.

BY ORDER OF THE BOARD

FERGUS H. SPEIGHT, SECRETARY

20th June 2006

NOMURA INTERNATIONAL PLC**YEAR ENDED 31 MARCH 2006****STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS**

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and United Kingdom Generally Accepted Accounting Practice.

Company law requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing these financial statements the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on a going concern basis, unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

NOMURA INTERNATIONAL PLC**YEAR ENDED 31 MARCH 2006****INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF NOMURA INTERNATIONAL PLC**

We have audited the company's financial statements for the year ended 31 March 2006, which comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, Reconciliation of Movement in Shareholders' Funds, Balance Sheet and the related notes 1 to 24. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors are responsible for preparing the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) as set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view, are properly prepared in accordance with the Companies Act 1985 and that information given in the Directors' Report is consistent with the financial statements.

We also report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

BASIS OF AUDIT OPINION

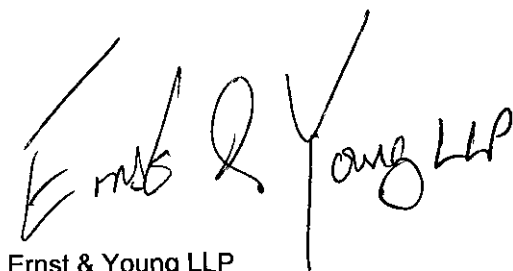
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

NOMURA INTERNATIONAL PLC**YEAR ENDED 31 MARCH 2006****INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF NOMURA INTERNATIONAL PLC
(CONTINUED)****OPINION**

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of affairs of the company as at 31 March 2006 and of its loss for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the financial statements.

A handwritten signature in black ink, appearing to read 'Ernst & Young LLP', is written over the printed name of the firm.

Ernst & Young LLP
Registered Auditor
London

20 June 2006

NOMURA INTERNATIONAL PLC

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 MARCH 2006

Note	<u>Year ended</u> <u>31 March 2006</u>		<u>As restated</u> <u>Year ended</u> <u>31 March 2005</u>	
	£'000	£'000	£'000	£'000
1(d), 2	TRADING PROFIT			
		330,174		230,719
1(e)	Interest receivable and similar income	1,146,940		777,208
1(e)	Interest payable and similar charges	(1,126,142)		(713,413)
4	Other finance charges	<u>(870)</u>		<u>(1,715)</u>
	Net interest receivable and similar income	19,928		62,080
	General and administrative expenses	<u>(471,564)</u>		<u>(398,782)</u>
	OPERATING LOSS	(121,462)		(105,983)
	Profit on disposal of fixed asset investments	-		4,938
	Dividends from fixed asset investments	-		650
	Interest payable on subordinated borrowings	<u>(28,475)</u>		<u>(4,161)</u>
3	LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION	(149,937)		(104,556)
5	Tax on loss on ordinary activities	<u>35,609</u>		<u>(37,391)</u>
	LOSS ON ORDINARY ACTIVITIES AFTER TAXATION	<u>(114,328)</u>		<u>(141,947)</u>

All profits and losses noted above are derived from continuing activities.

The notes on pages 11 to 37 form part of these financial statements.

NOMURA INTERNATIONAL PLC

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
FOR THE YEAR ENDED 31 MARCH 2006

	<u>2006</u> £'000	<u>As restated</u> <u>2005</u> £'000
Loss for the financial year	(114,328)	(141,947)
Actuarial (loss)/gain on pension scheme	(3,625)	17,034
Movement on deferred tax relating to pension liability	425	(5,191)
Movement on current tax transferred to deferred tax relating to pension liability	641	-
	<hr/>	<hr/>
Total recognised gains and losses relating to the year	(116,887)	(130,104)
Prior year adjustment – FRS17	(18,078)	
	<hr/>	
Total gains and losses recognised since last annual report	<u>(134,965)</u>	

RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS
FOR THE YEAR ENDED 31 MARCH 2006

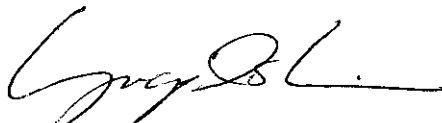
	<u>2006</u> £'000	<u>As restated</u> <u>2005</u> £'000
Loss for the financial year	(114,328)	(141,947)
Other recognised gains and losses relating to the year:		
Actuarial (loss)/gain on pension scheme	(3,625)	17,034
Movement on deferred tax relating to pension liability	425	(5,191)
Movement on current tax transferred to deferred tax relating to pension liability	641	-
New share capital subscribed	150,195	-
	<hr/>	<hr/>
Net addition to/(reduction of) shareholders' funds	33,308	(130,104)
Opening shareholders' funds as previously reported	749,513	890,350
Prior year adjustment – FRS 17	(18,078)	(28,811)
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Opening shareholders' funds as restated	731,435	861,539
	<hr/>	<hr/>
Closing shareholders' funds	<u>764,743</u>	<u>731,435</u>

The notes on pages 11 to 37 form part of these financial statements.

NOMURA INTERNATIONAL PLC

BALANCE SHEET - 31 MARCH 2006

Note		<u>2006</u> £'000	<u>2006</u> £'000	As restated <u>2005</u> £'000	As restated <u>2005</u> £'000
	FIXED ASSETS				
6	Tangible assets	64,102		61,927	
7	Investments	<u>9,448</u>		<u>9,448</u>	
			73,550		71,375
	CURRENT ASSETS				
8	Inventory - securities long positions and other financial instruments	18,412,311		16,066,990	
9	Debtors	49,193,446		32,851,161	
11	Investments - time deposits	2,626,872		1,905,340	
11	Cash at bank and in hand	<u>129,267</u>		<u>68,456</u>	
		70,361,896		50,891,947	
12	CREDITORS (amounts falling due within one year)	<u>(68,429,387)</u>		<u>(49,539,201)</u>	
	NET CURRENT ASSETS		1,932,509		1,352,746
	TOTAL ASSETS LESS CURRENT LIABILITIES		<u>2,006,059</u>		<u>1,424,121</u>
	CREDITORS (amounts falling due after more than one year)				
13	Subordinated debt		(1,218,380)		(625,738)
14	Provisions for liabilities and charges		(3,866)		(48,870)
4	Defined Benefit Liability		(19,070)		(18,078)
	NET ASSETS		<u>764,743</u>		<u>731,435</u>
	CAPITAL AND RESERVES				
15	Called up share capital		818,816		668,621
16	Capital redemption reserve		121,612		121,612
16	Profit and loss account		(175,685)		(58,798)
	SHAREHOLDERS' FUNDS - Equity		<u>764,743</u>		<u>731,435</u>

APPROVED BY THE BOARD ON: 20th June 2006


YUGO ISHIDA, DIRECTOR

The notes on pages 11 to 37 form part of these financial statements.

NOMURA INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2006

1. ACCOUNTING POLICIES

(a) Basis of Accounting

The financial statements have been prepared on a going concern basis and in accordance with applicable Accounting Standards under the *historical cost convention*, as modified by the inclusion of trading securities at market value as defined in Note g(i) below.

The company has taken advantage of the exemption contained within the Companies Act 1985 from having to prepare consolidated financial statements since it is a wholly owned subsidiary of Nomura Europe Holdings plc, a company registered in the UK. These financial statements have been prepared on a company only basis.

(b) Changes in Accounting Policy

During the year, the company has adopted FRS 17 'Retirement Benefits' and the presentation requirements of FRS 25 'Financial Instruments: Disclosure and Presentation'. The adoption of these standards represents a change in accounting policy and comparative figures have been accordingly restated in respect of FRS 17. As permitted by FRS 25, the company has elected not to restate comparative information affected by the adoption of this standard.

The effect of the change in accounting policy to adopt FRS 17 was to reduce staff costs by £3,078,000 (2005: £13,000) and to reduce the deferred taxation credit shown in the profit and loss account by £641,100 (2005: increase of £592,000). Other finance costs increased by £870,000 (2005: £1,715,000). The loss for the year has been decreased by £1,545,600 (2005: increase of £1,110,000) and the statement of total recognised gains and losses (STRGL) has decreased by £2,558,900 (2005: increase of £11,842,200). The movement within the STRGL is due to an actuarial loss of £3,625,000 (2005: gain of £17,034,000) and total deferred tax movement of £1,066,100 (2005: £5,191,800).

Under FRS 25 there are restrictions on the ability to offset, for presentational purposes, financial assets and financial liabilities subject to master agreements and accordingly such amounts are no longer offset. The effect of the change in accounting policy was to increase trade debtors and creditors by £3,381,315,630, collateral paid for securities purchased under agreements to resell and collateral received for securities sold under agreements to repurchase by £7,693,603,545 and inventory long and short positions by £3,113,247,610.

The company has also decided that interest receivable and payable on funding swaps should be disclosed within interest receivable and similar income and interest payable and similar charges respectively rather than within turnover, in line with company accounting policy. FRS18 considers a change in the way an item is presented in the balance sheet or profit and loss account to be a change in accounting policy, and comparatives have been restated accordingly. The effect of this change in accounting policy has been to reduce turnover by £109,152,896 (2005: £21,866,824), and to increase interest receivable and similar income and interest payable and similar charges by £181,928,528 and £72,775,632 respectively (2005: £59,734,770 and £37,867,946).

The company has also decided that amounts recoverable from the Italian Government should be disclosed under trade debtors, rather than taxation recoverable as these amounts are not tax assets. The effect of this change in accounting policy has been to increase trade debtors and to decrease taxation recoverable by £19,481,742 (2005: £27,409,871).

(c) Trade Recognition

Transactions in securities are accounted for on a trade date basis.

NOMURA INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2006 (CONTINUED)

(d) **Trading Profit**

Net trading profit comprises broking, management and underwriting commission from the primary market, *broking commission and dealing profit* from the secondary market and income derived from private equity business. Costs directly attributable to trading are treated as a deduction from trading profit to more fairly represent dealing profit and commission sharing agreements.

(e) **Interest Receivable and Similar Income/Interest Payable and Similar Charges**

Interest receivable and payable includes dividends and interest paid and earned on securities positions, securities bought and sold under repurchase agreements and amounts receivable and payable on bank deposits and bank borrowings.

(f) **Foreign Currencies**

Transactions in foreign currencies are initially recorded in the functional currency by applying the spot exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences arising from the application of closing rates of exchange, together with exchange gains/losses from trading activities, are taken to the profit and loss account. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

(g) **Asset Valuations**(i) **Trading Securities**

In accordance with market practice, trading securities have been valued at market value. The aggregate book quantities resulting from trading activities of individual securities giving rise to net bought or net sold positions have been dealt with as long or short positions respectively.

Private equity investments are held at the lower of cost and net realisable value, which is considered to reflect fair value given the size and liquidity of the positions. Asset and principal finance investments are stated at original cost plus accrued interest less amounts written off where there has been an impairment in value.

(ii) **Fixed Asset Investments**

Investments in fellow subsidiary and subsidiary undertakings and other investments are stated at original cost less amounts written off where there has been an impairment in value.

(h) **Derivatives**

Derivative instruments, as detailed in note 17, are used for trading and risk management purposes. Derivatives are measured at market or fair value, which are determined using independent price sources and industry standard modelling techniques where appropriate.

In the ordinary course of business the resultant profits and losses from trading and risk management are included in trading profits. There may be circumstances, determined by specific transactions, where profits or losses on derivative contracts used for hedging may not be recognised in current trading profits but are deferred within other assets or liabilities and recognised when the cash flows that the hedges relate to occur.

Assets and liabilities resulting from gains or losses on derivative and foreign exchange contracts are reported within inventory.

NOMURA INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2006 (CONTINUED)

(i) **Securities Sold or Borrowed Under Repurchase Agreements**

The company enters into agreements with counterparties for them to sell to the company certain securities and then repurchase them at a later date. These securities are excluded from the company's balance sheet and the amount paid by the company is shown in debtors as collateral paid for securities purchased under agreements to resell.

The company also enters into agreements to sell certain securities to counterparties and then repurchase them at a later date. These securities are retained on the company's balance sheet and the amount received by the company is shown within creditors as collateral received for securities sold under agreements to repurchase.

(j) **Depreciation**

Depreciation rates are selected based on expected useful economic lives of the assets, taking into account the expected rate of technological developments, market requirements and expected use of the assets. The selected rates are regularly reviewed to ensure they remain appropriate to the company and company's circumstances. Fixed assets are currently depreciated on a straight-line basis in order to write off their cost over their expected useful economic lives as follows:

Long leasehold property	Over the life of the lease
Furniture, equipment and software	Five to ten years
Construction in progress	Not depreciated until completed and transferred to asset categories above

Construction in progress is capitalised on a floor-by-floor basis from the completion date of each floor. The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

(k) **Pension Costs**

The company operates a defined benefit pension plan, which requires contributions to be made to a separately administered fund. The defined benefit pension scheme was closed to further accrual in October 2005.

The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method, which attributes entitlement to benefits to the current period (to determine current service cost) and to the current and prior periods (to determine the present value of defined benefit obligation) and is based on actuarial advice. Past service costs are recognised in the profit and loss account on a straight-line basis over the vesting period or immediately if the benefits have vested. When a settlement (eliminating all obligations for benefits already accrued) or a curtailment (reducing future obligations as a result of a material reduction in the scheme membership or a reduction in future entitlement) occurs the obligation and related plan assets are remeasured using current actuarial assumptions and the resultant gain or loss recognised in the profit and loss account during the period in which the settlement or curtailment occurs.

The interest element of the defined benefit cost represents the change in present value of scheme obligations resulting from the passage of time, and is determined by applying the discount rate to the opening present value of the benefit obligation, taking into account material changes in the obligation during the year. The expected return on plan assets is based on an assessment made at the beginning of the year of long-term market returns on scheme assets, adjusted for the effect on the fair value of plan assets of contributions received and benefits paid during the year. The difference between the expected return on plan assets and the interest cost is recognised in the profit and loss account as other finance income or expense. Actuarial gains and losses are recognised in full in the statement of total recognised gains and losses in the period in which they occur.

NOMURA INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2006 (CONTINUED)

1. ACCOUNTING POLICIES (CONTINUED)

(k) Pension Costs (continued)

The defined benefit pension asset or liability in the balance sheet comprises the total of the present value of the defined benefit obligation (using a discount rate based on high quality corporate bonds), less any past service cost not yet recognised and less the fair value of plan assets out of which the obligations are to be settled directly. Fair value is based on market price information and in the case of quoted securities is the published bid price. The value of a net pension benefit asset is restricted to the sum of any unrecognised past service costs and the present value of any amount the company expects to recover by way of refunds from the plan or reductions in the future contributions.

Contributions to the defined contribution scheme are recognised in the profit and loss account in the period in which they become payable.

(l) Taxation

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax or a right to pay less tax in the future have occurred at the balance sheet date. This is subject to deferred tax assets only being recognised if it is considered more likely than not that there will be suitable profits from which the future reversal of the underlying timing differences can be deducted. Timing differences are the differences between the company's taxable profits and its results as stated in the financial statements, which are capable of reversal in one or more subsequent periods.

Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which the timing differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

In accordance with FRS 17, the defined benefit liability is shown on the balance sheet net of deferred tax.

(m) Operating Leases

Rental costs under operating leases are charged to the profit and loss account on a straight-line basis over the period of the lease.

(n) Cash flow Statement

The company has taken advantage of the exemption under FRS 1 (revised) and has not produced a cash flow statement, since the company has more than 90% of its voting rights controlled by Nomura Holdings Inc., in whose publicly available financial statements it is consolidated.

(o) Provisions

A provision can be recognised when the company has a present obligation (legal or constructive) as a result of a past event, it is probable that a transfer of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

NOMURA INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2006 (CONTINUED)

2. SEGMENTAL INFORMATION

The whole of the company's trading profit and loss before taxation is derived from broking and dealing in securities, comprising trading and sales in fixed income and equity products and related derivatives, investment banking services, principal, corporate and asset finance and private equity, to which all net assets are attributable. Substantially all of the company's trading profit originates in the UK and is attributable to the following revenue streams:

	<u>Year ended</u> <u>31 March 2006</u> £'000	<u>As restated</u> <u>Year ended</u> <u>31 March 2005</u> £'000
Net fees and commissions *	176,423	156,791
Principal transactions **	188,871	101,665
Less: attributable transaction expenses	(35,120)	(27,737)
Trading profit	330,174	230,719

* - 'Net fees and commissions' includes gains, losses and fees, net of syndication expenses arising from securities offerings in which the company acts as an underwriter or agent, and fees earned from providing financial advisory services. Such revenues do not include revenues from secondary trading activities which are included in 'Principal transactions'. Commissions arising from broking securities are also included

** - 'Principal transactions' includes realised and unrealised gains and losses from proprietary trading activities, asset finance, customer trading activities and profits on disposals of related party investments (note 22).

3. LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

Loss on ordinary activities before tax for the company is stated after charging/(crediting):

	<u>Year ended</u> <u>31 March 2006</u> £'000	<u>As restated</u> <u>Year ended</u> <u>31 March 2005</u> £'000
Wages, salaries and other personnel costs	200,911	217,587
Social security costs	51,601	24,489
Pension costs – defined benefit	447	1,698
Pension costs – defined contribution	5,116	5,608
Depreciation	16,617	7,680
Auditors' remuneration including expenses		
- audit	401	405
- non audit	853	209
Operating lease costs		
- buildings	15,439	15,753
- other	1,359	323
Onerous contracts	3,866	-
Interest receivable from group undertakings	(202,694)	(141,661)
Interest payable - group undertakings	121,942	44,902
Interest payable - bank loans and overdrafts *	1,370	1,088

* - excludes payables to group undertakings

NOMURA INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2006 (CONTINUED)

4. DEFINED BENEFIT PENSION SCHEME

A full actuarial valuation of the defined benefit pension scheme was undertaken at 31 March 2004 and updated to 31 March 2006 by William M Mercer Limited, a qualified independent actuary.

The contribution rates for the defined benefit scheme during the current year were 24.5% (2005: 24.5%) until 31 October 2005 when the plan closed for future accrual and these contributions ceased. In addition, from 1 June 2005 an additional £2,600,000 per annum is being paid to meet the past service deficit.

Under the projected unit actuarial cost method the current service cost will increase as members approach retirement.

The plan closed to all future accrual with effect from 31 October 2005. The figures within these financial statements for the year ended 31 March 2006 have been calculated for the period 31 March 2005 to 31 October 2005 (the curtailment date) and 1 November 2005 to 31 March 2006 separately, using financial assumptions in force at the beginning of each period.

The major assumptions used by the actuary to calculate the defined benefit liability are set out below:

	<u>31 March 2006*</u> %	<u>31 March 2005</u> %	<u>31 March 2004</u> %
Rate of increase in salaries	N/A	3.90%	4.90%
Rate of increase in pensions in payment	(2.75%)/2.90%	2.90%	2.90%
Discount rate applied to scheme liabilities	(5.00%)/5.00%	5.40%	5.50%
Inflation assumption	(2.75%)/2.90%	2.90%	2.90%

* Assumptions in brackets are those that apply for the curtailment as at 31 October 2005

The assets in the scheme and the expected long-term rates of return were:

	<u>31 March 2006</u>		<u>31 March 2005</u>		<u>31 March 2004</u>	
	%	£'000	%	£'000	%	£'000
Equities	6.00%	81,543	6.45%	64,372	6.50%	55,703
Bonds	4.75%	2,690	N/A	-	N/A	-
Others	4.25%	1,439	4.50%	591	3.75%	951
Market value of assets		85,672		64,963		56,654
Present value of scheme liabilities		(112,915)		(90,789)		(97,812)
Deficit in the scheme		(27,243)		(25,826)		(41,158)
Deferred tax asset		8,173		7,748		12,347
Net pension liability		(19,070)		(18,078)		(28,811)

NOMURA INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2006 (CONTINUED)

4. PENSIONS (CONTINUED)

The amount charged to operating profit is set out below:

	<u>31 March 2006</u> £'000	<u>31 March 2005</u> £'000
Current service cost	925	1,536
Past service cost	212	162
Gain from curtailment	(690)	-
Total operating charge	<u>447</u>	<u>1,698</u>

The amount charged to other finance costs:

	<u>31 March 2006</u> £'000	<u>31 March 2005</u> £'000
Expected return on pension scheme assets	(4,261)	(3,680)
Interest on pension scheme liabilities	5,131	5,395
Net return	<u>870</u>	<u>1,715</u>

Analysis of movements in deficit during the year:

	<u>31 March 2006</u> £'000	<u>31 March 2005</u> £'000
Deficit in scheme at beginning of year	(25,826)	(41,158)
Current service cost	(925)	(1,536)
Past service cost	(212)	(162)
Expected return on pension scheme assets	4,261	3,680
Interest on pension scheme liabilities	(5,131)	(5,395)
Contributions	3,525	1,711
Curtailments	690	-
Actuarial (loss)/gain	(3,625)	17,034
Deficit in scheme at end of year	<u>(27,243)</u>	<u>(25,826)</u>

The amounts recognised in the Statement of Total Recognised Gains and Losses (STRGL) for the year are set out below:

	<u>31 March</u> <u>2006</u> £'000	<u>31 March</u> <u>2005</u> £'000
Actual return less expected return on pension scheme assets	13,989	4,048
Experience gains and losses arising on pension scheme liabilities	(168)	2,580
Changes in assumptions underlying the present value of the pension scheme liabilities	(17,446)	10,406
Actuarial (loss)/gain recognised in STRGL	<u>(3,625)</u>	<u>17,034</u>

NOMURA INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2006 (CONTINUED)

4. PENSIONS (CONTINUED)

The effects of the pension liability on the net assets and reserves of the company are set out below:

	<u>31 March</u> <u>2006</u> £'000	<u>31 March</u> <u>2005</u> £'000
Net assets		
Net assets	783,813	749,513
FRS17 net pension liability	(19,070)	(18,078)
Net assets including FRS17 pension liability	<u>764,743</u>	<u>731,435</u>

	<u>31 March</u> <u>2006</u> £'000	<u>31 March</u> <u>2005</u> £'000
Reserves		
Profit and loss account	(156,615)	(40,720)
FRS17 net pension liability	(19,070)	(18,078)
Profit and loss account including FRS17 pension liability	<u>(175,685)</u>	<u>(58,798)</u>

FRS17 requires that a history of amounts that were, or would have been, recognised in the Statement of Total Recognised Gains and Losses (STRGL) be disclosed as set out below:

	<u>31 March 2006</u>	
	%	£'000
Difference between expected and actual return on pension scheme assets	16.30% (a)	13,989
Experience gains and losses on pension scheme liabilities	0.10% (b)	(168)
Total amount recognised in STRGL	3.20% (b)	(3,625)

	<u>31 March 2005</u>	
	%	£'000
Difference between expected and actual return on pension scheme assets	6.20% (a)	4,048
Experience gains and losses on pension scheme liabilities	2.80% (b)	2,580
Total amount recognised in STRGL	18.80% (b)	17,034

	<u>31 March 2004</u>	
	%	£'000
Difference between expected and actual return on pension scheme assets	17.60% (a)	9,944
Experience gains and losses on pension scheme liabilities	0.10% (b)	(113)
Total amount recognised in STRGL	3.60% (b)	3,492

	<u>31 March 2003</u>	
	%	£'000
Difference between expected and actual return on pension scheme assets	52.80% (a)	(23,079)
Experience gains and losses on pension scheme liabilities	5.57% (b)	4,818
Total amount recognised in STRGL	35.96% (b)	(31,077)

(a): Percentage based on scheme assets

(b): Percentage based on present value of pension scheme liabilities

NOMURA INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2006 (CONTINUED)

5. TAX ON LOSS ON ORDINARY ACTIVITIES

(a) TAX (CREDIT)/CHARGE

	<u>Year ended</u> <u>31 March 2006</u> £'000	<u>As restated</u> <u>Year ended</u> <u>31 March 2005</u> £'000
UK corporation tax credit at 30% (2005: 30%)	-	(52,356)
Tax under/(over) provided in previous years	2,159	(3,085)
	2,159	(55,441)
Deferred taxation charge/(credit) (see note 10)	(30,831)	93,424
Deferred tax credit arising from FRS 17 restatement	-	(592)
Deferred tax on unutilised losses for the year carried forward	(6,937)	-
Total tax (credited)/charged for the year to the profit and loss account	(35,609)	37,391
Prior year adjustment - deferred tax recognised in the Statement of Total Recognised Gains and Losses (STRGL) under adoption of FRS 17	-	(12,347)
Movement on deferred tax relating to pension liability recognised in the STRGL	(425)	5,191
Movement on current tax transferred to deferred tax relating to pension liability recognised in the STRGL	(641)	-
Total tax (credited)/charged for the year	(36,675)	30,235

(b) RECONCILIATION OF CORPORATION TAX CREDIT

	<u>Year ended</u> <u>31 March 2006</u> £'000	<u>As restated</u> <u>Year ended</u> <u>31 March 2005</u> £'000
Loss on ordinary activities before tax	(149,937)	(104,556)
UK Corporate tax credit at 30% (2005: 30%)	(44,981)	(31,367)
Effects of:		
Expenses not deductible for tax purposes	29,641	1,039
Revenues deductible for tax purposes	(149)	(1,004)
Timing differences		
- Tangible Fixed Assets	494	(1,452)
- Deferred Income	-	(20,757)
- Unrealised profit on inventory	-	7,792
- General provisions	8,058	(7,118)
- FRS 17 defined benefit pension	-	592
Tax (over)/under provided in previous years	2,159	(3,085)
Revenue deductible for tax purposes arising from FRS 17 restatement	-	(81)
Deferred tax on unutilised losses for the year carried forward	6,937	-
Current corporation tax charge/(credit) for the year	2,159	(55,441)

NOMURA INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2006 (CONTINUED)

6. TANGIBLE FIXED ASSETS

<u>Cost</u>	<u>Construction in Progress</u> £'000	<u>Long Leasehold</u> £'000	<u>Furniture, Equipment, & Software</u> £'000	<u>Total</u> £'000
At 1 st April 2005	21,227	7,576	111,079	139,882
Transfers	(17,273)	-	17,273	-
Additions	17,143	-	1,631	18,774
Disposals	-	-	-	-
FX Revaluation	-	-	5	5
At 31st March 2006	21,097	7,576	129,988	158,661
<u>Depreciation</u>				
At 1 st April 2005	-	1,498	76,457	77,955
Charged during year	-	101	16,516	16,617
Disposals	-	-	-	-
FX Revaluation	-	-	(13)	(13)
At 31st March 2006	-	1,599	92,960	94,559
<u>Net book value</u>				
At 31st March 2006	21,097	5,977	37,028	64,102
At 31st March 2005	21,227	6,078	34,622	61,927

During the year the company has revised the estimated useful life of its software to take account of technological changes. The effect of this revision is an increase in the depreciation charge for the year of £6,414,738.

NOMURA INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2006 (CONTINUED)

7. FIXED ASSET INVESTMENTS

<u>Cost</u>	<u>Investment in Subsidiary Undertakings</u> £'000	<u>Investment in Fellow Subsidiary Undertakings</u> £'000	<u>Other (unlisted)</u> £'000	<u>Total</u> £'000
At 1 st April 2005	10,779	77	2,389	13,245
Additions	-	-	202	202
Disposals	-	-	(202)	(202)
At 31st March 2006	10,779	77	2,389	13,245
<u>Provisions</u>				
At 1 st April 2005	2,713	-	1,084	3,797
Provided during year	-	-	-	-
Disposal	-	-	-	-
At 31st March 2006	2,713	-	1,084	3,797
<u>Net book value</u>				
At 31st March 2006	8,066	77	1,305	9,448
At 31st March 2005	8,066	77	1,305	9,448

The investment in subsidiary undertakings represents the following:

<u>Name of subsidiary</u>	<u>Shares/ voting rights held</u>	<u>Country of incorporation and registration</u>	<u>Principal business</u>
Nomura International Leasing Limited	100%	Ireland	Asset leasing
Nomura Nominees Limited	100%	England	Dormant
Nomura Gilts Limited	100%	England	Dormant
Nomura Properties Management Services Limited	100%	England	Dormant
IBJ Nomura Financial Products (UK) plc*	100%	England	Dormant
Nomura Investments (AH) Limited	100%	Guernsey	Investment
Nomura Employment Services (Isle of Man) Limited	100%	Isle of Man	Employment services
Opsclear Limited	100%	England	Investment
Nomura Phase4 Ventures Limited	100%	England	Investment manager

* - currently in members voluntary liquidation

Through Nomura Phase4 Ventures Limited, the company controls the following entity:

<u>Name of subsidiary</u>	<u>Shares/ voting rights held</u>	<u>Country of incorporation and registration</u>	<u>Principal business</u>
Nomura Phase4 Ventures GP Limited	100%	England	Investment manager

NOMURA INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2006 (CONTINUED)

8. INVENTORY

	<u>2006</u> £'000	<u>2005</u> £'000
Long positions:		
Equity securities	2,094,901	446,088
Debt securities	11,819,794	14,825,135
Derivatives	4,497,616	795,767
	<u>18,412,311</u>	<u>16,066,990</u>
Short positions (note 12):		
Equity securities	(1,310,067)	(794,455)
Debt securities	(6,545,713)	(5,627,179)
Derivatives	(4,692,674)	(715,965)
	<u>(12,548,454)</u>	<u>(7,137,599)</u>

Included within inventory positions above are the following positions with fellow Nomura Holdings Inc. group undertakings:

	<u>2006</u> £'000	<u>2005</u> £'000
Long positions with group undertakings:		
Equity Securities	38,141	-
Debt securities	33,375	10,619
Derivatives	1,621,697	192,750
	<u>1,693,213</u>	<u>203,369</u>
Short positions with group undertakings:		
Derivatives	<u>(1,719,335)</u>	<u>(218,180)</u>
	<u>(1,719,335)</u>	<u>(218,180)</u>

NOMURA INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2006 (CONTINUED)

9. DEBTORS

	<u>2006</u> £'000	<u>As restated</u> <u>2005</u> £'000
Trade debtors	7,897,868	3,748,486
Collateral paid for securities purchased under agreements to resell	27,553,461	21,478,671
Collateral paid for securities borrowed	13,105,078	7,144,231
Broker balances	331,896	134,616
Taxation recoverable	18,937	75,455
Deferred taxation (see note 10)	62,973	24,564
Accrued interest and dividends receivable	209,947	228,773
Prepayments and accrued income	13,286	16,365
	<u>49,193,446</u>	<u>32,851,161</u>

All debtors are receivable within one year, except as follows:

	<u>2006</u> £'000	<u>2005</u> £'000
Deferred taxation (see note 10)	<u>36,157</u>	<u>21,219</u>

Included within debtor balances above are the following balances due from fellow Nomura Holdings Inc. group undertakings:

	<u>2006</u> £'000	<u>2005</u> £'000
Trade debtors	133,028	62,720
Collateral paid for securities purchased under agreements to resell	8,584,141	6,593,973
Collateral paid for securities borrowed	4,425,573	3,888,592
Broker balances	93,086	10,664
Accrued interest and dividends receivable	<u>8,205</u>	<u>22,682</u>
	<u>13,244,033</u>	<u>10,578,631</u>

NOMURA INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2006 (CONTINUED)

10. DEFERRED TAXATION

	2006 £'000	As restated 2005 £'000
Deferred income	16,471	16,471
Tangible fixed assets	4,835	3,970
Other short-term timing differences	25,110	11,871
Unutilised tax losses	24,730	-
	<u>71,146</u>	<u>32,312</u>

Deferred taxation is expected to reverse:

Within one year	34,989	10,093
Greater than one year	36,157	21,219
Deferred taxation	<u>71,146</u>	<u>32,312</u>

Provision for deferred tax comprises:

	2006 £'000	2006 £'000	As restated 2005 £'000	2005 £'000
Timing differences	133,973		95,564	
Adjustments to recoverable amounts	<u>(71,000)</u>		<u>(71,000)</u>	
Deferred tax excluding that relating to pension asset (note 9)		62,973		24,564
Pension asset (note 4)		<u>8,173</u>		<u>7,748</u>
Total provision for deferred tax		<u>71,146</u>		<u>32,312</u>

1 st April as previously reported	24,564
Prior year adjustment – FRS 17	<u>7,748</u>

1 st April as restated	32,312
Deferred tax charged to the profit and loss account	30,831
Deferred tax on unutilised losses for the year carried forward charged to the profit and loss account	6,937
Deferred tax on unutilised losses for the year carried forward charged to the statement of total recognised gains and losses (STRGL)	641
Deferred tax charged to the STRGL	<u>425</u>

At 31 st March	<u>71,146</u>
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Deferred taxation has been recognised at 30% (2005: 30%), being the rate at which the timing differences are expected to reverse. The asset is recognised on the basis that the directors believe that the company will have future profits against which the deferred tax asset can be recovered.

There is no unprovided deferred taxation in the company as at 31st March 2006 (2005: £nil).

NOMURA INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2006 (CONTINUED)

11. TIME DEPOSITS AND CASH AT BANK AND IN HAND

Time deposits and cash at bank and in hand include:

	<u>2006</u> £'000	<u>2005</u> £'000
Time deposits with fellow Nomura Holdings Inc. group undertakings	1,451,779	1,088,427
Cash held with fellow Nomura Holdings Inc. group undertakings	20,295	5,057

12. CREDITORS (amounts falling due within one year)

	<u>2006</u> £'000	<u>2005</u> £'000
Loans and overdrafts	4,119,760	2,819,388
Trade creditors	8,256,733	3,436,112
Commercial paper issued	150,009	85,424
Collateral received for securities sold under agreements to repurchase	29,366,782	28,647,569
Collateral received for securities loaned	13,397,844	6,956,296
Broker balances	168,531	46,990
Other tax and social security payable	8,274	3,311
Accrued interest and dividends payable	161,396	134,760
Accruals and deferred income	221,604	241,752
Inventory - short positions (note 8)	12,548,454	7,137,599
Subordinated debt (note 13)	30,000	30,000
	<u>68,429,387</u>	<u>49,539,201</u>

Included within creditor balances above are the following balances due to fellow Nomura Holdings Inc. group undertakings:

	<u>2006</u> £'000	<u>2005</u> £'000
Loans and overdrafts	4,112,352	2,742,844
Trade creditors	85,694	28,685
Commercial paper issued	150,009	85,424
Collateral received for securities sold under agreements to repurchase	5,602,882	292,382
Collateral received for securities loaned	4,168,607	1,695,577
Broker balances	140,584	16,684
Accrued interest and dividends payable	8,874	3,497
Accruals and deferred income	2,568	42,327
Inventory - short positions (note 8)	1,719,335	218,180
Subordinated debt (note 13)	30,000	30,000
	<u>16,020,905</u>	<u>5,155,600</u>

NOMURA INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2006 (CONTINUED)

13. SUBORDINATED DEBT

	<u>Repayment date</u>	<u>2006</u> £'000	<u>2005</u> £'000
Short Term (included in note 12)			
Nomura Bank International plc	15 th June 2006	30,000	30,000
		<u>30,000</u>	<u>30,000</u>
Long Term			
Nomura Europe Holdings plc	30 th December 2007	122,096	123,606
Nomura Europe Holdings plc	7 th March 2008	97,676	98,885
Nomura Europe Holdings plc	20 th April 2008	250,000	-
Nomura Europe Holdings plc	22 nd July 2008	100,000	-
Nomura Europe Holdings plc	11 th August 2008	250,000	-
Nomura Europe Holdings plc	27 th September 2011	41,512	42,026
Nomura Europe Holdings plc	7 th November 2011	14,651	14,832
Nomura Europe Holdings plc	19 th March 2012	119,653	121,134
Nomura Europe Holdings plc	27 th March 2012	92,792	93,941
Nomura Europe Holdings plc	27 th March 2013*	100,000	98,885
Nomura Europe Finance NV	27 th March 2013**	30,000	32,429
		<u>1,218,380</u>	<u>625,738</u>

* Repayment date extended from 8th January 2011

** Repayment date extended from 26th September 2010

The legal nature of the subordinated loans differs from that usually associated with debt. In a winding up of the company no amount will be paid in respect of the subordinated debt until all other creditors have been paid in full. In addition, the company must obtain consent from the Financial Services Authority to repay any of the subordinated loans before their contracted repayment date.

The interest rates on the subordinated loans are based on local inter bank borrowing rates and include a margin to reflect the subordination. Rates are generally fixed quarterly.

The rate of interest applicable to the loans with maturities greater than five years are as follows:

Nomura Europe Holdings plc	27 th September 2011	LIBOR + 0.5%
Nomura Europe Holdings plc	7 th November 2011	LIBOR + 0.1975%
Nomura Europe Holdings plc	19 th March 2012	LIBOR + 0.51%
Nomura Europe Holdings plc	27 th March 2012	LIBOR + 0.81%
Nomura Europe Holdings plc	27 th March 2013	LIBOR + 0.43%
Nomura Europe Finance NV	27 th March 2013	LIBOR + 0.43%

14. PROVISIONS FOR LIABILITIES AND CHARGES

	<u>2006</u> NI Claim £'000	<u>2005</u> NI Claim £'000	<u>2006</u> Onerous Contracts £'000	<u>2005</u> Onerous Contracts £'000
At 1 st April	48,870	48,870	-	-
(Used) during the year	(48,870)	-	-	-
Provided during the year	-	-	3,866	-
At 31 st March	-	48,870	3,866	-

NOMURA INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2006 (CONTINUED)

14. PROVISIONS FOR LIABILITIES AND CHARGES (CONTINUED)

The Directors have made provisions which represent their best estimates of the company's present obligations that have arisen in relation to the losses it expects to incur on onerous property lease contracts, where properties have been sublet for the entire remaining term of the original leases.

Provisions used during the year related to the settlement of a National Insurance claim.

15. SHARE CAPITAL

<u>2006</u>	<u>Authorised Number '000</u>	<u>Allotted and fully paid Number '000</u>	<u>Consideration £'000</u>
Sterling Ordinary shares of £1 each	700,000	462,602	462,602
Yen Ordinary shares of ¥ 250 each	270,000	238,265	356,214
Sterling Redeemable Convertible Participating Preference shares of £1 each	50,000	-	-
			<u>818,816</u>

<u>2005</u>	<u>Authorised Number '000</u>	<u>Allotted and fully paid Number '000</u>	<u>Consideration £'000</u>
Sterling Ordinary shares of £1 each	450,000	312,407	312,407
Yen Ordinary shares of ¥250 each	270,000	238,265	356,214
Sterling Redeemable Convertible Participating Preference shares of £1 each	50,000	-	-
			<u>668,621</u>

The Yen Ordinary shares of ¥250 each have all future rights and benefits based on a Sterling exchange rate of 167.2202.

16. RESERVES

	<u>Capital redemption reserve £'000</u>	<u>As restated Profit and loss account £'000</u>
At 1 st April 2005	121,612	(58,798)
Retained loss for the year	-	(114,328)
Actuarial (loss)/gain on pension scheme	-	(3,625)
Movement on deferred tax relating to pension liability	-	1,066
At 31st March 2006	<u>121,612</u>	<u>(175,685)</u>

NOMURA INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2006 (CONTINUED)

17. ROLE OF FINANCIAL INSTRUMENTS

The company holds or issues financial instruments for two main purposes:

Trading Activities

- to facilitate the needs of its client base
- for trading purposes on its own account

Financing Activities

- to finance its operations
- to manage the interest rate and currency risk arising from its financing activities

In relation to the disclosures given below, the company has taken advantage of the exemption available under FRS 13 for the exclusion of short-term debtors and creditors.

A - Trading Activities

Trading includes both customer-orientated activities and positions that are taken for the company's own account. These two activities are managed together.

To meet the expected needs of its client base the company maintains access to market liquidity, both by engaging in two way business with other market makers and by carrying an inventory of cash and derivatives products. The company also takes its own positions in the interest rate, credit, equity and foreign exchange markets based on expectations of future client demand and its own views on the future direction of markets.

Products Traded:

The financial instruments listed below are actively used by the company. They are used both to facilitate customer business, for own account trading as well as to manage risk. In the ordinary course of business these products are valued on a mark to market basis, with the resulting income being recorded in dealing profits.

In addition, the resulting interest rate, credit, equity and foreign exchange risk that arises from activities in these products are captured by the Market Risk process, which is described in more detail in the Risk section below.

Cash Products

- Government bonds, corporate bonds, asset backed bonds, convertible bonds and equities

Foreign Exchange Derivatives

- Forward FX contracts, currency swaps and currency options.

Interest Rate Derivatives

- Interest rate swaps, forward rate agreements, forwards, options and combinations of these products.

Equity Derivatives

- Single stock, equity and index swaps, options, warrants and combinations of these products.

Credit Derivatives

- Asset swaps, credit default swaps, credit options, credit baskets, credit linked notes, synthetic CDO tranches, CDO squared tranches and combinations of these products.

NOMURA INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2006 (CONTINUED)

17. ROLE OF FINANCIAL INSTRUMENTS (CONTINUED)

Risk Management Process:

Within the company, the formal process for the management of Asset Risk Capital (ARC) is facilitated through the Capital Allocation Committee, which is a sub committee of the Financial Resources Committee. These committees are chaired by the President and Chief Financial Officer respectively. Day to day responsibility rests with the independent Risk Management function, the head of which reports to the president of Nomura International Plc and the global head of Risk Management in Tokyo.

The Capital Allocation Committee approves and allocates ARC limits to strategies, desks and divisions of the company.

ARC is the potential economic loss over a one-year horizon given a confidence interval of 97.7%. ARC captures market, liquidity, credit, event and operational risk. The ARC regime was introduced in April 2000 to provide a consistent group wide framework for performance evaluation and risk control.

ARC is an effective tool for performance evaluation and control but not for capital adequacy. In order to ensure capital adequacy, financial soundness is assessed under stressed conditions beyond the 97.7% confidence interval i.e. worst-case risk factor moves. Stress testing in Nomura International Plc is undertaken quarterly on the basis of historical scenario analysis.

The primary mechanism for measuring and reporting market risk is VaR. The effectiveness of VaR is assessed by a comparison of actual daily trading gains/losses with the estimated VaR, a process known as backtesting. VaR is only applied to those assets for which it provides a meaningful estimate of risk. Specifically VaR is not applied to private equity type of assets for which no transparent market exists.

Risk Reporting & Control is administered via the Management Information System (MIS). MIS provides daily financial indicators including profit and loss, VaR, ARC, inventory, regulatory capital, unsecured funding and all related limits. Monitoring is applied at all levels in the business hierarchy, specifically trading strategy, trading desk, division and firm wide.

The table below illustrates by major risk category the VaR during the financial year ended 31st March 06. It shows the highest, lowest and average VaR during the financial year:

	<u>Average</u>	<u>2006</u> <u>High</u>	<u>Low</u>	<u>Average</u>	<u>2005</u> <u>High</u>	<u>Low</u>
	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>
Equity and Equity derivatives	6,582	10,698	955	3,527	5,338	1,478
Bonds, Interest rate and						
Credit derivatives	5,843	7,572	4,117	3,801	6,575	2,125
Foreign exchange	51	374	23	33	51	23
Total VAR *	9,179	12,667	4,429	5,829	7,386	3,954

* - The total VAR figure shown for the company as a whole is less than the arithmetic sum of the individual risk categories due to the effects of diversification

The company's Investment Evaluation & Credit (IEC) function is responsible for managing credit risks to which the firm is exposed in the nature of its business. The IEC function is independent of the business areas and reports directly to the head of Risk Management.

NOMURA INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2006 (CONTINUED)

17. ROLE OF FINANCIAL INSTRUMENTS (CONTINUED)

Counterparty exposure is managed through a process of limit setting and exception reporting with credit policy setting the maximum exposure and tenor based on credit rating. The company uses a scale of internal ratings that mirrors the credit-rating agencies' rating scales. Changes to credit policy are presented to the Risk Management Committee, as are all credit actions for the month.

Derivative exposure is calculated using a statistical methodology and trades are booked against credit lines. Credit derivatives exposure is calculated taking into account the credit quality of the underlying issue and the counterparty. The company trades using market convention documentation and, where appropriate, credit enhancements will be added to the documentation.

Principal investment decisions are taken by senior management under advice from, *inter alia*, the credit function. The IEC function undertakes due diligence for potential principal investments, current principal investments and underwriting positions that are being considered. They are also responsible for setting and monitoring inventory limits, which is done by setting maximum positions for issuers based on credit ratings.

B - Financing Activities

The responsibility for both financing the operations and managing any resulting interest rate and foreign exchange risk lies with the Treasury function. The Treasury function reports to the Chief Financial Officer and is fully independent of the trading activities. Working as part of the Global Treasury function, its primary responsibility is to pro-actively manage the liquidity and financing needs of the firm via a diversified financing programme, supported by a comprehensive and tested contingency plan. The Treasury function is not authorised to take positions for its own account and it is not judged on the basis of profit.

The distribution of sources of funding and their maturity profile are actively managed in order to ensure access to funds and to avoid a concentration of funding at any one time or from any one source. The main funding sources used by the Treasury function include capital, bank borrowings, intercompany borrowings, long term debt, commercial paper, collateralised financing such as sale and repurchase agreements and committed credit facilities.

Liquidity risk is controlled by a process that ensures that cumulative financing requirements are restricted to pre-set levels. To ensure that the company has sufficient reserves to guard against any unforeseen event, Treasury has to operate within an unsecured funding limit that is set at a level significantly below what is estimated to be available. In addition, a key operating principle of Treasury is to withstand market shocks for periods lasting up to one year without either issuing new unsecured financing or liquidating trading assets. This is achieved by maintaining sufficient long-term debt and equity to meet the cash capital requirements of all our assets and holding a global portfolio of cash and highly liquid securities that could be monetised through either sale or pledge to meet immediate requirements.

During the course of Treasury's financing activities, there is often a need to swap surplus flows in one currency into another, a process achieved using currency swap transactions. Similarly, financial futures are also occasionally used to mitigate any interest rate risk arising out of funding the group's operations. The company is exposed to currency risk in respect of certain foreign-currency denominated loans. This exposure is managed on a portfolio basis. Hedge accounting is not applied.

NOMURA INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2006 (CONTINUED)

17. ROLE OF FINANCIAL INSTRUMENTS (CONTINUED)

The following tables on pages 31 and 32 relate to non-trading financial instruments.

Interest rate profile of financial liabilities

The interest rate profile of the financial liabilities of the company was:

	31 March 2006			31 March 2005		
	<u>Floating rate</u> <u>financial</u> <u>liabilities</u>	<u>Fixed rate</u> <u>financial</u> <u>liabilities</u>	<u>Total</u>	<u>Floating rate</u> <u>financial</u> <u>liabilities</u>	<u>Fixed rate</u> <u>financial</u> <u>liabilities</u>	<u>Total</u>
	£m	£m	£m	£m	£m	£m
Sterling	760	-	760	30	-	30
Japanese Yen	488	-	488	630	-	630
US Dollar	4	-	4	-	-	-
Euro	1	-	1	2	-	2
Other	-	-	-	1	-	1
	<u>1,253</u>	<u>-</u>	<u>1,253</u>	<u>663</u>	<u>-</u>	<u>663</u>

The local inter bank borrowing rate is the benchmark rate for determining interest payments on the floating rate financial liabilities.

The floating rate financial liabilities comprise the following:

- subordinated loans and senior debt at rates fixed in advance for periods ranging from three to six months; and
- bank overdrafts at prevailing rates

Interest rate profile of financial assets

The company held the following financial assets in its financing activities:

	<u>2006</u> <u>£m</u>	<u>2005</u> <u>£m</u>
Sterling cash deposits	22	3
Japanese Yen cash deposits	7	9
US Dollar cash deposits	58	34
Euro cash deposits	2	14
Other cash deposits	<u>16</u>	<u>4</u>
	<u>105</u>	<u>64</u>

The cash deposits are all bank current accounts, which earn interest at prevailing rates.

NOMURA INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2006 (CONTINUED)

17. ROLE OF FINANCIAL INSTRUMENTS (CONTINUED)

Currency exposures

The table below shows the company's currency exposures that give rise to net non-trading currency gains and losses recognised in the profit and loss account. Such exposures comprise the monetary assets and monetary liabilities of the company that are not denominated in the operating currency of sterling. These exposures were as follows:

	<u>2006</u> £m	<u>2005</u> £m
Japanese Yen	-	-
US Dollar	-	-
Euro	-	-
Other	1	1
	<u>1</u>	<u>1</u>

Currency exposures result from foreign currency profits and losses generated in the ordinary course of business. These exposures are eliminated at each month end based on initial profit and loss estimates. Any further exposures arising are eliminated at the earliest practicable opportunity after the month end.

Maturity of financial assets and liabilities

All of the company's financial assets, disclosed on page 31, are repayable on demand.

The maturity profile of the company's financial liabilities was as follows:

	<u>2006</u> £m	<u>2005</u> £m
In three months or less, or on demand	35	38
In more than three months but not more than one year	-	-
In more than one year but not more than two years	220	-
In more than two years but not more than five years	600	222
In more than five years	398	403
	<u>1,253</u>	<u>663</u>

Borrowing facilities

The company has various borrowing facilities available to it. The undrawn committed facilities available were as follows:

	<u>2006</u> £m	<u>2005</u> £m
Expiring in one year or less	104	191
	<u>104</u>	<u>191</u>

NOMURA INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2006 (CONTINUED)

17. ROLE OF FINANCIAL INSTRUMENTS (CONTINUED)

Fair values of financial assets and financial liabilities

Set out below is a comparison by category of book values and fair values of the company's financial assets and financial liabilities:

	<u>Book value</u> <u>2006</u> £m	<u>Fair value</u> <u>2006</u> £m	<u>Book value</u> <u>2005</u> £m	<u>Fair value</u> <u>2005</u> £m
Financial instruments held or issued for trading purposes – long positions:				
Equities	2,089	2,089	446	446
Warrants	5	5	-	-
Government bonds	5,702	5,702	9,212	9,212
Bank and corporate bonds	5,470	5,470	4,789	4,789
Convertible bonds	648	648	824	824
Bond and equity derivatives	1,275	1,611	320	320
Currency derivatives	515	515	320	320
Interest rate derivatives	1,768	1,768	229	229
Credit derivatives	1,048	1,048	113	113
Provisions against derivatives	(67)	(67)	(29)	(29)
Derivative netting under ISDA	-	-	(151)	(151)
	<u>18,453</u>	<u>18,789</u>	<u>16,073</u>	<u>16,073</u>
Represented by:				
Long inventory balances	18,412	18,748	16,067	16,067
Amounts within broker balances	41	41	6	6
	<u>18,453</u>	<u>18,789</u>	<u>16,073</u>	<u>16,073</u>
	<u>Book value</u> <u>2006</u> £m	<u>Fair value</u> <u>2006</u> £m	<u>Book value</u> <u>2005</u> £m	<u>Fair value</u> <u>2005</u> £m
Financial instruments held or issued for trading purposes – short positions:				
Equities	(1,139)	(1,139)	(643)	(643)
Warrants	(171)	(171)	(152)	(152)
Government bonds	(5,281)	(5,281)	(4,268)	(4,268)
Bank and corporate bonds	(1,102)	(1,102)	(1,296)	(1,296)
Convertible bonds	(163)	(163)	(63)	(63)
Bond and equity derivatives	(1,424)	(1,424)	(228)	(228)
Currency derivatives	(477)	(477)	(259)	(259)
Interest rate derivatives	(1,913)	(1,913)	(275)	(275)
Credit derivatives	(904)	(904)	(113)	(113)
Derivative netting under ISDA	-	-	151	151
	<u>(12,574)</u>	<u>(12,574)</u>	<u>(7,146)</u>	<u>(7,146)</u>
Represented by:				
Short inventory balances	(12,548)	(12,548)	(7,138)	(7,138)
Amounts within broker balances	(26)	(26)	(8)	(8)
	<u>(12,574)</u>	<u>(12,574)</u>	<u>(7,146)</u>	<u>(7,146)</u>

All financial instruments held or issued for trading purposes are carried in the financial statements at fair value which is determined using market values, option pricing models or by discounting expected future cash flows at prevailing interest rates.

NOMURA INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2006 (CONTINUED)

17. ROLE OF FINANCIAL INSTRUMENTS (CONTINUED)

Fair values of financial assets and financial liabilities (continued)

	<u>Book value</u> <u>2006</u> £m	<u>Fair value</u> <u>2006</u> £m	<u>Book value</u> <u>2005</u> £m	<u>Fair value</u> <u>2005</u> £m
Primary financial instruments held or issued to finance the company's operations:				
Cash and short term deposits	2,756	2,756	1,969	1,970
Collateral paid under agreements to resell/for securities borrowed	40,659	40,708	28,623	28,677
Short term borrowings	(4,150)	(4,152)	(2,849)	(2,850)
Long term borrowings	(1,218)	(1,224)	(626)	(627)
Collateral received under agreements to repurchase/for securities loaned	(42,765)	(42,796)	(35,604)	(35,639)
Commercial paper issued	(150)	(150)	(85)	(85)

Gains and losses on financial assets and financial liabilities held or issued for trading:

The net gain from trading in financial assets and financial liabilities shown in the profit and loss account includes the following:

	<u>2006</u> £m	<u>As restated</u> <u>2005</u> £m
Bond and equity derivatives	463	107
Convertible bonds	(400)	(104)
Equities	237	(83)
Warrants	(81)	155
Government bonds	154	56
Bank and corporate bonds	(111)	(385)
Interest rate derivatives	(234)	161
Currency derivatives	3	(2)
Credit derivatives	141	188
	<u>172</u>	<u>93</u>

The information provided in the table above is shown on a pure product split basis, with no matching of the gains and losses on derivative contracts being offset against those on the underlying position. A significant amount of trading takes place on a strategy basis across a range of instruments and is managed accordingly.

NOMURA INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2006 (CONTINUED)

18. OPERATING LEASE COMMITMENTS

The company was committed to making the following payments during the next year in respect of operating leases expiring:

	<u>2006</u> <u>Buildings</u> <u>£'000</u>	<u>2006</u> <u>Other</u> <u>£'000</u>	<u>2005</u> <u>Buildings</u> <u>£'000</u>	<u>2005</u> <u>Other</u> <u>£'000</u>
Within one year	-	155	-	62
Within two to five years	3,680	1,025	3,680	2
After five years	11,759	-	11,705	-
	<u>15,439</u>	<u>1,180</u>	<u>15,385</u>	<u>64</u>

19. EMPLOYEES

The average number of persons employed by the company during the year and their location were as follows:

	<u>Year ended</u> <u>31 March 2006</u> <u>Number</u>	<u>Year ended</u> <u>31 March 2005</u> <u>Number</u>
Spain	7	6
Vienna	3	-
United Kingdom	<u>1,150</u>	<u>1,205</u>
	<u>1,160</u>	<u>1,211</u>

20. DIRECTORS' EMOLUMENTS

	<u>Year ended</u> <u>31 March 2006</u> <u>£'000</u>	<u>Year ended</u> <u>31 March 2005</u> <u>£'000</u>
Salaries, allowances and taxable benefits	982	1,232
Company contributions to money purchase pension scheme	1	1
Company contributions to Group Personal Pension	6	-
Bonuses	<u>615</u>	<u>111</u>
	<u>1,604</u>	<u>1,344</u>

One director (2005: 1) had retirement benefits accruing under a money purchase pension scheme and the company group personal pension. The money purchase pension scheme ceased October 2005 (2005: benefits accrued to one director).

The highest paid director received emoluments of £695,350 (2005: £782,496) and company contributions to the Group Personal Pension and the money purchase pension scheme of £5,500 (2005: N/A) and £1,232 (2005: £nil) respectively.

NOMURA INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2006 (CONTINUED)

21. CAPITAL COMMITMENTS

As at 31st March 2006 there were capital commitments of £2,409,216 relating to assets in the course of construction (2005: £3,433,783).

22. RELATED PARTY TRANSACTIONS

Profit and loss account

As part of the company's Merchant Banking operations, investments and financial arrangements are made with certain companies for the purpose of holding investments. As a result of these arrangements, these companies become related parties.

During the year ended 31st March 2006, £1.4m (2005: £nil) was earned from the interest income on loans financed and bonds. In addition, proceeds from investments wholly or partly disposed of during the year totalled £1.8m (2005: £5.4m).

The amounts above were transacted with the following related parties;

31st March 2006

Downing Holdings Limited
Nations Healthcare Limited

31st March 2005

Foamart Limited
St Martin's Holdings II Limited
Security Village.com Limited

Balance Sheet

Aggregate amounts due from related parties were as follows:

	<u>2006</u> £m	<u>2005</u> £m
Gross amount receivable	25.2	8.7
Reserve against gross balance	(1.9)	-
Net amount receivable	<u>23.3</u>	<u>8.7</u>

The amounts above were due from the following related parties:

31st March 2006

Meymott Street Holdings Limited
Annington Development (Holdings) Limited
Annington Rentals (Holdings) Limited
Annington Homes Limited
Nations Healthcare Limited

31st March 2005

Downing Holdings Limited
Meymott Street Holdings Limited
Annington Development (Holdings) Limited
Annington Rentals (Holdings) Limited
Annington Homes Limited

No amounts were due to related parties as at 31st March 2006 (2005: £nil).

As at 31 March 2006, the company had undrawn loan commitments of £375,000 (2005: £nil) and financial guarantees of £7,300,000 (2005: £3,400,000) in respect of Nations Healthcare Limited.

The company has taken advantage of the exemption in FRS 8 from disclosing related party transactions with other entities included in the consolidated financial statements for Nomura Holdings Inc.

NOMURA INTERNATIONAL PLC**NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2006 (CONTINUED)****23. CONTINGENT LIABILITIES AND COMMITMENTS**

In 1998 companies within the Nomura Group acquired approximately 46 per cent of the issued share capital in Investicni a postovni banka, a.s. (IPB), a Czech bank. On 16 June 2000, IPB was placed into forced administration. On 19 June 2000, IPB's entire business was transferred to Ceskoslovenska obchodni banka, a.s. (CSOB), another Czech bank.

On 25 February 2002, CSOB commenced a legal action in the Czech courts against the company and others arising out of Nomura's investment in IPB and the sale by IPB of a Czech brewery. CSOB is seeking damages of up to USD629 million.

The company's directors have sought legal advice in connection with this claim and believe that the risk of loss to Nomura International plc arising from CSOB's claims is remote.

The company had commitments as at 31st March 2006 amounting to £80,970,111 (2005: £76,767,350) in respect of undrawn note issuance facilities, loan commitments, outstanding capital contributions on investments in partnership interests and performance guarantees. This amount includes the related party loan commitments and performance guarantees disclosed in note 22.

As part of its normal business practices the company also had commitments as at 31st March 2006 in respect of forward starting purchase and resale agreements with third parties.

24. ULTIMATE PARENT UNDERTAKING

The company's ultimate parent undertaking and controlling party, and the parent that heads the largest group of undertakings for which consolidated financial statements are prepared, is Nomura Holdings Inc., incorporated in Japan. Copies of the group financial statements of Nomura Holdings Inc. may be obtained from 9-1, Nihonbashi 1-Chome, Chuo-ku, Tokyo 103-8645, Japan.

The parent that heads the smallest group of undertakings for which consolidated financial statements are prepared is Nomura Europe Holdings plc, a company registered at Nomura House, 1 St. Martin's-le-Grand, London EC1A 4NP, England.