

This financial report is composed of two parts. The first part is an abridged translation of "Kessan Tanshin (earnings report)" for the quarterly period ended 30th June, 2011, which includes the summary and the qualitative information sections. The second part is the "Quarterly Consolidated Financial Statements," which are basically prepared based on the "Kessan Tanshin (earnings report)" but applied for some items different presentation methods.



MEMBERSHIP
27th July, 2011

Consolidated Financial Results For the Quarterly Period Ended 30th June, 2011 <under Japanese GAAP>

Company name: Nomura Research Institute, Ltd.
 Listing: First Section of the Tokyo Stock Exchange
 Stock code: 4307
 URL: <http://www.nri.co.jp/>
 Representative: Tadashi Shimamoto, President, Representative Director, CEO & COO
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Scheduled date to file Quarterly Securities Report: 29th July, 2011
 Scheduled date to commence dividend payments: –
 Preparation of supplementary material on quarterly consolidated financial results: Yes
 Announcement for quarterly consolidated financial results (for institutional investors and analysts): Yes

(Millions of yen with fractional amounts discarded, unless otherwise noted)

1. Consolidated performance for the quarterly period ended 30th June, 2011 (from 1st April, 2011 to 30th June, 2011)

(1) Consolidated operating results (cumulative) (Percentages indicate year-on-year changes.)

	Sales		Operating profit		Ordinary profit		Net income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Quarterly period ended								
30th June, 2011	78,465	(2.7)	8,641	31.7	9,552	27.3	12,881	215.6
30th June, 2010	80,650	(1.1)	6,560	(34.1)	7,502	(30.9)	4,082	(33.3)

Note: Comprehensive income

Quarterly period ended 30th June, 2011: ¥12,763 million [703.0%]

Quarterly period ended 30th June, 2010: ¥1,589 million [–%]

	Net income per share – basic	Net income per share – diluted
Quarterly period ended	Yen	Yen
30th June, 2011	66.09	62.27
30th June, 2010	20.97	19.76

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
As of	Millions of yen	Millions of yen	%
30th June, 2011	374,142	239,476	63.7
31st March, 2011	380,032	231,074	60.5

Reference: Equity

As of 30th June, 2011: ¥238,172 million As of 31st March, 2011: ¥229,757 million

2. Cash dividends

	Annual dividends				
	First quarter	Second quarter	Third quarter	Fiscal year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended 31st March, 2011	–	26.00	–	26.00	52.00
Fiscal year ending 31st March, 2012	–				
Fiscal year ending 31st March, 2012 (Forecasts)		26.00	–	26.00	52.00

Note: Revisions to the forecasts of cash dividends most recently announced: None

3. Forecasts of financial results for the fiscal year ending 31st March, 2012 (from 1st April, 2011 to 31st March, 2012)

(Percentages indicate year-on-year changes.)

	Sales		Operating profit		Ordinary profit		Net income		Net income per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Six months ending 30th September, 2011	160,000	(1.3)	19,000	18.7	20,000	17.0	19,000	96.7	97.48
Fiscal year ending 31st March, 2012	330,000	1.1	40,000	4.1	41,500	3.6	31,500	35.8	161.62

Note: Revisions to the forecasts of financial results most recently announced: None

4. Others

- (1) Changes in significant subsidiaries during the current three months (changes in specified subsidiaries resulting in change in scope of consolidation): None
- (2) Adoption of specific accounting in preparing quarterly consolidated financial statements: Yes
- (3) Changes in accounting policies, changes in accounting estimates, and restatement of prior period financial statements after error corrections
 - a. Changes in accounting policies due to revisions to accounting standards and other regulations: Yes
 - b. Changes in accounting policies due to other reasons: None
 - c. Changes in accounting estimates: None
 - d. Restatement of prior period financial statements after error corrections: None
- (4) Number of shares in issue (common stock)
 - a. Total number of shares in issue at the end of the period (including treasury stock)

As of 30th June, 2011	225,000,000 shares
As of 31st March, 2011	225,000,000 shares
 - b. Number of shares of treasury stock at the end of the period

As of 30th June, 2011	29,863,243 shares
As of 31st March, 2011	30,277,343 shares
 - c. Average number of shares during the period (cumulative from the beginning of the fiscal year)

Quarterly period ended 30th June, 2011	194,906,460 shares
Quarterly period ended 30th June, 2010	194,628,411 shares

Note: The NRI shares held by the trust exclusive for NRI Group Employee Stock Ownership Association are included as treasury stock.

* Indication regarding execution of quarterly review procedures

At the time of disclosure of this quarterly consolidated financial results report, the review procedures for quarterly financial statements in accordance with the Financial Instruments and Exchange Law are incomplete.

* Proper use of forecasts of financial results, and other special matters

The business forecasts are based on information available to management at the present time and certain assumptions judged to be rational. As such, actual sales and profits may differ from this forecast due to uncertain factors present in the forecast or future changes in business circumstances. Also, forecasted cash dividends per share are based on the current business environment and forecasts of financial results.

1. Qualitative information regarding first-quarter settlement of accounts

(1) Qualitative information regarding consolidated operating results

During the current three months (from 1st April, 2011 to 30th June, 2011), although production and exports considerably declined under the effect of the Great East Japan Earthquake and corporate economic sentiment deteriorated, the Japanese economy was observed to be picking up in some areas. Nevertheless, with companies remaining cautious on investment in information systems, the information services industry continued to face a severe business environment.

Operating in such an environment, Nomura Research Institute and its consolidated subsidiaries (“the NRI Group”) carried out its business activities with the combined strength of the Group, allowing it to seamlessly provide services encompassing consulting through to system development and operations. In addition, led by an earthquake recovery assistance project team that was launched after the Great East Japan Earthquake, the NRI Group has provided various solutions such as recommendations on promoting emergency measures toward recovery from the earthquake and a service that shows information on accessible roads in the vicinity of disaster afflicted areas. Sales totaled ¥78,465 million (down 2.7% year on year), owing mainly to declines in the Financial IT Solutions and IT Platform Services compared with the same period of the previous fiscal year. Cost of sales was ¥55,689 million (down 7.2%) as a result of the promotion of software investment for the transition to multi-user system services for major customers in the securities sector; a decrease the costs of expanding the client base centered on the acquisition of new customers and strengthening earnings structures; and a decrease in system operation expenses following a decrease in system management and operation services for major customers in the securities sector. Gross profit was ¥22,776 million (up 10.5%). Selling, general and administrative expenses was ¥14,135 million, roughly the same as the same period of the previous fiscal year (up 0.6%), operating profit was ¥8,641 million (up 31.7%) and ordinary profit was ¥9,552 million (up 27.3%). Due to a gain on sales of investments in affiliates (gain on the sale of shares of Nomura Holdings, Inc., which were allotted to the Company in exchange for shares of Nomura Land and Building Co., Ltd. that the Company held), among others, net income was ¥12,881 million (up 215.6%).

Segment information

The business results by segment (sales includes intersegment sales) are as follows.

Effective 1st April, 2011, a reorganization was carried out and comparisons between segments with the same period of the previous fiscal year shown below are based on amounts restated to reflect this reorganization.

(Consulting)

Although business results of this segment had been trending upwards since the second half of the previous fiscal year, the growth was slowed by the impact of the Great East Japan Earthquake. As a result, they were stronger than the same period of the previous fiscal year due to an increase in consulting projects related to corporate management strategies. The Consulting segment posted sales of ¥4,328 million (up 13.6% from the same period of the previous fiscal year) and operating loss of ¥101 million (compared with an operating loss of ¥732 million in the same period of the previous fiscal year.)

(Financial IT Solutions)

Sales were impacted by decreases in development projects to the banking sector and system management and operation services to major customers in the securities sector. On the cost front, costs recorded in the same period of the previous fiscal year associated with projects aimed at strengthening the earnings structure were not recorded in the current first quarter, and system operation expenses declined owing to a decline in system management and operation services to major customers.

As a result, the Financial IT Solutions segment posted sales of ¥47,764 million (down 3.9% from the same period of the previous fiscal year) and operating profit of ¥5,100 million (up 36.3%).

(Industrial IT Solutions)

In terms of sales, although development projects to the distribution sector declined, development projects to the manufacturing and services sectors increased. On the cost front, there was a decrease in costs for expanding the client base centered on the acquisition of new customers.

As a result, the Industrial IT Solutions segment posted sales of ¥22,586 million (up 1.8% from the same period of the previous fiscal year) and operating profit of ¥638 million (up 316.1%).

(IT Platform Services)

In terms of sales to external customers, there was a decline in system management and operation services to major customers in the securities sector. As for intersegment sales, there was also a decline in system management and operation services to the Financial IT Solutions segment. On the cost front, system operation expenses declined as a result of a decline in system management and operation services to major customers.

As a result, the IT Platform Services segment posted sales of ¥18,168 million (down 9.2% from the same period of the previous fiscal year) and operating profit of ¥2,470 million (down 6.1%).

(Others)

Others posted sales of ¥2,792 million (down 5.9% from the same period of the previous fiscal year) and operating loss of ¥1 million (compared with an operating profit of ¥115 million in the same period of the previous fiscal year).

(2) Qualitative information regarding consolidated financial position

At the end of the first quarter (30th June, 2011), current assets were ¥166,763 million (down 6.1% from the end of the previous fiscal year), noncurrent assets were ¥207,379 million (up 2.4%), current liabilities were ¥55,593 million (down 18.4%), noncurrent liabilities were ¥79,071 million (down 2.1%), total net assets were ¥239,476 million (up 3.6%) and total assets were ¥374,142 million (down 1.5%).

The main changes from the end of the previous fiscal year are as follows.

While accounts receivable and accounts payable decreased by ¥26,449 million and ¥8,131 million, respectively, short-term investment securities and other receivables increased by ¥11,487 million and ¥8,427 million, respectively. As a result of a share exchange of shares held by the Company and other transactions, investment securities decreased by ¥10,204 million and investments in affiliates increased by ¥16,233 million.

Quarterly Consolidated Financial Statements

Nomura Research Institute, Ltd.

For the Quarterly Period Ended 30th June, 2011
(Unaudited)

Unless otherwise noted, the amounts included in the financial statements are expressed in millions of yen and thousands of U.S. dollars with fractional amounts rounded off.

Nomura Research Institute, Ltd.

Quarterly Consolidated Financial Statements

For the quarterly period ended 30th June, 2011

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Nomura Research Institute, Ltd.

Quarterly Consolidated Balance Sheets

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars (Note 3)</i>
	30th June, 2011	31st March, 2011	30th June, 2011
	(Unaudited)		(Unaudited)
Assets			
Current assets:			
Cash and bank deposits (<i>Notes 4 and 7</i>)	¥ 11,081	¥ 16,758	\$ 137,345
Short-term investment securities (<i>Notes 4, 5 and 7</i>)	91,149	79,661	1,129,760
Accounts receivable and other receivables (<i>Note 4</i>)	53,267	71,289	660,226
Inventories	320	256	3,966
Deferred income taxes	6,850	6,825	84,903
Other current assets	4,149	2,876	51,425
Allowance for doubtful accounts	(53)	(71)	(657)
Total current assets	166,763	177,594	2,066,968
Property and equipment:			
Land	12,323	12,323	152,739
Buildings, net	33,512	34,399	415,369
Machinery and equipment, net	11,383	11,532	141,089
Leased assets, net	176	197	2,181
Property and equipment, net	57,394	58,451	711,378
Software and other intangibles	57,406	57,641	711,527
Investment securities (<i>Notes 4 and 5</i>)	33,760	43,965	418,443
Investments in affiliates (<i>Notes 4 and 5</i>)	17,499	1,265	216,894
Deferred income taxes	19,413	19,390	240,617
Long-term loans receivable (<i>Note 4</i>)	7,735	7,706	95,873
Lease investment assets	546	343	6,767
Other assets	13,715	13,774	169,993
Allowance for doubtful accounts	(89)	(96)	(1,103)
Total assets	¥374,142	¥380,033	\$4,637,357

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars (Note 3)</i>
	30th June, 2011	31st March, 2011	30th June, 2011
	(Unaudited)		(Unaudited)
Liabilities and Net Assets			
Current liabilities:			
Accounts payable (<i>Note 4</i>)	¥ 14,349	¥ 22,481	\$ 177,851
Current portion of long-term loans payable	2,607	2,607	32,313
Lease obligations	247	223	3,061
Accrued expenses	14,435	16,774	178,917
Income taxes payable	7,697	9,425	95,402
Other current liabilities	16,259	16,650	201,524
Total current liabilities	55,594	68,160	689,068
Convertible bonds (<i>Note 4</i>)	49,997	49,997	619,695
Long-term loans payable	9,176	9,176	113,733
Lease obligations	504	339	6,247
Deferred income taxes	1	1	12
Allowance for employees' retirement benefits	18,761	20,689	232,536
Asset retirement obligations	632	596	7,833
Net assets (<i>Notes 6 and 8</i>):			
Shareholders' equity:			
Common stock:			
Authorized – 750,000,000 shares at 30th June, 2011 and 31st March, 2011			
Issued – 225,000,000 shares at 30th June, 2011 and 31st March, 2011	18,600	18,600	230,540
Additional paid-in capital	14,800	14,994	183,441
Retained earnings	272,604	264,866	3,378,830
Treasury stock, at cost			
– 29,863,243 shares at 30th June, 2011 and 30,277,343 shares at 31st March, 2011	(71,297)	(72,285)	(883,701)
Total shareholders' equity	234,707	226,175	2,909,110
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities (<i>Note 5</i>)	6,256	6,258	77,541
Foreign currency translation adjustment	(2,791)	(2,675)	(34,593)
Total accumulated other comprehensive income	3,465	3,583	42,948
Share subscription rights	1,305	1,317	16,175
Total net assets	239,477	231,075	2,968,233
Total liabilities and net assets	¥374,142	¥380,033	\$4,637,357

See accompanying notes to quarterly consolidated financial statements.

Nomura Research Institute, Ltd.

Quarterly Consolidated Statements of Income and Comprehensive Income

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars (Note 3)</i>
	Three months ended 30th June,		Three months ended 30th June,
	2011	2010	2011
	(Unaudited)	(Unaudited)	(Unaudited)
Sales	¥78,466	¥80,651	\$972,558
Cost of sales	55,689	60,041	690,245
Gross profit	22,777	20,610	282,313
Selling, general and administrative expenses (Notes 9 and 10)	14,136	14,049	175,211
Operating profit	8,641	6,561	107,102
Other income (expenses):			
Interest and dividend income	936	1,065	11,601
Equity in earnings (losses) of affiliates	7	(42)	87
Interest expense	(21)	(4)	(260)
Loss on investment securities	(412)	(9)	(5,107)
Gain on investments in affiliates	8,564	–	106,148
Bonus dividends income	3,011	–	37,320
Gain on reversal of subscription rights to shares	58	–	719
Impact of applying accounting standard for asset retirement obligations	–	(364)	–
Other, net	(11)	(21)	(136)
	12,132	625	150,372
Income before income taxes and minority interests	20,773	7,186	257,474
Provision for income taxes (Note 2)	7,892	3,102	97,819
Income before minority interests	12,881	4,084	159,655
Minority interests in gain	–	2	–
Net income (Note 8)	¥12,881	¥ 4,082	\$159,655
Minority interests in gain	¥ –	¥ 2	\$ –
Income before minority interests	12,881	4,084	159,655
Other comprehensive income			
Valuation difference on available-for-sale securities	(2)	(2,244)	(25)
Foreign currency translation adjustment	(115)	(245)	(1,425)
Share of other comprehensive income of associates accounted for using equity method	(1)	(6)	(12)
Total other comprehensive income	(118)	(2,495)	(1,462)
Comprehensive income	¥12,763	¥ 1,589	\$158,193
(Comprehensive income attributable to)			
Comprehensive income attributable to owners of the parent	¥12,763	¥ 1,587	\$158,193
Comprehensive income attributable to minority interests	–	2	–

See accompanying notes to quarterly consolidated financial statements.

Nomura Research Institute, Ltd.

Quarterly Consolidated Statements of Changes in Net Assets

Millions of yen

	Shareholders' equity					Accumulated other comprehensive income					Total net assets
	Common stock	Additional paid-in capital	Retained earnings	Treasury stock, at cost	Total shareholders' equity	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Total accumulated other comprehensive income	Share subscription rights	Minority interests	
Balance at 31st March, 2011	¥18,600	¥14,994	¥264,866	¥(72,285)	¥226,175	¥6,258	¥(2,675)	¥3,583	¥1,317	¥ –	¥231,075
Disposition of treasury stock	–	–	–	988	988	–	–	–	–	–	988
Net income	–	–	12,881	–	12,881	–	–	–	–	–	12,881
Cash dividends paid	–	–	(5,063)	–	(5,063)	–	–	–	–	–	(5,063)
Loss on disposition of treasury stock	–	(194)	(80)	–	(274)	–	–	–	–	–	(274)
Net changes other than in shareholders' equity	–	–	–	–	–	(2)	(116)	(118)	(12)	–	(130)
Balance at 30th June, 2011 (unaudited)	¥18,600	¥14,800	¥272,604	¥(71,297)	¥234,707	¥6,256	¥(2,791)	¥3,465	¥1,305	¥ –	¥239,477

Millions of yen

	Shareholders' equity					Accumulated other comprehensive income					Total net assets
	Common stock	Additional paid-in capital	Retained earnings	Treasury stock, at cost	Total shareholders' equity	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Total accumulated other comprehensive income	Share subscription rights	Minority interests	
Balance at 31st March, 2010	¥18,600	¥15,018	¥251,800	¥(72,526)	¥212,892	¥ 8,436	¥(2,256)	¥ 6,180	¥1,155	¥ 10	¥220,237
Disposition of treasury stock	–	–	–	57	57	–	–	–	–	–	57
Net income	–	–	4,082	–	4,082	–	–	–	–	–	4,082
Cash dividends paid	–	–	(5,060)	–	(5,060)	–	–	–	–	–	(5,060)
Gain on disposition of treasury stock	–	4	–	–	4	–	–	–	–	–	4
Net changes other than in shareholders' equity	–	–	–	–	–	(2,244)	(251)	(2,495)	46	(10)	(2,459)
Balance at 30th June, 2010 (unaudited)	¥18,600	¥15,022	¥250,822	¥(72,469)	¥211,975	¥ 6,192	¥(2,507)	¥ 3,685	¥1,201	¥ –	¥216,861

Thousands of U.S. dollars (Note 3)

	Shareholders' equity					Accumulated other comprehensive income					Total net assets
	Common stock	Additional paid-in capital	Retained earnings	Treasury stock, at cost	Total shareholders' equity	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Total accumulated other comprehensive income	Share subscription rights	Minority interests	
Balance at 31st March, 2011	\$230,540	\$185,845	\$3,282,921	\$(895,947)	\$2,803,359	\$77,566	\$(33,156)	\$44,410	\$16,324	\$ –	\$2,864,093
Disposition of treasury stock	–	–	–	12,246	12,246	–	–	–	–	–	12,246
Net income	–	–	159,655	–	159,655	–	–	–	–	–	159,655
Cash dividends paid	–	–	(62,754)	–	(62,754)	–	–	–	–	–	(62,754)
Loss on disposition of treasury stock	–	(2,404)	(992)	–	(3,396)	–	–	–	–	–	(3,396)
Net changes other than in shareholders' equity	–	–	–	–	–	(25)	(1,437)	(1,462)	(149)	–	(1,611)
Balance at 30th June, 2011 (unaudited)	\$230,540	\$183,441	\$3,378,830	\$(883,701)	\$2,909,110	\$77,541	\$(34,593)	\$42,948	\$16,175	\$ –	\$2,968,233

See accompanying notes to quarterly consolidated financial statements.

Nomura Research Institute, Ltd.

Quarterly Consolidated Statements of Cash Flows

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars (Note 3)</i>
	Three months ended 30th June,		Three months ended 30th June,
	2011	2010	2011
	(Unaudited)	(Unaudited)	(Unaudited)
Cash flows from operating activities			
Income before income taxes and minority interests	¥20,773	¥ 7,186	\$ 257,474
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization	7,138	7,634	88,473
Interest and dividend income	(3,947)	(1,065)	(48,921)
Interest expense	21	4	260
Loss on investment securities	412	9	5,107
Gain on investments in affiliates	(8,564)	-	(106,148)
Impact of applying accounting standard for asset retirement obligations	-	364	-
Changes in operating assets and liabilities:			
Accounts receivable and other receivables, net of advance payments received	17,573	18,249	217,811
Allowance for doubtful accounts	(25)	(57)	(310)
Accounts payable	(3,755)	(7,340)	(46,542)
Inventories	(64)	(160)	(793)
Allowance for employees' retirement benefits and welfare pension plan	(1,928)	(1,902)	(23,897)
Other	(5,719)	(3,652)	(70,885)
Subtotal	21,915	19,270	271,629
Interest and dividends received	3,988	1,056	49,430
Interest paid	(3)	(4)	(37)
Income taxes paid	(9,539)	(9,388)	(118,233)
Net cash provided by operating activities	16,361	10,934	202,789
Cash flows from investing activities			
Payments for time deposits	(50)	-	(620)
Increase in short-term investment securities	(5,530)	(7,024)	(68,542)
Proceeds from sales and redemption of short-term investment securities	3,000	-	37,184
Acquisition of property and equipment	(4,664)	(4,311)	(57,809)
Increase in software and other intangibles	(4,644)	(2,417)	(57,561)
Payments for asset retirement obligations	(23)	-	(285)
Increase in investment securities	(509)	(3)	(6,309)
Proceeds from sales and redemption of investment securities	3,085	80	38,237
Increase in investments in affiliates	-	(15)	-
Other	13	11	162
Net cash used in investing activities	(9,322)	(13,679)	(115,543)
Cash flows from financing activities			
Increase in short-term loans payable	4,000	3,500	49,579
Decrease in short-term loans payable	(4,000)	(3,500)	(49,579)
Repayment of obligation under finance leases	(15)	(27)	(186)
Proceeds from sales of treasury stock	663	-	8,218
Cash dividends paid	(5,031)	(5,028)	(62,357)
Net cash used in financing activities	(4,383)	(5,055)	(54,325)
Effect of exchange rate changes on cash and cash equivalents	(80)	(225)	(992)
Net increase (decrease) in cash and cash equivalents	2,576	(8,025)	31,929
Cash and cash equivalents at beginning of period	82,085	59,776	1,017,414
Cash and cash equivalents at end of period (Note 7)	¥84,661	¥ 51,751	\$1,049,343

See accompanying notes to quarterly consolidated financial statements.

Nomura Research Institute, Ltd.

Notes to Quarterly Consolidated Financial Statements

30th June, 2011

1. Description of Business, Basis of Presentation, Accounting Change, and Additional Information

Description of Business

The NRI Group (Nomura Research Institute, Ltd. (the “Company”) and its 15 consolidated subsidiaries) and its affiliates (2 companies) engage in the following four business services: “consulting services,” comprised of research, management consulting and system consulting; “system development & application sales,” comprised of system development and the sales of package software products; “system management & operation services,” comprised of outsourcing services, multi-user system services, and information services; and “product sales.” Information on the Company’s operations by segment is included in Note 12.

Nomura Research Institute, Ltd. and UBIQLINK, Ltd., a wholly-owned subsidiary, agreed to merge during the first quarter ended 30th June, 2011. This merger was completed in July, 2011.

Basis of Presentation

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

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

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

Accounting Change

Effective the first quarter ended 30th June, 2011, the “Accounting Standard for Earnings Per Share” (Accounting Standards Board of Japan (“ASBJ”) Statement No. 2) and the “Guidance on Accounting Standard for Earnings Per Share” (ASBJ Guidance No. 4) has been applied. The Company has changed the method by which it calculates quarterly diluted earnings per share as follows. For stock options that vest after a specified service period, the Company now includes the portion of stock options’ fair value attributable to future service when calculating the cash proceeds assumed to be receivable upon exercise of the stock options. Please see Note 8, “Per Share Data” for the impact of this change.

1. Description of Business, Basis of Presentation, Accounting Change, and Additional Information (continued)

Additional Information

(Application of the “Accounting Standard for Accounting Changes and Error Corrections”)

Effective the first quarter ended 30th June, 2011, the “Accounting Standard for Accounting Changes and Error Corrections” (ASBJ Statement No. 24) and the “Guidance on Accounting Standard for Accounting Changes and Error Corrections” (ASBJ Guidance No. 24) has been applied.

(Accounting for Trust-type Employee Stock Ownership Incentive Plan)

The Company introduced a “Trust-type Employee Stock Ownership Incentive Plan” in March 2011. The purpose of introducing this plan is to promote the Company’s perpetual growth by providing incentives to employees (including employees of consolidated subsidiaries; the same shall apply in this section) for increasing the Company’s corporate value in the mid- to long-term and by enhancing benefits and welfare of employees.

This is an incentive plan under which gains from the Company’s share price appreciation are returned to all the employee beneficiaries who participate in the Employee Stock Ownership Group (the “ESOP Group”). The “Employee Stock Ownership Trust” (the “ESOP Trust”) was established exclusively for the ESOP Group to carry out this plan. The ESOP Trust acquired a number of the Company’s shares, which the ESOP Group would acquire over a period of five years subsequent to the establishment of the ESOP Trust. Then, the ESOP Trust sells them each time the ESOP Group makes an acquisition of the Company’s shares. When the share price appreciates and earnings have accumulated in the ESOP Trust upon its maturity, a cash distribution of the funds will be made to each beneficiary in proportion to the respective beneficiary’s contribution. Since the Company guarantees the loans of the ESOP Trust taken out to purchase the Company’s shares, the Company is obligated to pay the remaining liabilities of the ESOP Trust under a guarantee agreement if any loan liabilities remain upon maturity of the ESOP Trust.

The Company accounts for the transactions involving the ESOP Trust as its own. And the assets, liabilities, expenses and income of the ESOP Trust are included in the accompanying consolidated financial statements. Therefore, the Company’s shares owned by the ESOP Trust are treated as treasury stock of the Company, and the loans of the ESOP Trust are treated as the loans of the Company. Also, the Company did not recognize the transfer of treasury stock when the Company sold treasury stock to the ESOP Trust. Each time the ESOP Trust sells treasury stock to the ESOP Group, however, the Company recognizes transfer of treasury stock. As the amounts equal to the capital gain of the ESOP Trust will be distributed to the beneficiaries after the termination of the trust, the amounts are treated as expenses for the year the gain is incurred.

The number of NRI shares owned by the ESOP Trust is 5,812,400 shares on 30th June, 2011.

2. Specific Accounting Policy Adopted in Preparing Quarterly Consolidated Financial Statements

Calculation of Tax Expense

At the end of each interim period the Company makes its best estimate of the effective tax rate expected to be applicable for the full fiscal year. Tax expenses for interim periods are computed multiplying income before income taxes and minority interests by the aforementioned estimated annual effective tax rate for the annual period. Deferred income taxes are included in provision for income taxes in the quarterly consolidated statements of income.

3. U.S. Dollar Amounts

The Company maintains its books of account in yen. The U.S. dollar amounts included in the accompanying quarterly consolidated financial statements and the notes thereto represent the arithmetic results of translating yen into dollars at ¥80.68 = U.S.\$1.00, the rate of exchange prevailing on 30th June, 2011. The U.S. dollar amounts are included solely for the convenience of the reader and the translation is not intended to imply that the assets and liabilities which originated in yen have been or could be readily converted, realized or settled in U.S. dollars at the above or any other rate.

4. Financial Instruments

Fair value of financial instruments

The carrying amount of financial instruments on the quarterly consolidated balance sheets as of 30th June, 2011 and 31st March, 2011 and estimated fair values are shown in the following table. The following table does not include financial instruments for which it is extremely difficult to determine fair values. (see Note 2).

	<i>Millions of yen</i>					
	30th June, 2011			31st March, 2011		
	Carrying amount	Estimated fair value	Difference	Carrying amount	Estimated fair value	Difference
		(Unaudited)				
Assets:						
Cash and bank deposits	¥ 11,081	¥ 11,081	¥ –	¥ 16,758	¥ 16,758	¥ –
Accounts receivable and other receivables	53,267	53,267	–	71,289	71,289	–
Short-term investment securities, investment securities, and investments in affiliates	118,031	118,031	–	109,183	109,183	–
Long-term loans receivable	7,735	8,166	431	7,706	8,107	401
Total	<u>¥190,114</u>	<u>¥190,545</u>	<u>¥ 431</u>	<u>¥204,936</u>	<u>¥205,337</u>	<u>¥ 401</u>
Liabilities:						
Accounts payable	¥ 14,349	¥ 14,349	¥ –	¥ 22,481	¥ 22,481	¥ –
Convertible bonds	49,997	49,122	(875)	49,997	48,797	(1,200)
Long-term loans payable*	11,783	11,783	–	11,783	11,783	–
Total	<u>¥ 76,129</u>	<u>¥ 75,254</u>	<u>¥(875)</u>	<u>¥ 84,261</u>	<u>¥ 83,061</u>	<u>¥(1,200)</u>

* Long-term loans payable included the current portion of long-term loans payable totaling ¥2,607 million (\$32,313 thousand) and ¥2,607 million as of 30th June 2011 and 31st March, 2011, respectively.

	<i>Thousands of U.S. dollars</i>		
	30th June, 2011		
	Carrying amount	Estimated fair value	Difference
		(Unaudited)	
Assets:			
Cash and bank deposits	\$ 137,345	\$ 137,345	\$ –
Accounts receivable and other receivables	660,226	660,226	–
Short-term investment securities, investment securities, and investments in affiliates	1,462,952	1,462,952	–
Long-term loans receivable	95,873	101,215	5,342
Total	<u>\$2,356,396</u>	<u>\$2,361,738</u>	<u>\$ 5,342</u>
Liabilities:			
Accounts payable	\$ 177,851	\$ 177,851	\$ –
Convertible bonds	619,695	608,850	(10,845)
Long-term loans payable	146,046	146,046	–
Total	<u>\$ 943,592</u>	<u>\$ 932,747</u>	<u>\$(10,845)</u>

4. Financial Instruments (continued)

Fair value of financial instruments (continued)

Note 1: Methods to determine the estimated fair value of financial instruments.

Assets

- a. Cash and bank deposits, accounts receivable and other receivables
Their carrying amount approximates the fair value due to the short maturity of these instruments.
- b. Short-term investment securities, investment securities and investments in affiliates
The fair value of stocks is based on quoted market prices. The fair value of bonds is based on either quoted market prices or prices provided by the financial institution making markets in these securities.
- c. Long-term loans receivable
Long-term loans receivable consists of deposits and guarantee money. The fair value of long-term receivables is based on the present value of the total future cash flows, which are the principal and the interest, discounted by risk free rate relating to the time remaining until maturity.

Liabilities

- a. Accounts payable
Their carrying amount approximates the fair value due to the short maturity of these instruments.
- b. Convertible bonds
The fair value of convertible bonds is based on the quoted market price.
- c. Long-term loans payable
Long-term loans payable, to which variable rates are applied, approximates the carrying amount because it reflects market interest rates within a short period of time.

Note 2: The following financial instruments are not included in short-term investment securities, investment securities and investments in affiliates because no quoted market price is available and it is extremely difficult to determine the fair value.

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	30th June, 2011	31st March, 2011	30th June, 2010
	(Unaudited)		(Unaudited)
Unlisted companies' shares	¥24,122	¥15,328	\$298,984
Investments in partnerships	255	380	3,161

*1 Unlisted companies' shares are not measured at fair value because they have no market prices on exchanges, and it is extremely difficult to determine fair value. Unlisted companies' shares included investments in affiliates accounted for under the equity method totaling ¥776 million (\$9,618 thousand) and ¥830 million as of 30th June, 2011 and 31st March, 2011, respectively.

*2 For investments in partnerships, if fair value for part or all of the components is extremely difficult to determine, such components are not measured at fair value.

5. Investments

The Company did not hold any trading securities or held-to-maturity securities with determinable market value at 30th June, 2011 and 31st March, 2011.

The following is a summary of the market value information concerning available-for-sale securities included in short-term investment securities, investment securities and investments in affiliates at 30th June, 2011 and 31st March, 2011:

Securities classified as available-for-sale securities

	<i>Millions of yen</i>					
	30th June, 2011			31st March, 2011		
	Acquisition cost	Carrying amount	Unrealized gain (loss)	Acquisition cost	Carrying amount	Unrealized gain (loss)
	(Unaudited)					
Equity securities	¥ 33,680	¥ 44,231	¥10,551	¥ 25,543	¥ 36,020	¥10,477
Bonds:						
Government bonds	10,000	10,000	–	1	1	–
Corporate bonds	22,290	22,255	(35)	21,079	21,050	(29)
Other	2,902	2,902	–	–	–	–
	35,192	35,157	(35)	21,080	21,051	(29)
Other	62,275	62,243	(32)	66,928	66,990	62
Total	¥131,147	¥141,631	¥10,484	¥113,551	¥124,061	¥10,510

	<i>Thousands of U.S. dollars</i>		
	30th June, 2011		
	Acquisition cost	Carrying amount	Unrealized gain (loss)
	(Unaudited)		
Equity securities	\$ 417,452	\$ 548,228	\$130,776
Bonds:			
Government bonds	123,946	123,946	–
Corporate bonds	276,277	275,843	(434)
Other	35,969	35,969	–
	436,192	435,758	(434)
Other	771,877	771,480	(397)
Total	\$1,625,521	\$1,755,466	\$129,945

Securities whose estimated fair value is deemed extremely difficult to measure were included in the above table. Impairment losses on the securities classified as available-for-sale securities as a result of a permanent decline in value for the first quarter ended 30th June, 2011, and 31st March, 2011 were ¥397 million (\$4,921 thousand) and ¥46 million, consisting of ¥392 million (\$4,859 thousand) and ¥37 million for securities whose fair value is determinable and ¥5 million (\$62 thousand) and ¥9 million for securities whose estimated fair value is deemed extremely difficult to measure. The Company has established a policy for the recognition of impairment losses under the following conditions as of 30th June, 2011, and 31st March, 2011:

- i) For securities whose fair value has declined by 30% or more and for which a recovery to fair value is not deemed probable.
- ii) For securities whose estimated fair value is deemed extremely difficult to measure, the Company recognizes impairment if the net asset value of the investment has declined by 50% or more and for which a recovery to acquisition cost is not deemed probable.

6. Net Assets

The Corporation Law of Japan provides that an amount equal to at least 10% of the amount to be disbursed as distributions of capital surplus and retained earnings be appropriated to the legal reserve until the sum of the legal reserve and additional paid-in capital equals 25% of the common stock account. In accordance with the Corporation Law, the Company provides a legal reserve which is included in retained earnings. This reserve amounted to ¥570 million (\$7,065 thousand) and ¥570 million at 30th June, 2011 and 31st March, 2011, respectively.

Dividends

The following appropriation of retained earnings applicable to the year ended 31st March, 2011 was approved at a meeting of the Board of Directors held on 18th May, 2011 and went into effect on 3rd June, 2011:

	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>
Cash dividends approved on 18th May, 2011 (¥26.00 = U.S.\$0.32 per share)	¥5,063	\$62,754

* Dividends of ¥161 million (\$1,996 thousand) paid to the ESOP Trust are not included in total dividends amount.

7. Cash and Cash Equivalents

A reconciliation between cash and bank deposits in the accompanying quarterly consolidated balance sheets and cash and cash equivalents in the accompanying quarterly consolidated statements of cash flows at 30th June, 2011 and 2010 is as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	30th June,		30th June,
	2011	2010	2011
	(Unaudited)		(Unaudited)
Cash and bank deposits	¥ 11,081	¥12,430	\$ 137,345
Short-term investment securities	91,149	46,323	1,129,760
Time deposits with maturities of more than three months when deposited	(810)	–	(10,040)
Bonds and other investments maturing in more than three months from the acquisition date	(16,759)	(7,002)	(207,722)
Cash and cash equivalents	<u>¥ 84,661</u>	<u>¥51,751</u>	<u>\$1,049,343</u>

8. Per Share Data

Per share data is summarized as follows:

	<i>Yen</i>		<i>U.S. dollars</i>
	Three months ended 30th June,		Three months ended 30th June,
	2011	2010	2011
	(Unaudited)		(Unaudited)
Earnings per share – basic	¥66.09	¥20.97	\$0.82
Earnings per share – diluted	62.27	19.76	0.77

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

The computation of earnings per share and diluted earnings per share for the three months ended 30th June, 2011 and 2010 is as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	Three months ended 30th June,		Three months ended 30th June,
	2011	2010	2011
	(Unaudited)		(Unaudited)
Numerator:			
Earnings	¥12,881	¥4,082	\$159,655
Earnings not available to common shareholders	(–)	(–)	(–)
Earnings available to common shareholders	¥12,881	¥4,082	\$159,655
	<i>Thousands of Shares</i>		
Denominator:			
Weighted-average number of shares of common stock outstanding – basic *1	194,907	194,629	194,907
Potentially dilutive shares of common stock:			
Convertible bonds *2	11,839	11,836	11,839
Stock options	117	119	117
Total	11,956	11,955	11,956
Weighted-average number of shares of common stock outstanding – diluted	206,863	206,584	206,863

*1 NRI shares owned by the ESOP Trust are included in treasury stock.

*2 The conversion price for the 1st unsecured convertible bonds with stock acquisition rights was adjusted from ¥4,224 to ¥4,222.90 effective from 30th March, 2011.

8. Per Share Data (continued)

The following potentially issuable shares of common stock would have an antidilutive effect, and thus have not been included in the diluted earnings per share calculation for the three months ended 30th June, 2011 and 2010:

	<i>Shares</i>	
	Three months ended 30th June,	
	2011	2010
	<i>(Unaudited)</i>	
a) 4th share subscription rights	–	0 *
b) 6th share subscription rights	347,500	367,500
c) 8th share subscription rights	375,000	415,000
d) 10th share subscription rights	417,500	417,500
e) 12th share subscription rights	440,000	440,000
f) 14th share subscription rights	445,000	–

* The exercise period ended 30th June, 2010.

(Accounting Change)

Effective the first quarter ended 30th June, 2011, the “Accounting Standard for Earnings Per Share” (Accounting Standards Board of Japan (“ASBJ”) Statement No. 2) and the “Guidance on Accounting Standard for Earnings Per Share” (ASBJ Guidance No. 4) has been applied.

The Company has changed the method by which it calculates quarterly diluted earnings per share as follows. For stock options that vest after a specified service period, the Company now includes the portion of stock options’ fair value attributable to future service when calculating the cash proceeds assumed to be receivable upon exercise of the stock options.

Diluted earnings per share for the first quarter ended 30th June, 2010 in cases where these accounting standards were not adopted were ¥19.76.

9. Selling, General and Administrative Expenses

The details of selling, general and administrative expenses for the three months ended 30th June, 2011 and 2010 are summarized as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	Three months ended 30th June,		Three months ended 30th June,
	2011	2010	2011
	(Unaudited)		(Unaudited)
Personnel expenses	¥ 8,147	¥ 7,704	\$100,979
Rent	1,216	1,249	15,072
Subcontractor costs	1,712	1,528	21,220
Other	3,061	3,568	37,940
Total	<u>¥14,136</u>	<u>¥14,049</u>	<u>\$175,211</u>

10. Research and Development Expenses

Research and development expenses included in selling, general and administrative expenses for the three months ended 30th June, 2011 and 2010 are summarized as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	Three months ended 30th June,		Three months ended 30th June,
	2011	2010	2011
	(Unaudited)		(Unaudited)
	¥679	¥681	\$8,416

11. Contingent Liabilities

There were no material contingent liabilities at 30th June, 2011 and 31st March, 2011.

12. Segment Information

1) Net sales and profit (loss) by reportable segments

Millions of yen

Three months ended 30th June, 2011									
Reportable segment									
	Financial IT Consulting	Industrial IT Solutions	IT Platform Services	Subtotal	Others *1	Total	Adjustments *2	Consolidated *3	
(Unaudited)									
Net sales:									
Sales to external customers	¥4,315	¥47,747	¥21,418	¥ 2,984	¥76,464	¥2,001	¥78,465	¥ 1	¥78,466
Intersegment sales or transfers	14	17	1,169	15,185	16,385	792	17,177	(17,177)	-
Total	4,329	47,764	22,587	18,169	92,849	2,793	95,642	(17,176)	78,466
Segment profit (loss)	¥ (102)	¥ 5,100	¥ 639	¥ 2,471	¥ 8,108	¥ (2)	¥ 8,106	¥ 535	¥ 8,641

*1 Some subsidiaries provide system development and system management and operation services that are not included in the above reportable segments.

*2 Individual items included in adjustment of segment profit were all immaterial amounts.

*3 Segment profit is adjusted to operating profit in the quarterly consolidated statements of income and comprehensive income.

Millions of yen

Three months ended 30th June, 2010									
Reportable segment									
	Financial IT Consulting	Industrial IT Solutions	IT Platform Services	Subtotal	Others *1	Total	Adjustments *2	Consolidated *3	
(Unaudited)									
Net sales:									
Sales to external customers	¥3,704	¥50,884	¥20,982	¥ 2,820	¥78,390	¥2,182	¥80,572	¥ 79	¥80,651
Intersegment sales or transfers	22	16	1,042	14,147	15,227	785	16,012	(16,012)	-
Total	3,726	50,900	22,024	16,967	93,617	2,967	96,584	(15,933)	80,651
Segment profit (loss)	¥ (632)	¥ 3,678	¥ (203)	¥ 2,620	¥ 5,463	¥ 116	¥ 5,579	¥ 982	¥ 6,561

*1 Some subsidiaries provide system development and system management and operation services that are not included in the above reportable segments.

*2 Individual items included in adjustment of segment profit were all immaterial amounts.

*3 Segment profit is adjusted to operating profit in the quarterly consolidated statements of income and comprehensive income.

12. Segment Information (continued)

1) Net sales and profit (loss) by reportable segments (continued)

Thousands of U.S. dollars

Three months ended 30th June, 2011									
Reportable segment									
	Financial IT Consulting	Industrial IT Solutions	IT Platform Services	Subtotal	Others	Total	Adjustments	Consolidated	
(Unaudited)									
Net sales:									
Sales to external customers	\$53,482	\$591,807	\$265,469	\$ 36,986	\$ 947,744	\$24,802	\$ 972,546	\$ 12	\$972,558
Intersegment sales or transfers	174	211	14,489	188,212	203,086	9,817	212,903	(212,903)	–
Total	53,656	592,018	279,958	225,198	1,150,830	34,619	1,185,449	(212,891)	972,558
Segment profit (loss)	\$ (1,264)	\$ 63,213	\$ 7,920	\$ 30,627	\$ 100,496	\$ (25)	\$ 100,471	\$ 6,631	\$107,102

2) Information about changes in reportable segments

The Company implemented an organizational change on 1st April, 2011.

The following is the segment information for the three months ended 30th June, 2010, which reflects this organizational change.

Millions of yen

Three months ended 30th June, 2010									
Reportable segment									
	Financial IT Consulting	Industrial IT Solutions	IT Platform Services	Subtotal	Others *1	Total	Adjustments *2	Consolidated *3	
(Unaudited)									
Net sales:									
Sales to external customers	¥3,788	¥49,667	¥21,131	¥ 3,880	¥78,466	¥2,182	¥80,648	¥ 3	¥80,651
Intersegment sales or transfers	22	16	1,050	16,133	17,221	785	18,006	(18,006)	–
Total	3,810	49,683	22,181	20,013	95,687	2,967	98,654	(18,003)	80,651
Segment profit (loss)	¥ (733)	¥ 3,741	¥ 153	¥ 2,632	¥ 5,793	¥ 115	¥ 5,908	¥ 653	¥ 6,561

*1 Some subsidiaries provide system development and system management and operation services that are not included in the above reportable segments.

*2 Individual items included in adjustment of segment profit were all immaterial amounts.

*3 Segment profit is adjusted to operating profit in the quarterly consolidated statements of income and comprehensive income.

13. Subsequent Events

Not applicable.