

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 31st December, 2017, which includes the summary and the operating results sections. The second part is the “Consolidated Financial Statements,” which are basically prepared based on the “Kessan Tanshin (earnings report)” but applied for some items different presentation methods.



30th January, 2018

Consolidated Financial Results For the Quarterly Period Ended 31st December, 2017 <under Japanese GAAP>

Company name: Nomura Research Institute, Ltd.
 Listing: First Section of the Tokyo Stock Exchange
 Stock code: 4307
 URL: <http://www.nri.com/jp/>
 Representative: Shingo Konomoto, President & CEO, Representative Director,
 Member of the Board
 Inquiries: Daishi Sakakihara, General Manager, Accounting & Finance Department
 TEL: +81-3-5533-2111 (from overseas)

Scheduled date to file Quarterly Securities Report: 2nd February, 2018
 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 31st December, 2017 (from 1st April, 2017 to 31st December, 2017)

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

| | Sales | | Operating profit | | Ordinary profit | | Profit attributable to owners of the parent | |
|--|-----------------|-------|------------------|-------|-----------------|-------|---|------|
| | Millions of yen | % | Millions of yen | % | Millions of yen | % | Millions of yen | % |
| Quarterly period ended 31st December, 2017 | 341,601 | 10.7 | 46,614 | 9.3 | 47,702 | 7.3 | 45,303 | 12.5 |
| 31st December, 2016 | 308,533 | (1.6) | 42,644 | (1.4) | 44,450 | (1.9) | 40,280 | 26.2 |

Note: Comprehensive income

Quarterly period ended 31st December, 2017: ¥44,964 million [28.6%]

Quarterly period ended 31st December, 2016: ¥34,966 million [7.6%]

| Quarterly period ended | Earnings per share – basic | Earnings per share – diluted |
|------------------------|----------------------------|------------------------------|
| | Yen | Yen |
| 31st December, 2017 | 186.55 | 186.03 |
| 31st December, 2016 | 162.50 | 162.22 |

Note: The Company conducted a 1-for-1.1 stock split of common shares with an effective date of 1st January, 2017. Earnings per share – basic and earnings per share – diluted have been calculated assuming the stock split was conducted at the start of the previous fiscal year.

(2) Consolidated financial position

| | Total assets | Net assets | Equity ratio |
|---------------------|-----------------|-----------------|--------------|
| As of | Millions of yen | Millions of yen | % |
| 31st December, 2017 | 614,430 | 424,585 | 66.9 |
| 31st March, 2017 | 628,944 | 447,297 | 69.1 |

Reference: Equity

As of 31st December, 2017: ¥411,235 million As of 31st March, 2017: ¥434,433 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, 2017 | – | 40.00 | – | 40.00 | – |
| Fiscal year ending 31st March, 2018 | – | 45.00 | – | | |
| Fiscal year ending 31st March, 2018 (Forecasts) | | | | 45.00 | 90.00 |

Notes: 1. Revisions to the forecasts of cash dividends most recently announced: None

2. The Company conducted a 1-for-1.1 stock split of common shares with an effective date of 1st January, 2017. The dividend paid per share for the second quarter of the fiscal year ended 31st March, 2017 is based on the number of shares prior to the stock split.

3. The second quarter dividend and year-end dividend for the fiscal year ending 31st March, 2018 each include a commemorative dividend of ¥5.00 per share (annual total of ¥10.00).

3. Forecasts of financial results for the fiscal year ending 31st March, 2018 (from 1st April, 2017 to 31st March, 2018)

(Percentages indicate year-on-year changes.)

| | Sales | | Operating profit | | Ordinary profit | | Profit attributable to owners of the parent | | Earnings per share – basic |
|-------------------------------------|-----------------|-----|------------------|-----|-----------------|-----|---|------|----------------------------|
| | Millions of yen | % | Millions of yen | % | Millions of yen | % | Millions of yen | % | Yen |
| Fiscal year ending 31st March, 2018 | 465,000 | 9.5 | 64,000 | 9.4 | 65,500 | 8.5 | 59,000 | 30.9 | 242.95 |

Note: Revisions to the forecasts of financial results most recently announced: Yes

For more details, please refer to “(3) Qualitative information regarding forecasts of financial results,” on pages 9 - 10.

* Notes

- (1) Changes in significant subsidiaries during the current nine months (changes in specified subsidiaries resulting in change in scope of consolidation): Yes
Newly consolidated: 2 (Company name) SMS Management & Technology Limited, SMS Consulting Group Ltd
- (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: None
 - 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 31st December, 2017 | 264,000,000 shares |
| | As of 31st March, 2017 | 264,000,000 shares |
| b. | Number of shares of treasury stock at the end of the period | |
| | As of 31st December, 2017 | 26,296,551 shares |
| | As of 31st March, 2017 | 15,866,993 shares |
| c. | Average number of shares during the period (cumulative from the beginning of the fiscal year) | |
| | Quarterly period ended 31st December, 2017 | 242,851,495 shares |
| | Quarterly period ended 31st December, 2016 | 247,877,315 shares |

Notes: 1. The NRI shares held by the trust exclusive for NRI Group Employee Stock Ownership Group are included in treasury stock.

2. The Company conducted a 1-for-1.1 stock split of common shares with an effective date of 1st January, 2017. Number of shares has been calculated assuming the stock split was conducted at the start of the previous fiscal year.

3. The Company plans to conduct the retirement of 13,000,000 shares of treasury stock with an effective date of 31st January, 2018, in accordance with a resolution at the meeting of the Board of Directors on 12th January, 2018.

* Quarterly consolidated financial results reports are not required to be subjected to quarterly reviews.

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

The forward-looking statements including business forecasts stated in this document are based on information available to the Company at the present time and certain assumptions judged to be rational, and these statements do not purport to be a promise by the Company to achieve such results. Actual business results, etc. may differ significantly from this forecast due to various factors. For more details, please refer to “(3) Qualitative information regarding forecasts of financial results,” on pages 9 - 10.

Qualitative information regarding third-quarter settlement of accounts

(1) Qualitative information regarding consolidated operating results

During the nine months ended 31st December, 2017 (from 1st April, 2017 to 31st December, 2017), the Japanese economy continued to recover at a moderate pace, supported by upturns in corporate earnings and business confidence. Investment in information systems has been continuously firm. Operating in such an environment, Nomura Research Institute (“the Company”) and its consolidated subsidiaries (“the NRI Group”) carried out its business activities leveraging the combined strengths of the NRI Group, allowing it to seamlessly provide services encompassing consulting through to system development and operations. The fiscal year ending 31st March, 2018 is the second year of the medium-term plan (from the fiscal year ended 31st March, 2017 to the fiscal year ending 31st March, 2019) formulated for realizing the goals of Vision 2022, the NRI Group’s long-term management plan. The NRI Group will work to further boost productivity and expand existing businesses, as well as further establish an operating base and accumulate experience in new fields, such as global and digital businesses.

As initiatives to expand existing businesses, the Company upgraded its industry-standard business platforms (multi-user systems) to steadily respond to related regulatory changes such as the shortened settlement cycle of Japanese Government Bonds and migration to the Japan Securities Depository Center’s new systems, and provided support to clients to make their operations more advanced and efficient. In the digital business, the Company will work to create new businesses amid growth in business IT, which clients are using directly to expand operations by creating new businesses. In addition, with the government and companies pushing ahead with reforms to working practices, the Company will provide related IT-based services to clients and also actively reform its own working practices.

In the global business, the Company provides support to Japanese companies expanding globally and develops businesses geared to local governments and companies. Also, in order to expand its presence in new business fields, the Company works to forge business alliances and M&A deals with companies that have advanced technologies, experience and strong networks. In order to generate further synergies with subsidiaries acquired through M&A deals, the Company will build a new business management system, operational management system and other systems to drive forward the integration process after acquisition. With the aims of expanding its business in Australian IT industry, the Company made Australian firm SMS Management & Technology Limited a subsidiary at the end of the second quarter of the current fiscal year and classified it as a major affiliate in its Industrial IT Solutions segment. Following business expansion in Australia, the Company established the holding company, Nomura Research Institute Holdings Australia, Pty Ltd., during the third quarter to strengthen the governance system in the region.

In June, 2017, the Company implemented its relocation to new offices in the Yokohama and Osaka areas. This move, along with the relocation of the head office building completed in the previous fiscal year, has significantly enhanced the Group’s capabilities for ensuring business continuity with respect to our main offices.

As part of its capital management that takes into account the simultaneous pursuit of growth and shareholder returns, the Company paid commemorative dividends (dividends commemorating the 30th anniversary of the NRI merger) and purchased treasury stock of ¥49,999 million.

During the nine months ended 31st December, 2017, the NRI Group’s sales totaled ¥341,601 million (up 10.7% year on year), supported by higher sales from system management and operation services and consulting services, offsetting a drop in system development and application sales. Cost of sales was ¥224,792 million (up 10.4%) and gross profit was ¥116,809 million (up 11.4%). Selling, general and administrative expenses were ¥70,195 million (up 12.7%) due to expenses incurred for office relocation and an increase in amortization of goodwill. There was also an increase in the number of subsidiaries.

As a result, operating profit was ¥46,614 million (up 9.3%), the operating margin was 13.6% (down 0.2 points) and ordinary profit was ¥47,702 million (up 7.3%). Profit attributable to owners of the parent was ¥45,303 million (up 12.5%) due to the posting of gain on investment securities in conjunction with sales of the Company’s shareholdings.

Segment information

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

(Consulting)

This segment provides policy recommendations and strategy consulting, as well as business consulting to support operational reform and system consulting for overall IT management. Demand for management consulting and IT consulting services is rising amid changes in client operating environments and conditions faced by IT divisions. The NRI Group will put in place systems to support all areas of client operations as their business transformation partner, while also continuing to work on expanding the client base, including in overseas markets.

During the nine months ended 31st December, 2017, in addition to the contributions from ASG Group Limited, consulting work to support clients in their digital innovation and system consulting work to support clients in their large-scale development projects increased. As a result, the Consulting segment posted sales of ¥26,268 million (up 24.1% year on year). Operating profit was ¥3,562 million (down 3.4%) due to increases in amortization of goodwill and subcontracting costs.

(Financial IT Solutions)

In this segment, the main clients are in the financial sector, including the securities, insurance and banking sectors. The segment provides system consulting, system development and system management and operation services, and it provides IT solutions such as multi-user systems. To expand the business reach of the segment, the Company is advancing production innovation of its industry-standard business platforms and developing new businesses by utilizing new approaches such as FinTech, which combines finance and IT.

As initiatives to expand existing businesses, the Company will upgrade its industry-standard business platforms to steadily respond to related regulatory changes such as the shortened settlement cycle of Japanese Government Bonds and migration to the Japan Securities Depository Center's new systems, and provide support to clients to make their operations more advanced and efficient.

During the nine months ended 31st December, 2017, system development and application sales to securities companies and insurance companies declined, but system management and operation services increased mainly in the securities sector. As a result, the Financial IT Solutions segment posted sales of ¥184,192 million (up 0.9% year on year). Despite the lack of the business structure improvement expenses booked by a subsidiary in the same period of the previous fiscal year, some unprofitable projects emerged and there were increases in operating expenses related to new business planning and development and efforts to expand the overseas business. As a result, operating profit was ¥19,132 million (down 4.0%).

(Industrial IT Solutions)

This segment provides system consulting, system development, system management and operation services, and other services to the distribution, manufacturing, service and public sectors.

In this segment, the Company has been making efforts to provide IT solution proposals while working closely with the Consulting segment, which has a large number of clients in the industrial sector, to expand the client base. IT investment by companies is changing its target from corporate IT, which aims to improve business efficiency, to business IT, which is used directly to expand operations by creating new businesses. The NRI Group will harness its consulting and IT solution services to support clients' business IT. With the aims of expanding its business in Australian IT industry, the Company made Australian firm SMS Management & Technology Limited a subsidiary at the end of the second quarter of the current fiscal year and classified it as a major affiliate in its Industrial IT Solutions segment. Also, during the third quarter, through a joint investment with KDDI CORPORATION, the Company established KDDI Digital Design Inc. to support companies' digital innovation and made it an affiliated company.

During the nine months ended 31st December, 2017, sales from system management and operation services as well as system development and application sales both increased in the distribution, manufacturing and service sectors, reflecting the contributions from both ASG Group Limited and SMS Management & Technology Limited and other factors. As a result, the Industrial IT Solutions segment posted sales of ¥102,799 million (up 33.9% year on year). Operating profit was ¥10,101 million (up 68.9%) due to an improvement in profit-making capabilities through tighter control of subcontracting costs, and was backed by a favorable environment for orders.

(IT Platform Services)

This segment mainly provides services such as the management and administration of data centers and IT platform and network architecture to the Financial IT Solutions and Industrial IT Solutions segments. It also provides IT platform solutions and information security services to clients of various industries. In addition, the segment conducts explorative initiatives for the development of new business operations and new products related to IT solutions, and investigation and research primarily related to leading-edge information technologies.

In this segment, the Company has been making efforts to expand its client base by not only renewing clients' IT platforms, but also by proposing IT platform solutions to clients that help them improve their businesses and revenues. Also, the Company is engaged in the development of new businesses related to business IT, such as digital marketing, and the development of services that provide support to clients to make their operations more efficient and advanced using AI (artificial intelligence).

During the nine months ended 31st December, 2017, intersegment sales such as network services increased. As a result of the above, the IT Platform Services segment posted sales of ¥95,387 million (up 4.9% year on year) and operating profit of ¥11,582 million (up 7.6%).

(Others)

The Others segment comprises subsidiaries and others that provide system development and system management and operation services not included in the other four segments.

During the nine months ended 31st December, 2017, the Others segment posted sales of ¥10,579 million (up 6.6% year on year) and operating profit of ¥1,516 million (up 3.9%).

(2) Qualitative information regarding consolidated financial position

(Assets, liabilities and net assets)

At the end of the third quarter (31st December, 2017), current assets were ¥264,210 million (down 10.7% from the end of the previous fiscal year), noncurrent assets were ¥350,220 million (up 5.2%), current liabilities were ¥138,593 million (up 24.2%), noncurrent liabilities were ¥50,657 million (down 27.1%), net assets were ¥424,585 million (down 5.1%) and total assets were ¥614,430 million (down 2.3%).

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

Accounts receivable declined ¥21,035 million to ¥46,255 million and other receivables increased ¥25,106 million to ¥51,365 million. The NRI Group recognizes revenues based on the percentage-of-completion method. The number of projects completed at the end of the fiscal year is comparatively large, and accordingly, compared with the end of the previous fiscal year, the ends of quarterly periods tend to have small values for accounts receivable and large values for other receivables.

Due to factors such as the acquisition of trust beneficiary rights and office facilities related to the relocation to the Yokohama Nomura Building, buildings in trust were ¥8,242 million, buildings, net increased ¥2,227 million to ¥37,689 million, and tools, furniture and fixtures increased ¥373 million to ¥9,855 million.

Goodwill increased ¥7,628 million to ¥43,032 million, mainly reflecting the acquisition of Australian firm SMS Management & Technology Limited, which became a subsidiary.

Investment securities decreased ¥10,633 million to ¥93,207 million due to the redemption of short-term investment securities that had been held for surplus fund management purposes and sales of the Company's shareholdings.

The bonds declined ¥15,000 million and current portion of bonds increased ¥15,000 million due to the second series bonds being reclassified from noncurrent liabilities to current liabilities because the remaining period up to redemption of the relevant bonds has become less than a year.

In financial operations at subsidiaries, margin transaction assets increased ¥2,766 million to ¥14,388 million, short-term guarantee deposits decreased ¥1,708 million to ¥7,138 million, margin transaction liabilities increased ¥1,031 million to ¥9,817 million, and short-term guarantee deposits received increased ¥1,132 million to ¥8,838 million.

Treasury stock increased ¥46,677 million from the end of the previous fiscal year to ¥83,994 million, mainly reflecting an increase of ¥49,999 million due to the purchase of treasury stock in accordance with a resolution of the Board of Directors.

In addition, cash and bank deposits decreased ¥40,304 million to ¥112,305 million, net defined benefit asset increased ¥8,679 million to ¥49,450 million, accrued expenses increased ¥9,349 million to ¥20,436 million, income taxes payable increased ¥7,810 million to ¥16,207 million and accrued bonuses declined ¥8,490 million to ¥9,423 million.

(Cash flow position)

Cash and cash equivalents as of the end of the third quarter (31st December, 2017) stood at ¥111,703 million (down ¥40,347 million from the end of the previous fiscal year).

Net cash provided by operating activities in the nine months ended 31st December, 2017 was ¥44,604 million, a decrease of ¥1,836 million compared with the same period of the previous fiscal year. Although there was less of an increase in income before income taxes and a smaller amount of income taxes paid, accounts receivable and other receivables have swung upward.

Net cash used in investing activities was ¥15,286 million, a decline of ¥19,961 million from the previous fiscal year. During the nine months ended 31st December, 2017, although the Company acquired shares of the Australian firm SMS Management & Technology Limited, compared to the various acquisitions made in the same period of the previous fiscal year, including shares of the Australian firm ASG Group Limited, cash used for the purchase of shares of subsidiaries resulting in change in scope of consolidation declined. In the nine months ended 31st December, 2017, the main use of cash in investments included the acquisition of property and equipment such as trust beneficiary rights and office equipment for the Yokohama Nomura Building, and the acquisition of software and other intangibles related to the development of multi-user systems.

Net cash used in financing activities was ¥70,902 million, an increase of ¥36,593 million from the previous fiscal year. ¥9,999 million worth of treasury stock was purchased in the same period of the

previous fiscal year in accordance with a resolution of the Board of Directors. ¥49,999 million worth of treasury stock was purchased in the nine months ended 31st December, 2017. Also, cash was used for the redemption of ¥15,000 million in straight corporate bonds and the issue of new straight corporate bonds (NRI Green Bonds) provided cash of ¥10,000 million in the same period of the previous fiscal year.

(3) Qualitative information regarding forecasts of financial results

In light of recent trends and the favorable environment for orders, the forecasts of financial results will be revised as follows.

(I) Consolidated performance

Consolidated financial forecasts for the fiscal year ending 31st March 2018 (From 1st April, 2017 to 31st March, 2018)

(Millions of yen)

| | Previous forecast (A) | Revised forecast (B) | Change | | (Reference) Previous fiscal year (Actual result) |
|---|-----------------------|----------------------|--------------|----------|--|
| | | | Amount (B-A) | Rate (%) | |
| Sales | 460,000 | 465,000 | 5,000 | 1.1 | 424,548 |
| Operating profit | 64,000 | 64,000 | – | – | 58,514 |
| Ordinary profit | 65,500 | 65,500 | – | – | 60,354 |
| Profit attributable to owners of the parent | 59,000 | 59,000 | – | – | 45,064 |

(II) Others

1) Consolidated sales by service (from 1st April, 2017 to 31st March, 2018)

(Millions of yen)

| | Previous forecast (A) | Revised forecast (B) | Change | | (Reference) Previous fiscal year (Actual result) |
|-----------------------------------|-----------------------|----------------------|--------------|----------|--|
| | | | Amount (B-A) | Rate (%) | |
| Consulting | 37,000 | 37,000 | – | – | 30,574 |
| Financial IT Solutions | 248,000 | 248,000 | – | – | 246,979 |
| Securities sector | 118,000 | 118,000 | – | – | 119,128 |
| Insurance sector | 49,000 | 49,000 | – | – | 51,982 |
| Banking sector | 43,000 | 43,000 | – | – | 40,286 |
| Other financial sector, etc. | 38,000 | 38,000 | – | – | 35,580 |
| Industrial IT Solutions | 134,000 | 139,000 | 5,000 | 3.7 | 107,208 |
| Distribution sector | 59,000 | 60,000 | 1,000 | 1.7 | 54,256 |
| Manufacturing and service sectors | 75,000 | 79,000 | 4,000 | 5.3 | 52,952 |
| IT Platform Services | 30,000 | 30,000 | – | – | 29,241 |
| Others | 11,000 | 11,000 | – | – | 10,544 |
| Total | 460,000 | 465,000 | 5,000 | 1.1 | 424,548 |

* The breakdowns of the segments are comprised of sales by customer sector.

2) Consolidated sales by service (from 1st April, 2017 to 31st March, 2018)

(Millions of yen)

| | Previous forecast (A) | Revised forecast (B) | Change | | (Reference) Previous fiscal year (Actual result) |
|--|-----------------------|----------------------|--------------|----------|--|
| | | | Amount (B-A) | Rate (%) | |
| Consulting services | 77,000 | 77,000 | – | – | 62,734 |
| System development & application sales | 133,000 | 134,000 | 1,000 | 0.8 | 131,908 |
| System management & operation services | 238,000 | 242,000 | 4,000 | 1.7 | 217,271 |
| Product sales | 12,000 | 12,000 | – | – | 12,634 |
| Total | 460,000 | 465,000 | 5,000 | 1.1 | 424,548 |

3) Consolidated capital investment and depreciation and amortization (from 1st April, 2017 to 31st March, 2018)

(Millions of yen)

| | Previous forecast (A) | Revised forecast (B) | Change | | (Reference) Previous fiscal year (Actual result) |
|-------------------------------|-----------------------|----------------------|--------------|----------|--|
| | | | Amount (B-A) | Rate (%) | |
| Capital investment | 45,000 | 35,000 | (10,000) | (22.2) | 38,668 |
| Depreciation and amortization | 31,000 | 30,000 | (1,000) | (3.2) | 28,476 |

(Caution concerning forward-looking statements)

The forward-looking statements including business forecasts stated in this document are based on information available to the Company at the present time and certain assumptions (suppositions) judged to be rational, and these statements do not purport to be a promise by the Company to achieve such results. Actual business results, etc. may differ significantly from this forecast due to various factors. Material factors that could possibly affect the actual business results, etc. include, but are not limited to, the domestic and overseas economic situation, demand in the IT services market, competition with competitors, and changes in taxation and other systems. Note the Company will not always revise business forecasts, etc. upon every occurrence of new information or event.

Quarterly Consolidated Financial Statements

Nomura Research Institute, Ltd.

*For the Nine-Month Period Ended 31st December, 2017
(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.

Quarterly Consolidated Financial Statements

Nomura Research Institute, Ltd.

*For the Nine-Month Period Ended 31st December, 2017
(Unaudited)*

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Nomura Research Institute, Ltd.

Quarterly Consolidated Balance Sheet

| | <i>Millions of yen</i> | | <i>Thousands of U.S. dollars (Note 3)</i> |
|--|---------------------------------|------------------------------------|---|
| | 31st March, 2017 | 31st December, 2017 | 31st December, 2017 |
| Assets | | | |
| Current assets: | | | |
| Cash and bank deposits (<i>Notes 4 and 8</i>) | ¥152,611 | ¥112,306 | \$ 993,858 |
| Short-term investment securities (<i>Notes 4, 5 and 8</i>) | 6,278 | 4,378 | 38,743 |
| Accounts receivable and other receivables (<i>Note 4</i>) | 93,550 | 97,621 | 863,903 |
| Operating loans (<i>Note 4</i>) | 4,030 | 4,030 | 35,664 |
| Margin transaction assets (<i>Note 4</i>) | 11,622 | 14,388 | 127,327 |
| Inventories | 1,071 | 1,207 | 10,681 |
| Deferred income taxes | 9,219 | 9,177 | 81,212 |
| Short-term guarantee deposits (<i>Note 4</i>) | 8,846 | 7,138 | 63,168 |
| Other current assets | 8,830 | 14,128 | 125,027 |
| Allowance for doubtful accounts | (142) | (163) | (1,442) |
| Total current assets | <u>295,915</u> | <u>264,210</u> | <u>2,338,141</u> |
| Property and equipment: | | | |
| Land | 7,527 | 7,527 | 66,611 |
| Buildings, net | 35,462 | 37,690 | 333,540 |
| Buildings in trust, net | - | 8,242 | 72,938 |
| Machinery and equipment, net | 16,707 | 15,819 | 139,991 |
| Leased assets, net | 788 | 890 | 7,876 |
| Construction in progress | 3,306 | - | - |
| Property and equipment, net | <u>63,790</u> | <u>70,168</u> | <u>620,956</u> |
| Software and other intangibles | | | |
| Goodwill | 64,081 | 67,576 | 598,018 |
| Investment securities (<i>Notes 4 and 5</i>) | 35,404 | 43,033 | 380,823 |
| Investments in affiliates (<i>Notes 4 and 5</i>) | 103,841 | 93,208 | 824,850 |
| Deferred income taxes | 1,843 | 5,096 | 45,097 |
| Lease investment assets | 2,101 | 1,632 | 14,442 |
| Net defined benefit asset | 329 | 435 | 3,850 |
| Other assets | 40,771 | 49,451 | 437,619 |
| Allowance for doubtful accounts | 21,011 | 19,727 | 174,575 |
| | (141) | (105) | (929) |
| Total assets | <u>¥628,945</u> | <u>¥614,431</u> | <u>\$5,437,442</u> |

| | <i>Millions of yen</i> | | <i>Thousands of U.S. dollars (Note 3)</i> |
|---|---------------------------------|------------------------------------|---|
| | 31st March, 2017 | 31st December, 2017 | 31st December, 2017 |
| Liabilities and Net Assets | | | |
| Current liabilities: | | | |
| Accounts payable (Note 4) | ¥ 20,638 | ¥ 19,843 | \$ 175,602 |
| Short-term loans payable (Note 4) | 2,871 | 6,131 | 54,257 |
| Current portion of bonds (Note 4) | – | 15,000 | 132,743 |
| Current portion of long-term loans payable (Note 4) | 4,545 | 5,111 | 45,230 |
| Margin transaction liabilities (Note 4) | 8,786 | 9,818 | 86,885 |
| Lease obligations, current | 326 | 698 | 6,177 |
| Accrued expenses | 29,002 | 29,861 | 264,257 |
| Income taxes payable | 8,397 | 16,207 | 143,425 |
| Advance payments received | 10,778 | 9,438 | 83,522 |
| Short-term guarantee deposits received (Note 4) | 7,705 | 8,838 | 78,212 |
| Provision for loss on orders received | 1,592 | 123 | 1,088 |
| Asset retirement obligations | 67 | 2 | 18 |
| Other current liabilities | 16,845 | 17,524 | 155,080 |
| Total current liabilities | <u>111,552</u> | <u>138,594</u> | <u>1,226,496</u> |
| Bonds (Note 4) | 25,000 | 10,000 | 88,496 |
| Long-term loans payable (Note 4) | 24,397 | 20,529 | 181,673 |
| Lease obligations | 350 | 939 | 8,310 |
| Deferred income taxes | 13,839 | 12,686 | 112,265 |
| Net defined benefit liability | 4,771 | 5,382 | 47,628 |
| Asset retirement obligations | 939 | 958 | 8,478 |
| Other long-term liabilities | 204 | 163 | 1,442 |
| Reserve for financial products transaction liabilities | 595 | 595 | 5,265 |
| Total liabilities | <u>¥181,647</u> | <u>¥189,846</u> | <u>\$1,680,053</u> |
| Net assets (Notes 7 and 9): | | | |
| Shareholders' equity: | | | |
| Common stock: | | | |
| Authorized – 907,500 thousand shares at 31st March, 2017 and 31st December, 2017 | | | |
| Issued – 264,000 thousand shares at 31st March, 2017 and 31st December, 2017 | ¥ 18,600 | ¥ 18,600 | \$ 164,602 |
| Additional paid-in capital (Note 7) | 14,710 | 14,929 | 132,115 |
| Retained earnings (Note 7) | 400,346 | 424,831 | 3,759,566 |
| Treasury stock, at cost: (Note 7) | | | |
| – 15,867 thousand shares at 31st March, 2017 and 26,297 thousand shares at 31st December, 2017 | (37,317) | (83,994) | (743,310) |
| Total shareholders' equity | <u>396,339</u> | <u>374,366</u> | <u>3,312,973</u> |
| Accumulated other comprehensive income: | | | |
| Valuation difference on available-for-sale securities (Note 5) | 37,166 | 34,844 | 308,354 |
| Deferred gains or losses on hedges (Note 6) | (11) | 26 | 230 |
| Foreign currency translation adjustment | (893) | 404 | 3,575 |
| Remeasurements of defined benefit plans | 1,832 | 1,595 | 14,115 |
| Total accumulated other comprehensive income | <u>38,094</u> | <u>36,869</u> | <u>326,274</u> |
| Share subscription rights | 1,221 | 1,339 | 11,850 |
| Non-controlling interests | 11,644 | 12,011 | 106,292 |
| Total net assets | <u>447,298</u> | <u>424,585</u> | <u>3,757,389</u> |
| Total liabilities and net assets | <u>¥628,945</u> | <u>¥614,431</u> | <u>\$5,437,442</u> |

See accompanying notes to quarterly consolidated financial statements.

Nomura Research Institute, Ltd.

Quarterly Consolidated Statement of Income and Comprehensive Income

| | <i>Millions of yen</i> | | <i>Thousands of U.S. dollars (Note 3)</i> |
|---|---|-------------|---|
| | Nine months ended 31st December, | | Nine months ended 31st December, |
| | 2016 | 2017 | 2017 |
| Sales | ¥308,534 | ¥341,602 | \$3,023,027 |
| Cost of sales | 203,632 | 224,792 | 1,989,310 |
| Gross profit | 104,902 | 116,810 | 1,033,717 |
| Selling, general and administrative expenses (<i>Notes 10 and 11</i>) | 62,258 | 70,196 | 621,204 |
| Operating profit | 42,644 | 46,614 | 412,513 |
| Other income (expenses): | | | |
| Interest and dividend income | 1,708 | 1,631 | 14,434 |
| Interest expense | (89) | (175) | (1,549) |
| Equity in earnings(losses) of affiliates | 12 | (39) | (345) |
| Commission for purchase of treasury stock | (20) | (308) | (2,726) |
| Foreign exchange gains (losses) | 88 | (217) | (1,921) |
| Bonds issuance cost | (50) | – | – |
| Gain on investment securities | 13,138 | 20,217 | 178,912 |
| Reversal of share-based compensation | 15 | 16 | 142 |
| Reversal of reserve for financial products transaction liabilities | 60 | – | – |
| Other, net | 157 | 197 | 1,743 |
| | 15,019 | 21,322 | 188,690 |
| Income before income taxes | 57,663 | 67,936 | 601,203 |
| Provision for income taxes (<i>Note 2</i>) | 18,808 | 21,794 | 192,867 |
| Profit | ¥ 38,855 | ¥ 46,142 | \$ 408,336 |
| Profit attributable to owners of parent (<i>Note 9</i>) | ¥ 40,279 | ¥ 45,303 | \$ 400,912 |
| Profit (loss) attributable to non-controlling interests | (1,424) | 839 | 7,424 |
| Other comprehensive loss: | | | |
| Valuation difference on available-for-sale securities | (4,847) | (2,288) | (20,248) |
| Deferred gains or losses on hedges (<i>Note 6</i>) | 4 | 38 | 336 |
| Foreign currency translation adjustment | 794 | 1,255 | 11,106 |
| Remeasurements of defined benefit plans, net of tax | 183 | (224) | (1,982) |
| Share of other comprehensive income (loss) of affiliates | (23) | 41 | 363 |
| Total other comprehensive loss | (3,889) | (1,178) | (10,425) |
| Comprehensive income | ¥ 34,966 | ¥ 44,964 | \$ 397,911 |
| Comprehensive income attributable to: | | | |
| Comprehensive income attributable to owners of parent | ¥ 36,225 | ¥ 44,078 | \$ 390,071 |
| Comprehensive income (loss) attributable to non-controlling interests | (1,259) | 886 | 7,840 |

See accompanying notes to quarterly consolidated financial statements.

Nomura Research Institute, Ltd.

Quarterly Consolidated Statement of Cash Flows

| | <i>Millions of yen</i> | | <i>Thousands of U.S. dollars (Note 3)</i> |
|--|------------------------------|-------------|---|
| | Nine months ended | | Nine months ended |
| | 31st December, | | 31st December, |
| | 2016 | 2017 | 2017 |
| Cash flows from operating activities | | | |
| Income before income taxes | ¥ 57,663 | ¥ 67,936 | \$ 601,203 |
| Adjustments to reconcile income before income taxes to net cash provided by operating activities: | | | |
| Depreciation and amortization | 19,386 | 21,416 | 189,522 |
| Interest and dividend income | (1,708) | (1,631) | (14,434) |
| Interest expense | 89 | 175 | 1,549 |
| Gain on investment securities | (13,138) | (20,217) | (178,912) |
| Changes in operating assets and liabilities: | | | |
| Accounts receivable and other receivables, net of advance payments received | 15,721 | (177) | (1,566) |
| Allowance for doubtful accounts | (33) | (51) | (451) |
| Accounts payable | 2,494 | 5,948 | 52,637 |
| Inventories | 106 | (127) | (1,124) |
| Net defined benefit asset | (9,881) | (9,000) | (79,646) |
| Net defined benefit liability | 674 | 591 | 5,230 |
| Provision for loss on orders received | 70 | (1,469) | (13,000) |
| Operating loans | 2,429 | - | - |
| Margin transaction assets | (2,667) | (2,767) | (24,487) |
| Short-term guarantee deposits | 524 | 1,708 | 15,115 |
| Margin transaction liabilities | 3,732 | 1,031 | 9,124 |
| Short-term guarantee deposits received | (834) | 1,133 | 10,027 |
| Reserve for financial products transaction liabilities | (60) | - | - |
| Other | (7,872) | (8,225) | (72,787) |
| Subtotal | 66,695 | 56,274 | 498,000 |
| Interest and dividends received | 1,781 | 1,837 | 16,257 |
| Interest paid | (73) | (155) | (1,372) |
| Income taxes paid | (21,963) | (13,352) | (118,159) |
| Net cash provided by operating activities | 46,440 | 44,604 | 394,726 |
| Cash flows from investing activities | | | |
| Payments for time deposits | (1,106) | (1,099) | (9,726) |
| Proceeds from time deposits | 867 | 944 | 8,354 |
| Purchase of short-term investment securities | (8,009) | (1,000) | (8,850) |
| Proceeds from sales and redemption of short-term investment securities | 8,000 | 3,000 | 26,549 |
| Acquisition of property and equipment | (10,714) | (15,288) | (135,292) |
| Proceeds from sales of property and equipment | 3,031 | 2 | 18 |
| Purchase of software and other intangibles | (19,969) | (16,247) | (143,779) |
| Payments for asset retirement obligations | (56) | (53) | (469) |
| Purchase of investment securities | (6,826) | (8,483) | (75,071) |
| Proceeds from sales and redemption of investment securities | 30,591 | 36,019 | 318,752 |
| Purchase of investment in affiliates | - | (3,447) | (30,504) |
| Purchase of shares of subsidiaries resulting in change in scope of consolidation | (31,065) | (9,638) | (85,292) |
| Other | 8 | 5 | 45 |
| Net cash used in investing activities | ¥ (35,248) | ¥ (15,285) | \$ (135,265) |

Nomura Research Institute, Ltd.

Quarterly Consolidated Statement of Cash Flows (continued)

| | <i>Millions of yen</i> | | <i>Thousands of U.S. dollars (Note 3)</i> |
|--|------------------------------|-------------|---|
| | Nine months ended | | Nine months ended |
| | 31st December, | | 31st December, |
| | 2016 | 2017 | 2017 |
| Cash flows from financing activities | | | |
| Proceeds from short-term loans payable | ¥ – | ¥ 4,065 | \$ 35,973 |
| Repayment of short-term loans payable | – | (3,422) | (30,283) |
| Proceeds from long-term loans payable | – | 946 | 8,372 |
| Repayment of long-term loans payable | (2,628) | (4,272) | (37,805) |
| Proceeds from issuance of bonds | 9,950 | – | – |
| Redemption of bonds | (15,000) | – | – |
| Repayment of obligation under finance leases | (7) | (215) | (1,903) |
| Proceeds from sales of treasury stock | 2,735 | 3,620 | 32,035 |
| Purchase of treasury stock | (10,780) | (50,672) | (448,425) |
| Cash dividends paid | (18,265) | (20,807) | (184,133) |
| Cash dividends paid to non-controlling interests | (142) | (96) | (849) |
| Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation | (172) | (50) | (442) |
| Net cash used in financing activities | (34,309) | (70,903) | (627,460) |
| Effect of exchange rate changes on cash and cash equivalents | 901 | 1,236 | 10,937 |
| Net decrease in cash and cash equivalents | (22,216) | (40,348) | (357,062) |
| Cash and cash equivalents at beginning of period | 154,949 | 152,052 | 1,345,593 |
| Cash and cash equivalents at end of period (<i>Note 8</i>) | ¥ 132,733 | ¥ 111,704 | \$ 988,531 |

See accompanying notes to quarterly consolidated financial statements.

Nomura Research Institute, Ltd.

Notes to Quarterly Consolidated Financial Statements

31st December, 2017

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

Description of Business

The NRI Group (Nomura Research Institute, Ltd. (the “Company”) and its 71 consolidated subsidiaries) and its affiliates (7 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 NRI Group’s operations by segment is included in Note 13.

During the quarterly period ended 30th September, 2017, the NRI Group established one company, and acquired shares of SMS Management & Technology Limited and its fourteen subsidiaries. As a result, these companies are newly included in the scope of consolidation.

During the quarterly period ended 31st December, 2017, the NRI Group established Nomura Research Institute Holdings Australia Pty Ltd. As a result, this company is newly included in the scope of consolidation.

Basis of Presentation

The accompanying quarterly consolidated financial statements of the NRI Group 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.

Additional Information

(Transactions of Delivering the Company’s Own Stock to Employees, etc. through Trusts)

The Company introduced a “Trust-type Employee Stock Ownership Incentive Plan.” The purpose of this plan is to promote the Company’s perpetual growth by providing incentives to employees for increasing the Company’s corporate value in the mid- to long-term and to enhance benefits and the welfare of employees.

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

Additional Information (continued)

This is an incentive plan under which gains from the Company's share price appreciation are distributed to all participants 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 in March 2016. The ESOP Trust acquired the number of the Company's shares, which the ESOP Group would have acquired over a period of three years subsequent to the establishment of the ESOP Trust. Then, the ESOP Trust sells them to the ESOP Group each time the ESOP Group is to acquire of the Company's shares. When the share price appreciates and earnings have accumulated in the ESOP Trust, upon its termination, a cash distribution of the funds will be made to beneficiaries. 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 obligations remain unsettled upon termination of the ESOP Trust.

The Company includes the assets and liabilities of the ESOP Trust at the end of period in the accompanying quarterly consolidated balance sheet. The Company records its shares acquired by the ESOP Trust based on their acquisition costs in the net assets section as treasury stock at the end of period. The Company records the earnings on stock in the ESOP Trust in the liabilities section as a suspense account to be settled. The Company records the losses on stock in the ESOP Trust in the assets section as a suspense account to be settled and also a provision when it is expected that the outstanding loans used to purchase shares will remain unsettled at the termination of the ESOP Trust.

As of 31st March, 2017 and 31st December, 2017, ¥6,912 million (corresponding to 1,947 thousand shares of the Company held by the ESOP Trust) and ¥4,576 million (\$40,496 thousand) (corresponding to 1,289 thousand shares of the Company held by the ESOP Trust) and the loan payable of the ESOP Trust of ¥6,827 million and ¥3,758 million (\$33,257 thousand), respectively, are recorded in the accompanying quarterly consolidated balance sheet.

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

Calculation of Tax Expense

At the end of each interim period the NRI Group 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 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 statement of income and comprehensive 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 ¥113.00 = U.S.\$1.00, the rate of exchange prevailing on 31st December, 2017. 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 sheet as of 31st March, 2017 and 31st December, 2017 and estimated fair value are shown in the following table. The following table does not include non-marketable securities whose fair value is not readily determinable (see Note 2).

| | <i>Millions of yen</i> | | | | | |
|--|-------------------------|-----------------------------|-------------------|----------------------------|-----------------------------|-------------------|
| | 31st March, 2017 | | | 31st December, 2017 | | |
| | Carrying amount | Estimated fair value | Difference | Carrying amount | Estimated fair value | Difference |
| Assets: | | | | | | |
| Cash and bank deposits | ¥152,611 | ¥152,611 | ¥ – | ¥112,306 | ¥112,306 | ¥ – |
| Accounts receivable and other receivables | 93,550 | 93,550 | – | 97,621 | 97,621 | – |
| Short-term investment securities, investment securities, and investments in affiliates | 106,817 | 106,817 | – | 94,151 | 94,151 | – |
| Operating loans | 4,030 | | | 4,030 | | |
| Allowance for doubtful accounts | – | | | – | | |
| Net operating loans | 4,030 | 4,030 | – | 4,030 | 4,030 | – |
| Margin transaction assets | 11,622 | 11,622 | – | 14,388 | 14,388 | – |
| Short-term guarantee deposits | 8,846 | 8,846 | – | 7,138 | 7,138 | – |
| Total | <u>¥377,476</u> | <u>¥377,476</u> | <u>¥ –</u> | <u>¥329,634</u> | <u>¥329,634</u> | <u>¥ –</u> |
| Liabilities: | | | | | | |
| Accounts payable | ¥ 20,638 | ¥ 20,638 | ¥ – | ¥ 19,843 | ¥ 19,843 | ¥ – |
| Short-term loans payable | 2,871 | 2,871 | – | 6,131 | 6,131 | – |
| Margin transaction liabilities | 8,786 | 8,786 | – | 9,818 | 9,818 | – |
| Short-term guarantee deposits received | 7,705 | 7,705 | – | 8,838 | 8,838 | – |
| Bonds *1 | 25,000 | 24,984 | (16) | 25,000 | 24,983 | (17) |
| Long-term loans payable *2 | 28,942 | 28,949 | 7 | 25,639 | 25,643 | 4 |
| Total | <u>¥ 93,942</u> | <u>¥ 93,933</u> | <u>¥ (9)</u> | <u>¥ 95,269</u> | <u>¥ 95,256</u> | <u>¥(13)</u> |
| Derivative transactions *3 | <u>¥ (24)</u> | <u>¥ (24)</u> | <u>¥ –</u> | <u>¥ 55</u> | <u>¥ 55</u> | <u>¥ –</u> |

| | <i>Thousands of U.S. dollars</i> | | |
|--|----------------------------------|-----------------------------|-------------------|
| | 31st December, 2017 | | |
| | Carrying amount | Estimated fair value | Difference |
| Assets: | | | |
| Cash and bank deposits | \$ 993,858 | \$ 993,858 | \$ – |
| Accounts receivable and other receivables | 863,903 | 863,903 | – |
| Short-term investment securities, investment securities, and investments in affiliates | 833,195 | 833,195 | – |
| Operating loans | 35,664 | | |
| Allowance for doubtful accounts | – | | |
| Net operating loans | 35,664 | 35,664 | – |
| Margin transaction assets | 127,327 | 127,327 | – |
| Short-term guarantee deposits | 63,168 | 63,168 | – |
| Total | <u>\$2,917,115</u> | <u>\$2,917,115</u> | <u>\$ –</u> |
| Liabilities: | | | |
| Accounts payable | \$ 175,602 | \$ 175,602 | \$ – |
| Short-term loans payable | 54,257 | 54,257 | – |
| Margin transaction liabilities | 86,885 | 86,885 | – |
| Short-term guarantee deposits received | 78,212 | 78,212 | – |
| Bonds *1 | 221,239 | 221,088 | (151) |
| Long-term loans payable *2 | 226,894 | 226,929 | 35 |
| Total | <u>\$ 843,089</u> | <u>\$ 842,973</u> | <u>\$(116)</u> |
| Derivative transactions *3 | <u>\$ 487</u> | <u>\$ 487</u> | <u>\$ –</u> |

*1 Bonds included the current portion of bonds totaling ¥15,000 million (\$132,743 thousand) as of 31st December, 2017.

*2 Long-term loans payable included the current portion of long-term loans payable totaling ¥4,545 million and ¥5,111 million (\$45,230 thousand) as of 31st March, 2017 and 31st December, 2017, respectively.

*3 Receivables and payables arising from derivative transactions are offset and presented as a net amount with liabilities shown in parentheses.

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 and short-term guarantee deposits
Their carrying amount approximates the fair value due to the short maturity of these instruments.
- b. Accounts receivable and other receivables
Their carrying amount approximates the fair value due to the generally short maturities of these instruments. For those receivables due after one year, the present value is further discounted by the rate corresponding to the credit risk and the amount is presented in the consolidated balance sheet, therefore, the carrying amount approximates fair value.
- c. 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. The fair value of investment trusts is based on publicly available net asset values.
- d. Operating loans and margin transaction assets
The fair value of these instruments, to which variable rates are applied, approximates the carrying amount because the variable rates reflect market interest rates over a short term unless the credit conditions of the counterparty change significantly after disbursement. With regard to potentially doubtful receivables, the amount of the allowance for doubtful receivables is determined based on the estimated amount collectible under collateral agreements, and their fair value approximates the carrying amount less the estimated allowance for doubtful accounts on the consolidated balance sheet.

Liabilities

- a. Accounts payable, short-term loans payable, margin transaction liabilities and short-term guarantee deposits received
Their carrying amount approximates the fair value due to the short maturity of these instruments.
- b. Bonds
The fair value of bonds is based on the quoted market price.
- c. Long-term loans payable
The fair value of long-term loans payable, to which variable rates are applied, approximates the carrying amount because the variable rates reflect market interest rates over a short term. Those with fixed interest rates, on the other hand, are calculated by discounting the total amount of principal and interest by an interest rate assumed to be applied if the similar loans were newly executed.

Derivative transactions

The fair values are calculated based on the quoted price obtained from counterparty financial institutions.

4. Financial Instruments (continued)

Fair value of financial instruments (continued)

Note 2: Non-marketable securities whose fair value is not readily determinable are as follows.

| | <i>Millions of yen</i> | | <i>Thousands of U.S. dollars</i> |
|--------------------------------|-----------------------------|--------------------------------|--------------------------------------|
| | 31st March, 2017 | 31st December, 2017 | 31st December, 2017 |
| Unlisted companies' shares *1 | ¥4,534 | ¥7,850 | \$69,469 |
| Investments in partnerships *2 | 611 | 680 | 6,018 |

*1 Unlisted companies' shares are not measured at fair value because they have no market prices on exchanges, and their fair value is not readily determinable. Unlisted companies' shares included investments in affiliates accounted for under the equity method totaling ¥1,843 million and ¥5,096 million (\$45,097 thousand) as of 31st March, 2017 and 31st December, 2017, respectively.

*2 For investments in partnerships, when all or a part of the assets of a partnership consist of non-marketable securities whose fair value is not readily determinable, such components are not measured at fair value.

5. Investments

The NRI Group did not hold any held-to-maturity securities with determinable market value at 31st March, 2017 and 31st December, 2017.

The following is a summary of the information concerning available-for-sale securities included in short-term investment securities, investment securities and investments in affiliates at 31st March, 2017 and 31st December, 2017:

Securities Classified as Available-for-Sale Securities

| | <i>Millions of yen</i> | | | | | |
|-------------------|-------------------------|------------------------|------------------------|----------------------------|------------------------|------------------------|
| | 31st March, 2017 | | | 31st December, 2017 | | |
| | Acquisition cost | Carrying amount | Unrealized gain | Acquisition cost | Carrying amount | Unrealized gain |
| Equity securities | ¥17,918 | ¥ 70,072 | ¥52,154 | ¥19,526 | ¥68,379 | ¥48,853 |
| Bonds: | | | | | | |
| Government bonds | 6,007 | 6,010 | 3 | 1,038 | 1,038 | 0 |
| Corporate bonds | 33,133 | 33,134 | 1 | 27,114 | 27,096 | (18) |
| | 39,140 | 39,144 | 4 | 28,152 | 28,134 | (18) |
| Other | 870 | 903 | 33 | 1,015 | 1,072 | 57 |
| Total | ¥57,928 | ¥110,119 | ¥52,191 | ¥48,693 | ¥97,585 | ¥48,892 |

| | <i>Thousands of U.S. dollars</i> | | |
|-------------------|----------------------------------|------------------------|------------------------|
| | 31st December, 2017 | | |
| | Acquisition cost | Carrying amount | Unrealized gain |
| Equity securities | \$172,796 | \$605,124 | \$432,328 |
| Bonds: | | | |
| Government bonds | 9,186 | 9,186 | 0 |
| Corporate bonds | 239,947 | 239,788 | (159) |
| | 249,133 | 248,974 | (159) |
| Other | 8,982 | 9,486 | 504 |
| Total | \$430,911 | \$863,584 | \$432,673 |

Non-marketable securities whose fair value is not readily determinable were included in the above table. "Acquisition cost" in the above table is the carrying amount after recognizing impairment loss. Impairment loss on available-for-sale securities whose fair value is based on quoted market prices as a result of a decline in value for the year ended 31st March, 2017 amounted to ¥28 million. Impairment loss on available-for-sale securities whose fair value is not based on quoted market prices as a result of a decline in value for the nine months ended 31st December, 2017 amounted to ¥52 million (\$460 thousand).

The NRI Group has established a policy for the recognition of impairment losses under the following conditions:

- i) For marketable securities whose fair value has declined by 30% or more, the NRI Group recognizes impairment loss except in cases where the decline in fair value is expected to be recoverable.
- ii) For non-marketable securities whose fair value is not readily determinable, of which net asset value has declined by 50% or more, the NRI Group recognizes impairment loss except in cases where the decline in fair value is expected to be recoverable.

6. Derivative Transactions and Hedging Activities

There were no derivative transactions to which hedge accounting was not applied during the year ended 31st March, 2017 and the quarterly period ended 31st December, 2017.

For the derivative transactions to which hedge accounting was applied as of 31st March, 2017 and 31st December, 2017, the contract amounts and estimated fair values of the hedging instruments are as follows.

| | <i>Millions of yen</i> | | | |
|---|-------------------------|--------------------------------|----------------------------|--------------------------------|
| | 31st March, 2017 | | 31st December, 2017 | |
| | Contract amount | Estimated fair value *1 | Contract amount | Estimated fair value *1 |
| Forward foreign exchange contracts for accounts payable, accounted for by deferral hedge accounting method: | | | | |
| Buy: CNY (Sell: JPY) | ¥ 1,349 | ¥ (9) | ¥ 1,709 | ¥ 65 |
| Interest rate swap contracts for bonds, accounted for by deferral hedge accounting method: | | | | |
| Fixed-rate receipt, fixed-rate payment *2 | ¥15,000 | ¥(15) | ¥15,000 | ¥(10) |

| | <i>Thousands of U.S. dollars</i> | |
|---|----------------------------------|--------------------------------|
| | 31st December, 2017 | |
| | Contract amount | Estimated fair value *1 |
| Forward foreign exchange contracts for accounts payable, accounted for by deferral hedge accounting method: | | |
| Buy: CNY (Sell: JPY) | \$ 15,124 | \$575 |
| Interest rate swap contracts for bonds, accounted for by deferral hedge accounting method: | | |
| Fixed-rate receipt, fixed-rate payment *2 | \$132,743 | \$ (88) |

*1 The fair values are calculated based on the quoted prices obtained from the counterparty financial institutions.

*2 These derivative transactions are used to hedge interest rate fluctuation risk until the interest determination dates, which are used as the basis of the bonds' fixed interest payments.

7. Net Assets

The Corporation Law of Japan provides that earnings in an amount equal to at least 10% of dividends of capital surplus and retained earnings shall be appropriated to the legal reserve until the aggregate amount of the legal reserve and additional paid-in capital equals 25% of the stated capital. The legal reserve and the additional paid-in capital account are available for appropriation by resolution of the shareholders. In accordance with the Corporation Law, the Company provides a legal reserve which is included in retained earnings. This reserve amounted to ¥570 million and ¥570 million (\$5,044 thousand) at 31st March, 2017 and 31st December, 2017, respectively.

For the nine months ended 31st December, 2016

1) Dividends paid

| Resolution | Type of shares | Total dividends (Millions of yen) | Dividends per share (Yen) | Cut-off date | Effective date | Source of dividends |
|--|-----------------------|--|----------------------------------|----------------------|-----------------------|----------------------------|
| Meeting of the Board of Directors on 13th May, 2016 *1 | Common Stock | ¥9,183 | ¥40.00 | 31st March, 2016 | 30th May, 2016 | Retained earnings |
| Meeting of the Board of Directors on 27th October, 2016 *2 | Common Stock | ¥9,091 | ¥40.00 | 30th September, 2016 | 30th November, 2016 | Retained earnings |

*1 Dividends of ¥97 million paid to the ESOP Trust are included in the total dividends amount.

*2 Dividends of ¥89 million paid to the ESOP Trust are included in the total dividends amount.

2) Significant changes in shareholders' equity

The Company acquired 2,472 thousand shares of treasury stock based on the resolution of the Board of Directors on 27th April, 2016. As a result, treasury stock increased by ¥10,000 million. On 30th June, 2016, the Company retired 7,500 thousand shares of treasury stock based on the resolution of the Board of Directors on 10th June, 2016. As a result, additional paid-in capital and treasury stock decreased by ¥18,000 million. As the balance of other additional paid-in capital was negative, ¥(4,615) million after the retirement and disposal of treasury stock, the Company netted out this negative amount against other retained earnings, in accordance with "Revised Accounting Standard for Treasury Shares and Appropriation of Legal Reserve" (Accounting Standards Board of Japan (ASBJ) Statement No. 1 issued on 26th March, 2015).

Consequently, additional paid-in capital decreased by ¥13,234 million, retained earnings increased by ¥17,392 million and treasury stock decreased by ¥10,292 million during the nine months ended 31st December, 2016, respectively. Furthermore, additional paid-in capital, retained earnings and treasury stock amounted to ¥14,710 million, ¥395,476 million and ¥38,104 million, respectively, as of 31st December, 2016.

7. Net Assets (continued)

For the nine months ended 31st December, 2017

1) Dividends paid

| Resolution | Type of shares | Total dividends (Millions of yen) | Total dividends (Thousands of U.S. dollars) | Dividends per share (Yen) *3 | Dividends per share (U.S. dollars) *3 | Cut-off date | Effective date | Source of dividends |
|--|----------------|-----------------------------------|---|------------------------------|---------------------------------------|----------------------|---------------------|---------------------|
| Meeting of the Board of Directors on 12th May, 2017 *1 | Common Stock | ¥10,003 | \$88,522 | ¥40.00 | \$0.35 | 31st March, 2017 | 30th May, 2017 | Retained earnings |
| Meeting of the Board of Directors on 26th October, 2017 *2 | Common Stock | ¥10,814 | \$95,699 | ¥45.00 | \$0.40 | 30th September, 2017 | 30th November, 2017 | Retained earnings |

*1 Dividends of ¥78 million (\$690 thousand) paid to the ESOP Trust are included in the total dividends amount.

*2 Dividends of ¥68 million (\$602 thousand) paid to the ESOP Trust are included in the total dividends amount.

*3 Dividends per share based on the resolution of the Board of Directors on 26th October, 2017 include a commemorative dividend of ¥5.00 (\$0.04) per share.

2) Significant changes in shareholders' equity

The Company acquired 11,458 thousand shares of treasury stock based on the resolution of the Board of Directors on 27th July, 2017. As a result, treasury stock increased by ¥50,000 million (\$442,478 thousand).

Consequently, treasury stock increased by ¥46,678 million (\$413,080 thousand) in total during the nine months period ended 31st December, 2017. Furthermore, treasury stock amounted to ¥83,994 million (\$743,310 thousand), as of 31st December, 2017.

8. Cash and Cash Equivalents

A reconciliation between cash and bank deposits in the accompanying quarterly consolidated balance sheet and cash and cash equivalents in the accompanying quarterly consolidated statement of cash flows at 31st December, 2016 and 2017 is as follows:

| | <i>Millions of yen</i> | | <i>Thousands of U.S. dollars</i> |
|---|----------------------------|----------------------------|----------------------------------|
| | 31st December, 2016 | 31st December, 2017 | 31st December, 2017 |
| Cash and bank deposits | ¥133,526 | ¥112,306 | \$993,858 |
| Short-term investment securities | 7,243 | 4,378 | 38,743 |
| Time deposits with maturities of more than three months when deposited | (1,036) | (980) | (8,673) |
| Bond and other investments maturing in more than three months from the acquisition date | (7,000) | (4,000) | (35,397) |
| Cash and cash equivalents | <u>¥132,733</u> | <u>¥111,704</u> | <u>\$988,531</u> |

9. Per Share Data

Per share data is summarized as follows: *1 and 2

| | <i>Yen</i> | | <i>U.S. dollars</i> |
|----------------------------|--------------------------|-------------|--------------------------|
| | Nine months ended | | Nine months ended |
| | 31st December, | | 31st December, |
| | 2016 | 2017 | 2017 |
| Earnings per share | ¥162.50 | ¥186.55 | \$1.65 |
| Diluted earnings per share | 162.22 | 186.03 | 1.65 |

*1 The computation of earnings per share is based on the weighted-average number of shares of common stock outstanding during each period.

*2 The Company implemented a 1.1-for-1 stock split effective 1st January, 2017. To reflect this stock split, earnings per share and diluted earnings per share are calculated as if the stock split took place on 1st April, 2016.

The computation of earnings per share and diluted earnings per share for the nine months ended 31st December, 2016 and 2017 is as follows: *1

| | <i>Millions of yen</i> | | <i>Thousands of U.S. dollars</i> |
|--|--------------------------|-------------|----------------------------------|
| | Nine months ended | | Nine months ended |
| | 31st December, | | 31st December, |
| | 2016 | 2017 | 2017 |
| Numerator: | | | |
| Earnings *2 | ¥40,279 | ¥45,303 | \$400,912 |
| Earnings not attributable to common shareholders | (-) | (-) | (-) |
| Earnings attributable to common shareholders | ¥40,279 | ¥45,303 | \$400,912 |
| Denominator: | | | |
| Weighted-average number of shares of common stock outstanding – basic *3 | 247,877 | 242,851 | |
| Potentially dilutive shares of common stock: | | | |
| Stock options | 432 | 626 | |
| Total | 432 | 626 | |
| Weighted-average number of shares of common stock outstanding – diluted | 248,309 | 243,477 | |

*1 The Company implemented a 1.1-for-1 stock split effective 1st January, 2017. To reflect this stock split, earnings per share and diluted earnings per share are calculated as if the stock split took place on 1st April, 2016.

*2 In computing diluted earnings per share for the nine-month period ended 31st December, 2017, an adjustment due to potentially dilutive shares of affiliates in the amount of ¥(8) million (\$71 thousand) has been made to earnings in the above table.

*3 The Company's shares owned by the ESOP Trust are included in treasury stock. The weighted-average numbers of shares the ESOP Trust owned were 2,533 thousand and 1,604 thousand during the nine-month periods ended 31st December, 2016 and 2017, respectively.

9. 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 nine months ended 31st December, 2016 and 2017:

| | <i>Shares</i> | |
|-----------------------------------|---|-------------|
| | Nine months ended 31st December, | |
| | 2016 | 2017 |
| a) 24th share subscription rights | 535,425 | 535,425 |
| b) 26th share subscription rights | 561,110 | – |
| c) 28th share subscription rights | – | 569,500 |

10. Selling, General and Administrative Expenses

The details of selling, general and administrative expenses for the nine months ended 31st December, 2016 and 2017 are summarized as follows:

| | <i>Millions of yen</i> | | <i>Thousands of U.S. dollars</i> |
|---------------------|---|-------------|---|
| | Nine months ended 31st December, | | Nine months ended 31st December, |
| | 2016 | 2017 | 2017 |
| Personnel expenses | ¥31,958 | ¥34,534 | \$305,611 |
| Rent | 4,270 | 4,947 | 43,779 |
| Subcontractor costs | 12,259 | 12,114 | 107,204 |
| Other | 13,771 | 18,601 | 164,610 |
| Total | ¥62,258 | ¥70,196 | \$621,204 |

11. Research and Development Expenses

Research and development expenses included in selling, general and administrative expenses amounted to ¥4,014 million and ¥3,856 million (\$34,124 thousand) for the nine months ended 31st December, 2016 and 2017, respectively.

12. Contingent Liabilities

There were no material contingent liabilities at 31st March, 2017 and 31st December, 2017.

13. Segment Information

Net sales and profit by reportable segments

Millions of yen

| Nine months ended 31st December, 2016 | | | | | | | | | |
|---------------------------------------|--------------------|------------------------------|-------------------------------|----------------------------|----------|--------------|----------|-------------------|--------------------|
| | Reportable segment | | | | Subtotal | Others *1 | Total | Adjustments *2 | Consolidated *3 |
| | Consulting | Financial IT Solutions | Industrial IT Solutions | IT Platform Services | | | | | |
| Net sales: | | | | | | | | | |
| Sales to external customers | ¥20,810 | ¥181,717 | ¥76,445 | ¥21,763 | ¥300,735 | ¥7,799 | ¥308,534 | ¥ – | ¥308,534 |
| Intersegment sales or transfers | 365 | 876 | 325 | 69,132 | 70,698 | 2,125 | 72,823 | (72,823) | – |
| Total | 21,175 | 182,593 | 76,770 | 90,895 | 371,433 | 9,924 | 381,357 | (72,823) | 308,534 |
| Segment profit | ¥ 3,689 | ¥ 19,929 | ¥ 5,982 | ¥10,766 | ¥ 40,366 | ¥1,459 | ¥ 41,825 | ¥ 819 | ¥ 42,644 |

Millions of yen

| Nine months ended 31st December, 2017 | | | | | | | | | |
|---------------------------------------|--------------------|------------------------------|-------------------------------|----------------------------|----------|--------------|----------|-------------------|--------------------|
| | Reportable segment | | | | Subtotal | Others *1 | Total | Adjustments *2 | Consolidated *3 |
| | Consulting | Financial IT Solutions | Industrial IT Solutions | IT Platform Services | | | | | |
| Net sales: | | | | | | | | | |
| Sales to external customers | ¥25,734 | ¥183,206 | ¥102,390 | ¥21,876 | ¥333,206 | ¥8,396 | ¥341,602 | ¥ – | ¥341,602 |
| Intersegment sales or transfers | 535 | 987 | 409 | 73,512 | 75,443 | 2,183 | 77,626 | (77,626) | – |
| Total | 26,269 | 184,193 | 102,799 | 95,388 | 408,649 | 10,579 | 419,228 | (77,626) | 341,602 |
| Segment profit | ¥ 3,563 | ¥ 19,132 | ¥ 10,102 | ¥11,583 | ¥ 44,380 | ¥1,516 | ¥ 45,896 | ¥ 718 | ¥ 46,614 |

Thousands of U.S. dollars

| Nine months ended 31st December, 2017 | | | | | | | | | |
|---------------------------------------|--------------------|------------------------------|-------------------------------|----------------------------|-------------|--------------|-------------|-------------------|--------------------|
| | Reportable segment | | | | Subtotal | Others *1 | Total | Adjustments *2 | Consolidated *3 |
| | Consulting | Financial IT Solutions | Industrial IT Solutions | IT Platform Services | | | | | |
| Net sales: | | | | | | | | | |
| Sales to external customers | \$227,735 | \$1,621,292 | \$906,106 | \$193,593 | \$2,948,726 | \$74,301 | \$3,023,027 | \$ – | \$3,023,027 |
| Intersegment sales or transfers | 4,734 | 8,734 | 3,620 | 650,549 | 667,637 | 19,318 | 686,955 | (686,955) | – |
| Total | 232,469 | 1,630,026 | 909,726 | 844,142 | 3,616,363 | 93,619 | 3,709,982 | (686,955) | 3,023,027 |
| Segment profit | \$ 31,531 | \$ 169,310 | \$ 89,398 | \$102,504 | \$ 392,743 | \$13,416 | \$ 406,159 | \$ 6,354 | \$ 412,513 |

*1 Some subsidiaries and others 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 immaterial.

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

14. Lawsuit

On 30th April, 2015, a lawsuit was filed against the Company by Japan Post Information Technology Co., Ltd. (“JPiT”) and the case is currently in litigation.

With an aim to migrate their communication network, connecting post offices across Japan to a new network, JPiT placed an order for the procurement and maintenance of network services with SoftBank Corp. and an order for transitional management and operational coordination of the network with the Company. In the lawsuit, JPiT is demanding that SoftBank Corp. and the Company pay ¥16.15 billion (\$142.92 million) jointly as compensation for damages due to a delay in the migration.

15. Subsequent Events

(Retirement of treasury stock)

At the meeting of the Board of Directors on 12th January, 2018, the Company passed a resolution to retire treasury stock, pursuant to provisions in Article 178 of the Companies Act and subsequently carried out said retirement of treasury stock.

1. Class of shares: Common shares of the Company
2. Total number of shares: 13,000,000 shares
(Ratio to total number of shares in issue before retirement: 4.9%)
3. Date of retirement: 31st January, 2018