

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, 2018, 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.



MEMBERSHIP  
26th July, 2018

## Consolidated Financial Results For the Quarterly Period Ended 30th June, 2018 <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  
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 TEL: +81-3-5533-2111 (from overseas)

Scheduled date to file Quarterly Securities Report: 1st August, 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 30th June, 2018 (from 1st April, 2018 to 30th June, 2018)

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

Quarterly period ended	Sales		Operating profit		Ordinary profit		Profit attributable to owners of the parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
30th June, 2018	117,758	10.4	15,341	17.0	15,871	12.3	11,113	15.0
30th June, 2017	106,636	6.2	13,116	(4.2)	14,137	(7.2)	9,661	(6.7)

Note: Comprehensive income

Quarterly period ended 30th June, 2018: ¥14,135 million [7.0%]

Quarterly period ended 30th June, 2017: ¥13,213 million [268.9%]

Quarterly period ended	Earnings per share – basic		Earnings per share – diluted	
	Yen		Yen	
30th June, 2018	46.73		46.50	
30th June, 2017	38.91		38.81	

## (2) Consolidated financial position

	Total assets	Net assets	Equity ratio
As of	Millions of yen	Millions of yen	%
30th June, 2018	617,820	429,369	67.2
31st March, 2018	642,086	432,783	65.3

Reference: Equity

As of 30th June, 2018: ¥415,374 million As of 31st March, 2018: ¥419,292 million

Note: From the beginning of the first quarter of the fiscal year ending 31st March, 2019, the Company adopted the “Partial Amendments to Accounting Standard for Tax Effect Accounting” (ASBJ Statement No. 28, 16th February, 2018) and relevant Guidances. The results for the fiscal year ended 31st March, 2018 are those after retrospective application.

## 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, 2018	–	45.00	–	45.00	90.00
Fiscal year ending 31st March, 2019	–				
Fiscal year ending 31st March, 2019 (Forecasts)		45.00	–	45.00	90.00

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

2. The second quarter dividend and year-end dividend for the fiscal year ended 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, 2019 (from 1st April, 2018 to 31st March, 2019)

(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
Six months ending 30th September, 2018	240,000	9.0	33,000	13.4	33,500	11.5	22,000	(34.1)	92.50
Fiscal year ending 31st March, 2019	510,000	8.2	70,000	7.5	71,000	7.3	50,000	(9.3)	210.24

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

### \* Notes

- (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: 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 30th June, 2018	251,000,000 shares
	As of 31st March, 2018	251,000,000 shares
b.	Number of shares of treasury stock at the end of the period	
	As of 30th June, 2018	14,020,091 shares
	As of 31st March, 2018	12,844,155 shares
c.	Average number of shares during the period (cumulative from the beginning of the fiscal year)	
	Quarterly period ended 30th June, 2018	237,827,533 shares
	Quarterly period ended 30th June, 2017	248,274,880 shares

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

\* Quarterly consolidated financial results reports are exempt from quarterly review conducted by certified public accountants or an audit corporation.

\* 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.

## Qualitative information regarding first-quarter settlement of accounts

### (1) Qualitative information regarding consolidated operating results

(Millions of yen)

	Three months ended 30th June, 2017	Three months ended 30th June, 2018	Year on year	
			Amount	Rate
Sales	106,636	117,758	11,122	10.4%
Overseas sales	7,850	14,675	6,824	86.9%
Overseas sales ratio	7.4%	12.5%	5.1P	—
Operating profit	13,116	15,341	2,224	17.0%
Operating profit (before amortization of goodwill)	14,031	16,436	2,405	17.1%
Operating margin	12.3%	13.0%	0.7P	—
Operating margin (before amortization of goodwill)	13.2%	14.0%	0.8P	—
EBITDA margin	19.4%	20.1%	0.7P	—
Ordinary profit	14,137	15,871	1,734	12.3%
Profit attributable to owners of the parent	9,661	11,113	1,452	15.0%

Notes: 1. Consumption tax and local consumption tax are accounted for by the tax exclusion method.

2. EBITDA margin: EBITDA (Operating profit + Depreciation + Amortization of goodwill) / Sales

During the three months ended 30th June, 2018 (from 1st April, 2018 to 30th June, 2018), the Japanese economy continued to recover at a moderate pace, supported by upturns in corporate earnings and business confidence, despite concerns about slower growth in the global economy due to trade friction originating in the U.S. Investment in information systems has been continuously firm supported by an improvement in corporate earnings.

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, 2019 is the final 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 is aiming to achieve the final-year targets of the medium-term plan by stepping up measures to boost productivity and quality, growing the earnings base by developing large-scale clients, and establishing an operating base and accumulating experience in the digital and global fields.

In the digital field, the use of IT by companies and societies is approaching a major turning point. There is growing momentum behind initiatives to spur digital transformation, which will enable companies to revamp business models, products and services and secure competitive advantages by using new IT tools such as cloud computing, artificial intelligence (AI) and the internet of things (IoT). As well as upgrading and improving the efficiency of existing business models, clients are using digital transformation to create new business models. Leveraging its consulting and IT solutions, the NRI Group will support clients’ digital transformation.

The global business grew in the three months ended 30th June, 2018, with overseas sales now accounting for more than 10% of consolidated sales. 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, intellectual properties including business models 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.

In addition, in the first quarter of the current fiscal year, the Company started using a recently constructed training facility at the Yokohama Center as a base to train personnel who will drive growth in the digital business and other new businesses.

Also, the Company is acquiring treasury stock (maximum of 7,000,000 shares, ¥30,000 million) as its flexible capital management aimed at improving capital efficiency and responding to changes in the business environment.

During the three months ended 30th June, 2018, the NRI Group's sales totaled ¥117,758 million (up 10.4% year on year), supported by higher sales from all services, particularly from consulting services and system development and application sales. Cost of sales was ¥79,308 million (up 13.3%) and gross profit was ¥38,450 million (up 5.0%). Despite an increase in the number of subsidiaries, selling, general and administrative expenses were ¥23,109 million (down 1.7%), due to the absence of expenses incurred for office relocation in the same period of the previous fiscal year. As a result, operating profit was ¥15,341 million (up 17.0%), the operating margin was 13.0% (up 0.7 points) and ordinary profit was ¥15,871 million (up 12.3%). Operating profit (before amortization of goodwill) was ¥16,436 million (up 17.1%), the operating margin (before amortization of goodwill) was 14.0% (up 0.8 points) and the EBITDA margin was 20.1% (up 0.7 points).

In extraordinary income and losses, the Company posted a gain on investment securities in conjunction with sales of the Company's shareholdings. As a result, profit attributable to owners of the parent was ¥11,113 million (up 15.0%).

### Segment information

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

The Company partially revised its segment classifications in the first quarter of the current fiscal year, and as such the figures presented below for the corresponding period of the previous fiscal year have been recalculated to reflect the reorganization.

(Millions of yen)

		Three months ended 30th June, 2017	Three months ended 30th June, 2018	Year on year	
				Amount	Rate
Consulting	Sales	6,106	9,177	3,071	50.3%
	Operating profit	151	1,240	1,088	717.5%
	Operating margin	2.5%	13.5%	11.0P	—
Financial IT Solutions	Sales	59,823	59,330	(492)	(0.8)%
	Operating profit	5,846	6,165	319	5.5%
	Operating margin	9.8%	10.4%	0.6P	—
Industrial IT Solutions	Sales	32,064	40,046	7,982	24.9%
	Operating profit	2,913	4,032	1,118	38.4%
	Operating margin	9.1%	10.1%	1.0P	—
IT Platform Services	Sales	29,324	29,692	368	1.3%
	Operating profit	3,560	3,402	(157)	(4.4)%
	Operating margin	12.1%	11.5%	(0.7)P	—
Others	Sales	3,429	3,763	334	9.8%
	Operating profit	420	164	(256)	(61.0)%
	Operating margin	12.3%	4.4%	(7.9)P	—
Adjustments	Sales	(24,112)	(24,253)	(141)	—
	Operating profit	223	336	112	—
Total	Sales	106,636	117,758	11,122	10.4%
	Operating profit	13,116	15,341	2,224	17.0%
	Operating margin	12.3%	13.0%	0.7P	—

**(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 three months ended 30th June, 2018, in addition to the contributions from ASG Group Limited, consulting work to support clients in their digital transformation system and system consulting work to support clients in their large-scale development projects increased. As a result, the Consulting segment posted sales of ¥9,177 million (up 50.3% year on year). Profitability improved amid a favorable order environment, with operating profit of ¥1,240 million (up 717.5%).

**(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 raising productivity by upgrading development resource management and developing new services and securing new clients for its industry-standard business platforms, while also supporting the expansion of digital businesses at clients in the financial sector.

During the three months ended 30th June, 2018, system development and application sales to insurance companies and companies in the other financial sector increased, but system management and operation services and system development and application sales to securities companies declined. As a result, the Financial IT Solutions segment posted sales of ¥59,330 million (down 0.8% year on year). Operating profit totaled ¥6,165 million (up 5.5%), reflecting the absence of some unprofitable projects incurred in the same period of the previous fiscal year.

**(Industrial IT Solutions)**

This segment provides IT solutions such as system consulting, system development, and system management and operation 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 expanding beyond corporate IT, which aims to improve business efficiency, to also include business IT, which is used directly to expand operations by creating new businesses. Amid that trend, the Company is harnessing its consulting and IT solution services to support clients' business IT.

During the three months ended 30th June, 2018, sales from all services increased, particularly from system management and operation services for the manufacturing and service, and distribution sectors, which also reflected a contribution from ASG Group Limited. As a result, the Industrial IT Solutions segment posted sales of ¥40,046 million (up 24.9% year on year). Profitability improved amid a continued favorable order environment from the previous fiscal year, with operating profit of ¥4,032 million (up 38.4%).

**(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. During the three months ended 30th June, 2018, sales to external clients increased in the security business, and intersegment sales increased mainly in network services. However, subcontracting costs increased.

As a result of the above, the IT Platform Services segment posted sales of ¥29,692 million (up 1.3% year on year) and operating profit of ¥3,402 million (down 4.4%).

**(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 three months ended 30th June, 2018, the Others segment posted sales of ¥3,763 million (up 9.8% year on year) and operating profit of ¥164 million (down 61.0%).

## (2) Qualitative information regarding consolidated financial position

### (Assets, liabilities and net assets)

From the beginning of the first quarter of the fiscal year ending 31st March, 2019, the Company adopted the “Partial Amendments to Accounting Standard for Tax Effect Accounting” (ASBJ Statement No. 28, 16th February, 2018) and relevant Guidances. The year-on-year comparisons below use the results for the end of the previous fiscal year after the aforementioned retrospective application.

(Millions of yen)

	As of 31st March, 2018	As of 30th June, 2018	Year on year	
			Amount	Rate
Current assets	298,275	269,218	(29,056)	(9.7)%
Noncurrent assets	343,810	348,601	4,790	1.4%
Total assets	642,086	617,820	(24,265)	(3.8)%
Current liabilities	162,133	140,050	(22,083)	(13.6)%
Noncurrent liabilities	46,574	47,924	1,349	2.9%
Net assets	432,783	429,369	(3,413)	(0.8)%
Equity	419,292	415,374	(3,918)	(0.9)%
Equity ratio	65.3%	67.2%	1.9P	—
Interest-bearing debt	81,680	79,913	(1,766)	(2.2)%
D/E ratio (times)	0.19	0.19	(0.00)	—

Notes: 1. Equity: Net assets – Non-controlling interests – Share subscription rights

2. D/E ratio (debt-to-equity ratio): Interest-bearing debt / equity

At the end of the first quarter (30th June, 2018), current assets were ¥269,218 million (down 9.7% from the end of the previous fiscal year), noncurrent assets were ¥348,601 million (up 1.4%), current liabilities were ¥140,050 million (down 13.6%), noncurrent liabilities were ¥47,924 million (up 2.9%), net assets were ¥429,369 million (down 0.8%) and total assets were ¥617,820 million (down 3.8%). In addition, the D/E ratio (debt-to-equity ratio) at the end of the first quarter was 0.19 times.

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

Accounts receivable declined ¥31,591 million to ¥44,225 million and other receivables increased ¥7,961 million to ¥44,211 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. Investment securities increased ¥4,652 million to ¥93,651 million due to an increase in the value of the Company’s shareholdings, despite sales of its shareholdings.

In accordance with a resolution of the Board of Directors, the Company is acquiring treasury stock (maximum of 7,000,000 shares, ¥30,000 million) between 16th May 2018 and 28th February 2019. As a result, treasury stock increased ¥8,200 million and advance payments - other (included in other current assets) for the purchase of treasury stock still to be acquired increased ¥21,790 million.

In addition, cash and bank deposits decreased ¥31,740 million to ¥127,801 million, income taxes payable decreased ¥16,711 million to ¥4,521 million, accrued bonuses declined ¥11,380 million to ¥8,947 million and other current liabilities increased ¥8,805 million to ¥17,377 million.



**(Cash flow position)**

(Millions of yen)

	Three months ended 30th June, 2017	Three months ended 30th June, 2018	Year on year	
			Amount	Rate
Cash flows from operating activities	25,723	(6,714)	(32,438)	—
Cash flows from investing activities	(10,799)	(5,600)	5,199	(48.1)%
Free cash flows	14,923	(12,315)	(27,239)	—
Cash flows from financing activities	(10,067)	(19,538)	(9,471)	94.1%
Net increase (decrease) in cash and cash equivalents	4,965	(31,609)	(36,574)	—
Cash and cash equivalents at end of period	157,017	126,693	(30,323)	(19.3)%

Cash and cash equivalents as of the end of the first quarter (30th June, 2018) stood at ¥126,693 million (down ¥31,609 million from the end of the previous fiscal year).

Net cash used in operating activities in the three months ended 30th June, 2018 was ¥6,714 million, compared with net cash provided of ¥25,723 million in the same period of the previous fiscal year. Cash used included ¥21,790 million for advance payments - other (cash used in other operating activities) for the purchase of treasury stock still to be acquired, and a large increase in the amount of income taxes paid.

Net cash used in investing activities was ¥5,600 million, a decline of ¥5,199 million from the previous fiscal year. Cash was mainly used for investments, including the acquisition of software and other intangibles related to the development of multi-user systems, and the purchase of short-term investment securities for fund management purposes. On the other hand, cash was provided by proceeds from sales and redemption of short-term investment securities.

Net cash used in financing activities was ¥19,538 million, an increase of ¥9,471 million from the previous fiscal year. ¥8,200 million worth of treasury stock was purchased in the three months ended 30th June, 2018 in accordance with a resolution of the Board of Directors.

**Nomura Research Institute, Ltd.**

**Quarterly Consolidated Financial Statements**

*For the Three-Month Period Ended 30th June, 2018  
(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 Three-Month Period Ended 30th June, 2018  
(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>
	<b>31st March, 2018</b>	<b>30th June, 2018</b>	<b>30th June, 2018</b>
<b>Assets</b>			
Current assets:			
Cash and bank deposits ( <i>Notes 4 and 8</i> )	¥159,542	¥127,801	\$1,157,094
Short-term investment securities ( <i>Notes 4, 5 and 8</i> )	1,219	1,617	14,640
Accounts receivable and other receivables ( <i>Note 4</i> )	112,068	88,438	800,706
Operating loans ( <i>Note 4</i> )	3,925	3,925	35,536
Margin transaction assets ( <i>Note 4</i> )	6,945	6,249	56,578
Inventories	1,117	1,158	10,484
Short-term loans receivable ( <i>Note 4</i> )	–	3,000	27,162
Short-term guarantee deposits ( <i>Note 4</i> )	3,404	3,404	30,819
Other current assets	10,259	33,793	305,958
Allowance for doubtful accounts	(205)	(166)	(1,503)
Total current assets	298,274	269,219	2,437,474
Property and equipment:			
Land	7,060	7,060	63,920
Buildings, net	36,956	36,775	332,956
Buildings in trust, net	8,310	8,275	74,921
Machinery and equipment, net	15,514	14,750	133,545
Leased assets, net	688	688	6,229
Property and equipment, net	68,528	67,548	611,571
Software and other intangibles	63,688	63,767	577,338
Goodwill	39,029	38,103	344,980
Investment securities ( <i>Notes 4 and 5</i> )	88,999	93,652	847,913
Investments in affiliates ( <i>Notes 4 and 5</i> )	5,231	5,138	46,519
Deferred income taxes	2,654	2,749	24,889
Lease investment assets	412	389	3,521
Net defined benefit asset	55,701	58,038	525,469
Other assets	19,674	19,316	174,885
Allowance for doubtful accounts	(104)	(99)	(896)
Total assets	¥642,086	¥617,820	\$5,593,663

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars (Note 3)</i>
	<b>31st March, 2018</b>	<b>30th June, 2018</b>	<b>30th June, 2018</b>
<b>Liabilities and Net Assets</b>			
Current liabilities:			
Accounts payable (Note 4)	¥ 22,882	¥ 20,623	\$ 186,718
Short-term loans payable (Note 4)	6,074	5,643	51,091
Current portion of bonds (Note 4)	15,000	15,000	135,808
Current portion of long-term loans payable (Note 4)	23,707	22,515	203,848
Margin transaction liabilities (Note 4)	1,014	1,037	9,389
Lease obligations, current	612	555	5,025
Accrued expenses	35,637	27,408	248,148
Income taxes payable	21,233	4,522	40,942
Advance payments received	11,748	10,611	96,071
Short-term guarantee deposits received (Note 4)	4,540	4,592	41,575
Provision for loss on orders received	51	265	2,399
Asset retirement obligations	71	13	118
Other current liabilities	19,565	27,267	246,872
<b>Total current liabilities</b>	<b>162,134</b>	<b>140,051</b>	<b>1,268,004</b>
Bonds (Note 4)	34,083	34,054	308,321
Long-term loans payable (Note 4)	408	324	2,933
Lease obligations	765	679	6,148
Deferred income taxes	4,414	5,684	51,462
Net defined benefit liability	5,662	5,822	52,712
Asset retirement obligations	1,048	1,171	10,602
Other long-term liabilities	194	189	1,711
Reserve for financial products transaction liabilities	595	476	4,310
<b>Total liabilities</b>	<b>¥209,303</b>	<b>¥188,450</b>	<b>\$1,706,203</b>
Net assets (Notes 7 and 9):			
Shareholders' equity:			
Common stock:			
Authorized – 907,500 thousand shares at 31st March, 2018 and 907,500 thousand shares at 30th June, 2018			
Issued – 251,000 thousand shares at 31st March, 2018 and 251,000 thousand shares at 30th June, 2018	¥ 18,600	¥ 18,600	\$ 168,402
Additional paid-in capital (Note 7)	14,776	14,760	133,635
Retained earnings (Note 7)	393,488	393,831	3,565,695
Treasury stock, at cost: (Note 7)			
– 12,844 thousand shares at 31st March, 2018 and 14,020 thousand shares at 30th June, 2018	(41,218)	(48,384)	(438,062)
<b>Total shareholders' equity</b>	<b>385,646</b>	<b>378,807</b>	<b>3,429,670</b>
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities (Note 5)	32,446	35,285	319,466
Deferred gains or losses on hedges (Note 6)	(3)	(38)	(344)
Foreign currency translation adjustment	(3,848)	(3,590)	(32,504)
Remeasurements of defined benefit plans	5,052	4,910	44,455
<b>Total accumulated other comprehensive income</b>	<b>33,647</b>	<b>36,567</b>	<b>331,073</b>
Share subscription rights	1,302	1,431	12,956
Non-controlling interests	12,188	12,565	113,761
<b>Total net assets</b>	<b>432,783</b>	<b>429,370</b>	<b>3,887,460</b>
<b>Total liabilities and net assets</b>	<b>¥642,086</b>	<b>¥617,820</b>	<b>\$5,593,663</b>

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>
	<b>Three months ended 30th June,</b>		<b>Three months ended 30th June,</b>
	<b>2017</b>	<b>2018</b>	<b>2018</b>
Sales	¥ 106,636	¥ 117,758	\$ 1,066,166
Cost of sales	70,008	79,308	718,045
Gross profit	36,628	38,450	348,121
Selling, general and administrative expenses (Notes 10 and 11)	23,512	23,109	209,226
Operating profit	13,116	15,341	138,895
Other income (expenses):			
Interest and dividend income	1,074	710	6,428
Interest expense	(53)	(123)	(1,114)
Equity in losses of affiliates	(12)	(79)	(715)
Foreign exchange losses	(60)	(20)	(181)
Gain on investment securities	1,377	1,106	10,014
Reversal of share-based compensation	16	3	27
Reversal of reserve for financial products transaction liabilities	–	118	1,068
Other, net	72	43	390
	2,414	1,758	15,917
Income before income taxes	15,530	17,099	154,812
Provision for income taxes (Note 2)	5,506	5,854	53,001
Profit	¥ 10,024	¥ 11,245	\$ 101,811
Profit attributable to owners of parent (Note 9)	¥ 9,661	¥ 11,114	\$ 100,625
Profit attributable to non-controlling interests	363	131	1,186
Other comprehensive income:			
Valuation difference on available-for-sale securities	3,006	2,804	25,387
Deferred gains or losses on hedges (Note 6)	131	(34)	(308)
Foreign currency translation adjustment	113	272	2,463
Remeasurements of defined benefit plans, net of tax	(67)	(138)	(1,249)
Share of other comprehensive income (loss) of affiliates	7	(14)	(127)
Total other comprehensive income	3,190	2,890	26,166
Comprehensive income	¥ 13,214	¥ 14,135	\$ 127,977
Comprehensive income attributable to:			
Comprehensive income attributable to owners of parent	¥ 12,840	¥ 14,010	\$ 126,845
Comprehensive income attributable to non-controlling interests	374	125	1,132

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>
	<b>Three months ended 30th June,</b>		<b>Three months ended 30th June,</b>
	<b>2017</b>	<b>2018</b>	<b>2018</b>
<b>Cash flows from operating activities</b>			
Income before income taxes	¥ 15,530	¥ 17,099	\$ 154,812
Adjustments to reconcile income before income taxes to net cash provided by operating activities:			
Depreciation and amortization	6,691	7,228	65,441
Interest and dividend income	(1,074)	(710)	(6,428)
Interest expense	53	123	1,114
Gain on investment securities	(1,377)	(1,106)	(10,014)
Changes in operating assets and liabilities:			
Accounts receivable and other receivables, net of advance payments received	20,332	22,468	203,422
Allowance for doubtful accounts	(32)	(44)	(398)
Accounts payable	2,793	1,172	10,611
Inventories	24	(42)	(380)
Net defined benefit asset	(5,719)	(2,532)	(22,924)
Net defined benefit liability	192	156	1,412
Provision for loss on orders received	144	214	1,938
Margin transaction assets	(2,120)	697	6,311
Short-term guarantee deposits	2,551	–	–
Margin transaction liabilities	2,144	23	208
Short-term guarantee deposits received	(522)	52	471
Reserve for financial products transaction liabilities	–	(118)	(1,068)
Other	(8,976)	(30,189)	(273,328)
Subtotal	30,634	14,491	131,200
Interest and dividends received	1,077	700	6,338
Interest paid	(31)	(58)	(525)
Income taxes paid	(5,956)	(21,848)	(197,810)
Net cash provided by (used in) operating activities	25,724	(6,715)	(60,797)
<b>Cash flows from investing activities</b>			
Payments for time deposits	(445)	(827)	(7,488)
Proceeds from time deposits	317	575	5,206
Acquisition of property and equipment	(11,561)	(1,810)	(16,388)
Proceeds from sales of property and equipment	2	–	–
Purchase of software and other intangibles	(5,781)	(4,928)	(44,617)
Payments for asset retirement obligations	–	(46)	(416)
Purchase of investment securities	(37)	(2,173)	(19,674)
Proceeds from sales and redemption of investment securities	6,700	2,688	24,337
Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation	–	918	8,311
Other	5	2	18
Net cash used in investing activities	¥ (10,800)	¥ (5,601)	\$ (50,711)

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>
	<b>Three months ended 30th June,</b>		<b>Three months ended 30th June,</b>
	<b>2017</b>	<b>2018</b>	<b>2018</b>
<b>Cash flows from financing activities</b>			
Repayments of short-term loans payable	¥ –	¥ (413)	\$ (3,739)
Repayments of long-term loans payable	(1,188)	(1,273)	(11,526)
Repayments of obligation under finance leases	(30)	(153)	(1,385)
Proceeds from sales of treasury stock	1,185	1,323	11,978
Purchase of treasury stock	(3)	(8,210)	(74,332)
Cash dividends paid	(9,985)	(10,745)	(97,284)
Cash dividends paid to non-controlling interests	(47)	(68)	(616)
Net cash used in financing activities	(10,068)	(19,539)	(176,904)
Effect of exchange rate changes on cash and cash equivalents	109	246	2,228
Net increase (decrease) in cash and cash equivalents	4,965	(31,609)	(286,184)
Cash and cash equivalents at beginning of period	152,052	158,303	1,433,255
Cash and cash equivalents at end of period <i>(Note 8)</i>	¥ 157,017	¥ 126,694	\$ 1,147,071

See accompanying notes to quarterly consolidated financial statements.



# Nomura Research Institute, Ltd.

## Notes to Quarterly Consolidated Financial Statements

30th June, 2018

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

#### *Description of Business*

The NRI Group (Nomura Research Institute, Ltd. (the “Company”) and its 70 consolidated subsidiaries) and its affiliates (8 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 12.

During the quarterly period ended 30th June, 2018, the NRI Group established one company. 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, 2018 and 30th June, 2018, ¥3,959 million (corresponding to 1,115 thousand shares of the Company held by the ESOP Trust) and ¥3,219 million (\$29,144 thousand) (corresponding to 907 thousand shares of the Company held by the ESOP Trust) and the loan payable of the ESOP Trust of ¥2,881 million and ¥1,690 million (\$15,301 thousand), respectively, are recorded in the accompanying quarterly consolidated balance sheet.

### ***(Application of Partial Amendment to Accounting Standard for Tax Effect Accounting, etc.)***

Partial Amendment to Accounting Standard for Tax Effect Accounting (Accounting Standards Board of Japan ("ASBJ") Statement No. 28, revised on 16th February, 2018) has been applied from the beginning of the quarter ended 30th June, 2018, and deferred tax assets and deferred tax liabilities are presented in the 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. However, if the result of the calculation using the relevant estimated effective tax rate is unreasonable, income taxes are calculated by multiplying quarterly income before income taxes by the effective statutory tax rate, after adjusting for important differences that do not constitute temporary differences.

### **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 ¥110.45 = U.S.\$1.00, the rate of exchange prevailing on 30th June, 2018. 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, 2018 and 30th June, 2018 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>					
	<b>31st March, 2018</b>			<b>30th June, 2018</b>		
	<b>Carrying amount</b>	<b>Estimated fair value</b>	<b>Difference</b>	<b>Carrying amount</b>	<b>Estimated fair value</b>	<b>Difference</b>
<b>Assets:</b>						
Cash and bank deposits	¥159,542	¥159,542	¥ –	¥127,801	¥127,801	¥ –
Accounts receivable and other receivables	112,068	112,068	–	88,438	88,438	–
Short-term investment securities, investment securities, and investments in affiliates	87,361	87,361	–	92,300	92,300	–
Operating loans	3,925	3,925	–	3,925	3,925	–
Margin transaction assets	6,945	6,945	–	6,249	6,249	–
Short-term loans receivable	–	–	–	3,000	3,000	–
Short-term guarantee deposits	3,404	3,404	–	3,404	3,404	–
Total	<u>¥373,245</u>	<u>¥373,245</u>	<u>¥ –</u>	<u>¥325,117</u>	<u>¥325,117</u>	<u>¥ –</u>
<b>Liabilities:</b>						
Accounts payable	¥ 22,882	¥ 22,882	¥ –	¥ 20,623	¥ 20,623	¥ –
Short-term loans payable	6,074	6,074	–	5,643	5,643	–
Margin transaction liabilities	1,014	1,014	–	1,037	1,037	–
Short-term guarantee deposits received	4,540	4,540	–	4,592	4,592	–
Bonds *1	49,083	49,064	(19)	49,054	49,083	29
Long-term loans payable *2	24,115	24,118	3	22,839	22,841	2
Total	<u>¥107,708</u>	<u>¥107,692</u>	<u>¥(16)</u>	<u>¥103,788</u>	<u>¥103,819</u>	<u>¥ 31</u>
Derivative transactions *3	¥ 6	¥ 6	¥ –	¥ (74)	¥ (74)	¥ –

	<i>Thousands of U.S. dollars</i>		
	<b>30th June, 2018</b>		
	<b>Carrying amount</b>	<b>Estimated fair value</b>	<b>Difference</b>
<b>Assets:</b>			
Cash and bank deposits	\$1,157,094	\$1,157,094	\$ –
Accounts receivable and other receivables	800,706	800,706	–
Short-term investment securities, investment securities, and investments in affiliates	835,672	835,672	–
Operating loans	35,536	35,536	–
Margin transaction assets	56,578	56,578	–
Short-term loans receivable	27,162	27,162	–
Short-term guarantee deposits	30,819	30,819	–
Total	<u>\$2,943,567</u>	<u>\$2,943,567</u>	<u>\$ –</u>
<b>Liabilities:</b>			
Accounts payable	\$ 186,718	\$ 186,718	\$ –
Short-term loans payable	51,091	51,091	–
Margin transaction liabilities	9,389	9,389	–
Short-term guarantee deposits received	41,575	41,575	–
Bonds *1	444,129	444,391	262
Long-term loans payable *2	206,781	206,799	18
Total	<u>\$ 939,683</u>	<u>\$ 939,963</u>	<u>\$ 280</u>
Derivative transactions *3	\$ (670)	\$ (670)	\$ –

\*1 Bonds included the current portion of bonds totaling ¥15,000 million and ¥15,000 million (\$135,808 thousand) as of 31st March, 2018 and 30th June, 2018, respectively.

\*2 Long-term loans payable included the current portion of long-term loans payable totaling ¥23,707 million and ¥22,515 million (\$203,848 thousand) as of 31st March, 2018 and 30th June, 2018, 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, short-term loans receivable 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 or the price obtained from a counterparty financial institution.

#### 4. Financial Instruments (continued)

Fair value of financial instruments (continued)

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.

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>
	<b>31st March, 2018</b>	<b>30th June, 2018</b>	<b>30th June, 2018</b>
Unlisted companies' shares *1	¥7,361	¥7,350	\$66,546
Investments in partnerships *2	727	756	6,845

\*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 ¥5,231 million and ¥5,138 million (\$46,519 thousand) as of 31st March, 2018 and 30th June, 2018, 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, 2018 and 30th June, 2018.

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, 2018 and 30th June, 2018:

### *Securities Classified as Available-for-Sale Securities*

	<i>Millions of yen</i>					
	<b>31st March, 2018</b>			<b>30th June, 2018</b>		
	<b>Acquisition cost</b>	<b>Carrying amount</b>	<b>Unrealized gain (loss)</b>	<b>Acquisition cost</b>	<b>Carrying amount</b>	<b>Unrealized gain (loss)</b>
Equity securities	¥17,787	¥63,138	¥45,351	¥17,835	¥67,267	¥49,432
Bonds:						
Government bonds	1,036	1,037	1	1,035	1,037	2
Corporate bonds	25,110	25,089	(21)	25,606	25,584	(22)
	26,146	26,126	(20)	26,641	26,621	(20)
Other	875	955	80	1,301	1,380	79
Total	¥44,808	¥90,219	¥45,411	¥45,777	¥95,268	¥49,491

	<i>Thousands of U.S. dollars</i>		
	<b>30th June, 2018</b>		
	<b>Acquisition cost</b>	<b>Carrying amount</b>	<b>Unrealized gain (loss)</b>
Equity securities	\$161,476	\$609,027	\$447,551
Bonds:			
Government bonds	9,371	9,389	18
Corporate bonds	231,833	231,634	(199)
	241,204	241,023	(181)
Other	11,779	12,494	715
Total	\$414,459	\$862,544	\$448,085

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 not readily determinable as a result of a decline in value for the year ended 31st March, 2018 amounted to ¥52 million. Impairment loss on available-for-sale securities whose fair value is not readily determinable as a result of a decline in value for the three months ended 30th June, 2018 amounted to ¥37 million (\$335 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, 2018 and the quarterly period ended 30th June, 2018.

For the derivative transactions to which hedge accounting was applied as of 31st March, 2018 and 30th June, 2018, the contract amounts and estimated fair values of the hedging instruments are as follows.

	<i>Millions of yen</i>			
	<b>31st March, 2018</b>		<b>30th June, 2018</b>	
	<b>Contract amount</b>	<b>Estimated fair value *1</b>	<b>Contract amount</b>	<b>Estimated fair value *1</b>
Forward foreign exchange contracts for accounts payable, accounted for by deferral hedge accounting method:				
Buy: CNY (Sell: JPY)	¥ 420	¥ 11	¥ 1,453	¥ (69)
Interest rate swap contracts for bonds, accounted for by deferral hedge accounting method:				
Fixed-rate receipt, fixed-rate payment *2	¥15,000	¥ (5)	¥15,000	¥ (5)

	<i>Thousands of U.S. dollars</i>	
	<b>30th June, 2018</b>	
	<b>Contract amount</b>	<b>Estimated fair value *1</b>
Forward foreign exchange contracts for accounts payable, accounted for by deferral hedge accounting method:		
Buy: CNY (Sell: JPY)	\$ 13,155	\$(625)
Interest rate swap contracts for bonds, accounted for by deferral hedge accounting method:		
Fixed-rate receipt, fixed-rate payment *2	\$135,808	\$ (45)

\*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 (\$5,161 thousand) at 31st March, 2018 and 30th June, 2018, respectively.

For the three months ended 30th June, 2017

### Dividends paid

<b>Resolution</b>	<b>Type of shares</b>	<b>Total dividends (Millions of yen)</b>	<b>Dividends per share (Yen)</b>	<b>Cut-off date</b>	<b>Effective date</b>	<b>Source of dividends</b>
Meeting of the Board of Directors on 12th May, 2017 *1	Common Stock	¥10,003	¥40.00	31st March, 2017	30th May, 2017	Retained earnings

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

For the three months ended 30th June, 2018

### 1) Dividends paid

<b>Resolution</b>	<b>Type of shares</b>	<b>Total dividends (Millions of yen)</b>	<b>Total dividends (Thousands of U.S. dollars)</b>	<b>Dividends per share (Yen) *2</b>	<b>Dividends per share (U.S. dollars) *2</b>	<b>Cut-off date</b>	<b>Effective date</b>	<b>Source of dividends</b>
Meeting of the Board of Directors on 16th May, 2018 *1	Common Stock	¥10,767	\$97,483	¥45.00	\$0.41	31st March, 2018	1st June, 2018	Retained earnings

\*1 Dividends of ¥50 million (\$453 thousand) paid to the ESOP Trust are included in the total dividends amount.

\*2 Dividends per share include a commemorative dividend of ¥5.00 (\$0.05) per share.

### 2) Significant changes in shareholders' equity

The Company acquired 1,475 thousand shares of treasury stock based on the resolution of the Board of Directors on 26th April, 2018. As a result, treasury stock increased by ¥8,200 million (\$74,242 thousand).

## 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 30th June, 2017 and 2018 is as follows:

	<i>Millions of yen</i>		<i>Thousands of</i>
	<b>30th June,</b>		<i>U.S. dollars</i>
	<b>2017</b>	<b>2018</b>	<b>30th June,</b>
			<b>2018</b>
Cash and bank deposits	¥157,744	¥127,801	\$1,157,094
Short-term investment securities	6,234	1,617	14,640
Time deposits with maturities of more than three months when deposited	(961)	(1,724)	(15,609)
Bond and other investments maturing in more than three months from the acquisition date	(6,000)	(1,000)	(9,054)
Cash and cash equivalents	¥157,017	¥126,694	\$1,147,071

## 9. Per Share Data

Per share data is summarized as follows: \*1

	<i>Yen</i>		<i>U.S. dollars</i>
	<b>Three months ended 30th June,</b>		<b>Three months ended 30th June,</b>
	<b>2017</b>	<b>2018</b>	<b>2018</b>
Earnings per share	¥38.91	¥46.73	\$0.42
Diluted earnings per share	38.81	46.50	0.42

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

## 9. Per Share Data (continued)

The computation of earnings per share and diluted earnings per share for the three months ended 30th June, 2017 and 2018 is as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	<b>Three months ended 30th June,</b>		<b>Three months ended 30th June,</b>
	<b>2017</b>	<b>2018</b>	<b>2018</b>
Numerator:			
Earnings*1	¥9,661	¥11,114	\$100,625
Earnings not attributable to common shareholders	(-)	(-)	(-)
Earnings attributable to common shareholders	<u>¥9,661</u>	<u>¥11,114</u>	<u>\$100,625</u>
	<i>Thousands of Shares</i>		
Denominator:			
Weighted-average number of shares of common stock outstanding – basic *2	248,275	237,828	
Potentially dilutive shares of common stock:			
Stock options	602	1,186	
Total	<u>602</u>	<u>1,186</u>	
Weighted-average number of shares of common stock outstanding – diluted	<u>248,877</u>	<u>239,014</u>	

\*1 In computing diluted earnings per share for the three-month periods ended 30th June, 2017 and 2018, an adjustment due to potentially dilutive shares of affiliates in the amount of ¥(1) million and ¥(0) million (\$0 thousand) has been made to earnings in the above table.

\*2 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 1,838 thousand and 1,021 thousand during the three-month periods ended 30th June, 2017 and 2018, respectively.

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, 2017 and 2018:

	<i>Shares</i>	
	<b>Three months ended 30th June,</b>	
	<b>2017</b>	<b>2018</b>
a) 24th share subscription rights	535,425	–

## 10. Selling, General and Administrative Expenses

The details of selling, general and administrative expenses for the three months ended 30th June, 2017 and 2018 are summarized as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	<b>Three months ended 30th June,</b>		<b>Three months ended 30th June,</b>
	<b>2017</b>	<b>2018</b>	<b>2018</b>
Personnel expenses	¥11,451	¥11,403	\$103,241
Rent	1,459	1,761	15,944
Subcontractor costs	3,662	3,905	35,355
Other	6,940	6,040	54,686
Total	<u>¥23,512</u>	<u>¥23,109</u>	<u>\$209,226</u>

## 11. Research and Development Expenses

Research and development expenses included in selling, general and administrative expenses amounted to ¥971 million and ¥611 million (\$5,532 thousand) for the three months ended 30th June, 2017 and 2018, respectively.

## 12. Segment Information

### 1) Net sales and profit by reportable segments

	<i>Millions of yen</i>								
	<b>Three months ended 30th June, 2017</b>								
	<b>Reportable segment</b>					<b>Others *1</b>	<b>Total</b>	<b>Adjustments *2</b>	<b>Consolidated *3</b>
<b>Consulting</b>	<b>Financial IT Solutions</b>	<b>Industrial IT Solutions</b>	<b>IT Platform Services</b>	<b>Subtotal</b>					
Net sales:									
Sales to external customers	¥5,950	¥59,296	¥31,915	¥ 6,755	¥103,916	¥2,720	¥106,636	¥ –	¥106,636
Intersegment sales or transfers	156	528	150	22,570	23,404	709	24,113	(24,113)	–
Total	<u>6,106</u>	<u>59,824</u>	<u>32,065</u>	<u>29,325</u>	<u>127,320</u>	<u>3,429</u>	<u>130,749</u>	<u>(24,113)</u>	<u>106,636</u>
Segment profit	<u>¥ 152</u>	<u>¥ 5,846</u>	<u>¥ 2,914</u>	<u>¥ 3,560</u>	<u>¥ 12,472</u>	<u>¥ 421</u>	<u>¥ 12,893</u>	<u>¥ 223</u>	<u>¥ 13,116</u>

	<i>Millions of yen</i>								
	<b>Three months ended 30th June, 2018</b>								
	<b>Reportable segment</b>					<b>Others *1</b>	<b>Total</b>	<b>Adjustments *2</b>	<b>Consolidated *3</b>
<b>Consulting</b>	<b>Financial IT Solutions</b>	<b>Industrial IT Solutions</b>	<b>IT Platform Services</b>	<b>Subtotal</b>					
Net sales:									
Sales to external customers	¥9,054	¥58,696	¥39,874	¥ 7,013	¥114,637	¥3,121	¥117,758	¥ –	¥117,758
Intersegment sales or transfers	124	634	173	22,680	23,611	643	24,254	(24,254)	–
Total	<u>9,178</u>	<u>59,330</u>	<u>40,047</u>	<u>29,693</u>	<u>138,248</u>	<u>3,764</u>	<u>142,012</u>	<u>(24,254)</u>	<u>117,758</u>
Segment profit	<u>¥1,241</u>	<u>¥ 6,166</u>	<u>¥ 4,032</u>	<u>¥ 3,403</u>	<u>¥ 14,842</u>	<u>¥ 164</u>	<u>¥ 15,006</u>	<u>¥ 335</u>	<u>¥ 15,341</u>

## 12. Segment Information (continued)

*Thousands of U.S. dollars*

<b>Three months ended 30th June, 2018</b>									
<b>Reportable segment</b>									
	<b>Financial IT Solutions</b>	<b>Industrial IT Solutions</b>	<b>IT Platform Services</b>	<b>Subtotal</b>	<b>Others *1</b>	<b>Total</b>	<b>Adjustments *2</b>	<b>Consolidated *3</b>	
	<b>Consulting</b>								
Net sales:									
Sales to external customers	\$81,974	\$531,426	\$361,014	\$ 63,495	\$1,037,909	\$28,257	\$1,066,166	\$ –	\$1,066,166
Intersegment sales or transfers	1,123	5,740	1,566	205,342	213,771	5,822	219,593	(219,593)	–
Total	83,097	537,166	362,580	268,837	1,251,680	34,079	1,285,759	(219,593)	1,066,166
Segment profit	\$11,236	\$ 55,826	\$ 36,505	\$ 30,810	\$ 134,377	\$ 1,485	\$ 135,862	\$ 3,033	\$ 138,895

\*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.

### 2) Information about changes in reportable segments

During the quarterly period ended 30th June, 2018, the Company partially changed its segment reporting structure.

Segment information for the three months ended 30th June, 2017 in the above table has been restated to reflect the new segment reporting structure.

## 13. 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 (\$146.22 million) jointly as compensation for damages due to a delay in the migration.

## 14. Subsequent Events

### *Issuance of new shares as restricted stock-based remuneration*

On 20th July, 2018, the Company determined to issue new shares as restricted stock-based remuneration in accordance with the procedures for waiving a resolution of the Board of Directors, based on Article 370 of the Companies Act and Article 22 of the Company’s Articles of Incorporation.

#### 14. Subsequent Events (continued)

##### 1) Objectives and reasons for new share issuance

At a meeting held on 26th April, 2018, the Board of Directors of the Company approved a resolution to adopt a restricted stock-based remuneration plan (“the Plan”) to provide Members of the Board excluding Outside Directors (“Eligible Members of the Board”) with incentives to work to continuously enhance the corporate value of the Company, and in addition, to provide Senior Managing Directors and other employees (those treated as executives) of the Company residing in Japan a new remuneration system to further promote shared interests with shareholders. In addition, at the 53rd Ordinary General Meeting of Shareholders held on 22nd June, 2018, shareholders approved a resolution allowing for the payment of monetary remuneration claims to Eligible Members of the Board under the Plan. The monetary remuneration claims are to be provided as contributed assets for the acquisition of restricted stock to the amount of (i) not more than ¥120 million (\$1,086 thousand) per annum for “stock-based remuneration as long-term incentives” and (ii) not more than ¥280 million (\$2,535 thousand) per annum for “stock-based remuneration as medium-term incentives,” for a combined total of not more than ¥400 million (\$3,622 thousand) per annum (although, this shall not include employee salaries of Members of the Board who concurrently serve as employees).

##### 2) Outline of share issuance

(a) Payment date	9th August, 2018
(b) Type and number of shares to be issued	260,000 common shares
(c) Issue price	¥5,680 (\$51) per share
(d) Total issue value	¥1,476,800,000 (\$13,370,756)
(e) Paid-in capital	¥2,840 (\$26) per share
(f) Total paid-in capital	¥738,400,000 (\$6,685,378)
(g) Subscription or allocation method	Allocation of shares with specific restrictions
(h) Investment execution method	Monetary remuneration claims provided as property contributed in kind
(i) Eligible recipients, number of recipients and number of shares to be allocated	Members of the Board (excluding Outside Directors): 4 individuals, 36,500 shares Senior Managing Directors and other employees (those treated as executives): 48 individuals, 223,500 shares
(j) Other	This issuance of new shares is conditional upon the Securities Registration Statement taking effect in accordance with the Financial Instruments and Exchange Act.