

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 September, 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.



25th October, 2018

Consolidated Financial Results For the Quarterly Period Ended 30th September, 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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Scheduled date to file Quarterly Securities Report: 30th October, 2018
 Scheduled date to commence dividend payments: 30th November, 2018
 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 September, 2018 (from 1st April, 2018 to 30th September, 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 September, 2018	240,407	9.2	33,105	13.8	33,588	11.8	22,942	(31.3)
30th September, 2017	220,214	8.4	29,097	10.5	30,036	7.4	33,377	15.7

Note: Comprehensive income

Quarterly period ended 30th September, 2018: ¥33,789 million [17.9%]

Quarterly period ended 30th September, 2017: ¥28,660 million [97.9%]

Quarterly period ended	Earnings per share – basic		Earnings per share – diluted	
	Yen		Yen	
30th September, 2018	96.87		96.58	
30th September, 2017	136.09		135.74	

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
As of	Millions of yen	Millions of yen	%
30th September, 2018	618,518	436,890	68.4
31st March, 2018	643,117	432,674	65.2

Reference: Equity

As of 30th September, 2018: ¥423,050 million As of 31st March, 2018: ¥419,184 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. Also, the Company has finalized provisional accounting treatment for a business combination in the second quarter of the fiscal year ending 31st March, 2019. Consequently, 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	–	45.00			
Fiscal year ending 31st March, 2019 (Forecasts)			–	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
Fiscal year ending 31st March, 2019	510,000	8.2	70,000	7.5	71,000	7.3	53,000	(3.9)	223.77

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 page 10.

* Notes

- (1) Changes in significant subsidiaries during the current six 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 September, 2018	251,260,000 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 September, 2018	16,330,563 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 September, 2018	236,848,303 shares
Quarterly period ended 30th September, 2017	245,265,462 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. For more details, please refer to “(3) Qualitative information regarding forecasts of financial results,” on page 10.

Reference: Forecasts of non-consolidated 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		Ordinary profit		Profit		Earnings per share – basic
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Fiscal year ending 31st March, 2019	386,000	4.3	73,500	25.7	60,000	14.8	253.33

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 page 10.

Qualitative information regarding second-quarter settlement of accounts

(1) Qualitative information regarding consolidated operating results

(Millions of yen)

	Six months ended 30th September, 2017	Six months ended 30th September, 2018	Year on year	
			Amount	Rate
Sales	220,214	240,407	20,192	9.2%
Overseas sales	15,929	27,575	11,646	73.1%
Overseas sales ratio	7.2%	11.5%	4.2P	—
Operating profit	29,097	33,105	4,007	13.8%
Operating profit (before amortization of goodwill)	30,933	35,076	4,142	13.4%
Operating margin	13.2%	13.8%	0.6P	—
Operating margin (before amortization of goodwill)	14.0%	14.6%	0.5P	—
EBITDA margin	20.4%	21.0%	0.6P	—
Ordinary profit	30,036	33,588	3,551	11.8%
Profit attributable to owners of the parent	33,377	22,942	(10,434)	(31.3)%

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 six months ended 30th September, 2018 (from 1st April, 2018 to 30th September, 2018), the Japanese economy continued to recover at a moderate pace, supported by upturns in corporate earnings and business confidence, despite concerns about the effect of the global economy due to trade friction originating in the U.S. and economic impact of frequent natural disasters. 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, 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 (DX), 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 six months ended 30th September, 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, 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. The Company is expanding its presence in business fields across the globe, particularly in Australia. 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 established 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. Furthermore, to ensure that the Company is trusted worldwide and to increase its presence, the Company received an A rating from S&P Global Ratings Japan Inc. in September 2018.

During the six months ended 30th September, 2018, the NRI Group's sales totaled ¥240,407 million (up 9.2% year on year), supported by higher sales from all services, particularly from consulting services and system development and application sales. Cost of sales was ¥161,024 million (up 11.1%) and gross profit was ¥79,383 million (up 5.5%). Despite an increase in the number of subsidiaries, selling, general and administrative expenses were ¥46,277 million (up 0.2%), 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 ¥33,105 million (up 13.8%), the operating margin was 13.8% (up 0.6 points) and ordinary profit was ¥33,588 million (up 11.8%). Operating profit (before amortization of goodwill) was ¥35,076 million (up 13.4%), the operating margin (before amortization of goodwill) was 14.6% (up 0.5 points) and the EBITDA margin was 21.0% (up 0.6 points). Profit attributable to owners of the parent was ¥22,942 million (down 31.3%). However, this is due to the posting of gain on investment securities in the same period of the previous fiscal year.

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)

		Six months ended 30th September, 2017	Six months ended 30th September, 2018	Year on year	
				Amount	Rate
Consulting	Sales	14,099	19,457	5,357	38.0%
	Operating profit	2,079	3,415	1,336	64.3%
	Operating margin	14.7%	17.6%	2.8P	—
Financial IT Solutions	Sales	122,155	121,632	(522)	(0.4)%
	Operating profit	11,902	12,470	568	4.8%
	Operating margin	9.7%	10.3%	0.5P	—
Industrial IT Solutions	Sales	65,992	80,506	14,513	22.0%
	Operating profit	5,913	7,993	2,080	35.2%
	Operating margin	9.0%	9.9%	1.0P	—
IT Platform Services	Sales	59,946	60,923	976	1.6%
	Operating profit	7,715	7,712	(3)	(0.0)%
	Operating margin	12.9%	12.7%	(0.2)P	—
Others	Sales	7,131	7,399	267	3.8%
	Operating profit	951	795	(155)	(16.3)%
	Operating margin	13.3%	10.8%	(2.6)P	—
Adjustments	Sales	(49,110)	(49,512)	(401)	—
	Operating profit	535	716	181	—
Total	Sales	220,214	240,407	20,192	9.2%
	Operating profit	29,097	33,105	4,007	13.8%
	Operating margin	13.2%	13.8%	0.6P	—

(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 six months ended 30th September, 2018, in addition to the contributions from the business in Australia, consulting work to support clients in their digital transformation and system consulting work to support clients in their large-scale development projects increased. As a result, the Consulting segment posted sales of ¥19,457 million (up 38.0% year on year). Profitability improved amid a favorable order environment, with operating profit of ¥3,415 million (up 64.3%).

(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 six months ended 30th September, 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 ¥121,632 million (down 0.4% year on year). Operating profit totaled ¥12,470 million (up 4.8%), 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. As well as upgrading and improving the efficiency of existing business models, clients in the industrial sector are using digital transformation to create new business models. Working closely with the Consulting segment, which has a large number of clients in the industrial sector, the Company will support its clients' digital transformations through joint development with said clients, to expand its client base.

During the six months ended 30th September, 2018, business in Australia contributed to sales and sales increased from system management and operation services and system development and application sales in the manufacturing and service, and distribution sectors. As a result, the Industrial IT Solutions segment posted sales of ¥80,506 million (up 22.0% year on year). Profitability improved amid a continued favorable order environment from the previous fiscal year, with operating profit of ¥7,993 million (up 35.2%).

(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 digital transformation, 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 six months ended 30th September, 2018, sales to external clients increased in the security business, and intersegment sales increased mainly in cloud computing and network services. As a result of the above, the IT Platform Services segment posted sales of ¥60,923 million (up 1.6% year on year) and operating profit of ¥7,712 million (down 0.0%).

(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 six months ended 30th September, 2018, the Others segment posted sales of ¥7,399 million (up 3.8% year on year) and operating profit of ¥795 million (down 16.3%).

(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. Also, the Company has finalized provisional accounting treatment for a business combination in the second quarter of the fiscal year ending 31st March, 2019. Consequently, 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 September, 2018	Year on year	
			Amount	Rate
Current assets	298,275	260,791	(37,483)	(12.6)%
Noncurrent assets	344,842	357,726	12,884	3.7%
Total assets	643,117	618,518	(24,599)	(3.8)%
Current liabilities	162,133	128,799	(33,334)	(20.6)%
Noncurrent liabilities	47,714	52,352	4,638	9.7%
Net assets	432,674	436,890	4,215	1.0%
Equity	419,184	423,050	3,866	0.9%
Equity ratio	65.2%	68.4%	3.2P	–
Interest-bearing debt	81,680	63,761	(17,919)	(21.9)%
D/E ratio (times)	0.19	0.15	(0.04)	–

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 second quarter (30th September, 2018), current assets were ¥260,791 million (down 12.6% from the end of the previous fiscal year), noncurrent assets were ¥357,726 million (up 3.7%), current liabilities were ¥128,799 million (down 20.6%), noncurrent liabilities were ¥52,352 million (up 9.7%), net assets were ¥436,890 million (up 1.0%) and total assets were ¥618,518 million (down 3.8%). In addition, the D/E ratio (debt-to-equity ratio) at the end of the second quarter was 0.15 times.

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

Accounts receivable declined ¥14,807 million to ¥61,010 million and other receivables increased ¥12,755 million to ¥49,005 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 ¥13,100 million to ¥102,099 million due to an increase in the value of the Company’s shareholdings, despite sales of its shareholdings.

During the second quarter of the current fiscal year, the current portion of bonds declined ¥15,000 million due to the redemption of the second series bonds.

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, the Company purchased treasury stock of ¥22,573 million.

In addition, cash and bank deposits decreased ¥33,994 million to ¥125,547 million and income taxes payable decreased ¥10,772 million to ¥10,460 million.

(Cash flow position)

(Millions of yen)

	Six months ended 30th September, 2017	Six months ended 30th September, 2018	Year on year	
			Amount	Rate
Cash flows from operating activities	26,017	24,355	(1,661)	(6.4)%
Cash flows from investing activities	(1,293)	(11,048)	(9,754)	754.0%
Free cash flows	24,723	13,307	(11,416)	(46.2)%
Cash flows from financing activities	(53,252)	(48,872)	4,379	(8.2)%
Net increase (decrease) in cash and cash equivalents	(27,322)	(34,630)	(7,308)	26.7%
Cash and cash equivalents at end of period	124,729	123,672	(1,056)	(0.8)%

Cash and cash equivalents as of the end of the second quarter (30th September, 2018) stood at ¥123,672 million (down ¥34,630 million from the end of the previous fiscal year).

Net cash provided by operating activities in the six months ended 30th September, 2018 was ¥24,355 million, a decrease of ¥1,661 million compared with the same period of the previous fiscal year. Although the adjustment amounts for the items related to non-operating income and expenses and extraordinary income and losses decreased, the amount of income taxes paid increased.

Net cash used in investing activities was ¥11,048 million, an increase of ¥9,754 million from the same period of 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 ¥48,872 million, a decline of ¥4,379 million from the same period of the previous fiscal year. ¥43,501 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. ¥22,573 million worth of treasury stock was purchased in the six months ended 30th September, 2018. Also, cash was used for the redemption of ¥15,000 million in the second series bonds.

(3) Qualitative information regarding forecasts of financial results

At a meeting on 25th October, 2018, the Board of Directors passed a resolution regarding the sale of investment securities (shares of one listed company) held by the Company. Following this sale, a gain on investment securities of approx. ¥8,000 million is expected to be recorded as extraordinary income. As such, the forecasts of financial results and forecasts of non-consolidated financial results for the fiscal year ending 31st March, 2019, which were released on 26th April, 2018, have been revised as follows.

Also, on 1st October, 2018, the subsidiaries that were previously classified as part of the Others segment were combined with the Industrial IT Solutions segment. In light of this change and recent trends, the breakdowns of consolidated sales by segment and by service have been revised as follows.

(I) Consolidated performance

Consolidated financial forecasts for the fiscal year ending 31st March, 2019 (From 1st April, 2018 to 31st March, 2019)

(Millions of yen)

	Previous forecast (A)	Revised forecast (B)	Change		(Reference) Previous fiscal year (Actual result)
			Amount (B-A)	Rate (%)	
Sales	510,000	510,000	–	–	471,488
Operating profit	70,000	70,000	–	–	65,138
Ordinary profit	71,000	71,000	–	–	66,161
Profit attributable to owners of the parent	50,000	53,000	3,000	6.0	55,145

(II) Non-consolidated performance

Non-consolidated financial forecasts for the fiscal year ending 31st March, 2019 (From 1st April, 2018 to 31st March, 2019)

(Millions of yen)

	Previous forecast (A)	Revised forecast (B)	Change		(Reference) Previous fiscal year (Actual result)
			Amount (B-A)	Rate (%)	
Sales	386,000	386,000	–	–	370,048
Ordinary profit	73,500	73,500	–	–	58,494
Profit	57,000	60,000	3,000	5.3	52,282

(III) Other forecasts

1) Consolidated sales by segment for the fiscal year ending 31st March, 2019 (From 1st April, 2018 to 31st March, 2019)

(Millions of yen)

	Previous forecast (A)	Revised forecast (B)	Change		(Reference) Previous fiscal year (Actual result)
			Amount (B-A)	Rate (%)	
Consulting	41,000	41,000	–	–	34,577
Financial IT Solutions	265,000	255,000	(10,000)	(3.8)	252,122
Securities sector	119,000	105,000	(14,000)	(11.8)	118,397
Insurance sector	59,000	62,000	3,000	5.1	51,836
Banking sector	46,000	46,000	–	–	42,225
Other financial sector, etc.	41,000	42,000	1,000	2.4	39,662
Industrial IT Solutions	160,000	180,000	20,000	12.5	143,254
Distribution sector	63,000	66,000	3,000	4.8	60,849
Manufacturing and service sectors	97,000	114,000	17,000	17.5	82,405
IT Platform Services	32,000	34,000	2,000	6.3	29,870
Others	12,000	–	–	–	11,663
Total	510,000	510,000	–	–	471,488

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

*2 The figures provided for the actual results for the previous fiscal year are from before the change in segments.

2) Consolidated sales by service for the fiscal year ending 31st March, 2019 (From 1st April, 2018 to 31st March, 2019)

(Millions of yen)

	Previous forecast (A)	Revised forecast (B)	Change		(Reference) Previous fiscal year (Actual result)
			Amount (B-A)	Rate (%)	
Consulting services	88,000	92,000	4,000	4.5	78,987
System development & application sales	167,000	160,000	(7,000)	(4.2)	138,111
System management & operation services	245,000	245,000	–	–	241,198
Product sales	10,000	13,000	3,000	30.0	13,191
Total	510,000	510,000	–	–	471,488

(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.

Nomura Research Institute, Ltd.

Quarterly Consolidated Financial Statements

*For the Six-Month Period Ended 30th September, 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 Six-Month Period Ended 30th September, 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>
	31st March, 2018	30th September, 2018	30th September, 2018
Assets			
Current assets:			
Cash and bank deposits (<i>Notes 4 and 8</i>)	¥159,542	¥125,548	\$1,105,371
Short-term investment securities (<i>Notes 4, 5 and 8</i>)	1,219	1,154	10,160
Accounts receivable and other receivables (<i>Note 4</i>)	112,068	110,016	968,621
Operating loans (<i>Note 4</i>)	3,925	3,925	34,557
Margin transaction assets (<i>Note 4</i>)	6,945	4,721	41,565
Inventories	1,117	1,238	10,900
Short-term guarantee deposits (<i>Note 4</i>)	3,404	3,404	29,970
Other current assets	10,259	10,986	96,725
Allowance for doubtful accounts	(205)	(200)	(1,761)
Total current assets	<u>298,274</u>	<u>260,792</u>	<u>2,296,108</u>
Property and equipment:			
Land	7,060	7,060	62,159
Buildings, net	36,956	36,112	317,944
Buildings in trust, net	8,310	8,233	72,486
Machinery and equipment, net	15,514	14,311	125,999
Leased assets, net	688	818	7,202
Property and equipment, net	<u>68,528</u>	<u>66,534</u>	<u>585,790</u>
Software and other intangibles	67,123	66,938	589,347
Goodwill	36,625	35,422	311,868
Investment securities (<i>Notes 4 and 5</i>)	88,999	102,100	898,926
Investments in affiliates (<i>Notes 4 and 5</i>)	5,231	4,851	42,710
Deferred income taxes	2,654	2,679	23,587
Lease investment assets	412	356	3,134
Net defined benefit asset	55,701	59,215	521,351
Other assets	19,674	19,729	173,701
Allowance for doubtful accounts	(104)	(98)	(863)
Total assets	<u>¥643,117</u>	<u>¥618,518</u>	<u>\$5,445,659</u>

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars (Note 3)</i>
	31st March, 2018	30th September, 2018	30th September, 2018
Liabilities and Net Assets			
Current liabilities:			
Accounts payable (Note 4)	¥ 22,882	¥ 20,866	\$ 183,712
Short-term loans payable (Note 4)	6,074	5,429	47,799
Current portion of bonds (Note 4)	15,000	–	–
Current portion of long-term loans payable (Note 4)	23,707	21,598	190,157
Margin transaction liabilities (Note 4)	1,014	1,103	9,711
Lease obligations, current	612	583	5,133
Accrued expenses	35,637	34,793	306,330
Income taxes payable	21,233	10,461	92,102
Advance payments received	11,748	11,579	101,946
Short-term guarantee deposits received (Note 4)	4,540	4,318	38,017
Provision for loss on orders received	51	248	2,183
Asset retirement obligations	71	12	106
Other current liabilities	19,564	17,809	156,798
Total current liabilities	<u>162,133</u>	<u>128,799</u>	<u>1,133,994</u>
Bonds (Note 4)	34,083	34,093	300,167
Long-term loans payable (Note 4)	408	246	2,166
Lease obligations	765	715	6,295
Deferred income taxes	5,554	9,923	87,366
Net defined benefit liability	5,662	5,978	52,633
Asset retirement obligations	1,048	1,199	10,556
Other long-term liabilities	194	199	1,751
Reserve for financial products transaction liabilities	595	476	4,191
Total liabilities	<u>¥210,442</u>	<u>¥181,628</u>	<u>\$1,599,119</u>
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 September, 2018			
Issued – 251,000 thousand shares at 31st March, 2018 and 251,260 thousand shares at 30th September, 2018	¥ 18,600	¥ 19,338	\$ 170,259
Additional paid-in capital (Note 7)	14,776	15,581	137,181
Retained earnings (Note 7)	393,488	405,516	3,570,312
Treasury stock, at cost: (Note 7)			
– 12,844 thousand shares at 31st March, 2018 and 16,331 thousand shares at 30th September, 2018	(41,218)	(61,515)	(541,601)
Total shareholders' equity	<u>385,646</u>	<u>378,920</u>	<u>3,336,151</u>
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities (Note 5)	32,446	42,141	371,025
Deferred gains or losses on hedges (Note 6)	(3)	–	–
Foreign currency translation adjustment	(3,956)	(2,777)	(24,449)
Remeasurements of defined benefit plans	5,052	4,767	41,970
Total accumulated other comprehensive income	<u>33,539</u>	<u>44,131</u>	<u>388,546</u>
Share subscription rights	1,302	1,123	9,887
Non-controlling interests	12,188	12,716	111,956
Total net assets	<u>432,675</u>	<u>436,890</u>	<u>3,846,540</u>
Total liabilities and net assets	<u>¥643,117</u>	<u>¥618,518</u>	<u>\$5,445,659</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>
	Six months ended 30th September, 2017	2018	Six months ended 30th September, 2018
Sales	¥ 220,215	¥ 240,407	\$ 2,116,631
Cost of sales	144,941	161,024	1,417,714
Gross profit	75,274	79,383	698,917
Selling, general and administrative expenses (<i>Notes 10 and 11</i>)	46,176	46,277	407,440
Operating profit	29,098	33,106	291,477
Other income (expenses):			
Interest and dividend income	1,170	836	7,360
Interest expense	(113)	(239)	(2,104)
Equity in losses of affiliates	(35)	(159)	(1,400)
Commission for purchase of treasury stock	(45)	(23)	(203)
Foreign exchange gains (losses)	(172)	9	79
Gain on investment securities	20,215	1,099	9,676
Reversal of share-based compensation	16	3	26
Reversal of reserve for financial products transaction liabilities	–	118	1,039
Other, net	134	58	512
	21,170	1,702	14,985
Income before income taxes	50,268	34,808	306,462
Provision for income taxes (<i>Note 2</i>)	16,336	11,625	102,351
Profit	¥ 33,932	¥ 23,183	\$ 204,111
Profit attributable to owners of parent (<i>Note 9</i>)	¥ 33,377	¥ 22,943	\$ 201,998
Profit attributable to non-controlling interests	555	240	2,113
Other comprehensive income (loss):			
Valuation difference on available-for-sale securities	(6,330)	9,701	85,412
Deferred gains or losses on hedges (<i>Note 6</i>)	35	3	26
Foreign currency translation adjustment	1,143	1,200	10,565
Remeasurements of defined benefit plans, net of tax	(145)	(275)	(2,421)
Share of other comprehensive income (loss) of affiliates	25	(22)	(194)
Total other comprehensive income (loss)	(5,272)	10,607	93,388
Comprehensive income	¥ 28,660	¥ 33,790	\$ 297,499
Comprehensive income attributable to:			
Comprehensive income attributable to owners of parent	¥ 28,076	¥ 33,538	\$ 295,280
Comprehensive income attributable to non-controlling interests	584	252	2,219

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>
	Six months ended 30th September, 2017	Six months ended 30th September, 2018	Six months ended 30th September, 2018
Cash flows from operating activities			
Income before income taxes	¥ 50,268	¥ 34,808	\$ 306,462
Adjustments to reconcile income before income taxes to net cash provided by operating activities:			
Depreciation and amortization	14,060	15,428	135,834
Interest and dividend income	(1,170)	(836)	(7,360)
Interest expense	113	239	2,104
Gain on investment securities	(20,215)	(1,099)	(9,676)
Changes in operating assets and liabilities:			
Accounts receivable and other receivables, net of advance payments received	109	2,030	17,874
Allowance for doubtful accounts	(13)	(12)	(106)
Accounts payable	3,769	(687)	(6,049)
Inventories	47	(119)	(1,048)
Net defined benefit asset	(6,765)	(3,902)	(34,355)
Net defined benefit liability	377	308	2,712
Provision for loss on orders received	(1,241)	197	1,734
Margin transaction assets	(3,800)	2,224	19,581
Short-term guarantee deposits	5,708	–	–
Margin transaction liabilities	2,710	89	784
Short-term guarantee deposits received	(2,820)	(222)	(1,955)
Reserve for financial products transaction liabilities	–	(118)	(1,039)
Other	(10,418)	(2,644)	(23,278)
Subtotal	30,719	45,684	402,219
Interest and dividends received	1,374	1,020	8,980
Interest paid	(116)	(137)	(1,206)
Income taxes paid	(5,960)	(22,211)	(195,554)
Net cash provided by operating activities	¥ 26,017	¥ 24,356	\$ 214,439

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>
	Six months ended		Six months ended
	30th September, 2017		30th September, 2018
Cash flows from investing activities			
Payments for time deposits	¥ (770)	¥ (1,968)	\$ (17,326)
Proceeds from time deposits	621	1,393	12,264
Proceeds from sales and redemption of short-term investment securities	2,000	–	–
Acquisition of property and equipment	(14,431)	(3,047)	(26,827)
Proceeds from sales of property and equipment	2	4	35
Purchase of software and other intangibles	(10,865)	(10,264)	(90,368)
Payments for asset retirement obligations	(54)	(46)	(404)
Purchase of investment securities	(80)	(5,265)	(46,355)
Proceeds from sales and redemption of investment securities	31,917	7,223	63,594
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(9,638)	–	–
Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation	–	918	8,082
Other	5	3	26
Net cash used in investing activities	(1,293)	(11,049)	(97,279)
Cash flows from financing activities			
Proceeds from short-term loans payable	4,019	–	–
Repayments of short-term loans payable	(3,406)	(656)	(5,776)
Proceeds from long-term loans payable	940	–	–
Repayments of long-term loans payable	(3,030)	(2,274)	(20,021)
Redemption of bonds	–	(15,000)	(132,066)
Repayments of obligation under finance leases	(104)	(226)	(1,990)
Proceeds from sales of treasury stock	2,338	2,716	23,913
Purchase of treasury stock	(43,907)	(22,598)	(198,961)
Cash dividends paid	(10,002)	(10,762)	(94,753)
Cash dividends paid to non-controlling interests	(51)	(73)	(642)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(50)	–	–
Net cash used in financing activities	(53,253)	(48,873)	(430,296)
Effect of exchange rate changes on cash and cash equivalents	1,207	936	8,240
Net decrease in cash and cash equivalents	(27,322)	(34,630)	(304,896)
Cash and cash equivalents at beginning of period	152,052	158,303	1,393,758
Cash and cash equivalents at end of period (Note 8)	¥ 124,730	¥ 123,673	\$ 1,088,862

See accompanying notes to quarterly consolidated financial statements.

Nomura Research Institute, Ltd.

Notes to Quarterly Consolidated Financial Statements

30th September, 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 September, 2018, ¥3,959 million (corresponding to 1,115 thousand shares of the Company held by the ESOP Trust) and ¥2,624 million (\$23,103 thousand) (corresponding to 739 thousand shares of the Company held by the ESOP Trust) and the loan payable of the ESOP Trust of ¥2,881 million and ¥770 million (\$6,779 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 ¥113.58 = U.S.\$1.00, the rate of exchange prevailing on 30th September, 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 September, 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>					
	31st March, 2018			30th September, 2018		
	Carrying amount	Estimated fair value	Difference	Carrying amount	Estimated fair value	Difference
Assets:						
Cash and bank deposits	¥ 159,542	¥ 159,542	¥ –	¥ 125,548	¥ 125,548	¥ –
Accounts receivable and other receivables	112,068	112,068	–	110,016	110,016	–
Short-term investment securities, investment securities, and investments in affiliates	87,361	87,361	–	100,244	100,244	–
Operating loans	3,925	3,925	–	3,925	3,925	–
Margin transaction assets	6,945	6,945	–	4,721	4,721	–
Short-term guarantee deposits	3,404	3,404	–	3,404	3,404	–
Total	<u>¥ 373,245</u>	<u>¥ 373,245</u>	<u>¥ –</u>	<u>¥ 347,858</u>	<u>¥ 347,858</u>	<u>¥ –</u>
Liabilities:						
Accounts payable	¥ 22,882	¥ 22,882	¥ –	¥ 20,866	¥ 20,866	¥ –
Short-term loans payable	6,074	6,074	–	5,429	5,429	–
Margin transaction liabilities	1,014	1,014	–	1,103	1,103	–
Short-term guarantee deposits received	4,540	4,540	–	4,318	4,318	–
Bonds *1	49,083	49,064	(19)	34,093	33,900	(193)
Long-term loans payable *2	24,115	24,118	3	21,843	21,845	2
Total	<u>¥ 107,708</u>	<u>¥ 107,692</u>	<u>¥ (16)</u>	<u>¥ 87,652</u>	<u>¥ 87,461</u>	<u>¥ (191)</u>
Derivative transactions *3	¥ 6	¥ 6	¥ –	¥ (17)	¥ (17)	¥ –

	<i>Thousands of U.S. dollars</i>		
	30th September, 2018		
	Carrying amount	Estimated fair value	Difference
Assets:			
Cash and bank deposits	\$1,105,371	\$1,105,371	\$ –
Accounts receivable and other receivables	968,621	968,621	–
Short-term investment securities, investment securities, and investments in affiliates	882,585	882,585	–
Operating loans	34,557	34,557	–
Margin transaction assets	41,565	41,565	–
Short-term guarantee deposits	29,970	29,970	–
Total	<u>\$3,062,669</u>	<u>\$3,062,669</u>	<u>\$ –</u>
Liabilities:			
Accounts payable	\$ 183,712	\$ 183,712	\$ –
Short-term loans payable	47,799	47,799	–
Margin transaction liabilities	9,711	9,711	–
Short-term guarantee deposits received	38,017	38,017	–
Bonds *1	300,167	298,468	(1,699)
Long-term loans payable *2	192,314	192,331	17
Total	<u>\$ 771,720</u>	<u>\$ 770,038</u>	<u>\$ (1,682)</u>
Derivative transactions *3	\$ (150)	\$ (150)	\$ –

*1 Bonds included the current portion of bonds totaling ¥15,000 million as of 31st March, 2018.

*2 Long-term loans payable included the current portion of long-term loans payable totaling ¥23,707 million and ¥21,598 million (\$190,157 thousand) as of 31st March, 2018 and 30th September, 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 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>
	31st March, 2018	30th September, 2018	30th September, 2018
Unlisted companies' shares *1	¥7,361	¥7,125	\$62,731
Investments in partnerships *2	727	736	6,480

*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 ¥4,851 million (\$42,710 thousand) as of 31st March, 2018 and 30th September, 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 September, 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 September, 2018:

Securities Classified as Available-for-Sale Securities

	<i>Millions of yen</i>					
	31st March, 2018			30th September, 2018		
	Acquisition cost	Carrying amount	Unrealized gain (loss)	Acquisition cost	Carrying amount	Unrealized gain (loss)
Equity securities	¥17,787	¥63,138	¥45,351	¥17,889	¥77,265	¥59,376
Bonds:						
Government bonds	1,036	1,037	1	1,034	1,032	(2)
Corporate bonds	25,110	25,089	(21)	24,104	24,057	(47)
	<u>26,146</u>	<u>26,126</u>	<u>(20)</u>	<u>25,138</u>	<u>25,089</u>	<u>(49)</u>
Other	875	955	80	869	899	30
Total	<u>¥44,808</u>	<u>¥90,219</u>	<u>¥45,411</u>	<u>¥43,896</u>	<u>¥103,253</u>	<u>¥59,357</u>

	<i>Thousands of U.S. dollars</i>		
	30th September, 2018		
	Acquisition cost	Carrying amount	Unrealized gain (loss)
Equity securities	\$157,501	\$680,269	\$522,768
Bonds:			
Government bonds	9,104	9,086	(18)
Corporate bonds	212,220	211,807	(413)
	<u>221,324</u>	<u>220,893</u>	<u>(431)</u>
Other	7,651	7,915	264
Total	<u>\$386,476</u>	<u>\$909,077</u>	<u>\$522,601</u>

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 six months ended 30th September, 2018 amounted to ¥44 million (\$387 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 September, 2018.

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

	<i>Millions of yen</i>			
	31st March, 2018		30th September, 2018	
	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)	¥ 420	¥ 11	¥ 363	¥ (17)
Interest rate swap contracts for bonds, accounted for by deferral hedge accounting method:				
Fixed-rate receipt, fixed-rate payment *2	¥ 15,000	¥ (5)	¥ -	¥ -

	<i>Thousands of U.S. dollars</i>	
	30th September, 2018	
	Contract amount	Estimated fair value *1
Forward foreign exchange contracts for accounts payable, accounted for by deferral hedge accounting method:		
Buy: CNY (Sell: JPY)	\$ 3,196	\$ (150)
Interest rate swap contracts for bonds, accounted for by deferral hedge accounting method:		
Fixed-rate receipt, fixed-rate payment *2	\$ -	\$ -

*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 (\$5,018 thousand) at 31st March, 2018 and 30th September, 2018, respectively.

For the six months ended 30th September, 2017

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 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.

2) Dividends with a cut-off date in the six months period ended 30th September, 2017 and an effective date in the following period.

Resolution	Type of shares	Total dividends (Millions of yen)	Dividends per share (Yen) *2	Cut-off date	Effective date	Source of dividends
Meeting of the Board of Directors on 26th October, 2017 *1	Common Stock	¥10,814	¥45.00	30th September, 2017	30th November, 2017	Retained earnings

*1 Dividends of ¥68 million paid to the ESOP Trust are included in the total dividends amount.

*2 Dividends per share include a commemorative dividend of ¥5.00 per share.

3) Significant changes in shareholders' equity

The Company acquired 10,061 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 ¥43,501 million.

Consequently, treasury stock increased by ¥41,200 million in total during the quarterly period ended 30th September, 2017. Furthermore, treasury stock amounted to ¥78,517 million, as of 30th September, 2017.

7. Net Assets (continued)

For the six months ended 30th September, 2018

1) Dividends paid

Resolution	Type of shares	Total dividends (Millions of yen)	Total dividends (Thousands of U.S. dollars)	Dividends per share (Yen) *2	Dividends per share (U.S. dollars) *2	Cut-off date	Effective date	Source of dividends
Meeting of the Board of Directors on 16th May, 2018 *1	Common Stock	¥10,767	\$94,797	¥45.00	\$0.40	31st March, 2018	1st June, 2018	Retained earnings

*1 Dividends of ¥50 million (\$440 thousand) paid to the ESOP Trust are included in the total dividends amount.

*2 Dividends per share include a commemorative dividend of ¥5.00 (\$0.04) per share.

2) Dividends with a cut-off date in the six months period ended 30th September, 2018 and an effective date in the following period.

Resolution	Type of shares	Total dividends (Millions of yen)	Total dividends (Thousands of U.S. dollars)	Dividends per share (Yen)	Dividends per share (U.S. dollars)	Cut-off date	Effective date	Source of dividends
Meeting of the Board of Directors on 25th October, 2018 *1	Common Stock	¥10,605	\$93,370	¥45.00	\$0.40	30th September, 2018	30th November, 2018	Retained earnings

*1 Dividends of ¥33 million (\$291 thousand) paid to the ESOP Trust are included in the total dividends amount.

3) Significant changes in shareholders' equity

The Company acquired 4,135 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 ¥22,574 million (\$198,750 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 September, 2017 and 2018 is as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	30th September,		30th
	2017	2018	September, 2018
Cash and bank deposits	¥125,395	¥125,548	\$1,105,371
Short-term investment securities	4,287	1,154	10,160
Time deposits with maturities of more than three months when deposited	(952)	(2,029)	(17,865)
Bond and other investments maturing in more than three months from the acquisition date	(4,000)	(1,000)	(8,804)
Cash and cash equivalents	<u>¥124,730</u>	<u>¥123,673</u>	<u>\$1,088,862</u>

9. Per Share Data

Per share data is summarized as follows: *1

	<i>Yen</i>		<i>U.S. dollars</i>
	Six months ended		Six months ended
	30th September,		30th
	2017	2018	September, 2018
Earnings per share	¥136.09	¥96.87	\$0.85
Diluted earnings per share	135.74	96.58	0.85

*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 six months ended 30th September, 2017 and 2018 is as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	Six months ended 30th September,		Six months ended 30th September,
	2017	2018	2018
Numerator:			
Earnings *1	¥33,377	¥22,943	\$201,998
Earnings not attributable to common shareholders	(-)	(-)	(-)
Earnings attributable to common shareholders	<u>¥33,377</u>	<u>¥22,943</u>	<u>\$201,998</u>
	<i>Thousands of Shares</i>		
Denominator:			
Weighted-average number of shares of common stock outstanding – basic *2	245,265	236,848	
Potentially dilutive shares of common stock:			
Stock options	568	697	
Total	<u>568</u>	<u>697</u>	
Weighted-average number of shares of common stock outstanding – diluted	<u>245,833</u>	<u>237,545</u>	

*1 In computing diluted earnings per share for the six-month periods ended 30th September, 2017 and 2018, an adjustment due to potentially dilutive shares of affiliates in the amount of ¥(7) 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 1,703 thousand and 906 thousand during the six-month periods ended 30th September, 2017 and 2018, 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 six months ended 30th September, 2017 and 2018:

	<i>Shares</i>	
	Six months ended 30th September,	
	2017	2018
a) 24th share subscription rights	535,425	–
b) 28th share subscription rights	569,500	–

10. Selling, General and Administrative Expenses

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

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	Six months ended 30th September,		Six months ended 30th September,
	2017	2018	2018
Personnel expenses	¥22,915	¥23,216	\$204,402
Rent	3,147	3,346	29,459
Subcontractor costs	7,728	8,232	72,478
Other	12,386	11,483	101,101
Total	¥46,176	¥46,277	\$407,440

11. Research and Development Expenses

Research and development expenses included in selling, general and administrative expenses amounted to ¥2,410 million and ¥1,629 million (\$14,342 thousand) for the six months ended 30th September, 2017 and 2018, respectively.

12. Segment Information

For the six months ended 30th September, 2017

1) Net sales and profit by reportable segments

Millions of yen

Six months ended 30th September, 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	¥13,760	¥121,073	¥65,403	¥14,275	¥214,511	¥5,704	¥220,215	¥ –	¥220,215
Intersegment sales or transfers	340	1,082	590	45,671	47,683	1,427	49,110	(49,110)	–
Total	14,100	122,155	65,993	59,946	262,194	7,131	269,325	(49,110)	220,215
Segment profit	¥ 2,080	¥ 11,903	¥ 5,913	¥ 7,716	¥ 27,612	¥ 951	¥ 28,563	¥ 535	¥ 29,098

*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 assets for each reportable segment

(Significant increase in assets due to the acquisition of subsidiaries)

The NRI Group acquired shares of SMS Management & Technology Limited and newly included the company and its fourteen subsidiaries in the scope of consolidation. In relation to this transaction, assets of the Industrial IT Solutions segment increased by ¥15,448 million for the quarterly period ended 30th September, 2017.

3) Information about impairment loss on fixed assets and goodwill for each reportable segment

(Significant changes in goodwill)

The NRI Group acquired shares of SMS Management & Technology Limited and newly included the company and its fourteen subsidiaries in the scope of consolidation. In relation to this transaction, the NRI Group recorded goodwill of ¥6,929 million in the Industrial IT Solutions segment during the quarterly period ended 30th September, 2017. Such goodwill is the amount that reflects the valuation following a significant review of the initial allocation of acquisition cost due to the finalization of the provisional accounting for this business combination during the six months ended 30th September, 2018.

12. Segment Information (continued)

For the six months ended 30th September, 2018

1) Net sales and profit by reportable segments

Millions of yen

Six months ended 30th September, 2018									
Reportable segment									
	Financial IT Consulting	Industrial IT Solutions	Industrial IT Solutions	IT Platform Services	Subtotal	Others *1	Total	Adjustments *2	Consolidated *3
Net sales:									
Sales to external customers	¥19,189	¥120,319	¥80,128	¥14,654	¥234,290	¥6,117	¥240,407	¥ –	¥240,407
Intersegment sales or transfers	268	1,314	379	46,270	48,231	1,282	49,513	(49,513)	–
Total	19,457	121,633	80,507	60,924	282,521	7,399	289,920	(49,513)	240,407
Segment profit	¥ 3,416	¥ 12,471	¥ 7,994	¥ 7,712	¥ 31,593	¥ 796	¥ 32,389	¥ 717	¥ 33,106

Thousands of U.S. dollars

Six months ended 30th September, 2018									
Reportable segment									
	Financial IT Consulting	Industrial IT Solutions	Industrial IT Solutions	IT Platform Services	Subtotal	Others *1	Total	Adjustments *2	Consolidated *3
Net sales:									
Sales to external customers	\$168,947	\$1,059,333	\$705,476	\$129,019	\$2,062,775	\$53,856	\$2,116,631	\$ –	\$2,116,631
Intersegment sales or transfers	2,360	11,569	3,337	407,378	424,644	11,287	435,931	(435,931)	–
Total	171,307	1,070,902	708,813	536,397	2,487,419	65,143	2,552,562	(435,931)	2,116,631
Segment profit	\$ 30,076	\$ 109,799	\$ 70,382	\$ 67,899	\$ 278,156	\$ 7,009	\$ 285,165	\$ 6,312	\$ 291,477

*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 six months ended 30th September, 2017 in the above table has been restated to reflect the new segment reporting structure.

3) Information about impairment loss on fixed assets and goodwill for each reportable segment

(Significant changes in goodwill)

In regard to the business combination with SMS Management & Technology Limited on 26th September, 2017, although provisional accounting treatment had been applied in the previous fiscal year, the accounting treatment was finalized in the second quarter of the fiscal year ending 31st March, 2019. As a result, the previously recognized amount of goodwill associated with the Industrial IT Solutions segment has decreased.

For more details, please refer to Note 13, “Business Combination.”

13. Business Combination

Finalization of provisional treatment for business combination

In regard to the business combination with SMS Management & Technology Limited on 26th September, 2017, although a provisional accounting treatment had been applied in the previous fiscal year, the accounting treatment was finalized in the second quarter of the fiscal year ending 31st March, 2019.

Following the finalization of the provisional accounting treatment, comparative information included in the quarterly consolidated financial statements for the six months ended 30th September, 2018, has been adjusted to reflect the significant revision of the initially allocated amounts of acquisition cost.

As a result, primarily software and other intangibles increased. The provisional calculation of goodwill amounted to ¥9,444 million (\$83,148 thousand), which decreased by ¥2,515 million (\$22,143 thousand) following the finalization of the provisional accounting treatment. The final calculation for goodwill amounted to ¥6,929 million (\$61,005 thousand).

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 (\$142.19 million) jointly as compensation for damages due to a delay in the migration.

15. Subsequent Events

Not applicable.