

This financial report is composed of two parts. The first part is an abridged translation of “Kessan Tanshin (earnings report)” for the quarterly period ended 31st December, 2019, which includes the summary and the operating results sections. The second part is the “Consolidated Financial Statements,” which are basically prepared based on the “Kessan Tanshin (earnings report)” but applied for some items different presentation methods.



30th January, 2020

Consolidated Financial Results For the Quarterly Period Ended 31st December, 2019 <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, Chairman and President & CEO, Representative Director,
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Scheduled date to file Quarterly Securities Report: 13th February, 2020
 Scheduled date to commence dividend payments: –
 Preparation of supplementary material on quarterly consolidated financial results: Yes
 Announcement for quarterly consolidated financial results (for institutional investors and analysts): Yes

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

1. Consolidated performance for the quarterly period ended 31st December, 2019 (from 1st April, 2019 to 31st December, 2019)

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

Quarterly period ended	Sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
31st December, 2019	390,545	6.4	62,106	20.8	63,090	20.9	55,604	39.5
31st December, 2018	367,064	7.5	51,422	10.3	52,180	9.4	39,849	(12.0)

Note: Comprehensive income

Quarterly period ended 31st December, 2019: ¥41,653 million [35.3%]

Quarterly period ended 31st December, 2018: ¥30,786 million [(31.5)%]

Quarterly period ended	Earnings per share – basic	Earnings per share – diluted
	Yen	Yen
31st December, 2019	86.06	85.85
31st December, 2018	56.30	56.16

Note: The Company conducted a 3-for-1 stock split of common stock with an effective date of 1st July, 2019. Earnings per share – basic and earnings per share – diluted have been calculated assuming the stock split was conducted at the start of the previous fiscal year.

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
As of	Millions of yen	Millions of yen	%
31st December, 2019	511,241	283,677	52.5
31st March, 2019	612,192	425,032	67.1

Reference: Equity

As of 31st December, 2019: ¥268,185 million As of 31st March, 2019: ¥410,978 million

2. Cash dividends

	Annual dividends				
	First quarter	Second quarter	Third quarter	Fiscal year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended 31st March, 2019	–	45.00	–	45.00	90.00
Fiscal year ending 31st March, 2020	–	15.00	–		
Fiscal year ending 31st March, 2020 (Forecasts)				17.00	32.00

Notes: 1. Revisions to the forecasts of cash dividends most recently announced: Yes

For more details, please refer to “(3) Qualitative information regarding forecasts of financial results,” on pages 11-12.

2. The Company conducted a 3-for-1 stock split of common stock with an effective date of 1st July, 2019. The dividend paid per share for the fiscal year ended 31st March, 2019 is based on the number of shares prior to the stock split.

3. Forecasts of financial results for the fiscal year ending 31st March, 2020 (from 1st April, 2019 to 31st March, 2020)

(Percentages indicate year-on-year changes.)

	Sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Earnings per share – basic
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Fiscal year ending 31st March, 2020	530,000	5.7	82,000	14.8	83,000	14.6	69,000	35.5	106.80

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

For more details, please refer to “(3) Qualitative information regarding forecasts of financial results,” on pages 11-12.

* Notes

- (1) Changes in significant subsidiaries during the current nine 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 31st December, 2019	640,000,000 shares
	As of 31st March, 2019	753,780,000 shares
b.	Number of shares of treasury stock at the end of the period	
	As of 31st December, 2019	44,956,249 shares
	As of 31st March, 2019	54,486,459 shares
c.	Average number of shares during the period (cumulative from the beginning of the fiscal year)	
	Quarterly period ended 31st December, 2019	646,088,054 shares
	Quarterly period ended 31st December, 2018	707,744,738 shares

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

2. The Company conducted a 3-for-1 stock split of common stock with an effective date of 1st July, 2019. Number of shares has been calculated assuming the stock split was conducted at the start of the previous fiscal year.

3. The Company conducted a retirement of 114,591,500 shares of treasury stock with an effective date of 2nd December, 2019.

* 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 pages 11-12.

Reference: Forecasts of non-consolidated financial results for the fiscal year ending 31st March, 2020
(from 1st April, 2019 to 31st March, 2020)

(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, 2020	400,000	2.0	74,000	(4.8)	64,000	1.0	99.06

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

For more details, please refer to “(3) Qualitative information regarding forecasts of financial results,” on pages 11-12.

Qualitative information regarding third-quarter settlement of accounts

(1) Qualitative information regarding consolidated operating results

(Millions of yen)

	Nine months ended 31st December, 2018	Nine months ended 31st December, 2019	Year on year	
			Amount	Rate
Sales	367,064	390,545	23,480	6.4%
Overseas sales	40,533	35,618	(4,915)	(12.1)%
Overseas sales ratio	11.0%	9.1%	(1.9)P	–
Operating profit	51,422	62,106	10,683	20.8%
Operating profit (before amortization of goodwill)	54,435	64,498	10,063	18.5%
Operating margin	14.0%	15.9%	1.9P	–
Operating margin (before amortization of goodwill)	14.8%	16.5%	1.7P	–
EBITDA margin	21.2%	22.4%	1.2P	–
Ordinary profit	52,180	63,090	10,910	20.9%
Profit attributable to owners of parent	39,849	55,604	15,755	39.5%

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 + Loss on retirement of non-current assets) / Sales

During the nine months ended 31st December, 2019 (from 1st April, 2019 to 31st December, 2019), the Japanese economy continued to recover at a moderate pace with corporate earnings trending at high levels, despite concerns about the effect in the global economy due to trade friction originating in the U.S. and the UK's decision to leave the EU. Corporate investment in information systems has been gradually increasing amid strong investment demand centered on digital transformation (DX) which involves transforming business models using IT.

Operating in such an environment, Nomura Research Institute (“the Company”) and its consolidated subsidiaries (“the NRI Group”) are carrying 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.

In order to realize the goals of Vision 2022 (from the fiscal year ended 31st March, 2016 to the fiscal year ending 31st March, 2023), the NRI Group's long-term management plan, the NRI Group has newly formulated the four-year second half of the plan, NRI Group Medium-term Management Plan (2019-2022)” (the “Medium-term Management Plan 2022”). The financial goals of the Medium-term Management Plan 2022 include those of achieving operating profit of ¥100 billion and overseas sales of ¥100 billion in fiscal year ending 31st March, 2023. The plan's non-financial goal involves carrying out “key for sustainable growth” initiatives that are linked to NRI Group's growth strategy. Additionally, the NRI Group has newly specified its CSV (Creating Shared Value) concept as that of “solving social issues through value co-creation.” Through such initiatives, the Company will promote sustainability management, balancing the sustainable growth of the NRI Group with the creation of a sustainable future society.

To achieve such goals, the Medium-term Management Plan 2022 aims to co-create value with its clients to which end it enlists NRI Group's strengths and sets three growth strategies encompassing its (1) DX strategy, (2) global strategy, and (3) personnel and resources strategy, geared to fueling business growth through efforts to solve social challenges.

- (1) DX strategy: The NRI Group will provide comprehensive support by leveraging technologies across everything from creating strategies to implementing solutions with respect to transforming the business processes and business models of its clients. In terms of business platform strategy, the NRI Group will help its clients create new businesses and enter new markets by providing them with business platforms specifically tailored to those who are entering the financial sector from other industries in step with transformation of industrial structures, while also expanding the Group's shared services with a focus on the financial sector.

Under its cloud strategy, the NRI Group will improve clients' business agility and optimize their IT costs by engaging in legacy system modernization^{*1} and developing cloud-native^{*2} apps.

- (2) Global strategy: The NRI Group is expanding its business foundations with a focus on achieving external growth through M&As and other such initiatives, mainly in the key geographic regions of Australia and North America.

In the global business, 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 centered on the newly established Global Headquarters, to drive forward the integration process after acquisition.

- (3) Personnel and resources strategy: The NRI Group is improving its recruitment and development of professionals underpinning the digital age in order to better help its clients achieve business success. The NRI Group is also working to achieve compatible work-style reforms by promoting various work arrangements while also fostering a business culture that enables employees to play active roles and take on challenges, and seeking diversity.

Also, the Company acquired treasury stock (101,910 thousand shares, ¥159,999 million) in the second quarter of the current fiscal year and conducted a retirement of treasury stock (114,591 thousand shares, ¥169,710 million) in the third quarter of the current fiscal year, as its flexible capital management aimed at improving capital efficiency and responding to changes in the business environment.

During the nine months ended 31st December, 2019, the NRI Group's sales totaled ¥390,545 million (up 6.4% year on year), amid a scenario where sales were higher year on year, particularly those of Financial IT Solutions. Cost of sales was ¥257,149 million (up 4.5%), gross profit was ¥133,395 million (up 10.2%), and selling, general and administrative expenses were ¥71,289 million (up 2.3%). Profitability improved amid a favorable order environment and production activities, operating profit was ¥62,106 million (up 20.8%), operating margin was 15.9% (up 1.9 points), ordinary profit was ¥63,090 million (up 20.9%). Operating profit (before amortization of goodwill) was ¥64,498 million (up 18.5%), operating margin (before amortization of goodwill) was 16.5% (up 1.7 points) and the EBITDA margin was 22.4% (up 1.2 points). Profit attributable to owners of parent was ¥55,604 million (up 39.5%) due to the posting of gain on investment securities of ¥19,162 million in conjunction with the sale of shares held by the Company.

*1 Legacy system modernization is a means of optimizing and updating system infrastructure and applications with respect to hardware and software of core systems that have become obsolete.

*2 The term cloud native refers to information systems and services designed for use on a cloud-computing platform.

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)

		Nine months ended 31st December, 2018	Nine months ended 31st December, 2019	Year on year	
				Amount	Rate
Consulting	Sales	25,167	27,626	2,459	9.8%
	Operating profit	5,125	5,691	566	11.0%
	Operating margin	20.4%	20.6%	0.2P	–
Financial IT Solutions	Sales	186,399	204,528	18,128	9.7%
	Operating profit	19,998	26,935	6,936	34.7%
	Operating margin	10.7%	13.2%	2.4P	–
Industrial IT Solutions	Sales	137,086	135,932	(1,153)	(0.8)%
	Operating profit	13,062	14,503	1,440	11.0%
	Operating margin	9.5%	10.7%	1.1P	–
IT Platform Services	Sales	93,319	102,096	8,776	9.4%
	Operating profit	12,307	14,275	1,968	16.0%
	Operating margin	13.2%	14.0%	0.8P	–
Adjustments	Sales	(74,908)	(79,639)	(4,730)	–
	Operating profit	928	699	(228)	–
Total	Sales	367,064	390,545	23,480	6.4%
	Operating profit	51,422	62,106	10,683	20.8%
	Operating margin	14.0%	15.9%	1.9P	–

(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. Clients have come to expect practical solutions-based consulting services that produce concrete results amid an environment where changing business environments and intensifying competition encountered by clients have resulted in a scenario where they are seeking digital solutions, taking their business global, and gaining greater appetite for investment.

As such, in the global arena, this segment is working to expand its client base in Asia where the NRI Group wields strengths, while also taking steps to otherwise expand its client base through efforts that involve creating DX consulting services and extending such offerings provided in order to support clients in their DX initiatives.

During the nine months ended 31st December, 2019, the Consulting segment posted sales of ¥27,626 million (up 9.8% year on year), amid an increase in consulting and system consulting work that supports clients in their DX initiatives. Operating profit was ¥5,691 million (up 11.0%) as profitability improved amid a favorable order environment.

(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. The environment surrounding the financial sector is undergoing major structural changes such that include a society whose population continues to age, companies from other industries newly entering the sector, an expanding range of digital assets, and diminishing markets in Japan due to persistently low-interest rates and the nation's declining population.

The NRI Group is accordingly working to expand its client base by engaging in efforts to help its clients create new businesses and services in a manner that addresses such changes in the business environment. Efforts in that regard will entail developing new financial business platforms for clients, creating and expanding DX business particularly that involving digital banking operations, expanding global business in financial services, as well as upgrading and enlarging existing businesses. With respect to production activities that underpin business expansion, the entire segment will work toward improving efficiency by innovating production and upgrading management of development resources. In the field of DX that involves transforming business models, the segment will work through alliances to create new businesses that make use of digital technologies, in part by establishing joint ventures with companies and clients that possess sophisticated technologies. Moreover, the segment aims to help bring about development of the financial industry by co-creating value with its clients, in addition to facilitating stable operations of IT infrastructure services from the perspective of social responsibility for information systems that act as financial infrastructure.

Aiming to create new financial businesses in the field of digital assets, the Company established BOOSTRY Co., Ltd., a company that engages in the development and provision of platforms for trading securities and other rights using blockchain technology, through joint investment with Nomura Holdings, Inc. This company is included in the scope of application of the equity method from the second quarter of the current fiscal year.

In the third quarter of the current fiscal year, the Company established Financial Digital Solutions, Ltd., which develops systems and services related to financial information, and made it a subsidiary through a joint investment with QUICK Corp. This new company will contribute to the response to changes in the environment of financial institutions through newly developed systems and services. In addition, aiming to collaborate with Mizuho Securities Co., Ltd., the Company made Nippon Securities Technology Co., Ltd., which is a consolidated subsidiary of Mizuho Securities Co., Ltd., a subsidiary, and classified it as a major affiliate in its Financial IT Solutions segment.

During the nine months ended 31st December, 2019, the Financial IT Solutions segment posted sales of ¥204,528 million (up 9.7% year on year), amid increases in all services including system development and application sales for the banking sector, and consulting services for the securities sector. Profitability improved due to major application sales in addition to favorable order environment and production activities, with operating profit of ¥26,935 million (up 34.7%).

(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 DX to create new business models. In the field of DX that involves transforming business models, the segment is working through alliances to create new businesses that make use of digital technologies, in part by establishing joint ventures with companies and clients that possess sophisticated technologies. From the third quarter of the current fiscal year, the Company has been collaborating with partner companies in various industries through the joint venture, JAL Digital Experience Co., Ltd., with Japan Airlines Co., Ltd., and services have commenced.

Working closely with the Consulting segment, which has a large number of clients in the industrial sector, this segment will provide comprehensive support to expand its client base by integrating consulting and IT solutions spanning everything from developing business models of clients in the field of DX to building information systems.

During the nine months ended 31st December, 2019, the Industrial IT Solutions segment posted sales of ¥135,932 million (down 0.8% year on year), a similar level to that of the same period of the previous fiscal year, amid a decrease in consulting services for the manufacturing and service sectors, and despite an increase in system development and application sales for the distribution sector. Profitability improved particularly in subsidiaries in Japan, with operating profit of ¥14,503 million (up 11.0%).

(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.

Information system development in the DX era calls for use of artificial intelligence (AI), blockchains and other new digital technologies, in conjunction with new and more rapid development approaches. In the field of cloud computing, companies need to comprehensively engage in high-quality operations of diverse and complex system platforms in line with their development of cloud-based IT systems.

To address such changes in the business environment, the NRI Group is accordingly taking steps that involve expanding its multi-cloud computing services^{*3} and its managed services^{*4}, and also expanding its security business in the Internet of Things (IoT) arena, in conjunction with efforts to develop information system development approaches and production innovation tools for the DX era.

During the nine months ended 31st December, 2019, sales to external clients increased in the digital workplace business^{*5} and security business, and intersegment sales increased mainly in cloud computing services and network services.

As a result of the above, the IT Platform Services segment posted sales of ¥102,096 million (up 9.4% year on year) and operating profit of ¥14,275 million (up 16.0%).

*3 Multi-cloud computing services refer to centrally managed services provided using multiple cloud computing platforms.

*4 Managed services refer to IT services that lend comprehensive support to optimizing entire information systems on behalf of a client's IT unit.

*5 The digital workplace business provides solutions that increase the value of employee experience by combining the three elements of corporate culture, IT, and physical environments such as office space.

(2) Qualitative information regarding consolidated financial position

(Assets, liabilities and net assets)

(Millions of yen)

	As of 31st March, 2019	As of 31st December, 2019	Year on year	
			Amount	Rate
Current assets	285,788	220,974	(64,813)	(22.7)%
Noncurrent assets	326,404	290,267	(36,136)	(11.1)%
Total assets	612,192	511,241	(100,950)	(16.5)%
Current liabilities	124,264	120,122	(4,141)	(3.3)%
Noncurrent liabilities	62,419	106,977	44,557	71.4%
Net assets	425,032	283,677	(141,355)	(33.3)%
Equity	410,978	268,185	(142,793)	(34.7)%
Equity ratio	67.1%	52.5%	(14.7)P	–
Interest-bearing debt	60,883	109,521	48,638	79.9%
Gross D/E ratio (times)	0.15	0.41	0.26	–

Notes: 1. Equity: Net assets – Non-controlling interests – Share subscription rights
2. Gross D/E ratio (gross debt-to-equity ratio): Interest-bearing debt / equity

At the end of the third quarter (31st December, 2019), current assets were ¥220,974 million (down 22.7% from the end of the previous fiscal year), noncurrent assets were ¥290,267 million (down 11.1%), current liabilities were ¥120,122 million (down 3.3%), noncurrent liabilities were ¥106,977 million (up 71.4%), net assets were ¥283,677 million (down 33.3%) and total assets were ¥511,241 million (down 16.5%). In addition, the gross D/E ratio (gross debt-to-equity ratio) at the end of the third quarter was 0.41 times.

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

Accounts receivable declined ¥34,212 million to ¥53,889 million and other receivables increased ¥13,739 million to ¥57,750 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 decreased ¥46,149 million to ¥34,053 million due to factors such as the sale of short-term investment securities for fund management purposes in addition to the sale of part of shares held by the Company. As a result, valuation difference on available-for-sale securities decreased ¥12,923 million to ¥14,228 million and deferred tax liabilities decreased ¥4,166 million to ¥1,762 million.

Treasury stock decreased ¥3,765 million to ¥68,431 million, as a result of the retirement of treasury stock (114,591 thousand shares; ¥169,710 million), despite its increase due to the trust exclusive for NRI Group Employee Stock Ownership Group purchasing the Company's shares for the Trust-type Employee Stock Ownership Incentive Plan (2,119 thousand shares (6,358 thousand shares after taking into account a 3-for-1 stock split on 1st July, 2019); ¥10,865 million) as well as the share buyback by tender offer (101,910 thousand shares; ¥159,999 million).

The funds for purchasing shares of treasury stock was procured through the borrowing of ¥10,000 million with syndicated loans and the issuance of bonds of ¥40,000 million (5th series of straight corporate bonds of ¥25,000 million and 6th series of straight corporate bonds of ¥15,000 million) in addition to allocation of cash reserves. As a result, current portion of long-term loans payable increased ¥441 million to ¥5,121 million, long-term loans payable increased ¥5,777 million to ¥18,991 million, and bonds increased ¥39,894 million to ¥73,825 million.

In addition, cash and bank deposits decreased ¥43,057 million to ¥81,715 million, accounts payable decreased ¥5,722 million to ¥21,976 million, and income taxes payable increased ¥11,128 million to ¥17,563 million.

(Cash flow position)

(Millions of yen)

	Nine months ended 31st December, 2018	Nine months ended 31st December, 2019	Year on year	
			Amount	Rate
Cash flows from operating activities	33,405	74,856	41,450	124.1%
Cash flows from investing activities	(13,447)	23,344	36,792	–
Free cash flows	19,957	98,200	78,242	392.0%
Cash flows from financing activities	(66,459)	(140,616)	(74,157)	111.6%
Net increase (decrease) in cash and cash equivalents	(47,911)	(43,363)	4,548	(9.5)%
Cash and cash equivalents at end of period	110,392	79,837	(30,554)	(27.7)%

Cash and cash equivalents as of the end of the third quarter (31st December, 2019) stood at ¥79,837 million (down ¥43,363 million from the end of the previous fiscal year).

Net cash provided by operating activities in the nine months ended 31st December, 2019 was ¥74,856 million, an increase of ¥41,450 million compared with the same period of the previous fiscal year. Income taxes paid decreased substantially and the drop in accounts receivable and other receivables was larger.

Net cash provided by investing activities was ¥23,344 million (compared with cash used of ¥13,447 million in the same period of the previous fiscal year). Cash was mainly used for a purchase of shares of subsidiaries resulting in change in scope of consolidation through investments including the acquisition of software and other intangibles related to the development of multi-user systems, in addition to the acquisition of shares of Nippon Securities Technology Co., Ltd. On the other hand, cash was provided by the sale of part of shares held by the Company and the sale of short-term investment securities for fund management purposes.

Net cash used in financing activities was ¥140,616 million, an increase of ¥74,157 million from the same period of the previous fiscal year. Purchase of treasury stock was ¥171,057 million, an increase of ¥140,856 million from the same period of the previous fiscal year. In the same period of the previous fiscal year, ¥29,999 million worth of treasury stock was purchased in accordance with a resolution of the Board of Directors. During the nine months ended 31st December, 2019, the trust exclusive for NRI Group Employee Stock Ownership Group purchased ¥10,865 million worth of the Company's shares for the Trust-type Employee Stock Ownership Incentive Plan and the Company acquired ¥159,999 million worth of treasury stock by tender offer. Cash was provided by long-term loans (syndicated loans) of ¥10,000 million and issuance of ¥40,000 million worth of bonds (5th series of straight corporate bonds of ¥25,000 million and 6th series of straight corporate bonds of ¥15,000 million). Other expenditures mainly consist of payments of cash dividends in the respective fiscal periods.

(3) Qualitative information regarding forecasts of financial results

In light of recent business trends and the order environment, the forecasts of financial results will be revised as follows.

(I) Consolidated performance

Consolidated financial forecasts for the fiscal year ending 31st March, 2020 (From 1st April, 2019 to 31st March, 2020)

(Millions of yen)

	Previous forecast (A)	Revised forecast (B)	Change		(Reference) Previous fiscal year (Actual result)
			Amount (B-A)	Rate (%)	
Sales	530,000	530,000	–	–	501,243
Operating profit	80,000	82,000	2,000	2.5	71,442
Ordinary profit	81,000	83,000	2,000	2.5	72,409
Profit attributable to owners of parent	68,000	69,000	1,000	1.5	50,931

(II) Non-consolidated performance

Non-consolidated financial forecasts for the fiscal year ending 31st March, 2020 (From 1st April, 2019 to 31st March, 2020)

(Millions of yen)

	Previous forecast (A)	Revised forecast (B)	Change		(Reference) Previous fiscal year (Actual result)
			Amount (B-A)	Rate (%)	
Sales	400,000	400,000	–	–	392,230
Ordinary profit	72,000	74,000	2,000	2.8	77,716
Profit	63,000	64,000	1,000	1.6	63,345

(III) Other forecasts

Consolidated sales by segment for the fiscal year ending 31st March, 2020 (From 1st April, 2019 to 31st March, 2020)

(Millions of yen)

	Previous forecast (A)	Revised forecast (B)	Change		(Reference) Previous fiscal year (Actual result)
			Amount (B-A)	Rate (%)	
Consulting	37,000	38,000	1,000	2.7	34,839
Financial IT Solutions	271,000	271,000	–	–	252,367
Securities sector	110,000	111,000	1,000	0.9	100,309
Insurance sector	66,000	66,000	–	–	64,874
Banking sector	48,000	49,000	1,000	2.1	43,404
Other financial sector, etc.	47,000	45,000	(2,000)	(4.3)	43,780
Industrial IT Solutions	185,000	183,000	(2,000)	(1.1)	180,882
Distribution sector	69,000	69,000	–	–	66,814
Manufacturing and service sectors	116,000	114,000	(2,000)	(1.7)	114,068
IT Platform Services	37,000	38,000	1,000	2.7	33,153
Total	530,000	530,000	–	–	501,243

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

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

(IV) Revisions to the forecasts of cash dividends

The Company considers the ongoing growth of its corporate value to be the most important return to its shareholders. The Company's basic policy on the payment of dividends from surplus is to continue to provide stable dividends while securing sufficient retained earnings for its medium- and long-term business development. In line with this policy, the Company has targeted a

consolidated dividend payout ratio* of 35%, taking into account factors such as operating revenue and the cash flow situation.

Based on the policy above and business results for the current fiscal year, the Company has upwardly revised its forecast for year-end dividends for the fiscal year ending 31st March, 2020 by ¥2 from the one previously announced (announced on 25th April, 2019) to ¥17 per share. Consequently, combined with second quarter dividend paid in November 2019 (based on the record date of 30th September, 2019), the annual dividend payment will be ¥32 per share, resulting in a consolidated dividend payout ratio based on the revised forecast of 28.0%.

* Consolidated dividend payout ratio = Total annual cash dividends (including dividends for the trust exclusive for NRI Group Employee Stock Ownership Group) / Profit attributable to owners of parent

Forecasts of cash dividends for the fiscal year ending 31st March, 2020

(Yen)

Record date	Cash dividends per share		
	Second quarter	Fiscal year-end	Annual
Previous forecast	15.00	15.00	30.00
Revised forecast	–	17.00	32.00
Results for the current fiscal year	15.00	–	–
Results for the previous fiscal year	45.00	45.00	90.00

Note: The Company conducted a 3-for-1 stock split of common stock with an effective date of 1st July, 2019. The previous fiscal year's actual cash dividends per share shown are the amounts prior to the stock split. The annual dividend payment per share would amount to ¥30 per share taking the stock split into account (second quarter dividend of ¥15 and fiscal year-end dividend of ¥15).

(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 Nine-Month Period Ended 31st December, 2019
(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 Nine-Month Period Ended 31st December, 2019
(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, 2019	31st December, 2019	31st December, 2019
Assets			
Current assets:			
Cash and bank deposits (<i>Notes 4 and 7</i>)	¥124,773	¥ 81,715	\$ 745,983
Short-term investment securities (<i>Notes 4, 5 and 7</i>)	2,122	2,003	18,286
Accounts receivable and other receivables (<i>Note 4</i>)	132,112	111,639	1,019,162
Operating loans (<i>Note 4</i>)	1,725	1,725	15,748
Margin transaction assets (<i>Note 4</i>)	7,413	5,903	53,889
Inventories	2,131	2,275	20,769
Prepaid expenses	6,446	6,913	63,109
Short-term guarantee deposits (<i>Note 4</i>)	3,504	3,704	33,814
Other current assets	5,770	5,319	48,558
Allowance for doubtful accounts	(208)	(221)	(2,018)
Total current assets	<u>285,788</u>	<u>220,975</u>	<u>2,017,300</u>
Property and equipment:			
Land	7,060	7,060	64,451
Buildings, net	35,698	34,240	312,580
Buildings in trust, net	8,184	8,055	73,535
Machinery and equipment, net	13,804	12,586	114,899
Leased assets, net	630	2,403	21,937
Property and equipment, net	<u>65,376</u>	<u>64,344</u>	<u>587,402</u>
Software	45,824	49,692	453,643
Software in progress	13,065	12,658	115,556
Goodwill	27,573	24,906	227,369
Other intangibles	5,044	4,564	41,665
Investment securities (<i>Notes 4 and 5</i>)	80,203	34,054	310,882
Investments in affiliates (<i>Notes 4 and 5</i>)	5,638	6,104	55,724
Deferred tax assets	3,659	5,151	47,023
Lease investment assets	314	818	7,468
Net defined benefit asset	60,050	67,095	612,515
Other assets	19,684	20,946	191,218
Allowance for doubtful accounts	(26)	(65)	(593)
Total assets	<u>¥612,192</u>	<u>¥511,242</u>	<u>\$4,667,172</u>

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars (Note 3)</i>
	31st March, 2019	31st December, 2019	31st December, 2019
Liabilities and Net Assets			
Current liabilities:			
Accounts payable (Note 4)	¥ 27,699	¥ 21,976	\$ 200,621
Short-term loans payable (Note 4)	6,346	7,134	65,127
Current portion of long-term loans payable (Note 4)	4,680	5,121	46,750
Margin transaction liabilities (Note 4)	1,672	2,030	18,532
Lease obligations, current	526	1,037	9,467
Accrued expenses	35,895	30,930	282,363
Income taxes payable	6,435	17,563	160,334
Advance payments received	15,536	9,243	84,380
Short-term guarantee deposits received (Note 4)	5,993	5,145	46,969
Provision for loss on orders received	933	356	3,250
Asset retirement obligations	18	102	931
Other current liabilities	18,531	19,485	177,880
Total current liabilities	<u>124,264</u>	<u>120,122</u>	<u>1,096,604</u>
Bonds (Note 4)	33,932	73,826	673,964
Long-term loans payable (Note 4)	13,213	18,991	173,370
Lease obligations	531	2,072	18,915
Deferred tax liabilities	5,928	1,762	16,085
Net defined benefit liability	6,270	7,818	71,372
Asset retirement obligations	2,394	2,360	21,545
Other long-term liabilities	152	150	1,369
Reserve for financial products transaction liabilities	476	464	4,236
Total liabilities	<u>¥187,160</u>	<u>¥227,565</u>	<u>\$2,077,460</u>
Net assets (Notes 6 and 8):			
Shareholders' equity:			
Common stock:			
Authorized – 2,722,500 thousand shares at 31st March, 2019 and 2,722,500 thousand shares at 31st December, 2019			
Issued – 753,780 thousand shares at 31st March, 2019 and 640,000 thousand shares at 31st December, 2019	¥ 19,338	¥ 20,068	\$ 183,202
Additional paid-in capital (Note 6)	15,551	16,258	148,421
Retained earnings (Note 6)	423,047	289,467	2,642,570
Treasury stock, at cost: (Note 6)			
– 54,486 thousand shares at 31st March, 2019 and 44,956 thousand shares at 31st December, 2019	(72,197)	(68,432)	(624,722)
Total shareholders' equity	<u>385,739</u>	<u>257,361</u>	<u>2,349,471</u>
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities (Note 5)	27,152	14,229	129,898
Foreign currency translation adjustment	(4,066)	(5,531)	(50,493)
Remeasurements of defined benefit plans	2,153	2,126	19,408
Total accumulated other comprehensive income	<u>25,239</u>	<u>10,824</u>	<u>98,813</u>
Share subscription rights	978	768	7,011
Non-controlling interests	13,076	14,724	134,417
Total net assets	<u>425,032</u>	<u>283,677</u>	<u>2,589,712</u>
Total liabilities and net assets	<u>¥612,192</u>	<u>¥511,242</u>	<u>\$4,667,172</u>

See accompanying notes to quarterly consolidated financial statements.

Nomura Research Institute, Ltd.

Quarterly Consolidated Statement of Income and Comprehensive Income

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars (Note 3)</i>
	Nine months ended 31st December,		Nine months ended 31st December,
	2018	2019	2019
Sales	¥ 367,065	¥ 390,545	\$ 3,565,319
Cost of sales	245,990	257,150	2,347,545
Gross profit	121,075	133,395	1,217,774
Selling, general and administrative expenses (<i>Notes 9 and 10</i>)	69,653	71,289	650,803
Operating profit	51,422	62,106	566,971
Other income (expenses):			
Interest and dividend income	1,352	1,153	10,526
Interest expense	(336)	(296)	(2,702)
Equity in losses of affiliates	(170)	(48)	(438)
Commission for purchase of treasury stock	(200)	(49)	(447)
Foreign exchange gains	10	127	1,159
Bonds issuance cost	–	(121)	(1,105)
Gain on investment securities	7,933	19,081	174,192
Gain on investments in affiliates	189	–	–
Reversal of share-based compensation	3	2	18
Reversal of reserve for financial products transaction liabilities	118	12	110
Gain on step acquisitions	–	93	849
Other, net	103	219	1,999
	9,002	20,173	184,161
Income before income taxes	60,424	82,279	751,132
Provision for income taxes (<i>Note 2</i>)	20,219	26,232	239,474
Profit	¥ 40,205	¥ 56,047	\$ 511,658
Profit attributable to owners of parent (<i>Note 8</i>)	¥ 39,849	¥ 55,604	\$ 507,614
Profit attributable to non-controlling interests	356	443	4,044
Other comprehensive income (loss):			
Valuation difference on available-for-sale securities	(7,157)	(12,914)	(117,893)
Deferred gains or losses on hedges	3	–	–
Foreign currency translation adjustment	(1,815)	(1,390)	(12,689)
Remeasurements of defined benefit plans, net of tax	(413)	(15)	(137)
Share of other comprehensive loss of affiliates	(36)	(74)	(676)
Total other comprehensive income (loss)	(9,418)	(14,393)	(131,395)
Comprehensive income	¥ 30,787	¥ 41,654	\$ 380,263
Comprehensive income attributable to:			
Comprehensive income attributable to owners of parent	¥ 30,482	¥ 41,186	\$ 375,991
Comprehensive income attributable to non-controlling interests	305	468	4,272

See accompanying notes to quarterly consolidated financial statements.

Nomura Research Institute, Ltd.

Quarterly Consolidated Statement of Cash Flows

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars (Note 3)</i>
	Nine months ended		Nine months ended
	31st December,		31st December,
	2018	2019	2019
Cash flows from operating activities			
Income before income taxes	¥ 60,424	¥ 82,279	\$ 751,132
Adjustments to reconcile income before income taxes to net cash provided by operating activities:			
Depreciation and amortization	22,887	22,661	206,874
Interest and dividend income	(1,352)	(1,153)	(10,526)
Interest expense	336	296	2,702
Gain on investment securities	(7,933)	(19,081)	(174,192)
Gain on step acquisitions	–	(93)	(849)
Gain on investments in affiliates	(189)	–	–
Changes in operating assets and liabilities:			
Accounts receivable and other receivables, net of advance payments received	181	16,190	147,800
Allowance for doubtful accounts	(26)	53	484
Accounts payable	2,290	(2,113)	(19,290)
Inventories	(183)	23	210
Net defined benefit asset	(6,730)	(7,033)	(64,205)
Net defined benefit liability	470	456	4,163
Provision for loss on orders received	1,126	(577)	(5,267)
Operating loans	2,100	–	–
Margin transaction assets	(1,503)	1,510	13,785
Short-term guarantee deposits	–	(200)	(1,826)
Margin transaction liabilities	(52)	358	3,268
Short-term guarantee deposits received	2,403	(848)	(7,741)
Reserve for financial products transaction liabilities	(118)	(12)	(110)
Other	(6,477)	(4,432)	(40,460)
Subtotal	67,654	88,284	805,952
Interest and dividends received	1,513	1,293	11,804
Interest paid	(282)	(244)	(2,227)
Income taxes paid	(35,479)	(14,476)	(132,153)
Net cash provided by operating activities	33,406	74,857	683,376
Cash flows from investing activities			
Payments for time deposits	(2,204)	(1,667)	(15,218)
Proceeds from time deposits	1,598	1,450	13,237
Purchase of short-term investment securities	(2,007)	(2,007)	(18,322)
Proceeds from sales and redemption of short-term investment securities	1,000	2,000	18,258
Acquisition of property and equipment	(3,962)	(3,864)	(35,275)
Proceeds from sales of property and equipment	5	0	–
Purchase of software and other intangibles	(15,346)	(16,945)	(154,692)
Payments for asset retirement obligations	(47)	(5)	(46)
Purchase of investment securities	(11,010)	(563)	(5,140)
Proceeds from sales and redemption of investment securities	16,934	47,013	429,186
Purchase of investments in affiliates	–	(728)	(6,646)
Purchase of shares of subsidiaries resulting in change in scope of consolidation	–	(1,336)	(12,196)
Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation	1,587	–	–
Other	4	(4)	(37)
Net cash provided by (used in) investing activities	¥ (13,448)	¥ 23,344	\$ 213,109

Nomura Research Institute, Ltd.

Quarterly Consolidated Statement of Cash Flows (continued)

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars (Note 3)</i>
	Nine months ended 31st December,		Nine months ended 31st December,
	2018	2019	2019
Cash flows from financing activities			
Net increase (decrease) in short-term loans payable	¥ 36	¥ (586)	\$ (5,350)
Proceeds from long-term loans payable	–	10,000	91,291
Repayments of long-term loans payable	(3,626)	(3,765)	(34,371)
Proceeds from issuance of bonds	–	39,879	364,059
Redemption of bonds	(15,000)	–	–
Repayments of obligation under finance leases	(389)	(459)	(4,191)
Proceeds from sales of treasury stock	4,210	5,079	46,367
Purchase of treasury stock	(30,201)	(171,058)	(1,561,603)
Cash dividends paid	(21,360)	(19,590)	(178,839)
Cash dividends paid to non-controlling interests	(129)	(117)	(1,068)
Net cash used in financing activities	(66,459)	(140,617)	(1,283,705)
Effect of exchange rate changes on cash and cash equivalents	(1,410)	(947)	(8,645)
Net decrease in cash and cash equivalents	(47,911)	(43,363)	(395,865)
Cash and cash equivalents at beginning of period	158,303	123,201	1,124,712
Cash and cash equivalents at end of period <i>(Note 7)</i>	¥ 110,392	¥ 79,838	\$ 728,847

See accompanying notes to quarterly consolidated financial statements.

Nomura Research Institute, Ltd.

Notes to Quarterly Consolidated Financial Statements

31st December, 2019

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

Description of Business

The NRI Group (Nomura Research Institute, Ltd. (the “Company”) and its 74 consolidated subsidiaries) and its affiliates (10 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 11.

During the quarterly period ended 30th September, 2019, the NRI Group established a joint venture company. As a result, one company is newly included in the scope of application of the equity method.

During the quarterly period ended 31st December, 2019, the NRI Group established one company and acquired shares of three companies. As a result, four companies are 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 sustainable 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 2019. The ESOP Trust acquired the number of the Company's shares, which the ESOP Group would have acquired over a period of four 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, 2019 and 31st December, 2019, ¥6,576 million (corresponding to 1,340 thousand shares of the Company held by the ESOP Trust (4,019 thousand shares after taking into account a 3-for-1 stock split on 1st July, 2019)) and ¥14,559 million (\$132,910 thousand) (corresponding to 8,662 thousand shares of the Company held by the ESOP Trust) and the loan payable of the ESOP Trust of ¥17,500 million and ¥13,959 million (\$127,433 thousand), respectively, are recorded in the accompanying quarterly consolidated balance sheet.

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

Calculation of Tax Expense

At the end of each interim period the NRI Group makes its best estimate of the effective tax rate expected to be applicable for the full fiscal year. Tax expenses for interim periods are computed multiplying income before income taxes by the aforementioned estimated annual effective tax rate for the annual period. Deferred income taxes are included in provision for income taxes in the quarterly consolidated statement of income and comprehensive income. 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 ¥109.54 = U.S.\$1.00, the rate of exchange prevailing on 31st December, 2019. 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, 2019 and 31st December, 2019 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, 2019			31st December, 2019		
	Carrying amount	Estimated fair value	Difference	Carrying amount	Estimated fair value	Difference
Assets:						
Cash and bank deposits	¥124,773	¥124,773	¥ –	¥ 81,715	¥ 81,715	¥ –
Accounts receivable and other receivables	132,112	132,112	–	111,639	111,639	–
Short-term investment securities, investment securities, and investments in affiliates	79,286	79,286	–	32,892	32,892	–
Operating loans	1,725	1,725	–	1,725	1,725	–
Margin transaction assets	7,413	7,413	–	5,903	5,903	–
Short-term guarantee deposits	3,504	3,504	–	3,704	3,704	–
Total	<u>¥348,813</u>	<u>¥348,813</u>	<u>¥ –</u>	<u>¥237,578</u>	<u>¥237,578</u>	<u>¥ –</u>
Liabilities:						
Accounts payable	¥ 27,699	¥ 27,699	¥ –	¥ 21,976	¥ 21,976	¥ –
Short-term loans payable	6,346	6,346	–	7,134	7,134	–
Margin transaction liabilities	1,672	1,672	–	2,030	2,030	–
Short-term guarantee deposits received	5,993	5,993	–	5,145	5,145	–
Bonds	33,932	34,297	365	73,826	73,716	(110)
Long-term loans payable *	17,893	17,893	–	24,112	24,127	15
Total	<u>¥ 93,535</u>	<u>¥ 93,900</u>	<u>¥365</u>	<u>¥134,223</u>	<u>¥134,128</u>	<u>¥ (95)</u>

	<i>Thousands of U.S. dollars</i>		
	31st December, 2019		
	Carrying amount	Estimated fair value	Difference
Assets:			
Cash and bank deposits	\$ 745,983	\$ 745,983	\$ –
Accounts receivable and other receivables	1,019,162	1,019,162	–
Short-term investment securities, investment securities, and investments in affiliates	300,274	300,274	–
Operating loans	15,748	15,748	–
Margin transaction assets	53,889	53,889	–
Short-term guarantee deposits	33,814	33,814	–
Total	<u>\$2,168,870</u>	<u>\$2,168,870</u>	<u>\$ –</u>
Liabilities:			
Accounts payable	\$ 200,621	\$ 200,621	\$ –
Short-term loans payable	65,127	65,127	–
Margin transaction liabilities	18,532	18,532	–
Short-term guarantee deposits received	46,969	46,969	–
Bonds	673,964	672,960	(1,004)
Long-term loans payable *	220,121	220,257	136
Total	<u>\$1,225,334</u>	<u>\$1,224,466</u>	<u>\$ (868)</u>

* Long-term loans payable included the current portion of long-term loans payable totaling ¥4,680 million and ¥5,121 million (\$46,750 thousand) as of 31st March, 2019 and 31st December, 2019, respectively.

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.

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, 2019	31st December, 2019	31st December, 2019
Unlisted companies' shares *1	¥7,895	¥8,485	\$77,460
Investments in partnerships *2	782	783	7,148

*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 ¥5,638 million and ¥6,104 million (\$55,724 thousand) as of 31st March, 2019 and 31st December, 2019, 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, 2019 and 31st December, 2019.

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, 2019 and 31st December, 2019:

Securities Classified as Available-for-Sale Securities

	<i>Millions of yen</i>					
	31st March, 2019			31st December, 2019		
	Acquisition cost	Carrying amount	Unrealized gain (loss)	Acquisition cost	Carrying amount	Unrealized gain (loss)
Equity securities	¥15,907	¥53,560	¥37,653	¥14,187	¥33,258	¥19,071
Bonds:						
Government bonds	1,031	1,034	3	4	4	-
Corporate bonds	26,830	26,823	(7)	2,004	2,002	(2)
	<u>27,861</u>	<u>27,857</u>	<u>(4)</u>	<u>2,008</u>	<u>2,006</u>	<u>(2)</u>
Other	853	907	54	780	792	12
Total	<u>¥44,621</u>	<u>¥82,324</u>	<u>¥37,703</u>	<u>¥16,975</u>	<u>¥36,056</u>	<u>¥19,081</u>

	<i>Thousands of U.S. dollars</i>		
	31st December, 2019		
	Acquisition cost	Carrying amount	Unrealized gain (loss)
Equity securities	\$129,514	\$303,615	\$174,101
Bonds:			
Government bonds	37	37	-
Corporate bonds	18,295	18,276	(19)
	<u>18,332</u>	<u>18,313</u>	<u>(19)</u>
Other	7,121	7,230	109
Total	<u>\$154,967</u>	<u>\$329,158</u>	<u>\$174,191</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 based on quoted market prices as a result of a decline in value amounted to ¥1,265 million and impairment loss on available-for-sale securities whose fair value is not readily determinable as a result of a decline in value amounted to ¥63 million for the year ended 31st March, 2019. Impairment loss on available-for-sale securities whose fair value is not readily determinable as a result of a decline in value amounted to ¥58 million (\$529 thousand) for the nine months ended 31st December, 2019.

5. Investments (continued)

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. 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 ¥571 million (\$5,213 thousand) at 31st March, 2019 and 31st December, 2019, respectively.

For the nine months ended 31st December, 2018

1) Dividends paid

Resolution	Type of shares	Total dividends (Millions of yen)	Dividends per share (Yen) *3	Cut-off date	Effective date	Source of dividends
Meeting of the Board of Directors on 16th May, 2018 *1	Common Stock	¥10,767	¥45.00	31st March, 2018	1st June, 2018	Retained earnings
Meeting of the Board of Directors on 25th October, 2018 *2	Common Stock	¥10,605	¥45.00	30th September, 2018	30th November, 2018	Retained earnings

*1 Dividends of ¥50 million paid to the ESOP Trust are included in the total dividends amount.

*2 Dividends of ¥33 million paid to the ESOP Trust are included in the total dividends amount.

*3 Dividends per share based on the resolutions of the Board of Directors on 16th May, 2018 include a commemorative dividend of ¥5.00 per share.

2) Significant changes in shareholders' equity

The Company acquired 5,545 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 ¥30,000 million.

Consequently, treasury stock increased by ¥26,460 million in total during the nine-month period ended 31st December, 2018. Furthermore, treasury stock amounted to ¥67,679 million, as of 31st December, 2018.

6. Net Assets (continued)

For the nine months ended 31st December, 2019

1) Dividends paid

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 15th May, 2019 *1	Common Stock	¥10,550	\$96,312	¥45.00	\$0.41	31st March, 2019	31st May, 2019	Retained earnings
Meeting of the Board of Directors on 25th October, 2019 *2	Common Stock	¥ 9,048	\$82,600	¥15.00	\$0.14	30th September, 2019	29th November, 2019	Retained earnings

*1 Dividends of ¥60 million (\$548 thousand) paid to the ESOP Trust are included in the total dividends amount.

*2 Dividends of ¥139 million (\$1,269 thousand) paid to the ESOP Trust are included in the total dividends amount.

2) Significant changes in shareholders' equity

The ESOP Trust acquired 2,120 thousand shares of treasury stock based on the resolution of the Board of Directors for readopting a Trust-type Employee Stock Ownership Incentive Plan on 8th March, 2019 (6,359 thousand shares after taking into account a 3-for-1 stock split on 1st July, 2019). As a result, treasury stock increased by ¥10,866 million (\$99,197 thousand).

The Company acquired 101,911 thousand shares of treasury stock by tender offer based on the resolution of the Board of Directors on 18th June, 2019. As a result, treasury stock increased by ¥160,000 million (\$1,460,654 thousand).

The Company retired 114,592 thousand shares of treasury stock based on the resolution of the Board of Directors on 25th October, 2019. As a result, additional paid-in capital and treasury stock decreased by ¥169,710 million (\$1,549,297 thousand). As the balance of other additional paid-in capital became negative, ¥(169,680) million (\$ (1,549,023) thousand) after the retirement and disposal of treasury stock, the Company netted out this negative amount against other retained earnings, in accordance with "Revised Accounting Standard for Treasury Shares and Appropriation of Legal Reserve" (Accounting Standards Board of Japan (ASBJ) Statement No. 1 issued on 26th March, 2015).

Consequently, additional paid-in capital increased by ¥707 million (\$6,454 thousand), retained earnings decreased by ¥133,580 million (\$1,219,463 thousand) and treasury stock decreased by ¥3,765 million (\$34,371 thousand), respectively during the nine-month period ended 31st December, 2019. Furthermore, additional paid-in capital, retained earnings and treasury stock amounted to ¥16,258 million (\$148,421 thousand), ¥289,467 million (\$2,642,570 thousand) and ¥68,432 million (\$624,722 thousand), respectively, as of 31st December, 2019.

7. Cash and Cash Equivalents

A reconciliation between cash and bank deposits in the accompanying quarterly consolidated balance sheet and cash and cash equivalents in the accompanying quarterly consolidated statement of cash flows at 31st December, 2018 and 2019 is as follows:

	<i>Millions of yen</i>		<i>Thousands of</i>
	31st		31st
	December,		December,
	2018	2019	2019
Cash and bank deposits	¥112,368	¥81,715	\$745,983
Short-term investment securities	2,145	2,003	18,286
Time deposits with maturities of more than three months when deposited	(2,115)	(1,878)	(17,145)
Bond and other investments maturing in more than three months from the acquisition date	(2,006)	(2,002)	(18,277)
Cash and cash equivalents	¥110,392	¥79,838	\$728,847

8. Per Share Data

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

	<i>Yen</i>		<i>U.S. dollars</i>
	Nine months		Nine months
	ended		ended
	31st December,		31st
	2018	2019	December,
			2019
Earnings per share	¥56.30	¥86.06	\$0.79
Diluted earnings per share	56.16	85.85	0.78

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

*2 The Company implemented a 3-for-1 stock split effective 1st July, 2019. To reflect this stock split, earnings per share and diluted earnings per share are calculated as if the stock split took place on 1st April, 2018.

8. Per Share Data (continued)

The computation of earnings per share and diluted earnings per share for the nine months ended 31st December, 2018 and 2019 is as follows: *1

	<i>Millions of yen</i>		<i>Thousands of</i>
	Nine months ended 31st December,		<i>U.S. dollars</i>
	2018	2019	Nine months ended 31st December, 2019
Numerator:			
Earnings *2	¥39,849	¥55,604	\$507,614
Earnings not attributable to common shareholders	(-)	(-)	(-)
Earnings attributable to common shareholders	<u>¥39,849</u>	<u>¥55,604</u>	<u>\$507,614</u>
	<i>Thousands of Shares</i>		
Denominator:			
Weighted-average number of shares of common stock outstanding – basic *3	707,745	646,088	
Potentially dilutive shares of common stock:			
Stock options	1,872	1,601	
Total	<u>1,872</u>	<u>1,601</u>	
Weighted-average number of shares of common stock outstanding – diluted	<u>709,617</u>	<u>647,689</u>	

*1 The Company implemented a 3-for-1 stock split effective 1st July, 2019. To reflect this stock split, earnings per share and diluted earnings per share are calculated as if the stock split took place on 1st April, 2018.

*2 In computing diluted earnings per share for the nine-month periods ended 31st December, 2018 and 2019, an adjustment due to potentially dilutive shares of affiliates in the amount of ¥(0) million and ¥(0) million (\$(0) thousand) has been made to earnings in the above table.

*3 The Company's shares owned by the ESOP Trust are included in treasury stock. The weighted-average number of shares the ESOP Trust owned was 2,447 thousand and 9,199 thousand during the nine-month periods ended 31st December, 2018 and 2019, respectively.

9. Selling, General and Administrative Expenses

The details of selling, general and administrative expenses for the nine months ended 31st December, 2018 and 2019 are summarized as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	Nine months ended 31st December,		Nine months ended 31st December,
	2018	2019	2019
Personnel expenses	¥35,400	¥37,443	\$341,820
Rent	4,820	4,220	38,525
Subcontractor costs	12,396	12,626	115,264
Other	17,037	17,000	155,194
Total	<u>¥69,653</u>	<u>¥71,289</u>	<u>\$650,803</u>

10. Research and Development Expenses

Research and development expenses included in selling, general and administrative expenses amounted to ¥2,570 million and ¥2,887 million (\$26,356 thousand) for the nine months ended 31st December, 2018 and 2019, respectively.

11. Segment Information

For the nine months ended 31st December, 2018

1) Net sales and profit by reportable segments

<i>Millions of yen</i>							
Nine months ended 31st December, 2018							
	Reportable segment				Total	Adjustments *1	Consolidated *2
	Consulting	Financial IT Solutions	Industrial IT Solutions	IT Platform Services			
Net sales:							
Sales to external customers	¥ 24,732	¥ 184,309	¥135,070	¥22,954	¥367,065	¥ –	¥367,065
Intersegment sales or transfers	435	2,091	2,017	70,365	74,908	(74,908)	–
Total	25,167	186,400	137,087	93,319	441,973	(74,908)	367,065
Segment profit	¥ 5,125	¥ 19,999	¥ 13,063	¥ 12,307	¥ 50,494	¥ 928	¥ 51,422

*1 Individual items included in adjustment of segment profit were immaterial.

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

2) 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 ended 31st March, 2019. As a result, the previously recognized amount of goodwill associated with the Industrial IT Solutions segment has decreased.

11. Segment Information (continued)

For the nine months ended 31st December, 2019

1) Net sales and profit by reportable segments

Millions of yen

Nine months ended 31st December, 2019							
Reportable segment							
	Consulting	Financial IT Solutions	Industrial IT Solutions	IT Platform Services	Total	Adjustments *1	Consolidated *2
Net sales:							
Sales to external customers	¥27,063	¥202,561	¥133,778	¥27,143	¥390,545	¥ –	¥390,545
Intersegment sales or transfers	564	1,968	2,154	74,953	79,639	(79,639)	–
Total	27,627	204,529	135,932	102,096	470,184	(79,639)	390,545
Segment profit	¥ 5,692	¥ 26,936	¥ 14,503	¥14,275	¥ 61,406	¥ 700	¥ 62,106

Thousands of U.S. dollars

Nine months ended 31st December, 2019							
Reportable segment							
	Consulting	Financial IT Solutions	Industrial IT Solutions	IT Platform Services	Total	Adjustments *1	Consolidated *2
Net sales:							
Sales to external customers	\$247,060	\$1,849,197	\$1,221,271	\$247,791	\$3,565,319	\$ –	\$3,565,319
Intersegment sales or transfers	5,149	17,966	19,664	684,252	727,031	(727,031)	–
Total	252,209	1,867,163	1,240,935	932,043	4,292,350	(727,031)	3,565,319
Segment profit	\$ 51,963	\$ 245,901	\$ 132,399	\$ 130,318	\$ 560,581	\$ 6,390	\$ 566,971

*1 Individual items included in adjustment of segment profit were immaterial.

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

2) Information about changes in reportable segments

The Company partially revised its segment classification in the previous fiscal year, thereby shifting all business entities previously classified as “Others” to the “Industrial IT Solutions” segment in order to enhance synergies among businesses from a managerial perspective.

Moreover, the Company partially revised its segment classifications in the first quarter of the current fiscal year, thereby shifting all operations of ASG Group Limited and its subsidiaries, which had been classified under both the “Consulting” and “Industrial IT Solutions” segments, to the “Industrial IT Solutions” segment.

Segment information for the nine months ended 31st December, 2018 in the above table has been restated to reflect the new segment reporting structure.

12. 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 (\$147.43 million) jointly as compensation for damages due to a delay in the migration.

13. Subsequent Events

Not applicable.