

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, 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.



25th October, 2019

Consolidated Financial Results For the Quarterly Period Ended 30th September, 2019 <under Japanese GAAP>

Company name: Nomura Research Institute, Ltd.
 Listing: First Section of the Tokyo Stock Exchange
 Stock code: 4307
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Scheduled date to file Quarterly Securities Report: 13th November, 2019
 Scheduled date to commence dividend payments: 29th November, 2019
 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, 2019 (from 1st April, 2019 to 30th September, 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	%
30th September, 2019	259,153	7.8	40,908	23.6	41,774	24.4	40,893	78.2
30th September, 2018	240,407	9.2	33,105	13.8	33,588	11.8	22,942	(31.3)

Note: Comprehensive income

Quarterly period ended 30th September, 2019: ¥23,887 million [(29.3)%]

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

Quarterly period ended	Earnings per share – basic	Earnings per share – diluted
	Yen	Yen
30th September, 2019	60.85	60.72
30th September, 2018	32.29	32.19

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	%
30th September, 2019	497,267	271,873	51.9
31st March, 2019	612,192	425,032	67.1

Reference: Equity

As of 30th September, 2019: ¥257,848 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)			–	15.00	30.00

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

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	80,000	12.0	81,000	11.9	68,000	33.5	101.19

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 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, 2019 | 754,591,500 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 30th September, 2019 | 160,656,303 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 30th September, 2019 | 672,032,027 shares |
| Quarterly period ended 30th September, 2018 | 710,544,909 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.

* 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	72,000	(7.4)	63,000	(0.5)	93.75

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 second-quarter settlement of accounts

(1) Qualitative information regarding consolidated operating results

(Millions of yen)

	Six months ended 30th September, 2018	Six months ended 30th September, 2019	Year on year	
			Amount	Rate
Sales	240,407	259,153	18,746	7.8%
Overseas sales	27,575	24,136	(3,439)	(12.5)%
Overseas sales ratio	11.5%	9.3%	(2.2)P	–
Operating profit	33,105	40,908	7,802	23.6%
Operating profit (before amortization of goodwill)	35,076	42,508	7,431	21.2%
Operating margin	13.8%	15.8%	2.0P	–
Operating margin (before amortization of goodwill)	14.6%	16.4%	1.8P	–
EBITDA margin	21.0%	22.3%	1.3P	–
Ordinary profit	33,588	41,774	8,186	24.4%
Profit attributable to owners of parent	22,942	40,893	17,950	78.2%

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 six months ended 30th September, 2019 (from 1st April, 2019 to 30th September, 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 has acquired treasury stock (101,910 thousand shares, ¥159,999 million) as its flexible capital management aimed at improving capital efficiency and responding to changes in the business environment.

During the six months ended 30th September, 2019, the NRI Group's sales totaled ¥259,153 million (up 7.8% year on year), amid a scenario where sales of every business segment were higher year on year, particularly those of Financial IT Solutions. Cost of sales was ¥171,679 million (up 6.6%), gross profit was ¥87,473 million (up 10.2%), and selling, general and administrative expenses were ¥46,565 million (up 0.6%). Profitability improved amid a favorable order environment and production activities, operating profit was ¥40,908 million (up 23.6%), operating margin was 15.8% (up 2.0 points), ordinary profit was ¥41,774 million (up 24.4%). Operating profit (before amortization of goodwill) was ¥42,508 million (up 21.2%), operating margin (before amortization of goodwill) was 16.4% (up 1.8 points) and the EBITDA margin was 22.3% (up 1.3 points). Profit attributable to owners of parent was ¥40,893 million (up 78.2%) due to the posting of gain on investment securities of ¥19,098 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)

		Six months ended 30th September, 2018	Six months ended 30th September, 2019	Year on year	
				Amount	Rate
Consulting	Sales	16,172	17,506	1,333	8.2%
	Operating profit	3,342	3,297	(44)	(1.3)%
	Operating margin	20.7%	18.8%	(1.8)P	–
Financial IT Solutions	Sales	121,632	136,651	15,018	12.3%
	Operating profit	12,470	18,230	5,759	46.2%
	Operating margin	10.3%	13.3%	3.1P	–
Industrial IT Solutions	Sales	90,791	90,904	112	0.1%
	Operating profit	8,863	9,983	1,120	12.6%
	Operating margin	9.8%	11.0%	1.2P	–
IT Platform Services	Sales	60,923	66,605	5,682	9.3%
	Operating profit	7,712	9,008	1,295	16.8%
	Operating margin	12.7%	13.5%	0.9P	–
Adjustments	Sales	(49,113)	(52,513)	(3,400)	–
	Operating profit	716	388	(328)	–
Total	Sales	240,407	259,153	18,746	7.8%
	Operating profit	33,105	40,908	7,802	23.6%
	Operating margin	13.8%	15.8%	2.0P	–

(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 six months ended 30th September, 2019, the Consulting segment posted sales of ¥17,506 million (up 8.2% year on year), amid an increase in consulting and system consulting work that supports clients in their DX initiatives. However, operating profit stayed at a similar level year on year of ¥3,297 million (down 1.3%), since there were a large number of highly profitable projects in the same period of the previous fiscal year from its beginning.

(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.

During the six months ended 30th September, 2019, the Financial IT Solutions segment posted sales of ¥136,651 million (up 12.3% year on year), amid increases in consulting services for the securities and insurance sectors, in addition to system development, application sales and system management and operation services for the banking and insurance sectors. Profitability improved due to major application sales in addition to favorable order environment and production activities, with operating profit of ¥18,230 million (up 46.2%).

(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.

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 six months ended 30th September, 2019, the Industrial IT Solutions segment posted sales of ¥90,904 million (up 0.1% year on year), a similar level to that of the same period of the previous fiscal year, amid an increase in system development and application sales for the distribution sector, and despite a decrease in consulting services for the manufacturing and service sectors. Profitability improved amid a favorable order environment and production activities, with operating profit of ¥9,983 million (up 12.6%).

(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 six months ended 30th September, 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 ¥66,605 million (up 9.3% year on year) and operating profit of ¥9,008 million (up 16.8%).

*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 30th September, 2019	Year on year	
			Amount	Rate
Current assets	285,788	214,483	(71,304)	(25.0)%
Noncurrent assets	326,404	282,784	(43,619)	(13.4)%
Total assets	612,192	497,267	(114,924)	(18.8)%
Current liabilities	124,264	117,928	(6,335)	(5.1)%
Noncurrent liabilities	62,419	107,000	44,580	71.4%
Net assets	425,032	271,873	(153,158)	(36.0)%
Equity	410,978	257,848	(153,130)	(37.3)%
Equity ratio	67.1%	51.9%	(15.3)P	–
Interest-bearing debt	60,883	108,274	47,390	77.8%
Gross D/E ratio (times)	0.15	0.42	0.27	–

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 second quarter (30th September, 2019), current assets were ¥214,483 million (down 25.0% from the end of the previous fiscal year), noncurrent assets were ¥282,784 million (down 13.4%), current liabilities were ¥117,928 million (down 5.1%), noncurrent liabilities were ¥107,000 million (up 71.4%), net assets were ¥271,873 million (down 36.0%) and total assets were ¥497,267 million (down 18.8%). In addition, the gross D/E ratio (gross debt-to-equity ratio) at the end of the second quarter was 0.42 times.

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

Accounts receivable declined ¥21,967 million to ¥66,134 million and other receivables increased ¥2,146 million to ¥46,157 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 ¥47,820 million to ¥32,382 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 ¥14,047 million to ¥13,104 million and deferred tax liabilities decreased ¥4,197 million to ¥1,730 million.

Treasury stock increased ¥167,702 million to ¥239,899 million, mainly as a result of 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 ¥442 million to ¥5,122 million, long-term loans payable increased ¥7,319 million to ¥20,532 million, and bonds increased ¥39,645 million to ¥73,576 million.

In addition, cash and bank deposits decreased ¥50,824 million to ¥73,948 million, accounts payable decreased ¥6,897 million to ¥20,801 million, and income taxes payable increased ¥13,663 million to ¥20,098 million.

(Cash flow position)

(Millions of yen)

	Six months ended 30th September, 2018	Six months ended 30th September, 2019	Year on year	
			Amount	Rate
Cash flows from operating activities	24,355	52,898	28,543	117.2%
Cash flows from investing activities	(11,048)	30,324	41,373	–
Free cash flows	13,307	83,223	69,916	525.4%
Cash flows from financing activities	(48,872)	(132,294)	(83,421)	170.7%
Net increase (decrease) in cash and cash equivalents	(34,630)	(50,938)	(16,307)	47.1%
Cash and cash equivalents at end of period	123,672	72,262	(51,410)	(41.6)%

Cash and cash equivalents as of the end of the second quarter (30th September, 2019) stood at ¥72,262 million (down ¥50,938 million from the end of the previous fiscal year).

Net cash provided by operating activities in the six months ended 30th September, 2019 was ¥52,898 million, an increase of ¥28,543 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 ¥30,324 million (compared with cash used of ¥11,048 million in 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. 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 ¥132,294 million, an increase of ¥83,421 million from the same period of the previous fiscal year. Purchase of treasury stock was ¥171,057 million, an increase of ¥148,458 million from the same period of the previous fiscal year. In the same period of the previous fiscal year, ¥22,573 million worth of treasury stock was purchased in accordance with a resolution of the Board of Directors. During the six months ended 30th September, 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 favorable 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	76,000	80,000	4,000	5.3	71,442
Ordinary profit	77,000	81,000	4,000	5.2	72,409
Profit attributable to owners of parent	66,000	68,000	2,000	3.0	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	68,000	72,000	4,000	5.9	77,716
Profit	61,000	63,000	2,000	3.3	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	37,000	-	-	34,839
Financial IT Solutions	266,000	271,000	5,000	1.9	252,367
Securities sector	110,000	110,000	-	-	100,309
Insurance sector	66,000	66,000	-	-	64,874
Banking sector	45,000	48,000	3,000	6.7	43,404
Other financial sector, etc.	45,000	47,000	2,000	4.4	43,780
Industrial IT Solutions	190,000	185,000	(5,000)	(2.6)	180,882
Distribution sector	68,000	69,000	1,000	1.5	66,814
Manufacturing and service sectors	122,000	116,000	(6,000)	(4.9)	114,068
IT Platform Services	37,000	37,000	-	-	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.

(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, 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 Six-Month Period Ended 30th September, 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	30th September, 2019	30th September, 2019
Assets			
Current assets:			
Cash and bank deposits (<i>Notes 4 and 7</i>)	¥124,773	¥ 73,948	\$ 685,148
Short-term investment securities (<i>Notes 4, 5 and 7</i>)	2,122	3,004	27,833
Accounts receivable and other receivables (<i>Note 4</i>)	132,112	112,291	1,040,406
Operating loans (<i>Note 4</i>)	1,725	1,725	15,983
Margin transaction assets (<i>Note 4</i>)	7,413	5,773	53,488
Inventories	2,131	1,694	15,695
Prepaid expenses	6,446	7,747	71,778
Short-term guarantee deposits (<i>Note 4</i>)	3,504	3,504	32,465
Other current assets	5,770	5,007	46,391
Allowance for doubtful accounts	(208)	(209)	(1,936)
Total current assets	<u>285,788</u>	<u>214,484</u>	<u>1,987,251</u>
Property and equipment:			
Land	7,060	7,060	65,413
Buildings, net	35,698	34,569	320,291
Buildings in trust, net	8,184	8,098	75,030
Machinery and equipment, net	13,804	12,656	117,261
Leased assets, net	630	2,249	20,838
Property and equipment, net	<u>65,376</u>	<u>64,632</u>	<u>598,833</u>
Software	45,824	47,187	437,200
Software in progress	13,065	12,315	114,102
Goodwill	27,573	24,234	224,534
Other intangibles	5,044	4,585	42,481
Investment securities (<i>Notes 4 and 5</i>)	80,203	32,382	300,028
Investments in affiliates (<i>Notes 4 and 5</i>)	5,638	6,098	56,500
Deferred tax assets	3,659	5,678	52,608
Lease investment assets	314	763	7,069
Net defined benefit asset	60,050	64,315	595,895
Other assets	19,684	20,619	191,041
Allowance for doubtful accounts	(26)	(24)	(222)
Total assets	<u>¥612,192</u>	<u>¥497,268</u>	<u>\$4,607,320</u>

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars (Note 3)</i>
	31st March, 2019	30th September, 2019	30th September, 2019
Liabilities and Net Assets			
Current liabilities:			
Accounts payable (Note 4)	¥ 27,699	¥ 20,802	\$ 192,736
Short-term loans payable (Note 4)	6,346	5,014	46,456
Current portion of long-term loans payable (Note 4)	4,680	5,123	47,466
Margin transaction liabilities (Note 4)	1,672	1,463	13,555
Lease obligations, current	526	993	9,200
Accrued expenses	35,895	36,718	340,202
Income taxes payable	6,435	20,099	186,223
Advance payments received	15,536	10,212	94,617
Short-term guarantee deposits received (Note 4)	5,993	5,412	50,144
Provision for loss on orders received	933	570	5,281
Asset retirement obligations	18	91	843
Other current liabilities	18,531	11,432	105,921
Total current liabilities	<u>124,264</u>	<u>117,929</u>	<u>1,092,644</u>
Bonds (Note 4)	33,932	73,577	681,710
Long-term loans payable (Note 4)	13,213	20,533	190,244
Lease obligations	531	2,115	19,596
Deferred tax liabilities	5,928	1,731	16,038
Net defined benefit liability	6,270	6,551	60,697
Asset retirement obligations	2,394	2,329	21,579
Other long-term liabilities	152	166	1,538
Reserve for financial products transaction liabilities	476	464	4,299
Total liabilities	<u>¥187,160</u>	<u>¥225,395</u>	<u>\$2,088,345</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 30th September, 2019			
Issued – 753,780 thousand shares at 31st March, 2019 and 754,592 thousand shares at 30th September, 2019	¥ 19,338	¥ 20,068	\$ 185,935
Additional paid-in capital (Note 6)	15,551	16,366	151,635
Retained earnings (Note 6)	423,047	453,383	4,200,714
Treasury stock, at cost: (Note 6)			
– 54,486 thousand shares at 31st March, 2019 and 160,656 thousand shares at 30th September, 2019	(72,197)	(239,900)	(2,222,737)
Total shareholders' equity	<u>385,739</u>	<u>249,917</u>	<u>2,315,547</u>
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities (Note 5)	27,152	13,105	121,421
Foreign currency translation adjustment	(4,066)	(7,309)	(67,720)
Remeasurements of defined benefit plans	2,153	2,136	19,791
Total accumulated other comprehensive income	<u>25,239</u>	<u>7,932</u>	<u>73,492</u>
Share subscription rights	978	821	7,607
Non-controlling interests	13,076	13,203	122,329
Total net assets	<u>425,032</u>	<u>271,873</u>	<u>2,518,975</u>
Total liabilities and net assets	<u>¥612,192</u>	<u>¥497,268</u>	<u>\$4,607,320</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,		Six months ended 30th September, 2019
	2018	2019	
Sales	¥240,407	¥259,153	\$ 2,401,121
Cost of sales	161,024	171,679	1,590,651
Gross profit	79,383	87,474	810,470
Selling, general and administrative expenses (Notes 9 and 10)	46,277	46,566	431,447
Operating profit	33,106	40,908	379,023
Other income (expenses):			
Interest and dividend income	836	782	7,245
Interest expense	(239)	(196)	(1,816)
Equity in losses of affiliates	(159)	(29)	(269)
Commission for purchase of treasury stock	(23)	(49)	(454)
Foreign exchange gains	9	313	2,900
Bonds issuance cost	–	(121)	(1,121)
Gain on investment securities	1,099	19,079	176,772
Reversal of share-based compensation	3	2	19
Reversal of reserve for financial products transaction liabilities	118	12	111
Other, net	58	167	1,548
	1,702	19,960	184,935
Income before income taxes	34,808	60,868	563,958
Provision for income taxes (Note 2)	11,625	19,681	182,350
Profit	¥ 23,183	¥ 41,187	\$ 381,608
Profit attributable to owners of parent (Note 8)	¥ 22,943	¥ 40,893	\$ 378,884
Profit attributable to non-controlling interests	240	294	2,724
Other comprehensive income (loss):			
Valuation difference on available-for-sale securities	9,701	(14,048)	(130,158)
Deferred gains or losses on hedges	3	–	–
Foreign currency translation adjustment	1,200	(3,180)	(29,464)
Remeasurements of defined benefit plans, net of tax	(275)	(10)	(93)
Share of other comprehensive loss of affiliates	(22)	(62)	(574)
Total other comprehensive income (loss)	10,607	(17,300)	(160,289)
Comprehensive income	¥ 33,790	¥ 23,887	\$ 221,319
Comprehensive income attributable to:			
Comprehensive income attributable to owners of parent	¥ 33,538	¥ 23,582	\$ 218,493
Comprehensive income attributable to non-controlling interests	252	305	2,826

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,		Six months ended 30th September, 2019
	2018	2019	
Cash flows from operating activities			
Income before income taxes	¥ 34,808	¥ 60,868	\$ 563,958
Adjustments to reconcile income before income taxes to net cash provided by operating activities:			
Depreciation and amortization	15,428	15,165	140,508
Interest and dividend income	(836)	(782)	(7,245)
Interest expense	239	196	1,816
Gain on investment securities	(1,099)	(19,079)	(176,772)
Changes in operating assets and liabilities:			
Accounts receivable and other receivables, net of advance payments received	2,030	13,602	126,026
Allowance for doubtful accounts	(12)	5	46
Accounts payable	(687)	(5,540)	(51,330)
Inventories	(119)	364	3,373
Net defined benefit asset	(3,902)	(4,257)	(39,442)
Net defined benefit liability	308	260	2,409
Provision for loss on orders received	197	(363)	(3,363)
Margin transaction assets	2,224	1,639	15,186
Margin transaction liabilities	89	(209)	(1,936)
Short-term guarantee deposits received	(222)	(581)	(5,383)
Reserve for financial products transaction liabilities	(118)	(12)	(111)
Other	(2,644)	(3,301)	(30,586)
Subtotal	45,684	57,975	537,154
Interest and dividends received	1,020	932	8,635
Interest paid	(137)	(205)	(1,900)
Income taxes paid	(22,211)	(5,803)	(53,766)
Net cash provided by operating activities	24,356	52,899	490,123
Cash flows from investing activities			
Payments for time deposits	(1,968)	(1,267)	(11,739)
Proceeds from time deposits	1,393	1,219	11,294
Purchase of short-term investment securities	–	(1,004)	(9,302)
Acquisition of property and equipment	(3,047)	(2,626)	(24,331)
Proceeds from sales of property and equipment	4	–	–
Purchase of software and other intangibles	(10,264)	(11,798)	(109,311)
Payments for asset retirement obligations	(46)	(4)	(37)
Purchase of investment securities	(5,265)	(218)	(2,020)
Proceeds from sales and redemption of investment securities	7,223	46,751	433,160
Purchase of investments in affiliates	–	(728)	(6,745)
Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation	918	–	–
Other	3	0	0
Net cash provided by (used in) investing activities	¥ (11,049)	¥ 30,325	\$ 280,969

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 30th September,		Six months ended 30th September, 2019
	2018	2019	
Cash flows from financing activities			
Net decrease in short-term loans payable	¥ (656)	¥ (1,115)	\$ (10,331)
Proceeds from long-term loans payable	–	10,000	92,653
Repayments of long-term loans payable	(2,274)	(2,214)	(20,513)
Proceeds from issuance of bonds	–	39,880	369,499
Redemption of bonds	(15,000)	–	–
Repayments of obligation under finance leases	(226)	(293)	(2,716)
Proceeds from sales of treasury stock	2,716	3,114	28,852
Purchase of treasury stock	(22,598)	(171,057)	(1,584,888)
Cash dividends paid	(10,762)	(10,548)	(97,730)
Cash dividends paid to non-controlling interests	(73)	(61)	(565)
Net cash used in financing activities	(48,873)	(132,294)	(1,225,739)
Effect of exchange rate changes on cash and cash equivalents	936	(1,869)	(17,316)
Net decrease in cash and cash equivalents	(34,630)	(50,939)	(471,963)
Cash and cash equivalents at beginning of period	158,303	123,201	1,141,490
Cash and cash equivalents at end of period (<i>Note 7</i>)	¥ 123,673	¥ 72,262	\$ 669,527

See accompanying notes to quarterly consolidated financial statements.

Nomura Research Institute, Ltd.

Notes to Quarterly Consolidated Financial Statements

30th September, 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 70 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.

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 30th September, 2019, ¥6,576 million (corresponding to 1,340 thousand shares of the Company held by the ESOP Trust) and ¥15,533 million (\$143,917 thousand) (corresponding to 9,241 thousand shares of the Company held by the ESOP Trust) and the loan payable of the ESOP Trust of ¥17,500 million and ¥15,437 million (\$143,028 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 ¥107.93 = U.S.\$1.00, the rate of exchange prevailing on 30th September, 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 30th September, 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			30th September, 2019		
	Carrying amount	Estimated fair value	Difference	Carrying amount	Estimated fair value	Difference
Assets:						
Cash and bank deposits	¥124,773	¥124,773	¥ –	¥ 73,948	¥ 73,948	¥ –
Accounts receivable and other receivables	132,112	132,112	–	112,291	112,291	–
Short-term investment securities, investment securities, and investments in affiliates	79,286	79,286	–	32,204	32,204	–
Operating loans	1,725	1,725	–	1,725	1,725	–
Margin transaction assets	7,413	7,413	–	5,773	5,773	–
Short-term guarantee deposits	3,504	3,504	–	3,504	3,504	–
Total	<u>¥348,813</u>	<u>¥348,813</u>	<u>¥ –</u>	<u>¥229,445</u>	<u>¥229,445</u>	<u>¥ –</u>
Liabilities:						
Accounts payable	¥ 27,699	¥ 27,699	¥ –	¥ 20,802	¥ 20,802	¥ –
Short-term loans payable	6,346	6,346	–	5,014	5,014	–
Margin transaction liabilities	1,672	1,672	–	1,463	1,463	–
Short-term guarantee deposits received	5,993	5,993	–	5,412	5,412	–
Bonds	33,932	34,297	365	73,577	74,130	553
Long-term loans payable *	17,893	17,893	–	25,655	25,673	18
Total	<u>¥ 93,535</u>	<u>¥ 93,900</u>	<u>¥365</u>	<u>¥131,923</u>	<u>¥132,494</u>	<u>¥571</u>

	<i>Thousands of U.S. dollars</i>		
	30th September, 2019		
	Carrying amount	Estimated fair value	Difference
Assets:			
Cash and bank deposits	\$ 685,148	\$ 685,148	\$ –
Accounts receivable and other receivables	1,040,406	1,040,406	–
Short-term investment securities, investment securities, and investments in affiliates	298,379	298,379	–
Operating loans	15,983	15,983	–
Margin transaction assets	53,488	53,488	–
Short-term guarantee deposits	32,465	32,465	–
Total	<u>\$2,125,869</u>	<u>\$2,125,869</u>	<u>\$ –</u>
Liabilities:			
Accounts payable	\$ 192,736	\$ 192,736	\$ –
Short-term loans payable	46,456	46,456	–
Margin transaction liabilities	13,555	13,555	–
Short-term guarantee deposits received	50,144	50,144	–
Bonds	681,710	686,834	5,124
Long-term loans payable *	237,700	237,867	167
Total	<u>\$1,222,301</u>	<u>\$ 1,227,592</u>	<u>\$ 5,291</u>

* Long-term loans payable included the current portion of long-term loans payable totaling ¥4,680 million and ¥5,123 million (\$47,466 thousand) as of 31st March, 2019 and 30th September, 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	30th September, 2019	30th September, 2019
Unlisted companies' shares *1	¥7,895	¥8,432	\$78,125
Investments in partnerships *2	782	848	7,857

*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 ¥6,098 million (\$56,500 thousand) as of 31st March, 2019 and 30th September, 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 30th September, 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 30th September, 2019:

Securities Classified as Available-for-Sale Securities

	<i>Millions of yen</i>					
	31st March, 2019			30th September, 2019		
	Acquisition cost	Carrying amount	Unrealized gain (loss)	Acquisition cost	Carrying amount	Unrealized gain (loss)
Equity securities	¥15,907	¥53,560	¥37,653	¥14,196	¥31,522	¥17,326
Bonds:						
Government bonds	1,031	1,034	3	4	4	0
Corporate bonds	26,830	26,823	(7)	3,004	3,004	(0)
	<u>27,861</u>	<u>27,857</u>	<u>(4)</u>	<u>3,008</u>	<u>3,008</u>	<u>(0)</u>
Other	853	907	54	844	856	12
Total	<u>¥44,621</u>	<u>¥82,324</u>	<u>¥37,703</u>	<u>¥18,048</u>	<u>¥35,386</u>	<u>¥17,338</u>

	<i>Thousands of U.S. dollars</i>		
	30th September, 2019		
	Acquisition cost	Carrying amount	Unrealized gain (loss)
Equity securities	\$131,530	\$292,060	\$160,530
Bonds:			
Government bonds	37	37	0
Corporate bonds	27,833	27,833	(0)
	<u>27,870</u>	<u>27,870</u>	<u>(0)</u>
Other	7,819	7,931	112
Total	<u>\$167,219</u>	<u>\$327,861</u>	<u>\$160,642</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 based on quoted market prices as a result of a decline in value amounted to ¥3 million (\$28 thousand) 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 ¥12 million (\$111 thousand) for the six months ended 30th September, 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 ¥570 million (\$5,281 thousand) at 31st March, 2019 and 30th September, 2019, respectively.

For the six months ended 30th September, 2018

1) Dividends paid

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 16th May, 2018 *1	Common Stock	¥10,767	¥45.00	31st March, 2018	1st June, 2018	Retained earnings

*1 Dividends of ¥50 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.

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

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 25th October, 2018 *	Common Stock	¥10,605	¥45.00	30th September, 2018	30th November, 2018	Retained earnings

* Dividends of ¥33 million 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.

6. Net Assets (continued)

For the six months ended 30th September, 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 *	Common Stock	¥10,550	\$97,749	¥45.00	\$0.42	31st March, 2019	31st May, 2019	Retained earnings

* Dividends of ¥60 million (\$556 thousand) paid to the ESOP Trust are included in the total dividends amount.

2) Dividends with a cut-off date in the six-month period ended 30th September, 2019 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, 2019 *	Common Stock	¥9,048	\$83,832	¥15.00	\$0.14	30th September, 2019	29th November, 2019	Retained earnings

* Dividends of ¥139 million (\$1,288 thousand) paid to the ESOP Trust are included in the total dividends amount.

3) 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 (\$100,676 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 (\$1,482,442 thousand).

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 30th September, 2018 and 2019 is as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	30th September,		30th September,
	2018	2019	2019
Cash and bank deposits	¥125,548	¥73,948	\$685,148
Short-term investment securities	1,154	3,004	27,833
Time deposits with maturities of more than three-months when deposited	(2,029)	(1,686)	(15,621)
Bond and other investments maturing in more than three-months from the acquisition date	(1,000)	(3,004)	(27,833)
Cash and cash equivalents	<u>¥123,673</u>	<u>¥72,262</u>	<u>\$669,527</u>

8. Per Share Data

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

	<i>Yen</i>		<i>U.S. dollars</i>
	Six months ended 30th September,		Six months ended 30th September,
	2018	2019	2019
Earnings per share	¥32.29	¥60.85	\$0.56
Diluted earnings per share	32.19	60.72	0.56

*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 six months ended 30th September, 2018 and 2019 is as follows: *1

	<i>Millions of yen</i>		<i>Thousands of</i>
	Six months ended 30th September,		<i>U.S. dollars</i>
	2018	2019	Six months ended 30th September, 2019
Numerator:			
Earnings *2	¥22,943	¥40,893	\$378,884
Earnings not attributable to common shareholders	(-)	(-)	(-)
Earnings attributable to common shareholders	<u>¥22,943</u>	<u>¥40,893</u>	<u>\$378,884</u>
	<i>Thousands of Shares</i>		
Denominator:			
Weighted-average number of shares of common stock outstanding – basic *3	710,545	672,032	
Potentially dilutive shares of common stock:			
Stock options	2,089	1,438	
Total	<u>2,089</u>	<u>1,438</u>	
Weighted-average number of shares of common stock outstanding – diluted	<u>712,634</u>	<u>673,470</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 six-month periods ended 30th September, 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 2,718 thousand and 9,308 thousand during the six-month periods ended 30th September, 2018 and 2019, respectively.

9. Selling, General and Administrative Expenses

The details of selling, general and administrative expenses for the six months ended 30th September, 2018 and 2019 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, 2019
	2018	2019	
Personnel expenses	¥23,216	¥24,965	\$231,307
Rent	3,346	2,814	26,072
Subcontractor costs	8,232	8,006	74,178
Other	11,483	10,781	99,890
Total	<u>¥46,277</u>	<u>¥46,566</u>	<u>\$431,447</u>

10. Research and Development Expenses

Research and development expenses included in selling, general and administrative expenses amounted to ¥1,629 million and ¥1,768 million (\$16,381 thousand) for the six months ended 30th September, 2018 and 2019, respectively.

11. Segment Information

For the six months ended 30th September, 2018

1) Net sales and profit by reportable segments

<i>Millions of yen</i>							
Six months ended 30th September, 2018							
	Reportable segment				Total	Adjustments *1	Consolidated *2
	Consulting	Financial IT Solutions	Industrial IT Solutions	IT Platform Services			
Net sales:							
Sales to external customers	¥15,904	¥120,319	¥89,530	¥14,654	¥240,407	¥ –	¥240,407
Intersegment sales or transfers	268	1,314	1,262	46,270	49,114	(49,114)	–
Total	16,172	121,633	90,792	60,924	289,521	(49,114)	240,407
Segment profit	¥ 3,343	¥ 12,471	¥ 8,863	¥ 7,712	¥ 32,389	¥ 717	¥ 33,106

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

For the six months ended 30th September, 2019

1) Net sales and profit by reportable segments

<i>Millions of yen</i>							
Six months ended 30th September, 2019							
	Reportable segment				Total	Adjustments *1	Consolidated *2
	Consulting	Financial IT Solutions	Industrial IT Solutions	IT Platform Services			
Net sales:							
Sales to external customers	¥17,174	¥135,080	¥89,532	¥17,367	¥259,153	¥ –	¥259,153
Intersegment sales or transfers	332	1,571	1,373	49,238	52,514	(52,514)	–
Total	17,506	136,651	90,905	66,605	311,667	(52,514)	259,153
Segment profit	¥ 3,298	¥ 18,230	¥ 9,984	¥ 9,008	¥ 40,520	¥ 388	¥ 40,908

11. Segment Information (continued)

Thousands of U.S. dollars

Six months ended 30th September, 2019							
	Reportable segment				Total	Adjustments *1	Consolidated *2
	Consulting	Financial IT Solutions	Industrial IT Solutions	IT Platform Services			
Net sales:							
Sales to external customers	\$159,122	\$1,251,552	\$829,538	\$160,909	\$2,401,121	\$ –	\$2,401,121
Intersegment sales or transfers	3,076	14,556	12,721	456,203	486,556	(486,556)	–
Total	162,198	1,266,108	842,259	617,112	2,887,677	(486,556)	2,401,121
Segment profit	\$ 30,557	\$ 168,906	\$ 92,504	\$ 83,462	\$ 375,429	\$ 3,594	\$ 379,023

*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 six months ended 30th September, 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 (\$149.63 million) jointly as compensation for damages due to a delay in the migration.

13. Subsequent Events

(Retirement of treasury stock)

At the meeting of the Board of Directors on 25th October, 2019, the Company passed a resolution to retire treasury stock, pursuant to provisions in Article 178 of the Companies Act and subsequently carried out said retirement of treasury stock.

1. Class of shares: Common shares of the Company
2. Total number of shares: 114,591,500 shares
(Ratio to total number of shares in issue before retirement: 15.2%)
3. Date of retirement: 2nd December, 2019