

This financial report is composed of two parts. The first part is an abridged translation of “Kessan Tanshin (earnings report)” for the quarterly period ended 30th June, 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.



MEMBERSHIP
25th July, 2019

Consolidated Financial Results For the Quarterly Period Ended 30th June, 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/>
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 Member of the Board
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Scheduled date to file Quarterly Securities Report: 13th August, 2019
 Scheduled date to commence dividend payments: –
 Preparation of supplementary material on quarterly consolidated financial results: Yes
 Announcement for quarterly consolidated financial results (for institutional investors and analysts): Yes

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

1. Consolidated performance for the quarterly period ended 30th June, 2019 (from 1st April, 2019 to 30th June, 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 the parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
30th June, 2019	129,495	10.0	20,353	32.7	21,162	33.4	14,245	27.6
30th June, 2018	117,758	10.4	15,334	16.9	15,865	12.2	11,161	15.5

Note: Comprehensive income

Quarterly period ended 30th June, 2019: ¥13,145 million [(7.4)%]

Quarterly period ended 30th June, 2018: ¥14,196 million [7.4%]

Quarterly period ended	Earnings per share – basic	Earnings per share – diluted
	Yen	Yen
30th June, 2019	20.52	20.48
30th June, 2018	15.64	15.57

- Notes: 1. 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. The Company has finalized provisional accounting treatment for a business combination in the second quarter of the fiscal year ended 31st March, 2019. Consequently, the results for the first quarter of the fiscal year ended 31st March, 2019 are those after retrospective application.

(2) Consolidated financial position

	Total assets		Net assets		Equity ratio	
As of	Millions of yen		Millions of yen		%	
30th June, 2019	588,567		418,206		68.7	
31st March, 2019	612,192		425,032		67.1	

Reference: Equity

As of 30th June, 2019: ¥404,377 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	–				
Fiscal year ending 31st March, 2020 (Forecasts)		15.00	–	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 the parent		Earnings per share – basic
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Six months ending 30th September, 2019	255,000	6.1	36,000	8.7	37,000	10.2	26,000	13.3	37.45
Fiscal year ending 31st March, 2020	530,000	5.7	76,000	6.4	77,000	6.3	55,000	8.0	79.21

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

* Notes

- (1) Changes in significant subsidiaries during the current three months (changes in specified subsidiaries resulting in change in scope of consolidation): None
- (2) Adoption of specific accounting in preparing quarterly consolidated financial statements: Yes
- (3) Changes in accounting policies, changes in accounting estimates, and restatement of prior period financial statements after error corrections
 - a. Changes in accounting policies due to revisions to accounting standards and other regulations: None
 - b. Changes in accounting policies due to other reasons: None
 - c. Changes in accounting estimates: None
 - d. Restatement of prior period financial statements after error corrections: None

(4) Number of shares in issue (common stock)

- | | | |
|----|---|--------------------|
| a. | Total number of shares in issue at the end of the period (including treasury stock) | |
| | As of 30th June, 2019 | 753,780,000 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 30th June, 2019 | 59,722,902 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 June, 2019 | 694,322,227 shares |
| | Quarterly period ended 30th June, 2018 | 713,482,599 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.

Qualitative information regarding first-quarter settlement of accounts

(1) Qualitative information regarding consolidated operating results

(Millions of yen)

	Three months ended 30th June, 2018	Three months ended 30th June, 2019	Year on year	
			Amount	Rate
Sales	117,758	129,495	11,737	10.0%
Overseas sales	14,675	12,686	(1,988)	(13.6)%
Overseas sales ratio	12.5%	9.8%	(2.7)P	–
Operating profit	15,334	20,353	5,019	32.7%
Operating profit (before amortization of goodwill)	16,258	21,170	4,911	30.2%
Operating margin	13.0%	15.7%	2.7P	–
Operating margin (before amortization of goodwill)	13.8%	16.3%	2.5P	–
EBITDA margin	20.1%	22.4%	2.3P	–
Ordinary profit	15,865	21,162	5,297	33.4%
Profit attributable to owners of the parent	11,161	14,245	3,084	27.6%

- 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 three months ended 30th June, 2019 (from 1st April, 2019 to 30th June, 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, having achieved an overseas sales ratio of approximately 10% in the first quarter of the current fiscal year. 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.

During the three months ended 30th June, 2019, the NRI Group's sales totaled ¥129,495 million (up 10.0% 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 ¥85,392 million (up 7.7%), gross profit was ¥44,102 million (up 14.7%), and selling, general and administrative expenses were ¥23,749 million (up 2.7%). Profitability improved amid a favorable order environment and production activities, operating profit was ¥20,353 million (up 32.7%), the operating margin was 15.7% (up 2.7 points), ordinary profit was ¥21,162 million (up 33.4%) and profit attributable to owners of parent was ¥14,245 million (up 27.6%). Operating profit (before amortization of goodwill) was ¥21,170 million (up 30.2%), operating margin (before amortization of goodwill) was 16.3% (up 2.5 points) and the EBITDA margin was 22.4% (up 2.3 points).

*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)

		Three months ended 30th June, 2018	Three months ended 30th June, 2019	Year on year	
				Amount	Rate
Consulting	Sales	7,419	7,767	348	4.7%
	Operating profit	1,133	613	(519)	(45.8)%
	Operating margin	15.3%	7.9%	(7.4)P	–
Financial IT Solutions	Sales	59,330	68,592	9,262	15.6%
	Operating profit	6,165	10,312	4,146	67.3%
	Operating margin	10.4%	15.0%	4.6P	–
Industrial IT Solutions	Sales	45,371	46,470	1,099	2.4%
	Operating profit	4,296	5,190	894	20.8%
	Operating margin	9.5%	11.2%	1.7P	–
IT Platform Services	Sales	29,692	31,957	2,264	7.6%
	Operating profit	3,402	3,955	553	16.3%
	Operating margin	11.5%	12.4%	0.9P	–
Adjustments	Sales	(24,054)	(25,292)	(1,237)	–
	Operating profit	336	280	(55)	–
Total	Sales	117,758	129,495	11,737	10.0%
	Operating profit	15,334	20,353	5,019	32.7%
	Operating margin	13.0%	15.7%	2.7P	–

(Consulting)

This segment provides policy recommendations and strategy consulting, as well as business consulting to support operational reform and system consulting for overall IT management. 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 three months ended 30th June, 2019, the Consulting segment posted sales of ¥7,767 million (up 4.7% year on year), amid an increase in consulting and system consulting work that supports clients in their DX initiatives. Operating profit decreased to ¥613 million (down 45.8% year on year) as a result of there having been a significant 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.

During the three months ended 30th June, 2019, the Financial IT Solutions segment posted sales of ¥68,592 million (up 15.6% year on year), amid increases in sales of services across the board, particularly from system development, application sales and system management and operation services for the insurance and banking sectors. Profitability improved due to a favorable order environment, production activities and major application sales, with operating profit of ¥10,312 million (up 67.3%)

(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 three months ended 30th June, 2019, the Industrial IT Solutions segment posted sales of ¥46,470 million (up 2.4% year on year), amid increases in sales of system development and

application sales for the distribution sector and system management and operation services for manufacturing and service sectors, 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 ¥5,190 million (up 20.8%).

(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 three months ended 30th June, 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 ¥31,957 million (up 7.6% year on year) and operating profit of ¥3,955 million (up 16.3%).

*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 June, 2019	Year on year	
			Amount	Rate
Current assets	285,788	262,802	(22,986)	(8.0)%
Noncurrent assets	326,404	325,765	(638)	(0.2)%
Total assets	612,192	588,567	(23,624)	(3.9)%
Current liabilities	124,264	108,376	(15,887)	(12.8)%
Noncurrent liabilities	62,419	61,519	(900)	(1.4)%
Net assets	425,032	418,206	(6,825)	(1.6)%
Equity	410,978	404,377	(6,601)	(1.6)%
Equity ratio	67.1%	68.7%	1.6P	–
Interest-bearing debt	60,883	59,599	(1,284)	(2.1)%
Gross D/E ratio (times)	0.15	0.15	(0.00)	–

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 first quarter (30th June, 2019), current assets were ¥262,802 million (down 8.0% from the end of the previous fiscal year), noncurrent assets were ¥325,765 million (down 0.2%), current liabilities were ¥108,376 million (down 12.8%), noncurrent liabilities were ¥61,519 million (down 1.4%), net assets were ¥418,206 million (down 1.6%) and total assets were ¥588,567 million (down 3.9%). In addition, the gross D/E ratio (gross debt-to-equity ratio) at the end of the first quarter was 0.15 times.

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

Accounts receivable declined ¥41,652 million to ¥46,448 million and other receivables increased ¥11,725 million to ¥55,735 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.

Goodwill decreased ¥1,843 million to ¥25,729 million due to the effect of exchange rates in addition to amortization.

Treasury stock increased ¥9,178 million to ¥81,375 million, mainly as a result of the trust exclusive for NRI Group Employee Stock Ownership Group having purchased the Company's shares for the Trust-type Employee Stock Ownership Incentive Plan.

In addition, accounts payable decreased ¥6,262 million to ¥21,436 million and accrued bonuses declined ¥10,219 million to ¥10,761 million.

(Cash flow position)

(Millions of yen)

	Three months ended 30th June, 2018	Three months ended 30 June, 2019	Year on year	
			Amount	Rate
Cash flows from operating activities	(6,714)	35,379	42,093	–
Cash flows from investing activities	(5,600)	(7,860)	(2,259)	40.4%
Free cash flows	(12,315)	27,518	39,834	–
Cash flows from financing activities	(19,538)	(21,367)	(1,828)	9.4%
Net increase (decrease) in cash and cash equivalents	(31,609)	4,787	36,397	–
Cash and cash equivalents at end of period	126,693	127,988	1,294	1.0%

Cash and cash equivalents as of the end of the first quarter (30th June, 2019) stood at ¥127,988 million (up ¥4,787 million from the end of the previous fiscal year).

Net cash provided by operating activities in the three months ended 30th June, 2019 was ¥35,379 million, an increase of ¥42,093 million compared with the same period of the previous fiscal year. Income taxes paid decreased substantially and cash used in the same period of the previous fiscal year included ¥21,790 million for advance payments - other (cash used in other operating activities) for the purchase of treasury stock still to be acquired.

Net cash used in investing activities was ¥7,860 million, an increase of ¥2,259 million from the same period of the previous fiscal year. In the three months ended 30th June, 2019, cash was mainly invested in the acquisition of software and other intangibles related to the development of multi-user systems.

Net cash used in financing activities was ¥21,367 million, an increase of ¥1,828 million from the same period of the previous fiscal year. Purchase of treasury stock was ¥11,007 million, an increase of ¥2,797 million from the same period of the previous fiscal year. In the same period of the previous fiscal year, ¥8,200 million worth of treasury stock was purchased in accordance with a resolution of the Board of Directors, and during the three months ended 30th June, 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. Other expenditures mainly consist of payments of cash dividends in the respective financial periods.

Nomura Research Institute, Ltd.

Quarterly Consolidated Financial Statements

*For the Three-Month Period Ended 30th June, 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 Three-Month Period Ended 30th June, 2019
(Unaudited)*

Contents

	Page
Quarterly Consolidated Balance Sheet	1
Quarterly Consolidated Statement of Income and Comprehensive Income	3
Quarterly Consolidated Statement of Cash Flows	4
Notes to Quarterly Consolidated Financial Statements	6

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 June, 2019	30th June, 2019
Assets			
Current assets:			
Cash and bank deposits (<i>Notes 4 and 7</i>)	¥124,773	¥129,455	\$1,201,439
Short-term investment securities (<i>Notes 4, 5 and 7</i>)	2,122	3,243	30,097
Accounts receivable and other receivables (<i>Note 4</i>)	132,112	102,184	948,343
Operating loans (<i>Note 4</i>)	1,725	1,725	16,009
Margin transaction assets (<i>Note 4</i>)	7,413	6,618	61,420
Inventories	2,131	1,584	14,701
Prepaid expenses	6,446	8,608	79,889
Short-term guarantee deposits (<i>Note 4</i>)	3,504	3,504	32,520
Other current assets	5,770	6,092	56,538
Allowance for doubtful accounts	(208)	(211)	(1,958)
Total current assets	<u>285,788</u>	<u>262,802</u>	<u>2,438,998</u>
Property and equipment:			
Land	7,060	7,060	65,522
Buildings, net	35,698	35,371	328,269
Buildings in trust, net	8,184	8,141	75,555
Machinery and equipment, net	13,804	13,182	122,339
Leased assets, net	630	677	6,283
Property and equipment, net	<u>65,376</u>	<u>64,431</u>	<u>597,968</u>
Software	45,824	46,589	432,381
Software in progress	13,065	11,844	109,921
Goodwill	27,573	25,729	238,784
Other intangibles	5,044	4,864	45,142
Investment securities (<i>Notes 4 and 5</i>)	80,203	80,655	748,538
Investments in affiliates (<i>Notes 4 and 5</i>)	5,638	5,536	51,378
Deferred tax assets	3,659	3,618	33,578
Lease investment assets	314	312	2,895
Net defined benefit asset	60,050	62,840	583,202
Other assets	19,684	19,372	179,786
Allowance for doubtful accounts	(26)	(25)	(232)
Total assets	<u>¥612,192</u>	<u>¥588,567</u>	<u>\$5,462,339</u>

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars (Note 3)</i>
	31st March, 2019	30th June, 2019	30th June, 2019
Liabilities and Net Assets			
Current liabilities:			
Accounts payable (Note 4)	¥ 27,699	¥ 21,436	\$ 198,942
Short-term loans payable (Note 4)	6,346	6,220	57,726
Current portion of long-term loans payable (Note 4)	4,680	5,178	48,056
Margin transaction liabilities (Note 4)	1,672	1,692	15,703
Lease obligations, current	526	456	4,232
Accrued expenses	35,895	29,271	271,657
Income taxes payable	6,435	6,957	64,566
Advance payments received	15,536	11,295	104,826
Short-term guarantee deposits received (Note 4)	5,993	5,713	53,021
Provision for loss on orders received	933	687	6,376
Asset retirement obligations	18	12	111
Other current liabilities	18,531	19,459	180,594
Total current liabilities	<u>124,264</u>	<u>108,376</u>	<u>1,005,810</u>
Bonds (Note 4)	33,932	33,773	313,439
Long-term loans payable (Note 4)	13,213	11,555	107,239
Lease obligations	531	690	6,403
Deferred tax liabilities	5,928	6,492	60,251
Net defined benefit liability	6,270	6,450	59,861
Asset retirement obligations	2,394	2,404	22,311
Other long-term liabilities	152	156	1,448
Reserve for financial products transaction liabilities	476	464	4,306
Total liabilities	<u>¥187,160</u>	<u>¥170,360</u>	<u>\$1,581,068</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 June, 2019			
Issued – 753,780 thousand shares at 31st March, 2019 and 753,780 thousand shares at 30th June, 2019	¥ 19,338	¥ 19,338	\$ 179,471
Additional paid-in capital (Note 6)	15,551	15,639	145,142
Retained earnings (Note 6)	423,047	426,744	3,960,501
Treasury stock, at cost: (Note 6)			
– 54,486 thousand shares at 31st March, 2019 and 59,723 thousand shares at 30th June, 2019	(72,197)	(81,376)	(755,230)
Total shareholders' equity	<u>385,739</u>	<u>380,345</u>	<u>3,529,884</u>
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities (Note 5)	27,152	28,129	261,058
Foreign currency translation adjustment	(4,066)	(6,243)	(57,939)
Remeasurements of defined benefit plans	2,153	2,146	19,916
Total accumulated other comprehensive income	<u>25,239</u>	<u>24,032</u>	<u>223,035</u>
Share subscription rights	978	859	7,972
Non-controlling interests	13,076	12,971	120,380
Total net assets	<u>425,032</u>	<u>418,207</u>	<u>3,881,271</u>
Total liabilities and net assets	<u>¥612,192</u>	<u>¥588,567</u>	<u>\$5,462,339</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>
	Three months ended 30th June,		Three months ended 30th June,
	2018	2019	2019
Sales	¥117,758	¥129,495	\$ 1,201,810
Cost of sales	79,308	85,392	792,501
Gross profit	38,450	44,103	409,309
Selling, general and administrative expenses (Notes 9 and 10)	23,115	23,749	220,409
Operating profit	15,335	20,354	188,900
Other income (expenses):			
Interest and dividend income	710	671	6,227
Interest expense	(123)	(84)	(780)
Equity in losses of affiliates	(79)	(65)	(603)
Foreign exchange gains (losses)	(20)	98	910
Gain (loss) on investment securities	1,106	(24)	(223)
Reversal of share-based compensation	3	2	19
Reversal of reserve for financial products transaction liabilities	118	12	111
Other, net	43	188	1,745
	1,758	798	7,406
Income before income taxes	17,093	21,152	196,306
Provision for income taxes (Note 2)	5,800	6,791	63,025
Profit	¥ 11,293	¥ 14,361	\$ 133,281
Profit attributable to owners of parent (Note 8)	¥ 11,162	¥ 14,246	\$ 132,213
Profit attributable to non-controlling interests	131	115	1,068
Other comprehensive income (loss):			
Valuation difference on available-for-sale securities	2,804	966	8,965
Deferred gains or losses on hedges	(34)	-	-
Foreign currency translation adjustment	286	(2,140)	(19,861)
Remeasurements of defined benefit plans, net of tax	(138)	(5)	(46)
Share of other comprehensive loss of affiliates	(14)	(37)	(343)
Total other comprehensive income (loss)	2,904	(1,216)	(11,285)
Comprehensive income	¥ 14,197	¥ 13,145	\$ 121,996
Comprehensive income attributable to:			
Comprehensive income attributable to owners of parent	¥ 14,072	¥ 13,038	\$ 121,002
Comprehensive income attributable to non-controlling interests	125	107	994

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>
	Three months ended 30th June,		Three months ended 30th June,
	2018	2019	2019
Cash flows from operating activities			
Income before income taxes	¥ 17,093	¥ 21,152	\$ 196,306
Adjustments to reconcile income before income taxes to net cash provided by operating activities:			
Depreciation and amortization	7,406	7,814	72,520
Interest and dividend income	(710)	(671)	(6,227)
Interest expense	123	84	780
Gain (loss) on investment securities	(1,106)	24	223
Changes in operating assets and liabilities:			
Accounts receivable and other receivables, net of advance payments received	22,468	25,137	233,289
Allowance for doubtful accounts	(44)	6	56
Accounts payable	1,172	(2,242)	(20,807)
Inventories	(42)	507	4,705
Net defined benefit asset	(2,532)	(2,786)	(25,856)
Net defined benefit liability	156	170	1,578
Provision for loss on orders received	214	(247)	(2,292)
Margin transaction assets	697	795	7,378
Margin transaction liabilities	23	20	186
Short-term guarantee deposits received	52	(280)	(2,599)
Reserve for financial products transaction liabilities	(118)	(12)	(111)
Other	(30,361)	(9,044)	(83,936)
Subtotal	14,491	40,427	375,193
Interest and dividends received	700	654	6,070
Interest paid	(58)	(36)	(335)
Income taxes paid	(21,848)	(5,666)	(52,585)
Net cash provided by (used in) operating activities	(6,715)	35,379	328,343
Cash flows from investing activities			
Payments for time deposits	(827)	(317)	(2,942)
Proceeds from time deposits	575	268	2,487
Purchase of short-term investment securities	–	(1,004)	(9,318)
Acquisition of property and equipment	(1,810)	(1,953)	(18,125)
Purchase of software and other intangibles	(4,928)	(5,765)	(53,503)
Payments for asset retirement obligations	(46)	(4)	(37)
Purchase of investment securities	(2,173)	(92)	(854)
Proceeds from sales and redemption of investment securities	2,688	1,006	9,336
Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation	918	–	–
Other	2	–	–
Net cash used in investing activities	¥ (5,601)	¥ (7,861)	\$ (72,956)

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>
	Three months ended 30th June,		Three months ended 30th June,
	2018	2019	2019
Cash flows from financing activities			
Net increase (decrease) in short-term loans payable	¥ (413)	¥ 13	\$ 121
Repayments of long-term loans payable	(1,273)	(1,146)	(10,636)
Repayments of obligation under finance leases	(153)	(234)	(2,172)
Proceeds from sales of treasury stock	1,323	1,595	14,803
Purchase of treasury stock	(8,210)	(11,007)	(102,153)
Cash dividends paid	(10,745)	(10,532)	(97,745)
Cash dividends paid to non-controlling interests	(68)	(57)	(529)
Net cash used in financing activities	(19,539)	(21,368)	(198,311)
Effect of exchange rate changes on cash and cash equivalents	246	(1,363)	(12,649)
Net increase (decrease) in cash and cash equivalents	(31,609)	4,787	44,427
Cash and cash equivalents at beginning of period	158,303	123,201	1,143,397
Cash and cash equivalents at end of period (<i>Note 7</i>)	¥ 126,694	¥ 127,988	\$ 1,187,824

See accompanying notes to quarterly consolidated financial statements.

Nomura Research Institute, Ltd.

Notes to Quarterly Consolidated Financial Statements

30th June, 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 (9 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.

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 June, 2019, ¥6,576 million (corresponding to 1,340 thousand shares of the Company held by the ESOP Trust) and ¥16,431 million (\$152,492 thousand) (corresponding to 3,259 thousand shares of the Company held by the ESOP Trust) and the loan payable of the ESOP Trust of ¥17,500 million and ¥16,431 million (\$152,492 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 $\text{¥}107.75 = \text{U.S.}\1.00 , the rate of exchange prevailing on 30th June, 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 June, 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 June, 2019		
	Carrying amount	Estimated fair value	Difference	Carrying amount	Estimated fair value	Difference
Assets:						
Cash and bank deposits	¥124,773	¥124,773	¥ –	¥129,455	¥129,455	¥ –
Accounts receivable and other receivables	132,112	132,112	–	102,184	102,184	–
Short-term investment securities, investment securities, and investments in affiliates	79,286	79,286	–	80,798	80,798	–
Operating loans	1,725	1,725	–	1,725	1,725	–
Margin transaction assets	7,413	7,413	–	6,618	6,618	–
Short-term guarantee deposits	3,504	3,504	–	3,504	3,504	–
Total	<u>¥348,813</u>	<u>¥348,813</u>	<u>¥ –</u>	<u>¥324,284</u>	<u>¥324,284</u>	<u>¥ –</u>
Liabilities:						
Accounts payable	¥ 27,699	¥ 27,699	¥ –	¥ 21,436	¥ 21,436	¥ –
Short-term loans payable	6,346	6,346	–	6,220	6,220	–
Margin transaction liabilities	1,672	1,672	–	1,692	1,692	–
Short-term guarantee deposits received	5,993	5,993	–	5,713	5,713	–
Bonds	33,932	34,297	365	33,773	34,222	449
Long-term loans payable *	17,893	17,893	–	16,732	16,732	–
Total	<u>¥ 93,535</u>	<u>¥ 93,900</u>	<u>¥365</u>	<u>¥ 85,566</u>	<u>¥ 86,015</u>	<u>¥449</u>

	<i>Thousands of U.S. dollars</i>		
	30th June, 2019		
	Carrying amount	Estimated fair value	Difference
Assets:			
Cash and bank deposits	\$1,201,439	\$1,201,439	\$ –
Accounts receivable and other receivables	948,343	948,343	–
Short-term investment securities, investment securities, and investments in affiliates	749,865	749,865	–
Operating loans	16,009	16,009	–
Margin transaction assets	61,420	61,420	–
Short-term guarantee deposits	32,520	32,520	–
Total	<u>\$3,009,596</u>	<u>\$3,009,596</u>	<u>\$ –</u>
Liabilities:			
Accounts payable	\$ 198,942	\$ 198,942	\$ –
Short-term loans payable	57,726	57,726	–
Margin transaction liabilities	15,703	15,703	–
Short-term guarantee deposits received	53,021	53,021	–
Bonds	313,439	317,606	4,167
Long-term loans payable *	155,285	155,285	–
Total	<u>\$ 794,116</u>	<u>\$ 798,283</u>	<u>\$ 4,167</u>

* Long-term loans payable included the current portion of long-term loans payable totaling ¥4,680 million and ¥5,178 million (\$48,056 thousand) as of 31st March, 2019 and 30th June, 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 June, 2019	30th June, 2019
Unlisted companies' shares *1	¥7,895	¥7,771	\$72,121
Investments in partnerships *2	782	866	8,037

*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 ¥5,536 million (\$51,378 thousand) as of 31st March, 2019 and 30th June, 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 June, 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 June, 2019:

Securities Classified as Available-for-Sale Securities

	<i>Millions of yen</i>					
	31st March, 2019			30th June, 2019		
	Acquisition cost	Carrying amount	Unrealized gain (loss)	Acquisition cost	Carrying amount	Unrealized gain
Equity securities	¥15,907	¥53,560	¥37,653	¥15,888	¥54,908	¥39,020
Bonds:						
Government bonds	1,031	1,034	3	1,030	1,033	3
Corporate bonds	26,830	26,823	(7)	26,828	26,846	18
	<u>27,861</u>	<u>27,857</u>	<u>(4)</u>	<u>27,858</u>	<u>27,879</u>	<u>21</u>
Other	853	907	54	1,056	1,111	55
Total	<u>¥44,621</u>	<u>¥82,324</u>	<u>¥37,703</u>	<u>¥44,802</u>	<u>¥83,898</u>	<u>¥39,096</u>

	<i>Thousands of U.S. dollars</i>		
	30th June, 2019		
	Acquisition cost	Carrying amount	Unrealized gain
Equity securities	\$147,452	\$509,587	\$362,135
Bonds:			
Government bonds	9,559	9,587	28
Corporate bonds	248,984	249,151	167
	<u>258,543</u>	<u>258,738</u>	<u>195</u>
Other	9,800	10,311	511
Total	<u>\$415,795</u>	<u>\$778,636</u>	<u>\$362,841</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 ¥8 million (\$74 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 three months ended 30th June, 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 (\$5,290 thousand) at 31st March, 2019 and 30th June, 2019, respectively.

For the three months ended 30th June, 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) Significant changes in shareholders' equity

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

For the three months ended 30th June, 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	\$97,912	¥45.00	\$0.42	31st March, 2019	31st May, 2019	Retained earnings

* Dividends of ¥60 million (\$557 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. As a result, treasury stock increased by ¥10,866 million (\$100,845 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 June, 2018 and 2019 is as follows:

	<i>Millions of yen</i>		<i>Thousands of</i>
	30th June,		<i>U.S. dollars</i>
	2018	2019	30th June,
			2019
Cash and bank deposits	¥127,801	¥129,455	\$1,201,439
Short-term investment securities	1,617	3,243	30,097
Time deposits with maturities of more than three months when deposited	(1,724)	(1,703)	(15,805)
Bond and other investments maturing in more than three months from the acquisition date	(1,000)	(3,007)	(27,907)
Cash and cash equivalents	¥126,694	¥127,988	\$1,187,824

8. Per Share Data

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

	<i>Yen</i>		<i>U.S. dollars</i>
	Three months ended 30th June,		Three months ended 30th June,
	2018	2019	2019
Earnings per share	¥15.64	¥20.52	\$0.19
Diluted earnings per share	15.57	20.48	0.19

*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 three months ended 30th June, 2018 and 2019 is as follows: *1

	<i>Millions of yen</i>		<i>Thousands of</i>
	Three months ended 30th June,		<i>U.S. dollars</i>
	2018	2019	Three months ended 30th June, 2019
Numerator:			
Earnings*2	¥11,162	¥14,246	\$132,213
Earnings not attributable to common shareholders	(-)	(-)	(-)
Earnings attributable to common shareholders	<u>¥11,162</u>	<u>¥14,246</u>	<u>\$132,213</u>
	<i>Thousands of Shares</i>		
Denominator:			
Weighted-average number of shares of common stock outstanding – basic *3	713,483	694,322	
Potentially dilutive shares of common stock:			
Stock options	3,558	1,349	
Total	<u>3,558</u>	<u>1,349</u>	
Weighted-average number of shares of common stock outstanding – diluted	<u>717,041</u>	<u>695,671</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 three-month periods ended 30th June, 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 3,063 thousand and 9,219 thousand during the three-month periods ended 30th June, 2018 and 2019, respectively.

9. Selling, General and Administrative Expenses

The details of selling, general and administrative expenses for the three months ended 30th June, 2018 and 2019 are summarized as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	Three months ended 30th June,		Three months ended 30th June,
	2018	2019	2019
Personnel expenses	¥11,403	¥12,748	\$118,311
Rent	1,761	1,471	13,652
Subcontractor costs	3,905	3,824	35,490
Other	6,046	5,706	52,956
Total	<u>¥23,115</u>	<u>¥23,749</u>	<u>\$220,409</u>

10. Research and Development Expenses

Research and development expenses included in selling, general and administrative expenses amounted to ¥611 million and ¥679 million (\$6,302 thousand) for the three months ended 30th June, 2018 and 2019, respectively.

11. Segment Information

1) Net sales and profit by reportable segments

	<i>Millions of yen</i>						
	Three months ended 30th June, 2018						
	Reportable segment				Total	Adjustments *1	Consolidated *2
Consulting	Financial IT Solutions	Industrial IT Solutions	IT Platform Services				
Net sales:							
Sales to external customers	¥7,295	¥58,696	¥44,754	¥ 7,013	¥117,758	¥ –	¥117,758
Intersegment sales or transfers	124	634	617	22,680	24,055	(24,055)	–
Total	<u>7,419</u>	<u>59,330</u>	<u>45,371</u>	<u>29,693</u>	<u>141,813</u>	<u>(24,055)</u>	<u>117,758</u>
Segment profit	<u>¥1,133</u>	<u>¥ 6,166</u>	<u>¥ 4,297</u>	<u>¥ 3,403</u>	<u>¥ 14,999</u>	<u>¥ 336</u>	<u>¥ 15,335</u>

	<i>Millions of yen</i>						
	Three months ended 30th June, 2019						
	Reportable segment				Total	Adjustments *1	Consolidated *2
Consulting	Financial IT Solutions	Industrial IT Solutions	IT Platform Services				
Net sales:							
Sales to external customers	¥7,622	¥68,028	¥45,804	¥ 8,041	¥129,495	¥ –	¥129,495
Intersegment sales or transfers	146	565	666	23,915	25,292	(25,292)	–
Total	<u>7,768</u>	<u>68,593</u>	<u>46,470</u>	<u>31,956</u>	<u>154,787</u>	<u>(25,292)</u>	<u>129,495</u>
Segment profit	<u>¥ 614</u>	<u>¥10,313</u>	<u>¥ 5,191</u>	<u>¥ 3,956</u>	<u>¥ 20,074</u>	<u>¥ 280</u>	<u>¥ 20,354</u>

11. Segment Information (continued)

Thousands of U.S. dollars

Three months ended 30th June, 2019							
	Reportable segment				Total	Adjustments *1	Consolidated *2
	Consulting	Financial IT Solutions	Industrial IT Solutions	IT Platform Services			
Net sales:							
Sales to external customers	\$70,738	\$631,350	\$425,095	\$ 74,627	\$1,201,810	\$ –	\$1,201,810
Intersegment sales or transfers	1,355	5,244	6,181	221,949	234,729	(234,729)	–
Total	72,093	636,594	431,276	296,576	1,436,539	(234,729)	1,201,810
Segment profit	\$ 5,698	\$ 95,712	\$ 48,176	\$ 36,716	\$ 186,302	\$ 2,598	\$ 188,900

*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 three months ended 30th June, 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 (\$149.88 million) jointly as compensation for damages due to a delay in the migration.

13. Subsequent Events

Issuance of new shares as restricted stock-based remuneration

At its Board of Directors' meeting held on 20th June, 2019, the Company resolved to issue new shares as restricted stock-based remuneration and finalized the arrangements for payment on 19th July, 2019.

Outline of share issuance

(a) Type and number of shares to be issued	811,500 common shares
(b) Issue price	¥1,797 (\$17) per share
(c) Total issue value	¥1,458,265,500 (\$13,533,787)
(d) Paid-in capital	¥899 (\$8) per share
(e) Total paid-in capital	¥729,538,500 (\$6,770,659)
(f) Eligible recipients, number of recipients and number of shares to be allocated	Members of the Board (excluding Outside Directors): 6 individuals, 124,500 shares Senior Managing Directors and other employees (those treated as executives): 48 individuals, 687,000 shares
(g) Payment date	19th July, 2019

* The Company implemented a 3-for-1 stock split of common stock with an effective date of 1st July, 2019. Prior to the effective date of the stock split, the Company had issued 270,500 common shares with amounts for the issue price, total issue value, paid-in capital, and total paid-in capital of ¥5,390 (\$50), ¥1,457,995,000 (\$13,531,276), ¥2,695 (\$25) and ¥728,997,500 (\$6,765,638), respectively. Per resolution of the Board of Directors on 20th June, 2019, the number of shares allocated to Members of the Board (excluding Outside Directors) and those allocated to Senior Managing Directors and other employees (those treated as executives) amount to 41,500 shares and 229,000 shares, respectively.

13. Subsequent Events (continued)

Acquisition of treasury stock and share buyback by tender offer

At its Board of Directors' meeting held on 18th June, 2019, the Company resolved to implement the acquisition of treasury stock and conduct a share buyback by tender offer as the specific method for acquiring the shares, pursuant to the provisions of Article 156, paragraph 1 of the Corporation Law as applied by replacing the terms pursuant to Article 459, paragraph 1 of the Corporation Law and the Company's Articles of Incorporation (the "Tender Offer").

The Company conducted the Tender Offer from 1st July, 2019 and completed the Tender Offer on 29th July, 2019. In conjunction with the completion of the Tender Offer, the Company has completed the acquisition of treasury stock pursuant to the resolution of the Board of Directors on 18th June, 2019.

- 1) Details of the resolution of the Board of Directors regarding the acquisition of treasury stock
 - (a) Type of stock to be acquired: Common stock of the Company
 - (b) Total number of shares to be acquired: 101,910,800 shares (maximum)
 - (c) Total acquisition price of shares: ¥159,999,956,000 (\$1,484,918,385) (maximum)
 - (d) Acquisition period: From 1st July, 2019 to 30th August, 2019
- 2) Outline of the share buyback by Tender Offer
 - (a) Total number of shares to be purchased: 101,910,700 shares
 - (b) Purchase price: ¥1,570 (\$15) per share of common stock
 - (c) Tender Offer period: From 1st July, 2019 to 29th July, 2019
 - (d) Date of public notice of commencement of Tender Offer: 1st July, 2019
 - (e) Commencement date for settlement: 21st August, 2019
- 3) Result of the share buyback by Tender Offer
 - (a) Total number of offered shares: 101,932,189 shares
 - (b) Total number of shares acquired: 101,910,780 shares
 - (c) Total prices of shares acquired: ¥159,999,924,600 (\$1,484,918,094)
 - (d) Acquisition period: From 1st July, 2019 to 29th July, 2019

13. Subsequent Events (continued)

Changes related to Major Shareholders

As a result of the acquisition of treasury stock *and share buyback by tender offer* detailed above, the total number of voting rights has decreased while the ratio of shareholders' voting rights to total voting rights has increased commensurately. This resulted in the following changes related to the major shareholders of the Company.

- 1) Outline of shareholders for which changes occurred

New major shareholder : Nomura Facilities, Inc.

- 2) Number of voting rights of the shareholder (number of shares held) before and after the change and ratio of voting rights held by the shareholder to total number of voting rights

	Number of voting rights (Number of shares held)	Ratio of voting rights held by shareholder to total number of voting rights *1, 2 and 4	Major shareholder rank*3
Before change (As of 1st July, 2019)	675,180 rights (67,518,000 shares)	9.60%	Second
After change	675,180 rights (67,518,000 shares)	11.21%	Second

*1 The ratio of voting rights held by the shareholder before the change to the total number of voting rights was calculated based on the total number of voting rights before the change assuming the effect of implementing a 3-for-1 stock split of common stock with an effective date of 1st July, 2019 (7,031,643 rights), which was obtained by multiplying the number of voting rights held by all shareholders as of 30th June, 2019 (2,343,881 rights) by 3.

*2 The ratio of voting rights held by the shareholder after the change to the total number of voting rights was calculated based on the total number of voting rights after the change (6,020,651 rights), which was calculated by adding the number of voting rights relating to the 811,500 common shares that were issued as restricted stock-based remuneration on 19th July, 2019, (8,115 rights), to the total number of voting rights before the change in *1 above (7,031,643 rights), and then subtracting the number of voting rights corresponding to the 101,910,700 common shares acquired by means of the Tender Offer(1,019,107 rights).

*3 The ranking of major shareholders is determined using information in the shareholder register as of 30th June, 2019.

*4 The ratio to total number of voting rights held by shareholders is rounded to the nearest one-hundredth of a percent.

- 3) Scheduled date of change

21st August, 2019 (the commencement date for the settlement of the Tender Offer)