

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 2017, which includes the summary and the operating results sections. The second part is the “Consolidated Financial Statements,” which are basically prepared based on the “Kessan Tanshin (earnings report)” but applied for some items different presentation methods.



MEMBERSHIP

26th October, 2017

Consolidated Financial Results For the Quarterly Period Ended 30th September, 2017 <under Japanese GAAP>

Company name: Nomura Research Institute, Ltd.
 Listing: First Section of the Tokyo Stock Exchange
 Stock code: 4307
 URL: <http://www.nri.com/jp/>
 Representative: Shingo Konomoto, President & CEO, Representative Director,
 Member of the Board
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Scheduled date to file Quarterly Securities Report: 31st October, 2017
 Scheduled date to commence dividend payments: 30th November, 2017
 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, 2017 (from 1st April, 2017 to 30th September, 2017)

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

	Sales		Operating profit		Ordinary profit		Profit attributable to owners of the parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Quarterly period ended 30th September, 2017	220,214	8.4	29,097	10.5	30,036	7.4	33,377	15.7
30th September, 2016	203,165	(4.3)	26,341	(6.8)	27,957	(6.3)	28,843	43.3

Note: Comprehensive income

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

Quarterly period ended 30th September, 2016: ¥14,481 million [(33.5)%]

	Earnings per share – basic		Earnings per share – diluted	
	Yen		Yen	
Quarterly period ended 30th September, 2017	136.09		135.74	
30th September, 2016	116.32		116.12	

Note: The Company conducted a 1-for-1.1 stock split of common shares with an effective date of 1st January, 2017. 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, 2017	617,028	424,442	66.7
31st March, 2017	628,944	447,297	69.1

Reference: Equity

As of 30th September, 2017: ¥411,515 million As of 31st March, 2017: ¥434,433 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, 2017	–	40.00	–	40.00	–
Fiscal year ending 31st March, 2018	–	45.00			
Fiscal year ending 31st March, 2018 (Forecasts)			–	45.00	90.00

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

2. The Company conducted a 1-for-1.1 stock split of common shares with an effective date of 1st January, 2017. The dividend paid per share for the second quarter of the fiscal year ended 31st March, 2017 is based on the number of shares prior to the stock split.

3. The second quarter dividend and year-end dividend for the fiscal year ending 31st March, 2018 each include a commemorative dividend of ¥5.00 per share (annual total of ¥10.00).

3. Forecasts of financial results for the fiscal year ending 31st March, 2018 (from 1st April, 2017 to 31st March, 2018)

(Percentages indicate year-on-year changes.)

	Sales		Operating profit		Ordinary profit		Profit attributable to owners of the parent		Earnings per share – basic
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Fiscal year ending 31st March, 2018	460,000	8.4	64,000	9.4	65,500	8.5	59,000	30.9	240.56

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

However, the Company has made revisions to the breakdown of consolidated sales, which is disclosed as reference values. For more details, please refer to “(3) Qualitative information regarding forecasts of financial results,” on page 9.

* Notes

- (1) Changes in significant subsidiaries during the current six months (changes in specified subsidiaries resulting in change in scope of consolidation): Yes
Newly consolidated: 2 (Company name) SMS Management & Technology Limited, SMS Consulting Group Ltd
- (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, 2017	264,000,000 shares
	As of 31st March, 2017	264,000,000 shares
b.	Number of shares of treasury stock at the end of the period	
	As of 30th September, 2017	25,196,489 shares
	As of 31st March, 2017	15,866,993 shares
c.	Average number of shares during the period (cumulative from the beginning of the fiscal year)	
	Quarterly period ended 30th September, 2017	245,265,462 shares
	Quarterly period ended 30th September, 2016	247,961,282 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 1-for-1.1 stock split of common shares with an effective date of 1st January, 2017. 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 not required to be subjected to quarterly reviews.

* Proper use of forecasts of financial results, and other special matters

The forward-looking statements including business forecasts stated in this document are based on information available to the Company at the present time and certain assumptions judged to be rational, and these statements do not purport to be a promise by the Company to achieve such results. Actual business results, etc. may differ significantly from this forecast due to various factors. For more details, please refer to “(3) Qualitative information regarding forecasts of financial results,” on page 9.

Qualitative information regarding second-quarter settlement of accounts

(1) Qualitative information regarding consolidated operating results

During the six months ended 30th September, 2017 (from 1st April, 2017 to 30th September, 2017), the Japanese economy continued to recover at a moderate pace, supported by upturns in corporate earnings and business confidence. Investment in information systems continued to be firm, but there was a trend of constraint toward investment among certain companies such as financial institutions. Operating in such an environment, Nomura Research Institute (“the Company”) and its consolidated subsidiaries (“the NRI Group”) carried out its business activities leveraging the combined strengths of the NRI Group, allowing it to seamlessly provide services encompassing consulting through to system development and operations. The fiscal year ending 31st March, 2018 is the second year of the medium-term plan (from the fiscal year ended 31st March, 2017 to the fiscal year ending 31st March, 2019) formulated for realizing the goals of Vision 2022, the NRI Group’s long-term management plan. The NRI Group will work to further boost productivity and expand existing businesses, as well as further establish an operating base and accumulate experience in new fields, such as global and digital businesses.

As initiatives to expand existing businesses, the Company upgraded its industry-standard business platforms (multi-user systems) to steadily respond to related regulatory changes such as the shortened settlement cycle of Japanese Government Bonds and migration to the Japan Securities Depository Center’s new systems, and provided support to clients to make their operations more advanced and efficient.

In the digital business, the Company will work to create new businesses amid growth in business IT, which clients are using directly to expand operations by creating new businesses. In addition, with the government and companies pushing ahead with reforms to working practices, the Company will provide related IT-based services to clients and also actively reform its own working practices.

In the global business, the Company provides support to Japanese companies expanding globally and develops businesses geared to local governments and companies. Also, in order to expand its presence in new business fields, the Company works to forge business alliances and M&A deals with companies that have advanced technologies, experience and strong networks. In order to generate further synergies with subsidiaries acquired through M&A deals, the Company will build a new business management system, operational management system and other systems to drive forward the integration process after acquisition. With the aims of expanding its business in Australian IT industry, the Company made Australian firm SMS Management & Technology Limited a subsidiary at the end of the second quarter of the current fiscal year and classified it as a major affiliate in its Industrial IT Solutions segment.

In June, 2017, the Company implemented its relocation to new offices in the Yokohama and Osaka areas. This move, along with the relocation of the head office building completed in the previous fiscal year, has significantly enhanced the Group’s capabilities for ensuring business continuity with respect to our main offices.

As part of its capital management that takes into account the simultaneous pursuit of growth and shareholder returns, the Company pays commemorative dividends (dividends commemorating the 30th anniversary of the NRI merger) and purchases treasury stock.

During the six months ended 30th September, 2017, the NRI Group’s sales totaled ¥220,214 million (up 8.4% year on year), supported by higher sales from system management and operation services and consulting services, offsetting a drop in system development and application sales. Cost of sales was ¥144,940 million (up 6.6%) and gross profit was ¥75,274 million (up 11.9%). Selling, general and administrative expenses were ¥46,176 million (up 12.9%) due to expenses incurred for office relocation and an increase in amortization of goodwill. There was also an increase in the number of subsidiaries. As a result, operating profit was ¥29,097 million (up 10.5%), the operating margin was 13.2% (up 0.2 points) and ordinary profit was ¥30,036 million (up 7.4%). Profit attributable to owners of the parent was ¥33,377 million (up 15.7%) due to the posting of gain on investment securities in conjunction with sales of the Company’s shareholdings.

Segment information

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

(Consulting)

This segment provides policy recommendations and strategy consulting, as well as business consulting to support operational reform and system consulting for overall IT management. Demand for management consulting and IT consulting services is rising amid changes in client operating environments and conditions faced by IT divisions. The NRI Group will put in place systems to support all areas of client operations as their business transformation partner, while also continuing to work on expanding the client base, including in overseas markets.

During the six months ended 30th September, 2017, business consulting work decreased, but ASG Group Limited contributed to growth in system consulting work. As a result, the Consulting segment posted sales of ¥16,737 million (up 24.9% year on year). Operating profit was ¥1,718 million (down 17.7%) due to increases in amortization of goodwill and subcontracting costs.

(Financial IT Solutions)

In this segment, the main clients are in the financial sector, including the securities, insurance and banking sectors. The segment provides system consulting, system development and system management and operation services, and it provides IT solutions such as multi-user systems. To expand the business reach of the segment, the Company is advancing production innovation of its industry-standard business platforms and developing new businesses by utilizing new approaches such as FinTech, which combines IT and finance.

As initiatives to expand existing businesses, the Company will upgrade its industry-standard business platforms to steadily respond to related regulatory changes such as the shortened settlement cycle of Japanese Government Bonds and migration to the Japan Securities Depository Center's new systems, and provide support to clients to make their operations more advanced and efficient.

During the six months ended 30th September, 2017, system management and operation services increased mainly in the securities sector, but system development and application sales to securities companies and insurance companies declined. As a result, the Financial IT Solutions segment posted sales of ¥121,582 million (up 1.1% year on year). Although some unprofitable projects emerged, operating profit totaled ¥11,875 million (up 0.9%) due to the lack of the business structure improvement expenses booked by a subsidiary in the same period of the previous fiscal year.

(Industrial IT Solutions)

This segment provides system consulting, system development, system management and operation services, and other services to the distribution, manufacturing, service and public sectors.

In this segment, the Company has been making efforts to provide IT solution proposals while working closely with the Consulting segment, which has a large number of clients in the industrial sector, to expand the client base. IT investment by companies is changing its target from corporate IT, which aims to improve business efficiency, to business IT, which is used directly to expand operations by creating new businesses. The NRI Group will harness its consulting and IT solution services to support clients' business IT. With the aims of expanding its business in Australian IT industry, the Company made Australian firm SMS Management & Technology Limited a subsidiary at the end of the second quarter of the current fiscal year and classified it as a major affiliate in its Industrial IT Solutions segment.

During the six months ended 30th September, 2017, the Industrial IT Solutions segment posted sales of ¥63,355 million (up 24.6% year on year), reflecting an increase in sales from system management and operation services in the distribution, manufacturing and service sectors, and an increase in product sales to the manufacturing and service sectors. Operating profit totaled ¥6,243 million (up 70.9%) due to an improvement in profit-making capabilities through tighter control of subcontracting costs.

(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 research for the development of new business operations and new products related to IT solutions, and research related to leading-edge information technologies, etc.

In this segment, the Company has been making efforts to expand its client base by not only renewing clients' IT platforms, but also by proposing IT platform solutions to clients that help them

improve their businesses and revenues. The Company is also developing new businesses related to business IT, such as digital marketing.

During the six months ended 30th September, 2017, sales to external clients declined, but intersegment sales such as network services increased.

As a result of the above, the IT Platform Services segment posted sales of ¥63,094 million (up 3.9% year on year) and operating profit of ¥7,738 million (up 5.5%).

(Others)

The Others segment comprises subsidiaries and others that provide system development and system management and operation services not included in the other four segments.

During the six months ended 30th September, 2017, the Others segment posted sales of ¥7,131 million (up 8.9% year on year) and operating profit of ¥986 million (up 8.6%).

(2) Qualitative information regarding consolidated financial position

(Assets, liabilities and net assets)

At the end of the second quarter (30th September, 2017), current assets were ¥279,459 million (down 5.6% from the end of the previous fiscal year), noncurrent assets were ¥337,568 million (up 1.4%), current liabilities were ¥142,226 million (up 27.5%), noncurrent liabilities were ¥49,764 million (down 28.4%), net assets were ¥424,442 million (down 5.1%) and total assets were ¥617,028 million (down 1.9%).

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

Accounts receivable declined ¥12,728 million to ¥54,562 million and other receivables increased ¥18,852 million to ¥45,111 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.

Due to factors such as the acquisition of trust beneficiary rights and office facilities related to the relocation to the Yokohama Nomura Building, buildings in trust were ¥8,281 million, buildings, net increased ¥3,097 million to ¥38,559 million, and tools, furniture and fixtures increased ¥748 million to ¥10,230 million.

Goodwill increased ¥8,225 million to ¥43,629 million, mainly reflecting the acquisition of Australian firm SMS Management & Technology Limited, which became a subsidiary.

Investment securities decreased ¥20,772 million to ¥83,068 million due to the redemption of short-term investment securities that had been held for surplus fund management purposes and sales of the Company's shareholdings.

The current portion of bonds increased ¥15,000 million and bonds declined ¥15,000 million due to the second series bonds being reclassified from noncurrent liabilities to current liabilities because the remaining period up to redemption of the relevant bonds has become less than a year.

In financial operations at subsidiaries, margin transaction assets increased ¥3,800 million to ¥15,421 million, short-term guarantee deposits decreased ¥5,708 million to ¥3,138 million, margin transaction liabilities increased ¥2,710 million to ¥11,496 million, and short-term guarantee deposits received fell ¥2,819 million to ¥4,885 million.

Treasury stock increased ¥41,200 million from the end of the previous fiscal year to ¥78,516 million, mainly reflecting an increase of ¥43,501 million due to the purchase of treasury stock in accordance with a resolution of the Board of Directors.

In addition, cash and bank deposits decreased ¥27,216 million to ¥125,394 million, net defined benefit asset increased ¥6,551 million to ¥47,322 million, accrued expenses increased ¥5,893 million to ¥16,980 million, income taxes payable increased ¥10,086 million to ¥18,483 million and valuation difference on available-for-sale securities declined ¥6,348 million to ¥30,817 million.

(Cash flow position)

Cash and cash equivalents as of the end of the second quarter (30th September, 2017) stood at ¥124,729 million (down ¥27,322 million from the end of the previous fiscal year).

Net cash provided by operating activities in the six months ended 30th September, 2017 was ¥26,017 million, a decrease of ¥1,619 million compared with the same period of the previous fiscal year. Although income before income taxes increased, the adjustment amounts for the items related to non-operating income and expenses and extraordinary income and losses also increased.

Net cash used in investing activities was ¥1,293 million, a decline of ¥3,524 million from the previous fiscal year. Cash was mainly used for investments, including the acquisition of property and equipment such as trust beneficiary rights and office equipment for the Yokohama Nomura Building, and the acquisition of software and other intangibles related to the development of multi-user systems. In addition, cash used in the purchase of shares of subsidiaries resulting in change in scope of consolidation increased following the purchase of shares of the Australian firm SMS Management & Technology Limited. On the other hand, cash was provided primarily by proceeds from sales and redemption of short-term investment securities.

Net cash used in financing activities was ¥53,252 million, an increase of ¥28,123 million from the previous fiscal year. ¥9,999 million worth of treasury stock was purchased in the same period of the previous fiscal year in accordance with a resolution of the Board of Directors. ¥43,501 million

worth of treasury stock was purchased in the six months ended September 30, 2017. Also, cash was used for the redemption of ¥15,000 million in straight corporate bonds and the issue of new straight corporate bonds (NRI Green Bonds) provided cash of ¥10,000 million in the same period of the previous fiscal year.

(3) Qualitative information regarding forecasts of financial results

No revisions have been made to the forecasts of consolidated financial results (sales, operating profit, ordinary profit and profit attributable to owners of the parent).

However, in light of recent trends, forecasts for the breakdown of consolidated sales have been revised as follows.

1) Consolidated sales by segment for the fiscal year ending 31st March, 2018

(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	–	–	30,574
Financial IT Solutions	260,000	248,000	(12,000)	(4.6)	246,979
Securities sector	123,000	118,000	(5,000)	(4.1)	119,128
Insurance sector	56,000	49,000	(7,000)	(12.5)	51,982
Banking sector	42,000	43,000	1,000	2.4	40,286
Other financial sector, etc.	39,000	38,000	(1,000)	(2.6)	35,580
Industrial IT Solutions	121,000	134,000	13,000	10.7	107,208
Distribution sector	57,000	59,000	2,000	3.5	54,256
Manufacturing and service sectors	64,000	75,000	11,000	17.2	52,952
IT Platform Services	31,000	30,000	(1,000)	(3.2)	29,241
Others	11,000	11,000	–	–	10,544
Total	460,000	460,000	–	–	424,548

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

2) Consolidated sales by service for the fiscal year ending 31st March, 2018

(Millions of yen)

	Previous forecast (A)	Revised forecast (B)	Change		(Reference) Previous fiscal year (Actual result)
			Amount (B-A)	Rate (%)	
Consulting services	70,000	77,000	7,000	10.0	62,734
System development & application sales	147,000	133,000	(14,000)	(9.5)	131,908
System management & operation services	233,000	238,000	5,000	2.1	217,271
Product sales	10,000	12,000	2,000	20.0	12,634
Total	460,000	460,000	–	–	424,548

(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.

Quarterly Consolidated Financial Statements

Nomura Research Institute, Ltd.

*For the Six-Month Period Ended 30th September, 2017
(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.

Quarterly Consolidated Financial Statements

Nomura Research Institute, Ltd.

*For the Six-Month Period Ended 30th September, 2017
(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, 2017	30th September, 2017	30th September, 2017
Assets			
Current assets:			
Cash and bank deposits (<i>Notes 4 and 8</i>)	¥152,611	¥125,395	\$1,112,249
Short-term investment securities (<i>Notes 4, 5 and 8</i>)	6,278	4,287	38,026
Accounts receivable and other receivables (<i>Note 4</i>)	93,550	99,674	884,105
Operating loans (<i>Note 4</i>)	4,030	4,030	35,746
Margin transaction assets (<i>Note 4</i>)	11,622	15,422	136,793
Inventories	1,071	1,032	9,154
Deferred income taxes	9,219	9,204	81,639
Short-term guarantee deposits (<i>Note 4</i>)	8,846	3,138	27,834
Other current assets	8,830	17,443	154,718
Allowance for doubtful accounts	(142)	(166)	(1,472)
Total current assets	<u>295,915</u>	<u>279,459</u>	<u>2,478,792</u>
Property and equipment:			
Land	7,527	7,527	66,764
Buildings, net	35,462	38,559	342,018
Buildings in trust, net	–	8,282	73,461
Machinery and equipment, net	16,707	16,669	147,853
Leased assets, net	788	929	8,240
Construction in progress	3,306	–	–
Property and equipment, net	<u>63,790</u>	<u>71,966</u>	<u>638,336</u>
Software and other intangibles	64,081	66,137	586,633
Goodwill	35,404	43,630	386,997
Investment securities (<i>Notes 4 and 5</i>)	103,841	83,068	736,810
Investments in affiliates (<i>Notes 4 and 5</i>)	1,843	1,637	14,520
Deferred income taxes	2,101	2,292	20,330
Lease investment assets	329	425	3,770
Net defined benefit asset	40,771	47,323	419,753
Other assets	21,011	21,232	188,328
Allowance for doubtful accounts	(141)	(141)	(1,251)
Total assets	<u>¥628,945</u>	<u>¥617,028</u>	<u>\$5,473,018</u>

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars (Note 3)</i>
	31st March, 2017	30th September, 2017	30th September, 2017
Liabilities and Net Assets			
Current liabilities:			
Accounts payable (Note 4)	¥ 20,638	¥ 21,060	\$ 186,801
Short-term loans payable (Note 4)	2,871	6,060	53,752
Current portion of bonds (Note 4)	–	15,000	133,049
Current portion of long-term loans payable (Note 4)	4,545	4,867	43,170
Margin transaction liabilities (Note 4)	8,786	11,497	101,978
Lease obligations, current	326	577	5,118
Accrued expenses	29,002	33,865	300,382
Income taxes payable	8,397	18,483	163,944
Advance payments received	10,778	11,827	104,905
Short-term guarantee deposits received (Note 4)	7,705	4,886	43,339
Provision for loss on orders received	1,592	351	3,113
Asset retirement obligations	67	12	106
Other current liabilities	16,845	13,742	121,892
Total current liabilities	<u>111,552</u>	<u>142,227</u>	<u>1,261,549</u>
Bonds (Note 4)	25,000	10,000	88,700
Long-term loans payable (Note 4)	24,397	22,014	195,263
Lease obligations	350	505	4,479
Deferred income taxes	13,839	10,937	97,011
Net defined benefit liability	4,771	5,162	45,787
Asset retirement obligations	939	954	8,462
Other long-term liabilities	204	192	1,703
Reserve for financial products transaction liabilities	595	595	5,278
Total liabilities	<u>¥181,647</u>	<u>¥192,586</u>	<u>\$1,708,232</u>
Net assets (Notes 7 and 9):			
Shareholders' equity:			
Common stock:			
Authorized – 907,500 thousand shares at 31st March, 2017 and 30th September, 2017			
Issued – 264,000 thousand shares at 31st March, 2017 and 30th September, 2017	¥ 18,600	¥ 18,600	\$ 164,981
Additional paid-in capital (Note 7)	14,710	14,919	132,331
Retained earnings (Note 7)	400,346	423,720	3,758,382
Treasury stock, at cost: (Note 7)			
– 15,867 thousand shares at 31st March, 2017 and 25,196 thousand shares at 30th September, 2017	(37,317)	(78,517)	(696,443)
Total shareholders' equity	<u>396,339</u>	<u>378,722</u>	<u>3,359,251</u>
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities (Note 5)	37,166	30,817	273,346
Deferred gains or losses on hedges (Note 6)	(11)	24	213
Foreign currency translation adjustment	(893)	274	2,430
Remeasurements of defined benefit plans	1,832	1,678	14,884
Total accumulated other comprehensive income	<u>38,094</u>	<u>32,793</u>	<u>290,873</u>
Share subscription rights	1,221	1,170	10,378
Non-controlling interests	11,644	11,757	104,284
Total net assets	<u>447,298</u>	<u>424,442</u>	<u>3,764,786</u>
Total liabilities and net assets	<u>¥628,945</u>	<u>¥617,028</u>	<u>\$5,473,018</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		Six months ended
	30th September, 2016	2017	30th September, 2017
Sales	¥203,165	¥220,215	\$1,953,300
Cost of sales	135,922	144,941	1,285,622
Gross profit	67,243	75,274	667,678
Selling, general and administrative expenses (<i>Notes 10 and 11</i>)	40,902	46,176	409,580
Operating profit	26,341	29,098	258,098
Other income (expenses):			
Interest and dividend income	1,377	1,170	10,378
Interest expense	(60)	(113)	(1,002)
Equity in losses of affiliates	(0)	(35)	(310)
Commission for purchase of treasury stock	(20)	(45)	(399)
Foreign exchange gains (losses)	274	(172)	(1,526)
Bonds issuance cost	(50)	–	–
Gain on investment securities	12,914	20,215	179,306
Reversal of share-based compensation	15	16	142
Reversal of reserve for financial products transaction liabilities	60	–	–
Other, net	96	134	1,188
	14,606	21,170	187,777
Income before income taxes	40,947	50,268	445,875
Provision for income taxes (<i>Note 2</i>)	13,747	16,336	144,900
Profit	¥ 27,200	¥ 33,932	\$ 300,975
Profit attributable to owners of parent (<i>Note 9</i>)	¥ 28,843	¥ 33,377	\$ 296,053
Profit (loss) attributable to non-controlling interests	(1,643)	555	4,922
Other comprehensive loss:			
Valuation difference on available-for-sale securities	(10,117)	(6,330)	(56,147)
Deferred gains or losses on hedges (<i>Note 6</i>)	(56)	35	310
Foreign currency translation adjustment	(2,636)	1,143	10,139
Remeasurements of defined benefit plans, net of tax	188	(145)	(1,286)
Share of other comprehensive income (loss) of affiliates	(98)	25	222
Total other comprehensive loss	(12,719)	(5,272)	(46,762)
Comprehensive income	¥ 14,481	¥ 28,660	\$ 254,213
Comprehensive income attributable to:			
Comprehensive income attributable to owners of parent	¥ 16,006	¥ 28,076	\$ 249,033
Comprehensive income (loss) attributable to non-controlling interests	(1,525)	584	5,180

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		Six months ended
	30th September,		30th September,
	2016	2017	2017
Cash flows from operating activities			
Income before income taxes	¥ 40,947	¥ 50,268	\$ 445,875
Adjustments to reconcile income before income taxes to net cash provided by operating activities:			
Depreciation and amortization	12,725	14,060	124,712
Interest and dividend income	(1,377)	(1,170)	(10,378)
Interest expense	60	113	1,002
Gain on investment securities	(12,914)	(20,215)	(179,306)
Changes in operating assets and liabilities:			
Accounts receivable and other receivables, net of advance payments received	7,123	109	967
Allowance for doubtful accounts	(40)	(13)	(115)
Accounts payable	(2,433)	3,769	33,431
Inventories	(34)	47	417
Net defined benefit asset	(4,588)	(6,765)	(60,005)
Net defined benefit liability	482	377	3,344
Provision for loss on orders received	157	(1,241)	(11,008)
Operating loans	2,349	–	–
Margin transaction assets	39	(3,800)	(33,706)
Short-term guarantee deposits	290	5,708	50,630
Margin transaction liabilities	1,072	2,710	24,038
Short-term guarantee deposits received	(580)	(2,820)	(25,013)
Reversal of reserve for financial products transaction liabilities	(60)	–	–
Other	(3,722)	(10,418)	(92,409)
Subtotal	39,496	30,719	272,476
Interest and dividends received	1,542	1,374	12,187
Interest paid	(66)	(116)	(1,029)
Income taxes paid	(13,336)	(5,960)	(52,864)
Net cash provided by operating activities	27,636	26,017	230,770
Cash flows from investing activities			
Payments for time deposits	(835)	(770)	(6,830)
Proceeds from time deposits	641	621	5,508
Purchase of short-term investment securities	(7,009)	–	–
Proceeds from sales and redemption of short-term investment securities	6,000	2,000	17,740
Acquisition of property and equipment	(6,752)	(14,431)	(128,002)
Proceeds from sales of property and equipment	3,031	2	18
Purchase of software and other intangibles	(14,450)	(10,865)	(96,372)
Payments for asset retirement obligations	(16)	(54)	(479)
Purchase of investment securities	(6,161)	(80)	(710)
Proceeds from sales and redemption of investment securities	25,720	31,917	283,103
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(4,995)	(9,638)	(85,489)
Other	8	5	44
Net cash used in investing activities	¥ (4,818)	¥ (1,293)	\$ (11,469)

Nomura Research Institute, Ltd.

Quarterly Consolidated Statement of Cash Flows (continued)

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars (Note 3)</i>
	Six months ended		Six months ended
	30th September,		30th September,
	2016	2017	2017
Cash flows from financing activities			
Proceeds from short-term loans payable	¥ –	¥ 4,019	\$ 35,648
Repayment of short-term loans payable	–	(3,406)	(30,211)
Proceeds from long-term loans payable	–	940	8,338
Repayment of long-term loans payable	(1,566)	(3,030)	(26,876)
Proceeds from issuance of bonds	9,950	–	–
Redemption of bonds	(15,000)	–	–
Repayment of obligation under finance leases	(5)	(104)	(922)
Proceeds from sales of treasury stock	1,720	2,338	20,738
Purchase of treasury stock	(10,780)	(43,907)	(389,454)
Cash dividends paid	(9,181)	(10,002)	(88,717)
Cash dividends paid to non-controlling interests	(95)	(51)	(453)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(172)	(50)	(443)
Net cash used in financing activities	(25,129)	(53,253)	(472,352)
Effect of exchange rate changes on cash and cash equivalents	(1,900)	1,207	10,706
Net decrease in cash and cash equivalents	(4,211)	(27,322)	(242,345)
Cash and cash equivalents at beginning of period	154,949	152,052	1,348,696
Cash and cash equivalents at end of period (Note 8)	¥150,738	¥124,730	\$1,106,351

See accompanying notes to quarterly consolidated financial statements.

Nomura Research Institute, Ltd.

Notes to Quarterly Consolidated Financial Statements

30th September, 2017

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 (5 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 13.

During the quarterly period ended 30th September, 2017, the NRI Group established one company, and acquired shares of SMS Management & Technology Limited and its fourteen subsidiaries. As a result, these companies are newly included in the scope of consolidation.

Basis of Presentation

The accompanying quarterly consolidated financial statements of the NRI Group are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Law.

In addition, the notes to the quarterly consolidated financial statements include information which is not required under accounting principles generally accepted in Japan but is presented herein as additional information.

Certain reclassifications have been made to present the accompanying quarterly consolidated financial statements in a format which is familiar to readers outside Japan.

Additional Information

(Transactions of Delivering the Company’s Own Stock to Employees etc. through Trusts)

The Company introduced a “Trust-type Employee Stock Ownership Incentive Plan.” The purpose of this plan is to promote the Company’s perpetual growth by providing incentives to employees for increasing the Company’s corporate value in the mid- to long-term and to enhance benefits and the welfare of employees.

1. Description of Business, Basis of Presentation and Additional Information (continued)

Additional Information (continued)

This is an incentive plan under which gains from the Company's share price appreciation are distributed to all participants in the Employee Stock Ownership Group (the "ESOP Group"). The Employee Stock Ownership Trust (the "ESOP Trust") was established exclusively for the ESOP Group to carry out this plan in March 2016. The ESOP Trust acquired the number of the Company's shares, which the ESOP Group would have acquired over a period of three years subsequent to the establishment of the ESOP Trust. Then, the ESOP Trust sells them to the ESOP Group each time the ESOP Group is to acquire of the Company's shares. When the share price appreciates and earnings have accumulated in the ESOP Trust, upon its termination, a cash distribution of the funds will be made to beneficiaries. Since the Company guarantees the loans of the ESOP Trust taken out to purchase the Company's shares, the Company is obligated to pay the remaining liabilities of the ESOP Trust under a guarantee agreement if any obligations remain unsettled upon termination of the ESOP Trust.

The Company includes the assets and liabilities of the ESOP Trust at the end of period in the accompanying quarterly consolidated balance sheet. The Company records its shares acquired by the ESOP Trust based on their acquisition costs in the net assets section as treasury stock at the end of period. The Company records the earnings on stock in the ESOP Trust in the liabilities section as a suspense account to be settled. The Company records the losses on stock in the ESOP Trust in the assets section as a suspense account to be settled and also a provision when it is expected that the outstanding loans used to purchase shares will remain unsettled at the termination of the ESOP Trust.

As of 31st March, 2017 and 30th September, 2017, ¥6,912 million (corresponding to 1,947 thousand shares of the Company held by the ESOP Trust) and ¥5,361 million (\$47,552 thousand) (corresponding to 1,510 thousand shares of the Company held by the ESOP Trust) and the loan payable of the ESOP Trust of ¥6,827 million and ¥4,908 million (\$43,534 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.

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 $¥112.74 = \text{U.S.}\$1.00$, the rate of exchange prevailing on 30th September, 2017. 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, 2017 and 30th September, 2017 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, 2017			30th September, 2017		
	Carrying amount	Estimated fair value	Difference	Carrying amount	Estimated fair value	Difference
Assets:						
Cash and bank deposits	¥152,611	¥152,611	¥ –	¥125,395	¥125,395	¥ –
Accounts receivable and other receivables	93,550	93,550	–	99,674	99,674	–
Short-term investment securities, investment securities, and investments in affiliates	106,817	106,817	–	84,057	84,057	–
Operating loans	4,030			4,030		
Allowance for doubtful accounts	–			–		
Net operating loans	4,030	4,030	–	4,030	4,030	–
Margin transaction assets	11,622	11,622	–	15,422	15,422	–
Short-term guarantee deposits	8,846	8,846	–	3,138	3,138	–
Total	<u>¥377,476</u>	<u>¥377,476</u>	<u>¥ –</u>	<u>¥331,716</u>	<u>¥331,716</u>	<u>¥ –</u>
Liabilities:						
Accounts payable	¥ 20,638	¥ 20,638	¥ –	¥ 21,060	¥ 21,060	¥ –
Short-term loans payable	2,871	2,871	–	6,060	6,060	–
Margin transaction liabilities	8,786	8,786	–	11,497	11,497	–
Short-term guarantee deposits received	7,705	7,705	–	4,886	4,886	–
Bonds *1	25,000	24,984	(16)	25,000	24,968	(32)
Long-term loans payable *2	28,942	28,949	7	26,881	26,886	5
Total	<u>¥ 93,942</u>	<u>¥ 93,933</u>	<u>¥ (9)</u>	<u>¥ 95,384</u>	<u>¥ 95,357</u>	<u>¥(27)</u>
Derivative transactions *3	<u>¥ (24)</u>	<u>¥ (24)</u>	<u>¥ –</u>	<u>¥ 34</u>	<u>¥ 34</u>	<u>¥ –</u>

	<i>Thousands of U.S. dollars</i>		
	30th September, 2017		
	Carrying amount	Estimated fair value	Difference
Assets:			
Cash and bank deposits	\$1,112,249	\$1,112,249	\$ –
Accounts receivable and other receivables	884,105	884,105	–
Short-term investment securities, investment securities, and investments in affiliates	745,583	745,583	–
Operating loans	35,746		
Allowance for doubtful accounts	–		
Net operating loans	35,746	35,746	–
Margin transaction assets	136,793	136,793	–
Short-term guarantee deposits	27,834	27,834	–
Total	<u>\$2,942,310</u>	<u>\$2,942,310</u>	<u>\$ –</u>
Liabilities:			
Accounts payable	\$ 186,801	\$ 186,801	\$ –
Short-term loans payable	53,752	53,752	–
Margin transaction liabilities	101,978	101,978	–
Short-term guarantee deposits received	43,339	43,339	–
Bonds *1	221,749	221,465	(284)
Long-term loans payable *2	238,434	238,478	44
Total	<u>\$ 846,053</u>	<u>\$ 845,813</u>	<u>\$(240)</u>
Derivative transactions *3	<u>\$ 302</u>	<u>\$ 302</u>	<u>\$ –</u>

*1 Bonds included the current portion of bonds totaling ¥15,000 million (\$133,049 thousand) as of 30th September, 2017.

*2 Long-term loans payable included the current portion of long-term loans payable totaling ¥4,545 million and ¥4,867 million (\$43,170 thousand) as of 31st March, 2017 and 30th September, 2017, respectively.

*3 Receivables and payables arising from derivative transactions are offset and presented as a net amount with liabilities shown in parentheses.

4. Financial Instruments (continued)

Fair value of financial instruments (continued)

Note 1: Methods to determine the estimated fair value of financial instruments

Assets

- a. Cash and bank deposits and short-term guarantee deposits
Their carrying amount approximates the fair value due to the short maturity of these instruments.
- b. Accounts receivable and other receivables
Their carrying amount approximates the fair value due to the generally short maturities of these instruments. For those receivables due after one year, the present value is further discounted by the rate corresponding to the credit risk and the amount is presented in the consolidated balance sheet, therefore, the carrying amount approximates fair value.
- c. Short-term investment securities, investment securities and investments in affiliates
The fair value of stocks is based on quoted market prices. The fair value of bonds is based on either quoted market prices or prices provided by the financial institution making markets in these securities. The fair value of investment trusts is based on publicly available net asset values.
- d. Operating loans and margin transaction assets
The fair value of these instruments, to which variable rates are applied, approximates the carrying amount because the variable rates reflect market interest rates over a short term unless the credit conditions of the counterparty change significantly after disbursement. With regard to potentially doubtful receivables, the amount of the allowance for doubtful receivables is determined based on the estimated amount collectible under collateral agreements, and their fair value approximates the carrying amount less the estimated allowance for doubtful accounts on the consolidated balance sheet.

Liabilities

- a. Accounts payable, short-term loans payable, margin transaction liabilities and short-term guarantee deposits received
Their carrying amount approximates the fair value due to the short maturity of these instruments.
- b. Bonds
The fair value of bonds is based on the quoted market price.
- c. Long-term loans payable
The fair value of long-term loans payable, to which variable rates are applied, approximates the carrying amount because the variable rates reflect market interest rates over a short term. Those with fixed interest rates, on the other hand, are calculated by discounting the total amount of principal and interest by an interest rate assumed to be applied if the similar loans were newly executed.

Derivative transactions

The fair values are calculated based on the quoted price obtained from counterparty financial institutions.

4. Financial Instruments (continued)

Fair value of financial instruments (continued)

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, 2017	30th September, 2017	30th September, 2017
Unlisted companies' shares *1	¥4,534	¥4,256	\$37,751
Investments in partnerships *2	611	679	6,023

*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 ¥1,843 million and ¥1,637 million (\$14,520 thousand) as of 31st March, 2017 and 30th September, 2017, 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, 2017 and 30th September, 2017.

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, 2017 and 30th September, 2017:

Securities Classified as Available-for-Sale Securities

	<i>Millions of yen</i>					
	31st March, 2017			30th September, 2017		
	Acquisition cost	Carrying amount	Unrealized gain	Acquisition cost	Carrying amount	Unrealized gain
Equity securities	¥17,918	¥ 70,072	¥52,154	¥17,239	¥ 60,251	¥43,012
Bonds:						
Government bonds	6,007	6,010	3	5	5	0
Corporate bonds	33,133	33,134	1	26,120	26,119	(1)
	39,140	39,144	4	26,125	26,124	(1)
Other	870	903	33	923	980	57
Total	¥57,928	¥110,119	¥52,191	¥44,287	¥87,355	¥43,068

	<i>Thousands of U.S. dollars</i>		
	30th September, 2017		
	Acquisition cost	Carrying amount	Unrealized gain
Equity securities	\$152,909	\$534,424	\$381,515
Bonds:			
Government bonds	44	44	0
Corporate bonds	231,684	231,675	(9)
	231,728	231,719	(9)
Other	8,187	8,693	506
Total	\$392,824	\$774,836	\$382,012

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 for the year ended 31st March, 2017 amounted to ¥28 million. Impairment loss on available-for-sale securities whose fair value is not based on quoted market prices as a result of a decline in value for the six months ended 30th September, 2017 amounted to ¥52 million (\$461 thousand).

The NRI Group has established a policy for the recognition of impairment losses under the following conditions:

- i) For marketable securities whose fair value has declined by 30% or more, the NRI Group recognizes impairment loss except in cases where the decline in fair value is expected to be recoverable.
- ii) For non-marketable securities whose fair value is not readily determinable, of which net asset value has declined by 50% or more, the NRI Group recognizes impairment loss except in cases where the decline in fair value is expected to be recoverable.

6. Derivative Transactions and Hedging Activities

There were no derivative transactions to which hedge accounting was not applied during the year ended 31st March, 2017 and the quarterly period ended 30th September, 2017.

For the derivative transactions to which hedge accounting was applied as of 31st March, 2017 and 30th September, 2017, the contract amounts and estimated fair values of the hedging instruments are as follows.

	<i>Millions of yen</i>			
	31st March, 2017		30th September, 2017	
	Contract amount	Estimated fair value *1	Contract amount	Estimated fair value *1
Forward foreign exchange contracts for accounts payable, accounted for by deferral hedge accounting method:				
Buy: CNY (Sell: JPY)	¥ 1,349	¥ (9)	¥ 746	¥ 44
Interest rate swap contracts for bonds, accounted for by deferral hedge accounting method:				
Fixed-rate receipt, fixed-rate payment *2	¥15,000	¥(15)	¥15,000	¥(10)

	<i>Thousands of U.S. dollars</i>	
	30th September, 2017	
	Contract amount	Estimated fair value *1
Forward foreign exchange contracts for accounts payable, accounted for by deferral hedge accounting method:		
Buy: CNY (Sell: JPY)	\$ 6,617	\$390
Interest rate swap contracts for bonds, accounted for by deferral hedge accounting method:		
Fixed-rate receipt, fixed-rate payment *2	\$133,049	\$ (89)

*1 The fair values are calculated based on the quoted prices obtained from the counterparty financial institutions.

*2 These derivative transactions are used to hedge interest rate fluctuation risk until the interest determination dates, which are used as the basis of the bonds' fixed interest payments.

7. Net Assets

The Corporation Law of Japan provides that earnings in an amount equal to at least 10% of dividends of capital surplus and retained earnings shall be appropriated to the legal reserve until the aggregate amount of the legal reserve and additional paid-in capital equals 25% of the stated capital. The legal reserve and the additional paid-in capital account are available for appropriation by resolution of the shareholders. In accordance with the Corporation Law, the Company provides a legal reserve which is included in retained earnings. This reserve amounted to ¥570 million and ¥570 million (\$5,056 thousand) at 31st March, 2017 and 30th September, 2017, respectively.

For the six months ended 30th September, 2016

1) Dividends paid

Resolution	Type of shares	Total dividends (Millions of yen)	Dividends per share (Yen)	Cut-off date	Effective date	Source of dividends
Meeting of the Board of Directors on 13th May, 2016 *1	Common Stock	¥9,183	¥40.00	31st March, 2016	30th May, 2016	Retained earnings

*1 Dividends of ¥97 million paid to the ESOP Trust are included in the total dividends amount.

2) Dividends with a cut-off date in the six months period ended 30th September, 2016 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 27th October, 2016 *1	Common Stock	¥9,091	¥40.00	30th September, 2016	30th November, 2016	Retained earnings

*1 Dividends of ¥89 million paid to the ESOP Trust are included in the total dividends amount.

3) Significant changes in shareholders' equity

The Company acquired 2,472 thousand shares of treasury stock based on the resolution of the Board of Directors on 27th April, 2016. As a result, treasury stock increased by ¥10,000 million. On 30th June, 2016, the Company canceled 7,500 thousand shares of treasury stock based on the resolution of the Board of Directors on 10th June, 2016. As a result, additional paid-in capital and treasury stock decreased by ¥18,000 million. As the balance of other additional paid-in capital was negative, ¥(4,655) million after the cancellation and disposal of treasury stock, the Company netted out this negative amount against other retained earnings, in accordance with "Revised Accounting Standard for Treasury Shares and Appropriation of Legal Reserve" (Accounting Standards Board of Japan (ASBJ) Statement No. 1 issued on 26th March, 2015).

Consequently, additional paid-in capital decreased by ¥13,234 million, retained earnings increased by ¥15,005 million and treasury stock decreased by ¥9,182 million during the quarterly period ended 30th September, 2016, respectively. Furthermore, additional paid-in capital, retained earnings and treasury stock amounted to ¥14,710 million, ¥393,089 million and ¥39,214 million, respectively, as of 30th September, 2016.

7. Net Assets (continued)

For the six months ended 30th September, 2017

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 12th May, 2017 *1	Common Stock	¥10,003	\$88,726	¥40.00	\$0.35	31st March, 2017	30th May, 2017	Retained earnings

*1 Dividends of ¥78 million (\$692 thousand) paid to the ESOP Trust are included in the total dividends amount.

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

Resolution	Type of shares	Total dividends (Millions of yen)	Total dividends (Thousands of U.S. dollars)	Dividends per share (Yen) *2	Dividends per share (U.S. dollars) *2	Cut-off date	Effective date	Source of dividends
Meeting of the Board of Directors on 26th October, 2017 *1	Common Stock	¥10,814	\$95,920	¥45.00	\$0.40	30th September, 2017	30th November, 2017	Retained earnings

*1 Dividends of ¥68 million (\$603 thousand) paid to the ESOP Trust are included in the total dividends amount.

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

3) Significant changes in shareholders' equity

The Company acquired 10,061 thousand shares of treasury stock based on the resolution of the Board of Directors on 27th July, 2017. As a result, treasury stock increased by ¥43,501 million (\$385,852 thousand).

Consequently, treasury stock increased by ¥41,200 million (\$365,443 thousand) in total during the quarterly period ended 30th September, 2017. Furthermore, treasury stock amounted to ¥78,517 million (\$696,443 thousand), as of 30th September, 2017.

8. Cash and Cash Equivalents

A reconciliation between cash and bank deposits in the accompanying quarterly consolidated balance sheet and cash and cash equivalents in the accompanying quarterly consolidated statement of cash flows at 30th September, 2016 and 2017 is as follows:

	Millions of yen		Thousands of U.S. dollars
	30th September, 2016	30th September, 2017	30th September, 2017
Cash and bank deposits	¥151,386	¥125,395	\$1,112,249
Short-term investment securities	8,235	4,287	38,026
Time deposits with maturities of more than three months when deposited	(879)	(952)	(8,444)
Bond and other investments maturing in more than three months from the acquisition date	(8,004)	(4,000)	(35,480)
Cash and cash equivalents	¥150,738	¥124,730	\$1,106,351

9. 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,
	2016	2017	2017
Earnings per share	¥116.32	¥136.09	\$1.21
Diluted earnings per share	116.12	135.74	1.20

*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 1.1-for-1 stock split effective 1st January, 2017. 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, 2016.

The computation of earnings per share and diluted earnings per share for the six months ended 30th September, 2016 and 2017 is as follows: *1

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	Six months ended 30th September,		Six months ended 30th September,
	2016	2017	2017
Numerator:			
Earnings *2	¥28,843	¥33,377	\$296,053
Earnings not attributable to common shareholders	(-)	(-)	(-)
Earnings attributable to common shareholders	¥28,843	¥33,377	\$296,053
	<i>Thousands of Shares</i>		
Denominator:			
Weighted-average number of shares of common stock outstanding – basic *3	247,961	245,265	
Potentially dilutive shares of common stock:			
Stock options	429	568	
Total	428	568	
Weighted-average number of shares of common stock outstanding – diluted	248,390	245,833	

*1 The Company implemented a 1.1-for-1 stock split effective 1st January, 2017. 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, 2016.

*2 In computing diluted earnings per share for the six-month period ended 30th September, 2017, an adjustment due to potentially dilutive shares of affiliates in the amount of ¥(7) million (\$62) 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 numbers of shares the ESOP Trust owned were 2,649 thousand and 1,703 thousand during the six-month periods ended 30th September, 2016 and 2017, respectively.

9. Per Share Data (continued)

The following potentially issuable shares of common stock would have an antidilutive effect and thus have not been included in the diluted earnings per share calculation for the six months ended 30th September, 2016 and 2017:

	<i>Shares</i>	
	Six months ended	
	30th September,	
	2016	2017
a) 24th share subscription rights	535,425	535,425
b) 26th share subscription rights	561,110	–
c) 28th share subscription rights	–	569,500

10. Selling, General and Administrative Expenses

The details of selling, general and administrative expenses for the six months ended 30th September, 2016 and 2017 are summarized as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	Six months ended		Six months ended
	30th September,		30th September,
	2016	2017	2017
Personnel expenses	¥20,982	¥22,915	\$203,255
Rent	2,842	3,147	27,914
Subcontractor costs	8,088	7,728	68,547
Other	8,990	12,386	109,864
Total	¥40,902	¥46,176	\$409,580

11. Research and Development Expenses

Research and development expenses included in selling, general and administrative expenses amounted to ¥2,599 million and ¥2,410 million (\$21,377 thousand) for the six months ended 30th September, 2016 and 2017, respectively.

12. Contingent Liabilities

There were no material contingent liabilities at 31st March, 2017 and 30th September, 2017.

13. Segment Information

1) Net sales and profit (loss) by reportable segments

Millions of yen

Six months ended 30th September, 2016									
Reportable segment									
	Financial IT Consulting	Industrial IT Solutions	IT Platform Services	Subtotal	Others *1	Total	Adjustments *2	Consolidated *3	
Net sales:									
Sales to external customers	¥13,178	¥119,755	¥50,630	¥14,419	¥197,982	¥5,183	¥203,165	¥ –	¥203,165
Intersegment sales or transfers	222	551	203	46,309	47,285	1,364	48,649	(48,649)	–
Total	13,400	120,306	50,833	60,728	245,267	6,547	251,814	(48,649)	203,165
Segment profit	¥ 2,089	¥ 11,770	¥ 3,653	¥ 7,338	¥ 24,850	¥ 908	¥ 25,758	¥ 583	¥ 26,341

Millions of yen

Six months ended 30th September, 2017									
Reportable segment									
	Financial IT Consulting	Industrial IT Solutions	IT Platform Services	Subtotal	Others *1	Total	Adjustments *2	Consolidated *3	
Net sales:									
Sales to external customers	¥16,398	¥120,960	¥62,765	¥14,389	¥214,512	¥5,703	¥220,215	¥ –	¥220,215
Intersegment sales or transfers	340	623	590	48,706	50,259	1,428	51,687	(51,687)	–
Total	16,738	121,583	63,355	63,095	264,771	7,131	271,902	(51,687)	220,215
Segment profit	¥ 1,719	¥ 11,876	¥ 6,244	¥ 7,738	¥ 27,577	¥ 986	¥ 28,563	¥ 535	¥ 29,098

Thousands of U.S. dollars

Six months ended 30th September, 2017									
Reportable segment									
	Financial IT Consulting	Industrial IT Solutions	IT Platform Services	Subtotal	Others *1	Total	Adjustments *2	Consolidated *3	
Net sales:									
Sales to external customers	\$145,450	\$1,072,911	\$556,723	\$127,630	\$1,902,714	\$50,586	\$1,953,300	\$ –	\$1,953,300
Intersegment sales or transfers	3,016	5,526	5,233	432,021	445,796	12,666	458,462	(458,462)	–
Total	148,465	1,078,437	561,957	559,651	2,348,510	63,252	2,411,762	(458,462)	1,953,300
Segment profit	\$ 15,247	\$ 105,340	\$ 55,384	\$ 68,636	\$ 244,607	\$ 8,746	\$ 253,353	\$ 4,745	\$ 258,098

*1 Some subsidiaries and others provide system development and system management and operation services that are not included in the above reportable segments.

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

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

2) Information about assets for each reportable segment

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

The NRI Group acquired shares of SMS Management & Technology Limited and newly included the company and its fourteen subsidiaries in the scope of consolidation. In relation to this transaction, assets of the Industrial IT Solutions segment increased by ¥15,448 million (\$137,023 thousand) for the quarterly period ended 30th September, 2017.

13. Segment Information (continued)

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

(Significant changes in goodwill)

The NRI Group acquired shares of SMS Management & Technology Limited and newly included the company and its fourteen subsidiaries in the scope of consolidation. In relation to this transaction, the NRI Group recorded goodwill of ¥9,344 million (\$82,881 thousand) in the Industrial IT Solutions segment during the quarterly period ended 30th September, 2017.

14. Business Combination

- 1) An outline of the business combination is as follows:

- (a) Name of acquired company and business description

Name of acquired company: SMS Management & Technology Limited

Business description: System consulting, IT services, and IT-related personnel recruitment and staffing services

- (b) Main reasons for business combination

The purpose of the business combination is to further expand the business in the Australian IT industry.

- (c) Date of business combination

26th September, 2017

- (d) Legal form of business combination

Business combination, in which the company was acquired for a cash consideration.

- (e) Name of company after business combination

The company's name is unchanged.

- (f) Percentage of voting rights acquired by the Company

100%

- (g) Main reason for determination of the acquiring company

The Company's subsidiary ASG Group Limited acquired all of the voting rights of the acquired company.

- 2) Period during which the financial results of the acquired company are included in the quarterly consolidated statement of income and comprehensive income

Since the deemed date of acquisition was 30th September, 2017, the financial results of the acquired company were not included in the quarterly consolidated statement of income and comprehensive income for the six months ended 30th September, 2017.

14. Business Combination (continued)

3) Details on acquisition cost of acquired company

The acquisition cost was AUD116,375 thousand (¥9,874 million (\$87,582 thousand)) *, which was paid in cash.

* The amount in yen in parentheses was translated using the agreed foreign exchange rate.

4) Major acquisition-related costs and amounts

Advisory costs and others of AUD1,657 thousand (approx.)

5) Amount of goodwill, reason for recognition, amortization method and amortization period

(a) Amount of goodwill ¥9,344 million (\$82,881 thousand) *

* The amount of goodwill is calculated on a provisional basis because the allocation of acquisition cost has not been completed as of 30th September, 2017.

(b) Reason for recognition

The acquisition cost exceeded the fair value of net assets of the acquired company at the date of the business combination.

(c) Amortization method and amortization period

The corresponding goodwill is being amortized over 11 years on a straight-line basis.

15. 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 (\$143.25 million) jointly as compensation for damages due to a delay in the migration.

16. Subsequent Events

Not applicable.