

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, 2012, which includes the summary and the qualitative information sections. The second part is the “Quarterly Consolidated Financial Statements,” which are basically prepared based on the “Kessan Tanshin (earnings report)” but applied for some items different presentation methods.



MEMBERSHIP
27th July, 2012

Consolidated Financial Results For the Quarterly Period Ended 30th June, 2012 <under Japanese GAAP>

Company name: Nomura Research Institute, Ltd.
 Listing: First Section of the Tokyo Stock Exchange
 Stock code: 4307
 URL: <http://www.nri.co.jp/>
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Scheduled date to file Quarterly Securities Report: 31st July, 2012
 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, 2012 (from 1st April, 2012 to 30th June, 2012)

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

	Sales		Operating profit		Ordinary profit		Net income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Quarterly period ended								
30th June, 2012	84,411	7.6	8,246	(4.6)	9,077	(5.0)	5,699	(55.8)
30th June, 2011	78,465	(2.7)	8,641	31.7	9,552	27.3	12,881	215.6

Note: Comprehensive income

Quarterly period ended 30th June, 2012: ¥3,813 million [(70.1)%]

Quarterly period ended 30th June, 2011: ¥12,763 million [703.0%]

	Net income per share – basic	Net income per share – diluted
Quarterly period ended	Yen	Yen
30th June, 2012	29.03	27.37
30th June, 2011	66.09	62.27

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
As of	Millions of yen	Millions of yen	%
30th June, 2012	386,561	257,565	66.3
31st March, 2012	402,784	258,276	63.8

Reference: Equity

As of 30th June, 2012: ¥256,246 million As of 31st March, 2012: ¥256,856 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, 2012	–	26.00	–	26.00	52.00
Fiscal year ending 31st March, 2013	–				
Fiscal year ending 31st March, 2013 (Forecasts)		26.00	–	26.00	52.00

Note: Revisions to the forecasts of cash dividends most recently announced: None

3. Forecasts of financial results for the fiscal year ending 31st March, 2013 (from 1st April, 2012 to 31st March, 2013)

(Percentages indicate year-on-year changes.)

	Sales		Operating profit		Ordinary profit		Net income		Net income per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Fiscal year ending 31st March, 2013	355,000	5.8	45,000	4.3	46,500	4.1	28,000	(14.9)	142.62

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

No forecast is presented for the six months ending 30th September, 2012 on account of the Company conducting earnings management on an annual basis. However, basing the values on past trends, we disclosed reference values for the six-month operating results forecasts in the consolidated financial results report announced on 25th April, 2012.

* 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: Yes
 - b. Changes in accounting policies due to other reasons: None
 - c. Changes in accounting estimates: Yes
 - 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, 2012	225,000,000 shares
As of 31st March, 2012	225,000,000 shares
 - b. Number of shares of treasury stock at the end of the period

As of 30th June, 2012	28,441,593 shares
As of 31st March, 2012	28,834,693 shares
 - c. Average number of shares during the period (cumulative from the beginning of the fiscal year)

Quarterly period ended 30th June, 2012	196,331,288 shares
Quarterly period ended 30th June, 2011	194,906,460 shares

Note: The NRI shares held by the trust exclusive for NRI Group Employee Stock Ownership Group are included as treasury stock.

* Indication regarding execution of quarterly review procedures

This quarterly consolidated financial results report is exempt from the quarterly review procedures in accordance with the Financial Instruments and Exchange Law. At the time of disclosure of this quarterly consolidated financial results report, the review procedures for quarterly financial statements in accordance with the Financial Instruments and Exchange Law are incomplete.

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

There are no revisions to the forecasts of financial results in the consolidated financial results report announced on 25th April, 2012. The above forecasts 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 these forecasts due to various factors.

1. Qualitative information regarding first-quarter settlement of accounts

(1) Qualitative information regarding consolidated operating results

During the current three months ended 30th June, 2012 (from 1st April, 2012 to 30th June, 2012), although the Japanese economy made a gentle recovery, there was a rising concern towards the risk that it could take a downturn due to factors such as the slowdown in overseas economies and yen appreciation. With companies remaining cautious on investment in information systems, the information services industry continued to face a severe business environment.

Operating in such an environment, Nomura Research Institute (“the Company”) and its consolidated subsidiaries (“the NRI Group”) carried out its business activities with the combined strength of the Group, allowing it to seamlessly provide services encompassing consulting through to system development and operations. In order to realize medium- and long-term growth, the NRI Group is also pushing forward with growth measures in new fields while developing its strengths further. The NRI Group continued the large project that has been underway since last fiscal year to provide the STAR-IV service to Nomura Securities Co., Ltd., and it is working on a group-wide level to begin providing the service this fiscal year. These efforts involve making the transition from its current system, which was individually developed for Nomura Securities Co., Ltd., to the Company’s STAR-IV, a multi-user type of back-office system. The NRI Group is working on further expanding the client base by promoting this system as the de facto standard for back office systems in the securities sector.

In our overseas business development, aiming to strengthen business in Asia, the Company is establishing and expanding bases in the ASEAN region, which is expected to undergo market expansion. Following on from the development of our base in India in the previous fiscal year, the Company developed a new base in Indonesia during the first quarter. To further improve the quality of our human resources, we are significantly upgrading our overseas training systems and fostering a work force capable of performing global business.

During the first three months ended 30th June, 2012, sales of the NRI Group increased year on year to ¥84,411 million (up 7.6%). Cost of sales was ¥61,605 million (up 10.6%) and gross profit was ¥22,806 million (up 0.1%) as a result of incurrence of additional costs in a large-scale development project for the insurance sector. Selling, general and administrative expenses were ¥14,560 million (up 3.0%) due to increases in furniture and fixture expenses, subcontracting costs, and education and training expenses. Operating profit was ¥8,246 million (down 4.6%), operating profit margin was 9.8% (down 1.2 points), ordinary profit was ¥9,077 million (down 5.0%) and net income was ¥5,699 million (down 55.8%). The reason for the large year-on-year decline in net income was due to an absence of a gain on sales of investments in affiliates recorded in the same period of the previous fiscal year, among other factors.

Segment information

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

Effective 1st April, 2012, the classification of the segments has been partially changed.

Consequently, comparisons between segments with the same period of the previous fiscal year shown below are based on amounts restated in accordance with the classifications following this change.

(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.

As part of efforts to continue strengthening our business in Asia, the Company is currently pushing forward with the development and expansion of bases in the ASEAN region.

During the current three months ended 30th June, 2012, consulting for the public sector and system consulting to support the execution of customers’ system projects increased, resulting in sales of ¥4,631 million (up 7.0% from the same period of the previous fiscal year). On the cost front, however, payments related to subcontracting operations to other segments increased, and the segment recorded an operating loss of ¥147 million (compared with an operating loss of ¥101 million in the same period of the previous fiscal year).

(Financial IT Solutions)

In this segment, the main clients are in the finance 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. Currently, the segment is undertaking a large project to provide the STAR-IV service to Nomura Securities Co., Ltd., and it aims to begin providing the services in the current fiscal year. In the banking sector, the Group has been working on expanding the client base, by getting more banks to use its multi-user type Internet banking system, which it started providing in the previous fiscal year, and by taking steps to provide new services. In overseas business development, the Company has now completed the acquisition of an Indian IT company to make it a subsidiary, the operations of that company started being part of the NRI Group from July.

Regarding sales during the first three months ended 30th June, 2012, there were decreases in system development and application sales for the insurance sector but increases in system development and application sales for the securities sector. In a large-scale development project for the insurance sector, additional costs were incurred because of an increase in the scale of development and the changes of development schedule, and this project has become unprofitable.

As a result, the Financial IT Solutions segment posted sales of ¥51,254 million (up 7.3% from the same period of the previous fiscal year) and operating profit of ¥3,631 million (down 28.8%).

(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 customers in the industrial sector, to expand the client base. The Company received a contract to provide total IT support for a new online business of a major cosmetic company, encompassing everything from business model planning to information system development and management and operation support. These online services were started during the three months under review. Also during the three months, in accordance with an agreement for an IT service alliance concluded with Ajinomoto Co., Inc., the Company acquired an IT system related subsidiary of Ajinomoto Co., Inc. and started operations.

Regarding sales during the first three months ended 30th June, 2012, NRI System Techno, Ltd. started being part of the NRI Group from the three months under review and contributed to sales.

An increase in sales was achieved, mainly from management and operation services and product sales for the manufacturing and service sectors. Costs were reduced because of a reduction in unprofitable projects.

As a result, the Industrial IT Solutions segment posted sales of ¥19,661 million (up 11.6% from the same period of the previous fiscal year) and operating profit of ¥1,120 million (up 179.7%).

(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 customers of various industries. It also conducts research for the development of new business operations and new products related to IT solutions, and research related to leading-edge information technologies. In this segment, the Company has been making efforts to expand its customer base by not only renewing IT platforms, but also proposing IT platform solutions for customers linked with the improvement of business and revenues of the customers. Concerning the datacenter business, the Company's fifth data center is under construction in Tokyo, and scheduled to commence operations in November of this year.

In the three months ended 30th June, 2012, in terms of sales to external customers, there was a decline in system management and operation services to the securities sector. As for intersegment sales, there were increases in IT platform architecture support services and system management and operation services to the Financial IT Solutions and Industrial IT Solutions segments. With respect to costs, there were increases in subcontracting costs and depreciation and amortization expenses.

As a result, the IT Platform Services segment posted sales of ¥25,391 million (up 6.8% from the same period of the previous fiscal year) and operating profit of ¥2,822 million (up 20.9%).

(Others)

Some subsidiaries and others provide system development and system management and operation services as a business segment that is separate from those shown above.

In the first three months ended 30th June, 2012, the Others segment posted sales of ¥3,096 million (up 10.9% from the same period of the previous fiscal year) and operating profit of ¥310 million (compared with an operating loss of ¥1 million in the same period of the previous fiscal year).

(2) Qualitative information regarding consolidated financial position

(Assets, liabilities and net assets)

At the end of the first quarter (30th June, 2012), current assets were ¥146,970 million (down 16.9% from the end of the previous fiscal year), noncurrent assets were ¥239,591 million (up 6.0%), current liabilities were ¥52,921 million (down 23.7%), noncurrent liabilities were ¥76,074 million (up 1.3%), net assets were ¥257,565 million (down 0.3%) and total assets were ¥386,561 million (down 4.0%).

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

Accounts receivable decreased ¥29,357 million to ¥27,128 million and other receivables increased ¥10,016 million to ¥29,722 million. This occurred partly because the NRI Group recognizes revenues based on the percentage-of-completion method, and 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.

Short-term investment securities decreased ¥14,407 million to ¥66,671 million, while investment securities increased ¥7,884 million to ¥69,157 million. This was the result of an increase in national government bonds with redemption periods of more than one year due to increased variation in redemption periods in the management of surplus funds.

Construction in progress increased ¥4,830 million to ¥12,618 million. The increase was due to the construction of the data center.

As for other items, accounts payable decreased ¥6,308 million to ¥15,502 million, accrued amount payable decreased ¥3,126 million to ¥2,224 million, accrued expenses increased ¥3,814 million to ¥10,488 million, income taxes payable decreased ¥6,117 million to ¥3,975 million, and allowance for bonuses decreased ¥7,043 million to ¥6,063 million.

(Cash flow position)

Cash and cash equivalents as of the end of the first quarter (30th June, 2012) stood at ¥69,237 million (down ¥7,806 million from the end of the previous fiscal year).

Net cash provided by operating activities in the quarterly period ended 30th June, 2012 (three-month period) was ¥16,427 million, which was roughly the same as the same period of the previous fiscal year. Although there was a fall in dividend income compared to the same period of the previous fiscal year, in which bonus dividends income was recorded, this was offset by a larger decrease in accounts payable.

Net cash used by investing activities was ¥19,563 million, ¥10,241 million greater compared with the same period of the previous fiscal year. The main contributing factors were the purchase of investment securities for fund management purposes and an increase in acquisition of property and equipment related to data centers.

Net cash used by financing activities was ¥4,456 million, which was roughly the same as the same period of the previous fiscal year. The main item of expenditure for both periods was cash dividends paid.

Quarterly Consolidated Financial Statements

Nomura Research Institute, Ltd.

For the Quarterly Period Ended 30th June, 2012
(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 quarterly period ended 30th June, 2012

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Nomura Research Institute, Ltd.

Quarterly Consolidated Balance Sheets

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars (Note 3)</i>
	30th June, 2012	31st March, 2012	30th June, 2012
	(Unaudited)		(Unaudited)
Assets			
Current assets:			
Cash and bank deposits (<i>Notes 4 and 7</i>)	¥ 10,739	¥ 8,462	\$ 135,457
Short-term investment securities (<i>Notes 4, 5 and 7</i>)	66,671	81,079	840,956
Accounts receivable and other receivables (<i>Note 4</i>)	56,851	76,192	717,091
Inventories	308	178	3,885
Deferred income taxes	7,391	7,066	93,227
Other current assets	5,065	3,906	63,887
Allowance for doubtful accounts	(55)	(79)	(694)
Total current assets	146,970	176,804	1,853,809
Property and equipment:			
Land	13,600	13,600	171,544
Buildings, net	32,493	33,167	409,851
Machinery and equipment, net	12,237	12,899	154,352
Leased assets, net	135	114	1,703
Construction in progress	12,619	7,789	159,170
Property and equipment, net	71,084	67,569	896,620
Software and other intangibles			
Investment securities (<i>Notes 4 and 5</i>)	58,722	57,862	740,691
Investments in affiliates (<i>Notes 4 and 5</i>)	69,158	61,273	872,326
Deferred income taxes	1,160	1,253	14,632
Long-term loans receivable (<i>Note 4</i>)	17,074	15,778	215,363
Lease investment assets	7,850	7,821	99,016
Other assets	424	446	5,348
Allowance for doubtful accounts	14,165	14,024	178,671
	(45)	(46)	(568)
Total assets	¥386,562	¥402,784	\$4,875,908

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars (Note 3)</i>
	30th June, 2012	31st March, 2012	30th June, 2012
	(Unaudited)		(Unaudited)
Liabilities and Net Assets			
Current liabilities:			
Accounts payable (<i>Note 4</i>)	¥ 15,503	¥ 21,811	\$ 195,547
Current portion of long-term loans payable (<i>Note 4</i>)	2,531	2,531	31,925
Lease obligations, current	248	201	3,128
Accrued expenses	16,552	19,781	208,779
Income taxes payable	3,975	10,093	50,139
Advance payments received	5,189	4,807	65,452
Asset retirement obligations	4	8	50
Other current liabilities	8,920	10,149	112,513
Total current liabilities	52,922	69,381	667,533
Convertible bonds (<i>Note 4</i>)	49,997	49,997	630,638
Long-term loans payable (<i>Note 4</i>)	6,677	6,677	84,220
Lease obligations	421	411	5,310
Deferred income taxes	26	27	328
Employees' retirement benefits	18,250	17,251	230,197
Asset retirement obligations	703	699	8,867
Guarantee deposits received	–	64	–
Net assets (<i>Notes 6 and 8</i>):			
Shareholders' equity:			
Common stock:			
Authorized – 750,000,000 shares at 30th June, 2012 and 31st March, 2012			
Issued – 225,000,000 shares at 30th June, 2012 and 31st March, 2012	18,600	18,600	234,612
Additional paid-in capital	14,800	14,800	186,680
Retained earnings	287,246	286,907	3,623,184
Treasury stock, at cost			
– 28,441,593 shares at 30th June, 2012 and 28,834,693 shares at 31st March, 2012	(67,903)	(68,841)	(856,496)
Total shareholders' equity	252,743	251,466	3,187,980
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities (<i>Note 5</i>)	6,397	7,966	80,689
Foreign currency translation adjustment	(2,893)	(2,575)	(36,491)
Total accumulated other comprehensive income	3,504	5,391	44,198
Share subscription rights	1,319	1,420	16,637
Total net assets	257,566	258,277	3,248,815
Total liabilities and net assets	¥386,562	¥402,784	\$4,875,908

See accompanying notes to quarterly consolidated financial statements.

Nomura Research Institute, Ltd.

Quarterly Consolidated Statements of Income and Comprehensive Income

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars (Note 3)</i>
	Three months ended 30th June, 2012	2011	Three months ended 30th June, 2012
	(Unaudited)	(Unaudited)	(Unaudited)
Sales	¥84,412	¥78,466	\$1,064,733
Cost of sales	61,605	55,689	777,056
Gross profit	22,807	22,777	287,677
Selling, general and administrative expenses (Notes 9 and 10)	14,560	14,136	183,653
Operating profit	8,247	8,641	104,024
Other income (expenses):			
Interest and dividend income	813	936	10,255
Interest expense	(15)	(21)	(189)
Equity in earnings of affiliates	46	7	580
Loss on investment securities	(69)	(412)	(870)
Gain on investments in affiliates	–	8,564	–
Special dividend income	–	3,011	–
Reversal of share-based compensation	158	58	1,993
Other, net	(13)	(11)	(165)
	920	12,132	11,604
Income before income taxes and minority interests	9,167	20,773	115,628
Provision for income taxes (Note 2)	3,467	7,892	43,731
Income before minority interests	5,700	12,881	71,897
Net income (Note 8)	¥ 5,700	¥12,881	\$ 71,897
Income before minority interests	¥ 5,700	¥12,881	\$ 71,897
Other comprehensive income:			
Valuation difference on available-for-sale securities	(1,569)	(2)	(19,791)
Foreign currency translation adjustment	(312)	(115)	(3,935)
Share of other comprehensive income of affiliates	(6)	(1)	(76)
Total other comprehensive income	(1,887)	(118)	(23,802)
Comprehensive income	¥ 3,813	¥12,763	\$ 48,095
Comprehensive income attributable to:			
Comprehensive income attributable to owners of the parent	¥ 3,813	¥12,763	\$ 48,095
Comprehensive income attributable to minority interests	–	–	–

See accompanying notes to quarterly consolidated financial statements.

Nomura Research Institute, Ltd.

Quarterly Consolidated Statements of Changes in Net Assets

Millions of yen

	Shareholders' equity					Accumulated other comprehensive income				
	Common stock	Additional paid-in capital	Retained earnings	Treasury stock, at cost	Total shareholders' equity	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Total accumulated other comprehensive income	Share subscription rights	Total net assets
Balance at 31st March, 2012	¥18,600	¥14,800	¥286,907	¥(68,841)	¥251,466	¥ 7,966	¥(2,575)	¥ 5,391	¥1,420	¥258,277
Disposition of treasury stock	-	-	-	938	938	-	-	-	-	938
Loss on disposition of treasury stock	-	-	(261)	-	(261)	-	-	-	-	(261)
Net income	-	-	5,700	-	5,700	-	-	-	-	5,700
Cash dividends paid	-	-	(5,100)	-	(5,100)	-	-	-	-	(5,100)
Net changes other than in shareholders' equity	-	-	-	-	-	(1,569)	(318)	(1,887)	(101)	(1,988)
Balance at 30th June, 2012 (unaudited)	¥18,600	¥14,800	¥287,246	¥(67,903)	¥252,743	¥ 6,397	¥(2,893)	¥ 3,504	¥1,319	¥257,566

Millions of yen

	Shareholders' equity					Accumulated other comprehensive income				
	Common stock	Additional paid-in capital	Retained earnings	Treasury stock, at cost	Total shareholders' equity	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Total accumulated other comprehensive income	Share subscription rights	Total net assets
Balance at 31st March, 2011	¥18,600	¥14,994	¥264,866	¥(72,285)	¥226,175	¥6,258	¥(2,675)	¥3,583	¥1,317	¥231,075
Disposition of treasury stock	-	-	-	988	988	-	-	-	-	988
Loss on disposition of treasury stock	-	(194)	(80)	-	(274)	-	-	-	-	(274)
Net income	-	-	12,881	-	12,881	-	-	-	-	12,881
Cash dividends paid	-	-	(5,063)	-	(5,063)	-	-	-	-	(5,063)
Net changes other than in shareholders' equity	-	-	-	-	-	(2)	(116)	(118)	(12)	(130)
Balance at 30th June, 2011 (unaudited)	¥18,600	¥14,800	¥272,604	¥(71,297)	¥234,707	¥6,256	¥(2,791)	¥3,465	¥1,305	¥239,477

Thousands of U.S. dollars (Note 3)

	Shareholders' equity					Accumulated other comprehensive income				
	Common stock	Additional paid-in capital	Retained earnings	Treasury stock, at cost	Total shareholders' equity	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Total accumulated other comprehensive income	Share subscription rights	Total net assets
Balance at 31st March, 2012	\$234,612	\$186,680	\$3,618,908	\$(868,327)	\$3,171,873	\$100,479	\$(32,480)	\$ 67,999	\$17,911	\$3,257,783
Disposition of treasury stock	-	-	-	11,831	11,831	-	-	-	-	11,831
Loss on disposition of treasury stock	-	-	(3,292)	-	(3,292)	-	-	-	-	(3,292)
Net income	-	-	71,897	-	71,897	-	-	-	-	71,897
Cash dividends paid	-	-	(64,329)	-	(64,329)	-	-	-	-	(64,329)
Net changes other than in shareholders' equity	-	-	-	-	-	(19,790)	(4,011)	(23,801)	(1,274)	(25,075)
Balance at 30th June, 2012 (unaudited)	\$234,612	\$186,680	\$3,623,184	\$(856,496)	\$3,187,980	\$ 80,689	\$(36,491)	\$ 44,198	\$16,637	\$3,248,815

See accompanying notes to quarterly consolidated financial statements.

Nomura Research Institute, Ltd.

Quarterly Consolidated Statements 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,
	2012	2011	2012
	(Unaudited)	(Unaudited)	(Unaudited)
Cash flows from operating activities			
Income before income taxes and minority interests	¥ 9,167	¥20,773	\$ 115,628
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization	7,442	7,138	93,870
Interest and dividend income	(813)	(3,947)	(10,255)
Interest expense	15	21	189
Loss on investment securities	69	412	870
Gain on investments in affiliates	-	(8,564)	-
Changes in operating assets and liabilities:			
Accounts receivable and other receivables, net of advance payments received	21,140	17,573	266,650
Allowance for doubtful accounts	(25)	(25)	(315)
Accounts payable	(3,223)	(3,755)	(40,653)
Inventories	(102)	(64)	(1,287)
Employees' retirement benefits	(1,046)	(1,928)	(13,194)
Other	(7,328)	(5,719)	(92,431)
Subtotal	25,296	21,915	319,072
Interest and dividends received	853	3,988	10,759
Interest paid	(1)	(3)	(13)
Income taxes paid	(9,720)	(9,539)	(122,603)
Net cash provided by operating activities	16,428	16,361	207,215
Cash flows from investing activities			
Payments for time deposits	(15)	(50)	(189)
Proceeds from time deposits	199	-	2,510
Purchase of short-term investment securities	-	(5,530)	-
Proceeds from sales and redemption of short-term investment securities	4,100	3,000	51,715
Acquisition of property and equipment	(8,669)	(4,664)	(109,347)
Purchase of software and other intangibles	(4,870)	(4,644)	(61,428)
Payments for asset retirement obligations	(4)	(23)	(50)
Purchase of investment securities	(10,314)	(509)	(130,096)
Proceeds from sales and redemption of investment securities	1	3,085	13
Other	8	13	101
Net cash used in investing activities	(19,564)	(9,322)	(246,771)
Cash flows from financing activities			
Increase in short-term loans payable	-	4,000	-
Decrease in short-term loans payable	-	(4,000)	-
Repayment of obligation under finance leases	(31)	(15)	(391)
Proceeds from sales of treasury stock	644	663	8,123
Cash dividends paid	(5,069)	(5,031)	(63,938)
Net cash used in financing activities	(4,456)	(4,383)	(56,206)
Effect of exchange rate changes on cash and cash equivalents	(215)	(80)	(2,712)
Net increase (decrease) in cash and cash equivalents	(7,807)	2,576	(98,474)
Cash and cash equivalents at beginning of period	77,044	82,085	971,796
Cash and cash equivalents at end of period (Note 7)	¥ 69,237	¥84,661	\$ 873,322

See accompanying notes to quarterly consolidated financial statements.

Nomura Research Institute, Ltd.

Notes to Quarterly Consolidated Financial Statements

30th June, 2012

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

Description of Business

The NRI Group (Nomura Research Institute, Ltd. (the “Company”) and its 16 consolidated subsidiaries) and its affiliates (2 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 Company’s operations by segment is included in Note 12.

NRI System Techno, LTD., a newly acquired subsidiary during the quarterly period ended 30th June, 2012, is newly included in the scope of consolidation.

Basis of Presentation

The accompanying quarterly consolidated financial statements of the Company and its consolidated subsidiaries 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.

Accounting Change

(Changes in accounting policies that are difficult to distinguish from changes in accounting estimates)

In response to a revision of the Corporation Tax Law, the Company and its domestic consolidated subsidiaries have changed the method of depreciation for tangible fixed assets acquired on or after 1st April, 2012 in accordance with the provisions of the revised Corporation Tax Law. As a result of this change, operating profit and income before income taxes and minority interests for the first quarter ended 30th June, 2012 increased by ¥11 million (\$139 thousand) from the corresponding amount which would have been recorded under the previous method.

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

Additional Information

(Accounting for Trust-type Employee Stock Ownership Incentive Plan)

The Company introduced a “Trust-type Employee Stock Ownership Incentive Plan” in March 2011. 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 welfare of employees.

This is an incentive plan under which gains from the Company’s share price appreciation are returned 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. The ESOP Trust acquired a number of the Company’s shares, which the ESOP Group would acquire over a period of five years subsequent to the establishment of the ESOP Trust. Then, the ESOP Trust sells them to the ESOP Group each time the ESOP Group makes an acquisition 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 each beneficiary in proportion to the respective beneficiary’s contribution. 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 upon termination of the ESOP Trust.

The Company accounts for the transactions involving the ESOP Trust as its own with the assets, liabilities, expenses and income of the ESOP Trust included in the accompanying consolidated financial statements. Therefore, the Company’s shares owned by the ESOP Trust are treated as treasury stock of the Company, and the loans of the ESOP Trust are treated as the loans of the Company. Also, the Company does not recognize the transfer of treasury stock when the Company sells treasury stock to the ESOP Trust. Each time the ESOP Trust sells treasury stock to the ESOP Group, however, the Company recognizes the transfer of treasury stock. As the amounts equal to the capital gain realized by the ESOP Trust will be distributed to the beneficiaries after the termination of the trust, the amounts are treated as expenses for the corresponding year the gain is incurred.

The ESOP Trust owned 4,493,700 shares of the Company at 30th June, 2012.

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

Calculation of Tax Expense

At the end of each interim period the Company 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 and minority interests 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 statements of 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 ¥79.28 = U.S.\$1.00, the rate of exchange prevailing on 30th June, 2012. 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 sheets as of 30th June, 2012 and 31st March, 2012 and estimated fair values 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>					
	30th June, 2012			31st March, 2012		
	Carrying amount	Estimated fair value	Difference	Carrying amount	Estimated fair value	Difference
		(Unaudited)				
Assets:						
Cash and bank deposits	¥ 10,739	¥ 10,739	¥ –	¥ 8,462	¥ 8,462	¥ –
Accounts receivable and other receivables	56,851	56,851	–	76,192	76,192	–
Short-term investment securities, investment securities, and investments in affiliates	129,260	129,260	–	135,869	135,869	–
Long-term loans receivable	7,850	8,329	479	7,821	8,274	453
Total	<u>¥204,700</u>	<u>¥205,179</u>	<u>¥ 479</u>	<u>¥228,344</u>	<u>¥228,797</u>	<u>¥ 453</u>
Liabilities:						
Accounts payable	¥ 15,503	¥ 15,503	¥ –	¥ 21,811	¥ 21,811	¥ –
Convertible bonds	49,997	49,497	(500)	49,997	49,297	(700)
Long-term loans payable*	9,208	9,208	–	9,208	9,208	–
Total	<u>¥ 74,708</u>	<u>¥ 74,208</u>	<u>¥(500)</u>	<u>¥ 81,016</u>	<u>¥ 80,316</u>	<u>¥(700)</u>

	<i>Thousands of U.S. dollars</i>		
	30th June, 2012		
	Carrying amount	Estimated fair value	Difference
		(Unaudited)	
Assets:			
Cash and bank deposits	\$ 135,457	\$ 135,457	\$ –
Accounts receivable and other receivables	717,091	717,091	–
Short-term investment securities, investment securities, and investments in affiliates	1,630,424	1,630,424	–
Long-term loans receivable	99,016	105,058	6,042
Total	<u>\$2,581,988</u>	<u>\$2,588,030</u>	<u>\$ 6,042</u>
Liabilities:			
Accounts payable	\$ 195,547	\$ 195,547	\$ –
Convertible bonds	630,638	624,331	(6,307)
Long-term loans payable*	116,145	116,145	–
Total	<u>\$ 942,330</u>	<u>\$ 936,023</u>	<u>\$ (6,307)</u>

* Long-term loans payable included the current portion of long-term loans payable totaling ¥2,531 million (\$31,925 thousand) and ¥2,531 million as of 30th June 2012 and 31st March, 2012, 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, accounts receivable and other receivables
Their carrying amount approximates the fair value due to the short maturity of these instruments.
- b. 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.
- c. Long-term loans receivable
Long-term loans receivable consists of deposits and guarantee money. The fair value of long-term receivables is based on the present value of the total future cash flows, which are the principal and the interest, discounted by the risk free rate relating to the time remaining until maturity.

Liabilities

- a. Accounts payable
Their carrying amount approximates the fair value due to the short maturity of these instruments.
- b. Convertible bonds
The fair value of convertible 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.

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>
	<u>30th June, 2012</u>	<u>31st March, 2012</u>	<u>30th June, 2012</u>
	(Unaudited)		(Unaudited)
Unlisted companies' shares	¥7,613	¥7,623	\$96,027
Investments in partnerships	116	113	1,463

*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 ¥866 million (\$10,923 thousand) and ¥887 million as of 30th June, 2012 and 31st March, 2012, respectively.

*2 For investments in partnerships, when all or a part of the assets of partnership consist of non-marketable securities whose fair value is not readily determinable, such components are not measured at fair value.

5. Investments

The Company did not hold any held-to-maturity securities with determinable market value at 30th June, 2012 and 31st March, 2012.

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 30th June, 2012 and 31st March, 2012:

Securities Classified as Available-for-Sale Securities

	<i>Millions of yen</i>					
	30th June, 2012			31st March, 2012		
	Acquisition cost	Carrying amount	Unrealized gain (loss)	Acquisition cost	Carrying amount	Unrealized gain (loss)
	<i>(Unaudited)</i>					
Equity securities	¥ 17,584	¥ 27,096	¥9,512	¥ 17,558	¥ 29,465	¥11,907
Bonds:						
Government bonds	35,590	35,639	49	25,440	25,456	16
Corporate bonds	14,311	14,297	(14)	18,329	18,296	(33)
	49,901	49,936	35	43,769	43,752	(17)
Other	59,148	59,092	(56)	69,559	69,501	(58)
Total	<u>¥126,633</u>	<u>¥136,124</u>	<u>¥9,491</u>	<u>¥130,886</u>	<u>¥142,718</u>	<u>¥11,832</u>

	<i>Thousands of U.S. dollars</i>		
	30th June, 2012		
	Acquisition cost	Carrying amount	Unrealized gain (loss)
	<i>(Unaudited)</i>		
Equity securities	\$ 221,796	\$ 341,776	\$119,980
Bonds:			
Government bonds	448,915	449,533	618
Corporate bonds	180,512	180,336	(176)
	629,427	629,869	442
Other	746,065	745,358	(707)
Total	<u>\$1,597,288</u>	<u>\$1,717,003</u>	<u>\$119,715</u>

Non-marketable securities whose fair value is not readily determinable were included in the above table. Impairment loss on available-for-sale securities whose fair value is not readily determinable as a result of a permanent decline in value for the three months ended 30th June, 2012 and the year ended 31st March, 2012 amounted to ¥69 million (\$870 thousand) and ¥237 million. The Company 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 Company 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 Company 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 (\$7,190 thousand) and ¥570 million at 30th June, 2012 and 31st March, 2012, respectively.

Dividends

The following appropriation of cash dividends to shareholders of common stock applicable to the year ended 31st March, 2012 was approved at a meeting of the Board of Directors held on 17th May, 2012 and went into effect on 4th June, 2012:

	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>
Cash dividends approved on 17th May, 2012 (¥26.00 = U.S.\$0.33 per share)	¥5,100	\$64,329

- * Dividends of ¥126 million (\$1,589 thousand) paid to the ESOP Trust are not included in total dividends amount.

7. Cash and Cash Equivalents

A reconciliation between cash and bank deposits in the accompanying quarterly consolidated balance sheets and cash and cash equivalents in the accompanying quarterly consolidated statements of cash flows at 30th June, 2012 and 2011 is as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	30th June,		30th June,
	2012	2011	2012
	(Unaudited)		(Unaudited)
Cash and bank deposits	¥10,739	¥ 11,081	\$135,457
Short-term investment securities	66,671	91,149	840,956
Time deposits with maturities of more than three months when deposited	(478)	(810)	(6,029)
Bonds and other investments maturing in more than three months from the acquisition date	(7,695)	(16,759)	(97,062)
Cash and cash equivalents	<u>¥69,237</u>	<u>¥ 84,661</u>	<u>\$873,322</u>

8. Per Share Data

Per share data is summarized as follows:

	<i>Yen</i>		<i>U.S. dollars</i>
	Three months ended 30th June,		Three months ended 30th June,
	2012	2011	2012
	(Unaudited)		(Unaudited)
Earnings per share	¥29.03	¥66.09	\$0.37
Diluted earnings per share	27.37	62.27	0.35

The computation of earnings per share is based on the weighted-average number of shares of common stock outstanding during each period and the number of shares of common stock outstanding at each balance sheet date, respectively.

The computation of earnings per share and diluted earnings per share for the three months ended 30th June, 2012 and 2011 is as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	Three months ended 30th June,		Three months ended 30th June,
	2012	2011	2012
	(Unaudited)		(Unaudited)
Numerator:			
Earnings	¥5,700	¥12,881	\$71,897
Earnings not attributable to common shareholders	(-)	(-)	(-)
Earnings attributable to common shareholders	<u>¥5,700</u>	<u>¥12,881</u>	<u>\$71,897</u>
	<i>Thousands of Shares</i>		
Denominator:			
Weighted-average number of shares of common stock outstanding – basic *	196,331	194,907	196,331
Potentially dilutive shares of common stock:			
Convertible bonds	11,839	11,839	11,839
Stock options	104	117	104
Total	<u>11,943</u>	<u>11,956</u>	<u>11,943</u>
Weighted-average number of shares of common stock outstanding – diluted	<u>208,274</u>	<u>206,863</u>	<u>208,274</u>

* The Company's shares owned by the ESOP Trust are included in treasury stock.

8. 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 three months ended 30th June, 2012 and 2011:

	<i>Shares</i>	
	Three months ended 30th June,	
	2012	2011
	(Unaudited)	
a) 6th share subscription rights	280,000	347,500
b) 8th share subscription rights	315,000	375,000
c) 10th share subscription rights	335,000	417,500
d) 12th share subscription rights	440,000	440,000
e) 14th share subscription rights	445,000	445,000
f) 16th share subscription rights	392,500	–

9. Selling, General and Administrative Expenses

The details of selling, general and administrative expenses for the three months ended 30th June, 2012 and 2011 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,
	2012	2011	2012
	(Unaudited)		(Unaudited)
Personnel expenses	¥ 7,857	¥ 8,147	\$ 99,104
Rent	1,195	1,216	15,073
Subcontractor costs	1,995	1,712	25,164
Other	3,513	3,061	44,312
Total	<u>¥14,560</u>	<u>¥14,136</u>	<u>\$183,653</u>

10. Research and Development Expenses

Research and development expenses included in selling, general and administrative expenses for the three months ended 30th June, 2012 and 2011 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,
2012	2011	2012
(Unaudited)		(Unaudited)
¥608	¥679	\$7,669

11. Contingent Liabilities

There were no material contingent liabilities at 30th June, 2012 and 31st March, 2012.

12. Segment Information

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

Millions of yen

		Three months ended 30th June, 2012							
		Reportable segment							
		Financial IT Solutions	Industrial IT Solutions	IT Platform Services	Subtotal	Others *1	Total	Adjustments *2	Consolidated *3
		Consulting							
		(Unaudited)							
Net sales:									
Sales to external customers									
	¥4,604	¥51,221	¥19,631	¥ 6,672	¥ 82,128	¥2,283	¥ 84,411	¥ 1	¥84,412
Intersegment sales or transfers									
	28	33	31	18,720	18,812	814	19,626	(19,626)	-
Total									
	4,632	51,254	19,662	25,392	100,940	3,097	104,037	(19,625)	84,412
Segment profit (loss)									
	¥ (148)	¥ 3,631	¥ 1,120	¥ 2,823	¥ 7,426	¥ 311	¥ 7,737	¥ 510	¥ 8,247

Millions of yen

		Three months ended 30th June, 2011							
		Reportable segment							
		Financial IT Solutions	Industrial IT Solutions	IT Platform Services	Subtotal	Others *1	Total	Adjustments *2	Consolidated *3
		Consulting							
		(Unaudited)							
Net sales:									
Sales to external customers									
	¥4,315	¥47,747	¥17,601	¥ 6,801	¥76,464	¥2,001	¥78,465	¥ 1	¥78,466
Intersegment sales or transfers									
	14	17	16	16,972	17,019	792	17,811	(17,811)	-
Total									
	4,329	47,764	17,617	23,773	93,483	2,793	96,276	(17,810)	78,466
Segment profit (loss)									
	¥ (102)	¥ 5,100	¥ 401	¥ 2,335	¥ 7,734	¥ (2)	¥ 7,732	¥ 909	¥ 8,641

Thousands of U.S. dollars

		Three months ended 30th June, 2012							
		Reportable segment							
		Financial IT Solutions	Industrial IT Solutions	IT Platform Services	Subtotal	Others *1	Total	Adjustments *2	Consolidated *3
		Consulting							
		(Unaudited)							
Net sales:									
Sales to external customers									
	\$58,073	\$646,077	\$247,616	\$ 84,157	\$1,035,923	\$28,797	\$1,064,720	\$ 13	\$1,064,733
Intersegment sales or transfers									
	353	416	391	236,126	237,286	10,267	247,553	(247,553)	-
Total									
	58,426	646,493	248,007	320,283	1,273,209	39,064	1,312,273	(247,540)	1,064,733
Segment profit (loss)									
	\$ (1,867)	\$ 45,800	\$ 14,127	\$ 35,608	\$ 93,668	\$ 3,923	\$ 97,591	\$ 6,433	\$ 104,024

*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 statements of income and comprehensive income.

12. Segment Information (continued)

2) Information about changes in reportable segments

- (a) In response to a revision of the Corporation Tax Law, the method of depreciation used by the reportable segments for tangible fixed assets acquired on or after 1st April, 2012 has been changed in accordance with the provisions of the revised Corporation Tax Law. As a result of this change, total segment profit for the first quarter ended 30th June, 2012 increased by ¥11 million (\$139 thousand) from the corresponding amount which would have been recorded under the previous method. The impact on each segment is omitted because the amounts are immaterial.
- (b) The Company partially changed its segment reporting structure as of 1st April, 2012. The information security business and IT platform solution business, which had previously been included in the Industrial IT Solutions segment, were newly included in the IT Platform Services segment. Segment information for the three months ended 30th June, 2011 in the above table has been restated to reflect the new segment reporting structure.

13. Subsequent Events

Not applicable.