

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, 2016, 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.



27th October, 2016

Consolidated Financial Results For the Quarterly Period Ended 30th September, 2016 <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
 Inquiries: Norihiro Suzuki, General Manager, Accounting & Finance Department
 TEL: +81-3-5533-2111 (from overseas)

Scheduled date to file Quarterly Securities Report: 1st November, 2016
 Scheduled date to commence dividend payments: 30th November, 2016
 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, 2016 (from 1st April, 2016 to 30th September, 2016)

(1) Consolidated operating results (cumulative)

(Percentages indicate year-on-year changes.)

Quarterly period ended	Sales		Operating profit		Ordinary profit		Profit attributable to owners of the parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
30th September, 2016	203,165	(4.3)	26,341	(6.8)	27,957	(6.3)	28,843	43.3
30th September, 2015	212,338	7.6	28,249	27.7	29,842	29.4	20,126	(14.0)

Note: Comprehensive income

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

Quarterly period ended 30th September, 2015: ¥21,791 million [(2.4)%]

Quarterly period ended	Earnings per share – basic	Earnings per share – diluted
	Yen	Yen
30th September, 2016	127.95	127.73
30th September, 2015	89.56	89.29

Note: The Company conducted a 1-for-1.1 stock split of common shares with an effective date of 1st October, 2015. 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, 2016	596,492	421,807	68.7
31st March, 2016	621,695	425,409	66.2

Reference: Equity

As of 30th September, 2016: ¥409,665 million As of 31st March, 2016: ¥411,549 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, 2016	–	40.00	–	40.00	–
Fiscal year ending 31st March, 2017	–	40.00			
Fiscal year ending 31st March, 2017 (Forecasts)			–	40.00	–

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

The Company plans to conduct a 1-for-1.1 stock split of common shares with an effective date of 1st January, 2017. The Company has not adjusted its fiscal year-end dividend forecast of ¥40.00 to reflect the stock split. Based on the number of shares prior to the stock split, the fiscal year-end dividend forecast is ¥44.00 per share, an effective increase of ¥4.00 per share over the most recent dividend forecast.

2. The Company conducted a 1-for-1.1 stock split of common shares with an effective date of 1st October 2015. The dividend paid per share for the second quarter of the previous fiscal year is based on the number of shares prior to the stock split.

3. Forecasts of financial results for the fiscal year ending 31st March, 2017 (from 1st April, 2016 to 31st March, 2017)

(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, 2017	425,000	0.8	59,000	1.2	61,000	(0.0)	45,500	6.7	183.50

Notes: 1. Revisions to the forecasts of financial results most recently announced: Yes

For more details, please refer to “(3) Qualitative information regarding forecasts of financial results,” on page 7 - 8.

2. The Company plans to conduct a 1-for-1.1 stock split of common shares with an effective date of 1st January, 2017, and earnings per share – basic has been calculated based on the average number of shares during the fiscal year, assuming the stock split was conducted at the start of the current fiscal year.

Excluding that assumption, the forecast for earnings per share – basic is ¥201.85.

* Notes

- (1) Changes in significant subsidiaries during the current six months (changes in specified subsidiaries resulting in change in scope of consolidation): None
- (2) Adoption of specific accounting in preparing quarterly consolidated financial statements: Yes
- (3) Changes in accounting policies, changes in accounting estimates, and restatement of prior period financial statements after error corrections
- Changes in accounting policies due to revisions to accounting standards and other regulations: Yes
 - Changes in accounting policies due to other reasons: None
 - Changes in accounting estimates: None
 - 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, 2016 | 240,000,000 shares |
| As of 31st March, 2016 | 247,500,000 shares |
- b. Number of shares of treasury stock at the end of the period
- | | |
|----------------------------|-------------------|
| As of 30th September, 2016 | 14,946,531 shares |
| As of 31st March, 2016 | 20,334,041 shares |
- c. Average number of shares during the period (cumulative from the beginning of the fiscal year)
- | | |
|---|--------------------|
| Quarterly period ended 30th September, 2016 | 225,419,347 shares |
| Quarterly period ended 30th September, 2015 | 224,718,835 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 October, 2015. Number of shares has been calculated assuming the stock split was conducted at the start of the previous fiscal year.

* 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

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 the assumptions for the earnings forecasts and cautions regarding the use of the forward-looking statements including business forecasts, please refer to “(3) Qualitative information regarding forecasts of financial results,” on page 7 - 8.

Reference: Forecasts of non-consolidated financial results for the fiscal year ending 31st March, 2017 (from 1st April, 2016 to 31st March, 2017)

(Percentages indicate year-on-year changes.)

	Sales		Ordinary profit		Profit		Earnings per share – basic
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Fiscal year ending 31st March, 2017	355,000	0.9	58,000	4.8	44,000	9.5	177.45

Notes: 1. Revisions to the forecasts of financial results most recently announced: Yes

2. The Company plans to conduct a 1-for-1.1 stock split of common shares with an effective date of 1st January, 2017, and earnings per share – basic has been calculated based on the average number of shares during the fiscal year, assuming the stock split was conducted at the start of the current fiscal year.

Excluding that assumption, the forecast for earnings per share – basic is ¥195.19.

Qualitative information regarding second-quarter settlement of accounts

(1) Qualitative information regarding consolidated operating results

During the six months ended 30th September, 2016 (from 1st April, 2016 to 30th September, 2016), the Japanese economy continued to recover at a moderate pace. However, a slowdown in overseas economies, yen appreciation and the Bank of Japan's negative interest rate policy added to the uncertain outlook for the global economy. 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. Based on a three-year medium-term plan formulated for realizing the goals of Vision 2022, the NRI Group's long-term management plan, the NRI Group will work to boost productivity and expand existing businesses, as well as establish an operating base and accumulate experience in new fields, such as global and digital businesses.

To expand existing businesses, the Company will upgrade its industry-standard business platforms (multi-user systems) to steadily respond to regulatory changes and provide support to clients to make their operations more advanced and efficient. In October, the Company started offering new disaster recovery support services with its STAR-IV multi-user back-office support system for retail securities brokerage firms. The Company is also upgrading its multi-user systems in preparation for the shortened settlement cycle of Japanese Government Bonds, scheduled for 2018, and for migration to the Japan Securities Depository Center's new systems.

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 expand the NRI Group's business in investment operations, the Company acquired US firm Cutter Associates, LLC, which became a subsidiary in the first quarter of the current fiscal year.

During the six months ended 30th September, 2016, the NRI Group's sales decreased to ¥203,165 million, down 4.3% from the same period of the previous fiscal year that had large-scale application sales. Cost of sales was ¥135,921 million (down 7.9% year on year) and gross profit was ¥67,243 million (up 3.8%). Although subsidiary DSB Co., Ltd. booked business structure improvement expenses as part of moves to overhaul its operations, depreciation and amortization were lower than in the same period a year earlier, when the Company booked major application sales, and subcontracting costs fell due to a decline in large-scale system development projects. Selling, general and administrative expenses were ¥40,902 million (up 12.0%) due to increases in operating expenses and R&D expenses related to new business planning and development and efforts to expand the client base. There was also an increase in the number of subsidiaries.

As a result, operating profit was ¥26,341 million (down 6.8%), the operating margin was 13.0% (down 0.3 points) and ordinary profit was ¥27,957 million (down 6.3%). Profit attributable to owners of the parent was ¥28,843 million (up 43.3%) 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.

The Company partially revised its segment classifications in the third quarter of the previous fiscal year, and as such the figures presented below for the corresponding period of the previous fiscal year have been recalculated to reflect the reorganization.

(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, 2016, consulting projects related to global businesses declined, but system consulting work to support clients in their large-scale development projects increased. The Consulting segment posted sales of ¥13,400 million (up 0.2% year on year) and operating profit of ¥2,089 million (up 3.5%).

(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 (multi-user systems) and developing new businesses by utilizing new approaches such as FinTech, which combines IT and finance.

To expand existing businesses, the Company will upgrade its industry-standard business platforms to steadily respond to regulatory changes and provide support to clients to make their operations more advanced and efficient. In October, the Company started offering new disaster recovery support services with its STAR-IV multi-user back-office support system for retail securities brokerage firms. The Company is also upgrading its multi-user systems in preparation for the shortened settlement cycle of Japanese Government Bonds, scheduled for 2018, and for migration to the Japan Securities Depository Center's new systems.

During the six months ended 30th September, 2016, system development and application sales to securities companies, with major application sales in the same period of the previous fiscal year, system development and application sales to insurance companies and system management and operation services to securities companies declined. As a result, the Financial IT Solutions segment posted sales of ¥120,305 million (down 7.0% year on year). Operating profit declined 21.0% year on year to ¥11,770 million, reflecting the decline in sales and the booking of business structure improvement expenses by subsidiary DSB Co., Ltd. as part of moves to overhaul its operations.

(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.

During the six months ended 30th September, 2016, consulting services to the distribution sectors increased, but operation services and product sales mainly to the manufacturing and service sectors declined. As a result, sales of the Industrial IT Solutions segment were decreased to ¥50,832 million (down 0.3% year on year). Operating profit was ¥3,653 million (down 30.3%) due to increases in subcontracting costs and management and operation expenses.

(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.

In the second quarter of the fiscal year, the Company established specialist digital business company NRI digital, Ltd. to support business innovation at clients by drawing on the combined strengths of the NRI Group in the digital space.

During the six months ended 30th September, 2016, sales to external clients increased in the security business, but decreased in system development and application sales from IT platform architecture projects. Intersegment sales increased in system management and operation services and IT platform architecture projects due to the opening of Osaka Data Center II.

As a result of the above, the IT Platform Services segment posted sales of ¥60,727 million (up 13.7% year on year) and operating profit of ¥7,337 million (up 35.9%).

(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, 2016, the Others segment posted sales of ¥6,546 million (up 6.4% year on year) and operating profit of ¥908 million (up 929.2%). A significant increase of operating profit year on year is due to operating loss in the same period of the previous fiscal year reflected the booking of losses on valuation of software at subsidiaries and other factors.

(2) Qualitative information regarding consolidated financial position

(Assets, liabilities and net assets)

At the end of the second quarter (30th September, 2016), current assets were ¥293,677 million (down 4.3% from the end of the previous fiscal year), noncurrent assets were ¥302,815 million (down 3.8%), current liabilities were ¥108,964 million (down 18.9%), noncurrent liabilities were ¥65,126 million (up 6.2%), net assets were ¥421,807 million (down 0.8%) and total assets were ¥596,492 million (down 4.1%).

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

Accounts receivable declined ¥9,981 million to ¥54,895 million and other receivables increased ¥3,020 million to ¥35,606 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. Short-term investment securities declined ¥92,337 million to ¥8,235 million, reflecting the early redemption of bond investment trusts, which had been held as a means of investing surplus funds, due to the effect of the Bank of Japan's negative interest rate policy.

Goodwill increased ¥3,734 million to ¥11,598 million, reflecting the acquisition of US firm Cutter Associates, LLC, which became a subsidiary.

Investment securities decreased ¥21,304 million to ¥99,092 million due to sales of the Company's shareholdings and a decrease in the value of the Company's shareholdings.

During the second quarter of the fiscal year, the current portion of bonds declined ¥15,000 million due to the redemption of straight corporate bonds. The Company also issued ¥10,000 million in new straight corporate bonds (NRI Green Bonds).

Treasury stock declined ¥9,181 million from the end of the previous fiscal year to ¥39,214 million, mainly reflecting an increase of ¥9,999 million due to the purchase of treasury stock in accordance with a resolution of the Board of Directors, and a decline of ¥18,000 million due to the retirement of treasury stock.

In addition, cash and bank deposits increased ¥89,247 million to ¥151,386 million, net defined benefit asset increased ¥4,517 million to ¥30,424 million, accounts payable declined ¥4,340 million to ¥17,837 million and deferred income tax liabilities declined ¥4,401 million to ¥6,174 million.

(Cash flow position)

Cash and cash equivalents as of the end of the second quarter (30th September, 2016) stood at ¥150,738 million (down ¥4,210 million from the end of the previous fiscal year).

Net cash provided by operating activities in the six months ended 30th September, 2016 was ¥27,636 million, a decrease of ¥13,713 million compared with the same period of the previous fiscal year. It is mainly reflecting that the amount of income taxes paid was small in the same period of the previous fiscal year.

Net cash used in investing activities was ¥4,818 million. Cash was mainly used for investments including the acquisition of property and equipment related to the installation of facilities and equipment at data centers and the acquisition of software and other intangibles related to the development of multi-user systems. In the six months ended 30th September, 2016, net cash used in investing activities was ¥35,541 million less than in the same period of the previous fiscal year, mainly due to proceeds from sales and redemption of short-term investment securities, proceeds from sales of property and equipment and a decline in cash used for the purchase of shares of subsidiaries resulting in change in scope of consolidation.

Net cash used in financing activities was ¥25,129 million. In the same period of the previous fiscal year, financing activities provided net cash of ¥9,411 million, reflecting proceeds from sales of treasury stock of ¥26,209 million. However, there was a substantial switch to cash used in the six months ended 30th September, 2016, reflecting the purchase of treasury stock of ¥9,999 million in accordance with a resolution of the Board of Directors. Also, in the second quarter of the fiscal year, 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.

(3) Qualitative information regarding forecasts of financial results

(I) Business results

The Company is currently considering steps to improve asset efficiency in the datacenter business in order to reduce future financial risk.

As a result, the Company expects to book extraordinary losses in the second half of the fiscal year. Given this outlook, as well as performance in the first half of the fiscal year and recent business trends, the Company has revised its consolidated financial forecasts for the fiscal year ending 31st March 2017 as follows.

The Company will continue to push ahead with its measures for the purpose of improved efficiency in business operations, reduce future financial risk, and work to improve shareholder value by improving corporate value through further strengthening of its financial base.

1) Consolidated performance (from 1st April, 2016 to 31st March, 2017)

	Previous forecast (A)	Revised forecast (B)	Change		(Reference) Previous fiscal year (Actual result)
			Amount (B-A)	Rate (%)	
Sales	435,000	425,000	(10,000)	(2.3)	421,439
Operating profit	62,000	59,000	(3,000)	(4.8)	58,295
Ordinary profit	64,000	61,000	(3,000)	(4.7)	61,001
Profit attributable to owners of the parent	43,500	45,500	2,000	4.6	42,648

2) Non-consolidated performance (from 1st April, 2016 to 31st March, 2017)

	Previous forecast (A)	Revised forecast (B)	Change		(Reference) Previous fiscal year (Actual result)
			Amount (B-A)	Rate (%)	
Sales	365,000	355,000	(10,000)	(2.7)	352,003
Ordinary profit	58,000	58,000	-	-	55,326
Profit	40,500	44,000	3,500	8.6	40,179

(II) Others

The following revisions have been made to the breakdown of consolidated sales forecast (by segment and service) and capital investment forecast for the full fiscal year, in light of the business result in the first half of the fiscal year and recent trends.

1) Consolidated sales by segment (from 1st April, 2016 to 31st March, 2017)

(Millions of yen)

	Previous forecast (A)	Revised forecast (B)	Change		(Reference) Previous fiscal year (Actual result)
			Amount (B-A)	Rate (%)	
Consulting	32,000	30,000	(2,000)	(6.3)	28,370
Financial IT Solutions	257,000	250,000	(7,000)	(2.7)	252,842
Securities sector	120,000	117,000	(3,000)	(2.5)	123,896
Insurance sector	63,000	55,000	(8,000)	(12.7)	57,082
Banking sector	39,000	40,000	1,000	2.6	37,541
Other financial sector, etc.	35,000	38,000	3,000	8.6	34,321
Industrial IT Solutions	105,000	105,000	–	–	101,538
Distribution sector	53,000	54,500	1,500	2.8	51,882
Manufacturing and service sectors	52,000	50,500	(1,500)	(2.9)	49,656
IT Platform Services	31,000	30,000	(1,000)	(3.2)	28,720
Others	10,000	10,000	–	–	9,966
Total	435,000	425,000	(10,000)	(2.3)	421,439

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

2) Consolidated sales by service (from 1st April, 2016 to 31st March, 2017)

(Millions of yen)

	Previous forecast (A)	Revised forecast (B)	Change		(Reference) Previous fiscal year (Actual result)
			Amount (B-A)	Rate (%)	
Consulting services	55,000	57,000	2,000	3.6	52,131
System development & application sales	155,000	145,000	(10,000)	(6.5)	145,157
System management & operation services	215,000	211,000	(4,000)	(1.9)	212,952
Product sales	10,000	12,000	2,000	20.0	11,197
Total	435,000	425,000	(10,000)	(2.3)	421,439

3) Consolidated capital investment and depreciation and amortization (from 1st April, 2016 to 31st March, 2017)

(Millions of yen)

	Previous forecast (A)	Revised forecast (B)	Change		(Reference) Previous fiscal year (Actual result)
			Amount (B-A)	Rate (%)	
Capital investment	45,000	42,000	(3,000)	(6.7)	48,325
Depreciation and amortization	30,000	28,000	(2,000)	(6.7)	32,598

(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, 2016
(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, 2016
(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, 2016	30th September, 2016	30th September, 2016
Assets			
Current assets:			
Cash and bank deposits (<i>Notes 4 and 8</i>)	¥ 62,139	¥151,386	\$1,498,130
Short-term investment securities (<i>Notes 4, 5 and 8</i>)	100,573	8,235	81,494
Accounts receivable and other receivables (<i>Note 4</i>)	97,462	90,501	895,606
Operating loans (<i>Note 4</i>)	6,759	4,410	43,642
Margin transaction assets (<i>Note 4</i>)	10,339	10,300	101,930
Inventories	822	855	8,461
Deferred income taxes	12,141	12,090	119,644
Short-term guarantee deposits (<i>Note 4</i>)	7,528	7,238	71,628
Other current assets	9,353	8,791	86,996
Allowance for doubtful accounts	(172)	(129)	(1,277)
Total current assets	<u>306,944</u>	<u>293,677</u>	<u>2,906,254</u>
Property and equipment:			
Land	7,446	7,433	73,558
Buildings, net	41,916	41,090	406,630
Machinery and equipment, net	16,019	15,395	152,350
Leased assets, net	4	2	20
Construction in progress	–	2,011	19,901
Property and equipment, net	<u>65,385</u>	<u>65,931</u>	<u>652,459</u>
Software and other intangibles	57,222	61,211	605,750
Goodwill	7,864	11,599	114,785
Investment securities (<i>Notes 4 and 5</i>)	120,398	99,093	980,633
Investments in affiliates (<i>Notes 4 and 5</i>)	1,959	1,805	17,862
Deferred income taxes	1,684	1,554	15,379
Long-term loans receivable (<i>Note 4</i>)	8,297	8,359	82,721
Lease investment assets	387	395	3,909
Net defined benefit asset	25,907	30,425	301,089
Other assets	25,805	22,595	223,602
Allowance for doubtful accounts	(157)	(151)	(1,494)
Total assets	<u>¥621,695</u>	<u>¥596,493</u>	<u>\$5,902,949</u>

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars (Note 3)</i>
	31st March, 2016	30th September, 2016	30th September, 2016
Liabilities and Net Assets			
Current liabilities:			
Accounts payable (Note 4)	¥ 22,177	¥ 17,837	\$ 176,517
Current portion of bonds (Note 4)	15,000	–	–
Short-term loans payable (Note 4)	2,270	2,270	22,464
Current portion of long-term loans payable (Note 4)	3,230	3,566	35,289
Margin transaction liabilities (Note 4)	6,344	7,417	73,399
Lease obligations, current	243	234	2,316
Accrued expenses	24,577	25,866	255,972
Income taxes payable	14,325	14,668	145,156
Advance payments received	12,441	13,216	130,787
Short-term guarantee deposits received (Note 4)	8,708	8,128	80,435
Provision for loss on orders received	1,345	1,502	14,864
Other current liabilities	23,644	14,260	141,119
Total current liabilities	<u>134,304</u>	<u>108,964</u>	<u>1,078,318</u>
Bonds (Note 4)	15,000	25,000	247,402
Long-term loans payable (Note 4)	27,970	26,068	257,971
Lease obligations	157	168	1,663
Deferred income taxes	10,576	6,174	61,098
Net defined benefit liability	6,397	6,623	65,542
Asset retirement obligations	963	910	9,005
Other long-term liabilities	264	184	1,822
Reserve for financial products transaction liabilities	655	595	5,888
Total liabilities	<u>¥196,286</u>	<u>¥174,686</u>	<u>\$1,728,709</u>
Net assets (Notes 7 and 9):			
Shareholders' equity:			
Common stock:			
Authorized – 825,000 thousand shares at 31st March, 2016 and 30th September, 2016			
Issued – 247,500 thousand shares at 31st March, 2016 and 240,000 thousand shares at 30th September, 2016	¥ 18,600	¥ 18,600	\$ 184,067
Additional paid-in capital (Note 7)	27,944	14,710	145,571
Retained earnings (Note 7)	378,084	393,089	3,890,045
Treasury stock, at cost: (Note 7)			
– 20,334 thousand shares at 31st March, 2016 and 14,947 thousand shares at 30th September, 2016	(48,396)	(39,214)	(388,065)
Total shareholders' equity	<u>376,232</u>	<u>387,185</u>	<u>3,831,618</u>
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities (Note 5)	39,231	29,103	288,006
Deferred gain or losses on hedges (Note 6)	(26)	(82)	(811)
Foreign currency translation adjustment	(1,290)	(4,025)	(39,832)
Remeasurements of defined benefit plans	(2,597)	(2,516)	(24,899)
Total accumulated other comprehensive income	<u>35,318</u>	<u>22,480</u>	<u>222,464</u>
Share subscription rights	1,034	1,035	10,242
Non-controlling interests	12,825	11,107	109,916
Total net assets	<u>425,409</u>	<u>421,807</u>	<u>4,174,240</u>
Total liabilities and net assets	<u>¥621,695</u>	<u>¥596,493</u>	<u>\$5,902,949</u>

See accompanying notes to quarterly consolidated financial statements.

Nomura Research Institute, Ltd.

Quarterly Consolidated Statement of Income and Comprehensive Income

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars (Note 3)</i>
	Six months ended 30th September,		Six months ended 30th September,
	2015	2016	2016
Sales	¥212,339	¥203,165	\$2,010,539
Cost of sales	147,562	135,922	1,345,096
Gross profit	64,777	67,243	665,443
Selling, general and administrative expenses (Notes 10 and 11)	36,527	40,902	404,770
Operating profit	28,250	26,341	260,673
Other income (expenses):			
Interest and dividend income	1,483	1,377	13,627
Interest expense	(70)	(60)	(594)
Equity in earnings (losses) of affiliates	34	(0)	(0)
Commission for purchase of treasury shares	–	(20)	(198)
Foreign exchange gains	55	274	2,712
Bonds issuance cost	–	(50)	(495)
Gain (loss) on investment securities	(74)	12,914	127,798
Reversal of share-based compensation	9	15	148
Reversal of reserve for financial products transaction liabilities	–	60	594
Provision of reserve for financial products transaction liabilities	(131)	–	–
Other, net	91	96	950
	1,397	14,606	144,542
Income before income taxes	29,647	40,947	405,215
Provision for income taxes (Note 2)	9,352	13,747	136,042
Profit	¥ 20,295	¥ 27,200	\$ 269,173
Profit attributable to owners of parent (Note 9)	¥ 20,127	¥ 28,843	\$ 285,432
Profit (loss) attributable to non-controlling interests	168	(1,643)	(16,259)
Other comprehensive income (loss):			
Valuation difference on available-for-sale securities	861	(10,117)	(100,119)
Deferred gains or losses on hedges (Note 6)	10	(56)	(554)
Foreign currency translation adjustment	(248)	(2,636)	(26,085)
Remeasurements of defined benefit plans, net of tax	896	188	1,860
Share of other comprehensive loss of affiliates	(22)	(98)	(970)
Total other comprehensive income (loss)	1,497	(12,719)	(125,868)
Comprehensive income	¥ 21,792	¥ 14,481	\$ 143,305
Comprehensive income attributable to:			
Comprehensive income attributable to owners of parent	¥ 21,672	¥ 16,006	\$ 158,397
Comprehensive income (loss) attributable to non-controlling interests	120	(1,525)	(15,092)

See accompanying notes to quarterly consolidated financial statements.

Nomura Research Institute, Ltd.

Quarterly Consolidated Statement of Cash Flows

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars (Note 3)</i>
	Six months ended 30th September,		Six months ended 30th September,
	2015	2016	2016
Cash flows from operating activities			
Income before income taxes	¥ 29,647	¥ 40,947	\$ 405,215
Adjustments to reconcile income before income taxes to net cash provided by operating activities:			
Depreciation and amortization	17,853	12,725	125,928
Interest and dividend income	(1,483)	(1,377)	(13,627)
Interest expense	70	60	594
Loss (gain) on investment securities	74	(12,914)	(127,798)
Changes in operating assets and liabilities:			
Accounts receivable and other receivables, net of advance payments received	6,290	7,123	70,490
Allowance for doubtful accounts	(53)	(40)	(396)
Accounts payable	(4,169)	(2,433)	(24,078)
Inventories	(162)	(34)	(336)
Net defined benefit asset	(5,142)	(4,588)	(45,403)
Net defined benefit liability	444	482	4,770
Provision for loss on orders received	(1,429)	157	1,554
Operating loans	2,623	2,349	23,246
Margin transaction assets	6,560	39	386
Short-term guarantee deposits	341	290	2,870
Margin transaction liabilities	(7,711)	1,072	10,609
Short-term guarantee deposits received	262	(580)	(5,740)
Reserve for financial products transaction liabilities	131	(60)	(594)
Other	(3,646)	(3,722)	(36,834)
Subtotal	40,500	39,496	390,856
Interest and dividends received	1,559	1,542	15,260
Interest paid	(74)	(66)	(653)
Income taxes paid	(634)	(13,336)	(131,975)
Net cash provided by operating activities	41,351	27,636	273,488
Cash flows from investing activities			
Payments for time deposits	(834)	(835)	(8,263)
Proceeds from time deposits	504	641	6,343
Purchase of short-term investment securities	(6,003)	(7,009)	(69,362)
Proceeds from sales and redemption of short-term investment securities	2,000	6,000	59,377
Acquisition of property and equipment	(8,392)	(6,752)	(66,818)
Proceeds from sales of property and equipment	-	3,031	29,995
Purchase of software and other intangibles	(12,829)	(14,450)	(142,999)
Payments for asset retirement obligations	(21)	(16)	(158)
Purchase of investment securities	(19,181)	(6,161)	(60,970)
Proceeds from sales and redemption of investment securities	11,742	25,720	254,527
Purchase of investments in affiliates	(28)	-	-
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(7,322)	(4,995)	(49,431)
Other	4	8	80
Net cash used in investing activities	¥ (40,360)	¥ (4,818)	\$ (47,679)

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, 2015	2016	30th September, 2016
Cash flows from financing activities			
Net decrease in short-term loans payable	¥ (8,375)	¥ –	\$ –
Repayment of long-term loans payable	(2,150)	(1,566)	(15,497)
Proceeds from issuance of bonds	–	9,950	98,466
Redemption of bonds	–	(15,000)	(148,441)
Repayment of obligation under finance leases	(19)	(5)	(49)
Proceeds from sales of treasury stock	28,153	1,720	17,021
Purchase of treasury stock	(1)	(10,780)	(106,680)
Cash dividends paid	(8,104)	(9,181)	(90,856)
Cash dividends paid to non-controlling interests	(93)	(95)	(941)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	–	(172)	(1,702)
Net cash provided by (used in) financing activities	9,411	(25,129)	(248,679)
Effect of exchange rate changes on cash and cash equivalents	35	(1,900)	(18,803)
Net increase (decrease) in cash and cash equivalents	10,437	(4,211)	(41,673)
Cash and cash equivalents at beginning of period	140,567	154,949	1,533,389
Cash and cash equivalents at end of period (<i>Note 8</i>)	¥151,004	¥150,738	\$1,491,716

See accompanying notes to quarterly consolidated financial statements.

Nomura Research Institute, Ltd.

Notes to Quarterly Consolidated Financial Statements

30th September, 2016

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 47 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 June, 2016, the NRI Group established two companies and acquired equity interests in three companies. As a result, these five companies are newly included in the scope of consolidation.

During the quarterly period ended 30th September, 2016, the NRI Group established one company. As a result, this company is 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.

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

Accounting Change

In association with amendments to Japan's Corporate Tax Act, the Company has applied "Practical Solution on a change in depreciation method due to Tax Reform 2016" (Practical Issues Task Force No. 32 of 17th June, 2016) from the quarterly period ended 30th June, 2016. As a result, the depreciation method for facilities attached to buildings and structures acquired on or after 1st April, 2016 has been changed from the declining-balance method to the straight-line method.

The impact on the quarterly consolidated financial statements for the six-month period ended 30th September, 2016 as a result of this change was immaterial.

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.

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, 2016 and 30th September, 2016, ¥9,431 million (corresponding to 2,406 thousand shares of the Company held by the ESOP Trust) and ¥8,647 million (\$85,571 thousand) (corresponding to 2,214 thousand shares of the Company held by the ESOP Trust) and the loan payable of the ESOP Trust of ¥10,200 million and ¥8,634 million (\$85,443 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 ¥101.05 = U.S.\$1.00, the rate of exchange prevailing on 30th September, 2016. 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, 2016 and 30th September, 2016 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, 2016			30th September, 2016		
	Carrying amount	Estimated fair value	Difference	Carrying amount	Estimated fair value	Difference
Assets:						
Cash and bank deposits	¥ 62,139	¥ 62,139	¥ –	¥151,386	¥151,386	¥ –
Accounts receivable and other receivables	97,462	97,462	–	90,501	90,501	–
Short-term investment securities, investment securities, and investments in affiliates	217,941	217,941	–	104,225	104,225	–
Operating loans	6,759			4,410		
Allowance for doubtful accounts *1	(13)			–		
Net operating loans	6,746	6,746	–	4,410	4,410	–
Margin transaction assets	10,339	10,339	–	10,300	10,300	–
Short-term guarantee deposits	7,528	7,528	–	7,238	7,238	–
Long-term loans receivable	8,297	8,409	112	8,359	8,409	50
Total	<u>¥410,452</u>	<u>¥410,564</u>	<u>¥112</u>	<u>¥376,419</u>	<u>¥376,469</u>	<u>¥ 50</u>
Liabilities:						
Accounts payable	¥ 22,177	¥ 22,177	¥ –	¥ 17,837	¥ 17,837	¥ –
Short-term loans payable	2,270	2,270	–	2,270	2,270	–
Margin transaction liabilities	6,344	6,344	–	7,417	7,417	–
Short-term guarantee deposits received	8,708	8,708	–	8,128	8,128	–
Bonds *2	30,000	30,116	116	25,000	25,157	157
Long-term loans payable *3	31,200	31,208	8	29,634	29,642	8
Total	<u>¥100,699</u>	<u>¥100,823</u>	<u>¥124</u>	<u>¥ 90,286</u>	<u>¥ 90,451</u>	<u>¥165</u>
Derivative transactions *4	<u>¥ (42)</u>	<u>¥ (42)</u>	<u>¥ –</u>	<u>¥ (97)</u>	<u>¥ (97)</u>	<u>¥ –</u>

	<i>Thousands of U.S. dollars</i>		
	30th September, 2016		
	Carrying amount	Estimated fair value	Difference
Assets:			
Cash and bank deposits	\$1,498,130	\$1,498,130	\$ –
Accounts receivable and other receivables	895,606	895,606	–
Short-term investment securities, investment securities, and investments in affiliates	1,031,420	1,031,420	–
Operating loans	43,642		
Allowance for doubtful accounts *1	–		
Net operating loans	43,642	43,642	–
Margin transaction assets	101,930	101,930	–
Short-term guarantee deposits	71,628	71,628	–
Long-term loans receivable	82,721	83,215	494
Total	<u>\$3,725,077</u>	<u>\$3,725,571</u>	<u>\$ 494</u>
Liabilities:			
Accounts payable	\$ 176,517	\$ 176,517	\$ –
Short-term loans payable	22,464	22,464	–
Margin transaction liabilities	73,399	73,399	–
Short-term guarantee deposits received	80,435	80,435	–
Bonds	247,402	248,956	1,554
Long-term loans payable *3	293,261	293,340	79
Total	<u>\$ 893,478</u>	<u>\$ 895,111</u>	<u>\$1,633</u>
Derivative transactions *4	<u>\$ (960)</u>	<u>\$ (960)</u>	<u>\$ –</u>

*1 The allowance for doubtful accounts for operating loans is determined on an individual basis.

*2 Bonds included the current portion of bonds totaling ¥15,000 million as of 31st March, 2016.

*3 Long-term loans payable included the current portion of long-term loans payable totaling ¥3,230 million and ¥3,566 million (\$35,289 thousand) as of 31st March, 2016 and 30th September, 2016, respectively.

*4 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.

e. 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 corresponding to the time remaining until maturity.

4. Financial Instruments (continued)

Fair value of financial instruments (continued)

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

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.

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, 2016	30th September, 2016	30th September, 2016
Unlisted companies' shares *1	¥4,583	¥4,452	\$44,057
Investments in partnerships *2	406	456	4,513

*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 ¥1,959 million and ¥1,805 million (\$17,862 thousand) as of 31st March, 2016 and 30th September, 2016, 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, 2016 and 30th September, 2016.

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, 2016 and 30th September, 2016:

Securities Classified as Available-for-Sale Securities

	<i>Millions of yen</i>					
	31st March, 2016			30th September, 2016		
	Acquisition cost	Carrying amount	Unrealized gain	Acquisition cost	Carrying amount	Unrealized gain
Equity securities	¥ 21,608	¥ 76,653	¥55,045	¥17,856	¥ 58,325	¥40,469
Bonds:						
Government bonds	6,013	6,027	14	6,009	6,023	14
Corporate bonds	44,297	44,300	3	42,252	42,281	29
	50,310	50,327	17	48,261	48,304	43
Other	93,961	93,991	30	697	699	2
Total	<u>¥165,879</u>	<u>¥220,971</u>	<u>¥55,092</u>	<u>¥66,814</u>	<u>¥107,328</u>	<u>¥40,514</u>

	<i>Thousands of U.S. dollars</i>		
	30th September, 2016		
	Acquisition cost	Carrying amount	Unrealized gain
Equity securities	\$176,705	\$ 577,190	\$400,485
Bonds:			
Government bonds	59,466	59,604	138
Corporate bonds	418,129	418,417	288
	477,595	478,021	426
Other	6,897	6,917	20
Total	<u>\$661,197</u>	<u>\$1,062,128</u>	<u>\$400,931</u>

Non-marketable securities whose fair value is not readily determinable were included in the above table. "Acquisition cost" in the above table is the carrying amount after recognizing impairment loss. Impairment loss on available-for-sale securities whose fair value is not readily determinable as a result of a permanent decline in value for the year ended 31st March, 2016 amounted to ¥104 million. Impairment loss on available-for-sale securities whose fair value is based on quoted market prices as a result of a permanent decline in value for the six months ended 30th September, 2016 amounted to ¥90 million (\$891 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, 2016 and the quarterly period ended 30th September, 2016.

For the derivative transactions to which hedge accounting was applied as of 31st March, 2016 and 30th September, 2016, the contract amounts and estimated fair values of the hedging instruments are as follows.

	<i>Millions of yen</i>			
	31st March, 2016		30th September, 2016	
	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)	¥ 1,139	¥(13)	¥ 616	¥(77)
Forward foreign exchange contracts for accounts payable, accounted for by deferral hedge accounting method: Buy: USD (Sell: JPY)	42	(2)	-	-
Forward foreign exchange contracts for accounts receivable, accounted for by deferral hedge accounting method: Sell: USD (Buy: INR)	153	0	-	-
Interest rate swap contracts for bonds, accounted for by deferral hedge accounting method: Fixed-rate receipt, fixed-rate payment *2	¥30,000	¥(27)	¥15,000	¥(20)
	<i>Thousands of U.S. dollars</i>			
	30th September, 2016			
	Contract amount	Estimated fair value *1		
Forward foreign exchange contracts for accounts payable, accounted for by deferral hedge accounting method: Buy: CNY (Sell: JPY)	\$ 6,096	\$(762)		
Forward foreign exchange contracts for accounts payable, accounted for by deferral hedge accounting method: Buy: USD (Sell: JPY)	-	-		
Forward foreign exchange contracts for accounts receivable, accounted for by deferral hedge accounting method: Sell: USD (Buy: INR)	-	-		
Interest rate swap contracts for bonds, accounted for by deferral hedge accounting method: Fixed-rate receipt, fixed-rate payment *2	\$148,441	\$(198)		

*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 (\$5,641 thousand) at 31st March, 2016 and 30th September, 2016, respectively.

For the six months ended 30th September, 2015

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 14th May, 2015 *1	Common Stock	¥8,105	¥40.00	31st March, 2015	1st June, 2015	Retained earnings

*1 Dividends of ¥85 million paid to the ESOP Trust are included in the total dividends amount.

2) Dividends with a cut-off date in the six-month period ended 30th September, 2015 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 23rd October, 2015 *1	Common Stock	¥8,346	¥40.00	30th September, 2015	30th November, 2015	Retained earnings

*1 Dividends of ¥ 74 million paid to the ESOP Trust are included in the total dividends amount.

3) Significant changes in shareholders' equity

The Company concluded a capital and business alliance agreement with Nippon Life Insurance Company based on the resolution of the Board of Directors on 26th May, 2015, and disposed of a portion of its treasury stock (5,618 thousand shares) by a third-party allotment to Nippon Life Insurance Company. Accordingly, treasury stock decreased by ¥13,411 million and capital surplus increased by ¥12,798 million during the six months ended 30th September, 2015. As a result, treasury stock and capital surplus as of 30th September, 2015 were ¥42,555 million and ¥27,950 million, respectively.

7. Net Assets (continued)

For the six months ended 30th September, 2016

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 13th May, 2016 *1	Common Stock	¥9,183	\$90,876	¥40.00	\$0.40	31st March, 2016	30th May, 2016	Retained earnings

*1 Dividends of ¥97 million (\$960 thousand) paid to the ESOP Trust are included in the total dividends amount.

2) Dividends with a cut-off date in the six-month period ended 30th September, 2016 and an effective date in the following period.

Resolution	Type of shares	Total dividends (Millions of yen)	Total dividends (Thousands of U.S. dollars)	Dividends per share (Yen)	Dividends per share (U.S. dollars)	Cut-off date	Effective date	Source of dividends
Meeting of the Board of Directors on 27th October, 2016 *1	Common Stock	¥9,091	\$89,965	¥40.00	\$0.40	30th September, 2016	30th November, 2016	Retained earnings

*1 Dividends of ¥89 million (\$881 thousand) 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 (\$98,961 thousand). 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 (\$178,130 thousand). As the balance of other additional paid-in capital was negative, ¥(4,655) million (\$46,066) thousand) 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 (\$130,965 thousand), retained earnings increased by ¥15,005 million (\$148,491 thousand) and treasury stock decreased by ¥9,182 million (\$90,866 thousand) during the quarterly period ended 30th September, 2016, respectively. Furthermore, additional paid-in capital, retained earnings and treasury stock amounted to ¥14,710 million (\$145,571 thousand), ¥393,089 million (\$3,890,045 thousand) and ¥39,214 million (\$388,065 thousand), respectively, as of 30th September, 2016.

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, 2015 and 2016 is as follows:

	<i>Millions of yen</i>		<i>Thousands of</i>
			<i>U.S. dollars</i>
	30th September,		30th September,
	2015	2016	2016
Cash and bank deposits	¥ 21,270	¥151,386	\$1,498,130
Short-term investment securities	139,600	8,235	81,494
Time deposits with maturities of more than three months when deposited	(863)	(879)	(8,699)
Bond and other investments maturing in more than three months from the acquisition date	(9,003)	(8,004)	(79,209)
Cash and cash equivalents	<u>¥151,004</u>	<u>¥150,738</u>	<u>\$1,491,716</u>

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		Six months ended
	30th September,		30th September,
	2015	2016	2016
Earnings per share	¥89.56	¥127.95	\$1.27
Diluted earnings per share	89.29	127.73	1.26

*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 October, 2015 and earnings per share, diluted earnings per share and net assets per share are calculated as if the stock split took place on 1st April, 2015.

9. Per Share Data (continued)

The computation of earnings per share and diluted earnings per share for the six months ended 30th September, 2015 and 2016 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,
	2015	2016	2016
Numerator:			
Earnings *2	¥20,127	¥28,843	\$285,432
Earnings not attributable to common shareholders	(-)	(-)	(-)
Earnings attributable to common shareholders	<u>¥20,127</u>	<u>¥28,843</u>	<u>\$285,432</u>
	<i>Thousands of Shares</i>		
Denominator:			
Weighted-average number of shares of common stock outstanding – basic *3	224,719	225,419	
Potentially dilutive shares of common stock:			
Stock options	673	390	
Total	<u>673</u>	<u>390</u>	
Weighted-average number of shares of common stock outstanding – diluted	<u>225,392</u>	<u>225,809</u>	

*1 The Company implemented a 1.1-for-1 stock split effective 1st October, 2015. 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, 2015.

*2 In computing diluted earnings per share for the six-month periods ended 30th September, 2015, an adjustment due to potentially dilutive shares of affiliates in the amount of ¥(0) million 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 2,170 thousand and 2,408 thousand during the six-month periods ended 30th September, 2015 and 2016, respectively.

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, 2015 and 2016:

	<i>Shares</i>	
	Six months ended 30th September,	
	2015	2016
a) 24th share subscription rights	486,750	486,750
b) 26th share subscription rights	–	510,100

10. Selling, General and Administrative Expenses

The details of selling, general and administrative expenses for the six months ended 30th September, 2015 and 2016 are summarized as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	Six months ended 30th September,		Six months ended 30th September,
	2015	2016	2016
Personnel expenses	¥19,616	¥20,982	\$207,640
Rent	2,564	2,842	28,125
Subcontractor costs	6,421	8,088	80,040
Other	7,926	8,990	88,965
Total	<u>¥36,527</u>	<u>¥40,902</u>	<u>\$404,770</u>

11. Research and Development Expenses

Research and development expenses included in selling, general and administrative expenses amounted to ¥2,073 million and ¥2,599 million (\$25,720 thousand) for the six months ended 30th September, 2015 and 2016, respectively.

12. Contingent Liabilities

There were no material contingent liabilities at 31st March, 2016 and 30th September, 2016.

13. Segment Information

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

	<i>Millions of yen</i>								
	Six months ended 30th September, 2015								
	Reportable segment					Others *1	Total	Adjustments *2	Consolidated *3
Consulting	Financial IT Solutions	Industrial IT Solutions	IT Platform Services	Subtotal					
Net sales:									
Sales to external customers	¥13,223	¥128,981	¥50,421	¥15,092	¥207,717	¥4,622	¥212,339	¥ –	¥212,339
Intersegment sales or transfers	155	325	576	38,317	39,373	1,531	40,904	(40,904)	–
Total	13,378	129,306	50,997	53,409	247,090	6,153	253,243	(40,904)	212,339
Segment profit	¥ 2,018	¥ 14,892	¥ 5,242	¥ 5,398	¥ 27,550	¥ 88	¥ 27,638	¥ 612	¥ 28,250

13. Segment Information (continued)

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

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

Thousands of U.S. dollars

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	\$130,411	\$1,185,106	\$501,039	\$142,692	\$1,959,248	\$51,291	\$2,010,539	\$ –	\$2,010,539
Intersegment sales or transfers	2,197	5,453	2,009	458,278	467,937	13,498	481,435	(481,435)	–
Total	132,608	1,190,559	503,048	600,970	2,427,185	64,789	2,491,974	(481,435)	2,010,539
Segment profit	\$ 20,673	\$ 116,477	\$ 36,150	\$ 72,618	\$ 245,918	\$ 8,986	\$ 254,904	\$ 5,769	\$ 260,673

*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 changes in reportable segments

During the quarterly period ended 31st December, 2015, the Company partially changed its segment reporting structure. Subsidiaries providing system development and system management services as part of the Chinese and Asian systems business previously included in “Others” were newly included in the Industrial IT Solutions segment.

Segment information for the six months ended 30th September, 2015 in the above table has been restated to reflect the new segment reporting structure.

14. 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 (\$159.82 million) jointly as compensation for damages due to a delay in the migration.

15. Subsequent Events

Not applicable.