

This financial report is composed of two parts. The first part is an abridged translation of “Kessan Tanshin (earnings report)” for the fiscal year ended 31st March, 2019, which includes the summary and the operating results sections. The second part is the “Consolidated Financial Statements,” which are basically prepared based on the “Kessan Tanshin (earnings report)” but applied for some items different presentation methods.



MEMBERSHIP  
25th April, 2019

## Consolidated Financial Results For the Fiscal Year Ended 31st March, 2019 <under Japanese GAAP>

Company name: Nomura Research Institute, Ltd.  
 Listing: First Section of the Tokyo Stock Exchange  
 Stock code: 4307  
 URL: <http://www.nri.com/jp/>  
 Representative: Shingo Konomoto, President & CEO, Representative Director,  
 Member of the Board  
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 TEL: +81-3-5533-2111 (from overseas)

Scheduled date of ordinary general meeting of shareholders: 20th June, 2019  
 Scheduled date to commence dividend payments: 31st May, 2019  
 Scheduled date to file Securities Report: 25th June, 2019  
 Preparation of supplementary material on consolidated financial results: Yes  
 Announcement for consolidated financial results (for institutional investors and analysts): Yes

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

### 1. Consolidated performance for the fiscal year ended 31st March, 2019 (from 1st April, 2018 to 31st March, 2019)

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

Fiscal year 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	%
31st March, 2019	501,243	6.3	71,442	9.7	72,409	9.4	50,931	(7.6)
31st March, 2018	471,488	11.1	65,138	11.3	66,161	9.6	55,145	22.4

Note: Comprehensive income  
 Fiscal year ended 31st March, 2019: ¥43,202 million [(16.4)%]  
 Fiscal year ended 31st March, 2018: ¥51,654 million [10.1%]

Fiscal year ended	Earnings per share – basic	Earnings per share – diluted	ROE	ROA	Operating margin
	Yen	Yen	%	%	%
31st March, 2019	216.33	215.82	12.3	11.5	14.3
31st March, 2018	228.21	227.55	12.9	10.4	13.8

Reference: Equity in earnings (losses) of affiliates  
 Fiscal year ended 31st March, 2019: ¥(18) million  
 Fiscal year ended 31st March, 2018: ¥(81) million

Note: From the beginning of the fiscal year ended 31st March, 2019, the Company adopted the “Partial Amendments to Accounting Standard for Tax Effect Accounting” (ASBJ Statement No. 28, 16th February, 2018) and relevant Guidances. Also, the Company has finalized provisional accounting treatment for a business combination in the fiscal year ended 31st March, 2019. Consequently, the results for the fiscal year ended 31st March, 2018 are those after retrospective application.

## (2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
As of	Millions of yen	Millions of yen	%	Yen
31st March, 2019	612,192	425,032	67.1	1,763.12
31st March, 2018	643,117	432,674	65.2	1,760.13

Reference: Equity

As of 31st March, 2019: ¥410,978 million

As of 31st March, 2018: ¥419,184 million

Note: From the beginning of the fiscal year ended 31st March, 2019, the Company adopted the “Partial Amendments to Accounting Standard for Tax Effect Accounting” (ASBJ Statement No. 28, 16th February, 2018) and relevant Guidances. Also, the Company has finalized provisional accounting treatment for a business combination in the fiscal year ended 31st March, 2019. Consequently, the results for the fiscal year ended 31st March, 2018 are those after retrospective application.

## (3) Consolidated cash flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Period-end cash and cash equivalents
Fiscal year ended	Millions of yen	Millions of yen	Millions of yen	Millions of yen
31st March, 2019	56,349	(16,826)	(73,106)	123,200
31st March, 2018	73,493	(17,882)	(46,829)	158,303

## 2. Cash dividends

	Annual dividends					Total cash dividends (Full year)	Dividend payout ratio (Consolidated)	Ratio of dividends to net assets (Consolidated)
	First quarter	Second quarter	Third quarter	Fiscal year-end	Total			
	Yen	Yen	Yen	Yen	Yen	Millions of yen	%	%
Fiscal year ended 31st March, 2018	–	45.00	–	45.00	90.00	21,581	39.1	5.1
Fiscal year ended 31st March, 2019	–	45.00	–	45.00	90.00	21,154	41.5	5.1
Fiscal year ending 31st March, 2020 (Forecasts)	–	15.00	–	15.00	30.00		38.4	

- Notes: 1. The second quarter dividend and year-end dividend for the fiscal year ended 31st March, 2018 each include a commemorative dividend of ¥5.00 per share (annual total of ¥10.00).
2. Total cash dividends include dividends for the trust exclusive for NRI Group Employee Stock Ownership Group (¥118 million for the fiscal year ended 31st March, 2018 and ¥93 million for the fiscal year ended 31st March, 2019). The dividend payout ratio is calculated by dividing total cash dividends by profit attributable to owners of the parent.
3. At a meeting on 25th April, 2019, the Board of Directors passed a resolution to implement a 3-for-1 stock split of common stock with an effective date of 1st July, 2019. The forecast of the annual dividends per share for the fiscal year ending 31st March, 2020 have been calculated taking into account the stock split. Excluding the impact of the stock split, the forecast for the amount of annual dividends per share is ¥90 (¥45 for the second quarter dividend and ¥45 for the fiscal year-end dividend).

## 3. Forecasts of financial results for the fiscal year ending 31st March, 2020 (from 1st April, 2019 to 31st March, 2020)

(Percentages indicate year-on-year changes.)

	Sales		Operating profit		Ordinary profit		Profit attributable to owners of the parent		Earnings per share – basic
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Six months ending 30th September, 2019	255,000	6.1	36,000	8.7	37,000	10.2	26,000	13.3	37.18
Fiscal year ending 31st March, 2020	530,000	5.7	76,000	6.4	77,000	6.3	55,000	8.0	78.65

Note: Earnings per share – basic for the fiscal year ending 31st March, 2020 have been calculated taking into account the stock split described in notes to “2. Cash dividends.” Excluding the impact of the stock split, the forecast for earnings per share – basic is ¥111.54 for the six months ending 30th September, 2019 and ¥235.95 for the fiscal year ending 31st March, 2020.

**\* Notes**

- (1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in change in scope of consolidation): None
- (2) 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: None
  - Changes in accounting policies due to other reasons: None
  - Changes in accounting estimates: None
  - Restatement of prior period financial statements after error corrections: None
- (3) Number of shares in issue (common stock)
- Total number of shares in issue at the end of the period (including treasury stock)

As of 31st March, 2019	251,260,000 shares
As of 31st March, 2018	251,000,000 shares
  - Number of shares of treasury stock at the end of the period

As of 31st March, 2019	18,162,153 shares
As of 31st March, 2018	12,844,155 shares
  - Average number of shares during the period (cumulative from the beginning of the fiscal year)

Fiscal year ended 31st March, 2019	235,436,715 shares
Fiscal year ended 31st March, 2018	241,648,208 shares
- Note: The NRI shares held by the trust exclusive for NRI Group Employee Stock Ownership Group are included in treasury stock.

\* Consolidated financial results reports are exempt from audit conducted by certified public accountants or an audit corporation.

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

- The forward-looking statements including business forecasts stated in this document are based on information available to the Company at the present time and certain assumptions judged to be rational, and these statements do not purport to be a promise by the Company to achieve such results. Actual business results, etc. may differ significantly from this forecast due to various factors. For more details, please refer to “(4) Future Outlook,” on pages 10-11.
- At a meeting on 25th April, 2019, the Board of Directors passed a resolution to implement a 3-for-1 stock split of common stock with an effective date of 1st July, 2019.

## Overview of Consolidated Operating Results and Others

### (1) Overview of Consolidated Operating Results for the Current Fiscal Year

(Millions of yen)

	Fiscal year ended 31st March, 2018	Fiscal year ended 31st March, 2019	Year on year	
			Amount	Rate
Sales	471,488	501,243	29,755	6.3%
Overseas sales	43,559	53,081	9,521	21.9%
Overseas sales ratio	9.2%	10.6%	1.4P	–
Operating profit	65,138	71,442	6,303	9.7%
Operating profit (before amortization of goodwill)	69,281	75,373	6,091	8.8%
Operating margin	13.8%	14.3%	0.4P	–
Operating margin (before amortization of goodwill)	14.7%	15.0%	0.3P	–
EBITDA margin	21.9%	21.7%	(0.2)P	–
Ordinary profit	66,161	72,409	6,247	9.4%
Profit attributable to owners of the parent	55,145	50,931	(4,213)	(7.6)%
Return on equity (ROE)	12.9%	12.3%	(0.7)P	–

Notes: 1. Consumption tax and local consumption tax are accounted for by the tax exclusion method.  
 2. EBITDA margin: EBITDA (Operating profit + Depreciation + Amortization of goodwill + Loss on retirement of non-current assets) / Sales

In the current fiscal year ended 31st March, 2019, the Japanese economy continued to recover at a moderate pace, supported by upturns in corporate earnings and business confidence, despite concerns about the slowdown in the global economy due to trade friction originating in the U.S. and the UK's decision to leave the EU. Investment in information systems was continuously firm. Operating in such an environment, Nomura Research Institute (“the Company”) and its consolidated subsidiaries (“the NRI Group”) carried out its business activities leveraging the combined strengths of the NRI Group, allowing it to seamlessly provide services encompassing consulting through to system development and operations. The fiscal year ended 31st March, 2019 was the final year of the medium-term plan (from the fiscal year ended 31st March, 2017 to the fiscal year ended 31st March, 2019) formulated for realizing the goals of Vision 2022, the NRI Group's long-term management plan. The NRI Group achieved the quantitative financial targets of the medium-term plan as a result of initiatives for stepping up measures to boost productivity and quality, growing the earnings base by developing large-scale clients, and establishing an operating base and accumulating experience in the digital and global fields.

In the digital field, the use of IT by companies and societies is approaching a major turning point. There is worldwide growing momentum behind initiatives to spur digital transformation (DX), which will enable companies to revamp business models, products and services and secure competitive advantages by using new digital technologies such as cloud computing, artificial intelligence (AI) and the internet of things (IoT). As well as upgrading and improving the efficiency of existing business models, clients are using DX to create new business models. Leveraging its consulting and IT solutions, the NRI Group will support clients' initiatives on DX.

The global business grew in scale, now making up 10.6% of consolidated sales in the current fiscal year, with overseas sales recording ¥53,081 million (up 21.9% year on year). The Company provides support to Japanese companies expanding globally and develops businesses geared to local governments and companies. Also, the Company works to forge business alliances and M&A deals with companies that have advanced technologies, intellectual properties including business models, and strong networks. The Company is expanding its presence in business fields across the globe, particularly in Australia. In order to generate further synergies with subsidiaries acquired through M&A deals, the Company will build a new business management system, operational management system and other systems to drive forward the integration process after acquisition. In September 2018, to ensure that the Company is trusted worldwide and to increase its presence, the Company received an A rating from S&P Global Ratings Japan Inc.

In addition, in the first quarter of the current fiscal year, the Company started using a recently established training facility at the Yokohama Center as a base to train personnel who will drive growth in the business related to DX and other new businesses.

Also, the Company purchased treasury stock of ¥29,999 million (5,544,900 shares) as its flexible capital management aimed at improving capital efficiency and responding to changes in the business environment.

In the current fiscal year, the NRI Group's sales totaled ¥501,243 million (up 6.3% year on year), supported by higher sales from all services, particularly from consulting services and system development and application sales. Cost of sales was ¥336,508 million (up 7.9%) and gross profit was ¥164,735 million (up 3.2%). Despite an increase in the number of subsidiaries, selling, general and administrative expenses were ¥93,293 million (down 1.3%), due to the absence of expenses incurred for office relocation in the previous fiscal year. As a result, operating profit was ¥71,442 million (up 9.7%), the operating margin was 14.3% (up 0.4 points) and ordinary profit was ¥72,409 million (up 9.4%). Operating profit (before amortization of goodwill) was ¥75,373 million (up 8.8%), the operating margin (before amortization of goodwill) was 15.0% (up 0.3 points) and the EBITDA margin was 21.7% (down 0.2 points). In extraordinary income and losses, the Company posted a gain on investment securities of ¥9,079 million in conjunction with sales of the Company's shareholdings (¥22,078 million was posted in the previous fiscal year), but posted impairment loss on goodwill of ¥3,698 million as an extraordinary loss due to diminished profitability of certain U.S. subsidiaries. As a result, profit attributable to owners of the parent was ¥50,931 million (down 7.6%).

### Segment information

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

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

(Millions of yen)

		Fiscal year ended 31st March, 2018	Fiscal year ended 31st March, 2019	Year on year	
				Amount	Rate
Consulting	Sales	35,332	41,947	6,614	18.7%
	Operating profit	6,561	7,810	1,248	19.0%
	Operating margin	18.6%	18.6%	0.0P	–
Financial IT Solutions	Sales	254,567	255,162	595	0.2%
	Operating profit	27,673	27,095	(578)	(2.1)%
	Operating margin	10.9%	10.6%	(0.3)P	–
Industrial IT Solutions	Sales	157,585	177,114	19,528	12.4%
	Operating profit	15,119	18,425	3,305	21.9%
	Operating margin	9.6%	10.4%	0.8P	–
IT Platform Services	Sales	122,342	127,777	5,434	4.4%
	Operating profit	14,764	17,130	2,366	16.0%
	Operating margin	12.1%	13.4%	1.3P	–
Adjustments	Sales	(98,340)	(100,757)	(2,417)	–
	Operating profit	1,018	980	(38)	–
Total	Sales	471,488	501,243	29,755	6.3%
	Operating profit	65,138	71,442	6,303	9.7%
	Operating margin	13.8%	14.3%	0.4P	–

**(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 put in place systems to support all areas of client operations as their business transformation partner, while also worked on expanding the client base, including in overseas markets.

In the current fiscal year, in addition to the contributions from the business in Australia, consulting work to support clients in their DX and system consulting work to support clients in their large-scale development projects increased. As a result, the Consulting segment posted sales of ¥41,947 million (up 18.7% year on year). Higher profitability continued amid a favorable order environment, with operating profit of ¥7,810 million (up 19.0%).

**(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 raising productivity by upgrading development resource management and developing new services and securing new clients for its industry-standard business platforms, while also supporting clients' initiatives on DX in the financial sector.

In the current fiscal year, system management and operation services and system development and application sales to securities companies declined, but system development and application sales to insurance companies and companies in the other financial sector increased, and as did consulting services to insurance companies. As a result, the Financial IT Solutions segment posted sales of ¥255,162 million (up 0.2% year on year). Operating profit totaled ¥27,095 million (down 2.1%), reflecting the booking of losses on valuation of multiple software applications.

**(Industrial IT Solutions)**

This segment provides IT solutions such as system consulting, system development, and system management and operation services to the distribution, manufacturing, service and public sectors. As well as upgrading and improving the efficiency of existing business models, clients in the industrial sector are using DX to create new business models. Working closely with the Consulting segment, which has a large number of clients in the industrial sector, the Company will support its clients' initiatives on DX to expand its client base.

In the current fiscal year, business in Australia contributed to sales and sales increased from system management and operation services and system development and application sales in the manufacturing and service, and distribution sectors. As a result, the Industrial IT Solutions segment posted sales of ¥177,114 million (up 12.4% year on year). Profitability improved amid a continued favorable order environment from the previous fiscal year, with operating profit of ¥18,425 million (up 21.9%).

**(IT Platform Services)**

This segment mainly provides services such as the management and administration of data centers and IT platform and network architecture to the Financial IT Solutions and Industrial IT Solutions segments. It also provides IT platform solutions and information security services to clients of various industries. In addition, the segment conducts explorative initiatives for the development of new business operations and new products related to IT solutions, and investigation and research primarily related to leading-edge information technologies.

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. Also, the Company is engaged in the development of new businesses related to DX, such as digital marketing, and the development of services that provide support to clients to make their operations more efficient and advanced using AI, and the development of IT platform services utilizing multi-cloud computing<sup>\*1</sup>.

Moreover, during the third quarter of the current fiscal year, aiming to help realize a mobility society with security and safety, the Company established the cybersecurity business NDIAS, Ltd. through joint investment with DENSO CORPORATION.

In the current fiscal year, sales to external clients increased in the security business and digital workplace business<sup>\*2</sup>, and intersegment sales increased mainly in cloud computing and network services.

As a result of the above, the IT Platform Services segment posted sales of ¥127,777 million (up 4.4% year on year) and operating profit of ¥17,130 million (up 16.0%).

\*1 Multi-cloud computing refers to the combined use of multiple cloud computing services across hosting environments.

\*2 The digital workplace business provides solutions that increase the value of employee experience by combining the three elements of corporate culture, IT, and physical environments such as office space.

## (2) Overview of Consolidated Financial Position for the Current Fiscal Year

From the fiscal year ended 31st March, 2019, the Company adopted the “Partial Amendments to Accounting Standard for Tax Effect Accounting” (ASBJ Statement No. 28) and relevant Guidances. Also, the Company has finalized provisional accounting treatment for a business combination in the fiscal year ended 31st March, 2019. Consequently, the year-on-year comparisons below use the results for the end of the previous fiscal year after the aforementioned retrospective application.

(Millions of yen)

	As of 31st March, 2018	As of 31st March, 2019	Year on year	
			Amount	Rate
Current assets	298,275	285,788	(12,486)	(4.2)%
Noncurrent assets	344,842	326,404	(18,437)	(5.3)%
Total assets	643,117	612,192	(30,924)	(4.8)%
Current liabilities	162,133	124,264	(37,869)	(23.4)%
Noncurrent liabilities	47,714	62,419	14,705	30.8%
Net assets	432,674	425,032	(7,642)	(1.8)%
Equity	419,184	410,978	(8,205)	(2.0)%
Equity ratio	65.2%	67.1%	2.0P	–
Interest-bearing debt	81,680	60,883	(20,796)	(25.5)%
D/E ratio (times)	0.19	0.15	(0.05)	–

Notes: 1. Equity: Net assets – Non-controlling interests – Share subscription rights  
2. D/E ratio (debt-to-equity ratio): Interest-bearing debt / equity

At the end of the current fiscal year (31st March, 2019), current assets were ¥285,788 million (down 4.2% from the end of the previous fiscal year), noncurrent assets were ¥326,404 million (down 5.3%), current liabilities were ¥124,264 million (down 23.4%), noncurrent liabilities were ¥62,419 million (up 30.8%), net assets were ¥425,032 million (down 1.8%) and total assets were ¥612,192 million (down 4.8%). In addition, the D/E ratio (debt-to-equity ratio) at the end of the current fiscal year was 0.15 times.

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

A significant number of projects ended in March of the current fiscal year. As a result, accounts receivable increased ¥12,283 million to ¥88,101 million and other receivables increased ¥7,760 million to ¥44,010 million.

Investment securities decreased ¥8,795 million to ¥80,203 million due to sales of the Company’s shareholdings, a decrease in the value of those holdings, and redemption of short-term investment securities that had been held for fund management purposes and despite purchases of short-term investment securities for surplus fund management purposes. As a result, valuation difference on available-for-sale securities decreased ¥5,293 million to ¥27,152 million.

Goodwill decreased ¥9,051 million to ¥27,572 million as a result of having recognized impairment loss, in addition to the amortization.

The current portion of bonds declined ¥15,000 million due to the redemption of the second series bonds.

As for loans payable, whereas the Company repaid syndicated loans amounting to ¥20,000 million in the fourth quarter of the current fiscal year, the trust exclusive for NRI Group Employee Stock Ownership Group has borrowed ¥17,500 million for the Trust-type Employee Stock Ownership Incentive Plan. As a result, the current portion of long-term loans payable decreased ¥19,027 million to ¥4,679 million, and long-term loans payable increased ¥12,805 million to ¥13,213 million.

Treasury stock increased ¥30,979 million from the end of the previous fiscal year to ¥72,197 million, mainly reflecting an increase of ¥29,999 million due to the purchase of treasury stock in accordance with a resolution of the Board of Directors.

In addition, cash and bank deposits decreased ¥34,768 million to ¥124,773 million, net defined benefit asset increased ¥4,349 million to ¥60,050 million, accounts payable increased ¥4,816 million to ¥27,698 million and income taxes payable declined ¥14,797 million to ¥6,435 million.



### (3) Overview of Consolidated Cash Flow Position for the Current Fiscal Year

(Millions of yen)

	Fiscal year ended 31st March, 2018	Fiscal year ended 31st March, 2019	Year on year	
			Amount	Rate
Cash flows from operating activities	73,493	56,349	(17,143)	(23.3)%
Cash flows from investing activities	(17,882)	(16,826)	1,056	(5.9)%
Free cash flows	55,610	39,523	(16,087)	(28.9)%
Cash flows from financing activities	(46,829)	(73,106)	(26,276)	56.1%
Net increase (decrease) in cash and cash equivalents	6,251	(35,102)	(41,354)	–
Cash and cash equivalents at end of period	158,303	123,200	(35,102)	(22.2)%

Cash and cash equivalents as of the end of the current fiscal year (31st March, 2019) stood at ¥123,200 million (down ¥35,102 million from the end of the previous fiscal year).

Net cash provided by operating activities in the current fiscal year was ¥56,349 million, a decrease of ¥17,143 million compared with the previous fiscal year, mainly due to an increase in income taxes paid.

Net cash used in investing activities was ¥16,826 million, a decline of ¥1,056 million from the previous fiscal year. Cash was mainly used for investments, including the acquisition of software and other intangibles related to the development of multi-user systems, and the purchase of short-term investment securities for fund management purposes. On the other hand, cash was provided by proceeds from sales and redemption of short-term investment securities.

Net cash used in financing activities was ¥73,106 million, an increase of ¥26,276 million from the previous fiscal year. In accordance with a resolution of the Board of Directors, ¥49,999 million worth of treasury stock was purchased in the previous fiscal year and ¥29,999 million worth of treasury stock was purchased in the current fiscal year. Also, cash was used for the redemption of ¥15,000 million in the second series bonds and repayment of ¥20,000 million in syndicated loans. Moreover, the trust exclusive for NRI Group Employee Stock Ownership Group established based on the Trust-type Employee Stock Ownership Incentive Plan borrowed ¥17,500 million in syndicated loans to be used as a source of funds for purchasing the Company's shares.

#### Reference: Trends in cash flow-related indicators

	Fiscal year ended 31st March, 2015	Fiscal year ended 31st March, 2016	Fiscal year ended 31st March, 2017	Fiscal year ended 31st March, 2018	Fiscal year ended 31st March, 2019
Equity ratio (%)	65.6	66.2	69.1	65.2	67.1
Market value equity ratio (%)	152.8	138.5	161.8	186.6	191.5
Interest-bearing debt to operating cash flow ratio (years)	1.2	0.8	1.0	1.1	1.1
Interest coverage ratio (value to one)	441.1	586.7	426.9	280.9	127.6

Equity ratio: (Net assets - Non-controlling interests - Share subscription rights) / Total assets

Market value equity ratio: Market capitalization / Total assets

Interest-bearing debt to operating cash flow ratio: Interest-bearing debt / Operating cash flow

Interest coverage ratio: Operating cash flow / Paid interest

Notes:

1. All indicators are calculated using financial figures on a consolidated basis.
2. Market capitalization is calculated based on the number of shares in issue excluding treasury stock.
3. The NRI shares held by the trust exclusive for NRI Group Employee Stock Ownership Group are included in treasury stock.
4. Interest-bearing debt, among liabilities recorded on the consolidated balance sheet, includes all liabilities on which interests are paid, and corporate bonds.
5. From the beginning of the fiscal year ended 31st March, 2019, the Company adopted the "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, 16th February, 2018) and relevant Guidances. Consequently, the results for the fiscal year ended 31st March, 2018 are those after retrospective application.
6. The Company has finalized provisional accounting treatment for a business combination in the fiscal year ended 31st March, 2019. Consequently, figures for the fiscal year ended 31st March, 2018, have been adjusted to reflect the significant revision of the initially allocated amounts of acquisition costs upon finalization of the provisional accounting treatment.

## (4) Future Outlook

### (I) Consolidated performance

The Company has formulated Vision 2022, the NRI Group's long-term management plan embodying the Company's aim of sustainably increasing its corporate value, and the fiscal year ended March 31st March, 2019 was the final year of the three-year first half of the medium-term plan (from the fiscal year ended 31st March, 2017 to the fiscal year ended 31st March, 2019). In order to realize goals of Vision 2022, the Company has newly formulated the four-year second half of the plan, "NRI Group Medium-term Management Plan (2019-2022)" (the "Medium-term Management Plan 2022"\*).

Quantitative financial targets (consolidated) of the Medium-term Management Plan 2022 are as follows.

Medium-term Management Plan 2022 (fiscal year ending 31st March, 2023)  
(from 1st April, 2022 to 31st March, 2023)

	(Millions of yen)	
	Current fiscal year (Actual result)	Next fiscal year (Targets)
Sales	501,243	670,000 or more
Operating profit	71,442	100,000
Operating margin	14.3%	14% or more
Overseas sales	53,081	100,000
EBITDA margin	21.7%	20% or more
Return on equity (ROE)	12.3%	14%

\* For details of the Medium-term Management Plan 2022, refer to "NRI Group Formulates the Medium-term Management Plan 2022" (timely disclosure materials) and "Presentation Materials for the NRI Group's Medium-term Management Plan 2022" released by the Company on April 25, 2019.

During the fiscal year ending 31st March, 2020, the initial fiscal year of the Medium-term Management Plan 2022, the Company will promote its growth strategies under the Medium-term Management Plan 2022 (encompassing DX strategy, global strategy, personnel and resources strategy), while fully leveraging the combined strengths of the NRI Group to seamlessly provide services encompassing consulting through to system development and operations.

For the fiscal year ending March 31, 2020, the Company forecasts sales of ¥530,000 million (up 5.7% year on year), operating profit of ¥76,000 million (up 6.4%), ordinary profit of ¥77,000 million (up 6.3%), and profit attributable to owners of the parent of ¥55,000 million (up 8.0%).

Consolidated financial forecasts for the fiscal year ending 31st March, 2020  
(from 1st April, 2019 to 31st March, 2020)

	Current fiscal year (Actual result)	Next fiscal year (Forecasts)	Year on year	
			Amount	Rate (%)
Sales	501,243	530,000	28,756	5.7
Operating profit	71,442	76,000	4,557	6.4
Ordinary profit	72,409	77,000	4,590	6.3
Profit attributable to owners of the parent	50,931	55,000	4,068	8.0

## (II) Other forecasts

- a. Consolidated sales by segment for the fiscal year ending 31st March, 2020  
(from 1st April, 2019 to 31st March, 2020)

(Millions of yen)

	Current fiscal year (Actual result)	Next fiscal year (Forecasts)	Change	
			Amount	Rate (%)
Consulting	34,839	37,000	2,160	6.2
Financial IT Solutions	252,367	266,000	13,632	5.4
Securities sector	100,309	110,000	9,690	9.7
Insurance sector	64,874	66,000	1,125	1.7
Banking sector	43,404	45,000	1,595	3.7
Other financial sector, etc.	43,780	45,000	1,219	2.8
Industrial IT Solutions	180,882	190,000	9,117	5.0
Distribution sector	66,814	68,000	1,185	1.8
Manufacturing and service sectors	114,068	122,000	7,931	7.0
IT Platform Services	33,153	37,000	3,846	11.6
Total	501,243	530,000	28,756	5.7

\*1 The breakdowns of the segments are comprised of sales by customer sector.

\*2 As a result of changes to segments carried out in April 2019, the figures for the current fiscal year (ended 31st March, 2019) have been restated to reflect the new segment classification.

- b. Consolidated sales by service for the fiscal year ending 31st March, 2020  
(from 1st April, 2019 to 31st March, 2020)

(Millions of yen)

	Current fiscal year (Actual result)	Next fiscal year (Forecasts)	Change	
			Amount	Rate (%)
Consulting services	90,816	95,000	4,183	4.6
System development & application sales	150,467	165,000	14,532	9.7
System management & operation services	244,273	255,000	10,726	4.4
Product sales	15,686	15,000	(686)	(4.4)
Total	501,243	530,000	28,756	5.7

- c. Consolidated capital investment, depreciation and amortization and R&D expenses for the fiscal year ending 31st March, 2020 (from 1st April, 2019 to 31st March, 2020)

(Millions of yen)

	Current fiscal year (Actual result)	Next fiscal year (Forecasts)	Change	
			Amount	Rate (%)
Capital investment	26,276	30,000	3,723	14.2
Depreciation and amortization	30,427	31,000	572	1.9
R&D expenses	3,665	4,000	334	9.1

(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.

## (5) Basic Policy Regarding Profit Distribution, and Dividend Payments for Current and Next Fiscal Year

### a. Policy for distribution of profits

The Company considers the ongoing growth of its corporate value to be the most important return to its shareholders. The Company's basic policy on the payment of dividends from surplus is to continue to provide stable dividends while securing sufficient retained earnings for its medium- and long-term business development. In line with this policy, the Company has targeted a consolidated dividend payout ratio\* of 35%, taking into account factors such as operating revenue and the cash flow situation.

Retained earnings will be utilized as a source of funds for business expansion, including capital investment and R&D investment to enhance existing businesses and cultivate new businesses, investment in human resource development, and strategic investment such as M&A. Retained earnings may also be utilized to purchase treasury stock, as part of the Company's flexible capital management aimed at improving capital efficiency and responding to changes in the business environment.

In accordance with Article 459 of the Companies Act, the Company stipulates in its Articles of Incorporation that it may pay dividends from surplus by a resolution of the Board of Directors based on record dates of 30th September and 31st March.

\* Consolidated dividend payout ratio = Total annual cash dividends (including dividends for the trust exclusive for NRI Group Employee Stock Ownership Group) / Profit attributable to owners of the parent

### b. Payment of dividends from surplus

Based on the policy above and business results for the current fiscal year, the Company plans to pay cash dividends of ¥45 per share with the record date of the end of the current fiscal year (31st March, 2019). Consequently, combined with second quarter dividend paid in November 2018 (based on the record date of 30th September, 2018), the annual dividend payment will be ¥90 per share, resulting in a consolidated dividend payout ratio of 41.5%.

The payments of dividends from surplus with record dates falling in the current fiscal year are listed below.

Date of Board resolution	Total cash dividends (Millions of yen)	Cash dividends per share (Yen)	Record date
25th October, 2018	10,605	45	30th September, 2018
15th May, 2019 (Planned)	10,549	45	31st March, 2019

Note: The total cash dividends include dividends for the trust exclusive for NRI Group Employee Stock Ownership Group (portion decided by resolution in October 2018 was ¥33 million and the planned portion to be decided by resolution in May 2019 is ¥60 million).

Regarding dividends for the following fiscal year (ending 31st March, 2020), the Company plans to pay an annual dividend of ¥90 per share\*, comprising a second quarter dividend of ¥45 and a year-end dividend of ¥45.

\* At a meeting on 25th April, 2019, the Board of Directors passed a resolution to implement a 3-for-1 stock split of common stock with an effective date of 1st July, 2019. The dividend payments for the next fiscal year as stated above do not take the stock split into account. The annual dividend payment would amount to ¥30 per share taking the stock split into account (second quarter dividend of ¥15 and year-end dividend of ¥15).

**Nomura Research Institute, Ltd.**

**Consolidated Financial Statements**

*At 31st March, 2019 and for the year then ended  
with Independent Auditor's Report*

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.  
Consolidated Financial Statements

31st March, 2017 (unaudited), 2018 and 2019

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## Independent Auditor's Report

The Board of Directors  
Nomura Research Institute, Ltd.

We have audited the accompanying consolidated financial statements of Nomura Research Institute, Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2019, and the consolidated statements of income and comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

### *Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Nomura Research Institute, Ltd. and its consolidated subsidiaries as at March 31, 2019, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

### *Convenience Translation*

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 2.

*Ernst & Young ShinNihon LLC*

June 19, 2019  
Tokyo, Japan

Nomura Research Institute, Ltd.

Consolidated Balance Sheet

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars (Note 2)</i>
	<b>31st March,</b>		<b>31st March,</b>
	<b>2018</b>	<b>2019</b>	<b>2019</b>
<b>Assets</b>			
Current assets:			
Cash and bank deposits ( <i>Notes 3 and 13</i> )	¥159,542	¥124,773	\$1,124,081
Short-term investment securities ( <i>Notes 3, 4 and 13</i> )	1,219	2,122	19,117
Accounts receivable and other receivables ( <i>Notes 3 and 7</i> )	112,068	132,112	1,190,198
Operating loans ( <i>Note 3</i> )	3,925	1,725	15,541
Margin transaction assets ( <i>Note 3</i> )	6,945	7,413	66,784
Inventories	1,117	2,131	19,198
Prepaid expenses	5,525	6,446	58,072
Short-term guarantee deposits ( <i>Note 3</i> )	3,404	3,504	31,568
Other current assets	4,734	5,770	51,982
Allowance for doubtful accounts	(205)	(208)	(1,874)
Total current assets	<u>298,274</u>	<u>285,788</u>	<u>2,574,667</u>
Property and equipment ( <i>Note 8</i> ):			
Land	7,060	7,060	63,604
Buildings, net	36,956	35,698	321,604
Buildings in trust, net	8,310	8,184	73,730
Machinery and equipment, net	15,514	13,804	124,360
Leased assets, net	688	630	5,675
Property and equipment, net	<u>68,528</u>	<u>65,376</u>	<u>588,973</u>
Software	49,502	45,824	412,829
Software in progress	11,569	13,065	117,703
Goodwill ( <i>Notes 13, 24 and 25</i> )	36,625	27,573	248,405
Other intangibles	6,052	5,044	45,441
Investment securities ( <i>Notes 3 and 4</i> )	88,999	80,203	722,550
Investments in affiliates ( <i>Notes 3 and 4</i> )	5,231	5,638	50,793
Deferred tax assets ( <i>Note 11</i> )	2,654	3,659	32,964
Lease investment assets	412	314	2,829
Net defined benefit asset ( <i>Note 10</i> )	55,701	60,050	540,991
Other assets ( <i>Note 9</i> )	19,674	19,684	177,332
Allowance for doubtful accounts	(104)	(26)	(234)
Total assets	<u>¥643,117</u>	<u>¥612,192</u>	<u>\$5,515,243</u>



	<i>Millions of yen</i>		<i>Thousands of U.S. dollars (Note 2)</i>
	<b>31st March,</b>		<b>31st March,</b>
	<b>2018</b>	<b>2019</b>	<b>2019</b>
<b>Liabilities and Net Assets</b>			
Current liabilities:			
Accounts payable (Note 3)	¥ 22,882	¥ 27,699	\$ 249,541
Short-term loans payable (Note 3)	6,074	6,346	57,171
Current portion of bonds (Note 3)	15,000	–	–
Current portion of long-term loans payable (Note 3)	23,707	4,680	42,162
Margin transaction liabilities (Note 3)	1,014	1,672	15,063
Lease obligations, current	612	526	4,739
Accrued expenses	35,637	35,895	323,378
Income taxes payable	21,233	6,435	57,973
Advance payments received	11,748	15,536	139,964
Short-term guarantee deposits received (Note 3)	4,540	5,993	53,991
Provision for loss on orders received	51	933	8,405
Asset retirement obligations	71	18	162
Other current liabilities	19,564	18,531	166,946
Total current liabilities	162,133	124,264	1,119,495
Bonds (Note 3)	34,083	33,932	305,694
Long-term loans payable (Note 3)	408	13,213	119,036
Lease obligations	765	531	4,785
Deferred tax liabilities (Note 11)	5,554	5,928	53,405
Net defined benefit liability (Note 10)	5,662	6,270	56,486
Asset retirement obligations	1,048	2,394	21,568
Other long-term liabilities	194	152	1,369
Reserve for financial products transaction liabilities	595	476	4,288
Total liabilities	¥210,442	¥187,160	\$1,686,126
Net assets (Notes 12 and 14):			
Shareholders' equity:			
Common stock:			
Authorized	– 907,500 thousand shares at 31st March, 2018 and 907,500 thousand shares at 31st March, 2019		
Issued	– 251,000 thousand shares at 31st March, 2018 and 251,260 thousand shares at 31st March, 2019		
	¥ 18,600	¥ 19,338	\$ 174,216
Additional paid-in capital	14,776	15,551	140,099
Retained earnings	393,488	423,047	3,811,234
Treasury stock, at cost:	– 12,844 thousand shares at 31st March, 2018 and 18,162 thousand shares at 31st March, 2019		
	(41,218)	(72,197)	(650,423)
Total shareholders' equity	385,646	385,739	3,475,126
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities (Note 4)	32,446	27,152	244,613
Deferred gains or losses on hedges (Note 5)	(3)	–	–
Foreign currency translation adjustment	(3,956)	(4,066)	(36,631)
Remeasurements of defined benefit plans (Note 10)	5,052	2,153	19,396
Total accumulated other comprehensive income	33,539	25,239	227,378
Share subscription rights (Note 23)	1,302	978	8,811
Non-controlling interests	12,188	13,076	117,802
Total net assets	432,675	425,032	3,829,117
Total liabilities and net assets	¥643,117	¥612,192	\$5,515,243

See accompanying notes to consolidated financial statements.

Nomura Research Institute, Ltd.

Consolidated Statement of Income and Comprehensive Income

	<i>Millions of yen</i>			<i>Thousands of U.S. dollars (Note 2)</i>
	<b>Year ended 31st March,</b>			<b>Year ended 31st March,</b>
	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2019</b>
	<b>(Unaudited)</b>			
Sales	¥424,549	¥471,488	¥501,244	\$4,515,712
Cost of sales ( <i>Note 16</i> )	280,762	311,868	336,509	3,031,613
Gross profit	143,787	159,620	164,735	1,484,099
Selling, general and administrative expenses ( <i>Notes 17 and 18</i> )	85,272	94,482	93,293	840,477
Operating profit	58,515	65,138	71,442	643,622
Other income (expenses):				
Interest and dividend income	1,741	1,719	1,443	13,000
Interest expense	(143)	(262)	(442)	(3,982)
Equity in losses of affiliates	(20)	(81)	(19)	(171)
Commission for purchase of treasury stock	(20)	(308)	(200)	(1,802)
Foreign exchange gains (losses)	96	(159)	(34)	(306)
Bonds issuance cost	(50)	(137)	–	–
Loss on property and equipment	(8,568)	(153)	–	–
Gain on investment securities ( <i>Note 4</i> )	13,131	22,025	7,734	69,676
Gain on investments in affiliates	–	10	184	1,658
Reversal of share-based compensation ( <i>Note 23</i> )	15	16	3	27
Office transfer cost ( <i>Note 20</i> )	–	(5,532)	–	–
Reversal of reserve for financial products transaction liabilities	60	–	118	1,063
Impairment loss ( <i>Note 19</i> )	–	–	(3,699)	(33,324)
Other, net	236	252	220	1,981
	6,478	17,390	5,308	47,820
Income before income taxes	64,993	82,528	76,750	691,442
Provision for income taxes ( <i>Note 11</i> ):				
Current	15,747	27,091	21,270	191,622
Deferred	5,296	(735)	3,944	35,532
	21,043	26,356	25,214	227,154
Profit	¥ 43,950	¥ 56,172	¥ 51,536	\$ 464,288
Profit attributable to owners of parent ( <i>Note 14</i> )	¥ 45,065	¥ 55,146	¥ 50,932	\$ 458,847
Profit (loss) attributable to non-controlling interests	(1,115)	1,026	604	5,441
Other comprehensive income (loss) ( <i>Note 21</i> ):				
Valuation difference on available-for-sale securities	(2,015)	(4,704)	(5,355)	(48,243)
Deferred gains or losses on hedges ( <i>Note 5</i> )	14	8	3	27
Foreign currency translation adjustment	436	(3,081)	(90)	(811)
Remeasurements of defined benefit plans, net of tax ( <i>Note 10</i> )	4,558	3,242	(2,871)	(25,865)
Share of other comprehensive income (loss) of affiliates	(40)	18	(20)	(180)
Total other comprehensive income (loss)	2,953	(4,517)	(8,333)	(75,072)
Comprehensive income	¥ 46,903	¥ 51,655	¥ 43,203	\$ 389,216
Comprehensive income attributable to:				
Comprehensive income attributable to owners of parent	¥ 47,841	¥ 50,591	¥ 42,633	\$ 384,081
Comprehensive income (loss) attributable to non-controlling interests	(938)	1,064	570	5,135

See accompanying notes to consolidated financial statements.

# Nomura Research Institute, Ltd.

## Consolidated Statement of Changes in Net Assets

*Millions of yen*

	Shareholders' equity				Total shareholders' equity
	Common stock	Additional paid-in capital	Retained earnings	Treasury stock, at cost	
<b>Balance at 1st April, 2016 (unaudited)</b>	¥18,600	¥27,944	¥378,084	¥(48,396)	¥376,232
Purchase of treasury stock	–	–	–	(10,820)	(10,820)
Disposition of treasury stock	–	–	–	3,899	3,899
Retirement of treasury stock	–	(18,000)	–	18,000	–
Gain on disposition of treasury stock	–	305	–	–	305
Profit attributable to owners of parent	–	–	45,065	–	45,065
Cash dividends paid	–	–	(18,274)	–	(18,274)
Change in equity related to transaction with non-controlling shareholders	–	(68)	–	–	(68)
Transfer to additional paid-in capital from retained earnings	–	4,529	(4,529)	–	–
Net changes other than in shareholders' equity	–	–	–	–	–
<b>Balance at 1st April, 2017 (unaudited)</b>	¥18,600	¥14,710	¥400,346	¥(37,317)	¥396,339
Purchase of treasury stock	–	–	–	(50,009)	(50,009)
Disposition of treasury stock	–	88	–	4,833	4,921
Retirement of treasury stock	–	(41,275)	–	41,275	–
Profit attributable to owners of parent	–	–	55,146	–	55,146
Cash dividends paid	–	–	(20,817)	–	(20,817)
Change in equity related to transaction with non-controlling shareholders	–	66	–	–	66
Transfer to additional paid-in capital from retained earnings	–	41,187	(41,187)	–	–
Net changes other than in shareholders' equity	–	–	–	–	–
<b>Balance at 1st April, 2018</b>	¥18,600	¥14,776	¥393,488	¥(41,218)	¥385,646
Issuance of new shares	738	738	–	–	1,476
Purchase of treasury stock	–	–	–	(36,578)	(36,578)
Disposition of treasury stock	–	60	–	5,599	5,659
Profit attributable to owners of parent	–	–	50,932	–	50,932
Cash dividends paid	–	–	(21,373)	–	(21,373)
Change in equity related to transaction with non-controlling shareholders	–	(23)	–	–	(23)
Net changes other than in shareholders' equity	–	–	–	–	–
<b>Balance at 31st March, 2019</b>	¥19,338	¥15,551	¥423,047	¥(72,197)	¥385,739

*Millions of yen*

	Accumulated other comprehensive income					Share subscription rights	Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
<b>Balance at 1st April, 2016 (unaudited)</b>	¥39,231	¥(26)	¥(1,290)	¥(2,597)	¥35,318	¥1,034	¥12,825	¥425,409
Purchase of treasury stock	–	–	–	–	–	–	–	(10,820)
Disposition of treasury stock	–	–	–	–	–	–	–	3,899
Retirement of treasury stock	–	–	–	–	–	–	–	–
Gain on disposition of treasury stock	–	–	–	–	–	–	–	305
Profit attributable to owners of parent	–	–	–	–	–	–	–	45,065
Cash dividends paid	–	–	–	–	–	–	–	(18,274)
Change in equity related to transaction with non-controlling shareholders	–	–	–	–	–	–	–	(68)
Transfer to additional paid-in capital from retained earnings	–	–	–	–	–	–	–	–
Net changes other than in shareholders' equity	(2,065)	15	397	4,429	2,776	187	(1,181)	1,782
<b>Balance at 1st April, 2017 (unaudited)</b>	¥37,166	¥(11)	¥(893)	¥1,832	¥38,094	¥1,221	¥11,644	¥447,298
Purchase of treasury stock	–	–	–	–	–	–	–	(50,009)
Disposition of treasury stock	–	–	–	–	–	–	–	4,921
Retirement of treasury stock	–	–	–	–	–	–	–	–
Profit attributable to owners of parent	–	–	–	–	–	–	–	55,146
Cash dividends paid	–	–	–	–	–	–	–	(20,817)
Change in equity related to transaction with non-controlling shareholders	–	–	–	–	–	–	–	66
Transfer to additional paid-in capital from retained earnings	–	–	–	–	–	–	–	–
Net changes other than in shareholders' equity	(4,720)	8	(3,063)	3,220	(4,555)	81	544	(3,930)
<b>Balance at 1st April, 2018</b>	¥32,446	¥(3)	¥(3,956)	¥5,052	¥33,539	¥1,302	¥12,188	¥432,675
Issuance of new shares	–	–	–	–	–	–	–	1,476
Purchase of treasury stock	–	–	–	–	–	–	–	(36,578)
Disposition of treasury stock	–	–	–	–	–	–	–	5,659
Profit attributable to owners of parent	–	–	–	–	–	–	–	50,932
Cash dividends paid	–	–	–	–	–	–	–	(21,373)
Change in equity related to transaction with non-controlling shareholders	–	–	–	–	–	–	–	(23)
Net changes other than in shareholders' equity	(5,294)	3	(110)	(2,899)	(8,300)	(324)	888	(7,736)
<b>Balance at 31st March, 2019</b>	¥27,152	¥–	¥(4,066)	¥2,153	¥25,239	¥978	¥13,076	¥425,032

Nomura Research Institute, Ltd.

Consolidated Statement of Changes in Net Assets (continued)

Thousands of U.S. dollars (Note 2)

	Shareholders' equity				Total shareholders' equity
	Common stock	Additional paid-in capital	Retained earnings	Treasury stock, at cost	
<b>Balance at 1st April, 2018</b>	\$167,567	\$ 133,116	\$3,544,937	\$(371,332)	\$3,474,288
Issuance of new shares	6,649	6,649	–	–	13,298
Purchase of treasury stock	–	–	–	(329,532)	(329,532)
Disposition of treasury stock	–	541	–	50,441	50,982
Profit attributable to owners of parent	–	–	458,847	–	458,847
Cash dividends paid	–	–	(192,550)	–	(192,550)
Change in equity related to transaction with non-controlling shareholders	–	(207)	–	–	(207)
Net changes other than in shareholders' equity	–	–	–	–	–
<b>Balance at 31st March, 2019</b>	<u>\$174,216</u>	<u>\$ 140,099</u>	<u>\$3,811,234</u>	<u>\$(650,423)</u>	<u>\$3,475,126</u>

Thousands of U.S. dollars (Note 2)

	Accumulated other comprehensive income							Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Share subscription rights	Non-controlling interests	
<b>Balance at 1st April, 2018</b>	\$ 292,306	\$ (27)	\$(35,640)	\$45,514	\$302,153	\$11,730	\$109,802	\$3,897,973
Issuance of new shares	–	–	–	–	–	–	–	13,298
Purchase of treasury stock	–	–	–	–	–	–	–	(329,532)
Disposition of treasury stock	–	–	–	–	–	–	–	50,982
Profit attributable to owners of parent	–	–	–	–	–	–	–	458,847
Cash dividends paid	–	–	–	–	–	–	–	(192,550)
Change in equity related to transaction with non-controlling shareholders	–	–	–	–	–	–	–	(207)
Net changes other than in shareholders' equity	(47,693)	27	(991)	(26,118)	(74,775)	(2,919)	8,000	(69,694)
<b>Balance at 31st March, 2019</b>	<u>\$ 244,613</u>	<u>\$ –</u>	<u>\$(36,631)</u>	<u>\$19,396</u>	<u>\$227,378</u>	<u>\$ 8,811</u>	<u>\$117,802</u>	<u>\$3,829,117</u>

See accompanying notes to consolidated financial statements.

Nomura Research Institute, Ltd.

Consolidated Statement of Cash Flows

	<i>Millions of yen</i>			<i>Thousands of U.S. dollars (Note 2)</i>
	<b>Year ended 31st March,</b>			<b>Year ended 31st March,</b>
	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2019</b>
	<b>(Unaudited)</b>			
<b>Cash flows from operating activities</b>				
Income before income taxes	¥ 64,993	¥ 82,528	¥ 76,750	\$ 691,442
Adjustments to reconcile income before income taxes to net cash provided by operating activities:				
Depreciation and amortization	28,477	31,942	30,428	274,126
Interest and dividend income	(1,741)	(1,719)	(1,443)	(13,000)
Interest expense	143	262	442	3,982
Office transfer cost	–	5,532	–	–
Loss on property and equipment	8,568	153	–	–
Impairment loss	–	–	3,699	33,324
Gain on investment securities	(13,131)	(22,025)	(7,734)	(69,676)
Gain on investments in affiliates	–	(10)	(184)	(1,658)
Changes in operating assets and liabilities:				
Accounts receivable and other receivables, net of advance payments received	3,478	(13,164)	(16,518)	(148,811)
Allowance for doubtful accounts	(49)	(5)	(73)	(658)
Accounts payable	(822)	4,488	4,584	41,297
Inventories	105	(63)	(1,046)	(9,423)
Net defined benefit asset	(10,722)	(10,121)	(8,349)	(75,216)
Net defined benefit liability	746	714	477	4,297
Provision for loss on orders received	247	(1,541)	882	7,946
Operating loans	2,729	105	2,200	19,820
Margin transaction assets	(1,283)	4,676	(468)	(4,216)
Short-term guarantee deposits	(1,319)	5,442	(100)	(901)
Margin transaction liabilities	2,442	(7,772)	658	5,928
Short-term guarantee deposits received	(1,003)	(3,165)	1,453	13,090
Reserve for financial products transaction liabilities	(60)	–	(118)	(1,063)
Other	41	9,753	5,420	48,829
Subtotal	81,839	86,010	90,960	819,459
Interest and dividends received	1,842	1,896	1,607	14,477
Interest paid	(153)	(263)	(445)	(4,009)
Income taxes paid	(22,380)	(14,150)	(35,772)	(322,269)
Net cash provided by operating activities	61,148	73,493	56,350	507,658
<b>Cash flows from investing activities</b>				
Payments for time deposits	(1,384)	(1,997)	(2,586)	(23,297)
Proceeds from time deposits	1,320	1,310	2,518	22,685
Purchase of short-term investment securities	(12,009)	(1,000)	(2,007)	(18,081)
Proceeds from sales and redemption of short-term investment securities	13,000	6,000	1,000	9,009
Acquisition of property and equipment	(13,531)	(16,932)	(5,528)	(49,802)
Proceeds from sales of property and equipment	3,559	502	5	45
Purchase of software and other intangibles	(25,261)	(21,601)	(19,974)	(179,946)
Payments for asset retirement obligations	(59)	(76)	(45)	(405)
Purchase of investment securities	(6,922)	(12,509)	(15,262)	(137,495)
Proceeds from sales and redemption of investment securities	33,591	42,555	24,095	217,072
Purchase of investments in affiliates	–	(3,647)	(637)	(5,739)
Purchase of shares of subsidiaries resulting in change in scope of consolidation (Note 13)	(31,065)	(9,638)	–	–
Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation	–	–	1,587	14,297
Payments for sales of shares of subsidiaries resulting in change in scope of consolidation	–	(855)	–	–
Collection of long-term loans receivable	8,400	–	–	–
Other	19	6	7	62
Net cash used in investing activities	¥(30,342)	¥(17,882)	¥(16,827)	\$(151,595)

Nomura Research Institute, Ltd.

Consolidated Statement of Cash Flows (continued)

	<i>Millions of yen</i>			<i>Thousands of U.S. dollars (Note 2)</i>
	<b>Year ended 31st March,</b>			<b>Year ended 31st March,</b>
	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2019</b>
	<b>(Unaudited)</b>			
<b>Cash flows from financing activities</b>				
Proceeds from short-term loans payable	¥ –	¥ 5,646	¥ 1,214	\$ 10,937
Repayments of short-term loans payable	–	(4,701)	(810)	(7,297)
Proceeds from long-term loans payable	–	943	17,500	157,658
Repayments of long-term loans payable	(3,460)	(5,733)	(23,704)	(213,550)
Proceeds from issuance of bonds	9,950	23,908	–	–
Redemption of bonds	(15,000)	–	(15,000)	(135,135)
Repayments of obligation under finance leases	(39)	(320)	(658)	(5,929)
Proceeds from sales of treasury stock	3,650	5,068	6,640	59,820
Purchase of treasury stock	(10,839)	(50,675)	(36,785)	(331,396)
Cash dividends paid	(18,273)	(20,817)	(21,370)	(192,523)
Cash dividends paid to non-controlling interests	(144)	(99)	(133)	(1,198)
Payments for acquisition of interests in subsidiaries that do not result in change in scope of consolidation	(172)	(50)	–	–
Net cash used in financing activities	<u>(34,327)</u>	<u>(46,830)</u>	<u>(73,106)</u>	<u>(658,613)</u>
Effect of exchange rate changes on cash and cash equivalents	624	(2,530)	(1,519)	(13,684)
Net increase (decrease) in cash and cash equivalents	(2,897)	6,251	(35,102)	(316,234)
Cash and cash equivalents at beginning of period	154,949	152,052	158,303	1,426,153
Cash and cash equivalents at end of period (Note 13)	<u>¥152,052</u>	<u>¥158,303</u>	<u>¥123,201</u>	<u>\$1,109,919</u>

See accompanying notes to consolidated financial statements.

# Nomura Research Institute, Ltd.

## Notes to the Consolidated Financial Statements

31st March, 2017 (unaudited), 2018 and 2019

### 1. Significant Accounting Policies

#### *Description of Business*

The NRI Group (Nomura Research Institute, Ltd. (the “Company”) and its 70 consolidated subsidiaries) and its affiliates (9 companies) engage in the following four business services: “consulting services,” comprised of research, management consulting and system consulting; “system development & application sales,” comprised of system development and the sales of package software products; “system management & operation services,” comprised of outsourcing services, multi-user system services, and information services; and “product sales.” Information on the NRI Group’s operations by segment is included in Note 24.

#### *Basis of Presentation*

The accompanying 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 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 consolidated financial statements in a format which is familiar to readers outside Japan.

#### *Basis of Consolidation and Application of Equity Method*

The accompanying consolidated financial statements for the years ended 31st March, 2017, 2018 and 2019 include the accounts of the Company and all companies which are controlled directly or indirectly by the Company. All subsidiaries (54, 69 and 70 for the years ended 31st March, 2017, 2018 and 2019, respectively) have been consolidated. The major consolidated subsidiaries are NRI Netcom, Ltd., NRI SecureTechnologies, Ltd., NRI Data iTech, Ltd., NRI Process Innovation, Ltd., NRI System Techno, Ltd., DSB Co., Ltd., DSB Information System Co., Ltd., Nomura Research Institute Holdings America, Inc., Brierley & Partners, Inc., Nomura Research Institute (Beijing), Ltd., Nomura Research Institute Asia Pacific Private Limited, ASG Group Limited, SMS Management & Technology Limited and Nomura Research Institute Australia Pty Ltd. as of 31st March, 2019.

During the year ended 31st March, 2019, the NRI Group established three companies. As a result, these three companies are newly included in the scope of consolidation. Also, the NRI Group sold its holdings in two companies. As a result, these two companies have been excluded from the scope of consolidation.

## **1. Significant Accounting Policies (continued)**

### ***Basis of Consolidation and Application of Equity Method (continued)***

The NRI Group's investments in affiliated companies over which it has the ability to exercise significant influence are accounted for by the equity method, and, accordingly, the NRI Group's share of such affiliates' income or loss is included in consolidated income. All affiliated companies (5, 8 and 9 for the years ended 31st March, 2017, 2018 and 2019, respectively) have been accounted for by the equity method. The major affiliated companies are Marubeni IT Solutions Inc., iVision Shanghai Co., Ltd., Wealth Square Co., Ltd. and KDDI Digital Design Inc. as of 31st March, 2019.

During the year ended 31st March, 2019, the NRI Group established a joint venture company. As a result, one company is newly included in the scope of application of the equity method.

### ***Fiscal year-ends of consolidated subsidiaries***

The closing date of 9 consolidated subsidiaries is 31st December, and that of 23 other consolidated subsidiaries is 30th June. In preparing the consolidated financial statements, the financial statements of these subsidiaries based on a provisional closing of accounts as of the consolidated fiscal year end are used.

### ***Cash Equivalents***

Cash equivalents, as presented in the consolidated statement of cash flows, are defined as low-risk, highly liquid, short-term investments maturing within three months from their respective acquisition dates which are readily convertible into cash.

### ***Investment Securities***

The NRI Group determines the appropriate classification of investment securities as either trading, held-to-maturity or available-for-sale securities based on its holding objectives. Available-for-sale securities include marketable securities and non-marketable securities.

Securities held for trading purposes are stated at market value and the cost of securities sold is determined by the moving average method.

Held-to-maturity securities are carried at amortized cost.

Marketable securities classified as available-for-sale securities are stated at market value as of the balance sheet date and the cost of securities sold is determined by the moving average method. Unrealized gain or loss on marketable securities classified as available-for-sale securities is included as a separate component of net assets, net of the applicable taxes.

Non-marketable securities classified as available-for-sale securities are stated at cost and the cost of securities sold is determined by the moving average method.

### ***Inventories***

Inventories are stated at cost based on the identified cost method (in cases where profitability has declined, the book value is reduced accordingly).



## **1. Significant Accounting Policies (continued)**

### ***Depreciation of Property and Equipment (other than leased assets)***

Property and equipment is stated at cost. Depreciation is calculated principally by the declining-balance method over the estimated useful lives of the related assets. However, buildings (excluding facilities attached to the buildings) acquired on or after 1st April, 1998 and facilities attached to the buildings and structures acquired on or after 1st April, 2016 by the Company and its domestic consolidated subsidiaries are depreciated by the straight-line method over their respective estimated useful lives.

### ***Amortization of Software and Other Intangibles (other than leased assets)***

Development costs of computer software to be sold are amortized by the straight-line method over a useful life of three years, based on the estimated volume of sales or the estimated sales revenue with the minimum amortization amount. Software intended for use by the NRI Group for the purpose of rendering customer services is being amortized by the straight-line method over useful lives of up to five years.

Other intangible assets are amortized by the straight-line method over their respective estimated useful lives.

### ***Depreciation and Amortization of Leased Assets***

Leased tangible assets under finance leases that do not transfer ownership are mainly depreciated by the declining-balance method over the lease period. Leased intangible assets under finance leases that do not transfer ownership are amortized by the straight-line method over the lease period.

### ***Allowance for Doubtful Accounts***

The allowance for doubtful accounts has been provided based on the NRI Group's historical experience with respect to write-offs and an estimate of the amount of specific uncollectible accounts.

### ***Provision for Loss on Orders Received***

To prepare for future losses in following years on orders received, a provision has been provided for loss on orders received outstanding, when a loss is probable and the amount can be reasonably estimated as of the end of the year.

### ***Reserve for Financial Products Transaction Liabilities***

To prepare for losses arising from securities-related transactions at a subsidiary that operates a financial services business, a provision has been provided pursuant to Article 175 of the Cabinet Ordinance on Financial Instruments Business, Etc. in accordance with Article 46-5 of the Financial Instruments and Exchange Law.

### ***Retirement and Severance Benefits for Employees***

In calculating retirement benefit obligations, the NRI Group has adopted the benefit formula basis as the method for attributing the expected retirement benefits to accounting periods. Actuarial gain and loss is amortized by the straight-line method over a defined period, not exceeding the average remaining service period of the employees (5 to 15 years) from the next fiscal year after the incurrence. Prior service cost is amortized by the straight-line method over a defined period, not exceeding the average remaining service period of the employees (11 to 15 years).

## **1. Significant Accounting Policies (continued)**

### ***Revenue Recognition***

Revenues arising from made-to-order software and consulting projects are recognized by the percentage-of-completion method. The percent completed is estimated by the ratio of the costs incurred to the estimated total costs.

### ***Translation of Major Assets and Liabilities Denominated in Foreign Currencies***

All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rate as of the balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statement of income and comprehensive income. The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date except for shareholders' equity, which is translated at the historical rate. Revenue and expense accounts of consolidated foreign subsidiaries are translated into Japanese yen at the average exchange rate during the year. Differences arising from such translation are stated as "foreign currency translation adjustment" and "non-controlling interests" in the net assets section.

### ***Derivatives and Hedging Activities***

The NRI Group uses derivative financial instruments such as forward foreign exchange contracts and interest rate swap contracts as means of hedging exposure to currency and interest rate risks.

Derivatives are stated at fair value with gains or losses recognized in the consolidated statement of income and comprehensive income. For derivatives used for hedging purposes, the gains and losses are deferred until the hedged item is recognized.

Forward foreign exchange contracts are entered into for the purpose of hedging the currency risk associated with foreign currency receivables and payables, including forecasted transactions, and interest rate swap contracts are entered into for the purpose of hedging the interest rate risk associated with the underlying borrowings.

As for the hedging instruments and hedged items, an evaluation of hedge effectiveness is performed for each hedging transaction. However, if the material conditions of the hedging instrument and the hedged item are the same and the hedging relationship is expected to be highly effective, an evaluation of the effectiveness is omitted.

### ***Amortization of Goodwill***

Amortization of goodwill is determined on a case by case basis using the straight-line method generally over a period not exceeding 20 years.

### ***Appropriation of Capital Surplus and Retained Earnings***

Under the Corporation Law of Japan, the appropriation of capital surplus and retained earnings with respect to a given period is made by resolution of the shareholders at a general meeting or by resolution of the Board of Directors. Appropriations from capital surplus and retained earnings are reflected in the consolidated financial statements applicable to the period in which such resolutions are approved.

## 1. Significant Accounting Policies (continued)

### *Accounting Standards Issued but Not Yet Applied*

#### 1) Accounting Standard for Revenue Recognition, etc.

- Accounting Standard for Revenue Recognition (Accounting Standards Board of Japan (“ASBJ”) Statement No. 29, 30th March, 2018)
- Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No. 30, 30th March, 2018)

#### (a) Overview

The International Accounting Standards Board (“IASB”) and the Financial Accounting Standards Board (“FASB”) jointly developed a comprehensive accounting standard for revenue recognition and issued Revenue from Contracts with Customers in May 2014 as IFRS 15 (IASB) and Topic 606 (FASB), respectively. To respond to both IFRS 15 and Topic 606, which are applied from fiscal years beginning on or after 1st January, 2018 and 15th December, 2017, respectively, the ASBJ developed a comprehensive accounting standard for revenue recognition and issued it in conjunction with the implementation guidance.

In developing the accounting standard for revenue recognition, the ASBJ basically integrated the core principles of IFRS 15 from a comparability point of view of the financial statements, which is one of the benefits of ensuring consistency with IFRS 15. The ASBJ, on the other hand, considered additional alternative treatments where current practices under Japanese GAAP should be reflected as far as such treatments would not significantly impair international comparability.

#### (b) Scheduled date of application

The application period is currently under consideration.

#### (c) Effects of application of the standard, etc.

The effects of the application on the consolidated financial statements are currently being assessed.

### *Change in Presentation*

Changes related to application of “Partial Amendments to Accounting Standard for Tax Effect Accounting”

The Company has applied Partial Amendments to Accounting Standard for Tax Effect Accounting (ASBJ Statement No. 28, 16th February, 2018) from the beginning of the fiscal year ended 31st March, 2019. Accordingly, the presentation method has been changed so that deferred tax assets are presented under noncurrent assets and deferred tax liabilities are presented under noncurrent liabilities, and the notes regarding tax effect accounting have been changed.

As a result of this change, deferred tax assets under current assets in the consolidated balance sheet for the previous fiscal year decreased by ¥11,506 million (\$103,658 thousand), and deferred tax assets under noncurrent assets increased by ¥920 million (\$8,288 thousand). Moreover, deferred tax liabilities under noncurrent liabilities decreased by ¥10,585 million (\$95,360 thousand).

Furthermore, as a result of offsetting deferred tax assets and deferred tax liabilities of the same taxable entities, total assets decreased by ¥10,585 million (\$95,360 thousand).

## 1. Significant Accounting Policies (continued)

### *Change in Presentation (continued)*

In addition, in the notes to the consolidated financial statements regarding tax effect accounting, information related to footnotes 8 (excluding total valuation allowance) and 9 of the explanatory notes for “Accounting Standard for Tax Effect Accounting” has been added in accordance with the provisions of paragraphs 3 to 5 of the standard. However, comparative information for the previous fiscal year is not required to be disclosed in accordance with the transitional measures detailed in paragraph 7 of the “Partial Amendments to Accounting Standard for Tax Effect Accounting.”

### *Additional Information*

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

The Company has introduced a “Trust-type Employee Stock Ownership Incentive Plan” for employees (including employees of the consolidated subsidiaries, and the same shall apply hereinafter). 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”) has established exclusively for the ESOP Group to carry out this plan.

#### 1) “Trust-type Employee Stock Ownership Incentive Plan” introduced in March, 2016

The ESOP Trust acquires the number of the Company’s shares in advance, which the ESOP Group would expect to acquire 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 repay 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 the fiscal year in the accompanying consolidated balance sheet. The Company records the Company’s shares that the ESOP Trust owns at the end of the fiscal year at the acquisition costs of the ESOP Trust in the net assets section as treasury stock. 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.

The ESOP Trust was terminated in March, 2019. The loan payable of the ESOP Trust recorded in the accompanying consolidated balance sheet was fully repaid during the fiscal year ended 31st March, 2019, and the Company did not execute its guarantee obligation. The shares of the Company held by the ESOP Trust amounting to ¥3,959 million (corresponding to 1,115 thousand shares) and the loan payable of the ESOP Trust amounting to ¥2,881 million are recorded in the accompanying consolidated balance sheet as of 31st March, 2018.

## **1. Significant Accounting Policies (continued)**

### *Additional Information (continued)*

#### 2) “Trust-type Employee Stock Ownership Incentive Plan” introduced in March 2019

The ESOP Trust acquires the number of the Company’s shares in advance, which the ESOP Group would expect to acquire over a period of four years subsequent to the establishment of the ESOP Trust. Then, the ESOP Trust sells them to the ESOP Group each time the ESOP Group is to acquire of the Company’s shares. When the share price appreciates and earnings have accumulated in the ESOP Trust, upon its termination, a cash distribution of the funds will be made to beneficiaries. Since the Company guarantees the loans of the ESOP Trust taken out to purchase the Company’s shares, the Company is obligated to repay 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 the fiscal year in the accompanying consolidated balance sheet. The Company records the Company’s shares that the ESOP Trust owns at the end of the fiscal year at the acquisition costs of the ESOP Trust in the net assets section as treasury stock. 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.

The shares of the Company held by the ESOP Trust amounting to ¥6,576 million (\$59,243 thousand) (corresponding to 1,340 thousand shares) and the loan payable of the ESOP Trust amounting to ¥17,500 million (\$157,658 thousand) are recorded in the accompanying consolidated balance sheet as of 31st March, 2019.

## **2. U.S. Dollar Amounts**

The Company maintains its books of account in yen. The U.S. dollar amounts included in the accompanying consolidated financial statements and the notes thereto represent the arithmetic results of translating yen into dollars at ¥111.00 = U.S.\$1.00, the rate of exchange prevailing on 31st March, 2019. The U.S. dollar amounts are included solely for the convenience of the reader and the translation is not intended to imply that the assets and liabilities which originated in yen have been or could be readily converted, realized or settled in U.S. dollars at the above or any other rate.

### 3. Financial Instruments

#### 1) Qualitative information

##### (a) Policy for financial instruments

In the course of business operations, the NRI Group raises short-term funds through bank loans and commercial paper, and raises long-term funds through bank loans and issuances of corporate bonds. The NRI Group manages funds by utilizing low-risk financial instruments. The NRI Group's policy is to only enter into derivative transactions to reduce risks, and not for speculative purposes.

##### (b) Details of financial instruments and related risk and risk management system

Although accounts receivable and other receivables are exposed to customers' credit risk, the historical loan loss ratio is low and those receivables are usually settled in a short period of time. The NRI Group tries to reduce credit risk by managing due dates and balances of each customer, as well as monitoring and analyzing customers' credit status. Accounts payable as operating payables are usually settled in a short period of time. Although operating receivables and payables denominated in foreign currencies are exposed to exchange rate fluctuation risk, the risk is partially hedged by forward foreign exchange contracts. Investment securities, comprised of shares of companies with which the NRI Group has operational relationships, bonds and bond investment trusts, are exposed to issuers' credit risk, risks of volatility of market prices, and foreign currency exchange and interest rates. To reduce these risks, the NRI Group monitors market value and the issuers' financial status periodically. Bonds and long-term loans payable, which are mainly for fund raising related to capital investments, are exposed to fluctuation risk of interest rates. The interest-rate risk related to bonds is hedged by interest rate swap contracts. As for liquidity risk, the Company reduces the risk by managing the NRI Group's overall funds with the cash flow forecast and ensuring stable sources of funding. In addition, a subsidiary, which operates financial services business, provides loans on margin transactions and operating loans. Loans on margin transactions as margin transaction assets, which are loans to securities companies, are exposed to credit risk. The subsidiary, therefore, sets the credit limit for each securities company, secures the securities purchased by the securities companies as collateral and receives guarantee deposits for loans on margin transactions. Operating loans, which are loans for individual or corporate customers, are exposed to credit risk. The subsidiary, therefore, receives securities as collateral for operating loans. Derivatives transactions are forward foreign exchange transactions to hedge the exchange rate fluctuation risk associated with receivables and payables in foreign currencies, including forecasted transactions and interest rate swap transactions to hedge the interest rate fluctuation risk associated with the borrowings. Hedge accounting has been applied to all derivative transactions. Although these are exposed to the credit risk of financial institutions, the NRI Group reduces the risk by doing business only with highly rated financial institutions. In executing of the transactions, the treasury department acts in accordance with the resolution of the board of directors, defining hedging transactions and related authority. Transaction results are regularly reported to the board of directors. An evaluation of hedge effectiveness is performed for each transaction. However, if the material conditions of the hedging instrument and the hedged item are the same and there is high effectiveness for each hedge transaction, an evaluation of hedge effectiveness is omitted.

##### (c) Supplementary explanation of the fair value of financial instruments

The fair value of financial instruments is based on their quoted market price, and when there is no quoted market price available, fair value is based on management assumption. Since various assumptions and factors are reflected in estimating the fair value, differences in the assumptions and factors may result in different indications of fair value.

### 3. Financial Instruments (continued)

#### 2) Fair value of financial instruments

The carrying amount of financial instruments on the consolidated balance sheet as of 31st March, 2018 and 2019 and estimated fair value are shown in the following table. The following table does not include non-marketable securities whose fair value is not readily determinable (see Note 2).

	<i>Millions of yen</i>					
	<b>31st March, 2018</b>			<b>31st March, 2019</b>		
	<b>Carrying amount</b>	<b>Estimated fair value</b>	<b>Difference</b>	<b>Carrying amount</b>	<b>Estimated fair value</b>	<b>Difference</b>
<b>Assets:</b>						
Cash and bank deposits	¥159,542	¥159,542	¥ –	¥124,773	¥124,773	¥ –
Accounts receivable and other receivables	112,068	112,068	–	132,112	132,112	–
Short-term investment securities, investment securities, and investments in affiliates	87,361	87,361	–	79,286	79,286	–
Operating loans	3,925	3,925	–	1,725	1,725	–
Margin transaction assets	6,945	6,945	–	7,413	7,413	–
Short-term guarantee deposits	3,404	3,404	–	3,504	3,504	–
Total	<u>¥373,245</u>	<u>¥373,245</u>	<u>¥ –</u>	<u>¥348,813</u>	<u>¥348,813</u>	<u>¥ –</u>
<b>Liabilities:</b>						
Accounts payable	¥ 22,882	¥ 22,882	¥ –	¥ 27,699	¥ 27,699	¥ –
Short-term loans payable	6,074	6,074	–	6,346	6,346	–
Margin transaction liabilities	1,014	1,014	–	1,672	1,672	–
Short-term guarantee deposits received	4,540	4,540	–	5,993	5,993	–
Bonds *1	49,083	49,064	(19)	33,932	34,297	365
Long-term loans payable *2	24,115	24,118	3	17,893	17,893	–
Total	<u>¥107,708</u>	<u>¥107,692</u>	<u>¥ (16)</u>	<u>¥ 93,535</u>	<u>¥ 93,900</u>	<u>¥ 365</u>
Derivative transactions *3	¥ 6	¥ 6	¥ –	¥ –	¥ –	¥ –

	<i>Thousands of U.S. dollars</i>		
	<b>31st March, 2019</b>		
	<b>Carrying amount</b>	<b>Estimated fair value</b>	<b>Difference</b>
<b>Assets:</b>			
Cash and bank deposits	\$ 1,124,081	\$ 1,124,081	\$ –
Accounts receivable and other receivables	1,190,198	1,190,198	–
Short-term investment securities, investment securities, and investments in affiliates	714,288	714,288	–
Operating loans	15,541	15,541	–
Margin transaction assets	66,784	66,784	–
Short-term guarantee deposits	31,568	31,568	–
Total	<u>\$ 3,142,460</u>	<u>\$ 3,142,460</u>	<u>\$ –</u>
<b>Liabilities:</b>			
Accounts payable	\$ 249,541	\$ 249,541	\$ –
Short-term loans payable	57,171	57,171	–
Margin transaction liabilities	15,063	15,063	–
Short-term guarantee deposits received	53,991	53,991	–
Bonds *1	305,694	308,982	3,288
Long-term loans payable *2	161,198	161,198	–
Total	<u>\$ 842,658</u>	<u>\$ 845,946</u>	<u>\$ 3,288</u>
Derivative transactions *3	\$ –	\$ –	\$ –

\*1 Bonds included the current portion of bonds totaling ¥15,000 million as of 31st March, 2018.

\*2 Long-term loans payable included the current portion of long-term loans payable totaling ¥23,707 million and ¥4,680 million (\$42,162 thousand) as of 31st March, 2018 and 2019, respectively.

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

### 3. Financial Instruments (continued)

#### 2) Fair value of financial instruments (continued)

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

##### Assets

a. Cash and bank deposits and short-term guarantee deposits

Their carrying amount approximates the fair value due to the short maturity of these instruments.

b. Accounts receivable and other receivables

Their carrying amount approximates the fair value due to the generally short maturities of these instruments. For those receivables due after one year, the present value is further discounted by the rate corresponding to the credit risk and the amount is presented in the consolidated balance sheet, therefore, the carrying amount approximates fair value.

c. Short-term investment securities, investment securities and investments in affiliates

The fair value of stocks is based on quoted market prices. The fair value of bonds is based on either quoted market prices or prices provided by the financial institution making markets in these securities. The fair value of investment trusts is based on publicly available net asset values.

d. Operating loans and margin transaction assets

The fair value of these instruments, to which variable rates are applied, approximates the carrying amount because the variable rates reflect market interest rates over a short term unless the credit conditions of the counterparty change significantly after disbursement. With regard to potentially doubtful receivables, the amount of the allowance for doubtful receivables is determined based on the estimated amount collectible under collateral agreements, and their fair value approximates the carrying amount less the estimated allowance for doubtful accounts on the consolidated balance sheet.

##### Liabilities

a. Accounts payable, short-term loans payable, margin transaction liabilities and short-term guarantee deposits received

Their carrying amount approximates the fair value due to the short maturity of these instruments.

b. Bonds

The fair value of bonds is based on the quoted market price or the price obtained from a counterparty financial institution.

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.



### 3. Financial Instruments (continued)

#### 2) Fair value of financial instruments (continued)

Note 2: Non-marketable securities whose fair value is not readily determinable are as follows

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	<b>31st March,</b>		<b>31st March,</b>
	<b>2018</b>	<b>2019</b>	<b>2019</b>
Unlisted companies' shares *1	¥7,361	¥7,895	\$71,126
Investments in partnerships *2	727	782	7,045

\*1 Unlisted companies' shares are not measured at fair value because they have no market prices on exchanges, and their fair value is not readily determinable. Unlisted companies' shares included investments in affiliates accounted for under the equity method totaling ¥5,231 million and ¥5,638 million (\$50,793 thousand) as of 31st March, 2018 and 2019, respectively.

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

Note 3: Redemption schedule for cash and bank deposits, receivables and marketable securities with maturities at 31st March, 2018 and 2019

	<i>Millions of yen</i>					
	<b>31st March, 2018</b>			<b>31st March, 2019</b>		
	<b>Due within one year</b>	<b>Due after one year through five years</b>	<b>Due after five years</b>	<b>Due within one year</b>	<b>Due after one year through five years</b>	<b>Due after five years</b>
Cash and bank deposits	¥159,542	¥ –	¥ –	¥124,773	¥ –	¥ –
Accounts receivable	75,642	175	–	88,010	91	–
Investment securities:						
Available-for-sale securities with maturities:						
Government bonds	–	–	1,004	–	4	1,000
Corporate bonds	15,100	10,000	–	3,000	23,800	–
Operating loans	3,925	–	–	1,725	–	–
Margin transaction assets	6,945	–	–	7,413	–	–
Short-term guarantee deposits	3,404	–	–	3,504	–	–
	<u>¥264,558</u>	<u>¥10,175</u>	<u>¥1,004</u>	<u>¥228,425</u>	<u>¥23,895</u>	<u>¥1,000</u>

\* Other receivables are not included in the above table as there is no applicable redemption schedule.

	<i>Thousands of U.S. dollars</i>		
	<b>31st March, 2019</b>		
	<b>Due within one year</b>	<b>Due after one year through five years</b>	<b>Due after five years</b>
Cash and bank deposits	\$1,124,081	\$ –	\$ –
Accounts receivable	792,883	820	–
Investment securities:			
Available-for-sale securities with maturities:			
Government bonds	–	36	9,009
Corporate bonds	27,027	214,414	–
Operating loans	15,541	–	–
Margin transaction assets	66,784	–	–
Short-term guarantee deposits	31,568	–	–
	<u>\$2,057,884</u>	<u>\$215,270</u>	<u>\$9,009</u>

### 3. Financial Instruments (continued)

#### 2) Fair value of financial instruments (continued)

Note 4: Repayment schedule for bonds and long-term loans payable at 31st March, 2018 and 2019

		<i>Millions of yen</i>					
		<b>31st March, 2018</b>					
	<b>Due within one year</b>	<b>Due after one year through two years</b>	<b>Due after two years through three years</b>	<b>Due after three years through four years</b>	<b>Due after four years through five years</b>	<b>Due after five years</b>	
Bonds	¥15,000	¥ –	¥ –	¥ –	¥4,083	¥30,000	
Long-term loans payable *	23,707	327	82	–	–	–	
	<u>¥38,707</u>	<u>¥327</u>	<u>¥82</u>	<u>¥ –</u>	<u>¥4,083</u>	<u>¥30,000</u>	

  

		<i>Millions of yen</i>					
		<b>31st March, 2019</b>					
	<b>Due within one year</b>	<b>Due after one year through two years</b>	<b>Due after two years through three years</b>	<b>Due after three years through four years</b>	<b>Due after four years through five years</b>	<b>Due after five years</b>	
Bonds	¥ –	¥ –	¥ –	¥3,932	¥ –	¥30,000	
Long-term loans payable *	4,680	4,682	4,525	4,007	–	–	
	<u>¥4,680</u>	<u>¥4,682</u>	<u>¥4,525</u>	<u>¥7,939</u>	<u>¥ –</u>	<u>¥30,000</u>	

  

		<i>Thousands of U.S. dollars</i>					
		<b>31st March, 2019</b>					
	<b>Due within one year</b>	<b>Due after one year through two years</b>	<b>Due after two years through three years</b>	<b>Due after three years through four years</b>	<b>Due after four years through five years</b>	<b>Due after five years</b>	
Bonds	\$ –	\$ –	\$ –	\$35,423	\$ –	\$270,270	
Long-term loans payable *	42,162	42,180	40,766	36,099	–	–	
	<u>\$42,162</u>	<u>\$42,180</u>	<u>\$40,766</u>	<u>\$71,522</u>	<u>\$ –</u>	<u>\$270,270</u>	

\* Part of long-term loans payable represents borrowings by the ESOP Trust upon introduction of the “Trust-type Employee Stock Ownership Incentive Plan.” Under the loan contracts, amounts corresponding to the proceeds from the sale of shares held by the ESOP Trust are used to make loan payments every three months, but the amount of each installment payment is not specified. Therefore, the repayment schedule was calculated at an estimated amount by reference to the acquisition price of the Company’s shares that the ESOP Group was expected to purchase from the ESOP Trust.

#### 4. Investments

The NRI Group did not hold any held-to-maturity securities with determinable market value at 31st March, 2018 and 2019.

The following is a summary of the information concerning available-for-sale securities included in short-term investment securities, investment securities and investments in affiliates at 31st March, 2018 and 2019:

##### *Securities Classified as Available-for-Sale Securities*

	<i>Millions of yen</i>					
	<b>31st March, 2018</b>			<b>31st March, 2019</b>		
	<b>Acquisition cost</b>	<b>Carrying amount</b>	<b>Unrealized gain (loss)</b>	<b>Acquisition cost</b>	<b>Carrying amount</b>	<b>Unrealized gain (loss)</b>
Equity securities	¥17,787	¥63,138	¥45,351	¥15,907	¥53,560	¥37,653
Bonds:						
Government bonds	1,036	1,037	1	1,031	1,034	3
Corporate bonds	25,110	25,089	(21)	26,830	26,823	(7)
	26,146	26,126	(20)	27,861	27,857	(4)
Other	875	955	80	853	907	54
Total	<u>¥44,808</u>	<u>¥90,219</u>	<u>¥45,411</u>	<u>¥44,621</u>	<u>¥82,324</u>	<u>¥37,703</u>

	<i>Thousands of U.S. dollars</i>		
	<b>31st March, 2019</b>		
	<b>Acquisition cost</b>	<b>Carrying amount</b>	<b>Unrealized gain (loss)</b>
Equity securities	\$143,306	\$482,523	\$339,217
Bonds:			
Government bonds	9,288	9,315	27
Corporate bonds	241,712	241,649	(63)
	251,000	250,964	(36)
Other	7,685	8,171	486
Total	<u>\$401,991</u>	<u>\$741,658</u>	<u>\$339,667</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 decline in value for the year ended 31st March, 2018 amounted to ¥52 million. Impairment loss on available-for-sale securities whose fair value is based on quoted market prices as a result of a decline in value amounted to ¥1,265 million (\$11,396 thousand) and impairment loss on available-for-sale securities whose fair value is not readily determinable as a result of a decline in value amounted to ¥63 million (\$568 thousand) for the year ended 31st March, 2019.

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.

#### 4. Investments (continued)

##### *Securities Classified as Available-for-Sale Securities (continued)*

Proceeds from sales of available-for-sale securities during the years ended 31st March, 2017, 2018 and 2019 were as follows:

	<i>Millions of yen</i>			<i>Thousands of</i>
	<b>31st March,</b>			<b>31st March,</b>
	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2019</b>
Proceeds	¥16,627	¥24,415	¥9,897	\$89,162
Gross gain	13,159	22,078	9,076	81,766
Gross loss	–	1	–	–

Non-marketable securities whose fair value is not readily determinable were included in the above table.

## 5. Derivative Transactions and Hedging Activities

There were no derivative transactions to which hedge accounting was not applied during the years ended 31st March, 2018 and 2019.

For the derivative transactions to which hedge accounting was applied as of 31st March, 2018 and 2019, the contract amounts and estimated fair values of the hedging instruments are as follows.

	<i>Millions of yen</i>					
	<b>31st March,</b>					
	<b>2018</b>			<b>2019</b>		
	<b>Contract amount</b>		<b>Contract amount</b>			
	<b>Total</b>	<b>Settled over one year</b>	<b>Estimated fair value *1</b>	<b>Total</b>	<b>Settled over one year</b>	<b>Estimated fair value *1</b>
Forward foreign exchange contracts for accounts payable, accounted for by deferral hedge accounting method:						
Buy: CNY (Sell: JPY)	¥ 420	¥-	¥11	¥-	¥-	¥-
Interest rate swap contracts for bonds, accounted for by deferral hedge accounting method:						
Fixed rate receipt, fixed rate payment *2	¥15,000	¥-	¥(5)	¥-	¥-	¥-
	<i>Thousands of U.S. dollars</i>					
	<b>31st March, 2019</b>					
	<b>Contract amount</b>					
	<b>Total</b>	<b>Settled over one year</b>	<b>Estimated fair value *1</b>			
Forward foreign exchange contracts for accounts payable, accounted for by deferral hedge accounting method:						
Buy: CNY (Sell: JPY)	\$-	\$-	\$-			
Interest rate swap contracts for bonds, accounted for by deferral hedge accounting method:						
Fixed rate receipt, fixed rate payment *2	\$-	\$-	\$-			

\*1 The fair values are calculated based on the quoted price 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 bonds' fixed interest payments.

## 6. Assets Pledged as Collateral

Assets pledged as collateral at 31st March, 2018 and 2019 are as follows:

Investment securities pledged as collateral as a substitute for long-term guarantee deposits to an exchange amounted to ¥131 million and ¥109 million (\$982 thousand) and as a substitute for clearing funds to JAPAN SECURITIES CLEARING CORPORATION amounted to ¥418 million and ¥328 million (\$2,955 thousand) for the years ended 31st 2018 and 2019, respectively.

## 7. Accounts Receivable and Other Receivables

For projects that have not been completed as of the balance sheet date, the percentage-of-completion method is applied and the estimated revenue to be earned from each project has been included in accounts receivable and other receivables in the amounts of ¥36,250 million and ¥44,011 million (\$396,495 thousand) at 31st March, 2018 and 2019, respectively.

## 8. Property and Equipment

Property and equipment at 31st March, 2018 and 2019 is summarized as follows:

	<i>Years</i>	<i>Millions of yen</i>		<i>Thousands of</i>
		<b>31st March,</b>		<i>U.S. dollars</i>
		<b>2018</b>	<b>2019</b>	<b>31st March,</b>
	<b>Useful</b>			<b>31st March,</b>
	<b>Life</b>			<b>2019</b>
Land		¥ 7,060	¥ 7,060	\$ 63,604
Buildings				
(including Buildings in trust)	5 – 50	72,706	73,167	659,162
Machinery and equipment	2 – 20	51,994	50,719	456,928
Leased assets		2,409	2,501	22,532
Accumulated depreciation		(65,641)	(68,071)	(613,253)
Property and equipment, net		¥68,528	¥65,376	\$588,973

## 9. Other Assets

Other assets at 31st March, 2018 and 2019 consisted of the following:

	<i>Millions of yen</i>		<i>Thousands of</i>
	<b>31st March,</b>		<i>U.S. dollars</i>
	<b>2018</b>	<b>2019</b>	<b>31st March,</b>
Lease deposits	¥13,835	¥12,914	\$116,342
Other	5,839	6,770	60,990
Other assets	¥19,674	¥19,684	\$177,332

“Other” includes golf club memberships.

## 10. Retirement and Severance Benefits

The Company has a defined benefit pension plan, a lump-sum payment plan and a defined contribution pension plan. In addition to the plans, an extra retirement payment may be provided. The Company also has set up employee retirement benefit trusts for defined benefit pension plans and for defined benefit lump-sum payment plans. Certain consolidated subsidiaries have defined benefit pension plans, defined benefit lump-sum payment plans, and defined contribution pension plans.

The changes in defined benefit obligations for the defined benefit plans for the years ended 31st March, 2018 and 2019 are as follows:

	<i>Millions of yen</i>		<i>Thousands of</i>
	<b>31st March,</b>		<i>U.S. dollars</i>
	<b>2018</b>	<b>2019</b>	<b>31st March,</b>
			<b>2019</b>
Balance at the beginning of the year	¥126,089	¥129,230	\$1,164,234
Service cost	7,195	7,071	63,703
Interest cost	938	1,086	9,784
Actuarial gain and loss	(3,378)	6,211	55,955
Benefits paid	(1,976)	(2,310)	(20,811)
Other	362	354	3,189
Balance at the end of the year	¥129,230	¥141,642	\$1,276,054

Certain consolidated subsidiaries adopt the simplified method for calculating retirement benefit obligations.

The changes in plan assets for the defined benefit plans for the years ended 31st March, 2018 and 2019 are as follows:

	<i>Millions of yen</i>		<i>Thousands of</i>
	<b>31st March,</b>		<i>U.S. dollars</i>
	<b>2018</b>	<b>2019</b>	<b>31st March,</b>
			<b>2019</b>
Balance at the beginning of the year	¥162,089	¥179,269	\$1,615,036
Expected return on plan assets	2,396	2,696	24,288
Actuarial gain and loss	1,707	2,870	25,856
Contributions	14,507	12,090	108,920
Benefits paid	(1,430)	(1,503)	(13,541)
Balance at the end of the year	¥179,269	¥195,422	\$1,760,559

## 10. Retirement and Severance Benefits (continued)

The reconciliation of defined benefit obligations and plan assets for the defined benefit plans to net defined benefit asset and net defined benefit liability recognized in the consolidated balance sheet as of 31st March, 2018 and 2019 is as follows:

	<i>Millions of yen</i>		<i>Thousands of</i>
	<b>31st March,</b>		<i>U.S. dollars</i>
	<b>2018</b>	<b>2019</b>	<b>31st March,</b> <b>2019</b>
Funded defined benefit obligations	¥126,399	¥138,579	\$1,248,459
Plan assets	(179,269)	(195,422)	(1,760,559)
Subtotal	(52,870)	(56,843)	(512,100)
Unfunded defined benefit obligations	2,831	3,063	27,595
Net amount of liabilities and assets recognized in the consolidated balance sheet	<u>(50,039)</u>	<u>(53,780)</u>	<u>(484,505)</u>
Net defined benefit liability	5,662	6,270	56,486
Net defined benefit asset	(55,701)	(60,050)	(540,991)
Net amount of liabilities and assets recognized in the consolidated balance sheet	<u>¥ (50,039)</u>	<u>¥ (53,780)</u>	<u>\$ (484,505)</u>

\* Employee retirement benefit trusts have been set up for defined benefit lump-sum payment plans. The defined benefit lump-sum payment plans are included in funded defined benefit obligations above. Employee retirement benefit trusts for defined benefit lump-sum payment plans are also included in plan assets above.

The components of retirement benefit expenses for the years ended 31st March, 2017, 2018 and 2019 for the defined benefit plans are outlined as follows:

	<i>Millions of yen</i>			<i>Thousands of</i>
	<b>31st March,</b>			<i>U.S. dollars</i>
	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>31st March,</b> <b>2019</b>
Service cost	¥7,620	¥7,195	¥7,071	\$63,703
Interest cost	637	938	1,086	9,784
Expected return on plan assets	(2,140)	(2,396)	(2,696)	(24,288)
Recognized actuarial gain and loss	316	(109)	(445)	(4,009)
Recognized prior service cost	(341)	(344)	(345)	(3,108)
Other	203	101	206	1,856
Total	<u>¥6,295</u>	<u>¥5,385</u>	<u>¥4,877</u>	<u>\$43,938</u>

Retirement benefit expenses for the certain consolidated subsidiaries that adopt the simplified method are included in “Service cost.”



## 10. Retirement and Severance Benefits (continued)

Actuarial gain and loss and prior service cost (before tax) recognized in remeasurements of defined benefit plans, net of tax, in other comprehensive income for the years ended 31st March, 2017, 2018 and 2019 are as follows:

	<i>Millions of yen</i>			<i>Thousands of</i>
	<b>31st March,</b>			<i>U.S. dollars</i>
	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>31st March,</b>
				<b>2019</b>
Actuarial gain and loss	¥6,658	¥4,976	¥(3,785)	\$(34,099)
Prior service cost	(145)	(344)	(345)	(3,108)
Total	¥6,513	¥4,632	¥(4,130)	\$(37,207)

Unrecognized actuarial gain and loss and unrecognized prior service cost (before tax) recognized in remeasurements of defined benefit plans in accumulated other comprehensive income as of 31st March, 2018 and 2019 are as follows:

	<i>Millions of yen</i>		<i>Thousands of</i>
	<b>31st March,</b>		<i>U.S. dollars</i>
	<b>2018</b>	<b>2019</b>	<b>31st March,</b>
			<b>2019</b>
Unrecognized actuarial gain and loss	¥4,268	¥ 483	\$ 4,351
Unrecognized prior service cost	2,798	2,452	22,090
Total	¥7,066	¥2,935	\$26,441

The breakdown of plan assets by major category as of 31st March, 2018 and 2019 is as follows:

	<b>31st March,</b>	
	<b>2018</b>	<b>2019</b>
Equity securities	19.4%	20.7%
Debt securities	61.4%	58.6%
Short-term financial assets	3.9%	5.1%
Other	15.3%	15.6%
Total	100.0%	100.0%

With respect to the above total, 15.8% and 14.8% of plan assets were held in employee retirement benefit trusts set up for defined benefit pension plans and defined benefit lump-sum payment plans as of 31st March, 2018 and 2019, respectively.

The long-term expected rate of the return on plan assets for defined plan assets is determined by considering revenue projections by the Company and actual performance.

## 10. Retirement and Severance Benefits (continued)

Actuarial assumptions for defined benefit plans as of 31st March, 2017, 2018 and 2019 are as follows:

	31st March,		
	2017	2018	2019
Discount rates at the end of the year	0.8%	0.9%	0.7%
Expected long-term rate of return on plan assets	1.5	1.5	1.5

Weighted-average rates are used in the above table.

The required contributions for defined contribution pension plans of the NRI Group were ¥3,633 million and ¥4,264 million (\$38,414 thousand) for the years ended 31st March, 2018 and 2019, respectively.

## 11. Income Taxes

The significant components of deferred tax assets and liabilities at 31st March, 2018 and 2019 were as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	<b>31st March,</b>		<b>31st March,</b>
	<b>2018</b>	<b>2019</b>	<b>2019</b>
Deferred tax assets:			
Net defined benefit liability	¥ 10,608	¥ 10,570	\$ 95,225
Depreciation	6,895	6,880	61,982
Accrued bonuses	6,206	6,423	57,865
Loss on valuation of investment securities	2,029	2,704	24,360
Net operating loss carryforwards	3,495	2,867	25,829
Cash distribution of ESOP Trust	0	832	7,495
Other	8,647	7,023	63,271
Deferred tax assets – subtotal	37,880	37,299	336,027
Valuation allowance for tax loss carryforwards (Note 2)	-	(2,756)	(24,829)
Valuation allowance for total deductible temporary differences, etc.	-	(3,065)	(27,612)
Subtotal of valuation allowance	(6,560)	(5,821)	(52,441)
Deferred tax assets – total	31,320	31,478	283,586
Deferred tax liabilities:			
Valuation difference on available-for-sale securities	(13,124)	(10,727)	(96,640)
Special tax-purpose reserve	(368)	(368)	(3,315)
Reserve for special depreciation	(47)	(30)	(270)
Undistributed earnings of foreign subsidiaries	(565)	(685)	(6,171)
Net defined benefit asset	(17,473)	(18,576)	(167,351)
Other	(2,643)	(3,361)	(30,280)
Deferred tax liabilities – total	(34,220)	(33,747)	(304,027)
Deferred tax assets (liabilities), net (Note 1)	¥ (2,900)	¥ (2,269)	\$ (20,441)

Income taxes applicable to the NRI Group consisted of corporation, inhabitants' and enterprise taxes which, in the aggregate, resulted in statutory tax rates of approximately 30.8%, 30.8% and 30.6% for the years ended 31st March, 2017, 2018 and 2019, respectively.

## 11. Income Taxes (continued)

Note 1: In the fiscal year ended 31st March, 2019, the Company finalized provisional accounting treatment related to a business combination, and the corresponding amounts for the fiscal year ended 31st March, 2018 reflect the significant revision of the initially allocated amounts of acquisition cost. Furthermore, the net amount of deferred tax assets (liabilities) includes the following items on the consolidated balance sheet:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	<b>31st March,</b>		<b>31st March,</b>
	<b>2018</b>	<b>2019</b>	<b>2019</b>
Deferred tax assets - noncurrent	¥2,654	¥3,659	\$32,964
Deferred tax liabilities - noncurrent	(5,554)	(5,928)	(53,405)

Note 2: Tax loss carryforwards and related deferred tax assets by period of expiration are as follows:

	<i>Millions of yen</i>						<b>Total</b>
	<b>31st March, 2019</b>						
	<b>Within one year</b>	<b>After one year through two years</b>	<b>After two years through three years</b>	<b>After three years through four years</b>	<b>After four years through five years</b>	<b>After five years</b>	
Tax loss carryforwards *1	¥289	¥342	¥331	¥ –	¥1,415	¥ 490	¥2,867
Valuation allowance	(178)	(342)	(331)	–	(1,415)	(490)	(2,756)
Deferred tax assets *2	¥111	¥ –	¥ –	¥ –	¥ –	¥ –	¥ 111

	<i>Thousands of U.S. dollars</i>						<b>Total</b>
	<b>31st March, 2019</b>						
	<b>Within one year</b>	<b>After one year through two years</b>	<b>After two years through three years</b>	<b>After three years through four years</b>	<b>After four years through five years</b>	<b>After five years</b>	
Tax loss carryforwards *1	\$2,604	\$3,081	\$2,982	\$ –	\$12,748	\$4,414	\$25,829
Valuation allowance	(1,604)	(3,081)	(2,982)	–	(12,748)	(4,414)	(24,829)
Deferred tax assets *2	\$1,000	\$ –	\$ –	\$ –	\$ –	\$ –	\$ 1,000

\*1 Tax loss carryforwards are the amounts calculated by multiplying the loss amount by the statutory income tax rate.

\*2 A part of the tax loss carryforwards is deemed to be recoverable due to the expectation of taxable income in subsequent fiscal years.

## 11. Income Taxes (continued)

Reconciliations of the differences between the statutory income tax rates and the effective income tax rates after deferred tax effect in the consolidated statement of income and comprehensive income for the years ended 31st March, 2017, 2018 and 2019 are as follows:

	31st March,		
	2017	2018	2019
Statutory income tax rate	30.8%	–	30.6%
Reconciliation:			
Non-deductible permanent differences, such as entertainment expenses	0.5	–	0.4
Non-taxable permanent differences, such as dividend income	(0.3)	–	0.2
Decrease in deferred tax assets due to tax rate changes	(0.0)	–	–
Special tax credit	(1.6)	–	–
Changes in non-deductible write-downs of investment securities and other items whose schedule of reversal is uncertain	1.5	–	0.3
Utilization of net operating loss carryforwards	(0.1)	–	(1.2)
Amortization of goodwill	0.9	–	1.6
Cash distribution of ESOP Trust	–	–	1.5
Others, net	0.7	–	(0.5)
Effective income tax rate after deferred tax effect	<u>32.4%</u>	<u>–</u>	<u>32.9%</u>

\* Since the difference between the effective statutory income tax rate and the effective income tax rate for the fiscal year ended March 31, 2018 is less than 5% of the effective statutory income tax rate, a reconciliation of the difference is omitted.

## 12. 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 (\$5,135 thousand) at 31st March, 2018 and 2019, respectively.

### *Shares Issued and Treasury Stock*

The total number and periodic changes in the number of shares issued and treasury stock for the years ended 31st March, 2018 and 2019 are summarized as follows:

	<i>Thousands of shares</i>	
	<b>Shares issued *2 and 3</b>	<b>Treasury stock *1, 4 and 5</b>
Number of shares at 31st March, 2017	264,000	15,867
Increase in number of shares	–	11,460
Decrease in number of shares	13,000	14,483
Number of shares at 31st March, 2018	251,000	12,844
Increase in number of shares	260	6,885
Decrease in number of shares	–	1,567
Number of shares at 31st March, 2019	<u>251,260</u>	<u>18,162</u>

\*1 Treasury stock included 1,115 thousand and 1,340 thousand common shares of the Company owned by the ESOP Trust as of 31st March, 2018 and 2019, respectively.

\*2 The number of shares issued decreased due to retirement of treasury stock for the year ended 31st March, 2018.

\*3 The number of shares issued increased due to issuance of new shares under the Restricted Stock-Based Remuneration Plan for the year ended 31st March, 2019.

\*4 The number of shares of treasury stock increased by 11,458 thousand due to the acquisition of treasury stock (market purchase transaction) based on the resolution of the Board of Directors on 27th July, 2017 and increased by 2 thousand due to the purchase of odd-lot shares for the year ended 31st March, 2018.

The number of shares of treasury stock increased by 5,545 thousand due to the acquisition of treasury stock (market purchase transaction) based on the resolution of the Board of Directors on 26th April, 2018, increased by 1,340 thousand due to the acquisition of the Company's shares by ESOP Trust and increased by 0 thousand due to the purchase of odd-lot shares for the year ended 31st March, 2019.

\*5 The number of shares of treasury stock decreased by 13,000 thousand due to the retirement of treasury stock based on the resolution of the Board of Directors on 12th January, 2018, decreased by 651 thousand due to the exercise of stock options and decreased by 832 thousand due to the transfer of treasury stock from the ESOP Trust to the ESOP Group for the year ended 31st March, 2018.

The number of shares of treasury stock decreased by 452 thousand due to the exercise of stock options and decreased by 1,115 thousand due to the transfer of treasury stock from the ESOP Trust to the ESOP Group for the year ended 31st March, 2019.

Share subscription rights recorded in the accompanying consolidated balance sheet at 31st March, 2018 and 2019 relate to the Company's stock option plans is described in Note 23.

## 12. Net Assets (continued)

### Dividends

#### 1) Dividends paid

31st March, 2018					
Resolution	Type of shares	Total dividends (Millions of yen)	Dividends per share (Yen) *3	Cut-off date	Effective date
Meeting of the Board of Directors on 12th May, 2017 *1	Common Stock	¥10,003	¥40.00	31st March, 2017	30th May, 2017
Meeting of the Board of Directors on 26th October, 2017 *2	Common Stock	¥10,814	¥45.00	30th September, 2017	30th November, 2017

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

\*2 Dividends of ¥68 million paid to the ESOP Trust are included in the total dividends amount.

\*3 Dividends per share include a commemorative dividend of ¥5.00 per share based on the resolution of the Board of Directors on 26th October, 2017.

31st March, 2019							
Resolution	Type of shares	Total dividends (Millions of yen)	Total dividends (Thousands of U.S. dollars)	Dividends per share (Yen) *3	Dividends per share (U.S. dollars) *3	Cut-off date	Effective date
Meeting of the Board of Directors on 16th May, 2018 *1	Common Stock	¥10,767	\$97,000	¥45.00	\$0.41	31st March, 2018	1st June, 2018
Meeting of the Board of Directors on 25th October, 2018 *2	Common Stock	¥10,605	\$95,541	¥45.00	\$0.41	30th September, 2018	30th November, 2018

\*1 Dividends of ¥50 million (\$450 thousand) paid to the ESOP Trust are included in the total dividends amount.

\*2 Dividends of ¥33 million (\$297 thousand) paid to the ESOP Trust are included in the total dividends amount.

\*3 Dividends per share include a commemorative dividend of ¥5.00 (\$0.05) per share based on the resolution of the Board of Directors on 16th May, 2018.

#### 2) Dividends whose cut-off date is in the current fiscal year and whose effective date is in the following fiscal year

31st March, 2018						
Resolution	Type of shares	Total dividends (Millions of yen)	Dividends per share (Yen) *2	Cut-off date	Effective date	Source of dividends
Meeting of the Board of Directors on 16th May, 2018 *1	Common Stock	¥10,767	¥45.00	31st March, 2018	1st June, 2018	Retained earnings

\*1 Dividends of ¥50 million paid to the ESOP Trust are included in the total dividends amount.

\*2 Dividends per share include a commemorative dividend of ¥5.00 per share.

31st March, 2019								
Resolution	Type of shares	Total dividends (Millions of yen)	Total dividends (Thousands of U.S. dollars)	Dividends per share (Yen)	Dividends per share (U.S. dollars)	Cut-off date	Effective date	Source of dividends
Meeting of the Board of Directors on 15th May, 2019 *1	Common Stock	¥10,550	\$95,045	¥45.00	\$0.41	31st March, 2019	31st May, 2019	Retained earnings

\*1 Dividends of ¥60 million (\$541 thousand) paid to the ESOP Trust are included in the total dividends amount.

### 13. Supplementary Cash Flow Information

#### *Cash and Cash Equivalents*

A reconciliation between cash and bank deposits in the accompanying consolidated balance sheet and cash and cash equivalents in the accompanying consolidated statement of cash flows at 31st March, 2018 and 2019 is as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	<b>31st March,</b>		<b>31st March,</b>
	<b>2018</b>	<b>2019</b>	<b>2019</b>
Cash and bank deposits	¥159,542	¥124,773	\$1,124,081
Short-term investment securities	1,219	2,122	19,117
Time deposits with maturities of more than three months when deposited	(1,458)	(1,690)	(15,225)
Bond and other investments maturing in more than three months from the acquisition date	(1,000)	(2,004)	(18,054)
Cash and cash equivalents	<u>¥158,303</u>	<u>¥123,201</u>	<u>\$1,109,919</u>

#### *Significant components of assets and liabilities of newly consolidated subsidiaries through the acquisition of shares*

The following is the summary of assets acquired and liabilities assumed on the date of acquisition of SMS Management & Technology Limited and fourteen other companies following the acquisition of their shares, related acquisition cost and net payments during the year ended 31st March, 2018:

	<i>Millions of yen</i>
	<b>31st March, 2018</b>
Current assets	¥ 5,575
Fixed assets	4,239
Goodwill	6,929
Current liabilities	(5,362)
Fixed liabilities	(1,507)
Acquisition cost of shares	<u>9,874</u>
Cash and cash equivalents	(236)
Net: Purchase of shares of subsidiaries resulting in change in scope of consolidation	<u>¥(9,638)</u>

\* The above amounts reflect the significant revision of the initially allocated amounts of acquisition cost due to the finalization of provisional accounting treatment during the fiscal year ended 31st March, 2019.



#### 14. Per Share Data

Earnings per share for the years ended 31st March, 2017, 2018 and 2019 and net assets per share at 31st March, 2018 and 2019 are summarized as follows: \*1 and 2

	<i>Yen</i>			<i>U.S. dollars</i>
	<b>31st March,</b>			<b>31st March,</b>
	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2019</b>
Earnings per share	¥181.77	¥228.21	¥216.33	\$1.95
Diluted earnings per share	181.43	227.55	215.82	1.94

  

	<i>Yen</i>		<i>U.S. dollars</i>
	<b>31st March,</b>		<b>31st March,</b>
	<b>2018</b>	<b>2019</b>	<b>2019</b>
Net assets per share	¥1,760.13	¥1,763.12	\$15.88

\*1 The computation of earnings and net assets per share is based on the weighted-average number of shares of common stock outstanding during each year and the number of shares of common stock outstanding at each balance sheet date, respectively.

\*2 In the fiscal year ended 31st March, 2019, the Company finalized provisional accounting treatment related to a business combination, and the corresponding amounts for the fiscal year ended 31st March, 2018 reflect the significant revision of the initially allocated amounts of acquisition cost.

Following the finalization of the provisional accounting treatment, comparative information on net assets per share reflects such significant revision of the initially allocated amounts of acquisition cost.

#### 14. Per Share Data (continued)

The computation of earnings per share and diluted earnings per share for the years ended 31st March, 2017, 2018 and 2019 is as follows:

	<i>Millions of yen</i>			<i>Thousands of U.S. dollars</i>
	<b>31st March,</b>			<b>31st March,</b>
	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2019</b>
Numerator:				
Earnings *1	¥45,065	¥55,146	¥50,932	\$458,847
Earnings not attributable to common shareholders	(–)	(–)	(–)	(–)
Earnings attributable to common shareholders	<u>¥45,065</u>	<u>¥55,146</u>	<u>¥50,932</u>	<u>\$458,847</u>
	<i>Thousands of shares</i>			
Denominator:				
Weighted-average number of shares of common stock outstanding – basic *2	247,918	241,648	235,437	
Potentially dilutive shares of common stock:				
Stock options	475	661	553	
Total	<u>475</u>	<u>661</u>	<u>553</u>	
Weighted-average number of shares of common stock outstanding – diluted	<u>248,393</u>	<u>242,309</u>	<u>235,990</u>	

\*1 In computing diluted earnings per share for year ended 31st March, 2018, an adjustment due to potentially dilutive shares of affiliates in the amount of ¥(8) million has been made to earnings in the above table.

In computing diluted earnings per share for year ended 31st March, 2019, an adjustment due to potentially dilutive shares of affiliates in the amount of ¥(1) million (\$ (9) thousand) has been made to earnings in the above table.

\*2 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 2,404 thousand, 1,497 thousand and 720 thousand during the years ended 31st March, 2017, 2018 and 2019, 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 years ended 31st March, 2017, 2018 and 2019:

	<i>Shares</i>		
	<b>31st March,</b>		
	<b>2017</b>	<b>2018</b>	<b>2019</b>
a) 24th share subscription rights	535,425	535,425	–
b) 26th share subscription rights	561,110	–	–
c) 28th share subscription rights	–	569,500	–

#### 14. Per Share Data (continued)

The computation of net assets per share at 31st March, 2018 and 2019 is summarized as follows:

	<i>Millions of yen</i>		<i>Thousands of</i>
	<b>31st March,</b>		<i>U.S. dollars</i>
	<b>2018</b>	<b>2019</b>	<b>31st March,</b>
			<b>2019</b>
Numerator:			
Net assets*1	¥432,674	¥425,032	\$3,829,117
Share subscription rights	(1,302)	(978)	(8,811)
Non-controlling interests	(12,188)	(13,076)	(117,802)
Net assets attributable to common stock	<u>¥419,184</u>	<u>¥410,978</u>	<u>\$3,702,504</u>
	<i>Thousands of shares</i>		
Denominator:			
Number of shares of common stock outstanding *2	238,156	233,098	

\*1 In the fiscal year ended 31st March, 2019, the Company finalized provisional accounting treatment related to a business combination, and the amounts for the fiscal year ended 31st March, 2018 reflect the significant revision of the initially allocated amounts of acquisition cost.

Following the finalization of the provisional accounting treatment, comparative information of Net assets is calculated based on the amount adjusted to reflect the significant revision of the initially allocated amounts of acquisition cost.

\*2 The Company's shares owned by the ESOP Trust are included in treasury stock. The ESOP Trust owned 1,115 thousand and 1,340 thousand shares of the Company as of 31st March, 2018 and 2019, respectively.

#### 15. Leases

Future minimum lease payments for noncancelable operating leases at 31st March, 2018 and 2019 are summarized as follows:

	<i>Millions of yen</i>		<i>Thousands of</i>
	<b>31st March,</b>		<i>U.S. dollars</i>
	<b>2018</b>	<b>2019</b>	<b>31st March,</b>
			<b>2019</b>
Future minimum lease payments:			
Due within one year	¥12,528	¥11,373	\$102,459
Thereafter	42,859	36,297	327,000
Total	<u>¥55,387</u>	<u>¥47,670</u>	<u>\$429,459</u>

#### 16. Provision for (Reversal of) Loss on Orders Received Included in Cost of Sales

Provision for (reversal of) loss on orders received included in cost of sales amounted to ¥247 million, ¥(1,541) million and ¥882 million (\$7,946 thousand) for the years ended 31st March, 2017, 2018 and 2019, respectively.

## 17. Selling, General and Administrative Expenses

The details of selling, general and administrative expenses for the years ended 31st March, 2017, 2018 and 2019 are summarized as follows:

	<i>Millions of yen</i>			<i>Thousands of U.S. dollars</i>
	<b>31st March,</b>			<b>31st March,</b>
	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2019</b>
Personnel expenses	¥43,665	¥46,562	¥47,426	\$427,261
Rent	5,798	6,698	6,247	56,279
Subcontractor costs	16,722	16,741	17,073	153,811
Amortization of goodwill	1,942	4,144	3,931	35,415
Other	17,145	20,337	18,616	167,711
Total	¥85,272	¥94,482	¥93,293	\$840,477

## 18. Research and Development Expenses

Research and development expenses included in selling, general and administrative expenses amounted to ¥5,675 million, ¥5,171 million and ¥3,665 million (\$33,018 thousand) for the years ended 31st March, 2017, 2018 and 2019, respectively.

## 19. Impairment Loss

The Company recognized impairment loss on the following assets:

- Assets for which impairment loss was recognized, and amounts thereof

<u>Location</u>	<u>Use</u>	<u>Type</u>	<i>(Millions of yen)</i>	<i>(Thousands of U.S. dollars)</i>
			<b>Impairment loss</b>	<b>Impairment loss</b>
North America	—	Goodwill	¥3,699	\$33,324

- Details on the recognition of impairment loss

The Company recognized an impairment loss on its consolidated subsidiary Brierley & Partners, Inc., which has exhibited a deterioration in profitability such that the initially anticipated excess earnings power is no longer expected.

- Method of grouping assets

The Company has grouped the assets giving consideration to the classification used in management accounting under which their revenues and expenses are continuously monitored.

- Calculation method of recoverable amount

The recoverable amount is measured by value in use, calculated by discounting future cash flows at a rate of 10.0% (after tax).

## 20. Office Transfer Cost

Office transfer cost for the year ended 31st March, 2018 mainly corresponds to the transfer of training facilities and the dormitory and to the integration of main offices.

## 21. Consolidated Statement of Income and Comprehensive Income

Reclassification adjustments relating to other comprehensive income for the years ended 31st March, 2017, 2018 and 2019 are summarized as follows:

	<i>Millions of yen</i>			<i>Thousands of U.S. dollars</i>
	<b>31st March,</b>			<b>31st March,</b>
	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2019</b>
Valuation difference on available-for-sale securities				
Amount arising during the year	¥ 10,068	¥ 13,813	¥ 58	\$ 523
Reclassification adjustments	(12,976)	(20,600)	(7,810)	(70,360)
Valuation difference on available-for-sale securities	(2,908)	(6,787)	(7,752)	(69,838)
Deferred gains or losses on hedges				
Amount arising during the year	1,591	497	0	0
Reclassification adjustments	73	(57)	5	45
Amount adjusted for asset acquisition cost	(1,648)	(426)	0	0
Deferred gains or losses on hedges	16	14	5	45
Foreign currency translation adjustment				
Amount arising during the year	436	(3,081)	(90)	(811)
Foreign currency translation adjustment	436	(3,081)	(90)	(811)
Remeasurements of defined benefit plans				
Amount arising during the year	6,524	5,068	(3,341)	(30,099)
Reclassification adjustments	(11)	(436)	(790)	(7,117)
Remeasurements of defined benefit plans	6,513	4,632	(4,131)	(37,216)
Share of other comprehensive income (loss) of affiliates accounted for using the equity method				
Amount arising during the year	(40)	18	(20)	(180)
Share of other comprehensive income (loss) of affiliates accounted for using the equity method	(40)	18	(20)	(180)
Total other comprehensive income (loss) before tax effect adjustment	4,017	(5,204)	(11,988)	(108,000)
Tax effect	(1,064)	687	3,655	32,928
Total other comprehensive income (loss)	¥ 2,953	¥ (4,517)	¥ (8,333)	\$ (75,072)

## 21. Consolidated Statement of Income and Comprehensive Income (continued)

Tax effects relating to components of other comprehensive income for the years ended 31st March, 2017, 2018 and 2019 are summarized as follows:

	<i>Millions of yen</i>			<i>Thousands of U.S. dollars</i>
	<b>31st March,</b>			<b>31st March,</b>
	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2019</b>
Valuation difference on available-for-sale securities				
Before-tax amount	¥(2,908)	¥(6,787)	¥ (7,752)	\$ (69,838)
Tax benefit (expense)	893	2,083	2,397	21,595
Net-of-tax amount	(2,015)	(4,704)	(5,355)	(48,243)
Deferred gains or losses on hedges				
Before-tax amount	16	14	5	45
Tax benefit (expense)	(2)	(6)	(2)	(18)
Net-of-tax amount	14	8	3	27
Foreign currency translation adjustment				
Before-tax amount	436	(3,081)	(90)	(811)
Tax benefit (expense)	–	–	–	–
Net-of-tax amount	436	(3,081)	(90)	(811)
Remeasurements of defined benefit plans				
Before-tax amount	6,513	4,632	(4,131)	(37,216)
Tax benefit (expense)	(1,955)	(1,390)	1,260	11,351
Net-of-tax amount	4,558	3,242	(2,871)	(25,865)
Share of other comprehensive income (loss) of affiliates accounted for using the equity method				
Before-tax amount	(40)	18	(20)	(180)
Tax benefit (expense)	–	–	–	–
Net-of-tax amount	(40)	18	(20)	(180)
Total other comprehensive income (loss)				
Before-tax amount	4,017	(5,204)	(11,988)	(108,000)
Tax benefit (expense)	(1,064)	687	3,655	32,928
Net-of-tax amount	¥ 2,953	¥(4,517)	¥ (8,333)	\$ (75,072)

## 22. Related Party Transactions

Related party transactions for the years ended 31st March, 2017, 2018 and 2019 and the respective balances at 31st March, 2018 and 2019 were as follows:

### 1) Transactions

Related party	Nature of transaction	Millions of yen			Thousands of
		31st March,			U.S. dollars
		2017	2018	2019	31st March,
a) Major shareholder: Nomura Holdings, Inc.	Sales *1	¥ 50,736	¥ 54,531	¥40,099	\$361,252
b) Major shareholder's subsidiaries: Nomura Securities Co., Ltd.	Loan for margin transactions *2	30,437	32,115	—	—
	Cash receipt for lending securities on margin transactions *2	365,488	248,419	—	—

### 2) Balances

Related party	Nature of transaction	Millions of yen		Thousands of
		31st March,		U.S. dollars
		2018	2019	31st March,
a) Major shareholder: Nomura Holdings, Inc.	Accounts receivable and other receivables *1	¥6,172	¥5,793	\$52,189
b) Major shareholder's subsidiaries: Nomura Securities Co., Ltd.	Margin transaction assets *2	—	—	—
	Margin transaction liabilities *2	—	—	—

\*1 The terms and conditions of the agreements were determined in the same way as ordinary transactions with non-related parties through discussions with consideration of costs associated with system development, application sales and system management and operation.

\*2 The terms and conditions of margin transactions were determined in the same way as ordinary transactions with non-related parties through individual negotiation.

### 23. Stock Option Plans

The Company and its subsidiary (DSB Co., Ltd.) issued the following share subscription rights for the purchase of new shares of common stock in accordance with the former Commercial Code of Japan or the Corporation Law of Japan.

#### 1) The Company

Expenses recorded in connection with stock options during the years ended 31st March, 2017, 2018 and 2019 are as follows:

	<i>Millions of yen</i>			<i>Thousands of</i>
	<b>31st March,</b>			<i>U.S. dollars</i>
	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>31st March,</b>
				<b>2019</b>
Cost of sales	¥356	¥442	¥208	\$1,874
Selling, general and administrative expenses	328	382	172	1,550
Total	¥684	¥824	¥380	\$3,424

For the years ended 31st March, 2017, 2018 and 2019, the Company recognized reversal of share-based compensation as follows:

	<i>Millions of yen</i>			<i>Thousands of</i>
	<b>31st March,</b>			<i>U.S. dollars</i>
	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>31st March,</b>
				<b>2019</b>
Reversal of share-based compensation	¥15	¥16	¥3	\$27



## 23. Stock Option Plans (continued)

### 1) The Company (continued)

A description of each stock option plan as of 31st March, 2019 is summarized as follows:

	<b>16th stock option plan</b>	<b>18th stock option plan</b>	<b>20th stock option plan</b>
Grantee categories and numbers of grantees	37 directors or managing officers of the Company, and 5 directors of its subsidiaries	35 directors or managing officers of the Company, and 6 directors of its subsidiaries	35 directors or managing officers of the Company, and 5 directors of its subsidiaries
Number of shares reserved	474,925	465,850	465,850
Grant date	11th July, 2011	13th July, 2012	12th July, 2013
Vesting conditions	Holders must be in continuous employment from the grant date to the vesting date of 30th June, 2014	Holders must be in continuous employment from the grant date to the vesting date of 30th June, 2015	Holders must be in continuous employment from the grant date to the vesting date of 30th June, 2016
Service period	From 1st July, 2011 to 30th June, 2014	From 1st July, 2012 to 30th June, 2015	From 1st July, 2013 to 30th June, 2016
Exercisable period	1st July, 2014 to 30th June, 2018	1st July, 2015 to 30th June, 2019	1st July, 2016 to 30th June, 2020
	<b>22nd stock option plan</b>	<b>24th stock option plan</b>	<b>26th stock option plan</b>
Grantee categories and numbers of grantees	38 directors or managing officers of the Company, and 6 directors of its subsidiaries	47 directors, managing officers or employees of the Company, and 4 directors of its subsidiaries	51 directors, managing officers or employees of the Company, and 4 directors of its subsidiaries
Number of shares reserved	490,050	535,425	561,110
Grant date	11th August, 2014	9th July, 2015	6th July, 2016
Vesting conditions	Holders must be in continuous employment from the grant date to the vesting date of 30th June, 2017	Holders must be in continuous employment from the grant date to the vesting date of 30th June, 2018	Holders must not have been dismissed or terminated from the grant date
Service period	From 1st July, 2014 to 30th June, 2017	From 1st July, 2015 to 30th June, 2018	From 1st July, 2016 to 30th June, 2019
Exercisable period	1st July, 2017 to 30th June, 2021	1st July, 2018 to 30th June, 2022	1st July, 2019 to 30th June, 2023
	<b>27th stock option plan</b>	<b>28th stock option plan</b>	<b>29th stock option plan</b>
Grantee categories and numbers of grantees	52 directors, managing officers or employees of the Company, and 4 directors of its subsidiaries	53 directors, managing officers or employees of the Company, and 3 directors of its subsidiaries	54 directors, managing officers or employees of the Company, and 3 directors of its subsidiaries
Number of shares reserved	129,470	569,500	134,700
Grant date	6th July, 2016	12th July, 2017	12th July, 2017
Vesting conditions	Holders must not have been dismissed or terminated from the grant date	Holders must not have been dismissed or terminated from the grant date	Holders must not have been dismissed or terminated from the grant date
Service period	From 1st July, 2016 to 30th June, 2017	From 1st July, 2017 to 30th June, 2020	From 1st July, 2017 to 30th June, 2018
Exercisable period	1st July, 2017 to 30th June, 2018	1st July, 2020 to 30th June, 2024	1st July, 2018 to 30th June, 2019

## 23. Stock Option Plans (continued)

### 1) The Company (continued)

The following table summarizes option activity under the stock option plans referred to above during the year ended 31st March, 2019:

	<i>Number of shares</i>								
	<b>16th stock option plan</b>	<b>18th stock option plan</b>	<b>20th stock option plan</b>	<b>22nd stock option plan</b>	<b>24th stock option plan</b>	<b>26th stock option plan</b>	<b>27th stock option plan</b>	<b>28th stock option plan</b>	<b>29th stock option plan</b>
Non-vested:									
Beginning of the year	–	–	–	–	535,425	561,110	–	569,500	134,700
Granted	–	–	–	–	–	–	–	–	–
Forfeited	–	–	–	–	–	–	–	–	–
Vested	–	–	–	–	(535,425)	–	–	–	(134,700)
End of the year	–	–	–	–	–	561,110	–	569,500	–
Vested:									
Beginning of the year	12,100	71,995	162,745	285,560	–	–	15,290	–	–
Vested	–	–	–	–	535,425	–	–	–	134,700
Exercised	(3,025)	(56,870)	(62,315)	74,415	(126,203)	–	15,290	–	(113,700)
Forfeited	(9,075)	–	–	–	–	–	–	–	–
End of the year	–	15,125	100,430	211,145	409,222	–	–	–	21,000

\* For the stock options which become unexercisable, the Company has applied the same accounting treatment as to forfeited stock options. The numbers of stock options presented above reflect such accounting treatment.

Price information per option for each stock option plan as of 31st March, 2019 is summarized as follows:

	<i>Yen</i>								
	<b>16th stock option plan</b>	<b>18th stock option plan</b>	<b>20th stock option plan</b>	<b>22nd stock option plan</b>	<b>24th stock option plan</b>	<b>26th stock option plan</b>	<b>27th stock option plan</b>	<b>28th stock option plan</b>	<b>29th stock option plan</b>
Exercise price	¥1,546	¥1,460	¥2,828	¥2,757	¥4,210	¥3,661	¥ 1	¥4,578	¥ 1
Average price on exercise	5,330	5,046	5,152	5,212	5,289	–	5,456	–	5,176
Fair value on grant date	380	340	710	484	555	404	3,155	712	4,227
	<i>U.S. dollars</i>								
	<b>16th stock option plan</b>	<b>18th stock option plan</b>	<b>20th stock option plan</b>	<b>22nd stock option plan</b>	<b>24th stock option plan</b>	<b>26th stock option plan</b>	<b>27th stock option plan</b>	<b>28th stock option plan</b>	<b>29th stock option plan</b>
Exercise price	\$13.93	\$13.15	\$25.48	\$24.84	\$37.93	\$32.98	\$ 0.01	\$41.24	\$ 0.01
Average price on exercise	48.02	45.46	46.41	46.95	47.65	–	49.15	–	46.63
Fair value on grant date	3.42	3.06	6.40	4.36	5.00	3.64	28.42	6.41	38.08

### 23. Stock Option Plans (continued)

2) A consolidated subsidiary (DSB Co., Ltd.)

Expenses recorded in connection with stock options during the years ended 31st March, 2017, 2018 and 2019 are as follows:

	<i>Millions of yen</i>			<i>Thousands of</i>
	<b>31st March,</b>			<b>31st March,</b>
	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2019</b>
Selling, general and administrative expenses	¥20	¥—	¥—	\$ —
Total	¥20	¥—	¥—	\$ —

For the years ended 31st March, 2017, 2018 and 2019, no reversal of share-based compensation was recognized.

## 23. Stock Option Plans (continued)

### 2) A consolidated subsidiary (DSB Co., Ltd.) (continued)

A description of each stock option plan for as of 31st March, 2019 is summarized as follows:

	<u>10th stock option plan</u>	<u>11th stock option plan</u>	<u>12th stock option plan</u>
Grantee categories and numbers of grantees	5 directors of DSB Co., Ltd.	4 directors of DSB Co., Ltd.	5 directors of DSB Co., Ltd.
Number of shares reserved	12,600	11,300	18,100
Grant date	1st August, 2011	1st August, 2012	1st August, 2013
Vesting conditions	No vesting conditions are set.	No vesting conditions are set.	No vesting conditions are set.
Service period	There are no provisions for a required service period.	There are no provisions for a required service period.	There are no provisions for a required service period.
Exercisable period	1st August, 2011 to 31st July, 2041	1st August, 2012 to 31st July, 2042	1st August, 2013 to 31st July, 2043
	<u>13th stock option plan</u>	<u>14th stock option plan</u>	<u>15th stock option plan</u>
Grantee categories and numbers of grantees	5 directors of DSB Co., Ltd.	5 directors of DSB Co., Ltd.'s subsidiaries	3 directors of DSB Co., Ltd.
Number of shares reserved	25,900	16,700	11,300
Grant date	1st August, 2014	1st August, 2014	3rd August, 2015
Vesting conditions	No vesting conditions are set.	No vesting conditions are set.	No vesting conditions are set.
Service period	There are no provisions for a required service period.	There are no provisions for a required service period.	There are no provisions for a required service period.
Exercisable period	1st August, 2014 to 31st July, 2044	1st August, 2014 to 31st July, 2044	4th August, 2015 to 3rd August, 2045
	<u>16th stock option plan</u>	<u>17th stock option plan</u>	<u>18th stock option plan</u>
Grantee categories and numbers of grantees	5 directors of DSB Co., Ltd.'s subsidiaries	4 directors of DSB Co., Ltd.	3 directors of DSB Co., Ltd.'s subsidiaries
Number of shares reserved	12,300	27,000	11,700
Grant date	3rd August, 2015	1st August, 2016	1st August, 2016
Vesting conditions	No vesting conditions are set.	No vesting conditions are set.	No vesting conditions are set.
Service period	There are no provisions for a required service period.	There are no provisions for a required service period.	There are no provisions for a required service period.
Exercisable period	4th August, 2015 to 3rd August, 2045	2nd August, 2016 to 1st August, 2046	2nd August, 2016 to 1st August, 2046

## 23. Stock Option Plans (continued)

### 2) A consolidated subsidiary (DSB Co., Ltd.) (continued)

The following table summarizes option activity under the stock option plans referred to above during the year ended 31st March, 2019:

	<i>Number of shares</i>								
	<b>10th stock option plan</b>	<b>11th stock option plan</b>	<b>12th stock option plan</b>	<b>13th stock option plan</b>	<b>14th stock option plan</b>	<b>15th stock option plan</b>	<b>16th stock option plan</b>	<b>17th stock option plan</b>	<b>18th stock option plan</b>
Non-vested:									
Beginning of the year	–	–	–	–	–	–	–	–	–
Granted	–	–	–	–	–	–	–	–	–
Forfeited	–	–	–	–	–	–	–	–	–
Vested	–	–	–	–	–	–	–	–	–
End of the year	–	–	–	–	–	–	–	–	–
Vested:									
Beginning of the year	2,100	2,800	3,000	4,800	13,400	5,900	9,900	17,200	11,700
Vested	–	–	–	–	–	–	–	–	–
Exercised	–	–	–	–	–	–	–	–	–
Forfeited	–	–	–	–	–	–	–	–	–
End of the year	2,100	2,800	3,000	4,800	13,400	5,900	9,900	17,200	11,700

Price information per option for each stock option plan of DSB Co., Ltd. as of 31st March, 2019 is summarized as follows:

	<i>Yen</i>								
	<b>10th stock option plan</b>	<b>11th stock option plan</b>	<b>12th stock option plan</b>	<b>13th stock option plan</b>	<b>14th stock option plan</b>	<b>15th stock option plan</b>	<b>16th stock option plan</b>	<b>17th stock option plan</b>	<b>18th stock option plan</b>
Exercise price	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1
Average price on exercise	–	–	–	–	–	–	–	–	–
Fair value on grant date	229	240	573	606	606	953	953	504	504

	<i>U.S. dollars</i>								
	<b>10th stock option plan</b>	<b>11th stock option plan</b>	<b>12th stock option plan</b>	<b>13th stock option plan</b>	<b>14th stock option plan</b>	<b>15th stock option plan</b>	<b>16th stock option plan</b>	<b>17th stock option plan</b>	<b>18th stock option plan</b>
Exercise price	\$0.01	\$0.01	\$0.01	\$0.01	\$0.01	\$0.01	\$0.01	\$0.01	\$0.01
Average price on exercise	–	–	–	–	–	–	–	–	–
Fair value on grant date	2.06	2.16	5.16	5.46	5.46	8.59	8.59	4.54	4.54

The granted number of stock options is exactly the same as the vested number since no vesting conditions are set.

## 24. Segment Information

### *Segment Information*

#### 1) Outline of reportable segments

The NRI Group's reportable segments, for which separate financial information is available, are evaluated periodically by management in deciding the allocation of management resources and in assessing business performances. The NRI Group has classified its segments, comprehensively considering services, customers and markets totally, and four segments have been determined as reportable segments.

##### Consulting

In addition to management consulting, which provides assistance for formulation and execution of management and business strategies, organizational reform etc., system consulting is provided for all aspects of IT management.

##### Financial IT Solutions

Customers in the financial sector, usually in the securities, insurance, or banking industries, are provided with IT solutions, such as system consulting, system development, system management and operation and multi-user systems.

##### Industrial IT Solutions

The main customers in this segment include not only the distribution, manufacturing and service sectors, but also governments and other public agencies. IT solutions such as system consulting, system development, system management and operation are provided.

##### IT Platform Services

Services including system operation, management and administration of data centers and IT platform and network architecture related services are provided to mainly the Financial IT Solutions segment and Industrial IT Solutions segment. Customers in various sectors are provided with IT Platform solution and information security services.

This segment 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.

#### 2) Methods of calculating net sales, profit (loss), assets and other items by reportable segment

The accounting policies for reportable segments are generally the same as described in "Significant Accounting Policies." Segment profit is based on operating profit. Intersegment sales or transfers are based on current market prices.

## 24. Segment Information (continued)

### Segment Information (continued)

#### 3) Net sales, profit (loss), assets and other items by reportable segment

	<i>Millions of yen</i>								
	Year ended 31st March, 2017								
	Reportable segment					Others *1	Total	Adjustment *2	Consolidated *3
Consulting	Financial IT Solutions	Industrial IT Solutions	IT Platform Services	Subtotal					
Net sales:									
Sales to external customers	¥30,575	¥246,979	¥107,209	¥ 29,241	¥414,004	¥10,545	¥424,549	¥ –	¥424,549
Intersegment sales or transfers	587	1,210	464	92,867	95,128	2,916	98,044	(98,044)	–
Total	31,162	248,189	107,673	122,108	509,132	13,461	522,593	(98,044)	424,549
Segment profit	¥ 5,854	¥ 26,461	¥ 9,076	¥ 14,015	¥ 55,406	¥ 1,969	¥ 57,375	¥ 1,140	¥ 58,515
Segment assets	¥25,894	¥154,465	¥ 88,588	¥ 82,219	¥351,166	¥ 6,235	¥357,401	¥271,544	¥628,945
Other items:									
Depreciation and amortization	¥ 92	¥ 10,922	¥ 3,410	¥ 12,169	¥ 26,593	¥ 446	¥ 27,039	¥ 1,438	¥ 28,477
Amortization of goodwill	182	523	1,069	168	1,942	–	1,942	–	1,942
Investment in affiliates	107	373	722	–	1,202	640	1,842	–	1,842
Increase in tangible and intangible fixed assets	8,634	23,609	21,226	9,098	62,567	442	63,009	6,202	69,211

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

\*2 Descriptions of adjustments are as follows:

- (a) Individual items included in adjustment of segment profit were immaterial.
- (b) The segment asset adjustment of ¥271,544 million is comprised of corporate assets not allocated to a reportable segment of ¥275,500 million and the eliminations of intersegment receivables of ¥(3,956) million.
- (c) Individual items included in adjustment of depreciation and amortization were immaterial.
- (d) The adjustment to increase in tangible and intangible fixed assets comprised the increase in the corporate assets that is not attributable to any reportable segment.

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

## 24. Segment Information (continued)

### Segment Information (continued)

#### 3) Net sales, profit (loss), assets and other items by reportable segment (continued)

	<i>Millions of yen</i>						
	<b>Year ended 31st March, 2018</b>						
	<b>Reportable segment</b>				<b>Total</b>	<b>Adjustment *1</b>	<b>Consolidated *2</b>
<b>Consulting</b>	<b>Financial IT Solutions</b>	<b>Industrial IT Solutions</b>	<b>IT Platform Services</b>				
Net sales:							
Sales to external customers	¥34,578	¥252,122	¥154,918	¥ 29,870	¥471,488	¥ –	¥471,488
Intersegment sales or transfers	755	2,445	2,668	92,472	98,340	(98,340)	–
Total	<u>35,333</u>	<u>254,567</u>	<u>157,586</u>	<u>122,342</u>	<u>569,828</u>	<u>(98,340)</u>	<u>471,488</u>
Segment profit	<u>¥ 6,562</u>	<u>¥ 27,674</u>	<u>¥ 15,120</u>	<u>¥ 14,764</u>	<u>¥ 64,120</u>	<u>¥ 1,018</u>	<u>¥ 65,138</u>
Segment assets	¥21,821	¥144,317	¥119,881	¥ 78,181	¥364,200	¥278,917	¥643,117
Other items:							
Depreciation and amortization	¥ 70	¥ 14,265	¥ 4,979	¥ 10,913	¥ 30,227	¥ 1,715	¥ 31,942
Amortization of goodwill	352	756	3,036	–	4,144	–	4,144
Investment in affiliates	92	236	4,903	–	5,231	–	5,231
Increase in tangible and intangible fixed assets	194	15,542	15,864	5,470	37,070	11,234	48,304

\*1 Descriptions of adjustments are as follows:

- (a) Individual items included in adjustment of segment profit were immaterial.
- (b) The segment asset adjustment of ¥278,917 million is comprised of corporate assets not allocated to a reportable segment of ¥282,251 million and the eliminations of intersegment receivables of ¥(3,333) million.
- (c) Individual items included in adjustment of depreciation and amortization were immaterial.
- (d) The adjustment to increase in tangible and intangible fixed assets comprised the increase in the corporate assets that is not attributable to any reportable segment.

\*2 Segment profit is adjusted to operating profit in the consolidated statement of income and comprehensive income.

\*3 Partial Amendments to Accounting Standard for Tax Effect Accounting (ASBJ Statement No. 28, 16th February, 2018) have been applied from the beginning of the fiscal year ended 31st March, 2019, and provisional accounting treatment for a business combination was finalized in the year ended 31st March, 2019.

These changes have been applied retrospectively, and the accompanying consolidated financial statements for the year ended 31st March, 2018 were adjusted accordingly.



## 24. Segment Information (continued)

### Segment Information (continued)

#### 3) Net sales, profit (loss), assets and other items by reportable segment (continued)

<i>Millions of yen</i>							
Year ended 31st March, 2019							
	Reportable segment				Total	Adjustment *1	Consolidated *2
	Consulting	Financial IT Solutions	Industrial IT Solutions	IT Platform Services			
Net sales:							
Sales to external customers	¥41,305	¥252,368	¥174,418	¥ 33,153	¥501,244	¥ –	¥501,244
Intersegment sales or transfers	643	2,794	2,697	94,624	100,758	(100,758)	–
Total	41,948	255,162	177,115	127,777	602,002	(100,758)	501,244
Segment profit	¥ 7,810	¥ 27,096	¥ 18,425	¥ 17,131	¥ 70,462	¥ 980	¥ 71,442
Segment assets	¥21,307	¥163,572	¥115,341	¥ 72,179	¥372,399	¥239,793	¥612,192
Other items:							
Depreciation and amortization	¥ 176	¥ 12,827	¥ 5,471	¥ 10,325	¥ 28,799	¥ 1,629	¥ 30,428
Amortization of goodwill	330	704	2,897	–	3,931	–	3,931
Investment in affiliates	88	597	4,761	192	5,638	–	5,638
Increase in tangible and intangible fixed assets	59	14,488	5,144	5,267	24,958	1,319	26,277

  

<i>Thousands of U.S. dollars</i>							
Year ended 31st March, 2019							
	Reportable segment				Total	Adjustment *1	Consolidated *2
	Consulting	Financial IT Solutions	Industrial IT Solutions	IT Platform Services			
Net sales:							
Sales to external customers	\$372,117	\$2,273,586	\$1,571,333	\$ 298,676	\$4,515,712	\$ –	\$4,515,712
Intersegment sales or transfers	5,793	25,171	24,297	852,469	907,730	(907,730)	–
Total	377,910	2,298,757	1,595,630	1,151,145	5,423,442	(907,730)	4,515,712
Segment profit	\$ 70,360	\$ 244,108	\$ 165,991	\$ 154,333	\$ 634,792	\$ 8,830	\$ 643,622
Segment assets	\$191,955	\$1,473,622	\$1,039,108	\$ 650,261	\$3,354,946	\$2,160,297	\$5,515,243
Other items:							
Depreciation and amortization	\$ 1,586	\$ 115,559	\$ 49,288	\$ 93,017	\$ 259,450	\$ 14,676	\$ 274,126
Amortization of goodwill	2,973	6,342	26,099	–	35,414	–	35,414
Investment in affiliates	793	5,378	42,892	1,730	50,793	–	50,793
Increase in tangible and intangible fixed assets	532	130,523	46,342	47,450	224,847	11,883	236,730

\*1 Descriptions of adjustments are as follows:

- (a) Individual items included in adjustment of segment profit were immaterial.
- (b) The segment asset adjustment of ¥239,794 million (\$2,160,306 thousand) is comprised of corporate assets not allocated to a reportable segment of ¥243,459 million (\$2,193,324 thousand) and the eliminations of intersegment receivables of ¥(3,666) million (\$33,027 thousand).
- (c) Individual items included in adjustment of depreciation and amortization were immaterial.
- (d) The adjustment to increase in tangible and intangible fixed assets comprised the increase in the corporate assets that is not attributable to any reportable segment.

\*2 Segment profit is adjusted to operating profit in the consolidated statement of income and comprehensive income.

\*3 In regard to the business combination with SMS Management & Technology Limited on 26th September, 2017, although provisional accounting treatment had been applied in the previous fiscal year, the accounting treatment was finalized in the second quarter of the fiscal year ended 31st March, 2019. As a result, the previously recognized amount of goodwill associated with the Industrial IT Solutions segment has decreased.

For more details, please refer to Note 25, “Business Combination.”

## 24. Segment Information (continued)

### Segment Information (continued)

#### 4) Information about changes in reportable segments

During the first quarter of the fiscal year ended March 31, 2019, the Company partially changed its segment reporting structure.

Moreover, the Company partially revised its segment classification in the third quarter of the fiscal year ended 31st March, 2019, thereby shifting all business entities previously classified as “Others” to the “Industrial IT Solutions” segment in order to enhance synergies among businesses from a managerial perspective.

Segment information for the fiscal year ended 31st March, 2018 in the above table has been restated to reflect the new segment reporting structure.

### Related information

#### 1) Information by products and services

Sales to external customers classified by products and services for the years ended 31st March, 2017, 2018 and 2019 are summarized as follows:

	<i>Millions of yen</i>	<i>YoY Change</i>	
	<b>31st March, 2017</b>		
Consulting services	¥ 62,734	20.3%	
System development and application sales	131,908	(9.1)	
System management and operation services	217,272	2.0	
Product sales	12,635	12.8	
Total	¥424,549	0.7%	
	<b>31st March, 2018</b>		
Consulting services	¥ 78,987	25.9%	
System development and application sales	138,111	4.7	
System management and operation services	241,198	11.0	
Product sales	13,192	4.4	
Total	¥471,488	11.1%	
	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>	<i>YoY Change</i>
	<b>31st March, 2019</b>		
Consulting services	¥ 90,816	\$ 818,162	15.0%
System development and application sales	150,468	1,355,568	8.9
System management and operation services	244,273	2,200,658	1.3
Product sales	15,687	141,324	18.9
Total	¥501,244	\$4,515,712	6.3%

## 24. Segment Information (continued)

### *Related information (continued)*

#### 2) Information by geographical area

##### (a) Net sales

Information by geographical area for the years ended 31st March, 2017 and 2018 is omitted, because sales in Japan constituted more than 90% of total sales for those years.

	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>
	<b>31st March, 2019</b>	
Japan	¥448,163	\$4,037,505
Oceania	35,859	323,054
North America	9,738	87,730
Asia and others	7,484	67,423
Total	¥501,244	\$4,515,712

\* Sales to external customers by geographical area are included in the above table.

\* Sales are classified by country or region based on the location of customers.

##### (b) Tangible fixed assets

Information by geographical area is omitted, because tangible fixed assets in Japan constituted more than 90% of total tangible fixed assets for the years ended 31st March, 2017, 2018 and 2019.

## 24. Segment Information (continued)

### Related information (continued)

#### 3) Information by major customer

	<i>Millions of yen</i>	<i>Percentage of total sales</i>	<i>YoY Change</i>	<i>Related segment</i>
<b>31st March, 2017</b>				
Nomura Holdings, Inc.	¥71,601	16.9%	4.3%	Financial IT Solutions
Seven & i Holdings Co., Ltd.	45,285	10.7	4.7	Industrial IT Solutions and Financial IT Solutions

\* Sales to subsidiaries of major customers and sales to major customers through leasing companies are included in the above table.

	<i>Millions of yen</i>	<i>Percentage of total sales</i>	<i>YoY Change</i>	<i>Related segment</i>
<b>31st March, 2018</b>				
Nomura Holdings, Inc.	¥77,937	16.5%	8.8%	Financial IT Solutions
Seven & i Holdings Co., Ltd.	47,001	10.0	3.8	Industrial IT Solutions and Financial IT Solutions

\* Sales to subsidiaries of major customers and sales to major customers through leasing companies are included in the above table.

	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>	<i>Percentage of total sales</i>	<i>YoY Change</i>	<i>Related segment</i>
<b>31st March, 2019</b>					
Nomura Holdings, Inc.	¥60,579	\$545,757	12.1%	(22.3)%	Financial IT Solutions
Seven & i Holdings Co., Ltd.	49,110	442,432	9.8	4.5	Industrial IT Solutions and Financial IT Solutions

\* Sales to subsidiaries of major customers and sales to major customers through leasing companies are included in the above table.

## 24. Segment Information (continued)

### Information about impairment loss on fixed assets for each reportable segment

Years ended 31st March, 2017, 2018

Not applicable.

Years ended 31st March, 2019

		<i>Millions of yen</i>						
		Year ended 31st March, 2019						
		Reportable segment				Total	Adjustment	Consolidated
		Consulting	Financial IT Solutions	Industrial IT Solutions	IT Platform Services			
Impairment loss		¥ –	¥ –	¥3,699	¥ –	¥3,699	¥ –	¥3,699

  

		<i>Thousands of U.S. dollars</i>						
		Year ended 31st March, 2019						
		Reportable segment				Total	Adjustment	Consolidated
		Consulting	Financial IT Solutions	Industrial IT Solutions	IT Platform Services			
Impairment loss		\$ –	\$ –	\$33,324	\$ –	\$33,324	\$ –	\$33,324

### Information about amortized amount of goodwill and unamortized balance of goodwill for each reportable segment

		<i>Millions of yen</i>								
		Year ended 31st March, 2017								
		Reportable segment					Total	Adjustment	Consolidated	
		Consulting	Financial IT Solutions	Industrial IT Solutions	IT Platform Services	Subtotal				Others
Amortized amount of goodwill		¥ 182	¥ 523	¥ 1,069	¥ 168	¥ 1,942	¥ –	¥ 1,942	¥ –	¥ 1,942
Unamortized balance of goodwill		7,814	5,137	21,151	1,302	35,404	–	35,404	–	35,404

  

		<i>Millions of yen</i>							
		Year ended 31st March, 2018							
		Reportable segment					Total	Adjustment	Consolidated
		Consulting	Financial IT Solutions	Industrial IT Solutions	IT Platform Services				
Amortized amount of goodwill		¥ 352	¥ 756	¥ 3,036	¥ –	¥ 4,144	¥ –	¥ 4,144	
Unamortized balance of goodwill		3,516	5,362	27,747	–	36,625	–	36,625	

## 24. Segment Information (continued)

### Information about amortized amount of goodwill and unamortized balance of goodwill for each reportable segment (continued)

<i>Millions of yen</i>							
Year ended 31st March, 2019							
	Reportable segment				Total	Adjustment	Consolidated
	Consulting	Financial IT Solutions	Industrial IT Solutions	IT Platform Services			
Amortized amount of goodwill	¥ 330	¥ 704	¥ 2,897	¥ –	¥ 3,931	¥ –	¥ 3,931
Unamortized balance of goodwill	3,010	4,386	20,177	–	27,573	–	27,573

  

<i>Thousands of U.S. dollars</i>							
Year ended 31st March, 2019							
	Reportable segment				Total	Adjustment	Consolidated
	Consulting	Financial IT Solutions	Industrial IT Solutions	IT Platform Services			
Amortized amount of goodwill	\$ 2,973	\$ 6,342	\$ 26,099	\$ –	\$ 35,414	\$ –	\$ 35,414
Unamortized balance of goodwill	27,117	39,514	181,774	–	248,405	–	248,405

### Information about gain on bargain purchase for each reportable segment

Year ended 31st March, 2017, 2018 and 2019

Not applicable.

## 25. Business Combination

### Finalization of provisional treatment for business combination

In regard to the business combination with SMS Management & Technology Limited on 26th September, 2017, although a provisional accounting treatment had been applied in the previous fiscal year, the accounting treatment was finalized in the second quarter of the fiscal year ended 31st March, 2019.

Following the finalization of the provisional accounting treatment, comparative information included in the consolidated financial statements for the fiscal year ended 31st March, 2019, has been adjusted to reflect the significant revision of the initially allocated amounts of acquisition cost.

As a result, primarily other intangibles increased. The provisional calculation of goodwill amounted to ¥9,444 million (\$85,081 thousand), which decreased by ¥2,515 million (\$22,658 thousand) following the finalization of the provisional accounting treatment. And resulted in the amount of ¥6,929 million (\$62,423 thousand).

## 26. 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 (\$145.50 million) jointly as compensation for damages due to a delay in the migration.

## 27. Subsequent Events

### *Stock split and partial revision of Articles of Incorporation related to stock split*

At a meeting on 25th April, 2019, the Board of Directors passed a resolution to implement a stock split and to partially revise the Articles of Incorporation relating to the stock split.

#### 1) Purpose of stock split

The purpose of the stock split is to lower the unit investment amount, thereby increasing the liquidity of the Company’s stock and broadening the shareholder base.

#### 2) Outline of stock split

##### (a) Method of stock split

The Company will implement a 3-for-1 stock split for each one share of common stock owned by shareholders listed or recorded in the closing register of shareholders with a record date of 30th June, 2019 (since this day falls on a non-business day of the administrator of the shareholder register, the practical record date will be 28th June, 2019).

##### (b) Increase in number of shares due to the stock split

Total number of shares in issue before the stock split	251,260,000 shares
Increase in number of shares due to the split	502,520,000 shares
Total number of shares in issue after the stock split	753,780,000 shares
Total number of issuable shares after the stock split	2,722,500,000 shares

##### (c) Schedule of the stock split

Record date announcement	14th June, 2019 (Friday)
Record date	30th June, 2019 (Sunday) (Since this day falls on a non-business day of the administrator of the shareholder register, the practical record date will be 28th June, 2019)
Effective date	1st July, 2019 (Monday)

## 27. Subsequent Events (continued)

### *Stock split and partial revision of Articles of Incorporation related to stock split (continued)*

#### 3) Effect on per share data

Per share data for the previous and current fiscal year calculated on the assumption that the stock split was implemented at the beginning of the previous fiscal year is as follows:

	<b>Fiscal year ended 31st March, 2018</b>	<b>Fiscal year ended 31st March, 2019</b>
Weighted-average number of shares of common stock outstanding – basic (Thousands of shares)*	724,945	706,310
Earnings per share	¥76.07	¥72.11 (\$0.65)
Diluted earnings per share*	¥75.85	¥71.94 (\$0.65)

\* When calculating earnings per share and diluted earnings per share, the Company's shares held by the exclusive trust for the NRI Group Employee Stock Ownership Group are included in treasury stock that is excluded from the calculation of the weighted-average number of shares of common stock outstanding – basic (based on number of shares after the stock split: 4,490 thousand common shares for the fiscal year ended 31st March, 2018 and 2,161 thousand common shares for the fiscal year ended 31st March, 2019).

	<b>As of 31st March, 2018</b>	<b>As of 31st March, 2019</b>
Total number of shares in issue at the end of the period (Thousands of shares)*	753,000	753,780
Net assets per share	¥586.71	¥587.71 (\$5.29)

\* When calculating net assets per share, the Company's shares held by the exclusive trust for the NRI Group Employee Stock Ownership Group are included in treasury stock that is excluded from the calculation of the total number of shares in issue at the end of the period (based on number of shares after the stock split: 3,345 thousand common shares as of 31st March, 2018 and 4,019 thousand common shares as of 31st March, 2019).

#### 4) Partial revision of the Articles of Incorporation relating to the stock split

##### (a) Reason for the revision to the Articles of Incorporation

In conjunction with the stock split, the total number of issuable shares in Article 6 of the Company's Articles of Incorporation will be revised by resolution of the Board of Directors effective 1st July, 2019 in accordance with the provisions in Article 184, paragraph 2 of the Corporation Law.

##### (b) Details of revision to the Articles of Incorporation

(Changes underlined)	
Current	Post-revision
Chapter 2 Shares (Total number of issuable shares)	Chapter 2 Shares (Total number of issuable shares)
Article 6 The total number of shares of the Company authorized to be issued shall be <u>907,500,000</u> .	Article 6 The total number of shares of the Company authorized to be issued shall be <u>2,722,500,000</u> .



## 27. Subsequent Events (continued)

### *Stock split and partial revision of Articles of Incorporation related to stock split (continued)*

#### 4) Partial revision of the Articles of Incorporation relating to the stock split (continued)

##### (c) Schedule of the revision of the Articles of Incorporation

Date of resolution by the Board of Directors to revise the Articles of Incorporation	25th April, 2019
Effective date of the revision to the Articles of Incorporation	1st July, 2019

### *Acquisition of treasury stock and share buyback by tender offer*

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

(Note) As stated previously, the Company resolved to conduct a 3-for-1 stock split of the Company's common stock (the "Stock Split") with a record date of 30th June, 2019 and an effective date of 1st July, 2019. The commencement date of the Tender Offer period is scheduled to be 1st July, 2019, the same day as the effective date of the Stock Split, and the share certificates, etc. to be purchased under the Tender Offer shall include the increased portion resulting from the Stock Split.

#### 1) Purpose of the acquisition, etc.

In late May 2019, the Company received notice from its major and largest shareholder and "other affiliated company," Nomura Holdings, Inc., ("Nomura HD"; Nomura HD as of 31st March, 2019 held 39.3% of the voting rights of the Company (including 9.7% of indirectly held voting rights)) indicating its intention to sell part of the Company's common stock that it owns.

After giving consideration to, the impact on the share price of the Company's shares of common stock in the event of the release of a large quantity of shares at one time; the fact that the acquisition of treasury stock has long been part of the Company's capital policy and that the Company is always looking for an opportunity to improve capital efficiency and provide shareholder return through the acquisition of treasury stock; and the financial position of the Company, the Company immediately started to give concrete consideration to acquiring its own shares. Furthermore, the Company also started investigating the advantages and disadvantages of Nomura HD selling part of the Company's shares of common stock that it owns and reducing its shareholding ratio.

As a result, the Company reached the conclusion that the Company's action of acquiring its own shares will contribute to improved capital efficiency by raising the Company's return on equity (ROE) and earnings per share (EPS), which will lead to return of profit to shareholders. Furthermore, the Company believes the reduction of Nomura HD's shareholding ratio will lead to further independence in the Company's management.

Concerning the means by which the Company shall perform the acquisition of treasury stock, from the standpoint of equality among shareholders and transactional transparency, the Company determined that the most appropriate means was to conduct a Tender Offer in order to ensure that shareholders had the opportunity to subscribe to the offer while observing the trends of the market price.

Through subsequent joint discussions, on 18th June, 2019, the Company received notification from Nomura HD of its intention to submit part of the common stock of the Company that it owns (101,910,700 shares after the Stock Split takes effect (33,970,233 shares before the Stock Split takes effect (with fractions of one share discarded); shareholding ratio (ratio calculated based on total issued number of shares of 753,780,000 shares after the Share Split takes effect): 13.52%) to the Tender Offer. Concerning the Company's common stock that Nomura HD does not intend to submit to the Tender Offer, the Company has received notification from Nomura HD that it intends to continue to hold these shares.

The Company's policy concerning disposal, etc. of the treasury stock acquired by means of the Tender Offer has currently not yet been decided.

2) Details of the resolution of the Board of Directors regarding the acquisition of treasury stock

- (a) Type of stock to be acquired: Common stock of the Company
- (b) Total number of shares to be acquired: 101,910,800 shares (maximum)
- (c) Total acquisition price of shares: ¥159,999,956,000 (\$1,441,441,045) (maximum)
- (d) Acquisition period: From 1st July, 2019 to 30th August, 2019

(Note) As the commencement date of the Tender Offer period is the same date as the effective date of the Stock Split (planned to be 1st July, 2019), the total number of shares to be acquired is set using the number of shares after the Stock Split takes effect (before the Stock Split takes effect, the number of shares would be 33,970,266 shares (fractions of one share discarded)).

3) Outline of the share buyback by Tender Offer

- (a) Total number of shares to be purchased: 101,910,700 shares
- (b) Purchase price: ¥1,570 (\$14) per share of common stock
- (c) Tender Offer period: From 1st July, 2019 to 29th July, 2019
- (d) Date of public notice of commencement of Tender Offer: 1st July, 2019
- (e) Commencement date for settlement: 21st August, 2019

(Note) As the commencement date of the Tender Offer period is the same date as the effective date of the Stock Split (planned to be 1st July, 2019), the number of shares to be purchased is set using the number of shares after the Stock Split takes effect (before the Stock Split takes effect, the number of shares would be 33,970,233 shares (fractions of one share discarded)).

[Appendix 1]

## SUMMARY OF CERTAIN SIGNIFICANT DIFFERENCES BETWEEN JAPANESE AND U.S. GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

The accompanying consolidated financial statements of the Company have been prepared in conformity with Japanese GAAP, which differs from U.S. GAAP in certain material respects. Such differences are discussed below and address only those differences related to the consolidated financial statements. In addition, no attempt has been made to identify disclosure, presentation or classification differences that would affect the manner in which transactions and events are presented in the financial statements.

The significant differences between Japanese GAAP and U.S. GAAP which would affect the determination of consolidated net income and shareholders' equity of the Company are set out below:

### **1. Trust-type Employee Stock Ownership Incentive Plan**

The Company introduced a "Trust-type Employee Stock Ownership Incentive Plan" in March 2011. Please see Note 1, "Significant Accounting Policies: Transactions of Delivering the Company's Own Stock to Employees etc. through Trusts" for an outline of this plan and corresponding accounting treatment under Japanese GAAP.

U.S. GAAP requires the adoption of ASC 718 for an Employee Stock Ownership Plan ("ESOP"), which is an employee retirement and severance benefit plan using company treasury stock to make the employees' property. However, the incentive plan introduced by the Company differs from an ESOP, and ASC 718 is not applied.