

This financial report is composed of two parts. The first part is an abridged translation of “Kessan Tanshin (earnings report)” for the quarterly period ended 31st December, 2018, 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.



30th January, 2019

Consolidated Financial Results For the Quarterly Period Ended 31st December, 2018 <under Japanese GAAP>

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

Scheduled date to file Quarterly Securities Report: 14th February, 2019

Scheduled date to commence dividend payments: –

Preparation of supplementary material on quarterly consolidated financial results: Yes

Announcement for quarterly consolidated financial results (for institutional investors and analysts): Yes

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

1. Consolidated performance for the quarterly period ended 31st December, 2018 (from 1st April, 2018 to 31st December, 2018)

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

Quarterly period ended	Sales		Operating profit		Ordinary profit		Profit attributable to owners of the parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
31st December, 2018	367,064	7.5	51,422	10.3	52,180	9.4	39,849	(12.0)
31st December, 2017	341,601	10.7	46,614	9.3	47,702	7.3	45,303	12.5

Note: Comprehensive income

Quarterly period ended 31st December, 2018: ¥30,786 million [(31.5)%]

Quarterly period ended 31st December, 2017: ¥44,960 million [28.6%]

Quarterly period ended	Earnings per share – basic		Earnings per share – diluted	
	Yen		Yen	
31st December, 2018	168.91		168.47	
31st December, 2017	186.55		186.03	

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
As of	Millions of yen	Millions of yen	%
31st December, 2018	585,222	417,195	68.9
31st March, 2018	643,117	432,674	65.2

Reference: Equity

As of 31st December, 2018: ¥403,309 million As of 31st March, 2018: ¥419,184 million

Note: From the beginning of the first quarter of the fiscal year ending 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 second quarter of the fiscal year ending 31st March, 2019. Consequently, the results for the fiscal year ended 31st March, 2018 are those after retrospective application.

2. Cash dividends

	Annual dividends				
	First quarter	Second quarter	Third quarter	Fiscal year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended 31st March, 2018	–	45.00	–	45.00	90.00
Fiscal year ending 31st March, 2019	–	45.00	–		
Fiscal year ending 31st March, 2019 (Forecasts)				45.00	90.00

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

2. 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).

3. Forecasts of financial results for the fiscal year ending 31st March, 2019 (from 1st April, 2018 to 31st March, 2019)

(Percentages indicate year-on-year changes.)

	Sales		Operating profit		Ordinary profit		Profit attributable to owners of the parent		Earnings per share – basic
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Fiscal year ending 31st March, 2019	500,000	6.0	70,000	7.5	71,000	7.3	53,000	(3.9)	224.66

Note: Revisions to the forecasts of financial results most recently announced: Yes

For more details, please refer to “(3) Qualitative information regarding forecasts of financial results,” on page 10.

* Notes

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

- (4) Number of shares in issue (common stock)
- | | | |
|----|---|--------------------|
| a. | Total number of shares in issue at the end of the period (including treasury stock) | |
| | As of 31st December, 2018 | 251,260,000 shares |
| | As of 31st March, 2018 | 251,000,000 shares |
| b. | Number of shares of treasury stock at the end of the period | |
| | As of 31st December, 2018 | 17,395,038 shares |
| | As of 31st March, 2018 | 12,844,155 shares |
| c. | Average number of shares during the period (cumulative from the beginning of the fiscal year) | |
| | Quarterly period ended 31st December, 2018 | 235,914,913 shares |
| | Quarterly period ended 31st December, 2017 | 242,851,495 shares |
- Note: The NRI shares held by the trust exclusive for NRI Group Employee Stock Ownership Group are included in treasury stock.

* Quarterly consolidated financial results reports are exempt from quarterly review conducted by certified public accountants or an audit corporation.

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

The forward-looking statements including business forecasts stated in this document are based on information available to the Company at the present time and certain assumptions judged to be rational, and these statements do not purport to be a promise by the Company to achieve such results. Actual business results, etc. may differ significantly from this forecast due to various factors. For more details, please refer to “(3) Qualitative information regarding forecasts of financial results,” on page 10.

Qualitative information regarding third-quarter settlement of accounts

(1) Qualitative information regarding consolidated operating results

(Millions of yen)

	Nine months ended 31st December, 2017	Nine months ended 31st December, 2018	Year on year	
			Amount	Rate
Sales	341,601	367,064	25,462	7.5%
Overseas sales	30,670	40,533	9,862	32.2%
Overseas sales ratio	9.0%	11.0%	2.1P	–
Operating profit	46,614	51,422	4,807	10.3%
Operating profit (before amortization of goodwill)	49,639	54,435	4,795	9.7%
Operating margin	13.6%	14.0%	0.4P	–
Operating margin (before amortization of goodwill)	14.5%	14.8%	0.3P	–
EBITDA margin	20.8%	21.1%	0.3P	–
Ordinary profit	47,702	52,180	4,478	9.4%
Profit attributable to owners of the parent	45,303	39,849	(5,453)	(12.0)%

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) / Sales

During the nine months ended 31st December, 2018 (from 1st April, 2018 to 31st December, 2018), the Japanese economy continued to recover at a moderate pace, supported by upturns in corporate earnings and business confidence, despite concerns about the effect of the global economy due to trade friction originating in the U.S. and economic impact of frequent natural disasters. Investment in information systems has been 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 ending 31st March, 2019 is the final year of the medium-term plan (from the fiscal year ended 31st March, 2017 to the fiscal year ending 31st March, 2019) formulated for realizing the goals of Vision 2022, the NRI Group’s long-term management plan. The NRI Group is aiming to achieve the final-year targets of the medium-term plan by 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 growing momentum behind initiatives to spur digital transformation, which will enable companies to revamp business models, products and services and secure competitive advantages by using new IT tools 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 digital transformation to create new business models. Leveraging its consulting and IT solutions, the NRI Group will support clients’ digital transformation.

The global business grew in the nine months ended 31st December, 2018, with overseas sales now accounting for more than 10% of consolidated sales. 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 digital business and other new businesses.

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

During the nine months ended 31st December, 2018, the NRI Group's sales totaled ¥367,064 million (up 7.5% year on year), supported by higher sales from all services, particularly from consulting services and system development and application sales. Cost of sales was ¥245,989 million (up 9.4%) and gross profit was ¥121,075 million (up 3.7%). Despite an increase in the number of subsidiaries, selling, general and administrative expenses were ¥69,652 million (down 0.8%), due to the absence of expenses incurred for office relocation in the same period of the previous fiscal year. As a result, operating profit was ¥51,422 million (up 10.3%), the operating margin was 14.0% (up 0.4 points) and ordinary profit was ¥52,180 million (up 9.4%). Operating profit (before amortization of goodwill) was ¥54,435 million (up 9.7%), the operating margin (before amortization of goodwill) was 14.8% (up 0.3 points) and the EBITDA margin was 21.1% (up 0.3 points). Profit attributable to owners of the parent was ¥39,849 million (down 12.0%) due to the posting of a ¥9,075 million gain on investment securities in conjunction with sales of the Company's shareholdings (¥20,271 million was posted in the same period of the previous fiscal year).

Segment information

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

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

		Nine months ended 31st December, 2017	Nine months ended 31st December, 2018	(Millions of yen) Year on year	
				Amount	Rate
Consulting	Sales	24,191	30,041	5,850	24.2%
	Operating profit	3,532	5,148	1,616	45.8%
	Operating margin	14.6%	17.1%	2.5P	–
Financial IT Solutions	Sales	185,062	186,399	1,336	0.7%
	Operating profit	19,253	19,998	745	3.9%
	Operating margin	10.4%	10.7%	0.3P	–
Industrial IT Solutions	Sales	115,116	132,211	17,095	14.9%
	Operating profit	11,643	13,039	1,395	12.0%
	Operating margin	10.1%	9.9%	(0.3)P	–
IT Platform Services	Sales	90,578	93,319	2,740	3.0%
	Operating profit	11,466	12,307	841	7.3%
	Operating margin	12.7%	13.2%	0.5P	–
Adjustments	Sales	(73,347)	(74,908)	(1,560)	–
	Operating profit	719	928	209	–
Total	Sales	341,601	367,064	25,462	7.5%
	Operating profit	46,614	51,422	4,807	10.3%
	Operating margin	13.6%	14.0%	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 will put in place systems to support all areas of client operations as their business transformation partner, while also continuing to work on expanding the client base, including in overseas markets.

During the nine months ended 31st December, 2018, in addition to the contributions from the business in Australia, consulting work to support clients in their digital transformation and system consulting work to support clients in their large-scale development projects increased. As a result, the Consulting segment posted sales of ¥30,041 million (up 24.2% year on year). Profitability improved amid a favorable order environment, with operating profit of ¥5,148 million (up 45.8%).

(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 the expansion of digital businesses at clients in the financial sector.

During the nine months ended 31st December, 2018, 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 ¥186,399 million (up 0.7% year on year). Operating profit totaled ¥19,998 million (up 3.9%), reflecting the absence of some unprofitable projects incurred in the same period of the previous fiscal year.

(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 digital transformation 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' digital transformations through joint development with said clients, to expand its client base.

During the nine months ended 31st December, 2018, 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 ¥132,211 million (up 14.9% year on year). Profitability improved amid a continued favorable order environment from the previous fiscal year, with operating profit of ¥13,039 million (up 12.0%).

(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 digital transformation, such as digital marketing, and the development of services that provide support to clients to make their operations more efficient and advanced using AI.

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.

During the nine months ended 31st December, 2018, sales to external clients increased in the security business, 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 ¥93,319 million (up 3.0% year on year) and operating profit of ¥12,307 million (up 7.3%).

(2) Qualitative information regarding consolidated financial position

(Assets, liabilities and net assets)

From the beginning of the first quarter of the fiscal year ending 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 second quarter of the fiscal year ending 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 December, 2018	Year on year	
			Amount	Rate
Current assets	298,275	252,303	(45,971)	(15.4)%
Noncurrent assets	344,842	332,918	(11,923)	(3.5)%
Total assets	643,117	585,222	(57,894)	(9.0)%
Current liabilities	162,133	122,916	(39,217)	(24.2)%
Noncurrent liabilities	47,714	44,634	(3,079)	(6.5)%
Net assets	432,674	417,195	(15,479)	(3.6)%
Equity	419,184	403,309	(15,874)	(3.8)%
Equity ratio	65.2%	68.9%	3.7P	–
Interest-bearing debt	81,680	62,091	(19,588)	(24.0)%
D/E ratio (times)	0.19	0.15	(0.04)	–

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 third quarter (31st December, 2018), current assets were ¥252,303 million (down 15.4% from the end of the previous fiscal year), noncurrent assets were ¥332,918 million (down 3.5%), current liabilities were ¥122,916 million (down 24.2%), noncurrent liabilities were ¥44,634 million (down 6.5%), net assets were ¥417,195 million (down 3.6%) and total assets were ¥585,222 million (down 9.0%). In addition, the D/E ratio (debt-to-equity ratio) at the end of the third quarter was 0.15 times.

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

Accounts receivable declined ¥22,386 million to ¥53,431 million and other receivables increased ¥20,654 million to ¥56,904 million. The NRI Group recognizes revenues based on the percentage-of-completion method. The number of projects completed at the end of the fiscal year is comparatively large, and accordingly, compared with the end of the previous fiscal year, the ends of quarterly periods tend to have small values for accounts receivable and large values for other receivables.

Investment securities decreased ¥8,296 million to ¥80,702 million due to sales of the Company’s shareholdings and a decrease in the value of those holdings, and despite purchases of short-term investment securities for surplus fund management purposes.

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

Treasury stock increased ¥26,460 million from the end of the previous fiscal year to ¥67,678 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 ¥47,173 million to ¥112,368 million, net defined benefit asset increased ¥6,148 million to ¥61,849 million, income taxes payable decreased ¥15,793 million to ¥5,439 million and accrued bonuses declined ¥10,224 million to ¥10,103 million.

(Cash flow position)

(Millions of yen)

	Nine months ended 31st December, 2017	Nine months ended 31st December, 2018	Year on year	
			Amount	Rate
Cash flows from operating activities	44,604	33,405	(11,198)	(25.1)%
Cash flows from investing activities	(15,286)	(13,447)	1,838	(12.0)%
Free cash flows	29,318	19,957	(9,360)	(31.9)%
Cash flows from financing activities	(70,902)	(66,459)	4,443	(6.3)%
Net increase (decrease) in cash and cash equivalents	(40,347)	(47,911)	(7,563)	18.70%
Cash and cash equivalents at end of period	111,703	110,392	(1,311)	(1.2)%

Cash and cash equivalents as of the end of the third quarter (31st December, 2018) stood at ¥110,392 million (down ¥47,911 million from the end of the previous fiscal year).

Net cash provided by operating activities in the nine months ended 31st December, 2018 was ¥33,405 million, a decrease of ¥11,198 million compared with the same period of the previous fiscal year. Although the adjustment amounts for the items related to non-operating income and expenses and extraordinary income and losses decreased, the amount of income taxes paid increased.

Net cash used in investing activities was ¥13,447 million, a decline of ¥1,838 million from the same period of 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 ¥66,459 million, a decline of ¥4,443 million from the same period of the previous fiscal year. ¥49,999 million worth of treasury stock was purchased in the same period of the previous fiscal year in accordance with a resolution of the Board of Directors. ¥29,999 million worth of treasury stock was purchased in the nine months ended 31st December, 2018. Also, cash was used for the redemption of ¥15,000 million in the second series bonds.

(3) Qualitative information regarding forecasts of financial results

The full-year estimate for consolidated overseas sales has been revised to ¥55,000 million, from ¥65,000 million previously, in light of recent business trends and the order environment. As such, the forecasts of financial results (sales) have been revised as follows.

(I) Consolidated performance

Consolidated financial forecasts for the fiscal year ending 31st March, 2019 (From 1st April, 2018 to 31st March, 2019)

	Previous forecast (A)	Revised forecast (B)	Change		(Reference) Previous fiscal year (Actual result)
			Amount (B-A)	Rate (%)	
Sales	510,000	500,000	(10,000)	(2.0)	471,488
Operating profit	70,000	70,000	–	–	65,138
Ordinary profit	71,000	71,000	–	–	66,161
Profit attributable to owners of the parent	53,000	53,000	–	–	55,145

(Millions of yen)

(II) Others

1) Consolidated sales by segment (From 1st April, 2018 to 31st March, 2019)

	Previous forecast (A)	Revised forecast (B)	Change		(Reference) Previous fiscal year (Actual result)
			Amount (B-A)	Rate (%)	
Consulting	41,000	41,000	–	–	34,577
Financial IT Solutions	255,000	253,500	(1,500)	(0.6)	252,122
Securities sector	105,000	101,000	(4,000)	(3.8)	118,397
Insurance sector	62,000	63,000	1,000	1.6	51,836
Banking sector	46,000	46,000	–	–	42,225
Other financial sector, etc.	42,000	43,500	1,500	3.6	39,662
Industrial IT Solutions	180,000	174,000	(6,000)	(3.3)	154,917
Distribution sector	66,000	66,000	–	–	61,057
Manufacturing and service sectors	114,000	108,000	(6,000)	(5.3)	93,860
IT Platform Services	34,000	31,500	(2,500)	(7.4)	29,870
Total	510,000	500,000	(10,000)	(2.0)	471,488

(Millions of yen)

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

2) Consolidated sales by service (From 1st April, 2018 to 31st March, 2019)

	Previous forecast (A)	Revised forecast (B)	Change		(Reference) Previous fiscal year (Actual result)
			Amount (B-A)	Rate (%)	
Consulting services	92,000	92,000	–	–	78,987
System development & application sales	160,000	150,000	(10,000)	(6.3)	138,111
System management & operation services	245,000	245,000	–	–	241,198
Product sales	13,000	13,000	–	–	13,191
Total	510,000	500,000	(10,000)	(2.0)	471,488

(Millions of yen)

(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.

Nomura Research Institute, Ltd.

Quarterly Consolidated Financial Statements

*For the Nine-Month Period Ended 31st December, 2018
(Unaudited)*

Unless otherwise noted, the amounts included in the financial statements are expressed in millions of yen and thousands of U.S. dollars with fractional amounts rounded off.

Nomura Research Institute, Ltd.

Quarterly Consolidated Financial Statements

*For the Nine-Month Period Ended 31st December, 2018
(Unaudited)*

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Nomura Research Institute, Ltd.
Quarterly Consolidated Balance Sheet

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars (Note 3)</i>
	31st March, 2018	31st December, 2018	31st December, 2018
Assets			
Current assets:			
Cash and bank deposits (<i>Notes 4 and 8</i>)	¥159,542	¥112,368	\$1,012,142
Short-term investment securities (<i>Notes 4, 5 and 8</i>)	1,219	2,145	19,321
Accounts receivable and other receivables (<i>Note 4</i>)	112,068	110,336	993,839
Operating loans (<i>Note 4</i>)	3,925	1,825	16,438
Margin transaction assets (<i>Note 4</i>)	6,945	8,448	76,094
Inventories	1,117	1,274	11,475
Short-term guarantee deposits (<i>Note 4</i>)	3,404	3,404	30,661
Other current assets	10,259	12,689	114,296
Allowance for doubtful accounts	(205)	(185)	(1,666)
Total current assets	<u>298,274</u>	<u>252,304</u>	<u>2,272,600</u>
Property and equipment:			
Land	7,060	7,060	63,592
Buildings, net	36,956	35,585	320,528
Buildings in trust, net	8,310	8,218	74,023
Machinery and equipment, net	15,514	13,505	121,645
Leased assets, net	688	778	7,007
Property and equipment, net	<u>68,528</u>	<u>65,146</u>	<u>586,795</u>
Software and other intangibles	67,123	65,336	588,507
Goodwill	36,625	32,543	293,127
Investment securities (<i>Notes 4 and 5</i>)	88,999	80,702	726,914
Investments in affiliates (<i>Notes 4 and 5</i>)	5,231	4,834	43,542
Deferred income taxes	2,654	2,713	24,437
Lease investment assets	412	343	3,090
Net defined benefit asset	55,701	61,849	557,098
Other assets	19,674	19,548	176,075
Allowance for doubtful accounts	(104)	(96)	(865)
Total assets	<u>¥643,117</u>	<u>¥585,222</u>	<u>\$5,271,320</u>

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars (Note 3)</i>
	31st March, 2018	31st December, 2018	31st December, 2018
Liabilities and Net Assets			
Current liabilities:			
Accounts payable (Note 4)	¥ 22,882	¥ 21,542	\$ 194,037
Short-term loans payable (Note 4)	6,074	5,974	53,810
Current portion of bonds (Note 4)	15,000	–	–
Current portion of long-term loans payable (Note 4)	23,707	20,313	182,967
Margin transaction liabilities (Note 4)	1,014	962	8,665
Lease obligations, current	612	557	5,017
Accrued expenses	35,637	28,877	260,106
Income taxes payable	21,233	5,440	49,000
Advance payments received	11,748	10,545	94,983
Short-term guarantee deposits received (Note 4)	4,540	6,943	62,538
Provision for loss on orders received	51	1,177	10,602
Asset retirement obligations	71	21	189
Other current liabilities	19,564	20,565	185,238
Total current liabilities	<u>162,133</u>	<u>122,916</u>	<u>1,107,152</u>
Bonds (Note 4)	34,083	33,909	305,431
Long-term loans payable (Note 4)	408	156	1,405
Lease obligations	765	593	5,342
Deferred income taxes	5,554	2,410	21,708
Net defined benefit liability	5,662	6,143	55,332
Asset retirement obligations	1,048	1,266	11,403
Other long-term liabilities	194	158	1,423
Reserve for financial products transaction liabilities	595	476	4,288
Total liabilities	<u>¥210,442</u>	<u>¥168,027</u>	<u>\$1,513,484</u>
Net assets (Notes 7 and 9):			
Shareholders' equity:			
Common stock:			
Authorized – 907,500 thousand shares at 31st March, 2018 and 907,500 thousand shares at 31st December, 2018			
Issued – 251,000 thousand shares at 31st March, 2018 and 251,260 thousand shares at 31st December, 2018	¥ 18,600	¥ 19,338	\$ 174,185
Additional paid-in capital (Note 7)	14,776	15,521	139,804
Retained earnings (Note 7)	393,488	411,962	3,710,700
Treasury stock, at cost: (Note 7)			
– 12,844 thousand shares at 31st March, 2018 and 17,395 thousand shares at 31st December, 2018	(41,218)	(67,679)	(609,611)
Total shareholders' equity	<u>385,646</u>	<u>379,142</u>	<u>3,415,078</u>
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities (Note 5)	32,446	25,350	228,337
Deferred gains or losses on hedges (Note 6)	(3)	–	–
Foreign currency translation adjustment	(3,956)	(5,807)	(52,305)
Remeasurements of defined benefit plans	5,052	4,625	41,659
Total accumulated other comprehensive income	<u>33,539</u>	<u>24,168</u>	<u>217,691</u>
Share subscription rights	1,302	1,038	9,350
Non-controlling interests	12,188	12,847	115,717
Total net assets	<u>432,675</u>	<u>417,195</u>	<u>3,757,836</u>
Total liabilities and net assets	<u>¥643,117</u>	<u>¥585,222</u>	<u>\$5,271,320</u>

See accompanying notes to quarterly consolidated financial statements.

Nomura Research Institute, Ltd.

Quarterly Consolidated Statement of Income and Comprehensive Income

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars (Note 3)</i>
	Nine months ended 31st December,		Nine months ended 31st December,
	2017	2018	2018
Sales	¥341,602	¥ 367,065	\$3,306,296
Cost of sales	224,792	245,990	2,215,727
Gross profit	116,810	121,075	1,090,569
Selling, general and administrative expenses (<i>Notes 10 and 11</i>)	70,196	69,653	627,391
Operating profit	46,614	51,422	463,178
Other income (expenses):			
Interest and dividend income	1,631	1,352	12,177
Interest expense	(175)	(336)	(3,027)
Equity in losses of affiliates	(39)	(170)	(1,531)
Commission for purchase of treasury stock	(308)	(200)	(1,801)
Foreign exchange gains (losses)	(217)	10	90
Gain on investment securities	20,217	7,933	71,456
Gain on investments in affiliates	–	189	1,702
Reversal of share-based compensation	16	3	27
Reversal of reserve for financial products transaction liabilities	–	118	1,063
Other, net	197	103	928
	21,322	9,002	81,084
Income before income taxes	67,936	60,424	544,262
Provision for income taxes (<i>Note 2</i>)	21,794	20,219	182,120
Profit	¥ 46,142	¥ 40,205	\$ 362,142
Profit attributable to owners of parent (<i>Note 9</i>)	¥ 45,303	¥ 39,849	\$ 358,935
Profit attributable to non-controlling interests	839	356	3,207
Other comprehensive income (loss):			
Valuation difference on available-for-sale securities	(2,288)	(7,157)	(64,466)
Deferred gains or losses on hedges (<i>Note 6</i>)	38	3	27
Foreign currency translation adjustment	1,251	(1,815)	(16,349)
Remeasurements of defined benefit plans, net of tax	(224)	(413)	(3,720)
Share of other comprehensive income (loss) of affiliates	41	(36)	(324)
Total other comprehensive income (loss)	(1,182)	(9,418)	(84,832)
Comprehensive income	¥ 44,960	¥ 30,787	\$ 277,310
Comprehensive income attributable to:			
Comprehensive income attributable to owners of parent	¥ 44,074	¥ 30,482	\$ 274,563
Comprehensive income attributable to non-controlling interests	886	305	2,747

See accompanying notes to quarterly consolidated financial statements.

Nomura Research Institute, Ltd.

Quarterly Consolidated Statement of Cash Flows

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars (Note 3)</i>
	Nine months ended		Nine months ended
	31st December,		31st December,
	2017	2018	2018
Cash flows from operating activities			
Income before income taxes	¥ 67,936	¥ 60,424	\$ 544,262
Adjustments to reconcile income before income taxes to net cash provided by operating activities:			
Depreciation and amortization	21,416	22,887	206,152
Interest and dividend income	(1,631)	(1,352)	(12,177)
Interest expense	175	336	3,027
Gain on investment securities	(20,217)	(7,933)	(71,456)
Gain on investments in affiliates	–	(189)	(1,702)
Changes in operating assets and liabilities:			
Accounts receivable and other receivables, net of advance payments received	(177)	181	1,630
Allowance for doubtful accounts	(51)	(26)	(234)
Accounts payable	5,948	2,290	20,627
Inventories	(127)	(183)	(1,648)
Net defined benefit asset	(9,000)	(6,730)	(60,620)
Net defined benefit liability	591	470	4,233
Provision for loss on orders received	(1,469)	1,126	10,142
Operating loans	–	2,100	18,916
Margin transaction assets	(2,767)	(1,503)	(13,538)
Short-term guarantee deposits	1,708	–	–
Margin transaction liabilities	1,031	(52)	(468)
Short-term guarantee deposits received	1,133	2,403	21,645
Reserve for financial products transaction liabilities	–	(118)	(1,063)
Other	(8,225)	(6,477)	(58,342)
Subtotal	56,274	67,654	609,386
Interest and dividends received	1,837	1,513	13,628
Interest paid	(155)	(282)	(2,540)
Income taxes paid	(13,352)	(35,479)	(319,573)
Net cash provided by operating activities	¥ 44,604	¥ 33,406	\$ 300,901

Nomura Research Institute, Ltd.

Quarterly Consolidated Statement of Cash Flows (continued)

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars (Note 3)</i>
	Nine months ended		Nine months ended
	31st December,		31st December,
	2017	2018	2018
Cash flows from investing activities			
Payments for time deposits	¥ (1,099)	¥ (2,204)	\$ (19,852)
Proceeds from time deposits	944	1,598	14,394
Purchase of short-term investment securities	(1,000)	(2,007)	(18,078)
Proceeds from sales and redemption of short-term investment securities	3,000	1,000	9,007
Acquisition of property and equipment	(15,288)	(3,962)	(35,687)
Proceeds from sales of property and equipment	2	5	45
Purchase of software and other intangibles	(16,247)	(15,346)	(138,227)
Payments for asset retirement obligations	(53)	(47)	(423)
Purchase of investment securities	(8,483)	(11,010)	(99,171)
Proceeds from sales and redemption of investment securities	36,019	16,934	152,531
Purchase of investment in affiliates	(3,447)	–	–
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(9,638)	–	–
Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation	–	1,587	14,295
Other	5	4	35
Net cash used in investing activities	(15,285)	(13,448)	(121,131)
Cash flows from financing activities			
Proceeds from short-term loans payable	4,065	771	6,945
Repayments of short-term loans payable	(3,422)	(735)	(6,620)
Proceeds from long-term loans payable	946	–	–
Repayments of long-term loans payable	(4,272)	(3,626)	(32,661)
Redemption of bonds	–	(15,000)	(135,111)
Repayments of obligation under finance leases	(215)	(389)	(3,504)
Proceeds from sales of treasury stock	3,620	4,210	37,921
Purchase of treasury stock	(50,672)	(30,201)	(272,032)
Cash dividends paid	(20,807)	(21,360)	(192,398)
Cash dividends paid to non-controlling interests	(96)	(129)	(1,162)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(50)	–	–
Net cash used in financing activities	(70,903)	(66,459)	(598,622)
Effect of exchange rate changes on cash and cash equivalents	1,236	(1,410)	(12,701)
Net decrease in cash and cash equivalents	(40,348)	(47,911)	(431,553)
Cash and cash equivalents at beginning of period	152,052	158,303	1,425,896
Cash and cash equivalents at end of period (Note 8)	¥111,704	¥110,392	\$ 994,343

See accompanying notes to quarterly consolidated financial statements.

Nomura Research Institute, Ltd.

Notes to Quarterly Consolidated Financial Statements

31st December, 2018

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

Description of Business

The NRI Group (Nomura Research Institute, Ltd. (the “Company”) and its 70 consolidated subsidiaries) and its affiliates (8 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 12.

During the quarterly period ended 30th June, 2018, the NRI Group established one company. As a result, this company is newly included in the scope of consolidation.

During the quarterly period ended 31st December, 2018, the NRI Group established two companies. As a result, these two 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.

Basis of Presentation

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

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

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

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

Additional Information

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

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

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

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

As of 31st March, 2018 and 31st December, 2018, ¥3,959 million (corresponding to 1,115 thousand shares of the Company held by the ESOP Trust) and ¥1,777 million (\$16,006 thousand) (corresponding to 501 thousand shares of the Company held by the ESOP Trust) and the loan payable of the ESOP Trust of ¥2,881 million and nil, respectively, are recorded in the accompanying quarterly consolidated balance sheet.

(Application of Partial Amendment to Accounting Standard for Tax Effect Accounting, etc.)

Partial Amendment to Accounting Standard for Tax Effect Accounting (Accounting Standards Board of Japan ("ASBJ") Statement No. 28, revised on 16th February, 2018) has been applied from the beginning of the quarter ended 30th June, 2018, and deferred tax assets and deferred tax liabilities are presented in the quarterly consolidated balance sheet.

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

Calculation of Tax Expense

At the end of each interim period the NRI Group makes its best estimate of the effective tax rate expected to be applicable for the full fiscal year. Tax expenses for interim periods are computed multiplying income before income taxes by the aforementioned estimated annual effective tax rate for the annual period. Deferred income taxes are included in provision for income taxes in the quarterly consolidated statement of income and comprehensive income. However, if the result of the calculation using the relevant estimated effective tax rate is unreasonable, income taxes are calculated by multiplying quarterly income before income taxes by the effective statutory tax rate, after adjusting for important differences that do not constitute temporary differences.

3. U.S. Dollar Amounts

The Company maintains its books of account in yen. The U.S. dollar amounts included in the accompanying quarterly consolidated financial statements and the notes thereto represent the arithmetic results of translating yen into dollars at ¥111.02 = U.S.\$1.00, the rate of exchange prevailing on 31st December, 2018. The U.S. dollar amounts are included solely for the convenience of the reader and the translation is not intended to imply that the assets and liabilities which originated in yen have been or could be readily converted, realized or settled in U.S. dollars at the above or any other rate.

4. Financial Instruments

Fair value of financial instruments

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

	<i>Millions of yen</i>					
	31st March, 2018			31st December, 2018		
	Carrying amount	Estimated fair value	Difference	Carrying amount	Estimated fair value	Difference
Assets:						
Cash and bank deposits	¥ 159,542	¥ 159,542	¥ –	¥ 112,368	¥ 112,368	¥ –
Accounts receivable and other receivables	112,068	112,068	–	110,336	110,336	–
Short-term investment securities, investment securities, and investments in affiliates	87,361	87,361	–	79,895	79,895	–
Operating loans	3,925	3,925	–	1,825	1,825	–
Margin transaction assets	6,945	6,945	–	8,448	8,448	–
Short-term guarantee deposits	3,404	3,404	–	3,404	3,404	–
Total	<u>¥ 373,245</u>	<u>¥ 373,245</u>	<u>¥ –</u>	<u>¥ 316,276</u>	<u>¥ 316,276</u>	<u>¥ –</u>
Liabilities:						
Accounts payable	¥ 22,882	¥ 22,882	¥ –	¥ 21,542	¥ 21,542	¥ –
Short-term loans payable	6,074	6,074	–	5,974	5,974	–
Margin transaction liabilities	1,014	1,014	–	962	962	–
Short-term guarantee deposits received	4,540	4,540	–	6,943	6,943	–
Bonds *1	49,083	49,064	(19)	33,909	34,106	197
Long-term loans payable *2	24,115	24,118	3	20,469	20,470	1
Total	<u>¥ 107,708</u>	<u>¥ 107,692</u>	<u>¥ (16)</u>	<u>¥ 89,799</u>	<u>¥ 89,997</u>	<u>¥ 198</u>
Derivative transactions *3	¥ 6	¥ 6	¥ –	¥ –	¥ –	¥ –

	<i>Thousands of U.S. dollars</i>		
	31st December, 2018		
	Carrying amount	Estimated fair value	Difference
Assets:			
Cash and bank deposits	\$1,012,142	\$1,012,142	\$ –
Accounts receivable and other receivables	993,839	993,839	–
Short-term investment securities, investment securities, and investments in affiliates	719,645	719,645	–
Operating loans	16,438	16,438	–
Margin transaction assets	76,094	76,094	–
Short-term guarantee deposits	30,661	30,661	–
Total	<u>\$2,848,819</u>	<u>\$2,848,819</u>	<u>\$ –</u>
Liabilities:			
Accounts payable	\$ 194,037	\$ 194,037	\$ –
Short-term loans payable	53,810	53,810	–
Margin transaction liabilities	8,665	8,665	–
Short-term guarantee deposits received	62,538	62,538	–
Bonds *1	305,431	307,206	1,775
Long-term loans payable *2	184,372	184,381	9
Total	<u>\$ 808,853</u>	<u>\$ 810,637</u>	<u>\$ 1,784</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 ¥20,313 million (\$182,967 thousand) as of 31st March, 2018 and 31st December, 2018, respectively.

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

4. Financial Instruments (continued)

Fair value of financial instruments (continued)

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

Assets

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

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

- b. Accounts receivable and other receivables

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

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

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

- d. Operating loans and margin transaction assets

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

Liabilities

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

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

- b. Bonds

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

4. Financial Instruments (continued)

Fair value of financial instruments (continued)

c. Long-term loans payable

The fair value of long-term loans payable, to which variable rates are applied, approximates the carrying amount because the variable rates reflect market interest rates over a short term. Those with fixed interest rates, on the other hand, are calculated by discounting the total amount of principal and interest by an interest rate assumed to be applied if the similar loans were newly executed.

Derivative transactions

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

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

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	31st March, 2018	31st December, 2018	31st December, 2018
Unlisted companies' shares *1	¥7,361	¥7,031	\$63,331
Investments in partnerships *2	727	756	6,810

*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 ¥4,834 million (\$43,542 thousand) as of 31st March, 2018 and 31st December, 2018, respectively.

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

5. Investments

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

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 31st December, 2018:

Securities Classified as Available-for-Sale Securities

	<i>Millions of yen</i>					
	31st March, 2018			31st December, 2018		
	Acquisition cost	Carrying amount	Unrealized gain (loss)	Acquisition cost	Carrying amount	Unrealized gain (loss)
Equity securities	¥17,787	¥63,138	¥45,351	¥16,017	¥51,129	¥35,112
Bonds:						
Government bonds	1,036	1,037	1	1,033	1,036	3
Corporate bonds	25,110	25,089	(21)	29,809	29,779	(30)
	26,146	26,126	(20)	30,842	30,815	(27)
Other	875	955	80	872	903	31
Total	<u>¥44,808</u>	<u>¥90,219</u>	<u>¥45,411</u>	<u>¥47,731</u>	<u>¥82,847</u>	<u>¥35,116</u>

	<i>Thousands of U.S. dollars</i>		
	31st December, 2018		
	Acquisition cost	Carrying amount	Unrealized gain (loss)
Equity securities	\$144,271	\$460,539	\$316,268
Bonds:			
Government bonds	9,305	9,332	27
Corporate bonds	268,501	268,231	(270)
	277,806	277,563	(243)
Other	7,854	8,134	280
Total	<u>\$429,931</u>	<u>\$746,236</u>	<u>\$316,305</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 for the nine months ended 31st December 2018 amounted to ¥1,139 million (\$10,259 thousand), consisting of ¥1,093 million (\$9,845 thousand) on marketable securities and ¥45 million (\$405 thousand) on non-marketable securities whose fair value is not readily determinable.

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

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

6. Derivative Transactions and Hedging Activities

There were no derivative transactions to which hedge accounting was not applied during the year ended 31st March, 2018 and the quarterly period ended 31st December, 2018.

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

	<i>Millions of yen</i>			
	31st March, 2018		31st December, 2018	
	Contract amount	Estimated fair value *1	Contract amount	Estimated fair value *1
Forward foreign exchange contracts for accounts payable, accounted for by deferral hedge accounting method:				
Buy: CNY (Sell: JPY)	¥ 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>	
	31st December, 2018	
	Contract amount	Estimated fair value *1
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 prices obtained from the counterparty financial institutions.

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

7. Net Assets

The Corporation Law of Japan provides that earnings in an amount equal to at least 10% of dividends of capital surplus and retained earnings shall be appropriated to the legal reserve until the aggregate amount of the legal reserve and additional paid-in capital equals 25% of the stated capital. The legal reserve and the additional paid-in capital account are available for appropriation by resolution of the shareholders. In accordance with the Corporation Law, the Company provides a legal reserve which is included in retained earnings. This reserve amounted to ¥570 million and ¥570 million (\$5,134 thousand) at 31st March, 2018 and 31st December, 2018, respectively.

For the nine months ended 31st December, 2017

1) Dividends paid

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

*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 based on the resolutions of the Board of Directors on 26th October, 2017 include a commemorative dividend of ¥5.00 per share

2) Significant changes in shareholders' equity

The Company acquired 11,458 thousand shares of treasury stock based on the resolution of the Board of Directors on 27th July, 2017. As a result, treasury stock increased by ¥50,000 million.

Consequently, treasury stock increased by ¥46,678 million in total during the nine-month period ended 31st December, 2017. Furthermore, treasury stock amounted to ¥83,994 million, as of 31st December, 2017.

7. Net Assets (continued)

For the nine months ended 31st December, 2018

1) Dividends paid

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	Source of dividends
Meeting of the Board of Directors on 16th May, 2018 *1	Common Stock	¥10,767	\$96,983	¥45.00	\$0.41	31st March, 2018	1st June, 2018	Retained earnings
Meeting of the Board of Directors on 25th October, 2018 *2	Common Stock	¥10,605	\$95,523	¥45.00	\$0.41	30th September, 2018	30th November, 2018	Retained earnings

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

2) Significant changes in shareholders' equity

The Company acquired 5,545 thousand shares of treasury stock based on the resolution of the Board of Directors on 26th April, 2018. As a result, treasury stock increased by ¥30,000 million (\$270,222 thousand).

Consequently, treasury stock increased by ¥26,460 million (\$238,335 thousand) in total during the nine-month period ended 31st December, 2018. Furthermore, treasury stock amounted to ¥67,679 million (\$609,611 thousand), as of 31st December, 2018.

8. Cash and Cash Equivalents

A reconciliation between cash and bank deposits in the accompanying quarterly consolidated balance sheet and cash and cash equivalents in the accompanying quarterly consolidated statement of cash flows at 31st December, 2017 and 2018 is as follows:

	<i>Millions of yen</i>		<i>Thousands of</i>
			<i>U.S. dollars</i>
	31st December,		31st December,
	2017	2018	2018
Cash and bank deposits	¥112,306	¥112,368	\$1,012,142
Short-term investment securities	4,378	2,145	19,321
Time deposits with maturities of more than three months when deposited	(980)	(2,115)	(19,051)
Bond and other investments maturing in more than three months from the acquisition date	(4,000)	(2,006)	(18,069)
Cash and cash equivalents	¥111,704	¥110,392	\$ 994,343

9. Per Share Data

Per share data is summarized as follows: *1

	<i>Yen</i>		<i>U.S. dollars</i>
	Nine months ended		Nine months ended
	31st December,		31st December,
	2017	2018	2018
Earnings per share	¥186.55	¥168.91	\$1.52
Diluted earnings per share	186.03	168.47	1.52

*1 The computation of earnings per share is based on the weighted-average number of shares of common stock outstanding during each period.

9. Per Share Data (continued)

The computation of earnings per share and diluted earnings per share for the nine months ended 31st December, 2017 and 2018 is as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	Nine months ended 31st December,		Nine months ended 31st December,
	2017	2018	2018
Numerator:			
Earnings *1	¥45,303	¥39,849	\$358,935
Earnings not attributable to common shareholders	(-)	(-)	(-)
Earnings attributable to common shareholders	<u>¥45,303</u>	<u>¥39,849</u>	<u>\$358,935</u>
	<i>Thousands of Shares</i>		
Denominator:			
Weighted-average number of shares of common stock outstanding – basic *2	242,851	235,915	
Potentially dilutive shares of common stock:			
Stock options	626	624	
Total	<u>626</u>	<u>624</u>	
Weighted-average number of shares of common stock outstanding – diluted	<u>243,477</u>	<u>236,539</u>	

*1 In computing diluted earnings per share for the nine-month periods ended 31st December, 2017 and 2018, an adjustment due to potentially dilutive shares of affiliates in the amount of ¥(8) million and ¥(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 1,604 thousand and 816 thousand during the nine-month periods ended 31st December, 2017 and 2018, 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 nine months ended 31st December, 2017 and 2018:

	<i>Shares</i>	
	Nine months ended 31st December,	
	2017	2018
a) 24th share subscription rights	535,425	—
b) 28th share subscription rights	569,500	—

10. Selling, General and Administrative Expenses

The details of selling, general and administrative expenses for the nine months ended 31st December, 2017 and 2018 are summarized as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	Nine months ended 31st December,		Nine months ended 31st December,
	2017	2018	2018
Personnel expenses	¥34,534	¥35,400	\$318,861
Rent	4,947	4,820	43,416
Subcontractor costs	12,114	12,396	111,656
Other	18,601	17,037	153,458
Total	¥70,196	¥69,653	\$627,391

11. Research and Development Expenses

Research and development expenses included in selling, general and administrative expenses amounted to ¥3,856 million and ¥2,570 million (\$23,149 thousand) for the nine months ended 31st December, 2017 and 2018, respectively.

12. Segment Information

For the nine months ended 31st December, 2017

1) Net sales and profit by reportable segments

	<i>Millions of yen</i>						
	Nine months ended 31st December, 2017						
	Reportable segment				Total	Adjustments *1	Consolidated *2
Consulting	Financial IT Solutions	Industrial IT Solutions	IT Platform Services				
Net sales:							
Sales to external customers	¥23,656	¥183,408	¥112,864	¥21,674	¥341,602	¥ -	¥341,602
Intersegment sales or transfers	535	1,655	2,252	68,904	73,346	(73,346)	-
Total	24,191	185,063	115,116	90,578	414,948	(73,346)	341,602
Segment profit	¥ 3,532	¥ 19,253	¥ 11,644	¥ 11,466	¥ 45,895	¥ 719	¥ 46,614

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

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

12. Segment Information

For the nine months ended 31st December, 2018

1) Net sales and profit by reportable segments

<i>Millions of yen</i>							
Nine months ended 31st December, 2018							
	Reportable segment				Total	Adjustments *1	Consolidated *2
	Consulting	Financial IT Solutions	Industrial IT Solutions	IT Platform Services			
Net sales:							
Sales to external customers	¥29,607	¥184,309	¥130,195	¥22,954	¥367,065	¥ -	¥367,065
Intersegment sales or transfers	435	2,091	2,017	70,365	74,908	(74,908)	-
Total	30,042	186,400	132,212	93,319	441,973	(74,908)	367,065
Segment profit	¥ 5,149	¥ 19,999	¥ 13,039	¥ 12,307	¥ 50,494	¥ 928	¥ 51,422

<i>Thousands of U.S. dollars</i>							
Nine months ended 31st December, 2018							
	Reportable segment				Total	Adjustments *1	Consolidated *2
	Consulting	Financial IT Solutions	Industrial IT Solutions	IT Platform Services			
Net sales:							
Sales to external customers	\$266,682	\$1,660,142	\$1,172,717	\$206,755	\$3,306,296	\$ -	\$3,306,296
Intersegment sales or transfers	3,918	18,834	18,168	633,805	674,725	(674,725)	-
Total	270,600	1,678,976	1,190,885	840,560	3,981,021	(674,725)	3,306,296
Segment profit	\$ 46,379	\$ 180,139	\$ 117,447	\$ 110,854	\$ 454,819	\$ 8,359	\$ 463,178

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

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

2) Information about changes in reportable segments

During the quarterly period ended 30th June, 2018, the Company partially changed its segment reporting structure.

Moreover, the Company partially revised its segment classification in the third quarter of the fiscal year ending 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 nine months ended 31st December, 2017 in the above table has been restated to reflect the new segment reporting structure.

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

(Significant changes in goodwill)

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 ending 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 13, “Business Combination.”

13. 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 ending 31st March, 2019.

Following the finalization of the provisional accounting treatment, comparative information included in the quarterly consolidated financial statements for the nine months ended 31st December, 2018, has been adjusted to reflect the significant revision of the initially allocated amounts of acquisition cost.

As a result, primarily software and other intangibles increased. The provisional calculation of goodwill amounted to ¥9,444 million (\$85,066 thousand), which decreased by ¥2,515 million (\$22,654 thousand) following the finalization of the provisional accounting treatment. The final calculation for goodwill amounted to ¥6,929 million (\$62,412 thousand).

14. Lawsuit

On 30th April, 2015, a lawsuit was filed against the Company by Japan Post Information Technology Co., Ltd. (“JPiT”) and the case is currently in litigation.

With an aim to migrate their communication network, connecting post offices across Japan to a new network, JPiT placed an order for the procurement and maintenance of network services with SoftBank Corp. and an order for transitional management and operational coordination of the network with the Company. In the lawsuit, JPiT is demanding that SoftBank Corp. and the Company pay ¥16.15 billion (\$145.47 million) jointly as compensation for damages due to a delay in the migration.

15. Subsequent Events

Not applicable.