

This financial report is composed of two parts. The first part is an abridged translation of “Kessan Tanshin (earnings report)” for the quarterly period ended 30th June, 2020, 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.



29th July, 2020

Consolidated Financial Results For the Quarterly Period Ended 30th June, 2020 <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/>
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 Member of the Board
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Scheduled date to file Quarterly Securities Report: 13th August, 2020
 Scheduled date to commence dividend payments: –
 Preparation of supplementary material on quarterly consolidated financial results: Yes
 Announcement for quarterly consolidated financial results (for institutional investors and analysts): Yes

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

1. Consolidated performance for the quarterly period ended 30th June, 2020 (from 1st April, 2020 to 30th June, 2020)

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

Quarterly period ended	Sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
30th June, 2020	131,154	1.3	18,177	(10.7)	18,342	(13.3)	12,616	(11.4)
30th June, 2019	129,495	10.0	20,353	32.7	21,162	33.4	14,245	27.6

Note: Comprehensive income

Quarterly period ended 30th June, 2020: ¥17,105 million [30.1%]

Quarterly period ended 30th June, 2019: ¥13,145 million [(7.4)%]

Quarterly period ended	Earnings per share – basic	Earnings per share – diluted
	Yen	Yen
30th June, 2020	21.15	21.09
30th June, 2019	20.52	20.48

Note: The Company conducted a 3-for-1 stock split of common stock with an effective date of 1st July, 2019. Earnings per share – basic and earnings per share – diluted have been calculated assuming the stock split was conducted at the start of the previous fiscal year.

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
As of	Millions of yen	Millions of yen	%
30th June, 2020	522,835	285,259	53.7
31st March, 2020	533,151	287,153	50.9

Reference: Equity

As of 30th June, 2020: ¥280,610 million As of 31st March, 2020: ¥271,332 million

2. Cash dividends

	Annual dividends				
	First quarter	Second quarter	Third quarter	Fiscal year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended 31st March, 2020	–	15.00	–	17.00	32.00
Fiscal year ending 31st March, 2021	–				
Fiscal year ending 31st March, 2021 (Forecasts)		17.00	–	17.00	34.00

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

3. Forecasts of financial results for the fiscal year ending 31st March, 2021 (from 1st April, 2020 to 31st March, 2021)

(Percentages indicate year-on-year changes.)

	Sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Earnings per share – basic
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Six months ending 30th September, 2020	265,000	2.3	39,000	(4.7)	40,000	(4.2)	27,000	(34.0)	45.26
Fiscal year ending 31st March, 2021	540,000	2.1	83,000	(0.2)	84,000	(0.6)	59,000	(14.8)	98.91

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 pages 10-11.

* Notes

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

(4) Number of shares in issue (common stock)

a.	Total number of shares in issue at the end of the period (including treasury stock)	
	As of 30th June, 2020	640,000,000 shares
	As of 31st March, 2020	640,000,000 shares
b.	Number of shares of treasury stock at the end of the period	
	As of 30th June, 2020	43,133,215 shares
	As of 31st March, 2020	43,797,649 shares
c.	Average number of shares during the period (cumulative from the beginning of the fiscal year)	
	Quarterly period ended 30th June, 2020	596,517,575 shares
	Quarterly period ended 30th June, 2019	694,322,227 shares

Notes: 1. The NRI shares held by the trust exclusive for NRI Group Employee Stock Ownership Group are included in treasury stock.

2. The Company conducted a 3-for-1 stock split of common stock with an effective date of 1st July, 2019. Number of shares has been calculated assuming the stock split was conducted at the start of the previous fiscal year.

* Quarterly consolidated financial results reports are 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.

Reference: Forecasts of non-consolidated financial results for the fiscal year ending 31st March, 2021 (from 1st April, 2020 to 31st March, 2021)

(Percentages indicate year-on-year changes.)

	Sales		Ordinary profit		Profit		Earnings per share – basic
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Six months ending 30th September, 2020	200,000	(2.9)	33,000	(18.4)	23,000	(45.5)	38.56
Fiscal year ending 31st March, 2021	415,000	(0.6)	71,000	(6.1)	50,000	(27.0)	83.82

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 pages 10-11.

Qualitative information regarding first-quarter settlement of accounts

(1) Qualitative information regarding consolidated operating results

(Millions of yen)

	Three months ended 30th June, 2019	Three months ended 30th June, 2020	Year on year	
			Amount	Rate
Sales	129,495	131,154	1,659	1.3%
Overseas sales	12,686	10,549	(2,137)	(16.8)%
Overseas sales ratio	9.8%	8.0%	(1.8)P	–
Operating profit	20,353	18,177	(2,175)	(10.7)%
Operating profit (before amortization of goodwill)	21,170	18,887	(2,283)	(10.8)%
Operating margin	15.7%	13.9%	(1.9)P	–
Operating margin (before amortization of goodwill)	16.3%	14.4%	(1.9)P	–
EBITDA margin	22.4%	20.2%	(2.2)P	–
Ordinary profit	21,162	18,342	(2,820)	(13.3)%
Profit attributable to owners of parent	14,245	12,616	(1,628)	(11.4)%

- 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

During the three months ended 30th June, 2020 (from 1st April, 2020 to 30th June, 2020), uncertainty over the future continued due to concerns over the decline of the global economy due to the spread of COVID-19. While there is the possibility of investment demand slowing due to declining corporate results following economic contraction, information system investment remains strong.

Operating in such an environment, Nomura Research Institute (“the Company”) and its consolidate 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 current fiscal year is the second year of the “NRI Group Medium-term Management Plan (2019-2022)” (the “Medium-term Management Plan 2022”), formulated to achieve Vision 2022 (from the fiscal year ended 31st March, 2016 to the fiscal year ending 31st March, 2023), the NRI Group’s long-term management plan. In addition to working to achieve even greater productivity and to expand existing businesses, the NRI Group is pursuing the three growth strategies set forth in Medium-term Management Plan 2022: (1) DX strategy, (2) global strategy, and (3) personnel and resources strategy.

- (1) DX strategy: The NRI Group is providing comprehensive support by leveraging technologies across everything from creating strategies to implementing solutions with respect to transforming the business processes and business models of its clients.
 In terms of business platform strategy, the NRI Group is helping its clients create new businesses and enter new markets by providing them with business platforms specifically tailored to those who are entering the financial sector from other industries in step with transformation of industrial structures, while also expanding the Group’s shared services with a focus on the financial sector.
 Under its cloud strategy, the NRI Group will improve clients’ business agility and optimize their IT costs by engaging in legacy system modernization*1 and developing cloud-native*2 apps.
- (2) Global strategy: The NRI Group is expanding its business foundations with a focus on achieving external growth through M&As and other such initiatives, mainly in the key geographic regions of Australia and North America. 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 centered on the Global Headquarters to drive forward the integration process after acquisition.
- (3) Personnel and resources strategy: The NRI Group is improving its recruitment and development of professionals underpinning the digital age in order to better help its clients achieve business success. The NRI Group is also working to achieve compatible work-style reforms by promoting various work arrangements while also fostering a business culture that enables employees to play active roles and take on challenges, and seeking diversity.

During the three months ended 30th June, 2020, the NRI Group’s sales totaled ¥131,154 million (up 1.3% year on year), amid a scenario where sales were higher year on year, particularly those of system development and application sales. Cost of sales was ¥89,272 million (up 4.5%), gross profit was ¥41,882 million (down 5.0%), and selling, general and administrative expenses were ¥23,704 million (down 0.2%). Due to the drop-off in

sales of major, highly profitable applications from the same period of the previous fiscal year, operating profit was ¥18,177 million (down 10.7%), operating margin was 13.9% (down 1.9 points), and ordinary profit was ¥18,342 million (down 13.3%). Operating profit (before amortization of goodwill) was ¥18,887 million (down 10.8%), operating margin (before amortization of goodwill) was 14.4% (down 1.9 points) and the EBITDA margin was 20.2% (down 2.2 points).

- *1 Legacy system modernization is a means of optimizing and updating system infrastructure and applications with respect to hardware and software of core systems that have become obsolete.
- *2 The term cloud native refers to information systems and services designed for use on a cloud-computing platform.

Segment information

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

		Three months ended 30th June, 2019	Three months ended 30th June, 2020	Year on year	
				Amount	Rate
Consulting	Sales	7,767	7,099	(668)	(8.6)%
	Operating profit	613	670	56	9.2%
	Operating margin	7.9%	9.4%	1.5P	–
Financial IT Solutions	Sales	68,592	70,320	1,727	2.5%
	Operating profit	10,312	8,442	(1,870)	(18.1)%
	Operating margin	15.0%	12.0%	(3.0)P	–
Industrial IT Solutions	Sales	46,470	46,427	(42)	(0.1)%
	Operating profit	5,190	4,719	(471)	(9.1)%
	Operating margin	11.2%	10.2%	(1.0)P	–
IT Platform Services	Sales	31,957	33,421	1,464	4.6%
	Operating profit	3,955	4,265	309	7.8%
	Operating margin	12.4%	12.8%	0.4P	–
Adjustments	Sales	(25,292)	(26,113)	(821)	–
	Operating profit	280	80	(200)	–
Total	Sales	129,495	131,154	1,659	1.3%
	Operating profit	20,353	18,177	(2,175)	(10.7)%
	Operating margin	15.7%	13.9%	(1.9)P	–

(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.

Amid rapidly changing business environments for our customers with the spread of COVID-19, customers are accelerating corporate reforms using DX, and clients have come to expect practical solutions-based consulting services that produce concrete results.

As such, in the global arena, the NRI Group is searching for DX-related intellectual properties in advanced countries such as the U.S. and European countries and enhancing our proposal capabilities through global practice activities while working to strengthen DX consulting to support our customers' DX and to appropriately respond to customer needs.

During the three months ended 30th June, 2020, the Consulting segment posted sales of ¥7,099 million (down 8.6% year on year) due to a reduction in global consulting projects. Operating profit was ¥670 million (up 9.2%) due to improved profitability from a reduction in transaction related expenses.

(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, system management and operation services, and IT solutions such as multi-user systems.

The environment surrounding the financial sector is undergoing major structural changes such that include a society whose population continues to age, companies from other industries newly entering the sector, an expanding range of digital assets, and diminishing markets in Japan due to persistently low-interest rates and the nation's declining population.

The NRI Group is accordingly working to expand its client base by engaging in efforts to help its clients create new businesses and services in a manner that addresses such changes in the business environment. Efforts in that regard will entail developing new financial business platforms for clients, creating and expanding DX business particularly that involving digital banking operations, expanding global business in financial services, as well as upgrading and enlarging existing businesses. With respect to production activities that underpin business expansion, the entire segment will work toward improving efficiency by innovating production and upgrading management of development resources. In the field of DX that involves transforming business models, the segment will work through alliances to create new businesses that make use of digital technologies, in part by establishing joint ventures with companies and clients that possess sophisticated technologies. Moreover, the segment aims to help bring about development of the financial industry by co-creating value with its clients, in addition to facilitating stable operations of IT infrastructure services from the perspective of social responsibility for information systems that act as financial infrastructure.

During the first quarter of the current fiscal year, to further evolve our financial business platform, the Company conducted a tender offer for and demanded the sale of shares, etc. of DSB Co., Ltd. to make it a wholly-owned subsidiary of the Company.

During the three months ended 30th June, 2020, the Financial IT Solutions segment posted sales of ¥70,320 million (up 2.5% year on year) due to an increase in operation services for the securities industry and the contributions of Nippon Securities Technology Co., Ltd. The current order environment is trending strongly, and while there has been an increase in usage fees for shared services due to the active market, operating profit was ¥8,442 million (down 18.1%) due to the drop-off in sales of major, highly profitable applications from the same period of the previous fiscal year and unprofitable projects at some of our subsidiaries.

(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. Furthermore, while there are needs for IT cost reductions from the economic contraction caused by the spread of COVID-19, corporate reforms using DX are accelerating among our customers, and we are pursuing initiatives to create new businesses using digital technology.

Working closely with the Consulting segment, which has a large number of clients in the industrial sector, this segment will provide comprehensive support to expand its client base by integrating consulting and IT solutions spanning everything from developing business models of clients in the field of DX to building information systems.

During the three months ended 30th June, 2020, the Industrial IT Solutions segment posted sales of ¥46,427 million (down 0.1% year on year), a similar level to that of the same period of the previous fiscal year, amid a decrease in system management and operation services for the distribution sector, and despite an increase in

system development and application sales for the manufacturing and service sectors. The profitability of our overseas subsidiaries declined due to COVID-19, and operating profit was ¥4,719 million (down 9.1%).

(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.

Information system development in the DX era calls for use of artificial intelligence (AI), blockchains and other new digital technologies, in conjunction with new and more rapid development approaches. In the field of cloud computing, companies need to comprehensively engage in high-quality operations of diverse and complex system platforms in line with their development of cloud-based IT systems. Furthermore, our customers' business continuity needs using DX are accelerating with the spread of COVID-19.

To address such changes in the business environment, the NRI Group is accordingly taking steps that involve expanding its multi-cloud computing services^{*3} and its managed services^{*4}, and also expanding its security business in the Internet of Things (IoT) arena, in conjunction with efforts to develop information system development approaches and production innovation tools for the DX era.

During the three months ended 30th June, 2020, sales to external clients increased in the digital workplace business^{*5} and security business, and intersegment sales increased mainly in cloud computing services and network services.

As a result of the above, the IT Platform Services segment posted sales of ¥33,421 million (up 4.6% year on year) and operating profit of ¥4,265 million (up 7.8%).

*3 Multi-cloud computing services refer to centrally managed services provided using multiple cloud computing platforms.

*4 Managed services refer to IT services that lend comprehensive support to optimizing entire information systems on behalf of a client's IT unit.

*5 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) Qualitative information regarding consolidated financial position

(Assets, liabilities and net assets)

(Millions of yen)

	As of 31st March, 2020	As of 30th June, 2020	Year on year	
			Amount	Rate
Current assets	259,855	244,185	(15,669)	(6.0)%
Noncurrent assets	273,295	278,649	5,354	2.0%
Total assets	533,151	522,835	(10,315)	(1.9)%
Current liabilities	140,456	132,760	(7,696)	(5.5)%
Noncurrent liabilities	105,076	104,646	(430)	(0.4)%
Net assets	287,153	285,259	(1,894)	(0.7)%
Equity	271,332	280,610	9,278	3.4%
Equity ratio	50.9%	53.7%	2.8P	–
Interest-bearing debt	107,410	125,184	17,774	16.5%
Gross D/E ratio (times)	0.40	0.45	0.05	–
Net D/E ratio (times)	0.02	0.03	0.01	–

- Notes: 1. Equity: Net assets – Non-controlling interests – Share subscription rights
 2. Gross D/E ratio (gross debt-to-equity ratio): Interest-bearing debt / equity
 3. Net D/E ratio (net debt-to-equity ratio): (Interest-bearing debt – cash and bank deposits) / equity

At the end of the first quarter (30th June, 2020), current assets were ¥244,185 million (down 6.0% from the end of the previous fiscal year), noncurrent assets were ¥278,649 million (up 2.0%), current liabilities were ¥132,760 million (down 5.5%), noncurrent liabilities were ¥104,646 million (down 0.4%), net assets were ¥285,259 million (down 0.7%) and total assets were ¥522,835 million (down 1.9%). In addition, the gross D/E ratio (gross debt-to-equity ratio) and net D/E ratio (net debt-to-equity ratio) at the end of the first quarter was 0.45 times and 0.03 times, respectively.

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

Accounts receivable declined ¥37,814 million to ¥52,754 million and other receivables increased ¥4,548 million to ¥44,545 million. Because the NRI Group has a comparatively large number of projects completed at the end of the fiscal year, 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.

To prepare for concerns over a declining business environment due to COVID-19, we increased the amount of short-term bonds payable by ¥19,989 million through the issuance of commercial paper.

Non-controlling interests decreased by ¥11,134 million to ¥4,006 million with the additional acquisition of DSB Co., Ltd.

In addition, cash and bank deposits increased ¥14,593 million to ¥117,134 million, accounts payable decreased ¥5,083 million to ¥20,529 million, and income taxes payable decreased ¥12,421 million to ¥8,351 million.

(Cash flow position)

(Millions of yen)

	Three months ended 30th June, 2019	Three months ended 30th June, 2020	Year on year	
			Amount	Rate
Cash flows from operating activities	35,379	21,623	(13,755)	(38.9)%
Cash flows from investing activities	(7,860)	(6,456)	1,404	(17.9)%
Free cash flows	27,518	15,167	(12,351)	(44.9)%
Cash flows from financing activities	(21,367)	(2,459)	18,907	(88.5)%
Net increase (decrease) in cash and cash equivalents	4,787	14,487	9,699	202.6%
Cash and cash equivalents at end of period	127,988	115,265	(12,722)	(9.9)%

Cash and cash equivalents as of the end of the first quarter (30th June, 2020) stood at ¥115,265 million (up ¥14,487 million from the end of the previous fiscal year).

Net cash provided by operating activities in the three months ended 30th June, 2020 was ¥21,623 million, a decrease of ¥13,755 million compared with the same period of the previous fiscal year. Income taxes paid increased.

Net cash used in investing activities was ¥6,456 million, a decrease of ¥1,404 million from the same period of the previous fiscal year. In the three months ended 30th June, 2020, cash was mainly invested in the acquisition of software and other intangibles related to the development of multi-user systems.

Net cash used in financing activities was ¥2,459 million, a decrease of ¥18,907 million from the same period of the previous fiscal year. In the same period of the previous fiscal year, the trust exclusive for NRI Group Employee Stock Ownership Group purchased ¥10,865 million worth of the Company's shares for the Trust-type Employee Stock Ownership Incentive Plan. In the three months ended 30th June, 2020, we had ¥19,978 million in revenue from the issuance of short-term bonds payable to prepare for concerns over a declining business environment due to COVID-19. Furthermore, ¥9,792 million in cash was used for the acquisition of subsidiaries with the acquisition of DSB Co., Ltd, not resulting in any changes in the scope of consolidation. Other expenditures mainly consist of payments of cash dividends in the respective fiscal periods.

(3) Qualitative information regarding forecasts of financial results

In the “Consolidated Financial Results For the Fiscal Year Ended 31st March, 2020 <under Japanese GAAP>” announced on 28th April, 2020, regarding forecasts of financial results for the fiscal year ending 31st March, 2021, as it was not possible to reasonably estimate when COVID-19 would come to an end, it was difficult to calculate highly accurate forecasts of financial results at that time, and only the full-year forecasts have been stated.

Therefore, by forecasting the effects on the NRI Group’s financial results based on the information and forecasts that can be acquired at present, we announce the consolidated financial forecasts and individual performance forecasts for the six months ending 30th September, 2020 as follows. Furthermore, there have been no changes to the forecasts of consolidated financial results for the fiscal year ending 31st March, 2021.

The forecasts of consolidated financial results for the fiscal year ending 31st March, 2021 have been calculated on the assumption that COVID-19 will be contained during the second quarter, economic activity will gradually recover, and the business environment for the Company will normalize towards the end of the year. The financial results forecasts are subject to change depending on the containment status of COVID-19.

(I) Consolidated performance

- a. Consolidated financial forecasts for the six months ending 30th September, 2020 (From 1st April, 2020 to 30th September, 2020)

(Millions of yen)

	Previous forecast (A)	Revised forecast (B)	Change		(Reference) Previous fiscal year (Actual result)
			Amount (B-A)	Rate (%)	
Sales	–	265,000	–	–	259,153
Operating profit	–	39,000	–	–	40,908
Ordinary profit	–	40,000	–	–	41,774
Profit attributable to owners of parent	–	27,000	–	–	40,893

- b. Consolidated financial forecasts for the fiscal year ending 31st March, 2021 (From 1st April, 2020 to 31st March, 2021)

(Millions of yen)

	Previous forecast (A)	Revised forecast (B)	Change		(Reference) Previous fiscal year (Actual result)
			Amount (B-A)	Rate (%)	
Sales	540,000	540,000	–	–	528,873
Operating profit	83,000	83,000	–	–	83,178
Ordinary profit	84,000	84,000	–	–	84,528
Profit attributable to owners of parent	59,000	59,000	–	–	69,276

(II) Non-consolidated performance

- a. Non-consolidated financial forecasts for the six months ending 30th September, 2020 (From 1st April, 2020 to 30th September, 2020)

(Millions of yen)

	Previous forecast (A)	Revised forecast (B)	Change		(Reference) Previous fiscal year (Actual result)
			Amount (B-A)	Rate (%)	
Sales	–	200,000	–	–	205,877
Ordinary profit	–	33,000	–	–	40,451
Profit	–	23,000	–	–	42,222

- b. Non-consolidated financial forecasts for the fiscal year ending 31st March, 2021 (From 1st April, 2020 to 31st March, 2021)

(Millions of yen)

	Previous forecast (A)	Revised forecast (B)	Change		(Reference) Previous fiscal year (Actual result)
			Amount (B-A)	Rate (%)	
Sales	415,000	415,000	–	–	417,495
Ordinary profit	71,000	71,000	–	–	75,647
Profit	50,000	50,000	–	–	68,453

(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 Three-Month Period Ended 30th June, 2020
(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 Three-Month Period Ended 30th June, 2020
(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, 2020	30th June, 2020	30th June, 2020
Assets			
Current assets:			
Cash and bank deposits (<i>Notes 4 and 8</i>)	¥102,541	¥117,134	\$1,087,494
Short-term investment securities (<i>Notes 4, 5 and 8</i>)	2,302	1,000	9,284
Accounts receivable and other receivables (<i>Note 4</i>)	130,565	97,300	903,352
Operating loans (<i>Note 4</i>)	1,500	1,500	13,926
Margin transaction assets (<i>Note 4</i>)	5,620	6,280	58,305
Inventories	2,615	2,655	24,650
Short-term loans receivable (<i>Note 4</i>)	–	1	9
Prepaid expenses	6,265	8,268	76,762
Short-term guarantee deposits (<i>Note 4</i>)	3,404	3,604	33,460
Other current assets	5,288	6,669	61,916
Allowance for doubtful accounts	(245)	(226)	(2,098)
Total current assets	<u>259,855</u>	<u>244,185</u>	<u>2,267,060</u>
Property and equipment:			
Land	7,060	7,060	65,546
Buildings, net	33,637	33,397	310,064
Buildings in trust, net	8,031	7,987	74,153
Machinery and equipment, net	12,587	12,628	117,241
Leased assets, net	2,107	2,358	21,892
Property and equipment, net	<u>63,422</u>	<u>63,430</u>	<u>588,896</u>
Software	48,287	46,796	434,463
Software in progress	12,112	13,605	126,311
Goodwill	20,410	21,163	196,481
Other intangibles	4,309	5,726	53,161
Investment securities (<i>Notes 4 and 5</i>)	28,512	30,221	280,577
Investments in affiliates (<i>Notes 4 and 5</i>)	6,055	5,972	55,445
Deferred tax assets	4,777	4,032	37,434
Lease investment assets	830	757	7,028
Net defined benefit asset	63,600	66,293	615,478
Other assets	21,022	20,676	191,960
Allowance for doubtful accounts	(40)	(21)	(195)
Total assets	<u>¥533,151</u>	<u>¥522,835</u>	<u>\$4,854,099</u>

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars (Note 3)</i>
	31st March, 2020	30th June, 2020	30th June, 2020
Liabilities and Net Assets			
Current liabilities:			
Accounts payable (Note 4)	¥ 25,613	¥ 20,530	\$ 190,604
Short-term loans payable (Note 4)	6,659	4,898	45,474
Short-term bonds payable (Note 4)	–	19,990	185,591
Current portion of long-term loans payable (Note 4)	5,133	5,210	48,371
Margin transaction liabilities (Note 4)	1,039	2,096	19,460
Lease obligations, current	891	958	8,894
Accrued expenses	38,052	29,101	270,179
Income taxes payable	20,773	8,351	77,532
Advance payments received	17,769	12,637	117,324
Short-term guarantee deposits received (Note 4)	5,932	5,890	54,684
Provision for loss on orders received	301	1,242	11,531
Asset retirement obligations	91	200	1,857
Other current liabilities	18,204	21,658	201,077
Total current liabilities	<u>140,457</u>	<u>132,761</u>	<u>1,232,578</u>
Bonds (Note 4)	73,311	73,696	684,208
Long-term loans payable (Note 4)	17,876	16,221	150,599
Lease obligations	1,907	2,412	22,393
Deferred tax liabilities	1,860	2,088	19,385
Net defined benefit liability	7,583	7,709	71,572
Asset retirement obligations	2,335	2,290	21,261
Other long-term liabilities	205	230	2,136
Reserve for financial products transaction liabilities	464	169	1,569
Total liabilities	<u>¥245,998</u>	<u>¥237,576</u>	<u>\$2,205,701</u>
Net assets (Notes 7 and 9):			
Shareholders' equity:			
Common stock:			
Authorized – 2,722,500 thousand shares at 31st March, 2020 and 2,722,500 thousand shares at 30th June, 2020			
Issued – 640,000 thousand shares at 31st March, 2020 and 640,000 thousand shares at 30th June, 2020	¥ 20,068	¥ 20,068	\$ 186,315
Additional paid-in capital (Note 7)	16,111	17,149	159,215
Retained earnings (Note 7)	302,966	305,237	2,833,877
Treasury stock, at cost: (Note 7)			
– 43,798 thousand shares at 31st March, 2020 and 43,133 thousand shares at 30th June, 2020	(66,628)	(65,542)	(608,504)
Total shareholders' equity	<u>272,517</u>	<u>276,912</u>	<u>2,570,903</u>
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities (Note 5)	10,517	11,849	110,008
Deferred gains or losses on hedges (Note 6)	–	472	4,382
Foreign currency translation adjustment	(10,542)	(7,452)	(69,185)
Remeasurements of defined benefit plans	(1,160)	(1,170)	(10,863)
Total accumulated other comprehensive income	<u>(1,185)</u>	<u>3,699</u>	<u>34,342</u>
Share subscription rights	680	642	5,960
Non-controlling interests	15,141	4,006	37,193
Total net assets	<u>287,153</u>	<u>285,259</u>	<u>2,648,398</u>
Total liabilities and net assets	<u>¥533,151</u>	<u>¥522,835</u>	<u>\$4,854,099</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>
	Three months ended 30th June,		Three months ended 30th June,
	2019	2020	2020
Sales (<i>Note 10</i>)	¥129,495	¥131,155	\$ 1,217,668
Cost of sales	85,392	89,273	828,828
Gross profit	44,103	41,882	388,840
Selling, general and administrative expenses (<i>Notes 11 and 12</i>)	23,749	23,704	220,072
Operating profit	20,354	18,178	168,768
Other income (expenses):			
Interest and dividend income	671	454	4,215
Interest expense	(84)	(104)	(966)
Equity in losses of affiliates	(65)	(78)	(724)
Foreign exchange gains (losses)	98	(25)	(232)
Gain (loss) on investment securities	(24)	149	1,383
Reversal of share-based compensation	2	6	56
Reversal of reserve for financial products transaction liabilities	12	295	2,739
Other, net	188	(82)	(761)
	798	615	5,710
Income before income taxes	21,152	18,793	174,478
Provision for income taxes (<i>Note 2</i>)	6,791	6,583	61,118
Profit	¥ 14,361	¥ 12,210	\$ 113,360
Profit attributable to owners of parent (<i>Note 9</i>)	¥ 14,246	¥ 12,617	\$ 117,139
Profit (loss) attributable to non-controlling interests	115	(407)	(3,779)
Other comprehensive income (loss):			
Valuation difference on available-for-sale securities	966	1,334	12,385
Deferred gains or losses on hedges	-	472	4,382
Foreign currency translation adjustment	(2,140)	3,095	28,734
Remeasurements of defined benefit plans, net of tax	(5)	(1)	(9)
Share of other comprehensive loss of affiliates	(37)	(4)	(37)
Total other comprehensive income (loss)	(1,216)	4,896	45,455
Comprehensive income	¥ 13,145	¥ 17,106	\$ 158,815
Comprehensive income attributable to:			
Comprehensive income attributable to owners of parent	¥ 13,038	¥ 17,500	\$ 162,473
Comprehensive income (loss) attributable to non- controlling interests	107	(394)	(3,658)

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>
	Three months ended 30th June,		Three months ended 30th June,
	2019	2020	2020
Cash flows from operating activities			
Income before income taxes	¥ 21,152	¥ 18,793	\$ 174,478
Adjustments to reconcile income before income taxes to net cash provided by operating activities:			
Depreciation and amortization	7,814	7,624	70,783
Interest and dividend income	(671)	(454)	(4,215)
Interest expense	84	104	966
Gain (loss) on investment securities	24	(149)	(1,383)
Changes in operating assets and liabilities:			
Accounts receivable and other receivables, net of advance payments received	25,137	28,828	267,645
Allowance for doubtful accounts	6	(47)	(436)
Accounts payable	(2,242)	(3,003)	(27,880)
Inventories	507	80	743
Net defined benefit asset	(2,786)	(2,678)	(24,863)
Net defined benefit liability	170	115	1,068
Provision for loss on orders received	(247)	941	8,736
Margin transaction assets	795	(660)	(6,128)
Short-term guarantee deposits	–	(200)	(1,857)
Margin transaction liabilities	20	1,057	9,813
Short-term guarantee deposits received	(280)	(42)	(390)
Reserve for financial products transaction liabilities	(12)	(295)	(2,739)
Other	(9,044)	(10,598)	(98,395)
Subtotal	40,427	39,416	365,946
Interest and dividends received	654	444	4,122
Interest paid	(36)	(90)	(836)
Income taxes paid	(5,666)	(18,146)	(168,471)
Net cash provided by operating activities	35,379	21,624	200,761
Cash flows from investing activities			
Payments for time deposits	(317)	(534)	(4,958)
Proceeds from time deposits	268	422	3,918
Purchase of short-term investment securities	(1,004)	–	–
Proceeds from sales and redemption of short-term investment securities	–	1,300	12,069
Acquisition of property and equipment	(1,953)	(3,090)	(28,688)
Purchase of software and other intangibles	(5,765)	(4,899)	(45,483)
Payments for asset retirement obligations	(4)	(10)	(93)
Purchase of investment securities	(92)	(57)	(529)
Proceeds from sales and redemption of investment securities	1,006	411	3,816
Other	–	1	9
Net cash used in investing activities	¥ (7,861)	¥ (6,456)	\$ (59,939)

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>
	Three months ended 30th June,		Three months ended 30th June,
	2019	2020	2020
Cash flows from financing activities			
Net increase (decrease) in short-term loans payable	¥ 13	¥ (2,064)	\$ (19,163)
Repayments of long-term loans payable	(1,146)	(1,596)	(14,818)
Proceeds from issuance of short-term bonds	–	19,979	185,489
Redemption of bonds	–	(30)	(279)
Repayments of obligation under finance leases	(234)	(190)	(1,764)
Proceeds from sales of treasury stock	1,595	1,556	14,446
Purchase of treasury stock	(11,007)	(1)	(9)
Cash dividends paid	(10,532)	(10,254)	(95,199)
Cash dividends paid to non-controlling interests	(57)	(68)	(631)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	–	(9,792)	(90,911)
Net cash used in financing activities	(21,368)	(2,460)	(22,839)
Effect of exchange rate changes on cash and cash equivalents	(1,363)	1,779	16,517
Net increase in cash and cash equivalents	4,787	14,487	134,500
Cash and cash equivalents at beginning of period	123,201	100,779	935,651
Cash and cash equivalents at end of period (<i>Note 8</i>)	¥ 127,988	¥ 115,266	\$ 1,070,151

See accompanying notes to quarterly consolidated financial statements.

Nomura Research Institute, Ltd.

Notes to Quarterly Consolidated Financial Statements

30th June, 2020

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

Description of Business

The NRI Group (Nomura Research Institute, Ltd. (the “Company”) and its 74 consolidated subsidiaries) and its affiliates (10 companies) engage in the following four business services: “consulting services,” comprised of research, management consulting and system consulting; “system development & application sales,” comprised of system development and the sales of package software products; “system management & operation services,” comprised of outsourcing services, multi-user system services, and information services; and “product sales.” Information on the NRI Group’s operations by segment is included in Note 13.

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.

Accounting Change

The NRI Group has applied the “Accounting Standard for Revenue Recognition” (Accounting Standards Board of Japan (“ASBJ”) Statement No. 29, 31st March, 2020) from the quarterly period ended 30th June, 2020. As a result, the NRI Group shall recognize revenue when it satisfies a performance obligation by transferring promised goods or services to customers.

The impact as a result of this change on the quarterly consolidated financial statements for the three-month period ended 30th June, 2020 was immaterial.

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

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 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.

As of 31st March, 2020 and 30th June, 2020, ¥13,837 million (corresponding to 8,232 thousand shares of the Company held by the ESOP Trust) and ¥12,978 million (\$120,490 thousand) (corresponding to 7,721 thousand shares of the Company held by the ESOP Trust) and the loan payable of the ESOP Trust of ¥12,943 million and ¥11,418 million (\$106,007 thousand), respectively, are recorded in the accompanying quarterly consolidated balance sheet.

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

Additional Information (continued)

(Effects of COVID-19 Pandemic When Making Accounting Estimates)

Since it is difficult to reasonably estimate when the COVID-19 pandemic will subside, the NRI Group has calculated earnings forecasts for the current fiscal year based on the assumption that the COVID-19 pandemic will be brought under control in the second quarter of the current fiscal year, economic activity will recover gradually, and the NRI Group's business environment will normalize towards the end of the fiscal year. Accounting estimates are reasonably determined by taking into consideration the business environment of each business and region considering the above assumptions.

In addition, the assumptions used in making accounting estimates involve a high degree of uncertainty and if COVID-19 persists longer than expected or the situation surrounding the business environment changes, the financial condition and operating performance of the NRI Group for the current fiscal year may be affected.

(Tender Offer for Common Shares and Share Acquisition Rights of DSB Co., Ltd.)

The Company implemented a tender offer for DSB Co., Ltd. ("DSB"), a consolidated subsidiary of the Company from 30th April, 2020 to 15th June, 2020 and commenced the procedures pursuant to Article 179, Paragraph 1 of the Companies Act, for the mandatory purchase of all of DSB's remaining common shares and share acquisition rights not held by the Company. As a result, DSB became a wholly owned subsidiary on 31st July, 2020.

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 ¥107.71 = U.S.\$1.00, the rate of exchange prevailing on 30th June, 2020. 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, 2020 and 30th June, 2020 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, 2020			30th June, 2020		
	Carrying amount	Estimated fair value	Difference	Carrying amount	Estimated fair value	Difference
Assets:						
Cash and bank deposits	¥102,541	¥102,541	¥ –	¥117,134	¥117,134	¥ –
Accounts receivable and other receivables	130,565	130,565	–	97,300	97,300	–
Short-term investment securities, investment securities, and investments in affiliates	27,426	27,426	–	27,867	27,867	–
Operating loans	1,500	1,500	–	1,500	1,500	–
Margin transaction assets	5,620	5,620	–	6,280	6,280	–
Short-term loans receivable	–	–	–	1	1	–
Short-term guarantee deposits	3,404	3,404	–	3,604	3,604	–
Total	<u>¥271,056</u>	<u>¥271,056</u>	<u>¥ –</u>	<u>¥253,686</u>	<u>¥253,686</u>	<u>¥ –</u>
Liabilities:						
Accounts payable	¥ 25,613	¥ 25,613	¥ –	¥ 20,530	¥ 20,530	¥ –
Short-term bonds payable	–	–	–	19,990	19,990	–
Short-term loans payable	6,659	6,659	–	4,898	4,898	–
Margin transaction liabilities	1,039	1,039	–	2,096	2,096	–
Short-term guarantee deposits received	5,932	5,932	–	5,890	5,890	–
Bonds	73,311	73,036	(275)	73,696	73,471	(225)
Long-term loans payable *1	23,009	23,022	13	21,431	21,441	10
Total	<u>¥135,563</u>	<u>¥135,301</u>	<u>¥ (262)</u>	<u>¥148,531</u>	<u>¥148,316</u>	<u>¥ (215)</u>
Derivative transactions *2	<u>¥ –</u>	<u>¥ –</u>	<u>¥ –</u>	<u>¥ 681</u>	<u>¥ 681</u>	<u>¥ –</u>

	<i>Thousands of U.S. dollars</i>		
	30th June, 2020		
	Carrying amount	Estimated fair value	Difference
Assets:			
Cash and bank deposits	\$1,087,494	\$1,087,494	\$ –
Accounts receivable and other receivables	903,352	903,352	–
Short-term investment securities, investment securities, and investments in affiliates	258,722	258,722	–
Operating loans	13,926	13,926	–
Margin transaction assets	58,305	58,305	–
Short-term loans receivable	9	9	–
Short-term guarantee deposits	33,460	33,460	–
Total	<u>\$2,355,268</u>	<u>\$2,355,268</u>	<u>\$ –</u>
Liabilities:			
Accounts payable	\$ 190,604	\$ 190,604	\$ –
Short-term bonds payable	185,591	185,591	–
Short-term loans payable	45,474	45,474	–
Margin transaction liabilities	19,460	19,460	–
Short-term guarantee deposits received	54,684	54,684	–
Bonds	684,208	682,119	(2,089)
Long-term loans payable *1	198,969	199,062	93
Total	<u>\$1,378,990</u>	<u>\$1,376,994</u>	<u>\$(1,996)</u>
Derivative transactions *2	<u>\$ 6,323</u>	<u>\$ 6,323</u>	<u>\$ –</u>

*1 Long-term loans payable included the current portion of long-term loans payable totaling ¥5,133 million and ¥5,210 million (\$48,371 thousand) as of 31st March, 2020 and 30th June, 2020, respectively.

*2 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, short-term loans receivable 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 bonds 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, 2020	30th June, 2020	30th June, 2020
Unlisted companies' shares *1	¥8,561	¥8,403	\$78,015
Investments in partnerships *2	881	923	8,569

*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 ¥6,055 million and ¥5,972 million (\$55,445 thousand) as of 31st March, 2020 and 30th June, 2020, 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, 2020 and 30th June, 2020.

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, 2020 and 30th June, 2020:

Securities Classified as Available-for-Sale Securities

	<i>Millions of yen</i>					
	31st March, 2020			30th June, 2020		
	Acquisition cost	Carrying amount	Unrealized gain (loss)	Acquisition cost	Carrying amount	Unrealized gain (loss)
Equity securities	¥13,936	¥27,618	¥13,682	¥13,685	¥29,285	¥15,600
Bonds:						
Government bonds	4	4	0	4	4	0
Corporate bonds	2,303	2,302	(1)	1,000	1,000	(0)
	<u>2,307</u>	<u>2,306</u>	<u>(1)</u>	<u>1,004</u>	<u>1,004</u>	<u>0</u>
Other	829	890	61	872	933	61
Total	<u>¥17,072</u>	<u>¥30,814</u>	<u>¥13,742</u>	<u>¥15,561</u>	<u>¥31,222</u>	<u>¥15,661</u>

	<i>Thousands of U.S. dollars</i>		
	30th June, 2020		
	Acquisition cost	Carrying amount	Unrealized gain (loss)
Equity securities	\$127,054	\$271,887	\$144,833
Bonds:			
Government bonds	37	37	0
Corporate bonds	9,284	9,284	(0)
	<u>9,321</u>	<u>9,321</u>	<u>0</u>
Other	8,096	8,663	567
Total	<u>\$144,471</u>	<u>\$289,871</u>	<u>\$145,400</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 based on quoted market prices as a result of a decline in value amounted to ¥381 million 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 ¥117 million for the year ended 31st March, 2020. 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 ¥172 million (\$1,597 thousand) for the three months ended 30th June, 2020.

5. Investments (continued)

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, 2020 and the quarterly period ended 30th June, 2020.

For the derivative transactions to which hedge accounting was applied as of 31st March, 2020 and 30th June, 2020, the contract amounts and estimated fair values of the hedging instruments are as follows.

	<i>Millions of yen</i>			
	31st March, 2020		30th June, 2020	
	Contract amount	Estimated fair value *	Contract amount	Estimated fair value *
Forward foreign exchange contracts for shares of subsidiaries, accounted for by deferral hedge accounting method: Buy: AUD	¥ –	¥ –	¥7,964	¥681
	<i>Thousands of U.S. dollars</i>			
	30th June, 2020			
	Contract amount	Estimated fair value *		
Forward foreign exchange contracts for shares of subsidiaries, accounted for by deferral hedge accounting method: Buy: AUD	\$73,939	\$6,323		

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

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 ¥571 million and ¥571 million (\$5,301 thousand) at 31st March, 2020 and 30th June, 2020, respectively.

For the three months ended 30th June, 2019

1) Dividends paid

Resolution	Type of shares	Total dividends (Millions of yen)	Dividends per share (Yen)	Cut-off date	Effective date	Source of dividends
Meeting of the Board of Directors on 15th May, 2019 *	Common Stock	¥10,550	¥45.00	31st March, 2019	31st May, 2019	Retained earnings

* Dividends of ¥60 million paid to the ESOP Trust are included in the total dividends amount.

2) Significant changes in shareholders' equity

The ESOP Trust acquired 2,120 thousand (6,359 thousand shares after taking into account a 3-for-1 stock split on 1st July, 2019) shares of treasury stock based on the resolution of the Board of Directors for readopting a Trust-type Employee Stock Ownership Incentive Plan on 8th March, 2019. As a result, treasury stock increased by ¥10,866 million.

For the three months ended 30th June, 2020

Dividends paid

Resolution	Type of shares	Total dividends (Millions of yen)	Total dividends (Thousands of U.S. dollars)	Dividends per share (Yen)	Dividends per share (U.S. dollars)	Cut-off date	Effective date	Source of dividends
Meeting of the Board of Directors on 15th May, 2020 *	Common Stock	¥10,275	\$95,395	¥17.00	\$0.16	31st March, 2020	2nd June, 2020	Retained earnings

* Dividends of ¥140 million (\$1,300 thousand) paid to the ESOP Trust are included in the total dividends amount.

8. Cash and Cash Equivalents

A reconciliation between cash and bank deposits in the accompanying quarterly consolidated balance sheet and cash and cash equivalents in the accompanying quarterly consolidated statement of cash flows at 30th June, 2019 and 2020 is as follows:

	<i>Millions of yen</i>		<i>Thousands of</i>
	30th June,		<i>U.S. dollars</i>
	2019	2020	30th June,
			2020
Cash and bank deposits	¥129,455	¥117,134	\$1,087,494
Short-term investment securities	3,243	1,000	9,284
Time deposits with maturities of more than three months when deposited	(1,703)	(1,868)	(17,343)
Bond and other investments maturing in more than three months from the acquisition date	(3,007)	(1,000)	(9,284)
Cash and cash equivalents	<u>¥127,988</u>	<u>¥115,266</u>	<u>\$1,070,151</u>

9. Per Share Data

Per share data is summarized as follows: *1 and *2

	<i>Yen</i>		<i>U.S. dollars</i>
	Three months ended 30th June,		Three months ended 30th June,
	2019	2020	2020
Earnings per share	¥20.52	¥21.15	\$0.20
Diluted earnings per share	20.48	21.09	0.20

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

*2 The Company implemented a 3-for-1 stock split effective 1st July, 2019. To reflect this stock split, earnings per share and diluted earnings per share are calculated as if the stock split took place on 1st April, 2019.

9. Per Share Data (continued)

The computation of earnings per share and diluted earnings per share for the three months ended 30th June, 2019 and 2020 is as follows: *1

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	Three months ended 30th June,		Three months ended 30th June,
	2019	2020	2020
Numerator:			
Earnings*2	¥14,246	¥12,617	\$117,139
Earnings not attributable to common shareholders	(–)	(–)	(–)
Earnings attributable to common shareholders	<u>¥14,246</u>	<u>¥12,617</u>	<u>\$117,139</u>
	<i>Thousands of Shares</i>		
Denominator:			
Weighted-average number of shares of common stock outstanding – basic *3	694,322	596,518	
Potentially dilutive shares of common stock:			
Stock options	1,349	1,597	
Total	<u>1,349</u>	<u>1,597</u>	
Weighted-average number of shares of common stock outstanding – diluted	<u>695,671</u>	<u>598,115</u>	

*1 The Company implemented a 3-for-1 stock split effective 1st July, 2019. To reflect this stock split, earnings per share and diluted earnings per share are calculated as if the stock split took place on 1st April, 2019.

*2 In computing diluted earnings per share for the three-month periods ended 30th June, 2019 and 2020, an adjustment due to potentially dilutive shares of affiliates in the amount of ¥(0) million and ¥0 million (\$0 thousand) has been made to earnings in the above table.

*3 The Company's shares owned by the ESOP Trust are included in treasury stock. The weighted-average number of shares the ESOP Trust owned was 9,219 thousand and 8,000 thousand during the three-month periods ended 30th June, 2019 and 2020, respectively.

10. Revenue Recognition

A disaggregation of revenue generated from sales to external customers for the three months ended 30th June, 2019 and 2020 are as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	Three months ended 30th June,		Three months ended 30th June,
	2019	2020	2020
Consulting	¥ 7,622	¥ 6,916	\$ 64,210
Financial IT Solutions	68,028	69,463	644,907
Securities	27,401	30,637	284,440
Insurance	16,712	15,040	139,634
Banking	12,630	12,288	114,084
Other financial	11,285	11,498	106,749
Industrial IT Solutions	45,804	45,691	424,204
Distribution	17,645	15,528	144,165
Manufacturing, service and other	28,159	30,163	280,039
IT Platform Services	8,041	9,085	84,347
Total	<u>¥129,495</u>	<u>¥131,155</u>	<u>\$1,217,668</u>

11. Selling, General and Administrative Expenses

The details of selling, general and administrative expenses for the three months ended 30th June, 2019 and 2020 are summarized as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	Three months ended 30th June,		Three months ended 30th June,
	2019	2020	2020
Personnel expenses	¥12,748	¥13,358	\$124,018
Rent	1,471	1,586	14,725
Subcontractor costs	3,824	3,823	35,493
Other	5,706	4,937	45,836
Total	<u>¥23,749</u>	<u>¥23,704</u>	<u>\$220,072</u>

12. Research and Development Expenses

Research and development expenses included in selling, general and administrative expenses amounted to ¥679 million and ¥765 million (\$7,102 thousand) for the three months ended 30th June, 2019 and 2020, respectively.

13. Segment Information

Net sales and profit by reportable segments

Millions of yen

Three months ended 30th June, 2019							
	Reportable segment				Total	Adjustments *1	Consolidated *2
	Consulting	Financial IT Solutions	Industrial IT Solutions	IT Platform Services			
Net sales:							
Sales to external customers	¥7,622	¥68,028	¥45,804	¥ 8,041	¥129,495	¥ –	¥129,495
Intersegment sales or transfers	146	565	666	23,915	25,292	(25,292)	–
Total	7,768	68,593	46,470	31,956	154,787	(25,292)	129,495
Segment profit	¥ 614	¥10,313	¥ 5,191	¥ 3,956	¥ 20,074	¥ 280	¥ 20,354

Millions of yen

Three months ended 30th June, 2020							
	Reportable segment				Total	Adjustments *1	Consolidated *2
	Consulting	Financial IT Solutions	Industrial IT Solutions	IT Platform Services			
Net sales:							
Sales to external customers	¥6,916	¥69,463	¥45,691	¥ 9,085	¥131,155	¥ –	¥131,155
Intersegment sales or transfers	184	858	736	24,336	26,114	(26,114)	–
Total	7,100	70,321	46,427	33,421	157,269	(26,114)	131,155
Segment profit	¥ 670	¥ 8,442	¥ 4,720	¥ 4,266	¥ 18,098	¥ 80	¥ 18,178

13. Segment Information (continued)

Thousands of U.S. dollars

Three months ended 30th June, 2020							
Reportable segment							
	Financial						
	Consulting	IT Solutions	Industrial IT Solutions	IT Platform Services	Total	Adjustments *1	Consolidated *2
Net sales:							
Sales to external customers	\$64,210	\$644,907	\$424,204	\$ 84,347	\$1,217,668	\$ –	\$1,217,668
Intersegment sales or transfers	1,708	7,966	6,833	225,940	242,447	(242,447)	–
Total	65,918	652,873	431,037	310,287	1,460,115	(242,447)	1,217,668
Segment profit	\$ 6,221	\$ 78,377	\$ 43,821	\$ 39,606	\$ 168,025	\$ 743	\$ 168,768

*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.

14. Lawsuit

For the year ended 31st March, 2020

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 jointly as compensation for damages due to a delay in the migration.

For the three months ended 30th June, 2020

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 has demanded that SoftBank Corp. and the Company pay ¥16.15 billion (\$149.94 million) jointly as compensation for damages due to a delay in the migration.

JPiT made additional claims against the Company on 24th June, 2020. As a result, JPiT is demanding that the Company pay ¥19.65 billion (\$182.46 million) as compensation for damages due to a delay in the migration.

15. Subsequent Events

Issuance of new shares as restricted stock-based remuneration

At a meeting held on 18th June, 2020, the Company resolved to issue new shares as restricted stock-based remuneration and finalized the arrangements for payment on 17th July, 2020.

Outline of share issuance

(a) Type and number of shares to be issued	787,500 common shares
(b) Issue price	¥2,811 (\$26) per share
(c) Total issue value	¥2,213,662,500 (\$20,552,061)
(d) Paid-in capital	¥1,406 (\$13) per share
(e) Total paid-in capital	¥1,107,225,000 (\$10,279,686)
(f) Eligible recipients, number of recipients and number of shares to be allocated	Members of the Board (excluding Outside Directors): 6 individuals, 123,000 shares Senior Managing Directors and other employees (those treated as executives): 48 individuals, 664,500 shares
(g) Payment date	17th July, 2020