

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



28th October, 2020

Consolidated Financial Results For the Quarterly Period Ended 30th September, 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/>
 Representative: Shingo Konomoto, Chairman and President & CEO, Representative Director,
 Member of the Board
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Scheduled date to file Quarterly Securities Report: 12th November, 2020
 Scheduled date to commence dividend payments: 30th November, 2020
 Preparation of supplementary material on quarterly consolidated financial results: Yes
 Announcement for quarterly consolidated financial results (for institutional investors and analysts): Yes

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

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

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

	Sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Quarterly period ended 30th September, 2020	266,300	2.8	39,312	(3.9)	38,973	(6.7)	26,027	(36.4)
30th September, 2019	259,153	7.8	40,908	23.6	41,774	24.4	40,893	78.2

Note: Comprehensive income

Quarterly period ended 30th September, 2020: ¥31,999 million [34.0%]

Quarterly period ended 30th September, 2019: ¥23,887 million [(29.3)%]

	Earnings per share – basic		Earnings per share – diluted	
	Yen		Yen	
Quarterly period ended 30th September, 2020	43.58		43.46	
30th September, 2019	60.85		60.72	

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 September, 2020	553,417	302,144	54.0
31st March, 2020	533,151	287,153	50.9

Reference: Equity

As of 30th September, 2020: ¥298,691 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	–	17.00			
Fiscal year ending 31st March, 2021 (Forecasts)			–	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
Fiscal year ending 31st March, 2021	540,000	2.1	83,000	(0.2)	84,000	(0.6)	59,000	(14.8)	98.78

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

However, the Company has made revisions to the breakdown of consolidated sales and other items, which are disclosed as reference values. 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 six months (changes in specified subsidiaries resulting in change in scope of consolidation): None
- (2) Adoption of specific accounting in preparing quarterly consolidated financial statements: Yes
- (3) Changes in accounting policies, changes in accounting estimates, and restatement of prior period financial statements after error corrections
 - 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 September, 2020	640,787,500 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 September, 2020	42,335,452 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 September, 2020	597,295,778 shares
	Quarterly period ended 30th September, 2019	672,032,027 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. For more details, please refer to “(3) Qualitative information regarding forecasts of financial results,” on pages 10-11.

Qualitative information regarding second-quarter settlement of accounts

(1) Qualitative information regarding consolidated operating results

(Millions of yen)

	Six months ended 30th September, 2019	Six months ended 30th September, 2020	Year on year	
			Amount	Rate
Sales	259,153	266,300	7,147	2.8%
Overseas sales	24,136	21,666	(2,469)	(10.2)%
Overseas sales ratio	9.3%	8.1%	(1.2)P	–
Operating profit	40,908	39,312	(1,595)	(3.9)%
Operating profit (before amortization of goodwill)	42,508	40,788	(1,719)	(4.0)%
Operating margin	15.8%	14.8%	(1.0)P	–
Operating margin (before amortization of goodwill)	16.4%	15.3%	(1.1)P	–
EBITDA margin	22.3%	21.3%	(1.1)P	–
Ordinary profit	41,774	38,973	(2,800)	(6.7)%
Profit attributable to owners of parent	40,893	26,027	(14,865)	(36.4)%

- 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 six months ended 30th September, 2020 (from 1st April, 2020 to 30th September, 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 six months ended 30th September, 2020, the NRI Group’s sales totaled ¥266,300 million (up 2.8% 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 ¥178,783 million (up 4.1%), gross profit was ¥87,517 million (up

0.0%), and selling, general and administrative expenses were ¥48,204 million (up 3.5%). The profitability of our overseas subsidiaries declined due to COVID-19, and operating profit was ¥39,312 million (down 3.9%), operating margin was 14.8% (down 1.0 points), and ordinary profit was ¥38,973 million (down 6.7%). Operating profit (before amortization of goodwill) was ¥40,788 million (down 4.0%), operating margin (before amortization of goodwill) was 15.3% (down 1.1 points) and the EBITDA margin was 21.3% (down 1.1 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.

		Six months ended 30th September, 2019	Six months ended 30th September, 2020	Year on year	
				Amount	Rate
Consulting	Sales	17,506	15,793	(1,712)	(9.8)%
	Operating profit	3,297	2,502	(794)	(24.1)%
	Operating margin	18.8%	15.8%	(3.0)P	–
Financial IT Solutions	Sales	136,651	143,529	6,877	5.0%
	Operating profit	18,230	18,513	283	1.6%
	Operating margin	13.3%	12.9%	(0.4)P	–
Industrial IT Solutions	Sales	90,904	92,695	1,790	2.0%
	Operating profit	9,983	9,030	(953)	(9.5)%
	Operating margin	11.0%	9.7%	(1.2)P	–
IT Platform Services	Sales	66,605	67,806	1,201	1.8%
	Operating profit	9,008	8,904	(103)	(1.2)%
	Operating margin	13.5%	13.1%	(0.4)P	–
Adjustments	Sales	(52,513)	(53,524)	(1,010)	–
	Operating profit	388	361	(26)	–
Total	Sales	259,153	266,300	7,147	2.8%
	Operating profit	40,908	39,312	(1,595)	(3.9)%
	Operating margin	15.8%	14.8%	(1.0)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. In addition, as the spread of COVID-19 is an environmental change which is capable of significantly changing society in the future, the NRI Group has enlisted all of its strength to provide emergency proposals for COVID-19 measures.

During the six months ended 30th September, 2020, the Consulting segment posted sales of ¥15,793 million (down 9.8% year on year) and operating profit of ¥2,502 million (down 24.1%) due to a reduction in global consulting projects.

(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 developing 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 second quarter of the current fiscal year, to further evolve our financial business platform, the Company made DSB Co., Ltd. a wholly-owned subsidiary of the Company.

During the six months ended 30th September, 2020, the Financial IT Solutions segment posted sales of ¥143,529 million (up 5.0% year on year) due to an increase in operation services for the securities industry and the contributions of Nippon Securities Technology Co., Ltd. Despite 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 in the first quarter, operating profit was ¥18,513 million (up 1.6% year on year) as a result of the current order environment trending strongly, and usage fees for shared services increasing due to the active market.

(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, caused by the paradigm shift in the COVID-19 pandemic, 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 six months ended 30th September, 2020, the Industrial IT Solutions segment posted sales of ¥92,695 million (up 2.0% year on year), amid an increase in system development and application sales for the manufacturing and service sectors, and despite a decrease in system management and operation services for the distribution sector. The profitability of our overseas subsidiaries declined due to COVID-19, and operating profit was ¥9,030 million (down 9.5%).

(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. From the second quarter, the NRI Group began initiatives for a new application style that is operated under internal control by adopting the "Oracle Cloud" dedicated region, which is the first in the world, and establishing an exclusive public cloud within the NRI Group's data center.

During the six months ended 30th September, 2020, sales to external clients increased in the security business, and intersegment sales increased mainly in cloud computing services and network services. However, due to an increase in subcontracting costs, the IT Platform Services segment posted sales of ¥67,806 million (up 1.8% year on year) and operating profit of ¥8,904 million (down 1.2%).

*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.

(2) Qualitative information regarding consolidated financial position

(Assets, liabilities and net assets)

(Millions of yen)

	As of 31st March, 2020	As of 30th September, 2020	Year on year	
			Amount	Rate
Current assets	259,855	273,235	13,380	5.1%
Noncurrent assets	273,295	280,181	6,885	2.5%
Total assets	533,151	553,417	20,265	3.8%
Current liabilities	140,456	157,744	17,287	12.3%
Noncurrent liabilities	105,076	93,332	(11,744)	(11.2)%
Net assets	287,153	302,144	14,991	5.2%
Equity	271,332	298,691	27,359	10.1%
Equity ratio	50.9%	54.0%	3.1P	–
Interest-bearing debt	107,410	124,397	16,987	15.8%
Gross D/E ratio (times)	0.40	0.42	0.02	–
Net D/E ratio (times)	0.02	0.01	(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 second quarter (30th September, 2020), current assets were ¥273,235 million (up 5.1% from the end of the previous fiscal year), noncurrent assets were ¥280,181 million (up 2.5%), current liabilities were ¥157,744 million (up 12.3%), noncurrent liabilities were ¥93,332 million (down 11.2%), net assets were ¥302,144 million (up 5.2%) and total assets were ¥553,417 million (up 3.8%). 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 second quarter was 0.42 times and 0.01 times, respectively.

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

Accounts receivable declined ¥26,937 million to ¥63,631 million and other receivables increased ¥15,411 million to ¥55,407 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 ¥19,998 million through the issuance of commercial paper.

Non-controlling interests decreased by ¥12,240 million to ¥2,900 million with the additional acquisition of DSB Co., Ltd.

In addition, cash and bank deposits increased ¥19,854 million to ¥122,395 million, accounts payable decreased ¥3,483 million to ¥22,129 million, and income taxes payable decreased ¥5,843 million to ¥14,929 million.

(Cash flow position)

(Millions of yen)

	Six months ended 30th September, 2019	Six months ended 30th September, 2020	Year on year	
			Amount	Rate
Cash flows from operating activities	52,898	32,550	(20,348)	(38.5)%
Cash flows from investing activities	30,324	(12,097)	(42,421)	–
Free cash flows	83,223	20,453	(62,770)	(75.4)%
Cash flows from financing activities	(132,294)	(2,851)	129,442	(97.8)%
Net increase (decrease) in cash and cash equivalents	(50,938)	19,817	70,756	–
Cash and cash equivalents at end of period	72,262	120,596	48,334	66.9%

Cash and cash equivalents as of the end of the second quarter (30th September, 2020) stood at ¥120,596 million (up ¥19,817 million from the end of the previous fiscal year).

Net cash provided by operating activities in the six months ended 30th September, 2020 was ¥32,550 million, a decrease of ¥20,348 million compared with the same period of the previous fiscal year. Income taxes paid increased and the drop in accounts receivable and other receivables was smaller.

Net cash used in investing activities was ¥12,097 million (compared with cash provided of ¥30,324 million in the same period of the previous fiscal year). In the same period of the previous fiscal year, cash was provided by the sale of part of shares held by the Company and the sale of short-term investment securities for fund management purposes. In the six months ended 30th September, 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 ¥2,851 million, a decrease of ¥129,442 million from the same period of the previous fiscal year. In the same period of the previous fiscal year, the Company mainly acquired ¥159,999 million worth of treasury stock by tender offer. In the six months ended 30th September, 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, ¥11,324 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

No revisions have been made to the forecasts of consolidated financial results (sales, operating profit, ordinary profit and profit attributable to owners of the parent). However, in light of recent trends, forecasts for the breakdown of consolidated sales and forecasts for capital investment have been revised. The forecasts of consolidated financial results for the fiscal year ending 31st March, 2021 have been prepared on the assumption that the business environment for the Company will gradually normalize towards the end of the year. As such, the financial results forecasts are subject to change depending on the containment status of COVID-19.

(I) Other forecasts

- a. Consolidated sales by segment for the fiscal year ending 31st March, 2021 (From 1st April, 2020 to 31st March, 2021)

	Previous forecast (A)	Revised forecast (B)	Change		(Reference) Previous fiscal year (Actual result)
			Amount (B-A)	Rate (%)	
Consulting	36,000	36,000	–	–	38,572
Financial IT Solutions	285,000	282,000	(3,000)	(1.1)	273,571
Securities sector	125,000	125,000	–	–	112,762
Insurance sector	64,000	60,000	(4,000)	(6.3)	66,374
Banking sector	51,000	51,000	–	–	51,022
Other financial sector, etc.	45,000	46,000	1,000	2.2	43,411
Industrial IT Solutions	177,000	184,000	7,000	4.0	178,490
Distribution sector	66,000	63,000	(3,000)	(4.5)	66,789
Manufacturing and service sectors	111,000	121,000	10,000	9.0	111,700
IT Platform Services	42,000	38,000	(4,000)	(9.5)	38,239
Total	540,000	540,000	–	–	528,873

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

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

	Previous forecast (A)	Revised forecast (B)	Change		(Reference) Previous fiscal year (Actual result)
			Amount (B-A)	Rate (%)	
Consulting services	96,000	90,000	(6,000)	(6.3)	96,862
System development & application sales	168,000	179,000	11,000	6.5	161,703
System management & operation services	258,000	256,000	(2,000)	(0.8)	251,908
Product sales	18,000	15,000	(3,000)	(16.7)	18,399
Total	540,000	540,000	–	–	528,873

- c. Consolidated capital investment for the fiscal year ending 31st March, 2021 (From 1st April, 2020 to 31st March, 2021)

	Previous forecast (A)	Revised forecast (B)	Change		(Reference) Previous fiscal year (Actual result)
			Amount (B-A)	Rate (%)	
Capital investment	38,000	35,000	(3,000)	(7.9)	28,496

(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 Six-Month Period Ended 30th September, 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 Six-Month Period Ended 30th September, 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 September, 2020	30th September, 2020
Assets			
Current assets:			
Cash and bank deposits (<i>Notes 4 and 8</i>)	¥102,541	¥122,395	\$1,157,071
Short-term investment securities (<i>Notes 4, 5 and 8</i>)	2,302	0	0
Accounts receivable and other receivables (<i>Note 4</i>)	130,565	119,039	1,125,345
Operating loans (<i>Note 4</i>)	1,500	1,500	14,180
Margin transaction assets (<i>Note 4</i>)	5,620	7,034	66,497
Inventories	2,615	2,754	26,036
Prepaid expenses	6,265	10,054	95,046
Short-term guarantee deposits (<i>Note 4</i>)	3,404	3,804	35,961
Other current assets	5,288	6,836	64,625
Allowance for doubtful accounts	(245)	(180)	(1,702)
Total current assets	<u>259,855</u>	<u>273,236</u>	<u>2,583,059</u>
Property and equipment:			
Land	7,060	7,060	66,742
Buildings, net	33,637	32,714	309,265
Buildings in trust, net	8,031	7,956	75,213
Machinery and equipment, net	12,587	13,006	122,953
Leased assets, net	2,107	2,017	19,068
Property and equipment, net	<u>63,422</u>	<u>62,753</u>	<u>593,241</u>
Software	48,287	46,246	437,190
Software in progress	12,112	13,743	129,921
Goodwill	20,410	20,900	197,580
Other intangibles	4,309	5,764	54,490
Investment securities (<i>Notes 4 and 5</i>)	28,512	30,296	286,406
Investments in affiliates (<i>Notes 4 and 5</i>)	6,055	5,731	54,178
Deferred tax assets	4,777	3,944	37,285
Lease investment assets	830	696	6,580
Net defined benefit asset	63,600	67,555	638,636
Other assets	21,022	22,571	213,377
Allowance for doubtful accounts	(40)	(18)	(170)
Total assets	<u>¥533,151</u>	<u>¥553,417</u>	<u>\$5,231,773</u>

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars (Note 3)</i>
	31st March, 2020	30th September, 2020	30th September, 2020
Liabilities and Net Assets			
Current liabilities:			
Accounts payable (Note 4)	¥ 25,613	¥ 22,129	\$ 209,198
Short-term loans payable (Note 4)	6,659	5,806	54,888
Short-term bonds payable (Note 4)	–	19,999	189,062
Current portion of long-term loans payable (Note 4)	5,133	15,356	145,169
Margin transaction liabilities (Note 4)	1,039	2,434	23,010
Lease obligations, current	891	1,019	9,633
Accrued expenses	38,052	37,790	357,251
Income taxes payable	20,773	14,929	141,132
Advance payments received	17,769	14,333	135,498
Short-term guarantee deposits received (Note 4)	5,932	6,552	61,940
Provision for loss on orders received	301	279	2,638
Asset retirement obligations	91	209	1,976
Other current liabilities	18,204	16,909	159,851
Total current liabilities	140,457	157,744	1,491,246
Bonds (Note 4)	73,311	73,773	697,419
Long-term loans payable (Note 4)	17,876	4,969	46,975
Lease obligations	1,907	2,262	21,384
Deferred tax liabilities	1,860	2,007	18,973
Net defined benefit liability	7,583	7,810	73,832
Asset retirement obligations	2,335	2,290	21,649
Other long-term liabilities	205	221	2,090
Reserve for financial products transaction liabilities	464	196	1,853
Total liabilities	¥245,998	¥251,272	\$2,375,421
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 September, 2020			
Issued – 640,000 thousand shares at 31st March, 2020 and 640,788 thousand shares at 30th September, 2020	¥ 20,068	¥ 21,175	\$ 200,180
Additional paid-in capital (Note 7)	16,111	18,435	174,277
Retained earnings (Note 7)	302,966	318,682	3,012,686
Treasury stock, at cost: (Note 7)			
– 43,798 thousand shares at 31st March, 2020 and 42,335 thousand shares at 30th September, 2020	(66,628)	(64,282)	(607,695)
Total shareholders' equity	272,517	294,010	2,779,448
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities (Note 5)	10,517	11,982	113,272
Deferred gains or losses on hedges (Note 6)	–	612	5,786
Foreign currency translation adjustment	(10,542)	(6,734)	(63,661)
Remeasurements of defined benefit plans	(1,160)	(1,178)	(11,136)
Total accumulated other comprehensive income	(1,185)	4,682	44,261
Share subscription rights	680	552	5,218
Non-controlling interests	15,141	2,901	27,425
Total net assets	287,153	302,145	2,856,352
Total liabilities and net assets	¥533,151	¥553,417	\$5,231,773

See accompanying notes to quarterly consolidated financial statements.

Nomura Research Institute, Ltd.

Quarterly Consolidated Statement of Income and Comprehensive Income

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars (Note 3)</i>
	Six months ended 30th September,		Six months ended 30th September, 2020
	2019	2020	
Sales (<i>Note 10</i>)	¥259,153	¥266,300	\$ 2,517,489
Cost of sales	171,679	178,783	1,690,140
Gross profit	87,474	87,517	827,349
Selling, general and administrative expenses (<i>Notes 11 and 12</i>)	46,566	48,204	455,700
Operating profit	40,908	39,313	371,649
Other income (expenses):			
Interest and dividend income	782	489	4,623
Interest expense	(196)	(202)	(1,910)
Equity in losses of affiliates	(29)	(29)	(274)
Commission for purchase of treasury stock	(49)	–	–
Foreign exchange gains (losses)	313	(181)	(1,711)
Bonds issuance cost	(121)	(6)	(57)
Loss on COVID-19 pandemic	–	(493)	(4,661)
Gain on investment securities	19,079	96	908
Reversal of share-based compensation	2	6	57
Reversal of reserve for financial products transaction liabilities	12	269	2,543
Other, net	167	83	785
	19,960	32	303
Income before income taxes	60,868	39,345	371,952
Provision for income taxes (<i>Note 2</i>)	19,681	13,238	125,147
Profit	¥ 41,187	¥ 26,107	\$ 246,805
Profit attributable to owners of parent (<i>Note 9</i>)	¥ 40,893	¥ 26,028	\$ 246,058
Profit attributable to non-controlling interests	294	79	747
Other comprehensive income (loss):			
Valuation difference on available-for-sale securities	(14,048)	1,469	13,887
Deferred gains or losses on hedges	–	612	5,786
Foreign currency translation adjustment	(3,180)	3,802	35,943
Remeasurements of defined benefit plans, net of tax	(10)	3	28
Share of other comprehensive income (loss) of affiliates	(62)	6	57
Total other comprehensive income (loss)	(17,300)	5,892	55,701
Comprehensive income	¥ 23,887	¥ 31,999	\$ 302,506
Comprehensive income attributable to:			
Comprehensive income attributable to owners of parent	¥ 23,582	¥ 31,894	\$ 301,513
Comprehensive income attributable to non-controlling interests	305	105	993

See accompanying notes to quarterly consolidated financial statements.

Nomura Research Institute, Ltd.

Quarterly Consolidated Statement of Cash Flows

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars (Note 3)</i>
	Six months ended 30th September,		Six months ended 30th September, 2020
	2019	2020	
Cash flows from operating activities			
Income before income taxes	¥ 60,868	¥ 39,345	\$ 371,952
Adjustments to reconcile income before income taxes to net cash provided by operating activities:			
Depreciation and amortization	15,165	15,555	147,050
Interest and dividend income	(782)	(489)	(4,623)
Interest expense	196	202	1,910
Loss on investment securities	(19,079)	(96)	(908)
Changes in operating assets and liabilities:			
Accounts receivable and other receivables, net of advance payments received	13,602	8,957	84,676
Allowance for doubtful accounts	5	(96)	(908)
Accounts payable	(5,540)	(3,628)	(34,298)
Inventories	364	8	76
Net defined benefit asset	(4,257)	(3,923)	(37,086)
Net defined benefit liability	260	206	1,947
Provision for loss on orders received	(363)	(22)	(208)
Margin transaction assets	1,639	(1,414)	(13,367)
Short-term guarantee deposits	–	(400)	(3,781)
Margin transaction liabilities	(209)	1,396	13,197
Short-term guarantee deposits received	(581)	620	5,861
Reserve for financial products transaction liabilities	(12)	(269)	(2,543)
Other	(3,301)	(4,982)	(47,098)
Subtotal	57,975	50,970	481,849
Interest and dividends received	932	823	7,780
Interest paid	(205)	(254)	(2,401)
Income taxes paid	(5,803)	(18,989)	(179,514)
Net cash provided by operating activities	52,899	32,550	307,714
Cash flows from investing activities			
Payments for time deposits	(1,267)	(1,377)	(13,018)
Proceeds from time deposits	1,219	1,335	12,621
Purchase of short-term investment securities	(1,004)	–	–
Proceeds from sales and redemption of short-term investment securities	–	2,300	21,743
Acquisition of property and equipment	(2,626)	(4,836)	(45,718)
Proceeds from sales of property and equipment	–	1	9
Purchase of software and other intangibles	(11,798)	(9,911)	(93,693)
Proceeds from sales of software and other intangibles	–	5	47
Payments for asset retirement obligations	(4)	(16)	(151)
Purchase of investment securities	(218)	(77)	(728)
Proceeds from sales and redemption of investment securities	46,751	474	4,481
Purchase of investments in affiliates	(728)	–	–
Other	0	5	47
Net cash provided by (used in) investing activities	¥ 30,325	¥ (12,097)	\$ (114,360)

Nomura Research Institute, Ltd.

Quarterly Consolidated Statement of Cash Flows (continued)

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars (Note 3)</i>
	Six months ended 30th September,		Six months ended 30th September, 2020
	2019	2020	
Cash flows from financing activities			
Net decrease in short-term loans payable	¥ (1,115)	¥ (1,256)	\$ (11,874)
Proceeds from long-term loans payable	10,000	–	–
Repayments of long-term loans payable	(2,214)	(2,692)	(25,449)
Net increase in short-term bonds	–	19,978	188,864
Proceeds from issuance of bonds	39,880	–	–
Redemption of bonds	–	(30)	(284)
Repayments of obligation under finance leases	(293)	(425)	(4,018)
Proceeds from sales of treasury stock	3,114	3,244	30,667
Purchase of treasury stock	(171,057)	(2)	(19)
Cash dividends paid	(10,548)	(10,273)	(97,116)
Cash dividends paid to non-controlling interests	(61)	(71)	(671)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	–	(11,325)	(107,062)
Net cash used in financing activities	(132,294)	(2,852)	(26,962)
Effect of exchange rate changes on cash and cash equivalents	(1,869)	2,217	20,959
Net increase (decrease) in cash and cash equivalents	(50,939)	19,818	187,351
Cash and cash equivalents at beginning of period	123,201	100,779	952,723
Cash and cash equivalents at end of period <i>(Note 8)</i>	¥ 72,262	¥ 120,597	\$ 1,140,074

See accompanying notes to quarterly consolidated financial statements.

Nomura Research Institute, Ltd.

Notes to Quarterly Consolidated Financial Statements

30th September, 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 six-month period ended 30th September, 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 September, 2020, ¥13,837 million (corresponding to 8,232 thousand shares of the Company held by the ESOP Trust) and ¥12,333 million (\$116,591 thousand) (corresponding to 7,337 thousand shares of the Company held by the ESOP Trust) and the loan payable of the ESOP Trust of ¥12,943 million and ¥10,325 million (\$97,608 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 NRI Group's business environment will normalize towards the end of the fiscal year gradually. 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.

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, except certain consolidated subsidiaries, 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 $\text{¥}105.78 = \text{U.S.}\1.00 , the rate of exchange prevailing on 30th September, 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 September, 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 September, 2020		
	Carrying amount	Estimated fair value	Difference	Carrying amount	Estimated fair value	Difference
Assets:						
Cash and bank deposits	¥102,541	¥102,541	¥ –	¥122,395	¥122,395	¥ –
Accounts receivable and other receivables	130,565	130,565	–	119,039	119,039	–
Short-term investment securities, investment securities, and investments in affiliates	27,426	27,426	–	27,052	27,052	–
Operating loans	1,500	1,500	–	1,500	1,500	–
Margin transaction assets	5,620	5,620	–	7,034	7,034	–
Short-term guarantee deposits	3,404	3,404	–	3,804	3,804	–
Total	<u>¥271,056</u>	<u>¥271,056</u>	<u>¥ –</u>	<u>¥280,824</u>	<u>¥280,824</u>	<u>¥ –</u>
Liabilities:						
Accounts payable	¥ 25,613	¥ 25,613	¥ –	¥ 22,129	¥ 22,129	¥ –
Short-term bonds payable	–	–	–	19,999	19,999	–
Short-term loans payable	6,659	6,659	–	5,806	5,806	–
Margin transaction liabilities	1,039	1,039	–	2,434	2,434	–
Short-term guarantee deposits received	5,932	5,932	–	6,552	6,552	–
Bonds	73,311	73,036	(275)	73,773	73,654	(119)
Long-term loans payable *1	23,009	23,022	13	20,325	20,333	8
Total	<u>¥135,563</u>	<u>¥135,301</u>	<u>¥(262)</u>	<u>¥151,018</u>	<u>¥150,907</u>	<u>¥(111)</u>
Derivative transactions *2	¥ –	¥ –	¥ –	¥ 882	¥ 882	¥ –

	<i>Thousands of U.S. dollars</i>		
	30th September, 2020		
	Carrying amount	Estimated fair value	Difference
Assets:			
Cash and bank deposits	\$1,157,071	\$1,157,071	\$ –
Accounts receivable and other receivables	1,125,345	1,125,345	–
Short-term investment securities, investment securities, and investments in affiliates	255,738	255,738	–
Operating loans	14,180	14,180	–
Margin transaction assets	66,497	66,497	–
Short-term guarantee deposits	35,961	35,961	–
Total	<u>\$2,654,792</u>	<u>\$2,654,792</u>	<u>\$ –</u>
Liabilities:			
Accounts payable	\$ 209,198	\$ 209,198	\$ –
Short-term bonds payable	189,062	189,062	–
Short-term loans payable	54,888	54,888	–
Margin transaction liabilities	23,010	23,010	–
Short-term guarantee deposits received	61,940	61,940	–
Bonds	697,419	696,294	(1,125)
Long-term loans payable *1	192,144	192,220	76
Total	<u>\$1,427,661</u>	<u>\$1,426,612</u>	<u>\$(1,049)</u>
Derivative transactions *2	\$ 8,338	\$ 8,338	\$ –

*1 Long-term loans payable included the current portion of long-term loans payable totaling ¥5,133 million and ¥15,356 million (\$145,169 thousand) as of 31st March, 2020 and 30th September, 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 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 September, 2020	30th September, 2020
Unlisted companies' shares *1	¥8,561	¥8,157	\$77,113
Investments in partnerships *2	881	818	7,733

*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 ¥5,731 million (\$54,178 thousand) as of 31st March, 2020 and 30th September, 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 September, 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 September, 2020:

Securities Classified as Available-for-Sale Securities

	<i>Millions of yen</i>					
	31st March, 2020			30th September, 2020		
	Acquisition cost	Carrying amount	Unrealized gain (loss)	Acquisition cost	Carrying amount	Unrealized gain (loss)
Equity securities	¥13,936	¥27,618	¥13,682	¥13,630	¥29,465	¥15,835
Bonds:						
Government bonds	4	4	0	4	4	(0)
Corporate bonds	2,303	2,302	(1)	-	-	-
	<u>2,307</u>	<u>2,306</u>	<u>(1)</u>	<u>4</u>	<u>4</u>	<u>(0)</u>
Other	829	890	61	808	827	19
Total	<u>¥17,072</u>	<u>¥30,814</u>	<u>¥13,742</u>	<u>¥14,442</u>	<u>¥30,296</u>	<u>¥15,854</u>

	<i>Thousands of U.S. dollars</i>		
	30th September, 2020		
	Acquisition cost	Carrying amount	Unrealized gain (loss)
Equity securities	\$128,852	\$278,550	\$149,698
Bonds:			
Government bonds	38	38	(0)
Corporate bonds	-	-	-
	<u>38</u>	<u>38</u>	<u>(0)</u>
Other	7,639	7,818	179
Total	<u>\$136,529</u>	<u>\$286,406</u>	<u>\$149,877</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 ¥223 million (\$2,108 thousand) for the six months ended 30th September, 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 September, 2020.

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

	<i>Millions of yen</i>			
	31st March, 2020		30th September, 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	¥882
	<i>Thousands of U.S. dollars</i>			
	30th September, 2020			
	Contract amount	Estimated fair value *		
Forward foreign exchange contracts for shares of subsidiaries, accounted for by deferral hedge accounting method:				
Buy: AUD	\$75,288	\$8,338		

* 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 (\$5,398 thousand) at 31st March, 2020 and 30th September, 2020, respectively.

For the six months ended 30th September, 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) Dividends with a cut-off date in the six-month period ended 30th September, 2019 and an effective date in the following period.

Resolution	Type of shares	Total dividends (Millions of yen)	Dividends per share (Yen)	Cut-off date	Effective date	Source of dividends
Meeting of the Board of Directors on 25th October, 2019 *	Common Stock	¥9,048	¥15.00	30th September, 2019	29th November, 2019	Retained earnings

* Dividends of ¥139 million paid to the ESOP Trust are included in the total dividends amount.

3) 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.

The Company acquired 101,911 thousand shares of treasury stock by tender offer based on the resolution of the Board of Directors on 18th June, 2019. As a result, treasury stock increased by ¥160,000 million.

7. Net Assets (continued)

For the six months ended 30th September, 2020

1) Dividends paid

Resolution	Type of shares	Total dividends (Millions of yen)	Total dividends (Thousands of U.S. dollars)	Dividends per share (Yen)	Dividends per share (U.S. dollars)	Cut-off date	Effective date	Source of dividends
Meeting of the Board of Directors on 15th May, 2020 *	Common Stock	¥10,275	\$97,136	¥17.00	\$0.16	31st March, 2020	2nd June, 2020	Retained earnings

* Dividends of ¥140 million (\$1,324 thousand) paid to the ESOP Trust are included in the total dividends amount.

2) Dividends with a cut-off date in the six-month period ended 30th September, 2020 and an effective date in the following period.

Resolution	Type of shares	Total dividends (Millions of yen)	Total dividends (Thousands of U.S. dollars)	Dividends per share (Yen)	Dividends per share (U.S. dollars)	Cut-off date	Effective date	Source of dividends
Meeting of the Board of Directors on 28th October, 2020 *	Common Stock	¥10,298	\$97,353	¥17.00	\$0.16	30th September, 2020	30th November, 2020	Retained earnings

* Dividends of ¥125 million (\$1,182 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 September, 2019 and 2020 is as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	30th September,		30th
	2019	2020	September, 2020
Cash and bank deposits	¥73,948	¥122,395	\$1,157,071
Short-term investment securities	3,004	0	0
Time deposits with maturities of more than three months when deposited	(1,686)	(1,798)	(16,997)
Bond and other investments maturing in more than three months from the acquisition date	(3,004)	–	–
Cash and cash equivalents	<u>¥72,262</u>	<u>¥120,597</u>	<u>\$1,140,074</u>

9. Per Share Data

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

	<i>Yen</i>		<i>U.S. dollars</i>
	Six months ended 30th September,		Six months ended 30th September, 2020
	2019	2020	
Earnings per share	¥60.85	¥43.58	\$0.41
Diluted earnings per share	60.72	43.46	0.41

*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 six months ended 30th September, 2019 and 2020 is as follows: *1

	<i>Millions of yen</i>		<i>Thousands of</i>
	Six months ended 30th September,		<i>U.S. dollars</i>
	2019	2020	Six months ended 30th September, 2020
Numerator:			
Earnings*2	¥40,893	¥26,028	\$246,058
Earnings not attributable to common shareholders	(-)	(-)	(-)
Earnings attributable to common shareholders	<u>¥40,893</u>	<u>¥26,028</u>	<u>\$246,058</u>
	<i>Thousands of Shares</i>		
Denominator:			
Weighted-average number of shares of common stock outstanding – basic *3	672,032	597,296	
Potentially dilutive shares of common stock:			
Stock options	1,460	1,568	
Total	<u>1,460</u>	<u>1,568</u>	
Weighted-average number of shares of common stock outstanding – diluted	<u>673,492</u>	<u>598,864</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 six-month periods ended 30th September, 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 9,308 thousand and 7,728 thousand during the six-month periods ended 30th September, 2019 and 2020, respectively.

10. Revenue Recognition

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

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	Six months ended 30th September,		Six months ended 30th September,
	2019	2020	2020
Consulting	¥17,174	¥15,414	\$145,718
Financial IT Solutions	135,080	141,659	1,339,185
Securities	53,880	63,547	600,747
Insurance	33,918	30,041	283,995
Banking	25,162	24,967	236,028
Other financial	22,120	23,104	218,415
Industrial IT Solutions	89,532	91,088	861,107
Distribution	34,428	30,873	291,860
Manufacturing, service and other	55,104	60,215	569,247
IT Platform Services	17,367	18,139	171,479
Total	<u>¥259,153</u>	<u>¥266,300</u>	<u>\$2,517,489</u>

11. Selling, General and Administrative Expenses

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

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	Six months ended 30th September,		Six months ended 30th September,
	2019	2020	2020
Personnel expenses	¥24,965	¥26,727	\$252,666
Rent	2,814	3,079	29,108
Subcontractor costs	8,006	8,320	78,654
Other	10,781	10,078	95,272
Total	<u>¥46,566</u>	<u>¥48,204</u>	<u>\$455,700</u>

12. Research and Development Expenses

Research and development expenses included in selling, general and administrative expenses amounted to ¥1,768 million and ¥1,905 million (\$18,009 thousand) for the six months ended 30th September, 2019 and 2020, respectively.

13. Segment Information

Net sales and profit by reportable segments

For the six months ended 30th September, 2019

Millions of yen

Six months ended 30th September, 2019							
Reportable segment							
	Consulting	Financial IT Solutions	Industrial IT Solutions	IT Platform Services	Total	Adjustments *1	Consolidated *2
Net sales:							
Sales to external customers	¥17,174	¥135,080	¥89,532	¥17,367	¥259,153	¥ –	¥259,153
Intersegment sales or transfers	332	1,571	1,373	49,238	52,514	(52,514)	–
Total	17,506	136,651	90,905	66,605	311,667	(52,514)	259,153
Segment profit	¥ 3,298	¥ 18,230	¥ 9,984	¥ 9,008	¥ 40,520	¥ 388	¥ 40,908

*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.

For the six months ended 30th September, 2020

Millions of yen

Six months ended 30th September, 2020							
Reportable segment							
	Consulting	Financial IT Solutions	Industrial IT Solutions	IT Platform Services	Total	Adjustments *1	Consolidated *2
Net sales:							
Sales to external customers	¥15,414	¥141,659	¥91,088	¥18,139	¥266,300	¥ –	¥266,300
Intersegment sales or transfers	379	1,870	1,607	49,668	53,524	(53,524)	–
Total	15,793	143,529	92,695	67,807	319,824	(53,524)	266,300
Segment profit	¥ 2,503	¥ 18,514	¥ 9,030	¥ 8,904	¥ 38,951	¥ 362	¥ 39,313

Thousands of U.S. dollars

Six months ended 30th September, 2020							
Reportable segment							
	Consulting	Financial IT Solutions	Industrial IT Solutions	IT Platform Services	Total	Adjustments *1	Consolidated *2
Net sales:							
Sales to external customers	\$145,718	\$1,339,185	\$861,107	\$171,479	\$2,517,489	\$ –	\$2,517,489
Intersegment sales or transfers	3,582	17,678	15,193	469,541	505,994	(505,994)	–
Total	149,300	1,356,863	876,300	641,020	3,023,483	(505,994)	2,517,489
Segment profit	\$ 23,662	\$ 175,024	\$ 85,366	\$ 84,175	\$ 368,227	\$ 3,422	\$ 371,649

*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 six months ended 30th September, 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 (\$152.68 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 SoftBank Corp. and the Company pay ¥19.65 billion (\$185.79 million) in total as compensation for damages due to a delay in the migration.

15. Subsequent Events

Not applicable.