

Nomura Research Institute, Ltd.

Notes to Quarterly Consolidated Financial Statements

30th September, 2011

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 14 consolidated subsidiaries) and its affiliates (2 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 Company’s operations by segment is included in Note 12.

Nomura Research Institute, Ltd. and UBIQLINK, Ltd. merged in July, 2011.

Basis of Presentation

The accompanying quarterly consolidated financial statements of the Company and its consolidated subsidiaries 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

Effective the first quarter ended 30th June, 2011, the “Accounting Standard for Earnings Per Share” (Accounting Standards Board of Japan (“ASBJ”) Statement No. 2) and the “Guidance on Accounting Standard for Earnings Per Share” (ASBJ Guidance No. 4) has been applied. The Company has changed the method by which it calculates quarterly diluted earnings per share as follows. For stock options that vest after a specified service period, the Company now includes the portion of stock options’ fair value attributable to future service when calculating the cash proceeds assumed to be receivable upon exercise of the stock options. Please see Note 8, “Per Share Data” for the impact of this change.

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

Additional Information

(Application of the “Accounting Standard for Accounting Changes and Error Corrections”)

Effective the first quarter ended 30th June, 2011, the “Accounting Standard for Accounting Changes and Error Corrections” (ASBJ Statement No. 24) and the “Guidance on Accounting Standard for Accounting Changes and Error Corrections” (ASBJ Guidance No. 24) has been applied.

(Accounting for Trust-type Employee Stock Ownership Incentive Plan)

The Company introduced a “Trust-type Employee Stock Ownership Incentive Plan” in March 2011. The purpose of introducing this plan is to promote the Company’s perpetual growth by providing incentives to employees (including employees of consolidated subsidiaries; the same shall apply in this section) for increasing the Company’s corporate value in the mid- to long-term and by enhancing benefits and welfare of employees.

This is an incentive plan under which gains from the Company’s share price appreciation are returned to all the employee beneficiaries who participate in the Employee Stock Ownership Group (the “ESOP Group”). The “Employee Stock Ownership Trust” (the “ESOP Trust”) was established exclusively for the ESOP Group to carry out this plan. The ESOP Trust acquired a number of the Company’s shares, which the ESOP Group would acquire over a period of five years subsequent to the establishment of the ESOP Trust. Then, the ESOP Trust sells them each time the ESOP Group makes an acquisition of the Company’s shares. When the share price appreciates and earnings have accumulated in the ESOP Trust upon its maturity, a cash distribution of the funds will be made to each beneficiary in proportion to the respective beneficiary’s contribution. Since the Company guarantees the loans of the ESOP Trust taken out to purchase the Company’s shares, the Company is obligated to pay the remaining liabilities of the ESOP Trust under a guarantee agreement if any loan liabilities remain upon maturity of the ESOP Trust.

The Company accounts for the transactions involving the ESOP Trust as its own. And the assets, liabilities, expenses and income of the ESOP Trust are included in the accompanying consolidated financial statements. Therefore, the Company’s shares owned by the ESOP Trust are treated as treasury stock of the Company, and the loans of the ESOP Trust are treated as the loans of the Company. Also, the Company did not recognize the transfer of treasury stock when the Company sold treasury stock to the ESOP Trust. Each time the ESOP Trust sells treasury stock to the ESOP Group, however, the Company recognizes transfer of treasury stock. As the amounts equal to the capital gain of the ESOP Trust will be distributed to the beneficiaries after the termination of the trust, the amounts are treated as expenses for the year the gain is incurred.

The number of NRI shares owned by the ESOP Trust is 5,531,300 shares on 30th September, 2011.

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

Calculation of Tax Expense

At the end of each interim period the Company 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 and minority interests 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 statements of income.

3. U.S. Dollar Amounts

The Company maintains its books of account in yen. The U.S. dollar amounts included in the accompanying quarterly consolidated financial statements and the notes thereto represent the arithmetic results of translating yen into dollars at ¥76.65 = U.S.\$1.00, the rate of exchange prevailing on 30th September, 2011. 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 sheets as of 30th September, 2011 and 31st March, 2011 and estimated fair values are shown in the following table. The following table does not include financial instruments for which it is extremely difficult to determine fair values. (see Note 2).

	<i>Millions of yen</i>					
	30th September, 2011			31st March, 2011		
	Carrying amount	Estimated fair value	Difference	Carrying amount	Estimated fair value	Difference
		(Unaudited)				
Assets:						
Cash and bank deposits	¥ 9,041	¥ 9,041	¥ –	¥ 16,758	¥ 16,758	¥ –
Accounts receivable and other receivables	65,338	65,338	–	71,289	71,289	–
Short-term investment securities, investment securities, and investments in affiliates	139,246	139,246	–	109,183	109,183	–
Long-term loans receivable	7,763	8,215	452	7,706	8,107	401
Total	<u>¥221,388</u>	<u>¥221,840</u>	<u>¥ 452</u>	<u>¥204,936</u>	<u>¥205,337</u>	<u>¥ 401</u>
Liabilities:						
Accounts payable	¥ 20,405	¥ 20,405	¥ –	¥ 22,481	¥ 22,481	¥ –
Convertible bonds	49,997	49,147	(850)	49,997	48,797	(1,200)
Long-term loans payable*	10,492	10,492	–	11,783	11,783	–
Total	<u>¥ 80,894</u>	<u>¥ 80,044</u>	<u>¥(850)</u>	<u>¥ 84,261</u>	<u>¥ 83,061</u>	<u>¥(1,200)</u>

* Long-term loans payable included the current portion of long-term loans payable totaling ¥2,620 million (\$34,181 thousand) and ¥2,607 million as of 30th September 2011 and 31st March, 2011, respectively.

	<i>Thousands of U.S. dollars</i>		
	30th September, 2011		
	Carrying amount	Estimated fair value	Difference
		(Unaudited)	
Assets:			
Cash and bank deposits	\$ 117,952	\$ 117,952	\$ –
Accounts receivable and other receivables	852,420	852,420	–
Short-term investment securities, investment securities, and investments in affiliates	1,816,647	1,816,647	–
Long-term loans receivable	101,279	107,175	5,896
Total	<u>\$2,888,298</u>	<u>\$2,894,194</u>	<u>\$ 5,896</u>
Liabilities:			
Accounts payable	\$ 266,210	\$ 266,210	\$ –
Convertible bonds	652,277	641,187	(11,090)
Long-term loans payable	136,882	136,882	–
Total	<u>\$1,055,369</u>	<u>\$1,044,279</u>	<u>\$(11,090)</u>

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, accounts receivable and other receivables
Their carrying amount approximates the fair value due to the short maturity of these instruments.
- b. 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.
- c. Long-term loans receivable
Long-term loans receivable consists of deposits and guarantee money. The fair value of long-term receivables is based on the present value of the total future cash flows, which are the principal and the interest, discounted by the risk-free rate relating to the time remaining until maturity.

Liabilities

- a. Accounts payable
Their carrying amount approximates the fair value due to the short maturity of these instruments.
- b. Convertible bonds
The fair value of convertible bonds is based on the quoted market price.
- c. Long-term loans payable
Long-term loans payable, to which variable rates are applied, approximates the carrying amount because it reflects market interest rates within a short period of time.

Note 2: The following financial instruments are not included in short-term investment securities, investment securities and investments in affiliates because no quoted market price is available and it is extremely difficult to determine the fair value.

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	30th September, 2011	31st March, 2011	30th September, 2011
	(Unaudited)	(Unaudited)	(Unaudited)
Unlisted companies' shares	¥8,002	¥15,328	\$104,396
Investments in partnerships	191	380	2,492

*1 Unlisted companies' shares are not measured at fair value because they have no market prices on exchanges, and it is extremely difficult to determine fair value. Unlisted companies' shares included investments in affiliates accounted for under the equity method totaling ¥822 million (\$10,724 thousand) and ¥830 million as of 30th September, 2011 and 31st March, 2011, respectively.

*2 For investments in partnerships, if fair value for part or all of the components is extremely difficult to determine, such components are not measured at fair value.

5. Investments

The Company did not hold any trading securities or held-to-maturity securities with determinable market value at 30th September, 2011 and 31st March, 2011.

The following is a summary of the market value information concerning available-for-sale securities included in short-term investment securities, investment securities and investments in affiliates at 30th September, 2011 and 31st March, 2011:

Securities classified as available-for-sale securities

	<i>Millions of yen</i>					
	30th September, 2011			31st March, 2011		
	Acquisition cost	Carrying amount	Unrealized gain (loss)	Acquisition cost	Carrying amount	Unrealized gain (loss)
	(Unaudited)					
Equity securities	¥ 17,014	¥ 25,238	¥8,224	¥ 25,543	¥ 36,020	¥10,477
Bonds:						
Government bonds	18,337	18,328	(9)	1	1	-
Corporate bonds	26,995	26,889	(106)	21,079	21,050	(29)
Other	1,000	1,000	-	-	-	-
	46,332	46,217	(115)	21,080	21,051	(29)
Other	75,260	75,162	(98)	66,928	66,990	62
Total	<u>¥138,606</u>	<u>¥146,617</u>	<u>¥8,011</u>	<u>¥113,551</u>	<u>¥124,061</u>	<u>¥10,510</u>

	<i>Thousands of U.S. dollars</i>		
	30th September, 2011		
	Acquisition cost	Carrying amount	Unrealized gain (loss)
	(Unaudited)		
Equity securities	\$ 221,970	\$ 329,263	\$107,293
Bonds:			
Government bonds	239,230	239,113	(117)
Corporate bonds	352,185	350,802	(1,383)
Other	13,046	13,046	-
	604,461	602,961	(1,500)
Other	981,866	980,587	(1,279)
Total	<u>\$1,808,297</u>	<u>\$1,912,811</u>	<u>\$104,514</u>

Securities whose estimated fair value is deemed extremely difficult to measure were included in the above table. Impairment losses on the securities classified as available-for-sale securities as a result of a permanent decline in value for the six months ended 30th September, 2011, and the year ended 31st March, 2011 were ¥927 million (\$12,094 thousand) and ¥46 million, consisting of ¥922 million (\$12,029 thousand) and ¥37 million for securities whose fair value is determinable and ¥5 million (\$65 thousand) and ¥9 million for securities whose estimated fair value is deemed extremely difficult to measure. The Company has established a policy for the recognition of impairment losses under the following conditions as of 30th September, 2011, and 31st March, 2011:

- i) For securities whose fair value has declined by 30% or more and for which a recovery to fair value is not deemed probable.
- ii) For securities whose estimated fair value is deemed extremely difficult to measure, the Company recognizes impairment if the net asset value of the investment has declined by 50% or more and for which a recovery to acquisition cost is not deemed probable.

6. Net Assets

The Corporation Law of Japan provides that an amount equal to at least 10% of the amount to be disbursed as distributions of capital surplus and retained earnings be appropriated to the legal reserve until the sum of the legal reserve and additional paid-in capital equals 25% of the common stock account. In accordance with the Corporation Law, the Company provides a legal reserve which is included in retained earnings. This reserve amounted to ¥570 million (\$7,436 thousand) and ¥570 million at 30th September, 2011 and 31st March, 2011, respectively.

Dividends

The following appropriation of retained earnings applicable to the year ended 31st March, 2011 was approved at a meeting of the Board of Directors held on 18th May, 2011 and went into effect on 3rd June, 2011:

	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>
Cash dividends approved on 18th May, 2011 (¥26.00 = U.S.\$0.34 per share)	¥5,063	\$66,053

* Dividends of ¥161 million (\$2,100 thousand) paid to the ESOP Trust are not included in the total dividends amount.

The accompanying quarterly consolidated financial statements do not include any provision for dividends of ¥26.00 (\$0.34) per share, aggregating ¥5,082 million (\$66,302 thousand). This appropriation of retained earnings was approved at the meeting of the Board of Directors held on 28th October, 2011 in respect of the six months ended 30th September, 2011 and went into effect on 30th November, 2011. Dividends of ¥144 million (\$1,879 thousand) paid to the ESOP Trust are not included in the total dividends amount.

7. Cash and Cash Equivalents

A reconciliation between cash and bank deposits in the accompanying quarterly consolidated balance sheets and cash and cash equivalents in the accompanying quarterly consolidated statements of cash flows at 30th September, 2011 and 2010 is as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	30th September,		30th September,
	2011	2010	2011
	(Unaudited)		(Unaudited)
Cash and bank deposits	¥ 9,041	¥ 9,694	\$ 117,952
Short-term investment securities	104,247	55,157	1,360,039
Time deposits with maturities of more than three months when deposited	(272)	(205)	(3,549)
Bonds and other investments maturing in more than three months from the acquisition date	(20,777)	(9,912)	(271,063)
Cash and cash equivalents	¥ 92,239	¥54,734	\$1,203,379

8. Per Share Data

Per share data is summarized as follows:

	<i>Yen</i>		<i>U.S. dollars</i>
	Six months ended 30th September, 2011	2010	Six months ended 30th September, 2011
	(Unaudited)		(Unaudited)
Earnings per share – basic	¥100.97	¥49.62	\$1.32
Earnings per share – diluted	95.15	46.75	1.24

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

The computation of earnings per share and diluted earnings per share for the six months ended 30th September, 2011 and 2010 is as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	Six months ended 30th September, 2011	2010	Six months ended 30th September, 2011
	(Unaudited)		(Unaudited)
Numerator:			
Earnings	¥19,704	¥9,658	\$257,065
Earnings not available to common shareholders	(-)	(-)	(-)
Earnings available to common shareholders	<u>¥19,704</u>	<u>¥9,658</u>	<u>\$257,065</u>
	<i>Thousands of Shares</i>		
Denominator:			
Weighted-average number of shares of common stock outstanding – basic *1	195,135	194,654	195,135
Potentially dilutive shares of common stock:			
Convertible bonds *2	11,839	11,836	11,839
Stock options	103	101	103
Total	<u>11,942</u>	<u>11,937</u>	<u>11,942</u>
Weighted-average number of shares of common stock outstanding – diluted	<u>207,077</u>	<u>206,591</u>	<u>207,077</u>

*1 NRI shares owned by the ESOP Trust are included in treasury stock.

*2 The conversion price for the 1st unsecured convertible bonds with stock acquisition rights was adjusted from ¥4,224 to ¥4,222.90 effective from 30th March, 2011.

8. Per Share Data (continued)

The following potentially issuable shares of common stock would have an antidilutive effect, and thus have not been included in the diluted earnings per share calculation for the six months ended 30th September, 2011 and 2010:

	<i>Shares</i>	
	Six months ended 30th September,	
	2011	2010
	<i>(Unaudited)</i>	
a) 4th share subscription rights	–	0 *
b) 6th share subscription rights	347,500	367,500
c) 8th share subscription rights	375,000	415,000
d) 10th share subscription rights	417,500	417,500
e) 12th share subscription rights	440,000	440,000
f) 14th share subscription rights	445,000	445,000
g) 16th share subscription rights	392,500	–

* The exercise period ended 30th June, 2010.

(Accounting Change)

Effective the first quarter ended 30th June, 2011, the “Accounting Standard for Earnings Per Share” (Accounting Standards Board of Japan (“ASBJ”) Statement No. 2) and the “Guidance on Accounting Standard for Earnings Per Share” (ASBJ Guidance No. 4) has been applied.

The Company has changed the method by which it calculates quarterly diluted earnings per share as follows. For stock options that vest after a specified service period, the Company now includes the portion of stock options’ fair value attributable to future service when calculating the cash proceeds assumed to be receivable upon exercise of the stock options.

Diluted earnings per share for the six months ended 30th September, 2010 in cases where these accounting standards were not adopted were ¥46.75.

9. Selling, General and Administrative Expenses

The details of selling, general and administrative expenses for the six months ended 30th September, 2011 and 2010 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,
	2011	2010	2011
	(Unaudited)		(Unaudited)
Personnel expenses	¥15,929	¥15,075	\$207,815
Rent	2,411	2,534	31,455
Subcontractor costs	3,791	3,315	49,459
Other	5,925	6,577	77,298
Total	<u>¥28,056</u>	<u>¥27,501</u>	<u>\$366,027</u>

10. Research and Development Expenses

Research and development expenses included in selling, general and administrative expenses for the six months ended 30th September, 2011 and 2010 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,
	2011	2010	2011
	(Unaudited)		(Unaudited)
	¥1,704	¥1,585	\$22,231

11. Contingent Liabilities

There were no material contingent liabilities at 30th September, 2011 and 31st March, 2011.

12. Segment Information

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

Millions of yen

Six months ended 30th September, 2011									
Reportable segment									
	Financial IT Consulting	Industrial IT Solutions	IT Platform Services	Subtotal	Others *1	Total	Adjustments *2	Consolidated *3	
(Unaudited)									
Net sales:									
Sales to external customers	¥9,668	¥97,525	¥43,697	¥ 6,381	¥157,271	¥4,206	¥161,477	¥ 8	¥161,485
Intersegment sales or transfers	63	36	2,343	31,412	33,854	1,636	35,490	(35,490)	-
Total	9,731	97,561	46,040	37,793	191,125	5,842	196,967	(35,482)	161,485
Segment profit	¥ 813	¥ 9,511	¥ 3,287	¥ 5,104	¥ 18,715	¥ 361	¥ 19,076	¥ 1,005	¥ 20,081

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

*2 Individual items included in adjustment of segment profit were all immaterial amounts.

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

Millions of yen

Six months ended 30th September, 2010									
Reportable segment									
	Financial IT Consulting	Industrial IT Solutions	IT Platform Services	Subtotal	Others *1	Total	Adjustments *2	Consolidated *3	
(Unaudited)									
Net sales:									
Sales to external customers	¥8,679	¥98,640	¥42,516	¥ 8,141	¥157,976	¥4,126	¥162,102	¥ 4	¥162,106
Intersegment sales or transfers	35	29	2,218	32,306	34,588	1,551	36,139	(36,139)	-
Total	8,714	98,669	44,734	40,447	192,564	5,677	198,241	(36,135)	162,106
Segment profit (loss)	¥ (258)	¥ 8,661	¥ 1,042	¥ 5,228	¥ 14,673	¥ 98	¥ 14,771	¥ 1,239	¥ 16,010

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

*2 Individual items included in adjustment of segment profit were all immaterial amounts.

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

12. Segment Information (continued)

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

Thousands of U.S. dollars

Six months ended 30th September, 2011									
Reportable segment									
	Financial IT Consulting	Industrial IT Solutions	IT Platform Services	Subtotal	Others	Total	Adjustments	Consolidated	
	(Unaudited)								
Net sales:									
Sales to external customers	\$126,132	\$1,272,341	\$570,085	\$ 83,249	\$2,051,807	\$54,873	\$2,106,680	\$ 104	\$2,106,784
Intersegment sales or transfers	822	470	30,568	409,810	441,670	21,344	463,014	(463,014)	–
Total	126,954	1,272,811	600,653	493,059	2,493,477	76,217	2,569,694	(462,910)	2,106,784
Segment profit	\$ 10,607	\$ 124,083	\$ 42,883	\$ 66,588	\$ 244,161	\$ 4,710	\$ 248,871	\$ 13,112	\$ 261,983

2) Information about changes in reportable segments

The Company implemented an organizational change on 1st April, 2011. This organizational change is reflected in the presentation of segment information for the six months ended 30th September, 2010.

13. Subsequent Events

Not applicable.