(July 26, 2018, Tokyo)

Nomura Research Institute, Ltd.

The First Quarter of FY March 2019 Financial Results Briefings Q&A Session

*Supplemental. Original presentation given in Japanese

First inquirer (analyst, attendee)

Q1: Why did sales to Nomura Holdings decrease?

A1: The previous year we had large projects throughout the year. There were also large system application sales in 4Q. These large projects ended, and we expected 1Q to be an in-between phase. This is what has occurred, and in terms of performance we do see it as somewhat of a slow start. However, we have lots of inquiries for projects in the pre-order phase and are still aiming for sales of around 70 billion yen for the year.

Q2: In securities, are you making any changes to the sales forecast for this year?

A2: There are no changes to the sales forecast.

Q3: Please tell us about the effect joining with SMS has had on order volume.

A3: (Since we started managing them as a unit I cannot break things down for ASG and for SMS, but) Australia accounted for just under 3 billion yen out of overall orders received of about 82 billion yen in Q1. Of that, a few hundred million yen were in the consulting segment, and around 2.5 billion yen were in industrial IT segment.

Q4: Your plan for the year calls for overseas sales to increase by 21.5 billion yen. It seems that organic growth for overseas sales may not be very strong; is it going according to plan, and on a per-region basis are things progressing as expected?

A4: We believe we can achieve the plan with organic growth overseas. On a per-region basis, performance is as we expected.

Q5: Australia had a positive contribution to operating profit of around 900 million yen, but how much operating profit do you really see coming from there, and has that level improved over what you expected?

A5: In 1Q of the previous year Australia was negative 500 million yen in operating profit, but from there it has reached positive 900 million yen this year. Australia hit the break even point during 4Q the previous year, so we had expected it to turn positive during 1Q.

Q6: You are considering ways to further improve operational efficiency in Australia, but what specifically are you considering? And is overseas business expansion the reason that company-wide gross profit margin has declined?

A6: We are moving forward with integrations of operating bases and accounting systems. Australia is the reason for the decline in company-wide gross profit margin, and this is because it includes dispatch and other operations with proportionally high unit costs than sales, general, and administrative expenses. Domestically our gross profit margin remains virtually unchanged.

Second inquirer (analyst, attendee)

Q1: If there any other major factors behind changes in operating profit other than costs to move into new offices and amortization of overseas goodwill, please tell us about them.

A1: There were unprofitable projects during the previous year, but nothing major in that regard this year. Also, in the financial IT solutions segment, subsidiary DSB Co., Ltd. contributed negatively to consolidated numbers. As far as what drove profitability increases, the consulting segment had a significant contribution.

Q2: I would like to know why sales are increasing in insurance and other financial, etc.

A2: Two factors in insurance are higher sales to non-life insurers, and the bottoming out of sales to large life insurers which had been driving profit lower. In other financial, etc., investment trust sales-related solutions for cooperative banks contributed to higher profits.

Q3: In the industrial IT solutions segment, why is sales steadily increasing even excluding effects of overseas business, and what is the latest on the joint venture with KDDI Corporation?

A3: Profits are higher in industrial IT solutions because of increasing sales to a number of different clients across all industries. Also, the joint venture with KDDI launched operations in January and it will take a little time to make any significant contributions to performance, but efforts are proceeding according to plan.

Q4: The sales plan was quite ambitious for the first year of the joint venture with KDDI Corporation, and achieving it would seem to involve significant burden on both companies in terms of personnel and otherwise. How is it actually going?

A4: In supporting clients to change their business models, KDDI Digital Design first has a lot of its projects in the stages of building relationships with the clients and developing strategic plans. We believe that the strength of proposals to the client is the deciding factor, and top-caliber consultants are on hand to handle the task, but there is no major burden in terms of cost. Since KDDI Digital Design is an equity method affiliate and not our consolidated subsidiary, what it does has no direct effect on our sales.

Third inquirer (analyst, telephone attendee)

Q1: While the performance forecast for FY March 2019 calls for high sales numbers in the second half, why does it also call for a lower operating profit margin than in the first half?

A1: At present we are progressing as expected on our plan for 33 billion yen in the first half and 70 billion yen for the year. The operating profit margin is not set to be lower in the second half than in the first; rather, it is designed to be flat.

Q2: I would like to know how high order volumes and sales are for DX-related projects, and what system you have in place for working on these projects.

A2: Currently we are internally discussing definitions for DX-related projects, and in the future we would like to provide a quantitative explanation. As far as a system for working on DX-related projects, we are putting organizations in place in each segment, and have also put in place a dedicated subsidiary called NRI Digital, Ltd. We are developing a system that misses no opportunities on any level.

Q3: Is current profitability low for DX-related projects? Will it increase in the future?

A3: In the current state of affairs these projects are only making minor contributions to profitability, but in the area of DX 2.0 in particular we would like to enhance added value by assisting clients from the upstream process onward to differentiate ourselves from other IT vendors. New business development projects are currently under way with multiple clients, and if we can forecast them to be profitable in the future, we intend to work on them now even if the initial profits are low.