

(Tokyo - 17th May, 2018)

Nomura Research Institute, Ltd.

Q & A from FY March 2018 Small Meeting with the President for Domestic Institutional Investors

- In order to make it easier to understand, the contents of the question and answer are partially revised and modified.
- Glossary.
 - CiT(=Corporate IT) : IT that helps enhance the quality and efficiency of clients' internal operations, including core information systems
 - BiT(=Business IT) : IT that contributes directly to the expansion of client businesses

(Financial IT Solutions)

Q. Please tell us about changes in the business environment for Financial IT Solutions, and the trends in each industry.

A. In securities there was an overall trend of restraint in IT investment, despite investments for operational efficiency improvements such as RPA implementations. However, as a goal for IT budget reductions we can expect increased demand for shared online services, so we would like to proceed steadily and surely. There is some negative impact on profitability from the sell-off of the DSB subsidiary, but even factoring this in we are aiming for a slight profitability increase.

In insurance, difficult times continued due to missing out on orders for core systems improvement projects for a large life insurance company, but since we are seeing results from our efforts the previous year in non-life insurance (major and direct types), we are planning significantly higher profitability this year. We are accumulating projects in the upstream process, such as those for systemization planning, leading to bright expectations when you consider that these will now be transitioning into development.

In banking, strong performance from the previous year continued, as demand

was also strong for individual development projects for businesses such as internet banks, and for shared online services such as the BESTWAY solution for mutual fund sales.

We are aiming for around a 5% profitability increase in Financial IT Solutions overall, with strong performance in insurance and banking compensating for the harsh climate in securities.

Q. What is the progress of global projects for Nomura Holdings?

A. Negotiations with the client are progressing, but at the moment there is no information to externally disclose.

Q. In securities, NRI has relatively few companies in its client base in areas such as internet-based securities, FX, and cryptocurrency. Is NRI capturing business in any growth areas in securities?

A. When you look at trends in the US market, you may also see growth in internet-based securities and more movement toward developing new services that manage assets using points. However, we believe that these will not be the downfall of client-facing securities companies.

At the same time, the NRI client base does include large internet-based securities, and there are some projects involving newly established companies as well. For the future, we are also considering types of agreements in which we do not offer THE STAR as a full-line service, but rather only provide some functions for transaction processing and let venture companies handle User Interface and User eXperience (UI and UX).

However, for the time being, sales with internet-based securities companies and newly established companies are not expected to reach a level of significant impact compared to the existing NRI client base.

Q. Please tell us about the progress of the capital and business alliance with Nippon Life.

A. The capital and business alliance is continuing, and we are providing support including personnel exchanges for making the IT strategy at Nippon Life more sophisticated, but we are not at a stage where this amounts to significant sales. We are progressing on a joint project in the area of InsurTech, but this is still relatively small in terms of business scope.

(Shared Online Services)

Q. What portion of NRI sales do shared online services account for? Also, does the trend of companies cutting down on the cost of existing systems and investing in DX have a positive effect on the NRI balance sheet?

A. Around 20% of consolidated sales comes from shared online services, the majority of which is included in the financial IT solutions segment.

With the exception of core systems renewals there are hardly any cases of increasing IT budgets in the area of CiT, so we see clients working on efficiency improvements. For clients who say they want to decrease their IT budgets, we will accommodate their wishes and contain the negative impact by doing what we can to improve productivity on the NRI side.

At the same time, financial institutions which have not previously done business with NRI may utilize new vendors when employing new technologies to reduce costs, such as moving their platforms from on-premises to the cloud. This may have a positive effect for NRI.

The area of BiT seems to still only comprise around 10% of the IT budget for financial institutions, but since there are many vendors offering these, we will need to differentiate what NRI has to offer.

For example, among the business challenges faced by financial institutions, “improving customer experience (CX)” is one topic for which BiT is looked at to play an important role. Since consulting is necessary to design the CX upstream, NRI consulting has an advantage that delivers significant differentiation.

Q. Please tell us your sales forecast for shared online services.

A. We are aiming to grow the number of companies that use shared online services, and are also forecasting increased profitability for this year.

The for-pay model for shared online services has both a fixed portion and a metered portion that depends on daily transaction volume and asset balance, etc. As the weight of transactions in the market by individuals has been decreasing in recent years, increases in transactions have shown not to be directly linked to profitability for NRI.

THE STAR has roughly a 50% market share when calculated based on number of accounts, and while there is some room for growth it will not be easy for I-STAR and P-STAR to attain a larger share than what they have now.

Q. As shared online services expand, are you considering any new services?

A. Shared online services are focused on finance, but we are working to offer utility services that provide peripheral operations for shared online services in bundle format.

Q. Having shared online services is a reason NRI has high gross profit per-person. Can you also maintain the profitability of shared online services into the future?

A. NRI is engaged in ongoing efforts to improve productivity, including the establishment of Systems Development Innovation Division and standardization of development frameworks and platforms.

At the same time, while we do not believe that substitute services for shared online services will appear over the next four to five years, there are risks of increases in other needs. For example, demand could shift away from NRI private cloud and toward public cloud. To address such a risk we work every day to maintain a high service level for the NRI private cloud, to consistently maintain a superior service level.

Also, in the existing systems integration model, when systems built to be on-premises are shifted toward packages or the public cloud, lots of the profitability earned in the maintenance stage is lost to external parties. In order to combat such trends we need to generate new value, such as using algorithms and business model patents created by NRI analytics as weapons to safeguard our business in systems construction and management.

(Industrial IT Solutions)

Q. Developing large-scale clients is one of the pillars of the Medium-Term Management Plan. About how much of the increased profitability in Industrial IT Solutions in FY March 2018 can be attributed to efforts in this area?

A. It is difficult to explain this quantitatively. As our Prime Account Strategy, the previous CEO and I (Shingo Konomoto) have been pushing forward with development of large-scale clients since 2009. Our reasoning was that we felt the business and IT of companies would be indivisibly linked together in the future. If business and IT are separate, NRI IT solutions divisions can only engage in sales with the information systems departments of our clients.

However, when the business model itself is achieved through IT, the CEO must

also have an interest in IT. We think that in these cases we can earn an even higher level of clients' trust by comprehensively supporting their CEOs, business departments, and information systems departments through the joint efforts of our consulting and IT solutions divisions working together. Also, if we provide support for client business departments starting in the business planning stages, we can be involved before these turn into IT investment projects in their information systems departments.

With this policy we have amassed increasing numbers of large-scale projects since around 2010, and many of the Industrial IT Solutions projects since that time are results of this policy. We believe the results of our Prime Account Strategy are likely one of the reasons we are more advanced than other companies in the industrial field.

Q. The effects of increased profitability from multiple clients factor into higher profitability in Industrial IT Solutions, but about how much of this can be attributed to clients targeted by the Prime Account Strategy?

A. Increased profitability in Industrial IT Solutions is the accumulation of increased x profitability spanning a wide range of industry types and clients. Among these are multiple clients targeted by the Prime Account Strategy.

Q. Does the Prime Account Strategy aim to expand the areas that NRI handles among the businesses of each targeted client?

A. Yes, precisely. In the industrial field, product development and sales processes are different for each client. This means we deal with client companies on an individual basis, but bringing in all kinds of business deals from all clients can result in us doing business with competitors of clients, which would reflect poorly on us. For this reason we would like to expand our business dealings with the leading companies in each industry.

Q. What is your medium-term forecast for profit margin improvement in Industrial IT Solutions? Among Financial IT Solutions and Industrial IT Solutions, which has more potential for profit margin improvement?

A. In Industrial IT Solutions we are working on initiatives to establish a structure of specializations for maintenance projects, which would enable us to have a single structure for handling multiple projects. We are also working to establish

common access to our partners and thus raise efficiency. We also want to pursue profitability improvements such as gaining client recognition for NRI-developed applications and being compensated for them, like the example of NRI-owned algorithms which I mentioned before.

In Financial IT Solutions there is potential for improved productivity in shared online services, but we believe there is more improvement ahead in Industrial IT Solutions.

Q. Are you making efforts to allocate equal levels of resources as Industrial IT Solutions brings in lots of orders?

A. We believe that currently our rate of resource utilization is quite high. It would even be difficult to take on all the orders we are getting, so we are organizing our efforts. This includes deciding which projects are higher priority through business discussions with our clients.

Q. If you pick and choose your projects, is there a chance that other companies could end up taking away some of the orders?

A. There are likely some cases in which other companies end up taking away orders for projects when NRI is unable to handle all of them. However, taking on more orders than we can handle presents the danger of stretching our resources thin, producing unprofitable projects, and resulting in losses. Management therefore needs to exercise control over these circumstances going forward. We believe the current status of orders is appropriate.

Q. Please tell us what your expectations are for KDDI Digital Design.

A. It just launched operations in January 2018, and we believe it will contribute to performance in the subsequent Medium-Term Management Plan. We believe there will be a wide variety of projects, including BiT projects that combine the Next-Generation Network and IoT technology of KDDI with NRI's strengths in consulting and systems solutions, in addition to business that utilizes the balance sheet advantages of both companies.

Q. Are there high expectations for the Next-Generation Network?

A. Since the speed of uplink channels is faster, we believe 5G (fifth-generation wireless systems) enables applications and types of uses that had never been

possible before. This includes the possibility of remote real-time operations. I believe we will be able to create all kinds of use cases, starting with IoT utilizing the network of KDDI and the business consulting and IT solutions of NRI.

(BiT, DX, and Digital Business)

Q. Is there any information which can help us understand the size of the impact of DX-related projects, which are driving higher profitability in Industrial IT Solutions? Perhaps the number of clients for DX-related projects?

A. Each company has its own definition of DX-related projects. At NRI, we want to work towards being able to disclose our volume of BiT-related projects.

For industrial, as the integration of internet, the physical world, and logistics has advanced, there has been continued competition over ideas to decide industry structures 10 years into the future. During this period of transition there are cases where laboratories are being opened to collectively study business models 5 to 10 years into the future and how IT can turn these into reality. Lots of IT investment budget is being directed toward BiT, as CiT is replaced by public cloud and packages.

Q. Is there stiff competition for BiT business area?

Also, if you get an order for a consulting contract can it also lead to an IT solutions order without dealing with competition? Or are there cases where another company gets the IT solutions order even if you are providing the consulting?

A. There is indeed stiff competition for BiT business area, and also still relatively few of such projects in proportion to overall IT investment. Particularly in the field of finance there are lots of projects that only involve start-up companies setting up API connections for financial institutions, and have not reached the level of significant IT investment.

At the same time, FY March 2018 was our first year with BiT in the industrial field. The majority of projects in FY March 2017 were Proof of Concept (PoC; demonstration testing). Investment began in FY March 2018 and the market has grown rapidly.

Having consulting departments gives NRI an advantage over other companies, but competition is fierce. Landing IT solutions projects is no easy task. Currently

there are many cases where we receive orders for BiT projects from existing clients with whom we have received orders for CiT projects. When receiving new orders from new clients for BiT projects, some aspects also require prior investment on the NRI side. We will work on the things for which NRI can be expected to have an advantage, while searching out the path to future profitability.

Some BiT projects turn into continuous business due to prior investment by NRI, and use of NRI business model patents. Also, to support our sales environments NRI is designing algorithms to be used when sales reps are interfacing with clients, to show on computer screens how the sales proposals are tailored to client needs. With efforts such as these, NRI is generating stable profitability.

Internally we are working on initiatives to share winning expertise from BiT projects such as these throughout our organization.

Q. Do you have lots of business model patents and original algorithms?

A. We still do not have that many. FY March 2018 was our first year with DX, and there will likely be more going forward.

Q. For BiT projects in the industrial field you probably need human resources with expertise in the industry and the clients involved. How do you go about acquiring these human resources?

A. I think every company is contending with the same reality that there are simply not enough human resources who deal with BiT in the industrial field. This year we are moving forward with construction of our analytics knowledge center, and building up a variety of analytics knowledge.

We are also setting up an internal certification system for data scientists, and dedicating effort to the development of human resources.

Q. Will business be structurally changed as a result of digital?

A. Digitalization is advancing very quickly in the industrial field in particular. One example of this is how the integration of internet, the physical world, and logistics is advancing, and in the future we will see large companies competing fiercely across industries. Clients feel a strong sense of urgency that if they do not get on board with this, they will get left behind.

This applies not only to B2C, but also B2B. We want to conceptualize the future alongside our clients, and use IT to help turn it into reality. I believe there is considerable demand for this.

(Global Business)

Q. You have been establishing business outside of Japan through M&A, mostly in Australia. Will there be even more M&A?

A. In Australia we acquired ASG which has its strength in IT infrastructure. We then acquired SMS, whose strength is in applications. PMI has also progressed successfully, so profitability is also up. Even factoring in goodwill amortization expenses, we have reached the stage where we can expect these to contribute to profitability.

We are forecasting business growth in Australia to contribute to overseas sales, including a large government-related projects (reported in a news release dated April 4, 2018) for ASG which has been reborn after the merger. As for additional M&A in the Australia region, there is nothing to report at this time. If we come across any promising opportunities going forward, we would like to pursue them.

Q. You are forecasting overseas sales to increase 20 billion yen this year. Please tell us about your approach to the organic growth of overseas business.

A. In Australia, ASG has been reborn through its acquisition of SMS and has already produced orders for large-scale projects. We see its growth going forward to be natural, and not due to any temporary factors. We expect overseas growth to be largely driven by business in Australia.

(Future Growth Forecast)

Q. Do you expect the organic portion of forecasted growth to maintain the same growth rate beyond the forecast for this year?

A. From discussions with clients, we get the impression that it would be hard to imagine any changes in the business climate next year. There may be demand spikes ahead of consumption tax increases, and investment restrictions after the tax increases in areas such as logistics.

In terms of external sales for each type of service, consulting services performed well the previous year, which includes upstream process projects in Financial IT Solutions and Industrial IT Solutions in addition to sales in the

consulting segment. Since some of these projects are linked to development processes, we can see this as an advance indicator of future performance. Since these numbers are strong, we also believe that the future prospects are good.

Q. When thinking about the five years to come, do you have a strategy that aims to maintain gross profit per-person and grow in scale, or is your strategy to further increase gross profit per-person?

A. Partner companies and other entities with different productivity levels have been incorporated into the group in recent years, and since these have impacted our consolidated numbers we do not really see these numbers as having significance. Our strategy is to continue improving added value on a per-person basis for the main body of NRI and a handful of core companies.

Q. NRI will likely need growth in global business and the new area of BiT to achieve the Vision 2022 target of 100 billion yen in operating profit. How will you achieve this?

A. BiT projects are increasing drastically, and many new Industrial IT Solutions projects are BiT-related. In the next Medium-term Management Plan there will likely be even more BiT projects and higher profitability.

Globally, in Australia we have now reached the break-even point for operating profit after amortization of goodwill, and believe our business there will soon be contributing to profitability. At the same time, the Australian economy is volatile, so we think it would be risky to depend too heavily on profitability there.

We believe that Financial IT Solutions will contribute to profitability, as the more that clients crack down on costs, the more demand there will be for use of NRI shared online services. Also, while we have a large number of maintenance projects in shared online services, there is potential for these maintenance operations to be made more efficient. We will be working to share development frameworks and multiple platforms for shared online services, among other efforts, mainly involving the Production Innovation Division.

We believe that with efforts such as these we will achieve 100 billion yen in operating profit.

(Capital Policy)

Q. In terms of capital efficiency, Vision 2022 sets a target of 14% for ROE, but could you tell us your expectations for ROE in the medium- to long-term as an extension of the current business model? In terms of the balance sheet, you are also recording extraordinary gains and selling off share cross-holdings, but please tell us your policy for these. Additionally, please also share your idea of the indicative capital cost.

A. NRI has set and achieved targets that aim higher than the average for listed companies. We will continue seeking levels that exceed the market average.

In terms of the balance sheet, our cash position secures the amount required for near-term measures plus two to three months' worth of sales as a consideration for the leeway we need as a company that supports financial infrastructure. We have incorporated capital cost and operating margin into the evaluation process for business assets, and are using it for investment cases such as M&A. As for debt, we seek a debt/equity ratio of 0.1, with the intention of maintaining a healthy balance sheet.

Q. As the ratio of stable business increases, will you make any revisions to this policy of holding on to around two to three months' worth of sales?

A. NRI Financial IT Services form the infrastructure that supports capital markets in Japan. There can be no stoppages to the business operations of our clients, even if a major disaster were to occur. Our policy to maintain around two to three months' worth of sales in the form of cash is based on our approach to keep enough cash on hand to continue providing services even if such a disaster were to occur. While this policy may possibly be revised in the future, for the time being it will stay the way it is.

(ESG Activities)

Q. To what degree are you factoring ESG activities in to current management?

A. Inherently, ESG must be inextricably linked to growth strategy in order to have any meaning, and cannot exist on its own. Community service has been part of NRI since our establishment 50 years ago. The desires to make strong, meaningful proposals for society and to help drive innovation in society by providing IT services no company can imitate are already rooted in our employee DNA along with increasing our sales and profitability.

As for how we can convert this DNA and our corporate philosophy into our growth strategy, we would like to make the outside world aware of the role ESG plays in the next Medium-term Management Plan. This would include setting KPIs for ESG. Promoting ESG will help us maintain our competitive advantage. If this were not the case, there would be no point in promoting it.