

Nomura Research Institute ESG Briefing Q&A Session

February 21 (Thu), 2019 Nomura Research Institute Tokyo Headquarters

Q1: In his explanation of the corporate philosophy, I was impressed by what the CEO Mr. Konomoto had to say about sustainability management adapted to today's era. How then are you going about instilling this philosophy internally, including at group and global companies?

A1: NRI has two types of worldwide offices—those that were opened through expansion from Japan, and those that were added to the NRI Group through M&A. Some of those added through M&A are large companies that were previously listed on local exchanges and have their own philosophies and governance systems. We coordinate with offices such as these on a management level, but we prefer to respect the local way of thinking so they can manage in a way that is rooted in their communities. On the other hand, for offices opened through expansion from Japan we regularly arrange forums to gather the general managers and communicate our corporate philosophy and management policy to them. Currently global accounts for 10% of our sales, but if that ratio increases going forward we will need to be instilling our philosophy in ways that are more suitable for the people making those sales happen. In training sessions for newly-appointed directors and in executive officer training we set things up to provide thorough understanding of our philosophy as well as our 50-year history. We have also conducted events such as town meetings with enthusiastic employees in their early thirties who are in a position to bridge gaps between younger and older generations of employees. These are places for free and open discussions, where participants also share anecdotes and examples of things that happened in the company. Even the president himself gets directly involved.

Q2: What is your stance on doing things such as linking non-financial KPIs with human resources evaluation systems?

A2: At this point in time we do not directly link non-financial KPIs with human resources evaluation systems. They are mainly used in evaluations and performance measurements for directors, and in financial indexes. At NRI our business itself is directly connected to social value, so our financial KPIs and non-financial social value KPIs may not be entirely different. However, in the future I would like to consider changes such as linking non-financial KPIs to human resources evaluation systems.

Q3: You have declared your support for the TCFD, but what exactly is the situation right now with environmental governance? Recently, more companies have been getting

environmental experts involved and establishing forums such as sustainability committees to discuss environmental issues. If you support the TCFD you need to have stronger environment-related governance, but what are you looking to do about that now and going forward?

A3: Our Sustainability Activities Committee is comprised of directors and experts from the Consulting Division as well as those with responsibility and in charge at our data centers—which consume large volumes of electric power, as well as members of the Sustainability & Responsibility Group. To be able to handle a wide range of matters the committee also includes staff from the Personnel Department, the Administration Department, and the Corporate Communications Department. We have also established a setting for discussing value co-creation which our Japan President & CEO Shingo Konomoto touched on today, as we have established a Social Value Creation Committee which is comprised mainly of the eight directors who are in their second and third years in office. This announcement today comes after lively discussions in as many as 16 meetings per year. Also, over the last four to five years we have brought in overseas ESG institutional investors, overseas experts, and people from international NPOs to engage in dialogues. This has yielded a wealth of different opinions and advice. TCFD is considering putting together a discussion group for debating anticipated social issues in the future.

Q4: I believe that NRI will be able to balance its growth with efforts to solve social issues such as restricting CO2 emissions and reviewing the use of renewable energy at data centers, but do clients actually support NRI's efforts from the perspective of CO2 emissions reduction? Or are increasing numbers of them concerned about this? What kind of reaction are you seeing from clients?

A4: We are not working on these activities together with client companies yet. For now, we are watching their movements. As for the use of renewable energy, we are thinking about measures such as the issuance of green bonds. It would be good if we could look into frameworks such as these and eventually work on them together with clients. However, renewable energy is currently expensive to buy, so that is not quite possible. We have a forest development program that we are conducting in Tadami, Fukushima Prefecture, and if the future brings technologies and mechanisms that enable us to directly purchase electricity from the Okutadami Dam, we would like to do so. We want to do these things the way IT companies do, getting involvement from all parties concerned.

Q5: You should put some sustainability-related weighted targets into the Medium-Term Plan, perhaps in the form of long-term incentives in the director compensation system. More and more leading companies are doing things that way. If you are going to hold ESG

briefings and make commitments, you can show that you are a lot more serious if you have non-financial targets in addition to financial ones. You may have planned your briefing to match the timing of joining the RE100, but hopefully you will be able to hold briefing sessions such as this on an ongoing basis and explain the changes from year to year as well as efforts planned for the future.

A5: In Japan, Omron is a company that has linked non-financials to their director compensation system. Their system has an independent audit function that is separate from execution of sustainability under the Board of Directors. However, you have to do a lot of preparation and posturing before you can work on implementing a system such as this. We are looking into this, using advanced companies such as Omron as references.

Q6: For TCFD “risks and opportunities” you performed scenario analyses using 2°C and 4°C scenarios. I felt that it is extremely difficult to do a financial impact analysis from these. You now intend to take this a step further next year with disclosures. To what extent will you be looking into business impact and financial impact?

A6: Currently we are internally discussing whether to go as far as financial impact, or to stop at dividing impact cases into “improves/worsens,” but it will take some time. At the moment it would be unlikely that we could immediately go as far as financial impact, but we plan to make improvements at our annual ESG briefings. Our data centers are on hills and are not very affected by natural disasters and the like, but if you expand the scope to look at the entirety of our supply chain and value chain, there are quite a few possible scenarios. We are thinking about how we should disclose this. Please consider the information today to be part of a step-by-step approach.

Q7: Please tell us about governance at NRI, particularly as it applies to human resources. I believe that NRI is generating high returns by reputation and thanks to a differentiation strategy supported by an unwavering pursuit of quality and strong quality awareness. At the root of all this are human resources. In the upcoming Medium-Term Plan, it looks like you intend to increase new graduate hiring, double mid-career hires, and continue acquiring overseas companies. This will make your human resources quite a bit more diversified. What mechanisms and organizational knowledge are you emphasizing in order to grow the company while maintaining its strong corporate culture?

A7: We have been working on overseas M&A and other global business over the past three years, and we have come to realize that values are different in Japan than they are elsewhere. All we can do is get as much different experience as possible through each individual business deal and share that experience attentively.

This year we started holding diversity and inclusion training sessions for internal department heads, managers, and GMs. We invite instructors from outside the company,

and form teams between people who have different values to discuss matters such as team management, in order to generate a variety of new ideas never thought of before.

To grow one size larger as a company, NRI needs to bring together diverse people to generate innovation and turn new ideas into new business, but right now there is not enough of that happening. We are interested in conducting cross-organizational activities geared toward knowledge sharing, while also at the same time conducting grassroots activities.

Our first diversity activities were around ten years ago when we launched efforts mainly to promote women's participation and advancement in the workplace. Since that time our activities have come to include a wider range of diversity, including global and work style perspectives. This year we will be doing even more to create an environment that accepts people with diverse values and helps them to thrive, based on the ideas of diversity and inclusion.

Our employee compensation system also now looks at not only per-person operating profit, but also emphasizes whether or not the added value (calculated by adding back labor and depreciation cost to operating profit) of each individual employee increased. This keeps us from putting too much emphasis on short-term profits and falling behind on investments in human and fixed capital. In the future we would also like to consider possibly adding evaluations of ESG-related activities.

Q8: Did you apply your director compensation system to executives, or to Members of the Board? Also, please tell us what kinds of discussions you are having about whether or not to implement this structure in the future for those other than senior managing directors, such as middle management.

A8: Practically it would be quite cumbersome to expand the application of this system to employees, so we are applying the restricted stock option compensation plan to Members of the Board other than outside directors, senior managing directors, and managing directors (an executive compensation package). For employees including middle managers we implemented a compensation structure called E-Ship (a trust-type employee stock ownership incentive plan) in 2011, and it is currently being applied to at least 70% of all employees. The applicable period for E-Ship is set to match the duration of the Medium-Term Management Plan, so the plan enables employees to see things from the same perspective as shareholders while doing what they can to raise our share price over the course of the plan.

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