ESG Briefing
NRI's Governance System
to Support Sustainability Management

Feb. 21, 2019

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Share the Next Values!

Contents

Approach to corporate governance

- **ESG contributes to medium to long-term corporate value**
  - ✓ Non-financial data is medium to long-term

- **G (governance) supports E (the environment) and S (society)**
  - ✓ Governance creates the capability to deal with changes in the environment

- **The Board of Directors is the "pillar of governance"**
  - ✓ Balances executive, non-executive, and external; possesses expertise and diversity

- **Governance that values system quality, intellectual property (IP) and human resources**
  - ✓ The sources of competitive advantage in consulting and IT solutions

1. Corporate governance transition in the NRI Group

Promoting continuous governance reform

Fiscal year	Mar '09	Mar '10	Mar '11	Mar '12	Mar '13	Mar '14	Mar '15	Mar '16	Mar '17	Mar '18	Mar '19
Long-term management vision	V2015 (Initial disclosure)										
								V2022			
Medium-term Management Plan									Current medium-term plan (Initial disclosure)		
Corporate Governance guidelines								Enacted (Starting Oct 2015)			
Organizational design	Company with an Audit & Supervisory Board										
President (CEO)	Fujinuma (started Apr 2002)	Shimamoto (started April 2010)							Konomoto (started April 2016)		
Board of Directors Chairperson		Selected from among non-executive directors (separate supervisory and executive functions)									
Number of directors *1	11	11	11	10	8	9	9	10	10	9	7
..of whom are independent outside directors	2	2	2	2	2	2	2	3	3	3	3
..of whom are female directors								1	1	1	1
Compensation Committee	Established (Starting FY March 2006)								Reorganized (Independent outside directors became the main members)		
Nomination Committee									Newly established (With independent outside directors as the main members)		
Independent Directors Meeting								Newly established			
Board of Directors effectiveness evaluations								Implemented			
Cross-shareholdings (listed companies)								Reduced from stock in 19 companies (end FY March 2015) to 15 companies (end FY March 2018) after enacting corporate governance guidelines *JAFCO, Takagi Securities, etc.			

*1 Number of Board of Directors members for the fiscal year is as of the time that the General Meeting of Shareholders concludes

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2. Overview of the NRI Corporate Governance Guidelines

3. Specific efforts

2. Overview of the NRI Corporate Governance Guidelines
Valuing cooperation with each stakeholder, including shareholders

Chapter/Article		Main features
Chapter 1 (Articles 1-2) Basic approach		・ Working to improve corporate governance according to a basic approach of cooperation with stakeholders, information disclosure and communication, and a corporate governance system
Chapter 2 (Articles 3-8) Cooperation with stakeholders	Internal	・ Instill our Corporate Philosophy, Code of Business Principles, and Code of Business Conduct ・ Pursuing ongoing awareness and compliance through awareness surveys (Example: Distribute "Rule Book" to all directors and employees, spread awareness through e-learning)
	Shareholders	<u>Basic Strategy for Capital Policy</u> 　・ Maintain sufficient shareholders' equity to support growth investment and reasonable assumption of risks 　・ Profitability: Focus on operating profit and operating cash flow 　・ Capital efficiency: Emphasize ROE, strive to grow earnings per share 　・ Shareholder returns: Basic policy to provide stable dividends according to consolidated dividend payout ratio <u>Basic policy on cross-shareholdings</u> 　・ Held on a limited basis when decided that they contribute to increasing the corporate value of NRI
	Environment・Society	・ Engaging in "NRI Green Style" activities according to the NRI Group's Environmental Policy ・ Help reduce environmental footprint through the provision of services and strategic proposals (Example: Disclosing environmental targets) ・ Considering the environmental impact of production activities and processes (Example: CSR study sessions with partner companies, etc.)
	Clients	・ Build trust with clients through the provision of services (Example: Conduct client satisfaction surveys)
	Diversity	・ Ensure diversity of human resources, respect individual personalities and human rights, provide workplace environments where each person can demonstrate their own capabilities (Example: NRI Women's Network, NRI Mirai, Office relocation)
	Corporate pension	・ Regularly monitor status of operations at investment institutions and of activities carried out under the stewardship code

Enacting ongoing reforms to disclosures, the Board of Directors, executive compensation, and more

Chapter/Article		Main features

Chapter 3 (Articles 9-10)
Disclosures and communication
		· Provide appropriate disclosures of financial and non-financial information
		   (Examples: Disclosure of Medium-Term Management Plan, improving content of the Integrated Report, ESG Databook, and financial results briefing materials, etc.)
		· Improve communication with shareholders
		   (Examples: Participation by senor management in IR activities, promoting fair disclosures through our website, etc.)

Chapter 4 (Articles 11-27) Corporate governance system	System	· Company with an Audit & Supervisory Board
	Board of Directors	· Elect at least two independent outside directors, three in principle · Board of Directors members are chosen taking into consideration balance and diversity of factors including experience and knowledge in the company's business, corporate management, IT, and corporate finance · Non-executive directors are employed in order to facilitate separation of business execution and oversight · Evaluations of the effectiveness of the Board of Directors are conducted, which are then used to improve its operations
	Audit & Supervisory Board	· Half of the board is comprised of outside Audit & Supervisory Board members, and at least two independent outside audit & supervisory board members are elected
	Nomination Committee	· Main members are independent outside directors · Actively involved in planning and properly supervising the succession plan for the president (Example: In FY March 2019, initiated serious discussions for the CEO succession plan)
	Compensation Committee	· Main members are independent outside directors · Incorporates remuneration according to business performance and stock compensation that serves as medium to long-term incentives (Example: In FY March 2019, implemented a restricted stock option compensation plan)
	Internal controls	· Operate appropriately according to the Basic Policy Regarding Construction of an Internal Control System

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NRI corporate governance system

- Emphasize dialogue with shareholders, diverse perspectives, and visualization of management

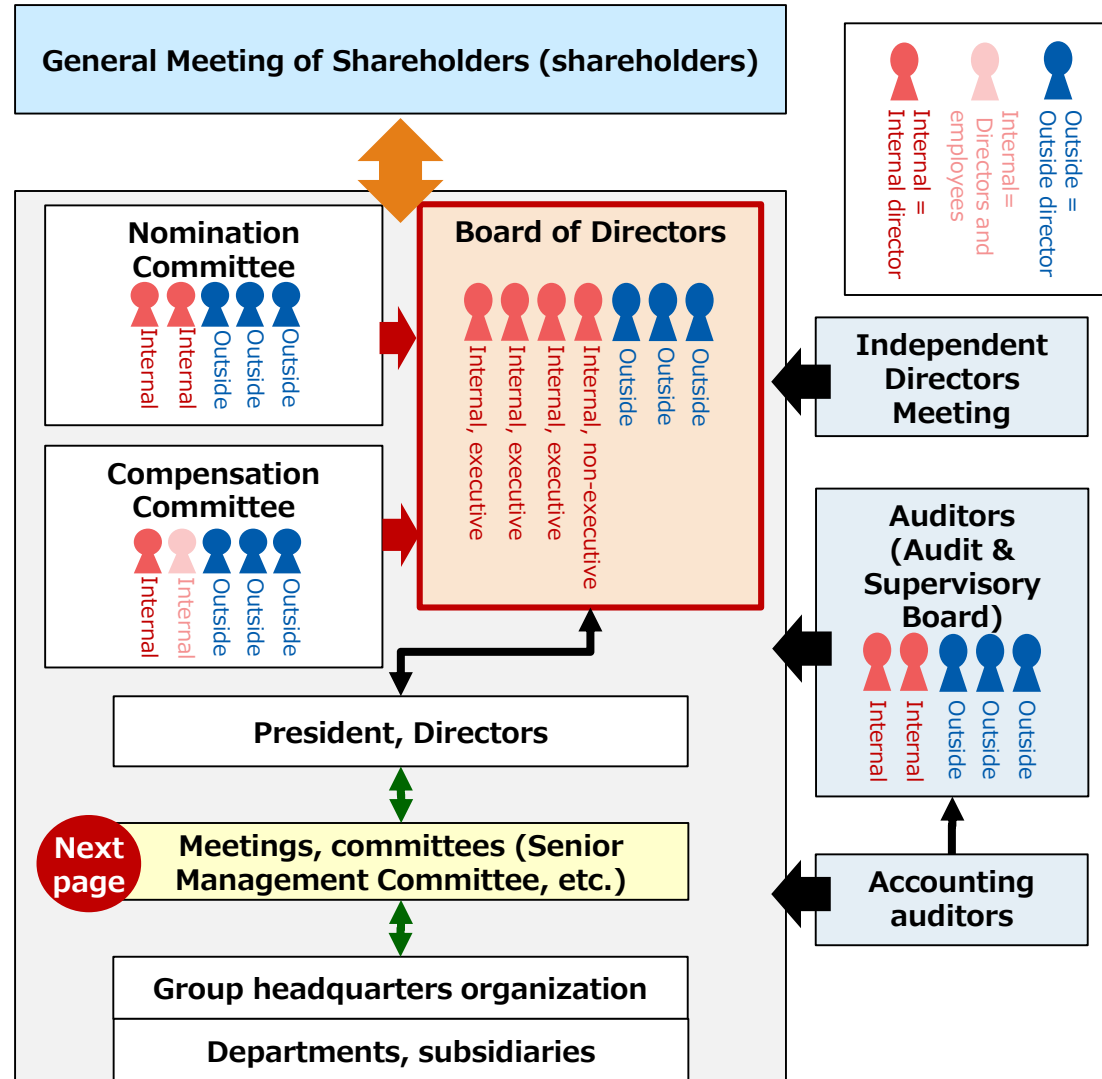**Manage in a transparent, disciplined manner through dialogue with shareholders**
- Tradition of top management being involved with IR activities
- Disclosing goals in the medium-term plan and being committed to achieve them

Incorporate diverse perspectives by balancing executive, non-executive, and external
- Value the expertise of outside directors
- Utilize advisory committees (succession plans, director compensation systems, etc.)

Instill strategies and visualize management by rolling out balanced scorecard (BSC) company-wide
- Use BSC to instill strategies, manage KPIs and processes through PDCA

General Meeting of Shareholders (shareholders)

Nomination Committee
Internal / Internal / Outside / Outside / Outside

Compensation Committee
Internal / Internal / Outside / Outside / Outside

Board of Directors
Internal, executive / Internal, executive / Internal, executive / Internal, non-executive / Outside / Outside / Outside

President, Directors

Next page — Meetings, committees (Senior Management Committee, etc.)

Group headquarters organization

Departments, subsidiaries

Internal = Internal director
Internal = Directors and employees
Outside = Outside director

Independent Directors Meeting

Auditors (Audit & Supervisory Board)
Internal / Internal / Outside / Outside / Outside

Accounting auditors

3. Specific efforts

Emphasizing systems quality, intellectual property (IP), and human resources in executive matters

■ Driving business through meetings and committees for the key topics of systems quality, IP, and human resources

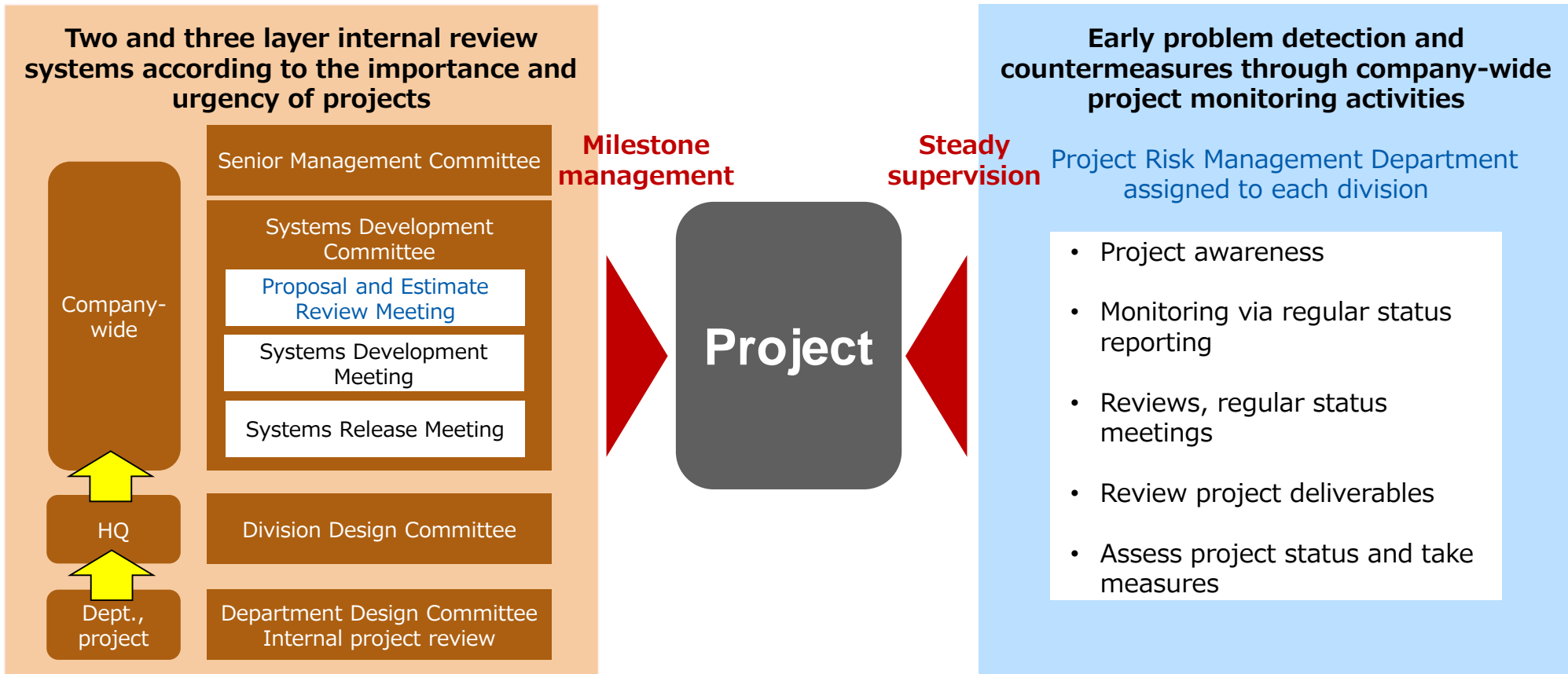| Name of meeting or committee	Role of the meeting or committee
Senior Management Committee	• Deliberates on important issues involving general management of the company, and reaches consensus on business execution
Crisis Management Committee	• Promptly puts systems in place and provides support in times of crisis
Integrated Risk Management Committee	• Deliberates on important issues concerning risk management for the NRI Group
Compliance Committee	• Deliberates on important issues related to ethical and compliance management, such as establishing structures for ethical, legal, and regulatory compliance, and preventing the recurrence of violations
(Quality) Systems Development Committee	• Deliberates on important issues concerning proposals and quotations to clients for IT solution-related systems, and on the systems development and releases
(IP) Business Development Committee	• Deliberates on important issues related to research and development, planned business, acquisition of securities, etc. • Deliberates on important issues concerning proposals including proposed alliances with other companies, etc.
(Human Resources) Human Resources Development Committee	• Deliberates on important issues concerning employee hiring, skills development, and training
Disclosure Committee	• Deliberates on important issues concerning disclosure of the Annual Securities Report and other documents
Business Promotion Committee	• Shares information and coordinates to innovate and evolve operations at headquarters and in business divisions/departments

The quality supervision framework that supports "NRI Quality"

■ Outstanding personnel from each division are assigned to quality supervision (those whose presence is "feared" at the worksite)

■ In recent years the focus has been on supervising the proposal and quotation stages, as well as early risk detection and early countermeasures

NRI project supervision activities

Two and three layer internal review systems according to the importance and urgency of projects

Company-wide

Senior Management Committee

Systems Development Committee

Proposal and Estimate Review Meeting

Systems Development Meeting

Systems Release Meeting

HQ

Division Design Committee

Dept., project

Department Design Committee Internal project review

Milestone management

Project

Steady supervision

Early problem detection and countermeasures through company-wide project monitoring activities

Project Risk Management Department assigned to each division

- Project awareness

- Monitoring via regular status reporting

- Reviews, regular status meetings

- Review project deliverables

- Assess project status and take measures
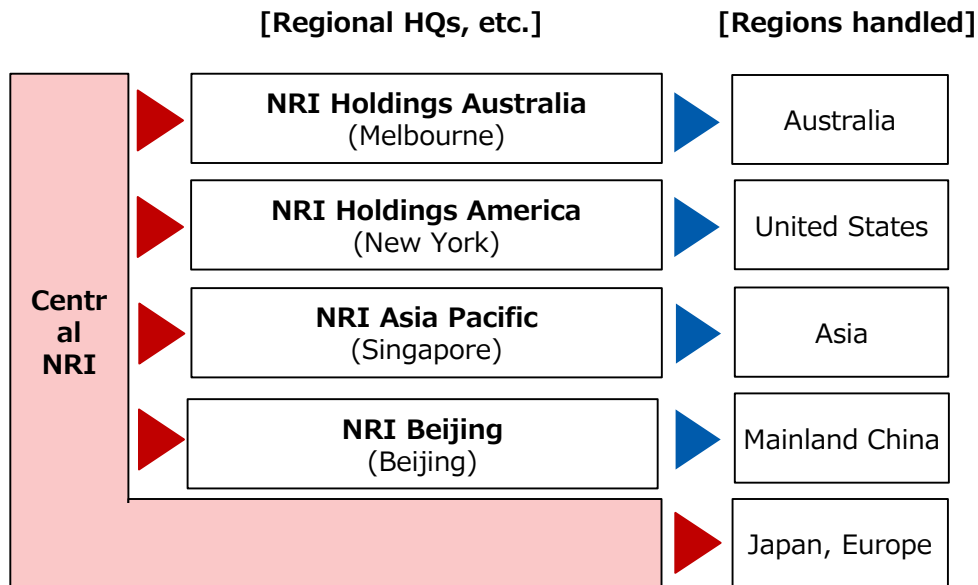
Global governance is increasingly important

- Now with operations at 42 locations in 14 countries and regions (as of April 2018), strengthening global governance is an urgent concern
- For acquired subsidiaries, we emphasize communication with their core personnel while basing control in the Board of Directors
- Instilling group policies through regional headquarters and other local entities, while reviewing IFRS implementation to manage business according to global standards

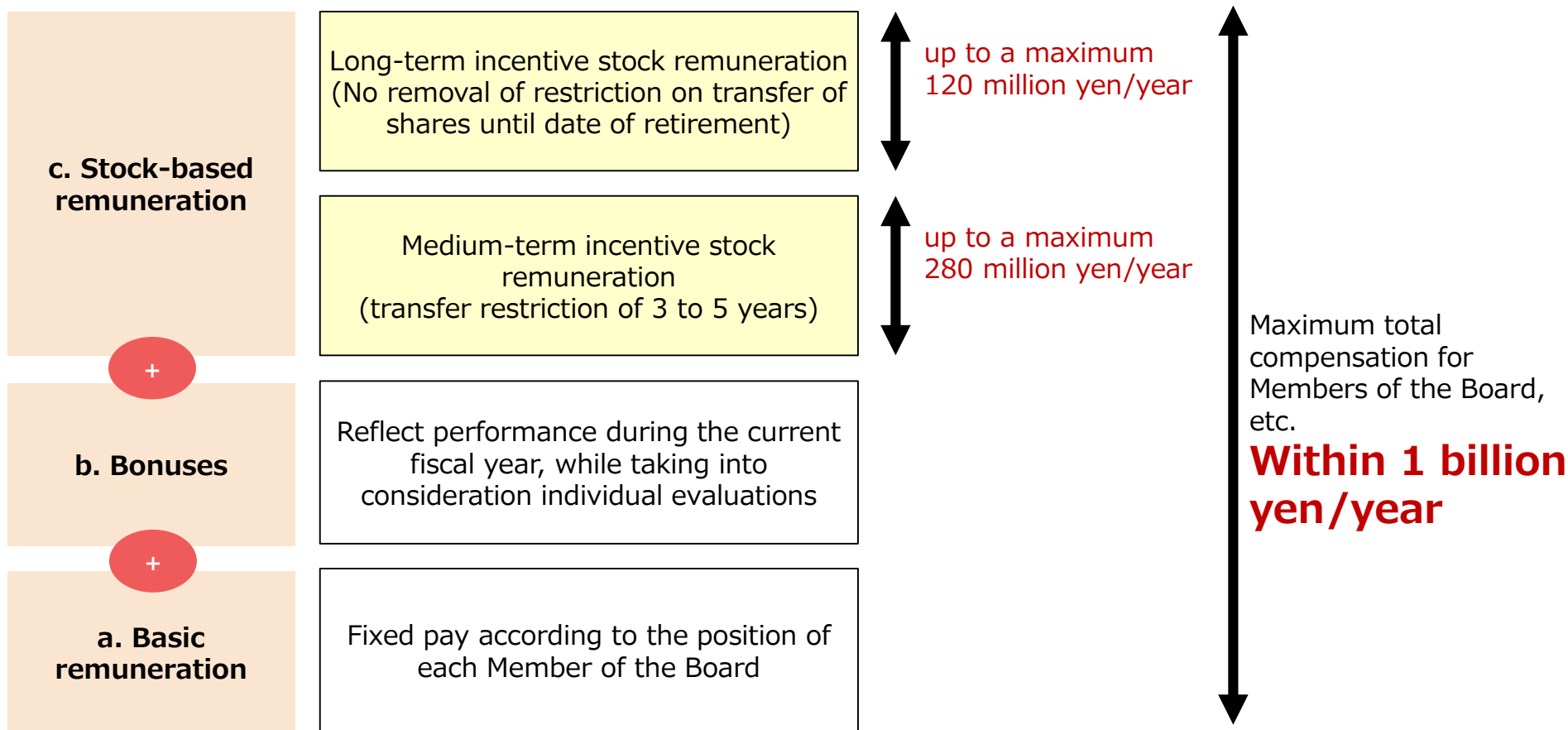## Business management through regional headquarters, etc.

[Regional HQs, etc.]   **[Regions handled]**

Central NRI

NRI Holdings Australia (Melbourne)	▶	Australia
NRI Holdings America (New York)	▶	United States
NRI Asia Pacific (Singapore)	▶	Asia
NRI Beijing (Beijing)	▶	Mainland China
	▶	Japan, Europe

Major recent activities

Category	Some activities under way
Legal and regulatory compliance	· Instilling policies on corruption · Action to address enactment of GDPR · Addressing modern slavery laws in each country (Australia, etc.)
Controls	· **Reviewing IFRS implementation** · General inspections of project process management (from quotation to recovery) at each location · Division of duties between headquarters and acquired companies for internal audits, and relevant personnel training · More sophisticated client management (credit screenings, etc.) at each location
Quality control	· Understand information security risk

Officer compensation system to have Members of the Board on even ground with our shareholders

- To facilitate an even greater level of value sharing between Members of the Board and our shareholders we have abolished our previous stock option system and introduced a restricted stock compensation plan

c. Stock-based remuneration

Long-term incentive stock remuneration
(No removal of restriction on transfer of shares until date of retirement)

up to a maximum 120 million yen/year

Medium-term incentive stock remuneration
(transfer restriction of 3 to 5 years)

up to a maximum 280 million yen/year

+

b. Bonuses

Reflect performance during the current fiscal year, while taking into consideration individual evaluations

+

a. Basic remuneration

Fixed pay according to the position of each Member of the Board

Maximum total compensation for Members of the Board, etc.

Within 1 billion yen/year

NRI 未来創発

Dream up the future.