



Nomura Research Institute Group

Nomura Research Institute ESG Briefing Sessions Q&A (Overview)

Conducted at Nomura Research Institute, Ltd. Headquarters/online, February 22, 2023(Wed)

First Inquirer

Q1: My understanding is that the most recent wage growth shown on page 15 of "Human Capital Management at the NRI Group" is at a high level since it includes promotions and pay raises. There is some discrepancy from the wage growth shown in your Annual Securities Report, but what is the reason? Is it because your wage growth is actually remaining at a level close to that shown in the Annual Securities Report if promotions and pay raises are excluded?

A1: The average annual salary in the Annual Securities Report is the average amount of monthly salary and bonuses paid each fiscal year.

However, the most recent wage growth shown on page 15 of "Human Capital Management at the NRI Group" is that of union member professionals and indicates the rate of increase in monthly salary for employees who were continuously employed the years before and after. Therefore, it applies to different people.

Q2: From FY2021 until FY2022 your past wage growth of around 6% rose to 8.7%. What was the background behind that? Wage growth has also been a trend throughout Japan in FY2023, but could you explain the movement of wage growth at NRI from FY2021 to FY2022 and then FY2023?

A2: From FY2021 until FY2022, we upwardly revised the salary table for union member professionals along with the revision of our HR system. As a result, our wage growth was also higher than most years. Our projection for FY2023 is not yet clear, but the effect of the wage growth resulting from the salary table revision will decrease, so we expect wage growth to return to a level near what it was before the HR system revision.

Second Inquirer

Q3: President Shingo Konomoto provided an explanation about "integrating V2030 with sustainability." Last year I asked for an explanation about how NRI's financial and non-financial are integrated, but how will your sustainability efforts explained in this briefing be integrated with achieving the financial targets in V2030?

A3: For the PDCA in our organizations, we formulate and operate strategy maps with Balanced Scorecard^{*1}. Until now, the highest-level targets at each division were only financial targets, but starting with our business plans in FY2023, we plan to implement a Balanced Scorecard with non-financial targets of

“social value to create” set at a level above the financial targets. Subsequently, we will operate business in a way that integrates non-financial targets such as sustainability with financial targets going forward.

We have been indicating our “3 Social Values” as a major goal throughout the company, but specific social values are defined within each division according to their business. The connection between the individual strategies (taking sustainability and our materiality into consideration) and the financial and non-financial targets is also expressed within the strategy map in each division.

Going forward, we will consider ways to make the connection between financial and non-financial elements such as these and the progress of our efforts that utilize PDCA more understandable. We intend to explain our plan all-inclusively (of financial and non-financial) at the time of the financial results briefing in April.

Q4: When discussing growth rate at NRI, you have traditionally explained “raising employee headcount by 5% and productivity by 2%, for a total of 7%.” It would be good to incorporate a human resources development scheme into V2030 that raises this growth rate. If you have any new metrics, could you explain them?

A4: In regards to the “human resources development scheme that raises growth rate” which you asked about, fundamentally we believe that we will continue increasing added value and productivity by bolstering efforts toward human capital as we have been. As a result, we will converge on a 2% increase in productivity, but we would like to be able to explain the relationship between financial targets and human capital more clearly by analyzing and looking into what type of elements are included in this 2% productivity increase. As for how to explain it, I would like to make that a discussion topic going forward.

*1 Balanced Scorecard (BSC): Business management methodology that defines company performance not only as quantitative financial performance but in a multifaceted manner, and seeks to manage these aspects in good balance.

Q5: Business in Australia has stabilized, and you will be moving on to an expansion phase in North America. Moving forward with personnel transfers and human resources development from a global perspective would probably be beneficial in becoming a global company. What efforts are you engaged in from that standpoint?

A5: We have growth through M&A of independent overseas companies in mind for our global business. We do not anticipate adopting the model employed by many Japanese manufacturers of personnel rotations that send large numbers of Japanese expatriates abroad. On the other hand, for governance and to foster mutual business understanding and synergies, we do recognize the need for personnel exchanges to send out a certain number of employees from Japan and also bring some in from overseas.

In the Medium-Term Management Plan, we are also prioritizing efforts to visualize our human resources who have a global business background, give them opportunities, and develop them.

Third Inquirer

Q6: Among greenhouse gas emissions, my understanding is that there are more emissions in Scope 3 than in Scope 1 or 2. What will you need to significantly reduce in order to reduce your Scope 3 emissions? I understand that you need significant cooperation in your supply chain, but how can that be accomplished with NRI's capabilities?

A6: As shown on page 9 of "ESG Activities at the NRI Group," setting 2019 as the base year, we recognize that around 70-80% of our 240,000 tons of overall emissions are emissions from Scope 3. Electric power used by our development partners is what we will need to reduce the most. Also, while only part of the solution, we consider areas such as hardware product procurement to be necessary factors for considering how to reduce emissions. Calculation method of Scope 3 emissions is an element that we are still studying, so we hope to increase our accuracy going forward. We consider electric power usage at the offices of our development partners to be a key point to Scope 3 reduction, and we are approaching them to make these reductions.

Q7: As a countermeasure, are you thinking of taking actions such as not giving contracts to partners who are not expected to eliminate their electric power issues? How specifically will NRI make efforts to alleviate this issue?

A7: For companies that struggle, we are promoting their understanding of reductions and helping them to draft and work toward environmental targets through workshop support and other means. Each company makes their own decisions, so we anticipate that they cannot act right away, but we do want them to take action as quickly as possible.

Currently, we are thinking about gaining the understanding of our development partners without any strong contractual conditions. However, in the future we could possibly give preferential treatment or other favorable conditions to partners who show initiative in their efforts or produce results. We cannot ask for the impossible, but we will need to accelerate their efforts if world trends change or demand for Scope 3 emissions reductions increases.

There is also the perspective that as Japan's shift to renewable energy advances, our domestic development partners will switch their electric power to renewable energy and our Scope 3 will improve on its own. While we cannot be too optimistic, we believe that could become a positive factor.

Q9: NRI serves a coordinator-like role in the GX League*2, but what do you envision NRI's role will be when the GX League goes into full-scale operation as an emissions trading market from FY2026 onward? Creating social value through business activities is a key point in NRI's sustainability management, but how are those achievements reflected in performance?

A9: The GX League will be in its experimental phase for the next three years as its system is designed. Therefore, we currently have no specific vision of how NRI will be able to get involved in the GX League once the second phase begins from FY2026 onward.

Based on the assumption that the Emissions Trading System (ETS)^{*3} will be established by FY2026, NRI is involved in designing the system for the ETS market, and we think we can also contribute to making the framework for establishing the IT platform and other aspects of ETS in the future. However, since we cannot predict what the trends will be over the next three years, we will see how things go as we consider the next steps in commercialization. We would be happy if NRI could be involved with it as a business in the future, but we cannot envision anything specific.

^{*2} GX League: A forum for companies that are proactive in “green transformation” (GX) and endorse the GX League Basic Concept announced in 2022 by the Ministry of Economy, Trade and Industry (METI) to discuss the transformation of the overall economic and social system. It is also a practical forum for creating new markets. As of February 2023, the number of companies endorsing the GX League Basic Concept was 679.

Reference URL: <https://gx-league.go.jp/>

^{*3} Emission Trading System (ETS): A scheme for trading emissions rights. Indicative of a framework for trading the right to emit greenhouse gases that cause climate change. In Europe, the European Union Emissions Trading System (EU-ETS) was introduced starting in 2005 and subsequently became a model for emissions trading systems in other countries.

Fourth Inquirer

Q10: Regarding your efforts in human resources, your engagement^{*4} score (in the employee awareness survey) differs from the industry average by three percentage points. The difference seems small, but what is your perception of this score?

There is a comparison of the average annual salaries of companies in the same industry on page 15 of “Human Capital Management at the NRI Group.” Can we assume that Companies A, B, and C in these materials are the ones to compare with for human resources acquisition? Or do you also see companies in other industries as competition in the hiring market?

A10: In our exchanges of views with the company that provides the platform for the engagement survey, they said that differences of one or two percentage points in the high-60s to 70s score range are quite significant. Overall score is not something to get too emotionally high or low about, but we would like to continue maintaining a score of at least 70 going forward.

The average annual salary graph shows the average annual salary of NRI and other companies in the same industry, but those companies are not our only competitors in the hiring market. Other operating companies and also foreign-owned companies whose annual salary data is hard to obtain could also be considered our actual competitors.

*4 Psychological state of having voluntary desire to contribute to the organization and job, and being proactively engaged in the work

Q11: NRI is engaged in forward-thinking efforts related to climate change and the environment such as Scope 3 reductions and the GX League, but what business effect do these have? Are you prioritizing social returns, and there is no business effect?

A11: Our efforts to contribute toward Scope 3 reductions through collaboration with our development partners can be considered "Contribute to global environment through collaboration with business partners" in our materiality. Although these efforts do not directly translate into achievements or performance in business, over the long term they do lead to stronger relationships with our partners. Also, when our data centers transition to renewable energy, our shared online services platforms that run on the renewable energy will be something clients who use those platforms can appeal to society with.

At the same time, our GX League efforts relate to "Co-create an ideal society" in our materiality. While we make policy recommendations and support operations of the GX League through consulting, if there are opportunities to provide business platforms beyond that, we can help to build an ideal society as social infrastructure. That is consistent with our DX 3.0 approach of "realizing our growth strategy and creating a sustainable future society."

There might not be financial achievements in the short term, but we consider these efforts to be extremely significant over the medium to long-term, and we are looking forward to showing what we can accomplish.

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