Q1: Did the system failure at the Tokyo Stock Exchange have any impact on the performance of NRI?
A1: The causes for the system failure are complex, and we are investigating them along with the securities companies who are our clients. As such, we have nothing to report at this time.

Q2: You lowered your sales forecast for the year by 14 billion yen, but is there any change to the roughly 70 billion yen in sales to Nomura Holdings which you had forecasted at the beginning of the year?
Also, it appears that the declines in sales to securities companies other than Nomura Securities during 1Q have stopped in 2Q. Is that correct?
Additionally, orders in financial IT solutions have increased overall in 2Q, but please tell us your performance forecast for the second half of the year.
A2: Considering first half performance, I think we probably will not reach 70 billion yen in sales to Nomura Holdings for the year. In past years there has been a tendency for more projects in the second half than the first, but I think for the year sales will likely end up at the 60 billion yen level.
We are also taking a conservative approach to figures for sales to other securities companies. While we are optimistic about specialty online securities companies, where investment is quite active, our overall forecast for securities is pessimistic as the downward revision to the sales forecast for the year would indicate.
Domestic orders in financial IT solutions have indeed increased in 2Q, and while performance has been down in securities, we are doing very well in insurance.
Projects that were in the upstream phase last year are moving to the development phase this year. Strong sales to major and internet-based non-life
insurance companies will likely continue into the year after next. Also, sales to major life insurers had been in continued decline but now appear to have bottomed out, and this year we have secured orders for new projects. In banking we are moving on multiple projects to overhaul core systems in Internet banking, and expect these to contribute to performance both this year and next. Therefore overall, as I have explained, insurance and banking are driving financial IT solutions.

Q3: Please tell us why profitability has improved in financial IT solutions.
A3: Since we lacked resources in industrial IT solutions where performance in terms of orders continues to be strong, starting in the second half of last year we have been shifting resources away from solutions for securities and toward industrial-related efforts. We intend to continue doing so through the second half of this year. Within the financial IT segment we are also shifting resources away from securities and toward insurance and banking, due to the favorable conditions in these two areas. We are also continuously improving productivity of maintenance work for shared online services in financial IT solutions. This has freed up extra manpower which we are diverting into growth areas. Profitability in financial IT solutions is improving as a result of all of these measures.

Q4: You expect sales to Nomura Holdings to be higher in the second half of the year than in the first, but what kinds of projects are you anticipating? Also, you have recently established the company Nvantage outside of Japan, but do you expect it to be able to produce sales figures in the tens of billions of yen and contribute to your long-term overseas sales target of 100 billion yen in the future?
A4: I cannot say anything about individual second half projects. The back office part of the Nomura Securities domestic retail business already uses THE STAR so there will not be any big changes there, but we have bigger expectations for systems integration projects arising on the topic of reforms in the second half than we did in the first. As for Nvantage, NRI does not have any previous experience in the overseas wholesale field, so we are in continued discussions with Nomura Securities about what kind of scope we will be starting from. Our plan for the new company is to start by trying things out on a smaller level, then expand things
out in larger fashion if they go well. I think the responses we get from our efforts over the first year or two will make our future direction there clearer.

**Second inquirer (analyst, attendee)**

Q1: While domestic orders in industrial IT solutions during 2Q have temporarily declined, the business environment is good and you raised your external sales forecast for the year. Please explain again whether there is any change in the current business sentiment, and whether there will be a recovery in orders during the second half.

A1: There are inquiries that we are not equipped to handle with our current resources, and business IT is in a state where overhauling front office means core systems need to be overhauled at the same time, so for now I believe we will continue to do well in terms of orders.

Q2: For which industries within industrial IT solutions are you receiving large numbers of orders?

A2: There are a lot of clients for B2C in manufacturing. In B2B, increasing numbers of wholesaler clients are feeling threatened by platform companies. Retailers and volume retailers with whom we have always had lots of business are making large investments, so we are doing well with them. Business is growing more or less evenly with clients in a variety of industries.

Q3: Is it correct to say that even if temporary factors are excluded, orders at overseas subsidiaries are trending downward? Also, sales growth and improvements to profit and loss appear to have stalled in Q2 when compared to Q1, but how should we look at this?

A3: Around 8 billion yen of the 10.8 billion yen decrease in orders for overseas subsidiaries is due to technical factors in Australia, while the remaining 2 billion yen or so is from decreases in North America. In the first half we achieved cost reduction effects as a result of shifting toward downsized staff and high-profit projects, and continued management improvements that emphasize profit margin after the integration of SMS. Going forward, there will be a time lag for when sales are recorded for the large government agency projects that we secured orders for in the first half, so we anticipate that performance will be lifted in the second half onward.

In the June financial reports, Australia also showed an increasing trend in sales.
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during 1Q (April-June). Income and expenditures were negative last year after amortization of goodwill, but this year we are expecting a plus/minus of zero for the year, and also have a forecast for how much we can add to it.

Q4: How are the capital alliances with DSB, which you had acquired in the past, and Nippon Life Insurance contributing to performance for NRI?
A4: With DSB, there is decreased revenue due to the subsidiary sell-off last year. However, we are already achieving synergies such as Dream (comprehensive online securities system business) and the work we are doing for number registration in the “My Number” individual number project, and we would like to strengthen collaboration with them even more in the future.
Our capital and business alliance with Nippon Life Insurance has produced a certain level of results in consulting for the deployment of advanced information technology, which is already contributing to performance in consulting. For the next step we hope that Nippon Life Insurance will have NRI handle its systems integration projects.

Third inquirer (analyst, attendee)

Q1: Next year you will be starting the second half of long-term management vision “Vision V2022,” but as business for THE STAR is maturing and there are not enough resources in industrial IT solutions, it doesn’t seem like you’ll be set up to achieve 100 billion yen in operating profit just by keeping things going the way they are now. Do you have any ways to boost personnel capacity?
A1: We believe the favorable business environment for industrial IT and consulting will continue over the long-term, so we would like to expand further in these areas. In financial IT there are still some major potential clients out there for shared online services (ASP services), and we would like to capture demand for investment in online securities. We can also expect business from the entry of non-finance companies into the finance business. For back office support we would like to also be able to provide partial services rather than just full line.
In terms of a business plan, operating profit of 100 billion yen is within our sights, but the biggest challenge is indeed the shortage of resources. We will be working together with our external partners, but there are some operations that our existing partners cannot cover. We are considering ways to supplement our resources, such as capital alliances with new vendors.
Q2: In terms of management approach for overseas businesses, it seems to me that they should be managed independently. It also seems best to switch accounting standards to IFRS quickly, so why is it taking so long to make this switch?
A2: We are still at the stage where our overseas sales ratio is only surpassing the 10% mark, but since we expect a higher level of growth we would like to think about having an independent segment while we also consider the timing for it. As for IFRS, we are moving forward steadily in our considerations and would like to set things up properly.

Fourth inquirer (analyst, attendee)

Q1: Unprofitable projects at Brierley+Partners were mentioned in the presentation, but how much impact do these have on performance?
A1: These do not have a major impact when looking at the NRI Group as a whole. There were small-scale system integration projects to install loyalty marketing solutions and link them to the existing systems of the clients, which exceeded their original budget and we had to cover them. However, these have already been dealt with in the first half, and the numbers will recover in the second half.

Q2: The forecast for the year includes an extraordinary gain of around 8 billion yen from the sale of investment securities. Do you think that compared to this, the upward revision to ordinary profit attributable to owners of parent of 3 billion yen is a little low?
A2: The 8 billion yen gain from the sale of securities was before taxes, while ordinary profit is recorded after taxes, so there is a difference there. Plus we had already included a certain level of extraordinary gain in the initial forecast. After subtracting these factors, the result was a 3 billion yen upward revision.

Q3: How is KDDI Digital Design progressing right now?
A3: Since it is not a consolidated subsidiary of NRI, I am afraid I cannot comment on their numbers such as sales. There are numbers that were agreed upon with KDDI at the beginning of the year, and performance there is progressing more or less according to that plan.
**Fifth inquirer (analyst, attendee)**

Q1: Please tell us how you were able to make an upward revision to ordinary profit despite the system failure at the Tokyo Stock Exchange.
A1: We are still investigating the system failure, and have not factored it into our performance forecast.

Q2: Please tell us what size you expect the business of Nvantage to be. How much do you expect it to contribute to your target of 100 billion yen in overseas sales?
A2: I believe we will have a more specific forecast next year, but at the moment we do not expect it to make a big contribution to 100 billion yen in overseas sales.

**Sixth inquirer (analyst, telephone attendee)**

Q1: Have the orders already been received for the four large ASG projects in Australia that were mentioned in the briefing materials?
A1: The orders for all four projects have already been received, and the timing at which they are being recorded is as follows. All of them are multiple-year managed services agreements.
   - 4Q of last year: Queensland Unitywater, Victoria's Justice & Regulation
   - 1Q of this year: Airservices Australia
   - 2Q of this year: Australian National Audit Office

Q2: Excluding overseas sales from first half sales numbers, domestic sales growth was around 4%. The next Medium-Term Management Plan seeks greater growth than that, but is there a risk that trying to accelerate growth could lead to lower quality, and more unprofitable projects?
A2: I cannot tell you what the growth rate of domestic business in the next Medium-Term Management Plan will be, but the way the environment surrounding orders is right now, I believe that higher growth than our current plan is possible. Meanwhile, with thorough monitoring we have been able to avoid large-scale unprofitable projects in industrial IT, where there has been a high level of activity in recent years. We plan to stay vigilant in project oversight going forward.

End