

Presentation of Consolidated Results of Operations
First Quarter, Fiscal Year Ending March 31, 2006
Q&A Session

Date: July 28, 2005 (Thursday 18:30 hrs)

Speaker: Masafumi Nakada, Senior Managing Director, Chief Financial Officer,
Nomura Holdings, Inc.

Q1: You said your first-quarter effective tax rate was high because you didn't book a profit in low-tax countries. As your effective tax rate has been high for the past two years I assume that means you haven't made a profit overseas during that period. How do you plan to reform your profit structure going forward?

A1: The difference in tax rates between Japan and overseas, the UK in particular, is behind the increase in tax expenses. Our overseas operations center on wholesale, the lion's share of which is covered by Global Markets. Our biggest challenge now is to achieve a recovery in revenue in Global Markets. This will also translate into improvements in overseas revenue and our overall financial standing. This is one of our most important management issues. We will improve income and expenditure by boosting our ability to generate revenue and appropriately controlling costs.

Q2: Even if you book a loss, can't you keep the tax rate at a normal level by recognizing tax effect?

A2: The main reason for the increase in tax expenses is the difference in tax rates between Japan and the UK. Due to the lower tax rate in the UK, when we make a profit there our effective tax rate becomes lower. But when we book a loss in the UK, our tax rate increases. In both cases, we cannot avoid the disparity in tax rates.

Q3: Global Markets was impacted by downgrades in the US auto sector and wider credit spreads. How did you operate amid this market climate to finish with the results we saw today?

- A3: The impact of the market instability was seen in a drop in trading revenue, mainly from fixed income, and a slump in customer order flow. Broadly speaking, these two factors accounted for about half of the decline in revenue. The other half came from our overseas securitization business. In particular, there was virtually no revenue booked during the quarter from our Asset Finance Group based in London. The nature of the asset finance business is to build up assets and then originate securitization deals to secure profit. As such, it is not a business in which profit will be booked each quarter. Also, the first quarter is traditionally slow for financing deals and syndicate-related revenue was down, impacting results.
- Q4: Please give us some details regarding the net increase in assets, looking at the flow of cash and stock certificates separately.
- A4: Unfortunately, I can't provide you with specific figures. However, I can say that the main factors for the rise were domestic bonds such as JGBs for individual investors as well as investment trusts and stock certificates held in custody.
- Q5: While it's true that there was market instability during the quarter due to the downgrades in the US auto sector, spreads are now tightening and retuning to normal. Will your performance return to normal during the second quarter?
- A5: Looking at the first quarter by month, May was the toughest. We started to see a return to stability in June and we are now in an uptrend.
- Q6: Please tell us about your strategy for online operations from the second quarter onwards.
- A6: We are working to revamp the Nomura Home Trade website to offer improved services that combine our face-to-face consultations with online services. The new site should be up and running some time in autumn. We are fully aware of the growing reach of the internet into everyday life, especially when it comes to financial services. Given the expansion of online brokerages and the rise of internet banking, it's easy to see that the internet is commanding an increasingly significant presence in our areas of business. As part of our business model to offer a comprehensive array of high value-added services, we believe the internet will be a powerful tool to help us expand our business scope outside of the traditional

bounds of the securities industry. As for what approach we decide to take, however, internal discussions are ongoing.

Q7: You said you are taking a flexible approach to cost control. However, although variable-type compensation and benefits declined quarter on quarter, the previous quarter was quite high. This makes me think that you are not doing enough to keep cost down in this area. Please give us your thoughts on this.

A7: We took specific steps during the first quarter to control costs. However, if our current level of revenue continues, this won't be enough. We will keep an eye on operations and take additional steps if needed.

Q8: In what areas do you expect to see revenue in your loan-related business?

A8: Our loan business differs from the normal lending done by banks. We offer structured loans, which are more like structured bonds with derivatives added on. Revenue is booked as either net gain on trading or net interest revenue.

Q9: Was there any mark-up in the value of your exposure in Terra Firma during the quarter?

A9: No. The change in the outstanding value is due to the exchange rate.

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Speaker: Masafumi Nakada, Senior Managing Director, Chief Financial Officer,
Nomura Holdings, Inc.

Q1: In terms of investing in new businesses, what areas are you focusing on and how much are you investing in each area? Also, what businesses are not showing results yet and what are your expectations for revenue in H2?

A1: We are investing in Global Markets for our loan-related business, asset finance, and equity derivatives. We ramped up investment from last year and actual contribution to revenue is still to come. Although I can't disclose earnings forecasts, we expect revenue to be generated during H2. You can see expenses on page six of the presentation materials. If you look at the expense column for Global Markets, you can get an idea of the rise in costs related to investment from last year.

Q2: How much revenue do you expect to see from Domestic Retail? Also, are you seeing any interesting trends among Japanese retail investors?

A2: Investors are starting to actively diversify their investments. One example is investment trusts, especially funds that pay frequent distributions. We are also seeing changes in how our customers approach their investments; they are branching out from foreign bonds into foreign stocks and funds such as the Nomura India Investment Fund. Although don't disclose forecasts, we are confident our retail business will continue to grow in the medium- to long-term. We will also continue to increase ways to tap new customers, such as through partnerships with regional financial institutions.

Q3: Why is revenue not growing in line with expectations despite investment focused on Global Markets? What needs to be done to boost profits?

- A3: The main reason is that the market environment in Global Markets was extremely tough. In terms of new business, we need to build an appropriate model to expand the scale of our equity derivative operations. We are looking very carefully at what model to adopt and this is taking some time. We are already seeing progress in loans and asset finance. There are transactions in the pipeline. It's now a question of how many will come to fruition during H2.
- Q4: Do you intend to continue investing in new businesses for Global Markets?
- A4: Investment for the new businesses we are currently working on in Global Markets is mostly finished. If we decide to expand into other new businesses, we will need further investment but there are no major plans for this at the moment.
- Q5: Your market share in wholesale operations such as JGB auctions and IPOs is gradually slipping. Is there any reason for this?
- A5: It is extremely hard to squeeze out a profit from JGBs in the current ultra-low interest rate climate. While we are still the leading market maker for JGBs, we are taking a flexible approach to auctions. We don't intend to just seek out market share. For IPOs, each deal takes time and we won't necessarily see results constantly on a quarterly basis. The total value for IPOs during the first quarter was relatively small, so it's better to look at market share on a yearly basis rather than quarterly. We are not worried about the overall competitiveness of our investment banking business.
- Q6: Assets in custody in Domestic Retail seem to be growing smoothly. What are you doing to generate greater customer activity?
- A6: We are looking into a number of strategies. Last year, the number of personally-held stock certificates placed in special accounts for stocks surged. To increase our business with these customers, we need to propose a broader range of services. For the retiree market, we need to offer easy-to-understand products. As you can see, it's not a single strategy. We need to consider strategies matched to the needs of each customer segment.

Q7: What losses did you incur from the market instability set off by the downgrades in the US auto sector?

A7: One example is the position we need to maintain to carry out business with clients in areas such as securitization and convertible bonds. Even though we hedged the position, we were hit by the market turmoil. The loss was incurred as a part of ordinary transactions during the period, rather than any one transaction in particular.

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