INVESTORS' DAY

Q&A Session

Date: December 6, 2002 (Friday)

Place: Nomura Securities Co., Ltd., Nihonbashi Headquarters

Speakers: Junichi Ujiie, President & CEO, Nomura Holdings, Inc.
Takashi Yanagiya, Director, Nomura Holdings, Inc.
Kazutoshi Inano, Director, Nomura Holdings, Inc.
Hiroshi Toda, Director, Nomura Holdings, Inc.
Kenichi Watanabe, Director, Nomura Holdings, Inc.

Q: In Japan, there are too many securities companies and investment banks, and in one sense I believe this is excess capacity. How do you intend to deal with this going forward?

A: (Ujiie) Generally speaking, I don't feel Japan's securities companies have fallen into a state of excess capacity, but it may appear that way when one considers some of the products. First, I would certainly agree that the number of companies specializing in equity brokerage outweighs the country's demand for such services and that some consolidation is needed. However, a new type of company, for example, online brokerages, handling only a limited number of products has newly entered the market. At the same time, not many large companies are engaging in investment banking and broker-dealer services. Such companies are broadly categorized into independent, foreign affiliated or bank affiliated companies.

Since Nomura is independent it is able to grow its business by capitalizing on the merits of not being affiliated to any other group. Foreign affiliated companies are currently downsizing, but we believe this is due to worsening business climates in their own countries rather than deciding business prospects are bleak in Japan. As for bank-affiliated companies, they still are new to the game and we would like to monitor their development carefully.

Q: During the Global Wholesale presentation, you mentioned Nomura would be taking risks in areas such as turnaround business. Could you clarify exactly what kind of risks you will be taking? It is often cited that there is a lack of turnaround specialists in Japan, does the same apply to Nomura?

A: (Toda) First, please let me give you some background as to why we are not taking large risks at present. Before the Russian crisis overseas subsidiaries used to take risks freely within the limits of the capital allocated to them. However, since the crisis we adopted the global matrix management system and have been centralizing risk control in Tokyo. Current risk levels are 40% below their peak. Management need to offer incentives to encourage risk taking. We would like to increase our risk exposure to industrial revival business.

Leaving risk aside for a moment and going to your point about a lack of specialists in turnaround business, twice a week we run workshops on this very topic with Richard Gitlin, whose services we have retained as a senior strategic advisor, and other lawyers specializing in this field. Some 20 members from our Investment Banking division participate in these workshops and we are currently in the process of rapidly expanding our know-how and networks. In this area, Nomura convincingly outshines its competitors.

Q: You mentioned that Nomura has two outside directors. There is talk that in the United States outside directors have not been functioning well, could you elaborate on Nomura's system of corporate governance?

A: (Ujiie) As you quite rightly point out, having outside directors does not necessarily make for a solid system of corporate governance, which I believe has been proved in the US. Until recently, the securities business Nomura engages in was a regulated industry, so we have retained individuals from companies that have grown globally in non-regulated industries as well as corporate governance specialists. We have also appointed outside statutory auditors from similar global companies. We look to these people to supplement and bolster our management.

Q: Nomura currently holds about 1.7 trillion yen in shareholders' equity. Of this amount, how much do you use for principal investments?

A: (Watanabe) While I'm unable to give you a concrete figure at this moment, our portfolio in Europe's former Principal Finance Group (PFG) accounts for about 265 billion yen, and investments in our domestic Japanese subsidiaries amount to just under 20 billion yen. I think it would be correct to assume these ratios will be reversed in the future when one takes into account our domestic turnaround business. Furthermore, from a liquidity management point of view we are controlling equity and long-term borrowings in an appropriate manner, and so in that sense ample funds are available to take the necessary risks.

Q: What is the timeframe from initial investment to exit and what is the expected rate of return?

A: (Toda) Nomura Group's target average ROE is 10-15% over the medium to long term. Given the nature of private equity investment, higher targets than this are necessary. This figure is not fixed in absolute terms, but we set the target at around 20%. As for the timeframe, four to five years until exit. Also, of the roughly 20 billion yen invested domestically, this amount is invested in only five or six companies. This is because although we have been involved in various kinds of deals up to present, relations with main banks and sub main banks have made progress difficult. Nowadays, business practices and perceptions at banks are undergoing a transformation and I wouldn't be surprised if in half a year to a year from now the landscape has changed significantly. Furthermore, I believe our dominant domestic network will also provide the necessary framework enabling us to win copious business. And since business related to financial institutions is expected to undergo some great changes moving forward, we intend to adopt an organizational approach to this.

Q: You clearly separate your channels between the Financial Consulting Section, Financial Advisor (FA) Section, Saving Advisor (SA) Section and Customer Services & Investment Advisor Section. How does this differ to your previous organizational changes? Doesn't separating your FA Section and SA Section dilute your strengths? Also, could you tell us how many personnel are assigned to each of these sections?

A: (Yanagiya) What is important to remember regarding the separation of our channels is that we have changed our systems to accommodate customers' needs in that order, not the other way round. In this sense, we have also changed our management target approach to one of per customer assets and costs. At present, our approach places individuals and corporate markets into their respective segments and provides each with services that focus on their customers' core values. The decision to separate the FA Section and SA Section is a result of this approach. We implemented these changes on 1st October and by clarifying each section's mission statement things have got off to a good start. As to the specific number of personnel, the Financial Consulting Section has approximately 1,500 employees, there are nearly 2,100 FA and SA staff combined and about 270 other staff, and the Customer Services & Investment Advisory Section has just under 1,800 employees.

Q: How do you intend to improve quality in order to develop your approach to high-net-worth customers, which fall under the watch of your Financial Consulting Section?

A: (Yanagiya) At present in this section, we are conducting training courses designed to raise our staff's ability to provide solutions to customers' problems. In the Financial Consulting Section, we are working to enhance our capacity to identify and recommend solutions to owners' business problems because the running of their companies, and not only the management of their assets, is of vital importance to them. We introduced our financial advisor system around three yeas ago and about 57% of those in the financial advisory channel are financial advisors. Financial advisors can now also handle equity products and provide even more specialized advice.

Q: Could you tell us the revenue breakdowns for the Financial Consulting Section, FA Section, SA Section and Customer Services & Investment Advisor Section?

A: (Yanagiya) We do not disclose concrete figures and they also change from time to time. An approximate idea of the revenue breakdown would be a ratio of 2-1-1 for the FA Section, SA Section and Customer Services & Investment Advisor Section respectively.

Q: I hear the biggest concern for wealthy investors is taxation. What services and products do you offer to deal with this issue?

A: (Yanagiya) Wealthy investors' core value comprises management, preservation and inheritance of assets. In that sense, we must look at what we can offer and whether it is within regulatory boundaries. We launched a project this October and are carrying out thorough reviews on these issues. We plan to examine what we can do when the project's report comes out in the first half of next year.

Q: In Global Wholesale, Nomura's name has been largely absent from the securitization league tables. Can you tell us what you are doing about this?

A: (Toda) Broadly speaking, securitization customers are split between financial institutions and business corporations. On the financial institutions side, we have an excellent track record, such as with the securitization of life insurance companies' foundation funds, banks' housing loans, CLOs, and the Government Housing Loan Corporation's RMBS. I believe we are ranked top in this area. On the other hand, on the business corporation side securitization targets real estate holdings and cash equivalent assets, in other words the top-left of the balance sheet, like drafts. As for securitizaton of cash equivalent assets, Nomura is not strong. However, as there is no real opportunity to achieve a spread in this business, we are not considering enhancing our business operations strategically in this area. On the other hand, we do believe that real estate securitization could present some significant business opportunities in the long term, but since banks' lending rates to corporations are currently so low there is no incentive to pursue real estate securitization on the business corporation side. As a result, we do not think the market will see high volumes of real estate securitization business any time soon. Furthermore, we have been pursuing business overseas in the United States and Europe on the CMBS front. As such we are in a position to shift our experts in this area and deploy our personnel in Japan when the CMBS market starts to take off in here.

Q: In Domestic Retail, some new groups that entered the market a couple of years ago are beginning to withdraw their operations. Downward pressure on equity brokerage commissions continues, but in terms of product supply, in what way are you supplying products that allow you to control price? From that point of view, with what proportion of your products can you control price?

A: (Yanagiya) First of all, we try to correctly determine the differences between customers' diverse needs and then on that basis select the most appropriate products, rather than the other way round. It is important to understand that.

On the other hand, because of our strong distribution capability based on our broad customer base, it is conceivable that companies with globally competitive products would want us to become a sales partner. As a result, we may have products with high added value, and therefore be able to control prices.

A: (Inano) As far as investment trusts are concerned as a product, selling newly developed products does not by itself lead to competitive product differentiation. Anyone can quickly imitate the product itself. What is important is how the product performs after that. A look at past investment trusts in Japan shows that good performance was accompanied by an increase in redemption. This is thought to have something to do with the behavioral patterns of both the distributors and investors. For us, we would ideally like to see outstanding balances increase as a result of supplying decent products and forming alliances with distributors most appropriate for handling those products. For investment trusts there are two kinds of products: products tailored exclusively to individual distributors' requirements and products that pass through various sales channels. If it is possible to improve the appeal of exclusive products over the long term and provide added value, it is possible that you will be able to control price over the long term and this could develop into a product strategy.

A: (Toda) Admittedly, there is downward pricing pressure on everyone's products. Our strength is that we are able to determine customer needs in our Domestic Retail division and rapidly translate that into product origination. I believe building new products from various secondary ones is the method that most suits current market needs. We emphasize development of products our competitors are unable to imitate.

Q: Asset Management's ROE was below the Group's target of 10-15%. Can you say when it will reach this target?

A: (Inano) In light of the current harsh market conditions, I am unable to promise anything along those lines. However, as for how we will achieve that target, we have launched the Asset Management Enhancement Project and should be able to implement several kinds of concrete measures by next April at the latest to boost our asset management capability. To improve profitability, we must first take time to gain the trust of our customers and increase the volume of assets under management. At the same time, we must develop highly profitable products in order to raise the yield of these assets under management. However, in asset management circumstances do not change overnight just because new products are being developed and asset management capability enhanced. At the very least, it will be one year before changes occur. As the head of the Asset Management division, I will take what measures are necessary to raise ROE.

Q: Are you using any foreign companies as a role model in your aim to develop globally without concluding a strategic merger?

A: (Toda) We do not model ourselves on any other company. When you consider the idiosyncrasies of our customer base and Japan's economic situation, I believe our method of strategy implementation is unique; we do not model ourselves on any other company.

A: (Ujiie) I believe Japan's financial system in the broad definition is unique. The bank-centered financial system no longer functions properly, a situation, which, over the next several years, will give rise to Japan's next financial system. This set of circumstances represents an enormous business opportunity for Nomura. It would therefore be difficult to emulate the business model of companies in other countries.

Q: Could you tell us the average number of trades per year per Domestic Retail equity holding account?

A: (Yanagiya) This is a very rough figure, but on average between two and several times annually.

Q: Could you tell us in concrete terms what problems your Asset Management division currently faces and how you intend to change going forward?

A: (Inano) The first problem we face has to do with the source of NAM's added value. At the moment it is dispersed around the organization and is not concentrated appropriately. Second, though the asset management business possesses aspects of a system process industry, the design does not fully reflect the concept of supporting investment management activities because it was originally created for the purpose of calculating the net asset value of investment trusts and accuracy of its customer reports. To offer you a more specific example, it terms of our research capability as a source of added value, we have around 20 analysts. We will be strengthening our analyst team from a human resources point of view too. We will also be utilizing quantitative analysis throughout the organization to support active investment.

Q: Regarding investment management fees, what is your position on lowering and raising fees according the performance of each fund?

A: (Inano) This approach is quite common in investment advisory. However, for investment management fees there is the technical difficulty concerning the fairness of changing to performance linked fees for beneficiaries whose holding period differs. Fundamentally, the most important things are for the funds to perform well and that beneficiaries are satisfied. There are also concerns as to how widely accepted this method of fee payment will be among investors.

Q: Domestic Retail was by no means highly profitable. Have you seen any added value in terms of human capital? Should you not be laying off employees?

A: (Yanagiya) In terms of the second quarter of this fiscal year, profits were not high during the period because much time was taken up conducting seminars and offering advice on the new tax system to be introduced at the beginning of next year. Also, costs related to the World Cup were appropriated in part to the second quarter. However, we have had positive results from medium term business developments, such as new equity and foreign currency bond account openings as well as an increase in the volume of stock certificates deposited in our custody. In the second half, we have also been devoting much time to advising customers on investments, partly because we have accumulated a great deal of in-house expertise on the new tax system. At the same time, we acknowledge that human resources represent the source of our competitive edge, and therefore fostering human resources that are fully capable of advising customers is our greatest priority. However, we are making efforts to increase the proportion of variable costs and lower fixed costs. First, financial advisors, whose remuneration is more performance linked than saving advisors, account for 57% of the staff in our financial advisory channel. Second, among our non-sales staff we are employing more temporary staff, the levels of which we can increase or decrease according to workloads. We currently employ approximately 1000 temporary staff. Third, we are also increasing the weight of performance related bonuses. Going back to your comment on laying off staff and drastic changes in remuneration, it is possible there will be a decline in the quality of customer services as well as an outflow of in-house expertise and know-how. As the head of Domestic Retail I intend to foster talented human resources while stepping up the shift towards increasing the variable proportion of costs to differentiate ourselves from the competition.

Q: I think that profit margins in your M&A and equity underwriting businesses are too high. Will they come down in the future? Don't you also need to reallocate human resources?

A: (Toda) On the whole, I don't believe M&A and equity underwriting fees are high and generally speaking I don't think they will decrease in the future. In any kind of business, fees tend to come down of course when customers have already decided on which direction a particular deal will take. However, revenues from M&A and equity underwriting business are high when they are the result of consulting with customers on management strategy. I believe we can increase revenues overall by carrying out more deals of this kind. Furthermore, in terms of allocating human resources, we are able to increase added value by reallocating personnel in the consulting stage at the beginning of a deal. This in turn will improve profitability overall.

of interest rates, currency exchange rates, security valuations, competitive conditions and size, and the number and timing of transactions.

6. The consolidated financial information in this document for the six months ended September 2002 is not subject to audit.