

## INVESTORS' DAY

### Q&A Session

Date: December 5, 2003 (Friday 1510hrs)

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

Speakers: Nomura Holdings, Inc.

Nobuyuki, President & CEO

Hiroshi Toda, Deputy President & COO

Kazutoshi Inano, Deputy President & Co-COO, Head of Asset Management

Takashi Yanagiya, Director, Head of Domestic Retail

Takumi Shibata, Director, Head of Global Wholesale

Q: Please could you tell us about Nomura's future commitments to business overseas?

A: (Shibata) Our overseas operations are run on a business line basis.

In Fixed Income, operations are closely pegged to interest rates and credit, and this is an area in which we have found it relatively easy to build a global operation. Indeed, Fixed Income is the most globalized area in our wholesale division. Our Fixed Income operations are globally integrated especially in Japan and Europe, which in a way is very similar to business models employed by investment banks in the US and Europe. On the product side, our approach takes on specific regional traits; for example, in the US we conduct a series of checks and balances before carrying out any deals involving securitization, CMBS or any other product types. Fixed Income is also well integrated with Domestic Retail and we are making steady progress with our global operations in this respect. For instance, we are able to link orders from our domestic branch offices in Japan to overseas issuers the same day.

In Equity, we have maintained our services without scaling back our global operations even when the market has not favored Japanese stocks. We have no intention of changing our stance on this. More recently, we have continued to beef up our global services. For example, we have strengthened our convertible bond team in London and are making progress with US equity execution-only brokerage in the US.

In Merchant Banking, it is true we still have a position in Terra Firma (formerly PFG) in Europe, but this is now in the hands of an independent manager and we do not intend to invest any new money there.

In Investment Banking we are seeing steady progress in our global business, as evidenced by our dominant share in Japan of global offerings by Chinese companies. We will work to steadily enhance our advisory business going forward.

(Koga) We believe the globalization of customers' needs is a trend that is set to intensify in the future. Nomura will continue to build and reinforce its global business to accommodate such needs.

- Q: What do you consider necessary to ensure the continuity of this globalization?
- A: (Koga) We believe developing firm business links globally will ensure continuity rather than self-contained regional-type business. We intend to continue developing this approach going forward.
- Q: Do you not feel your target ROE is not a bit on the low side at 10-15%? Couldn't Nomura use its capital more effectively to achieve an ROE of 20-25%?
- A: (Koga) To answer your question on the efficient use of capital, we have been steadily unwinding our cross shareholdings position, and will continue to do so. Furthermore, if we believe there is a chance to achieve a level of ROE in excess of our medium term target, of course we would like to boldly take up this challenge.
- (Toda) I understand that ROE of 20-25% would rival investment banks in the US. But in our mother market, we believe 10-15% is a reasonably challenging target and an appropriate goal for Nomura, which as you know is seeking to become a globally competitive financial institution. At the moment, we feel a steady flow of deals in an area where we can expect a return of 10-15% is important. At this level we can carryout appropriate risk management.
- Q: I think I would be correct in thinking Nomura's strength lies in its distribution. In advisory business, however, despite a large overall volume, I get the impression Nomura has not won many of the large-lot, high value-added deals. Going forward, if Japanese banks and the securities house subsidiaries of banks form alliances and banks strengthen their distribution capabilities, won't Nomura find it hard to compete?
- A: (Koga) Our distribution network is one of our strengths. Establishing a strong retail distribution network cannot be accomplished over night, and we don't believe other companies pose an immediate threat on this front. At the same time, in advisory business we are currently ranked ninth on a rank value basis in the M&A league tables. Last year we placed top. M&A business in Japan is still developing and is at the stage where a single large deal can affect the league tables.
- (Shibata) This year's league tables have been greatly affected by two large deals, and we believe Nomura's true competitiveness and profitability in this area are not accurately reflected in its league table position. In Equity, we are highly competitive in terms of value-added and have won numerous large deals, including global offerings and block trades.
- Q: Do you think competition in the form of alliances between foreign securities houses and domestic financial institutions, or banks strengthening their distribution networks will erode Nomura's own distribution network? After all, that does seem to be your strength.
- A: (Toda) Just to give you some background, Japan has approximately 1,400 trillion yen in individual financial assets, but the percentage of these assets currently invested in securities products is strikingly low compared to Europe and the US. Given this, we believe there is a

very good chance individuals will begin to invest more in securities products and that the securities business is destined for future growth. Business in this field is not about a struggle to win market share within a narrow segment. The strength and quality of Nomura's consultation services are evident in its distribution of JGBs for individuals. This product is also sold at post offices and banks, but Nomura has an extremely high market share due to the quality of its customer follow-up services and level of investment consultation. Further still, we have been focusing on linking product origination and distribution in primary underwriting business and will work to further enhance this integrated structure as part of our strategy.

Q: In your opinion, what are the strengths of banks and securities house subsidiaries of banks and how will Nomura compete with them? How does your approach differ in each business segment? Also, what do you think of equity agency business being allowed at banks?

A: (Shibata) In global wholesale, I would say banks (securities house subsidiaries of banks) are strong in loan securitization and bond business. In addition to these areas, Nomura's forte lies in high value-added securitization, for example, the securitization of an office building in Akihabara and loan syndication, private finance initiative related business and equity related business. For IPOs and POs, you need to build a high quality research team and must have extensive sales coverage. In equity trading, you need first class execution capabilities in risk control and other areas. To accomplish these things a substantial initial investment must be made in addition to bearing certain costs. It is in these areas that Nomura's strengths lie. Even if banks were to enter these markets, it would take them a while to establish a competitive foothold.

(Yanagiya) In Domestic Retail, the competition is varied and fierce, and includes banks, overseas securities houses and online brokers. But of Japan's total individual financial assets, as little as 140 trillion yen or thereabouts is invested in securities products. We believe the merits of greater market expansion outweigh the demerits of more intensified competition. In the retail sector banks have strong branch office networks. Nomura's strength, however, is in its ability to provide a first-class investment consultation package covering all areas, including a sophisticated product lineup as well advice on taxation and inheritance. Furthermore, regarding the sales of investment trusts at banks, Nomura receives fees for providing advice to regional banks on customer services as well as for compliance and administrative support services.

A: (Inano) In Asset Management, we consider banks an effective distribution channel. For most investors purchasing investment trusts at banks, they are buying a securities product for the first time and few of these individuals are both customers at banks and at Nomura. In the same way that Nomura started in the past to handle investment trusts for asset management companies, it would seem that banks, which distribute large volumes of these products, need to further enhance their product lineups. So, by providing products to banks we will be able to expand our asset management business chances. Also, we have set up a special team to focus on investment trust sales at banks and are developing products exclusively for this

purpose. We will continue to enhance our lineup so that products accurately reflect banks' needs.

A: (Koga) Rather than focusing on the demerits associated with greater competition, we are treating market expansion as a business opportunity. Distributing our products via various financial institutions represents an important part of our business.

As for your question about equity agency business at banks, this is a little tricky to answer since the content and direction of the debate on this topic are as yet still unclear.

Q: Will strengthening your existing businesses be as far as you go in terms of developing your overseas operations? Don't you think that at some point in the future you will have to merge with or acquire an overseas investment bank?

A: (Toda) Our ultimate goal is to become a globally competitive financial services group. At the moment, our principal strategy to that end is to encourage the 1,400 trillion yen or so in individual financial assets into the securities markets and to capture Japanese corporate turnaround business. We believe that pursuing these two areas will contribute to Nomura's globalization. As such, at this stage we are not considering M&A as a method for rapid globalization.

Q: I have a question about your Global Wholesale division. What are your short/long-term business priorities in terms of making a profit?

A: (Shibata) In Fixed Income our main profit engines were foreign currency bonds in the first quarter and yen bonds in addition to foreign currency bonds in the second quarter. Also, because we can handle large-lot orders even in times of high market volatility, this volatility is also a revenue source. And our ability to respond immediately and extensively to customers' needs through our integrated wholesale and retail operations is another source of revenue.

In Equity we focus on high value-added execution services. For example, Nomura has an impressive track record with ETF transactions and block trades and will continue to concentrate on business where it can provide its customers with liquidity.

In M&A and other kinds of advisory business, profitability must be taken into consideration as well as deal size. Our strategic approach in TOB-related advisory has been rewarded in the form of a large market share too. As far as principal finance is concerned, slowly but surely there are increasing opportunities to benefit from companies withdrawing from non-strategic areas. This kind of environment makes it easy for a company like Nomura to win mandates because we are positioned perfectly to advise client companies from an overarching perspective.

Q: Where does Nomura position itself in the medium to long-term among Japan's financial institutions, including banks, insurance companies and securities firms?

A: (Koga) When we transferred to a holding company structure we defined our core business as the securities business and its related businesses. So, going forward we will examine

approaches, even in other areas of finance, necessary for implementing this core business.

Q: It seems to me that the level of risk you take is not commensurate with your capital, so why don't you reduce your capital? Are you keeping it high in preparation for future investments?

A: (Koga) We want to maximize the use of our capital and are always looking to invest in new areas of business where appropriate risk control is possible.

Q: Regarding your principal finance business, can you tell me what you think about entrusting the management of Terra Firma, which is where you are taking your biggest risk, to a third party? Why has NPF's position not increased?

A: (Koga) With NPF our stance is that we will invest in deals that meet our own set of criteria; our investment strategy is not premised solely on increasing our position.

A: (Shibata) Terra Firma's mission is to grow the assets in its fund. At the moment, we don't plan on making any new investments and we believe the risks are limited. NPF in Japan is steadily increasing its portfolio, for example, it has made a tender offer to acquire all the remaining shares issued by Toshiba Tungaloy and was granted the first refusal right to newly issued shares in Huis Ten Bosch.

Q: If securities house subsidiaries of banks were to seriously strengthen their retail securities business, wouldn't this make it harder for you to capture new accounts? In that case, what would be your strategy to attract new customers?

A: (Yanagiya) We are making an effort to enhance our approach to customers we feel we have not been able to adequately cover so far. In November, we set up the Hotto Direct Department so that customers who are unable to visit our branch offices during the day can benefit from our telephone services at nighttime and on weekends. Another concrete measure includes establishing low-cost, cashless branch offices in regions underrepresented by our branch office network. We are also enhancing our wealth management services in Tokyo, Osaka and Nagoya to meet the needs of our target customers. From a medium to long-term perspective we have been engaging actively in securities education in an effort to increase market participants and broaden our customer base. In the same context, we have also been holding lectures on securities education at universities around the country as well as sponsoring life-long learning in regional communities and the Nikkei Stock League competition.

A: (Koga) In our retail business, we are more concerned with how to increase the number of market participants than competition with banks per se. As such, our main priorities are how to attract as customers investors who are new to the market, long-term investors with medium to long-term investment horizons, and 'middle market' investors, who are categorized somewhere between mass retail and institutional investors.

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