

## INVESTORS' DAY

### Q&A Session

**Date:** December 9, 2004

**Place:** Nomura Securities Co., Ltd., Otemachi Headquarters

**Speakers:** Nomura Holdings, Inc.  
Nobuyuki Koga, President & CEO  
Hiroshi Toda, Deputy President & COO  
Kazutoshi Inano, Deputy President & Co-COO, Head of Asset Management  
Takashi Yanagiya, Director, Head of Global Wholesale  
Kenichi Watanabe, Director, Head of Domestic Retail

**Q:** Could you please go into more detail about your Asset Management product development and strategy? Do you hedge the currency on global investment trusts such as the Global Attractive Dividend Stock Fund?

**A:** (Inano)

To answer your question about currency hedging first, for investors in Japan we offer investment trusts that invest in US dollar-, euro-, and Australian dollar-denominated bonds and distribute dividends from coupon payments relatively frequently. We also have an investment trust that invests in high-yield US bonds. Customers can choose whether or not they want to hedge against currency risks for these products.

Our new Global Attractive Dividend Stock Fund includes stocks from the US, Europe, Asia and Oceania that have been screened based on dividend yields and company earnings. We expect to pay quarterly dividends. In principle, this fund is not hedged against currency risks.

In terms of product development and strategy, Nomura Asset Management has launched SRI funds and funds that invest in Japanese and US REITs over the past year. Some examples of our SRI funds include one that is linked to the FTSE4 Good Global Index and one for Japanese stocks linked to the Morningstar SRI Index.

We also have the Fund Masters Series which consists of several funds of funds with

investments in funds managed by leading global players. All of these funds are helping us meet the diverse needs of our clients and we will continue to work on diversifying our product offering.

Q: In the Global Wholesale presentation you said that you have hired professional teams to build up your “out-out” business. Are these teams contributing to earnings yet?

A: (Yanagiya)

We have hired a number of professional teams mainly in Europe and the US to expand our out-out business since 2002. The Asset Finance Group in Europe and a team working on real-estate securitization in the Americas are already showing steady performance. And we plan to hire a few dozen more people for the Equity Derivatives team that came on board this year. But at this stage the team is just preparing to do business.

Q: You said in the Global Wholesale presentation that you are eyeing the capital solution, asset finance and loan-related businesses as three areas of future growth. Which area do you think will contribute most to earnings?

A: (Yanagiya)

We are confident that all three areas will contribute to revenue. Other sources of revenue include equity derivatives, cross-border M&As, and merchant banking in Japan.

Q: You spoke of some positive moves in Global Wholesale, such as adding capital and increasing staff levels. But I would like to know how you plan to control costs at businesses where earnings have slumped.

A: (Yanagiya)

We are improving efficiency vis-à-vis capital and staff levels. Some of our trading operations have been integrated into our London office and we have been reducing staff levels to increase efficiency. But because our global business is growing, overall costs are rising.

Q: I can see from the diagram on page three of the Domestic Retail presentation that you will put more into targeting the savings and deposit market while maintaining your

current customer base. But are you considering riskier products that won't compete directly with banks such as commodity futures?

A: (Watanabe)

The focus of my presentation today was on two points: the shift from savings to investments as seen by tax incentives to promote investing, and how we will target the savings and deposit market.

We are looking to offer more high-risk products to customers with high risk tolerance base on our strict stance towards compliance issues.

However, the added value of our services is that we advise customers on their overall portfolio, rather than just sell individual products. So while focusing on increasing client assets, we will try to introduce high-risk products to customers' portfolios at an appropriate level.

Q: You say you want to build a strong position as a globally competitive Japanese financial institution. Is this possible when comparing Nomura with other major financial groups? At your last investors' day presentation you gave a target of 10-15% for ROE, but didn't give a target for market capital or an absolute value target for profit. Considering that your share price underperformed, could you please tell us if you have any new targets. Also, are there any issues in your business model other than market risks that you feel you need to address urgently?

A: (Koga)

ROE is one of the most accurate benchmarks of any company. However, we also have in-house targets aimed at expanding our customer base as quickly as possible. These include increasing client assets at Domestic Retail to 50 trillion yen and raising assets under management at Nomura Asset Management to 20 trillion yen.

In today's increasingly competitive environment, we are aware that these conditions can easily create a sense of urgency internally and externally about the Group's future direction.

I am sure there are many different opinions regarding this, but I think the most common example is the idea that we will be swept up into the system in Japan as a

result of the revival and rise of the megabanks. Or, taking an international view, some people point to the changes occurring at US and European investment banks and commercial banks. In any case, most concern is over whether we can expand our securities business while remaining independent.

Well, regarding the “one-stop” financial business the megabanks are talking about, to be honest, we are not that worried.

Turning to the global securities business, we are fully aware that it will become harder and harder to do business with only our current organization. Time is of the essence here. We need to take the initiative and figure out how to expand our functions.

Q: I don't think the three profit engines you talk about in Global Wholesale will contribute all that much to actual earnings. What sort of ratio do you see each area contributing and how much do you expect each area to contribute in actual earnings figures?

A: (Yanagiya)  
The profit engines we talk about in Global Wholesale are basically businesses that we expect will earn revenue of over 10 billion yen. However, I would like to refrain from commenting on actual figures.

In addition to the three areas I spoke about today, there are other areas that are continuing to act as earnings pillars. Some examples include our Fixed Income business related to foreign currency bonds, forex, and MTNs, and credit; in equity related business we have block trades with life and nonlife insurers and other companies.

We will continue to increase ties between our domestic and overseas operations to diversify revenue sources and ensure stability.

(Toda)  
The main sources of revenue in Global Wholesale come from our advisory and underwriting businesses, agency fees, and trading revenue. But what you need to remember is that revenue from our solution services comes from many sources. Sometimes it comes from equity trading, other times it may come from advisory fees.

When considering future business opportunities, you need to take into account the changes occurring to the business environment. The credit ratings of Japanese corporations have been trending downwards for about the past five years. But as we moved into this year, the trend turned upwards.

In our retail operations, we had been addressing our customers' asset management needs mainly with high credit rated products, out of necessity. But with the change in trend, the environment is turning to one where we can actively offer our customers the chance for dynamic earnings as a result of changes to credit.

Our retail operations have a track record of strong performance during periods of change, especially shifts to upward trends. So we believe the current environment is a great opportunity for us.

In the downward trend, companies were forced to raise funds through high cost means such as issuing perpetual subordinated debt and preferred shares. Our wholesale operations offered solutions in response to this environment. But the current environment gives companies the choice to raise funds cheaper through the capital markets, providing a great opportunity for our solution business. What's more, companies are acting on the introduction of asset-impairment accounting. We believe this will be a plus for further growth in our asset finance business.

Q: Your Fixed Income results in 2Q were weak on the back of depressed earnings in MTNs, foreign currency bonds, and credit. On top of this, the MTN and yen bond markets remains sluggish. If this situation continues in Japan, I believe you may make a loss. What is the management doing in response?

A: (Toda)  
10-year government bonds are at 1.4%. Spreads are tight and volatility is low. This has been going on for over six months now. As a result, we don't expect government bonds to be a strong source of revenue. Forex has started to move in 3Q and the bond market is improving. But the recovery is not enough to try and make a profit.

In light of this tough environment, Fixed Income management meets every day to discuss what areas might prove to be revenue sources. We are now trialing businesses suited to Asset Finance and Capital Solutions by sharing the expertise at

Fixed Income with Investment Banking and promoting collaborative efforts between the two.

Q: Many general managers have been leaving lately. What do you think of this? Are you looking at changing your compensation system?

A: (Yanagiya)

This hasn't affected us at all as the knowledge and skills needed to run our business are built into the organization. A large proportion of our pay structure already takes into account performance.

(Koga)

We believe the strength of a company lies in its people. But we also believe there is no compensation scheme that would stop people who want to leave. Rather, motivation comes from working at a place where you are evaluated against a reasonable yardstick. Nomura is a company that offers this to staff from early on. What's important is that people's motivation is kept up, that they are evaluated fairly, and compensated accordingly. Management checks the system whenever we have the chance. We will ensure that reasonable yardsticks for evaluating staff are in place and make Nomura a workplace that employs a diverse range of people.

Q: You said you are going to take some risks overseas in Global Wholesale. But you have been hit hard overseas before. What are you doing in terms of risk management?

A: (Yanagiya)

We booked a big loss on our CMBS business in the US in the late 90s, but we have been involved in the real-estate securitization business since 2001. The biggest difference between now and when we booked the loss in CMBS is that risk management is now centralized in Tokyo. Back then, each regional office conducted business and risk management separately. But now, in addition to risk management at each business line, market risks, credit risks, event risks and liquidity risks are monitored under Global Risk Management, which also reports regularly to management. This allows us to manage our overall portfolio.

Q: I agree with the possibilities you talked about for asset financing. But looking at the

market, it seems to be crowded with strong foreign companies in some areas and strong non-banking companies in others. What parts of asset financing and what regions do you think offer potential?

A: (Yanagiya)

True, there are strong players in some areas. But there is room for growth in this market. For instance, we established a mezzanine fund together with the Development Bank of Japan in May. A problem with originating in the securitization business has been that there are many investors for the senior debt and equity portions, but not many for the mezzanine tranche. This fund started with 17 billion yen in May and has since grown to 18 billion yen.

We are looking to increase origination and sales of securitized deals by focusing on these areas. We will also focus on real-estate development deals.

Q: I think Nomura is the most competitive financial institution in the world when it comes to Japanese stocks, but you didn't talk much on Japanese stocks today. Is that because it is hard to capitalize on that strength at the moment? If so, what do you plan to do about it?

A: (Yanagiya)

We don't believe the current environment stops us from capitalizing on our strength in Japanese stocks. For example, the primary market is expanding thanks to a large increase in IPOs this year. We lead managed a number of large deals including J-Power and NTT Urban Development Co., giving us around 40% of the IPO market in the first six months of this fiscal year. The secondary market is also increasing as companies finance capex through public share offerings and issuing convertible bonds.

We also lead managed Aeon's first public offering in 25 years for 100 billion yen as well as a 100 billion yen offering for T&D Holdings. We believe this trend will continue into next year. We are also increasing retail assets by selling these products to retail investors.

(Koga)

The Japanese stock business, including research, will continue to be one of our key

dominant areas. But it is critical that we take steps to maximize our strengths in many areas, not just Japanese stocks.

Q: You have a position of some several hundred billion yen in your European principal finance business. When do you plan to recover the funds?

A: (Koga)

I believe your question relates to Terra Firma. We are only an investor in Terra Firma and not actively involved in the investment decision-making process. So I am unable to give you a definite answer.

(Yanagiya)

Our Principal Finance Group operations used to be run out of our London office, but this was shifted to a fund in 2002. The fund is now managed by Terra Firma Partners Limited. Nomura is not in a position to make any management decisions as we only invest as a limited partner. This means we can't give instructions on individual investments. However, both Nomura and the fund management are looking to ensure the highest possible return from investments. I believe that when the operations were taken over by Terra Firma it was decided that the exit would be in six or seven years time.

Q: You said you are going to upgrade the level of services of your Home Trade and call centers. How will you control costs? Also, please tell us how you intend to compete with online brokers in this area.

A: (Watanabe)

Basically, our Home Trade and call center services back up our face-to-face channel. They are there to increase convenience and customers can choose which service they want to use.

Recent advances in technology have made it possible for some customers to be satisfied with just Home Trade, while others want to use the call centers as an additional service. We now need to seek more contact with these customers. To do so, we want to use the Home Trade and call center services as one channel. One example of progress in this area is our Hotto Direct Service Department. We are seeing a steady increase in the number of customers using the service.

The added value of Nomura lies in consultation. That's why we are not looking to introduce low commissions to compete against the online brokers. We will act as a financial consultant for our customers and receive compensation through consultation.

Q: Is your current commission rate at an appropriate level?

A: (Watanabe)

I believe commissions for our online services are the highest in the industry. But when you consider that we have around 1.6 million accounts, also the highest in the industry, I think our commissions are at an appropriate level. Hardware cost are becoming cheaper thanks to advances in technology, but we now need to control other costs. We are developing software for our Home Trade service in China to improve the service without increasing costs.

Q: Have the tie-ups with regional banks already started?

A: (Watanabe)

Deregulation allowed companies other than securities firms to enter the securities intermediary business from April and banks were allowed to enter from this month. Megabanks started operations in this area on December 1, but it has been a relatively quiet start.

We are limiting our securities intermediary business to tie-ups with financial institutions. Tie-ups with some regional banks started on December 1.

Q: Will this be done through joint brands or the Nomura brand?

A: (Watanabe)

It will be based on the brand of each regional financial institution. Our strategy is to reach regions not covered by our branch network. There are many regional prefectures where we only have one branch. But by tying up with a regional bank in such areas, we will have access to say 100 branches and hundreds of staff, allowing us to cover the whole prefecture. This strong network and local brand awareness on the part of regional banks will help us reach new customers. Our position is to provide

solutions to these regional banks.

Q: In the long-term, what proportion of your business do you think will come from regional banks? Do you think say maybe 30%?

A: (Watanabe)

It depends on what you mean by long-term, but I think we would be pleased with about that level. We want to continue forging tie ups with various financial institutions to help cover fixed costs. As the next step, we also want to look into tie ups with operating companies.

Q: I would like to hear what you are doing to address medium-term structural changes. In Domestic Retail, you said you are addressing the shift from savings to investment, but banks are changing their approach in line with this too. What sort of business chances will these structural changes bring for Global Wholesale in the medium term?

A: (Toda)

The issue you point out is a major one for management when discussing strategy. As the securities business expands, a point under discussion is how to allocate our resources to combat such issues as megabanks entering the securities business as one-stop shops, and the emergence of online brokers as category killers. But we recognize that our ability to go on the offensive changes greatly depending on whether we see the current competitive landscape as a threat we will be swept into or as an opportunity to find our competitive edge.

Traditionally, banks operated within the framework of indirect financing, but they will now actively offer solutions that use the capital markets. This means we are likely to come head-to-head with banks in more business areas from now on. The start of new Bank of International Settlements regulations will also affect the business of banks operating in Japan. In competing with banks in most areas of wholesale, we believe our biggest challenge will be creating a competitive edge when it comes to our core competencies. For now, we don't believe there is any value to be found in coming under the wing of a bank.

The next few years will be fiercely competitive. We are aiming to make the most of our

resources to win a place in areas that will see us competing with banks.

(Koga)

Financial institutions are in a highly competitive environment now and are making a number of moves. But so far it has only been financial institutions talking strategy. In some respects, the public's needs are not being taken fully into account. We want to continue taking on new challenges in the growing securities industry while looking into what is the most effective structure for users of the capital markets and adopting accordingly.

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