

Investor Presentation

Q&A Session

Date: May 15, 2006
Place: Nomura Securities Co., Ltd. Nihonbashi Headquarters
Speaker: Nobuyuki Koga, President & CEO, Nomura Holdings, Inc.

Q: Do you have surplus shareholders' equity? If you do, is it possible to raise dividends slightly higher?

A: We don't look at the appropriate level of shareholders' equity as being something to determine at a certain point in time, because this level changes in line with the business environment and our business portfolio. We believe our present level is sufficient considering our current business portfolio and new businesses. We will augment our current operations and invest in new businesses as outlined earlier. Depending on the circumstances, we will also consider how to return shareholders' equity through share buybacks and dividends.

Q: What level of capital are you allocating to Global Markets, Global Investment Banking, Global Merchant Banking and other divisions?

A: Global Markets maintains its own trading position and as such uses the most capital. We are looking to increase our operations here and we expect the level of capital invested to rise in line with this expansion. Global Merchant Banking can be broken down into Terra Firma and Nomura Principal Finance (NPF). We plan to raise our position to approximately 300 billion yen over the next two to three years, mainly at NPF. This will require a certain level of capital. In Domestic Retail, we are increasing the number of branch offices in our network, but the business as a whole does not require a huge amount of capital. We will continue to seek growth that is both sustainable and stable.

Q: In December you said that save for changes in the external environment you believed shareholder's equity of 1.8 to 2 trillion yen was an appropriate level. But today you said you plan to increase shareholders' equity over the medium- to long-term. Does this mean there have been changes in the external environment? Also, does this mean you are more certain to achieve ROE of 10-15%?

A: Based on our business portfolio as it stood in December, I mentioned that 1.8 to 2 trillion yen could be considered as one baseline. Now, due to our performance through to the end of the fiscal year in March and our ongoing business expansion, circumstances have changed regarding necessary capital. We have clearly outlined our policy of seeking growth while achieving ROE of 10-15% and returning profits based on a dividend payout ratio of 30%. Our confidence in achieving 10-15% ROE is rising as our business expands.

Q: What new businesses are you allocating capital to and how much?

A: The most recent examples are Unified Partners and Joinvest Securities. For established entities such as Nomura Trust & Banking and Nomura Babcock & Brown that have mainly worked in collaboration with Nomura Securities, we are also looking to use capital for new businesses that are not directly related to Nomura Securities.

Q: Please provide us with some details as to what areas you see your new businesses operating in.

A: In trust banking, for instance, we are looking to areas that were not considered part of banking previously or were not allowed to be carried out by banks. One example of this is loans backed by marketable securities. Most banks offer the same services such as home loans and so forth. One of Nomura Trust & Banking's strong points is that it is not yet fully involved in the banking business.

In terms of loans, we also have Nomura Capital Investment, which extends non-recourse loans. In May we increased the number of employees and are building up our operations. We see this as another area for future growth.

Q: Please elaborate on what you mean by focusing on core competencies in the US.

A: It doesn't mean that we will be downsizing our existing functions in the US. However, if we try to meet every client need, there is a risk that we could become overloaded. So we want to increase efficiency, including in how we approach our business operations. We need to reconfirm that we are a Japan-based company and not a US-based one. The finance business is one in which operations need to be built up around the company's home market—where it can best capitalize on its strengths. So we will seek efficiencies in the US and concentrate on what we do best there, based on our position as a Japanese company. We will also look to businesses that can exist independently in the US. One example is CMBS originated in the States, which should be conducted fully in the US as it is a highly liquid market. We will continue to boost efficiency and profitability in such businesses.

Q: You said you are hoping to see some new businesses grow to the same level of your existing five business divisions. Which ones are candidates for this? And what other businesses besides loans and Joinvest Securities have the potential to grow into divisions in the coming years?

A: We have an internal target of 10 billion yen in income before income taxes before a business can become a division. Joinvest Securities, the loan business, and Nomura Trust & banking are just some candidates; there are several others.

Q: Joinvest Securities looks as if it may become involved in a pricing war over fees and commissions and some of your competitors are saying they will go head-to-head. How many accounts will Joinvest need to become profitable and to what extent will you absorb any losses?

A: Down the track, we want to grow the scope of Joinvest Securities' operations beyond the online brokerage business into new areas. We are now working towards our targets of 500,000 accounts by the end of the current fiscal year and profitable results by the fiscal year ending March 2008. We don't see this as being too big a hurdle so long as we can offer a stable platform and full customer support.

Q: You topped the league tables in equity and bond underwriting and M&A last year, but you are currently placed second in underwriting and seventh in M&A. Can you regain the number one position on a full-year basis?

A: The current fiscal year has only just started. League tables are affected by seasonal factors and it is hard to remain on top constantly on a monthly basis. Equity underwriting is becoming increasingly competitive, and it is not just the bank-affiliated firms showing momentum. In terms of bonds, there are some elements that can't be controlled regarding self-funding; however, we remain competitive in underwriting excluding self-funding.

M&A is an area where conflicts of interest can arise between the lenders—or banks—and the equity holders. As an independent firm, we are in a neutral position, making us the most reliable partner for corporations. We intend to firmly maintain this position.

Q: I think it would be tough to conduct cross-border M&A without local franchises in international markets. Is Nomura considering buying or teaming up with boutiques or M&A teams outside Japan?

A: It is a fact that investment banks based in the US enjoy a competitive edge when it comes to client networks and so forth in the US markets. However, we are strong in Japan and we understand Japanese clients. We also don't think that our business will necessarily run any smoother by just buying out or integrating operations. In Europe, we have tied up with Rothschild in cross-border M&A. We want to build on this relationship. In the UK last year we acquired Code Securities, a specialist biotechnology and life sciences investment banking firm. This was a 100% acquisition. In the US, we have a tie up with Thomas Weisel Partners. We intend to look into opportunities to further grow our business.

Q: Nomura's market capitalization has overtaken Lehman Brothers and is now ranked seventh in the world among securities firms. What is your target for market capitalization?

A: Market capitalization is an important yardstick to measure corporate value. However, I don't think it is right to consider it as a management target. I feel market

capitalization is a more effective yardstick to judge commercial banks which seek scale, rather than investment banks.

Q: ROE for the fiscal year just ended came in at 15.5%, just above your target range of 10-15%. Taking into account recent performance, what is your outlook for the current fiscal year?

A: While we did achieve 15.5% last fiscal year, reaching our target of 10-15% in the medium- to long-term was a major issue last year when ROE was 5.2%. Reaching our ROE target is indeed important. However, as we see it, a more important issue is how to increase our ability to reach this target on a sustainable basis. We have recently seen some adjustments in the equities markets, but we do not think there is a major change in corporate performance or behavior.

Q: Who decided the fee structure for Joinvest Securities and when?

A: What we have built up in our face-to-face operations is different from online brokerages. All I told Masaki Fukui, president of Joinvest Securities, was that I wanted him to establish the business on another level from Nomura Securities. So I was not directly involved in the discussions regarding the fee structure. But I also believe that taking a half-hearted approach would not be the best course of action.

Q: Do you take the same approach to decision making in other divisions such as Domestic Retail and Asset Management?

A: We are giving the divisions more latitude to make decisions on their own discretion.

Q: You said you will set your dividend payout ratio at 30% and take a flexible approach to share buybacks. Do you have an overall target for returning profits to shareholders?

A: We returned just over 50% in the previous fiscal year. However, we don't have an overall target. Instead, we clearly define our target dividend and once the minimum dividend has been decided we will increase this in the event of good financial performance, in line with our 30% dividend payout ratio.

Q: You had ambitions to be in the global top 10 in the 1990s. Is this no longer a target?

A: We were aiming for that in the 1990s when we were focused on the global league tables. Now we have a policy for each international region. We are approaching Asia as we do in Japan, focusing on building up our client base. While the UK is highly competitive, we aim to compete in this market and build our presence. As we concentrate on our core competencies in the US, we are aiming to establish ourselves as a niche player in businesses with presence.

Q: Why did you decide to introduce quarterly dividends even though your performance fluctuates each quarter?

A: It is true that our quarterly earnings fluctuate and that some factors will continue to fluctuate. However, as long as investors take into account dividends and cash flow when making investment decisions, we don't believe it is desirable to fully link dividends to performance. We believe we must pay a certain amount as a dividend even if performance is down.

Q: You seem to be making progress in diversifying your revenue sources. What external macroeconomic risks do you expect in the current fiscal year?

A: There will always be risks associated with business. Recent developments include the sharp rise in the yen, the economic cycle in Japan, and the upcoming election, among others. We don't see these as significant risks. The biggest risk is a change in the direction of reform whereby reform itself is seen as negative.

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