

Investor Presentation

Q&A Session

Date: May 14, 2007
Place: Nomura Securities Co., Ltd. Nihonbashi Headquarters
Speaker: Nobuyuki Koga, President and CEO, Nomura Holdings, Inc.

Q: You said you will focus on your Asian business. What do you plan to do in the area of hedge funds and high-net-worth investors?

A: Nomura has long-standing relationships with high-net-worth investors across Asia. Our approach to each country will be suited to local characteristics and we will diversify our wealth management product lineup to include real estate and other products in addition to our Japanese equities business.

Q: Your retail business is delivering strong results, however you booked a loss in the US last fiscal year. What is your outlook for the US?

A: We have been focusing on our core competencies in the US since last year. In particular, we have separated our business into globally-linked operations and local stand-alone operations. For our globally-linked operations in the US we are sliming down to what is really necessary while also raising efficiency. In terms of stand-alone operations, we are focusing on businesses that leverage Nomura's inherent strengths and can be fully completed locally. It is true that a loss was booked for subprime loans as a part of this process. However, our efforts in the US have become more coherent since last year.

Q: Page 11 of the presentation material shows a pie chart of income before income taxes for the five business divisions. What do you see as the major challenges for the five years ahead?

A: Our main challenge is our wholesale business, particularly Global Markets. In Equity, simple brokerage and block trading businesses have become tougher following liberalization in the late 1990s. Even in Fixed Income, it has become tougher to continue with the simple business model that relies on our strength of

being able to tie up with our retail operations. In Equity, we were able to bring electronic trading to Nomura Group with Instinet. In this way, we intend to continue building up Global Markets by bringing in different elements.

Q: Nomura has said that its strategy is to stay independent. However, as global competition intensifies, are you considering looking for a strategic partner in the US?

A: We believe that for both parties it is important that one plus one equals more than two. We acquired Instinet after looking at their business and vision and convincing ourselves that this was possible.

Q: How much funds have you set aside for M&A and what sort of companies are you considering acquiring? Also, are there any concrete discussions ongoing?

A: We don't have a particular amount set aside at the moment, but we have some degree of financial leeway for strategic investment. Roughly I would say 10% to 20% of shareholders' equity could be used for investment.

Q: Although you said you are still in the process of revamping Global Markets, revenue remains highly volatile. Do you think that concrete measures need to be taken?

A: Nomura's strengths in Global Markets have been in traditional businesses. To change this, we are responding in our own way for hedge funds and private equity funds. Instinet has an electronic infrastructure, while Fortress offers opportunities for regional complimentary relationships. We believe we can increase our level and add more to our response to clients.

Q: Does that mean that in Global Markets you are looking to diversify your business by expanding your client base to include hedge funds and private equity funds?

A: Until now Nomura's business model has leaned too much towards leveraging our strengths in the Japanese retail market. We want to expand our scope further. For instance, as corporate and investor clients increase their business in Asia, Nomura's business will also increase.

Q: Please tell us your thoughts on the firewall separating banking and the securities business in Japan.

A: Banks have a special role to play due to their settlement function. The debate that they should not be allowed to do everything is a discussion over the whole concept of banking and not an issue of banking and securities business. It is also about how much of a distinction can be made between lending and investment. For example, efforts are being made based on the idea that rather than just holding securities, asset values will increase by providing loans. However, looking at the results alone, it very much resembles the scheme whereby funds are lent and investment products bought, only the order is different. However, some people perceive this differently. Rather than saying it is wrong for banks and securities firms to compete, I believe we should first debate the extent to which the activities of banks should be controlled.

Q: Although you are enhancing your approach to hedge funds and private equity funds, Global Markets revenue is still fluctuating significantly due to several factors. Is it correct to say that this will continue through the current fiscal year?

A: The fact that we relied too heavily on our strengths in retail and that revenue is susceptible to market volatility are the main reasons behind fluctuations in Global markets revenue. In addition, we booked a loss in the US last year. This means that while we should have kept a tighter control on risks with our strengths in mind, revenue in Global Markets is impacted by a wide range of factors. Although it is true that our response to change was slow due to being too one-sided, that does not mean that Global Markets will do badly again this year and I have high expectations for the year ahead.

Q: To establish yourselves as Asia's Nomura, I believe you need to raise your presence in the area. For instance, Citi is working to raise its presence in Japan by issuing ADRs. Is Nomura considering listing on an Asian stock exchange?

A: We are not considering listing depository receipts on an Asia market at the moment. Our main focus in Asia is to increase contact between senior management and clients.

Q: Will the effects from subprime loans be felt in the first quarter of the year ending March 2008?

A: We took a somewhat conservative approach in valuing our subprime loans. We only hold loans for securitization purposes and although the market environment makes it hard to securitize the loans, we remain focused on exiting our position. As long as the market doesn't drop significantly going forward, the impact will be limited.

Q: In investment banking, equity underwriting is buoyant, but you are falling behind your global competitors in M&A, having slipped to 33rd in the global rankings. Buying an M&A boutique outfit could be one way to make one plus one equal more than two as you put it. Are you considering this in Asia or the US?

A: M&A is on the rise in Japan. But on a global scale it is still small and Nomura's scope for acting as financial advisor is limited. Despite this, we have been seeking alliances. Although our relationship is now resolved, we had an alliance with Wasserstein Perella over ten years ago, and we entered a capital and business alliance with Thomas Weisel Partners several years ago. We have also entered a business alliance with Rothschild. In terms of the number of M&A deals, companies that are globally competitive operate businesses in countries where M&A is prevalent. Nomura will focus on Asia where we are closely in tune with the needs of our clients.

Q: You said you will pursue alliances with Asian financial institutions as well as M&A. What areas and companies are you considering?

A: We have forged a business and capital alliance with Taishin in Taiwan and Samsung Securities has sold just under 100 billion yen of the Nomura Japan Open and REIT funds in Korea. In addition, our asset management business is gaining traction in Malaysia with such successes as administering pension funds. Capital investment in Asia is limited at the moment, however we intend to increase capital alliances in line with progress in our business. We will also use capital to deliver solutions to clients.

Q: You said you want to increase contact between senior management and clients in Asia. What do you mean by this in particular?

A: Asia also has a number of commonalities in each country and we believe we can make a contribution in a wider framework. One example could be to set up an advisory board made up of the chairmen of leading companies and Nomura executives.

Q: Although retail is a pillar for revenue, has the shift towards investment in Japan just started or is systematic reform needed for further growth?

A: Retail is growing, but we are only part of the way there. Japanese financial institutions still operate in a regulated industry. Nomura intends to break away and implant a service industry mindset. In the past, people who didn't want to reduce their wealth went to the banks, while those looking to increase their wealth came to securities firms. Now, client needs are very diverse and the key is to deliver services that match those needs as closely as possible. While talking about the system is important, it is more important to gain a self-awareness as a services industry.

Q: As globalization increases, M&A is picking up mainly in Europe and the US. The natural thing would be for Nomura to increase its operations in Europe and the US. Why are you strengthening your M&A business in Japan and Asia?

A: M&A is very active in Europe and the US now. And you raise a valid point that we should focus on business there. However, Japan and Asia are where Nomura has an advantage and where we can increase our presence by delivering necessary services. This will lead to an increase in our corporate value.

Q: The megabanks are increasing their operations in the securities business. What does the banking business represent to Nomura?

A: One-stop services for banking and securities is not necessarily what everyone wants. Some people dislike the idea. The customer's perspective is more important than that of the service provider. We will continue to add the functions that our customers require, such as securities-backed loans. Today it is more about making

the most of one's strengths, rather than systematic issues of banking and securities.

Q: Domestic Retail is strong, but this is just a reflection of the current environment. Won't performance drop if interest rates continue to increase?

A: The environment is one factor, but our expanding lineup of products and services is a major point. Even during the bubble days of the early 1990s as stock prices rose, we only target a limited section of people. Now, we are completely different. This is evident when you look at the number of accounts; the rise in clients is beyond comparison to the past.

Q: Mr. Koga, I understand that revenue has expanded significantly since you took over as CEO four years ago. However, it is also now 10 years since Nomura was hit by a scandal and I would like to ask what you think poses the biggest risk to Nomura now. In particular, I think that the sense of urgency within the company may be fading due to the expanded earnings.

A: There are elements we have cultivated over the past ten years. We changed what needed to be changed. However, one risk is that the number of people who did not go through this experience is increasing within the firm. It is no good if they just accept things at face value without thinking through why something is the way it is.

Q: What are you doing about preparing the next generation of leaders and your successor?

A: I am considering the best way to go about making a selection.

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