

NOMURA HOLDINGS INC  
Form 20-F  
June 29, 2006  
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**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 20-F**

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.. REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g) OF THE SECURITIES EXCHANGE ACT OF 1934  
OR

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended March 31, 2006

OR

.. TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the transition period from to

OR

.. SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
Date of event requiring this shell company report

Commission file number:1-15270

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**Nomura Horudingusu Kabushiki Kaisha**

(Exact name of registrant as specified in its charter)

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**Nomura Holdings, Inc.**

(Translation of registrant's name into English)

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9-1, Nihonbashi 1-chome

Chuo-ku, Tokyo 103-8645

Japan  
(Jurisdiction of incorporation or organization)

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Japan  
(Address of principal executive offices)

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Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of Each Class

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Common Stock\*

Name of Each Exchange On Which Registered

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New York Stock Exchange

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\*Not for trading, but only in connection with the registration of the American Depositary Shares, each representing one share of Common Stock.  
**Securities registered or to be registered pursuant to Section 12(g) of the Act:**

None

(Title of Class)

**Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:**

None

(Title of Class)

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**Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.**

As of March 31, 2006, 1,904,864,196 shares of Common Stock were outstanding, including 83,969,499 shares represented by 83,969,499 American Depositary Shares.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  Yes  No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.  Yes  No

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.  Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by check mark which financial statement item the registrant has elected to follow.

Item 17  Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  Yes  No

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*As used in this annual report, references to "Nomura" are to The Nomura Securities Co., Ltd. when the references relate to the period prior to, and including, September 30, 2001 and to Nomura Holdings, Inc. when the references relate to the period after, and including, October 1, 2001. See "History and Development of the Company" under Item 4.A of this annual report. Also, as used in this annual report, references to "we", "our" and "us" are to Nomura and, except as the context otherwise requires, its subsidiaries.*

*As used in this annual report, "yen" or "¥" means the lawful currency of Japan, and "dollar" or "\$" means the lawful currency of the United States of America.*

*As used in this annual report, "ADS" means an American Depositary Share, currently representing one share of Nomura's common stock, and "ADR" means an American Depositary Receipt evidencing one or more ADSs. See "Rights of Holders of ADSs" under Item 10.B of this annual report.*

*Amounts shown in this annual report have been rounded to the nearest indicated digit unless otherwise specified. In tables and graphs with rounded figures, sums may not add up due to rounding.*

**PART I**

**Item 1. Identity of Directors, Senior Management and Advisors**

Not applicable.

**Item 2. Offer Statistics and Expected Timetable**

Not applicable.

**Item 3. Key Information**

**A. Selected Financial Data.**

The following selected financial data as of March 31, 2002, 2003, 2004, 2005 and 2006 and for the years ended March 31, 2002, 2003, 2004, 2005 and 2006 have been derived from our consolidated financial statements included in this annual report and the annual reports for the years ended March 31, 2002, 2003, 2004 and 2005. These financial statements were prepared in accordance with U.S. GAAP.



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You should read the following selected financial data in conjunction with Item 5, Operating and Financial Review and Prospects, of this annual report and our consolidated financial statements included in this annual report.

	Year Ended March 31					
	2002	2003	2004	2005	2006	2006 <sup>(5)</sup>
(in millions, except per share data)						
<b>Income statement data:</b>						
Revenue	¥ 1,825,399	¥ 807,651	¥ 1,045,936	¥ 1,126,237	¥ 1,792,840	\$ 15,261
Interest expense	504,048	241,377	242,833	327,047	647,190	5,509
Net revenue	1,321,351	566,274	803,103	799,190	1,145,650	9,752
Non-interest expenses	1,148,379	518,865	520,427	594,355	700,050	5,959
Income from continuing operations before income taxes and cumulative effect of accounting change	172,972	47,409	282,676	204,835	445,600	3,793
Income tax expense	4,926	37,295	110,347	110,103	188,972	1,609
Income from continuing operations before cumulative effect of accounting change	168,046	10,114	172,329	94,732	256,628	2,184
Gain on discontinued operations <sup>(1)</sup>					47,700	406
Cumulative effect of accounting change		109,799				
Net income	¥ 168,046	¥ 119,913	¥ 172,329	¥ 94,732	¥ 304,328	\$ 2,590
<b>Balance sheet data (period end):</b>						
Total assets	¥ 17,758,273	¥ 21,169,446	¥ 29,752,966	¥ 34,488,853	¥ 35,026,035	\$ 298,145
Shareholders' equity	1,604,929	1,642,328	1,785,688	1,868,429	2,063,327	17,563
Common stock	182,800	182,800	182,800	182,800	182,800	1,556
<b>Per share data:</b>						
Income from continuing operations before cumulative effect of accounting change - basic	¥ 85.57	¥ 5.17	¥ 88.82	¥ 48.80	¥ 134.10	\$ 1.14
Net income - basic	85.57	61.26	88.82	48.80	159.02	1.35
Income from continuing operations before cumulative effect of accounting change - diluted	85.32	5.17	88.82	48.77	133.89	1.14
Net income - diluted	85.32	61.26	88.82	48.77	158.78	1.35
Shareholders' equity <sup>(2)</sup>	816.48	846.40	919.67	962.48	1,083.19	9.22
Cash dividends <sup>(2)</sup>	15.00	15.00	15.00	20.00	48.00	0.41
Weighted average number of shares outstanding <sup>(3)</sup> (in thousands)	1,963,881	1,957,316	1,940,116	1,941,401	1,913,759	
<b>Return on equity<sup>(4)</sup>:</b>	11.1%	7.4%	10.1%	5.2%	15.5%	

Notes:

- (1) In accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, income from the operations that were reclassified to discontinued operations during the current period are separately reported, and such amounts of the previous year were not significant.
- (2) Calculated using the number of shares outstanding at year end.
- (3) The number shown is used to calculate basic earnings per common share.

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- (4) Calculation method: Net income divided by average Shareholders' equity.
- (5) Calculated using the yen-dollar exchange rate of \$1.00 = ¥117.48, the noon buying rate in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York on March 31, 2006.

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Fluctuations in exchange rates between the Japanese yen and U.S. dollar will affect the U.S. dollar equivalent of the yen price of our shares and ADSs and the U.S. dollar amounts received on conversion of cash dividends. We have translated some Japanese yen amounts presented in this annual report into U.S. dollars solely for your convenience. The rate we used for the translations was ¥117.48 equal to \$1.00, which was the noon buying rate in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York on March 31, 2006. These translations do not imply that the yen amounts actually represent, or have been or could be converted into, equivalent amounts in U.S. dollars.

<u>Year ended March 31,</u>	<u>High</u>	<u>Low</u>	<u>Average*</u>	<u>Year end</u>
2002	¥ 134.77	¥ 115.89	¥ 125.64	¥ 132.70
2003	133.40	115.71	121.10	118.07
2004	120.55	104.18	112.75	104.18
2005	114.30	102.26	107.28	107.22
2006	120.93	104.41	113.67	117.48
<u>Calendar year 2005</u>	<u>High</u>	<u>Low</u>		
December	120.93	115.78		
<u>Calendar year 2006</u>	<u>High</u>	<u>Low</u>		
January	117.55	113.96		
February	118.95	115.82		
March	119.07	115.89		
April	118.66	113.79		
May	113.46	110.07		
June (through June 28)	116.42	111.66		

\* Average rate represents the average of rates available on the last day of each month during the period.

The noon buying rate for Japanese yen on June 28, 2006 was \$1.00 = ¥116.42

**B. Capitalization and Indebtedness.**

Not applicable.

**C. Reasons for the Offer and Use of Proceeds.**



Not applicable.

**D. Risk Factors.**

**Risk Factors.**

You should carefully consider the risks described below before making an investment decision. If any of the risks described below actually occurs, our business, financial condition, results of operations or cashflow could be adversely affected. In that event, the trading prices of our shares could decline, and you may lose all or part of your investment. In addition to the risks listed below, risks not currently known to us or that we now deem immaterial may also harm us and affect your investment.

**Market fluctuations could harm our businesses**

Our businesses are materially affected by conditions in the financial markets and economic conditions in Japan and elsewhere around the world. Market downturns can occur not only as a result of purely economic

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factors, but also as a result of war, act of terrorism, natural disasters or other similar events. A sustained market downturn can adversely affect our business and can result in substantial losses. Even in the absence of a prolonged market downturn, we may incur substantial losses due to market volatility.

### *Our brokerage and asset management revenues may decline*

A market downturn could result in a decline in the revenues concerning our intermediary business because of a decline in the volume of brokered securities transactions that we execute for our customers. Also, with regard to our asset management business, in most cases, we charge fees for managing our clients' portfolios that are based on the value of their portfolios. A market downturn that reduces the value of our clients' portfolios, increases the amount of withdrawals or reduces the amount of new investments in these portfolios would reduce the revenue we receive from our asset management businesses.

### *Our investment banking revenues may decline*

Unfavorable financial or economic conditions would likely reduce the number and size of transactions for which we provide securities underwriting, financial advisory and other investment banking services. Our investment banking revenues, which include fees from these services, are directly related to the number and size of the transactions in which we participate and would therefore decrease if there is a sustained market downturn.

### *We may incur significant losses from our trading and investment activities*

We maintain large trading and investment positions in the fixed income and equity and other markets, both for our own account and for the purpose of facilitating our customers' trades. Our positions consist of various types of asset, including financial derivatives transactions in the interest rate, credit, equity, currency, commodity, real estate and other markets, credited loans and real estate. Fluctuations of the markets where the foregoing assets are traded can adversely affect the value of these assets. To the extent that we own assets, or have long positions, a market downturn could result in losses if the value of these long positions decreases. Furthermore, to the extent that we have sold assets we do not own, or have short positions, an upturn in the prices of the assets could expose us to potentially unlimited losses. The uptrend of Japanese market interest rates and their volatility were caused by a monetary policy change by the Bank of Japan in March 2006. This could result in losses due to the decline in value of the bonds we own, although we have worked to mitigate these position risks with a variety of hedging techniques. We can incur losses if the markets move in a way we have not anticipated, as a result of specific events such as the terrorist attacks on September 11, 2001, or the Russian economic crisis in 1998. Also, we may face losses if the level of volatility of the markets where the foregoing assets are traded differs from our expectation, which may occur particularly in the emerging markets. In addition, we commit capital to take relatively large positions for underwriting or warehousing assets to facilitate certain capital market transactions. We may incur significant losses from these positions.

### *Holding large and concentrated positions of securities and other assets may expose us to large losses*

Holding a large amount of specific assets can enhance our risks and expose us to large losses in our businesses such as market-making, block trading, underwriting and acquiring newly-issued convertible bonds through third-party allotment. We have committed substantial amounts of capital to these businesses. This often requires us to take large positions in the securities of a particular issuer or issuers in a particular industry,

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country or region. For example, we previously held a large inventory for commercial mortgage-backed securities in our U.S. operations, the value of which seriously deteriorated after bond investors took flight from these investments in August 1998.

*Extended market decline can reduce liquidity and lead to material losses*

Extended market decline can reduce the level of market activity and the liquidity of the assets traded in the market. If we cannot properly close out our associated positions, particularly with respect to over-the-counter derivatives, we may incur substantial losses due to the difficulty of monitoring prices in a less liquid market.

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### *Our hedging strategies may not prevent losses*

We use a variety of instruments and strategies to hedge our exposure to various types of risk. If our hedging strategies are not effective, we may incur losses. We base many of our hedging strategies on historical trading patterns and correlations. For example, if we hold an asset, we may hedge this position by taking another asset which has, historically, moved in a direction that would offset a change in value of the former asset. However, historical trading patterns and correlations may not continue, and these hedging strategies may not be fully effective in mitigating our risk exposure because we are exposed to all types of risk in a variety of market environments.

### *Our risk management policies and procedures may not be fully effective in managing market risk*

Our policies and procedures to identify, monitor and manage risks may not be fully effective. Some of our methods of managing risk are based upon observed historical market behavior. This historical market behavior may not continue in future periods. As a result, we may suffer large losses by being unable to predict future risk exposures that could be significantly greater than the historical measures indicate. Other risk management methods that we use also rely on our evaluation of information regarding markets, clients or other matters, which is publicly available or otherwise accessible by us. This information may not be accurate, complete, up-to-date or properly evaluated, in which case we may be unable to properly assess our risks, and thereby suffer large losses.

### *Market risk may increase the other risks that we face*

In addition to the potentially adverse effects on our businesses described above, market risk could exacerbate other risks that we face. For example, the risks associated with new products through financial engineering/innovation may be increased by market risk. Also, if we incur substantial trading losses caused by our exposure to market risk, our need for liquidity could rise sharply while our access to cash may be impaired as a result of the rise of our own credit risk. Furthermore, if there is a market downturn, our customers and counterparties could incur substantial losses of their own, thereby weakening their financial condition and, as a result, increasing our credit risk exposure to them. Our liquidity risk and credit risk are described below.

### **Liquidity risk could impair our ability to fund operations and jeopardize our financial condition**

Liquidity, or having ready access to cash, is essential to our businesses. In addition to maintaining a readily available cash position, we seek to enhance our liquidity through repurchase and securities lending transactions, access to long-term debt, issuance of long-term bonds, diversification of our short-term funding sources such as commercial paper, and by holding a portfolio of highly liquid assets. We bear the risk that we may lose liquidity under certain circumstances, including the following:

### *We may be unable to access the debt capital markets*

We depend on continuous access to the short-term credit markets and the debt capital markets to finance our day-to-day operations. An inability to raise money in the long-term or short-term debt markets, or to engage in repurchase agreements and securities lending, could have a

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substantial negative effect on our liquidity. For example, lenders could refuse to extend the credit necessary for us to conduct our business based on their assessment of our long-term or short-term financial prospects if:

we incur large trading losses,

the level of our business activity decreases due to a market downturn, or

regulatory authorities take significant action against us.

Our ability to borrow in the debt markets also could be impaired by factors that are not specific to us, such as a severe disruption of the financial markets or negative views about the general prospects for the investment banking, securities or financial services industries generally. For example, in 1998 and 1999, as a result of

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concerns regarding asset quality and the failure of several large Japanese financial institutions, some international lenders charged an additional risk premium to Japanese financial institutions for short-term borrowings in the interbank market and restricted the availability of credit they were willing to extend. This additional risk premium, commonly known as *Japan premium*, may be imposed again.

*In particular, we may be unable to access the short-term debt markets*

We depend primarily on the issuance of commercial paper and short-term bank loans as a principal source of unsecured short-term funding of our operations. Our liquidity depends largely on our ability to refinance these borrowings on a continuous basis. Investors who hold our outstanding commercial paper and other short-term debt instruments have no obligation to provide refinancing when the outstanding instruments mature. We may be unable to obtain short-term financing from banks to make up any shortfall.

*We may be unable to sell assets*

If we are unable to borrow in the debt capital markets or if our cash balances decline significantly, we will need to liquidate our assets or take other actions in order to meet our maturing liabilities. In volatile or uncertain market environments, overall market liquidity may decline. In a time of reduced market liquidity, we may be unable to sell some of our assets, which could adversely affect our liquidity, or we may have to sell assets at depressed prices, which could adversely affect our results of operations and financial condition. Our ability to sell our assets may be impaired by other market participants seeking to sell similar assets into the market at the same time. For example, after the Russian economic crisis in 1998, the liquidity of some of our assets, including Russian bonds and other assets, such as commercial mortgage-backed securities, was significantly reduced by simultaneous attempts by us and other market participants to sell similar assets.

*Lowering of our credit ratings could increase our borrowing costs*

Our borrowing costs and our access to the debt capital markets depend significantly on our credit ratings. Rating agencies may reduce or withdraw their ratings or place us on *credit watch* with negative implications. This could increase our borrowing costs and limit our access to the capital markets. This, in turn, could reduce our earnings and adversely affect our liquidity. For example, in 1998, after a series of credit rating downgrades, we experienced an increase in borrowing costs and reduced access to short-term funding sources particularly in connection with our operations in Europe and the United States.

### **Event risk may cause losses in our trading and investment assets as well as market and liquidity risk**

Event risk refers to potential losses in value we may suffer through unpredictable events that cause large unexpected market price movements. These include not only the events such as the terrorist attacks on September 11, 2001 and the Russian economic crisis in 1998 that resulted in losses to our business but also the following types of events that could cause losses on our trading and investment assets:

sudden and significant changes in credit ratings with regard to our trading and investment assets by rating agencies that have significant presence and influence on the market,

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sudden changes in trading, tax, accounting, laws and other related rules which may make our trading strategy obsolete or less competitive, or

the failure of corporate actions, bankruptcy, and criminal prosecution with respect to the issuers of our trading and investment assets.

### **Losses caused by financial or other problems of third parties may expose us to credit risk**

Our counterparties are from time to time indebted to us as a result of transactions or contracts, including loans, commitments to lend, other contingent liabilities, and derivatives transactions such as swaps and options.

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We may incur material losses when our counterparties default on their obligations to us due to bankruptcy, deterioration in their creditworthiness, lack of liquidity, operational failure, an economic or political event, or other reasons. This risk may arise from:

decline of prices of securities issued by third parties, or

executing securities, futures, currency or derivative trades that fail to settle at the required time due to non-delivery by the counterparty or systems failure by clearing agents, exchanges, clearing houses or other financial intermediaries.

Problems related to third party credit risk may include the following:

*Defaults by a large financial institution could adversely affect the financial markets generally and us specifically*

The commercial soundness of many financial institutions is closely interrelated as a result of credit, trading, clearing or other relationships among the institutions. As a result, concern about the credit standing of, or a default by, one institution could lead to significant liquidity problems or losses in, or defaults by, other institutions. This may adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms and exchanges, with which we interact on a daily basis. Actual defaults, increases in perceived default risk and other similar events could arise in the future and could have an adverse effect on the financial markets and on us. We may suffer financially if major Japanese financial institutions fail or experience severe liquidity or solvency problems.

*There can be no assurance as to the accuracy of the information about, or the sufficiency of the collateral we use in managing, our credit risk*

We regularly review our credit exposure to specific customers or counterparties and to specific countries and regions that we believe may present credit concerns. Default risk, however, may arise from events or circumstances that are difficult to detect, such as fraud. We may also fail to receive full information with respect to the risks of a counterparty. In addition, in cases where we have extended credit against collateral, we may fall into a deficiency in value in the collateral. For example, if sudden declines in market values reduce the value of our collateral, we may become undersecured.

*Our customers and counterparties may be unable to perform their obligations to us as a result of economic or political conditions*

Country, regional and political risks are components of credit risk, as well as market risk. Economic or political pressures in a country or region, including those arising from local market disruptions or currency crises, may adversely affect the ability of clients or counterparties located in that country or region to obtain credit or foreign exchange, and therefore to perform their obligations owed to us.

**The financial services industry is intensely competitive and rapidly consolidating**



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The businesses we are in are intensely competitive, and we expect them to remain so. We compete on the basis of a number of factors, including transaction execution, our products and services, innovation, reputation and price. In recent years, we have experienced intense price competition, particularly in brokerage, underwriting and other businesses. There has also been increased competition in terms of delivery of value-added services to customers, such as corporate advisory services.

*Competition with online securities companies in Japan is intensifying*

Since the late 1990s, the financial services sector in Japan has been undergoing deregulation. Banks and other types of financial institutions can compete with us to a greater degree than they could before deregulation

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in the areas of financing and investment trusts. Moreover, since the full deregulation of stock brokerage commission rates in October 1999, competition in the domestic brokerage market has intensified. A number of securities companies in Japan, especially small and medium-sized firms, including those that specialize in online securities brokerage, are offering securities brokerage services at low commission rates. We may continue to experience pricing pressures in the future.

### *Competition with securities companies affiliated with Japanese commercial banks is increasing*

In recent years, securities companies affiliated with Japanese commercial banks have been increasing their market shares in the underwriting business, thereby reducing our share. Some of these securities companies have been successful in capturing the lead underwriter's position in major corporate bond offerings.

### *Competition with non-Japanese firms in the Japanese market is increasing*

Competition from non-Japanese firms has also increased through their presence in Japan, especially in the areas of securities underwriting and corporate advisory services, particularly M&A advisory services.

### *Increased domestic and global consolidation in the financial services industry means increased competition for us*

In recent years, there has been substantial consolidation and convergence among companies in the financial services industry. In particular, a number of large commercial banks, insurance companies and other broad-based financial services firms have established or acquired broker-dealers or have merged with other financial institutions in Japan and overseas. Particularly in Japan, the number of business alliances of securities companies with commercial banks has been increasing. Consolidations of those financial institutions with a view to becoming a conglomerate are also reported as possible. Through such business alliances and consolidations, these other securities companies and commercial banks have, or would have, the ability to offer a wide range of products, including loans, deposit-taking, insurance, brokerage, asset management and investment banking services. This diversity of services offered is enhancing, or would enhance, their competitive position compared with us. They also have the ability to supplement their investment banking and securities business with commercial banking, insurance and other financial services revenues in an effort to gain market share. We may lose market share as these large, consolidated firms expand their business.

### *Our ability to expand internationally will depend on our ability to compete successfully with financial institutions in international markets*

We believe that significant challenges and opportunities will arise for us outside of Japan. In order to take advantage of these opportunities, we will have to compete successfully with financial institutions based in important non-Japanese markets, including the United States, Europe and Asia. Some of these financial institutions are larger, better capitalized and have a stronger local presence and a longer operating history in these markets.

### **Operational risk may disrupt our businesses, result in regulatory action against us or limit our growth**

We face, for example, the following types of operational risk. If such risk materializes, we could suffer financial losses, disruption in our business, litigation from relevant parties, regulatory intervention in our business by the authorities, or reputation damage:

suffering damages due to failure to settle securities transactions,

suffering damages due to failure by officers or employees to perform proper administrative activities prescribed in regular procedures, such as orders to the securities exchanges,

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suffering damages due to suspension or malfunction of systems, many of which are developed and maintained by our affiliate, Nomura Research Institute, Ltd., or,

suffering damages as a result of the destruction of our facilities or systems due to large-scale disasters or acts of terrorism.

### **Our business is subject to substantial legal and regulatory risk, to regulatory changes and reputation risk**

Substantial legal liability or a significant regulatory action against us could have a material financial effect or cause reputation harm to us, which in turn could seriously damage our business prospects. Also, material changes in regulations applicable to us or to our market could adversely affect our business.

#### *Our exposure to legal liability is significant*

We face significant legal risks in our businesses. These risks include liability under securities or other laws for materially false or misleading statements made in connection with securities underwriting and offering transactions, potential liability for advice we provide in corporate transactions, disputes over the terms and conditions of complex trading arrangements or the validity of contracts for transactions with us and legal claims concerning our merchant banking business. During a prolonged market downturn, we would expect claims against us to increase. We may also face significant litigation. The cost of defending such litigation may be substantial and our involvement in litigation may damage our reputation. In addition, even legal transactions might be subject to social criticism according to the particulars or situations of such transactions. These risks may be difficult to assess or quantify and their existence and magnitude may remain unknown for substantial periods of time.

#### *Extensive regulation of our businesses limits our activities and may subject us to significant penalties*

The financial services industry is subject to extensive regulation. We are subject to regulation by governmental and self-regulatory organizations in Japan and in virtually all other jurisdictions in which we operate. These regulations are designed to ensure the integrity of the financial markets and to protect customers and other third parties who deal with us. These regulations are not necessarily designed to protect our shareholders and often limit our activities, through net capital, customer protection and market conduct requirements. We face the risk that regulatory authorities may intervene in our businesses through extended investigation and surveillance activity, adoption of costly or restrictive new regulations or judicial or administrative proceedings that may result in substantial penalties. We could be fined, prohibited from engaging in some of our business activities, or be subject to the temporary or long-term suspension or revocation of our legal authorization to conduct business. Our reputation could also suffer from the adverse publicity that any administrative or judicial sanction against us may create. As a result of such sanction, we may lose business opportunities for a period of time, even after the sanction is lifted, if and to the extent that our customers, especially public institutions, decide not to engage us for their financial transactions.

#### *Material changes in regulations applicable to us or to our market could adversely affect our business*

If regulations that apply to our businesses are introduced, modified or removed, we could be adversely affected directly or through resulting changes in market conditions. For example, in September 2002, the Financial Services Agency of Japan abolished restrictions on sharing common office space between banks and their affiliated securities companies. Also, in accordance with the amendments to the Securities and

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Exchange Law effective from December 1, 2004, banks and certain other financial institutions became able to act as agents of securities companies in the securities brokerage business and therefore increasing competition. Furthermore, we may face additional regulations on trading or other activities that may lead to a reduction of the market liquidity, trading volume or market participants. Such regulatory action may damage the Japanese markets as our main revenue source.

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### **Misconduct by an employee, Director or Executive Officer could harm us and is difficult to detect and deter**

We face the risk that misconduct by an employee, Director or Executive Officer could occur. Misconduct by a party such as an employee, Director or Executive Officer, including transactions in excess of authorized limits, acceptance of risks that exceeds our limits, or concealment of unauthorized or unsuccessful activities may adversely affect our business. Misconduct by an employee, Director or Executive Officer could also involve the improper use or disclosure of confidential information, which could result in regulatory sanctions, legal liability and serious reputation or financial damage to us. We may not always be able to deter misconduct by an employee, Director or Executive Officer and the precautions we take to prevent and detect misconduct may not be effective in all cases.

### **Unauthorized disclosure of personal information held by us may adversely affect our business**

We keep and manage personal information obtained from customers in relation to our business. Reportedly, in recent years, there have been many cases of personal information and records in the possession of corporations and institutions being improperly accessed or disclosed. We may have to provide compensation for economic loss and emotional distress arising out of a failure to protect such information in accordance with the Law Concerning Protection of Personal Information, rules, regulations and guidelines relating thereto. The provisions of this law applicable to us became effective on April 1, 2005.

Although we exercise care in protecting the confidentiality of personal information and take steps to ensure security of such information, if any material unauthorized disclosure of personal information does occur, our business could be adversely affected in a number of ways. For example, we could be subject to complaints and lawsuits for damages from customers if they are adversely affected as a result of the release of their personal information. In addition, we could incur additional expenses associated with changing our security systems, either voluntarily or in response to administrative guidance or other regulatory initiatives, or in connection with public relations campaigns designed to prevent or mitigate damage to our corporate or brand image or reputation. Any tarnishment of our reputation caused by such unauthorized disclosure could lead to a decline in new customers and/or a loss of existing customers, as well as to increased costs and expenses in dealing with any such problems.

### **We may not be able to realize gains we expect on our private equity investments**

As discussed in **Private Equity Business** under Item 5.A. of this annual report, we restructured our European private equity business in 2002. Following the restructuring, the investments that were formerly possessed by the old **Principal Finance Group (PFG)** are now managed by **Terra Firma Capital Partners Ltd. (TFCPL)**, an independent private equity firm, which was founded by a number of ex-Nomura employees. Under the legal agreements between the two parties, TFCPL has been appointed as sole, discretionary manager of the investments and has full autonomy over all decisions regarding how these investments are run and managed, including appointing management, setting and agreeing strategic direction and determining how and when the investments are eventually exited. Nomura as a passive investor in respect of the Terra Firma investments, cannot take any action in respect of TFCPL or any of the underlying investments and has no representation in the board of directors of any of the underlying investee companies. The legal arrangements entered into with Terra Firma are designed to ensure an alignment of interest between Nomura as the investor and TFCPL as the discretionary manager, but Nomura does not have the ability to terminate these arrangements other than for cause.

The performance of the Terra Firma investments could have a material impact on our future financial statements. This performance in turn will be dependent on the ability of TFCPL to maximize value from the investments and also on general market conditions. The Terra Firma investments are in the residential real estate, consumer finance, retail and business process outsourcing sectors, and thus any deterioration in the

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market conditions of these sectors in Europe could have a material impact on our future financial statements. This is especially the case if market conditions deteriorate in the residential real estate sectors in the UK and Germany, given the large amount of investment in these sectors. Furthermore, given the large and illiquid nature of the

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Terra Firma investments, TFCPL, who manage these investments, may not be able to realize the value of the individual investments at a level, at the time or in a way they would wish. Inability to dispose of the underlying investments could have a material impact on our future financial statements.

Also, we have a growing private equity business in Japan as discussed in Private Equity Investments under Item 5.A. of this annual report. The investments of this business are mainly in the manufacturing and theme park sectors in Japan. As the size of this business increases, any deterioration in the market conditions of these sectors and/or our inability to dispose of our private equity investments at a level, at the time or in a way we may wish, could have a material impact on our future financial statements.

### **We may not be able to dispose of our operating investments at the time or with the speed we would like**

We hold substantial operating investments, which refer to investments in equity securities of companies not affiliated with us which we hold on a long-term basis in order to promote existing and potential business relationships. A substantial portion of these investments consists of equity securities of public companies in Japan. Under U.S. GAAP, depending on market conditions, we may record significant unrealized gains or losses on our operating investments, which would have a substantial impact on our income statement. Depending on the conditions of the Japanese equity markets, we may not be able to dispose of these equity securities when we would like to do so or as quickly as we may wish.

### **Our investments in publicly-traded shares of affiliates accounted for under the equity method in our consolidated financial statements may decline significantly over a period of time and result in our incurring an impairment loss**

We have equity investments in affiliates accounted for under the equity method in our consolidated financial statements whose shares are publicly traded. Under U.S. GAAP, if there is a decline in the fair value, *i.e.*, the market price, of the shares we hold in such affiliates over a period of time, and we determine, based on the guidance of Accounting Principles Board Opinion No. 18, The Equity Method of Accounting for Investments in Common Stock, that the decline is other than temporary, then we must record an impairment loss for the applicable fiscal period.

### **We may face an outflow of customers' assets due to losses of cash reserve funds or bonds we offered**

We offer many types of products to meet various needs of our customers with different risk profiles. Cash reserve funds, such as money management funds and money reserve funds, and Long-term Bond Investment Trusts ( Nomura Bond Fund ) are categorized as low-risk products. Such cash reserve funds may fall below par value as a result of losses caused by the rise of interest rates, the shifts in cash flow or defaults on bonds contained in the portfolio. In addition, bonds that we offer may default or experience delays in their obligation to pay interest and/or principal. Such losses in the products we offer may result in the loss of customer confidence and lead to an outflow of customer assets from our custody.

### **Because of daily price range limitations under Japanese stock exchange rules, you may not be able to sell your shares of Nomura's common stock at a particular price on any particular trading day, or not at all**



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Stock prices on Japanese stock exchanges are determined on a real-time basis by the equilibrium between bids and offers. These exchanges are order-driven markets without specialists or market makers to guide price formation. To prevent excessive volatility, these exchanges set daily upward and downward price fluctuation limits for each stock, based on the previous day's closing price. Although transactions may continue at the upward or downward limit price if the limit price is reached on a particular trading day, no transactions may take place outside these limits. Consequently, an investor wishing to sell at a price above or below the relevant daily limit may not be able to sell his or her shares at such price on a particular trading day, or not at all.

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### **Under Japan's unit share system, holders of our shares constituting less than one unit are subject to significant transfer, voting and other restrictions**

Pursuant to the Corporation Law of Japan relating to joint stock corporations and certain related legislation, our Articles of Incorporation provide that 100 shares of our stock constitute one unit. The Corporation Law imposes significant restrictions and limitations on holdings of shares that constitute less than a whole unit. Holders of shares constituting less than one unit do not have the right to vote or any other right relating to voting. The transferability of shares constituting less than one unit is significantly limited. Under the unit share system, holders of shares constituting less than a unit have the right to require us to purchase their shares. Also, holders of shares constituting less than a unit may request us to the effect that we sell shares which become a full unit of shares, together with the less than a unit shares owned by the registered shareholders. However, holders of ADSs are unable to withdraw underlying shares representing less than one unit. Therefore, as a practical matter, they cannot require us to purchase these underlying shares. As a result, holders of ADSs representing shares in lots of less than one unit may not have access to the Japanese markets to sell their shares through the withdrawal mechanism.

### **As a holder of ADSs, you will have fewer rights than a shareholder has and you will have to act through the depository to exercise these rights**

The rights of the shareholders under Japanese law to take actions including voting their shares, receiving dividends and distributions, bringing derivative actions, examining the company's accounting books and records and exercising appraisal rights are available only to holders of record. Because the depository, through its custodian agent, is the record holder of the shares underlying the ADSs, only the depository can exercise those rights in connection with the deposited shares. The depository will make efforts to vote the shares underlying your ADSs as instructed by you and will pay to you the dividends and distributions collected from us. However, in your capacity as an ADS holder, you will not be able to bring a derivative action, examine our accounting books and records or exercise appraisal rights except through the depository.

### **Rights of shareholders under Japanese law may be more limited than under the laws of jurisdictions within the United States**

Our Articles of Incorporation, our Regulations of the Board of Directors and the Japanese Corporation Law govern our corporate affairs. Legal principles relating to such matters as the validity of corporate procedures, directors' and executive officers' fiduciary duties and shareholders' rights may be different from those that would apply if we were a non-Japanese company. Shareholders' rights under Japanese law may not be as extensive as shareholders' rights under the laws of jurisdictions within the United States. You may have more difficulty in asserting your rights as a shareholder than you would as a shareholder of a corporation organized in a jurisdiction within the United States.

### **It may not be possible for investors to effect service of process within the United States upon us or our Directors or Executive Officers, or to enforce against us or those persons judgments obtained in United States courts predicated upon the civil liability provisions of the federal securities laws of the United States**

We are a limited liability, joint-stock corporation incorporated under the laws of Japan. Most of our Directors and Executive Officers reside in Japan. Many of our assets and the assets of these persons are located in Japan and elsewhere outside the United States. It may not be possible, therefore, for U.S. investors to effect service of process within the United States upon us or these persons or to enforce against us or these persons judgments obtained in the United States courts predicated upon the civil liability provisions of the federal securities laws of the United States. We believe that there is doubt as to the enforceability in Japan, in original actions or inactions for enforcement of judgment of U.S. courts, of liabilities predicated solely upon the federal securities laws of the United States.



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### **Special Note Regarding Forward-looking Statements**

This annual report contains forward-looking statements that are based on our current expectations, assumptions, estimates and projections about our business, our industry and capital markets around the world. These forward-looking statements are subject to various risks and uncertainties. Generally, these forward-looking statements can be identified by the use of forward-looking terminology such as may, will, expect, anticipate, estimate, plan or similar words. These statements discuss future expectations, identify strategies, contain projections of our results of operations or financial condition, or state other forward-looking information.

Known and unknown risks, uncertainties and other factors may cause our actual results, performance, achievements or financial position to differ materially from any future results, performance, achievements or financial position expressed or implied by any forward-looking statement contained in this annual report. Such risks, uncertainties and other factors are set forth in this Item 3.D and elsewhere in this annual report.

### **Item 4. Information on the Company**

#### **A. History and Development of the Company.**

Nomura was incorporated in Japan on December 25, 1925 under the Commercial Code of Japan when the securities division of The Osaka Nomura Bank, Ltd. became a separate entity specializing in the trading and distribution of debt securities in Japan. Nomura was the first Japanese securities company to develop its business internationally with the opening in 1927 of a representative office in New York, which actively traded non-yen-denominated debt securities. In Japan, we broadened the scope of our business when we began trading in equity securities in 1938 and when we organized the first investment trust in Japan in 1941.

Since the end of World War II, we have played a leading role in most major developments in the Japanese securities market. These developments include the resumption of investment trust business in the 1950s, the introduction of public stock offerings by Japanese companies in the 1960s, the development of the over-the-counter bond market in the 1970s, the introduction of new types of investment trust such as the medium-term Japanese government bond investment trusts in the 1980s, and the growth of the corporate bond and initial public offering markets in the 1990s.

Our post-World War II expansion overseas accelerated in 1967, when Nomura acquired a controlling interest in Nomura International (Hong Kong) Limited for the purpose of conducting broker-dealer activities in the Hong Kong capital market. Subsequently, we established a number of other overseas subsidiaries, including Nomura Securities International, Inc. in the United States in 1969 as a broker dealer and Nomura International Limited, now Nomura International plc, in the United Kingdom in 1981, which acts as an underwriter and a broker, as well as various other overseas affiliates, branches and representative offices.

In recent years, we have sought to take advantage of new opportunities presented by deregulation of the Japanese financial market and by developments in information technology. For example, to increase retail customers' access to our services, we have taken advantage of the Internet to offer on-line brokerage and related services.

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On October 1, 2001, we adopted a holding company structure. In connection with this reorganization, Nomura changed its name from The Nomura Securities Co., Ltd. to Nomura Holdings, Inc. Nomura continues to be listed on the Tokyo Stock Exchange, Inc. and other stock exchanges on which it was previously listed. A wholly-owned subsidiary of Nomura assumed Nomura's securities businesses and is named Nomura Securities Co., Ltd.

In December 2001, we were listed on the New York Stock Exchange.

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We have also strengthened our mergers and acquisitions and other financial advisory businesses by acquiring majority interests in Nomura Corporate Advisors Co., Ltd., formerly Nomura Wasserstein Perrella Co., Ltd., in November 1999. Nomura Corporate Advisors became a wholly-owned subsidiary of Nomura in September 2000 and merged with Nomura Securities in April 2002.

We have also enhanced our asset management business through the acquisition of a majority interest in Nomura Asset Management Co., Ltd. in March 2000. Nomura Asset Management became a wholly-owned subsidiary of Nomura in December 2001.

On June 26, 2003, we adopted a committee-based corporate governance system under which we established a Nomination Committee, an Audit Committee and a Compensation Committee. See Item 6.C of this annual report.

In September, 2003, we sold 4,650 thousand shares of treasury shares at a value of ¥7,967million by a secondary offering in Japan.

The address of Nomura's registered office is 9-1, Nihonbashi 1-chome, Chuo-ku, Tokyo 103-8645, Japan, telephone number: 81-3-5255-1000.

## **B. Business Overview.**

### **Overview**

We are the leading securities and investment banking firm in Japan and have worldwide operations. Nomura is a holding company. As of March 31, 2006, we operated offices in more than 20 countries and regions including Japan, the United States, the United Kingdom, Singapore and Hong Kong through our subsidiaries.

Our customers include individuals, corporations, financial institutions, governments and governmental agencies.

Our businesses consist of the following five business segments:

Domestic Retail principally investment consultation services to retail customers;

Global Markets principally fixed income and equity trading and asset finance businesses in and outside Japan;

Global Investment Banking principally M&A advisory and corporate financing businesses in and outside Japan;

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Global Merchant Banking principally private equity investments in and outside Japan; and

Asset Management principally development and management of investment trusts, and investment advisory services.

For a discussion on revenues by category of activity and geographic market, see **Operating Results** under Item 5.A of this annual report.

### **Our Business Strategy**

#### *Our Corporate Goals and Principles*

We are committed to a management vision of firmly establishing itself as a globally competitive Japanese financial services group. We have also set a management target of achieving an average consolidated return on equity (ROE) of 10-15% over the medium to long term.

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In pursuit of this vision, we seek to enlarge the scope of our business without being confined within the traditional bounds of the securities industry while always paying due attention to feedback from our clients. Our goal is thus to transform ourselves into a financial group that provides quality services for all investment needs. We intend to bolster our profitability and diversify our sources of revenue to establish a solid revenue base.

By taking further steps to enhance the responsibilities and powers of each business division, we seek to enhance their level of specialization and expand their scope of business while increasing collaboration. These moves will serve to maximize our overall business potential.

### *Our Current Challenges*

*Current Business Environment.* The business environment in which we operate is undergoing various important changes. With the Japanese economy on the way to recovery, and as the global economy continues to expand, the flow of money into the stock market is expected to continue, fueled by growing asset management needs. Japan's social structure is being transformed as baby boomers retire en masse; the legal system is being overhauled; deregulation is advancing. Meanwhile, business opportunities for the financial services sector as a whole are growing as personal financial assets grow, the shift from savings to investment accelerates, and companies adopt more aggressive financial strategies. However, the business environment is unpredictable as competition is intensifying.

Amidst this climate of change, we believe, it is vital to expand our business by building on our greatest asset, our customer base, while responding flexibly to changes without straying from our core commitment of seeing eye to eye with our clients.

*Management Challenges and Strategies.* The greatest management challenges facing our group are maintaining our growth trend and implementing our management vision. To that end, we reformed our operational structure in April 2006. First, the number of the holding company's executive officers was reduced to eleven, their sole concern being defined as the development of our group as a whole. Meanwhile, the responsibilities and powers of the business divisions were enhanced through the appointment of business division CEOs. And to underline our determination to expand the scope of our business, the word "Securities" was removed from the name of our group in Japanese: it is now simply "Nomura Group" as in English. Having adopted this new organizational framework, we now stand ready to expand and grow our existing business divisions, create new businesses, and rebuild our business overseas.

*Expansion and Growth of Existing Business Divisions.* Having appointed business division CEOs and taken other steps to enhance the responsibilities and powers of our individual business divisions, we intend to further develop the business of each. The strategies being pursued to that end in each business division are as follows:

In Domestic Retail, we seek to expand our client base by encouraging a shift of personal financial assets from savings to the securities market. With that in mind, we are pursuing a "Core Value Formation" strategy, which involves promptly offering products and services focusing on the core values that each client considers most important. We are also continuing our efforts to educate people about investing with the goal of attracting more players into the securities market.



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In Global Markets, which comprises Global Fixed Income, Global Equity, and Asset Finance, we seek to expand revenues by furnishing customers with high-value-added solutions. Specifically, we provide liquidity for financial products such as interest rates, foreign exchange, credit, and equity, as well as for real-estate-related products; and we will harness such financial techniques as securitization and derivatives.

In Global Investment Banking, we seek to expand our M&A advisory and corporate finance businesses by providing high-value-added solutions tailored to each client's individual strategy. We also seek to harness our domestic and international networks to establish a strong presence in Asia and further expand our business globally.

In Global Merchant Banking, we seek to maximize returns on investment by tapping our own capital for investing in companies and, while fostering coordination with other business divisions, by seeking to increase the corporate value of companies in which we invest.

In Asset Management, we have put in place an organizational framework that, through centralization and strengthening of research capabilities, we believe is capable of increasing the value of customer assets over the medium to long term. By diversifying the range of products we offer and expanding our investment trust sales channels, we seek to increase the amount of assets under our management and expand our revenue base. In the field of defined contribution pension plans, we seek to expand our client base by offering an integrated package of services embracing everything from support with adopting plans to provision of individual products.

*New Businesses.* Already over the past few years we have taken tentative steps to create new businesses. We have moved into the real estate field and begun handling real estate loans; launched an on-line securities company and entered the trust and banking agency businesses. We intend to build on this momentum. Meanwhile we expect to see our existing businesses develop in new directions as we overhaul, expand, and grow them -- by, for example, reforming our commission structure, accelerating the opening of new branches, and expanding sales channels through partnerships in the securities brokerage field.

*International Business.* Internationally, we do not intend to pursue an identical business strategy in all regions; instead, we seek to develop different strategies tailored to different regions. In Asia, we will conduct business in line with local business practices. In Europe, we seek to strengthen our revenue basis. In the United States, we are increasing our focus on our core businesses.

## **Domestic Retail**

In Domestic Retail, we conduct business activities mainly for individuals and corporations in Japan through a network of 134 branches nationwide as of the end of March 2006. We offer investment consultation service and maintenance services to meet the medium- to long-term needs of our customers. The aggregate market value of our domestic client assets was ¥80.5 trillion as of the end of March 2006. We discuss domestic client assets in *Operating Results* under Item 5.A of this annual report.

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In order to execute our business strategy described above in *Our Current Challenges*, we employ various methods to deliver our services to our clients. These include face-to-face meetings with our staff, either in our branch offices or by visiting our customers, and communications through Nomura Home Trade, an Internet-based trading service or our call center. In December 2003, we launched the *Hotto Direct* Department to meet the needs of asset builders by providing Internet and telephone services in order to strengthen our service structure for individual investors, who consist primarily of salaried employees of Japanese companies.

We capitalize on the linkages among Domestic Retail, Global Markets, Global Investment Banking, and Asset Management to offer to our customers various financial instruments such as stocks, bonds, investment trusts and variable annuity insurance products, for the short, medium, and long terms, with different risk levels. We seek to provide information that can only come from Nomura to customers through various media such as our investor reports, direct mailing and internet-based trading services (Nomura Home Trade).

## **Global Markets**

We facilitate customer transactions and trade for our own account by market-making and trading fixed income and equity securities, including related derivatives, in Japan and overseas.

Global Markets is composed of Global Fixed Income, Global Equity, and Asset Finance. As financial products become increasingly diversified across various asset types, we are implementing a trading system better suited to hybrid products with both debt and equity characteristics, such as convertible bonds and preferred stocks. Also, we are trying to strengthen our position in domestic credit markets, and have been improving our capability to offer market-based credit products such as domestic securitization instruments. Furthermore we are expanding our asset finance business, primarily in the real estate market.

*Global Fixed Income.* We offer clients global access to the fixed income markets and solutions to their financing needs. In our trading operations, our offices in Tokyo, Hong Kong, London and New York work closely with one another to ensure that clients receive access to coverage across the globe. We have a number of client-focused trading teams, with particular expertise in trading domestic and international debt as well as other fixed income related products, including government securities, agency securities, municipal securities, credit products, money market products, foreign exchange and asset backed securities. In the field of interest rate, credit and other derivatives trading, we utilize our risk management capabilities and risk tolerance capacity to provide services that respond to the investment requirements of our clients. We recognize that investors possess differing investment needs. Through our global sales and trading network, including our capital markets, syndication, securitization and asset finance teams, we provide investors around the world with the services and products that match their investment needs in a timely manner. We continue to strengthen our track record in euro bonds by leveraging our leadership in the yen bond market for over a decade. Our research team covers Japan's domestic economy and markets, and the global economy. In our research activities, analysts specializing in economic, credit and quantitative research provide investors with timely up-to-the-minute research and insights on the major issues of the moment. By combining our research power with our sales, trading, origination and syndication capabilities, we seek to provide tailor-made services to our clients.

*Global Equity.* Our equity sales, trading and market-making activities cover domestic and foreign equity and equity-related products such as convertible debt, warrants, equity index products, equity swaps, options and other structured products. We also deal with large block orders or basket transactions utilizing our execution and distribution capabilities. We are members of major stock exchanges around the world. In addition, we deal in stock borrowing and stock loan transactions in supporting our domestic and international trading, asset management and custody services.

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*Asset Finance.* As of April 2005, we separated Asset Finance as a new business line under Global Markets. Asset Finance provides clients, various solutions towards the arrangement of financings instruments for real estate, and Japanese Real Estate Investment Trusts in Japan.

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### **Global Investment Banking**

We provide a broad range of investment banking services, including underwriting and financial advisory.

*Underwriting.* We manage and participate in the underwriting of offerings of debt, equity and other securities in Japan and other major financial markets. We also arrange private placements and engage in other capital raising activities. We are one of the leading equity and fixed income securities underwriters in Japan. We are also one of the leading underwriters of international fixed income products issued by supranationals, governments, government agencies and corporate issuers around the world.

*Financial Advisory Services.* We provide financial advisory services on business transactions including mergers and acquisitions, divestitures, spin-offs, restructurings, capital structuring and leverage buyouts. Our involvement in initial public offerings, reorganizations and other corporate restructurings enhance our opportunities to offer customers other advisory and investment banking services.

### **Global Merchant Banking**

We have a growing private equity business in Japan, which we operate through a wholly owned subsidiary, Nomura Principal Finance Co., Ltd. ( NPF ). Since its inception in July 2000, NPF 's main focus has been targeting investment opportunities for capital appreciation that will offer attractive returns to us and which will also help contribute to the revitalization of the Japanese economy. Since its inception, NPF has made 17 investments for an aggregate value of ¥ 118,347 million and has successfully exited from seven investments (including partial sales). Given the attraction of private equity opportunities in Japan as the economy improves and the speed of corporate restructuring increases, NPF 's investment portfolio is set to increase.

In Europe, our private equity investments are managed by Terra Firma, an independent asset management group. Terra Firma was established following the reorganization in March 2002 of our UK principal finance business, and is operated by former Nomura employees. For a further description of our private equity business, see Private Equity Business under Item 5.A of this annual report.

We also actively invest in venture companies in Japan, Europe and US, focusing mainly on biotechnology, IT technology and health care businesses, some of which have been already taken public through IPOs.

### **Asset Management**

In Asset Management, we conduct asset management business and defined contribution pension plan business.

*Asset Management Business*

We conduct our asset management business, which consists of development and management of investment trusts and investment advisory services, primarily through Nomura Asset Management Co., Ltd., the largest asset management company in Japan, in terms of assets under management in investment trusts. Nomura Asset Management Co., Ltd. manages various investment trusts, ranging from low risk/low return products to high risk/high return products, and develops new products to respond to various investor needs. Investment trusts are distributed to investors through our network of Domestic Retail as well as through financial institutions such as securities companies (including those outside our group), banks and Japan Post. Investment trusts are also offered as instruments in defined contribution pension plans. We also provide investment advisory services to public pensions, private pensions, governments and their agencies, central banks and institutional investors.

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In addition to Nomura Asset Management Co., Ltd., we also conduct our asset management business through our subsidiaries that engage in asset management business, including Nomura Corporate Research and Asset Management Inc., (NCRAM), which mainly manages high yield bonds and high yield loans in the United States, Nomura BlackRock Asset Management Co., Ltd., which mainly manages US Dollar denominated bonds in Japan, Nomura Funds Research and Technologies Co., Ltd. in Japan, MAINTRUST KAG mbH in Germany, and Nomura Funds Research and Technologies America, Inc. in the United States. In January 2006, Nomura Bank (Luxembourg) S.A., which is mainly engaged in fund administration and custody business, was integrated into Asset Management.

### *Defined Contribution Pension Plan Business*

We also provide services relating to defined contribution pension plans, such as support for plan implementation (plan design), product selection, provision of information to subscribers, trust services, product supply, and investor education. In January 2004, we consolidated our defined contribution pension telephone services, administrative services for defined contribution pension plans, and pension-related and other consulting services under one subsidiary, Nomura Pension Support & Services Co., Ltd., to provide improved services to customers.

### **Our Research Activities**

We provide fundamental research on the macro economies of different countries, international capital flows, financial markets, industries and companies. Furthermore, our advanced financial engineering units provide quantitative research.

We produce industry-wide, company-specific and other research reports based on our research activities. We distribute these research reports to our retail customers in Japan and to our institutional customers in and outside Japan.

### **Our Information Technology**

We believe that information technology is one of the key factors to the success of our overall business and intend to develop and maintain a technology platform to fill the various needs of our clients.

We provide our customers with electronic access to our products and services through the technology platform. For our retail customers, we have introduced Nomura Home Trade, at [www.nomura.co.jp/hometrade](http://www.nomura.co.jp/hometrade), which provides our retail customers with on-line trading capabilities and current status reports on asset portfolios, investments and transactions and investment information, including our research reports through the internet or mobile phones. For institutional customers, we have introduced BondNavigator, a web site at [www.bondnavi.com](http://www.bondnavi.com), through which we provide on-line information and trading tools on the fixed income market. In addition to these, we have made many strategic investments and participate in a number of institutional trading networks.

### **Competition**

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We encounter intense competition in all aspects of our business and compete on a global basis with other securities firms and financial institutions, in particular, other leading globally integrated financial services firms. A number of competitive factors affect our business, including:

the quality, range and prices of our services,

our ability to originate innovative financial products and services,

our ability to maintain and develop customer relationships,

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our general reputation, and

our ability to commit capital resources and to retain qualified employees.

Our competitive position is also affected by a variety of factors that influence the overall condition of the global financial markets, such as:

the monetary and fiscal policies of national governments and international economic organizations, and

political, economic and regulatory developments in Japan, the United States and other major industrialized countries, as well as in developing countries.

In Japan, we compete with other domestic securities companies, non-Japanese securities companies and other types of financial institutions. Since the late 1990s, competition with leading global securities and investment banking firms with substantial operations in Japan has become more intense as the financial services sector in Japan has become increasingly deregulated, the level of participation by overseas investors in the Japanese securities market has risen. In particular, major non-Japanese firms have increased their presence in Japan in the areas of securities underwriting and corporate advisory services, particularly M&A advisory services. Also, in recent years, there has been substantial consolidation and convergence amongst domestic financial institutions. A number of large commercial banks, insurance companies and other broad-based financial services firms have established or acquired broker-dealers or have merged with other financial institutions in Japan and abroad. Particularly in Japan, other major securities companies have recently been seeking to form business alliances with major commercial banks, reportedly with a view to an eventual consolidation of those financial institutions, in order to be able to increase their competitiveness and market share by combining banking and other financial services. Through such business alliances or consolidations, these securities companies and commercial banks have, or would have, the ability to offer a diversity of services to enhance their competitive positions compared with us. Through such business alliances or consolidations, they also have, or would have, the ability to supplement their investment banking and securities business with commercial banking, insurance and other financial services revenues in an effort to gain their market shares. In light of these developments, we are approaching the securities business from a broader perspective and continuing to strengthen and expand our domestic operations while, simultaneously, utilizing our global capabilities.

We also compete with other types of financial institutions in Japan, such as banks with securities company subsidiaries, with respect to both providing financing and the investment opportunities to customers.

Since stock brokerage commission rates were deregulated in October 1999, competition in the domestic stock brokerage market has intensified. A number of securities companies in Japan, especially small and medium-sized firms, are offering securities brokerage services at low commission rates. We have restructured our stock brokerage services to offer lower commissions, but seek to compete against these companies not only on the basis of commission rates, but by offering high-value added services such as our research, consultation and trading execution. We continue to enhance our on-line trading capabilities through boosting user-friendliness to meet the various demands of our customer. In May 2006 we launched an on-line securities company to maintain our group's competitiveness by offering retail clients brokerage services through internet. As for the underwriting business, some on-line securities companies have recently begun offering dramatically reduced commission rates in order to gain market share. We continue to monitor these trends carefully.

We compete with Japanese and non-Japanese asset management companies. We are a leading provider of asset management services in Japan. Recognizing the opportunities available in Japan for asset management business, new entrants, in particular major non-Japanese asset management companies, and asset management companies with operations in Japan are allocating more resources to expand their operations. This is intensifying competition in this business area.





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Overseas, we compete with major investment banking firms. Most of our competitors in the overseas markets have stronger local presence and longer operating history in these markets than we do. We are competitive with respect to Japan-related financial products, such as global sales and trading activities and underwriting activities in Japanese equity securities and fixed income products denominated in yen, and in certain non-Japan-related areas.

## **Regulation**

### *Japan*

*Regulation of Securities Industry.* The Securities and Exchange Law regulates most aspects of securities transactions and the securities industry, including the public offering, private placement and secondary trading of securities, the on-going disclosure by securities issuers, tender offers for securities, the organization and operations of securities exchanges and self-regulatory associations, and the registration of securities companies. The Financial Services Agency, which was established in July 2000, is generally delegated the authority of the Prime Minister under the Securities and Exchange Law. The Securities and Exchange Surveillance Commission, an external agency of the Financial Services Agency which is independent from the Agency's other bureaus, is vested with authority to conduct day-to-day monitoring of the securities market and to investigate irregular activities that hinder the fair trading of securities. Furthermore, the Financial Services Agency delegates certain authority delegated to it by the Prime Minister to the Local Finance Bureau. In addition, securities companies are subject to extensive regulations regarding the scope of business in which they may engage under the Securities and Exchange Law. Securities companies are also subject to the rules and regulations of the Japanese stock exchanges and the Japan Securities Dealers Association, a self-regulatory association of securities companies.

Under the Securities and Exchange Law, a securities company may conduct, in addition to businesses incidental to the securities business, certain businesses specified under the Securities and Exchange Law, such as investment advisory business, investment trust management business and financial futures trading.

Business practices of securities companies are also subject to various regulatory requirements. In addition, the Financial Services Agency or the Local Finance Bureau regularly conducts inspections and examinations of securities companies. A violation of applicable laws and regulations can result in various administrative sanctions, including the revocation of registration or authorization, the suspension of business and an order to discharge a director or executive officer who has not complied with applicable laws and regulations.

Securities companies are not allowed to directly conduct banking and other financial services, except for cases in which securities companies register as a money lender and conduct money lending business under the Law Concerning Regulation, etc. of Money Lending Businesses. Also, securities companies may own a majority of shares in banks and other financial services institutions. Such subsidiaries conducting banking and financial services are also regulated by relevant laws and regulations. The Nomura Trust and Banking Co., Ltd. is a subsidiary of Nomura and conducts banking and certain financial services. In addition, under the recent deregulation, securities companies as well as other non-financial institutions are allowed to conduct trust agent business by registering with the Prime Minister under the amended Trust Business Law.

Historically, the Securities and Exchange Law has generally prohibited banks and other financial institutions from engaging directly in the securities business, with limited exceptions including dealing in, and underwriting of, government, government-guaranteed and municipal bonds and offering and selling of investment trust certificates; provided, however, that banks and certain other financial institutions may engage in the securities business through their securities company subsidiaries. In addition, in accordance with the amendments to the Securities and Exchange Law effective on December 1, 2004, banks and certain other financial institutions became able to act as agents of securities companies in the

securities brokerage business, which encouraged bank financial groups to promote their securities business.

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The Law to Amend Part of the Securities and Exchange Law, Etc. (the Amendment Law) of Japan, which replaces the Securities and Exchange Law with a new Financial Instruments and Exchange Law, was promulgated on June 14, 2006. The Amendment Law will come into force as of the day to be specified by a Cabinet Order that shall fall within one year and six months from the date of promulgation thereof, in principle. The Financial Instruments and Exchange Law will widely regulate the products and services that have been regulated by laws and ordinances other than the Securities and Exchange Law or have not been subjected to any regulation by laws and ordinances, as financial instruments and financial instruments trading business anew, whereby further strengthening investor protection. Additionally, the Financial Instruments and Exchange Law will provide for stiffer penalties for misrepresentation in disclosure documents and unfair trading, improvement of TOB systems, improvement of systems of reports on large shareholders and improvement of corporate information disclosure systems, including obligatory quarterly report systems and obligatory submission of confirmation letters concerning the descriptions in securities reports, among other things.

To enhance investor protection, Japanese securities companies must segregate customer assets and are required to be a member of an investor protection fund approved by the government under the Securities and Exchange Law. The investor protection fund is funded through assessments on securities companies that are members of the fund. The investor protection fund provides protection of up to ¥10 million per customer, in the event of failure of a securities company that is a member of the fund. The investor protection fund covers claims related to customer securities deposited with the failed securities company and certain other claims of customers.

### *Overseas*

Our overseas offices and subsidiaries are also subject to various laws and governmental rules and regulations applicable in those countries where such offices and subsidiaries carry on their respective operations, including those promulgated and enforced by the Securities and Exchange Commission, the New York Stock Exchange and the National Association of Securities Dealers, Inc. in the United States, and by the Financial Services Authority and the London Stock Exchange plc in the United Kingdom. Failure to comply with such laws, rules or regulations could result in fines, suspension or expulsion, which could have a material adverse effect upon us.

## **Regulatory Capital Rules**

### *Japan*

Under the Securities and Exchange Law, securities companies are required to maintain adjusted capital at specified levels as compared with the quantified total of their business risks on a non-consolidated basis. Article 52 of the Securities and Exchange Law requires securities companies to file month-end reports regarding their capital adequacy ratio, i.e., the ratio of adjusted capital to a quantified total of business risks, to the Financial Services Agency, or the Local Finance Bureau, and to disclose their capital adequacy ratio to the public on a quarterly basis. A securities company must also file a report on a daily basis with the Financial Services Agency or the Local Finance Bureau if its capital adequacy ratio falls below 140%. Article 56-2 of the Securities and Exchange Law determines the actions which the Prime Minister through the Financial Services Agency may take if the ratio falls further: if the ratio falls below 120%, the Prime Minister may order the securities company to change its method of business or to deposit its property in trust, or order other measures for the public interest and investor protection if necessary. A securities company whose ratio falls below 100% may be subject to additional proceedings, including temporary suspension of its business and revocation of its registration as a securities company if there is no prospect that the ratio will recover three months after the suspension came into effect.

Adjusted capital is defined as shareholders' equity less illiquid assets. Shareholders' equity mainly consists of stated capital, additional paid-in capital, retained earnings, reserve for securities transactions, certain allowances for doubtful current accounts, net unrealized gain/loss in the

market value of investment securities, and subordinated debt. The illiquid assets generally include non-current assets, certain deposits and advances and

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prepaid expenses. The business risks are divided into three categories: (i) market risks (i.e., risks of asset value changes due to decline in market values and other reasons), (ii) counterparty risks (i.e., risks of delinquency of counterparties and other reasons) and (iii) basic risks (i.e., risks in carrying out daily business activities, such as administrative problems with securities transaction and clerical mistakes), each quantified in the manner specified in a ministerial ordinance under the Securities and Exchange Law.

We closely monitor the capital adequacy ratio of Nomura Securities Co., Ltd. on a continuous basis. Since the introduction of the capital adequacy requirement in Japan in 1989, we have at all times been in compliance with these requirements. We believe that we will continue to be in compliance with all applicable capital adequacy requirements in the foreseeable future.

The Financial Services Agency established the Guideline for Financial Conglomerate Supervision in June, 2005. Financial conglomerates, defined as holding company of financial institutions and its group companies, must maintain the amount of consolidated capital not smaller than required capital. General Principles of Supervising Securities Companies, established in July 2005, requires international securities group to report consolidated capital adequacy ratio to the Financial Services Agency semi-annually and whenever if the ratio falls below 120%.

We started monitoring the consolidated capital adequacy ratio of Nomura Holdings, Inc. according to the above guideline and principle from April 2005. We have been in compliance with these requirements, and believe that we will continue to be in compliance with all applicable capital adequacy requirements in the foreseeable future.

### *Overseas*

In the United States, Nomura Securities International, Inc. is a registered broker-dealer, registered futures commission merchant and is licensed to transact on the New York Stock Exchange. As such, Nomura Securities International, Inc. is subject to the minimum net capital requirements of the United States Securities and Exchange Commission, the New York Stock Exchange and the Commodity Futures Trading Commission. These requirements specify minimum levels of capital that U.S. broker-dealers are required to maintain and limit the amount of leverage that such broker-dealers may use in their businesses. As a primary dealer of United States government securities, Nomura Securities International, Inc. is also subject to the capital adequacy requirements under the Government Securities Act of 1986.

Nomura International plc, in the United Kingdom, is regulated by the Financial Services Authority and is subject to capital requirements of that authority.

In addition, certain of our other subsidiaries are subject to various securities and banking regulations, and capital adequacy requirements promulgated by the regulatory and exchange authorities of the countries in which such subsidiaries operate. We believe that each such subsidiary is, and will in the foreseeable future be, in compliance with such requirements in all material respects.

**Table of Contents****C. Organizational Structure.**

The following table lists Nomura and its significant subsidiaries and their respective countries of incorporation. Indentation indicates the principal parent of each subsidiary. Proportions of ownership interest include indirect ownership.

Name	Country	Ownership
		Interest (%)
Nomura Holdings, Inc.	Japan	
Nomura Securities Co., Ltd.	Japan	100
Nomura Asset Management Co., Ltd.	Japan	100
The Nomura Trust & Banking Co., Ltd.	Japan	100
Nomura Babcock & Brown Co., Ltd.	Japan	100
Nomura Capital Investment Co., Ltd.	Japan	100
Nomura Investor Relations Co., Ltd.	Japan	100
Nomura Principal Finance Co., Ltd.	Japan	100
Nomura Funds Research and Technologies Co., Ltd.	Japan	51
Nomura Pension Support & Service Co., Ltd.	Japan	100
Nomura Research & Advisory Co., Ltd.	Japan	100
Nomura Business Services Co., Ltd.	Japan	100
Nomura Facilities, Inc.	Japan	100
Nomura Institute of Capital Markets Research	Japan	100
Joinvest Securities Co., Ltd.	Japan	100
Nomura Holding America Inc.	United States	100
Nomura Securities International, Inc.	United States	100
Nomura Corporate Research and Asset Management Inc.	United States	100
Nomura Asset Capital Corporation	United States	100
The Capital Company of America, LLC	United States	100
Nomura Derivative Products, Inc.	United States	100
Nomura Global Financial Products, Inc.	United States	100
Nomura Securities (Bermuda) Ltd.	Bermuda	100
Nomura Europe Holdings plc	United Kingdom	100
Nomura International plc	United Kingdom	100
Nomura Bank International plc	United Kingdom	100
Banque Nomura France	France	100
Nomura Bank (Luxembourg) S.A.	Luxemburg	100
Nomura Bank (Deutschland) GmbH	Germany	100
Nomura Bank (Switzerland) Ltd.	Switzerland	100
Nomura Italia S.I.M. p.A.	Italy	100
Nomura Funding Facility Corporation Limited	Ireland	100
Nomura Global Funding plc	United Kingdom	100
Nomura Europe Finance N.V.	The Netherlands	100
Nomura Principal Investment plc	United Kingdom	100
Nomura Asia Holding N.V.	The Netherlands	100
Nomura Investment Banking (Middle East) B.S.C. (c)	Bahrain	100
Nomura International (Hong Kong) Limited	Hong Kong	100
Nomura Singapore Limited	Singapore	100
Nomura Malaysia Sdn. Bhd.	Malaysia	100
Nomura Australia Limited	Australia	100
PT Nomura Indonesia	Indonesia	94





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### **D. Property, Plants and Equipment.**

#### **Our Properties**

As of March 31, 2006, our principal head office is located in Tokyo, Japan and occupies 974,976 square feet of office space. Our other major offices in Japan are our Osaka branch office, which occupies 131,150 square feet, our Nagoya branch office, which occupies 77,338 square feet, and the head office of Nomura Asset Management in Tokyo, which occupies 160,773 square feet. We lease certain other office space in Japan. Nomura Land and Building Co., Ltd., which is accounted for under the equity method of accounting in our consolidated financial statements, is the lessor of certain leased office space in Japan, including part of our Tokyo headquarters.

As of March 31, 2006, our major offices outside Japan are the London head office of Nomura International, which occupies 382,227 square feet, and the New York head office of Nomura Securities International, which occupies 249,514 square feet. We own the land and building for the London head office of Nomura International. We lease most of our other overseas office space.

As of March 31, 2006, the aggregate book value of the land and buildings we owned was ¥168 billion, and the aggregate book value of equipment we owned, including communications and data processing facilities, was ¥53 billion. These amounts include the aggregate book value of the land and buildings private equity entities owned of ¥25 billion, and the aggregate book value of equipment private equity entities owned of ¥14 billion. We lease other equipment we use in our operations.

#### **Item 4A. Unresolved Staff Comments**

We are a large accelerated filer as defined in Rule 12b-2 under the Securities Exchange Act of 1934. There are no written comments which have been provided by the staff of the Securities and Exchange Commission regarding our periodic reports under that Act not less than 180 days before the end of the fiscal year ended March 31, 2006 and which remain unresolved as of the date of the filing of this annual report with the Commission.

### **Item 5. Operating and Financial Review and Prospects**

#### **A. Operating Results.**

*You should read the following discussion of our operating and financial review and prospects together with Item 3.A Selected Financial Data of this annual report and our consolidated financial statements included elsewhere in this annual report.*

*This discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of factors, including, but not limited to, those under*

*Item 3.D Risk Factors and elsewhere in this annual report.*

## **Business Environment**

### *Japan*

The Japanese economy came to a standstill around the middle of 2004, primarily owing to inventory adjustments in the IT/digital sectors. However, capital expenditure regained momentum in 2005, and the IT/digital sectors recovered in the second half of the year as inventory adjustments came to an end. The Japanese economy moved out of its lull, and has been increasing in strength ever since. During this time, the United States, Chinese, and other overseas economies generally remained healthy, and this provided a tailwind for Japan's economy.

Corporate earnings have expanded steadily since the fiscal year ended March 2003, and this trend was maintained in the year ended March 2006, which looks likely to be the fourth straight year of growth in corporate

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earnings. Overall growth was driven by another year of strength for materials and other sectors sensitive to commodity prices, but there were also strong performances in processing sectors such as automobiles and machinery, as well as in the financials sector.

The stock market traded in a narrow range for more than a year from spring 2004, but then rallied strongly from August 2005. The Tokyo Stock Price Index, or TOPIX, which is a broad index for the Japanese equity market, stood at 1,182.18 at the end of March 2005, little changed from 1,179.23 at the end of March 2004, but by the end of March 2006 the TOPIX had risen 46%, to 1,728.16. Similarly, the Nikkei Stock Average came to 11,668.95 at the end of March 2005, slightly down from 11,715.39 at the end of March 2004, but had climbed 46% by the end of March 2006, to 17,059.66.

Yields on newly issued 10-year Japanese Government bonds declined moderately from around the middle of 2004, when Japan's economy entered a flat period, up to the middle of 2005. From mid-2005 until the start of 2006, yields increased modestly as the economy moved out of its soft patch, but remained for the most part in a range of 1.2 - 1.6%. However, in March 2006 the Bank of Japan announced the end of its policy of quantitative easing, causing yields to start rising faster and to break out of the range, briefly reaching 2% in April 2006.

Between the autumn and the end of 2004, the U.S. dollar slumped to around ¥102 against the Japanese yen and around US\$1.36 against the euro on expectations of a revaluation in the renminbi. However, in 2005, the dollar rebounded on expectations of an expanding interest rate spread between the United States and Japan and the United States and Europe, owing to forecasts that the strong United States economy would prompt further rate hikes, that quantitative easing was likely to remain in place for the time being in Japan, and that interest rates would be on hold in Europe. By autumn 2005, the dollar was trading at around ¥121, and the euro at around US\$1.17. In December 2005, the European Central Bank (ECB) lifted interest rates, and expectations started to mount that quantitative easing would soon end in Japan, causing the dollar to fluctuate. In March 2006, the ECB announced a further rate hike, and the Bank of Japan ended its policy of quantitative easing. At the same time, speculation about an end to the current round of interest rate hikes in the United States began to increase, and the dollar fell sharply in April as a result.

## *Overseas*

The economies of the world's leading industrialized nations lost some momentum in manufacturing sectors from the middle of 2004, as inventories were worked down in IT-related sectors. Overall, however, the economies remained strong up to spring 2006. International commodity prices maintained their upward momentum through spring 2006, after trending upward through 2004 and 2005, albeit with volatility along the way. A cycle of interest rate hikes started in the United States in June 2004, with the latest hike coming in May 2006, and in Europe interest rates began rising from December 2005. The Chinese authorities continue to take measures aimed at cooling an overheating economy.

The U.S. economy experienced healthy real GDP growth of 2.7% in 2003, 4.2% in 2004, and 3.5% in 2005. The U.S. economy in 2004 was bolstered by growth in capital expenditure by companies taking advantage of tax breaks on investment, and also by strong exports. This trend weakened only mildly into 2005, and consumer spending was also robust, underpinned by improving employment conditions and the continuing housing boom. The expansion slowed substantially in the fourth quarter as spending on motor vehicles was restrained following a surge in summer. However, the economy rebounded strongly in the first quarter of 2006.

The Federal Reserve Board started to raise interest rates in June 2004. In the two-year period through May 2006, the Federal Open Market Committee, or FOMC, hiked the Federal funds rate to 5%, from 1%. Despite the rate hikes, the 10-year yield on U.S. Treasuries remained steady up to 2005, at around 4.0 - 4.6%. However, the uptrend strengthened from March 2006, and since May the yield has been moving above the 5% mark. The Dow Jones Industrial Average, or DJIA, moved within the 9,800 - 11,000 point range from 2004 to 2005, as the cycle of interest rate hikes got under way. Moving into 2006, the DJIA broke through the 11,000 mark as speculation mounted that the cycle of interest rate hikes was

nearing its end. However, the view that rates will continue to climb remains deep-rooted, making the market volatile.

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The European economies have expanded at a more measured pace than the U.S. and Japanese economies. The ECB lifted its benchmark interest rate by 0.25 percentage point in December 2005, and by a further 0.25 percentage point in March 2006, bringing the rate to 2.5%. Despite some corrections along the way, European share prices generally trended upward from autumn 2004 to April 2006, before a slightly larger correction in May 2006.

After a very strong performance in 2004, Asian economies other than Japan grew at a slightly slower pace in 2005, but were nonetheless strong. The Chinese government further tightened its monetary policy to guard against the continued threat of an overheating economy. Meanwhile, the Indian economy eclipsed the growth attained in 2004.

## **Executive Summary**

During the fiscal year under review, the Japanese economy remained at a standstill until the summer of 2005, but the mood of recovery gradually strengthened in the latter half of the year. The scope of the recovery also widened as capital investment and employment began expanding among companies that had regained profitability thanks to restructuring. The stock market broke out of its narrow trading range in August and started climbing dramatically, fueled by expectations that the Japanese economy had finally emerged from deflation. For some time into the New Year, stock prices fluctuated considerably, but then, at the end of March, the Tokyo Stock Price Index (TOPIX) reached its highest level in approximately six years. Japan's corporate revival was duly acknowledged on the market as stock prices rose in a broad range of industries. With the renewed appetite for capital investment, the amount of funds raised by listed companies through the issue of stocks and bonds on domestic and overseas capital markets reached high levels. In this environment, we were able to expand our business by offering our customers a variety of creative financial solutions or investment opportunities through the capital markets and by diversifying our revenue sources. As a result, income from continuing operations before income taxes increased by 118% from ¥ 204.8 billion for the year ended March 31, 2005 to ¥445.6 billion for the year ended March 31, 2006. Net income increased by 221% from ¥94.7 billion for the year ended March 31, 2005 to ¥304.3 billion for the year ended March 31, 2006. Our return on equity (ROE) increased to 15.5% for the year ended March 31, 2006 from 5.2% for the year ended March 31, 2005.

In Domestic Retail, net revenue for the year ended March 31, 2006 was ¥446.5 billion, up 47% from the previous year, and income before income taxes was ¥197.2 billion, up 143% from the previous year, as we responded to customers' investment needs by offering stocks, investment trusts, foreign currency bonds, Japanese government bonds for individuals, and a variety of other financial products. We also enhanced our consultation abilities by adding staff education and training programs as well as increasing the capacity of our call centers, and we developed and introduced new products with a client-focused approach. Domestic client assets in Domestic Retail (including regional financial institutions) and Financial Management Division have continued to grow after reaching ¥80.5 trillion, the highest figure ever, as of March 31, 2006.

In Global Markets, net revenue for the year ended March 31, 2006 was ¥371.1 billion, up 53% from the previous year, and income before income taxes was ¥157.7 billion, up 162% from the previous year. Fixed Income revenue grew as a result of firm client order flow, strong derivative trading underpinned by a positive turnaround in the market environment, and contributions from the asset finance business. In Equity, active stock markets led to a recovery in order flow from domestic and foreign institutional investors, while block trades, multiple private offerings and trading gains in equity derivatives pushed up overall net revenue.

In Global Investment Banking, net revenue for the year ended March 31, 2006 was ¥99.7 billion, up 32% from the previous year, and income before income taxes was ¥51.5 billion, up 76% from the previous year. Equity underwriting fees increased as we served as lead manager for large public offerings and M&A/Financial advisory fees increased as we acted as financial advisor for a number of large deals. In international deals, we acted as lead manager for deals for a number of Asia's representative companies.

In Global Merchant Banking, net revenue for the year ended March 31, 2006 was ¥68.2 billion, up 830% from the previous year, and income before income taxes was ¥55.4 billion. This was the result of large

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contributions from Nomura Principal Finance's sale of its stake in Millennium Retailing, Inc., and the partial sale of Wanbishi Archives and other investee companies. We actively invested in start-ups in Japan, Europe, and the United States, primarily in the growth sectors of biotechnology, technology, and health care, and recovered some of our investments through IPOs.

In Asset Management, net revenue for the year ended March 31, 2006 was ¥65.8 billion, up 34% from the previous year, and income before income taxes was ¥20.6 billion, up 106% from the previous year. In Japan, the investment trust market has undergone a full-fledged recovery, as evidenced by the fact that assets under management in stock investment trusts are approaching a record level. We expanded our product lineup to meet clients' increasingly diverse asset management needs. The assets under management of Nomura Asset Management reached ¥21.4 trillion and the total assets under management in Asset Management amounted to ¥25.8 trillion as of March 31, 2006.

Over the past five years, we have increased the size of our balance sheet, while ensuring high liquidity and maintaining sufficient equity capital. The primary drivers of the increase in the balance sheet are the growth of trading activities, mainly highly liquid government bonds, notes and bills. This growth has been mainly funded through secured financing, long-term debt, and equity. Total equity capital increased by ¥458.4 billion from ¥1,604.9 billion as of March 31, 2002 to ¥2,063.3 billion as of March 31, 2006. We monitor the size, composition and growth of our balance sheet, diversify funding sources, and review equity capital base, its allocation and business mix to ensure it delivers return on equity commensurate to risk profile, the market circumstances, and our peer group. Liquidity is of critical importance, and we have created a robust set of liquidity policies to withstand market shocks for periods lasting over one year without raising additional unsecured financing or forcing the liquidation of assets.

**Results of Operations***Overview*

The following table provides selected consolidated income statement information for the years indicated.

	Year Ended March 31			
	2004	2005	2006	
	(in millions)			
Non-interest revenues:				
Commissions	¥ 210,216	¥ 221,963	¥ 356,325	\$ 3,033
Fees from investment banking	86,994	92,322	108,819	926
Asset management and portfolio service fees	66,193	78,452	102,667	874
Net gain on trading	229,042	201,686	304,223	2,590
Gain on private equity investments	13,138	7,744	12,328	105
Gain on investments in equity securities	55,888	15,314	67,702	576
Private equity entities product sales <sup>(1)</sup>	17,640	75,061	88,210	751
Other	23,565	32,316	58,753	500
<b>Total Non-interest revenues</b>	<b>¥ 702,676</b>	<b>¥ 724,858</b>	<b>¥ 1,099,027</b>	<b>\$ 9,355</b>
Net interest revenue	100,427	74,332	46,623	397

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Net revenue	803,103	799,190	1,145,650	9,752
Non-interest expenses	520,427	594,355	700,050	5,959
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Income from continuing operations before income taxes	282,676	204,835	445,600	3,793
Income tax expense	110,347	110,103	188,972	1,609
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Income from continuing operations	¥ 172,329	¥ 94,732	¥ 256,628	\$ 2,184
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Discontinued operations				
Income from discontinued operations before income taxes (including gain on disposal of ¥74,852 million in 2006)			99,413	846
Income tax expense			51,713	440
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Gain on discontinued operations			47,700	406
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Net income	¥ 172,329	¥ 94,732	¥ 304,328	\$ 2,590
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Return on equity	10.1%	5.2%	15.5%	
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

(1) See Private Equity Business below.



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Net revenue increased by 43% from ¥799,190 million for the year ended March 31, 2005 to ¥1,145,650 million for the year ended March 31, 2006. Commissions increased by 61% as Domestic Retail increased offerings of their products and services to take advantage of increased demand. Asset management and portfolio service fees also increased by 31% due primarily to the growth in the net assets of stock investment trusts. Net gain on trading increased by 51% from the previous year, due primarily to the strong performance of the stock market. Gain on private equity investments increased by 59% from the previous financial year, due to realized and unrealized gains. Gain on investments in equity securities increased by 342% from the previous financial year, reflecting a strong Japanese stock market in the year.

Net revenue decreased by 0.5% from ¥803,103 million for the year ended March 31, 2004 to ¥799,190 million for the year ended March 31, 2005. Commissions increased by 6% as Domestic Retail increased offerings of their products and services to take advantage of increased demand. Asset management and portfolio service fees also increased by 19% due primarily to the growth in the net assets of stock investment trusts. Private equity entities product sales increased by 326%, due primarily to the effect of consolidation of certain investments in our private equity business. These increases were offset by lower net gains from trading, a decrease in gain on private equity investments and a decrease in the valuation of our investments in equity securities. Net gain from equity trading increased by 2% from the previous year, given the steady performance of the stock market. Net gain from fixed income and other trading decreased by 21% reflecting the decrease in the placements and sales of foreign bonds. Gain on private equity investments decreased by 41% from the previous financial year, due to lower realized and unrealized gains. Gain on investments in equity securities decreased by 73% from the previous financial year, reflecting a flat Japanese stock market in the year, compared with the large gains seen in the previous year.

Net interest revenue was ¥100,427 million for the year ended March 31, 2004, ¥74,332 million for the year ended March 31, 2005 and ¥46,623 million for the year ended March 31, 2006. Net interest revenue is a function of the level and mix of total assets and liabilities, which includes trading assets and financing and lending transactions, and the level, term structure and volatility of interest rates. Net interest revenue is an integral component of trading activity. In assessing the profitability of our overall business and of our Global Markets business in particular, we view net interest revenue and non-interest revenues in aggregate. Net interest revenue for the year ended March 2006 declined by 37% from the year ended March 31, 2005, primarily due to rising interest rates and an increase in repo/reverse repo activities. An increase in the trading positions, notably common stock long position as transactions became active, resulted in increased funding demands. Increase in stock lending activities also contributed to the increase in funding usage. On a gross basis, both interest revenue and interest expense rose 73% and 98% respectively in 2006. These rises were mostly attributable to the increase in repo/reverse repo transactions. Net interest revenue for the year ended March 2005 declined by 26% from the year ended March 31, 2004, primarily due to rise in short-term funding rates while repo/reverse repo activities increased. Both interest revenue and interest expense rose 17% and 35%, respectively, as interest - and dividend - earning assets and interest - bearing liabilities increased.

In our consolidated income statement, we include under Revenue gain (loss) on investments in equity securities. We recorded gains on such investments in the amount of ¥55,888 million for the year ended March 31, 2004, ¥15,314 million for the years ended March 31, 2005 and ¥67,702 million for the years ended March 31, 2006. This line item includes unrealized gains and losses on operating investments, and gains and losses realized upon disposition of operating investments. Operating investments refer to our investments in unaffiliated companies, which we hold on a long-term basis in order to promote existing and potential business relationships. In our consolidated financial statements, operating investments are recorded at market value, with unrealized gains and losses on these investments recognized currently in income.

Non-interest expenses increased by 18% from ¥594,355 million for the year ended March 31, 2005 to ¥700,050 million for the year ended March 31, 2006. The increase in non-interest expenses was mainly due to compensation and benefit costs. Compensation and benefit costs increased by 18% from ¥274,988 million for the year ended March 31, 2005 to ¥325,431 million for the year ended March 31, 2006, resulting from increased net revenue.

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Non-interest expenses increased by 14% from ¥520,427 million for the year ended March 31, 2004 to ¥594,355 million for the year ended March 31, 2005. The increase in non-interest expenses was mainly due to private equity entities cost of goods sold. Private equity entities cost of goods sold increased by 277% from ¥11,852 million for the year ended March 31, 2004 to ¥44,681 million for the year ended March 31, 2005.

Income from continuing operations before income taxes was ¥282,676 million for the year ended March 31, 2004, ¥204,835 million for the year ended March 31, 2005 and ¥445,600 million for the year ended March 31, 2006.

We are subject to a number of different taxes in Japan. For the year ended March 31, 2003, we adopted the consolidation tax system permitted under Japanese tax law. In addition to the basic corporate tax rate, a 2% surtax was imposed until the year ended March 31, 2004. Reflecting the surtax, the Japanese statutory tax rate was approximately 44% for the year ended March 31, 2004. The consolidation tax system targets only a national tax. New Japanese tax legislation was introduced in March 2003, reducing the standard enterprise tax rate and creating taxes on capital and certain expenses defined by law. This legislation became effective on April 1, 2004, and resulted in a domestic statutory tax rate of approximately 41%. Our foreign subsidiaries are subject to the income tax rates of the countries in which they operate, which are generally lower than those in Japan. Our effective tax rate in any one-year is therefore dependent on our geographic mix of profits and losses and also on the specific tax treatment applicable in each location.

Income tax expense for Income from continuing operations for the year ended March 31, 2006 was ¥188,972 million, representing an effective tax rate of 42.4%. The effective tax rate was above the statutory tax rate of 41%. The difference was mainly due to the following two factors, which had opposite effects. First, the valuation allowance has been increased to reflect several factors, mainly relating to the local taxes in Japan and certain Terra Firma investments in Europe as a result of the review of the future realizable value of the deferred tax assets. This had the effect of increasing the effective tax rate for the year ended March 31, 2006 by approximately 12.3%. Second, tax benefit has been recognized in Japan on the devaluation of investment in a foreign subsidiary company. This had the effect of decreasing the effective tax rate for the year ended March 31, 2006 by approximately 10.5%.

Income tax expense for the year ended March 31, 2005 was ¥110,103 million, representing an effective tax rate of 53.8%. The effective tax rate was above the statutory tax rate of 41%. The difference was mainly due to the following two factors, which had opposite effects. First, the valuation allowance has been increased to reflect several factors, most importantly the non-recoverability of losses in certain U.S. subsidiaries and a reduction in the deferred tax assets previously recorded in certain European subsidiaries as a result of a review of the future realizable value of certain Terra Firma investments in Europe in association with changes in U.K. tax treatment. This had the effect of increasing the effective tax rate for the year ended March 31, 2005 by approximately 19.9%. Second, tax benefit has been recognized in Japan on the devaluation of investment in a foreign subsidiary company. This had the effect of decreasing the effective tax rate for the year ended March 31, 2005 by approximately 9.4%.

Income tax expense for the year ended March 31, 2004 was ¥110,347 million, representing an effective tax rate of 39.0%. The effective tax rate was below our statutory tax rate of 44% mainly due to two reasons. First, in reviewing our capital base and our business mix in each of our three overseas regions (Americas, Europe, Asia and Oceania) as part of our strategy to establish ourselves firmly as a globally competitive Japanese financial institution, we determined that we would not repatriate undistributed earnings of our three regional holding companies (Nomura Holding America Inc., Nomura Europe Holdings plc and Nomura Asia Holding N.V.) within the foreseeable future. As a result, we have reversed ¥8.5 billion of previously provided deferred tax liabilities. This decreased the effective tax rate for the year ended March 31, 2004 by approximately 3%. The second reason was the lower tax rate applicable to income (loss) of our foreign subsidiaries. Net income from these subsidiaries decreased the effective tax rate for the year ended March 31, 2004 by, a further 1.6%.

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On January 31, 2006, we sold our stake in Millennium Retailing, Inc. ( MR ). MR was one of the investments in our private equity business and accounted for as a consolidated subsidiary. In the year ended March 31, 2006, MR has been classified as discontinued operations in accordance with Statement of Financial Accounting Standards (SFAS) No.144, Accounting for the Impairment or Disposal of Long-Lived Assets, and its results of operations, including the gain on sale, and cash flows are separately reported.

Net income was ¥172,329 million for the year ended March 31, 2004, ¥94,732 million for the year ended March 31, 2005 and ¥304,328 million for the year ended March 31, 2006. Our return on equity was 10.1% for the year ended March 31, 2004, 5.2% for the year ended March 31, 2005 and 15.5% for the year ended March 31, 2006.

**Results by Business Segment**

As discussed in Overview under Item 4.B of this annual report, we operate five business divisions: Domestic Retail, Global Markets, Global Investment Banking, Global Merchant Banking and Asset Management. Gain (loss) on investment securities, our share of equity in earnings (losses) of affiliates, impairment loss on long-lived assets, corporate items and other financial adjustments are included as Other operating results outside business segments in our segment information. Unrealized gain (loss) on investments in equity securities held for relationship purposes and the effects of consolidation and deconsolidation of certain investments in our private equity business are classified as reconciling items outside our segment information. You should read the following segment information in conjunction with Item 4.B of this annual report and Note 18 to our consolidated financial statements included in this annual report. Reconciliation of our segment results of operations and consolidated financial statements is set forth in Note 18. Certain reclassifications of previously reported amounts have been made to conform to the current year presentation.

**Domestic Retail**

In Domestic Retail, we receive commissions and fees from investment consultation services which we provide mainly to individual customers in Japan. Additionally, we receive operational fees from asset management companies in connection with the administration services of investment trust certificates that we distribute. We also receive agent commissions from insurance companies for the insurance products we sell as an agent.

*Operating Results of Domestic Retail*

	Year Ended March 31			
	2004	2005	2006	
			(in millions)	
Non-interest revenues	¥ 304,035	¥ 301,464	¥ 442,981	\$ 3,771
Net interest revenue	1,722	2,903	3,554	30
Net revenue	305,757	304,367	446,535	3,801
Non-interest expenses	226,213	223,200	249,330	2,122

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Income before income taxes	¥ 79,544	¥ 81,167	¥ 197,205	\$ 1,679

Net revenue for the year ended March 31, 2006 was ¥446,535 million, increasing 47% from ¥304,367 million for the year ended March 31, 2005, reflecting strong growth in commissions and fees in stock brokerage and asset management fees. The increase in commissions and fees in stock brokerage was caused by the increase in equity trading volumes mainly due to the strong performance of the stock market. Additionally, the increase in asset management fees was caused by increases in the balances for stock investment trusts.

Net revenue for the year ended March 31, 2005 was ¥304,367 million, decreasing 0.5% from ¥305,757 million for the year ended March 31, 2004. This was due to the fact that the placements and sales of foreign bonds decreased, while commissions and fees in stock brokerage and asset management fees increased. The

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increase in commissions and fees in stock brokerage was caused by the increase in equity trading volumes mainly due to the steady performance of the stock market. Additionally, the increase in asset management fees was caused by increases in the balances for stock investment trusts. These increases in commissions and fees in stock brokerage and asset management fees were offset by a decrease in revenue reflecting the decrease in the placements and sales of foreign bonds.

Non-interest expenses for the year ended March 31, 2006 were ¥249,330 million, increasing 12% from ¥223,200 million for the year ended March 31, 2005 mainly due to increases in compensation and benefits.

Non-interest expenses for the year ended March 31, 2005 were ¥223,200 million, decreasing 1% from ¥226,213 million for the year ended March 31, 2004, due primarily to the fact that higher compensation and benefits expenses were offset by lower non-compensation-related expenses.

Income before income taxes were ¥79,544 million for the year ended March 31, 2004, ¥81,167 million for the year ended March 31, 2005 and ¥197,205 million for the year ended March 31, 2006.

The graph below shows the revenue composition by instrument in terms of Domestic Retail non-interest revenues for the years ended March 31, 2004, 2005, and 2006.

As described above, revenue composition of investment trusts increased from 17% for the year ended March 31, 2005 to 22% for the year ended March 31, 2006, due primarily to increased distribution of investment trusts. Revenue composition of equities represented 45%, unchanged from the previous year, although revenue from equities increased due to the strong performance of the Japanese equity markets. Revenue composition of bonds, asset management and variable annuity insurance declined from the previous year as of March 31, 2006 because of an overall increase in the revenue size of total Domestic Retail non-interest revenue.

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*Domestic client assets*

The following graph shows amounts and details regarding domestic client assets at March 31, 2004, 2005, and 2006. Domestic client assets consist of customers' assets held in our custody, and assets relating to the variable annuity insurance products in Domestic Retail (including regional financial institutions) and Financial Management Division.

**Domestic Client Assets**

Domestic client assets increased by ¥19.3 trillion from ¥61.2 trillion at March 31, 2005 to ¥80.5 trillion at March 31, 2006, due primarily to market appreciation of equity securities, reflecting a strong market environment, and, to a lesser extent, net new money. The balance of our clients' investment trusts increased 21% from ¥10.0 trillion at March 31, 2005 to ¥12.1 trillion at March 31, 2006, reflecting net cash inflows by clients of ¥1.1 trillion and market appreciation of ¥1.0 trillion.

Domestic client assets increased by ¥6.4 trillion from ¥54.8 trillion at March 31, 2004 to ¥61.2 trillion at March 31, 2005, primarily reflecting an increase of net assets inflows in equity securities related to the incentive created by revisions to the Japanese tax system for taxpayers to place equity positions in the custody of securities companies. The balance of our clients' investment trusts slightly decreased 1% from ¥10.1 trillion at March 31, 2004 to ¥10.0 trillion at March 31, 2005, primarily reflecting net cash outflows by clients of ¥0.1 trillion.

**Table of Contents****Global Markets**

Global Markets utilizes its global network to conduct sales and trading activities in fixed income and equity products. The areas we are currently focusing upon include, among others, enhancement of our trading and structuring capabilities in derivatives and hybrid products, introduction of further innovative products into the primary markets, strengthening our production of market-oriented credit products, including securitization financing, and growth of our asset finance business, particularly in the real estate area.

Furthermore, we strive to meet diversified client needs by utilizing our sophisticated risk management technologies and risk tolerance backed by our capital base which we seek to maintain at a firm level consistent with the risks we assume. Our global client base, which we have developed and expanded through our efforts to consistently provide high-quality research and quantitative analysis, supplies us order flows globally, which, together with our proprietary positions, enable us to provide various solutions to our clients.

*Operating Results of Global Markets*

	Year Ended March 31			
	2004	2005	2006	
	(in millions)			
Non-interest revenues	¥ 201,706	¥ 170,667	¥ 327,716	\$ 2,790
Net interest revenue	82,441	72,420	43,392	369
Net revenue	284,147	243,087	371,108	3,159
Non-interest expenses	163,304	182,901	213,387	1,817
Income before income taxes	¥ 120,843	¥ 60,186	¥ 157,721	\$ 1,342

Net revenue increased by 53% from ¥243,087 million for the year ended March 31, 2005 to ¥371,108 million for the year ended March 31, 2006, due primarily to increases in net gain on trading and commissions reflecting a strong market environment.

Net revenue decreased by 14% from ¥284,147 million for the year ended March 31, 2004 to ¥243,087 million for the year ended March 31, 2005, due primarily to a decrease in net gain on trading reflecting the decline in market volatility and other deteriorating market environmental factors, as well as lower customers' order flow.

Non-interest expenses increased by 17% from ¥182,901 million for the year ended March 31, 2005 to ¥213,387 million for the year ended March 31, 2006, due primarily to increases in compensation and benefit costs and commissions and floor brokerage in line with higher revenues.

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Non-interest expenses increased by 12% from ¥163,304 million for the year ended March 31, 2004 to ¥182,901 million for the year ended March 31, 2005, due primarily to increased compensation and benefit costs and increased level of employment, in part due to the build up of our product capabilities. In addition, excluding compensation and benefits expense, for the same reason, non-interest expenses also increased, primarily due to higher professional fees.

Income before income taxes was ¥120,843 million for the year ended March 31, 2004, ¥60,186 million for the year ended March 31, 2005 and ¥157,721 million for the year ended March 31, 2006.

The table below shows our market share of Japanese Government bond auctions and secondary bond trading, in terms of the principal amounts of bonds purchased, for the years indicated. Secondary bond trading refers to the trading of bonds originally issued in Japan in the over-the-counter market and on exchanges in Japan, but excludes *gensaki* and inter-dealer transactions.

	Year Ended March 31		
	2004	2005	2006
Nomura's Share in Japanese Government bond auctions	16%	18%	11%
Nomura's Share in secondary bond trading	16%	14%	13%



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The following table sets forth the closing level of the TOPIX and the Nikkei 225, which are both stock market indices in Japan, as of the dates indicated, and the percentage changes from the closing level at the date one year before:

<u>Stock Market Index</u>	<u>March 31</u>		
	<u>2004</u>	<u>2005</u>	<u>2006</u>
TOPIX	1,179.23 49.6%	1,182.18 0.3%	1,728.16 46.2%
Nikkei 225 ( Nikkei Stock Average )	11,715.39 46.9%	11,668.95 (0.4)%	17,059.66 46.2%

The Japanese stock market traded in a narrow range for more than a year from spring 2004, but then rallied strongly from August 2005. The key TOPIX index, for example, changed from 1,182.18 points as of the end of March 2005, to 1,728.16 points as of the end of March 31, 2006. Similarly, the Nikkei Stock Average increased from 11,668.95 points as of the end of March 2005, to 17,059.66 points as of the end of March 2006. The following table shows our market share of Japanese equity trading for the years indicated.

<u>Nomura's Share in</u>	<u>Year Ended March 31</u>		
	<u>2004</u>	<u>2005</u>	<u>2006</u>
Total equity trading market in Japan	8%	7%	7%
Off-floor/off-exchange equity trading market in Japan	16%	17%	21%

**Global Investment Banking**

We offer various investment banking services, such as underwriting and advisory activities. We underwrite offerings of bonds, stocks, and other instruments in the major global markets of Asia, Europe, and the U.S. We have been enhancing our M&A and financial advisory capabilities for cross border deals as well as Japanese deals.

*Operating Results of Global Investment Banking*

	<u>Year Ended March 31</u>			
	<u>2004</u>	<u>2005</u>	<u>2006</u>	
			(in millions)	
Non-interest revenues	¥ 67,004	¥ 73,271	¥ 98,087	\$ 835
Net interest revenue	3,865	2,174	1,579	13
Net revenue	70,869	75,445	99,666	848

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Non-interest expenses	53,703	46,231	48,127	410
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Income before income taxes	¥ 17,166	¥ 29,214	¥ 51,539	\$ 438
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

Net revenue increased by 32% from ¥75,445 million for the year ended March 31, 2005 to ¥99,666 million for the year ended March 31, 2006, due primarily to an increase in fees earned from underwriting public stock offerings and M&A and financial advisory.

Net revenue increased by 6% from ¥70,869 million for the year ended March 31, 2004 to ¥75,445 million for the year ended March 31, 2005, due primarily to an increase in fees earned from underwriting public stock offerings. Net revenue also benefited from business using our own capital to provide solutions, particularly multiple private offerings.

Non-interest expenses increased by 4% from ¥46,231 million for the year ended March 31, 2005 to ¥48,127 million for the year ended March 31, 2006, due primarily to an increase in compensation and benefit costs.

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Non-interest expenses decreased by 14% from ¥53,703 million for the year ended March 31, 2004 to ¥46,231 million for the year ended March 31, 2005, due primarily to restructuring of business operations.

Income before income taxes was ¥17,166 million for the year ended March 31, 2004, ¥29,214 million for the year ended March 31, 2005 and ¥51,539 million for the year ended March 31, 2006.

The following table shows changes in our market share (value base) in the underwriting market for bonds and stocks in Japan.

	Year Ended March 31		
	2004	2005	2006
Nomura's Share in Japanese IPOs	27%	32%	20%
Nomura's Share in Japanese Public Offerings	33%	25%	27%
Nomura's Share in Japanese Straight Bonds	19%	17%	18%
Nomura's Share in Japanese Samurai Bonds	16%	12%	13%

**Global Merchant Banking**

In Japan, Nomura Principal Finance Co., Ltd. has been active in the field of buy-outs and corporate revitalization, targeting investment opportunities that offer scope for capital appreciation and attractive returns to us. The Japanese private equity business has also been developed through investments in funds managed by the Nomura Research & Advisory Co., Ltd. Since March 27, 2002, our principal finance investments in Europe have been managed by Terra Firma, as explained in Private Equity Business below.

*Operating Results of Global Merchant Banking*

	Year Ended March 31			
	2004	2005	2006	
	(in millions)			
Non-interest revenues	¥ 22,135	¥ 20,910	¥ 80,402	\$ 684
Net interest revenue	(11,415)	(13,572)	(12,158)	(103)
Net revenue	10,720	7,338	68,244	581
Non-interest expenses	10,220	10,370	12,809	109
Income before income taxes	¥ 500	¥ (3,032)	¥ 55,435	\$ 472

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Net revenue increased by 830% from ¥7,338 million for the year ended March 31, 2005 to ¥68,244 million for the year ended March 31, 2006, due primarily to large realized gains from Nomura Principal Finance's sale of its stake in Millennium Retailing, Inc., and the partial sale of Wanbishi Archives and other investee companies.

In the year ended March 2006, realized gains from investments in Japan from which we exited were ¥77.6 billion and unrealized losses from investments in Japan were ¥3.8 billion. The fair value of the Terra Firma investments decreased by ¥8.1 billion mainly for the following reasons. Falling market share, lower than expected demand for new products, a reduction in the contract base and increase in pension exposure were the main factors causing the net realizable value of these investments to be reduced. The residential real estate investments continued to perform, in part buoyed by investor demand and strong property sales. In addition, rent reviews resulted in a significant uplift ahead of management expectations during this period. Lower cost of capital due to introduction of new debt financing also contributed to the sector's performance. The solid performance by the property investments was offset by fair value reductions in a number of investments in the Retail, Consumer Finance and Service sector.

Net revenue decreased by 32% from ¥10,720 million for the year ended March 31, 2004 to ¥7,338 million for the year ended March 31, 2005, due primarily to funding costs for its assets in Europe, although realized

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gains from investments in Japan from which we exited and a rise in the fair value of the Terra Firma investment in Europe.

In the year ended March 2005, realized gains from investments in Japan from which we exited were ¥1.9 billion. The rise in the fair value of the Terra Firma investments was ¥4.0 billion mainly for the following reasons. The residential real estate investments continued to perform, in part buoyed by investor demand and strong property sales. In addition, a renegotiation of the original terms significantly increased the number of apartments available for sale each year. The solid performance by the property investments was partially offset by fair value reductions in a number of investments in the retail and service sector. Falling market share, lower than expected demand for new products and a reduction in the contract base and a fall in average revenues per contract, were the main factors causing the net realizable value of these investments to be reduced.

In the year ended March 2004, realized gains from investments in Japan from which we exited were ¥1.9 billion. The rise in the fair value of the Terra Firma investments was ¥1.3 billion mainly for the following reasons. This gain was primarily due to a strong performance of a number of property investments, although this was partially offset by fair value decreases in a number of retail and consumer finance investments. Factors influencing the increase in valuation in the real estate investments included a lack of supply driving property prices higher and the fact that property sales were at a substantial premium to acquisition cost and exceeded original expectations in terms of lead-time to disposal. Against this, changing consumer buying habits and a corresponding fall in sales and margin adversely impacted the performance of one of the retail investments. Furthermore, the net realizable value of a number of investments in consumer sector was reduced given the poor performance in respect of sales and new product roll-out.

Non-interest expenses increased by 24% from ¥10,370 million for the year ended March 31, 2005 to ¥12,809 million for the year ended March 31, 2006, due primarily to higher professional fees and increased compensation and benefit costs associated with increased net revenue.

Non-interest expenses increased by 1% from ¥10,220 million for the year ended March 31, 2004 to ¥10,370 million for the year ended March 31, 2005, essentially unchanged from the year ended March 31, 2004, as increases in professional fees were offset by decreases in compensation and benefits.

Income before income taxes was ¥500 million for the year ended March 31, 2004, loss before income taxes was ¥3,032 million for the year ended March 31, 2005 and income before income taxes was ¥55,435 million for the year ended March 31, 2006.

## **Asset Management**

Our Asset Management business is conducted principally through Nomura Asset Management Co., Ltd. We earn portfolio management fees through the development and management of investment trusts, which are distributed by Nomura Securities Co., Ltd., other brokers, banks and Japan Post. We also provide investment advisory services for pension funds and other institutional clients. Net revenues basically consist of asset management and portfolio services fees. Also, in the defined contribution pension business, we receive commissions as a plan administrator. In January 2006, Nomura Bank (Luxembourg) S.A., which is engaged in fund administration and custody business, was integrated into Asset Management.

### *Operating Results of Asset Management*

	Year Ended March 31			
	2004	2005	2006	
	(in millions)			
Non-interest revenues	¥ 38,214	¥ 47,056	¥ 63,030	\$ 537
Net interest revenue	2,062	1,937	2,813	24
Net revenue	40,276	48,993	65,843	561
Non-interest expenses	39,783	39,005	45,220	385
Income before income taxes	¥ 493	¥ 9,988	¥ 20,623	\$ 176

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Net revenue increased by 34% from ¥48,993 million for the year ended March 31, 2005 to ¥65,843 million for the year ended March 31, 2006, due primarily to increases in asset management and portfolio service fees driven by growth of assets under management.

Net revenue increased by 22% from ¥40,276 million for the year ended March 31, 2004 to ¥48,993 million for the year ended March 31, 2005, due primarily to increases in asset management and portfolio service fees reflecting increases in assets under management of Nomura Asset Management and Nomura Corporate Research and Asset Management Inc.

Non-interest expenses increased by 16% from ¥39,005 million for the year ended March 31, 2005 to ¥45,220 million for the year ended March 31, 2006, due primarily to increased compensation and benefit costs associated with increased net revenue.

Non-interest expenses decreased by 2% from ¥39,783 million for the year ended March 31, 2004 to ¥39,005 million for the year ended March 31, 2005, due primarily to a special withdrawal charge paid to the Japan Securities Dealers Employees Pension Fund by Nomura Asset Management in September 2003.

Income before income taxes was ¥493 million for the year ended March 31, 2004, ¥9,988 million for the year ended March 31, 2005 and ¥20,623 million for the year ended March 31, 2006.

The following table sets forth assets under management of each principal Nomura entity included under Asset Management as of the dates indicated.

	March 31		
	2004	2005	2006
	(in billions)		
Nomura Asset Management Co., Ltd.	¥ 15,936	¥ 16,231	¥ 21,381
Nomura Corporate Research and Asset Management Inc.	815	1,152	1,231
Nomura BlackRock Asset Management Co., Ltd.	1,156	981	1,224
Nomura Funds Research and Technologies Co., Ltd.	122	423	1,395
MAINTRUST KAG mbH	193	222	299
Nomura Funds Research and Technologies America, Inc.	107	139	254
<b>Total</b>	<b>¥ 18,329</b>	<b>¥ 19,148</b>	<b>¥ 25,785</b>

(Note) The amounts as of March 31, 2004 include those of NOMURA MAINTRUST GmbH, which was merged into MAINTRUST KAG mbH effective on April 1, 2004.

*Asset Management Business*

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Assets under management were ¥25.8 trillion as of March 31, 2006, ¥7.5 trillion increase from March 31, 2004, and ¥6.6 trillion increase from March 31, 2005. The greatest proportion of these assets was managed by Nomura Asset Management with assets under management of ¥21.4 trillion.

The Nikkei Stock Average rose by 46% to 17,059.66 points as of the end of March 2006 from 11,668.95 points a year earlier. The net assets of stock investment trusts increased due primarily to positive market movement and net cash inflows by clients. However, assets of Exchange Traded Funds declined and assets of bond investment trust products were unchanged. Investment advisory assets increased, due primarily to an increase in assets from overseas investors.

Investment trust assets included in the assets under management by Nomura Asset Management were ¥14.0 trillion as of March 31, 2006, up ¥3.2 trillion, or 29%, from the previous year, reflecting net cash inflows by clients of ¥1.5 trillion and market appreciation of ¥1.7 trillion. For the year ended March 31, 2005, the balance of investment trusts managed by Nomura Asset Management was ¥10.8 trillion, down ¥0.4 trillion, or 4%, from the previous year, reflecting net cash outflows by clients of ¥0.5 trillion and market appreciation of ¥0.1 trillion.



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The following table shows Nomura Asset Management's share, in terms of net asset value, in the Japanese asset management market as of the dates indicated. Nomura Asset Management's market share in publicly offered investment trusts declined to 21% as of March 31, 2006 because of an overall increase in the market size of publicly offered stock investment trusts.

Nomura Asset Management's share of the fund market in Japan

	As of March 31		
	2004	2005	2006
Total of publicly offered investment trusts	28%	24%	21%
Stock investment trusts	19%	15%	15%
Bond investment trusts	40%	42%	42%

*Defined contribution pension plan business in Japan*

We offer various services in connection with the defined contribution pension plan business in Japan. Among other things, we provide consulting and support services for plan implementation (plan design), product selection, provision of information to subscribers, trust services, product supply and investor education. As of the end of March 2006, there were 187 plans with respect to which we, through Nomura Pension Support & Service Co., Ltd., were entrusted with the administration and management of defined contribution pension plans, and the total number of participants in those plans was about 280,000 persons.

**Other Operating Results**

Other operating results include gain (loss) on investment securities, our share of equity in earnings (losses) of affiliates, impairment loss on long-lived assets, corporate items and other financial adjustments. Please refer to Note 18 to our consolidated financial statements included in this annual report for a reconciliation of segment results to income statement information.

Income before income taxes in other operating results was ¥6,959 million for the year ended March 31, 2004, ¥10,059 million for the years ended March 31, 2005 and loss before income taxes in other operating results was ¥30,531 million for the years ended March 31, 2006.

*Investments in Equity Securities Held for Relationship Purposes*

In our consolidated financial statements, operating investments, which refer to investments in equity securities of companies not affiliated with us which we hold on a long-term basis in order to promote existing and potential business relationships, are treated in accordance with U.S. GAAP for broker-dealers—they are recorded at market value, with unrealized gains and losses on these investments being recognized in income.

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Our operating investments share the following characteristics, which are based on customary business practices in Japan:

We primarily acquire operating investments for business relationship purposes, and not for generating capital gains. We do so in order to promote existing and potential business relationships with Japanese financial institutions and corporations.

We generally hold these investments for the long term, commensurate with our longstanding business relationships with the investees. We generally do not dispose of these investments for the purpose of realizing short-term capital gains.

We do not, as a matter of business practice, generally dispose of these investments without consulting with the investees beforehand. We have a business incentive in not disposing of an operating investment without such prior consultation, because an investee may interpret the disposal as an indication that we were placing less value on our business relationship with the investee and might, as retaliation, reduce or terminate the business it brings to us, thereby causing substantial harm to our business.

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In pursuing our business strategy, we continuously review our business relationships with Japanese companies that are the investees of our operating investments.

In light of the characteristics of our operating investments as explained above, we do not include the unrealized profit/ (loss) on these investments in our segment information.

## **Summary of Regional Contribution**

For a summary of our net revenue, income from continuing operations before income taxes and identifiable assets by geographic region, see Note 18 to our consolidated financial statements included in this annual report.

## **Regulatory Capital Requirements**

Many of our business activities are subjected to statutory capital requirements, including those of Japan, the United States, the United Kingdom and certain other countries in which we operate.

In Japan, Nomura Securities Co., Ltd. is required to maintain capital adequacy ratio of not less than 120% under the Securities and Exchange Law. The calculation of a capital adequacy ratio is described in Regulatory Capital Rules Japan under Item 4. B. of this annual report. As of March 31, 2006, we had a capital adequacy ratio of 245.1% compared to 236.5% as of March 31, 2005. We have changed our market risk calculation method to an internal risk model from the standard method as described by the Financial Services Agency since April 2005.

Some of our subsidiaries are subject to various regulatory requirements that may limit cash dividends and advances to the Japanese parent company and that may establish minimum capital requirements. These subsidiaries are in compliance with all applicable regulatory capital adequacy requirements.

## **Translation Exposure**

A significant portion of our business is conducted in currencies other than yen most significantly, U.S. dollars, British pounds and Euros. In foreign countries where we operate, our business is conducted in the currencies of those countries. We prepare financial statements of our foreign operations in their functional currencies prior to consolidation into our financial statements. Translation exposure is the risk arising from the effect of fluctuations in exchange rates on the net assets of our foreign subsidiaries. Translation exposure is not recognized in our statements of operations unless and until we dispose of, or liquidate, the relevant foreign subsidiary, which historically has not occurred, and which we do not expect to occur, frequently.

## **Critical Accounting Policies and Estimates**

*Use of estimates*

In presenting the consolidated financial statements, management makes estimates regarding certain financial instrument and investment valuations, the outcome of litigation, the recovery of the carrying value of goodwill, the allowance for loan losses, the realization of deferred tax assets and other matters that affect the reported amounts of assets and liabilities as well as the disclosure in the financial statements. Estimates, by their nature, are based on judgment and available information. Therefore, actual results may differ from estimates, which could have a material impact on the consolidated financial statements and, it is possible that such adjustments could occur in the near term.

*Fair value for financial instruments*

Fair value of financial instruments is based on quoted market prices, broker or dealer quotations or an estimation by management of the amounts expected to be realized upon settlement under current market conditions. Fair value of exchange-traded securities and certain exchange-traded derivative contracts are

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generally based on quoted market prices or broker/dealer quotations. Where quoted market prices or broker/dealer quotations are not available, prices for similar instruments or valuation pricing models are considered in the determination of fair value. Valuation pricing models consider time value, volatility and other statistical measurements for the relevant instruments or for instruments with similar characteristics. These models also incorporate adjustments relating to the administrative costs of servicing future cash flow and market liquidity adjustments. These adjustments are fundamental components of the fair value calculation process.

Trading assets and trading liabilities, including derivative contracts, are recorded at fair value, and unrealized gains and losses are reflected in *Net gain on trading*. Fair values are based on quoted market prices or broker/dealer quotations where possible. If quoted market prices or broker/dealer quotations are not available or the liquidation of Nomura's positions would reasonably be expected to impact quoted market prices, fair value is determined based on valuation pricing models which incorporate factors reflecting contractual terms, such as underlying asset prices, interest rates, dividend rates and volatility.

Valuation pricing models and their underlying assumptions impact the amount and timing of unrealized gains and losses recognized, and the use of different valuation pricing models or underlying assumptions could produce different financial results. Any changes in the fixed income, equity, foreign exchange and commodity markets can impact Nomura's estimates of fair value in the future, potentially affecting trading gains and losses. As financial contracts have longer maturity dates, Nomura's estimates of fair value may involve greater subjectivity due to the lack of transparent market data available upon which to base assumptions underlying valuation pricing models.

In determining fair value, we set forth six categories of financial instruments as described below:

	Billions of yen				Translation into billions of U.S. dollars	
	March 31, 2005		March 31, 2006		Assets	Liabilities
	Assets	Liabilities	Assets	Liabilities		
Trading securities, including securities pledged as collateral <sup>(1)</sup>	¥ 14,699	¥ 4,834	¥ 12,603	¥ 5,614	\$ 107	\$ 48
Non-trading debt securities, including securities pledged as collateral	277		221		2	
Investments in equity securities	172		219		2	
Investments in equity securities for other than operating purposes which are classified into <i>Other assets</i> other	11		27		0	
Private equity investments	327		365		3	
Derivative contracts <sup>(1)</sup>	574	498	730	913	6	8

(1) Securities options are classified as derivative contracts.

The following table sets forth the valuation of trading securities, non-trading debt securities, investment in equity securities and private equity investments by level of price transparency:

Billions of yen

March 31, 2006

	With price transparency	With little or no price transparency	Total
Trading securities inventory, including securities pledged as collateral	¥ 11,481	¥ 1,122	¥ 12,603
Trading securities sold but not yet purchased	5,583	31	5,614
Non-trading debt securities, including securities pledged as collateral	195	26	221
Investments in equity securities	205	14	219
Investments in equity securities for other than operating purposes which are classified into <i>Other assets other</i>	16	11	27
Private equity investments	24	341	365

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	Billions of yen		
	March 31, 2005		
	With price transparency	With little or no price transparency	Total
Trading securities inventory, including securities pledged as collateral	¥ 13,759	¥ 940	¥ 14,699
Trading securities sold but not yet purchased	4,833	1	4,834
Non-trading debt securities, including securities pledged as collateral	243	34	277
Investments in equity securities	146	26	172
Investments in equity securities for other than operating purposes which are classified into <i>Other assets other</i>	5	6	11
Private equity investments		327	327

The fair value of trading securities, non-trading debt securities, and investments in equity securities is generally obtained from quoted market prices or broker/dealer quotations with reasonable level of price transparency, or priced with reference to comparable financial instruments whose parameters can be directly observed.

The types of instruments valued in this manner include listed equity, major sovereign government and agency bonds, supranational bonds, municipal bonds, corporates, liquid mortgage backed securities and money market instruments.

Certain trading and non-trading debt securities are less liquid and priced using management's best estimate of fair value. These type of instruments include non-investment grade and distressed corporates debt, emerging market debts, mortgage and commercial loans, mortgage derivatives, non-investment grade piece of structured notes, and notes with embedded exotic option.

Private equity investments are less liquid as described below.

*Private equity business*

The investments in private equity business are accounted for at fair value, by the equity method of accounting or as consolidated subsidiaries depending on the attributes of each investment. The consolidated subsidiaries in private equity business are referred to private equity entities.

Private equity investments accounted for at fair value are based on our assessment of each underlying investment. The investments, by their nature, have little or no price transparency. Investments are initially carried at cost as an approximation of fair value. Adjustments to carrying value are made if there is third-party evidence of a change in value. Downward adjustments are also made, in the absence of third-party transactions, if it is determined that the expected realizable value of the investment has declined below the carrying value. In reaching that determination, we use either our own internal valuation models based on projected future cash flows to be generated from the underlying investment, discounted at a weighted average cost of capital or comparable market multiple valuations. Where possible these valuations are compared with the operating cash flows and financial performance of the companies or properties relative to budgets or projections, price/earnings data for similar quoted companies, trends within sectors and/or regions and any specific rights or terms associated with the

investment, such as conversion features and liquidation preferences.

Any changes to valuations are then stress tested to assess the impact of particular risk factors in order to establish the final estimated valuation. See Private Equity Business below.



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*Derivative contracts*

Derivative contracts consist of listed derivatives and OTC derivatives. The fair values of listed derivatives are generally determined from quoted market prices. OTC derivatives are valued using valuation models. Listed derivative and OTC derivative assets and liabilities are shown below:

	Billions of yen		Translation into billions of U.S. dollars	
	Assets	Liabilities	Assets	Liabilities
<b>March 31, 2006</b>				
Listed derivatives	¥ 75	¥ 79	\$ 1	\$ 1
OTC derivatives	655	834	5	7
	<b>¥ 730</b>	<b>¥ 913</b>	<b>\$ 6</b>	<b>\$ 8</b>

	Billions of yen	
	Assets	Liabilities
<b>March 31, 2005</b>		
Listed derivatives	¥ 16	¥ 19
OTC derivatives	558	479
	<b>¥ 574</b>	<b>¥ 498</b>

The fair values of OTC derivative assets and liabilities at March 31, 2005 and 2006 by remaining contractual maturity are shown below:

Billions of yen						
<b>March 31, 2006</b>						
Years to Maturity						
Less than 1 year	1 to 3 years	3 to 5 years	5 to 7 years	More than 7 years	Cross-maturity netting <sup>(1)</sup>	Total fair value

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OTC derivative assets	¥ 128	¥ 210	¥ 183	¥ 81	¥ 306	¥ (253)	¥ 655
OTC derivative liabilities	183	315	182	110	269	(225)	834

Billions of yen

March 31, 2005

Years to Maturity

	Less than 1 year	1 to 3 years	3 to 5 years	5 to 7 years	More than 7 years	Cross- maturity netting <sup>(1)</sup>	Total fair value
OTC derivative assets	¥ 155	¥ 119	¥ 147	¥ 121	¥ 296	¥ (280)	¥ 558
OTC derivative liabilities	108	120	134	143	245	(271)	479

Note: (1) This column shows the amount, which represents the netting of payable balances with receivable balances for the same counterparty across maturity band categories. Receivable and payable balances with the same counterparty in the same maturity category, however, are netted within the maturity category.

Fair values for OTC derivatives are estimated using pricing models based on net present value of estimated future cash flows. Price transparency for OTC derivative varies depending on product type, maturity and the complexity of the contract. Foreign exchange forwards, interest rates swaps and cross currency swaps in major currencies are the types of derivative contracts with high degree of price transparency as they are valued with

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models with readily observable market parameters. Long dated foreign exchange options, credit basket default swaps, swaps with multiple call feature and other complex derivatives are often valued with correlations and volatilities that needs some estimates and judgment, and they are less transparent in pricing.

### **Accounting Developments**

In December 2004, the Financial Accounting Standards Board ( FASB ) issued SFAS No. 123 (revised 2004), Share-Based Payment, a revision of SFAS No. 123, Accounting for Stock-Based Compensation. SFAS No. 123-R requires that the compensation cost relating to share-based payment transactions be recognized in financial statements. That cost will be measured based on the fair value of the equity or liability instruments issued. In April 2005, the Securities and Exchange Commissions approved postponing the effective date for applying the provision of SFAS No. 123-R until fiscal years beginning after June 15, 2005. As we account for stock-based compensation under SFAS No. 123, the impact of adopting SFAS No. 123-R is not expected to be significant.

In May 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections. SFAS No. 154 replaces APB Opinion No. 20, Accounting Changes, and SFAS No. 3, Reporting Accounting Changes in Interim Financial Statements, and changes the requirements for the accounting for and reporting of a change in accounting principle. This statement applies to all voluntary changes in accounting principle and error corrections, and to changes required by an accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provision. This statement requires retrospective application to prior periods financial statements of changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. This statement is effective for accounting changes and correction of errors made in fiscal years beginning after December 15, 2005.

In June 2005, the FASB ratified the consensus reached by the Emerging Issues Task Force on Issue 04-5 ( EITF 04-5 ), Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights. EITF 04-5 presumes that a general partner controls a limited partnership, and should therefore consolidate the limited partnership, unless the limited partners have the substantive ability to remove the general partner without cause based on a simple majority vote or can otherwise dissolve the limited partnership, or unless the limited partners have substantive participating rights over decision making. The guidance is effective for existing partnership agreements for financial reporting periods beginning after December 15, 2005 and immediately for all new limited partnership agreements and any limited partnership agreements that are modified. We are currently assessing the impact of the adoption of EITF 04-5.

In February 2006, the FASB issued SFAS No. 155, Accounting for Certain Hybrid Financial Instruments, an amendment of FASB Statements No. 133 and 140. This Statement permits an entity to elect to measure any hybrid financial instrument at fair value (with changes in fair value recognized in earnings) if the hybrid instrument contains an embedded derivative that would otherwise be required to be bifurcated and accounted for separately under SFAS No. 133. This election is permitted on an instrument-by-instrument basis for all hybrid financial instruments held, obtained, or issued as of the adoption date. This Statement will be effective as of the beginning of an entity's first fiscal year that begins after September 15, 2006, with earlier adoption permitted. We are currently assessing the impact and timing of adoption of the proposed guidance.

In March 2006, the FASB issued SFAS No. 156, Accounting for Servicing of Financial Assets, an amendment of FASB Statement No.140. This Statement requires that an entity separately recognize a servicing asset or a servicing liability when it undertakes an obligation to service a financial asset under a servicing contract in certain situations. This Statement also requires all separately recognized servicing assets and servicing liabilities to be initially measured at fair value, if practicable. It is allowed for an entity to choose one of two methods when subsequently measuring its servicing assets and servicing liabilities for each class: (1) the



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amortization method or (2) the fair value measurement method. Separate presentation of servicing assets and servicing liabilities subsequently measured at fair value are required in the statement of financial position. This Statement will be effective as of the beginning of an entity's first fiscal year that begins after September 15, 2006, with the earlier adoption permitted under certain conditions. We are currently assessing the impact and timing of adoption of the Statement.

**Private Equity Business**

Following a review to determine the optimum structure to run our private equity business in Europe, on March 27, 2002, we restructured our Principal Finance Group and, as a result, contributed our investments in certain of our remaining investee companies (the PFG entities) to Terra Firma Capital Partners I (TFCP I), a limited partnership which is engaged in the private equity business, in exchange for a limited partnership interest. Terra Firma Investments (GP) Limited (Terra Firma), the general partner of TFCP I, which is independent of us, assumed the management and control of these investments, together with one other PFG entity, Annington Holdings plc, which due to contractual restrictions was not transferred to the partnership. With effect from March 27, 2002, we ceased consolidating the PFG entities and account for the investments managed by Terra Firma (collectively referred to as Terra Firma investments) at fair value in accordance with the accounting practices for broker-dealers and applicable to investment companies.

A summary of the principal investments now managed by Terra Firma is as follows:

Name of Company	Activity
Carmelite Capital Limited	Rental and sale of consumer electronics
Thresher Wines Capital Limited	Sale of beer, wine and spirits
Annington Holdings plc	Investment in properties
Deutsche Annington Holdings Limited	Investment in properties

The estimated fair value of the Terra Firma investments was ¥312,818 million and ¥323,182 million (\$2,751 million) at March 31, 2005 and 2006, respectively. Of this, the respective percentages at March 31, 2005 and 2006 were 72% and 75% for real estate sector, 10% and 6% for the services sector and the remaining balance of 18% and 19% is in consumer businesses, which includes retail and consumer finance.

We do not apply FIN 46-R to entities that are non-registered investment companies that account for their investments in accordance with the AICPA Audit and Accounting Guide Audits of Investment Companies. The FASB has deferred application of FIN 46-R to non-registered investment companies until the Investment Company AICPA Statement of Position Clarification of the Scope of the Audit and Accounting Guide Audits of Investment Companies and Accounting by Parent Companies and Equity Method Investors for Investments in Investment Companies (SOP) is finalized. The most significant of the entities currently excluded from FIN 46-R are the Terra Firma investments. When the SOP is issued, we will determine whether it remains appropriate to continue to carry the Terra Firma investments at fair value. Depending on the terms of the final SOP and the results of our review, it is possible that either all or some of the Terra Firma investments could require re-consolidation, thus FIN 46-R could have a material impact on our consolidated financial statements in the future. However, adopting FIN 46-R will not change our economic exposure with respect to these investments.

We also have a growing private equity business in Japan, which is operated through a wholly owned subsidiary, Nomura Principal Finance Co., Ltd. (NPF). Since its inception, NPF has made 17 investments and exited from 7 of these investments (including partial sales). During the year ended March 31, 2005, NPF acquired three businesses, accounted for as business combinations under SFAS 141, in separate transactions, including Millennium Retailing Group (MRG), a major Japanese department store chain. While the total purchase price was ¥63,146 million, the

total cash acquired exceeded the total purchase price by ¥87,554 million.

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During the year ended March 31, 2006, there were no acquisitions accounted for as business combinations in private equity business under SFAS 141. The NPF investments are accounted for at fair value for segment reporting purposes, but are reflected in our consolidated financial statements at fair value, by the equity method of accounting or as consolidated subsidiaries, depending on the attributes of each investment, pending a determination of whether the investment company accounting is appropriate for NPF. The AICPA is expected to issue the SOP in 2006. When the SOP is issued, we will make a determination under the guidance provided by the SOP as to whether NPF qualifies as an investment company. If NPF qualifies as an investment company, these investments will be carried at fair value.

As stated above, the Terra Firma investments are carried at fair value. There has been no change in our valuation methodology or assumptions that impacted the valuation of these investments during the year. Examples of the underlying factors, which impacted the valuation of these investments, are set out in the table below:

Sector	Valuation Factors
Real Estate	<p>Comparable market transactions, rental reviews for the period strong demand for housing in both the homeowner and rental markets.</p> <p>Property holding, refurbishment and head office costs.</p> <p>Profit share payable to third parties.</p>
Retail and Consumer Finance	<p>Availability and cost of finance.</p> <p>Number of rental agreements outstanding, average revenue per rental agreement, rental acquisition costs and rental maintenance costs,</p> <p>Market share, changes in market size, underlying trends in consumer behavior, revenue per room, gross margin, operating costs and pension obligations.</p>
Services	<p>New contracts. Contract terms negotiated at beginning of contract. Initial contract set up costs and capital expenditures. Ongoing servicing costs and remedial work, including staff costs and central overheads.</p> <p>Availability and cost of finance. Pension obligations.</p>

Where possible these valuations are compared with price/earnings data for comparable quoted companies or recent market data for comparable transactions. Any significant differences are analyzed and consideration given to whether this analysis indicates an adjustment to the valuation is required. These valuations are then stress tested to assess the impact of particular risk factors. Examples of such stress tests include:

Stressing exit assumptions, either by altering the timing or the exit multiple used.

Stressing growth assumptions, to assume lower growth. Where possible, the impact of a mild recession is considered.

Removing or curtailing any assumptions about increases in operating margins.

An assessment of the results of the fair value exercise and the stress tests allows the final estimated valuation to be established. Changes in the fair value of these investments are recorded in *Gain on private equity investments*.

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In addition to the Terra Firma investments portfolio, we are a 10% investor in a ¥277 billion (\$2.4 billion) private equity fund ( TFCP II ), also raised and managed by Terra Firma Capital Partners Limited. Our total commitment is ¥27,697 million (\$236 million) and ¥17,180 million (\$146 million) had been drawn down for investments as at March 31, 2006. We also account for our investment in TFCP II at fair value.

The use of different valuation models, methodologies or assumptions could produce materially different estimates of fair value, which could materially affect the results of operations or statement of financial condition.



**Table of Contents****B. Liquidity and Capital Resources.****Liquidity***Overview*

Liquidity is of critical importance to Nomura and other companies in the financial services sector. Our liquidity policy seeks to ensure that we maintain sufficient liquidity to withstand market shocks for periods lasting up to one year without relying on additional unsecured financing or forcing the liquidation of trading assets. We achieve this primarily by maintaining sufficient long-term debt and equity to meet both the cash capital requirements of all our assets and by maintaining portfolios of cash and highly liquid securities that can be converted to cash through sale or pledge in order to meet our immediate liquidity requirements.

*Cash Flow*

Our cash flows are primarily related to the operating and financing activities undertaken in connection with our trading and market-making businesses. The following is the summary information on our consolidated cash flows for the years ended March 31, 2005 and 2006:

	<b>Year Ended March 31</b>	
	<b>2005</b>	<b>2006</b>
	(in billions)	
Net cash provided by (used in) operating activities of continuing operations	¥ (278.9)	¥ (566.3)
Income from continuing operations	94.7	256.6
Decrease (increase) in trading assets and private equity investments	(1,552.8)	2,302.6
Increase (decrease) in trading liabilities	(738.6)	1,084.0
Securities purchased under agreements to resell, net of securities sold under agreements to repurchase	1,402.3	(3,107.2)
Securities borrowed, net of securities loaned	483.8	(761.6)
Other, net	31.7	(340.7)
Net cash provided by (used in) investing activities of continuing operations	(121.8)	27.4
Net cash provided by (used in) financing activities of continuing operations	385.1	798.2
Long-term borrowings, net	349.2	713.2
Short-term borrowings, net	70.2	175.9
Other, net	(34.3)	(90.9)
Effect of exchange rate changes	13.7	16.4
Discontinued operations, net	(50.3)	131.1
Net increase (decrease) in cash and cash equivalents	¥ (52.2)	¥ 406.8

Please refer to our consolidated statements of cash flows included in this annual report for more detailed information. Certain reclassifications of previously reported amounts have been made to conform to the current year presentation.

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In the year ended March 31, 2006, our cash and cash equivalents increased by ¥406.8 billion to ¥992.0 billion. Net cash of ¥798.2 billion was raised by financing activities. Due to a strong demand for Medium Term Notes from broadly diversified investors, net cash inflow from long-term borrowings totaled ¥713.2 billion. Net cash of ¥566.3 billion was used for operating activities. Although there was a ¥3,386.6 billion cash inflow together from a decrease in trading assets and private equity investments and an increase in trading liabilities, it was offset by ¥3,868.8 billion cash outflow caused by net increase in securities purchased under agreements to resell and securities borrowed with cash collateral.

In the year ended March 31, 2005, our cash and cash equivalents decreased by ¥52.2 billion to ¥585.1 billion. We used ¥278.9 billion of net cash for operating activities and ¥121.8 billion for investing activities. Net cash from financing activities, which amounted to ¥385.1 billion, partly offset the cash usage. Long-term borrowings increased ¥349.2 billion and short-term borrowings increased ¥70.2 billion.

**Table of Contents***Liquidity Objective*

Our liquidity policies aim to ensure adequate liquidity across market cycles and through periods of stress. To achieve this goal, we have established the following liquidity policies to ensure that we are able to withstand market shocks of up to 1 year without needing to raise additional unsecured financing or forcing the liquidation of trading assets, although we may from time to time decide to sell assets in the course of normal business or for strategic purposes. We operate according to established liquidity policies and we have procedures in place to regularly monitor and report compliance with the following policies:

*1 Diversify Unsecured Funding Sources.* We seek to reduce refinancing risk by maintaining diversified sources of unsecured funding. We diversify funding by product, investor and market, and we benefit by distributing a significant portion of our unsecured liabilities through our own sales force to a large diversified client base.

As of March 31, 2005 and 2006, our unsecured funding sources, excluding those of private equity entities, were as follows:

	March 31			
	2005		2006	
	(in billions, except percentages)			
Short-Term Unsecured Debt Total <sup>(1)(2)</sup>	¥ 1,052.1	19.1%	¥ 1,249.5	19.3%
Short-Term Bank Borrowings	248.2		318.9	
Other Loans	23.4		81.2	
Commercial Paper	233.8		370.6	
Deposit at Banking Entities	310.7		302.5	
Certificates of Deposit	19.5		70.4	
Bonds and Notes maturing within one year	216.5		105.9	
Long-Term Unsecured Debt Total <sup>(1)</sup>	2,593.7	47.0%	3,175.9	48.9%
Long-Term Bank Borrowings	406.1		552.3	
Other Loans	157.8		68.6	
Bonds and Notes	2,029.8		2,555.0	
Shareholders' Equity	1,868.4	33.9%	2,063.3	31.8%

(1) Unsecured Debt figures exclude unsecured debt of private equity entities.

(2) Short-Term Unsecured Debt includes the current portion of Long-Term Unsecured Debt.

*2 Ensure Appropriate Funding Mix.* We seek to maintain sufficient long-term debt and equity to meet the cash capital requirements of all our assets. The amount of liquidity required is measured by our ability to finance assets using secured funding, including repurchase agreements and securities lending transactions, and we calculate such needs using conservative estimates of the assets' secured borrowing power in stressed scenarios. We also maintain sufficient cash capital to cover additional liquidity requirements that include, but are not restricted to, collateral requirements on derivative contracts arising as a result of a two notch downgrade in Nomura's rating, commitments to lend to external counterparties based on an estimate of the probability of drawdown and regulatory capital in subsidiaries.

Consistent with our aim of maintaining an appropriate funding mix, in the year ended March 31, 2006, we maintained a funding mix similar to that in March 31, 2005, thereby reducing the effect of a potential liquidity event. As of March 31, 2006, excluding those of private equity

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entities, our long-term unsecured financing totaled ¥3,175.9 billion, well over the short-term unsecured financing in the amount of ¥1,249.5 billion (which includes the current portion of long-term unsecured debt). For the most part, our long-term debt is issued on a variable rate basis or issued on a fixed rate basis and swapped into variable-rate debt, and thus linked to short-term money market indices to avoid interest rate risk arising from a change in the shape or level of the yield curve. All of our structured notes are hedged with financial instruments in order to realize a scheduled cash flow.

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3 *Maintain Liquidity Portfolios.* We seek to maintain portfolios of cash and highly liquid securities that can be converted to cash through sale or pledge so that we can satisfy our immediate liquidity requirements. As of March 31, 2006, excluding those of private equity entities, we maintained ¥2,278.9 billion of liquidity portfolios that consisted of cash, cash equivalents and government securities, mostly denominated in Japanese yen and U.S. dollar, as shown below:

	March 31	
	2005	2006
	(in billions)	
Liquidity Portfolios <sup>(1)</sup>	¥ 1,467.8	¥ 2,278.9
Cash, Cash Equivalent and Deposits	842.7	1,488.0
Overnight Call Loans	113.1	53.5
Government Securities	512.0	737.4

(1) Excluding private equity entities. Consolidated private equity entities had ¥22.4 billion and ¥22.1 billion of cash and cash deposits as of March 31, 2005 and March 31, 2006, respectively. Certain reclassifications of previously reported amounts have been made to conform to the current year presentation.

We have structured our liquidity portfolios under the assumption that, in some instances, legal and regulatory requirements can restrict the flow of funds between entities in our consolidated group, and that funds or securities might not be freely available from a subsidiary to the parent company. The cost and availability to a company of unsecured funding are generally dependent on credit ratings and could be adversely affected by a debt rating downgrade or deterioration in certain of the company's financial ratios or other measures of financial performance. For example, the cost of issuing commercial paper may rise due to a downgrade of our short-term debt ratings. Whilst our cash capital model uses a one year time horizon to determine the appropriate funding mix, the size and structure of our liquidity portfolios take into consideration potential immediate cash requirements arising from:

upcoming maturities of unsecured debt;

potential buy backs of our outstanding debt;

collateral outflows related to derivatives transactions;

market halt due to a large-scale disaster; and

difficulty in issuing new debt due to downgrade of our short-term and/or long-term debt ratings.

In addition to the liquidity portfolios, excluding those of private equity entities, we had other unencumbered assets that mainly consist of unpledged trading inventories that can be used for additional source of secured funding whose estimated net liquidity value as of March 31, 2006 was ¥1,634.0 billion.

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As of March 31, 2006, excluding those of private equity entities, the estimated net liquidity value of other unencumbered assets alone represented 131% of our total short-term unsecured debt. The aggregate value of the liquidity portfolios and the estimated net liquidity value of other unencumbered assets was ¥3,912.9 billion, which represented 313% of our total short-term unsecured debt.

	March 31	
	2005	2006
	(in billions)	
Net Liquidity Value of Other Unencumbered Assets	¥ 1,520.2	¥ 1,634.0
Liquidity Portfolios <sup>(1)</sup>	1,467.8	2,278.9
<b>Total</b>	<b>¥ 2,988.0</b>	<b>¥ 3,912.9</b>

- (1) Excluding private equity entities. Consolidated private equity entities had ¥22.4 billion and ¥22.1 billion of cash and cash deposits as of March 31, 2005 and March 31, 2006, respectively. Certain reclassifications of previously reported amounts have been made to conform to the current year presentation.

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4 *Maintain Committed Bank Facilities.* We maintain undrawn committed credit facilities with a group of globally recognized banks in order to provide contingent financing sources. Such facilities include both syndicated and bilateral arrangements. The maturity dates of these facilities are distributed evenly in order to prevent excessive maturities of facilities in any given period. We do not believe that any of the covenant requirements in the facilities will impair our ability to draw them.

Excluding those of private equity entities, the undrawn portion of these facilities amounted to ¥603.9 billion as of March 31, 2006. The decrease of ¥109.5 billion from the previous year reflects our decision to replace part of the committed bank facilities by the Liquidity Portfolios.

	<u>March 31,</u>	
	<u>2005</u>	<u>2006</u>
	(in billions)	
<u>Undrawn Committed Facilities<sup>(1)</sup></u>	¥ 713.4	¥ 603.9

(1) Excluding private equity entities.

5 *Contingency Funding Plan.* We maintain a detailed contingency funding plan that provides assurance of our ability to survive a liquidity stress event over a one year time period. This plan establishes a process to manage communication and provide a course of action. The plan is developed at the legal entity level to capture specific cash flows for the parent company and entities subject to restrictions in respect of cash movements.

**Credit Ratings**

The cost and availability of unsecured funding generally are dependent on credit ratings. Our long-term and short-term debt were rated by several recognized credit rating agencies. We believe that our credit ratings include the credit ratings agencies' assessment of the general operating environment, our positions in the markets in which we operate, reputation, earnings structure, trend and volatility of our earnings, risk management framework, liquidity and capital management. An adverse change in any of these factors could result in a reduction of our credit ratings, and that could, in turn, increase our borrowing costs and limit our access to the capital markets or require us to post additional collateral and permit counterparties to terminate transactions pursuant to certain contractual obligations. In addition, our debt ratings can have a significant impact on certain of our trading revenues, particularly in those businesses where longer term counterparty performance is critical, such as OTC derivative transactions.

As of June 28, 2006, the credit ratings of Nomura Holdings, Inc. and Nomura Securities Co., Ltd. provided by such credit rating agencies were as follows:

<u>Nomura Holdings, Inc.</u>	<u>Short-term Debt</u>	<u>Senior Debt</u>
Standard & Poor's	A-2	A <sup>(1)</sup>
Moody's Investors Service		A3
Rating and Investment Information, Inc.	a-1	A+

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Japan Credit Rating Agency, Ltd.

AA

**Nomura Securities Co., Ltd.**

**Short-Term**

**Senior Debt**

	<b>Short-Term</b>	<b>Senior Debt</b>
Standard & Poor's	A-1 <sup>(1)</sup>	A <sup>(1)</sup>
Moody's Investors Service	P-1	A2
Rating and Investment Information, Inc.	a-1	A+
Japan Credit Rating Agency, Ltd.		AA

(1) Standard & Poor's Rating Services raised its ratings on Nomura Holdings, Inc. and Nomura Securities Co., Ltd. on June 13, 2006.



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Each of Rating and Investment Information, Inc. and Japan Credit Rating Agency, Ltd. is a credit rating agency nationally recognized in Japan. We rely on, or utilize, credit ratings on our long-term and short-term debt provided by these Japanese credit rating agencies, as well as Standard & Poor's and Moody's Investors Service, for purposes of unsecured funding and other financing activities and also for purposes of our trading and other business activities. Within the rating classification system of Rating and Investment Information, Inc., a-1 is the highest of five categories for short-term debt and indicates a strong degree of certainty regarding the debt repayment; and A is the third highest of nine categories for long-term debt and indicates a high degree of certainty regarding the debt repayment with excellence in specific component factors, with a plus (+) or minus (-) sign added to a rating in that category to indicate its relative standing within that category. Within the rating classification system of Japan Credit Rating Agency, Ltd., AA is the second highest of ten categories for long-term debt and indicates a very high level of capacity to honor the financial commitment on the obligation, with a plus (+) or minus (-) sign added to a rating in that category to indicate its relative standing within that category.

On May 20, 2005, Standard & Poor's Ratings Services announced that it was revising to positive the outlooks on its long-term ratings of Nomura Holdings, Inc., Nomura Securities Co., Ltd. and The Nomura Trust and Banking Co., Ltd. Standard & Poor's stated in its announcement that this revision reflected the companies' improved profitability and likely benefits from further disintermediation in the financial markets.

On November 8, 2005, Moody's Investors Service announced that it upgraded to A2/A3/P-1 from A3/Baa1/P-2 the senior unsecured/senior subordinated debt rating and short-term debt ratings of Nomura Securities Co., Ltd., and upgraded to A3 from Baa1 the long-term issuer rating of Nomura Holdings, Inc. The credit ratings of overseas subsidiaries guaranteed by Nomura Securities Co., Ltd. and Nomura Holdings, Inc. (Nomura Europe Finance N.V. and Nomura Global Funding plc) were also upgraded. The rating outlook for all entities is stable. In its announcement, Moody's Investors Service mentioned that Nomura Holdings, Inc. will continue to build on its position as Japan's leading securities firm to achieve relatively stable earnings performance going forward. Although Nomura Holdings, Inc. is likely to continue to see some fluctuations in quarterly earnings, due to the limited depth of the Japanese capital markets, Moody's Investors Service sees a steady growth of retail client assets and the broader range of products in Nomura Securities Co., Ltd. being offered to retail investors as important contributors to future earnings. In addition, despite strong competition from domestic and foreign financial institutions, Moody's Investors Service stated that it expects Nomura Securities Co., Ltd. to maintain its leading position in the investment banking tables and to be well-positioned to benefit from an upturn in market activity.

On June 13, 2006, Standard & Poor's Ratings Services announced to raise its long-term counterparty credit ratings on four Nomura group companies, reflecting more stable group performance, the strengthened resilience of the group against stock market swings, and its more robust risk management. The long-term ratings on Nomura Holdings, Inc. and Nomura Trust & Banking Co., Ltd. were raised to A- from BBB+, and on Nomura Bank International PLC to BBB+ from BBB. The long and short-term ratings on Nomura Securities Co., Ltd. were raised to A/A-1 from A-/A-2. The outlook on the long-term rating on Nomura Bank International PLC is positive, and the outlooks on the long-term ratings on the other three Nomura companies are stable.

## **Capital Resources**

### *Capital Adequacy*

We seek to maintain sufficient capital at all times to withstand losses due to extreme market movements. Senior management is responsible for implementing and enforcing capital policies. This includes the determination of our balance sheet size and required capital levels. We continuously review our equity capital base to ensure that it can support the economic risk inherent in our business. There are also regulatory requirements for minimum capital of entities that operate in regulated securities or banking businesses.

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Our capital was ¥2,063.3 billion as of March 31, 2006 compared with ¥1,868.4 billion as of March 31, 2005. Our leverage ratio as of March 31, 2006 has decreased to 17.0 times from 18.5 times as of March 31, 2005, largely due to the increase of our shareholders' equity.

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The following table sets forth our shareholders' equity, total assets, adjusted assets and leverage ratios:

	March 31	
	2005	2006
	(in billions, except ratios)	
Shareholders' equity	¥ 1,868.4	¥ 2,063.3
Total assets	34,488.9	35,026.0
Adjusted assets <sup>(1)</sup>	20,099.8	17,998.2
Leverage ratio <sup>(2)</sup>	18.5x	17.0x
Adjusted leverage ratio <sup>(3)</sup>	10.8x	8.7x

(1) Adjusted assets represent total assets less securities purchased under agreements to resell and securities borrowed transactions.

(2) Leverage ratio equals total assets divided by shareholders' equity.

(3) Adjusted leverage ratio equals adjusted assets divided by shareholders' equity.

*Capital Policy*

Capital adequacy is an important strategic objective of our financial management. At the same time, in order to achieve a maximum return on our aggregate capital, efficient allocation of capital becomes another important strategic objective. We have devised a global capital management methodology that seeks to ensure that our capital is adequate to cover the economic risks inherent to our businesses, including market risk, credit risk, event risk, market liquidity risk and operational risk. Under this methodology, we calculate the required capital levels of our businesses strategy. To determine our required aggregate capital level, we take a portfolio approach that is based on conservative diversification assumptions. Adequacy on a legal entity basis is driven by a combination of regional economic needs together with regulatory requirements and rating agency guidelines. We constantly review our capital base, its allocation and our business mix to ensure appropriate return on equity commensurate to our risk profile, the market circumstances, and our peer group.

**C. Research and Development, Patents and Licenses, etc.**

Not applicable.

**D. Trend Information.**

The information required by this item is set forth in Item 5.A of this annual report.

**E. Off-Balance Sheet Arrangements.**

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In connection with our operating activities, we enter into various off-balance sheet arrangements, which may require future payments. We utilize special purpose entities, or SPEs, to securitize commercial and residential mortgage loans, government and corporate bonds and other types of financial assets. Our involvement with SPEs includes structuring SPEs and acting as administrator of SPEs, as well as underwriting, distributing and selling debt instruments and beneficial interests issued by SPEs to investors. We derecognize financial assets transferred in securitizations provided that we have relinquished control over such assets. We may obtain an interest in the financial assets, including residual interests in the SPEs, subject to prevailing market conditions. Any such interests are accounted for at fair value and included in *Securities inventory* within our consolidated balance sheets, with the change in fair value included in revenues. In the normal course of business, we act as transferor of financial assets to VIEs, administrator of VIEs, and underwriter, distributor and seller of asset-repackaged financial instruments issued by VIEs in connection with our securitization activities. We purchase and sell variable interests in VIE, in connection with our market-making and investing activities. For further information about off-balance arrangements with SPEs and VIEs, see Note 5 to the consolidated financial statements included in this annual report. Our other types of off-balance sheet arrangements include guarantee agreements, derivative contracts, commitments to extend credit, commitments to invest in partnerships and lease commitments.

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In the normal course of our banking/financing activities, we enter into various guarantee arrangements with counterparties in the form of standby letters of credit and other guarantees, which generally have a fixed expiration date. See Note 17 to our consolidated financial statements for a further discussion of these arrangements.

We enter into derivative contracts in connection with our trading activities to manage our interest rate, market price and currency exposures, and our non-trading activities to manage our interest rate and currency exposures or to modify the interest rate characteristics of certain non-trading assets and liabilities. We generally enter into International Swaps and Derivatives Association, Inc. master agreements or their equivalents ( master netting agreements ) with each of its counterparties. Master netting agreements provide protection in the event of a counterparty's bankruptcy under certain circumstances, and mitigate the credit risk exposure from these transactions. In some cases, they enable unrealized gains and losses arising from our dealings in over-the-counter derivatives to be presented on a net-by-counterparty basis in accordance with FIN No. 39, Offsetting of Amounts Related to Certain Contracts. Contracts with counterparties which are in a net loss position at fair value are recorded as liabilities. See Note 3 to our consolidated financial statements for a further discussion of these arrangements.

In the normal course of our banking/financing activities, we enter into contractual commitments to extend credit, which generally have a fixed expiration date. In connection with our investment banking activities, we have entered into agreements with customers under which we have committed to underwrite notes that may be issued by the customers. The outstanding commitments under these agreements are included in Commitments to extend credit. See Note 17 to our consolidated financial statements for a further discussion of these arrangements.

We have commitments to invest in interests in various partnerships and other entities, primarily in connection with our merchant banking activities, and also have commitments to provide financing for investments related to these partnerships. The outstanding commitments under these agreements are included in commitments to invest in partnerships. See Note 17 to our consolidated financial statements for a further discussion of these arrangements.

The following table shows our significant off-balance sheet arrangements at March 31, 2006:

	<b>Total contractual amount</b>	
	(in millions)	
Standby letters of credit and other guarantees	¥ 6,993	\$ 60
Derivative contracts <sup>(1)</sup>	913,193	7,773
Operating lease commitments	30,671	261
Capital lease commitments	5,512	47
Commitments to extend credit	294,902	2,510
Commitments to invest in partnerships	33,760	287

(1) This item represents the liability balance of derivative contracts at March 31, 2006. Securities options are classified as derivative contracts.

The contractual amounts of commitments to extend credit represent the amounts at risk should the contracts be fully drawn upon, the customers default and the value of any existing collateral become worthless. The total contractual amount of these commitments may not represent future cash requirements since commitments may expire without being drawn upon. The credit risk associated with these commitments varies depending on the customers' creditworthiness and the value of collateral held. We evaluate each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by us upon extension of credit, is based on management's credit evaluation of the counterparty.

We have commitments to enter into resale and repurchase agreements including amounts in connection with collateralized agreements and financing transactions. These commitments amounted to ¥3,432 billion (\$29 billion) for resale agreements and ¥5,659 billion (\$48 billion) for repurchase agreements at March 31, 2006, respectively.

**Table of Contents****F. Tabular Disclosure of Contractual Obligations.**

In connection with our operating activities, we enter into various contractual obligations and contingent commitments, which may require future payments. We issue Japanese yen and non-Japanese yen denominated long-term borrowings with variable and fixed interest rate in accordance with our funding policy. We lease our office space and certain employees' residential facilities in Japan primarily under cancelable lease agreements which are customarily renewed upon expiration. We also lease certain equipment and facilities under capital and noncancelable operating lease agreements.

The following table shows our contractual obligations and contingent commitments as well as the future expiration at March 31, 2006:

	Total contractual amount	Years to Maturity			
		Less than	1 to 3	3 to 5	More than
		1 year	years	years	5 years
		(in millions)			
Long-term borrowings	¥ 3,598,599	¥ 219,590	¥ 841,698	¥ 588,091	¥ 1,949,220
Operating lease commitments	30,671	6,030	10,417	7,123	7,101
Capital lease commitments	5,512	1,484	2,196	1,168	664
Purchase obligations <sup>(1)</sup>	11,520	10,100	813	607	
Commitments to extend credit	294,902	48,785	213,354	32,763	
Commitments to invest in partnerships	33,760	78	18,931	1,774	12,977
<b>Total</b>	<b>¥ 3,974,964</b>	<b>¥ 286,067</b>	<b>¥ 1,087,409</b>	<b>¥ 631,526</b>	<b>¥ 1,969,962</b>

	Total contractual amount	Years to Maturity			
		Less than	1 to 3	3 to 5	More than
		1 year	years	years	5 years
		(in millions)			
Long-term borrowings	\$ 30,632	\$ 1,869	\$ 7,164	\$ 5,007	\$ 16,592
Operating lease commitments	261	51	89	60	61
Capital lease commitments	47	12	19	10	6
Purchase obligations <sup>(1)</sup>	98	86	7	5	
Commitments to extend credit	2,510	415	1,816	279	
Commitments to invest in partnerships	287	1	161	15	110
<b>Total</b>	<b>\$ 33,835</b>	<b>\$ 2,434</b>	<b>\$ 9,256</b>	<b>\$ 5,376</b>	<b>\$ 16,769</b>

- (1) Purchase obligations for goods or services that include payments for construction-related, consulting & outsourcing, advertising, and computer & telecommunications maintenance agreements. The amounts reflect the minimum contractual obligations under enforceable and legally binding contracts that specify all significant terms. The amounts exclude obligations that are already reflected on balance sheet as liability (payable).

Excluded from the above table are obligations that are generally short-term in nature, including short-term borrowings, time and other deposits received and other payables, collateralized agreements and financing transactions (such as resale and repurchase agreements), and trading liabilities.



**Table of Contents****Item 6. Directors and Senior Management and Employees****A. Directors and Senior Management.****Directors**

The following table provides information about Nomura's Directors as of June 28, 2006. With respect to the information under "Business Experience" below, some of the Directors changed their titles upon our adoption of the holding company structure on October 1, 2001 and the Committee System on June 26, 2003, as described in Item 6.C of this annual report.

Name  (Date of Birth)	Current Positions and Principal  Positions outside the Company	Business Experience		
Junichi Ujiie  (Oct. 12, 1945)	Chairman of the Board of Directors	Nov. 1975	Joined Nomura	
	Chairman of the Nomination Committee	Jun. 1990	Director	
	Chairman of the Compensation Committee	Jun. 1992	Director and Head of Americas	
	Director and President & Chief Executive Officer of Nomura Institute of Capital Markets Research			Division
			Jun. 1995	Managing Director and Head of Americas Division
			Jun. 1996	Managing Director in charge of Risk Analysis Division
				President & CEO
		May 1997	Chairman of the Board of Directors	
	Apr. 2003	Chairman of the Board of Directors and Senior Managing Director		
	Jun. 2003	Chairman of the Board of Directors		
Nobuyuki Koga  (Aug. 22, 1950)	Director	Apr. 2006		
	President & Chief Executive Officer	Apr. 1974	Joined Nomura	
	Representative Executive Officer	Jun. 1995	Director in charge of Human Resources	

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	Director and President & Chief Executive Officer of Nomura Securities Co., Ltd.	May 1997	Director in charge of Planning
		Jun. 1998	Director in charge of Planning Division
			Managing Director in charge of Planning Division
		Apr. 1999	Executive Vice President
			President & CEO
		Jun. 2000	
			Director and President & CEO
		Apr. 2003	
		Jun. 2003	
Hiroshi Toda	Director	Apr. 1975	Joined Nomura
(Sep. 12, 1951)	Deputy President & Chief Operating Officer	Jun. 1997	Director in charge of Fixed Income Division
	Representative Executive Officer		Director in charge of Global Fixed Income
	Director and Senior Managing Director of Nomura Securities Co., Ltd.	Oct. 1998	Executive Managing Director in charge of Investment Banking Unit
	President and Chief Executive Officer of Nomura Asia Holding N.V.	Jun. 2000	Director
			Executive Vice President & COO
		Oct. 2001	Director and Deputy President & COO
		Apr. 2003	
		Jun. 2003	

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Name  (Date of Birth)	Current Positions and Principal  Positions outside the Company	Business Experience	
Kazutoshi Inano  (Sep. 4, 1953)	Director	Apr. 1976	Joined Nomura
	Deputy President & Co-Chief Operating Officer	Jun. 1997	Director in charge of Human Resources  Director in charge of Marketing Division
	Representative Executive Officer	Apr. 1999	Director in charge of Marketing Division and Business Development & IPO
	Chairman of The Nomura Trust & Banking Co., Ltd.	Jun. 1999	Department  Executive Managing Director in charge of Retail Business Unit
		Jun. 2000	Director  Executive Vice President & Co-COO
		Jun. 2000	Director and Deputy President & Co-COO
		Oct. 2001	
		Apr. 2003	
		Jun. 2003	
	Nobuyuki Shigemune  (Aug. 7, 1949)	Director	Apr. 1972
Director of Nomura Securities Co., Ltd.		Jun. 1993	Director in charge of Chubu and Kinki Area of Marketing Division
		Jun. 1995	Director in charge of Kinki Area of Marketing Division
		May 1997	Managing Director stationed in Osaka and Osaka Branch Manager
		May 1997	Managing Director stationed in Osaka
		Dec. 1997	Retired from Managing Director
		Apr. 1999	President of The Nomura Trust & Banking Co., Ltd.  Director and President of The Nomura Trust & Banking Co., Ltd.

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Jun. 1999 Retired from Director and President of The  
Nomura Trust & Banking Co., Ltd.

Advisor

Jun. 2003

Director

Mar. 2004

Apr. 2004

Jun. 2004

Apr. 1975

Joined Nomura Research Institute, Ltd.

Yukio Suzuki

Director

(Jun. 3, 1950)

Director of Nomura Asset Management Co.,  
Ltd.

Director of Nomura Research Institute, Ltd.

Jun. 1996

Retired from Director of Nomura Research  
Institute, Ltd.

Mar. 1997

Advisor, Head of Financial Research Center  
and General Manager of Equity Research  
Department

Apr. 1997

Director, Head of Financial Research Center  
and General Manager of Equity Research  
Department

Jun. 1997

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Name  (Date of Birth)	Current Positions and Principal  Positions outside the Company	Business Experience	
		Apr. 1999	Retired from Director
		May 1999	Advisor
		May 1999	Retried from Advisor
		Jun. 1999	Senior Managing Director in charge of Research Division and General Manager of Economic Research Department of Nomura Asset Management Co., Ltd.
			Executive Managing Director in charge of Research Division and General Manager of Economic Research Department of Nomura Asset Management Co., Ltd.
		Jun. 2000	Executive Managing Director of Nomura Asset Management Co., Ltd.
			Retired from Executive Managing Director of Nomura Asset Management Co., Ltd.
			Advisor
			Director
		Jun. 2003	
		Mar. 2005	
		Apr. 2005	
		Jun. 2005	
Masaharu Shibata  (Feb. 21, 1937)	Director  Member of the Nomination Committee Member of the Compensation Committee  Director of Nomura Securities Co., Ltd.  Chairman & CEO of NGK Insulators, Ltd.	Apr. 1959  Jun. 1994 Oct. 2001  Jun. 2002	Joined NGK Insulators, Ltd.  President & CEO of NGK Insulators, Ltd. Director  Chairman & CEO of NGK Insulators, Ltd.

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	Chairman & CEO of NGK Technica, Ltd.		
Hideaki Kubori	Director	Apr. 1971	Registered as attorney at law and joined Mori Sogo Law Offices
(Aug. 29, 1944)	Member of the Nomination Committee		Left Mori Sogo Law Offices
	Member of the Compensation Committee	Mar. 1998 Apr. 1998	Chairman of Hibiya Park Law Offices
	Director of Nomura Securities Co., Ltd.	Apr. 2001	President of Daini Tokyo Bar Association and Vice President of Japan Federation of Bar Associations
	Chairman of Hibiya Park Law Offices	Oct. 2001	Director
		Mar. 2002	Retired from President of Daini Tokyo Bar Association and Vice President of Japan Federation of Bar Associations

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Name  (Date of Birth)	Current Positions and Principal  Positions outside the Company		Business Experience	
Haruo Tsuji  (Dec. 6, 1932)	Director	Mar. 1955	Joined Hayakawa Electric Industry Co., Ltd. (currently, Sharp Corporation)	
	Chairman of the Audit Committee		President of Sharp Corporation	
	Director of Nomura Securities Co., Ltd.	Jun. 1986	Corporate Advisor of Sharp Corporation	
	Corporate Advisor of Sharp Corporation	Jun. 1998	Statutory Auditor	
		Jun. 2001	Director	
		Jun. 2003		
	Fumihide Nomura (Apr. 13, 1934)	Director	Apr. 1957	Joined Nomura
		Member of the Audit Committee	Dec. 1976	Director
		President of Nomura Shokusan Co., Ltd.	Dec. 1979	Managing Director
			Dec. 1982	Statutory Auditor
Koji Tajika  (Jan. 7, 1936)	Director	Jun. 2003	Director	
	Member of the Audit Committee	Jun. 1993	CEO of Tohmatsu & Co.	
	Director of Nomura Securities Co., Ltd.	Jun. 1997	Chairman & CEO of Tohmatsu & Co.	
	Director of Murata Manufacturing Co., Ltd.	May 1999	Retired from Chairman & CEO of Tohmatsu Co.	
	Statutory Auditor of Sumitomo Corporation	Jun. 1999	Chairman of Deloitte Touche Tohmatsu	
	Director of Tokyo Star Bank, Limited	May 2000	Retired from Chairman of Deloitte Touche Tohmatsu	
			Trustee of International Accounting Standards Committee Foundation	
		Jun. 2000	Advisor of Tohmatsu & Co.	
			Professor of Chuo Graduate School of Accounting	
		Jun. 2001	Retired from Advisor of Tohmatsu & Co.	
	Apr. 2002	Director of Murata Manufacturing Co., Ltd.		

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	Director
May 2002	Statutory Auditor of Sumitomo Corporation
	Director of Tokyo Star Bank, Limited
Jun. 2002	Retired from Trustee of International Accounting Standards Committee Foundation
Jun. 2003	Retired from Professor of Chuo Graduate School of Accounting
Jun. 2003	
Jun. 2003	
Dec. 2004	
Mar. 2006	

Among the above listed Directors, Masaharu Shibata, Hideaki Kubori, Haruo Tsuji and Koji Tajika satisfy the requirements for an outside director under the Corporation Law of Japan. The Corporation Law defines an outside director of a company as a non-executive director (i) who has never assumed the position of executive director, executive officer, manager or employee of the company or its subsidiaries and (ii) who does not currently assume the position of executive director, executive officer, manager or employee of the company or its subsidiaries.



**Table of Contents****Executive Officers**

The following table provides information about Nomura's Executive Officers as of June 28, 2006. With respect to the information under "Business Experience" below, some of the Executive Officers changed their titles or positions upon our adoption of the holding company structure on October 1, 2001 and the Committee System on June 26, 2003, as described in Item 6.C of this annual report.

Name	Current Positions	Business Experience
(Date of Birth)		
Nobuyuki Koga  (Aug. 22, 1950)	Director  President & Chief Executive Officer  Representative Executive Officer	See Directors under this Item 6.A.
Hiroshi Toda  (Sep. 12, 1951)	Director  Deputy President & Chief Operating Officer  Representative Executive Officer  International Operations	See Directors under this Item 6.A.
Kazutoshi Inano  (Sep. 4, 1953)	Director  Deputy President & Co-Chief Operating Officer  Representative Executive Officer	See Directors under this Item 6.A.
Masanori Itatani (Oct. 13, 1953)	Executive Managing Director Head of Internal Audit	Apr. 1976 Jun. 1994  Jun. 1998 Oct. 2001  Apr. 2002 Jun. 2003 Jun. 2003 Apr. 2004 Apr. 2006
Akihiko Nakamura (Apr. 14, 1954)	Executive Managing Director Chief Information Officer	Joined Nomura General Manager of Corporate Planning Department Director Director of Nomura Securities Co., Ltd. (currently, Senior Managing Director of Nomura Securities Co., Ltd.) Head of Global Corporate Communications Retired from Director Senior Managing Director Head of Internal Audit Executive Managing Officer  Apr. 1978 Jun. 2000 Jun. 2001 Sep. 2001 Oct. 2001  Apr. 2004



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Name  (Date of Birth)	Current Positions	Business Experience	
Akihito Watanabe (May 24, 1957)	Senior Managing Director Head of Group Human Resources Development	Apr. 1981	Joined Nomura
		Oct. 2001	General Manager of Corporate Planning Department of Nomura Securities Co., Ltd. (currently, Senior Managing Director of Nomura Securities Co., Ltd.)
		Apr. 2004	Senior Managing Director and Head of Global Research
		April 2006	Head of Group Human Resources Development
Tetsu Ozaki (Jan. 16, 1958)	Senior Managing Director Head of Global Corporate Strategy	Apr. 1982	Joined Nomura
		Apr. 2002	General Manager of Equity Department of Nomura Securities Co., Ltd. (currently, Senior Managing Director of Nomura Securities Co., Ltd.)
		Apr. 2004	Senior Managing Director and Head of Global Equity
		Apr. 2005 April 2006	Head of Global Corporate Communications Head of Global Corporate Strategy
Masafumi Nakada (Jul. 30, 1958)	Senior Managing Director Chief Financial Officer	Apr. 1981	Joined Nomura
		Apr. 2003	General Manager of Compliance Department of Nomura Securities Co., Ltd. (currently, Senior Managing Director of Nomura Securities Co., Ltd.)
		Apr. 2005 April 2006	Senior Managing Director, Chief Financial Officer and Head of Global Risk Management, Treasury, Controller and IR Chief Financial Officer
Noriaki Nagai (Dec. 1, 1957)	Senior Managing Director Head of Corporate Office	Apr. 1981	Joined Nomura
		Jun. 2000  Apr. 2006	General Manager of Legal Department of Nomura Securities Co., Ltd. (currently, Senior Managing Director of Nomura Securities Co., Ltd.) Senior Managing Director
Hideyuki Takahashi (Jan. 10, 1956)	Senior Managing Director Regional Management of Americas Region	Apr. 1979	Joined Nomura
		Nov. 2000	President & CEO of Nomura Securities International, Inc.
		Apr. 2002 Apr. 2002	Director of Nomura Securities Co., Ltd. President & CEO of Nomura Holding America Inc.
		Oct. 2002	Regional Management of Americas Region

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Name	Current Positions	Business Experience	
(Date of Birth)			
Yugo Ishida (Jan. 1, 1957)	Senior Managing Director Regional Management of Europe Region	Jun. 2003	Retired from Director of Nomura Securities Co., Ltd.
		Jun. 2003	Senior Managing Director
		Apr. 1979	Joined Nomura
		Apr. 2003	Regional Head of Europe Equity
		Apr. 2004	Senior Managing Director, Co-Regional Management of Europe Region and President of Nomura Europe Holdings plc
		Apr. 2005	Regional Management of Europe Region

**B. Compensation.****Compensation Policy**

Our Compensation Committee establishes the policy with respect to the determination of the individual compensation of each Director and Executive Officer and makes such determination under the compensation policy. The policy is based on our vision to establish ourselves firmly as a globally competitive Japanese financial institution with the goal of increasing our shareholders' value. The policy is intended to:

link the compensation of our Directors and Executive Officers to the achievement of our strategic business objectives and award them in a manner that further motivates them toward achievement of their respective goals and thereby maximize their performance; and

introduce equity-based compensation to enhance our long term incentives for our Directors and Executive Officers.

Compensation of our Directors and Executive Officers consists of base salary, cash bonus and stock bonus.

*Base Salary*

The base salary of each Director and Executive Officer for each fiscal year is calculated by aggregating the following amounts, each of which is considered and determined by our Compensation Committee:

the amount reflecting his or her career;

the amount reflecting his or her post and responsibilities; and

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the amount reflecting our consolidated return on equity for the previous fiscal year.

Under our compensation policy, the amount reflecting our consolidated return on equity for the previous fiscal year is determined as follows:

		<b>0% (less-or-equal)</b>	<b>5% (less-or-equal)</b>	<b>10% (less than)</b>	
<b>Consolidated</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	
<b>ROE (X)</b>	<b>(less than)0%</b>	<b>(less than)5%</b>	<b>(less-or-equal)10%</b>	<b>(less-or-equal)15%</b>	<b>15% (less than)X</b>
Amount	0	1/3 of Standard Amount	2/3 of Standard Amount	Standard Amount	4/3 of Standard Amount

### *Cash Bonus*

In determining cash bonus of our Directors and Executive Officers, the Compensation Committee considers both quantitative and qualitative factors. Quantitative factors include:

our consolidated net income;

our consolidated return on equity; and

our segment/business line results.

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Qualitative factors include:

the degree of achievement of our strategic business objectives;

the degree of achievement of the pre-established goals of each Director and Executive Officer; and

the Compensation Committee's subjective assessments of individual contribution of each Director and Executive Officer.

Under our compensation policy, the aggregated cash bonus amount paid to our Directors and Executive Officers will not exceed 3% of our consolidated net income.

### *Stock Bonus*

In determining stock bonus payable to our Directors and Executive Officers, the Compensation Committee considers not only our consolidated net income and return on equity but also the proportion of base salary, cash bonus, stock bonus as well as the anticipated cost and effect of awarding such stock bonus.

### **Cash Compensation**

The aggregate cash compensation paid by us to our non-executive Directors and Executive Officers during the year ended March 31, 2006 was ¥223 million and ¥2,130 million, respectively. Those Directors who are also Executive Directors are paid as executive officers but not as directors. In September 2001, we abolished the lump-sum retirement payment system for retiring Directors or Executive Officers.

### **Equity-Based Compensation**

In accordance with the resolution of the general meeting of shareholders held on June 26, 2002, we issued stock acquisition rights as stock options. On August 5, 2002, the stock acquisition rights ( Stock Acquisition Rights No.1 ) to subscribe for 2,227,000 shares were granted to our Directors, then Statutory Auditors and employees, as well as those of our subsidiaries in and outside Japan without consideration. The current exercise price is ¥1,801 per share, and the Stock Acquisition Rights No.1 are exercisable from July 1, 2004 to June 30, 2009. Subject to adjustments, a total of 375,000 shares will be issuable upon full exercise of all the Stock Acquisition Rights No.1 granted to our Directors and Statutory Auditors (in office as of August 5, 2002, the date of issuance). The number of the Stock Acquisition Rights No.1 (each of which represents the right to subscribe for 1,000 shares) granted on August 5, 2002 to each Director and Executive Officer, as of June 28, 2006, is set forth in the tables below.

In accordance with the resolution of the general meeting of shareholders held on June 26, 2003, we issued two types of stock acquisition rights as stock options under Stock Option A and Stock Option B. On July 22, 2003, the stock acquisition rights under the Stock Option A ( Stock

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Acquisition Rights No. 2 ) to subscribe for 2,252,000 shares were granted to our Directors, Executive Officers and employees, as well as those of our subsidiaries in and outside Japan. The current exercise price is ¥1,626 per share and the Stock Acquisition Rights No. 2 are exercisable from July 1, 2005 to June 30, 2010. Subject to adjustments, a total of 735,000 shares will be issuable upon full exercise of all the Stock Acquisition Rights No. 2 granted to our Directors and Executive Officers (in office as of July 22, 2003, the date of issuance). The number of Stock Acquisition Rights No. 2 (each of which represents the right to subscribe for 1,000 shares) granted on July 22, 2003 to each Director and Executive Officer, as of June 28, 2006, is set forth in the tables below.

On June 4, 2004, the stock acquisition rights under the Stock Option B ( Stock Acquisition Rights No. 3 ) to subscribe for 1,363,000 shares were granted to our Directors, Executive Officers and employees, as well as those of our subsidiaries in and outside Japan. The exercise price is ¥1 per share, and the Stock Acquisition Rights No. 3 are exercisable from June 5, 2006 to June 4, 2011. Subject to adjustments, a total of 428,000 shares will be issuable upon full exercise of all the Stock Acquisition Rights No. 3 granted to our Directors and

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Executive Officers (in office as of June 4, 2004, the date of issuance). The number of Stock Acquisition Rights No. 3 (each of which represents the right to subscribe for 1,000 shares) granted on June 4, 2004 to each Director and Executive Officer, as of June 28, 2006, is set forth in the tables below.

In accordance with the resolution of the general meeting of shareholders held on June 25, 2004, we issued two types of stock acquisition rights as stock options under Stock Option A and Stock Option B. On August 16, 2004, the stock acquisition rights under the Stock Option A ( Stock Acquisition Rights No. 4 ) to subscribe for 1,634,000 shares were granted to our Directors, Executive Officers and employees, as well as those of our subsidiaries in and outside Japan. The current exercise price is ¥1,613 per share and the Stock Acquisition Rights No. 4 are exercisable from July 1, 2006 to June 30, 2011. Subject to adjustments, a total of 377,000 shares will be issuable upon full exercise of all the Stock Acquisition Rights No. 4 granted to the Directors and Executive Officers (in office as of August 16, 2004, the date of issuance). The number of Stock Acquisition Rights No. 4 (each of which represents the right to subscribe for 1,000 shares) granted on August 16, 2004 to each Director and Executive Officer, as of June 28, 2006, is set forth in the tables below.

On April 25, 2005, the stock acquisition rights under the Stock Option B ( Stock Acquisition Rights No. 5 ) to subscribe for 1,486,000 shares were granted to our officers and employees of our subsidiaries outside Japan but none of the Stock Acquisition Rights No. 5 were granted to our Directors or Executive Officers (in office as of April 25, 2005, the date of issuance). The exercise price is ¥1 per share, and the Stock Acquisition Rights No. 5 are exercisable from April 26, 2007 to April 25, 2012. None of the current Directors and Executive Officers hold the Stock Acquisition Rights No. 5.

On June 3, 2005, the stock acquisition rights under the Stock Option B ( Stock Acquisition Rights No. 6 ) to subscribe for 806,000 shares were granted to our Directors, Executive Officers and employees, as well as those of our subsidiaries in Japan. The exercise price is ¥1 per share, and the Stock Acquisition Rights No. 6 are exercisable from June 4, 2007 to June 3, 2012. Subject to adjustments, a total of 439,000 shares will be issuable upon full exercise of all the Stock Acquisition Rights No. 6 granted to our Directors and Executive Officers (in office as of June 3, 2005, the date of issuance). The number of Stock Acquisition Rights No. 6 (each of which represents the right to subscribe for 1,000 shares) granted on June 3, 2005 to each Director and Executive Officer, as of June 28, 2006, is set forth in the tables below.

In accordance with the resolution of the general meeting of shareholders held on June 28, 2005, we issued two types of stock acquisition rights as stock options under Stock Option A and Stock Option B. On July 25, 2005, the stock acquisition rights under the Stock Option B ( Stock Acquisition Rights No. 7 ) to subscribe for 276,000 shares were granted to our employees outside Japan. The current exercise price is ¥1 per share and the Stock Acquisition Rights No. 7 are exercisable from July 26, 2007 to July 25, 2012. None of the current Directors and Executive Officers hold the Stock Acquisition Rights No.7.

On July 25, 2005, the stock acquisition rights under the Stock Option A ( Stock Acquisition Rights No. 8 ) to subscribe for 1,763,000 shares were granted to our Directors or Executive Officers and employees as well as those of our subsidiaries in and outside Japan. The current exercise price is ¥1,413 per share, and the Stock Acquisition Rights No. 8 are exercisable from July 1, 2007 to June 30, 2012. Subject to adjustments, a total of 325,000 shares will be issuable upon full exercise of all the Stock Acquisition Rights No. 8 granted to the Directors and Executive Officers (in office as of July 25, 2005, the date of issuance). The number of Stock Acquisition Rights No. 8 (each of which represents the right to subscribe for 100 shares) granted on July 25, 2005 to each Director and Executive Officer, as of June 28, 2006, is set forth in the tables below.

On April 24, 2006, the stock acquisition rights under the Stock Option B ( Stock Acquisition Rights No. 9 ) to subscribe for 3,008,100 shares were granted to our officers and employees of our subsidiaries outside Japan. The exercise price is ¥1 per share, and the Stock Acquisition Rights No. 9 are exercisable from April 25, 2008 to April 24, 2013. None of the current Directors and Executive Officers hold the Stock Acquisition Rights No. 9.





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On June 12, 2006, the stock acquisition rights under the Stock Option B ( Stock Acquisition Rights No. 10 ) to subscribe for 1,033,900 shares were granted to our Directors or Executive Officers and employees as well as those of our subsidiaries in and outside Japan. The exercise price is ¥1 per share, and the Stock Acquisition Rights No. 10 are exercisable from June 13, 2008 to June 12, 2013. Subject to adjustments, a total of 258,400 shares will be issuable upon full exercise of all the Stock Acquisition Rights No. 10 granted to our Directors and Executive Officers (in office as of June 12, 2006, the date of issuance). In accordance with the Corporation Law of Japan, at this time, we choose not to disclose the number of Stock Acquisition Rights No. 10 (each of which represents the right to subscribe for 100 shares) granted on June 12, 2006 to each Director and Executive Officer, as of June 28, 2006.

**Directors**

Name	Number of Stock Acquisition Rights No. 1 Granted	Number of Stock Acquisition Rights No. 2 Granted	Number of Stock Acquisition Rights No. 3 Granted	Number of Stock Acquisition Rights No. 4 Granted	Number of Stock Acquisition Rights No. 6 Granted	Number of Stock Acquisition Rights No. 8 Granted
	on August 5, 2002	on July 22, 2003	on June 4, 2004	on August 16, 2004	on June 3, 2005	on July 25, 2005
Junichi Ujiie	80	60	31	25	29	210
Nobuyuki Shigemune	15	15	6	5	6	40
Yukio Suzuki	12	12	5	6	6	40
Masaharu Shibata	15	10	3	5	3	40
Hideaki Kubori	15	10	3	5	3	40
Haruo Tsuji	10	10	3	5	3	40
Fumihide Nomura	10	10	3	5	3	40
Koji Tajika	0	10	3	5	3	40
<b>Total</b>	<b>157</b>	<b>137</b>	<b>57</b>	<b>61</b>	<b>56</b>	<b>490</b>

**Executive Officers**

Name	Number of Stock Acquisition Rights No. 1 Granted	Number of Stock Acquisition Rights No. 2 Granted	Number of Stock Acquisition Rights No. 3 Granted	Number of Stock Acquisition Rights No. 4 Granted	Number of Stock Acquisition Rights No. 6 Granted	Number of Stock Acquisition Rights No. 8 Granted
	on August 5, 2002	on July 22, 2003	on June 4, 2004	on August 16, 2004	on June 3, 2005	on July 25, 2005
Nobuyuki Koga	40	80	39	30	35	250
Hiroshi Toda	30	40	23	20	23	170
Kazutoshi Inano	30	40	23	20	23	170
Masanori Itatani	20	20	11	10	12	90
Akihiko Nakamura	15	15	9	7	10	60
	3	3	9	7	10	60

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Akihito Watanabe						
Tetsu Ozaki	3	3	9	7	10	60
Masafumi Nakada	3	3	0	3	10	60
Noriaki Nagai	3	3	0	3	0	30
Hideyuki Takahashi	15	15	9	7	10	60
Yugo Ishida	3	3	9	7	10	60
	<u>165</u>	<u>225</u>	<u>141</u>	<u>121</u>	<u>153</u>	<u>1070</u>

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Also, at the general meeting of shareholders held on June 28, 2006, we were authorized to grant two types of stock options, Stock Option A and Stock Option B, in the form of stock acquisition rights, to our Directors, Executive Officers, Statutory Auditors and employees, as well as those of our subsidiaries in and outside Japan. These stock options are exercisable during a period to fall within seven years of the issuing date, which is to be decided by our Board of Directors or an Executive Officer designated by our Board of Directors. The exercise price of Stock Option A will be determined by reference to the market price of our common stock while that of Stock Option B will be ¥1 per share. Subject to adjustments, a total of 10,000,000 shares will be issuable upon full exercise of all the stock options granted in this round, 2,500,000 shares of which will be issuable for Stock Option A and 7,500,000 shares of which will be issuable for Stock Option B.

### **C. Board Practices.**

#### **Information Concerning Our Directors**

Under the Corporation Law, which became effective on May 1, 2006, certain large publicly-held joint stock companies in Japan have the option of choosing committee-based corporate governance system (Committee System) that consists of board of directors and committees or a traditional corporate governance system that consists of board of directors and board of statutory auditors. In order to be eligible for the Committee System, a company must establish three committees: a nomination committee, an audit committee and a compensation committee. The members of each committee are chosen from the company's directors. A majority of each committee must be outside directors who are not executive officers of the company. The company must then appoint executive officers and representative executive officers by a resolution of the board of directors. Under the Committee System, the executive officers manage the business affairs of a company. While the board of directors is entitled to establish the basic management policy for the company and has decision-making authority over certain prescribed matters, all other decisions related to business affairs may be made by executive officers. When an eligible company adopts the Committee System, its board of statutory auditors is abolished.

We adopted the Committee System by amending our Articles of Incorporation by way of a special resolution adopted at our general meeting of shareholders held on June 26, 2003. Our Board of Directors established three committees, a Nomination Committee, an Audit Committee and a Compensation Committee, as described below. Through the adoption of the Committee System, we aim to strengthen management oversight, increase transparency in our management and have more flexible group operations. Our Board of Directors has the authority to determine our basic management policy and supervise the execution by the Directors and Executive Officers of their duties. Our Board of Directors has, by resolution, delegated to our Executive Officers most of its authority to make decisions with regard to our company's business.

Our Articles of Incorporation provide for not more than 20 Directors. Directors are elected at a general meeting of shareholders, and the normal term of office of Directors is one year, although they may serve any number of consecutive terms. From among its members, our Board of Directors elects the Chairman. Our Board of Directors met 10 times during the year ended March 31, 2006. As a group, our Directors attended approximately 96% of the total number of meetings of our Board of Directors.

#### *Compensation Committee*

Our Compensation Committee is authorized to determine the policy with respect to the determination of the particulars of the compensation for each Director and Executive Officer, and the particulars of the compensation for each Director and Executive Officer. This committee's current members are Junichi Ujiie, Masaharu Shibata and Hideaki Kubori. Junichi Ujiie is the Chairman of this committee. Our Compensation Committee met 3 times during the year ended March 31, 2006. As a group, the member Directors attended 100% of the total number of meetings of our Compensation Committee.

*Nomination Committee*

Our Nomination Committee is authorized to determine the particulars of proposals concerning the election and dismissal of Directors to be submitted to a general meeting of shareholders by our Board of Directors. This

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committee's current members are Junichi Ujiie, Masaharu Shibata and Hideaki Kubori. Junichi Ujiie is the Chairman of this committee. Our Nomination Committee met 2 times during the year ended March 31, 2006. As a group, the member Directors attended 100% of the total number of meetings of our Nomination Committee.

### *Audit Committee*

We have an Audit Committee that, according to our Articles of Incorporation, is authorized to (i) audit the execution by the Directors and the Executive Officers of their duties and formulation of audit reports and (ii) determine the particulars of proposals concerning the election and dismissal of the independent auditor and the non-retention of such independent auditor to be submitted to a general meeting of shareholders by our Board of Directors. With respect to financial reporting, our Audit Committee has the statutory duty to examine our financial statements and business reports to be prepared by Executive Officers designated by our Board of Directors and is authorized to report its opinion to the ordinary general meeting of shareholders. In addition, pursuant to our Regulations of the Audit Committee or resolutions of the Board of Directors concerning matters to be necessary for the performance of functions of the Audit Committee, our Audit Committee has the authority to (i) pre-approve audit or non-audit services provided by the independent auditor for SEC reporting purposes and their fees, (ii) fees for the independent auditor, (iii) establish the procedures for (a) the receipt, retention, and treatment of complaints received by us regarding accounting, internal controls, or auditing matters and (b) the confidential, anonymous submission by our employees regarding questionable accounting or auditing matters, (iv) approve the annual audit planning of the independent auditor and accounting firms.

This committee is currently composed of Haruo Tsuji, Fumihide Nomura and Koji Tajika. Haruo Tsuji is the Chairman of this committee. Our Audit Committee met 23 times during the year ended March 31, 2006. As a group, the member Directors attended approximately 99% of the total number of meetings of our Audit Committee.

### **Limitation of Liabilities of Some Directors**

We have entered into agreements with four of our Directors, Masaharu Shibata, Hideaki Kubori, Haruo Tsuji and Koji Tajika, that limit their liabilities to us for damages suffered by us due to their acts taken in good faith and without gross negligence, up to the higher of (a) ¥20 million or (b) the amount specified in the agreements. The amount specified in each of these agreements is generally the aggregate amount of two years remunerations and other compensation received or entitled to be received by the respective Director.

### **Information Concerning Our Executive Officers**

Our Executive Officers have the authority to determine the matters delegated by the resolutions of our Board of Directors and execute our business activities. Our Articles of Incorporation provide for not more than 45 Executive Officers. Executive Officers are elected at a meeting of our Board of Directors meeting, and the normal term of Executive Officers is one year, although they may serve any number of consecutive terms. Some of the Executive Officers appointed by our Board of Directors are members of our Group Executive Management Committee where they discuss or determine important matters concerning our group management.

### **Corporate Governance Practices**

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Companies listed on the NYSE must comply with certain standards regarding corporate governance under Section 303A of the NYSE Listed Company Manual. However, listed companies that are foreign private issuers, such as Nomura, are permitted to follow home country practice in lieu of certain provisions of Section 303A.

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The following table shows the significant differences between the corporate governance practices followed by U.S. listed companies under Section 303A of the NYSE Listed Company Manual and those followed by Nomura. The information set forth below is current as of June 28, 2006.

**Corporate Governance Practices Followed**

by NYSE-listed U.S. Companies	Corporate Governance Practices Followed by Nomura
<p>A NYSE-listed U.S. company must have a majority of directors meeting the independence requirements under Section 303A of the NYSE Listed Company Manual.</p>	<p>In accordance with the Corporation Law of Japan, Nomura has elected to adopt the Committee System, under which, among other things, it has established an Audit Committee, a Nomination Committee and a Compensation Committee under its Board of Directors. Under the Corporation Law of Japan, Nomura is not required to have outside directors comprising a majority of its Directors, but is required to have on each committee at least three Directors, a majority of whom must be outside Directors. Nomura has eleven Directors, four of whom are outside Directors. An outside director of a corporation is defined under the Corporation Law of Japan as a non-executive director (i) who has never assumed the position of executive director, executive officer, manager or employee of the company or its subsidiaries and (ii) who does not currently assume the position of executive director, executive officer, manager or employee of the company or its subsidiaries.</p>
<p>The non-management directors of a NYSE-listed U.S. company must meet at regularly scheduled executive sessions without management.</p>	<p>Nomura provides an alternative forum to such executive sessions for its outside Directors where its outside Directors will discuss Nomura's corporate governance practices or procedures. According to the request of its outside Directors, certain Executive Officers or employees attended the forum in order to take note or answer questions by its outside Directors. Such forum was held two times during the year ended March 31, 2006. Such forum will be held at least once a year.</p>
<p>A NYSE-listed U.S. company must have an audit committee with responsibilities described under Section 303A of the NYSE Listed Company Manual, including those imposed by Rule 10A-3 under the U.S. Securities Exchange Act of 1934. The audit committee must be composed entirely of independent directors and have at least three members.</p>	<p>Nomura has an Audit Committee consisting of three Directors, two of whom are outside Directors under the Corporation Law of Japan and all of whom are independent directors under the Rule 10A-3 under the U.S. Securities Exchange Act of 1934. The Audit Committee is charged with the responsibility to monitor the performance of the Directors and Executive Officers of Nomura and to propose the appointment or dismissal of its accounting auditors and accounting firm. The Audit Committee satisfies the requirements of Rule 10A-3 under the U.S. Securities Exchange Act of 1934.</p>



**Table of Contents****Corporate Governance Practices Followed****by NYSE-listed U.S. Companies**

A NYSE-listed U.S. company must have a nominating/corporate governance committee with responsibilities described under Section 303A of the NYSE Listed Company Manual. The nominating/corporate governance committee must be composed entirely of independent directors.

A NYSE-listed U.S. company must have a compensation committee with responsibilities described under Section 303A of the NYSE Listed Company Manual. The compensation committee must be composed entirely of independent directors.

A NYSE-listed U.S. company must generally obtain shareholder approval with respect to any equity compensation plan.

**Corporate Governance Practices Followed by Nomura**

Nomura has a Nomination Committee consisting of three Directors, two of whom are outside Directors. The Nomination Committee is charged with the responsibility to propose to the general meeting of shareholders the election or dismissal of Directors.

Nomura has a Compensation Committee consisting of three Directors, two of whom are outside Directors. The Compensation Committee is charged with the responsibility to determine the compensation of each Director and Executive Officer of Nomura.

Under the Corporation Law of Japan, Nomura must obtain resolution of board directors with respect to equity compensation plan. However, if Nomura desires to adopt an equity compensation plan under which stock acquisition warrants are granted with specially favorable conditions, such a plan must be approved by a special resolution adopted at a general meeting of shareholders. A special resolution requires as a quorum one-third of the total number of voting rights and the approval of at least two-thirds of the voting rights represented at the meeting.

The rights of ADR holders, including their rights to corporate governance practices, are governed by the Deposit Agreement which is an exhibit to this annual report. See also Rights of Holders of ADSs under Item 10.B of our Registration Statement on Form 20-F (File No. 1-15270), which we filed with the Securities and Exchange Commission on December 13, 2001. The information contained in that part of the Registration Statement is incorporated in Item 10.B of this annual report by reference.

**D. Employees**

The following table shows the number of our employees as of the dates indicated:

	<b>As of March 31,</b>		
	<b>2004</b>	<b>2005</b>	<b>2006</b>
Japan	11,063	11,065	11,302
Europe	1,403	1,535	1,515
Americas	866	1,026	1,073
Asia (other than Japan) and Oceania	655	718	778
<b>Total</b>	<b>13,987</b>	<b>14,344</b>	<b>14,668</b>

*Japan*

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In Japan, as of March 31, 2006, we had 11,302 employees, of which 6,303 were engaged in Domestic Retail, 611 were engaged in Global Markets, 689 were engaged in Global Investment Banking, 56 were engaged in Global Merchant Banking and 647 were engaged in Asset Management.

As of March 31, 2006, 7,679 of Nomura Securities employees in Japan were members of Nomura employees union, with which we have a labor contract. Pursuant to this contract, salaries and bonuses are negotiated with the labor union based on our overall performance during the relevant fiscal period and our financial position.

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We emphasize and reward individual skills and performance.

For information on stock options granted to some of our employees, see Item 6.B. of this annual report.

Under our retirement allowance system, eligible employees are entitled to a lump-sum allowance and a retirement annuity upon their retirement.

In Japan, we have not experienced any strikes or other labor disputes and consider our employee relations to be excellent.

*Overseas*

As of March 31, 2006, we had 3,366 employees overseas, including 1,515 in Europe, 1,073 in the Americas and 778 in Asia (excluding Japan) and Oceania.

Most of our overseas professional employees receive salaries as well as incentive compensation in the form of bonuses and profit sharing. Compensation for some of our employees consists largely of incentive compensation. Our employees overseas are not unionized.

We have not experienced any strikes or other labor disputes overseas and consider our overseas employee relations to be excellent.

*Private equity entities*

Nomura Principal Finance Co., Ltd. ( NPF ) engages in private equity business in Japan. As of March 31, 2006, NPF investments accounted for as consolidated subsidiaries ( Private equity entities ) had 4,051 employees mainly in Japan.

	<u>As of March 31,</u>		
	<u>2004</u>	<u>2005</u>	<u>2006</u>
Private equity entities	2,711	9,982	4,051

**E. Share Ownership.**

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The following table shows the number of shares owned by our Directors and Executive Officers as of June 28, 2006. As of that date, none of them owned 1% or more of our issued and outstanding shares.

### Directors

Name	Number of Shareholdings
Junichi Ujiie	101,235
Nobuyuki Koga	55,053
Hiroshi Toda	28,300
Kazutoshi Inano	88,100
Nobuyuki Shigemune	24,900
Yukio Suzuki	10,698
Masaharu Shibata	5,000
Hideaki Kubori	0
Haruo Tsuji	4,000
Fumihide Nomura	188,626
Koji Tajika	0
Total	505,912

**Table of Contents****Executive Officers**

Name	Number of Shareholdings
Nobuyuki Koga	See above
Hiroshi Toda	See above
Kazutoshi Inano	See above
Masanori Itatani	40,012
Akihiko Nakamura	8,081
Akihito Watanebe	11,000
Tetsu Ozaki	14,249
Masafumi Nakada	3,203
Noriaki Nagai	7,800
Hideyuki Takahashi	7,335
Yugo Ishida	13,399
<b>Total</b>	<b>276,533</b>

For information regarding stock options granted to our Directors and Executive Officers, see [Equity-Based Compensation](#) under Item 6.B of this annual report.

**Item 7. Major Shareholders and Related Party Transactions****A. Major Shareholders.**

As of March 31, 2006, to our knowledge, no person beneficially held, directly or indirectly, more than 5% of Nomura's then outstanding common stock. To our knowledge, we are not directly or indirectly owned or controlled by another corporation, by any government or by any other natural or legal person severally or jointly. We know of no arrangements the operation of which may at a later time result in a change of control of Nomura. Also as of March 31, 2006, there were 199 record shareholders of Nomura with addresses in the United States, and those U.S. holders held 345,853,423 shares of Nomura's common stock, representing 17.6% of Nomura's then outstanding common stock. As of March 31, 2006, there were 83,969,499 ADSs outstanding, representing 83,969,499 shares of Nomura's common stock or 4.3% of Nomura's then outstanding common stock.

**B. Related Party Transactions.****Nomura Land and Building Co., Ltd.**

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Nomura Land and Building Co., Ltd. ( NLB ) owned a substantial portion of our leased office space in Japan prior to August 1, 2004. NLB currently owns some of our leased office space in Japan after demergering NLB's facility management business, which includes the ownership, lease, maintenance and administration of real estate properties as places of business and offices, etc to Nomura Facilities, Inc. (former Nomura Realty Capital Management Co., Ltd.). We held 37.8% of NLB's outstanding share capital at March 31, 2006. Other major shareholders of NLB were Nomura Research Institute, Ltd. ( NRI ), holding 18.8%, JAFCO Co., Ltd, holding 18.8%, and Obayashi Corporation, holding 14.8%.

For the year ended March 31, 2006, we paid ¥3,174 million in rent to NLB. As of March 31, 2006, we had ¥5,493 million in lease deposits with NLB.

### **Nomura Research Institute, Ltd.**

NRI develops and manages computer systems and provides investigation/research services and management consulting services. We are one of the major customers of NRI.

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In May 18, 2004, we acquired an additional 17.2% equity interest in NRI for ¥81,214 million at quoted market price from NLB. As a result of this issuance, our equity interest in NRI increased to 42.2% and NLB's equity interest in NRI declined to 0.4%. In October 2005, Nomura applied for a share repurchase offered by NRI and NRI re-acquired 4 millions of its shares from Nomura in November 2005 at a value of ¥44,000 million. As a result, our equity interest in NRI declined to 36.9% at March 31, 2006.

For the year ended March 31, 2006, we purchased ¥54,145 million worth of software and computer equipment, and paid NRI ¥27,941 million for other services.

## **Directors**

Our Director Mr. Fumihide Nomura serves as President of Nomura Shokusan Co., Ltd. ( Shokusan ) incorporated in Japan, which is principally engaged in real-estate leasing. Shokusan leases a commercial property to our subsidiary, Nomura Facilities, Inc. During the year ended March 31, 2006, Nomura Facilities, Inc. had paid ¥29 million in monthly rent to Shokusan. This transaction was in the ordinary course of business and on substantially the same terms as those prevailing at the time for comparable transactions with unrelated third parties. We hold approximately 0.8% of Shokusan's outstanding stocks.

Our Director Mr. Masaharu Shibata's daughter is employed in our subsidiary Nomura Securities International, Inc. ( NSI ), a registered broker-dealer in the United States. She is a vice president of the Investor Relations & Corporate Services. Her compensation is determined by NSI on no more favorable terms than those applicable to employees with equivalent qualifications and responsibilities.

## **C. Interests of Experts and Counsel.**

Not applicable.

## **Item 8. Financial Information**

### **A. Consolidated Statements and Other Financial Information.**

#### **Financial Statements**

The information required by this item is set forth in our consolidated financial statements included elsewhere in this annual report.

#### **Legal or Arbitration Proceedings**

We are involved in a number of actions and proceedings in Japan and overseas, which are either ordinary routine actions and proceedings incidental to our business or not material to us. Based upon the information currently available to us and our domestic and overseas legal counsel, we believe that the ultimate resolution of such actions and proceedings will not, in the aggregate, have a material adverse effect on our financial condition or results of our operations including the actions described below.

In 1998, one of our European subsidiaries, Nomura Principal Investment plc, acquired approximately 46% of the issued share capital of Investicni a postovni banka, a.s. (IPB), a Czech bank (through its relationship with a Dutch company as the holder of the shares). On June 16, 2000, the Czech National Bank (CNB) placed IPB into forced administration. On June 19, 2000, the administrator appointed by the CNB transferred IPB's entire business to Ceskoslovenska obchodni banka (CSOB), another Czech bank.

Nomura Principal Investment and Nomura International plc are involved in both bringing and defending a number of legal claims arising out of the circumstances surrounding Nomura Principal Investment's acquisition of its interest in IPB, the imposition of forced administration, and the immediate sale by the administrator of IPB's entire business to CSOB.



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The legal disputes include international arbitration proceedings in which the Czech Republic is seeking damages of \$4.4 billion. CSOB is also pursuing a legal action before the Czech courts seeking damages of \$629 million against Nomura Principal Investment, Nomura International and others arising out of IPB's sale of a Czech brewery. We believe that all such claims brought against us are without merit and we are vigorously defending them.

Furthermore, in March 2006, the International Arbitral Tribunal presiding over the Dutch company's claim against the Czech Republic (brought under the Bilateral Investor Treaty between the Netherlands and the Czech Republic) issued an award on liability in favour of the Dutch company, holding the Czech Republic's actions pertaining to IPB to be a breach of its obligation under the Treaty for fair and equitable treatment. In May 2006, the Czech Republic lodged an appeal against this award with the Swiss Federal Supreme Court as the seat of the arbitration is Geneva. As a result, the next phase of the arbitration proceedings, in which the quantum of damages to be paid by the Czech Republic will be assessed, is presently on hold.

## **Dividend Policy**

We paid a year-end cash dividend of ¥36, which comprises an amount of ¥24 added to the target dividend amount of ¥12, and interim dividend of ¥12 per share in respect of the year ended March 31, 2006. Accordingly, the annual cash dividend per share for the year ended March 31, 2006 was ¥48.

On April 28, 2006, we announced that we introduced new dividend policy and quarterly dividend payments. When determining the amount of any cash dividend, we will first decide target dividend amounts, the minimum level of cash dividend, taking into account the firm's dividend-on-equity ratio (DOE) of about 3%. When we achieve a sufficient level of profit, we will decide the amount of the year-end cash dividend taking into consideration a pay-out ratio of over 30%. We seek to ensure sustainable growth of its target dividend in the mid- to long-term.

As for retained profits, we intend to invest in business areas where high profitability and growth may reasonably be expected, including development and expansion of infrastructure, to maximize value for shareholders.

The quarterly payments structure was made possible by Japan's new Corporation Law, taken effect on May 1, 2006, which abolished the limits on the frequency of dividend payments. On the same day, we announced that we raised annual target dividend amount to ¥32 per share for the year ending March 31, 2007. This represents an ¥8 per share increase compared to the target dividend amount for the year ended March 31, 2006. The payment and dividend amounts are formally determined by a resolution of the Board of Directors. In line with the dividend policy, when Nomura achieves a sufficient level of profit, the year-end cash dividend will be decided taking into consideration a payout ratio of over 30%.

## **B. Significant Changes.**

Except as disclosed in this annual report, there have been no significant changes since March 31, 2006.

**Item 9. The Offer and Listing**

**A. Offer and Listing Details.**

Price History

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The following table sets forth, for the periods indicated, the reported high and low sale prices of our common stock on the Tokyo Stock Exchange and the reported high and low share prices of our ADS on New York Stock Exchange.

Calendar Year	Tokyo Stock Exchange Price Per Share of Common Stock		New York Stock Exchange Price Per Share of ADS	
	High	Low	High	Low
<b>Annual highs and lows</b>				
2001 (for the ADSs, starting on December 17, 2001)	¥ 2,890	¥ 1,451	\$ 13.05	\$ 11.35
2002	2,190	1,190	17.40	8.91
2003	2,125	1,087	19.11	9.07
2004	1,966	1,278	18.66	12.05
2005	2,320	1,295	19.73	11.65
<b>Quarterly highs and lows</b>				
2004				
First Quarter	1,930	1,616	18.66	14.93
Second Quarter	1,966	1,570	18.60	13.60
Third Quarter	1,632	1,400	15.01	12.72
Forth Quarter	1,498	1,278	14.60	12.05
2005				
First Quarter	1,598	1,344	15.25	12.80
Second Quarter	1,513	1,295	13.97	11.93
Third Quarter	1,800	1,304	15.86	11.65
Forth Quarter	2,320	1,622	19.73	14.17
<b>Monthly highs and lows</b>				
2005				
December	2,320	1,976	19.73	16.95
2006				
January	2,350	1,960	20.46	17.50
February	2,320	2,005	19.58	17.72
March	2,630	2,165	22.43	18.89
April	2,770	2,500	23.35	21.88
May	2,680	2,175	24.30	19.51
June (through June 28)	2,260	1,959	20.08	16.96

**B. Plan of Distribution.**

Not applicable.

**C. Markets.**

The principal trading market for our Common Stock is the Tokyo Stock Exchange, Inc. Our Common Stock has been listed on the Tokyo Stock Exchange, Inc., the Osaka Securities Exchange Co., Ltd. and the Nagoya Stock Exchange, Inc. since 1961.

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In December 2001, we listed our Common Stock on New York Stock Exchange in the form of ADSs evidenced by ADRs. Each ADS represents one share of Common Stock. Our Common stock has been listed on the Singapore Stock Exchange since 1994.

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**D. Selling Shareholders.**

Not applicable.

**E. Dilution.**

Not applicable.

**F. Expenses of the Issue.**

Not applicable.

**Item 10. Additional Information**

**A. Share Capital.**

Not applicable.

**B. Memorandum and Articles of Association.**

**Objects and Purposes in Nomura's Articles of Incorporation**

Article 2 of our Articles of Incorporation, which are an exhibit to this annual report, states our objects and purposes.

**Provisions Regarding Our Directors**

There is no provision in our Articles of Incorporation as to a Director's power to vote on a proposal or arrangement in which the Director is materially interested, but, under the Corporation Law of Japan (hereinafter referred to as the "Corporation Law"), which came into effect on May

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1, 2006, and our Regulations of the Board of Directors, a Director must abstain from voting on such matters at meetings of the Board of Directors.

The Corporation Law provides that, under the Committee System, the compensation committee determines the compensation for directors and executive officers. The compensation committee must first establish a policy with respect to the determination of the individual compensation of each director and executive officer and then for each individual case determine the amount of compensation, the calculation method as to variable compensation and/or define components of non-monetary compensation for each director and executive officer in accordance with the established policy.

Pursuant to the Corporation Law, under the Committee System, the board of directors may delegate to executive officers powers regarding the incurrence by a company of a significant loan from a third party. Our Executive Officers are delegated such powers by our Board of Directors.

There is no mandatory retirement age for our Directors under the Corporation Law or our Articles of Incorporation.

There is no requirement concerning the number of shares an individual must hold in order to qualify him or her as a Director of Nomura under the Corporation Law or our Articles of Incorporation.

Pursuant to the Corporation Law and our Articles of Incorporation, we may, by resolution of our Board of Directors, release the liabilities of any Directors or Executive Officers to us for damages suffered by us due to their acts taken in good faith and without gross negligence, to the extent permitted by the Corporation Law and our Articles of Incorporation. In addition, we may execute with outside Directors agreements that limit their

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liabilities to us for damages suffered by us due to their acts in good faith and without gross negligence, to the extent permitted by the Corporation Law and our Articles of Incorporation. See Item 6. C. Board Practices, Limitation of Liabilities of Some Directors above.

### **Holding of Our Shares by Foreign Investors**

Other than the Japanese unit share system that is described in Rights of Our Shareholders Japanese Unit Share System below, there are no limitations on the rights of non-residents or foreign shareholders to hold or exercise voting rights on our shares imposed by the laws or our Articles of Incorporation or our other constituent documents.

### **Rights of Our Shareholders**

Set forth below is general information relating to our common stock, including brief summaries of the relevant provisions of our Articles of Incorporation and Share Handling Regulations, as currently in effect, and of the Corporation Law and related legislation.

#### *General*

Under our Articles of Incorporation, the authorized share capital is 6,000,000,000 shares, of which 1,904,864,196 shares were issued and outstanding as of March 31, 2006. All issued shares are fully-paid and non-assessable, and are in registered form. Under the Corporation Law shares are transferable by delivery of share certificates. In order to assert shareholders' rights against us, a shareholder must have its name and address registered in our register of shareholders, in accordance with our Share Handling Regulations. For this purpose, shareholders are required to file their names, addresses and seals with our share registrar. Foreign shareholders may file specimen signatures in lieu of seals. Non-resident shareholders are required to appoint a standing proxy in Japan or provide a mailing address in Japan. Japanese securities firms and commercial banks customarily act as standing proxy and provide related services for standard fees.

A holder of shares may choose, at its discretion, to participate in the central clearing system for share certificates under the Law Concerning Central Clearing of Share Certificates and Other Securities of Japan. Participating shareholders must deposit certificates representing all of the shares to be included in this clearing system with the Japan Securities Depository Center, Inc. ( JASDEC ). If a holder is not a participating institution in JASDEC, it must participate through a participating institution, such as a securities company or bank having a clearing account with JASDEC. All shares deposited with JASDEC will be registered in the name of JASDEC on our register of shareholders. Each participating shareholder will in turn be registered in our register of beneficial shareholders and be treated in the same way as shareholders registered on our register of shareholders. For the purpose of transferring deposited shares, delivery of share certificates is not required. Entry of the share transfer in the books maintained by JASDEC for participating institutions, or in the book maintained by a participating institution for its customers or both, have the same effect as delivery of share certificates. The registered beneficial owners may exercise the rights attached to the shares, such as voting rights, and will receive dividends (if any) and notices to shareholders directly from us. The shares held by a person as a registered shareholder and those held by the same person as a registered beneficial owner are aggregated for these purposes. Beneficial owners may at any time withdraw their shares from deposit and receive share certificates.

A new law to establish a new central clearing system for shares of listed companies and to eliminate the issuance and use of certificates for such shares was promulgated in June 2004 and the relevant parts of the law will come into effect within five years of the date of promulgation. On the effective date, a new central clearing system will be established and the shares of all Japanese companies listed on any Japanese stock exchange,

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including our shares, will be subject to the new central clearing system. On the same day, all existing share certificates of all Japanese companies listed on any Japanese stock exchange, including our shares, will become null and void and the transfer of such shares will be effected through entry in the books maintained under the new central clearing system.



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The registered beneficial holder of deposited shares underlying the ADSs is the depositary for the ADSs. Accordingly, holders of ADSs will not be able to directly assert shareholders' rights.

### *Distribution of Surplus*

Under the Corporation Law, distributions of cash or other assets by joint stock corporations to their shareholders, so called "dividends", are referred to as "distributions of Surplus" ("Surplus" is defined in *Restriction on Distributions of Surplus* below). We may make distributions of Surplus to the shareholders any number of times per fiscal year, subject to certain limitations described in *Restriction on Distributions of Surplus*. Under the Corporation Law, distributions of Surplus are required in principle to be authorized by a resolution of a general meeting of shareholders. However, according to the Corporation Law our Articles of Incorporation provide that our Board of Directors has the authority to decide to make distributions of Surplus except for limited exceptions as provided by the Corporation Law, since we have satisfied the following requirements:

- (a) the normal term of office of our Directors is not longer than one year; and
- (b) our non-consolidated annual financial statements and certain documents for the last fiscal year present fairly our assets and profit or loss, as required by the ordinances of the Ministry of Justice.

Under our Articles of Incorporation, dividends, if any, may be distributed to shareholders (or pledgees) appearing in the register of shareholders as of June 30, September 30, December 31 or March 31 of each year pursuant to a resolution of our Board of Directors. In addition, under the Corporation Law and our Articles of Incorporation, we may make further distributions of Surplus by resolution of our Board of Directors. Under our Articles of Incorporation, we are not obliged to pay any dividends that are left unclaimed for a period of three years after the date on which they first became payable.

Distributions of Surplus may be distributed in cash or in kind in proportion to the number of shares held by each shareholder. A resolution of our Board of Directors authorizing a distribution of Surplus must specify the kind and aggregate book value of the assets to be distributed, the manner of allocation of such assets to shareholders, and the effective date of the distribution. If a distribution of Surplus is to be made in kind, we may, pursuant to a resolution of our Board of Directors, grant a right to our shareholders to require us to make such distribution in cash instead of in kind. If no such right is granted to shareholders, the relevant distribution of Surplus must be approved by a special resolution of a general meeting of shareholders.

For information as to Japanese taxes on dividends, see "Japanese Taxation" under Item 10.E. of this annual report.

### *Restriction on Distributions of Surplus*

When we make a distribution of Surplus, we must, until the aggregate amount of our additional paid-in capital and legal reserve reaches one-quarter of our stated capital, set aside in our additional paid-in capital and/or legal reserve an amount equal to one-tenth of the amount of Surplus so distributed.

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The amount of Surplus at any given time must be calculated in accordance with the following formula:

$$A + B + C + D - (E + F + G)$$

In the above formula:

A = the total amount of other capital surplus and other retained earnings each such amount being that appearing on our non-consolidated balance sheet as of the end of the last fiscal year;

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B = (if we have disposed of our treasury stock after the end of the last fiscal year) the amount of the consideration for such treasury stock received by us less the book value thereof;

C = (if we have reduced our stated capital after the end of the last fiscal year) the amount of such reduction less the portion thereof that has been transferred to additional paid-in capital or legal reserve (if any);

D = (if we have reduced our additional paid-in capital or legal reserve after the end of the last fiscal year) the amount of such reduction less the portion thereof that has been transferred to stated capital (if any);

E = (if we have cancelled our treasury stock after the end of the last fiscal year) the book value of such treasury stock;

F = (if we have distributed Surplus to our shareholders after the end of the last fiscal year) the total book value of Surplus so distributed;

G = certain other amounts set forth in ordinances of the Ministry of Justice, including (if we have reduced Surplus and increased our stated capital, additional paid-in capital or legal reserve after the end of the last fiscal year) the amount of such reduction and (if we have distributed Surplus to our shareholders after the end of the last fiscal year) the amount set aside in our additional paid-in capital or legal reserve (if any) as required by the ordinances of the Ministry of Justice.

The aggregate book value of Surplus distributed by us may not exceed a prescribed distributable amount (the Distributable Amount), as calculated on the effective date of such distribution. The Distributable Amount at any given time shall be equal to the amount of Surplus less the aggregate of the followings:

- (a) the book value of our treasury stock;
- (b) the amount of consideration for our treasury stock disposed of by us after the end of the last fiscal year; and
- (c) certain other amounts set forth in the ordinances of the Ministry of Justice, including (if the sum of one-half of good will and the deferred assets exceeds the total of stated capital, additional paid-in capital and legal reserve, each such amount being that appearing on our non-consolidate balance sheet as of the end of the last fiscal year) all or certain part of such exceeding amount as calculated in accordance with the ordinances of the Ministry of Justice.

If we have become at our option a company with respect to which consolidated balance sheets should also be taken into consideration in the calculation of the Distributable Amount (*renketsu haito kisei tekiyo kaisha*), it will be required to further deduct from the amount of Surplus the excess amount, if any, of (x) the total amount of shareholders' equity appearing on our non-consolidated balance sheet as of the end of the last fiscal year and certain other amounts set forth in the ordinances of the Ministry of Justice over (y) the total amount of shareholders' equity and certain other amounts set forth in the ordinances of the Ministry of Justice appearing on our consolidated balance sheet as of the end of the last fiscal year.

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If we have prepared interim financial statements as described below, and if such interim financial statements have been approved (unless exempted by the Corporation Law) by a general meeting of shareholders, the Distributable Amount must be adjusted to take into account the amount of profit or loss, and the amount of consideration for our treasury stock disposed of by us, during the period in respect of which such interim financial statements have been prepared. We may prepare non-consolidated interim financial statements consisting of a balance sheet as of any date subsequent to the end of the last fiscal year and an income statement for the period from the first day of the current fiscal year to the date of such balance sheet. Interim financial statements so prepared by us must be approved by the Board of Directors and audited by our Audit Committee and independent auditors, as required by the ordinances of the Ministry of Justice.

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### *Stock Splits*

In accordance with the Corporation Law, our Board of Directors has by resolution delegated to our Executive Management Board powers to make stock splits, regardless of the value of net assets (as appearing in our latest non-consolidated balance sheet) per share. Under the Corporation Law, when we issue new shares in the future, the entire amount of issue price of those new shares is required to be accounted for as stated capital, although we may account for an amount not exceeding one-half of the issue price as additional capital. By resolution of our Executive Management Board, we may make a stock split within an amount of stated capital or by transferring the whole or any part of additional paid-in capital and legal reserve to stated capital.

In accordance with the Corporation Law, our Board of Directors has by resolution delegated to our Executive Management Board powers to increase the authorized shares up to the number reflecting the rate of stock splits and amend our Articles of Incorporation to this effect without the approval of a shareholders' meeting. For example, if each share became three shares by way of a stock split, we may increase the authorized shares from the current 6,000,000,000 shares to 18,000,000,000 shares.

### *Japanese Unit Share System*

Our Articles of Incorporation provide that 100 shares constitute one unit. The Corporation Law permits us, by resolution of our Board of Directors, to reduce the number of shares which constitutes one unit or abolish the unit share system, and amend our Articles of Incorporation to this effect without the approval of a shareholders' meeting.

*Transferability of Shares Representing Less Than One Unit.* Our Articles of Incorporation and Share Handling Regulations provide that no share certificates shall, in general, be issued with respect to any shares constituting less than one unit, except in limited circumstances. Because the transfer of shares normally requires delivery of the share certificates for the shares being transferred, shares constituting a fraction of a unit and for which no share certificates are issued may not be transferable. Because transfer of ADRs does not require a change in the ownership of the underlying shares, holders of ADRs evidencing ADSs that constitute less than one unit of shares are not affected by these restrictions in their ability to transfer the ADRs. However, because transfers of less than one unit of the underlying shares are normally prohibited under the unit share system, the deposit agreement provides that the right of ADR holders to surrender their ADRs and withdraw the underlying shares for sale in Japan may only be exercised as to whole units.

*Right of a Holder of Shares Representing Less Than One Unit to Require Us to Purchase Its Shares.* A holder of shares representing less than one unit may at any time request us to purchase its shares. These shares will be purchased at (a) the closing price of the shares reported by the Tokyo Stock Exchange, Inc. (hereinafter referred to as the Tokyo Stock Exchange) on the day when the request to purchase is made or (b) if no sale takes place on the Tokyo Stock Exchange on that day, then the price at which sale of shares is effected on such stock exchange immediately thereafter, except in limited circumstances as provided by our Share Handling Regulations. In such case, we will request payment of an amount equal to the brokerage commission applicable to the shares purchased pursuant to our Share Handling Regulations. However, because holders of ADSs representing less than one unit are not able to withdraw the underlying shares from deposit, these holders will not be able to exercise this right as a practical matter.

*Right of a Holder of Shares Representing Less than One Unit to Purchase from Us Its Shares up to a Whole Unit.* Our Articles of Incorporation provide that a holder of shares representing less than one unit may request us to sell any fractional shares it may have to such holder so that the holder can raise its fractional ownership up to a whole unit. These shares will be sold at (a) the closing price of the shares reported by the Tokyo Stock Exchange on the day when the request to sell becomes effective or (b) if no sale has taken place on the Tokyo Stock



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Exchange on that day, then the price at which sale of shares is effected on such stock exchange immediately thereafter, except in limited circumstances as provided by our Share Handling Regulations. In such case, we will request payment of an amount equal to the brokerage commission applicable to the shares sold pursuant to our Share Handling Regulations.

*Voting Rights of a Holder of Shares Representing Less Than One Unit.* A holder of shares representing less than one unit cannot exercise any voting rights pertaining to those shares. In calculating the quorum for various voting purposes, the aggregate number of shares representing less than one unit will be excluded from the number of outstanding shares. A holder of shares representing one or more whole units will have one vote for each whole unit represented.

A holder of shares representing less than one unit does not have any rights related to voting, such as the right to participate in a demand for the resignation of a director, the right to participate in a demand for the convocation of a general meeting of shareholders and the right to join with other shareholders to propose an agenda item to be addressed at a general meeting of shareholders. In addition, a holder of shares constituting less than one unit does not have the right to institute a representative action by shareholders.

In accordance with the Corporation Law, our Articles of Incorporation provide that a holder of shares constituting less than one unit does not have any other rights of a shareholder in respect of those shares, other than those provided by our Articles of Incorporation including the following rights:

to receive dividends,

to receive cash or other assets in case of consolidation or split of shares, exchange or transfer of shares, corporate split or merger,

to be allotted rights to subscribe for free for new shares and stock acquisition rights when such rights are granted to shareholders, and

to participate in any distribution of surplus assets upon liquidation.

### *Ordinary General Meeting of Shareholders*

We normally hold our ordinary general meeting of shareholders in June of each year. In addition, we may hold an extraordinary general meeting of shareholders whenever necessary by giving at least two weeks advance notice. Under the Corporation Law, notice of any shareholders meeting must be given to each shareholder having voting rights or, in the case of a nonresident shareholder, to his resident proxy or mailing address in Japan in accordance with our Share Handling Regulations, at least two weeks prior to the date of the meeting.

### *Voting Rights*

A shareholder is generally entitled to one vote per one unit of shares as described in this paragraph and under *Japanese Unit Share System* above. In general, under the Corporation Law, a resolution can be adopted at a general meeting of shareholders by a majority of the shares

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having voting rights represented at the meeting. The Corporation Law and our Articles of Incorporation require a quorum for the election of directors and statutory auditors of not less than one-third of the total number of outstanding shares having voting rights. Our shareholders are not entitled to cumulative voting in the election of directors. A corporate shareholder whose outstanding shares having voting rights are in turn more than one-quarter directly or indirectly owned by us does not have voting rights. Shareholders may exercise their voting rights through proxies, provided that those proxies are also shareholders who have voting rights.

The Corporation Law provides that certain important matters shall be approved by a special resolution of general meeting of shareholders. Our Articles of Incorporation provide that the quorum for a special resolution is



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one-third of the total number of voting rights and the approval of at least two-thirds of the voting rights presented at the meeting is required for adopting a special resolution. Such important matters include:

a reduction of stated capital,

amendment of the articles of incorporation (except amendments which the board of directors (or under the Committee System, executive officers) are authorized to make under the Corporation Law),

the removal of a corporate auditor,

establishment of a 100% parent-subsidary relationship by way of share exchange or share transfer requiring shareholders' approval,

a dissolution, merger or consolidation requiring shareholders' approval,

a corporate split requiring shareholders' approval,

the transfer of the whole or an important part of our business,

the taking over of the whole of the business of any other corporation requiring shareholders' approval,

any issuance of new shares or transfer of existing shares as treasury stock to persons other than the shareholders at a specially favorable price,

any issuance of stock acquisition rights (as defined in *Stock Acquisition Rights* below) (including those incorporated in bonds with stock acquisition rights) to persons other than the shareholders under specially favorable conditions,

purchase of shares by us from a specific shareholder other than our subsidiary,

consolidation of shares, and

release of part of directors, statutory auditors, independent auditors or executive officers' liabilities to their corporation.

The voting rights of holders of ADSs are exercised by the depository based on instructions from those holders.

*Subscription Rights*

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Holders of shares have no preemptive rights under our Articles of Incorporation when we issue new shares. Under the Corporation Law, our Executive Management Board, which has been delegated by our Board of Directors with the authority to issue new shares, may, however, determine that shareholders be given subscription rights in connection with a particular issue of new shares. In this case, such rights must be given on uniform terms to all shareholders as of a specified record date by at least two weeks' prior notice to shareholders of the record date.

### *Stock Acquisition Rights*

We may issue warrants to subscribe for new shares (hereinafter referred to as "stock acquisition rights") as warrants on their own or attached to bonds to any persons. Holders of stock acquisition rights are entitled to acquire shares from us, upon payment of the applicable exercise price, and subject to other terms and conditions thereof. The issuance of stock acquisition rights and bonds with stock acquisition rights may be authorized by our Executive Management Board, which has been delegated by our Board of Directors with the authority to issue stock acquisition rights, unless it is made under "specially favorable" conditions in which case special resolution of general meeting of shareholders is required. In issuing stock acquisition rights, notice must be given at least two weeks prior to the date for allotment in the form of individual notice or public notice. Under the Corporation

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Law we will not be required to make such notice if we make relevant securities filing or reporting under the Securities and Exchange Law (the SEL ) at least two weeks prior to the date for allotment, subject to the requirements provided by the ordinance of the Ministry of Justice.

A special resolution of our ordinary general meeting of shareholders held on June 28, 2006 authorizes us to issue up to 100,000 stock acquisition rights, each of which represents a right to subscribe for 100 shares of common stock, for 10,000,000 shares of common stock, to Nomura's directors, executive officers and employees and its subsidiaries' directors, statutory auditors, executive officers and employees. See Item 6. Directors and Senior Management and Employees, B. Compensation, Equity Based Compensation above.

### *Liquidation Rights*

In the event of liquidation, the assets remaining after payment of all debts, liquidation expenses and taxes will be distributed among the shareholders in proportion to the number of shares they own.

### *Liability to Further Calls or Assessments*

All of our currently outstanding shares, including shares represented by the ADSs, are fully paid and nonassessable.

### *Share Registrar*

Mitsubishi UFJ Trust and Banking Corporation is the share registrar for our shares. Mitsubishi UFJ Trust's office is located at 4-5, Marunouchi 1-chome, Chiyoda-ku, Tokyo, 100-8212 Japan. Mitsubishi UFJ Trust maintains our register of shareholders and records transfers of record ownership upon presentation of share certificates.

### *Record Date*

The close of business on June 30, September 30, December 31 and March 31 are the record dates for our distributions of Surplus (dividends), if any. A holder of shares constituting one or more whole units, who is registered as a holder on our register of shareholders at the close of business as of March 31, is also entitled to exercise shareholders' voting rights at the ordinary general meeting of shareholders with respect to the year ended on March 31. In addition, we may set a record date for determining the shareholders entitled to other rights and for other purposes by giving at least two weeks' public notice.

The shares are generally traded ex-dividend or ex-rights in the Japanese stock exchanges on the third business day before a record date (or if the record date is not a business day, the fourth business day prior thereto), for the purpose of dividends or rights offerings.

*Repurchase by Us of Shares*

We may acquire our shares (i) by soliciting all our shareholders to offer to sell our shares held by them (in this case, certain terms of such acquisition, such as the total number of our shares to be purchased, the total amount of consideration and the stock acquisition period which shall not exceed one year, shall be set by a resolution of the Board of Directors in advance, and each acquisition shall be effected pursuant to a resolution of the Board of Directors), (ii) from a specific shareholder other than any of our subsidiaries (pursuant to a special resolution of a general meeting of shareholders), (iii) from any of our subsidiaries (pursuant to a resolution of the Board of Directors), or (iv) by way of purchase on any Japanese stock exchange on which our shares are listed or by way of tender offer (in either case pursuant to a resolution of the Board of Directors). In the case of (ii) above, any other shareholder may make a request to the Board of Directors that such other shareholder be included as a seller in the proposed purchase, provided that no such right will be available if the purchase price or any other

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consideration to be received by the relevant specific shareholder will not exceed the last trading price of the shares on the relevant stock exchange on the day immediately preceding the date on which the resolution mentioned in (ii) was adopted (or, if there is no trading in the shares on the stock exchange or if the stock exchange is not open on such day, the price at which the shares are first traded on such stock exchange thereafter). This acquisition is subject to the condition that the aggregate amount of the purchase price must not exceed the Distributable Amount as described in *Distributions of Surplus* .

We may hold our shares acquired in compliance with the provisions of the Corporation Law, and may generally dispose of or cancel such shares by resolutions of the Board of Directors.

In addition, we may acquire our shares by means of repurchase of any number of shares constituting less than one unit upon the request of the holder of those shares, as described under *Japanese Unit Share System* above.

## **Report of Substantial Shareholdings**

The SEL requires any person who has become, beneficially and solely or jointly, a holder of more than 5% of the total issued shares of a company listed on any Japanese stock exchange to file with the relevant Local Finance Bureau, within five business days, a report concerning those shareholdings. With certain exceptions, a similar report must also be filed to reflect any change of 1% or more in the above shareholding or any change in material matters set out in any previous filed reports. Copies of any reports must also be furnished to the company and to all Japanese stock exchanges on which the company's shares are listed. For this purpose, shares issuable to a person upon exercise of stock acquisition rights are taken into account in determining both the number of shares held by that holder and the company's total issued share capital.

## **Daily Price Fluctuation Limits under Japanese Stock Exchange Rules**

Stock prices on Japanese stock exchanges are determined on a real-time basis by the equilibrium between bids and offers. These exchanges are order-driven markets without specialists or market makers to guide price formation. To prevent excessive volatility, these exchange set daily upward and downward price fluctuation limits for each stock, based on the previous day's closing price. Although transactions may continue at the upward or downward limit price if the limit price is reached on a particular trading day, no transactions may take place outside these limits. Consequently, an investor wishing to sell at a price above or below the relevant daily limit may not be able to sell the shares at such price on a particular trading day, or at all.

On June 28, 2006, the closing price of our shares on the Tokyo Stock Exchange was ¥2,035 per share. The following table shows the daily price limit for a stock on the Tokyo Stock Exchange with a closing price of between ¥2,000 and ¥ 2,999 per share, as well as the daily price limit if our per share price were to rise to between ¥3,000 and ¥4,999, or fall to between ¥1,500 and ¥1,999. Other daily price limits would apply if our per share price moved to other ranges.

### **Selected Daily Price Limits**

<b>Previous Day's Closing Price or Special Quote</b>				<b>Maximum Daily</b>
				<b>Price Movement</b>
Equal to or greater than	¥1,500	Less than	¥2,000	¥300
Equal to or greater than	2,000	Less than	3,000	400
Equal to or greater than	3,000	Less than	5,000	500

For a history of the trading price of our shares on the Tokyo Stock Exchange, see Item 9.A of this annual report.

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### **Rights of Holders of ADSs**

For a description of rights of holders of ADSs, see *Rights of Holders of ADSs* under Item 10.B. of our Registration Statement on Form 20-F (File No. 1-15270), which we filed with the Securities and Exchange Commission on December 13, 2001. The information contained in that part of the Registration Statement is incorporated in this Item 10.B. by reference.

### **C. Material Contracts.**

For the two years immediately preceding the date of this annual report, we have not been a party to any material agreement other than in the ordinary course of business, except as disclosed in Item 6.C. of this annual report.

### **D. Exchange Controls.**

#### *Acquisition or Disposition of Shares or ADSs*

Under the Foreign Exchange and Foreign Trade Law, all aspects of regulations on foreign exchange and foreign trade transactions are, with minor exceptions relating to inward direct investments (which are not generally applicable to our shares), only subject to post transaction reporting requirements. Non-residents of Japan (including foreign corporations not resident in Japan) who acquire or dispose of shares of common stock or ADSs are generally not required to submit such post transaction reports. However, the Minister of Finance has the power to impose a licensing requirement for transactions in limited circumstances.

#### *Dividends and Proceeds of Sale*

Under the Foreign Exchange and Foreign Trade Law, dividends paid on, and the proceeds of sales in Japan of, shares held by non-residents of Japan may in general be converted into any foreign currency and repatriated abroad. Under the terms of the deposit agreement pursuant to which our ADSs will be issued, the depositary is required, to the extent that in its judgment it can convert yen on a reasonable basis into dollars and transfer the resulting dollars to the United States, to convert all cash dividends that it receives in respect of deposited shares into dollars and to distribute the amount received (after deduction of applicable withholding taxes) to the holders of ADSs.

### **E. Taxation.**

#### *United States Federal Income Taxation*

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This section describes the material United States federal income and Japanese tax consequences of owning shares or ADSs. It applies to you only if you are a U.S. holder (as defined below), you acquire your shares or ADSs in an offering and you hold your shares or ADSs as capital assets for tax purposes. This section does not apply to you if you are a member of a special class of holders subject to special rules, including:

a dealer in securities,

a trader in securities that elects to use a mark-to-market method of accounting for your securities holdings,

a tax-exempt organization,

a life insurance company,

a person liable for alternative minimum tax,

a person that actually or constructively owns 10% or more of our voting stock,

a person that holds shares or ADSs as part of a straddle or a hedging, conversion, integrated or constructive sale transaction, or

a person below whose functional currency is not the U.S. dollar.



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This section is based on the Internal Revenue Code of 1986, as amended, its legislative history, existing and proposed regulations, published rulings and court decisions, all as currently in effect, as well as on the Income Tax Convention Between the United States of America and Japan (the Treaty). These laws are subject to change, possibly on a retroactive basis. In addition, this section is based in part upon the representations of The Bank of New York and the assumption that each obligation in the deposit agreement and any related agreement will be performed in accordance with its terms.

You are a U.S. holder if you are a beneficial owner of shares or ADSs and you are:

a citizen or resident of the United States,

a domestic corporation,

an estate whose income is subject to United States federal income tax regardless of its source, or

a trust if a United States court can exercise primary supervision over the trust's administration and one or more United States persons are authorized to control all substantial decisions of the trust.

*You should consult your own tax advisor regarding the United States federal, state and local and the Japanese and other tax consequences of owning and disposing of shares and ADSs in your particular circumstances.*

This discussion addresses only United States federal income taxation.

In general, and taking into account the earlier assumptions, for United States federal income tax purposes, if you hold ADRs evidencing ADSs, you will be treated as the owner of the shares represented by those ADSs. Exchanges of shares for ADRs, and ADRs for shares, generally will not be subject to United States federal income or to Japanese tax.

## **Taxation of Dividends**

Under the United States federal income tax laws, and subject to the passive foreign investment company, or PFIC, rules discussed below, the gross amount of any dividend we pay out of our current or accumulated earnings and profits (as determined for United States federal income tax purposes) is subject to United States federal income taxation. If you are a noncorporate U.S. holder, dividends paid to you in taxable years beginning before January 1, 2011 that constitute qualified dividend income will be taxable to you at a maximum tax rate of 15% provided that you hold the shares or ADSs for more than 61 days during the 121-day period beginning 60 days before the ex-dividend date and meet certain other requirements. Dividends we pay with respect to the shares or ADSs generally will be qualified dividend income. You must include any Japanese tax withheld from the dividend payment in this gross amount even though you do not in fact receive it. The dividend is taxable when you, in the case of shares, or the Depositary, in the case of ADSs, receive the dividend, actually or constructively. The dividend will not be eligible for the dividends-received deduction generally allowed to United States corporations in respect of dividends received from other United States corporations. The amount of the dividend distribution that you must include in your income as a U.S. holder will be the U.S. dollar value of the Japanese yen payments made, determined at the spot Japanese yen/U.S. dollar rate on the date the dividend distribution is includible in

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your income, regardless of whether the payment is in fact converted into U.S. dollars. Generally, any gain or loss resulting from currency exchange fluctuations during the period from the date you include the dividend payment in income to the date you convert the payment into U.S. dollars will be treated as ordinary income or loss and will not be eligible for the special tax rate applicable to qualified dividend income. The gain or loss generally will be income or loss from sources within the United States for foreign tax credit limitation purposes. Distributions in excess of current and accumulated earnings and profits, as determined for United States federal income tax purposes, will be treated as a non-taxable return of capital to the extent of your basis in the shares or ADSs and thereafter as capital gain.

Subject to certain limitations, the Japanese tax withheld in accordance with the Treaty and paid over to Japan will be creditable against your United States federal income tax liability. Special rules apply in determining the foreign tax credit limitation with respect to dividends that are subject to the maximum 15% rate.

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Dividends will be income from sources outside the United States, but dividends paid in taxable years beginning before January 1, 2007 generally will be passive income or financial services income and dividends paid in taxable years beginning after December 31, 2006 will, depending on your circumstances, be passive income or general income, which is treated separately from other types of income for purposes of computing the foreign tax credit allowable to you.

As discussed in Japanese taxation below, if we purchase our shares for the purpose of cancellation with retained earnings and we cancel the shares after March 31, 2002 selling shareholders will be deemed to have received a dividend payment for Japanese tax purposes. If we purchase the shares pursuant to a tender offer, selling shareholders might be subject to deemed dividend taxation regime and part of consideration for the tender offer would be treated as dividends subject to withholding tax for Japanese tax purpose. Such dividend is not generally a taxable event for United States federal income tax purposes (though a selling U.S. shareholder would be subject to U.S. federal income tax on capital gains realized on a sale of shares to us, as described below) and therefore would not give rise to foreign source income, and you would not be able to use the foreign tax credit arising from any Japanese withholding tax imposed on such distribution unless you can apply the credit (subject to limitations) against U.S. tax due or other foreign source income in the appropriate category for foreign tax credit purposes.

Distributions of additional shares or ADSs or rights to you with respect to shares or ADSs that are made as part of a pro rata distribution to all of our shareholders generally will not be subject to United States federal income tax. Your basis in the new shares or ADSs or rights received will be determined by allocating your basis in the shares or ADSs you held at the time of the distribution between the new shares or ADSs or rights and the shares or ADSs you held at the time of the distribution based on their relative fair market value on the date of the distribution. However, the basis of rights you receive will generally be zero if (i) at the time of the distribution the fair market value of the rights is less than 15% of the fair market value of the shares or ADSs you held at the time of the distribution and you do not elect to allocate a portion of the basis in the shares or ADS you held at the time of the distribution according to the method described in the previous sentence or (ii) the rights are not exercised and therefore expire.

### *Taxation of Capital Gains*

Subject to the PFIC rules discussed below, if you are a U.S. holder and you sell or otherwise dispose of your shares or ADSs, you will recognize capital gain or loss for United States federal income tax purposes equal to the difference between the U.S. dollar value of the amount that you realize and your tax basis, determined in U.S. dollars, in your shares or ADSs. Capital gain of a noncorporate U.S. holder that is recognized in taxable years beginning before January 1, 2011 is generally taxed at a maximum rate of 15% where the property is held for more than one year. The gain or loss will generally be income or loss from sources within the United States for foreign tax credit limitation purposes.

### *PFIC Rules*

We do not expect our shares and ADSs to be treated as stock of a PFIC for United States federal income tax purposes for 2005, but this conclusion is a factual determination that is made annually and thus may be subject to change. Moreover, the application of the PFIC rules to a corporation, such as Nomura, that is primarily engaged in an active business as a securities dealer is not entirely clear.

In general, if you are a U.S. holder, we will be a PFIC with respect to you if for any taxable year in which you held our ADSs or shares:

at least 75% of our gross income for the taxable year is passive income or,

at least 50% of the value, determined on the basis of a quarterly average, of our assets is attributable to assets that produce or are held for the production of passive income.

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Passive income generally includes dividends, interest, royalties, rents (other than certain rents and royalties derived in the active conduct of a trade or business), annuities and gains from assets that produce passive income. If a foreign corporation owns at least 25% by value of the stock of another corporation, the foreign corporation is treated for purposes of the PFIC tests as owning its proportionate share of the assets of the other corporation, and as receiving directly its proportionate share of the other corporation's income.

If we are treated as a PFIC, and you are a U.S. holder that did not make a mark-to-market election, as described below, you will be subject to special rules with respect to:

any gain you realize on the sale or other disposition of your shares or ADSs, and

any excess distribution that we make to you (generally, any distributions to you during a single taxable year that are greater than 125% of the average annual distributions received by you in respect of the shares or ADSs during the three preceding taxable years or, if shorter, your holding period for the shares or ADSs).

Under these rules:

the gain or excess distribution will be allocated ratably over your holding period for the shares or ADSs,

the amount allocated to the taxable year in which you realized the gain or excess distribution and any taxable year prior to the first year in which we were a PFIC will be taxed as ordinary income,

the amount allocated to each other year, with certain exceptions, will be taxed at the highest tax rate in effect for that year, and

the interest charge generally applicable to underpayments of tax will be imposed in respect of the tax attributable to each such year.

Special rules apply for calculating the amount of the foreign tax credit with respect to excess distributions by a PFIC.

If you own shares or ADSs in a PFIC that are regularly traded on a qualified exchange, they will be treated as marketable stock, and you may elect to mark your shares or ADSs to market. If you make this election, you will not be subject to the PFIC rules described above. Instead, in general, you will include as ordinary income each year the excess, if any, of the fair market value of your shares or ADSs at the end of the taxable year over your adjusted basis in your shares or ADSs. These amounts of ordinary income will not be eligible for the favorable tax rates applicable to qualified dividend income or long-term capital gains. You will also be allowed to take an ordinary loss in respect of the excess, if any, of the adjusted basis of your shares or ADSs over their fair market value at the end of the taxable year (but only to the extent of the net amount of previously included income as a result of the mark-to-market election). Your basis in the shares or ADSs will be adjusted to reflect any such income or loss amounts. We urge you to speak to your tax advisor regarding the availability and advisability of this election.

In addition, notwithstanding any election you make with regard to the shares or ADSs, dividends that you receive from us will not constitute qualified dividend income to you if we are a PFIC either in the taxable year of the distribution or the preceding taxable year. Moreover, your shares or ADSs will be treated as stock in a PFIC if we were a PFIC at any time during your holding period in your shares or ADSs, even if we

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are not currently a PFIC. For purposes of this rule, if you make a mark-to-market election with respect to your shares or ADSs, you will be treated as having a new holding period in your shares or ADSs beginning on the first day of the first taxable year beginning after the last taxable year for which the mark-to-market election applies. Dividends that you receive that do not constitute qualified dividend income are not eligible for taxation at the 15% maximum rate applicable to qualified dividend income. Instead, you must include the gross amount of any such dividend paid by us out of our accumulated earnings and profits (as determined for United States federal income tax purposes) in your gross income, and it will be subject to tax at rates applicable to ordinary income.

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If you own shares or ADSs during any year that we are a PFIC, you must file Internal Revenue Service Form 8621.

### **Japanese Taxation**

The following is a summary of the principal Japanese tax consequences to owners of our shares who are non-resident individuals or non-Japanese corporations without a permanent establishment in Japan to which the relevant income is attributable. As tax laws are frequently revised, the tax treatments described in this summary are also subject to changes in the applicable Japanese laws and/or double taxation conventions occurring in the future, if any. This summary is not exhaustive of all possible tax considerations which may apply to specific investors under particular circumstances. Potential investors should satisfy themselves as to

the overall tax consequences of the acquisition, ownership and disposition of shares or ADSs, including specifically the tax consequences under Japanese law,

the laws of the jurisdiction of which they are resident, and

any tax treaty between Japan and their country of residence, by consulting with their own tax advisers.

Generally, a non-resident shareholder is subject to Japanese withholding tax on dividends on the shares paid by us. A stock split is not subject to Japanese income or corporation tax, as it is characterized merely as an increase of number of shares (as opposed to an increase of value of shares) from Japanese tax perspectives. Due to the 2001 Japanese tax legislation effective from April 1, 2001, a conversion of retained earnings or legal reserve (but other than additional paid-in capital, in general) into stated capital on a non-consolidated basis is not characterized as a deemed dividend for Japanese tax purposes, and therefore such a conversion does not trigger Japanese withholding taxation (Article 2 (16) of the Japanese Corporation Tax Law and Article 8 (1) (xv) of the Japanese Corporation Tax Law Enforcement Order).

Under the 2001 tax legislation, deemed dividend taxation system has been drastically changed. Under the new rule, if we purchase our listed shares by way of a tender offer, the selling shareholders (both individuals and corporations) are in general required to recognize (i) deemed dividend corresponding to a distribution of retained earnings proportionally computed by a statutory formula on a pro rata basis allocating the purchase price into share capital portion (including additional paid-in capital) and retained earnings portion on a non-consolidated basis under Article 24(1)(v) of the Japanese Corporation Tax Law, and (ii) capital gain or loss computed as a difference between the basis of the shares subject to the tender offer at the shareholders level and the amount of the consideration for the tender offer (deducting the amount corresponding to the deemed dividend computed as (i) above) under Article 61-2(1) of the same law. On the other hand, no deemed dividend is required to recognize if we purchase our shares at/through the stock market due to the difficulty to identify each shareholder who sold our shares (Articles 24(1) (iv) and 61-2(xi) of the Japanese Corporation Tax Law and Article 23(3) of the Japanese Corporation Tax Law Enforcement Order). In addition, in the case of individual shareholders, no deemed dividend is required to recognize until March 31, 2007 due to the operation of a temporary measurement (Article 9-6 of the Japanese Special Tax Measurement Law) and therefore they are only required to recognize capital gain or loss of the shares subject to the tender offer. In the meantime, when shares are acquired by us (whether by way of a tender offer or otherwise) for the purpose of cancellation with retained earnings, the shareholders (both individuals and corporations) whose shares were not canceled were previously deemed to have received a dividend corresponding to the increase of share value by the share cancellation, under the old tax law before the 2001 tax legislation. However, under the 2001 tax legislation, no deemed dividend taxation occurs for the remaining shareholders (both individuals and corporations) whose shares are not canceled.

Unless an applicable tax treaty, convention or agreement reducing the maximum rate of withholding tax, the rate of Japanese withholding tax applicable to dividends on the listed shares such as those paid by us to non-resident shareholders is currently 7% which is applicable for the

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period from January 1, 2004 to March 31, 2008 (15% rate will apply thereafter) except for dividends paid to any individual shareholder who holds 5% or



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more of the issued shares for which the applicable rate is 20%. Japan has income tax treaties, conventions or agreements whereby the above-mentioned withholding tax rate is reduced, generally to 15% for portfolio investors, with, among others, Australia, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Luxembourg, The Netherlands, New Zealand, Norway, Singapore, Spain, Sweden, Switzerland, and the United Kingdom. Under the new tax treaty between United States and Japan of which withholding tax treatments is applicable effective from July 1, 2004, the withholding tax rate on dividends is 10% for portfolio investors, if they do not have a permanent establishment in Japan and the shares with respect to which such dividends are paid are not related in-fact to such permanent establishment, and if they are qualified US residents eligible to enjoy treaty benefits. It shall be noted that, under the new tax treaty between US and Japan, withholding tax on dividends declared after July 1, 2004 is exempt from Japanese taxation by way of withholding or otherwise for pension funds which are qualified US residents eligible to enjoy treaty benefits unless such dividends are derived from the carrying on of a business, directly or indirectly, by such pension funds. Non-resident shareholders who are entitled to a reduced treaty rate of Japanese withholding tax on payment of dividends on the shares by us are required to submit an Application Form for Income Tax Convention regarding Relief from Japanese Income Tax on Dividends in advance through us to the relevant tax authority before payment of dividends. A standing proxy for non-resident shareholders may provide such application service. See **Rights of Our Shareholders** under Item 10.B of this annual report. Non-resident shareholders who do not submit an application in advance will be entitled to claim the refund of withholding taxes withheld in excess of the rate of an applicable tax treaty from the relevant Japanese tax authority. For Japanese tax purpose, the treaty rate normally applies superseding the tax rate under the domestic law. However, due to the so-called preservation doctrine, if the tax rate under the domestic tax law is lower than that promulgated under the applicable income tax treaty, then the domestic tax rate is still applicable. If the domestic tax rate still applies, no treaty application is required to be filed, consequently.

Gains derived from the sale of shares outside Japan, or from the sale of shares within Japan by a nonresident shareholder as a portfolio investor, are, in general, not subject to Japanese income or corporation taxes.

Japanese inheritance and gift taxes at progressive rates may be payable by an individual who has acquired shares as a legatee, heir or donee, even if the individual is not a Japanese resident.

## **F. Dividends and Paying Agents.**

Not applicable.

## **G. Statement by Experts.**

Not applicable.

## **H. Documents on Display.**

We are subject to the informational requirements of the Securities Exchange Act of 1934 and, in accordance therewith, we will file annual reports on Form 20-F within six months of our fiscal year-end and other reports and information on Form 6-K with the Securities and Exchange Commission. These reports and other information can be inspected at the public reference room at the Securities and Exchange Commission at 450 Fifth Street, N.W., Washington, D.C. 20549. You can also obtain copies of such material by mail from the public reference room of the Securities and Exchange Commission at prescribed fees. You may obtain information on the operation of the Securities and Exchange

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Commission public reference room by calling the Securities and Exchange Commission in the United States at 1-800-SEC-0330. You can also access to the documents filed via the Electronic Data Gathering, Analysis, and Retrieval system on the SEC's website (<http://www.sec.gov>).

### **I. Subsidiary Information.**

Not applicable.

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### **Item 11. Quantitative and Qualitative Disclosures about Market Risk**

#### **Risk Management**

Our business is subject to various risks. These risks are classified broadly into a portfolio risk and non-portfolio risk. The portfolio risk is that our positions are affected mainly by market price changes or the credit situations of our clients. The process of managing these risks is an integral part of management's responsibilities. Financial innovation in global business activities can lead to complex interactions among risks. We recognize the importance of identifying, evaluating, monitoring and managing our risk profile.

#### **Global Risk Management Structure**

##### 1) Monitoring and Management by Global Risk Management Unit

We have an independent global risk management unit headquartered in Tokyo in addition to the risk management which takes place at each level of our business. The global risk management unit monitors and manages the various risks that we face in our business activities based on the capital allocation rule or the global risk control policy which our Group Executive Management Committee establish. Furthermore, our global risk management headquartered in Tokyo quantifies risk for each of our business and provides risk information to senior management.

Our Group Executive Management Committee determines our strategic direction and allocates resources and capital to each business division such as Domestic Retail Business, Global Markets, Global Investment Banking, Global Merchant Banking and Asset Management on the grounds of our business plans, budgets and risk-adjusted performance to ensure proper diversification of risks and revenues. Our Group Executive Management Committee also sets each business division's risk limit that applies across business divisions to all of our trading and investment portfolios for our global business. Each business division utilizes allocated resources and capital with managing their risk limit. Simultaneously our global risk manager monitors the extent of risk exposure at each of our trading units relative to the in-house risk limit assigned to that unit and reports it to senior management daily.

We have carried out the capital management and risk management by a new framework since April 2006. The purpose of the new framework is to practice the more detailed risk control that accords with the actual situation of business at the same time to enhance maneuverability and flexibility of the capital management by pushing forward quantification of various risks.

Operational Risk Team has been established in Tokyo risk management since May 2006. Global Risk Management Unit can cover non portfolio risk as well as portfolio risk.

##### 2) The Commitment Committee

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In addition to the above structure, the Commitment Committee is set up in order to control risks relating to the less liquid asset investments and important investments from a risk management perspective. Our Commitment Committee is made up of the Executive Officers assigned by the Chairman of the Commitment Committee, while such Chairman is appointed by our President and Chief Executive Officer.

### 3) Global Risk Management System

We have made a significant commitment to the development and continuous enhancement of an appropriate risk management system and procedures. This system enables us to produce various analyses of global-based exposure to counterparties under the unified obligor identification, as well as to calculate risk amounts, including Value-at-Risk amounts discussed below, based upon our position and sensitivity data sets provided from our regional risk management. The system, which senior management, global risk manager and regional risk managers access, integrates global market data, counterparty, position, exposure and other risk information worldwide. This enables us to achieve more efficient risk monitoring and more effective risk control. Especially

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we can monitor and control concentration of credit exposure on a daily basis against any credit events, which we now experience in the markets worldwide.

We maintain standardized methodologies on risk measurement for all our global operations. With this standardized framework, we can evaluate and compare the risk-adjusted profitability of our existing businesses in a consistent manner. Senior management can use this information to enhance our performance by diversifying revenues and controlling exposures.

### 4) Model Review

We use valued pricing models when some of the financial instruments cannot be valued based upon quoted market prices.

Such models are used for management of risk positions, such as reporting against limits, as well as for valuation. Global risk management unit, independent of business, reviews the models and assesses model appropriateness and consistency. The model reviews consider a number of factors about the model's suitability for valuation and risk management of a particular product.

## **Types of Risks Managed**

The principal categories of risk that we face in our daily business operations are market, market liquidity, credit, event, operational and legal risks.

### *Market Risk*

Market risk refers to the potential loss in the value of an asset resulting from changes in market prices, rates, indices, volatilities, correlations or other market factors. We are exposed to this type of risk primarily in connection with our trading activities. Effective monitoring and management of this risk requires an ability to analyze a complex and constantly changing capital market environment worldwide and to highlight any problematic trends quickly.

*VaR.* The statistical technique known as Value-at-Risk, or VaR, is one of the tools we use to assess market risk exposure of our trading portfolio. VaR is the potential loss in the value of our trading positions due to adverse movements in markets over a defined time horizon with a specified confidence level.

For our VaR, which we report below, we use a one-day time horizon and a 99% confidence level. This means that, statistically, there is one day out of every 100 days on which the actual trading loss exceeds the VaR.

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*VaR Methodology, Assumptions and Limitations.* We make a number of assumptions and approximations in connection with the modeling of the risk characteristics of our trading positions. Different assumptions, approximations or a combination of them could result in a materially different VaR. We believe that the assumptions and approximations we use are reasonable.

We estimate VaR using a 99% confidence level and a one-day time horizon for our trading portfolio. Market risks that are incorporated in the VaR model include equity prices, interest rates, foreign exchange rates, and associated volatilities and correlations. The historical data to calculate volatilities and correlations are weighted to give greater importance to more recent observations. Given our reliance on historical data, VaR is most effective in estimating risk exposures in markets in which there are no sudden changes in market environments. An inherent limitation of VaR is that past changes in market risk factors, even when weighted toward more recent observations, may not produce accurate predictions of future market risk. Also, VaR using a one-day time horizon may not capture the market risk of positions that cannot be liquidated or hedged within one day.

There are other limitations of VaR. For example, our VaR computation assumes normal distribution for the returns on trading portfolios, while non-linear risk exposures on options would likely produce a non-normal distribution for the returns on those portfolios. Different distributional assumptions could produce a materially different VaR.

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The following table shows our VaR as of each of the dates indicated for substantially all of our trading positions:

	As of												
	Mar. 31, 2005	Apr. 29, 2005	May 31, 2005	Jun. 30, 2005	Jul. 29, 2005	Aug. 31, 2005	Sep. 30, 2005	Oct. 31, 2005	Nov. 30, 2005	Dec. 30, 2005	Jan. 31, 2006	Feb. 28, 2006	Mar. 31, 2006
	(in 100 millions of Yen)												
Equity	¥ 30.0	¥ 32.9	¥ 33.1	¥ 42.0	¥ 59.7	¥ 45.0	¥ 38.5	¥ 37.9	¥ 39.3	¥ 43.7	¥ 61.0	¥ 60.5	¥ 60.4
Interest Rate	27.5	32.0	28.6	32.7	28.5	31.0	31.4	29.5	36.9	36.6	33.2	36.3	32.8
Foreign Exchange	7.4	11.2	8.8	10.0	8.7	10.3	9.7	9.4	9.5	13.4	12.9	16.1	14.0
Sub-total	64.9	76.1	70.5	84.6	96.9	86.4	79.6	76.7	85.7	93.7	107.1	112.9	107.2
Less:													
Diversification Benefit	(24.1)	(28.0)	(22.5)	(29.4)	(29.5)	(27.0)	(26.8)	(24.5)	(26.4)	(33.6)	(35.6)	(37.9)	(36.7)
Value at Risk	¥ 40.7	¥ 48.1	¥ 47.9	¥ 55.2	¥ 67.3	¥ 59.4	¥ 52.9	¥ 52.2	¥ 59.3	¥ 60.0	¥ 71.5	¥ 75.0	¥ 70.4