



Daiwa Securities Group Business Strategy



May 2004

Daiwa Securities Group Inc.

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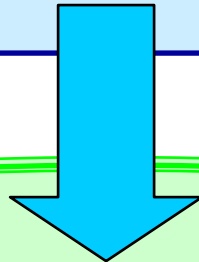
FY 2003

Financial Results Overview



FY2003 Earnings Results

- Final results exceeded internal projections and led to confidence.
- Quarterly ordinary income was stable throughout the year.
- Income growth exceeded revenue growth as a result of our efforts to increase the variable component of costs.
- Early Adoption of accounting for impairment of fixed-assets was motivated by confidence in future earning power.

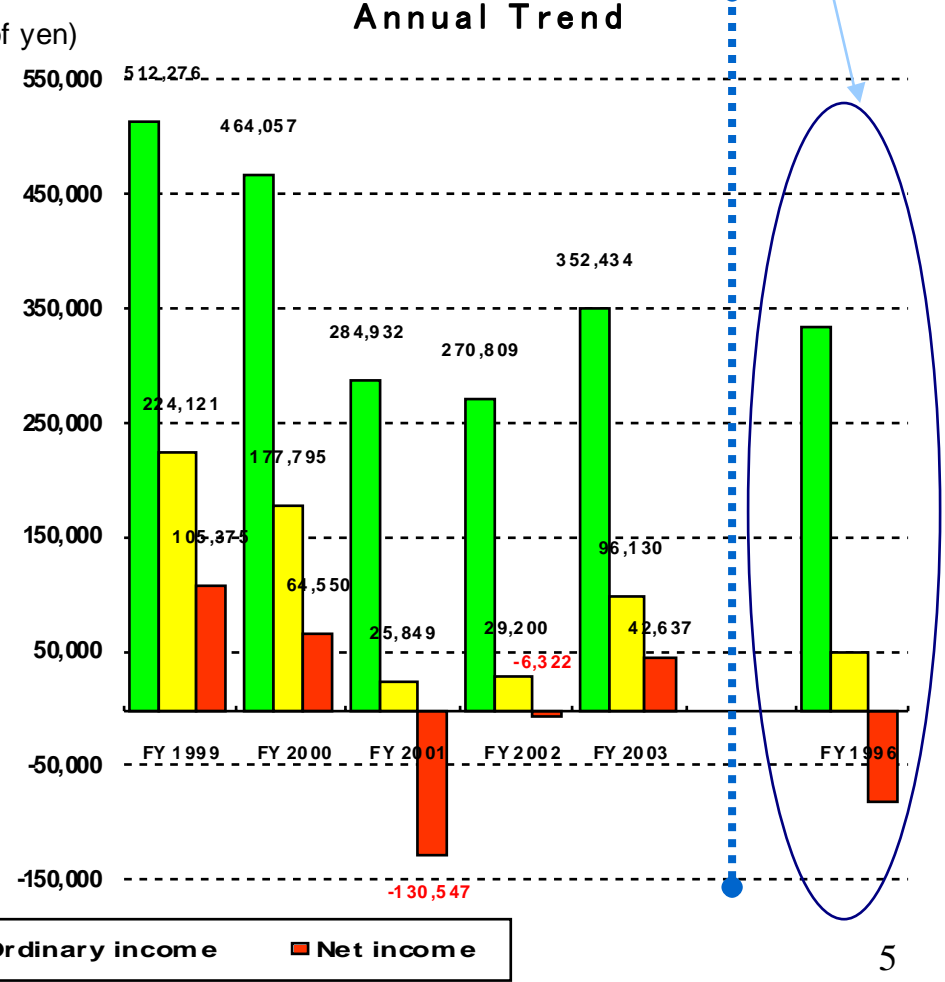
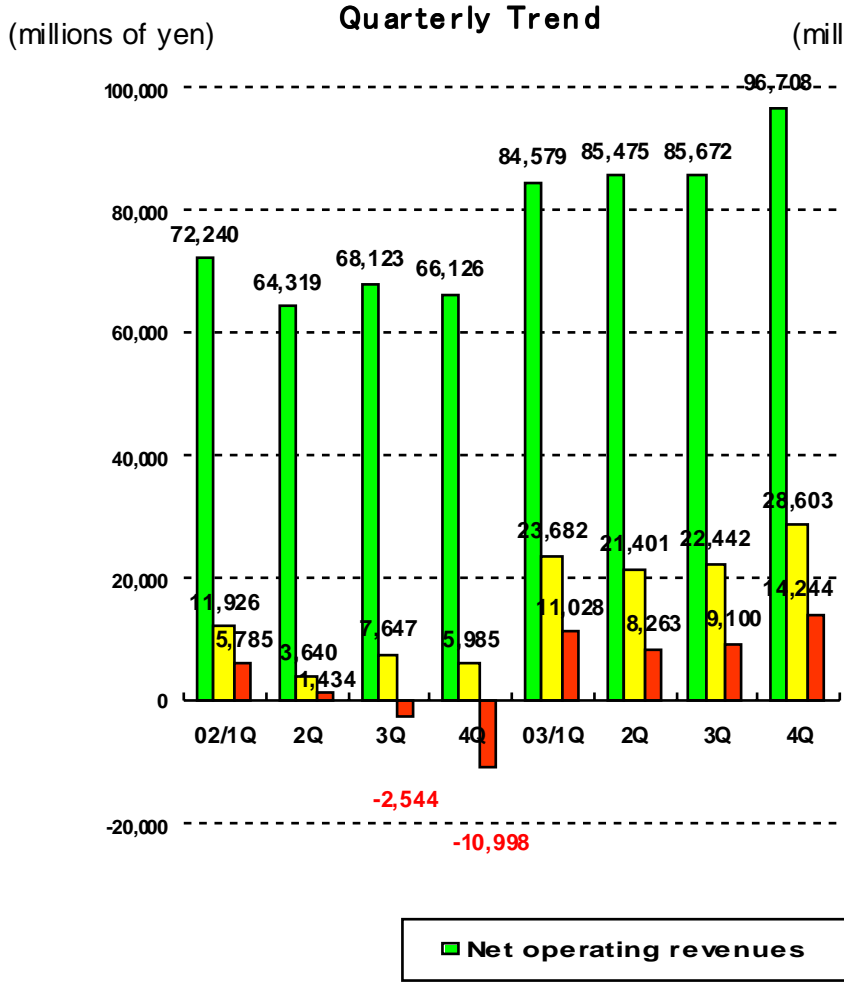


Maintain and further develop our core strategy of
Differentiation by
“Quality” and “Productivity”



Trend in Revenues and Income

- Significant increase in both revenues and income from FY2002.
- Drastic improvement in profitability compared to FY1996, when net operating revenues were at the same level.



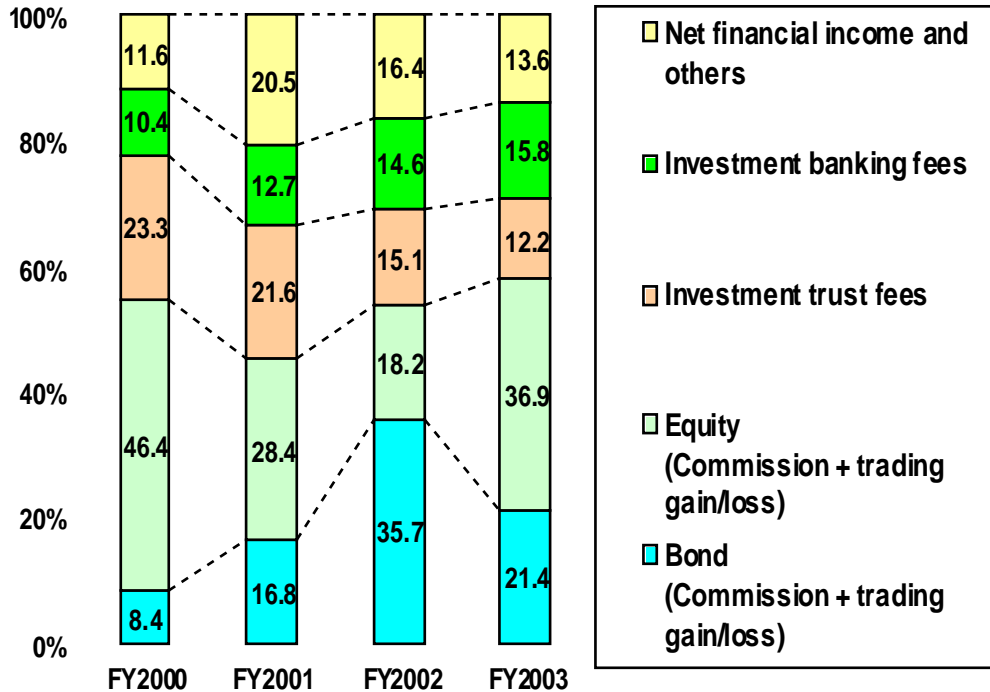
From “Confidence” to “Conviction”

1. **Stable increase in earning power**
 2. **Improvement of balance sheet**
 3. **Expansion of customer base**
- **Momentum in investment banking**
 - **Enhancement of overall Group synergy**



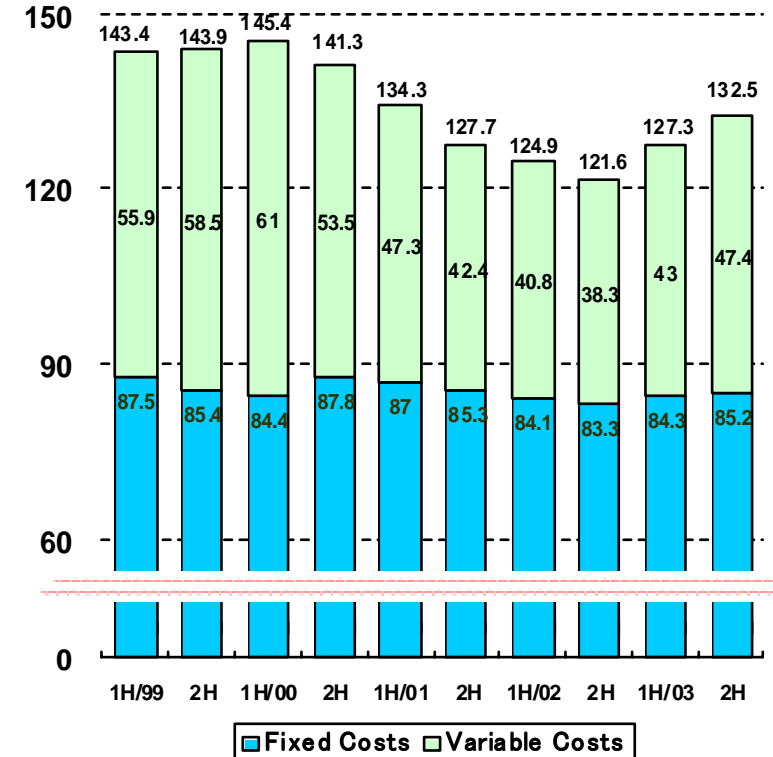
1. Stable Increase in Earning Power

Component Ratio of Net Operating Revenues



Trends in SG&A

(billions of yen)



- Ratio of bond and investment banking revenues has increased. Progress made in diversification of revenue sources.
- Reduction in fixed costs and an increase in the variable component of SG&A.



2. Improvement of Balance Sheet

Reduction in external debt

Mar. 2000 JPY 916 bil ➡ Mar. 2004 JPY 473 bil (reduction of JPY 443 bil)

Reduction in non-current assets

- FY1997 Withdrawal from real estate development and sales business
* Financial support of JPY 39.9 bil to Daiwa Property Co. Ltd.,
- FY2001 Withdrawal from non-Group real estate leasing business
* Posted extraordinary loss of JPY 127.4 bil

Mar. 2000 (billions of yen)

| | |
|---------------------------------|--------------|
| Non-current assets | 828.4 |
| Tangible fixed assets | 324.5 |
| Intangible fixed assets | 31.8 |
| Investments | 472 |
| Investment securities | 220 |
| Other investments | 284.6 |
| Allowance for doubtful accounts | ▲ 190.5 |

Mar. 2004 (billions of yen)

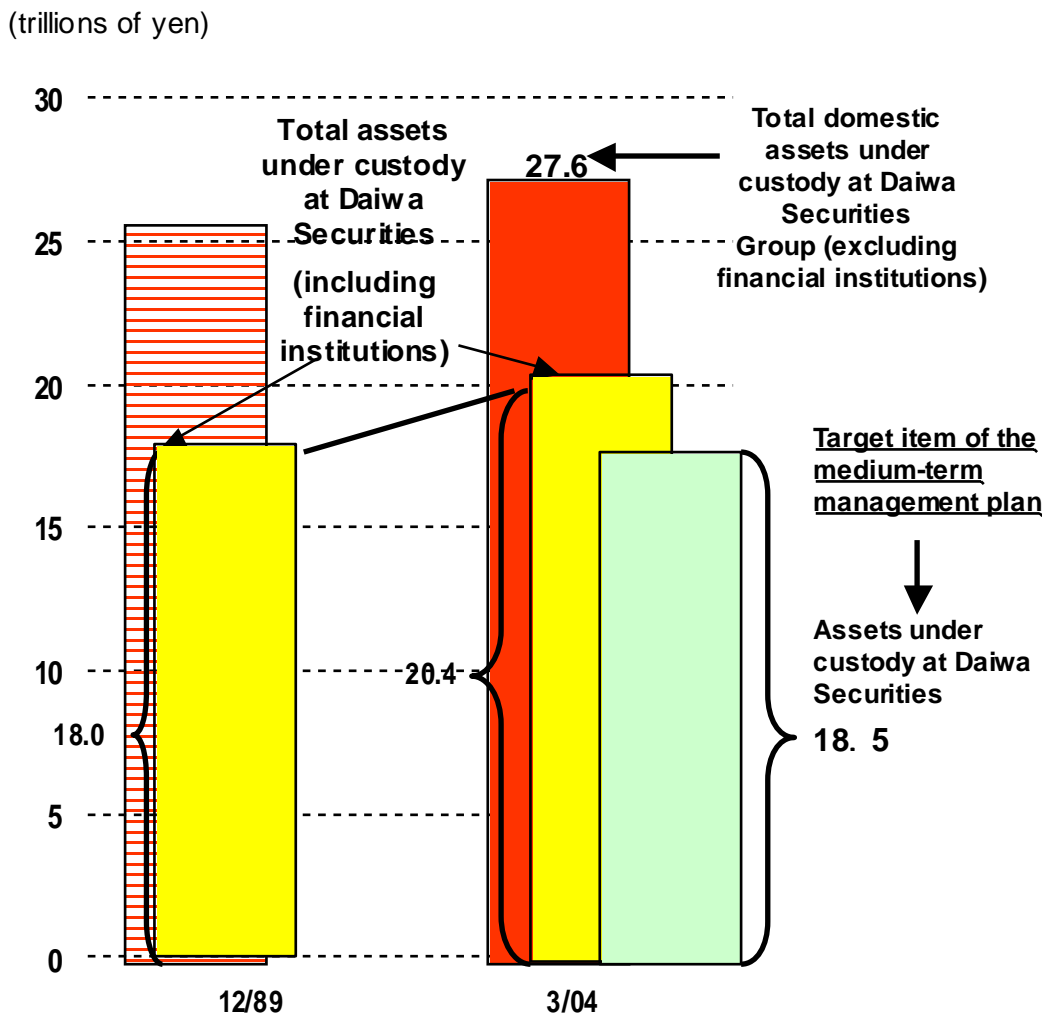
| | |
|---|--------------|
| Non-current assets | 555.6 |
| Tangible fixed assets | 143.1 |
| Intangible fixed assets | 59.4 |
| Investments | 353 |
| Investment securities (including subordinated bond) | 187.4 |
| Other investments | 97.7 |
| Allowance for doubtful accounts | ▲ 12.3 |

- Impairment losses of JPY 12.7 bil in real estate and others were posted in FY 2003, due to early adoption of accounting for impairment of fixed assets.

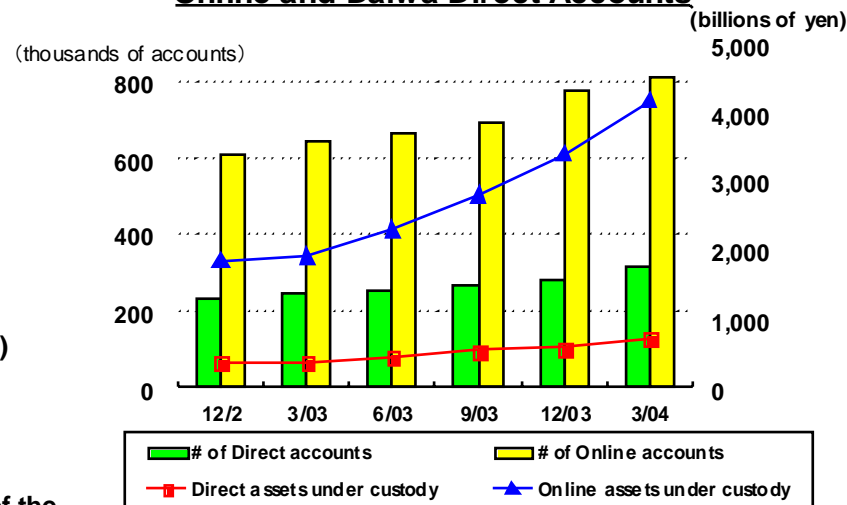


3. Expansion of Customer Base

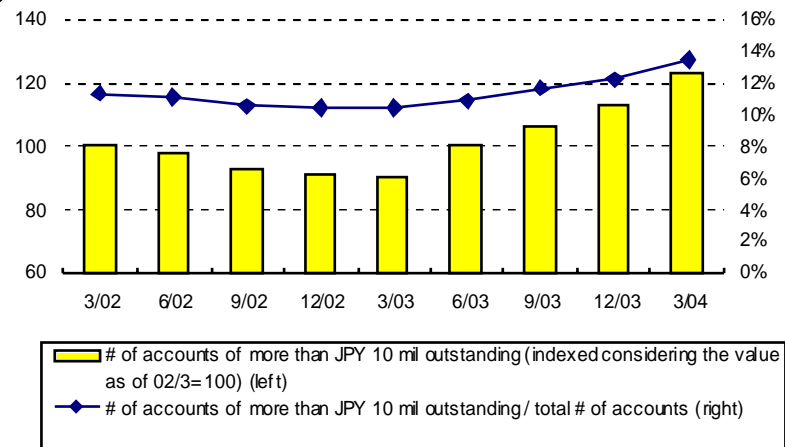
Assets under Custody Exceeds Level during the "Bubble"



Accounts and Assets under Custody of Online and Daiwa Direct Accounts



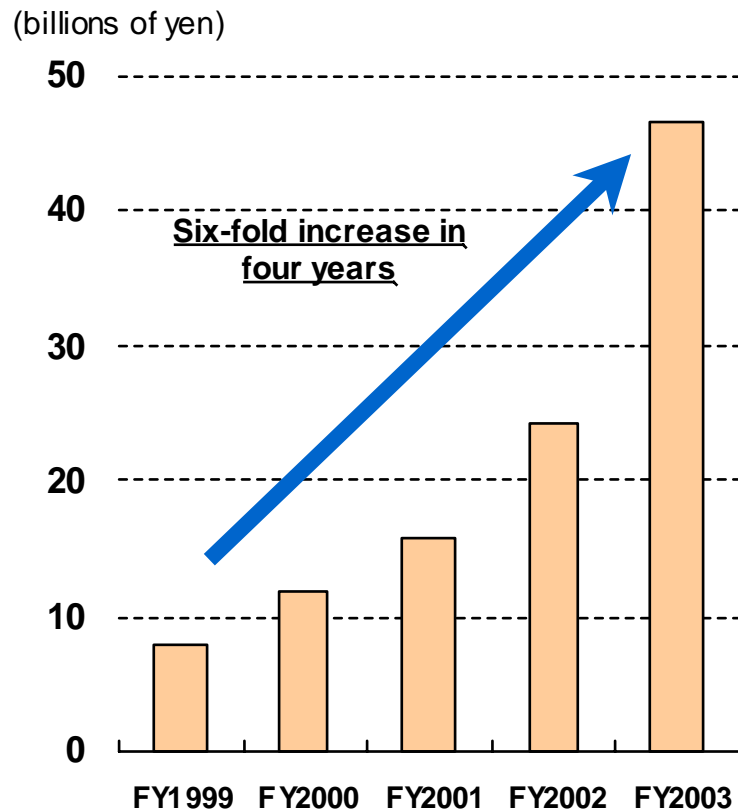
Accounts of more than JPY 10 mil Outstanding





4. Momentum in Investment Banking

Increase in Revenues Generated due to Alliance with SMBC



Daiwa Securities SMBC: Lead Manager League Table

- **Straight bond**
 FY99 18.2%(2nd) → FY03 21.0%(1st : three consecutive years)
 - 「THE BEST DEBT HOUSE」 in FY2003
 EUROMONEY Magazine Japanese Edition
- **Primary and secondary equity offerings**
 FY99 6.9%(3rd) → FY03 28.2%(2nd)
 - Ranked top in primary offering league table
 - 「EQUITY HOUSE OF THE YEAR」 in FY2003
 THOMSON DealWatch
- **IPO**
 FY99 17.1%(3rd) → FY03 26.8%(2nd)
 - Lead manager for three of the top five largest issues including NEC Electronics.



5. Enhancement of Overall Group Synergy

- **Research capability**
DIR ranked top in analyst/economist rankings (No.2 in FY 2002)
* No.1 in both ”*Mainichi Economist Analyst/Economist Poll*” and “Annual Nikkei ranking of Analysts”
- **New Product Development Project**
Launched approximately 20 products, mainly structured bonds including CEO (collateralized equity obligation) bonds
- **Development of investment funds that satisfy customers’ needs**
China Ton-Fei, launched by Daiwa SB Investments Ltd in Jan. 04, became the largest domestic Chinese equity fund with an initial subscription amount of JPY 62.2 bil.
(current outstanding amount is approximately JPY 100 bil.)
- **Improvement in performance of assets under management**
Daiwa SB investments was chosen by Japan Post to as one of the managers for the Japanese equity component of postal saving and postal life insurance funds.
*Postal saving funds: for domestic equity investment
Postal life insurance funds: for domestic and overseas equity investment



Issues and Countermeasures - for Further Differentiation -



Medium-term Management Plan (from FY2003 to FY2005) Assumptions and Target Issues

<Assumptions as of Apr. 03>

- Continuation of deflation, low economic growth with no expectation of a significant stock market recovery.
Assumptions for Business Environment has drastically changed
- Expansion of business opportunities triggered by regulatory reforms.
- Increase in competition from other industries and growing tendency for customers to become selective when choosing a financial institution.
- Expansion and diversification in individual investment needs
- Diversification of companies' funding sources and an expansion in their needs to invest in fixed income products.
- Increase in need for companies to reorganize their businesses

<Target Issues>

- Reinforcement of marketing structure within the retail business
- Supplying value-added products and services
- Increasing presence in businesses related to the revitalization of the Japanese economy
- Reinforcement of personnel management structure
- Reforming of corporate governance structure

Reinforcement of marketing structure within the retail business

Improvement of Consulting Skills

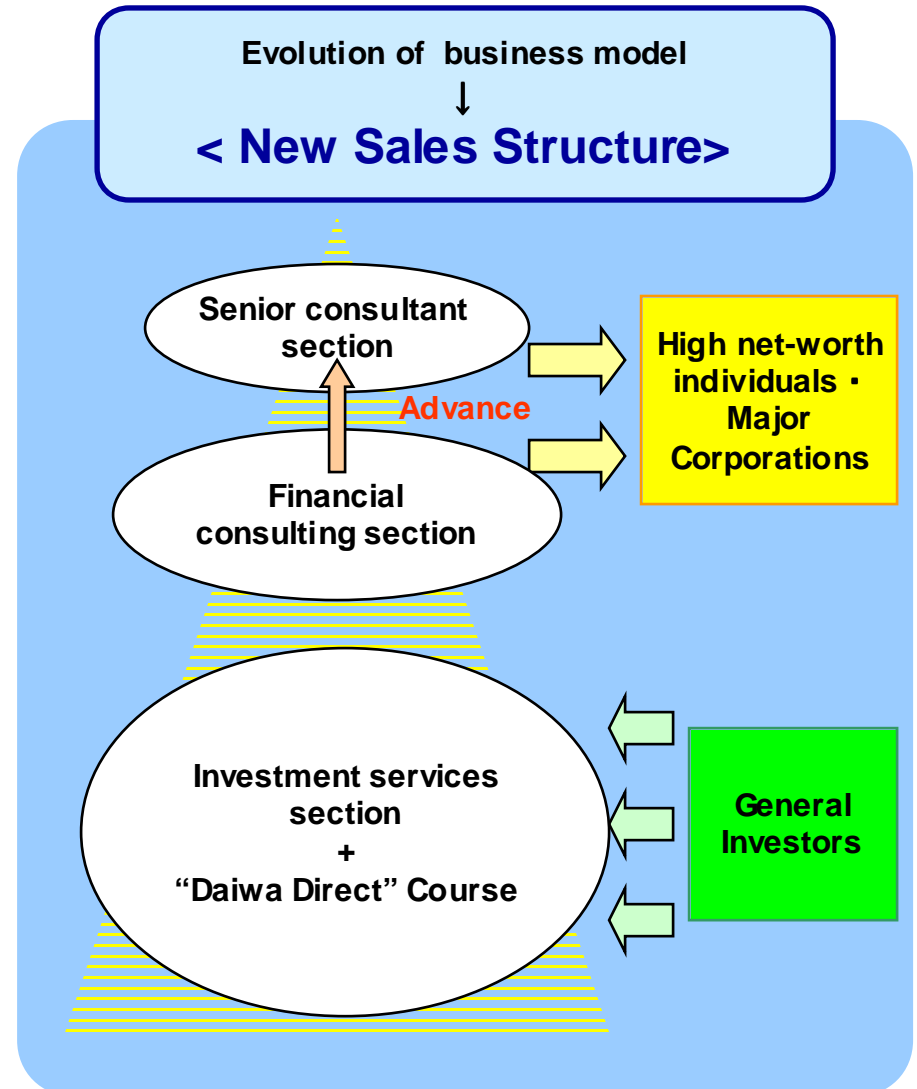
Nationwide deployment of satellite branch system

- Delegating authority and responsibility to local marketing units
- Area-based marketing
 - Community-based sales activities
- Efficient allocation of management resources
- Nationwide deployment of internal communication facilitators



Re-establish sales structure based on the satellite branch system

- Structure to focus on satisfying customers' diversified needs.
- Increase number of senior consultants
Current : 170 → 600 (in two years)





Reinforcement of marketing structure within the retail business

Strategic Development of Sales Channels

Expand services provided to customers trading online

New services to be introduced between now and fall

- Provide access to DIR analyst reports
- Upgrade technical analysis functions
- Increase information on foreign equities
- Provide life-planning simulation
- Enable participation in primary and secondary equity offerings (from fall 04)

Others

- Discussions initiated to provide open-end margin transaction facilities

Prepare for introduction of securities intermediaries

Establish division to develop intermediaries → Expansion of customer base

- Discussions in progress with regional banks, consulting firms, financial planners, etc.
- Develop support systems including training programs and access to call center facilities, etc.



Supplying value-added products and services

Improving Quality of Products and Services

- **Revival of equity investment trusts**

- Newly launched funds

- Digital Ka-Ma, launched on April 23 Initial amount - JPY 54.5 bil
- Daiwa SRI fund (with IntegreX), subscription from May 10th

- **Introduction of wrap account services**

- Preparations under way at Investment Advisory Department for introduction in fall.

- **Enhancement of VWAP services (retail)**

- Transaction value of VWAP in March was more than triple the average for the previous 11 months.
- Further enhancements due this June.

- **Building-up global equity infrastructure**

- Enhancement of stock lending business
- Introduction of open-end margin transaction for institutional investors from 2H FY2003



Supplying value-added products and services

Strategies for Asia

<Achievement in Asia/Oceania>

Improvement in earnings power

Ordinary income FY2001: JPY ▲173 mil, FY2002: JPY 220 mil, FY2003: JPY 1,977 mil

Ranked top in major categories; *Euro Week* magazine in 2003

Lead manager in Samurai bonds, Japanese domestic issuers, and sales to domestic investors.

- **Increase capital of Hong-Kong subsidiary**
 - In preparation for an expansion of business in China, we increased the capital base of our HK subsidiary by approximately JPY 6.6 bil in April. (Prior capital was approximately JPY 4.5 bil.)
 - Awarded lead-manager for an IPO in Hong Kong for the first time in 9 years.

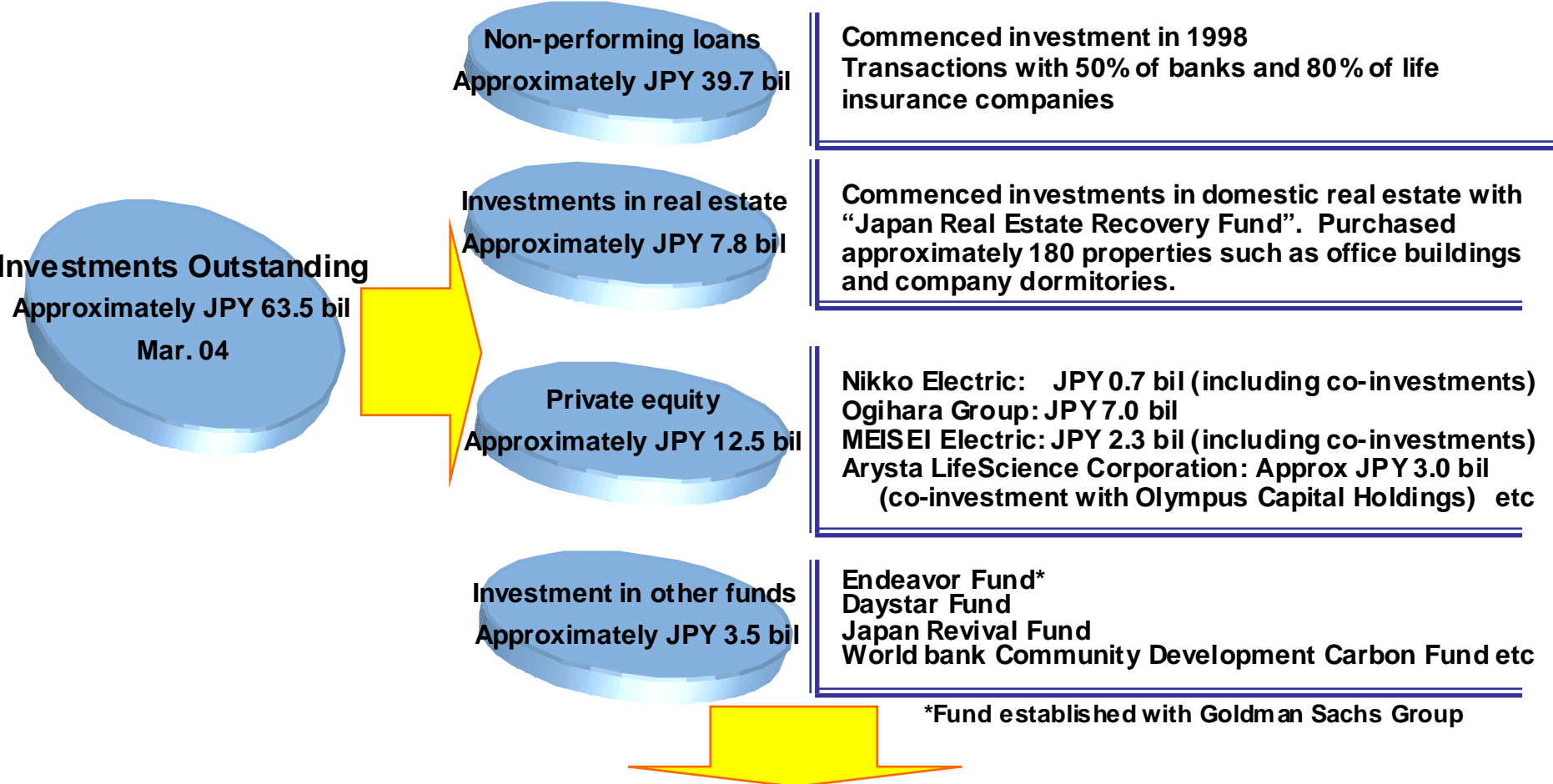
- **Medium-term strategy**
 - ⇒ **Establish a leading presence in Asia and China**
 - Waiting for final approval to launch “Daiwa SMBC-SSC Securities Co. Ltd.,” a joint securities venture, in July 2004.
 - Strengthening the alliance between Daiwa Securities Group and SMFG
 - Co-hosted conference with the Hong Kong Stock Exchange presenting seven Chinese enterprises to domestic institutional investors. (April 27th)



Increasing presence in businesses related to the revitalization of the Japanese economy

Principal Finance and Fund Development

<Increase in investment limit JPY 50 bil ⇒ JPY 100 bil>



Utilize experience to stabilize revenues by increasing fund development /management /investment business



Reinforcement of personnel management structure

/Reforming of corporate governance structure

Move to a New Personnel Structure and Transition to the “Committee System”

Full implementation in FY2004

- Function-based salary system
- Ramification of monthly salary table
11 levels ⇒ 16 levels

Enhancement of
performance-based
evaluation

Daiwa Asset Management

Transparent screening and
promotion process for fund
managers

DIR

Introduction of new criteria for
bonus based on analyst rankings

- Introduction of “Senior staff”
184 employees in the Group transferred to senior employment ranks
 - Review regular salary increase
- Reduce personnel costs
 - Control fixed costs

Transition after Annual Shareholders’ Meeting

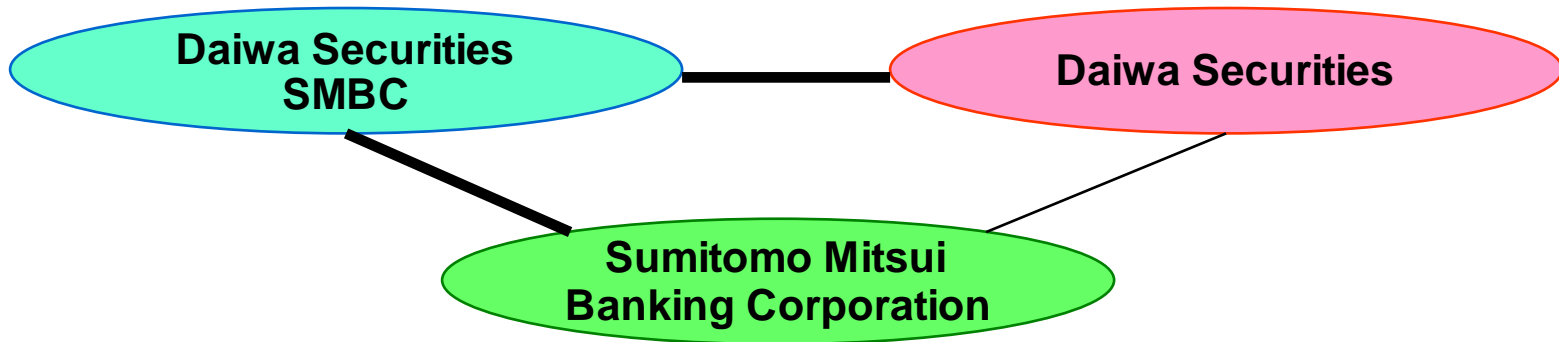
- “Committee system”

Increase outside directors from current two to four.

- Mr. Tetsuro Kawakami (Current: Outside Director, Counsel of Sumitomo Electric Industries, Ltd.)
- Mr. Ryuji Yasuda (Current: Outside Director, Chaired visiting professor of Hitotsubashi Univ. Graduate school)
- Mr. Keisuke Kitajima (Attorney)
- Mr. Kouichi Uno (Certified Public Accountant)

Alliance with Sumitomo Mitsui Financial Group Enters the Second Stage

Further cooperation in corporate business triggered by the lifting of present regulations that prohibit financial institutions from acting as intermediaries for securities businesses.



The “optimal solution” to serve various needs of local corporate customers throughout Japan.

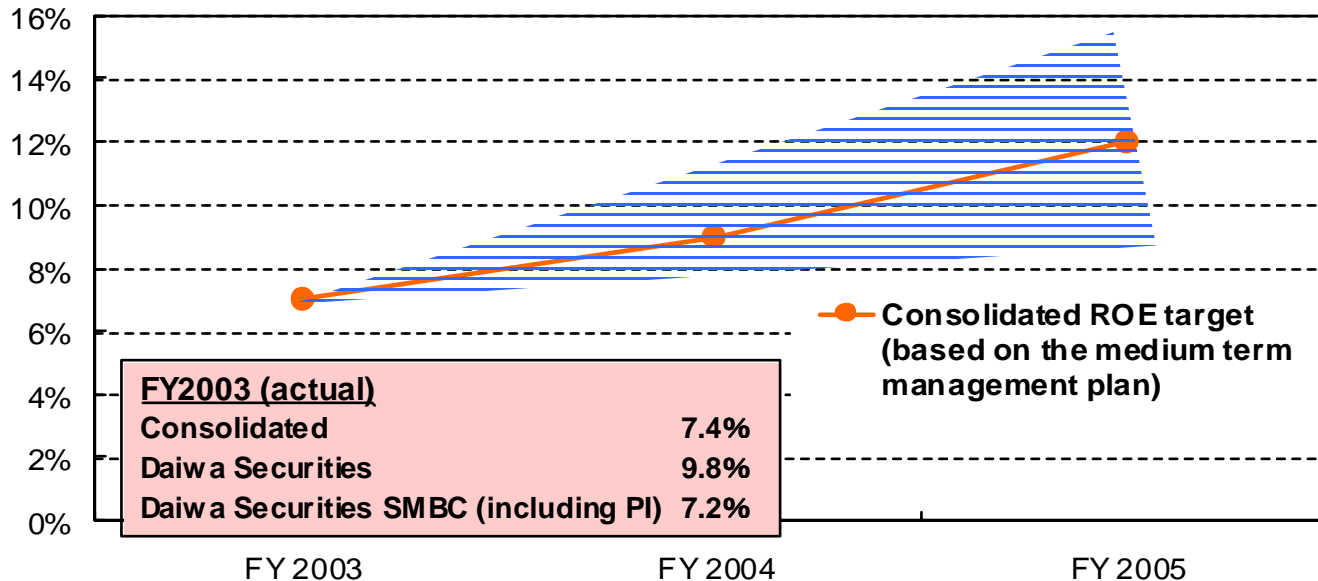
Utilize Daiwa Securities SMBC’s capabilities to offer high quality business solutions and Daiwa Securities service network to provide SMBC’s corporate clients with the optimum products and services.



Management Focus -ROE

- Expansion of shareholders' equity in two to three years
 Target JPY 800 bil
 - Increase in retained earnings based on increased earning power
 - Utilization of tax benefits
- Secure growth of business and dividend payments to shareholders
 (estimated payout ratio approx 30%)

Target ROE Based on the Medium Term Management Plan





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