

Daiwa Securities Group Inc.

2-6-4 Otemachi, Chiyoda-ku

Tokyo 100-8101, Japan

(URL <http://www.daiwa.jp/ir/english/>)

January 28, 2005

Consolidated financial summary
(For the third quarter ended December 31, 2004)

1. (1) Change in accounting policy: None

(2) Change in scope of consolidation and equity method

Consolidated subsidiary: Addition: 1 Company, Exclusion: 4 Companies

Affiliates applicable of equity method: Addition: 1 Company, Exclusion: 1 Company

Scope of consolidation and equity method

Consolidated subsidiaries: 48 companies

Affiliates applicable of equity method: 5 companies

2. Consolidated financial results (from April 1, 2004 to December 31, 2004)

(Note) All figures in the financial statements are rounded down to the nearest millionth.

'-' indicates a loss or negative figure.

(1) Operating results (from April 1, 2004 to December 31, 2004)

(Millions of yen except for per share data and yr/yr % change)

| | Operating revenues | | Net operating revenues | | Operating income | | Ordinary income | |
|-------------------------|--------------------|---------|------------------------|---------|------------------|----------|-----------------|----------|
| Third quarter (2004/12) | 361,248 | (9.2)% | 273,201 | (6.8)% | 71,238 | (10.2)% | 75,282 | (11.5)% |
| Third quarter (2003/12) | 330,822 | (11.8)% | 255,726 | (24.9)% | 64,632 | (249.8)% | 67,527 | (190.9)% |
| Fiscal 2003 (2004/3) | 453,813 | | 352,434 | | 92,519 | | 96,130 | |

| | Net income | | Earnings/share | | Fully diluted earnings/share | | Return on stockholders' equity (annual basis) | |
|-------------------------|------------|----------|----------------|-----|------------------------------|-----|---|---|
| Third quarter (2004/12) | 33,630 | (18.4)% | 25.27 | Yen | 24.11 | Yen | 7.3 | % |
| Third quarter (2003/12) | 28,392 | (507.2)% | 21.36 | Yen | 20.47 | Yen | 6.7 | % |
| Fiscal 2003 (2004/3) | 42,637 | | 31.66 | Yen | 30.28 | Yen | 7.4 | % |

(Note)

1. Equity in earnings

Third quarter (2004/12): 1,574 million yen Third quarter (2003/12): 334 million yen Fiscal 2003 (2004/3): 90 million yen

2. Average number of shares outstanding (shares)

Third quarter (2004/12): 1,330,694,283 Third quarter (2003/12): 1,328,826,507 Fiscal 2003 (2004/3): 1,329,304,723

(2) Financial conditions

(Millions of yen except for per share data and percentage)

| | Total assets | Stockholders' equity | Stockholders' equity ratio | | Stockholders' equity/share | |
|-------------------------|--------------|----------------------|----------------------------|---|----------------------------|-----|
| Third quarter (2004/12) | 12,856,244 | 620,472 | 4.8 | % | 466.29 | Yen |
| Third quarter (2003/12) | 9,486,031 | 580,500 | 6.1 | % | 436.21 | Yen |
| Fiscal 2003 (2004/3) | 10,765,665 | 604,170 | 5.6 | % | 453.60 | Yen |

(Note)

Number of shares outstanding (shares)

As of Dec. 31, 2004 : 1,330,639,687 As of Dec. 31, 2003 : 1,330,752,440 As of Mar. 31, 2004 : 1,330,732,981

(Note) The Group's principal business is securities business, and the performance is influenced by the market environment.

Therefore, the Group doesn't disclose the estimated operating result, considering the difficulty to forecast the performance.

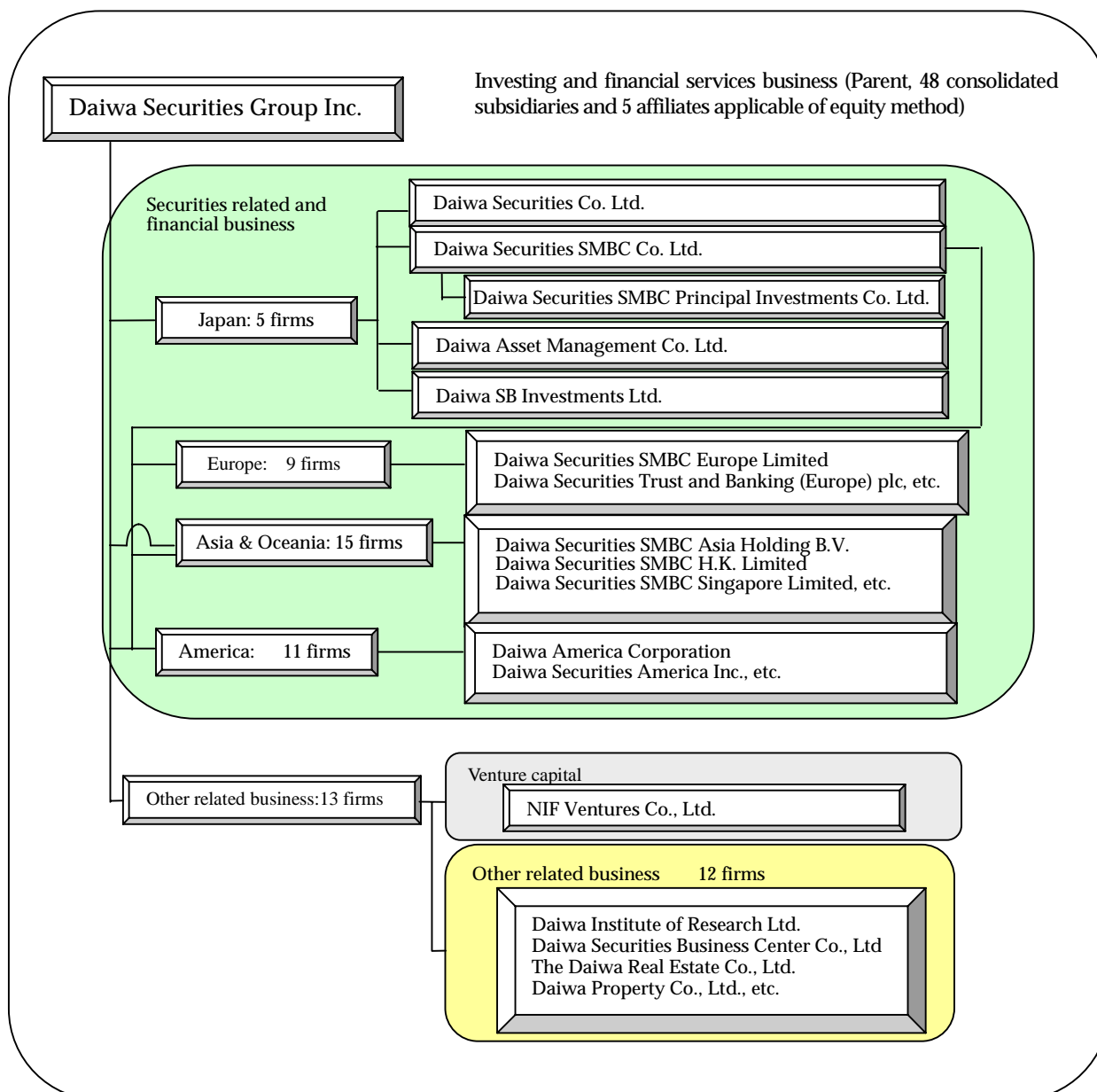
Representative: Shigeharu Suzuki, President

Contact: Hironaka Takada, General Manager, Finance Department

Phone: +813-3243-2100

Information on Group Companies

The Company and its related companies, 48 consolidated subsidiaries and 5 affiliates applicable of equity method, predominantly operate in investing and financial segment, focusing on securities businesses such as trading and brokerage of securities and derivatives, underwriting of securities, distribution of securities, private offering of securities and other business related to securities and financial fields. The Group provides wide range of services, satisfying the worldwide customer needs for raising and investing of funds through the global networks linking major financial markets in Japan, America, Europe and Asia and Oceania.



Results of Operation and Financial Conditions

a. Consolidated operating results for the third quarter of fiscal 2004

1. Summary of operating results for 9 months (comparison with the third quarter of fiscal 2003)

Consolidated net operating revenues increased 6.8% to 273,201 million yen mainly because commissions and trading gains increased. The selling, general and administrative expenses increased 5.7% to 201,963 million yen. As a result, ordinary income increased 11.5% to 75,282 million yen and consolidated net income increased 18.4% to 33,630 million yen.

(1) Commissions

(i) Brokerage commission

Brokerage commission increased 9.3% to 61,134 million yen, in line with an increase of 27.0% to 1,387.4 billion yen in daily average trading value on the Tokyo Stock Exchange.

(ii) Underwriting commission

Underwriting commission went up 31.3% to 39,337 million yen because the Group actively acted as lead-manager for public offerings of listed companies under primary market in favorable circumstances.

(iii) Distribution commission

Distribution commission decreased 2.9% to 15,626 million yen because commission on investment trust decreased 12.3% to 13,267 million yen.

(iv) Other commission

Other commission on investment trust increased 24.3% to 18,752 million yen primarily due to an increase in trust fee of mutual fund in line with an expansion in the balance of equity-related beneficiary certificate, and other commission on investment banking increased due to contribution of M&A fee. As a result, total other commission increased 19.0% to 38,019 million yen.

(2) Net trading gains/losses

Net trading gains on stock and other decreased 10.5% to 34,526 million yen. Net trading gains on bond, forex and other increased 35.5% to 72,193 million yen. As a result, total net trading gains increased 16.2% to 106,720 million yen.

(3) Financial income

Interest and dividend income decreased 4.3% to 76,645 million yen and interest expenses increased 21.2% to 71,539 million yen. Net financial income reduced 75.8% to 5,105 million yen due to a decrease in interests received on bonds.

(4) Selling, general and administrative expenses

Selling, general and administrative expenses increased 5.7% to 201,963 million yen, mainly due to an increase in employees' compensation and benefits including bonuses and salaries reflecting a rise in operating results, and due to an increase in commission and other expenses in line with the increment of transactions.

2. Summary of operating results for 3 months (comparison with the second quarter of fiscal 2004)

Consolidated net operating revenues for the third quarter of fiscal 2004 decreased 8.7% to 82,180 million yen as a result of a decrease in underwriting commission and trading gains. Selling, general and administrative expenses for the third quarter decreased 2.4% to 66,002 million yen. As a result, consolidated ordinary income declined 21.9% to 18,022 million yen. Net income decreased 4.2% to 9,464 million yen for the third quarter of fiscal 2004, posting extraordinary gains/losses, income taxes, and minority interest in income.

3. Operating results of overseas subsidiaries for the third quarter of fiscal 2004 (9 months)

Ordinary income by geographic area (millions of yen)

| America | Europe | Asia & Oceania | Total |
|---------|--------|----------------|-------|
| 278 | 4,602 | 1,200 | 6,081 |

b. Financial conditions (comparison with March 31, 2004)

Total assets increased by 2,090,579 million yen to 12,856,244 million yen, because trading assets and receivables on collateralized securities transactions increased by 1,352,502 million yen and 1,326,152 million yen, respectively. Total liabilities increased by 2,060,630 million yen to 12,056,461 million yen, because trading liabilities and short-term borrowings increased by 1,004,162 million yen and 787,264 million yen, respectively, and 296,755 million yen trade date accrual that was posted in the asset side as of March 31, 2004 moved to the liabilities side.

Consolidated balance sheets

| (millions of yen) | Third quarter Dec. 31, 2004 | Third quarter Dec. 31, 2003 | Increase/ Decrease | Fiscal 2003 Mar. 31, 2004 |
|---|--------------------------------|--------------------------------|-----------------------|------------------------------|
| Assets | | | | |
| Current assets: | 12,325,076 | 8,874,875 | 3,450,201 | 10,210,037 |
| Cash and deposits | 379,546 | 411,163 | -31,616 | 486,932 |
| Cash segregated as deposits | 123,727 | 111,661 | 12,066 | 109,940 |
| Notes receivable and trade accounts receivable | 6,383 | 5,894 | 488 | 8,057 |
| Securities | 17,280 | 36,714 | -19,433 | 38,650 |
| Trading assets: | 5,384,447 | 3,583,344 | 1,801,103 | 4,031,944 |
| Trading securities and others | 4,858,932 | 3,109,777 | 1,749,155 | 3,529,917 |
| Derivative assets | 525,514 | 473,566 | 51,947 | 502,027 |
| Trade date accrual | - | 11,405 | -11,405 | 580,674 |
| Operational investment securities | 50,854 | 41,854 | 8,999 | 40,733 |
| Less: Allowance for possible investment losses | -4,300 | -4,647 | 347 | -5,172 |
| Other inventories | 1,875 | 1,886 | -10 | 816 |
| Receivables related to margin transactions: | 252,702 | 193,695 | 59,006 | 235,535 |
| Loans receivable from customers for margin transactions | 87,783 | 85,951 | 1,831 | 92,832 |
| Cash deposits as collateral for securities borrowed from securities finance companies | 164,919 | 107,743 | 57,175 | 142,703 |
| Receivables on collateralized securities transactions: | 5,717,590 | 4,124,523 | 1,593,066 | 4,391,437 |
| Cash deposits as collateral for securities borrowed | 5,717,590 | 4,124,523 | 1,593,066 | 4,391,437 |
| Receivables | 5,831 | 7,396 | -1,565 | 26,481 |
| Short-term loans receivable | 54,969 | 89,195 | -34,225 | 96,780 |
| Accrued income | 16,712 | 12,997 | 3,715 | 16,934 |
| Deferred income tax assets-current | 10,837 | 4,015 | 6,821 | 15,224 |
| Other current assets | 306,929 | 244,413 | 62,515 | 135,420 |
| Less: Allowance for doubtful accounts- current | -311 | -638 | 327 | -355 |
| Non-current assets: | 531,167 | 611,156 | -79,988 | 555,628 |
| Tangible fixed assets | 138,445 | 153,968 | -15,522 | 143,123 |
| Intangible fixed assets | 60,140 | 57,100 | 3,040 | 59,458 |
| Investments and others: | 332,582 | 400,087 | -67,505 | 353,046 |
| Investment securities | 188,988 | 218,393 | -29,404 | 187,437 |
| Long-term loans receivable | 11,817 | 13,336 | -1,519 | 12,388 |
| Long-term guarantee deposits | 24,315 | 28,480 | -4,165 | 25,522 |
| Deferred income tax assets-non-current | 21,717 | 54,772 | -33,054 | 42,259 |
| Other investments | 98,295 | 97,361 | 933 | 97,757 |
| Less: Allowance for doubtful accounts- non-current | -12,551 | -12,256 | -295 | -12,319 |
| Total assets | 12,856,244 | 9,486,031 | 3,370,213 | 10,765,665 |

| (millions of yen) | Third quarter Dec. 31, 2004 | Third quarter Dec. 31, 2003 | Increase/ Decrease | Fiscal 2003 Mar. 31, 2004 |
|--|--------------------------------|--------------------------------|-----------------------|------------------------------|
| <i>Liabilities</i> | | | | |
| Current liabilities: | 11,214,880 | 7,886,128 | 3,328,751 | 9,122,137 |
| Notes payable and trade accounts payable | 2,966 | 2,291 | 674 | 2,861 |
| Trading liabilities: | 3,918,718 | 2,303,372 | 1,615,346 | 2,914,555 |
| Trading securities and others | 3,461,931 | 1,869,123 | 1,592,808 | 2,445,560 |
| Derivative liabilities | 456,786 | 434,248 | 22,537 | 468,995 |
| Trade date accrual | 296,755 | - | 296,755 | - |
| Payables related to margin transactions: | 133,932 | 83,438 | 50,493 | 93,449 |
| Loans from securities finance companies for margin transactions | 1,373 | 2,080 | -706 | 3,636 |
| Proceeds of securities sold for margin transactions | 132,558 | 81,358 | 51,200 | 89,813 |
| Payables on collateralized securities transactions: | 3,991,451 | 3,712,401 | 279,049 | 4,092,022 |
| Cash deposits as collateral for securities loaned | 3,836,075 | 3,556,140 | 279,935 | 3,769,690 |
| Payables related to gensaki transactions | 155,375 | 156,261 | -885 | 322,332 |
| Deposits received | 118,100 | 123,597 | -5,497 | 144,580 |
| Cash deposits received from customers | 46,099 | 44,889 | 1,210 | 49,208 |
| Short-term borrowings | 2,196,039 | 1,137,342 | 1,058,697 | 1,408,775 |
| Commercial paper | 98,700 | 275,650 | -176,950 | 273,722 |
| Bonds due within one year | 121,356 | 18,392 | 102,963 | 21,102 |
| Accrued income taxes | 2,231 | 8,467 | -6,235 | 15,406 |
| Deferred income tax liabilities-current | 549 | 129 | 419 | 190 |
| Accrued bonuses | 10,729 | 10,061 | 667 | 19,375 |
| Other current liabilities | 277,249 | 166,093 | 111,156 | 86,887 |
| Non-current liabilities: | 836,301 | 853,672 | -17,371 | 868,560 |
| Bonds | 646,955 | 627,389 | 19,566 | 645,589 |
| Convertible bonds | 79,986 | 79,986 | - | 79,986 |
| Long-term borrowings | 75,523 | 109,497 | -33,974 | 112,813 |
| Deferred income tax liabilities-non-current | 8,980 | 14,931 | -5,951 | 6,643 |
| Accrued retirement benefits | 18,785 | 16,702 | 2,083 | 17,301 |
| Other non-current liabilities | 6,070 | 5,165 | 905 | 6,226 |
| Statutory reserves | 5,279 | 4,023 | 1,255 | 5,132 |
| Total liabilities | 12,056,461 | 8,743,825 | 3,312,636 | 9,995,830 |
| Minority interest | 179,311 | 161,706 | 17,605 | 165,664 |
| <i>Stockholders' equity</i> | | | | |
| Common stock | 138,431 | 138,431 | - | 138,431 |
| Capital surplus | 117,940 | 117,939 | 1 | 117,939 |
| Earned surplus | 343,913 | 317,827 | 26,086 | 330,780 |
| Net unrealized gain on securities, net of tax effect | 28,795 | 22,135 | 6,660 | 27,297 |
| Translation adjustments | -7,849 | -15,158 | 7,309 | -9,588 |
| Treasury stock | -759 | -675 | -84 | -689 |
| Total stockholders' equity | 620,472 | 580,500 | 39,972 | 604,170 |
| Total liabilities, minority interest and stockholders' equity | 12,856,244 | 9,486,031 | 3,370,213 | 10,765,665 |

Consolidated income statements

| (millions of yen) | Third quarter Apr. 1, 2004- Dec. 31, 2004 | Third quarter Apr. 1, 2003- Dec. 31, 2003 | Yr/yr % change | Fiscal 2003 Apr. 1, 2003- Mar. 31, 2004 |
|--|--|--|---|--|
| Operating revenues: | 361,248 | 330,822 | 9.2 | 453,813 |
| Commissions | 154,118 | 133,949 | 15.1 | 194,162 |
| Net gains on trading | 106,720 | 91,859 | 16.2 | 120,195 |
| Net gains on operational investment securities | 1,735 | 1,024 | 69.4 | 1,817 |
| Interest and dividend income | 76,645 | 80,110 | -4.3 | 103,223 |
| Other sales revenues | 22,028 | 23,878 | -7.7 | 34,413 |
| Interest expenses | 71,539 | 59,045 | 21.2 | 77,331 |
| Cost of sales | 16,507 | 16,050 | 2.8 | 24,047 |
| Net operating revenues | 273,201 | 255,726 | 6.8 | 352,434 |
| Selling, general and administrative expenses: | 201,963 | 191,094 | 5.7 | 259,914 |
| Commission and other expenses | 33,634 | 29,220 | 15.1 | 39,786 |
| Employees' compensation and benefits | 104,715 | 101,418 | 3.3 | 136,963 |
| Real estate expenses | 24,253 | 23,712 | 2.3 | 32,518 |
| Data processing and office supplies | 12,233 | 11,082 | 10.4 | 14,898 |
| Depreciation expenses | 16,371 | 15,428 | 6.1 | 21,530 |
| Taxes other than income taxes | 5,199 | 4,392 | 18.4 | 5,617 |
| Others | 5,556 | 5,838 | -4.8 | 8,599 |
| Operating income | 71,238 | 64,632 | 10.2 | 92,519 |
| Non-operating income: | 6,018 | 4,938 | 21.9 | 6,013 |
| Equity in earnings | 1,574 | 334 | 370.2 | 90 |
| Others | 4,443 | 4,603 | -3.5 | 5,923 |
| Non-operating expenses | 1,974 | 2,043 | -3.4 | 2,402 |
| Ordinary income | 75,282 | 67,527 | 11.5 | 96,130 |
| Extraordinary gains | 4,245 | 3,110 | 36.5 | 8,962 |
| Extraordinary losses | 3,774 | 7,196 | -47.6 | 28,167 |
| Income before income taxes and others | 75,753 | 63,441 | 19.4 | 76,925 |
| Income taxes-current | 2,137 | 8,179 | -73.9 | 15,169 |
| Income taxes-deferred | 26,694 | 17,024 | 56.8 | 5,637 |
| Minority interest in income | -13,291 | -9,845 | - | -13,480 |
| Net income | 33,630 | 28,392 | 18.4 | 42,637 |
| Net financial income included in net operating revenues | 5,105 | 21,065 | -75.8 | 25,892 |

Consolidated statements of retained earnings

| (millions of yen) | Third quarter Apr. 1, 2004- Dec. 31, 2004 | Third quarter Apr. 1, 2003- Dec. 31, 2003 | Fiscal 2003 Apr. 1, 2003- Mar. 31, 2004 |
|--|--|--|--|
| <i>Capital surplus</i> | | | |
| Beginning balance of capital surplus | 117,939 | 117,786 | 117,786 |
| Increase in capital surplus | 0 | 152 | 153 |
| Net gains on sales of treasury stock | 0 | 152 | 153 |
| Decrease in capital surplus | - | - | - |
| Ending balance of capital surplus | 117,940 | 117,939 | 117,939 |
| <i>Earned surplus</i> | | | |
| Beginning balance of earned surplus | 330,780 | 297,404 | 297,404 |
| Increase in earned surplus: | 33,630 | 28,392 | 42,637 |
| Net income | 33,630 | 28,392 | 42,637 |
| Decrease in earned surplus: | 20,497 | 7,969 | 9,261 |
| Decrease in earned surplus due to expansion of scope of consolidation | - | - | 1,291 |
| Dividends | 19,960 | 7,969 | 7,969 |
| Directors' bonuses | 536 | - | - |
| Ending balance of earned surplus | 343,913 | 317,827 | 330,780 |

Notes to consolidated financial statements

The consolidated financial statements of the Company for the third quarter ended December 31, 2004 are prepared in accordance with the 'Cabinet Office Ordinance Concerning Securities Companies' (Prime Minister's Office Ordinance and Ministry of Finance Ordinance No. 32, 1998), and the 'Uniform Accounting Standards of Securities Companies' (set by the board of directors of the Japan Securities Dealers' Association, November 14, 1974), based on the 'Regulations of Interim Consolidated Financial Statements' (Ministry of Finance Ordinance No. 24, 1999) and its Article 48 and 69.

Basis of consolidated financial statements

1. Scope of consolidation

Consolidated subsidiaries: 48 companies

Major companies:

Daiwa Securities Co. Ltd.
 Daiwa Securities SMBC Co. Ltd.
 Daiwa Asset Management Co. Ltd.
 Daiwa Institute of Research Ltd.
 NIF Ventures Co., Ltd.
 Daiwa Securities Business Center Co. Ltd.
 The Daiwa Real Estate Co., Ltd.
 Daiwa Property Co., Ltd.
 Daiwa Securities SMBC Europe Limited
 Daiwa Securities Trust and Banking (Europe) plc
 Daiwa America Corporation
 Daiwa Securities America Inc.
 Daiwa Securities SMBC Asia Holding B.V.
 Daiwa Securities SMBC H.K. Limited
 Daiwa Securities SMBC Singapore Limited

One overseas subsidiary is added to scope of consolidation due to establishment, and four overseas subsidiaries are excluded from the scope of consolidation due to liquidation during this third quarter. Each amount of total assets, operating revenues (or sales), net income corresponding to equity holdings and earned surplus corresponding to equity holdings of non-consolidated subsidiaries has little influence on the consolidated financial statements and has little materiality as a whole.

2. Application of equity method

Affiliates applicable of equity method: 5 companies

Major companies:

Daiwa SB Investments Ltd.
 Totan Holdings Co., Ltd.
 The Tokyo Tanshi Co., Ltd.
 Daiwa SMBC-SSC Securities Co. Ltd.

Daiwa SMBC-SSC Securities Co. Ltd. is newly added to the scope of equity method due to foundation during this third quarter. One affiliate is excluded from the scope of equity method due to liquidation during this third quarter. Each amount of net income corresponding to equity holdings and earned surplus corresponding to equity holdings of both non-consolidated subsidiaries and affiliates inapplicable of equity method has little influence on the consolidated financial statements and has little materiality as a whole.

For affiliates applicable of equity method whose third quarter ends other than December 31, 2004, the financial statements for the relevant third quarter are reflected.

3. Fiscal period of subsidiaries

For subsidiaries with the third quarter ending other than December 31, 2004, the financial statements for the relevant third quarter are employed and important transactions occurred by discrepancies with closing account date are adjusted for this consolidated financial statements.

4. Accounting policies

(1) Valuation of financial instruments and inventories

(i) Valuation of trading securities

In terms of domestic consolidated subsidiaries, securities, derivative transactions, and assets or liabilities in trading account are recorded at fair value. In terms of consolidated overseas subsidiaries, those policies are mainly applied.

(ii) Valuation of non-trading securities

Non-trading securities are valued as follows.

(a) Held-to-maturity securities

Held-to-maturity securities are valued at amortized cost.

(b) Other securities

Other securities than trading or held-to-maturity securities are valued at fair value on the closing date with posting net unrealized gain on securities net of tax effect directly in stockholders' equity, if their fair value is available. The cost of those securities is mainly based on moving average method. Other securities are valued at moving average cost method, if their fair value is not available. Some portions of securities held by some consolidated subsidiaries and operational investment securities are categorized in current assets.

(iii) Valuation of other inventories

Cost method determined by the specific identification method is mainly applied.

(2) Depreciation of depreciable assets

(i) Tangible fixed assets

In terms of domestic consolidated companies, declining-balance method is mainly applied, and straight-line method is applied to the building (excluding appendixes) acquired after April 1, 1998. Useful life for depreciation is mainly based on Corporation Tax Law. In terms of consolidated overseas subsidiaries, straight-line method is mainly applied.

(ii) Intangible fixed assets, and investments and others

Straight-line method is mainly applied. Useful life for depreciation is mainly based on Corporation Tax Law. Software for in-house use is depreciated under straight-line method based on internal estimated useful life (5 years).

(3) Accounting policies for various provisions

(i) Provision for doubtful accounts

The domestic consolidated companies provide the allowances based on the historical deterioration rate as for normal loans, and the allowance specifically assessed as for doubtful and failed loans. The consolidated overseas subsidiaries mainly provide the allowances specifically assessed.

(ii) Allowance for possible investment losses

Some consolidated subsidiaries provide the allowances based on estimated losses on operational investment securities held at the consolidated third quarter end, assessing the financial conditions of investee companies.

(iii) Accrued employees' bonuses

Estimated amount of employees' bonuses is accrued based on each company's bylaws.

(iv) Accrued retirement benefits

The parent company and most of domestic consolidated subsidiaries provide accrued retirement benefits for employees in conformity with the bylaws to meet obligations as of December 31, 2004, as the rise in salaries in the future does not cause fluctuation in the benefit obligation and therefore the service costs are vested fiscal year by fiscal year. Some consolidated subsidiaries provide accrued retirement benefits based on projected benefit obligation. As for the closed pension fund, accrued retirement benefits for the portion of 9 months are provided based on the difference between projected benefit obligation and fund fair value expected on March 31, 2005.

(4) Accounting for certain lease transactions

Finance leases in which ownership is not transferred to a lessee are mainly accounted for in the same manner as operating leases.

(5) Hedging transaction

Valuation gain or loss on hedging instrument is mainly deferred as assets or liabilities until the gain or loss on underlying hedged instruments is realized. A part of interests received or paid on interest rate swap for hedging are accrued without marking-to-market, and a part of premium or discount on forward foreign exchange contract for hedging is allocated to each fiscal term without marking-to-market.

(6) Other material items

(Accounting for consumption taxes)

Consumption taxes are separately recorded.

(Deferred Assets)

Issue costs for stocks and bonds are amortized in a lump sum when incurred.

(Consolidated tax system)

The consolidated tax system is applied starting from this fiscal year.

(Application of 'Accounting Standards for Impairment of Fixed Assets')

Accounting Standards Board of Japan issued 'Accounting Standards for Impairment of Fixed Assets' ('Opinion on Establishing Accounting Standards for Impairment of Fixed Assets' issued by Accounting Standards Board of Japan on August 9, 2002) and 'Guidance on Application of Accounting Standards for Impairment of Fixed Assets' (Application Guidance on Accounting Standards number 6, issued on October 31, 2003). Accordingly, the Company has complied with these standards since the fiscal year ended on March 31, 2004.

Notes to consolidated balance sheets

1. Accumulated depreciation of tangible fixed assets

| | | |
|---------------------|---------------------|---------------------|
| As of Dec. 31, 2004 | As of Dec. 31, 2003 | As of Mar. 31, 2004 |
| 102,624 million yen | 99,030 million yen | 98,934 million yen |

2. Guarantee

| | | |
|---------------------|---------------------|---------------------|
| As of Dec. 31, 2004 | As of Dec. 31, 2003 | As of Mar. 31, 2004 |
| 3,773 million yen | 4,895 million yen | 4,591 million yen |

3. Short-term and long-term borrowings include the subordinated borrowings stipulated by Article 2 of the 'Cabinet Office Ordinance on the Capital Adequacy Rule for Securities Companies' (Cabinet Office Ordinance No. 23, 2001).

Short-term borrowings

| | | |
|---------------------|---------------------|---------------------|
| As of Dec. 31, 2004 | As of Dec. 31, 2003 | As of Mar. 31, 2004 |
| 40,000 million yen | - | - |

Long-term borrowings

| | | |
|---------------------|---------------------|---------------------|
| As of Dec. 31, 2004 | As of Dec. 31, 2003 | As of Mar. 31, 2004 |
| 20,000 million yen | 40,000 million yen | 40,000 million yen |

Notes to consolidated income statements

Details of extraordinary gains/losses

| | (millions of yen) | | |
|---|---|---|---|
| | <u>Third quarter</u> Apr. 1, 2004- Dec. 31, 2004 | <u>Third quarter</u> Apr. 1, 2003- Dec. 31, 2003 | <u>Fiscal 2003</u> Apr. 1, 2003- Mar. 31, 2004 |
| Extraordinary gains: | | | |
| Gain on sale of fixed assets | 1,804 | 131 | 1,063 |
| Gain on liquidation of related companies | 599 | - | - |
| Gain on sale of investment securities | 1,340 | 2,979 | 7,899 |
| Reversal of reserve for financial futures transactions liabilities | 0 | - | - |
| Reversal of stock purchase warrant | 501 | - | - |
| Extraordinary losses: | | | |
| Write-down of related companies stocks | 40 | 707 | - |
| Write-down of investment securities | 435 | 1,718 | 2,691 |
| Valuation loss of fixed assets | 60 | - | 58 |
| Loss on sale or disposal of fixed assets | 269 | 999 | 1,222 |
| Loss on impairment of fixed assets | - | - | 12,796 |
| Loss on liquidation of related companies | 650 | - | 4,220 |
| Loss on sale of related companies' stocks | - | - | 752 |
| Loss on sale of investment securities | 676 | 380 | 442 |
| Loss on sale of loans receivable | - | 557 | 557 |
| Provision for doubtful accounts | 809 | 343 | 648 |
| Reorganization and relocation costs for business offices and branches | - | 2,356 | 2,473 |
| Reorganization costs for overseas banking subsidiary | 495 | - | 594 |
| Withdrawal costs from multiemployer pension plan for subsidiary | 189 | - | - |
| Provision for securities transaction liabilities | 147 | 132 | 1,240 |
| Other | - | - | 469 |

Supplemental information for the third quarter of fiscal 2004

1. Breakdown of commissions

Third quarter ended December 31, 2004 (A)

| (millions of yen) | Equity | Fixed income (Bond) | Investment Trust | Investment banking | Others | Total |
|----------------------|---------------|---------------------|------------------|--------------------|--------------|----------------|
| Brokerage commission | 59,980 | 1,024 | 129 | - | - | 61,134 |
| Underwriting | - | - | - | 39,337 | - | 39,337 |
| (Stock and other) | (-) | (-) | (-) | (32,667) | (-) | (32,667) |
| (Bond and other) | (-) | (-) | (-) | (5,749) | (-) | (5,749) |
| Distribution | - | - | 13,267 | 2,359 | - | 15,626 |
| Other commission | 1,408 | 1,934 | 18,752 | 8,477 | 7,447 | 38,019 |
| (Agency commission) | (-) | (1,868) | (10,105) | (-) | (-) | (11,973) |
| Total | 61,388 | 2,958 | 32,149 | 50,173 | 7,447 | 154,118 |

Third quarter ended December 31, 2003 (B)

| (millions of yen) | Equity | Fixed income (Bond) | Investment Trust | Investment banking | Others | Total |
|----------------------|---------------|---------------------|------------------|--------------------|--------------|----------------|
| Brokerage commission | 54,552 | 1,220 | 146 | - | - | 55,920 |
| Underwriting | - | - | - | 29,971 | - | 29,971 |
| (Stock and other) | (-) | (-) | (-) | (23,489) | (-) | (23,489) |
| (Bond and other) | (-) | (-) | (-) | (6,294) | (-) | (6,294) |
| Distribution | - | - | 15,121 | 974 | - | 16,096 |
| Other commission | 1,400 | 2,686 | 15,081 | 5,045 | 7,747 | 31,961 |
| (Agency commission) | (-) | (2,661) | (7,880) | (-) | (-) | (10,542) |
| Total | 55,952 | 3,907 | 30,350 | 35,991 | 7,747 | 133,949 |

Yr/yr percentage change (Third quarter ended Dec. 31, 2004 (A) / Third quarter ended Dec. 31, 2003 (B) - 1)

| (percentage) | Equity | Fixed income (Bond) | Investment Trust | Investment banking | Others | Total |
|----------------------|------------|---------------------|------------------|--------------------|-------------|-------------|
| Brokerage commission | 9.9 | -16.1 | -11.7 | - | - | 9.3 |
| Underwriting | - | - | - | 31.3 | - | 31.3 |
| (Stock and other) | (-) | (-) | (-) | (39.1) | (-) | (39.1) |
| (Bond and other) | (-) | (-) | (-) | (-8.7) | (-) | (-8.7) |
| Distribution | - | - | -12.3 | 142.1 | - | -2.9 |
| Other commission | 0.6 | -28.0 | 24.3 | 68.0 | -3.9 | 19.0 |
| (Agency commission) | (-) | (-29.8) | (28.2) | (-) | (-) | (13.6) |
| Total | 9.7 | -24.3 | 5.9 | 39.4 | -3.9 | 15.1 |

Fiscal 2003 ended March 31, 2004

| (millions of yen) | Equity | Fixed income (Bond) | Investment trust | Investment banking | Others | Total |
|----------------------|---------------|---------------------|------------------|--------------------|---------------|----------------|
| Brokerage commission | 78,193 | 1,242 | 208 | - | - | 79,645 |
| Underwriting | - | - | - | 46,093 | - | 46,093 |
| (Stock and other) | (-) | (-) | (-) | (36,927) | (-) | (36,927) |
| (Bond and other) | (-) | (-) | (-) | (8,400) | (-) | (8,400) |
| Distribution | - | - | 21,904 | 1,661 | - | 23,565 |
| Other commission | 1,866 | 3,977 | 20,932 | 8,049 | 10,032 | 44,858 |
| (Agency commission) | (-) | (3,952) | (10,940) | (-) | (-) | (14,892) |
| Total | 80,060 | 5,219 | 43,045 | 55,805 | 10,032 | 194,162 |

2. Breakdown of net gains on trading

(millions of yen)

| | Third quarter (2004/12) | Third quarter (2003/12) | Yr/yr % change | Fiscal 2003 (2004/3) |
|-----------------------|----------------------------|----------------------------|----------------|-------------------------|
| Stock and other | 34,526 | 38,573 | -10.5 | 50,024 |
| Bond, forex and other | 72,193 | 53,285 | 35.5 | 70,171 |
| (Bond and other) | (53,876) | (32,297) | (66.8) | (47,267) |
| (Forex and other) | (18,317) | (20,988) | (-12.7) | (22,904) |
| Total | 106,720 | 91,859 | 16.2 | 120,195 |

Quarterly consolidated income statements (Reference Data)

| (millions of yen) | 3rd quarter Oct. 1, 2003- Dec. 31, 2003 | 4th quarter Jan. 1, 2004- Mar. 31, 2004 | 1st quarter Apr. 1, 2004- Jun. 30, 2004 | 2nd quarter Jul. 1, 2004- Sep. 30, 2004 | 3rd quarter Oct. 1, 2004- Dec. 31, 2004 |
|--|---|---|---|---|---|
| Operating revenues | 108,462 | 122,991 | 124,660 | 118,519 | 118,067 |
| Commissions | 52,960 | 60,213 | 54,299 | 53,116 | 46,702 |
| Brokerage commission | 21,069 | 23,724 | 27,544 | 16,831 | 16,757 |
| (Stock and other) | 20,373 | 23,641 | 27,171 | 16,485 | 16,322 |
| (Bond and other) | 653 | 21 | 312 | 307 | 404 |
| Underwriting commission | 15,656 | 16,122 | 10,236 | 17,299 | 11,801 |
| (Stock and other) | 13,447 | 13,437 | 7,843 | 15,001 | 9,822 |
| (Bond and other) | 2,166 | 2,106 | 2,232 | 1,751 | 1,764 |
| Distribution commission | 5,136 | 7,469 | 5,852 | 4,155 | 5,617 |
| (Beneficiary certificates) | 4,530 | 6,782 | 5,141 | 3,434 | 4,691 |
| Other commission | 11,098 | 12,896 | 10,665 | 14,829 | 12,524 |
| (Beneficiary certificates) | 5,431 | 5,738 | 6,016 | 6,169 | 6,491 |
| Net gains on trading | 23,221 | 28,336 | 42,437 | 33,831 | 30,452 |
| (Stock and other) | 9,179 | 11,450 | 19,285 | 9,606 | 5,635 |
| (Bond and other) | 7,453 | 14,970 | 17,228 | 18,431 | 18,216 |
| (Forex and other) | 6,588 | 1,915 | 5,922 | 5,794 | 6,600 |
| Net gains on operational investment Securities | 599 | 793 | 950 | 583 | 201 |
| Interest and dividend income | 23,830 | 23,113 | 19,498 | 23,761 | 33,385 |
| Other sales revenues | 7,850 | 10,535 | 7,475 | 7,226 | 7,326 |
| Interest expenses | 17,467 | 18,285 | 17,926 | 23,145 | 30,466 |
| Cost of sales | 5,322 | 7,997 | 5,675 | 5,410 | 5,420 |
| Net operating revenues | 85,672 | 96,708 | 101,058 | 89,963 | 82,180 |
| Selling general and administrative expenses: | 63,718 | 68,820 | 68,319 | 67,640 | 66,002 |
| Commission and other expenses | 10,119 | 10,566 | 10,559 | 11,779 | 11,295 |
| Employees' compensation and benefits | 33,966 | 35,545 | 37,043 | 34,199 | 33,472 |
| Real estate expenses | 7,661 | 8,805 | 7,901 | 8,359 | 7,992 |
| Data processing and office supplies | 3,619 | 3,816 | 3,784 | 4,223 | 4,225 |
| Depreciation expenses | 5,221 | 6,101 | 5,458 | 5,426 | 5,486 |
| Taxes other than income taxes | 1,202 | 1,224 | 1,829 | 1,751 | 1,617 |
| Others | 1,926 | 2,761 | 1,743 | 1,900 | 1,911 |
| Operating income | 21,953 | 27,887 | 32,738 | 22,322 | 16,177 |
| Non-operating income | 954 | 1,075 | 2,439 | 1,141 | 2,436 |
| Non-operating expenses | 465 | 359 | 984 | 397 | 591 |
| Ordinary income | 22,442 | 28,603 | 34,193 | 23,066 | 18,022 |
| Extraordinary gains | 748 | 5,851 | 319 | 1,883 | 2,043 |
| Extraordinary losses | 3,026 | 20,971 | 777 | 1,607 | 1,388 |
| Income before income taxes and others | 20,164 | 13,483 | 33,734 | 23,341 | 18,676 |
| Income taxes-current | 1,165 | 6,990 | 890 | 939 | 307 |
| Income taxes-deferred | 6,515 | -11,387 | 12,625 | 7,384 | 6,683 |
| Minority interest in income | -3,383 | -3,635 | -5,933 | -5,136 | -2,221 |
| Net income | 9,100 | 14,244 | 14,284 | 9,881 | 9,464 |
| Net financial income included in net operating revenues | 6,362 | 4,827 | 1,571 | 615 | 2,918 |

Daiwa Securities Group Inc.

2-6-4 Otemachi Chiyoda-ku

Tokyo 100-8101, Japan

(URL <http://www.daiwa.jp/ir/english/>)

January 28, 2005

Non-consolidated financial summary
(For the third quarter ended December 31, 2004)

(1) Operating results (from April 1, 2004 to December 31, 2004)

Note :All figures in the financial statements are rounded down to the nearest millionth.

‘-’ indicates a loss or negative figure.

(Millions of yen except for per share data and yr/yr % change)

| | Operating revenues | | Operating income | | Ordinary income | |
|-------------------------|--------------------|----------|------------------|----------|-----------------|----------|
| Third quarter (2004/12) | 24,395 | (80.1)% | 15,034 | (475.8)% | 17,055 | (508.5)% |
| Third quarter (2003/12) | 13,549 | (-80.1)% | 2,611 | (-95.5)% | 2,803 | (-95.2)% |
| Fiscal 2003 (2004/3) | 15,656 | | 1,359 | | 1,855 | |

| | Net income | | Earnings/share | |
|-------------------------|------------|----------|----------------|-----|
| Third quarter (2004/12) | 17,785 | (928.2)% | 13.36 | Yen |
| Third quarter (2003/12) | 1,729 | (-94.6)% | 1.30 | Yen |
| Fiscal 2003 (2004/3) | -39,891 | | -30.09 | Yen |

(Note)

1. Average number of shares outstanding (shares)

Third quarter (2004/12): 1,330,703,781 Third quarter (2003/12): 1,328,836,005 Fiscal 2003 (2004/3): 1,329,314,221

2. Change in accounting policies: None

(2) Financial conditions

(Millions of yen except for per share data and percentage)

| | Total assets | Stockholders' equity | Stockholders' equity ratio | Stockholders' equity/share |
|-------------------------|--------------|----------------------|----------------------------|----------------------------|
| Third quarter (2004/12) | 1,028,024 | 556,672 | 54.1 % | 418.34 Yen |
| Third quarter (2003/12) | 1,212,099 | 595,424 | 49.1 % | 447.43 Yen |
| Fiscal 2003 (2004/3) | 1,121,183 | 558,157 | 49.8 % | 419.34 Yen |

(Note)

1. Number of shares outstanding (shares)

As of Dec. 31, 2004: 1,330,649,185 As of Dec. 31, 2003: 1,330,761,938 As of Mar. 31, 2004: 1,330,742,479

2. Treasury stock (shares)

As of Dec. 31, 2004: 1,086,073 As of Dec. 31, 2003: 973,320 As of Mar. 31, 2004: 992,779

(Note) The Company, the holding company for the Daiwa Securities Group, is influenced by the performance of subsidiaries.

The subsidiaries' principal business is securities business, and the market environment affects their performance.

Therefore, the Company doesn't disclose the estimated operating result, considering the difficulty to forecast the performance.

Representative: Shigeharu Suzuki, President

Contact: Hironaka Takada, General Manager, Finance Department Phone: +813-3243-2100

Balance sheets

| (millions of yen) | Third quarter Dec. 31, 2004 | Third quarter Dec. 31, 2003 | Increase/ Decrease | Fiscal 2003 Mar. 31, 2004 |
|---------------------------------------|---------------------------------------|--------------------------------|-------------------------------|-------------------------------------|
| <i>Assets</i> | | | | |
| Current assets: | 223,316 | 287,297 | -63,981 | 252,906 |
| Cash and deposits | 76,881 | 166,532 | -89,650 | 157,251 |
| Short-term loans receivable | 124,088 | 114,831 | 9,257 | 81,983 |
| Accrued income | 1,384 | 1,359 | 24 | 1,857 |
| Deferred income tax assets-current | 6,883 | - | 6,883 | 7,043 |
| Other current assets | 14,078 | 4,574 | 9,503 | 4,769 |
| Non-current assets: | 804,708 | 924,801 | -120,093 | 868,277 |
| Tangible fixed assets | 10,261 | 10,067 | 193 | 10,422 |
| Intangible fixed assets | 753 | 569 | 184 | 935 |
| Investments and others: | 793,693 | 914,165 | -120,471 | 856,919 |
| Investment securities | 658,722 | 660,650 | -1,927 | 666,328 |
| Long-term loans receivable | 111,736 | 212,630 | -100,893 | 150,781 |
| Long-term guarantee deposits | 12,797 | 29,976 | -17,178 | 29,251 |
| Others | 10,938 | 11,511 | -573 | 11,046 |
| Less: Allowance for doubtful accounts | -502 | -603 | 101 | -488 |
| Total assets | 1,028,024 | 1,212,099 | -184,075 | 1,121,183 |

| (millions of yen) | Third quarter Dec. 31, 2004 | Third quarter Dec. 31, 2003 | Increase/ Decrease | Fiscal 2003 Mar. 31, 2004 |
|--|---------------------------------------|--------------------------------|-------------------------------|-------------------------------------|
| <i>Liabilities</i> | | | | |
| Current liabilities: | 213,342 | 240,509 | -27,167 | 193,219 |
| Short-term borrowings | 48,010 | 117,460 | -69,450 | 113,360 |
| Commercial paper | - | 55,000 | -55,000 | - |
| Bonds due within one year | 100,000 | 8,400 | 91,600 | 8,400 |
| Payables on collateralized securities transactions | 61,209 | 55,290 | 5,918 | 66,795 |
| Accrued income taxes | 124 | 6 | 117 | 9 |
| Accrued bonuses | 344 | 191 | 153 | 425 |
| Stock purchase warrant | - | 501 | -501 | 501 |
| Other current liabilities | 3,654 | 3,659 | -5 | 3,728 |
| Non-current liabilities: | 258,008 | 376,165 | -118,156 | 369,805 |
| Bonds | 120,000 | 220,000 | -100,000 | 220,000 |
| Convertible bonds | 79,986 | 79,986 | - | 79,986 |
| Long-term borrowings | 38,000 | 38,000 | - | 38,000 |
| Long-term cash deposits received | 4,328 | 20,814 | -16,485 | 20,243 |
| Deferred income taxes liabilities | 11,384 | 14,185 | -2,800 | 7,192 |
| Accrued retirement benefits | 3,382 | 2,856 | 526 | 3,005 |
| Other non-current liabilities | 927 | 322 | 604 | 1,378 |
| Total liabilities | 471,351 | 616,674 | -145,323 | 563,025 |
| <i>Stockholders' equity</i> | | | | |
| Common stock | 138,431 | 138,431 | - | 138,431 |
| Capital surplus | 117,940 | 117,939 | 1 | 117,939 |
| Additional paid-in capital | 117,786 | 117,786 | - | 117,786 |
| Other capital surplus reserve | 154 | 152 | 1 | 153 |
| Net gains on sales of treasury stock | 154 | 152 | 1 | 153 |
| Earned surplus | 274,966 | 318,879 | -43,913 | 277,257 |
| Earned surplus reserve | 45,335 | 45,335 | - | 45,335 |
| General-purpose reserve | 218,000 | 271,000 | -53,000 | 271,000 |
| Unappropriated retained earnings | 11,630 | 2,543 | 9,086 | -39,077 |
| (Net income for the current term) | (17,785) | (1,729) | (16,055) | (-39,891) |
| Net unrealized gains on investment securities, net of tax effect | 26,093 | 20,849 | 5,244 | 25,218 |
| Treasury stock | -759 | -675 | -84 | -689 |
| Total stockholders' equity | 556,672 | 595,424 | -38,751 | 558,157 |
| Total liabilities and stockholders' equity | 1,028,024 | 1,212,099 | -184,075 | 1,121,183 |

Income statements

| (millions of yen) | Third quarter Apr. 1, 2004 - Dec. 31, 2004 | Third quarter Apr. 1, 2003 - Dec. 31, 2003 | Yr/yr % Change | Fiscal 2003 Apr. 1, 2003 - Mar. 31, 2004 |
|---|--|--|----------------------|--|
| Operating revenues: | 24,395 | 13,549 | 80.1 | 15,656 |
| Dividends from related companies | 19,130 | 7,350 | 160.3 | 7,359 |
| Interest on loans to related companies | 2,801 | 3,669 | -23.7 | 4,800 |
| Other interest and dividend income | 75 | 45 | 66.8 | 64 |
| Royalty on trademark | 2,386 | 2,483 | -3.9 | 3,432 |
| Operating expenses: | 9,360 | 10,938 | -14.4 | 14,297 |
| Selling, general and administrative expenses: | 5,708 | 6,253 | -8.7 | 8,155 |
| Commission and other expenses | 643 | 730 | -11.9 | 989 |
| Employees' compensation and benefits | 2,636 | 2,845 | -7.3 | 3,600 |
| Real estate expenses | 538 | 434 | 23.9 | 587 |
| Data processing and office supplies | 658 | 606 | 8.6 | 806 |
| Depreciation expenses | 322 | 223 | 44.4 | 364 |
| Others | 907 | 1,412 | -35.8 | 1,807 |
| Interest expenses | 3,652 | 4,684 | -22.0 | 6,141 |
| Operating income | 15,034 | 2,611 | 475.8 | 1,359 |
| Non-operating income | 2,179 | 1,357 | 60.6 | 1,724 |
| Non-operating expenses | 158 | 1,165 | -86.4 | 1,228 |
| Ordinary income | 17,055 | 2,803 | 508.5 | 1,855 |
| Extraordinary gains | 1,669 | 709 | 135.4 | 5,287 |
| Extraordinary losses | 332 | 1,775 | -81.3 | 64,178 |
| Income before income taxes | 18,392 | 1,736 | 959.1 | -57,034 |
| Income taxes-current | -3,144 | 6 | - | 9 |
| Income taxes-deferred | 3,752 | - | - | -17,152 |
| Net income | 17,785 | 1,729 | 928.2 | -39,891 |
| Unappropriated retained earnings-carryforward | 498 | 813 | -38.7 | 813 |
| Interim dividends | 6,653 | - | - | - |
| Unappropriated retained earnings at ending | 11,630 | 2,543 | 357.2 | -39,077 |

Notes to financial statements

The financial statements of the Company for the third quarter ended December 31, 2004 are prepared in accordance with 'Regulations of Interim Financial Statements' (MOF Ordinance No. 38, 1977).

Basis of financial statements

1. Valuation of investment securities

- (1) Subsidiary stocks and affiliated company stocks are valued at moving average cost method.
- (2) Other securities than subsidiary stocks and affiliated company stocks are valued at fair value on the closing date with posting net unrealized gains net of tax effect directly in stockholders' equity, if their fair value is available. The cost of those securities is based on moving average method. Other securities are valued at moving average cost method if their fair value is not available.

2. Depreciation of depreciable assets

(1) Tangible fixed assets

Declining-balance method is applied, and straight-line method is applied to the building (excluding appendixes) acquired after April 1, 1998. Useful life for depreciation is based on Corporation Tax Law.

(2) Intangible fixed assets, and investments and others

Straight-line method is applied. Useful life for depreciation is based on Corporation Tax Law. Software for in-house use is depreciated under straight-line method based on internal estimated useful life (5 years).

3. Accounting for various provisions

(1) Provision for doubtful accounts

The Company provides the allowance based on the historical deterioration rate as for normal loans, and the allowance specifically assessed as for doubtful and failed loans.

(2) Accrued employees' bonus

Estimated amount of employees' bonuses is accrued based on the bylaws.

(3) Accrued retirement benefits

Accrued retirement benefits for employees are provided in conformity with the bylaws to meet obligations as of December 31, 2004, as the rise in salaries in the future does not cause fluctuation in the benefit obligation and therefore the service costs are vested fiscal year by fiscal year. As for the closed pension fund, accrued retirement benefits for the portion of 9 months are provided based on the difference between projected benefit obligation and fund fair value expected on March 31, 2005.

4. Accounting for certain lease transactions

Finance leases in which ownership is not transferred to a lessee are accounted for in the same manner as operating leases.

5. Hedging transaction

Interests received or paid on interest rate swap for hedging are accrued without marking-to-market.

6. Other material items

(1) Accounting for consumption taxes

Consumption taxes are separately recorded.

(2) Deferred Assets

Issue costs for stocks and bonds are amortized in a lump sum when incurred.

(3) Consolidated tax system

The consolidated tax system is applied starting from the current fiscal year.

(4) Application of 'Accounting Standards for Impairment of Fixed Assets'

Accounting Standards Board of Japan issued 'Accounting Standards for Impairment of Fixed Assets' ('Opinion on Establishing Accounting Standards for Impairment of Fixed Assets' issued by Accounting Standards Board of Japan on August 9, 2002) and 'Guidance on Application of Accounting Standards for Impairment of Fixed Assets' (Application Guidance on Accounting Standards number 6, issued on October 31, 2003).

Accordingly, the Company has complied with these standards since the fiscal year ended on March 31, 2004.

Notes to balance sheets

1. Accumulated depreciation of tangible fixed assets

| | | |
|---------------------|---------------------|---------------------|
| As of Dec. 31, 2004 | As of Dec. 31, 2003 | As of Mar. 31, 2004 |
| 3,206 million yen | 3,243 million yen | 3,292 million yen |

2. Guarantee

| | | |
|---------------------|---------------------|---------------------|
| As of Dec. 31, 2004 | As of Dec. 31, 2003 | As of Mar. 31, 2004 |
| 11,672 million yen | 18,935 million yen | 17,746 million yen |

3. Fair value of subsidiary and affiliated company stocks as of Dec. 31, 2004 (millions of yen)

| | Carrying value | Fair value | Difference |
|--------------------|----------------|------------|------------|
| Subsidiary | 16,121 | 33,091 | 16,970 |
| Affiliated company | 274 | 503 | 229 |

Notes to income statements

Details of extraordinary gains/losses

(millions of yen)

| | <u>Third quarter</u> <u>Apr. 1, 2004-</u> <u>Dec. 31, 2004</u> | <u>Third quarter</u> <u>Apr. 1, 2003-</u> <u>Dec. 31, 2003</u> | <u>Fiscal 2003</u> <u>Apr. 1, 2003-</u> <u>Mar. 31, 2004</u> |
|---|---|---|---|
| Extraordinary gains: | | | |
| Gain on sale of fixed assets | - | 3 | 11 |
| Gain on liquidation of related companies | 698 | - | - |
| Gain on sale of investment securities | 469 | 705 | 5,276 |
| Reversal of stock purchase warrant | 501 | - | - |
| Extraordinary losses: | | | |
| Write-down of related companies' stocks | 37 | 265 | 1,230 |
| Write-down of investment securities | 40 | 1,024 | 1,151 |
| Valuation loss of fixed assets | 52 | - | 25 |
| Loss on sale or disposal of fixed assets | 105 | 35 | 36 |
| Loss on impairment of fixed assets | - | - | 848 |
| Loss on sale of related companies' stocks | - | - | 265 |
| Loss on sale of investment securities | - | 259 | 269 |
| Provision for doubtful accounts | 96 | 189 | 60,350 |