



October 28, 2005

**Consolidated financial summary**  
 (For the first half ended September 30, 2005)

(1) Operating results (from April 1, 2005 to September 30, 2005)

(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		Net operating revenues		Operating income		Ordinary income	
First half (2005/9)	330,812	(36.0)%	229,972	(20.4)%	79,987	(45.3)%	83,956	(46.6)%
First half (2004/9)	243,180	(9.4)%	191,021	(12.3)%	55,060	(29.0)%	57,259	(27.0)%
Fiscal 2004 (2005/3)	519,337		390,432		114,887		120,433	

	Net income		Earnings/share		Fully diluted earnings/share		Return on stockholders' equity (annual basis)	
First half (2005/9)	45,822	(89.6)%	34.43	Yen	32.74	Yen	13.6	%
First half (2004/9)	24,165	(25.3)%	18.16	Yen	17.31	Yen	7.9	%
Fiscal 2004 (2005/3)	52,665		39.03	Yen	37.36	Yen	8.4	%

(Note)

1. Equity in earnings

First half (2005/9): 661 million yen First half (2004/9): 333 million yen Fiscal 2004 (2005/3): 1,893 million yen

2. Average number of shares outstanding (shares)

First half (2005/9): 1,330,577,883 First half (2004/9): 1,330,709,045 Fiscal 2004 (2005/3): 1,330,674,648

3. 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	
As of Sep. 30, 2005	14,753,923	701,733	4.8	%	527.40	Yen
As of Sep. 30, 2004	12,430,836	615,303	4.9	%	462.39	Yen
As of Mar. 31, 2005	12,378,961	648,332	5.2	%	486.70	Yen

Number of shares outstanding (shares)

As of Sep: 2005: 1,330,545,932 As of Sep: 2004: 1,330,690,056 Fiscal 2004 (2005/3): 1,330,602,933

(3) Cash flow summary

(Millions of yen)

	Operating activities	Investing activities	Financing activities	Ending balance of cash and cash equivalents
First half (2005/9)	100,992	39,869	-117,605	364,196
First half (2004/9)	-861,135	-5,077	841,693	460,663
Fiscal 2004 (2005/3)	-1,002,888	-26,062	883,867	338,697

(4) Scope of consolidation and equity method

Consolidated subsidiaries: 46 companies

Affiliates applicable of equity method: 6 companies

(5) Change in scope of consolidation and equity method

Equity method: Addition: 1 company

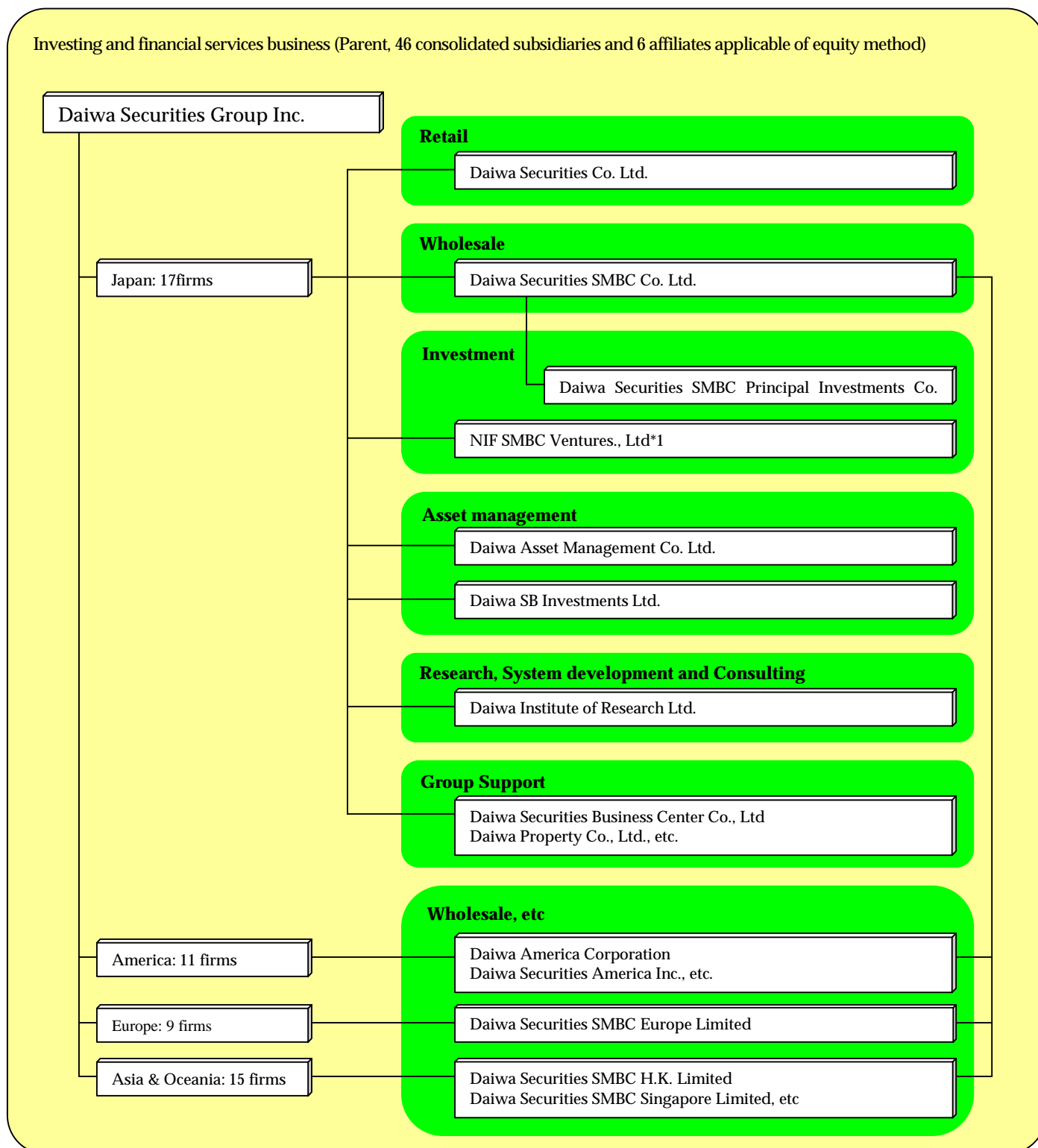
(Note) The Group's principal business is securities business, and the performance is influenced by the market environment. Therefore, the Group doesn't disclose the estimated operating result, considering the difficulty to forecast the performance.

Representative: Shigeharu Suzuki, President

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**Information on Group Companies**

Daiwa Securities Group Inc. (the ‘Company’) and its related companies, 46 consolidated subsidiaries and 6 affiliates applicable of equity method (collectively the ‘Group’), predominantly operate in the investment 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 the securities and financial fields. The Group provides wide range of services, to meet the worldwide customer needs for raising and investing of funds through its global networks linking major financial markets in Japan, America, Europe and Asia and Oceania.



\*1 NIF Ventures Co., Ltd. changed the company name to NIF SMBC Ventures., Ltd. following the merger of SMBC Capital Co., Ltd. on October 1, 2005.

## Management Policy

### (a) Principle Management Policy

We aim to become Japan's strongest securities group and maximize group corporate value, by developing its securities related businesses by utilizing the holding company structure and concentrating group management resources on securities related businesses.

### (b) Principle Policy on the Distribution of Profits

We aim to continuously maximize shareholder value including the distribution of profits.

We will pay dividends every half of the year based on approximately 30% pay-out ratio, in consideration of reflecting our financial performance on a consolidated basis. We are very conscious of maintaining a stable dividend flow for our investors. We will positively return a part of the profits to investors by the means of purchasing our own stocks and so on if we achieve a sufficient level of profits to grow up our business.

We will pay an interim dividend of 12 yen per share, according to the decision of The Board on 28th, October. The pay-out ratio of this period will be 34.8%.

### (c) Principle Policy on New Unit Share System

We recognize that reducing the number of shares per unit is an important measure to contribute to the expansion of the investor base and to the revitalization of the Japanese stock market.

Taking into consideration our business results, share price level and advantages and disadvantages to the shareholders and the Company, we are looking into timing, methods and other details for lowering the minimum share trading unit of our shares.

### (d) Mid to Long Term Management Targets

We have created a new medium-term management plan titled 'Best Brand Daiwa 2005' for the three-year period from FY2003 to FY2005.

In the group medium-term management plan, we declare following two points as the medium-term management goals.

- (1) In order for the Group to achieve sustainable growth, we have to be identified as the leading company by not only its financial results as a consequence, but also its customer satisfaction. Therefore, we will aim to become the number one in quality of products and services as a whole group for the next three years.
- (2) Under tough management circumstance, we endeavor to raise the capability of each employee and rationalize the business process across the whole group without easy expansion of corporate scale. By enhancing the structure to provide customers with high-quality products and services promptly and effectively, we will aim to become the number one in productivity.

Based on the policy mentioned above, we will aim to achieve sustainable growth by pursuing best-balanced consolidated profit structure and attempting to reinforce the cooperative relationship within the Group companies.

As for the inter-group measures, we are trying to strengthen the total power of Daiwa Securities Group according to the policies below.

#### (1) Personnel policies

We will manage and establish a unique personnel structure that reflects the needs of each business entity while balancing the needs of the Group as a whole.

We will aim to build satisfactory personnel system by enhancing performance-based evaluation system, providing diverse career options, and implementing a fair evaluation system. Specifically, we will promote management level personnel exchanges within the Group companies and extend the intra-group job posting system to improve employees' career management.

And, we grow talented people by continuously holding of management development programs such as 'Daiwa Management Academy' and a wide variety of training programs.

#### (2) Finance strategy

We will appropriately allocate management resources mainly in securities related businesses, maintaining the financial stability of the Group as a whole. To catch profit chances promptly, we establish the financial base with margin for suitable capital investment.

#### (3) Public relations / Investors relations strategy

Based on the Disclosure Policy that defines the Group's attitude toward disclosure of corporate information, we will endeavor to achieve fair and timely disclosure so that all stakeholders including shareholders, investors, and securities analysts understand and maintain realistic expectations of the Group.

And, we will aim to establish the Group brand by putting consistent, effective and active advertisements to continuously send the Group's vision and endeavor through various means of media.

(4) Information technology (IT) strategy

While reinforcing IT functions that contribute to our core businesses, we will establish the IT governance structure to appropriately manage and evaluate IT investments that have been increasing every year.

Besides, mid to long term management strategies for the Group's each business are as follows.

(1) Retail (Daiwa Securities)

In addition to various program to improve sales staffs' consulting skills, Daiwa Securities will establish structure to quickly offer products that meet customer needs by enhancing its marketing function. Besides focusing on the equity-related business and equity investment trusts, we aim to become No.1 in each three key business: Daiwa Direct, Daiwa SMA, and the securities intermediation business. Attaching importance to these three fields, we will further expand our customer base and increase assets under custody. We will improve products and services in quality, aim to become the number one brokerage house by customer satisfaction and strengthen retail securities business with the whole Group's ability.

(2) Wholesale (Daiwa Securities SMBC)

Daiwa Securities SMBC, a joint venture between the Daiwa Securities Group and the Sumitomo Mitsui Financial Group, aims to become 'The strongest investment bank in Japan', and attempts to expand customer base by offering advanced and comprehensive solutions and offering high-quality products based on integrated product development and marketing system throughout the Group. By efficient management resources allocation, we also attempt to expand diversified business lines that won't be affected by the market condition. Furthermore, we will reinforce businesses such as M&A and principal finance to attempt to improve the company presence as an investment bank that contributes to vitalization of Japanese economy.

(3) Investment (Daiwa Securities SMBC PI, NIF SMBC Ventures)

Daiwa Securities SMBC PI fosters the emergence of new industries, by investing in non-performing loans and real estate and also by helping firms restructure their businesses.

On 1st October, NIF merged with SMBC Capital and NIF SMBC Ventures has made a new start. NIF SMBC Ventures focuses on venture investments, investments to the companies to be listed on the stock exchange in the future, and buyout investments, investments to support business restructuring of companies with high-quality management resources. In addition to the expertise accumulated for years, we will expand the network to spot potential investment prospects, strengthen management support capabilities, and reinforce marketing capabilities, by using network and expertise of Daiwa Securities Group and Sumitomo Mitsui Financial Group.

(4) Asset management (Daiwa Asset Management, Daiwa SB Investments)

Daiwa Asset Management aims to become a high-quality asset manager. It will improve fund management capabilities and product development capabilities. It will also thoroughly manage fund quality and accountability for investors.

Daiwa SB Investments will establish differentiated brand by continuing competitive fund performance in annuity market and well-kept customer service to expand its fund business, and aim to become an asset manager with high management efficiency.

(5) Research, System development and Consulting (Daiwa Institute of Research)

Daiwa Institute of Research ('DIR') operates as one of Japan's leading think tanks and provides research, system development and consulting services.

Through its research operations, DIR will provide clients with high quality information such as economic forecasts and analyst reports as well as making well-timed policy proposals to contribute to the revitalization of the Japanese economy.

Through its systems operations, in order to provide state of the art technology to the Group and the Group's clients, mainly in the areas of finance and capital markets, based on the new medium-term management vision from FY2005, DIR plans to set a goal and to create an action plan.

(6) Group Support (Daiwa Securities Business Center, Daiwa Property etc)

Daiwa Securities Business Center ('DSC') is a provider of back office services related to securities business. DSC's diverse activities include securities custody, settlement of foreign bonds, and customer account management services, mainly for Daiwa Securities and Daiwa Securities SMBC.

DSC will continue targeting higher levels of service and efficiency in an effort to improve productivity throughout the securities business in order to maximize customer satisfaction, which is its basic strategy.

Daiwa Property provides property management services, mainly for branch offices and other facilities used by the Group companies, and aims to improve its proposal capabilities about branch offices of Daiwa Securities Group. It also offers business solutions by consulting on real estate and building management, and aims to strengthen the business by cooperating with Group members.

(e) Current Challenges

Japanese capital markets diversify in many ways in both asset management and fund raising businesses.

The Japanese economy has recovered from a long period of decline. The capital markets must sufficiently carry out its original function, which is to meet all these expectations above, for the economy to go back on a new growth track. We recognize that the Group's social mission is to meet these expectations. Our challenge for this fiscal year is to show our presence with high business performance as a main player in the capital market.

On this understanding, we have made management policy in FY2005 "Power and scale", and we have announced the policy that we especially concentrate on the equity business.

As the economy starts to pick up, risk capital such as equity will draw attention in both asset management and fund raising businesses.

It has been said that we move "from saving to investing" for a long time. Now that financial assets of individuals have started to inflow into the stock market, the demand for high quality consultancy in equity investments is growing especially in retail business.

Maximizing shareholder value is an important issue for companies as reorganization becomes common practice and the presence of institutional and foreign shareholders increases. Under this environment, the wholesale business expertise in equity is required not only in the traditional trading or underwriting businesses, but also in various areas such as M&A and private equity. The Group will further improve its skills in both asset management and financing to provide high-quality solutions to its clients.

Moreover, the Group will achieve high performance, particularly in equity investment trusts, and work to direct individual financial assets to the capital market.

In this country, there is still a big market where we have not set foot yet. So we can say that financial service business is a growth industry in 21<sup>st</sup> century.

Under such an environment, the Group, with the ability to handle risk which is required for those engaged in the capital market and with the advantage as a major financial group which provides full range of securities services, will try to accurately grasp changes in the market and utilize its high professionalism to take advantage of large scale business opportunities with speed and vigor. And the Group will endeavor to achieve a No.1 position in various strategic areas, demonstrate high business performance, lead the Japanese economy to recovery, and earn the trust from a wide range of stakeholders.

(f) Basic notion concerning the corporate governance, and the present condition of the policy (Basic notion concerning the corporate governance)

- (1) Where globalization and institutionalization of markets have been progressing and structure of corporate governance has been emphasized in investment decision, the Group that practices group management with holding company structure will establish its corporate governance structure that has as high transparency and objectivity as the global standard. In addition, we will realize high efficiency and specialty in administration function for the group companies, promote the group operation with high accountability, and establish the group management structure with a sense of unity, which puts out synergy between each group company.
- (2) We suppose that the corporate governance is a structure to put CSR into practice. CSR has so many aspects, including offering superior products and services to customers, dealing with customers sincerely, bringing a reasonable profit to shareholders and disclosing information to them, taking steps to improve the work environment for employees and evaluate personnel, as well as assuring legal compliance, corporate ethics, environmental management and social contributions. We will organize appropriate structure to put CSR into practice, always asking ourselves if the action will win the trust of society. Therefore, by publishing sustainability report since FY2002, we disclose information about our social responsibility and our endeavor for sustainable management in terms of economy, society, and environment, and considering broader stakeholders.
- (3) The general shareholders' meeting of the Company in June 2004 featured a vote to revise the Articles of Incorporation and transition to a 'committee system' of corporate governance based on the 2002 revisions to the Commercial Code. Consequently, the Group increased the number of Outside Directors from two to four. The Group also established three committees -Nominating, Audit, and Compensation Committees- and Outside Directors constitute more than half the membership of each committee. This system reinforced the supervisory function of the Board of Directors. To improve agility in decision making, the Group delegated a broad range of authorities from the Board of Directors to the Executive Officers and clarified the Officers' management responsibilities.

(The Present Condition of Corporate Governance Structure)

- (A) Group Management Infrastructure for decision-making, business execution, and supervision on management  
Daiwa's corporate governance structure is composed mainly of the Board of Directors and three committees; the Nominating, Audit and Compensation Committees as the Group management supervisory system, Executive Committee and its subcommittees; Internal Control Committee, Disclosure Committee and Group IT Strategic Meeting as the Group management activity execution mechanism.

## a. Organization

## (i) The Board of Directors

Headed by a Chairman, the Board of Directors, consisting of 13 members, hold meetings at least once every three months.

The authority of the Board is delegated to Corporate Executive Officers to maximum extent possible in order to strengthen the Group operational control function. The Board decides such matters as basic management policies, matters needed for performance of the Audit Committee, and matters related to dividing the duties of Corporate Executive Officers and the decision making process.

The number of the outside directors is four.

## (ii) Nominating, Audit and Compensation Committees

We established three committees; the Nominating, Audit and Compensation Committees as internal organizations of the Board of Directors, based on the Commercial Code. Majority of each committee consists of outside directors.

A brief profile of each committee is as follows.

## &lt;Nominating Committee&gt;

The Committee mainly determines the content of proposals to appoint and dismiss Directors, submitted to the general shareholders' meeting for their approval. The Chairman of the Board chairs the committee, while three out of five committee members are outside directors.

## &lt;Audit Committee&gt;

The Committee engages in the following businesses: inspecting the duties of Directors and Corporate Executive Officers, determining the content of proposals to appoint and dismiss accounting auditors (submitted to the general shareholders' meeting for their approval), demanding a stop to any improper conduct by Corporate Executive Officers, auditing accounts and writing accounting reports. Additionally, the committee works with an internal audit department to carry out its duties as needed. A director who does not have another concurrent post chairs the committee, while two out of three committee members are outside directors.

## &lt;Compensation Committee&gt;

The Committee sets policies for deciding compensation of individual Directors and Corporate Executive Officers and determines compensation content for each individual. The Chairman of the Board chairs the committee, while three out of five committee members are outside directors.

## (iii) Executive Committee

Committee members are all Corporate Executive Officers. Meetings are held in principle once in a month. The Executive Committee deliberates and rules on cross-Group business strategy and management issues and on important financial matters. The authority is transferred from the Board to Corporate Executive Officers to maximum extent possible by law, except matters that the Board has to decide, in order to accelerate decision-making.

The Committee has subcommittees; Internal Control Committee, Disclosure Committee and Group IT Strategic Meeting.

Internal Control Committee analyzes and decides matters concerning the improvement of internal control, risk management systems and the internal audit system of the Group. The Committee holds a meeting in principle once every three months.

Disclosure Committee monitors important information, determines what information to disclose and so on to assure disclosure that is fair, timely and appropriate.

Group IT Strategic Meeting proposes the IT investment budget, appoints system personnel appropriate, reorganizes Group system departments, evaluates and monitors IT investment implementation at Group companies, deliberates issues concerning cross-Group system development, and so on.

## b. The present condition of internal control structure

Internal Control Committee discusses and decides matters concerning the improvement of internal control, risk management systems and the internal audit system of the Group. As we recognize internal audit as an important function to strengthen our internal control structure, we have established internal audit function to perform audit comprehensively on a consolidated basis. Major group companies have their own internal audit departments, and to the companies that do not have internal audit function, the Company's Internal Audit Department that is under the direct supervision of CEO conducts internal audits.

## c. The present condition of risk management system

We recognize that, in order to maintain a healthy financial and earnings structure, identifying and evaluating the various types of risks that are generated from its business activities and managing them appropriately is an important factor.

In the risk management regulation, market risk, credit risk, liquidity risk, legal compliance risk, system risk, reputation risk and operational risk was defined. Each director and department in the holding company has monitored and managed those risks respectively.

## d. Audit Committee, Internal Audit, and accounting audit

The Audit Committee audits the directors' and executive officers' execution of their duties, and has the authority to decide on the proposals submitted to the General Shareholders Meeting of for the appointment or dismissal of the independent auditor. The Audit Committee reviews in advance the annual audit plan of the independent auditor, receives their reports and discusses with them status of the audits relating to the Company and its significant Group companies. In addition, the Audit Committee discusses, when appropriate, the status of audits of the major Group companies with the relevant corporate auditors.

In accordance with internal audit plan, internal audit departments regularly conduct internal audits to confirm appropriateness of various internal controls. The Company's Internal Audit Department regularly communicates with internal audit departments of Group companies in order to strengthen internal audit function.

Internal audit plan of the Company is approved by, and its reporting is made at the Internal Control Committee. Internal audit plan of other Group companies is approved by, and its reporting is made at the executive committee like audit committee of each company. The reporting of the Internal Audit Department is also made at the Audit Committee. The Audit Committee performs audits appropriately and efficiently in cooperation with the Internal Audit Department of the Company. The Audit Committee can entrust, when appropriate, the investigations required for the audits to the Internal Audit Department.

The independent auditor for auditing our consolidated financial statements are Messrs. Toshiharu Kawai, Takumi Horiuchi, Yoichi Ozawa, who have been engaged in auditing our financials for 7 years, 1 year and 2 years, respectively. All of them are Designated Partners of KPMG AZSA & Co. stipulated by Article 34-10-4 of the 'Certified Public Accountant Law'.

## (B) Conflicts of interests between the Company and outside directors

The Company's outside directors are Tetsuro Kawakami, Advisor of Sumitomo Electric Industries, Ltd., Ryuji Yasuda, Professor, Hitotsubashi University, Graduate School of International Corporate Strategy, Keisuke Kitajima, Attorney at law, and Koichi Uno, Certified Public Accountant. We have no conflict of interest such as capital and personal relationships with outside directors.

## (C) The present condition of action to promote corporate governance

From FY2004, we had developed the system inspection structure for the purpose of improvement of internal control system. And from FY2005, the new structure has started its operation.

As for the compensation of directors and executive officers, we introduced the stock option whose exercise price is 1yen to make the compensation more coupled with shareholder value.

(g) Parent Companies

There is no parent company of ours.

## **Results of Operation and Financial Conditions**

### **a. Consolidated operating results for the first half of fiscal 2005**

#### 1. Summary of operating results for 6 months (comparison with the first half of fiscal 2004)

Net operating revenues increased 20.4% to 229,972 million yen mainly because net gains on trading and net financial income increased. Selling, general and administrative expenses increased 10.3% to 149,985 million yen. As a result, ordinary income increased 46.6% to 83,956 million yen and net income increased 89.6% to 45,822 million yen.

#### (1) Commissions

##### (i) Brokerage commission

Daily average trading value on the Tokyo Stock Exchange increased 17.1% to 1,692.7 billion yen. Brokerage commission edged down 0.9% to 43,965 million yen.

##### (ii) Underwriting commission

Underwriting commission derived from fixed income increased 11.0% to 4,421 million yen. Underwriting commission derived from equity declined because public offerings diminished. As a result, underwriting commission dropped 47.5% to 14,453 million yen.

##### (iii) Distribution commission

Distribution commission grew 68.1% to 16,820 million yen because distribution commissions in investment trust increased 84.8% to 15,849 million yen, due to an increase in commission arising from sale of beneficiary certificate.

##### (iv) Other commission

Other commission increased 28.4% to 32,744 million yen due to an increase in trust fee in line with expanded outstanding balance of equity-related beneficiary certificate, and due to contribution of M&A and life insurance sales fee.

#### (2) Net gains on trading

Net gains on trading in stock and other increased 60.9% to 46,477 million yen. Net gains on trading in bond, forex and other increased 22.2% to 57,873 million yen. As a result, total net gains on trading increased 36.8% to 104,351 million yen.

#### (3) Financial income

Interest and dividend income increased 120.6% to 95,448 million yen and interest expenses increased 114.4% to 88,039 million yen. Net financial income increased 238.8% to 7,409 million yen due to an increase in interests received on bonds and securities borrowed.

#### (4) Selling, general and administrative expenses

Employees' compensation and benefits increased 8.7% to 77,446 million yen due to an increase in accrued bonuses in line with operating result. Commission and other expenses increased 31.0% to 29,258 million yen due to an increase in advertisement expenses and bond commission paid. As a result, selling, general and administrative expenses increased 10.3% to 149,985 million yen.

#### 2. Summary of operating results for 3 months (comparison with the first quarter of fiscal 2005)

Consolidated net operating revenues for the second quarter of fiscal 2005 increased 51.9% to 138,689 million yen as a result of an increase in commission income and trading gains. Selling, general and administrative expenses for the second quarter increased 14.6% to 80,106 million yen. As a result, consolidated ordinary income increased 152.7% to 60,155 million yen. Net income increased 193.8% to 34,185 million yen for the second quarter of fiscal 2005, posting extraordinary gains/losses, income taxes, and minority interest in income.

#### 3. Operating results of overseas subsidiaries for the first half of fiscal 2005 (6 months)

Ordinary income by geographic area (millions of yen)

America	Europe	Asia & Oceania	Total
992	2,611	1,009	4,613

### **b. Financial conditions (comparison with March 31, 2005)**

Net cash provided by operating activities was 100,992 million yen, compared with -1,002,888 million yen for fiscal 2004. Net cash provided by investing activities was 39,869 million yen because of a decrease in time deposits and others compared with -26,062 million yen for fiscal 2004. Net cash provided by financing activities was -117,605 million yen mainly due to a decrease in short-term borrowings compared with 883,867 million yen for fiscal 2004. Consequently, cash and cash equivalents increased by 25,499 million yen to 364,196 million yen in comparison with March 31, 2005.

**Consolidated balance sheets**

(millions of yen)	First half Sep. 30, 2005	First half Sep. 30, 2004	Increase/ Decrease	Fiscal 2004 Mar. 31, 2005
<b>Assets</b>				
<b>Current assets:</b>	<b>14,290,100</b>	<b>11,890,564</b>	<b>2,399,535</b>	<b>11,936,024</b>
Cash and deposits	369,007	464,667	-95,660	398,688
Cash segregated as deposits for regulatory purposes	175,722	115,985	59,736	153,516
Notes receivable and trade accounts receivable	7,857	6,486	1,370	8,635
Securities	19,727	27,402	-7,675	15,037
Trading assets:	6,338,146	4,777,900	1,560,245	5,242,319
Trading securities and others	5,687,721	4,243,586	1,444,134	4,690,548
Derivative assets	650,425	534,313	116,111	551,771
Trading receivables, net	435,571	94,930	340,641	9,419
Private equity and other securities	240,746	45,553	195,193	149,598
Less: Allowance for possible investment losses	-8,202	-5,429	-2,773	-7,051
Other inventories	2,454	1,465	988	816
Receivables related to margin transactions:	369,100	283,170	85,929	312,144
Customer margin loans	163,236	115,849	47,387	126,686
Cash deposits as collateral for securities borrowed	205,863	167,320	38,542	185,457
Collateralized short-term financing agreements:	6,124,106	5,895,740	228,365	5,348,915
Cash deposits as collateral for securities borrowed	6,124,106	5,895,740	228,365	5,348,915
Receivables	14,667	4,670	9,997	11,458
Short-term loans receivable	38,810	62,824	-24,013	75,781
Accrued income	23,952	16,612	7,340	17,463
Deferred tax assets-current	9,840	14,471	-4,631	9,076
Other current assets	128,970	84,460	44,509	190,531
Less: Allowance for doubtful accounts-current	-378	-350	-28	-328
<b>Non-current assets:</b>	<b>463,823</b>	<b>540,272</b>	<b>-76,448</b>	<b>442,937</b>
Tangible fixed assets	137,470	141,294	-3,823	137,619
Intangible fixed assets	64,284	59,985	4,298	62,052
Investments and others:	262,068	338,992	-76,924	243,265
Investment securities	205,245	174,968	30,277	178,163
Long-term loans receivable	12,010	11,776	234	11,681
Long-term guarantee deposits	22,515	24,835	-2,319	23,410
Deferred tax assets-non-current	4,612	24,745	-20,132	12,839
Other investments	20,176	114,982	-94,805	25,715
Less: Allowance for doubtful accounts-non-current	-2,493	-12,314	9,821	-8,546
<b>Total assets</b>	<b>14,753,923</b>	<b>12,430,836</b>	<b>2,323,086</b>	<b>12,378,961</b>

(millions of yen)	First half Sep. 30, 2005	First half Sep. 30, 2004	Increase/ Decrease	Fiscal 2004 Mar. 31, 2005
<b><i>Liabilities</i></b>				
<b>Current liabilities:</b>	<b>12,881,327</b>	<b>10,816,873</b>	<b>2,064,453</b>	<b>10,685,604</b>
Notes payable and trade accounts payable	2,723	2,378	345	3,369
Trading liabilities:	3,929,639	3,797,037	132,601	3,658,544
Trading securities and others	3,345,589	3,346,765	-1,176	3,196,633
Derivative liabilities	584,050	450,272	133,777	461,911
Payables related to margin transactions:	187,816	126,783	61,032	141,972
Payable to securities finance companies	8,126	5,006	3,119	2,981
Proceeds of securities sold for customers' accounts	179,690	121,777	57,913	138,991
Collateralized short-term financing agreements:	5,928,683	3,987,853	1,940,829	3,877,730
Cash deposits as collateral for securities loaned	5,512,569	3,789,989	1,722,580	3,687,840
Payables related to gensaki transactions	416,114	197,864	218,249	189,890
Deposits received	157,121	149,276	7,845	110,415
Cash deposits received as guarantee	79,054	56,895	22,158	53,302
Short-term borrowings	2,175,630	2,396,779	-221,148	2,295,928
Commercial paper	116,681	98,220	18,461	200,220
Bonds and notes due within one year	130,782	115,541	15,241	129,401
Income taxes payable	26,236	4,013	22,222	10,596
Deferred tax liabilities-current	5,281	368	4,912	951
Accrued bonuses	24,371	19,511	4,859	22,811
Other current liabilities	117,304	62,213	55,091	180,359
<b>Non-current liabilities:</b>	<b>959,018</b>	<b>816,449</b>	<b>142,568</b>	<b>850,180</b>
Bonds and notes	749,101	629,547	119,554	666,136
Convertible bonds	-	79,986	-79,986	79,985
Long-term debt	167,282	77,708	89,573	74,195
Deferred tax liabilities-non-current	19,141	5,632	13,508	6,225
Retirement benefits	19,835	18,040	1,795	19,173
Other non-current liabilities	3,657	5,534	-1,877	4,465
<b>Statutory reserves</b>	<b>5,649</b>	<b>5,278</b>	<b>370</b>	<b>5,650</b>
<b>Total liabilities</b>	<b>13,845,995</b>	<b>11,638,602</b>	<b>2,207,393</b>	<b>11,541,435</b>
<b>Minority interests</b>	<b>206,194</b>	<b>176,930</b>	<b>29,264</b>	<b>189,193</b>
<b><i>Shareholders' equity</i></b>				
Common stock	138,432	138,431	0	138,432
Capital surplus	117,940	117,940	-0	117,941
Retained earnings	398,057	341,102	56,955	362,948
Net unrealized gain (loss) on securities, net of tax effect	53,060	24,339	28,721	35,674
Translation adjustments	-4,930	-5,785	854	-5,877
Treasury stock	-827	-724	-102	-786
<b>Total shareholders' equity</b>	<b>701,733</b>	<b>615,303</b>	<b>86,429</b>	<b>648,332</b>
<b>Total liabilities, minority interests and shareholders' equity</b>	<b>14,753,923</b>	<b>12,430,836</b>	<b>2,323,086</b>	<b>12,378,961</b>

**Consolidated statements of operations**

(millions of yen)	First half Apr. 1, 2005 - Sep. 30, 2005	First half Apr. 1, 2004 - Sep. 30, 2004	Yr/yr % change	Fiscal 2004 Apr. 1, 2004- Mar. 31, 2005
<b>Operating revenues:</b>	<b>330,812</b>	<b>243,180</b>	<b>36.0</b>	<b>519,337</b>
Commissions	107,984	107,416	0.5	216,386
Net gain (loss) on trading	104,351	76,268	36.8	151,117
Net gain (loss) on private equity and other securities (*1)	6,080	-	-	-
Net gain (loss) on private equity and other securities (*2)	-	1,533	-	171
Interest and dividend income	95,448	43,259	120.6	118,019
Other sales revenues	16,946	14,702	15.3	33,641
<b>Interest expenses</b>	<b>88,039</b>	<b>41,072</b>	<b>114.4</b>	<b>103,676</b>
<b>Cost of sales</b>	<b>12,800</b>	<b>11,086</b>	<b>15.5</b>	<b>25,228</b>
<b>Net operating revenues</b>	<b>229,972</b>	<b>191,021</b>	<b>20.4</b>	<b>390,432</b>
<b>Selling, general and administrative expenses:</b>	<b>149,985</b>	<b>135,960</b>	<b>10.3</b>	<b>275,544</b>
Commission and other expenses	29,258	22,339	31.0	46,720
Employees' compensation and benefits	77,446	71,242	8.7	142,751
Occupancy and rental	16,059	16,261	-1.2	32,697
Data processing and office supplies	8,324	8,007	4.0	16,804
Depreciation expenses	11,140	10,884	2.4	22,129
Taxes other than income taxes	3,599	3,581	0.5	6,755
Others	4,157	3,644	14.1	7,685
<b>Operating income</b>	<b>79,987</b>	<b>55,060</b>	<b>45.3</b>	<b>114,887</b>
Non-operating income:	4,662	3,581	30.2	7,909
Equity in earnings	661	333	98.6	1,893
Others	4,000	3,248	23.2	6,015
Non-operating expenses	693	1,382	-49.8	2,363
<b>Ordinary income</b>	<b>83,956</b>	<b>57,259</b>	<b>46.6</b>	<b>120,433</b>
Extraordinary gains	10,883	2,202	394.2	9,552
Extraordinary losses	614	2,385	-74.2	17,383
<b>Income before income taxes and minority interests</b>	<b>94,225</b>	<b>57,076</b>	<b>65.1</b>	<b>112,603</b>
<b>Income taxes-current</b>	<b>25,176</b>	<b>1,830</b>	<b>-</b>	<b>11,933</b>
<b>Income taxes-deferred</b>	<b>10,795</b>	<b>20,010</b>	<b>-46.0</b>	<b>28,233</b>
<b>Minority interest</b>	<b>-12,430</b>	<b>-11,070</b>	<b>-</b>	<b>-19,770</b>
<b>Net income</b>	<b>45,822</b>	<b>24,165</b>	<b>89.6</b>	<b>52,665</b>

<b>Net financial income included in net operating revenues</b>	<b>7,409</b>	<b>2,187</b>	<b>238.8</b>	<b>14,342</b>
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Note:

\*1. Includes share of net income raised by the investments in limited partnerships and similar partnerships.

\*2. Excludes share of net income raised by the investments in limited partnerships and similar partnerships.

The details are mentioned in 'Change in presentation'.

**Consolidated statements of capital surplus and retained earnings**

(millions of yen)	<b>First half</b> Apr. 1, 2005- Sep. 30, 2005	<b>First half</b> Apr. 1, 2004- Sep. 30, 2004	<b>Fiscal 2004</b> Apr. 1, 2004- Mar. 31, 2005
<b><i>Capital surplus</i></b>			
<b>Beginning balance of capital surplus</b>	<b>117,941</b>	<b>117,939</b>	<b>117,939</b>
Increase in capital surplus	-	1	1
Conversion of convertible bonds	-	-	0
Net gains on sales of treasury stock	-	1	1
Decrease in capital surplus	0	-	-
Net losses on sales of treasury stock	0	-	-
<b>Ending balance of capital surplus</b>	<b>117,940</b>	<b>117,940</b>	<b>117,941</b>
<b><i>Retained earnings</i></b>			
<b>Beginning balance of retained earnings</b>	<b>362,948</b>	<b>330,780</b>	<b>330,780</b>
Increase in retained earnings:	46,432	24,165	52,665
Net income	45,822	24,165	52,665
Increase due to merger of subsidiaries	609	-	-
Decrease in retained earnings:	11,323	13,843	20,497
Cash dividends paid	10,644	13,307	19,960
Bonuses to directors	678	536	536
<b>Ending balance of retained earnings</b>	<b>398,057</b>	<b>341,102</b>	<b>362,948</b>

**Consolidated statements of cash flows**

(millions of yen)	First half Apr. 1, 2005- Sep. 30, 2005	First half Apr. 1, 2004- Sep. 30, 2004	Fiscal 2004 Apr. 1, 2004- Mar. 31, 2005
<b>1. Cash flows from operating activities:</b>			
Income before income taxes and others	94,225	57,076	112,603
Depreciation	11,140	10,884	22,129
Increase in allowance for retirement benefits	662	738	1,871
Interest and dividend income	-96,697	-41,100	-106,958
Interest expenses	87,988	40,713	103,539
Equity in earnings	-661	-333	-1,893
Adjustment of extraordinary gains/losses items:			
Gain on sale of fixed assets	-	-153	-2,000
Loss on sale or disposal of fixed assets	249	203	1,535
Valuation loss of fixed assets	-	46	114
Gain on sale of related companies' stocks	-3,714	-	-
Write-down of related companies' stocks	-	40	40
Gain on liquidation of related companies	-	-594	-599
Loss on liquidation of related companies	-	-	650
Gain on sale of investment securities	-2,443	-952	-6,451
Loss on sale of investment securities	17	482	892
Write-down of investment securities	121	491	3,430
Loss on sale of loans receivable	-	-	7,595
Reversal of stock purchase warrant	-	-501	-501
Gain on change in stake in subsidiary	-4,725	-	-
Provision for doubtful accounts	-	576	1,638
Multiemployer pension plan settlement cost in subsidiaries	-	-	188
Reorganization costs of an overseas banking subsidiary	-	398	779
Others	226	146	517
Increase in deposits segregated for customer	-21,451	-2,972	-43,042
(Increase) Decrease in loans receivable	37,713	35,046	22,278
(Increase) Decrease in private equity and other securities	-66,315	-4,084	-18,342
(Increase) Decrease in trading assets, net of trading liabilities	-1,250,472	629,253	111,197
(Increase) Decrease in receivables related to margin transactions, net of payables related to margin transactions	-11,111	-14,300	-28,086
(Increase) Decrease in receivables on collateralized short-term financing agreements, net	1,271,393	-1,627,678	-1,183,394
Others	54,982	65,398	7,739
<b>Sub-total</b>	<b>101,128</b>	<b>-851,175</b>	<b>-992,528</b>
Interest and dividend received	92,801	42,916	106,770
Interest paid	-85,302	-39,288	-103,440
Income taxes refunded (paid)	-7,635	-13,588	-13,689
<b>Net cash provided by (used in) operating activities</b>	<b>100,992</b>	<b>-861,135</b>	<b>-1,002,888</b>

(millions of yen)	First half Apr. 1, 2005- Sep. 30, 2005	First half Apr. 1, 2004- Sep. 30, 2004	Fiscal 2004 Apr. 1, 2004- Mar. 31, 2005
<b>2. Cash flows from investing activities:</b>			
Increase in time deposits	-	-	-53,041
Decrease in time deposits	55,201	-	-
Payments for purchase of securities	-6,064	-5,235	-20,130
Proceeds from sale and redemption of securities	2,228	17,511	44,628
Payments for purchase of tangible fixed assets	-4,215	-2,935	-7,786
Proceeds from sale of tangible fixed assets	17	307	5,315
Payments for purchase of intangible fixed assets	-10,413	-8,050	-19,108
Payments for purchase of investment securities	-10,358	-6,153	-15,348
Proceeds from sale and redemption of investment securities	8,314	12,573	53,979
Payments for purchase of subsidiaries' stocks from non-Group shareholders	-	-3	-13
Proceeds from sale of related companies	13,416	-	-
Payments for purchase of related companies	-7,582	-	-
Payments for loan made	-66	-53	-77
Proceeds from collection of loans receivable	79	238	334
Others	-686	-13,275	-14,814
<b>Net cash provided by (used in) investing activities</b>	<b>39,869</b>	<b>-5,077</b>	<b>-26,062</b>
<b>3. Cash flows from financing activities:</b>			
Increase (decrease) in short-term borrowings	-157,223	763,486	759,982
Proceeds from issuance of bonds and convertible bonds	186,510	144,274	225,874
Payments for redemption of bonds and convertible bonds	-182,238	-65,807	-97,102
Proceeds from long-term debt	101,500	20,600	28,800
Payments for repayment of long-term debt	-56,014	-7,145	-14,011
Dividends paid	-10,644	-13,307	-19,960
Dividends paid to minority shareholders	-9,174	-167	-167
Proceeds from minority shareholders due to issuance of shares	9,999	-	-
Proceeds from sale of treasury stocks	14	15	33
Others	-333	-255	418
<b>Net cash provided by (used in) financing activities</b>	<b>-117,605</b>	<b>841,693</b>	<b>883,867</b>
<b>4. Effect of exchange rate changes on cash and cash equivalents</b>	<b>1,639</b>	<b>5,060</b>	<b>3,819</b>
<b>5. Net change in cash and cash equivalents</b>	<b>24,896</b>	<b>-19,459</b>	<b>-141,263</b>
<b>6. Cash and cash equivalents at beginning of term</b>	<b>338,697</b>	<b>480,123</b>	<b>480,123</b>
<b>7. Increase in cash and cash equivalents due to merger of subsidiaries</b>	<b>602</b>	-	-
<b>8. Decrease in cash and cash equivalents due to exclusion from scope of consolidation</b>	-	-	<b>-161</b>
<b>9. Cash and cash equivalents at end of term</b>	<b>364,196</b>	<b>460,663</b>	<b>338,697</b>

## **Notes to consolidated financial statements**

The consolidated financial statements of the Company for the first half ended September 30, 2005 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 Consolidated Financial Statements' (Ministry of Finance Ordinance No. 24, 1998) and its Article 48 and 69.

### **Basis of consolidated financial statements**

#### 1. Scope of consolidation

Consolidated subsidiaries: 46 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.  
 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

Consolidated subsidiary merged with non-consolidated subsidiary during this first half. The number of consolidated subsidiaries unchanged. Each amount of total assets, operating revenues (or sales), net income corresponding to equity holdings and retained earnings 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: 6 companies

*Major companies:*

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

One company is newly added to the scope of equity method due to purchase of shares during this first half. Each amount of net income corresponding to equity holdings and retained earnings 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 first half other than September 30, 2005, the financial statements for the relevant first half are reflected.

#### 3. Fiscal period of subsidiaries

For subsidiaries with the first half ending other than September 30, 2005, the financial statements for the relevant first half 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 assets and liabilities

Trading assets and liabilities, including securities and financial derivatives for trading purposes held by a securities company are recorded mainly on a trade date basis in the consolidated balance sheet at either market or fair value.

##### (ii) Valuation of non-trading securities

The Group examines the intent of holding each securities and classifies those securities as (a) debt securities intended to be held to maturity ("held-to-maturity debt securities"), (b) equity securities issued by subsidiaries and affiliated companies, or (c) all other securities not classified in any of the above categories ("available-for-sale securities").

Held-to-maturity debt securities are stated at amortized cost. Equity securities issued by subsidiaries and affiliated companies are stated at moving-average cost. Available-for-sale securities with market value are stated at market value, based on quoted market prices. Realized gains and losses on sale of such securities are computed using the moving-average cost. Unrealized gains and losses on these securities are reported, net of applicable income taxes, as a separate component of the shareholders' equity.

Debt in available-for-sale securities for which a market value is not available, are stated at the amortized cost, net of the amount considered not collectible. Equity in available-for-sale securities for which a market value is not available, are stated at the moving-average cost.

Of those securities with no fair value, share of net income raised by the investments in limited partnerships has been reflected on consolidated statements of operations of last fiscal year and share of net unrealized profits and losses held by the partnerships directly into stockholders' equity.

(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

Property and equipment are stated at cost. The Company and domestic consolidated subsidiaries compute depreciation principally by the declining-balance method over estimated useful lives as stipulated by Corporation Tax Law of Japan. Depreciation for buildings purchased in Japan after April 1, 1998 is computed by the straight-line method. In overseas consolidated subsidiaries, depreciation is mainly computed by the straight-line method.

(ii) Intangible fixed assets

Intangible fixed assets are generally amortized under the straight-line method. The Company and domestic consolidated subsidiaries compute amortization over estimated useful lives as stipulated by Corporation Tax Law of Japan, and over internally estimated useful lives (5 years) for software of in-house use.

(3) Accounting policies for various provisions

(i) Provision for doubtful accounts

Provisions for doubtful accounts are provided based on the estimated historical default rate for normal loans, and based on individually assessed amounts for doubtful accounts.

(ii) Allowance for possible investment losses

Some consolidated subsidiaries provide the allowances based on estimated losses on private equity and other securities held at the first half end, assessing the financial conditions of investee companies.

(iii) Accrued bonuses

The Company and domestic consolidated subsidiaries follow the Japanese practice of paying bonuses to employees in June and December. Accrued employees' bonuses represent liabilities estimated as of the balance sheet date. Bonuses to directors and corporate executive officers of the Company, which are subject to approval at the Compensation Committee, represent liabilities as of the balance sheet date. Compensation Committee sets policies for deciding compensation of individual directors and corporate executive officers and determines compensation content for each individual. The Chairman of the Board chairs the committee, while three out of five committee members are outside directors. Bonuses to directors of consolidated subsidiaries, which are subject to approval at the shareholders' meeting, are accounted for as an appropriation of retained earnings.

(iv) Retirement benefits

The Company and most of domestic consolidated subsidiaries provide an unfunded defined contribution plan to their employees in return for services rendered each year, where the amount to be contributed to the individual employee's account is defined by the plan. Contributions by the Company and most of domestic consolidated subsidiaries under the unfunded defined contribution plan are accumulated on an annual basis and earn a guaranteed hypothetical return at a rate predetermined by the Company and most of domestic consolidated subsidiaries each year.

(4) Accounting for certain lease transactions

Financial leases, whose ownership does not transfer to the lessee at the end of the lease term (non-capitalized finance leases) are not capitalized and are accounted for in the same manner as operating leases.

(5) Hedging transaction

The Group states derivative financial instruments at fair value and recognizes changes in the fair value as gains or losses unless the derivative financial instruments are used for hedging purposes. Valuation gains or losses on hedging instruments are mainly deferred as assets or liabilities until the gains or losses on the underlying hedged instruments are realized. Interest received or paid on interest swaps for hedging purposes is accrued without being marked-to-market. The premium or discount on forward foreign exchange for hedging purpose is allocated to each fiscal term without being marked-to-market.

(6) Other material items

(i) Accounting for consumption taxes

Consumption taxes are separately recorded.

(ii) Deferred assets

Stock issue costs and bond issue costs are amortized in a lump sum when incurred.

## (iii) Consolidated tax payments system

The consolidated tax payments system is applied.

## 5. Scope of 'Cash and cash equivalents' in consolidated cash flow statements

'Cash and cash equivalents' in consolidated cash flow statements is defined as liquid fund including cash in hand, current account deposits, and ordinary deposits.

**Change in presentation**

Regarding the investments in limited partnerships and a sort of partnerships which are regarded as equivalent to securities by the Article 2 (2) of Securities Exchange Act, the profits and losses related to these investments had been included in 'Interest and dividend income' until fiscal 2004, but those are included in 'Net gain (loss) on private equity and other securities' since the beginning of this fiscal year. 'Interest and dividend income' decreased by 6,266 million yen, due to this change in presentation.

**Subsequent Events**

NIF Ventures Co., Ltd., a consolidated subsidiary of Daiwa Securities Group Inc., changed the company name to NIF SMBC Ventures, Ltd. following the merger of SMBC Capital Co., Ltd. on October 1, 2005. This merger has little effect on the consolidated financial statements.

**Notes to consolidated balance sheets**

## 1. Accumulated depreciation of tangible fixed assets

As of Sep. 30, 2005	As of Sep. 30, 2004	As of Mar. 31, 2005
100,264 million yen	102,420 million yen	97,300 million yen

## 2. Guarantee

As of Sep. 30, 2005	As of Sep. 30, 2004	As of Mar. 31, 2005
3,041 million yen	3,928 million yen	3,513 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 Sep. 30, 2005	As of Sep. 30, 2004	As of Mar. 31, 2005
-	40,000 million yen	40,000 million yen

## Long-term borrowings

As of Sep. 30, 2005	As of Sep. 30, 2004	As of Mar. 31, 2005
102,000 million yen	20,000 million yen	20,000 million yen

**Notes to consolidated statements of operations**

Details of extraordinary gains/losses

(million of yen)	<b><u>First half</u></b> Apr. 1, 2005- Sep. 30, 2005	<b><u>First half</u></b> Apr. 1, 2004- Sep. 30, 2004	<b><u>Fiscal 2004</u></b> Apr. 1, 2004- Mar. 31, 2005
<b>Extraordinary gains:</b>			
Gain on sale of fixed assets	-	153	2,000
Gain on liquidation of related companies	-	594	599
Gain on sale of related companies' stock	3,714	-	-
Gain on sale of investment securities	2,443	952	6,451
Reversal of reserve for securities transaction liabilities	0	-	-
Reversal of reserve for financial futures transaction liabilities	-	0	-
Reversal of stock purchase warrant	-	501	501
Gain on change in stake in subsidiary	4,725	-	-

**Extraordinary losses:**

Write-down of related companies stocks	-	40	40
Write-down of investment securities	121	491	3,430
Valuation loss of fixed assets	-	46	114
Loss on sale or disposal of fixed assets	249	203	1,535
Loss on liquidation of related companies	-	-	650
Loss on sale of investment securities	17	482	892
Loss on sale of loans receivable	-	-	7,595
Provision for doubtful accounts	-	576	1,638
Reorganization costs for overseas banking subsidiary	-	398	779
Multiemployer pension plan settlement cost in consolidated subsidiaries	-	-	188
Provision for securities transaction liabilities	-	146	517
Other	226	-	-

**Notes to consolidated cash flow statements**

Reconciliation for 'cash and cash equivalents at end of term' and 'cash and time deposits' on consolidated balance sheet

(millions of yen)	First half	First half	Fiscal 2004
	Apr. 1, 2005- Sep. 30, 2005	Apr. 1, 2004- Sep. 30, 2004	Apr. 1, 2004- Mar. 31, 2005
Cash and deposits	369,007	464,667	398,688
Time deposit more than 3 months	-4,810	-4,003	-59,990
Cash and cash equivalents	364,196	460,663	338,697

**Segment information**

## 1. Net operating revenues by business segment

The Company and its consolidated subsidiaries' world-wide activities include (a) trading in securities and derivatives, (b) brokerage of securities and derivatives, (c) underwriting and distribution of securities, (d) other business related to securities transactions and (e) private offering of securities. These activities include financing and other services. Accordingly, the Company and its subsidiaries operate in a single industry segment, 'Investment and financial services'.

## 2. Net operating revenues by geographic area

'Net operating revenues', 'Selling, general and administrative expenses (S.G. & A. expenses)', 'Operating income' and 'Assets' by geographic area are as follows.

**First half ended September 30, 2005**

Net operating revenue and expenses

(millions of yen)	Japan	America	Europe	Asia and Oceania	Total	Elimination/ Unallocated	Consolidated
Net operating revenues from external customers	213,878	2,735	8,934	4,423	229,972	-	229,972
Intersegment revenues	6,789	3,365	3,955	315	14,426	(14,426)	-
Net operating revenues	220,667	6,101	12,890	4,738	244,398	(14,426)	229,972
S.G. & A. expenses	134,921	5,275	10,391	3,700	154,289	(4,304)	149,985
Operating income (loss)	85,746	825	2,499	1,038	90,109	(10,121)	79,987

**First half ended September 30, 2004**

Net operating revenue and expenses

(millions of yen)	Japan	America	Europe	Asia and Oceania	Total	Elimination/ Unallocated	Consolidated
Net operating revenues from external customers	171,734	2,145	13,813	3,328	191,021	-	191,021
Intersegment revenues	(31)	2,795	2,203	632	5,599	(5,599)	-
Net operating revenues	171,702	4,941	16,016	3,960	196,620	(5,599)	191,021
S.G. & A. expenses	121,076	4,903	12,319	3,259	141,558	(5,598)	135,960
Operating income (loss)	50,626	38	3,696	701	55,062	(1)	55,060

**Fiscal 2004 ended March 31, 2005**

Net operating revenue and expenses

(millions of yen)	Japan	America	Europe	Asia and Oceania	Total	Elimination/ Unallocated	Consolidated
Net operating revenues from external customers	353,827	3,970	25,377	7,255	390,432	-	390,432
Intersegment revenues	(2,370)	6,640	5,027	1,278	10,576	(10,576)	-
Net operating revenues	351,457	10,611	30,404	8,534	401,008	(10,576)	390,432
S.G. & A. expenses	244,543	10,594	24,202	6,781	286,122	(10,577)	275,544
Operating income (loss)	106,914	16	6,202	1,752	114,886	1	114,887

Note: Method of segmentation by geographic area and principal countries of the area belonging to each segment are as follows:

(1) Method of segmentation by geographic area: Geographical adjacency

(2) Principal countries of area belonging to each segment area:

America: USA

Europe: United Kingdom, Germany, Switzerland and France

Asia and Oceania: Hong Kong and Singapore

## 3. Overseas net operating revenues

Overseas net operating revenues include those of the Company and its consolidated subsidiaries (excluding inter-company profit) are as follows.

**First half ended September 30, 2005**

(millions of yen)	America	Europe	Asia and Oceania	Total
Overseas net operating revenues	4,946	18,727	4,733	28,407
Consolidated net operating revenues	-	-	-	229,972
Percentage of total revenues	2.2	8.1	2.1	12.4

**First half ended September 30, 2004**

(millions of yen)	America	Europe	Asia and Oceania	Total
Overseas net operating revenues	4,613	12,525	3,828	20,966
Consolidated net operating revenues	-	-	-	191,021
Percentage of total revenues	2.4	6.6	2.0	11.0

**Fiscal 2004 ended March 31, 2005**

(millions of yen)	America	Europe	Asia and Oceania	Total
Overseas net operating revenues	8,552	21,148	8,890	38,591
Consolidated net operating revenues	-	-	-	390,432
Percentage of total revenues	2.2	5.4	2.3	9.9

Note: Method of segmentation by geographic area and principal countries of area belonging to each segment are same as '2. Net operating revenues by geographic area'.

**Other notes**

The Group omits to disclose the notes concerning the 'Lease transactions' and the 'Derivative transactions' on this financial summary. The information will be disclosed through EDINET, electronic disclosure system in accordance with Japanese Securities Exchange Law.

The Group will disclose the notes "Securities" as the 'Additional information on financial summary' as soon as those are available.

**Supplemental information for the first half of fiscal 2005**

## 1. Breakdown of commissions

**First half ended September 30, 2005 (A)**

(millions of yen)	Equity	Fixed income (Bond)	Investment trust	Investment banking	Others	Total
Brokerage commission	43,383	479	102	-	-	43,965
Underwriting commission	-	-	-	14,453	-	14,453
(Stock and other)	(-)	(-)	(-)	(9,162)	(-)	(9,162)
(Bond and other)	(-)	(-)	(-)	(4,421)	(-)	(4,421)
Distribution commission	-	-	15,849	970	-	16,820
Other commission	883	1,245	16,790	6,639	7,185	32,744
(Agency commission)	(-)	(1,235)	(9,305)	(-)	(-)	(10,540)
Total	44,266	1,725	32,743	22,062	7,185	107,984

**First half ended September 30, 2004 (B)**

(millions of yen)	Equity	Fixed income (Bond)	Investment trust	Investment banking	Others	Total
Brokerage commission	43,657	619	99	-	-	44,376
Underwriting commission	-	-	-	27,536	-	27,536
(Stock and other)	(-)	(-)	(-)	(22,845)	(-)	(22,845)
(Bond and other)	(-)	(-)	(-)	(3,984)	(-)	(3,984)
Distribution commission	-	-	8,576	1,432	-	10,008
Other commission	939	1,432	12,234	5,930	4,957	25,495
(Agency commission)	(-)	(1,400)	(6,558)	(-)	(-)	(7,958)
Total	44,596	2,051	20,910	34,899	4,957	107,416

**Yr/yr percentage change (First half ended September 30, 2005 (A) / First half ended September 30, 2004 (B) - 1)**

(percentage)	Equity	Fixed income (Bond)	Investment Trust	Investment banking	Others	Total
Brokerage commission	-0.6	-22.5	3.0	-	-	-0.9
Underwriting commission	-	-	-	-47.5	-	-47.5
(Stock and other)	(-)	(-)	(-)	(-59.9)	(-)	(-59.9)
(Bond and other)	(-)	(-)	(-)	(11.0)	(-)	(11.0)
Distribution commission	-	-	84.8	-32.3	-	68.1
Other commission	-6.0	-13.0	37.2	11.9	44.9	28.4
(Agency commission)	(-)	(-11.8)	(41.9)	(-)	(-)	(32.4)
Total	-0.7	-15.9	56.6	-36.8	44.9	0.5

**Fiscal 2004 ended March 31, 2005**

(millions of yen)	Equity	Fixed income (Bond)	Investment trust	Investment banking	Others	Total
Brokerage commission	81,919	1,463	159	-	-	83,542
Underwriting commission	-	-	-	54,743	-	54,743
(Stock and other)	(-)	(-)	(-)	(44,659)	(-)	(44,659)
(Bond and other)	(-)	(-)	(-)	(8,573)	(-)	(8,573)
Distribution commission	-	-	19,687	3,597	-	23,285
Other commission	1,967	2,800	25,793	12,828	11,425	54,815
(Agency commission)	(-)	(2,748)	(14,014)	(-)	(-)	(16,763)
Total	83,887	4,263	45,640	71,170	11,425	216,386

## 2. Breakdown of net gains on trading

(millions of yen)	First half (2005/9)	First half (2004/9)	Yr/yr % change	Fiscal 2004 (2005/3)
Stock and other	46,477	28,891	60.9	56,104
Bond, forex and other	57,873	47,376	22.2	95,012
(Bond and other)	(28,802)	(35,659)	(-19.2)	(62,407)
(Forex and other)	(29,070)	(11,716)	(148.1)	(32,605)
Total	104,351	76,268	36.8	151,117

**Quarterly consolidated statements of operation**

(millions of yen)	2nd quarter Jul. 1, 2004- Sep. 30, 2004	3rd quarter Oct. 1, 2004- Dec. 31, 2004	4th quarter Jan. 1, 2005- Mar. 31, 2005	1st quarter Apr.1, 2005- Jun. 30, 2005	2nd quarter Jul.1, 2005- Sep. 30, 2005
Operating revenues	118,519	118,067	158,088	135,435	195,376
Commissions	53,116	46,702	62,268	45,039	62,944
Brokerage commission	16,831	16,757	22,408	17,756	26,209
(Stock and other)	16,485	16,322	21,939	17,467	25,916
(Bond and other)	307	404	439	251	228
Underwriting commission	17,299	11,801	15,405	5,320	9,132
(Stock and other)	15,001	9,822	11,991	2,501	6,661
(Bond and other)	1,751	1,764	2,824	2,410	2,011
Distribution commission	4,155	5,617	7,659	7,515	9,305
(Beneficiary certificates)	3,434	4,691	6,420	6,949	8,900
Other commission	14,829	12,524	16,795	14,447	18,297
(Beneficiary certificates)	6,169	6,491	7,006	7,663	9,049
Net gain (loss) on trading	33,831	30,452	44,397	35,804	68,547
(Stock and other)	9,606	5,635	21,577	7,435	39,042
(Bond and other)	18,431	18,216	8,531	20,566	8,236
(Forex and other)	5,794	6,600	14,288	7,802	21,268
Net gain (loss) on private equity and other securities (*1)	-	-	-	4,009	2,071
Net gain (loss) on private equity and other securities (*2)	583	201	-1,563	-	-
Interest and dividend income	23,761	33,385	41,374	42,965	52,483
Other sales revenues	7,226	7,326	11,612	7,616	9,330
Interest expenses	23,145	30,466	32,137	38,531	49,507
Cost of sales	5,410	5,420	8,720	5,621	7,178
Net operating revenues	89,963	82,180	117,230	91,282	138,689
Selling, general and administrative expenses:	67,640	66,002	73,581	69,878	80,106
Commission and other expenses	11,779	11,295	13,086	13,748	15,509
Employees' compensation and benefits	34,199	33,472	38,036	34,961	42,485
Occupancy and rental	8,359	7,992	8,443	7,746	8,312
Data processing and office supplies	4,223	4,225	4,571	4,309	4,014
Depreciation expenses	5,426	5,486	5,758	5,551	5,588
Taxes other than income taxes	1,751	1,617	1,556	1,594	2,004
Others	1,900	1,911	2,129	1,966	2,191
Operating income	22,322	16,177	43,649	21,404	58,582
Non-operating income	1,141	2,436	1,891	2,705	1,957
Non-operating expenses	397	591	389	308	384
Ordinary income	23,066	18,022	45,151	23,800	60,155
Extraordinary gains	1,883	2,043	5,307	321	10,562
Extraordinary losses	1,607	1,388	13,608	-	614
Income before income taxes and minority interests	23,341	18,676	36,850	24,122	70,102
Income taxes-current	939	307	9,795	2,698	22,478
Income taxes-deferred	7,384	6,683	1,539	6,690	4,104
Minority interests	-5,136	-2,221	-6,479	-3,096	-9,333
Net income	9,881	9,464	19,035	11,636	34,185
Net financial income included in net operating revenues	615	2,918	9,236	4,434	2,975

Note:

\*1. Includes share of net income raised by the investments in limited partnerships and similar partnerships.

\*2. Excludes share of net income raised by the investments in limited partnerships and similar partnerships.

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October 28, 2005

**Non-consolidated financial summary**  
(For the first half ended September 30, 2005)

## (1) Operating results (from April 1, 2005 to September 30, 2005)

(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	
First half (2005/9)	33,671	(48.4)%	27,821	(72.8)%	29,333	(65.7)%
First half (2004/9)	22,692	(101.9)%	16,102	(360.7)%	17,699	(418.0)%
Fiscal 2004 (2005/3)	26,236		13,884		16,302	

	Net income		Earnings/share	
First half (2005/9)	35,573	(95.3)%	26.73	Yen
First half (2004/9)	18,213	(538.9)%	13.68	Yen
Fiscal 2004 (2005/3)	32,228		24.21	Yen

## (Note) 1. Average number of shares outstanding (shares)

First half (2005/9): 1,330,587,381

First half (2004/9): 1,330,718,543

Fiscal 2004 (2005/3): 1,330,684,146

## 2. Change in accounting policies: None

## (2) Dividends

	Interim dividends/share		Annual dividends/share	
First half (2005/9)	12.00	Yen	-	Yen
First half (2004/9)	5.00		-	
Fiscal 2003 (2004/3)	-		13.00	

## (3) Financial conditions

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

	Total assets	Shareholders' equity	Shareholders' equity ratio	Shareholders' equity/share
As of Sep. 30, 2005	1,050,264	609,470	58.0 %	458.05 Yen
As of Sep. 30, 2004	1,101,131	559,794	50.8	420.67
As of Mar. 31, 2005	1,088,665	573,115	52.6	430.71

## (Note) 1. Number of shares outstanding (shares)

As of Sep. 30, 2005: 1,330,555,430

As of Sep. 30, 2004: 1,330,699,554

As of Mar. 31, 2005: 1,330,612,431

## 2. Treasury stock (shares)

As of Sep. 30, 2005: 1,180,742

As of Sep. 30, 2004: 1,035,704

As of Mar. 31, 2005: 1,123,741

(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 economic and 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: Mikita Komatsu, General Manager, Finance Department

Phone: +813-3243-2100

**Balance sheets**

(millions of yen)	First half Sep. 30, 2005	First half Sep. 30, 2004	Increase/ Decrease	Fiscal 2004 Mar. 31, 2005
<b>Assets</b>				
<b>Current assets:</b>	<b>136,508</b>	<b>302,755</b>	<b>-166,246</b>	<b>227,816</b>
Cash and deposits	92,342	153,488	-61,145	117,897
Short-term loans receivable	26,073	131,683	-105,610	87,369
Accounts receivable	15,981	8,488	7,493	17,728
Accrued income	752	1,646	-893	1,845
Deferred tax assets-current	210	6,346	-6,136	1,886
Other current assets	1,147	1,101	45	1,088
<b>Non-current assets:</b>	<b>913,755</b>	<b>798,376</b>	<b>115,379</b>	<b>860,849</b>
Tangible fixed assets	10,091	10,308	-217	10,187
Intangible fixed assets	668	787	-118	717
Investments and others:	902,995	787,280	115,714	849,944
Investment securities	683,926	649,007	34,919	658,209
Long-term loans receivable	198,126	114,103	84,022	171,406
Long-term guarantee deposits	12,464	13,473	-1,009	12,471
Others	8,974	11,206	-2,232	8,351
Less: Allowance for doubtful accounts	-496	-510	13	-494
<b>Total assets</b>	<b>1,050,264</b>	<b>1,101,131</b>	<b>-50,867</b>	<b>1,088,665</b>

(millions of yen)	First half Sep. 30, 2005	First half Sep. 30, 2004	Increase/ Decrease	Fiscal 2004 Mar. 31, 2005
<b><i>Liabilities</i></b>				
<b>Current liabilities:</b>	<b>229,611</b>	<b>286,309</b>	<b>-56,698</b>	<b>263,444</b>
Short-term borrowings	70,710	123,910	-53,200	67,710
Commercial paper	-	-	-	25,000
Bonds and notes due within one year	79,985	100,000	-20,015	100,000
Collateralized short-term financing agreements	75,339	58,884	16,454	66,855
Income taxes payable	111	133	-21	138
Accrued bonuses	791	597	194	769
Other current liabilities	2,674	2,784	-110	2,970
<b>Non-current liabilities:</b>	<b>211,182</b>	<b>255,027</b>	<b>-43,844</b>	<b>252,105</b>
Bonds and notes	135,400	120,000	15,400	124,900
Convertible bonds	-	79,986	-79,986	79,985
Long-term debt	46,500	38,000	8,500	37,000
Long-term cash deposits received as guarantee	4,093	4,411	-317	4,100
Deferred tax liabilities-non-current	20,394	8,288	12,106	1,916
Retirement benefits	3,527	3,273	253	3,408
Other non-current liabilities	1,266	1,068	198	793
<b>Total liabilities</b>	<b>440,793</b>	<b>541,336</b>	<b>-100,543</b>	<b>515,549</b>
<b><i>Shareholders' equity</i></b>				
Common stock	138,432	138,431	0	138,432
Capital surplus	117,940	117,940	-0	117,941
Additional paid-in capital	117,786	117,786	0	117,786
Other capital surplus reserve	153	154	-0	154
Net gains on sales of treasury stock	153	154	-0	154
Retained earnings	314,338	282,048	32,290	289,409
Earned surplus reserve	45,335	45,335	-	45,335
General-purpose reserve	218,000	218,000	-	218,000
Unappropriated retained earnings	51,003	18,712	32,290	26,074
(Net income for the current term)	(35,573)	(18,213)	(17,360)	(32,228)
Net unrealized gain (loss) on securities, net of tax effect	39,585	22,098	17,486	28,119
Treasury stock	-826	-724	-102	-786
<b>Total shareholders' equity</b>	<b>609,470</b>	<b>559,794</b>	<b>49,675</b>	<b>573,115</b>
<b>Total liabilities and shareholders' equity</b>	<b>1,050,264</b>	<b>1,101,131</b>	<b>-50,867</b>	<b>1,088,665</b>

**Statements of operations**

(millions of yen)	First half Apr. 1, 2005 - Sep. 30, 2005	First half Apr. 1, 2004 - Sep. 30, 2004	Yr/yr % change	Fiscal 2004 Apr. 1, 2004 - Mar. 31, 2005
<b>Operating revenues:</b>	<b>33,671</b>	<b>22,692</b>	<b>48.4</b>	<b>26,236</b>
Dividends from related companies	32,243	19,127	68.6	19,136
Interest on loans to related companies	1,371	1,903	-27.9	3,704
Other interest and dividend income	-	54	-	100
Royalty on trademark	-	1,607	-	3,295
Other	56	-	-	-
<b>Operating expenses:</b>	<b>5,849</b>	<b>6,589</b>	<b>-11.2</b>	<b>12,352</b>
Selling, general and administrative expenses:	4,301	3,897	10.4	7,731
Commission and other expenses	971	422	129.9	917
Employees' compensation and benefits	1,858	1,832	1.4	3,650
Occupancy and rental	308	384	-19.6	681
Data processing and office supplies	405	441	-8.2	870
Depreciation expenses	175	215	-18.4	428
Others	580	600	-3.4	1,182
Interest expenses	1,548	2,692	-42.5	4,620
<b>Operating income</b>	<b>27,821</b>	<b>16,102</b>	<b>72.8</b>	<b>13,884</b>
Non-operating income	1,559	1,713	-9.0	2,669
Non-operating expenses	47	117	-59.5	251
<b>Ordinary income</b>	<b>29,333</b>	<b>17,699</b>	<b>65.7</b>	<b>16,302</b>
Extraordinary gains	9,061	1,587	470.8	9,149
Extraordinary losses	179	301	-40.3	3,396
<b>Income before income taxes</b>	<b>38,215</b>	<b>18,985</b>	<b>101.3</b>	<b>22,055</b>
Income taxes-current	-9,647	-3,161	-	-8,064
Income taxes-deferred	12,288	3,933	212.4	-2,109
<b>Net income</b>	<b>35,573</b>	<b>18,213</b>	<b>95.3</b>	<b>32,228</b>
Unappropriated retained earnings-carryforward	15,429	498	-	498
<b>Interim dividends</b>	-	-	-	<b>6,653</b>
<b>Unappropriated retained earnings</b>	<b>51,003</b>	<b>18,712</b>	<b>172.6</b>	<b>26,074</b>

**Notes to financial statements**

The financial statements of the Company for the first half ended September 30, 2005 are prepared in accordance with 'Regulations of Interim Financial Statements' (MOF Ordinance No. 38, 1977).

**Basis of financial statements**

## 1. Valuation of 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 shareholders' 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. Of those securities with no fair value, share of net income raised by the investments in limited partnership is reflected on statements of operations and share of net unrealized profits and losses on securities held by the partnership are directly posted into shareholders' equity.

## 2. Depreciation of depreciable assets

## (1) Tangible fixed assets

The Company computes depreciation by the declining-balance method over estimated useful lives as stipulated by Corporation Tax Law of Japan. Depreciation for buildings purchased in Japan after April 1, 1998 is computed by the straight-line method.

## (2) Intangible fixed assets, and investments and others

Intangible fixed assets are amortized under the straight-line method. The Company computes amortization over estimated useful lives as stipulated by Corporation Tax Law of Japan, and over internally estimated useful lives (5 years) for software of in-house use.

## 3. Accounting for various provisions

## (1) Provision for doubtful accounts

Provisions for doubtful accounts are provided based on the estimated historical default rate for normal loans, and based on individually assessed amounts for doubtful accounts.

## (2) Accrued bonus

Accrued employees' bonuses represent liabilities estimated as of the balance sheet date. Bonuses to directors and corporate executive officers, which are subject to approval at the Compensation Committee, represent liabilities as of the balance sheet date.

## (3) Retirement benefits

The Company provides an unfunded defined contribution plan to its employees in return for services rendered each year, where the amount to be contributed to the individual employee's account is defined by the plan. Contributions by the Company under the unfunded defined contribution plan are accumulated on an annual basis and earn a guaranteed hypothetical return at a rate predetermined by the Company each year. As for the closed pension fund, accrued retirement benefits for the portion of 6 months are provided based on the difference between projected benefit obligation and fund fair value expected on March 31, 2006.

## 4. Accounting for certain lease transactions

Financial leases, whose ownership does not transfer to the lessee at the end of the lease term (non-capitalized finance leases) are not capitalized and are accounted for in the same manner as operating leases.

## 5. Hedging transaction

Interest received or paid on interest swaps for hedging purposes is accrued without being marked-to-market. The premium or discount on forward foreign exchange for hedging purpose is allocated to each fiscal term without being marked-to-market.

## 6. Other material items

## (1) Accounting for consumption taxes

Consumption taxes are separately recorded.

## (2) Deferred assets

Stock issue costs and bond issue costs are amortized in a lump sum when incurred.

## (3) Consolidated tax payments system

The consolidated tax payments system is applied.

**Change in presentation**

'Other interest and dividend income' and 'Royalty on trademark' which had been separately presented until fiscal 2004 are included in 'Other' of Operating revenues from the beginning of this fiscal year, due to lessened materiality in amount. 'Other interest and dividend income' and 'Royalty on trademark' for the first half of fiscal 2005 are 50 million yen and 6 million yen, respectively.

**Notes to balance sheets**

1. Accumulated depreciation of tangible fixed assets	As of Sep. 30, 2005	As of Sep. 30, 2004	As of Mar. 31, 2005
	2,992 million yen	3,418 million yen	3,218 million yen
2. Guarantee	As of Sep. 30, 2005	As of Sep. 30, 2004	As of Mar. 31, 2005
	8,694 million yen	13,484 million yen	8,969 million yen
3. Fair value of subsidiary and affiliated company stocks as of Sep. 30, 2005 (millions of yen)			
	<u>Carrying value</u>	<u>Fair value</u>	<u>Difference</u>
Subsidiary	12,065	35,403	23,337
Affiliated company	274	609	334

**Notes to statements of operations**

Details of extraordinary gains/losses

	<u>First half</u> Apr. 1, 2005- Sep. 30, 2005	<u>First half</u> Apr. 1, 2004- Sep. 30, 2004	(millions of yen) <u>Fiscal 2004</u> Apr. 1, 2004- Mar. 31, 2005
<b>Extraordinary gains:</b>			
Gain on sale of fixed assets	-	-	20
Gain on liquidation of related companies	1,200	698	5,529
Gain on sale of related companies' stocks	6,146	-	-
Gain on sale of investment securities	1,714	387	3,098
Reversal of stock purchase warrant	-	501	501
<b>Extraordinary losses:</b>			
Write-down of related companies' stocks	-	37	42
Write-down of investment securities	74	40	3,035
Valuation loss of fixed assets	-	42	52
Loss on sale or disposal of fixed assets	104	85	116
Provision for doubtful accounts	-	94	150

**Other notes**

The Company omits to disclose the notes concerning the 'Lease transactions' on this financial summary. The information will be disclosed through EDINET, electronic disclosure system in accordance with Japanese Securities Exchange Law.