

**Daiwa Securities Group Inc.**

+813-3243-2100

2-6-4 Otemachi, Chiyoda-ku

Tokyo 100-8101, Japan

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

October 26, 2006

**Consolidated financial summary**

(For the first half ended September 30, 2006)

(1) Operating results (from April 1, 2006 to September 30, 2006)

(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	
<b>First half (2006/9)</b>	419,391	(26.8)%	241,343	(4.9)%	79,821	(-0.2)%	86,451	(3.0)%
<b>First half (2005/9)</b>	330,812	(36.0)%	229,972	(20.4)%	79,987	(45.3)%	83,956	(46.6)%
<b>Fiscal 2005 (2006/3)</b>	845,659		579,358		254,159		260,651	

	Net income		Earnings/share		Fully diluted earnings/share		Return on equity (annual basis)	
<b>First half (2006/9)</b>	40,127	(-12.4)%	30.04	Yen	28.50	Yen	9.7	%
<b>First half (2005/9)</b>	45,822	(89.6)%	34.43	Yen	32.74	Yen	13.6	%
<b>Fiscal 2005 (2006/3)</b>	139,948		103.90	Yen	98.61	Yen	19.4	%

(Note) 1. Equity in earnings

First half (2006/9): 578 million yen First half (2005/9): 661 million yen Fiscal 2005 (2006/3): 1,528 million yen

2. Average number of shares outstanding (shares)

First half(2006/9): 1,335,725,054 First half (2005/9):1,330,577,883 Fiscal 2005 (2006/3): 1,328,967,253

3. Change in accounting policies: None

(2) Financial conditions

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

	Total assets	Net assets	Equity ratio	Net assets /share
<b>As of Sep. 30, 2006</b>	14,300,872	1,142,402 *2	6.1 %	624.25 Yen*3
<b>As of Sep. 30, 2005</b>	14,753,923	701,733	4.8 %	527.40 Yen
<b>As of Mar. 31, 2006</b>	14,898,890	792,281	5.3 %	598.27 Yen

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

As of Sep. 30, 2006 : 1,395,040,082 As of Sep. 30, 2005 : 1,330,545,932 As of Mar. 31, 2006 : 1,321,164,976

2. Net assets for the first half ended September 30, 2006 is calculated based on the new method according to "Accounting Standard for Presentation of Net Assets in the Balance Sheet".

3. "Net assets / share" is calculated as follows:

Net assets / share = (net assets - stock subscription rights - minority interests) / number of shares outstanding

(3) Cash flow summary

(Millions of yen)

	Operating activities	Investing activities	Financing activities	Ending balance of cash and cash equivalents
<b>First half (2006/9)</b>	725,596	-11,598	-827,096	281,211
<b>First half (2005/9)</b>	100,992	39,869	-117,605	364,196
<b>Fiscal 2005 (2006/3)</b>	369,860	-911	-324,056	392,350

(4) Scope of consolidation and equity method

Consolidated subsidiaries: 47 companies

Affiliates applicable of equity method: 4 companies

(5) Change in scope of consolidation and equity method

Consolidation: Addition 1 company

Equity method: Exclusion 1 company.

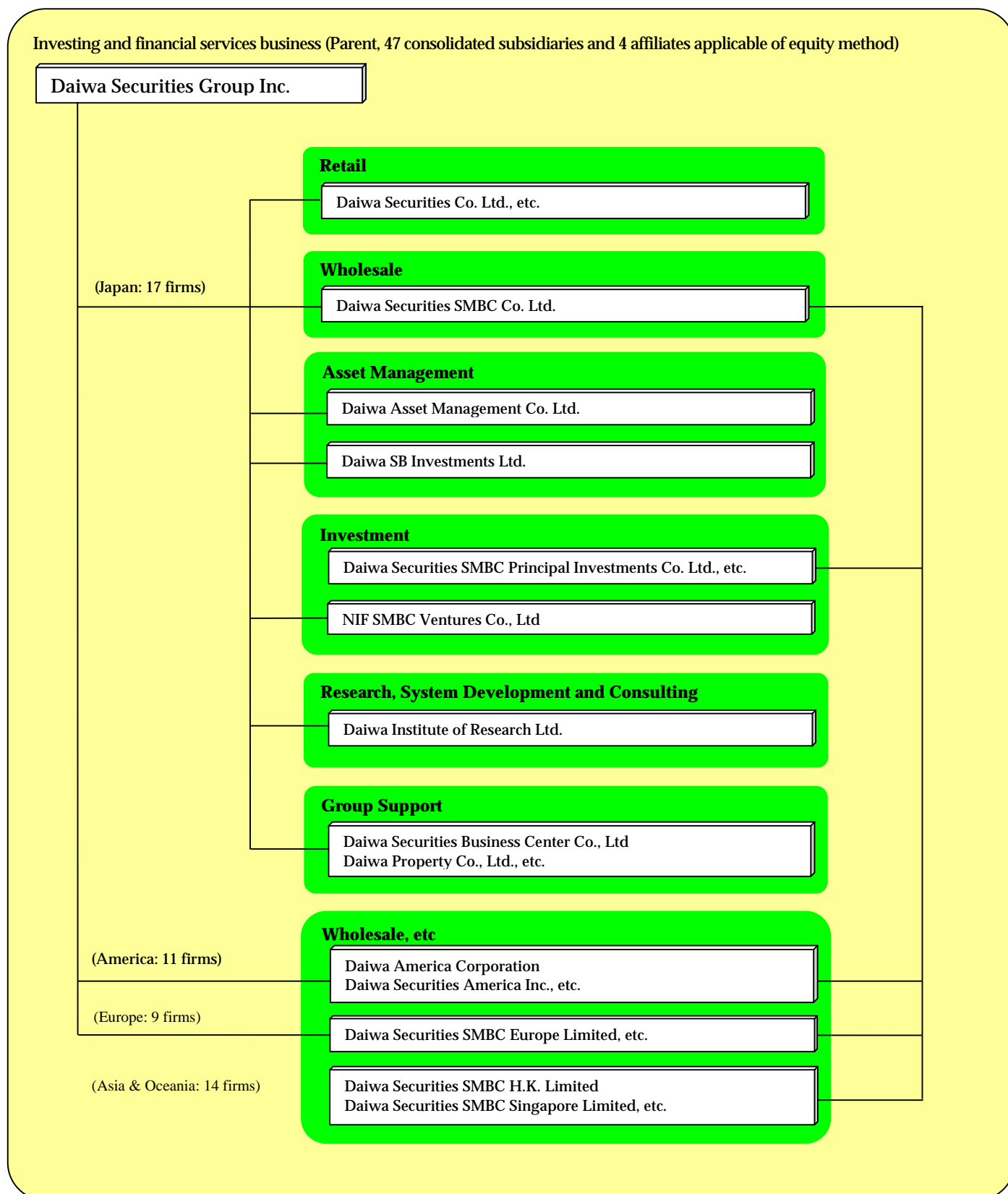
(Note) The Group's principal business is securities business, and the performance is influenced by the economic and market environment. Therefore, the Group doesn't disclose the estimated operating result, considering the difficulty to forecast the performance.

Representative: Shigeharu Suzuki, President

Contact: Mikita Komatsu, General Manager, Finance Department Phone: +813-3243-2100

## Information on Group Companies

Daiwa Securities Group Inc. (the ‘Company’) and its related companies, 47 consolidated subsidiaries and 4 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 & Oceania.



## **Management Policy**

### **(a) Principle Management Policy**

We provide various high-quality products and services, in order to respond to the needs of our clients. We aim to become “the No.1” in each business area. We will maximize each division’s potential by improving inner communication and will provide integrated supreme services. We will develop into the “Japan’s Leading Securities Group” by becoming the one and only partner for each and every client.

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

We aim to maximize shareholder value including distribution of profits. Considering the consolidated financial results, we will pay dividends based on a pay-out ratio of approximately 30% semi-annually. However, if we consider the amount of retained earnings to be enough for future business expansion and the financial situation to be stable, we intend to proactively implement measures to distribute profits such as share repurchase.

We will pay an interim dividend of 12 yen per share, according to the resolution of the Board on 26th October. The dividend pay-out ratio of this period will be 41.7%.

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

Taking into account our business results, share price and advantages and disadvantages to the shareholders and the Company, we are examining the lowering of the minimum share trading unit of our shares.

### **(d) Management targets**

We have set the following as the main medium-term management targets.

Consolidated ordinary income	: ¥350 billion or higher
Consolidated ROE	: 15% or higher
Retail assets under custody	: ¥45 trillion or higher
Wholesale investment banking	: No. 1 in each League table (equity, fixed income, M&A)

### **(e) Mid to Long Term Management Strategies**

We have established a medium-term management plan titled –“Passion for the Best” 2008- for the three-year period from FY2006 to FY2008.

The following is the vision for the group set in the medium-term management plan,.

“The Japan’s Leading Securities Group, built on customers’ trust and employees’ passion-Imagination and our will to realize-”.

We aim to become the best in Japan in various fields such as productivity, customer satisfaction and employee satisfaction, as well as various business results.

We have formulated the basic strategies for the group and those for the main group companies, in order to accomplish the targets noted above and develop into “The Japan’s Best Securities Group”. Basic

#### **(1) Personnel affairs**

We will develop an environment and framework where people with the highest skills in the financial industry can gather and work with high motivation. We will establish an appropriate compensation package as the leading company in the financial industry. As for recruitment, we will increase opportunities to interact with students and continuously acquire sophisticated and loyal students and strengthen our presence.

#### **(2) Financial affairs**

We aim to manage risks, return, and capital in an integrated manner and aim to maintain our profitability as long as our financial soundness in order to improve the corporate value along with the growth strategy set in the medium-term management plan. In each business segment, we aim to maintain the profit ratio above the capital cost which is derived considering the risks associated with those segments. We will also refine the schemes to take and control risks.

#### **(3) Information technology (IT) strategy**

In order to use the system related resources effectively and to reduce the development period, we will promote measures such as the centralization of IT functions and the standardization of software used within the group.

We will proactively make IT investments to expand our business or to further promote new businesses and products.

#### **(4) Risk management/ Internal control**

We will organize the framework for broad-based risk management, such as the BCP (Business Continuity Plan). As for internal control, we will implement measures to create the “Internal control report” and to respond to the obligation for external audit.

#### **(5) Investor relations/ Public relations/ Advertisement**

We aim to establish the most advanced IR and disclosure framework in Japan, by strengthening timely and appropriate disclosure which should be appropriate for “Japan’s leading securities group”.

#### **(6) Corporate social responsibility (CSR)**

We aim to improve our social reputation and to contribute to the sound development of the economic society by proactively increasing communication with our stakeholders. We will focus on topics such as education in economics and finance, socially responsible investments and environment related matters.

Strategies for the main group companies are as follows.

**(1) Retail (Daiwa Securities)**

“The Accumulation of No.1” is Daiwa Securities’ basic strategy.

By establishing a unique business model (“value-added consulting” by the sales representative, “Daiwa Direct” which has various products and information, “SMA”, the original separately managed account service for the wealthy class), Daiwa Securities will provide highly competitive financial products and services.

**(2) Wholesale investment banking (Daiwa Securities SMBC)**

Daiwa Securities SMBC will provide various financial services with investment banking services at its core.

We will be the No.1 in customer satisfaction, by building up firm relationships with them. We aim to continuously develop and provide the world’s 1st or Japan’s 1st products. We will retain the No.1 position in each league table. These measures will enable us to become ‘The Japan’s Best Investment Bank’ with a 1st grade reputation internationally.

**(3) Asset management (Daiwa Asset Management, Daiwa SB Investments)**

In the mutual fund business, we will provide products with global focus and broad investment methods. We will become the leading company in the industry with excellent asset management capabilities, various products and various strong sales channels.

In the investment advisory business, we will provide services not only to the pension funds and the institutional investors in Japan, but also to those abroad. We aim to become a top-class firm in terms of assets under management within the industry in Japan, and especially try to maintain our high reputation as the leading firm in managing Japanese equity.

Daiwa Asset Management will increase the amount of assets under management by strengthening its capabilities to manage the funds and customer support and by selling mutual funds through commercial banks.

Daiwa SB Investments will improve external evaluations by focusing on improving capabilities to manage assets. We will meet the needs of domestic pension funds and foreign investors, by diversifying fixed income related products and alternative products which adopt a contingent fee system.

**(4) Investment (Daiwa Securities SMBC PI, NIF SMBC Ventures)**

Daiwa Securities SMBC PI nurtures new businesses and firms in new industries, by investing in non-performing loans, real estate and also by helping firms restructure their businesses. NIF SMBC Ventures will promote full-line private equity investment utilizing its infrastructure in the venture capital business. It will also work to promote commission based businesses by expanding peripheral services related to its existing fund management business.

**(5) Research/ System (Daiwa Institute of Research)**

In the research and consulting business, Daiwa Institute of Research will provide high-quality and value-added research and consulting services, in order to contribute to the group’s securities business which is becoming diversified and sophisticated.

In the information system business, Daiwa Institute of Research will provide system solution services which contribute to the business strategies of each segment in the group

**(f) Current Challenges**

Under the condition that Japanese economy keeps recovering steadily and the shift “from savings to investment” accelerate, the capital market undertakes more important roles as a highly public platform. And our social mission, to develop and support a sound capital market, is becoming more important than ever. Under this condition, our business chance is expanding dramatically.

Based on this understanding, we think that this fiscal year, which is the first fiscal year for the medium-term management plan, will be a step toward our future leap. With that in mind, we recognize that our task is to carry out the action plan of each division according to the business policy below in this fiscal year.

We determine our business policy of this fiscal year to be “Passion, Creation, Execution and Evolution –Full Throttle-”. We respond to the customers’ need which is changing minute by minute and will stimulate new customers’ needs. All of our management and employees will join together and aim to become “The Japan’s Leading Securities Group”.

Although the Japanese stock market experienced an adjustment phase during the 1st half of this fiscal year, there is no change to the mid and long term upward trend. Even under the adjustment phase, abundant individual financial assets have kept flowing into the capital market. Under this condition, in the retail division, we try to expand our business by increasing assets under custody, by refining the framework, that we can respond to all of the customers’ needs, with three platforms, ‘Consulting’, ‘Daiwa Direct’ and ‘SMA’.

As reorganization and M&As by Japanese companies intensify, both the needs of investment activity and those of financing are become diverse. Therefore the number of cases where corporations use the capital market to pursue their growth strategies has been increasing. Our business opportunities are increasing, such as in the principal finance, SPS, as well as in the traditional investment banking area. Under this condition, in the wholesale division, we try to expand our business field, by strengthening our origination capabilities and by providing the best solution related to investment activities and financing.

In the asset management division, by strengthening the asset management and product development capabilities, we aim to increase the amount of mutual fund and fiduciary assets under management.

Considering the tasks above, we aim to develop ourselves into “The Japan’s Leading Securities Group” by accumulating the No.1 performances in each business field.

**(g) Matters related to its parent**

None

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

### **a. Consolidated operating results for the first half of fiscal 2006**

#### 1. Summary of operating results for 6 months (comparison with the first half of fiscal 2005)

Net operating revenues increased 4.9% to 241,343 million yen mainly because commissions and net gains on private equity increased, although trading gain decreased. Selling, general and administrative expenses increased 7.7% to 161,522 million yen. As a result, ordinary income increased 3.0% to 86,451 million yen. Net income decreased 12.4% to 40,127 million yen because an extraordinary gain such as on change in stake in subsidiary, which accrued for the last first half, was not posted.

#### (1) Commissions

##### (i) Brokerage commission

Brokerage commission increased 4.9% to 46,128 million yen, because daily average trading value on the Tokyo Stock Exchange increased 52.3% to 2,577.2 billion yen.

##### (ii) Underwriting commission

Underwriting commission derived from equity increased 58.8% to 14,551 million yen due to an increase in lead manager of IPO. As a result, underwriting commission increased 33.1% to 19,238 million yen.

##### (iii) Distribution commission

Distribution commission increased 9.8% to 18,471 million yen because distribution commissions in investment trust increased 11.7% to 17,703 million yen, due to an increase in commission arising from sale of equity related beneficiary certificate.

##### (iv) Other commission

Total other commission increased 56.2% to 51,131 million yen primarily due to an increase in trust fee in line with expanded outstanding balance of equity-related beneficiary certificate.

#### (2) Net gains on trading

Total net gains on trading decreased 30.0% to 73,068 million yen mainly because net gains on trading in equity dropped 73.7% to 12,226 million yen.

#### (3) Financial income

Interest and dividend income increased 80.0% to 171,762 million yen and interest expenses increased 84.1% to 162,037 million yen. Net financial income increased 31.2% to 9,725 million yen due to an increase in interests received on securities borrowed.

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

Commission and other expenses increased 13.2% to 33,117 million yen due to an increase in bond commission paid and custodian fee of beneficiary certificate. Administrative fee increased 33.7% to 11,125 million yen. As a result, selling, general and administrative expenses increased 7.7% to 161,522 million yen.

#### 2. Summary of operating results for 3 months (comparison with the first quarter of fiscal 2006)

Consolidated net operating revenues for the second quarter of fiscal 2006 decreased 2.3% to 119,252 million yen as a result of a decrease in commissions and net gain on private equity and other securities. Selling, general and administrative increased 4.6% to 82,580 million yen. As a result, consolidated ordinary income decreased 9.6% to 41,034 million yen. Net income decreased 26.4% to 17,008 million yen for the second quarter of fiscal 2006, posting extraordinary gains/losses, income taxes, and minority interest.

#### 3. Operating results of overseas subsidiaries for the first half of fiscal 2006 (6 months)

Ordinary income by geographic area (millions of yen)

America	Europe	Asia & Oceania	Total
295	1,230	1,399	2,925

### **b. Financial conditions (comparison with March 31, 2006)**

Net cash provided by operating was 725,596 million yen compared with 369,860 million yen for fiscal 2005. Net cash used in investment activities was 11,598 million yen due to payments for purchase of investment securities compared with 911 million yen for fiscal 2005. Net cash used in financing activities was 827,096 million yen mainly due to decrease in short-term borrowings, compared with 324,056 million yen for fiscal 2005. Consequently, cash and cash equivalents decreased by 111,138 million yen to 281,211 million yen in comparison with March 31, 2006.

**Consolidated balance sheets**

(millions of yen)	First half Sep. 30, 2006	First half Sep. 30, 2005	Increase/ Decrease	Fiscal 2005 Mar. 31, 2006
<b>Assets</b>				
<b>Current assets:</b>	<b>13,805,066</b>	<b>14,290,100</b>	<b>-485,033</b>	<b>14,392,393</b>
Cash and deposits	287,135	369,007	-81,871	407,889
Cash segregated as deposits for regulatory purposes	203,547	175,722	27,825	297,878
Notes receivable and trade accounts receivable	11,728	7,857	3,870	11,368
Securities	23,722	19,727	3,995	20,205
Trading assets:	5,392,907	6,338,146	-945,239	6,162,242
Trading securities and others	4,572,141	5,687,721	-1,115,580	4,491,212
Derivative assets	820,766	650,425	170,341	1,671,029
Trading receivable, net	227,853	435,571	-207,717	-
Private equity and other securities	416,326	240,746	175,579	390,917
Less: Allowance for possible investment losses	-8,527	-8,202	-324	-8,496
Other inventories	2,082	2,454	-371	2,271
Receivables related to margin transactions:	547,883	369,100	178,783	563,537
Customer margin loans	329,096	163,236	165,859	359,331
Cash deposits as collateral for securities borrowed	218,786	205,863	12,923	204,206
Collateralized short-term financing agreements:	6,430,302	6,124,106	306,196	6,274,505
Cash deposits as collateral for securities borrowed	6,430,177	6,124,106	306,071	6,274,385
Receivables related to gensaki transactions	125	-	125	120
Receivables	13,786	14,667	-881	25,940
Short-term loans receivable	44,891	38,810	6,080	59,997
Accrued income	36,059	23,952	12,106	36,558
Deferred tax assets-current	10,504	9,840	663	20,187
Other current assets	165,086	128,970	36,116	127,683
Less: Allowance for doubtful accounts-current	-224	-378	154	-293
<b>Non-current assets:</b>	<b>495,805</b>	<b>463,823</b>	<b>31,982</b>	<b>506,497</b>
Tangible fixed assets	126,569	137,470	-10,901	126,531
Intangible fixed assets	76,248	64,284	11,964	68,813
Investments and others:	292,987	262,068	30,919	311,153
Investment securities	232,135	205,245	26,889	249,647
Long-term loans receivable	10,659	12,010	-1,350	11,866
Long-term guarantee deposits	24,253	22,515	1,737	23,538
Deferred tax assets-non-current	10,350	4,612	5,738	9,300
Other investments	18,264	20,176	-1,912	18,651
Less: Allowance for doubtful accounts-non-current	-2,676	-2,493	-182	-1,851
<b>Total assets</b>	<b>14,300,872</b>	<b>14,753,923</b>	<b>-453,051</b>	<b>14,898,890</b>

(millions of yen)	First half Sep. 30, 2006	First half Sep. 30, 2005	Increase/ Decrease	Fiscal 2005 Mar. 31, 2006
<b>Liabilities</b>				
<b>Current liabilities:</b>	<b>11,964,023</b>	<b>12,881,327</b>	<b>-917,304</b>	<b>12,812,909</b>
Notes payable and trade accounts payable	6,218	2,723	3,494	5,138
Trading liabilities:	4,050,230	3,929,639	120,591	4,879,188
Trading securities and others	3,440,617	3,345,589	95,027	3,321,855
Derivative liabilities	609,613	584,050	25,563	1,557,332
Trading payables, net	-	-	-	302,572
Payables related to margin transactions:	239,768	187,816	51,951	197,482
Payable to securities finance companies	16,297	8,126	8,171	7,569
Proceeds of securities sold for customers' accounts	223,470	179,690	43,779	189,912
Collateralized short-term financing agreements:	6,031,486	5,928,683	102,802	4,744,007
Cash deposits as collateral for securities loaned	5,287,122	5,512,569	-225,446	4,525,203
Payables related to gensaki transactions	744,363	416,114	328,249	218,803
Deposits received	198,778	157,121	41,656	166,508
Cash deposits received as guarantee	99,967	79,054	20,913	99,224
Short-term borrowings	903,476	2,175,630	-1,272,153	1,795,320
Commercial paper	272,710	116,681	156,028	234,210
Bonds and notes due within one year	28,496	130,782	-102,285	159,400
Income taxes payable	18,351	26,236	-7,885	73,779
Deferred tax liabilities-current	1,328	5,281	-3,952	2,898
Accrued bonuses	23,736	24,371	-635	41,713
Other current liabilities	89,473	117,304	-27,830	111,462
<b>Non-current liabilities:</b>	<b>1,186,932</b>	<b>959,018</b>	<b>227,914</b>	<b>1,049,956</b>
Bonds and notes	965,645	749,101	216,543	819,559
Long-term debt	164,129	167,282	-3,153	167,952
Deferred tax liabilities-non-current	31,444	19,141	12,303	39,007
Retirement benefits	21,738	19,835	1,902	19,912
Provision for litigation losses	550	-	550	-
Other non-current liabilities	3,424	3,657	-232	3,525
<b>Statutory reserves</b>	<b>7,513</b>	<b>5,649</b>	<b>1,864</b>	<b>7,024</b>
<b>Total liabilities</b>	<b>13,158,469</b>	<b>13,845,995</b>	<b>-687,526</b>	<b>13,869,891</b>
<b>Minority interests</b>	<b>-</b>	<b>206,194</b>	<b>-</b>	<b>236,718</b>
<b>Shareholders' equity</b>				
Common stock	-	138,432	-	138,828
Capital surplus	-	117,940	-	118,339
Retained earnings	-	398,057	-	476,216
Net unrealized gain (loss) on securities, net of tax effect	-	53,060	-	72,694
Translation adjustments	-	-4,930	-	863
Treasury stock	-	-827	-	-14,660
<b>Total shareholders' equity</b>	<b>-</b>	<b>701,733</b>	<b>-</b>	<b>792,281</b>
<b>Total liabilities, minority interests and shareholders' equity</b>	<b>-</b>	<b>14,753,923</b>	<b>-</b>	<b>14,898,890</b>
<b>Net assets</b>				
<b>Owners' equity</b>	<b>808,140</b>	<b>-</b>	<b>-</b>	<b>-</b>
Common stock	178,324	-	-	-
Capital surplus	157,678	-	-	-
Retained earnings	484,637	-	-	-
Treasury stock	-12,501	-	-	-
Paid-in money for treasury shares	0	-	-	-
<b>Valuation and translation adjustments</b>	<b>62,713</b>	<b>-</b>	<b>-</b>	<b>-</b>
Net unrealized gain (loss) on securities, net of tax effect	57,145	-	-	-
Deferred gain (loss) on hedges	485	-	-	-
Translation adjustments	5,082	-	-	-
<b>Stock subscription rights</b>	<b>468</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Minority interests</b>	<b>271,080</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total net assets</b>	<b>1,142,402</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total liabilities and net assets</b>	<b>14,300,872</b>	<b>-</b>	<b>-</b>	<b>-</b>

**Consolidated statements of operations**

(millions of yen)	First half Apr. 1, 2006 - Sep. 30, 2006	First half Apr. 1, 2005 - Sep. 30, 2005	Yr/yr % change	Fiscal 2005 Apr. 1, 2005- Mar. 31, 2006
<b>Operating revenues:</b>	<b>419,391</b>	<b>330,812</b>	<b>26.8</b>	<b>845,659</b>
Commissions	134,968	107,984	25.0	309,188
Net gain (loss) on trading	73,068	104,351	-30.0	224,912
Net gain (loss) on private equity and other securities	18,660	6,080	206.9	21,539
Interest and dividend income	171,762	95,448	80.0	245,210
Other sales revenues	20,930	16,946	23.5	44,808
<b>Interest expenses</b>	<b>162,037</b>	<b>88,039</b>	<b>84.1</b>	<b>231,572</b>
<b>Cost of sales</b>	<b>16,010</b>	<b>12,800</b>	<b>25.1</b>	<b>34,729</b>
<b>Net operating revenues</b>	<b>241,343</b>	<b>229,972</b>	<b>4.9</b>	<b>579,358</b>
<b>Selling, general and administrative expenses:</b>	<b>161,522</b>	<b>149,985</b>	<b>7.7</b>	<b>325,199</b>
Commission and other expenses	33,117	29,258	13.2	63,909
Employees' compensation and benefits	79,508	77,446	2.7	171,061
Occupancy and rental	17,055	16,059	6.2	32,659
Data processing and office supplies	11,125	8,324	33.7	17,273
Depreciation expenses	11,006	11,140	-1.2	22,640
Taxes other than income taxes	3,872	3,599	7.6	8,071
Others	5,835	4,157	40.3	9,582
<b>Operating income</b>	<b>79,821</b>	<b>79,987</b>	<b>-0.2</b>	<b>254,159</b>
Non-operating income:	7,846	4,662	68.3	8,697
Equity in earnings	578	661	-12.6	1,528
Others	7,268	4,000	81.7	7,168
Non-operating expenses	1,216	693	75.5	2,204
<b>Ordinary income</b>	<b>86,451</b>	<b>83,956</b>	<b>3.0</b>	<b>260,651</b>
Extraordinary gains	1,916	10,883	-82.4	14,825
Extraordinary losses	2,157	614	251.0	17,122
<b>Income before income taxes and minority interests</b>	<b>86,209</b>	<b>94,225</b>	<b>-8.5</b>	<b>258,355</b>
<b>Income taxes-current</b>	<b>25,221</b>	<b>25,176</b>	<b>0.2</b>	<b>77,675</b>
<b>Income taxes-deferred</b>	<b>12,042</b>	<b>10,795</b>	<b>11.6</b>	<b>391</b>
<b>Minority interests</b>	<b>-8,817</b>	<b>-12,430</b>	<b>-</b>	<b>-40,339</b>
<b>Net income</b>	<b>40,127</b>	<b>45,822</b>	<b>-12.4</b>	<b>139,948</b>

<b>Net financial income included in net operating revenues</b>	<b>9,725</b>	<b>7,409</b>	<b>31.2</b>	<b>13,638</b>
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**Consolidated statements of changes in net assets**

( millions of yen )	Owners' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total owners' equity
<b>Beginning balance as of Mar. 31, 2006</b>	<b>138,828</b>	<b>118,339</b>	<b>476,216</b>	<b>-14,660</b>	<b>718,723</b>
<b>Changes of items during the fiscal year</b>					
Issuance of new shares	39,495	39,495	-	-	78,991
Dividends	-	-	-29,065	-	-29,065
Bonus to directors and executive officers	-	-	-1,827	-	-1,827
Net income	-	-	40,127	-	40,127
Acquisition of treasury stock	-	-	-	-162	-162
Disposal of treasury stock	-	-156	-813	2,322	1,353
<b>Total changes of items during the fiscal year</b>	<b>39,495</b>	<b>39,339</b>	<b>8,420</b>	<b>2,160</b>	<b>89,416</b>
<b>Ending balance as of Sep. 30, 2006</b>	<b>178,324</b>	<b>157,678</b>	<b>484,637</b>	<b>-12,500</b>	<b>808,140</b>

( millions of yen )	Valuation and translation adjustments				Stock subscription rights	Minority interests
	Net unrealized gain (loss) on securities, net of tax effect	Deferred gain (loss) on hedges	Translation adjustments	Total valuation and translation adjustments		
<b>Beginning balance as of Mar. 31, 2006</b>	<b>72,694</b>	<b>-</b>	<b>863</b>	<b>73,557</b>	<b>-</b>	<b>236,718</b>
<b>Changes of items during the fiscal year</b>						
Net changes of items other than owners' equity	-15,548	485	4,218	-10,844	468	34,362
<b>Total changes of items during the fiscal year</b>	<b>-15,548</b>	<b>485</b>	<b>4,218</b>	<b>-10,844</b>	<b>468</b>	<b>34,362</b>
<b>Ending balance as of Sep. 30, 2006</b>	<b>57,145</b>	<b>485</b>	<b>5,082</b>	<b>62,713</b>	<b>468</b>	<b>271,080</b>

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

(millions of yen)	First half Apr. 1, 2005- Sep. 30, 2005		Fiscal 2005 Apr. 1, 2005- Mar. 31, 2006	
<b><i>Capital surplus</i></b>				
<b>Beginning balance of capital surplus</b>		<b>117,941</b>		<b>117,941</b>
Increase in capital surplus				
Conversion of convertible bonds	-		395	
Net gain on sales of treasury stock	-	-	2	398
Decrease in capital surplus				
Net loss on sales of treasury stock	0	0	-	-
<b>Ending balance of capital surplus</b>		<b>117,940</b>		<b>118,339</b>
<b><i>Retained earnings</i></b>				
<b>Beginning balance of retained earnings</b>		<b>362,948</b>		<b>362,948</b>
Increase in retained earnings:				
Net income	45,822		139,948	
Increase due to merger of subsidiaries	609	46,432	609	140,557
Decrease in retained earnings:				
Cash dividends paid	10,644		26,611	
Bonuses to directors	678	11,323	678	27,290
<b>Ending balance of retained earnings</b>		<b>398,057</b>		<b>476,216</b>

**Consolidated statements of cash flows**

(millions of yen)	First half Apr. 1, 2006- Sep. 30, 2006	First half Apr. 1, 2005- Sep. 30, 2005	Fiscal 2005 Apr. 1, 2005- Mar. 31, 2006
<b>1. Cash flows from operating activities:</b>			
Income before income taxes and others	86,209	94,225	258,355
Depreciation	11,006	11,140	22,640
Increase in allowance for retirement benefits	174	662	738
Interest and dividend income	-175,038	-96,697	-245,724
Interest expenses	161,848	87,988	231,335
Equity in earnings	-578	-661	-1,528
Adjustment of extraordinary gains/losses items:			
Loss on sale or disposal of fixed assets	437	249	548
Gain on sale of related companies' stocks	-147	-3,714	-3,714
Write-down of related companies' stocks	200	-	-
Gain on sale of investment securities	-1,768	-2,443	-6,385
Loss on sale of investment securities	238	17	69
Write-down of investment securities	546	121	499
Gain on change in stake in subsidiary	-	-4,725	-4,725
Loss on litigation settlement	-	-	1,279
Provision for litigation losses	550	-	-
Loss on impairment of fixed assets	-	-	6,850
Extraordinary depreciation	-	-	4,439
Foreign exchange loss from overseas subsidiary capital reduction	-	-	1,563
Provision for securities transaction liabilities	183	-	1,374
Contribution to the Securities Market Infrastructure Improvement Fund	-	-	200
Others	-	226	297
(Increase) Decrease in deposits segregated for customer	104,734	-21,451	-137,291
(Increase) Decrease in loans receivable	16,369	37,713	17,495
(Increase) Decrease in private equity and other securities	-25,536	-66,315	-192,644
(Increase) Decrease in trading assets, net of trading liabilities	-582,960	-1,250,472	615,610
(Increase) Decrease in receivables related to margin transactions, net of payables related to margin transactions	61,237	-11,111	-195,882
(Increase) Decrease in receivables on collateralized short-term financing agreements, net	1,110,005	1,271,393	-63,703
Others	19,506	54,982	59,506
<b>Sub-total</b>	<b>787,218</b>	<b>101,128</b>	<b>371,203</b>
Interest and dividend received	172,748	92,801	232,214
Interest paid	-159,816	-85,302	-222,153
Income taxes refunded (paid)	-74,589	-7,635	-11,404
<b>Net cash flows provided by (used in) operating activities</b>	<b>725,596</b>	<b>100,992</b>	<b>369,860</b>

(millions of yen)	First half Apr. 1, 2006- Sep. 30, 2006	First half Apr. 1, 2005- Sep. 30, 2005	Fiscal 2005 Apr. 1, 2005- Mar. 31, 2006
<b>2. Cash flows from investing activities:</b>			
Increase in time deposits	-2,602	-	-10,685
Decrease in time deposits	12,602	55,201	55,201
Payments for purchase of securities	-16,791	-6,064	-14,382
Proceeds from sale and redemption of securities	13,093	2,228	10,423
Payments for purchase of tangible fixed assets	-5,000	-4,215	-12,525
Proceeds from sale of tangible fixed assets	265	17	718
Payments for purchase of intangible fixed assets	-15,634	-10,413	-24,311
Purchase of subsidiary's stock due to change in scope of consolidation	1,356	-	-
Payments for purchase of related companies	-1,765	-7,582	-7,582
Proceeds from sale of related companies	302	13,416	13,416
Payments for purchase of investment securities	-8,474	-10,358	-29,589
Proceeds from sale and redemption of investment securities	9,859	8,314	19,763
Payments for loan made	-35	-66	-116
Proceeds from collection of loans receivable	168	79	253
Others	1,057	-686	-1,496
<b>Net cash flows provided by (used in) investing activities</b>	<b>-11,598</b>	<b>39,869</b>	<b>-911</b>
<b>3. Cash flows from financing activities:</b>			
Increase (decrease) in short-term borrowings	-891,941	-157,223	-446,189
Payments for redemption of bonds and convertible bonds	-191,462	-182,238	-401,373
Proceeds from issuance of bonds and convertible bonds	285,622	186,510	505,357
Payments for sinking fund of convertible bonds	-61,877	-	-
Payments for repayment of long-term debt	-9,487	-56,014	-70,004
Proceeds from long-term debt	42,300	101,500	128,500
Dividends paid	-29,065	-10,644	-26,611
Dividends paid to minority shareholders	-12,033	-9,174	-9,176
Proceeds from minority shareholders due to issuance of shares	40,080	9,999	9,999
Proceeds from sale of treasury stocks	1,353	14	21
Others	-583	-333	-14,578
<b>Net cash flows provided by (used in) financing activities</b>	<b>-827,096</b>	<b>-117,605</b>	<b>-324,056</b>
<b>4. Effect of exchange rate changes on cash and cash equivalents</b>	<b>1,959</b>	<b>1,639</b>	<b>7,428</b>
<b>5. Net change in cash and cash equivalents</b>	<b>-111,138</b>	<b>24,896</b>	<b>52,321</b>
<b>6. Cash and cash equivalents at beginning of term</b>	<b>392,350</b>	<b>338,697</b>	<b>338,697</b>
<b>7. Increase in cash and cash equivalents due to merger of subsidiaries</b>	<b>-</b>	<b>602</b>	<b>1,331</b>
<b>8. Cash and cash equivalents at end of term</b>	<b>281,211</b>	<b>364,196</b>	<b>392,350</b>

## **Notes to consolidated financial statements**

The consolidated financial statements of the Company for the first half ended September 30, 2006 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: 47 companies

*Major companies:*

Daiwa Securities Co. Ltd.  
 Daiwa Securities SMBC Co. Ltd.  
 Daiwa Asset Management Co. Ltd.  
 Daiwa Institute of Research Ltd.  
 NIF SMBC Ventures Co., Ltd.  
 Daiwa Securities Business Center Co., Ltd.  
 Daiwa Property Co., Ltd.  
 Daiwa Securities SMBC Europe Limited  
 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

In consolidated financial statements of the company for the first half ended Sep 30, 2006, one company was added to scope of consolidation by additional acquisition. 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, and is therefore excluded from the scope of consolidation.

#### 2. Application of equity method

Affiliates applicable of equity method: 4 companies

*Major companies:*

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

One company was excluded from application of equity method due to liquidation of a company. 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, and is therefore excluded from the scope of consolidation. For affiliates applicable of equity method with the first half ending other than September 30, 2006, the financial statements for the relevant first half are reflected.

Practical Issues Task Force No. 20, "Practical Solution on Application of Control Criteria and Influence Criteria to Investment Associations", has been applied from the first half of Fiscal 2006. This rule has no effective over the financial statements so far.

#### 3. Fiscal period of subsidiaries

For subsidiaries with the first half ending other than September 30, 2006, the financial statements for the relevant first half are employed and important transactions occurred by discrepancies with closing account date are adjusted for these 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 assets and liabilities

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

Trading securities are carried at fair value with unrealized gains or losses included in income. Held-to-maturity debt securities are stated at amortized 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 net assets. 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 available, share of net income raised by the investments in limited partnerships is reflected on consolidated statements of operations and share of net unrealized profits and losses on securities held by the partnerships is directly posted into net assets. Private equity and other securities held by certain consolidated subsidiaries 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

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

Accrued bonuses represent liabilities estimated as of the balance sheets date.

(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.

(v) Provision for litigation losses

Estimated amount of restitution is accrued to provide for future monetary damages of litigation regarding financial services based on the status of progress.

(Additional information)

To ensure financial soundness and to refine the method for calculation of provision for litigation regarding financial services, the estimated amount of losses is posted under "Provision for litigation losses".

(4) Accounting for certain lease transactions

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

(5) Hedging transaction

Marked-to-market profits and losses on hedging instruments are principally deferred as assets or liabilities until the profits or losses on the hedged instruments are realized. Interest received or paid on certain eligible 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) Consolidated tax payments system  
The consolidated tax payments system was applied.
5. Valuation of assets and liabilities of consolidated companies  
Assets and liabilities of the consolidated subsidiaries are recorded at fair value when the majority of ownership is acquired.
6. Amortization of goodwill and negative goodwill  
Goodwill and negative goodwill are amortized in a lump sum when incurred due to its immateriality in amount.
7. 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.

### **Changes in the accounting standards**

1. Presentation of net assets on consolidated balance sheet  
The consolidated financial statements of the Company for the first half ended September 30, 2006 are adapted to "Accounting Standard for Presentation of Net Assets in the Balance Sheet (ASBJ Statement No.5)" and "Guidance on Accounting Standard for Presentation of Net Assets in the Balance Sheet (ASBJ Guidance No.8)" from the beginning of this first half. Amount of shareholders' equity by the former accounting standard is 870,368 million yen.
2. Accounting for directors' bonus  
The consolidated financial statements of the Company for the first half ended September 30, 2006 are adapted to "Accounting Standard for Directors' Bonus (ASBJ Statement No.4)". From the beginning of this first half, directors' bonus is expensed when it is realized, instead of decreasing retained earnings upon approval at each consolidated subsidiary's annual shareholders' meeting.
3. Accounting standard for share-based payment and its implementation  
The consolidated financial statements of the Company for the first half ended September 30, 2006 are adapted to "Accounting standard for share-based payment and its implementation" (ASBJ Statement No.8) and "Implementation Guidance on Accounting Standard for share-based payment" (ASBJ Guidance No.11).

### **Notes to consolidated balance sheets**

1. Accumulated depreciation of tangible fixed assets

	As of Sep. 30, 2006	As of Sep. 30, 2005	As of Mar. 31, 2006
	109,422 million yen	100,264million yen	105,753 million yen
2. Guarantee

	As of Sep. 30, 2006	As of Sep. 30, 2005	As of Mar. 31, 2006
	1,997 million yen	3,041 million yen	2,506 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).

	As of Sep. 30, 2006	As of Sep. 30, 2005	As of Mar. 31, 2006
Short-term borrowings	62,000 million yen	-	20,000 million yen
Long-term borrowings	60,000 million yen	102,000 million yen	82,000 million yen

**Notes to consolidated statements of operations**

Details of extraordinary gains/losses

(millions of yen)	<u>First half</u> Apr. 1, 2006- Sep. 30, 2006	<u>First half</u> Apr. 1, 2005- Sep. 30, 2005	<u>Fiscal 2005</u> Apr. 1, 2005- Mar. 31, 2006
<b>Extraordinary gains:</b>			
Gain on sale of related companies' stocks	147	3,714	3,714
Gain on sale of investment securities	1,768	2,443	6,385
Reversal of securities transaction liabilities	-	0	-
Gain on change in stake in subsidiary	-	4,725	4,725
<b>Extraordinary losses:</b>			
Loss on litigation settlement	-	-	1,279
Write-down of related companies' stocks	200	-	-
Write-down of investment securities	546	121	499
Loss on sale or disposal of fixed assets	437	249	548
Loss on impairment of fixed assets	-	-	6,850
Extraordinary depreciation	-	-	4,439
Loss on sale of investment securities	238	17	69
Foreign exchange loss from overseas subsidiary capital reduction	-	-	1,563
Provision for litigation losses	550	-	-
Provision for securities transaction liabilities	183	-	1,374
Contribution to the Securities Market Infrastructure Improvement Funds	-	-	200
Other	-	226	297

**Note to consolidated statements of changes in net assets**

## 1. Number of shares outstanding

	As of Mar. 31, 2006	Increase	Decrease	As of Sep. 30, 2006
<b>Common share</b> <b>(Thousands of shares)</b>	1,332,460	72,204	-	1,404,664

## 2. Treasury stock

	As of Mar. 31, 2006	Increase	Decrease	As of Sep. 30, 2006
<b>Common share</b> <b>(Thousands of shares)</b>	11,295	115	1,786	9,624

## 3. Stock subscription rights

	Item	Number of shares				As of Sep. 30, 2006 (millions of yen)
		As of Mar. 31, 2006	Increase	Decrease	As of Sep. 30, 2006	
The Company	Stock subscription rights issued on July, 2006	-	301,000	-	301,000	410
The Company	Series 3 stock subscription rights (Treasury stock subscription rights)	- (-)	2,593,000 (5,000)	5,000 (-)	2,588,000 (5,000)	22 (-)
Consolidated subsidiary	Series 1 stock subscription rights issued on September, 2006	-	31	-	31	12
Consolidated subsidiary	Series 2 stock subscription rights issued on September, 2006	-	50	-	50	20
Consolidated subsidiary	Series 3 stock subscription rights issued on August, 2006	-	343	-	343	2
<b>Total</b>						<b>468</b>

- (1) Above all shares of stock subscription rights is common stock.
- (2) Above consolidated subsidiary is NIF SMBC ventures Co., Ltd.
- (3) Exercise period of the company's "series 3 stock subscription rights" and consolidated subsidiary's "series 3 stock subscription rights issued on August, 2006" have not yet started.
- (4) Stock subscription rights granted before enforcement of "Commercial law" does not write down because the balance of stock subscription right is none.

## 4. Dividends

## (1) Payments

Decision	Amount of dividends (millions of yen)	Dividends per share (yen)	Record date	Effective date
The meeting of the board of directors as of May. 18, 2006	29,065	22	Mar. 31, 2006	Jun. 1, 2006

## (2) The dividends of which the record date is in this first half and the effective date is in this second half

Decision	Amount of dividends (millions of yen)	Dividends per share (yen)	Record date	Effective date
The meeting of the board of directors as of Oct. 26, 2006	16,740	12	Sep. 30, 2006	Dec. 1, 2006

**Consolidated statements of cash flow**

Reconciliation for "Cash equivalents at end of term" and "Cash and time deposits" on consolidated balance sheet

(millions of yen)	(First half 2006)	(First half 2005)	(Fiscal year 2005)
Cash and deposits	287,135	369,007	407,889
Time deposit more than 3 months	-5,924	-4,810	-15,539
Cash and cash equivalents	281,211	364,196	392,350

## 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, 2006

##### i. Net operating revenue and expenses

(millions of yen)	Japan	America	Europe	Asia and Oceania	Total	Elimination/ Unallocated	Consolidated
Net operating revenues from external customers	224,087	6,002	5,255	5,998	241,343	-	241,343
Intersegment revenues	-2,931	570	8,367	423	6,430	-6,430	-
Net operating revenues	221,155	6,573	13,622	6,422	247,773	-6,430	241,343
S.G. & A. expenses	144,090	6,281	12,398	5,181	167,952	-6,430	161,522
Operating income	77,065	291	1,223	1,240	79,821	0	79,821

#### First half ended September 30, 2005

##### i. 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	85,746	825	2,499	1,038	90,109	-10,121	79,987

#### Fiscal 2005 ended March 31, 2006

##### Net operating revenue and expenses

(millions of yen)	Japan	America	Europe	Asia and Oceania	Total	Elimination/ Unallocated	Consolidated
Net operating revenues from external customers	541,666	5,527	21,672	10,492	579,358	-	579,358
Intersegment revenues	1,529	8,758	12,085	1,605	23,979	(23,979)	-
Net operating revenues	543,195	14,286	33,758	12,097	603,337	(23,979)	579,358
S.G. & A. expenses	294,984	11,920	23,679	8,471	339,055	(13,856)	325,199
Operating income (loss)	248,211	2,366	10,078	3,625	264,281	(10,122)	254,159

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, 2006**

(millions of yen)	America	Europe	Asia and Oceania	Total
Overseas net operating revenues	10,133	3,954	5,388	19,475
Consolidated net operating revenues				241,343
Percentage of total revenues	4.2%	1.6%	2.2%	8.1%

**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%

**Fiscal 2005 ended March 31, 2006**

(millions of yen)	America	Europe	Asia and Oceania	Total
Overseas net operating revenues	10,312	19,370	11,015	40,698
Consolidated net operating revenues	-	-	-	579,358
Percentage of total revenues	1.8%	3.3%	1.9%	7.0%

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', the 'Derivative transactions', and 'Stock option' 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 concerning 'Securities' as the 'Additional information on financial summary' as soon as those are available.

**Supplemental information for the first half of fiscal 2006****1. Breakdown of commissions**

First half ended September 30, 2006 (A)

(millions of yen)	Equity	Fixed income (Bond)	Investment trust	Investment banking	Others	Total
<b>Brokerage commission</b>	45,604	365	158	-	-	46,128
<b>Underwriting commission</b>	-	-	-	19,238	-	19,238
(Stock and other)	(-)	(-)	(-)	(14,551)	(-)	(14,551)
(Bond and other)	(-)	(-)	(-)	(3,928)	(-)	(3,928)
<b>Distribution commission</b>	-	-	17,703	767	-	18,471
<b>Other commission</b>	917	1,135	30,608	6,786	11,682	51,131
(Agency commission)	(-)	(1,135)	(16,202)	(-)	(-)	(17,338)
<b>Total</b>	<b>46,521</b>	<b>1,501</b>	<b>48,470</b>	<b>26,792</b>	<b>11,682</b>	<b>134,968</b>

First half ended September 30, 2005 (B)

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

Yr/yr percentage change ( (A) / (B) - 1)

(percentage)	Equity	Fixed income (Bond)	Investment trust	Investment banking	Others	Total
<b>Brokerage commission</b>	5.1	-23.8	53.9	-	-	4.9
<b>Underwriting commission</b>	-	-	-	33.1	-	33.1
(Stock and other)	(-)	(-)	(-)	(58.8)	(-)	(58.8)
(Bond and other)	(-)	(-)	(-)	(-11.1)	(-)	(-11.1)
<b>Distribution commission</b>	-	-	11.7	-20.9	-	9.8
<b>Other commission</b>	3.9	-8.8	82.3	2.2	62.6	56.2
(Agency commission)	(-)	(-8.0)	(74.1)	(-)	(-)	(64.5)
<b>Total</b>	<b>5.1</b>	<b>-13.0</b>	<b>48.0</b>	<b>21.4</b>	<b>62.6</b>	<b>25.0</b>

Fiscal 2005 ended March 31, 2006

(millions of yen)	Equity	Fixed income (Bond)	Investment trust	Investment banking	Others	Total
<b>Brokerage commission</b>	118,261	923	336	-	-	119,520
<b>Underwriting commission</b>	-	-	-	64,313	-	64,313
(Stock and other)	(-)	(-)	(-)	(54,066)	(-)	(54,066)
(Bond and other)	(-)	(-)	(-)	(8,554)	(-)	(8,554)
<b>Distribution commission</b>	-	-	41,798	2,031	-	43,830
<b>Other commission</b>	1,955	2,278	40,268	16,389	20,631	81,523
(Agency commission)	(-)	(2,259)	(22,275)	(-)	(-)	(24,535)
<b>Total</b>	<b>120,216</b>	<b>3,202</b>	<b>82,403</b>	<b>82,735</b>	<b>20,631</b>	<b>309,188</b>

**2. Breakdown of net gains on trading**

(millions of yen)	First half (2006/9)	First half (2005/9)	Yr/yr % change	Fiscal 2005 (2006/3)
<b>Stock and other</b>	12,226	46,477	-73.7	124,270
<b>Bond, forex and other</b>	60,841	57,873	5.1	100,641
(Bond and other)	(25,366)	(28,802)	(-11.9)	(39,025)
(Forex and other)	(35,475)	(29,070)	(22.0)	(61,615)
<b>Total</b>	<b>73,068</b>	<b>104,351</b>	<b>-30.0</b>	<b>224,912</b>

**Quarterly consolidated statements of operations**

(millions of yen)	<b>2nd quarter</b> Jul. 1, 2005- Sep. 30, 2005	<b>3rd quarter</b> Oct. 1, 2005- Dec. 31, 2005	<b>4th quarter</b> Jan. 1, 2006- Mar. 31, 2006	<b>1st quarter</b> Apr.1, 2006- June 30, 2006	<b>2nd quarter</b> Jul. 1, 2006- Sep. 30, 2006
<b>Operating revenues</b>	195,376	245,284	269,562	207,638	211,752
Commissions	62,944	89,853	111,351	67,858	67,110
Brokerage commission	26,209	39,072	36,482	26,593	19,534
(Stock and other)	25,916	38,628	36,249	26,269	19,335
(Bond and other)	228	307	136	224	141
Underwriting commission	9,132	16,378	33,482	6,678	12,559
(Stock and other)	6,661	13,504	31,398	4,370	10,181
(Bond and other)	2,011	2,277	1,854	2,059	1,869
Distribution commission	9,305	13,214	13,796	10,624	7,846
(Beneficiary certificates)	8,900	12,627	13,321	10,126	7,576
Other commission	18,297	21,188	27,590	23,961	27,170
(Beneficiary certificates)	9,049	10,796	12,584	14,485	16,012
Net gain (loss) on trading	68,547	57,749	62,810	35,234	37,833
(Stock and other)	39,042	31,102	46,690	17,563	-5,336
(Bond and other)	8,236	5,751	4,471	-1,821	27,188
(Forex and other)	21,268	20,896	11,648	19,492	15,982
Net gain (loss) on private equity and other securities	2,071	9,037	6,421	11,602	7,058
Interest and dividend income	52,483	73,869	75,892	83,400	88,361
Other sales revenues	9,330	14,774	13,087	9,542	11,388
<b>Interest expenses</b>	49,507	70,425	73,107	78,166	83,870
<b>Cost of sales</b>	7,178	12,085	9,843	7,381	8,629
<b>Net operating revenues</b>	138,689	162,773	186,612	122,090	119,252
<b>Selling, general and administrative expenses:</b>	80,106	86,389	88,824	78,942	82,580
Commission and other expenses	15,509	16,148	18,503	15,037	18,080
Employees' compensation and benefits	42,485	47,355	46,260	40,143	39,364
Occupancy and rental	8,312	8,042	8,557	7,868	9,187
Data processing and office supplies	4,014	4,379	4,569	5,761	5,364
Depreciation expenses	5,588	5,669	5,830	5,364	5,642
Taxes other than income taxes	2,004	2,109	2,363	1,856	2,016
Others	2,191	2,685	2,739	2,911	2,923
<b>Operating income</b>	58,582	76,383	97,788	43,148	36,672
Non-operating income	1,957	2,196	1,838	3,223	4,622
Non-operating expenses	384	172	1,338	955	261
<b>Ordinary income</b>	60,155	78,407	98,287	45,416	41,034
Extraordinary gains	10,562	3,020	921	834	1,081
Extraordinary losses	614	1,867	14,640	107	2,050
<b>Income before income taxes and minority interests</b>	70,102	79,560	84,569	46,143	40,065
<b>Income taxes-current</b>	22,478	20,940	31,558	6,241	18,980
<b>Income taxes-deferred</b>	4,104	7,187	-17,591	11,435	606
<b>Minority interests</b>	-9,333	-12,629	-15,279	-5,347	-3,470
<b>Net income</b>	34,185	38,803	55,322	23,118	17,008
<b>Net financial income included in net operating revenues</b>	2,975	3,444	2,785	5,233	4,491

**Daiwa Securities Group Inc.**

2-6-4 Otemachi Chiyoda-ku

Tokyo 100-8101, Japan

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

October 26, 2006

## Non-consolidated financial summary

(For the first half ended September 30, 2006)

**(1) Operating results (from April 1, 2006 to September 30, 2006)**

(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 (2006/9)	76,039	(125.8)%	69,362	(149.3)%	72,343	(146.6)%
First half (2005/9)	33,671	(48.4)%	27,821	(72.8)%	29,333	(65.7)%
Fiscal 2005 (2006/3)	35,215		23,033		25,140	

	Net income		Earnings/share	
First half (2006/9)	76,719	(115.7)%	57.43	Yen
First half (2005/9)	35,573	(95.3)%	26.73	Yen
Fiscal 2005 (2006/3)	51,335		38.62	Yen

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

First half (2006/9): 1,335,734,552    First half (2005/9): 1,330,587,381    Fiscal 2005 (2006/3): 1,328,976,751

2. Change in accounting policies: None

**(2) Financial conditions**

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

	Total assets	Net assets	Equity ratio	Net assets /share
As of Sep. 30, 2006	1,281,242	732,884	57.2 %	525.03 Yen
As of Sep. 30, 2005	1,050,264	609,470	58.0 %	458.05 Yen
As of Mar. 31, 2006	1,224,643	613,824	50.1 %	464.60 Yen

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

As of Sep. 30, 2006: 1,395,049,580    As of Sep. 30, 2005: 1,330,555,430    As of Mar. 31, 2006: 1,321,174,474

2. Treasury stock (shares)

As of Sep. 30, 2006: 9,615,192    As of Sep. 30, 2005: 1,180,742    As of Mar. 31, 2006: 11,285,635

**(3) Dividends**

	Dividends per share (yen)		
	First half	Second half	Fiscal
Fiscal 2005	12.00	22.00	34.00
Fiscal 2006 (actual)	12.00	-	Not yet determined
Fiscal 2006 (expected)	-	Not yet determined	

(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 and expected dividends of second half and fiscal, 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, 2006	First half Sep. 30, 2005	Increase/ Decrease	Fiscal 2005 Mar. 31, 2006
<b>Assets</b>				
<b>Current assets:</b>	<b>291,849</b>	<b>136,508</b>	<b>155,341</b>	<b>313,632</b>
Cash and deposits	47,572	92,342	-44,769	129,130
Securities	3,277	-	3,277	3,542
Short-term loans receivable	157,483	26,073	131,409	133,404
Accounts receivable	70,716	15,981	54,734	44,244
Accrued income	1,484	752	731	753
Deferred tax assets-current	195	210	-14	564
Other current assets	11,118	1,147	9,971	1,993
<b>Non-current assets:</b>	<b>989,392</b>	<b>913,755</b>	<b>75,637</b>	<b>911,010</b>
Tangible fixed assets	10,003	10,091	-87	10,026
Intangible fixed assets	809	668	140	755
Investments and others:	978,580	902,995	75,584	900,228
Investment securities	777,338	683,926	93,411	706,934
Long-term loans receivable	178,480	198,126	-19,646	170,946
Long-term guarantee deposits	13,189	12,464	725	12,885
Others	10,013	8,974	1,038	9,911
Less: Allowance for doubtful accounts	-441	-496	55	-449
<b>Total assets</b>	<b>1,281,242</b>	<b>1,050,264</b>	<b>230,978</b>	<b>1,224,643</b>

(millions of yen)	First half Sep. 30, 2006	First half Sep. 30, 2005	Increase/ Decrease	Fiscal 2005 Mar. 31, 2006
<b>Liabilities</b>				
<b>Current liabilities:</b>	<b>172,040</b>	<b>229,611</b>	<b>-57,570</b>	<b>278,064</b>
Short-term borrowings	93,385	70,710	22,675	62,235
Bonds and notes due within one year	-	79,985	-79,985	79,193
Collateralized short-term financing agreements	74,314	75,339	-1,024	132,112
Income taxes payable	117	111	6	176
Accrued bonuses	696	791	-94	1,613
Other current liabilities	3,526	2,674	851	2,734
<b>Non-current liabilities:</b>	<b>376,317</b>	<b>211,182</b>	<b>165,134</b>	<b>332,754</b>
Bonds and notes	287,900	135,400	152,500	236,400
Long-term debt	49,000	46,500	2,500	49,000
Long-term cash deposits received as guarantee	3,569	4,093	-524	4,042
Deferred tax liabilities-non-current	32,387	20,394	11,992	38,739
Retirement benefits	1,805	3,527	-1,722	2,361
Provision for litigation losses	240	-	240	-
Other non-current liabilities	1,414	1,266	147	2,211
<b>Total liabilities</b>	<b>548,357</b>	<b>440,793</b>	<b>107,563</b>	<b>610,819</b>
<b>Shareholders' equity</b>				
Common stock	-	138,432	-	138,828
Capital surplus	-	117,940	-	118,339
Additional paid-in capital	-	117,786	-	118,182
Other capital surplus reserve	-	153	-	156
Retained earnings	-	314,338	-	314,133
Earned surplus reserve	-	45,335	-	45,335
General-purpose reserve	-	218,000	-	218,000
Unappropriated retained earnings	-	51,003	-	50,798
(Net income for the current term)	-	(35,573)	-	(51,335)
Net unrealized gain (loss) on securities, net of tax effect	-	39,585	-	57,183
Treasury stock	-	-826	-	-14,660
<b>Total shareholders' equity</b>	<b>-</b>	<b>609,470</b>	<b>-</b>	<b>613,824</b>
<b>Total liabilities and shareholders' equity</b>	<b>-</b>	<b>1,050,264</b>	<b>-</b>	<b>1,224,643</b>
<b>Net assets</b>				
<b>Owners' equity</b>	<b>684,477</b>	-	-	-
Common stock	178,324	-	-	-
Capital surplus	157,678	-	-	-
Retained earning	360,974	-	-	-
Treasury stock	-12,500	-	-	-
Paid-in money for treasury shares	0	-	-	-
<b>Valuation and translation adjustments</b>	<b>47,974</b>	-	-	-
Net unrealized gain (loss) on securities, net of tax effect	47,455	-	-	-
Deferred gain (loss) on hedges	519	-	-	-
<b>Stock subscription rights</b>	<b>432</b>	-	-	-
<b>Total net assets</b>	<b>732,884</b>	-	-	-
<b>Total liabilities and net assets</b>	<b>1,281,242</b>	-	-	-

**Statements of operations**

(millions of yen)	First half Apr. 1, 2006 - Sep. 30, 2006	First half Apr. 1, 2005 - Sep. 30, 2005	Yr/yr % change	Fiscal 2005 Apr. 1, 2005 - Mar. 31, 2006
<b>Operating revenues:</b>	<b>76,039</b>	<b>33,671</b>	<b>125.8</b>	<b>35,215</b>
Dividends from related companies	73,894	32,243	129.2	32,257
Interest on loans to related companies	1,968	1,371	43.5	2,805
Other	176	56	215.2	152
<b>Operating expenses:</b>	<b>6,677</b>	<b>5,849</b>	<b>14.2</b>	<b>12,181</b>
Selling, general and administrative expenses:	4,873	4,301	13.3	9,210
Commission and other expenses	733	971	-24.5	1,747
Employees' compensation and benefits	1,875	1,858	0.9	4,130
Occupancy and rental	280	308	-9.2	614
Data processing and office supplies	791	405	95.3	855
Depreciation expenses	153	175	-12.6	350
Others	1,038	580	78.8	1,512
Interest expenses	1,804	1,548	16.6	2,971
<b>Operating income</b>	<b>69,362</b>	<b>27,821</b>	<b>149.3</b>	<b>23,033</b>
Non-operating income	3,551	1,559	127.8	2,841
Non-operating expenses	569	47	-	733
<b>Ordinary income</b>	<b>72,343</b>	<b>29,333</b>	<b>146.6</b>	<b>25,140</b>
Extraordinary gains	6,273	9,061	-30.8	9,681
Extraordinary losses	1,862	179	935.9	3,255
<b>Income before income taxes</b>	<b>76,755</b>	<b>38,215</b>	<b>100.8</b>	<b>31,566</b>
<b>Income taxes-current</b>	<b>-299</b>	<b>-9,647</b>	<b>-</b>	<b>-37,973</b>
<b>Income taxes-deferred</b>	<b>334</b>	<b>12,288</b>	<b>-97.3</b>	<b>18,205</b>
<b>Net income</b>	<b>76,719</b>	<b>35,573</b>	<b>115.7</b>	<b>51,335</b>
<b>Unappropriated retained earnings-carryforward</b>	<b>-</b>	<b>15,429</b>	<b>-</b>	<b>15,429</b>
<b>Interim dividends</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>15,966</b>
<b>Unappropriated retained earnings</b>	<b>-</b>	<b>51,003</b>	<b>-</b>	<b>50,798</b>

**Statements of changes in net assets**

(millions of yen)	Owners' equity			
	Common stock	Capital surplus		
		Additional paid - in capital	Other capital surplus reserve	Total capital surplus
<b>Beginning balance as of Mar. 31, 2006</b>	<b>138,828</b>	<b>118,182</b>	<b>156</b>	<b>118,339</b>
<b>Changes of items during the fiscal year</b>				
Issuance of new shares	39,495	39,495	-	39,495
Disposal of treasury stock	-	-	-156	-156
<b>Total changes of items during the fiscal year</b>	<b>39,495</b>	<b>39,495</b>	<b>-156</b>	<b>39,339</b>
<b>Ending balance as of Sep. 30, 2006</b>	<b>178,324</b>	<b>157,678</b>	<b>-</b>	<b>157,678</b>

(millions of yen)	Owners' equity					
	Retained earnings				Treasury stock	Total
	Earned surplus reserve	Other earned surplus reserve		Total retained earnings		
		General - purpose reserve	Deferred earned surplus			
<b>Beginning balance as of Mar. 31, 2006</b>	<b>45,335</b>	<b>218,000</b>	<b>50,798</b>	<b>314,133</b>	<b>-14,660</b>	<b>556,640</b>
<b>Changes of items during the fiscal year</b>						
Issuance of new shares	-	-	-	-	-	78,991
Dividends	-	-	-29,065	-29,065	-	-29,065
Net income	-	-	76,719	76,719	-	76,719
Purchase of treasury stock	-	-	-	-	-162	-162
Disposal of treasury stock	-	-	-813	-813	2,322	1,353
<b>Total changes of items during the fiscal year</b>	<b>-</b>	<b>-</b>	<b>46,840</b>	<b>46,840</b>	<b>2,160</b>	<b>127,836</b>
<b>Ending balance as of Sep. 30, 2006</b>	<b>45,335</b>	<b>218,000</b>	<b>97,638</b>	<b>360,974</b>	<b>-12,500</b>	<b>684,477</b>

( millions of yen)	Valuation and translation adjustments			Stock subscription rights	Total net assets
	Net unrealized gain (loss) on securities, net of tax effect	Deferred gains and losses on hedges	Total valuation and translation adjustments		
<b>Beginning balance as of Mar. 31, 2006</b>	<b>57,183</b>	-	<b>57,183</b>	-	<b>613,824</b>
<b>Changes of items during the fiscal year</b>					
Issuance of new shares	-	-	-	-	78,991
Dividends	-	-	-	-	-29,065
Net income	-	-	-	-	76,719
Purchase of treasury stock	-	-	-	-	-162
Disposal of treasury stock	-	-	-	-	1,353
Net changes of items other than owners' equity during the fiscal year	-9,727	519	-9,208	432	-8,775
<b>Total changes of items during the fiscal year</b>	<b>-9,727</b>	<b>519</b>	<b>-9,208</b>	<b>432</b>	<b>119,060</b>
<b>Ending balance as of Sep. 30, 2006</b>	<b>47,455</b>	<b>519</b>	<b>47,974</b>	<b>432</b>	<b>732,884</b>

### **Notes to financial statements**

The financial statements of the Company for the first half ended September 30, 2006 are prepared in accordance with 'Regulations of Interim Financial Statements' (MOF Ordinance No. 38, 1977).

### **Basis of financial statements**

#### 1. Valuation of securities

- (1) Trading assets and liabilities, including securities and financial derivatives for trading purposes held by securities companies are recorded mainly on a trade date basis in the consolidated Balance Sheet at either market or fair value.
- (2) Subsidiary stocks and affiliated company stocks are valued at moving average cost method.
- (3) Other securities than subsidiary stocks and affiliated company stocks are valued at fair value on the closing date if their fair value is available. Net unrealized gains net of tax effect directly are posted in net assets, and 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. Investment limited partnership and similar partnership are posted as investment securities according to the share of net income raised by the partnership. Share of net unrealized profits and losses on securities held by the partnerships 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, 2007.

## (4) Provision for litigation losses

Estimated amount of restitution is accrued to provide for future monetary damages of litigation regarding financial services based on the status of progress.

## (Additional information)

To ensure financial soundness and to refine the method for calculation of provision for litigation regarding financial services, the estimated amount of losses is posted under "Provision for litigation losses".

## 4. Accounting for certain lease transactions

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

## 5. Hedging transaction

Marked-to-market profits and losses on hedging instruments are principally deferred as assets or liabilities until the profits or losses on the hedged instruments are realized. Interest received or paid on certain eligible 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) Consolidated tax payments system

The consolidated tax payments system is applied.

**Changes in the accounting standards**

## 1. Presentation of Net assets on Balance Sheet

The financial statements of company for the first half ended September 30, 2006 are adapted to "Accounting Standard for Presentation of Net Assets in the Balance Sheet (ASBJ Statements No.5)" and "Guidance on Accounting Standard for Presentation of Net Assets in the Balance Sheet (ASBJ Guidance No.8)" from the beginning of this first half. Amount of shareholders' equity by the former accounting standard is 731,933 million yen.

## 2. Accounting standard for share-based payment and its implementation

The consolidated financial statements of the Company for the first half ended September 30, 2006 are adapted to "Accounting standard for share-based payment and its implementation" (ASBJ Statement No.8) and "Implementation Guidance on Accounting Standard for share-based payment" (ASBJ Guidance No.11).

**Notes to balance sheets**

## 1. Accumulated depreciation of tangible fixed assets

As of Sep. 30, 2006	As of Sep. 30, 2005	As of Mar. 31, 2006
3,114 millions yen	2,992 million yen	3,054 million yen

## 2. Guarantee

As of Sep. 30, 2006	As of Sep. 30, 2005	As of Mar. 31, 2006
3,617 millions yen	8,694 million yen	4,589 million yen

## 3. Details of increasing number of shares outstanding for the first half

	<u>Number of shares outstanding</u>	<u>Equity in earning</u>	<u>Capitalized surplus</u>
Increase by conversion of convertible bonds	72,204,663	78,991 million yen	39,495 million yen

## 4. Fair value of subsidiary and affiliated company stocks as of Sep. 30, 2006 (millions of yen)

	<u>Carrying value</u>	<u>Fair value</u>	<u>Difference</u>
Subsidiary	19,648	71,034	51,386

**Notes to statements of operations**

Details of extraordinary gains/losses

	<b>First half</b> Apr. 1, 2006- Sep. 30, 2006	<b>First half</b> Apr. 1, 2005- Sep. 30, 2005	(millions of yen) <b>Fiscal 2005</b> Apr. 1, 2005- Mar. 31, 2006
<b>Extraordinary gains:</b>			
Gain on liquidation of related companies	-	1,200	1,200
Gain on sale of related companies	138	6,146	6,146
Gain on sale of investment securities	-	1,714	2,333
Reversal of doubtful accounts	6,135	-	-
<b>Extraordinary losses:</b>			
Loss on litigation settlement	-	-	1,279
Write-down of related companys' stocks	722	-	-
Write-down of investment securities	888	74	75
Loss on impairment of fixed assets	-	104	120
Loss on sale of investment securities	10	-	4
Provision for doubtful accounts	-	-	211
Foreign exchange loss from overseas subsidiary capital reduction	-	-	1,563
Provision for litigation losses	240	-	-

**Other notes**

The Group 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.