

Information in this annual report may contain forward-looking statements regarding expectations of Daiwa Securities Group Inc. These statements are based on currently available information and represent the beliefs of the management of Daiwa Securities Group Inc. These statements are subject to numerous risks and uncertainties that could cause actual results, performance and achievements to differ materially from those described or implied in the forward-looking statements. These potential risks and uncertainties include without limitation volatile and sudden movements in the international securities markets, foreign exchange and global economic situations affecting the Daiwa Securities Group.

FINANCIAL

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FIVE-YEAR FINANCIAL SUMMARY

Daiwa Securities Group Inc. & Consolidated Subsidiaries (years ended march 31, 1996 through 2000)*

	Millions of yen					Thousands of U.S. dollars
	2000	1999	1998	1997	1996	2000
Operating Results:						
Revenues:						
Commissions	¥ 364,116	¥ 185,450	¥ 198,118	¥ 242,599	¥ 221,829	\$3,435,057
Net gain (loss) on trading	126,170	(20,708)	39,385	57,159	72,017	1,190,283
Interest and dividend income	103,882	190,219	286,393	282,965	233,537	980,019
Service fees and other sales	60,482	-	-	-	-	570,584
Total	654,650	354,961	523,896	582,723	527,383	6,175,943
Operating expenses	427,720	443,527	538,065	534,035	460,912	4,035,094
Income (loss) before income taxes and minority interests	135,173	(208,538)	(83,936)	(77,559)	58,895	1,275,217
Net income (loss)	105,376	(127,890)	(83,657)	(80,021)	47,051	994,113
Financial Position:						
Total assets	8,514,213	6,268,596	10,132,457	13,425,965	8,879,277	80,322,764
Shareholders' equity	666,072	639,859	774,699	873,191	964,570	6,283,698
	Yen					U.S. dollars
Per Share Amounts:						
Net income (loss)	¥ 79.43	¥ (96.00)	¥ (62.35)	¥ (59.51)	¥ 35.00	\$ 0.75
Cash dividends applicable to the year	13.00	5.00	6.00	8.00	8.00	0.12
Shareholders' equity	502.05	480.47	580.08	649.42	717.59	4.72
	Percent					
Financial Ratios:						
Pretax profit margin	20.6	%	-	%	-	%
(Income before income taxes and minority interests to total revenues)						
Net profit margin	16.1		-		-	8.9
(Net income to total revenues)						
Return on average shareholders' equity . . .	16.1		-		-	5.0
(Net income to average shareholders' equity)						
Equity ratio						
(Shareholders' equity to total assets) ** . .	10.0	12.9	9.3	8.1	13.3	
Other Data:						
Number of employees ***	11,415	8,855	10,006	9,880	10,184	

Notes

1. Unless indicated otherwise, all dollar figures herein refer to US currency. Dollar amounts represent translations at the rate of ¥106 = US\$1, the rate prevailing on March 31, 2000

2. Net income and shareholders' equity per share are computed based on the average number of shares outstanding during the year

* As of April 26, 1999 the former Daiwa Securities Co. Ltd. was reorganized and officially renamed Daiwa Securities Group Inc.

** Securities in custody account has been deducted from total assets

*** Figures are the sum of the Holding Company and its consolidated subsidiaries

MANAGEMENT'S DISCUSSION AND ANALYSIS

Pursuant to shareholders' approval granted at an extraordinary general shareholders' meeting held on February 5, 1999, the former Daiwa Securities Co. Ltd. transferred its wholesale securities operations to Daiwa Securities SB Capital Markets Co. Ltd. (Daiwa SBCM), a subsidiary in which it has 60% ownership, on April 5, 1999. The Company also transferred its retail securities operations to its wholly-owned subsidiary Daiwa Securities Retail Preparation Co., Ltd. on April 26, 1999, with a change in trade name to Daiwa Securities Co. Ltd. (Daiwa Securities) on the same date.

Along with these transfers, the Company's trade name was changed from Daiwa Securities Co. Ltd. to Daiwa Securities Group Inc. on April 26, 1999. The Company subsequently became a holding company owning shares in Daiwa Securities Group companies and controlling their business operations.

CORPORATE ACTIVITIES

1. Transfer of operations

On April 5, 1999, the Company transferred its wholesale securities operations to Daiwa SBCM. Assets transferred totaled ¥3,095.4 billion (US\$29,202 million), liabilities ¥2,642.2 billion (US\$24,926 million), with ¥200 billion (US\$1,886 million) of the assets transferred representing trade rights. In addition, on April 26, 1999, domestic retail securities operations were transferred to the New Daiwa Securities Co. Ltd. Assets and liabilities transferred totaled ¥701.2 billion (US\$6,615 million) and ¥651.8 billion (US\$6,149 million), respectively.

2. Acquisition and transfer of Group companies and organizational changes

During the term under review, the Holding Company has underwritten a capital increase by Daiwa Securities and Daiwa SBCM and increased its interest in the Group companies by acquiring outstanding equity of other Group companies. As a result, the Company acquired majority voting rights in Daiwa Asset Management Co. Ltd., Daiwa Institute of Research Ltd., and the Daiwa Real Estate Co. Ltd. It also acquired 44% of the voting rights in Daiwa SB Investments Ltd., a joint venture formed with participation from The Sumitomo Bank, Limited and others. In addition, the Company decided to merge Nippon Investment & Finance Co. Ltd. and Daiwa Finance Co. Ltd. Prior to the merger, the credit card operations of Daiwa Finance Co. Ltd. were transferred to the Company's wholly-owned subsidiary Daiwa Card Service Co., Ltd. in March 2000 in order to conduct credit card services independently. The amount of equity in Group companies acquired during this term consisted of ¥422.6 billion (US\$3,987 million) from underwriting capital increases and ¥88.6 billion (US\$836 millions) from acquisition of shares outstanding.

The Company's overseas operations will be centralized under Daiwa SBCM. Accordingly, the Beijing and Shanghai offices and the Seoul Branch were transferred to Daiwa SBCM in April 1999, as were the subsidiaries in Europe, the Middle East, Asia and Oceania in October of the same year for a total of ¥34.8 billion (US\$328 million). The Company is also considering transferring the United States subsidiary to Daiwa SBCM subject to local regulatory approval.

The Holding Company decided to sell its stake in Daiwa International Trust Bank Limited to The Sumitomo Trust & Banking Co., Ltd. with a view to concentrating resources in securities-related business.

3. Establishment of executive committees

In order to allow the Company to effectively function as a holding company and in addition to establishing the executive committees and management boards specified by law, a Group Management Meeting whose members include the presidents of the main Group companies has been formed. Furthermore, in order to share information concerning Group management objectives and the business strategies of the main Group companies, the Company has established a Group Officers Meeting. The Group Officers Meeting include all board members, General Managers & Branch Managers of the main Group companies. The Company has also established an Advisory Board to obtain wide-ranging management advice from well-informed persons in business and academic fields.

PROGRESS IN CORPORATE INTEGRATION

1. Economic environment

Although the Japanese economy continued to struggle following two consecutive years of negative growth, hopes for economic recovery were buoyed by government measures to stabilize the financial system and to boost the economy and by the BOJ's financial relaxation measures.

With continuing high unemployment and limited improvement in sight for personal income, consumer spending remained subdued. On the other hand, corporate activity picked up as evidenced by a moderate increase in production as inventory adjustments came to an end. The start of 2000, moreover, witnessed an upward turn in capital investment and gradual appearance of a self-sustaining economic recovery.

2. Market environment

Amid this economic environment, the stock market rebounded following an influx of funds from foreign investors and mutual funds. As a result, the securities industry enjoyed a prosperous year after a long hiatus. By the end of March 2000, the Nikkei Average had risen to ¥20,337, a 28% increase over the previous term. Trading on the Tokyo Stock Exchange during the term increased 135% to ¥237,855.3 billion, a 10-year high.

In the bond market, the yield on the JGB Benchmark declined, touching 1.2% at one point due to BOJ financial relaxation measures. As the year progressed, the zero interest rate policy set by the BOJ, the anticipated increase in JGB issuance, together with the inflow of funds from financial institutions set a nervous tone in the market with long term interest rates fluctuating in a narrow range.

3. Overview of consolidated results

There were 56 consolidated subsidiaries in the Group this term. The equity method was applied to four companies.

(a) Revenues

Reflecting the rebound of the stock market, consolidated revenues for the term grew a substantial 184% to ¥654.6 billion.

	Billions of yen	Million of U.S. dollars
Operating Revenues	654.6	6,176
Commissions	364.1	3,435
Brokerage	147.4	1,391
Equity	145.9	1,377
Bonds	1.4	14
Underwriting	34.8	329
Equity	24.7	234
Bonds	9.6	91
Distribution	88.2	832
Investment trusts	86.7	819
Other commission	93.5	883
Investment trusts	70.4	664
Net Gain on Trading Accounts	117.6	1,110
Equity	52.3	494
Bonds	65.2	616
Net Gain on Operational Investment Securities	8.1	76
Net Gain on Other Commodities Trading	0.3	2
Financial Revenues	103.8	980
Others Revenues	60.4	569

Commission income, particularly brokerage commissions, increased considerably due to buoyancy in the domestic stock market and increases in trading volume.

Trading activities, meanwhile, returned to profitability thanks to healthy profits from equity trading stimulated by market recovery as well as profits from trading of bonds by overseas subsidiary companies.

Financial income declined due to continuing low interest rates and a reduction in the bond repo activity of the overseas offices.

“Other Revenues” includes revenues from newly consolidated companies which do not belong to any of the operating revenue categories.

Commissions

	Millions of yen						
	Equity	Fixed Income (Bond)	Asset Management	Investment Banking	Others	Total	
Brokerage	¥ 145,968	¥ 1,488	¥ 7	¥ –	¥ 13	¥ 147,476	
Underwriting and Distribution .	–	–	–	34,887	–	34,887	
Subscription and Distribution . .	–	–	86,764	1,439	–	88,203	
Other	2,876	3,395	70,431	7,218	9,630	93,550	
Total	¥ 148,844	¥ 4,883	¥ 157,202	¥ 43,544	¥ 9,643	¥ 364,116	

Equities Division

Amid the continuing buoyancy of domestic markets since last term and the expansion of trading volume, Daiwa Securities and Daiwa SBCM increased their market share. Notwithstanding liberalization of commissions, brokerage commissions amounted to a ¥145.9 billion (US\$1,377 million), with total commissions for the division increasing to ¥148.8 billion (US\$1,404 million). This division's commissions also include brokerage commissions relating to convertible bonds and bonds with warrants.

Fixed Income (bond) Division

Brokerage commissions earned by consolidated subsidiaries, including overseas subsidiaries, amounted to ¥1.4 billion (US\$14 million), while agent commissions and others earned in Japan were ¥2.9 billion (US\$27 million), resulting in a total of ¥4.8 billion (US\$46 million).

Asset Management Division

Helped by the recovery of the stock market, investment trusts outstanding increased, resulting in commissions for mutual funds steadily rising to a total of ¥157.2 billion (US\$1,483 million).

Investment Banking Division

This division brought in ¥34.8 billion (US\$329 million) in domestic and overseas underwriting and distribution commission, ¥1.4 billion (US\$14 million) in domestic underwriting and distribution commission, and ¥7.2 billion (US\$68 million) in other commissions. Overall, revenue totaled ¥43.5 billion (US\$411 million).

Other divisions

The other principal sources of commissions this year include custody fees of ¥1.5 billion (US\$14 million) posted by overseas banking subsidiaries and ¥2.6 billion (US\$25 million) in investment management fees earned by Nippon Investment & Finance, a newly consolidated subsidiary from this term (renamed NIF Ventures Ltd. from April 2000).

Gains on Trading Account

Net gains or losses on trading activities moved solidly into positive territory due to equity trading profits accompanying the recovery of the domestic stock market and bond trading profits, particularly by overseas subsidiaries. Gains in trading activities were ¥52.3 billion (US\$494 million) for equities and ¥65.2 billion (US\$616 million) for bonds.

(b) Profits & Losses

Although trading expenses increased due to the rise in trading volume accompanying the rebound of share prices and the increase in number of subsidiaries, financial expenses dropped considerably, resulting in a decline in consolidated operating expenses to ¥427.7 billion (US\$4,035 million), or 3.6% of the previous term's amount.

Consolidated ordinary income rebounded to ¥224.1 billion (US\$2,114 million) from the preceding term's ¥87.9 billion (US\$830 million) loss.

Consolidated net income for the term was ¥105.3 billion (US\$994 million) after posting a ¥32.5 billion (US\$307 million) loss in minority interests (credit for consolidated net income) stemming from extraordinary losses including amortization of goodwill posted by Daiwa SBCM. As a result, consolidated net profit per share was ¥79.43 (US\$0.75). Return on Equity (ROE) was 16.1%.

(c) Assets, Liabilities, & Shareholders' Equity

Assets at term end totaled ¥8,514.2 billion (US\$80,323 million), a ¥2,245.6 billion (US\$21,185 million) increase resulting from a rise in securities deposited from customers and borrowed securities for collateral stemming from the buoyant stock market. Liabilities increased ¥2,079.3 billion (US\$19,616 million) to ¥7,706.2 billion (US\$72,701 million). Meanwhile shareholders' equity increased ¥26.2 billion (US\$247 million) to ¥666.0 billion (US\$6,284 million), and shareholders' equity per share increased ¥19.68 (US\$0.19) to ¥500.15 (US\$4.72).

CONSOLIDATED BALANCE SHEETS (march 31, 2000 and 1999)

	Millions of yen		Thousands of U.S. dollars (note 1)
	2000	1999	2000
Assets			
Cash and cash deposits:			
Cash and time deposits (note 11)	¥ 732,475	¥ 566,455	\$ 6,910,142
Cash segregated as deposits related to securities transactions	8,060	14,753	76,037
	740,535	581,208	6,986,179
 Receivables:			
Loans receivable from customers	29,122	69,152	274,736
Loans receivable from other than customers (note 11)	114,707	143,001	1,082,141
Receivables from brokers, dealers and customers	–	345,475	–
Receivables related to margin transactions (note 5)	393,629	141,262	3,713,481
Other	125,946	158,364	1,188,170
Less allowance for doubtful accounts	(7,828)	(3,202)	(73,849)
	655,576	854,052	6,184,679
 Collateralized short-term financing agreements (note 6)	1,392,219	1,178,114	13,134,142
 Trading assets (notes 7 and 11)	2,927,868	1,678,742	27,621,396
Securities in custody (notes 10 and 11)	1,820,905	1,317,327	17,178,349
Deferred income taxes (note 17)	113,538	83,553	1,071,113
 Other assets:			
Property and equipment, at cost (note 11)	408,529	107,978	3,854,047
Less accumulated depreciation	(83,968)	(40,589)	(792,151)
	324,561	67,389	3,061,896
 Lease deposits (note 12)	33,672	68,870	317,660
Investment securities (notes 8 and 11)	220,072	318,050	2,076,151
Long-term loans receivable (note 12)	24,789	40,942	233,859
Other (notes 7 and 11)	451,071	88,764	4,255,387
Less allowance for doubtful accounts	(190,593)	(8,415)	(1,798,047)
	863,572	575,600	8,146,906
	¥ 8,514,213	¥ 6,268,596	\$ 80,322,764

see accompanying notes.

	Millions of yen		Thousands of U.S. dollars (note 1)
	2000	1999	2000
Liabilities and shareholders' equity			
Loans:			
Short-term bank borrowings (notes 11 and 15)	¥ 826,066	¥ 431,427	\$ 7,793,075
Commercial paper	145,600	33,170	1,373,585
Long-term debt (note 15)	688,333	410,009	6,493,708
	1,659,999	874,606	15,660,368
Payables:			
Payables to customers (note 14)	184,416	221,428	1,739,774
Time deposits received	20,184	114,775	190,415
Payables from brokers, dealers and customers	57,537	–	542,802
Payables related to margin transactions (note 5)	53,618	71,103	505,830
Other	48,634	16,847	458,810
	364,389	424,153	3,437,631
Collateralized short-term financing agreements (note 6)	2,418,487	2,033,137	22,815,915
Trading liabilities (note 7)	1,234,298	808,982	11,644,321
Accrued and other liabilities:			
Income taxes payable	74,430	1,378	702,170
Accrued bonuses	19,491	11,934	183,877
Multiemployers' pension plan (note 16)	28,443	–	268,330
Retirement benefits (note 16)	4,793	1,663	45,217
Provision for assistance to related companies (note 12)	–	58,200	–
Other	80,082	94,815	755,491
	207,239	167,990	1,955,085
Securities borrowed and deposited by customers (notes 10 and 11) . . .	1,820,905	1,317,327	17,178,349
(Contra account of securities in custody)			
Statutory reserves (note 18)	981	784	9,255
Minority interests	141,843	1,758	1,338,142
Contingent liabilities (note 19)			
Shareholders' equity (notes 20 and 21):			
Common stock, par value ¥50 per share;			
Authorized - 4,000,000 thousand shares			
Issued - 1,331,733 thousand shares <i>(1,331,722 thousand shares in 1999)</i>	138,431	138,425	1,305,953
Preferred stock, no par value;			
Authorized - 100,000 thousand shares			
Issued - 0 share	–	–	–
Additional paid-in capital	117,785	117,779	1,111,179
Retained earnings	413,469	383,672	3,900,651
Less treasury stock, at cost.	(3,613)	(17)	(34,085)
Total shareholders' equity	666,072	639,859	6,283,698
	¥ 8,514,213	¥ 6,268,596	\$ 80,322,764

CONSOLIDATED STATEMENTS OF OPERATIONS (years ended march 31, 2000, 1999 and 1998)

	Millions of yen			Thousands of U.S. dollars (note 1)
	2000	1999	1998	2000
Revenues (note 22):				
Commissions (note 23)	¥ 364,116	¥ 185,450	¥ 198,118	\$ 3,435,057
Net gain (loss) on trading	126,170	(20,708)	39,385	1,190,283
Interest and dividend income	103,882	190,219	286,393	980,019
Service fees and other sales	60,482	—	—	570,584
	654,650	354,961	523,896	6,175,943
Operating expenses (note 22):				
Selling, general and administrative expenses (notes 12, 16 and 24)	287,498	271,085	283,599	2,712,245
Interest expense	90,524	172,442	254,466	854,000
Cost of service fees and other sales	49,698	—	—	468,849
	427,720	443,527	538,065	4,035,094
Operating income (loss) (note 22)	226,930	(88,566)	(14,169)	2,140,849
Other income (expenses):				
Reversal of statutory reserves, net (note 18)	(197)	45,883	58	(1,858)
Other, net (note 25)	(91,560)	(165,855)	(69,801)	(863,774)
	(91,757)	(119,972)	(69,743)	(865,632)
Income (loss) before income taxes and minority interests	135,173	(208,538)	(83,912)	1,275,217
Income taxes (note 17):				
Current	77,643	(1,672)	1,251	732,481
Deferred	(15,273)	(78,952)	(1,508)	(144,085)
	62,370	(80,624)	(257)	588,396
Minority interests	32,573	24	(2)	307,292
Net income (loss)	¥ 105,376	¥ (127,890)	¥ (83,657)	\$ 994,113
Per share amounts:				
	Yen			U.S. dollars (note 1)
Net income (loss)	¥ 79.43	¥ (96.00)	¥ (62.35)	\$ 0.75
Diluted net income	76.19	—	—	0.72
Cash dividends applicable to the year	13.00	5.00	6.00	0.12

see accompanying notes

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(years ended march 31, 2000, 1999 and 1998)

	Millions of yen			
	Number of shares of common stock (thousands)	Common stock	Additional paid-in capital	Retained earnings
Balance at March 31, 1997	1,344,575	¥ 138,425	¥ 117,779	¥ 616,999
Net loss.				(83,657)
Cash dividends paid				(10,757)
Redemption of treasury stock (note 20)	(9,021)			(4,057)
Balance at March 31, 1998	1,335,554	138,425	117,779	518,528
Net loss.				(127,890)
Cumulative effect of adoption of tax effect accounting (note 17).				3,017
Cash dividends paid				(8,013)
Redemption of treasury stock (note 20)	(3,832)			(1,970)
Balance at March 31, 1999	1,331,722	138,425	117,779	383,672
Net income.				105,376
Revisions in accounting for subsidiaries and affiliated companies (note 3).				(68,913)
Cash dividends paid				(6,658)
Bonuses to directors				(8)
Shares issued upon conversion of bonds	11	6	6	
Balance at March 31, 2000	1,331,733	¥138,431	¥117,785	¥413,469

	Thousands of U.S. dollars (note 1)		
	Common stock	Additional paid-in capital	Retained earnings
Balance at March 31, 1999	\$ 1,305,896	\$ 1,111,122	\$ 3,619,547
Net income.			994,113
Revisions in accounting for subsidiaries and affiliated companies (note 3)			(650,123)
Cash dividends paid			(62,811)
Bonuses to directors			(75)
Shares issued upon conversion of bonds	57	57	
Balance at March 31, 2000	\$ 1,305,953	\$ 1,111,179	\$ 3,900,651

see accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS (years ended march 31, 2000, 1999 and 1998)

	Millions of yen			Thousands of U.S. dollars (note 1)
	2000	1999	1998	2000
Cash flows from operating activities:				
Net income (loss)	¥ 105,376	¥ (127,890)	¥ (83,657)	\$ 994,113
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:				
Depreciation and amortization	14,780	8,531	6,646	139,434
Provision for doubtful accounts, net.	33,959	3,049	9,098	320,368
Provision for retirement benefits, net (note 16)	(2,584)	17,237	1,016	(24,377)
Reversal of statutory reserves, net (note 18) . . .	197	(45,883)	(58)	1,858
Provision for financial assistance to related companies (note 12)	—	58,200	—	—
Losses related to fixed assets (note 25)	9,182	15,873	4,068	86,623
Losses (gains) related to investment securities (note 25)	(10,992)	8,038	16,452	(103,698)
Deferred income taxes (note 17)	(15,273)	(78,952)	(1,508)	(144,085)
Expenses for reorganization of related companies (note 25)	10,552	—	—	99,547
Provision for multiemployers' pension plan (note 25)	28,443	—	—	268,330
Write-off of goodwill (note 25)	8,000	—	—	75,472
Non-deductible consumption taxes derived from goodwill (note 25)	4,359	—	—	41,123
(Increase) decrease in receivables	400,786	(517,618)	(50,964)	3,781,000
(Increase) decrease in trading assets	(823,810)	1,658,479	(175,796)	(7,771,792)
(Increase) decrease in receivables related to margin transactions	(263,189)	(39,670)	24,710	(2,482,915)
(Increase) decrease in collateralized short-term financing agreements	205,822	(821,631)	578,241	1,941,717
(Increase) decrease in other assets	(11,357)	(21,728)	95,926	(107,142)
Other, net	(4,612)	40	(414)	(43,509)
Total adjustments	(415,737)	243,965	507,417	(3,922,046)
Net cash provided by (used in) operating activities	(310,361)	116,075	423,760	(2,927,933)

	Millions of yen			Thousands of U.S. dollars (note 1)
	2000	1999	1998	2000
Cash flows from investing activities:				
Payments for purchases of property and equipment	(14,681)	(13,875)	(18,427)	(138,500)
Proceeds from sales of property and equipment . .	9,755	1,336	82	92,028
Payments for purchases of investment securities . .	(88,326)	(26,292)	(30,532)	(833,264)
Proceeds from sales of investment securities	205,783	120,379	103,905	1,941,349
Decrease in long-term loans receivable	28,945	7,871	10,122	273,066
Other, net	(673)	2,175	(827)	(6,349)
Net cash provided by investing activities	140,803	91,594	64,323	1,328,330
Cash flows from financing activities:				
Increase (decrease) in short-term loans	121,138	(213,915)	(331,108)	1,142,811
Increase (decrease) in long-term debt	(9,970)	95,797	(4,116)	(94,057)
Proceeds from issuance of notes by subsidiaries . .	80,000	40,919	119,738	754,717
Payments for redemption of bonds and notes . . .	(39,409)	(140,967)	(175,562)	(371,783)
Proceeds from issuance of stocks to a minor shareholder	162,000	—	—	1,528,302
Payments of cash dividends	(6,658)	(8,013)	(10,757)	(62,811)
Payments of cash dividends to minor shareholders	(233)	—	—	(2,198)
Payments for redemption of treasury stock	—	(1,970)	(4,057)	—
Net cash provided by (used in) financing activities	306,868	(228,149)	(405,862)	2,894,981
Effect of exchange rate changes on cash	8,839	(10,606)	5,092	83,387
Net increase (decrease) in cash	146,149	(31,086)	87,313	1,378,765
Cash at beginning of year	566,455	597,541	510,228	5,343,915
Increase in cash due to change in scope of consolidation	19,871	—	—	187,462
Cash at end of year	¥ 732,475	¥ 566,455	¥ 597,541	\$ 6,910,142
Supplemental information on cash flows:				
Cash paid during the year for:				
Interest	¥ 93,939	¥ 204,887	¥ 220,669	\$ 886,217
Income taxes	10,937	5,106	5,491	103,179
Non-cash investing and financing activities:				
Conversion of convertible bonds into common stock and additional paid-in capital	12	—	—	114

see accompanying notes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of financial statements

Daiwa Securities Group Inc. (the “Company”) changed its name from Daiwa Securities Co. Ltd. and transformed into a holding company on April 26, 1999, after transferring its wholesale business divisions and retail business divisions as mentioned below.

On April 5, 1999, the Company transferred its wholesale business divisions to Daiwa Securities SB Capital Markets Co. Ltd., a 60% owned subsidiary, in accordance with the agreement with The Sumitomo Bank, Limited dated on December 18, 1998 and the approval regarding the transfer in the extraordinary meeting of shareholders held on February 5, 1999 (Common stock - ¥205,600 million, Additional paid-in capital - ¥202,410 million).

On April 26, 1999, the Company transferred its retail business divisions to Daiwa Securities Retail Preparation Co. Ltd., in accordance with the approval regarding the transfer in the extraordinary meeting mentioned above. This company changed its corporate name to (new) Daiwa Securities Co. Ltd. on the same date (Common stock - ¥100,000 million, Additional paid-in capital - ¥50,010 million).

The Company is a Japanese corporation and maintains its records and prepares its financial statements in yen. The accompanying consolidated financial statements are basically an English version of those prepared for Japanese domestic purposes in accordance with the provisions of the Securities and Exchange Law of Japan and filed with the Ministry of Finance (“MOF”) and stock exchanges in Japan.

In preparing the accompanying consolidated financial statements, certain reclassifications have been made in the consolidated financial statements issued domestically, including the 2000 consolidated cash flow statement prepared in accordance with the “Standards for Preparation of Consolidated Cash Flow Statements, etc.” effective in 2000, in order to present them in a form which is more familiar to readers outside Japan. The consolidated statements of cash flows for 1999 and 1998 have been prepared for the purpose of inclusion in the accompanying consolidated financial statements even though such statement was not customarily prepared in Japan and not required to be filed with MOF at that time. Consolidated statements of shareholders’ equity are also prepared, while they are not required to be filed with MOF.

Significant differences between the accounting policies followed by the Company and International Accounting Standards are described in note 4.

The translations of the yen amounts into U.S. dollars are included solely for the convenience of the reader, using the prevailing exchange rate at March 31, 2000, which was ¥106 to U.S. \$1. The convenience translations should not be construed as representations that the yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

Certain reclassifications have been made in the 1999 and 1998 financial statements to conform to the presentation for 2000.

2. Change in accounting policies

In 1999, the Company and a consolidated subsidiary changed its accounting method to provide for directors' retirement benefits on an accrual basis from expensing it at the time of payment for better allocation of expenses. As a result of this accounting change, net loss before income taxes and minority interests for the year ended March 31, 1999 increased by ¥1,482 million, which consisted of accrual for 1999 of ¥449 million classified in selling, general and administrative expenses, and the cumulative effect of prior years from the change in accounting policy of ¥1,034 million classified in other expenses (See note 25).

3. Significant accounting policies

Consolidation - The Company prepared the consolidated financial statements for the year ended March 31, 2000 in accordance with the revised Accounting Principles for Consolidated Financial Statements (the "Revised Accounting Principles") effective for the year ended March 31, 2000. The consolidated financial statements for 2000 include the accounts of the Company and significant companies which are controlled by the Company through substantial ownership of more than 50% of the voting rights or through ownership of high percentage of the voting rights and the existence of certain conditions evidencing control by the Company of the decision-making body of such companies.

Under the Revised Accounting Principles, certain companies of which the Company has at least 15% and less than 20% of the voting rights in the case where the Company has the ability to exercise significant influence over operating and financial policies of the investees are also accounted for using the equity method.

Previously, only majority-owned companies were consolidated and only investments in companies of which the Company owns 20% to 50% of the voting rights and has the ability to significantly influence financial, operational or business policies were accounted for using the equity method. Due to the revision, eight subsidiaries and three affiliates were newly consolidated or accounted for on the equity method in the accompanying financial statements for 2000. The prior years' consolidated financial statements have not been restated.

Significant intercompany balances, transactions and profits have been eliminated in consolidation.

Statement of cash flows - For purposes of reporting cash flows, cash includes "cash and time deposits" with maturities of not exceeding one year in the accompanying statements of cash flows, which is referred to the corresponding account balance in the accompanying balance sheets.

In preparing the cash flow statements for the year ended March 31, 2000 for MOF reporting purpose, cash is considered to be "cash and cash equivalents", which includes cash on hand, readily-available deposits and highly liquid investments with original maturities of not exceeding three months. "Cash and time deposits" were used instead of "cash and cash equivalents". Difference between "cash and time deposits" and "cash and cash equivalents" as of March 31, 2000 is reconciled as follow:

	Millions of yen	Thousands of U.S. dollars
Cash (Cash and time deposits)	¥ 732,475	\$ 6,910,142
Deposits segregated for customers	(235,300)	(2,219,811)
Time deposits more than three months	(8,310)	(78,396)
Cash and cash equivalents	¥ 488,865	\$ 4,611,935

Trading assets and trading liabilities - Trading assets and trading liabilities, including cash securities and financial derivatives for trading purpose held by the securities subsidiaries are recorded on a trade date basis at market value or fair value. Revenues and expenses related to trading securities transactions are recorded on a trade date basis. Unrealized gains or losses from financial derivatives such as futures, options and swaps transactions are reflected as net gain on trading in the accompanying statements of operations. Cash securities owned for non-trading purpose, shown in the accompanying balance sheets as “Investment securities”, are discussed below.

Collateralized short-term financing agreements - Collateralized short-term financing agreements consist of securities purchased under agreements to resell or securities sold under agreements to repurchase (Repurchase transactions), securities borrowed or loaned and Buy or Sell Gensaki which have been accounted for as financing transactions. Repurchase transactions are traded in overseas subsidiaries and recorded at their contractual amounts. Securities borrowed or loaned are recorded at the amount of cash collateral advanced or received. Buy Gensaki or Sell Gensaki represents a form of securities purchased under resale agreements or securities sold under repurchase agreements originated in Japan. Gensaki transactions have been accounted for in the same manner as financing transactions in accordance with the amendment of the Securities and Exchange Law of Japan.

Investment securities and derivatives for non-trading purposes - Investment securities listed on stock exchanges are recorded on a settlement date basis at the lower of cost or market. Unlisted investment securities are recorded on a settlement date basis at cost, except where management determines there is permanent diminution in value. Valuation loss or write-off of investment securities are reported as other expenses in the statements of operations. Derivatives for non-trading purposes other than trading assets and trading liabilities are utilized as market risk management for certain non-trading assets and non-trading liabilities such as loans receivable from customers and bank borrowings. Unrealized gains or losses of certain investment securities which have a quoted market price and of derivatives for non-trading purposes, are not included in earnings and disclosed in note 8.

Provision for doubtful accounts - Provision for doubtful accounts of domestic consolidated subsidiaries is provided on the estimated uncollectible amounts of doubtful accounts included in other assets and the amounts on a formula as permitted by the Corporation Tax Law of Japan. Overseas consolidated subsidiaries provide specifically assessed amounts.

Property and equipment - Property and equipment are stated at cost. Depreciation is computed principally by the declining balance method over estimated useful lives as stipulated by corporate tax regulations. Depreciation for buildings purchased in Japan after April 1, 1998 is computed by the straight-line method due to the amendment of Japanese corporate tax regulations. There was no material effect due to the amendment.

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, which are subject to approval at the shareholders' meeting, are accounted for as an appropriation of retained earnings.

Income taxes - Through 1998, the Company did not recognize tax effects of temporary differences, which accounting was not required by accounting principles generally accepted in Japan.

In 1999, the Company and certain consolidated subsidiaries have early adopted tax effect accounting in accordance with the new standards, which were mandatory for the year beginning after April 1, 1999 in Japan. Deferred taxes are recorded for the future tax consequences of events that have been recognized in the financial statements or tax returns, based upon enacted tax laws and rates, including an appropriate provision for taxes on undistributed earnings of subsidiaries and affiliates. The prior years' effect before 1999 of this new accounting has been recorded in retained earnings as of April 1, 1998, as explained in note 17.

Translation of foreign currencies - Foreign currencies and current receivables and payables denominated in foreign currencies are translated into yen at year-end exchange rates. Investment securities and non-current receivables and payables in foreign currencies are translated at historical exchange rates by the Company and domestic subsidiaries and at year-end exchange rates by the foreign subsidiaries.

Foreign currency items with forward exchange contracts are translated at the contracted rates.

Translation of foreign currency financial statements - Financial statements of foreign subsidiaries are translated into yen on the basis of the year-end rates for assets and liabilities except that retained earnings are translated at historical rates. The average rates for the years are used for translation of income and expenses.

Net income (loss) per share - Net income (loss) per share of common stock is based on the average number of shares of common stock outstanding during the period.

Diluted net income per share is computed based on the average number of shares of common stock outstanding plus the number of shares of common stock that would have been issued had the outstanding convertible bonds been converted at the beginning of the year.

4. Significant differences between accounting policies followed by the Company and domestic subsidiaries and International Accounting Standards

The accompanying consolidated financial statements are prepared in conformity with accounting principles generally accepted in Japan. Differences from IAS include the following.

Consolidation - Japanese accounting standards on consolidation do not require that consolidated financial statements be prepared using uniform accounting policies for like transactions and other events in similar circumstances. The accounting policies followed by certain foreign subsidiaries are different from those of the Company. Such differences, as described in note 3, mainly consist of (1) recognition of tax effects of temporary differences in the 1998 financial statements and (2) translation of foreign currencies.

It is not practicable to disclose proportions of the items in the consolidated financial statements to which the different accounting policies have been applied as required by IAS 27.

Translation of foreign currency items - As described in note 3, foreign currency monetary items of the Company due after one year are recorded at historical rates, while items due within one year are recorded at the closing rate. In this respect, the accounting policy is not in accordance with IAS 21 which requires foreign currency monetary items be reported at the closing rate.

Investment securities - Through 1999, under accounting principles generally accepted in Japan, the Company did not disclose the market value of all its marketable investments on a consolidated basis. This practice was not in accordance with IAS 25 which requires such disclosure.

Securities in custody - As described in note 10, "Securities in custody" is presented as an asset in the balance sheets with a contra account entitled "Securities borrowed and deposited by customers" as a liability.

Tax effect accounting - Through 1998 the Company did not recognize tax effects of temporary differences as described in note 3. Therefore, the Company's policy differed from IAS 12 which requires that the tax expense for a period be determined on

the basis of tax effect accounting. In 1999 the Company has adopted tax effect accounting in accordance with the new accounting standards in Japan. Accordingly, no material differences between the Company's policy and IAS 12 are noted as for accounting for income taxes in the 2000 and 1999 financial statements.

Statutory reserves - As described in note 18, the Securities and Exchange Law of Japan requires a securities company to maintain certain special purpose reserves which are not liabilities or contingent losses as described in IAS 10.

5. Margin transactions

Margin transactions at March 31, 2000 and 1999 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	2000
Assets:			
Loans receivable from customers	¥ 308,327	¥ 72,452	\$ 2,908,745
Cash deposits as collateral for securities borrowed from securities finance companies	85,302	68,810	804,736
	¥ 393,629	¥ 141,262	\$ 3,713,481
Liabilities:			
Loans from securities finance companies	¥ 24,916	¥ 18,099	\$ 235,057
Proceeds of securities sold for customers' accounts	28,702	53,004	270,773
	¥ 53,618	¥ 71,103	\$ 505,830

Loans receivable from customers are stated at amounts equal to the purchase prices of the relevant securities and are collateralized by customers' securities and customers' deposits of cash or securities. Proceeds of securities sold for customers' accounts were stated at the sales prices of the relevant securities on the respective transaction dates.

6. Collateralized short-term financing agreements

Collateralized short-term financing agreements at March 31, 2000 and 1999 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	2000
Assets:			
Securities borrowed	¥ 1,016,409	¥ 644,779	\$ 3,318,019
Securities purchased under agreements to resell	351,710	213,273	9,588,765
Buy Gensaki	24,100	320,062	227,358
	¥ 1,392,219	¥ 1,178,114	\$ 13,134,142
Liabilities:			
Securities loaned	¥ 883,468	¥ 685,297	\$ 3,879,075
Securities sold under agreements to repurchase	411,182	754,524	8,334,604
Sell Gensaki	1,123,837	593,316	10,602,236
	¥ 2,418,487	¥ 2,033,137	\$ 22,815,915

7. Trading assets and trading liabilities

Trading assets and trading liabilities at March 31, 2000 and 1999 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	2000
Trading assets:			
Corporate shares	¥ 249,537	¥ 101,322	\$ 2,354,123
Government, corporate and other bonds	2,239,353	1,053,633	21,125,972
Beneficiary certificates	9,764	76,803	92,113
Commercial paper, certificates of deposits and others	238,215	236,021	2,247,311
Option transactions	12,407	19,968	117,047
Futures transactions	2,275	4,440	21,462
Swap agreements	108,071	175,835	1,019,538
Other derivatives	0	10,720	0
Operational investment securities	44,173	–	416,726
Other inventories	24,073	–	227,104
	¥ 2,927,868	¥ 1,678,742	\$ 27,621,396

	Millions of yen		Thousands of U.S. dollars
	2000	1999	2000
Trading liabilities:			
Corporate shares	¥ 84,662	¥ 54,000	\$ 798,698
Government, corporate and other bonds	1,032,657	555,218	9,742,047
Commercial paper, certificates of deposits and others	120	0	1,132
Option transactions	10,592	6,591	99,925
Futures transactions	8,795	6,526	82,972
Swap agreements	97,412	174,922	918,981
Other derivatives	60	11,725	566
	¥ 1,234,298	¥ 808,982	\$ 11,644,321

Operational investment securities represent shares and bonds including various investments in partnerships of small and medium-sized companies which are expected to go-public in the future.

In addition to the above, securities amounting to ¥65,277 million (\$615,821 thousand) held by non-securities subsidiaries for the purpose of short-term sales are included in other assets as of March 31, 2000 (see note 3 as to newly consolidated subsidiaries).

8. Investment securities and derivatives for non-trading purpose

Investment securities at March 31, 2000 and 1999 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	2000
Corporate shares	¥ 189,929	¥ 167,878	\$ 1,791,783
Government, corporate and other bonds	21,850	112,431	206,132
Other	8,293	37,741	78,236
	¥ 220,072	¥ 318,050	\$ 2,076,151

At March 31, 2000 (on a consolidated basis) and 1999 (on a non-consolidated basis), net unrealized gains of investment securities which have a quoted market price on a settlement date basis were as follows:

	Millions of yen		
	Book value	Market value	Unrealized Gains
March 31, 2000:			
Corporate shares	¥ 119,492	¥ 190,052	¥ 70,560
Other	29,687	30,243	556
	¥ 149,179	¥ 220,295	¥ 71,116
March 31, 1999:			
Corporate shares	¥ 131,694	¥ 182,524	¥ 50,830
Other	12	60	48
	¥ 131,706	¥ 182,584	¥ 50,878

	Thousands of U.S. dollars		
	Book value	Market value	Unrealized Gains
March 31, 2000:			
Corporate shares	\$ 1,127,283	\$ 1,792,943	\$ 665,660
Other	280,066	285,311	5,245
	<u>\$ 1,407,349</u>	<u>\$ 2,078,254</u>	<u>\$ 670,905</u>

At March 31, 2000 (on a consolidated basis) and 1999 (on a non-consolidated basis), net unrealized gains of derivatives for non-trading purposes consisted of the following:

	Millions of yen		
	Contract amount	Market value	Unrealized Gains
March 31, 2000:			
Interest rate swap	¥ 94,067	¥ 2,457	¥ 2,329
Currency swap	8,107	1,399	1,329

March 31, 1999:			
Interest rate swap	¥ 5,000	¥ 173	¥ 189
Currency swap	2,000	399	318

	Thousands of U.S. dollars		
	Contract amount	Market value	Unrealized Gains
March 31, 2000:			
Interest rate swap	\$ 887,425	\$ 23,179	\$ 21,972
Currency swap	76,481	13,198	12,538

9. Risk management information

The two domestic securities subsidiaries, Daiwa Securities Co. Ltd. and Daiwa Securities SB Capital Markets Co. Ltd. ("Securities subsidiaries"), enter into transactions involving trading assets and trading liabilities to meet customer needs, and for its proprietary trading activities, as a broker and an end-user. These trading assets and trading liabilities include (1) cash securities such as stocks and bonds, (2) financial derivatives traded on exchanges such as futures and options based on stock price indices, bonds and interest rates, and (3) financial derivatives traded over the counter such as currency and interest rate swaps, foreign exchange forward contracts, bonds with options, currency options, forward rate agreements and OTC equity derivatives.

The principal risks inherent in trading in these markets are market risk and credit risk. Market risk represents the potential for loss from changes in the value of financial instruments due to price and interest rate fluctuations in the markets. As to market risk, Securities subsidiaries determine the balance of and profit or loss on each instrument and use a value-at-risk method to manage this risk. Credit risk represents the potential for loss arising from the failure of the counterparty in a transaction to fulfill its terms and conditions. Securities subsidiaries assess the credit risk of their counterparties applying internal credit rating and monitor their exposure by measuring notional principal and credit exposure.

Daiwa Securities SB Capital Markets Co. Ltd., (“Daiwa SBCM”) has established five risk management principles: Active management participation, system of internal supervision, sound management by risk limit setting, risk management assuming emergency and transparency in risk management process. By ensuring these five principles, Daiwa SBCM expects that risks associated with trading activities are well controlled within a range that the management is willing to assume.

10. Securities in custody

Securities in custody at March 31, 2000 and 1999 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	2000
Securities borrowed for less than one year	¥ 1,335,084	¥ 900,375	\$ 12,595,132
Securities deposited by customers as collateral mainly for margin and futures transactions	485,821	416,952	4,583,217
	¥ 1,820,905	¥ 1,317,327	\$ 17,178,349

Securities in custody account is presented as an asset in the balance sheets. A contra account entitled “Securities borrowed and deposited by customers” is presented as a liability. Securities in custody are stated at market value on the respective dates when such borrowings or deposits were made.

11. Pledged assets

At March 31, 2000, short-term bank borrowings amounting to ¥90,189 million (\$850,840 thousand), loans from securities finance companies for margin transactions amounting to ¥24,916 million (\$235,057 thousand), securities borrowed amounting to ¥1,576 million (\$14,868 thousand) and long-term bank borrowings amounting to ¥78,786 million (\$743,264 thousand) were secured by the following assets:

	Millions of Yen	Thousands of U.S. dollars
Trading assets	¥ 49,697	\$ 468,840
Investment securities	46,243	436,255
Securities in custody	60,128	567,245
Property and equipment	159,616	1,505,811
Other	4,875	45,991
	¥ 320,559	\$ 3,024,142

The following securities were deposited with stock exchanges as guarantee for stock index and bond future contracts, etc. as of March 31, 2000:

	Thousands of Millions of Yen	U.S. dollars
Trading assets	¥ 3,977	\$ 37,519
Investment securities	52,492	495,208
	¥ 56,469	\$ 532,727

The following securities were deposited as guarantee for swap transactions and other derivatives as of March 31, 2000:

	Millions of Yen	Thousands of U.S. dollars
Loans receivable from other than customers	¥ 5,030	\$ 47,453
Securities in custody	4,200	39,623
	¥ 9,230	\$ 87,076

In addition to the above, the following securities were deposited to secure bank borrowings as of March 31, 2000:

	Millions of Yen	Thousands of U.S. dollars
Cash and time deposits	¥ 208	\$ 1,962
Property and equipment	19,258	181,679
	¥ 19,466	\$ 183,641

These amounts were stated at book value at the balance sheet date.

12. The Company's transactions with related parties

The Company has several related companies as explained below, which were less than 5% directly owned companies and their financial statements were not consolidated into the accompanying financial statements for 1999 and 1998. In the normal course of its operations, the Company leases most of its office space from Daiwa Building Co., Ltd. (DBC) which merged with Daiwa Real Estate Co., Ltd. (DRE) on July 1, 1998, and receives research and data processing services from Daiwa Institute of Research Ltd. (DIR).

In these reporting periods, the Company provided financial assistance to the related companies. In 1998, the Company recorded ¥39,900 million to DRE, which sells real estate, for the purpose of supporting DRE's charging-off of inactive real estate. In 1999, the Company also recorded ¥115,800 million in the aggregate to Daiwa Finance Co. Ltd. (DFC), which issues mortgage securities, Nippon Investment & Finance Co. Ltd. (NIF), which invests in venture capital, and Daiwa Sanko Co., Ltd. (Sanko), which engages in trading with office equipment and electric parts (See note 25). In 1999 the Company paid ¥57,600 million in the aggregate to these companies and the remaining financial assistance of ¥58,200 million was accrued and presented in the consolidated balance sheets at March 31, 1999.

Significant account balances and transactions with these companies at March 31, 1999 and for the two years ended March 31, 1999 were as follows:

	Millions of yen	
At March 31:		1999
Lease deposits to DRE/DBC	¥	57,390
Loans to DRE/DBC		20,000
	Millions of yen	
For the year ended March 31 :	1999	1998
Selling, general and administrative expenses :		
Rental expenses paid to DRE/DBC	¥ 21,044	¥ 21,017
Research and data processing fees paid to DIR	23,011	22,623
Financial assistance expense to :		
DFC	82,000	—
DRE	—	39,900
NIF	24,000	—
Sanko	9,800	—

As described in note 3, all of these related companies have been consolidated and significant account balances and transactions with these companies at and for the year ended March 31, 2000 have been eliminated.

13. Lease transactions

Financial leases that do not transfer ownership to lessees are not capitalized and are accounted for in the same manner as operating leases (“non-capitalized finance leases”). Certain related information at March 31, 2000 and 1999 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars	
	2000	1999	2000	
Total assets under non-capitalized finance leases	¥ 29,425	¥ 25,639	\$ 277,849	
Accumulated depreciation.	16,775	22,279	158,255	
Future lease payments of non-capitalized leases.	13,506	3,459	127,415	
Due within one year	4,882	2,668	46,057	
Future lease payments of operating leases	15,174	18,485	143,151	
Due within one year	1,582	2,455	14,925	

14. Payables to customers

Payables to customers at March 31, 2000 and 1999 consisted of the following:

	Millions of yen		Thousands of U.S. dollars	
	2000	1999	2000	
Cash received for customers’ accounts on trading	¥ 98,323	¥ 122,226	\$ 927,575	
Cash deposits received from customers mainly for margin and futures transactions	84,266	46,500	794,962	
Other	1,827	52,702	17,237	
	¥ 184,416	¥ 221,428	\$ 1,739,774	

15. Bank borrowings and long-term debt

As is customary in Japan, in the case of unsecured bank borrowings, security must be given under certain conditions if requested by a lending bank, and such bank has the right to offset cash deposited with it against any debt or obligation that becomes due and, in the case of default and certain other specified events, against all debts payable to the bank. No such request has been made and no such right has been exercised.

Long-term debt at March 31, 2000 and 1999, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	2000
Convertible bonds payable in yen, convertible into common stock at ¥3,035.90 per share:			
1.5% due 2002	¥ 19,440	¥ 19,440	\$ 183,396
1.5% due 1999	—	19,419	—
Convertible bonds payable in yen, convertible into common stock at ¥2,367.00 per share:			
1.4% due 2003	36,269	36,269	342,160
1.4% due 2000	38,662	38,662	364,736
Convertible bond payable in yen, convertible into common stock at ¥1,094.00 per share:			
0.5% due 2006	79,988	—	754,604
Notes payable in yen issued by a subsidiaries:			
Series of notes with various rates and maturities from 1999 through 2002	3,098	7,109	29,226
5.0% subordinated due 2005	1,033	1,016	9,745
2.0% Euro-yen bond due 2002	80,000	—	754,717
Euro medium-term notes (authorized \$5,000 million) issued by subsidiaries, with various rates and maturities through 2008	56,466	71,636	532,698
Yen subordinated loan due 2004	40,000	—	377,358
Yen subordinated loans due 2002 and 2003	—	195,000	—
Borrowings from financial institutions	331,760	21,000	3,129,812
Other	1,617	458	15,256
	¥ 688,333	¥ 410,009	\$ 6,493,708

The conversion prices shown above are subject to adjustment in certain circumstances.

At March 31, 2000, the number of shares of common stock issuable upon full conversion of outstanding convertible bonds was 111,175 thousand shares in aggregate.

The aggregate annual maturities of long-term debt as of March 31, 2000 are as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2001	¥ 64,584	\$ 609,283
2002	221,165	2,086,462
2003	118,955	1,122,217
2004	139,939	1,320,179
2005	48,732	459,736
2006 and thereafter	94,958	895,831

16. Retirement benefits

Employees- The Company and domestic subsidiaries have unfunded lump-sum benefit plans for employees.

Under the terms of the lump-sum benefit plan, eligible employees are entitled, under most circumstances upon reaching mandatory retirement age or earlier voluntary termination, to a lump-sum benefit payment. The amount of retirement benefits to be paid is reduced by the benefits payable under the pension plan. Up to the year ended March 31, 1998, the accrued retirement benefits were stated at an amount which would be required if all employees covered by the retirement benefit plan voluntarily terminated their employment as of the balance sheet date, net of the assets of the pension fund.

On March 31, 1999, the Company and a domestic consolidated subsidiary canceled all their employees' retirement benefit plans, both unfunded and funded, and liquidated their plan assets in order to pay an amount to entitled employees which would be required if they involuntarily terminated their employment in the course of shifting to the holding company structure. The Company and the subsidiary included payables of the retirement benefits to entitled employees in other current liabilities in the balance sheet as of March 31, 1999, and recorded liquidation losses of employees' pension plans of ¥12,806 million in earnings for the year then ended (See note 25).

On March 31, 2000, certain domestic consolidated subsidiaries also canceled all their employees' retirement benefit plans, both unfunded and funded, in a similar manner as the Company did in prior year. Those subsidiaries included payables of the retirement benefits to entitled employees in other current liabilities in the balance sheet as of March 31, 2000, and recorded liquidation losses of employees' pension plans of ¥3,171 million (\$29,915 thousand) in current earnings (See note 25).

Directors - In 1999, the Company and a domestic consolidated subsidiary changed their accounting method to provide for directors' retirement benefits on an accrual basis from expensing at the time of payment as described in note 2.

Directors' retirement benefits of ¥1,536 million (\$14,491 thousand) were included in "Retirement benefits" in the accompanying consolidated balance sheets as of March 31, 2000.

Multiemployers' pension plan - The Company and certain of domestic consolidated subsidiaries are members of a multiemployers' pension plan that is an industry-wide multiemployer contributory welfare pension plan administered by the Securities Companies' Welfare Pension Fund. The funded pension plan has faced the problems arising from the decreasing members and continuing low interest rates. The Companies' liability is calculated, based on the difference between its projected benefit obligation and its fair value of the plan assets as of March 31, 2000. Provision for the multiemployers' pension plan was charged to income (note 25) and reported in the balance sheets as "Multiemployers' pension plan" as of March 31, 2000.

17. Income taxes

In 1999 the Company and certain domestic consolidated subsidiaries early adopted tax effect accounting in accordance with the new standards as described in note 3. With regard to the cumulative effect on prior years of adopting tax effect accounting, net loss for the year ended March 31, 1999 decreased by ¥78,952 million and retained earnings as at March 31, 1999 increased by ¥3,017 million as presented in the accompanying statements of shareholders' equity.

The normal effective statutory income tax rate in Japan arising out of the aggregation of corporate, enterprise and inhabitants taxes was approximately 42%, 48% and 51% for 2000, 1999 and 1998, respectively. Foreign subsidiaries are subject to income taxes of the countries in which they operate.

Details of deferred tax assets and liabilities at March 31, 2000 and 1999 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	2000
Deferred tax assets:			
Write-off of goodwill	¥ 69,973	¥ –	\$ 660,123
Net operating losses	62,337	90,896	588,085
Provision for financial assistance to related companies	–	23,804	–
Provision for the multi-employers' pension plan	11,194	–	105,604
Accrued employees' compensation	–	11,280	–
Other	34,584	4,602	326,263
Gross deferred tax assets	178,088	130,582	1,680,075
Less-Valuation allowance	(62,595)	(47,029)	(590,519)
Total deferred tax assets	115,493	83,553	1,089,556
Deferred tax liabilities	1,955	394	18,443
Net deferred tax assets	¥ 113,538	¥ 83,159	\$ 1,071,113

The Company and certain subsidiaries recorded a valuation allowance to reflect the estimated amount of deferred tax assets that will not be realized.

The deferred tax assets and liabilities at March 31, 2000 and 1999 may be attributed to current amount and non-current amount as follows:

	Millions of yen		Thousands of U.S. dollars	
	2000	1999	2000	
Deferred tax assets :				
Current	¥ 15,463	¥ 81,955	\$ 145,877	
Non-current	98,075	1,598	925,236	
Total deferred tax assets	113,538	83,553	1,071,113	
Deferred tax liabilities :				
Current	¥ —	¥ 394	\$ —	

A reconciliation of the difference between the normal effective statutory tax rate and the effective income tax rate reflected in the accompanying statements of operations for the year ended March 31, 2000 is as follow:

	2000
Normal effective statutory tax rate	42.0%
Valuation allowance for deferred income tax assets	11.5
Lower tax rate applicable to income of foreign subsidiaries	(2.0)
Other, net.	(5.4)
Effective tax rate	46.1%

18. Statutory reserves

Statutory reserves at March 31, 2000 and 1999 consisted of the following:

	Millions of yen		Thousands of U.S. dollars	
	2000	1999	2000	
Reserve for securities and financial futures transaction liabilities	¥ 981	¥ 784	\$ 9,255	

The Securities and Exchange Law of Japan requires a securities company to set aside a reserve in proportion to its securities transactions and other related trading to cover possible customer losses incurred by default of the securities company on securities transactions.

The statutory reserve for possible trading losses from stock, bond and warrant was abolished as the Securities and Exchange Law was amended on December 1, 1998, which had required a securities company to maintain reserve for possible losses from stock, bond and warrant transactions for its own account at fixed percentages of net trading gains. The remaining balance of the reserve was reversed and credited to income for the fiscal year ended March 31, 1999.

19. Contingent liabilities

At March 31, 2000, the Company and its consolidated subsidiaries were contingently liable as guarantors of loans and lease deposits amounting to ¥1,571 million (\$14,821 thousand).

20. Shareholders' equity

The Commercial Code of Japan allows a company to retire a portion of its outstanding shares upon approval of the shareholders at the annual general shareholders' meeting. On December 8, 1997, the directors' meeting passed a resolution to enable the Company to purchase and retire outstanding shares up to a maximum aggregate acquisition cost of ¥25,000 million. In 1999 and 1998, the Company purchased and retired shares having a market value of ¥1,970 million and ¥4,057 million, respectively. As a result of such share acquisitions, retained earnings as of March 31, 1999 and 1998 decreased by ¥1,970 million and ¥4,057 million, respectively, and the number of issued and outstanding shares decreased by 3,832 thousand and 9,021 thousand shares, respectively.

The shareholders of the Company approved a stock incentive plan on June 25, 1998. The plan provides for the issuance of up to 6,000 thousand shares in the form of options to directors and key employees. On March 30, 1999, options were awarded to those who were with Daiwa Securities Co. Ltd. listed as the grantees at the time of the shareholders' meeting, and at the time of grants were either (1) Directors or (2) General Managers, Deputy General Managers or Assistant General Managers under the plan. The options may be exercised during the period from July 1, 2000 until June 20, 2003, and the exercise price is ¥667 (\$6).

The Company is authorized to issue 4,000,000 thousand shares of common stock and 100,000 thousand shares of preferred stock on approval of the shareholders' meeting held on June 25, 1998. Contents of preferred shareholders' right are (1) preferred shareholder shall not have any voting rights at a shareholders' meeting, (2) no share consolidation nor share split shall be made with respect to preferred shareholders, (3) the Company shall not grant to the preferred shareholders pre-emptive rights to subscribe for new shares or rights to subscribe for convertible bonds or bonds with warrants to subscribe for new shares. At present the Company has not yet issued any preferred stock.

21. Capital adequacy requirements

In Japan, the securities company is subject to risk-based capital adequacy rules established and administered by MOF and the Financial Supervisory Agency. Securities subsidiaries report their capital adequacy ratio as defined pursuant to these rules.

The authorities will take certain administrative measures if such ratio declines below 140%. As of March 31, 2000, capital adequacy ratios of Daiwa Securities Co. Ltd. and Daiwa SBCM were 262.7% (unaudited) and 507.4% (unaudited), respectively.

22. Segment information

The Company and its consolidated subsidiaries operate predominantly in a single industry segment. The Company and its consolidated subsidiaries' primary business activities include (1) trading in securities, (2) brokerage of securities, (3) underwriting and distribution of securities and (4) other business related to securities transactions.

A summary of revenues by geographic area for the three years ended March 31, 2000 and a summary of total assets by geographic area for the three years ended March 31, 2000 were as follows:

		Millions of yen					
		Japan	America	Europe	Asia & Oceania	Elimination or unallocated	Consolidated
Year ended March 31, 2000:							
Revenues:							
Outside customer	¥	528,090	¥ 85,359	¥ 31,969	¥ 9,232	¥ –	¥ 654,650
Inter-area		17,703	(516)	(1,960)	(454)	(14,773)	–
Total		545,793	84,843	30,009	8,778	(14,773)	654,650
Operating expenses		325,440	82,305	23,878	7,227	(11,130)	427,720
Operating income	¥	220,353	¥ 2,538	¥ 6,131	¥ 1,551	¥ (3,643)	¥ 226,930
At March 31, 2000:							
Total assets by geographic area .	¥	7,807,069	¥ 709,836	¥ 339,697	¥ 57,810	¥ (400,199)	¥ 8,514,213
Year ended March 31, 1999:							
Revenues:							
Outside customer	¥	247,423	¥ 103,781	¥ (3,705)	¥ 7,462	¥ –	¥ 354,961
Inter-area		16,295	418	(181)	151	(16,683)	–
Total		263,718	104,199	(3,886)	7,613	(16,683)	354,961
Operating expenses		245,957	146,191	54,097	10,603	(13,321)	443,527
Operating income (loss)	¥	17,761	¥ (41,992)	¥ (57,983)	¥ (2,990)	¥ (3,362)	¥ (88,566)
At March 31, 1999:							
Total assets by geographic area .	¥	4,861,237	¥ 1,094,083	¥ 615,713	¥ 63,421	¥ (365,858)	¥ 6,268,596
Year ended March 31, 1998:							
Revenues:							
Outside customer	¥	246,998	¥ 204,861	¥ 63,861	¥ 8,176	¥ –	¥ 523,896
Inter-area		17,962	(534)	(1,830)	411	(16,009)	–
Total		264,960	204,327	62,031	8,587	(16,009)	523,896
Operating Expenses		259,803	203,156	67,225	19,157	(11,276)	538,065
Operating Income (loss)	¥	5,157	¥ 1,171	¥ (5,194)	¥ (10,570)	¥ (4,733)	¥ (14,169)
At March 31, 1998:							
Total assets by geographic area .	¥	6,360,719	¥ 2,530,169	¥ 1,839,882	¥ 87,519	¥ (685,832)	¥ 10,132,457

Thousands of U.S. dollars						
	Japan	America	Europe	Asia & Oceania	Elimination or unallocated	Consolidated
Year ended March 31, 2000:						
Revenues:						
Outside customer	\$ 4,981,981	\$ 805,273	\$ 301,595	\$ 87,094	\$ –	\$ 6,175,943
Inter-area	167,010	(4,868)	(18,491)	(4,283)	(139,368)	–
Total	5,148,991	800,405	283,104	82,811	(139,368)	6,175,943
Operating Expenses	3,070,189	776,462	225,264	68,179	(105,000)	4,035,094
Operating Income	\$ 2,078,802	\$ 23,943	\$ 57,840	\$ 14,632	\$ (34,368)	\$ 2,140,849
At March 31, 2000:						
Total assets by geographic area	\$ 73,651,594	\$ 6,696,566	\$ 3,204,689	\$ 545,377	\$ (3,775,462)	\$80,322,764

Geographic overseas revenues for the three years ended March 31, 2000 were as follows:

	Millions of yen						
	America		Europe		Asia & Oceania		Total
Year ended March 31, 2000:							
Overseas revenue	¥	79,516	¥	23,668	¥	10,529	¥ 113,713
Total revenue							654,650
% of total revenue		12.1%		3.6%		1.6%	17.4%
Year ended March 31, 1999:							
Overseas revenue	¥	136,128	¥	16,148	¥	8,592	¥ 160,868
Total revenue							354,961
% of total revenue		38.4%		4.5%		2.4%	45.3%
Year ended March 31, 1998:							
Overseas revenue	¥	217,953	¥	24,323	¥	4,743	¥ 247,019
Total revenue							523,896
% of total revenue		41.7%		4.6%		0.9%	47.2%
Thousands of U.S. dollars							
	America		Europe		Asia & Oceania		Total
Year ended March 31, 2000:							
Overseas revenue	\$	750,151	\$	223,283	\$	99,330	\$ 1,072,764
Total revenue							6,175,943
% of total revenue		12.1%		3.6%		1.6%	17.4%

23. Commissions

Commissions derived from each department for the year ended March 31, 2000 were as follow:

Millions of yen						
	Equity	Fixed Income (Bond)	Asset Management	Investment Banking	Others	Total
Brokerage	¥ 145,968	¥ 1,488	¥ 7	¥ –	¥ 13	¥ 147,476
Underwriting and distribution. .	–	–	–	34,887	–	34,887
Subscription and distribution . .	–	–	86,764	1,439	–	88,203
Other	2,876	3,395	70,431	7,218	9,630	93,550
Total	¥ 148,844	¥ 4,883	¥ 157,202	¥ 43,544	¥ 9,643	¥ 364,116

Thousands of U.S. dollars						
	Equity	Fixed Income (Bond)	Asset Management	Investment Banking	Others	Total
Brokerage	\$ 1,377,057	\$ 14,028	\$ 66	\$ –	\$ 132	\$ 1,391,283
Underwriting and distribution. .	–	–	–	329,123	–	329,123
Subscription and distribution . .	–	–	818,529	13,575	–	832,104
Other	27,132	32,019	664,434	68,094	90,877	882,547
Total	\$ 1,404,189	\$ 46,047	\$ 1,483,029	\$ 410,792	\$ 91,009	\$ 3,435,057

Commissions earned for 1999 and 1998 consisted of the following:

Millions of yen		
	1999	1998
Brokerage	¥ 68,986	¥ 81,573
Underwriting and distribution	62,247	69,285
Other	54,217	47,260
	¥ 185,450	¥ 198,118

24. Selling, general and administrative expenses

Major elements of selling, general and administrative expenses for 2000, 1999 and 1998 are summarized as follows:

	Millions of yen			Thousands of U.S. dollars
	2000	1999	1998	2000
Employees' compensation and benefits	¥ 140,648	¥ 126,890	¥ 127,303	\$ 1,326,868
Commissions and floor brokerage	9,816	12,950	16,129	92,604
Communications.	15,896	17,118	18,421	149,962
Occupancy and rental	40,787	49,910	49,021	384,783
Data processing and office supplies	20,874	30,614	30,546	196,925
Taxes other than income taxes.	7,312	9,211	18,095	68,981
Depreciation	14,780	8,535	6,645	139,434
Other	37,385	15,857	17,439	352,688
	¥ 287,498	¥ 271,085	¥ 283,599	\$ 2,712,245

25. Other income (expenses)

Details of “Other, net” in the statements of operations for the three years ended March 31, 2000 are as follows:

	Millions of yen			Thousands of U.S. dollars
	2000	1999	1998	2000
Gains on sales of investment securities	¥ 16,755	¥ 1,921	¥ 5,469	\$ 158,066
Write-off of securities	(4,104)	(1,200)	(977)	(38,717)
Valuation losses of investment securities	(1,659)	(8,760)	(20,944)	(15,651)
Financial assistance to related companies (note 12) .	—	(115,800)	(39,900)	—
Valuation losses related to fixed assets	(2,489)	(15,873)	(4,068)	(23,481)
Losses on disposal and sale of fixed assets.	(6,693)	—	—	(63,142)
Expenses for liquidation of related companies	(12,418)	—	—	(117,151)
Losses related to foundation of domestic subsidiaries	(15,493)	—	—	(146,161)
Cumulative effect of an accounting change (notes 2 and 16)	—	(1,034)	—	—
Liquidation losses of employees’ retirement plans (note 16)	(3,171)	(12,806)	—	(29,915)
Provision for multiemployers’ pension plans (note 16)	(28,443)	—	—	(268,330)
Restructuring of overseas business	—	(6,176)	(2,008)	—
Expenses for the holding company structure	—	(2,562)	—	—
Losses on restructuring of property and equipment .	—	(2,268)	—	—
Provision for doubtful accounts.	(30,603)	(1,904)	(8,386)	(288,708)
Equity in earnings (losses) of affiliated companies . .	(551)	1	24	(5,197)
Other	(2,691)	606	989	(25,387)
	¥ (91,560)	¥ (165,855)	¥ (69,801)	\$ (863,774)

Valuation losses related to fixed assets for 1999 and 1998 were derived from updated development appraisal of the investment property called Daiwa Europe House (DEH) held by Daiwa Europe Property plc. (DEP), a consolidated subsidiary. DEP has been in the course of completing the constructing of DEH, the original intention having been that Daiwa Europe Limited (DEL), a consolidated subsidiary would occupy the property once the work was completed. A decision was taken by DEL in 1999 not to move into DEH, and DEP changed the purpose of holding of the building to commercial usage. Due to the change of the purpose of holding the property, DEP had the land and building appraised according to the local accounting standard and recorded a valuation loss in the amount of ¥20,137 million for the year ended March 31, 1999. In this connection, DEL also reversed the reserve for relocation to DEH in the amount of ¥4,264 million for the same period.

Valuation losses related to fixed assets for 2000 were derived from appraisal of the golf club membership.

Losses related to foundation of domestic subsidiaries for 2000 consisted of write-off of goodwill of ¥8,000 million (\$75,472 thousand), non-deductible consumption taxes derived from goodwill of ¥4,359 million (\$ 41,123 thousand) and expenses for starting costs of ¥3,134 million (\$29,566 thousand).

26. Subsequent events

Appropriation of retained earnings - Under the Commercial Code of Japan, a plan for appropriation of retained earnings proposed by the Board of Directors must be approved at a shareholders' meeting to be held within three months after the end of the fiscal year. The appropriation of retained earnings for the year ended March 31, 2000 was approved by the shareholders' meeting held on June 28, 2000 as follows:

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥13 (\$0.12) per share)	¥ 17,247	\$ 162,708
Bonuses to directors	110	1,038

Bonds and notes issue - The Company issued ¥100 billion (\$943 million) principal amount 1.4% first series of unsecured bonds due in five years under a shelf registration in Japan. This shelf registration permits the issuance of up to ¥200 billion (\$1,887 million) of domestic bonds prior to June 8, 2002. The bonds were priced at 100%. The net proceeds from the issuance will be used for redemption of convertible bonds and borrowings, and investing in a making loans to subsidiary companies.

Daiwa SBCM issued seven tranches, total principal amount of ¥13.5 billion (\$127 million) by June 28, 2000 under the Euro Medium Term Notes Programme set up on May 15, 2000, which permits the issuance of up to ¥200 billion (\$1,887 million). On June 19, 2000, the Board of Directors of Daiwa SBCM approved the issuance of notes due within ten years up to ¥50 billion (\$472 million) for the period from June 19, 2000 to September 30, 2000 under the programme.

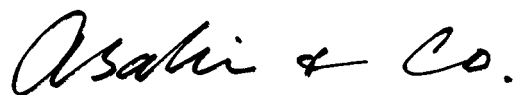
REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Shareholders and the Board of Directors of Daiwa Securities Group Inc.:

We have audited the accompanying consolidated balance sheets of Daiwa Securities Group Inc. (formerly "Daiwa Securities Co. Ltd.", a Japanese corporation) and subsidiaries as of March 31, 2000 and 1999, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended March 31, 2000, expressed in yen. Our audits were made in accordance with generally accepted auditing standards in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the consolidated financial position of Daiwa Securities Group Inc. and subsidiaries as of March 31, 2000 and 1999, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2000, in conformity with accounting principles generally accepted in Japan which, except for the change in the method of accounting for directors' retirement benefits effective April 1, 1998 referred to in Note 2, were applied on a consistent basis.

Also, in our opinion, the U.S. dollar amounts in the accompanying consolidated financial statements have been translated from yen on the basis set forth in Note 1.



Tokyo, Japan

June 28, 2000

Statement on Accounting Principles and Auditing Standards

This statement is to remind users that accounting principles and auditing standards and their application in practice may vary among nations and therefore could affect, possibly materially, the reported financial position and results of operations. The accompanying financial statements are prepared based on accounting principles generally accepted in Japan, and the auditing standards and their application in practice are those generally accepted in Japan. Accordingly, the accompanying financial statements and the auditors' report presented above are for users familiar with Japanese accounting principles, auditing standards and their application in practice.

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Date of Founding

May 1, 1902

Commencement of Operations

April 26, 1999

Shares of Common Stock

Authorized
4,000,000 thousand shares
Issued and Outstanding
1,331,733 thousand shares (as of March 31, 2000)

Shares of Preferred Stock

Authorized
100,000 thousand shares
Issued and Outstanding
0 shares

Number of Shareholders

89,859 (as of March 31, 2000)

Independent Public Accountants

Asahi & Co.

Stock Exchange listings

Tokyo, Osaka, Nagoya, London, Paris, Frankfurt, Brussels

Transfer Agent and Registrar

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