



Our First Hundred Years: **Former Daiwa Securities Staff Members - c. 1964**

#### Other Domestic Main Group Companies - Summary Data

(Millions of Yen)

	Daiwa Asset Management	Daiwa Institute of Research	Daiwa SB Investments	Daiwa Securities Business Center	Daiwa Real Estate	NIF Ventures
Operating Revenues	42,476	71,809	6,904	9,635	31,187	8,845
SG&A	38,150	11,391	4,058	8,176	1,554	4,222
Operating Income	4,326	5,794	610	1,458	7,602	3,289
Ordinary Income	5,156	5,542	672	1,490	4,822	3,336
Group Holdings (as of March 2002)	100.0%	96.4%	44.0%	100.0%	92.1%	79.2%

## Other Domestic Main Group Companies

### Daiwa Asset Management

#### At a Glance

##### Business

Daiwa Asset Management (DAM) is one of the main asset management companies within the Daiwa Securities Group and acts as the Group's development arm for investment trusts. The retail and wholesale securities companies within the Group distribute the majority of funds issued by DAM. Other distribution routes include banks and defined contribution pension schemes.

##### Market Position

DAM is the second-largest Japanese asset manager, with a particularly strong position in money management funds (MMFs). DAM has consistently recorded a positive net inflow of funds. However, due to valuation losses there has been a decline in assets under management. Due to its high exposure to MMFs the company was affected by an abrupt outflow of funds brought about by a drop in value below par of other companies' MMFs as a result of the "Enron Shock" in fy 2001.

##### Outlook

Ending of blanket deposit insurance on bank deposits will open up new opportunities. DAM will actively develop funds matched to investor needs and promote bank sales of investment trusts, as well as products geared to the emergent 401(k) defined contribution pension market.

#### Background

Daiwa Asset Management is the second largest asset management company in Japan with a balance of net investment trust assets under management of 8.2 trillion yen as of March 31, 2002. Utilizing a consistent investment process and risk management system, DAM invests on a medium-term view, using both fundamental and technical analysis to identify undervalued investments.

DAM relies on the Daiwa Securities Group, including both the retail and wholesale companies for distribution of approximately 70% of its products. The balance is distributed through various securities companies and financial institutions such as banks, as well as defined contribution pension systems. Daiwa Asset Management also utilizes direct marketing through the Internet and the call center. (<http://www.daiwa-am.co.jp/>)

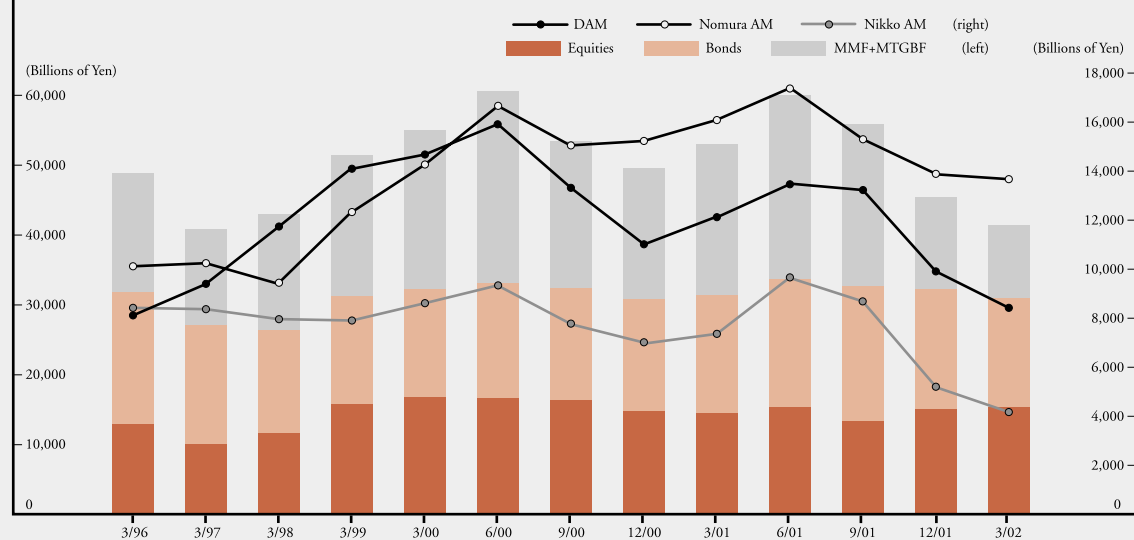
DAM boasts a particularly high market share in fixed income investment trusts, particularly MMFs (Money Management Funds), where it has a market share of approximately 50%. The Daiwa Securities Group hopes to wean retail investors away from bank deposits and into securities markets through products such as its fixed income investment trusts and high yielding foreign bond investment trusts.

## Review

Ordinary income for fy 2001 fell by 50% to 5.1 billion yen on sales down 37% to 42.4 billion yen due to the poor conditions pertaining in Japanese stock markets during the year. A decline in asset

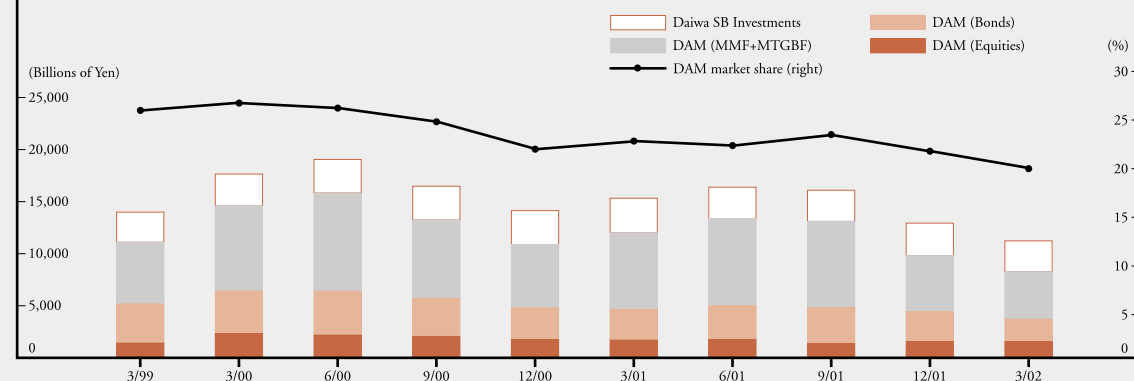
management fees due to poor market conditions and a fall in asset management rates for bond investment trusts due to the continuing low interest-rate regime, caused operating income to fall by more than half.

Investment Trust Market in Japan



Source: The Investment Trusts Association, Japan

Funds under Management (Daiwa Asset Management, Daiwa SB Investment)



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The year was marked by the sudden and unexpected bankruptcy of the U.S. energy giant Enron. Certain investment managers in Japan, although not Daiwa Asset Management, owned significant quantities of Enron bonds in their MMFs, to the degree that certain of these funds dropped in value below par. Although DAM was unaffected by this debacle, as the leading player in MMFs in Japan, it too saw massive redemptions. Although the MMF balance had dropped to approximately 2,970 billion yen at the end of the year under consideration, it had recovered to 3,350 billion yen as at end-June 2002.

Elsewhere, despite a drop in assets under management due to poor market conditions, Daiwa Asset Management saw a continued inflow of equity funds. Unfortunately, valuation losses once again affected the balance of equity investment trust assets under management which fell roughly 15%, from approximately 1,700 billion yen to 1,440 billion yen(excluding ETFs) during the year. Reflecting the above, total assets under management fell from around 12.0 trillion yen to approximately 8.2 trillion yen.

In February 2002, DAM purchased subordinated debt and some other bonds intended to be held to maturity with a face value of 143.6 billion yen from its MMF portfolio in response to new rules regarding the management of MMFs, issued by the Investment Trust Association of Japan. These bonds are held on DAM's books.

### Outlook

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During fy 2002, DAM will concentrate on promoting investment trust products through each of the 3 sales channels to address investor needs and opportunities opened by the ending of blanket deposit insurance.

Further, with regard to bank sales, the company intends to promote funds which match the particular characteristics of each bank, as well as improve its line-up of defined contribution pension-related products.

## Daiwa SB Investments

This company was formed on April 1, 1999, through the merger of Daiwa International Capital Management Co., Ltd., SB Investment Management Co., Ltd., and SBIM Investment Trust Management Co., Ltd. In addition, at its inception, an alliance with the U.S. investment management firm T. Rowe Price was formed, with the goal of providing investment trust products supported by international expertise for customers of the company in Japan. Daiwa SB Investments Ltd. is included in the Daiwa Securities Group's consolidated accounts as an equity method affiliate, the Group owning approximately 44% of the company. As a center for asset management businesses for both the Daiwa Securities Group and Sumitomo Mitsui Banking Corporation, Daiwa SB Investments has moved quickly to establish itself as Japan's leading investment advisory firm for pension assets. As of March 2002, Daiwa SB Investments provided investment advice for pension and other assets amounting to approximately 2.9 trillion yen. Of this amount, 2.6 trillion yen consisted of pension assets.

According to a survey conducted by R&I and announced in November 2001, Daiwa SB Investments ranked first in overall fund management capabilities among pension funds.

## Daiwa Institute of Research

### At a Glance

#### Business

Provides research, systems development and consulting services to the Daiwa Securities Group and external clients.

#### Market Position

Rapidly improving reputation for its research, as evidenced by sharp improvement in ranking in the most recent Nikkei Financial Daily survey of research excellence. Now ranks number three. Revenues for systems development ranked 11 in the domestic information service industry. Consultancy operations with depth in certain niches, especially related to public policy and pensions consulting. De-emphasizing work for external clients in favor of projects for the Daiwa Securities Group.

#### Outlook

Due to cost cutting measures of Group companies, both operating revenues and ordinary income are expected to fall in fy 2002. Key goals going forward are to maintain the improving momentum in its research operations and to improve the cost-competitiveness of the systems operations through outsourcing and other measures.

## Background

The Daiwa Institute of Research Ltd. (DIR) serves as the Group's systems developer and think tank. DIR supports the various companies in the Daiwa Securities Group by taking responsibility for research, systems development and consulting. It also provides services to non-Group companies by drawing on its accumulated know-how.

Since implementation of the Group's medium-term management plan in March 2000, the company has reoriented its operations to focus on increasing the enterprise value of the Daiwa Securities Group as a whole. Consequently, in line with the plan, each of the main divisions—research, systems development and consulting—has undertaken a wide-ranging review of its current operations. DIR is gradually reviewing its business with entities outside of the Daiwa Securities Group with the goal of maximizing the efficiency of its resource deployment and profitability.

In its research operations, DIR employs approximately 260 staff domestically and 60 overseas. In numerical terms this makes DIR one of the largest research organizations in Japan and ranks it as one of the most eminent think tanks for economic and capital market analysis.

The systems operations form the core of the planning, development and operation of each Group company's information systems. They are engaged in the development of various financial and securities systems, particularly preparation for T+1 trading in accordance with the Group's IT investment strategy. As of March 2002, these operations employed approximately 1,050 staff directly, in addition to a wide network of approximately 1,500 programmers employed by external subcontractors. According to an FY 2000 survey, the company ranked number 11

within its industry in terms of sales volume. In addition to external sales of systems for front- and back-office use in the financial industry, the company also provides wide-ranging solutions including planning, development, operating and implementation for public organizations and private companies.

DIR's consulting operations, are focused on areas of strategic importance to the Daiwa Securities Group. Areas of particular concern include the provision of consulting services to clients of Daiwa Securities SMBC, the 401(k) pensions business, where DIR works closely with other members of the Group, and internal education, where DIR is responsible for the curriculum and training of the Daiwa Management Academy considered earlier in this report.

Daiwa Institute of Research sponsors the Porter Prize established by the Graduate School of International Corporate Strategy (ICS) at Hitotsubashi University. The name of the award is derived from Professor Michael E. Porter of Harvard University, a leading authority on strategy. The prize will bestow recognition on Japanese companies that have achieved and maintained superior profitability in a particular industry by implementing unique strategies based on innovation in products, processes, and ways of managing. By making their practices known on a broad scale, it is DIR's intention that this prize will enable the theory and practice of competitive strategy to take root more widely among Japanese companies.

Two companies and two company divisions were awarded the first Porter Prize in December 2001.

## Review

For fy 2001, DIR reported ordinary income of 5.5 billion yen on sales of 71.8 billion yen. Of the sales amount, around 45% was derived from external clients.

During fy 2001, in its research activities, DIR pursued a policy of promoting direct contact with institutional investors through co-operation with Daiwa Securities SMBC. Surveys have shown that such contact is highly prized. This was most clearly shown by the fact that DIR's research was ranked number three overall (after Nomura and Morgan Stanley) in the most recent Nikkei Financial Daily ranking of research excellence, rising from eighth position the previous year.

The systems operations made headway during the year in increasing the amount of work outsourced to partner companies. In particular, DIR was able to significantly reduce costs by increasing the amount of work outsourced to China. Another major innovation during the year was the implementation of a disciplined design methodology in the development process for software design. This has boosted efficiency of development and quality of the software. Meanwhile DIR has started to prepare for the full-scale introduction of CMM (Capability Maturity Model) based procedures.

## Outlook

During fy 2002, DIR will continue to pursue further improvement in the external perceptions of its research capability, building on the excellent start made in fy 2001. In the systems operations, DIR will concentrate on fulfilling its role as internal systems provider of choice, particularly regarding ongoing T+1 settlement systems. This will be accomplished against a background of strict cost control by adopting a disciplined development paradigm and increasing the level of work outsourced to China and partner companies in other locations.

## NIF Ventures

### At a Glance

#### Business

NIF Ventures (NIF) invests both its own capital and that of investment partnerships in domestic and overseas private equity companies in such growth areas as IT and biotechnology. NIF Ventures was listed on the JASDAQ market on March 12, 2002.

#### Market Position

Ranks as one of Japan's largest venture capital companies. Recent results have been depressed by the downbeat state of global IPO markets, although the number of IPOs on Japan's three emerging exchanges remains relatively stable.

#### Outlook

Although the slump in equity markets is causing a fall in the number of companies going public, it also provides opportunities to make investments at depressed prices for the venture capital industry. NIF will promote investments into high growth areas such as IT, biotechnology and nanotechnology. NIF expects to increase the scope of its investment partnerships.

## Background

NIF Ventures (NIF) is the venture capital arm of the Daiwa Securities Group and is one of the leading venture capital firms in Japan with an accumulated investment of 253.8 billion yen in 1,413 companies in Japan and overseas.

Domestically, NIF identifies suitable candidates for investment, drawing both on its own networks and those of the Daiwa Securities Group. NIF also maintains an active direct presence in local VC markets in the United States, Europe and Asia via wholly-owned subsidiaries, joint ventures with local companies and through alliances with local venture capital firms.

Over the last several years, NIF Ventures has established core areas of expertise in various areas of the information technology sector which it is now moving to augment with expertise in other sectors having high growth potential, including biosciences and nanotechnology. A key element of competitive advantage in these areas is access to a network of specialist advisors eminent in their fields and capable of adequately evaluating new technologies in fast-evolving markets. For this reason, NIF established the technical advisory system in 1998.

NIF invests both its own funds directly and also through investment partnerships established with funds gathered from outside investors. Such partnerships have expected lifetimes of between 7 and 10 years. To date, no investment partnership has been redeemed below par value.

Over recent years, emerging markets such as MOTHERS, NASDAQ-Japan and JASDAQ, catering to venture investments, have led NIF, in common with the whole industry, to shift its focus to earlier-stage investments. This has involved a change in operational

style, with NIF becoming increasingly involved in the day-to-day operations of its investments.

## Review

The operating environment in which venture capital investors such as NIF operated during fy 2001 was severe, due to the slowdown in IT-related industries, the slowing U.S. economy and after-effects of the terrorist attacks, and continuing economic malaise in Japan. IPO markets slumped, particularly in the United States.

Nevertheless, in spite of the severity of the environment, NIF was able to report creditable results. A total of 24 companies backed by NIF successfully listed on the stock market during the year (16 in Japan and 8 overseas), compared with 43 (27 domestic and 16 overseas) during fy 2000.

During the year, NIF managed to establish five new investment partnerships with investment funds totaling 22.5 billion yen, the same level as recorded during the previous year. The amount invested during the year, however, fell to 16.2 billion yen, significantly below the previous year, as a consequence both of a cautious investment attitude by NIF and of a lower overall cost of acquisition in a troubled market.

For fy 2001, NIF recorded sales of 17.2 billion yen, down 16%, operating income of 3.3 billion yen, down 33% and ordinary income of 3.4 billion yen, down 32%. By contrast, net profit for the year actually rose by 22% to 3.2 billion yen due to a sharp reduction in losses on provision for doubtful accounts. Although investment management fees and operating earnings arising on investment partnerships actually increased 9% on the previous term to 2.5 billion yen, a fall in revenue resulted, mainly due to a decrease of 96% (84 million yen) in success fees.



NIF Ventures was listed on the JASDAQ market on March 12, 2002.

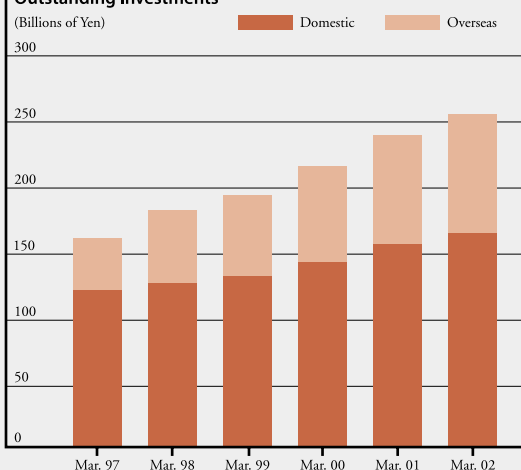
## Outlook

The near-term outlook for NIF Ventures is clouded by uncertainty over the direction of the overall global equity markets. Longer term, by improving the number and pricing of available investment targets, poor market conditions work to NIF's advantage. NIF will seek to improve its relative competitive position by concentrating on areas in which it is competitive, including information technology, bioscience and nanotechnology, as noted earlier. It will also work to improve its ability to add value to its investments through the provision of hands-on managerial services and will actively recruit high-caliber staff for this and other purposes. Other priorities include marketing investment partnerships more widely to broaden the base of institutional involvement in the market. Furthermore, NIF will diversify its exit strategies to include trading of non-listed equity and M&A.

## Daiwa Securities Business Center

Daiwa Securities Business Center Co., Ltd. (DSC) is a wholly owned subsidiary of the Daiwa Securities Group Inc. DSC provides securities back-office support to the Daiwa Securities Group and also provides temporary staff for securities-related businesses. This company became the first securities back-office service provider to be certified under the internationally recognized ISO 9001 standard in FY 2000 and will continue to make efforts to streamline and increase efficiencies in the back-office support activities.

**NIF Ventures  
Outstanding Investments**  
(Billions of Yen)



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## Daiwa Real Estate

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The Daiwa Real Estate Co., Ltd. is mainly involved with the holding and renting of the Daiwa Securities Group's office premises, housing, dormitories and other properties. During FY 2001, the Group took a decision to liquidate non-core properties managed and leased out to non-Group companies by Daiwa Real Estate generating an extraordinary loss of 127.4 billion yen.

Additional capital of approximately 119.5 billion yen fully subscribed by Daiwa Securities Group Inc. was injected to The Daiwa Real Estate Co., Ltd. during FY 2001. After this capital injection, The Daiwa Real Estate Co., Ltd. transferred its business unit which engages in the management of properties used for the Daiwa Securities Group's core business into a fully owned subsidiary, The Daiwa Building Management Co., Ltd. After completion of sales of its remaining assets, The Daiwa Real Estate Co., Ltd. is to be liquidated.