

## Business Results and Market Position of the Daiwa Securities Group

The following presents the business performance trends and financial strategy of the Daiwa Securities Group as well as its position in the market, including corporate scale and market share.

### Principal management indicators\*

	FY2000	FY2001	FY2002	FY2003	FY2004
Operating revenues (million yen)	714,909	488,044	387,658	453,813	519,337
Net operating revenues (million yen)	464,056	284,932	270,809	352,434	390,432
Ordinary income (million yen)	177,795	25,849	29,200	96,130	120,433
Selling, general and administrative expenses (million yen)	286,948	262,163	246,701	259,914	275,544
Net income (loss) (million yen)	64,550	(130,547)	(6,322)	42,637	52,665
Total assets (million yen)	7,694,051	7,827,306	9,502,825	10,765,665	12,378,961
Return on equity (ROE) (%)	9.3	—	—	7.4	8.4
Net income (loss) per share (yen)	48.62	(98.27)	(4.75)	31.66	39.03
Dividends per share (yen)	13.00	6.00	6.00	10.00	13.00
Total shareholders' equity per share (yen)	539.72	429.68	407.84	453.60	486.70

\* The revised Uniform Accounting Standards of Securities Companies (approved by the Board of Directors of the Japan Securities Dealers' Association on September 28, 2001) have been applied since fiscal 2001. Fiscal 2000 figures have been recalculated based on the revised standards.

### Fiscal 2004 business performance

Due to an increase in trading securities and commissions earned, fiscal 2004 operating revenues rose by 14% compared to fiscal 2003, to reach ¥519.3 billion. Net operating revenues, after subtracting financing and other expenses from operating revenues, also showed an increase of 11% year-on-year, for a total of ¥390.4 billion. Selling, general and administrative expenses only increased 6.0% to ¥275.5 billion, which contributed to ordinary income of ¥120.4 billion, up 25%. Net income also soared 24% to ¥52.6 billion.

### Financial strategies of the Daiwa Securities Group

In order to continually improve shareholder value, it is important to have a financial strategy that balances both risks and returns.

The Daiwa Securities Group has always placed importance on improving financial security while raising consolidated return on equity (ROE).<sup>\*1</sup> As a result, by the end of fiscal 2004, we had strengthened our financial soundness, improved our credit ratings, and succeeded in achieving the highest consolidated ROE among the three major Japanese securities firms. We also established a dividend policy of a 30% dividend payout ratio<sup>\*2</sup> on a consolidated basis. In the future, we will pursue further development of this basic strategy, by promoting strategies that emphasize the expansion of the sales base and by improving business performance based on careful consideration of risk and enhanced ROE.

Based on the inherent risk in the securities business (market risk,<sup>\*3</sup> credit risk,<sup>\*4</sup> etc.), the Daiwa Securities Group is aiming for a higher level of financial security by incorporating risk management and building strong

breakeven structures to withstand revenue fluctuations. We are also pursuing higher returns based on careful consideration of risk by efficiently distributing management resources to fields with high growth and profit potential.

For more details on the financial performance of the Daiwa Securities Group, please refer to our *Annual Report* for the year ending March 31, 2005.

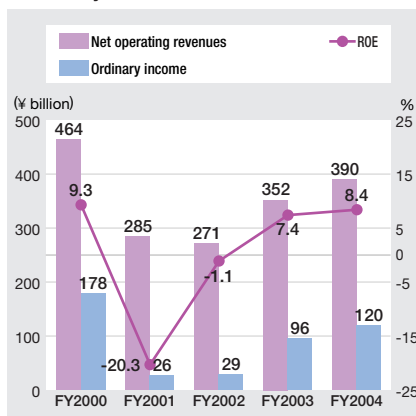
\*1. Return on equity indicates how much profit the company is making on the investment in the company made by all the shareholders and investors. It is equal to net income divided by shareholders' equity (average of the period beginning and end).

\*2. Dividend payout ratio is the ratio of dividends paid to income, and is the inverse of the retained earnings ratio. Generally, if a company has a low dividend payout ratio, this means that it is building up its retained earnings.

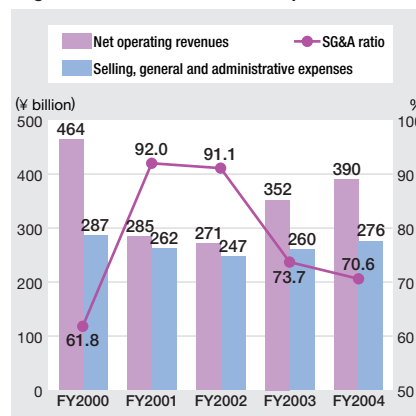
\*3. Market risk indicates the possibility of loss as a result of fluctuations in the value of financial assets and liabilities held, due to interest rate or market value fluctuations in areas such as stocks, interest rates, foreign currency exchange, or derivative products.

\*4. Credit risk indicates the possibility of loss as a result of a transaction partner not being able to fulfill the contract in question.

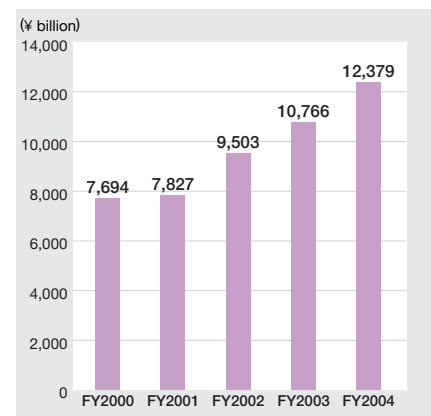
### Trends in net operating revenues, ordinary income and ROE



### Trends in net operating revenues and selling, general and administrative expenses



### Trends in total assets



## Market position of the Daiwa Securities Group

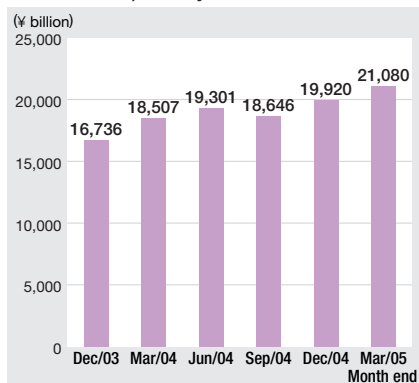
### Retail securities business (Daiwa Securities Co. Ltd.)

The total value of assets (customer assets held by Daiwa Securities Co. Ltd.) such as cash and negotiable securities on deposit from customers who are individuals and non-listed companies (excluding financial institutions) was ¥21.1 trillion as of March 31, 2005. This marks an increase of ¥2.6 trillion compared to the end of the previous fiscal year.

This total surpasses the level of ¥18.0 trillion reached in December 1989, during the economic bubble period in Japan. It is equal to 1.5% of the ¥1,400 trillion in total individual financial assets in Japan.\*5

\*5. Since the customer assets held by Daiwa Securities Co. Ltd., include assets of some corporate customers, it is not statistically precise to compare this figure with the total individual assets in Japan. This information is only provided as a rough indication of the size of the business for Daiwa Securities Co. Ltd.

### Customer assets (excluding those of financial institutions) held by Daiwa Securities Co. Ltd.



### Wholesale securities business (Daiwa Securities SMBC Co. Ltd.)

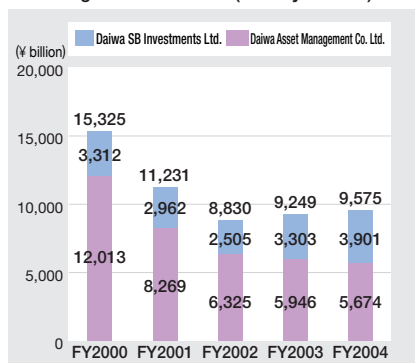
Daiwa Securities SMBC Co. Ltd., the investment bank of the Daiwa Securities Group, has secured the top position in the fields of public offerings and sales of company stocks as well as of overall bonds (total of straight corporate bonds and bonds issued by special public corporations eligible for fiscal investment and loans) according to the investment bank division of the league table ranking lead managing underwriters for fiscal 2004.\*6 In the overall bond division, we obtained the top share for the fourth year in a row (from fiscal 2001 to 2004).

\*6. This is the ranking of Japanese securities firms based on the share of stock and bond issues they have undertaken.

### Asset management business (Daiwa Asset Management Co. Ltd., and Daiwa SB Investments Ltd.)

The investment asset balance on March 31, 2005 was ¥5.674 trillion for Daiwa Asset Management Co. Ltd., down ¥27.2 billion from the previous year, and was ¥3.901 trillion for Daiwa SB Investments Ltd., up ¥59.8 billion over the same period. The total investment asset balance for the two companies combined was ¥9.575 trillion.

### Trends in investment asset balance in asset management business (fiscal year end)



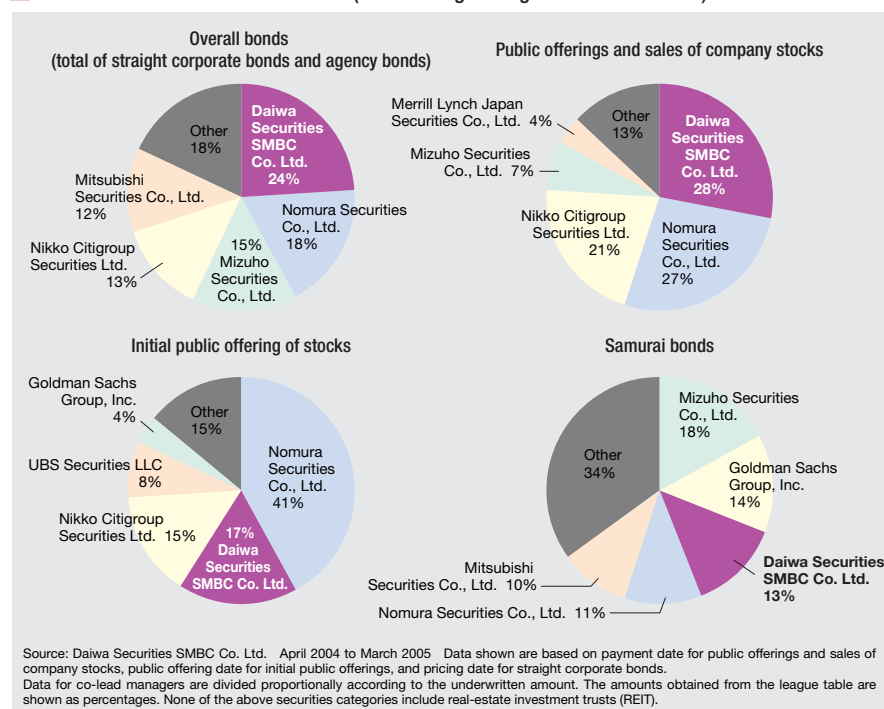
### Research business (Daiwa Institute of Research Ltd.)

The Daiwa Institute of Research Ltd. ranked first for the second consecutive year in the Annual Research Analyst Poll of the *Nikkei Financial Daily*. It also achieved first place for the second year running in the analyst and economist ranking of *The Economist* magazine.

### Annual Research Analyst Poll, Nikkei Financial Daily Total of all sectors (excluding the overall division) and strategists (by company)

	FY2001	FY2002	FY2003	FY2004
First place	Nomura Securities Co., Ltd.	Nomura Securities Co., Ltd.	Daiwa Institute of Research Ltd.	Daiwa Institute of Research Ltd.
Second place	Morgan Stanley Dean Witter & Co.	Daiwa Institute of Research Ltd.	Nomura Securities Co., Ltd.	Nomura Securities Co., Ltd.
Third place	Nikko Salmon Smith Barney Ltd.	Nikko Salmon Smith Barney Ltd.	Deutsche Securities Ltd.	UBS Securities LLC

### Market share of wholesale business (Lead Manager League Table for FY2004)



## Economic Relationships with Stakeholders

This section introduces the revenue structure for the Daiwa Securities Group in terms of the various products and services provided to customers, while also outlining the economic value delivered to each type of stakeholder. (Figures are based on the consolidated financial statements in the securities reports.)

### Revenue structure for the Daiwa Securities Group

The revenues given in this economic report and shown in the pie chart below are the total of operating revenues,<sup>\*1</sup> non-operating income, and extraordinary gains. The greatest revenue source for the Daiwa Securities Group in fiscal 2004 was commissions earned. This accounted for 49.3% of the total revenues and is divided into the following three categories.

#### Equity and bond commissions

These are the commissions for broker services earned from individual and corporate customers at the time of sales or purchases of negotiable securities, such as stocks and bonds.

#### Investment banking commissions

These are the underwriting commissions earned when stocks and bonds are issued by corporate customers in order to procure new funds, as well as commissions from mergers and acquisitions (M&A).<sup>\*2</sup>

#### Asset management commissions

These are the commissions earned from the sale of investment trusts, or from the management or holding of assets deposited by individual and corporate customers.

The second largest source of revenues is net gain on trading securities, which accounts for 34.5% of revenues. These are profits that arise from the sale of the securities the Group has on its own account, or when the Group buys from or sells to its clients, in order to meet the transaction needs of customers for negotiable securities, such as stocks and bonds.

Net financial revenues equal interest and dividend income such as dividends and interest receivables on negotiable securities owned, minus interest expenses such as interest payables and fees for discounts on notes. Furthermore, the net operating gain on investment securities is the total of the appraisal increase/decrease and the sales profit/loss from the negotiable securities obtained for the purpose of doing in-

vestment business by Daiwa Securities SMBC Principal Investments Co. Ltd. and NIF Ventures Co. Ltd.

### Revenue categories (FY2004)

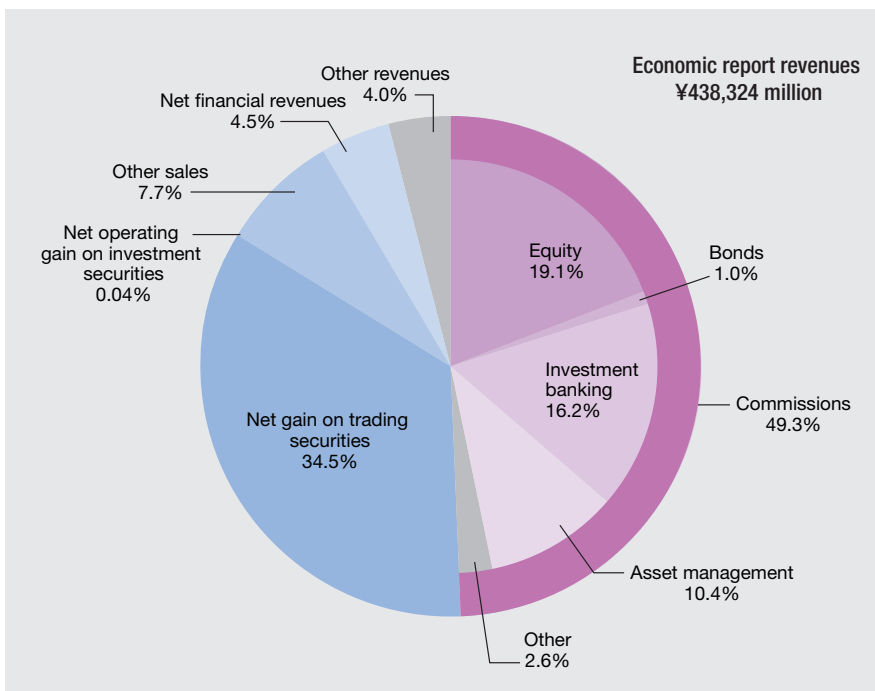
		(¥ million)
Operating revenues	Commissions	216,386
	Equity	83,887
	Bonds	4,263
	Investment banking	71,170
	Asset management	45,640
	Other	11,425
	Net gain on trading securities	151,117
	Net operating gain on investment securities	171
	Other sales	33,641
	Net financial revenues (Interest and dividend income minus interest expenses)	19,548
Other revenues (Sum of non-operating income and extraordinary gains)	17,461	
<b>Economic report revenues</b>	<b>438,324</b>	

\*The totals may not always add up due to the rounding off of figures.

\*1. Operating revenues are indicated after subtracting interest expenses (excluding interest payables not related to securities transactions), which is a component of operating expenses, from interest and dividend income in the operating revenues.

\*2. Mergers and acquisitions (M&A) actually has a broad meaning that includes not just the joining of two companies through amalgamation or purchase, but also the transfer of operations, transfer of stock, or capital alliance.

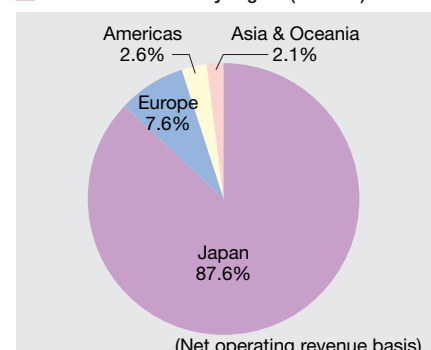
### Revenue structure (FY2004)



### Revenue structure by region

Looking at the revenue structure by region, 87.6% of our revenues are from Japan. The Daiwa Securities Group earns most of its revenues by serving individual and corporate customers in Japan through asset management and funds procurement.

### Revenue structure by region (FY2004)



## Distribution of economic value to stakeholders

The Daiwa Securities Group keeps continual track of how much of the economic value derived from its business activities is being distributed to its various stakeholders.

Economic value for the purpose of this economic report is calculated as the revenues as given in this economic report minus the cost of sales, selling, general and administrative expenses, non-operating expenses, extraordinary losses, and minority interest.

### Employees

Employees' compensation and benefits that are distributed to employees (including salaries, bonuses, welfare program costs, and social insurance contributions) have ranged from ¥120 billion to ¥140 billion in recent years, based on fluctuations in operating revenues. The personnel costs in fiscal 2004 rose by

¥5.8 billion over the previous year to ¥142.8 billion. This accounts for 57.4% of the total economic value generated by the Group.

### Society

We aim to provide a stable amount of funds for our corporate citizenship activities,<sup>\*3</sup> which represents economic distribution to society, regardless of the fluctuation in our business results. In fiscal 2004, this type of expenditure totaled ¥710 million.

### Shareholders

Every year, we pay dividends to shareholders as a distribution of economic value. Our basic policy is to distribute profits twice a year at a dividend payout ratio of approximately 30%, based on the consolidated performance of the Group, while also ensuring stability. Based on this policy, we made an annual dividend payment of ¥10 yen per share in fiscal 2003. In fiscal 2004, we made a total dividend payout of ¥20 billion, includ-

ing an interim dividend in September 2004.

### Creditors

We paid ¥5.6 billion in loan interest to creditors.

### Governments

Paying taxes on income is part of a company's social responsibility. According to the Daiwa Securities Group's financial accounting, the tax amount paid is the total of current income taxes, deferred income taxes and other taxes and duties including consumption tax paid. In fiscal 2004, the financial accounting tax amount was ¥46.9 billion. This accounts for 18.9% of the economic value produced by the Group.

<sup>\*3.</sup> For details on expenditure for corporate citizenship activities, see page 42.

## Procurement activities of the Daiwa Securities Group

It is extremely important for a company to consider society and the environment when considering what products and services to procure and selecting suppliers for these. That is why the Daiwa Securities Group carries out procurement based on social and environmental considerations, even though its procurement activities are relatively small compared to manufacturers. In fiscal 2004, we purchased about ¥71 million in products and services. This was performed using Sanko Net, an intranet site administered by Daiwa Sanko Co., Ltd., one of our group firms. Of this total procurement, 29%, or ¥20 million, was made based on green procurement standards, which take social and environmental factors into account.

## Trends in distribution of economic value to stakeholders

Stakeholders	FY2000	FY2001	FY2002	FY2003	FY2004	Calculation method
Employees	140,426	129,972	123,904	136,963	142,751	Personnel expenses in S&GA expenses
Society	N/A	N/A	320	332	708	Expenditures for corporate citizenship activities
Shareholders	17,246	17,265	7,971	7,969	19,960	Dividends
Creditors	14,890	11,134	8,388	7,821	5,590	Interest payables, excluding those arising from securities transactions
Governments	77,403	10,930	20,026	26,424	46,921	Total of current income taxes, deferred income taxes and other taxes and duties including consumption tax paid
Retained within company	47,303	147,812	▲14,293	34,667	32,705	Amount of internal reserves

## Distribution of economic value to stakeholders (FY2004)

