



Daiwa Securities Group

2004 Annual Report

Year ended March 31, 2004

Time to Catch the Big Wave

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This annual report may contain forward-looking statements about the Daiwa Securities Group. You can identify these statements by the fact that they do not relate strictly to historic or current facts. These statements discuss future expectations, identify strategies, contain projections of results of operations or of financial condition or state other "forward-looking" information. These statements are based on currently available information and represent the beliefs of the management of the Daiwa Securities Group. These statements are subject to numerous risks and uncertainties that could cause the Daiwa Securities Group's actual results, performance, achievements or financial condition to differ materially from those described or implied in the forward-looking statements. The Daiwa Securities Group undertakes no obligation to publicly update any forward-looking statements after the date of issuance of this annual report. These potential risks and uncertainties include, but are not limited to: competition within the financial services industries in Japan and overseas, our ability to adjust our business focus and to maintain profitable strategic alliances, volatile and sudden movements in the international securities markets, foreign exchange and global economic situations affecting the Daiwa Securities Group. "FY 2003" refers to the fiscal year ended March 31, 2004, and other fiscal years are referred to in a corresponding manner.

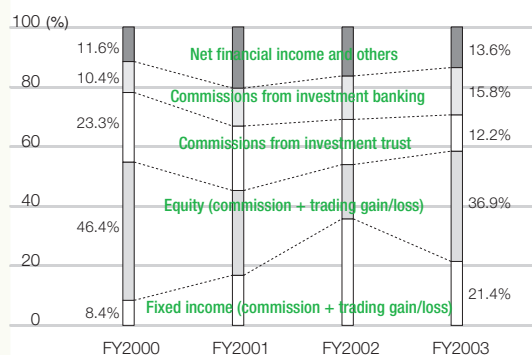
Snapshot of the Daiwa Securities Group

Our ultimate goal is to achieve an optimal balance between growth, profitability, and stability by:

Diversifying Our Business Portfolio

Expansion of revenues mainly from investment banking and fixed-income

Breakdown of Consolidated Net Operating Revenues



Achieving Higher Profitability

FY2003 profitability ratios exceeded FY1996 levels

Consolidated Ordinary Income Margin



Ongoing enhancement of each of our core strengths and our efforts to promote synergies among functions have facilitated the above performance.

Indepth Research

—Daiwa Institute of Research ranked No. 1 by both the *Mainichi Economist* magazine and the *Nikkei Financial Daily* in their 2003 analyst/economist ranking
(Daiwa Institute of Research)

Retail Marketing System that can adopt to satisfy the diverse needs of customers

—Total customer assets under custody exceeded levels at the peak of the bubble economy (1989).
—Growth in number of on-line accounts highest among all major securities companies
(Daiwa Securities)

Highly Regarded Fund Management Capabilities

—The sole Japanese institution to be selected by Japan Post to manage the Japanese equity component of both postal savings and postal life insurance funds.
(Daiwa SB Investments)

Investment Banking Services backed by experience and capabilities to provide distinct solutions

—Japan's first joint venture between a major securities company and a megabank

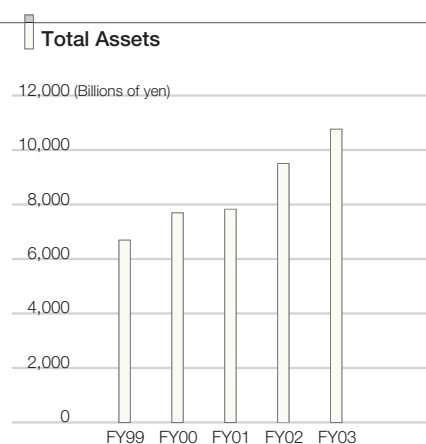
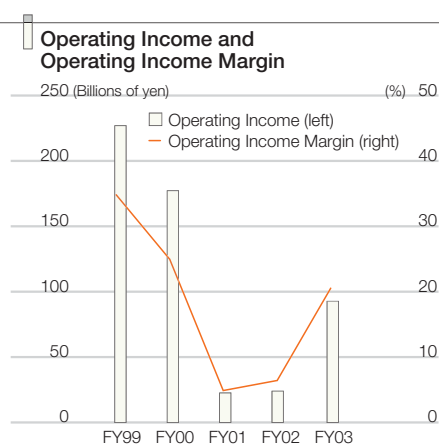
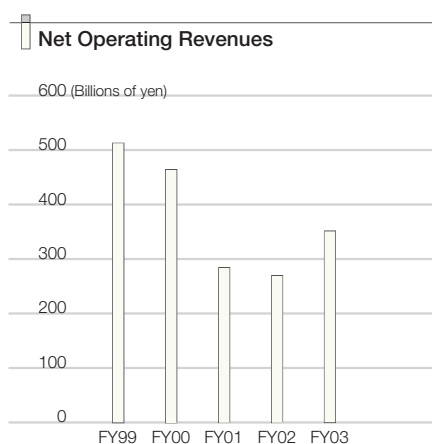
FY 2003

—No. 1 lead-manager in domestic corporate straight bonds
—No. 2 lead-manager in equity offerings, IPOs and domestic ABS
(Daiwa Securities SMBC)

Financial Highlights

Daiwa Securities Group Inc. and Subsidiaries

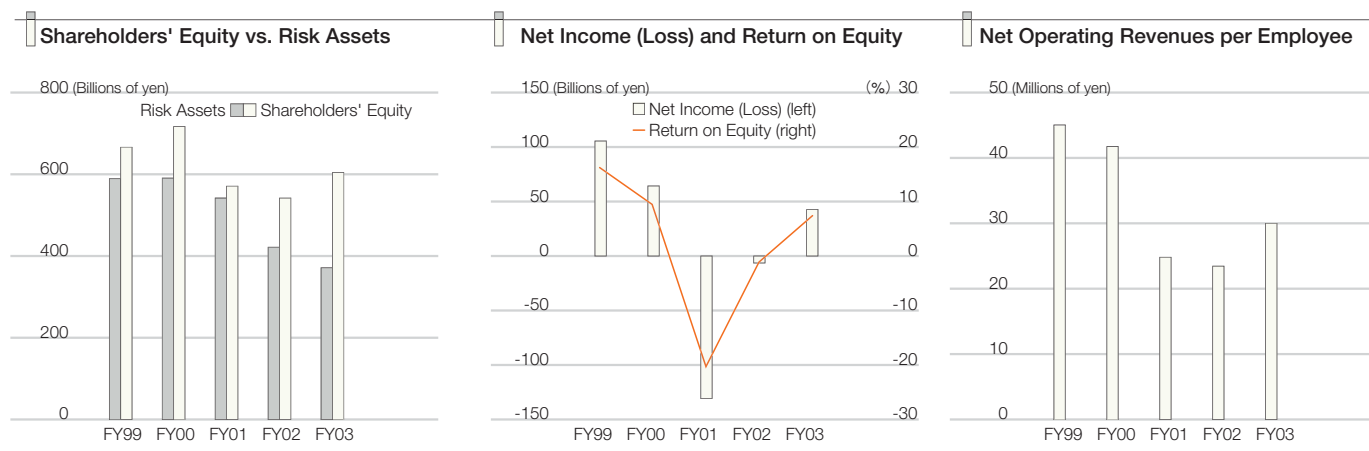
	FY2001	FY2002	FY2003	FY2003
	Millions of yen (Unless otherwise specified)			Millions of U.S. dollars*1 (Unless otherwise specified)
Market Data				
TOPIX (annual average, index)	1,133	932	981	—
TSE 1 st section average daily trading value . . .	812,432	729,049	1,145,296	10,804
Ten-year Japanese government bond yield (annual average, % per annum)	1.37	1.12	1.13	—
Foreign exchange rates (annual average):				
Yen per U.S. Dollar	125.1	121.9	113.0	—
Yen per Euro	110.6	121.0	132.6	—
Operating Performance				
Operating revenues	488,044	387,659	453,814	4,281
Net operating revenues	284,932	270,810	352,435	3,324
Selling, general and administrative expenses . .	262,163	246,701	259,915	2,452
Operating income	22,769	24,109	92,520	872
Ordinary income	25,849	29,200	96,130	906
Net income (loss)	(130,547)	(6,323)	42,637	402



	FY2001	FY2002	FY2003	FY2003
	Millions of yen			Millions of U.S. dollars*1
Balance Sheet				
Total assets	7,827,306	9,502,826	10,765,665	101,562
Total risk assets *2	541,364	422,019	371,294	3,502
Total shareholders' equity	570,839	541,719	604,170	5,699
Per Share Data				
	Yen			U.S. dollars
Net Income (loss) *3	(98.27)	(4.75)	31.66	0.30
Total shareholders' equity *3	429.68	407.84	453.60	4.28
Cash dividends	6.0	6.0	10.0	0.09
Financial Ratios				
	%			
Return on Equity (ROE) *4	—	—	7.4	
Equity ratio	7.3	5.7	5.6	
Other data				
Total number of employees	11,483	11,559	11,565	

***Notes:**

- Translations of the Japanese yen amounts into U.S. dollars are made at the rate of ¥106.00 per U.S. dollar, solely for the convenience of readers.
- Risk assets are calculated as the sum of operational investment securities, tangible fixed assets and investment securities.
- Net income (loss) and shareholders' equity per share are computed based on the average number of shares outstanding during the year.
- ROE is computed based on the average shareholders' equity at the beginning and end of the fiscal year.
- Simple comparisons across the years cannot be made due to changes in items made to accommodate changes in statutory accounting standards. Some of the main changes are as following.
 - We have adopted the "Accounting Standard for Employees' Severance and Pension Benefits" in FY2000. We have also adopted the "Accounting Standards for Financial Instruments" resulting in the evaluation changes from mark-to-market valuations minus any tax effects of other securities to be included in stockholders' equity as "Net unrealized gain on securities net of tax effects." Furthermore, "translation adjustments" which were previously recorded on the asset side has been moved to shareholders' equity.
 - The operating results are presented in accordance with the amended "Uniform Accounting Standards of Securities Companies" (set by the board of directors of the Japan Securities Dealers' Association, September 28, 2001) since FY2001. Therefore figures for FY1999 and FY2000 have been adjusted according to the amended standards.



Message from the CEO



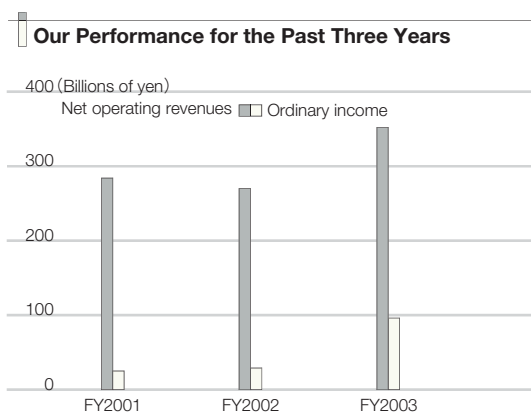
**We have a mission
to be accomplished
with confidence and pride.**

In June 2004, the CEO post of the Daiwa Securities Group was passed on from Yoshinari Hara (photo on right) to Shigeharu Suzuki (photo on left). During Mr. Hara's six-and-a-half-year tenure as CEO, the Group underwent various management reforms, including changes to its marketing system, management system, and balance sheet. We are now starting to see the results of these efforts and are confident that we will emerge as a winner in the second round of transformation of the financial services industry. We will accomplish this under a new management system by further differentiating ourselves from the competition, completing the move to a performance-based remuneration system, and gaining a firm grasp of our customers' diverse and complex needs.

Performance Highlights

Turnaround in Earnings

In FY 2003 ending March 31, 2004, consolidated net operating revenues rose by 30.1% to ¥352.4 billion. Ordinary income also showed a remarkable recovery, increasing by about 3.3 fold to ¥96.1 billion. I believe there are three major factors underlying this recovery in earnings. For a start, we benefited from an upturn in the external environment amid a rebound in the stock market and the overall economy. In addition to trading value on the First Section of the Tokyo Stock Exchange rising 57%, the earnings of Japanese companies improved dramatically and demand for raising funds expanded sharply.



Implementation of a well balanced offensive and defensive strategy will enable us to increase shareholders' equity regardless of the external environment.

The Success of Management Reforms That Balance Offensive and Defensive Strategies

The remaining two factors that contributed to the growth of the Daiwa Securities Group's earnings stemmed from our own efforts: First of all, as I will explain later, along with working to improve each of the Group's three functions of sales, the development and provision of products and services, and research, we have steadily and speedily implemented "forward-looking reforms" to systematically connect these three functions and enhance synergies.

Second, along with stabilizing our performance by converting fixed costs — especially personnel costs — into variable costs, we have worked to maximize our capital efficiency by streamlining assets that were not contributing to our main businesses and by reducing external debt. These factors coincided and led to significant improvements in our performance.

Balance Sheet Reforms Directed at Establishing a More Transparent and Solid Financial Base

Up to now, the Daiwa Securities Group has been working actively to reform its balance sheet and establish a transparent and solid financial base. In FY 2003, we posted an impairment loss of ¥12.7 billion resulting from the early adoption of accounting for impairment of fixed-assets two years ahead of the mandated deadline. With this move, we have been able to clear all foreseeable latent losses. This decision was made based on the confi-

dence we held in achieving future earnings becoming a firm conviction during the year in review. Going forwards, I believe that we will be able to steadily increase our capital base by continuing to generate profits.

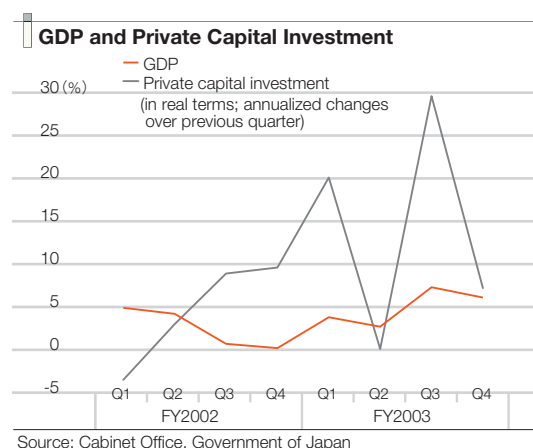
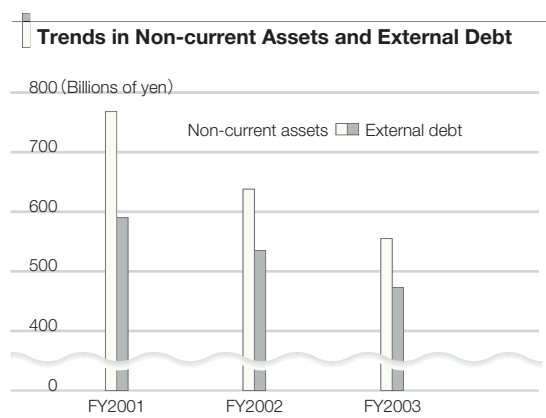
Seeds of Domestic Economic Growth

The Long-Awaited Breath of Growth

The Japanese economy has emerged from a long period of severe winter and is now well into spring. I believe this is because the various problems that had been weighing heavily on the economy — excessive debt in the private sector, non-performing loans, and deflation — are gradually being resolved. We are witnessing the emergence of some unprecedented changes in the recovery pattern of the Japanese economy. Previously, domestic companies aggressively cut costs to remain price competitive in existing markets. Now they are striving to grow by utilizing their unique technology to create new markets. One concrete example is the dramatic growth shown by the digital home electronics industry, an industry in which Japan is displaying strong originality and continues to be competitive in the global market.

Playing an Important Role in Circulating the Life Blood of the Economy

Sustained growth cannot be achieved with the return of just strength and spirit (i.e., confidence).



Never has there been a time when so much is expected of us.
Providing for customer needs is a direct contribution to the Japanese economy.

Only those who have steadily carried out the necessary reforms based on accurate foresight are eligible to emerge as one of the winners.

The life blood of the economy is money, and the smooth circulation of blood to deliver energy where it is needed is indispensable. Japan has reached the point where it must deliver funds to sectors of the economy where there is potential for growth. These include venture companies that are trying to expand based on their superior technology and services, and large corporations that have streamlined their businesses and achieved operational efficiency.

Let us now look at the situation of the provider of these funds. While the demand for new funds from companies is expanding along with the economic recovery, domestic companies as a whole still hold approximately ¥30 trillion in excess funds. As for individuals, of the ¥1.4 quadrillion in financial assets they own, nearly 60% are lying dormant in savings accounts. The circulation of money in the Japanese economy cannot be considered sufficient under these circumstances. This circulation cannot be improved by relying on indirect finance (i.e., the banks), which manages current deposits. In addition to the limited risks that the banks can shoulder, there is a lack of mechanism to deter violations of corporate governance. For the life blood of the economy to flow smoothly and to secure a corporate governance structure that fulfills appropriate risk and return requirements, the direct finance market must be fully operational. Our role and responsibility of developing market-based solutions that meet the needs of companies and investors are becoming increasingly large.

Bringing About Sustained Economic Growth in Japan

The growing need for smooth circulation of funds represents a major business opportunity for us. Now is the time to fulfill our underlying responsibility of contributing to the Japanese economy. Having solved the bad debt problems by the early 1990s, the United States, in part helped by the IT revolution, enjoyed more than 10 years of continued prosperity. The long-term economic growth achieved in the United States is now poised to come to Japan. Whether this actually happens rests on our shoulders.

Strategies of the Daiwa Securities Group

Capability to Take on Business Opportunities

“Opportunities” presents itself to all players in the industry, but only a few can take advantage of these opportunities. All companies have “responsibilities” but not necessarily all players can fulfill these responsibilities. I believe that in the end it all comes down to whether we were able to envision the changes in the economy, whether we have adopted the appropriate strategies, and whether we were able to execute accordingly.

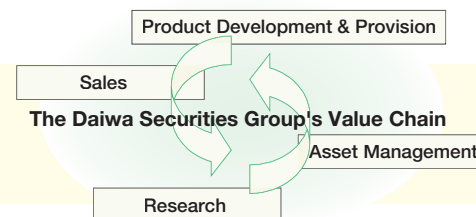
We have been implementing our management reforms steadily and surely to be in the position to seize the major opportunities being made available in Japan and to become a player capable of fulfilling its responsibilities in helping to create an even larger trend.

Strategy 1:

Differentiating Our Respective Strengths

Our strategy has been to grasp the diverse needs of our customers, to create high-quality products and services that meet these needs, and to provide these products and services in a timely manner. In carrying out this strategy we have had to differentiate ourselves from our rivals by (1) establishing a marketing structure that allows us to obtain a good grasp of our customers' varied needs, (2) securing “intelligence” (i.e., research and analysis capabilities) and creating a development structure that will enable us to create high-quality products and services, and (3) establishing a decision-making and command chain that enables us to react quickly.

As an example of the reforms to the marketing structure mentioned in (1) above, in the retail area we have established a new marketing structure. This combines an area marketing system (“Satellite Branch System”) with a multiple channel system (“Two-course” Service). In the wholesale area, we have established Japan's first investment bank formed through an alliance between a major securities company and a “megabank.” Regarding the quality of “intelligence” mentioned in



(2), we worked to improve the Group's think tank (Daiwa Institute of Research Ltd. (DIR)) and asset management companies (Daiwa Asset Management Co. Ltd. (DAM) and Daiwa SB Investments Ltd. (Daiwa SB Investments)) by introducing performance-based remuneration systems. On the other hand, our wholesale company (Daiwa Securities SMBC Co. Ltd. (Daiwa Securities SMBC)) set up a division specializing in industry research (currently the Research & Advisory Department) consisting of a group of analysts with experience in various industries. Our efforts to improve quality have not been limited at the retail (Daiwa Securities Co. Ltd. (Daiwa Securities)) and wholesale companies. We have also been working to improve quality by strengthening training and education of all sales personnel. Finally, to deal with (3), we have delegated a wide range of authorities to the manager level.

I believe that all three of these reforms have helped to differentiate ourselves sufficiently from our competitors within the industry, owing to both the timing of their introduction as well as the speed and degree of implementation. In other words, our strategy has been to shift from the sell-side logic of aiming to be No.1 in transaction volume to the customer's perspective of aiming to be No.1 in terms of quality and productivity.

Strategy 2: Creating a "Value Chain"

Along with improving the three functions of sales, the development and provision of products and services, and research, we worked to maximize value by creating synergies among these functions. For example, while it is natural for Daiwa Securities and Daiwa Securities SMBC, the largest supplier of products, to work closely together, Daiwa Securities and our asset management companies, which develop and manage investment trusts, have also established close working relationships. Furthermore, Daiwa Securities SMBC and DIR work closely together to market to institutional investors. Within Daiwa Securities, we have created a new post of "internal wholesaler" when we introduced the Satellite Branch System. This post

was established to strengthen the ties between the branch offices and the Marketing Division at the head office. At Daiwa Securities SMBC, we combined the Fixed Income Division and the Derivatives and Structured Financial Products Division for this purpose.

Transforming Confidence into Conviction

No matter how rational a strategy may be, unless it achieves results it will be deemed worthless. I believe the strategies that the Daiwa Securities Group has implemented over the past few years with confidence are starting to steadily bear fruit. In particular, FY 2003 was the year when our confidence turned into conviction.

First, in FY 2003, Daiwa Securities' total assets under custody for the retail segment surpassed the level achieved during the so-called bubble years of the 1980s. Although the economy has recovered, the price level of the equity market is still far from where it was during the bubble period. Thus, I believe the high level of assets under custody that we have achieved indicates that the aforementioned reforms have been successful. At one point, it was said that full scale securities companies would fall into decline as companies specializing in on-line securities trading made aggressive advances. In fact, however, in FY 2003 Daiwa Securities ranked No.1 among the major securities companies and ranked high even compared with those specializing in on-line trading in the growth of on-line accounts.

In the wholesale business as well, we are steadily producing results. For instance, in the four years through FY 2003, our share of the Lead Manager League Tables rose from 18.2% to 22.2% for straight bonds, from 6.9% to 28.2% for primary and secondary equity offerings, and from 17.1% to 26.8% for IPOs. Notably, for three consecutive years from FY 2001 to FY 2003, we held the top share for lead manager of straight bonds.

We have also been able to improve our "intelligence," which I think of as the source of the Daiwa Securities Group's future growth. After improving its rating for three consecutive years, DIR finally reached the top of the analyst and economist

The reforms we have implemented have been successful and are now bearing fruit.

rankings in 2003. Furthermore, in asset management, Daiwa SB Investments was recognized for its asset management capabilities and was designated by Japan Post as the sole Japanese investment management company to manage the Japanese equity component of both the postal saving and postal life insurance funds. There is no doubt that these developments have led to an increase in assets under custody and an improvement in its earnings. I believe this represents a victory for both our differentiation and value chain strategies.

Addressing the Issues

We are confident, but we also remain vigilant. As I mentioned at the beginning of this message, the improvement in the market was a significant factor behind our earnings growth. Thus I do not believe that we can take credit for all that we have achieved so far. It is my duty as CEO to always have a good grasp of any remaining problems which may be hiding behind improvements in the external environment, to reflect upon how we can do better, and to plan the appropriate course of action.

1. Cultivating High Net-Worth and Corporate Clients at the Retail Business:

***Appointment of Senior Consultants,
Introduction of Wrap Accounts, Forming
New Alliances in Response to the Lifting of
the Ban on Securities Intermediation***

Of the issues that we are now facing, the one that must be dealt with as a matter of urgency is the cultivation of high net-worth and corporate clients on the retail side. We have already implemented several measures with this in mind. One is the expansion of our tie-up with the Sumitomo Mitsui Banking Corporation, which has up to now centered on the wholesale business, to also include our retail arm, Daiwa Securities. The specific aim of this move was to cultivate corporate clients. In another example, during FY 2003 we selected 170 sales personnel with proven consulting capabilities,

and designated them as senior consultants. In April 2004, we appointed these consultants to branch offices in the major metropolitan areas. As a near-term goal, we intend to expand the number of these senior consultants to 600 by the end of FY 2005. Moreover, we have introduced wrap accounts to provide high value-added services. In addition, the ban that restricted banks from participating in the securities intermediation business is scheduled to be lifted in December 2004. Keeping this in mind, we are looking for possible tie-ups in this field with a number of financial institutions including regional banks, in addition to the non-financial corporations for which the ban has already been lifted.

2. Further Improving Our Abilities to Generate Profits from Trading

Over the past few years, the level and stability of revenues from our trading business have recovered rapidly. However, the gap between ourselves and the major competition in the industry has not yet narrowed to an acceptable level. In order to increase revenues generated from trading, we will of course need to raise our abilities to source transactions, but it is also important to enhance communication with customers to obtain a better grasp of their needs through such measures as expanding our stock lending business. The aforementioned reforms to our marketing system and our value chain strategy will most definitely lead to a further expansion in our client base. Thus, I would like to prioritize continuing and accelerating these basic strategies.

3. Revamping the Asset Management Business

As I have mentioned, our asset management business has been able to differentiate itself in pension fund management. But in investment trust management, we still have a long way to go. Nevertheless, with the efforts to enhance our cost efficiency now bearing fruit, and with the business environment hitting rock-bottom, the worst seems to be finally over. Asset management represents an extremely significant part of our business portfolio as a means to expand stable sources of earnings — or in other

Three ways we are cultivating high net-worth and corporate clients:

- deployment of senior consultants,
- development of a wrap account business, and
- forming alliances with a broad range of partners

words for the improvement to the quality of the Daiwa Securities Group's earnings. Furthermore, the influence this business has on the rest of the Group (value chain) cannot be ignored. We will work to improve the performance of funds under management and raise the company's profitability by reviewing the number of funds it manages. We will also change the attitudes of the fund managers by introducing a performance-based compensation scheme.

Corporate Governance

Shift to a "Committee System"

Listening to the market is a prerequisite for anybody working in the securities industry. Thus, I believe I am sufficiently aware of the concept of "corporate governance by shareholders." I also believe that the voice of the market is the most efficient means of measurement.

Up to now, corporate governance at the Daiwa Securities Group has been centered on the Board of Directors, which determines strategy, and the Management Committee and the Executive Committee, which implement corporate policy, supported by the Advisory Board and the Compensation Committee. From FY 2004, we have shifted to a Committee System that makes a clear distinction between the supervisory and executive roles of management. The Commercial Code requires that in moving to a Committee System we set up a Nominating Committee, Audit Committee, and Compensation Committee in which the majority of members must be outside directors. Our intention is to increase transparency of management through these supervisory functions.

CSR (Corporate Social Responsibility)

The phrase "corporate social responsibility" is not a new one. However, the acronym CSR is being used in a different fashion from before.

Our society and economy are currently going through major structural changes. Changes in perspectives are obvious, from that of producers to that of consumers, from public to private, and from development based on mass production and consumption to an emphasis on information and the environment. Needless to say, corporations have a major role to play in realizing this transition.

The Daiwa Securities Group is not passively accepting CSR as its "responsibility." Rather, we think of it as a strategy to actively build trust within our society. This is because companies that are successful in changing CSR into a competitive advantage will be able to achieve sustainable development by benefiting from the business opportunities amid the sweeping changes in the economy. In addition, CSR encompasses corporate governance in a broad sense of the word. Companies must be managed with consideration of how their business activities affect the economy, society, and environment to respond to the demands of their various stakeholders and earn their trust.

Based on this belief, the Daiwa Securities Group, in addition to activities that contribute to society, such as support for the arts and volunteer work, is working hard to carry out CSR through its mainstay securities business. We are putting a lot of effort into our SRI (socially responsible investment) funds, which invest in companies selected from a CSR perspective. We are also supporting programs that provide education for young people in economics and finance and engaging in joint research into leading-edge financial technology with universities and graduate schools.

To Our Shareholders and Investors

When the economy was booming, our existence was never in doubt despite the ups and downs in our profits. However, now that the economy is mature, we must achieve growth and stability by differentiation and by rigorously improving our operating efficiency. I believe this is crucial to increase our corporate value.

As I stated above, the various reforms that the Daiwa Securities Group implemented with a firm resolve are steadily bearing fruit. Up to now, the Daiwa Securities Group had a medium-term return-on-equity (ROE) target of 12%. However, with the rise in the book value ratio following the increase in our share price, the real return to our shareholders is below the nominal ROE. Taking this into consideration, I feel that we must raise our medium to long-term ROE target. For the time being, I envision this target to be about 15%.

The capital base of the Daiwa Securities Group has been weak up to now, but based on the results of our reforms, we expect to see an excess of capital going forwards. It is my duty as CEO to make sure that this excess capital does not lay idle by balancing investment in businesses with expectations of high returns and return to shareholders. In FY 2003, we raised our dividend by ¥4 to ¥10 per share in order to distribute to our shareholders some of the results we have attained.

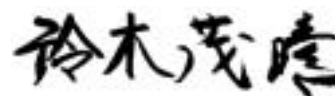
Message to Employees

My predecessor, Mr. Hara, under an unfavorable economic environment, focused his efforts on and was successful in strengthening the management foundations of the Daiwa Securities Group. My mission is to draw upon these foundations to take full advantage of the expanding business opportunities and to pursue aggressive and flexible management. Needless to say, it is the customers that make or break a company in the financial industry. In order to prevail over the competition and to earn the overwhelming support of customers, we must excel in the following two areas: the first is the possession of high level skills as financial professionals and the second is enthusiasm backed by pride. With this in mind, we will carry out extensive education and training to maximize your skills as professionals. In addition, we intend to raise motivation by promoting further reforms of the personnel and compensation system.

Our inherent DNA coupled with the highest level of professionalism will undoubtedly beat the competition, regardless of the environment surrounding our industry. Thus, to accomplish this aim, I will make speed a priority. I will also make sure my decisions are backed by strong theories and deep observations. And finally, I will make my decision making process transparent. Let us work hard together to ensure the prosperity of the Daiwa Securities Group.

July 2004

Shigeharu Suzuki
President and CEO
Daiwa Securities Group Inc.



**We are now in transition from a shortage of capital to a surplus.
Management will focus to avoid under-utilization of excess capital and increase ROE
through investment in businesses with expectations of high returns
and return of profits to our shareholders.**



Special Feature: Time to Catch the Big Wave

12 **Part 1. Addressing Changes in the Domestic Environment**

19 **Part 2. Addressing Changes in the International Environment**

Addressing Changes in the Domestic Environment

Changes in the Domestic Environment

The Three Excesses

More than ten years have passed since the collapse of the so-called economic bubble. It would be no exaggeration to say that during that time the Japanese economy has been wandering through a dark tunnel with no sign of light at the other end. The government's numerous fiscal expenditure programs have failed to stimulate the economy to a genuine recovery. This was because the economy was weighed down by three excesses; over-capacity, over-employment, and excess debt.

Peaking Out of Over-Capacity and Improved Confidence in Growth

It has taken a long time, but Japan is finally making progress in resolving the problems of these three excesses. First, in terms of over-capacity the worst had passed in the first half of FY 2002. At that time, the determining factor for an improvement in private capital investment was corporate confidence in future business conditions. Japanese corporations were still apprehensive while the United States was the sole driver of the world economy. However, in FY 2003 economic recovery gained steam in China and other parts of Asia, leading more companies to believe that the recovery would be longer lived than they

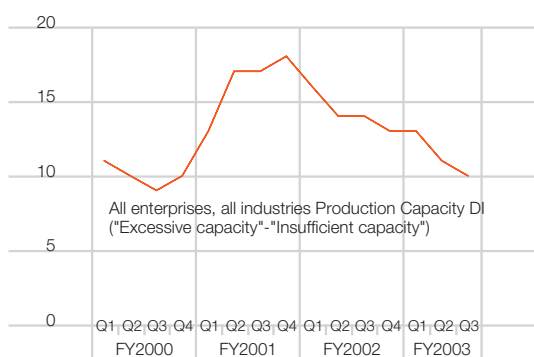
previously assumed.

In addition, changes were observed in the pattern of Japanese economic growth. After the collapse of the economic bubble, the Japanese economy remained fragile and was characterized by repeated downturns after small, export-led recoveries. Then, however, the "three new sacred treasures" i.e. DVD recorders, digital cameras, and flat-screen TVs, as well as related peripherals, began to show better-than-expected growth in the domestic market. Japan is the technological frontrunner of these highly popular products which still have vast potential for growth in the global market. This helped boost corporate confidence and led to a sharp increase in capital investment during the second quarter of FY 2003.

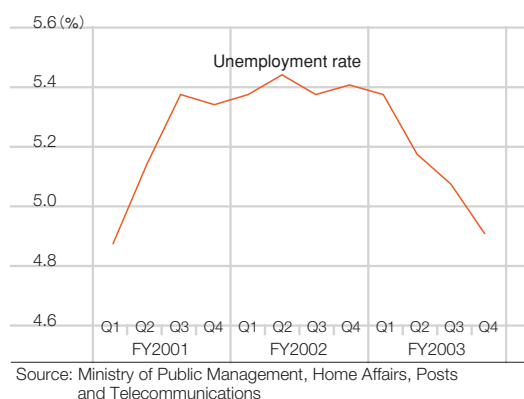
The Momentum of Economic Recovery Spreads to Employment

As a result of these conditions, Japan also saw changes in its employment situation, which had been mired in a vicious cycle. The unemployment rate finally started to drop in the second quarter of FY 2003. The decline in the unemployment rate had a positive impact on consumption, albeit with a time lag. In fact, in the fourth quarter, consumption-related statistics such as retail sales began to

Peaking Out of Excess Equipment



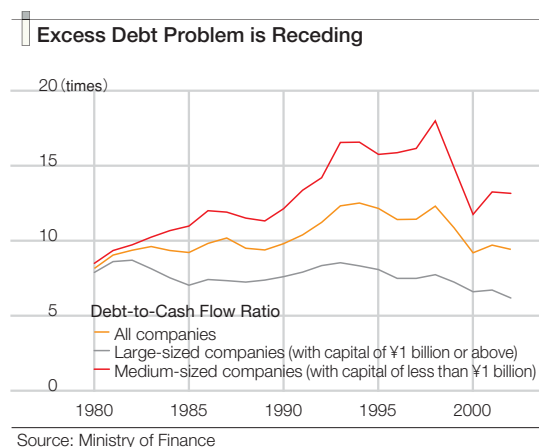
Employment Situation Also Improving



show signs of bottoming out. This should stimulate domestic demand, which has been on a persistent downward path since the collapse of the economic bubble. Moreover, a positive cycle between corporate confidence for an economic recovery and rising capital investment has been borne.

The Problem of Excess Debt Has Been Partially Resolved

Excess debt peaked out before over-capacity. The debt-to-cash flow ratio for “all companies” declined significantly in the two-year period starting in 1999 and has fallen to pre-bubble levels (graph). This was mainly a result of the financial restructuring efforts by companies. When looking at the situation by company size, however, there are still some significant differences. For large companies with capital exceeding ¥1 billion, the debt-to-cash flow ratio has dropped to 1980 levels or even lower, while the ratio for small and medium-sized companies remain at early 1990 levels. This implies that small and medium-sized companies have not yet carried out sufficient financial restructuring. Nevertheless, one could probably say that for Japan as a whole the worst of the bad debt crisis is over.



Capital and Financial Restructuring Needs Becoming Increasingly Diverse and Complex

Amid this situation, we are starting to see an increase in funding needs for positive reasons such as for a full-scale expansion in equipment capacity and equipment replacement. However, while the worst is over in terms of excess debt, the number of companies that can afford to expand their balance sheets is limited. Thus, procurement of funds require ingenuity, leading to Japanese companies' funding needs becoming even more diverse. Moreover, in this age of IT, timeliness has become extremely important. Thus, in addition to expanding capital expenditure and businesses as they have done in the past, companies also seek to acquire existing businesses. But at the same time, there are still deep-rooted needs for financial restructuring in domestic companies. As mentioned above, small to medium-sized firms in particular must undertake further reforms of their balance sheets.

The survival of financial institutions will depend on how they maximize points of contact with their customers and deal with increasingly diversified and complex customer needs.

Recovery and Diversification of Investment Needs

Let us now turn our attention to the situation surrounding the supplier of funds. In Japan, financial assets held by individuals expanded from ¥1.049 quadrillion at the end of 1990 to ¥1.412 quadrillion at the end of FY 2003. However, most of this increase was in cash deposits and not so much money had flowed into risk products. As a result, the deposit and cash equivalent percentage of total individual financial assets rose from 46% at the end of 1990 to 55% at the end of FY 2003. One reason for this is that under the long-running recession there was no surge in corporate demand for funds. In addition, individuals did not readily

Success in this industry hinges on

- maximizing points of contact with customers,
- addressing their diversified and complex needs, and
- providing distinctive quality of service.

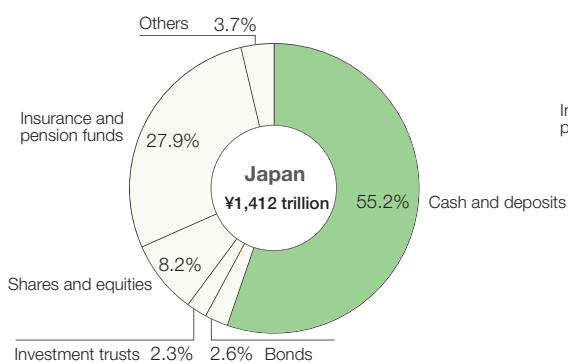
take to the idea of selecting investments by the rate of return, as interest rates remained high on the back of steady economic growth from the end of World War II until the mid-1980s.

Now, however, the situation is changing. Individual investors who are vexed by the extremely low interest rates are starting to seek higher yields, even if it means taking some risks. There is also a heightened awareness of holding investments in different currencies and building portfolios by purpose of investment. Therefore, in our retail business, it is crucial that we maximize opportunities to contact customers and satisfy their more diversified and complex needs. Furthermore, improving the quality of services provided before and after the sale of financial products is also important. Due to insufficient explanation about products and lack of efforts to follow-up, the industry has been unable to completely dispel the distrust of individual investors towards financial products.

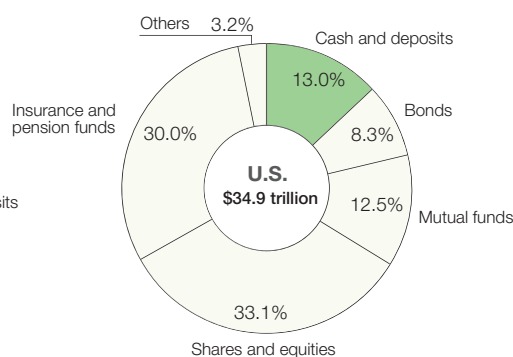
Changes in the Framework of the Financial Industry

The growing need for financial services from both the supply side and demand side of funds provide various opportunities for securities firms. However, one must also note that with the financial “Big Bang,” deregulation is accelerating and competition is intensifying. Online securities brokerages have flourished by offering low commission rates. Moreover, financial barriers are steadily being torn down. In addition to the entry of non-financial firms into the financial businesses, the framework for regulating the financial industry — i.e., the banks, trust banks, securities companies, and insurance companies — is gradually being dismantled. We are aware that this trend will not stop but accelerate in the future. In other words, we must differentiate ourselves from the competition in order to survive.

Comparison of Financial Assets Held by Households in Japan and the United States (as of end of March 2004)



Source: Bank of Japan



Source: Federal Reserve Board

The Group's Business Strategies

The Daiwa Securities Group was early in predicting the aforementioned changes in the external environment and was ahead of its competitors in undergoing the reforms listed below. Going forwards, we will continue formulating new strategies to consolidate and strengthen our competitive position. (For more details, please see the Review of Operations and Outline of the Group Companies section from page 26.)

1. Infrastructural Reforms

(1) Reforms to Marketing

We conducted two types of marketing reforms: one is the implementation of a sales channel and attribute-based customer segmentation strategy to better understand our customer needs, and the second is reforms related to our product and service strategy to better satisfy our customers' diverse and complex needs.

1) The Marketing System

First, in the retail business we set up a system that combines the area marketing ("Satellite Branch System") and the multiple channel systems. The Daiwa Securities Group is the only firm in the Japanese securities industry that has combined these two systems.

We are further upgrading our marketing system in FY 2004. Although our current system is already organized according to customer segments, we have developed a consulting system that will enable us to deal with customer segments more effectively and respond to their needs. Under the new marketing system, we assigned 170 senior consultants with a wide range of specialized knowledge in areas such as finance and accounting to branches in and around major metropolitan areas. We plan to increase the number of these consultants to 600 by the end of FY 2005. Accompanying this move, the sales structure in

each branch have been divided into three sections. This will allow the branch offices to conduct detailed follow-ups of transactions with customers in accordance with the needs of each group, including high net-worth individuals and major corporations, general investors and investors that fall in between these two categories. This will not only strengthen our marketing efforts (i.e., expand our points of contact with customers), but will also improve our ability to provide services and increase marketing efficiency, thereby killing "three" birds with one stone.

**Under our new marketing system,
we will be able to kill three birds with one stone:
In addition to expanding our customer base,
it will improve the quality of our services
and increase operating efficiency.**

In FY 1999 we became the first securities company in Japan to establish a joint venture with a "megabank" (the Sumitomo Mitsui Banking Corporation (SMBC)) for the wholesale business. The success is reflected in numbers: revenues generated from this alliance has increased consistently since the first year of the venture and has expanded six folds to almost ¥50 billion in FY 2003. This is due to the complementary nature of the alliance between two major financial firms, with SMBC providing the customer base and the Daiwa Securities Group contributing its ability to supply products and services. The alliance is benefiting businesses such as underwriting, initial public offerings (IPOs), mergers and acquisitions (M&A), structured finance, and derivatives. We are constantly reviewing our evaluation system and organizational structure so that the effects of the alliance will expand.

This strong alliance between a securities company and a bank clearly works to our advantage

over competitors. This alliance has provided us with numerous advantages. Thus in FY 2004, we will add Daiwa Securities Co. Ltd. (Daiwa Securities) to this cooperative framework and strengthen our business relationship with corporate clients in all regions of the country.

We form alliances that complement our strength. The effectiveness of an alliance, however, depends upon how it is executed.

2) Product Strategy

The keys to success are product line-up and consulting capabilities. This is because the easiness of replicating products makes it difficult for a company to distinguish itself through new products alone in the financial industry. In the retail business, we have a unique strategy of providing the same products regardless of the channels through which they are delivered. Moreover, by improving the information infrastructure within the Group — the Research & Advisory Department at Daiwa Securities SMBC Co. Ltd. (Daiwa Securities SMBC), Daiwa Institute of Research Ltd. (DIR), etc. — we are making further improvements to the Group's capabilities to offer products and services. In other words, amalgamate the Group's expertise to create distinctive products.

We are differentiating ourselves from competitors through our product line-up and consulting capabilities.

(2) Business Portfolio Reforms

Growth potential, profitability, and consideration to the stability of earnings is vital to maximize corporate value. The Daiwa Securities Group will endeavor to ensure stable earnings by diversification of its business portfolio. However, diversification can sometimes lead to a decline in growth potential and profitability. The Daiwa Securities Group is resolving this dilemma by adding value through a "value chain" consisting of its retail, wholesale, and asset management businesses, as well as the various segments within those businesses.

For example, the asset management business, although currently not highly profitable on its own, has a relatively stable source of earnings in the form of management fees. Therefore, if they are able to develop financial products that attract customers and can offer these products to the retail business, it would be possible for the Group as a whole to maintain a high level of profitability. In addition, DIR by providing high-level research, analysis, and systems development, will contribute to increasing overall profitability of the Group.

Moreover, the Daiwa Securities Group has adopted a shared information system to avoid the pitfalls of diversification. One example can be seen in the relationship between the online and face-to-face sales channels of the retail division. Although crucial to remain competitive, investing in information infrastructure is a heavy burden for the online business, due to the low commissions it generates. In order to solve this problem, the information infrastructure is shared between both sales channels.*

* We share only core information; the contents and quantity of information provided vary according to the channel.

In this way, the online business's burden of investing in developing an information system is lightened. Furthermore, it can differentiate itself from its competitors by providing customers with a level of sophistication not available at other online securities brokerage companies.

We are optimizing our business portfolio through the creation of a “value chain.”

2. Reforms to Personnel and Information Systems

(1) Reforms to Personnel

Without competent managers and employees, improving our infrastructure is pointless. It is not an exaggeration to say that the greatest asset in the financial industry is human resources. Now that customer needs have become so varied, we can no longer just act “by the book.” To maximize the capabilities of each and every Group employee, it is necessary to instill an independent spirit rather than merely rely on an organizational structure. This is why Daiwa Securities is, for example, transferring authority to the head of each area or group. Moreover, a merit-based compensation system was introduced throughout the Group in FY 2003. The shift to the new system was carried out in phases and has been fully implemented from the beginning of FY 2004. We believe this will promote greater independence among employees.

(2) Reforms to Information Infrastructure

We have explained our strategy of raising profitability by sharing information infrastructure among business lines in the previous section. The information-related reforms we discuss here are aimed at boosting our sales and marketing capabilities by upgrading our information infrastructure and functions. For instance, at Daiwa Securities we continue to make progress using the CRM (Customer Relationship Management) system, which was introduced in FY 2001. The current system contains not only customer information, but also cases of marketing success together with actions and processes that led to those results. This is an indispensable tool for each of our sales staff. Moreover, we have set up a division at Daiwa Securities SMBC specializing in industry research (the Research & Advisory Department at present) in July 2002. The research and analysis conducted at this division have made a substantial contribution to obtaining major deals for Daiwa Securities SMBC's investment banking businesses.

We are working to distinguish ourselves through improvements to our human resources and informational capabilities.

The Daiwa Securities Group's management reforms are based on lessons learned by studying examples of past successes.

3. Learning from the Successful Reforms in the United States

In some respects, the current situation in Japan's financial industry is quite similar to that seen in the United States during the mid-1990s. In the United States, companies began to reform their business models during the mid-1990s when the bad debt problem started to be resolved. The companies that were successful in differentiating themselves in this process were able to expand their market share quickly. Major winners were Citigroup and Wells Fargo, which are well known for their cross-sell marketing utilizing CRM. The common characteristics of the winners are efficient management and a new marketing method that prioritizes the customers' point of view.

These actions are comparable to the reforms carried out by the Daiwa Securities Group. In the retail business, area marketing, multiple channels, and a concentration of back office work were introduced. Moreover, for the overall group, we increased the sophistication of our information infrastructure and made it available throughout the Group. Furthermore, we are recruiting and training specialist professionals and have introduced a performance-based compensation scheme. We will continue to implement reforms with complete confidence.

4. Reinforcing Our Capital Base: The Next Stage

We are constantly keeping our eyes on the next stage. The US financial industry has entered a new phase of financial reforms as seen by the merger of Bank One and JP Morgan. In Japan as well, we believe that once the winner of differentiation emerges, the financial industry will move to a stage characterized by the acquisition of growth potential. Companies will of course need to have sufficient capital to move on to the next stage. Fortunately, the Daiwa Securities Group is hereafter likely to have excess capital resulting from improvement in its ability to generate profits. We will prevent a decline in ROE by either returning profits to our shareholders or raising our growth rate and profitability by purchasing growth potential from outside the Group.

The Daiwa Securities Group
is ahead of its competitors in preparation for
the next stage of financial reforms.

Addressing Changes in the International Environment

Changes in the International Environment

The Economic Growth Potential of Asia Is Rapidly Increasing

While the economies of developed countries or regions such as the United States, the EU, and Japan have reached a mature stage, the growth potential of Asian countries continues to be strong. The GDP of the East Asian economic region (Japan, China, Korea, and the ten ASEAN countries) now amounts to US\$6.3 trillion and is approaching the combined GDP of the 15 EU countries of US\$8 trillion (as of 2003; the EU has 25 member countries as of end of June 2004).

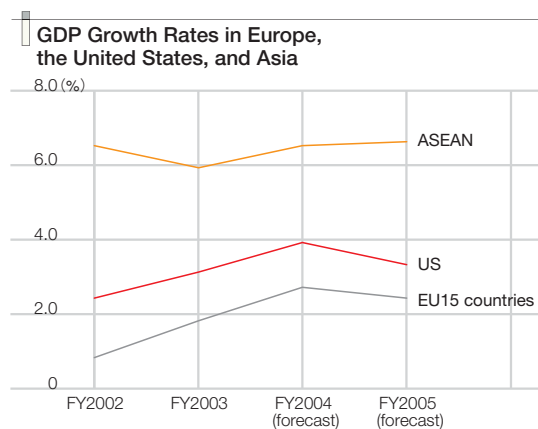
Stability Has Improved Dramatically

The rapid expansion of economic growth in the Asian region excluding Japan is nothing new. In recent years, however, we have noticed that the characteristics of that growth has changed significantly. Up to now, the Asian region has served the role of the “world’s factory” and was affected by the demand trends in developed countries, which were the main recipients of Asian exports. As a result, the Asian economies suffered from sharp fluctuations. However, in addition to its importance as a production base, Asia is increasingly becoming

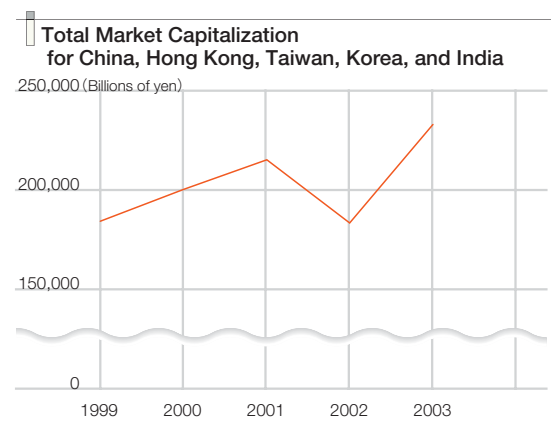
important as a world consumption center. This is because having become a major economic region centering on China, the standard of living there is rising. As a result, Asia has become one of the world’s most important markets.

Activating the Inflow of Funds

Asia has also become an important region for the securities industry. The total market capitalization of the stock markets in China, Hong Kong, Taiwan, Korea, and India has grown to match that of the First Section of Tokyo Stock Exchange. Not only has Asia’s economic growth potential improved, but the balance of foreign reserves has increased sharply and their currencies are under pressure to revalue. This situation is attracting investment funds into Asia. Corporate fund raising is also becoming active as stock market prices within each of the regions continue to rise. Within Asia, we are paying particularly close attention to China as a new market.



Source: ADB, OECD, DIR



Note: Market capitalization is the total for companies listed on all stock exchanges in Korea and Hong Kong, the Bombay Stock Exchange, the First and Second Section of Taiwan Stock Exchange, and on A-share and B-share markets in China.

Source: ADB, OECD, DIR

The Daiwa Securities Group's Achievements in Asia

Solidifying Our Position

The Daiwa Securities Group is steadily strengthening its business base in Asia. We already have an impressive record, as evidenced in Euroweek magazine's awards for 2003. In the Asian bond market, we ranked No. 1 for lead-managing yen-denominated issues and No. 3 in US-dollar-denominated issues following Citigroup and Goldman Sachs (we were top among Japanese securities companies). We were also ranked No. 1 in sales to domestic investors. In China, the potential major market in Asia, the Daiwa Securities Group is steadily elevating its position. China Ton-Fei, which was established by Daiwa SB Investments Ltd., became the largest Chinese-equity-related investment trust ever launched in Japan.

The Asian region has not only been a source of deals for the Daiwa Securities Group. Its contribution to earnings cannot be ignored. We are leading the other Japanese securities companies in profitability in the Asian region. Daiwa Securities SMBC was bookrunner for five out of eight Asian companies that raised equity via POWL* (public offering without listing) in FY 2003. In the future as well, we would like to actively invest management resources in this region, especially China.

* POWL (public offering without listing) is a public offering allowing foreign companies to sell their shares without being listed in Japan.

We have also taken the lead in Asia in both business volume and earnings.

Net Asset Value of China-related Investment Trusts (As of end of June 2004)

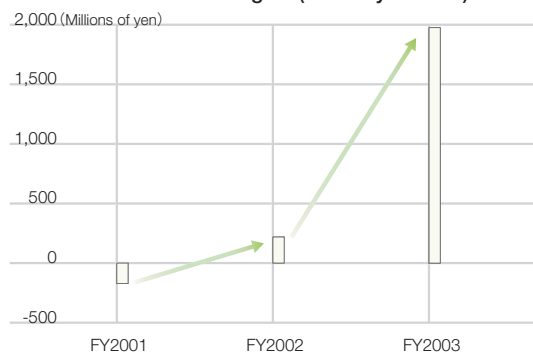
Daiwa Asset Management

Daiwa Hybrid Equity Open (Digital Kama)	¥55.7 billion
Daiwa China Fund	¥18.5 billion
China-related Japanese Equity Open (China Power)	¥38.9 billion

Daiwa SB Investments

China Ton-Fei	¥98.1 billion
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Daiwa Securities Group's Performance in the Asian Pacific Region (Ordinary income)





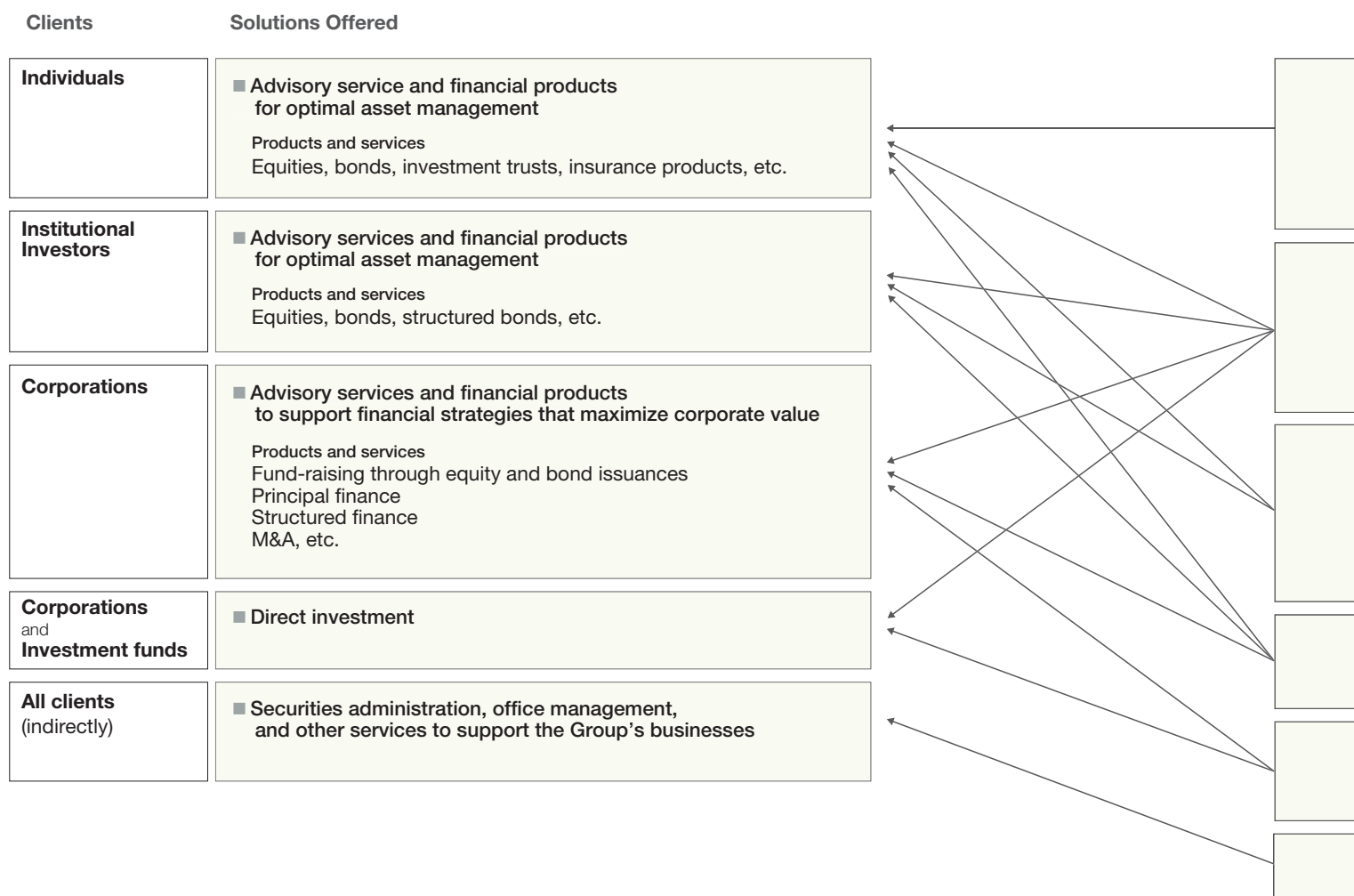
Review of Operations

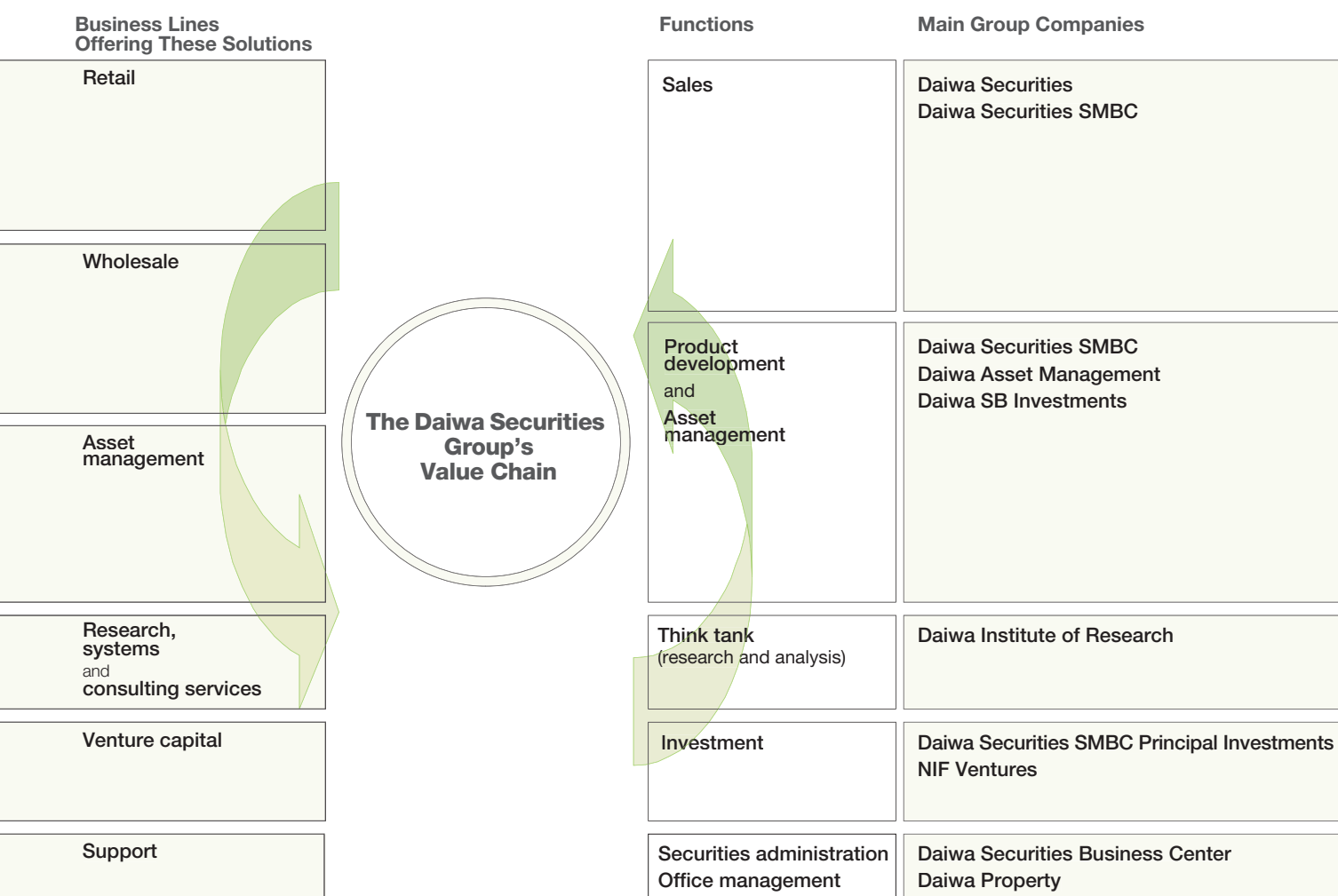
- 22 The Daiwa Securities Group at a Glance
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The Daiwa Securities Group at a Glance

Through the synergy of our three core functions of

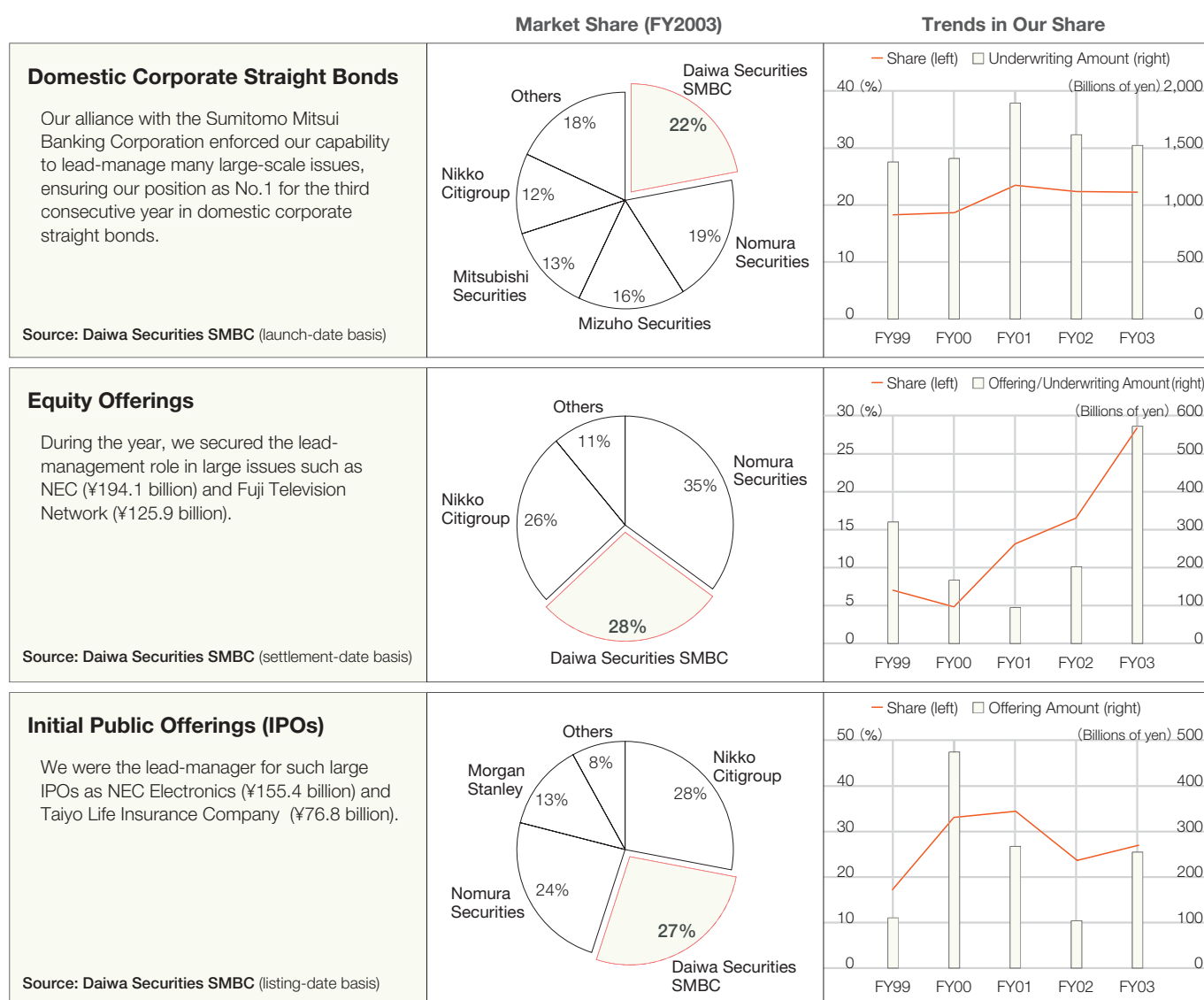
- (1) sales,
 - (2) development of products and services, and
 - (3) research,
- we aim to maximize the Daiwa Securities Group's corporate value.

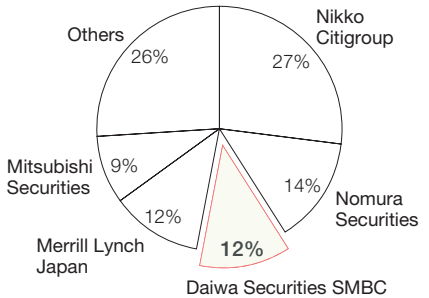
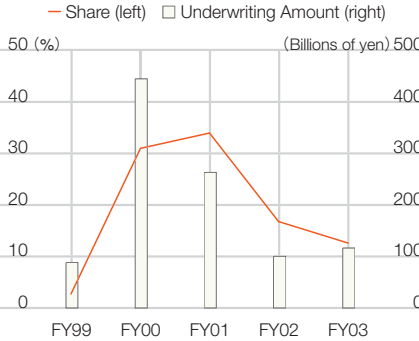
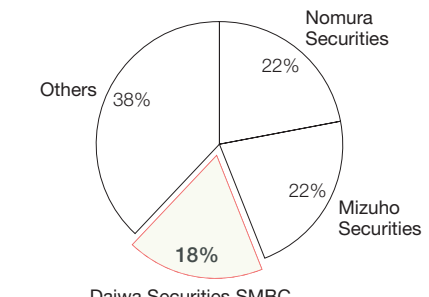
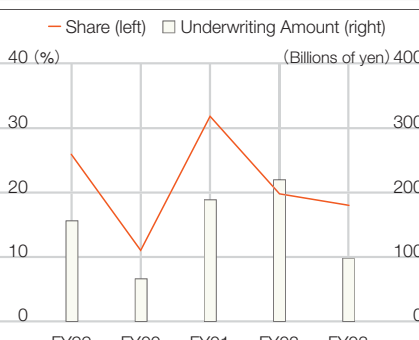
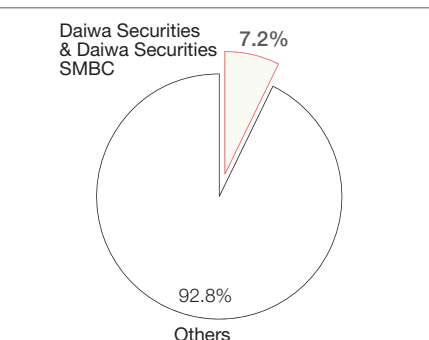
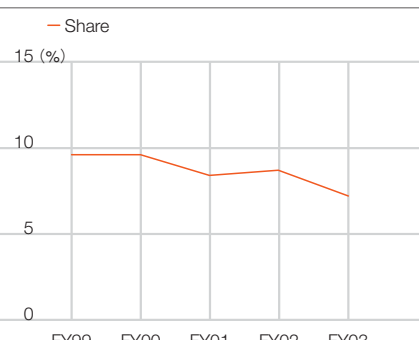




The Daiwa Securities Group's Market Position

Daiwa Securities Group has established its presence in the industry based on “quality” and “productivity.”



Market Share (FY2003)			Trends in Our Share																																
<h3>Samurai Bonds</h3> <p>(yen-denominated bonds issued by non-Japanese issuers in the domestic market)</p> <p>Major deals for which we acted as a lead-manager in FY2003 included The Korea Development Bank (¥65 billion) and Volkswagen FSNV (¥50 billion).</p> <p>Source: Daiwa Securities SMBC (launch-date basis)</p>	 <table><caption>Market Share (FY2003) - Samurai Bonds</caption><thead><tr><th>Company</th><th>Share (%)</th></tr></thead><tbody><tr><td>Nikko Citigroup</td><td>27%</td></tr><tr><td>Others</td><td>26%</td></tr><tr><td>Merrill Lynch Japan</td><td>12%</td></tr><tr><td>Nomura Securities</td><td>14%</td></tr><tr><td>Mitsubishi Securities</td><td>9%</td></tr><tr><td>Daiwa Securities SMBC</td><td>12%</td></tr></tbody></table>	Company	Share (%)	Nikko Citigroup	27%	Others	26%	Merrill Lynch Japan	12%	Nomura Securities	14%	Mitsubishi Securities	9%	Daiwa Securities SMBC	12%	 <table><caption>Trends in Our Share - Samurai Bonds</caption><thead><tr><th>Fiscal Year</th><th>Share (%)</th><th>Underwriting Amount (Billions of yen)</th></tr></thead><tbody><tr><td>FY99</td><td>~5</td><td>~100</td></tr><tr><td>FY00</td><td>~30</td><td>~400</td></tr><tr><td>FY01</td><td>~32</td><td>~250</td></tr><tr><td>FY02</td><td>~15</td><td>~100</td></tr><tr><td>FY03</td><td>~12</td><td>~100</td></tr></tbody></table>		Fiscal Year	Share (%)	Underwriting Amount (Billions of yen)	FY99	~5	~100	FY00	~30	~400	FY01	~32	~250	FY02	~15	~100	FY03	~12	~100
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<h3>Domestic Asset-Backed Securities (ABS) Book-Runner</h3> <p>Securitization deals for which we acted as a book-runner included auto loans of Orient Corporation (¥34 billion) and 5th Tokyo-CLO (¥3 billion).</p> <p>Source: THOMSON DealWatch (settlement-date basis)</p>	 <table><caption>Market Share (FY2003) - Domestic Asset-Backed Securities (ABS) Book-Runner</caption><thead><tr><th>Company</th><th>Share (%)</th></tr></thead><tbody><tr><td>Nomura Securities</td><td>22%</td></tr><tr><td>Mizuho Securities</td><td>22%</td></tr><tr><td>Others</td><td>38%</td></tr><tr><td>Daiwa Securities SMBC</td><td>18%</td></tr></tbody></table>	Company	Share (%)	Nomura Securities	22%	Mizuho Securities	22%	Others	38%	Daiwa Securities SMBC	18%	 <table><caption>Trends in Our Share - Domestic Asset-Backed Securities (ABS) Book-Runner</caption><thead><tr><th>Fiscal Year</th><th>Share (%)</th><th>Underwriting Amount (Billions of yen)</th></tr></thead><tbody><tr><td>FY99</td><td>~25</td><td>~150</td></tr><tr><td>FY00</td><td>~10</td><td>~50</td></tr><tr><td>FY01</td><td>~30</td><td>~180</td></tr><tr><td>FY02</td><td>~20</td><td>~200</td></tr><tr><td>FY03</td><td>~18</td><td>~100</td></tr></tbody></table>		Fiscal Year	Share (%)	Underwriting Amount (Billions of yen)	FY99	~25	~150	FY00	~10	~50	FY01	~30	~180	FY02	~20	~200	FY03	~18	~100				
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<h3>Equities</h3> <p>(on and off trading hours on the Tokyo Stock Exchange)</p> <p>Despite the increase in transactions conducted online, Daiwa Securities and Daiwa Securities SMBC maintained a market share exceeding 7% in trading value.</p> <p>Source: Daiwa Securities SMBC</p>	 <table><caption>Market Share (FY2003) - Equities</caption><thead><tr><th>Company</th><th>Share (%)</th></tr></thead><tbody><tr><td>Daiwa Securities & Daiwa Securities SMBC</td><td>7.2%</td></tr><tr><td>Others</td><td>92.8%</td></tr></tbody></table>	Company	Share (%)	Daiwa Securities & Daiwa Securities SMBC	7.2%	Others	92.8%	 <table><caption>Trends in Our Share - Equities</caption><thead><tr><th>Fiscal Year</th><th>Share (%)</th></tr></thead><tbody><tr><td>FY99</td><td>~9.5</td></tr><tr><td>FY00</td><td>~9.5</td></tr><tr><td>FY01</td><td>~8.5</td></tr><tr><td>FY02</td><td>~8.5</td></tr><tr><td>FY03</td><td>~7.5</td></tr></tbody></table>		Fiscal Year	Share (%)	FY99	~9.5	FY00	~9.5	FY01	~8.5	FY02	~8.5	FY03	~7.5														
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Review of Operations: Retail

Daiwa Securities Co. Ltd.

Shigeharu Suzuki President

Highlights of Results

	Millions of Yen			%
	FY2001	FY2002	FY2003	yoy
Operating revenues	127,541	129,817	171,605	32.2%
Net operating revenues	126,713	129,311	171,216	32.4%
SG&A expenses	137,966	125,810	136,136	8.2%
Operating income (loss)	(11,253)	3,500	35,079	902.1%
Ordinary income (loss)	(11,028)	3,531	35,219	897.2%
Net income (loss)	(3,641)	1,047	19,272	1,740.5%
Group holdings (%)	100	100	100	—

Summary

Daiwa Securities Co. Ltd. (Daiwa Securities) is one of Japan's leading retail securities companies. Having adopted an area marketing strategy centered on its Satellite Branch System, Daiwa Securities provides high-quality products and services that correspond to customer requirements by taking full advantage of the Daiwa Securities Group's infrastructure.

FY 2003 saw a 10-fold jump in ordinary income, while return on equity (ROE) rose to 9.8%.

From FY 2004, Daiwa Securities has started to appoint senior consultants with advanced financial expertise to its branches in major metropolitan areas. This, coupled with Daiwa Securities' efforts to upgrade its products and services, is enabling the company to promote consulting sales. In addition, Daiwa Securities is striving to expand its customer base by providing support facilities to institutions interested in entering the securities intermediation business.

Businesses and Strengths

Daiwa Securities is a wholly owned subsidiary of Daiwa Securities Group Inc. As one of the Group's core companies, Daiwa Securities engages in the retail securities business serving mainly individual customers, as well as financial institutions and corporate clients not covered by Daiwa Securities SMBC Co. Ltd., which engages in the wholesale securities business.

To accurately meet the diversified and complex needs of customers, Daiwa Securities provides products and services through three major sales channels: its branch offices, the call center, and the Internet. Daiwa Securities has also implemented an area marketing strategy that centers on its Satellite Branch System.

In addition to traditional brokerage services such as buying and selling securities and agency services, Daiwa Securities provides customers with value-added consulting services by attending to customers' asset management-related needs. Daiwa Securities does this through extensive use of research, product development, and other resources of the Daiwa Securities Group.

Macroeconomic Environment and Basic Strategies

In addition to the prolonged ultra-low interest rate environment, the financial burden on individual households is growing as a result of an increase in out-of-pocket expenditures for health care, and a rise in pension insurance premiums. Against this background, there is a growing awareness of the importance of asset management as a means to save for the future and to improve their standard of living. Moreover, the turnaround in the domestic stock market since May 2003 has steadily boosted the risk tolerance of individual investors. At the same time, their asset management needs have become increasingly diversified and complex. To accurately meet these needs, Daiwa Securities has implemented the following strategies to enhance its area marketing strategy and to provide customers with high-quality services and products.

Schedule for Upgrading Daiwa Online Trading Services

1st stage: April 1 - May 20	<input type="checkbox"/> Access to Kaisha Shikiho (Japan Company Handbook) data <input type="checkbox"/> Fund deposit accepted via internet <input type="checkbox"/> E-mail notice of executions <input type="checkbox"/> DIR analyst reports <input type="checkbox"/> Multi-functional stock price chart
2nd stage: July 22	<input type="checkbox"/> Renewal of investment research site <input type="checkbox"/> Access to Reuters News, FISCO News, Mainichi Newspaper articles and Shikiho Bulletin <input type="checkbox"/> Upgraded information service on stock information, corporate profile, rankings, credit ratings <input type="checkbox"/> Technical analysis tool, technical screening tool <input type="checkbox"/> Easy registration of "favorite stocks" <input type="checkbox"/> Enhanced information on overseas stocks <input type="checkbox"/> Enhanced tools for stock screening <input type="checkbox"/> Information on shareholder benefit plans
3rd stage: August - October	<input type="checkbox"/> Equity market analysis <input type="checkbox"/> Equity portfolio analysis <input type="checkbox"/> Life planning simulation <input type="checkbox"/> Accept applications for primary and secondary equity offerings

1. Sales Channels and Marketing Strategies

Multi-channel Strategy

Daiwa Securities employs three major sales channels; the 123 outlets throughout Japan (as of end of June 2004, including station plazas), one of the largest call centers in Japan, and the Internet. Using these channels, Daiwa Securities provides "Two-courses": Daiwa Consulting and Daiwa Direct. (In May 2003, the three service packages formerly constituting Daiwa Securities' services were consolidated into two courses.) This enables Daiwa Securities to serve the needs of both customers who desire face-to-face consulting services and those who do not, by providing different levels of services and charging commissions accordingly.

Compared to the services offered by dedicated on-line brokerage houses, Daiwa Direct is differentiating itself by providing higher levels of services, including a wide range of products and access to research and information. For example, when Daiwa Direct customers wish to make a transaction via the call center, they have access to a diverse range of financial products not available at a dedicated on-line brokerage house. In addition to cash and margin transactions of listed stocks, the available products include VWAP-G trades (trades at volume-weighted average price), investment trusts, foreign currency-denominated bonds, dual-currency bonds, and pension insurance. In FY 2004, Daiwa Securities will significantly expand its information contents and on-line trading services. This includes upgrading its information contents such as research reports compiled by the Daiwa Institute of Research (DIR), stock analysis tools such as multifunctional charts, and detailed data on overseas stocks. Moreover, Daiwa Securities will enhance the user-friendliness of its renewed online trading screen and reinforce its trading capabilities. Through these measures, Daiwa Securities will further improve the quality of its services.

Marketing System That Addresses Specific Regional Attributes

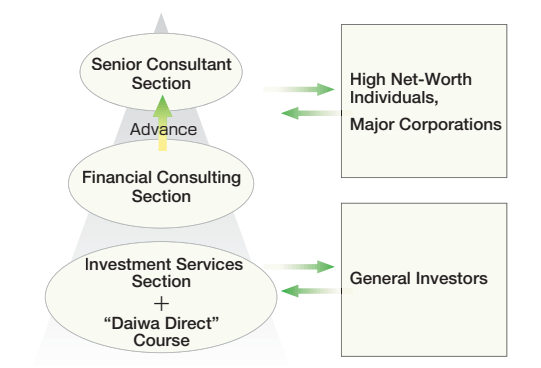
Daiwa Securities has adopted an area marketing strategy based on its Satellite Branch System. Under this strategy, its nationwide network of branches has been divided into 13 areas and 14 groups*. By transferring authority to the head of each area/group (area manager), Daiwa Securities gained flexibility, enabling delivery of high-quality products and services that reflect the unique characteristics of each region. In connection with the introduction of the Satellite Branch System, Daiwa Securities also set up a team of "internal whole-salers" who play a coordinating role, linking the head office and each area/group. They also provide a wide-range of support functions to ensure that each area/group delivers the highest-quality services possible.

* The "Satellite Branch System" consists of major metropolitan areas that are divided into "areas" and other regions that are divided into "groups."

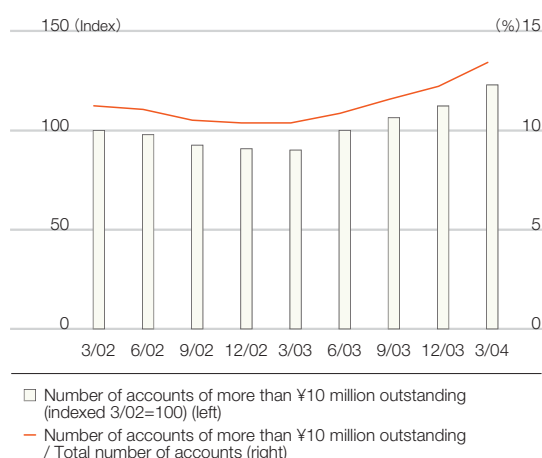
Shift to a New Sales Structure in FY 2004

In April 2004, Daiwa Securities shifted to a new, advanced sales structure designed to allow for more fine-tuned responses and to foster a consulting-oriented sales approach. Specifically, Daiwa Securities identified professionals with specialized expertise in a range of fields, such as finance and taxation. In addition, major branch offices have been reorganized into a Senior Consultant Section/Department, a Financial Consulting Section/Department, and an Investment Services Section/Department. The professionals were appointed to the Senior Consultant Section/Department within branch offices located in major cities and enabled Daiwa Securities to respond to the diversified and complex customer needs, and to provide more exclusive consulting services to its customers. This reorganization will also allow the branch offices to engage in sales activities based on customer attributes, further increasing their ability to provide services to further meet customer requirements, while at the same time improve efficiency. As of the end of April 2004, Daiwa Securities had appointed 170 senior consultants, with the intent to increase the number up to 600 by the end of FY 2005.

New Sales Structure



Accounts of More Than ¥10 Million Outstanding



Additional Strategies to Broaden its Customer Base

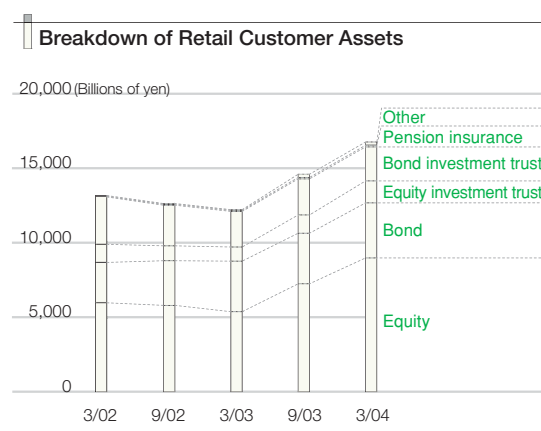
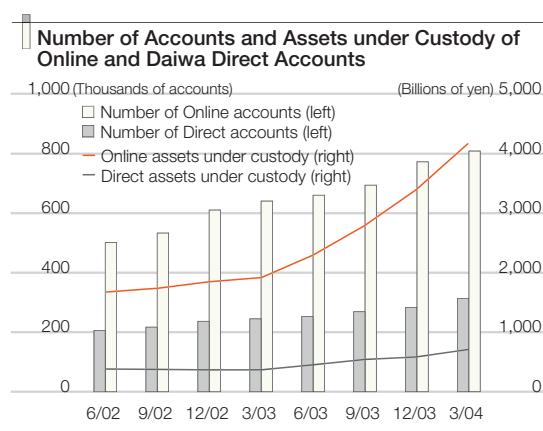
To further expand its customer base, Daiwa Securities will seek to gain maximum synergies through collaborations with both Group companies and outside companies. First of all, Daiwa Securities will accelerate its approach to regional public corporations, universities, and medium-sized companies through its alliance with Sumitomo Mitsui Banking Corporation (SMBC). Up to this point, the alliance between the Daiwa Securities Group and SMBC has produced excellent results in the wholesale securities and asset management businesses. The alliance has expanded to include Daiwa Securities' services to corporates. In an effort to strengthen ties, SMBC dispatched employees to conduct a series of explanatory meetings for Daiwa Securities' salespeople in various locations in the second half of FY 2003.

In preparation for the lifting of the ban on securities intermediation, Daiwa Securities established the Securities Intermediary Service Section in February 2004. Furthermore, a project team was launched in April. As banks will be allowed to act as securities intermediaries starting December 2004, Daiwa Securities is currently in talks with both regional banks and non-financial companies, in addition to SMBC. The aim is to further expand its customer base.

2. Product Strategies

Daiwa Securities is improving the quality of its products and services as well as strengthening its marketing capabilities and enhancing its sales channels to appropriately respond to its customers' diversified and complex needs. Daiwa Securities is taking full advantage of the product development capabilities and research resources of the Group companies, and in an effort to provide customer-oriented products and services, it is providing them with timely customer feedback.

During FY 2003, Daiwa Securities delivered a number of new equity investment trusts, including monthly payment foreign bond investment trusts and Chinese equity-related investment trusts. To assist customers in selecting the equity investment trusts that meets their specific asset management style, Daiwa Securities introduced the "Daiwa's Selection of Investment Trusts." Additionally, to offer higher-value-added services it stepped up VWAP trade facilities. Furthermore, Daiwa Securities set up the Investment Advisory Department which provides wrap account services to enhance its capabilities to provide full-scale financial consulting services. Daiwa Securities is taking advantage of new rules that allow securities companies to act as investment advisors which became effective from FY 2004.



FY 2003 Performance and Outlook

Significant Recovery

In FY 2003, Daiwa Securities posted a 32.4% year-on-year gain in net operating revenues, a 10-fold rise in operating income, and an 18.4-fold jump in net income. Within net operating revenues, commissions surged 43.1%, net gain on trading securities increased 5.0%, and net financial income fell 1.3%. By product, sales of monthly payment investment trusts and foreign currency-denominated bonds did well in the first half of the year, while brokerage, equity offerings and equity investment trusts were the major contributors in the second half. In addition to the market recovery during the period, Daiwa Securities attributes these strong results to the aforementioned strengthening in marketing and product strategies. As a result, total assets under custody at Daiwa Securities stood at ¥20.4 trillion at the FY 2003 year-end, surpassing the ¥18.0 trillion recorded in December 1989, in the midst of the “bubble economy.”

The increase in selling, general, and administrative expenses (SG&A expenses) was limited to 8.2%. In line with higher operating revenues, commissions and other expenses rose 12.6%, and personnel costs grew 14.8%. On the other hand,

real estate expenses were down 1.5% and depreciation expenses fell 8.8%, while data processing and office supplies grew only 1.1%. Accordingly, ROE jumped, from 0.6% in FY 2002 to 9.8%.

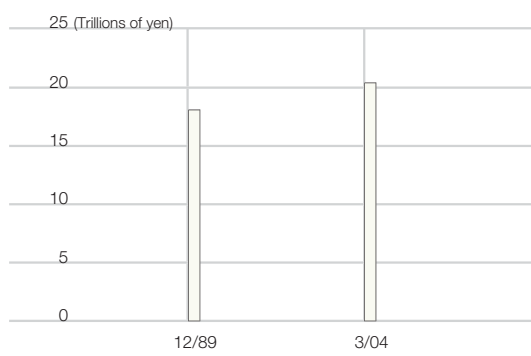
Targeting Further Improvements in “Quality” and “Productivity”

Under the medium-term management plan, Daiwa Securities is pursuing five basic strategies: (1) improvement of consulting capabilities, (2) enhancement of the opportunities and quality of contact point with customers, (3) raising product provision capabilities, (4) increasing customer satisfaction levels, and (5) pursuing efficient operations. In addition to implementing the aforementioned initiatives, namely, the enhancement of marketing systems and providing high-quality products and services, Daiwa Securities will capitalize on new opportunities arising from the lifting of bans on securities intermediation and wrap account services. To reach the target of its medium-term management plan ending in FY 2005, Daiwa Securities intends to become a retail securities firm that is unparalleled in its ability to earn customer trust and satisfaction.

Breakdown of Net Operating Revenues

	Millions of Yen		yoy
	FY2002	FY2003	
Operating Revenues	129,817	171,605	32.2%
Commissions	93,204	133,388	43.1%
Brokerage (Stock and others)	34,177	61,486	79.9%
Brokerage (Bond and others)	0	0	18.9%
Distribution	31,980	48,038	50.2%
(Investment trust)	13,207	21,366	61.8%
Other commission	26,808	23,701	-11.6%
(Investment trust)	12,425	10,218	-17.8%
Net gain on trading securities	34,990	36,724	5.0%
(Stock and others)	274	1,222	345.5%
(Bond, forex and others)	34,715	35,501	2.3%
Interest and dividend income	1,623	1,492	-8.0%
Interest expenses	505	388	-23.2%
Net operating revenues	129,311	171,216	32.4%

Total Assets under Custody





Review of Operations: Wholesale

Daiwa Securities SMBC Co. Ltd.

Tatsuei Saito President

Highlights of Results

	Millions of Yen		FY2003	% yoy
	FY2001	FY2002		
Operating revenues	109,481	118,300	161,681	36.7%
Net operating revenues	102,670	110,875	152,216	37.3%
SG&A expenses	90,288	95,401	111,332	16.7%
Operating income	12,381	15,473	40,884	164.2%
Ordinary income	13,231	16,565	41,873	152.8%
Net income	5,426	6,357	23,227	265.4%
Group holdings (%)	60	60	60	—

Summary

- Although the fund-raising needs of corporations are increasing as Japan's economy recovers, the need to restructure their balance sheet remains strong. Moreover, these needs are becoming increasingly complex and diverse.
- Daiwa Securities SMBC Co. Ltd. (Daiwa Securities SMBC) is a joint venture between the Daiwa Securities Group, one of Japan's leading securities companies, and the Sumitomo Mitsui Banking Corporation Group (SMBC Group), one of the megabanks in Japan. Thus, Daiwa Securities SMBC can effectively leverage the management resources of the two financial groups, including their brand power, client bases, financial expertise and skills, and research and analytical capabilities. Daiwa Securities SMBC has earned the trust of its clients by maximizing synergies to serve their complex and diversified needs.
- Daiwa Securities SMBC's FY 2003 results greatly exceeded the pace targeted in its medium-term management plan, highlighted by substantial increases in equity underwriting commissions.

Businesses and Strengths

- The exceptional feature of Daiwa Securities SMBC is that it is Japan's first true investment bank, a joint venture between a leading Japanese securities company (Daiwa Securities Group Inc., which owns a 60% stake) and a Japanese megabank (the Sumitomo Mitsui Financial Group, which owns a 40% stake).
- Daiwa Securities SMBC's two main lines of business are the Product Division, which includes brokerage and trading of equities, bonds, and derivatives, as well as the development and sale of products and services, and the Investment Banking Division, which encompasses underwriting including initial public offerings, structured finance, and advisory for mergers and acquisitions. The company offers a wide range of services related to these business areas both in Japan and overseas. Furthermore, the company engages in the principal finance business through its wholly owned subsidiary, Daiwa Securities SMBC Principal Investments Co. Ltd.
- In Investment Banking, Daiwa Securities SMBC maintains a dominant presence as an underwriter of corporate straight bonds. The company has ranked top of the lead manager league tables for three consecutive years, from FY 2001 to FY 2003, and was named "The Best Debt House" in 2003 by EUROMONEY Magazine (Japanese edition). The company also ranked number two in the lead manager league tables for both IPOs and primary and secondary offerings in FY 2003, and was named "Equity House of the Year" by THOMSON DealWatch.

Macroeconomic Environment and Basic Strategies

Applying Financial Expertise to Contribute to the Revitalization of Japan's Economy

Japan's economy is emerging from a long tunnel, and the first signs of recovery are finally starting to appear. Corporate demand for fund raising, balance sheet improvements, and business restructuring aimed at bolstering competitiveness are on the rise. To accurately respond to these needs, a high degree of specialized knowledge and skills backed by strong capabilities in research, analysis, and strategic planning are required. One of Daiwa Securities SMBC's key strategies is to leverage the management resources of the Daiwa Securities Group and the SMBC Group, including their client base, financial expertise, and brand power. In addition, Daiwa Securities SMBC will utilize the resulting synergies to contribute to the revitalization of Japan's economy. This strategy will enable the company itself to grow.

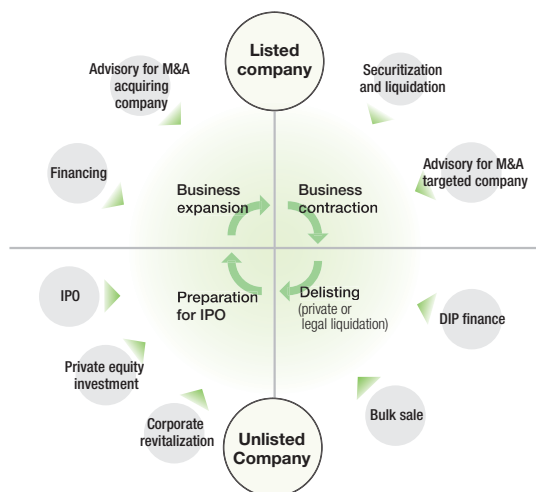
Strengthening the Alliance with the Sumitomo Mitsui Banking Corporation

The benefits gained by Daiwa Securities SMBC's collaboration with SMBC have steadily expanded: for the Daiwa Securities Group as a whole, revenues generated by the collaboration have multiplied by approximately six times over the past four years. The two companies are further working to strengthen this collaboration by promoting personnel exchanges and training.

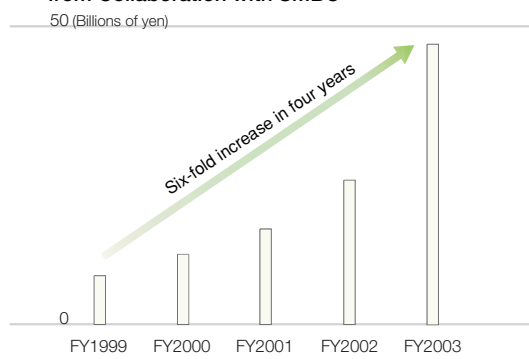
Utilizing Research to Provide Top Rate Services

Daiwa Securities SMBC has utilized its internal research capabilities to engage in high caliber, proposal-based sales. Here, the company collaborates with the Daiwa Institute of Research Ltd. (DIR), the top-ranked research house in FY 2003 (according to Nikkei Financial Daily and Mainichi Economist Magazine), and provides clients with research and analysis of the world's economies, markets, industries, and companies on a timely basis. In addition, Daiwa Securities SMBC established a division specializing in industrial research (now the Research & Advisory Department) in July 2002. This department comprises a Financial

The Life Cycle of a Company and the Business Opportunities for Daiwa Securities SMBC



Revenues (Daiwa Securities Group) Generated from Collaboration with SMBC



Strategy Team consisting of accountants and other experts in financial strategy, and a Business Strategy Team consisting largely of former DIR analysts. Together these teams work to bolster and improve the quality of the company's consulting services and solutions. The department has contributed greatly to Daiwa Securities SMBC's success in securing major deals to date.

Strengthening Product Development Capabilities

Product development capabilities is an important weapon that enables Daiwa Securities SMBC to satisfy needs of clients and gain their credibility and support. The company has established a solid presence in the area of product development. One example is the Enman-Sai bonds, which the company developed and launched in March 2001. Due to the Enman-Sai's structure, which has both a fixed income and equity element, and the advanced hedging techniques required at the time of formulation, it took an exceptionally long time before competitors were able to structure a similar product. Furthermore, the Daiwa Securities Group established the New Product Development Team in September 2003 that draws on resources from across the group, particularly Daiwa Securities and Daiwa Securities SMBC. The team has developed and commercialized several financial products, such as collateralized equity obligations (CEO bonds), the first such bond to be rated by a U.S. rating agency, as well as other types of structured bonds.

Increasing Trading Revenues

On top of the aforementioned strategies, Daiwa Securities SMBC will engage in increasing trading revenues. The company will increase equity trading gains by expanding order flow through providing cross-product solutions that meet the diversified needs of its customers. The company also aims to

increase revenues from proprietary trading by increasing trading positions and implementing various new trading schemes based on strict risk management. Moreover, the company will work to increase bond and foreign exchange trading revenues by expanding its client base and strengthening its product development and sales capabilities.

Global Strategies

Daiwa Securities SMBC operates overseas, centering on Europe and Asia. The company is also building its global network by working closely with other Group companies' overseas bases. The company is a leader in the sales and underwriting of Japanese and foreign equity that targets overseas investors, as well as foreign equity sales into the Japanese market. Additionally, the company is at the forefront of underwriting Samurai bonds.

Notably, Daiwa Securities SMBC is increasing its earning power and presence in the rapidly growing Asian markets. Euroweek Magazine named Daiwa Securities SMBC the best lead manager of yen bonds issued by Japanese companies in 2003. Furthermore, the company beat both its domestic and foreign competitors in the sales of these bonds. The company also sold more dollar bonds to Asian investors than any other Japanese securities company.

Daiwa Securities SMBC will continue expanding its overseas operations, particularly in China. The company has received approval to establish the first Japanese-affiliated joint securities company in China with Shanghai Securities Corporation (SSC), a member of the Shanghai International Group (SIG). By drawing on the respective expertise of Daiwa Securities SMBC and SSC, the joint venture aims to assist Japanese-affiliated companies and other local entities secure efficient forms of financing both inside and outside China, while also providing access to a diverse range of attractive business opportunities. In addition, the

company was officially approved by CSRC (China Securities Regulatory Commission) for QFII status in May 2004. Consequently, the company is working to spread Chinese equity investments within Japan and reinforce the Daiwa Securities Group's product line-up. This will also enable the company to acquire trading know-how of Chinese equities (A-shares) and develop its analyst team.

FY 2003 Performance and Outlook

Earnings Exceeded Targets of the Medium-term Management Plan

Daiwa Securities SMBC's net operating revenues rose 37.3% year-on-year. Meanwhile, operating income increased by 2.6 times, and net income increased 3.7-fold. All three major components of net operating revenues grew substantially, with commissions up 31.6% year-on-year, net gain on trading securities up 48.6%, and net financial income up 23.3%. The rise in commissions was helped in part by a 40.8% increase in equity brokerage commissions as a result of the active equity market, but the chief impetus was a 103.0% jump in equity underwriting commissions due to an increase in IPOs and equity primary and secondary offerings.

The rise in SG&A expenses, on the other hand, was confined to a 16.7% rise year-on-year. Commissions and other expenses and personnel costs, items linked to the rise in profitability, rose 28.8%, and 12.4% respectively. Although depreciation expenses increased 24.7% due to investments in IT, expenses related to data processing and office supplies decreased 1.5% backed by the successful efforts by the company to improve operational efficiency. As a result, ROE improved from 1.8% in FY 2002 to 6.4% in FY 2003.

Breakdown of Net Operating Revenues

	Millions of Yen		yoy
	FY2002	FY2003	
Operating Revenues	118,300	161,681	36.7%
Commissions	52,073	68,508	31.6%
Brokerage (Stock and others)	8,228	11,584	40.8%
Brokerage (Bond and others)	99	37	-62.5%
Underwriting commission (Stock and others)	16,144	32,776	103.0%
Underwriting commission (Bond and others)	8,424	8,619	2.3%
Distribution	1,159	861	-25.7%
Other commissions (M&A and others)	17,649	13,820	-21.7%
Net gain on trading securities	44,308	65,829	48.6%
(Stock and others)	(1,646)	42,136	—
(Bond, forex and others)	45,954	23,692	-48.4%
Interest and dividend income	21,919	27,343	24.7%
Interest expenses	7,425	9,465	27.5%
Net operating revenues	110,875	152,216	37.3%

Achievements in Investment Banking

Daiwa Securities SMBC acted as the lead manager in corporate bonds issued by SMBC and Tokyo Electric Power Company, as well as for agency bonds by the Japan Highway Public Corporation, the Japan Bank for International Cooperation, and the Japan Finance Corporation for Municipal Enterprises. The company lead managed a number of major equity offerings in the second half of the fiscal year, including NEC Corporation, Fuji Television Network, Inc., and Sumitomo Realty & Development Co., Ltd. Furthermore, the company acted as lead manager in RMBS (Residential Mortgage-Backed Securities) issued by the SMBC and The Chuo Mitsui Trust and Banking Company, Limited. In mergers and acquisitions, Daiwa Securities SMBC advised Kanebo, Ltd. in the transfer of its cosmetics operations, and advised The Daiei, Inc. in the sale of its Fukuoka operations (baseball stadium, hotel, and shopping mall).

Future Direction

Daiwa Securities SMBC will stay on the offensive by effectively utilizing the management resources of both the Daiwa Securities Group and SMBC, as well as the pool of exceptionally talented employees. Furthermore, the company is targeting to achieve the final-year goals of its medium-term management plan in FY 2004, one year ahead of schedule.

Major Deals in FY 2003

Corporate straight bonds	SMBC (total ¥410 billion), Tokyo Electric Power (total ¥150 billion), Sumitomo Trust and Banking (total ¥90 billion), Toyota Finance (¥50 billion), Hankyu (total ¥50 billion)
Agency bonds	Japan Highway Public Corporation (total ¥162 billion), Japan Bank for International Cooperation (total ¥120 billion), Japan Finance Corporation for Municipal Enterprises (total ¥120 billion), Japan Finance Corporation for Small and Medium Enterprise (total ¥70 billion), National Life Finance Corporation (total ¥70 billion)
Structured finance	RMBS issued by SMBC (issue & underwriting ¥105 billion), Mori Trust REIT (issue ¥80 billion, underwriting ¥48 billion), CMBS issued by Izumi Garden Tower (issue ¥74 billion, underwriting ¥37 billion)
Equity primary & secondary offerings	NEC (¥194 billion), Fuji Television Network (¥125 billion), Sumitomo Realty & Development (¥75 billion), Rakuten (¥64 billion), Kajima (¥36 billion)
M&As	Advisor to Kanebo in transferring their cosmetic business Advisor to Daiei in selling their business in Fukuoka Advisor to Sumitomo Construction for their merger with Mitsui Construction Intermediary for SMBC Friend Securities' acquisition of Izumi Securities
IPOs	NEC Electronics (¥155 billion), Taiyo Life Insurance (¥76 billion), Japan Petroleum Exploration (¥31 billion)
Samurai bonds	The Korea Development Bank (¥65 billion), Volkswagen FSNV (¥50 billion), Republic of Croatia (¥25 billion), Republic of Poland (¥25 billion)

Principal Finance Business

Daiwa Securities SMBC engages in principal finance activities through its wholly owned subsidiary Daiwa Securities SMBC Principal Investments Co. Ltd. ("PI"). An outline of this business is provided below:

Summary

- PI invests in a wide range of alternative assets such as monetary claims including non-performing loans, real estate, and private equities. In addition, it actively promotes the development and management of various investment funds.
- PI acts not only as a provider of, but also as a mediator of risk money by participating in the development and management of funds including regional revitalization funds, corporate recovery funds, and real estate investment funds. Through these activities, PI is increasing its presence as a leading player in the Japanese corporate recovery business.
- Being on the offensive, PI has approximately doubled its investment limit from the previous year-end, to ¥100 billion.

Businesses and Strengths

- The principal finance division of the Daiwa Securities Group started operations in spring 1998, prior to the foundation of Daiwa Securities SMBC. Consequently, in October 2001, PI was established as a subsidiary of Daiwa Securities SMBC, to provide appropriate solutions for corporate revitalization and business reorganization by investing in monetary claims, real estate, and private equity.
- PI has aggressively promoted the development and management of various funds, including regional revitalization funds, corporate recovery funds, and real estate investment funds. In doing so, PI is serving as not only the supplier of risk money, but also as the mediator. Thus, it is increasing its presence as a leading player in the corporate reconstruction business in Japan.
- PI is differentiating itself from its competitors by having full access to the networks of both the Daiwa Securities Group and the SMBC Group, as well as by investing in a wide range of products such as monetary claims, real estate, and private equity.

Macroeconomic Environment and Basic Strategies

Growth Potential

The financial restructuring of small to medium-sized firms, which account for about 60% of the gross sales of all Japanese companies, is yet to be completed. Furthermore, in the case of large corporations, the internationalization of corporate accounting rules (such as the adoption of impairment accounting) will accelerate off-balance sheet financing and the disposal of fixed-assets, while the fierce international competition will promote the restructuring of business portfolios. In addition, the economic recovery has brought about an increasing tolerance toward risk among investors and has led to an expansion in demand for alternative asset funds.

Basic Investment Policy and Targets

For its investments in monetary claims and real estate, PI makes investments based on conservative value assessment and relatively short investment periods (1-3 years). On the other hand, for private equity, PI bases its investment decisions on a thorough analysis of growth prospects and a relatively long-term investment horizon (3-5 years). It is also working to reduce risks through strict management monitoring and asset assessment.

Track-record

As of the end of FY 2003, PI has invested a total of approximately ¥110 billion in 450 monetary claim transactions. The building of extensive networks with regional financial institutions has contributed to this result. PI has also invested a total of approximately ¥25 billion in 230 real estate properties. These properties are located throughout Japan. As for private equity, the company has invested approximately ¥14 billion in seven companies. Key investments are in Ogihara Group, a major manufacturer of metal molds for automobiles, and MEISEI Electric, which is listed on the Second Section of the Tokyo Stock Exchange. Despite possessing world-class technology, both of these firms needed to pursue improving their financial condition. The Group had the opportunity to invest in these two companies due to the acceptance of its sophisticated and complex proposal.

FY 2003 Performance and Outlook

Performance in FY 2003

In FY 2003, ordinary income fell by 8% over the previous term to ¥5.4 billion.

The investment balance at the end of FY 2003 grew approximately 70% over the previous term to ¥63.5 billion. Of this amount, investments in monetary claims accounted for ¥39.7 billion, real estate investment for ¥7.8 billion, private equity for ¥12.5 billion, and other fund investments for ¥3.5 billion.

During FY 2003, PI invested in about 180 properties — mainly office buildings and company dormitories (120 in Series 1, and 60 in Series 2) — together with the Japan Real Estate Recovery Fund (formed by the US investment company WL Ross & Co.). For private equity investments, PI invested jointly with Olympus Capital Holdings, an American private equity fund, in Arysta LifeScience Corporation. In terms of establishing funds, in addition to setting up the “Hokkaido Corporate Recovery Fund,” which is the pioneer of regional corporate recovery funds, PI launched the “Daystar Fund” together with Mitsui Sumitomo Insurance

Co., Ltd. and SMBC. Furthermore, PI established the “Japan Endeavor Fund,” a loan purchasing fund, along with the Goldman Sachs Group and the SMBC Group.

Increasing the Investment Limit

The investment limit for PI was doubled from ¥50 billion to ¥100 billion on the back of the increasing need for corporate restructuring and fund management, as well as the improvement in execution capabilities of PI. Consequent to its investment limit being increased, PI received a capital injection of ¥3 billion resulting in its capital growing from ¥500 million to ¥2 billion, while its shareholder's equity as of the end of March 2004 was approximately ¥11 billion.

Future Direction

As stated above, in addition to direct investments, PI will fulfill a role as a mediator of risk money through the development and management of various funds, including regional revitalization funds, corporate recovery funds, and real estate investment funds.

PI will provide high-quality services and solutions to fulfill various needs by taking full advantage of the extensive networks of both the Daiwa Securities Group and the SMBC Group. In doing so, the company will secure its place as a leading player in supporting the domestic corporate recovery business.



Review of Operations: Asset Management

Daiwa Asset Management Co. Ltd.

Teruo Hatano President

Highlights of Results

	Millions of Yen		FY2003	%
	FY2001	FY2002		
Operating revenues	42,476	22,865	16,638	-27.2%
SG&A expenses	38,150	22,260	16,825	-24.4%
Operating income (loss)	4,326	604	(186)	—
Ordinary income	5,156	1,556	772	-50.4%
Net income (loss)	911	(138)	221	—
Group holdings (%)	100	100	100	—

Summary

- Investor interest in equity investment trusts has become evident due to the upturn in the stock market, although bond investment trusts continue to experience an outflow as interest rates remain at ultra-low levels.
- While continuing its structural reforms to achieve higher operating efficiency, Daiwa Asset Management Co. Ltd. (DAM) will seek to improve the performance of its funds through the introduction of a performance-based remuneration system and the reinforcement of its product development capabilities. In this way, DAM will differentiate itself from the competitors and earn the trust of its customers.

Businesses and Strengths

- DAM is the core company handling the Daiwa Securities Group's asset management business. With a domestic market share of more than 15% (as of end-March 2004) on a net asset basis, it is one of the leading players in the investment trust industry.
- DAM is known for its asset management style with a medium- to long-term investment horizon, based on its analysts' and economists' in-depth research and analysis on the fundamentals and markets. DAM also has a diverse product lineup, which includes monthly payment funds and Japanese real estate investment trust (J-REIT) fund of funds.

there is a rising interest in equity products. This has led to a renewed interest in equity investment trusts, which provide investors access to professional expertise and the opportunity to construct a diversified portfolio with relatively small outlays. By contrast, bond investment trusts are not expected to experience a net inflow of funds in the foreseeable future as a result of prolonged ultra-low interest rates.

Thanks in part to the recovery in the equity market, the net asset value of investment trusts at the end of FY 2003 in the industry as a whole showed a 13% rise compared to a year earlier, following three consecutive years of decline. In particular, the net asset value of open-end equity investment trusts jumped 42%. Meanwhile, distributors of investment trusts and investors are becoming increasingly meticulous in selecting asset management companies and funds. The key to becoming a winner in the industry is to distinguish oneself from competitors in the ability to develop products that satisfy investor needs, the performance of funds, and accountability and risk management.

Macroeconomic Environment and Basic Strategies

Although the Worst is Over Due to Stock Market Recovery, Competition is Intensifying

Both individual and institutional investors are becoming increasingly risk tolerant. Furthermore,

Strategy 1: Improving the Performance of Funds under Management

In addition to introducing an annual salary system for fund managers, DAM has adopted a framework in which fund managers and analysts assess each other's performances to promote higher levels of professionalism and competitiveness. Going forward, DAM plans to extend the annual salary system to employees other than fund managers and to recruit professionals externally. In addition, DAM has reorganized its asset management teams to ensure that fund managers are able to share information while strengthening the ties between the asset management and research sections. In so doing, DAM has engaged in building a more advanced framework for systematic asset management.

Strategy 2: Reinforcing its Product Lineup and Product Development Capabilities

In FY 2003, DAM introduced a full lineup of monthly payment foreign bond funds and launched a J-REIT fund of funds. DAM also developed and marketed products that reflect market needs, such as the Japanese equity fund "Dai-Chouryu" and the China-related Japanese equity fund "China Power," both of which have grown in size since their launch. Most recently, "Digital Kama," which invests in companies related to China and the digital electronics industry, was launched in April 2004 (¥ 55.7 billion outstanding as of end-June), and a socially responsible investment (SRI) fund was launched in May 2004 (¥ 29.4 billion outstanding as of end-June).

Strategy 3: Increasing Credibility by Improving Quality Control and Accountability, Reinforce Support to Distributors

DAM will clarify fund evaluation standards and implement advanced risk management and pro-

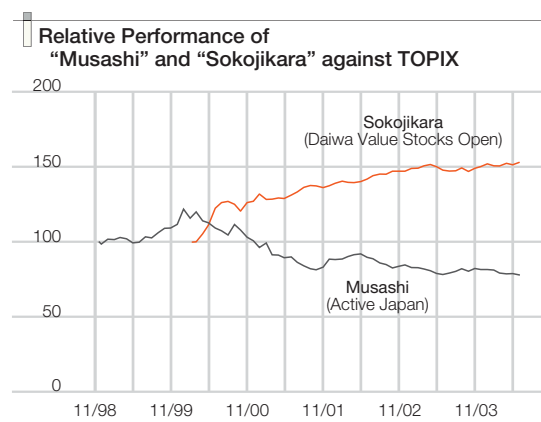
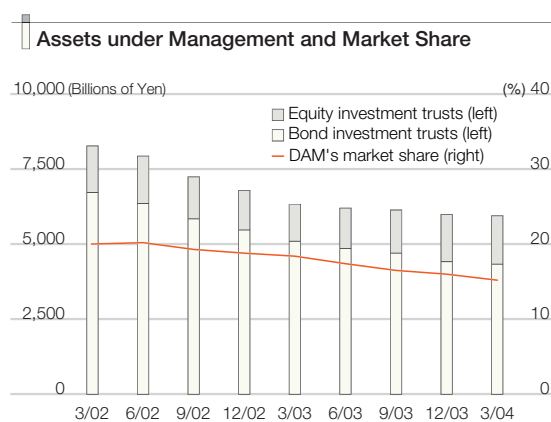
mote accountability. At the same time, DAM will reinforce compliance and other internal control systems. DAM will also increase market share by formulating strategies according to sales channels and strengthen marketing support functions.

Promoting Higher Management Efficiency

At the end of FY 2003, DAM was managing 237 funds, down from 269 funds a year earlier, with plans for further cuts during FY 2004. After reviewing its operations based on maximizing Group-wide strengths, DAM terminated client services relating to the direct sale of investment trusts as of the end of December 2003.

FY 2003 Performance and Outlook

Assets under management at the end of FY 2003 stood at ¥5,947.3 billion, down 6% year-on-year. Of this total amount, the balance of equity investment trusts increased 31% owing to the increase in share prices and the dramatic growth in sales of monthly payment foreign bond investment trusts. Bond investment trusts under management, on the other hand, declined 15% as a result of ongoing ultra-low interest rates. The drop in fee income from the management of bond investment trusts resulted in a 27.2% decline in operating revenues to ¥16.6 billion. Thus despite efforts to reduce selling, general, and administrative (SG&A) expenses, ordinary income fell 50.4%, to ¥772 million. In FY 2004 and beyond, DAM will aim to increase profits by enhancing its capabilities to develop products that meet customer needs and by improving fund performance, centering on equity investment trusts. It will also continue to pursue improving operating efficiency.



Indexed against TOPIX at launch date (Musashi: Nov. 20, 1998; Sokojikara: Feb. 10, 2000) = 100



Review of Operations: Asset Management

Daiwa SB Investments Ltd.

Shuichi Komori President

Highlights of Results

	Millions of Yen			%
	FY2001	FY2002	FY2003	yoy
Operating revenues	6,904	6,765	7,336	8.4%
SG&A expenses	4,058	4,017	4,345	8.2%
Operating income	610	542	568	4.8%
Ordinary income	672	542	523	-3.5%
Net income (loss)	239	(49)	114	—
Group holdings (%)	44	44	44	—

Summary

- Daiwa SB Investments Ltd. (Daiwa SB Investments) boasts a solid reputation as a manager of pension funds and domestic value equity funds. It is an equity-method affiliate of Daiwa Securities Group Inc., which holds a 44% equity share.
- Despite difficult business conditions resulting in a 4% decline in ordinary income for FY 2003, the balance of pension funds under management continued to increase. In addition, Daiwa SB Investments scored a major hit with “China Ton-Fei,” a Chinese equity fund launched during FY 2003.
- Going forwards, Daiwa SB Investments will maintain its competitive edge based on the high performance of its funds and will also develop a marketing strategy focusing on the profitability of individual funds. In doing so, Daiwa SB Investments will aim to establish a highly profitable earnings structure based on an efficient operational system and strong brand power which separates it from its competitors.

Businesses and Strengths

- Daiwa SB Investments was established 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. The merger was the culmination of an alliance between Daiwa Securities and the former Sumitomo Bank, Ltd.
- Daiwa SB Investments is particularly strong in the management of pension funds, which constitute about 60% of its total assets under management. In FY 2001 and FY 2002, Daiwa SB Investments ranked No. 1 in the overall evaluation of asset management ability by Newsletter on Pensions and Investments, published by Rating and Investment Information, Inc. In FY 2003, the research and evaluation methods of this survey changed, but the company ranked No. 4 in both the qualitative and quantitative evaluations and first among Japanese asset management companies.
- Owing to its special expertise in managing Japanese value equity funds, Daiwa SB Investments became the sole domestic institution selected by Japan Post to manage the Japanese equity component of both its postal savings and postal life insurance funds. The company has also been chosen to manage the foreign equity component of the postal life insurance funds.
- Another strength is its international profile: Daiwa SB Investments has a strategic partnership with T. Rowe Price, a major U.S. asset management company. This provides Daiwa SB Investments with global management and research capabilities, a base upon which it has built a solid record as an overseas pension fund manager.

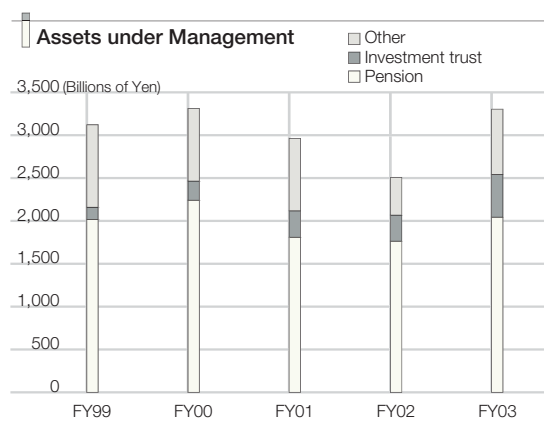
Macroeconomic Environment and Basic Strategies

Improvement in Asset Management Environment, Increase in Competition for Pension Fund Business

The market for bond investment trusts continues to languish amid the ongoing ultra-low interest rate environment. However, there has been an inflow of funds into equity investment trusts, in part due to the bottoming out of the equity market. With the economy turning around, there has been a recovery in the demand to hedge risks through diversification and to utilize professional fund managers. Meanwhile, competition for trusteeship of pension funds continues to intensify. The decision by many corporations to return the substitutional portion of their employees' pension funds to the government has resulted in a fall in assets as well as a decline in the number of investment managers appointed. Daiwa SB Investments regards this situation as an opportunity to broaden its market share over the medium- to long-term by leveraging its performance track record. By adhering to its basic strategies—establishing a strong, efficiency-based earnings position and building a distinguished brand name—Daiwa SB Investments aims to become “The Top in Quality.” The specific initiatives are summarized below.

Developing a Competitive Product Line

Daiwa SB Investments will aim for significant growth in its assets under management by developing attractive and timely products that match customer needs. To date, Daiwa SB Investments has developed a variety of products, including small-cap equity funds, foreign equity and foreign bond funds, and value index funds. In the future, Daiwa SB Investments will garner further support from investors in Japan and elsewhere in Asia by providing more competitive and appealing foreign equity and foreign bond funds. Daiwa SB Investments will also actively develop alternative products.



Profitability-Oriented Marketing

Instead of rashly pursuing the expansion of assets under management, Daiwa SB Investments will seek to acquire funds with a long time horizon. To attract its target clients, Daiwa SB Investments will strengthen its consulting and proposal capabilities while raising the level of its services.

Building an Infrastructure to Bolster Competitiveness

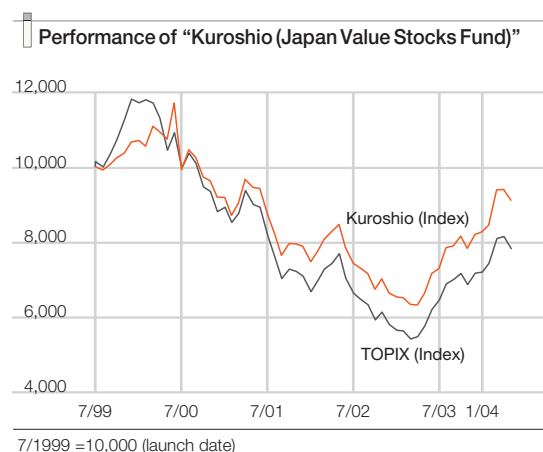
Daiwa SB Investments is building a data processing infrastructure to support its trading and day-to-day operations. It is also reinforcing its information security system and strengthening internal controls by the appointment of compliance officers and the establishment of a risk management committee.

Performance-Based Compensation

Daiwa SB Investments will further upgrade its personnel remuneration system by providing performance-based incentives.

FY 2003 Performance and Outlook

The balance of assets under management continued to increase, to ¥3,303.0 billion, or 32% higher year-on-year. Of this total, its pension fund balance grew 16%, to ¥2,043.0 billion, while investment trust funds jumped 64%, to ¥499.5 billion, largely as a result of the successful launch of “China Ton-Fei,” which became the largest Chinese equity-related investment trust ever established (¥62.2 billion at start-up, ¥99.3 billion as of the end of June 2004). Reflecting these business circumstances, its operating revenues rose 8.4%, while operating income was up 4.8%. Going forwards, Daiwa SB Investments will draw on its strong brand profile backed by its solid track record, to further expand pension and investment trust assets under management, and reinforce its earnings foundation.





Review of Operations:
Research, Systems and Consulting Services
Daiwa Institute of Research Ltd.

Yoshiyuki Takemoto President

Highlights of Results

	Millions of Yen			%
	FY2001	FY2002	FY2003	yoy
Operating revenues	71,809	61,675	65,388	6.0%
SG&A expenses	11,391	9,130	9,075	-0.6%
Operating income	5,794	3,706	5,667	52.9%
Ordinary income	5,542	3,444	5,529	60.5%
Net income	3,352	1,043	835	-20.0%
Group holdings (%)	96	96	100	—

Businesses and Strengths

- In its position as a think tank for the Daiwa Securities Group, the Daiwa Institute of Research Ltd. (DIR) provides research, systems, and consulting services to members of the Daiwa Securities Group and supports to enhance the quality of overall services that the Group provides. DIR also offers high-quality services to non-Group companies.
- DIR's research services include macroeconomic forecasting for both Japan and overseas. In addition, it provides in-depth research and analysis on trends in financial and capital markets, as well as companies and industries. In FY 2003, DIR had the honor of being ranked No. 1 in the analyst and economist ranking by both the *Nikkei Financial Daily* and the *Mainichi Economist* magazine.
- DIR provides comprehensive ERP (enterprise resource planning) systems for customers in the financial, telecommunications, and distribution industries, as well as to public organizations. DIR has implemented various safety measures to further improve the credibility of its systems. To this extent, it has engaged in developing information security systems, including the protection of computer processed personal data, in various unique methods such as establishing an expert committee. In FY 2003, DIR received the privacy mark by Japan Information Processing Development Corporation and was certified based on its Information Security Management Systems (ISMS). Moreover, DIR endeavored to increase its competitiveness by implementing organizational reforms to improve project management capabilities. DIR has also increased the volume of business it outsources to companies in China and has worked to improve the productivity at these companies.

Improvement in "Analyst Rankings"

Analyst Ranking by the Nikkei Financial Daily
Category: Analysts (all industrial sectors excluding comprehensive sector) and strategists

	FY2001	FY2002	FY2003
1st	Nomura Securities	Nomura Securities	Daiwa Institute of Research
2nd	Morgan Stanley Dean Witter*	Daiwa Institute of Research	Nomura Securities
3rd	Nikko Salomon Smith Barney**	Nikko Salomon Smith Barney**	Deutsche Securities

* currently Morgan Stanley ** currently Nikko Citigroup

Macroeconomic Environment and Basic Strategies

Providing Timely and Accurate Information Services

In the modern information-intensive society, the very survival of investors, asset management companies, and corporations depends on timely access to accurate information based on in-depth analysis, and the ability to build powerful systems that enable collected information to be utilized rapidly. Under these circumstances, DIR has made huge contributions to enhance the quality and quantity of information and to boost the effective use of systems of companies both inside and outside the Group.

Increasing Human Resource Capabilities Through Implementation of Performance-Based Compensation

Based on the belief that DIR will play an important role in supporting the information infrastructure in society, the company will continue to make every effort to improve the skills of its employees. In addition to raising the frequency and level of in-house training forums to improve the level of its human resources, DIR has also trained a large number of professionals by adopting a personnel evaluation and compensation system based on merit.

Contributing to the Daiwa Securities Group

DIR is using forecasts based on internal research and analysis to enhance its ability to provide rec-

ommendations to the Daiwa Securities Group and industry leaders when formulating policies and strategies. DIR also provides corporate analysis and economic reports to customers of Daiwa Securities via the Internet, thus helping to differentiate Daiwa Securities' Internet services from its competitors. Going forwards, DIR will further strengthen its collaboration with the Group companies. In addition, DIR will utilize its research capabilities to contribute to both Daiwa Securities' consulting-based sales as well as to projects related to the revitalization of the Japanese economy.

In the systems area, DIR is reviewing its core administrative systems to realize further operational efficiency in the Group companies. In FY 2003, both Daiwa Securities and Daiwa Securities SMBC moved to a next-generation core administrative system, leading to expectations for further increases in productivity.

FY 2003 Performance and Outlook

Operating revenues in FY 2003 rose 6.0% year-on-year, to ¥65.3 billion. SG&A expenses on the other hand decreased 0.6%, due primarily to the reduction of real estate expenses. As a result, ordinary income jumped by 60.5% year-on-year, to ¥5.5 billion. In FY 2004 and beyond, while improving the quality of its services, DIR will aim to further strengthen its earnings capacity by strengthening sales and through additional cost reductions.



Review of Operations: Support

Daiwa Securities Business Center Co., Ltd.

Kenichi Fukuda President

Highlights of Results

	Millions of Yen			%
	FY2001	FY2002	FY2003	yoy
Operating revenues	9,635	8,472	8,558	1.0%
SG&A expenses	8,176	7,853	8,111	3.3%
Operating income	1,458	619	447	-27.8%
Ordinary income	1,490	627	448	-28.5%
Net income	1,235	350	209	-40.1%
Group holdings (%)	100	100	100	—

Businesses and Strengths

- Daiwa Securities Business Center Co., Ltd. (DSC), is a comprehensive provider of back office services related to securities business and provides securities administration functions for the Daiwa Securities Group. DSC's diverse activities include securities custody, settlement of foreign bonds, and customer account management services.

FY 2003 Performance and Outlook

Operating revenues in FY 2003 were ¥8.5 billion, up 1.0% from the previous fiscal year. However, SG&A expenses rose 3.3%, to ¥8.1 billion, causing ordinary income to decline 28.5%, to ¥448 million. Furthermore, net income dropped 40.1%, to ¥209 million. In FY 2004, DSC will aim to strengthen profitability by further enhancing operational efficiency and holding down operational expenses.

Macroeconomic Environment and Basic Strategies

- In this time of dramatic change, outsourcing business process reengineering programs are becoming increasingly important. DSC's fundamental policy is to accurately grasp such needs and support the Group's efforts to become more cost-competitive.
- DSC's basic strategy is to maximize customer satisfaction through improvements in service quality. In December 2002, DSC obtained ISO 9001:2000 certification, an international standard for quality control systems, for the back office services it provides Daiwa Securities and Daiwa Securities SMBC. DSC is the first securities back office service provider to obtain this certification. Going forwards, DSC will continue targeting higher levels of service and efficiency in an effort to improve productivity throughout the securities business.



Review of Operations: Support Daiwa Property Co., Ltd.

Masahide Morimoto President

Highlights of Results

	Millions of Yen		%
	FY2002	FY2003	yoy
Operating revenues	11,571	17,402	50.4%
SG&A expenses	318	727	128.5%
Operating income	4,254	5,904	38.8%
Ordinary income	2,035	4,019	97.4%
Net income (loss)	1,797	(54,137)	—
Group holdings (%)	92	94	—

* Daiwa Property succeeded management operation of real estate for the Group's business operations from Daiwa Real Estate during FY 2001, thus data shown since FY 2002.

Businesses and Strengths

Daiwa Property Co., Ltd. (Daiwa Property) owns, leases, and manages retail branch offices, corporate offices, company residence halls, and other facilities used by the Daiwa Securities Group. It also provides support for opening new branch offices, expanding and upgrading existing branch offices, and office relocation.

In its solutions business, Daiwa Property will work with Daiwa Securities SMBC Principal Investments to embark on asset management and consulting businesses. Such businesses are expected to grow on the back of increasing corporate needs for reducing costs related to real estate holdings, and for avoiding negative affects stemming from the adoption of impairment accounting.

Macroeconomic Environment and Basic Strategies

Daiwa Property is working to meet the growing needs among customers by providing effective property management services and solutions-based responses. To this end, Daiwa Property draws on both its extensive expertise in property management, built up over five decades since its establishment, as well as its skilled human resources, including real estate consultants and appraisers.

To reinforce its property management capabilities, Daiwa Property is introducing a data management system to monitor the status of buildings owned and leased by the Daiwa Securities Group. Daiwa Property will also establish earthquake and disaster-response systems, and will promote risk management of leasehold properties.

FY 2003 Performance and Outlook

In FY 2003, Daiwa Property generated operating revenues of ¥17.4 billion, up 50.4% year-on-year. Ordinary income jumped 97.4%, to ¥4.0 billion, owing to improved net financial income. Due to the early adoption of asset impairment accounting, however, it posted a ¥60.3 billion impairment loss, leading to a net loss of ¥54.1 billion for the year. As a result, Daiwa Property ended the year with an excess debt of ¥42.2 billion. The capital base was subsequently restored on June 23, 2004 with Daiwa Property's issue of 23,000 shares, valued at a total of ¥58.2 billion, to Daiwa Securities Group Inc. via private placement. With a stronger capital base, Daiwa Property will steadily implement the aforementioned strategies to secure stable earnings in FY 2004 and beyond.



Review of Operations: Venture Capital NIF Ventures Co., Ltd.

Shinichi Yamamura President

Highlights of Results

	Millions of Yen			%
	FY2001	FY2002	FY2003	yoy
Operating revenues*	8,845	1,340	5,207	288.5%
SG&A expenses*	4,222	3,868	3,916	1.2%
Operating income (loss)	3,289	(3,457)	492	—
Ordinary income (loss)	3,336	(2,850)	465	—
Net income (loss)	3,257	(9,319)	555	—
Group holdings (%)	79	79	79	—

* Data adjusted for the purpose of preparing consolidated financial statements of Daiwa Securities Group Inc.

Businesses and Strengths

- NIF Ventures Co., Ltd. (NIF) is a comprehensive private equity house whose core businesses are venture investments in promising, unlisted firms expected to go public with revolutionary technology and innovative business models, and buy-out investments supporting the turnaround of companies with superior management resources.
- NIF contributes to the growth of the Japanese economy by assisting and nurturing the firms in which it invests, and by improving their corporate value and creating new businesses through participation in management planning.
- NIF actively invests overseas. As of the end of FY 2003, such investments stood at ¥31.0 billion, accounting for 38% of total investments.
- NIF was listed on the JASDAQ market in March 2002, to become the only listed entity within the Daiwa Securities Group other than the holding company.

Macroeconomic Environment and Basic Strategies

- During FY 2003 a total of 103 companies were newly listed on the three markets for emerging companies in Japan (TSE Mothers, JASDAQ, and OSE Hercules). Although this is slightly fewer than the 105 companies listed in the previous year, it should be noted that of the 103 companies, 68 were listed in the second half, while only 35 were listed in the first half. With the Japanese economy undergoing a marked recovery, the venture firms' need to procure funds is likely to

increase even further.

- Considering the current market conditions, NIF will make active investments after closely examining and selecting promising venture companies with cutting-edge technology, in areas such as IT, biotechnology and nanotechnology. In addition, the company is keeping a close watch on medium-sized firms with sound management resources and plans to expand its buy-out investments.
- NIF is developing plans to establish a base in China to set up infrastructure for investing.

FY 2003 Performance and Outlook

Improvement in Earnings

Ordinary income recovered from a loss of ¥2.85 billion in the previous year to a profit of ¥465 million in FY 2003. Although NIF wrote off losses from past IT-related ventures, a bullish stock market and a rise in the number of IPOs in which the company invested in (up seven from FY 2002, to 24 in FY 2003) helped increase revenues.

During FY 2003, NIF invested only ¥14.0 billion, down approximately 30% from the previous year. While investments in domestic firms expanded by approximately 65%, overseas investments remained at low levels due to inactive IPO markets.

NIF will endeavor to increase productivity by strengthening and expanding its information-gathering ability to identify investment opportunities. Furthermore, NIF will establish a support system for the companies it invests in, as well as enhance its capability to develop new funds.

Overseas Network (As of July 1, 2004)

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Daiwa Securities America Inc.

Financial Square, 32 Old Slip, New York, NY 10005, U.S.A.
Tel: (1) 212-612-7000 Fax: (1) 212-612-7100

Daiwa Securities Trust Company

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Tel: (1) 201-333-7300 Fax: (1) 201-333-7726

Daiwa Securities Trust and Banking (Europe) PLC

Head Office

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Tel: (44) 20-7320-8000 Fax: (44) 20-7410-0129

Dublin Branch

Level 3, Block 5, Harcourt Centre,
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Tel: (353) 1-478-3700 Fax: (353) 1-478-3469

Daiwa Securities SMBC Co. Ltd.

Daiwa Securities SMBC Europe Limited

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5 King William Street, London EC4N 7AX, United Kingdom
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Middle East Branch

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Tel: (973) 1753-4452 Fax: (973) 1753-5113

Daiwa Securities SMBC Hong Kong Limited

Level 26, One Pacific Place, 88 Queensway, Hong Kong
Tel: (852) 2525-0121 Fax: (852) 2845-1621

Daiwa Securities SMBC Singapore Limited

6 Shenton Way #26-08, DBS Building Tower Two,
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Daiwa Securities SMBC Australia Limited

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Melbourne, Victoria 3000, Australia
Tel: (61) 3-9916-1300 Fax: (61) 3-9916-1330

DBP-Daiwa Securities SMBC Philippines, Inc.

18th Floor, Citibank Tower, 8741 Paseo de Roxas,
Salcedo Village, Makati City, Republic of the Philippines
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Daiwa Securities SMBC-Cathay Co., Ltd.

14th Floor, 200 Keelung Road, Sec. 1, Taipei, Taiwan, R.O.C.
Tel: (886) 2-2723-9698 Fax: (886) 2-2345-3638

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Daiwa Securities SMBC Co. Ltd.

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Beijing Office

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Tel: (86) 21-6841-3333 Fax: (86) 21-6841-2222

Main Group Companies (As of July 1, 2004)

Daiwa Securities Co. Ltd.

6-4, Otemachi 2-chome, Chiyoda-ku, Tokyo 100-8101, Japan

Tel: 81-3-3243-2111

Daiwa Securities SMBC Co. Ltd.

8-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-8289, Japan

Tel: 81-3-5533-8000

Daiwa Asset Management Co. Ltd.

10-5, Nihonbashi-kayabacho 2-chome, Chuo-ku, Tokyo 103-0025, Japan

Tel: 81-3-5695-2111

Daiwa Institute of Research Ltd.

15-6, Fuyuki, Koto-ku, Tokyo 135-8460, Japan

Tel: 81-3-5620-5100

Daiwa SB Investments Ltd.

7-9, Nihonbashi 2-chome, Chuo-ku, Tokyo 103-0027, Japan

Tel: 81-3-3243-2915

Daiwa Securities Business Center Co., Ltd.

3-2, Toyo 2-chome, Koto-ku, Tokyo 135-0016, Japan

Tel: 81-3-5633-6100

Daiwa Property Co., Ltd.

1-9, Nihonbashi-kayabacho 1-chome, Chuo-ku, Tokyo 103-8219, Japan

Tel: 81-3-3665-5601

NIF Ventures Co., Ltd.

2-1, Kyobashi 1-chome, Chuo-ku, Tokyo 104-0031, Japan

Tel: 81-3-5201-1515

Group Management System

Aiming for Sustainable Growth and Development,
Together with Society

The Daiwa Securities Group is well aware that balancing growth, profitability, and stability is the key to maximizing corporate value. Under a sound management system, the Group is working to improve itself on an ongoing basis, reflect opinions from outside the Group, and contribute to society and the environment. In short, the Daiwa Securities Group is working to achieve co-prosperity with our stakeholders.

50 Management Philosophy

51 Corporate Governance

52 Compliance

53 Environmental Reporting

54 Social Reporting

56 Economic Reporting

Management Philosophy

The notion of **corporate social responsibility (CSR)** has received much attention in recent years. Although the term CSR is not new, the idea behind it is beginning to change. The Daiwa Securities Group believes **CSR is in essence a company's social "trust,"** not a "responsibility" that is to be passively dealt with. Thus the Group has positioned CSR as a cornerstone of brand management and is promoting it accordingly.

Corporate Principles

The Daiwa Securities Group values customer trust above anything else. We believe that the Daiwa Securities Group Brand can be established only after we earn their trust. With this in mind, the Daiwa Securities Group has established a set of "Corporate Principles" as its spiritual pillar. Putting "customer trust" at the top of the list, we pledge to respect "human values" as the source of our competence, pursue "social justice" to bring prosperity and pride, and generate "sound profits" to enhance corporate value through sound business development.

Brand Statement

In October 2000, the Daiwa Securities Group initiated the Corporate Branding Project aiming to establish a brand backed by customers' trust. Consequently, in March 2001 we issued a Brand Statement, expressing explicitly our promises to our customers.

Corporate Social Responsibility (CSR)

The growing interest worldwide in CSR reflects the rise in sustainability issues on a global basis, such as environmental problems, the rise in social instability and the increasing gap between the rich and poor. In order to tackle these problems, companies are expected to play an essential role. Instead of favoring certain stakeholders such as shareholders or customers, companies now require management skills that enable them to balance the needs of all stakeholders. The Daiwa Securities Group regards CSR as corporate governance in a broad sense, and believes that appropriate disclosure and communication activities are indispensable.



Corporate Governance

The Daiwa Securities Group will strive to maintain its leadership role in establishing corporate governance.

Subsequent to a resolution passed at the general shareholders' meeting in June 2004, Daiwa Securities Group Inc. has made a transition to a **"committee system"** of corporate governance which makes a clear distinction between the supervisory and executive functions of corporate affairs. **The Group will aim to further enhance the transparency and objectivity of management under this new system.**

In FY 2003, the Group established a **Disclosure Policy**, defining its attitude towards the fair, accurate, and timely disclosure of corporate information. In addition, an Internal Control Committee was founded to prepare internal control, risk management and internal auditing systems.

The Transition to a "Committee System" of Corporate Governance

In 1999, the Daiwa Securities Group became the first publicly traded Japanese corporation to make the transition to a holding company system. In doing so, the Group created a group management system that enabled maintaining both the independence and unique expertise of each company within the Group. Moreover, in June 2004, the holding company of the Group switched to a "committee system" of corporate governance, whereby a Nominating Committee, an Audit Committee, and a Compensation Committee (so called Three Committees) plus Executive Officers were set up as required by law. As a result, the supervisory and executive functions of management were clearly separated. The aim of this transition is as follows:

1. To enhance transparency by increasing the number of Outside Directors and setting up Three Committees—Nominating, Audit and Compensation Committees.
2. To effectively and efficiently implement divisional strategies, based on overall Group strategies, by posting Group Executive Officers to main executive positions of Group companies.
3. To improve the agility in decision making, by delegating a broad range of authorities from the Board of Directors to the Executive Officers and clarifying the Officers' management responsibilities.

Within Daiwa Securities Group Inc., the Board of Directors and the Three Committees has a supervisory function, while the Executive Committee and Officers will be responsible for the execution of management decisions. We aim to further enhance the transparency and objectivity of management through this new governance system.

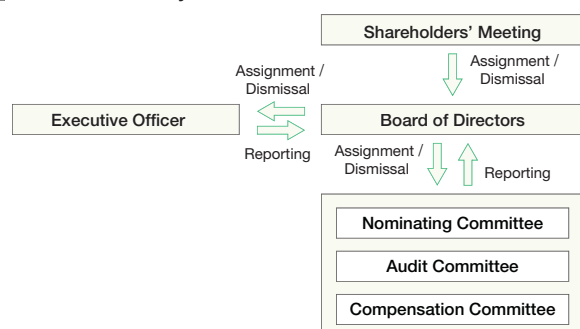
Establishing a Disclosure Policy

Practicing fair disclosure of corporate information is essential to ensuring management transparency and improving corporate governance. The Daiwa Securities Group believes that, fair, timely, and appropriate disclosure is fundamental to promote a better understanding of the Group among its stakeholders, including shareholders, investors and the local communities. Such an understanding will contribute to their ability to form realistic expectations concerning the Group. In March 2004, the Group established a Disclosure Policy to explicitly state its fundamental attitudes regarding information disclosure. Moreover, to further increase the effectiveness of this policy, Daiwa Securities Group Inc. has established Disclosure Regulations, which stipulates the Disclosure Committee's creation, as well as the processes and methods for disclosing information. In addition, the Group's major subsidiaries have implemented similar regulations to standardize the Disclosure Policy within the Group. The Group's "Management-Related Information" mentioned in these regulations includes not only information obliged by law or rules, but also information that is required of us to carry out our social responsibilities as a member of society. Such information includes information regarding compliance, corporate governance, and impacts on local communities and the environment.

Establishment of the Internal Control Committee

In its role as a subcommittee of the Executive Committee, the Internal Control Committee deliberates and decides issues concerning the preparation of internal control, risk management and internal auditing systems related to the Group's management. The Internal Control Committee is in principle held every three months to enhance the internal control system.

The Committee System



Compliance

The Daiwa Securities Group believes **compliance lies at the foundation of the Daiwa Securities Group Brand** that we aim to build and is essential to our continued existence as a corporation. Based on this belief, the Group has raised awareness of compliance issues among all executives and staff through visits to branch offices by the Group's Compliance Division and by holding study sessions. In addition, the Group has established a system for monitoring the compliance situation at each Group company.

Efforts at Daiwa Securities Group Inc.

Daiwa Securities Group Inc. introduced the Corporate Ethics Hotline (an internal reporting system) in January 2003 as a Group-wide initiative. This system is intended to be a self-monitoring system for the Group that looks into potentially illegal acts and other activities that could damage the Daiwa Securities Group Brand. The system provides protection for informants and offers a wide variety of methods for reporting, such as by telephone, e-mail, and the Group's intranet.

New Developments at Daiwa Securities

In FY 2002, Daiwa Securities Co. Ltd. (Daiwa Securities) increased the number of staff at the Compliance Department and strengthened the monitoring system and compliance guidance at its branch offices. Following this, Daiwa Securities appointed five compliance sub-leaders (regional officers) for each compliance leader in FY 2003. Additionally, in April 2004, Compliance Officers were assigned to each Satellite Branch. These Compliance Officers, who report to the Compliance Department, advise and supervise retail supervisors and internal administration supervisors in retail branches as an outsider. Daiwa Securities has also extended training sessions for internal administration supervisors, compliance inspection training and training for mid-career sales people, starting from FY 2003.

New Developments at Daiwa Securities SMBC

Daiwa Securities SMBC Co. Ltd. (Daiwa Securities SMBC) is working to strengthen its compliance control system, primarily through its Compliance Department. Since FY 2002, employees of the Investment Banking Division have been required to obtain approval from the head of the Compliance Department before trading securities. This rule has been extended to apply to all management and employees from January 2004.

Moreover, Daiwa Securities SMBC has expanded training sessions in order to encourage awareness on compliance. In FY 2003, compliance sessions were extended to include a wider range of employees. Furthermore, group training sessions were introduced for newly appointed officers, department heads and employees that have been promoted. Customized training sessions for different divisions and themes in line with operational characteristics are also conducted. In addition, internal administration supervisors within each department are now also assigned to the Compliance Department, thereby strengthening internal restraint functions.

Environmental Reporting

The Daiwa Securities Group is aware that **maintaining a healthy environment is the foundation for achieving sustainable corporate growth**, and that as a member of society the Group has obligations in this regard. Based on this awareness, the Group has collected data on main environmental burdens, monitored changes over the years, and has taken appropriate action in response.

Energy Conservation

The Group's employees are working to reduce energy consumption on a daily basis by switching off office lighting and electrical appliances when they are not in use. In addition, when replacing equipment, energy-saving models are installed whenever possible. Some of the Daiwa Institute of Research Ltd. (DIR)'s facilities have installed an "Eco-Ice" system, which uses waste heat to generate hot water and to supply nighttime energy. As a result of these efforts, the Group's electricity consumption at its main office buildings, which had remained flat since FY 2000, declined by 4% in FY 2003. Consumption of city gas which has been gradually declining also dropped 13% in FY 2003.

Reducing CO₂ Emissions

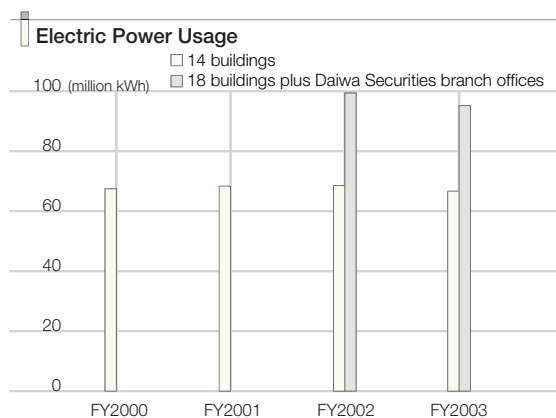
The Group submitted to the Tokyo Metropolitan Government in 2002 a "Global Warming Action Program" for three of its relatively large office buildings, the Daiwa Securities Headquarters Building, Eitai Daiya Building, and DIR Eitai Building. By FY 2004, we aim to reduce emissions of greenhouse gases (CO₂ equivalent) from these buildings by 2.0%, 0.1%, and 1.9% respectively from FY 2001 levels, and are taking appropriate actions. As of FY 2003, the figures relative to FY 2001 levels have been a reduction of 12%, 3%, and an increase of 1% respectively.

Reducing Water Usage

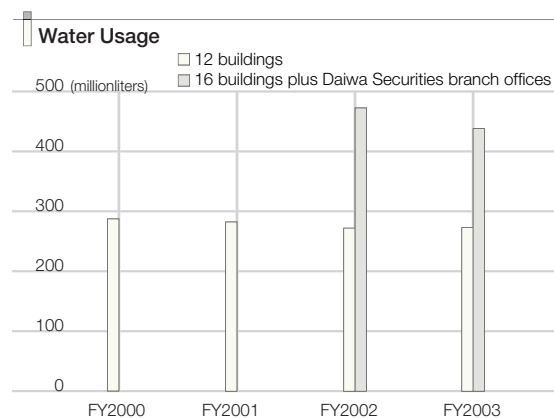
Water usage at the Daiwa Securities Group has been gradually declining since FY 2000. This is the result of both a campaign to reduce water waste, and the installation of water-saving devices at company cafeterias and lavatories. In FY 2003, water usage decreased 7% from 473 millionliters in FY 2002 to 438 millionliters.

Resource Conservation, Recycling, and Waste Reduction

The biggest issues the Daiwa Securities Group faces in "conserving resources, recycling, and reducing waste" are lowering paper usage and recycling paper waste. Utilization of e-mail and the Group intranet have greatly reduced the amount of paper documents that circulate internally. We also encourage using both sides of a paper when confidentiality is not a concern. Daiwa Securities' investment fund prospectuses have been available electronically since May 2003 so that customers can view them on their PCs instead of in paper form. The Group makes every effort to sort its paper waste and coordinates with waste management companies to monitor the recycling situation. The rate of paper recycling averages just under 90%.



*Scope of data collection was expanded in FY 2002.



*Scope of data collection was expanded in FY 2002.

Social Reporting

Corporate Social Responsibility

Based on the belief that **the healthy development of society is the foundation of its business activities**, the Daiwa Securities Group will further engage in Corporate Social Responsibility (CSR) activities, through both its core businesses and social activities.

Corporate Social Responsibility Activities through the Group's Core Businesses

Socially Responsible Investment (SRI)

SRI is a means of using market mechanisms to channel funds in areas that benefit the society. This is a field in which the Daiwa Securities Group can contribute through its core securities business. In June 2001 the Group commenced offering Mrs. Green, an eco-fund launched and managed by Daiwa SB Investments Ltd. that selects stocks based on their environmental awareness. In October 2003, the Group also commenced sales of the UBS Global Equity 40 investment trust fund, which selects stocks based on the degree to which they have implemented CSR. In May 2004, the Group also started offering the Daiwa SRI Fund, a fund established and managed by Daiwa Asset Management Co. Ltd. (DAM). This fund selects stocks based on their corporate integrity and transparency.

Education and Research Activities

Another area in which the Daiwa Securities Group's core business can contribute to society is through providing investment education and supporting research in economics and finance. The Group provides support for industry-academia alliances and university ventures. The Daiwa Securities Group has formed a partnership with Waseda Graduate School of Finance, Accounting and Law, which opened in April 2004. As part of this, an endowment chair, "Bond Investment," was established. Going forwards, the partnership will contribute to the development of capital markets through joint research, the dispatch of lecturers, and internships. In addition, Daiwa Securities' branch managers and Group company executives and staff lecture at numerous graduate schools, universities, and junior colleges, helping to promote knowledge regarding finance and capital markets. Moreover, the Group provides support for hands-on economic education for junior-high and high school students through Junior Achievement, the U.S.-originated youth economic education NPO.

Social Activities

Support for Employees Performing Volunteer Activities

The Daiwa Securities Group sponsors a variety of volunteer activities, primarily through its CSR Promotion Department at Daiwa Securities Group Inc., and participates in cultural activities sponsored by other organizations and corporations. In addition, the Group has introduced a Social Contribution Program as part of the training session for new employees. It is also working to increase awareness among executives and staff regarding social contribution by incorporating into its executive training program a course that involves hands-on experience at a welfare facility.

Support Activities through Three Foundations

The Daiwa Securities Group engages in regional and international support activities through three Group foundations. Founded in 1972, the Daiwa Securities Health Foundation supports studies and research in the prevention and treatment of lifestyle diseases, and works to increase the awareness of health maintenance and improvement. The Daiwa Securities Foundation, established in 1994, supports a wide variety of volunteer activities in social welfare and medical treatment. The Daiwa Anglo-Japanese Foundation, established in 1988, promotes mutual understanding and friendship between Japan and the U.K.

Supporting Cultural Activities

The Daiwa Securities Group is also a strong supporter of the arts such as opera, theater, painting exhibitions, and other cultural events. In May and June 2003 the Group sponsored Tokyo and Shiga performances by the Fondazione Teatro Lirico "Giuseppe Verdi" Trieste opera company from Northern Italy.

Human Resource Management

The source of the Daiwa Securities Group's competitive edge and the foundation of its efforts to establish brand recognition are its people. To enable employees to believe in what they are doing, as well as to take pride in and derive satisfaction from their work, **enhancing the Group's human resource management system** was made a priority issue in its medium-term management plan.

Enhancing Performance-Based Remuneration Systems

The Daiwa Securities Group has worked to increase the motivation of its employees by having their compensation reflect differences in performance, based on the "quality of work" and "productivity." In addition, the Group has introduced a system for employee compensation based on work classification, and, by increasing the layers of evaluation has created wider differences in salary. Moreover, a performance-based annual salary system has been introduced for analysts at DIR and fund managers at DAM.

Providing Diverse Career Options

To widen the range of possibilities for employees with particular interest and skills, the Daiwa Securities Group is expanding the scope of its intra-group job posting system, which started in 2000. This system allows employees to transfer to the department of their choice within the Group, provided they meet the necessary job qualifications and pass a written examination and a face-to-face interview. Intra-group job posting has been conducted six times up to FY 2003, with the number of employees applying and accepted steadily increasing.

Implementing a Fair Evaluation System

Fair personnel evaluation is a critical part of human resource management. At the Daiwa Securities Group, both a two-way and a multi-directional evaluation system are used. While superiors and their subordinates evaluate each other in the two-way evaluation system, the multi-directional evaluation system further improves fairness by including evaluation from other relative departments. The multi-directional evaluating system is currently used at Daiwa Securities Group Inc. and Daiwa Securities SMBC, and is planned to be implemented in other Group companies in the future.

Elevating Human Resources

In addition to actively hiring employees with specialized skills, the Daiwa Securities Group is working to enhance its training system, which augments the specialized knowledge and skills of employees. Daiwa Securities and Daiwa Securities SMBC introduced an e-learning system in FY 2002 and FY 2003, respectively. The system supports the efforts of the Group managers and employees to upgrade their skills. The Group is also promoting the acquisition of specialized knowledge and the upgrading of skills by enhancing support for employees seeking to acquire external credentials, as well as by introducing an internal credential system. To help managers upgrade their skills, the Group offers the Daiwa Management Academy program to selected general managers and branch managers and the Daiwa Leadership Program to selected deputy general managers. Additionally, from FY 2003 the Group has started offering a Career Management program.

Economic Reporting

Financial Strategy

The Daiwa Securities Group's most important objective is to achieve sustainable growth of shareholder value. To this end, **management strategies are centered on ROE** for which management is held accountable. To be more specific, sustainable growth will be pursued by concentrating management resources on securities-related businesses and through appropriate financial management that monitors risks inherent to each of these businesses.

Balancing Growth and Financial Stability

To achieve our goal of sustainable growth, the Daiwa Securities Group is concentrating its management resources on securities-related operations. And at the same time, the Group must monitor and control risks directly related to its core securities-related businesses, such as market risk and credit risk. In addition, it is essential to effectively address financial risk. To that end, we are disposing of assets that bear little relation to our core business.

Improving the Balance Sheet

In the four years from the end of FY 1999 to the end of FY 2003, the Daiwa Securities Group reduced its consolidated non-current assets from ¥828.4 billion to ¥555.6 billion. Included in this figure are tangible fixed assets, which fell from ¥324.6 billion to ¥143.1 billion. This was due to our decision to withdraw from the real estate leasing business, and to the adoption of accounting for impairment of fixed-assets two years ahead of its mandatory implementation in FY 2005. Over the same period, the Group reduced its portfolio of investment securities from ¥220.1 billion to ¥187.4 billion. The Group then used the surplus capital resulting from these asset reductions to reduce external debt in its non-core businesses from ¥916 billion at the end of FY 1999 to ¥473 billion by the end of FY 2003.

Efficient Allocation of Management Resources

While reducing financial risk, Daiwa Securities Group Inc., in accordance with the Group's business plans, allocates funds and capital necessary

for each Group company to realize sustainable businesses development and growth. However, the Group's securities subsidiaries (Daiwa Securities and Daiwa Securities SMBC) and its listed subsidiary (NIF Ventures Co., Ltd.) have established their own risk management systems, and procure and manage funds independently. This is because for a securities company, raising funds is part of its business activities, and for a publicly traded subsidiary, liquidity management should be conducted independently from the parent company.

Tracking Operating Results

Sustainable growth of shareholder value is the Daiwa Securities Group's top priority. To achieve this the Daiwa Securities Group formulates management strategies, and tracks operating results utilizing ROE as the most important indicator. To date, virtually the entire amount of consolidated shareholders' equity has been appropriately allocated to Group companies. However, as a result of implementing financial and business restructuring, this is likely to become a surplus from FY 2004 onwards. The Group will allocate this surplus equity to businesses that are viewed as having a higher growth potential and profitability. In doing so, the Group will attempt to exceed the medium-term management plan target of 12% by FY 2005, a year before the target date, and further aim for 15%, as a medium term target, considering return to shareholders at the same time.

Risk Management

The companies of the Daiwa Securities Group will **maximize returns while managing the various risks they encounter in their business activities**. In addition, relevant departments at the Daiwa Securities Group Inc. and other Group companies will work together to manage the overall risk for the Group. The following is a brief description of the Group's risk management systems. For further details, please refer to page 81 of this annual report, "Risk Management" of "Management's Discussion and Analysis."

Market Risk

The Group employs Value at Risk (VaR), which is a commonly used statistical management method, as an index for measuring and monitoring the market risk of its trading positions.

Market Risks Unrelated to Trading Positions

The Group sets limits to the amount of listed stocks it holds from a long-term perspective for business relationship purposes rather than for trading. The Group also measures its VaR which is reported to the Internal Control Committee on a quarterly basis.

Credit Risk

In the Group's wholesale securities business, credit limits are set for each client to restrain the amount of credit risk it is exposed to. In addition, the Group assigns clients its own internal ratings similar to those given by external ratings agencies. These internal ratings serve as a standard for judging whether or not to execute transactions.

Liquidity Risk

The majority of the Group's assets are highly liquid, but to secure solvency, it is important to maintain and manage liquidity. The Group maintains a liquid portfolio that will allow it to handle demand for funds over a period of about one year, without relying on new uncollateralized fund procurement. This it to ensure that business activities can continue even in the event of a credit crunch stemming from sharp fluctuations in the market environment.

Operational Risk and Computer System Risk

The Group is working to reduce the operational risks of each business line by establishing necessary measures, such as setting rigid rules concerning authority, the automation of manual clerical work to reduce human error, and the reexamination of its business manuals.

Legal Risk

To ensure no infringement of laws and regulations governing securities-related and other businesses, the Group has set up sections in charge of compliance at each company and will discuss compliance issues at committees consisting of Directors from the Management Committee, etc.

Reputation Risk

The Group has issued a Disclosure Policy, which lays out the Group's policy for control and disclosure of corporate information. It has also established internal regulations based on this disclosure policy and has set up a Disclosure Committee, which is a subcommittee of the Executive Committee.

Investor Relations (IR)

Timely, fair and appropriate disclosure of financial and management-related information is a prerequisite. The Daiwa Securities Group aims to **win the trust of its stakeholders and build a brand** by providing easy to understand explanations of strategies and business trends, as well as by improving transparency of management.

Utilizing the Website

The Daiwa Securities Group, primarily through the holding company's Corporate Communications Department and Investor Relations Department, discloses corporate information using various communication methods and attempts to eliminate information gaps between stakeholders. Earnings information, which is reported quarterly, is posted to the Group's IR Website immediately after announcement. Furthermore, conference calls for institutional investors and analysts are held on the day the results are announced. The first, held late in the afternoon, is in Japanese, while the second, in the evening, is in English. This conference call is also made available on the IR Website in real time. The majority of information posted on the IR Website is also available in English for the benefit of overseas investors and analysts.

The CEO holds management strategy briefings twice a year in Japan. The CEO and CFO, as well as staff from Investor Relations, also travel to Europe, North America, and Asia to meet with investors individually and hold company briefings. The presentation materials used at these briefings are posted to the IR Website, as are streaming videos of management strategy briefings.

Increasing Opportunities to Communicate with Shareholders and Investors

The Daiwa Securities Group is also making efforts to increase opportunities for communication with individual shareholders and investors. Given the fact that the majority of shareholders of the Group have never attended the general shareholders' meeting, the Group has taken steps to make the meeting more accessible. Examples of this include the introduction of voting over the Internet and live broadcasts of the meeting to Osaka and Nagoya via in-house satellite facilities. In addition, the Group has made its semi-annual business report easier to read and understand by enlarging it to A4 size. Beginning FY 2003, the Group also began offering shareholders mileage points utilizing Daiwa Securities' mileage program.



Daiwa Securities Group IR website
(<http://www.daiwa.jp/ir/english/>)

The Daiwa Securities Group in Figures

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Five-year Financial Summary

Daiwa Securities Group Inc. and Subsidiaries

	FY1999	FY2000	FY2001	FY2002	FY2003	FY2003
	Millions of yen					Millions of U.S. dollars*1
Operating Performance						
Operating revenues	651,298	714,909	488,044	387,659	453,814	4,281
Commissions	364,116	254,704	171,869	144,283	194,163	1,831
Net gain on trading	126,170	169,506	67,249	91,307	122,013	1,151
Interest and dividend income	100,530	220,790	195,934	114,707	103,224	973
Other sales revenues	60,482	69,909	52,992	37,362	34,414	324
Net operating revenues	512,276	464,057	284,932	270,810	352,435	3,324
Operating income	224,778	177,109	22,769	24,109	92,520	872
Income (loss) before income taxes and minority interests	135,173	166,615	(119,968)	11,845	76,926	725
Net income (loss)	105,376	64,549	(130,547)	(6,323)	42,637	402
Balance Sheet						
	Millions of yen					Millions of U.S. dollars*1
Total assets	6,693,308	7,694,051	7,827,306	9,502,826	10,765,665	101,562
Total risk assets*2	589,376	590,345	541,364	422,019	371,294	3,502
Operational investment securities	44,742	48,564	42,638	45,270	40,733	384
Tangible fixed assets	324,561	313,906	188,451	162,339	143,123	1,350
Investment securities	220,072	227,875	310,273	214,409	187,437	1,768
Total shareholders' equity	666,072	716,816	570,839	541,719	604,170	5,699
Per Share Data						
	Yen					U.S. dollars*1
Net Income (loss)*3	79.43	48.62	(98.27)	(4.75)	31.66	0.30
Total shareholders' equity*3	502.05	539.72	429.68	407.84	453.60	4.28
Cash dividends	13.0	13.0	6.0	6.0	10.0	0.09
Financial Ratios						
	%					
Return on Equity (ROE)*4	16.1	9.3	—	—	7.4	
Equity ratio	10.0	9.3	7.3	5.7	5.6	
Other data						
Total number of employees	11,415	11,114	11,483	11,559	11,565	

Notes:

1. Translations of the Japanese yen amounts into U.S. dollars are made at the rate of ¥106.00 per U.S. dollar, solely for the convenience of readers.

2. Risk assets are calculated as the sum of operational investment securities, tangible fixed assets and investment securities.

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

4. ROE is computed based on the average shareholders' equity at the beginning and end of the fiscal year.

5. Simple comparisons across the years cannot be made due to changes in items made to accommodate changes in statutory accounting standards. Some of the main changes are as following.

- We have adopted the "Accounting Standard for Employees' Severance and Pension Benefits" in FY2000. We have also adopted the "Accounting Standards for Financial Instruments" resulting in the evaluation changes from mark-to-market valuations minus any tax effects of other securities to be included in stockholders' equity as "Net unrealized gain on securities net of tax effects." Furthermore, "translation adjustments" which were previously recorded on the asset side has been moved to stockholders' equity.

- The operating results are presented in accordance with the amended "Uniform Accounting Standards of Securities Companies" (set by the board of directors of the Japan Securities Dealers' Association, September 28, 2001) since FY2001. Therefore figures for FY1999 and FY2000 have been adjusted according to the amended standards.

Breakdown by Business and Geographical Region

Daiwa Securities Group Inc. and Subsidiaries

	Millions of yen			
	FY2000	FY2001	FY2002	FY2003
Breakdown of Net Operating Revenues by Business				
Equity	215,151	80,974	49,178	130,084
Commissions	84,851	60,667	47,242	80,061
Net gain on trading	130,300	20,307	1,936	50,024
Fixed income (Bond)	39,062	47,755	96,580	75,390
Commissions	3,726	4,671	4,585	5,219
Net gain on trading	35,336	43,084	91,995	70,171
Investment trust	107,939	61,403	40,870	43,046
Investment banking	48,095	36,313	39,638	55,805
Others	53,810	58,487	44,544	48,111
Net operating revenues	464,057	284,932	270,810	352,435

Breakdown of Commission Income by Business

Equity	84,851	60,667	47,242	80,061
Brokerage commission	82,231	58,280	45,403	78,194
Others	2,620	2,387	1,839	1,867
Fixed income (Bond)	3,726	4,671	4,585	5,219
Investment trust	107,939	61,403	40,870	43,046
Brokerage commission	8	244	276	209
Distribution commission	37,510	14,734	14,059	21,904
Others (excluding agency commission)	31,783	20,917	13,029	9,992
Agency commission	38,637	25,507	13,506	10,940
Investment banking	48,095	36,313	39,638	55,805
Underwriting commission (Stock and other)	31,131	17,112	18,092	36,927
Underwriting commission (Bond and other)	7,727	9,070	9,522	8,400
Distribution commission	2,099	876	608	1,662
Others (M&A commission etc.)	7,137	7,619	11,084	8,049
Others	10,093	8,815	11,948	10,032
Life insurance sales commission	—	654	3,500	1,485
Investment enterprise partnership administration fee	4,526	2,419	2,439	2,652
Others	5,567	5,740	6,007	5,895
Total	254,704	171,869	144,283	194,163

Geographical Segment Information

Net operating revenues				
Japan	424,957	250,266	239,719	315,579
America	24,897	17,082	7,677	11,217
Europe	20,965	24,553	23,331	27,369
Asia & Oceania	6,735	5,696	5,862	7,672
Operating income				
Japan	170,785	23,831	24,054	83,310
America	11,156	1,973	(3,404)	1,020
Europe	4,792	5,051	3,386	6,956
Asia & Oceania	1,065	(571)	67	1,561
Total assets				
Japan	5,542,775	5,560,406	7,270,670	8,617,452
America	1,817,112	1,757,738	1,817,691	1,948,621
Europe	572,244	661,297	656,448	768,712
Asia & Oceania	76,507	72,098	63,721	63,531

Eight-quarter Financial Summary

Daiwa Securities Group Inc. and Subsidiaries

	FY2002			
	Q1	Q2	Q3	Q4
Market Data				
TOPIX (quarterly average, index)	1,082	959	858	831
Average daily trading value in TSE, OSE and NSE (billions of yen) . . .	801	657	598	595
Net trading value by investors (total of TSE, OSE and NSE, billions of yen)				
Institutions	(671)	1,001	924	(447)
Individuals	266	(417)	(880)	(2)
Foreigners	1,125	(1,027)	2	200
Securities companies	87	45	(168)	(52)
Ten-year Japanese government bond yield (quarterly average, %) . . .	1.38	1.25	1.02	0.81
Foreign exchange rates (quarterly average):				
Yen per U.S. Dollar	126.9	119.3	122.4	118.9
Yen per Euro	116.5	117.3	122.5	127.6
Operating Performance				
	Millions of yen			
Operating revenues	100,717	95,198	100,114	91,628
Commissions	38,990	37,507	34,480	33,305
Brokerage commission	15,562	10,753	12,328	8,197
Underwriting commission	5,988	6,893	7,077	7,986
Distribution commission	3,965	3,634	2,961	4,105
Other commission	13,472	16,226	12,113	13,015
Net gain on trading	24,355	18,686	25,099	25,790
Net gain on operational investment securities	1,001	(744)	(281)	(2,599)
Interest and dividend income	27,123	30,695	32,218	24,669
Other sales revenues	9,246	9,054	8,597	10,462
Interest expenses	21,720	24,716	25,701	18,455
Cost of sales	6,756	6,162	6,290	7,046
Net operating revenues	72,240	64,319	68,123	66,126
Selling, general and administrative expenses	62,502	62,465	61,238	60,494
Commission and other expenses	10,277	10,833	9,958	9,583
Employees' compensation and benefits	31,923	30,764	30,781	30,434
Real estate expenses	8,097	9,004	8,384	7,861
Data processing and office supplies	3,503	3,621	3,872	3,711
Depreciation expenses	5,143	5,190	5,219	5,513
Taxes other than income taxes	1,446	1,101	1,016	1,106
Others	2,110	1,949	2,006	2,283
Operating income	9,738	1,853	6,884	5,631
Non-operating income	2,854	2,746	1,186	1,370
Non-operating expenses	666	959	423	1,016
Ordinary income	11,926	3,640	7,647	5,985
Extraordinary gains	2,325	5,804	961	6,498
Extraordinary losses	2,195	3,664	6,527	20,557
Income before income taxes and others	12,056	5,780	2,081	(8,073)
Net income (loss)	5,785	1,434	(2,544)	(10,998)

Notes *Quarterly figures are based on unaudited financial statements included in the Group's Consolidated Financial Summary submitted to the Tokyo Stock Exchange.

FY2003			
Q1	Q2	Q3	Q4
830	984	1,027	1,082
715	1,150	1,197	1,346
(1,390)	(3,710)	(1,487)	(3,171)
(339)	(474)	(837)	(1,213)
2,003	4,026	1,984	3,629
(48)	24	(51)	(56)
0.60	1.21	1.39	1.32
118.5	117.5	108.9	107.2
134.6	132.1	129.5	134.1

Millions of yen			
111,996	110,362	108,462	122,991
31,547	49,441	52,960	60,213
12,939	21,911	21,069	23,724
4,073	10,241	15,656	16,122
5,328	5,631	5,136	7,469
9,206	11,657	11,098	12,896
43,679	24,958	23,221	28,336
288	136	599	793
28,516	27,763	23,830	23,113
7,963	8,063	7,850	10,535
21,985	19,591	17,467	18,285
5,431	5,295	5,322	7,997
84,579	85,475	85,672	96,708
62,672	64,702	63,718	68,820
9,174	9,925	10,119	10,566
34,099	33,352	33,966	35,545
7,846	8,205	7,661	8,805
3,529	3,933	3,619	3,816
4,964	5,242	5,221	6,101
1,172	2,018	1,202	1,224
1,886	2,025	1,926	2,761
21,906	20,772	21,953	27,887
2,654	1,328	954	1,075
878	699	465	359
23,682	21,401	22,442	28,603
314	2,047	748	5,851
394	3,774	3,026	20,971
23,602	19,674	20,164	13,483
11,028	8,263	9,100	14,244

Operational Data

Daiwa Securities Group Inc. and Subsidiaries

	Billions of yen (Unless otherwise specified)			
	FY2002			
	Q1	Q2	Q3	Q4
Daiwa Securities				
Retail customer assets under custody*	13,154	12,630	12,514	12,219
Equities	6,156	5,795	5,675	5,369
Bonds	2,899	2,995	3,213	3,394
Investment trusts	4,018	3,728	3,511	3,339
Equity investment trust	1,111	1,000	963	949
Bond investment trust	2,907	2,728	2,548	2,390
Pension insurance	25	51	65	65
Others	58	61	50	53
Net inflow of retail funds**	130	205	329	(90)
Unlisted corporation etc.	60	19	41	(61)
Retail	70	186	288	(29)
Cash Management Service Accounts* (thousands)	2,074	2,102	2,278	2,292
Online trading accounts* (thousands)	500	532	609	639
Assets under custody of online accounts*	1,673	1,737	1,846	1,914
Online transactions (thousands)	568	441	435	407
Online ratio	50.8%	53.2%	47.3%	58.2%
Online trading value	244	169	167	152
Online ratio	13.9%	13.1%	8.6%	27.7%
“Daiwa Direct” course accounts* (thousands)	205	216	236	244
Assets under custody of “Daiwa Direct” accounts*	380	374	366	367
Sales of core products				
Equity investment trusts	120	95	94	109
Yen denominated bonds	n.a.	n.a.	201	267
Foreign currency-denominated bonds	278	236	267	376
Daiwa Securities SMBC				
Assets under custody*	15,839	15,388	15,298	15,313
Equities	6,637	6,248	5,462	5,253
Bonds	7,174	6,667	7,008	7,697
Investment trusts	1,336	1,231	1,160	1,045
Equity investment trust	369	355	320	277
Bond investment trust	967	876	840	767
Others	693	1,242	1,668	1,317
Daiwa Asset Management				
Funds under management*	7,933	7,243	6,788	6,325
Fixed income type investment trusts	6,352	5,842	5,472	5,097
Equity type investment trusts	1,581	1,401	1,316	1,228

Notes * As of the end of each quarter

** Net inflow of retail funds = net inflow/outflow of funds + net deposit/withdrawal of securities

Billions of yen (Unless otherwise specified)			
FY2003			
Q1	Q2	Q3	Q4
13,573	14,597	15,061	16,762
6,215	7,243	7,567	8,979
3,567	3,395	3,555	3,695
3,480	3,646	3,616	3,757
1,114	1,226	1,313	1,475
2,366	2,420	2,304	2,282
81	97	110	124
230	216	212	207
161	264	283	188
89	34	15	(1)
73	230	268	189
2,303	2,332	2,373	2,430
658	692	770	807
2,291	2,786	3,389	4,160
650	1,031	1,033	1,218
56.4%	57.6%	62.7%	65.7%
270	543	590	715
27.4%	27.5%	30.4%	34.4%
252	268	282	313
451	540	583	707
168	186	157	205
287	224	302	352
458	226	142	259
16,480	17,213	17,690	19,395
6,152	7,091	7,569	8,968
7,569	8,446	8,304	8,147
961	849	923	1,002
299	316	380	477
662	533	543	525
1,798	827	895	1,278
6,203	6,141	5,989	5,947
4,853	4,702	4,415	4,335
1,349	1,438	1,573	1,612

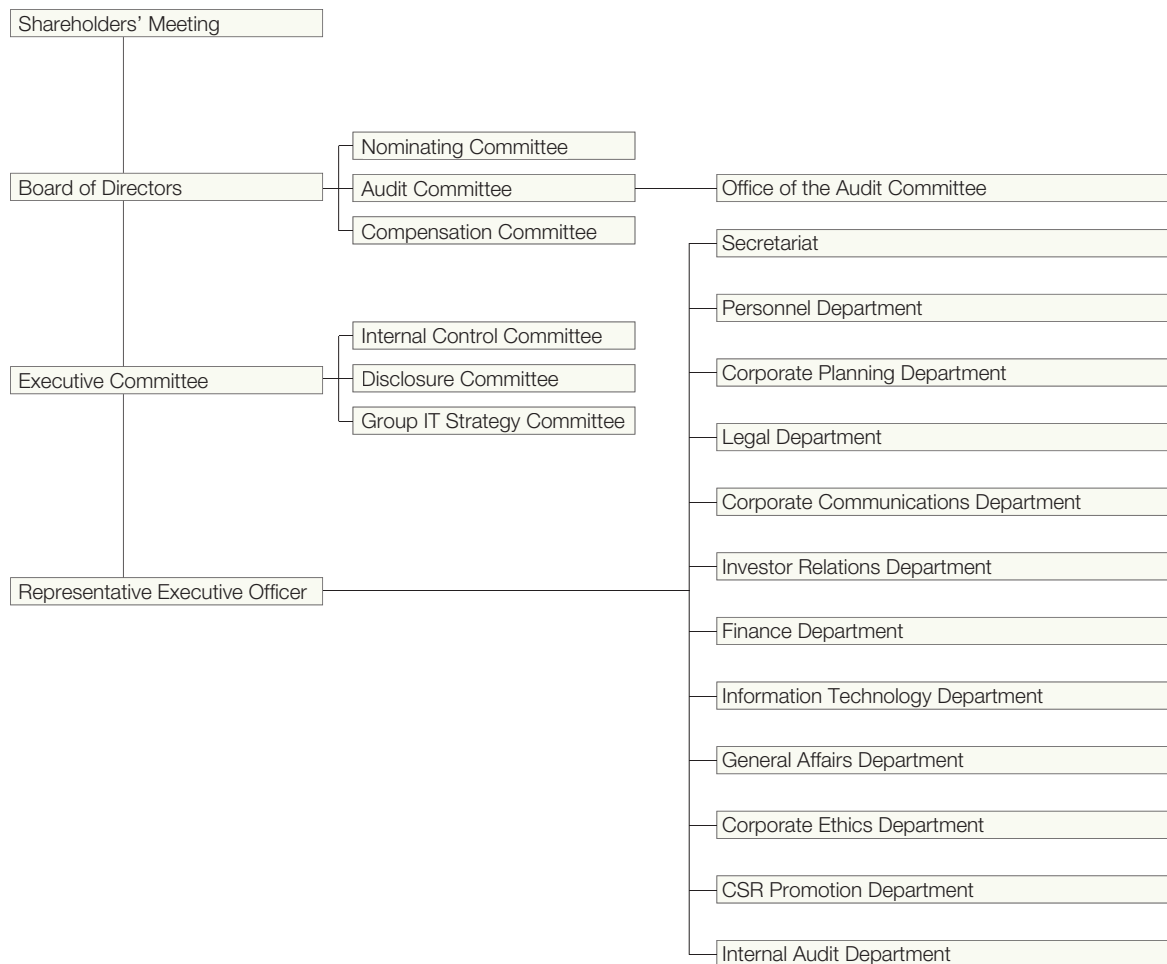


Other Information

68 **Organization and Officers**

74 **Stock Information**

1) Organization (As of July 20, 2004)



2) Officers (As of July 1, 2004)

Directors

Chairman of the Board
Yoshinari Hara

Deputy Chairman of the Board
Akira Kiyota

Director
Shigeharu Suzuki

Director
Tatsuei Saito

Director
Tetsuo Mae

Director
Michihito Higuchi

Director
Junichiro Wakimizu

Director
Takashi Hibino

Director
Kenji Hayashibe

Outside Director
Tetsuro Kawakami
(Counsel of Sumitomo Electric Industries, Ltd.)

Outside Director
Ryuji Yasuda
(Professor, Hitotsubashi University, Graduate School of International Corporate Strategy)

Outside Director
Keisuke Kitajima
(Attorney at law)

Outside Director
Koichi Uno
(CPA)

Committee Members

Nominating Committee
Yoshinari Hara (Chairman)
Shigeharu Suzuki
Tetsuro Kawakami
Ryuji Yasuda
Keisuke Kitajima

Audit Committee
Kenji Hayashibe (Chairman)
Keisuke Kitajima
Koichi Uno

Compensation Committee
Yoshinari Hara (Chairman)
Shigeharu Suzuki
Tetsuro Kawakami
Ryuji Yasuda
Koichi Uno

Executive Officers

President and CEO
Shigeharu Suzuki
Director, Daiwa Securities Group Inc.
President, Daiwa Securities Co. Ltd.

Deputy President and COO
Tatsuei Saito
Director, Daiwa Securities Group Inc.
President, Daiwa Securities SMBC Co. Ltd.

Deputy President
Tetsuo Mae
Director, Daiwa Securities Group Inc.
Deputy President, Daiwa Securities Co. Ltd.

Deputy President
Kenjiro Noda
Deputy President, Daiwa Securities SMBC Co. Ltd.

Deputy President
Michihito Higuchi
Director, Daiwa Securities Group Inc.
Deputy President, Daiwa Securities SMBC Co. Ltd.

Deputy President
Teruo Hatano
President, Daiwa Asset Management Co. Ltd.

Deputy President and CIO
Yoshiyuki Takemoto
President, Daiwa Institute of Research Ltd.

Corporate Executive Vice President
Akira Hasegawa
Senior Managing Director, Daiwa Securities Co. Ltd.

Corporate Executive Vice President
Yasuo Nakamura
Senior Managing Director, Daiwa Securities Co. Ltd.

Corporate Executive Vice President
Nobuaki Ohmura
Senior Managing Director, Daiwa Securities SMBC Co. Ltd.

Corporate Executive Vice President
Yoichiro Inoue
Senior Managing Director, Daiwa Securities SMBC Co. Ltd.

Corporate Senior Executive Officer and CFO
Junichiro Wakimizu
Director, Daiwa Securities Group Inc.

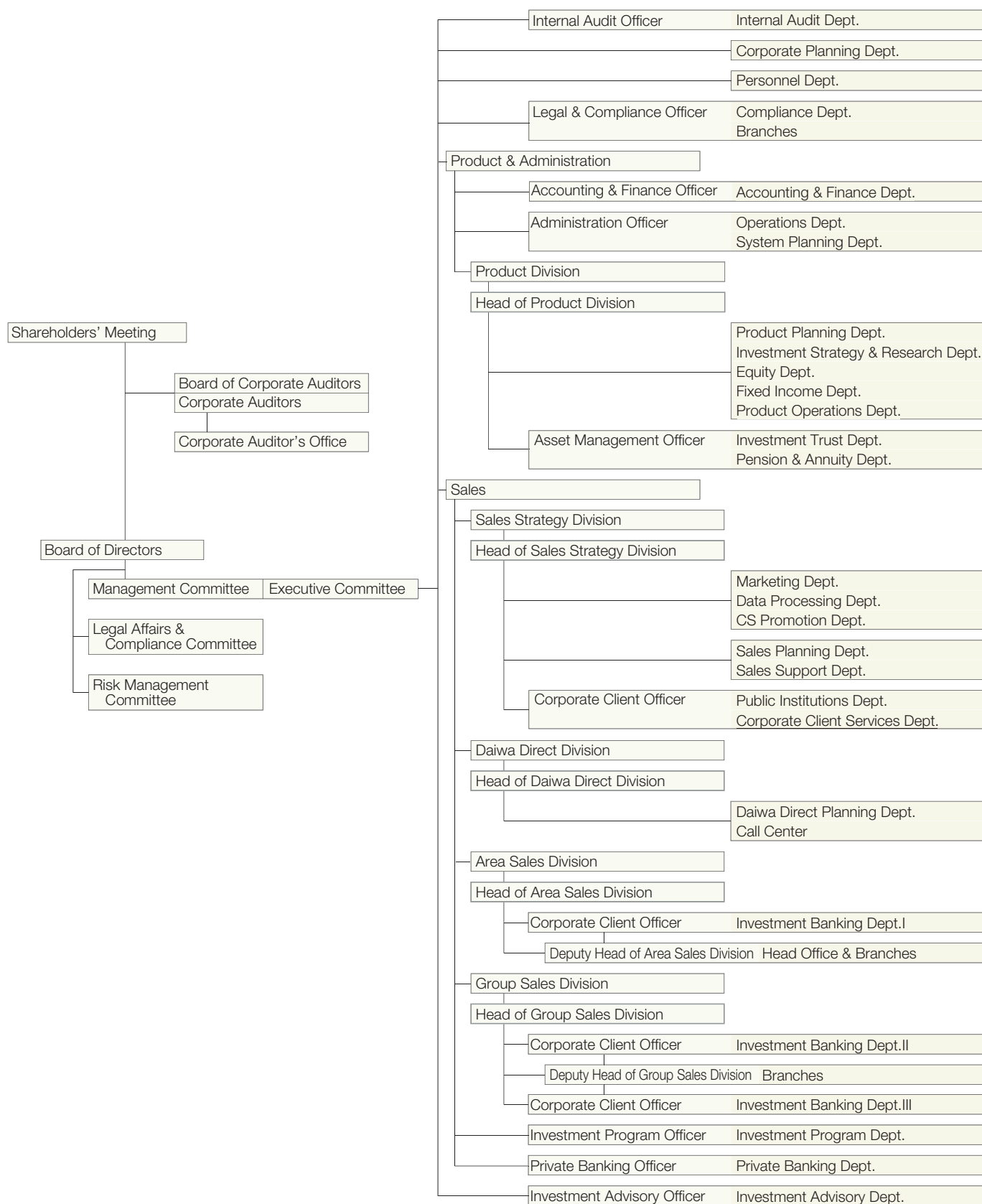
Corporate Senior Executive Officer
Takashi Hibino
Director, Daiwa Securities Group Inc.

Corporate Executive Officer
Ikuo Mori
Chairman of the Board, Daiwa Securities America Inc.

Corporate Executive Officer
Yoshinari Hara
Chairman of the Board, Daiwa Securities Group Inc.

Corporate Executive Officer
Akira Kiyota
Deputy Chairman of the Board, Daiwa Securities Group Inc.
Chairman of the Institute, Daiwa Institute of Research Ltd.

1) Organization (As of July 20, 2004)



2) Officers (As of July 1, 2004)

Directors

President

Shigeharu Suzuki

Deputy President

Tetsuo Mae

Senior Managing Director

Akira Hasegawa

Senior Managing Director

Yasuo Nakamura

Managing Director

Akira Sakiyama

Managing Director

Toshiro Ishibashi

Managing Director

Yoshihide Shimamura

Managing Director

Junji Takasaki

Managing Director

Kazuo Ariake

Corporate Auditors

Isao Tada

Susumu Ueda

Kenji Hayashibe

Executive Officers

Yoshimi Murakami

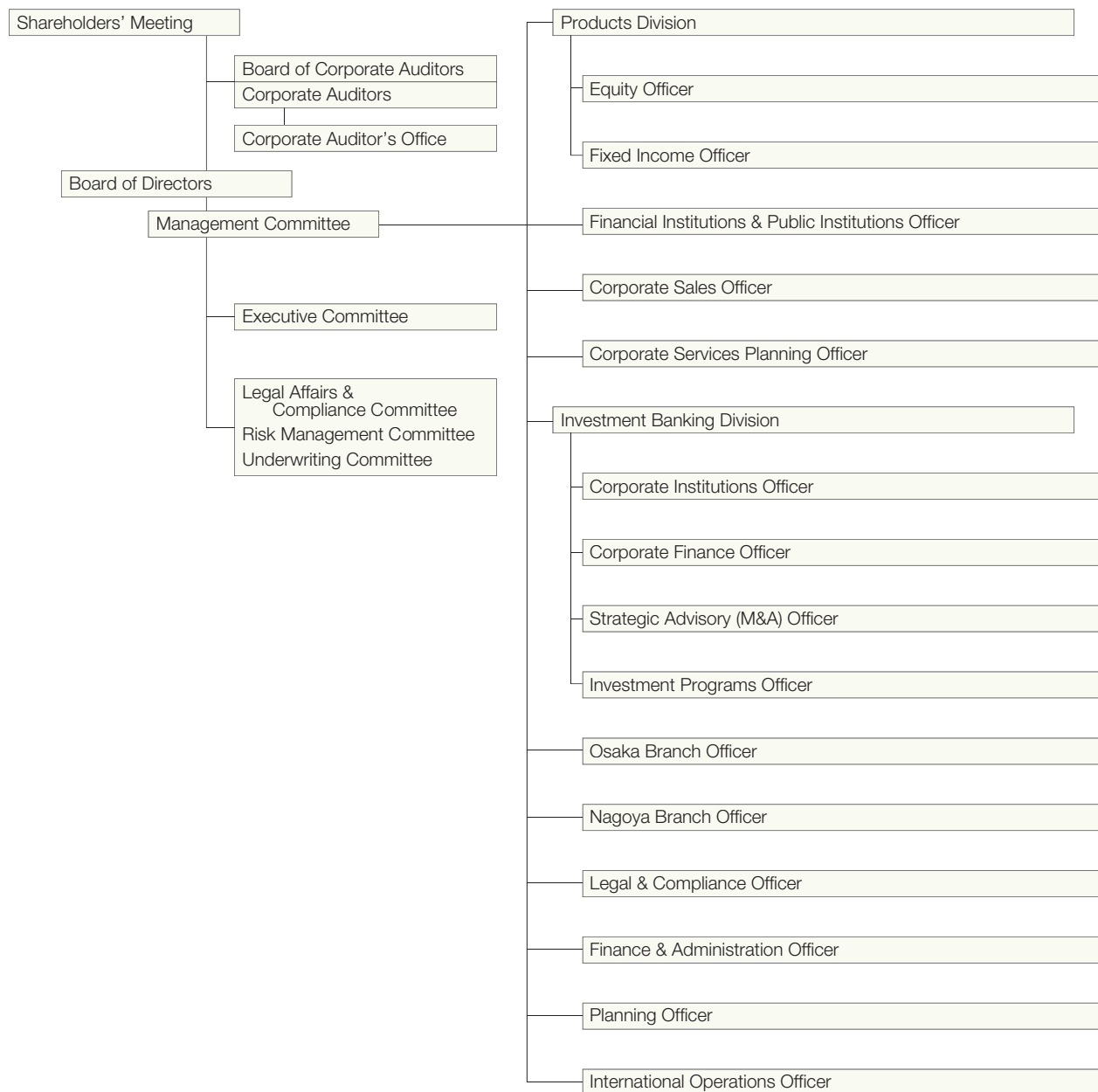
Tokuzo Takaki

Takashi Fukai

Tomiki Koide

Makoto Shirakawa

1) Organization (As of July 20, 2004)



2) Officers (As of July 1, 2004)

Directors

President
Tatsuei Saito

Deputy President
Kenjiro Noda

Deputy President
Michihito Higuchi

Senior Managing Director
Nobuaki Ohmura

Senior Managing Director
Yoichiro Inoue

Managing Director
Taro Sumitani

Managing Director
Hiroshi Ota

Managing Director
Hiroshi Fujioka

Managing Director
Sumio Fukushima

Managing Director
Shin Yoshidome

Corporate Auditors

Ryuji Yamazaki

Kishiro Fujino

Yoshiaki Senoo

Fuminori Yoshitake

Executive Officers

Senior Executive Officer
Daisuke Saji

Senior Executive Officer
Kiyoshi Matsuba

Senior Executive Officer
Hideo Watanabe

Senior Executive Officer
Hiroshi Takeuchi

Executive Officer
Yutaka Murakami

Akira Tanabe

Kazuhiko Akamatsu

Kazuhiko Suruta

Teruaki Ueda

Mitsuharu Tanaka

Masaki Yamane

Masami Tada

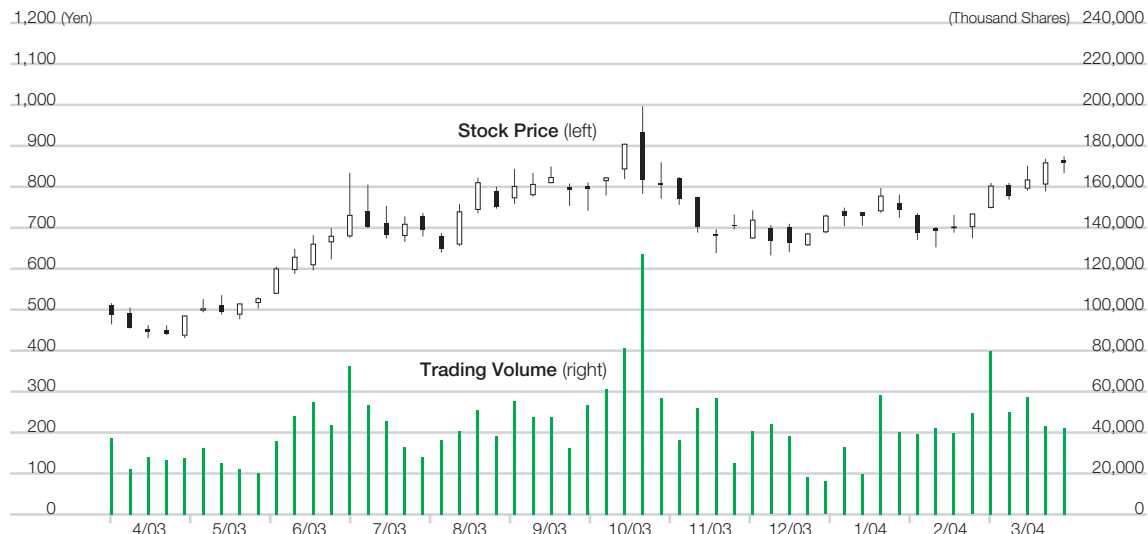
Akio Takahashi

Shunichi Suzuki

Yoriyuki Kusaki

Stock Information

1. Stock Price and Trading Volume

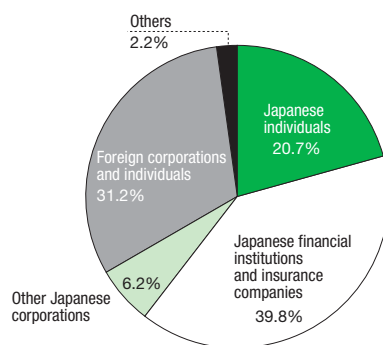


2. Principal Shareholders (As of March 31, 2004)

Name	Number of shares held (Thousands)	% of total outstanding shares
Japan Trustee Services Bank, Ltd. Trust Account	113,804	8.55
The Master Trust Bank of Japan, Ltd. Trust Account	61,243	4.60
State Street Bank and Trust Company	37,746	2.83
Sumitomo Mitsui Banking Corporation	30,328	2.28
The Chase Manhattan Bank NA London SL Omnibus Account	29,010	2.18
Taiyo Life Insurance Company	28,140	2.11
Mellon Bank Treaty Clients Omnibus	25,425	1.91
Japan Trustee Services Bank, Ltd. The Sumitomo Trust & Banking Retirement Benefit Account	24,888	1.87
Nippon Life Insurance Company	23,185	1.74
The Chase Manhattan Bank 385036	22,487	1.69

* Number of shares are rounded to the closest thousand

3. Breakdown of Shareholders (As of March 31, 2004)



Management's Discussion and Analysis

Analysis of FY 2003 Earnings

Management's Discussion and Analysis

Macroeconomic Conditions

1. Japan

Hints of domestic economic recovery, which first became apparent in FY 2002, evolved into dramatic progress in FY 2003. Growth in domestic GDP—both in real and nominal terms—accelerated amid partial easing of deflationary pressures. Despite the yen's appreciation against the U.S. dollar relative to FY 2002, exports remained firm in the current economic recovery phase, supported by healthy economic performances in Asia. Moreover, domestic demand, which had long been languishing, showed clear signs of a turnaround, representing a major highlight of the year. Private-sector capital investments posted double-digit growth in the latter half of the period, leading to a revival in domestic plant construction. In the fourth quarter of FY 2003, all these factors finally made a positive impact on personal consumption, which has a big influence on GDP. Stock markets also recovered strongly, with the Nikkei Average up 47% year-on-year, and the average daily trading value on the First Section of the Tokyo Stock Exchange up 57%.

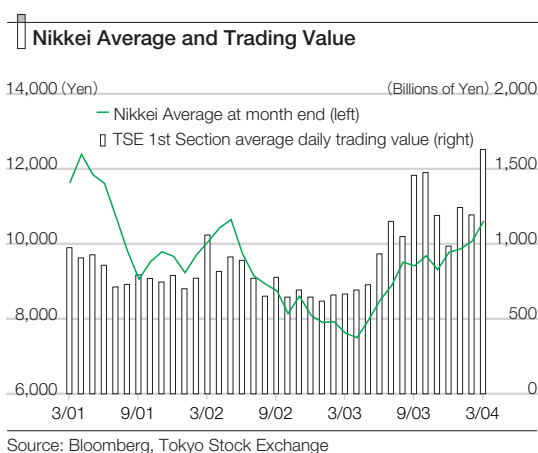
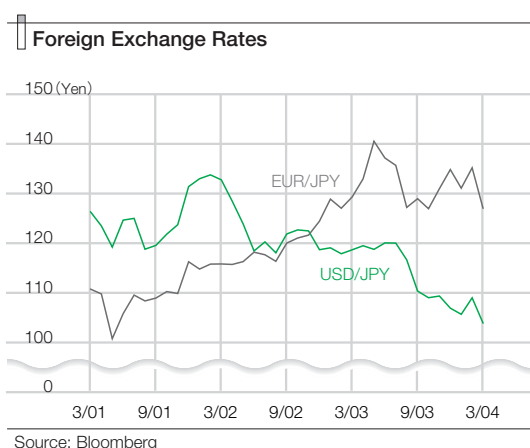
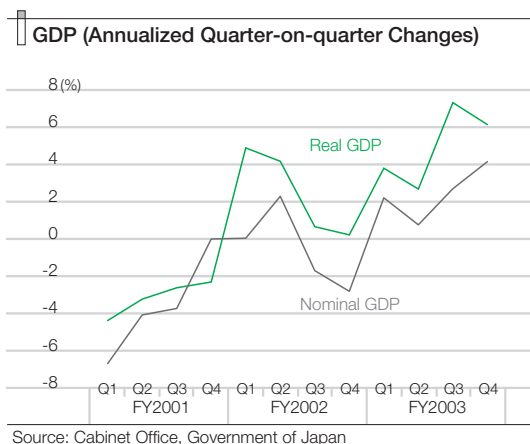
2. Overseas

The United States:

Despite uncertainty caused by terrorism and an expanding fiscal deficit, the U.S. economy continued to gather momentum, with real GDP growing 0.5% in calendar 2001, 2.2% in 2002, and 3.1% in 2003. Tax cuts helped spur housing investments and underpin personal consumption. For FY 2003, the Dow Jones Industrial Average rose 30%, and the NASDAQ index jumped 49%.

Europe:

Although the European economy is also in a recovery phase, the pace of recovery has been slow compared with the United States, Japan, and the rest of Asia. Personal consumption continued to languish against the backdrop of corporate restructuring, especially in Germany. In short, the current European economy continued showing little consistency, due partially to the Euro's appreci-



ation, although few are predicting that the economy will slip into recession.

Asia:

In Hong Kong, Taiwan, and South Korea, GDP grew more than 3% in 2003, while China expand-

ed an impressive 9.1%. The IT sector was stimulated by economic recovery in Europe and North America, while the boost in demand in China, spurred by the upcoming Olympics, reverberated positively throughout the region.

Consolidated Operating Results

(1) Net Operating Revenues

Consolidated net operating revenues in FY 2003 amounted to ¥352.4 billion, up 30% from FY 2002. Of this total, commissions jumped 35%, to ¥194.1 billion. In addition to the equity market recovery, we attribute this result to our strategies of continuously upgrading sales channels and enhancing products and services. By pursuing these strategies the Daiwa Securities Group was able to meet the diversified, fund-raising, and asset manage-

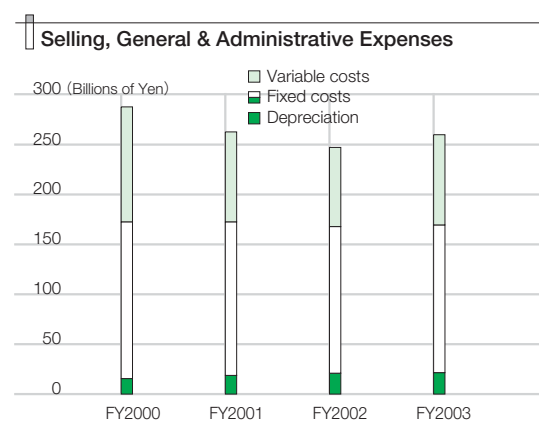
ment needs of corporations and investors.

Net trading gains rose 28% from FY 2002, to ¥120.1 billion. Net trading gains, traditionally a major influencing factor of the Group's financial performance, have been growing steadily, from ¥63.4 billion in FY 2001 to ¥93.9 billion in FY 2002 and ¥120.1 billion in FY 2003. This growth is the result of a stronger customer base, improved trading capabilities, and strict profit management.

Breakdown of Net Operating Revenues				(Millions of Yen)			
	FY2002	FY2003	yoy	FY2003			
				Q1	Q2	Q3	Q4
Commissions	144,283	194,163	34.6%	31,547	49,441	52,960	60,213
Net gain on trading	93,932	120,195	28.0%	43,679	24,958	23,221	28,336
Net financial income	24,113	25,892	7.4%	6,531	8,171	6,362	4,827
Others	8,481	12,183	43.6%	2,822	2,904	3,128	3,331
Total	270,810	352,435	30.1%	84,579	85,475	85,672	96,708

(2) Selling, General, and Administrative (SG&A) Expenses

Despite the strong rise in revenues, the year-on-year increase in SG&A expenses was limited to 5%, to a total of ¥259.9 billion. The major reason for this ¥13.2 billion rise was due to an increase in variable costs, such as performance-linked bonuses. Within SG&A expenses, personnel costs went up 11%, to ¥136.9 billion, while real estate expenses declined 2%, to ¥32.5 billion.



(3) Ordinary Income and Net Income

Ordinary income for the year totaled ¥96.1 billion, approximately 3.3 times the previous year's figure. In the year under review, we adopted accounting for impairment of fixed-assets—two years before becoming mandatory—resulting in a ¥12.7 billion impairment loss, a major part of our total extraordinary losses of ¥19.2 billion. As a result of our decision to move to a consolidated tax system in FY

2004, Daiwa Securities Group Inc. posted ¥17.1 billion in tax benefits. This is because the future profitability of all Group companies, including Daiwa Securities Co. Ltd. (Daiwa Securities) and Daiwa Institute of Research Ltd., will be recognized under the consolidated tax system. As a result of all these factors, net income amounted to ¥42.6 billion in FY 2003, a significant improvement from FY 2002 when we recorded a net loss of ¥6.3 billion.

Ordinary Income and Net Income				(Millions of Yen)			
	FY2002	FY2003	yoy	FY2003			
				Q1	Q2	Q3	Q4
Ordinary income	29,200	96,130	229.2%	23,682	21,401	22,442	28,603
Net income (loss)	(6,323)	42,637	—	11,028	8,263	9,100	14,244

Trends by Business, Group Company, and Geographical Region

(1) Breakdown of Commission Revenues

Equity commissions surged 69% year-on-year, to ¥80.0 billion, owing to the stock market recovery and the success of our strategies to meet diversifying customer needs. Fixed income (bond) commissions rose 14%, to ¥5.2 billion, and investment trust commissions were up 5%, to ¥43.0 billion. This was due to increased sales of equity investment trusts and the growing balance of assets under management, which compensated for the

decline in revenues from bond investment trusts amid the continuing trend of ultra-low interest rates. Investment banking commissions jumped 41%, to ¥55.8 billion, due to an increase in primary and secondary offerings by listed companies in the second half of the fiscal year, as well as our success in securing the lead-manager role in numerous large-scale issues, including initial public offerings (IPOs).

Breakdown of Commission Revenues				(Millions of Yen)			
	FY2002	FY2003	yoy	FY2003			
				Q1	Q2	Q3	Q4
Equity	47,242	80,061	69.5%	13,058	22,086	20,808	24,107
Fixed income (Bond)	4,585	5,219	13.8%	1,004	1,550	1,352	1,311
Investment trust	40,870	43,046	5.3%	9,783	10,560	10,005	12,695
Investment banking	39,638	55,805	40.8%	5,130	12,796	18,064	19,813
Others	11,948	10,032	-16.0%	2,570	2,448	2,728	2,285
Total	144,283	194,163	34.6%	31,547	49,441	52,960	60,213

(2) Performances of Major Group Companies

Daiwa Securities, the Group's retail securities subsidiary, reported operating revenues of ¥171.6 billion, up 32%, and ordinary income of ¥35.2 billion, a 10-fold jump from the previous year. Revenue gains stemmed from an increase in sales of equity related products and foreign currency-denominated bonds, while the rise in SG&A expenses was limited to 8%.

Daiwa Securities SMBC Co. Ltd. (Daiwa Securities SMBC), the Group's wholesale securities subsidiary, posted a 37% year-on-year increase in operating revenues, to ¥161.6 billion, and a 2.5-fold surge in ordinary income, to ¥41.8 billion. Contributing factors include a dramatic gain in underwriting commissions in line with growing demand for capital among corporations, as well as

a substantial jump in net trading gains.

In the asset management business, Daiwa Asset Management Co. Ltd. (DAM) reported ordinary income of ¥772 million, down 50% from FY 2002. The continuing decline in bond investment trust management fees, due to prolonged ultra-low interest rates, offset the company's efforts to reduce SG&A expenses. Daiwa SB Investments Ltd. (Daiwa SB Investments), an equity-method subsidiary of Daiwa Securities Group Inc., posted a 4% decline in ordinary income, to ¥523 million. Despite difficult operating conditions, the balance of pension funds under Daiwa SB Investments' management continued to expand. In FY 2003, the company successfully launched "China Ton-Fei" (China Equity Open), the largest Chinese equity fund launched in Japan to date.

Performances of Major Group Companies								
(Millions of Yen)								
	Daiwa Securities		Daiwa Securities SMBC		Daiwa Asset Management		Daiwa Institute of Research	
	FY2002	FY2003	FY2002	FY2003	FY2002	FY2003	FY2002	FY2003
Operating revenues . . .	129,817	171,605	118,300	161,681	22,865	16,638	61,675	65,388
Ordinary income	3,531	35,219	16,565	41,873	1,556	772	3,444	5,529
Net income (loss)	1,047	19,272	6,357	23,227	(138)	221	1,043	835

	Daiwa SB Investments*		Daiwa Securities Business Center		Daiwa Property		NIF Ventures	
	FY2002	FY2003	FY2002	FY2003	FY2002	FY2003	FY2002	FY2003
Operating revenues . . .	6,765	7,336	8,472	8,558	11,571	17,402	1,340	5,207
Ordinary income (loss) .	542	523	627	448	2,035	4,019	(2,850)	465
Net income (loss)	(49)	114	350	209	1,797	(54,137)	(9,319)	555

*Equity-method subsidiary

(3) Overseas Performance

The overseas performance of the Group showed steady expansion, reflecting the worldwide uptrend of share prices. In North America, we returned to profitability, with an ordinary income of ¥1.2 billion. In Europe, ordinary income more than doubled from

FY 2002, to ¥7.5 billion. In Asia and Oceania, ordinary income was ¥1.9 billion, just under nine times the previous year's figure. Total ordinary income from overseas operations, therefore, was ¥10.7 billion, nearly 12 times the FY 2002 results.

Ordinary Income, by Geographical Region		
(Millions of Yen)		
	FY2002	FY2003
America	(2,836)	1,270
Europe	3,528	7,538
Asia & Oceania	220	1,977
Total	912	10,786

Balance Sheet and Cash Flows

(1) Assets

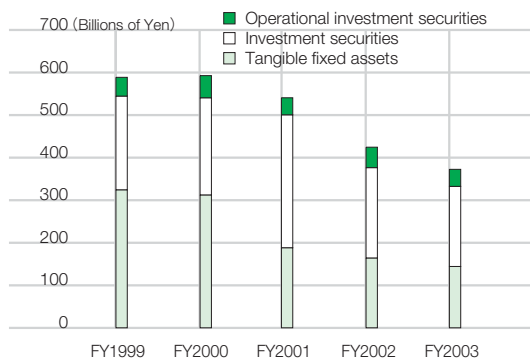
At the end of FY 2003, total assets of the Group stood at ¥10,765.6 billion, up ¥1,262.8 billion from a year earlier. Within that amount, total current assets grew ¥1,346.1 billion, to ¥10,210.0 billion, and non-current assets fell ¥83.2 billion, to ¥555.6 billion. Among current assets, trading assets were down ¥497.4 billion due largely to a decline in JGB positions, but receivables related to margin transactions rose ¥128.6 billion owing to an increase in such transactions amid a vibrant share market. Receivables on collateralized securities transactions, mostly associated with bond lending to corporate customers, surged ¥1,126.6 billion. Among non-current assets, tangible fixed assets fell ¥19.2 billion and investment securities declined ¥26.9 billion due to DAM's disposal of subordinate debt issued by banks. Non-current deferred income tax assets dropped ¥25.3 billion.

(2) Liabilities and Shareholders' Equity

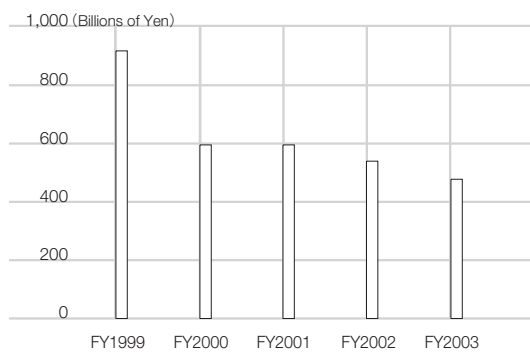
At fiscal year-end, total liabilities stood at ¥9,995.8 billion, up ¥1,188.7 billion from a year earlier. Current liabilities rose ¥907.1 billion, to ¥9,122.1 billion, and non-current liabilities grew ¥280.3 billion, to ¥868.5 billion. Among current liabilities, payables on collateralized securities transactions were down ¥263.2 billion, while trading liabilities soared ¥1,393.7 billion. Among non-current liabilities, bonds grew ¥231.1 billion due mainly to a ¥120.0 billion corporate bond issue by Daiwa Securities Group Inc.

Total shareholders' equity increased ¥62.4 billion, to ¥604.1 billion. In addition to posting profits, a major contributing factor was a ¥25.4 billion rise in net unrealized gain on securities, stemming from the stock market recovery.

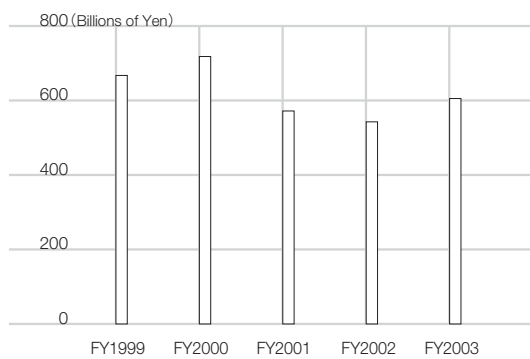
Composition of Major Risk Assets



External Debt



Shareholders' Equity



(3) Cash Flows

Cash flow from operating activities posted a net outflow of ¥111.2 billion, compared with a ¥369.7 billion net inflow in the previous fiscal year. The change stemmed mainly from an increase in receivables on collateralized securities transactions and a decline in payables on collateralized securities transactions. Cash flow from investing activities showed a net inflow of ¥50.1 billion, compared with ¥67.9 billion in FY 2002. Contributing factors included proceeds from sales of investment securities. Cash flow from financing activities turned to a net inflow of ¥114.4 billion, owing largely to proceeds from issuance of corporate bonds. This

compares with a net outflow of ¥447.3 billion in the preceding year. Cash and cash equivalents (after deducting exchange rate changes on cash) at fiscal year-end stood at ¥486.9 billion, up ¥48.6 billion from a year earlier.

Cash Flows	(Millions of Yen)	
	FY2002	FY2003
Cash flows from operating activities	369,749	-111,242
Cash flows from investing activities	67,967	50,143
Cash flows from financing activities	-447,392	114,407

Capital Investments

The Daiwa Securities Group's capital investment activities are based on several objectives, including building a foundation for reinforcing competitiveness and enhancing convenience for customers. In FY 2003, the Group made a total of ¥29.6 billion in IT-related expenditures, including investments to

upgrade core administrative systems at Daiwa Securities and core administrative systems and trading systems at Daiwa Securities SMBC. In addition, the Group made investments to upgrade its branch office network.

Risk Management

Recognition of Risk

At the Daiwa Securities Group, various risks emerge in the course of its business activities. The main risks are market risk, credit risk, liquidity risk, operational risk, system risk, legal risk, and reputation risk. In addition to managing the risks related to its fixed assets, the Group is aware that, in order to maintain a healthy financial and earnings structure, identifying and evaluating the various types of risks that are generated from its business activities and managing them appropriately is an important factor.

Risk Management System

The primary responsibility for controlling the aforementioned risks rests with each subsidiary of the Daiwa Securities Group. Each subsidiary has established its own system for managing the vari-

ous types of risks according to the characteristics and risk profiles of the business. Daiwa Securities Group Inc. in turn controls the risks by monitoring the subsidiaries' risk management systems and risk management processes.

The major risks that the Group is exposed to are market risk and credit risk. As the Group is in securities business, the market and credit risks stemming from trading are especially important. Thus, it is indispensable that the Group manages these risks effectively to ensure its financial health.

Most of the trading within the Daiwa Securities Group is carried out by Daiwa Securities SMBC and its wholly owned subsidiary Daiwa Securities SMBC Europe Limited (Daiwa Securities SMBC Europe), as well as Daiwa America Corporation (including its subsidiaries such as Daiwa Securities

America Inc.), a wholly owned subsidiary of Daiwa Securities Group Inc. At Daiwa Securities, the amount of securities trading conducted is minimized as a matter of policy, and transactions with customers are backed by sufficient collateral. Thus, the market risk and credit risk generated from trading activities is small.

Daiwa Securities SMBC is responsible for risk management of itself and its subsidiaries. The main authority related to risk management rests with the Risk Management Committee. The Risk Management Committee determines the risk management policy, procedures, and risk frameworks for trading positions at Daiwa Securities SMBC and its subsidiaries. Moreover, a system has been set up to monitor whether the risk frameworks that have been assigned to the trading departments are being observed and for making reports to management. Daily and monthly reports regarding market risk and credit risk related to trading positions are made to the management team. Comprehensive quarterly reports that include other risk information are submitted to the Risk Management Committee.

In addition, Daiwa Securities SMBC Europe has built an independent risk management system based on local laws. Reports on the market risk and credit risk related to trading positions are regularly made to the local management team, as well as to Daiwa Securities SMBC's Risk Management Department.

A similar risk management system has been put in place at Daiwa America Corporation. Here as well, reports regarding the risk situation are made to the local management team and Daiwa Securities Group Inc.

Management receives daily risk reports on trading positions at the aforementioned subsidiaries through the department in charge of risk management at Daiwa Securities Group Inc. By means of these reports, the Group's management team can obtain a good grasp of the risk profiles related to its trading positions.

In addition to the reports on market and credit risks related to trading positions, comprehensive and exhaustive quarterly reports are made to the Internal Control Committee, a subcommittee of the Executive Committee, regarding the market and credit risk for financial assets other than trading positions.

Based on these daily, monthly, and quarterly reports, Daiwa Securities Group Inc. monitors whether its subsidiaries' capital, which is the Group's invested capital, is being exposed to any excessive risk.

Measures for Dealing with Major Risks

(1) Market Risk

Market risk is the risk of incurring losses resulting from fluctuations in the value of financial assets or liabilities due to changes in stock prices, interest rates, exchange rates, and related derivatives. The Group's trading positions are mainly exposed to this type of risk.

The Group employs Value at Risk (VaR), a commonly used statistical management method, as an index for measuring and monitoring the market risk of its trading positions. VaR provides an estimate of losses that will be incurred from a trading position over a certain period and at a certain confidence level. The Group uses holding periods of one day and a confidence level of 99%.

(2) Market Risks Unrelated to Trading Positions

Investment securities, such as listed stocks we hold from a long-term perspective for business relationship purposes, are also exposed to market risk. A system has been set up for deciding the limit to the holding amount of these listed stocks, measuring its VaR, and making quarterly reports to the Internal Control Committee. These quarterly reports also include the balance of holdings of unlisted stocks and venture funds, for which VaR is not applicable to estimate market risk.

(3) Credit Risk

Credit risk is the risk of losses sustained as a result of a client being unable to fulfill a contract for a transaction. In the Group's wholesale securities business, credit limits are set for each client to restrain the amount of credit risk we are exposed to. In addition, we assign clients our own internal ratings similar to those given by external rating agencies. These internal ratings serve as a standard for judging whether or not to execute transactions. The usage of these credit limits is monitored regularly.

Furthermore, the Group manages the credit risk associated with the wholesale securities business by regularly reviewing the clients' financial situations, having clients sign comprehensive netting contracts, providing collateral, and limiting the periods of transactions.

(4) Liquidity Risk

Liquidity risk is the risk that the Group will run into difficulty procuring funds, or that the costs for attempting to do so will rise extremely higher than normal levels as a result of changes in the market environment or a deterioration in our balance sheet.

The Group carries out its business activities using many assets and liabilities. The majority of its assets are highly liquid, but it is important to maintain and manage liquidity in order to strike the

appropriate balance with liabilities. To ensure that business activities are not interrupted even in the event of a credit crunch stemming from sharp fluctuations in the market environment, it is essential to maintain a liquid portfolio that will allow the Group to handle its demand for funds over a period of about one year, without relying on new uncollateralized fund procurement. Moreover, the Group has arranged commitment facilities that will enable it to procure funds in the case of an emergency.

Group Cash Management System

The extent to which the Group can be assured of procuring the necessary amount of funds and its costs are affected by the market environment and the Group's credit rating. To minimize liquidity risk in the event of a deterioration in the market environment and to lower procurement costs, the Group has introduced a group cash management system (group CMS). Under this system, procurement and management of funds needed for business activities are concentrated at Daiwa Securities Group Inc. However, Daiwa Securities, Daiwa Securities SMBC, and NIF Ventures Co., Ltd. carry out their own fund procurement and management because fund procurement is a part of a securities company's business activities and because listed subsidiaries are required to procure funds independently from the parent company.

Value at Risk for Daiwa Securities SMBC

< Range and Assumption of VaR >

- Confidence level: 99% • Holding period: 1 day • Adjusted for price correlation between products

	Billions of Yen								
(Month end)	3/02	6/02	9/02	12/02	3/03	6/03	9/03	12/03	3/04
Equity	1.06	1.23	0.74	0.42	0.63	0.39	1.11	0.78	0.52
Interest	0.19	0.46	0.36	0.30	0.58	0.68	0.85	0.51	0.54
Currency	0.02	0.04	0.03	0.02	0.02	0.05	0.04	0.10	0.05
Total	1.27	1.73	1.13	0.74	1.23	1.12	2.00	1.39	1.11
Diversification effect	-0.19	-0.36	-0.29	-0.19	-0.46	-0.18	-0.26	-0.45	-0.36
VaR	1.08	1.37	0.84	0.55	0.77	0.94	1.74	0.94	0.75

• FY 2002 high: ¥1.70 billion, low: ¥0.51 billion, average: ¥0.96 billion

• FY 2003 high: ¥1.99 billion, low: ¥0.46 billion, average: ¥0.96 billion

(5) Operational Risk and Computer System Risk

Operational risk is the risk of sustaining losses when internal processes, personnel, or computer systems are not appropriate or breakdown due to internal or external reasons. Various risks have risen due to the growing complexity and diversification of businesses and the use of computer systems. Every year, it is becoming increasingly important to manage operational risk.

The Group is working to reduce the operational risks of each business line by establishing necessary measures, such as setting rigid rules concerning authority, automation of manual clerical work to reduce human error, and reexamining of its business manuals.

System risk, which is a type of operational risk, refers to the risk of incurring losses from computer system problems, such as system breakdowns or malfunctions, or losses from the improper use of computer systems.

To reduce this type of risk, the Group has formulated an information security policy that forms the basis of its computer system risk management. At the same time, the Group has prepared information security-related regulations (security standards) that embody this policy, and is working to educate its employees and executives to observe the regulations. Furthermore, for its core systems, the Group has established a framework for constantly observing the operational conditions of those systems, minimizing the occurrence of computer problems, and responding quickly at times when a problem occurs.

(6) Legal Risk

Legal risk is the risk of sustaining losses as a result of the failure to abide by laws, regulations, and/or corporate ethics, or as a result of inappropriate contracts concluded with third parties. The Daiwa Securities Group pursues group management with the securities-related business as its core business. In conducting business in Japan and overseas, there are laws and regulations we must comply with to execute securities transactions. In addi-

tion, each Group company engaging in various businesses is required to observe various regulations pertaining to the general conduct of its businesses. To ensure that there is no infringement on the aforementioned practices, the Group has set up sections in charge of compliance at each company, and will discuss compliance issues at committees consisting of directors from the Management Committee, etc. At Daiwa Securities and Daiwa Securities SMBC, which are particularly important securities subsidiaries, the Group has established special compliance departments and a Legal Affairs & Compliance Committee chaired by the presidents of the respective subsidiaries.

Furthermore, the Group has established agreements with law offices in Japan and overseas to respond to cases in which a high level of specialization is required in determining the legality or legal propriety of securities-related transactions and the signing of other contracts with third parties.

(7) Reputation Risk

Reputation risk is the risk of losing clients and profits as a result of rumors or the loss of reputation. This risk arises due to various situations such as when improprieties are committed by employees or when we announce sluggish earnings. Thus, a variety of methods are used for controlling this risk. The Group has issued a Disclosure Policy, which lays out the Group's policy for control and disclosure of corporate information. The Group has also established internal regulations based on this Disclosure Policy and has set up a Disclosure Committee, which is a subcommittee of the Executive Committee.

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CONSOLIDATED BALANCE SHEETS

March 31, 2004 and 2003

ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2004	2003	2004
Cash and cash deposits :			
Cash and deposits (Note 9)	¥ 486,932	¥ 438,249	\$ 4,593,698
Cash segregated as deposits for regulatory purposes	109,941	105,641	1,037,179
	596,873	543,890	5,630,877
Receivables :			
Loans receivable from customers	13,533	15,287	127,670
Loans receivable from other than customers	83,247	65,872	785,349
Trade date accrual	580,674	—	5,478,057
Receivables related to margin transactions (Note 3)	235,535	106,874	2,222,028
Other	142,283	203,745	1,342,292
Less allowance for doubtful accounts	(355)	(648)	(3,349)
	1,054,917	391,130	9,952,047
Collateralized short-term financing agreements (Note 4)	4,391,437	3,264,812	41,428,651
Trading assets (Notes 5 and 9)	4,031,945	4,529,438	38,037,217
Deferred income taxes (Note 15)	57,484	76,733	542,302
Other assets :			
Property and equipment, at cost (Note 9)	242,057	261,565	2,283,557
Less accumulated depreciation	(98,934)	(99,225)	(933,340)
	143,123	162,340	1,350,217
Lease deposits	25,523	29,159	240,783
Investment securities (Notes 6 and 9)	261,649	289,679	2,468,387
Long-term loans receivable (Note 10)	12,389	13,605	116,877
Other	202,645	220,639	1,911,745
Less allowance for doubtful accounts	(12,320)	(18,599)	(116,226)
	633,009	696,823	5,971,783
	¥10,765,665	¥ 9,502,826	\$ 101,562,877

See accompanying notes.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2004	2003	2004
Borrowings:			
Short-term borrowings (Notes 9, 10 and 13)	¥ 1,408,776	¥ 1,475,901	\$ 13,290,340
Commercial paper	273,721	332,800	2,582,273
Long-term debt (Notes 10 and 13)	859,492	611,599	8,108,415
	<u>2,541,989</u>	<u>2,420,300</u>	<u>23,981,028</u>
Payables :			
Payables to customers (Note 12)	174,537	226,256	1,646,575
Time deposits received	51,753	14,117	488,236
Trade date accrual	—	79,625	—
Payables related to margin transactions (Notes 3 and 9)	93,450	53,158	881,604
Other	19,823	67,396	187,010
	<u>339,563</u>	<u>440,552</u>	<u>3,203,425</u>
Collateralized short-term financing agreements (Note 4)	4,092,022	4,355,308	38,603,981
Trading liabilities (Note 5)	2,914,556	1,520,776	27,495,811
Accrued and other liabilities :			
Income taxes payable	15,406	2,813	145,340
Deferred income taxes (Note 15)	6,833	2,615	64,462
Accrued bonuses	19,376	12,054	182,792
Retirement benefits (Note 14)	18,867	15,888	177,991
Other	42,086	32,851	397,038
	<u>102,568</u>	<u>66,221</u>	<u>967,623</u>
Statutory reserves (Note 16)	5,133	3,892	48,425
Minority interests	165,664	154,058	1,562,867
Contingent liabilities and commitments (Note 17)			
Shareholders' equity (Notes 18 and 19) :			
Common stock, no par value ;			
Authorized - 4,000,000 thousand shares			
Issued - 1,331,735 thousand shares	138,432	138,432	1,305,962
Capital surplus	117,940	117,786	1,112,642
Retained earnings	330,780	297,404	3,120,566
Net unrealized gain on securities, net of tax effect	27,298	1,824	257,528
Translation adjustments	(9,590)	(11,321)	(90,472)
Treasury stock, at cost	(690)	(2,406)	(6,509)
Total shareholders' equity	<u>604,170</u>	<u>541,719</u>	<u>5,699,717</u>
	<u>¥10,765,665</u>	<u>¥ 9,502,826</u>	<u>\$101,562,877</u>

CONSOLIDATED STATEMENTS OF OPERATIONS

Years ended March 31, 2004, 2003 and 2002

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2004	2003	2002	2004
Operating revenues :				
Commissions (Note 21)	¥ 194,163	¥ 144,283	¥ 171,869	\$ 1,831,726
Net gain on trading	122,013	91,307	67,249	1,151,066
Interest and dividend income (Note 10)	103,224	114,707	195,934	973,811
Service fees and other sales	34,414	37,362	52,992	324,661
	453,814	387,659	488,044	4,281,264
Interest expense (Note 10)	77,331	90,594	164,506	729,538
Cost of service fees and other sales	24,048	26,255	38,606	226,868
Net operating revenues (Note 20)	352,435	270,810	284,932	3,324,858
Selling, general and administrative expenses (Notes 14, 20 and 22)	259,915	246,701	262,163	2,452,028
Operating income (Note 20)	92,520	24,109	22,769	872,830
Other income (expenses) :				
Reversal of statutory reserves, net (Note 16)	(1,241)	(960)	(957)	(11,708)
Other, net (Note 23)	(14,353)	(11,304)	(141,780)	(135,406)
	(15,594)	(12,264)	(142,737)	(147,114)
Income (loss) before income taxes and minority interests	76,926	11,845	(119,968)	725,716
Income taxes (Note 15) :				
Current	15,170	2,671	2,613	143,113
Deferred	5,638	12,686	2,990	53,188
	20,808	15,357	5,603	196,301
Minority interests	(13,481)	(2,811)	(4,976)	(127,179)
Net income (loss)	¥ 42,637	¥ (6,323)	¥ (130,547)	\$ 402,236
		Yen		U.S. Dollars (Note 1)
Per share amounts :				
Net income (loss)	¥ 31.66	¥ (4.75)	¥ (98.27)	\$ 0.30
Diluted net income	30.28	—	—	0.29
Cash dividends applicable to the year	10.00	6.00	6.00	0.09

See accompanying notes.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Years ended March 31, 2004, 2003 and 2002

	Number of shares of common stock (thousands)	Millions of Yen					
		Common stock	Capital surplus	Retained earnings	Net unrealized gain(loss) on securi- ties, net of tax effect	Translation adjustments	Treasury stock, at cost
Balance at March 31, 2001	1,331,735	¥ 138,432	¥ 117,786	¥ 459,994	¥ 18,984	¥ (15,807)	¥ (2,573)
Net loss				(130,547)			
Cash dividends paid				(17,266)			
Bonuses to directors				(462)			
Net unrealized loss on securities, net of tax effect					(6,288)		
Translation adjustments						8,296	
Change in treasury stock, net							290
Balance at March 31, 2002	1,331,735	138,432	117,786	311,719	12,696	(7,511)	(2,283)
Net loss				(6,323)			
Cash dividends paid				(7,971)			
Bonuses to directors				(15)			
Net losses on sales of treasury stock (Note 18)				(6)			
Net unrealized loss on securities, net of tax effect					(10,872)		
Translation adjustments						(3,810)	
Change in treasury stock, net							(123)
Balance at March 31, 2003	1,331,735	138,432	117,786	297,404	1,824	(11,321)	(2,406)
Net income				42,637			
Cash dividends paid				(7,970)			
Net gains on sales of treasury stock (Note 18)			154				
Decrease in retained earnings due to addition of a consolidated subsidiary				(1,291)			
Net unrealized gain on securities, net of tax effect					25,474		
Translation adjustments						1,731	
Change in treasury stock, net							1,716
Balance at March 31, 2004	1,331,735	¥ 138,432	¥ 117,940	¥ 330,780	¥ 27,298	¥ (9,590)	¥ (690)

	Thousands of U.S. Dollars (Note 1)					
	Common stock	Capital surplus	Retained earnings	Net unrealized gain(loss) on securi- ties, net of tax effect	Translation adjustments	Treasury stock, at cost
Balance at March 31, 2003	\$1,305,962	\$1,111,189	\$2,805,698	\$ 17,208	\$ (106,802)	\$ (22,698)
Net income			402,236			
Cash dividends paid			(75,189)			
Net gains on sales of treasury stock (Note 18) . . .		1,453				
Decrease in retained earnings due to addition of a consolidated subsidiary			(12,179)			
Net unrealized gain on securities, net of tax effect .				240,320		
Translation adjustments					16,330	
Change in treasury stock, net						16,189
Balance at March 31, 2004	\$1,305,962	\$1,112,642	\$3,120,566	\$ 257,528	\$ (90,472)	\$ (6,509)

See accompanying notes.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended March 31, 2004, 2003 and 2002

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2004	2003	2002	2004
Cash flows from operating activities :				
Net income (loss)	¥ 42,637	¥ (6,323)	¥ (130,547)	\$ 402,236
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities :				
Depreciation	21,530	21,067	18,775	203,113
Provision for doubtful accounts, net	680	4,278	4,962	6,415
Provision for retirement benefits, net (Note 14)	2,979	3,038	3,432	28,104
Reversal of statutory reserves, net (Note 16)	1,241	960	957	11,708
Losses related to investment securities (Note 23)	208	12,058	18,444	1,962
Losses related to fixed assets (Note 23)	13,015	217	2,238	122,783
Reversal of multiemployers' pension plan (Notes 14 and 23)	—	—	(13,692)	—
Payment for multiemployers' pension plan (Note 14) . . .	—	—	(15,253)	—
(Reversal of) provision for real estate business reorganization (Note 23)	—	(812)	127,401	—
Amortization of goodwill (Note 23)	—	—	5,000	—
Deferred income taxes (Note 15)	5,637	12,686	2,990	53,179
Minority interests	13,481	2,811	4,976	127,179
(Increase) decrease in receivables and increase (decrease) in payables	(30,291)	(6,841)	352,319	(285,764)
(Increase) decrease in trading assets and increase (decrease) in trading liabilities	1,224,767	(1,861,067)	338,229	11,554,406
(Increase) decrease in receivables and increase in payables related to margin transactions	(88,369)	29,123	115,681	(833,670)
(Increase) decrease in collateralized short-term financing agreements	(1,369,799)	2,113,920	(1,549,168)	(12,922,632)
(Increase) decrease in other assets	40,013	43,686	(152,983)	377,481
Other, net	11,027	948	1,088	104,028
Total adjustments	(153,881)	376,072	(734,604)	(1,451,708)
Net cash provided by (used in) operating activities	(111,244)	369,749	(865,151)	(1,049,472)

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2004	2003	2002	2004
Cash flows from investing activities :				
Payments for purchases of property and equipment	¥ (8,147)	¥ (6,107)	¥ (11,754)	\$ (76,858)
Proceeds from sales of property and equipment	6,144	21,115	8,857	57,962
Payments for purchases of investment securities	(36,407)	(51,946)	(124,061)	(343,462)
Proceeds from sales of investment securities	100,880	129,716	58,472	951,698
Decrease in long-term loans receivable	1,067	1,065	176	10,066
Other, net	(13,394)	(25,876)	(48,842)	(126,358)
Net cash provided by (used in) investing activities	50,143	67,967	(117,152)	473,048
Cash flows from financing activities :				
Increase (decrease) in short-term borrowings	(66,936)	(416,057)	1,152,333	(631,472)
Decrease in long-term debt	(16,295)	(8,697)	(117,205)	(153,726)
Proceeds from issuance of notes by subsidiaries	318,832	167,690	161,904	3,007,849
Payments for redemption of bonds and notes	(112,675)	(182,138)	(46,835)	(1,062,972)
Proceeds from issuance of stocks to minority shareholders .	—	—	6,580	—
Payments of cash dividends	(7,971)	(7,971)	(17,265)	(75,198)
Payments of cash dividends to minority shareholders	(2,328)	(89)	(20,579)	(21,962)
Other, net	1,780	(130)	312	16,792
Net cash provided (used in) by financing activities	114,407	(447,392)	1,119,245	1,079,311
Effect of exchange rate changes on cash	(5,003)	(6,634)	3,553	(47,198)
Net increase (decrease) in cash	48,303	(16,310)	140,495	455,689
Cash at beginning of year	438,249	454,559	314,064	4,134,425
Increase in cash equivalents due to addition of a consolidated subsidiary	380	—	—	3,585
Cash at end of year	¥ 486,932	¥ 438,249	¥ 454,559	\$ 4,593,698
Supplemental information on cash flows :				
Cash paid (refunded) during the year for :				
Interest	¥ 74,077	¥ 92,311	¥ 174,980	\$ 698,840
Income taxes	1,749	(13,002)	31,397	16,500

See accompanying notes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Three years ended March 31, 2004

1. Basis of financial statements

The consolidated financial statements include the accounts of Daiwa Securities Group Inc. (the "Company"), a Japanese corporation, and its subsidiaries (collectively "Daiwa"). Daiwa's principal subsidiaries include:

- Daiwa Securities Co. Ltd. ("Daiwa Securities")
- Daiwa Securities SMBC Co. Ltd. ("Daiwa Securities SMBC")
- Daiwa Asset Management Co. Ltd. ("Daiwa Asset Management")
- Daiwa Institute of Research Ltd. ("DIR")
- NIF Ventures Co., Ltd. ("NIF")

Daiwa Securities is the retail-securities arm of Daiwa. This company operates through a network of 123 branches as well as non-traditional distribution channels, including the Internet. Daiwa Securities also operates a full-fledged call center to provide telephone-based securities-related services. Daiwa Securities SMBC, which is the wholesale securities company of Daiwa (formerly known as Daiwa Securities SB Capital Markets, Co Ltd.), was established on April 5, 1999 as a 60%-owned joint venture with Sumitomo Mitsui Banking Corporation. Daiwa Asset Management is the asset management company of Daiwa. In addition, Daiwa has several other overseas subsidiaries, mainly engaged in the securities business.

Daiwa is primarily engaged in the business of a securities broker-dealer, pursuant to which Daiwa provides services including brokerage, trading, underwriting, strategic advice, product development, and structured finance. In addition, Daiwa provides asset and capital management, venture capital, and research through a network in major capital markets and other services.

The company and its consolidated domestic subsidiaries maintain their official accounting records in yen. The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards. The accounts of overseas subsidiaries are maintained in conformity with generally accepted accounting principle and practices prevailing in the respective countries of domicile.

The accompanying financial statements have been translated into English, (with some expanded descriptions, reclassifications and the inclusion of statements of shareholders' equity) from the original consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Securities and Exchange Law. Some supplementary information included in the statutory Japanese language consolidated financial statements, which are not required for fair presentation is not presented in the accompanying financial statements.

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, 2004, 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.

2. Significant accounting policies

Consolidation — The consolidated financial statements 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.

In addition to investments in companies in excess of 20%, certain companies for which the Company has at least 15% and less than 20% of the voting rights and in cases where the Company has the ability to exercise significant influence over operating and financial policies of the investees are accounted for using the equity method.

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

Statements of cash flows — For purposes of reporting cash flows, cash includes "cash and deposits" with maturities of not exceeding one year. Cash and deposits as of March 31, 2004 and 2003 include deposits more than three months in the amount of ¥6,809 million (\$64,236 thousand) and ¥15,564 million, respectively.

Trading assets and liabilities — Trading assets and liabilities, including securities and financial derivatives for trading purposes held by the securities subsidiaries of the Company are recorded on a trade date basis in the consolidated balance sheets at either market or fair value. Revenues and expenses related to trading securities transactions are recorded on a trade date basis. Changes in the market or fair values are reflected in "net gain on trading" in the accompanying consolidated statements of operations. Gains and losses generated from derivatives held or issued for trading purposes are also reported as "net gain on trading" in the accompanying consolidated statements of operations, which includes realized gains and losses as well as changes in the market values or fair values of such instruments. Securities owned for non-trading purpose, shown in the accompanying consolidated balance sheets as "Investment securities", are discussed below.

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

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

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

If the market value of available-for-sale securities declines significantly, such securities are considered to be impaired and the difference between market value and the carrying amount is recognized as loss in the period of the decline. For available for sale securities which do not have readily available market value, if the net book value declines significantly and if such decline is considered to be permanent, the difference between the carrying amount and the net book value is recognized as loss in the period of the decline. Unrealized losses on these securities are reported in statements of operations.

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

Collateralized short-term financing agreements — Collateralized short-term financing agreements consist of securities purchased under agreements to resell ("resell transactions") 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 and resell transactions are traded in overseas subsidiaries and carried at their contractual amounts. Securities borrowed or loaned are recorded at the amount of cash collateral given or received. Buy 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.

Provision for doubtful accounts — Provisions for doubtful accounts of domestic consolidated subsidiaries are provided based on the estimated historical default rate for normal loans, and based on specifically assessed amounts for doubtful and failed loans. Overseas consolidated subsidiaries provide specifically assessed amounts for doubtful accounts.

Change in accounting policy - Early application of accounting standard for impairment of fixed assets — Effective from the year ended March 31, 2004, the Company and its domestic consolidated subsidiaries made an early application of the new Japanese accounting standard for impairment of fixed assets ("Opinion Concerning Establishment of Accounting Standard for Impairment of Fixed Assets" issued by the Business Accounting Deliberation Council of Japan on August 9, 2002) and the Implementation Guidance for Accounting Standard for Impairment of Fixed Assets (the Financial Accounting Standard Implementation Guidance No.6 issued by the Accounting Standards Board of Japan on October 31, 2003.)

As a result, income before income taxes and minority interests for the year ended March 31, 2004 decreased by ¥12,797 million (\$120,726 thousand) compared with what would have been reported if the new accounting standard had not been early applied (See Note 23).

Property and equipment — Property and equipment are stated at cost. Impairment losses recognized have been deducted from the acquisition costs. The Company and its domestic consolidated subsidiaries compute depreciation principally by the declining-balance method over estimated useful lives as stipulated by corporation tax law of Japan. Depreciation for buildings purchased in Japan after April 1, 1998 is computed by the straight-line method. In its overseas subsidiaries, depreciation is computed by the straight-line method.

Intangible fixed assets — Intangible fixed assets are generally amortized under the straight-line method. Useful life for depreciation is mainly based on corporation tax law of Japan. Software for in-house use is amortized under the straight-line method based on internally estimated useful life (5 years).

Bonuses — The Company and its 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.

Retirement benefits for employees — Daiwa has various benefit plans for eligible employees such as unfunded plan and closed funded plan (See Note 14).

Provision for real estate business reorganization — In 2002, the Company decided to withdraw from real estate business engaged by its certain domestic consolidated subsidiaries. Book values of the related properties were written down to their estimated net realizable value. On October 26, 2001, the Company's Board of Directors approved a resolution to reorganize such real estate business and to initiate a financial assistance plan to those subsidiaries, including capital injection. The provision for real estate reorganization is based on anticipated financial assistance as of March 31, 2002. In the year ended March 31, 2003, such real estate reorganization was completed, and the residual portion of the provision was reversed (See Note 23).

Income taxes — Income taxes consist of corporation, enterprise and inhabitants taxes. The provision for income taxes is computed based on the pretax income of each of the Company and its consolidated subsidiaries with certain adjustments required for tax purposes.

Deferred taxes assets and liabilities are recorded for the expected future tax consequences of temporary differences between the financial reporting and the tax bases of the assets and liabilities based upon enacted tax laws and rates. Daiwa recognizes deferred tax assets to the extent they are expected to be realized. Deferred tax assets and liabilities are reported as "deferred income taxes" in the accompanying consolidated balance sheets. Deferred tax expense or benefits are recognized in the consolidated statements of operations for the changes in deferred tax assets or liabilities between years.

The Company decided to file tax returns on a consolidated basis from the year ending March 31, 2005 together with Daiwa Securities Co. Ltd, Daiwa Institute of Research Ltd., and all domestic wholly owned subsidiaries. This decision resulted in a lighter tax burden in the current year for the com-

panies adopting this consolidated tax return regime. Consequently, the Company recognized a negative tax expense (i.e., a profit) of ¥17,152 million (\$161,811 thousand) in income tax-deferred account.

Some consolidated subsidiaries have already applied the consolidated tax return regime from the year ended March 31, 2003.

Translation of foreign currencies — The Company and its domestic consolidated subsidiaries translate assets and liabilities in foreign currencies into yen at the year-end exchange rate.

Translation of foreign currency financial statements — Financial statements of foreign subsidiaries are translated into yen on the basis of the year-end exchange rates for assets and liabilities except that retained earnings are translated at historical rates. Income and expenses are translated at the average exchange rates of the applicable years. The resulting differences are reported as translation adjustments in shareholders' equity.

Treasury stock and statutory reserves — Effective April 1, 2002, the Company and its domestic consolidated subsidiaries adopted the new accounting standard for treasury stock and reversal of statutory reserves (Accounting Standards Board Statement No. 1, "Accounting Standard for Treasury Stock and Reversal of Statutory Reserves", issued by the Accounting Standards Board of Japan on February 21, 2002).

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

Effective April 1, 2002, the Company adopted the new accounting standard for earnings per share and related guidance (Accounting Standards Board Statement No. 2, "Accounting Standard for Earnings Per Share" and Financial Standards Implementation Guidance No. 4, "Implementation Guidance for Accounting Standard for Earnings Per Share", issued by the Accounting Standards Board of Japan on September 25, 2002).

Diluted net income per share is computed based on the average number of common shares outstanding for the year plus the number of shares of common stock that would have been issued had the outstanding dilutive convertible bonds been converted at the beginning of the year ended March 31, 2004. Diluted net income for the years ended March 31, 2003 and 2002 is not presented, since the net loss is reported in the consolidated statements of operations.

3. Margin transactions

Margin transactions at March 31, 2004 and 2003 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Assets:			
Loans receivable from customers	¥ 92,832	¥ 34,419	\$ 875,773
Cash deposits as collateral for securities borrowed from securities finance companies	142,703	72,455	1,346,255
	¥ 235,535	¥ 106,874	\$ 2,222,028
Liabilities:			
Payable to securities finance companies	¥ 3,636	¥ 2,915	\$ 34,302
Proceeds of securities sold for customers' accounts	89,814	50,243	847,302
	¥ 93,450	¥ 53,158	\$ 881,604

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

4. Collateralized short-term financing agreements

Collateralized short-term financing agreements at March 31, 2004 and 2003 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Assets:			
Securities purchased under agreements to resell	¥ 1,579,194	¥ 1,644,820	\$14,898,057
Securities borrowed	2,812,243	1,619,992	26,530,594
	¥ 4,391,437	¥ 3,264,812	\$41,428,651
Liabilities:			
Securities sold under agreements to repurchase	¥ 2,088,654	¥ 1,810,010	\$19,704,283
Securities loaned	1,681,036	1,908,019	15,858,830
Sell Gensaki	322,332	637,279	3,040,868
	¥ 4,092,022	¥ 4,355,308	\$38,603,981

5. Trading assets and trading liabilities

Trading assets and trading liabilities at March 31, 2004 and 2003 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Trading assets:			
Equity securities	¥ 257,410	¥ 83,342	\$ 2,428,396
Government, corporate and other bonds	3,119,109	3,646,400	29,425,557
Beneficiary certificates	111,193	119,077	1,048,991
Commercial paper, certificates of deposits and others	42,205	104,076	398,160
Option transactions	59,274	24,046	559,189
Futures and forward transactions	28,100	15,456	265,094
Swap agreements	414,779	537,186	3,913,009
Other derivatives	1,825	1,338	17,217
Credit reserves	(1,950)	(1,483)	(18,396)
	¥ 4,031,945	¥ 4,529,438	\$ 38,037,217
Trading liabilities:			
Equity securities	¥ 94,128	¥ 38,235	\$ 888,000
Government, corporate and other bonds	2,350,637	958,099	22,175,821
Beneficiary certificates	795	358	7,500
Option transactions	85,106	24,827	802,887
Futures and forward transactions	21,727	18,298	204,972
Swap agreements	361,885	480,844	3,414,009
Other derivatives	278	115	2,622
	¥ 2,914,556	¥ 1,520,776	\$ 27,495,811

6. Investment securities

Cost and market value of available-for-sale securities as of March 31, 2004 and 2003 consisted of the following:

	Millions of Yen		
	Cost	Market value	Difference
March 31, 2004:			
Equity securities	¥ 61,882	¥ 109,244	¥ 47,362
Government, corporate and other bonds	18,554	18,301	(253)
Other	6,827	6,909	82
	¥ 87,263	¥ 134,454	¥ 47,191
March 31, 2003:			
Equity securities	¥ 69,307	¥ 75,501	¥ 6,194
Government, corporate and other bonds	74,277	72,745	(1,532)
Other	8,683	7,899	(784)
	¥ 152,267	¥ 156,145	¥ 3,878

	Thousands of U.S. Dollars		
	Cost	Market value	Difference
March 31, 2004:			
Equity securities	\$ 583,792	\$ 1,030,604	\$ 446,812
Government, corporate and other bonds	175,038	172,651	(2,387)
Other	64,406	65,179	773
	\$ 823,236	\$ 1,268,434	\$ 445,198

Securities for which a market value is not readily available as of March 31, 2004 and 2003 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Equity securities	¥ 52,628	¥ 59,747	\$ 496,491
Government, corporate and other bonds	12,205	12,165	115,142
Other	42,440	35,101	400,376
	¥ 107,273	¥ 107,013	\$ 1,012,009

In addition to the above, equity securities of non-consolidated and affiliated companies amounting to ¥19,922 million (\$187,944 thousand) at March 31, 2004 and ¥26,521 million at March 31, 2003 are included in investment securities.

Held-to-maturity debt securities as of March 31, 2004 and 2003 were immaterial.

7. Derivatives for non-trading purposes

Net unrealized gains/(losses) of derivatives for non-trading purposes at March 31, 2004 and 2003 (excluding hedging transactions) consisted of the following:

	Millions of Yen		
	Contract amount	Market value	Unrealized gains /(losses)
March 31, 2004:			
Interest rate swap	¥ 8,704	¥ (12)	¥ (12)
Currency swap	2	0	0
March 31, 2003:			
Interest rate swap	¥ 3,837	¥ 10	¥ 10
Currency swap	137	(0)	(0)
	Thousands of U.S. Dollars		
	Contract amount	Market value	Unrealized gains /(losses)
March 31, 2004:			
Interest rate swap	\$ 82,113	\$ (113)	\$ (113)
Currency swap	19	0	0

8. Risk management information concerning trading transactions

The two domestic securities subsidiaries, Daiwa Securities and Daiwa Securities SMBC ("Securities subsidiaries"), enter into transactions involving trading assets and liabilities to meet customer needs, and for their proprietary trading activities, as a broker and an end-user. These trading assets and 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, Daiwa Securities SMBC determines the balance of risk and profit or loss on each instrument and uses a value-at-risk method to manage this risk. Credit risk represents the potential for loss arising from the failure of the counter-party in a transaction to fulfill its terms and conditions. Securities subsidiaries assess the credit risk of their counter-parties applying internal credit rating and monitor their exposure by measuring notional principal and credit exposure.

Daiwa Securities SMBC 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 Securities SMBC expects that risks associated with trading activities are well controlled within a range of risk that the management is willing to assume.

9. Pledged assets

At March 31, 2004, short-term borrowings amounting to ¥1,056,492 million (\$9,966,906 thousand) and payables related to margin transaction amounting to ¥3,636 million (\$34,302 thousand) were secured by the following assets:

	Millions of Yen	Thousands of U.S. Dollars
Cash and deposits	¥ 26,575	\$ 250,708
Trading assets	809,436	7,636,189
Property and equipment	728	6,868
Investment securities	57,734	544,660
	¥ 894,473	\$ 8,438,425

In addition to above, securities borrowed amounting to ¥536,441 million (\$5,060,764 thousand) were pledged as guarantee at March 31, 2004.

Total fair value of the securities pledged as collateral at March 31, 2004 consisted of the following:

	Millions of Yen	Thousands of U.S. Dollars
Securities loaned	¥ 7,774,686	\$73,346,094
Sell Gensaki transaction	322,781	3,045,104
Other	413,837	3,904,123
	¥ 8,511,304	\$80,295,321

Total fair value of the securities received as collateral at March 31, 2004 consisted of the following:

	Millions of Yen	Thousands of U.S. Dollars
Securities borrowed	¥ 8,838,711	\$83,384,066
Other	253,514	2,391,642
	¥ 9,092,225	\$85,775,708

10. The Company's transactions with related parties

One of the statutory auditors of the Company is the president of the Taiyo Life Insurance Company. The significant account balances with the Taiyo Life Insurance Company at March 31, 2004 were long-term loans receivable amounting to ¥5,000 million (\$47,170 thousand), short-term borrowings amounting to ¥2,000 million (\$18,868 thousand) and long-term debt amounting to ¥10,000million (\$94,340 thousand). The Company paid ¥374 million (\$3,528 thousand) as interest expenses and received ¥178 million (\$1,679 thousand) as interest income. Interest payables and interest receivables at March 31, 2004 were ¥67 million (\$632 thousand) and ¥54 million (\$509 thousand), respectively. In addition, the Company sold 5,000 shares of the Taiyo Credit Guarantee Co., Ltd at ¥78 million (\$733 thousand) to the Taiyo Life Insurance Company.

11. Lease transactions

Financial leases, whose ownership does not transfer to the lessee (Daiwa) at the end of the lease term ("non-capitalized finance leases") are not capitalized and are accounted for in the same manner as operating leases. Certain information concerning such non-capitalized finance leases at March 31, 2004 and 2003 is summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Non-capitalized finance leases:			
Total assets under non-capitalized finance leases	¥ 14,359	¥ 17,322	\$ 135,462
Accumulated depreciation	7,830	9,985	73,868
Accumulated loss on impairment	2	—	19
Future lease payments in respect of non-capitalized leases	6,643	7,455	62,670
Due within one year	2,605	3,288	24,575
Operating leases:			
Future lease payments in respect of operating leases	11,981	14,189	113,028
Due within one year	1,892	2,042	17,849

12. Payables to customers

Payables to customers at March 31, 2004 and 2003 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Cash received for customers' trading accounts	¥ 80,527	¥ 65,492	\$ 759,689
Cash deposits received from customers mainly for margin and futures transactions	49,208	40,172	464,226
Other	44,802	120,592	422,660
	¥ 174,537	¥ 226,256	\$ 1,646,575

13. 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 by the borrower 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. As of this date, no such request has been made and no such right has been exercised.

Long-term debt at March 31, 2004 and 2003 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Bond payable in yen: 1.4% due 2005	¥ 100,000	¥ 100,000	\$ 943,396
Bond payable in yen: 0.95% due 2008	120,000	—	1,132,075
Convertible bonds payable in yen, convertible into common stock at ¥2,367.00 per share: 1.4% due 2003	—	36,269	—
Convertible bond payable in yen, convertible into common stock at ¥1,094.00 per share: 0.5% due 2006	79,986	79,986	754,585
Bond with warrants exercisable at ¥1,345.00 per share: 1.37% due 2004	8,400	8,400	79,245
Notes payable in yen issued by subsidiaries:			
5.0% subordinated due 2005	1,011	1,011	9,538
Medium-term notes in yen issued by subsidiaries			
with various rates and maturities through 2034	424,132	297,717	4,001,245
Euro medium-term notes (authorized \$5,000 million) issued by subsidiaries with various rates and maturities through 2008	13,149	17,062	124,047
Yen subordinated loan due 2005	40,000	40,000	377,358
Borrowings from financial institutions	72,809	31,070	686,877
Other	5	84	49
	¥ 859,492	¥ 611,599	\$ 8,108,415

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

The aggregate annual maturities of long-term debt as of March 31, 2004 are as follows:

Year ending March 31	Millions of Yen	Thousands of U.S. Dollars
2005	¥ 21,103	\$ 199,086
2006	187,395	1,767,877
2007	118,697	1,119,783
2008	9,785	92,311
2009	137,312	1,295,396
2010 and thereafter	385,200	3,633,962
	¥ 859,492	\$ 8,108,415

Daiwa has unused committed bank facilities amounting to ¥231,265 million (\$2,181,745 thousand) under agreements with several banks at March 31, 2004.

14. Retirement benefits

Retirement benefits for employees — Daiwa has various retirement benefit plans for eligible employees as follows:

Unfunded plan

The Company and most of its domestic consolidated subsidiaries provide an unfunded defined contribution plan to its employees in return for services rendered each year, where the amount to be contributed to the individual employee's account is defined by the plan. Contributions by the Company and most of its domestic consolidated subsidiaries under the unfunded defined contribution plan are accumulated on an annual basis and earn a guaranteed hypothetical return at a rate predetermined by the Company and most of its domestic consolidated subsidiaries each year. Accumulated contribution plus interest to this unfunded plan are included in retirement benefits in the consolidated balance sheets as of March 31, 2004 and 2003, in the amount of ¥14,735 million (\$139,009 thousand) and ¥ 12,483 million, respectively. Benefit expenses recorded in the statements of operations for years ended March 31, 2004, 2003 and 2002 were ¥3,278 million (\$30,925 thousand), ¥2,915 million and ¥4,018 million, respectively.

Closed funded plan

The Company and its domestic consolidated subsidiaries closed their defined benefit plan as of April 1, 1999 and accordingly, no new employees have been added to the plan and no service cost has been charged for the plan. The effect on the consolidated financial statements was immaterial.

Directors — Directors' retirement benefits of ¥1,565 million (\$14,764 thousand) and ¥1,717 million are included in "Retirement benefits" in the accompanying consolidated balance sheets as of March 31, 2004 and 2003, respectively. Benefit expenses recorded in the statements of operations for the years ended March 31, 2004, 2003 and 2002 were ¥368 million (\$3,472 thousand), ¥509 million and ¥588 million, respectively.

Multiemployers' pension plan—The Company and its certain domestic consolidated subsidiaries were members of an industry-wide non-contributory welfare pension plan administered by the Securities Companies' Welfare Pension Fund, in conjunction with the contributory governmental welfare pension plan. The plan's fund had experienced a low rate of performance due to adverse conditions in Japan's fund management environment, including low interest rates and declining stock prices in the Japanese market. Management estimated, based on analysis of currently available information, the Company and its consolidated subsidiaries' portion of the difference between the projected future benefit obligation and the fair value of the plan assets had become material. Provision for the multiemployers' pension plan was charged to income for the year ended March 31, 2000.

On September 29, 2001, the Company and its certain domestic consolidated subsidiaries withdrew from this non-contributory welfare pension plan. The withdrawal from the multiemployers' pension plan, which resulted in a deduction of actual obligation on withdrawal from the Securities Companies' Welfare Pension Fund from the provision for multiemployers' pension plan, was reported in the consolidated statement of operations for the year ended March 31, 2002 (Note 23).

15. Income taxes

The Company and its domestic consolidated subsidiaries are subject to a number of taxes levied on income, which, in the aggregate, indicate a statutory rate in Japan of approximately 42.1% for the years ended March 31, 2004, 2003 and 2002.

Due to the revised local tax law issued on March 31, 2003, effective for the year commencing on April 1, 2004 or later, income tax rates for enterprise taxes will be reduced. Taking into consideration the future change in income tax rates, the Company and its domestic consolidated subsidiaries used the tax rates of approximately 42.1% and 40.5% for current items and non-current items, respectively, at March 31, 2003, for their calculation of deferred tax assets and liabilities. The tax rate of 40.5% represents the estimated tax rate of the revised local tax law, since it was still subject to minor detailed clarification. Thus, as at March 31, 2003, the estimated revised tax rate had been subject to change. As the result of the anticipated change in the tax rates as at March 31, 2003, deferred tax assets decreased by ¥2,208 million and income tax-deferred and net unrealized gain on securities, net of tax, increased by ¥2,271 million and ¥63 million, respectively, compared with what would have been recorded under the previous local tax law.

After the clarification of the local tax law, the new tax rate for the year beginning April 1, 2004 was finalized at approximately 40.7%. Taking into account the finalized income tax rates, the Company and its domestic consolidated subsidiaries used the tax rates of approximately 40.7% for current and non-current items at March 31, 2004 for the calculation of deferred tax assets and liabilities. Due to the change in the tax rates, deferred tax assets increased by ¥158 million (\$1,491 thousand) and income tax-deferred and net unrealized gain on securities, net of tax, decreased by ¥260 million (\$2,453 thousand) and ¥101 million (\$953 thousand), respectively, compared with what would have been recorded under the previous local tax law.

Foreign subsidiaries are subject to income taxes of the countries in which they operate.

Details of deferred tax assets and liabilities at March 31, 2004 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2004	2004
Deferred tax assets:		
Net operating losses carry-forward	¥ 116,984	\$ 1,103,623
Valuation loss on investment securities	12,922	121,906
Expenses for real estate business reorganization	7,459	70,368
Employee retirement benefits	7,232	68,226
Employee compensation and bonuses	6,979	65,840
Provision for doubtful accounts	5,285	49,858
Other	26,003	245,311
Gross deferred tax assets	182,864	1,725,132
Less: Valuation allowance	(108,584)	(1,024,377)
Total deferred tax assets	74,280	700,755
Deferred tax liabilities	23,629	222,915
Net deferred tax assets	¥ 50,651	\$ 477,840

Details of deferred tax assets and liabilities at March 31, 2003 were as follows:

	Millions of Yen
	2003
Deferred tax assets:	
Net operating losses carry-forward	¥ 133,702
Valuation loss on investment securities	18,398
Amortization of goodwill	18,366
Expenses for real estate business reorganization	12,055
Other	33,667
Gross deferred tax assets	216,188
Less: Valuation allowance	(139,455)
Total deferred tax assets	76,733
Deferred tax liabilities	2,615
Net deferred tax assets	¥ 74,118

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

A reconciliation of the difference between the statutory income tax rate and the effective income tax rate reflected in the accompanying statements of operations for the year ended March 31, 2004 is as follows:

	2004
Statutory income tax rate	42.1%
Valuation allowance	(12.5)
Permanent difference (Non-deductible)	1.3
Permanent difference (Non-taxable)	(0.9)
Lower tax rate applicable to income of foreign subsidiaries	(1.7)
Other, net	(1.2)
Effective income tax rate	27.1%

Reconciliation of the difference between the statutory income tax rate and the effective income tax rate for the years ended March 31, 2003 and 2002 is not presented, since net losses are reported in the consolidated statements of operations.

16. Statutory reserves

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. Statutory reserves mainly represented a reserve for securities and financial futures transaction liabilities amounting to ¥5,133 million (\$48,425 thousand) and ¥3,892 million at March 31, 2004 and 2003 respectively.

17. Contingent liabilities and commitments

At March 31, 2004, Daiwa had contingent liabilities amounting to ¥4,592 million (\$43,321 thousand), mainly arising as guarantors of employees' borrowings.

Undrawn amount of contractual commitments to extend credits made by the Company's subsidiary was ¥5,682 million (\$53,604 thousand) at March 31, 2004.

Additionally, one of the Company's subsidiaries engaged in the business of credit card loans had commitments to extend credit for consumer loans in the amount of ¥16,557 million (\$156,198 thousand) at March 31, 2004. Commitments to extend credit arise from agreements to extend customers' unused lines of credit on certain credit cards.

18. Shareholders' equity

Under the Commercial Code of Japan (the "Code"), the entire amount of the issue price of shares is required to be accounted for as capital, although a company may, by resolution of its Board of Directors, account for an amount not exceeding one-half of the issue price of the new shares as additional paid-in capital, which is included in capital surplus.

The Code provides that an amount equal to at least 10% of cash dividends and other cash appropriations shall be appropriated and set aside as a legal earnings reserve until the total amount of legal earnings reserve and additional paid-in capital equals 25% of common stock. The legal earnings reserve and additional paid-in capital may be used to eliminate or reduce a deficit by resolution of the shareholders' meeting or may be capitalized by resolution of the Board of Directors. On condition that the total amount of legal earnings reserve and additional paid-in capital remains being equal to or exceeding 25% of common stock, they are available for distribution by the resolution of shareholders' meeting. Legal earnings reserve is included in retained earnings in the accompanying financial statements.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with the Code. The total amount of retained earnings available for dividends in the Company's statutory book of account as of March 31, 2004 amounted to ¥231,233 million (\$2,181,443 thousand).

The shareholders of the Company approved a stock incentive plan on June 23, 2004. The plan provides for the issuance of up to 4,500 thousand shares in the form of options to directors and key employees. The options may be exercised during the period from July 1, 2006 until June 23, 2014, and the exercise price is determined at the grant date.

On June 26, 2002, the shareholders' meeting of the Company approved a change in the articles of incorporation to issue 4,000,000 thousand shares of common stock. On June 23, 2004, the shareholders' meeting of the Company approved a change in the articles of incorporation so that the Company may be entitled to repurchase its shares by the resolution of its Board of Directors.

19. Capital adequacy requirements

In Japan, the securities company is subject to risk-based capital adequacy rules established and administered by the Financial Services 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%. Capital adequacy ratios of Daiwa Securities Co. Ltd. were 363.3% (unaudited) and 379.5% (unaudited) for 2004 and 2003, respectively, and those of Daiwa Securities SMBC were 336.9% (unaudited) and 370.0% (unaudited) for 2004 and 2003, respectively.

20. Segment information

Daiwa operates predominantly in a single industry segment. The Company and its consolidated subsidiaries' primary business activities include (1) trading in securities and derivatives, (2) brokerage of securities and derivatives, (3) underwriting and distribution of securities, (4) other business related to securities transactions and (5) private offering of securities.

A summary of revenues by geographic area for the three years ended March 31, 2004, 2003 and 2002 and a summary of total assets by geographic area at March 31, 2004 and 2003 were as follows:

as follows:

	Millions of Yen					
	Japan	America	Europe	Asia & Oceania	Elimination or unallocated	Consolidated
Year ended March 31, 2004:						
Net operating revenues:						
Outside customer	¥ 314,190	¥ 7,749	¥ 23,956	¥ 6,540	¥ —	¥ 352,435
Inter-segment	1,389	3,468	3,413	1,132	(9,402)	—
Total	315,579	11,217	27,369	7,672	(9,402)	352,435
Selling, general and administrative expenses	232,269	10,197	20,413	6,111	(9,075)	259,915
Operating income	¥ 83,310	¥ 1,020	¥ 6,956	¥ 1,561	¥ (327)	¥ 92,520

At March 31, 2004:

Total assets by geographic area ...	¥ 8,617,452	¥ 1,948,621	¥ 768,712	¥ 63,531	¥ (632,651)	¥ 10,765,665
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Year ended March 31, 2003:

Net operating revenues:						
Outside customer	¥ 237,465	¥ 6,977	¥ 21,130	¥ 5,238	¥ —	¥ 270,810
Inter-segment	2,254	700	2,201	624	(5,779)	—
Total	239,719	7,677	23,331	5,862	(5,779)	270,810
Selling, general and administrative expenses	215,665	11,081	19,945	5,795	(5,785)	246,701
Operating income (loss)	¥ 24,054	¥ (3,404)	¥ 3,386	¥ 67	¥ 6	¥ 24,109

At March 31, 2003:

Total assets by geographic area ...	¥ 7,270,670	¥ 1,817,691	¥ 656,448	¥ 63,721	¥ (305,704)	¥ 9,502,826
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Year ended March 31, 2002:

Net operating revenues:						
Outside customer	¥ 240,542	¥ 16,434	¥ 23,023	¥ 4,933	¥ —	¥ 284,932
Inter-segment	9,724	648	1,530	763	(12,665)	—
Total	250,266	17,082	24,553	5,696	(12,665)	284,932
Selling, general and administrative expenses	226,435	15,109	19,502	6,267	(5,150)	262,163
Operating income (loss)	¥ 23,831	¥ 1,973	¥ 5,051	¥ (571)	¥ (7,515)	¥ 22,769

	Thousands of U.S. Dollars					
	Japan	America	Europe	Asia & Oceania	Elimination or unallocated	Consolidated
Year ended March 31, 2004:						
Net operating revenues:						
Outside customer	\$ 2,964,056	\$ 73,104	\$ 226,000	\$ 61,698	\$ —	\$ 3,324,858
Inter-segment	13,104	32,717	32,198	10,679	(88,698)	—
Total	2,977,160	105,821	258,198	72,377	(88,698)	3,324,858
Selling, general and administrative expenses	2,191,217	96,198	192,575	57,651	(85,613)	2,452,028
Operating income	\$ 785,943	\$ 9,623	\$ 65,623	\$ 14,726	\$ (3,085)	\$ 872,830

At March 31, 2004:

Total assets by geographic area . . .	\$81,296,717	\$18,383,217	\$ 7,252,000	\$ 599,349	\$ (5,968,406)	\$101,562,877
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Geographic overseas revenues for the three years ended March 31, 2004, 2003 and 2002 were as follows:

	Millions of Yen			
	America	Europe	Asia & Oceania	Total
Year ended March 31, 2004:				
Overseas revenue	¥ 10,945	¥ 20,353	¥ 8,249	¥ 39,547
Total revenue				352,435
% of total revenue	3.1%	5.8%	2.3%	11.2%
Year ended March 31, 2003:				
Overseas revenue	¥ 8,144	¥ 21,589	¥ 6,951	¥ 36,684
Total revenue				270,810
% of total revenue	3.0%	8.0%	2.5%	13.5%
Year ended March 31, 2002:				
Overseas revenue	¥ 20,389	¥ 21,195	¥ 7,358	¥ 48,942
Total revenue				284,932
% of total revenue	7.2%	7.4%	2.6%	17.2%
	Thousands of U.S. Dollars			
	America	Europe	Asia & Oceania	Total
Year ended March 31, 2004:				
Overseas revenue	\$ 103,255	\$ 192,009	\$ 77,821	\$ 373,085
Total revenue				3,324,858
% of total revenue	3.1%	5.8%	2.3%	11.2%

21. Commissions

Commissions derived from each department for the three years ended March 31, 2004, 2003 and 2002 were as follows:

	Millions of Yen					
	Equity	Fixed income (Bond)	Investment trust	Investment banking	Others	Total
Year ended March 31, 2004:						
Brokerage	¥ 78,194	¥ 1,242	¥ 209	¥ —	¥ —	¥ 79,645
Underwriting	—	—	—	46,094	—	46,094
Distribution	—	—	21,904	1,662	—	23,566
Other	1,867	3,977	20,933	8,049	10,032	44,858
	¥ 80,061	¥ 5,219	¥ 43,046	¥ 55,805	¥ 10,032	¥ 194,163
Year ended March 31, 2003:						
Brokerage	¥ 45,403	¥ 1,163	¥ 276	¥ —	¥ —	¥ 46,842
Underwriting	—	—	—	27,946	—	27,946
Distribution	—	—	14,059	608	—	14,667
Other	1,839	3,422	26,535	11,084	11,948	54,828
	¥ 47,242	¥ 4,585	¥ 40,870	¥ 39,638	¥ 11,948	¥ 144,283
Year ended March 31, 2002:						
Brokerage	¥ 58,280	¥ 1,229	¥ 244	¥ —	¥ —	¥ 59,753
Underwriting	—	—	—	27,818	—	27,818
Distribution	—	—	14,734	876	—	15,610
Other	2,387	3,442	46,425	7,619	8,815	68,688
	¥ 60,667	¥ 4,671	¥ 61,403	¥ 36,313	¥ 8,815	¥ 171,869
	Thousands of U.S. Dollars					
	Equity	Fixed Income (Bond)	Investment trust	Investment banking	Others	Total
Year ended March 31, 2004:						
Brokerage	\$ 737,679	\$ 11,717	\$ 1,972	\$ —	\$ —	\$ 751,368
Underwriting	—	—	—	434,849	—	434,849
Distribution	—	—	206,642	15,679	—	222,321
Other	17,613	37,519	197,480	75,934	94,642	423,188
	\$ 755,292	\$ 49,236	\$ 406,094	\$ 526,462	\$ 94,642	\$ 1,831,726

22. Selling, general and administrative expenses

Major components of selling, general and administrative expenses for the three years ended March 31, 2004, 2003 and 2002 were summarized as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2004	2003	2002	2004
Employees' compensation and benefits	¥ 136,964	¥ 123,904	¥ 129,972	\$ 1,292,113
Commissions and brokerage	14,573	14,867	16,176	137,481
Communications	17,444	17,317	18,518	164,566
Occupancy and rental	32,519	33,348	35,090	306,783
Data processing and office supplies	14,899	14,708	16,474	140,557
Taxes other than income taxes	5,617	4,671	5,328	52,991
Depreciation	21,530	21,067	18,775	203,113
Other	16,369	16,819	21,830	154,424
	¥ 259,915	¥ 246,701	¥ 262,163	\$ 2,452,028

23. Other income (expenses)

Details of "Other, net" in the statements of operations for the three years ended March 31, 2004, 2003 and 2002 were as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2004	2003	2002	2004
Gains on sales of investment securities	¥ 6,704	¥ 8,241	¥ 4,103	\$ 63,245
Valuation losses on investment securities	(2,691)	(20,298)	(26,615)	(25,387)
Gains on change in equity ratio in a subsidiary	—	—	4,068	—
Valuation losses on fixed assets	(58)	(272)	(247)	(547)
Losses on sale or disposal of fixed assets	(159)	55	(1,991)	(1,500)
Losses on sales of loans receivable	(557)	—	(128)	(5,255)
Reversal of multiemployers' pension plans (Note 14)	—	—	13,692	—
Provision for doubtful accounts	(648)	(4,152)	(4,517)	(6,113)
Reversal of (provision for) reorganization expenses for real estate operations	—	812	(127,401)	—
Early retirement benefits	—	—	(731)	—
Amortization of goodwill	—	—	(5,000)	—
Equity in earnings of affiliates	90	265	963	849
Impairment losses on fixed assets	(12,797)	—	—	(120,726)
Losses on liquidation of affiliates	(4,221)	—	—	(39,821)
Expenses related to merger, integration or relocation of branches	(2,473)	—	—	(23,330)
Expenses for reorganization of overseas banking subsidiary	(595)	—	—	(5,613)
Other	3,052	4,045	2,024	28,792
	¥ (14,353)	¥ (11,304)	¥ (141,780)	\$ (135,406)

For the purpose of identifying impairment of fixed assets, the Company and domestic consolidated subsidiaries grouped their fixed assets principally according to the unit on which decisions for investment are made. The recoverability of book values of the fixed assets was evaluated for each asset group. As a result, fixed assets listed below were identified as being impaired and their book values were reduced to their recoverable amounts. Impairment losses recognized in the year ended March 31, 2004 were ¥12,797 million (\$120,726 thousand).

The breakdown of impairment losses recorded were as follows:

Fixed assets to be held and used	¥ 9,103 million	(\$85,877 thousand)
Fixed assets to be disposed of by sale	¥ 3,694 million	(\$34,849 thousand)
Total	¥12,797 million	(\$120,726 thousand)

The book values of fixed assets to be held and used were reduced to their recoverable amounts based on mainly the present values of expected cash flows using the discount rates of 5% to 8%.

The book value of fixed assets to disposed of by sale were reduced to net realizable values based on mainly publicly-assessed values.

24. 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. Cash dividends (¥10 (\$0.09) per share) amounting to ¥13,307 million (\$125,538 thousand) were approved by the shareholders' meeting held on June 23, 2004, as the appropriation of retained earnings for the year ended March 31, 2004.



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. and subsidiaries as of March 31, 2004 and 2003, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended March 31, 2004, expressed in yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Daiwa Securities Group Inc. and subsidiaries as of March 31, 2004 and 2003, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2004, in conformity with accounting principles generally accepted in Japan.

The consolidated financial statements as of and for the year ended March 31, 2004 have been translated into United States dollars solely for the convenience of the reader. We have recomputed the translation and, in our opinion, the consolidated financial statements expressed in yen have been translated into United States dollars on the basis set forth in Note 1 to the consolidated financial statements.

Without qualifying our opinion, we draw attention to Note 2 to the consolidated financial statements. As discussed in Note 2 to the consolidated financial statements, Daiwa Securities Group Inc. and domestic subsidiaries made an early application of the new Japanese accounting standard for impairment of fixed assets in the year ended March 31, 2004.

KPMG AZSA & Co.

Tokyo, Japan
June 24, 2004

Corporate Data

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Chiyoda-ku, Tokyo 100-8101 Japan
Tel: 81-3-3243-2100

Internet Home Page Address

<http://www.daiwa.jp/ir/english/>

Commencement of Operations

May 1, 1902

Date of Founding

December 27, 1943

Common Stock

Authorized

4,000,000 thousand shares

Issued and Outstanding

1,331,735 thousand shares

(as of March 31, 2004)

Number of Shareholders

114,687 (as of March 31, 2004)

Independent Public Accountants

KPMG AZSA & Co.

Stock Exchange Listings

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

Transfer Agent and Registrar

The Sumitomo Trust and Banking Company, Limited

Stock Transfer Agency Department

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Daiwa Securities Group

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