

Review of Operations

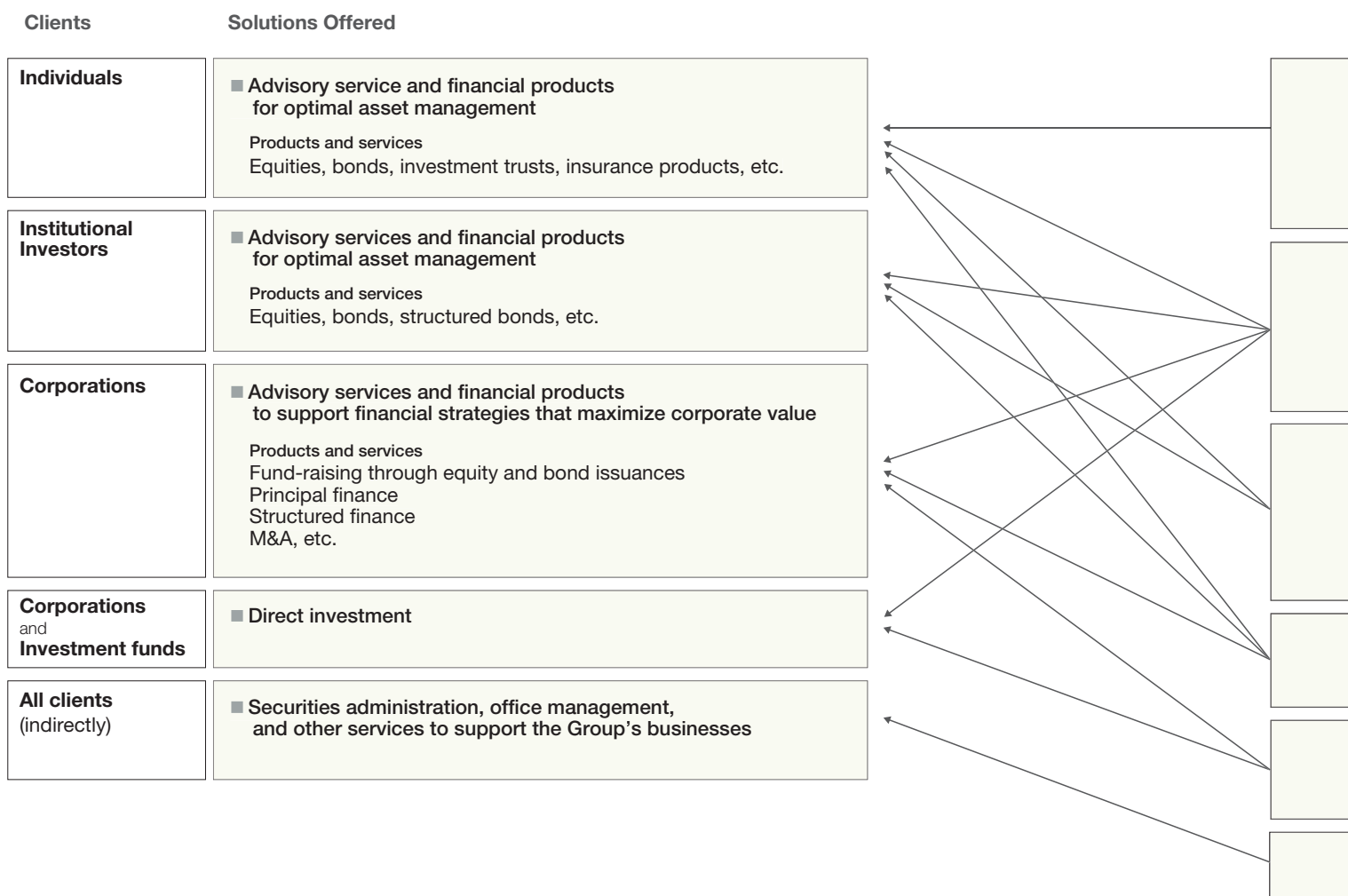
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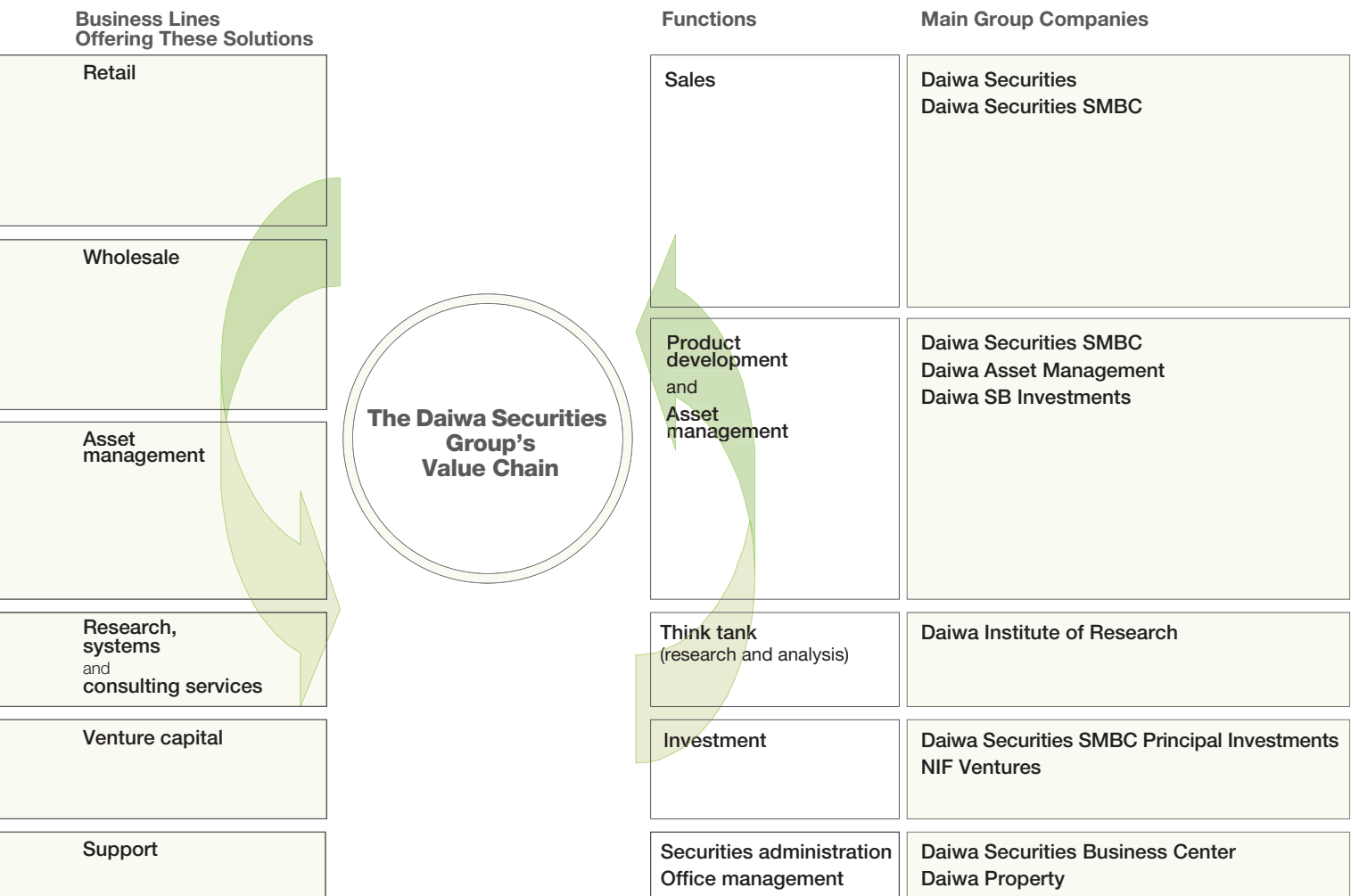
The Daiwa Securities Group at a Glance

Through the synergy of our three core functions of

- (1) sales,
- (2) development of products and services, and
- (3) research,

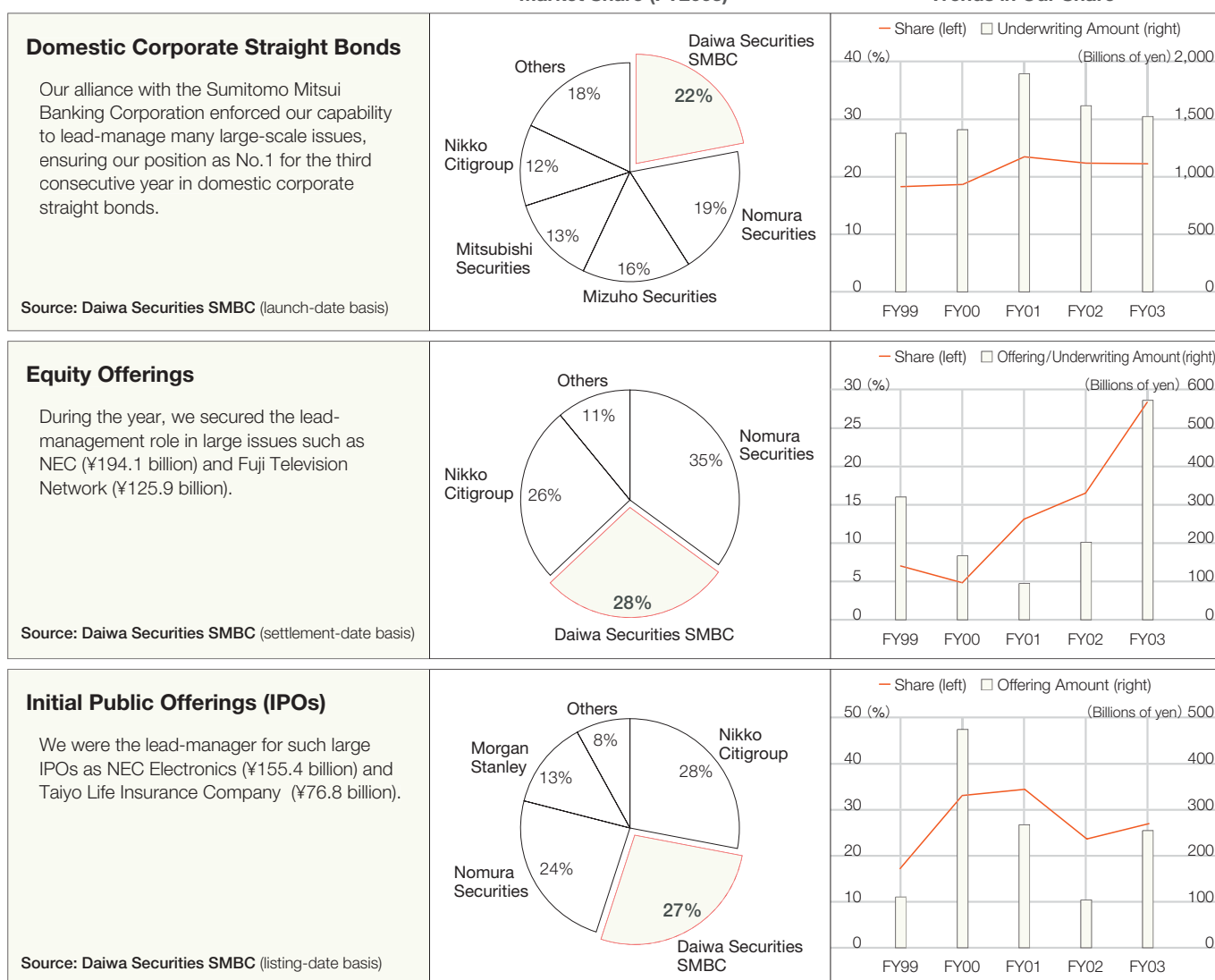
we aim to maximize the Daiwa Securities Group's corporate value.





The Daiwa Securities Group's Market Position

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



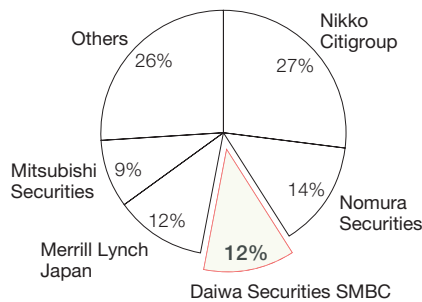
Samurai Bonds

(yen-denominated bonds issued by non-Japanese issuers in the domestic market)

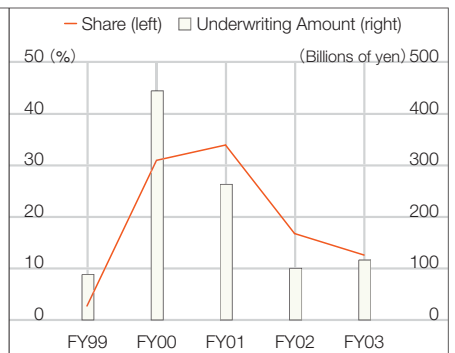
Major deals for which we acted as a lead-manager in FY2003 included The Korea Development Bank (¥65 billion) and Volkswagen FSNV (¥50 billion).

Source: Daiwa Securities SMBC (launch-date basis)

Market Share (FY2003)



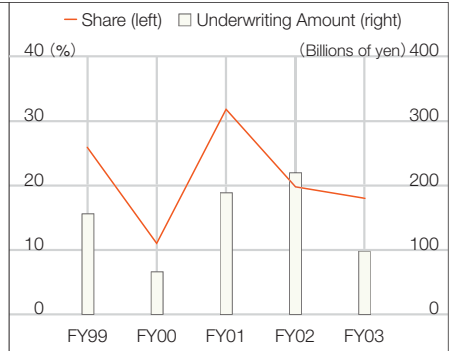
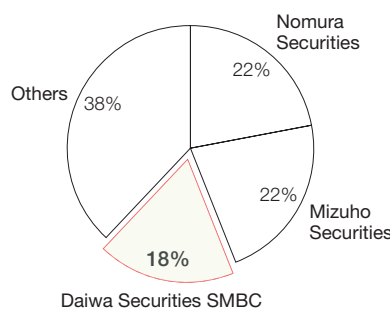
Trends in Our Share



Domestic Asset-Backed Securities (ABS) Book-Runner

Securitization deals for which we acted as a book-runner included auto loans of Orient Corporation (¥34 billion) and 5th Tokyo-CLO (¥3 billion).

Source: THOMSON DealWatch (settlement-date basis)

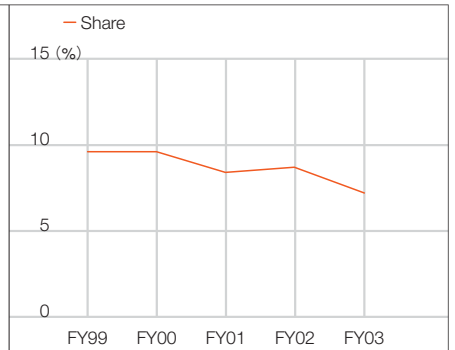
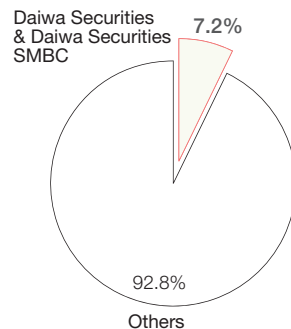


Equities

(on and off trading hours on the Tokyo Stock Exchange)

Despite the increase in transactions conducted online, Daiwa Securities and Daiwa Securities SMBC maintained a market share exceeding 7% in trading value.

Source: Daiwa Securities SMBC





Review of Operations: Retail
Daiwa Securities Co. Ltd.

Shigeharu Suzuki President

Highlights of Results

	Millions of Yen			%
	FY2001	FY2002	FY2003	
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	<ul style="list-style-type: none"> <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	<ul style="list-style-type: none"> <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	<ul style="list-style-type: none"> <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

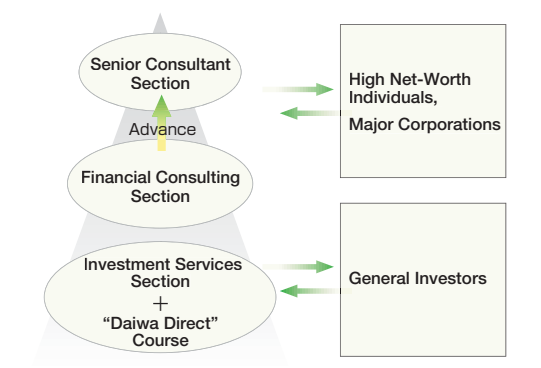
Daiwa Securities has adopted an area marketing strategy based on its Satellite Branch System. Under this strategy, its nationwide network of branches has been divided into 13 areas and 14 groups*. By transferring authority to the head of each area/group (area manager), Daiwa Securities gained flexibility, 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 wholesalers” 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.”

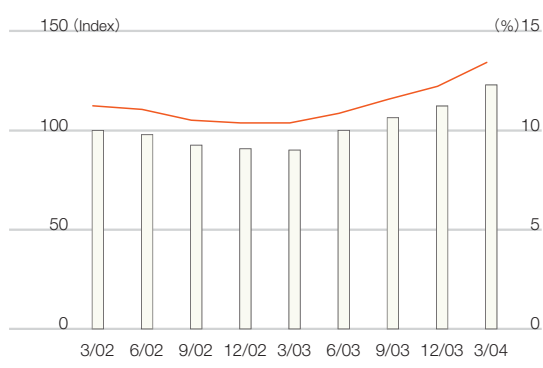
Shift to a New Sales Structure in FY 2004

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



□ Number of accounts of more than ¥10 million outstanding (indexed 3/02=100) (left)
 — Number of accounts of more than ¥10 million outstanding / Total number of accounts (right)

Additional Strategies to Broaden its Customer Base

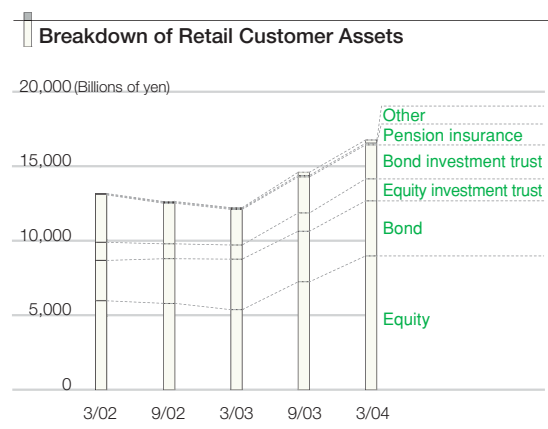
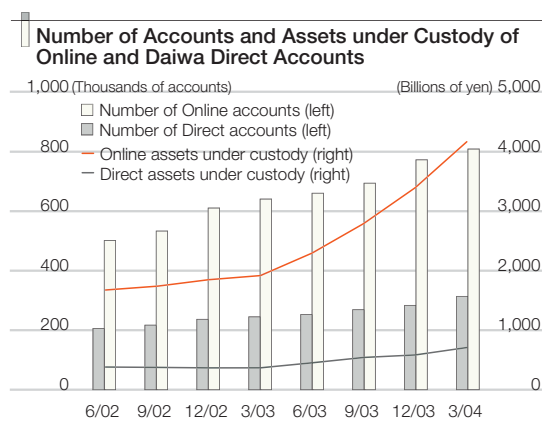
To further expand its customer base, Daiwa Securities will seek to gain maximum synergies through collaborations with both Group companies and outside companies. First of all, Daiwa Securities will accelerate its approach to regional public corporations, universities, and medium-sized companies through 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,

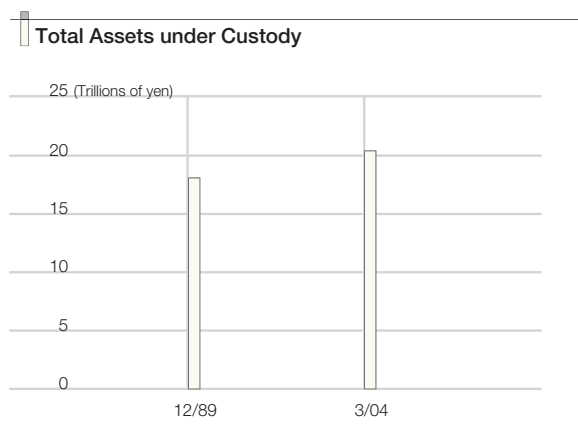
real estate expenses were down 1.5% and depreciation expenses fell 8.8%, while data processing and office supplies grew only 1.1%. Accordingly, ROE jumped, from 0.6% in FY 2002 to 9.8%.

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%





Review of Operations: Wholesale

Daiwa Securities SMBC Co. Ltd.

Tatsuei Saito President

Highlights of Results

	Millions of Yen			%
	FY2001	FY2002	FY2003	yoy
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.

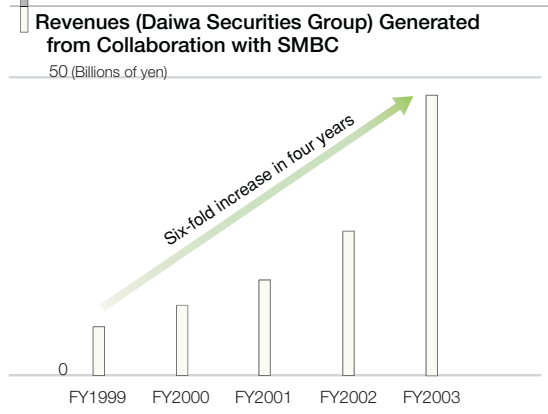
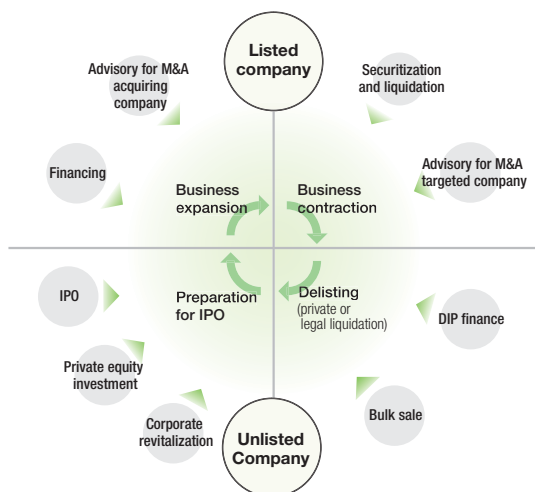
Strengthening the Alliance with the Sumitomo Mitsui Banking Corporation

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



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 Ogiwara 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			% yoy
	FY2001	FY2002	FY2003	
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.

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,

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.

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 forwards, 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-

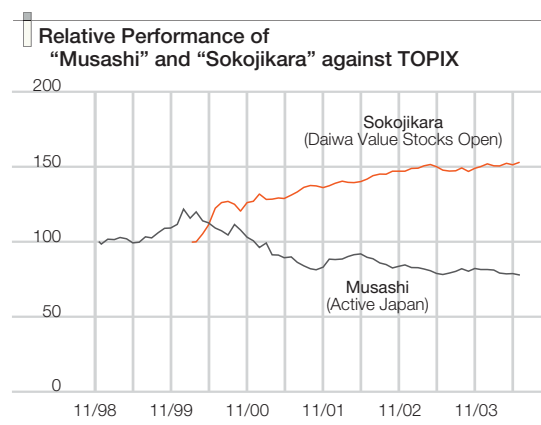
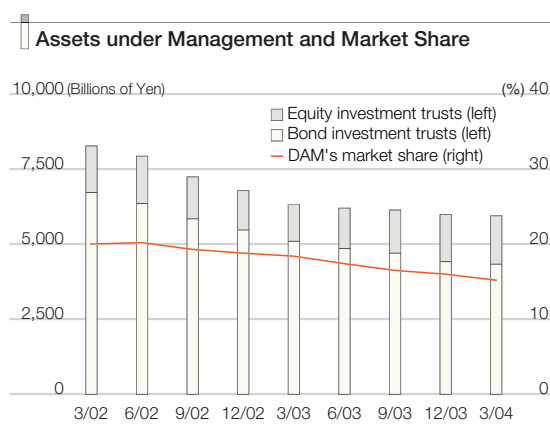
mote accountability. At the same time, DAM will reinforce compliance and other internal control systems. DAM will also increase market share by formulating strategies according to sales channels and strengthen marketing support functions.

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.





Review of Operations: Asset Management Daiwa SB Investments Ltd.

Shuichi Komori President

Highlights of Results

	Millions of Yen			%
	FY2001	FY2002	FY2003	
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.

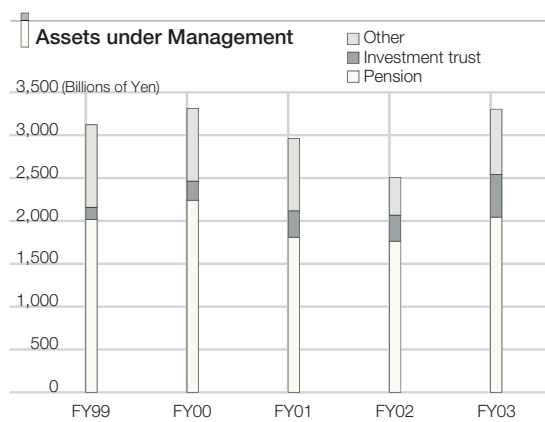
Macroeconomic Environment and Basic Strategies

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

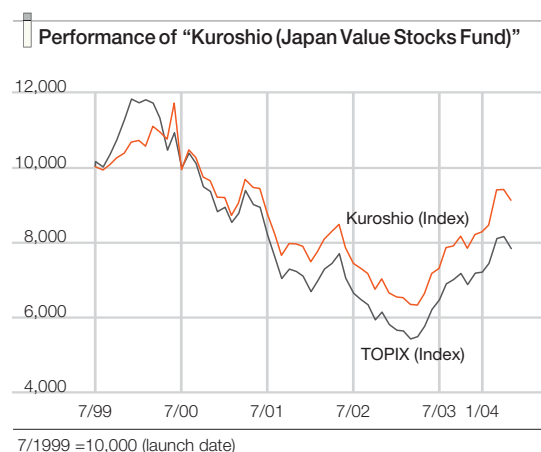
Daiwa SB Investments is building a data processing infrastructure to support its trading and day-to-day operations. It is also reinforcing its information security system and strengthening internal controls by the appointment of compliance officers and the establishment of a risk management committee.

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			% yoy
	FY2001	FY2002	FY2003	
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			% yoy
	FY2001	FY2002	FY2003	
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	
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	
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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