

Consolidated Financial Statements

86 CONSOLIDATED BALANCE SHEETS

88 CONSOLIDATED STATEMENTS OF OPERATIONS

89 CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

90 CONSOLIDATED STATEMENTS OF CASH FLOWS

92 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

113 INDEPENDENT AUDITORS' REPORT

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
	<u>596,873</u>	<u>543,890</u>	<u>5,630,877</u>
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)
	<u>1,054,917</u>	<u>391,130</u>	<u>9,952,047</u>
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)
	<u>143,123</u>	<u>162,340</u>	<u>1,350,217</u>
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)
	<u>633,009</u>	<u>696,823</u>	<u>5,971,783</u>
	<u>¥10,765,665</u>	<u>¥ 9,502,826</u>	<u>\$ 101,562,877</u>

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
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
	<u>¥ 8,511,304</u>	<u>\$ 80,295,321</u>

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
	<u>¥ 9,092,225</u>	<u>\$ 85,775,708</u>

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:

	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
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
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					Consolidated
	Japan	America	Europe	Asia & Oceania	Elimination or unallocated	
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			Total
	America	Europe	Asia & Oceania	
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