

## Review of Operations

022	Top Management
024	The Daiwa Securities Group at a Glance
026	The Daiwa Securities Group's Market Position
028	Retail
034	Wholesale
040	Investment
045	Asset Management
050	Research, Systems, and Consulting
053	Group Support

# Top Management

Corporate Executive Officer

**Takatoshi Wakabayashi**

Corporate Senior Executive Officer

**Takashi Hibino**

Director,  
Daiwa Securities Group Inc.

Corporate Senior Executive Officer

**Ikuo Mori**

Chairman of the Board,  
Daiwa Securities America Inc.

Corporate Executive Officer and CFO

**Nobuyuki Iwamoto**

Corporate Executive Officer

**Yoshinari Hara**

Chairman of the Board,  
Daiwa Securities Group Inc.

Corporate Executive Vice President

**Hiroshi Ota**

Senior Managing Director,  
Daiwa Securities SMBC Co. Ltd.

Deputy President

**Michihito Higuchi**

President,  
Daiwa Asset Management Co. Ltd.

Deputy President

**Yoshiyuki Takemoto**

President,  
Daiwa Institute of Research Ltd.

Corporate Executive  
Vice President and CIO

**Junichiro Wakimizu**

Director,  
Daiwa Securities Group Inc.

Corporate Executive Officer

**Akira Kiyota**

Deputy Chairman of the Board,  
Daiwa Securities Group Inc.  
Chairman of the Institute and Director,  
Daiwa Institute of Research Ltd.

Deputy President

**Tetsuo Mae**

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

President and CEO

**Shigeharu Suzuki**

Director,  
Daiwa Securities Group Inc.  
President,  
Daiwa Securities Co. Ltd.

Deputy President and COO

**Tatsuei Saito**

Director,  
Daiwa Securities Group Inc.  
President,  
Daiwa Securities SMBC Co. Ltd.

Deputy President

**Kenjiro Noda**

Deputy President,  
Daiwa Securities SMBC Co. Ltd.

**Daiwa Securities Group Inc.  
Executive Officers**

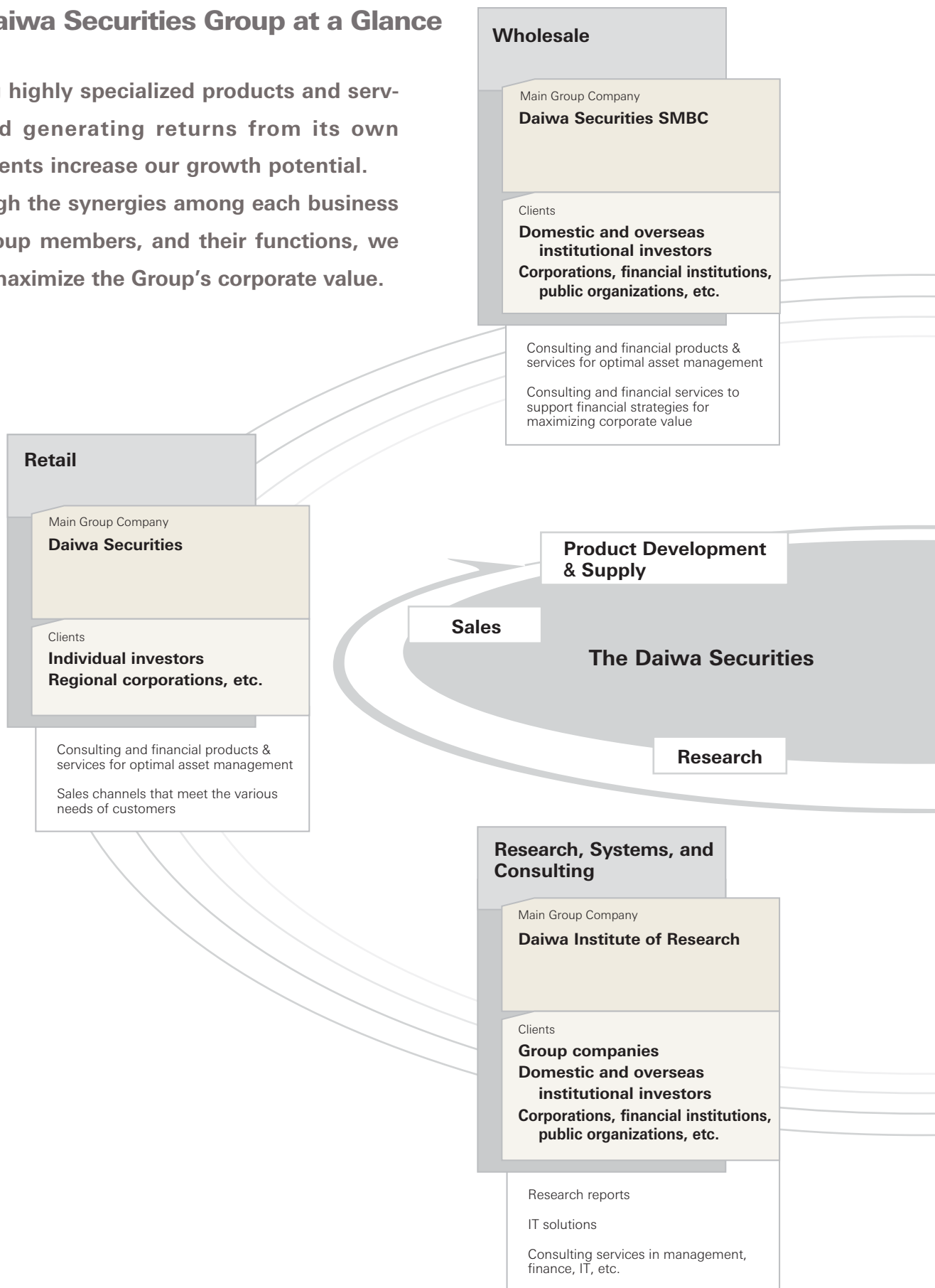


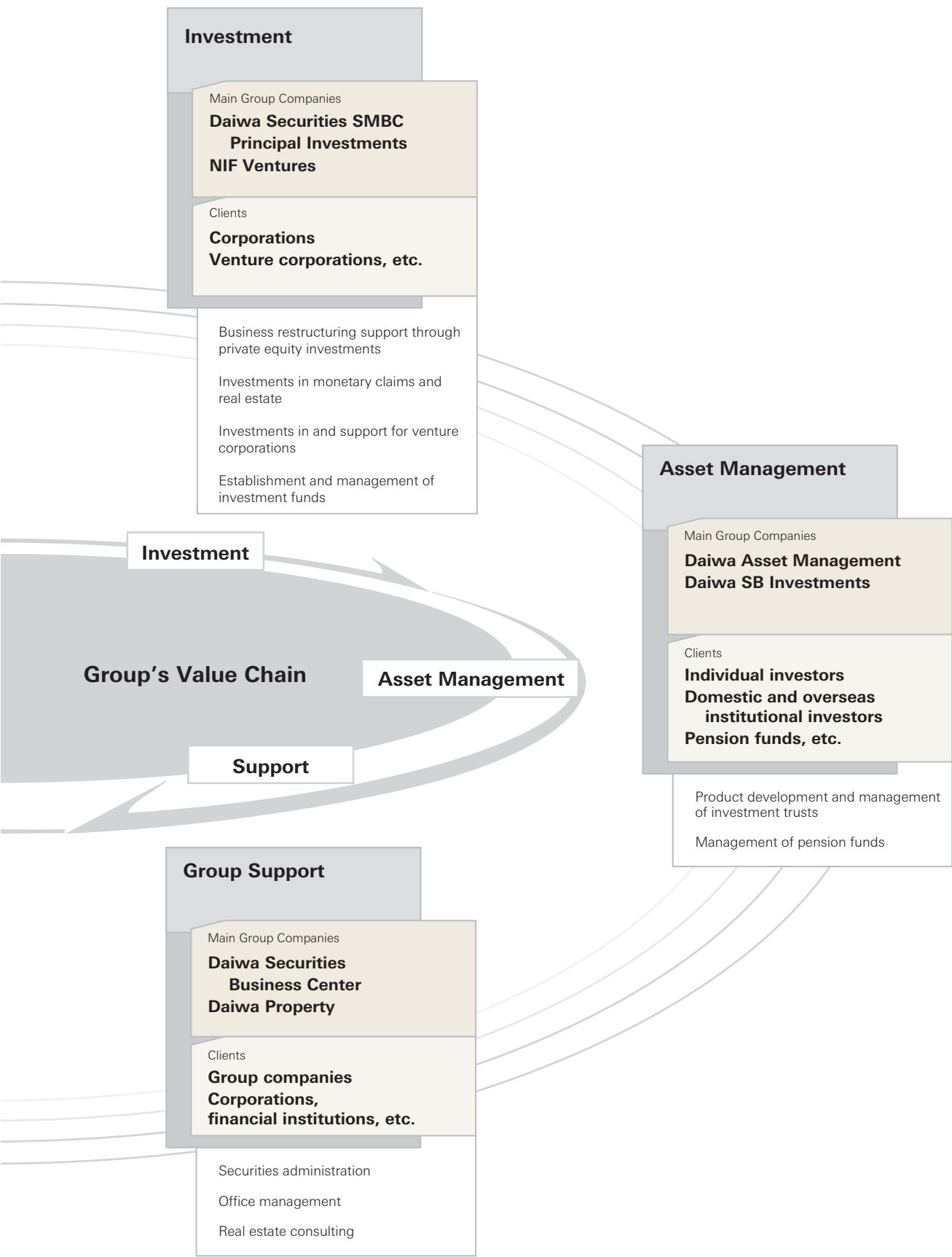
## Review of Operations

### The Daiwa Securities Group at a Glance

Offering highly specialized products and services and generating returns from its own investments increase our growth potential.

Through the synergies among each business line, Group members, and their functions, we aim to maximize the Group's corporate value.





## Review of Operations

# The Daiwa Securities Group's Market Position

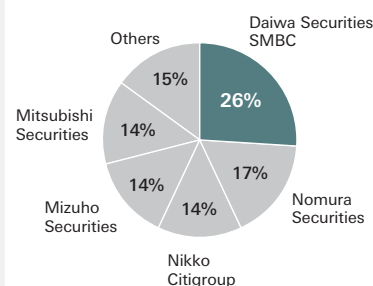
The Daiwa Securities Group has established its position in the industry based on "quality" and "productivity". To solidify this position, the Group will aim to expand its market share by making more successful deals.

### Domestic Corporate Straight Bonds

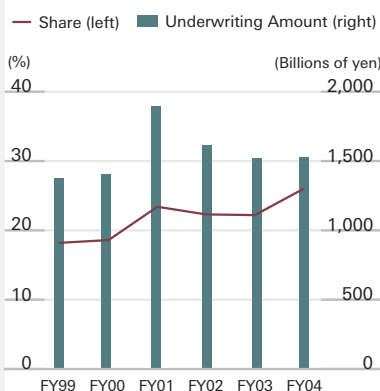
Despite a lackluster market for corporate bonds, in FY 2004 we lead-managed a number of large-scale issues, taking full advantage of our alliance with Sumitomo Mitsui Banking Corporation. We further increased our market share, remaining No. 1 for the fourth consecutive year.

Source: Daiwa Securities SMBC (launch-date basis)

#### Market Share (FY2004)



#### Trends in Our Share

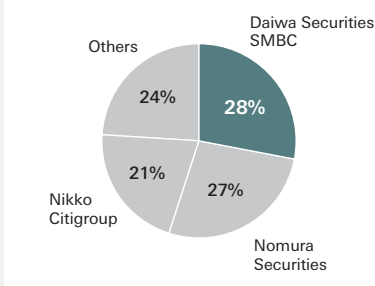


### Equity Primary and Secondary Offerings

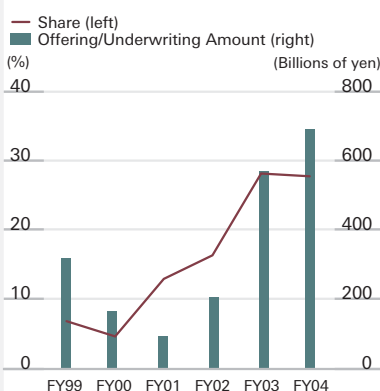
We recovered our position as No.1 for the first time in six years. Major highlights included Japan Tobacco (¥243.9 billion) and Sumitomo Corporation (¥103.9 billion).

Source: Daiwa Securities SMBC (settlement-date basis)

#### Market Share (FY2004)



#### Trends in Our Share

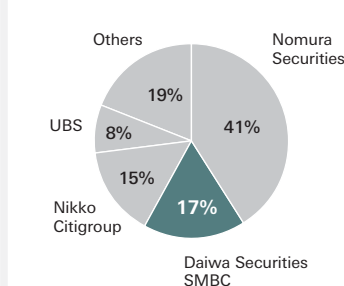


### Initial Public Offerings (IPOs)

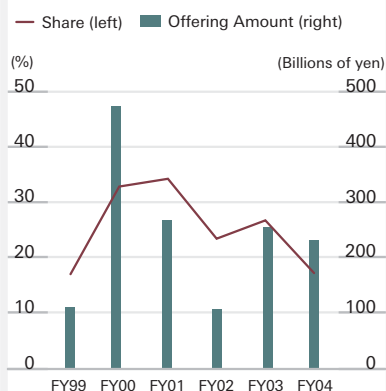
IPO deals that we lead-managed in FY 2004 included the TSE First Section listings of Elpida Memory (¥78.7 billion), Japan's only dedicated DRAM manufacturer and one of the world's largest, and INPEX (¥46.0 billion), one of Japan's largest oil and natural gas development companies.

Source: Daiwa Securities SMBC (listing-date basis)

#### Market Share (FY2004)



#### Trends in Our Share



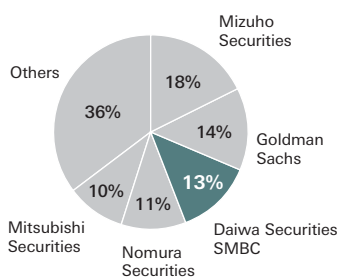
### Samurai Bonds

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

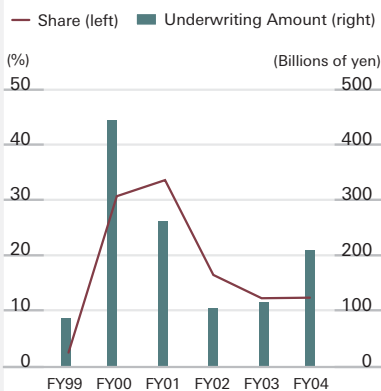
Major deals for which we acted as a lead manager included Ford Motor Credit Company (total ¥190 billion) and Volkswagen International Finance NV (¥50 billion)

Source: Daiwa Securities SMBC (launch-date basis)

#### Market Share (FY2004)



#### Trends in Our Share

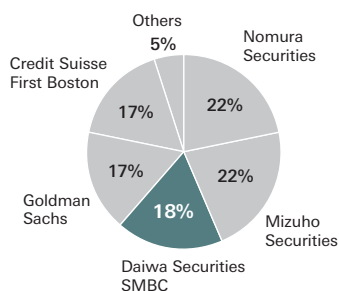


### Domestic Asset-Backed Securities (ABS) Book-Runner

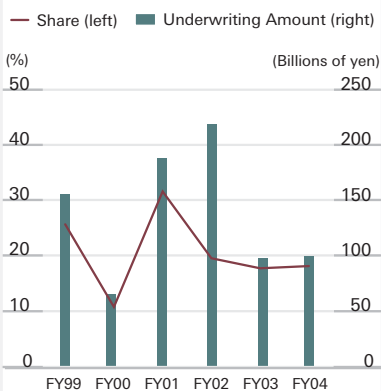
We were the book runner for securitization issues such as housing loans of the Government Housing Loan Corporation (total ¥40 billion) and automobile loans of Orient Corporation (¥22.4 billion).

Source: THOMSON DealWatch (settlement-date basis)

#### Market Share (FY2004)



#### Trends in Our Share



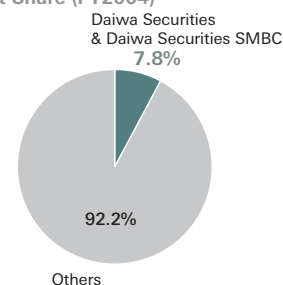
### Equity Trading Market Share

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

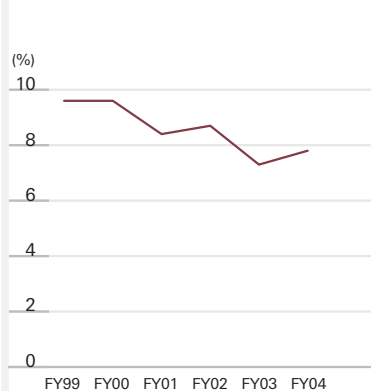
Although equity transactions undertaken by individuals increased, online brokers grew their market share, causing Daiwa Securities' share to decline. Nonetheless, market share of Daiwa Securities SMBC was up, showing a positive year-on-year turnaround for the Group as a whole.

Source: Daiwa Securities SMBC

#### Market Share (FY2004)



#### Trends in Our Share



## Review of Operations

### Retail

The retail arm of the Daiwa Securities Group, Daiwa Securities Co. Ltd., is making steady progress in its quest to become No. 1 in the retail securities industry. This progress is attributed to the convenience for customers provided through our sales channels combining branch network and online, and the distinctive products and services backed by highly specialized expertise.

#### Overview

##### Main Business

Daiwa Securities advises its customers, mainly individuals, on financial asset management. It delivers products and services that meet the needs of each and every customer through its professional salespeople and highly convenient online channel, aiming to support our clients' high quality of life.

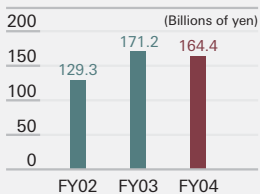
##### Products and Services

- Sales and brokerage of stocks and bonds
- Sales and brokerage of investment trusts and insurance products
- Wrap account services (SMA—Separately Managed Account—services)
- Specialist consulting on asset management

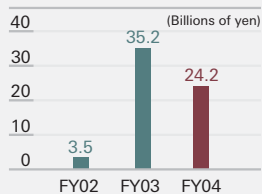
#### Highlights of Results

##### Daiwa Securities Co. Ltd.

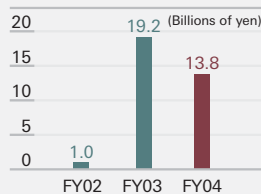
###### Net operating revenues



###### Ordinary income



###### Net income



###### ROE





## The Daiwa Securities Group's Competitive Edge

### 1. Top quality products and services through the Group synergy

Daiwa Securities works in cooperation with other members of the Group, all of which are highly regarded in their respective fields such as product development, asset management, and research. This enables the company to provide high-value-added and fine-tuned services.

### 2. Utilization of multi-channels

In order to offer high-quality services that meet the specific needs of customers, Daiwa Securities employs three major sales channels: branch offices, the call center, and the Internet. These services are delivered via "Two-courses": Daiwa Consulting, for those who desire face-to-face consulting, and Daiwa Direct, for those who prefer online trading. The company's online services in particular have advanced to a great extent after the revision of the Daiwa Direct course. The company has also commenced securities intermediation services, thus further broadening its sales channels.

## Current Status and Strategies

### 1. Business Environment

Amid a prolonged low-interest-rate environment in Japan, there is a growing tendency for investors to assume certain levels of risk to pursue higher returns. This trend, partly supported by the favorable turn in the equity market since FY 2003, has led to a significant shift "from saving to investing" among individuals in Japan. In April 2005, the government stopped providing unlimited guarantees on bank deposits—an event that has accelerated the trend among individuals to diversify their investments. These and other factors are strongly favoring the retail securities business. Meanwhile, individuals are becoming more and more selective about financial institutions, products and services, and their needs are also diversifying. The ability of securities companies to appropriately address these trends and offer high quality products and services will become increasingly important.

## 2. Progress and Future Growth Strategies

The Daiwa Securities Group has implemented a variety of reforms in anticipation of the previously mentioned changes in the business environment. In addition to structural reforms, we have worked hard to enhance our retail business by upgrading sales channels and improving management efficiency.

### FY 2004 Highlights

#### — Steady expansion of customer base and assets under custody

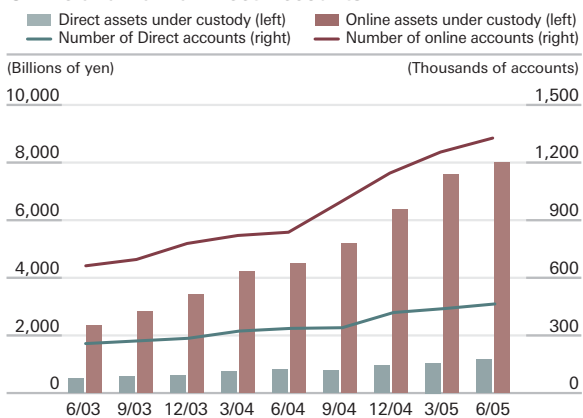
##### • Improved online trading services

In FY 2004, we dramatically improved our online trading services. For example, we increased the lineup of our products and services to cover primary, secondary equity offerings and IPOs that are not lead-managed by Daiwa Securities SMBC Co. Ltd. (Daiwa Securities SMBC), as well as open-end margin transactions. We also enhanced our information contents, which include research reports compiled by Daiwa Institute of Research Ltd. (DIR) and news from information vendors. Portfolio analysis and chart functions were also upgraded. In addition, the company raised convenience for customers by enabling them to deposit funds to their accounts via mobile phone. As a result of these initiatives, Daiwa Securities boosted the number of online accounts to 1.25 million at the end of FY 2004, a 1.5-fold jump from a year earlier. Online assets under custody surged 1.8-fold, to ¥7.5 trillion at fiscal year-end.

##### • Reinforcement of consulting sales: Launch of Daiwa SMA to attract high-net-worth individuals

In FY 2004, Daiwa Securities adopted a new sales system. In line with this change, the company strengthened our consulting capabilities with the establishment of the Senior Consultant Section consisting of professionals equipped with specialist knowledge of areas such as finance and taxation. As a new approach to high-net-worth customers, the company launched a new asset management service, “Daiwa SMA,” in September 2004. In this new service, SMA consultants will fully support their customers from consultation on investment needs and development of investment strategies, to follow up. Since commissions are tied to performance, Daiwa SMA provides a “win-win” situation for both customers and the company. The asset management performance of Daiwa SMA has been favorable to date, earning broader support from high-net-worth customers. At fiscal year-end, the number of Daiwa SMA accounts reached 200, with more than ¥18 billion under management. Accounts have further increased to 400 and assets to ¥40 billion as of the end of June 2005.

#### Number of Accounts and Assets under Custody of Online and Daiwa Direct Accounts



##### • New channel: Securities intermediation business

In addition to the company’s branch offices, the call center, and the Internet, Daiwa Securities is focusing on the securities intermediation business as a new channel for selling its products. Prior to December 2004, when restrictions on securities intermediation services by financial institutions were lifted, the company proactively negotiated tie-ups, mainly with regional banks. As a result, Daiwa Securities had agreed to form alliances with approximately 30 region-

al banks as of the end FY 2004. Although the securities intermediation business has not yet made a major contribution to earnings, some partner banks have started to generate positive results in sales of foreign currency-denominated bonds and structured bonds.

Outside of regional banks, Daiwa Securities is also collaborating with Sumitomo Trust & Banking Corporation to expand its products, services and customer base.

• **FY 2004 results**

Centering on the Daiwa Global Bond Fund, Daiwa Securities generated solid sales of equity investment trusts as well as Japanese government bonds to individual investors. However, trading gains declined due to a fall in sales of foreign currency-denominated bonds. As a result, net operating revenues declined 4.0% to ¥164.4 billion, ordinary income fell 31.2% to ¥24.2 billion, and net income was down 28.1% to ¥13.8 billion year-on-year. However, assets under custody increased owing to a surge in equities and equity investment trusts, placing the company in a good position to expand top-line revenues in FY 2005 and beyond.

**Growth Strategies**

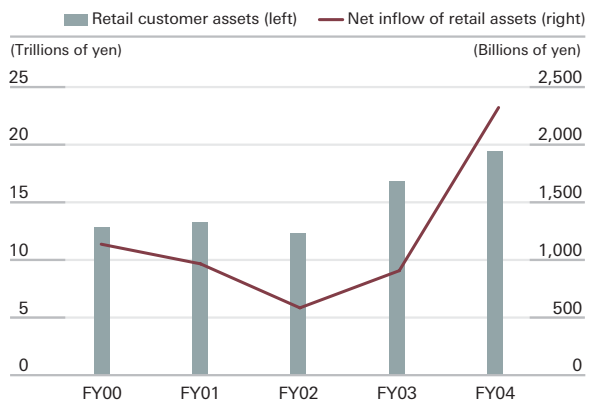
— **Targeting increased earnings through three pillars**

• **Further expansion of customer base**

To further broaden our customer base and boost top-line growth, Daiwa Securities will continue focusing on three key businesses: online services, Daiwa SMA, and the securities intermediation business.

By concentrating on these three fields, the sales force can focus on expanding the company’s client base and providing fine-tuned consulting to achieve its top-priority issue, further increasing net assets under custody.

**Retail Customer Assets and Net Inflow of Retail Assets**



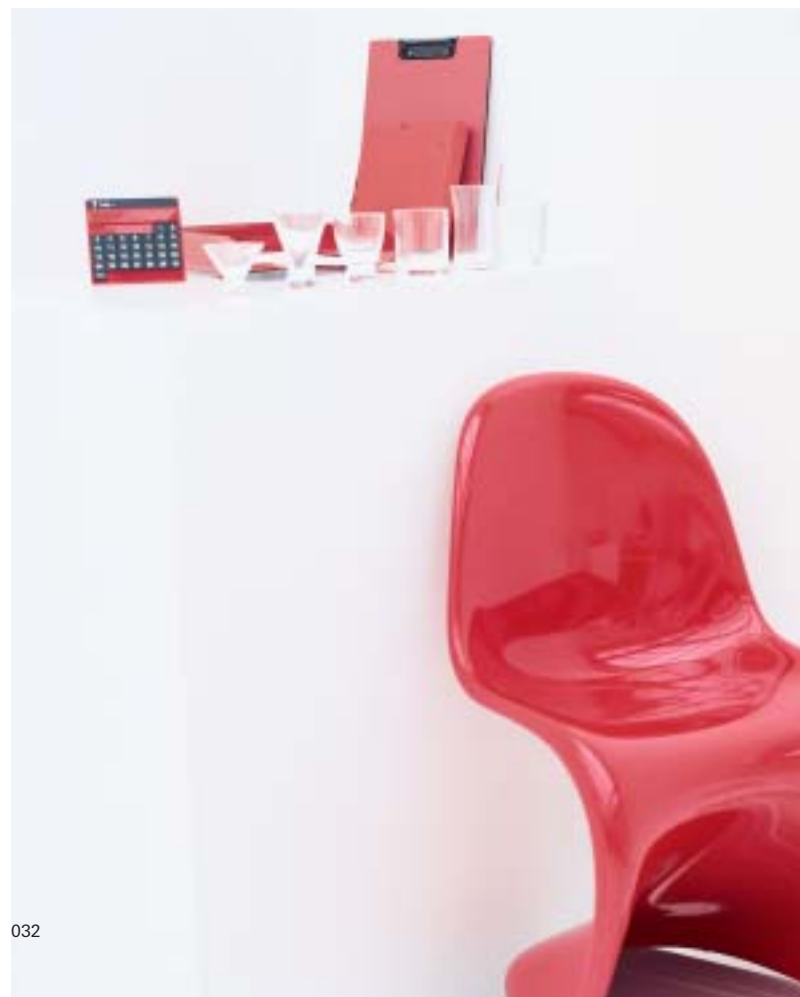
In online services, the company made major changes to its Daiwa Direct course in May and July 2005. These include a reduction in commission rates and improvements in the convenience of margin transaction services (see “Topics” section for more details). By the end of FY 2005, Daiwa Securities is targeting margin positions outstanding of ¥200 billion. By FY 2007, the company plans to generate between ¥2.5 billion and ¥4.0 billion per month from its online trading services.

With respect to Daiwa SMA, the goal is to raise assets under management to ¥100 billion by FY 2005 year-end and to ¥500 billion by FY 2007 year-end. Daiwa Securities will broaden its product lineup and investment styles to establish a dominant position. The company will also hire skilled asset managers and improve the quality of our SMA consultants in order to build stronger trust with its customers.

In the securities intermediation business, Daiwa Securities will pursue an expansion of revenues by reinforcing its support system for partner banks and encouraging them to become more proactive in providing securities intermediation services. These results should enable the company to form more alliances. By FY 2007, we are targeting annual revenues of ¥15 billion from the securities intermediation business.

- **Focus on equities**

As the Japanese economy turns up, demand for consultants with superior expertise in equity-related investments, such as stocks and equity investment trusts, is increasing in the area of household financial asset management. In the retail business, Daiwa Securities will demonstrate its professionalism in handling risk products, built in its long experience in the capital market, to promote the merits of investing in stocks and equity investment trusts. The company will also make every effort to increase customer satisfaction by providing solid advice on portfolio management.



## Topics

### Major Upgrade of Daiwa Direct Course

Amid rapid proliferation of online securities transactions, we significantly enhanced our Daiwa Direct course in order to reinforce our competitive edge in online services. This was implemented in two stages, in May and July 2005. In addition to support functions through our branch network, the revamp has greatly increased convenience for customers. Under the concept of “trade on the net, support at the shop” (“Nettrade & Shopport”), we plan to further unite the real (branch) and the virtual (internet). Key points of the changes are summarized below.

- In a dramatic reform of our fee structure, we introduced a flat-fee system for online transactions under the Daiwa Direct course. Daiwa Securities is the first major securities company to adopt such a structure. The flat-fee system became effective for margin transactions on May 9 and for cash transactions on July 1.
- We simplified account-opening procedures for our online margin transaction service. To utilize our nationwide branch network more effectively and raise convenience for customers, on April 19 we streamlined processes for opening margin transaction accounts at our branches, which can now be done on the same day.
- On May 9, we abolished a rule requiring customers to have at least ¥1 million of assets under custody in order to execute margin transactions (the legal initial margin requirement of ¥300,000 has remained in effect.) On July 1, we also allowed double margin trading, a transaction in which the securities of a company used as collateral can be purchased on margin within a certain limit, and cross trading, where both long and short positions of the same stock can be held.
- On May 9, we changed the rules to give customers a greater chance of purchasing stocks through our IPO stock draw service. Under the new system, customers can increase their chances of acquiring IPO stocks, depending on their “mileage points” outstanding under Daiwa Securities’ mileage program.
- On July 1, we added new services—“loop trading” and “Daiwa Online Library.” For customers who apply for online subscription of trading reports, we also stopped charging account keeping fees for depositing domestic stocks.

## Review of Operations

### Wholesale

Based on its financial expertise and skills, the Daiwa Securities Group is providing a diversified array of solutions and advice related to financial strategies, fund-raising, and fund management to its corporate clients both domestic and overseas. Throughout the process, we will contribute to the development of the Japanese economy, which is currently making steady progress toward a market-oriented economy. In the wholesale business, we are utilizing the alliance with Sumitomo Mitsui Banking Corporation (SMBC), a leading Japanese “megabank,” to expand our customer base, and pursue the position as the “leading investment bank in Japan”

#### Overview

##### Main Business

We seek to address the diversified needs of customers, mainly in the corporate sector, in areas such as fund-raising, asset management, business restructuring, and balance sheet reinforcement. Through providing various solutions and advice in such areas, we endeavor to improve the corporate value of our clients, thus helping to stimulate the domestic economy.

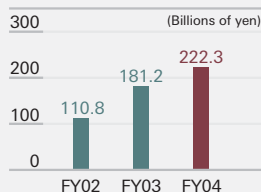
##### Products and Services

- Brokerage services for stocks, bonds, derivatives, and other securities
- Underwriting of stocks, bonds, asset-backed securities (ABS), and other issues
- Advisory and intermediary services for M&A and other corporate strategies

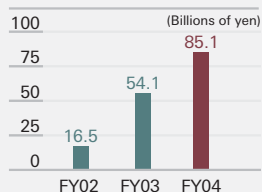
#### Highlights of Results

##### Daiwa Securities SMBC Co. Ltd. (Consolidated)

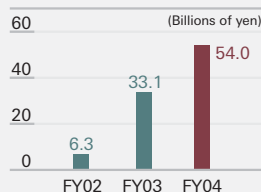
###### Net operating revenues



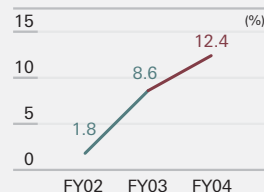
###### Ordinary income



###### Net income



###### ROE



Note: The figures for FY 2002 do not include the figures of Daiwa Securities SMBC Principal Investments Co. Ltd. and overseas consolidated subsidiaries.

## The Daiwa Securities Group's Competitive Edge

### 1. Japan's only alliance between a leading securities firm and a megabank

Daiwa Securities SMBC Co. Ltd., the Group's wholesale arm, is a joint venture between the Daiwa Securities Group, which owns a 60% stake, and the Sumitomo Mitsui Financial Group (SMFG), which holds 40%. By bringing together the customer bases, financial expertise and skills, and other resources of the two financial groups, Daiwa Securities SMBC is able to deliver an advanced array of financial services. As a result, the company consistently ranks at or near the top of multiple league tables.

### 2. Active utilization of in-Group resources

With a horizontally integrated product development and marketing system throughout the Group, Daiwa Securities SMBC provides comprehensive proposals incorporating advanced knowledge and expertise. For example, its Research & Advisory Department is made up of two entities: the Financial Strategy Team, which includes accountants and other professionals in that field, and the Business Strategy Team, centering on former equity analysts at Daiwa Institute of Research Ltd. (DIR). The department, therefore, is well poised to offer diverse solutions to the various issues encountered by customers.

## Current Status and Strategies

### 1. Business Environment

Japan has finally emerged from the "era of three excesses"—excess investment, excess debt, and excess employment—that has long plagued its economy. In this light, corporate management strategies are shifting in emphasis from business reorganization to business expansion. Due to increasing globalization, moreover, companies are under pressure to address changes in the international environment, rather than concentrate on domestic issues alone. Under the circumstances, management strategies designed to strengthen competitiveness and assure sustainable growth are becoming more diversified and complex, and require more advanced and comprehensive solutions. In particular, we expect that business opportunities in M&As, which is deregulating and attracting increasing attention, will increase.



## 2. Progress and Future Growth Strategies

Increasing shareholders' value has become a key issue for the corporations in Japan. It requires highly specialized capabilities to handle equity businesses in a broad range of areas including not only trading and underwriting but also M&As. In response, Daiwa Securities SMBC will continue improving our expertise in both fund-raising and asset management in order to provide corporate customers with solutions of the highest quality.

### FY 2004 Highlights

#### — Rising presence both at home and overseas

##### • Improved position in league tables

In FY 2004, amid a contracting overall market for corporate bonds, Daiwa Securities SMBC secured numerous major deals. For example, we acted as the lead manager for agency bonds issued by Japan Highway Public Corporation (total ¥280 billion) and Japan Bank for International Cooperation (total ¥200 billion), as well as for corporate straight bonds issued by Tokyo Electric Power Company (total ¥100 billion) and Mitsui Sumitomo Insurance (total ¥100 billion). As a result, we maintained our No.1 position in the lead manager league tables for total corporate bonds and further raised our market share, from 21.0% in FY 2003 to 24.4% in FY 2004. We also lead-managed major privatization and other large-scale equity issues, including

global offerings by Japan Tobacco (global secondary offering ¥243.9 billion) and Sumitomo Corporation (global primary offering ¥103.9 billion), propelling us to No.1 in the equity primary and secondary offerings for the first time in six years. In M&As, we acted as advisor to Fuji Television Network, with respect to converting Nippon Broadcasting System, into a wholly owned subsidiary and investing in livedoor. We also served as intermediary in the merger of the liquid crystal display businesses of Seiko Epson Corporation and SANYO Electric. Our share of the M&A market rose from 13.1% in 2003 to 38.7% in 2004 on a calendar year basis, boosting our ranking from seventh to first\*. Although our share of the IPO market fell from 26.8% to 17.3%, we maintained our No. 2 position.

\* Announced on January 5, 2005 (Thomson Financial)

### Major Deals in FY 2004

Corporate straight bonds	SMBC (total ¥470 billion), Tokyo Electric Power (total ¥100 billion), Mitsui Sumitomo Insurance (total ¥100 billion), Elpida Memory (total ¥70 billion)
Agency bonds	Japan Highway Public Corporation (total ¥280 billion), Japan Bank for International Cooperation (total ¥200 billion), Urban Renaissance Agency (¥90 billion)
Structured finance	RMBS issued by The Chuo Mitsui Trust and Banking (issue ¥409 billion, underwriting ¥300 billion), RMBS issued by SMBC (issue & underwriting ¥290 billion)
Equity primary and secondary offerings	Japan Tobacco (¥243 billion), Sumitomo Corporation (¥103 billion), Softbank Investment (¥53 billion)
M&As	Advisor to Fuji Television Network in making Nippon Broadcasting System its wholly owned subsidiary and investing in livedoor Intermediary for Seiko Epson and SANYO Electric to integrate their LCD businesses Advisor to SMFG in forming capital and business alliance with Promise
IPOs	Elpida Memory (¥78 billion), INPEX (¥46 billion)
Samurai bonds	Ford Motor Credit Company (total ¥190 billion), Volkswagen International Finance NV (¥50 billion), Republic of Poland (¥50 billion), Republic of Hungary (¥50 billion)



- **Increasing trading revenues**

We have made steady progress in trading revenues, which was one of our issues. In FY 2004, Daiwa Securities SMBC's trading revenues (non-consolidated) amounted to ¥105.9 billion, up 60.9% from FY 2003 and up 4-fold from the level of FY 2001. A major driver in this revenue growth was an increase in third party allocation issues such as Fuji Television Network and Haseko Corporation.

- **Strengthening collaboration with SMBC**

One major contributor of the aforementioned achievements in our wholesale business is a reinforcement of the alliance with SMBC. In FY 2004, brokerage revenues generated by the collaboration surged around 60%, while investment banking revenues grew about 20%. Overall revenues from the collaboration have reached approximately ¥60 billion, jumping more than seven times in five years.

In FY 2004, we entered a new alliance in the securities intermediation business. Under the new arrangement, Daiwa Securities SMBC transferred its staff to the Securities Marketing Department of SMBC, and also set up the Securities Broking Unit within its Fixed Income Sales Department. Complementing the efforts of Daiwa Securities SMBC, Daiwa Securities is also taking a more aggressive approach to regional public corporations, educational corporations and medium-sized companies by taking advantage of the alliance with SMBC.



**Daiwa Securities SMBC: Lead-Manager League Table**

	FY2001	FY2002	FY2003	FY2004
Equity primary and secondary offerings	No. 4 (13.1%)	No. 2 (16.4%)	No. 2 (28.2%)	<b>No. 1</b> (27.8%)
Total corporate bonds	No. 1 (23.1%)	No. 2 (20.8%)	No. 1 (21.0%)	<b>No. 1</b> (24.4%)
IPOs	No. 2 (34.3%)	No. 2 (23.5%)	No. 2 (26.8%)	<b>No. 2</b> (17.3%)
M&As (Calendar year basis)	No. 4 (26.9%)	No. 3 (12.3%)	No. 7 (13.1%)	<b>No. 1*</b> (38.7%)

Source: Daiwa Securities SMBC, Thomson Financial for M&A table  
 \* Announced on January 5, 2005 by Thomson Financial

- **Improving our overseas presence**

We continue to report improved overseas performances, including acting as an underwriter for bonds issued by the World Bank. In FY 2004, Daiwa Securities SMBC was named “Euroyen/Global Yen Bond House of the Year” by IFR magazine. We also enhanced our track record in fund-raising via Public Offering Without Listing (POWL) for overseas companies, including Shanghai Electric Group Company. Moreover, we lead managed a Chinese company’s global offering for the first time as global coordinator. In November 2004, we started to operate Daiwa SMBC-SSC Securities, the first Japanese-affiliated joint securities company established in mainland China. (Please see “Topics” for more details.)

- **Daiwa Securities SMBC: FY 2004 results**

In FY 2004, consolidated net operating revenues of the company rose 22.7% year-on-year, to ¥222.3 billion, thanks to significantly improved trading revenues, as well as large increases in underwriting, distribution, M&As, and other commissions. The rise in SG&A was limited to 8.4%, leading to a 57.4% jump in ordinary income to ¥85.1 billion, and a 63.0% increase in net income to ¥54.0 billion. As a result, ROE improved from 8.6% in FY 2003 to 12.4% in FY 2004.

## **Growth Strategies**

- **Further expansion with “power” and “scale”**

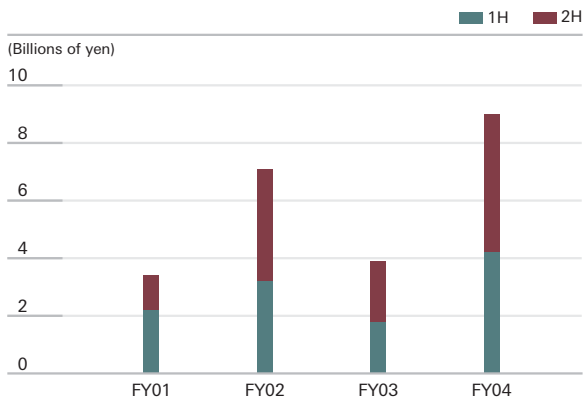
M&As will play a central role in our future revenue expansion strategy. Domestic M&A deals may have grown in size, and, in preparation for legislative amendments, we expect an increase in the number of cross-border deals. In response, we will expand our U.S.-based M&A staff, from five to twelve, while also strengthening ties among divisions within the company and companies throughout the Group.

We will also continue to reinforce our product development capabilities. We established the Structured Products Department in April 2005, in order to fortify ties between the Investment Banking force and the Relationship Management force to create high-value-added products that meet specific customer needs.

In trading, we will expand our consulting-based services to meet customer needs and develop innovative financing schemes. Moreover, we will seek to reinforce and further stabilize our earnings through more rigorous risk management and aggressive risk-taking.

We will also strengthen our overseas business. In addition to boosting underwriting of global bond issues, we will leverage our domestic sales capabilities to expedite our involvement in foreign equities. We have positioned Asia, especially China, as a priority region, and we plan to set up offices in Thailand and India in the near future.

## Revenues from M&amp;A Activities



## Topics

## The First Japanese-Affiliated Securities Company in Mainland China

In November 2004, Daiwa SMBC-SSC Securities Co., Ltd., the first Japanese-affiliated securities company to be established in mainland China, commenced operations in Shanghai. Capitalized at ¥6.5 billion, the new company is a joint venture between Daiwa Securities SMBC, with a stake of around one-third, and Shanghai Securities Corporation, a member of the Shanghai International Group.

In May 2005, Daiwa SMBC-SSC Securities was officially approved by the China Securities Regulatory Commission to underwrite Chinese equities (A-stocks). Taking advantage of this status, it will focus on underwriting equity issues by Japanese-affiliated joint ventures and local companies listed on the Shanghai and Shenzhen Stock Exchanges. It will also provide other diversified services, including acting as intermediary for M&A deals between Chinese and Japanese companies.

Adopting a medium- to long-term perspective, the Daiwa Securities Group will focus on tapping the Chinese market, which has huge growth potential. As the financial services industry becomes more global in nature, the Group is confident that its overwhelming strength in providing solutions will reap significant benefits.

## Review of Operations

### Investment

Seeking to improve return on equity (ROE), the Daiwa Securities Group actively invests in corporations, real estate, and other areas that are expected to produce high returns. We have unparalleled expertise in these types of investments, and also have the skills to gain high profits under strict risk control. Using such capabilities, we will actively allocate management resources to further broaden the scale of our investment activities.

#### Overview

##### Main Business

We use our own capital to invest in areas such as private equity, real estate, and monetary claims. Our aim is to help firms restructure their businesses and to foster the emergence of new industries, while also boosting the corporate value of the companies in which we invest to generate solid returns. In addition to using our own capital, we serve as an intermediary of risk money by developing and managing various funds. Through these initiatives, we seek to contribute to the development of the Japanese economy as a key player supporting corporate recovery and venture capital businesses.

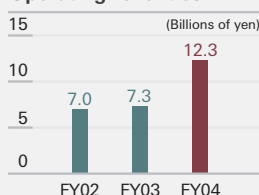
##### Products and Services

- Investments in monetary claims including non-performing loans and real estate (Daiwa Securities SMBC PI)
- Buyout investments to support business restructuring of companies with high-quality management resources (Daiwa Securities SMBC PI, NIF)
- Investments in domestic and overseas venture businesses with innovative technologies and business models (NIF)
- Development and management of funds, including regional revitalization funds, corporate recovery funds, real estate investment funds, and venture funds (Daiwa Securities SMBC PI, NIF)

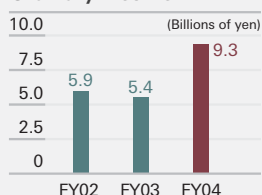
#### Highlights of Results

##### Daiwa Securities SMBC Principal Investments Co. Ltd. (Daiwa Securities SMBC PI)

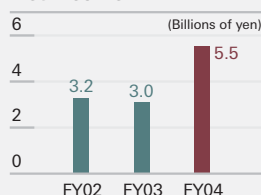
###### Operating revenues



###### Ordinary income

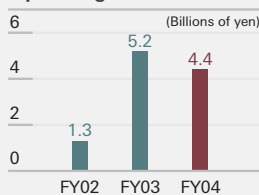


###### Net income

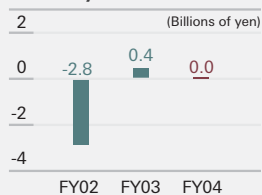


##### NIF Ventures Co., Ltd. (NIF)

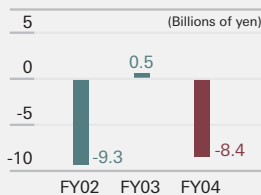
###### Operating revenues\*



###### Ordinary income



###### Net income



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

## The Daiwa Securities Group's Competitive Edge

### 1. Broad networks of two financial groups

Daiwa Securities SMBC Principal Investments Co. Ltd. (Daiwa Securities SMBC PI) is a wholly owned subsidiary of Daiwa Securities SMBC, a joint venture between the Daiwa Securities Group and the Sumitomo Mitsui Financial Group (SMFG). NIF Ventures Co., Ltd. (NIF), a subsidiary of the Daiwa Securities Group, is scheduled to merge with SMBC Capital Co., Ltd., and the new company will be "NIF SMBC Ventures Co., Ltd." in October 2005. The merged company will become the No. 2 player in the Japanese venture capital industry. Both Daiwa Securities SMBC PI and NIF can take advantage of the access to the broad networks of two major financial groups.

### 2. Expertise accumulated by considerable experience

In this business, we are required to fulfill our role as a stakeholder to increase the value of our investments, for example, by improving the management of invested companies and raising the value of real estate. These activities require specialized expertise varying according to the type of investment. Daiwa Securities SMBC PI is a pioneer in non-performing loans and real estate investments, and has gained a wealth of experience and expertise. NIF, meanwhile, has a long record and rich experience in venture capital and fund management built up over more than 20 years in the industry. Using these advanced skills and know-how, and with access to the large customer base, the two companies are well positioned to expand their businesses.

## Current Status and Strategies

### 1. Business Environment

As the economic environment improves owing to the improvement of financial systems and recovery in capital investment, many corporations are successfully making progress in business restructuring, resulting in more stable management systems. Industrial and academic collaboration, which promote the birth of new industry and economic revitalization in the region, have also increased with tangible results. In this environment, there are increasing funding needs by corporations under reorganization and promising venture firms.

## 2. Progress and Future Growth Strategies

Keeping closely abreast of the changing environment and customer needs, the Daiwa Securities Group will expand its portfolio of investments, centering on private equities. By actively participating in the management of the companies in which we invest and building close partnerships, we will strive to enhance corporate value and increase returns.

### FY 2004 Highlights

#### • Daiwa Securities SMBC Principal Investments: Shift to private equity investments

In FY 2004, the investment balance of Daiwa Securities SMBC PI increased 42% year-on-year to ¥90 billion. As financial institutions have made significant progress in writing down their non-performing loans, attractive investment opportunities in monetary claims, which used to be the main source of revenue, are in a decreasing trend. On the other hand, Daiwa Securities SMBC PI dramatically increased its private equity investments in response to strong demand for business restructuring and enhancing operating efficiency.

While investments in monetary claims fell approximately 30% year-on-year to ¥28 billion, private equity investments surged 2.7-fold to ¥34 billion at the end of FY 2004. Major new investments in the year include investments in Cabin, a women's fashion retailer; Daiwa Seiko, a manufacturer of fishing and sporting goods; and Mitsui Mining. In May 2005, we also decided to invest ¥10 billion in Maruzen, a bookstore chain, and ¥50 billion in Sumitomo Mitsui Construction.

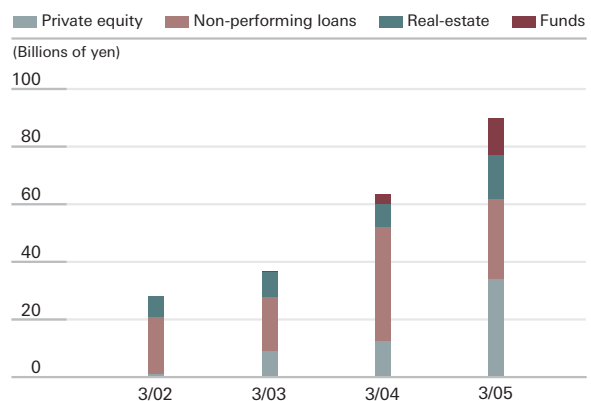
The balance of investments in regional revitalization funds and other funds, in which Daiwa Securities SMBC PI participates, grew considerably from ¥3.5 billion at the end of FY 2003 to ¥13 billion at the end of FY 2004.

The "Tochigi Region Corporate Revival Fund," created in collaboration with local financial institutions and corporations in the Tochigi prefecture, decided to support 12 companies including the first joint investment with the Industrial Revitalization Corporation of Japan. The company also made its first investment under the "Tokyo Challenge Fund," a corporate revitalization fund for small to medium enterprises.

The balance of investments in real estate grew from ¥7.8 billion at the end of FY 2003 to ¥15 billion at the end of FY 2004. In total, the company has purchased approximately 140 properties, mainly office buildings and company housing units, across Japan.

In FY 2004, the company showed a major improvement in its financial performance with ordinary income surging 71.2% year-on-year to ¥9.3 billion.

#### Daiwa Securities SMBC Principal Investments: Investments Outstanding



• **NIF Ventures: Increase in both private equity and fund investment**

NIF has taken various initiatives to improve the quality of its private equity business. These include introducing a sector investment team structure and sector portfolio management system, strengthening its management support capabilities, expanding the network to spot potential investment prospects, and reinforcing marketing capabilities.

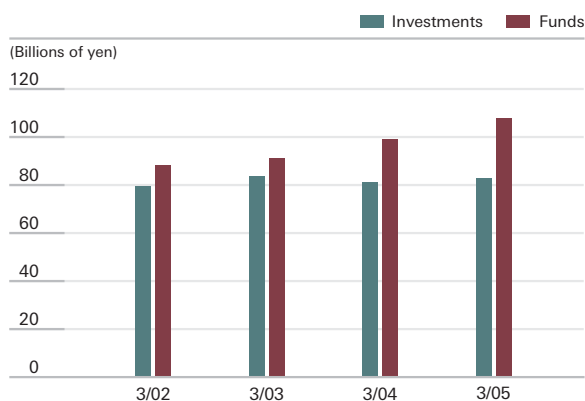
In FY 2004, NIF made total investments of ¥16.1 billion, up 14.0% from FY 2003. Its total investment portfolio at the end of FY 2004 was ¥83.0 billion, up 1.8% from a year earlier. In venture investments, the company continued to focus on IT and life-science related sectors, increasing the number of investments to 112, up 19 from the previous year. However, due to a decline in large-size investments, the total amount invested fell slightly to ¥13.1 billion. Buyout investments for the year totaled ¥3.0 billion, with investments in Mazda Car Rental Corporation and two other companies. In FY 2004, 27 of the companies invested in by NIF were newly listed (including share

exchanges), up from 24 in FY 2003, accumulating to a total of 493 newly listed companies to date.

In fund management, the “NIF Ventures Fund 2005 series”, which employs a portfolio management method that diversifies investments in each sector, attracted approximately ¥15.2 billion during the year. Meanwhile, total additional commitments in “NIF-PAMA Japan Private Equity Parallel (A) L.P.”, a buyout fund established in FY 2004, increased by ¥800 million. As a result, the balance of funds at year-end increased by 8.6%, to ¥107.9 billion.

In FY 2004, stable conditions in the equity and IPO markets led to an increase in gain on sales of IPO stocks. However, sales of listed stocks decreased, leading to an overall decline in net sales on operating investment securities. In addition, due to the company’s decision to withdraw from loan operations to prepare for its scheduled merger with SMBC Capital, the company has sold its loan receivables and set aside additional provisions for doubtful accounts. As a result, NIF posted an extraordinary loss of ¥8.6 billion, leading to a net loss for the year of ¥8.4 billion.

**NIF Ventures: Investments Outstanding**



### **Growth Strategies**

#### **— Increase private equity investments leveraging alliance with SMFG**

On February 18, 2005, the Daiwa Securities Group reached a basic agreement with SMFG and Sumitomo Mitsui Banking Corporation (SMBC) to jointly expand their private equity business (venture capital and buy-out investments) in Japan and overseas, bringing together the customer bases and know-how of the two financial groups.

Going forward, Daiwa Securities SMBC PI will further strengthen its business structure by reinforcing its own capital base and manpower. It will also strengthen its support system for the companies in which it invests to raise their corporate value, while establishing effective frameworks for ensuring returns on its investments (exit schemes). Moreover, it has raised its upper investment limit to ¥200 billion as of June 2005. Daiwa Securities SMBC PI will also help stimulate corporate and regional economic activity through its regional revitalization funds.

NIF will aim to boost venture and buyout investments and increase the balance of funds under management to prepare for its merger in October 2005. To this end, the company will expand its capital base and improve the quality of its investment activities. It will also strengthen its competitive edge in its management support system while solidifying its due diligence capabilities and diversifying its exit schemes. Other potential sources of growth include investment funds with a new type of portfolio that is managed according to sector and region. In addition, NIF is ready to reorganize and reinforce its overseas business. For example, the company has set up a representative office in Shanghai to establish a base for investing in China, and has recommenced investments in the United States.

### **Topics**

#### **Merger between NIF Ventures and SMBC Capital**

In October 2005, NIF is scheduled to merge with SMBC Capital, a consolidated subsidiary of SMFG. The merged company will rank second in the industry in terms of total investments and funds outstanding under management.

The merger will create Japan's only venture capital company with strengths in both banking and securities. The new company is expected to gain great advantage from the synergy between the two groups—Daiwa Securities Group's expertise on investing and listing, and SMFG's formidable customer base and ability to identify attractive investment opportunities. With a broader business scope and larger investment potential, the newly merged company will be able to make balanced investments across a wide range of industries, from IT, life sciences, and other high-tech areas to services. By maximizing the synergy of both groups, the new company will seek to become the No. 1 venture capital firm in Asia.



## Review of Operations

# Asset Management

How to fulfill customers' asset management needs is, as a securities firm, one of our most important business challenges. Well aware of this fact, the Daiwa Securities Group regards asset management as one of the Group's core businesses, and will aim for further growth in its net assets under management to establish a competitive advantage.

### Overview

#### Main Business

Our quest is to shift customer awareness from savings to investments by developing financial products that meet the diversified needs of customers and achieving higher performances with those products. We also seek to broaden the base of assets under management and produce a higher stream of stable income. These initiatives all translate into the Group's competitiveness.

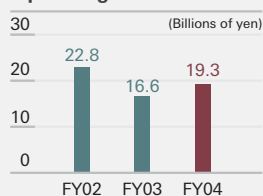
#### Products and Services

- Equity investment trusts, including Japanese or non-Japanese equity, monthly dividend payment, and balanced type
- Bond investment trusts, including MMF (money management funds)
- Private placement investment trusts
- Management of domestic and overseas pension funds

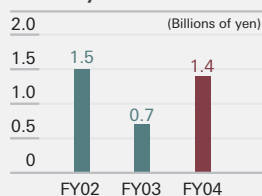
### Highlights of Results

#### Daiwa Asset Management Co. Ltd. (DAM)

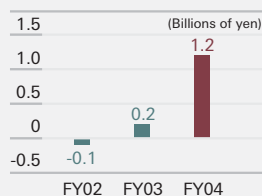
##### Operating revenues



##### Ordinary income

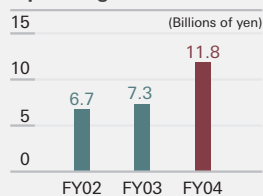


##### Net income

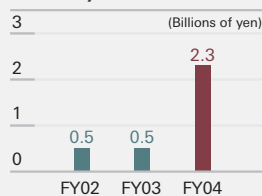


#### Daiwa SB Investments Ltd.

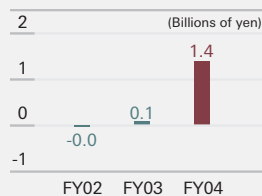
##### Operating revenues



##### Ordinary income



##### Net income



## The Daiwa Securities Group's Competitive Edge

The Group's asset management activities are conducted by two companies: Daiwa Asset Management Co. Ltd. (DAM) and Daiwa SB Investments Ltd.

### 1. Highly-rated fund management with a research-driven, medium- to long-term approach

Daiwa Asset Management is a leading company in investment trusts, with a market share of more than 13% (as of March 2005) in terms of net assets under management of domestic publicly offered investment trusts. The company's medium- to long-term approach towards asset management, based on research and analysis, has established a high reputation.

### 2. Top class in pension fund management

Daiwa SB Investments was established jointly by the Daiwa Securities Group, Sumitomo Mitsui Financial Group (SMFG), and T. Rowe Price Group, one of the leading investment management firms in the United States. Daiwa SB Investments is particularly strong in pension fund management. For the fourth consecutive year since FY 2001, the company has been ranked as a top-class manager in the overall evaluation of pension fund management ability by "Newsletter on Pension and Investments," published by Rating and Investment Information. Drawing on many years of experience in pension fund management, the company also develops and provides attractive investment trust products.

## Current Status and Strategies

### 1. Business Environment

The prolonged low-interest-rate environment in Japan and the lifting of unlimited government guarantees on bank deposits in April 2005 have made both corporations and individuals more conscious of asset management, as reflected in the spread of defined contribution pension plans and the growing balance of variable pension insurance. In this context, the need for investment trusts and investment advisory services is growing. In October 2005, legislation preventing Japan Post from selling investment trusts will be abolished, which will bring more business opportunities in this area. Customers are, on the other hand, expected to become more and more selective when choosing asset management companies and products. Thus, competition is heating up in the industry. Asset management companies require not only higher returns and product development capabilities, but also better accountability and a high level of quality control.

## 2. Progress and Future Growth Strategies

We believe that this challenging business climate will bring major opportunities for us. We will respond by improving our product development and management capabilities and strengthening our marketing and support systems for partners selling our products. In this way, we will target a substantial expansion of both investment trust and pension assets under management.

### FY 2004 Highlights

#### • Daiwa Asset Management:

##### Further upgrade of product lineup

DAM has upgraded its asset management processes, reinforced its research and product development capabilities, and strengthened its sales support system. These actions led to a major improvement in its business performance. One example is the Daiwa Global Bond Fund, a monthly payment type of investment trust. Thanks to its solid performance record and collaboration with Daiwa Securities, its assets under management surged 12-fold, from ¥25.8 billion at the end of FY 2003 to ¥314.7 billion at the end of FY 2004. It also won the prize for excellent funds among 376 Japanese and international bond investment trusts nominated for the “Morningstar Award—Fund of the Year 2004—,” presented by Morningstar Japan.

DAM also made solid progress in developing attractive products. These included “Digital Kama,” a Chinese

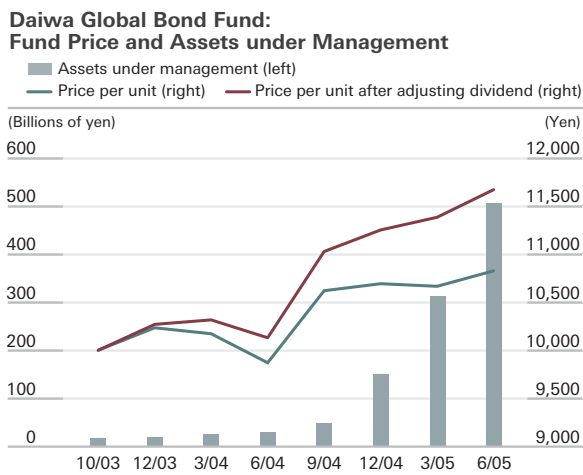
equity investment trust, and “Daiwa SRI Fund,” Japan’s first full-scale socially responsible investment (SRI) fund, which invests in domestic equities. We also launched “Daiwa Ryusei,” which invests in companies with superior capital efficiency. In alternative investments, we set up a monthly payment fund investing in Japanese and U.S. real estate investment trusts (REITs), as well as the Daiwa Commodity Index Fund.

At fiscal year-end, the company’s net assets under management of equity investment trusts was ¥2,118 billion, up 31.4% from a year earlier. Operating revenues rose 16.1%, to ¥19.3 billion, resulting in the company returning to profit with operating income of ¥1.2 billion. Ordinary income almost doubled, to ¥1.4 billion, and net income increased 5.5-fold, to ¥1.2 billion.

#### • Daiwa SB Investments: Bolstered by a solid reputation

Daiwa SB Investments continued to earn strong acclaim for its asset management capabilities. In FY 2004, the company was ranked No.1 in active management ability for both the quantitative and qualitative evaluations by “Newsletter on Pensions and Investments,” published by Rating and Investment Information. Its net assets under management grew 18.0%, to ¥3,901 billion, in line with the rise in its reputation.

In the investment advisory business, in FY 2004 Daiwa SB Investments was selected by Japan Post to manage the Japanese equity component of both its postal savings and postal life insurance funds. The company was also chosen to manage the foreign equity component of the postal life insurance fund. Moreover, it has been selected to manage the assets of a number of prominent overseas institutional



investors, including a major financial group in Finland.

The pension fund category remained difficult, due to ongoing “daiko-henjo” activities and the shift to specialized funds. Nevertheless, in FY 2004, its strong reputation enabled the company to boost the assets of pension funds under management by 4.3% from FY 2003, to ¥2,130 billion. Net assets gained by investment advisory services in total were ¥3,158 billion, up 12.6% from a year earlier.

With respect to investment trusts, Daiwa SB Investments attracted steady investments in its “Japan Small-Cap Equity Fund,” launched in June 2004, and the “T. Rowe Price U.S. Income Fund,” established in December 2003. In addition, the net assets of “China Ton-Fei,” a Chinese equity fund, launched in January 2004, increased to the upper limit of ¥100 billion. In private placement investment trusts, it posted a significant increase in the assets of the flagship fund of alternative investment. As a consequence, net assets under management of investment trusts managed by Daiwa SB Investments surged 48.8% in FY 2004, to ¥743.4 billion, making a substantial contribution to its earnings.

Daiwa SB Investments reported a 62.0% year-on-year increase in operating revenue to ¥11.8 billion, reaching the ¥10.0 billion target, set by its medium-term manage-

ment plan, one year ahead of schedule. The company restricted the increase in SG&A expenses to 7.5%, resulting in a 4.5-fold jump in ordinary income, to ¥2.3 billion.

## Growth Strategies

### — Further strengthen product appeal, asset management capabilities, sales support, and marketing

Daiwa Asset Management is working hard to improve its product availability through efforts such as developing new fund management methods using pilot funds. Overseas, the company is increasing the number of analysts at its Hong Kong subsidiary, and was also the first Japanese asset management company to establish an information-gathering base in Shanghai. In this way, it will continue to reinforce its research system for Chinese equities.

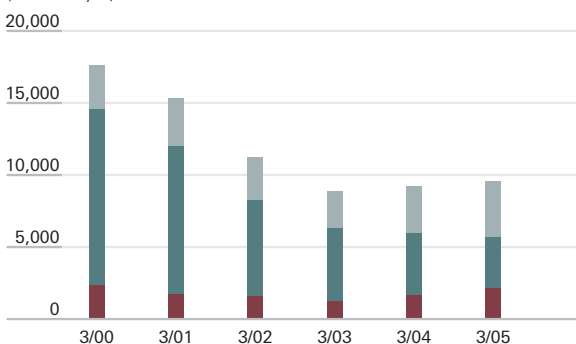
DAM is further strengthening the support system for its sales companies as well. At Daiwa Securities, it will hold seminars for customers and in-company training for sales personnel. It will also develop new products for the corporate customers of Daiwa Securities SMBC and build up the support system for those products. In addition, it will adopt a more proactive approach toward banks and other financial institutions to help them expand over-the-counter sales of its products. In collaboration with Daiwa Securities SMBC, meanwhile, it will make more proposals to corporate customers to encourage them to adopt defined contribution pension plans for their employees.

In investment advisory services, Daiwa SB Investments will build a competitive product lineup and focus its marketing efforts on public pension funds, which are expected to grow. In investment trusts, the company will leverage its brand power built on expertise in the pension field, and broaden its net assets under management. It will also focus on attracting institutional investors by private placement investment trusts and expanding variable pension insurance businesses.

## Funds under Management

■ Daiwa Asset Management (equity investment trusts)  
■ Daiwa Asset Management (bond investment trusts) ■ Daiwa SB Investments

(Billions of yen)



## Topics

### **Daiwa Asset Management “Daiwa Ryusei” (Japan Equity Open): Representing a Bright and Prosperous Future for Japan and its Corporations**

In Japan’s post-deflationary environment, DAM has established “Daiwa Ryusei” (Japan Equity Open), an authentic Japanese equity investment trust that invests in companies that are expected to effectively utilize their shareholder capital. The fund was launched in February 2005 with an initial amount of ¥44.5 billion under management, and net assets subsequently grew to ¥74.4 billion by the end of March 2005. The Sumatra earthquake and the Indian Ocean tsunami disasters occurred while the fund was in its planning stages. For this reason, DAM donated ¥15 million—part of expected management fee proceeds from the fund—to disaster-affected areas as a part of its corporate social responsibility (CSR) commitment.

### **Daiwa Commodity Index Fund: Selling Alternative Investments to Individual Investors**

In December 2004, DAM set up the Daiwa Commodity Index Fund in collaboration with world-renowned investor Jim Rogers and Sumitomo Corporation. The fund reflects the performance of the Rogers International Commodity Index (RICI). Commodities have a different risk-return profile than traditional financial instruments, such as stocks and bonds, and so are regarded as an effec-

tive way for customers to spread the risk inherent in their portfolios. This is the Japan’s first domestic open-end publicly offered investment trust, which makes commodities investments accessible to individuals who previously found it difficult to invest in such instruments.

### **Daiwa SB Investments Alliance with Wilshire Associates to Provide Fund of Hedge Funds in Japan**

In May 2005, Daiwa SB Investments formed an alliance with Wilshire Associates to create and offer fund of hedge funds in Japan.

Wilshire Associates is a prominent fund management company in the United States and a globally renowned leader in investment consulting. Using Wilshire’s capabilities in evaluation of fund management companies and in investment risk management, Daiwa SB Investments plans to provide fund of hedge funds to pension managers and institutional investors in Japan.

To date, Daiwa SB Investments has focused on offering its own alternative fund management style, such as market-neutral and long-short Japanese equity funds, mainly to Japanese institutional investors. Its tie-up with Wilshire to develop fund of hedge funds reflects its commitment to delivering sophisticated fund management services to meet the diversified needs of investors.

## Review of Operations

### Research, Systems, and Consulting

As the financial services industry becomes more information-oriented, winners in this fierce competition will be determined by the quality of the information they provide. The key to Daiwa Securities Group's success lies in the innovative solutions offered by the Group's comprehensive think tank with a group of professionals in both finance and IT.

#### Overview

##### Main Business

Daiwa Institute of Research Ltd. (DIR) is the main think tank of the Daiwa Securities Group. DIR provides research services centering on financial markets, builds systems for delivering IT solutions, and offers various business consulting services. DIR adds value to the services offered by other Group members and provides optimal solutions for customers outside the Group.

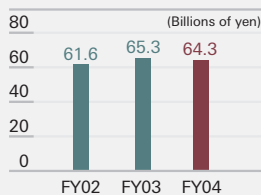
##### Products and Services

- Macroeconomic forecasts and research reports on financial markets & systems and corporations
- IT solutions
- Consulting on management, IT, and pension systems

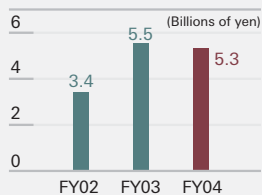
#### Highlights of Results

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

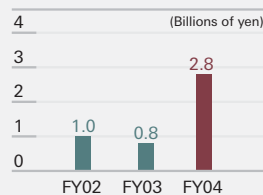
###### Operating revenues



###### Ordinary income



###### Net income



## The Daiwa Securities Group's Competitive Edge

### Advanced research capabilities

DIR is highly reputed for its precise economic forecasts and fundamental research and analysis on corporations. In FY 2004, DIR was ranked No. 1 for the second consecutive year in both the analyst ranking by the Nikkei Financial Daily and analyst/economist ranking by the Mainichi Economist magazine.

## Current Status and Strategies

### 1. Business Environment

As the speed of change accelerates, companies in the financial and other industries are facing more intense competition. Meanwhile, ongoing deregulation and IT innovations have changed the way of business. There is a greater need for sophisticated and specialized solutions to address these dramatic changes.

### 2. Progress and Future Growth Strategies

DIR will contribute to increasing the Group's corporate value as the central research and systems arm. At the same time, it will utilize its experience and knowledge to provide services to customers outside the Group.

### FY 2004 Highlights

#### — Demonstrating superior quality

Drawing on its in-depth fundamental research and analysis, DIR delivers timely and highly needed information. In addition to each analyst's expertise, analytical skills, motivation, and industry knowledge, DIR promotes teamwork through cross-sector and global research to create unique investment scenarios that anticipate market movements.

As a result of this approach, DIR received the No. 1 analyst ranking by the Nikkei Financial Daily for the second consecutive year. It also was ranked No. 1 in the analyst and economist ranking by the Mainichi Economist magazine two years in a row.

In the systems division, DIR has made efforts to ensure stable operation. As of March 31, 2005, the online order and trade execution system at Daiwa Securities recorded

### Improvement in "Analyst Rankings"

#### Analyst Ranking by the Nikkei Financial Daily

Category: Analysts (all industrial sectors excluding comprehensive sector) and strategists

	FY2001	FY2002	FY2003	FY2004
1st	Nomura Securities	Nomura Securities	DIR	DIR
2nd	Morgan Stanley Dean Witter*	DIR	Nomura Securities	Nomura Securities
3rd	Nikko Salomon Smith Barney**	Nikko Salomon Smith Barney**	Deutsche Securities	UBS

\* Currently Morgan Stanley \*\* Currently Nikko Citigroup

856 consecutive days of operation with no disorders. In addition, the company promptly developed system infrastructures to accommodate the rapid expansion of Daiwa Securities' strategic business areas, such as online trading, SMA, and securities intermediation business.

Regarding the pension consulting business, DIR's Investment Trust Analysis Department has been selected by many 401K plans as the official agency for evaluating investment products, and now commands a high reputation as a standard-setter for the industry.

DIR's financial results for FY 2004 was a 1.5% year-on-year decline in operating revenues and an increase of 2.1% in SG&A expenses, leading to a 3.6% decrease in ordinary income to ¥5.3 billion.

### Growth Strategies

— **Use solid reputation to enhance corporate value**  
Looking ahead, DIR will strive to maintain the excellent reputation of its research activities. It will work more closely with Daiwa Securities, Daiwa Securities SMBC, and other Group members, providing useful analyses and proposals for product development and strategy formulation at these companies. By doing so, DIR will contribute to raising the Group's corporate value. In systems, it has made a medium- to long-term structural reform plan, covering the three to five year period from FY 2005. Based on this plan, DIR will strengthen services for Group members, and redefine and optimally allocate service functions in its systems divisions. It will also make strategic system investments in order to increase its competitive advantage. At the same time, it will make a greater contribution to the Group' earnings by actively providing its services to clients outside the Group. With respect to human resource management, DIR will raise the accuracy with which it evaluates its staff using professional criteria, while establishing a personnel system in which rewards are more closely tied to performance.

### Topics

#### System Solution Support Services for Japanese-Affiliated Companies in China

Since year 2000, DIR has provided system development services for Japanese domestic companies by cooperating with local firms in Beijing, Dalian, and Shanghai. Deploying a staff of 420, it has established a development and maintenance framework in China, capable of meeting system development and maintenance challenges.

Based on these experiences, in January 2005 DIR began providing system solution support services in collaboration with its Chinese business partner, SinoCom Software Group, in response to the system development and maintenance needs of Japanese-affiliated companies in China. Under this project, DIR provides "Chinese localization programs" and other services to support the localization and maintenance of client management systems brought over from Japan, as well as reinforcement of security measures for local systems.



## Review of Operations

### Group Support

One of the Daiwa Securities Group's main strengths is the commitment of Group members to improve and seamlessly integrate their respective capabilities, thus raising the corporate value of the entire Group. Indeed, the Group's ability to enhance the performances of its core retail, wholesale, and asset management businesses derives from its robust in-Group support, which produces greater synergies for the Group as a whole.

#### Overview

##### Securities Administration Function (Daiwa Securities Business Center)

Daiwa Securities Business Center (DSC) is a comprehensive provider of back office services related to the securities business. Serving as an outsourcing vendor, DSC provides support for effective, low-cost business operation mainly to members of the Daiwa Securities Group, hence helping to raise the efficiency and productivity of the Group.

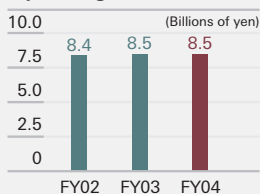
##### Branch Office Management and Real Estate Consulting (Daiwa Property)

Daiwa Property provides property management services, mainly for branch offices and other facilities used by the Group companies. It also offers business solutions by, for example, consulting on real estate and building management. In these ways, Daiwa Property is working to improve the asset management efficiency of the Group.

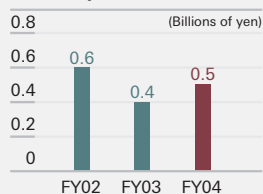
#### Highlights of Results

##### Daiwa Securities Business Center Co., Ltd. (DSC)

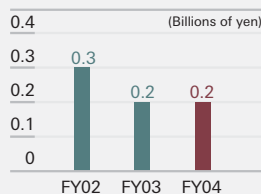
###### Operating revenues



###### Ordinary income

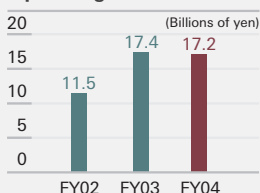


###### Net income

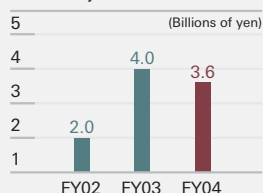


##### Daiwa Property Co., Ltd.

###### Operating revenues



###### Ordinary income



###### Net income



## The Daiwa Securities Group's Competitive Edge

### Powerful support

DSC is the first securities back office service provider to obtain ISO 9001:2000 certification, an international standard for quality control systems—testimony to the high quality of its services.

Daiwa Property has a wealth of expertise in real estate management, built up since its establishment 50 years ago. Using this know-how and its human resources, including real estate consultants and appraisers, it provides an array of high-quality services related to real estate.

## Current Status and Strategies

### 1. Business Environment

In today's fast-changing world, more and more companies are reengineering their business processes using outsourcing vendors, while demanding efficient property management services. In our financial industry, companies must constantly raise the efficiency of their operations and property management to address dramatic changes in the operating environment driven by progressing deregulation and advances in information technology.



## 2. Progress and Future Growth Strategies

DSC and Daiwa Property will strive to improve their capabilities, including human resources, and reinforce their control systems in order to fortify the Group's support function. The companies will also try to raise customer satisfaction by boosting the quality of services provided to non-Group companies.

### FY 2004 Highlights

#### — Stronger support for the Group

DSC has supported the Group by continuously raising the efficiency of its operations and providing high-quality back-office services. Daiwa Property also contributed to the Group's earnings by cutting the rent and security deposits of buildings rented by Group members.

For the year, DSC reported little change in operating revenues, but successfully reduced SG&A expenses, resulting in a 12.6% year-on-year rise in ordinary income, to ¥506 million. Operating revenues at Daiwa Property also remained flat from FY 2003, but a 2.5% increase in SG&A expenses led to a 10.0% fall in ordinary income, to ¥3.6 billion.

### Growth Strategies

#### — More rigid internal control systems to ensure high-quality services

Looking ahead, DSC will strive to standardize its workflows and raise service quality. By sharing its knowledge about administrative processes, the company will also work to build frameworks allowing all its employees to fully demonstrate their experience, expertise, and latent strengths.

In the property business, Daiwa Property will enhance its consulting capabilities related to securities branch offices of Group companies. In the solutions business, the company will work together with Daiwa Securities and Daiwa Securities SMBC to launch a new service system permitting appropriate responses to customers' diversified real estate needs. Targeting further improvements in its business efficiency, Daiwa Property will merge with Daiwa Residential Properties in October 2005.

