

# FINANCIAL INFORMATION

For the Fiscal Year Ended March 31, 2004



**Daiwa Securities**  
**SMBC**



# INTRODUCTION

## *So that our clients consider us the best possible partner....*

Facing turbulent conditions in the global economy, companies find their businesses become more complex and sophisticated day by day. Formed through a strategic joint venture between the Daiwa Securities Group Inc. and the Sumitomo Mitsui Financial Group, Inc., Daiwa Securities SMBC Co. Ltd. uses its expertise to assist companies in dealing with these challenges. In doing so, we have steadily built a solid performance record in a wide range of financial services, including the development and sale of a comprehensive range of equities, fixed income, derivatives, and other financial products; initial public offerings (IPOs) and other finance; mergers and acquisitions (M&A) and other advisory services; structured finance; and principal finance.

Amid the growing expectation that direct finance is the key to rejuvenation of the Japanese economy, the scope of areas in which Daiwa Securities SMBC can be of assistance to clients as an investment bank has broadened, ranging from fund raising and management and balance sheet restructuring to business restructuring and revitalization. And we expect our scope to continue to expand and develop as our clients requirements change.

Our mission is to put our high degree of professionalism and leading-edge financial technologies to work for our clients by offering them high quality products and services that serve their needs, thereby further boosting the trust they place in Daiwa Securities SMBC.

In pursuing these goals, we look forward to the continued encouragement of our clients.



President  
**Tatsuei Saito**



Deputy President  
**Kenjiro Noda**



Deputy President  
**Michihito Higuchi**



# SALES & TRADING

*Providing clients with innovative products and services that meet their diversified investment needs*

Through its sales and trading operations, Daiwa Securities SMBC has built a strong market presence in the equity, bond, and derivative markets. However, we have no intention of resting on our laurels, and are focusing our efforts on developing and supplying clients with financial products and services that are always a step above the market standard. Moreover, we intend to remain strongly committed to responding to the needs of our clients, primarily domestic and foreign institutional investors. Cooperating with Daiwa Securities Co. Ltd. and the Sumitomo Mitsui Banking Corporation, we will leverage the comprehensive capabilities of the Group to position ourselves as the market leader in sales and trading.





## Equity

In our equity business, we handle a wide-range of products on a global basis, including equities, futures, options, and OTC equity derivatives. In particular, we have established ourselves as a leading player in the equity trading market in Japan. Combining sophisticated and rapid execution with superior trading capabilities supported by strong risk management skills, our services are rated highly by clients. Moreover, to help our clients cope with the pace of change in the business environment, our sales teams provide clients with timely, high-value-added information finely tuned to their needs, backed by the research and analysis of the Daiwa Institute of Research Ltd.

## Fixed Income

We work in close partnership with institutional investors, public corporations, and business enterprises in our fixed income business. Based on these relationships, we handle a wide range of products and services, including Japanese and foreign public and corporate bonds, securitized fixed income products, and short-term notes. Using interest-rate, currency, and equity derivatives, we also develop and sell products custom-made for investors' needs. In designing and building strategic portfolios that reflect the changing times, our highly satisfied clients enjoy the support of a team of professionals with a thorough understanding of bond and derivative sales, trading, product development, and market analysis.

## Research

Working with the Group's Daiwa Institute of Research Ltd., one of the largest investment research institutions in Japan, we can provide our clients with research and analysis of economies, markets, industries, and companies around the world. Our reputation for useful and timely and appropriate information has grown steadily in recent years, and we have been evaluated as No. 1 in research by various well-known newspapers and trade magazines.





# INVESTMENT BANKING

*Our investment banking services provide our clients with the best solutions for their many different needs*

Offering a broad range of services, Daiwa Securities SMBC has constantly led the investment banking market. Our services cover underwriting, including IPOs; structured finance for asset securitization; M&A for business restructuring and strategic development; and principal finance. As the focal point for advice on business and finance strategies within the Daiwa Securities Group, Daiwa Securities SMBC is committed to offering its corporate clients the best solutions for their many different needs.





## Corporate Finance

Based on our research and analysis, we offer domestic and foreign companies a variety of services, covering optimal proposals for financial and business strategies, advice on equity and bond issues, and underwriting and syndication services. In response to the diversification of the needs of our clients in recent years, we have expanded the scope of our services to encompass all aspects of corporate finance, including advisory services on business restructuring and other reorganizations.

## Initial Public Offerings

By combining an expanding sales network, which includes that of Daiwa Securities' network, with our superior public offering guidance and underwriting execution capabilities, we can provide detailed support for our clients' IPOs throughout Japan, before and after issue. These capabilities have earned us a top class record in Japan's IPO market.

## M&A

In our M&A business, we offer clients a wide range of advisory services, including M&A, business alliances, capital participation, joint ventures, and stock-for-stock transactions, and corporate revitalization. Fielding one of Japan's top ranking M&A teams, our performance record in this market is growing quickly. Based on our local subsidiaries in the United States, United Kingdom, and Singapore and business alliances with Lazard and others in the M&A field, we also have achieved a strong performance record in cross border M&A.

## Structured Finance

As one of the first to begin offering securitization services in Japan, mainly monetary credits and real estate, our structured finance business has constantly played the role of leader in Japan's market. And by steadily building on that foundation, we have established an unshakable position as a market leader. Based on the know-how our expert team has acquired as a pioneer in the market, we strive to provide our clients with the top class services they require.

## Principal Finance

Through our wholly owned subsidiary Daiwa Securities SMBC Principal Investments Co. Ltd., we are responding to the balance sheet restructuring and various other business reorganization needs of companies by actively investing in alternative assets, such as monetary credits, real estate, and private equity. To fulfill our role as an intermediate for risk money, we actively participate in the establishment and operation of many different types of investment funds.





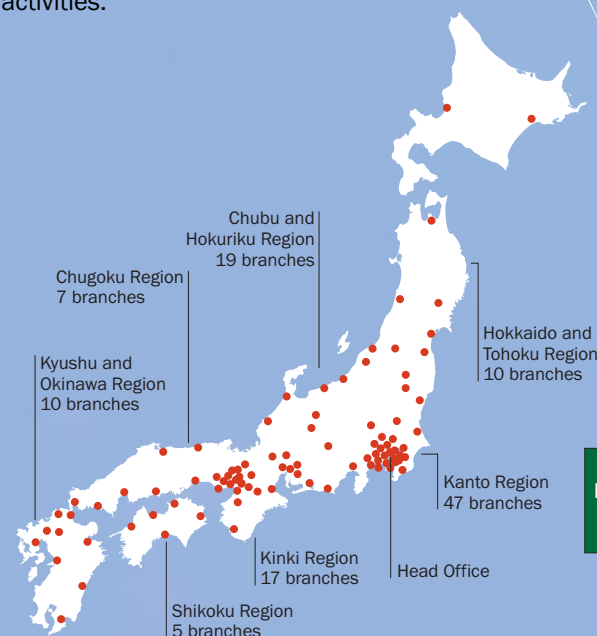
# BUSINESS NETWORK

*Our powerful business network provides products and services that exceed client expectations*

Based on the strategic business alliance between Daiwa Securities Group Inc. and the Sumitomo Mitsui Financial Group, Inc. Daiwa Securities SMBC possesses a powerful business network. Utilizing this network, we provide products and services that exceed client expectations, aiming to maximize client satisfaction.

Within the Daiwa Securities Group, Daiwa Securities Co. Ltd. is responsible for retail securities sales in Japan. Through seamless integration of a nationwide branch network of approximately 120 branches, an online brokerage service boasting the most customer accounts in Japan, and a 200-person-strong call center for trading, Daiwa Securities offers retail customers two different transaction methods.

To serve the needs of a wide variety of corporate and individual clients, Daiwa Securities also conducts highly specific regionally oriented sales activities.



**Daiwa Securities Group Inc.**

Retail securities

**Daiwa Securities Co. Ltd.**

Wholesale securities

**Daiwa Securities SMBC Co. Ltd.**

Asset management

**Daiwa Asset Management Co. Ltd.**

Research and system development

**Daiwa Institute of Research Ltd.**

Asset management

**Daiwa SB Investment Ltd.**

Venture capital

**NIF Ventures Co., Ltd.**

Securities business administration

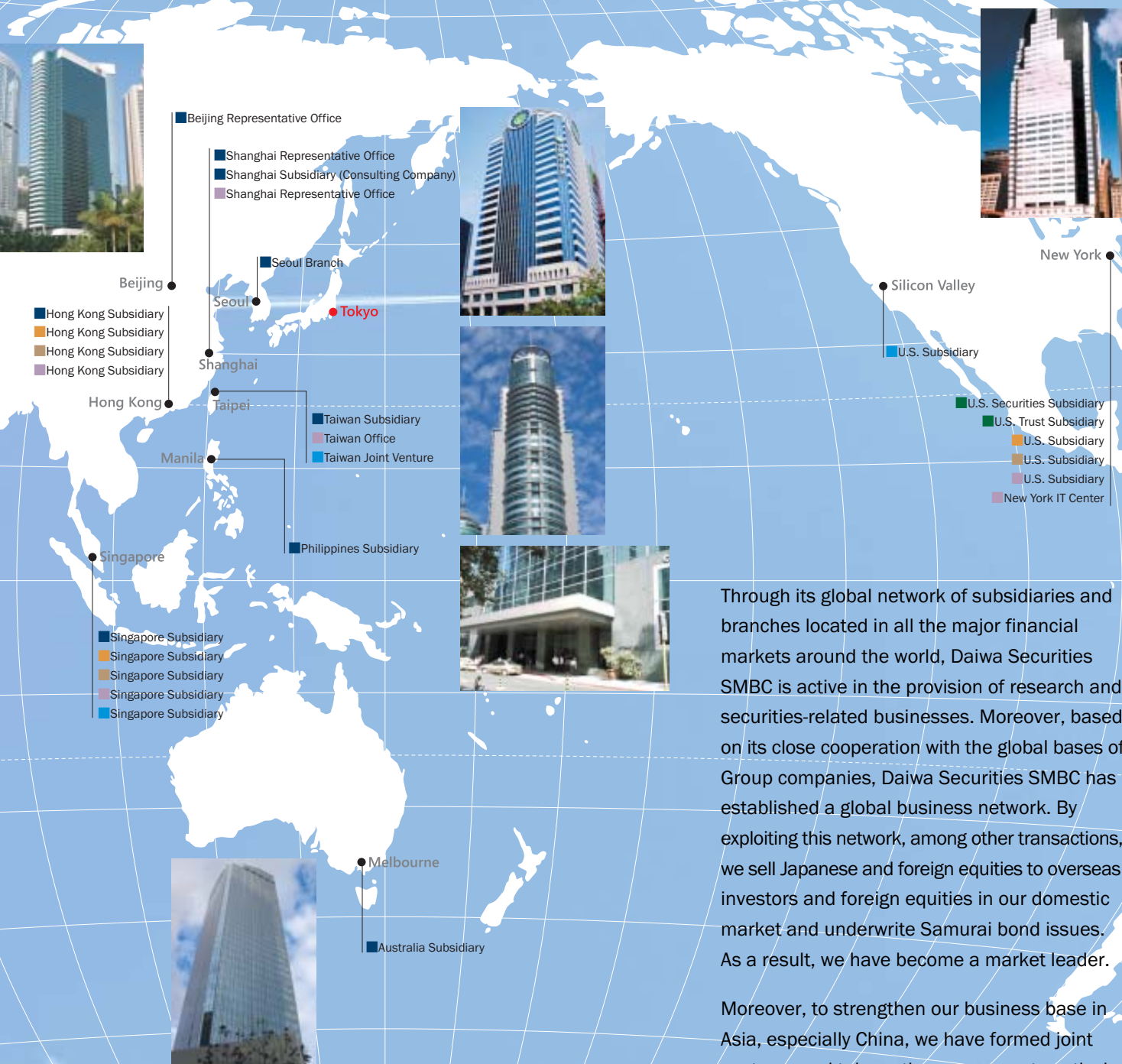
**Daiwa Securities Business Center Co., Ltd.**

Branch management

**Daiwa Property Co., Ltd.**

**Sumitomo Mitsui Financial Group**





Through its global network of subsidiaries and branches located in all the major financial markets around the world, Daiwa Securities SMBC is active in the provision of research and securities-related businesses. Moreover, based on its close cooperation with the global bases of Group companies, Daiwa Securities SMBC has established a global business network. By exploiting this network, among other transactions, we sell Japanese and foreign equities to overseas investors and foreign equities in our domestic market and underwrite Samurai bond issues. As a result, we have become a market leader.

Moreover, to strengthen our business base in Asia, especially China, we have formed joint ventures and taken other measures to actively develop business in this region.

*We have established a global network that boasts a solid performance record.*

# GLOBAL NETWORK

# PERFORMANCE

## *Our Investment Banking Services Ranked No.1 in Various Categories*

In FY2003 (ended March 2004), our investment banking business fully demonstrated the benefits of synergies achieved with the operations of the Sumitomo Mitsui Banking Corporation, capturing first place in the league tables for total domestic bond issues and public offerings of domestic straight bonds for the third consecutive year.

In equity underwriting, reflecting our powerful sales capabilities domestically and internationally, we took part in many major public offerings. With capital increase offerings in particular, issues lead managed by Daiwa Securities SMBC monopolized the top five spots for largest issues, ranking us No. 1 in this league table. In IPOs as well, we were the bookrunner for many major issues, taking the No. 1 slot for initial public offerings.

In other areas, we handled many deals in the securitization and M&A markets, establishing a firm position in these markets. Based on our performance record, the reputation of our Company and the deals we lead manage is growing further domestically and overseas, ranking us among the best deals and best houses in all categories. We also placed well in secondary markets with top class market shares.

### ■ Major Awards in 2003

#### EQUITY HOUSE OF THE YEAR

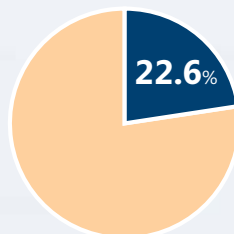
Equity Issues  
THOMSON DealWatch

#### EQUITY DEAL OF THE YEAR

Equity Issues (Lead management of Kajima Corporation issue)  
THOMSON DealWatch

#### THE BEST DEBT HOUSE

Straight Bonds  
Japanese issue of EUROMONEY

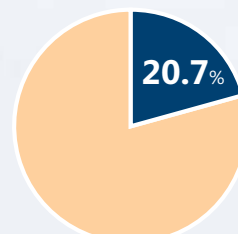


FY2003

#### Domestic Debt League Table

(Straight bonds+equity-linked bonds+samurai bonds  
+domestic ABS public offering+government  
guaranteed SBs)

**NO.1**  
(THOMSON DealWatch)



FY2003

#### Corporate Straight Bond League Table

(Lead manager, settlement date basis)

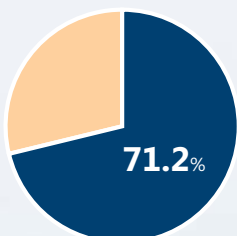
**NO.1**  
(THOMSON DealWatch)



Daiwa Securities SMBC Head Office

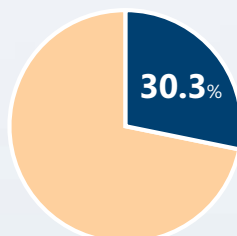


Eitai Sales Office



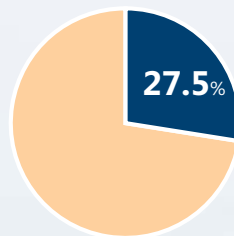
FY2003  
**Issued Equity and Public Offering  
League Table**  
(Bookrunner, settlement date basis)

**NO.1**  
(THOMSON DealWatch)



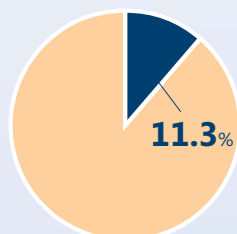
FY2003  
**Primary and Secondary Equity  
Offerings League Table**  
(Bookrunner, public offering date basis)

**NO.1**  
(THOMSON DealWatch)



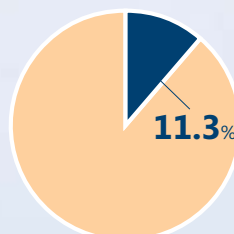
FY2003  
**Government-guaranteed Bond  
Auction League Table**  
(Lead manager)

**NO.1**  
(Survey by Daiwa Securities SMBC)



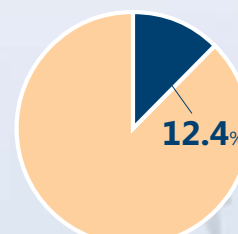
FY2003  
**JGB Successful Bid Ranking**  
(Total)

**NO.2**  
(Nikkei Bonds & Financial Weekly)



FY2003  
**ABS League Table**  
(Deal date basis)

**NO.2**  
(Calculated by Daiwa Securities SMBC based  
on data from Nikkei Bonds & Financial Weekly)



FY2003  
**Samurai Bond League Table**  
(Deal date basis)

**NO.3**  
(Survey by Daiwa Securities SMBC)



Daiwa Securities SMBC Europe

**Name:** Daiwa Securities SMBC Co. Ltd.  
**Head Office:** Marunouchi Trust Tower N, 8-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-8289, Japan  
**Tel:** 03-5533-8000(reception)  
**President:** Tatsuei Saito  
**Paid-in Capital:** ¥205.6 billion  
**Major Stockholders:** Daiwa Securities Group Inc. (60%), Sumitomo Mitsui Financial Group, Inc. (40%)  
**Business:** Trading, agency and brokerage, underwriting and distribution of securities, and related businesses  
**Sales Office:** Head Office, Osaka Branch, Nagoya Branch, Eitai Sales Office, and others  
**Overseas Offices:** U.K. Subsidiary (London)/Frankfurt Branch/Paris Branch/Geneve Branch/Milan Branch/Spain Branch/Middle East Branch/Hong Kong (Subsidiary)/Singapore (Subsidiary)/Australia (Subsidiary)/The Philippines (Subsidiary)/Taiwan (Subsidiary)/Seoul Branch/Beijing Representative Office/Shanghai Representative Office

# PROFILE



# BUSINESS and FINANCIAL Disclosure Document

**Fiscal year ended March 2004**

Period from April 1, 2003 to March 31, 2004

## **Policies Regarding the Solicitation of Sales of Financial Products**

1. As a securities wholesaler, our Company is committed to providing clients with the latest financial technologies and the best services to live up to their high expectations and trust.
2. Utilizing our global network, including overseas subsidiaries, we will endeavor to solicit sales during an appropriate time frame in accordance with the transactions needs of our clients.
3. In soliciting sales of financial products, we will take into consideration clients' knowledge of securities transactions and their investment experience, goals, and resources to propose sales of financial products that match clients' intentions and conditions.
4. To ensure that transactions can be conducted based on clients' own decisions and responsibility, we will endeavor to provide clients with adequate information for understanding the nature of the financial products and the risks.
5. Always giving top priority to maintaining clients' trust, we will observe all laws and regulations and will strengthen our internal controls system to ensure that sales solicitations are conducted properly.

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## 1. Corporate name

Daiwa Securities SMBC Co. Ltd.

## 2. Registration date

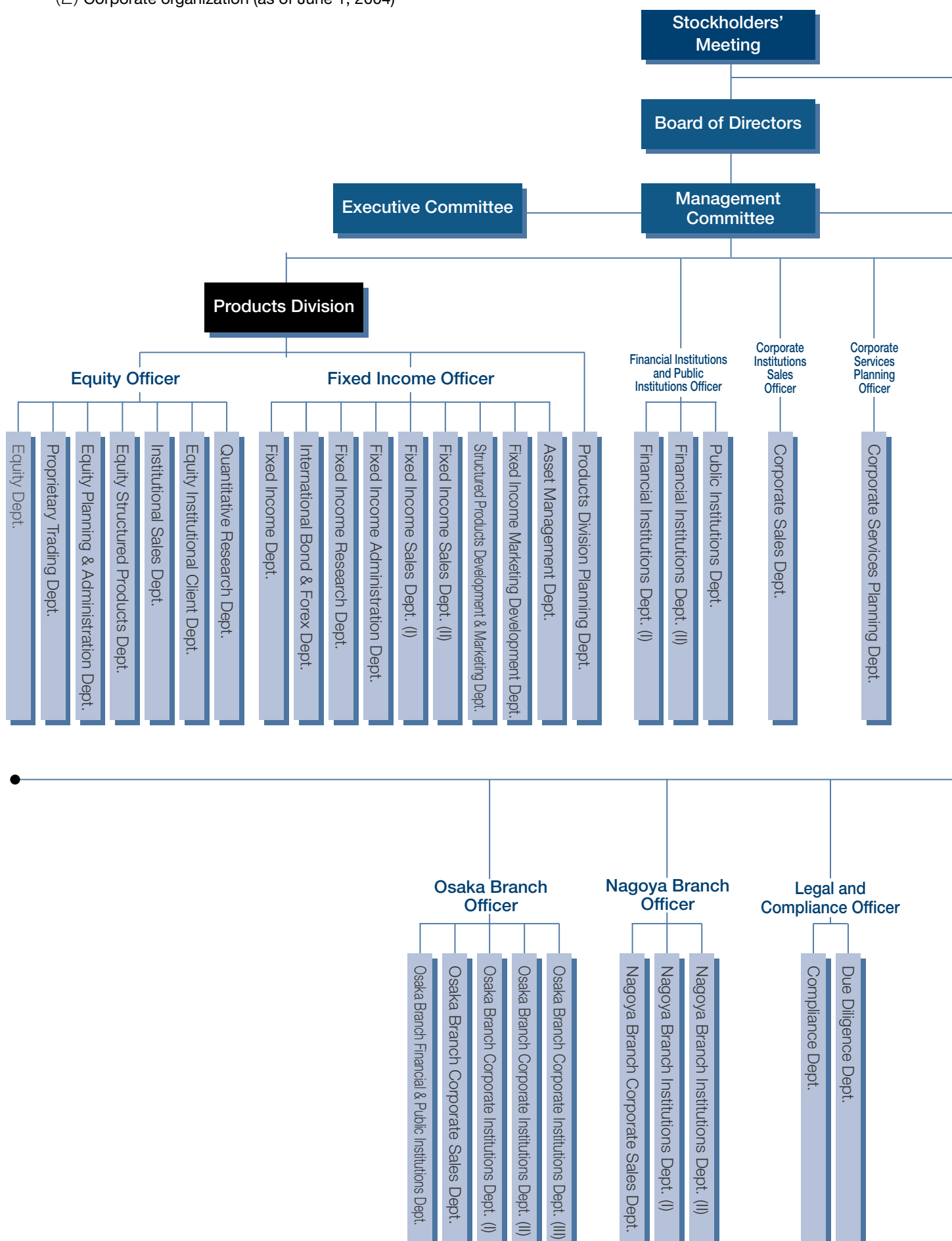
February 26, 1999 (Kanto Financial Bureau (Securities) No. 143)

## 3. History and corporate organization

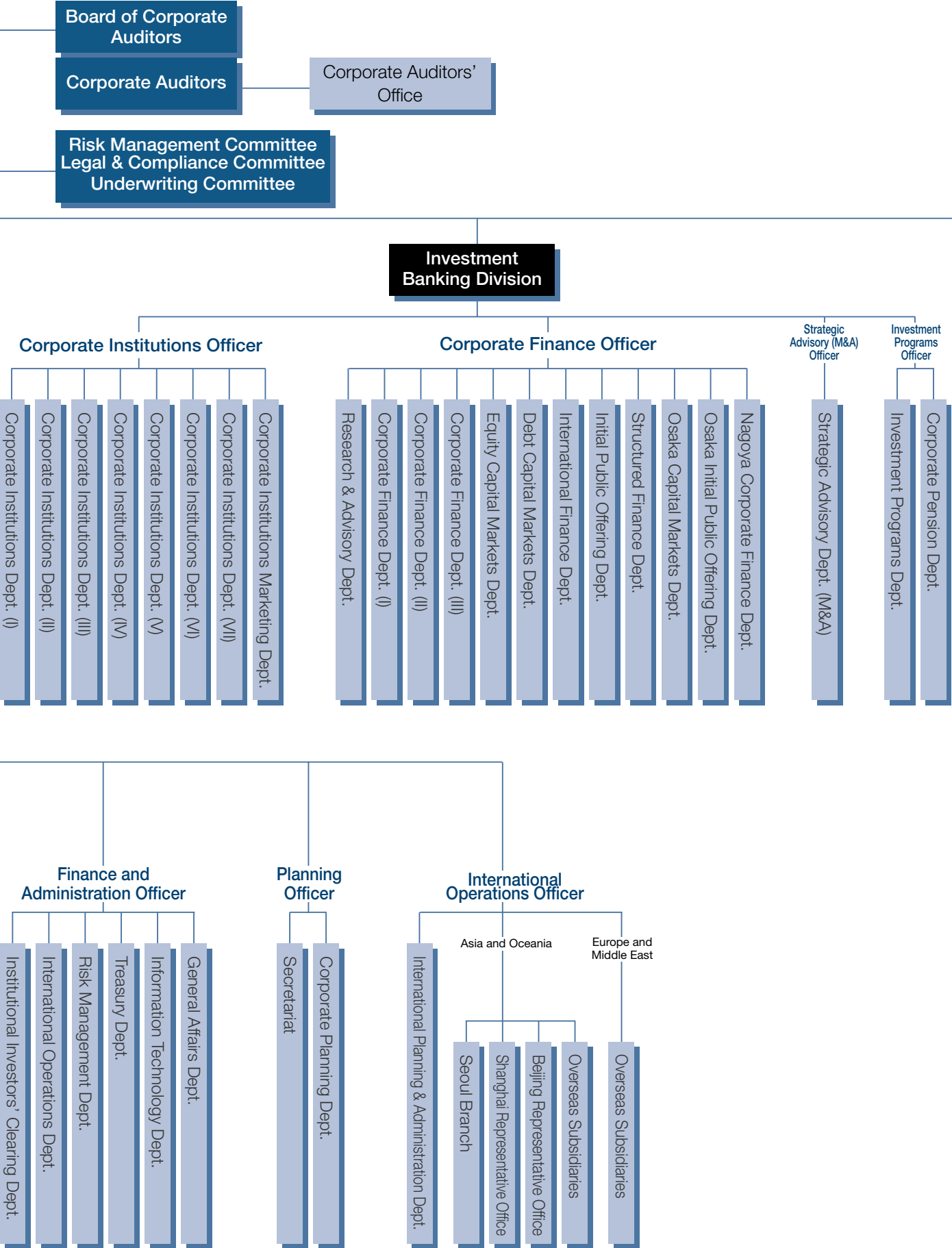
### (1) History

Date	History
April 1999	Wholesale division of Daiwa Securities Co. Ltd. (Now Daiwa Securities Group Inc.), transferred to the Company as well as all operations of Sumitomo Capital Securities Co., Ltd. Operations begin under the name of Daiwa Securities SB Capital Markets Co. Ltd., located in Yaesu, Chuo-ku, Tokyo.
October 1999	Daiwa Securities Group Inc. transferred shares of overseas subsidiaries conducting securities-related business in Europe, the Middle East, and Asia and Oceania to the Company, with these companies becoming subsidiaries of the Company.
October 2000	Opened the Spain Branch of a U.K. subsidiary in Madrid.
November 2000	Opened the Milan Branch of a U.K. subsidiary in Italy.
April 2001	The Company took over the business of Sakura Securities Co., Ltd., absorbed part of the wholesale securities operations of Sakura Bank, Ltd., and changed its name to Daiwa Securities SMBC Co. Ltd.
October 2001	Daiwa Securities SMBC Principal Investments Co. Ltd., a wholly owned subsidiary that makes investments in monetary credits, including bad loans, real estate, private equity, and other related businesses, began operations.
August 2002	In collaboration with Daiwa Institute of Research Ltd. and the Shanghai International Group Corporation Limited, the Company formed Shanghai Daiwa SMBC-SIG Investment Consulting Co. Ltd. a joint venture.
November 2003	The Head Branch was relocated to the Marunouchi area of Chiyoda-ku in Tokyo. All Tokyo offices were integrated, except the Eitai Sales Office.
March 2004	The Company had four sales branches, including the head office, and one sales office.

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#### 4. Stockholders

Name	Shares	Shareholding
1 Daiwa Securities Group Inc.	1,920	60.0%
2 Sumitomo Mitsui Financial Group, Inc.	1,280	40.0%
Total	3,200	100.0%

#### 5. Corporate Officers

(as of June 23, 2004)

Underlined directors are representative directors

Position	Name	Responsibility
<u>President</u>	Tatsuei Saito	Director and Deputy President (Representative Executive Officer), COO of Daiwa Securities Group Inc.
<u>Deputy President</u>	Kenjiro Noda	Chief Internal Administration Supervisor and Deputy President of Daiwa Securities Group Inc.
<u>Deputy President</u>	Michihito Higuchi	Head of Products Division, Director and Deputy President of Daiwa Securities Group Inc.
Senior Managing Director	Nobuaki Ohmura	International Operations Senior Officer, President of Daiwa Securities SMBC Asia Holding B.V., Chairman of Daiwa Securities SMBC Hong Kong Limited, Chairman of Daiwa Securities SMBC Singapore Limited, Chairman of Daiwa Securities SMBC-Cathay Co., Ltd., Executive Vice President and Executive Officer of Daiwa Securities Group Inc.
Senior Managing Director	Yoichiro Inoue	Head of Investment Banking Division, Executive Vice President and Executive Officer of Daiwa Securities Group Inc.
Managing Director	Taro Sumitani	Corporate Finance Senior Officer
Managing Director	Hiroshi Ota	Nagoya Branch Officer and Nagoya Branch Manager
<u>Managing Director</u>	Hiroshi Fujioka	Osaka Branch Officer and Osaka Branch Manager
Managing Director	Sumio Fukushima	Finance and Administration Officer
Managing Director	Shin Yoshidome	Corporate Institutions Senior Officer and Corporate Institutions Sales Officer
Corporate auditor	Ryuji Yamazaki	
Corporate auditor	Kishiro Fujino	
Corporate auditor	Yoshiaki Senoo	
Corporate auditor	Fuminori Yoshitake	

Note : The four auditors, Ryuji Yamazaki, Kishiro Fujino, Yoshiaki Senoo, Fuminori Yoshitake, are outside auditors of the Company as stipulated in Article 18, Section 1 of the Law Regarding the Special Case of Auditors of Kabushiki Kaisha (joint stock companies) under the Commercial Code.

#### 6. Addresses of Head Office and Other Sales Branches

Name	Address
Head Office	8-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-8289
Osaka Branch	13-20, Sonezakishinchi 1-chome, Kita-ku, Osaka 530-8231
Nagoya Branch	15-30, Nishiki 3-chome, Naka-ku, Nagoya, Aichi Prefecture 460-8691
Seoul Branch	6th Floor, DITC Building, #27-3, Youido-dong, Yongsongpo-gu, Seoul, Republic of Korea
Eitai Sales Office	14-5, Eitai 1-chome, Koto-ku, Tokyo 135-0034
Beijing Representative Office	Jianguo Menwai Dajie 19, Beijing, People's Republic of China
Shanghai Representative Office	101 Yin Cheng East Road, Pudong New Area, Shanghai, People's Republic of China

## 7. Operations

### (1) Securities Business (Securities and Exchange Law, Article 2, Section 8)

- Purchase and sales of securities, securities index futures, and securities options and foreign securities futures
- Intermediary, agency and broker activities for securities, securities index futures, and securities options and foreign securities futures
- Purchase and sales of securities, securities index futures, and securities options on domestic stock exchanges and purchase and sales of securities on foreign stock exchanges and intermediary, agency and broker activities for futures transactions on foreign exchanges
- Purchase and sales of and intermediary, agency and broker activities for over-the-counter derivatives
- Underwriting of securities
- Secondary sales of securities
- Handling of subscription or secondary offerings or private placements

### (2) Securities Business-Related Operations (Securities and Exchange Law, Article 34, Section 1)

Business Category
Custody of securities certificates
Money transfers as an account management institution
Loaning securities
Loans for securities margin transactions
Securities collateral loans based on custody of certificates
Securities agency services for customers
Agency services for receipt of subscription and payment for principal and interest of public and corporate bonds
Stock administration agency services
Agency services for payment of income on and redemption and contract cancellations of beneficiary certificates for securities investment trusts
Agency services for allocation of cash and refunds or allocation of remaining assets for beneficiary certificates
Concluding cumulative investment contracts
Providing information on securities and advisory services
Agency services for other securities companies
Agency services for utility payments
Safety deposit box services
Standing proxy services for securities
Agency services for cumulative investment business
Solicitation regarding selection of management methods for defined contribution pension plans

### (3) Other Operations (Securities and Exchange Law, Article 34, Sections 2 and 4)

Business Category
Financial futures transactions as defined in the Financial Futures Trading Law, Article 2, Section 9
Derivative transactions other than securities derivatives
Purchasing and selling of currencies and related brokerage operations
Of the loan operations defined under Article 2, Section 1 of the Law Regarding Regulations for Loan Operations, intermediary services for loans
Small-denomination loans under Article 2, Section 7 of the Law Regarding Regulations for Business Related to Special Credits, etc.
The trading or brokerage of deposit certificates for transferable deposits



(3) Other Operations (Securities and Exchange Law, Article 34, Sections 2 and 4) (continued from page 16)

Business Category
Business related to the concluding, arranging or acting as representative of partnership agreements as stipulated by the provisions of Article 667 of the Civil Code or of small business, etc., investment business limited liability partnership agreements as stipulated by the provisions of Article 3, Section 1 of the Law Regarding Small Business, etc., Investment Business Limited Liability Partnership Agreements or of anonymous partnership agreements as stipulated by the provisions of Article 535 of the Commercial Code.
Buying and selling or brokerage of debt instruments
Business regarding concluding, arranging or acting as representative in loan contracts
Business consulting services
Credit derivatives-related business
Investment or arranging investment in limited partnerships
Buying and selling or brokerage of beneficiary trust rights
Customer referral business

## 8. Participation in Investor Protection Funds

Japan Investor Protection Fund (participation approved on February 26, 1999)

## 9. Membership in Securities Association

Japan Securities Dealers Association (membership approved March 17, 1999)

## 10. Membership on Stock Exchanges

Tokyo Stock Exchange (membership approved April 5, 1999)

Osaka Securities Exchange (membership approved April 5, 1999)

Nagoya Stock Exchange (membership approved April 1, 1999)

## 1. Summary of Business in Fiscal Year Under Review (Year ended March 2004)

### (1) Economic Environment

Japan's economy swung upward in the fiscal year under review, supported by growth in exports against the backdrop of robust demand from U. S., China and other countries. Capital investment in the private sector was also on a clear road to recovery, as the business climate improved substantially. Although companies continued with restructuring of their labor forces to reduce personnel expenses, the benefits of higher manufacturing levels and increased corporate profits began to trickle down to employees and personal incomes, producing a mild recovery in employment conditions and personal consumption.

In the global economy, a sense of heightened regional political risk emerged in reaction to the never-ending terrorist activities in Iraq despite the early end of the war. The economies of the world's major industrialized countries revived somewhat, however, and moved forward with the help of further financial deregulation. In Asia, China continued to post high economic growth.

Following its decline to the lowest level since the bursting of the bubble economy in Japan in late April 2003, the Nikkei Stock Average rebounded on the strength of rise in U.S. stock markets. Expectations for economic recovery began to grow stronger in the light of improvement in domestic macroeconomic indicators and corporate profits, pushing the stock market back up to the 10,000 level in mid-August 2003. Highlighted by the G7 summit at the end of September, the progressive appreciation of the yen became a positive correction factor. Nevertheless, concern over the balance of demand and supply reached its peak, putting downward pressure on prices. Investors were concerned due to the continuing sell off of crossholdings by companies as well as sales resulting from companies returning the substituted portion of the national welfare and pension plan, which they had been previously managing, to the government plan. As the sense that Japanese stock prices were low spread, foreign investors steadily increased their holdings of Japanese stock. When the bell rung at the end of March 2004, the Nikkei Stock Average was at 11,715, up more than 3,000 points from the start of the fiscal year and representing a 46.9% year on year. The average daily turnover on the Tokyo Stock Exchange (TSE) amounted to ¥1,172.4 billion, climbing 58.5% from the prior fiscal year.

In money markets, the yield of 10-year Japanese government bonds fell below 0.5% in March 2003 due to predictions of continued, long-term deflation and further monetary easing by the Bank of Japan. The yield rebounded to the 1.5% level in late August, however, bolstered by rising expectations for economic recovery and a rallying stock market. Following this climb, the yield moved within a tight range from 1.2% to 1.5%, ending the fiscal year at the 1.4% level.

### (2) Business Performance (Comparisons in parenthesis are made versus the fiscal 2002)

#### 1) Commissions

For the year ended March 31, 2004, total commission revenues amounted to 68,508 million yen (31.6% up), of which 45,387 million yen (82.5% up) were derived from equity, 12,220 million yen (6.2% up) from fixed income, and 1,660 million yen (37.2% down) from beneficiary certificates. The components of the commissions received are set forth below:

##### a) Brokerage commissions

Total brokerage commissions significantly increased to 11,665 million yen (39.4% up) reflecting an active market condition with increased daily average volume of stocks traded on the Tokyo Stock Exchange (1,172.4 billion yen, 58.5% up).

##### b) Underwriting commissions

Underwriting commissions significantly increased to 42,160 million yen (69.3% up). Underwriting commissions derived from equity increased to 32,776 million yen (103.0% up) due to an increase of both PO and IPO underwriting issues. Underwriting commissions derived from fixed income increased to 8,619 million yen (2.3% up).

##### c) Distribution commissions

Revenues in distribution commissions generated 861 million yen (25.7% down) reflecting decreasing distribution commissions derived from beneficiary certificates and so forth.

##### d) Other commissions

Other commissions amounted to 13,820 million yen (21.7% down). Other commissions from M&A, financial advisory service, IPO consulting, and so forth generated 8,473 million yen (33.4% down). On the other hand, agency fees in fixed income administration business increased to 2,603 million yen (40.9% up).

#### 2) Net gain on trading

Net trading gains in equity trading significantly increased to 42,136 million yen compared to the net loss of 1,646 million yen in last year. On the other hand, net trading gains from fixed income together with those from foreign exchange transactions decreased to 23,692 million yen (48.4% down). Consequently, overall net gain on trading increased to 65,829 million yen (48.6% up).

(2) Business Performance (continued from page 18)

3) Net interest and dividend income

Interest and dividend income totaled 27,343 million yen, whereas interest expenses totaled 9,465 million yen. Net interest and dividend income came to 17,878 million yen (23.4% up), reflecting increased revenues earned from interests on bonds and so forth.

4) Selling, general and administrative expenses

Commissions paid, personnel expenses, and real estate expenses increased to 48,393 million yen (28.8% up), 24,263 million yen (12.4% up), and 10,442 million yen (1.2% up), respectively. Data processing & office supply expenses decreased to 13,919 million yen (1.5% down). Taxes other than income taxes increased to 2,109 million yen (21.4% up), and depreciation expenses to 10,686 million yen (24.7% up). Overall selling, general and administrative expenses came to 111,332 million yen, a 16.7% increase compared to last year.

(3) Income and losses

In conclusion, operating revenues for the fiscal 2003 came to 161,681 million yen (36.7% up), and net operating revenues to 152,216 million yen (37.3% up). Operational income came to 40,884 million yen (164.2% up), and ordinary income to 41,873 million yen (152.8% up). Net extraordinary income resulted in a loss of 3,747 million yen mainly due to expenses relating to the Company's relocation as at November 1, 2003 (1,405 million yen) and devaluation of investment securities (1,386 million yen). Finally, net income recorded a large increase to 23,227 million yen (265.4% up).

## 2. Capital Investment and Financing

(1) During the fiscal year, the Company concentrated its head office functions, which had previously been distributed among the sales offices because head office was crowded, in order to achieve smoother cooperation among the different sections. For that purpose, the Company relocated its head office in Tokyo from Chuo ward to Chiyoda ward, effectively November 1, 2003. Expenditures involved with the move, including the guarantee deposit, totaled ¥2.8 billion.

(2) The main capital investments made during the fiscal year under review were for system-related items. In the first year of the new 3-year medium-term capital investment plan for system commencing in the fiscal year ended March 2004, the Company invested in a range of completed and ongoing projects, primarily focused on establishing a system environment that can respond quickly to customers and market needs and in innovating core systems to increase the efficiency of middle and back office operations.

(3) The Company made a ¥198.8 billion straight bond issue during the fiscal year to increase its working capital.

## 3. Key Business Indicators

(1) Overall Performance

(millions of yen)

	Year ended March 31, 2002	Year ended March 31, 2003	Year ended March 31, 2004
Paid in capital	205,600	205,600	205,600
Issued and outstanding shares	3,200 shares	3,200 shares	3,200 shares
Operating revenues	109,481	118,300	161,681
Commissions	54,724	52,073	68,508
Brokerage	10,727	8,367	11,665
Underwriting & distribution	26,306	24,896	42,160
Subscription & distribution	1,709	1,159	861
Other commissions	15,980	17,649	13,820
Net gain on trading securities	26,089	44,308	65,829
Equity trading gain (loss)	14,753	(1,646)	42,136
Bond trading gain	9,566	38,569	18,904
Other trading gain (loss)	1,768	7,385	4,787
Net operating revenues	102,670	110,875	152,216
Ordinary income	13,231	16,565	41,873
Net income	5,426	6,357	23,227



## (2) Securities Underwriting &amp; Sales

## ① Equity Sales (Excluding Futures and Options)

(millions of yen)

	As Principal	Commissioned	Basis Total
Year ended March 2002	23,460,844	19,967,275	<b>43,428,120</b>
Year ended March 2003	19,446,777	16,406,050	<b>35,852,828</b>
Year ended March 2004	23,713,923	19,694,494	<b>43,408,417</b>

## ② Securities Underwriting, Subscription Sales, and Private Placement

(millions of yen)

Equities		Underwriting	Distribution (primary offering)	Subscription (secondary offering)	Distribution	Private Placement
	Year ended March 2002	272,702	271,178	—	60	1,650
	Year ended March 2003	319,658	319,623	—	319	23,993
	Year ended March 2004	863,754	862,905	—	52	17,382
Bonds		Underwriting	Distribution (primary offering)	Subscription (secondary offering)	Distribution	Private Placement
Year ended March 2002	JGBs	980,531	—	972,857	—	—
	Municipal bonds	209,869	—	178,525	—	—
	Gov. agency bonds	448,214	—	587,426	54,090	—
	Corporate bonds	1,708,388	6,158	1,373,155	—	51,100
	Foreign bonds	258,950	169,953	—	—	—
	<b>Total</b>	<b>3,605,953</b>	<b>176,111</b>	<b>3,111,963</b>	<b>54,090</b>	<b>51,100</b>
Year ended March 2003	JGBs	2,011,894	—	2,004,594	—	—
	Municipal bonds	262,668	—	213,014	—	—
	Gov. agency bonds	969,654	—	1,028,146	21,400	—
	Corporate bonds	1,596,920	—	1,397,965	—	19,000
	Foreign bonds	118,506	110,482	—	—	—
	<b>Total</b>	<b>4,959,642</b>	<b>110,482</b>	<b>4,643,719</b>	<b>21,400</b>	<b>19,000</b>
Year ended March 2004	JGBs	1,470,093	—	1,464,993	—	—
	Municipal bonds	414,571	—	373,523	—	—
	Gov. agency bonds	1,683,653	—	1,833,300	5,900	—
	Corporate bonds	1,395,020	—	1,234,090	—	24,400
	Foreign bonds	118,000	117,239	—	—	—
	<b>Total</b>	<b>5,081,337</b>	<b>117,239</b>	<b>4,905,906</b>	<b>5,900</b>	<b>24,400</b>
Investment Trusts		Underwriting	Distribution (primary offering)	Subscription (secondary offering)	Private Placement	
	Year ended March 2002	52,500	45,204	1,407,493	157,814	
	Year ended March 2003	—	—	1,069,572	43,139	
	Year ended March 2004	—	—	488,594	194,980	
Others		Underwriting	Distribution (primary offering)	Subscription (secondary offering)	Distribution	Private Placement
	Year ended March 2002	1,600,110	—	—	—	1,584,110
	Year ended March 2003	1,466,260	—	—	—	1,406,460
	Year ended March 2004	1,275,087	—	—	—	1,253,429

### (3) Other Operations

#### ① Securities in Custody

	Category	Equities	Bonds	Investment Trusts	Others	
Year ended March 2002	Domestic securities	thousand shares 250,655,295	million yen 1,848,952	million units 1,199,763	New shares Commercial paper	53 thousand securities 300,000 million yen
	Foreign securities	thousand shares 549,825	million yen 5,089,582	million units 751	New shares	22 thousand securities
Year ended March 2003	Domestic securities	thousand shares 13,763,747,703	million yen 2,779,142	million units 980,269	New shares Commercial paper	40 thousand securities 137,300 million yen
	Foreign securities	thousand shares 531,866	million yen 5,251,738	million units 2,415	New shares	1,415 thousand securities
Year ended March 2004	Domestic securities	thousand shares 29,734,238,924	million yen 2,815,201	million units 732,338	New shares Commercial paper	30 thousand securities 150,279 million yen
	Foreign securities	thousand shares 903,197	million yen 5,752,980	million units 4,791	New shares	1,407 thousand securities

Note : Effective April 2002, domestic marketable securities include securities that are not marketable. In addition, beneficiary certificates are shown as the number of units.

#### ② Securities Lending Operations

	Equities	Bonds
Year ended March 2002	thousand shares 639,478	million yen 250,623,066
Year ended March 2003	thousand shares 1,477,052	million yen 311,308,555
Year ended March 2004	thousand shares 1,672,961	million yen 332,391,515

#### ③ Financial Futures Transactions

(100 millions of yen)

	Interest Rate Futures		Currency Futures	
	Commissioned	As Principal	Commissioned	As Principal
Year ended March 2002	—	183,466	—	—
Year ended March 2003	—	46,360	—	—
Year ended March 2004	—	50,341	—	—

Note : For other operations of the Company other than the above, please see page 16 and 17.

#### (4) Capital Adequacy Ratio

(millions of yen)

			Year ended March 2002	Year ended March 2003	Year ended March 2004
Basic item	Total stockholders' equity	(A)	347,628	348,192	371,473
	Evaluation difference		—	—	488
Supplementary item	Special Purpose Law reserves		2,310	3,065	3,982
	Allowance for doubtful accounts		52	45	31
	Subordinated debt		100,000	100,000	100,000
	Total	(B)	102,362	103,111	104,502
Assets excluded from capital		(C)	144,253	140,270	134,092
Capital after exclusion	(A) + (B) - (C)	(D)	305,738	311,033	341,882
Risk equivalent	Market risk equivalent		27,250	47,442	56,376
	Counter party risk equivalent		13,364	15,887	22,462
	Fundamental risk equivalent		20,491	20,724	22,612
	Total	(E)	61,105	84,055	101,451
Capital adequacy ratio	(D) / (E) × 100 (%)		500.3%	370.0%	336.9%

## (5) Number of Officers and Employees and Registered Sales Representatives

Category	Year ended March 2002	Year ended March 2003	Year ended March 2004
Officers	16 persons	16 persons	14 persons
Employees	1,754 persons	1,764 persons	1,739 persons
Total	1,770 persons	1,780 persons	1,753 persons
Of this total, the number of registered sales representatives.	1,359 persons	1,389 persons	1,389 persons

## 4. Major Issues Facing the Company

Domestic demand remains firm as Japan's economy continues to mount a mild recovery. Against the backdrop of the economic rebound and a rising stock market, the financing market, especially equity finance, has revived, boosted by companies with strong cash needs. On the other hand, those companies burdened with excess debt are implementing revitalization and reorganization measures. With the upswing in macroeconomic upswing, the Products Division is busy keeping up with demand and our Investment Banking Division is enjoying expanding business opportunities thanks to the rehabilitation efforts of debt-heavy companies. Nevertheless, amid the trends to globalization of market economies, deregulation of the finance industry, and ongoing preparation for new regulatory systems, the competitive environment surrounding the Company is becoming increasingly severe.

The fiscal year under review was the first year of the Daiwa Securities Group's new 3-year medium-term business plan. The major themes of the plan are to improve the quality of products and services and to increase productivity. For its part, the Company is devoting efforts to increasing its product and services development capabilities, and targeting increased earnings and higher positioning in league tables using the power of Group-based sales. In working toward the goals of the new medium-term business plan, the Company is aiming to become Japan's most powerful investment bank.

In the fiscal year under review, the Company achieved results in excess of its targets for the first year of the plan thanks to the aggressive implementation of various goal-oriented measures.

Looking forward, the officers and employees of the Company remain fully dedicated to working toward their established goals under the plan.

**Medium-Term Business Plan**

【Group Medium-Term Business Plan】 (Daiwa Securities SMBC section) (from April 2003 to March 2006)

The Daiwa Securities Group launched a new Group Medium-term Business Plan covering the 3-year period from April 2003 to March 2006. The following is an outline of the plan.

【Group Medium-Term Business Goals】

- 1) In the end, to achieve sustained growth and development of the company's group, the company must prove itself to be a leading company not only in financial terms but also in terms of the degree of satisfaction that customers have with its services. Therefore, over the next three years, the entire Group will work together to become No. 1 in the industry in quality of products and services.
- 2) Facing difficult business conditions, the Group will not seek a simple expansion of business scope. Instead the Group will aim to improve the skills of each and every employee and to increase the efficiency of the Group's horizontal business processes. Strengthening its organization to enable quick and efficient supply of quality products and services that meet customers' needs, the Group is aiming to be No. 1 in productivity.

【The company three years from now】

The company will improve quality of its product and services, increase productivity and diversify revenue sources.

- ① The company will provide high quality solutions and establish a leading position in the league tables.
- ② The company will strengthen its marketing and product development capabilities.
- ③ The company will further diversify its business line to minimize the effect of market movements.

【Basic strategy】

The company will expand its client base by cooperation with Sumitomo-Mitsui Banking Corporation, and strategically allocate its management resources corresponding to the changes in market environment.

- ① The investment banking business, will maintain its No.1 position in areas where it has already established a leading position and will work to improve its position in other areas. This will be accomplished by enhancing its capabilities to provide high quality proposals and by strengthening its origination activities.
- ② The institutional brokerage business will promote cooperation between the Daiwa Securities Group and Sumitomo-Mitsui Banking Corporation and strengthen its marketing and product development capabilities.
- ③ Strategic allocation of resources will enable the principal finance and M&A businesses to take advantages of the business opportunities available under this deflationary environment and increase its presence in this field.
- ④ The company will offer global services that meet the needs of its clients in Japan.



## Financial Position

### 1. Accounting

(1) Balance Sheets (as of March 31, 2004)

(millions of yen)

ASSETS		
Category	(at March 31, 2003)	(at March 31, 2004)
<b>Current assets:</b>	6,079,947	7,446,596
Cash and time deposits	105,018	67,093
Cash segregated as deposits	20,008	20,024
<b>Trading assets:</b>	4,216,614	3,697,892
Trading securities and others	3,644,400	3,200,420
Derivative assets	572,213	497,472
Trade date accrual	—	419,550
Receivables related to margin transactions	68,944	141,196
Loans receivable from customers for margin transactions	55	1,972
Cash deposits as collateral for securities borrowed from securities finance companies	68,889	139,223
<b>Receivable on collateralized securities transactions:</b>	1,549,050	2,919,298
Cash deposits as collateral for securities borrowed	1,487,949	2,818,287
Receivables related to Gensaki transactions	61,100	101,010
Short-term guarantee money deposited	9,407	11,820
Short-term loans receivable	85,622	130,293
Accrued income	9,161	6,361
Deferred income tax assets	818	1,664
Other current assets	15,348	31,431
Less: Allowance for doubtful accounts - current	(45)	(31)
<b>Non-current assets:</b>	142,065	129,212
Tangible fixed assets	4,120	4,764
Intangible fixed assets	29,725	32,237
Investments and other assets	108,219	92,210
Investment securities	42,941	51,418
Long-term loans receivable	1,033	26
Long-term guarantee deposits	6,403	5,734
Deferred income tax assets	48,278	30,837
Other investments	10,045	4,747
Less: Allowance for doubtful accounts - non-current	(482)	(554)
<b>Total assets</b>	<b>6,222,012</b>	<b>7,575,808</b>



(millions of yen)

LIABILITIES		
Category	(at March 31, 2003)	(at March 31, 2004)
<b>Current liabilities:</b>	5,469,446	6,680,982
<b>Trading liabilities:</b>	1,372,131	2,687,007
Trading securities and others	850,362	2,219,915
Derivative liabilities	521,768	467,092
Trade date accrual	58,765	—
<b>Payables related to margin transactions:</b>	42,790	80,149
Proceeds of securities sold for margin transactions	42,790	80,149
<b>Payables on collateralized securities transactions:</b>	2,542,096	2,369,385
Cash deposits as collateral for securities loaned	1,902,792	1,678,734
Payables related to Gensaki transactions	639,304	690,651
Deposits received	59,382	8,834
Cash deposits received from customers	17,800	14,441
Short-term borrowings	1,068,817	1,224,300
Commercial paper	289,800	273,722
Bonds due within one year	5,766	10,173
Accrued expenses	7,203	6,174
Other current liabilities	4,891	6,793
 <b>Non-current liabilities:</b>	395,708	518,629
Bonds	291,950	413,959
Long-term borrowings	100,000	100,000
Accrued retirement benefits	3,041	3,639
Other non-current liabilities	716	1,031
 <b>Statutory reserves:</b>	3,065	3,982
Reserve for securities transaction liabilities	3,065	3,981
Reserve for financial futures transaction liabilities	0	0
<b>Total liabilities</b>	5,868,220	7,203,594
STOCKHOLDERS' EQUITY		
Common stock	205,600	205,600
Capital surplus	117,321	117,321
Additional paid-in capital	117,321	117,321
Earned surplus	31,176	48,804
Earned surplus reserve	5,141	5,141
Voluntary reserve	301	250
Special reserve for depreciation	301	250
Unappropriated retained earnings	25,734	43,412
Revaluation reserve for investment securities, net of tax effect	(305)	488
<b>Total stockholders' equity</b>	353,792	372,213
<b>Total liabilities and stockholders' equity</b>	6,222,012	7,575,808

## (2) Income Statement

(millions of yen)

Category	Year ended (March 31, 2003)	Year ended (March 31, 2004)
Operating revenues:	118,300	161,681
Commissions	52,073	68,508
Net gain on trading securities	44,308	65,829
Interest and dividend income	21,919	27,343
Interest expenses	7,425	9,465
Net operating revenues	110,875	152,216
Selling, general and administrative expenses:	95,401	111,332
Commission and other expenses	37,571	48,393
Employees' compensation and benefits	21,582	24,263
Real estate expenses	10,320	10,442
Data processing and office supplies	14,132	13,919
Depreciation expenses	8,566	10,686
Taxes other than income taxes	1,737	2,109
Others	1,490	1,516
Operating income	15,473	40,884
Non-operating income	1,953	1,567
Non-operating expenses	861	578
Ordinary income	16,565	41,873
Extraordinary gains:	61	456
Extraordinary losses:	2,401	4,203
Income before income taxes and others	14,226	38,126
Income taxes - current	(1,576)	(1,305)
Refund of income taxes	52	181
Income taxes - deferred	9,497	16,386
Net income	6,357	23,227
Unappropriated retained earnings - carryforward	19,376	20,185
Unappropriated retained earnings	25,734	43,412

## [Notes to Financial Statements]

The financial statements of the Company for fiscal 2003 ended March 31, 2004 are prepared in accordance with the 'Cabinet Office Ordinance Concerning Securities Companies' (Prime Minister's Office Ordinance and Ministry of Finance Ordinance No. 32, 1998), and the 'Uniform Accounting Standards of Securities Companies' (set by the board of directors of the Japan Securities Dealers' Association, November 14, 1974), based on the 'Regulations of Financial Statements' (Ministry of Finance Ordinance No.59, 1963) and its Article 2.

## [Basis of Financial Statements]

### (1) Valuation of financial instruments

#### 1) Valuation of trading account

Securities and derivative transactions in trading account are recorded at fair Value.

#### 2) Valuation of non-trading securities

a) Subsidiary and related company stocks are valued at moving average cost method.

b) Other securities in non-trading account are valued at fair value on the closing date with posting net unrealized gain on securities net of tax effect directly in stockholders' equity, if their fair value is available. Those securities cost is based on moving average method. Other securities are valued at moving average cost method, if their value is not available.

### (2) Depreciation of depreciable assets

#### 1) Tangible fixed assets

Declining-balance method is applied, and straight-line method is applied to the building (excluding appendixes) acquired after April 1, 1998. Useful life for depreciation is based on Corporation Tax Law.

#### 2) Intangible fixed assets, and investments and others

Straight-line method applied, and useful life for depreciation is based on Corporation Tax Law. Software for in-house use is depreciated under straight-line method based on internal estimated useful life (5 years).

### (3) Deferred assets

Expenses for issue of bond are amortized in a lump sum when incurred.

### (4) Translation of foreign currency denominated asset or liabilities into Japanese yen

Monetary assets and liabilities denominated in foreign currencies are translated into yen at the rate of exchange in effect at the balance sheet date, and translation differences are booked as gains or losses. The assets and liabilities of overseas offices or subsidiaries are translated into yen at the rate of exchange in effect on the respective balance sheet date, and revenues and expenses are translated at the average rates of exchange for the respective fiscal years, and translation differences are booked as gains or losses.

### (5) Accounting policies for various provisions

#### 1) Allowance for doubtful accounts

The Company provides the allowance based on the historical deterioration rate as for normal loans, and the allowance specifically assessed as for doubtful and failed loans.

#### 2) Accrued bonuses

Estimated amount of employees' bonuses is accrued based on the Company's bylaws.

#### 3) Accrued retirement benefits

The Company provides accrued retirement benefits for employees in conformity with the bylaws to meet obligations as of March 31, 2003, as the rise in salaries in the future does not cause fluctuation in the benefit obligation and therefore the service costs are vested fiscal year by fiscal year.

#### 4) Reserve for officers' bonuses

To prepare for the payment of officers' bonuses, the Company made a provision to the reserve for officers' bonuses at the end of the fiscal term equivalent to determined payments (¥558 million) under other non-current liabilities. Reserve for officers' bonuses is a reserve provided under Article 43 of the Enforcement Regulations of the Commercial Code of Japan.

(6) Accounting for certain lease transactions

Finance lease in which ownership is not transferred to a lessee are accounted for in the same manner as operating leases.

(7) Hedge transactions

A premium or discount on forward foreign exchange contracts to hedge foreign currency denominated deposits is allocated to each fiscal term without marking-to-market.

(8) Other material items

1) Consumption taxes

Consumption taxes are separately recorded

2) Consolidation tax system

Consolidation tax system is applied.

3) Impairment of fixed assets

Accounting Standards Board of Japan issued 'Accounting Standards for Impairment of Fixed Assets' ('Opinion on Establishing Accounting Standards for Impairment of Fixed Assets' issued by Accounting Standards Board of Japan on August 9, 2002) and 'Guidance on Application of Accounting Standards for Impairment of Fixed Assets' (Application Guidance on Accounting Standards number 6, issued on October 31, 2003). Accordingly the Company compiled with this standard for the fiscal year ended as of March 31, 2004.

**〔Notes to Balance Sheet〕**

(1) Accumulated depreciation of tangible fixed assets

As of Mar. 31, 2004	As of Mar. 31, 2003	(millions of yen)
7,603	7,295	

(2) Guarantees

As of Mar. 31, 2004	As of Mar. 31, 2003	(millions of yen)
521	428	

(3) Long-term borrowings are the subordinated borrowings stipulated by Article 2 of the "Cabinet Office Ordinance on the Capital Adequacy Rule for Securities Companies" (Cabinet Office Ordinance No. 23, 2001).

**〔Notes to Income Statement〕**

(millions of yen)

Extraordinary gains and losses	(Year Ended March 2004)	(Year Ended March 2003)
Extraordinary gains		
Gain on sale of investment securities	456	49
Reversal of allowance for doubtful accounts	—	12
Extraordinary losses		
Write-down of investment securities	1,386	1,257
Valuation loss of fixed assets	101	259
Loss on sale of investment securities	77	129
Provision for securities transaction liabilities	916	754
Head office relocation expenses	1,405	—
Others	315	—



## 2. Statement of Appropriation of Retained Earnings

(millions of yen)

Category	Year ended March 2003	Year ended March 2004
Unappropriated retained earnings	25,734	43,412
Reversal of reserve for special depreciation	50	59
Total	25,785	43,471
Appropriations of retained earnings	5,600	39,812
Cash dividends	5,600	—
Directors' bonuses	—	252
Voluntary reserve		
Reserve for special depreciation	—	1,560
Contingent reserve	—	38,000
Unappropriated retained earnings carried forward	20,185	3,658

Note : Cash dividends for the fiscal year ended March 2003 were ¥1.75 million per share.

## 3. Major Providers of Loans and Amounts

	Loan Provider	Type of Loan	Balance
Year ended March 2003	Bank of Japan	Short-term loans (Note 1)	825,300 million yen
	JSF Trust and Banking Co., Ltd.	Short-term loans (Note 2)	150,000 million yen
	Daiwa Securities Group Inc.	Long-term loans (Note 3)	60,000 million yen
	Sumitomo Mitsui Financial Group, Inc.	Long-term loans (Note 3)	40,000 million yen
Year ended March 2004	Bank of Japan	Short-term loans (Note 1)	1,054,300 million yen
	JSF Trust and Banking Co., Ltd.	Short-term loans (Note 2)	100,000 million yen
	Daiwa Securities Group Inc.	Long-term loans (Note 3)	60,000 million yen
	Sumitomo Mitsui Financial Group, Inc.	Long-term loans (Note 3)	40,000 million yen

Notes : 1. Based on the purchase of promissory notes.

2. Borrowed on a call money basis.

3. Subordinated liabilities (subordinated loans) according to Section 2 of the "Cabinet Ordinance Concerning Capital Adequacy Rule of Securities Companies" (Cabinet Ordinance No. 23, 2001).

## 4. Securities in Custody

Market value of securities held other than trading securities (millions of yen)

Category	Year ended March 2003			Year ended March 2004		
	Book value	Market Value	Gain or (Loss)	Book value	Market Value	Gain or (Loss)
Included under fixed assets						
Equity	2,872	2,358	(513)	2,795	3,575	779
Bonds	—	—	—	—	—	—
Others	—	—	—	—	—	—
Total	2,872	2,358	(513)	2,795	3,575	779

Notes : 1. Method of determining market value

Listed securities.....closing price on major stock exchange

Over-the-counter securities.....quotations announced by the Japan Securities Dealers Association

2. Book value on the balance sheet of securities not within the scope of required disclosure.

Securities included under non-current assets

Equity (non-listed shares excluding OTC securities)

Year ended March 2003

40,583

Year ended March 2004

47,844

(millions of yen)

## 5. Futures and Options Transactions

During the fiscal year in review, other than futures and options transactions in its trading operations, the Company used forward currency contracts to hedge currency risk in its foreign currency denominated deposits. Hedge accounting, which defers gains or losses until they are actually incurred, was used and hedges were booked according to fair market value.

	Contract value	Market value	(millions of yen) Gain (Loss)
At March 31, 2004	3,220	3,171	(50)

## 6. Securities Derivatives

During the fiscal year in review, the Company did not engage in derivative transactions other than in its trading operations.

## 7. Auditing by Independent Public Accounting Company

Under the provisions of Article 2 of the Regulations, the documentation stipulated in Article 281, Section 1 of the Commercial Code (limited to the accounting related portions of the documents and attached notes defined under Item 3 of Section 1) for the fiscal year ended March 31, 2004 have been audited by an independent public accounting company. Effectively January 1, 2004, the Company's independent public accounting company Asahi & Co. changed its name to KPMG AZSA & Co.

## 8. Summary of the Fundamental Policies and Internal Regulations for the Allotment of Securities

### (1) Fundamental Policies for the Allotment of Securities

The Company recognizes its business mission as, through its underwriting activities, responding to the funding needs of companies and the asset management needs of investors while promoting the circulation of securities, thereby contributing to the expansion and development of securities markets. The Company business activities revolve around this mission.

When making or handling subscriptions and secondary offerings, the Company, in principle, carefully considers a balance in the allotment of securities that will avoid excessive concentration on specific clients. When selling securities to clients, the Company recognizes that its first premise in these activities is the sale of financial products that fit the needs of clients. In principle, the bookbuilding method is used to obtain an accurate grasp of customer demand and allotments are made in full consideration of the client's affiliations. Specifically, the Company takes the amount requested by the client, demonstrated interest in the issue during the bookbuilding process, assets, risk understanding, investment experience and knowledge, and investment strategies, and business relationship with the Company into consideration before allotting securities based on the principle of appropriateness. This process is particularly closely observed when there is an extremely high overall demand for the issue.

However, when the previously mentioned principles are not applicable, for example, when the amount being underwritten is small, the product is difficult to distribute widely due to its nature or various laws and regulations apply to the issue, the Company may limited the clients to which it allots the security or set ceilings and floors on the monetary figure used as the quota per client.

### (2) Summary of Internal Regulations for the Allotment of Securities

Through its internal regulations, the Company observes the Laws of Japan as well as the regulations of the Japan Securities Dealers Association and stock exchanges and makes its best efforts to ensure fair allotment of securities.

The Company has established as a fundamental principle that the process of application for allotment shall be fair and has created internal regulations to maintain transparency in the allotment application process and to establish an adequate control and inspection structure. The following is a summary of those regulations.

#### 1) Fundamental principle of allotments

In making or dealing with subscriptions or secondary offerings (hereafter termed "subscriptions, etc."), it is the Company's principle to distribute the security widely to avoid excessive allotments to specific clients.

Sales are made on the premise that the product fits the asset management needs of the client. In principle, the bookbuilding method is used and the client's affiliations are taken fully into consideration in determining the allotment based on the principle of appropriateness.

- 2) Allotments to which the fundamental principle does not apply  
When the underwriting amount of lost-right public offerings, etc is small, when various laws and regulations apply to the sale of the issue, or when it is determined that specific limitations should be placed on investors not specified by the issuer under the Japan Securities Dealers Association's regulations prohibiting allotments or on the issue due to its nature, the Company may not apply its fundamental principle in making its allotments.
- 3) Restrictions on allotments  
Allotments cannot be made to the following persons or entities: ①persons specified by the issuer (excluding investors to which this restriction does not apply under the Japan Securities Dealers Association's New Issue Ban Regulation), ②gangster groups or people related to such groups (in other words, Sokaiya and others who act against the public's best interests), ③persons or entities for which it might appear that special preference had been given by the Company causing society to view these actions as unfair, ④companies that have personal relationships with the company going public, companies with capital ties to the issuing company, and people with special interests in the issuer.
- 4) Legal compliance  
The Company complies with legal regulations disallowing the allotment of securities to clients or third parties for the purpose of reimbursing clients for their losses or increasing their profits.
- 5) Procedures for deciding allotments
  - ① Allotment based on the bookbuilding method  
Considering the overall demand, the syndicate head determines allotments for the sales sections or in the case that sales are being commissioned, for the commissioned securities companies.
  - ② Allotment not based on the bookbuilding method  
In consideration of past performance of issues, the syndicate head determines allotments for the sales sections or in the case that sales are being commissioned, for the commissioned securities companies.
  - ③ Allotment to clients  
Following the fundamental principle for allotment, in principle, the person responsible for the sales sections will decide the allotment to clients.
- 6) Control and inspection structure
  - ① The person responsible for the sales sections will control the allotments to clients. Moreover, the Compliance Dept. will make periodic inspections of the appropriateness of those allotments of securities, etc., and provide appropriate guidance.
  - ② When it is suspected that a violation of the laws and regulations regarding subscriptions, etc. has occurred, the person responsible for the sales sections will meet face-to-face with the client to determine the validity of the claim.
  - ③ When it is suspected that, reflecting the affiliations of a client, a violation of the laws and regulations regarding the allotment to a client or subscriptions, etc, the Compliance Dept. may request that the person responsible for the sales sections submit a report of the meeting with the client affected.
  - ④ The sales sections will keep records allotments and the Compliance Dept. will keep records of inspection of those allotments for five years.

## 1. Overview of Internal Control Structure

The following is an outline of the Company's internal control structure. The Legal & Compliance Committee, as a subcommittee of Management Committee, determines companywide policies for compliance guidance and internal investigations, discussing, deciding and approving specific measures. At departments and branches, sales managers, internal administration supervisors, and internal administration officers oversee legal and other compliance in daily operations and carry out internal investigations to ensure that this supervision is effective. With a view to preventing legal violations, the Compliance Dept. conducts discussions of compliance issues in advance and provides guidance and monitoring as well as carrying out internal investigations. Among the Company's specific compliance measures are the creation of a compliance program as an annual action plan, and using the plan to implement thorough compliance and strengthen internal administration. To strengthen its internal control structure, the Company took steps during the fiscal year to improve all of its programs. It reinforced the functions of internal administration supervisors and others, expanded the scope of internal investigations, upgraded compliance training, and fortified information security management.

The following is an outline of the Company's internal control organization.

### ① Legal & Compliance Committee

The President calls a meeting of this subcommittee of the Management Committee, in principle, every other month. The committee considers issues related to compliance with Company regulations, establishing corporate ethics, and internal administration, discussing, deciding and approving overall Company policy, concrete measures, and which issues should be passed on to the Board of Directors.

### ② Chief Internal Administration Supervisor and Assistant Internal Administration Supervisor

According to the regulations of the Japan Securities Dealers Association, the Chief Internal Administration Supervisor is a representative director of the Company. The Chief Internal Administration Supervisor provides guidance and supervision to the process of establishing an internal administration structure and the activities of Internal Administration Supervisors to ensure thorough compliance with regulations. The Assistant Internal Administration Supervisor backs up the Chief Internal Administration Supervisor.

### ③ Compliance Dept.

As the compliance headquarters, the Compliance Dept. has the following functions:

- Business Section . . . . . The section makes pricing checks, monitors unfair business practices, manages information on insider trading and other violations, and provides external reporting. For sales sections other than the Products and Investment Banking divisions, this section mainly provides opinions on laws and regulations as well as professional advice on legal decisions.
- Legal Compliance Section . . . . . This section principally provides opinions on laws and regulations to the Products and Investment Banking divisions as well as professional advice on legal decisions.
- Overseas Compliance Section . . . . . Responsible for keeping abreast of conditions in the legal compliance organizations of overseas offices and providing guidance in improving the system to achieve early detection of legal violations, prevent reoccurrences, and avoid risks. In addition, the office plans and implements investigations.
- 1st & 2nd Investigations Sections . . . . . Responsible for investigations at all sections of the Company in Japan and abroad. Through investigations for appropriateness and efficiency and through early detection of violations and accidents, the sections provide guidance on reforms for the internal administration organization based on the results of their investigations.
- Planning Section . . . . . In addition to planning compliance training programs and revising internal rules, the Planning Section proposes necessary measures to prevent legal violations and accidents from a companywide point of view.

### ④ Sales Managers, Internal Administration Supervisors and Internal Administrators

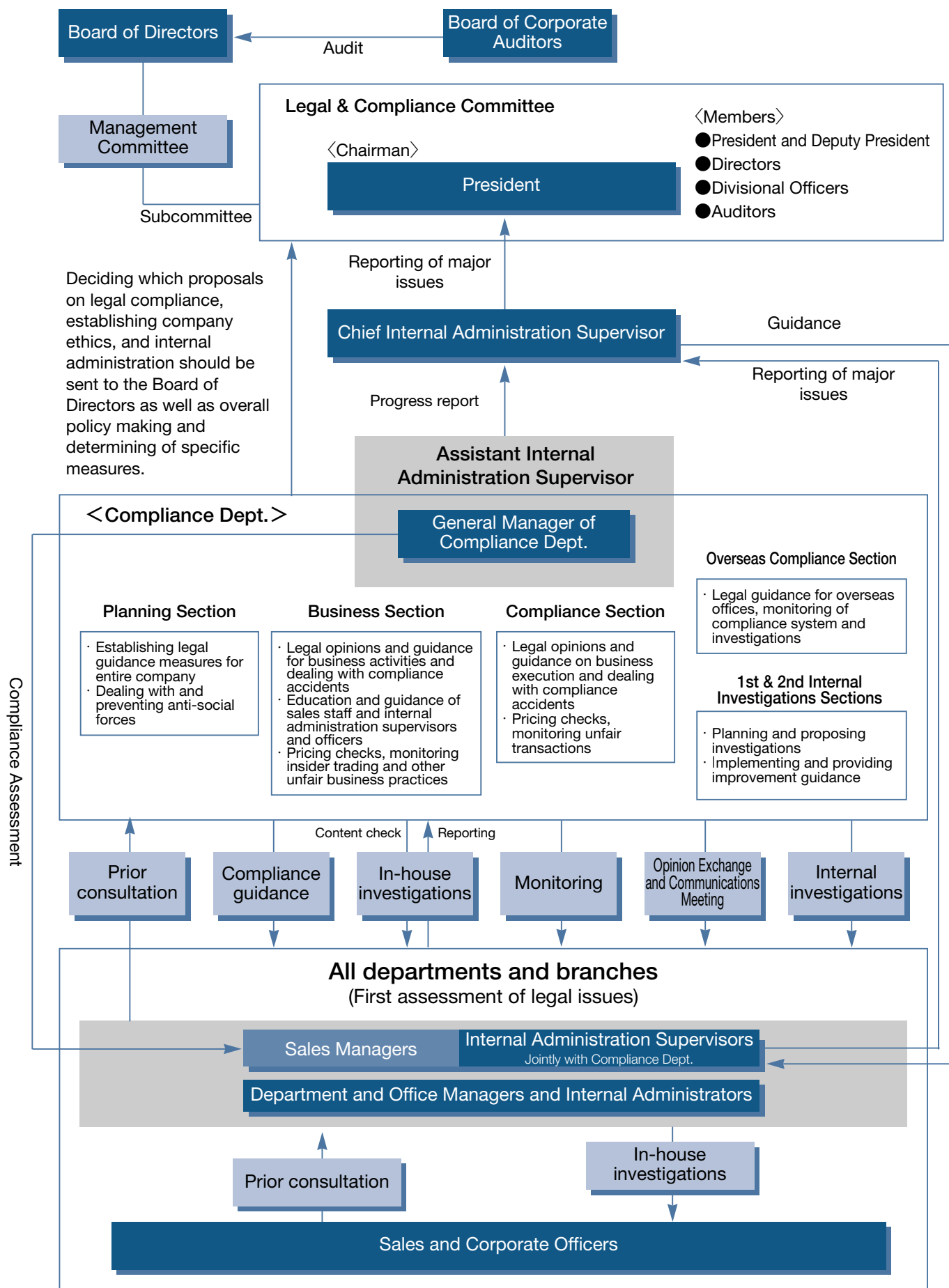
According to the regulations of the Japan Securities Dealers Association, Sales Managers and Internal Administration Supervisors are placed in each sales office and branch. Sales Managers and Internal Administration Supervisors continually monitor whether daily business activities, such as sales activities and client management methods, are appropriate in regard to regulations. At non-sales departments and branches, an Internal Administrator is positioned to monitor whether there are any activities that represent violations of general regulations.

## 2. Corporate Ethics Hot Line (a system of internal reporting)

The Company has established Corporate Ethics Hot Line (a system of internal reporting) to enable early discovery and correct violations of laws and regulations. The Company has set up procedures for reporting compliance violations that clearly indicates methods for reporting, the protection of the person reporting the violation, and methods for correcting the problem. Through this system, the Company is working to strengthen its compliance structure.



# <Outline of Internal Administration Structure>



### 3. Segregated Client Money and Securities

#### (1) Segregated Client Money (as of March 31, 2004)

(millions of yen)

Item	Amount
Required segregation of customers' cash in preparation for immediate adjustment on base calculation date	6,828
Income trusts segregated by customer	20,000
Required segregation of cash deposits at the end of the fiscal year	8,036

Note : Income trusts segregated by customer are segregated based on the required amounts as of the most recent valuation date (March 26, 2004).

#### (2) Segregation of Securities (as of March 31, 2004)

##### ①Custody of Securities

Security Type	Domestic	Foreign
Equities	29,734,238,924 thousand shares	903,197 thousand shares
Bonds	2,815,201 million yen	5,752,980 million yen
Beneficiary certificates	732,338 million units	4,791 million units
Subscription warrants	30 thousand warrants	1,407 thousand warrant
Foreign certificates	—	—
Commercial paper	150,279 million yen	—

Note : Domestic equities included non-marketable equities.

##### ②Substitute Securities Received

Security Type	Amount
Equities	127,254 (—) thousand shares
Bonds	11,220 (—) million yen
Beneficiary certificates	— (—)
Subscription warrants	— (—)

Note : The numbers in parentheses represent the amounts of substitute securities received equivalent to additional collateral to be submitted to a third party that is subject to segregation of customers' assets, with the amount equivalent to market value required by law to be segregated and held in trust. The Company does not submit the required additional collateral that is subject to segregation of customers' assets to the third party.

##### ③Custody Method

Securities received from clients are held in custody according to the custody agreement, the foreign securities transaction agreement, and the settlement and clearing agreement, and according to Article 47 of the Securities and Exchange Law and the Cabinet Ordinance Regarding the Segregation of Asset Held in Custody at Securities Companies, as follows.

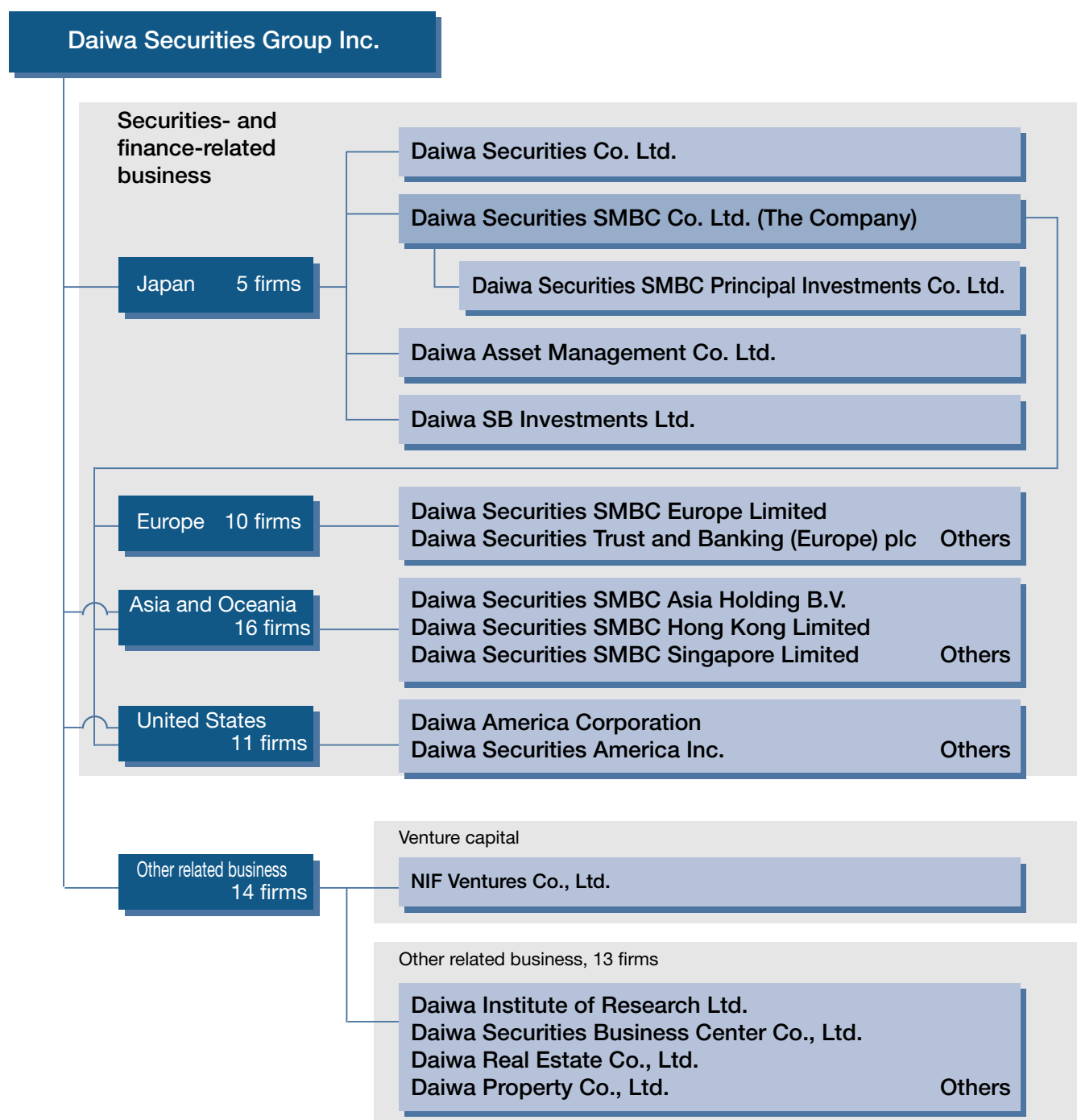
Security Type	Custody Method
Domestic equities	Unless special application has been made, the Japan Securities Depository Center, Inc. (hereafter termed "Depository") shall hold the equities in bulk. If application is made, the securities may be held in custody by the Company segregated by client.
Domestic bonds	Bonds that are held in custody under the custody system of the Depository shall be held under the same terms as equities. Bonds other than the above can be held in custody by the Company segregated only by type unless application is made otherwise. For Japanese government bonds (JGBs) being held under the JGB clearing system, the Company acts as the account management institution, and manages clients' settlement accounts based on a transfer account book.
Domestic investment trust beneficiary certificates	Unless otherwise indicated, the Company or the trust company can hold the beneficiary certificates in custody segregated only by type.
Other domestic securities	Securities certificates being held under the custody system of the Depository shall be held under the same terms as equities. Other securities certificates can, unless otherwise indicated, be held in custody by the Company segregated only by type.
Foreign securities	Foreign securities being trading on Japanese markets are held in custody by the Japan Securities Clearing Corporation. Foreign securities being traded on overseas markets are held in custody at overseas trust institutions in bulk.

## 1. Corporate Organization

The Company is a subsidiary of Daiwa Securities Group Inc. The parent company predominately operates in the investing and financial segment, focusing on securities businesses, such as trading and brokerage of securities and derivatives, underwriting and distribution of securities, subscription and distribution of securities, private offerings of securities, and other business in the securities and financial fields. Daiwa Securities SMBC and its associated companies provide a wide range of services, satisfying its worldwide customers' needs for raising and investing of funds through their global network linking major financial markets in Japan, the United States, Europe, and Asia and Oceania.

### Investing and Financial Services

(51 consolidated subsidiaries and 5 equity method affiliates of the parent company)



## 2. Subsidiaries and Affiliates

(as of March 31, 2004)

Company Name	Location	Paid-in Capital	Principal Business	Voting Shares Held	Equity Ownership
Daiwa Securities SMBC Europe Limited	London, U.K.	109 million Sterling pounds	Securities	109,121 thousand shares	100%
Empire Nominees Limited.	London, U.K.	100 Sterling pounds	Nominee Company	100 shares	100% (see Note 1)
Daiwa Securities SMBC Asia Holding B.V.	Amsterdam, Netherlands	161 million Euro	Holding Company	356,430 thousand shares	100%
Daiwa Securities SMBC Hong Kong Limited	Hong Kong	100 million HK dollars 40 million US dollars	Securities	14,000 thousand shares	100% (see Note 2)
Daiwa Securities SMBC (Asia) Limited	Hong Kong	6 million HK dollars	Securities	600 thousand shares	100% (see Note 4)
Daiwa Securities SMBC Futures (Asia) Limited	Hong Kong	25 million HK dollars	Financial Futures	2,500 thousand shares	100% (see Note 4)
Daiwa Securities SMBC Singapore Limited	Singapore, Singapore	42 million Singapore dollars	Securities and Financial Services	42,000 thousand shares	100% (see Note 2)
Daiwa Securities SMBC Investment Service Pte Ltd.	Singapore, Singapore	33 million Singapore dollars	Securities	33,600 thousand shares	100% (see Note 3)
Daiwa Securities SMBC Futures Pte Ltd.	Singapore, Singapore	3million Singapore dollars	Financial Futures	3,000 thousand shares	100% (see Note 2)
Daiwa Securities SMBC Australia Limited	Melbourne, Australia	15 million Australian dollars	Securities	30,000 thousand shares	100% (see Note 2)
Daiwa Securities SMBC Stockbroking Limited	Melbourne, Australia	5 million Australian dollars	Securities	5,000 thousand shares	100% (see Note 5)
Daiwa Securities SMBC Nominees Limited	Melbourne, Australia	5 Australian dollars	Nominee Company	5 shares	100% (see Note 6)
Daiwa Securities SMBC Fast Nominees Limited	Melbourne, Australia	5 Australian dollars	Nominee Company	5 shares	100% (see Note 6)
Daiwa Securities SMBC-Cathay Co., Ltd.	Taipei, Taiwan	2,000 million Taiwan dollars	Securities	150,000 thousand shares	90% (see Note 7)
DBP-Daiwa Securities SMBC Philippines, Inc.	Manila, Philippines	255 million Philippine pesos	Securities	102,000 thousand shares	60% (see Note 8)
Daiwa Securities SMBC Principal Investments Co. Ltd.	Chiyoda-ku, Tokyo	2,000 million yen	Investment Advisory	10 thousand shares	100%
Daiwa Securities Financial Products (Cayman) Ltd.	Cayman Islands	10 million yen	Financial Services	200 shares	100%
Yensai.com Co., Ltd.	Minato-ku, Tokyo	1,260 million yen	Securities	4 thousand shares	18%
Shanghai Daiwa SMBC-SIG Investment Consulting Co. Ltd.	Shanghai, People's Republic of China	5 million US dollars	Consulting	—	40% (see Note 9)
8 other companies	—	—	—	—	—

Notes: 1. Indirect holding, Daiwa Securities SMBC Europe Limited holds 100% of the shares.  
 2. Indirect holding, Daiwa Securities SMBC Asia Holding B.V. holds 100% of the shares.  
 3. Indirect holding, Daiwa Securities SMBC Asia Holding B.V. holds 51% of the shares and Daiwa Securities SMBC Singapore Limited holds 49% of the shares.  
 4. Indirect holding, Daiwa Securities SMBC Hong Kong Limited holds 100% of the shares.  
 5. Indirect holding, Daiwa Securities SMBC Australia Limited holds 100% of the shares.  
 6. Indirect holding, Daiwa Securities SMBC Stockbroking Limited holds 100% of the shares.  
 7. Indirect holding, Daiwa Securities SMBC Asia Holding B.V. holds 90% of the shares.  
 8. Indirect holding, Daiwa Securities SMBC Asia Holding B.V. holds 60% of the shares.  
 9. Indirect holding, Daiwa Securities SMBC Asia Holding B.V. holds 40% of the shares.



For further inquiries regarding the contents of this report

**TEL.03-5533-7040**

Daiwa Securities SMBC Corporate Planning Dept.



