



# *Information 2005*

For the Fiscal Year Ended March 31, 2005



*Greetings*

*Sales & Trading*

*Investment Banking*

*Business Network*

*Global Network*

*Performance*

*Profile*

*Business and Financial  
Disclosure Document*

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

Facing turbulent conditions in the global economy, companies find their business 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.

# Introduction



President  
**Tatsuei Saito**



Deputy President  
**Kenjiro Noda**



Senior Managing Director  
**Hiroshi Ota**

# Sales & Trading



Providing clients with innovative products and services that meet diversified investing needs

Through its sales and trading operations, Daiwa Securities SMBC has built a strong market presence in the equity, fixed income, 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 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 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 magazines for two consecutive years.

# Investment Banking



Our investment banking services provide our clients with the best solutions for diversified needs

Offering a broad range of services, Daiwa Securities SMBC has constantly led 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 Daiwa Securities Group, Daiwa Securities SMBC is committed to offering its corporate clients the best solutions for their diversified 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 swap, 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 the pioneer in the market, we strive to provide our clients with the top class services they require.

## Principal Finance

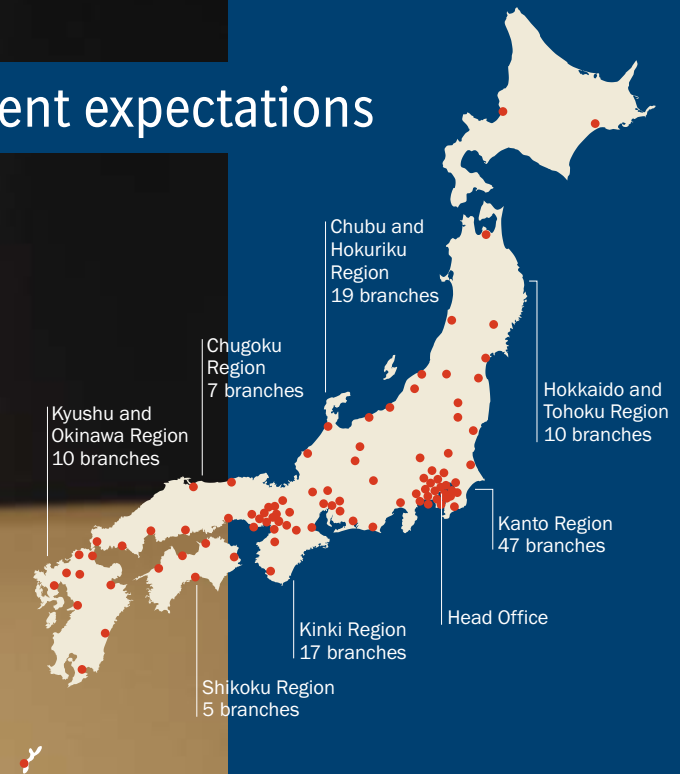
Through our wholly owned subsidiary Daiwa Securities SMBC Principal Investments Co. Ltd., we are responding to the balance sheet restructuring and various other business reorganization needs of companies by actively investing in alternative assets, such as monetary credits, real estate, and private equity. 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 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 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 300-person-strong call center for trading, Daiwa Securities offers retail customers two different transaction methods.



\* Plans to change its name to NIF SMBC Ventures Co., Ltd. (Effective October 2005)



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 business. 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 offer 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

In FY2004 (ended March 2005), our investment banking business fully demonstrated the benefits of synergies achieved with the operations of Sumitomo Mitsui Banking Corporation, capturing first place in the league tables for total domestic straight bond issues for the second consecutive year and corporate straight bonds for the fourth consecutive year.

In equity underwriting, reflecting our powerful sales capabilities domestically and internationally, we took part in many major public offerings, capturing first place in the equity underwriting league tables. In IPOs as well, we were the bookrunner for many major issues, taking the No. 2 slot for initial public offerings.

In other areas, we handled many deals in the securitization and M&A markets. Ranking No. 1 in 2004 in advisory services for Japanese companies (based on publicly announced deals in which the parent company was registered in Japan), we have established ourselves as a leader 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 2004

**EQUITY HOUSE OF THE YEAR**  
THOMSON DealWatch

**BEST FOLLOW-ON HOUSE**  
Japanese edition of EUROMONEY

**DEBT HOUSE OF THE YEAR**  
Japanese edition of EUROMONEY

**BEST SECURITIZATION HOUSE**  
Japanese edition of EUROMONEY

**M&A HOUSE OF THE YEAR**  
Japanese edition of EUROMONEY

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

**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 business  
**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/ Daiwa SMBC-SSC Securities Co., Ltd. (Shanghai)



Daiwa Securities SMBC Head Office

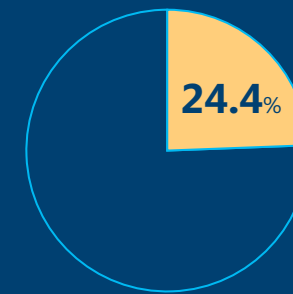


Eitai Sales Office



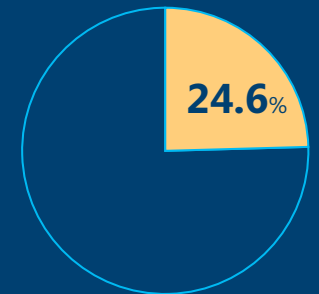
Daiwa Securities SMBC Europe

# Profile



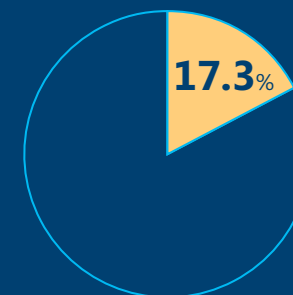
FY2004  
**Total Domestic Straight Bonds  
League Table**  
(Corporate Bonds + FILP Agency Bonds)  
(Bookrunner, Deal date basis)

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



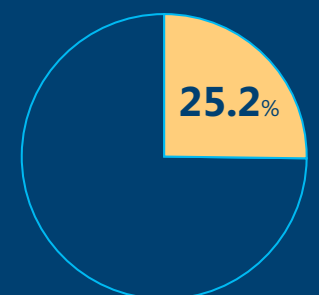
FY2004  
**Corporate Straight Bonds  
League Table**  
(Lead manager, settlement date basis)

**NO.1**  
(Nikkei Bonds & Financial Weekly)



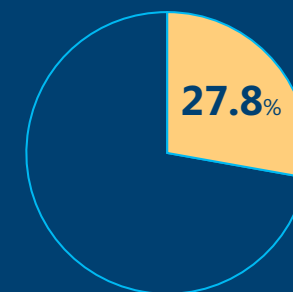
FY2004  
**IPO League Table**  
(Bookrunner/IPO date basis)

**NO.2**  
(Survey by Daiwa Securities SMBC)



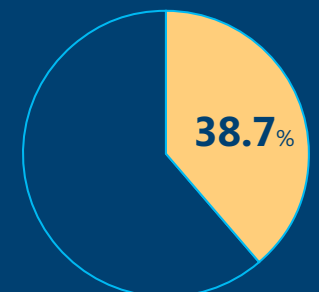
FY2004  
**Issued Equity: Global Public Offering  
League Table**  
(Bookrunner)

**NO.1**  
(THOMSON DealWatch)



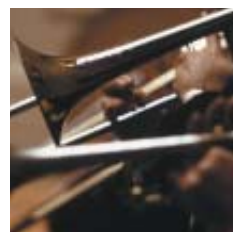
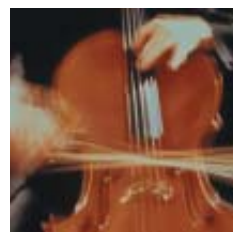
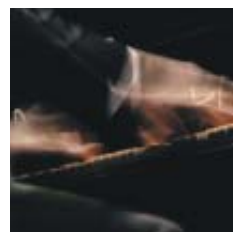
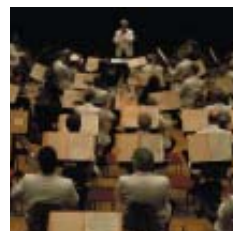
FY2004  
**Issued Equity: Public Offering  
League Table**  
(Bookrunner, settlement date basis)

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



CY2004  
**Advisor League Table Involving  
Japanese Corporations\***  
(Publicly announced deals in which parent company was registered in Japan)

**NO.1**  
(THOMSON DealWatch)  
\* Announced January 5, 2005



# Business and Financial Disclosure Document

**Fiscal year ended March 2005**  
Period from April 1, 2004 to March 31, 2005

## 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

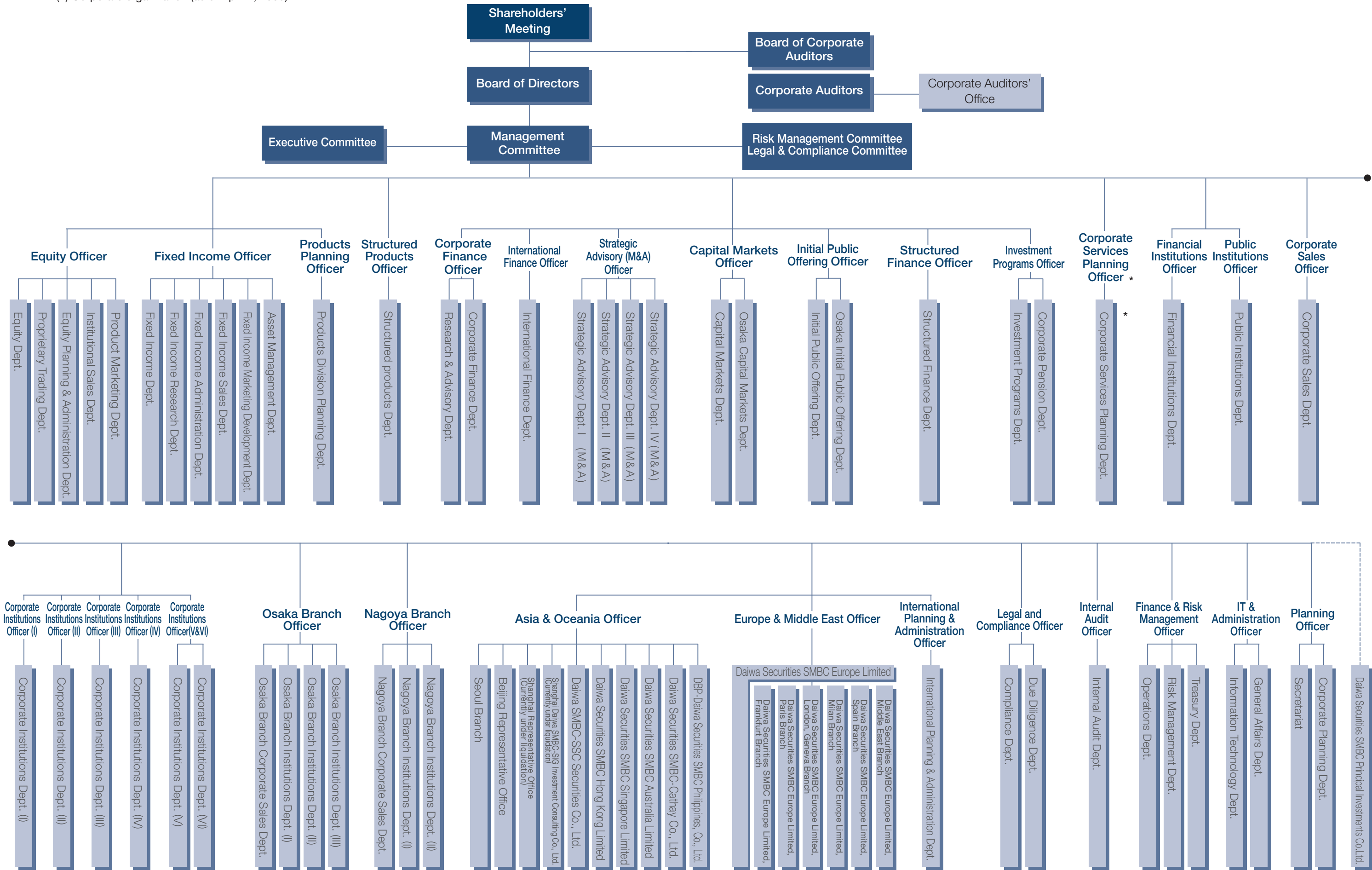
February 26, 1999 (Kanto Financial Bureau (Securities) No. 143)

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, Middle East, and Asia & Oceania to the Company, with these companies becoming subsidiaries of the Company.
October 2000	Opened Spain Branch of a U.K. subsidiary in Madrid.
November 2000	Opened 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 Shanghai International Group Corporation Limited, the Company formed Shanghai Daiwa SMBC-SIG Investment Consulting Co. Ltd. a joint venture.
November 2003	The head office was relocated to the Marunouchi area of Chiyoda-ku in Tokyo. All Tokyo offices were integrated, except Eitai Sales Office.
November 2004	Formed Daiwa SMBC-SSC Securities Co., Ltd., a joint venture with Shanghai Securities, a company in Shanghai International Group, and began operations. This company has taken over the business of the previously mentioned joint venture and Shanghai representative offices, which are now in the process of liquidation.
March 2005	The Company had four sales branches, including the head office, and one sales office.

(2) Corporate organization (as of April 1, 2005)



\* Effective June 1, 2005, these were renamed "Corporate Division Planning Officer" and "Corporate Division Planning Dept."

4. Shareholders

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 24, 2005)  
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>Senior Managing Director</u>	Hiroshi Ota	Corporate Service Administration Senior Officer, Director and Deputy President of Daiwa Securities Group Inc.
Senior Managing Director	Nobuaki Ohmura	International Operations Senior Officer, Europe & Middle East Officer, International Business Planning Officer, Chairman of Daiwa Securities SMBC Europe Limited, President of Daiwa Securities SMBC Asia Holding B.V., Chairman of Daiwa Securities SMBC-Cathay Co., Ltd.
Senior Managing Director	Taro Sumitani	Head of Investment Banking Division and Global Head of Corporate Finance Product Line
<u>Managing Director</u>	Hiroshi Fujioka	Osaka Branch Officer and Osaka Branch Manager
Managing Director	Sumio Fukushima	Products Senior Officer and Product Planning Officer
Managing Director	Shin Yoshidome	Corporate Institutions Senior Officer and Corporate Sales Officer
Managing Director	Daisuke Saji	M&A Officer and Global Head of M&A Product Line
Managing Director	Kazuhiko Akamatsu	Nagoya Branch Officer and Nagoya Branch Manager
Corporate Auditor	Kishiro Fujino	
Corporate Auditor	Shigeharu Tominaga	
Corporate Auditor	Yoshiaki Senoo	
Corporate Auditor	Fuminori Yoshitake	

Note: The four auditors, Kishiro Fujino, Shigeharu Tominaga, Yoshiaki Senoo, and 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 Gaisha (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	27-3, Youido-dong, Yongdungpo-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 (under liquidation)	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
Borrowing and lending of 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 investment securities.
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 12
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
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 anonymous partnership agreements as stipulated by the provisions of Article 535 of the Commercial Code.
Business regarding concluding, arranging or acting as representative in loan contracts
Business consulting services
Sales of investment trust beneficiary certificates as defined in the Investment Trust Law, Article 2, Section 10
Credit derivatives-related business
Investment or arranging investment in limited partnerships
Customer referral business
Customer referral business for real estate sales

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)
- Jasdaq Securities Exchange

1. Summary of Business in Fiscal Year Under Review (Year ended March 2005)

(1) Economic Environment

Japan's economy showed signs of escaping from its stalled position during the fiscal year under review, supported by export growth stimulated by a resurgence in overseas economies and higher levels of private sector capital investment. In addition, banks made further progress in clearing up the bad debt issue and industries actively reorganized through M&A and business alliances. Although resistance to improvement in hiring conditions and wages remained in the market, Japan came to the end of a cycle of corporate restructuring and bankruptcies during the period, leading to an improvement in employment conditions. This resulted in a relatively firm level of personal consumption during the fiscal year under review.

In the global economy, despite the negative influences of the continued unrest in Iraq, the Sumatra tsunami disaster, and the rocketing price of oil, the advanced development countries' economies continued to expand, driving by strong activity in the raw materials, energy, and technology sectors. Natural-resource-rich countries enjoyed the rising commodity market, increasing their exports and improving country finances. In Asia, there was a dip in activity during the fiscal year due to a cool off in the market in China, but India's economy continued to grow at a high pace.

Following its decline to the lowest level since the bursting of the bubble economy in Japan in late April 2003, the Nikkei 225 Index continued to gain back ground, recovering to the 12,000 level in April 2004 for the first time in almost two years. After that the market fluctuated around good and bad news. Moving within a box bounded by 10,500 and 12,000, the market showed little indication that it would break out of this trend. The Nikkei Stock Average ended the fiscal year at 11,668, posting a net decline of 0.4% over the year.

In money markets, reflecting the improved mood in the economy, the yield of 10-year Japanese government bonds rose to 1.94% in mid-June 2004 for the first time in three years and nine months. However, along with the successive emergence of macro-economic indicators showing a mounting deceleration in the economy, the yield turned downward again. In the latter part of September, the yield fell to the 1.3% level for the first time in six months. The yield rebounded to 1.59% in early October on the strength of the Bank of Japan's favorable Tankan survey. However, it later settled back in a downward trend, falling through the 1.3% level in early February, and ending the fiscal year around the 1.3% level.

(2) Business Performance

Under these business conditions, the Company's ordinary income jumped 76.2%, to 73,781 million yen, principally because of the increase in underwriting and distribution commissions and substantial growth in bond and foreign exchange trading profits. Return on equity (ROE) rose sharply to 11.7%, compared with 6.4% in the previous fiscal year.

1) Commissions

Commissions totaled 80,288 million yen, increasing 17.2% year on year. The components of the commissions received are set forth below. .

a) Brokerage commissions

Brokerage commissions totaled 13,887 million yen, rising 19.0% from the previous fiscal year. The increase in brokerage commissions can mainly be attributed to the revitalization of the stock market, resulting in the average daily turnover of stock on the First Section of the TSE climbing 21.6%, to 1,425.5 billion yen.

b) Underwriting commissions

Equity underwriting commissions were 36,068 million yen, climbing 10.0% from the previous fiscal year. Larger amounts of IPOs and other public offerings supported this substantial increase. Bond underwriting commissions were 8,371 million yen, declining 2.9%.

c) Distribution commissions

Distribution commissions were 1,013 million yen (17.7% up), reflecting an increase in commissions from sales of investment trusts.

d) Other commissions

Other commissions totaled 19,612 million yen (41.9% up). Among other commissions, commissions from M&A, financial advisory, IPO consulting, and so forth totaled 14,032 million yen (65.6% up). On the other hand, agency fees in the fixed income administration business decreased to 1,927 million yen (26.0% down).

## 2) Net gain on trading securities

Net trading gains in equity trading gain increased to 45,072 million (7.0% up). On the other hand, net trading gains from fixed income together with those from foreign exchange transactions increased substantially to 60,854 million yen (156.9% up). Consequently, overall net gain on trading increased to 105,927 million yen (60.9% up).

## 3) Net interest and dividend income

Interest and dividend income totaled 17,392 million yen, whereas interest expense totaled 18,235 million yen. Net interest expense came to 843 million yen (compared with net income of 17,878 million yen in the previous fiscal year).

## 4) Selling, general and administrative expenses

Commission paid, personnel expenses, and occupancy and rental expenses increased to 51,132 million yen (5.7% up), 25,954 million yen (7.0% up), 10,433 million yen (0.1% down), respectively. Data processing & office supplies expenses rose to 14,933 million yen (7.3% up). Taxes other than income taxes increased to 2,794 million yen (32.5% up), and depreciation expenses to 11,448 million yen (7.1% up). Overall selling, general and administrative expenses came to 118,239 million yen, a 6.2% increase compared to the last year.

## (3) Income and losses

In conclusion, operating revenues for fiscal 2004 came to 203,609 million yen (25.9% up), and net operating revenues to 185,373 million yen (21.8% up). Operational income came to 67,133 million yen (64.2% up), and ordinary income to 73,781 million yen (76.2% up). Net extraordinary income came to 952 million yen due to the recording of an extraordinary gain on sale of investment securities of 2,067 million yen. Finally, net income recorded a large increase to 46,514 million yen (100.3% up).

## 2. Capital Investment and Financing

(1) The main capital investments made during the fiscal year under review were for system-related items. In the second 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 clients and market needs and in innovating core systems (primarily setting up an employee stock ownership plan system and corporate and municipal straight bond book entry clearing system) to increase the efficiency of middle and back office operations.

(2) The Company newly issued 220.9 billion yen of corporate Medium-term note to raise its funds.

## 3. Key Business Indicators

## (1) Overall Performance

(millions of yen)

	Year ended March 31, 2003	Year ended March 31, 2004	Year ended March 31, 2005
Paid in capital	205,600	205,600	205,600
Issued and outstanding shares	3,200 shares	3,200 shares	3,200 shares
Operating revenues	118,300	161,681	203,609
Commissions	52,073	68,508	80,288
Brokerage	8,367	11,665	13,887
Underwriting & distribution	24,896	42,160	45,775
Subscription & distribution	1,159	861	1,013
Other commissions	17,649	13,820	19,612
Net gain on trading securities	44,308	65,829	105,927
Equity trading gain (loss)	( 1,646 )	42,136	45,072
Bond trading gain	38,569	18,904	42,051
Other trading gain (loss)	7,385	4,787	18,803
Net operating revenues	110,875	152,216	185,373
Ordinary income	16,565	41,873	73,781
Net income	6,357	23,227	46,514

## (2) Securities Underwriting &amp; Sales

## ① Equity Sales (Excluding Futures and Options)

(millions of yen)

	As Principal	Commissioned	Basis Total
Year ended March 2003	19,446,777	16,406,050	35,852,828
Year ended March 2004	23,713,923	19,694,494	43,408,417
Year ended March 2005	31,564,906	22,677,168	54,242,074

## 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 2003	319,658	319,623	—	319	23,993
Year ended March 2004	863,754	862,905	—	52	17,382
Year ended March 2005	845,390	845,377	—	20	15,253

Bonds	Underwriting	Distribution (primary offering)	Subscription (secondary offering)	Distribution	Private Placement
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	1,700,320	—	1,397,965	—
	Foreign bonds	118,506	110,482	—	—
	<b>Total</b>	<b>5,063,042</b>	<b>110,482</b>	<b>4,643,719</b>	<b>21,400</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	1,447,420	—	1,234,090	—
	Foreign bonds	118,000	117,239	—	—
	<b>Total</b>	<b>5,133,737</b>	<b>117,239</b>	<b>4,905,906</b>	<b>5,900</b>
Year ended March 2005	JGBs	1,490,365	—	1,484,265	—
	Municipal bonds	512,360	—	467,456	—
	Gov. agency bonds	1,837,051	—	2,025,637	—
	Corporate bonds	1,431,290	—	1,201,876	—
	Foreign bonds	237,635	129,435	83,200	—
	<b>Total</b>	<b>5,508,702</b>	<b>129,435</b>	<b>5,262,435</b>	<b>150,000</b>

Beneficiary  
certificates

	Underwriting	Distribution (primary offering)	Subscription (secondary offering)	Private Placement
Year ended March 2003	—	—	1,069,572	43,139
Year ended March 2004	—	—	488,594	194,980
Year ended March 2005	—	—	360,374	267,837

## Others

	Underwriting	Distribution (primary offering)	Subscription (secondary offering)	Distribution	Private Placement
Year ended March 2003	1,466,260	—	—	—	1,406,460
Year ended March 2004	1,275,087	—	—	—	1,255,929
Year ended March 2005	1,583,040	—	—	—	1,546,343

### (3) Other Operations

#### ① Securities in Custody

	Category	Equities	Bonds	Investment Trusts	Others
Year ended March 2003	Domestic securities	thousand shares 13,763,747,703	million yen 2,779,142	million units 980,269	Warrants 40 thousand securities Commercial paper 137,300 million yen
	Foreign securities	thousand shares 531,866	million yen 5,251,738	million units 2,415	Warrants 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	Warrants 30 thousand securities Commercial paper 150,279 million yen
	Foreign securities	thousand shares 903,197	million yen 5,752,980	million units 4,791	Warrants 1,407 thousand securities
Year ended March 2005	Domestic securities	thousand shares 29,734,164,125	million yen 2,680,977	million units 600,225	Warrants 19 thousand securities Commercial paper 182,420 million yen
	Foreign securities	thousand shares 1,511,448	million yen 6,264,141	million units 7,132	Warrants 0 thousand securities

Note: Domestic securities include securities that are not marketable.

#### ② Securities Lending Operations

	Equities	Bonds
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
Year ended March 2005	thousand shares 1,711,364	million yen 422,679,863

#### ③ Financial Futures Transactions

(100 millions of yen)

	Interest Rate Futures		Currency Futures	
	Commissioned	As Principal	Commissioned	As Principal
Year ended March 2003	—	46,360	—	—
Year ended March 2004	—	50,341	—	—
Year ended March 2005	—	87,601	—	—

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 2003	Year ended March 2004	Year ended March 2005
Basic item	Shareholders' equity	(A)	348,192	371,473	395,154
	Valuation profits of investment securities		—	488	2,416
	Statutory reserves		3,065	3,982	4,351
Supplementary item	Allowance for doubtful accounts		45	31	40
	Subordinated borrowings		100,000	100,000	210,000
	Total	(B)	103,111	104,502	216,809
Assets excluded from capital		(C)	140,270	134,092	246,528
Net capital	(A) + (B) - (C)	(D)	311,033	341,882	365,434
Risk equivalent	Market risk equivalent		47,442	56,376	52,530
	Counterparty risk equivalent		15,887	22,462	26,225
	Basic risk equivalent		20,724	22,612	23,986
	Total	(E)	84,055	101,451	102,743
Capital adequacy ratio	(D) / (E) × 100 (%)		370.0%	336.9%	355.6%

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

Category	Year ended March 2003	Year ended March 2004	Year ended March 2005
Officers	16 persons	14 persons	14 persons
Employees	1,764 persons	1,739 persons	1,738 persons
Total	1,780 persons	1,753 persons	1,752 persons
Of this total, the number of registered sales representatives.	1,389 persons	1,389 persons	1,376 persons

### 4. Major Issues Facing the Company

Domestic demand remains firm as Japan's economy continues to mount a mild recovery. Companies are actively carrying out revitalization and reorganization measures centered on capital markets through various corporate actions, especially strategic alliances or acquisitions based on M&A activities. 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 major themes of the Daiwa Securities Group's new medium-term business plan are to improve the quality of products and services and to increase productivity. In the second year of the medium-term business plan, the Company achieved results in excess of its targets thanks to the aggressive implementation of various goal-oriented measures. In future, the Company will continue to devote 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 Japanese most powerful investment bank.

The development of sound and efficient capital markets strongly requires professionals well versed in the workings of those capital markets. The issue facing the Company for the future is how to use its overwhelming presence as a major player in capital markets in order to achieve further evolution in those markets.

#### Medium-Term Business Plan

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

**1. Accounting**
**(1) Balance Sheets (as of March 31, 2005)**

( millions of yen )

ASSETS		
Category	(at March 31, 2004)	(at March 31, 2005)
<b>Current assets:</b>	7,446,596	8,932,207
Cash and deposits	67,093	58,900
Cash segregated as deposits for regulatory purposes	20,024	20,050
Trading assets:	3,697,892	4,771,070
Trading securities and others	3,200,420	4,224,157
Derivative assets	497,472	546,913
Trading receivables, net	419,550	42,064
Receivables related to margin transactions:	141,196	183,698
Customers margin loans	1,972	1,843
Cash deposits as collateral for securities borrowed	139,223	181,855
Collateralized short-term financing agreements:	2,919,298	3,697,303
Cash deposits as collateral for securities borrowed	2,818,287	3,498,225
Receivables related to gensaki transactions	101,010	199,078
Short-term guarantee money deposited	11,820	12,300
Short-term loans receivable	130,293	126,346
Accrued income	6,361	5,920
Deferred tax assets-current	1,664	2,076
Other current assets	31,431	12,514
Less: Allowance for doubtful accounts - current	(31)	(40)
<b>Non-current assets:</b>	129,212	107,024
Tangible fixed assets	4,764	4,342
Intangible fixed assets	32,237	29,344
Investments and others	92,210	73,337
Investment securities	51,418	60,838
Long-term loans receivable	26	2,207
Long-term guarantee deposits	5,734	5,236
Deferred tax assets-non-current	30,837	2,898
Other investments	4,747	2,725
Less: Allowance for doubtful accounts - non-current	(554)	(569)
<b>Total assets</b>	<b>7,575,808</b>	<b>9,039,231</b>

( millions of yen )

LIABILITIES		
Category	(at March 31, 2004)	(at March 31, 2005)
<b>Current liabilities:</b>	6,680,982	7,962,726
Trading liabilities:	2,687,007	3,310,902
Trading securities and others	2,219,915	2,850,464
Derivative liabilities	467,092	460,437
Payables related to margin transactions:	80,149	127,198
Proceeds of securities sold for clients' accounts	80,149	127,198
Collateralized short-term financing agreements:	2,369,385	2,170,275
Cash deposits as collateral for securities loaned	1,678,734	1,626,237
Payables related to gensaki transactions	690,651	544,037
Deposits received	8,834	8,148
Cash deposits received as guarantee	14,441	17,607
Short-term borrowings	1,224,300	2,098,647
Commercial paper	273,722	175,220
Medium-term notes due within one year	10,173	27,397
Accrued expenses	6,174	8,862
Income tax payable	26	5,617
Other current liabilities	6,766	12,849
<b>Non-current liabilities:</b>	518,629	651,748
Medium-term notes	413,959	537,131
Long-term debt	100,000	110,000
Retirement benefits	3,639	4,009
Other non-current liabilities	1,031	607
<b>Statutory reserves:</b>	3,982	4,351
Reserve for securities transaction liabilities	3,981	4,351
Reserve for financial futures transaction liabilities	0	0
<b>Total liabilities</b>	<b>7,203,594</b>	<b>8,618,826</b>

SHAREHOLDERS' EQUITY		
Common stock	205,600	205,600
Capital surplus	117,321	117,321
Additional paid-in capital	117,321	117,321
Retained earnings	48,804	95,067
Retained earnings reserve	5,141	5,141
Voluntary reserve	250	39,752
Special reserve	-	38,000
Reserve for special depreciation	250	1,752
Unappropriated retained earnings	43,412	50,173
Net unrealized gain (loss) on securities, net of tax effect	488	2,416
<b>Total shareholders' equity</b>	<b>372,213</b>	<b>420,404</b>
<b>Total liabilities and shareholders' equity</b>	<b>7,575,808</b>	<b>9,039,231</b>

## (2) Statements of Operations

(millions of yen)

Category	Year ended (March 31, 2004)	Year ended (March 31, 2005)
Operating revenues:	161,681	203,609
Commissions	68,508	80,288
Net gain (loss) on trading	65,829	105,927
Interest and dividend income	27,343	17,392
Interest expenses	9,465	18,235
Net operating revenues	152,216	185,373
Selling, general and administrative expenses:	111,332	118,239
Commission and other expenses	48,393	51,132
Employees' compensation and benefits	24,263	25,954
Occupancy and rental	10,442	10,433
Data processing and office supplies	13,919	14,933
Depreciation expenses	10,686	11,448
Taxes other than income taxes	2,109	2,794
Others	1,516	1,543
Operating income	40,884	67,133
Non-operating income	1,567	6,827
Non-operating expenses	578	179
Ordinary income	41,873	73,781
Extraordinary gains	456	2,083
Extraordinary losses	4,203	1,131
Income before income taxes and others	38,126	74,734
Income taxes - current	( 1,305 )	2,350
Refund of income taxes	181	—
Income taxes - deferred	16,386	25,868
Net income	23,227	46,514
Unappropriated retained earnings - carryforward	20,185	3,658
Unappropriated retained earnings	43,412	50,173

## (Notes to financial statements)

The financial statements of the Company for fiscal 2004 ended March 31, 2005 are prepared in accordance with the regulations given in the "Commercial Code Enforcement Regulations" (Ministry of Justice Ordinance No. 22, 2002), the "Cabinet Ordinance Concerning Securities Companies" (Prime Minister's Office Ordinance and MOF Ordinance No. 32, 1998), and the "Uniform Accounting Standards of Securities Companies" (set by a resolution of the board of directors of Japan Securities Dealers Association, November 14, 1974).

Figures in the financial statements have been rounded down to the nearest millions of yen.

## (Basis of financial statements)

## 1. Valuation of financial instruments

1) Securities and derivatives categorized as trading securities are recorded at fair value. Trading securities are financial products being held for trading purposes and comprise marketable securities and financial products and derivative transactions equivalent to marketable securities (excluding hedge transactions) being held for trading purposes.

## 2) Valuation standards and methods for non-trading securities

① Subsidiary and related company stocks are valued at moving average cost method.

② 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 shareholders' 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 fair value is not available. Of those securities with no fair value available, investments in limited partnership, which are regarded as equivalent to securities by the amendment of Securities and Exchange Law in 2004, share of net income raised by the partnerships has been reflected on Income statements of this fiscal year and share of net unrealized profits and losses on securities held by the partnerships directly into shareholders' equity.

## 2. Depreciation of fixed assets

## 1) Tangible Fixed Assets

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

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

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

## 3. Deferred assets

Expenses for issue of bonds 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) Provision for doubtful accounts

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

## 2) Accrued employees' 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, 2005, 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' retirement bonuses

To prepare for the payment of officers' retirement bonuses, the Company made a provision to the reserve for officers' retirement bonuses at the end of the fiscal term equivalent to payments determined under the Company rules for retirement bonuses for officers (466 million yen) under other non-current liabilities. In a meeting held March 28, 2005, the board of directors determined that said rules for retirement bonus would be abolished as of March 31, 2005, and would only apply to terms of service previous to the abolishment date. 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. Other material items

## (1) Consumption Taxes

National and regional consumption taxes are accrued separately from the consumption amounts they are based on. However, consumption taxes related to assets that are entitled to tax deductions are expensed fully as incurred.

## (2) Consolidation tax system

Consolidation tax system is applied.

## (3) Impairment of fixed assets

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) have been applied.

## 8. Changes in Presentation (Balance Sheet related)

In effect of this fiscal year, investments in limited partnership are categorized under securities account, due to the amendment of Securities and Exchange Law in 2004. In this effect, Other Investments decreased by 1,797 million yen and Investment securities increased by 1,797 million yen respectively. There is no effect on statements of operations.

## 〔Notes to Balance Sheets〕

## (1) Accumulated depreciation of tangible fixed assets

	As of Mar. 31, 2005	As of Mar. 31, 2004	(millions of yen)
	9,113	7,603	

## (2) Guarantees

	As of Mar. 31, 2005	As of Mar. 31, 2004	(millions of yen)
	18,448	521	

(3) Long-term debt (110,000 million yen) and 60,000 million yen and 40,000 million yen in short-term borrowings from Daiwa Securities Group Inc. and Sumitomo Mitsui Financial Group, Inc., respectively, are 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).

(millions of yen)

## 〔Notes to Statements of Operations〕

(Year Ended March 2005)

(Year Ended March 2004)

Extraordinary gains and losses		
Extraordinary gains		
Gain on sale of investment securities	2,067	456
Reversal of allowance for doubtful accounts	16	—
Extraordinary losses		
Write-down of investment securities	159	1,386
Valuation loss of fixed assets	58	101
Loss on disposal of fixed assets	544	—
Loss on sale of investment securities	—	77
Provision for securities transaction liabilities	369	916
Head office relocation expenses	—	1,405
Others	—	315

## 2. Statement of Appropriation of Retained Earnings

(millions of yen)

Category	Year ended March 2004	Year ended March 2005
Unappropriated retained earnings	43,412	50,173
Reversal of reserve for special depreciation	59	370
Total	43,471	50,544
Appropriations of retained earnings	39,812	17,693
Cash dividends paid	—	17,259
Bonuses to directors	252	434
Voluntary reserve		
Reserve for special depreciation	1,560	—
Special reserve	38,000	—
Unappropriated retained earnings carried forward	3,658	32,851

Note : Cash dividends paid for the fiscal year ended March 2005 were ¥5,393,437.5 per share.

## 3. Major Providers of Loans and Amounts

	Loan Provider	Type of Loan	Balance
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
Year ended March 2005	Bank of Japan	Short-term loans (Note 1)	1,567,500 million yen
	Central Tanshi Co., Ltd.	Short-term loans (Note 2)	100,000 million yen
	Ueda Yagi Tanshi Co., Ltd.	Short-term loans (Note 2)	100,000 million yen
	The Resolution and Collection Corporation	Short-term loans (Note 2)	90,000 million yen
	Japan Trustee Services Bank, Ltd.	Short-term loans (Note 2)	50,000 million yen
	The Tokyo Tanshi Co., Ltd.	Short-term loans (Note 2)	50,000 million yen
	Daiwa Securities Group Inc.	Long-term loans (Note 3)	90,000 million yen
		Short-term loans (Note 3, 4)	60,000 million yen
	Sumitomo Mitsui Financial Group, Inc.	Short-term loans (Note 3, 4)	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. Including amounts among long-term loans that are scheduled to mature within one year.

## 4. Securities in Custody

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

Category	Year ended March 2004			Year ended March 2005		
	Book value	Market Value	Gain or (Loss)	Book value	Market Value	Gain or (Loss)
Included under fixed assets						
Equity	2,795	3,575	779	5,848	9,510	3,662
Bonds	—	—	—	—	—	—
Others	—	—	—	—	—	—
Total	2,795	3,575	779	5,848	9,510	3,662

Notes : 1. Method of determining market value

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

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

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

(millions of yen)

Year ended March 2004

Year ended March 2005

Equity (non-listed shares)

Others (investments in limited partnerships and equivalent partnerships)

## 5. Futures and Options Transactions

During the fiscal year, the Company did not use futures and options transactions other than in its trading operations.

## 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, 2005 have been audited by the independent public accounting company.

## 1. Overview of Internal Control Structure

### 1) Overview of Internal Control Structure

The chart presented on the next page represents the outline of the Company's internal control structure. Legal & Compliance Committee, a subcommittee of Management Committee, is responsible for activities including deliberation, decision-making and approval of the company-wide policies and specific measures relating to compliance guidance and internal audit. At each department and branch-level, Sales Managers, Internal Administrators, and Internal Administration Officers oversee the compliance status in legal and other aspects of the daily operations and carry out in-house investigations to ensure the effectiveness of the supervision. With a view for prevention of legal violations, Compliance Dept. deliberates compliance issues in advance and provides guidance and monitoring as well as compliance training courses, etc. Furthermore, Internal Audit Dept. is responsible for the development and planning of audit with emphasis on the examination of the appropriateness and effectiveness of internal compliance structure, and performance of regular and special audits. Among the Company's specific compliance measures are the establishment of a compliance program as an annual action plan, and the Company implements the plan to realize the thorough legal compliance and to strengthen the internal control structure.

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

#### ① Legal & Compliance Committee

The president calls a meeting of this subcommittee of Management Committee, in principle, every other month. The committee deliberates, decides and approves the issues that should be presented to the Board of Directors, company-wide policies and specific measures, including the issues related to legal compliance within the Company, establishment of corporate ethics, and internal control.

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

According to the regulations of Japan Securities Dealers Association, representative director of the Company shall be appointed as Chief Internal Administration Supervisor. Chief Internal Administration Supervisor is responsible for providing guidance and supervision to the process of establishing an internal control structure and the activities of Internal Administrators to ensure thorough regulatory compliance. Assistant Internal Administration Supervisor assists Chief Internal Administration Supervisor.

#### ③ Compliance Dept.

The department undertakes the following functions as the Department responsible for overseeing the status of legal compliance:

- Planning Section . . . . . In addition to planning of compliance training programs and revision of internal rules, the section is responsible for planning of the necessary preventive measures for legal violations and incidents from the company-wide standpoint.
- Legal & Compliance Section . . . . . The section is primarily responsible for appropriate legal and regulatory consultation as well as professional advice on legal decisions concerning the operations of the sales departments including Equity, Fixed Income, Corporate Finance, Capital Markets, IPOs, M&A departments.
- Trade Inspection Section . . . . . The section is responsible for activities including pricing verification, monitoring of unfair business practices, information management concerning insider trading and external reporting. It is also responsible for legal and regulatory consultation as well as professional advice on legal decisions concerning the operations of the sales departments excluding Equity, Fixed Income, Corporate Finance, Capital Markets, IPOs, M&A departments.

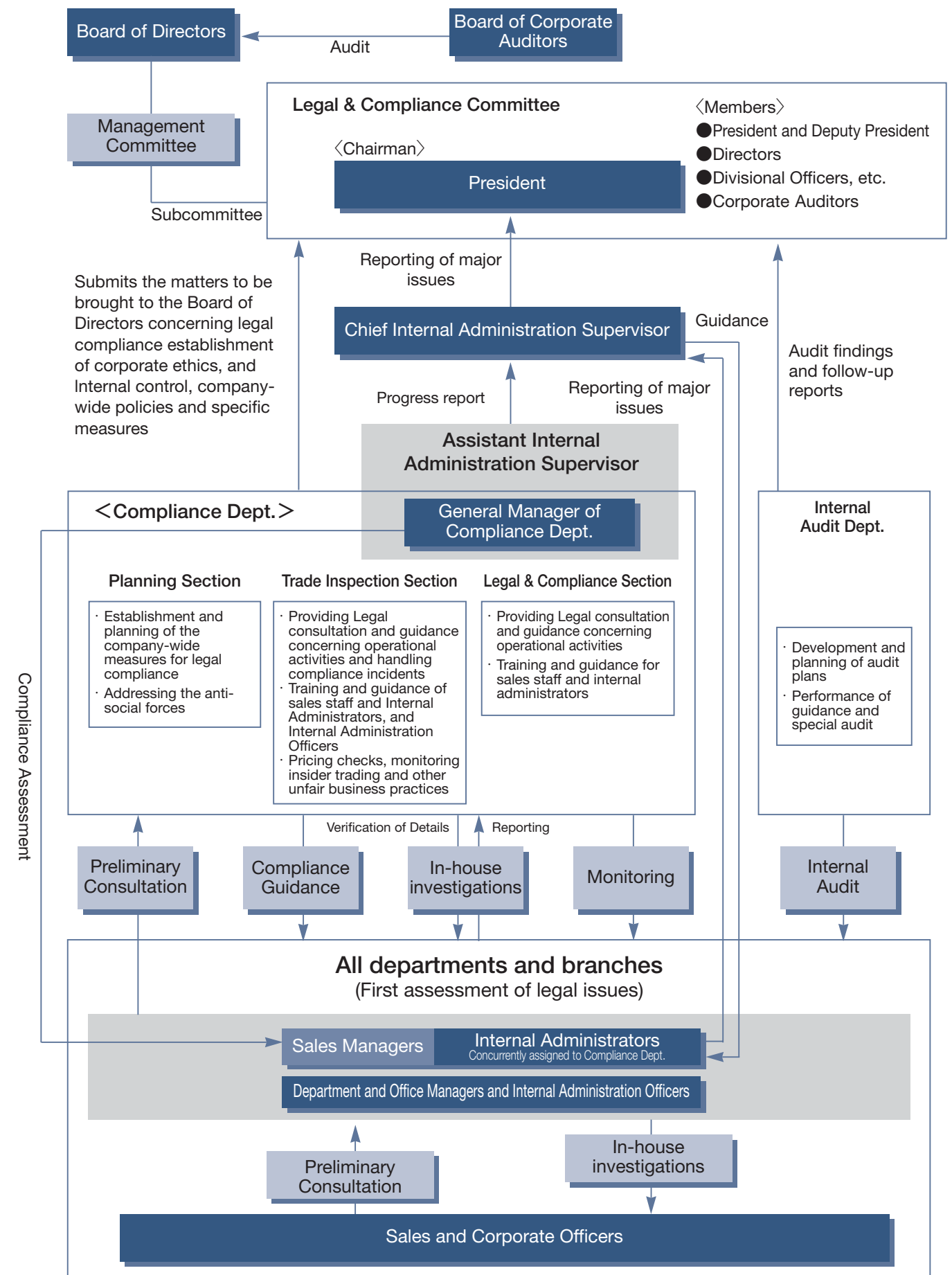
#### ④ Internal Audit Dept.

Internal Audit Dept. examines the appropriateness and effectiveness of internal control systems within the Company's departments and branches in order to realize early detection of possible legal and regulatory violations and incidents, and to provide guidance for rectification in internal control systems based on the findings from audits. The department is also responsible for early detection and prevention of recurrence of possible legal and regulatory violations, assessment of the status concerning legal and regulatory compliance and providing guidance on for rectification measures for the purpose of risk aversion for overseas branches.

#### ⑤ Sales Managers, Internal Administrators and Internal Administration Officers

In accordance with the regulations of Japan Securities Dealers Association, Sales Managers and Internal Administrators are assigned to each sales office and branch. Sales Managers and Internal Administrators constantly monitor the sales activities and client management in order to ensure that the daily business activities are compliant with laws and regulations and are appropriately carried out. Internal Administration Officers are assigned at non-sales related departments to monitor the activities involving the possible legal violation.

### <Outline of Internal Control Structure>



## 2) Corporate Ethics Hot Line (Whistle-blowing System)

The Company has established Corporate Ethics Hot Line (Whistle-blowing system) in order to realize early detection and rectification of the possible legal and regulatory violations.

The Company strives to enhance its compliance systems through the development of whistle-blowing policy which clearly defines the whistle-blowing processes, protection of whistle-blower, and remedial actions.

## 3) 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 client 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 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 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: ① persons specified by the issuer (excluding investors to which this restriction does not apply under Japan Securities Dealers Association's New Issue Ban Regulation), ② gangster groups or people related to such groups (in other words, Sokaiya and others who act against the public's best interests), ③ persons or entities for which it might appear that special preference had been given by the Company causing society to view these actions as unfair, ④ companies 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 person responsible for the sales sections will determine the validity of any claim when it is suspected that a violation of the laws and regulations regarding subscriptions, etc. has occurred.

② 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., Compliance Dept. may request that the person responsible for the sales sections make a report, etc., and appropriately disclose the facts.

③ Internal Audit Dept. shall carry out regularly scheduled inspections of the person responsible for the sales sections to determine whether allotments of equities, etc. to clients are being properly done, and provide guidance.

④ The sales sections will keep records of allotments, and Internal Audit Dept. will keep records of the inspection of those allotments for five years.

## 4) Best Execution Policy

This best execution policy sets forth in accordance with the provisions under Article 43, Section 2-1 of the Securities and Exchange Law and provides for policies and procedures for ensuring the best trade execution of securities transactions for clients.

Upon acceptance of a client order for securities listed on a securities exchange within Japan, and provided that there is no specific client instruction regarding the execution, the Company will endeavor to execute that order in accordance with the following policy:

### (1) Type of Securities Covered

1) "Listed securities" that are prescribed under Article 16-2 of the Securities Exchange Law Enforcement Order, including shares of stock, bond with stock acquisition rights (CBs), ETFs (beneficiary certificates in investment trusts linked to a stock index), and REITs (investment certificates in real estate investment trusts) listed on a securities exchange in Japan;

2) "Securities Handled" as set forth in Article 40 (1)(i) of the Securities and Exchange Law, including, stock and bond with stock acquisition rights (CBs) that are Green Sheet issues.

### (2) Best Execution Methodology

The Company will not act as direct trading counterparty with respect to client orders but will treat all orders as agency orders.

#### 1) Listed stocks, etc.

Basically, the Company brokers trade orders for equities, etc. listed on securities exchanges, but it does not handle any off-exchange transactions including by means of PTS (proprietary trading system).

① Upon receipt of an order, the Company will promptly place the order with the domestic securities exchange where the issue is listed. The Company will, however, place the agency orders that were received during off-the market hours to the securities exchange after the market is re-opened.

② When ① above is applicable, the transaction for agency order on the exchange shall be carried out as follows.

a) In the case where the security is only listed on one securities exchange (single listing), the Company will place the order on that particular securities exchange.

b) In the case where the security is listed on more than one exchange (multiple listing), the order will be placed to the first exchange that appears on the screen when a search using the securities code is made on one of QUICK terminals upon execution of such order (the securities exchange is chosen based on the calculation that indicate the highest trading volume in accordance with that company's prescribed method of calculation, this search will select the market with the highest trading generated during a certain period, hereinafter termed the "main exchange".)

c) In the case where the Company is not a participating member nor has any membership of the exchange (Fukuoka and Sapporo stock exchanges), selected through a) or b) above, we will place the order on that exchange through an exchange participant with whom the Company has entered into an agreement for handling orders on that particular securities exchange.

③ The Company will handle the agency orders as follows, should the main exchange be changed after the agent order placed by the clients were handled to the main exchange:

a) The order will be placed to the same exchange should the main exchange to the particular issue was changed while the orders received as the orders with expiration period and there is no specific instruction from clients concerning the change is submitted. The change in main exchange can be verified through QUICK terminals.

b) For new purchases of a security based on standardized or negotiable margin transactions, if the main exchange should change before the margin transaction is covered by the client, in principle the reversing transaction will be brokered in the new main exchange. However, if the Company receives the approval of the client, it will execute the reverse trades on system margin trades in the same market as the original margin transaction (short and long positions).

④ In the case where the order is placed by qualified institutional investors and the approval has been obtained from client, the Company will execute the order by means of the method for placing the orders to the securities exchange or for the Company to act as the direct trading counterparty or the combination of both methods in accordance with the details of the agreement.

## 2) Securities Handled

In principle, the Company does not accept orders for Securities Handled. However, if the client wishes to place the order and there is an agreement on the order between the two parties, the Company will place an order based on the agreed conditions. In the case where the Company is soliciting the investment to a Green Sheet issue, the client shall confirm price quotations for the issue (cross-checking the price quotations from another securities company also soliciting the issue) at the time of order placement, and if the Company and client agree on the price, the Company shall act as the direct trading counterparty for the transaction. For information on the issues the Company is soliciting or other securities firms that is soliciting that particular issues, please visit the website of Japan Securities Dealers Association.

## (3) Reasons for selecting the execution methods employed by the Company

### 1) Listed issues, etc.

Securities exchanges are the focal point of supply and demand from investors, and provide the best liquidity conditions as well as being highly public markets. In overall consideration of price, probability for order execution, and speed of transaction, the Company has decided that placing orders in these markets are the most practical and efficient method for clients.

In addition, when particular issue is listed on multiple securities exchange, the Company has decided that executing the transaction in the main market, which has the highest liquidity, is the most practical and efficient method for the client.

In the case where the main market is changed before the expiration date for a time limit order, the company places the orders to the market where the order was originally placed provided that there is no instruction from client is provided because doing so will avoid the additional costs in trade confirmation with the client and replacing the order as well as an extension of the time required to complete the order.

The Company has decided that this action has the greatest potential for retaining the best execution condition, and is therefore the most practical and efficient method for the client.

In the case where the main market is changed before the margin reversing transaction is completed for standardized or negotiable margin transactions, the Company places the order for the reversing

transaction in the same market as the original margin transaction with the approval of the client because it has decided that, if the client has not decided to change the market in which the short or long position is held for some reason, doing so is the most practical and efficient method for the client. In the case where the client is qualified institutional investor whom the Company has obtained the approval from, the Company places orders to securities exchanges, or acts as a direct trading counterparty itself, or uses a combination of both methods in executing transactions because, in consideration of the price, potential for order completion, and transaction speed, the Company has decided that providing these opportunities for execution of the transaction under the above conditions is the most practical and efficient method for those clients.

## 2) Securities Handled

The extent that the Company is trading those Securities Handled (Green Sheet issues) is limited to those issues that it is soliciting and indicating the prices. The Company only executes transactions for the issue in which the client has cross-checked the price quotation with another securities companies that also solicit the issue at the time when the order was placed ,because the Company has decided that achieving an overall agreement between the two parties on the price, potential for order execution, and execution costs, etc. is the most practical and efficient method for the client.

## (4) Others

1) Notwithstanding 2) above, the Company will execute the types of transactions as indicated below:

① Transaction in which a client has specified the method of execution (by requesting that the Company act as a direct trading counterpart , execute on a specific exchange, or specifying an execution time range);Executions as instructed.

② Execution under agreements including an investment management trading agreement:

The Company will execute by a method of choice within the authorized discretion under the investment management agreement with the client.

③ Transactions in which the execution method is specified by means of General Terms or the like, such as cumulative stock investment or stock mini investment, etc;

④ Trading of the odd-lot shares and fractional shares:

The Company handles the transaction concerning the orders of odd-lot and fractional shares to the securities firms that handle the type of securities.

2) Should there be cases where as a result of system failure, the Company may have to execute using a method other than the method derived from the best execution policy. In such cases, the company will strive to execute on the best terms possible.

The duty of best execution not only relates to price but also involves the consideration of various factors including cost, speed and certainty of execution. Even if a trade appears not have been executed at the best possible price afterwards, it does not necessarily constitute a violation of the duty of best execution by itself.

## 5) Privacy Policy

The Company hereby establishes and publishes the Privacy Policy based on the law concerning the protection of Personal Information, which will be continuously reviewed and enhanced in order to ensure the appropriate handling of clients' Personal Information as described below:

### (1) Policy Regarding the Handling of Personal Information

1) The Company complies with the laws and regulations concerning protection of Personal Information including the Law Concerning Protection of Personal Information, various guidelines and policies issued by the competent ministries and recognized personal information protection organizations, and this Personal Information Handling Policy.

2) The Company shall only obtain personal information through the appropriate and adequate measures to the extent necessary for its business operation and shall not use the personal information obtained for the purposes other than the purposes that were originally intended.

3) The Company shall respond swiftly and appropriately to complaints and other inquiries.

## (2) Use of Clients' Personal Information

Except for the cases recognized by the relevant laws and regulations, the Company will not make use of Personal Information obtained from clients beyond the scope necessary to attain the purposes as listed below without obtaining the consent of the clients:

1. For promotion and sales of securities and financial products and services under the Securities and Exchange Law;
2. For determination of the adequacy of products and services offered to clients based on the principle of suitability;
3. For identification of principals including individual clients or their designated agent in transaction;
4. For reporting results of transactions and balance to clients;
5. For implementation of administrative processing of clients' transactions;
6. For research and development of financial products and services by means of market research, data analysis and questionnaire surveys;
7. For ensuring the appropriate performance of outsourcing services that include handling of personal information in all or part is outsourced from other enterprises; and
8. For ensuring the smooth transaction processes with clients.

## (3) Assurance of the Accuracy of the Personal Information

The Company endeavors to ensure the accuracy of the clients' Personal Information and to keep them up to date within the range necessary to attain the objectives of use specified above.

## (4) Security Control Measures

To prevent leakage, etc. of personal data collected from clients, the Company implements necessary and appropriate safety control measures and carries out appropriate supervision of officers and employees.

## (5) Provision of Personal Information to Third Parties

Unless based on the provisions of laws and regulations, the Company shall not provide third parties with any Personal Information without obtaining clients' consent.

## (6) Outsourcing the Collection of Personal Information

The Company may, subject to the conclusion of contract which the provisions under the Guidelines on Personal Information Protection in the Financial Industry (2004 FSA Notification No. 67, "FSA Guideline") are reflected, outsource the collection of all or part of clients' Personal Information to third parties within the range necessary to attain the objectives of use specified. The Company shall exercise necessary and appropriate supervision over the contractors including the recommissioned contractors when The Company outsources handling of all or part of Personal Information.

## (7) Procedure for Disclosure of Information

The Company shall respond to any requests submitted by clients or their designated agents concerning disclosure, correction, addition, deletion, suspension or deletion of the use of such information, suspension of provision of Personal Information held by the Company to third party ("disclosure requests") within the reasonable timeframe and the appropriate scope in writing, unless disclosure of such information is not required by the relevant laws and regulations after the identification of the clients' or the designated agents are verified.

- 1) Type of Personal Information held by the Company that are covered under the Disclosure Request: Name; Address; Telephone Number; Date of Birth; Employment Information (Name of employer and/or occupation and work number); Transaction balance (Account Number and outstanding balance); and Transaction Log information.
- 2) Please contact relevant sales developments within the Company, for disclosure request of the information.
- 3) Documents Requested for Submission:
  1. "Request Form for Disclosure of Personal Information" designated by the Company - completed;
  2. Identification Documentation (copies of driver's license and passport);
  3. Power of Attorney for identifying the power has been delegated to the relevant agent (POA is required when the request has been filed by the agent. Please note that the Company cannot respond to such agents until such delegation of the power is verified by us.)

## 4) Response from the Company

The Company shall respond to the clients or the designated agent in writing by sending the response to the addresses registered with the Company. Please be reminded that the Company may respond directly to the client when the request was sent by the agent.

## 5) Objectives for Using Personal Information Obtained Through the Disclosure Requests

The Company shall use the information obtained through the disclosure requests for the research for the procedures for the disclosure requests, verification of the identification of the client or the designated agent, collection of the fees, and the response for the disclosure request.

## 6) Fees

In some cases, the Company may charge the individual for fees incurred during the research process.

## (8) Treatment of Sensitive Information

The Company does not intend to seek any sensitive information, including special non-public data relating to race or national or ethnic origin, political or religious or similar beliefs, lineage, registered domicile, health and medical history and criminal record, unless it is required/permitted by provisions under the guidelines including FSA Guideline to do so. The Company will not use nor offer to any third party the Personal information even where the Company is allowed to obtain such Information under the FSA Guideline except for the purposes deemed necessary for ensuring proper management of the business operation as well as the other purposes deemed necessary in accordance with Ordinance of Cabinet Office Concerning Regulation etc, of Conduct of Securities Company.

## (9) Handling of Complaints

The Company strives to respond promptly and faithfully to the complaints received from clients concerning the handling of personal information including security control measures of personal information. Please forward your complaints and concerns to the following hotline at the Company.

[Contact for Complaints]

Compliance Dept.

Marunouchi Trust Tower N Building, 8-1 Marunouchi, 1-chome, Chiyoda-ku, Tokyo 100-8289

Tel: 03-5533-8622

## (10) Recognized Personal Information Protection Organizations

The Company is a member of Japan Securities Dealers Association, a Personal Information Protection Organization recognized by FSA.. Those who wish to file complaints or to consult in relation to the members' handling of personal information may contact the following for consultation services concerning complaints from clients:

[Contracts for Complaints and Advice]

Securities Mediation and Advisory Center

Japan Securities Dealers Association

Tel: 03-3667-8008

(<http://www.jsda.or.jp>) Or contact your local branches of Securities Mediation and Advisory Center.

## 2. Segregated Client Money and Securities

### (1) Segregated Client Money (as of March 31, 2005)

Item	Amount
Required segregation of clients' cash in preparation for immediate adjustment on base calculation date	11,270
Income trusts segregated by client	20,000
Required segregation of cash deposits at the end of the fiscal year	4,162

Note : Income trusts segregated by customer are segregated based on the required amounts as of the most recent valuation date (March 25, 2005).

### (2) Segregation of Securities (as of March 31, 2005)

#### ① Custody of Securities

Security Type	Domestic	Foreign
Equities	29,734,164,125 thousand shares	1,511,448 thousand shares
Bonds	2,680,977 million yen	6,264,141 million yen
Beneficiary certificates	600,225 million units	7,132 million units
Warrants	19 thousand warrants	0 thousand warrant
Foreign certificates	—	—
Commercial paper	182,420 million yen	—

Note : Domestic equities included non-marketable equities.

#### ② Substitute Securities Received

Security Type	Amount
Equities	178,240 (—) thousand shares
Bonds	51,809 (—) million yen
Beneficiary certificates	— (—)
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 clients' 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 clients' assets to the third party.

#### ③ Custody Method

Securities received from clients are held in custody and managed 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 Assets Held in Custody at Securities Companies, as follows.

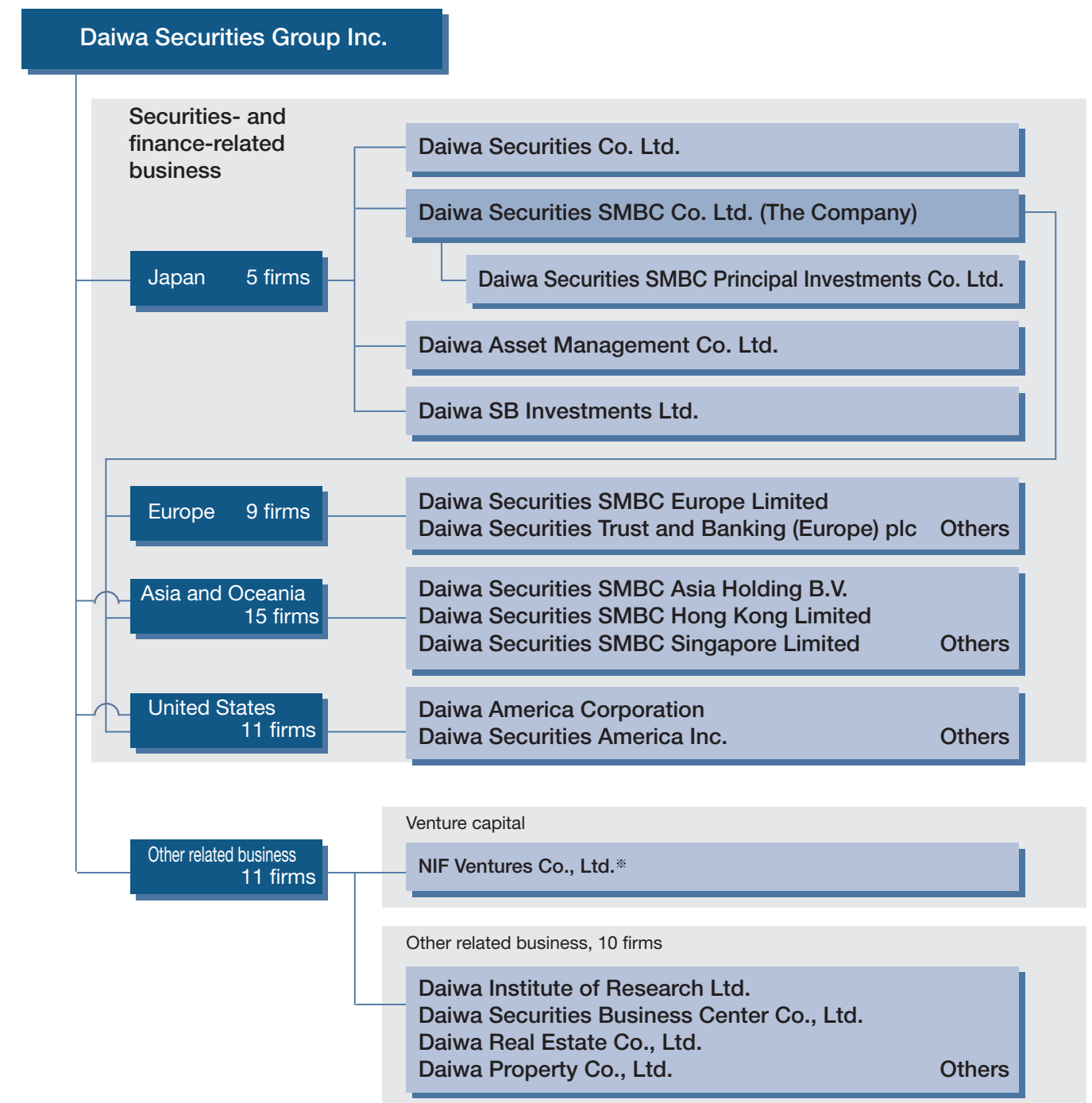
Security Type	Custody Method
Domestic equities	Unless special application has been made, Japan Securities Depository Center, Inc. (hereafter termed "Depository") shall hold the equities in bulk. If application is made, the securities may be held in custody by the Company segregated by client.
Domestic 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 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 & Oceania.

### Investing and Financial Services

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



\* plans to change its name to NIF SMBC Ventures Co., Ltd. (Effective October 2005)

2. Subsidiaries and Affiliates

(as of March 31, 2005)

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	180,000 thousand shares	90% (see Note 7)
DBP-Daiwa Securities SMBC Philippines, Inc.	Manila, Philippines	255 million Philippine pesos	Securities	101,999 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 SMBC 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%
Daiwa SMBC-SSC Securities Co., Ltd.	Shanghai, People's Republic of China	500 million RMB yuan	Securities	—	33.3%
4 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.

3. Consolidated Financial Statements

(1) Consolidated Balance Sheet

(millions of yen)

ASSETS		LIABILITIES	
Category	(at March 31, 2005)	Category	(at March 31, 2005)
<b>Current assets:</b>	9,603,353	<b>Current liabilities:</b>	8,548,482
Cash and deposits	114,712	<b>Trading liabilities:</b>	3,576,997
Cash segregated as deposits for regulatory purposes	21,411	Trading securities and others	3,116,237
Trading assets:	5,082,914	Derivative liabilities	460,759
Trading securities and others	4,535,355	Payables related to margin transactions:	127,198
Derivative assets	547,559	Proceeds of securities sold for customers' accounts	127,198
Trading receivables, net	34,726	Collateralized short-term financing agreements:	2,408,224
Private equity and other securities	99,104	Cash deposits as collateral for securities loaned	2,017,492
Less : Allowance for possible investment losses	(1,165)	Payables related to gensaki transactions	390,731
Receivables related to margin transactions:	183,698	Deposits received	23,249
Customers margin loans	1,843	Cash deposits received as guarantee	22,000
Cash deposits as collateral for securities borrowed	181,855	Short-term borrowings	2,129,930
Collateralized short-term financing agreements:	3,937,749	Commercial paper	175,220
Cash deposits as collateral for securities borrowed	3,801,100	Medium-term notes due within one year	27,397
Receivables related to gensaki transactions	136,649	Income taxes payable	7,604
Short-term loans receivable	67,881	Accrued bonuses	7,160
Accrued income	9,640	Other current liabilities	43,500
Deferred tax assets-current	644	<b>Non-current liabilities:</b>	654,825
Other current assets	52,222	Medium-term notes	537,131
Less: Allowance for doubtful accounts – current	(187)	Long-term debt	111,997
		Retirement benefits	4,034
		Other non-current liabilities	1,661
		<b>Statutory reserves:</b>	4,351
		Reserve for securities transaction liabilities	4,351
		Reserve for financial futures transaction liabilities	0
<b>Non-current assets:</b>	72,027	<b>Total liabilities</b>	9,207,659
Tangible fixed assets	5,835	<b>Minority interests</b>	969
Intangible fixed assets	31,710	<b>SHAREHOLDERS' EQUITY</b>	
Investments and others:	34,481	Common stock	205,600
Investments securities	18,618	Capital surplus	117,321
Long-term loans receivable	514	Retained earnings	128,464
Long-term guarantee deposits	6,092	Net unrealized gain (loss) on securities, net of tax effect	10,426
Deferred tax assets-non-current	2,945	Translation adjustments	4,940
Other investments	6,830	<b>Total shareholders' equity</b>	466,751
Less: Allowance for doubtful accounts – non-current	(520)	<b>Total liabilities, minority interests and shareholders' equity</b>	9,675,380
<b>Total assets</b>	9,675,380		

## (2) Consolidated Statement of Operations

(millions of yen)

Category	Year ended (March 31, 2005)
<b>Operating revenues:</b>	249,649
Commissions	91,732
Net gain (loss) on trading	118,304
Net gain (loss) private equity and other securities	(1,165)
Interest and dividend income	40,777
Interest expenses	27,258
<b>Net operating revenues</b>	222,390
Selling, general and administrative expenses:	138,830
Commission and other expenses	51,144
Employees' compensation and benefits	39,857
Occupancy and rental	12,636
Data processing and office supplies	16,368
Depreciation expenses	12,326
Taxes other than income taxes	3,804
Others	2,692
Operating income	83,560
Non-operating income	1,945
Non-operating expenses	329
Ordinary income:	85,176
Extraordinary gains	2,107
Extraordinary losses	1,150
Income before income taxes and minority interests	86,133
Income taxes-current	7,992
Income taxes-deterred	24,064
Minority interests	(42)
Net income	54,034

## (3) Consolidated Statement of Capital Surplus and Retained Earnings

(millions of yen)

Category	Year ended (March 31, 2005)
<b>(Capital Surplus)</b>	
Beginning balance of capital surplus	117,321
Increase in capital surplus	—
Decrease in capital surplus	—
Ending balance of capital surplus	117,321
<b>(Retained Earnings)</b>	
Beginning balance of retained earnings	74,682
Increase in retained earnings:	54,034
Net income	54,034
Decrease in retained earnings:	252
Cash dividends paid	—
Bonuses to directors	252
Ending balance of retained earnings	128,464

For further inquiries regarding the contents of this report

**TEL 81-(0)3-5533-7040**

Daiwa Securities SMBC Corporate Planning Dept.