



28 July 2005

## Summary of First-Quarter Business Results for the Financial Year Ending 31 March 2006 (Consolidated)

Listed company's name: **Shinko Securities Co., Ltd.** Listing stock exchanges: Tokyo, Osaka, and Nagoya  
 Code No.: 8606 Location of head office: Tokyo  
 (URL: <http://www.shinko-sec.co.jp/>)  
 Representative: Takashi Kusama, President  
 Contact: Akihiko Furuta, General Manager of Treasury Dept. at (03) 5203-6000

1. Notes Regarding the Compilation of This Quarterly Business Result Summary
  - 1) Adoption of simplified accounting procedures: None
  - 2) Changes in accounting policies from the latest consolidated fiscal year: None
  - 3) Changes in the scope of application of full consolidation or the equity method:
    - Consolidation: One company was added and no company was removed.
    - Equity method: No company was added and one company was removed
    - Number of fully consolidated subsidiaries: 16
    - Number of equity-method affiliates: 4
2. Summary of First-Quarter Business Results for the Financial Year Ending 31 March 2006 (1 April 2005 - 30 June 2005)

(1) Consolidated results of business activities (Note) The amounts displayed below have been rounded off downwards to the nearest million yen.

	Operating revenues		Net operating revenues		Operating profit		Ordinary profit	
	mil. yen	%	mil. yen	%	mil. yen	%	mil. yen	%
First quarter to June 2005	29,845	(-6.7)	28,808	(-6.4)	3,546	(-31.7)	4,604	(-35.3)
First quarter to June 2004	31,990	(16.0)	30,775	(15.2)	5,190	(36.2)	7,112	(59.3)
Financial year to March 2005	113,052		108,350		10,170		14,220	

	Net profit		Net profit per share	Net profit per share (diluted)
	mil. yen	%	yen	yen
First quarter to June 2005	6,530	(3.4)	8.47	8.47
First quarter to June 2004	6,312	(59.2)	8.20	—
Financial year to March 2005	7,737		9.85	—

- (Note) 1. Investment profit or loss on equity method: First quarter to 30 June 2005: 7 million yen  
 First quarter to 30 June 2004: 68 million yen  
 Financial year to 31 March 2005: 101 million yen
2. Average number of shares outstanding (consolidated): First quarter to 30 June 2005: 770,915,829  
 First quarter to 30 June 2004: 770,323,353  
 Financial year to 31 March 2005: 768,152,743
3. Percentage figures for operating revenues, net operating revenues, operating profit, ordinary profit, and net profit represent the percentage increase or decrease on the same period last year.

(2) Consolidated financial status

	Total assets	Shareholders' equity	Shareholders' equity ratio	Shareholders' equity per share
	mil. yen	mil. yen	%	yen
First quarter to June 2005	2,868,733	233,128	8.1	302.41
First quarter to June 2004	3,195,418	228,390	7.1	297.72
Financial year to March 2005	3,485,017	232,083	6.7	300.82

(Note) Number of shares outstanding (consolidated): First quarter to 30 June 2005: 770,903,939  
 First quarter to 30 June 2004: 767,133,874  
 Financial year to 31 March 2005: 770,938,777

## [Consolidated cash flows]

	Cash flow from operating activities	Cash flow from investing activities	Cash flow from financing activities	Cash & cash equivalents balance at term end
	mil. yen	mil. yen	mil. yen	mil. yen
First quarter to June 2005	37,897	-706	-15,388	73,518
First quarter to June 2004	-56,932	-2,698	18,023	67,995
Financial year to March 2005	-179,002	-14,270	135,322	51,656

3. Forecast of consolidated business results for the full financial year ending 31 March 2006 (1 April 2005 - 31 March 2006)

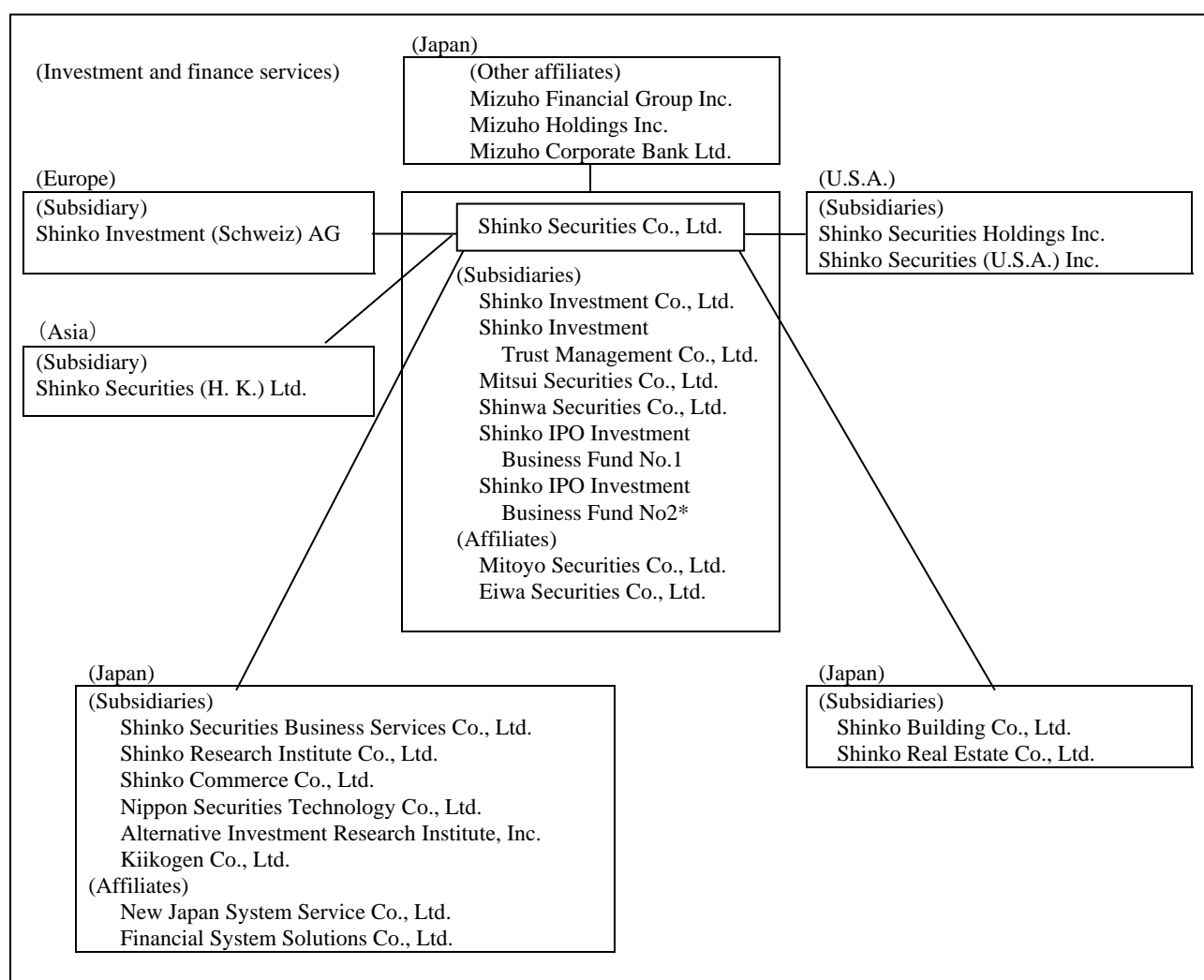
Because the main business activity of our corporate group is the buying and selling of securities, our earnings are strongly influenced by market conditions, etc. For this reason, we do not conduct forecasts of our business results.

## Our Corporate Group

Our corporate group is composed of 18 subsidiaries and 4 affiliates. The business activities of our company and of 10 of the subsidiaries and 2 of the affiliates consist mainly of trading securities, the commissioning of securities trading, the underwriting and selling of securities, offering and selling of securities, handling of private offerings, and other securities- and finance-related activities, as well as a wide range of services in the areas of raising and operating funds for customers. The other companies provide services related to and supportive of our company's activities, conduct market surveys and research, manage real estate, and more. Therefore, our corporate group's business activities all come under the single business segment of "investment and financial services."

All of our subsidiary companies, except Shinko IPO Investment Business Funds No. 1 and No. 2, are consolidated companies, and the equity method is applied for all of our affiliated companies.

### 1. Organizational Diagram of Corporate Group



\* Shinko IPO Investment Fund No. 2 was established on 17 May 2005.

**Business Performance and Financial Position**

[Business Performance]

Business Results for the First Quarter to June 2005

In the first quarter of this financial year (the three months from April to June, 2005; hereafter referred to as the “current period”), the Japanese economy generally continued in a holding pattern. On the one hand, it showed a steady tone; thus, capital investment increased moderately due to improved corporate earnings, and consumer spending, reflecting a round of employment adjustments, manifested a recovering trend. On the other hand, exports remained flat due to a slowdown in U.S. and Chinese economic activity, and efforts at inventory adjustment continued. In the equity markets, the current period got off to a good start, with the Nikkei Stock Average rising above 11,800. From mid-April through May, however, there was an adverse reaction to a sudden drop in U.S. markets and the spread of anti-Japan demonstrations in China, so that the Nikkei fell below 10,900 and a situation of rapid adjustments took place. After that, until the end of the period, a price rally occurred, sustained by such factors as a rebound in overseas equities and optimistic expectations regarding the dividend-hiking trends so that by the end of the period the Nikkei returned to above 11,500. In the bond market, the supply-and-demand environment remained favorable, and what with the economy’s continuing holding pattern and “projections that the current quantitative easing policy will be extended, a bullish situation continued throughout the period. At the end of the period, the yield on 10-year government bonds, aided by a worldwide drop in interest rates, closed below the 1.2% that had been its lowest level throughout the period.

Meanwhile, overseas, the U.S. economy, though concerned about the effects of rising oil prices, continued to move steadily ahead throughout the period on the twin tracks of consumer spending and capital investment. On the other hand, the European economies saw the base of their recovery soften due to a slowdown in foreign demand. In U.S. equity markets, the first half of the period brought a sharp decline caused by rising concern about economic deceleration from higher oil prices but, then, in the second half of the period, as anxiety about the economy’s future prospects abated, prices attempted to rally. In European equity markets, gains remained trifling in the first half of the period, but in the second half a more bullish situation prevailed, driven by expectations that the depreciating euro would lead to improved corporate performance. With U.S. interest rates continuing to be raised in a cautious manner, bond markets in both the U.S. and Europe, buoyed by such factors as stable commodity prices and efforts to avoid risk for investment capital, continued on a favorable course throughout the period.

Under these circumstances, our corporate group earned consolidated operating revenues for the period of 29.845 billion yen (93.3% of that for the same period last year), an ordinary profit of 4.604 billion yen (64.7%), and a net profit of 6.53 billion yen (103.4%). A brief breakdown of these results follows:

## 1. Commissions and fees received

Commissions and fees received during the current period totaled 18.526 billion yen (81.9%). A breakdown of this income follows:

## (1) Brokerage commissions

The average daily turnover during the current period in the sections 1 and 2 of the Tokyo Stock Exchange was 1.3231 trillion yen (83.1%). Our company brokered the sale of 1.927 billion shares of stock (75.4%) worth 1.8722 trillion yen (75.7%), while our commissions on the same totaled 9.278 billion yen (66.5%). Commissions earned on bond brokering totaled 20 million yen (31.7%).

## (2) Underwriting and selling fees

In the market for stock issues, our company underwrote the issue and sale stock for 25 newly public companies, serving as lead manager in eight of these cases. In addition, we underwrote subsequent issues and sale of stock from nine public companies. As a result, income from commission on underwriting and selling was 773 million yen (56.1%).

In the bond market, our company served as lead manager for one issue of local government bonds, and three issues of corporate bonds (the latter including cases where our company was joint lead manager.) As a result, commission from the underwriting and sale of bonds was 192 million (62.6%).

## (3) Offering, selling, and other fees and commissions

This income is made up chiefly of fees and commissions we earn selling investment trusts to our customers and service commissions.

In the area of distributed investment trusts, for which there is strong demand among individual investors due to Japan’s long-continuing super-low interest rates, we strengthened our lineup of products by newly offering, in addition to our existing products that invest in foreign bonds and real estate investment trusts, the “Shinko Pictet World Income Equity Fund (Monthly Distributions)” (managed by Shinko Investment Trust Co., Ltd.), a distributed

investment trust that primarily invests in foreign equities with a high dividend yield. Moreover, based on the inducement that a complete payoff will be made in April 2004 we offered, as investment trusts that aim for an absolute return, “U.S. Dollar Denominated Capital Preservation Strategy Matrix 10 (2005-05),” a foreign investment trust that invests in hedge funds, and the “STB Market Neutral Fund” (managed by STB Asset Management).

Furthermore, in the area of foreign equity investment trusts, we introduced the “Invesco Eastern European Enlargement Stock Fund” (managed by Invesco Investment Trust), which invests in Eastern Europe, an area expected to have the same high growth rate as China and India. Thus, to complement our existing domestic equity funds, we strengthened our lineup of foreign equity funds.

As a result, commissions from the sale of investment trusts reached 4.081 billion yen (137.6%) Other fees and commissions totaled 4.167 billion yen (106.2%.)

## 2. Trading profits

The current period saw us earn trading profits of 3.995 billion yen (138.9%) on equity trading, and 5.767 billion yen (101.9%) on the trading of bonds, foreign currency and other instruments. Total trading profits thus stood at 9.763 billion yen (114.4%).

## 3. Financial profit

Deducting financial expenses of 1.037 billion yen (85.3%) from financial revenues of 1.454 billion yen (180.4%) gives a financial loss for this year of 417 million yen.

## 4. Selling, general and administrative expenses

Although depreciation with regard to system development increased, personnel and real estate expenses decreased, resulting in total selling, general and administrative expenses of 25.262 billion yen (98.7%).

## 5. Extraordinary profits and losses

As extraordinary profit, we recorded 491 million yen from the sale of investment securities and 1.8 billion yen in software licensing fees. On the negative side, we recorded an extraordinary loss of 188 million yen. Thus, overall, we posted an extraordinary profit of 2.111 billion yen.

## [Financial position]

Net cash provided in operating activities was gained by 37.897 billion yen due to such factors as a decrease in loans secured by stocks and bonds.

Net cash used in investment activities totaled 706 million yen due to such factors as an increase in IT system investments.

Net cash used in financing activities used by 15.388 billion yen due to such factors as a decrease in our issue of commercial paper.

As a result of these flows, the balance of cash and cash equivalents stood at 73.518 billion yen at the end of the current period.

**Consolidated Balance Sheets**

(In millions of yen)

	First quarter to 30 June 2005	First quarter to 30 June 2004	Year-on-year increase/decrease	Financial year to 31 March 2005
<b>Assets</b>				
Current assets	2,717,289	3,044,240	-326,950	3,330,329
Cash and due from banks	73,746	68,215	5,530	51,881
Fund deposits	57,132	71,550	-14,417	64,812
Trading products	1,181,057	1,477,598	-296,541	1,376,233
Trading securities, etc.	1,177,318	1,471,303	-293,985	1,370,448
Derivative assets	3,739	6,295	-2,556	5,785
Investment securities for sale	2,402	3,052	-649	2,452
Margin transaction assets	88,288	100,530	-12,241	86,420
Customers' loans receivable in margin transactions	75,908	90,034	-14,125	77,742
Collateral for borrowed securities for margin transactions	12,380	10,495	1,884	8,678
Loans receivable secured by securities	1,287,696	1,297,735	-10,038	1,724,082
Collateral for borrowed securities	1,287,596	1,287,635	-38	1,713,952
Loans receivable in gensaki transactions	100	10,099	-9,999	10,130
Advances	883	1,457	-574	561
Short-term loans receivable	171	225	-54	218
Securities	1,620	1,503	117	2,026
Deferred income tax assets	107	453	-346	155
Other current assets	24,328	22,125	2,203	21,672
Allowance for bad debts	-146	-208	61	-188
Fixed assets	151,443	151,177	265	154,687
Tangible fixed assets	42,663	45,918	-3,254	43,038
Intangible fixed assets	27,192	20,495	6,696	26,802
Investments and other assets	81,588	84,763	-3,175	84,846
Investment securities	63,635	57,757	5,878	65,687
Long-term deposits	13,317	15,554	-2,236	13,929
Deferred income tax assets	311	233	77	264
Other investments	9,348	16,020	-6,671	9,875
Allowance for bad debts	-5,025	-4,801	-223	-4,909
<b>Total assets</b>	<b>2,868,733</b>	<b>3,195,418</b>	<b>-326,684</b>	<b>3,485,017</b>

(In millions of yen)

	First quarter to 30 June 2005	First quarter to 30 June 2004	Year-on-year increase/decrease	Financial year to 31 March 2005
<b>Liabilities</b>				
Current liabilities	2,559,388	2,897,422	-338,033	3,175,427
Trading products	981,987	1,113,279	-131,291	1,220,685
Trading securities, etc.	977,701	1,109,075	-131,374	1,218,474
Derivative liabilities	4,286	4,203	82	2,210
Trade date accrual	18,884	41,918	-23,034	14,132
Margin transaction liabilities	28,905	34,864	-5,959	56,119
Customers' loans payable for margin transactions	24,087	27,907	-3,819	51,280
Collateral for loaned securities for margin transactions	4,817	6,957	-2,140	4,839
Loans payable secured by securities	1,134,199	1,396,019	-261,820	1,475,857
Amounts receivable on loan transactions	890,568	1,066,493	-175,924	1,302,482
Loans payable in gensaki transactions	243,631	329,526	-85,895	173,375
Deposits received	54,531	69,123	-14,592	56,108
Received margins	14,671	17,361	-2,689	14,392
Accounts for non-received securities and others	2	33	-30	0
Short-term loans payable	271,435	178,942	92,492	265,905
Commercial paper	41,000	35,300	5,700	57,200
Income taxes payable	263	286	-23	919
Deferred tax liabilities	—	5	-5	—
Reserve for bonus	1,712	2,232	-520	3,857
Reserve for business reorganization loss	1,683	—	1,683	1,683
Other current liabilities	10,111	8,055	2,056	8,565
Fixed liabilities	69,762	63,368	6,393	71,027
Long-term loans payable	42,550	35,765	6,785	42,550
Deferred tax liabilities	6,101	5,786	314	6,580
Reserves for retirement benefits	16,773	16,851	-78	17,184
Other fixed liabilities	4,338	4,965	-627	4,712
Statutory reserve	1,047	1,046	0	1,049
<b>Total liabilities</b>	<b>2,630,198</b>	<b>2,961,837</b>	<b>-331,638</b>	<b>3,247,504</b>
<b>Minority interest</b>	<b>5,406</b>	<b>5,190</b>	<b>216</b>	<b>5,428</b>
<b>Shareholders' equity</b>				
Common stock	125,167	125,167	—	125,167
Capital surplus	82,542	82,087	454	82,541
Earned surplus	21,912	18,749	3,163	20,174
Difference in valuation of securities	10,771	10,661	110	11,491
Foreign exchange translation adjustment	322	265	56	283
Treasury stock	-7,587	-8,541	953	-7,575
<b>Total shareholders' equity</b>	<b>233,128</b>	<b>228,390</b>	<b>4,737</b>	<b>232,083</b>
<b>Total liabilities, minority interest, and shareholders' equity</b>	<b>2,868,733</b>	<b>3,195,418</b>	<b>-326,684</b>	<b>3,485,017</b>

**Consolidated Statement of Income**

(In millions of yen)

	First quarter from 1 April 2005 to 30 June 2005	First quarter from 1 April 2004 to 30 June 2004	% change from same period last year	Financial year from 1 April 2004 to 31 March 2005
Operating revenues	29,845	31,990	93.3	113,052
Commissions and fees received	18,526	22,614	81.9	79,008
Trading profit or loss	9,763	8,535	114.4	30,814
Trading profit or loss on investment securities for sale	101	34	290.7	398
Financial revenues	1,454	805	180.4	2,830
Financial expenses	1,037	1,215	85.3	4,701
Net operating revenues	28,808	30,775	93.6	108,350
Selling, general and administrative expenses	25,262	25,584	98.7	98,179
Transaction expenses	3,623	3,246	111.6	13,949
Personnel expenses	12,642	14,280	88.5	50,675
Real estate expenses	3,755	3,869	97.0	14,373
Office expenses	1,664	1,452	114.6	6,492
Depreciation	2,419	1,580	153.0	7,913
Taxes and dues	409	419	97.6	1,196
Others	747	735	101.7	3,579
Operating profit	3,546	5,190	68.3	10,170
Non-operating revenues	1,643	2,511	65.4	6,689
Investment profit on equity method	7	68	10.3	101
Others	1,636	2,442	67.0	6,588
Non-operating expenses	585	589	99.3	2,639
Ordinary profit	4,604	7,112	64.7	14,220
Extraordinary profits	2,300	11	20,512.6	1,679
Extraordinary losses	188	541	34.9	7,127
Net profit before taxes, etc.	6,716	6,582	102.0	8,771
Income taxes	85	113	75.7	446
Adjustment amount for income taxes	39	57	69.3	321
Minority interest	60	99	61.0	266
Net profit	6,530	6,312	103.4	7,737



**Consolidated Statement of Earned Surplus**

(In millions of yen)

	First quarter from 1 April 2005 to 30 June 2005	First quarter from 1 April 2004 to 30 June 2004	Financial year from 1 April 2004 to 31 March 2005
<b>Capital surplus</b>			
Balance of capital surplus at start of period	82,541	82,087	82,087
Increase in capital surplus	0	0	454
Gain/loss on disposal of treasury stock	0	0	454
Balance of capital surplus at end of period	82,542	82,087	82,541
<b>Earned Surplus</b>			
Balance of earned surplus at start of period	20,174	16,497	16,497
Increase in earned surplus	6,530	6,312	7,737
Net profit	6,530	6,312	7,737
Decrease in earned surplus	4,791	4,061	4,061
Dividend	4,625	3,865	3,865
Officer's bonus	165	195	195
Balance of earned surplus at end of period	21,912	18,749	20,174

**Consolidated Cash Flow Statement**

(In millions of yen)

	First quarter from 1 April 2005 to 30 June 2005	First quarter from 1 April 2004 to 30 June 2004	Financial year from 1 April 2004 to 31 March 2005
<b>I Cash flows from operating activities</b>			
Net profit before taxes, etc.	6,716	6,582	8,771
Depreciation	2,419	1,580	7,913
Adjustment for extraordinary profit and loss			
Loss from sale or disposition of fixed assets	23	25	608
Write-down of fixed assets	—	—	2,242
Loss from assets impairment	165	—	—
Profit from sale on investment securities	-491	-4	-1,675
Write-down and loss from sale of investment securities	—	92	575
Write-down of golf club memberships	—	—	8
Software licensing fee	-1,800	—	—
Re-amortization of future retirement and severance pay obligations in line with a change to accounting standards	—	422	1,690
Irregular depreciation expense	—	—	222
Provision of reserve for business reorganization loss	—	—	1,683
Reversal of reserve for securities transaction liabilities	-2	-6	-3
Provision of allowance for bad debts	—	—	96
Interest income and dividends receivable	-1,938	-1,208	-3,558
Interest cost	1,037	1,215	4,701
Investment profit/loss on equity method	-7	-68	-101
Increase/decrease in loans receivable	49	70	90
Increase/decrease in money held as customers' trust	7,714	-18,355	-11,619
Increase/decrease in advances and deposits received	-1,902	26,474	14,356
Increase/decrease in trading products	-37,761	-227,018	-45,503
Increase/decrease in margin transaction assets	-1,867	-15,806	-1,696
Increase/decrease in margin transaction liabilities	-27,214	-18,762	2,492
Increase/decrease in loans receivable secured by securities	436,385	-166,478	-592,825
Increase/decrease in loans payable secured by securities	-341,658	357,047	436,885
Increase/decrease in allowance for bad debts	81	-190	-109
Increase/decrease in reserve for bonus	-2,144	-1,494	129
Increase/decrease in reserves for retirement benefits	-411	-321	-1,256
Others	416	-445	-711
Subtotal	37,810	-56,647	-176,593
Interest and dividends received	1,784	1,174	2,809
Interest paid	-774	-1,199	-4,604
Income taxes, etc. paid	-923	-259	-614
Cash flow from operating activities	37,897	-56,932	-179,002
<b>II Cash flows from investing activities</b>			
Payments for purchases of investment securities	-2,822	-1,409	-6,626
Proceeds from the sale of investment securities	3,527	21	6,480
Payments for purchases of tangible fixed assets	-183	-116	-712
Proceeds from the sale of tangible fixed assets	—	534	538
Payments for purchases of intangible fixed assets	-2,361	-1,446	-13,576
Proceeds from sale of intangible fixed assets	—	0	0
Increase/decrease in long-term deposits	612	-11	1,613
Proceeds from sale of subsidiary's stocks	84	—	—
Others	437	-271	-1,988
Cash flow from investing activities	-706	-2,698	-14,270
<b>III Cash flows from financing activities</b>			
Increase/decrease in short-term loans payable	-10,670	24,345	131,692
Proceeds from long-term loans payable	—	—	18,050
Payments for long-term loans payable	—	—	-9,750
Payments for acquiring treasury stocks	-12	-2,419	-2,502
Proceeds from sale of treasury stocks	—	—	1,735
Dividend paid	-4,625	-3,865	-3,865
Dividend paid to minority shareholders	-80	-36	-36
Cash flow from financing activities	-15,388	18,023	135,322
IV Effect of foreign exchange rate changes on cash and cash equivalents	59	45	50
V Increase/decrease in cash and cash equivalents	21,861	-41,561	-57,900
VI Balance of cash and cash equivalents at start of year	51,656	109,557	109,557
VII Balance of cash and cash equivalents at end of year	73,518	67,995	51,656

[About the consolidated financial statements for the first quarter]

These consolidated financial statements follow the provisions of Ministry of Finance (MoF) Ordinance No.24 (1999) entitled “The Rules for Terms, Formats, and Preparation Method of Interim Consolidated Financial Statements” and also comply with the provisions stipulated in Articles 48 and 69 of said ordinance. In addition, they are compiled in accordance with Prime Ministerial and MoF Ordinance No.32 (1998) entitled “Cabinet Ordinance Concerning Securities Companies” and the resolution entitled “Unification of Securities Business Accounting ” adopted by the Japan Securities Dealers Association on 14 November 1974.

[Basic Important Matters for Preparation of Consolidated Financial Statements]

1. Matters regarding the scope of consolidation

(1) Consolidated subsidiaries (16 subsidiaries)

Major subsidiaries

Shinko Securities Business Services Co., Ltd.

Shinko Investment Co., Ltd.

Shinko Investment Trust Management Co., Ltd.

Nippon Securities Technology Co., Ltd.

(Newly added) Alternative Investment Research Institute, Inc.\*

\* Alternative Investment Research Institute, Inc. became a subsidiary at the end of the current period, so only its balance sheet has been consolidated.

(2) Non-consolidated subsidiaries (2 subsidiaries)

Shinko IPO Investment Business Fund No.1

Shinko IPO Investment Business Fund No.2

2. Matters concerning the application of equity method

Equity-method affiliates (4 affiliates)

Major affiliates

Mitoyo Securities Co., Ltd.

Eiwa Securities Co., Ltd.

(Removed) Alternative Investment Research Institute, Inc.

3. Matters concerning the period of consolidated subsidiaries

With regard to our consolidated subsidiaries, we use and consolidate their financial statements from closings conducted on the same dates as the parent company's closings.

4. Matters concerning the accounting standard

(1) Valuation method for significant assets

1) Valuation method for securities classed as trading products (securities held for trading purpose):

Securities and derivative contracts classed as trading products and held by our company or subsidiaries are recorded at present market value.

2) Valuation method for securities not classed as trading products:

The following valuation methods are applied to securities that are not held for trading purposes:

a) Bonds that are to be held to maturity

The depreciable cost (straight-line) method is used.

b) Other securities

Securities, etc. that have market values:

The present market value is recorded on the consolidated balance sheets and differences between this and acquisition cost is incorporated into the capital account in full. The selling price is based on the moving-average cost method.

Securities, etc. that have no market values

Valued using mainly the moving-average cost method.

(2) Depreciation methods used for significant depreciable assets

1) Tangible fixed assets

Both our company and domestic consolidated subsidiaries use mainly fixed-percentage depreciation.

However, buildings acquired after 1 April 1998 (excluding the equipment, etc. they contain) are depreciated using the straight-line (fixed amount) method.

2) Intangible fixed assets and long-term prepaid expenses

The straight-line method is used.

Moreover, software for our own use is depreciated using a straight-line method with the fixed amount of depreciation being determined by the duration of its potential internal use (5 years).

(3) Handling of significant lease transaction

In the case of finance leases where ownership is not deemed to have passed to the lessee, normal accounting procedures for leases are followed.

(4) Accounting standards for significant reserves and allowances

1) Allowance for bad debts

In preparation for loss from bad debt in loans receivables, etc., the recoverable possibilities of general receivables are reviewed based on the ratio of past uncollectibles and those of specific receivables including the ones that are likely to become bad debts are individually reviewed, so that the irrecoverable amount can be estimated.

2) Reserve for bonus

To prepare for the payment of bonuses to employees, we calculated the estimated value of future payments and charged an appropriate portion of this obligation to the current period.

3) Reserves for retirement benefits

To prepare for the payment of lump sum retirement bonuses and qualified pensions, the difference between the value of such obligations and the total value of our pension assets at the end of this financial year was estimated, and the portion of the additional shortfall considered to have arisen in the current period was charged to the current period.

Past service liabilities are regarded at any time as being a number of years (10 years) that fall within the average number of years' service remaining for each employee. These liabilities are amortized and charged to the current period for which it was calculated using the straight-line method.

Actuarial gains and losses are also charged after amortizing by the straight-line method a number of years (10 years) that fall within the average number of years' service remaining for each employee.

However, in this case, the charges are recorded in the following consolidated financial year.

4) Reserve for business reorganization loss

In preparation for the loss that our company will incur from reorganizing the business operations of a consolidated subsidiary, we reviewed the condition of those operations and set aside the amount of the expected loss.

(5) Standards for translating significant assets and liabilities denominated in foreign currencies

Foreign currency denominated claims and obligations are translated into Japanese yen at the spot rate prevailing on the day the consolidated balance sheet was prepared. Currency translation losses or gains are recorded on the income statement as such.

The assets, liabilities, revenues, and expenses of foreign subsidiaries are also translated into Japanese yen at the spot rate prevailing on the day the consolidated balance sheet was compiled. Any translation losses or gains are recorded in the capital account under the heading "Foreign exchange translation adjustment".

(6) Method of significant hedge accounting

In order to hedge our exposure to cash flow fluctuations caused by borrowing at variable interest rates, we enter into interest rate swap contracts. These are handled on a case-by-case basis.

(7) Accounting for consumption tax, etc.

The tax exclusion method is applied.

5. Scope of cash and cash equivalents included in the consolidated cash flow statement

The cash movements recorded in the consolidated cash flow statement are those of cash and cash equivalents. Assets classed as cash or cash equivalents are cash on hand, deposits for which no notice of withdrawal is required, and highly liquid short-term investments that carry next to no price risk and have a maturity of less than three months.

## &lt;Change in Accounting Method&gt;

Given the requirement that “Accounting Standards Related to the Impairment of Fixed Assets” (“Written Opinion About the Establishment of Accounting Standards Related to the Impairment of Fixed Assets” (issued by the Business Accounting Deliberation Council on 9 August 2002)) and “Guidelines for Applying Accounting Standards Related to the Impairment of Fixed Assets” (Guidelines for the Application of Business Accounting Standards No. 6, issued by the Business Accounting Deliberation Council on 31 October 2003) be put into effect in the first accounting year to end on or after 31 March 2006, we began using these standards and guidelines in the current period. As a result, our net profit for the current period, prior to adjustments for taxes, etc., decreased by 165 million yen.

Moreover, the total amount of loss from asset impairment was directly deducted from the values of the corresponding assets.

## [Notes on consolidated balance sheets] (In millions of yen)

	First quarter to 30 June 2005	First quarter to 30 June 2004	Financial year to 31 March 2005
1. Accumulated depreciation of tangible fixed assets	23,853	23,273	23,547
2. Guarantee obligations (guarantee exercise anticipated)	1,426 (1,305)	2,630 (2,496)	1,542 (1,416)

In accordance with Report No.61 of the Auditing Committee of the Japanese Institute of Certified Public Accountants entitled “Auditing Procedures Concerning the Accounting for and Presentation of Guarantee Obligations and Similar”, we recognize that we bear effective responsibility for guaranteeing our obligations and therefore provide a footnote giving details of these obligations.

## 3. Subordinated borrowings

Among our long-term borrowings (including those that mature within one year), there are the following subordinated obligations (borrowings with special subordinating conditions) as defined in Article 2 of Cabinet Office Ordinance No.23 (2001) entitled “Orders Concerning the Capital Adequacy of Securities Companies”.

	First quarter to 30 June 2005	First quarter to 30 June 2004	Financial year to 31 March 2005
	51,000	42,500	50,800

## [Notes on consolidated income statement] (In millions of yen)

	First quarter from 1 April 2005 to 30 June 2005	First quarter from 1 April 2004 to 30 June 2004	Financial year from 1 April 2004 to 31 March 2005
<b>Extraordinary profits</b>			
Profit from sale of investment securities	491	4	1,675
Software licensing fees	1,800	—	—
Reversal from reserve for securities transaction liabilities	2	6	3
Reversal from allowance for bad debts	7	—	—
<b>Extraordinary losses</b>			
Loss from sale of fixed assets	—	1	13
Loss from disposition of fixed assets	23	24	594
Write-down of fixed assets	—	—	2,242
Loss from asset impairment	165	—	—
Loss from sale of investment securities	—	14	141
Write-down of investment securities	—	78	433
Write-down of golf club memberships	—	—	8
Re-amortization of future retirement and severance pay obligations in line with a change to accounting standards	—	422	1,690
Extraordinary depreciation cost	—	—	222
Provision of reserve for business reorganization loss	—	—	1,683
Provision of allowance for bad debts	—	—	96

## Data Concerning Business Results for the First Quarter

### 1. Commissions and fees received

#### (1) Breakdown by account (In millions of yen)

	First quarter from 1 April 2005 to 30 June 2005	First quarter from 1 April 2004 to 30 June 2004	% change from same period last year	Financial year from 1 April 2004 to 31 March 2005
Brokerage commissions	9,312	14,037	66.3	41,042
(Equities)	(9,278)	(13,956)	(66.5)	(40,798)
(Bonds)	(20)	(64)	(31.7)	(197)
Underwriting & selling fees	965	1,684	57.3	9,358
(Equities)	(773)	(1,377)	(56.1)	(8,277)
(Bonds)	(192)	(307)	(62.6)	(1,081)
Offering & selling fees and commissions	4,081	2,966	137.6	12,593
Other fees and commissions	4,167	3,925	106.2	16,014
Total	18,526	22,614	81.9	79,008

#### (2) Breakdown by instrument (In millions of yen)

	First quarter from 1 April 2005 to 30 June 2005	First quarter from 1 April 2004 to 30 June 2004	% change from same period last year	Financial year from 1 April 2004 to 31 March 2005
Equities	10,160	15,442	65.8	49,622
Bonds	561	762	73.7	3,013
Beneficiary securities	6,449	5,092	126.6	20,944
Others	1,354	1,316	102.9	5,427
Total	18,526	22,614	81.9	79,008

### 2. Trading profits (In millions of yen)

	First quarter from 1 April 2005 to 30 June 2005	First quarter from 1 April 2004 to 30 June 2004	% change from same period last year	Financial year from 1 April 2004 to 31 March 2005
Equities, etc.	3,995	2,876	138.9	10,036
Bonds, others	5,767	5,658	101.9	20,777
(Bonds, etc.)	(6,596)	(5,543)	(119.0)	(21,348)
(Others)	(-829)	(115)	(—)	(-570)
Total	9,763	8,535	114.4	30,814

(Reference)

**Quarterly Changes in Consolidated Statement of Income**

(In millions of yen)

	First quarter of previous financial year	Second quarter of previous financial year	Third quarter of previous financial year	Fourth quarter of previous financial year	First quarter of current financial year
Operating revenues	31,990	26,474	24,989	29,596	29,845
Commissions and fees received	22,614	18,196	17,099	21,097	18,526
Brokerage commissions	14,037	8,558	7,516	10,929	9,312
(Equities)	(13,956)	(8,507)	(7,445)	(10,889)	(9,278)
(Bonds)	(64)	(39)	(62)	(31)	(20)
Underwriting & selling fees	1,684	2,776	2,790	2,106	965
(Equities)	(1,377)	(2,551)	(2,469)	(1,879)	(773)
(Bonds)	(307)	(225)	(321)	(227)	(192)
Offering & selling fees and Other fees and commissions	2,966	2,951	2,924	3,750	4,081
3,925	3,909	3,867	4,311	4,167	
Trading profit or loss	8,535	7,517	7,031	7,729	9,763
Equities, etc.	2,876	2,193	2,631	2,335	3,995
Bonds, exchange, etc.	5,658	5,324	4,400	5,393	5,767
(Bonds, etc.)	(5,543)	(6,186)	(4,042)	(5,575)	(6,596)
(Exchange, etc.)	(115)	(-862)	(357)	(-181)	(-829)
Trading profit or loss on investment securities for sale	34	126	123	113	101
Financial revenues	805	634	734	655	1,454
Financial expenses	1,215	1,275	1,114	1,095	1,037
Net operating revenues	30,775	25,199	23,874	28,501	28,808
Selling, general and administrative expenses	25,584	24,730	22,821	25,043	25,262
Transaction expenses	3,246	3,554	3,607	3,540	3,623
Personnel expenses	14,280	12,563	11,245	12,585	12,642
Real estate expenses	3,869	3,646	3,460	3,396	3,755
Office expenses	1,452	1,808	1,387	1,843	1,664
Depreciation	1,580	2,056	1,989	2,287	2,419
Taxes and dues	419	255	275	247	409
Others	735	845	855	1,143	747
Operating profit	5,190	468	1,053	3,458	3,546
Non-operating revenues	2,511	1,226	1,913	1,038	1,643
Investment profit on equity method	68	25	26	-19	7
Others	2,442	1,201	1,886	1,057	1,636
Non-operating expenses	589	682	654	713	585
Ordinary profit	7,112	1,013	2,311	3,783	4,604
Extraordinary profits	11	605	507	554	2,300
Extraordinary losses	541	671	604	5,310	188
Net profit before taxes, etc.	6,582	947	2,214	-973	6,716
Income taxes	113	118	124	90	85
Adjustment amount for income taxes	57	28	27	207	39
Minority interest	99	66	166	-66	60
Net profit	6,312	733	1,896	-1,204	6,530