

# NIKKO CORDIAL SECURITIES INC.



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URL: [http://www.nikko.co.jp/SEC/e\\_home.html](http://www.nikko.co.jp/SEC/e_home.html)

## Non-Consolidated financial summary under Japanese GAAP for the year ended March 31, 2005

(1) Operating results ( from April 1, 2004 to March 31, 2005 )

( Millions of Yen )

	Operating revenue	Net operating revenue	Operating income
FY2004	172,653 [ (3.6) %]	169,125 [ (2.2) %]	32,034 [ (34.9) %]
FY2003	179,182	172,892	49,222

	Ordinary income	Net income
FY2004	35,826 [ (27.8) %]	20,001 [ (34.3) %]
FY2003	49,655	30,430

Note: 1. Figures are rounded down to the nearest.

Change in accounting policy: Yes

2. The percentage noted in the table above is the rate of the increase or decrease compared with the previous year.

(2) Financial condition

( Millions of Yen except percentage )

	Total assets	Shareholders' equity	Shareholders' equity ratio	Capital adequacy ratio
As of Mar.31, 2005	1,387,220	400,840	28.9 %	343.3 %
As of Mar.31, 2004	1,416,276	382,430	27.0 %	442.8 %

**STATEMENT OF FINANCIAL CONDITION**

( Millions of Yen )

	Mar. 31, 2005 (A)	Mar. 31, 2004 (B)	variance (A)-(B)
<b>&lt; ASSETS &gt;</b>			
<b>Current assets</b>	1,262,008	1,281,031	(19,023)
Cash on hand, Cash in banks	181,362	213,010	(31,647)
Cash segregated for customers and others	172,973	128,015	44,957
Trading assets	545,597	504,153	41,444
Trading securities	504,697	460,032	44,665
Derivatives	40,899	44,120	(3,221)
Margin account receivables	114,971	142,922	(27,951)
Loans on margin transactions	98,620	132,326	(33,706)
Cash collateral pledged for securities borrowing on margin transactions	16,350	10,595	5,754
Loans secured by securities	172,647	234,161	(61,513)
Cash collateral pledged for securities borrowings	172,647	234,161	(61,513)
Advance payments	2,077	647	1,429
Cash paid for subscription	9,359	4,030	5,329
Short-term guaranty deposits	23,783	14,470	9,313
Short-term loans	950	1,151	(200)
Accrued income	16,089	14,720	1,368
Deferred tax assets	15,462	15,462	-
Other current assets	6,756	8,314	(1,558)
Allowance for bad debts	(21)	(28)	6
<b>Fixed assets</b>	125,212	135,244	(10,032)
Tangible fixed assets	8,118	7,211	906
Buildings	3,654	3,401	253
Furnitures and fixtures	4,446	3,792	653
Land	17	17	-
Intangible fixed assets	2,003	1,402	600
Software	1,407	823	584
Other intangible fixed assets	595	579	16
Investments and others	115,090	126,630	(11,539)
Investment securities	39,345	24,768	14,577
Investments in subsidiaries and affiliates	16,451	15,518	932
Long-term loans	50,997	66,873	(15,875)
Long-term guaranty deposits	18,018	22,182	(4,164)
Long-term prepaid expenses	186	181	5
Deferred tax assets	28,639	42,718	(14,079)
Other investments	12,632	21,404	(8,772)
Allowance for bad debts	(51,180)	(67,017)	15,836
<b>Total assets</b>	1,387,220	1,416,276	(29,055)

**STATEMENT OF FINANCIAL CONDITION**

( Millions of Yen )

	Mar. 31, 2005 (A)	Mar. 31, 2004 (B)	variance (A)-(B)
<b>&lt; LIABILITIES &gt;</b>			
<b>Current liabilities</b>	972,838	1,016,885	(44,046)
Trading liabilities	178,464	117,092	61,372
Trading securities	139,836	70,532	69,304
Derivatives	38,628	46,559	(7,931)
Trade account payables	24,686	3,999	20,686
Margin account payables	9,080	24,719	(15,639)
Borrowings on margin transactions	2,196	7,714	(5,517)
Cash received for securities lending on margin transactions	6,884	17,005	(10,121)
Borrowings pledged by securities	376,502	401,848	(25,346)
Cash collateral received for securities lendings	134,710	211,439	(76,728)
Borrowings on Gensaki transaction	241,791	190,409	51,382
Deposits received	133,225	99,005	34,219
Guaranty deposits received	27,601	29,568	(1,967)
Short-term borrowings	93,195	89,495	3,700
Commercial paper	105,000	125,000	(20,000)
Current portion of corporate debts	-	100,000	(100,000)
Income taxes payable	949	160	789
Accrued bonuses	14,200	16,300	(2,100)
Other current liabilities	9,934	9,696	237
<b>Long-term liabilities</b>	13,001	16,465	(3,463)
Long-term borrowings	2,000	5,000	(3,000)
Accrued pension benefits	10,524	10,741	(216)
Other non-current liabilities	476	723	(246)
Statutory reserves	540	495	44
Reserve for securities transaction liabilities	540	495	44
<b>Total liabilities</b>	986,380	1,033,846	(47,465)
<b>&lt; SHAREHOLDERS' EQUITY &gt;</b>			
Common stock	100,000	100,000	-
Additional paid-in capital	290,880	290,880	-
Legal capital reserve	290,880	290,880	-
Earned Surplus	8,937	(11,063)	20,001
Retained earnings	8,937	(11,063)	20,001
Net unrealized gain on investment securities	1,022	2,613	(1,591)
<b>Total shareholders' equity</b>	400,840	382,430	18,410
<b>Total liabilities and shareholders' equity</b>	1,387,220	1,416,276	(29,055)

**STATEMENT OF OPERATIONS**

(Millions of Yen)

	<b>FY2004</b> (A) (4/1/04 ~ 3/31/05)	FY2003 (B) (4/1/03 ~ 3/31/04)	variance (A) - (B)	Ratio $\frac{<A>}{<B>}$ %
<b>Operating revenue</b>	172,653	179,182	(6,529)	96.4
Commissions	134,218	133,978	239	100.2
Net gain on trading	31,209	37,378	(6,168)	83.5
Net gain on other trading	6	3	3	205.7
Interest and dividend income	7,219	7,822	(603)	92.3
Interest expense	3,528	6,290	(2,762)	56.1
<b>Net operating revenue</b>	169,125	172,892	(3,766)	97.8
<b>Selling, general and administrative expense</b>	137,090	123,669	13,420	110.9
Brokerage, communication and other transaction related costs	21,307	15,788	5,519	135.0
Employee compensation and benefits	62,200	63,802	(1,601)	97.5
Occupancy and equipment	13,738	14,371	(632)	95.6
Data processing and other services	27,423	19,457	7,965	140.9
Depreciation and amortization	1,663	1,726	(63)	96.3
Taxes, other than income taxes	1,309	513	796	255.1
Other expenses	9,448	8,011	1,436	117.9
<b>Operating income</b>	32,034	49,222	(17,187)	65.1
Non-operating revenue	4,132	1,219	2,913	339.0
Non-operating expense	340	786	(445)	43.3
<b>Ordinary income</b>	35,826	49,655	(13,828)	72.2
Extraordinary gain	813	1,025	(212)	79.3
Extraordinary loss	1,336	2,922	(1,586)	45.7
Income before income taxes	35,304	47,758	(12,454)	73.9
Income taxes-current	131	155	(24)	84.5
Income taxes-deferred	15,171	17,172	(2,000)	88.3
<b>Net income</b>	20,001	30,430	(10,429)	65.7
Retained earnings at beginning of year	(11,063)	(41,494)	30,430	-
<b>Retained earnings at end of year</b>	8,937	(11,063)	20,001	-

## **Notes to financial statements**

The company's financial statements have been prepared in accordance with "Regulations Concerning the Terminology, Forms and Preparation Methods of Financial Statements" (MOF Ordinance No.59, 1963) as well as with the "Cabinet Office Ordinance Concerning Securities Companies" (Prime Minister's Office Ordinance and MOF Ordinance No.32, 1998) and the "Uniform Accounting Standard for Broker Dealers" (approved by the board of directors of the Japan Securities Dealers Association, November 14, 1974), in accordance with the provisions of Article 2 of the same regulations.

## **Significant accounting policies**

### **1. Valuation of financial instruments**

#### (1) Trading purposes

Securities, derivative contracts and other financial instruments classified as trading assets and liabilities are recorded at market value.

#### (2) Non-trading purposes

Securities held for non-trading purposes are accounted for as follows.

##### (i) Investment in subsidiaries and affiliates

Recorded at cost using the moving average method.

##### (ii) Other securities

###### (a) Securities with market value:

Recorded at market value. The difference between the cost using the moving average method and market value is recorded as Net unrealized gains on investment securities in Shareholders' equity on the statement of financial condition.

###### (b) Securities without market value:

Recorded at cost using the moving average method. Investments in partnership funds are recorded at net asset values based on its financial statements in proportion to the company's share.

### **2. Depreciation and amortization of fixed assets**

#### (1) Tangible fixed assets

Useful lives and salvage value for amortization are based on the Corporate Tax Law and the declining method is applied as amortization method. However, the straight-line method of depreciation has been applied for buildings acquired after April 1, 1998 (excluding facilities attached to buildings) in accordance with the amendments of the Corporate Tax Law in FY1998.

#### (2) Intangible fixed assets

Intangible fixed assets are amortized on the straight-line method. The useful life of software is the estimated period for internal use, and the useful lives of other intangible fixed assets are the periods stipulated in the Corporate Tax Law.

### **3. Accounting policies for provisions**

#### (1) Allowance for bad debts

To provide for possible losses from loans, the company estimated provision for performing loans with a prospected loss rate based on historical loss experiences, and estimated provision for non-performing loans by assessing the probability of losses specifically.

#### (2) Accrued bonuses

To provide for employee bonus payments, estimated bonuses are provided based on prescribed calculation methods.

#### (3) Accrued pension benefits

To provide for the payment of employees' retirement benefits, the company recorded accrued pension benefits in accordance with the present value of estimated future obligations and the fair value of plan assets.

**4. Accounting for lease transactions**

Financing leases other than those for which the ownership of the leased property transfers to the lessee are accounted for as ordinary rental transactions.

**5. Accounting for hedging activities**

In general, unrealized gains and losses on hedging instrument are deferred as assets or liabilities until the gains or losses on hedged instruments are realized.

**6. Accounting for consumption taxes**

Consumption taxes are accounted for based on the tax exclusion method.

**Change in significant accounting policy****Accounting standard for impairment of fixed assets**

The company applied policies for impairment of fixed assets into this financial statements in advance of compulsory implementation, subject to "Accounting Standard for Impairment of Fixed Assets" (Accounting Standards Board of Japan August 9, 2002) and "Guideline for the application of Accounting Standards for Impairment of Fixed Assets" (Guideline for the application of Accounting Standard No.6, October 13, 2003). There is no impact on income before income taxes by adapting this new accounting standards.

**Notes to statement of financial condition**

	( Millions of Yen )	
	Mar.31, 2005	Mar.31, 2004
1. Accumulated depreciation of Tangible fixed assets	13,151	13,636
2. Debt Guarantees	22,056	23,462

In accordance with Auditing Committee Report No.61 "Audit Treatment of Accounting and Reporting of Debt Guarantees and Similar Acts" issued by Japanese Institute of Certified Public Accountant, items that are recognized to constitute the equivalent of a debt guarantee are included in the notes as debt guarantees.

## 3. Subordinated borrowings

Subordinated debts (subordinated borrowings) provided in Article 2 of the "Cabinet Office Ordinance on the Capital Adequacy Rule for Securities Companies" (the Prime Ministers Office Ordinance No.23, 2001) were included in Short-term borrowings as set forth in the following.

	( Millions of Yen )	
	Mar.31, 2005	Mar.31, 2004
Subordinated borrowings	-	39,000

**Notes to statement of operations**

1. Net gain on trading for the fiscal year includes ¥ 6,153 million of net unrealized gain.

2. Details of extraordinary gain and loss

	( Millions of Yen )	
	FY 2004	FY 2003
Extraordinary gain		
Gain on sales of investment securities	813	750
Gain on sales of investments in subsidiaries and affiliates	-	30
Reversal of allowance for bad debts	-	244
Extraordinary loss		
Loss on sales of fixed assets	-	91
Loss on disposal of fixed assets	460	202
Write-off of investment securities	353	220
Reorganizing cost for overseas subsidiaries and affiliates	-	187
Provision for bad debts	-	910
Repairment and anti-earthquake reinforcement cost on branches	448	-
Restructuring cost on branches and offices	-	174
Provision for directors' retirements	30	862
Provision for securities transaction liabilities	44	274

**Reference Data < Non-consolidated >**

## 1. Commissions

## (1) Breakdown by Account

( Millions of Yen expect percentage )

	FY2004 (A) (4/1/04 ~ 3/31/05)	FY2003 (B) (4/1/03 ~ 3/31/04)	Ratio $\frac{\langle A \rangle}{\langle B \rangle}$ %
Brokerage commissions	43,436	47,487	91.5
< Equities >	< 42,930 >	< 46,008 >	< 93.3 >
< Bonds >	< 311 >	< 444 >	< 70.1 >
< Investment trusts >	< 194 >	< 1,034 >	< 18.8 >
Underwriting & selling commissions	3	1	279.1
< Bonds >	< 3 >	< 1 >	< 279.1 >
Subscription & distribution commissions	45,843	43,956	104.3
< Investment trusts >	< 28,515 >	< 30,266 >	< 94.2 >
Other commissions	44,934	42,533	105.6
< Investment trusts >	< 17,744 >	< 14,326 >	< 123.9 >
Total	134,218	133,978	100.2

## (2) Breakdown by Products

( Millions of Yen expect percentage )

	FY2004 (A) (4/1/04 ~ 3/31/05)	FY2003 (B) (4/1/03 ~ 3/31/04)	Ratio $\frac{\langle A \rangle}{\langle B \rangle}$ %
Equities	57,370	59,190	96.9
Bonds	6,713	5,554	120.9
Investment trusts	46,454	45,628	101.8
Others	23,679	23,605	100.3
Total	134,218	133,978	100.2

## 2. Net gain on trading

( Millions of Yen expect percentage )

	FY2004 (A) (4/1/04 ~ 3/31/05)	FY2003 (B) (4/1/03 ~ 3/31/04)	Ratio $\frac{\langle A \rangle}{\langle B \rangle}$ %
Equities	7,632	9,379	81.4
Fixed income and foreign exchange	23,577	27,999	84.2
< Fixed income >	< 16,204 >	< 20,343 >	< 79.7 >
< Foreign exchange >	< 7,372 >	< 7,655 >	< 96.3 >
Total	31,209	37,378	83.5



3. Equity Trading Activity (Excluding futures)

( Millions of Shares, Millions of Yen )

	FY2004 (A) (4/1/04 ~ 3/31/05)		FY2003 (B) (4/1/03 ~ 3/31/04)		Ratio A/B	
	Number of shares	Amounts	Number of shares	Amounts	Number of shares	Amounts
Total	10,382	8,725,766	19,291	12,967,277	53.8 %	67.3 %
< Proprietary >	< 864 >	< 1,128,283 >	< 1,062 >	< 1,271,572 >	< 81.4 >	< 88.7 >
< Agency >	< 9,517 >	< 7,597,482 >	< 18,229 >	< 11,695,705 >	< 52.2 >	< 65.0 >
Agent ratio	91.7 %	87.1 %	94.5 %	90.2 %		
TSE share	1.1 %	1.1 %	2.4 %	2.0 %		

4. Underwriting / Subscription / Selling

( Millions of Shares, Millions of Yen or percentage )

			FY2004 04/01/04 03/31/05	FY2003 04/01/03 03/31/04	Ratio A/B %
Underwriting	Bonds	< Face value >	30,572	45,033	67.9
* Subscription and distribution	Equities	< Number of shares >	342	246	139.1
	Equities	< Amounts >	516,785	479,569	107.8
	Bonds	< Face value >	1,566,312	1,291,869	121.2
	Invest. trusts	< Amounts >	5,174,829	5,138,749	100.7
	Others	< Amounts >	15,300	-	-

\* Including selling and distribution of private placement

5. Capital Adequacy Ratio

(Millions of Yen except percentage)

		Mar.31, 2005	Mar.31, 2004
Basic items	Total shareholders' equity (A)	398,218	379,816
Supplementary items	Unrealized gain on investment securities	1,022	2,613
	Statutory reserves	540	495
	Allowance for bad debts	21	28
	Short-term subordinated borrowings	-	39,000
	Sub - total (B)	1,583	42,137
Deductible assets (C)	119,340	130,538	
Net capital (A) + (B) - (C) (D)	280,461	291,414	
Total risk	Market Risk	34,613	23,192
	Credit Risk	12,548	14,120
	Basic Risk	34,511	28,485
	Sub - total (E)	81,673	65,799
Capital adequacy ratio (D) / (E) * 100	343.3 %	442.8 %	

Note. The table above shows calculation of capital adequacy ratio based on financial result in accordance with the provision in Securities and Exchange Law.

**QUARTERLY STATEMENT OF OPERATIONS**

(Millions of Yen)

	FY2004 1Q 04/01/04 06/30/04	FY2004 2Q 07/01/04 09/30/04	FY2004 3Q 10/01/04 12/31/04	<b>FY2004 4Q</b> 01/01/05 03/31/05	FY2003 1/4 04/01/03 03/31/04
Operating revenue	44,884	39,447	40,266	48,055	44,795
Commissions	34,697	31,535	29,084	38,900	33,494
Brokerage commissions	14,855	8,252	8,859	11,469	11,871
Underwriting & selling commissions	0	0	1	2	0
Subscription & distribution commissions	9,781	11,095	10,318	14,648	10,989
Other commissions	10,060	12,187	9,905	12,781	10,633
Net gain on trading	8,057	6,314	9,684	7,153	9,344
Net gain on other trading	0	2	1	1	0
Interest and dividend income	2,128	1,595	1,496	1,998	1,955
Interest expense	1,455	1,177	504	390	1,572
<b>Net operating revenue</b>	43,428	38,269	39,762	47,664	43,223
Selling, general and administrative expense	32,934	33,988	33,510	36,657	30,917
Brokerage, communication and other transaction related costs	4,791	5,481	5,162	5,871	3,947
Employee compensation and benefits	14,882	15,058	15,243	17,016	15,950
Occupancy and equipment	3,552	3,553	3,267	3,365	3,592
Data processing and other services	6,412	6,834	6,974	7,202	4,864
Depreciation and amortization	395	407	420	438	431
Taxes, other than income taxes	543	391	263	111	128
Other expenses	2,355	2,260	2,179	2,652	2,002
<b>Operating income</b>	10,494	4,281	6,251	11,007	12,305
Non-operating income	3,123	588	56	364	304
Non-operating expense	52	132	77	78	196
<b>Ordinary income</b>	13,565	4,736	6,231	11,293	12,413
Extraordinary gain	657	33	6	116	256
Extraordinary loss	313	143	129	750	730
Income before income taxes	13,909	4,626	6,109	10,659	11,939
Income taxes-current	33	33	32	33	38
Income taxes-deferred	6,079	1,827	2,761	4,501	4,293
<b>Net income</b>	7,796	2,765	3,315	6,124	7,607