

# NIKKO CORDIAL SECURITIES INC.



Telephone: 81(3)5644-4543

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 three months ended June 30, 2004

### (1) Operating results ( from April 1, 2004 to June 30, 2004 )

( Millions of Yen )

	Operating revenue	Net operating revenue	Operating income
FY2004 1Q (3months)	44,884 [ 5.7% ]	43,428 [ 7.8% ]	10,494 [ 11.5% ]
FY2003 1Q (3months)	42,481	40,296	9,408
FY2003	179,182	172,892	49,222

	Ordinary income	Net income
FY2004 1Q (3months)	13,565 [ 43.7% ]	7,796 [ (8.5)% ]
FY2003 1Q (3months)	9,437	8,519
FY2003	49,655	30,430

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

2. The percentage noted in Operating revenue, Net operating revenue, Operating income, Ordinary income, and Net income is the rate of the increase or decrease compared to the same period in the previous year.

### (2) Financial condition

( Millions of Yen except percentage )

	Total assets	Shareholders' equity	Shareholders' equity ratio	Capital adequacy ratio
As of Jun.30, 2004	1,390,626	388,235	27.9 %	423.6 %
As of Jun.30, 2003	1,330,752	358,364	26.9	431.9
As of Mar.31, 2004	1,416,276	382,430	27.0	442.8

**STATEMENT OF FINANCIAL CONDITION**

( Millions of Yen )

	Jun. 30, 2004 (A)	Jun. 30, 2003 (B)	variance (A) - (B)	Mar. 31, 2004
< ASSETS >				
Current assets	1,259,971	1,175,470	84,501	1,281,031
Cash on hand, Cash in banks	155,338	174,661	(19,323)	213,010
Cash segregated for customers and others	132,242	86,908	45,333	128,015
Trading assets	533,914	427,055	106,859	504,153
Trading securities	490,367	371,679	118,687	460,032
Derivatives	43,547	55,376	(11,828)	44,120
Trading receivables	-	620	(620)	-
Margin account receivables	125,406	68,594	56,812	142,922
Loans on margin transactions	115,812	56,351	59,460	132,326
Cash collateral pledged for securities borrowing on margin transactions	9,594	12,243	(2,648)	10,595
Loans secured by securities	252,132	357,636	(105,503)	234,161
Cash collateral pledged for securities borrowings	252,132	357,636	(105,503)	234,161
Advance payments	966	4,990	(4,023)	647
Cash paid for subscription	4,351	8,112	(3,761)	4,030
Short-term loans	1,209	1,253	(43)	1,151
Deferred tax assets	15,462	15,849	(387)	15,462
Others	38,971	30,001	8,970	37,505
Allowance for bad debts	(25)	(214)	189	(28)
Non-current assets	130,655	155,282	(24,627)	135,244
Tangible fixed assets	7,083	7,567	(484)	7,211
Intangible fixed assets	1,465	1,420	44	1,402
Investments and others	122,106	146,294	(24,188)	126,630
Investment securities	23,612	25,514	(1,901)	24,768
Investment in subsidiaries and affiliates	15,518	15,510	8	15,518
Long-term loans	66,870	66,906	(35)	66,873
Long-term guaranty deposits	24,330	24,247	83	22,182
Deferred tax assets	38,005	60,902	(22,897)	42,718
Others	20,906	19,438	1,468	21,585
Allowance for bad debts	(67,137)	(66,223)	(913)	(67,017)
Total assets	1,390,626	1,330,752	59,874	1,416,276

**STATEMENT OF FINANCIAL CONDITION**

( Millions of Yen )

	Jun. 30, 2004 (A)	Jun. 30, 2003 (B)	variance (A) - (B)	Mar. 31, 2004
<b>&lt; LIABILITIES &gt;</b>				
<b>Current liabilities</b>	<b>984,967</b>	<b>769,866</b>	<b>215,101</b>	<b>1,016,885</b>
Trading liabilities	151,782	163,075	(11,292)	117,092
Trading securities	104,163	108,755	(4,591)	70,532
Derivatives	47,618	54,320	(6,701)	46,559
Trading payables	5,749	-	5,749	3,999
Margin account payables	8,978	26,085	(17,107)	24,719
Borrowings on margin transactions	1,007	5,733	(4,726)	7,714
Cash received for securities lending on margin transactions	7,970	20,351	(12,380)	17,005
Borrowings pledged by securities	313,226	411,109	(97,882)	401,848
Cash collateral received for securities lendings	212,070	305,647	(93,577)	211,439
Borrowings on Gensaki transaction	101,156	105,461	(4,305)	190,409
Deposits received	118,949	86,526	32,422	99,005
Guaranty deposits received	33,079	25,994	7,084	29,568
Short-term borrowings	103,495	12,595	90,900	89,495
Commercial paper	135,000	30,000	105,000	125,000
Current portion of corporate debts	100,000	-	100,000	100,000
Income taxes payable	316	40	276	160
Others	14,390	14,440	(49)	25,996
<b>Non-current liabilities</b>	<b>16,856</b>	<b>202,220</b>	<b>(185,364)</b>	<b>16,465</b>
Corporate debts	-	100,000	(100,000)	-
Long-term borrowings	5,000	90,000	(85,000)	5,000
Accrued pension benefits	11,132	11,401	(269)	10,741
Others	723	819	(95)	723
Statutory reserves	567	301	266	495
<b>Total liabilities</b>	<b>1,002,391</b>	<b>972,388</b>	<b>30,003</b>	<b>1,033,846</b>
<b>&lt; SHAREHOLDERS' EQUITY &gt;</b>				
Common stock	100,000	100,000	-	100,000
Additional paid-in capital	290,880	290,880	-	290,880
Legal capital reserve	290,880	290,880	-	290,880
Retained earnings	(3,267)	(32,974)	29,707	(11,063)
Unappropriated retained earnings	(3,267)	(32,974)	29,707	(11,063)
Net unrealized gain on investment securities	622	458	163	2,613
<b>Total shareholders' equity</b>	<b>388,235</b>	<b>358,364</b>	<b>29,871</b>	<b>382,430</b>
<b>Total liabilities and shareholders' equity</b>	<b>1,390,626</b>	<b>1,330,752</b>	<b>59,874</b>	<b>1,416,276</b>

**STATEMENT OF OPERATIONS**

( Millions of Yen )

	FY2004 <A> (4/1/04 ~ 6/30/04)	FY2003 <B> (4/1/03 ~ 6/30/03)	Ratio $\frac{\text{<A>}}{\text{<B>}}$ %	FY2003 (4/1/03 ~ 3/31/04)
Operating revenue	44,884	42,481	105.7	179,182
Commissions	34,697	28,189	123.1	133,978
Net gain on trading	8,057	12,171	66.2	37,378
Net gain on other trading	0	1	68.3	3
Interest and dividend income	2,128	2,119	100.5	7,822
Interest expense	1,455	2,185	66.6	6,290
Net operating revenue	43,428	40,296	107.8	172,892
Selling, general and administrative expense	32,934	30,887	106.6	123,669
Floor brokerage, communication and other transaction related costs	4,791	3,484	137.5	15,788
Employee compensation and benefits	14,882	17,066	87.2	63,802
Occupancy and equipment	3,552	3,728	95.3	14,371
Data processing and other services	6,412	3,952	162.2	19,457
Depreciation and amortization	395	430	91.9	1,726
Taxes, other than income taxes	543	205	264.2	513
Other expenses	2,355	2,019	116.6	8,011
Operating income	10,494	9,408	111.5	49,222
Non-operating revenue	3,123	347	898.2	1,219
Non-operating expense	52	319	16.4	786
Ordinary income	13,565	9,437	143.7	49,655
Extraordinary gain	657	140	467.6	1,025
Extraordinary loss	313	942	33.3	2,922
Income before income taxes	13,909	8,635	161.1	47,758
Income taxes-current	33	36	91.7	155
Income taxes-deferred	6,079	79	7,622.0	17,172
Net income	7,796	8,519	91.5	30,430
Retained earnings at the beginning of period	(11,063)	(41,494)	-	(41,494)
Retained earnings at the end of period	(3,267)	(32,974)	-	(11,063)

## **Notes to quarterly financial statements**

The company's quarterly financial statements have been prepared in accordance with the "Regulations Concerning the Terminology, Forms and Preparation Methods of Interim Financial Statements" (MOF Ordinance No.38, 1977) 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 38 and 57 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

*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 (losses) on investment securities in Shareholders' equity on the statement of financial condition.

*Securities without market value:*

Recorded at cost using the moving average method.

### 2. Depreciation and amortization of fixed assets

#### (1) Tangible fixed assets

Useful lives and salvage value for depreciation are based on the Corporate Tax Law and the declining method is applied as depreciation 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 assessed provision based on products loss rate from historical loss experience for performing loans, and estimated provision for identified loans from probable losses respectively.

#### (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 or losses on hedged instruments 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.

**Notes to statement of financial condition**

( Millions of Yen )

1. Accumulated depreciation of tangible fixed assets	Jun.30, 2004	Jun.30, 2003	Mar.31, 2004
	13,840	13,368	13,636

2. Debt guarantees	22,400	25,096	23,462
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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 note as Debt guarantees.

3. Subordinated borrowings

The table below shows 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), which were included in Short-term borrowings or Long-term borrowings.

( Millions of Yen )

	Jun.30, 2004	Jun.30, 2003	Mar.31, 2004
Short-term borrowings	39,000	-	39,000
Long-term borrowings	-	39,000	-

**Notes to statement of operations**

( Millions of Yen)

Details of extraordinary gain or loss	FY2004 1Q (3months)	FY2003 1Q (3months)	FY2003
Extraordinary gain			
Gain on sales of investment securities	657	127	750
Gain on sales of investment in subsidiaries and affiliates	-	-	30
Reversal of allowance for bad debts	-	13	244
Extraordinary loss			
Loss on sales of fixed assets	-	-	91
Loss on disposal of fixed assets	-	-	202
Write-off of investment securities	211	-	220
Restructuring overseas subsidiaries and affiliates	-	-	187
Provision for bad debts	-	-	910
Restructuring cost on branches and offices	-	-	174
Payment for directors' retirements	30	862	862
Provision for securities transaction liabilities	72	79	274

**Reference Data < Non-consolidated >**

## 1. Commissions

## (1) Breakdown by Categories

( Millions of Yen except percentage )

	FY2004 1Q	FY2003 1Q	Ratio	FY2003
	<A> (4/1/04 ~ 6/30/04)	<B> (4/1/03 ~ 6/30/03)	$\frac{\text{<A>}}{\text{<B>}}$ %	(4/1/03 ~ 3/31/04)
Brokerage commissions	14,855	8,539	174.0	47,487
< Equities >	< 14,685 >	< 8,061 >	< 182.2 >	< 46,008 >
< Bonds >	< 85 >	< 157 >	< 54.2 >	< 444 >
< Investment trusts >	< 84 >	< 320 >	< 26.4 >	< 1,034 >
Underwriting & selling commissions	0	0	15.5	1
< Bonds >	< 0 >	< 0 >	< 15.5 >	< 1 >
Subscription & distribution commissions	9,781	9,314	105.0	43,956
< Investment trusts >	< 6,781 >	< 7,719 >	< 87.8 >	< 30,266 >
Other commissions	10,060	10,335	97.3	42,533
< Investment trusts >	< 4,197 >	< 3,201 >	< 131.1 >	< 14,326 >
Total	34,697	28,189	123.1	133,978

## (2) Breakdown by Products

( Millions of Yen except percentage )

	FY2004 1Q	FY2003 1Q	Ratio	FY2003
	<A> (4/1/04 ~ 6/30/04)	<B> (4/1/03 ~ 6/30/03)	$\frac{\text{<A>}}{\text{<B>}}$ %	(4/1/03 ~ 3/31/04)
Equities	16,938	10,057	168.4	59,190
Bonds	1,743	823	211.7	5,554
Investment trusts	11,063	11,241	98.4	45,628
Others	4,951	6,066	81.6	23,605
Total	34,697	28,189	123.1	133,978

## 2. Net gain (loss) on trading

( Millions of Yen except percentage )

	FY2004 1Q	FY2003 1Q	Ratio	FY2003
	<A> (4/1/04 ~ 6/30/04)	<B> (4/1/03 ~ 6/30/03)	$\frac{\text{<A>}}{\text{<B>}}$ %	(4/1/03 ~ 3/31/04)
Equities, etc.	2,413	2,239	107.8	9,379
Bonds, forex, etc.	5,644	9,931	56.8	27,999
< Bonds, etc. >	< 3,101 >	< 8,169 >	< 38.0 >	< 20,343 >
< Forex, etc. >	< 2,542 >	< 1,762 >	< 144.3 >	< 7,655 >
Total	8,057	12,171	66.2	37,378

3. Equity Trading Activity (Excluding futures)

(Millions of Shares, Millions of Yen except percentage)

	FY2004 1Q <A> (4/1/04~ 6/30/04)		FY2003 1Q <B> (4/1/03~ 6/30/03)		Ratio $\frac{\text{<A>}}{\text{<B>}}$ %		FY2003 (4/1/03 ~ 3/31/04)	
	Number of shares	Amount	Number of shares	Amount	Number of shares	Amount	Number of shares	Amount
Total	4,076	3,568,543	4,214	2,048,715	96.7 %	174.2 %	19,291	12,967,277
< Proprietary >	< 242 >	< 309,403 >	< 284 >	< 276,914 >	< 85.4 >	< 111.7 >	< 1,062 >	< 1,271,572 >
< Agency >	< 3,833 >	< 3,259,140 >	< 3,930 >	< 1,771,801 >	< 97.5 >	< 183.9 >	< 18,229 >	< 11,695,705 >
Agent ratio	94.0 %	91.3 %	93.3 %	86.5 %			94.5 %	90.2 %
TSE share	1.7 %	1.5 %	2.3 %	1.8 %			2.4 %	2.0 %

4. Underwriting / Subscription / Selling

(Millions of Shares, Millions of Yen except percentage)

		FY2004 1Q <A> (4/1/04~ 6/30/04)	FY2003 1Q <B> (4/1/03~ 6/30/03)	Ratio $\frac{\text{<A>}}{\text{<B>}}$ %	FY2003 (4/1/03 ~ 3/31/04)
Underwriting	Bonds < Face value >	19,706	16,848	117.0	45,033
* Subscription and distribution	Equities < Number of shares >	10	36	29.0	246
	Equities < Amounts >	68,286	51,101	133.6	479,569
	Bonds < Face value >	397,441	302,848	131.2	1,291,869
	Invest. trusts < Amounts >	1,539,415	1,095,016	140.6	5,138,749

\* Including selling and distribution of private placement

5. Capital Adequacy Ratio

(Millions of Yen except percentage)

		Jun. 30, 2004	Jun. 30, 2003	Mar. 31, 2004
Basic items	Capital (A)	387,612	357,905	379,816
Supplementary items	Unrealized gain on investment securities	622	458	2,613
	Statutory reserves	567	301	495
	Allowance for bad debts	25	42	28
	Short-term subordinated borrowings	39,000	39,000	39,000
	Sub - total (B)	40,215	39,802	42,137
	Deductible assets (C)	127,082	150,846	130,538
	Net capital (A) + (B) - (C) (D)	300,745	246,861	291,414
Total risk	Market Risk	25,399	15,216	23,192
	Credit Risk	13,323	13,232	14,120
	Basic Risk	32,259	28,701	28,485
	Sub - total (E)	70,982	57,150	65,799
	Capital adequacy ratio (D) / (E)*100	423.6 %	431.9 %	442.8 %

Note.1 The table above shows calculation of capital adequacy ratio based on financial result in accordance with provision in Securities and Exchange Law.

Note.2 "Short-term subordinated borrowings" described above is borrowings under a subordinated contract.

Amount : 39,000 million yen

Effective date : March 27, 2002

Maturity date : March 28, 2005



**QUARTERLY STATEMENT OF OPERATIONS**

(Millions of Yen)

	FY2003 1Q 04/01/03 06/30/03	FY2003 2Q 07/01/03 09/30/03	FY2003 3Q 10/01/03 12/31/03	FY2003 4Q 01/01/04 03/31/04	FY2004 1Q 04/01/04 06/30/04
Operating revenue	42,481	46,521	44,112	46,067	44,884
Commissions	28,189	35,123	35,193	35,471	34,697
Brokerage commissions	8,539	13,807	12,631	12,508	14,855
Underwriting & selling commissions	0	0	0	0	0
Subscription & distribution commissions	9,314	11,039	11,863	11,738	9,781
Other commissions	10,335	10,276	10,697	11,224	10,060
Net gain on trading	12,171	9,613	7,050	8,543	8,057
Net gain on other trading	1	0	0	0	0
Interest and dividend income	2,119	1,783	1,868	2,052	2,128
Interest expense	2,185	1,464	1,355	1,284	1,455
Net operating revenue	40,296	45,056	42,756	44,782	43,428
Selling, general and administrative expense	30,887	32,084	30,053	30,644	32,934
Floor brokerage, communication and other transaction related costs	3,484	3,890	3,945	4,467	4,791
Employee compensation and benefits	17,066	18,042	14,640	14,053	14,882
Occupancy and equipment	3,728	3,494	3,479	3,668	3,552
Data processing and other services	3,952	4,147	5,603	5,753	6,412
Depreciation and amortization	430	435	435	425	395
Taxes, other than income taxes	205	98	115	94	543
Other expenses	2,019	1,975	1,834	2,181	2,355
Operating income	9,408	12,972	12,703	14,138	10,494
Non-operating revenue	347	121	333	416	3,123
Non-operating expense	319	171	16	279	52
Ordinary income	9,437	12,922	13,020	14,275	13,565
Extraordinary gain	140	433	35	416	657
Extraordinary loss	942	245	127	1,608	313
Income before income taxes	8,635	13,110	12,928	13,083	13,909
Income taxes-current	36	3,664	7,800	(11,345)	33
Income taxes-deferred	79	2,134	(1,727)	16,685	6,079
Net income	8,519	7,312	6,856	7,742	7,796