

October 26, 2006

**NIKKO CORDIAL SECURITIES INC.**

Telephone: 81(3)5644-4483

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 six months ended September 30, 2006**

(1) Operating results ( from April 1, 2006 to September 30, 2006 )

( Millions of Yen except percentage )

	Operating revenue	Net operating revenue	Operating income
FY2006 2Q (6 months)	121,469 [ 10.9% ]	120,488 [ 10.8% ]	36,535 [ 1.4% ]
FY2005 2Q (6 months)	109,506	108,710	36,015
FY2005	247,748	246,359	91,299

	Ordinary income	Net income
FY2006 2Q (6 months)	37,492 [ 2.0% ]	20,889 [ -1.0% ]
FY2005 2Q (6 months)	36,758	21,097
FY2005	95,480	59,992

Note: 1. Change in accounting policy: No

2. The percentage noted in Operating revenue, Net operating revenue, Operating income, Ordinary income, and Net income indicates the rate of the change compared to the same period in the previous year.

(2) Financial condition

( Millions of Yen except percentage )

	Total assets	Net assets	Equity ratio	Capital adequacy ratio
As of Sep. 30, 2006	1,370,996	448,124	32.7 %	611.1 %
As of Sep. 30, 2005	1,419,493	420,702	29.6	359.4
As of Mar. 31, 2006	1,319,130	457,885	34.7	557.6

Note: The figures as of September 30, 2005 and March 31, 2006 previously stated as Shareholders' equity and Shareholders' equity ratio are stated as Net assets and Equity ratio, respectively.

STATEMENT OF FINANCIAL CONDITION

( Millions of Yen )

	Sep. 30, 2006 (A)	Sep. 30, 2005 (B)	variance (A) - (B)	Mar. 31, 2006
<b>&lt; ASSETS &gt;</b>				
<b>Current assets</b>	<b>1,289,307</b>	<b>1,310,449</b>	<b>(21,142)</b>	<b>1,242,783</b>
Cash on hand, Cash in banks	109,413	181,921	(72,508)	227,419
Cash segregated for customers and others	170,546	200,940	(30,393)	203,142
Trading assets	483,835	511,515	(27,680)	339,240
Trading securities	451,264	471,999	(20,734)	304,142
Derivatives	32,570	39,516	(6,945)	35,098
Trading receivables	-	1,348	(1,348)	-
Margin account receivables	154,592	114,981	39,611	202,181
Loans on margin transactions	153,013	95,976	57,036	200,451
Cash collateral pledged for securities borrowing on margin transactions	1,579	19,004	(17,425)	1,730
Loans secured by securities	323,692	226,911	96,780	199,772
Cash collateral pledged for securities borrowings	323,692	226,911	96,780	199,772
Advance payments	277	686	(408)	259
Cash paid for subscription	8,659	10,863	(2,203)	7,913
Short-term loans	521	723	(202)	310
Deferred tax assets	5,558	15,462	(9,903)	15,657
Others	32,359	45,115	(12,755)	47,022
Allowance for bad debts	(150)	(21)	(129)	(138)
<b>Non-current assets</b>	<b>81,689</b>	<b>109,044</b>	<b>(27,355)</b>	<b>76,346</b>
Tangible fixed assets	8,379	7,191	1,188	7,976
Intangible fixed assets	2,200	1,789	411	1,897
Investments and others	71,108	100,063	(28,954)	66,472
Investment securities	20,076	39,811	(19,734)	21,057
Investments in subsidiaries and affiliates	13,475	16,469	(2,994)	8,817
Long-term loans	5,217	11,011	(5,793)	11,077
Long-term guarantee deposits	16,468	17,673	(1,204)	15,988
Deferred tax assets	8,222	13,101	(4,878)	7,712
Others	12,998	13,127	(128)	12,974
Allowance for bad debts	(5,350)	(11,131)	5,780	(11,154)
<b>Total assets</b>	<b>1,370,996</b>	<b>1,419,493</b>	<b>(48,497)</b>	<b>1,319,130</b>

## STATEMENT OF FINANCIAL CONDITION

( Millions of Yen )

	Sep. 30, 2006 (A)	Sep. 30, 2005 (B)	variance (A) - (B)	Mar. 31, 2006
<b>&lt; LIABILITIES &gt;</b>				
<b>Current liabilities</b>	919,862	984,091	(64,228)	858,471
Trading liabilities	146,455	174,402	(27,946)	128,162
Trading securities	114,724	135,029	(20,305)	93,968
Derivatives	31,731	39,372	(7,641)	34,193
Trading payables	18,953	-	18,953	6,463
Margin account payables	9,015	14,687	(5,672)	8,907
Borrowings on margin transactions	3,280	3,216	64	5,137
Cash received for securities lending on margin transactions	5,734	11,471	(5,737)	3,770
Borrowings pledged by securities	198,787	423,997	(225,210)	325,088
Cash collateral received for securities lendings	171,721	175,107	(3,385)	235,458
Borrowings on Gensaki transaction	27,065	248,890	(221,824)	89,630
Deposits received	183,360	190,414	(7,053)	196,892
Guarantee deposits received	38,171	37,727	443	47,367
Short-term borrowings	266,195	122,395	143,800	76,395
Commercial paper	33,000	-	33,000	-
Income taxes payable	5,483	724	4,758	23,140
Others	20,440	19,741	699	46,054
<b>Non-current liabilities</b>	2,210	14,071	(11,860)	2,028
Long-term borrowings	-	2,000	(2,000)	-
Accrued pension benefits	1,696	11,712	(10,016)	1,675
Others	513	358	155	353
Statutory reserves	798	629	169	744
<b>Total liabilities</b>	922,871	998,791	(75,919)	861,244
<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
Retained earnings	-	28,434	-	65,730
Unappropriated retained earnings	-	28,434	-	65,730
Net unrealized gain on investment securities	-	1,386	-	1,274
<b>Total shareholders' equity</b>	-	420,702	-	457,885
<b>Total liabilities and shareholders' equity</b>	-	1,419,493	-	1,319,130
<b>&lt; NET ASSETS &gt;</b>				
<b>Shareholders' equity</b>	447,500	-	-	-
Common stock	100,000	-	-	-
Additional paid-in capital	290,880	-	-	-
Legal capital reserve	290,880	-	-	-
Retained earnings	56,619	-	-	-
Other retained earnings	56,619	-	-	-
Unappropriated retained earnings	56,619	-	-	-
Valuation and translation adjustments	624	-	-	-
Net unrealized gain on investment securities	624	-	-	-
<b>Total Net Assets</b>	448,124	-	-	-
<b>Total Liabilities and Net Assets</b>	1,370,996	-	-	-

STATEMENT OF OPERATIONS

( Millions of Yen except percentage )

	FY2006 2Q <A> (4/1/06 ~ 9/30/06)	FY2005 2Q <B> (4/1/05 ~ 9/30/05)	Ratio <A> <B>	FY2005 (4/1/05~ 3/31/06)
Operating revenue	121,469	109,506	110.9 %	247,748
Commissions	98,633	82,116	120.1	192,965
Net gain on trading	19,263	23,733	81.2	47,651
Net gain on other trading	0	0	54.5	1
Interest and dividend income	3,571	3,654	97.7	7,129
Interest expense	981	795	123.3	1,388
Net operating revenue	120,488	108,710	110.8	246,359
Selling, general and administrative expense	83,952	72,695	115.5	155,060
Brokerage, communication and other transaction related costs	10,799	8,926	121.0	20,221
Employee compensation and benefits	41,937	37,138	112.9	79,179
Occupancy	8,669	6,751	128.4	14,596
Data processing and other services	15,359	13,379	114.8	27,239
Depreciation and amortization	918	824	111.4	1,690
Taxes, other than income taxes	876	933	93.8	1,948
Others	5,392	4,741	113.7	10,183
Operating income	36,535	36,015	101.4	91,299
Non-operating revenue	1,048	845	124.1	4,400
Non-operating expense	91	101	90.0	219
Ordinary income	37,492	36,758	102.0	95,480
Extraordinary gain	147	179	82.2	16,026
Extraordinary loss	1,332	479	277.9	8,758
Income before income taxes	36,307	36,458	99.6	102,748
Income taxes-current	5,383	73	7,340.2	22,197
Income taxes-deferred	10,034	15,287	65.6	20,558
Net income	20,889	21,097	99.0	59,992
Retained earnings at beginning of period	-	7,337	-	7,337
Interim dividend	-	-	-	1,600
Retained earnings at end of period	-	28,434	-	65,730

**STATEMENT OF CHANGES IN NET ASSETS**

FY2006 (from April 1, 2006 to September 30, 2006)

( Millions of Yen )

	Shareholders' Equity				Valuation and translation adjustments	Total Net Assets
	Common stock	Additional paid-in capital	Retained earnings	Total		
		Legal capital reserve	Other retained earnings		Net unrealized gain on investment securities	
			Unappropriated retained earnings			
Balance at beginning of period	100,000	290,880	65,730	456,610	1,274	457,885
Changes during the period						
Dividends from retained earnings			(30,000)	(30,000)		(30,000)
Net income			20,889	20,889		20,889
Net changes of Net Assets other than Shareholders' equity					(650)	(650)
Total changes	-	-	(9,110)	(9,110)	(650)	(9,760)
Balance at end of period	100,000	290,880	56,619	447,500	624	448,124

## Notes to interim financial statements

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

## Accounting policies

### 1. Valuation of financial instruments

#### (1) Trading purposes

Securities and derivative contracts 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) Investments 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 gain on investment securities in Net assets on the statement of financial condition.

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

Recorded at cost using the moving average method. Investments in partnership funds are consolidated in proportion to the company's interests, but certain investments in partnerships which will not have material effect on financial statement are recorded as investment securities at net asset value based on its financial statements in proportion to the company's interests.

### 2. Depreciation and amortization

#### (1) Tangible fixed assets

Tangible fixed assets are depreciated on the declining-balance method by using the useful lives and remaining balances stipulated in the Corporate Tax Law. However, the buildings acquired after April 1, 1998 (excluding facilities attached to buildings) are depreciated on the straight-line method 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 from probable losses respectively.

#### (2) Accrued bonuses

To provide for employee, director and executive officer bonus payments, accrued bonuses are estimated based on prescribed calculation methods.

#### (3) Accrued pension benefits

To provide for the payment of annuities, 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 rental.

### 5. Accounting for hedging activities

Deferral method is applied for hedge accounting, in general.

### 6. Accounting for consumption taxes

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

Changes in basis for the financial statements

## Presentation of Net Assets in the Balance Sheet

The Company adopted "Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Accounting Standards Board of Japan, Statement No. 5, December 9, 2005), and "Implementation Guidance on Accounting Standards for Presentation of Net Assets in the Balance Sheet" (Accounting Standards Board of Japan, Statement No. 8, December 9, 2005) from this fiscal interim period. Total shareholders' equity under the previous accounting standards at end of this period was 448,124 yen.

Notes to statement of financial condition

	( Millions of Yen )		
	<u>Sep. 30, 2006</u>	<u>Sep. 30, 2005</u>	<u>Mar. 31, 2006</u>
1. Accumulated depreciation of Tangible fixed assets	12,279	12,797	12,378
2. Debt guarantees	19,747	22,575	22,715

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.

Notes to statement of operations

## Details of extraordinary gain and loss

	( Millions of Yen )		
	<u>FY2006 2Q</u> <u>(6 months)</u>	<u>FY2005 2Q</u> <u>(6 months)</u>	<u>FY2005</u>
Extraordinary gain			
Gain on sales of investment securities	137	130	1,743
Gain on sales of investments in subsidiaries and affiliates	-	-	14,282
Reversal of allowance for bad debts	10	48	-
Extraordinary loss			
Loss on sales of fixed assets	-	114	113
Loss on disposal of fixed assets	261	176	528
Write-off of investment securities	142	-	2,758
Contribution to the securities market improvement fund	-	-	86
Reorganizing cost for overseas subsidiaries and affiliates	800	-	-
Provision for directors' retirements	73	99	99
Loss on termination of retirement benefit system	-	-	4,967
Provision for securities transaction liabilities	54	89	204

## Subsequent event

### Decrease in legal capital reserve

Decrease in legal capital reserve was resolved by the board of directors held on October 10, 2006 and consequently approved by the extraordinary shareholders' meeting held on October 23, 2006.

#### 1. Purpose of decrease in legal capital reserve

The company decreased certain amount of legal capital reserve following Paragraph 1, Article 448 of Company Law, and recognized those as other capital surplus. This procedure is performed to respond to the capital policy of the parent company, Nikko Cordial Corporation.

#### 2. Procedure for decrease in legal capital reserve

The company decreased its legal capital reserve by ¥265.8 billion, from ¥290.8 billion to ¥25 billion, and recognized the corresponding amount as other capital surplus. The company will pay out 200 billion yen out of ¥265.8 billion to a shareholder, Nikko Cordial Corporation, as dividends.

#### 3. Schedule

Board Meeting Resolution	October 10, 2006
Official announcement for creditors to object	October 13, 2006
Extraordinary shareholders' meeting	October 23, 2006
Deadline for objection from creditors	November 13, 2006
Effective date of decrease in legal capital reserve	November 14, 2006



Reference Data

## 1.Commissions

## (1) Breakdown by Account

( Millions of Yen except percentage )

	FY2006 2Q <A> (4/1/06 ~ 9/30/06)	FY2005 2Q <B> (4/1/05 ~ 9/30/05)	Ratio $\frac{\text{<A>}}{\text{<B>}}$	FY2005 (4/1/05 ~ 3/31/06)
Brokerage commissions	19,466	24,396	79.8 %	65,195
< Equities >	< 19,181 >	< 24,189 >	< 79.3 >	< 64,700 >
< Bonds >	< 203 >	< 105 >	< 193.9 >	< 305 >
< Investment trusts >	< 81 >	< 101 >	< 80.1 >	< 189 >
Underwriting & selling commissions	-	3	-	5
< Bonds >	< - >	< 3 >	< - >	< 5 >
Subscription & distribution commissions	45,615	32,879	138.7	71,660
< Investment trusts >	< 38,723 >	< 25,957 >	< 149.2 >	< 54,688 >
Other commissions	33,551	24,837	135.1	56,103
< Investment trusts >	< 16,705 >	< 11,007 >	< 151.8 >	< 25,557 >
Total	98,633	82,116	120.1	192,965

## (2) Breakdown by Products

( Millions of Yen except percentage )

	FY2006 2Q <A> (4/1/06 ~ 9/30/06)	FY2005 2Q <B> (4/1/05 ~ 9/30/05)	Ratio $\frac{\text{<A>}}{\text{<B>}}$	FY2005 (4/1/05 ~ 3/31/06)
Equities	24,464	29,612	82.6 %	79,054
Bonds	3,129	2,788	112.2	5,836
Investment trusts	55,510	37,066	149.8	80,435
Others	15,529	12,649	122.8	27,637
Total	98,633	82,116	120.1	192,965

## 2.Net gain on Trading

( Millions of Yen except percentage )

	FY2006 2Q <A> (4/1/06 ~ 9/30/06)	FY2005 2Q <B> (4/1/05 ~ 9/30/05)	Ratio $\frac{\text{<A>}}{\text{<B>}}$	FY2005 (4/1/05 ~ 3/31/06)
Equities	1,620	5,300	30.6 %	10,802
Fixed income and foreign exchange	17,642	18,433	95.7	36,848
< Fixed income >	< 9,711 >	< 13,401 >	< 72.5 >	< 23,199 >
< Foreign exchange >	< 7,931 >	< 5,031 >	< 157.6 >	< 13,649 >
Total	19,263	23,733	81.2	47,651

## 3. Equity Trading Activity (Excluding futures)

(Millions of Shares, Millions of Yen except percentage)

	FY2006 2Q <A> (4/1/06~ 9/30/06)		FY2005 2Q <B> (4/1/05~ 9/30/05)		Ratio — <A> <B>		FY2005 (4/1/05 ~ 3/31/06)	
	Number of shares	Amount	Number of shares	Amount	Number of shares	Amount	Number of shares	Amount
Total	3,129	3,492,782	5,746	4,304,530	54.5 %	81.1 %	12,499	11,165,497
< Proprietary >	< 321 >	< 482,264 >	< 623 >	< 713,632 >	< 51.5 >	< 67.6 >	< 1,250 >	< 1,624,475 >
< Agency >	< 2,808 >	< 3,010,518 >	< 5,122 >	< 3,590,897 >	< 54.8 >	< 83.8 >	< 11,249 >	< 9,541,022 >
Agent ratio	89.7 %	86.2 %	89.1 %	83.4 %			90.0 %	85.5 %
TSE share	0.5 %	0.5 %	0.9 %	0.8 %			0.9 %	0.8 %

## 4. Underwriting / Subscription / Selling

(Millions of Shares, Millions of Yen except percentage)

			FY2006 2Q <A> (4/1/06~ 9/30/06)	FY2005 2Q <B> (4/1/05~ 9/30/05)	Ratio — <A> <B>	FY2005 (4/1/05 ~ 3/31/06)
Underwriting	Bonds	< Face value >	-	35,266	- %	72,901
* Subscription and distribution	Equities	< Number of shares >	94	20	462.8	111
	Equities	< Amounts >	280,535	207,963	134.9	553,493
	Bonds	< Face value >	743,000	866,357	85.8	1,641,283
	Invest. trusts	< Amounts >	3,531,504	3,216,979	109.8	7,533,532
	Others	< Amounts >	14,811	18,931	78.2	37,284

\* Including selling and distribution of private placement

## 5. Capital Adequacy Ratio

(Millions of Yen except percentage)

		Sep. 30, 2006	Sep. 30, 2005	Mar. 31, 2006
Basic items	Capital (A)	447,500	417,715	426,610
Supplementary items	Unrealized gain on investment securities	624	1,386	1,274
	Statutory reserves	798	629	744
	Allowance for bad debts	147	21	138
	Sub - total (B)	1,570	2,037	2,156
Deductible assets (C)	79,049	103,217	72,725	
Net capital (A) + (B) - (C) (D)	370,020	316,535	356,041	
Total risk	Market Risk	6,148	40,523	13,304
	Credit Risk	13,708	12,753	14,556
	Basic Risk	40,692	34,778	35,987
	Sub - total (E)	60,549	88,055	63,848
Capital adequacy ratio (D) / (E)*100	611.1 %	359.4 %	557.6 %	

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 )

	FY2006 1Q 04/01/06 06/30/06	FY2006 2Q 07/01/06 09/30/06	FY2005 2Q 07/01/05 09/30/05	1/4 of FY2005 04/01/05 03/31/06
Operating revenue	63,255	58,214	60,811	61,937
Commissions	52,950	45,682	47,103	48,241
Brokerage commissions	11,188	8,278	15,125	16,298
Underwriting & selling commissions	-	-	1	1
Subscription & distribution commissions	26,411	19,203	17,798	17,915
Other commissions	15,351	18,200	14,177	14,025
Net gain on trading	8,594	10,669	11,919	11,912
Net gain on other trading	0	0	0	0
Interest and dividend income	1,709	1,861	1,788	1,782
Interest expense	392	588	427	347
Net operating revenue	62,862	57,625	60,383	61,589
Selling, general and administrative expense	42,909	41,043	37,807	38,765
Brokerage, communication and other transaction related costs	5,364	5,434	4,561	5,055
Employee compensation and benefits	22,321	19,616	19,778	19,794
Occupancy	4,102	4,566	3,457	3,649
Data processing and other services	7,554	7,804	6,853	6,809
Depreciation and amortization	455	462	337	422
Taxes, other than income taxes	423	452	507	487
Others	2,686	2,705	2,311	2,545
Operating income	19,953	16,581	22,576	22,824
Non-operating revenue	775	273	601	1,100
Non-operating expense	136	(45)	24	54
Ordinary income	20,592	16,900	23,153	23,870
Extraordinary gain	10	137	179	4,006
Extraordinary loss	901	430	214	2,189
Income before income taxes	19,700	16,607	23,118	25,687
Income taxes-current	500	4,883	36	5,549
Income taxes-deferred	7,839	2,194	9,792	5,139
Net income	11,360	9,529	13,289	14,998