



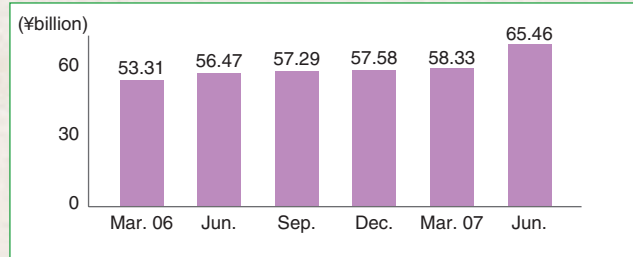
Contribution to Global Environment

The Daiwa Securities Group continues to implement a wide range of initiatives aimed at helping to resolve global warming and other environmental issues.

Daiwa Eco Fund

The Daiwa Eco Fund is a stock investment trust that selects investment stocks based on evaluations of corporations' environmental technologies and commitment to the environment, and of the economic value of their stock. The Daiwa Eco Fund is one of the key products managed and sold by the Daiwa Securities Group. Our goal in promoting the Daiwa Eco Fund is to support companies that are committed to the environment, and raise individual investors' awareness of environmental issues.

Net Balance of the Daiwa Eco Fund (¥ billion)

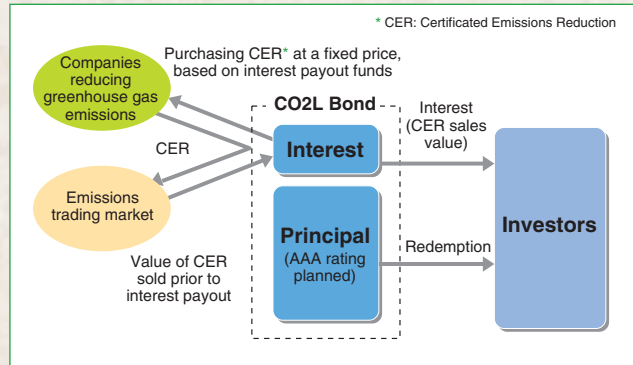


Initiatives in the emissions trading business

Nine greenhouse-gas reduction projects financed by Daiwa Securities SMBC Principal Investments Co. Ltd. under the World Bank's Community Development Carbon Fund have been approved by the Japanese government and the UN. In February 2006, the company developed and began sales of a euro-dollar bond named CO2L Bond ("Cool Bonds")*, the world's first bond in which coupons are linked to the prices of Certified Emission Reductions (CERs). The company will continuously contribute to expanding the emissions-trading market, and consider the development of financial products and other means that enable investors with an awareness of the global-warming issue to join efforts to promote the reduction of CO₂ emissions through finance.

* See the following URL for details about CO2L Bonds. (In Japanese only)
<http://www.daiwasmbpci.co.jp/news/060216/060216.html>

Cool Bond mechanis



A bond that incorporates a mechanism for paying the prices set by the Kyoto Protocol for selling CERs to investors as coupon payments.

Initiatives for electronic statement promotion

In February 2005, we began the Electronic Statement Promotion Project. This project has succeeded in greatly reducing the volume of paper we use.

Electronic statements for customers

Daiwa Securities Co. Ltd. is moving toward sending its customers electronic versions of a number of statements and reports it has mailed until now, including account statements, transaction reports, and other notices. The number of e-members—customers who have signed up to receive electronic reports and statements and to utilize online trading—has grown from 270,000 to 430,000 during fiscal

2006. The types of documents that can be sent in electronic form have also increased. In fiscal 2006, we reduced the volume of customer statements by 15.42 million pages. This is equivalent to about 15% of all forms used by Daiwa Securities Co. Ltd. We are aiming to further reduce our paper output in fiscal 2007, by increasing the number of e-members and moving to electronic statements for our investment trusts.

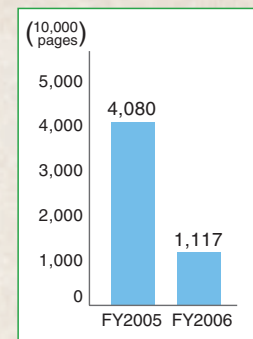
Electronic statements for internal use

The internal forms used by Daiwa Securities Co. Ltd. have increased due to the diversification of our products, but we have greatly reduced

the volume of hard copies made by switching over to electronic statements at all sales branches. In fiscal 2005, Daiwa Securities Co. Ltd. printed out approximately 40.8 million pages of internal statements; in fiscal 2006, it printed out 11.17 million pages—a huge 73% year-on-year decrease. In fiscal 2006, we ordered 245 tons of paper for statements, a 48% year-on-year decrease. This works out to a reduction from 68.1 kg of paper per Daiwa Securities employee to 35.4 kg. In order to achieve this massive reduction in hard copies, it was necessary to reform the operational flow used by the administrative departments of our sales branches, which until now had used paper slips. The key to achieving this was creating tools that

streamlined administrative processes via electronic statements, as well as sharing the awareness of the need to reduce paper hardcopies through dialogs between people involved in this process on the operations level. We will continue in our efforts to reduce our environmental impact, looking into ways to move the documents we distribute to affiliates and others to electronic form.

Number of internal statement pages printed at Daiwa Securities Co. Ltd.



Environmental seminar for customers

In May 2007, we held “Daiwa Environmental Forum 2007: What Is Happening to the Earth Now?”—an environmental seminar aimed at raising the awareness of environmental issues by Daiwa Securities customers in Tokyo Metropolitan area. The first part of the seminar was a lecture by Junko Edahiro, Chief Executive of Japan for Sustainability, titled “Making the Earth Healthy and Us Happy.” The second was a lecture by Mariko Kawaguchi, Senior CSR Analyst at Daiwa Institute of Research Ltd., titled “Preventing Global Warming: What Your Money Can Do.” The seminar was broadcast via satellite for the general public.

304 people attended the forum. The audience listened intently to Edahiro’s message that global warming is a chance for reform; it is

vital to have a vision of the kind of Japan and Planet Earth you want, and act to achieve it.



Environmental seminar for customers

In-house screening of “An Inconvenient Truth”

In December 2006, we held an in-house screening of “An Inconvenient Truth,” a movie about the issue of global warming by former US vice president Al Gore, in order to raise the awareness of group employees about issues of climate change. Many officers and employees of the Daiwa Securities Group attended the screening. We received a large number of comments by those who saw the movie,

including that the numbers and video made it easy to understand that we are in a dangerous situation, and that the video was well worth viewing; and that we should make a commitment to environmental businesses leveraging our special characteristics as a securities company, including emissions trading.

Presentation at Global Business Summit for the Environment (B4E)

In April 2007, Global Business Summit for the Environment (B4E) was held in Singapore. The summit, hosted jointly by the United Nations Environment Programme and UN Global Compact, invited the Daiwa Securities Group as a panelist. As a representative of the Group, Masaru Arai, Principal Executive Officer at Daiwa Asset Management Co. Ltd., attended the panel discussion to discuss trends in SRI, environmental-business initiatives, and other topics. B4E brought together people from a wide range of industries around the world to discuss environmentally friendly businesses. We were the only Japanese company to attend the summit.



Masaru Arai, Director and Principal Executive Officer at Daiwa Asset Management Co. Ltd. (second from left)



Contribution to Global Environment

Dialog with Stakeholder: CSR and the Environment

What should people involved with finance know about the environment? Mariko Kawaguchi, senior CSR analyst of Daiwa Institute of Research asked this question of Junko Edahiro, chief executive of environmental communication NPO Japan for Sustainability and Japanese translator of “An Inconvenient Truth.”



Junko Edahiro, chief executive, Japan for Sustainability (right) and Mariko Kawaguchi, senior CSR analyst of Daiwa Institute of Research (left)

People in the finance industry without an interest in environmental issues should gain a perception of the issues through first-hand experience.

Kawaguchi: Many people working at financial institutions think that environmental issues have nothing to do with them. They tend to look at the world solely in monetary terms. Although the principle of responsible investment has begun to gain traction of late, I believe that there is a strong tendency in this field for people to think that the environment is a problem for the manufacturing, mining, and transport industries, and that it has nothing to do with them.

Edahiro: A financial conference was held in Switzerland, where they discussed quite seriously the need to influence companies with more measures of sustainability. Although the people attending the conference were very passionate about this topic, however, it doesn't mean that this is the fundamental approach of their companies as a whole. I think that all we can conclude is that people with your way of thinking are gradually starting to appear.

Kawaguchi: I actually got together employees of Daiwa Securities Group to see a screening of “An Inconvenient Truth.” That movie was pretty shocking, and convincing as well. Seeing that movie convinced them that just because they're at a financial institution, they can't say that it's not their problem—that they couldn't hide from the problem.

Edahiro: It sounds like that was a good opportunity. The most important thing is to perceive it as your own problem through first-hand experience. I think that expanding these opportunities so that they can be seen by employees as well as institutional investors and other clients would be a wonderful CSR activity.

If the earth were a single market, there is no doubt that it would collapse.

Edahiro: Global warming is the result of the dynamics of a system in which a wide variety of factors are interacting. One of the features of this system is the interaction of stock and flow. With a bank account, the deposits and withdrawals are the flow, while the balance is the stock, right? If we say that the concentration of carbon dioxide in the atmosphere is the stock, then our annual emissions are the inflow, and the carbon dioxide absorbed by forests and other sinks is the outflow. Currently, the inflow is twice as large as the outflow, and more than half is accumulated as stock. This is what is causing global warming.

Kawaguchi: People in the finance industry would probably understand this better if you called them the profit and loss statement and the balance sheet. Almost all the good stock, like forests, marine resources, and mining resources are declining, while bad stock—CO₂—keeps on increasing. This means that if the entire earth were a single market, there is no doubt that we would be facing economic collapse, right?

Edahiro: Yes, that's right.

Money grabs our attention because we can see it. I have high expectations for the power of the finance industry.

Edahiro: People in the finance industry handle money. Money grabs our attention because we can see it. Thinking that something doesn't exist because you can't see it is just like a child. Although we can see share prices as numbers, there is no framework to tell us what happens each time resources, forests, or carbon dioxide go up by a given amount. That make it like money without substance; you get the feeling that you are just playing with numbers.

Kawaguchi: That's because it's hard to see environmental stock and flow with numbers, right?

Edahiro: If we could find a numerical representation that showed the minute-by-minute changes in the environment, like with share prices, it would be easy to understand, because I think that people in the finance industry really react to numbers. In any case, finance has a great deal of power to change the world, so I have high hopes for it.

See pages 45 and 46 for details about initiatives to reduce environmental impact within the Daiwa Securities Group.