

1 Leverage Financial Capabilities to Contribute to a Sustainable Society



The Second Round of Sales of Vaccine Bonds

The Daiwa Securities Group conducted sales of vaccine bonds in February 2009, continuing efforts that began in 2008. The amount of bonds issued increased from ¥22.0 billion in the previous fiscal year to ¥42.9 billion. With the introduction of online offerings this time, the Group is providing opportunities for an even wider array of individual investors to buy vaccine bonds.

Carrying Out Vaccinations of Children in Developing Countries

Every year, 2.3 million children in developing countries in Asia and Africa die from infectious diseases that are easily preventable. To address this social issue, the Global Alliance for Vaccines and Immunisation (GAVI), a global public-private partnership (PPP) carrying out vaccination programs, was formed in 2000. The GAVI Alliance provides free medical and vaccination services in 70 developing countries. The International Finance Facility for Immunisation (IFFIm), the international financial procurement institution of the GAVI Alliance, issues vaccine bonds with AAA rating obtained from Fitch Ratings, Moody's Investor Services and Standard & Poor's. Furthermore, the World Bank administers the IFFIm's overall financial activities as a financial manager.

Purpose of Vaccine Bonds

The vaccination programs for children in developing countries assisted by the IFFIm are supported by donations pledged by the governments of seven countries (the United Kingdom, France, Italy, Spain, Sweden, Norway and South Africa) as of May 2009. The total amount of donations is US\$5.2 billion and will be paid over an extended period until 2026.

It is evident that these vaccinations are required right now in order to prevent more needless loss of life among these children. Consequently, the IFFIm borrows pledged donations from affiliated countries in advance by issuing vaccine bonds to establish a system to procure the funds required for the vaccines.

Generating a High Level of Interest among Individual Investors

With the aim of widely disseminating information about programs to supply vaccines and other items, as well as about vaccine bonds, the Daiwa Securities Group held vaccine bond seminars for individual investors for the second consecutive year. With Alan Gillespie, Chairman of

the Board of Directors of the IFFIm, the GAVI Alliance's Chief Financial and Investment Officer, Alice Albright, and Kenneth Lay, Vice President and Treasurer of the World Bank in attendance, the Group held a vaccine bond seminar for approximately 200 individual investors at the Daiwa Conference Hall in Tokyo on January 16, 2009. During the seminar, participants asked a number of questions regarding vaccination programs administered by the IFFIm and GAVI Alliance as well as the mechanism underlying vaccine bonds.

Expanding Investor Awareness of "Profit and Beyond"

By purchasing vaccine bonds, investors will be able to indirectly participate in providing humanitarian aid in the medical and healthcare sector—which includes the proliferation of vaccinations and other services—in addition to enjoying a return on their investments. Clarifying how these invested funds are used and by whom, we believe that the awareness gained concerning the social role of such investments leads to an understanding of the significance of "profit and beyond" for investors through their purchase of vaccine bonds.

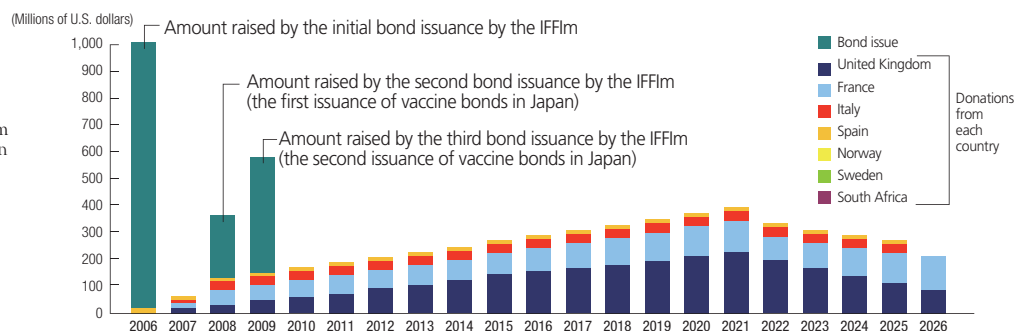
The Development of Financial Products for the Future

In recognition of such achievements as its approach to socially responsible investment (SRI) thus far, underwriting World Bank bonds and its ability to sell to individual investors, the Daiwa Securities Group became the first financial institution in Japan to deal in vaccine bonds. Although it was also the first attempt in the world to develop and sell vaccine bonds to individual investors, the Group received high praise from a number of international organizations, including the World Bank, and succeeded in strengthening mutual trust. As a CSR activity carried out through its main business, the Daiwa Securities Group will continue to make proactive efforts in the development and sale of financial products that add a social perspective to investment. By doing so, we will contribute to finding solutions to social issues.

Donations from each country and amount procured by vaccine bonds issued by the IFFIm

Supply of fund advances necessary to provide vaccines

By issuing vaccine bonds, the IFFIm is able to secure cash flows based on future donations promised by contributing countries.



Developing Effective Responses to Environmental Problems

Countries worldwide are currently focusing on the formulation and steady implementation of various measures in areas including alternative energy sources and environmental technologies—the Green New Deal Policy is but one example—in order to develop a sustainable society. Beyond being used to simply stimulate the economy, these measures hold the potential to bring about a fundamental change in the economy of the 21st century. We believe that it is our foremost mission to promote investment in companies that possess superior environmental technologies.

Daiwa Energy Technology Fund (Limited Open-Type Fund)

The global economic paradigm of the 20th century was based on a dependence on fossil fuel energy sources such as oil, coal and natural gas. However, there are concerns regarding such risks as the environmental impact of fossil fuel use as well as the future depletion of these resources. Consequently, efforts have been made worldwide to search for ways to develop alternative, stably accessible energy sources which will have minimal environmental impact. Efforts are also under way to improve and spread environmental technologies.

The demand for alternative energy from such non-fossil sources as wind, solar power and fuel cells has been increasing steadily in various regions, including the United States, Japan and Europe. It is expected

that Japanese technologies accumulated over many years in various industries and the alternative energy industry itself will develop into one of Japan's key industries.

Daiwa Asset Management Co. Ltd. established the equity investment trust, Daiwa Energy Technology Fund (limited open-type fund) in December 2008, targeting investment in Japanese companies that possess a high degree of technological capability in the field of alternative energy.



Next-Generation Environmental Business Fund

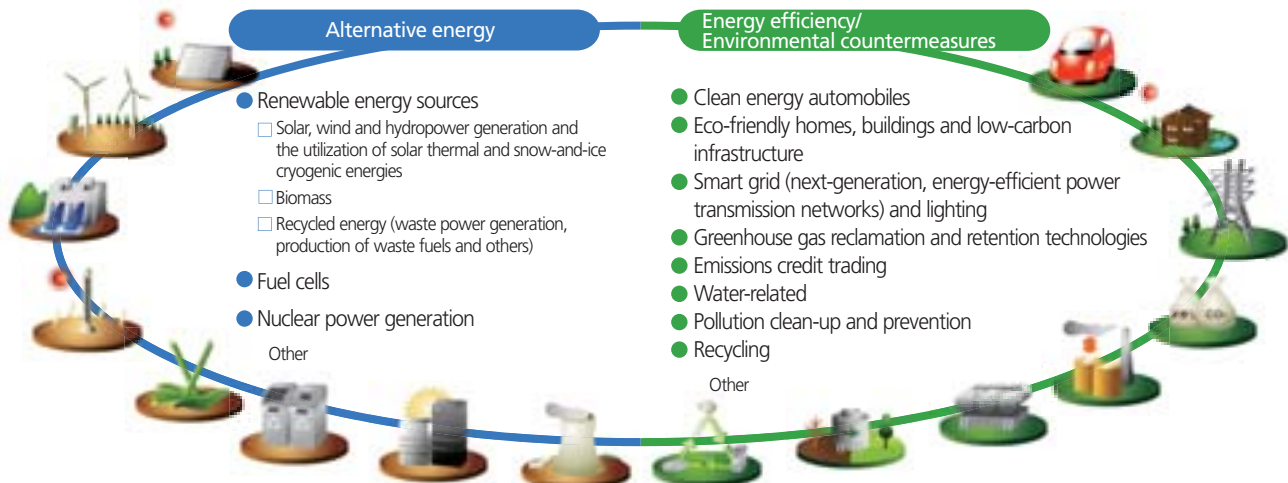
In Japan, there are numerous companies that have a superior level of technological capability and competitiveness (with a high market share) in such fields as alternative energy and energy efficiency, not only in reference to finished products but also in the component and materials industries. For example, components and technologies used in the manufacture of semiconductors and liquid crystals—which include silicon wafers, glass substrates, and films for polarizers and filter technologies—can find use as components in solar power generation and other related areas. Accordingly, business opportunities are expected

to increase for the manufacture of finished products as well as for businesses that produce components in these areas.

Daiwa SB Investments Ltd. established the open-ended equity investment trust, the Next-Generation Environmental Business Fund, in February 2009, targeting investment in Japanese companies that possess a high level of reliability and technological capability in relation to the two pillars of the Green New Deal Policy: the field of alternative energy and energy efficiency/environmental countermeasures.

Investment Themes of the Next-Generation Environmental Business Fund

Investment in Japanese companies that are expected to enjoy profitability as a result of environmental policies undertaken by major countries worldwide



Providing Information Regarding Environment-related Fields

In order to promote investment in companies that possess superior environmental technologies, it is important to provide the latest information regarding trends in individual companies, the impact of government policies and other issues in a form that can be easily accessed by various investors, including individual investors.

Recognizing that environmental fields are growth fields that cannot be categorized by such simple terms as CSR and SRI, the Daiwa Institute of Research Ltd. has assigned strategists specializing in the environment to the Investment Strategy Department.

In addition to issuing the comprehensive report, “Cool Earth: Future Environmental Technologies and Japanese Companies” in July 2008 to coincide with the Toyako Summit, the Daiwa Institute of Research Ltd. began publishing “Environment Report” and “Environment Investment Strategy” in August and November 2008, respectively, and issued numerous environment-related reports thanks to the cooperation of analysts from various companies in the Daiwa Securities Group.

Beyond institutional investors, a wide range of investors—including individual customers—can make use of these reports via Daiwa Direct.*

Moreover, active efforts are being made to hold seminars with environmental themes to heighten investor awareness of environmental issues.

*Daiwa Direct: An online trading service provided by Daiwa Securities Co. Ltd.



Environmental booklets and reports issued by the Daiwa Institute of Research Ltd.

World CO2L Bonds

Emissions credit trading is an effective mechanism for achieving targets related to the greenhouse gas reductions set by the Kyoto Protocol.

Within the Daiwa Securities Group, Daiwa Securities SMBC Principal Investments Co. Ltd. began investing in emissions credits in August 2004. Following this, Daiwa Institute of Research Ltd. established a team of specialist consultants to this end, and Daiwa Securities SMBC Co. Ltd. used the implementation of the Financial Instruments and Exchange Act in September 2007 as an opportunity to make a full-fledged entry into the emissions credit business.

In June 2008, we launched sales of the Certified Emission Reduction (CER)-Linked, USD-Denominated Uridashi Bond (World CO2L Bond) co-developed with the World Bank. It pays interest to individual investors calculated according to the amount of greenhouse gas emissions reduced by and the market prices of emissions credits purchased from a small-scale hydropower generation project in Hongyang, Guizhou Province, China. The bond has the advantage of offering individual investors, who cannot usually participate directly in emissions credit trading, a chance to do so indirectly, further encouraging a greater vitalization of the emissions credit trading market.

Exercising the Daiwa Securities Group’s comprehensive capabilities to the maximum extent possible—from the identification of projects that help reduce greenhouse gases to the composition and sales of applicable financial products—the mechanisms supporting World CO2L bonds have garnered attention from other issuers and financial institutions.



The small-scale, hydroelectric power generation project in Hongyang, China, which provides emissions credits relating to World CO2L bonds, utilizes aqueducts built on steep slopes to generate power.