

The Daiwa Securities Group: Present and Future

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Group's New Medium-term Management Plan: "Passion for the Best 2008"



Q.01 What are the features of the business structure at the Daiwa Securities Group?

A. Business Structure Overview

The Daiwa Securities Group is a full line securities group of companies providing diversified financial services under a holding company structure. Daiwa Securities Group Inc. is a pure holding company that coordinates the Group's overall operations. The Group is engaged in four core businesses: retail securities, wholesale securities, asset management, and investment. Each of these core businesses and other businesses supporting them is led by independent companies in the Group.

Daiwa Securities handles the Group's retail securities business. Serving mainly Japanese individuals and unlisted companies, it provides financial products and services via a domestic network of 117 branches (as of September 4, 2006), as well as online and the call center. The Group's wholesale securities business is mainly operated by Daiwa Securities SMBC (and its overseas subsidiaries)—a joint venture with Sumitomo Mitsui Financial Group. The company provides brokerage and investment banking services, including M&A advisory services, targeting domestic and overseas institutions. The Group's asset management business, which includes investment trust and pension fund management, is handled by Daiwa Asset Management and Daiwa SB Investments. The investment business, a new core business for the Group, is led by Daiwa Securities SMBC Principal Investments, a wholly owned subsidiary of Daiwa Securities SMBC, as well as NIF SMBC Ventures*, the only publicly listed subsidiary.

Other Group companies provide support functions. These include Daiwa Institute of Research, which offers research, consulting, and systems-related services; Daiwa Securities Business Center, which provides securities back office services; and Daiwa Property, which provides property administration for the Group's branch office network.

* Formed in October 2005 through the merger of NIF Ventures and SMBC Capital.

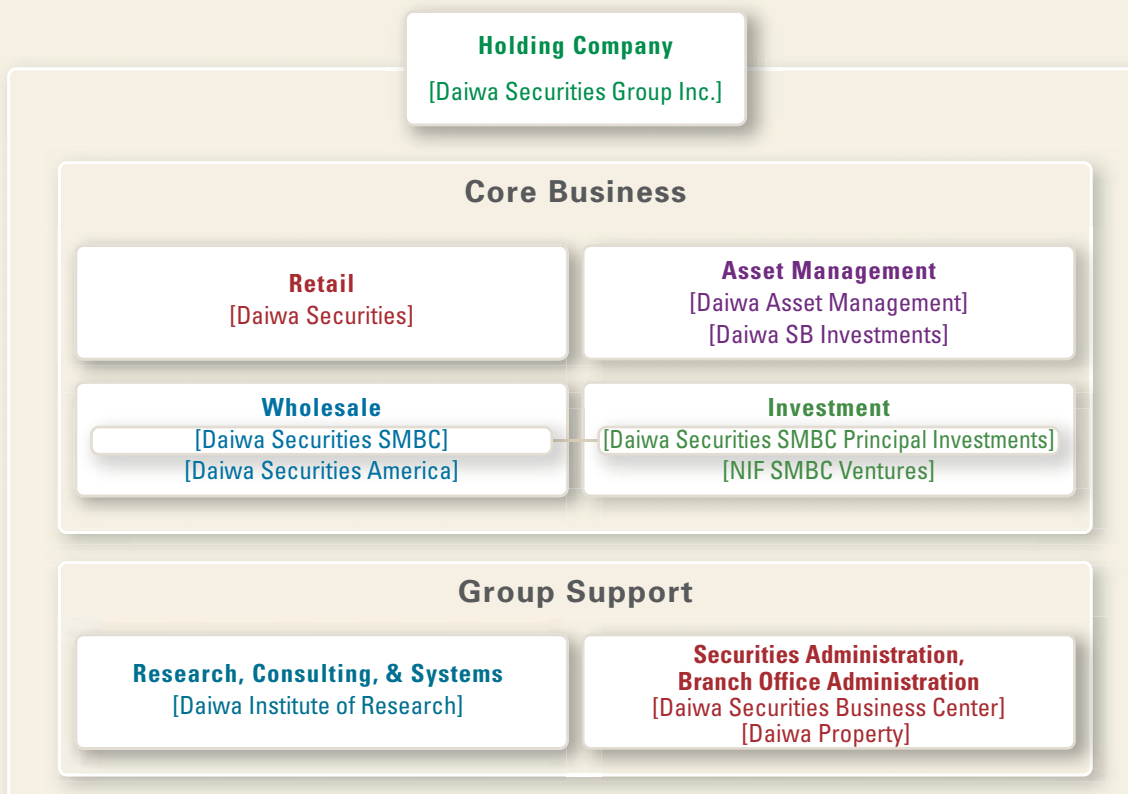
Features of the Business Structure

A major structural feature of the Daiwa Securities Group is the clear separation of the core retail and wholesale securities operations. As the respective customers in the retail and wholesale field are different to a large extent, so too are their needs. The Group meets the needs of both markets through companies that, while maintaining cooperative relationships, work independently in the delivery of services. In this way, we are able to further raise customer satisfaction and enhance operating efficiency. Moreover, having separate companies that handle the retail and wholesale businesses, or the sales and the underwriting functions, also helps to maintain the firm "Chinese wall*" between the two. In addition, under the holding company structure, Group members can easily access the abundant business resources available within the Group, including product development capabilities, and business information and know-how accumulated in each Group company.

These enable individual companies to maximize their operating efficiency and also enjoy strong cooperation and complementary relationship within the Group—such benefits represent the key strengths of the Daiwa Securities Group.

* The ethical and informational barrier between different divisions to avoid conflict of interest

The business structure of the Daiwa Securities Group



The Daiwa Securities Group in History

1902	Begin operations as Fujimoto Bill Broker
1942	Change name to Fujimoto Securities Co. Ltd.
1943	Fujimoto Securities Co. Ltd. merged with Nihon Shintaku Bank to establish Daiwa Securities Co. Ltd.
1959	First to commence overseas operations in NY
1998	Conclude final agreement with The Sumitomo Bank Limited on setting up a joint venture company
1999	First listed company to move to a holding company structure Establishment of Daiwa Securities SB Capital Markets Co. Ltd. (currently Daiwa Securities SMBC Co. Ltd.) operating the wholesale business and Daiwa SB investments Ltd. operating the asset management business, both joint ventures with The Sumitomo Bank Limited
2001	Establishment of Daiwa Securities SMBC Principal Investments Co. Ltd.
2004	Daiwa Securities Group Inc. to transit to a "Committee System"
2005	NIF Ventures Co., Ltd. and SMBC Capital Co., Ltd. merged into NIF SMBC Ventures Co., Ltd.



Q.02 What strengths does Daiwa Securities capitalize on to win the battle for individual financial assets?

A. Today, the shift of individual financial assets “from savings to investment” in Japan is gathering momentum. In this situation, the ability to attract large slices of this move will determine the ultimate winners and losers in the financial services industry. Daiwa Securities, which is in charge of the Group’s retail securities business, is offering a wide range of financial products tailored to meet a variety of customer needs. These products are delivered via two service “courses”: “Daiwa Consulting” course, for those who desire face-to-face consulting, and “Daiwa Direct” course, for those who prefer trading online or through a call center. In particular, Daiwa Consulting has two major strengths: (1) Distinct “consulting expertise”, allowing the consultants to propose combinations of products with optimal risk-return profiles suitable for each customer; and (2) Abundant and highly competitive “product and service offering capabilities”, supported by various Group companies. These strengths will enable Daiwa Securities to steadily increase its share of the growing market for securities investments by individuals.

Strong Consulting Capabilities to Handle Risk Products

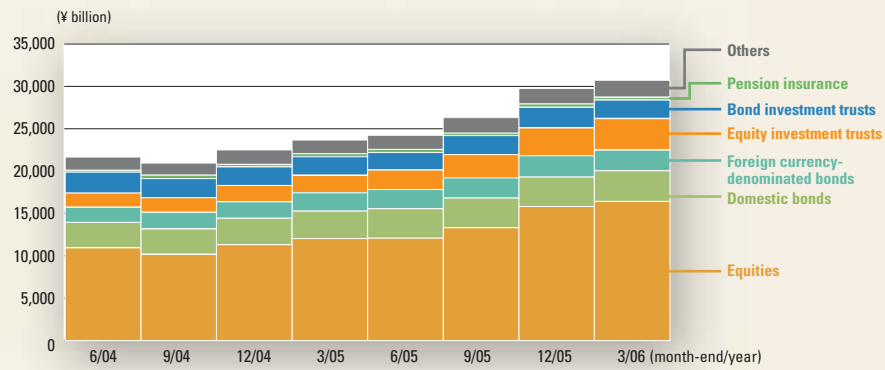
When selling equities, investment trusts, and other risk products, it is important to devise combinations of products matched specifically to each customer’s asset profile, investment policy, and risk tolerance. Such consulting expertise is the core competence of Daiwa Securities, which has many years of experience in handling risk products. Daiwa Securities has been placing top priority on building stronger trust with its customers, by offering optimal portfolios tailored to each customer and providing wide-ranging investment advice in a variety of areas such as taxation and inheritance. When recommending a portfolio, the Company’s goal is to increase customers’ assets over the medium and long term. Here, Daiwa Securities actively uses equity products with the potential to generate high returns, while also recognizing the risk of price declines. In this way, it aims to create a “win-win” situation, where customers’ financial assets expand, as does Daiwa Securities’ assets—its customer base. In FY 2005, underpinned by a strong equity market, Daiwa Securities made excellent progress, both in increasing customer assets and in attracting new cash from individuals. This was achieved by actively proposing equity products, such as stocks and equity investment trusts.

Capitalizing on these strengths, Daiwa Securities reported a substantial increase in “Daiwa SMA” contract assets under management. Daiwa SMA is the name of separately managed accounts (SMAs) tailored specifically to high-net-worth individuals. Indeed, Daiwa Securities seized the No.1 ranking in the industry for SMA contract assets (based on the data released by Japan Securities Investment Advisers Association, as of March 31, 2006).

Enhanced Product and Service Offering Capabilities Supported by Intra-Group Collaboration

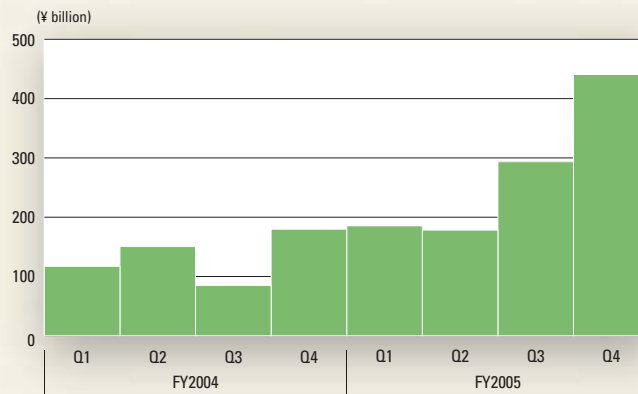
One of Daiwa Securities’ major strengths is its excellent product and service offering capabilities. Here, we draw heavily on alliances with various Group companies, each with specialized capabilities and competitive advantages. For example, Daiwa Securities SMBC’s expertise lies in underwriting and product origination, while Daiwa Asset Management and Daiwa SB Investments excel in fund development and management, and Daiwa Institute of Research has outstanding research capabilities. Daiwa Securities SMBC, which ranked top in the IPO league table in FY 2005, has enabled Daiwa Securities to handle a large number/variety of IPO shares. This has attracted much attention of individual investors. In addition, Daiwa Global Bond Fund, which is managed by Daiwa Asset Management and is highly regarded among rating agencies, has maintained its reputation as a high premium product as it is available only through the Daiwa Securities Group. Its net assets under management is still continuing to expand after it exceeded ¥1 trillion at fiscal year-end.

Daiwa Securities Assets under Custody

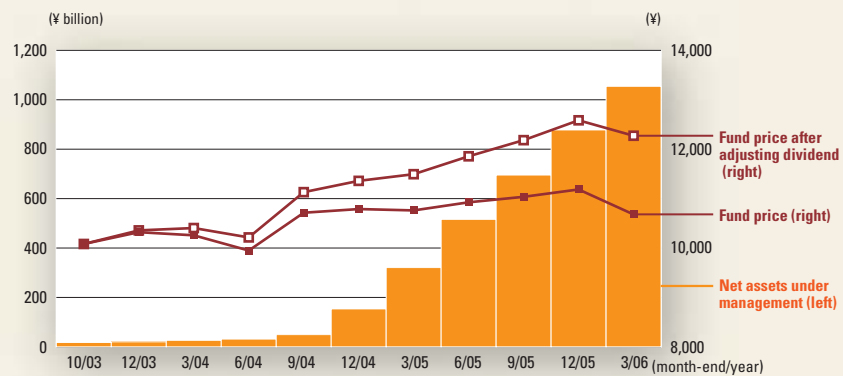


(*) "Others" includes customer assets of Daiwa Securities held under custody at Daiwa Securities SMBC.

Daiwa Securities: Net Inflow of Funds (Retail)



Daiwa Global Bond Fund: Fund Price and Net Assets under Management





Q.03 What are the distinguishing features and strengths of Daiwa Securities' online strategy?

A. The greatest strength of Daiwa Direct is its unique business model, which combines two key features. First, it offers the convenience of low-cost online trading. Second, it gives a sense of security by providing support on administrative and operating procedures through its branches and the call center. Daiwa Direct can also fully utilize the resources of other industry-leading members of the Group. They include Daiwa Securities SMBC, which has superlative underwriting and product delivery expertise, and Daiwa Institute of Research (DIR), which is known for its high-quality systems and research. Such collaboration with Group companies is the source of Daiwa Direct's competitive edge in the online securities business, enabling it to further enhance the added value of its services.

Reasonable Fees, Stable and User-friendly Systems, and Full Branch Support

In May 2005, Daiwa Securities revised the fee structure for online transactions under the Daiwa Direct course. It changed the equity brokerage commission structure and introduced a flat-fee system for margin transactions. In July, the flat-fee system was extended to cash transactions. As a result, there has been an increase in the trading value of equity transactions by individual customers, and a rise in Daiwa Securities' market share among the total trading value of individual investors in the market. In addition, Daiwa Securities fully utilizes the strengths of having DIR, a subsidiary with extensive experience in trading systems within the Group. Using DIR's expertise, Daiwa Securities has raised the stability and user-friendliness of its systems by boosting the "capacity" (number of contracts that can be handled within a fixed period of time), "availability" (stability that prevents system breakdown due to surge in transactions), and "operationality". Moreover, it has established online support desks and online trading corners throughout its 117 branches nationwide. Specialist staff at the online support desks respond to various inquiries such as about account opening procedures and system operation. Daiwa Direct customers can also take part in seminars and presentations held at branches across Japan. Furthermore, Daiwa Securities expanded its call center to 450 seats in April 2006, which is one of the largest in the industry.

In short, Daiwa Direct's greatest strength lies in the combination of services it provides—the support provided by branches and the large call center which is not available from online brokers, as well as a reasonable fee structure, and a highly stable, user-friendly online trading system.

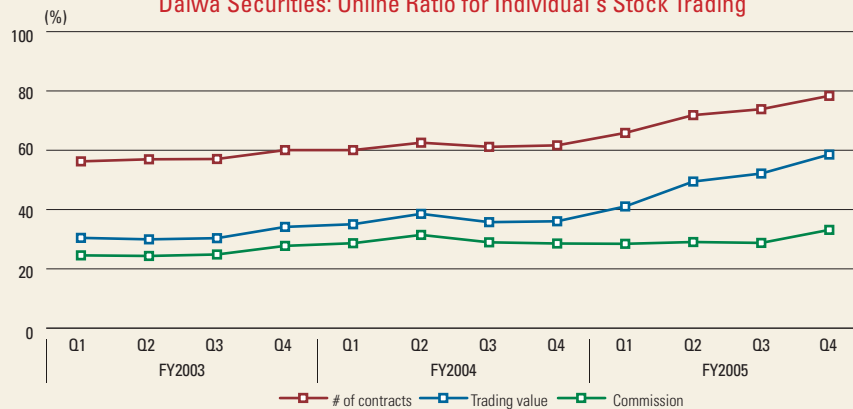
Product and Investment Information Appeal Enhanced by Group Resources

Daiwa Securities boasts a broad range of products, including domestic and overseas equities, bonds, and investment trusts. It is also an industry leader in terms of the amount of IPO stocks it provides, thanks to the underwriting prowess of Daiwa Securities SMBC. In July 2006, Daiwa Securities raised the chance of purchasing stocks through its IPO stock draw service from 5% to 20%, making the service more attractive.

Daiwa Direct also provides high-quality investment information services. For example, it established the "Daiwa Online Library", through which customers can read reports by DIR's top-class analysts and economists* on the same day these are published.

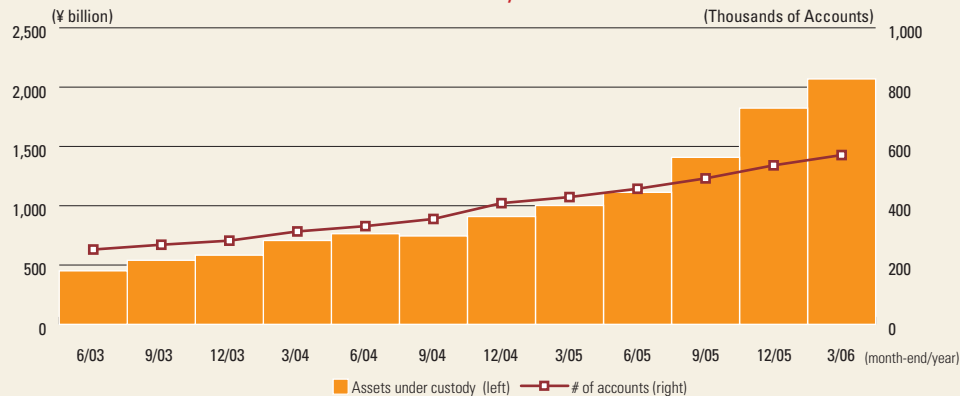
* DIR received the No.1 Analyst Ranking for 2006 by the Nikkei Financial Daily.

Daiwa Securities: Online Ratio for Individual's Stock Trading



Note: All calculated based on trading activities made by individuals at Daiwa Securities

Accounts and Assets under Custody of "Daiwa Direct" Course



10-year History of Daiwa Online Trade

1996	Apr.	Begin Japan's first online-brokerage service "Daiwa Direct", handling mini stock transactions only
	Jun.	Begin offering of unit stocks
1997	Jan.	Begin to offer Daiwa MMF and Medium-term Government Securities Funds
1998	Apr.	Begin offering of Daiwa foreign currency MMF (US\$)
1999	Jan.	Begin offering of investment trusts
	Feb.	Begin Japan's first mobile trading service
	Apr.	Begin offering of call center service for "Daiwa Direct" as its help desk (25 seats)
2000	May	Begin to offer stock price information service via e-mail
	Jul.	First domestic securities company to begin operation of a full-scale call center
		Introduce "Three-Service Package" (Three trading channels)
		Expand its mobile trading service to other carriers
	Oct.	Begin offering of Nikkei's data browsing service for "Daiwa Direct"
2001	Apr.	Begin lottery service for IPO stocks
	Sep.	Begin to provide applications for mobile phones
	Nov.	Begin offering of margin transaction service via call center
2002	Jan.	Begin offering of margin transactions service over the Internet
	Mar.	Begin to offer receiving transaction service with postal savings
2003	May	Introduce "Two trading-courses" (Two service channels)
		Begin offering of electronic issuance of prospectuses
	Aug.	Begin offering of Daiwa up-dates by e-mail service
	Sep.	Begin offering of automatic update stock price board service
2004	Apr.	Begin offering of receiving transaction service with commercial banks
	May	Begin offering of multiple-function charts and DIR analyst reports
	Jul.	Substantially enrich investment information contents
	Sep.	Begin to offer JGBs for individuals
	Oct.	Begin to offer open-end margin transactions
		Begin offering of lottery service for public offering shares
		Begin to provide stock portfolio analysis service
	Nov.	Begin to provide life plan simulation service
2005	May	"Daiwa Direct" course to revamp services, lowering commission rates and introducing flat-free system
	Jul.	Implementation of loop transactions
		Implementation of "Daiwa Online Library"
	Oct.	Begin offering of Daiwa e-Member service
		Begin to offer Hong Kong stocks and currency exchange transactions
	Nov.	Begin offering of margin transaction service via mobile
2006	Feb.	Begin "Daiwa FX", forex margin transaction service
	Mar.	Enrich services on mobile sites
		Expand to provide applications for other carrier
	Apr.	Expand size of call center to 450 operators
		Begin to offer Daiwa trading board information service
		Revise transaction display design
		Upgrade margin transaction service



Q.04 What are Daiwa Securities SMBC's strengths in the wholesale securities business?

A. The major strength of Daiwa Securities SMBC is its unique business model, being the only dedicated wholesale securities company in Japan formed through a joint venture between a major securities company and a megabank. This is because Daiwa Securities SMBC can develop its business by drawing on the broad customer bases of both the Daiwa Securities Group and Sumitomo Mitsui Banking Corporation (SMBC).

Daiwa Securities SMBC aims to become “Japan’s best investment bank” by capitalizing on the following advantages. The first is its ability to propose optimal solutions that meet the needs of both corporations and investors through the capital market. The second is its strong sales force utilizing the close link with Daiwa Securities, which has strong ties with domestic individual investors, and Daiwa Securities SMBC’s own network of domestic and overseas institutional investors.

Alliance with SMBC

The source of Daiwa Securities SMBC’s competitive edge lies in its alliance with SMBC, a prominent domestic megabank. With its extensive and robust corporate network, SMBC introduces clients requiring access to the capital market to Daiwa Securities SMBC, who is fully equipped to meet these requirements. The synergies of the alliance are particularly evident in the investment banking area. For example, Daiwa Securities SMBC seized the No.1 ranking in the IPO league table for FY 2005, and also achieved the No.1 ranking for total corporate bonds (corporate and agency bonds) for the third consecutive year.

Delivering Powerful Solutions

Collaboration between its investment banking, product development, and sales divisions enables Daiwa Securities SMBC to offer optimal solutions using the capital market. In the process, it helps client companies raise corporate value and competitiveness while providing investors a diversity of investment vehicles. For example, Daiwa Securities SMBC served as a financial adviser to Nippon Sheet Glass in this company’s friendly takeover of U.K.-based Pilkington, which was announced in February 2006. Daiwa Securities SMBC also provided financial support for this major cross-border M&A deal, valued at around ¥616 billion, by underwriting ¥77 billion, or 70% of the ¥110 billion, of unsecured third-party-allocation-type convertible bonds issued by Nippon Sheet Glass. For this deal, Daiwa Securities SMBC provided Nippon Sheet Glass with a tailor-made fund procurement solution utilizing its unique Structured Principal Solution (SPS) Program*.

Daiwa Securities SMBC also provides investment solutions that meet the various needs of investors regarding portfolios and risk tolerance. It does this through the flexible development and initiation of structured bonds, such as “Contingent Super CMS” bonds and “ENMAN” bonds.

*See P.46 “Review of Operations: Wholesale”

Domestic and Overseas Sales Networks

In the domestic investment banking field, Daiwa Securities SMBC has an advantage over major foreign investment banks due to its extensive sales network, covering investors in both Japan and overseas. In this regard, Daiwa Securities, which mainly serves domestic individual investors, plays an important role, providing a broad channel linking the ¥1,500 trillion of financial assets held by individuals with the ever-increasing fund procurement needs of corporations. Also, with a powerful network of domestic and overseas institutional investors, backed by the ability to deliver impressive research, Daiwa Securities SMBC is well positioned to demonstrate its solution prowess.

FY 2005 Lead Manager League Table for Daiwa Securities SMBC

	Total corporate bonds (Corporate & Agency bonds)	IPOs	Primary and secondary equity offerings	SAMURAI	ABS
1st	Daiwa Sec. SMBC 19.2%	Daiwa Sec. SMBC 31.0%	Nomura 34.1%	Nikko Citigroup 20.2%	Mizuho 19.5%
2nd	Nomura 18.7%	Nomura 22.3%	Daiwa Sec. SMBC 26.2%	Mizuho 20.1%	Daiwa Sec. SMBC 16.2%
3rd	Mitsubishi UFJ 17.2%	Nikko Citigroup 21.1%	Nikko Citigroup 10.3%	Nomura 12.5%	Mitsubishi UFJ 13.2%
4th	Mizuho 16.8%	Mitsubishi UFJ 9.9%	Mizuho 7.6%	Daiwa Sec. SMBC 11.2%	Nikko Citigroup 6.8%
5th	Nikko Citigroup 14.2%	CSFB 3.5%	Goldman Sachs 6.1%	Mitsubishi UFJ 10.7%	Nomura 6.3%

Note: Primary and secondary equity offerings based on settlement dates, IPOs based on listing dates, total corporate bonds and SAMURAI based on launch dates. Joint lead manager allotment based on underwritten amount. REITs are not included.

Source: Daiwa Securities SMBC, I-N Information Systems, Ltd for ABS table

M&A Advisory League Table for Any Japanese Involvement Announced

Number of deals (Jan 1, 2005 -Dec 31, 2005) Source: THOMSON FINANCIAL

Rank	Adviser	Number of deals	Market share (%)	Transaction amount (\$ million)
1	Mitsubishi UFJ Financial Group	159	5.3	55,044.40
2	Nomura	143	4.8	93,046.10
3	Mizuho Financial Group	128	4.3	18,526.00
4	Daiwa Securities SMBC	120	4.0	19,434.00
5	Nikko Cordial Securities	83	2.8	3,683.50
6	KPMG Corporate Finance	53	1.8	23,876.40
7	Goldman Sachs	39	1.3	14,353.60
8	Citigroup	31	1.0	18,249.60
9	Merrill Lynch	29	1.0	62,243.70
10	PriceWaterhouseCoopers	25	0.8	5,534.60

Examples of Structured Bonds

Name of Structured Bond	Product Features
Callable bond	A bond which may be redeemed by the issuer prior to the maturity (early redemption) at a previously agreed upon time and price. Investors may be able to receive interests higher than those of ordinary bonds while taking on the risk of earlier redemption called "call provisions."
Floater bond	A bond whose interest payment is linked to a market interest rate, such as six-month interest rate. When the market interest rate rises, the interest payment increases but when they fall, the payment interest also decreases.
Reverse dual currency bond	In this bond, the principal and redemption are paid in yen and interests during the period are paid in a foreign currency. When the yen depreciates, interest payment increase. When the yen appreciates, interest payment decreases.
CMS bond (swap rate link bond)	A bond where interest payment is linked to the difference between long-term interest (example: 10-year or 20-year swap rate) and short-term interest (example: one-year or two-year swap rate). When the yield curve steepens (increase in long-and short-term interest difference), interest payment increases and when the curve flattens (decrease in long-and short-term interest difference), interest payment decreases.
ENMAN bond	Interest payment is linked to the stock price and the principal is fully redeemed. When the stock price rises, interest payment increases but the bond is subject to earlier redemption.



Q.05 What are the Group's current activities and future strategies for the principal investment business?

A. In the principal investment business, we invest our own capital mainly in corporations, monetary claims, and real estate, with the aim of generating high returns while controlling risks. Daiwa Securities SMBC Principal Investments (Daiwa Securities SMBC PI), a wholly owned subsidiary of Daiwa Securities SMBC, is engaged in this business. Under the Group's new medium-term management plan, we are focusing on this business as one of the four pillars of the Group's operations.

As of March 31, 2006, the Daiwa Securities SMBC PI's investment amount was ¥310 billion, representing a sharp 3.4-fold jump from a year earlier. Going forward, we will seek to generate stable earnings through exits from our current investments, while identifying new investment opportunities. By March 2009, Daiwa Securities SMBC PI is targeting to increase the investment amount to more than ¥400 billion.

SMBC Alliance Leads to Lucrative Investments

Amid ongoing amendments to laws and accounting systems and growing requests from shareholders for improvements in corporate value, principal investments, which increase investment value by participating in the management of the investee company, are assuming a greater presence. Meanwhile, investment techniques are becoming more diverse, exemplified by brisk M&A activities as well as delistings through management buyouts and carve-outs (partial spin-offs) funded by the growing private equity market. In this context, opportunities for principal investments are expected to increase even further. To invest our own capital with maximum efficiency and reap high returns, we must be able to identify and seize good-quality investment opportunities. Daiwa Securities SMBC PI working closely with Sumitomo Mitsui Banking Corporation (SMBC), is constantly finding deals and compiling an impressive record of high-quality investments.

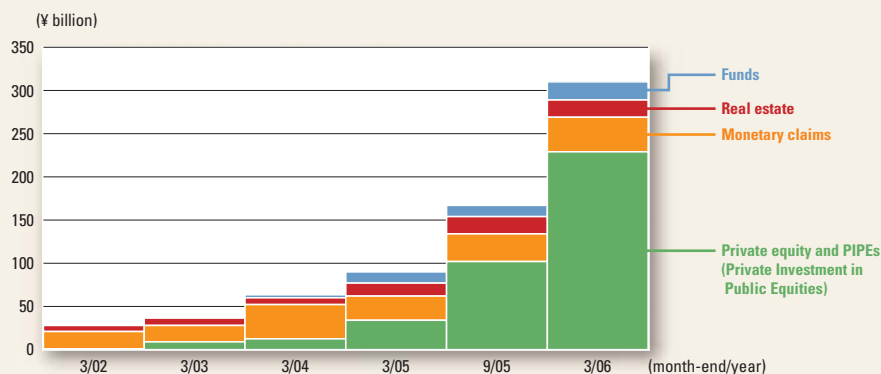
To pinpoint investment targets, we bring together the broad customer base of SMBC with the renowned due diligence (fair assessment of capital) capabilities of Daiwa Securities SMBC PI. As a result, Daiwa Securities SMBC PI has concluded numerous symbolic deals. In FY 2005, it made a number of large-scale investments, including SANYO Electric (underwriting ¥125 billion out of ¥300 billion of preferred shares) and Sumitomo Mitsui Construction (underwriting ¥49 billion of preferred shares.) As a result, Daiwa Securities SMBC PI had a fiscal year-end investment amount of ¥310 billion, a 3.4-fold increase from a year earlier. Regarding investments in Japanese corporations, Daiwa Securities SMBC PI is one of the largest players in the market.

Going forward, we will focus further resources on investments in corporations in order to maximize opportunities. At the same time, Daiwa Securities SMBC PI will establish a stable income-generating foundation through investments in monetary claims and real estate. It will also actively target new areas, such as emissions trading, to augment our income base.

Boosting Income through Constant Exits of Investments

In FY 2006 and beyond, expanding profits from ongoing exits of investments will become an increasingly important part of the Group's principal investment business. Back in September 2004, Daiwa Securities SMBC PI invested ¥3.5 billion in Cabin, a women's fashion retailer. In April 2006, it sold all of its holdings in Cabin to Fast Retailing, a casual fashion chain store operator. This was Daiwa Securities SMBC PI's first full-scale exit from a private equity investment. Daiwa Securities SMBC PI will continue to utilize its expertise accumulated over the years in corporate revitalization and value enhancement, and cooperate with Group companies to achieve remarkable earnings growth in the principal investment business.

Daiwa Securities SMBC Principal Investments: Total Investment Amount



Private Equity and PIPEs as of July 2006

Company	Investment period (beginning)	Company summary
SANYO Electric Co., Ltd. (Tokyo Stock Exchange 1st Section listed)	March 2006	Major electrical appliance company. Manufactures service products and provisions in consumer, commercial, component, and other 4 divisions. Global leader in rechargeable batteries.
Sumitomo Mitsui Construction Co., Ltd. (Tokyo Stock Exchange 1st Section listed)	September 2005	Major general contractor. In particular, PC bridges in civil engineering and high-rise apartment buildings in construction.
Maruzen Co., Ltd. (Tokyo Stock Exchange 1st Section listed)	August 2005	Major bookstore. Has bookstores nationwide, and also involved in sale of stationary and office supplies, with strength in academic information services for universities and government agencies and libraries operation outsourcing services.
Mitsui Kanko Development Co., Ltd.	August 2005	Major hotel chain. Engaged in hospitality business, mainly hotels and leisure, with 25 facilities nationwide.
Mitsui Mining Co., Ltd. (Tokyo Stock Exchange 1st Section listed)	March 2005	Major natural resource supplier. Centering on sale of coal, cokes, oil, and other energy resources, the company operates businesses in chemical engineering machinery, construction materials, transportation, environment, and other areas.
Daiwa Seiko, Inc. (Tokyo Stock Exchange 1st Section listed)	October 2004	Sporting goods manufacturer centered on fishing gear. A global leader in fishing gear. Also handles tennis, golf, and cycling gear.
Arysta Life Science Corporation	September 2003	World-class agrochemical manufacturer. Besides agrochemical business, the company engages in healthcare, organic chemical intermediates, and animal health products businesses. It also manufactures environmental measurement systems.
Meisei Electric Co., Ltd. (Tokyo Stock Exchange 2nd Section listed)	February 2003	Measures earthquakes, tsunamis, and other meteorological phenomena and develops disaster prevention systems. Its satellite measurement technology is the highest level in Japan.
OGIHARA CORPORATION,	January 2003	The world's largest press metal mold manufacturer for automobiles. Supplies press metal molds to automobile manufacturers around the world.
Nikko Electric Industry Co., Ltd.	December 2001	Automobile component manufacturer. Mainly manufactures electrical components for diesel engines.



Q.06 What plans are in place for the alliance with Sumitomo Mitsui Financial Group?

- A. The Daiwa Securities Group has a strong alliance with Sumitomo Mitsui Financial Group (SMFG). The alliance is of major strategic importance and a key factor in our competitive edge. At present, there are no plans to integrate or merge the two groups, but we intend to actively pursue further alliances and collaborations in areas where synergies can be derived.

Current Status of Alliance and Collaboration

The alliance between the two groups has led to the establishment of three companies: Daiwa Securities SMBC, Daiwa SB Investments, and NIF SMBC Ventures, established in October 2005 through the merger of NIF Ventures of the Daiwa Securities Group and SMBC Capital of SMFG.

Daiwa Securities SMBC is the only hybrid-type wholesales securities company formed jointly by a leading securities company and a megabank. It has a major presence in the industry, providing underwriting, M&A advisory, and a host of other investment banking services. In the asset management field, Daiwa SB Investments has built a solid track record in pension fund management, and especially renowned for its value-style investment approach. It also launches and manages investment trusts to be sold through banks. NIF SMBC Ventures, meanwhile, is one of Japan's most prominent venture capital firms. It has both the expertise of a bank in terms of identifying new deals and of a securities company with respect to raising corporate value.

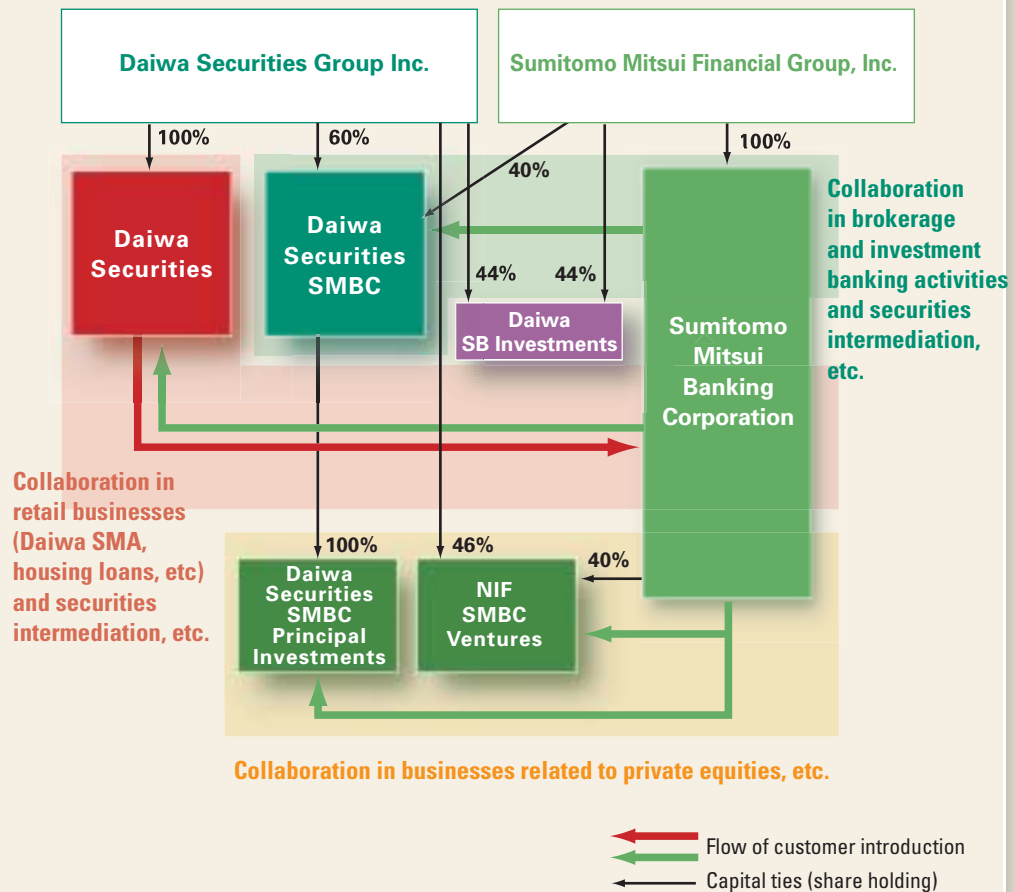
As illustrated by these joint venture companies, the Daiwa Securities Group and SMFG have alliances and collaborations in a multitude of business fields. Together, we are building a framework that allows both parties to fully demonstrate their respective strengths—most notably the broad customer bases of the two groups, and experience and expertise of the Daiwa Securities Group in the capital market. For example, in the wholesale area, we cooperate in the financing arrangement business where Sumitomo Mitsui Banking Corporation (SMBC) introduces client companies with financing needs to Daiwa Securities SMBC. In addition, structured bonds and other asset management products developed by Daiwa Securities SMBC are made available to SMBC, which acts as a securities intermediary. We also collaborate in the investment business, by providing financial solutions for corporate revitalization and supporting venture enterprises in their listing procedures.

Future Plans

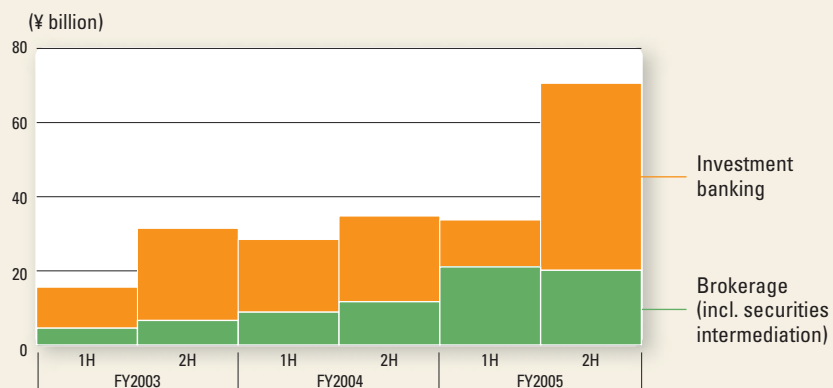
In these ways, the proactive alliances between the Daiwa Securities Group and SMFG are generating major benefits, particularly in the wholesale securities business. On the other hand, there are no capital tie-ups in the retail business between the two groups. Nevertheless, with the help of Daiwa Securities SMBC, Daiwa Securities is involved in the securities intermediation business where SMBC sells structured bonds, foreign bonds, and other products to its corporate clients. This relationship is making steady progress. Furthermore, we are expanding the scope of our alliances in various fields targeting individual investors. Through the “Daiwa SMA” service for high-net-worth individuals, for example, Daiwa Securities addresses the needs of super-wealthy customers of SMBC. We are also working together on the loan business by introducing SMBC's housing loans to Daiwa Securities' individual customers.

Stepping up these and other tie-ups in the future, the Daiwa Securities Group will actively work on the collaboration with SMFG, including capital alliances, in fields where the greatest synergies can be generated and benefits for our stakeholders can be maximized.

Capital Ties and Collaboration Chart of the Daiwa Securities Group and Sumitomo Mitsui Financial Group



Revenues from Collaboration with Sumitomo Mitsui Banking Corporation





Q.07

What are the capital allocation and dividend policies?

- A. Targeting sustainable growth in shareholder value, the Daiwa Securities Group considers return on equity (ROE) as a key benchmark for measuring how efficiently it manages its shareholders' capital. To maintain ROE at a high level, we allocate more capital to businesses that are expected to generate higher revenues, while actively returning profits to shareholders when surplus capital becomes available. We have also introduced an integrated management of risk, return, and capital, enabling us to allocate capital efficiently while carefully monitoring both risk and return. In these ways, we work to achieve a steady increase in earnings on a consolidated basis.

ROE-focus and Capital Allocation

Our policy is to allocate capital efficiently based on the cost of capital for each business division. By maintaining a profit margin in excess of the cost of capital for each division, we will realize higher consolidated ROE.

Under the Group's new medium-term management plan, we are targeting consolidated ordinary income of ¥350 billion or higher. Once we achieve this target, we expect the retained earnings alone will push up shareholders' equity to exceed ¥1 trillion by the end of FY 2008, the final year of the plan. The increased capital will be allocated efficiently in order to maintain consolidated ROE at 15% or higher.

In the retail and asset management businesses, we plan to raise ROE by increasing the operating assets of each business while keeping capital at current levels. In the wholesale and investment areas, we will actively increase capital allocation, adopting an aggressive risk approach aimed at producing high returns. We will also retain standby capital in preparation for future opportunities in areas such as new businesses, strategic investments, and M&As.

Dividend Policy

Reflecting the Group's consolidated results, we pay dividends based on a consolidated payout ratio of 30% semiannually. However, if we consider retained earnings to be sufficient for future business expansion, and our financial situation is stable, we will adopt a more proactive stance towards profit distribution, including share buybacks and dividend increase.

Integrated Management of Risk, Return, and Capital

In the integrated management of risk, return, and capital, we will implement the following strategies. First, we will retain ample capital to finance business expansion and allocate the remaining capital efficiently according to the attribute of each business. Second, we will accurately gauge risk levels for each business and determine capital costs on the basis of such risks. Third, we will raise and stabilize earnings and therefore maintain profit margins well above the cost of capital. In these ways, the Daiwa Securities Group will strive to maintain solid profitability and stability and achieve sustainable growth in its corporate value.

Capital Allocation under New Medium-term Management Plan

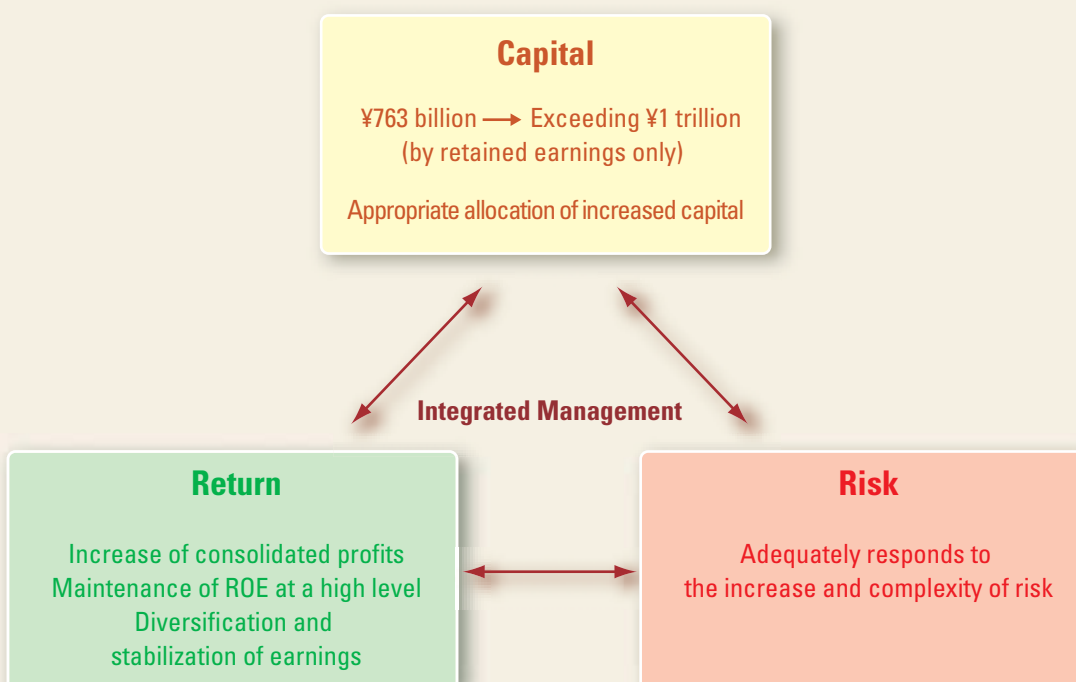
(¥ billion)	End of FY 2005 (after dividends)		Ordinary income target under the plan	End of FY 2008 (after dividends)	
	Shareholders' equity	ROE		Assumed shareholders' equity	ROE (expected)
Consolidated	763	19.4%	350	1,090	15%
Consolidated (incl. minority interest)	988	—	—	1,380-1,440	—
Retail	203	25.9%	130	250	26%
Wholesale	516	18.2%	190	650-800	14%-17%
Asset Management	42	12.1%	21	60	21%
Others	226	—	—	330-420	—

Note1: Need to be discussed and adjusted between capital providers for wholesale and investment divisions under implementation of the new medium-term management plan

Note2: Shareholders' equity for the period ending March, 2009 is estimated based only on an increase in retained earnings assuming profit targets under the new medium-term management plan are achieved

Note3: ROE for the period ending March, 2009 is calculated by using estimated shareholders' equity assuming that profit targets under the new medium-term management plan are achieved

Integrated Management of Risk, Return, and Capital





Q.08 What are the plans for new businesses?

A. We expect securities-related businesses, which represent the Group's main focus of operations, to expand in a number of directions. We have identified four potential domains for future business development: loans, commodities, real estate, and businesses linking finance and the Internet and media. To prepare for growth in these areas, we will make strategic investments and seek alliances with companies in other industries.

Loans

In the retail area, Daiwa Securities has for some time provided securities-backed loans as an auxiliary business. We plan to step up these activities and reinforce our loan business. By offering customers quick and simple procedures to meet their diversified fund-raising needs, we will be well-poised to deliver more comprehensive asset management advice. To this end, we will seek to provide loan services fully within the Group, in which the loans will be collateralized by customers' assets (securities) in our custody. At the same time, we will consider alliances with outside parties in areas where our lending expertise is inadequate, such as mortgage-backed loans. As a first step, we established Daiwa Securities Loan, a wholly owned subsidiary of Daiwa Securities Group Inc. We are also pursuing an alliance with Sumitomo Mitsui Banking Corporation in the housing loan field.

Commodities

The Group is planning to expand the list of available investment products beyond traditional items, such as stocks and bonds, to include a range of primary commodities such as precious metals and energy. We are looking to establish a framework that will ultimately allow trading in all products related to the macro economy.

Real Estate

The Group has accumulated considerable know-how in businesses related to real estate, including real estate investment trusts (REITs), commercial mortgage-backed securities (CMBS), and other securitized products. Also we have some experience in real estate investment, as well as real estate brokerage and other businesses where we actually handle the real estate itself. Going forward, we will harness this know-how to cultivate new businesses.

For example, private finance initiatives (PFIs) and the arrangement of project finance are two areas in which the Group can utilize its expertise in real estate securitization and real estate investment. We will also consider creation of real estate funds, where we can use our know-how related to real estate investment and handling of real estate itself.

Integrating the Finance world with the Internet and Media

The Daiwa Securities Group will set up new sales channels by reinforcing alliances with broadcasting networks, telecommunications carriers, and Internet service providers (ISPs). We will also provide customers with video pictures and other high-value-added information contents. Through these measures, the Group will enhance convenience for customers and sharpen its competitive edge as a result. Currently, we have initiated projects such as investment in and delivery of financial and economic contents to NEC BIGLOBE, the ISP spin-off of NEC Corporation, and video broadcasts of securities news via Microsoft's Media Online service.

