

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



The Daiwa Securities Group is pleased to announce that it greatly surpassed the performance targets set out in its previous medium-term management plan, "Best Brand Daiwa 2005", which ended in the year under review. Building on this achievement, we launched a new Group's medium-term management plan for the three years from FY 2006 to FY 2008, entitled "Passion for the Best 2008". Under the new plan, we are aiming to be "Japan's best securities group", built on customers' trust and employees' passion. In the following pages, we provide a review of the previous plan and an outline of the new plan.

Review of Previous Plan

Under the previous plan, we targeted the No. 1 in "quality" and "productivity", focusing on five key areas of our operations: the retail business, trading revenues, businesses related to Japan's economic revival, human resource management, and corporate governance. For these areas, we set four numerical targets to be achieved by March 2006 (see Table 1).

To further reinforce our initiatives in these areas, we also devised five core targets, centering on the retail business, for FY 2005, the final year of the plan (see Table 2).

While benefiting from favorable stock market conditions, we undertook multiple proactive initiatives aimed at achieving these targets. For example, we reinforced our online trading systems and pursued synergies between our online and branch operations. We also sought to expand our net assets under custody by promoting equity investment trusts such as "Daiwa Global Bond Fund" and other products. In addition, we promoted "Daiwa SMA", our wrap account services for high-net-worth individuals and fortified our "value chain" by stepping up intra-Group collaborations. To meet the diversified needs of individuals and asset management needs of corporations, we developed and delivered a number of high-value-added products, such as structured bonds. As a result, we largely exceeded the targets of the previous management plan (shown in Table 1), and achieved four of the five targets set for FY 2005 (shown in Table 2).

Meanwhile, the Group made outstanding progress in various league tables for investment banking operations and analyst rankings (see Table 3), which provide an objective benchmark for evaluating "quality" and "productivity."

Table1: Achievements for the Previous Plan "Best Brand Daiwa 2005"

	Performance in FY 2002 (reference)	Target in FY 2005	Performance in FY 2005
Consolidated ordinary income	¥29.2 billion	¥127 billion	¥260.6 billion
Consolidated ROE	(Final loss ¥6.3 billion)	10%	19.4%
Consolidated trading revenues	¥93.9 billion	¥140 billion	¥224.9 billion
Daiwa Securities assets under custody	¥12.1 trillion	¥21.5 trillion	¥27.6 trillion

Table2: Achievements in FY 2005

	Target	Performance
Online margin balance	¥200 billion	¥168.0 billion (March 31, 2006)
"Daiwa SMA" contract assets under management	¥100 billion	¥159.1 billion (March 31, 2006)
Net assets of Daiwa Global Bond Fund	¥1 trillion	¥1.03 trillion (March 31, 2006)
Investment trust agency commission	¥ 2 billion per month	¥2.3 billion (March, 2006)
Market capitalization ranking	In the top 50	47th (March 31, 2006)

Table3: Key Indicators for No.1 Position in "Quality" and "Productivity"

		FY 2002	FY 2003	FY 2004	FY 2005
Lead manager league table (Daiwa Securities SMBC)	Total corporate bonds	2nd	1st	1st	1st
	IPOs	2nd	2nd	2nd	1st
	Primary and secondary equity offerings	2nd	2nd	1st	2nd
	M&A* (calendar year basis)	3rd	7th	1st	8th
Analyst ranking ** (Daiwa Institute of Research)		2nd	1st	1st	1st

* Thomson Financial ["M&A advisory league table for any Japanese involvement" (based on trading value)]

** Analyst ranking by Nikkei Financial Daily

Overview of the New Plan “Passion for the Best 2008”

At present, major changes are seen in markets, investors, and corporations, which are surrounding the Group. Particularly noteworthy is the unprecedented shift of individual financial assets into the securities markets, reflecting an acceleration of the “savings to investment” move, as well as aggressive fund-raising by corporations and increasingly vibrant M&A activities.

Based on its understanding of this business environment, the Daiwa Securities Group launched a new Group’s medium-term management plan,—“Passion for the Best 2008”.

In developing the plan, we first envisaged how the environment will evolve over the next three years. Based on this, we formulated a “Group Vision” of the entire Group and its various business divisions three years from now. We then set “Performance Targets” aimed at realizing the vision. Finally, we devised personnel, financial, IT, and other basic Group strategies for achieving the performance targets.

Business Environment Assumptions

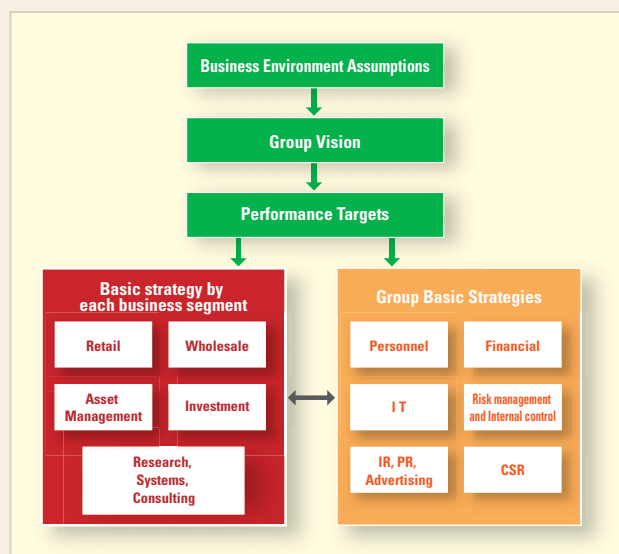
With respect to the business environment, we envisage the following changes in economy, market, and competition, as well as in regulatory frameworks and trends among individuals and corporations.

- The Japanese economy will leave behind the deflationary era and enter into post steady growth.
- The consumer price index (CPI) will turn upwards in 2006, although subsequent inflation will only be moderate.
- Reflecting healthy corporate results, Japanese companies will continue to attract investments from overseas, and the stock market will follow a rising trend.
- Due to difficult financial conditions, the Japanese government will be pressured to maintain a low-interest-rate environment, meaning that rate rises in both short-term and long-term will be limited.
- The enactment of the New Company Law will increase opportunities in the investment banking field, as M&As and fund-raising, and asset management techniques will be diversified.
- The shift in individual financial assets from savings to investment will continue.
- Companies with solid results will step up capital expenditures and M&A activities. Weaker companies, by contrast, will seek to restructure or sell off businesses and assets.

Group Vision

The Group’s vision is to be “Japan’s best securities group”, built on the customers’ trust and employees’ passion. By “Japan’s Best,” we mean achieving the top domestic position in multiple areas—not only financial performance but also productivity and customer and employee satisfaction levels.

Three years from now, the Daiwa Securities Group will have four core businesses: its three current core businesses in retail securities, wholesale securities, and asset management, as well as the investment business, which is growing into a core domain. The Group will have a unique business model and build an unassailable competitive position in the industry. Moreover, we will have generated record-high profits and posted ordinary income that is worthy of our position as Japan’s best securities group. We will also



have developed our business overseas, centering on Asia, to a level unrivaled among Japanese securities firms.

With respect to financial strength, three years from now the Group will have established a stable and diversified income base, allowing it to consistently generate earnings above the cost of shareholders’ capital, even in deteriorating market conditions. Customers will be fully satisfied with our services. This will be reflected in our position at the top of various customer satisfaction surveys and rankings pertaining to the securities business. In addition, our pursuit of CSR initiatives and rigorous control of compliance will earn us the deep trust of all stakeholders. Equally important, our employees will be brimming with pride and self-respect, keenly aware of their role in Japan’s best securities group and embracing their work with resolve and passion.

Performance Targets

Under the Groups’ new medium-term plan, the Daiwa Securities Group has set a consolidated ordinary income target of ¥350 billion or higher for FY 2008—surpassing the previous all-time high of ¥339.1 billion, achieved in FY 1989. We are also pursuing consolidated ROE of 15% or higher. By business segment, we are targeting at least ¥45 trillion in Daiwa Securities’ assets under custody in the retail business and No. 1 in various lead manager league tables in the wholesale business. In the asset management business, our objectives are to have ¥11 trillion or higher in equity investment trusts and ¥5 trillion or higher in investment advisory assets. All of these numerical targets are set as absolute minimums that we must achieve. For more specific aspects of our business, such as online margin balance and “Daiwa SMA” contract assets, we will set targets year-by-year as we address changes in the operating environment.

The management visions, performance targets, and basic strategies of each business division are detailed in the “Review of Operations” section of this report from page 35 to 64.

Review of Previous Medium-term Management Plan: “Best Brand Daiwa 2005”

Core Objectives	Action Plans	
Strengthen retail securities business		
	Sharpen competitive edge in retail business by enhancing service quality. Remain at the forefront of the industry by reinforcing ability to supply products from wholesale and asset management divisions to the retail division.	Improve consulting capabilities
		Expand channels for customer contact and enhance its quality
		Boost product supply capabilities
		Enhance customer satisfaction level
		Pursue higher operating efficiency
Strengthen ability to develop and deliver high-value-added products and services		
	Raise ability to seize business opportunities and develop and supply products through collaboration between retail and wholesale divisions, in order to maximize net gain on trading.	Create and supply high-value-added products
		Improve net gain on trading
Enhance presence in businesses supporting Japan’s economic revival		
	Expand businesses in M&As, principal finance, and other areas related to corporate restructuring. Further raise profile as an investment bank that contributes to Japan’s economic revival.	Focus on M&As
		Focus on principal investments
Upgrade human resource management system		
	Pursue highly effective human resource management by comprehensively implementing performance-based standards and providing career planning support to expand career choices. Design and operate systems that realize the entire Group’s full potential, and establish a leading-edge personnel system model for the Group management.	Upgrade human resource recruiting, education, and training
		Enhance personnel evaluation system
		Expand career management opportunities
		Reform personnel incentive system in response to Law for Measures to Support the Development of the Next Generation
Establish effective corporate governance framework		
	Increase the number of outside directors to ensure highly transparent and objective management from the perspective of shareholders and other stakeholders inside and outside the Group. Shift to a “committee system” in FY 2004.	Shift to a “committee system”
		Increase the number of outside directors
		Set up the Group-wide internal control system
		Introduce new executive compensation system

Achievements

- Developed nationwide network of the satellite-branch system: Implemented area-marketing system for nationwide branch network, with 12 metropolitan areas and 12 regional groups (as of March 31, 2006)
- Appointed senior consultants: Assigned 226 consultants with high-level qualifications (S-Level) as senior consultants to 22 branches (as of March 31, 2006)
- Expanded SMA Division: Upgraded section in charge of SMAs to division status, and assigned 30 SMA consultants (as of March 31, 2006) to develop services for high-net-worth individuals
- Strengthened online business: Enhanced “Daiwa Direct” course (reduced brokerage rate for equity transactions, upgraded service contents, and reinforced online trading system)
- Developed securities intermediation business: Formed securities intermediary alliances or alliance agreements with SMBC, The Sumitomo Trust & Banking, and 30 regional banks; formed online trading alliance with Nissen (direct- and mail-order sales company)
- Expanded equity investment trust assets under custody: Daiwa Global Bond Fund assets under management surpassed ¥1 trillion
- Broadened “Daiwa SMA” (wrap accounts for high-net-worth individuals): ¥159 billion in contract assets of “Daiwa SMA” (as of March 31, 2006)
- Continued conducting surveys to gauge customer satisfaction level
- Continued improving after-sales follow-up services
- FY 2005 ROE of Daiwa Securities: 25.9%

- Daiwa Securities SMBC seized top rankings in lead manager league tables: No. 1 in both total corporate bonds and IPOs
- Expanded SPS (Structured Principal Solution) Program (high-value-added principal financing program for corporations): Underwrote 22 issues, valued at around ¥230 billion, in FY 2005
- Expanded sales of structured bond products to corporate clients: Sold ¥680 billion in FY2005
- Consolidated net gain on trading in FY 2005: ¥224.9 billion

- Income from M&A advisory business surpassed ¥10 billion for first time in FY 2005
- Thomson Financial “M&A advisory league table for any Japanese involvement”: Ranked 4th in number of deals and 8th in trading value (calendar 2005)

- Made large-scale investments in corporations, notably SANYO Electric (¥125 billion) and Sumitomo Mitsui Construction (¥49 billion)
- Increased presence in domestic investments: Total investment amount of ¥310 billion (as of March 31, 2006)

- Raised quality of new-graduate recruits: Major jump in employer brand ranking among college students
- Upgraded systems for nurturing leaders, such as Daiwa Management Academy (for general managers) and Daiwa Leadership Program (for deputy general managers)
- Provided incentives for acquisition of qualifications through introduction of “qualification points” system for promotions
- Launched the “President’s Awards” in FY 2004 (Daiwa Securities) and “Daiwa Securities Group Inc. President’s Awards” in FY 2005
- Comprehensively adopted performance-based incentives, including compensation based on job category and more segmentalized personnel evaluation process
- Expanded intra-Group job posting system: 114 qualified since system introduced in 2000 (out of 572 applicants)
- Introduced “Support Plan for Working Mothers”
- Introduced other new systems, including a salesperson rehiring system; extended maternity leave and child-rearing periods; launched subsidy scheme for sending children to child-minding facilities; upgraded vacation system

- Completed in FY 2004

- Has increased from two in FY 2002 to four in FY 2004

- Set up Internal Control Committee in FY 2003 to discuss and make decisions on Group-wide risk management and internal control (Internal Control Committee became subcommittee of Executive Committee in FY 2004 upon switch to a “committee system”): Met four times in FY 2005 (once every three months)

- Performance-based compensation: Provided based on consolidated ordinary income and consolidated ROE, taking into account customer assets, productivity, customer satisfaction level, and individual contribution
- Share-price-linked compensation: Provided stock options, equivalent in value to certain proportion of basic salary, to strengthen link with shareholder value



Overview of New Medium-term Management Plan: “Passion for the Best 2008”

Business Environment Assumptions	Company Name	Daiwa Securities Group Strategies
		Performance Targets (FY 2008)
Economy <ul style="list-style-type: none"> Steady domestic economic growth following end of deflationary era CPI to turn upwards in 2006, but subsequent inflation to only be moderate High levels of capital investment, following sluggish investing in past and labor shortage caused by massive retirement of baby-boomers <p>GDP growth rate: 3.7% (nominal); 2.8% (real) Annual CPI: 0.8%</p> Market Conditions <ul style="list-style-type: none"> Reflecting healthy corporate results, Japanese companies will continue attracting investments from overseas; stock market will follow a rising trend Japanese government will be pressured to maintain low-interest-rate environment due to financial difficulties; short- and long-term rate rises will be limited Yen to appreciate, but not to an extreme <p>[Averages for FY 2006-2008] Call rate: 0.3% 10-year JGB yield: 2.4% Exchange rate: ¥99.5/US\$</p> <p>TOPIX: 1,870 points (March 31, 2009) TSE trading value (1st Section): ¥2.0-2.5 trillion/day (one way)</p> Competitive Environment <ul style="list-style-type: none"> Megabank-affiliated investment banks to expand operations Financial institutions to continue focusing on retail securities business Competition among online securities companies to intensify as share of online transactions in individual share trading approaches upper limit Individual Investors <ul style="list-style-type: none"> Total individual assets: ¥1,714 trillion (March 31, 2009) Average retail trading value: ¥1.1-1.5 trillion/day (FY 2008) Retirement allowances of baby-boomers: Around ¥40 trillion (baby-boomers: those born between 1946 and 1951) Corporations <ul style="list-style-type: none"> Fund-raising and asset management techniques to diversify Companies with solid results to step up capex and M&A activities Weaker companies to restructure or sell off businesses and assets Importance of investment funds (pension, real estate, etc.) to grow Regulation <ul style="list-style-type: none"> New Company Law enactment to boost investment banking opportunities as corporations pursue M&As and more diverse fund-raising and asset management techniques Privatization of postal services may enable post offices to rival banks as sales channels Adoption of general bond transfer system and complete switch to electronic stock certificates by 2009 will encourage greater patronage of securities companies Newly formulated Financial Products Trading Law to mainly involve review of solicitation rules, so will have minimal impact on Group's business 	Entire Group	
	Daiwa Securities Group Inc. and Group companies	Consolidated ordinary income: ¥350 billion or higher Consolidated ROE: 15% or higher
	Retail	
	Daiwa Securities	Ordinary income: ¥130 billion or higher Assets under custody: ¥45 trillion or higher (March 31, 2009)
	Wholesale	
	Daiwa Securities SMBC	Consolidated ordinary income : ¥190 billion or higher No. 1 rankings in league tables (Total equities, total bonds, M&A advisory)
	Asset Management	
	Daiwa Asset Management	Ordinary income (Total for 2 companies): ¥21 billion or higher Equity investment trust assets: ¥11 trillion or higher (March 31, 2009)
	Daiwa SB Investments	Investment advisory assets: ¥5 trillion or higher (March 31, 2009)
	Investment	
	Daiwa Securities SMBC Principal Investments	
	NIF SMBC Ventures	
	Research, Consulting, and Systems	
	Daiwa Institute of Research	

Basic Strategies

- **Personnel:** Attract most competent people in industry and provide them with highly motivating work environments where they can embrace new challenges
- **Financial:** Undertake integrated management of risk, return, and capital to achieve major growth and raise corporate value under the medium-term plan, thus maintaining solid and stable profitability
- **IT:** Further raise Group's IT value to address its business expansion
- **Risk management and internal control:** Manage economic assets and enhance performance evaluation by business division; establish internal control report system
- **IR, PR, advertising:** Establish corporate communications system worthy of "Japan's best securities group"
- **CSR:** Raise social evaluation and contribute to sound economic development

- **Build on track record as No. 1 in consulting, online, and "Daiwa SMA"**
[Targets for March 31, 2007]
 - Consulting** Equity investment trust assets: ¥500 billion (Daiwa Ryusei); ¥500 billion (Daiwa Japan High Dividend Equity Fund)
Foreign bond investment trust assets: ¥2 trillion (Daiwa Global Bond Fund)
 - Online** Online margin balance at "Daiwa Direct" course: ¥500 billion
 - Daiwa SMA** Contract assets under management: ¥300 billion
- **Reinforce corporate business:** Strengthen brokerage, investment banking, institutional businesses, and corporate pension fund businesses
- **Human resources:** Increase number of younger salespeople; improve work-environment for female employees

- **Boost absolute level of income**
Expand net gain on trading; promote solutions (such as SPS Program) tailored to customer needs; secure large-scale projects
- **Broaden customer base and strengthen origination capabilities through alliance with Daiwa Securities and SMBC**

- **Expand base of equity investment trust assets:** Equity investment trust assets under management of ¥8.5 trillion (March 31, 2009)
- **Further boost asset management capability**
- **Reinforce customer support and non-group channel sales**
- **Strengthen product supply capability:** 15 funds with asset under management of ¥100 billion or higher each;
6 funds ranked within industry top 30s (March 31, 2009) in asset under management
- **Improve asset management ranking:** Within top 3s for overall ranking by Rating and Investment Information (R&I)
- **Diversify products for domestic pension funds:** Pension fund assets under management of ¥3.1 trillion (March 31, 2009)
(including private placement investment funds)
- **Develop business in overseas markets**
- **Strengthen marketing of equity investment trusts:** ¥1.05 trillion in corporate assets (including investment advisory assets);
¥1.85 trillion in equity investment trust assets (March 31, 2009)

- **Expand investments:** Investment amount of ¥400 billion or higher (March 31, 2009)
- **Boost income through ongoing exits of existing investments:** ¥40 billion in revenues (FY 2008)
- **Use broad securities and banking networks to step up identification of high-quality investments**
- **Pursue increases in quality and scale**

- **Maintain and improve presence in research services:** Maintain No. 1 domestic analyst ranking
- **Materialize the Group IT strategies and provide reliable systems**
- **Nurture and provide system experts**

