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Daiwa Securities Co. Ltd.

Business Features

Daiwa Securities provides its customers, mainly individuals, with a wide array of financial products and services that meet their diversified asset management needs. These offerings are provided through multiple sales channels, including branches, a call center, and the Internet. Daiwa Securities also serves unlisted companies, as well as financial institutions and other listed companies outside the sales territory of Daiwa Securities SMBC, the wholesale business arm of the Daiwa Securities Group.

The competitive edge of Daiwa Securities resides in its ability to provide highly competitive products and services through a wide variety of channels in cooperation with other members of the Group, which have industry-leading capabilities in such areas as product development, asset management, and research.

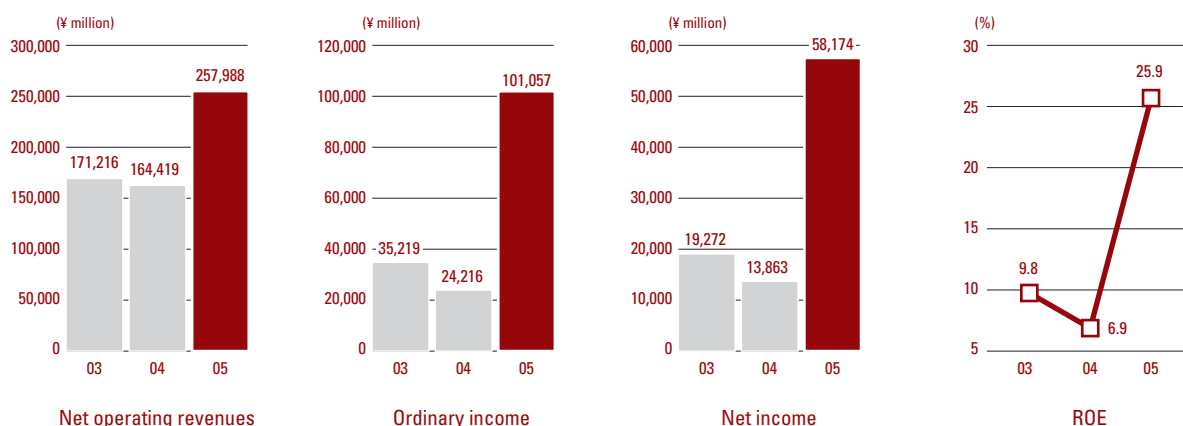
Individual customers, in particular, may choose from two service “courses,” depending on their specific needs: (1) “Daiwa Consulting” course, where specialized services are provided by sales staff through face-to-face consulting; and (2) “Daiwa Direct” course, a highly convenient, reasonably priced service where an abundance of information and financial products are offered mainly online. In either course, customers have free access to a wide range of investment information and products and services offered by Daiwa Securities.

“Daiwa SMA”, a separately managed account service targeting high-net-worth individuals, was launched in September 2004. It is now in the top position in the industry* and is growing into one of the core services of Daiwa Securities.

*Based on the data released by Japan Securities Investment Advisers Association (as of March 31, 2006)

Financial Summary of Daiwa Securities

| Daiwa Securities Group *Annual Report 2006*



FY 2005 Business Environment and Highlights

Business Environment

Since the summer of 2005, the Japanese stock market have benefited from increasingly brisk trading activity among overseas and individual investors, reflecting growing expectations of an end to deflation. The average daily trading value of the Tokyo Stock Exchange in FY 2005 was a record-high ¥2,404.5 billion, surging around 70% from the previous fiscal year.

As of March 31, 2006, 18.2% of total individual financial assets were securities—including stocks, bonds, and investment trusts, compared with 14.1% a year earlier. While the increase may be partly attributable to the rise in stock prices, it definitely shows gathering momentum in the shift “from savings to investment.”

Highlights

In FY 2005, net operating revenues of Daiwa Securities amounted to ¥257.9 billion, up 56.9% year-on-year. Ordinary income jumped 4.2-fold, to ¥101 billion, the highest level since the ¥106.8 billion figure posted in FY 1999. Net income soared 4.2-fold, to ¥58.1 billion, and ROE jumped to 25.9%, from 6.9%.

Factors contributing to these results included (1) an increase in brokerage commissions due to the upturn in the stock market, (2) an rise in equity distribution

commissions owing to an increase in underwriting deals by Daiwa Securities SMBC, (3) a gain in investment trust distribution commissions thanks to strong sales of equity investment trusts, and (4) an increase in agency commissions due to expansion of equity investment trust assets under custody. Daiwa Securities’ effort to boost net assets has led to a steady inflow of new funds. In FY 2005, the net inflow of retail funds was ¥1,367.9 billion, rising a significant ¥671.8 billion over the previous year. Consequently, retail customers’ assets (excluding those of financial institutions) under custody of Daiwa Securities was ¥27.6 trillion at March 31, 2006, an increase of ¥6.6 trillion from a year earlier.

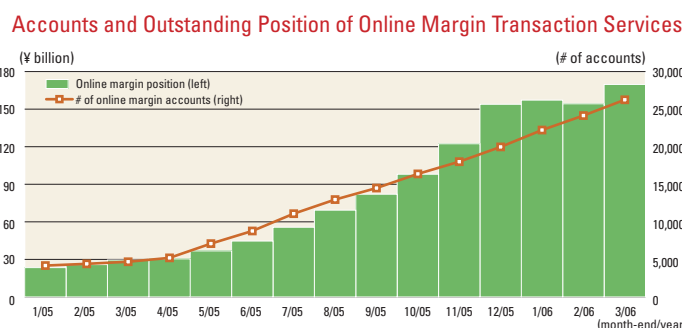
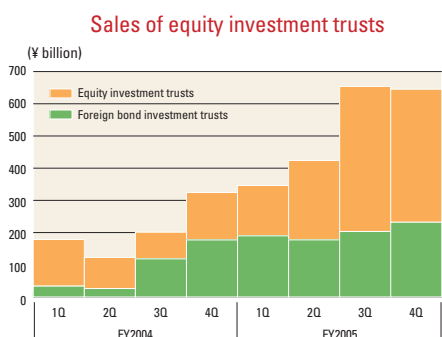
—Achievements of Key Targets

Daiwa Securities set performance targets for FY 2005 in each of its three core business areas. Its performances for those targets are as follows.

Achievement in FY2005

	Target	Performance
Daiwa Global Bond Fund assets under management	¥1 trillion	¥1.03 trillion* March 31, 2006
Investment trust agency commission	¥2 billion per month	¥2.3 billion per month March, 2006
"Daiwa SMA" contract assets under management	¥100 billion	¥159 billion March 31, 2006
Online margin balance	¥200 billion	¥168 billion March 31, 2006

*Net assets under management of Daiwa Asset Management.



•Net increase in investment trust assets [1]

— Daiwa Global Bond Fund: Assets under management target of ¥1 trillion

Against the backdrop of excellent management performance and favorable dividends, net assets under management were ¥1.03 trillion at the end of March 2006, reaching the targeted ¥1 trillion.

•Net increase in investment trust assets [2]

— Agency commissions (investment trusts):
Target of ¥2 billion monthly

Agency commissions receivable are a stable revenue source with little fluctuation, in proportion to the amount of investment trust assets under custody. Commissions received in the month of March 2006 totaled ¥2.3 billion, exceeding the ¥2 billion target, thanks to the efforts, primarily of sales staff, to increase investment trust assets under custody.

•Expansion of high-net-worth customer services

— "Daiwa SMA": Contract assets under management targeted at ¥100 billion

Both the number of accounts and assets under management maintained steady increase throughout FY 2005. Assets under management exceeded the targeted ¥100 billion in December 2005, and further grew to as much as ¥159 billion by the end of March 2006.

•Expansion of online trading

— Daiwa Direct: Balance of margin positions outstanding target of ¥200 billion

The balance of margin positions outstanding hit ¥180 billion in mid-January, but was subsequently tempered by a downturn in emerging markets in the wake of the livedoor scandal. Although the balance recovered to ¥168 billion by March 31, 2006, it fell short of the ¥200 billion target.

Outline of New Medium-term Management Plan Business Environment Assumptions

The combined financial assets of Japanese individuals will exceed ¥1,700 trillion by the end of FY 2008, from the current level of over ¥1,500 trillion. The percentage of securities within total individual financial assets is expected to continue rising, reflecting the full-scale shift "from savings to investment." Moreover, Japan's first-generation baby boomers will step up their search for attractive investment vehicles for their retirement benefits, estimated to be around ¥40 trillion, as they approach retirement—a trend that will peak in 2007. As such, interest in asset management, centering on securities, will further increase going forward.

Consulting : Pursuing the expansion of stable profits in association with the increase in net assets of investment trusts.

	FY2005 (March 31, 2006) Performance	FY2006 (March 31, 2007) Target
Equity investment trusts		
Daiwa Ryusei (Japan Equity Open)	¥167.1 billion*	¥500 billion
Daiwa Japan High Dividend Equity Fund	¥223.7 billion*	¥500 billion
Foreign bond investment trusts		
Daiwa Global Bond Fund	¥1.03 trillion*	¥2 trillion
Investment trust agency commission	¥2.3 billion (March, 2006)	¥3.5 billion per month

*Net assets under management of Daiwa Asset Management.

Online : Establishing No.1 position in the industry, supported by improved customer usability.

	(March 31, 2006) Performance	(March 31, 2007) Target
Online margin balance	¥168 billion	¥500 billion

SMA : Further strengthening No.1 position for SMA, supported by improved operational capability and systems and human resources.

	(March 31, 2006) Performance	(March 31, 2007) Target
"Daiwa SMA" contract assets under management	¥159 billion	¥300 billion

Corporate Vision

The new medium-term management plan envisions Daiwa Securities evolving over the next three years into "Japan's best securities house," built on customers' trust and employees' passion.

Performance Target

Under the plan, Daiwa Securities is targeting ordinary income of ¥130 billion or higher by FY 2008, and customer assets under custody of ¥45 trillion or higher by March 31, 2009.

Basic Strategy

—Build No. 1 Performance Track Record

The basic strategy of Daiwa Securities under the new medium-term management plan is to post No. 1 performances in each of its core businesses. To this end, Daiwa Securities will seek to differentiate itself from its competitors by building unrivaled business models, such as (1) Daiwa Consulting, which provides high-value-added services by salespeople, (2) Daiwa Direct, which offers a wide array of products and abundant information, and

(3) Daiwa SMA, which is strongly supported by high net-worth individuals for its outstanding originality. Performance targets for these products in FY 2006 are shown in the above table.

—Corporate business—Strengthen earnings power

In the corporate segment, Daiwa Securities will reorganize its operations to reinforce its brokerage and investment banking businesses. It will strengthen its brokerage business by stepping up cooperation with Daiwa Securities SMBC, Sumitomo Mitsui Banking Corporation, and regional banks. In the investment banking business, it will enhance earnings by reinforcing alliances with other Group members and seeking referral of clients with financing needs in collaboration with banks. In the investment program business, Daiwa Securities will pursue synergistic benefits by utilizing its own sales channels and those of Group members in the areas of employees stock ownership plans and corporate pension plans.

Contract assets of Daiwa SMA, an asset management service targeting high-net-worth individuals, have rapidly expanded since the launch of the service in September 2004. At March 31, 2006, contract assets under management reached ¥159 billion, well above the FY 2005 target of ¥100 billion. The primary features of Daiwa SMA are as follows:

1. A premium investment-advisory service tailored for high-net-worth individuals,

Daiwa SMA is an asset management service for separately managed accounts, with a minimum deposit of ¥50 million. It differs from “fund wraps,” where assets are managed by combining existing investment funds. Because Daiwa Securities handles all of the functions, including in-house fund management, it can offer more customized and fine-tuned services for each customer.

2. One-on-one support from personal consultants

Specialized SMA consultants take care of each customer’s needs and concerns regarding investment and asset management. They provide rigorous follow-up and give careful attention to each customer to maximize satisfaction and sense of security.

3. Performance-based fee system

Customers can choose either a fixed-fee system in proportion to the amount of contract assets, or a performance-based fee system, in which a portion of the total fee varies with the investment performance of the managed account. Under the performance-based fee sys-

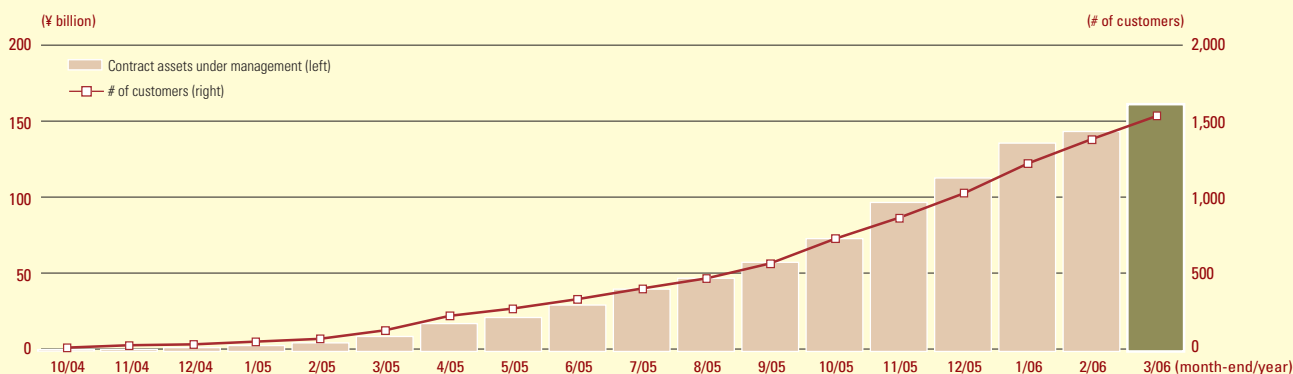
Topic 1: Strengths of “Daiwa SMA”

tem, Daiwa Securities can boost its compensation by delivering better investment returns. In this respect, it provides both Daiwa Securities and its customers with a “common destiny,” sharing the same goals. This unique service structure gives customers greater comfort in trusting their assets to Daiwa SMA.

4. Wide variety of investment styles

Leveraging the expertise and networks of the Daiwa Securities Group built up over many years, Daiwa SMA offers an array of unrivaled unique investment styles to meet the needs of customers and keep up with the latest investment trends.

Daiwa SMA: Number of customers and contract assets under management



The most important factor in face-to-face consulting is “people.” This is because the salesperson in charge is the customer’s only contact point with Daiwa Securities and so represents nothing less than the Company itself. Daiwa Securities embraces a people-oriented management approach, and a culture of nurturing people pervades the whole company. The following gives some specific examples of our commitment to human resources.

1. Introducing the President’s Awards

In order to develop a professional spirit and strong morale among employees, and also encourage motivation to expand customer assets, Daiwa Securities established the President’s Awards in FY 2004 to augment existing salaries and bonuses. The President’s Awards, which are accompanied by the special bonus, are provided only to those employees who have met strict compliance criteria and have achieved an outstanding performance in such areas as contributing to an increase in net assets. Given the government’s policy of promoting a shift “from savings to investment,” the objective behind the President’s Awards is to encourage a greater contribution by employees to society through the securities business. In this respect, the President’s Awards clearly differ from commonplace awards systems that focus on performance only. By the end of FY 2005, the President’s Awards had been held on three occasions, with the number of recipients

increasing each time, illustrating the growing role played by the Awards in raising motivation and enhancing the social-contribution mindset of employees.

2. Building an education system for young salespeople

Due to stepped-up recruitment of new graduates, the number of young salespeople is increasing, underscoring the importance of building an effective system for developing their skills. Daiwa Securities nurtures young salespeople through continual upgrading of its training system. These efforts are led by the Personnel Department and Sales Training Department, which strongly emphasizes on-the-job training. By promoting cooperation between the rapidly growing young employees and its more seasoned senior staff, Daiwa Securities aims to nurture an energetic culture where “people” foster “people.” Thanks partly to these efforts, our ranking among companies popular with job-seeking college students has risen sharply.

Topic 2: Nurturing and Utilizing Human Resources

3. Improving the work environment for female employees

Daiwa Securities has long been working hard to improve the work environment for female employees and enable them to work more freely. In 1998, we introduced a region-specific “fast-track” career system, which exempts employees, primarily women, from being reassigned to regions other than where they currently reside. In 2005, we unveiled the “Support Plan for Working Mothers*” to

provide support for female employees who return to the workplace after having a child. In addition to expanding the work fields for female workers, we will continue to proactively promote their assignment to managerial positions and improve their work environment, so that they can realize their full potential.

* See “Human Resource Management” on Page 77.

Changes in the position at “Employer brand ranking”

	2004	2005	2006
1	The Bank of Tokyo-Mitsubishi	Sumitomo Mitsui Banking Corporation	Mizuho Financial Group
2	The Tokio Marine & Fire Insurance	The Bank of Tokyo-Mitsubishi	The Bank of Tokyo-Mitsubishi UFJ
3	UFJ Bank	Tokio Marine & Nichido Fire Insurance	Daiwa Securities Group
4	Sumitomo Mitsui Banking Corporation	Nomura Securities	Sumitomo Mitsui Banking Corporation
5	Sompo Japan Insurance	Mizuho Financial Group	Nomura Securities
6	Mizuho Financial Group	Sompo Japan Insurance	Tokio Marine & Nichido Fire Insurance
7	Nippon Life Insurance	Daiwa Securities Group	Sompo Japan Insurance
8	Nomura Securities	Nikko Cordial Securities	The Dai-ichi Mutual Life Insurance
9	Morgan Stanley (Japan)	Goldman Sachs (Japan)	Bank of Japan
10	Daiwa Securities Group	Mitsui Sumitomo Insurance	Aflac Japan

Source: Employer brand ranking of TOYO KEIZAI (Financial Institutions)

Wholesale

Daiwa Securities SMBC Co. Ltd.

Business Features

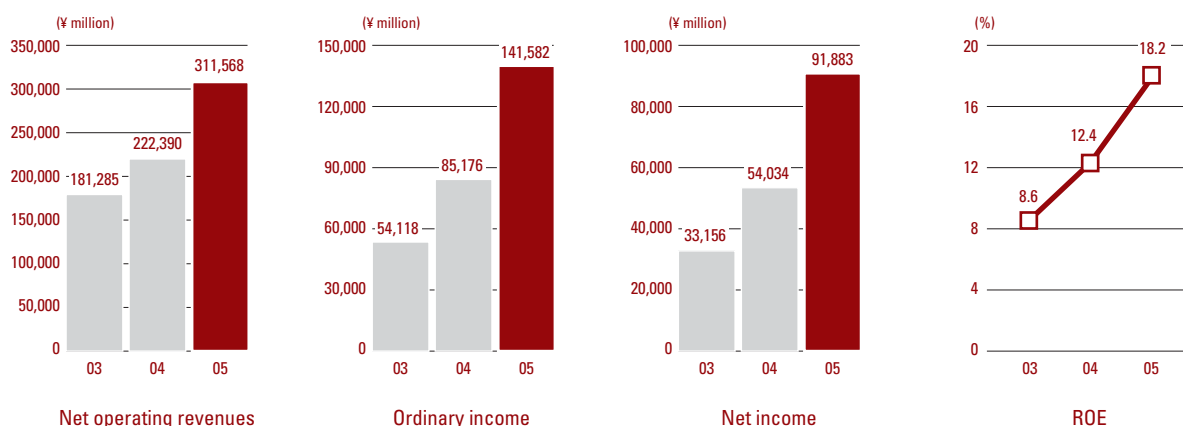
Daiwa Securities SMBC is a joint venture between the Daiwa Securities Group, which owns a 60% stake, and Sumitomo Mitsui Financial Group (SMFG), which holds 40%.

Daiwa Securities SMBC provides both domestic and overseas institutional investors, business corporations, financial institutions, and public organizations with advice, products, and services for optimum asset management. It also offers advice and solutions to meet its client's financial strategy needs. These services, which include assistance in fund-raising, business reorganization, and balance sheet improvement, help enhance the value of its client companies. It also helps revitalize the economy through the capital markets.

Daiwa Securities SMBC's business line consists broadly of (1) brokerage and trading of equities, bonds, and derivatives and (2) investment banking services, including such corporate finance functions as underwriting of equities and bonds, initial public offerings (IPOs), M&A advisory, and structured finance. Mobilizing the expertise of the Daiwa Securities Group, it develops competitive products and solutions and also provides high-value-added information, which in itself delivers a competitive edge.

Daiwa Securities SMBC's strongest point is its unique business model among Japanese firms. It is a joint venture between a leading securities company and a "megabank" and specializes in the wholesale securities business. Since its inception, Daiwa Securities SMBC has steadily accumulated experience and a strong track record by utilizing the customer bases of both the Daiwa Securities Group and Sumitomo Mitsui Banking Corporation. It aims to become "Japan's best investment bank," building on its strong customer base and further enhancing its solution-providing capabilities.

Financial Summary of Daiwa Securities SMBC (Consolidated)



FY2005 Business Environment and Highlights

Business Environment

Despite soaring prices of crude oil and other raw materials, Japanese companies reported their fourth consecutive year-on-year earnings increase in FY 2005. Capital spending also grew strongly, driven by improved earnings and higher capacity utilization against the backdrop of increased demand at home and abroad. Corporations aggressively raised funds in the capital markets and reorganized their businesses through strategic M&As, in order to further expand production output and facilities and reinforce competitiveness.

Highlights

—Earnings results

In FY 2005, Daiwa Securities SMBC reported net operating revenues of ¥311.5 billion, up 40.1% year-on-year. Both ordinary income and net profit showed significant increases over the previous year, reaching ¥141.5 billion, up 66.2%, and ¥91.8 billion, up 70.0% respectively. ROE jumped to 18.2%, from 12.4% in FY 2004.

A breakdown of revenues reveals a sharp increase in investment banking revenues, driven by growth of underwriting commissions from major equity offerings and numerous IPO deals. This pushed up total commissions to ¥111.2 billion, up 21.3% year-on-year. Trading revenues hit ¥175.5 billion, up a substantial 48.4%, fueled by corporations' expanded use of fund-procurement solutions using our Structured Principal Solution (SPS) Program, as well as a growing desire among financial institutions to utilize structured bonds incorporating derivatives in meeting their asset management needs.

—League tables

In the lead manager league tables for FY 2005, Daiwa Securities SMBC maintained its No.1 position in total corporate bonds (total of agency bonds and corporate straight bonds) for the third consecutive year, and also acquired the No.1 position in IPOs.

In the agency bond arena, Daiwa Securities SMBC participated in a number of major deals, including a ¥260.0 billion issue by Japan Highway Public Corporation and a ¥242.4 billion issue by The Government Housing Loan Corporation. In corporate straight bonds, it served a number of companies for the first time, including Fuji Television Network (1st and 2nd series bonds: total ¥50 billion), SBI E*TRADE SECURITIES (1st series: ¥50 billion), and SBI Holdings (¥42 billion). It also secured major deals for such clients as Tokyo Electric Power Company (¥100 billion) and ORIX Corporation (¥100 billion).

With respect to IPOs, Daiwa Securities SMBC acted as lead manager in 33 issues, ranging from major deals, such as SUMCO (¥158.4 billion) and Alpen Company (¥52 billion), to small venture IPOs. Aside from the lead manager league tables, it gained the No.1 position in successful bidder rankings for government bonds. In these ways, Daiwa Securities SMBC is increasing its presence in the wholesale business areas.

Major Deals in FY 2005

Primary and secondary equity offerings	SMFG (¥607.2 billion); Rakuten (¥129.7 billion); SBI E*TRADE SECURITIES (¥62 billion); IBIDEN (¥44.6 billion); Tokyu Land (¥42.5 billion); Hankyu Holdings (¥41.4 billion)
IPOs	SUMCO (¥158.4 billion), Alpen (¥52 billion), ATRIUM (¥27.2 billion), Toyo Tanso (¥17.1 billion)
Corporate straight bonds	SMBC (¥165 billion in total), ORIX (¥100 billion in total), TEPCO (¥100 billion), J-POWER (¥100 billion in total), NIPPON TELEGRAPH AND TELEPHONE (¥70 billion), SOFTBANK (¥60 billion in total)
Agency bonds	Japan Highway Public Corporation (¥260 billion in total), The Government Housing Loan Corporation (¥242.4 billion in total), Japan Finance Corporation for Municipal Enterprises (¥60 billion in total), Japan Bank for International Cooperation (¥50 billion in total)
Structured finance	Series 5 RMBS issued by SMBC (Issue & Underwriting ¥171 billion), Federation of National Public Service Personnel Mutual Aid Associations, ABS for individual investors (Issue ¥100 billion, Underwriting ¥90 billion), Series 8 RMBS issued by The Chuo Mitsui Trust and Banking (Issue ¥106 billion, Underwriting ¥58.3 billion)
M&As	Nippon Sheet Glass's friendly takeover of Pilkington, a leading glass manufacturer in UK (joint advisor with Lazard and UBS for Nippon Sheet Glass); Merger between BANDAI, a leading toy maker, and NAMCO, a leading game maker (advisor for BANDAI); Merger between TOMY and TAKARA. TOMY made stock split (advisor for TOMY); Skylark completed a TOB for Kozosushi So-Honbu, the leading take-home sushi chain operator (advisor for Skylark: TOB agent)
POWL* (Public Offering Without Listing)	Chunghwa Telecom (¥66.9 billion), Electricité De France (¥56.2 billion), China Construction Bank (¥34.6 billion), Enel (¥22.1 billion), China COSCO Holdings (¥17.6 billion)

*POWL allocation amount. Yen conversion (foreign exchange rate differs depending on the issuance date).

Outline of New Medium-term Management Plan

Business Environment Assumptions

While well-performing companies will adopt a more aggressive approach to capital spending and M&As to expand their businesses, we expect weak-performing companies to consolidate their operations by restructuring or selling off businesses and assets in order to restore their competitiveness. The emergence of increasingly diversified and complex techniques for fund-raising, asset management, and M&As—enabled by the implementation of the New Company Law in May 2006—will lead to greater business opportunities for investment banking. Furthermore, the asset management needs of institutional investors will become even more sophisticated in the face of rising volatility and correlativity among worldwide markets.

Corporate Vision

Over the next three years, Daiwa Securities SMBC envisions itself evolving into “Japan’s best investment bank,” built on customers’ trust and employees’ passion.

Performance Target

Under the new medium-term management plan, Daiwa Securities SMBC aims to generate consolidated ordinary income of ¥190 billion or more in FY2008, the third year of the plan, by acquiring the support of customers, bolstered by strong origination capabilities, and by establishing a balanced revenue structure. In the process, it will become “Japan’s best investment bank” and be recognized as a top-tier investment bank from an international perspective. It aims to be ranked No.1 in the league tables for total equity, total debt, and M&As.

Pursuing No.1 Position in League Table

	FY2008 Target
Equities* ¹	No.1 (each FY)
Debts* ²	No.1 (each FY)
M&A	No.1 (each FY)

*1 Equities=PO+IPO+domestic CB+foreign equities+foreign CB+third-party-allocation-type scheme+REIT

*2 Debts=SB+Agency bonds+Yen-denominated foreign bonds +ABS

Key Business to Strengthen

	FY2008 Target
Trading Business (Equity / Bonds)	
Investment amount of Daiwa SMBC Principal Investments**	¥400 billion or more (March 31, 2009)

*See "Investment" on pages 55-56

Basic Strategy

In order to become Japan's best investment bank and attain top-tier recognition internationally, it must raise its absolute revenue base. To this end, Daiwa Securities SMBC must develop new revenue sources and enhance existing business earnings.

—Raise absolute revenue base by expanding trading gains

Daiwa Securities SMBC will expand its trading gains by (1) enhancing its trading capabilities using sophisticated management techniques, (2) promoting solutions that meet customer needs (such as the SPS Program), and (3) securing large block trading deals.

—Strengthen origination capabilities through inter-divisional collaboration

In the case of strategic M&As, the expertise required to conclude a deal ranges from calculating the value of the subject company and forecasting the effect of cost reductions and synergies after the merger, to procurement of funds for the acquisition. In some cases, it becomes necessary to utilize a sophisticated fund-raising scheme in addition to the usual practice of issuing equity and bonds,

in order to match the fund-raising needs of the acquiring company and the asset management needs of investors funding the acquisition. Given the strong performances of Japanese corporations and the implementation of the New Company Law, we expect value-enhancing M&As and fund-raising activities to gain further momentum. To address the more diversified and complicated needs of corporations and institutional investors, Daiwa Securities SMBC will step up collaboration among its investment banking, product development, and brokerage divisions. Through such collaboration, it will develop, propose, and provide solutions, products, and services that enhance its clients' corporate value. These will include M&A advisory services, the SPS Program, and creation of structured bonds.

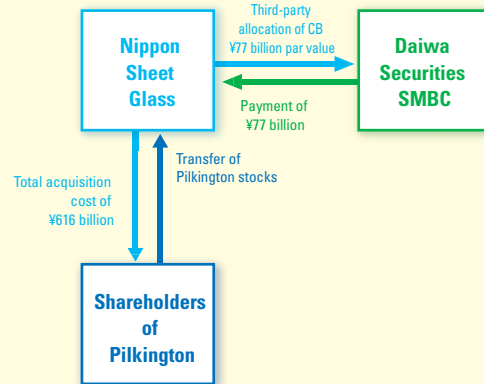
—Secure No.1 positions in major league tables

Daiwa Securities SMBC will aim to secure and maintain the No. 1 position in the three core investment banking league tables: equities, debt, and M&As.

Daiwa Securities SMBC served as financial adviser to Nippon Sheet Glass for the latter's friendly takeover of U.K.-based Pilkington plc, a major British glass manufacturer. (Nippon Sheet Glass already had a 20% stake in Pilkington, and the two companies had capital and business alliances.) Pilkington's shares were purchased for cash, and it subsequently became a wholly owned subsidiary. The total cost of the large-scale cross-border M&A deal was ¥616 billion. It involved a ¥110 billion unsecured convertible bond issue, of which Daiwa Securities SMBC underwrote ¥77 billion, or 70%. We used our Structured Principal Solution (SPS) Program to issue the convertible bonds as part of an order-made financial proposal to Nippon Sheet Glass.

With this acquisition, Nippon Sheet Glass has taken the leading share in the world's sheet glass market. Using a combination of scale and technology, it aims to become a truly global player in terms of cost, quality, and service.

Nippon Sheet Glass's SPS Program Scheme Diagram



Note 1: No conversion of stock to Nippon Sheet Glass will be made before the acquisition of Pilkington.
 Note 2: The upper limit and the lower limit of the conversion price were decided based on the five-day average stock price of Nippon Sheet Glass up to May 8, 2006.
 Note 3: Daiwa Securities SMBC will not sell the CBs to third parties.

Topic 1: Application of the SPS Program—Cross-border M&A transaction by Nippon Sheet Glass

*SPS Program (Structured Principal Solution Program)

The SPS program utilizes Daiwa Securities SMBC's own capital, combining a third party allocation scheme, allowing a flexible response to the financial needs of different companies.

Features of Third Party Allocation Scheme

- (1) The issuing company makes a convertible bond issue, and allocates it to the underwriter
- (2) Taking the business environment and investors' needs into account, the underwriter converts the bonds into ordinary shares and sells them to domestic or overseas investors, or through the market.
- (3) The bond conversion and share sales are handled in multiple stages, lessening the impact on the market.

Benefits of SPS Program

1. Facilitates equity finance while controlling the impact on the market
 - Reduces market impact at the point of issue (compared with ordinary public offerings)
 - The conversion/sale is spread over multiple period and at multiple prices, meaning that the post-issue share price performs well in many cases

—Compared with ordinary public offerings, therefore, it is often possible to procure a larger amount of funds from a single transaction

2. Enables a flexible response to a wider range of customer needs, because conditions for each deal are determined separately
3. Allows an ample level of fund-raising even in cases where ordinary public offerings may be difficult, and also offers additional equity financing options for a wide range of issuing companies

Types of finance	Impact on the market	Possibility of conversion
Public offering	Temporary selling pressure depending on the case	Immediate placement
Third-party-allocation CB or new share subscription rights (Because the CBs are very likely to be converted into common stock, they have a characteristic similar to public offerings.)	<ul style="list-style-type: none"> •Daiwa Securities SMBC purchases the CB in bulk •The promotion of selling the CBs to investors in a diversified way will lead to a decrease in selling pressure. 	High
CB placement (public placement)	Temporary selling pressure from short hedges, etc.	Medium

In February 2006, Daiwa Securities SMBC and Daiwa Securities SMBC Principal Investments developed the CO2L Bond (“Cool Bond”)*¹, which is the world’s first bond with profits linked to the price of greenhouse gas emission reduction credits.

Role of the CO2L Bond in preventing global warming

Under the terms of the 1997 Kyoto Protocol, between 2008 and 2012 Japan must reduce its emissions of greenhouse gases by 6% from the 1990 level. Since Japan already had much energy-saving technology in place by 1990, it is considered difficult to reduce emissions further. For this reason, “Emissions trading”^{*2}, which is approved under the terms of the Kyoto Protocol as an alternative means of reaching emission targets, are considered vital if Japan is to achieve the target.

Emissions trading is a way of using market principles to lower greenhouse gas emissions. At present, however, participants in the market for these credits are almost entirely industrial. Therefore, Daiwa Securities SMBC and Daiwa Securities SMBC Principal Investments developed the CO2L Bond as a revolution-

ary financial product. It offers a way for individuals and other investors with an interest in reducing global warming, but no means of making a direct contribution, to utilize their funds to help reduce greenhouse gas emissions. At the same time, it can deploy personal and private funds to assist in achieving Japan’s emission reduction targets.

Structure of the CO2L Bond

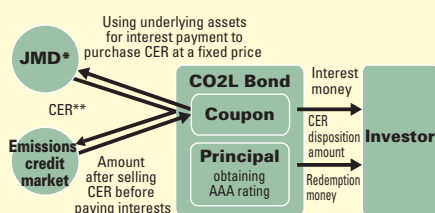
The CO2L Bond is a 7.5-year Eurodollar bond with a coupon tied to the value of emission reduction credits from five years prior to redemption. During those five years, proceeds from the sale of emission reduction credits, initially purchased in a forward agreement for a fixed price, will be paid out as interest.

In this way, the coupon value increases in line with the future increase in the price of emission reduction credits. Since the trading of such credits is at the cutting edge of human activity, there is both systemic and business risk involved. However, the principal has received an AAA rating, providing an ample level of security.

Topic 2: CO2L Bond (“Cool Bond”)

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Scheme of CO2L Bond



“CO2L Bond” coupon

Date	Kyoto Protocol 1 year pledge period											
	Mid-March	15th Sep.	15th Mar.	15th Sep.	15th Mar.	15th Sep.	15th Sep.	15th Sep.	15th Sep.	15th Sep.	15th Sep.	Mid-Oct.
	2006	2007	2008	2009	2010	2011	2012	2013				
coupon	\$	\$	\$	\$	Emissions credit selling price	Emissions credit selling price	Emissions credit selling price	Emissions credit selling price	Emissions credit selling price	Emissions credit selling price	Emissions credit selling price	\$
	Fixed coupon payment dates				Emission credit-linked coupon payment dates							

* JMD-warming gas reduction company established by Nikki, Marubeni, and Daio Construction.

** Certified Emission Reduction volume
Daiwa Securities SMBC PI conducts dispositions of emission rights.

*1: “CO2L” is a registered trademark of Daiwa Securities SMBC PI.

The patent for “CO2L Bond” is applied by Daiwa Securities SMBC PI and pending.

*2: Emissions trading

An institutional system that supports the reduction of greenhouse gases (CO₂, etc.) identified in the Kyoto Protocol. The system urges advanced nations, which are obliged to reduce greenhouse gases, to provide such technology and funds to non-advanced countries in order to cut greenhouse gases there instead of in advanced nations. The portion of volume reduced in a non-advanced country can be counted as the volume of reduction in the advanced nation, and can be traded as emissions credits.

Asset Management

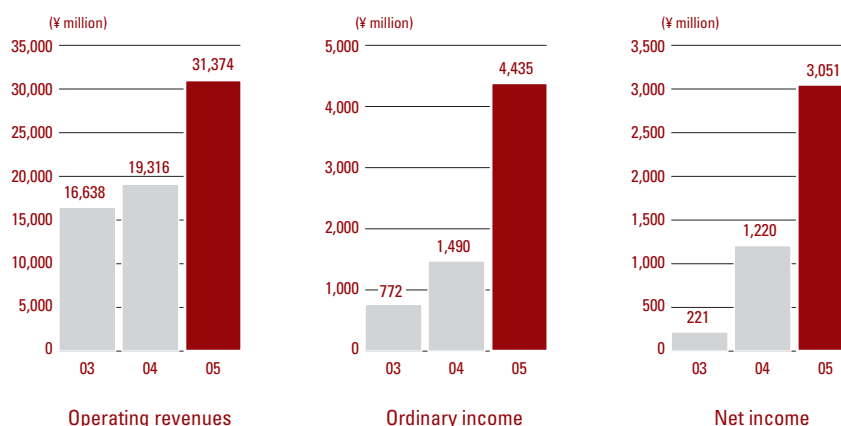
Daiwa Asset Management Co. Ltd.

Business Features

Daiwa Asset Management (DAM) is responsible for asset management, one of the core businesses of the Daiwa Securities Group. Utilizing various fund management methods, DAM launches and manages a wide range of investment trusts, investing in domestic and foreign equities, bonds, derivatives, and alternative assets. As of March 31, 2006, DAM's net assets under management of publicly offered investment trusts totaled ¥7,574.3 billion, representing a 13% market share among net assets under management of publicly offered investment trusts in Japan. DAM has a sound reputation for its fund management style, which is based on medium-to-long-term perspectives and emphasizes detailed research and analysis on the economy, markets, and corporate fundamentals conducted by its in-house economists and analysts.

Investment trusts managed by DAM are offered through a wide range of sales channels, including the core channels of Daiwa Securities and Daiwa Securities SMBC, as well as banks and defined-contribution corporate pension funds (Japanese 401k). Since October 2005, Japan Post has sold Daiwa Stock Index 225 Fund over the counter at post offices nationwide.

Financial Summary of Daiwa Asset Management



Daiwa Asset Management Main Funds launched during FY 2005

	Name of the Fund	Launch date	Launch amount (¥ billion)
1Q	Daiwa Cash-rich 2005 (Limited Open-Type Fund)	April, 2005	48.1
	Daiwa Small and Medium Cap Growth Equity Fund (Limited Open-Type Fund)	June	24.8
	Daiwa Global REIT Open (Monthly Distribution Fund)	June	3.9
2Q	Daiwa Japan High Dividend Equity Fund	July	52.1
	Daiwa Cash-rich 2005-II (Limited Open-Type Fund)	August	39.4
3Q	Income & Cash II 2005-10	October	17.3
	Resona Global Asset Allocation Fund	November	29.5
	FIT-Net Three Prefectures Support Fund (Monthly Distribution Fund)	December	17.4
	Daiwa Cash-rich Fund	December	12.1
	Income & Cash II 2005-12	December	10.5
4Q	Daiwa Expanding Growth Equity Fund	January, 2006	69.3
	Income & Cash II 2006-01	January	10.8
	Daiwa Value-Up Fund	February	95.0
	Daiwa Eco Fund	March	31.3

FY 2005 Highlights

FY 2005 Results

In FY 2005, DAM's operating revenues increased 62.4% year-on-year, to ¥31.3 billion. Ordinary income almost tripled, to ¥4.4 billion, and net income more than doubled, to ¥3.0 billion. These significant gains are attributable mainly to an increase in net assets under management of equity investment trusts.

DAM's total net assets under management of publicly offered investment trusts as of March 31, 2006, stood at ¥7,574.3 billion, up 33.4% from ¥5,675.9 billion a year earlier.

At fiscal year-end, net assets of publicly offered equity investment trusts managed by DAM totaled ¥4,238.5

billion, up two-fold from a year earlier. Open-type foreign bond funds and domestic equity funds showed particularly marked growth in net assets. For example, net assets of Daiwa Global Bond Fund, a monthly payment type of investment trust, reached ¥1,034.6 billion, up ¥719.9 billion year-on-year. In addition, Daiwa Ryusei, which invests in companies with superior capital efficiency, and Daiwa Japan High Dividend Equity Fund showed strong growth in net assets.

By contrast, net assets of publicly offered bond investment trusts were down 6.2%, to ¥3,335.7 billion, due mainly to declines in net assets of Daiwa MMF and the medium-term government bond (Chu-ki Kokusai) fund.

New products in FY 2005

In FY 2005, DAM launched various new products designed to meet investor needs, centering on open-type investment trusts investing in Japanese equity. In July 2005, DAM launched Daiwa Japan High Dividend Equity Fund, which targets high levels of dividends and capital gains. Net assets in this fund at fiscal year-end stood at ¥223.7 billion. In January 2006, DAM took advantage of favorable stock market conditions to launch Daiwa Expanding Growth Equity Fund, which invests in companies with proactive capital investments and business-strengthening measures in place. By fiscal year-end, net assets of this fund had reached ¥84.2 billion. In February 2006, DAM unveiled Daiwa Value-Up Fund, which attracted net assets of ¥111.1 billion by fiscal year-end. In March 2006, it launched Daiwa Eco Fund, one of Japan's largest eco-funds.

In addition, DAM launched two funds for sale over-the-counter at bank branches: Resona Global Asset Allocation Fund, a balanced fund investing in foreign bonds, REITs, and equities (net assets of ¥119.9 billion at fiscal year-end); and Daiwa Global REIT Open (net assets of ¥11.8 billion). In this way, DAM is actively introducing funds with multiple asset components and developing products featuring not only domestic and foreign equities and bonds, but also REITs.

Outline of New Medium-term Management Plan

Under the Group's new medium-term plan, DAM aims to be "Japan's best asset management company" regarding net assets under management of domestic publicly offered equity investment trusts, market presence in the management of Japanese equities and global bonds, and diversity of products and sales channels.

Performance Target

DAM's main target over the next three years is to raise its total assets under management of publicly offered equity investment trusts to ¥8.5 trillion or more by March 31, 2009.

Basic Strategy

— Expand equity investment trusts

In order to further strengthen its position as the industry's leading asset management company, DAM intends to increase its fund assets under management to a level significantly above the industry average, centering mainly on publicly offered equity investment trusts. It will also seek to maintain a minimum 10% market share in publicly offered equity investment trusts.

— Further strengthen investment capabilities

As a fund manager, DAM's competitiveness lies in its investment expertise. DAM intends to further strengthen its capabilities and deliver more superior performances than other competitors.

— Reinforce customer support and distribution channels via banks

Seeking to increase net assets, DAM will strengthen and enhance its support for companies selling and distributing its products. In particular, it will press ahead to expand sales through branches of megabanks and Japan Post. DAM will also further increase its share of the defined-contribution corporate pension market.

— Improve product development capability

DAM will further improve its product development capability to meet the diversifying demands of customers and address the needs of new customers. It will also increase the number of large-scale funds.

From an interview with the chief fund manager of Daiwa Global Bond Fund

Net assets under management of Daiwa Global Bond Fund have exceeded ¥1 trillion (¥1,034.6 billion as of March 31, 2006). What do you think is the main driver for this?

— A unique characteristic of Daiwa Global Bond Fund is that it focuses on public and corporate bonds from three major currency regions—North America, Europe, and Oceania. By equally dividing the investment funds between currencies of these regions rather than hedging against exchange risk, we aim for maximum yield and lowering the foreign exchange risk, and generate stable profits. As a result, the fund has achieved a consistently stable price and generated high dividends. Due to its middle-risk/middle-return management policy and strong performance, the fund has become extremely popular among individual investors, many of whom consider the yield on domestic fixed-term savings to be too low but are averse to the higher risk accompanying equity funds. The fund's success derives not only from the hard work of DAM's managers but also the combined marketing efforts of the Daiwa Securities Group, including Daiwa Securities, a main sales channel for the fund.

Similar funds launched by other companies have attracted significant recognition, greatly expanding their assets under management. How do you differentiate your product from others offered in the market?

— When Daiwa Global Bond Fund was launched, an other similar type of fund was already being offered by our competitor and was growing rapidly. Moreover, the idea of monthly-payment investment trusts was rapidly gaining in popularity. When planning the fund, therefore, we realized that we would have to outperform the competing products, or our customers would not support us. For this reason, we decided not to manage the fund by asset allocation based on general global government bond index, as other products do. Instead, we decided to proactively include a high-interest currency. At the same time, we invested in several currencies in a balanced manner, in order to generate a solid performance while maintaining relatively low volatility in fund price. As a result, we were able to soften the resistance of customers inexperienced in foreign bond investments. By also continually disclosing appropriate information regarding the fund, we have earned the strong support from customers.

Topic: Strengths of Daiwa Global Bond Fund

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What is the system and process for managing the fund?

— Because Daiwa Global Bond Fund invests in multiple currency regions, we manage it on a team, each member working on a different region. We all hold meetings early every morning to ensure that everyone in the team knows what is happening in each region. In addition, we run periodic checks to confirm that the fund is managed in line with the monthly management plan. If something unexpected happens, we analyze the situation to see if it is temporary.

What are your objectives for the future?

— The first-generation baby boomers, born between 1946 and 1951, are now retiring—a trend that will peak in 2007—and management of their retirement benefits will shift into full swing. Owing to its stable performance, Daiwa Global Bond Fund is an ideal vehicle for managing the assets of these baby boomers. Indeed, many such customers already invest in the fund.

In the foreign bond fund category, funds offered by overseas asset management companies are generally more popular than those managed by Japanese companies, even if they are managed exactly in the same way. For this reason, we need to deliver superior performances and expand our business operations as a Japanese fund manager.

Daiwa Global Bond Fund: Fund price and net assets under management



(Note 1) "Fund price after adjusting dividend" is the adjusted price assuming that fund dividend is reinvested.

(Note 2) In calculating fund price, trust fee (1.3125% against total net assets (plus tax)) is deducted.

Asset Management

Daiwa SB Investments Ltd.

Business Features

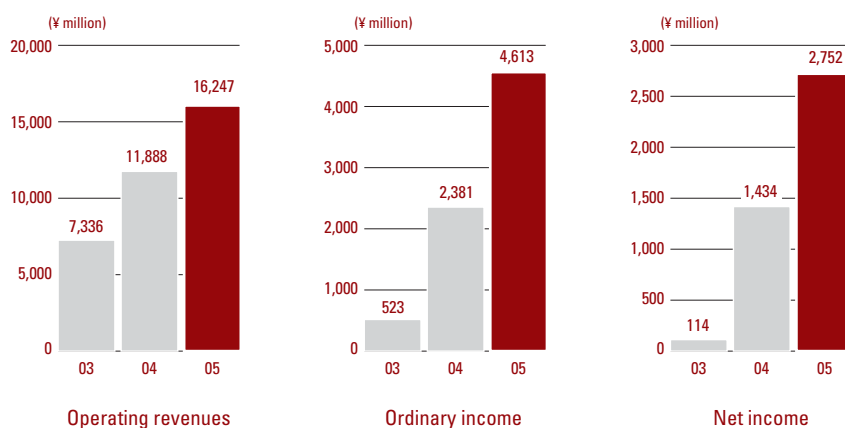
Daiwa SB Investments serves as the core asset management arm of the Daiwa Securities Group and Sumitomo Mitsui Financial Group. Its main businesses are (1) securities investment advisory services, and (2) investment trust management. The Company provides asset management services to both domestic and overseas clients. It has many years of experience and achievement in pension fund management, based on a consistent investment philosophy and management style and a partnership with T. Rowe Price Group, one of the leading investment management firms in the United States. The Company is well positioned, therefore, to provide a range of global-standard management and research offerings.

Daiwa SB Investments is particularly strong in management of pension funds, which account for 67% of net assets under management in its investment advisory business. For the fifth consecutive year since 2001, the Company has been ranked as a top-class manager in overall evaluation of pension fund management ability by “Newsletter on Pension and Investments”, published by Rating and Investment Information (R&I). The Company is also well experienced in overseas pension fund management.

Daiwa SB Investments has a strong track record in managing domestic equity value-type funds. In addition, the Company is the only Japanese fund manager selected by Japan Post to manage the Japanese equity component of both its postal savings and postal life insurance funds. It was also chosen to manage the foreign equity component of Japan Post’s postal life insurance funds.

In the investment trust management business, It develops and provides attractive investment trust products, drawing on its many years of experience in pension fund management.

Financial Summary of Daiwa SB Investments



Daiwa SB Investments Main Funds launched during FY 2005

	Name of the Fund	Launch date	Launch amount (¥ billion)
2Q	Global High Dividend Equity Open	July, 2005	24.0
	M&A Value Fund	September	47.0
3Q	Japan High Dividend Equity Open	October	13.0
4Q	SMBC Friend Aging Society related Japan Equity Fund '06-02	February, 2006	13.8
	Daiwa SB Investments Premier Fund I	March	5.1
	M&A Focus Fund	March	30.5

FY 2005 Highlights

Daiwa SB Investments generated operating revenues of ¥16.2 billion in FY 2005, up 36.7% year-on-year. Ordinary income surged 93.7%, to ¥4.6 billion, and net income jumped 91.9%, to ¥2.7 billion.

Total assets under management at March 31, 2006, amounted to ¥5,221.6 billion, up 33.8% from ¥3,901.8 billion a year earlier. Of this amount, total assets in the investment advisory business stood at ¥4,070.1 billion, up 28.9% from ¥3,158.4 billion. Net assets of investment trusts reached ¥1,151.5 billion at fiscal year-end, up 55%

from ¥743.4 billion. Benefiting from the bullish stock market, Global High Dividend Equity Open, launched in July 2005, attracted net assets of ¥146.3 billion by fiscal year-end. Also selling well in FY 2005 were M&A-themed funds, such as M&A Value Fund (launched in September 2005) and M&A Focus Fund (March 2006).

Outline of New Medium-term Management Plan

Under the plan, Daiwa SB Investments aims to become “Top in Quality”. Specifically, it will seek to be a world-class, high-quality asset management company that can represent Japan on the world stage. To this end, the Company will endeavor to earn a strong reputation in the market and win the trust of clients, by providing a superior pension fund management capability backed by rich experience and highly meticulous services. In addition, the Company will continue expanding its investment trust management services and build a stable and efficient business platform. Daiwa SB Investments’ quest is to become a top-class Japanese asset management company in both quality and quantity.

Performance Target

As its main target, Daiwa SB Investments aims to increase net assets of domestic pension funds and overseas customers’ funds to ¥4.4 trillion or more by March 31, 2009. During the same period, it will also seek to increase net assets of equity investment trusts (including investment advisory assets of corporate clients) to ¥2.9 trillion or more.

Basic Strategy

— Further strengthen fund management capability

Daiwa SB Investments will strengthen and review its fund management, research, and risk management systems to further boost its reputation in the market. It aims to consistently rank in the top 3 for overall evaluation of pension fund management ability by R&I.

— Diversify lineup of domestic pension fund products

Daiwa SB Investments believes in the importance of maintaining and increasing its presence in the pension market, including defined-contribution corporate pension funds (Japanese 401k) and variable annuities. In addition to Japanese equities, the Company intends to diversify its product lineup to include bond-type instruments and contingency-fee-type alternative investment products, in order to expand its domestic pension fund management business.

— Expand into overseas markets

The asset management needs of overseas public and private pension funds and institutional investors will continue to grow in line with the increasing attractiveness of the Japanese and other Asian economies. In response, Daiwa SB Investments will offer appealing products, including Asian equities and alternative investment instruments, utilizing its strength in Japanese equity fund management. In the process, the Company will expand the base of overseas customer assets under management.

— Strengthen marketing of equity investment trusts

The asset management needs of corporations—especially financial institutions and Japan Post and its postal life insurance funds—will continue to increase, as will the needs of the baby-boom generation. Against this background, Daiwa SB Investments expects demand for equity investment trusts, including defined-contribution corporate pension funds, to expand. To meet such demand, Daiwa SB Investments will aggressively market its equity investment trusts to both corporate clients and retail customers by focusing on the development of high-quality products.

Investment

Daiwa Securities SMBC Principal Investments Co. Ltd.

Business Features

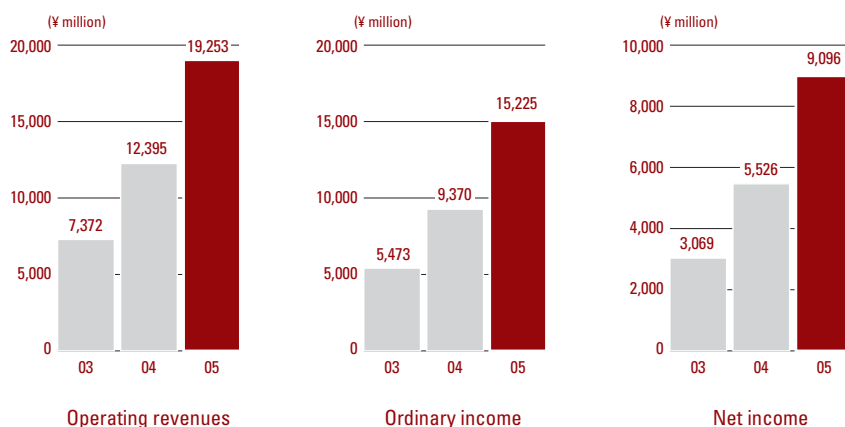
Daiwa Securities SMBC Principal Investments (Daiwa Securities SMBC PI) is a wholly owned subsidiary of Daiwa Securities SMBC, a joint venture between the Daiwa Securities Group and Sumitomo Mitsui Financial Group (SMFG).

A “principal investment” is one in which the investing entity takes the risk in using its own funds to make investments in order to reap returns. Daiwa Securities SMBC PI addresses the broad-ranging needs of clients endeavoring to restructure their businesses, including financial institutions and corporations seeking to improve their balance sheets and sell assets. To meet these needs, it invests in a variety of instruments, including non-performing loans and other monetary claims, as well as real estate and listed and unlisted private equities. It also creates and manages various funds, notably regional corporate revitalization funds. In these investment activities, our professionals in finance, real estate, accounting, tax, and other specialized consulting fields work together as a team, contributing to the growth and revitalization of Japanese corporations and the rejuvenation of the domestic economy.

FY 2005 Highlights

Owing primarily to an increase in revenues from real estate investments, Daiwa Securities SMBC PI posted a substantial 62.5% jump in ordinary income in FY 2005, to ¥15.2 billion. At March 31, 2006, its balance of investments stood at ¥310 billion, a 3.4-fold surge from ¥90 billion a year earlier. This rise stemmed mainly from large-scale investments made during the year, including in SANYO Electric and Sumitomo Mitsui Construction. The year-end investment balance consisted of ¥229 billion in private equities, ¥40 billion in monetary claims, ¥20 billion in real estate, and ¥21 billion in funds for which Daiwa Securities SMBC PI is involved in management.

Financial Summary of Daiwa Securities SMBC Principal Investments



Main Investments and Fund Launch in FY 2005

Private equity and PIPEs*	Mitsui Kanko Development (non-listed company): MARUZEN (listed on the 1st section of TSE): Sumitomo Mitsui Construction (listed on the 1st section of TSE): SANYO Electric (listed on the 1st section of TSE):	¥7 billion ¥10 billion ¥49 billion ¥125 billion
Real estate	Joint investments in office buildings and other real estate with overseas investors	
Funds	Hokkaido corporate recovery funds "Hamanasu Power Equity Fund" jointly organized with Hokuyo Bank for the purpose of strengthening the capital base for small to medium companies.	
Others	Euro dollar bond (CO2L Bond) with a coupon linked to the price of emissions credits; jointly developed with Daiwa Securities SMBC	

*PIPEs=Private Investment in Public Equities

Key Business to Strengthen

Investment balance

Target for FY2008

¥400 billion or more (end of March 2009)

Outline of New Medium-term Management Plan

Business Environment Assumptions

Going forward, the excess of players in the market will create intensified competition, causing the number of attractive bargains and simple straight deals to level off. In this situation, only players with comprehensive capabilities, ranging from identifying attractive deals to devising exit strategies, will prevail. Those lacking expertise, meanwhile, will not survive. On the other hand, the increasing number of M&A deals, expanding private equity market, and legal provisions to facilitate organizational restructuring will increase demand for solutions using diversified investment methods, such as stock market delistings, management buyouts (MBOs), and carve-outs (partial spin-offs).

Performance Target

Daiwa Securities SMBC PI aims to achieve an investment balance of ¥400 billion or higher by March 31, 2009.

Basic Strategy

One of Daiwa Securities SMBC PI's strengths is its ability to uncover lucrative investment targets by leveraging the networks of Daiwa Securities SMBC and Sumitomo Mitsui Banking Corporation (SMBC). Specifically, it brings together the broad customer base of SMBC and the advanced due diligence capabilities of Daiwa Securities SMBC to conclude numerous ground-breaking deals. Going forward, it will allocate substantial management resources, such as personnel and capital, mainly to the private equity investment division, while sustaining other revenue sources—investments in monetary claims and real estate. Moreover, it will work to develop new revenue sources by moving into new businesses, such as trading in emission reduction credits.

In March 2006, Daiwa Securities SMBC PI, together with the Goldman Sachs Group and SMBC, underwrote preferred shares issued by SANYO Electric (Daiwa Securities SMBC PI underwrote ¥125 billion of the ¥300 billion total issue). Along with the investment, Daiwa Securities SMBC PI sent two board directors and seven management staff to SANYO Electric to help enhance that company's corporate value.

SANYO Electric

— From a home electrical appliance maker to “a leading manufacturer in the environment and energy sectors”

SANYO Electric (SANYO) has manufactured and marketed home electrical appliances, industrial products, and electronic parts since its establishment in 1950. Unlike an ordinary home appliance manufacturer, however, SANYO today has unique business lines covering such items as batteries, condensers, mobile phones, and showcases for supermarkets. Moreover, it has more than 160 manufacturing and sales subsidiaries and affiliates worldwide, and their business is expanding globally.

In recent years, SANYO has faced very difficult business conditions. Its profitability has declined due to

intensifying global competition across the electronics sector, as well as the damage caused to manufacturing facilities by the Niigata Chuetsu Earthquake. Responding to these adverse circumstances, in July 2005 it launched the “SANYO Evolution Project,” a three-year restructuring project aimed at overcoming its crisis. And in November 2005, it formulated a medium-term management plan (FY 2005 to 2007).

Seeking to be a “corporation that would truly please the earth and life”, the SANYO Electric Group developed its “Think GAIA” vision. Guided by the vision, it is applying its proprietary technologies and offering imaginative solutions, with particular focus on the environment, energy, and lifestyles.

Increase in Capital

— Focus on core businesses and strengthen balance sheet

SANYO posted net losses in FY 2004 and FY2005 due to declining revenues stemming from adverse business conditions. Its equity capital decreased significantly as a result. To sustain its business operations in this critical situation, SANYO needed to find ways to strengthen its balance sheet, by increasing equity capital and reducing interest-

Topic: Investment in SANYO Electric

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bearing debt. Previously, Daiwa Securities SMBC had served as lead manager in extending support to SANYO for its restructuring efforts. Given the nature of SANYO's situation, however, Daiwa Securities SMBC began considering an injection of equity via Daiwa Securities SMBC PI. Because Daiwa Securities SMBC PI was confident in SANYO's ability to recover from its situation, it decided to participate in the SANYO's ¥300 billion issue of preferred share, along with the Goldman Sachs Group and SMBC, and to work together with SANYO in implementing its medium-term management plan. The investment was completed on March 14, 2006.

Outline of Capital Increase (preferred shares)

— Support the implementation of the medium-term management plan

SANYO issued two classes of preferred shares—Class A Preferred Shares and Class B Preferred Shares—on the condition that conversion to common stock and transfer to third parties are prohibited for one year after issuance and that a certain holding ratio of voting rights accompanying the shares are kept for two years. These conditions were designed to minimize the impact on the stock price and management of SANYO during the implementation of its medium-term plan.

Contents of Preferred Shares

Name of shares	No.1 Class A Preferred Shares of SANYO Electric Co., Ltd.	No.1 Class B Preferred Shares of SANYO Electric Co., Ltd.
Total value of issuance	¥127,779,540 (thousand)	¥172,220,510 (thousand)
Amount allocated to Daiwa Securities SMBC PI	¥62,863,430 (thousand)	¥61,136,610 (thousand)
Voting rights at the Shareholders Meeting (Yes/No)	Yes	No
Paid-in date of preferred shares	March 14, 2006	March 14, 2006
Period to convert to common shares	From March 14, 2007 or later until March 13, 2026 (inclusive)	From the following day of the paid-in date until March 13, 2026 (inclusive) (However, common shares converted cannot be transferred to a third party until March 13, 2007 without the consent of the contracting parties.)

Investment

NIF SMBC Ventures Co., Ltd.

Business Features

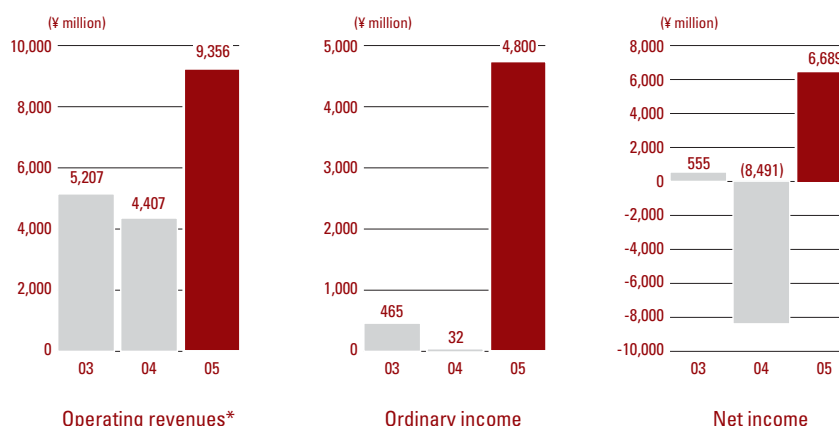
NIF SMBC Ventures is a private equity firm that specializes in venture and buyout investments as its core businesses. It was founded in October 2005 through the merger of NIF Ventures, member of the Daiwa Securities Group, and SMBC Capital, member of Sumitomo Mitsui Financial Group (SMFG).

With respect to venture investments, NIF SMBC Ventures basically seeks to make hands-on investments that entail in-depth involvement in the entire management of the venture business, ranging from capital investment, introduction of personnel, and provision of advice on capital policy and stock exchange listing. Major investment prospects include corporations equipped with cutting-edge technologies in such areas as digital technologies and life sciences, as well as venture companies with unique business models in such areas as contents and services.

Regarding buyout investments, NIF SMBC Ventures provides support to large enterprises seeking to spin-off or spin-out subsidiaries and business divisions. It also assists companies aiming to delist their shares, and it helps small and medium-size enterprises with high-quality resources but having succession problem, for example, to restructure their operations through MBOs or other means. Its abundant experience and expertise in venture investments is valuable in buyout investments that require active involvement in the management of the investee entity.

In addition to a strong customer base, NIF SMBC Ventures has amassed a wealth of knowledge in such areas as fund management and providing managerial support to investee companies. NIF SMBC Ventures is seeking to become “Japan’s best private equity firm” by utilizing synergies derived from combining the networks of the Daiwa Securities Group and SMFG.

Financial Summary of NIF SMBC Ventures



*Using figures compiled for the consolidated financial statements of Daiwa Securities Group Inc.
Note: Results in FY 2003 and FY 2004 were for NIF Ventures.

FY 2005 Highlights

In FY 2005, NIF SMBC Ventures reported operating revenues of ¥9.3 billion, up ¥4.9 billion year-on-year, owing to an increase in capital gains amid favorable conditions in the equity and IPO markets. Although SG&A expenses increased due to the merger in October 2005, ordinary income totaled ¥4.8 billion. Net income was ¥6.6 billion, compared with an ¥8.4 billion net loss in FY 2004.

During the year, NIF SMBC Ventures invested in 148 corporations (an increase of 33 from FY 2004), making total investments of ¥25 billion (up 56.1% year-on-year.) Specifically, it invested in 145 venture companies, mainly in Japan (up 33 year-on-year), for total of ¥19.9 billion (up 52.6%). In the buyout category, it invested a total of ¥5.1 billion in three companies, including the takeover of Gakken Credit Corporation and an investment in HALC. This compares with three investments, totaling ¥2.9 billion, in FY 2004.

NIF SMBC Ventures supported 23 investee companies in Japan to be newly listed, up from 19 in FY 2004, and six overseas, up from four.

With respect to fund management, the balance of funds outstanding as of March 31, 2006, was ¥162.8 billion, up ¥54.9 billion from a year earlier.

Outline of New Medium-term Management Plan

Business Environment Assumptions

Against the backdrop of a steadily recovering Japanese economy, opportunities for venture and buyout investments will increase as need to create new industries and restructure corporations become more widely recognized. Facilitating this trend will be significant advances in relevant legal systems and other social mechanisms.

Basic Strategy

— Use broad securities and banking networks to better identify investment opportunities

NIF SMBC Ventures intends to increase its portfolio of investments that will generate revenue in the future. Here, it will draw on the customer bases and networks of the Daiwa Securities Group and Sumitomo Mitsui Banking Corporation. NIF SMBC Ventures will also expand its fund management activities to address the growing need among their business partners for investment in private equity funds.

— Seek enhanced quality and scale

NIF SMBC Ventures will upgrade its various networks in an effort to improve the performances of its investments. In addition to their business network, which was broadened due to the merger, it will seek stronger ties with universities in line with the trend toward industry-academia collaboration, and it will build closer relations with fund investors and business partners. In addition, it will draw on ties with business offices and local venture capitalists in Asia, the United States, and Europe.

NIF SMBC Ventures will enhance its system for accurately evaluating advanced digital technologies and life science technologies, by strengthening its industry-specific team framework and the Technical Adviser Office of NIF SMBC Ventures, which is staffed with specialists. It will also promote full-scale investments in corporations in all types of businesses and at different growth stages. Through these efforts, it will build a balanced portfolio and ensure stable earnings.

Moreover, NIF SMBC Ventures will step up investments in Asia, focusing on that region's high growth potential. To this end, it established a liaison office in Shanghai in November 2004.

Group Support

Research, Consulting, and Systems

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Daiwa Institute of Research Ltd.

Business Features

Daiwa Institute of Research (DIR) is the comprehensive think tank of the Daiwa Securities Group. DIR provides Group companies with high-quality information services in the areas of research, consulting, and systems to help enhance their business value, while offering the best solutions to meet the needs of customers outside the Group.

Research at DIR is led by Japan's top-ranking analysts, who issue timely reports based on economic and corporate fundamentals. DIR also conducts market analysis from the various viewpoints of economists, quants, and technical analysts. Moreover, DIR analyzes policies and makes proposals for reforming legal systems and financial and capital markets.

In the area of consulting, DIR provides a broad range of services related to corporate strategy, restructuring of businesses and organizations, and corporate revitalization, while also making advanced proposals. Furthermore, it offers consulting on pension systems to help each of its client companies design an optimal pension plan.

As for systems, DIR serves as the core IT arm of the Daiwa Securities Group, offering stable and advanced systems that bolster the Group's evolving financial and securities businesses.

FY 2005 Highlights

In FY 2005, DIR posted a 22.6% year-on-year increase in operating revenues, to ¥78.9 billion. Ordinary income rose 37.5%, to ¥7.3 billion, and net profit jumped 50.3%, to ¥4.3 billion.

In research, DIR was ranked No. 1 for the third consecutive year in both the analyst ranking by the Nikkei Financial Daily and analyst/economist ranking by the weekly Mainichi Economist magazine.

In consulting, DIR set up research committees on corporate governance, CSR, risk management, and internal control reporting systems, in order to provide corporations with appropriate advice on management practices. It also helped companies formulate medium-term management plans, and proposed and carried out business restructuring of various corporations.

In systems, DIR reported an increase in sales from system development services owing higher strategic IT investments by Group companies. Sales of systems to financial institutions and firms outside the Group also showed a steady rise, as DIR successfully met the needs of such entities.

Outline of New Medium-term Management Plan

DIR will strive to become the “Japan’s best information service company”, built on customers’ trust and employees’ passion. By providing the highest-quality information service in both research and systems, DIR will play a significant role in supporting the expansion of the Group’s businesses.

Basic Strategy

The research and consulting divisions of DIR will help the Daiwa Securities Group maintain its steady growth, while contributing to the sound development of the capital markets.

DIR will further enrich its research function, which forms the core of securities-related businesses, in order to deepen relationships with its customers and to accurately address their increasingly sophisticated and diversified needs in securities-related businesses. It will focus specifically on establishing and reinforcing the DIR brand in the brokerage field. Here, DIR will demonstrate its foresight, based on its research expertise and analysis skills, to make sophisticated proposals. In consulting, DIR will step up its contribution to the Group’s origination business, which is the domain of Daiwa Securities SMBC’s investment banking division. DIR will achieve this by enhancing its solution-provision capabilities, backed by research functions and professional consulting tools in advanced fields.

The systems division of DIR will cooperate with other Group companies to put the Group’s IT strategy into practice, swiftly respond to environmental changes, and improve overall system security. It will also train talented personnel in order to improve its services and support the development of client companies, both in and outside the Group.

In FY 2005, DIR's Emerging Industries Research Division, which identifies emerging companies, began offering a course at Waseda University to nurture entrepreneurs. This course is funded by Daiwa Securities Group Inc.

Although the course was originally designed to admit 25 students, it had to increase the number of places because the course's popularity greatly exceeded its expectations, with more than 200 students applying. The final class of the course included a business plan competition, where 12 students received awards. The winner of the competition went on to found his own company in February 2006, receiving significant media coverage and boosting the reputation of the course.

During the year, DIR also provided comprehensive assistance to a project to support female entrepreneurs, which was cosponsored by Fujisankei Communications Group and Daiwa Securities Group Inc. With the aim of "revitalizing Japan," the project involved seminars at eight venues (2,402 applicants) nationwide and a business plan competition (1,563 applicants). The competition and the subsequent awards ceremony were widely covered in the press.

Lecture by a lecturer from Daiwa Institute of Research



Group Support

Securities Business Administration

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Daiwa Securities Business Center Co., Ltd.

Business Features

Daiwa Securities Business Center (DSC) is a comprehensive outsourcing vendor and provider of back office services related to the securities business. DSC deploys its expertise and systems, accumulated through its handling of Daiwa Securities' entire back office functions, to help Group companies and other clients enhance the efficiency of their business operations at low cost.

In December 2002, DSC became the first back office service provider in the industry to obtain ISO 9001:2000 certification*, an international standard for quality management systems, for its back office operations on behalf of Daiwa Securities and Daiwa Securities SMBC. Taking this opportunity, DSC successfully transferred its ISO 9001:1994 certification, previously obtained for its services to securities firms outside the Group, to the ISO 9001:2000 certification. DSC also obtained the "Privacy Mark" certification from Japan Information Processing Development Corporation (JIPDEC) in September 2005 for its appropriate handling of personal information.

* With "quality management systems" as its concept, the ISO 9001:2000 standard is an upgraded version of the ISO 9001:1994 standard, which focused on "quality assurance." The objective of ISO 9001:2000 is to "improve customer satisfaction" at a high level through ongoing improvements in quality management systems.

Group Support

Branch Office Administration and Real Estate Consulting

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Daiwa Property Co., Ltd.

Business Features

Daiwa Property is a real estate company that provides property management services, mainly for branch offices, corporate dormitories, and other buildings used by the Daiwa Securities Group. It specializes in building new facilities and refurbishing, rebuilding, and replacing existing ones. With abundant expertise in real estate management, accumulated since its foundation more than 50 years ago, Daiwa Property offers high-quality real estate services by reinforcing its property management infrastructure and actively promoting its “business solution” services.

In property management, Daiwa Property maintains data on buildings and other facilities owned or rented by the Daiwa Securities Group (data control), implements earthquake-resistance and other disaster-prevention measures, and performs risk management for leased properties. In the solutions business, it works with Daiwa Securities SMBC PI to expand its real estate consulting capabilities, providing advice on such matters as reducing real estate investment costs and impairment accounting.

In November 2007, the Group plans to relocate its head office building to consolidate the presently dispersed functions of Group companies. To ensure the smooth completion of this project, Daiwa Property is extending full support to the Headquarters Relocation Department of Daiwa Securities Group Inc.