

Trust in Our Strategy

The current medium-term management plan, “Passion for the Best” 2008, charts a course towards making the Daiwa Securities Group “Japan’s best securities group.” In FY 2007, as this management plan accelerates towards its goal, the Group will focus on four key issues.

“Passion for the Best” 2008, the Daiwa Securities Group’s medium-term management plan, encapsulates the Group’s business strategy for the period from FY 2006 to FY 2008. The motto on which the group bases its corporate vision is: “Build Japan’s best securities group on a foundation of customer trust and employee commitment.” More specifically, the Group intends to raise consolidated ordinary income to at least ¥350 billion, and ROE to at least 15%.

Summary of “Passion for the Best” 2008

The Daiwa Securities Group’s medium-term management plan focuses on four core businesses: retail securities, wholesale securities, asset management and investment. For each of these operations, the Group has adopted a separate business model designed to cultivate competitive advantages and industry leadership, generating earnings that contribute to making Daiwa the top securities group in Japan. The medium-term management plan sets out goals and basic strategies for each core business, which will ensure that they play their part in promoting the Group’s overall objectives. By allocating resources to each business appropriately, the Group aims to not only improve management efficiency, but also to develop synergy among all operations.

The goal of becoming “Japan’s best securities group” is not simply a reference to the size of operations or the level of earnings. The Daiwa Securities Group also intends to earn the top position in terms of customer satisfaction and various other industry rankings.

In developing a basic strategy for the Group, to serve as the backbone of management activity, the Daiwa Securities Group identified six factors which should receive priority—personnel, finances, information technology (IT), risk management/internal control, investor relations (IR)/corporate communications and corporate social responsibility (CSR). Objectives have been set for each of these factors, to ensure that the Group’s underlying base of personnel, capital and infrastructure are sufficient to support future growth, while compliance policies are strictly followed and CSR efforts are extended to earn the trust and support of all stakeholders. Meanwhile, the Group will seek ways to motivate its personnel, ensuring that each individual takes pride in their work, and every one of the employees and executives in the Group strives with the passion to make the Daiwa Securities Group the best securities group in Japan.

Management Targets of “Passion for the Best” 2008

Consolidated ordinary income: ¥350 billion

Consolidated ROE: 15%

Retail	Wholesale	Asset Management
Ordinary income: ¥130 billion	Consolidated ordinary income: ¥190 billion	Ordinary income: ¥30 billion*1
Daiwa Securities customer assets under custody: ¥45 trillion	No. 1 position in league tables	Equity investment trusts assets under management: ¥14 trillion*2
		Investment advisory assets under management: ¥5 trillion

*1 Target increased in April 2007, from a previous target of ¥21 billion

*2 Target increased in April 2007, from a previous target of ¥11 trillion

Elements of the Group's Core Strategy

Personnel	Attract top-quality employees and provide them with a challenging and highly motivational work environment and structure
Finances	Manage risk, return and capital in an integrated manner, to maintain high profitability and a healthy financial position, in order to raise corporate value in line with the growth targets set out in the medium-term management plan
IT	Upgrade the quality of IT infrastructure to support the growth of Group operations
Risk management/ internal control	Develop internal control structures that can effectively manage the financial resources of each division and evaluate earnings performance, while responding to internal control reporting system
IR/corporate communications	Establish a network of communications with the public and investors that is appropriate for an organization that seeks to be Japan's best securities group
CSR	Improve public perceptions of the Group by making effective contributions to a strong and healthy global economy and society

Perceptions of the Business Environment and Management Plans for FY 2007

As the Daiwa Securities Group sets its sights on rapid growth and business expansion through its management plan, "Passion for the Best" 2008, business conditions in the Japanese securities industry provide the Group with a favorable environment in which to reach its goals. Strong corporate earnings, coupled with a shift in individual assets from savings to investment, have combined to create brisk demand and buoyant markets.

Although a global slump in stock prices in February 2007 contributed to a mild correction in the Japanese equity market, in FY 2006, ordinary income at Japan's major 300 corporations increased for the fifth year in a row*. Meanwhile, Japanese individuals have been pouring their savings into publicly offered equity investment trusts at a record pace. As it continues to advance towards its medium-term goals, the Daiwa Securities Group intends to concentrate its efforts in FY 2007 on four specific issues:

* Based on data from Daiwa Institute of Research: 300 leading business corporations listed on the Tokyo Stock Exchange First Section

1. Dramatically increase client assets under custody

In order to take full advantage of recent trends among individual investors, who are shifting their assets from savings to investment, the retail operations of the Daiwa Securities Group will work to dramatically increase customer assets under custody. Daiwa Securities, the main player in the core retail securities business, will take the lead in a Group-wide effort, deploying all of the management resources available to address the diverse and detailed needs of individual investors. The Group will focus on developing top-quality products and services that help individual investors to manage their assets effectively.

2. Enhance solutions business and reorganize trading operations to improve profitability

Japan's capital markets are becoming more active as more Japanese corporations turn to the markets for capital to support their business strategies. The Daiwa Securities Group is working to help these companies realize their growth strategies by offering them optimal solutions for procuring capital or pursuing mergers and acquisitions. In doing so, the Group can expect to expand its own business operations. In addition, the Group plans to develop more cutting-edge trading operations, to handle not only traditional equity and bond products, but also to develop and trade the most advanced financial instruments, as another way of expanding the range of revenue sources.

3. Bolster business associated with Asia

By focusing on the rapidly growing markets of Asia, the Group hopes to solidify its overall competitive strengths and bolster business associated with that region. Specifically, the Group wants to expand its own direct investments in Asia, as well as its investment banking, brokerage and private banking operations there, and promote trading and management operations related to Asian stocks. By raising its profile in Asia, the Daiwa Securities Group aims to establish a stronger presence in global markets in general.

4. Expand operations into promising new sectors

The Group continues to expand its reach by developing new businesses. In FY 2006, new members were added to the Group—Daiwa Fund Consulting Co. Ltd. and Daiwa Securities Loan Co., Ltd. The Group is planning to expand these operations, and explore other promising new business opportunities in FY 2007 and beyond. Each Group member is constantly on the lookout for such opportunities, and the Group as a whole aggressively addresses new businesses, in an effort to expand operations.