

## Review of Operations

		
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## Business Environment for the Daiwa Securities Group

The Japanese financial industry has experienced a large number of changes in the recent past, which have laid the groundwork for the industry's current conditions and trends. One of the most influential of these changes began in 1996, when the government instituted a series of regulatory reforms that it referred to as the "Japanese Financial Big Bang." A second transformation was triggered in 2000, when the government took steps to stimulate the market, which was floundering after the collapse of the "IT bubble." These events have had a major impact on the business model and earnings structure of all Japanese securities companies, including the Daiwa Securities Group, which have changed dramatically to match the changes taking place in the business environment.

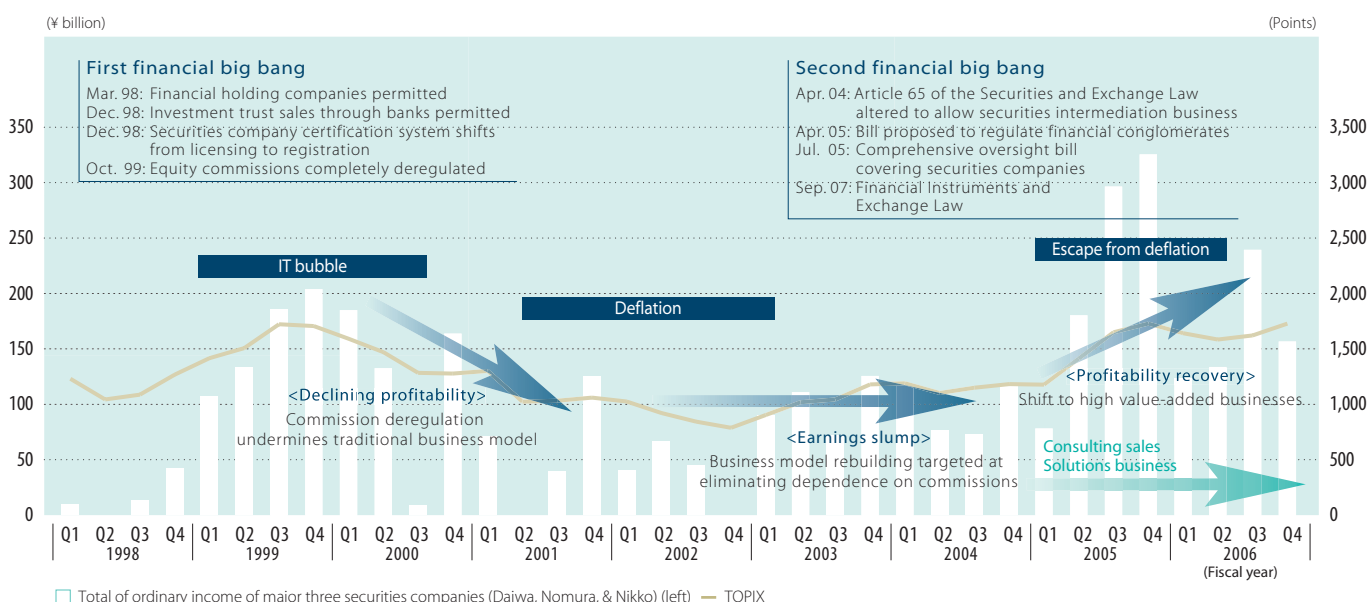
For example, as part of the "Japanese Financial Big Bang" reforms, the basis for securities trading was changed in December 1998 from a licensing system to a registration system. At the same time, the restrictions that prevented banks from acting as sales agents for investment trusts were also lifted. In October of 1999, equity brokerage commissions were fully deregulated. These reforms not only made it easier for new companies to enter the securities industry, but also triggered price competition in the industry based on the level of brokerage commissions charged.

In December 2004, restrictions on securities intermediation services were lifted, and in October

2005, the post office's financial services division began selling investment trusts. Both of these moves increased the number of new competitors in the securities industry, while at the same time expanding the base of potential customers accessible to securities products. Meanwhile, the government was lowering taxes on dividend income and capital gains from stock investment, thus encouraging a more rapid flow of assets into the stock markets and providing a clearer picture of the government's plans to stimulate the Japanese economy.

In addition, regulatory changes are being gradually adjusted to offer greater protection to investors. In September 2007, the government will implement the Financial Instruments and Exchange Law, a comprehensive regulatory change aimed at protecting investors in financial products including commodities futures and foreign exchange.

These efforts led by the government, to reform the regulatory structure of the securities industry, have contributed greatly to the shift in individual investors' attitudes towards securities investment. In the past, individuals put the majority of their personal assets into savings accounts or time deposits, or held it as cash. Today, the estimated ¥1,500 trillion of individual financial assets are shifting steadily into investments with higher risk and higher returns such as equities, investment trusts, foreign bonds and other securities products. This trend has become known as "the shift from savings to investment."

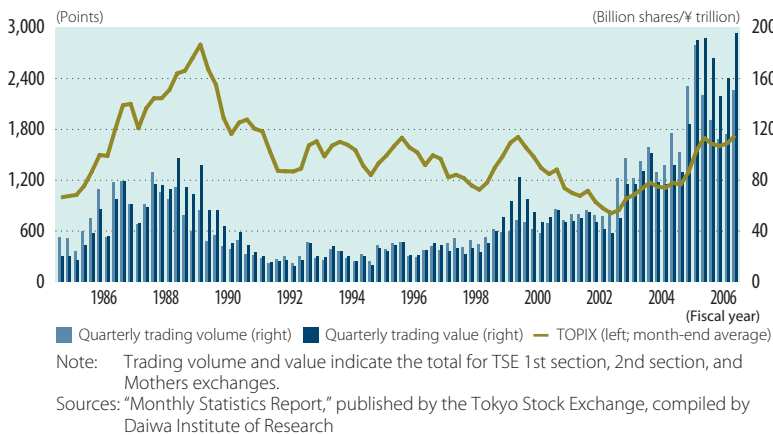


Japan's economy is finally breaking free from the influence of deflation, and attention is turning to the issue of an aging society and how well Japan's pension system can function in the future. These issues are accelerating the trend towards securities investment. Furthermore, in the past only securities companies could respond to demand for securities products, but today, industry diversification is bringing more players into the market. For example, companies that specialize in online trading are offering lower equity brokerage commissions. This, coupled with the convenience of Internet-based trading, has allowed them to capture a large share of individual investors' demand in terms of trading value. In addition, investment trusts can now be purchased easily at banks and post offices throughout Japan. While competition may be increasing in these ways, the latent market and customer base that securities

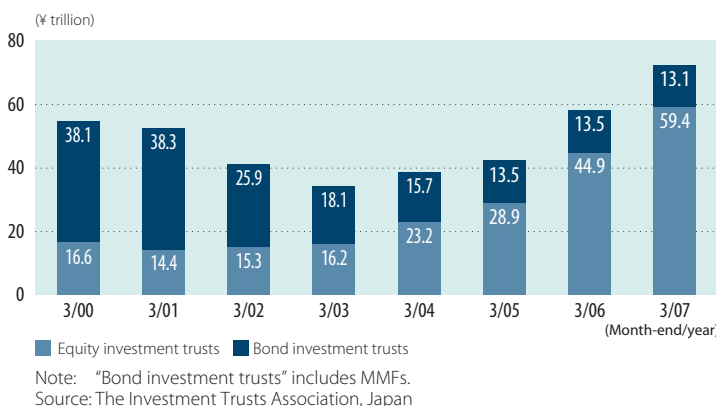
companies can target is growing, and the range of business opportunities is expanding.

On the corporate side, meanwhile, management has been forced to pay greater attention to market perceptions, as a larger share of their stock moves into the hands of overseas investment funds who tend to be very vocal shareholders. As a result, company management needs to consider a much broader range of issues. In the past they could simply focus on making good profits and accumulating cash, but today it is essential that they consider how to use those funds most productively—should they raise capital investment, pay out the money in dividends, pursue a merger or acquisition, or repurchase their own stock? To meet these more diverse expectations, companies need expert advice on comprehensive financial management, mergers and acquisitions, and related issues. The major domestic securities companies are

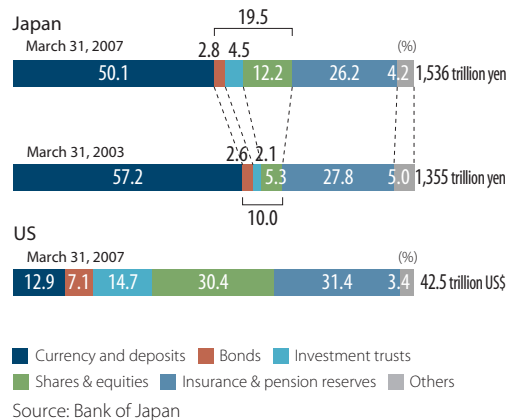
Average Trading Volume and Value on Tokyo Stock Exchange, and Movements in TOPIX (Quarterly Basis)



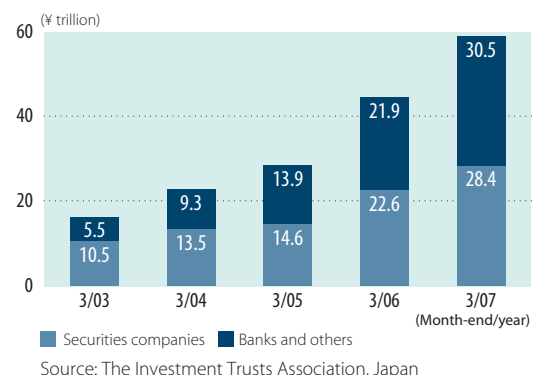
Trends in Investment Trust Assets in Japan



Trends in Household Financial Assets



Breakdown of Assets in Publicly Offered Equity Investment Trusts, Based on Sales Channel



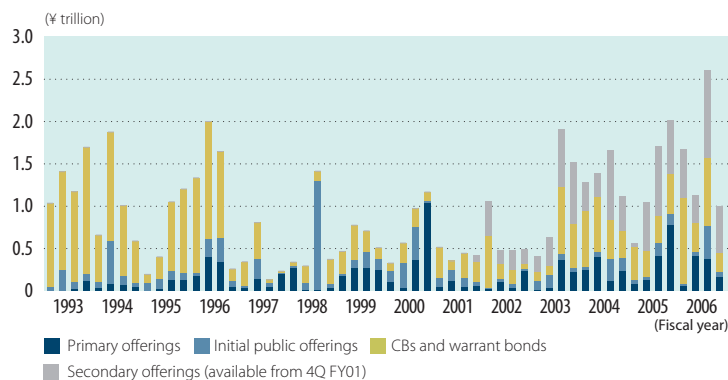
not the only ones that companies turn to for this kind of advice; the advanced financial knowhow that foreign financial institutions possess, and the close business ties enjoyed by securities companies linked to major banking groups are allowing these players to aggressively expand their share of this market as well.

Although the business environment is becoming increasingly competitive, the Daiwa Securities Group is focusing instead on the expanding range of business opportunities that are waiting to be exploited. As the diversifying range of sales channels for securities trading by individual investors makes it easier for them to access the capital markets, the overall scale of this market is expanding and diversifying apace. Meanwhile, the rising presence of investment funds in the market is making corporations more aware of and sensitive to the perceptions of market participants, and consequently this has developed

stronger demand for advisory services. In short, even though ongoing market changes may make competition in the securities industry increasingly intense, they are also creating new opportunities and potential for even greater business growth.

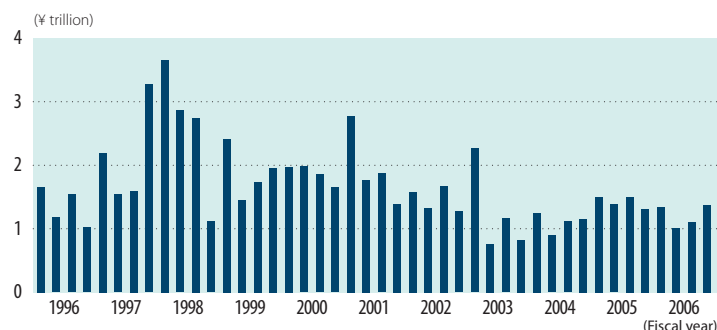
Within this market environment, the Daiwa Securities Group has identified four core businesses that it intends to develop aggressively: retail securities, wholesale securities, asset management and investment. In each of these sectors, as well as in the businesses providing administrative support to the Group, we have adopted a separate and unique strategy while also seeking ways to maximize the synergy of the overall Group. In this way, the Daiwa Securities Group is working to distinguish itself from industry rivals, to achieve brisk and continuing growth, and to establish itself as “Japan’s best securities group.”

#### Public Offerings in Japan



Source: “Equity finance conditions among listed Japanese companies,” published by the Japan Securities Dealers Association, compiled by Daiwa Institute of Research

#### Bond Issuance in Japan by Listed Companies



Source: “Monthly Statistics Report,” published by the Tokyo Stock Exchange, compiled by Daiwa Institute of Research

## Daiwa Securities Group at a Glance

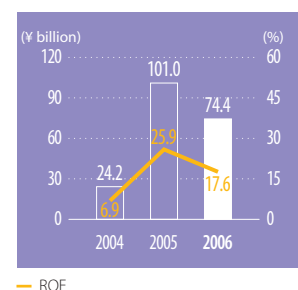
### Major companies

### Ordinary income



#### Daiwa Securities Co. Ltd.

Daiwa Securities is a wholly owned subsidiary of Daiwa Securities Group Inc., and is responsible for leading the Group's retail securities operations. The company mainly serves individual investors and unlisted companies, offering consulting and online trading, and handling a complete spectrum of financial products and services.

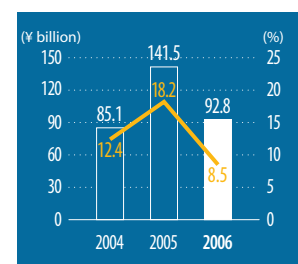


— ROE



#### Daiwa Securities SMBC Co. Ltd.

Daiwa Securities SMBC is a joint venture between Daiwa Securities Group Inc. and the Sumitomo Mitsui Financial Group. It is the only "hybrid" wholesale securities company in Japan, bringing together the strengths of both a securities company and a commercial bank. Daiwa Securities SMBC is a market pioneer, addressing a multitude of needs from clients both in Japan and overseas.

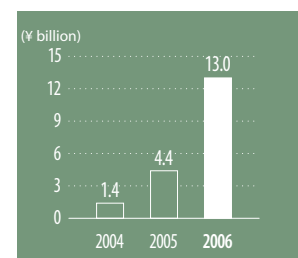


— ROE (Note: Consolidated basis)



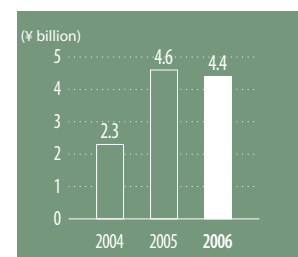
#### Daiwa Asset Management Co. Ltd.

Daiwa Asset Management serves as the asset management arm of the Daiwa Securities Group. It creates and manages investment trusts that encompass a broad assortment of investment targets.



#### Daiwa SB Investments Ltd.

Daiwa SB Investments plays a role in the asset management activities of both the Daiwa Securities Group and the Sumitomo Mitsui Financial Group. The company offers pension fund management and other asset management services to both domestic and overseas institutional investors.



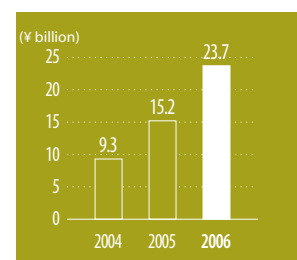
## Major companies

## Ordinary income



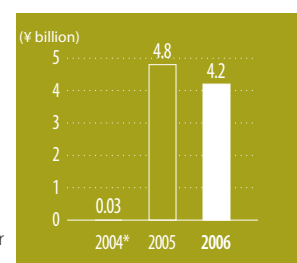
### Daiwa Securities SMBC Principal Investments Co. Ltd.

Daiwa Securities SMBC Principal Investments is a wholly owned subsidiary of Daiwa Securities SMBC. The company is responsible for direct investment operations, which is one of the Group's core businesses.



### NIF SMBC Ventures Co., Ltd.

NIF SMBC Ventures is a private equity investment company, which focuses largely on venture capital investments.



\* FY 2004 figures are for NIF Ventures Co., Ltd.

(Note: non-consolidated basis)



### Daiwa Institute of Research Ltd.

Daiwa Institute of Research serves as a general think tank and research center for the Group. The company is in charge of research, systems and other related operations.

### Daiwa Securities Business Center Co., Ltd.

Daiwa Securities Business Center is a comprehensive outsourcing vendor and provider of back office services for the securities business.

### Daiwa Property Co., Ltd.

Daiwa Property is a real estate company that handles the property management activities for branch offices, corporate dormitories and other buildings used by the Group. The company specializes in building new facilities and refurbishing and rebuilding existing structures.



## Daiwa Securities Co. Ltd.

### Business Description and Characteristics

Daiwa Securities handles the retail securities operations of the Daiwa Securities Group, offering brokerage and other services primarily to individual investors. In order to address the needs of a wide range of clients, the company has established two basic “courses” of services, each of which can be tailored to suit the individual customer with a multitude of different financial products and services.

1. The “Daiwa Consulting” Course  
Sales personnel provide face-to-face consulting services with high added value.
2. The “Daiwa Direct” Course  
Daiwa provides clients with extensive information, a wide range of products and highly convenient services over the Internet or by phone via a call center.

In addition to serving individual investors, Daiwa Securities’ customers also include unlisted companies, as well as financial institutions and listed corporations located in areas that are not covered by Daiwa Securities SMBC’s sales network.

Daiwa Securities derives its competitive strength from an extensive, in-house network of branch

offices and other sales channels, such as a call center and Internet-based operations. It also leverages the comprehensive resources of the Daiwa Securities Group, including quality investment information from Daiwa Institute of Research. The company tries to make optimal use of these resources to offer customers a complete lineup of services. One example of the effort to tailor services to fit each client is “Daiwa SMA (Separately Managed Account)” — a discretionary investment management service aimed at high-net-worth individuals, which offers an even higher level of customization to suit the individual’s investment needs.

Daiwa Securities is constantly looking for ways to make its products and services even more competitive, and to help each client achieve asset growth. By earning the trust of customers and stimulating the dedication of employees, Daiwa Securities aims to become “Japan’s best securities house.”

### Business Environment

The domestic stock markets experienced a major correction during the first half of FY 2006. This was followed by a sudden worldwide drop in share prices at the end of February 2007. However, the markets recovered towards the fiscal year-end, with the Tokyo stock price index (TOPIX) finishing the fiscal

### Financial Summary for Daiwa Securities

	(Millions of yen)		
	FY 2004	FY 2005	FY 2006
Net Operating Revenues	¥164,419	¥257,988	¥229,171
Ordinary Income	24,216	101,057	74,477
Net Income	13,863	58,174	43,468
ROE	6.9%	25.9%	17.6%



## Daiwa Securities Medium-term Management Plan

### Basic strategy

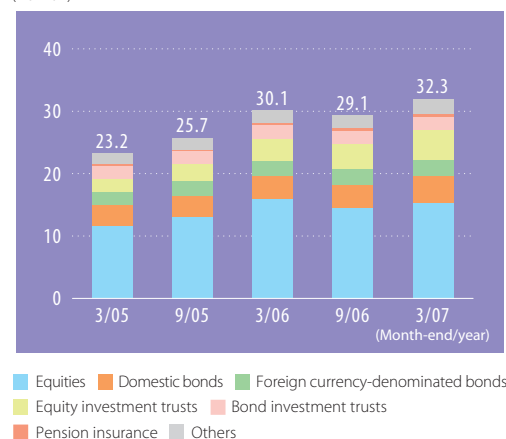
- Achieve the industry's top position in consulting, online trading and "Daiwa SMA"
- Enhance corporate business field including brokerage, investment banking, institutional business and corporate pension operations
- Make effective use of personnel by increasing number of young employees, encouraging more active contributions from women
- Upgrade facilities and infrastructure

### Management targets for FY 2008

Ordinary income: ¥130 billion  
 Customer assets under custody:  
 ¥45 trillion (by the end of March 2009)

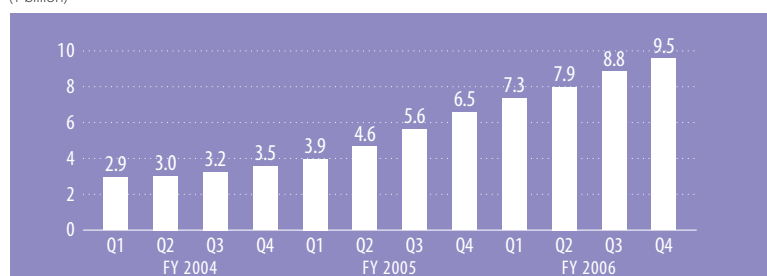
## Daiwa Securities Customer Assets Under Custody

(¥ trillion)



## Agency Commission Revenues from Investment Trusts

(¥ billion)



year at 1,713.61—slightly below the closing level at the end of March 2006, of 1,728.16. Average daily trading value on the Tokyo Stock Exchange rose 16% year on year, to ¥2,777.4 billion.

During the fiscal year, Japanese individuals continued to shift their assets from savings to investment despite relatively unfavorable stock market conditions. As these individual investors poured money into investment trusts in record amounts, the balance of assets in publicly offered equity investment trusts reached its highest level ever.

The long-term outlook for Japan's equity markets is bright. Major Japanese companies enjoy healthy earnings conditions, while strong demand from individuals and foreign investors is expected to support a steady rise in stock prices. Plans to introduce a fully electronic stock certificate transfer system in January 2009, and the impending retirement of "baby boomers" over the next few years, should contribute to continued favorable conditions in the retail stock brokerage business.

## Earnings Results for FY 2006

In FY 2006, Daiwa Securities posted net operating revenues of ¥229.1 billion, a decline of 11% year on year. Ordinary income decreased by 26% year on year to ¥74.4 billion, and net income fell 25%, to ¥43.4 billion. ROE declined from 25.9% in FY 2005, to 17.6% in FY 2006.

The main reason for the fall in earnings was that stock markets were not as vibrant as they were in FY 2005. Small-cap markets, in particular, were affected by price corrections, and this led to a drop in brokerage commissions from individual investors. On the other hand, the balance of customer assets under custody of investment trusts rose steadily, producing a sharp increase in agency commissions. This business has become a firm revenue base for the company. As of March 2007, total customer assets under custody stood at ¥32.3 trillion. Strong sales of investment trusts contributed to the ¥2.2 trillion increase of this balance over the course of the fiscal year.

## Promoting Basic Strategies

### Achieving Top Results in the Industry

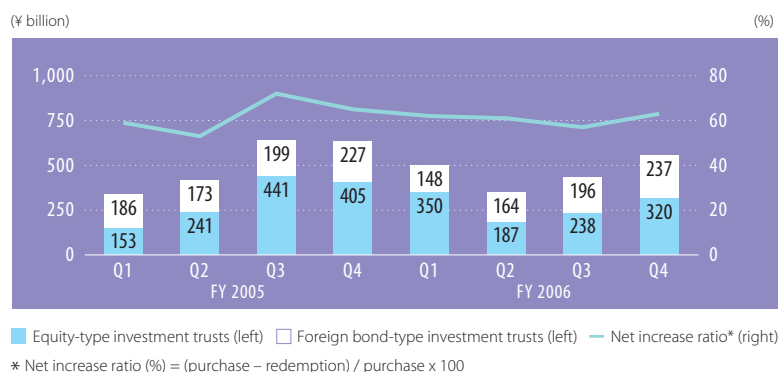
The prime objective of Daiwa Securities' medium-term management plan is to attain the No. 1 position in each business sector. To meet this objective, the company sets individual goals for each core business. In FY 2007, the guiding policies are as follows:

- (1) Establish a broad spectrum of products and services tailored to customers' needs, in order to increase customer assets under custody
- (2) Leverage the functions of both the branch offices and the Internet to expand the client base





Sales and Net Increase Ratio of Equity Investment Trusts



- (3) Respond to the needs of “baby-boomers,” and increase the number of clients who hold equity investment trusts
- (4) Improve asset management capability for Daiwa SMA, offer a wider range of investment styles, and introduce “fund wrap” services
- (5) Work closely with other companies in the Daiwa Securities Group to develop a wider range of investment products
- (6) Bolster the corporate business to meet a broad range of fund management and capital procurement needs

#### Consulting: Increasing Investment Trust Assets and Enhancing Product Lineup

Daiwa Securities views equity investment trusts as one of the most suitable investment products for individuals seeking to shift money from savings to investment. The company’s sales strategy for these products emphasizes asset gathering, which also increases assets under custody. In FY 2006, strong performance and high dividends produced a sharp increase in investment trust assets under custody, and the net increase ratio\* remained at a high level.

In the market for the foreign bond-type investment trusts, the “Daiwa Global Bond Fund” has been growing rapidly since FY 2005. In December 2006 the company began offering another product—“Daiwa World Bond Fund (World Prime)” —which posted steady growth in assets. Daiwa Securities also introduced new equity-type investment trusts, which have sold well. In April 2006 it launched the “Daiwa/

Morgan Stanley World Emerging Country Stock (Sekai Shinkoukoku Kabu) Fund,” and in November it introduced a fund of funds named “Life Harmony (Daiwa Global Asset Allocation Fund).”

Since revenues from agency commissions are based on the balance of assets under custody, this business has become a stable source of income for Daiwa Securities. The large and increasing balance of investment trust assets is now generating ¥3.3 billion in agency commissions each month (as of March 2007).

In addition to investment trusts, Daiwa Securities offers clients a wide range of other products, from equities to foreign currency-denominated bonds, JGBs for individual investors, and pension insurance products. It provides these products with detailed consulting services to address a multitude of individual client needs.

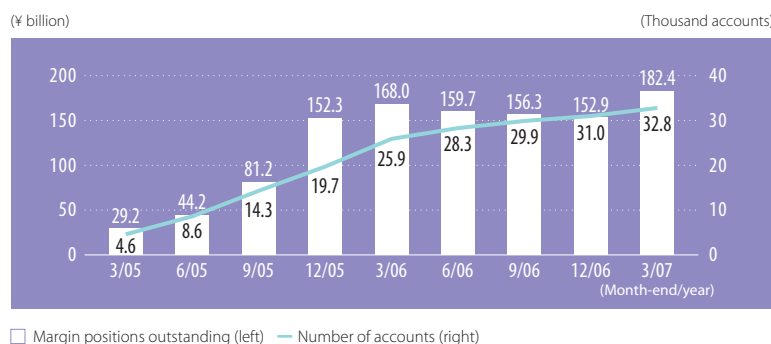
\* Net increase ratio (%) = (purchase – redemption) / purchase x 100

To enhance corporate services, Daiwa Securities is working closely with Daiwa Securities SMBC in both brokerage and investment banking operations. The company is also taking steps to reinforce consulting operations in the institutional business and corporate pension fund management operations.

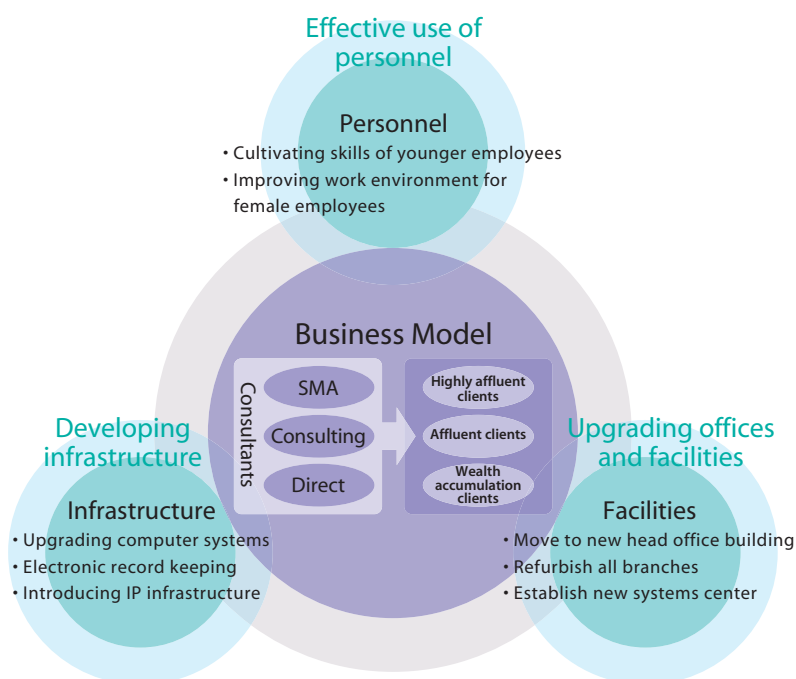
#### Online Trading: Earning a No. 1 Reputation Based on Convenience

Daiwa Securities operates an Internet trading business based on the theme: “Online trading, branch office support.” The idea is to use the company’s

## Daiwa Direct: Accounts and Outstanding Balance of Margin Positions



## Improvements to the Business Model



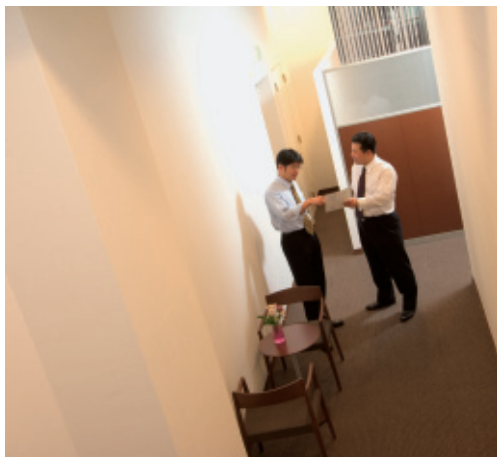
nationwide network of branch offices, as well as call center operations, to create synergy with the online trading business and provide levels of support and convenience that specialized online securities firms are unable to match.

In the past, online securities brokers competed mainly on the basis of price, offering low commissions. However, in FY 2006, Daiwa Securities' online service—Daiwa Direct—registered more rapid growth in the balance of outstanding margin transactions than any of the online trading specialists. This shows that online trading customers are looking for

something more than low commissions; it is now possible to compete in this market by offering other forms of added value. Of the Daiwa Direct online trading accounts opened during FY 2006, more than half were opened at branch offices, rather than via the Internet. This indicates that even in the online trading business, the Daiwa Securities Group's branch office network throughout Japan can enhance the level of convenience for customers.

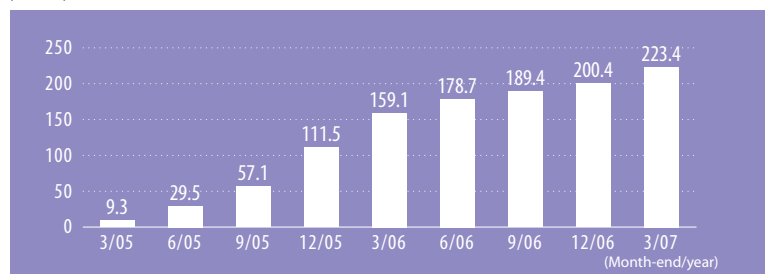
Looking at the breakdown of earnings from this business, revenues from stock trading, such as brokerage commissions and interest income from margin transactions, are not the only contributors. Fees from investment trusts and other products are also expanding their share of overall revenues. The company expects this trend to continue, as competition in the online trading business shifts from price-oriented discounting to an appeal based on service quality.

To support these trends in online trading, Daiwa Securities conducted an overhaul of its website to improve the interface and make it easier to use. In the future, the company plans to continue upgrading the services offered, to include overnight trading of Japanese stocks, real-time trading of US stocks and a wide range of products and services, to make Daiwa Direct even more convenient for online customers. Meanwhile, the company is steadily improving the synergy between online operations and branch offices, in an effort to provide services with even higher added value than the online trading specialists.



Daiwa SMA: Contract Assets Under Management

(¥ billion)



### Daiwa SMA: Daiwa Securities Far Ahead of Rivals in Wrap Account\* (SMA) Business

Contract assets under management of “Daiwa SMA,” the company’s wrap account service for high-net-worth individuals, reached ¥223.4 billion at the end of March 2007. Despite the minimum required investment sum of ¥50 million, the company has continued to receive high evaluations from Daiwa SMA customers since it launched this service. The dedicated and comprehensive services they receive—such as detailed consulting and reporting, as well as the performance-based fee structure—give customers a feeling of assurance that Daiwa Securities shares their goals in managing their assets. Data from the Japan Securities Investment Advisers Association shows that Daiwa SMA accounts for roughly 40% of the Japanese market for wrap account services, putting the company far ahead of its closest rivals.

Daiwa Securities is hoping to use the knowhow it has accumulated in Japan to expand its business and serve affluent individuals in other parts of Asia as well. The company has opened its first overseas office—Daiwa Wealth Management Singapore Pte. Ltd. as a first step towards marketing and product development. To meet the diverse asset management needs of customers, especially baby-boomers, Daiwa Securities is also preparing to introduce a “Fund Wrap” business with a lower minimum investment amount, and has established a Fund Wrap Department. The company plans to commence operations of this service in the latter half of FY 2007.

\* Asset management service with a discretionary investment contract or an investment advisory service

### Measures to Improve Personnel and Infrastructure

The company’s medium-term management plan also calls for measures to improve the caliber of personnel and company facilities. Some of the steps that Daiwa Securities has taken to promote greater contributions from employees include expanding the scope of the “President’s Award,” increasing the number of new graduates who are hired each year, promoting more women to management positions and trying to create a more stimulating work environment. These measures are helping to improve the motivation of employees.

Daiwa Securities is also improving its infrastructure and facilities; for example, the company is refurbishing its branch offices nationwide, adding a comfortable “customers’ salon” and designing service counters in a way that helps to ensure the privacy of consultations. In addition, the company is installing teleconferencing facilities in meeting rooms, setting aside areas to hold seminars for online trading, and providing other services to customers who visit the office. The company has also established a new data center, and preparations are now under way to allow it to take over as the company’s new main data center some time during FY 2007. The disaster-resistant features of this data center have been greatly improved, and the systems environment is one of the most advanced in the securities industry.

Since the new “Financial Instruments and Exchange Law” will come into effect in FY 2007, Daiwa Securities is working to establish the No. 1 compliance system in the financial industry. The company is upgrading its systems of internal control and improving employee training to ensure that compliance standards will be followed scrupulously.

## Topics:

## Securities-backed Loans

In August 2006, Daiwa Securities launched a new securities-backed loan business, which allows customers to obtain a loan of up to ¥5.0 billion using a wide range of securities products as collateral, including foreign currency-denominated securities. The credit check can be completed very quickly, and the borrower does not need to provide information on their reason for taking out the loan, or submit a specific repayment plan. This makes this service extremely convenient for clients who want to borrow against their securities holdings. Daiwa Securities has received a strong flow of inquiries about the new loan service, recording a particularly sharp jump in the balance of loans outstanding and the number of contracts, after it introduced Internet loan services on February 15, 2007. By the end of March 2007, the company had extended around 1,700 loans with a total outstanding balance of approximately ¥30 billion.

## Enhancing Services Through Daiwa LMS

Daiwa Securities has continued to develop new products and services. In October 2006, it began offering its securities-backed loan services to corporations, and in February 2007 the company launched Daiwa Net Loan to serve customers using the Internet.

In April 2007, the company gave a collective name to its loan services—"Daiwa LMS (Loan Management Service)" which includes "Daiwa Securities-backed Loan\*" and "Daiwa Net Loan." This move is expected to improve customer awareness of the services and help expand this business.

\* In April 2007, the name of this service was changed to "Daiwa SAT (Stock and Trust) Loan."

## Responding to the Introduction of Electronic Stock Certificates

In January 2009<sup>\*1</sup>, the stock certificates of all companies listed on Japan's stock markets will be converted to a "paperless"

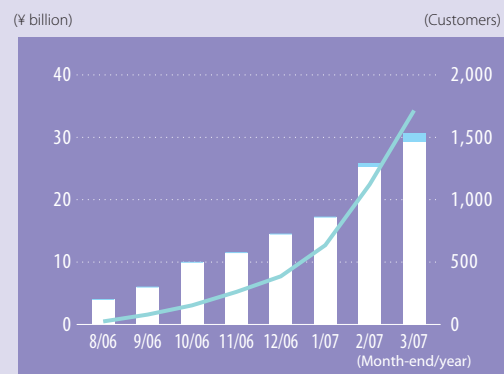
(electronic) form. It is estimated that the total number of physical stock certificates that are not kept at a securities company—including so-called "tansu-kabu" held by individuals or corporations, as well as certificates held by financial institutions as collateral—stood at roughly 47 billion<sup>\*2</sup> as of the end of March 2006.

The company's securities-backed loan operations will help encourage stockholders to allow Daiwa Securities to handle custody of their stock certificates. By allowing Daiwa Securities to "hold" their stock certificates, customers can use the securities-backed loan service as a way to obtain liquidity without having to sell their stocks. As of March 2007, the total value of stock certificates deposited by customers with Daiwa Securities, as part of an application for Daiwa LMS services, stood at approximately ¥100 billion.

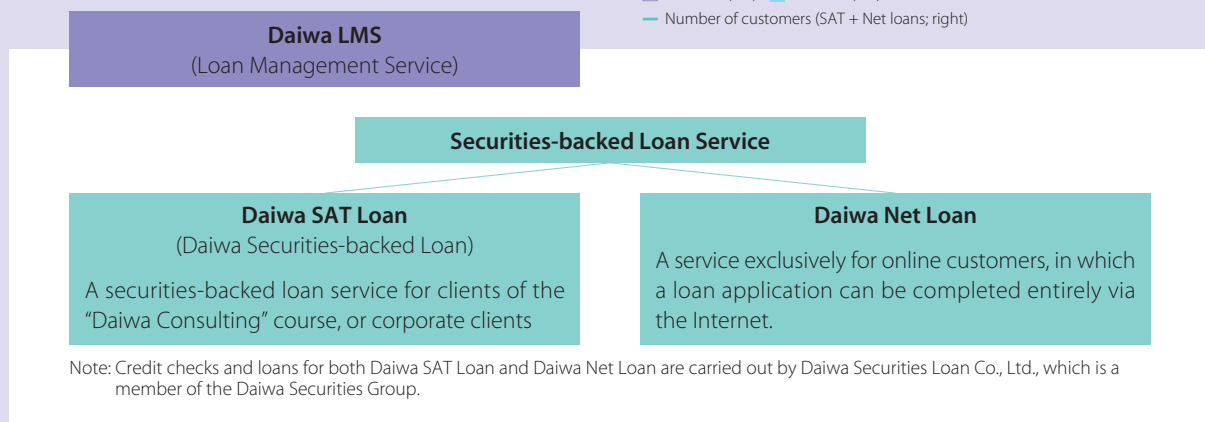
\*1 Although the government has not yet set an official date for the change-over, the financial industry and major economic bodies are assuming that the implementation date will be in January 2009.

\*2 Source: Japan Securities Depository Center

## Daiwa LMS: Outstanding Loan Balance and Number of Customers



□ SAT loan (left)    ■ Net loan (left)  
— Number of customers (SAT + Net loans; right)





## Daiwa Securities SMBC Co. Ltd.

### Business Description and Characteristics

Daiwa Securities SMBC oversees the wholesale securities and investment banking operations of the Daiwa Securities Group, serving the needs of institutional investors, business corporations, financial institutions, and public organizations both in Japan and overseas. As we will discuss in greater detail below, Daiwa Securities SMBC plays the role of a “total partner” in corporate strategy, including services related to financing, asset management and business expansion.

1. To meet a full spectrum of client needs, Daiwa Securities SMBC’s brokerage and trading businesses offer a wide range of cutting-edge products and services in all categories of investment, from equities and bonds to advanced derivative products.
2. Daiwa Securities SMBC’s investment banking operations can help corporations determine the best solution for their financing needs, by underwriting stock and bond issues, handling initial public offerings (IPOs), and offering structured finance and M&A advisory services.

Daiwa Securities SMBC is a joint venture between the Daiwa Securities Group, which owns a 60% stake, and the Sumitomo Mitsui Financial Group (SMFG), which holds a 40% share. This makes Daiwa Securities SMBC unique—being Japan’s only “hybrid”

wholesale securities company—merging the strengths of a megabank with those of a top securities group. Not only does it have access to the extensive customer bases of both groups; it can also leverage the experience and knowhow that the Daiwa Securities Group has accumulated in the financial markets to generate the maximum synergy between banking and securities abilities. Ties to its two parent companies also allow Daiwa Securities SMBC to offer a broader range of solutions and explore new ways of providing value to client companies. These services and capabilities are helping to make Daiwa Securities SMBC “Japan’s best investment bank.”

### Business Environment

Corporate earnings in Japan remained vibrant in FY 2006, with ordinary income of Japan’s top 300 companies rising for a fifth consecutive year\*. The favorable business conditions prompted many leading companies to turn to the financial markets for funding in an effort to expand their operations further, or to accelerate business restructuring through mergers and acquisitions.

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

### Consolidated Financial Summary for Daiwa Securities SMBC

	(Millions of yen)		
	FY 2004	FY 2005	FY 2006
Net Operating Revenues	¥222,390	¥311,568	¥260,700
Ordinary Income	85,176	141,582	92,866
Net Income	54,034	91,883	51,945
ROE	12.4%	18.2%	8.5%

## Daiwa Securities SMBC Medium-term Management Plan

### Basic strategy

- Elevate the absolute revenue base
- Use ties to Daiwa Securities and Sumitomo Mitsui Banking Corporation (SMBC) to develop a broader, well-balanced client base
- Enhance origination capabilities

### Management targets for FY 2008

Consolidated ordinary income:  
¥190 billion\*<sup>1</sup>

No. 1 position in league tables\*<sup>2</sup>

\*<sup>1</sup> Including ordinary income from Daiwa Securities SMBC Principal Investments

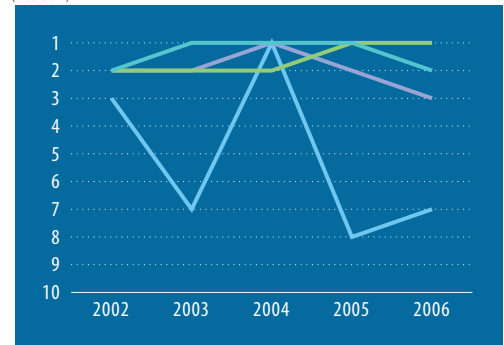
\*<sup>2</sup> League tables for total debt, total equity and M&A

M&A activity was particularly brisk. The total number of mergers and acquisitions conducted over the course of the year has been rising steadily since 2000, and though the pace of growth slowed in 2006, the range of M&A activity was remarkably broad, including small and medium-sized firms as well as major companies. Clearly, mergers and acquisitions are becoming a central element of business strategies of Japanese corporations.

In the domestic equity markets, trading value has increased more than three-fold over the past four years, and foreign institutional investors are increasing their activity in Japan's stock market to levels

## Daiwa Securities SMBC's Performance in Major League Tables

(Position)



— Total corporate bonds (straight corporate bonds and agency bonds; fiscal year basis) — Initial public offerings (IPOs; fiscal year basis)  
— Primary and secondary equity offerings (fiscal year basis)  
— M&A (calendar year basis; transaction value)

Sources: League table results for "Total corporate bonds," "IPOs" and "Primary and secondary equity offerings" are provided by Daiwa Securities SMBC; results for "M&A" are from THOMSON FINANCIAL.

never seen before. In February 2007, foreign investors posted a record high of ¥53.8 trillion in equities trading value. In the wholesale securities business, Daiwa Securities SMBC is working to develop comprehensive solutions which can effectively match the capital procurement needs of corporations to the fund management needs of investors.

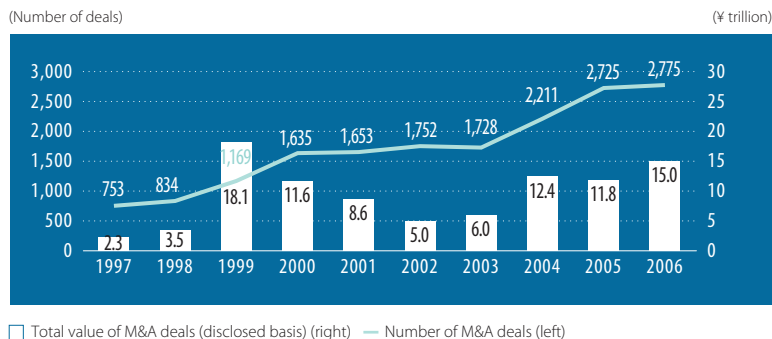
### Earnings Results for FY 2006

In FY 2006, Daiwa Securities SMBC posted ¥260.7 billion in consolidated net operating revenues, a decline of 16% year on year. Ordinary income fell 34% from the previous year to ¥92.8 billion, and net income declined 43% to ¥51.9 billion. ROE weakened to 8.5%, compared with 18.2% in FY 2005.

Total commissions from the investment banking business declined 4% year on year to ¥106.5 billion, despite the fact that the company handled an increasing number of M&A deals and lead managed a large number of IPOs. This was mainly due to a decline in the number of large-scale primary and secondary offerings, compared with FY 2005. Furthermore, a major decline in the number of clients using our Structured Principal Solution (SPS) Program\*, and the absence of much market volatility over the course of the fiscal year, caused trading revenues to drop 34% year on year to ¥116.6 billion.

\* A type of fund procurement scheme, in which Daiwa Securities SMBC underwrites a company's CB or similar product, and converts them to equities in such a way that will not cause a major impact on the secondary market.

### Growth in the M&A market



□ Total value of M&A deals (disclosed basis) (right) — Number of M&A deals (left)

Source: RECOF Corporation



**Daiwa Securities SMBC's Position in the Major League Tables in FY 2006**

	Total debt		Total equity		M&A (transaction value)		M&A (number of deals)	
	FY 2006 rank	Share	FY 2006 rank	Share	CY 2006 rank	Share	CY 2006 rank	Share
1st	Daiwa Sec. SMBC	18.3%	Nomura	38.5%	Goldman Sachs	32.4%	Nomura	5.2%
2 <sup>nd</sup>	Mizuho	18.3%	Nikko Citigroup	16.8%	UBS	21.8%	Mitsubishi UFJ	4.4%
3 <sup>rd</sup>	Mitsubishi UFJ	16.1%	Daiwa Sec. SMBC	14.3%	Merrill Lynch	19.5%	Daiwa Sec. SMBC	4.4%
4 <sup>th</sup>	Nomura	10.6%	Mizuho	7.5%	Citigroup	19.1%	Mizuho Financial Group	4.2%
5 <sup>th</sup>	Nikko Citigroup	6.6%	Goldman Sachs	6.0%	Nomura	18.7%	Nikko Cordial	2.4%
Other					Daiwa Sec. SMBC (7 <sup>th</sup> )	14.6%		

Sources: League table results for "Total debt" and "Total equity" are provided by Daiwa Securities SMBC; results for "M&A" are from THOMSON FINANCIAL.

**Securing the Top Position in Major League Tables**

The industry league tables provide clear evidence of Daiwa Securities SMBC's competitive position in the investment banking business. Daiwa Securities SMBC aims to earn the number one ranking in the league tables for total debt, total equity, and M&A.

In FY 2006, Daiwa Securities SMBC claimed the top position in the league table for total debt—a category that includes straight corporate bonds, agency bonds, yen-denominated foreign bonds and asset-backed securities<sup>\*1</sup>. Daiwa Securities SMBC served as the lead manager for several large-scale underwriting deals, including a ¥150.0 billion corporate bond issue by the Tokyo Electric Power Company, a ¥100.0 billion agency bond issue by the Japan Bank for International Cooperation, and an ¥85.0 billion "samurai bond" (yen-denominated foreign bond) issued by the government of Poland. Daiwa Securities SMBC also held the number one position in the ranking of successful bidders for Japanese Government Bonds (JGBs).

In the league table for total equity, which includes public offerings (POs), initial public offerings (IPOs), domestic convertible bonds (CBs), foreign equities, foreign CBs, SPS Program financing and REITs, Daiwa Securities SMBC earned a third place ranking in FY 2006. Daiwa Securities SMBC handled a ¥206.3 billion primary offering by AEON, and a ¥96.9 billion secondary offering by Matsushita Electric Industrial. In the IPO market, Daiwa Securities SMBC handled a ¥124.0 billion listing by Accordia Golf and a ¥120.4 billion IPO by Idemitsu Kosan. In fact, Daiwa Securities SMBC ranked number one in the league table for IPOs alone.

In the M&A business, Daiwa Securities SMBC served as an advisor in a number of large-scale deals, including the merger between Hanshin Electric Railway and Hankyu Holdings, as well as Nissin Food Products' acquisition of Myojo Foods, Yamazaki Baking's acquisition of Tohato, and the management buyout of Q'SAI. On a calendar year basis, Daiwa Securities SMBC ranked third in its share<sup>\*2</sup> of the number of M&A deals conducted in 2006, and seventh based on the total value of merger advisory contracts.

These achievements earned Daiwa Securities SMBC the top honor among Japanese investment banks. It was selected as "House of the Year" in the "DealWatch Awards 2006" by THOMSON FINANCIAL in the overall investment banking business—the first time it has ever won this award.

<sup>\*1</sup> Securities backed by real estate, accounts receivable, or other assets.

<sup>\*2</sup> Announced on January 5, 2007, by THOMSON FINANCIAL

**Promoting Basic Strategies**

As companies in Japan become more active in the capital markets, both raising funds and pursuing strategic mergers or acquisitions, the needs of both the companies themselves and investors have become increasingly complex and diverse. Wholesale securities houses are no longer able to address these needs fully with conventional financial products and services.

In the investment banking sector, it is not enough to simply help clients raise funds and meet the traditional management goals and credit ratings. Today, an investment bank must possess the broad capabilities to help develop integrated business solutions, which include activities such as M&A deals and management buyouts.



## Major Deals in FY 2006

Primary and secondary equity offerings	AEON (primary; ¥206.3 billion), Matsushita Electric Industrial (secondary; ¥96.9 billion), Konica Minolta Holdings (overseas CB; ¥70.0 billion), SUMCO (primary; ¥66.6 billion)
IPOs	Accordia Golf (¥124.0 billion), Idemitsu Kosan (¥120.4 billion), Takata (¥98.4 billion), SRI Sports (¥21.9 billion)
Corporate straight bonds	SMBC (¥270.0 billion), Tokyo Electric Power Company (¥150.0 billion), ORIX Corporation (¥125.0 billion), Sumitomo Trust & Banking (subordinated bond; ¥70.0 billion), Tohoku Electric Power (¥60.0 billion), Kao Corporation (¥50.0 billion), Toshiba Corporation (¥50.0 billion)
Agency bonds	Japan Expressway Holding and Debt Repayment Agency (¥200.0 billion), Japan Bank for International Cooperation (¥100.0 billion), National Life Finance Corporation (¥100.0 billion), Japan Finance Corporation for Municipal Enterprises (¥80.0 billion), Japan Student Services Organization (¥80.0 billion), Development Bank of Japan (¥65.0 billion)
Structured finance	Series 12 RMBS issued by SMBC (issue & underwriting: ¥146.0 billion each), Secured pass-through bonds No. S-8 issued by the Government Housing Loan Corporation (issue: ¥250.0 billion; underwriting: ¥73.5 billion), J-REIT IPO issued by Nippon Commercial Investment Corporation (issue: ¥120.8 billion; underwriting: ¥85.4 billion)
M&As	Joint advisor to Nippon Sheet Glass (with Lazard and UBS) in its friendly acquisition of Pilkington, a leading glass manufacturer in the UK; Hanshin Electric Railway's advisor in Hankyu Holdings' tender offer for the company; advisor to Yamazaki Baking in their acquisition of confectioner Tohato (which was in reorganization) and capital increase for Fujiya; advisor to AEON in their acquisition of a stake in Daiei and Maruetsu.
Public Offering Without Listing (POWL)	Telstra Corporation (approx. ¥40.4 billion), Bank of China (approx. ¥34.4 billion), The Industrial and Commercial Bank of China (approx. ¥24.8 billion), China Merchants Bank (approx. ¥7.8 billion)

In the brokerage business, meanwhile, the client base is expanding and diversifying, to include everyone from domestic institutional investors to hedge funds, and the asset management needs of each client are becoming more sophisticated. To address these changes, Daiwa Securities SMBC deals not only in conventional securities sales and trading; it also handles various credit-related products, high-yield bonds, emerging market investments, derivatives, and a multitude of other financial instruments.

Daiwa Securities SMBC believes that the continued effort to address clients' needs will allow it to meet its basic strategic goals under the current medium-term management plan. In line with its basic goal of raising the absolute revenue base, Daiwa Securities SMBC will focus on the following issues in FY 2007:

- (1) Strengthen overseas operations, centered on Asia
- (2) Expand support for cross-border M&A activities by Japanese companies
- (3) Upgrade origination capabilities through cooperation among business units
- (4) Reinforce the sales structure and develop a full line of products including credit-related products, loans and funds
- (5) Enhance trading capabilities and strengthen derivatives trading capabilities

## Trading Operations

In order to increase revenues from its trading operations significantly in FY 2007, Daiwa Securities SMBC has made major improvements to its organizational structure. It has merged the former bond and investment trust divisions to form the Fixed Income, Currency and Commodities (FICC) Department. In addition to bonds, which were formerly the main focus of operations, this department will begin handling a wider range of financial products including currencies and commodities. Daiwa Securities SMBC is strengthening its derivative trading capabilities to include credit and commodity-related instruments, and developing a full lineup of credit products, structured products, loans and funds.



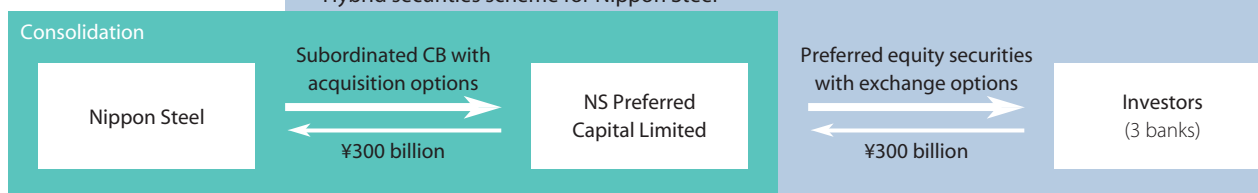
## Topics: Nippon Steel employs a new hybrid securities scheme

As part of its drive to become “Japan’s best investment bank,” Daiwa Securities SMBC is working to develop advanced financial solutions that are ideally suited to the clients’ business strategies and financial conditions. In FY 2006, it served as the advisor to Nippon Steel Corporation, proposing a new hybrid securities solution that allowed Nippon Steel to raise ¥300 billion in capital.

Using its extensive dealing knowhow, Daiwa Securities SMBC began studying and testing this type of hybrid securities scheme several years ago, developing the first such financing scheme in Japan. Detailed discussions with credit rating agencies helped to ensure that the securities would receive a credit rating as high as capital. Furthermore, the conversion price was set at roughly 50% higher than the then-current market price, and the use of treasury stock was considered, to keep the dilution impact to a minimum.

Daiwa Securities SMBC’s proposal received very high marks from Nippon Steel, and the Daiwa Securities Group was able to win an equity financing advisory contract from Nippon Steel for the first time in 16 years. The hybrid securities scheme allowed Nippon Steel to raise ¥300 billion in funds, making it one of the largest financing packages ever issued by a non-financial corporation in the world.

### Hybrid securities scheme for Nippon Steel



In the equity division, Daiwa Securities SMBC is working to expand its customer base among overseas institutional investors and establish a network that can handle a greater order flow. In particular, it is strengthening its execution capabilities to support increasing business with hedge funds, and improving investment capabilities on its own account. To address the rising interest of overseas institutional investors in Asian stocks, Daiwa Securities SMBC is bolstering its Asian stock trading capabilities, increasing research coverage in the region, and expanding the range of equities managed, particularly in Asia. The company aims to steadily expand its business through these measures.

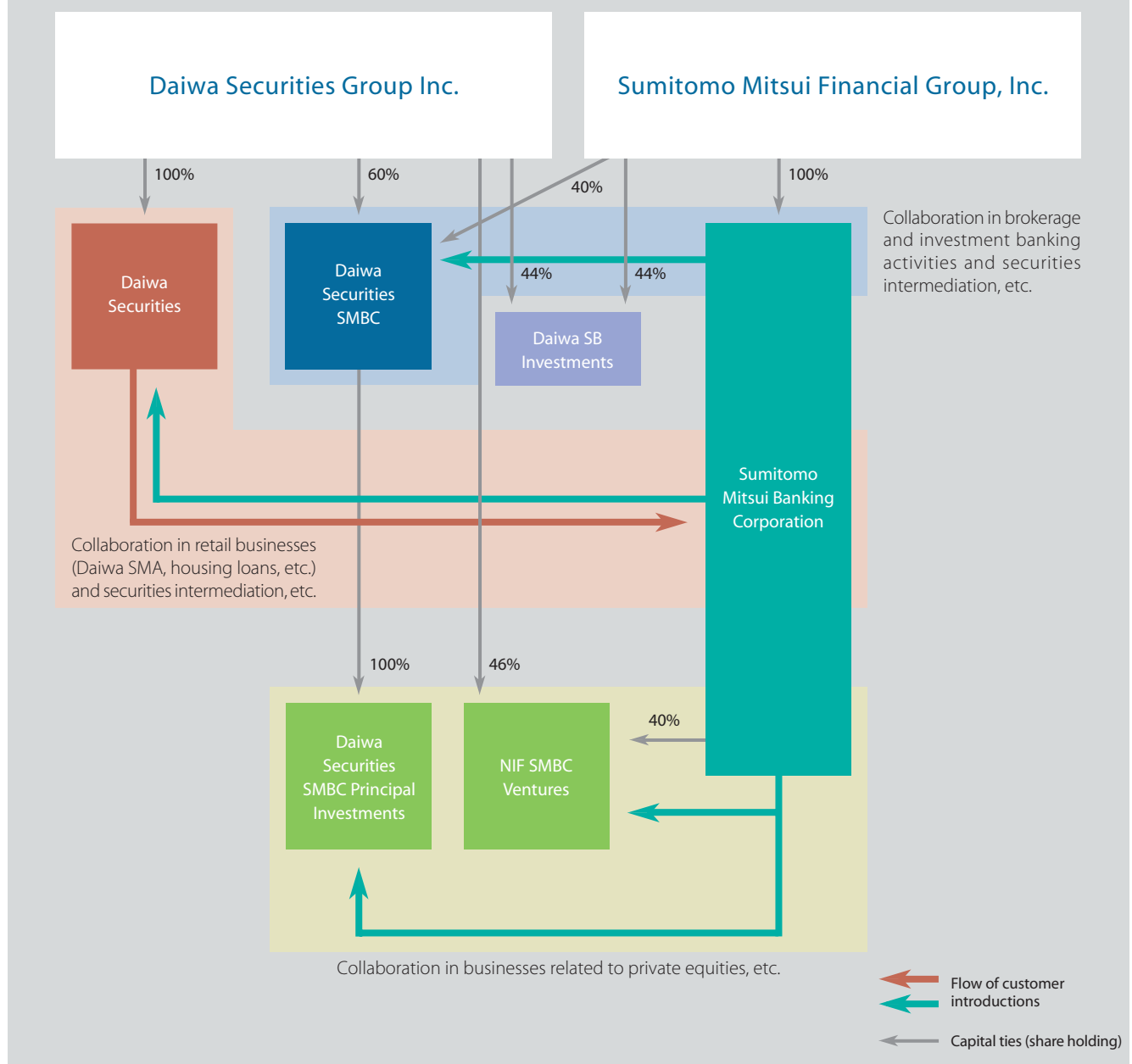
### Investment Banking Operations

Daiwa Securities SMBC has been promoting closer cooperation with Sumitomo Mitsui Banking Corporation, expanding its overseas M&A operations and thus bolstering its ability to provide comprehensive solutions to corporate customers. These efforts are aimed at earning Daiwa Securities SMBC the top position in investment banking league tables for total debt, total equity, and M&A.

In the M&A business, an increasing number of mergers these days involve two successful companies, or companies seeking opportunities for a cross-border merger to boost their global market share. In addition, management buyouts are likely to become more common among companies seeking to restructure or acquire full control of the business. To respond to this trend, Daiwa Securities SMBC has established a Transaction Advisory Department in order to enhance its ability to make effective proposals for mergers and MBOs. Going forward, it will also strengthen marketing activities at overseas branches to better identify possible M&A deals, and thus meet the increasingly sophisticated needs of clients more effectively.

Daiwa Securities SMBC is looking for ways to improve its ability to support cross-border mergers and acquisitions. It is studying possible business alliances, including the purchase of “boutique”-type investment banking firms in the US and Europe. One step in this direction was completed on April 27, 2007, when Daiwa Securities SMBC and the Daiwa Securities Group’s wholly owned subsidiary, Daiwa

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



America Corporation (DAC), established a business and capital alliance with Sagent Advisors Inc., a US-based independent investment bank that specializes in M&A advisory operations. This agreement will allow Daiwa Securities SMBC to better address the needs of clients seeking to conduct a cross-border merger between Japan and the US. As part of this

alliance Daiwa Securities America Inc., a wholly owned subsidiary of DAC, will transfer its entire M&A team to Sagent, thus consolidating the Daiwa Securities Group's M&A advisory operations in the US at Sagent. This will allow the Daiwa Securities Group to fully utilize the investment banking resources of Sagent.



## Daiwa Asset Management Co. Ltd.

### Business Description and Characteristics

Daiwa Asset Management is responsible for the Daiwa Securities Group's asset management operations, investing in a full spectrum of products ranging from domestic and foreign stocks and bonds to derivatives and alternative investments. Daiwa Asset Management uses many different asset management models to set up and manage investment trusts of varying types, which are then marketed to investors through a multitude of sales channels. In addition to Daiwa Securities and Daiwa Securities SMBC, these funds are also sold through banks and post offices, while many client companies entrust Daiwa Asset Management with their defined contribution pension funds (so-called "Japanese 401k plans").

The company operates some of the top investment trusts in Japan, including the Daiwa Global Bond Fund, which had ¥1.6 trillion in assets under management as of the end of March 2007, and the Daiwa Eco Fund, one of the largest investment funds in Japan specializing in socially responsible investment (SRI). The company provides a diverse selection of different funds, and helps investors with their asset management and wealth accumulation needs. As

Daiwa Asset Management takes steps to improve its asset management structure, its sales support system and its product lineup, the company is steadily progressing towards its goal of becoming "Japan's best asset management company."

### Business Environment

During FY 2006, the market for investment trusts benefited from the abundant demand which is emerging as Japanese individuals continue to shift their assets from savings to investment. The assets under management in publicly offered equity investment trusts has been rising rapidly, continuously setting new record highs. This trend was not even interrupted by the global stock price correction which took place at the end of February 2007; assets continued to flow into the Japanese market, raising the balance of assets held in equity investment trusts to ¥59.4 trillion at the end of March 2007. Estimates place the total value of assets held by individuals in Japan at ¥1,536 trillion. Based on that estimate, investment trusts increased their share of total individuals' assets from 3.6% at the end of March 2006 to 4.5% at the end of March 2007.

### Financial Summary for Daiwa Asset Management

	(Millions of yen)		
	FY 2004	FY 2005	FY 2006
Operating Revenues	¥19,316	¥31,374	¥58,933
Ordinary Income	1,490	4,435	13,015
Net Income	1,220	3,051	8,659

## Asset Management Medium-term Management Plan

### Basic strategy

#### Daiwa Asset Management Co. Ltd.

- Increase equity investment trust assets under management
- Reinforce customer support and distribution channels via banks
- Upgrade product development capabilities
- Make further improvements to management capabilities

#### Daiwa SB Investments Ltd.

- Enhance management capabilities
- Develop a diverse lineup of products for domestic pension funds
- Expand into overseas markets
- Improve ability to market equity investment trusts

#### Management targets for FY 2008\*

Ordinary income: ¥30 billion (previous target: ¥21 billion)

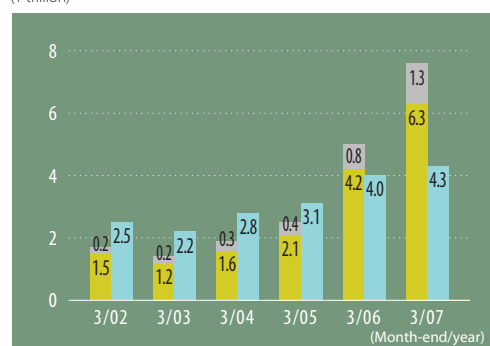
Equity investment trust assets under management: ¥14 trillion (previous target: ¥11 trillion)

Investment advisory assets under management: ¥5 trillion

\* Target figures are the sum of assets at Daiwa Asset Management and Daiwa SB Investments

### Assets Under Management of Equity Investment Trusts and Investment Advisory at Daiwa

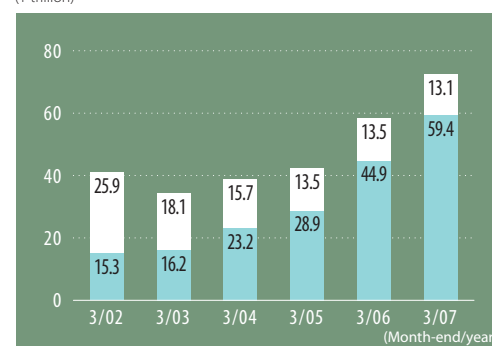
(¥ trillion)



■ Equity investment trusts at Daiwa Asset Management  
■ Equity investment trusts at Daiwa SB Investments  
■ Investment advisory at Daiwa SB Investments

### Assets Under Management of Equity Investment Trusts in Japan

(¥ trillion)



■ Equity investment trusts ■ Bond investment trusts

As Japan's baby boom generation begin to retire over the coming years, many will need to decide what to do with the large lump sum they receive as a retirement bonus, as well as how to manage their pension fund assets. These needs are likely to drive continued growth in the market for investment trusts. To make the most of this market opportunity, asset management companies will need to bolster their product development capabilities as well as their track record for fund management, in addition to their ability to explain these products thoroughly and effectively to customers.

### Earnings Results for FY 2006

In FY 2006, a rapid increase in equity investment trust assets under management generated a surge in management fees. As a result, operating revenues grew 88% year on year to ¥58.9 billion, and ordinary income tripled to ¥13.0 billion, surpassing the previous record high set in FY 1989. The assets under management in publicly offered investment trusts rose to ¥9,666.2 billion as of the end of March 2007, an increase of 28% from ¥7,574.3 billion at the end of March 2006.

**Daiwa Asset Management: Major Investment Trusts Launched in FY 2006**

	Fund Name	Launch Date	Launch Amount (¥ billion)
Q1	Daiwa/Morgan Stanley World Emerging Country Stock Fund	April 2006	147.8
	Daiwa Financial Industry New Frontier Fund	May 2006	54.3
Q2	Daiwa Emerging Company Stock Fund	July 2006	43.5
	Daiwa Technology Oriented Nation Fund	August 2006	46.5
Q3	Daiwa/Black Rock Resource Energy Fund	November 2006	18.5
	Life Harmony (Daiwa Global Asset Allocation Fund)	November 2006	Total for three types: 72.3
Q4	Daiwa M&A Chance 2007 Fund	March 2007	16.5

Daiwa Asset Management is focusing its energies on the effort to increase the assets in publicly offered equity investment trusts. This is reflected in the 51% year-on-year increase in net assets of these funds, to ¥6,388.3 billion as of March 2007. This includes a dramatic jump in assets under management of the Daiwa Global Bond Fund, a monthly dividend-type fund which invests in foreign bonds. At the end of March 2007, the fund had ¥1,656.9 billion in total assets under management. In November 2006, the company launched Life Harmony (Daiwa Global Asset Allocation Fund), a fund with three types of asset allocation policies: one aims for principal growth, one seeks stability, and one emphasizes dividend income. By the end of March 2007, assets under management of this fund had already grown to ¥194.8 billion. Another fund which the company launched in April 2006—the Daiwa/Morgan Stanley World Emerging Country Stock (*Sekai Shinkoukoku Kabu*) Fund—accumulated ¥166.3 billion in assets by the end of March 2007.

**Promoting Basic Strategies**

Daiwa Asset Management aims to become “Japan’s best asset management company.” As part of its medium-term management plan, the company initially adopted the goal of increasing the assets of publicly offered equity investment trusts to over ¥8.5 trillion by the end of March 2009. However, growth in the domestic market for investment trusts grew far more rapidly in FY 2006 than the company anticipated. To reflect the more favorable market conditions, it increased the target amount to ¥11.5 trillion.

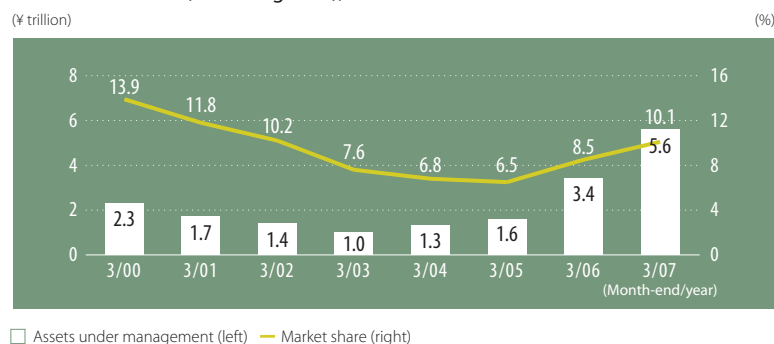
During FY 2007, the company intends to accelerate its progress towards the goals laid out in the medium-term management plan, and has adopted the following three policies to help it reach these goals:

- (1) Strengthen management capabilities in overseas markets, particularly in Asia, and expand the range of funds offered
- (2) Enhance marketing efforts for each of the leading sales channels
- (3) Improve marketing research to help develop major products that meet clients’ needs

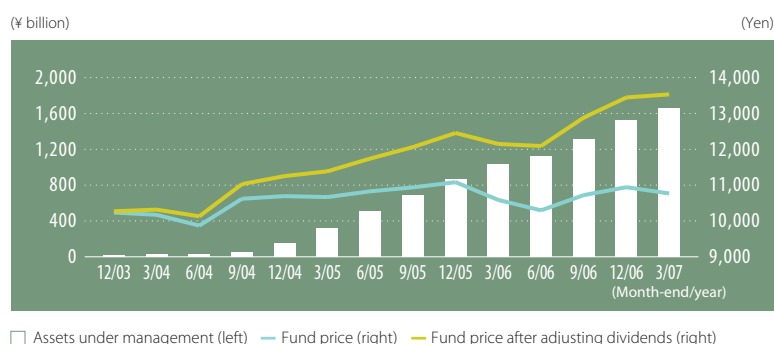
**Product Strategy**

Daiwa Asset Management plans to improve its product development capabilities in order to increase both the number and the quality of the investment trusts that it manages. During FY 2006, the company launched a number of new funds tailored to meet customer needs. In April 2006, for example, Daiwa Asset Management launched the Daiwa/Morgan Stanley World Emerging Country Stock Fund, in an effort to tap into recent investor interest in emerging economies. At the time, this product was the third-largest fund ever to be launched (¥147.8 billion). By the end of March 2007, assets under management of this fund had risen to ¥166.3 billion. The company also launched several new funds that invest in Japanese equities. In May 2006 it introduced the Daiwa Financial Industry New Frontier Fund, with initial assets of ¥54.3 billion, and followed this up with the Daiwa Emerging Company Stock Fund, in July (¥43.5 billion) and the Daiwa Technology Oriented Nation Fund in August (¥46.5 billion).

### Daiwa Asset Management: Assets Under Management of Publicly Offered Equity Investment Trusts (Excluding ETFs), and Market Share



### Daiwa Global Bond Fund: Fund Price and Assets Under Management



In November 2006, the company also launched Life Harmony (Daiwa Global Asset Allocation Fund), with initial assets of ¥72.3 billion (total of three investment types). This was the first “fund of funds” to be supported by the investment advisory services of Daiwa Fund Consulting, a newly established fund evaluation and advisory company. By the end of March 2007, Life Harmony had attracted a total of ¥194.8 billion in assets under management.

Daiwa Asset Management has set the goal of raising its share of the domestic market for publicly offered equity investment funds (excluding ETFs) to over 10%. As of the end of March 2007, the company’s share stood at 10.1%.

In FY 2007, the company plans to continue improving its market research, develop new funds with particular focus on Asian markets, and continue working to launch major investment trusts that match the needs of customers. Meanwhile, the

company intends to continue marketing its popular existing products, such as the Daiwa World Bond Fund (World Prime), Life Harmony, Resona Global Asset Allocation Fund, and Daiwa Global REIT Open, to increase assets under management and raise the number of large-scale funds in the company’s product lineup.

#### Marketing Strategy

To draw on the accelerating shift in individuals’ assets from savings to investment and increase assets under management in the company’s investment trusts, Daiwa Asset Management will need to strengthen all of its marketing channels. Therefore, it will be important for the company to provide sales support, not only to Daiwa Securities and other members of the Daiwa Securities Group, but to all companies that sell and distribute its investment trust products.



**Topics:****Daiwa Fund Consulting Co. Ltd.**

As part of the effort to meet the targets set in its medium-term management plan for the asset management business, which the Group views as one of its core businesses, the Daiwa Securities Group established a new subsidiary named Daiwa Fund Consulting on July 25, 2006. Daiwa Fund Consulting is a spin-off of the former fund evaluation division of Daiwa Institute of Research. The company has extensive knowhow in evaluating and analyzing investment trusts, consulting on pension fund management and offering investment advice to fund managers handling “fund of funds” products. Its first advisory contract for a “fund of funds” product came in November 2006, when the company supported advice in the launch of Life Harmony (Daiwa Global Asset Allocation Fund) managed by Daiwa Asset Management.

Daiwa Fund Consulting will continue to offer investment advisory services in support of the Group's efforts to expand its lineup of investment trust products. The company is also developing strong relationships with overseas hedge funds to improve its ability to collect information, and to lay the groundwork for “fund of hedge funds,” which it is working aggressively to develop.

Daiwa Asset Management is making particularly strong efforts to promote sales through its bank sales channel. As part of this initiative, it provides sales support by dispatching specialized female staff members (presenters) to banks that sell its investment trusts, to give seminars to the bank staff or to prospective customers. These efforts are bearing fruit in rising sales of the company's investment trusts via banks. One particular success has been the company's joint effort with Resona Bank to develop the Resona Global Asset Allocation Fund. As of March 2007, this fund had already attracted close to ¥600 billion in net assets.

In FY 2007, the company plans to offer funds that are specifically designed to match the characteristics of the sales channel, and in various other ways, to provide finely tuned support for sales activities. In response to the new Financial Instruments and Exchange Law, Daiwa Asset Management will step up efforts to explain products fully—including the risks involved—to prospective customers. To fulfill its obligation as an asset management company, and ensure that investors do understand the products they are purchasing, the company is developing easy-to-understand materials and tools to explain each product.

**Enhancing Management Capabilities**

Management skills are naturally the most important element of an asset management company's competitiveness. Daiwa Asset Management employs roughly 30 analysts and strategists and approximately 50 fund managers, giving it one of the strongest fund management teams in the industry.

In FY 2007, the company will work to improve cooperation with Daiwa Fund Consulting and enhance its ability to develop “fund of funds” products. Meanwhile, in response to sky-high interest in Asian stocks among individual investors, the company plans to solidify its in-house fund management structure in the region and develop a broader lineup of products to address this demand. Furthermore, the company is developing a global fund management approach, through cooperation with fund management companies in emerging markets.



## Daiwa SB Investments Ltd.

### Business Description and Characteristics

Daiwa SB Investments handles asset management operations for the Daiwa Securities Group and the Sumitomo Mitsui Financial Group, offering investment advisory services and investment trust management services. The company provides these fund management services not only to institutional investors, such as domestic and overseas pension funds, but also to many individual investors. The company has a business alliance with the major US-based mutual fund company, T. Rowe Price Group, giving its fund management and research operations a global reach.

Securities investment advisory services are Daiwa SB Investments' forte, accounting for 70% of assets under management, and pension fund management is a particular area of strength. The company consistently earns recognition as a top-class fund manager in overall evaluations of pension fund management ability, according to the "Newsletter on Pensions and Investments" published by Rating & Investment Information (R&I). Daiwa SB Investments is the only fund management institution in Japan to be selected by Japan Post to manage the Japanese equity component of both its postal savings and postal life insurance funds. The company has extensive experience in managing overseas pension funds as well.

Daiwa SB Investments has adopted the slogan "Top in Quality" to express its corporate vision, and aims to be a world-class, high-quality asset management company that can represent Japan on the world stage. The company is steadily upgrading its services in order to meet this objective.

### Business Environment

The healthy domestic economy and relatively strong stock market conditions have supported the Japanese asset management industry, while changes to the structure of many pension funds and a large inflow of foreign capital, including "oil money," added to the favorable conditions. In addition, individual investors have been shifting their assets steadily into higher-risk, higher-return investments. These factors combined to drive rapid market growth, and raise assets and earnings in the industry to their highest levels ever.

On the other hand, overseas fund management companies have entered the market as fund management operations grow more global, and this has intensified competition. To succeed in this more competitive environment, fund management firms not only need to show concrete results; they also must back up their appeal with clearly unique abilities and services.

### Financial Summary for Daiwa SB Investments

	(Millions of yen)		
	FY 2004	FY 2005	FY 2006
Operating Revenues	¥11,888	¥16,247	¥19,476
Ordinary Income	2,381	4,613	4,407
Net Income	1,434	2,752	2,695



### Earnings Results for FY 2006

In FY 2006, Daiwa SB Investments registered ¥19.4 billion in operating revenues, an increase of 20% year on year. Ordinary income, however, declined by 4% year on year to ¥4.4 billion, and net income was down 2% to ¥2.6 billion.

At the end of March 2007, the company had ¥6,108.9 billion in assets under management, a 17% increase from the ¥5,221.6 billion at the end of March 2006. Of this total, assets in the investment advisory business rose by 7%, from ¥4,070.1 billion in March 2006 to ¥4,374.8 billion in March 2007. Assets under management of investment trusts, on the other hand, leapt 51% year on year, from ¥1,151.5 billion in March 2006 to ¥1,734.1 billion in March 2007. This reflects the success of investment trust products such as the Global High Dividend Equity Open Fund (net assets stood at ¥472.0 billion in March 2007) and the Japan High Dividend Equity Open Fund (¥147.0 billion in March 2007), which have achieved steady growth by addressing demand from individual investors for products with a high dividend payout. In March 2007, the company launched the Asia High Dividend Equity Fund, which attracted ¥155.5 billion in assets by the end of the month. Meanwhile, large investments from overseas clients have increased assets in the investment advisory business.

### Promoting Basic Strategies

As part of the medium-term management plan, Daiwa SB Investments aims to increase assets in domestic pension funds and overseas fund management accounts to over ¥4.4 trillion by the end of March 2009, and raise assets under management of equity investment trusts (including corporate investment advisory accounts) to over ¥2.9 trillion. To meet these goals, the company is working to develop high-quality fund management capabilities and enhance its ability to develop new products and services. The company's three primary objectives for FY 2007 are the following:

- (1) Improve fund management skills and expand the range of domestic pension fund products
- (2) Develop business among overseas clients, particularly for Japanese equities
- (3) Step up marketing of equity investment trusts

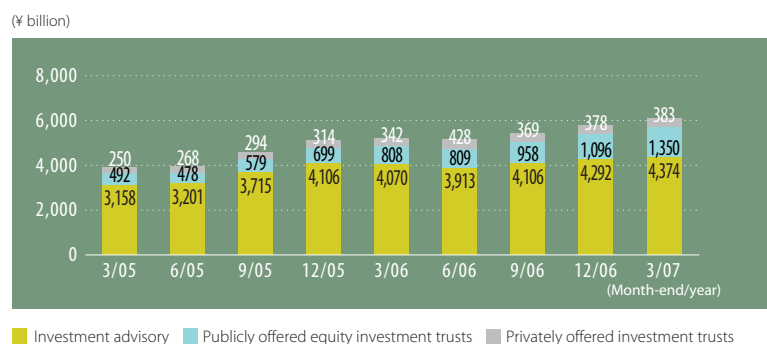
### Diversifying the Range of Products

In order to raise its position in the pension fund market, Daiwa SB Investments is expanding the scope of its fund management activities beyond Japanese equities to include bond-based products and alternative investment products. These efforts are expected to increase assets under management of domestic pension funds.

### Daiwa SB Investments: Major Investment Trusts Launched in FY 2006

	Fund Name	Launch Date	Launch Amount (¥ billion)
Q2	Global Best Fund	September 2006	33.7
Q4	Asia High Dividend Equity Fund	March 2007	146.8

## Daiwa SB Investments: Trends in Assets Under Management



Examples of these efforts include the company's business alliance with Wilshire Associates to develop "fund of hedge funds" operations, the development of products related to the Frank Russell Prime Value index, the use of enterprise value weighted index and enhanced index styles of fund management in the Japanese equity markets, and fund management specializing in industrial bonds to address demand for domestic bond fund management.

#### Improving Fund Management Capabilities

Daiwa SB Investments is taking steps to review and upgrade its fund management, research and risk management capabilities, in an effort to maintain a top-three ranking from R&I in terms of overall fund management abilities. Specifically, the company is studying the characteristics and preferences of its domestic equity product customers, and is working to develop fund management methods that match these characteristics as well as the concepts for each product. It is also rebuilding its research structure and trying to make its domestic bond products more attractive. At the same time, the company is developing alliances both in Japan and overseas to enhance overseas equity fund management, developing foreign bond products that meet various benchmarks, and increasing the number of regions targeted by its overseas bond operations. In addition to implementing corporate bond analysis activities, the company is upgrading its information infrastructure to support all of the above efforts.

#### Strengthening Marketing

Daiwa SB Investments is strengthening its ties to companies that sell publicly offered investment trusts in an effort to expand its customer base. In addition, the company is using strategic marketing techniques to cultivate trading relationships and attract new investment trust sales companies. It is also making efforts to attract further investment from corporate customers in private investment trusts, and expand sales channels through Daiwa SMA, "fund wrap" and other products.

The company is also seeking ways to enhance its ability to propose solutions, both to individual clients and to financial institutions including Japan Post's savings and insurance operations, while working to improve the quality of the products it develops and extend its marketing abilities. The company is currently making progress in the use of 401k-type contribution plans and variable annuity insurance products.

Finally, Daiwa SB Investments is working to meet the needs of overseas private and public pension funds as well as other institutional investors. The company is using its strength in domestic equity fund management, and establishing a framework to provide Asian equities and alternative products to its overseas clients. In February 2007, the company opened a representative office in Seoul, and it continues to expand its network of overseas offices.



# Investment

## Daiwa Securities SMBC Principal Investments Co. Ltd.

### Business Description and Characteristics

Daiwa Securities SMBC Principal Investments (hereafter “Daiwa Securities SMBC PI”) is a wholly owned subsidiary of Daiwa Securities SMBC, which is a joint venture between the Daiwa Securities Group and the Sumitomo Mitsui Financial Group. The company is involved in the investment business, one of the Daiwa Securities Group’s core businesses.

The company offers a wide range of solutions to financial institutions and corporations seeking to raise capital, to restructure operations, or to improve asset efficiency. Sometimes this takes the form of direct investment using the Daiwa Securities Group’s own capital; or, it can use investment funds to attract the needed capital. The main targets of investment include listed and unlisted equities, real estate, monetary claims, greenhouse gas emissions credits, and other instruments. In addition to investing its own money, Daiwa Securities SMBC PI establishes and manages investment funds, such as regional corporate revitalization funds. Through these investment activities, the company can help customers locate the best solution to their needs.

### Business Environment

Until recently, the private equity market in Japan focused primarily on providing capital to revitalize distressed companies. Today, however, the central theme in this market is industry consolidation, and capital has been directed mainly at funding mergers, acquisitions and buy-outs. In FY 2007, as restrictions on triangular mergers are lifted, the pace of M&A activity by both domestic and overseas companies is likely to accelerate, bringing rapid growth to the private equity market.

However, as the number of competitors in the principal investment business increases, it is becoming difficult to identify attractive targets that are substantially undervalued. Investment houses that lack the comprehensive business capabilities and knowhow to locate good investment targets and develop effective exit strategies are gradually being pushed out of the market. For investment companies, the key to competing effectively in this business lies in identifying ways to enhance the value of the companies in which you invest. Naturally, Daiwa Securities SMBC PI is taking steps to enhance its skills in this area. It is also leveraging the capabilities of other companies in the Daiwa Securities Group to provide business solutions to the investment target company.

### Financial Summary for Daiwa Securities SMBC Principal Investments

	(Millions of yen)		
	FY 2004	FY 2005	FY 2006
Gross Profit on Sales*	¥12,515	¥19,043	¥29,712
Ordinary Income	9,370	15,225	23,782
Net Income	5,526	9,096	14,081

\* For FY 2004 and 2005, gross profit on sales is calculated as: operating revenues – (operating expenses – SG&A expenses)

## Daiwa Securities SMBC Principal Investments Medium-term Management Plan

### Basic strategy

- Increase investment amount
- Develop a stable, rising flow of income by continuously reaping returns on investments

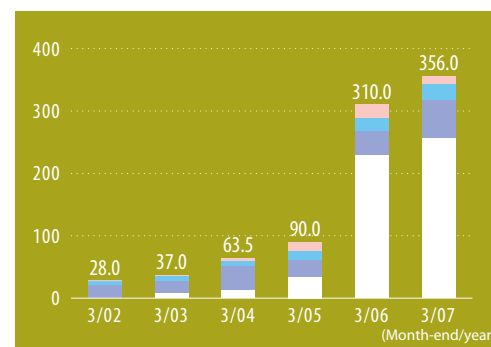
#### Performance targets for FY 2008

Investment amount: ¥400 billion  
(by the end of March 2009)

Revenues: ¥40 billion

### Investment amount at Daiwa Securities SMBC PI

(¥ billion)



■ Private equity and PIPEs (Private Investment in Public Equities)  
■ Monetary claims ■ Real estate ■ Funds

### Earnings Results for FY 2006

In FY 2006 ordinary income at Daiwa Securities SMBC PI rose 56% year on year to ¥23.7 billion, thanks to well-balanced contributions from monetary claims, real estate and private equity investments. Private equity operations have made a strong contribution, as the company began to take profits on some of its investments. For example, the company sold the shares it held as investments in Cabin and Iing.

In addition, Daiwa Securities SMBC PI made some new, large-scale investments in companies such as Mitsui Life Insurance, raising the investment amount to around ¥356.0 billion (including ¥257.0 billion in private equity and PIPEs\*) at the end of March 2007. This represents a 15% increase from March 2006 (approximately ¥310.0 billion).

One issue that received considerable attention in FY 2006 was the greenhouse gas emission credits trading. Daiwa Securities SMBC PI has invested in seven projects aimed at reducing greenhouse gas emissions, as part of the World Bank's "Community Development Carbon Fund." In October 2006, these projects were approved by the Japanese government as part of the Clean Development Mechanism (CDM).

\* PIPEs: Private Investment in Public Equities

### Promoting Basic Strategies

In its medium-term management plan, Daiwa Securities SMBC PI aims to increase the total investment amount to at least ¥400.0 billion by the end of March 2009, and increase revenues to ¥40.0 billion in FY

2008. In addition, the plan calls for the company to continue taking profits on its existing investments to maintain steady income growth. In FY 2007, the company expects to progress towards these targets by implementing two policies:

- 1) Continue profit-taking on existing investments in private equity and PIPEs, as well as monetary claims
- 2) Improve marketing capabilities and overseas investment sourcing capabilities in order to identify attractive investment targets, and make ¥100.0 billion in new investments

### Expanding the Investment Amount

In May 2006, as part of its investment in private equity and PIPEs, the company invested in six hot springs resort hotels in Tochigi Prefecture, which had been placed under management supervision by the Industrial Revitalization Corporation of Japan. In September of the same year, Daiwa Securities SMBC PI purchased ¥34.0 billion of a ¥100.0 billion common stock issue by Mitsui Life Insurance, which was underwritten jointly by Daiwa Securities SMBC PI, Daiwa Securities Group Inc. and other underwriters. In December 2006, the company purchased ¥1.5 billion in preferred stock as part of a third-party allocation by Verite Corporation, and in February 2007, it underwrote a ¥2.0 billion third-party allocation by GDH. These transactions increased the total investment in private equity and PIPEs by ¥28.0 billion, year on year, to ¥257.0 billion.



**Major Investments in FY 2006**

Type	Investee Company	Amount
Private equity and PIPEs	Mitsui Life Insurance	¥34.0 bil
	GDH	2.0 bil
	Verite Corporation	1.5 bil
	Six hot springs resort hotels in Tochigi Prefecture	—

Daiwa Securities SMBC PI also increased its holdings of monetary claims by ¥21.0 billion, year on year, to ¥61.0 billion, mainly by purchasing loan debt from regional banks.

Daiwa Securities SMBC PI is beginning to apply the investment experience and knowhow that it has acquired in domestic markets to expand private equity operations, by locating attractive investment targets in Asia and Oceania. The company plans to send personnel to Singapore in order to strengthen its sourcing capabilities and locate attractive investment targets. It will play an important role in the Daiwa Securities Group's plans to invest some ¥100.0 billion in companies and investment funds in Asia.

**Exits in FY 2006**

Type	Investee Company
Private equity and PIPEs	Cabin (full exit)
	ling (full exit)
	Sumitomo Mitsui Construction (partial exit)
	Daiwa Seiko (partial exit)

**Exits of Investments**

In FY 2006, Daiwa Securities SMBC PI began to exit some of its private equity investments on a full-scale. As part of this “exit strategy,” the company sold all of its shares in Cabin to Fast Retailing in April 2006, and in May, it sold its entire stake in ling to several companies affiliated with ling. In November, it began unwinding its large stake in Sumitomo Mitsui Construction by selling some of its shares back to the market, via a negotiable securities disposal trust. In February 2007, it sold some of its shares in Daiwa Seiko as well.

The company will continue to realize gains on its investments in FY 2007, and aims to create a stable and continuous income stream that will contribute to profit growth for the Daiwa Securities Group as a whole.

**Topics:****EMP-Daiwa Capital Asia Limited**

In January 2007, Daiwa Securities Group Inc. joined hands with EMP Global L.L.C., a US-based private equity firm, to form a joint investment company, EMP-Daiwa Capital Asia Limited. We expect the new joint venture to serve as the overseas operating base for expanding the Group's private equity operations in Asia.

**Overview of the Joint Venture**

<b>Name</b>	EMP-Daiwa Capital Asia Limited
<b>Total capital</b>	US\$50.0 million
<b>Amount invested</b>	Daiwa Securities Group—US\$9.98 mil in common stock (49.9%) + US\$30.0 mil in preferred stock EMP Global Group—US\$10.02 mil in common stock (50.1%)
<b>Location</b>	Incorporated in the Cayman Islands, head office operations in Hong Kong
<b>Main businesses</b>	(1) Private equity investment in Asia (2) Management of private equity funds investing in Asia





## NIF SMBC Ventures Co., Ltd.

### Business Description and Characteristics

NIF SMBC Ventures is a private equity company established in October 2005 by the merger of NIF Ventures, a member of the Daiwa Securities Group, and SMBC Capital, a subsidiary of Sumitomo Mitsui Financial Group (SMFG). NIF SMBC Ventures leverages the extensive experience that the two merged companies acquired in the venture capital markets to provide the following services:

1. Venture capital investment based on a “hands-on” investment model, which provides full support to the investment target company in all phases of company management
2. Support for medium-sized companies with strong management resources to help them restructure their operations, by helping to fund a management buyout or similar takeover

In addition to direct investment-related activities of this type, the company also manages investment funds which collect extensive financial resources from investors and provide a managed return.

The Daiwa Securities Group and SMFG boast extensive networks, a vast customer base and superior knowhow in investment-related issues. Building on such competitive edge of the two parent companies,

NIF SMBC Ventures hopes to utilize the increased scale of its operations to expand the scope of its business domain and form a balanced investment portfolio, while improving investment performance.

### Earnings Results for FY 2006

NIF SMBC Ventures generated ¥9.5 billion in gross profit on sales in FY 2006, with an ordinary income of ¥4.2 billion and a net income of ¥4.6 billion. During the fiscal year, the company invested a total of ¥37.0 billion in 204 target companies. This represents a 26% increase in investment, and 12 more companies, than in FY 2005. Of these, 198 were venture capital investments (11 more than in FY 2005), primarily in Japan. These venture capital investments increased 4% year on year, to ¥23.9 billion. In addition, the company invested ¥13.1 billion in management buyouts by six companies, including a takeover bid for Q'SAI and a management buyout by Almex PE. This compares with ¥6.4 billion and five companies in FY 2005. Of the companies in which NIF SMBC Ventures has invested, 38 domestic firms and three overseas companies conducted IPOs in FY 2006, versus 34 domestic and six foreign companies in FY 2005.

### Financial Summary for NIF SMBC Ventures (Non-consolidated Basis)

	(Millions of yen)		
	FY 2004	FY 2005	FY 2006
Gross Profit on Sales	¥ 3,842	¥8,924	¥9,527
Ordinary Income	32	4,800	4,233
Net Income (Loss)	(8,491)	6,689	4,622

Note: Results for FY 2004 are for NIF Ventures



Fund management activities in FY 2006 centered on the establishment of “NIFSMBC-V2006” series. The Company established funds with a total value of ¥60.3 billion.

Notes: 1. Earnings data are on a non-consolidated basis.

2. NIF Ventures and SMBC Capital merged their operations as of October 1, 2005, to form NIF SMBC Ventures. Therefore, year-on-year comparisons of earnings results are not indicated.

3. Figures for the total investment amount and number of companies in FY 2005 are the sum of data for NIF Ventures and SMBC Capital, adjusted for any duplication.

### Promoting Basic Strategies

NIF SMBC Ventures benefits from the extensive client bases of both the Daiwa Securities Group and SMFG. The company is drawing on this vast client network to better identify promising investment candidates. By working to upgrade the quality and the scale of its investments, both in Japan and overseas, the company hopes to progress from venture capital operations to a full line of private equity investment activities, and establish a solid earnings base.

### Domestic Venture Capital Investments

In Japan, NIF SMBC Ventures is working to extend cooperation with the Daiwa Securities Group and SMFG, and improve its ability to collect information and identify promising investment targets. The company has established an operations desk at Sumitomo Mitsui Banking Corporation to exchange information and personnel. It also cooperates with Daiwa Institute of Research to identify new growth markets and exchange opinions about promising businesses. These efforts are not only aimed at increasing the number of venture companies NIF SMBC Ventures is able to approach, but also should help improve the quality of investments.

### Overseas Venture Capital Investments

NIF SMBC Ventures is strengthening operations in Asia, by strengthening its business office in Hong Kong, and by establishing close ties to EMP-Daiwa Capital Asia Limited. In this way the company is building a network and a stronger organization that will allow it to further increase venture capital investment in Asia.

In the US, the company is working closely with locally based venture capital organizations, while in Europe it is considering changes to its investment structure that allow it to continue pursuing a selective approach to investment.

### Investment in Buyouts

NIF SMBC Ventures has been stepping up its cooperation with SMFG to enhance origination capabilities and to promote investment in buyouts. This has led to a sharp increase in the number of deals it has been able to conduct, thanks to introductions by SMFG. The company is also making progress in its ability to offer tailor-made solutions, and expanding its participation in joint investment and minority investment deals in each region.

A variety of business alliances are helping NIF SMBC Ventures to enhance the corporate value of companies in which it invests, and thus improve returns on investment. In this way, the company is stepping up its participation in hands-on management. In August 2006, the company sold a portion of its stake in Higa Industries, and in December of the same year, it saw GABA Corporation list its shares on the Mothers exchange. NIF SMBC Ventures is beginning to generate solid returns from its investments.



## Group Support

### Research and Systems Daiwa Institute of Research Ltd.

#### Business Description and Characteristics

Daiwa Institute of Research (DIR) serves as a “think tank” for the Daiwa Securities Group, providing comprehensive support through research, consulting, and IT-related work. DIR provides high-quality information services that can enhance the value of each Group company. These services are also offered in the form of a solutions business, to meet the various needs of customers outside the Group.

The analysts and strategists in DIR’s research section emphasize fundamentals in their research and analysis, seeking to provide high quality and added value in their reports, and issue timely coverage of recent issues. The company’s economists, meanwhile, have been providing accurate and detailed analyses and economic forecasts for over 25 years, and have earned a high reputation. Their reports not only address economic policy issues; they also provide analysis and proposals regarding regulatory issues and reforms in the financial and capital markets.

DIR’s consulting business leverages the specialized knowledge of the Daiwa Securities Group’s securities operations and the comprehensive outlook of a think tank to provide customers with solutions on a wide range of issues, from management strategy to business reorganization and restructuring.

The company’s systems business serves as the core of the Daiwa Securities Group’s IT strategy. It provides support for the rapid advances of the finance and securities businesses by introducing systems improvements and by providing constant, high-quality IT support.

By promoting the highest degree of synergy among these business segments, DIR seeks to develop high-quality information and solutions, aiming to be “Japan’s best information services company.”

#### Earnings Results for FY 2006

During FY 2006, the Daiwa Securities Group invested heavily in new information technology. DIR responded with quick and precise systems improvements, and in so doing, contributed greatly to growth in the securities business. This produced a dramatic increase in both sales and ordinary income for DIR. Sales rose 20% year on year to ¥94.8 billion, and ordinary income grew 33% year on year to ¥9.7 billion.

#### Promoting Basic Strategies

Beginning in FY 2006, DIR adopted the goal of becoming “Japan’s best information services company,” as part of the Group’s medium-term management plan. In the first year of the plan, the company has made visible strides towards this goal.

In the research and consulting businesses, DIR employed its expertise and analytical skills to improve its ability to develop unique ideas and proposals. This greatly enhanced the company’s information transmission and policy proposal capabilities.

## Daiwa Institute of Research: Medium-term Management Plan

### Basic Strategy

- Maintain and enhance presence in research services
- Implement the Group's IT strategy and provide reliable information systems
- Train, cultivate and provide IT systems professionals



In the annual rankings of research analysts and economists, published by the weekly *Mainichi Economist* magazine<sup>\*1</sup>, DIR earned the No. 2 rank in overall research. The *Nikkei Financial Daily* gave the company a No. 2 overall ranking in the category of “most popular analysts”<sup>\*2</sup>, and the analyst rankings by *Institutional Investor* magazine<sup>\*3</sup> also had DIR ranked in second place. In all of these cases, institutional investors evaluated the company as one of the industry's top domestic research services. The company is also strengthening its overseas research capabilities, particularly in Asia, and thus contributing to advances in the Daiwa Securities Group's brokerage operations.

DIR's systems business is strengthening the systems that support the Group's online trading operations, and is making progress in introducing a new core operating system. These efforts provide systems support for the Group's business strategies, and contribute to expansion and growth for the Daiwa Securities Group as a whole.

<sup>\*1</sup> Published in the November 7, 2006 issue

<sup>\*2</sup> Published in the March 22, 2007 issue

<sup>\*3</sup> Published in the April 2007 issue

### Future Objectives

Based on the company's FY 2006 performance, DIR has adopted an action plan for FY 2007 which includes the following objectives:

- (1) Earn the top position in research based on rankings by domestic customers
- (2) Enhance the research organization in Asia and other emerging markets
- (3) Pursue strategic development in the management consulting business, particularly for IT, Asia-related and finance-related issues

- (4) Cultivate top-quality personnel and provide effective support for the Group's IT-related investment

DIR is making steady progress in its effort to provide research and consulting customers with top-quality service, and is keen to earn even higher evaluations from its clients. In particular, the company is taking steps to strengthen its research operations in Asia and emerging markets in support of the Group's medium-term management plan, which aims to strengthen Asia-related businesses. DIR is also making greater efforts to attract and cultivate quality personnel, and elevate customer satisfaction, in the aim of regaining the top position in the various domestic rankings of research organizations, based on the performance of their analysts.

The systems business is working in close cooperation with other group members to implement large-scale IT projects which can support the switch to electronic stock certificates and the introduction of a next-generation trading system by the Tokyo Stock Exchange. DIR is making steady progress in improving system stability, raising quality and preventing system failures. The company is also training and dispatching IT personnel who are capable of supporting operations at Japan's top securities group, and taking steps to improve service quality and cost performance. In these ways, DIR is helping to enhance the competitiveness of the Daiwa Securities Group.



## Securities Business Administration Daiwa Securities Business Center Co., Ltd.

### Business Description and Characteristics

Daiwa Securities Business Center (DSC) is a comprehensive outsourcing vendor and provider of back office services for the securities industry. The company provides a wide range of back office services to support the securities business, such as customer account registration activities, customer transaction administration, securities administration, and foreign securities settlement and administration. It also handles operations related to the launch of new products, stock ownership schemes, and administration of investment programs for companies both inside and outside the Group.

In the securities market today, rapidly increasing globalization of securities investments and reforms to settlement systems are creating a “borderless” and “paperless” form of securities trading. Meanwhile, the administrative procedures used to process transactions involving various financial products are changing in a similar way, increasing the need for diversity, flexibility and speed in processing the transactions. DSC not only handles all of the back office functions for the Daiwa Securities Group; it offers quick, accurate and high-quality administrative support services for non-Group clients in the securities industry as well, and tries to make contributions to society in general.

In December 2002, DSC’s back office operations for Daiwa Securities and Daiwa Securities SMBC earned ISO 9001:2000\* certification—an international standard for high-quality management systems—making it the first company in Japan’s securities industry to earn this recognition. Subsequently, the company followed up this achievement by upgrading its certification for contracted administrative services, provided to clients outside the Daiwa Securities Group, from ISO 9001:1994 to ISO 9001:2000.

The company has also earned certification for protecting privacy in the handling of personal information. In September 2005 it obtained the “Privacy Mark” certification from Japan Information Processing Development Corporation (JIPDEC). DSC continues its efforts to provide high-quality services which offer customers a high degree of reassurance, trust and satisfaction.

\* The ISO 9001:2000 standard is a standard adopted to recognize “quality management systems.” It is an upgraded version of the ISO 9001:1994 standard, which addressed “quality assurance.” The objective of the new standard is to promote ongoing improvements to management systems which can realize a high level of customer satisfaction.





## Branch Office Management and Real Estate Consulting Daiwa Property Co., Ltd.

### Business Description and Characteristics

Daiwa Property provides real estate management services for the Daiwa Securities Group. The company contributes high-quality real estate-related support services through operations that center on property management and the development of real estate solutions.

Property management operations include the acquisition, construction and management of new offices, branches and employee dormitories for the Daiwa Securities Group, as well as the refurbishing and replacement of existing facilities. The company's "data control" operations maintain information on the condition of each property and develop earthquake-resistance and disaster response measures for each one, as well as implementing risk management for leased properties. The company is also working with the Headquarters Relocation Department of Daiwa Securities Group Inc. to prepare for the move to a new head office building, in November 2007. This relocation will unite the currently dispersed functions of various Group companies in a single office building.

Daiwa Property's solutions business utilizes the nationwide network of the Daiwa Securities Group to oversee real estate purchases and sales, leasing, and real estate securitization, and to offer related solutions to outside clients.

Currently, the real estate market is experiencing changes never seen before, as corporate globalization and advances in information technology alter the market environment at a rapid pace. Building on the Group's information skills and real estate management experience accumulated by the company over a period of more than 50 years, Daiwa Property helps clients determine the best solution to their real estate needs.