



UNITED *to be the Best*

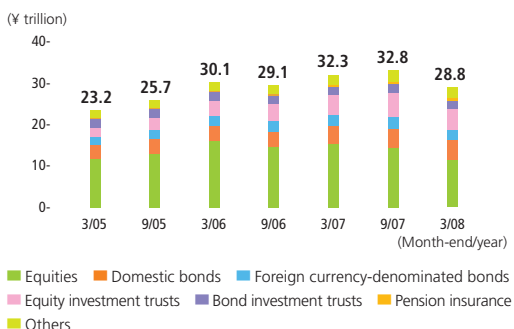
During FY 2007, financial markets around the globe were thrown into turmoil as the sub-prime loan crisis unfolded in the US. Naturally, this had a considerable impact on the Daiwa Securities Group's performance during the year. Although earnings from the retail division and the asset management division were relatively strong, the market turmoil unveiled issues in the wholesale division which were not apparent when conditions were favorable.

Healthy Contributions From Retail and Asset Management Operations

Financial and capital markets were buoyant in the first half of FY 2007, but as the full extent of the US sub-prime loan crisis became apparent, market turmoil spread around the globe. Japan's stock market was hit hard, with the TOPIX index falling 30% from its level at the end of FY 2006. There was no way for the Group to fully escape the impact of these harsh business conditions; net operating revenues declined 15% year on year, to ¥447.4 billion, and ordinary income fell 54%, to ¥90.1 billion. However, several segments of the Daiwa Securities Group's operations managed to withstand the storm and post commendable earnings results. Ordinary income from the retail business remained nearly flat, year on year, and the asset management division registered increases in both operating revenues and ordinary income.

As the value of many financial assets declined, it appears that Japanese individuals temporarily restrained their shift of funds from savings to investment. However, over the longer term, we still expect Japanese individuals to gradually move their roughly ¥1,500 trillion in personal assets from savings to investment. By offering individual investors products and services that will help them generate good returns on their assets, the Daiwa Securities Group makes an effort to expand its customer assets and build a solid operating base that can generate stable earnings regardless of market fluctuations. Earnings figures for FY 2007 reflect the Group's success in this regard. Even in the face of extreme market turmoil, we were able to increase revenue from stable sources and move steadily towards our medium-term management plan's goal of becoming Japan's best securities group.

Daiwa Securities: Customer Assets Under Custody



Fulfilling Many Objectives of the Medium-Term Management Plan

FY 2008 is the final year of the Daiwa Securities Group's current medium-term management plan. Two years ago, the Group set a consolidated ordinary income target of ¥350 billion and a consolidated ROE target of 15%, but the business conditions that we see today are quite different from those that prevailed when the goals were established. The TOPIX is now far below the level we anticipated—around 1,870—and real GDP has managed to grow by only around 1.5% compared with the 2.8% growth rate expected at the time. Considering the circumstances, it has become difficult to meet these original numerical targets.

Yet in qualitative terms, I think the Group is achieving a great deal. As the relatively strong earnings results posted by the retail and asset management businesses demonstrate, the Daiwa Securities Group has a far stronger and more competitive earnings base than it did two years ago. Although the Japanese economy currently faces harsh circumstances, I think this will prove to be simply a period of adjustment in the midst of a longer economic revival trend. Once the economy regains momentum, I think the Daiwa Securities Group will be able to use its solid earnings base to achieve even more rapid earnings growth.

Management Targets of “Passion for the Best” 2008

► Consolidated ordinary income: ¥350 billion ► Consolidated ROE: 15%

Retail

Ordinary income: ¥130 billion
Daiwa Securities customer assets
under custody: ¥45 trillion

Wholesale

Consolidated ordinary income:
¥190 billion
No. 1 position in league tables

Asset Management

Ordinary income: ¥30 billion*¹
Equity investment trusts assets
under management: ¥14 trillion*²
Investment advisory assets under
management: ¥5 trillion

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

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

Earnings Performance by Division

Retail division achieves a dramatic improvement in earnings stability ► In FY 2007 the Group's retail arm, Daiwa Securities Co. Ltd., registered relatively firm earnings due to contributions from stable revenue sources. Daiwa Securities placed priority on developing operations which generate steady income, such as agency commissions from investment trusts, revenues from wrap account services like “Daiwa SMA” and “Daiwa Fund Wrap,” income from “Daiwa LMS” securities-backed loans, and interest income from margin trading. These businesses registered steady increases in FY 2007.

Agency commissions from investment trusts account for the majority of these “stable income sources.” When the current medium-term management plan commenced, monthly agency commissions averaged around ¥2.3 billion, but a steady rise in total investment trust assets under custody has increased the flow to around ¥4 billion a month, at present. This reflects Daiwa Securities' considerable effort to attract assets to the investment trust business, over the past two years.

Brokerage commissions tend to be the largest single source of income for any securities company. However, these are greatly influenced by stock market trends, leaving earnings at the mercy of changes in the market environment. Daiwa Securities recognizes that by expanding earnings from operations that are not affected by short-term market trends, we can achieve a more stable earnings base. In my view, building up these operations is a very important goal of management.

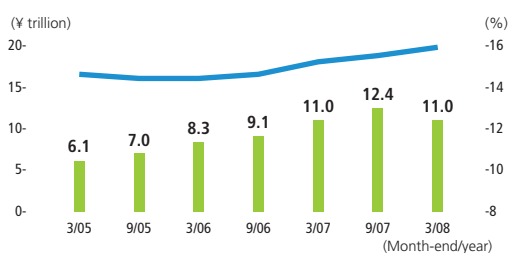
Wholesale business severely affected by market conditions ▶ Earnings in the wholesale business were severely affected by negative market conditions in FY 2007. The market turmoil created by the sub-prime loan crisis in the US had a particularly severe impact on trading operations. The investment banking business also suffered as corporations drastically scaled back equity financing activities, causing a sharp year-on-year decline in both the number of underwriting deals and total value of issuance. Consequently, earnings at Daiwa Securities SMBC declined sharply. However, based on this experience, Daiwa Securities SMBC has been reminded of the need to improve its origination capabilities as an investment bank, and to expand business in Asia. Going forward, I think it is essential to quickly build stable earnings sources in core operations to generate solid profit even in a difficult business environment.

Rapid growth in the asset management business ▶ Despite the adverse market conditions, asset management operations continued to record strong earnings results. During FY 2007, both Daiwa Asset Management Co. Ltd. and Daiwa SB Investments Ltd. increased their share of total investment trust assets under management, and both posted record profits at the ordinary income level. This shows that our asset management operations are effectively leveraging the most prominent trend in Japanese individual investment—the shift of assets from savings to investment.

The keys to achieving success in the asset management business lie in improving the fund management performance of each company and providing high levels of service which enhance customer satisfaction. To this end, we have taken measures such as increasing the number of analysts and strengthening our asset management structure worldwide.

In order to expand retail operations, the Daiwa Securities Group needs to offer an assortment of superior investment products. This factor is becoming increasingly important as competition intensifies. We believe that asset management operations will play an increasingly vital role in the overall business strategy of the Daiwa Securities Group.

Balance of Assets Under Management in Publicly Offered Investment Trusts



■ Total assets under management (left)

— Market share held by Daiwa Securities Group (right)

Note: Combined total for Daiwa Asset Management Co. Ltd. and Daiwa SB Investments Ltd.

Full-Scale Expansion in Asia

The sub-prime loan crisis has had a severe impact on financial institutions both in Japan and worldwide; however, the Daiwa Securities Group did not have any direct exposure to sub-prime loan-related financial instruments. Since we were able to maintain a very healthy financial structure, we view the current confusion as an opportunity to expand our business operations. We think that markets in Asia offer the most promising opportunities at present, and the Daiwa Securities Group has begun pursuing a variety of plans aimed at building our strengths in the Asian region.

During FY 2007, the Group opened a new local subsidiary in India, established an office in Vietnam, and sharply increased staff in the Asian region, by hiring many top-quality local staff. We are also accelerating investment activity in Asia. Going forward, Daiwa Securities Group expects to build a solid revenue base in Asia.

Taking a Larger Role in Society

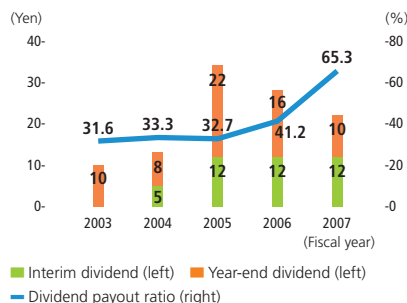
In addition to worries about the sub-prime loan crisis, some observers have expressed concern about future prospects for the Japanese economy. However, I do not think there is any serious need for concern. Japan still boasts one of the strongest manufacturing industries in the world, with a high level of technology that is recognized around the world, and which other countries are hard-pressed to match. The key to promoting continued growth in the domestic economy is to find ways for Japan's manufacturing sector to expand more boldly into the global market. The Daiwa Securities Group intends to provide the strong financial support that companies need to achieve global success. In this, and many other ways, the Group is endeavoring to contribute actively to society through its core businesses, in the financial sector.

The Daiwa Securities Group is also using its financial know-how to help individuals make a more direct contribution to society. For example, in March 2008 we launched a "vaccine bond"—an investment product which provides financial support to immunization efforts worldwide. The bond, aimed mainly at individual investors, is the first product of its kind in the world, and it has attracted strong interest from a wide range of investors. In June 2008 we joined forces with the World Bank to develop another socially beneficial investment product, the Certified Emission Reduction-Linked Uridashi Bond (also known as the World CO₂L Bond, or "World Cool Bond"). This product is the world's first bond product aimed at individual investors to utilize the CO₂ emissions trading system set up under the Kyoto Protocol. The Daiwa Securities Group is also concentrating its efforts to promote investment trust products which allow investors to make a contribution to society, such as the "Daiwa Eco Fund" and the "Russell Global Environmental Technology Fund." These funds attract many people to invest in companies that are making a direct contribution to protecting the environment, giving investors an opportunity to actively support environmental efforts. The Daiwa Securities Group will continue seeking ways to make social contributions through financial markets.

Shareholders' Equity Strategy

During FY 2007, Daiwa Securities Group Inc. conducted two separate share buy-backs, worth a total of ¥50 billion, as part of its continuing effort to increase shareholder value. The dividend paid in FY 2007 was ¥22 per share, for a consolidated payout ratio of 65.3%. Although the Group's basic dividend policy sets a target payout ratio of 30%, we view the decline in earnings in the latter half of FY 2007 to be primarily the result of extreme market turbulence. In the interest of maintaining a relatively stable dividend return for investors, we made only a slight year-on-year reduction in dividends. We intend to continue our efforts to give shareholders value for their money, including further share repurchases.

Annual Dividends Paid by Daiwa Securities Group Inc. and Dividend Payout Ratio



Note: The Group began paying an interim dividend for the first time in FY 2004.

Entering an Era of “True Professionalism”

Looking back at the events of FY 2007, I have the sense that we are entering an era in which financial institutions will be asked to prove their worth, not only by acting as professionals, but by demonstrating the underlying value of that professionalism. For example, in the retail business we not only face a very difficult market environment, but we also must comply with the revised Financial Instruments and Exchange Law. Thus, it is essential that employees of the Daiwa Securities Group enhance their ability to explain investments to customers effectively. Similarly, in the wholesale business we must develop origination capabilities that surpass those of industry rivals, and develop the specialist knowledge required to best serve our customers. It goes without saying that rigid compliance and moral rectitude are essential elements of professionalism, but professionals also need to take great pride in and responsibility for their work; unless we cultivate top-quality personnel who exhibit these qualities, we cannot provide customers with the high level of service they demand. Daiwa Securities Group must demonstrate the professionalism required to earn the trust and loyalty of customers.

For a securities company, the most important type of capital is human capital. By attracting and training a highly professional work force, and providing them with a high degree of motivation, we can be sure that the value of the Daiwa Securities Group will continue to rise, expand and multiply. Therefore we spare no effort in training employees, providing them with a rewarding work environment, and seeking new ways to increase their motivation. In FY 2007, the Group earned its highest ranking ever as a company that new graduates want to work for, and one that offers women the maximum opportunity to contribute. We hope to maintain this favorable corporate image, so that the Group can continue to attract highly talented employees.

In December 2007, the Daiwa Securities Group moved its head offices to GranTokyo North Tower, in a relocation that consolidates the retail and wholesale, and other important functions of the Group in a single location. We hope that this will enhance communication and cooperation among Group companies, and support our ongoing effort to be Japan's very best securities group.

July 2008



Shigeharu Suzuki, President and CEO
Daiwa Securities Group Inc.