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RETAIL

DAIWA SECURITIES CO. LTD.

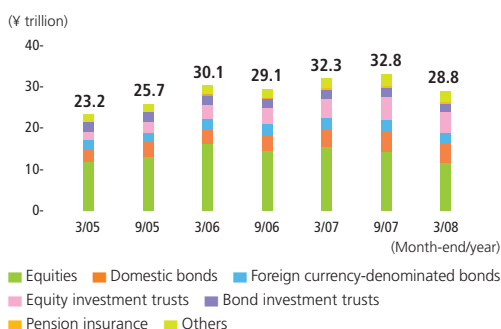
Daiwa Securities oversees the Group's retail securities operations, providing top-quality products and services to a multitude of customers from individuals to smaller, unlisted companies. To better serve the varying needs of customers, the company has developed two main service courses—the “Daiwa Consulting Course,” in which sales personnel offer high value-added support, and the “Daiwa Direct Course,” a highly convenient service provided through a call center and the Internet.

Daiwa Securities tries to make optimal use of the Group's extensive resources. One of its greatest strengths is the fact that customers can receive support through a variety of channels: sales offices, the call center and Internet sites. By earning the trust of customers and stimulating the dedication of employees, Daiwa Securities aims to become “Japan's best securities house.”

Financial Summary for Daiwa Securities

	(Millions of yen)		
	FY 2005	FY 2006	FY 2007
Net Operating Revenues	¥257,988	¥229,171	¥224,010
Ordinary Income	101,057	74,477	71,026
Net Income	58,174	43,468	41,009
ROE	25.9%	17.6%	16.2%

Daiwa Securities: Customer Assets Under Custody





Business Environment

In the latter half of FY 2007, the sub-prime loan crisis in the US created turmoil in financial and capital markets worldwide. The TOPIX declined by approximately 30% over the course of the year, from 1,713.61 at the end of March 2007 to 1,212.96 at the end of March 2008. Despite these harsh market conditions, daily trading volume on the Tokyo Stock Exchange was strong, particularly early in the year, causing the average daily trading value for the full fiscal year to rise 6.6% year on year, to ¥2,939.3 billion.

The equity investment trust business remained strong, as assets continued to flow into the market. Though the drop in stock prices temporarily slowed the trend, individual investors continue to shift their assets from savings to investment. Implementation of the new Financial Products and Exchange Law, in September 2007, established a clearer set of regulations on the sale of financial products. However, since Daiwa Securities already maintained very strict compliance policies, introduction of the new law required few changes; on the contrary, it helped to enhance the company's reputation as a reliable retail broker.

Earnings Results for FY 2007

In FY 2007, net operating revenues at Daiwa Securities declined by 2% year on year, to ¥224.0 billion. Ordinary income dipped 5% year on year, to ¥71.0 billion, and net income was down 6%, to ¥41.0 billion.

Daiwa Securities was able to keep operating revenues at about the same level as last year despite the plunge in global stock prices, thanks mainly to the company's successful efforts to develop stable sources of revenue which are not easily affected by short-term market fluctuations. The balance of assets under custody in equity investment trusts increased year on year, elevating agency commission revenues, and the company also recorded strong revenues from "Daiwa Direct," "Daiwa SMA" and "Daiwa LMS" operations.

Total customer assets under custody declined by about ¥3.5 trillion year on year, to ¥28.8 trillion at the end of FY 2007, but this was mainly due to a drop in asset value, and particularly the decline in stock prices. However, both equity investment trusts and bonds generated net fund inflows over the course of the period.



Medium-Term Management Plan

As part of the Group's medium-term management plan, "Passion for the Best" 2008, Daiwa Securities adopted four basic strategic goals: improving the business model, making effective use of personnel, upgrading offices and facilities, and developing infrastructure. By implementing these strategies, the company has set itself the goal of increasing total customer assets under custody to ¥45 trillion in the final year of the plan (FY 2008), and elevating ordinary income to at least ¥130 billion.

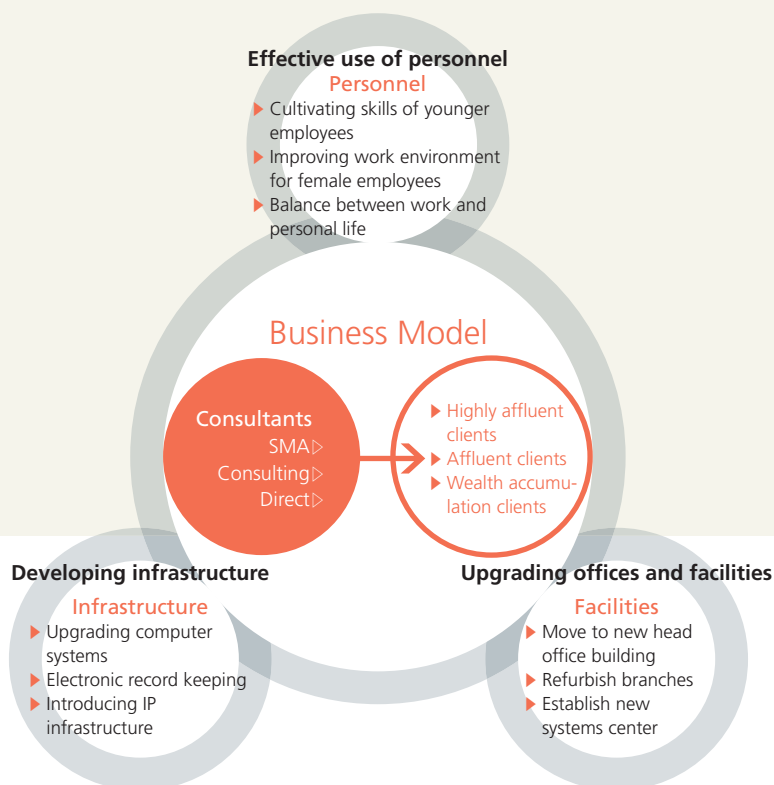
Improving the business model ▶ The Daiwa Securities business model divides operations into three segments. The "consulting business" leverages the skills of the sales force, who offer high value-added service. The "Daiwa Direct (online trading) business" seeks to offer a broad lineup of products and useful investment information. Finally, the "SMA business" uses originality to support the needs of high net worth individuals. This segmented approach helps the company provide services that meet the needs of a broader range of customers, using in-house resources only. In all three segments, Daiwa Securities consultants are the source of the company's success.

In the consulting business, Daiwa Securities offers a diverse range of financial products to meet the needs of various customers. These include bond-type investment trusts, equity-type investment trusts, foreign currency-denominated bonds, JGBs for individuals, and many more.

The Daiwa Direct business tries to leverage the advantages of both the Internet and branch offices, under the motto: "Trade online, with branch office support." Products and services are being expanded, while the content and operability of the Internet site are being improved, to provide comprehensive service and convenience to customers.

In the SMA business, "Daiwa SMA" already holds the top spot in Japan in terms of total contracted assets. In October 2007 the company launched "Daiwa Fund Wrap," a service whereby a professional

Improvements to the Business Model



manages investments for the customer in line with the customer's investment preferences. By meeting a broader range of customer needs, the company is attracting even more contract assets.

Making effective use of personnel, upgrading offices and facilities, developing infrastructure

▶ Daiwa Securities' efforts to use personnel effectively range from general policies to proactively hire new graduates and intensively train younger sales staff to specific programs like the "Support Plan for Working Mothers" and other new personnel policies. The effort to upgrade offices and facilities took a major stride forward with the move to new head offices. Since FY 2005, the company has been steadily refurbishing each of its offices nationwide, and this project is now complete. This not only provides a better impression to customers visiting the branch offices, but also gives employees a more pleasant environment in which to work. Infrastructure development efforts have included systems upgrades and the shift of all clerical documents to electronic form. The company continues to invest in new IT systems, such as an upgraded online trading system, in an effort to strengthen ties to customers, expand operations and improve the efficiency of Daiwa Securities' operating structure.



Plans for FY 2008

In FY 2008, market conditions are likely to remain very harsh, but the flow of individual assets from savings to investment is likely to continue. In this time of rapid market change, customers are even more concerned that their investments are in the hands of a team of true professionals. Daiwa Securities views this as an opportunity to earn the trust of customers and thus expand customer assets under management dramatically.

Increasing assets by offering products and services to match customer needs▶

Daiwa Securities is using a variety of methods to offer products that address the needs of each customer. It seeks out equity investment trusts that focus on specific investment themes, types of asset, regions or concepts, and constantly offers new funds to address as many investment needs as possible, and thus steadily increase the balance of assets under custody. The company also offers JGBs for individual investors, which offer a very low level of risk, as well as other high-value-added foreign currency-denominated bonds such as “vaccine bonds.” The company is also introducing sophisticated derivative products, and thereby increasing its balance of customer assets further.

Expanding the customer base in online trading▶ In April 2008, Daiwa Securities began offering online trading services to corporate clients. Customers can buy and sell a wide range of products via the Internet, including stocks, investment trusts, and even foreign exchange margins, through its “Daiwa FX” trading services.

In July, the company introduced online trading of newly issued foreign currency-denominated bonds. In August Daiwa Securities used its proprietary trading system for listed securities—“Daiwa PTS”—to offer Japan’s first after-hours trading service for Japanese stocks based on a “market-making method” which tracks buying and selling trends to set off-hours trading prices. The company is also expanding the range of currency pairs available as part of its “Daiwa FX” foreign exchange margin trading services.

Increasing contract assets in “Wrap Account” business▶

“Daiwa SMA” offers customers a personal consultant who can provide them with highly personalized, one-on-one advice on investments. To further enhance services, the company has introduced the new “Daiwa SMA Private Asset Allocation Service,” which includes advisors who handle the individual asset allocation and management strategies. In addition to taking asset management services to the next level, the company is offering the services to an even broader market. As of April 2008 the minimum contracted asset amount for “Daiwa Fund Wrap” accounts was lowered from ¥5 million to ¥3 million to attract more customers. The company intends to continue adding new features and services.



Topics

Fund Wrap▶ In October 2007, Daiwa Securities introduced its discretionary asset management service, “Daiwa Fund Wrap.” This service provides a new way for individuals to build their asset base. It allows customers to select a particular investment stance and asset management style, based on detailed discussions with an advisor, then turn over the responsibility for managing the assets to a professional. As Japanese individuals shift more of their assets from savings to investment, the pool of “investors” is expanding. “Daiwa Fund Wrap” offers even those who are not familiar with securities companies a service that can help them manage their funds effectively.

Daiwa Securities views its “Daiwa Fund Wrap” service as a central tool in diversifying the customer base and creating a stable and expanding stream of revenues. In April 2008 the minimum contract amount was lowered from ¥5 million to ¥3 million, and in June the number of funds targeted for investment was expanded. In this way, the company is continuing to improve services to better match customer needs.

Daiwa Securities earns customer loyalty with a cycle of service that builds value over the long term.



“Daiwa Fund Wrap” is a new investment management service that allows customers to select an investment stance that suits their needs, in consultation with an investment advisor. Once the customer has specified their preferred stance and selected a fund management style, they conclude an investment agency contract that turns over actual management of the funds to a professional, who manages the account, provides periodic reports on performance and carefully follows up to re-confirm the customer’s intentions, in a continuous cycle of service.



Features of “Daiwa Fund Wrap”

“Daiwa Fund Wrap” is a comprehensive service for managing assets. Among other features, it allows the customer to specify the investment strategy they prefer, select a fund management style and have their contracted assets managed according to those parameters by investment professionals. Reports on the fund performance are provided regularly, and continuous follow-up allows the customer to make adjustments.

“Daiwa Fund Wrap” consultants use an interview sheet to help investors decide on an investment strategy and fund management style that suits their individual needs. Based on these decisions, funds are allocated to different investments according to standard ratios and then invested in various carefully selected investment trusts set up specifically for “Daiwa Fund Wrap” customers. Every three months, customers receive a “Daiwa Fund Wrap Performance Report” and the advisor follows up with a discussion to see if the customer wants to adjust their stance. This method aims to achieve stable fund management results through the efficient diversification of customer investments.

WHOLESALE

DAIWA SECURITIES SMBC CO. LTD.

Daiwa Securities SMBC conducts brokerage and trading activities which cover all of the most advanced products and services, from equities and bonds to derivatives and other instruments. In addition, the company's investment banking operations help business corporations, financial institutions and public organizations locate the best solution for raising capital and developing their business through stock and bond underwriting, IPOs and M&A advisory services. Daiwa Securities Group Inc. holds a 60% capital stake in Daiwa Securities SMBC, while the other 40% is controlled by the Sumitomo Mitsui Financial Group (SMFG). Consequently, the joint venture draws strength and diversity from the broad client bases and superior financial know-how of both financial groups to support the fund management activities and business strategies of clients.

Consolidated Financial Summary for Daiwa Securities SMBC

	(Millions of yen)		
	FY 2005	FY 2006	FY 2007
Net Operating Revenues	¥311,568	¥260,700	¥161,954
Ordinary Income	141,582	92,866	1,431
Net Income (Loss)	91,883	51,945	(5,836)
ROE	18.2%	8.5%	—

Daiwa Securities SMBC's Position in the Major League Tables in FY 2007

	Total Debt		Total Equity		M&A (transaction value)		M&A (number of deals)	
	FY 2007 Rank	Share	FY 2007 Rank	Share	FY 2007 Rank	Share	FY 2007 Rank	Share
1st	Mizuho	16.9%	Nomura	43.9%	Nomura	19.4%	Nomura	4.6%
2nd	Daiwa Sec. SMBC	16.0%	Nikko Citigroup	16.5%	MUFG	12.0%	Daiwa Sec. SMBC	3.9%
3rd	Mitsubishi UFJ	14.4%	Daiwa Sec. SMBC	11.0%	JPMorgan	11.5%	MUFG	3.7%
4th	Nomura	13.7%	Mitsubishi UFJ	6.1%	Daiwa Sec. SMBC	11.4%	Mizuho Financial Group	3.2%
5th	Nikko Citigroup	9.7%	Morgan Stanley	4.9%	Citigroup	11.0%	Citigroup	2.8%

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



Business Environment

In the latter half of FY 2007, turmoil in financial markets triggered by the sub-prime loan crisis caused global credit markets to dry up, while domestic stock market prices fell sharply, interest rates fluctuated and foreign exchange rates swung about, creating a great deal of market uncertainty. To make matters worse, many companies responded by backing away from equity finance, causing the total value of public offerings to drop dramatically. IPO activity declined as well, due to the weakness of small-cap and venture stock markets and tighter screening for new listings. IPO issuance fell both in number and value. There was still brisk demand for debt financing, thanks to favorable interest rates and strong demand from investors; however, M&A deals involving Japanese companies declined for the first time in four years, due to a general lack of liquidity worldwide.

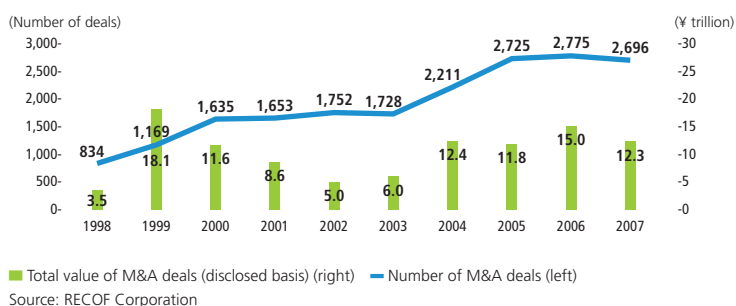
Earnings Results for FY 2007

In FY 2007, consolidated net operating revenues at Daiwa Securities SMBC declined by 38% year on year, to ¥161.9 billion, and ordinary income fell 98%, to ¥1.4 billion. The company posted a consolidated net loss of ¥5.8 billion.

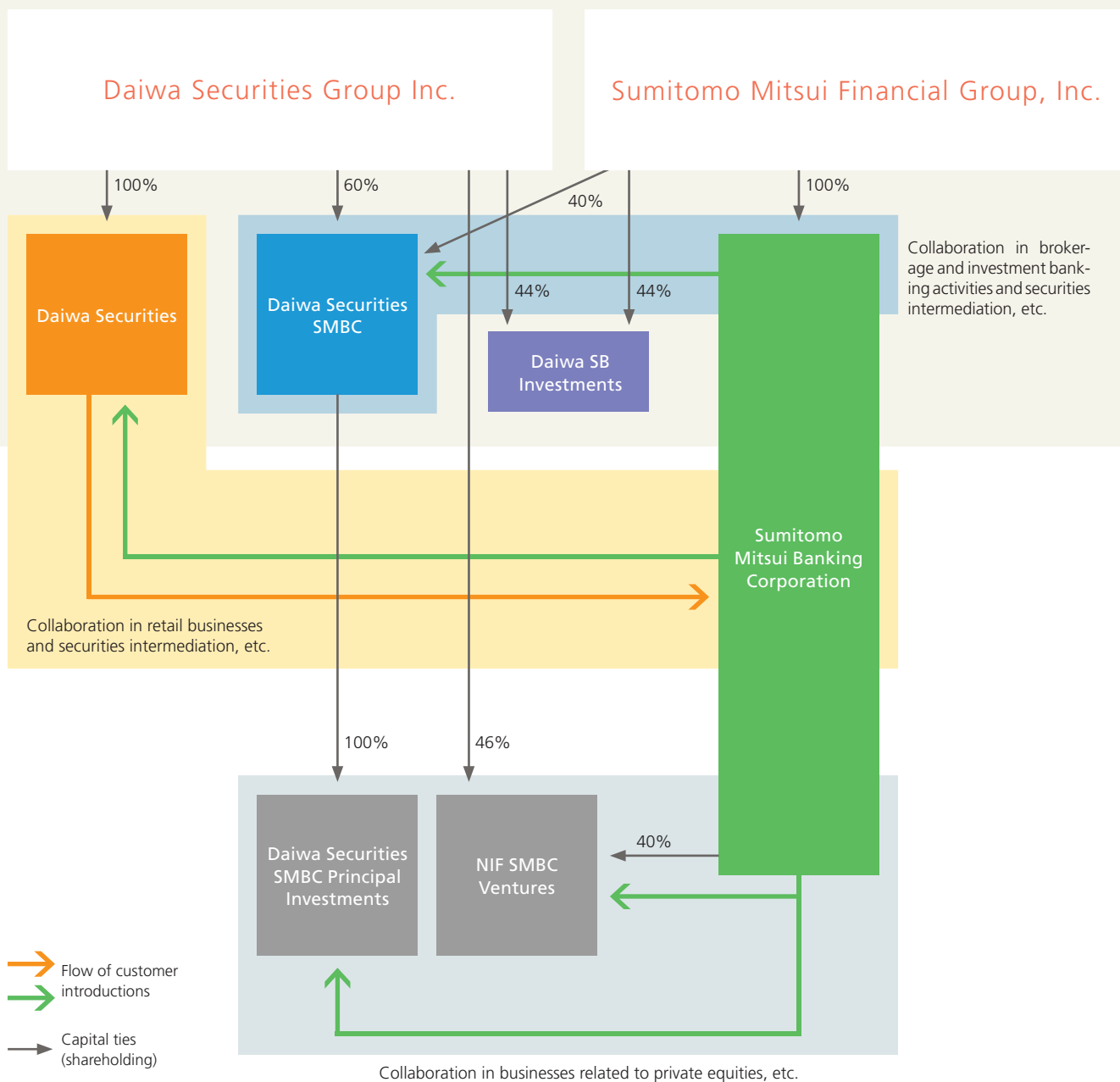
In the investment banking business, earnings declined due to a drop in demand for equity financing, and the decision by a number of companies to postpone large-scale IPOs. In the M&A business, as well, even though the total number of deals remained level with the previous year, large-scale M&As declined. Total commissions from the investment banking business in FY 2007 declined 27% year on year, to ¥77.4 billion.

Trading operations were hurt by the market turmoil which accelerated in the second half; this not only generated valuation losses, but also increased the costs of adjusting market positions. Trading revenues dropped 53% year on year, to ¥54.6 billion.

M&A Market in Japan



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



Major Deals in FY 2007

Primary and Secondary Equity Offerings	Japan Petroleum Exploration (secondary; ¥85.6 billion), Nippon Electric Glass (primary-secondary; ¥33.2 billion), Taiyo Yuden (overseas CB; ¥20.0 billion), Snow Brand Milk Products (primary; ¥13.2 billion); Mitsui Mining (secondary; ¥10.6 billion)
IPOs	Kito (¥21.9 billion); Morimoto (¥14.9 billion)
Corporate Straight Bonds	Tokyo Electric Power Company (¥300.0 billion), Japan Tobacco (¥150.0 billion), Mitsubishi Heavy Industries (¥80.0 billion), KDDI (¥80.0 billion), SoftBank (¥70.0 billion), NTT (¥70.0 billion)
Agency Bonds	Japan Expressway Holding and Debt Repayment Agency (¥150.0 billion), Japan Bank for International Cooperation (¥100.0 billion), Japan Student Services Organization (¥80.0 billion), Development Bank of Japan (¥65.0 billion), Urban Renaissance Agency (¥50.0 billion), Central Nippon Expressway (¥50.0 billion), Japan Finance Corporation for Small and Medium Enterprise (¥50.0 billion)
Structured Finance	Secured pass-through bonds No.5-2 issued by the Japan Housing Finance Agency (issue: ¥200.0 billion; underwriting: ¥76.0 billion), Series 14-17 RMBS issued by SMBC (issue & underwriting: ¥285.0 billion each), First special purpose company Series 1 FILP bonds issued by Master Trust Bank of Japan (issue: ¥100.0 billion; underwriting: ¥53.2 billion), SBM Handset Installment Sales Receivables, Securitization Series 2007-12, issued by SoftBank Mobile (issue & underwriting: ¥43.5 billion each)
M&As	Advisor to Mitsukoshi in its merger with Isetan; advisor to Asahi Enterprises, a wholly owned subsidiary of Promise Company, in its takeover of Sanyo Shinpan Finance; advisor to Imperial Hotel in Mitsui Fudosan's acquisition of a 33.22% stake in the Imperial Hotel; advisor to SRI Sports in its acquisition of the US-based Cleveland Golf; advisor to Vertex Standard in Motorola's tender offer to acquire the company
Overseas Primary and Secondary Equity Offerings	Visa (POWL*, ¥30.8 billion), China Boqi Environmental Solutions Technology (IPO on TSE First Section; ¥22.1 billion), International Elite (IPO listed on Hong Kong Growth Enterprise Market; ¥5.2 billion), China Automation Group (public offering; ¥3.5 billion)

* Public Offering Without Listing

Medium-Term Management Plan

As part of the Group's medium-term management plan, "Passion for the Best" 2008, Daiwa Securities SMBC has adopted the goals of "elevating the absolute level of earnings," and "securing the No.1 position in the league tables." In general, the company aims to earn an international reputation as "Japan's best investment bank."

Products ▶ Daiwa Securities SMBC has been making efforts to improve trading capabilities and strengthen international operations. However, the financial turmoil which prevailed in the latter half of FY 2007 had a major impact on earnings. A sharp drop in share prices, rapid changes in interest rate and foreign exchange conditions and expanding credit spreads produced large valuation losses in the company's trading business, depressed demand for structured products, and increased the cost of hedging activity in derivatives operations.

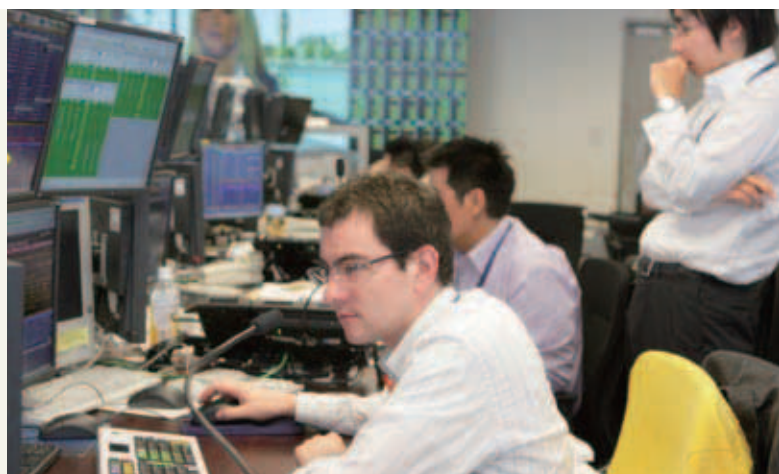
Overseas operations, on the other hand, enjoyed better results. Income from Asian stock-related products rose considerably. Not only did the company strengthen its Asian stock sales capabilities but it also posted a sharp year-on-year increase in earnings related to QFII* operations in China.

*QFII: Qualified Foreign Institutional Investor—a transitional structure adopted to allow foreign companies to participate on a limited basis in countries, where the currency conversion rate is fixed and capital markets are not entirely open.

Investment banking ▶ During FY 2007, Daiwa Securities SMBC established strategies that included strengthening operations in Asia, which is a region of priority interest; improving support for the cross-border M&A activities of Japanese companies; and improving its origination capabilities with the cooperation of all divisions. One key success during FY 2007 was the company's selection, in August, as the lead manager for China Boqi Environmental Solutions Technology's ¥22.1 billion IPO—the first-ever listing by a Chinese company on the Tokyo Stock Exchange, First Section. The company underwrote a ¥30.8 billion issuance by Visa and a ¥5.2 billion issuance by International Elite during FY 2007. Daiwa Securities SMBC's business alliance with Sagent Advisors of the US, established in April 2007, also produced positive results, as the two companies assisted Japan's SRI Sports in the acquisition of Cleveland Golf.

Other major underwriting contracts in FY 2007 included lead management of a straight bond issue for Japan Tobacco (¥150.0 billion) and a straight bond issued by Australia and New Zealand Banking Group (¥135.8 billion). Daiwa Securities SMBC was also joint lead manager for an ¥85.6 billion secondary market issuance





by Japan Petroleum Exploration. The company served as an M&A advisor on the management alliance between Mitsukoshi and Isetan as well as Promise's take-over bid for Sanyo Shinpan Finance.

Plans for FY 2008

The drop in earnings for FY 2007 was primarily a reflection of the weak condition of capital markets during the period. However, it does highlight the fact that Daiwa Securities SMBC's earnings structure is highly dependent on Japan-related products. Regardless of whether the market turmoil of last year is temporary or prolonged, in FY 2008 the company will take steps to ensure that its core business has a more stable and diverse earnings base which can generate profits even in harsh conditions such as those faced in FY 2007. In addition to diversifying the business by expanding in Asia, the company will take steps to enhance its risk management structure, in order to become Japan's best investment bank.

Improving investment banking operations in Asia▶ In order to take full advantage of the earnings opportunities in Asia, Daiwa Securities SMBC is increasing staff at its Asian offices by hiring individuals with knowledge of and contacts in the region. The company is also broadening its sector coverage on a global basis, and taking other major steps to strengthen the underlying business structure.

Supporting clients' business strategies through M&A activities▶

Japanese companies are taking a more diverse approach to M&A activities. Large-scale mergers, cross-border acquisitions and management buyouts are becoming increasingly common themes. In order to establish a global M&A structure that can support these efforts, Daiwa Securities SMBC is moving investment banking and other personnel to its M&A department, while working closely with partners like Sumitomo Mitsui Financial Group, Sagent Advisors and group offices in Asia, Europe and other regions.

Increasing sovereign wealth fund and hedge fund trading▶

Sovereign wealth funds* are having an ever-more important impact on financial markets. These funds not only require management support; they also have a vast pool of capital available, offering good prospects for the development of a range of businesses going forward. In December 2007, Daiwa Securities SMBC established a sales promotion team that specializes in sovereign wealth funds, and the capabilities of the entire Daiwa Securities Group are being employed to allow this team to provide the very best in services.

* Sovereign wealth funds are managed by national governments using funds and foreign reserves from the central bank, as well as income from natural resources such as oil.

Providing new products and services▶ As sales and trading operations seek to diversify income sources for the company, Daiwa Securities SMBC is using the global client base and market know-how it developed through its Japanese equity trading business to expand its trading share and revenue in Asian stocks. The company's derivatives division, in London, is also expanding, building a stronger infrastructure for managing derivative products, and broadening its lineup of structured products. In addition to the interest-rate- and exchange-rate-linked products it currently offers, this business is expanding into structured products based on Asian stocks, commodities and credit, in order to address a broader range of customer needs.

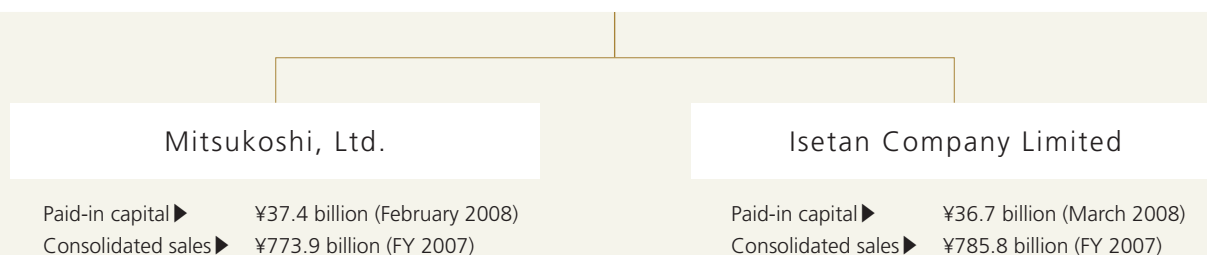
Improving revenue and risk management capabilities▶

As it expands its lineup of products and services, Daiwa Securities SMBC is also improving its ability to manage risk and respond to changes in the market environment. In each business segment, the company has introduced accounting structures to manage income flows globally. This should make the company more sensitive to costs and more flexible in terms of focusing resources on selected business segments, and deciding more quickly and effectively how to allocate risk.



ISETAN MITSUKOSHI HOLDINGS

Company name ▶	Isetan Mitsukoshi Holdings Ltd.
Registered Headquarters ▶	6-16 Ginza 4-chome, Chuo-ku, Tokyo
Paid-in capital ▶	¥50.0 billion



Supporting the merger between Mitsukoshi and Isetan ▶

On April 1, 2008, two of Japan's most prominent retailers—Mitsukoshi and Isetan—merged their operations in a stock swap, to create Isetan Mitsukoshi Holdings. This alliance between Japan's fourth-largest and fifth-largest department store chains (in terms of sales) carried the newly merged company to the top of the industry rankings, ahead of J. Front Retailing. Daiwa Securities SMBC supported this merger by acting as the financial advisor to Mitsukoshi.

Origination capabilities to address increasingly complex management challenges ▶

The merger of these two department store chains should produce a favorable synergy between Mitsukoshi, which has built a strong business in serving affluent individuals, and Isetan, which is involved in more trend-conscious retailing activities. By making optimal use of their combined management resources, the new company hopes to increase customer satisfaction and establish itself as Japan's top retail services group.

The M&A market in Japan is likely to become even more active in the future, as companies seek to strengthen themselves through collaboration, with large-scale domestic mergers or cross-border deals to expand their overseas operations. Daiwa Securities SMBC is bolstering its origination capabilities in order to help clients acquire needed funds through the capital markets, develop efficient financial strategies, and conclude successful strategic mergers and acquisitions. By improving its ability to develop such solutions, the company will be able to support the increasingly complex strategic business activities of clients.



ASSET MANAGEMENT

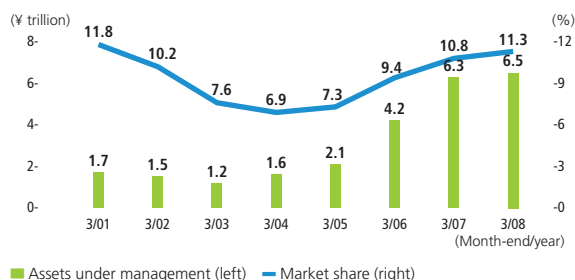
DAIWA ASSET MANAGEMENT CO. LTD.

Daiwa Asset Management is responsible for the Daiwa Securities Group's asset management operations. The company develops and manages investment trust products, aimed primarily at individual investors, and markets them through a multitude of sales channels, including not only Daiwa Securities and other retail securities companies but also major banks and post offices throughout Japan and the defined contribution pension funds of business corporations. Funds include "Daiwa Global Bond Fund," a monthly dividend-type fund that has attracted ¥1,499.5 billion in total assets under management as of the end of March 2008, socially responsible investment (SRI) funds, alternative funds and various other funds that invest in both domestic and overseas stocks, bonds, and even derivatives. The company uses the fund management know-how it has acquired over many years to help investors steadily build their personal assets and meet their investment goals.

Financial Summary for Daiwa Asset Management

	(Millions of yen)		
	FY 2005	FY 2006	FY 2007
Operating Revenues	¥31,374	¥58,933	¥83,079
Ordinary Income	4,435	13,015	17,494
Net Income	3,051	8,659	10,665

Daiwa Asset Management: Assets Under Management of Publicly Offered Equity Investment Trusts and Market Share





Business Environment

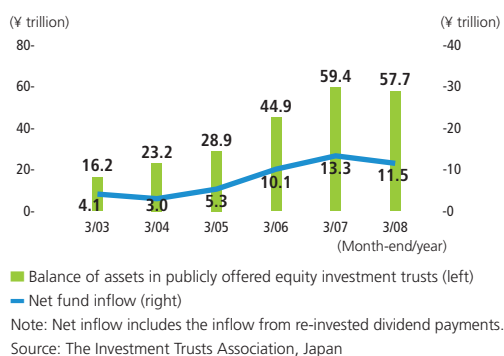
In FY 2007, the market for investment trust products continued to expand during the first half, building on impressive growth in the previous fiscal year. However, the global turmoil in financial and capital markets generated by the sub-prime loan crisis caused asset values to fall in the second half, and as a result the balance of assets in publicly offered equity investment trusts declined compared with the previous year. Nevertheless, funds continued to flow into investment trusts; the net inflow for the period, after deducting contract cancellations and redemptions of contracted amounts, was ¥11.5 trillion, demonstrating that individuals are continuing to shift their assets from savings to investment.

Since Japan's aging demographics are increasing the importance of retirement and pension issues, and the related fund management needs, the market for investment trusts is expected to continue growing for the foreseeable future. To meet the increasingly diverse fund management needs of individual investors, asset management companies need to develop attractive products and continuously strive to enhance their fund management capabilities.

Earnings Results for FY 2007

As individual investors continue to shift their assets from savings to investment, the balance of assets in publicly offered investment trusts at Daiwa Asset Management grew, thus increasing management fees. This was the main factor contributing to a 41% year-on-year increase in operating revenues for FY 2007, to a record high of ¥83.0 billion. Ordinary income also increased, for the second consecutive year, rising 34% to a record ¥17.4 billion. Total assets under management in the company's publicly offered equity investment trusts rose to a record high of ¥7,584.2 billion in June 2007, but the rapid decline in stock prices during the latter half of the year limited asset growth to just 2% year on year; the balance of assets under management was ¥6,504.0 billion at the end of March 2008.

Trends in the Total Assets of Japanese Publicly Offered Equity Investment Trusts and Net Inflow



Daiwa Asset Management: Major Investment Trusts Launched in FY 2007

	Fund Name	Launch Month	Launch Amount (¥ billion)
Q1	Daiwa Select Japan (Japanese Stock Fund)	April 2007	31.8
	Daiwa Global REIT Fund	June 2007	121.8
	Fidelity Asia Three-Asset-Class Fund	June 2007	61.8
Q2	Daiwa World High-Dividend Stock Fund	July 2007	67.3
Q3	Daiwa Dynamic Indian Stock Fund	December 2007	47.1
Q4	Daiwa Russian Stock Fund	February 2008	20.4

Promoting Basic Strategies

Daiwa Asset Management is striving to become Japan's best asset management company. Under the Group's medium-term management plan, "Passion for the Best" 2008, the company is pursuing the basic policies described below.

Improving fund management capabilities▶ During FY 2007, Daiwa Asset Management expanded its work force at overseas subsidiaries in New York, London, Hong Kong (including the Shanghai representative office) and Singapore. In addition to enhancing its fund management capabilities in the US, Europe, and particularly in Asia, the company is taking steps to build an efficient trading structure. New trading capabilities have been introduced in London, and trading responsibilities have been allocated, with the Tokyo office handling all trades for offices in Asia and the London subsidiary handling trades for all offices in the US and Europe. This greatly improves the company's ability to conduct global fund management activity in-house. Leveraging these abilities, Daiwa Asset Management has launched the "Daiwa Dynamic Indian Stock Fund," the "Daiwa Taiwanese Stock Fund" and the "Daiwa Brazilian Stock Fund." In addition, in May 2008 the company launched Singapore's first investment fund (ETF) which complies with Islamic law (Shariah). This fund, the "Daiwa FTSE Shariah Japan 100*," has been listed on the Singapore Exchange (SGX). This is the very first ETF that has been listed on the Singapore Exchange by Daiwa Asset Management's local subsidiary, Daiwa Asset Management (Singapore) Ltd.

Daiwa Asset Management benefits greatly from cooperation with group affiliates; the company turns to Daiwa Fund Consulting for fund information and asset diversification know-how. The company believes that fund management skills will give it an edge over competitors, and during FY 2008 it intends to continue working to strengthen the in-house management activities of its overseas subsidiaries, as well as forging alliances with major asset management companies worldwide. These alliances will also contribute to the Group's Japanese stock fund management advisory business.

* Shariah is a system of Islamic law applied to Muslim believers, which regulates aspects of their daily life. The "Daiwa FTSE Shariah Japan 100" is composed entirely of the stocks of Japanese companies whose business activities do not violate any of the basic principles of Islamic law. ETFs are funds constructed to maintain close correlation to the major stock indices, such as the Nikkei 225 and TOPIX, and they are traded on the securities exchange just like any other stock or listed security.

Expanding lineup of funds▶ In order to respond to the needs of a diverse group of investors, Daiwa Asset Management offers a wide variety of fund products. In FY 2007, the London-based subsidiary Daiwa Asset Management (Europe) Ltd. launched the "Principal-Protected Fund Linked to Soft Commodities 2008-01," denominated in Australian dollars. This fund offers investors a chance to benefit from appreciation in prices of agricultural products. In addition, it expanded its lineup of products that invest in the stocks and bonds of newly industrialized countries. The company also added new products designed exclusively for the "Daiwa Fund Wrap" and "Daiwa SMA" services offered by Daiwa Securities, and products for individual companies' defined contribution pension funds.

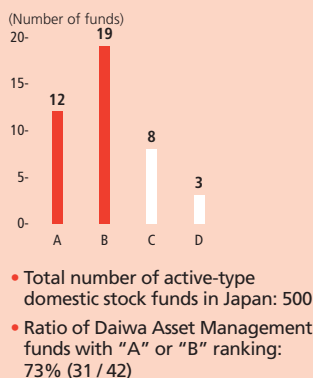
Daiwa Asset Management will continue to analyze customer needs and trends in the market environment in an effort to develop attractive products in a timely manner. In this way, the company will strive to further improve and expand its product lineup.

Topics

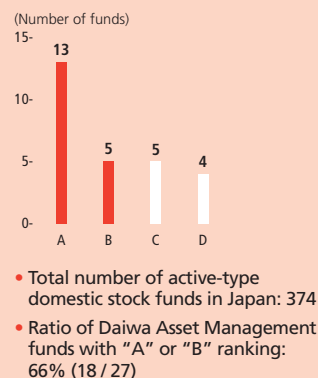
Active-type Japanese stock funds boasting strong performance ▶ Daiwa Asset Management has been adopting a variety of measures to try to improve the performance of its active-type Japanese equity funds. These efforts have helped many of the funds achieve strong performance. Daiwa Fund Consulting, another member of the Daiwa Securities Group, ranks investment trusts on the basis of their performance, with four grades, from “A” (high) to “D” (low). Looking at these ratings, the one-year and three-year returns of Daiwa Asset Management’s “Active-management-type domestic stock funds” have earned a majority of these funds an “A” or “B” rating.

Breakdown of Daiwa Asset Management Funds According to Performance Ranking

One-year performance
(through March 2008)



Three-year performance
(through March 2008)



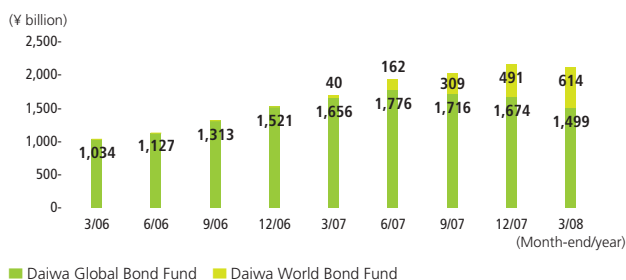
Marketing strategies ▶ Daiwa Asset Management has developed a number of large-scale investment trust products that respond specifically to customer needs identified through the company’s market research efforts. The “Daiwa World Bond Fund,” which is marketed by Daiwa Securities, had an asset balance of ¥614.9 billion as of March 2008, and it held the top position in *The Nihon Keizai Shimbun*’s ranking* of the most popular funds in terms of net asset growth. This fund ranks alongside Daiwa Asset Management’s “Daiwa Global Bond Fund” as one of the most widely recognized investment trust funds in Japan. Daiwa Asset Management will continue working with Daiwa Securities to develop a cooperative structure that can adopt and implement coordinated sales strategies for investment trusts.

Daiwa Asset Management markets many of its fund products through domestic securities companies and financial institutions other than Daiwa Securities, and these are also showing strong growth. For example, “High-Grade Oceania Bond Open,” a monthly dividend-type fund, increased total assets under management to ¥488.8 billion as of March 2008, earning a spot among the company’s largest funds, and “Daiwa Overseas Sovereign Fund” increased total assets under management to over ¥170 billion.

Daiwa Asset Management’s foreign bond-type funds are gaining in importance among financial products handled by the Daiwa Securities Group; total assets under management in this type of fund have risen to ¥3 trillion. This type of product is a very good match for the needs of investors who want investment products that generate a relatively safe and stable return over the long term. Daiwa Asset Management will continue working aggressively to develop new foreign bond-type funds in the future.

* This ranking, published in *The Nihon Keizai Shimbun*’s February 28 issue, listed funds according to their net increase in asset value over the one-year period ending January 31, 2008.

Trends in Assets Under Management of Daiwa Global Bond Fund and Daiwa World Bond Fund





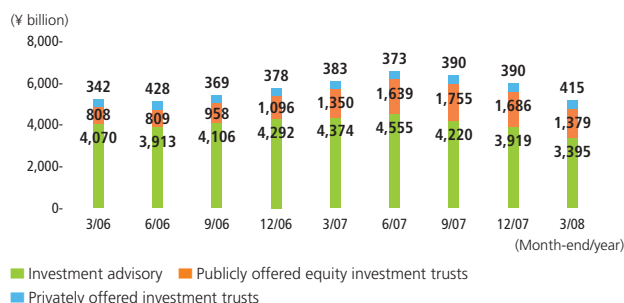
DAIWA SB INVESTMENTS LTD.

Daiwa SB Investments plays a central role in the asset management operations of both the Daiwa Securities Group and the Sumitomo Mitsui Financial Group. Some 65% of the assets it handles are managed under investment advisory contracts, and it has established a particularly strong position in pension fund management. The company consistently ranks in the top tier among asset management firms in Rating & Investment Information (R&I)'s *Newsletter on Pensions and Investments* ranking of companies, based on customer satisfaction, and it has a strong track record of winning asset management contracts from overseas pension funds. The company also uses the know-how it has gained from pension fund management to develop and manage investment trust products, and it has established a global alliance with T. Rowe Price Group, a major US asset management organization, covering asset management and research activities. These activities allow Daiwa SB Investments to offer high quality asset management services to financial institutions and individual investors in Japan, and worldwide.

Financial Summary for Daiwa SB Investments

	(Millions of yen)		
	FY 2005	FY 2006	FY 2007
Operating Revenues	¥16,247	¥19,476	¥26,299
Ordinary Income	4,613	4,407	5,752
Net Income	2,752	2,695	3,119

Daiwa SB Investments: Trends in Assets Under Management





Medium-Term Management Plan and FY 2007 Results

Under the Daiwa Securities Group's medium-term management plan, "Passion for the Best" 2008, Daiwa SB Investments has adopted the goals of improving fund management and research capabilities, diversifying the range of fund products, strengthening marketing efforts and upgrading infrastructure. During FY 2007, the second year of the plan, Daiwa SB Investments registered a 35% year-on-year increase in operating revenues, to ¥26.2 billion, and a 31% rise in ordinary income, to ¥5.7 billion. Both of these figures are record highs for the company.

At the end of March 2008, the balance of assets under management stood at ¥5,189.9 billion, a 15% decline compared with ¥6,108.9 billion in March 2007. This partly reflects the decline in stock prices and steady yen appreciation; however, it also reflects trends in the corporate pension fund market, which is shrinking as the population ages and as more and more companies return the proxy portion of *kosei nenkin* pension funds (employees' pension funds), managed on behalf of the government. Consequently, total assets in the investment advisory business declined 22% over the course of the year, from ¥4,374.8 billion in March 2007 to ¥3,395.2 billion in March 2008. However, individual investors continued to show interest in publicly offered investment trusts like the "Global

High Dividend Equity Open Fund" (an annual ¥367.9 billion in assets during FY 2007) and "Global Asset Diversified Open Fund" (¥152.5 billion in assets during FY 2007). Furthermore, the sudden deterioration of global financial markets caused institutional investors to seek out risk-hedged investment products. By responding quickly to this need with appropriate fund management products, Daiwa SB Investments was able to largely offset the impact of declining stock prices and yen appreciation on total assets under management. Fund inflows matched the scale of asset valuation losses, and consequently the balance of assets in investment trusts edged up slightly, from ¥1,734.1 billion in March 2007 to ¥1,794.8 billion in March 2008.

Despite the difficult market conditions, Daiwa SB Investments continued to earn high marks for its fine investment advisory and investment trust management activities. R&I's *Newsletter on Pensions and Investments* ranked Daiwa SB Investments number one in its "2007 survey of pension customers' evaluations of asset management companies," in the overall evaluation category which includes fund management performance and information disclosure. In addition, the company earned the title of "best asset management company" in the "Lipper Fund Awards Japan 2008," in both the overall category and the mixed asset category.

Daiwa SB Investments: Major Investment Trusts Launched in FY 2007

	Fund Name	Launch Month	Launch Amount (¥ billion)
Q3	China Longshan Fund (Chinese Stock Fund)	December 2007	16.2
Q4	Daiwa SB Investments NKS Fund (for qualifying institutional investors only)	January 2008	20.2



Plans for FY 2008

The asset management business has grown rapidly over the past few years, in response to strong financial market conditions and steady expansion in the number and variety of investors. However, there has also been a steady trend towards selectivity; as investment needs and products become more diverse, more complex, and more difficult to manage effectively, investors increasingly seek out companies that can provide high-quality services. By responding to these trends, Daiwa SB Investments has been building a highly effective and efficient business which fully justifies the company's slogan: "Top in Quality." The company aims to establish itself as a top-class asset management company which can represent Japan favorably on the world stage.

Improving fund management and research capabilities▶

In FY 2008, the company is introducing the principle of "no alpha—no pay," to ensure that fund managers are keenly focused on performance. In the research division, the company has adopted a system that clearly identifies responsibility for investment decisions, increasing the incentives and dedication of employees involved in investment strategy.

Diversifying fund management products▶ As customer needs become more diverse, Daiwa SB Investments has been developing and refining an "alpha engine" that allows the company to create new funds and introduce a steady stream of high-quality, competitive fund management products. Daiwa SB Investments has also joined forces with Wilshire Associates, a US-based fund management company, to jointly develop a "fund of hedge funds" product aimed mainly at pension fund clients.

Strengthening overall marketing capabilities▶ In the corporate market for investment funds, Daiwa SB Investments is working with sales agents to develop a stronger network of sales support, both by forging alliances with existing sales agents and seeking out new agents and new corporate clients. The company is also pursuing a relationship with Japan Post Bank, in order to expand its marketing channels, increase its balance of defined contribution/variable annuity assets and win investment advisory contracts from the Japan Post Group.

As part of its marketing activities aimed at pension funds, the company is taking steps to strengthen its lineup of domestic bond products intended for public pension funds. These products will also appeal to private pension funds that are trying to reduce their risk-asset exposure. Daiwa SB Investments is also striving to increase its balance of assets managed on behalf of major sovereign funds and pension funds, while earning positive evaluations from clients and ratings agencies.

Upgrading infrastructure▶ Daiwa SB Investments is improving the functions of both its front- and back-office operating systems, including the development of a clerical processing system designed to improve efficiency and reduce the risk of human error. In addition, the company is working to increase attention to compliance issues and enhance the skills of employees, for example, by adopting an employee remuneration system in which pay is based on work responsibilities and performance.

INVESTMENT

DAIWA SECURITIES SMBC PRINCIPAL INVESTMENTS CO. LTD.

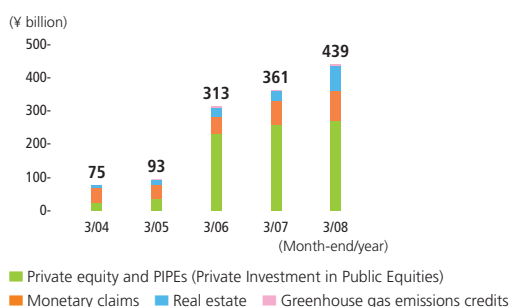
Daiwa Securities SMBC Principal Investments (hereafter, “Daiwa Securities SMBC PI”) conducts private equity investment and other investment activities for the Daiwa Securities Group. This business—one of the Group’s four core operations—also includes investment in monetary claims, real estate and greenhouse gas emissions credits. In addition, the company develops and manages corporate revitalization funds and other types of investment funds. Daiwa Securities SMBC PI is a wholly owned subsidiary of Daiwa Securities SMBC, which is able to draw upon the strengths and the vast client bases of both the Daiwa Securities Group and the Sumitomo Mitsui Financial Group. This allows the company to propose optimum solutions to prospective investment targets, helping business corporations and financial institutions to increase capital, restructure businesses and use assets efficiently.

Financial Summary for Daiwa Securities SMBC Principal Investments

	(Millions of yen)		
	FY 2005	FY 2006	FY 2007
Gross Profit on Sales	¥19,043*	¥29,712	¥19,961
Ordinary Income	15,225	23,782	16,385
Net Income	9,096	14,081	9,946

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

Investment Amount at Daiwa Securities SMBC PI





Business Environment

During FY 2007, the market turmoil created by the sub-prime loan crisis, as well as rising concern about inflationary pressure, triggered major changes in the investment environment. In Japan, the number of large-scale private equity investment deals declined, and the pace of overall market growth temporarily stalled. At the same time, financial institutions began to adopt a more cautious stance on financing, which had an impact on the real estate market as well. On the other hand, corporate interest in strategic mergers and acquisitions continued to grow, as did the number of companies seeking to sell off non-core businesses.

Daiwa Securities SMBC PI began pursuing investment activities in Asia more aggressively in FY 2007. Many companies in the region have been looking for ways to obtain the funds needed to expand their operations, and this creates a wealth of opportunities for prospective investors. Although the investment environment has changed somewhat, with investors adopting a more cautious stance than they have in recent years, this suggests that there are more good opportunities for investors to locate targets that can produce a reliable source of earnings in the future.

Earnings Results for FY 2007

As of the end of March 2008, the balance of investment assets held by Daiwa Securities SMBC PI stood at ¥439 billion, an increase of 22% from ¥361 billion in March 2007. Although direct investments in private equity registered only a small increase, the company has been steadily increasing its balance of investments in real estate and monetary claims. During FY 2007, Daiwa Securities SMBC PI made its first direct investment in an overseas company, purchasing a US\$30 million stake in the Chinese telecommunications operator Airway Communications. This investment will help Airway Communications build its broadband network in China.

Revenue from the sale of investments declined compared with FY 2006, though the company did recoup its private equity investments in Maruzen and Mitsui Mining. Ordinary income declined 31% year on year, to ¥16.3 billion.

Exits in FY 2007

Company Name	Execution Date	Exit Method	Reason
Maruzen	August 2007	A portion of the preferred stock held by Daiwa Securities SMBC PI (equivalent to 25.5% of voting shares) was sold to Dai Nippon Printing (DNP)	<ul style="list-style-type: none"> • Maruzen has successfully strengthened its balance sheet and improved business content by introducing new management control methods. • Over the past 130 years, Maruzen and DNP have made contributions to Japan's printed media culture. Since the two companies have similar corporate philosophies and corporate cultures, and therefore should be fairly compatible, an alliance is expected to produce positive results in a short period of time. • The combination of DNP's advanced printing technology and product development capabilities should be able to achieve synergy with Maruzen's educational solutions (including library operations), shop systems, publications and other business segments.
Mitsui Mining	March 2008	All shares held by Daiwa Securities SMBC PI (43,301,500 shares: 18.8% of total shares issued) were sold on the secondary market	<ul style="list-style-type: none"> • Earnings at Mitsui Mining were strong, relative to the targets set in the company's medium-term business plan. • Ties to Nippon Steel and Sumitomo Corp. are strengthening, and the company appears to be on the last leg of its journey towards recovery. • Now that Daiwa Securities SMBC PI has finished serving its role, Mitsui Mining can benefit from steps to increase its stock float. Therefore Daiwa Securities SMBC PI sold its shares on the secondary market, to take profits on the investment.



Medium-Term Management Plan

Daiwa Securities SMBC PI's basic goals, under the Group's medium-term management plan, "Passion for the Best" 2008, are to "expand the balance of assets invested" and "generate steady returns by continuously taking profits on investments." In this way, the company can increase its contributions to total Group earnings.

Expanding investment assets ▶ In the private equity business, in August 2007 Daiwa Securities SMBC PI acquired 100% of the shares of HMV Japan from its UK-based parent, HMV Group, which was selling off its operations in Japan. In February 2008, the company purchased all outstanding shares of Nippon Dry-Chemical, the leading domestic manufacturer and servicer of fire extinguishing systems, which has a very diversified operation in Japan. Daiwa Securities SMBC PI acquired 100% of the shares of the hotel operator Asahikawa Grand Hotel in August 2007. In February 2008 the company took a US\$30 million stake in a Chinese telecommunications operator, Airway Communications. As a result of these investments, the balance of direct corporate investment rose by around ¥12 billion year on year, to ¥269 billion at the end of March 2008.

The monetary claims that Daiwa Securities SMBC PI has acquired are primarily loans to regional banks, and some loans for very large-scale projects. The balance of investments in monetary claims stood at ¥89 billion at the end of March 2008. The balance of investments in real estate on the same date stood at ¥77 billion.

Since 2003, when Daiwa Securities SMBC PI made its first investment in the World Bank's Community Development Carbon Fund, the company has been adopting an increasingly active stance on investments in greenhouse gas emissions credits. Currently, the company has investments in nine projects in China, ranging from wind power generation to biomass fuel projects.

In February 2008, the company joined forces with Sumitomo Forestry and the Organization for Small and Medium Enterprises and Regional Innovation, Japan, to establish the "Home Construction Succession Fund." This fund mainly acquires stock from the owner-operators of small housing construction enterprises. It was set up to help address problems related to the fact that many aging business owners in Japan do not have anyone to assume control of their company when they retire. The fund provides financing to ensure that the businesses can be kept in operation, with a smooth transition. In another initiative, Daiwa Securities SMBC PI is continuing its efforts to set up regional corporate revitalization funds, and is now setting up its second such fund in Hokkaido.

Generating steady returns by continuously taking profits on investments ▶ Daiwa Securities SMBC PI always tries to create a "win-win" situation. By helping to increase the value of the companies in which it invests, it aims to create a favorable return for itself. In August 2007, the company sold a portion of its stake in Maruzen to Dai Nippon Printing, a strategic buyer which can expect to generate synergy between its own operations and those of Maruzen, and thus expand its business.

Similarly, in March 2008, the company sold off all of its shares in Mitsui Mining. Through its investment, Daiwa Securities SMBC PI has been cooperating with Nippon Steel and Sumitomo Corporation to restructure and consolidate Mitsui Mining's core operations. However, earnings are now steady and collaboration with Nippon Steel and Sumitomo Corporation is increasing. Therefore, the company decided that it was time to unwind its investment.



Plans for FY 2008

Continuing to recoup investments▶ Since FY 2006, Daiwa Securities SMBC PI has begun seeking exit strategies for some of its investments, and the ongoing sale of direct investment stakes has become the core source of company income. In FY 2008, the company will continue to push forward the investment cycle, watching for good opportunities to take profits on its investments.

Cooperating effectively with the investment banking business▶

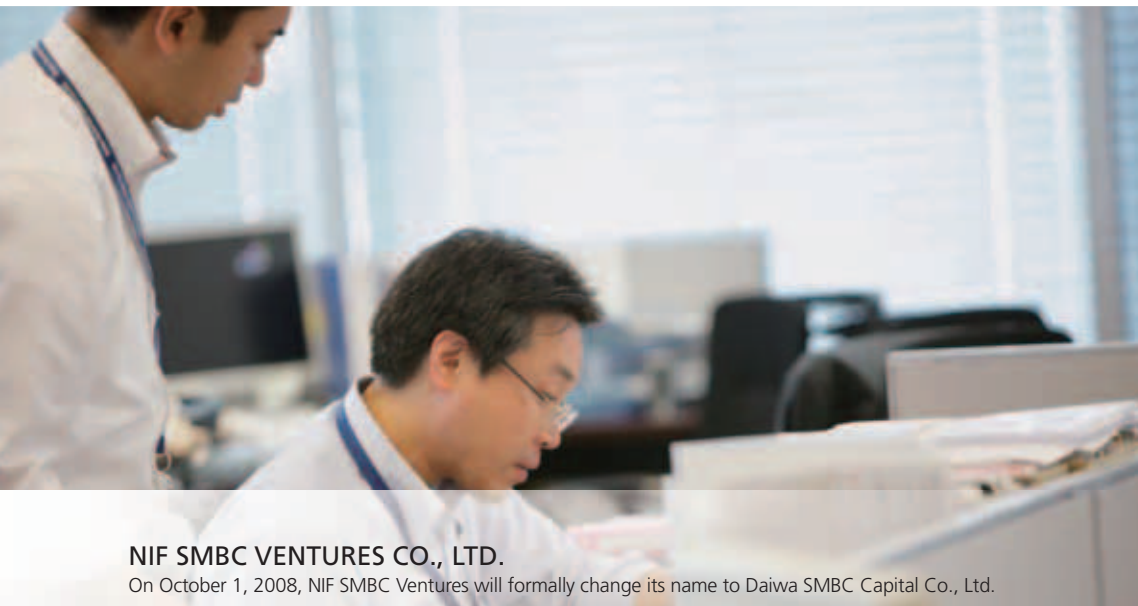
Daiwa Securities SMBC PI benefits greatly from the support of the Group's M&A and investment banking operations. This support helps it identify attractive investment targets, and determine the most profitable time to exit from these investments.

Investing ¥30 billion in Asia and other overseas markets▶

The opportunities for private equity investment in Asia are even more diverse and attractive than those in Japan. China and Vietnam, in particular, offer excellent opportunities for investment in finance and infrastructure projects, which contribute to the region's brisk economic growth. Daiwa Securities SMBC PI's overseas operations aim to invest roughly ¥30 billion in Asia and other overseas markets during FY 2008. Collaboration with the overseas offices of Daiwa Securities SMBC and Sumitomo Mitsui Banking Corporation will help the company identify attractive investment targets. Daiwa Securities SMBC PI will also seek to leverage its accumulated investment experience to explore other markets and take advantage of earnings opportunities other than private equity investment.

Major Investments in FY 2007

Company	Investment Date	Acquisition Method	Details of the Target Company and Future Outlook
HMV Japan and HMV Retail	August 2007	Daiwa Securities SMBC PI acquired all outstanding shares of HMV Japan and HMV Retail from the former parent companies, HMV Group and HMV Music	<ul style="list-style-type: none"> • HMV Group is a UK-based company that operates retail stores selling CDs, DVDs, books and other items under the "HMV" and "Waterstone's" brand names. • HMV Group decided to focus management resources on operations in the British Isles, and therefore decided to sell off its business in Japan by selling all shares in HMV Japan to Daiwa Securities SMBC PI. Daiwa Securities SMBC PI appointed a new director to HMV Japan and will lend support to the company as it formulates and implements new business plans, as well as using its own network to help HMV Japan secure business partners and alliances, and thereby enhance corporate value.
Airway Communications International Holding	February 2008	Airway Communications issued preferred shares to increase capital, and Daiwa Securities SMBC PI acquired a US\$30 million stake as the lead investor in this private placement	<ul style="list-style-type: none"> • Airway Communications is a 100% privately owned telecoms network operator which provides high-speed data communications services, mainly to large companies and local governments. • The company intends to use the funds raised with this equity placement to develop wireless broadband technology and begin offering high-speed wireless data communications services.
Nippon Dry-Chemical	February 2008	Daiwa Securities SMBC PI acquired all outstanding shares (not including treasury stock) in Nippon Dry-Chemical from its former parent company, Tyco International Holding S.à.r.l	<ul style="list-style-type: none"> • Nippon Dry-Chemical is one of Japan's largest and most widely recognized manufacturers of fire extinguishing systems, selling everything from individual fire extinguishers to building fire protection systems and fire engines, and has a product lineup that no competitor can match. • Daiwa Securities SMBC PI newly appointed one director and one auditor, and will leverage the vast network and know-how of the Daiwa Securities Group to help Nippon Dry-Chemical to further enhance its corporate value.



NIF SMBC VENTURES CO., LTD.

On October 1, 2008, NIF SMBC Ventures will formally change its name to Daiwa SMBC Capital Co., Ltd.

NIF SMBC Ventures was created by the merger of a former Daiwa Securities Group subsidiary, NIF Ventures, with SMBC Capital, a former subsidiary of the Sumitomo Mitsui Financial Group. Both companies had established track records and considerable accumulated know-how in the venture capital market. Through the merger, NIF SMBC Ventures is able to draw upon the vast network of contacts and business relationships of both corporate groups. The company's operations include venture capital investments, which provide overall management support to startup companies, buyout investments, which identify medium-sized companies with valuable management resources and help them restructure and revive their operations, and fund management activities, which help provide the capital to conduct these investments. Through all of these operations NIF SMBC Ventures helps investment target companies to increase their corporate value.

Earnings Results for FY 2007

In FY 2007, the weakening stock market coupled with stricter screening standards for newly listing companies caused a sharp drop in the number of domestic IPOs; just 99 new companies listed their shares, and with turmoil in global financial markets leaving few other favorable factors to support earnings, sales declined by 29% year on year, to ¥13.4 billion. Ordinary income fell from a ¥4.2 billion profit in FY 2006 to a ¥5.3 billion loss in FY 2007.

Investment activity during the period targeted 138 companies, 66 fewer than in FY 2006, and the total invested amount declined by 58%, to ¥15.4 billion. Nearly all of the investment targets were venture companies; NIF SMBC Ventures made only one buyout-related investment, comprising an additional ¥52 million to an existing investee.

In venture capital investment business, NIF SMBC Ventures sharply increased its investments in overseas companies. The total overseas investments rose 63% year on year, from ¥3.0 billion in FY 2006 to ¥4.9 billion, and the number of companies targeted increased from 11 to 15.

The number of domestic investment targets that successfully listed their shares during the period declined from 38 to 18, but three overseas companies listed their shares in FY 2007, unchanged from the previous year.

In the fund management business, the company launched a new fund scheme named "NIFSMBC-B2007 Investment Limited Partnership" with a gross commitment amount of ¥11.5 billion. As of March 2008, NIF SMBC Ventures had 66 funds in operation with a total gross commitment value of ¥290.6 billion and a total asset balance of ¥174.6 billion.



Plans for FY 2008

In FY 2008, we expect the venture capital market to remain harsh. To respond to this challenge, NIF SMBC Ventures intends to return to the core strengths upon which it was founded, utilizing its accumulated know-how and the extensive network of contacts provided by the Daiwa Securities Group and Sumitomo Mitsui Financial Group to identify attractive investment targets, and working to improve in-house management skills in order to provide effective support to target companies. In October 2008, the company will formally change its name to Daiwa SMBC Capital Co., Ltd. to emphasize and strengthen its ties to the two parent organizations, and bolster efforts to further increase corporate value.

Restructuring the investment portfolio ▶ In FY 2008, NIF SMBC Ventures plans to restructure its portfolio in an effort to diversify the sources of income. Investments will be segmented into three core groups: domestic venture investments, overseas investments and buyout investments. In the domestic venture investments business, the company will be extremely selective in choosing investment targets, conducting due diligence and strictly supervising the target companies. Meanwhile, the company will invest more aggressively in overseas ventures, particularly in Asia, in order to raise the share of total assets invested in overseas markets. NIF SMBC Ventures is particularly interested in strengthening investment operations in China. In the buyout investments business, the company will try to improve its network for obtaining information on prospective targets, utilizing the capabilities of the Daiwa Securities Group and the Sumitomo Mitsui Financial Group, in an effort to establish more stable investment operations.

Establishing new investment funds ▶ In March 2008, NIF SMBC Ventures was registered by the Financial Services Agency as a “Financial Instruments Business Operator Engaged in Type II Financial Instruments Business” and as an “Investment Advisory Business.” In May, the company joined the Japan Securities Investment Advisers Association. This will help the company to further strengthen its internal management structure and ability to operate an effective financial instruments business. During FY 2008, NIF SMBC Ventures will accelerate marketing efforts and work to plan and develop fund products that better reflect the needs of investors.



GROUP SUPPORT

DAIWA INSTITUTE OF RESEARCH LTD.

Business Description and Characteristics

Daiwa Institute of Research (DIR) is a generalized think tank that serves the entire Daiwa Securities Group, as well as numerous outside clients, with optimum, high-quality information and solutions. Operations are divided into three core businesses. In addition to proposing policy solutions, the talented team of analysts, strategists and economists in DIR's research division provide timely research reports and analyses with a particular focus on fundamentals. The consulting division of DIR uses its extensive and specialized knowledge of capital markets and the Daiwa Securities Group's comprehensive financial industry capabilities to help corporations formulate visionary management strategies and propose appropriate solutions. Finally, the systems division provides high-quality IT services to companies in not only the finance and securities industries, but many other industry sectors as well. These three divisions strive to achieve the maximum synergy possible, to support and add value to all business activities in the Daiwa Securities Group.

Earnings Results for FY 2007

During FY 2007, the company was involved in two important efforts which contributed to the Group's overall business expansion. DIR took the lead role in Group IT strategy, developing and implementing more effective IT systems. In addition, it worked to establish a strong research operation in Asia, as part of the Group's high-priority strategy for expanding business throughout the region. Consequently, operating revenues increased by 15% year on year, to ¥109.4 billion, and ordinary income rose 37% to ¥13.3 billion.

Medium-Term Management Plan

Under the Group's medium-term management plan, "Passion for the Best" 2008, DIR has adopted the goal of becoming "Japan's best information services company."

Research division ▶ DIR recently established a new Public Policy Research Department, which has conducted a research simulation to study the effect that elimination of the reduced tax rate on stock sales would have on the Japanese economy. DIR has publicized the results of this simulation, and worked vigorously to clarify the issues involved. In addition, the company has been working to develop and expand its research organization in Asia and other emerging markets, to support the Daiwa Securities Group's strategic goal of strengthening Asia-related businesses.

In FY 2007, *The Nikkei Financial Daily's* annual ranking of securities analysts accorded DIR the second place in its survey of "most popular research analysts," in the overall company research category. The company also earned second place in the rankings published by *Institutional Investor* magazine.

Consulting division ▶ Overseas consulting activities have received a boost from the opening of a local subsidiary in Shanghai, which is supporting efforts by Chinese companies to list their shares in Japan or on other securities exchanges. The company is also expanding and developing its operations in other emerging markets, for example, by promoting products that help to cultivate bond markets in Asia. In Japan, meanwhile, the company has been providing support to the Group's investment banking operations, for example, by assisting with the management of share issues for public corporations that are being privatized.



Systems division ▶ During FY 2007, DIR completed several large-scale projects, including a systems upgrade to the core operating system of the Group's retail securities business, and overseeing a stable transition in the business systems infrastructure as part of the Group's relocation to a new head office building. At present, the Group has adopted a policy of aggressively introducing new IT systems to enhance competitiveness, and DIR plays the lead role in managing this effort. In December 2007, when Nikkei Business Publications, Inc. published its ranking of Japanese companies in terms of IT capabilities, it recognized the success of these IT development efforts by awarding the Group third place in the overall rankings.

Plans for FY 2008

In FY 2008, DIR will continue its efforts to improve customer satisfaction, enhance quality and increase efficiency. The company will pursue the following strategies in an effort to meet the goals laid out in the Group's medium-term management plan.

Pursuing the top spot among domestic institutions in rankings of research analysts ▶ DIR's research staff in Japan and overseas are collaborating to provide high-quality, insightful research covering cross-sector and cross-border issues. In this way, the company is trying to anticipate the increasingly complex needs of research clients, and thereby earn a strong reputation for quality.

Developing a research and consulting structure in newly industrialized countries ▶ DIR is strengthening its research structure in Asia and other emerging markets. In the consulting business, as well, operations are expanding. DIR's consulting business in China is now fully under way, and the company is trying to respond to the needs of developing capital markets in other Asian countries as well.

Improving regional consulting operations ▶ DIR intends to collaborate with the Daiwa Securities Group's investment banking operations to help develop a high value-added consulting business. One particular area of focus is the regional market, where the Group is working to develop consulting businesses that serve local governments, help local public organizations to privatize, and assist regional financial institutions as they restructure. In this way, DIR is contributing to the investment banking division's effort to improve origination capabilities.

Implementing systems development projects and formulating a swift and effective group IT strategy ▶ The systems division is in the process of implementing a systems upgrade that will introduce a new core operating system in the Group's wholesale securities business. This will allow the Group to provide wholesale customers with even more effective service. DIR is also providing the IT support that the Group requires to respond to the changing conditions in the financial industry. This includes efforts to respond to the switch to electronic stock certificates, scheduled to take place in January 2009, and the Tokyo Stock Exchange's introduction of a next-generation trading system.

Company Reorganization Planned on October 1, 2008

On October 1, 2008, DIR will divide its operations into two new corporations, in order to separate in-house support activities from operations that serve non-Group clients. This will allow the client-oriented business to adopt a management structure that can make quick, optimum decisions to respond to the characteristics of the client business, and better serve the increasingly sophisticated needs of customers.



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 account administration, customer transaction administration, securities administration, foreign securities settlement and administration, corporate clerical operations, and operations related to the generation of statements or the launch of new products. The company also assists corporate clients outside the Group with employee stock ownership associations and the administration of investment programs.

In the securities market today, the rapid 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 response to changes in the business environment, increasing the need for diversity, flexibility and speed in processing the transactions. DSC handles all of the back office functions for the Daiwa Securities Group, offering quick, accurate and high-quality administrative support services, and also tries to make contributions to society in general.

In November 2000, DSC was the first Japanese company to earn the ISO 9001:1994 certification covering contracted administrative services in the securities industry. In December 2002, the company upgraded its certification to ISO 9001:2000,* the international standard for high-quality management systems. 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 is continuing its efforts to provide high-quality services which offer customers a high degree of security, 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 to the Daiwa Securities Group. The company offers 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. In December 2007, experts from the company's real estate operation provided comprehensive support to the Headquarters Relocation Department of Daiwa Securities Group Inc., assisting the Group with its relocation to a new head office building.

Daiwa Property's solutions business utilizes the nationwide network of the Daiwa Securities Group to oversee real estate purchases, sales and leasing, and to offer related solutions to outside clients. The real estate appraisal division of Daiwa Property was one of the pioneers in this activity. It has maintained a leading position in the industry since the government established its real estate appraisal system. These divisions offer some of the best real estate appraisal services in the industry; by providing an appropriate appraisal of real estate value, the company has earned a strong reputation for reliability from government agencies, business corporations and individual clients alike.

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.