Corporate Summary
Executive Messages
Business Strategy
Management Systems & CSR
Financial Section
Other Information

To Our Stakeholders

Shigeharu Suzuki
Chairman of the Board
Daiwa Securities Group Inc.

Takashi Hibino
President and CEO
Daiwa Securities Group Inc.

FY2011 was a challenging year for the Daiwa Securities Group as the harsh economic climate intensified. Earnings started to recover in the fourth quarter when global markets finally began to stabilize, but the overall market outlook remained cloudy. In light of these conditions, the Group decided to merge Daiwa Securities Co. Ltd. with Daiwa Securities Capital Markets Co. Ltd. on April 1, 2012, reuniting Retail and Wholesale operations for the first time in 13 years. As the "new" Daiwa Securities Co. Ltd. opens a new chapter in its history, the Group also formulated a new Medium-Term Management Plan designed to "return to profitability by pursuing management efficiencies." The plan also seeks to "achieve high-quality earnings growth" by more precisely addressing customer needs. In this way, the Group aims to establish a robust business platform that can withstand short-term fluctuations in the global economy and business environment.

A Stormy Business Climate in FY2011

During FY2011, the Japanese economy struggled to recover from the shattering impact of the East Japan Earthquake, which hit right at the end of FY2010, severing supply chains and creating electric power shortages. Other natural disasters, such as massive flooding in Thailand, also affected industrial activity. Financial and capital markets, particularly the foreign exchange market, were thrown into turmoil by factors ranging from a debt crisis in Europe to credit rating downgrades on US treasuries and the US Federal Reserve Bank's introduction of quantitative easing measures (QE2). The resulting rapid appreciation of the yen further depressed the earnings of Japanese export-oriented companies. The stock market dropped particularly during the summer and remained weak through the end of the fiscal year, sharply curtailing demand for equity financing. All of these factors weighed heavily on the earnings of Japanese securities companies.

Overseas economic conditions were not much better either. Adverse business conditions caused stock prices throughout Europe and Asia to fall over 20% between April and December 2011, depressing overseas equity financing demand as well.

Since the start of calendar 2012, signs of an economic recovery began to emerge as the US Federal Reserve Bank's financial easing measures took hold and fears of a debt crisis in Europe also started to recede. This brought a gradual recovery to most of the world's major stock markets. On the domestic front, the Nikkei 225 responded by edging back above the 10,000 level due to improvements in the financial environment, such as a slight yen weakening from new financial easing policies by the Bank of Japan. The bond market regained strength too as electric power companies—which accounted for some 10% of total domestic bond issuance—returned to the market for the first time since the East Japan Earthquake (Tohoku Electric Power issued new bonds). Since the start of the new fiscal year, however, market conditions have weakened again and the longer-term outlook remains uncertain.

The stormy business climate deteriorated earnings in every segment of the Daiwa Securities Group over the full course of the fiscal year. Although the Retail and Asset Management businesses were able to withstand these harsh conditions and post relatively steady earnings, profit figures declined slightly from the previous year. The Global Markets and Global Investment Banking businesses, which make up the Group's Wholesale securities operation, continued to generate losses, but losses from Investment operations were dramatically reduced compared with FY2010. As a result, consolidated net operating revenues rose 5.5% year on year, to ¥336.0 billion and the Group posted a consolidated net loss of ¥39.4 billion.

On a positive note, efforts to control SG&A expenses are bearing fruit and earnings in all business segments showed signs of improvement in the fourth quarter. In FY2012, as the Daiwa Securities Group opens a new chapter in its organizational history, we will strive to further improve efficiency and strengthen profitability in accordance with the trust and high expectations of all stakeholders.

"New" Daiwa Securities and "New" Medium-Term Management Plan

On April 1, 2012, Daiwa Securities Co. Ltd. merged with Daiwa Securities Capital Markets Co. Ltd., opening a new chapter in the Daiwa Securities Group's history. This merger will reunite the Retail operations of Daiwa Securities with the Wholesale activities of Daiwa Securities Capital Markets for the first time since 1999, when the Group adopted a holding company structure. We have concluded that this re-unification is an essential step in our effort to "establish a robust business structure." Indeed, we see it as one of the most important decisions in the 110-year history of the Daiwa Securities Group. Preparatory work to merge the two companies and a project to revise the Group's organizational structure has been under way since early 2011. The consolidation and streamlining project aims to eliminate all the inefficiency and duplication that developed over the 13 years during which operations were managed separately, while aggressively cutting costs, especially in the Wholesale business, to address today's highly competitive business environment. These efforts have already lowered break-even levels dramatically. In this way, we are laying a firm foundation on which the Daiwa Securities Group can write a new chapter in its history. As the "new" Daiwa Securities begins operations, we will strive to create the efficient management structure and powerful sales capabilities needed to succeed as a comprehensive, full-service securities company.

In the year since I was appointed CEO, I have been constantly impressed by the vast management resources possessed by the Daiwa Securities Group. In the past, the qualities that have allowed the Group to thrive were not ambitious M&A-based strategies but, rather, the importance that Daiwa places on developing a corporate culture committed to excellence. The unity and reliability of this organization are the Group's most valuable assets.

Even when considering the broad sweep of its 110-year history, I believe that FY2012 will go down as a historic year for the Daiwa Securities Group. To guide the "new" Daiwa Securities as it enters the next phase of its evolution, we have formulated a "new" Medium-Term Management Plan—"Passion for the Best" 2014. This plan, which commenced in April 2012, contains the Group's roadmap for the next three years. I take pride in having the opportunity to contribute to this important transition and I would like to thank all Daiwa Securities Group stakeholders for their support as we strive to build a sustainable corporate structure and pursue a new phase of growth.

July 2012

日比野 隆司

Takashi Hibino
President and CEO
Daiwa Securities Group Inc.

Message From the Chairman

Over the 110 years since it was founded, the Daiwa Securities Group has contributed to economic growth and the progress of society, through its activities in capital and financial markets. Since it was established in 1902, the Group has been noted for the loyalty and dedication to corporate principles that employees and executives demonstrated—qualities that have carried Daiwa Securities through eleven decades of external change and reform. We have cultivated a corporate culture in which employees and executives consistently place cooperation and contributions to the success of the Group ahead of their own personal gain.

This sort of loyalty is a critical element in the growth and health of a business organization. I view it as the most important source of the Daiwa Securities Group's competitiveness—an "invisible asset" that prompts employees and executives to seek ways to improve their workplace and which discourages actions that might hurt the company, thus facilitating internal control policies. In addition, a company can continuously invest in the advancement and training of the workforce to enhance its own long-term security, as it can depend on the unceasing efforts of talented, motivated personnel.

These bonds of loyalty run in both directions. The Daiwa Securities Group aims to be a company that employees want to work for. Management strives to earn the trust of employees, and to create a work environment that promotes cooperation, camaraderie and pride in one's work. Cooperation in turn contributes to greater efficiency, effective teamwork in pursuit of shared goals, and a spirit of determination that is impossible to quantify. I believe that the merger of Daiwa Securities Co. Ltd. and Daiwa Securities Capital Markets Co. Ltd. to create a "new" Daiwa Securities will promote even greater cooperation and teamwork among business divisions, create a unified spirit among the employees and executives, and further refine our efforts to create value.

Today, the very purpose and role of a financial company is changing to reflect changes in society. Nevertheless, I am confident that the unchanging values and strong loyalty of Daiwa Securities Group employees will serve us well, as we try to draw on traditions from the past and build bridges to the future. I have no doubt that the Daiwa Securities Group will continue to play an important role in Japan's capital and financial markets and to provide continued value to the societies in which we operate.

Shigeharu Suzuki
Chairman of the Board
Daiwa Securities Group Inc.