

# FACT BOOK 2006

For the Fiscal Year Ended March 31, 2006

# PERFORMANCE

## 1) League Table

Daiwa Securities SMBC is a joint wholesale securities company of Daiwa Securities Group Inc. and Sumitomo Mitsui Financial Group, Inc. We have secured our position as a debt house representing Japan, attaining the number one position in the total corporate bonds league table (corporate straight bonds + FILP agency bonds) for three consecutive years, the total domestic straight bonds league table (Thomson Financial) for four consecutive years, and the domestic corporate straight bonds league table for five consecutive years. Further, we are ranked number one in IPOs and Japanese Government Bond (JGB) auctions. We are ranked at or near the top in other areas such as the equity public offering league table.

	Total corporate bonds (corporate straight bonds + FILP agency bonds)	IPOs	Public offerings	Samurai bonds	ABS
1 <sup>st</sup> place	<b>Daiwa Securities SMBC</b> <b>19.2%</b>	<b>Daiwa Securities SMBC</b> <b>31.0%</b>	Nomura <b>34.1%</b>	Nikko Citigroup <b>20.2%</b>	Mizuho <b>19.5%</b>
2 <sup>nd</sup> place	Nomura <b>18.7%</b>	Nomura <b>22.3%</b>	<b>Daiwa Securities SMBC</b> <b>26.2%</b>	Mizuho <b>20.1%</b>	<b>Daiwa Securities SMBC</b> <b>16.2%</b>
3 <sup>rd</sup> place	Mitsubishi UFJ <b>17.2%</b>	Nikko Citigroup <b>21.1%</b>	Nikko Citigroup <b>10.3%</b>	Nomura <b>12.5%</b>	Mitsubishi UFJ <b>13.2%</b>
4 <sup>th</sup> place	Mizuho <b>16.8%</b>	Mitsubishi UFJ <b>9.9%</b>	Mizuho <b>7.6%</b>	<b>Daiwa Securities SMBC</b> <b>11.2%</b>	Nikko Citigroup <b>6.8%</b>
5 <sup>th</sup> place	Nikko Citigroup <b>14.2%</b>	CSFB <b>3.5%</b>	Goldman Sachs <b>6.1%</b>	Mitsubishi UFJ <b>10.7%</b>	Nomura <b>6.3%</b>

(note) Source: Daiwa Securities SMBC April 2005 – March 2006. The total corporate bonds and samurai bonds are calculated on a deal date basis, the IPOs are calculated on an IPO date basis, and public offerings are calculated on a settlement date basis. On joint lead manager transactions, this is divided according to the underwriting amount and is expressed in the league tables as the acquired percentage. REIT is not reflected in any of the above. The ABS figures are taken from I-N-Information Systems, Ltd.

### FY ended March 2006: All Domestic Bonds Bookrunner League Table (April 1, 2005 – March 31, 2006) Source: Thomson Financial

Ranking	House	Number of issues	Amount (million yen)	Share (%)
1	<b>Daiwa Securities SMBC</b>	<b>141</b>	<b>2,966,222</b>	<b>20.8</b>
2	Nomura Securities	144	2,783,343	19.5
3	Mizuho Securities	136	2,521,588	17.7
4	Nikko Citigroup	91	1,944,383	13.6
5	Mitsubishi UFJ Securities	100	1,836,758	12.9
6	Goldman Sachs	29	753,728	5.3
7	Merrill Lynch Japan Securities	15	239,547	1.7
8	Morgan Stanley	14	229,105	1.6
9	Shinko Securities	17	211,300	1.5
10	CS First Boston	10	204,996	1.4

Note 1 Total domestic bonds = straight bonds + equity linked bonds + samurai bonds + domestic public ABS + Government-guaranteed bonds (SB type)  
Note 2 Bookrunner deals (including bonds issued by each house group)

### FY ended March 2006: Ranking in Japanese Government Bond (JGB) Auction (100 million yen, approx.) Source: Nikkei Quick news

Ranking	House	Amount (100 million yen)	Ratio against total amount of bid (78.4 trillion yen) (Calculated by Daiwa Securities SMBC)
1	<b>Daiwa Securities SMBC</b>	<b>113,780</b>	<b>14.51%</b>
2	Nikko Citigroup	99,700	12.72%
3	Mizuho Securities	99,560	12.70%
4	Nomura Securities	96,720	12.34%
5	Mitsubishi UFJ Securities	80,540	10.27%
6	Morgan Stanley	31,760	4.05%
7	Lehman Brothers	31,210	3.98%
8	Barclays Capital Securities	25,220	3.22%
9	Merrill Lynch Japan Securities	23,520	3.00%
10	ABN Amro	23,330	2.98%



### FY ended March 31, 2006: Public Offering Bookrunner League Table (April 01, 2005 – March 31, 2006) Source: THOMSON DealWatch

Ranking	House	Number of issues	JPY Amount (JPY mil)	Share (%)
1	<b>Daiwa Securities SMBC</b>	<b>31</b>	<b>455,772</b>	<b>36.91</b>
2	Nomura Securities	50	454,316	36.79
3	Nikko Citigroup	17	96,802	7.84
4	Mizuho Securities	5	86,516	7.01
5	Mitsubishi UFJ Securities	14	59,368	4.81
6	Goldman Sachs	2	18,649	1.51
7	Shinko Securities	7	14,744	1.19
8	Tokai Tokyo Securities	3	12,337	1.00
9	Deutsche Securities	3	12,264	0.99
10	Mizuho Investors Securities	5	6,662	0.54

### FY ended March 31, 2006: IPO Bookrunner League Table (Including J-REIT) (April 01, 2005 – March 31, 2006) Source: THOMSON DealWatch

Ranking	House	Number of issues	JPY Amount (JPY mil)	Share (%)
1	<b>Daiwa Securities SMBC</b>	<b>38</b>	<b>333,040</b>	<b>26.27</b>
2	Nomura Securities	43	278,496	21.96
3	Nikko Citigroup	25	260,139	20.52
4	Mizuho Securities	8	114,102	9.00
5	Mitsubishi UFJ Securities	18	79,265	6.25
6	Shinko Securities	17	37,789	2.98
7	Morgan Stanley	3	27,381	2.16
8	Goldman Sachs	1	22,354	1.76
9	Merrill Lynch Japan Securities	2	18,873	1.49
10	UBS Investment Bank	1	18,404	1.45

### M&A Financial Advisors: Any Japanese Involvement Announced (January 01, 2005 – December 31, 2005) Source: Thomson Financial

Ranking	Advisor	Number of deals	Share (%)	Amount (USD mil)
1	Mitsubishi UFJ Financial Group	159	5.3	55,044.40
2	Nomura	143	4.8	93,046.10
3	Mizuho Financial Group	128	4.3	18,526.00
4	<b>Daiwa Securities SMBC</b>	<b>120</b>	<b>4.0</b>	<b>19,434.00</b>
5	Nikko Cordial Securities	83	2.8	3,683.50
6	KPMG Corporate Finance	53	1.8	23,876.40
7	Goldman Sachs	39	1.3	14,353.60
8	Citigroup	31	1.0	18,249.60
9	Merrill Lynch	29	1.0	62,243.70
10	PriceWaterhouseCoopers	25	0.8	5,534.60

### M&A Financial Advisor: Any Japanese Involvement Announced(January 01, 2006 – March 31, 2006) Source: Thomson Financial

Ranking	Advisor	Number of deals	Share (%)	Amount (USD mil)
1	<b>Daiwa Securities SMBC</b>	<b>43</b>	<b>5.7</b>	<b>5,846.90</b>
2	Nomura	33	4.4	3,216.70
3	Mizuho Financial Group	32	4.2	17,383.70
4	Mitsubishi UFJ Financial Group	32	4.2	1,151.90
5	Nikko Cordial Securities	16	2.1	1,396.90
6	Goldman Sachs	7	0.9	18,590.10
7	Citigroup	6	0.8	18,055.00
8	UBS	5	0.7	15,644.80
9	JP Morgan	5	0.7	2,830.60
10	KPMG Corporate Finance	4	0.5	5,595.60



# To be considered the best possible partner by our clients.

Facing turbulent conditions in the global economy, companies find their business becoming more complex and sophisticated day by day. Formed through a strategic joint venture between Daiwa Securities Group Inc. and Sumitomo Mitsui Financial Group, Inc., Daiwa Securities SMBC Co. Ltd. uses its expertise to assist companies in dealing with these challenges. In doing so, we have steadily built a solid performance record in a wide range of financial services, including the development and sale of a comprehensive range of equities, fixed income, derivatives, and other financial products; initial public offerings (IPOs) and other finance; mergers and acquisitions (M&A) and other advisory services; structured finance; and principal finance.

Amidst the growing expectation that direct finance is the key to the continued growth of the Japanese economy, the scope of areas in which Daiwa Securities SMBC can be of assistance to clients as an investment bank has broadened, ranging from fund raising and management and balance sheet restructuring to business restructuring and revitalization. And we expect our scope to continue to expand and develop as our clients requirements change.

Our company began a new mid-term management plan in April 2006 in which we strive to become "Japan's Best Investment Bank with a first class reputation internationally." We put our high degree of professionalism, leading-edge financial technologies and know-how to work for our clients by offering them high quality products and services that serve their needs, thereby boosting the trust they place in Daiwa Securities SMBC.

In pursuing these goals, we look forward to continued good and trusting relationships with our clients.

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紀元杉  
(推定)  
樹齢 3000年  
樹高 19.0m  
根回り 13.5m  
下鴨久宮林園



President  
**Tatsuei Saito**



Deputy President  
**Kenjiro Noda**



Senior Managing Director  
**Shin Yoshidome**

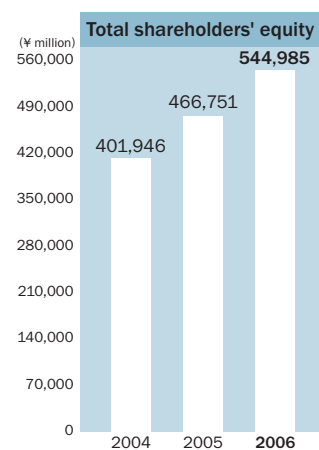
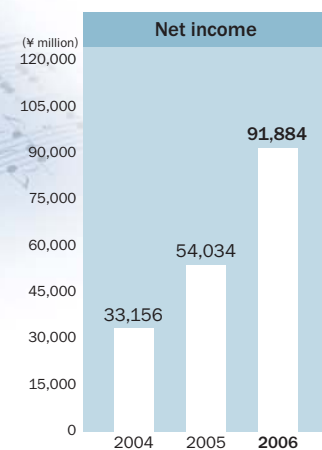
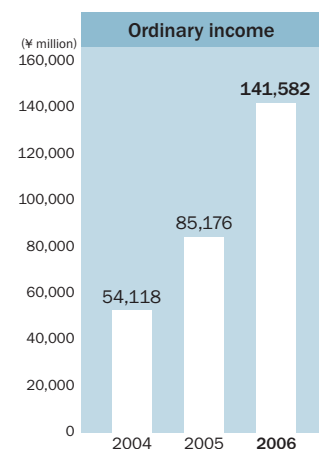
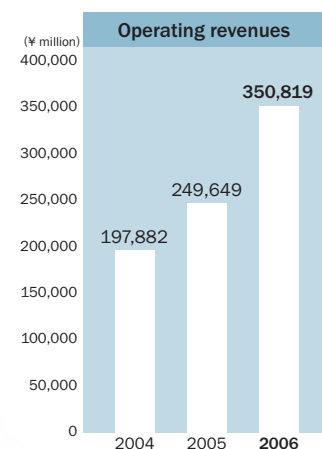


Senior Managing Director  
**Hiroshi Fujioka**



DAIWA SECURITIES SMBC Co. LTD.  
Years ended March 31, 2004 to 2006

	Millions of yen		
	2004	2005	2006
<b>Operating Performance</b>			
Operating revenues	197,882	249,649	350,819
Net operating revenues	181,285	222,390	311,569
Operating income	53,200	83,559	139,663
Ordinary income	54,118	85,176	141,582
Income before income taxes and minority interests	50,290	86,133	143,729
Net income	33,156	54,034	91,884
<b>Balance Sheet</b>			
Total assets	8,195,276	9,675,381	11,524,914
Total shareholders' equity	401,946	466,751	544,985
Paid-in capital	205,600	205,600	205,600
<b>Financial Ratios</b>			
Return on equity [ROE](%)	8.6	12.4	18.2
Shareholders' equity ratio (%)	4.9	4.8	4.7



Daiwa Securities Group's New Mid-term Management Plan

## "Passion for the Best" 2008

Daiwa Securities SMBC's New Mid-term Management Plan – Management Goal

### Management Vision

**"Japan's best investment bank" that is built upon the trust from our clients and the passion of our employees.**

### Management Goal

**"Japan's best investment bank" with a first class international reputation.**

(Establishment of a balanced profit system and client backing supported by strong origination ability)

Daiwa Securities SMBC's New Mid-term Management Plan – Basic Strategy

### ① Increase the absolute level of revenues.

Increasing the absolute level of revenues is a necessary condition in order to become "Japan's best investment bank with a first class international reputation."

Indicator	Target Value
Consolidated ordinary income for fiscal year 2008	190 billion yen or more

### ② Secure the no. 1 position in league tables

Secure the no. 1 position in the league tables for the three major basic services offered by investment banks: equity, debt, and M&A.

Indicator	Target Value
Total equity	No. 1 (each fiscal year)
Total debt	No. 1 (each fiscal year)
M&A	No. 1 (each fiscal year)

Note 1: The total equity and total debt are the company's own indicators based on the following formulas:  
Total equity = issued equity + IPOs + domestic CBs + overseas shares + overseas CBs + third-party allotment scheme + REITs

Total debt = corporate bonds + FILP agency bonds + Samurai bonds + ABS

Note 2: The M&A are "Any Japanese Involvement" league tables, based on Thomson Financial. (Announced deals/transaction value/number of transactions)

### ③ Areas to strengthen

Fundamental reinforcement of trading and principal investment business.

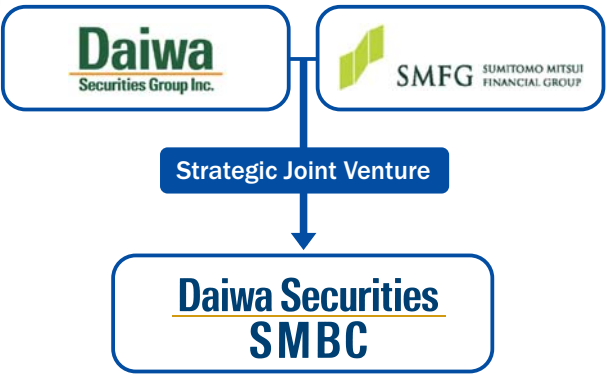


## Strategic Joint Venture

**A strategic joint venture which is based on a strategic alliance**

Daiwa Securities SMBC Co. Ltd. was formed through a strategic joint venture between Daiwa Securities Co. Ltd. (Now Daiwa Securities Group Inc.) and The Sumitomo Bank, Limited (now Sumitomo Mitsui Financial Group, Inc.) in 1999 and became the first wholesale investment bank in Japan.

Since then we established a trackrecord in a wide range of areas starting with investment banking services, by taking advantage of our new found structured strength that arose from this strategic cooperation. As a result, our company achieved increases in income and revenue for three consecutive terms between the fiscal year ended March 2004 and the fiscal year ended March 2006, which corresponds to the period of the former mid-term management plan. We attained consolidated operating revenues of 350,800 million yen and a consolidated ordinary income of 141,500 million yen in the fiscal year ended March 2006, the highest since our establishment.



## "A" Ratings

**Achieving even higher ratings**

Daiwa Securities SMBC has attained A ratings from the following major rating agencies (as of March 2006). The company's ratings have risen in recent years, reflecting its improved record and financial standing. By continuing to build capital through the accumulation of profits, we will construct an even stronger financial foundation in the future.

Rating agency name	Long-term rating (as of March 31, 2006)
Moody's	A2 (stable)
S&P	A- (stable)
R&I	A (positive)

## Lots of No.1

**Lots of No.1 performances**

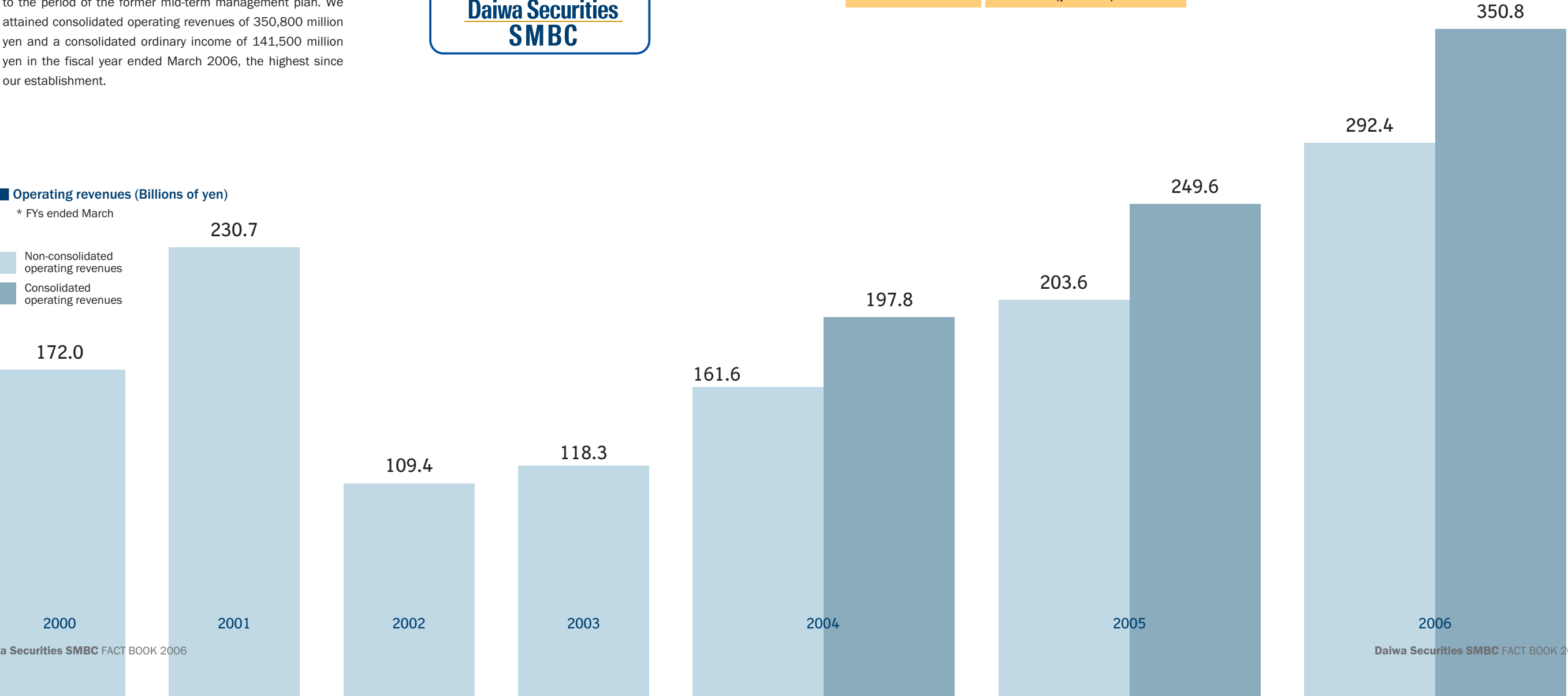
Since its early days, Daiwa Securities SMBC has been a market leader in the main service areas of investment banking, such as equity including IPOs, debt, M&A, structured finance, and so on.

In particular, in fixed income, the company has been number one for three consecutive years in the total domestic straight bonds league table (corporate bonds + FILP agency bonds), and number one for five consecutive years in the domestic corporate straight bonds league table. We have also attained a solid position as a "debt house". (For details, please refer to p. 8 - p. 11).

### Operating revenues (Billions of yen)

\* FYs ended March

■ Non-consolidated operating revenues  
■ Consolidated operating revenues







## Sales and Trading

### Providing clients with innovative products and services that meet diversified investing needs

Through its sales and trading operations, Daiwa Securities SMBC has built a strong market presence in the equity, fixed income, and derivative markets. However, we have no intention of resting on our laurels, and are focusing our efforts on developing and supplying clients with financial products and services that are always a step above the market standard. Moreover, we intend to remain strongly committed to responding to the needs of our clients, primarily domestic and foreign institutional investors. Cooperating with Daiwa Securities Co. Ltd. and Sumitomo Mitsui Banking Corporation, we will leverage the comprehensive capabilities of the Group to position ourselves as the market leader in sales and trading.

### Equity

In our equity business, we handle a wide-range of products on a global basis, including equities, futures, options, and OTC equity derivatives. In particular, we have established ourselves as a leading player in the equity trading market in Japan. Combining sophisticated and rapid execution with superior trading capabilities supported by strong risk management skills, our services are rated highly by clients. Moreover, to help our clients cope with the pace of change in the business environment, our sales teams provide clients with timely, high-value-added information finely tuned to their needs, backed by the research and analysis of the Daiwa Institute of Research Ltd.

### Fixed Income

We work in close partnership with institutional investors, public corporations, and business enterprises in our fixed income business. Through these relationships, we handle a wide range of products and services, including Japanese and foreign public and corporate bonds, securitized fixed income products, and short-term notes.

Using interest-rate, currency, and equity derivatives, we also develop and sell products custom-made for investors' needs. In designing and building strategic portfolios that reflect the changing times, our highly satisfied clients enjoy the support of a team of professionals with a thorough understanding of bond and derivative sales, trading, product development, and market analysis, who utilize the leading financial technologies.

### Research

Working with the Group's Daiwa Institute of Research Ltd., one of the largest investment research institutions in Japan, we can provide our clients with research and analysis of economies, markets, industries, and companies around the world.

Our reputation for useful, timely and appropriate information has grown steadily in recent years, and we have been evaluated as No. 1 in research by various well-known newspapers for three consecutive years.

## Investment Banking

### Our investment banking services provide our clients with the best solutions for diversified needs

Offering a broad range of services, Daiwa Securities SMBC has constantly led the investment banking market. Our services cover underwriting, including IPOs; structured finance for asset securitization; M&A for business restructuring and strategic development; and principal finance. As the focal point for advice on business and finance strategies within Daiwa Securities Group, Daiwa Securities SMBC is committed to offering its corporate clients the best solutions for their diversified needs.

### Corporate Finance

Based on our research and analysis we offer domestic and foreign companies a variety of services, covering optimal proposals for financial and business strategies, advice on equity and bond issues, and underwriting and syndication services. In response to the diversification of the needs of our clients in recent years, we have expanded the scope of our services to encompass all aspects of corporate finance, including advisory services on business restructuring and other reorganizations.

### Initial Public Offerings

By combining an expanding sales network, which includes that of Daiwa Securities' network, with our superior public offering guidance and underwriting execution capabilities, we can provide detailed support for our clients' IPOs throughout Japan, before and after issue. These capabilities have earned us a top class record in Japan's IPO market.

### M&A

In our M&A business, we offer clients a wide range of advisory services and implement performances, including M&A, business alliances, capital participation, joint ventures, and stock swap, and corporate revitalization. Fielding one of Japan's top ranking M&A

teams, our performance records in this market is growing quickly. Based on cooperation with our group subsidiaries in the United States, United Kingdom and Asia, we have also achieved a strong performance records in cross-border M&A.

### Structured Finance

As one of the first to begin offering securitization services — mainly monetary credits and real estate—in Japan, our structured finance business has constantly played the role of leader in Japan's market, conducting numerous new securitization of assets. We provide comprehensive advice and business support before and after a public offering in the J-REIT market. By steadily building on this foundation, we have established an unshakable position as a market leader.

### Principal Finance

Through our wholly owned subsidiary Daiwa Securities SMBC Principal Investments Co. Ltd., we are responding to the balance sheet restructuring and various other business reorganization needs of companies. In the corporate investment area, we conduct numerous investments in companies that represent Japan, and have become a leader in the industry. In addition to investing in monetary credits and real estate, we actively participate in the establishment and operation of many different types of investment funds, mainly regional corporate revitalization fund.





## 2) Awards

Daiwa Securities SMBC has been recognized for its ability to provide high quality solutions in various areas, and has received numerous awards from domestic and overseas evaluating organizations.

### THOMSON DealWatch Awards 2005

Equity Deal of the Year, 2<sup>nd</sup> Runner-up

● Sumitomo Mitsui Financial Group  
(Daiwa Securities SMBC/GS)

IPO of the Year

● SUMCO  
(Daiwa Securities SMBC/Mitsubishi UFJ/GS)

Equity-linked Bond Deal of the Year

● Mitsui O.S.K. Lines Euro Yen Convertible Bond (JPY50 billion, 5 year)  
(Nomura/Daiwa Securities SMBC)

Asset-backed Securities Deal of the Year

● Government Housing Loan Corp Series S-1 notes (JPY200 billion)  
(Nomura/GS/Daiwa Securities SMBC)

Asset-backed Securities Deal of the Year,  
2<sup>nd</sup> Runner-up

● #1 Shinkin Central Bank Loan Securitization (Daiwa Securities SMBC)  
(JPY100 billion)  
(Daiwa Securities SMBC/Mizuho/Nomura/Nikko Citi/Shinkin)

Straight Bond Deal of the Year,  
2<sup>nd</sup> Runner-up

● #18 Sharp (JPY30 billion, 5 year)  
(Nomura/Nikko Citi/Daiwa Securities SMBC)  
● #19 Sharp (JPY20 billion, 7 year)  
(Nomura/Daiwa Securities SMBC/Nikko Citi)



### EUROMONEY Japanese Edition

DEBT HOUSE OF THE YEAR 2005

(3 years consecutive)

BEST DOMESTIC BONDS HOUSE 2005

(Newly established)

BEST SECURITIZATION HOUSE 2005

(2 years consecutive)

### IFR Awards 2005

International Yen Bond

(Republic of Poland Samurai Bond)

Japanese Securitization

(Government Housing Loan Corp Series S-1 notes)

### ASIAMONEY Deals of the Year 2005

Best Initial Public Offering

(SUMCO)

Best Securitization

(Government Housing Loan Corp Series S-1 notes)

### Financial Asia Deals of the Year 2005

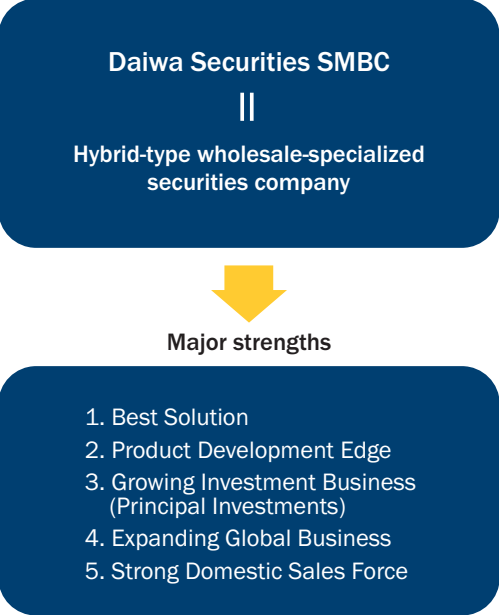
Best Securitization

(Government Housing Loan Corp Series S-1 notes)



## Fully demonstrating our diverse strengths as a hybrid-type wholesale-specialized securities company.

The foremost strength of Daiwa Securities SMBC is its unique business model in Japan as a wholesale-specialized securities company that was established as a joint venture company between a major securities company and a megabank. Through a business expansion that utilizes Daiwa Securities Group's clients base as well as Sumitomo Mitsui Banking Corporation's client base, it has steadily built up its experience and performance records since its establishment, and will continue to move forward along the road as "Japan's best investment bank."



## ① Capability to offer best solution

In addition to equity and debt financing services, Daiwa Securities SMBC offers a wide range of solutions, including "the formulation of Group management strategies", "building a financial strategy that is related to the dividend policy and optimal capital structure", "measures to improve ratings", "industrial business rejuvenation", and "corporate restructuring and M&A". With "advancing corporate value and strengthening competitive edge" as our keyphrase, we stand between our client companies and investors in order to offer the best solutions to both sides through the capital market.

### Nippon Sheet Glass Co., Ltd.'s cross-border M&A deal

Daiwa Securities SMBC served as a financial advisor to Nippon Sheet Glass Co., Ltd. in its friendly acquisition of major British glass maker Pilkington plc (Head Office: St Helens, United Kingdom; CEO: Stuart Chambers, hereinafter "Pilkington"). It turned Pilkington, in which it already owned a 20% stake and had a capital and business affiliation with, into a wholly owned subsidiary by purchasing all Pilkington stock with cash. Further, we underwrote 77,000 million yen, or 70% of the necessary 110,000 million yen to purchase unsecured convertible bonds, and granted financial support in this large-scale cross-border M&A deal valued at 616,000 million yen. Our company's SPS program (Structured Principal Solution Program) was utilized to issue the convertible bonds, and was adopted through an order-made financial solution proposal to Nippon Sheet Glass Co., Ltd.

As a result of this acquisition, Nippon Sheet Glass Co., Ltd. became the global leader in the flat glass industry with the largest market share in the world (estimates). It is striving to become a true global player in terms of costs, quality, and service by taking advantage of the newly acquired economies of scale and combined technologies.

### ■ Reference: Summaries of both companies

	Nippon Sheet Glass Co., Ltd.	Pilkington plc
Location	Minato-ku, Tokyo	St Helens, United Kingdom
Established	1918	1826
Paid-in capital	41,060 million yen	657 million pounds
Issued and outstanding shares	443,946,452 shares	1,320 million shares
Consolidated net sales	265,000 million yen (Glass and building materials 65%, information and electronics 17%, glass fiber 14%, other 5%)	2,400 million pounds (for construction 49%, for automobiles 47%, other 4%)
Consolidated pre-tax income	11,424 million yen	183 million pounds
Consolidated total assets	426,909 million yen	1,200 million pounds
Fiscal year	March 31	March 31
Consolidated employee numbers	Approximately 12,000	Approximately 24,000

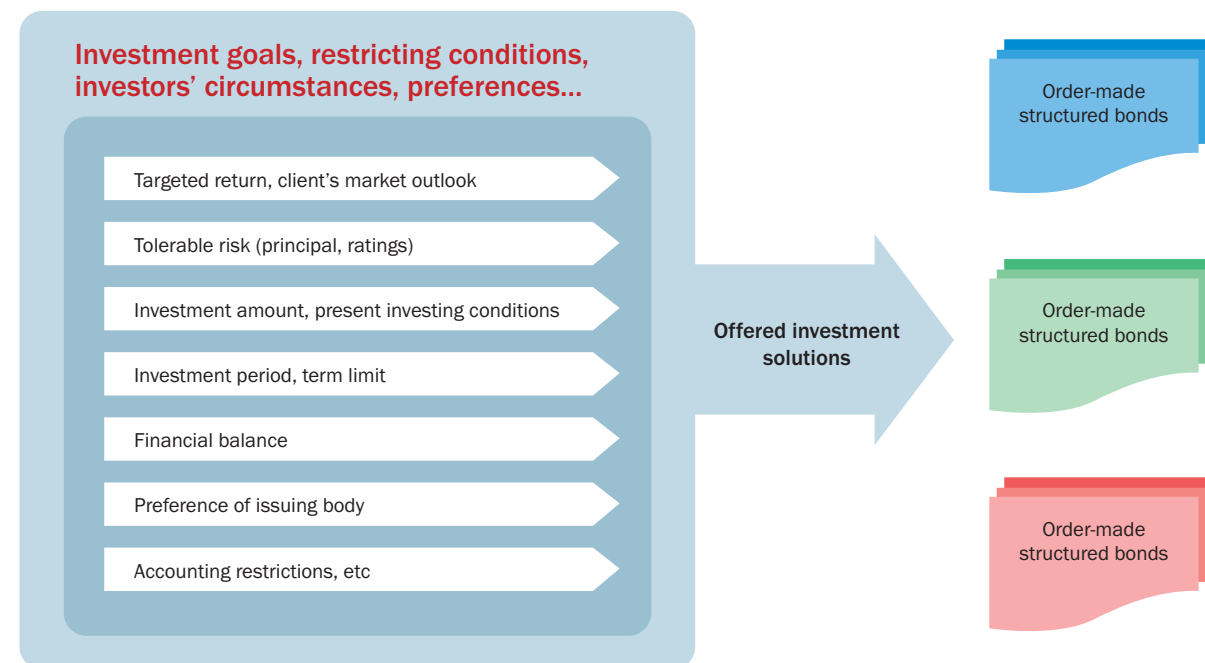
### Financial results

	Results for FY March 31, 2004	Results for FY March 31, 2005	Results for FY March 31, 2004	Results for FY March 31, 2005
Consolidated net sales	269,149 million yen	264,975 million yen	2,800 million pounds	2,400 million pounds
Consolidated operating income	10,025 million yen	12,025 million yen	213 million pounds	219 million pounds
Consolidated net income	3,207 million yen	7,588 million yen	79 million pounds	131 million pounds
Operating cash flow	17,603 million yen	16,799 million yen	377 million pounds	376 million pounds
Free cash flow	27,244 million yen	16,544 million yen	207 million pounds	167 million pounds



## ② Product development edge

Taking into account the diverse needs of investors, such as investment conditions, market outlook, and tolerable risk, Daiwa Securities SMBC offers investment solutions that reflect these diverse needs. We pioneered the development of structured bonds like the “Enman-Sai (“peace of mind” bonds)” and Contingent Super CMS bonds. We pride ourselves on our superior product development capabilities. In fiscal 2005, we developed the first bond whose coupon portion was linked to the emissions credit price, the “CO2L Bond.” This has attracted media attention domestically and abroad.



### Development of a financial product that responds to global warming issue, “CO2L Bond”

#### “CO2L Bond” and global warming issue

Due to recent extremes in weather, interest in the problem of global warming has heightened. On the first anniversary of the Kyoto Protocol's coming into force, our Group has taken the initiative to develop the “CO2L Bond,” a financial product through which anyone can participate in supporting projects that are committed to reducing greenhouse gas such as carbon dioxide (CO2).

The “CO2L Bond” contributes to projects that prevent global warming by taking over the price risk of emissions trading by establishing a contract to purchase emissions credits by greenhouse gas emission reduction businesses at a set price. Further, by incorporating the emissions credit into the bond, the purchasers of emissions credits will expand to include individual investors.

The first such bond purchased emissions credits from a project that was dedicated to collecting and decomposing Freon gas “HFC23” emitted by a chemical plant in China.



#### Structure of “CO2L Bond.”

The “CO2L Bond” is a seven and a half year Euro-dollar bond whose coupon rate for the last five years is determined by the emissions credit price. The coupon rate for the last five years will be determined by the price at which the emissions credits, purchased at a set price through a forward-rate agreement, were sold in a set period prior to the coupon payments. The structure is such that the higher the emissions credit price is, the higher the yield will be. Emissions trading, a cutting edge endeavor for humanity, carries institutional and business risks, but its redeemable principal received an AAA rating.

#### Relationship between environment and social responsibility

In the EU, carbon dioxide quotas by establishments were allocated starting in 2005, and emissions trading began. Trading has since increased and its volume for January – March 2006 was 5.5 times that of the same period in the previous fiscal year. Emissions trading is centered around companies that were allocated an emissions quota, however, public scrutiny in EU countries is high, and abiding by the emissions quotas has become an issue of corporate social responsibility. Conversely, in Japan, the government and some companies have begun their own endeavors but the national interest in the issue is still quite low.

The objective of the “CO2L Bond” is to preserve humanity's communal wealth, the “Global Environment” while simultaneously increasing individual wealth by incorporating the Kyoto mechanism into financial products. The 21<sup>st</sup> century is deemed “The Century of the Environment” in which the environment and the economy will be inextricably linked.

Our hope is that the “CO2L Bond” becomes a trigger for thinking about different business endeavors in relation to the future of the environment and finance.

#### ■ The Kyoto Protocol and emissions credits

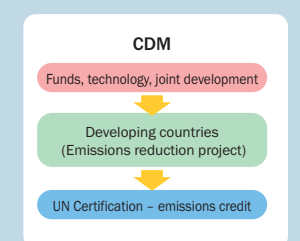
The Kyoto Protocol was adopted by the United Nations Framework Convention on the prevention of global warming which was held in December 1997 in Kyoto whereby the following were adopted: 1. numerical targets for greenhouse gas reductions in industrialized countries; 2. emissions trading and other mechanisms that utilize market principles (these are called “Kyoto mechanisms”) in order to achieve these reductions. The Kyoto Protocol entered into force in February 2005.

##### 1. Numerical targets for greenhouse gas reductions in leading countries

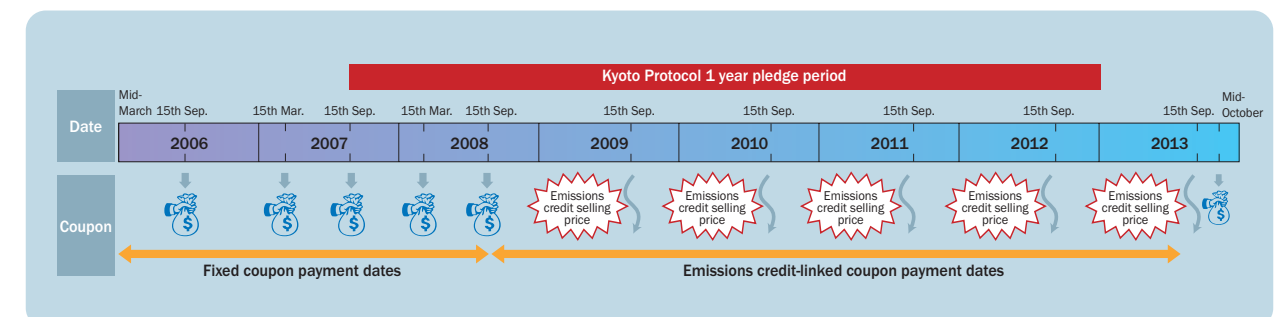
		Source: United Nations, etc.		100million tons of CO2e Carbon dioxide conversion tons			
		Base year emissions		Target	2002 emissions		Reduction of demand
		100 million tons of CO2e	Percentage		100 million tons of CO2e	Compared to base year	
Industrialized countries	EU	43.4	29.8 %	-8 %	41.8	-4 %	4 %
	Russia	25.3	17.4 %	0 %	15.6	-38 %	-38 %
	Japan	12.4	8.5 %	-6 %	13.3	8 %	14 %
	Canada	4.8	3.3 %	-6 %	5.7	20 %	26 %
	USA	525	35.1 %	-7 %	600	14 %	21 %
Developing countries	Australia	31	2.1 %	8 %	36	18 %	10 %
	China			none	30.0		
	India			none	10.0		

##### 2. One example of the Kyoto mechanism

Countries that have reduction targets will continue to try to reduce greenhouse gas emissions domestically, but in countries like Japan where energy-saving measures are advanced, the cost of reductions will be high. They can acquire emissions credits by pursuing projects in developing countries that have lower reduction costs (Clean Development Mechanism). These reductions will count toward their country's reductions.



#### ■ “CO2L Bond” coupon





# OUR STRENGTH



## ③ Growing investment business (Principal Investments)

### Our numerous investments under enhanced risk management systems reinvigorate Japan

“Principal investments” refers to an investment business that takes on risk using our own funds in order to pursue returns. Daiwa Securities SMBC Principal Investments Co., Ltd. engages in investment businesses such as monetary credits including non-performing loans, real estate, and private equity (both public and private shares) in order to respond to the broad range of needs that accompany business reorganization, restructuring of balance sheets, and sale of assets. Further, it also engages in the establishment and operation of different types of investment funds represented by regional corporate rejuvenation funds. At Principal Investments, professionals with specialized knowledge in finance, real estate, accounting, tax, legal affairs, consulting and others form one team in order to conduct these investment activities. Through this, Principal Investments contribute to the reinvigoration of the Japanese economy and the growth and rejuvenation of Japanese companies.

**Total investment amount: approximately 310,000 million yen (+142,000 million yen).** As of March 31, 2006 (compared to December 31, 2005).

Corporate investment: approximately 229,000 million yen (+128,000 million yen)

Monetary credit: approximately 40,000 million yen (+7,000 million yen)

Real estate investment: approximately 20,000 million yen (-1,000 million yen)

Balance of the company's investment in funds that it participates in the operation of: approximately 21,000 million yen (+8,000 million yen)

### ■ Main areas of private equity investments (as of May 31, 2006)

Investment period (beginning)	Company	Company summary	Estimated investment amount (beginning)
March 2006	SANYO Electric Co., Ltd. (Tokyo Stock Exchange 1st Section listed)	Major electrical appliance company. Manufactures service products and provides in consumer, commercial, component, and other 4 divisions. Global leader in rechargeable batteries.	125,000 million yen
September 2005	Sumitomo Mitsui Construction Co., Ltd. (Tokyo Stock Exchange 1st Section listed)	Major general contractor. In particular, PC bridges in civil engineering and high-rise apartment buildings in construction.	49,000 million yen
August 2005	Maruzen Co., Ltd. (Tokyo Stock Exchange 1st Section listed)	Major bookstore. Has bookstores nationwide, and also involved in sale of stationary and office supplies, with strength in academic information services for universities and government agencies and libraries operation outsourcing services. Opened a large-scale retail store in “Marunouchi OAZO” near Tokyo Station.	10,000 million yen
August 2005	Mitsui Kanko Development Co., Ltd.	Major hotel chain. Engaged in hospitality business, mainly hotels and leisure, with 25 facilities nationwide, such as the “Sapporo Grand Hotel,” “Kamogawa Sea World,” and “Mitsui Urban Hotels.”	7,000 million yen
October 2004	Daiwa Seiko, Inc. (Tokyo Stock Exchange 1st Section listed)	Sporting goods manufacturer centered on fishing gear. A global leader in this department. Also handles tennis, golf, and cycling gear.	5,000 million yen

## ④ Expanding global business

In 2006, we established Representative Offices in both Bangkok (Thailand) and Mumbai (India). We continue to aggressively expand overseas strongholds in order to offer domestic and overseas clients with solutions, as Japan's best investment bank. We will continue to respond to the needs of our Japanese and overseas customers.

### On our advisory role in the privatization of Banca Comerciala Romana (BCR)

Daiwa Securities SMBC Europe Limited, Daiwa Securities SMBC's European subsidiary, served as the Romanian government's financial advisor in the privatization of the country's largest bank, Banca Comerciala Romana(BCR).

Daiwa Securities SMBC Europe Limited advised the strategic sale of 61.8% of stake in BCR, which at the time, was held by the Romanian Government, the European Bank for Research and Development and the International Finance Corporation (IFC), to private banks. In December 2005, after 2 open biddings, the stock purchase and sales agreement was signed with Austria's Erste Bank. The sale amount was

3,752 million euros (approximately 520,000 million yen), making it the largest ever out-out M&A transaction that was solely advised by a Japanese financial institution. (Source: Bloomberg)

Daiwa Securities SMBC Europe Limited has an impressive record, serving as an advisory to the government side for the privatization of Hungary's Postabank, Lithuanian Savings Bank and Croatia's Splitska Banka prior to this issue. With this issue, Daiwa Securities SMBC Europe Limited was again, able to attain a high reputation in the Central and Eastern European regions.

## ⑤ Strong domestic sales force

Daiwa Securities SMBC is dominant in the domestic market because it possesses a wide sales network for investors. Daiwa Securities, which connects personal financial assets in Japan, estimated at over 1,500 trillion yen, to the capital financing needs of domestic and overseas issuing bodies, is indispensable for Daiwa Securities SMBC and gives us a huge advantage over other companies in this industry. The strong sales network offered to institutional investors, along with Daiwa Securities SMBC's ability to provide high quality research are also important resources to offer best solutions.

Supported by this strong sales capability, Daiwa Securities SMBC conducts underwriting of shares through POWLS (Public Offering Without Listing) and structuring and underwriting of samurai bonds and bonds to individual investors (“Uridashi bonds”) valued at over 700,000 million yen when converted into Japanese currency. Through these underwriting activities, we connect Japanese investors with major domestic and overseas issuers. In this way, we are able to offer a diverse array of investment opportunities.

### ■ FY ended March 2006 Performance in bonds offered to individual investors

Launch date	Issuer	Tenor	Rating (MDY/S&P)	Offering price	Coupon	Currency
April 2005	International Bank for Reconstruction and Development	2	Aaa/AAA	100.00	5.47%	NZD
May 2005	European Bank for Reconstruction and Development	2	Aaa/AAA	100.00	5.52%	NZD
May 2005	European Bank for Reconstruction and Development	4	Aaa/AAA	100.00	3.36%	USD
June 2005	Asian Development Bank	4	Aaa/AAA	100.00	3.35%	USD
June 2005	International Bank for Reconstruction and Development	2	Aaa/AAA	100.00	4.45%	AUD
July 2005	Toyota Finance Australia Limited	3	Aaa/AAA	100.00	5.05%	AUD
July 2005	International Bank for Reconstruction and Development	2	Aaa/AAA	100.00	5.45%	NZD
August 2005	International Bank for Reconstruction and Development	2	Aaa/AAA	100.00	5.52%	NZD
September 2005	International Bank for Reconstruction and Development	2	Aaa/AAA	100.00	5.50%	NZD
October 2005	Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. ("Rabobank")	3	Aaa/AAA	100.00	6.36%	NZD
November 2005	Inter-American Development Bank	3	Aaa/AAA	100.00	6.24%	NZD
November 2005	Inter-American Development Bank	2	Aaa/AAA	100.00	6.07%	NZD
December 2005	Asian Development Bank	3	Aaa/AAA	100.00	6.14%	NZD
January 2006	N.V. Bank Nederlandse Gemeenten ("BNG")	2	Aaa/AAA	100.00	6.00%	NZD
February 2006	Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. ("Rabobank")	2	Aaa/AAA	100.00	5.95%	NZD
February 2006	Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. ("Rabobank")	3	Aaa/AAA	100.00	6.10%	NZD
February 2006	Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. ("Rabobank")	4	Aaa/AAA	100.00	5.10%	AUD
March 2006	Inter-American Development Bank	2	Aaa/AAA	100.00	5.67%	NZD
March 2006	European Bank for Reconstruction and Development	4	Aaa/AAA	100.00	4.25%	USD
March 2006	Toyota Motor Credit Corporation	3	Aaa/AAA	100.00	5.09%	AUD

### ■ POWL lead manager records from April 2005

Deal date	Issuer	Country or region	Amount of global offering (100 millions yen)	Total amount of public offering in Japan (100 millions yen)	Currency	Issue price	POWL lead manager
April 2005	Shanghai Electric Group	China	681	56	HK\$	1.70	Daiwa Securities SMBC
June 2005	Chi Mei Optoelectronics	Taiwan	831	100	US\$	15.02	Daiwa Securities SMBC
	Bank of Communications	China	2,397	44	HK\$	2.50	Daiwa Securities SMBC
	China COSCO Holdings	China	1,357	178	HK\$	4.25	Daiwa Securities SMBC
July 2005	Enel	Italy	5,564	191	EUR	7.18	Daiwa Securities SMBC
August 2005	Chunghwa Telecom	Taiwan	2,854	656	US\$	18.98	Daiwa Securities SMBC
October 2005	China Construction Bank	China	10,699	346	HK\$	2.35	Daiwa Securities SMBC (joint)
November 2005	EDF	France	9,160	562	EUR	33.00	Daiwa Securities SMBC (joint)
	Link REIT	Hong Kong	3,393	96	HK\$	10.30	Daiwa Securities SMBC
December 2005	Dongfeng Motor Group	China	691	60	HK\$	1.60	Daiwa Securities SMBC
May 2006	Bank of China	China	12,518	336	HK\$	2.95	Daiwa Securities SMBC



●=Daiwa Securities SMBC Principal Investments. All others are Daiwa Securities SMBC

- Established "Ryokan Management Support," a business consignment company to revitalize Tochigi Prefecture ryokans and hotels, in cooperation with Industrial Revitalization Corporation of Japan (IRCJ) and Tochigi Investment Partners.
- Bookrunner for The Chuo Mitsui Trust and Banking Co.'s 3rd Unsecured Corporate Bond (subordinated) (40 billion yen) and 4th Unsecured Callable Corporate Bond(subordinated) (30 billion yen).

- Concluded a Memorandum of Understanding with Korea's Gyeonggi Provincial government for cooperation to induce investment of foreign enterprises.
- Bookrunner for Ford Motor Credit Co.'s 2nd Samurai bond (3 years,160 billion yen) (The largest single-tranche Samurai bond issuance by a corporation).
- Arranger and bookrunner for securitization of "KKR", Federation of National Public Service Personnel Mutual Aid Associations' loan obligations (total value 100 billion yen).

- Capital participation in Mitsui Mining, a large resource company and recipient of IRCJ support, along with Nippon Steel Corp. and Sumitomo Corp.
- Lead manager for The Chuo Mitsui Trust and Banking Co.'s 5th housing loan bond investment trust beneficiary rights (total value ¥136 billion).
- Arranger of a 1 trillion yen CLO transaction with Sumitomo Mitsui Banking Corp.'s loans aimed at small and medium sized businesses and intermediary of a 120 billion yen loan.

- Joint bookrunner for Samurai bonds issued by Republic of Poland (7 years,75 billion yen) and Republic of Hungary (5 years, 7 years, total value 75 billion yen).
- Arranger and bookrunner for rescureitization of Shinjuku Sumitomo Building (total value 103.7 billion yen).

- Joint lead manager for Japan Logistics Fund's IPO (J-REIT market) (58,500 units, approx. 32.1 billion yen).
- Transferred approx. 60% of outstanding shares of Matsushita Electric Industrial Co.'s lease credit company, Matsushita Lease Credit, to the Sumitomo Trust and Banking Co. (as advisor for Matsushita Electric Industrial Co.).

- Underwrote total of 7 billion yen in 3rd party allocation of new shares for major hotel chain, Mitsui Kanko Development Co.
- Capital participation in Maruzen, a major bookstore chain listed on TSE 1st Section, by underwriting a total of 10 billion yen in 3rd party allocation of new shares.
- Arranger and joint bookrunner for, overall management of domestic and international issuance scheme and domestic PO (total 100 billion yen) of bonds issued in securitization of Nippon Life Insurance's foundation funds (Kikin Saiken) (total 150 billion yen).
- Lead manager for secondary offering in Japan (65 billion yen) of Chunghwa Telecom's American Depositary Receipts, through the Taiwanese government.(Largest POWL in 2005)
- Arranger and joint bookrunner for bonds issued in securitization of Sumitomo Life Insurance's foundation funds (Kikin Saiken)(40 billion yen)
- Joint bookrunner for Loan-Secured, Series S-1 Notes, Government Housing Loan Corp. Bond (200 billion yen)

Skylark makes Kozosushi So-Honbu, the largest take-out sushi chain, into its subsidiary through TOB (as advisor for Skylark)

- Appointed as joint-coordinator at presentation of Japanese government bonds to European investors.
- Advised on privatization of the Banca Commerciale Romana.
- Established representative office in Bangkok, Thailand.
- Joint bookrunner for Sumitomo Mitsui Financial Group's PO (520,700 shares, 607.2 billion yen), the largest equity finance in fiscal 2005.
- Jointly-established Comprehensive Contents Fund with USEN, primarily investing in intellectual property ("contents") such as video and music.
- Koyo Seiko and Toyoda Machine Works merged as equals (as advisor for Koyo Seiko).

- Concluded a Basic Letter of Intent regarding the underwriting of SANYO Electric's preferred shares.
- SANYO Electric transfers a section of its financial subsidiary SANYO Electric Credit to the Goldman Sachs Group (as advisor for SANYO Electric / SANYO Electric Credit)

Nippon Sheet Glass purchased major English glass manufacturer Pilkington. (as advisor for Nippon Sheet Glass)

- Joint bookrunner of the Republic of Hungary's Samurai bonds (7 years, 50 billion yen).
- Underwrote 125 billion yen in preferred shares issued by SANYO Electric.
- Joint bookrunner of TOP REIT, Inc.'s IPO, the largest IPO in J-REIT history (J-REIT market) (154,800 units, approx. 85.1 billion yen).
- Arranger for real estate fund (approx. 11.7 billion yen), spearheaded by NTT Urban Development Co.
- Tomy and Takara merge (as advisor for Tomy).

- Established representative office in Mumbai, India.
- Developed Euro-Dollar Bond, CO2L Bond, its coupon amount is determined by the emissions price in Kyoto Protocol.
- Arranger and joint bookrunner for securitization of Shinkin Central Bank's first domestic, permanent subordinated loans (100 billion yen).
- Joint bookrunner for Japan Hotel and Resort, Inc.'s IPO (J-REIT market), the first domestic REIT specializing in hotels (91,500 units, approx. 47.5 billion yen).

- Joint bookrunner for Republic of Poland's super-long tenor Samurai bonds (15 years and 3 months, 50 billion yen).
- Sumitomo Life Insurance established PICC Life Insurance Company in China along with PICC Holding Co., a holding company of China's largest non-life insurance company, PICC Property and Casualty Co. (as advisor for Sumitomo Life).
- Joint bookrunner of SUMCO's IPO (TSE 1st Section), the largest IPO of fiscal 2005 (48,000,000 shares, 158.4 billion yen)
- Jointly established fund (India-China Pre-IPO Fund) for Indian and Chinese investors along with subsidiary of Singapore government holding company Temasek Holdings.
- Daihatsu Diesel Mfg. Co. subsidiary, Daihatsu Diesel NHN formed capital and operational tie-up with German company DORMA (as advisor for Daihatsu Diesel Mfg.).

- Capital participation in Miyako Airline Hotel, a wholly-owned subsidiary of IRCJ's support recipient Miyazaki Kotsu, as sponsor for business transfer.
- Toyo Tsushinki merged its Crystal Product Division with Seiko Epson (as advisor for Toyo Tsushinki).

- Fuji Television Network makes Nippon Broadcasting System, Inc. a wholly-owned subsidiary through TOB as part of the Fuji Sankei Group's reorganization (as advisor for Fuji Television).
- Capital participation in Sumitomo Mitsui Construction, a major general contractor listed on the TSE 1st Section, through 3rd party allocation of new shares totaling approx. 49 billion yen.
- Merger between Bandai, a major toy maker, and Namco, a major game equipment manufacturer (as advisor for Bandai).
- Odakyu Electric Railway transferred its cable TV subsidiary, Odakyu Telecommunication Service, to the largest cable television company Jupiter Telecommunications (as advisor for Odakyu).



2005

2006





## Our powerful business network provides products and services that exceed client expectation.

Based on the strategic business alliance between Daiwa Securities Group Inc. and Sumitomo Mitsui Financial Group, Inc. Daiwa Securities SMBC possesses a powerful business network. Utilizing this network, we provide products and services that exceed client expectation, aiming to maximize client satisfaction.

Within Daiwa Securities Group, Daiwa Securities Co. Ltd. is responsible for retail securities sales in Japan. Through a nationwide branch network of approximately 120 branches, Daiwa Securities offers retail customers two different transaction methods organically tied to not just a consulting business, but an online brokerage service boasting one of the largest customer base in Japan.

To serve the needs of a wide variety of corporate and individual clients, Daiwa Securities also conducts highly specific regionally oriented sales activities.

## We have established a global network that boasts a solid performance record.

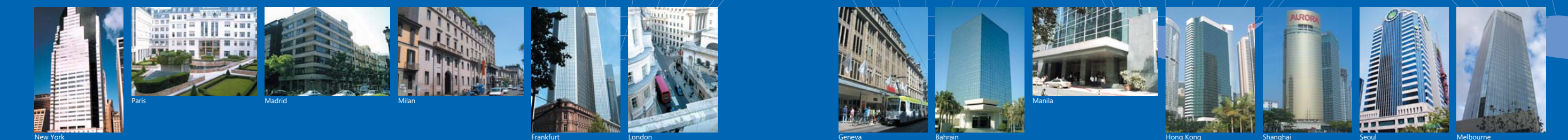
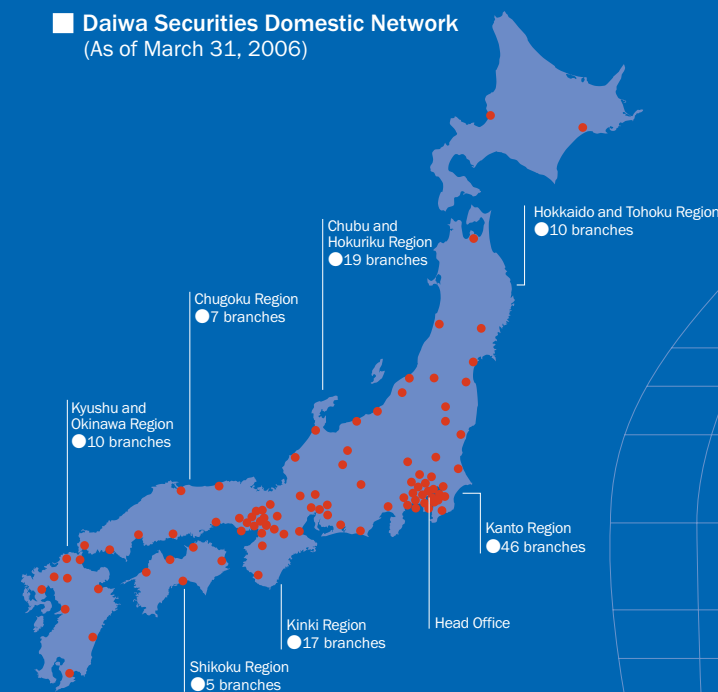
Through its global network of subsidiaries and branches located in all the major financial markets around the world, Daiwa Securities SMBC is active in the provision of research and securities-related business. Moreover, based on its close cooperation with the global bases of Group companies, Daiwa Securities SMBC has established a global business network. By exploiting this network, among other transactions, we offer Japanese and foreign equities to overseas investors and foreign equities in our domestic market and underwrite Samurai bond issues. As a result, we have become a market leader.

Moreover, in order to strengthen our business base in Asia, we have opened Representative Offices in Thailand and India, and are actively developing business in these regions.

### Business Network



### Daiwa Securities Domestic Network (As of March 31, 2006)





# CORPORATE INFORMATION

( as of June 24, 2006 )

## ■ Corporate Data

<b>Name:</b>	Daiwa Securities SMBC Co. Ltd.
<b>Head Office:</b>	Marunouchi Trust Tower N, 8-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-8289, Japan
<b>Tel:</b>	03-5533-8000(reception)
<b>President:</b>	Tatsuei Saito
<b>Paid-in Capital:</b>	¥255.7 billion
<b>Major Stockholders:</b>	Daiwa Securities Group Inc. (60%), Sumitomo Mitsui Financial Group, Inc. (40%)
<b>Business:</b>	Trading, agency and brokerage, underwriting and distribution of securities, and related business
<b>Sales Office:</b>	Head Office, Osaka Branch, Nagoya Branch, Eitai Sales Office, and others
<b>Overseas Offices:</b>	U.K. Subsidiary (London)/Frankfurt Branch/Paris Branch/Geneva Branch/Milan Branch/Spain Branch/Middle East Branch/Hong Kong Subsidiary/Singapore Subsidiary/Australia Subsidiary/The Philippines Subsidiary/Taiwan Subsidiary/Seoul Branch/Beijing Representative Office/Bangkok Representative Office /Mumbai Representative Office /Daiwa SMBC-SSC Securities Co., Ltd. (Shanghai)

## ■ Directors, Auditors and Executive Officers

President	Tatsuei Saito Director,Deputy President and COO of Daiwa Securities Group Inc.
Deputy President	Kenjiro Noda Chief Internal Administration Supervisor and Deputy President of Daiwa Securities Group Inc.
Senior Managing Director	Shin Yoshidome Corporate Service planning Senior Officer, Research & Advisory officer, and Director and Corporate Executive Vice President of Daiwa Securities Group Inc.
Senior Managing Director	Hiroshi Fujioka Osaka Branch Senior Officer and Branch Manager
Senior Managing Director	Sumio Fukushima Products Senior Officer and Products Division Planning Officer
Managing Director	Ikuo Mori International Senior Officer and International Planning and Administration Officer
Managing Director	Kazuhiko Akamatsu Corporate Institutions Senior Officer
Managing Director	Takashi Yamaguchi Corporate Institutions Officer (IV)
Managing Director	Teruaki Ueda International Finance Senior Officer and Strategic Advisory (M&A) Senior Officer,Corporate Finance Officer, Capital Markets Officer, Global Head of Corporate Finance Product Line and Global Head of M&A Product Line
Director	Mitsuharu Tanaka Corporate Institutions Officer (I)
Corporate Auditor	Kishiro Fujino
Corporate Auditor	Shigeharu Tominaga
Corporate Auditor	Yoshiaki Senoo
Corporate Auditor	Fuminori Yoshitake
Senior Executive Officer	Hideo Watanabe President of Daiwa Securities SMBC Principal Investments Co., Ltd.
Senior Executive Officer	Masaki Yamane Equity Officer and Global Head of Equity Products Line
Executive Officer	Masami Tada Osaka Branch Officer
Executive Officer	Akio Takahashi Initial Public Offering Officer and Investment Programs Officer
Executive Officer	Shunichi Suzuki Fixed Income Officer and Global Head of Fixed Income Product Line
Executive Officer	Yoriyuki Kusaki Corporate Institutions Officer (II & III)
Executive Officer	Shigeo Koike Corporate Institutions Officer (V & VI)
Executive Officer	Kenichi Miki IT & Administration Officer
Executive Officer	Motoi Takahashi Public Institutions Officer
Executive Officer	Eishu Kosuge Europe & Middle East Officer, and Chairman of Daiwa Securities SMBC Europe Limited
Executive Officer	Toshinao Matsushima Structured Products Officer and Structured Finance Officer
Executive Officer	Yasuharu Okanoya Financial Institutions Officer
Executive Officer	Masahiko Ichiki Corporate Sales Officer
Executive Officer	Shigeru Ishida Asia & Oceania Officer, and Chairman of Daiwa Securities SMBC Hong Kong Limited
Executive Officer	Yoshimasa Tsunei Finance and Risk Management Officer
Executive Officer	Yoshimasa Nagase Nagoya Branch Officer and Branch Manager
Executive Officer	Seiji Sato Strategic Advisory (M&A) Officer
Executive Officer	Seiji Nakata Planning Officer



Daiwa Securities SMBC Head Office



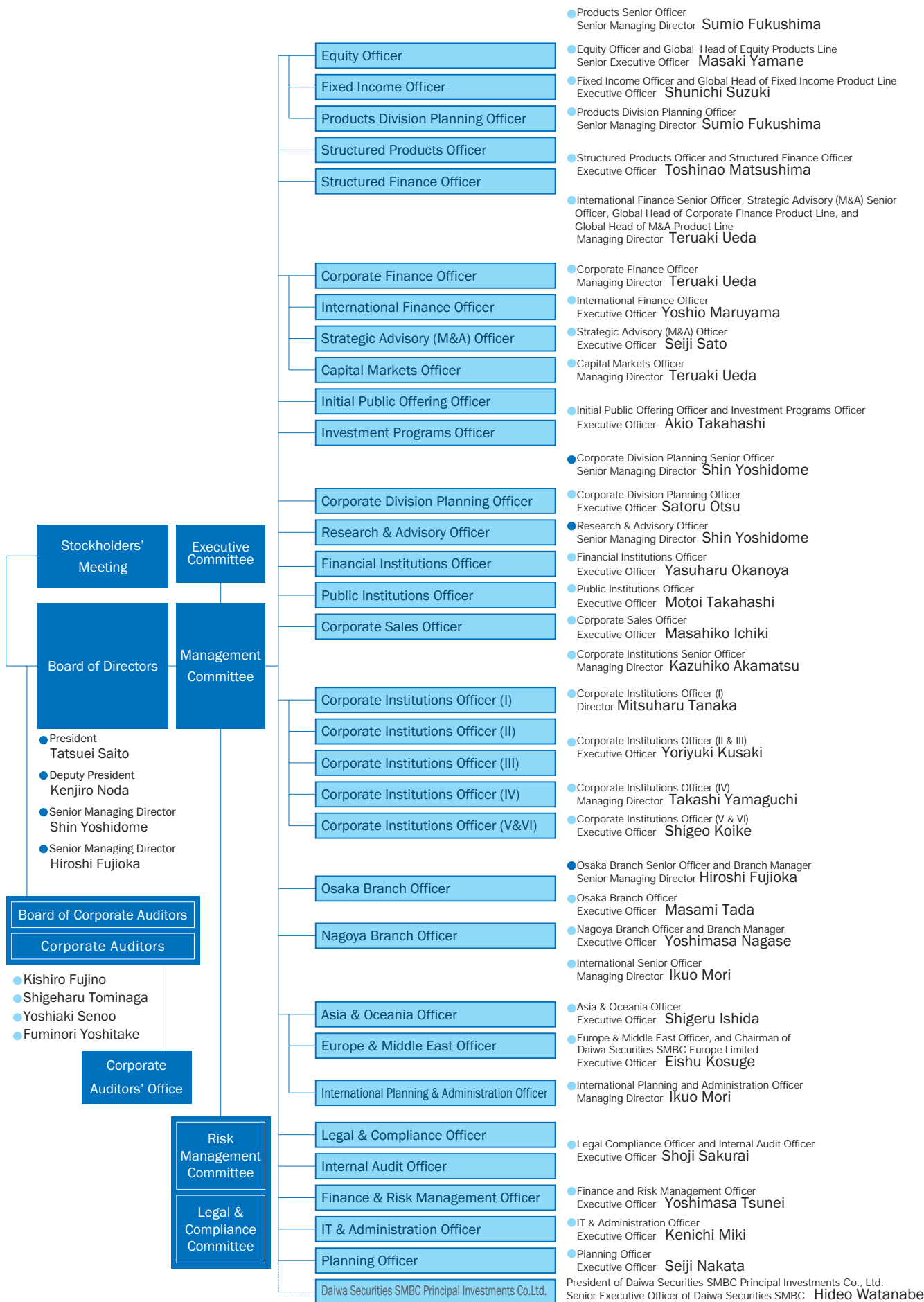
Eitai Sales Office



Daiwa Securities SMBC Europe

# ORGANIZATION

( as of April 3, 2006 )





# MANAGEMENT AND OPERATING SYSTEM

Report on Business, Organization, and Systems

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Outline of Company and Organization : 25  
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# OUTLINE OF COMPANY AND ORGANIZATION

## 1. Corporate Name

Daiwa Securities SMBC Co. Ltd.

## 2. Registration Date

February 26, 1999	Kanto Local Finance Bureau (Securities) No. 143
July 1, 2005	Kanto Local Finance Bureau (Financial Futures) No. 21

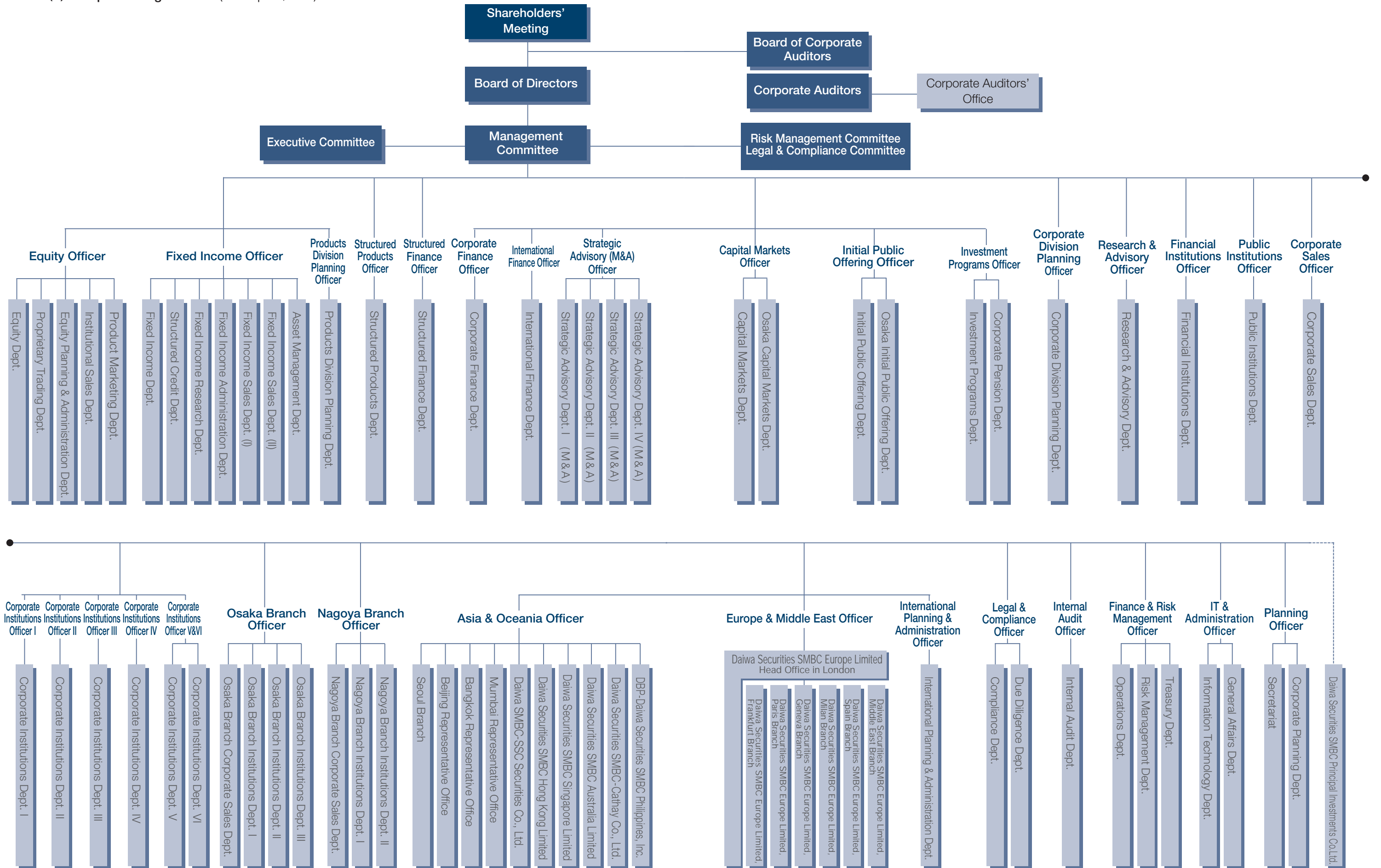
## 3. History and Corporate Organization

### (1) History

Date	History
April 1999	Wholesale division of Daiwa Securities Co. Ltd. (Now Daiwa Securities Group Inc.), transferred to the Company as well as all operations of Sumitomo Capital Securities Co., Ltd. Operations began under the name of Daiwa Securities SB Capital Markets Co. Ltd., located in Yaesu, Chuo-ku, Tokyo.
October 1999	Daiwa Securities Group Inc. transferred shares of overseas subsidiaries conducting securities-related business in Europe, Middle East, and Asia & Oceania to the Company, with these companies becoming subsidiaries of the Company.
October 2000	Opened Spain Branch of UK subsidiary in Madrid.
November 2000	Opened Milan Branch of UK subsidiary in Italy.
April 2001	The Company took over the business of Sakura Securities Co., Ltd., absorbed part of the wholesale securities operations of Sakura Bank, Ltd., and changed its name to Daiwa Securities SMBC Co. Ltd.
October 2001	Daiwa Securities SMBC Principal Investments Co. Ltd., a wholly owned subsidiary that makes investments in monetary credits, including bad loans, real estate, private equity, and other related businesses, began operations.
August 2002	In collaboration with Daiwa Institute of Research Ltd. and Shanghai International Group Corporation Limited, the Company formed Shanghai Daiwa SMBC-SIG Investment Consulting Co. Ltd. a joint venture.
November 2003	The head office was relocated to the Marunouchi area of Chiyoda-ku in Tokyo. All Tokyo offices were integrated, except Eitai Sales Office.
November 2004	Formed Daiwa SMBC-SSC Securities Co., Ltd., a joint venture with Shanghai Securities, a company in Shanghai International Group, and began operations.
January 2006	Representative office opened in Bangkok, Thailand.
February 2006	Representative office opened in Mumbai, India.
March 2006	The Company has the head office, three sales branches and one sales office.



## (2) Corporate Organization (as of April 3, 2006)





4. Shareholders

(as of March 31, 2006)

Name	Shares	Shareholding
1 Daiwa Securities Group Inc.	1,920	60.0%
2 Sumitomo Mitsui Financial Group, Inc.	1,280	40.0%
Total	3,200	100.0%

5. Directors, Auditors and Executive Officers

Underlined directors are representative directors

(as of June 24, 2006)

Position	Name	Responsibility
<u>President</u>	Tatsuei Saito	Director, and Deputy President (Representative Executive Officer), COO of Daiwa Securities Group Inc.
<u>Deputy President</u>	Kenjiro Noda	Chief Internal Administration Supervisor, and Deputy President of Daiwa Securities Group Inc.
<u>Senior Managing Director</u>	Shin Yoshidome	Corporate Services Planning Senior Officer, Research & Advisory Officer, and Director and Corporate Executive Vice President of Daiwa Securities Group Inc.
<u>Senior Managing Director</u>	Hiroshi Fujioka	Osaka Branch Senior Officer and Branch Manager
Senior Managing Director	Sumio Fukushima	Products Senior Officer and Products Planning Officer
Managing Director	Ikuo Mori	International Senior Officer and International Planning and Administration Officer
Managing Director	Kazuhiko Akamatsu	Corporate Institutions Senior Officer
Managing Director	Takashi Yamaguchi	Corporate Institutions Officer (IV)
Managing Director	Teruaki Ueda	International Finance Senior Officer, Strategic Advisory (M&A) Senior Officer, Corporate Finance Officer, Capital Markets Officer, Global Head of Corporate Finance Product Line and Global Head of M&A Product Line
Director	Mitsuharu Tanaka	Corporate Institutions Officer (I)
Corporate Auditor	Kishiro Fujino	
Corporate Auditor	Shigeharu Tominaga	
Corporate Auditor	Yoshiaki Senoo	
Corporate Auditor	Fuminori Yoshitake	
Senior Executive Officer	Hideo Watanabe	President of Daiwa Securities SMBC Principal Investments Co., Ltd.
Senior Executive Officer	Masaki Yamane	Equity Officer and Global Head of Equity Products Line
Executive Officer	Masami Tada	Osaka Branch Officer
Executive Officer	Akio Takahashi	Initial Public Offering Officer and Investment Programs Officer
Executive Officer	Shunichi Suzuki	Fixed Income Officer and Global Head of Fixed Income Product Line
Executive Officer	Yoriyuki Kusaki	Corporate Institutions Officer (II & III)
Executive Officer	Shigeo Koike	Corporate Institutions Officer (V & VI)
Executive Officer	Kenichi Miki	IT & Administration Officer
Executive Officer	Motoi Takahashi	Public Institutions Officer
Executive Officer	Eishu Kosuge	Europe & Middle East Officer and Chairman of Daiwa Securities SMBC Europe Limited
Executive Officer	Toshinao Matsushima	Structured Products Officer and Structured Finance Officer
Executive Officer	Yasuharu Okanoya	Financial Institutions Officer
Executive Officer	Masahiko Ichiki	Corporate Sales Officer
Executive Officer	Shigeru Ishida	Asia & Oceania Officer, and Chairman of Daiwa Securities SMBC Hong Kong Limited
Executive Officer	Yoshimasa Tsunei	Finance and Risk Management Officer
Executive Officer	Yoshimasa Nagase	Nagoya Branch Officer and Branch Manager
Executive Officer	Seiji Sato	Strategic Advisory (M&A) Officer
Executive Officer	Seiji Nakata	Planning Officer

Note: The four auditors, Kishiro Fujino, Shigeharu Tominaga, Yoshiaki Senoo, and Fuminori Yoshitake, are outside auditors of the Company as stipulated in Article 18, Section 1 of the Law Regarding the Special Case of Auditors of Kabushiki Gaisha (joint stock companies) under the Commercial Code.

6. Addresses of Head Office and Other Sales Branches

Name	Address
Head Office	8-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-8289
Osaka Branch	13-20, Sonezakishinchi 1-chome, Kita-ku, Osaka 530-8231
Nagoya Branch	15-30, Nishiki 3-chome, Naka-ku, Nagoya, Aichi Prefecture 460-8691
Seoul Branch	27-3, Youido-dong, Yongdungpo-gu, Seoul, Republic of Korea
Eitai Sales Office	14-5, Eitai 1-chome, Koto-ku, Tokyo 135-0034
Beijing Representative Office	Jianguo Menwai Dajie 19, Beijing, People's Republic of China
Bangkok Representative Office	18th Floor. M.Thai Tower, All Seasons Place, 87 Wireless Road, Lumpini, Pathumwan, Bangkok 10330 Thailand
Mumbai Representative Office	213 Nariman Point, Mumbai 400 021, India

7. Operations

- (1) **Securities Business under Article 2, Section 8, the Securities and Exchange Law**
- Purchase and sale of securities, futures trading of securities index, etc., securities options trading, or futures trading of securities on foreign markets
  - Intermediary, brokerage or agency for purchase and sale of securities, futures trading of securities index, etc., securities options trading, or futures trading of securities on foreign markets
  - Intermediary, brokerage or agency for purchase and sale of securities, futures trading of securities index, etc., securities options trading on the securities exchange market, purchase and sales of securities on the foreign securities markets and futures trading of securities on foreign markets.
  - Trading of TOC derivatives, or intermediary, brokerage or agency for trading of OTC derivatives
  - Brokerage for clearing of securities, etc.
  - Underwriting of securities
  - Public selling of securities
  - Handling of public offering, public selling or private placement of securities

- (2) **Financial Futures Trading under Article 2, Section 12, the Financial Futures Trading Law**
- (3) **Businesses Incidental to Securities Business under Article 34, Section 1, the Securities and Exchange Law**

Business Category
Safekeeping of securities
Transferring services conducted as an account management institution
Lending and borrowing of securities
Lending of money incidental to margin transactions
Lending of money on the collateral of securities deposited for safekeeping by a client
Agency services for clients on matters relating to securities
Agency services for receipt of subscription and payment for principal and interest of public and corporate bonds
Agency services for stock administration
Agency services for the payment of earnings, redemption money or cancellation money relating to beneficiary securities, etc.
Agency services for the distribution of money, refunded money or residual property relating to investment securities
Concluding a cumulative investment agreement
Providing information or advice relating to securities
Acting as an agent for businesses of other securities companies
Agency services for utility payment
Safety deposit box services



(3) Businesses Incidental to Securities Business under Article 34, Section 1, the Securities and Exchange Law (Cont'd)

Business Category
Standing proxy services for securities
Agency services related to cumulative investment business
Solicitation related to selection of investment policy for defined contribution pension plans

(4) Other Business under Article 34, Section 2 and 4, the Securities and Exchange Law

Business Category
Trading of derivatives not related to securities
Business related to purchase and sale of currencies, or intermediary, brokerage or agency
Money lending business under Article 2, Section 1, the Law Concerning Regulation, etc. of Money Lending Business
Business related to purchase and sale of certificates of deposit, or intermediary, brokerage or agency
Business related to the conclusion of a partnership contract, or intermediary, brokerage or agency as stipulated by Article 667 of the Civil Code, or business related to the conclusion of an anonymous partnership contract, or intermediary, brokerage or agency as stipulated by Article 535 of the Commercial Code
Business related to purchase and sale of monetary claims, or intermediary, brokerage or agency
Business related to conclusion of a loan participation agreement, or intermediary, brokerage or agency
Providing management consultancy to other business entities
Agency services for trust agreements
Sale of beneficial interest as defined in Article 2, Section 10, the Trust Business Law
Business related to trading of credit derivatives
Business related to investment in limited partnership, and intermediary, brokerage and agency
Client referral business
Client referral business related to purchase and sale of real estate, etc.

8. Participation in Investor Protection Funds

Japan Investor Protection Fund (participation approved on February 26, 1999)

9. Membership in Securities Association

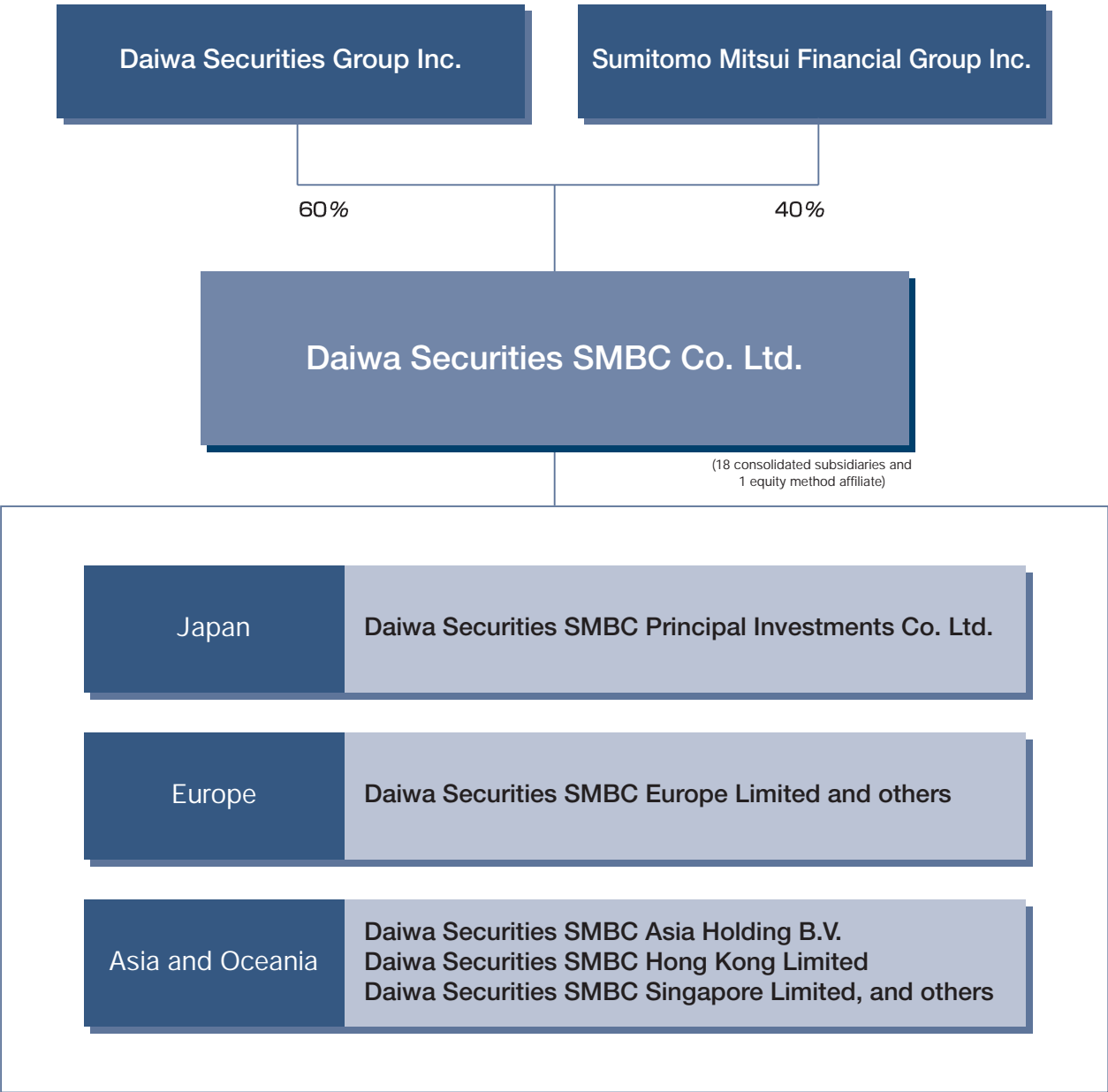
Japan Securities Dealers Association (membership approved March 17, 1999)  
The Financial Futures Association of Japan

10. Membership on Stock Exchanges

Tokyo Stock Exchange (membership approved April 5, 1999)  
Osaka Securities Exchange (membership approved April 5, 1999)  
Nagoya Stock Exchange (membership approved April 1, 1999)  
Jasdaq Securities Exchange  
The Korea Exchange  
Tokyo Financial Exchange

1. Corporate Organization

The Company is a wholesale securities specialist owned 60% by Daiwa Securities Group Inc., and 40% by Sumitomo Mitsui Financial Group, Inc. The Company predominately operates in the investing and financial sector, focusing on securities business, such as trading and brokerage of securities and derivatives, underwriting and distribution of securities, subscription and distribution of securities, private offerings of securities, and other business in the securities and financial fields. Daiwa Securities SMBC and its associated companies provide a wide range of services, satisfying its worldwide clients' needs for raising and investing of funds through its global network linking major financial markets in Japan and around the world.



2. Subsidiaries and Affiliates

(as of March 31, 2006)

Company Name	Location	Paid-in Capital	Principal Business	Voting Shares Held	Equity Ownership
Daiwa Securities SMBC Europe Limited	London, U.K.	109 million Sterling pounds	Securities	109,121 thousand shares	100%
Empire Nominees Limited.	London, U.K.	100 Sterling pounds	Nominee Company	100 shares	100% (see Note 1 )
Daiwa Securities SMBC Asia Holding B.V.	Amsterdam, Netherlands	161 million Euro	Holding Company	356,430 thousand shares	100%
Daiwa Securities SMBC Hong Kong Limited	Hong Kong	100 million HK dollars 40 million US dollars	Securities	14,000 thousand shares	100% (see Note 2 )
Daiwa Securities SMBC (Asia) Limited	Hong Kong	6 million HK dollars	Securities	600 thousand shares	100% (see Note 4 )
Daiwa Securities SMBC Futures (Asia) Limited	Hong Kong	25 million HK dollars	Financial Futures	2,500 thousand shares	100% (see Note 4 )
Daiwa Securities SMBC Singapore Limited	Singapore	42 million Singapore dollars	Securities and Financial Services	42,000 thousand shares	100% (see Note 2 )
Daiwa Securities SMBC Investment Service Pte Ltd.	Singapore	33 million Singapore dollars	Securities	33,600 thousand shares	100% (see Note 3 )
Daiwa Securities SMBC Futures Pte Ltd.	Singapore	3 million Singapore dollars	Financial Futures	3,000 thousand shares	100% (see Note 2 )
Daiwa Securities SMBC Australia Limited	Melbourne, Australia	15 million Australian dollars	Securities	30,000 thousand shares	100% (see Note 2 )
Daiwa Securities SMBC Stockbroking Limited	Melbourne, Australia	5 million Australian dollars	Securities	5,000 thousand shares	100% (see Note 5 )
Daiwa Securities SMBC Nominees Limited	Melbourne, Australia	5 Australian dollars	Nominee Company	5 shares	100% (see Note 6 )
Daiwa Securities SMBC Fast Nominees Limited	Melbourne, Australia	5 Australian dollars	Nominee Company	5 shares	100% (see Note 6 )
Daiwa Securities SMBC-Cathay Co., Ltd.	Taipei, Taiwan	2,000 million Taiwan dollars	Securities	180,000 thousand shares	90% (see Note 7 )
DBP-Daiwa Securities SMBC Philippines, Inc.	Manila, Philippines	255 million Philippine pesos (see Note 10)	Securities	102,000 thousand shares	60% (see Note 8,9 )
Daiwa Securities SMBC Principal Investments Co. Ltd.	Chiyoda-ku, Tokyo	2,000 million yen	Investment	70 thousand shares	100%
Daiwa Securities SMBC Financial Products (Cayman) Ltd.	Cayman Islands (British territory)	10 million yen	Financial Services	200 shares	100%
Yensai.com Co., Ltd.	Minato-ku, Tokyo	1,260 million yen	Securities	4 thousand shares	18%
Daiwa SMBC-SSC Securities Co., Ltd.	Shanghai, People's Republic of China	500 million 1 RMB yuan	Securities	---	33.3%
5 other companies	---	---	---	---	---

Notes: 1. Indirect holding, Daiwa Securities SMBC Europe Limited holds 100% of the shares.  
2. Indirect holding, Daiwa Securities SMBC Asia Holding B.V. holds 100% of the shares.  
3. Indirect holding, Daiwa Securities SMBC Asia Holding B.V. holds 51% of the shares and Daiwa Securities SMBC Singapore Limited holds 49% of the shares.  
4. Indirect holding, Daiwa Securities SMBC Hong Kong Limited holds 100% of the shares.  
5. Indirect holding, Daiwa Securities SMBC Australia Limited holds 100% of the shares.  
6. Indirect holding, Daiwa Securities SMBC Stockbroking Limited holds 100% of the shares.  
7. Indirect holding, Daiwa Securities SMBC Asia Holding B.V. holds 90% of the shares.  
8. Indirect holding, Daiwa Securities SMBC Asia Holding B.V. holds 60% of the shares.  
9. The figure 60% does not include preferred shares (73.3%, it included).  
10. Amount includes preferred share capital.

1. Overview of Internal Control Structure

(1) Overview of Internal Control Structure

As an intermediary in securities markets, Daiwa Securities SMBC recognizes the social responsibility of its operations. The Company is committed to the establishment of legal compliance and internal control systems as one of the top management issues. The chart presented on the next page represents the outline of the Company's internal control structure. Legal & Compliance Committee, a subcommittee of Management Committee, is responsible for activities including deliberation, decision-making and approval of company-wide policies and specific measures relating to compliance guidance and internal audit. At each department and branch-level, Sales Managers, Internal Administrators, and Internal Administration Officers oversee compliance status in legal and other aspects of the daily operations and carry out in-house investigations to ensure the effectiveness of the supervision. With a view to preventing legal violations, Compliance Dept. deliberates compliance issues in advance and provides guidance and monitoring as well as compliance training courses, etc. Furthermore, Internal Audit Dept. is responsible for the development and planning of audit with emphasis on the examination of the appropriateness and effectiveness of internal compliance structure, and performance of audits by departments and items. Among the Company's specific compliance measures are the establishment of a compliance program as an annual action plan, and the Company implements the plan to realize thorough legal compliance and to strengthen the internal control structure.

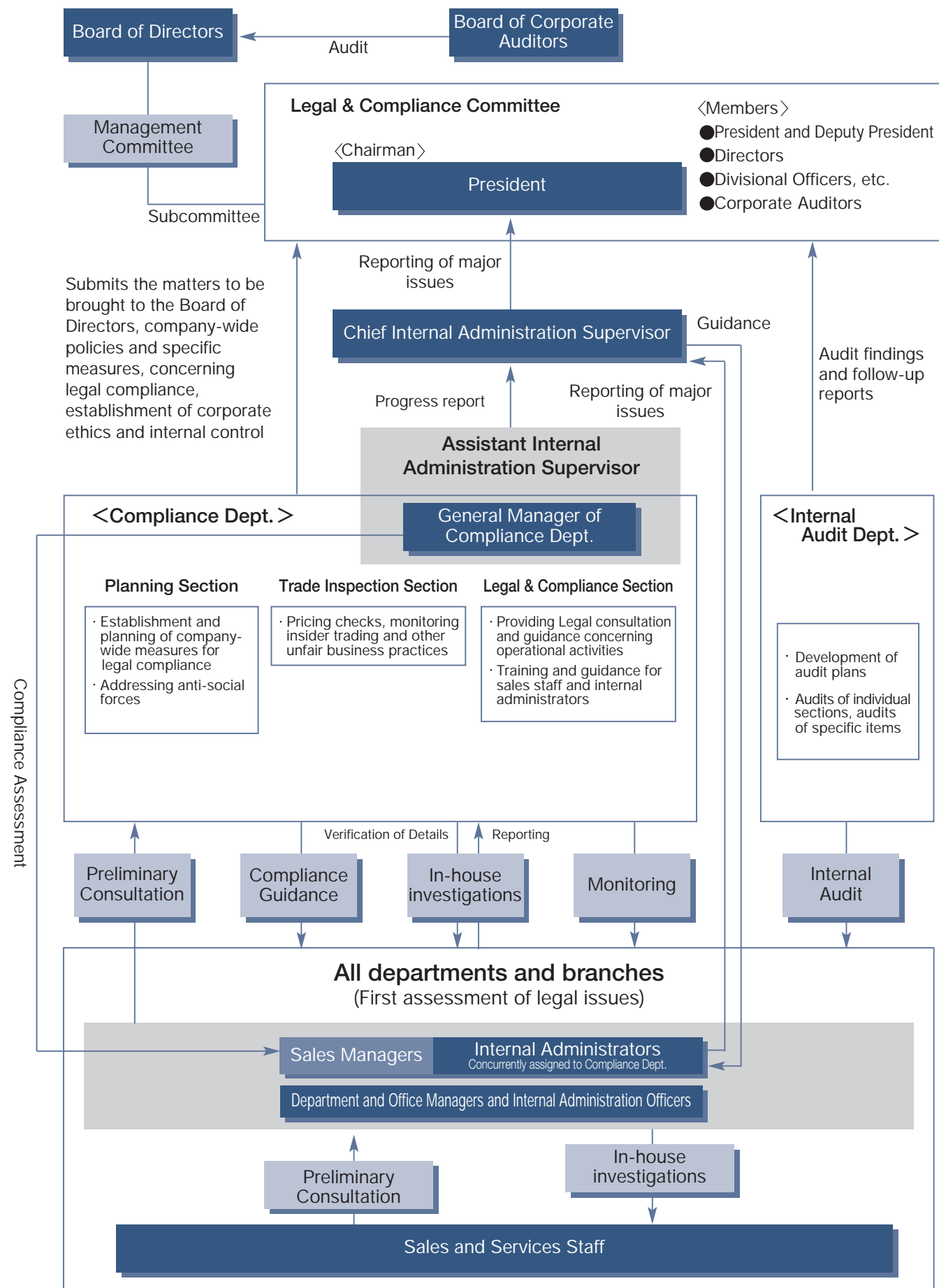
The following is an outline of the Company's internal control organizations:

- 1) Legal & Compliance Committee  
The president calls a meeting of this subcommittee of Management Committee, in principle, every other month. The committee deliberates, decides and approves the issues that should be presented to the Board of Directors, company-wide policies and specific measures, including the issues related to legal compliance within the Company, establishment of corporate ethics, and internal control.
- 2) Chief Internal Administration Supervisor and Assistant Internal Administration Supervisor  
According to the regulations of Japan Securities Dealers Association, representative director of the Company shall be appointed as Chief Internal Administration Supervisor. Chief Internal Administration Supervisor is responsible for providing guidance and supervision to the process of establishing an internal control structure and the activities of Internal Administrators to ensure thorough regulatory compliance. Assistant Internal Administration Supervisor assists Chief Internal Administration Supervisor.
- 3) Compliance Dept.  
The Department undertakes the following functions as the Department responsible for overseeing the status of legal compliance:
  - Planning Section . . . . . In addition to planning of compliance training programs and revision of internal rules, the section is responsible for planning of the necessary preventive measures for legal violations and incidents from the company-wide standpoint.
  - Legal & Compliance Section . . . . . This section is primarily responsible for appropriate legal and regulatory consultations as well as professional advice on legal decisions concerning the operations of the sales departments including the Investment Banking, Equity, and Fixed Income departments. The section also provided education and guidance to sales representatives, internal administrators, and others regarding compliance.
  - Trade Inspection Section . . . . . The section is responsible for activities including pricing verification, monitoring of unfair business practices, information management concerning insider trading and external reporting.

- 4) Internal Audit Dept.  
Internal Audit Dept. examines the appropriateness and effectiveness of internal control systems within the Company's domestic departments and branches in order to realize early detection of possible legal and regulatory violations and incidents, and to provide guidance for rectification in internal control systems based on the findings from audits. Also for the overseas branches, the Department assesses the status of legal compliance and provides guidance on rectification measures for early detection and prevention of recurrence of possible legal and regulatory violations, and risk a version.
- 5) Sales Managers, Internal Administrators and Internal Administration Officers  
In accordance with the regulations of Japan Securities Dealers Association, Sales Managers and Internal Administrators are assigned to each sales office and branch. Sales Managers and Internal Administrators constantly monitor sales activities and client management in order to ensure that the daily business activities are compliant with laws and regulations and are appropriately carried out. Internal Administration Officers are assigned to non-sales departments to monitor the activities involving possible legal violations.



## <Outline of Internal Control Structure>



## (2) Corporate Ethics Hot Line (Whistle-blowing System)

The Company has established a Corporate Ethics Hot Line (Whistle-blowing system) in order to realize early detection and rectification of the possible legal and regulatory violations.

The Company strives to enhance its compliance systems through the development of a whistle-blowing policy which clearly defines the whistle-blowing processes, protection of whistle-blower, and remedial actions.

## (3) Complaints from Customers

Complaints from customers are dealt with on a sincere basis by the customer's branch and the Compliance Department.

## (4) Basic Policies Regarding Allotment of Equity, etc.

### Basic Concept

The Company recognizes its business mission as, through its underwriting activities, responding to the funding needs of companies and the asset management needs of investors while promoting the circulation of securities, thereby contributing to the expansion and development of securities markets. The Company business activities revolve around this mission.

When making or handling subscriptions and secondary offerings of equity, etc., the Company, in principle, carefully considers a balance in allotment of securities that will avoid excessive concentration on specific clients.

### Basic Allotment Policies

In principle, when making or handling subscriptions and secondary offerings of equity, etc., method is used to obtain an accurate grasp of client demand and allocations are made according to the following policies by using a bookbuilding method to accurately understand client demand and fully considering client attribution:

#### 1) Allocation Principles

In making allocations of initial public offerings or other equity, etc. issues, the Company makes allotment according to an overall consideration of the following items based on its first premise of selling financial products that fit the needs of clients,:

- The amount requested by the client
- Demonstrated interest in the issue during the bookbuilding process
- The client's assets, risk recognition, investment experience and knowledge, and investment strategies
- The client's business relationship with the Company

In making its decision about allotments, as a result of the overall consideration of the above items, the Company may allot shares to clients that did not apply for shares in the bookbuilding process.

As the Company specializes in wholesale of securities, it does not, in principle, use a lottery method of allocation in which a certain amount of shares are offered clients under the same conditions.

#### 2) Cases where the Previously Mentioned Principles Are not Applicable

When the amount being underwritten is small or the product is difficult to distribute widely due to its nature or various laws and regulations applied issue, the Company may limit the clients to which it allocates the product or set ceilings and floors on the monetary figure used as the quota per client.

### Compliance with Fair Distribution

In addition to the above allotment policies, the Company has clearly indicated the items below regarding allotment in its internal regulations, and intends to work to make best efforts to ensure fair allotment of equity, etc.:

- The Company complies with legal regulations disallowing the allotment of securities to clients for the purpose of reimbursing clients for their losses or increasing their profits.
- Allotments cannot be made to the following persons or entities: 1) Persons specified by the issuer, 2) directors and employees of the Company, 3) persons or entities with special interests in the Company, or persons or entities for which it might appear that special preference had been given by the Company causing society to view these actions as unfair, and 4) gangster groups or people related to such groups, and others who act against the public's best interests including so-called Sokaiya (In the event that the Company determines that a party registering in the bookmaking process or making application for an allotment falls under one of these categories, their registration or application shall not be accepted).

- 3) The Company avoids making excessive allocations to specific clients.
- 4) The Company does not make allotments on an unfair basis, such as requiring clients to purchase other products as a condition for receiving allotment of IPOs.

Note: Specific bookbuilding points for each issuance such as the period for reporting demand, methods for reporting demand, tentative price ranges, etc. may be viewed in prospectus produced by each issuing company.

## (5) Best Execution Policy

This best execution policy sets forth in accordance with the provisions under Article 43, Section 2-1 of the Securities and Exchange Law and provides for policies and procedures for ensuring the best execution of securities transactions for clients.

Upon acceptance of a client order for securities listed on a securities exchange within Japan, and provided that there is no specific client instruction regarding the execution, the Company will endeavor to execute that order in accordance with the following policy:

### (1) Type of Securities Covered

- ① “Listed Securities, etc.” that are prescribed under Article 16-2 of the Securities and Exchange Law Enforcement Order, including shares of stock, bond with stock acquisition rights (CBs), ETFs (beneficiary certificates in investment trusts linked to a stock index), and REITs (investment certificates in real estate investment trusts) listed on a securities exchange in Japan;
- ② “Securities Handled” as set forth in Article 40 (1)(i) of the Securities and Exchange Law, including, stock and bond with stock acquisition rights (CBs) that are Green Sheet issues.

### (2) Best Execution Methodology

The Company will not act as direct trading counterparty with respect to client orders but will treat all orders as agency orders.

#### 1) Listed Securities, etc.

Basically, the Company brokers trade orders for equities, etc. listed on securities exchanges, but it does not handle any off-exchange transactions including by means of PTS (proprietary trading system).

- ① Upon receipt of an order, the Company will promptly place the order with the domestic securities exchange where the issue is listed. The Company will, however, place the agency orders that were received during off-the market hours to the securities exchange after the market is re-opened.
- ② When ① above is applicable, the transaction for agency order on the exchange shall be carried out as follows.
  - a) In the case where the security is only listed on one securities exchange (single listing), the Company will place the order on that particular securities exchange.
  - b) In the case where the security is listed on more than one exchange (multiple listing), the order will be placed to the first exchange that appears on the screen when a search using the securities code is made on one of QUICK terminals upon execution of such order (the securities exchange is chosen based on the calculation that indicate the highest trading volume during a certain period in accordance with that company’s prescribed method of calculation, hereinafter termed the “main exchange”).
  - c) In the case where the Company is not a participating member nor has any membership of the exchange (Fukuoka and Sapporo stock exchanges), selected through a) or b) above, we will place the order on that exchange through an exchange participant with whom the Company has entered into an agreement for handling orders on that particular securities exchange.
- ③ The Company will handle the agency orders as follows, should the main exchange be changed after the agency order placed by the clients were handled to the main exchange:

- a) Should the main exchange of a particular issue be changed within the specified expiration period of the order as received, and should there be no specific instructions from the clients regarding the change; the order will be placed to the same exchange.
- b) For new purchases of a security based on standardized or negotiable margin transactions, if the main exchange should change before the margin transaction is covered by the client, in principle the reversing transaction will be brokered in the new main exchange. However, if the Company receives the approval of the client, it will execute the reverse trades on system margin trades in the same market as the original margin transaction (short and long positions).

- ④ In the case where the order is placed by qualified institutional investors and the prior consent has been obtained from such client, the Company will execute the order by means of the method for placing the orders to the securities exchange or for the Company to act as the direct trading counterparty or the combination of both methods in accordance with the details of the agreement.

### 2) Securities Handled

In principle, the Company does not accept orders for Securities Handled (Green Sheet issue). However, if the client wishes to place the order and there is an agreement on the order between the two parties, the Company will place an order based on the agreed conditions. In the case where the Company is soliciting the investment to and indicating the price of a Green Sheet issue, the client shall confirm price quotations for the issue (cross-checking the price quotations from another securities company also soliciting the issue) at the time of order placement, and if the Company and client agree on the price, the Company shall act as the direct trading counterparty for the transaction. For information on the issues the Company is soliciting or other securities firms that is soliciting that particular issues, please visit the website of Japan Securities Dealers Association.

### (3) Reasons for Selecting the Execution Methods Employed by the Company

#### 1) Listed Securities, etc.

Securities exchanges are the focal point of supply and demand from investors, and provide the best liquidity conditions as well as being highly public markets. In overall consideration of price, probability for order execution, and speed of transaction, the Company has decided that placing orders in these markets is the most practical and efficient method for clients.

In addition, when the particular issue is listed on multiple securities exchange, the Company has decided that executing the transaction in the main exchange, which has the highest liquidity, is the most practical and efficient method for the client.

In the case where the main exchange is changed before the expiration date for a time limit order, the company places the orders to the exchange where the order was originally placed provided that there is no instruction from the client, because doing so will avoid the additional costs in trade confirmation with the client and replacing the order, as well as an extension of the time required to complete the order. The Company has decided that this action has the greatest potential for retaining the best execution condition, and is therefore the most practical and efficient method for the client.

In the case where the main exchange is changed before the margin reversing transaction is completed for standardized or negotiable margin transactions, the Company places the order for the reversing transaction in the same exchange as the original margin transaction with the approval of the client because it has decided that, if the client has not decided to change the market in which the short or long position is held for some reason, doing so is the most practical and efficient method for the client.

In the case where the client is a qualified institutional investor from whom the Company has obtained approval, the Company will place orders to securities exchanges, or act as a direct trading counterparty itself; or use a combination of both methods in executing transactions because, in consideration of the price, potential for order completion, and transaction speed, the Company has decided that providing these opportunities for execution of the transaction under the above conditions is the most practical and efficient method for such a client.



## 2) Securities Handled

The extent that the Company is trading those Securities Handled (Green Sheet issues) is limited to those issues that it is soliciting and indicating the prices. The Company only executes transactions for the issue in which the client has cross-checked the price quotation with another securities company that also solicits the issue at the time when the order was placed, because the Company has decided that achieving an overall agreement between the two parties on the price, potential for order execution, and execution costs, etc. is the most practical and efficient method for the client.

## (4) Others

### 1) Notwithstanding (2) above, the Company will execute the transactions as indicated below:

- ① Transaction in which a client has specified the method of execution (by requesting that the Company act as a direct trading counterpart, execute on a specific exchange, or specifying an execution time range); Executions as instructed.
- ② Execution under agreements including a discretionary investment management agreement:  
The Company will execute by a method of choice within the authorized discretion under such a discretionary investment management agreement with the client.
- ③ Transactions in which the execution method is specified by means of General Terms or the like, such as cumulative stock investment or stock mini investment, etc;
- ④ Trading of odd-lot shares and fractional shares:  
The Company handles the transaction concerning orders of odd-lot and fractional shares to the securities firms that handle such shares.

### 2) Should there be cases where as a result of system failure, the Company may have to execute using a method other than the method derived from the best execution policy; the Company will strive to execute on the best terms possible.

The duty of best execution not only relates to price but also involves the consideration of various factors including cost, speed and certainty of execution. Even if a trade appears not have been executed at the best possible price afterwards, it does not necessarily constitute a violation of the duty of best execution by itself.

- 3) For identification of principals including individual clients or their designated agent in transaction;
- 4) For reporting results of transactions and balance to clients;
- 5) For implementation of administrative processing of clients' transactions;
- 6) For research and development of financial products and services by means of market research, data analysis and questionnaire surveys;
- 7) For ensuring the appropriate performance of outsourcing services that include handling of personal information in all or part is outsourced from other enterprises; and
- 8) For ensuring appropriate and smooth execution of transaction processes with clients.

## (3) Assurance of Accuracy of Personal Information

The Company endeavors to ensure the accuracy of the clients' personal information and to keep them up to date within the range necessary to attain the objectives of use specified above.

## (4) Safety Control Measures

To prevent leakage, etc. of personal data collected from clients, the Company implements necessary and appropriate safety control measures and carries out appropriate supervision of officers and employees.

## (5) Provision of Personal Information to Third Parties

Unless based on the provisions of laws and regulations, the Company shall not provide third parties with any Personal Information without obtaining clients' prior consent.

## (6) Outsourcing Handling of Personal Information

The Company may, subject to the conclusion of contract which the provisions under the Guidelines on Personal Information Protection in the Financial Industry (2004 FSA Notification No. 67, "FSA Guideline") are reflected, outsource handling of all or part of clients' personal information held by the Company to third parties within the range necessary to attain the objectives of use specified. The Company shall exercise necessary and appropriate supervision over the contractors including the recommissioned contractors when The Company outsources handling of all or part of personal information.

## (7) Procedure for Disclosure of Information

The Company shall respond to any requests submitted by clients or their designated agents concerning disclosure, correction, addition, deletion, suspension or cancellation of the use of such information, suspension of provision of Personal Information held by the Company to third party ("disclosure requests") within the reasonable timeframe and the appropriate scope in writing, unless disclosure of such information is not required by the relevant laws and regulations after the identification of the clients' or the designated agents are verified.

- 1) Type of Personal Information held by the Company that are covered under the Disclosure Request:  
Name; Address; Telephone Number; Date of Birth; Employment Information (Name of employer and/or occupation and work number); Transaction balance (Account Number and outstanding balance); and Transaction Log information.
- 2) Please contact relevant sales offices within the Company, for disclosure request of the information.
- 3) Documents requested for submission:
  - ① "Request Form for Disclosure of Personal Information" designated by the Company - completed;
  - ② Identification Documentation (copies of driver's license or passport);
  - ③ Power of Attorney for identifying the power has been delegated to the relevant agent (POA is required when the request has been filed by the agent. Please note that the Company cannot respond to such agents until such delegation of the power is verified by us.)
- 4) Response from the Company  
The Company shall respond to the clients or the designated agent in writing by sending the response to the addresses registered with the Company. Please be reminded that the Company may respond directly to the client when the request was sent by the agent.

## (6) Privacy Policy

The Company hereby establishes and publishes the Privacy Policy based on the Personal Information Protection Law, which will be continuously reviewed and enhanced in order to ensure the appropriate handling of clients' personal information as described below:

### (1) Policy Regarding the Handling of Personal Information

- 1) The Company complies with the laws and regulations concerning protection of personal information including the Personal Information Protection Law, various guidelines and policies issued by the competent ministers and recognized personal information protection organizations, and this Personal Information Handling Policy.
- 2) The Company shall only obtain personal information through the appropriate and legal measures to the extent necessary for its business operation and shall not use the personal information obtained for the purposes other than the purposes that were originally intended.
- 3) The Company shall respond swiftly and appropriately to complaints and other inquiries.

### (2) Use of Clients' Personal Information

Except for the cases recognized by the relevant laws and regulations, the Company will not make use of personal information obtained from clients beyond the scope necessary to attain the purposes as listed below without obtaining the consent of the clients:

- 1) For promotion and sales of securities and financial products and services under the Securities and Exchange Law;
- 2) For determination of the adequacy of products and services offered to clients based on the principle of suitability;

- 5) Objectives for using personal information obtained through disclosure requests  
The Company shall use the information obtained through the disclosure requests for the research for the procedures for disclosure requests, verification of the identification of the client or the designated agent, collection of fees, and the response to the disclosure request.
- 6) Fees  
In some cases, the Company may charge the individual for fees incurred during the research process.
- (8) Treatment of Sensitive Information  
The Company does not intend to seek any sensitive information, including special non-public data relating to race or national or ethnic origin, political or religious or similar beliefs, lineage, registered domicile, health and medical history and criminal record, unless it is required/permitted by provisions under the guidelines including FSA Guideline to do so. The Company will not use nor offer to any third party the Personal information even where the Company is allowed to obtain such Information under the FSA Guideline except for the purposes deemed necessary for ensuring proper management of the business operation as well as the other purposes deemed necessary in accordance with Ordinance of Cabinet Office Concerning Regulation etc, of Conduct of Securities Company.
- (9) Handling of Complaints  
The Company strives to respond promptly and faithfully to the complaints received from clients concerning the handling of personal information including safety control measures of personal information. Please forward your complaints and concerns to the following hotline at the Company.
- [Contact for Complaints]  
Compliance Dept.  
Marunouchi Trust Tower N, 8-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-8289, Japan  
Tel: 03-5533-8622
- (10) Recognized Personal Information Protection Organizations  
The Company is a member of Japan Securities Dealers Association, a Personal Information Protection Organization recognized by FSA.. Those who wish to file complaints or to consult in relation to the members' handling of personal information may contact the following for consultation services concerning complaints from clients:
- [Contracts for Complaints and Advice]  
Securities Mediation and Advisory Center  
Japan Securities Dealers Association  
Tel: 03-3667-8008  
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# FINANCIAL SECTION

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## 1. Economic Environment

The Japanese economy's overall transition was bullish during the fiscal year under review due to a recovery in the household sector, whose improvement was slow in the past compared to the corporate sector, and to increased capital investment spurred on by positive corporate profits. Although some employment aspects are as severe as we have ever seen, increasing employment of new graduates, increasing numbers of full-time workers and increases in income, such as regular salary and bonuses, and the environment surrounding the consumer is generally continuing to improve. As a result, the market has escaped from the stagnation seen from the second half of 2004 through the first half of 2005, and continues to improve.

Although some cause for concern still remains on the world market, such as crude oil prices that continue to transition an expensive range, the market continues to expand. Furthermore, the so-called newly industrializing BRIC nations continue strong growth compared to the major advanced nations and are expected to become a new driving force in the world economy.

The Nikkei 225 Index showed slow, uniform growth through nearly all of the fiscal year. Along with a bearish American stock market in October and scandals caused by certain new corporations, the market temporarily stagnated when anxiety regarding the TSE system emerged in January. However, the market has gradually improved since the end of February and with the lifting of the quantitative easing policy by the Bank of Japan in March and the eradication of unclear factors relating to the direction of future monetary policy, market prices instantly rose. At the end of March 2006, The Nikkei Stock Average ended the fiscal year at 17,059 and the percentage change for the fiscal year was 46%.

In the financial market, the direction of the market at the beginning of the fiscal year reflected a cautious outlook, with long-term interest rates slowly declining. However, the market outlook improved following the summer after various positive economic indicators were announced and interest rates shifted to a gentle climb. There was considerable fluctuation after autumn but in March, the Bank of Japan lifted the quantitative easing policy, raising expectations for an early rise in interest rates and causing the long-term interest rate to rapidly rise to 1.8% for the first time in 19 months and ending the fiscal year at 1.78%.

## 2. Business Performance

Under these business conditions, net operating revenues rose to 311,569 million yen due to increased revenue arising from our securities-related brokerage, underwriting and distribution commissions and a large increase in revenue from securities trading, etc. ROE rose greatly, from 12.4% in fiscal 2004 to 18.2% in fiscal 2005.

### (1) Commissions

Commissions for this consolidated fiscal year totaled 111,299 million yen, a 21.3% increase compared to the previous fiscal year. Details of sub-items are outlined below.

#### ① Brokerage commissions

Brokerage commissions rose to 23,593 million yen due to a brisk market, a 33.4% increase compared to the previous fiscal year.

#### ② Underwriting commissions

Underwriting commissions rose to 64,544 million yen, an 18.5% increase compared to the previous fiscal year. This revenue increase is due to increased handling of both IPOs and currently listed companies and the resulting increase in securities underwriting commissions.

#### ③ Distribution commissions

Handling fees for distributions rose to 1,379 million yen due to increased fees from investment trust subscriptions, etc., a 36.0% increase compared to the previous fiscal year.

#### ④ Other Commissions

Other commissions rose to 21,783 million yen, a 17.3% increase compared to the previous fiscal year. Other commissions from the Investment Banking Division rose to 16,218 million yen due to increased commissions from M&A business, etc., a 26.8% increase compared to the previous fiscal year.

### (2) Net gain on trading

Net gain on trading rose to 175,531 million yen, a 48.4% increase from the previous fiscal year. On the other hand, securities net trading gains rose to 111,117 million yen, a 119.9% increase from the previous fiscal year, while net trading gains from bonds, exchanges, etc., fell to 64,414 million yen, a 4.9% decrease from the previous fiscal year.

### (3) Net interest and dividend income

Net interest and dividend income was 47,022 million yen and interest expenses totaled 39,250 million yen.

### (4) Selling, general and administrative expenses

Commission paid, personnel expenses, data processing & office supplies expenses, and occupancy and rental expenses increased to 65,259 million yen (50.9% increase from the previous fiscal year), 46,820 million yen (17.5% increase), 17,004 million yen (3.9% increase) and 13,702 million yen (8.4% increase) respectively while depreciation expenses fell to 12,184 million yen (1.2% decrease) for total selling, general and administrative expenses of 171,906 million yen (23.8% increase).

## 3. Our (Consolidated) Group's Income and Losses

As a result of the above conditions, our consolidated operating revenues for this fiscal year totaled 350,819 million yen (40.5% increase from the previous fiscal year). Subtracting interest expenses from this amount yields net operating revenues of 311,569 million yen (40.1% increase). Subtracting selling, general and administrative expenses from this amount yields operating income of 139,663 million yen (67.1% increase) and net income of 91,884 million yen (70.0% increase).

# CONSOLIDATED BALANCE SHEETS

DAIWA SECURITIES SMBC Co. Ltd.  
March 31, 2006 and 2005

ASSETS	Millions of yen	
	2006	2005
<b>Cash and cash deposits:</b>		
Cash and cash equivalents .....	¥ 129,082	¥ 109,862
Cash segregated as deposits for regulatory purposes .....	77,680	21,411
Other deposits .....	5,500	4,851
	<b>212,262</b>	136,124
<b>Receivables:</b>		
Loans receivable (Note 9) .....	53,745	67,881
Trading receivables, net .....	—	34,727
Receivables related to margin transactions (Note 3) .....	205,936	183,699
Other .....	79,463	48,660
Less: Allowance for doubtful accounts .....	(197)	(188)
	<b>338,947</b>	334,779
<b>Collateralized short-term financing agreements (Notes 4 and 10) .....</b>	<b>4,601,711</b>	3,937,749
<b>Trading assets (Notes 5 and 9) .....</b>	<b>5,944,944</b>	5,082,915
<b>Private equity and other securities (Note 6) .....</b>	<b>323,791</b>	97,939
<b>Deferred tax assets (Note 15) .....</b>	<b>9,210</b>	3,589
<b>Property and equipment, at cost .....</b>	<b>18,425</b>	17,960
<b>Less: Accumulated depreciation .....</b>	<b>(12,948)</b>	(12,125)
	<b>5,477</b>	5,835
<b>Other assets:</b>		
Lease deposits .....	5,964	6,093
Investment securities (Notes 6 and 9) .....	21,090	18,619
Intangible fixed assets .....	31,813	31,711
Other (Note 9) .....	30,449	20,548
Less: Allowance for doubtful accounts .....	(744)	(520)
	<b>88,572</b>	76,451
	<b>¥ 11,524,914</b>	¥ 9,675,381

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen	
	2006	2005
<b>Borrowings:</b>		
Short-term borrowings (Notes 9 and 10) .....	¥ 1,570,630	¥ 2,129,930
Commercial paper .....	234,210	175,220
Long-term debt (Notes 10 and 13) .....	827,764	676,527
	<b>2,632,604</b>	2,981,677
<b>Payables:</b>		
Payables to customers and counterparties (Note 12) .....	53,383	63,488
Trading payables, net .....	252,021	—
Payables related to margin transactions (Note 3) .....	176,269	127,198
	<b>481,673</b>	190,686
<b>Collateralized short-term financing agreements (Notes 4 and 10) .....</b>	<b>2,925,045</b>	2,408,224
<b>Trading liabilities (Note 5) .....</b>	<b>4,790,083</b>	3,576,997
<b>Accrued and other liabilities:</b>		
Income taxes payable .....	56,589	7,605
Deferred tax liabilities (Note 15) .....	1,395	548
Accrued bonuses .....	11,435	7,160
Retirement benefits (Note 14) .....	4,309	4,510
Other (Note 10 and 14) .....	70,536	25,903
	<b>144,264</b>	45,726
<b>Statutory reserves (Note 16) .....</b>	<b>5,178</b>	4,351
<b>Total liabilities .....</b>	<b>10,978,847</b>	9,207,661
<b>Minority interests .....</b>	<b>1,082</b>	969
<b>Contingent liabilities (Note 17) .....</b>		
<b>Shareholders' equity (Note 18):</b>		
Common stock, no par value;		
Authorized - 3,200 shares .....		
Issued - 3,200 shares .....	205,600	205,600
Capital surplus .....	117,321	117,321
Retained earnings .....	197,514	128,464
Net unrealized gain on securities, net of tax effect .....	15,920	10,426
Translation adjustments .....	8,630	4,940
<b>Total shareholders' equity .....</b>	<b>544,985</b>	466,751
	<b>¥ 11,524,914</b>	¥ 9,675,381



# CONSOLIDATED STATEMENTS OF OPERATIONS

DAIWA SECURITIES SMBC Co. Ltd.  
Years ended March 31, 2006 and 2005

	Millions of yen	
	2006	2005
<b>Operating revenues:</b>		
Commissions (Note 20) .....	¥ 111,299	¥ 91,733
Net gain on trading (Note 21) .....	175,531	118,304
Net gain on private equity and other securities .....	16,967	11,426
Interest and dividend income (Note 10) .....	47,022	28,186
	<b>350,819</b>	249,649
<b>Interest expense (Note 10) .....</b>	<b>39,250</b>	27,259
<b>Net operating revenues (Note 19) .....</b>	<b>311,569</b>	222,390
<b>Selling, general and administrative expenses (Notes 10, 14, 19 and 22) .....</b>	<b>171,906</b>	138,831
<b>Operating income (Note 19) .....</b>	<b>139,663</b>	83,559
<b>Other income (expenses):</b>		
Provision for statutory reserves, net (Note 16) .....	(826)	(369)
Other, net (Note 23) .....	4,892	2,943
	<b>4,066</b>	2,574
<b>Income before income taxes and minority interests .....</b>	<b>143,729</b>	86,133
<b>Income taxes (Note 15)</b>		
Current .....	60,204	7,992
Deferred .....	(8,447)	24,065
	<b>51,757</b>	32,057
<b>Minority interests .....</b>	<b>(88)</b>	(42)
<b>Net income .....</b>	<b>¥ 91,884</b>	¥ 54,034

Per share amounts :	Yen	
Net income .....	¥28,713,719.05	¥ 16,885,665.39
Cash dividends applicable to the year .....	9,000,000.00	7,000,000.00

# CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

DAIWA SECURITIES SMBC Co. Ltd.  
Years ended March 31, 2006 and 2005

	Millions of yen					
	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Net unrealized gain on securities, net of tax effect	Translation adjustments
<b>Balance at March 31, 2004 .....</b>	3,200	¥ 205,600	¥ 117,321	¥ 74,682	¥ 2,063	¥ 2,280
Net income .....				54,034		
Bonuses to directors .....				(252)		
Net unrealized gain on securities, net of tax effect .....					8,363	
Translation adjustments .....						2,660
<b>Balance at March 31, 2005 .....</b>	3,200	205,600	117,321	128,464	10,426	4,940
Net income .....				91,884		
Cash dividends paid .....				(22,400)		
Bonuses to directors .....				(434)		
Net unrealized gain on securities, net of tax effect .....					5,494	
Translation adjustments .....						3,690
<b>Balance at March 31, 2006 .....</b>	<b>3,200</b>	<b>¥ 205,600</b>	<b>¥ 117,321</b>	<b>¥ 197,514</b>	<b>¥ 15,920</b>	<b>¥ 8,630</b>

# CONSOLIDATED STATEMENTS OF CASH FLOWS

DAIWA SECURITIES SMBC Co. Ltd.  
Years ended March 31, 2006 and 2005

	Millions of yen	
	2006	2005
<b>Cash flows from operating activities:</b>		
Net income .....	¥ 91,884	¥ 54,034
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization .....	12,184	12,327
Provision for retirement benefits, net .....	(201)	290
Statutory reserves, net .....	826	369
Gains related to investment securities .....	(3,191)	(1,947)
Losses related to fixed assets .....	14	621
Deferred income taxes .....	(8,447)	24,065
Minority interests .....	88	42
Changes in operating assets and liabilities:		
Receivables and payables related to margin transactions .....	26,834	4,546
Other receivables and other payables .....	2,241	4,675
Private equity and other securities .....	(215,894)	(42,324)
Trading assets and liabilities .....	638,500	27,051
Collateralized short-term financing agreements .....	(149,510)	(1,093,117)
Other, net .....	4,031	60,318
Total adjustments .....	307,475	(1,003,084)
Net cash flows provided by (used in) operating activities .....	399,359	(949,050)
<b>Cash flows provided by (used in) investing activities:</b>		
Payments for purchases of property and equipment .....	(1,674)	(1,678)
Payments for purchases of intangible fixed assets .....	(10,487)	(8,960)
Payments for purchases of investment securities .....	(8,990)	(5,532)
Proceeds from sales of investment securities .....	9,331	16,422
Decrease(increase) in long-term loans receivable .....	64	(377)
Other, net .....	(542)	(336)
Net cash flows (used in) investing activities .....	(12,298)	(461)
<b>Cash flows provided by (used in) financing activities:</b>		
Increase(decrease) in short-term borrowings .....	(448,435)	698,955
Increase in long-term debt .....	2,873	107,409
Proceeds from issuance of notes .....	393,858	220,975
Payments for redemption of bonds and notes .....	(297,903)	(80,578)
Payments of cash dividends .....	(22,400)	—
Payments of cash dividends to minority shareholders .....	(43)	(34)
Net cash flows provided by (used in) financing activities .....	(372,050)	946,727
<b>Effect of exchange rate changes on cash and cash equivalents .....</b>	<b>4,209</b>	<b>1,390</b>
<b>Net increase(decrease) in cash and cash equivalents .....</b>	<b>19,220</b>	<b>(1,394)</b>
<b>Cash and cash equivalents at beginning of year .....</b>	<b>109,862</b>	<b>111,256</b>
<b>Cash and cash equivalents at end of year .....</b>	<b>¥ 129,082</b>	<b>¥ 109,862</b>
<b>Supplemental information on cash flows:</b>		
Cash paid during the year for:		
Interest .....	¥ 37,820	¥ 27,113
Income taxes .....	9,068	(622)

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DAIWA SECURITIES SMBC Co. Ltd.  
Years ended March 31, 2006 and 2005

## 1. Basis of financial statements

The consolidated financial statements include the accounts of Daiwa Securities SMBC Co. Ltd. ("Company"), a Japanese corporation, its domestic consolidated subsidiaries (together with the Company, "Domestic Companies"), and its overseas consolidated subsidiaries (together with the Domestic Companies, "Daiwa SMBC"). The Company's principal consolidated subsidiaries include:

- Daiwa Securities SMBC Principal Investments Co. Ltd.
- Daiwa Securities SMBC Europe Limited
- Daiwa Securities SMBC Hong Kong Limited
- Daiwa Securities SMBC Singapore Limited
- Daiwa Securities SMBC Australia Limited
- DBP-Daiwa Securities SMBC Philippines Inc.
- Daiwa Securities SMBC-Cathay Co., Ltd.

The accompanying consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Japan ("Japanese GAAP"), with some expanded descriptions, reclassifications and the inclusion of statements of shareholders' equity. Some supplementary information included in the Japanese GAAP consolidated financial statements, which is not required for fair presentation is not presented in the accompanying financial statements. Japanese GAAP is different in certain respects as to application and disclosure requirements of International Financial Reporting Standards. The accounts of overseas consolidated subsidiaries are maintained in conformity with generally accepted accounting principles and practices prevailing in the respective countries of domicile.

## 2. Significant accounting policies

### (1) Consolidation

The consolidated financial statements include the accounts of the Company and significant companies that are controlled by the Company through substantial ownership of more than 50% of the voting rights (excluding companies owned for the purpose of operating principal finance and venture capital business, and not for the purpose of affiliation to the group.) or through ownership of at least 40% and less than 50% of the voting rights and the existence of certain conditions evidencing control by the Company of the decision-making body of such companies.

In addition to investments in companies in excess of 20% (excluding companies owned for the purpose of operating principal finance and venture capital business and not for the purpose of affiliation to the group through personnel management, financial resources, technology, transactions, etc.), certain companies for which the Company has at least 15% and less than 20% of the voting rights and in case where the Company has the ability to exercise significant influence over operating and financial policies of the investees are accounted for by using the equity method.

Material inter-company balances, transactions and profits have been eliminated in consolidation.

### (2) Statements of cash flows

For purposes of consolidated statements of cash flows, Daiwa SMBC defines cash equivalents as highly liquid investments with original maturities of three months or less.

### (3) Trading assets and trading liabilities

Trading assets and liabilities including securities and financial derivatives for trading purposes held by a securities company are recorded on a trade date basis at fair value in the consolidated balance sheets. Gains and losses including unrealized gains and losses related to transactions for trading purposes are reported as "Net gain on trading" in the accompanying consolidated statements of operations. Fair value is determined based on market prices, quoted prices, internal pricing models (utilizing indicators of general market conditions or other economic measurements), or management's estimates of amounts to be realized on settlement, assuming current market conditions and an orderly disposition over a reasonable period of time. Securities owned for non-trading purpose, shown in the accompanying consolidated balance sheets as "Private equity and other securities" and "Investment securities", are discussed below.



#### (4) Investment securities, and private equity and other securities

Available-for-sale securities with market value are stated at market value, based on quoted market prices. Unrealized gains and losses, net of income tax effects thereof on those securities are recorded as a component of shareholders' equity. Realized gains and losses on sale of such securities are computed using the moving-average cost. Available-for-sale securities for which a market value is not available are stated at the moving-average cost.

If the market value of available-for-sale securities declines significantly, such securities are considered to be impaired and the difference between market value and the carrying amount is recognized as a loss in the period of the decline. For available-for-sale securities that do not have readily available market value, if the net book value declines significantly and if such decline is considered to be other than temporary, the difference between the carrying amount and the net book value is recognized as a loss in the period of the decline. Impaired losses on these securities are reported in the consolidated statements of operations.

Of those securities with no fair value, investments in limited partnerships and similar partnerships which are regarded as equivalent to securities by the Article2(2) of Securities Exchange Act in 2004, share of net income of the partnership has been reflected on consolidated statements of operations and share of net unrealized gains and losses held by the partnerships are directly recorded into shareholders' equity.

#### (5) Derivatives used for non-trading purposes

Daiwa SMBC states derivative financial instruments at fair value and recognizes changes in the fair value as gains or losses unless the derivative financial instruments are used for hedging purposes. Interest received or paid on interest swaps for hedging purposes is accrued without being marked-to-market. The premium or discount on forward foreign exchange contracts for hedging purpose is allocated to each fiscal term without being marked-to-market.

#### (6) Collateralized short-term financing agreements

Collateralized short-term financing agreements consist of securities purchased under agreements to resell ("resell transactions") or securities sold under agreements to repurchase ("repurchase transactions"), and securities borrowed or loaned. Repurchase transactions and resell transactions are carried at their contractual amounts. Securities borrowed or loaned are recorded at the amount of cash collateral advanced or received.

#### (7) Provision for doubtful accounts

Provisions for doubtful accounts are provided based on the actual historical default rate for normal loans, and based on individually assessed amounts for doubtful accounts.

#### (8) Property and equipment

Property and equipment are stated at cost. Impairment losses recognized have been deducted from the acquisition costs. The Domestic Companies compute depreciation principally by the declining-balance method over estimated useful lives. Depreciation for buildings purchased in Japan after April 1, 1998 is computed by the straight-line method. In overseas consolidated subsidiaries, depreciation is mainly computed by the straight-line method.

#### (9) Intangible fixed assets

"Intangible fixed assets" are generally amortized under the straight-line method. The Domestic Companies compute depreciation over estimated useful lives and over internally estimated useful lives (5 years) for software of in-house use.

#### (10) Bonuses

Accrued employees' bonuses represent liabilities estimated as of the balance sheets date. Bonuses to directors, which are subject to approval at the shareholders' meeting, are accounted for as an appropriation of "Retained earnings".

#### (11) Retirement benefits for employees

The Domestic Companies principally have the benefit plans for eligible employees such as unfunded plan.

#### (12) Income taxes

"Income taxes" consist of corporation, enterprise and inhabitants taxes. The provision for income taxes is computed based on the pre-tax income of each of Daiwa SMBC with certain tax adjustments, if necessary.

Income tax consequences of amounts that will become taxable or deductible in future years are recorded as deferred tax assets and liabilities, which are generally raised from the difference in value of assets and liabilities for financial reporting and tax accounting. Daiwa SMBC recognizes deferred tax assets to the extent of amounts reasonably expected to be realized in future.

The Company files tax returns on a consolidated basis together with its domestic consolidated subsidiaries.

#### (13) Translation of foreign currencies

The Domestic Companies translate assets and liabilities in foreign currencies into yen at the year-end exchange rate.

#### (14) Translation of foreign currency financial statements

Financial statements of overseas consolidated subsidiaries are translated into yen on the basis of the year-end exchange rates for assets and liabilities except that "Retained earnings" are translated at historical rates. Income and expenses are translated at the average exchange rates of the applicable year. The resulting differences are reported as "Translation adjustments" in shareholders' equity.

#### (15) Net income per share

Net income per share of common stock is based on the average number of common shares outstanding. Diluted net income per share is not presented because the Daiwa SMBC has issued no dilutive potential common shares.

### 3. Margin transactions

Margin transactions at March 31, 2006 and 2005 consisted of the following:

Millions of yen			
	2006		2005
<b>Assets:</b>			
Customer margin loans .....	¥ 3,536	¥	1,844
Cash deposits as collateral for securities borrowed .....	202,400		181,855
	¥ 205,936	¥	183,699
<b>Liabilities:</b>			
Proceeds of securities sold for customers' accounts .....	¥ 176,269	¥	127,198
	¥ 176,269	¥	127,198

Customer margin loans are stated at amounts equal to the purchase amounts of the relevant securities, which are collateralized by customers' securities and customers' deposits. Proceeds of securities sold for customers' accounts are stated at the sales amounts.

### 4. Collateralized short-term financing agreements

Collateralized short-term financing agreements at March 31, 2006 and 2005 consisted of the followings:

		Millions of yen	
		2006	2005
<b>Assets:</b>			
Securities purchased under agreements to resell .....	¥	822,098	¥ 434,519
Securities borrowed .....		3,779,613	3,503,230
	¥	4,601,711	¥ 3,937,749
<b>Liabilities:</b>			
Securities sold under agreements to repurchase .....	¥	1,133,971	¥ 782,780
Securities loaned .....		1,791,074	1,625,444
	¥	2,925,045	¥ 2,408,224

## 5. Trading assets and trading liabilities

Trading assets and trading liabilities at March 31, 2006 and 2005 consisted of the following:

		Millions of yen	
		2006	2005
<b>Trading assets:</b>			
Equities .....	¥	357,261	¥ 298,441
Government, corporate and other bonds .....		3,804,808	4,066,694
Investment trust .....		95,114	129,931
Commercial paper, certificates of deposits and others .....		18,635	40,289
Option transactions .....		906,482	44,250
Futures and forward transactions .....		156,830	15,880
Swap agreements .....		607,398	488,670
Other derivatives .....		1,127	658
Credit reserves .....		(2,711)	(1,898)
	¥	5,944,944	¥ 5,082,915
<b>Trading liabilities:</b>			
Equities .....	¥	84,622	¥ 80,852
Government, corporate and other bonds .....		3,142,832	3,032,070
Investment trust .....		5,471	3,316
Option transactions .....		1,007,342	68,757
Futures and forward transactions .....		67,217	13,153
Swap agreements .....		481,451	378,465
Other derivatives .....		1,148	384
	¥	4,790,083	¥ 3,576,997

Government, corporate and other bonds include convertible bonds.

## 6. Investment securities, and private equity and other securities

Cost and market value of available-for-sale securities as of March 31, 2006 and 2005 consisted of the following:

		Millions of yen		
		Cost	Market value	Difference
<b>March 31, 2006:</b>				
Equities .....	¥	18,539	¥ 37,010	¥ 18,471
<b>March 31, 2005:</b>				
Equities .....	¥	19,227	¥ 33,591	¥ 14,364

Securities for which a market value was not readily available as of March 31, 2006 and 2005 consisted of the following:

		Millions of yen	
		2006	2005
Equities .....	¥	205,753	¥ 19,162
Investments in partnerships .....		94,926	60,696
Non-consolidated and affiliated companies .....		3,393	3,096
Other .....		3,799	13
	¥	307,871	¥ 82,967

## 7. Derivatives used for non-trading purposes

Net unrealized gains(losses) of derivatives for non-trading purposes at March 31, 2006 and 2005 (excluding hedging transactions) consisted of the following:

		Millions of yen		
		Contract amount	Market value	Unrealized gains (losses)
<b>March 31, 2006:</b>				
Currency swap .....	¥	11,289	¥ 17	¥ 17
Foreign exchange contracts .....		210	1	1
<b>March 31, 2005:</b>				
Currency swap .....	¥	11,237	¥ 1	¥ 1
Foreign exchange contracts .....		52	(0)	(0)

## 8. Risk management information concerning trading transactions

The Company enters into transactions involving trading assets and liabilities to meet customer needs, and for their proprietary trading activities, as a broker and an end-user. These trading assets and liabilities include (1) shares and bonds, (2) financial derivatives traded on exchanges such as futures and options based on stock price indices, bonds and interest rates, and (3) financial derivatives traded over the counter such as currency and interest rate swaps, foreign exchange forward contracts, bonds with options, currency options, forward rate agreements and OTC equity derivatives.

The principal risks inherent in trading in these markets are market risk and credit risk. Market risk represents the potential for loss from changes in the value of financial instruments due to price and interest rate fluctuations in the markets. As to market risk, the Company determines the balance of risk and profit or loss on each instrument and uses a value-at-risk method to manage this risk. Credit risk represents the potential for loss arising from the failure of the counter-party in a transaction to fulfill its terms and conditions. The Company assesses the credit risk of their counter-parties applying internal credit rating and monitor their exposure by measuring notional principal and credit exposure.

The Company has established five risk management policies: Active management participation, system of internal supervision, sound management by risk limit setting, risk management assuming emergency, and transparency in risk management process. By ensuring these five policies, the Company expects that risks associated with trading activities are well controlled within a range of risk that the management is willing to assume.



## 9. Pledged assets

At March 31, 2006, the short-term borrowings amounting to ¥1,045,300 million were secured by the following assets:

	Millions of yen
Trading assets .....	¥ 998,676
Loans receivable .....	42,633
Other assets .....	3,457
	¥ 1,044,766

In addition to above, securities borrowed amounting to ¥472,656 million were pledged as guarantee at March 31, 2006.

Total fair value of the securities pledged as collateral at March 31, 2006 consisted of the following:

	Millions of yen
Securities loaned .....	¥ 2,356,730
Other .....	1,171,212
	¥ 3,527,942

Total fair value of the securities received as collateral at March 31, 2006 consisted of the following:

	Millions of yen
Securities borrowed .....	¥ 4,962,325
Other .....	824,962
	¥ 5,787,287

## 10. The Company's transactions with related parties

The information on the Company's material transactions with its related companies and individuals for the year ended March 31, 2006 and the resulting account balances with such related parties at such balance sheet date were as follows:

Name of related company	Paid-in capital (Millions)	Percentage of equity ownership by the related company	Description of transactions (Millions of yen) 2006	Account balances (Millions of yen) 2006
Daiwa securities Group Inc.(DSGI)	¥138,828	60.0%	Decrease in short-term debt (subordinated loan) 30,000	Short-term borrowings (subordinated loan) 30,000
			Decrease in long-term debt (subordinated loan) 12,000	Long-term debt (subordinated loan) 78,000
			Interest expense 1,293	
Daiwa Securities Co.Ltd.	¥100,000	(DSGI subsidiary)	Selling, general and administrative expenses 40,824	Other liabilities 3,079
Daiwa Securities America Inc.	\$100	(DSGI subsidiary)	Continual transactions of collateralized short-term financing agreements	Collateralized short-term financing agreements(assets) 391,244
			Interest and dividend income 2,745	Collateralized short-term financing agreements (liabilities) 345,453
			Interest expense 7,962	
Sumitomo Mitsui Banking Corporation	¥664,986	(Sumitomo Mitsui Financial Group Inc. subsidiary)	Increase in long-term debt (subordinated loan) 52,000	Short-term borrowings(subordinated loan) 20,000
			Interest expense 843	Long-term debt(subordinated loan) 52,000
			Continual transactions of collateralized short-term financing agreements	Collateralized short-term financing agreements (assets) 195,407
			Interest and dividend income 5,667	Collateralized short-term financing agreements(liabilities) 28,690
			Interest expense 42	

## 11. Lease transactions

Financial leases, whose ownership does not transfer to the lessee at the end of the lease term ("non-capitalized finance leases") are not capitalized and are accounted for in the same manner as operating leases. Certain information concerning such non-capitalized finance leases and operating leases at March 31, 2006 and 2005 are summarized as follows:

	Millions of yen	
	2006	2005
<b>Non-capitalized finance leases:</b>		
Total assets under non-capitalized finance leases .....	¥ 382	¥ 356
Accumulated depreciation .....	184	159
Future lease payments in respect of non-capitalized leases ...	200	200
Due within one year .....	79	71
<b>Operating leases:</b>		
Future lease payments in respect of operating leases .....	5,763	6,384
Due within one year .....	1,222	1,183

## 12. Payables to customers and counterparties

Payables to customers and counterparties at March 31, 2006 and 2005 consisted of the following:

	Millions of yen	
	2006	2005
Cash received for customers' accounts .....	¥ 22,971	¥ 18,590
Cash deposits received from customers .....	26,328	22,000
Other .....	4,084	22,898
	¥ 53,383	¥ 63,488

## 13. Long-term debt

Long-term debt at March 31, 2006 and 2005 consisted of the following:

	Millions of yen	
	2006	2005
Medium-term notes		
with various rates and maturities through 2036.....	¥ 660,759	¥ 564,529
Subordinated loans with maturities through 2011 .....	162,005	111,998
Borrowings .....	5,000	—
	¥ 827,764	¥ 676,527

The aggregate annual maturities of long-term debt as of March 31, 2006 were as follows:

Year ending March 31	Millions of yen
2007 .....	¥ 79,606
2008 .....	67,532
2009 .....	11,548
2010 .....	1,983
2011 .....	29,524
2012 and thereafter .....	637,571
	¥ 827,764

## 14. Retirement benefits

### (1) Retirement benefits for employees

The Domestic Companies provide an unfunded defined contribution plan for eligible employees, which defines the amount to be contributed to the individual employee's account in return for services rendered each year.

The contributions under this plan are accumulated on an annual basis and earn a guaranteed hypothetical return at a rate predetermined by the Domestic Companies each year.

Accumulated contribution plus interest to this unfunded plan are included in retirement benefits in the consolidated balance sheets as of March 31, 2006 and 2005, in the amount of ¥4,233 million and ¥4,035 million. Benefit expenses recorded for the years ended March 31, 2006 and 2005 were ¥1,894 million and ¥1,669 million.

### (2) Retirement benefits for directors

Directors' retirement benefits of ¥76 million and ¥475 million were included in "Retirement benefits" in the accompanying consolidated balance sheets as of March 31, 2006 and 2005. Benefit expenses recorded for the years ended March 31, 2006 and 2005 were ¥25 million and ¥175 million.

The board of the Company resolved to abolish the retirement gratuities system for retiring directors in March 2005. In June 2005, the shareholders' meeting of the Company approved the payments of retirement allowance to directors who were nominated for re-election. The payments will be made in accordance with standards prescribed by the Company and service rendered to the Company during their respective terms of office up to the end of the shareholders' meeting. The payments will be made at the time of their respective retirements from the Board of Directors. In consequence, the Company's directors' retirement benefits of ¥230 million were reclassified from "Retirement benefits" to "Accrued and other liabilities:Other" in the accompanying consolidated balance sheet as of March 31, 2006.

## 15. Income taxes

Japanese statutory income tax rate was approximately 40.7% for the years ended March 31, 2006 and 2005.

Overseas consolidated subsidiaries are subject to income taxes of the countries in which they operate.

Details of deferred tax assets and liabilities at March 31, 2006 and 2005 were as follows:

	Millions of yen	
	2006	2005
<b>Deferred tax assets:</b>		
Net operating losses carried-forward .....	¥ 7,011	¥ 10,015
Employees' retirement benefits .....	1,822	1,824
Employees' compensation and bonuses .....	3,439	1,984
Accrued enterprise tax .....	4,394	329
Other .....	7,902	8,556
Gross deferred tax assets .....	24,568	22,708
Less: Valuation allowance .....	(5,157)	(11,547)
Total deferred tax assets .....	19,411	11,161
<b>Deferred tax liabilities</b> .....	(11,596)	(8,120)
<b>Net deferred tax assets</b> .....	¥ 7,815	¥ 3,041

Daiwa SMBC recorded a valuation allowance to reflect the estimated amount of gross deferred tax assets that will not be realized.

A reconciliation of the difference between Japanese statutory income tax rate and the effective income tax rate reflected in the accompanying consolidated statements of operations for the fiscal years ended March 31, 2006 and 2005 were as follows:

	2006	2005
Japanese statutory income tax rate .....	40.7%	40.7%
Valuation allowance .....	(4.3)	(2.1)
Permanent difference (Non-deductible) .....	0.4	0.9
Permanent difference (Non-taxable) .....	(0.5)	(0.6)
Lower tax rate applicable to income of overseas subsidiaries .....	(1.2)	(1.1)
Other, net .....	0.9	(0.6)
Effective income tax rate .....	36.0%	37.2%

## 16. Statutory reserves

The Securities and Exchange Law of Japan requires a securities company to set aside a reserve in proportion to its securities transactions and other related trading to cover possible customer losses incurred by default of the securities company on securities transactions.



## 17. Contingent liabilities

The outstanding balance of the guarantees obligated by the Daiwa SMBC was ¥364 million at March 31, 2006, arising as guarantors of employees' borrowings.

## 18. Shareholders' equity

In principle, the Commercial Code of Japan ("Code") requires a company to credit entire amount of issued shares to common stock (and preferred stock, if any); however, a company may classify the amount not exceeding one-half of the entire issued amount of shares as additional paid-in capital, which is included in capital surplus with a resolution of the Board of Directors.

According to the Code, a company should save 10% of cash dividends and other cash appropriated as legal earnings reserve until its amount together with capital surplus become up to one quarter of common stock (and preferred stock, if any). The legal earnings reserve is allowed to eliminate or reduce a deficit with a resolution of the shareholders' meeting or may be capitalized with a resolution of the Board of Directors. The excess amount of the legal earnings reserve of one quarter of capital requirement is available for appropriation with a resolution of shareholders' meeting. The legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheet.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with the Code. The total amount of retained earnings available for dividends in the Company's statutory book of account as of March 31, 2006 amounted to ¥30,388 million.

## 19. Segment information

Daiwa SMBC operates predominantly in a single industry segment. The Daiwa SMBC's primary business activities include

- (1) trading in securities and derivatives
- (2) brokerage of securities and derivatives
- (3) underwriting and distribution of securities
- (4) other business related to securities transactions
- (5) private offering of securities

A summary of revenues by geographic area for the fiscal years ended March 31, 2006 and 2005 and a summary of total assets by geographic area at March 31, 2006 and 2005 were as follows:

	Millions of yen				
	Japan	Europe	Asia, Oceania & other	Elimination or unallocated	Consolidated
<b>Year ended March 31, 2006:</b>					
Net operating revenues:					
Outside customer .....	¥ 284,857	¥ 16,125	¥ 10,587	¥ —	¥ 311,569
Inter-segment .....	(3,541)	12,429	1,550	(10,438)	—
Total .....	281,316	28,554	12,137	(10,438)	311,569
Selling, general and administrative expenses .....	154,078	19,787	8,479	(10,438)	171,906
Operating income .....	¥ 127,238	¥ 8,767	¥ 3,658	¥ 0	¥ 139,663
<b>At March 31, 2006:</b>					
Total assets by geographic area	¥ 10,888,047	¥ 1,134,703	¥ 79,006	¥ (576,842)	¥ 11,524,914

	Millions of yen				
	Japan	Europe	Asia, Oceania & other	Elimination or unallocated	Consolidated
<b>Year ended March 31, 2005:</b>					
Net operating revenues:					
Outside customer .....	¥ 195,150	¥ 19,984	¥ 7,256	¥ —	¥ 222,390
Inter-segment .....	1,160	5,461	1,361	(7,982)	—
Total .....	196,310	25,445	8,617	(7,982)	222,390
Selling, general and administrative expenses .....	119,521	20,503	6,789	(7,982)	138,831
Operating income .....	¥ 76,789	¥ 4,942	¥ 1,828	¥ 0	¥ 83,559

### At March 31, 2005:

Total assets by geographic area	¥ 9,074,024	¥ 766,264	¥ 62,565	¥ (227,472)	¥ 9,675,381
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Geographic overseas revenues for the fiscal year ended March 31, 2006 and 2005 were as follows:

	Millions of yen			
	America	Europe	Asia & Oceania	Total
<b>Year ended March 31, 2006:</b>				
Overseas revenue(loss) .....	¥ (5,069)	¥ 14,928	¥ 10,940	¥ 20,799
Net operating revenues .....				311,569
% of Net operating revenues .....	(1.6)%	4.8%	3.5%	6.7%

	Millions of yen			
	America	Europe	Asia & Oceania	Total
<b>Year ended March 31, 2005:</b>				
Overseas revenue(loss) .....	¥ (2,511)	¥ 15,771	¥ 9,019	¥ 22,279
Net operating revenues .....				222,390
% of Net operating revenues .....	(1.1)%	7.1%	4.1%	10.0%

## 20. Commissions

Commissions derived from each department for the fiscal years ended March 31, 2006 and 2005 were as follows:

	Millions of yen					
	Equity	Fixed income (Bond)	Investment trust	Investment banking	Others	Total
<b>Year ended March 31, 2006:</b>						
Brokerage .....	¥ 23,019	¥ 471	¥ 103	¥ —	¥ —	¥ 23,593
Underwriting .....	—	—	—	64,544	—	64,544
Distribution .....	—	—	907	472	—	1,379
Other .....	356	1,634	1,498	16,218	2,077	21,783
	¥ 23,375	¥ 2,105	¥ 2,508	¥ 81,234	¥ 2,077	¥ 111,299

		Millions of yen					
		Equity	Fixed income (Bond)	Investment trust	Investment banking	Others	Total
<b>Year ended March 31, 2005:</b>							
Brokerage .....	¥	16,968	¥ 655	¥ 65	¥ —	¥ —	¥ 17,688
Underwriting .....		—	—	—	54,456	—	54,456
Distribution .....		—	—	714	300	—	1,014
Other .....		315	2,050	1,305	12,787	2,118	18,575
	¥	17,283	¥ 2,705	¥ 2,084	¥ 67,543	¥ 2,118	¥ 91,733

## 21. Net gains on trading

Breakdown of net gains on trading for the fiscal years ended March 31, 2006 and 2005 were as follows:

		Millions of yen	
		2006	2005
Stock and other .....	¥	111,117	¥ 50,537
Bond, <b>forex</b> and other .....		64,414	67,767
Bond and other .....		27,979	48,965
Forex and other .....		36,435	18,802
	¥	175,531	¥ 118,304

## 22. Selling, general and administrative expenses

Major components of selling, general and administrative expenses for the fiscal years ended March 31, 2006 and 2005 were summarized as follows:

		Millions of yen	
		2006	2005
Employees' compensation and benefits .....	¥	46,820	¥ 39,858
Commissions and brokerage .....		65,259	43,252
Communications .....		5,812	5,449
Occupancy and rental .....		13,702	12,636
Data processing and office supplies .....		17,004	16,368
Taxes other than income taxes .....		4,774	3,805
Depreciation and amortization .....		12,184	12,327
Other .....		6,351	5,136
	¥	171,906	¥ 138,831

## 23. Other income(expenses)

Details of "Other, net" in the accompanying consolidated statements of operations for the fiscal years ended March 31, 2006 and 2005 were as follows:

		Millions of yen	
		2006	2005
Gains on sales of investment securities .....	¥	3,565	¥ 2,107
Write-down of investment securities .....		(378)	(160)
Valuation losses on fixed assets .....		(14)	(77)
Losses on sale or disposal of fixed assets .....		—	(544)
Contribution to Securities Market Infrastructure Improvement Fund .....		(200)	—
Other .....		1,919	1,617
	¥	4,892	¥ 2,943

## 24. Subsequent events

### (1) Appropriation of retained earnings

Under the Commercial Code of Japan, a plan for appropriation of retained earnings proposed by the Board of Directors must be approved at a shareholders' meeting to be held within three months after the end of the fiscal year. Cash dividends (¥9,000,000 per share) amounting to ¥28,800 million were approved by the shareholders' meeting held on June 23, 2006, as the appropriation of retained earnings for the year ended March 31, 2006.

### (2) Capital enhancement thorough share issue

The allocation of new shares to shareholders, which will be utilized for operating capital of the Company, was approved by the Board of Directors of the Company on April 27, 2006 as follows:

Number of stock issued:	600 shares
Issue price:	¥167 million per share
Amount to record as share capital:	¥50,100 million
Share proceeds:	¥100,200 million
Payment date:	May 31, 2006 (Wednesday)
Placement method:	Allocation to the following shareholders:
Daiwa Securities Group Inc	360 shares
Sumitomo Mitsui Financial Group, Inc.	240 shares

### (3) Subordinated borrowings

The financing plan of subordinated borrowing was approved by the Board of Directors of the Company on April 27, 2006, and the proceeds were received on May 19, 2006 as follows:

Lender	Principal amount
Daiwa Securities Group Inc.	¥30,000 million
Sumitomo Mitsui Banking Corporation	¥20,000 million



DAIWA SECURITIES SMBC Co. Ltd.  
March 31, 2006 and 2005



To the Shareholders and Board of Directors of Daiwa Securities SMBC Co. Ltd.:

We have audited the accompanying consolidated balance sheets of Daiwa Securities SMBC Co. Ltd. and consolidated subsidiaries as of March 31, 2006 and 2005, and the related consolidated statements of operations, shareholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Daiwa Securities SMBC Co. Ltd. and subsidiaries as of March 31, 2006 and 2005, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in Japan.

Without qualifying our opinion, we draw attention to the following. As discussed in Note 24 to the consolidated financial statements, on April 27, 2006, the Board of Directors of Daiwa Securities Co., Ltd. approved the allocation of new shares to shareholders and the financing plan of subordinated borrowings.

KPMG AZSA & Co.

Tokyo, Japan  
June 23, 2006

### (1) Balance Sheets

ASSETS	Millions of yen		LIABILITIES	Millions of yen	
	2006	2005		2006	2005
<b>Current assets:</b>	<b>¥10,658,663</b>	¥ 8,932,207	<b>Current liabilities:</b>	<b>¥ 9,543,458</b>	¥ 7,962,726
Cash and deposits	71,980	58,900	Trading liabilities:	4,622,071	3,310,902
Cash segregated as deposits for regulatory purposes	75,165	20,050	Trading securities and others	3,066,728	2,850,464
Trading assets:	5,686,385	4,771,070	Derivative liabilities	1,555,342	460,437
Trading securities and others	4,018,917	4,224,157	Trading payables, net	195,318	—
Derivative assets	1,667,467	546,913	Payables related to margin transactions:	176,268	127,198
Trading receivables, net	—	42,064	Proceeds of securities sold for clients' accounts	176,268	127,198
Receivables related to margin transactions:	205,935	183,698	Collateralized short-term financing agreements:	2,632,402	2,170,275
Customers margin loans	3,535	1,843	Cash deposits as collateral for securities loaned	1,760,389	1,626,237
Cash deposits as collateral for securities borrowed	202,399	181,855	Payables related to gensaki transactions	872,013	544,037
Collateralized short-term financing agreements:	4,303,263	3,697,303	Deposits received	18,891	8,148
Cash deposits as collateral for securities borrowed	3,738,214	3,498,225	Cash deposits received as guarantee	22,139	17,607
Receivables related to gensaki transactions	565,049	199,078	Short-term borrowings	1,466,299	2,098,647
Short-term guarantee money deposited	30,809	12,300	Commercial paper	234,210	175,220
Short-term loans receivable	242,753	126,346	Medium-term notes due within one year	79,606	27,397
Accrued income	9,827	5,920	Accrued expenses	14,589	8,862
Deferred tax assets-current	7,520	2,076	Income tax payable	55,013	5,617
Other current assets	25,268	12,514	Other current liabilities	26,649	12,849
Less: Allowance for doubtful accounts - current	(248)	(40)	<b>Non-current liabilities:</b>	<b>750,822</b>	651,748
<b>Non-current assets:</b>	<b>106,517</b>	107,024	Medium-term notes	581,153	537,131
Tangible fixed assets	3,836	4,342	Long-term debt	165,000	110,000
Intangible fixed assets	29,275	29,344	Retirement benefits	4,194	4,009
Investments and others	73,405	73,337	Other non-current liabilities	474	607
Investment securities	62,698	60,838	Statutory reserves:	5,177	4,351
Long-term loans receivable	2,577	2,207	Reserve for securities transaction liabilities	5,177	4,351
Long-term guarantee deposits	5,062	5,236	Reserve for financial futures transaction liabilities	0	0
Deferred tax assets-non-current	1,072	2,898	<b>Total liabilities</b>	<b>¥10,299,459</b>	¥ 8,618,826
Other investments	2,501	2,725	<b>SHAREHOLDERS' EQUITY</b>		
Less: Allowance for doubtful accounts - non-current	(507)	(569)	<b>Common stock</b>	<b>¥ 205,600</b>	¥ 205,600
			Capital surplus	117,321	117,321
			<b>Additional paid-in capital</b>	<b>117,321</b>	117,321
			<b>Retained earnings</b>	<b>140,849</b>	95,067
			Earned surplus reserve	—	5,141
			Voluntary reserve	39,381	39,752
			Special reserve	38,000	38,000
			Special depreciation reserve	1,381	1,752
			Unappropriated retained earnings	101,468	50,173
			<b>Net unrealized gain (loss) on securities, net of tax effect</b>	<b>1,951</b>	2,416
			<b>Total shareholders' equity</b>	<b>465,721</b>	420,404
			<b>Total liabilities and shareholders' equity</b>	<b>¥10,765,181</b>	¥ 9,039,231
<b>Total assets</b>	<b>¥10,765,181</b>	¥ 9,039,231			

# NON-CONSOLIDATED REFERENCE DATA

DAIWA SECURITIES SMBC Co. Ltd.  
Years ended March 31, 2006 and 2005

## (2) Statements of operations

	Millions of yen	
	2006	2005
<b>Operating revenues:</b> .....	¥ 292,446	¥ 203,609
Commissions .....	102,488	80,288
Net gain (loss) on trading .....	160,488	105,927
Interest and dividend income .....	29,470	17,392
<b>Interest expenses</b> .....	25,997	18,235
<b>Net operating revenues</b> .....	266,449	185,373
<b>Selling, general and administrative expenses:</b> .....	152,975	118,239
Commission and other expenses .....	78,731	51,132
Employees' compensation and benefits .....	30,928	25,954
Occupancy and rental .....	11,119	10,433
Data processing and office supplies .....	15,713	14,933
Depreciation expenses .....	11,191	11,448
Taxes other than income taxes .....	3,329	2,794
Others .....	1,961	1,543
<b>Operating income</b> .....	113,473	67,133
Non-operating income .....	3,078	6,827
Non-operating expenses .....	372	179
<b>Ordinary income</b> .....	116,180	73,781
Extraordinary gains .....	3,568	2,083
Extraordinary losses .....	1,422	1,131
<b>Income before income taxes</b> .....	118,325	74,734
Income taxes - current .....	53,007	2,350
Income taxes - deferred .....	(3,298)	25,868
<b>Net income</b> .....	68,616	46,514
<b>Unappropriated retained earnings - carryforward</b> .....	32,851	3,658
<b>Unappropriated retained earnings</b> .....	¥ 101,468	¥ 50,173

For further inquiries regarding the contents

**TEL 81-(0)3-5533-7040**

Daiwa Securities SMBC  
Corporate Planning Dept.