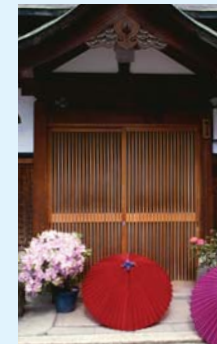


FACT BOOK 2007

For the Fiscal Year Ended March 31, 2007



Daiwa Securities SMBC Co.Ltd.



(This document is printed with 100% recycled paper using vegetable-based soy ink.)

Daiwa Securities
SMBC



An Institution in Japan. At Home in Asia. A Door to the World.

Contents

Greetings : 2

Financial Highlights : 4

Mid-Term Management Plan : 5

Daiwa Securities SMBC At a Glance : 6

Message from the President : 8

Business Overview : 12

Performance in FY2006 : 14

Our Strength : 18

Highlight : 28

Business Network : 30

Global Network : 31

Corporate Information : 32

Organization : 33

Management and Operating System : 34

Financial Section : 51

Daiwa Securities SMBC, a joint venture between Daiwa Securities Group and Sumitomo Mitsui Financial Group, was formed as Japan’s first wholesale investment bank. Many more “Firsts” and “NO. 1’s” have followed as the scope of our business has expanded to encompass a comprehensive range of financial products, IPOs, M&A and other advisory services, structured finance and principal finance. Today, for clients around the world, Daiwa SMBC is a door to the rest of the world.

- House of the Year
- Straight Bond Debut Deal of the Year
- Samurai Bond House of the Year
- Samurai Bond Deal of the Year
- IPO of the Year

- Best M&A House
- Best Securitisation House
- Best IPO
- Best Samurai Bond

- Yen Bond House

- Best M&A Deal
- Best IPO

- Deal of the Year—JAPAN
- Deal of the Year—ROMANIA

- Best Lead Manager of Yen Bonds
- Best Yen Deal

- Debt House of the Year
- M&A House of the Year
- Best IPO House
- Best Samurai Bond House



Deputy President
Shuntaro Higashi

President
Shin Yoshidome

Senior Managing Director
Ikuo Mori

Aiming to be the No.1 Investment Bank to Remain Our Clients' No. 1 Business Partner

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.

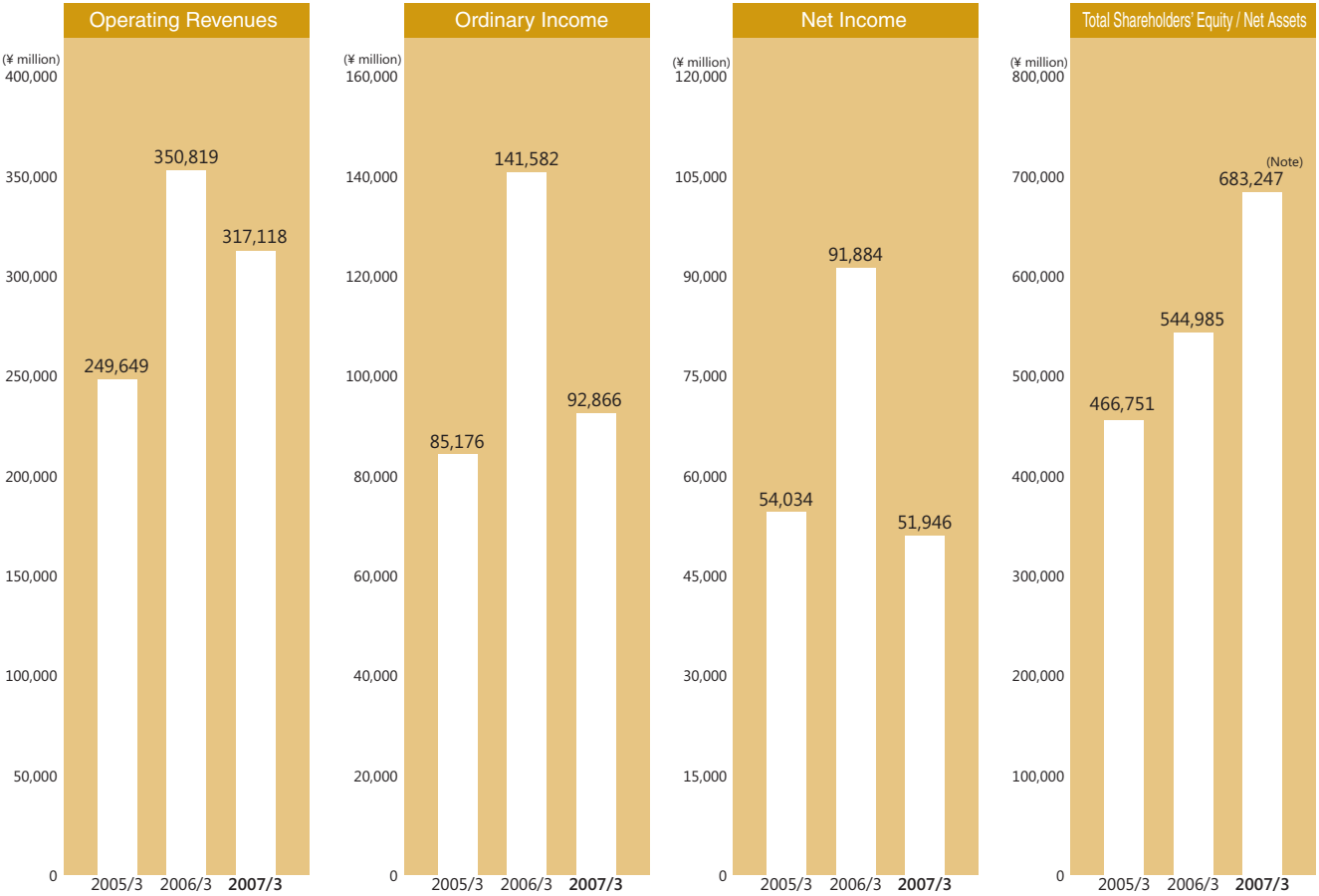


Financial Highlights (Consolidated)

DAIWA SECURITIES SMBC Co. LTD.
Years ended March 31, 2005 to 2007

	Millions of yen		
	2005/3	2006/3	2007/3
Operating Performance			
Operating revenues	249,649	350,819	317,118
Net operating revenues	222,390	311,569	260,700
Operating income	83,559	139,663	90,907
Ordinary income	85,176	141,582	92,866
Income before income taxes and minority interests	86,133	143,729	86,678
Net income	54,034	91,884	51,946
Balance Sheet (Fiscal-year end)			
Total assets	9,675,381	11,524,914	10,448,649
Total shareholders' equity	466,751	544,985	—
Net assets (Note)	—	—	683,247
Paid-in capital	205,600	205,600	255,700
Financial Ratios			
Return on equity [ROE] (%)	12.4	18.2	8.5
Equity ratio (%)	4.8	4.7	6.5

Note: The figure for net assets is determined using a post-transition method of calculation based on application of Accounting Standards for Presentation of the Net Assets Section of the Balance Sheet, etc.



Mid-Term Management Plan



Daiwa Securities Group's Mid-term Management Plan

"Passion for the Best" 2008

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

Management Vision

“Japan’s best investment bank” that is built upon the trust of 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 Mid-term Management Plan - Basic Strategy

①Increase 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

②Secure 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)

③Areas to strengthen

Fundamental reinforcement of trading and principal investment business.

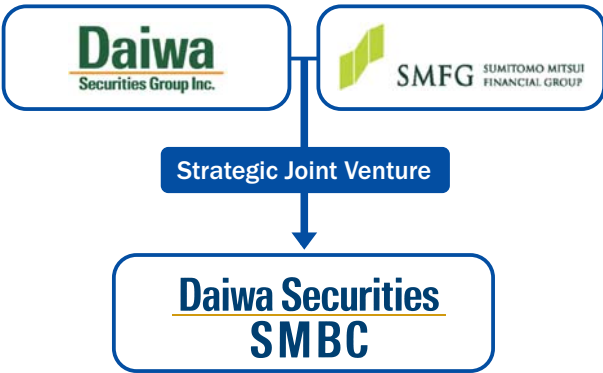


Strategic Joint Venture

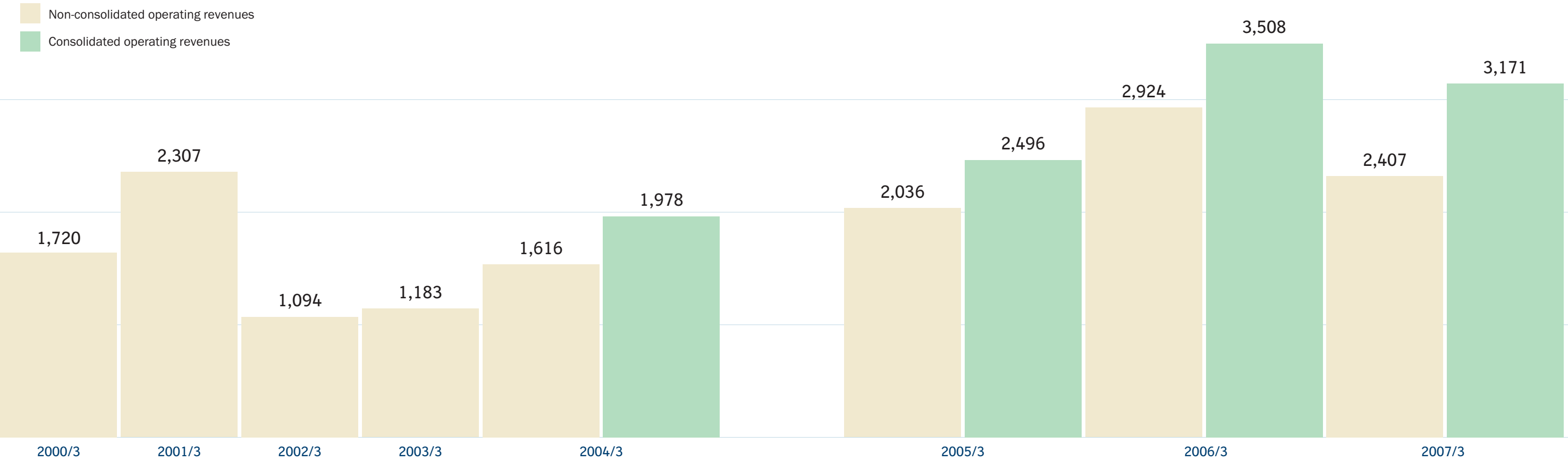
A strategic joint venture based on a strategic alliance

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 track record 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. From the fiscal year ended March 2007 onward, guided by our mid-term management plan, our goal is to become Japan's best investment bank in the eyes of our clients.



■ Operating revenues (100 million yen)



“A” Ratings

Achieving even higher ratings

Daiwa Securities SMBC has attained A ratings from the following major rating agencies (as of August 31, 2007). The company's ratings have risen to a high level 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 August 31, 2007)
Moody's	A1 (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, debt, M&A, structured finance, and others.

Very recently, we have become the top ranking house in the league tables for a variety of sectors, including all bonds in yen, Samurai bonds, IPOs, and M&A. In addition, we have also won the House of the Year award from THOMSON DealWatch (For details, please refer to p. 14 - p. 17).

Message from the President

The Best Solution that Accurately Addresses Changes in Clients at Home and Abroad Through Sophisticated and

President

**Shin
Yoshidome**



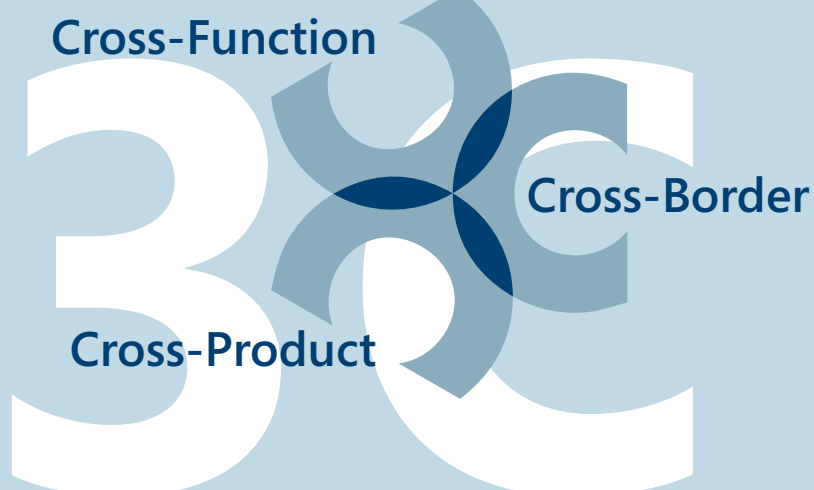
On Assuming the Position of President

Effective April 2007, I have assumed the position of president of Daiwa Securities SMBC, taking over the steering wheel of the Daiwa Securities SMBC Group.

As the new president, the corporate image I will be aiming for is a company in which all employees have both an awareness of risk and a sense of ethics. I believe having employees consider and execute their work and actions from the point of view of management—and having such a corporate culture and work environment deeply engrained within the company—is the criterion for becoming a strong company. For that purpose, the thinking and intent of management must penetrate to all corners of our organization. At the same time, we have to have an “open organization” so that opinions that arise in the workplace can be conveyed to the management team. Management and employees must constantly be aware of and act on what needs to be done next to maintain the sustainability of the company. Based on this awareness, we can integrate our forces along the same vector and achieve great results. I am deeply confident that if the desire to achieve maximum results for clients based on a clear sense of ethics spreads to each and every employee, it must result in an enhancement of Daiwa Securities SMBC’s brand image and lead to strong performances.

the Business Environment—Provided to A Wide Range of Principled Marketing Well-Rooted in Business Ethics

* Key management words for the fiscal year ending March 2008



Using the “3Cs” to Respond to Changes in the Business Environment

As you know, in recent years there have been substantial changes arising in the securities industry.

In the investment banking field, along with the heightened investment needs of corporations, the importance of being able to put together comprehensive deals, including cross border M&A, has become increasingly important. The brokerage field has seen the emergence of new types of products, such as the so-called alternative or hybrid investments. A look at the different types of investors shows that the presence of foreign investors through hedge funds has particularly grown in significance. On the other hand, in the principal investment field, a core business that has continued to grow sharply, the issue of just how much you can increase the value of the investment has become an even more dominant factor.

I have decided that, going forward, if we are to address these movements in the market, it will be essential for us to build a new structure for our businesses that goes beyond our traditional categories.

With that in mind, our company has made the “3Cs” of Cross-Function, Cross-Product, and Cross-Border, the key management words for the fiscal year ending March 2008. Cross-Function signifies the fusion of the different capabilities, with divisions and departments collaborating to develop business. Cross-Products stands for the integration of different products in response to the growing market share of new types of investment. Finally, Cross-Border represents our determination to expand our overseas business, particularly in Asia.

By implementing these “3Cs,” we intend to create new business through a combination of advanced expertise and extended coverage.

Message from the President

Daiwa Securities SMBC's Strengths

Daiwa Securities SMBC's greatest strength is the fact that it is a joint venture between a major securities company and a mega bank, the first instance of such a business model in Japan. This structure has made it possible to develop business by leveraging the expansive client bases of the Daiwa Securities Group and the Sumitomo Mitsui Financial Group. Daiwa Securities has always used the historical strength of its international division and its superior product development capabilities to powerful advantage. Having succeeded to this tradition, since the start of business in 1999, Daiwa Securities SMBC has applied this power to the solid business base received from its joint venture partners to further develop its capabilities.

Going forward in a business environment in which the "3Cs" will be important key words, our company will further accelerate our growth momentum and seek to accurately respond to client needs.

Priority Issues Ahead

In future, we will respond to or anticipate changes in our business fields, implementing the "3Cs." By developing new business based on our strong planning and proposal capabilities and our sophisticated and principled marketing, we will pursue sound and creative business development. Heading toward our targeted destination, we will be focusing particularly on the following five business themes.

① Reinforcing Asian Business

Along with the growth of Asian economies, Asian securities markets are steadily expanding. In the fiscal year ending March 2008, we will begin our efforts to fundamentally strengthen our Asian business by concentrating mainly on Hong Kong, Singapore, and mainland China.

Organizationally, we have already strengthened our structure by increasing the number of directors in charge of Asia from the traditional one to two. We also have increased our Asia regional staff by about 100 people compared with three years ago.

We plan to expand our business in Asia in a wide range of fields, including equities, bonds, and other financial products and cross-border M&A. I would like to see Daiwa Securities SMBC establish itself as a leading investment bank in Asia.

② Strengthening M&A Operations

There has been steady growth in the number of M&A deals involving Japanese companies both in Japan and abroad. In future, we expect that the number of large-scale cross-border, strategic M&A, and management buyout (MBO) deals will increase in particular. In view of these changes in the business environment, we plan to further strengthen the organizations related to our M&A and advisory businesses. We will take steps to revise our organizations and increase and strengthen our staff, including the establishment of a Corporate Alliance Strategy Department, consisting of a team of experts capable of providing a more advanced level of professional skills necessary for planning and closing deals.

We already have had some success in this field, winning a variety of M&A awards. We topped Dealogic's M&A: Advisory Rankings 2006 covering calendar 2006 in total deal amount on both a public and completed deal basis.

The M&A business is an extremely creative field—it is essential to keep up with what our rivals are doing. Closely watching trends in M&A markets in Japan and overseas, we will continue to analyze corporate needs from every angle and be creative in planning deals.

③ Boosting PO and IPO efforts

In the equities business, the core of our securities business, it is especially necessary to demonstrate advanced proposal capabilities and sophisticated and principled marketing. As a company, we intend to provide the best solutions based on building a close relationship with our clients. With IPOs in particular, we will continue to supply prominent unlisted companies with highly perfected consulting services underpinned by our industry-leading record.

④ Building Trading Income

Trading in such financial products as commodities is drawing attention as a new opportunity to increase trading income as well as such credit-related products as structured products. In line with these trends, we have centralized our product planning functions, which previously had been separated into the equity, fixed income, and product division planning departments, into the Global Products Planning Department. Based on this new department, we have built a system that enables us to pursue horizontal planning and strategies. We implemented this reorganization to achieve a desired fusion of business strategies related to equities and fixed income and it represents a Cross-Product measure under our "3Cs" program.

⑤ Strengthening Ties with Regional Financial Institutions and Public Institutions

Regional financial and public institutions will face a dramatic change in their business environment over the next few years as regulatory liberalization progresses. Following the effective deregulation of the bank agency services system in December 2005, the full deregulation of insurance agency sales is scheduled for December 2007. In addition, the management of regional financial and public institutions will enter a period of revolutionary change due to the successive changes in the regulatory environment during the period from 2007 to 2008. Beginning with the enforcement of the new Corporation Law of Japan in May 2006, many changes will occur in the environment following the introduction of new Bank for International Settlements (BIS) capital adequacy requirements, the privatization of Japan Post's financial services, and the introduction of the J-SOX Law to improve accounting methods and investor protection. To address these anticipated changes, we have established a Regional Financial Institution Department and reorganized our Public Institutions Department to be able to offer these regional financial and public institutions total solutions for management and capital strategies that respond to these changes.

Compliance-Based Management

I understand that enhancing client confidence and increasing the brand value of Daiwa Securities SMBC will lead to growth in the medium-to-long term. I also recognize that the most important point in attaining those goals is practicing management based on thorough compliance.

In expanding our businesses in Japan and abroad, we will aim to achieve a balance between corporate goals and responsibilities. In addition to complying with the rules and regulations of individual regions and countries, we will conduct ourselves with a high sense of ethics regarding our business affairs.

It is my hope that our clients will continue to entertain high expectations for our services because of our commitment to offering these based on advanced expertise and sophisticated and principled marketing.

August 2007

President

Shin. Yoshidome





→ 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 anticipate trends. 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, Currency & Commodities

We work in close partnership with institutional investors, public corporations, and business enterprises in our fixed income and currency and commodity 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 Offering

By combining an expanding sales network, which includes that of Daiwa Securities, 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 including M&A, business alliances, capital participation, joint ventures, and stock swap, and corporate revitalization and implement performances. 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.

Performance in FY2006

→ League Table

Our investment banking business demonstrates significant synergies through its collaboration with Sumitomo Mitsui Banking Corporation, capturing No. 1 rankings in such markets as all bonds in yen, Samurai bonds, and IPOs, according to league tables.



■ **FY ended March 2007: All Bonds in Yen League Table (Domestic all bonds + Overseas)** (April 1, 2006 – March 31, 2007) Source: Thomson Financial

Ranking	House	Number of issues	JPY Amount (JPY mil)	Share (%)
1	Daiwa Securities SMBC	179	3,346,208.9	18.6
2	Mizuho Group	166	3,257,658.2	18.1
3	Nomura Securities	135	2,984,324.0	16.6
4	Citigroup	132	2,360,526.2	13.1
5	Mitsubishi UFJ Financial Group	108	1,916,913.1	10.7
6	Goldman Sachs	26	871,409.9	4.9
7	Merrill Lynch Japan Securities	26	710,316.9	4.0
8	Deutsche Bank	20	494,841.5	2.8
9	Morgan Stanley	26	476,176.1	2.7
10	Barclays Capital	30	370,751.3	2.1

Notes: 1. Total domestic bonds = straight bonds + equity linked bonds + samurai bonds + domestic public ABS + Government-guaranteed bonds (SB type)
2. Equity linked bonds = CBs and warrant bonds 3. Bookrunner deals (including bonds issued by each house group)

■ **FY ended March 2007: All Domestic Bonds Bookrunner League Table** (April 1, 2006 – March 31, 2007) Source: Thomson Financial

Ranking	House	Number of issues	JPY Amount (JPY mil)	Share (%)
1	Mizuho Securities	141	2,766,773.4	21.7
2	Daiwa Securities SMBC	147	2,761,403.3	21.7
3	Nomura Securities	103	2,316,465.8	18.2
4	Mitsubishi UFJ Securities	94	1,611,481.4	12.7
5	Nikko Citigroup	56	1,328,010.6	10.4
6	Goldman Sachs	24	845,134.9	6.6
7	Merrill Lynch Japan Securities	12	276,866.7	2.2
8	Credit Suisse Securities	6	174,498.0	1.4
9	Morgan Stanley	11	158,221.5	1.2
10	Deutsche Securities	4	133,500.0	1.1

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

■ **FY ended March 2007: Samurai Bonds Bookrunner League Table** (April 1, 2006 – March 31, 2007) Source: Thomson Financial

Ranking	House	Number of issues	JPY Amount (JPY mil)	Share (%)
1	Daiwa Securities SMBC	13	193,375.0	24.3
2	Goldman Sachs	4	100,000.0	12.5
3	Merrill Lynch Japan Securities	2	95,000.0	11.9
4	Nomura Securities	5	72,500.0	9.1
5	Nikko Citigroup	4	69,666.7	8.7
6	Mizuho Securities	8	66,208.3	8.3
7	Deutsche Securities	2	60,000.0	7.5
8	Barclays Capital	1	50,000.0	6.3
9	Mitsubishi UFJ Securities	4	37,041.7	4.6
10	JP Morgan Securities	2	33,333.3	4.2

■ **FY ended March 2007: Ranking in JGB (Japanese Government Bond) Auction** Source: Financial Facsimile News Source: Financial Facsimile News

Ranking	Auction Participant	Successful Bid Amount (JPY 100mil)
1	Daiwa Securities SMBC	105,608.0
2	Mitsubishi UFJ Securities	92,550.0
3	Nomura Securities	92,317.0
4	Mizuho Securities	80,546.0
5	Nikko Cordial Securities	75,714.2
6	Credit Suisse Securities	57,192.0
7	Morgan Stanley	50,492.2
8	Lehman Brothers	44,544.0
9	Barclays Capital Securities	25,989.8
10	ABN Amro	20,619.0

■ **FY ended March 2007: Public Offering Bookrunner League Table** (April 1, 2006 – March 31, 2007) Source: Thomson DealWatch

Ranking	House	Number of issues	JPY Amount (JPY mil)	Share (%)
1	Nomura Securities	26	339,317	44.38
2	Daiwa Securities SMBC	23	151,771	19.85
3	Nikko Citigroup	11	111,080	14.53
4	Mizuho Securities	1	56,970	7.45
5	Mitsubishi UFJ Securities	4	27,835	3.64
6	Mizuho Investors Securities	3	21,337	2.79
7	Goldman Sachs	2	15,841	2.07
8	Shinko Securities	4	15,159	1.98
9	Merrill Lynch Japan Securities	1	9,773	1.28
10	SMBC Friend Securities	1	7,800	1.02

■ **FY ended March 2007: IPO Bookrunner League Table** (April 1, 2006 – March 31, 2007) Source: Thomson DealWatch

Ranking	House	Number of issues	JPY Amount (JPY mil)	Share (%)
1	Daiwa Securities SMBC	35	344,485	33.44
2	Nomura Securities	34	261,151	25.35
3	Nikko Citigroup	21	194,695	18.90
4	Goldman Sachs	3	89,344	8.67
5	Mitsubishi UFJ Securities	17	33,733	3.27
6	Shinko Securities	21	32,207	3.13
7	Morgan Stanley	1	28,565	2.77
8	Mizuho Investors Securities	22	20,597	2.00
9	SBI E* Trade Securities	3	4,460	0.43
10	Mizuho Securities	4	4,170	0.40

■ **M&A Advisor Ranking 2006** (January 01, 2006 – December 31, 2006) Source: Dealogic Japan IB Review

Public Deal Ranking

Ranking	House	Total Amount (US\$ mil)	Deals	Ranking Last Year
1	Daiwa Securities SMBC	57,538	119	9
2	Goldman Sachs	41,814	12	11
3	Citigroup	37,427	27	10
4	Nomura	36,888	151	1
5	UBS	32,469	22	6
6	Merrill Lynch	27,287	14	2
7	Mizuho	25,146	60	7
8	Deutsche Bank	19,794	7	19
9	Dresdner Kleinwort	19,588	4	14
10	Greenhill	19,107	1	22

■ **M&A Advisors: Any Japanese Involvement Announced** (AD 19) (January 01, 2006 – December 31, 2006) Source: Thomson Financial

Public Deals/No. of deals basis

Ranking	House	No. of Deals	Market Share (%)	Total Amount (US\$ mil)
1	Nomura	154	5.2	28,184.2
2	Mitsubishi UFJ Financial Group	130	4.4	11,412.1
3	Daiwa Securities SMBC	128	4.4	21,935.6
4	Mizuho Financial Group	123	4.2	25,991.9
5	Nikko Cordial Securities	70	2.4	3,825.4
6	PricewaterhouseCoopers	34	1.2	6,882.9
7	Citigroup	32	1.1	28,793.7
8	KPGM Corporate Finance	32	1.1	12,656.8
9	UBS	31	1.1	32,865.4
10	Morgan Stanley	25	0.9	14,692.7



→ Awards

Daiwa Securities SMBC received the highest honor possible for an investment bank, being selected as the overall House of the Year in FY2006 in the THOMSON DealWatch Awards 2006.



THOMSON DealWatch Awards 2006

- House of the Year
(Daiwa Securities SMBC)
- Straight Bond Debut Deal of the Year
2nd straight bond issue by Kao Corporation
(Goldman Sachs/ Daiwa Securities SMBC)
- Samurai Bond House of the Year
(Daiwa Securities SMBC)
- Samurai Bond Deal of the Year
Inaugural Samurai bond issue by American International Group
(Daiwa Securities SMBC / Mitsubishi UFJ Securities / Mizuho Securities)
- IPO of the Year
Idemitsu Kosan Co., Ltd. (Settlement date Oct. 23, 2006)
(Daiwa Securities SMBC / UBS Securities / Mitsubishi UFJ Securities)

EUROMONEY Japanese Edition

- M&A House of the Year
- Debt House of the Year
(4 consecutive years)
- Best Samurai Bond House
- Best IPO House

IFR Awards 2006

- Yen Bond House

Euroweek Review of the Year 2006

- Best Lead Manager in Yen
- Best Yen Deal
1-Instituto Credito Oficial (JPY50bn 3 year issue)
(Daiwa Securities SMBC)
2-General Electric Capital Corp (JPY65bn)
(Daiwa Securities SMBC / Mitsubishi UFJ Securities)

ASIAMONEY Deals of the Year 2006

- Best M&A deal
Acquisition of Pilkington Plc., of the U.K., by Nippon Sheet Glass Co., Ltd.
- Best IPO
Nippon Commercial Investment Corporation IPO

Finance Asia Deals of the Year 2006

- Best M&A House
- Best Securitisation House
- Best IPO
Nippon Commercial Investment Corporation
- Best Samurai Bond
Inaugural Samurai bond issue by Kaupthing Bank

The Banker

- Deal of the Year (Japan)
Sumitomo Mitsui Financial Group Global Offering
- Deal of the Year (Romania)
Privatization of Romanian Commercial Bank (BCR)

Our Strength

1

Capability to offer the best solution
Reinforcing our solution organization in response

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. Among these services, there has been notable growth in the number of M&A deals aimed at increasing corporate value or competitiveness, expanding opportunities to provide clients with our professional solution services.

Major M&A Deals and Events (2006 - 2007)

2006

June

● Nippon Sheet Glass makes a friendly acquisition of Pilkington Plc., of the U.K. (Advisor to Nippon Sheet Glass)

July

● Yamazaki Baking acquires Tohato, a confectionary company undergoing restructuring, and purchases a third-party capital increase issue made by Fujiya (Advisor to Yamazaki Baking)

Dec.

● MBO of major green juice (Aojiru) maker Kyusai (Advisor to purchasing party)

2007

Mar.

● Aeon acquired stakes in Daiei and Maruetsu (Advisor to Aeon)

April

● Provided advisory services in capital alliance between Shidax and Daishinto

April

● Conclusion of a capital alliance agreement for cross-border M&A business between the U.S. independent investment bank Sagent Advisors Inc. and the Daiwa Securities SMBC Group

Example of Large-Scale Project—The Aeon M&A Deal

In March 2006, Daiwa Securities SMBC was selected by Aeon Co., Ltd., to be its financial advisor in the purchase of shares of Daiei, Inc., and Maruetsu, Inc. In August 2006, Marubeni Corporation acquired a large block of share on Daiei from the Industrial Revitalization Corporation of Japan (IRCJ), becoming the largest shareholder. With Daiwa Securities SMBC as its advisor, Aeon negotiated the purchase of Daiei shares with Marubeni, reaching a final agreement in March 2007. Under the agreement, Aeon acquired approximately 15% of the shares of Daiei and more than 20% of the shares of Maruetsu. The deal represents one of the successes of our Cross-Function project drive and was a collaboration between the Strategic Advisory Dept. (II) and the Corporate Finance Dept.

1 Won bidding competition with major rice distributor

In August 2006, a major rice distributor announced its intention to acquire Daiei, resulting in a bidding competition for the shares. As Aeon's financial advisor, we provided full support in the creating of Aeon's proposal and its presentation to Marubeni. Aeon was successful in effectively convincing Marubeni of the advantages of a business alliance with itself, citing Mycal Co., Ltd., and Yaohan as examples of Aeon's record in rehabilitating retail businesses. On October 13, Aeon publicly announced that it had won the right of exclusive negotiation for the shares of Daiei with Marubeni.

2 Assisted with Aeon's capital strategy, providing support for equity finance

Following its successful negotiations, Aeon decided to make a global public offering to raise capital, some of which was to be applied to the Daiei share purchase. It was a major financing totaling 206.3 billion yen, and Aeon's request that we act as co-manager of the issue was a first for Daiwa Securities SMBC. The financing project was pursued in parallel with the follow-up negotiations on details of the Daiei and Maruetsu share purchases.

3 Successful management of a complex deal structure

Commencing in November 2006, Aeon began the due diligence process regarding the purchase of the Daiei shares, with Aeon, Daiei, and Marubeni setting up a business alliance committee. Daiwa Securities SMBC provided support to Aeon in the due diligence process, managing the processes of its due diligence committee and subcommittees. As a result, due diligence was completed on schedule.

【Special Features of the Deal】

1 Won bidding competition for shares with major rice distributor

2 Assisted with Aeon's capital strategy and supported related large-scale equity finance

3 Effectively managed a complex deal structure

Birth of the No. 1 Retail Group in Japan and No. 8 in the World

	Aeon	Daiei
Listing date	September 1974	March 1971
Consolidated net sales (FY ended February 2006)	4,430 billion yen	1,675 billion
	6,105 billion yen (simple addition)	

to growing need for cross-border M&A

As part of its efforts to supply clients with comprehensive solutions that provide powerful support for their growth strategies, Daiwa Securities SMBC is strengthening its advisory business related to cross-border M&A involving Japanese companies. We currently have 6 M&A business bases that cover the world with emphasis on the four major markets. In April 2007, we formed a capital alliance U.S. independent investment bank Sagent Advisors Inc., for the purpose of strengthening our solution organization for cross-border M&A deals between Japan and the United States.

Daiwa Securities SMBC's M&A Network



Capital Alliance with Sagent Advisors

Sagent Advisors boasts professional advisory services used by a wide range of clients, such as enterprises in the United States and abroad and private equity funds. Over the past two years, they have successfully closed 40 M&A deals worth approximately US\$30 billion.

Under the capital alliance with Sagent Advisors, Daiwa Securities SMBC will collaborate with Sagent on cross-border M&A deals between Japan and the United States. It has also been decided to relocate Daiwa Securities America's M&A team, which is responsible for Daiwa Securities M&A advisory business in the United States, to Sagent Advisors' offices. Through this action, the Daiwa Securities Group will concentrate its M&A advisory business in the United States within Sagent Advisors, making it possible for the Daiwa Securities Group to take full advantage of Sagent Advisors' investment bank resources. An addition to the traditional cooperation that the Daiwa Securities Group has received from the Sumitomo Mitsui Financial Group, the new business alliance aims to further strengthen the Daiwa Securities Group's origination and execution. With the alliance, the Daiwa Securities Group has constructed an organization enabling it to supply client firms with the highest level of advisory services for cross-border M&A in the United States offered by a Japanese financial institution.

Daiwa Securities SMBC

Daiwa Securities Group Inc.

Capital investment of US\$52 mil in Sagent Advisors (more than 20% share)

Daiwa Securities SMBC dispatches 2 officers to Sagent Advisors

In October 2007, Daiwa Securities America's M&A team (10 people) relocated to Sagent Advisors, Japan Focus Group established within Sagent Advisors to integrate teams in pursuing M&A business.

SAGENT ADVISORS

Staff of 52 (14 MDs)

Spun out from major investment bank in 2004

Offers detailed advise not available from major investment banks

Almost all members formerly with major investment banks

Based on collaboration between Sagent Advisors and Sumitomo Mitsui Financial Group, the team will provide seamless, detailed M&A advisory services for North America.

Our Strength

2

Product development edge

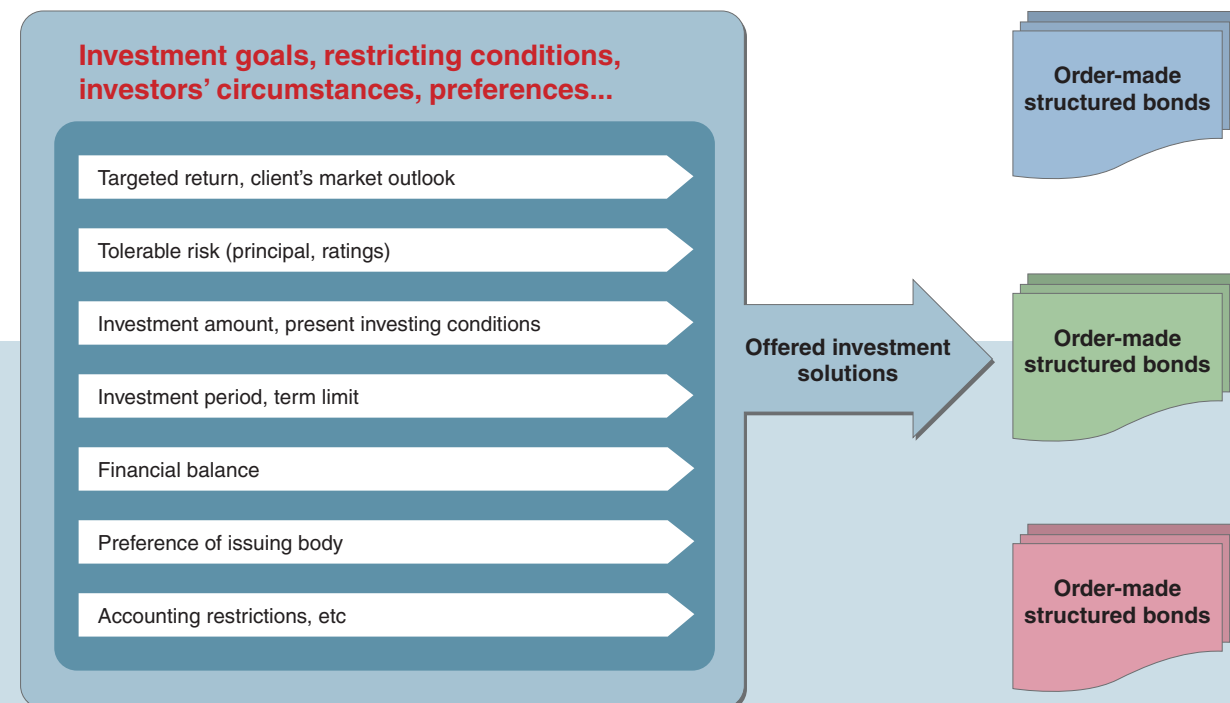
Product development capabilities that meet Japan's first hybrid securities scheme



Because our goal is to be the best investment bank in Japan, we endeavor to propose the very highest level of solution possible for our clients in light of their strategies and financial circumstances. We boast superior product development capabilities that can place pioneering structured bond issues that meet the needs and price range of clients.

In FY2006, we proposed financing for Nippon Steel Corporation that used the new structure of hybrid securities and acted as the advisor for this large-scale financing totaling 300 billion yen. Through such solutions, we are aggressively pursuing product development based on the key words of Cross-Product and Cross-Border.

Supplying investment products that meet client needs and price range



client needs with innovative products, such as

Application of hybrid securities to financing of Nippon Steel

Nippon Steel's basic policy is to systematically make investments to build earnings while also maintaining and improving its solid financial structure

In its medium-term consolidated business plan covering the period from April 2006 to March 2009, Nippon Steel Corporation plans to implement various measures aimed at becoming the overall No. 1 manufacturer of medium high-grade steels. Within this plan, the company wants to be able to systematically make investments to build earnings while also maintaining and improving its solid financial structure. Daiwa Securities SMBC explored methods of financing that would satisfy this policy.

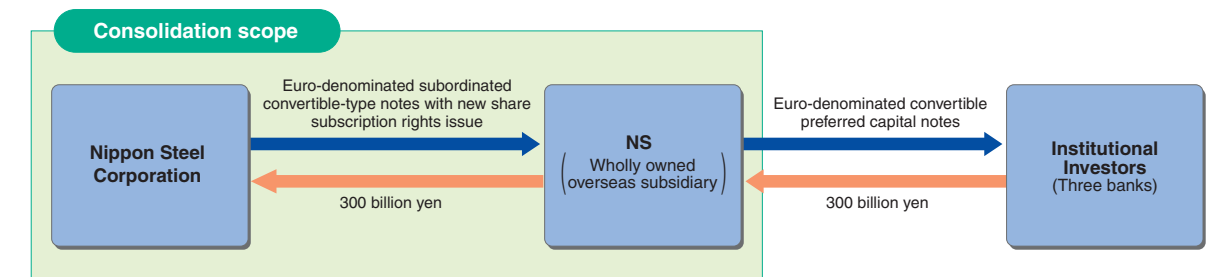
Japan's inaugural hybrid securities scheme integrates all of Daiwa Securities SMBC's deal know how

Bringing together our deal know how, we put together Japan's first hybrid securities scheme based on research we had been doing over the past few years. Having determined that it fitted the needs of Nippon Steel, we proposed it to them and were met with high enthusiasm and praise for the scheme. As a result, we became the equity finance advisor for Nippon Steel.

Financing scheme utilizes an overseas subsidiary of Nippon Steel

As shown below, in the hybrid securities scheme, Nippon Steel uses an overseas subsidiary (NS Preferred Capital Limited, a wholly owned subsidiary registered in the Cayman Islands; hereinafter referred to as "NS") as the purchaser of Nippon Steel's 300 billion yen Euro-denominated subordinated convertible-type notes with new share subscription rights issue. Financing for the purchase of the notes by NS was done through the issue of Euro-denominated convertible preferred capital notes (Nippon Steel signed a subordinated guarantee agreement with NS to guarantee the payment of interest and other expenses on the Euro-denominated convertible preferred capital notes).

Nippon Steel Corporation's Hybrid Securities Scheme



Feature ① High proportion of equity

The Euro-denominated convertible preferred capital notes have various special agreements attached, including 1) there is no pre-determined maturity date, 2) payment is subordinated to all other regular bond issues, and 3) should certain specific conditions arise, payment of dividends will be restricted. Based on these features, we negotiated with rating agencies and achieved recognition that the hybrid issue had a high proportion of equity (more than 70%).

Feature ② Conversion right

The Euro-denominated convertible preferred capital notes have a conversion right attached, allowing them to be converted into the Euro-denominated subordinated convertible-type notes with new share subscription rights issue of Nippon Steel. In addition, the conversion right included the automatic exercise of the subscription rights, resulting in payment in common shares of Nippon Steel when holders of the conversion right exercise that right.

Feature ③ Limitation on dilution of earnings per share

The scheme is designed to reduce interest rate costs through the inclusion of subscription rights. Care also was taken to limit dilution of earnings per share by setting a high exercise premium of greater than 50% of market value. Furthermore, the use of treasury shares in settlement of the exercise of subscription rights was taken into consideration in the scheme.

Our Strength

3

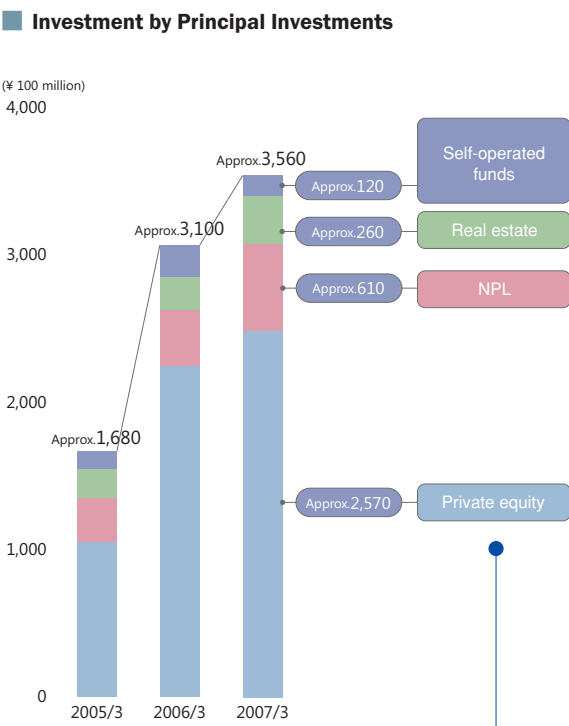
Growing investment business (Principal Investments)
Risk money supplier with an advanced risk

Principal investment refers to an investment business using our own capital.

Daiwa Securities SMBC Principal Investments Co. Ltd. engages in investment businesses such as private equity (both public and private shares), non-performing loans, and real estate to respond to the broad range of needs of financial institutions, corporations, and other enterprises for balance sheet restructuring through sale of assets, business reorganization, and others. Further, it engages in the establishment and operation of different types of investment funds represented by regional corporate recovery funds as well as investment in greenhouse gas emission rights.

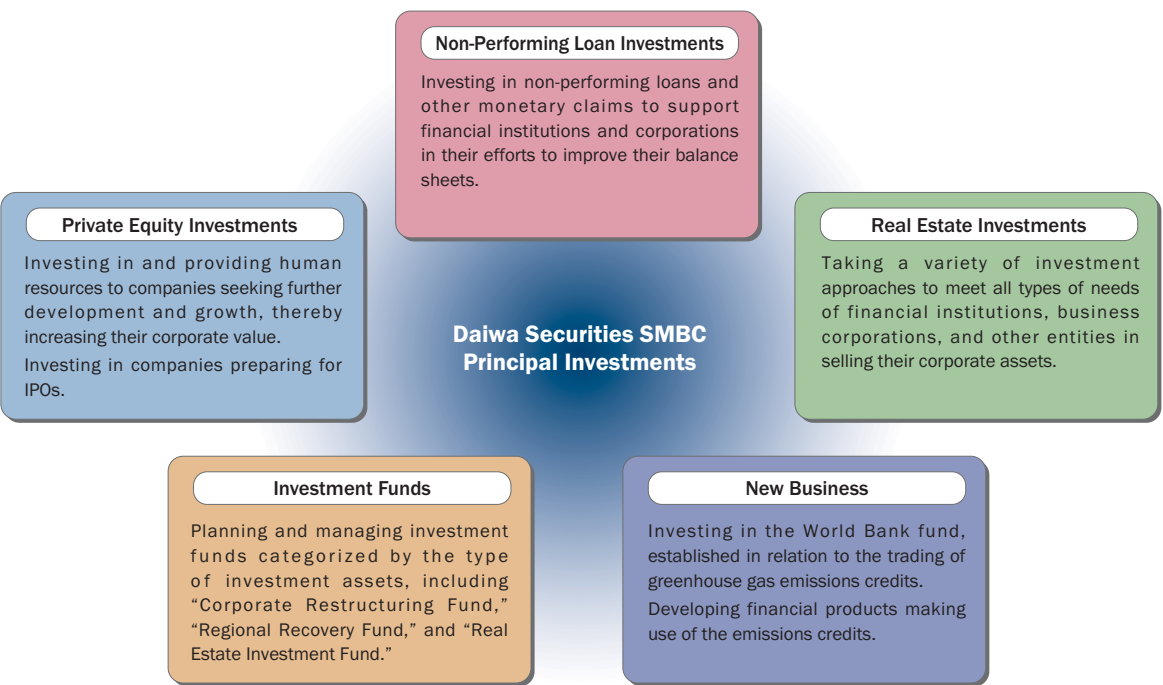
Principal Investments has carried out a number of domestic investments that are of largest scale in the market.

Going forward, Principal Investments intends to have its team of professionals with specialized knowledge in finance, real estate, accounting, tax, legal affairs, consulting and others to work together as one in supplying the best solutions for a variety of needs in the market.



management system

Businesses of Daiwa Securities SMBC Principal Investments



Major Private Equity Investments

Investment Period (Beginning)	Company	Listing	Company summary
Aug. 2007	HMV Japan HMV Retail Limited	Unlisted	● Music and audio video software
Feb. 2007	GDH	TSE Mothers	● Content provider
Dec. 2006	Verite	TSE, 2nd Section	● Jewelry retailer
Sept. 2006	Mitsui Life Insurance	Unlisted	● Major life insurance company
Mar. 2006	Sanyo Electric	TSE, 1st Section	● Major electrical appliance company
Sept. 2005	Sumitomo Mitsui Construction	TSE, 1st Section OSE, 1st Section	● General constructor
Aug. 2005	Grand Vista Hotel & Resort	Unlisted	● Hotels and leisure (formerly Mitsui Kanko Development Co., Ltd.)

Note: TSE stands for Tokyo Stock Exchange; OSE stands for Osaka Securities Exchange

Investment Period (Beginning)	Company	Listing	Company summary
Aug. 2005	Maruzen	TSE, 1st Section	● Major bookstore chain
Mar. 2005	Mitsui Mining	TSE, 1st Section	● Metals and minerals supplier and trading company
Oct. 2004	Daiwa Seiko	TSE, 1st Section	● Sporting goods manufacture
Feb. 2003	Meisei Electric	TSE, 2nd Section	● Environmental measurement equipment manufacturer
Jan. 2003	Ogihara	Unlisted	● Automotive press die manufacturer
Dec. 2000	Nikko Electric Industries	Unlisted	● Automobile component manufacturer formerly on TSE 2nd Section

Note: TSE stands for Tokyo Stock Exchange



Our Strength

4

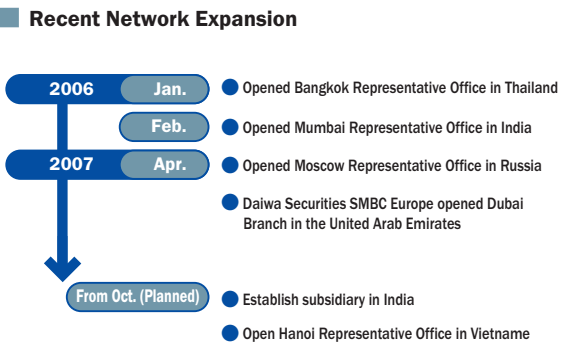
Expanding global business
Strengthening Our Business in Asia and

To enable the company to offer clients in Japan and abroad with solutions worthy of the best investment bank in Japan, Daiwa Securities SMBC is expanding its overseas network.

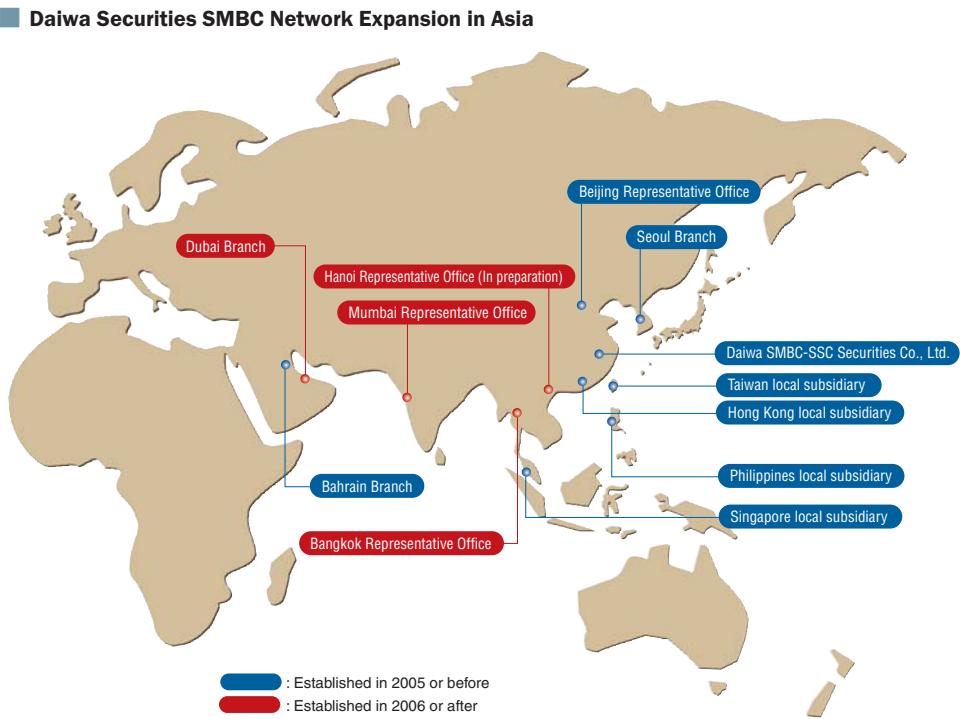
In particular, we are aiming to strengthen our network in Asia, the securities markets of which have continued to grow at an accelerated pace in recent years. In 2006, we established representative offices in Bangkok, Thailand and Mumbai, India. We continued our network expansion in 2007 with the opening of the Dubai Branch of Daiwa Securities SMBC Europe Limited in the United Arab Emirates.

In addition, preparations are under way to establish a local subsidiary in India and a representative office in Hanoi, Vietnam.

Through this expansion, we are building a network centered on Asia that can respond to the needs not only of clients in Japan, but also overseas.



Expanding Our Global Network



Dubai Branch Office (Inside DIF)



Mumbai Representative Office



Bangkok Representative Office

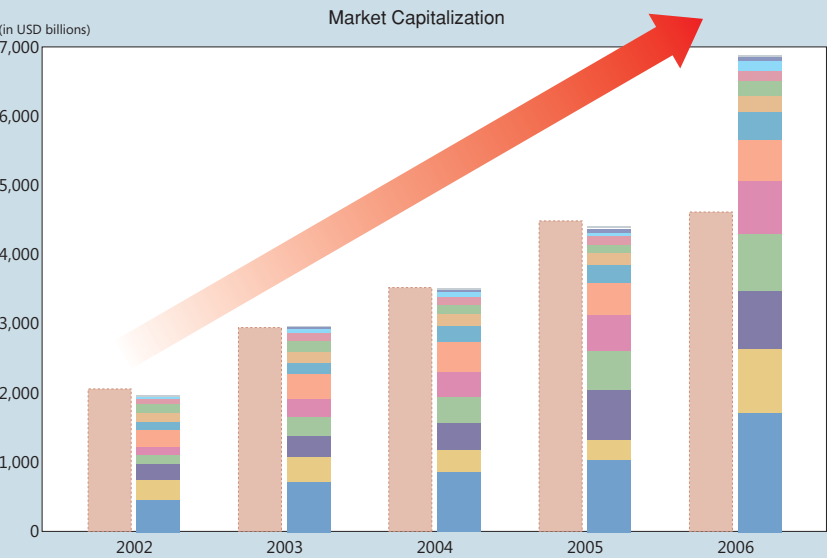
Public and Secondary Offerings of Foreign Equities in Japan

POWL and Lead Managed Tokyo Stock Exchange Listings (After April 2005)

Deal date	Issuer	Country or region	Amount of global offering (US\$ mil)	Total amount of public offering in Japan (Billions of yen)	Currency	Issue price	POWL lead manager
April 2005	Shanghai Electric Group	China	648	56	HK\$	1.70	Daiwa Securities SMBC
June 2005	Chi Mei Optoelectronics	Taiwan	751	100	US\$	15.02	Daiwa Securities SMBC
June 2005	Bank of Communications	China	2,165	44	HK\$	2.50	Daiwa Securities SMBC
June 2005	China COSCO Holdings	China	1,227	178	HK\$	4.25	Daiwa Securities SMBC
July 2005	Enel	Italy	4,909	191	EUR	7.18	Daiwa Securities SMBC
August 2005	Chunghwa Telecom	Taiwan	3,075	656	US\$	18.98	Daiwa Securities SMBC
October 2005	China Construction Bank	China	9,227	346	HK\$	2.35	Daiwa Securities SMBC (Joint)
November 2005	EDF	France	7,479	562	EUR	33.00	Daiwa Securities SMBC (Joint)
November 2005	Link REIT	Hong Kong	2,790	96	HK\$	10.30	Daiwa Securities SMBC
December 2005	Dongfeng Motor Group	China	589	60	HK\$	1.60	Daiwa Securities SMBC
June 2006	Bank of China	China	11,186	336	HK\$	2.95	Daiwa Securities SMBC
September 2006	China Merchants Bank	China	2,659	78	HK\$	8.55	Daiwa Securities SMBC
October 2006	Industrial and Commercial Bank of China	China	21,969	451	HK\$	3.07	Daiwa Securities SMBC (Joint)
November 2006	Telstra Corp	Australia	11,896	404	AU\$	3.70	Daiwa Securities SMBC
July 2007	China Boqi* Listed on TSE 1st Section	China	22.08 billion yen	22.08 billion yen	Yen	160,000	Daiwa Securities SMBC

* POWL (Public offering without listing) is a scheme whereby public and secondary offerings of foreign equities are made in the Japanese market without listing the issuer's stock. Source: Thomson Financial

Growth in Asia's Securities Markets



Securities Exchange	Capitalization (End 2006)	Number of listed companies (End 2005)
Colombo	8	239
Philippines	68	237
Jakarta	139	336
Thailand	140	504
Shenzhen	228	544
Malaysia	236	1,019
Singapore	384	686
Taiwan	595	696
India	774	1,034
Mumbai	819	4,763
Korea	834	1,616
Shanghai	918	833
Hong Kong	1,715	1,135
Asia Total	6,857	13,642
Tokyo	4,614	2,351

Source: World Federation of Exchanges

Our Strength

5

Strong domestic sales force

Achieving strong sales performances based on a Japanese and foreign issuers

solid sales network linking Japanese Investors with

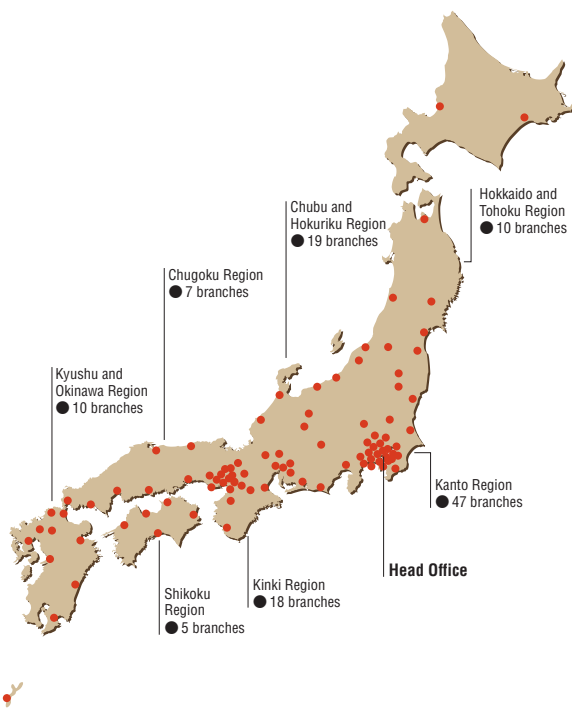


The reason for Daiwa Securities SMBC's dominance in the domestic market is its possession of a wide sales network for investors.

The network of Daiwa Securities, which is responsible for the retail business of the Daiwa Securities Group, serves as a broad pipeline between personal financial assets in Japan, estimated at over 1,500 trillion yen, to the capital financing needs of domestic and overseas issuing bodies.

Supported by this strong sales capability, Daiwa Securities SMBC conducts underwriting of shares through structuring and underwriting of samurai bonds and bonds to individual investors ("Uridashi bonds"), public offerings without listing (POWLs), and initial public offerings (IPOs). 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.

Daiwa Securities Domestic Network (As of March 31, 2007)



Major Domestic Sales Performance Charts

FY ended March 2007 New Listings (excluding no financing listings and IPOs less than 5 billion yen)

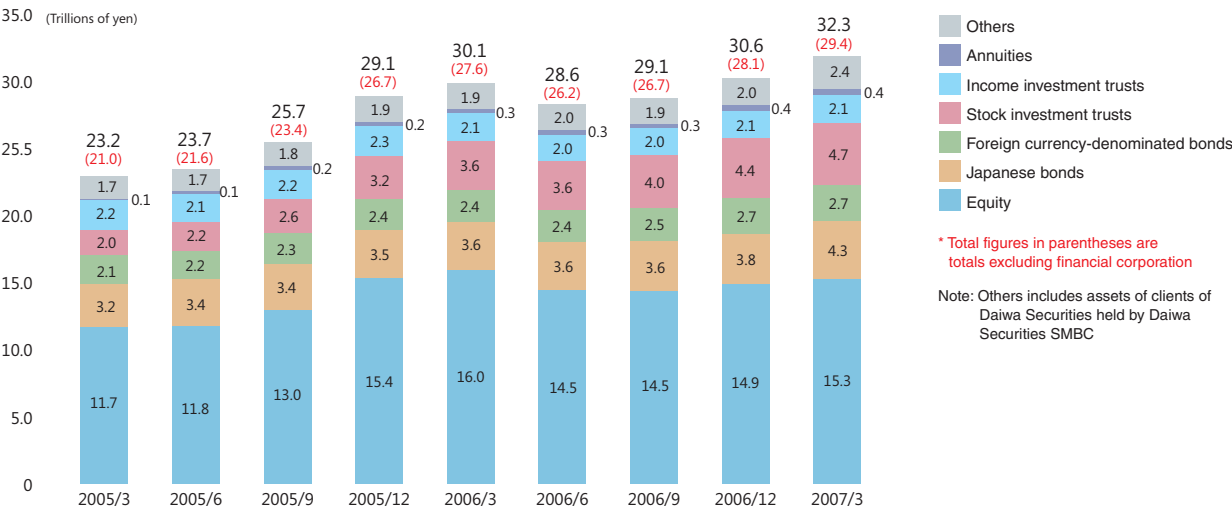
Stock code	Company name	Lead manager	Exchange	Number of shares listed (Thousands)			Value (Yen)	Total offering (Including OA) (100 million yen)	Listing date
				IPO	PO	OA			
3038	Kobebussan Co.	Daiwa	OSE2	0.00	2,024.00	0.00	5,050	102.21	6/8
3225	Tokyo Tatemono Real Estate Sales Co., Ltd.	Daiwa	TSE2	3,400.00	2,800.00	600.00	1,200	81.60	7/13
2121	mixi, Inc.	Daiwa	Mothers	4.50	2.10	0.50	1,550,000	110.05	9/14
6162	Miyano Machinery Inc.	Daiwa	TSE2	5,000.00	30,000.00	2,500.00	425	159.38	9/22
7825	SRI Sports Limited	Daiwa	TSE1	30.00	70.00	15.00	190,000	218.50	10/13
5019	Idemitsu Kosan Co., Ltd.	Daiwa/UBS	TSE1	11,521.00	0.00	1,157.50	9,500	1,204.46	10/24
3233	Fund Creation	Daiwa	JASDAQ	18.00	14.20	3.00	160,000	56.32	10/27
2131	Acordia Golf	Daiwa/GS	TSE1	50.00	528.00	57.80	195,000	1,239.81	11/1
7312	Takata Corp.	Daiwa	TSE1	11,000.00	11,000.00	2,000.00	4,100	984.00	11/7
6640	Daiichiseiko Co., Ltd.	Daiwa	JASDAQ	2,500.00	500.00	450.00	3,200	110.40	11/17
4665	Duskin Co., Ltd.	Daiwa	TSE1/OSE1	0.00	8,700.00	1,300.00	1,750	175.00	12/12
3236	Properst Corporation	Daiwa	JASDAQ	11.50	5.83	2.50	620,000	122.95	12/13
2135	VSN	Daiwa	JASDAQ	310.00	1,320.20	244.50	3,350	62.80	12/20
6257	Fujishoji Co., Ltd.	Daiwa	JASDAQ	35.00	22.00	8.00	180,000	117.00	2/9

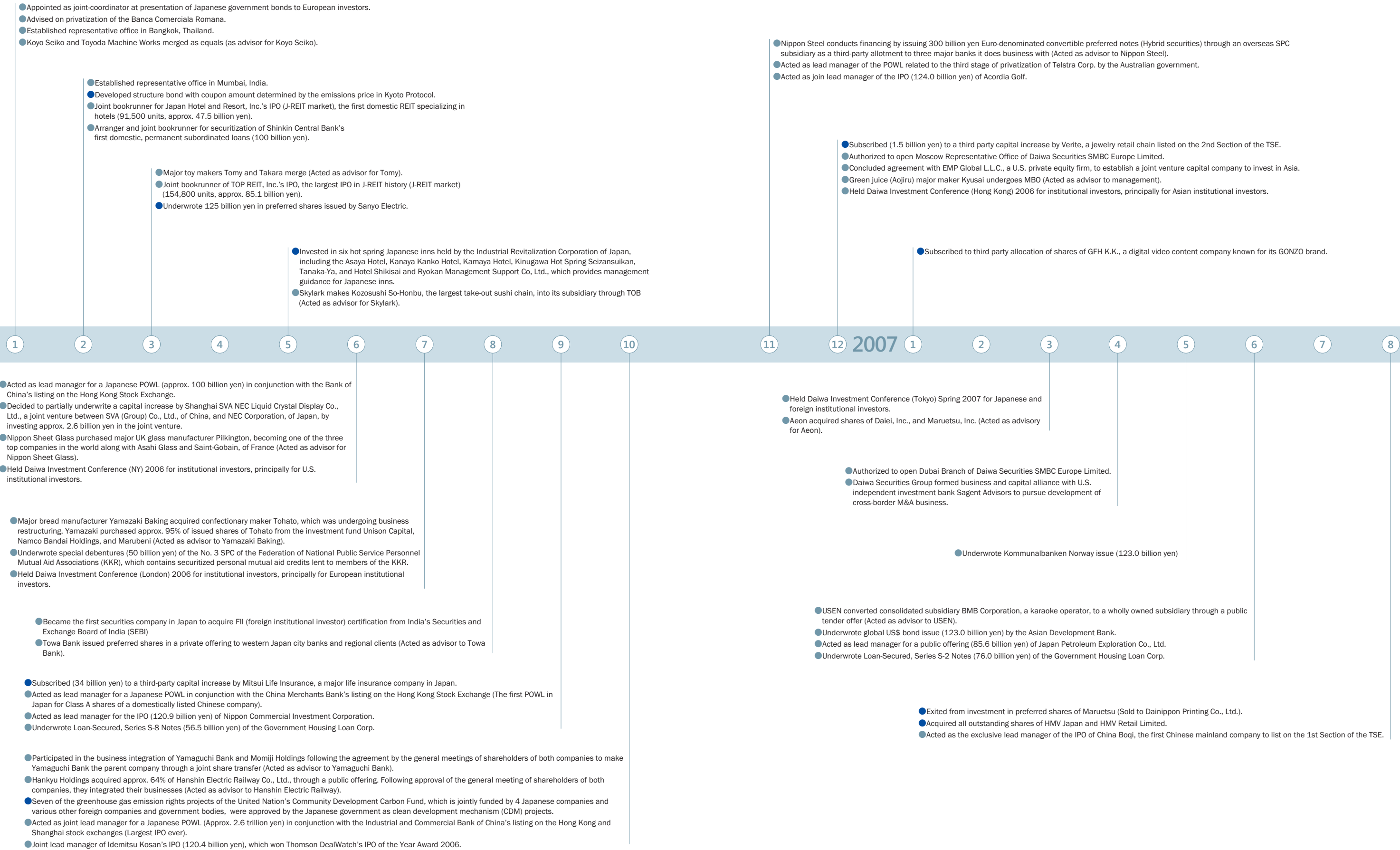
Note: TSE stands for Tokyo Stock Exchange; OSE stands for Osaka Securities Exchange. 1 & 2 stand for the section the company listed on.

FY ended March 2007 Bond issues offered to individual investors

Launch date	Issuer	Tenor	Rating (MDY/S&P)	Offering price	Coupon	Currency
April 2006	International Bank for Reconstruction and Development	2	Aaa/AAA	100	4.70%	AUD
April 2006	International Bank for Reconstruction and Development	3	Aaa/AAA	99.92	5.05%	AUD
May 2006	Asian Development Bank	2	Aaa/AAA	100	4.75%	AUD
May 2006	Asian Development Bank	3	Aaa/AAA	100	5.10%	AUD
May 2006	European Bank for Reconstruction and Development	2	Aaa/AAA	100	5.80%	NZD
June 2006	African Development Bank	3	Aaa/AAA	100	4.54%	USD
June 2006	Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. ("Rabobank")	2	Aaa/AAA	100	5.25%	AUD
July 2006	Toyota Finance Australia Limited	3	Aaa/AAA	100	5.80%	AUD
July 2006	Kommunalbanken Norway	3	Aaa/AAA	100	4.70%	USD
August 2006	Inter-American Development Bank	3	Aaa/AAA	100	5.43%	AUD
August 2006	Inter-American Development Bank	2	Aaa/AAA	100	6.00%	NZD
September 2006	GE Capital	3	Aaa/AAA	100	5.70%	AUD
September 2006	Toyota Motor Credit Corporation	4	Aaa/AAA	100	4.64%	USD
September 2006	European Bank for Reconstruction and Development	2	Aaa/AAA	100	6.12%	NZD
October 2006	International Bank for Reconstruction and Development	2	Aaa/AAA	100	6.05%	NZD
October 2006	Toyota Motor Credit Corporation	3	Aaa/AAA	100	5.80%	AUD
November 2006	Asian Development Bank	3	Aaa/AAA	100	5.42%	AUD
November 2006	.V. Bank Nederlandse Gemeenten ("BNG")	2	Aaa/AAA	100	6.32%	NZD
November 2006	European Bank for Reconstruction and Development	2	Aaa/AAA	100	6.14%	NZD
December 2006	Toyota Finance Australia Limited	3	Aaa/AAA	100	5.73%	AUD
December 2006	International Bank for Reconstruction and Development	2	Aaa/AAA	100	6.32%	NZD
January 2007	Asian Development Bank	3	Aaa/AAA	100	5.60%	AUD
January 2007	Fukuoka Bank	3	A3/A-	100	6.88%	NZD
January 2007	International Finance Corporation	3	Aaa/AAA	100	4.20%	USD
January 2007	European Bank for Reconstruction and Development	2	Aaa/AAA	100	6.48%	NZD
February 2007	International Bank for Reconstruction and Development	3	Aaa/AAA	100	5.60%	AUD
February 2007	Toyota Motor Credit Corporation	2	Aaa/AAA	100	6.88%	NZD
March 2007	Asian Development Bank	3	Aaa/AAA	100	5.70%	AUD

Daiwa Securities Assets Under Custody (Client Assets) (Including financial corporations)

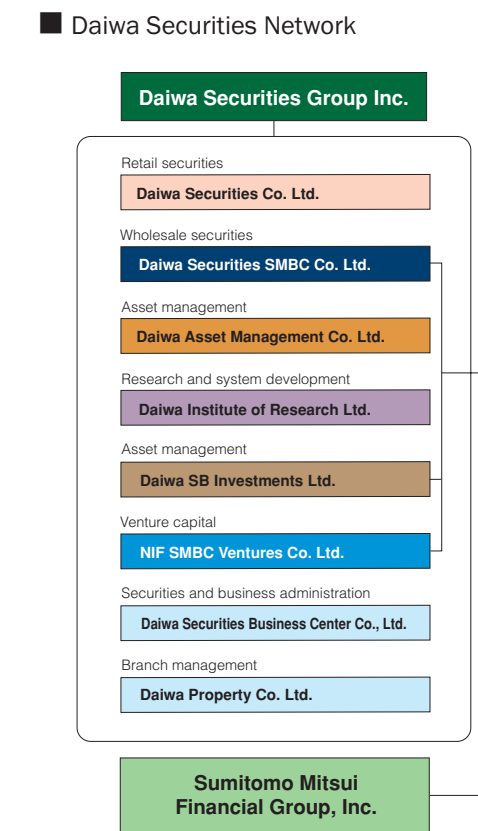




Business Network

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

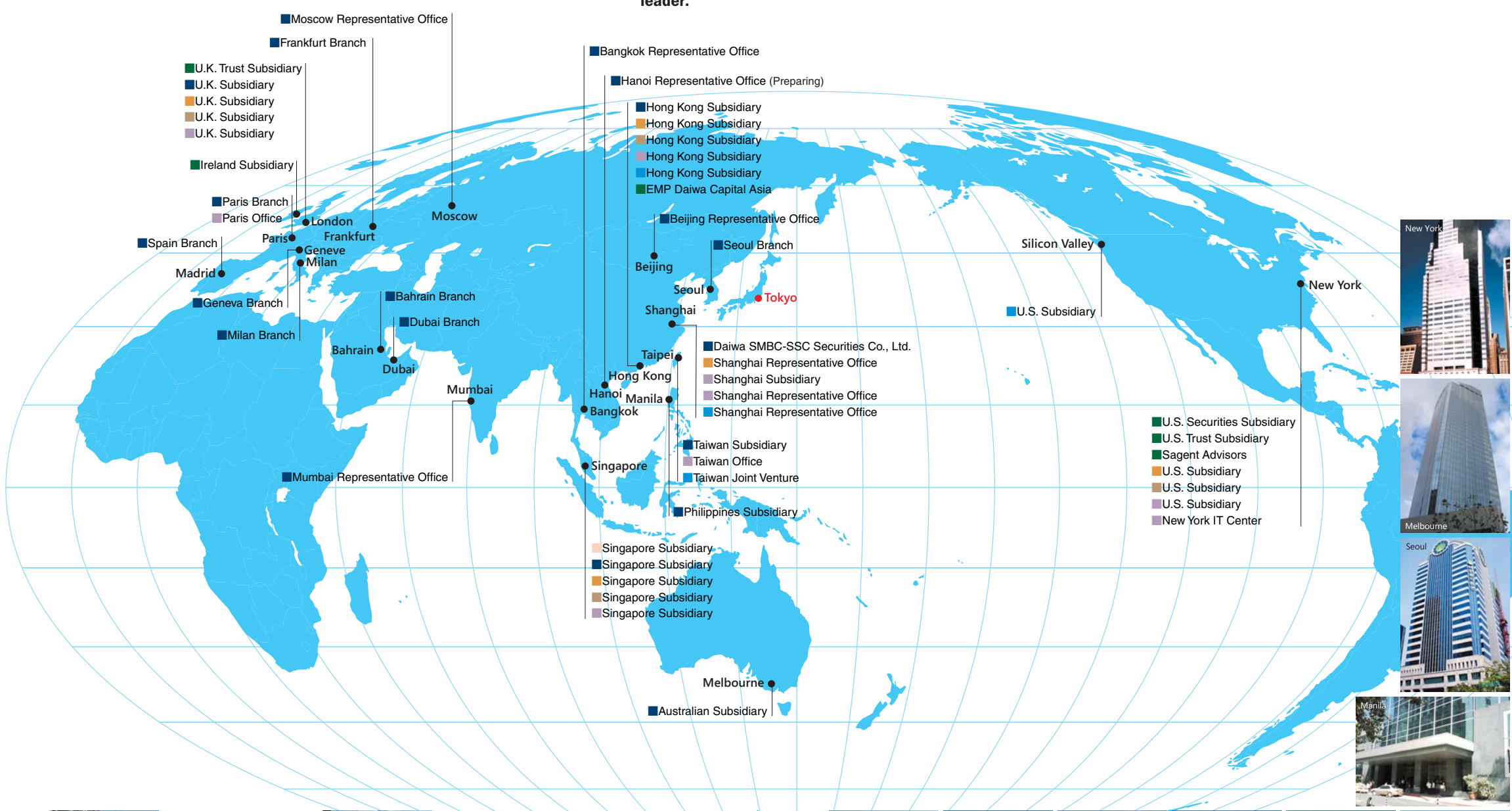
Based on the strategic business alliance between Daiwa Securities Group Inc. and Sumitomo Mitsui Financial Group, Inc. Daiwa Securities SMBC possesses a powerful business network. Utilizing this network, we provide products and services that exceed client expectation, aiming to maximize client satisfaction.



Global Network

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.



Corporate Information

(As of August 1, 2007)

Corporate Data

Name :	Daiwa Securities SMBC Co. Ltd.
Head Office :	Marunouchi Trust Tower N, 8-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-8289, Japan Tel : 03-5533-8000 (Reception) <div>* Effective December 2007, the company plans to relocate to the following address: GranTokyo North Tower, 9-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo, Japan</div>
President :	Shin Yoshidome
Paid-in Capital :	¥255.7 billion
Major Stockholders :	Daiwa Securities Group Inc. (60%), Sumitomo Mitsui Financial Group, Inc. (40%)
Business :	Trading, agency and brokerage, underwriting and distribution of securities, and related business
Sales Office :	Head Office, Osaka Branch, Nagoya Branch, Eitai Sales Office, and others
Overseas Offices :	U.K. Subsidiary (London)/Frankfurt Branch/Paris Branch/Geneva Branch/Milan Branch/Spain Branch/Bahrain Branch/Dubai Branch/Moscow Representative Office/Hong Kong Subsidiary/Taiwan Subsidiary/Seoul Branch/Beijing Representative Office/ Daiwa SMBC-SSC Securities Co., Ltd. (Shanghai)/Singapore Subsidiary/Australia Subsidiary/The Philippines Subsidiary/ Bangkok Representative Office/Mumbai Representative Office



Daiwa Securities SMBC Head Office



Eitai Sales Office



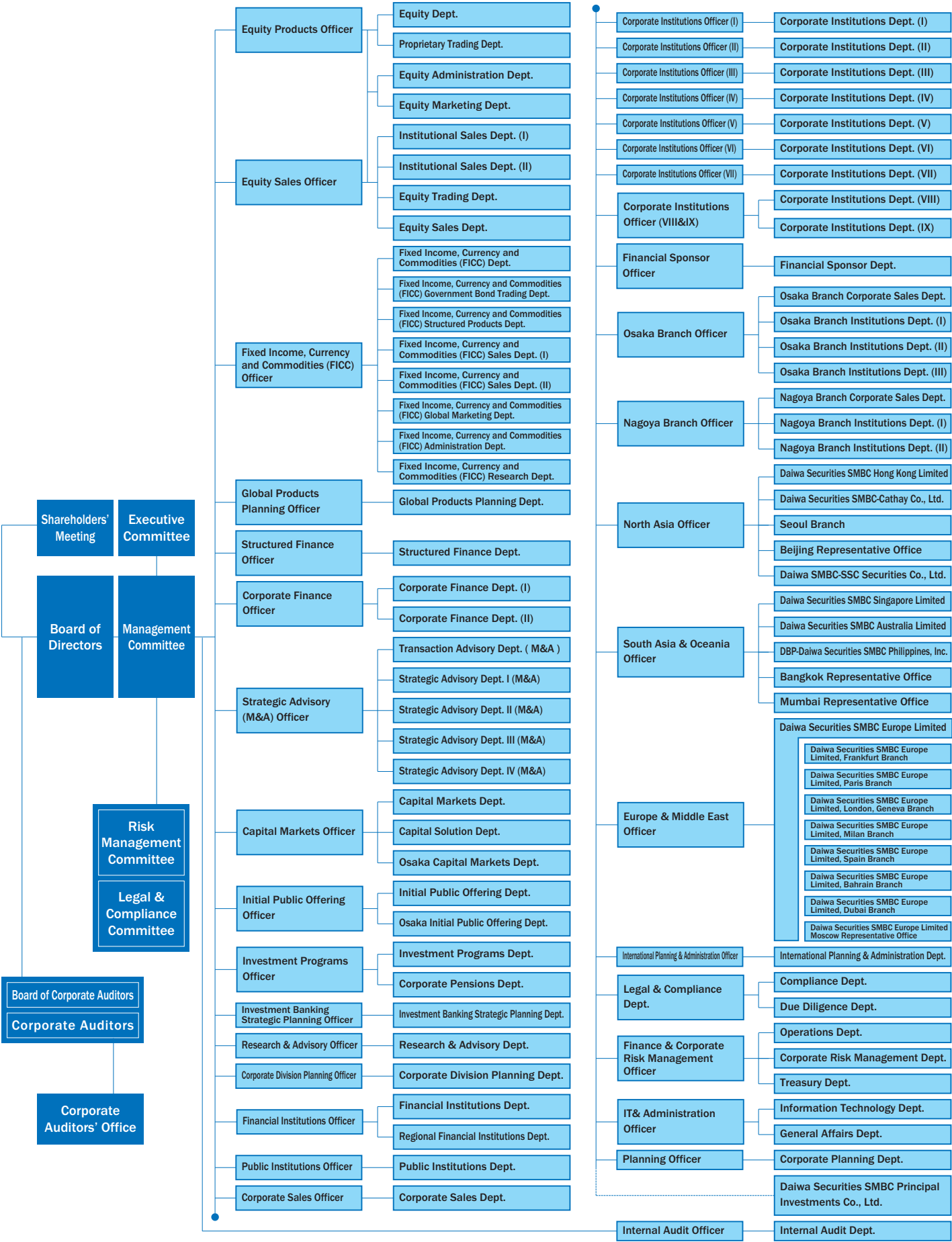
Daiwa Securities SMBC Europe

Directors, Auditors, and Executive Officers

President	Shin Yoshidome
Deputy President	Shuntaro Higashi Chief Internal Administration Supervisor and Internal Audit Officer
Senior Managing Director	Ikuo Mori International Senior Officer and President of Daiwa Securities SMBC Asia Holding B.V.
Senior Managing Director	Hideo Watanabe President of Daiwa Securities SMBC Principal Investments Co. Ltd.
Senior Managing Director	Kazuhiko Akamatsu Corporate Sales Senior Officer, Corporate Institutions Senior Officer, and Corporate Division Planning Officer
Managing Director	Takashi Yamaguchi Corporate Institutions Officer (V, VI, VII)
Managing Director	Teruaki Ueda Strategic Advisory (M&A) Senior Officer, Corporate Finance Officer, Investment Banking Planning Officer, and Research and Advisory Officer
Managing Director	Masaki Yamane Osaka Branch Officer and Branch Manager
Managing Director	Mitsuharu Tanaka Corporate Institutions Officer (I,II) and Financial Sponsor Officer
Director	Tetsufumi Fujisawa Structured Finance Officer and Corporate Finance Deputy Officer
Corporate Auditor	Shigeharu Tominaga
Corporate Auditor	Satoshi Otsu
Corporate Auditor	Fuminori Yoshitake
Corporate Auditor	Yoshio Nagamoto
Senior Executive Officer	Akio Takahashi International Planning and Administration Officer and Planning Officer
Senior Executive Officer	Yoriyuki Kusaki Corporate Institutions Officer (III & IV)
Executive Officer	Masami Tada Osaka Branch Officer
Executive Officer	Shigeo Koike Corporate Institutions Officer (VIII & IX)
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	Takatoshi Wakabayashi Initial Public Offering Senior Officer and Capital Markets Officer
Executive Officer	Toshinao Matsushima Products Senior Officer and Global Products Planning Officer
Executive Officer	Yasuharu Okanoya Financial Institutions Officer
Executive Officer	Shigeru Ishida North Asia Officer, and Chairman of Daiwa Securities SMBC Hong Kong Limited and Daiwa Securities SMBC-Cathay Co., Ltd.
Executive Officer	Yoshimasa Tsunei Legal Compliance Officer and Finance and Corporate Risk Management Officer
Executive Officer	Yoshimasa Nagase Nagoya Branch Officer and Branch Manager
Executive Officer	Seiji Sato Strategic Advisory (M&A) Officer
Executive Officer	Hiroaki Saito Fixed Income, Currency and Commodities (FICC) Officer
Executive Officer	Kazuo Takahashi Corporate Sales Officer
Executive Officer	Akira Inoue Deputy President of Daiwa Securities SMBC Principal Investments Co. Ltd.
Executive Officer	Yoshio Urata Equity Sales Officer
Executive Officer	Akihiko Kanamura South Asia & Oceania Officer, and Chairman of Daiwa Securities SMBC Singapore Limited and Daiwa Securities SMBC Futures Pte Ltd.

Organization

(As of July 2, 2007)



Management and Operating System

Contents

I . Outline Of Company And Organization : 35

II. Consolidated Subsidiaries : 41

III. Internal Control Structure : 43

I. Outline Of Company And Organization

1. Corporate Name

Daiwa Securities SMBC Co. Ltd.

2. Registration Date

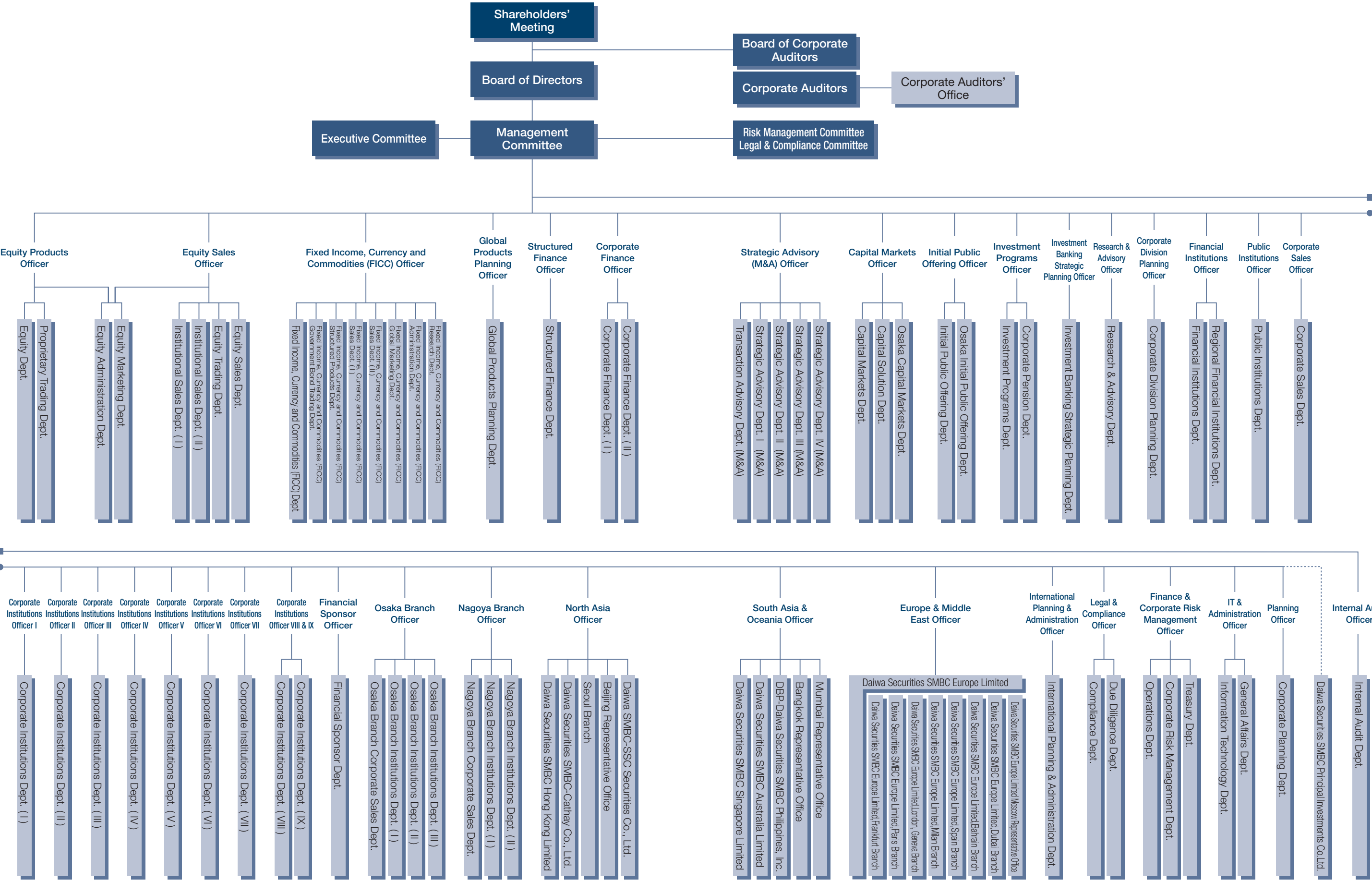
February 26, 1999	Kanto Local Finance Bureau (Securities) No. 143
July 1, 2005	Kanto Local Finance Bureau (Financial Futures) No. 21

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.
April 2007	Representative office of U.K. subsidiary opened in Moscow.
April 2007	Dubai Branch opened in United Arab Emirates (UAE).

(2) Corporate Organization (as of July 2, 2007)



4. Shareholders

(as of March 31, 2007)

Name	Shares	Shareholding
1 Daiwa Securities Group Inc.	2,280	60.0%
2 Sumitomo Mitsui Financial Group, Inc.	1,520	40.0%
Total	3,800	100.0%

5. Directors, Auditors and Executive Officers

Underlined directors are representative directors

(as of August 1, 2007)

Position	Name	Responsibility
<u>President</u>	Shin Yoshidome	
<u>Deputy President</u>	Shuntaro Higashi	Chief Internal Administration Supervisor and Internal Audit Officer
<u>Senior Managing Director</u>	Ikuo Mori	International Senior Officer and President of Daiwa Securities SMBC Asia Holding B.V.
Senior Managing Director	Hideo Watanabe	President of Daiwa Securities SMBC Principal Investments Co. Ltd.
Senior Managing Director	Kazuhiko Akamatsu	Corporate Sales Senior Officer, Corporate Institutions Senior Officer, and Corporate Division Planning Officer
Managing Director	Takashi Yamaguchi	Corporate Institutions Officer (V, VI, VII)
Managing Director	Teruaki Ueda	Strategic Advisory (M&A) Senior Officer, Corporate Finance Officer, Investment Banking Planning Officer, and Research and Advisory Officer
<u>Managing Director</u>	Masaki Yamane	Osaka Branch Officer and Branch Manager
Managing Director	Mitsuharu Tanaka	Corporate Institutions Officer (I,II) and Financial Sponsor Officer
Director	Tetsufumi Fujisawa	Structured Finance Officer and Corporate Finance Deputy Officer
Corporate Auditor	Shigeharu Tominaga	
Corporate Auditor	Satoshi Otsu	
Corporate Auditor	Fuminori Yoshitake	
Corporate Auditor	Yoshio Nagamoto	
Senior Executive Officer	Akio Takahashi	International Planning and Administration Officer and Planning Office
Senior Executive Officer	Yoriyuki Kusaki	Corporate Institutions Officer (III & IV)
Executive Officer	Masami Tada	Osaka Branch Officer
Executive Officer	Shigeo Koike	Corporate Institutions Officer (VIII & IX)
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	Takatoshi Wakabayashi	Initial Public Offering Senior Officer and Capital Markets Officer
Executive Officer	Toshinao Matsushima	Products Senior Officer and Global Products Planning Officer
Executive Officer	Yasuharu Okanoya	Financial Institutions Officer
Executive Officer	Shigeru Ishida	North Asia Officer, and Chairman of Daiwa Securities SMBC Hong Kong Limited and Daiwa Securities SMBC-Cathay Co., Ltd.
Executive Officer	Yoshimasa Tsunei	Legal Compliance Officer and Finance and Corporate Risk Management Officer
Executive Officer	Yoshimasa Nagase	Nagoya Branch Officer and Branch Manager
Executive Officer	Seiji Sato	Strategic Advisory (M&A) Officer
Executive Officer	Hiroaki Saito	Fixed Income, Currency and Commodities (FICC) Officer
Executive Officer	Kazuo Takahashi	Corporate Sales Officer
Executive Officer	Akira Inoue	Deputy President of Daiwa Securities SMBC Principal Investments Co. Ltd.
Executive Officer	Yoshio Urata	Equity Sales Officer
Executive Officer	Akihiko Kanamura	South Asia & Oceania Officer, and Chairman of Daiwa Securities SMBC Singapore Limited and Daiwa Securities SMBC Futures Pte Ltd.

Note: The Three auditors, Shigeharu Tominaga, Fuminori Yoshitake, and Yoshio Nagamoto, 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

* Effective December 2007, the company plans to relocate to the following address : GranTokyo North Tower, 9-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo, Japan

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
Financial future trading under Article 2, Section 12, the Financial Future Trading Law
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.
Proprietary account trading in foreign commodity products

Note: Daiwa Securities SMBC began trading for its own account in foreign commodity products as of September 19, 2006.

8. Participation in Investor Protection Funds

Japan Investor Protection Fund

9. Membership in Securities and Other Associations

Japan Securities Dealers Association
The Financial Futures Association of Japan

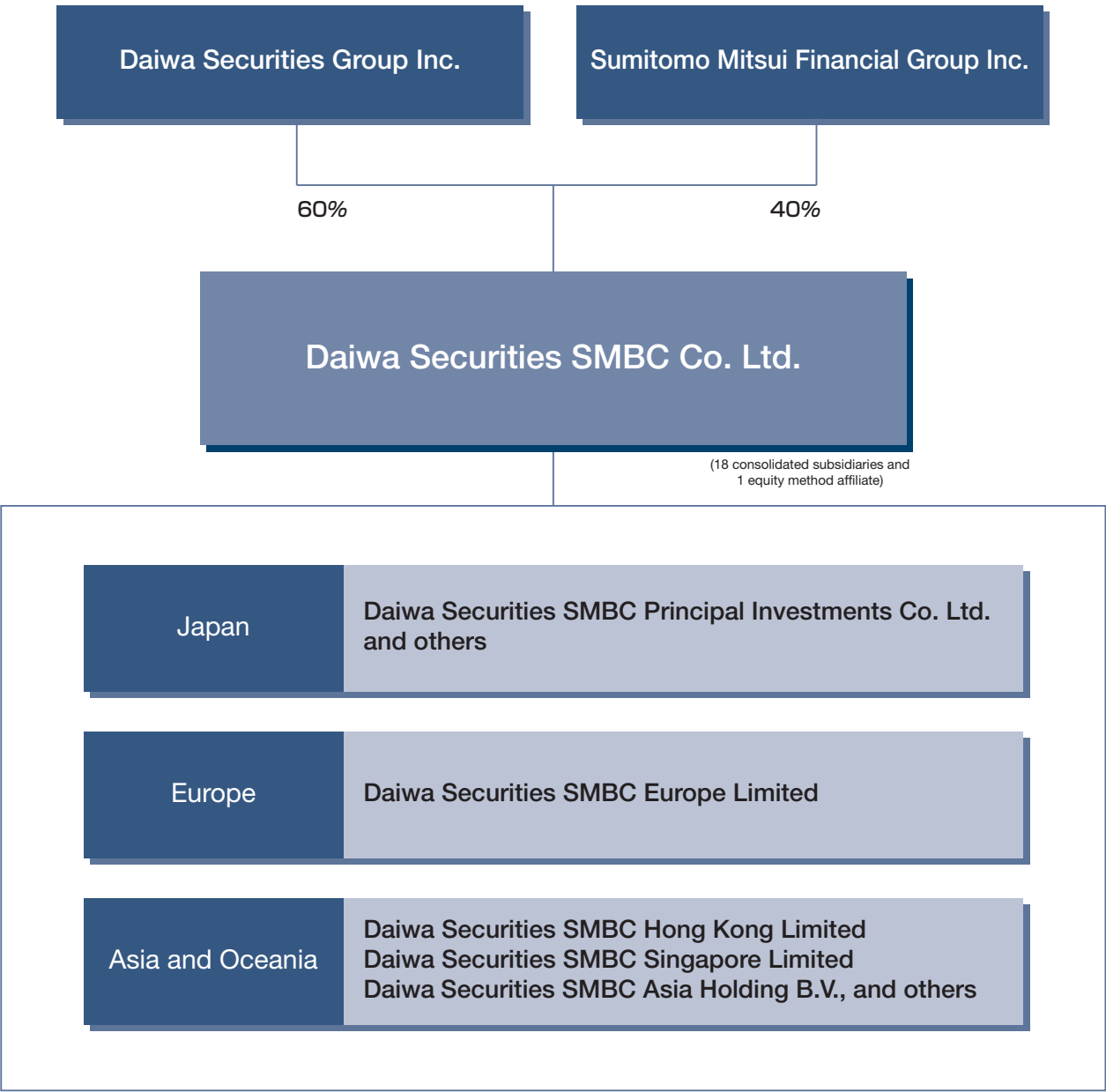
10. Membership in Stock and Other Exchanges

Tokyo Stock Exchange (General trading member)
Osaka Securities Exchange (Cash and futures and other trading member)
Nagoya Stock Exchange (General trading member)
Jasdaq Securities Exchange (Trading member)
The Korea Exchange (Settlement member)
Tokyo Financial Exchange

II. Consolidated Subsidiaries

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. Principal Subsidiaries and Affiliates

(as of March 31, 2007)

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%
Daiwa Securities SMBC Asia Holding B.V.	Amsterdam, Netherlands	177 million Euro	Holding Company	390,803 thousand shares	100%
Daiwa Securities SMBC Hong Kong Limited	Hong Kong	100 million HK dollars 68.5 million US dollars	Securities	16,850 thousand shares	100% (see Note 1)
Daiwa Securities SMBC Singapore Limited	Singapore	42 million Singapore dollars	Securities and Financial Services	42,000 thousand shares	100% (see Note 1)
Daiwa Securities SMBC Futures Pte Ltd.	Singapore	3 million Singapore dollars	Financial Futures	3,000 thousand shares	100% (see Note 1)
Daiwa Securities SMBC Australia Limited	Melbourne, Australia	15 million Australian dollars	Securities	30,000 thousand shares	100% (see Note 1)
Daiwa Securities SMBC-Cathay Co., Ltd.	Taipei, Taiwan	2,000 million Taiwan dollars	Securities	180,000 thousand shares	90% (see Note 2)
DBP-Daiwa Securities SMBC Philippines, Inc.	Manila, Philippines	255 million Philippine pesos (see Note 5)	Securities	102,000 thousand shares	60% (see Note 3,4)
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%
14 other companies	—	—	—	—	—

Notes: 1. Indirect holding, Daiwa Securities SMBC Asia Holding B.V. holds 100% of the shares.
2. Indirect holding, Daiwa Securities SMBC Asia Holding B.V. holds 90% of the shares.
3. Indirect holding, Daiwa Securities SMBC Asia Holding B.V. holds 60% of the shares.
4. The figure 60% does not include preferred shares (73.3%, it included).
5. Amount includes preferred share capital.

III. Internal Control Structure

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.

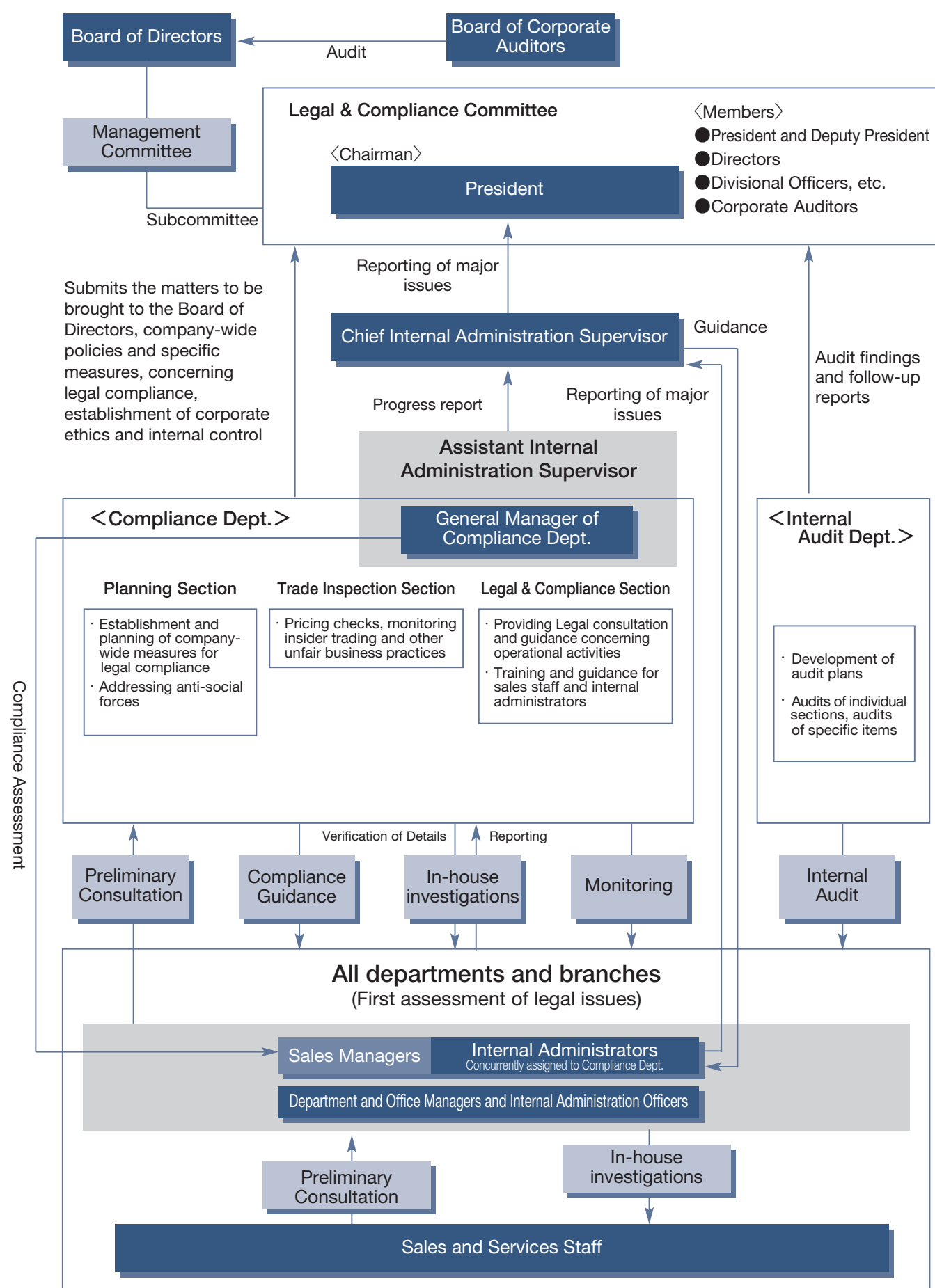
④ Internal Audit Dept.

The Internal Audit Dept. examines the appropriateness and effectiveness of internal control systems within the Company's domestic departments and branches and at overseas branches and offices in order to realize early detection of possible legal and regulatory violations and incidents, and to provide guidance for rectifying internal control systems based on the findings from audits. Also for overseas branches, the Department assesses the degree to which the related internal audit department has achieved control over operations.

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. Clients' opinions and complaints regarding services provided by Daiwa Securities SMBC or by companies commissioned by Daiwa Securities SMBC should be directed to the following. Please note that we cannot take inquiries about orders, account balances or asset management.

Complaint Desk: Marunouchi Trust Tower N, 8-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-8289, Japan
Tel: 03-5533-6800 (9 a.m. to 5 p.m.)

(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.

(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;
- (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) Types 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 information disclosure requests.
- (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.

(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: 03-5533-6800 (9 a.m. to 5 p.m.)

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: 0120-25-7900 (9 a.m. to 5 p.m.)

<http://www.jsda.or.jp>

Financial Section

Contents

I . Consolidated Financial Review : 52

II . Consolidated Balance Sheets : 54

III . Consolidated Statements of Operations : 56

IV . Consolidated Statements Of Changes In Net Assets : 57

V . Consolidated Statements of Cash Flows : 58

VI . Notes to Consolidated Financial Statements : 59

VII . Independent Auditors' Report : 74

VIII . Non-Consolidated Reference Data : 75

I. Consolidated Financial Review

1. Economic Environment

During the fiscal year under review, Japan's economy exhibited steady recovery. The strong performance of the corporate sector trickled down to the household sector and, supported by expanding domestic demand, both sectors posted well-balanced growth. There was notable improvement in the profit structure of Japanese corporations, and private sector capital investment continued to climb. Although the employment environment remained severe, there were signs of improvement. There was evidence that hiring of new school graduates and mid-career employees was on the rise and an increasing number of companies were boosting employee wages by sharing profits through bigger bonuses. Bolstered by these factors, in November 2007 the current run of economic growth exceeded that of the Izanagi boom, becoming the longest period of economic expansion in Japan since World War II.

Despite concern over the sharp slowdown in the U.S. economy and the resurgence of rising crude oil prices, the global economy remained on a steady growth path, supported by continued economy recovery in countries and regions around the world.

Based on the strong fundamentals of the Japanese economy and a bull market in the United States, the Nikkei 225 Index surged ahead at the beginning of April 2006, rising to the 17,500 level. Entering May, however, price corrections in the commodity and emerging economy markets spread to the markets of major economies, driving the Nikkei 225 Index down close to the 14,000 mark in mid June. Following these price corrections, which were mostly completed by mid June, the market swung upward for the remainder of the year fueled by favorable performances by corporate Japan amid sustained gains by the global economy. The Nikkei 225 Index was lackluster at the beginning of 2007, but the postponement of interest rate hikes in Japan and progressive depreciation of the yen supported its climb to the 18,000 level in the latter part of February. A large drop followed at the end of February as part of a chain reaction sweeping through global markets after a sharp decline in Chinese stock markets. The market then rebounded in March, with the Nikkei 225 Index ending the fiscal year at 17,287, posting a net decline of 1.3% over the year.

Reflecting the steady recovery of the Japanese economy, the financial market started the fiscal year strongly, with the long-term interest rate testing the 2% mark at one point. However, following the end to Japan's zero interest rate policy in July 2006, the long-term interest rate generally retreated until the end of the year, particularly in the medium-to-long-term zone. Factored into this softening of the rate were the market's outlook for the economy and price levels and the Bank of Japan's future interest rate policy as well as the decline in U.S. interest rates. From January, the long-term interest rate moved in a narrow range, ending the fiscal year at 1.65%.

2. Business Performance

Under these business conditions, Ordinary Income for this consolidated fiscal year came to 92,866 million yen, and ROE to 8.5% from 18.2% in fiscal 2005.

(1) Commissions

Commissions for this consolidated year totaled 106,530 million yen (4.3 % decrease from the previous fiscal year). Details of sub-items are outlined below.

① Brokerage Commissions

Total brokerage commissions increased to 26,158 million yen (10.9% increase) due to the increase in brokerage volume.

② Underwriting Commissions

Underwriting commissions decreased to 53,905 million yen (16.5% decrease). Underwriting commissions derived from equities decreased to 43,416 million yen (19.6% decrease). On the other hand, underwriting commissions derived from fixed income increased to 9,336 million yen (5.8% increase).

③ Distribution Commissions

Distribution commissions generated 1,248 million yen (9.5% decrease).

④ Other Commissions

Other commissions increased to 25,216 million yen (15.8% increase). Other commissions in Investment Banking increased to 19,388 million yen (19.5% increase) due to increased fees received in M&A operations etc.

(2) Net Gain (Loss) on Trading

Net gain on trading decreased to 116,629 million yen (33.6% decrease). Net trading gains in equities decreased to 24,146 million yen (78.3% decrease), and net trading gains from fixed income together with those from foreign exchange transactions increased to 92,482 million yen (43.6% increase).

(3) Net Interest and Dividend Income

Interest and dividend income totaled 66,258 million yen, whereas interest expenses totaled 56,417 million yen. Net interest and dividend income came to 9,841 million yen.

(4) Selling, General and Administrative Expenses

Of the selling, general and administrative expenses, commission and other expenses totaled 69,368 million yen (6.4% decrease), personnel expenses totaled 47,694 million yen (1.9% increase), data processing & office supplies totaled 17,969 million yen (5.7% increase), occupancy and rental expenses totaled 13,951 million yen (1.8% increase), and depreciation expenses totaled 11,836 million yen (2.9% decrease). Overall selling, general and administrative expenses came to 169,793 million yen, a 1.2% decrease compared to the last year.

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

In conclusion, Operating Revenues for the fiscal 2006 came to 317,118 million yen (9.6% decrease), and Net Operating Revenues to 260,700 million yen (16.3% decrease). Operational Income came to 90,907 million yen (34.9% decrease), and Ordinary Income to 92,866 million yen (34.4% decrease). Finally, considering net extraordinary income, income taxes and minority interests, Net Income for the fiscal 2006 came to 51,945 million yen (43.5% decrease)

II. Consolidated Balance Sheets

DAIWA SECURITIES SMBC Co. Ltd.
Years ended March 31, 2007 and 2006

ASSETS	Millions of yen	
	2007	2006
Cash and cash deposits:		
Cash and cash equivalents	¥ 109,891	¥ 129,082
Cash segregated as deposits for regulatory purposes	46,162	77,680
Other deposits	5,794	5,500
	161,847	212,262
 Receivables:		
Loans receivable	129,766	53,745
Receivables related to margin transactions (<i>Note 3</i>)	241,059	205,936
Other	60,049	79,463
Less: Allowance for doubtful accounts	(162)	(197)
	430,712	338,947
 Collateralized short-term financing agreements (<i>Notes 4 and 10</i>)	4,561,372	4,601,711
 Trading assets (<i>Notes 5 and 9</i>)	4,806,681	5,944,944
 Private equity and other securities (<i>Note 6</i>)	374,761	323,791
 Deferred tax assets (<i>Note 15</i>)	9,014	9,210
 Property and equipment, at cost	18,482	18,425
Less: Accumulated depreciation	(12,880)	(12,948)
	5,602	5,477
 Other assets:		
Lease deposits	5,929	5,964
Investment securities (<i>Note 6</i>)	20,900	21,090
Intangible fixed assets	42,031	31,813
Other (<i>Note 9</i>)	30,562	30,449
Less: Allowance for doubtful accounts	(762)	(744)
	98,660	88,572
	¥ 10,448,649	¥ 11,524,914

See accompanying notes.

LIABILITIES AND NET ASSETS	Millions of yen	
	2007	2006
Borrowings:		
Short-term borrowings (<i>Notes 9 and 10</i>)	¥ 1,412,960	¥ 1,570,630
Commercial paper	302,392	234,210
Long-term debt (<i>Notes 10 and 13</i>)	911,886	827,764
	2,627,238	2,632,604
 Payables:		
Payables to customers and counterparties (<i>Note 12</i>)	50,698	53,383
Trading payables, net	1,483	252,021
Payables related to margin transactions (<i>Note 3</i>)	201,105	176,269
	253,286	481,673
 Collateralized short-term financing agreements (<i>Notes 4 and 10</i>)	2,999,136	2,925,045
 Trading liabilities (<i>Note 5</i>)	3,791,978	4,790,083
 Accrued and other liabilities:		
Income taxes payable	2,465	56,589
Deferred tax liabilities (<i>Note 15</i>)	7,235	1,395
Accrued bonuses	10,045	11,435
Retirement benefits (<i>Note 14</i>)	4,576	4,309
Provision for relocation costs of headquarter office	4,321	—
Other (<i>Notes 9 and 10</i>)	59,756	70,536
	88,398	144,264
 Statutory reserves (<i>Note 16</i>)	5,366	5,178
Total liabilities	9,765,402	10,978,847
 Contingent liabilities (<i>Note 17</i>)		
 Net assets		
Owners' equity (<i>Note 18</i>) :		
Common stock, no par value;		
Authorized - 3,800 shares		
Issued - 3,800 shares	255,700	205,600
Capital surplus	167,421	117,321
Retained earnings	219,687	197,514
	642,808	520,435
 Valuation and translation adjustments		
Net unrealized gain on securities, net of tax effect	22,450	15,920
Deferred loss on hedges	(5)	—
Translation adjustments	16,909	8,630
	39,354	24,550
 Minority interests	1,085	1,082
 Total net assets	683,247	546,067
	¥ 10,448,649	¥ 11,524,914

See accompanying notes.

III. Consolidated Statements Of Operations

DAIWA SECURITIES SMBC Co. Ltd.
Years ended March 31, 2007, 2006 and 2005

	Millions of yen		
	2007	2006	2005
Operating revenues:			
Commissions <i>(Note 20)</i>	¥ 106,530	¥ 111,299	¥ 91,733
Net gain on trading <i>(Note 21)</i>	116,629	175,531	118,304
Net gain on private equity and other securities	27,700	16,967	11,426
Interest and dividend income <i>(Note 10)</i>	66,259	47,022	28,186
	317,118	350,819	249,649
Interest expense <i>(Note 10)</i>	56,418	39,250	27,259
Net operating revenues <i>(Note 19)</i>	260,700	311,569	222,390
Selling, general and administrative expenses <i>(Notes 10, 14, 19 and 22)</i>	169,793	171,906	138,831
Operating income <i>(Note 19)</i>	90,907	139,663	83,559
Other income (expenses):			
Provision for statutory reserves, net <i>(Note 16)</i>	(188)	(826)	(369)
Other, net <i>(Note 23)</i>	(4,041)	4,892	2,943
	(4,229)	4,066	2,574
Income before income taxes and minority interests	86,678	143,729	86,133
Income taxes <i>(Note 15)</i>			
Current	32,553	60,204	7,992
Deferred	2,112	(8,447)	24,065
	34,665	51,757	32,057
Minority interests	(67)	(88)	(42)
Net income	¥ 51,946	¥ 91,884	¥ 54,034

Per share amounts :	Yen		
Net income	¥ 14,034,220.01	¥ 28,713,719.05	¥ 16,885,665.39
Cash dividends applicable to the year <i>(Note 24)</i>	6,830,000.00	9,000,000.00	7,000,000.00

See accompanying notes.

IV. Consolidated Statements Of Changes In Net Assets

DAIWA SECURITIES SMBC Co. Ltd.
Years ended March 31, 2007, 2006 and 2005

		Millions of yen						
		Owners' equity			Valuation and translation adjustments			
	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Net unrealized gain on securities, net of tax effect	Deferred gain (loss) on hedges	Translation adjustments	Minority interests
Balance at March 31, 2004	3,200	¥ 205,600	¥ 117,321	¥ 74,682	¥ 2,063	¥ —	¥ 2,280	¥ 901
Net income				54,034				
Bonuses to directors				(252)				
Net changes of items other than owners' equity					8,363		2,660	68
Balance at March 31, 2005	3,200	205,600	117,321	128,464	10,426	—	4,940	969
Net income				91,884				
Cash dividends paid				(22,400)				
Bonuses to directors				(434)				
Net changes of items other than owners' equity					5,494		3,690	113
Balance at March 31, 2006	3,200	205,600	117,321	197,514	15,920	—	8,630	1,082
Issuance of new shares	600	50,100	50,100					
Net income				51,946				
Cash dividends paid <i>(Note 24)</i> ...				(28,800)				
Bonuses to directors				(973)				
Net changes of items other than owners' equity					6,530	(5)	8,279	3
Balance at March 31, 2007	3,800	¥ 255,700	¥ 167,421	¥ 219,687	¥ 22,450	¥ (5)	¥ 16,909	¥ 1,085

See accompanying notes.

V. Consolidated Statements Of Cash Flows

DAIWA SECURITIES SMBC Co. Ltd.
Years ended March 31, 2007, 2006 and 2005

	Millions of yen		
	2007	2006	2005
Cash flows from operating activities:			
Net income	¥ 51,946	¥ 91,884	¥ 54,034
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	11,836	12,184	12,327
Provision for retirement benefits, net	267	(201)	290
Provision for relocation costs of headquarter office	4,862	—	—
Statutory reserves, net	188	826	369
Gains related to investment securities	930	(3,191)	(1,947)
Losses related to fixed assets	209	14	621
Deferred income taxes	2,112	(8,447)	24,065
Minority interests	67	88	42
Changes in operating assets and liabilities:			
Receivables and payables related to margin transactions	(10,287)	26,834	4,546
Other receivables and other payables	(79,576)	2,241	4,675
Private equity and other securities	(40,146)	(215,894)	(42,324)
Trading assets and liabilities	(101,611)	638,500	27,051
Collateralized short-term financing agreements	102,827	(149,510)	(1,093,117)
Other, net	(8,885)	4,031	60,318
Total adjustments	(117,207)	307,475	(1,003,084)
Net cash flows provided by (used in) operating activities	(65,261)	399,359	(949,050)
Cash flows provided by (used in) investing activities:			
Payments for purchases of property and equipment	(1,935)	(1,674)	(1,678)
Payments for purchases of intangible fixed assets	(20,113)	(10,487)	(8,960)
Payments for purchases of investment securities	(1,993)	(8,990)	(5,532)
Proceeds from sales of investment securities	1,735	9,331	16,422
Decrease (increase) in long-term loans receivable	671	64	(377)
Other, net	(955)	(542)	(336)
Net cash flows (used in) investing activities	(22,590)	(12,298)	(461)
Cash flows provided by (used in) financing activities:			
Increase (decrease) in short-term borrowings	(102,241)	(448,435)	698,955
Increase in long-term debt	3,500	2,873	107,409
Proceeds from issuance of notes	450,587	393,858	220,975
Payments for redemption of bonds and notes	(357,986)	(297,903)	(80,578)
Proceeds from issuance of shares	100,200	—	—
Payments of cash dividends	(28,800)	(22,400)	—
Payments of cash dividends to minority shareholders	(57)	(43)	(34)
Net cash flows provided by (used in) financing activities	65,203	(372,050)	946,727
Effect of exchange rate changes on cash and cash equivalents	3,457	4,209	1,390
Net increase (decrease) in cash and cash equivalents	(19,191)	19,220	(1,394)
Cash and cash equivalents at beginning of year	129,082	109,862	111,256
Cash and cash equivalents at end of year	¥ 109,891	¥ 129,082	¥ 109,862
Supplemental information on cash flows:			
Cash paid during the year for:			
Interest	¥ 54,855	¥ 37,820	¥ 27,113
Income taxes	3,478	9,068	(622)

See accompanying notes.

VI. Notes To Consolidated Financial Statements

DAIWA SECURITIES SMBC Co. Ltd.
Three years ended March 31, 2007, 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 and reclassifications. 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.

Practical Issues Task Force No.20, “Practical Solution on Application of Control Criteria and Influence Criteria to Investment Associations,” has been applied from this fiscal year. This rule has no effect over the financial statements so far.

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, the 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 net assets. 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.

Based on "Practical Solution on Accounting for the Book Value of Class Shares at the Balance Sheet Date" (Practical Issues Task Force No.10), Net unrealized gain on securities, net of tax effect as of March 2007 includes 13,290 million yen derived from the investments in two corporations' class shares, which are in the exercise period convertible into common shares.

Especially, Net unrealized gain on securities, net of tax effect from the investment in Series 3 Class B preferred shares of Sumitomo Mitsui Construction Co., Ltd. (acquisition cost 15,164 million yen) accounts for 12,879 million yen, subtracting a tax effect of 8,837 million yen from its unrealized gain of 21,716 million yen.

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 net assets.

(5) Derivatives used for non-trading purposes

The 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) Allowance for doubtful accounts

Allowance 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 bonuses of employees and directors represent liabilities estimated as of the balance sheets date.

(Change in the accounting standard)

The consolidated financial statements of the Company are adapted to "Accounting Standard for Directors' Bonus (ASBJ Statement No.4)." from this fiscal year. Directors' bonus is expensed when occurred without directly decreasing retained earnings upon approval of annual shareholders' meeting.

(11) Retirement benefits

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

(12) Provision for relocation costs of headquarter office

Provision for relocation costs of headquarter office has been booked based on reasonable estimation.

(13) 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 the 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. The 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.

(14) Translation of foreign currencies

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

(15) 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 net assets.

(16) Net assets

Change in the accounting standard – The consolidated financial statements of the Company are adapted to "Accounting Standard for Presentation of Net Assets in the Balance Sheet (ASBJ Statements No.5)" and "Guidance on Accounting Standard for Presentation of Net Assets in the Balance Sheet (ASBJ Guidance No.8)" from this fiscal year. As a result, "Deferred loss on hedges" and "Minority interests" were included in net assets.

(17) 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.

(18) Reclassification

Certain reclassifications have been made in the 2006 and 2005 consolidated financial statements to conform to the presentation for 2007.

3. Margin transactions

Margin transactions at March 31, 2007 and 2006 consisted of the followings:

		Millions of yen	
		2007	2006
Assets:			
Customers' margin loans	¥	7,571	¥ 3,536
Cash deposits as collateral for securities borrowed		233,488	202,400
	¥	241,059	¥ 205,936
Liabilities:			
Payable to securities finance companies	¥	23	¥ —
Proceeds of securities sold for customers' accounts		201,082	176,269
	¥	201,105	¥ 176,269

Customers' 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, 2007 and 2006 consisted of the followings:

		Millions of yen	
		2007	2006
Assets:			
Securities purchased under agreements to resell	¥	783,447	¥ 822,098
Securities borrowed		3,777,925	3,779,613
	¥	4,561,372	¥ 4,601,711
Liabilities:			
Securities sold under agreements to repurchase	¥	1,336,807	¥ 1,133,971
Securities loaned		1,662,329	1,791,074
	¥	2,999,136	¥ 2,925,045

5. Trading assets and trading liabilities

Trading assets and trading liabilities at March 31, 2007 and 2006 consisted of the following:

		Millions of yen	
		2007	2006
Trading assets:			
Equities	¥	349,159	¥ 357,261
Government, corporate and other bonds		3,475,385	3,804,808
Investment trust		110,302	95,114
Commercial paper, certificates of deposits and others		19,714	18,635
Option transactions		166,090	906,482
Futures and forward transactions		176,312	156,830
Swap agreements		509,728	607,398
Other derivatives		1,927	1,127
Credit reserves		(1,936)	(2,711)
	¥	4,806,681	¥ 5,944,944
Trading liabilities:			
Equities	¥	76,447	¥ 84,622
Government, corporate and other bonds		3,016,340	3,142,832
Investment trust		14,475	5,471
Option transactions		254,353	1,007,342
Futures and forward transactions		46,081	67,217
Swap agreements		382,772	481,451
Other derivatives		1,510	1,148
	¥	3,791,978	¥ 4,790,083

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, 2007 and 2006 consisted of the followings:

		Millions of yen		
		Cost	Market value	Difference
March 31, 2007:				
Equities	¥	33,489	¥ 67,914	¥ 34,425
March 31, 2006:				
Equities	¥	18,539	¥ 37,010	¥ 18,471

Securities for which a market value was not readily available as of March 31, 2007 and 2006 consisted of the followings:

		Millions of yen	
		2007	2006
Equities	¥	215,127	¥ 205,753
Investments in partnerships		103,399	94,926
Non-consolidated and affiliated companies		3,983	3,393
Other		5,237	3,799
	¥	327,746	¥ 307,871

7. Derivatives used for non-trading purposes

Net unrealized gains of derivatives for non-trading purposes at March 31, 2007 and 2006 (excluding hedging transactions) consisted of the followings:

	Millions of yen			
	Contract amount	Market value	Unrealized gains	
March 31, 2007:				
Currency swap	¥ 11,922	¥ 10	¥ 10	
Foreign exchange contracts	107	0	0	
March 31, 2006:				
Currency swap	¥ 11,289	¥ 17	¥ 17	
Foreign exchange contracts	210	1	1	

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, 2007, the short-term borrowings amounting to ¥754,688 million and other liabilities amounting to ¥131 million were secured by the following assets:

	Millions of yen
Trading asset	¥ 1,073,443
Other	26,811
	¥ 1,100,254

In addition to above, securities borrowed amounting to ¥619,393 million were pledged as guarantee at March 31, 2007.

Total fair value of the securities pledged as collateral at March 31, 2007 consisted of the followings:

	Millions of yen
Securities loaned	¥ 2,448,285
Securities sold under agreements to repurchase	580,553
Other	485,238
	¥ 3,514,076

Total fair value of the securities received as collateral at March 31, 2007 consisted of the followings:

	Millions of yen
Securities borrowed	¥ 4,646,337
Securities purchased under agreements to resell	360,515
Other	464,090
	¥ 5,470,942

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, 2007 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) 2007	Account balances (Millions of yen) 2007
Daiwa securities Group Inc.(DSGI)	¥178,324	60.0%	Decrease in short-term borrowings (subordinated loan) 30,000	Short-term borrowings (subordinated loan) 18,000
			Increase in long-term debt (subordinated loan) 30,000	Long-term debt (subordinated loan) 90,000
			Interest expense 1,702	
Daiwa Securities Co.Ltd.	¥100,000	(DSGI subsidiary)	Selling, general and administrative expenses 35,482	Other liabilities 2,269
Daiwa Securities America Inc.	\$100	(DSGI subsidiary)	Continual transactions of collateralized short-term financing agreements	Collateralized short-term financing agreements(assets) 363,659
			Interest and dividend income 3,791	Collateralized short-term financing agreements (liabilities) 423,623
			Interest expense 7,982	
Sumitomo Mitsui Banking Corporation	¥664,986	(Sumitomo Mitsui Financial Group Inc. subsidiary)	Decrease in short-term borrowings (subordinated loan) 20,000	Short-term borrowings (subordinated loan) 12,000
			Increase in long-term debt (subordinated loan) 20,000	Long-term debt (subordinated loan) 60,000
			Interest expense 1,135	
			Continual transactions of collateralized short-term financing agreements	Collateralized short-term financing agreements(assets) 82,849
			Interest and dividend income 4,329	
			Interest expense 48	

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, where the company or its consolidated subsidiaries are the lessees at March 31, 2007 and 2006 are summarized as follows:

	Millions of yen	
	2007	2006
Non-capitalized finance leases:		
Total assets under non-capitalized finance leases	¥ 349	¥ 382
Accumulated depreciation	198	184
Future lease payments in respect of non-capitalized leases ...	68	200
Due within one year	86	79
Operating leases:		
Future lease payments in respect of operating leases	1,426	5,763
Due within one year	5,226	1,222

12. Payables to customers and counterparties

Payables to customers and counterparties at March 31, 2007 and 2006 consisted of the followings:

	Millions of yen	
	2007	2006
Cash received for customers' accounts	¥ 26,207	¥ 22,971
Cash deposits received from customers	22,672	26,328
Other	1,819	4,084
	¥ 50,698	¥ 53,383

13. Long-term debt

Long-term debt at March 31, 2007 and 2006 consisted of the followings:

	Millions of yen	
	2007	2006
Medium-term notes		
with various rates and maturities through 2037	¥ 753,386	¥ 660,759
Subordinated loans with maturities through 2012	150,000	162,005
Borrowings	8,500	5,000
	¥ 911,886	¥ 827,764

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

Year ending March 31	Millions of yen
2008	¥ 25,913
2009	9,799
2010	10,376
2011	17,306
2012	123,526
2013 and thereafter	724,966
	¥ 911,886

14. Retirement benefits

(1) Retirement benefits for employees

The Domestic Companies provide an unfunded defined retirement benefit plan for eligible employees, which define the amount to be contributed to the individual employee's account in return for services rendered each year. The benefits 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, 2007 and 2006, in the amount of ¥4,483 million and ¥4,233 million. Benefit expenses recorded for the years ended March 31, 2007, 2006 and 2005 were ¥1,982 million, ¥1,894 million and ¥1,669 million.

(2) Retirement benefits for directors

Directors' retirement benefits of ¥93 million and ¥76 million were included in "Retirement benefits" in the accompanying consolidated balance sheets as of March 31, 2007 and 2006. Benefit expenses recorded for the years ended March 31, 2007, 2006 and 2005 were ¥27 million, ¥25 million and ¥175 million.

15. Income taxes

Japanese statutory income tax rate was approximately 40.7% for the fiscal years ended March 31, 2007, 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, 2007 and 2006 were as follows:

	Millions of yen	
	2007	2006
Deferred tax assets:		
Net operating losses carried-forward	¥ 5,854	¥ 7,011
Retirement benefits	1,903	1,822
Employees' compensation and bonuses	2,477	3,439
Accrued enterprise tax	495	4,394
Allowance for possible investment losses	3,304	2,641
Provision for relocation costs of headquarter office	1,792	—
Other	6,727	5,261
Gross deferred tax assets	22,552	24,568
Less: Valuation allowance	(4,813)	(5,157)
Total deferred tax assets	17,739	19,411
Deferred tax liabilities	(15,960)	(11,596)
Net deferred tax assets	¥ 1,779	¥ 7,815

The 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. A reconciliation of the difference in the fiscal year ended March 31, 2007 was omitted because the difference was small:

	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 ¥293 million at March 31, 2007, arising as guarantors of employees' borrowings.

18. Owners' equity

In principle, the Corporate Law ("Law") 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 Law, 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.

19. Segment information

The 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 and (5) private offering of securities.

A summary of revenues by geographic area for the fiscal years ended March 31, 2007, 2006 and 2005 and a summary of total assets by geographic area at March 31, 2007 and 2006 were as follows:

	Millions of yen				
	Japan	Europe	Asia, Oceania & other	Elimination or unallocated	Consolidated
Year ended March 31, 2007:					
Net operating revenues:					
Outside customer	¥ 231,786	15,359	¥ 13,555	¥ —	¥ 260,700
Inter-segment	(4,743)	14,818	1,242	(11,317)	—
Total	227,043	30,177	14,797	(11,317)	260,700
Selling, general and administrative expenses	147,670	22,604	10,853	(11,334)	169,793
Operating income	¥ 79,373	7,573	¥ 3,944	¥ 17	¥ 90,907

At March 31, 2007:

Total assets by geographic area	¥ 9,444,006	1,225,636	¥ 107,622	¥ (328,615)	¥ 10,448,649
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	Millions of yen				
	Japan	Europe	Asia, Oceania & other	Elimination or unallocated	Consolidated
Year ended March 31, 2006:					
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

At March 31, 2006:

Total assets by geographic area	¥ 10,888,047	¥ 1,134,703	¥ 79,006	¥ (576,842)	¥ 11,524,914
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	Millions of yen				
	Japan	Europe	Asia, Oceania & other	Elimination or unallocated	Consolidated
Year ended March 31, 2005:					
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

Geographic overseas revenues for the fiscal year ended March 31, 2007, 2006 and 2005 were as follows:

	Millions of yen			
	America	Europe	Asia & Oceania	Total
Year ended March 31, 2007:				
Overseas revenue(loss)	¥ (1,829)	¥ 9,415	¥ 11,756	¥ 19,342
Net operating revenues				260,700
% of Net operating revenues	(0.7)%	3.6%	4.5%	7.4%

	Millions of yen			
	America	Europe	Asia & Oceania	Total
Year ended March 31, 2006:				
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
Year ended March 31, 2005:				
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, 2007, 2006 and 2005 were as follows:

	Millions of yen					
	Equity	Fixed income (Bond)	Investment trust	Investment banking	Others	Total
Year ended March 31, 2007:						
Brokerage	¥ 25,601	¥ 449	¥ 109	¥ —	¥ —	¥ 26,159
Underwriting	—	—	—	53,905	—	53,905
Distribution	—	—	879	370	—	1,249
Other	518	1,387	1,863	19,388	2,061	25,217
	¥ 26,119	¥ 1,836	¥ 2,851	¥ 73,663	¥ 2,061	¥ 106,530

	Millions of yen					
	Equity	Fixed income (Bond)	Investment trust	Investment banking	Others	Total
Year ended March 31, 2006:						
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
Year ended March 31, 2005:						
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 gain on trading

Breakdown of net gain on trading for the fiscal years ended March 31, 2007, 2006 and 2005 were as follows:

	Millions of yen		
	2007	2006	2005
Stock and other	¥ 24,146	¥ 111,117	¥ 50,537
Bond, forex and other	92,483	64,414	67,767
Bond and other	37,529	27,979	48,965
Forex and other	54,954	36,435	18,802
	¥ 116,629	¥ 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, 2007, 2006 and 2005 were summarized as follows:

	Millions of yen		
	2007	2006	2005
Compensation and benefits	¥ 47,694	¥ 46,820	¥ 39,858
Commissions and brokerage	59,825	65,259	43,252
Communications	6,346	5,812	5,449
Occupancy and rental	13,951	13,702	12,636
Data processing and office supplies	17,969	17,004	16,368
Taxes other than income taxes	4,607	4,774	3,805
Depreciation and amortization	11,836	12,184	12,327
Other	7,565	6,351	5,136
	¥ 169,793	¥ 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, 2007, 2006 and 2005 were as follows:

	Millions of yen		
	2007	2006	2005
Gains or losses on sales of investment securities, net	¥ (263)	¥ 3,565	¥ 2,107
Write-down of investment securities	(667)	(378)	(160)
Valuation losses on fixed assets	—	(14)	(77)
Losses on sale or disposal of fixed assets	(209)	—	(544)
Contribution to Securities Market Infrastructure Improvement Fund ...	—	(200)	—
Relocation costs of headquarter office	(4,862)	—	—
Other	1,960	1,919	1,617
	¥ (4,041)	¥ 4,892	¥ 2,943

24. Dividends

Under the Corporate Law 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.

(1) Payments

Decision	Class of stock	Amounts of dividends (millions of yen)	Dividends per share (yen)	Record date	Effective date
The shareholders’ meeting as of June 23, 2006	Common stock	28,800	9,000,000	March 31, 2006	June 23, 2006

(2) The dividends of which the record date is in this fiscal year and the effective date is in next fiscal year.

The dividend is proposed at the shareholders’ meeting on June 22, 2007 as follows.

Decision	Class of stock	Underlying capital	Amounts of dividends (millions of yen)	Dividends per share (yen)	Record date	Effective date
The shareholders’ meeting as of June 22, 2007	Common stock	Retained earnings	25,954	6,830,000	March 31, 2007	June 22, 2007

VII. Independent Auditors' Report



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, 2007 and 2006, and the related consolidated statements of operations, changes in net assets and cash flows for each of the three years in the period ended March 31, 2007. 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, 2007 and 2006, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2007, in conformity with accounting principles generally accepted in Japan.

Without qualifying our opinion, we draw attention to the following. As discussed in Note 2 to the consolidated financial statements, effective April 1, 2006, Daiwa Securities SMBC Co. Ltd. adopted new accounting standards for the presentation of net assets in the balance sheet.

KPMG AZSA & Co.

Tokyo, Japan
June 8, 2007

VIII. Non-Consolidated Reference Data

DAIWA SECURITIES SMBC Co. Ltd.
March 31, 2007 and 2006

(1) Balance Sheets

ASSETS	Millions of yen		LIABILITIES	Millions of yen	
	2007	2006		2007	2006
Current assets:	¥ 9,190,900	¥ 10,658,663	Current liabilities:	¥ 7,843,373	¥ 9,543,458
Cash and deposits	52,658	71,980	Trading liabilities:	3,535,328	4,622,071
Cash segregated as deposits for regulatory purposes	30,043	75,165	Trading securities and others	2,838,818	3,066,728
Trading assets:	4,364,842	5,686,385	Derivative liabilities	696,509	1,555,342
Trading securities and others	3,511,488	4,018,917	Trading payables, net	—	195,318
Derivative assets	853,353	1,667,467	Payables related to margin transactions:	201,105	176,268
Trading receivables, net	9,784	—	Payables to securities finance companies	22	—
Receivables related to margin transactions:	241,058	205,935	Proceeds of securities sold for clients' accounts	201,082	176,268
Customers margin loans	7,570	3,535	Collateralized short-term financing agreements:	2,383,944	2,632,402
Cash deposits as collateral for securities borrowed	233,488	202,399	Cash deposits as collateral for securities loaned	1,598,568	1,760,389
Collateralized short-term financing agreements:	4,067,408	4,303,263	Payables related to gensaki transactions	785,375	872,013
Cash deposits as collateral for securities borrowed	3,690,354	3,738,214	Deposits received	17,604	18,891
Receivables related to gensaki transactions	377,053	565,049	Cash deposits received as guarantee	17,841	22,139
Short-term guarantee money deposited	31,781	30,809	Short-term borrowings	1,313,049	1,466,299
Short-term loans receivable	361,580	242,753	Commercial paper	301,500	234,210
Accrued income	9,483	9,827	Medium-term notes due within one year	25,912	79,606
Deferred tax assets-current	2,552	7,520	Accrued expenses	14,981	14,589
Other current assets	19,931	25,268	Income tax payable	239	55,013
Less: Allowance for doubtful accounts - current	(226)	(248)	Other current liabilities	31,867	26,649
Non-current assets:	128,605	106,517	Non-current liabilities:	894,968	750,822
Tangible fixed assets	3,796	3,836	Medium-term notes	727,473	581,153
Intangible fixed assets	39,529	29,275	Long-term debt	158,500	165,000
Investments and others	85,279	73,405	Retirement benefits	4,446	4,194
Investment securities	64,373	62,698	Allowance for relocation costs of headquarter office	4,200	—
Long-term loans receivable	10,618	2,577	Other non-current liabilities	349	474
Long-term guarantee deposits	5,009	5,062	Statutory reserves:	5,365	5,177
Deferred tax assets-non-current	3,391	1,072	Reserve for securities transaction liabilities	5,365	5,177
Other investments	2,397	2,501	Reserve for financial futures transaction liabilities	0	0
Less: Allowance for doubtful accounts - non-current	(511)	(507)	Total liabilities	¥ 8,743,707	¥ 10,299,459
Total assets	¥ 9,319,505	¥ 10,765,181	SHAREHOLDERS' EQUITY		
			Common stock	¥ —	¥ 205,600
			Capital surplus	—	117,321
			Additional paid-in capital	—	117,321
			Retained earnings	—	140,849
			Voluntary reserve	—	39,381
			Special reserve	—	38,000
			Special depreciation reserve	—	1,381
			Unappropriated retained earnings	—	101,468
			Net unrealized gain (loss) on securities, net of tax effect	—	1,951
			Total shareholders' equity	—	465,721
			Total liabilities and shareholders' equity	¥ —	¥ 10,765,181
			NETASSETS		
			Owners' equity	¥ 574,067	¥ —
			Common stock	255,700	—
			Capital surplus	167,421	—
			Additional paid-in capital	167,421	—
			Retained earnings	150,946	—
			Other retained earnings	150,946	—
			Voluntary reserve	38,639	—
			Special reserve	38,000	—
			Special depreciation reserve	639	—
			Retained earnings carried forward	112,306	—
			Valuation and translation adjustments	1,730	—
			Net unrealized gain (loss) on securities, net of tax effect	1,730	—
			Total net assets	575,797	—
			Total liabilities and net assets	¥ 9,319,505	¥ —

(2) Statements of operations

	Millions of yen	
	2007	2006
Operating revenues:	¥ 240,709	¥ 292,446
Commissions	92,633	102,488
Net gain (loss) on trading	103,271	160,488
Interest and dividend income	44,804	29,470
Interest expenses	38,789	25,997
Net operating revenues	201,919	266,449
Selling, general and administrative expenses:	146,103	152,975
Commission and other expenses	73,156	78,731
Employees' compensation and benefits	30,042	30,928
Occupancy and rental	11,057	11,119
Data processing and office supplies	16,355	15,713
Depreciation expenses	10,544	11,191
Taxes other than income taxes	2,742	3,329
Others	2,205	1,961
Operating income	55,815	113,473
Non-operating income	15,970	3,078
Non-operating expenses	793	372
Ordinary income	70,992	116,180
Extraordinary gains	—	3,568
Extraordinary losses	6,068	1,422
Income before income taxes	64,924	118,325
Income taxes - current	22,253	53,007
Income taxes - deferred	2,800	(3,298)
Net income	39,869	68,616
Unappropriated retained earnings - carryforward	—	32,851
Unappropriated retained earnings	¥ —	¥ 101,468



For further inquiries regarding the contents

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