

Fact Book 2008

For the fiscal year ended March 31, 2008

For further inquiries regarding the contents

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Daiwa Securities SMBC Corporate Planning Dept.

Daiwa Securities SMBC Co.Ltd.



Daiwa Securities
SMBC

Profile

Daiwa Securities SMBC, Japan’s first wholesale securities firm, was born in 1999 of a strategic alliance between Daiwa Securities (the present-day Daiwa Securities Group) and Sumitomo Bank (the present-day Sumitomo Mitsui Financial Group).

Daiwa Securities, one of Japan’s leading brokerages, was established in 1902, and its long-standing strength in international operations and its substantial product development capabilities were two of its major strengths. Inheriting this legacy, Daiwa Securities SMBC utilizes the unique business model and solid business foundation built through this joint venture between a major brokerage and a megabank to further reinforce its advantages, while at the same time working to offer unique, groundbreaking financial solutions that are made possible by collaborating with a megabank.

As part of the Daiwa Securities Group, we are forging ahead on the “Passion for the Best” mid-term business plan, and we are working to provide products and services that exceed our customers’ expectations based on our vision to become “Japan’s best investment bank” — built upon the trust of our clients and the passion of our employees.

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We have created this fact book with the aim of providing information about our earnings results for the year ended March 2008 and our management vision for the future as well as other information about the company. The opinions, forecasts, and data presented in this fact book are based on information gathered from information sources that we believed to be reliable at the time that this fact book was created. However, the accuracy, reliability or completeness of this information is not guaranteed and it may change in the future without notice.

This fact book is not intended as a solicitation of business. Nevertheless, we ask that readers who decide to engage in business based on the material presented in this fact book read the “Notification Items Regarding Advertising etc.” (page 75) and take careful note of the information on that page.

Consolidated Financial Highlights

Daiwa Securities SMBC Co. Ltd.
Years ended March 31, 2006 to 2008

	Millions of yen		
	2006/3	2007/3	2008/3
Operating Performance			
Operating revenues	350,819	317,118	242,269
Net operating revenues	311,569	260,700	161,954
Operating income	139,663	90,907	(225)
Ordinary income	141,582	92,866	1,431
Income before income taxes and minority interests	143,729	86,678	(115)
Net income	91,884	51,946	(5,836)
Balance Sheet (Fiscal-year end)			
Total assets	11,524,914	10,448,649	13,881,604
Total shareholders’ equity	544,985	—	—
Net assets (Note)	—	683,247	615,922
Paid-in capital	205,600	255,700	255,700
Financial Ratios			
Return on equity [ROE] (%)	18.2	8.5	(0.9)
Equity ratio (%)	4.7	6.5	4.2

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.





Deputy President

Shuntaro Higashi

President

Shin Yoshidome

Senior Managing Director

Ikuko Mori

Aiming to be Japan's best investment bank by delivering high level solutions

In this turbulent global economy, management methods are becoming more complicated and sophisticated every day.

Since our creation through a strategic alliance between Daiwa Securities Group and Sumitomo Mitsui Financial Group, Daiwa Securities SMBC has been actively involved in a wide range of business areas, including developing and offering equity, fixed-income, derivatives and other financial products; underwriting activities including initial public offerings and structured finance arrangements; M&A and other advisory services; and principal investments. We have built a solid record of performance through our endeavors in these areas.

With more and more people looking to direct finance as a key to the continued robust growth of the Japanese economy, the areas in which we can provide support in our role as an investment bank — from raising and managing money and restructuring balance sheets all the way to reorganizing and rehabilitating companies — will continue to grow steadily in the future.

Under the mid-term management plan that we initiated in April 2006, we are striving to become Japan's top investment bank, seen as a top-tier institution even on the international stage. Fiscal 2008 marks the final year of this mid-term management plan, and we are setting the bar even higher as we wrap up the initiatives we have undertaken thus far and launch new strategies. By offering quality products and services that take advantage of our high level of professionalism, state-of-the-art financial technology, and expertise, we are able to deliver solutions that exceed our customers' expectations, allowing us to grow and develop along with our customers.

Under the Financial Instruments and Exchange Law, starting in fiscal 2008, Japanese companies are required to have in place an internal control reporting system. To address this requirement, we are working to further strengthen our internal control system. We are also working to maintain and strengthen the best compliance framework in the Japanese securities industry as we focus our efforts on building a foundation that will allow us to remain a company that offers value for all of our stakeholders.

We look forward to receiving our customers' continued support and patronage.

*Name to be changed to Daiwa SMBC Capital Co. Ltd. in October 2008

04

Through our 3Cs strategy, we are striving to
by practicing “360-degree business” that

President
Shin Yoshidome



The subprime loan crisis and market turmoil

Looking back, there were major changes in the business environment in fiscal 2007, and the turning point came during the summer. During the first half of the year the external factors were favorable, but in the second half global financial markets were coiled by the spreading subprime loan crisis, which had its roots in the US. The fallout from the crisis even affected our own business results, although we did not hold subprime loan related products.

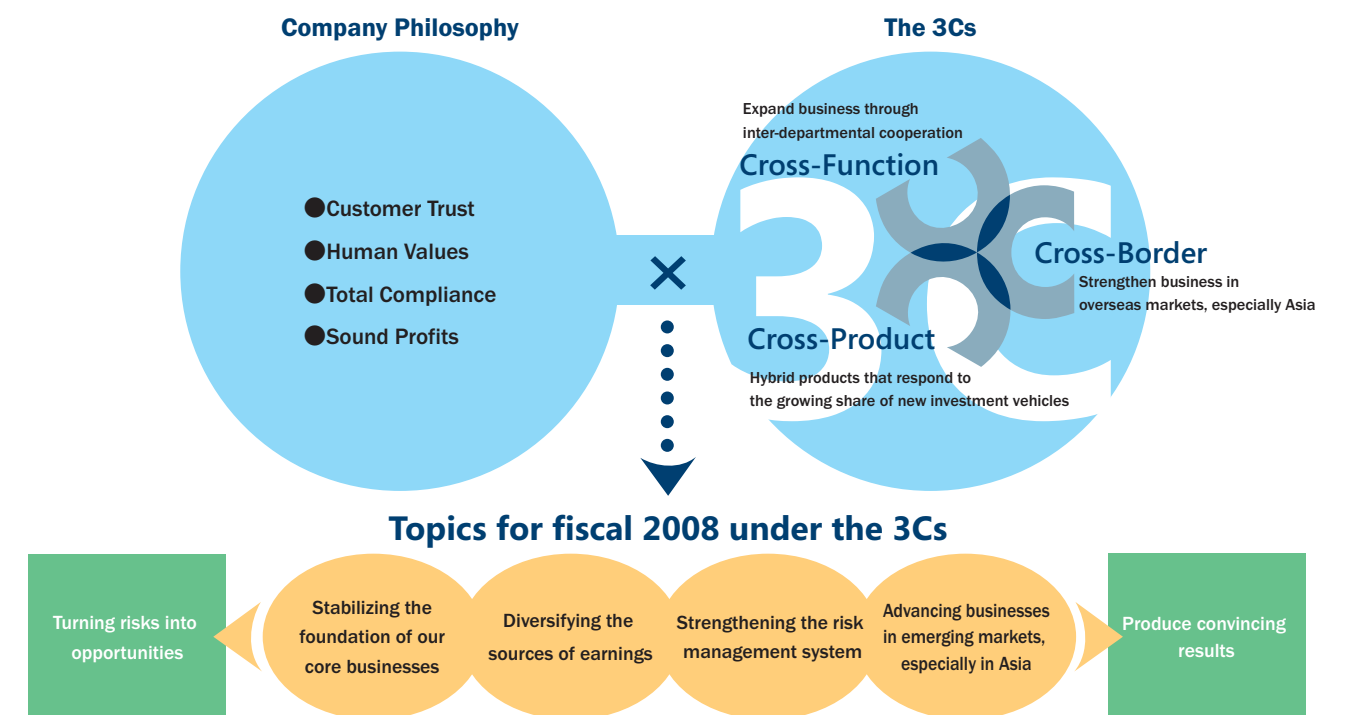
Foreign investors had been bolstering the Tokyo stock market for the past several years. However, they turned into sellers as the outlook for markets became increasingly opaque. The subprime loan crisis was the starting point for a downturn in the Japanese economy as well. The weak yen had helped to produce strong earnings at Japanese export companies, but this came to an end and the yen began surging against the dollar.

In this environment, we have continued to follow the “3Cs” strategy that Daiwa Securities SMBC began implementing in fiscal 2007. The “3Cs” stand for three business keywords: “cross-function,” “cross-product,” and “cross-border.”

Especially in Asia, where there has been remarkable growth, we have been pursuing strategies aimed at rapid and well-timed business expansion. For example, we have been beefing up local human resources, making investments to establish local units, investing in private equity funds, and building electronic trading networks, mainly in emerging markets. We recently completed our first investment in a private equity fund focused on China.

Nevertheless, all in all it was a year in which competition with our rivals both within and outside of Japan intensified as the size of our earnings contracted sharply due to the sluggish demand for equity financing arising from the deteriorating market environment and the weaker appetite for funding. The number of M&A deals involving Japanese companies — which had been steadily growing — was also lower than in fiscal 2006 as financial markets experienced an overall slowdown.

exceed customers’ expectations
oversees every angle



Fiscal 2008 prospects based on the “3Cs”

Recognizing that the business climate will remain challenging for some time, we will continue to work in fiscal 2008 to ensure that our commitment to the 3C keywords is understood throughout the entire company. On top of everything we will intend to tackle a major issue — the need to build a stable foundation for earnings that is less vulnerable to changes in the external environment.

Three things are essential to achieve this: 1) ensure stable earnings and expand these earnings by stabilizing the foundation of our core businesses; 2) lessen risk by diversifying our sources of earnings; and 3) improve business efficiency by strengthening budget management and risk management.

In order to stabilize the foundation of our core businesses, the top priority in the product area will be reinforcing sales and trading functions, and the top priority in the investment banking area will be strengthening its origination function, bolstering the foundation for earnings in our mother market — Japan.

In the M&A business, along with restructuring the service

framework in Japan, we will also pursue synergies with Sagent Advisors Inc. (“Sagent Advisors”), an independent investment bank with which we have formed an alliance, enhancing our ability to work on cross-border M&A deals. In the principal investment business, through which we invest our own funds, we meticulously select our investments and pursue flexible exit strategies.

In diversifying our sources of earnings, we will invest in new areas in order of priority, while taking into consideration the business environment for those businesses that require upfront investments.

Finally, in order to strengthen budget management and risk management we will manage the budget for each business category even more closely, and we will also maintain our stance of assessing predictable risks in great detail. We also intend to put in place as soon as possible a detailed risk management framework that will allow us to respond on a global level to unforeseen events and drastic changes in the environment.

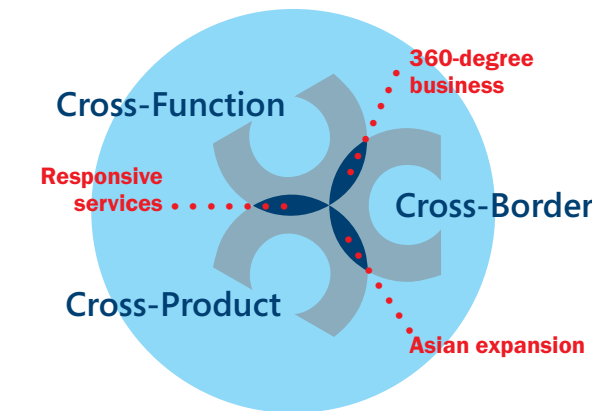
Especially with respect to diversifying our sources of earnings, we

Message from the President

are continuously working to expand our Asia-related businesses in fiscal 2008. We are working to develop our ability to uncover investment prospects by creating our own business and information networks. However, our Asia strategy does not begin and end in the geographic area classified as Asia. For example, by reinforcing the derivatives team in our London office, we will be able to develop and propose products that meet the wide-ranging needs of our customers globally, beginning in Asia. We also hope to uncover promising investment prospects in emerging markets and bring about cross-border M&A transactions.

In 2009 we will celebrate our tenth anniversary, and along with taking stock of our business in the Japanese market, we intend to work to create new business opportunities in emerging markets in Asia and elsewhere by bringing together the skills and expertise found in Daiwa Securities SMBC locations around the globe.

The 3Cs synergy strategy



Fostering human resources with an eye to 5-10 years into the future

Today's world is facing various problems, including environmental issues, food crisis, and soaring resources prices, and they are having a substantial impact on the activities of Japanese companies. Furthermore, economic and financial globalization means that a blow to one region quickly has repercussions in other regions. The subprime loan crisis clearly illustrates how this process of erasing borders is steadily continuing.

Companies must not only return profits to investors by seizing this trend and taking a global view, they must also fulfill their social responsibilities to all of their stakeholders. Values are becoming increasingly diverse in modern society, especially with the addition of the emerging nations that are enjoying a remarkable rise to power.

Markets are becoming generally less interested in financial strategies that are based on an analysis of the cost of capital and optimizing the balance between debt and equity, as well as conventional growth strategies based on M&A deals and strategic business alliances.

We think that the role of Daiwa Securities SMBC in a society that is moving towards globalization is to provide exacting support through our equity, fixed-income, M&A and other businesses to help companies to receive even greater approval from the market. Our mission is to help our customers to manage their companies in ways that can benefit from the capital market and in doing so we aim to become the number one investment bank.

In today's society, the needs of companies and investors are becoming increasingly multifaceted and segmented. This is why Daiwa Securities SMBC is committed to producing results that exceed our customers' expectations by practicing collaboration that goes beyond the boundaries of a single department or a single manager. Every one of our employees takes pride in doing a job that serves society, and they bring their experience and expertise together in an atmosphere of mutual trust.

This is why it is crucial that we are always working to foster our human resources.

At Daiwa Securities SMBC, we are especially focusing our efforts on training the young people who will be leading the investment banking industry five or ten years in the future. We are allowing much of the execution process to be taken part by younger employees in order to give them a sense of what it means to be a financial professional and the opportunity to experience responsibility. We have also instituted a "tutor system" which looks after designated talented young employees in each department so that they can gain an understanding of all aspects of the investment banking business even more quickly.

The company philosophy of the Daiwa Securities Group — which is aiming to become Japan's top securities group — is "Customer Trust" "Human Values," "Total Compliance," and "Sound Profits." For Daiwa Securities SMBC, a company that closely watches global economic trends and provides products and services with a long-term view, people are truly assets, so we will continue to differentiate ourselves from other companies through the capabilities of our talented workforce and thereby serve the companies that are our customers.



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

① Increase the absolute level of revenues

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

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

② Secure the No. 1 position in league tables

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

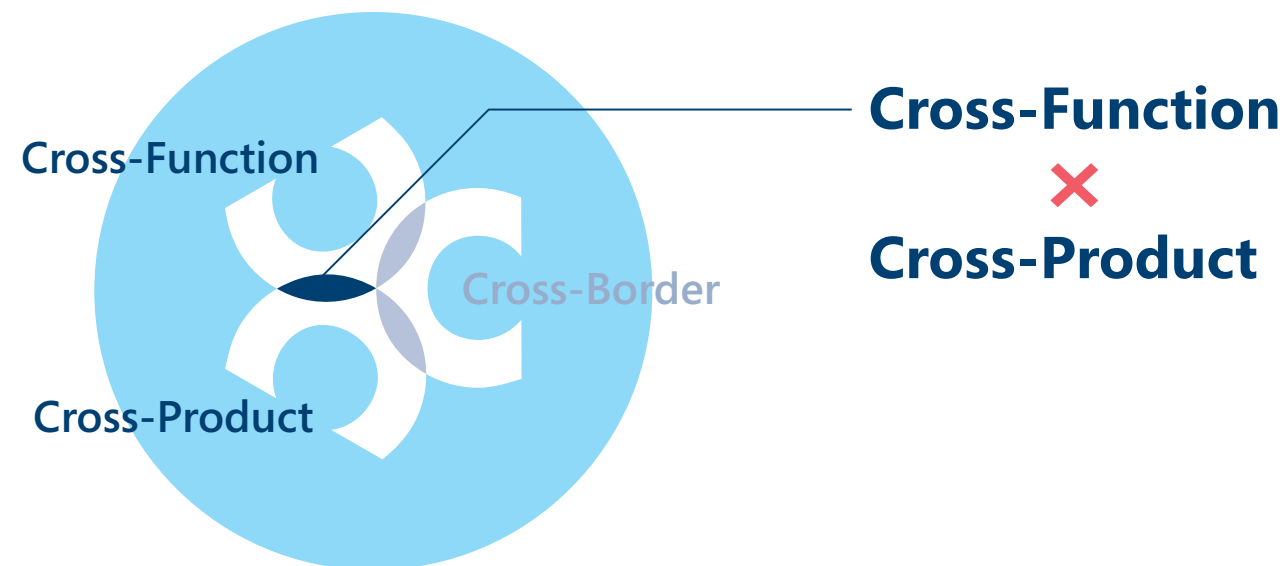
Indicator	Target Value
Total equity	No. 1 (each fiscal year)
Total debt	No. 1 (each fiscal year)
M&A	No. 1 (each fiscal year)

Note 1: The total equity and total debt are the company's own indicators based on the following formulas:
Total equity = issued equity + IPOs + domestic CBs + overseas shares + overseas CBs + third-party allotment scheme + REITs
Total debt = corporate bonds + FILP agency bonds + Samurai bonds + ABS
Note 2: The M&A are "Any Japanese Involvement" league tables, based on Thomson Financial (Public announced deals/transaction value/number of transactions basis)

③ Areas to strengthen

Fundamental reinforcement of trading and principal investment business

Progress of the "3C" Strategy



"We need to build up our capital, but not wanting to dilute earnings per share." "We need to play a role in protecting the environment while still pursuing returns." — As the needs of companies and investors become more diverse, there are a growing number of cases in which they need products that go beyond the traditional concepts of equities and bonds.

At Daiwa Securities SMBC, by fusing the "cross-function" concept of making collaboration among various business areas as strong as possible, with the "cross-product" concept of offering a comprehensive lineup of hybrid products, we will give birth to revolutionary services and fulfill the wide-ranging requests of our customers.

For example, in the case of the Nippon Steel hybrid securities, we formed a project team that included a number of employees from our equity, fixed-income, and derivatives businesses as well as attorneys, and this group of specialists created Japan's first ever hybrid securities scheme after a series of discussions with the client and ratings institutions.

CO2L ("cool") bonds are a product that works for the environment from a financial angle. These bonds for individual investors take advantage of an emission rights trading mechanism. Trading rights have been talked about as a means to curtail global warming, and these were the first uridashi bonds in Japan that allowed individuals to participate in this market. It was developed by Daiwa Securities SMBC and sold through Daiwa Securities, our retail arm which has branches throughout Japan.

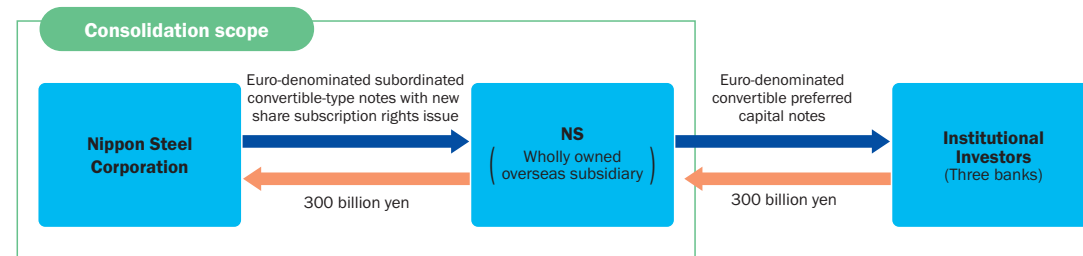
These two deal examples are great way to show our "cross-function" and "cross-product" collaboration.

Nippon Steel: Example of applying hybrid securities

By bringing together our accumulated expertise in deal-making and researching and studying concepts for a number of years, we, Daiwa Securities SMBC created Japan's first hybrid securities scheme. After determining that these hybrid securities suited the needs of Nippon Steel, which needed the flexibility to make investments aimed at growing profits while maintaining and improving its financial condition, we presented the scheme to the company. The proposal was well-received and in November 2006 Nippon Steel named us as their advisor for equity financing.

The diagram below illustrates the Nippon Steel hybrid securities scheme. Nippon Steel raised money by issuing 300 billion yen in subordinated euroyen convertible bonds to a NS Preferred Capital Limited ("NS," a wholly owned subsidiary established in the Cayman Islands), and NS in turn issued 300 billion yen in preferred euroyen convertible investment certificates. The preferred euroyen convertible investment certificates: 1) did not have any pre-determined maturity date; 2) subordinated to all other regular bonds in terms of repayment priority; and 3) had restrictions on its dividends to be paid if certain conditions are met. Based on these, it was determined through negotiations with leading rating agencies that they have a high proportion of equity (more than 70%). Furthermore, while the attached stock acquisition rights lowered the interest cost, the conversion price was set at a 50% premium to the market price, which held down the dilution of earnings per share as much as possible.

■ Nippon Steel Corporation's Hybrid Securities Scheme



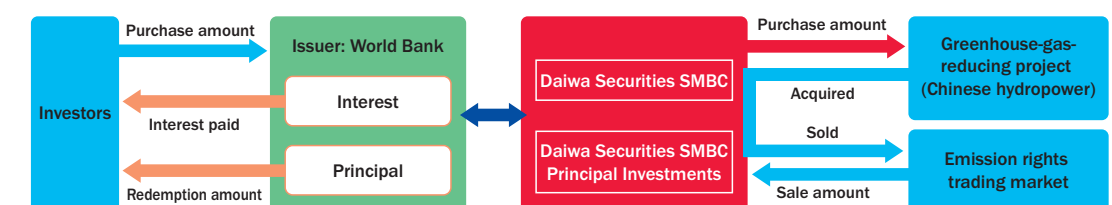
CO2L Bond: Development of environmental product



As Daiwa Securities SMBC looks at of sustainability and corporate social responsibility we are undertaking various environmental initiatives from a financial angle, and one of these initiatives is our CO2L ("cool") bond. We developed the US dollar denominated World CO2L Bond certified emission reduction linked coupon bonds in cooperation with the issuer, the World Bank. The bonds, sold to individual investors, made use of an emission rights trading mechanism set up in accordance with the Kyoto Protocol, Clean Development Mechanism (CDM)*. They are bonds that incorporate a mechanism under which the value of the sale of the emission rights specified in the Kyoto Protocol as returned to investors as profit. Specifically, the emission rights from CO2 reductions, arising from a Chinese hydropower project that had been certified as a greenhouse-gas-reducing project by the UN, will be sold on the emission rights trading market, and the proceeds will be reflected in the interest on the bonds. By using this method, individual investors who ordinarily cannot directly participate in emission rights trade can participate in this market indirectly.

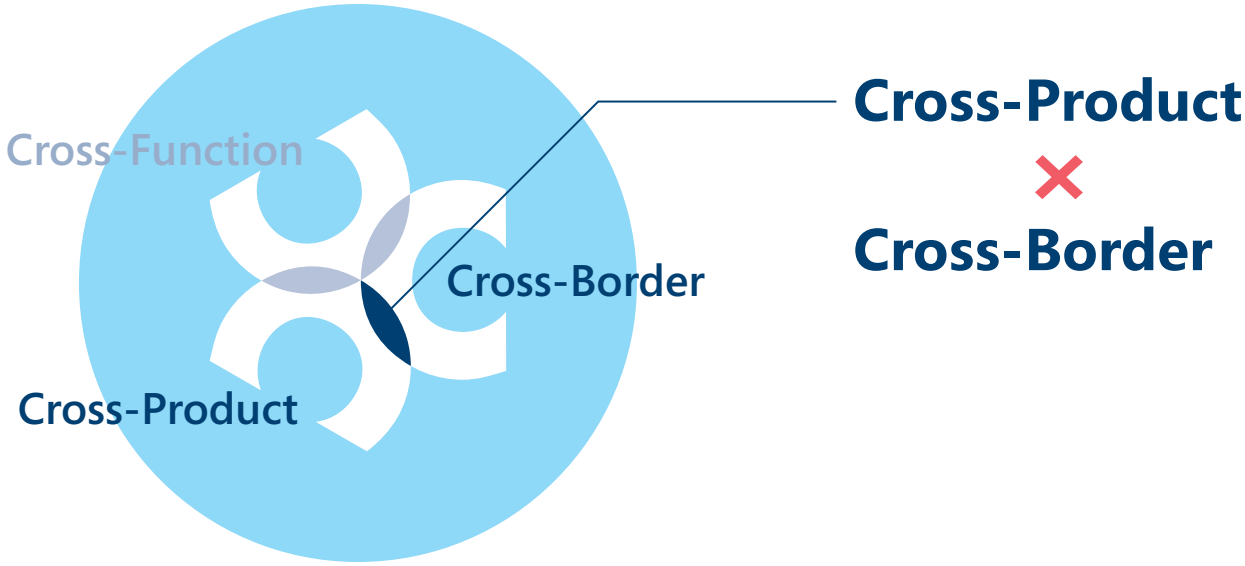
It is our aim that through these cool bonds, the number of people participating in the emission rights market will grow, raising awareness about the value of CO2 among many people, and that this will have a substantial effect in helping to curb global warming.

■ CO2L Bond Mechanism



*Clean Development Mechanism (CDM): The Kyoto Protocol established the goal of reducing the total volume of greenhouse gas emission from industrialized nations by at least 5% during the period from 2008 to 2012, and signatories are supposed to reduce emissions so that they do not exceed their allotted volume (for Japan, this means a 6% reduction). However, it would be difficult for industrialized nations to reach these figures solely through domestic efforts. Therefore, the Kyoto Protocol included three types of schemes — emission rights trading systems that rely on market principles, called the "Kyoto mechanisms" — as measures to supplement domestic reduction efforts and one of this is the Clean Development Mechanism. Under this mechanism, industrialized nations and developing nations are to work together on energy conservation projects, and the resulting reductions in greenhouse gases are transferred to the industrialized nations.

Progress of the "3C" Strategy



As the Japanese economy matures while emerging economies in Asia and elsewhere are growing, many Japanese companies are turning their sights on overseas markets to ensure their survival as well as their capacity for continued growth. Although the number of cross-border M&A deals fluctuates, we believe that there will be continued activity in the future.

For an M&A transaction to be a success, the buyer and the prospective seller must share a unified strategy to overcome delicate issues such as the obtaining the understanding of shareholders and business partners. Yet another requirement is the ability to present prompt and effective ways of obtaining financing so that both companies can respond quickly changes on the business front that affect them. When the M&A deal involves a Japanese company and a foreign company with different languages, business cultures and legal systems, the investment bank must have the expertise and skills that are effective globally.

In 2006 Nippon Sheet Glass completed the acquisition of the UK's Pilkington, the third biggest sheet glass manufacturer in the world, and this case of a smaller acquiring the larger attracted much attention. As financial advisor to Nippon Sheet Glass, our presence as a Japanese investment bank was enhanced throughout the world.

We will present our customers with scenarios for future growth and take on the challenge of building new businesses that go beyond national boundaries. At Daiwa Securities SMBC, we will fulfill our customers' expectations by fusing the "cross-product" concept of comprehensively presenting the latest products with the "cross-border" concept of approaching deals with a global perspective.

Nippon Sheet Glass: Prominent "Cross-Product," "Cross-Border" deal

In June 2006 Nippon Sheet Glass acquired 100% of Pilkington in an all-cash deal, making the UK company a wholly owned subsidiary. The 616 billion yen price tag was roughly 2.3 times Nippon Sheet Glass' fiscal 2004 sales of 265 billion yen. Daiwa Securities SMBC served as the financial advisor to Nippon Sheet Glass for this major cross-border M&A transaction.

■ Information about the Companies (pre-merger)

Company name	Company description	Fiscal 2004 sales	Share of global sheet glass market
Nippon Sheet Glass Co., Ltd.	Japanese glass manufacturer	Approximately 265.0 billion yen	About 4%, #6 in world
Pilkington plc.	UK glass manufacturer	Approximately 492.0 billion yen	About 11%, #3 in world

Securing the substantial funding for the buyout and coordinating among the various parties was the key to this deal in which the smaller company acquired the larger

In this deal, a small company was buying a larger company for a substantial amount, and a major issue was how this could be accomplished given the time constraints. The deal required numerous scenario analysis, due diligence, financial modeling, and checkings: including combining equity and debt financing, cash flow, calculating valuation of post-merger and timing that comply with UK law, disclosure and investor relations policies, and credit ratings. Managing and controlling multiple parties, who had differing interests, was also seen as a success factor.

As a Japanese company, we could offer painstaking advice

As the financial advisor to Nippon Sheet Glass, Daiwa Securities SMBC provided inimitable painstaking advice based on our wealth of experience in the Japanese legal system and investor relations. By putting ourselves in the client's shoes and giving advice based on a long-term view, we were able contribute to this deal's smooth progress.

In raising the substantial amount required for this transaction, we worked with Sumitomo Mitsui Banking Corporation to create a financing structure that would have the best impact on Nippon Sheet Glass' financial stability, share price and credit rating. By underwriting 77.0 billion yen, or 70%, of 110.0 billion yen in unsecured convertible bonds, we helped to complete this 616.0 billion yen M&A transaction in a timely fashion through our powerful support on the financing front.

SRI Sports: Initial deal closed with Sagent Advisors

In April 2007 we formed an equity alliance with Sagent Advisors Inc., an independent US investment bank, reinforcing our solutions framework for cross-border deals between the US and Japan. The first transaction completed under this alliance was the acquisition of a top US golf equipment manufacturer by SRI Sports. Our main function in this deal was providing advisory services for a cross-border M&A transaction. Going forward we intend to provide solutions that fuse the cross-border and cross-product concepts for deals undertaken in cooperation with Sagent Advisors when they are needed.

■ Information about the Companies (pre-merger)

Company name	Company description	Fiscal 2006 sales	Ranking in golf club market
SRI Sports Limited	Manufacturer and seller of golf and tennis equipment, manages golf tournaments, operates golf and tennis schools	Approximately 58.1 billion yen	#1 in Japan
Cleveland Golf Company, Inc.	US golf club manufacturer	Approximately 18.9 billion yen	#5 in the US

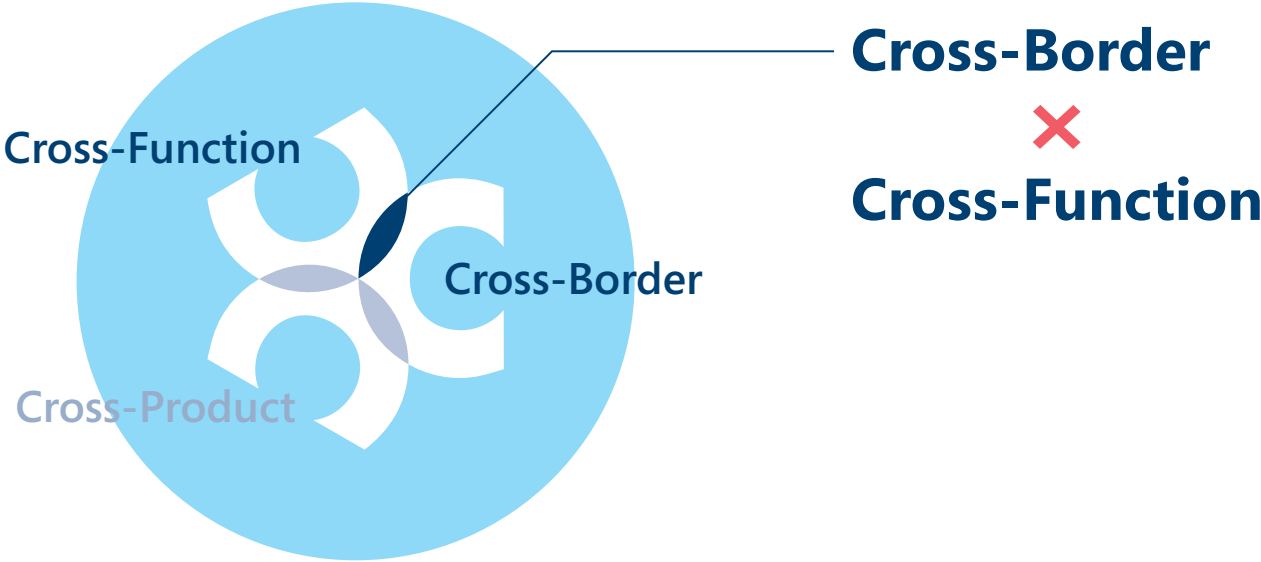
Assisting SRI Sports' global growth strategy from a financial advisor standpoint

SRI Sports manufactures and sells equipment under the Dunlop and Srixon brands. However, it can use Dunlop as a brand name only in Japan, Korea, and Taiwan, causing it to expand its global business under the name, Srixon. Aiming to accelerate its expansion in the global market, in December 2007, SRI Sports acquired 100% of Cleveland Golf from Quiksilver, a US company, for 132.50 million dollars, making Cleveland Golf a wholly owned subsidiary. SRI Sports intends to pursue a global growth strategy under both the Srixon and Cleveland brands. Daiwa Securities SMBC served as financial advisor in this cross-border M&A transaction.

Daiwa Securities SMBC and Sagent Advisors working together to provide solutions that leverage each others' strengths

By communicating closely with the Japanese client company (SRI Sports), we were able to view the transaction from the client's long-term perspective and offer painstaking advice that only a Japanese advisor can provide. At the same time, Sagent Advisors, which has extensive expertise in American M&A transactions, was responsible for negotiating with the seller (Quiksilver) and gathering information locally. We provided cross-border deal advice that cannot be matched by any ordinary Japanese advisor. We are proud that we could satisfy our clients by providing quick and satisfying solution through a smooth execution process.

Progress of the "3C" Strategy



It is fair to say that Asia — with its massive population and rapidly expanding business opportunities — will be the focal point of the global economy in the future. Daiwa Securities Group is working to expand its Asia businesses through the collective strength of the group companies. For us, as one of the main company to expand in Asia, our “cross” strategy, which fuses the overseas-oriented “cross-border” concept of approaching deals from a global perspective with the “cross-function” concept of strengthening the collaboration among different business areas, works as the backbone to support our business expansion.

China is an example. Financial institutions around the world are intensely watching Chinese companies, which have a voracious appetite for funding. Chinese companies — which have already proven themselves and are seeking even further expansion — are increasingly interested in listing on foreign stock exchanges.

Against this backdrop, as lead manager, Daiwa Securities SMBC coordinated the first listing of a Chinese company on the first section of the Tokyo Stock Exchange. We believe that the key to the success of this transaction was our in-depth understanding and expertise in Chinese transactions thanks to our top share in POWLs (public offering without listing) for major Chinese state-owned enterprises.

A number of business groups, including Daiwa Securities SMBC Beijing representative office, Initial Public Offering Department and Corporate Finance Department (II) worked together to carefully resolve the issues that had to be addressed before the company could be listed on the Tokyo Stock Exchange.

Daiwa Securities SMBC is aggressively pursuing other cross-border transactions connecting Japan and other Asian countries.

China Boqi: First to be listed on TSE First Section



中国博奇

■ Issue Description

Issuer	China Boqi Environment Solution Technology (Holding) Co., Ltd. (Company code: 1412)
Type of stock offering	Public offering of new shares and sale of existing shares
Size of stock offering	120,000 shares
Overallotment	18,000 shares
Total offering amount	¥22,800 million
Listing market	Tokyo Stock Exchange first section
Bookrunner and lead manager	Daiwa Securities SMBC

China Boqi becomes first Chinese company to be directly listed on the TSE first section

On August 8, 2007, environmental technology company China Boqi became the first Chinese mainland company to be listed on the first section of the Tokyo Stock Exchange. China Boqi was the second Chinese mainland company to be listed on the Tokyo Stock Exchange, following the listing of another company on the Mothers market in April 2007.

Helping a Chinese company involved in environmental protection engineering to go public in Japan

China is in the midst of an economic boom, but at the same time, its pollution problems are becoming worse. The government is tightening restrictions on the thermal power plants that emit large quantities of sulfur dioxide, which is a major cause of acid rain, and it is beginning to require the installation of desulfurization equipment.

China Boqi is strong in environmental protection engineering. For example, it designs and builds flue gas desulfurization and denitration systems used in coal-fired power plants. In 2007, the company commanded about 20% of the 9 billion yuan market for desulfurization equipment in China.

Daiwa Securities SMBC served as the bookrunner and lead manager for China Boqi's IPO. The early reaction to the offering was positive, indicating that institutional investors look favorably on the Chinese economy as well as the prospects for the continued growth of the thermal power market and the environmental protection industry. On its first day of trading the stock rose to 276,000 yen, about 73% higher than its offering price of 160,000 yen, and its market capitalization was about 91.9 billion yen on a closing-price basis (about 57.0 billion yen on an offering price basis).

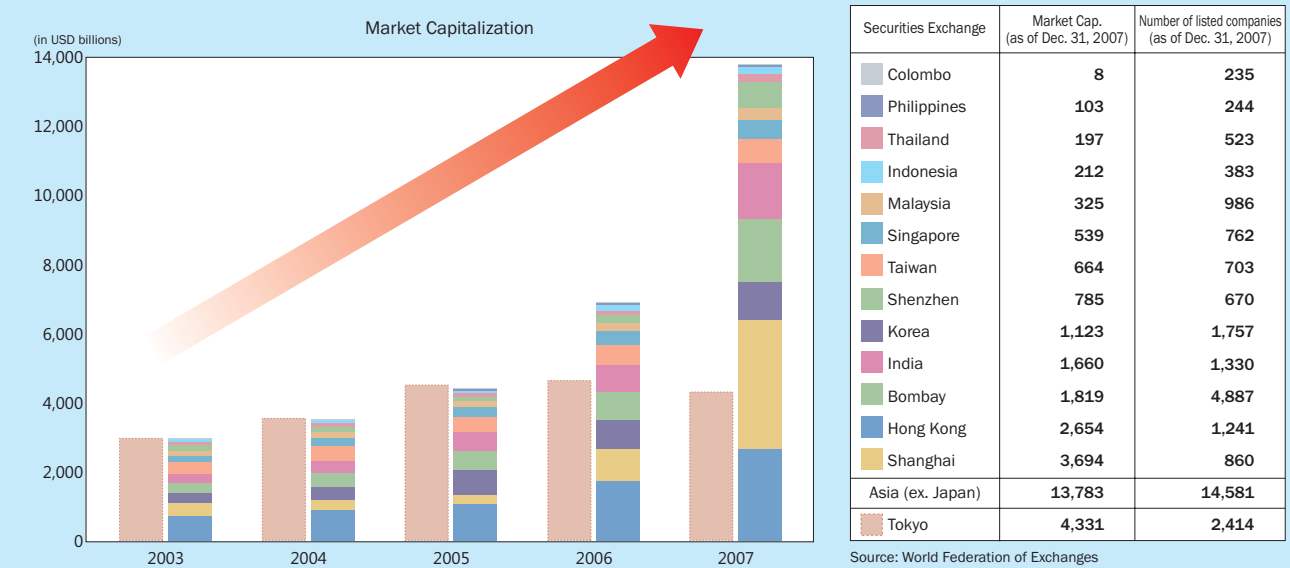
Airway Communications International Holding Company: First Investment in Asia

Investment in Airway Communications International Holding Company

Daiwa Securities SMBC Principal Investments began investing in Asian private equity in the second half of fiscal 2007. Our first deal was a 30 million dollar investment in the preferred shares of Airway Communications International Holding Co., Ltd., “Airway” as lead investor. A number of investors in Japan, the US and China participated in this transaction.

Airway is a purely privately financed network operator that is rolling out high-speed data communications services for local governments and major companies in China. The company plans to use the proceeds from this placement to roll out high-speed wireless data services using wireless broadband technology.

Growth in Asia's Securities Markets



Teamwork is a vital requirement for accurately meeting our customers' various needs



Investment Banking

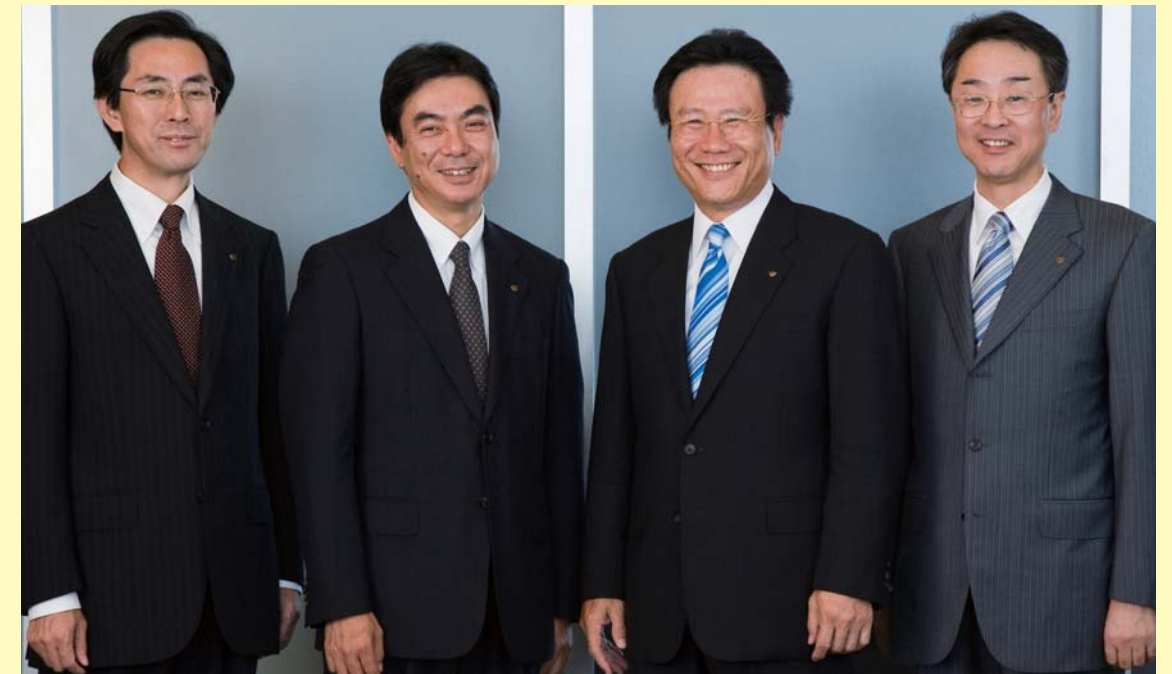
Our investment banking business has one of the largest customer bases in the Japanese market as well as the collective strength of the entire group. It also leverages the strength of our global operations in Asia, the US, and Europe. By taking advantage of our unparalleled research/analysis capabilities and state-of-the-art financial expertise, we are able to provide optimal advice on business and financial strategies that fit in with our customers' business strategies as well as timely and optimal solutions for the pre-IPO to growth stages.

Amid the growing need to expand globally, we will work to further strengthen our global capabilities as we seek to establish a strong presence overseas, especially in other Asian markets.

Products

In products, we have a broad sales network that covers Japanese and foreign institutional investors, public entities, and corporate customers. The corporate access function — performed through collaboration among our various business areas — that connects issuers and investors is one of the best in Japan, covering a wide range of institutional investors that invest in Japanese equities and fixed-income products.

The products business area is also working in cooperation with the fixed-income business segment to foster new business and improve our trading capabilities on a global basis. By offering revolutionary products and services, we are striving to meet the various needs of our customers, diversify our sources of earnings, and bolster the foundation of our business so that we can withstand competition.



Executive Officer
President of Daiwa Securities SMBC
Principal Investments Co. Ltd.

Akira Inoue

Director
Products Senior Officer and
Global Products Planning Officer

Toshinao Matsushima

Senior Managing Director
Corporate Institutions Senior Officer,
Corporate Division Planning Officer,
and Corporate Sales Officer

Kazuhiko Akamatsu

Senior Executive Officer
Investment Banking Senior Officer,
Corporate Finance Senior Officer, and
Investment Banking Planning Officer

Takatoshi Wakabayashi

Corporate Institutions

The individuals who are responsible for our corporate clients are extremely knowledgeable about our products and services. By accurately gauging our customers' needs and connecting them with the appropriate product and investment banking business areas, these individuals can develop and offer comprehensive, quality products and services to our customers.

Our company group has a good reputation in the industry as a workplace for women, and we have been proactive in assigning this role to women.

In this time when companies need to move even faster and faster in capital markets, Corporate Institutions has working to accommodate the timetables of even the fastest paced companies.

Principal Investments

The principal investments business area has grown rapidly in the last few years, and we have been investing our own capital in a variety of areas, including private equities, monetary claims, real estate, and emission rights. By taking advantage of the group's outstanding customer base and our comprehensive information capabilities, we have accumulated quality investments and the amount that we have invested is now among the largest in Japan.

Based on a basic philosophy of building corporate value with a focus on the customer relationship, we have been increasing our investments in other Asian countries since last year while simultaneously working to reinforce and foster the human resources needed for this business expansion.

Business Overview

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 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 business. Based on 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 which cater to clients’ needs. Our clients enjoy the support from our team of professionals that has a thorough understanding of bond and derivative sales, trading, product development, and market analysis reflecting the changing market environment.

(Capital Market and Syndicate

One of the important missions of the Capital Markets and Syndication Department is to assure that the primary and secondary markets operate in harmony. The Capital Markets Department advises prospective issuers on measures of raising funds in an optimal manner for specific requirements of each issuer. It offers issuers, including corporations, financial institutions, and public bodies, financing solutions from the standpoint of long-term financial strategies. We do not stop at recommending the best financing methods such as equity or debt financing. Our services extend to all aspects of underwriting, including negotiations and coordination with external institutions and documentation. We see Capital Markets Department as the bridge between issuers and the secondary market.

The Syndication Department provides information on investor needs and other market trends to Daiwa Securities as well as other departments in Daiwa Securities SMBC, facilitating approaches to issuers and investors. It also draws up offer terms and allocation plans, thus meeting the needs of issuers and investors.

■ FY ended March 2008 Bond issues offered to individual investors

Launch date	Issuer	Tenor	Rating (MDY/S&P)	Offering Price	Coupon	Currency
April 2007	International Bank for Reconstruction and Development	2	Aaa/AAA	100	6.68%	NZD
May 2007	European Bank for Reconstruction and Development	3	Aaa/AAA	100	3.96%	USD
May 2007	Asian Development Bank	3	Aaa/AAA	100	5.58%	AUD
May 2007	International Bank for Reconstruction and Development	2	Aaa/AAA	100	6.76%	NZD
May 2007	European Bank for Reconstruction and Development	2	Aaa/AAA	100	5.40%	AUD
June 2007	Asian Development Bank	2	Aaa/AAA	100	5.67%	AUD
June 2007	International Bank for Reconstruction and Development	2	Aaa/AAA	100	5.60%	AUD
July 2007	Toyota Finance Australia Limited	2	Aaa/AAA	100	7.61%	NZD
July 2007	European Bank for Reconstruction and Development	2	Aaa/AAA	100	5.68%	AUD
August 2007	International Bank for Reconstruction and Development	2	Aaa/AAA	100	7.12%	NZD
August 2007	International Finance Corporation	2	Aaa/AAA	100	3.50%	USD
September 2007	European Bank for Reconstruction and Development	2	Aaa/AAA	100	6.85%	NZD
September 2007	International Bank for Reconstruction and Development	2	Aaa/AAA	100	7.05%	NZD
October 2007	Asian Development Bank	2	Aaa/AAA	100	5.95%	AUD
November 2007	Toyota Finance Australia Limited	2	Aaa/AAA	100	6.56%	AUD
November 2007	Inter-American Development Bank	2	Aaa/AAA	100	6.15%	AUD
November 2007	European Bank for Reconstruction and Development	2	Aaa/AAA	100	7.32%	NZD
November 2007	International Bank for Reconstruction and Development	2	Aaa/AAA	100	7.30%	NZD
December 2007	International Finance Corporation	2	Aaa/AAA	100	6.25%	AUD
January 2008	Toyota Motor Credit Corporation	2	Aaa/AAA	100	7.64%	NZD
January 2008	Aktiebolaget Svensk Exportkredit	3*	Aa1/AA+	100	structured bond	JPY
February 2008	Australia and New Zealand Banking Group Limited	4*	Aa1/AA	100	structured bond	AUD
February 2008	Australia and New Zealand Banking Group Limited	4*	Aa1/AA	100	structured bond	NZD
February 2008	European Bank for Reconstruction and Development	2	Aaa/AAA	100	7.15%	NZD
February 2008	Asian Development Bank	2	Aaa/AAA	100	6.20%	AUD
February 2008	Toyota Motor Credit Corporation	2	Aaa/AAA	100	7.42%	NZD
February 2008	IFFIm	2	Aaa/AAA	100	9.90%	ZAR
March 2008	Kommunalbanken Norway	4*	Aaa/AAA	100	structured bond	JPY
March 2008	Kommunalbanken Norway	4*	Aaa/AAA	100	structured bond	AUD

* With call option

■ FY ended March 2008: All Yen Bonds Bookrunner League Table (April 1, 2007 – March 31, 2008) Source: Thomson Financial

Ranking	House	Number of issues	JPY Amount (JPY mil)	Share (%)
1	Nomura	197	3,847,327.5	16.6
2	Mizuho	175	3,397,364.4	14.7
3	Daiwa Securities SMBC	178	3,393,274.2	14.6
4	Mitsubishi UFJ	161	3,051,620.2	13.2
5	Citigroup	161	3,016,928.3	13.0

Notes: 1. All Yen Bonds = all domestic bonds + overseas
2. All domestic bonds = straight bonds + equity linked bonds + samurai bonds + domestic public ABS + Government-guaranteed bonds (SB type)
3. Equity linked bonds = CBs and warrant bonds 4. Bookrunner deals (including bonds issued by each house group)

■ FY ended March 2008: All Domestic Bonds Bookrunner League Table (April 1, 2007 – March 31, 2008) Source: Thomson Financial

Ranking	House	Number of issues	JPY Amount (JPY mil)	Share (%)
1	Nomura	176	3,381,557.0	20.0
2	Mizuho	161	3,218,246.5	19.0
3	Daiwa Securities SMBC	157	3,081,507.0	18.2
4	Mitsubishi UFJ	146	2,712,073.5	16.0
5	Nikko Citigroup	94	1,771,980.0	10.5

Notes: 1. All 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 2008: All Samurai Bonds Bookrunner League Table (April 1, 2007 – March 31, 2008) Source: Thomson Financial

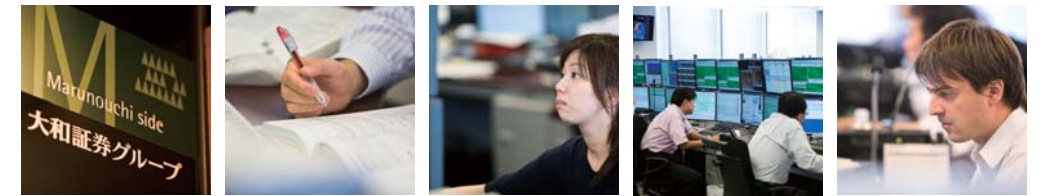
Ranking	House	Number of issues	JPY Amount (JPY mil)	Share (%)
1	Nikko Citigroup	26	536,766.7	22.4
2	Mizuho	26	364,100.0	15.2
3	Daiwa Securities SMBC	27	286,100.0	11.9
4	Nomura	20	238,000.0	9.9
5	JP Morgan	13	232,666.7	9.7

■ FY ended March 2008: Public Offering Bookrunner League Table (April 1, 2007 – March 31, 2008) Source: Thomson DealWatch

Ranking	House	Number of issues	JPY Amount (JPY mil)	Share (%)
1	Nomura	10	174,167	56.66
2	Daiwa Securities SMBC	13	60,329	19.63
3	Nikko Citigroup	3	48,908	15.91
4	Mizuho	3	12,126	3.94
5	Shinko	3	5,774	1.88

Business Overview

Investment Banking

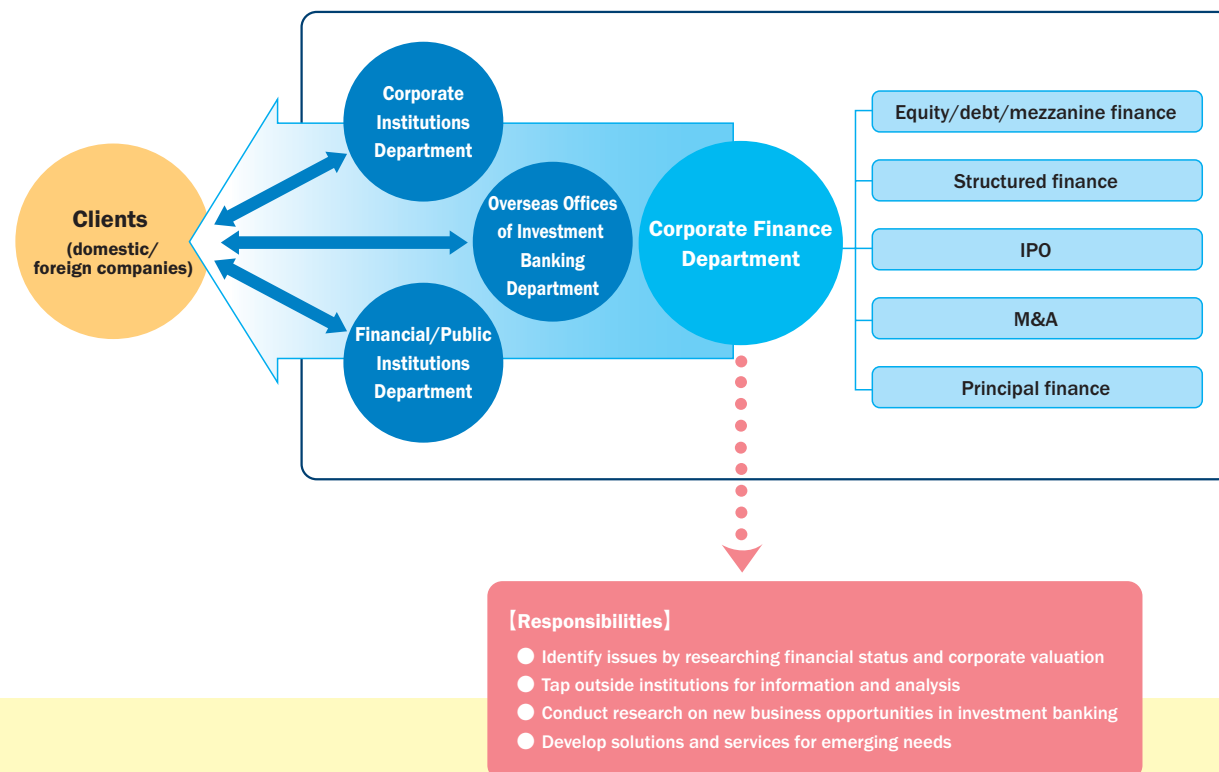


(Corporate Finance

Corporate Finance Department offers, domestic and foreign companies a broad range of financial services, including issuance of equity, debt, hybrid securities, new methods of raising funds through securitization schemes and initial public offerings. We back up our services with analysis of business environment and individual companies to uncover substantial issues, a key element in developing optimal financial and business strategies. We are also a leading provider of a full range of corporate financial services, including domestic and cross-border mergers and acquisitions, which help our clients respond effectively to a globally changing operating environment.

■ Corporate Finance Department

The Corporate Finance Department, working closely with our overseas investment banking teams, domestic Corporate Institutions and Public Institutions Department and leveraging our capabilities in comprehensive analysis, develops solutions that best suit customer needs and optimize their corporate value. As these operations are closely linked to our Capital Markets, Structured Finance, IPO, Principal Investments and other specialized services departments, the Corporate Finance Department plays an important role in setting the strategic direction of our investment banking services.



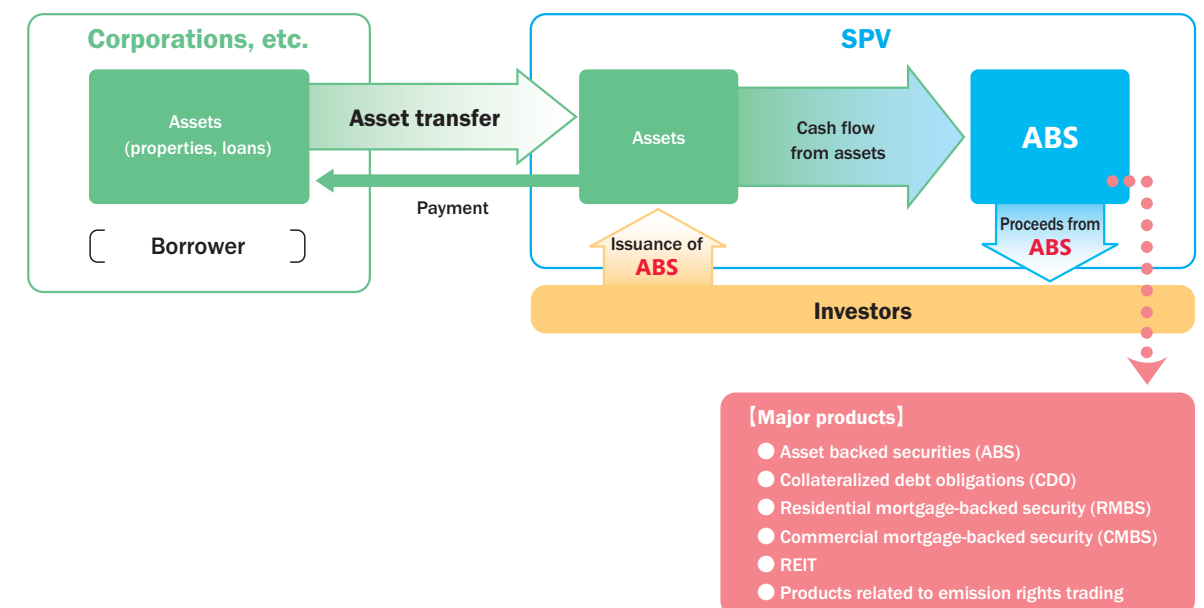
(Structured Finance

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

■ Structured Finance Department

Our mission is to provide sophisticated financial services through the development of a range of financial products in a variety of areas from real estate financing, REITs and monetary claim processing to carbon gas emission rights tradings. Specialized teams, each dedicated to a particular product, structure financial products to precisely meet customer needs and resolve specific issues.

We offer following schemes:



■ FY ended March 2008: ABS League Table (April 1, 2007 - March 31, 2008) Source: I-N INFORMATION SYSTEMS,LTD.

Ranking	House	Number of deals	JPY Amount (JPY mil)	Share (%)
1	Daiwa Securities SMBC	34	916,563	13.4
2	Mizuho	34	854,911	12.5
3	Mitsubishi UFJ	29	624,185	9.1
4	Morgan Stanley	10	526,300	7.7
5	Nomura	11	447,149	6.5

Business Overview

Investment Banking

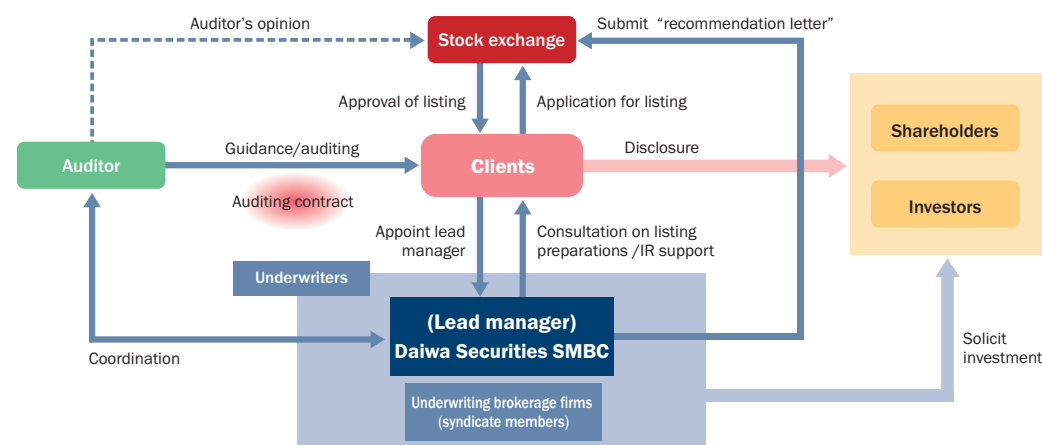


(Initial Public Offering

By combining and through our expanding sales network of Daiwa Securities, with our expertise in initial public offering, we can provide detailed support from consulting to due diligence for our clients' IPOs throughout Japan, before and after issuance. These capabilities have earned us a top class record in Japan's IPO market.

■ Initial Public Offering Department

We offer support to clients preparing for the listing of shares. As an underwriter, our services include, among others, consultation on specifics of listing, assistance in formulating shareholding strategy, procedural advice on pre-listing screenings, communication with the stock exchange and collaboration with auditors.



■ FY ended March 2008 New Listings (excluding no financing listings and IPOs less than 1 billion yen)

Stock code	Company name	Lead manager	Stock Exchange	Number of shares listed (Thousands)			Price (Yen)	Amount raised (million yen)	Listing date
				IPO	Uridashi	OA			
4242	TAKAGI SEIKO CO.	Daiwa	JASDAQ	1,700.000	500.000	300.000	600	1,500.00	2007.6.8
1412	China Boqi Environmental Solutions Technology (Holding) Co., Ltd.	Daiwa	TSE1	80.000	40.000	18.000	160,000	22,080.00	2007.8.8
6409	KITO CORP.	Daiwa	TSE1	—	47.694	7.153	400,000	21,938.80	2007.8.9
8728	MoneySquare Japan, Inc.	Daiwa	Hercules(S)	4.000	4.000	1.200	165,000	1,518.00	2007.10.25
3091	BRONCO BILLY Co., Ltd.	Daiwa	JASDAQ	500.000	200.000	105.000	2,450	1,972.25	2007.11.2
3254	Pressance Corporation Co., Ltd.	Daiwa	TSE2	12.000	8.000	3.000	160,000	3,680.00	2007.12.20
7820	NIHON FLUSH CO., LTD.	Daiwa	TSE2	500.000	700.000	180.000	800	1,104.00	2008.2.13
8899	MORIMOTO Co., Ltd.	Daiwa	TSE2	3,000.000	800.000	570.000	3,400	14,858.00	2008.2.27

■ FY ended March 2008: IPO Bookrunner League Table (April 1, 2007 – March 31, 2008) Source: Thomson DealWatch

Ranking	House	Number of issues	JPY Amount (JPY mil)	Share (%)
1	Nomura	30	279,896	63.05
2	Daiwa Securities SMBC	26	69,689	15.70
3	Nikko Citigroup	5	25,038	5.64
4	JP Morgan	1	19,494	4.39
5	Shinko	12	16,091	3.62

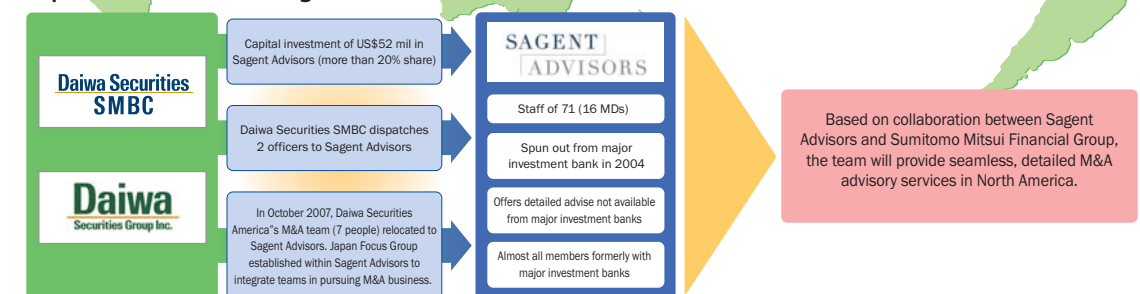
(M&A

In the Mergers and Acquisitions Department, we offer clients a wide range of sophisticated advisory services. Our strength lies in our track record and the wealth of expertise in developing M&A, business alliance, and capital participation strategies, in addition to group/industry restructurings, management buyouts and distressed securities. Backed by the experienced M&A team and working closely with offices in the U. S., UK, Asia and in Japan we are extending our reach and handling a growing number of cross-border transactions.

■ Our M&A Network



■ Capital Alliance with Sagent Advisors



■ M&A Advisory Deals League Table: Deals involving Japanese companies (January 01, 2007 – December 31, 2007) Source: Thomson Financial

Ranking	Advisors	No. of Deals	Market Share (%)	Total Amount (US\$ mil)
1	Nomura	155	5.0	34,468.8
2	Daiwa Securities SMBC	130	4.2	15,077.4
3	Mitsubishi UFJ Financial Group	113	3.7	18,394.1
4	Mizuho Financial Group	101	3.3	16,020.8
5	Citi	96	3.1	23,032.6

Public Announced Deals/No. of deals basis

Business Overview

Principal Investments

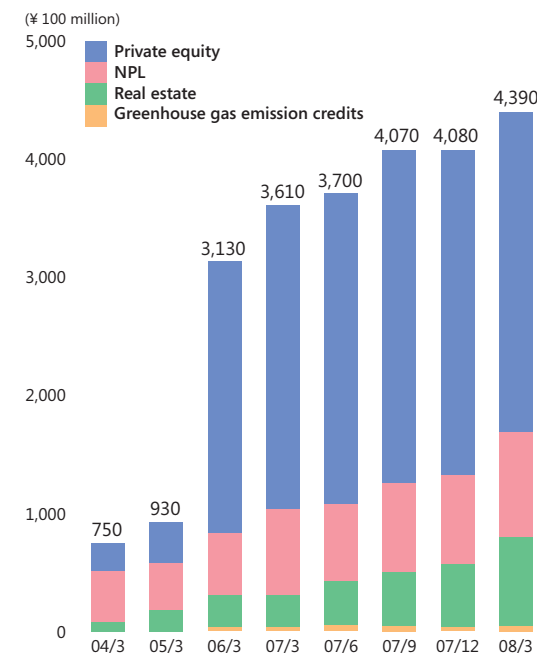


(Principal Finance

Through our wholly owned subsidiary Daiwa Securities SMBC Principal Investments Co. Ltd., we are responding to the balance sheet restructuring and various 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.

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 projects. Principal Investments has carried out a number of domestic investments that are of largest scale in the market. Going forward, Principal Investments will continue to have its team of professionals with specialized knowledge in finance, real estate, accounting, tax, legal affairs, and consulting, to work together as one in supplying the best solutions for a variety of needs in the market.

■ Principal Investments by category



■ Businesses of Daiwa Securities SMBC Principal Investments



■ Major Private Equity Investments (including transactions involving exist from existing investments)

Investment Period (Beginning)	Company	Listing	Company summary
Dec. 2000	Nikko Electric Industries	Unlisted	●Automobile component manufacturer
Jan. 2003	Ogihara	Unlisted	●Automotive press mold manufacturer
Feb. 2003	Meisei Electric	TSE, 2nd Section	●Environmental measurement equipment manufacturer
Sept. 2004	Iing	Unlisted	●Comprehensive outsourcer
Sept. 2004	CABIN	Unlisted*	●Female clothing (apparel) retailers
Oct. 2004	Daiwa Seiko	TSE, 1st Section	●Sporting goods manufacture
Mar. 2005	Mitsui Mining	TSE, 1st Section	●Metals and minerals supplier and trading company
Aug. 2005	Maruzen	TSE, 1st Section	●Major bookstore chain
Aug. 2005	Grand Vista Hotel & Resort	Unlisted	●Hotels and leisure

Note: TSE stands for Tokyo Stock Exchange

*CABIN Co. is a wholly-owned subsidiary of FAST RETAILING Co.

Investment Period (Beginning)	Company	Listing	Company summary
Sept. 2005	Sumitomo Mitsui Construction	TSE, 1st Section OSE, 1st Section	●General constructor
Mar. 2006	Sanyo Electric	TSE, 1st Section	●Electrical appliance company
Aug. 2006	Kotobukiseisakusho	Unlisted	●Warehouse management company specialized in medical record
Sept. 2006	Mitsui Life Insurance	Unlisted	●Life insurance
Dec. 2006	Verite	TSE, 2nd Section	●Jewelry retailer
Feb. 2007	GDH	TSE Mothers	●Contents provider
Aug. 2007	HMV Japan	Unlisted	●Music and audio video software
Feb. 2008	Airway Communications International Holding	Unlisted	●Communications service industry
Feb. 2008	Nippon Dry-Chemical	Unlisted	●Fire extinguishing equipment manufacturing, service industry


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

Topics 2007-2008

● : Daiwa Securities SMBC Principal Investments. All other deals are by Daiwa Securities SMBC.

- Won IFR Yen Bond House of the Year award for the first time since 1997

- Subscribed to a third party allocation of shares by GDH K.K., a Mothers-listed contents developing company (2 billion yen)
- Concluded the contract to sell a portion of its stake in Daiwa Seiko to a number of Daiwa Seiko's business partners

- Shin Yoshidome inaugurated as President of Daiwa Securities SMBC
 - Established the Moscow Representative Office
 - Established the branch office in Dubai, the first for a major Japanese securities firm
 - Executed a business alliance agreement with Sagent Advisors a privately owned U.S. investment bank primarily focused on M&A advisory services
- 
- Dubai Branch establishment reception



Dubai Branch establishment reception

- Concluded contract to act as bookrunner for employee shareholders associations at Japan Post group companies
- Established the Hanoi representative office



Daiwa Securities SMBC Head Office

- Relocated the Head Office to GranTokyo North Tower
- Approved by the Japanese government to participate in Beijing 48 MW Solar Power Project
- Advised SRI Sports* for the acquisition of Cleveland Golf Company Inc., first tie-up deal with Sagent Advisors (as advisor for SRI Sports, 15.2 billion yen)
- Advised Sumitomo Electric Industries for the TOB of Nissin Electric Co. (as advisor for Sumitomo Electric, 16 billion)

- Invested 30 million U.S. dollars in Airway Communication, a Chinese network operating company
- Advised Fuji Film Holdings and Taisho Pharmaceutical for the acquisition of Toyama Chemical (as advisor for Taisho Pharmaceutical, 30 billion yen)
- Arranged for Sumitomo Metal & Mining to issue loan with stock acquisition rights (100 billion yen)
- Lead managed the public offering by Nippon Electric Glass (27 billion yen)
- Established Home Construction Succession Fund to support small and medium enterprises in the housing industry (5 billion yen)
- Lead managed the Series 1 FILP Master Trust 1st Special Purpose Company bond. Packaged, underwrote and placed ¥53.2 billion of the aggregate ¥100 billion bond issue
- Acquired all outstanding shares (excl. treasury stock) of Nippon Dry Chemical

2007 1 2 3 4 5 6 7 8 9 10 11 12 2008 1 2 3 4 5 6 7

- Won "House of the Year" in the Thomson DealWatch Awards 2006. Also awarded Samurai Bond House of the Year, Straight Bond Debut Deal of the Year, Samurai Bond of the Year and IPO of the Year

- Mandated as lead manager for the future listing of Tokyo Stock Exchange Inc. (Currently Tokyo Stock Group, Inc)

- Along with FUJIFILM, NIPPON OIL, Idemitsu Kosan, and The Okinawa Electric Power Company, Daiwa Securities SMBC Principal Investments was approved by the Japanese government to participate in two new greenhouse gas emission reduction projects sponsored by a World Bank fund in which these five Japanese companies have investment stakes

- Mandated as an adviser by the Ministry of Finance for securitization of government loans provided under the Fiscal Investment and Loan Program (FILP)

- Lead managed the public offering of Nippon Residential Investment Corporation(43.6 billion yen)

- Hosted the “Inaugural Asia Reception” in Singapore commemorating 25th anniversary of Daiwa SMBC Singapore Ltd.



The 1st Asian reception in Singapore



- Transferred part of Daiwa Securities SMBC Principal Investment's shareholdings of Maruzen (acquired in 2005) to Dai Nippon Printing

- Lead managed Tokyo Stock Exchange listing of China Boqi Environmental Solutions Technology, the first mainland Chinese firm to list on TSE 1st section (22 billion yen)

- Acquired all outstanding shares of HMV Japan and HMV Retail Limited

- Approved by the Japanese government to participate in four greenhouse gas emission reduction projects in China
- Hosted the “Second Asia Reception” in Taipei to commemorate the 15th anniversary of establishing an office in Taiwan
- Acquired all outstanding shares of Asahikawa Grand Hotel from Nippon Paper Group

- Advised Taisho Pharmaceutical for the TOB of Biofermin (24.1 billion yen)
- Lead managed the offering of Vaccine Bond by IFFIm (1.7 billion South African Rand)

- Advised Mitsukoshi in the launch of Isetan Mitsukoshi Holdings
- Lead managed the offering of Mitsui Mining share (10.6 billion yen)
- Launched operations of Indian Subsidiary

- Acquired debt (17.6 billion) of Shinseido and appointed directors
- Advised SUMCO for making SUMCO TECHIV a wholly owned subsidiary (with share swap worth 38.8 billion yen)
- Won Straight Bond of the Year, Municipal Bond of the Year, Samurai Bond House of the Year, Samurai Bond of the Year, Asset-backed Securities House of the Year, Asset-backed Securities Deal of the Year, Innovative Equity Deal of the Year in the Thomson DealWatch Awards 2007

- Along with Daiwa Securities Group, jointly invested in a private equity fund focusing on China-related investments (100 million U.S. dollars)

- **Structured and sold the CO2L Bond (2.7 billion yen), which coupon correlated with CER prices**
- Acquired convertible bond issued by Neo Solar Power Corp. (47.5 million U.S. dollars)
- Along with Daiwa Securities Group, jointly acquired preferred shares of SOMA Networks (23 million U.S. dollars)
- Lead managed the share offering from Chuo Mitsui Trust Holdings (103.5 billion yen)
- **Lead managed the initial public offering of China Taisan Technology Group in Singapore (equivalent to approximately 4.3 billion yen)**

Awards

THOMSON DealWatch Awards 2007

DealWatch Awards2007

Straight Bond of the Year
 Municipal Bond of the Year
 Samurai Bond House of the Year
 Samurai Bond of the Year
 Asset-backed Securities House of the Year
 Asset-backed Securities Deal of the Year
 Innovative Equity Deal of the Year

EUROMONEY Japanese Edition

EUROMONEY

Debt House of the Year

EuroWeek Review of the Year 2007



Best Lead Manager in Yen

ASiAMONEY Deal of the Year 2007

2007 **ASIAMONEY**
AWARDS

Best International Bond

FinanceAsia Deal of the Year 2007



Best Securitization House
Most Innovative Deal

Corporate Information

(as of July 1, 2008)

Corporate Data

Name :	Daiwa Securities SMBC Co. Ltd.
Head Office :	GranTokyo North Tower, 9-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-6753, Japan Tel : 03-5555-3111 (Reception)
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 :	Tokyo Head Office, Osaka Branch, Nagoya Branch
Overseas Offices :	U.K. London (Subsidiary)/Frankfurt Branch/Paris Branch/Geneve Branch/Milan Branch/ Spain Branch/Bahrain Branch/Dubai Branch/Moscow Representative Office/ Hong Kong (Subsidiary)/Singapore (Subsidiary)/Australia (Subsidiary)/India (Subsidiary)/ Taiwan (Subsidiary)/The Philippines (Subsidiary) /Seoul Branch/Beijing Representative Office/ Bangkok Representative Office/Hanoi Representative Office/ Shanghai (Daiwa SMBC-SSC Securities Co., Ltd.)



Daiwa Securities SMBC Head Office



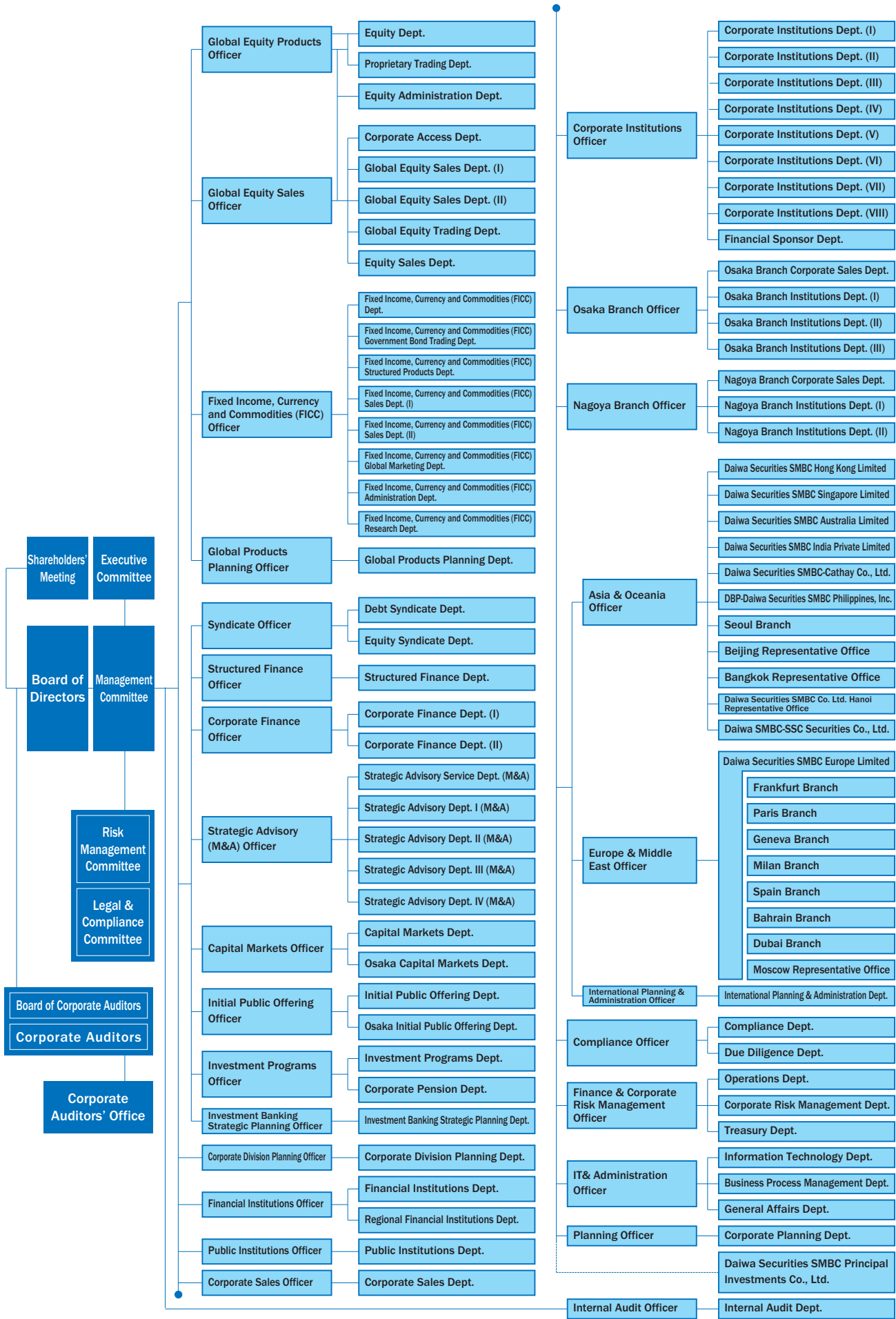
Daiwa Securities SMBC Europe

Directors, Auditors and Executive Officers

President	Shin Yoshidome
Deputy President	Shuntaro Higashi Chief Internal Administration Supervisor and Internal Audit Officer
Senior Managing Director	Ikuro Mori International Senior Officer and President of Daiwa Securities SMBC Asia Holding B.V.
Senior Managing Director	Kazuhiko Akamatsu Corporate Institutions Senior Officer, Corporate Division Planning Officer, and Corporate Sales Officer
Senior Managing Director	Masaki Yamane Osaka Branch Senior Officer and Branch Manager
Managing Director	Mitsuharu Tanaka Corporate Institutions Officer
Managing Director	Akio Takahashi International Planning & Administration Officer and Planning Officer
Director	Shigeo Koike Strategic Advisory (M&A) Officer
Director	Toshinao Matsushima Products Senior Officer and Global Products Planning 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 Managing Executive Officer	Takashi Hibino Head of Global Market
Senior Executive Officer	Yoriyuki Kusaki Corporate Institutions Officer
Senior Executive Officer	Kenichi Miki IT & Administration Officer
Senior Executive Officer	Motoi Takahashi Public Institutions Officer
Senior Executive Officer	Takatoshi Wakabayashi Investment Banking Senior Officer, Corporate Finance Senior Officer, and Investment Banking Planning Officer
Senior Executive Officer	Shigeru Ishida Asia & Oceania Senior Officer, and Chairman of Daiwa Securities SMBC Hong Kong Limited and Daiwa Securities SMBC-Cathay Co., Ltd.
Executive Officer	Eishu Kosuge Europe & Middle East Officer, and Chairman of Daiwa Securities SMBC Europe Limited
Executive Officer	Shinya Nishio Osaka Branch Officer and Branch Deputy Manager
Executive Officer	Yoshimasa Tsunei Compliance Officer and Finance & Corporate Risk Management Officer
Executive Officer	Yoshimasa Nagase Nagoya Branch Officer and Branch Manager
Executive Officer	Hiroaki Saito Fixed Income, Currency and Commodities (FICC) Officer
Executive Officer	Kazuo Takahashi Financial Institutions Officer
Executive Officer	Akira Inoue President of Daiwa Securities SMBC Principal Investments Co. Ltd.
Executive Officer	Yoshio Urata Global Equity Sales Officer
Executive Officer	Akihiko Kanamura Asia & Oceania Officer, Chairman of Daiwa Securities SMBC Singapore Limited and Daiwa Securities SMBC Futures Pte Ltd., and Deputy Chairman of Daiwa Securities SMBC Hong Kong Limited
Executive Officer	Kunio Sato Corporate Institutions Officer
Executive Officer	Hisanobu Sonoda Global Equity Products Officer
Executive Officer	Hisato Oiwa Syndicate Officer and Capital Markets Officer
Executive Officer	Yuichi Akai Strategic Advisory (M&A) Officer
Executive Officer	Toshihiko Onishi Deputy President of Daiwa Securities SMBC Principal Investments Co. Ltd.

Organization

(as of July 1, 2008)



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I. Outline and Organization

1. Corporate Name, Registration Date and Registration Number

Daiwa Securities SMBC Co. Ltd. (the Company)

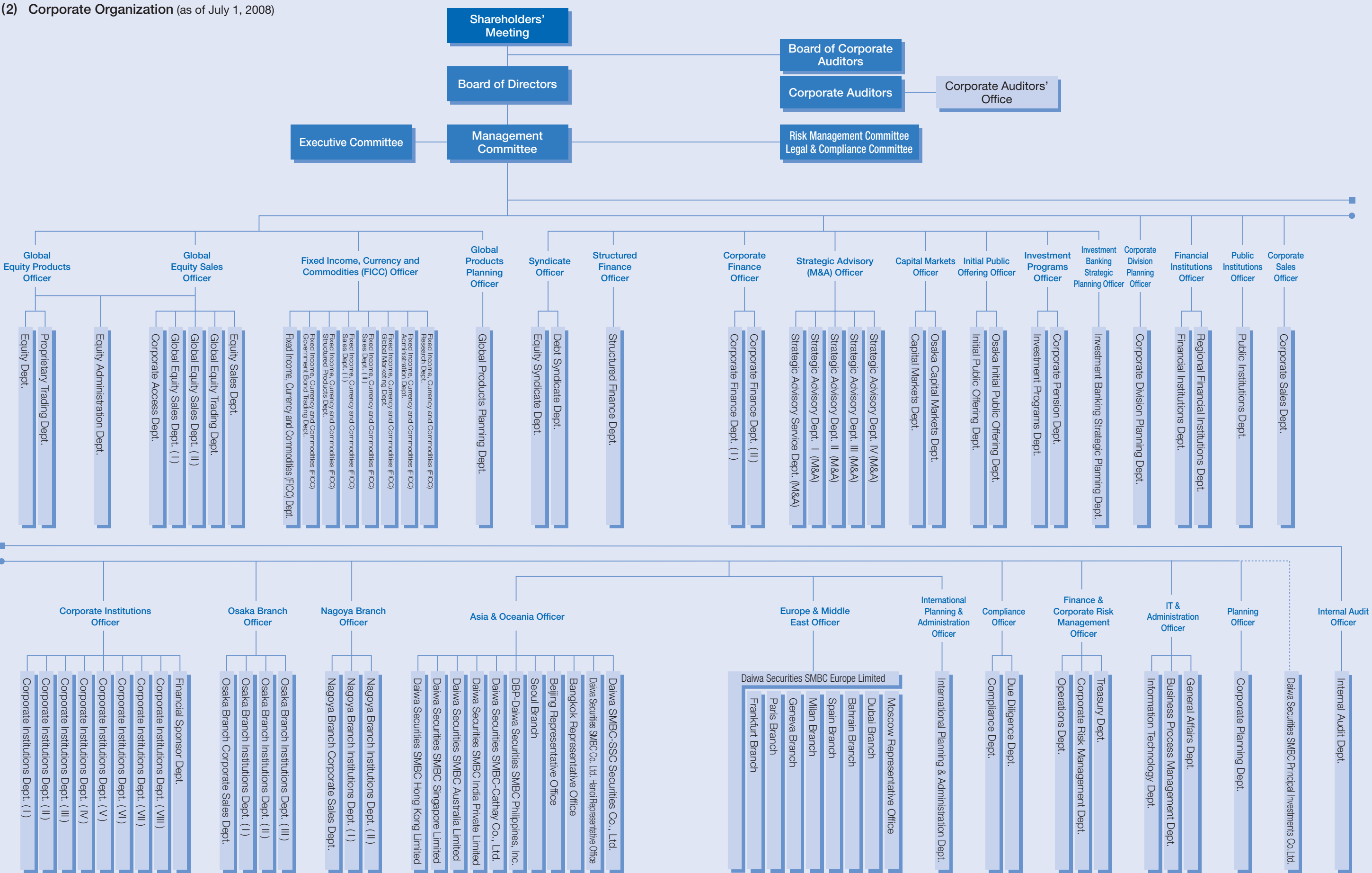
September 30, 2007 Kanto Local Finance Bureau (Financial Products) No. 109

2. 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).
October 2007	Representative office opened in Hanoi, Vietnam.
April 2008	Subsidiary, Daiwa Securities SMBC India Private Limited opened in India.

(2) Corporate Organization (as of July 1, 2008)



3. Shareholders, Number of Shares Held and Percentage of Voting Rights

(as of March 31, 2008)

Name	No. of shares	Percentage of voting rights
1 Daiwa Securities Group Inc.	2,280	60.0%
2 Sumitomo Mitsui Financial Group, Inc.	1,520	40.0%
Total	3,800	100.0%

4. Directors, Auditors and Executive Officers

Underlined directors are representative directors (as of July 1, 2008)

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	Kazuhiko Akamatsu	Corporate Institutions Senior Officer, Corporate Division Planning Officer, and Corporate Sales Officer
<u>Senior Managing Director</u>	Masaki Yamane	Osaka Branch Senior Officer and Branch Manager
Managing Director	Mitsuharu Tanaka	Corporate Institutions Officer
Managing Director	Akio Takahashi	International Planning & Administration Officer and Planning Officer
Director	Shigeo Koike	Strategic Advisory (M&A) Officer
Director	Toshinao Matsushima	Products Senior Officer and Global Products Planning 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 Managing Executive Officer	Takashi Hibino	Head of Global Market
Senior Executive Officer	Yoriyuki Kusaki	Corporate Institutions Officer
Senior Executive Officer	Kenichi Miki	IT & Administration Officer
Senior Executive Officer	Motoi Takahashi	Public Institutions Officer
Senior Executive Officer	Takatoshi Wakabayashi	Investment Banking Senior Officer, Corporate Finance Senior Officer, and Investment Banking Planning Officer
Senior Executive Officer	Shigeru Ishida	Asia & Oceania Senior Officer, and Chairman of Daiwa Securities SMBC Hong Kong Limited and Daiwa Securities SMBC-Cathay Co., Ltd.
Executive Officer	Eishu Kosuge	Europe & Middle East Officer, and Chairman of Daiwa Securities SMBC Europe Limited
Executive Officer	Shinya Nishio	Osaka Branch Officer and Branch Deputy Manager
Executive Officer	Yoshimasa Tsunei	Compliance Officer and Finance & Corporate Risk Management Officer
Executive Officer	Yoshimasa Nagase	Nagoya Branch Officer and Branch Manager
Executive Officer	Hiroaki Saito	Fixed Income, Currency and Commodities (FICC) Officer
Executive Officer	Kazuo Takahashi	Financial Institutions Officer
Executive Officer	Akira Inoue	President of Daiwa Securities SMBC Principal Investments Co. Ltd.
Executive Officer	Yoshio Urata	Global Equity Sales Officer
Executive Officer	Akihiko Kanamura	Asia & Oceania Officer, Chairman of Daiwa Securities SMBC Singapore Limited and Daiwa Securities SMBC Futures Pte Ltd., and Deputy Chairman of Daiwa Securities SMBC Hong Kong Limited
Executive Officer	Kunio Sato	Corporate Institutions Officer
Executive Officer	Hisanobu Sonoda	Global Equity Products Officer
Executive Officer	Hisato Oiwa	Syndicate Officer and Capital Markets Officer
Executive Officer	Yuichi Akai	Strategic Advisory (M&A) Officer
Executive Officer	Toshihiko Onishi	Deputy President of Daiwa Securities SMBC Principal Investments Co. 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.

5. Name of Employee Stipulated by a Separate Ordinance

Compliance Officer and Finance & Corporate Risk Management Officer	Executive Officer	Yoshimasa Tsunei
General Manager of Compliance Department		Kazuya Abe

6. Classification of Operation

- (1) Type I Financial Instruments Business Operator
- (2) Type II Financial Instruments Business Operator
- (3) Securities administration

7. Addresses of Head Office and Other Sales Branches

(as of April 14, 2008)

Name	Address
Head Office	9-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-6753
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

8. Other Types of Business

- (1) Transactions using fluctuation pertaining to prices of products and other indices and price differences between markets
- (2) Business pertaining to the loan business, money lending, and the mediation thereof
- (3) Conclusion of partnership contracts and the intermediary, brokerage or agency thereof
- (4) Conclusion of anonymous association contracts and the intermediary, brokerage or agency thereof
- (5) Conclusion of lending participation contracts and the intermediary, brokerage or agency thereof
- (6) Agency for trust agreements
- (7) Business pertaining to estimated quota (emission quota) trading
- (8) Mediation of other vendors for customers pertaining to engaged businesses
- (9) Investment in limited partnerships and the mediation, brokerage and agency thereof
- (10) Trading in overseas commodities markets (proprietary trading)

9. Membership in Securities and Other Associations and Names of Accredited Investor Protection Groups

Japan Securities Dealers Association
The Financial Futures Association of Japan

II.Consolidated Subsidiaries

10. Membership in Financial Product Exchanges and Business Names

- 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)
- Korea Exchange (Settlement member)
- Tokyo Financial Exchange

11. Membership in Investor Protection Fund

- Japan Investor Protection Fund

12. The Company Engages in the Following Businesses Included in the Matters Set Forth in Article 7(3)(b) and Article 4 (4~9) of the Cabinet Decree on Financial Products Trading Business

- Securities business
- Purchase and sale of real estate trust beneficiary interests

1. Corporate Organization

The Company is a wholesale securities investment bank 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	211.3 million Euro	Holding Company	211,301 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.

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, detailed checks for companywide conflicts of interest, measures against antisocial influences, 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.
- Compliance Section . . The 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 and consideration of applicability and measures for avoidance of companywide conflicts of interest. The section also provides 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.

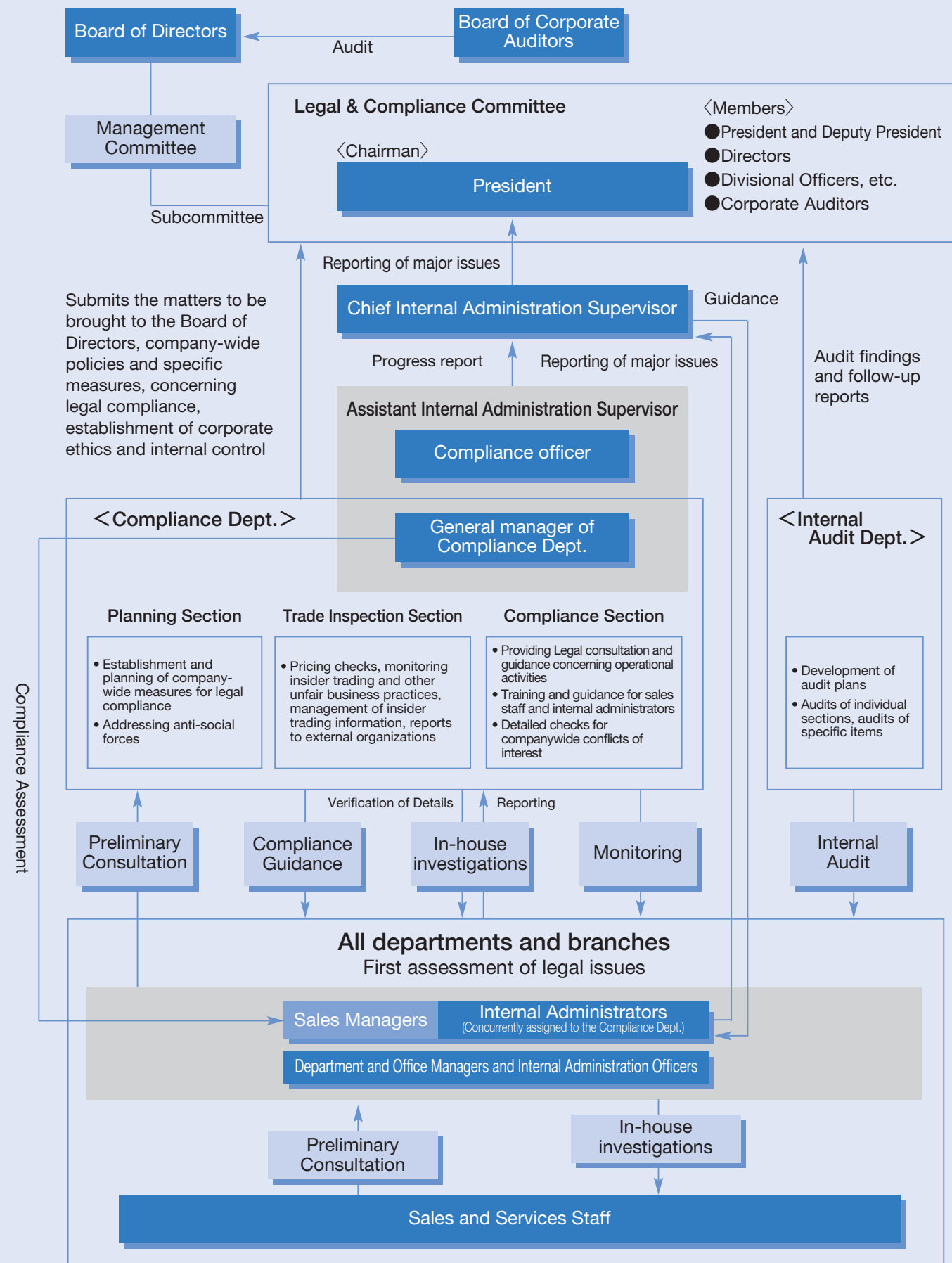
④ Internal Audit Dept.

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

Complaint Desk: GranTokyo North Tower, 9-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-6753, Japan
Tel: 03-5555-6800 (9 a.m. to 5 p.m.)

(4) Measures against Antisocial Elements

In order to ensure the soundness and fairness of the securities markets as well as the safety of customers and employees, the Company has developed a system to counteract antisocial influences, including crime syndicates, affiliates thereof, and sokaiya (manipulators of shareholders meetings), and through organizational measures, refuses all relationships with such influences.

- 1) The Company does not engage in any business with antisocial elements.
- 2) If the Company does discover that a party with which it is already doing business is an antisocial force, it promptly takes appropriate measures to dissolve that business.
- 3) The Company does not provide any funding to antisocial forces.
- 4) The Company does not comply with any wrongful demands by antisocial elements. When a wrongful demand by an antisocial force is recognized, the Company take civil or criminal legal action.
- 5) With regard to the elimination of antisocial elements, the Company has established close cooperative relations with external bodies including the police, the National Center for the Elimination of Boryokudan, and attorneys.

(5) 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., bookbuilding method is used to obtain an accurate grasp of client demand and allocations are made according to the following policies 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,:

- A. The amount requested by the client
- B. Demonstrated interest in the issue during the bookbuilding process
- C. The client's assets, risk recognition, investment experience and knowledge, and investment strategies
- D. 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.:

- 1) 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.
- 2) 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.

(6) Best Execution Policy

This best execution policy sets forth in accordance with the provisions under Article 40, Section 2-1 of the Financial Instruments 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, we will endeavor to execute that order in accordance with the following policy:

*The Company requests that customers fully read through this policy. This policy is not sent the customers of select investors.

1) Type of Securities Covered

- (1) "Listed Securities, etc." that are prescribed under Article 16-6 of the Financial Instruments 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 67 (18)(4) of the Securities and Exchange Law, including, stock and bond with stock acquisition rights (CBs) that are Green Sheet issues and Phoenix 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, our company brokers trade orders for equities, etc. listed on financial product exchanges, but it does not handle any off-exchange transactions including by means of PTS (proprietary trading system).

① Upon receipt of an order, we will promptly place the order with the domestic financial product exchange where the issue is listed. We will, however, place agency orders that were received during out of market hours to the financial product exchange after the market is reopened.

② When ① above is applicable, the transaction for agency order on the exchange shall be carried out as follows.

- a) In cases where the security is only listed on one financial exchange (single listing), the Company will place the order on that particular securities exchange.
- b) In cases 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 financial 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 cases 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 financial exchange.

③ The Company will handle agency orders as follows, should the main exchange be changed after the agency order placed by the clients were handled to the main exchange as in ② b): a)

- 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 as the time it was received. Changes in the exchange on which the order is placed can be checked on the QUICK terminal.
- 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).

(2) Securities Handled

In principle, the Company does not accept orders for Securities Handled (Green Sheet issue and Phoenix 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 cases 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 are soliciting those particular issues, please visit the website of Japan Securities Dealers Association (<http://www.jsda.or.jp/>).

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

(1) Listed Securities, etc.

Financial 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 financial exchanges, the Company takes the position that executing the transaction in the main exchange, which has the highest liquidity, is the most practical and efficient method for the client.

In cases 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 cases 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.

2) Securities Handled

The extent that the Company trades in Securities Handled (Green Sheet issues and Phoenix issues) is limited to those issues that it is soliciting and indicating the prices. The Company only executes transactions for an 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 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.

(7) 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 appropriate ministers and supervisory authorities (hereinafter "Laws"), as well as this Personal Information Handling Policy.
- (2) The Company shall only obtain personal information through 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 that 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 obtain, use, or provide third parties with sensitive information (information related to political views, religious beliefs (religions, philosophy, and faith), membership in labor unions, race and ethnicity, family origin and domicile, health care, sexual orientation, and crime history), except where recognized by the Laws.
- 9) Handling of Complaints
The Company strives to respond promptly and faithfully to 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
Complaint Desk: GranTokyo North Tower, 9-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-6753, Japan
Tel: 03-5555-6800 (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:
- Contacts 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>

2. Status of Separate Management

(1) Trust for holding customer assets (as of March 31, 2008)

(Millions of yen)

Items	Amount
Required segregation of customers' cash in preparation for immediate adjustment on base calculation date	20,100
Income trusts segregated by customer (March 26 difference)	24,000
Required segregation of cash deposits at the end of the fiscal year	41,616

Note: The "recent difference calculation record date for amount required for separate customer assets" shows the amount of the trust for holding customer assets as of the difference calculation record date (March 21), which is the standard for calculating the trust for holding customer assets as of the end of March 2008 (March 26 difference).

(1) Segregation of Securities (as of March 31, 2008)

①Custody of Securities

Security Type	Domestic	Foreign
Equities	30,143,143 thousand shares	1,823,036 thousand shares
Bonds	4,260,544 millions of yen	6,180,444 millions of yen
Investment trust	555,329 million accounts	4,557 million accounts
Stock acquisition rights	41 thousand securities	6,967 thousand securities
Commercial paper	0 millions of yen	—

Note : Domestic equities included non-marketable equities.

②Substitute Securities Received

Security Type	Amount
Equities	197,551 (—) thousand shares
Bonds	127,341 (—) millions of yen
Investment trust	18,586 (—) million accounts

Note : The numbers in parentheses represent the amounts of substitute securities received equivalent to additional collateral to be submitted to a third party that is subject to segregation of customers' assets, with the amount equivalent to market value required by law to be segregated and held in trust. The Company does not submit the required additional collateral that is subject to segregation of customers' assets to the third party.

3. Status of Segregated Management

Article 43-3 of the Financial Instruments and Exchange Law requires securities companies to manage separately their own assets and other assets that are received as collateral for derivative transactions (exchange and OTC) other than transactions involving securities. However, for OTC derivative transactions, securities companies do not receive separate collateral for the securities-related derivative transactions that are not covered by segregated management*. Consequently, in order to protect investors, the Company calculates and reports under divided management as stipulated in Article 43-3 of the Financial Instruments and Exchange Law even collateral received for OTC derivative transactions involving securities. Regarding cash received as collateral for the same OTC derivatives, as provided for in the old Securities and Exchange Law, the Company has been treating this cash as applicable to the trust for holding customer assets whether or not the cash is collateral for securities transactions or other transactions. Therefore, these amounts are included in the "2. Status of Separate Management" above.

*In accordance with Financial Instruments and Exchange Law Article 43-2, securities companies are required to conduct the segregated management of their own assets and other assets received as collateral for derivative transactions involving securities.

(Divided Management as Stipulated in Financial Instruments and Exchange Law Article 43-3)

Management method		2008	2007	Description
Cash	Deposit	—	—	
	Self managed	3,618 thousand shares	440 thousand shares	Company vault
Securities	Self managed	44,128 millions of yen	46,796 millions of yen	Bank of Japan
	Self managed	18,537 million accounts	10,398 million accounts	JASDEC
	Third party	16,194 thousand shares	—	JASDEC
	Third party	78,213 millions of yen	—	Euroclear Bank
	Third party	48 million accounts	—	Daiwa Securities Trust & Banking (Europe)

Note: Monetary assets are included in “2. Status of Separate Management (1) Trust for holding customer assets.” For securities, the “—” for the balance at the end of the previous fiscal year is because monetary assets are included in the balance of customer assets held in accordance with the old Securities and Exchange Law. For OTC financial futures transactions, which are included in derivative transactions other than securities-related, the securities, etc. that can be used by the financial instruments dealer in accordance with the contract are subject to segregated management as stipulated in Financial Instruments and Exchange Law Article 43-3 and Financial Instrument Business, Etc. Cabinet Office Regulation Article 144. However, the balance of these securities was zero at the end of the fiscal year. In addition, there is no balance subject to divided management at the end of March 2008 because the Company started accepting monetary assets as collateral after the March 28, 2008 record date (segregated management as deposits on April 2, the third business day afterward).

(Divided Management as Prescribed in Financial Instruments and Exchange Law Article 43-3)

Management method		2008	2007	Description
Cash	Deposit	Not applicable	—	
	Self-managed	Not applicable	—	
Securities	Third party	Not applicable	—	

Note: The “—” for the balance at the end of the previous fiscal year is because these assets are included in the balance of customer assets held in accordance with the old Securities and Exchange Law.

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I.Consolidated Financial Review

1. Economic Environment

In the fiscal year that ended in March 2008, Japan's economy continued to grow at a moderate pace during the first half. Growth was backed by higher capital expenditures and an improvement in employment as corporate earnings remained strong. In the second half, the corporate sector, which had been fueling economic growth, began to lose momentum. The main causes were volatility in global financial and capital markets sparked by the U.S. subprime loan problem and the sharp increase in the cost of crude oil and other raw materials. The growth rate of Japan's capital expenditures slowed and employment and consumer spending statistics stopped improving, making the economic outlook increasingly uncertain.

The global economy was generally healthy during the fiscal year's first half, led by strong growth in China and other fast-growing countries. However, in the second half, there were increasing worries about a recession due to the U.S. dollar's rapid decline as the U.S. economy weakened and to inflationary trends linked to the high cost of crude oil.

Stock markets performed well early in the fiscal year. U.S. stock prices climbed and the weakening yen created a favorable external environment for Japanese stocks. Forecasts by banks for higher earnings were another positive factor. In response to these developments, investors focused their attention on companies with strong earnings. The Nikkei Average rose from ¥17,287 at the end of March 2008 to ¥18,297 in June. But fears about credit risk started to mount in August when a large European financial institution froze assets in several funds. Markets briefly settled down after central banks in Japan, the United States and Europe provided additional liquidity. But fears about subprime loans persisted. When U.S. retailers announced weak earnings, investors concluded that the subprime loan crisis was starting to impact U.S. consumer spending. The Nikkei Average subsequently staged its biggest drop since the end of the IT bubble. In September, stock prices began falling even faster due to disappointing U.S. housing and employment statistics. Stock prices plummeted again when the Bank of England had to extend emergency financing to a large British bank. As Japanese and U.S. financial institutions announced losses caused by subprime loans, stock prices continued to fall, especially in the financial sector. In January, there were more economic indicators pointing to a slowdown of the U.S. economy. There were also growing worries about credit problems and the yen's appreciation. This sent Japanese stocks even lower, particularly export-dependent and financial companies. In February, the yen dropped below ¥100 to the U.S. dollar following remarks by Fed chairman Ben Bernanke. In March, stock prices moved even lower after media reports of the effective insolvency of a major U.S. securities company. The Nikkei Average dropped to ¥11,691, the first time in 31 months that the average was under ¥12,000. At the end of March 2008, the Nikkei Average stood at ¥12,525, 27.5% less than one year earlier.

In financial markets, the U.S. long-term interest rate climbed as the fiscal year began due to healthy U.S. economic indicators. This caused the return on newly issued 10-year Japanese government bonds to rise from the 1.6% level in April to almost 2%. But bond prices started climbing in the middle of July as the U.S. subprime loan crisis triggered a flight to quality. In the fiscal year's second half, there were growing fears about a prolonged subprime loan crisis and its impact on financial institutions. Negative investor sentiment triggered a rapid downturn in long-term interest rates. As U.S. economic indicators worsened in 2008, U.S. long-term interest rates decreased, the yen strengthened and stock prices dropped. At one point, Japan's long-term interest rate fell all the way to 1.22%, rebounding somewhat to end the fiscal year at 1.28%.

2. Business Performance

Daiwa Securities SMBC earnings decreased as markets became extremely turbulent in the second half of the fiscal year. The impact on trading activities was particularly severe.

In the underwriting business, deteriorating market conditions prevented many companies from raising capital by issuing stock. The Company was able to receive lead manage mandates for several issues, including the initial public offering of China Boqi Environmental Solutions, the first mainland Chinese company to be listed on the Tokyo Stock Exchange. Another highlight of the year was selection as an arranger for the securitization of loans using the Ministry of Finance national loan funds account.

In M&A business, the Company served as adviser for the management integration of department stores Mitsukoshi Ltd. and Isetan Co., Ltd. In addition, in the first joint project with Sagent Advisors Inc., with which the Company has an equity and business alliance, the Company assisted in the acquisition of U.S.-based Cleveland Golf Company by SRI Sports Limited.

Daiwa Securities SMBC Principal Investments, which conducts the investment business, made a number of new investments. One involved an equity stake in HMV Japan Co., Ltd., the Japanese arm of the British HMB Group, a retailer of music CDs, books and other products. There were also sales of stock as this company generated returns on prior investments. This included the partial sale of holdings of stock in Maruzen Co., Ltd. and the sale of Mitsui Mining Co., Ltd. stock through a secondary offering. In addition, this company started making private equity investments in Asia. The first was an investment in Airway Communications International Holdings Co., Ltd., which operates a high-speed wireless data communication service in China.

Under these business conditions, Ordinary Income for this consolidated fiscal year came to 1,431 million yen, and ROE to 0.9% negative compared to 8.5% in fiscal 2006.

(1) Commissions

Commissions for this consolidated year totaled 77,461 million yen. Details of sub-items are outlined below.

① Brokerage Commissions

Total brokerage commissions came to 26,833 million yen.

② Underwriting Commissions

Underwriting commissions derived from equities came to 14,474 million yen, and underwriting commissions derived from fixed income came to 10,452 million yen.

③ Distribution Commissions

Revenues in distribution commissions generated 1,748 million yen.

④ Other Commissions

Other commissions totaled 23,435 million yen. Particularly, other commissions in Investment Banking came to 18,429 million yen.

(2) Net Gain (Loss) on Trading

Net gain on trading totaled 54,620 million yen (53.2% decrease). Net trading gain in equities came to 2,814 million yen, and net trading gain from fixed income together with those from foreign exchange transactions came to 51,806 million yen.

(3) Net Gain (Loss) on Private Equity and Other Securities

Net gain on private equity and other securities totaled 23,720 million yen due to smooth exits of investment deals etc.

(4) Net Interest and Dividend Income

Interest and dividend income totaled 86,467 million yen, whereas interest expenses totaled 80,315 million yen. Net interest and dividend income came to 6,151 million yen.

(5) Selling, General and Administrative Expenses

Of the Selling, general and administrative expenses, Compensation and benefits came to 45,281 million yen, Occupancy and rental came to 15,369 million yen, Data processing and office supplies came to 21,577 million yen, Taxes other than income taxes came to 3,655 million yen, and Depreciation and amortization came to 13,460 million yen. Consequently, overall Selling general and administrative expenses totaled 162,179 million yen.

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

In conclusion, Operating Revenues for the fiscal 2007 came to 242,269 million yen, and Net Operating Revenues to 161,954 million yen. Operating Income (loss) came to negative 225 million yen, and Ordinary Income to 1,431 million yen. Finally, considering net extraordinary income, income taxes and minority interests, Net Income (loss) for the fiscal 2007 resulted in a loss of 5,836 million yen.

II. Consolidated Balance Sheets

DAIWA SECURITIES SMBC Co. Ltd.
March 31, 2008 and 2007

ASSETS	Millions of yen	
	2008	2007
Cash and cash deposits:		
Cash and cash equivalents	¥ 119,793	¥ 109,891
Cash segregated as deposits for regulatory purposes	47,361	46,162
Other deposits	5,065	5,794
	172,219	161,847
 Receivables:		
Loans receivable	157,015	129,766
Trading receivables, net	196,872	—
Receivables related to margin transactions (Note 3)	175,217	241,059
Other	163,852	60,049
Less: Allowance for doubtful accounts	(69)	(162)
	692,887	430,712
 Collateralized short-term financing agreements (Notes 4 and 10)	5,200,592	4,561,372
 Trading assets (Notes 5 and 9)	7,234,037	4,806,681
 Private equity and other securities (Note 6)	414,710	374,761
 Deferred tax assets (Note 15)	14,099	9,014
 Property and equipment, at cost	17,926	18,482
Less: Accumulated depreciation	(12,105)	(12,880)
	5,821	5,602
 Other assets:		
Lease deposits	9,768	5,929
Investment securities (Note 6)	25,884	20,900
Intangible fixed assets	54,542	42,031
Other (Note 9)	57,476	30,562
Less: Allowance for doubtful accounts	(431)	(762)
	147,239	98,660
	¥ 13,881,604	¥ 10,448,649

See accompanying notes.

LIABILITIES AND NET ASSETS	Millions of yen	
	2008	2007
Borrowings:		
Short-term borrowings (Notes 9 and 10)	¥ 2,111,330	¥ 1,412,960
Commercial paper	488,300	302,392
Long-term debt (Notes 10 and 13)	982,955	911,886
	3,582,585	2,627,238
 Payables:		
Payables to customers and counterparties (Note 12)	127,382	50,698
Trading payables, net	—	1,483
Payables related to margin transactions (Note 3)	180,124	201,105
	307,506	253,286
 Collateralized short-term financing agreements (Notes 4 and 10)	4,991,917	2,999,136
 Trading liabilities (Note 5)	4,313,463	3,791,978
 Accrued and other liabilities:		
Income taxes payable	598	2,465
Deferred tax liabilities (Note 15)	134	7,235
Accrued bonuses	6,008	10,045
Retirement benefits (Note 14)	4,715	4,576
Provision for relocation costs of headquarter office	5,018	4,321
Other (Notes 9 and 10)	48,328	59,756
	64,801	88,398
 Statutory reserves (Note 16)	5,410	5,366
Total liabilities	13,265,682	9,765,402
 Contingent liabilities (Note 17)		
 Net assets		
Owners' equity (Note 18) :		
Common stock, no par value;		
Authorized - 3,800 shares		
Issued - 3,800 shares	255,700	255,700
Capital surplus	167,421	167,421
Retained earnings	187,897	219,687
	611,018	642,808
 Valuation and translation adjustments		
Net unrealized gain (loss) on securities, net of tax effect	(48)	22,450
Deferred gain (loss) on hedges	(76)	(5)
Translation adjustments	3,851	16,909
	3,727	39,354
 Minority interests	1,177	1,085
 Total net assets	615,922	683,247
	¥ 13,881,604	¥ 10,448,649

See accompanying notes.

III. Consolidated Statements of Operations

DAIWA SECURITIES SMBC Co. Ltd.
Years ended March 31, 2008, 2007 and 2006

	Millions of yen		
	2008	2007	2006
Operating revenues:			
Commissions (<i>Note 20</i>)	¥ 77,461	¥ 106,530	¥ 111,299
Net gain on trading (<i>Note 21</i>)	54,620	116,629	175,531
Net gain on private equity and other securities	23,721	27,700	16,967
Interest and dividend income (<i>Note 10</i>)	86,467	66,259	47,022
	242,269	317,118	350,819
Interest expense (<i>Note 10</i>)	80,315	56,418	39,250
Net operating revenues (<i>Note 19</i>)	161,954	260,700	311,569
Selling, general and administrative expenses (<i>Notes 10, 14, 19 and 22</i>)	162,179	169,793	171,906
Operating income (loss) (<i>Note 19</i>)	(225)	90,907	139,663
Other income (expenses):			
Provision for statutory reserves, net (<i>Note 16</i>)	(44)	(188)	(826)
Other, net (<i>Note 23</i>)	154	(4,041)	4,892
	110	(4,229)	4,066
Income (loss) before income taxes and minority interests	(115)	86,678	143,729
Income taxes (<i>Note 15</i>)			
Current	2,645	32,553	60,204
Deferred	2,878	2,112	(8,447)
	5,523	34,665	51,757
Minority interests	(198)	(67)	(88)
Net income (loss)	¥ (5,836)	¥ 51,946	¥ 91,884

Per share amounts :	Yen		
Net income (loss)	¥ (1,535,849.57)	¥ 14,034,220.01	¥ 28,713,719.05
Cash dividends applicable to the year (<i>Note 24</i>)	—	6,830,000.00	9,000,000.00

See accompanying notes.

IV. Consolidated Statements of Changes in Net Assets

DAIWA SECURITIES SMBC Co. Ltd.
Years ended March 31, 2008, 2007 and 2006

	Number of shares of common stock	Millions of yen						
		Owners' equity			Valuation and translation adjustments			
		Common stock	Capital surplus	Retained earnings	Net unrealized gain (loss) on securities, net of tax effect	Deferred gain (loss) on hedges	Translation adjustments	Minority interests
Balance at March 31, 2005	3,200	¥ 205,600	¥ 117,321	¥ 128,464	¥ 10,426	¥ —	¥ 4,940	¥ 969
Net income (loss)				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 (loss)				51,946				
Cash dividends paid				(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
Net income (loss)				(5,836)				
Cash dividends paid (<i>Note 24</i>) ...				(25,954)				
Net changes of items other than owners' equity					(22,498)	(71)	(13,058)	92
Balance at March 31, 2008	3,800	¥ 255,700	¥ 167,421	¥ 187,897	¥ (48)	¥ (76)	¥ 3,851	¥ 1,177

See accompanying notes.

V. Consolidated Statements of Cash Flows

DAIWA SECURITIES SMBC Co. Ltd.
Years ended March 31, 2008, 2007 and 2006

	Millions of yen		
	2008	2007	2006
Cash flows from operating activities:			
Net income (loss)	¥ (5,836)	¥ 51,946	¥ 91,884
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	13,461	11,836	12,184
Provision for retirement benefits, net	139	267	(201)
Provision for relocation costs of headquarter office	1,503	4,862	—
Statutory reserves, net	44	188	826
Gains (losses) related to investment securities	13	930	(3,191)
Losses related to fixed assets	199	209	14
Deferred income taxes	(12,438)	2,112	(8,447)
Minority interests	198	67	88
Changes in operating assets and liabilities:			
Receivables and payables related to margin transactions	44,861	(10,287)	26,834
Other receivables and other payables	87,846	(79,576)	2,241
Private equity and other securities	(61,361)	(40,146)	(215,894)
Trading assets and liabilities	(2,114,331)	(101,611)	638,500
Collateralized short-term financing agreements	1,371,543	102,827	(149,510)
Other, net	(175,780)	(8,885)	4,031
Total adjustments	(844,103)	(117,207)	307,475
Net cash flows provided by (used in) operating activities	(849,939)	(65,261)	399,359
Cash flows provided by (used in) investing activities:			
Payments for purchases of property and equipment	(2,470)	(1,935)	(1,674)
Payments for purchases of intangible fixed assets	(25,473)	(20,113)	(10,487)
Payments for purchases of investment securities	(9,330)	(1,993)	(8,990)
Proceeds from sales of investment securities	3,806	1,735	9,331
Decrease (increase) in long-term loans receivable	(27,292)	671	64
Other, net	(709)	(955)	(542)
Net cash flows provided by (used in) investing activities	(61,468)	(22,590)	(12,298)
Cash flows provided by (used in) financing activities:			
Increase (decrease) in short-term borrowings and commercial paper	946,839	(102,241)	(448,435)
Increase (decrease) in long-term debt	(35,478)	3,500	2,873
Proceeds from issuance of notes	332,592	450,587	393,858
Payments for redemption of bonds and notes	(287,326)	(357,986)	(297,903)
Proceeds from issuance of shares	—	100,200	—
Payments of cash dividends	(25,954)	(28,800)	(22,400)
Payments of cash dividends to minority shareholders	(35)	(57)	(43)
Net cash flows provided by (used in) financing activities	930,638	65,203	(372,050)
Effect of exchange rate changes on cash and cash equivalents	(9,329)	3,457	4,209
Net increase (decrease) in cash and cash equivalents	9,902	(19,191)	19,220
Cash and cash equivalents at beginning of year	109,891	129,082	109,862
Cash and cash equivalents at end of year	¥ 119,793	¥ 109,891	¥ 129,082
Supplemental information on cash flows:			
Cash paid during the year for:			
Interest	¥ 82,207	¥ 54,855	¥ 37,820
Income taxes	28,287	3,478	9,068

See accompanying notes.

VI. Notes to Consolidated Financial Statements

DAIWA SECURITIES SMBC Co. Ltd.
Years ended March 31, 2008, 2007 and 2006

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 fiscal year ended March 31, 2007. 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 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. Held-to-maturity securities are valued at amortized cost.

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

Of those securities with no fair value, investments in limited partnerships and similar partnerships which are regarded as equivalent to securities by the Article2 (2) of the Financial Instruments and Exchange Act, 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 the acquisition 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, and useful life for depreciation is mainly based on Corporate Tax Law. In overseas consolidated subsidiaries, depreciation is mainly computed by the straight-line method.

Change in the accounting standard

In connection with the current Corporate Tax Law reform, the domestic consolidated companies have changed the depreciation method to that of complied with new Corporate Tax Law for the property and equipment purchased on or after April 1, 2007. However, after such assets have been depreciated to the depreciable limit, the remaining value is amortized over five years in pro rata from the following fiscal year until

its book value is reduced to 1 yen.

The effect on the consolidated financial statements was immaterial.

(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 fiscal year ended March 31, 2007, 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 income (loss) per share

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

3. Margin transactions

Margin transactions at March 31, 2008 and 2007 consisted of the followings:

	Millions of yen			
	2008		2007	
Assets:				
Customers' margin loans	¥	788	¥	7,571
Cash deposits as collateral for securities borrowed		174,429		233,488
	¥	175,217	¥	241,059
Liabilities:				
Payable to securities finance companies	¥	0	¥	23
Proceeds of securities sold for customers' accounts		180,124		201,082
	¥	180,124	¥	201,105

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, 2008 and 2007 consisted of the followings:

	Millions of yen			
	2008		2007	
Assets:				
Securities purchased under agreements to resell	¥	1,129,184	¥	783,447
Securities borrowed		4,071,408		3,777,925
	¥	5,200,592	¥	4,561,372
Liabilities:				
Securities sold under agreements to repurchase	¥	1,846,529	¥	1,336,807
Securities loaned		3,145,388		1,662,329
	¥	4,991,917	¥	2,999,136

5. Trading assets and trading liabilities

Trading assets and trading liabilities at March 31, 2008 and 2007 consisted of the following:

	Millions of yen			
	2008		2007	
Trading assets:				
Equities	¥	83,261	¥	349,159
Government, corporate and other bonds		5,414,572		3,475,385
Investment trust		88,615		110,302
Commercial paper, certificates of deposits and others		64,838		19,714
Option transactions		208,664		166,090
Futures and forward transactions		130,396		176,312
Swap agreements		1,225,815		509,728
Other derivatives		19,499		1,927
Credit reserves		(1,623)		(1,936)
	¥	7,234,037	¥	4,806,681
Trading liabilities:				
Equities	¥	92,415	¥	76,447
Government, corporate and other bonds		3,019,697		3,016,340
Investment trust		14		14,475
Option transactions		182,350		254,353
Futures and forward transactions		121,981		46,081
Swap agreements		876,190		382,772
Other derivatives		20,816		1,510
	¥	4,313,463	¥	3,791,978

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 at March 31, 2008 and 2007 consisted of the followings:

	Millions of yen					
	Cost		Market value		Difference	
March 31, 2008:						
Equities	¥	39,130	¥	37,016	¥	(2,114)
March 31, 2007:						
Equities	¥	33,489	¥	67,914	¥	34,425

Securities for which a market value was not readily available at March 31, 2008 and 2007 consisted of the followings:

	Millions of yen			
	2008		2007	
Equities	¥	202,682	¥	215,127
Investments in partnerships		157,474		103,399
Non-consolidated and affiliated companies		6,833		3,983
Other		36,589		5,237
	¥	403,578	¥	327,746

7. Derivatives used for non-trading purposes

Net unrealized gains of derivatives for non-trading purposes at March 31, 2008 and 2007 (excluding hedging transactions) consisted of the followings:

	Millions of yen			
	Contract amount	Market value	Unrealized	gains
March 31, 2008:				
Currency swap	¥ 14,183	¥ 31	¥	32
Foreign exchange contracts	1,359	62		62
March 31, 2007:				
Currency swap	¥ 11,922	¥ 10	¥	10
Foreign exchange contracts	107	0		0

8. Risk management information concerning trading transactions

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

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

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

9. Pledged assets

Secured obligation at March 31, 2008 and 2007 consisted of the followings:

	Millions of yen			
	2008	2007		
Short-term borrowings	¥ 1,144,917	¥ 754,688		
Other	263	131		
	¥ 1,145,180	¥ 754,819		

The Company also has secured obligation for non-consolidated subsidiaries amounting to ¥4,800 million at March 31, 2008.

Above obligations were secured by the following assets:

	Millions of yen			
	2008	2007		
Trading assets	¥ 1,167,087	¥ 1,073,443		
Other	49,199	26,811		
	¥ 1,216,286	¥ 1,100,254		

In addition to above, securities borrowed amounting to ¥658,486 million and ¥619,393 million were pledged as guarantee at March 31, 2008 and 2007, respectively.

Total fair value of the securities pledged as collateral at March 31, 2008 and 2007 consisted of the followings:

	Millions of yen			
	2008	2007		
Securities loaned	¥ 3,839,264	¥ 2,448,285		
Securities sold under agreements to repurchase	1,181,479	580,553		
Other	490,796	485,238		
	¥ 5,511,539	¥ 3,514,076		

Total fair value of the securities received as collateral at March 31, 2008 and 2007 consisted of the followings:

	Millions of yen			
	2008	2007		
Securities borrowed	¥ 4,816,333	¥ 4,646,337		
Securities purchased under agreements to resell	533,192	360,515		
Other	397,100	464,090		
	¥ 5,746,625	¥ 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, 2008 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) 2008	Account balances (Millions of yen) 2008
Daiwa securities Group Inc.(DSGI)	¥178,324	60.0%	Decrease in short-term borrowings (subordinated loan) 18,000	Short-term borrowings —
			Increase in long-term debt (subordinated loan) —	Long-term debt 90,000
			Interest expense 1,771	
Daiwa Securities Co.Ltd.	¥100,000	(DSGI subsidiary)	Selling, general and administrative expenses 22,312	Other liabilities 1,529
Daiwa Securities America Inc.	\$100	(DSGI subsidiary)	Continual transactions of collateralized short-term financing agreements	Collateralized short-term financing agreements(assets) 537,908
			Interest and dividend income 4,880	Collateralized short-term financing agreements (liabilities) 471,265
			Interest expense 8,526	
Sumitomo Mitsui Banking Corporation	¥664,986	(Sumitomo Mitsui Financial Group Inc. subsidiary)	Continual transactions of short-term borrowings	Short-term borrowings 58,967
			Decrease in short-term borrowings (subordinated loan) 12,000	Short-term borrowings —
			Increase in long-term debt (subordinated loan) —	Long-term debt 60,000
			Interest expense 1,181	Collateralized short-term financing agreements(assets) 40,514
			Continual transactions of collateralized short-term financing agreements	
			Interest and dividend income 955	
			Interest expense 91	

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, 2008 and 2007 are summarized as follows:

	Millions of yen	
	2008	2007
Non-capitalized finance leases:		
Total assets under non-capitalized finance leases	¥ 340	¥ 349
Accumulated depreciation	211	198
Future lease payments in respect of non-capitalized leases ...	130	154
Due within one year	58	68
Operating leases:		
Future lease payments in respect of operating leases	5,722	6,652
Due within one year	1,708	1,426

12. Payables to customers and counterparties

Payables to customers and counterparties at March 31, 2008 and 2007 consisted of the followings:

	Millions of yen	
	2008	2007
Cash received for customers’ accounts	¥ 33,966	¥ 26,207
Cash deposits received from customers	26,429	22,672
Other	66,987	1,819
	¥ 127,382	¥ 50,698

13. Long-term debt

Long-term debt at March 31, 2008 and 2007 consisted of the followings:

	Millions of yen	
	2008	2007
Medium-term notes		
with various rates and maturities through CY 2038	¥ 797,955	¥ 753,386
Subordinated loans with maturities through CY 2012	160,000	150,000
Borrowings	25,000	8,500
	¥ 982,955	¥ 911,886

The aggregate annual maturities of long-term debt at March 31, 2008 were as follows:

Year ending March 31	Millions of yen
2009	¥ 10,613
2010	17,158
2011	34,758
2012	117,823
2013	79,873
2014 and thereafter	722,730
	¥ 982,955

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, 2008 and 2007, in the amount of ¥4,654 million and ¥4,483 million. Benefit expenses recorded for the years ended March 31, 2008, 2007 and 2006 were ¥1,854 million, ¥1,982 million and ¥1,894 million.

(2) Retirement benefits for directors

Directors' retirement benefits of ¥61 million and ¥93 million were included in "Retirement benefits" in the accompanying consolidated balance sheets as of March 31, 2008 and 2007. Benefit expenses recorded for the years ended March 31, 2008, 2007 and 2006 were ¥29 million, ¥27 million and ¥25 million.

15. Income taxes

Japanese statutory income tax rate was approximately 40.7% for the fiscal years ended March 31, 2008, 2007 and 2006.

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, 2008 and 2007 were as follows:

	Millions of yen	
	2008	2007
Deferred tax assets:		
Net operating losses carried-forward	¥ 9,668	¥ 5,854
Retirement benefits	1,908	1,903
Employees' compensation and bonuses	1,267	2,477
Allowance for possible investment losses	1,763	1,554
Statutory reserves	2,201	2,183
Provision for relocation costs of headquarter office	2,435	1,792
Other	6,619	6,789
Gross deferred tax assets	25,861	22,552
Less: Valuation allowance	(10,165)	(4,813)
Total deferred tax assets	15,696	17,739
Deferred tax liabilities	(1,731)	(15,960)
Net deferred tax assets	¥ 13,965	¥ 1,779

Daiwa Securities 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 the normal effective statutory income tax rate and the effective income tax rate for the year ended March 31, 2008 is not presented, since the net loss is reported in the consolidated statements of operations. A reconciliation of the difference in the fiscal year ended March 31, 2007 is not presented because the difference was small. A reconciliation of the difference between Japanese statutory income tax rate and effective income tax rate reflected in the accompanying consolidated statements of operations for the fiscal years ended March 31, 2006 were as follows.

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

16. Statutory reserves

The Financial Instruments and Exchange Act 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 Daiwa Securities SMBC was ¥260 million and ¥293 million at March 31, 2008 and 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.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with the Law.

19. Segment information

Daiwa Securities SMBC operates predominantly in a single industry segment. Daiwa Securities 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, 2008, 2007 and 2006 and a summary of total assets by geographic area at March 31, 2008 and 2007 were as follows:

	Millions of yen				
	Japan	Europe	Asia, Oceania & other	Elimination or unallocated	Consolidated
Year ended March 31, 2008:					
Net operating revenues:					
Outside customer	¥ 140,438	¥ 6,897	¥ 14,614	¥ 5	¥ 161,954
Inter-segment	(2,709)	8,303	947	(6,541)	—
Total	137,729	15,200	15,561	(6,536)	161,954
Selling, general and administrative expenses	135,471	21,080	12,172	(6,544)	192,179
Operating income (loss)	¥ 2,258	¥ (5,880)	¥ 3,389	¥ 8	¥ (225)

At March 31, 2008:

Total assets by geographic area	¥ 12,952,406	¥ 1,247,608	¥ 112,070	¥ (430,480)	¥ 13,881,604
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	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

Geographic overseas revenues for the fiscal year ended March 31, 2008, 2007 and 2006 were as follows:

	Millions of yen			
	America	Europe	Asia & Oceania	Total
Year ended March 31, 2008:				
Overseas revenue(loss)	¥ (3,250)	¥ 6,457	¥ 14,981	¥ 18,188
Net operating revenues				161,954
% of Net operating revenues	(2.0)%	4.0%	9.3%	11.2%

	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%

20. Commission

Commission derived from each department for the fiscal years ended March 31, 2008, 2007 and 2006 were as follows:

	Millions of yen					
	Equity	Fixed income (Bond)	Investment trust	Investment banking	Others	Total
Year ended March 31, 2008:						
Brokerage	¥ 26,361	¥ 362	¥ 110	¥ —	¥ —	¥ 26,833
Underwriting	—	—	—	25,445	—	25,445
Distribution	—	—	658	1,090	—	1,748
Other	602	768	1,687	18,429	1,949	23,435
	¥ 26,963	¥ 1,130	¥ 2,455	¥ 44,964	¥ 1,949	¥ 77,461

	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

21. Net gain on trading

Breakdown of net gain on trading for the fiscal years ended March 31, 2008, 2007 and 2006 were as follows:

	Millions of yen		
	2008	2007	2006
Stock and other	¥ 2,814	¥ 24,146	¥ 111,117
Bond, forex and other	51,806	92,483	64,414
	¥ 54,620	¥ 116,629	¥ 175,531

22. Selling, general and administrative expenses

Major components of selling, general and administrative expenses for the fiscal years ended March 31, 2008, 2007 and 2006 were summarized as follows:

	Millions of yen		
	2008	2007	2006
Compensation and benefits	¥ 45,281	¥ 47,694	¥ 46,820
Commissions and brokerage	46,580	59,825	65,259
Communications	7,486	6,346	5,812
Occupancy and rental	15,369	13,951	13,702
Data processing and office supplies	21,577	17,969	17,004
Taxes other than income taxes	3,655	4,607	4,774
Depreciation and amortization	13,460	11,836	12,184
Other	8,771	7,565	6,351
	¥ 162,179	¥ 169,793	¥ 171,906

23. Other income(expenses)

Details of “Other, net” in the accompanying consolidated statements of operations for the fiscal years ended March 31, 2008, 2007 and 2006 were as follows:

	Millions of yen		
	2008	2007	2006
Gains or losses on sales of investment securities, net	¥ —	¥ (263)	¥ 3,565
Write-down of investment securities	—	(667)	(378)
Valuation losses on fixed assets	—	—	(14)
Losses on sale or disposal of fixed assets	—	(209)	—
Contribution to Securities Market Infrastructure Improvement Fund ...	—	—	(200)
Relocation costs of headquarter office	(1,503)	(4,862)	—
Other	1,657	1,960	1,919
	¥ 154	¥ (4,041)	¥ 4,892

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	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

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

The dividend for fiscal year ended March 31, 2008 is not scheduled.

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, 2008 and 2007, 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, 2008. 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, 2008 and 2007, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2008, in conformity with accounting principles generally accepted in Japan.

KPMG AZSA & Co.

Tokyo, Japan
June 6, 2008

VIII. Non-Consolidated Reference Data

DAIWA SECURITIES SMBC Co. Ltd.
March 31, 2008 and 2007

(1) Balance Sheets

ASSETS	Millions of yen		LIABILITIES	Millions of yen	
	2008	2007		2008	2007
Current assets:	¥12,716,460	¥ 9,190,900	Current liabilities:	¥ 11,330,543	¥ 7,843,373
Cash and deposits	56,643	52,658	Trading liabilities:	4,258,409	3,535,328
Cash segregated as deposits for regulatory purposes	24,043	30,043	Trading securities and others	3,024,808	2,838,818
Trading assets:	7,114,704	4,364,842	Derivative liabilities	1,233,601	696,509
Trading securities and others	5,531,582	3,511,488	Payables related to margin transactions:	180,124	201,105
Derivative assets	1,583,121	853,353	Payables to securities finance companies	—	22
Trading receivables, net ..	201,763	9,784	Proceeds of securities sold for clients' accounts	180,124	201,082
Receivables related to margin transactions:	175,217	241,058	Collateralized short-term financing agreements:	4,289,984	2,383,944
Customers margin loans ..	788	7,570	Cash deposits as collateral for securities loaned	2,924,870	1,598,568
Cash deposits as collateral for securities borrowed	174,429	233,488	Payables related to gensaki transactions	1,365,114	785,375
Collateralized short-term financing agreements:	4,530,393	4,067,408	Deposits received	28,729	17,604
Cash deposits as collateral for securities borrowed	3,866,450	3,690,354	Cash deposits received as guarantee	11,945	17,841
Receivables related to gensaki transactions	663,942	377,053	Short-term borrowings	2,005,295	1,313,049
Short-term guarantee money deposited	61,156	31,781	Commercial paper	488,300	301,500
Short-term loans receivable	471,975	361,580	Medium-term notes due within one year	10,613	25,912
Accrued income	13,620	9,483	Accrued expenses	14,209	14,981
Deferred tax assets-current ..	4,523	2,552	Income tax payable	188	239
Other current assets	62,533	19,931	Allowance for relocation costs of headquarter office	4,897	—
Less: Allowance for doubtful accounts - current	(114)	(226)	Other current liabilities	37,845	31,867
Non-current assets:	142,332	128,605	Non-current liabilities:	977,095	894,968
Tangible fixed assets	4,037	3,796	Medium-term notes	787,341	727,473
Intangible fixed assets	51,975	39,529	Long-term debt	185,000	158,500
Investments and others	86,319	85,279	Retirement benefits	4,596	4,446
Investment securities	71,664	64,373	Allowance for relocation costs of headquarter office	—	4,200
Long-term loans receivable	45	10,618	Other non-current liabilities	157	349
Long-term guarantee deposits	8,442	5,009	Statutory reserves:	5,409	5,365
Deferred tax assets- non-current	3,744	3,391	Reserve for securities transaction liabilities	5,409	5,365
Other investments	2,860	2,397	Reserve for financial futures transaction liabilities	—	0
Less: Allowance for doubtful accounts - non-current	(437)	(511)	Total liabilities	¥ 12,313,048	¥ 8,743,707
Total assets	¥12,858,793	¥ 9,319,505	NET ASSETS		
			Owners' equity	¥ 545,086	¥ 574,067
			Common stock	255,700	255,700
			Capital surplus	167,421	167,421
			Additional paid-in capital	167,421	167,421
			Retained earnings	121,965	150,946
			Other retained earnings	121,965	150,946
			Voluntary reserve	38,312	38,639
			Special reserve	38,000	38,000
			Special depreciation reserve ..	312	639
			Retained earnings carried forward ..	83,653	112,306
			Valuation and translation adjustments	657	1,730
			Net unrealized gain(loss) on securities, net of tax effect	657	1,730
			Total net assets	545,744	575,797
			Total liabilities and net assets	¥ 12,858,793	¥ 9,319,505

(2) Statements of operations

	Millions of yen	
	2008	2007
Operating revenues:	¥ 175,118	¥ 240,709
Commissions	65,640	92,633
Net gain (loss) on trading	47,769	103,271
Interest and dividend income	61,708	44,804
Interest expenses	57,278	38,789
Net operating revenues	117,839	201,919
Selling, general and administrative expenses:	131,696	146,103
Commission and other expenses	57,239	73,156
Employees' compensation and benefits	26,439	30,042
Occupancy and rental	11,979	11,057
Data processing and office supplies	19,350	16,355
Depreciation expenses	12,038	10,544
Taxes other than income taxes	2,165	2,742
Others	2,483	2,205
Operating income (loss)	(13,856)	55,815
Non-operating income	8,980	15,970
Non-operating expenses	1,708	793
Ordinary income (loss)	(6,584)	70,992
Extraordinary gains	0	—
Extraordinary losses	1,518	6,068
Income (loss) before income taxes	(8,103)	64,924
Income taxes - current	(3,549)	22,253
Income taxes - deferred	(1,527)	2,800
Net income (loss)	¥ (3,026)	¥ 39,869

Attention

This cover letter is an unofficial translation. The official document is in Japanese.

Inspected for Advertising, etc. Content

Notification Items Regarding Advertising etc. (Notification items pursuant to Article 37 of the Financial Instruments and Exchange Law)

If you decide to enter into a business arrangement with our company based on the information described in materials presented along with this cover letter, we ask you to pay close attention to the following items.

- In addition to the purchase price of a financial instrument, our company will collect a trading commission* for each transaction as agreed beforehand with you. Since commissions may be included in the purchase price or may not be charged for certain transactions, we recommend that you confirm the commission for each transaction. In some cases, our company also may charge a maximum of ¥ 2 million (including tax) per year as a standing proxy fee for our deposit of your securities, if you are a non-resident.
- For derivative and margin transactions etc., our company may require collateral or margin requirements in accordance with an agreement made beforehand with you. Ordinarily in such cases, the amount of the transaction will be in excess of the required collateral or margin requirements.
- There is a risk that you will incur losses on your transactions due to changes in the market price of financial instruments based on fluctuations in interest rates, exchange rates, stock prices, real estate prices, commodity prices, and others. In addition, depending on the content of the transaction, the loss could exceed the amount of the collateral or margin requirements.
- There may be a difference between bid price etc. and ask price etc. of OTC derivatives handled by our company.
- Before engaging in any trading, please thoroughly confirm accounting and tax treatments regarding your trading in financial instruments with such experts as certified public accountants.

* The amount of the trading commission cannot be stated here in advance because it will be determined between our company and you based on current market conditions and the content of each transaction etc.

When making an actual transaction, please be sure to carefully read the materials presented to you prior to the execution of agreement, and to take responsibility for your own decisions regarding the signing of the agreement with our company.

Corporate Name: Daiwa Securities SMBC Co. Ltd.
Financial instruments firm: chief of Kanto Local
Finance Bureau (Kin-sho) No.109
Memberships: Japan Securities Dealers Association
Financial Futures Association of Japan