

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

## A Stormy Business Climate in FY2011

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

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

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

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

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