

Daiwa Securities Group

2001-2002-2003  
OUR FIRST HUNDRED YEARS  
Annual Report

**OUR  
FIRST  
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YEARS**

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## Letter to Shareholders

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2002 is the centennial of the founding of the Daiwa Securities Group. The first hundred years of our existence have certainly been eventful ones. The emergence of mass production and mass consumption and the triumph of liberal democracy as the dominant political system are the two trends for which I personally believe the twentieth century will be remembered. Neither of these would have been possible without functioning financial systems and securities markets, which allow capital to be readily redirected to the most promising areas. Daiwa Securities Group is proud to have been able to play a role in the development of global securities markets

during our first hundred years and proud also that we helped make possible creation of wealth on a scale which would have been unimaginable at the time of our foundation.

On the other hand, today, standing at the dawn of our second century of existence we find ourselves facing unprecedented pressure for change. The structures that have underpinned the Japanese economic system over the last fifty years are rapidly changing or disappearing altogether. In particular, as financing shifts from indirect to direct forms, a market based system with an emphasis on shareholder value is emerging. Securities

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investment is, albeit slowly, becoming more widespread among ordinary Japanese while a declining level of cross ownership among Japanese corporations is changing the face of corporate governance. Meanwhile, deregulation of securities markets has changed the fundamental ground rules under which we compete.

In such a period of upheaval there will be winners and there will be losers. In our view, winners will be those companies that correctly identify opportunities and dare to reinvent themselves in a form capable of addressing the needs of the markets. The Daiwa Securities Group is not afraid of embracing change. The story of our evolution over the last three years has been the story of a company reinventing itself with a view to prospering in the securities markets of the twenty-first century. This process started when we became the first listed company in Japan to adopt a holding company structure and to form a joint venture with one of Japan's leading city banks to address the possibilities offered by the wholesale securities markets. It continued into the current year with a wide-ranging reorganization of our retail securities unit to allow us to garner demand from new classes of retail investors coming fresh to the securities markets. Along the way, it has embraced a wide-ranging branding initiative and a host of other innovations.

Perhaps the most significant development during FY 2001 was our decision to dispose of certain properties that were being held for purposes unrelated to Group business and were being held on our balance sheet at historical valuations substantially above current market value. Due to our decision to dispose of the properties in question, we marked these properties to current market value under Japanese GAAP (which does not

yet recognize impaired asset accounting). Although this generated an exceptional loss of 127.4 billion yen for the year, it concludes a series of measures we have taken over the last several years to improve the quality of our balance sheet.

I would like to thank each and every one of our shareholders for their support during the last financial year. I look forward to enjoying your support again as we enter our second century of existence. In my opinion, in spite of the dislocations caused by the poor economy and subdued nature of Japanese securities markets, the Daiwa Securities Group has shown real progress towards achieving its goals. This annual report is, as always, intended to give our readers, particularly our shareholders, a chance to make up their own minds on this point based on the evidence to date. It has been compiled with the aid of exhaustive interviews with the most senior of our Group directors and executive officers who have given generously of their time to support this project and to whom I would like to extend my thanks.

July 1, 2002



YOSHINARI HARA

**President and CEO, Daiwa Securities Group Inc.**

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