

BUILDING SUSTAINABLE SUCCESS



About This Report

A sustainability report is a report concerning the systems established by a company to address its corporate activities from three mutually interdependent perspectives—economic, social and environmental—and the results thereof. Following the agreement reached at the World Summit held in Rio de Janeiro, Brazil, in 1992 to shift "from growth to sustainability to ensure the continued existence of the human race," the word *sustainability* has rapidly attained universal recognition. The expression "sustainable development" as used here refers to development that can meet the needs of the present without compromising the ability of future generations to meet their own needs. This is based on the recognition that "economic growth is possible only within the capacity of the global environment." Furthermore, given problems such as the widening gap between the world's rich and poor, the sustainable development concept also includes social aspects such as human rights and the eradication of poverty and can be understood as an economy designed to achieve balance between the environment and society.

In this report we focus on activities such as corporate governance; compliance (ethics and the observance of laws and regulations); response to customers, shareholders, investors and employees; environmental considerations; and conduct as a corporate citizen that represent the Daiwa Securities Group's efforts regarding sustainability.

In the writing of this report we have made reference to the Global Reporting Initiative (GRI) guidelines,¹ the international guidelines for sustainability reports.

- **Target readers:** While we have written this report primarily for our customers, shareholders and employees, we believe the information described herein will be of interest to a wide range of the Daiwa Securities Group's stakeholders, including client firms, NPOs (nonprofit organizations), citizens living near Daiwa Securities branch offices throughout Japan, and educational institutions.
- **Scope of the report:** Basically, the report covers the nine principal companies that comprise the Daiwa Securities Group.² But this does not imply that information of all nine companies is covered exhaustively; relevant information is disclosed according to the relevance of the activity of each company.
- **Reporting period:** Quantitative data are basically data for FY 2001 (April 2001 – March 2002). Because this report is the Daiwa Securities Group's first sustainability report, however, to the extent necessary, we also provide data for activities before FY 2001 and for certain activities begun in FY 2002.

¹ The June 2000 version and a rough draft of the new guidelines issued in April 2002 were used as reference material for the GRI guidelines. For more specific information, please refer to the GRI website at <http://www.globalreporting.org>.

² The nine main companies that form the Daiwa Securities Group are Daiwa Securities Group Inc., Daiwa Securities, Daiwa Securities SMBC, Daiwa Asset Management, Daiwa Institute of Research, Daiwa SB Investments, Daiwa Securities Business Center, Daiwa Property and NIF Ventures.

Daiwa Securities Group Inc. Selected as Component of DJSI World for 4th Straight Year

Daiwa Securities Group Inc. has been selected afresh for inclusion in the Dow Jones Sustainability World Indexes (DJSI World) in 2002.

DJSI World is a sustainability index (stock index) devised by Dow Jones Indexes (of the United States), which calculates and publishes stock indexes, and SAM Sustainability Group (of Switzerland), which keeps track of corporate sustainability. As of April 2002, 34 financial institutions around the world manage investment trust funds and other financial instruments, amounting to approximately \$1.9 billion, benchmarked against the DJSI World.

The selection of DJSI World components is based on an in-depth and exhaustive questionnaire survey employing sustainability criteria that incorporate environmental and social responsibility as well as financial performance records. Three hundred and ten organizations across the world have been chosen to comprise the DJSI World for 2002. Daiwa Securities Group Inc. has remained on the DJSI World list since the index was launched in 1999.

(For details, please refer to <http://www.sustainability-indexes.com>.)



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The babies in the photographs on the cover, which were published in a recent issue of the Group's in-house magazine, are the children of our employees. We believe that the focus on sustainable development, for our communities and the Daiwa Securities Group, means seeking ways to hand down a rich, rewarding society to these children's generation.

To Our Stakeholders

In May of this year, with the support and assistance of our many stakeholders, including our customers, shareholders, investors and employees, the Daiwa Securities Group was able to celebrate the 100th anniversary of the Company's founding. These first 100 years reveal a history of always challenging the possible. What we may be proud of, however, is not the many years that have passed, but our spirit of accepting challenges, a spirit that is neither content with tradition nor bound by a conventional sense of values. Because of this spirit, over the years the Daiwa Securities Group has been able to develop its business and achieve strong operating results.

Today, however, the domestic and international environment surrounding our business is entering an unprecedented period of change. To give but one example, an emphasis by management on sustainability is becoming increasingly more important. For a company to continually develop and enhance its value, it is important for that company not only to value those stakeholders who are its customers, shareholders, investors and employees; but also, as a corporate citizen, to establish harmony and coexistence with other stakeholders—such as our communities and our global environment. The message is now clear: management of those companies who focus on only short-term earnings, neglecting the needs of various stakeholders, will face serious problems. On the other hand, firms that consider and try to incorporate the needs of various stakeholders into management strategy in a harmonious manner will be able to achieve sustainable growth by earning greater trust from society and the markets. As an example, with regard to our earth's worsening environmental problems, incorporating a responsible concern for the environment into management has become an indispensable issue, even for nonmanufacturing firms.

I assumed the office of president of the former Daiwa Securities in October 1997. Since that time, every executive and employee of our Group, including myself, has deeply pondered what we must do to be a firm that is trusted and needed by our customers and communities and to execute every possible measure to attain this end. Based on such thinking, we have decided to make a commitment to practice our ideas in the actual management of our business. For example, in addition to being the first company in our industry in Japan to adopt a holding company structure, we also drafted our Medium-Term Management Plan and released this outside the Group as well as introducing corporate brand management aimed at establishing the Daiwa Securities Group brand. Our objective in drafting this latest report is to report to our stakeholders on the current status and future issues concerning the Daiwa Securities Group's commitment to manage its activities to emphasize sustainability and to improve transparency and accountability.

Since the start of the Japanese Big Bang in 1996 and with the exposure in the following year of scandals at many firms, including the Daiwa Securities Group, the securities industry has been in the grip of a major revolution. To respond to the demands of this revolution, the Daiwa Securities Group must make major changes to its traditional mechanisms and seek to construct a new business model for its



securities businesses, while simultaneously reviewing the optimal factors for conducting its business as a corporate citizen, including the building of corporate ethics, and revamping the compliance system, our attitudes toward our customers, our response to our employees, our community affairs activities, and our efforts to help save our environment. In the process of writing this report, the Daiwa Securities Group was able to again recognize, with regard to these points, its current situation and what it has been able to accomplish so far, where its efforts have been insufficient, and what it must do to improve in the future. Taking this into consideration, we will continue our efforts with renewed vigor by setting concrete objectives and implementing specific action plans. We will report our progress in these efforts to you each year in the form of a Sustainability Report.

We have positioned the publication of this report as the starting point for sustained development of the Daiwa Securities Group over the next 100 years, building on help from our wide-ranging stakeholders. Your opinions and criticisms of this report and the activities of the Daiwa Securities Group will be reflected in our future management policies and will constitute one of our most valuable resources for fulfilling our commitment to report on the Group's activities to all of our stakeholders. We will be pleased to receive your unreserved opinions and comments.

August 2002

A handwritten signature in black ink, appearing to read "Y. Hara".

Yoshinari Hara

President and CEO, Daiwa Securities Group Inc.



This report has been prepared mainly focusing on important stakeholders of the Daiwa Securities Group—our customers, shareholders, investors, employees, local communities and the environment.

Message to our customers

At the Daiwa Securities Group, we've declared our belief that continually increasing customer trust and satisfaction is an important management issue. We have implemented a variety of measures to promote this goal.

The customers of the Daiwa Securities Group include individuals and corporations whose goal is asset management, and corporate customers whose principal objective is capital procurement. In 1999 we split the former Daiwa Securities into Daiwa Securities Co. Ltd., which conducts our retail securities business, and Daiwa Securities SB Capital Markets Co. Ltd. (currently Daiwa Securities SMBC), which manages our wholesale securities business. At the same time, we adopted a group management approach based on a holding company structure. Our primary reason for these changes was to build organizations that place top priority on the benefits to their respective customers. In 2000 we launched our Group-wide Corporate Branding Project, and in March 2001 we publicly released our Brand Statement to clearly state our promise to our customers. Based upon this statement, we have initiated a variety of activities designed to increase customer satisfaction.¹

To become a more reliable partner, we have established a compliance system corresponding to the specific business of each Group company. Furthermore, we have incorporated compliance into our employee performance evaluations and have also implemented a compliance training program to instill thorough compliance awareness in every employee and fulfill our duty to explain to customers every aspect of their investment.² Finally, we have also put into place a sufficient organization for managing customer information and the assets consigned from our customers.³

In 2001 we established a new Customer Satisfaction (CS) Promotion Department at Daiwa Securities and introduced a Customer Support Hotline as a window where customers can give us their honest opinions directly. At Daiwa Securities we regard our customers' requests and complaints as a valuable management resource for improving customer satisfaction. In addition, following the introduction of a state-of-the-art Customer Relationship Management (CRM) system at all Daiwa Securities branch offices in March 2002, we can now offer the optimal financial products and services to each customer based on his or her situation. With regard to consultation services for our customers, in October 2001 we put into place a system to open all Daiwa Securities branches on Saturdays to better assist customers who cannot come to an office on weekdays and those who wish to take more time for consultation on asset management.³

At the Daiwa Securities Group, we are also aggressively engaged in new product development. During FY 2001, the top-selling product at Daiwa Securities SMBC was the Enman-Sai bond, a product pioneered by that company. We believe the reason for the Enman-Sai bond's success is product features that accurately address customers' needs.⁴

Daiwa Asset Management Co. Ltd. was the first Japanese company in its business to offer electronic delivery of investment trust prospectuses to customers and is also actively using its company website to disseminate information on investment details. Our efforts toward promotion of customer satisfaction are evident in a higher position in analyst rankings at Daiwa Institute of Research Ltd., while Daiwa SB Investments Ltd. has achieved positive evaluations in pension investment company rankings. Finally, Daiwa Securities Business Center Co., Ltd. was the first Japanese company to receive ISO 9001 certification in the securities back-office support business.⁴

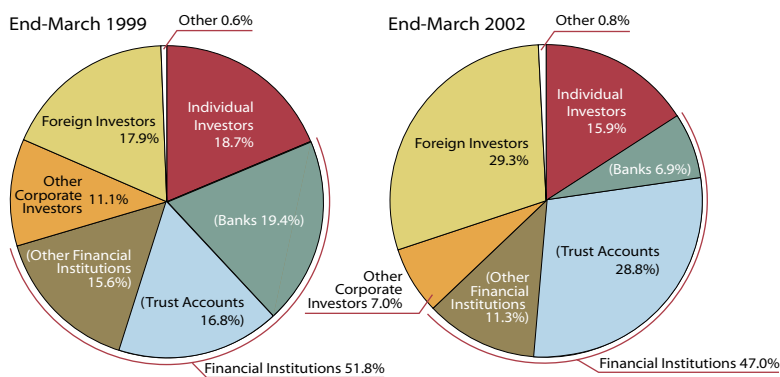
By continually building upon the Group's efforts, we will keep improving customer trust in the Daiwa Securities Group and fulfilling our Brand Statement.

Message to our shareholders and investors

In the past the Daiwa Securities Group disclosed information focusing on its business activities chiefly through its annual reports.⁵ In publicly issuing this report, our goal is to highlight our commitment regarding activities from various social and environmental perspectives that we believe are indispensable to sustained improvement in shareholder value.⁶

Since the Daiwa Securities Group moved to group management under a holding company structure in 1999,⁷ Daiwa Securities Group Inc., which is the listed holding company, has devoted its efforts to strengthening corporate governance and information disclosure. Specifically, we are pursuing the creation of an internal control system predicated on the proper functioning of corporate governance, beginning with the establishment of the Advisory Board

Graph 1
Pie chart covering 2 years showing change in shareholding ratio by type of shareholder



1 For details, please refer to Management Vision and Sustainability, p. 8 – 9.

2 For details, please refer to Compliance, p.18 – 21, Toward Greater Customer Satisfaction, p. 23 and Daiwa People, p. 28.

3 For details, please refer to Toward Greater Customer Satisfaction, p. 22 – 24.

4 For details, please refer to Toward Greater Customer Satisfaction, p. 24 – 25

5 Annual reports may be viewed and ordered on the Daiwa Securities Group's IR website. For details, please refer to Information Disclosure, p. 16.

6 "Shareholder value" can be regarded as the total of a sustained rise in stock price, dividends, and treasury stock purchases and sales that are realized through various firm activities.

7 For details, please refer to Management Vision and Sustainability, p. 8 – 9.

and the Remuneration Committee, which include external members, and the appointment of an External Director.⁸ At the same time, to disclose information to all shareholders and investors fairly and in a timely manner and to encourage appropriate communications, we have continuously expanded our financial, public relations and IR functions. Specifically, we are expanding our IR website, centered on the release of quarterly operating results, holding company briefings both within and outside the Group, and holding telephone conferences on the days we announce the Group operating results.⁹

Against this backdrop of enhancement in our IR functions, the shareholder composition and shareholding ratio of Daiwa Securities Group Inc. have changed dramatically since 1998 (see Graph 1, previous page). As the cross-shareholding structure between firms that was centered on Japanese banks has crumbled, the percentage of shares held by foreign and institutional investors managing primarily pensions (mainly trust accounts) has greatly expanded.

On the other hand, the percentage of shares held by individual shareholders continued to decline for three years.

We recognize that pursuing innovations that will make Daiwa more appealing to individual investors is an important issue. During FY 2001 we held company briefings for individual shareholders and investors in major cities throughout Japan. Further, telephone conference calls held following the release of our operating results are also open to individuals. In addition, beginning with the General Meeting of Shareholders in June 2002, we introduced a system enabling shareholders to exercise their voting rights via the Internet as a means of improving individual shareholder convenience.⁹

In the autumn of 2001, we mailed a survey questionnaire to all of our domestic shareholders and received replies from approximately 25,000 of them. Only 10.4% of our shareholders indicated dissatisfaction when it came to the item "responsiveness to shareholders" (see Graph 2.1). Shareholders also told us that what they as shareholders would like Daiwa to do is increase dividends, show greater appreciation toward shareholders and purchase treasury stock (see Graph 2.2). We have listened earnestly to these comments and are doing our best to improve the level of shareholder and investor satisfaction.

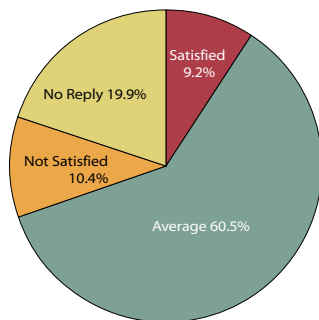
Message to our employees

This report introduces the activities required for sustainable development of the Daiwa Securities Group and construction of our corporate brand. These activities will be the fount of every employee's ability to imagine and execute ideas. For the Group, which operates in the financial services industry, employees are the source of our competitive edge and are important stakeholders who support the sustainability of the Group. The pride and satisfaction felt by each employee toward his or her work are indispensable for improving the quality of our products and services as well as customer satisfaction. The branding activities the Daiwa Securities Group is now undertaking provide a focal point for sharing the Group's sense of values among all employees and creating a corporate culture filled with confidence and conviction in one's work.

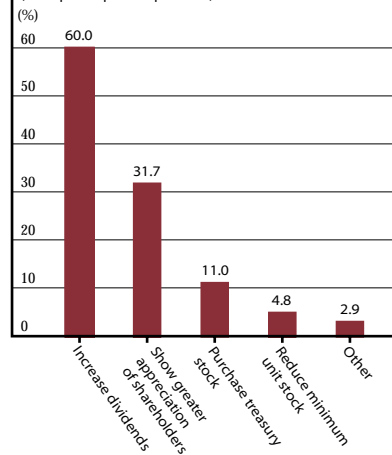
At the Daiwa Securities Group, we are aggressively promoting internal communications as a means for employees to share ideas. For example, in March 2002 we installed an Intranet system at all Daiwa Securities branches, which we are using as an important infrastructure for communications. In September 2001, we began "Letter from Yoshinari Hara," which goes out from President and CEO Hara to all Group employees nearly every week, as a vehicle for communications between top management and employees. Employees can send questions and comments directly to him by responding to these e-mails. With the employee's consent, some of these questions and answers are shown on the Intranet. During FY 2001, "Letter from Yoshinari Hara" was distributed 20 times and generated an average of 10 opinions and questions on each occasion.

For information on the personnel system, please refer to the Daiwa People section (p.26 – 29). The Daiwa Securities Group is pursuing the application of diverse talents. For example, although the percentage of female career-track and regional career-track

Graph 2.1
Responsiveness to shareholders



Graph 2.2
Requests to the Company as a shareholder
(multiple responses possible)





employees is still low for the entire Group, it is steadily increasing. By adding performance-based results to personnel evaluations and simultaneously incorporating factors such as compliance, we are working to create a fair employee evaluation system. We are also taking steps to enhance training systems for nurturing employee growth and actively encouraging employees to participate in training programs. With regard to the workplace environment, we are working to create a more employee-friendly environment through ideas such as a designated smoking area system.

Message concerning society and the environment

Businesses have an obligation to society to achieve compliance that observes laws, various regulations and other rules generally respected in the community. Consequently, compliance is a critically important activity to ensure that the Daiwa Securities Group does not betray the trust of its stakeholders, beginning with its customers.¹⁰

It is also important to actively contribute to local communities as a business group. At the Daiwa Securities Group, we are making a social contribution through support for volunteer activities and NGOs and through educational programs and policy proposal activities that take advantage of Daiwa's financial and economic expertise in the Group's main business.¹¹

On the other hand, given the nature of the finance business, awareness of the link between our business and its environmental impact has been weak at the Daiwa Securities Group. Upon compiling environmental performance data such as electricity consumption, service water consumption, and waste disposal, we have realized that our environmental burden is substantial. Even with regard to paper usage, we learned that the quantity of paper required for the large quantities of prospectuses and computer forms used to record securities transactions was far beyond the level we had imagined.

We discovered, on the other hand, that in many instances individuals responsible for purchasing at the Group compa-

nies were independently taking a "green" approach to purchasing.¹² Furthermore, opportunities for employees to be directly involved with environmental issues from a business perspective also began to appear through the planning and sales of the "Mrs. Green" eco-fund. The awareness began growing that the environment is not someone else's problem, but is also related to us and at the same time provides a business opportunity for the Daiwa Securities Group. While development of an environmental management system for the entire Group is a future issue, we are pursuing activities from the standpoint of those close at hand, such as energy conservation and reduction in the quantity of paper used.¹³

8 For details, please refer to Corporate Governance, p. 14 – 15.

9 For details, please refer to Information Disclosure, p. 16 – 17.

10 For details, please refer to Compliance, p. 18 – 21, Toward Greater Customer Satisfaction, p. 23, and Daiwa People, p. 28.

11 For details, please refer to As a Corporate Citizen and a Member of the Community, p. 30 – 31.

12 "Green purchasing" refers to making choices when selecting and buying products and services that will place as small a burden as possible on the environment. In April 2001 Japan enacted a Green Purchasing Law (Law Concerning the Promotion of Procurement of Eco-Friendly Goods and Services by the State and Other Entities) that places a green purchasing obligation on institutions, including agencies of the central and local governments, and requests that local public organizations, private companies and citizens also seek to practice green purchasing.

13 For details, please refer to Environmental Performance, p. 32 – 34.