

		Issues and targets for FY 2003 (the symbol • indicates results for which neither issues nor targets had been listed)	Relative achievement of targets	Page(s) in report
Corporate Governance		Move to a "committee system."	○	pp.20-21
		Perform results evaluation in accordance with new medium-term management plan.	○	p.18
		Establish a Corporate Governance Principle (FY 2004 target).	—	p.21
		Prepare Group-wide risk assessment, control and monitoring systems.	○	p.19
Compliance	Entire Group	•Perform survey with questionnaire on "Corporate Ethics Hotline."	—	p.25
	Daiwa Securities	Provide systematic compliance training.	○	p.23
		Perform internal process-check inspections.	○	pp.22-23
		Prepare compliance manual.	○	p.23
		Establish voluntary action standards.	×	p.22
	Daiwa Securities SMBC	Systemize compliance training.	○	p.24
Review examination items and frequency based on periodic self-assessments in each office.		○	p.24	
Information Disclosure		Establish a Disclosure Policy to provide standards and methods for information disclosure.	○	p.26
		Enhance information on and improve user-friendliness of IR website.	○	p.27
Core Business		Support economic/financial education for young people (elementary school through high school students).	○	pp.12-13
		Support socially responsible investing.	○	pp.08-11
Customer Satisfaction		Hold third customer satisfaction survey.	○	p.31
		•Give customer questionnaire to approximately 410,000 customers of Daiwa Securities.	—	p.31
		Consider degree of customer satisfaction in assessments of retail branches and employees.	×	p.31
Daiwa People		Raise average employment rate of persons with disabilities at nine companies to 1.8%.	○	p.34
		Promote women to managerial positions.	○	p.33
		Make 20% of Deputy General Managers graduates of Daiwa Leadership Program.	△	p.35
		Enrich programs designed for enhancing ability of consulting and asset management.	○	p.35
		Reform personnel compensation ("compensation system based on work classification," "more graduated salary levels," "senior work system," etc.), greatly expand intra-Group job postings and develop multi-directional evaluation system.	○	pp.32-33
		Prepare to move to a "committee system" and study Nominating Committee operations system and director selection standards.	△	pp.20-21
Philanthropy and Community Involvement		•Corporate citizen activities with emphasis on ties to community.	—	p.36
		Support economics/investment education more actively.	○	pp.12-15
		Provide more volunteer opportunities to interested employees.	○	p.37
Working for the Environment		•Begin including "Dr. Sustaina's Environmental Course" (with environmental awareness raising content) in internal publication.	—	p.39
		Establish a basic green purchasing policy and develop green purchasing.	×	pp.40-41
		Introduce an Environmental Management System, study setting up a department of environmental management.	×	pp.40-41
		FY 2004 greenhouse gas reduction targets: Daiwa Securities Headquarters Building 2.0%; Eitai Daiya Building 0.1% and Daiwa Eitai Building 1.9%.	○	pp.38-41

\*Dates are provided for items already performed as of August 2004.

## Issues and targets for FY 2004 and beyond

Establish highly persuasive evaluation standards in keeping with Group strategy.
Establish a Corporate Governance Principle.
Further enhance internal control system.
Raise level of internal understanding of Corporate Ethics Hotline and periodically survey for awareness.
Examine establishment of "voluntary action standards."
"More thorough legal compliance and elimination of improper conduct," "achieve higher level of investor protection."
<b>Established "Compliance Officers" (April 2004).</b>
Create "Work Manual for Internal Administration Supervisor."
Re-examine from perspective of cross-Group voluntary action standards.
Strengthen compliance training and online training in departmental units.
Revise "Handbook for Legal Compliance."
Establish an electronic bulletin board for internal administration supervisors.
"Strengthen functions of internal administration supervisors and internal administrators," "enhance training," "enhance intra-departmental inspections" and "prepare environment to assure thorough legal compliance."
Create a booklet of Compliance Newsletters.
Increase percentage of ownership by individual shareholders.
Actively pursue two-way communication with stakeholders.
<b>Established Daiwa SRI Fund (May 2004) and held Daiwa SRI Investor Seminar (June 2004).</b>
<b>Partnership with Waseda Graduate School of Finance, Accounting and Law (April 2004).</b>
Continuous effort for "post-sales follow up:" Increase frequency of customer contact, learn customer needs and improve quality of suggestions for customers.
"Checking basic actions:" Be thorough in basic actions and fundamental services.
Pursue "understandability as seen from the customer's point of view:" Use simpler language in documents, forms, etc. intended for customers.
Increase customer satisfaction by improving sales and service systems.
Aim to stabilize employment of persons with disabilities, review nature of work and make workplace environment improvements.
Improve "evaluator training" to raise persuasiveness of evaluations.
Aim for 20% enrollment in Daiwa Leadership Program from Group overall.
Enhance personnel system with goal of fostering professional human resources.
Partner with parties subsidized by foundations and perform corporate citizenship activities closely tied to the community through branch offices.
Promote understanding of volunteerism among Group employees with social welfare experiences.
Strengthen environmental communication with goal of raising Group employee environmental awareness.
Study effectiveness of implementing ISO 14001, taking into account characteristics of business area.
Achieve greenhouse gas (CO <sub>2</sub> equivalent) reduction target (1.9% less than FY 2001) in Daiwa Eitai Building.

## Learning the issues and setting targets

The Daiwa Securities Group pursues numerous activities for the sustained development of society and the Group itself. We also believe that disclosing the Group's issues and targets for these activities is an important part of fulfilling our responsibility to explain ourselves to stakeholders.

In its core business as a securities firm, the Group has focused its initiatives on creating society-friendly money flows (particularly through SRI) and on economic and investment education for young people in order to promote the healthy growth of Japan's economy. Improving customer satisfaction has become the core of our corporate branding initiatives and the Group has made greater efforts than ever to use customer input in its products and services. This input came from comments made to our Customer Support Hotline and results of our customer satisfaction surveys. We have also implemented two reforms in our personnel system, introducing a compensation system based on work classification and more graduated salary levels.

In FY 2004 it is the Daiwa Securities Group's goal to create even greater customer satisfaction through improvements to our management and service systems and to enhance management speed, transparency and accountability by our conversion to a committee system, thus building trust with not just customers but with society as a whole. Further, we seek to build an environmental management system such as we were unable to achieve in FY 2003 and are examining such measures as implementation of an environmental management system whose significance is more readily understandable to employees.

The Daiwa Securities Group in FY 2003 established performance evaluation standards following its medium-term management plan, and set up systems to link executive compensation with results measured in terms of financial results, work processes, business environment and stakeholder concerns. In June 2004 the Group made the change to a committee system in order to increase management transparency and mobility.

#### Preparation of Group company performance evaluation standards linked to the Group's medium-term management plan

The first and foremost concern of corporate governance is to create systems where one's words match one's actions and to achieve highly transparent and mobile management systems. In FY 2003, the Daiwa Securities Group prepared performance evaluation standards in each Group company, as based on the Group's medium-term management plan (FY 2003 – FY 2005).

Performance evaluation standards look not only at financial results but also at work processes, relative competitiveness of the Group, compliance and the perspective of an important set of stakeholders, our customers. For example, evaluations reflect client assets under custody and results of customer satisfaction surveys in order to make an assessment from the

customer's point of view.

The Daiwa Securities Group intends to be flexible in setting highly persuasive evaluation standards in keeping with Group strategy.

#### Preparation of executive compensation framework

The Daiwa Securities Group determines the monthly salaries and its bonus funds (a combined total for each Group company) to pay each Group company's Directors<sup>1</sup> and Corporate Executive Officers (and Executive Officers) based on performance evaluation standards of each Group company. Moreover, the monthly salaries and bonuses that individual Directors and Corporate Executive Officers actually receive goes up and down depending on their individual evaluations at Group companies.

<sup>1</sup> Compensation of Outside Directors is a set amount and not linked to business performance.

#### Major performance criteria of the Daiwa Securities Group

	Stakeholders	Index	Measuring standard
Financial perspective	Shareholders		Ordinary income
			ROE (return on equity)
Process perspective	Customers	Assets received for holding	Increase of customer assets held at Daiwa Securities
		Investment bank business ranking	League table (bonds, equities, new offerings, mergers and acquisitions, etc.)
		Customer satisfaction	Individual customer satisfaction survey results, customer retention rate
			Securities popularity ranking, corporate brand score
	Employees	Productivity	Productivity per employee
	-	Stability	Fixed cost cover ratio
-	Compliance system	Qualitative judgement	
Relative evaluation	-		Evaluation of aspects of market environment and competitive environment

**Abolishment of Retirement Gratuities System for Retiring Directors (Daiwa Securities Group Inc.)**

The Board of Directors in May 2004 resolved to abolish the Retirement Gratuities System for Retiring Directors at Daiwa Securities Group Inc. Therefore, beginning in July 2004, executive compensation is adjusted for each year of service based on annual performance, thus creating an executive compensation framework that is more transparent and closely linked to performance.

**Requirement to take part of executive compensation in company shares**

Since July 2003, Directors and Corporate Executive Officers (and Executive Officers) of eight major Group companies have been required to accept approximately 10% of their monthly salaries in Daiwa Securities Group Inc. stock.<sup>2</sup> This is meant to tie executives' long-term incentive to maximize share price as shareholders. Further, as a way of increasing motivation for improving consolidated performance, the Executive Committee determined in August 2004 to issue stock options.

**Preparing Group-wide risk assessment, control and monitoring systems**

An Internal Audit Department, under the direct supervision of the CEO, has been established at Daiwa Securities Group Inc. The Internal Audit Department has authority over the preparation of Daiwa Securities Group Inc.'s internal control systems and internal audits. It has the additional objectives of preparing internal control and improving internal audit systems Group-wide by working with corporate planning departments and internal audit departments of Group companies in Japan and abroad.

In April 2003, the Group established the "Internal Audit Rule" to clarify basic internal auditing matters and assure that auditing proceeds smoothly and efficiently. Additionally, the Internal Control Committee, headed up by the CEO, was established in July 2003 as a subcommittee of the Management Committee (it is currently a subcommittee of the Executive Committee). The Internal Control Committee deliberates and makes decisions on matters relating to internal control and preparation of risk control and internal auditing systems in the Daiwa Securities Group. Meeting as a rule every three months, the Internal

Control Committee works to improve internal control systems.

Through this series of steps, the Daiwa Securities Group is further enhancing its internal control systems in terms of work effectiveness and efficiency, financial reporting reliability and compliance with laws and regulations.

<sup>2</sup> Specifically, a corresponding portion of monthly salaries is deposited as company stock purchasing funds in the Executive Shareholding Association.

**Total compensation paid to Daiwa Securities Group Inc. Directors and Corporate Auditors (FY 2003)**

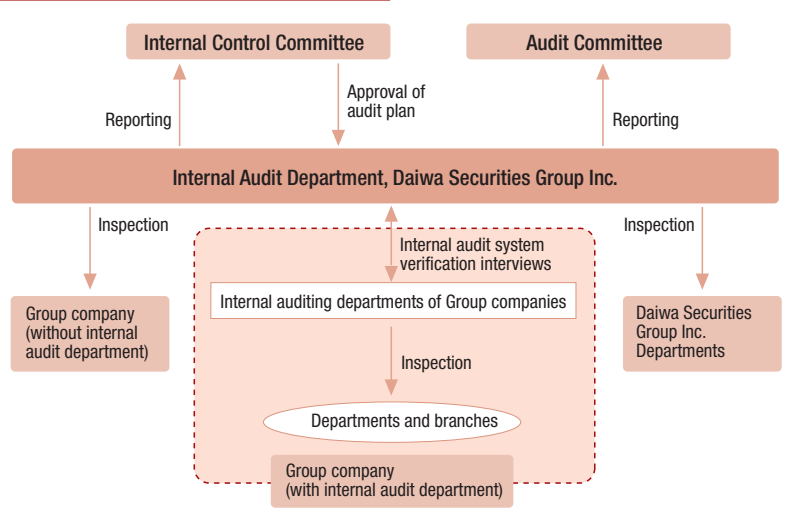
	Monthly salaries		Bonuses		Retirement gratuities	
	Recipients	Amount paid in year	Recipients	Amount paid	Recipients	Amount paid
Directors	9	245,050,730 yen	0	0 yen	2	41,499,200 yen
Corporate Auditors	4	60,000,000 yen	-	-	0	0 yen

\*Recipients of monthly salaries include two Directors who retired in midterm.

\*For employee-Directors, no salary is paid for the employee portion.

\*Bonus payments were based on profit distribution as determined at the ordinary general meeting of shareholders in June 2003. Bonuses are not paid to Corporate Auditors regardless of results.

**Management audit organizational system**



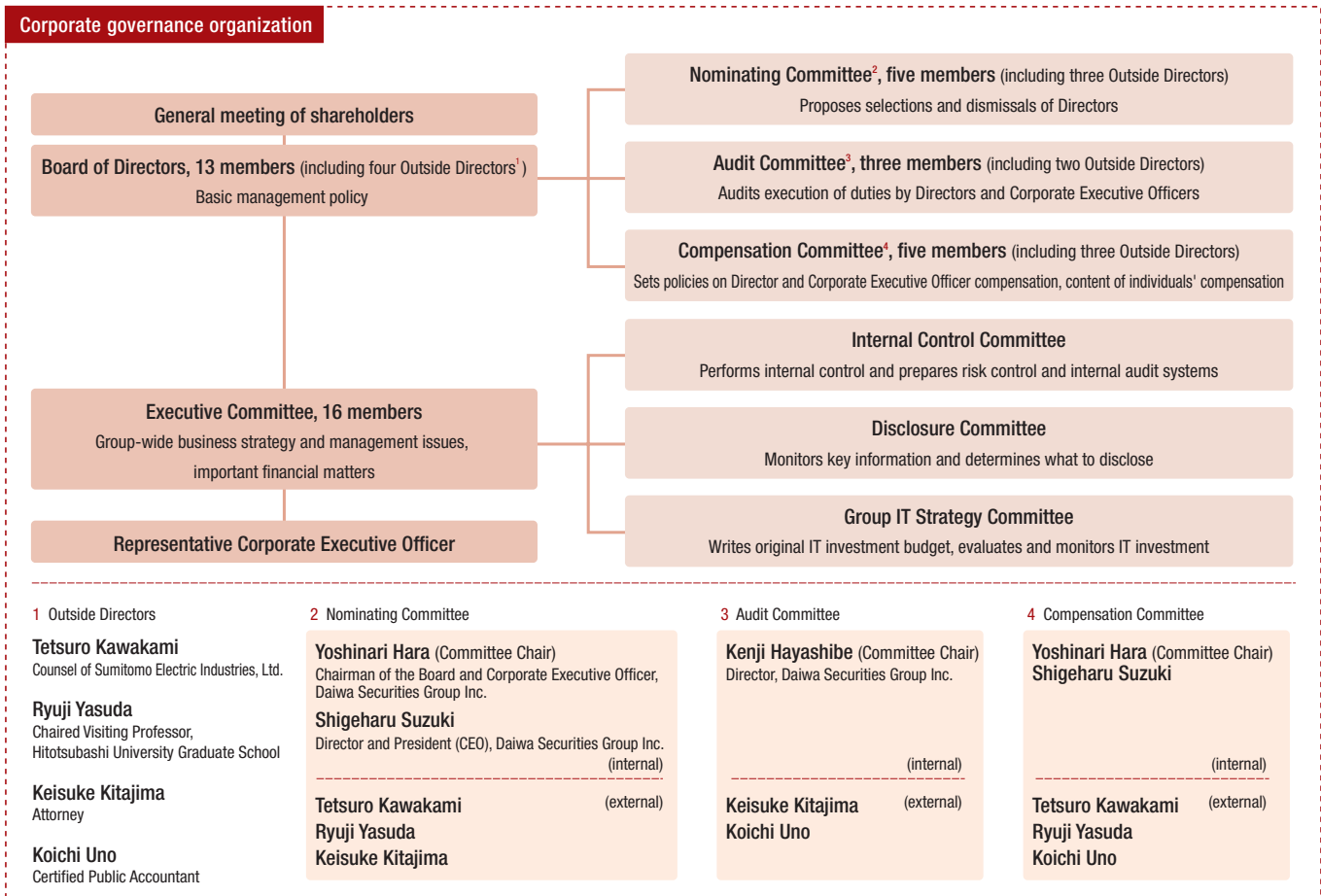
<sup>3</sup> A company based on a committee system:  
A company whose articles of incorporation, in keeping with the Audit Special Exceptions Law, stipulate that the company establish three committees (Nominating, Audit and Compensation) of which a majority of members are Outside Directors and also establish Corporate Executive Officers to perform company work functions.

**Transition to a "committee system"**

The June 23, 2004 general meeting of shareholders of Daiwa Securities Group Inc. featured a vote to revise the articles of incorporation and transition to a company based on a committee system.<sup>3</sup>

The Daiwa Securities Group changed to a pure holding company system in April 1999 and since then has worked to build a governance system characterized by high transparency and mobility. By adopting a committee system, the Group seeks to separate the directorship and executive functions, reinforce the directorship function of the Board of Directors and speed up the decision-making process for executing work.

The number of Outside Directors has risen from two to four, and Nominating, Audit and Compensation Committees have been established to strengthen the directorship function. To coincide with these changes, the Group has eliminated the position of Corporate Auditor. Further, the Group has transferred broad authorities from the Board of Directors to the Executive Officers, a change expected to increase mobility during decision-making. Also, we are working to make Group management more thoroughgoing with the appointment of Corporate Executive Officers who also serve as top management at Group companies.



### Appointing of Nominating, Audit and Compensation Committees

As the Group made the change to a committee system, in June 2004 it established a Nominating Committee, Audit Committee and Compensation Committee as internal organizations of the Board of Directors.

#### • Nominating Committee

The Nominating Committee mainly determines the content of proposals to appoint and dismiss Directors, submitted to the general meeting of shareholders for their approval.

#### • Audit Committee

The Audit Committee performs such functions as auditing the execution of duties by Directors and Corporate Executive Officers, determining the content of proposals to appoint, dismiss, etc. accounting auditors (submitted to the general meeting of shareholders for their approval), demanding a stop to any improper conduct by Corporate Executive Officers, auditing accounts and writing accounting reports. Additionally, the committee works with internal audit departments and other offices as needed to carry out its duties.

#### • Compensation Committee

The Compensation Committee sets policies for determining the compensation of individual Directors and Corporate Executive Officers and determines compensation content for each individual.

### Transfer of authority from Board of Directors to Executive Officers

As the Group has changed to a committee system, it has transferred broad authorities from the Board of Directors to the Corporate Executive Officers.

#### • Board of Directors

Chaired by the Chairman of the Board, it consists of 13 Directors. It sets basic management policy, rules on matters essential to executing the duties of the Audit Committee and on such matters as the separation of Corporate Executive Officer duties and command relationships, and mainly directs management through three committees.

#### • Executive Committee

Composed of all 16 Corporate Executive Officers, it deliberates and rules on cross-Group business strategy and management issues and on important financial matters. The transfer of authority from the Board of Directors means that Corporate Executive Officers make work decisions individually or as a committee, an arrangement which is expected to accelerate

decision-making. Daiwa Securities Group Inc. seeks to entrust Corporate Executive Officers with as much executive decision-making authority as possible.

### Preparation of executive system

Coinciding with the establishment of the Disclosure Policy<sup>4</sup> in March 2004, the Daiwa Securities Group Inc. has appointed a new Disclosure Committee. With its change to a committee system, the Group has prepared its executive system by re-organizing the Internal Control Committee, Group IT Strategic Meeting and Disclosure Committee as subcommittees of the Executive Committee.

#### • Internal Control Committee

Deliberates and rules on the arrangement of internal control and of risk control and internal audit systems for the work of the Group.

#### • Disclosure Committee

Monitors important information, determines what information to disclose and so on to assure disclosure that is fair, timely and appropriate.

#### • Group IT Strategy Committee

Proposes the IT investment budget, appoints system personnel as appropriate, reorganizes Group system departments, evaluates and monitors IT investment implementation at Group companies, deliberates issues concerning cross-Group system development, and so on.

### Establishment of Corporate Governance Principle

The Daiwa Securities Group is working to establish its Corporate Governance Principle in order to state its stance on corporate governance to the outside world and to make this stance better known among its employees. Preparation continues today with a goal of establishing the principle in FY 2004.

<sup>4</sup> For details, see Information Disclosure on page 26.

Daiwa Securities is raising the ratio of internally detected cases of improper conduct in sales and improving the effectiveness of internal restraints. Daiwa Securities SMBC is systemizing its compliance training. And the Corporate Ethics Hotline, the cross-Group system for internal reporting, is expected to have a self-purifying effect and has brought issues to light regarding effective use of such systems.

### "Think for yourself, act for yourself" compliance initiatives

Having enshrined "Total compliance" in its Corporate Principles<sup>1</sup>, the Daiwa Securities Group is developing a systematic organization that sets internal rules to assure thorough legal compliance, provides awareness-raising activities and leadership to employees and monitors employee work. For this organization to function effectively, the Group strives to firmly implant a consciousness in employees that "compliance is the wellspring of a business's income, and even one legal violation will damage the corporate brand and lead directly to a decline in income." For that reason, we believe it essential to create a culture of "think for yourself, act for yourself" compliance, in which each employee aims for compliance in his or her day to day work.

<sup>1</sup> For details, see *CSR-Based Management at the Daiwa Securities Group* on page 05.

### Total compliance

No one can deny the possibility that persons with anti-social intentions could lurk behind an everyday business transaction. The lesson learned from a 1997 incident in which the Daiwa Securities Group made a payment to a corporate racketeer has not faded, and therefore the Group is working to stamp out anti-social influences. This can be difficult, since such interests usually try to appear as ordinary business partners. Group departments and branch offices have a system in which internal administration supervisors or internal administrators check the background of new business partners, and if unable to make a satisfactory decision, these officers consult with the Compliance Department.

In January 2004, the Group declared in its Daiwa Securities General Business Agreement that it would dissolve any contract signed with customers found to be involved with criminal groups, corporate racketeering, and so on.

### Cross-Group initiatives

The Corporate Ethics Department at Daiwa Securities Group Inc. holds monthly Corporate Ethics Promotion Liaison Meetings with ethics officers from Group companies so that we can come to a common understanding of corporate ethics Group-wide, for example regarding the effort to eliminate anti-social influences. During these liaison meetings, participants study materials for information gathering and training and otherwise make a cross-Group effort to advance ethics.

### Voluntary action standards

The Daiwa Securities Group has "the Code of Ethics" and "the Code of Conduct and Ethics," both established in 1998. Because both rules expressly forbid certain actions, the Group felt it would be better to change to rules emphasizing voluntary conduct. The Group has now begun examining whether to adopt "voluntary action standards," a set of promises conceived based on an ideal of conduct. Daiwa Securities had set "Establish voluntary action standards" as a goal for FY 2003, but it now plans to re-examine the issue with the aim of achieving voluntary action standards for the whole Group, not just individual companies.

### Daiwa Securities

#### Penetration of compliance consciousness

Following the principle of "think for yourself, act for yourself," Daiwa Securities branch offices hold Compliance Meetings once a month to discuss specific themes of their own choosing. Also, the Compliance Department continues to issue the "Compliance Letter" for employees, but in FY 2003 it began also to publish "Compliance One-Point Lesson" and "Compliance Weekly." Through dissemination of information and through training (described below), Daiwa Securities has worked continuously to raise compliance awareness and improve the internal restraint and monitoring functions. This has resulted, for example, in more frequent internal detection of improper conduct<sup>2</sup> in sales activity. Internal detection, which stood at 26% in FY 2001, rose to 50% in FY 2002 and 73% in FY 2003. For the future, Daiwa Securities hopes to step up internal restraints to eliminate the occurrence of improper conduct in the first place.

Moreover, Daiwa Securities began announcing to Directors and employees "Sanction and Penalty Guidelines" and "Content of Sanctions Imposed" in October 2003.

<sup>2</sup> Improper conduct might include making transactions without a customer's consent, failing to sufficiently confirm the content of transactions, erroneous solicitation, administrative negligence, or other acts. At Daiwa Securities, approximately 70% of cases of improper conduct fell under the categories of "failure to provide prospectuses" and "sales staff use of sales materials not internally approved" (FY 2003).

**Thoroughgoing compliance training**

One of Daiwa Securities' chief goals for FY 2003 was to "provide systematic compliance training." The company had already been offering level-specific group training for staff members from new hires to Directors as well as intranet-based online learning and training by company satellite broadcasts, but in FY 2003 for the first time we also gave "extended training sessions for internal administration supervisors" two times, "compliance inspection training" four times and "trainings for mid-career sales people" five times. All together, group trainings took place 45 times in FY 2003 with about 3,400 trainees participating.

**Stepping up internal administration system**

Since FY 2002, in a program known as the Compliance Caravan, staff members from the Compliance Department have visited branch offices and given onsite instruction as based on the branch office's internal administration report. In FY 2003, staff members visited about 40 offices, chiefly focusing on legal compliance systems and verifying that the offices were working to build customer trust. For example, members checked to make sure offices were providing customers with prospectuses in proper manner.

As a way of bolstering internal administration systems, five "Deputy Compliance Supervisors" handling different geographic areas were appointed in July 2003 to serve under the Director for compliance. On top of this, in April 2004 Daiwa Securities appointed "Compliance Officers" to all 27 branch offices operating as "mother branches" for the 123 branch offices nationwide. Compliance Officers belong to the Compliance Department and provide leadership and direction to internal administration supervisors and sales supervisors belonging to each branch office.

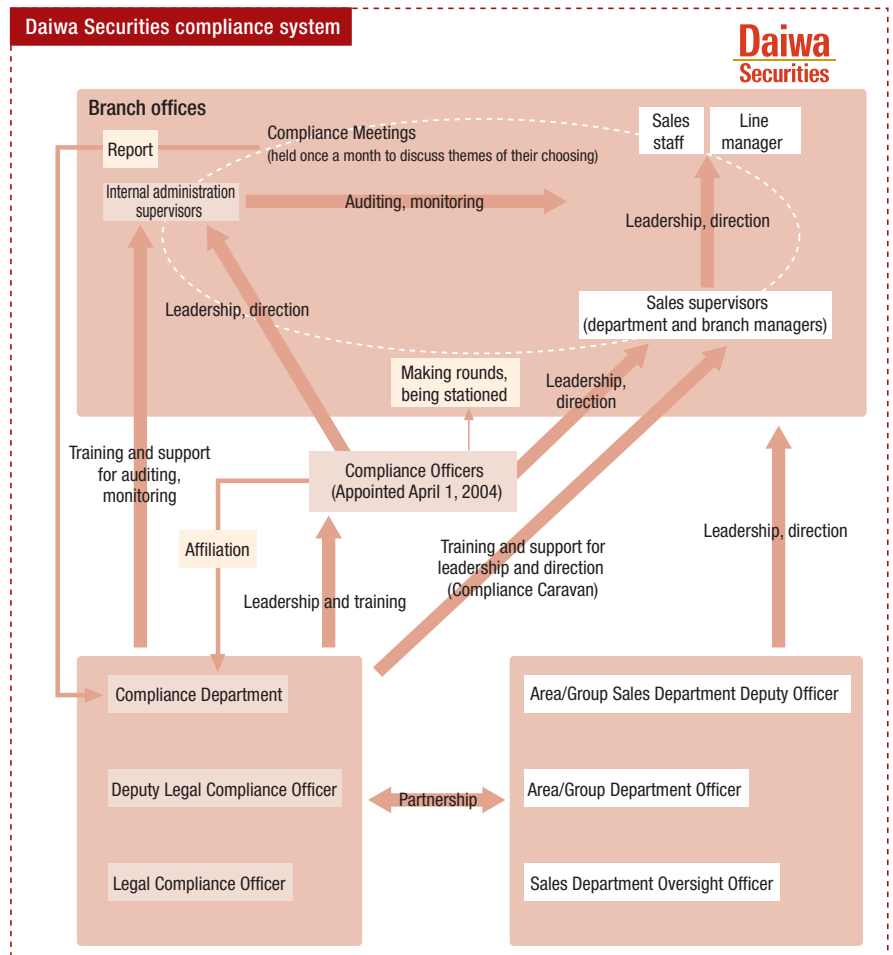
Daiwa Securities runs a customer interview system in which supervisors such as branch managers interview customers directly to check up on transactions. In FY 2003, supervisors interviewed an average of about 2,000 customers every month.

**Preparation of manuals**

Daiwa Securities is preparing the compliance manuals needed as tools to help knowledge of laws and rules penetrate the workplace. An "Advertising Inspection Manual," for example, was distributed in June 2003 as a handbook for internal administration supervisors inspecting advertising and sales promotion materials created by branch offices. Work has also begun on a "Work Manual for Internal Administration Supervisors," which is to be completed during FY 2004.

**FY 2004 goals**

In FY 2004, Daiwa Securities seeks to be No. 1 in quality as seen from the customer's point of view by pursuing these goals: "more thorough legal compliance and elimination of improper conduct," "achieve higher level of investor protection" and "enhance internal administration system."



**Daiwa Securities SMBC**

**Providing systematic compliance training**

Training has a critical role to play in helping compliance awareness penetrate. Through FY 2002, Daiwa Securities SMBC had given compliance training to compliance supervisors (internal administration supervisors), line managers (who supervise individual departments), and new hires, including those coming in from other Daiwa Securities Group companies or Sumitomo Mitsui Banking Corporation. In FY 2003, however, the range of persons subject to compliance training expanded greatly. Group trainings for newly appointed Directors and general managers and for persons newly promoted were added, and Daiwa Securities SMBC also began online trainings for all workers. Starting in March 2004, all employees are obligated to take a program of courses on these themes:

"Restrictions on insider trading," "Rules on sale of stock by directors and employees," "Responding to complaints" and "Case studies of administrative disposition (forbidden conduct)." After each course, participants must score at least 70% on a test in order to pass, and must repeat the course until they get a passing grade.

In addition to these level-specific trainings, Daiwa Securities SMBC gave department-specific and theme-specific trainings tailored to the work performed. Training for newly appointed Directors is partially designed for the individual based on career experience.

**Raising of legal compliance awareness and understanding**

The "Compliance Newsletter," which the Legal & Compliance Department began issuing in 1999, released its 100th edition in June 2004. The newsletter includes case studies, opinions of the Legal & Compliance Department

and outside attorneys and explanations of legal changes and new laws, among other information. The Legal & Compliance Department also gets numerous inquiries, and it provides legal counseling with department attorneys as needed.

**Stepping up internal control**

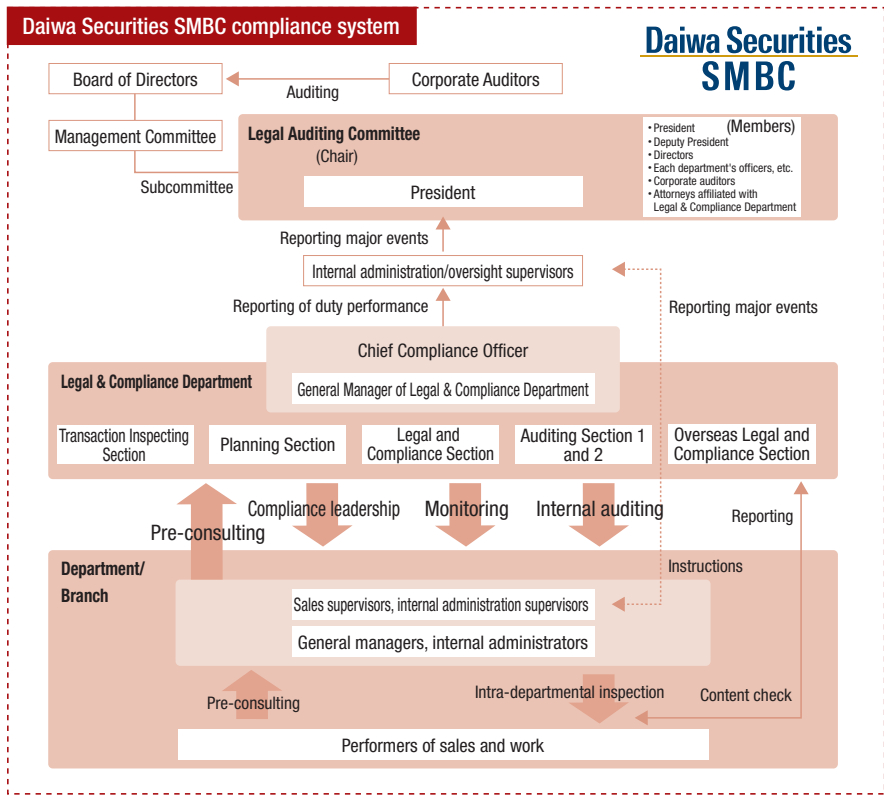
The affiliation of each office's internal administration supervisors, who are so pivotal to internal control, was changed in FY 2003 from that office alone to both the office and the Legal & Compliance Department, which reinforces the internal control function. Each office and the Legal & Compliance Department conduct evaluations of internal administration supervisors with a respective weight of 6:4.

Once a year, internal administration supervisors identify latent risks in the offices they supervise, and a self-assessment tool for evaluating risk mitigation measures has become part of the routine. Based on these risk evaluations, intra-departmental check procedures are improved, such as by establishing specific inspection items and inspection frequencies appropriate to risks.

In addition to very strict information control is put into effect, for example by building information barriers within and between departments. Starting in FY 2004, information control system operating status is included among intra-departmental inspection items. The Legal & Compliance Department performs internal audits to verify the validity of intra-departmental inspections in each office.

**Prevention of unfair trades by Directors and employees**

To assure that Directors and employees do not make unfair securities transactions, Directors and employees, their spouses and dependents are required to report to the company if they open an account with a securities company, and they are also subject to requests for information. In the past, when one of these persons actually made a securities transaction, the approving party was different for each department, with the rules requiring that the person making the



transaction get the permission of either the general manager of the Legal & Compliance Department or the general manager of the department of affiliation. An internal rule change of January 2004, however, now makes the control system stricter, requiring the approval of the General Manager of the Legal & Compliance Department in all cases.<sup>3</sup>

<sup>3</sup> Members of the Investment Banking Division have all been required to get the approval of the General Manager of the Legal & Compliance Department since FY 2002.

#### FY 2004 goals

In FY 2004 Daiwa Securities SMBC is working on its goals to "strengthen functions of internal administration supervisors and internal administrators," "enhance training," "enhance intra-departmental inspections" and "prepare environment to assure thorough legal compliance." The company plans to establish an electronic bulletin board for internal administration supervisors, strengthen compliance training and online training in departmental units, revise the Handbook for Legal Compliance (a compliance manual) and put out a booklet of the Compliance Newsletters issued up to now. The company considers information leaks to be a serious issue.

### Reports to Corporate Ethics Hotline

The Corporate Ethics Hotline, an internal reporting system established in January 2003,

#### Internal report examples and responses

Total reports taken in FY 2003: 9

Report content	Response
There is too much unpaid overtime work.	Notices were sent from the Personnel Department to general managers cautioning them to manage overtime and in particular prohibiting unpaid overtime.
I was forced to perform volunteer activities on a day off.	Notices were sent from the Corporate Community Affairs Department to line managers stating that employees are free to choose whether or not to participate in volunteer activities on days off and that neither tangible nor intangible force shall be used to make them participate.
A certain employee is appropriating supplies.	The issue was studied, but no case of appropriation was confirmed.
I've been subjected to sexual harassment.	Report was anonymous, so no individual response could be made. A letter in the name of the Corporate Ethics Officer encouraging personnel to be careful of this situation was posted on the intranet.

took nine reports in FY 2003. Among other topics, the reports concerned service overtime work, a worker's feelings about volunteer activities on days off, and appropriation of company supplies for personal use. When reporters provide their names, the Group contacts the reporter to tell him or her about the response taken, and cases that are deemed good candidates for inspiring the rest of the Group to take more care are posted on the intranet. To make the hotline better known in the Group, the slogan "Your courage saves the company!" has been printed in



Internal announcement of Corporate Ethics Hotline

#### Corporate Ethics Hotline Employee Awareness Survey

In February 2004 the Corporate Ethics Department gave a "Corporate Ethics Hotline Questionnaire" to approximately 12,000 employees, of whom about 6,000 responded.

The responses indicated that an awareness of the system had begun to penetrate, with 70% saying that they knew about the internal reporting system, 76% saying that they would report conduct that should be reported when they saw it and 80% saying that the system is effective for making the organization's self-purifying function work. At the same time, the responses indicated that sys-

tem operations are still not well understood, with 79% saying they had never seen the hotline page, 55% saying that they did not know that the outside attorneys who take reports that include the reporter's name protect the anonymity of the reporter and 53% saying they did not think that the reporter and his/her anonymity would be protected. To make the system work more effectively, the Group will endeavor to increase recognition of the fact that the system adequately protects the reporter and his/her anonymity, and we will strive to respond more immediately to reports.

Daiwa Securities Group will continue to perform this survey periodically in the future.

#### Results of Corporate Ethics Hotline Employee Awareness Survey

1. Did you know about the Daiwa Securities Group internal reporting system?	Yes 70%	No
2. Have you ever seen the Corporate Ethics Hotline page?	Yes	No 79%
3. If you discovered conduct that should be reported to the hotline, would you report it?	Yes 76%	No
4. If you were to file a report, how would you do so?	By email or similar 63%	By postal mail or similar
5. If you were to file a report, would you give your name or remain anonymous?	I would give my name.	I would remain anonymous. 65%
6. Did you know that even if a reporter gives his/her name with the report to an attorney, the attorney will not tell the name of the reporter to the Daiwa Securities Group?	Yes	No 55%
7. Do you think this system protects the reporter and his/her anonymity?	Yes	No 53%
8. Do you think the system deals with reported incidents appropriately?	Yes 64%	No
9. Do you think that this system is effective for helping the organization's self-purification function to work?	Yes 80%	No

### My opinion of Daiwa Securities Group initiatives

Deputy General Manager, Head Office Sales Department, Daiwa Securities  
**Kensuke Yano**

Compliance awareness has certainly improved in the company these last few years. The rules have gotten stricter and there is a stronger awareness of legal compliance, but this is just a matter of course. At the same time, our initiatives have to be understandable as well as highly convincing to the customer. The practice of "think for yourself, act for yourself" is critical to make sure our compliance rules are meaningful in more than name only.



The Daiwa Securities Group in March 2004 established its Disclosure Policy, laying out its basic position on information disclosure, and further adopted Disclosure Regulations to heighten the effectiveness of the policy. It additionally set up the new CSR Website and updated the main Daiwa Securities Group Inc. site to provide more information and greater convenience.

## Disclosure Policy established

To the Daiwa Securities Group, fair, timely and appropriate disclosure is fundamental to promoting understanding of the Group and realistic expectations of it among shareholders, investors and other stakeholders. In March 2004 the Daiwa Securities Group established and publicized its new Disclosure Policy clarifying this stance on information disclosure. Daiwa Securities Group Inc. simultaneously established Disclosure Regulations to enhance policy effectiveness, thereby specifying categories of management-related information, disclosure procedures and other matters.<sup>1</sup>

As key information relating to the Group's financial, environmental and social dimensions, the types of management-related information stipulated in the regulations include not only law- and rule-related information but also compliance and corporate governance information needed to fulfill social responsibilities plus information relevant to local communities and the environment.

Additionally, Group regulations require that a Disclosure Committee<sup>2</sup> be established as a subcommittee of the Executive Committee<sup>3</sup>. The Disclosure

Committee meets periodically between the closing day of each business quarter until the day quarterly results are revealed and otherwise convenes whenever the committee chairman thinks it necessary.

### Disclosure Policy

- We will observe fair and timely disclosure of important financial, social and environmental information ("Management-Related Information") regarding the Daiwa Securities Group so that our stakeholders (including shareholders, investors and the communities we operate in) may understand and maintain realistic expectations of the Daiwa Securities Group.
- We will comply with the Securities Exchange Law and other laws and ordinances related to securities transactions and the various rules of the stock exchanges where on which our stock is listed.
- We will endeavor to achieve fair disclosure both in terms of content and timing.
- We will utilize various communication channels including presentations, telephone conferences, the Internet and printed materials to disclose information in an easy to comprehend manner for investors.
- We will consciously act as a leader of the securities markets in terms of disclosure and set the standards for other listed corporations.
- We have established the Daiwa Securities Group Inc. Disclosure Regulations that define guidelines such as setting up a disclosure committee and the methods of disclosing management-related information to fulfill the spirit of this Policy.

<sup>1</sup> Similar regulations, etc. have been established at major subsidiaries to unify information disclosure policies for the Group as a whole.

<sup>2</sup> Members of the Disclosure Committee are the Corporate Executive Officer overseeing the IR Office (this officer chairs the committee), the Chief Financial Officer, the Corporate Executive Officer for planning, the Corporate Executive Officer for legal affairs, the Corporate Executive Officer overseeing the Public Relations Department, and the Corporate Executive Officer with jurisdiction over corporate ethics and CSR Promotion Department.

<sup>3</sup> For details, see *Corporate Governance*, pages 20 - 21.

### Daiwa Securities Group information disclosure framework



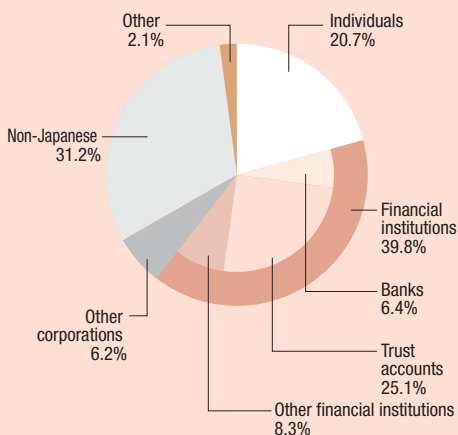
## Ongoing shareholder survey

Daiwa Securities Group's ongoing Shareholder Survey enables the Group to use shareholder input. Results of a questionnaire given in November 2003 indicate that 52% of shareholders purchase shares in the Group as long-term holdings and that 74% have held shares at least three years (39% for at least a decade). Additionally, 62% of shareholders have accounts with Daiwa Securities. Through active information disclosure we are working to promote understanding of the Group to encourage more shareholders to do business with Daiwa Securities.

Results suggest a fairly low degree of Internet use among shareholders, as 70% indicated that they had not seen the Group's IR site. To provide information to such shareholders, the Group must make more use of the mass media and postal mailings. Of all shareholders, 54% had exercised their right to vote at the general meeting of shareholders, but the Group feels this percentage needs to rise as the percentage of ownership by individual shareholders increases.

### Shareholders breakdown

End of March 2004 (by number of shares)  
Number of shareholders: 114,687



## Disclosure through many media

The Daiwa Securities Group provides information to the mass media and makes active use of its websites and publications like the Annual Report and Sustainability Report to make information disclosure as complete as possible.

Among its publications, the 2003 Annual Report earned an excellence award at the 2003 NIKKEI Annual Report Awards. In addition, our 2003 Sustainability Report placed No. 1 on the "CSR Report Rankings" by Nikkei Business Publications, Inc. in June 2004.

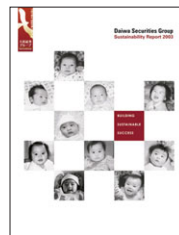
On our main website, the Group's CSR Website<sup>4</sup> started up in January 2004 as a way to enrich CSR and SRI information presentation. Subsequently, the Daiwa Securities Group Inc. main website and IR site were updated in June 2004 to help increase knowledge of the information offered there and make it easier to access the needed information. The Group will continue to promote two-way communication with stakeholders by making content more understandable and disclosures timely, appropriate and fair.

<sup>4</sup> For details, see *CSR Website*, page 47.

<sup>5</sup> For details on "net gain on trading securities," see *Economic Relations with Stakeholders*, page 28.



Annual Report (2004)



Sustainability Report (2003)

## My opinion of Daiwa Securities Group initiatives

Senior Analyst, UBS Securities Japan Ltd.  
**Ayako Sato**

One of the biggest difficulties in analyzing a securities company is the category "net gain on trading securities<sup>5</sup>." Because trading is a major source of income for a securities company, the risks must be examined. For that reason, securities companies are going to have to disclose more information than they do now. At the same time, if information disclosure leaks too much know-how about putting together products, this could work to the disadvantage of shareholders, so striking a balance is a concern. The Daiwa Securities Group discloses a relatively rich amount of information, and within the industry, they are considered to have excellent IR.

