

Results, Issues, and Targets

Below, we report the one-year results of efforts designed to promote the sustainable growth of society and the Daiwa Securities Group itself, and indicate future issues and targets.

Item		Issues and targets for fiscal 2004 and beyond	Progress
Corporate Governance		Establish more widely acceptable evaluation standards based on group strategy.	Partially completed
		Establish Corporate Governance Principles.	Ongoing
		Further enhance internal control system.	Ongoing
CSR Management		—	-
		—	-
Compliance	Entire Group	Raise level of internal understanding of Corporate Ethics Hotline and periodically survey awareness.	Ongoing
		Examine establishment of Voluntary Action Standards.	Ongoing
	Daiwa Securities	Achieve more thorough legal compliance, eliminate improper conduct. Higher level of investor protection.	Ongoing
		Appoint Compliance Officers.	Completed
		Create Work Manual for Internal Administration Supervisors.	Completed
	Daiwa Securities SMBC	Strengthen compliance and online training for each division and department.	Ongoing
		Revise <i>Handbook for Legal Compliance</i> .	Completed
		Establish an electronic bulletin board for internal administration supervisors.	Ongoing
		Strengthen functions of internal administration supervisors and administrators, enhance training, strengthen intra-departmental inspections, and improve environment to ensure thorough legal compliance.	Ongoing
		Create a booklet of <i>Compliance Newsletters</i> .	Completed
	Take measures to minimize risk of information leaks.	Ongoing	
Information Disclosure		Increase percentage of shares owned by individual shareholders.	Ongoing
		Actively pursue two-way communication with stakeholders.	Ongoing
Initiatives in the Daiwa Securities Group's Core Business	Socially Responsible Investment	Establish Daiwa SRI Fund and hold Daiwa SRI Investor Seminar.	Completed
	Economic and Financial Education	Partner with Waseda Graduate School of Finance, Accounting and Law.	Completed
Customer Satisfaction		Make continuous efforts in post-sales follow up: Increase frequency of customer contact, study customer needs, and improve quality of proposals to customers.	Ongoing
		Check basic actions: Be thorough in carrying out basic procedures and providing fundamental services.	Ongoing
		Provide information that is easy for customers to understand: Use simple, straightforward language in documents and forms, etc., intended for customers.	Ongoing
		Increase customer satisfaction by improving sales organization and service programs.	Ongoing
Daiwa People		Review job descriptions and improve workplace environments to ease employment of the disabled.	Ongoing
		Improve evaluator training to increase the objectivity of evaluations.	Ongoing
		Achieve target of 20% group-wide enrollment in Daiwa Leadership Program.	Ongoing
		Enhance personnel system with goal of fostering professional human resources.	Ongoing
Philanthropy and Community Involvement		Partner with aid-recipient parties subsidized by foundations and perform community-based corporate citizenship activities through branch offices.	Ongoing
		Promote group company employees' understanding of volunteer activities through "welfare experience courses."	Ongoing
Working for the Environment		Strengthen environmental communication with the goal of raising group employees' environmental awareness.	Ongoing
		Study effectiveness of implementing ISO 14001, accounting for the characteristics of each business area.	Completed
		Achieve greenhouse gas reduction target (1.9% less than FY2001, CO2 equivalent) at Daiwa Eitai Building.	Completed

Page(s) in report	Issues and targets for fiscal 2005
22-23	Introduce the stock options (at an exercise price of ¥1) for executive compensation, replacing the system to acquire stock.
	Continue to study ways of linking executive compensation with stock price.
	Strengthen the systematic auditing at principal group companies.
	Perform categorized audits, such as on compliance with the Personal Information Protection Law.
24	Conduct training in compliance, corporate ethics, and CSR at all 120 Daiwa Securities offices by the end of FY2007.
	Promote group employees' understanding of CSR
26-27	
	Strengthen cooperation between the legal compliance department in Daiwa Securities Group Inc. and its counterparts in each group company.
28	Enforce management practices incorporating the perspectives of legal compliance and investor protection.
	Reinforce management of complaints and claims.
	Comply with new Personal Information Protection Law.
	Upgrade Compliance Division.
29	Expand the online training program so that each office can find needed subjects .
	Inspect the extent to which measures have been established to address risks identified in previous internal audits.
	Expand intra-departmental inspection lists to include securities brokerage and personal information protection.
30-31	Encourage proactive disclosure of information to appeal to new individual shareholders.
	Hold shareholder forums and other events.
8-11	Popularize and promote SRI (including collaboration with NPOs and NGOs).
12-15	Support Finance Park, a hands-on economics education program run by Junior Achievement.
	Actively engage in joint research.
36-37	Actively pursue post-sales follow up.
	Enhance the convenience of offices through utilization of IT.
	Create office atmospheres that are welcoming to a broad clientele.
38-41	Review job descriptions and improve workplace environments to ease employment of the disabled.
	Enhance training programs.
	Develop workplace environments where women can fully demonstrate their abilities.
42-43	Enhance volunteer programs so that as many group employees as possible can participate.
44-45	Improve precision of Daiwa's independent environmental management systems.
	Promote environmental communication.
	Establish a basic policy on green procurement.

Understanding issues and setting targets

The Daiwa Securities Group is working in a variety of ways to promote the sustainable development of society and the Group itself. We see the disclosure of the Group's issues and targets as a key part of our accountability to stakeholders.

As in fiscal 2003, in fiscal 2004 the Group continued to focus on initiatives related to its core business as a securities firm, including efforts to popularize and promote socially responsible investment (SRI). The Group also focused on economic and investment education for young people by supporting NPOs and NGOs, and collaborated with industry and academia to promote the healthy development of society. By adopting a committee system, we enhanced our corporate governance system, which emphasizes management transparency, agility, and efficiency. Daiwa Securities is also working to further enhance customer satisfaction by reforming its sales structure to meet customer needs.

In fiscal 2005, we aim to develop workplace environments where women can fully demonstrate their abilities, and to further strengthen our compliance activities above and beyond the efforts we have undertaken thus far. We will also move forward with the preparation of the Daiwa Securities Code of Conduct (tentative name), which will summarize basic concepts that every group executive and employee should comply with and respect in the performance of his or her duties as a professional.

Following an examination of our environmental management system, we have decided at this time that we will not pursue ISO 14001 certification for the corporate group. Instead, we will promote efforts designed to improve the precision of our independent environmental management system.

Corporate Governance

We continuously work to improve our corporate governance system, which emphasizes management transparency, agility, and efficiency, in order to maximize corporate value for all our stakeholders.

Issues and targets for fiscal 2004 and beyond	Results and progress for fiscal 2004
Establish more widely acceptable evaluation standards based on group strategy.	Compensation Committee established evaluation standards in full consideration of consolidated business management.
Establish Corporate Governance Principles.	Published our stance on corporate governance on the website of Daiwa Securities Group Inc. at the time of conversion to the committee system.
Further enhance internal control system.	Launched projects to improve the Group's systematic auditing structure.

View of corporate governance

Corporate governance is the system by which a company ensures the effective and efficient management of business operations by establishing management policies and supervising and evaluating how the top management runs the business. The goal of corporate governance is to maximize corporate value for shareholders and all other stakeholders. The Daiwa Securities Group converted to the committee system*1 in June 2004. This was the most important step toward achieving our

goal of a highly transparent and agile management structure.

*1. Committee system: A corporate governance structure in which the articles of incorporation of a company, pursuant to Audit Special Exceptions Law, stipulate that the company shall establish three committees (nominating, audit, and compensation) of which a majority of members are outside directors and shall also appoint corporate executive officers to run the company's operations.

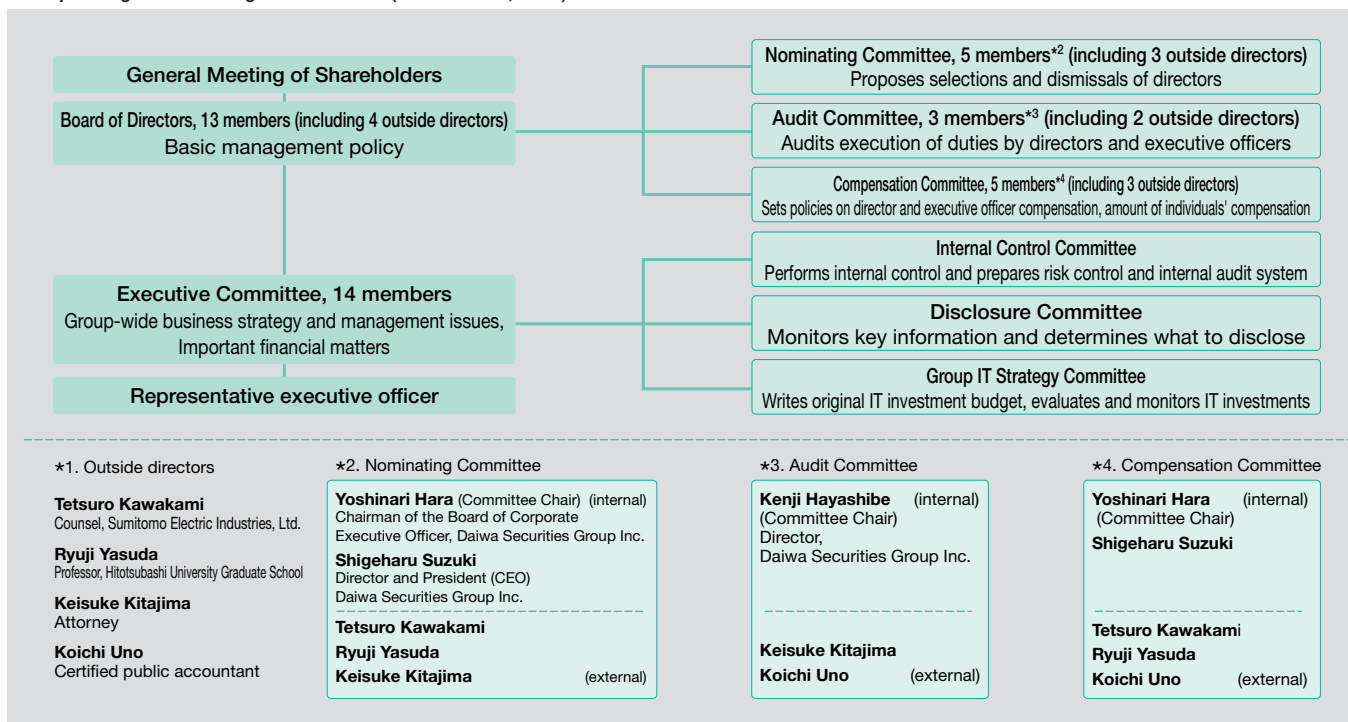
Governance structure under the committee system

In 1999, Daiwa Securities Group Inc. became the first listed company in Japan to convert to a holding company structure. Since then, we have built a highly transparent governance system that contributes to the effective and

efficient running of the company. This included the establishment of an Advisory Board and Compensation Committee, both of which were composed of experts from outside the company. Conversion to a committee system has improved agility during decision making by broadly delegating authorities from the board of directors to the executive officers. In addition, the supervisory function was strengthened by increasing the number of outside directors from two to four and by establishing the Nominating, Audit, and Compensation Committees.

The Nominating Committee met three times

Corporate governance organization chart (as of June 24, 2005)



in fiscal 2004*2 to discuss the composition of the board of directors and the basic policy for nominating director candidates. The Nominating Committee carefully deliberates on and selects director candidates in light of the Standards for the Appointment of Directors; these include criteria for securing the independence of outside directors.

The Compensation Committee met six times in fiscal 2004*2 to determine the individual compensation of directors and corporate executive officers and to set revisions to the executive compensation and performance evaluation systems.

The Audit Committee met 12 times in fiscal 2004*2 to deliberate on the method for auditing the state of internal control systems at group companies.

*2. Between June 23, 2004 and June 23, 2005.

Executive compensation structure closely linked to performance

Compensation for directors and executive officers consists of base compensation, performance-based compensation (bonuses), and stock-price-linked compensation. It is set by the Compensation Committee.

In addition to corporate financial results such as ordinary income and ROE,*3 we see the views of customers, who are an important set of stakeholders, as a key standard in calculating performance-based compensation. For example, performance assessments reflect client assets under custody, results of customer satisfaction surveys, and the productivity of individual employees.

In June 2004, we eliminated the retirement gratuities system for retiring directors to increase the linkage with performance and transparency of executive compensation.

*3. See "Business Results and Market Position of the Daiwa Securities Group" on page 32 for information on ROE.

Enhancing internal controls

Three objectives of internal controls

Internal controls are a number of processes performed within the Group to secure three objectives: (1) Business effectiveness and effi-

Value of compensation paid and other remuneration and benefits rendered for services performed by Daiwa Securities Group Inc. directors, executive officers, and auditors (FY2004)

April 1, 2004 to June 23, 2004							June 23, 2004 to March 31, 2005		
	Compensation based on articles of incorporation or resolutions by the general meeting of shareholders		Executive bonuses as a result of disposition of income		Retirement allowances based on resolutions by the general meeting of shareholders		Amount established based on resolution by Compensation Committee		
	Recipients	Value	Recipients	Value	Recipients	Value	Recipients	Value	
Directors	7	¥58 million	7	¥116 million	1	¥14 million	Executive officers	16	¥391 million
Auditors	4	¥15 million	—	—	4	¥54 million	Directors	5	¥80 million

*The table is divided to reflect the different number and composition of executives before and after the transition to the committee system.

*The total compensation for persons who hold dual posts as directors and executive officers is given in the row for executive officers.

*The total compensation for the four outside directors is ¥50 million.

ciency; (2) reliability of financial reporting; and (3) compliance with laws and regulations. That is, the main purpose of internal controls is to ensure that the business operates effectively and efficiently with appropriate risk management, that business results are properly reflected in financial statements, and that the Group obeys laws and regulations.

Comprehensive internal auditing on a consolidated base

The Daiwa Securities Group performs comprehensive internal audits at all companies subject to consolidated accounting, with the view that internal audits are an important means of enhancing internal controls. We have established internal auditing departments in the principal group companies. The Internal Audit Department, which is under the direct control of the President and CEO of Daiwa Securities Group Inc. directly audits companies that do not have their own internal auditing departments.

The Internal Audit Department regularly communicates with the corporate planning and internal auditing divisions at group companies to share opinions of whether each company's internal auditing is functioning effectively and whether they are taking appropriate controls and risk management measures. In this way, the Management Audit Department collaborates with its counterparts to enhance the Daiwa Securities Group's internal controls and internal auditing system.

Internal Control Committee oversees internal controls

We established the Internal Control Committee as a subcommittee of the Executive Committee to oversee internal controls and risk management. The committee deliberates and decides on matters relating to the development of internal controls for the Daiwa Securities Group.

As a general rule, the committee, which is headed by the representative executive officer, meets once every three months. The Internal Audit Department submits proposals and reports of internal auditing plans and results to the committee. The Legal, Financial, and Corporate Ethics Departments—the departments that are responsible for risk management—also submit proposals and report to the committee.

Future issues and targets for fiscal 2005

In terms of our executive compensation structure, starting in fiscal 2005 we will introduce the stock options (at an exercise price of ¥1) for executive compensation, replacing the current system to acquire stock. We will also spend one year studying ways to link executive compensation with stock price.

In terms of internal controls, we aim to continuing raising the quality of internal audits. As one measure toward that end, we will develop a system to conduct more exhaustive system audits at principal group companies.

Additionally, we will perform categorized audits, such as audits to determine whether compliance with the Personal Information Protection Law is adequate.

CSR Management

In July 2004, the Daiwa Securities Group Inc. established the CSR Promotion Department with the aim of expanding the measures it had undertaken to date and ensuring that CSR would take root throughout the Group.

CSR promotion system

In July 2004, Daiwa Securities Group Inc. set up the CSR Promotion Department to encourage CSR initiatives throughout the Group. The CSR Promotion Department participates as needed in department head meetings at group headquarters and in departmental liaison meetings held throughout the Group, where it reports on the Group's CSR activities and raises CSR-related issues. This department also serves as the secretariat for the Environmental Management Com-

mittee, which is tasked with improving the accuracy of environmental management systems group-wide, and the Code of Conduct Committee, which is currently drafting the Daiwa Securities Group Code of Conduct (provisional name).

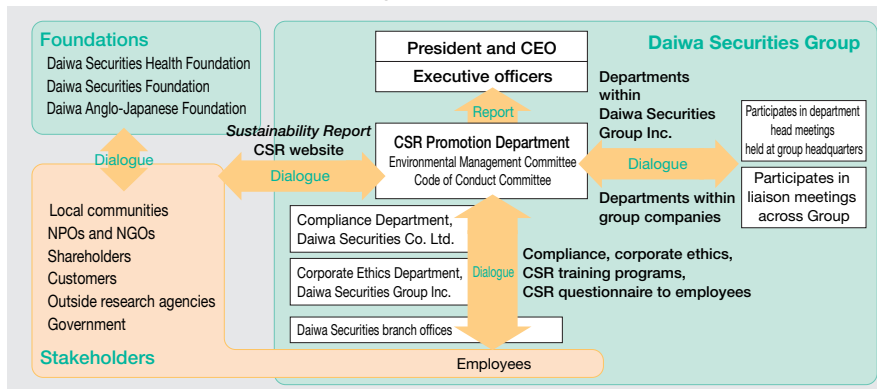
Activities of the CSR Promotion Department

The CSR Promotion Department is mainly in charge of planning and promoting the Daiwa Securities Group's CSR initiatives, preparing the *Sustainability Report*, responding to outside

queries, and communicating with outside stakeholders such as NPOs and NGOs.

As the department responsible for corporate citizenship activities, the CSR Promotion Department serves as the Group's point of contact for three foundations (Daiwa Securities Health Foundation, Daiwa Securities Foundation, and Daiwa Anglo-Japanese Foundation), runs education and training programs related to corporate citizenship activities, and provides information on volunteer opportunities to group employees through the Group's intranet.

Daiwa Securities Group CSR promotion system (As of June 30, 2005)

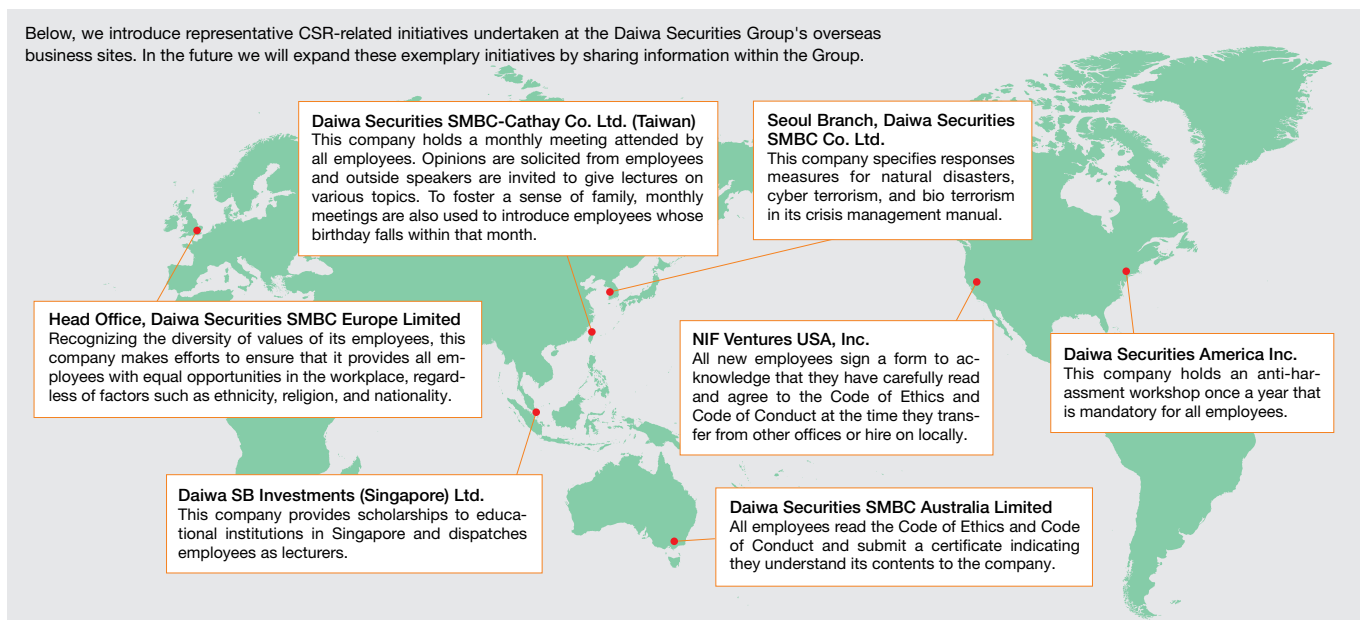


Future issues and targets for fiscal 2005

As of May 2005, we are implementing compliance, corporate ethics, and CSR training programs at branch offices of Daiwa Securities Co., Ltd. to improve group employees' understanding of CSR. We aim to have training implemented at 40 branch offices by the end of March 2006 and at all offices (120, as of the end of March 2005) during a three-year period starting from fiscal 2005. Going forward, we will broaden the scope of these training programs group-wide to deepen understanding of CSR among more employees.

CSR activities at overseas business sites

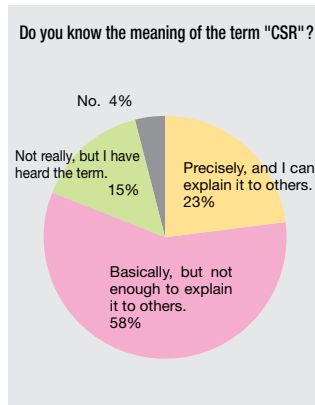
Below, we introduce representative CSR-related initiatives undertaken at the Daiwa Securities Group's overseas business sites. In the future we will expand these exemplary initiatives by sharing information within the Group.



In May 2005, we conducted a questionnaire survey of all of the approximately 13,000 employees of the Daiwa Securities Group in order to survey employees' attitude about the establishment of a Group Code of Conduct, and to grasp the level of employees' awareness and knowledge of CSR. Below, we report some of the results from the questionnaire. The Daiwa Securities Group takes these results seriously, and will promote CSR activities with the full agreement and voluntary participation of employees.

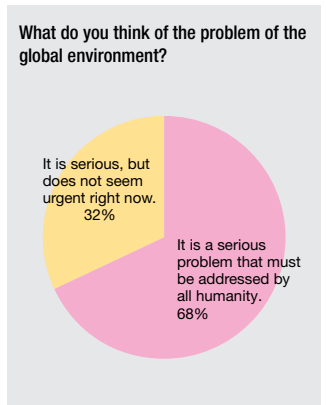
Employees who know the meaning of the term "CSR" : 81%

When asked if they knew the meaning of certain terms, employees' level of recognition was nearly the same for "CSR" and "SRI," at 81% and 75%, respectively, but somewhat less for "sustainability," at 59%. As to whether they expected SRI to become widespread in Japan, 75% thought it would, the same percentage who knew the meaning of the word.



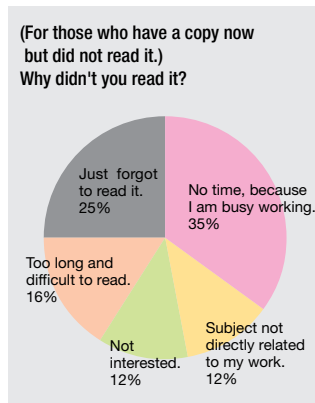
Employees who think that the global environment is a serious problem : 100%

When asked about their awareness of the problem of the global environment, a total of 100% of employees were aware that the global environment is currently a problem, with 68% supporting widespread, immediate action and 32% responding that it is serious but not urgent.



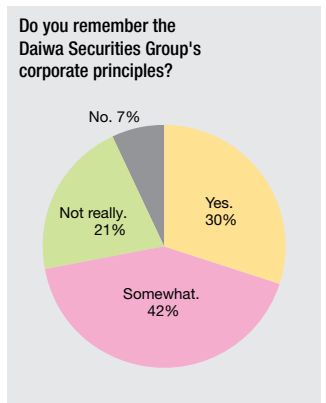
Employees who have not read the Sustainability Report 2004 : 43%

When asked whether they had read the Sustainability Report 2004, a total of 43% of employees said they had not read it, with 11% responding that they had a copy but had not read it, and 32% responding that they had not read it at all and did not know where their copy was. As to why they did not read it, the largest group of respondents (35%) said that they did not have time because they are busy at work, and 25% said they had forgotten to read it.



Employees who remember the Daiwa Securities Group's corporate principles : 72%

Seventy-two percent of employees remember the Group's corporate principles, while one in four does not. While 92% of employees think that, more than anything, the Daiwa Securities Group's CSR means faithfully following the Group's corporate principles, only 81% feel that it is actually possible to behave in compliance with the Group's corporate principles and brand statements at the workplace.



Employees who think CSR-related training programs for employees should be implemented and strengthened to firmly establish CSR activities : 17%

When asked about how to firmly establish the Daiwa Securities Group's CSR activities, 17% of employees supported strengthening CSR-related training programs for employees, 11% recommended them for management and above, 12% recommended a Group Code of Conduct, and 10% preferred discussions and training in the workplace.

What do you think should be done in the future to firmly establish the Daiwa Securities Group's CSR activities?	
CSR-related training programs for employees should be implemented and strengthened.	17%
A Group Code of Conduct should be established to clarify concrete standards and norms of judgment and behavior.	12%
CSR-related training programs should be implemented and strengthened at the management level and above.	11%
Discussions and training programs should be implemented and strengthened within the workplace.	10%
Top management should repeatedly comment on CSR activities.	9%
A simple CSR explanation booklet should be distributed.	8%
CSR and ethical assessments should be reflected in employee evaluations.	8%
Measures should be taken to have the company's CSR activities covered in newspapers and magazines.	7%
CSR should be explained on the company's satellite broadcasts.	6%
A system should be designed for incorporating stakeholder opinions into company business operations.	5%
Disciplinary regulations for misconduct should be strengthened.	4%
A video that explains CSR should be distributed.	2%

Compliance

We will work to build a group-wide compliance structure, focusing on strengthening the compliance structures at each of our group companies, with their different types of operations. Our goal is nothing short of total compliance.

Group-wide efforts

Issues and targets for fiscal 2004 and beyond
Raise level of internal understanding of "the Corporate Ethics Hotline" and periodically survey awareness.
Examine establishment of Voluntary Action Standards.

Results and progress for fiscal 2004
<ul style="list-style-type: none"> Results of survey on internal reporting published in in-house magazine <i>Fuji</i> (Spring 2004). Corporate Ethics Hotline poster distributed to departments and branches of relevant companies.
Set up Group Code of Conduct Committee and now working to formulate the Code during fiscal 2005.

Concepts and important issues

The Daiwa Securities Group is thoroughly dedicated to legal compliance, which is the basis of CSR, and views the commitment to total compliance as a cornerstone of the Group's corporate principles. We have made strenuous efforts across the Group to prepare internal regulations and rules, educate and instruct employees, and make arrangements to monitor business operations.

In fiscal 2004, our two most important issues were measures to comply with the Personal Information Protection Law and addressing intellectual property rights.

Compliance promotion system

The Daiwa Securities Group's basic policy is for each group company to develop a legal compliance system, but the Group is taking measures to ensure that the systems are consistent group-wide.

We regularly collect information on compliance-related meetings at each company and request reports from departments concerned when necessary. The Legal Department of Daiwa Securities Group Inc. participates from the planning/discussion stage in group-wide proposals for further encouragement of compliance.

Particularly important proposals are brought up as issues for consideration in the meetings of the Board of Directors, Executive Committee, or Internal Control Committee of Daiwa Securities Group Inc., thereby addressing group compliance at the management level.

Additionally, we check internal compliance systems by building internal auditing systems at each group company while having the Internal Auditing Division of Daiwa Securities Group Inc. examine subsidiaries as appropriate.

Internal reporting system setup and results

In January 2003, we introduced the Corporate Ethics Hotline to encourage "self-monitoring" among our organizations. The system is set up so that informants can use our intranet, e-mail, postal mail, telephone, or face-to-face consultations to report to the Corporate Ethics Officer at group headquarters or an outside law office. Users can report information anonymously, and information concerning reporters is treated with the utmost confidentiality.

In fiscal 2004, 13 reports were made, including ones related to business practices, handling of workload pressures, and smoking. In all cases, we took appropriate responses while protecting anonymity and the informants. This is resulting in a heightened attitude of compliance among employees,

an enhanced compliance system, and an improved workplace environment. Thirty reports were made in total between the establishment of the Hotline and the end of June 2005.

Survey of employee awareness of the Corporate Ethics Hotline

In April 2005, we surveyed about 13,000 executives and managers with a questionnaire about the Corporate Ethics Hotline to promote understanding of this system. More than 51% responded to the questionnaire. We found a high level of recognition, with 82% (compared to 70% last year) responding that they knew about the internal report-

Results of employee awareness survey (April 2005)

1. Do you know about the Daiwa Securities Group's internal reporting system?	Yes 82%	No
2. Have you ever seen the Corporate Ethics Hotline intranet page?	Yes	No 69%
3. If you discovered activity that should be reported, would you report it?	Yes 75%	No
4. If you were to make a report, how would you do so?	By e-mail or similar method 61%	By postal mail, telephone, or similar method
5. If you were to make a report, would you give your name or remain anonymous?	I would give my name. 66%	I would remain anonymous.
6. Do you know that if an informant makes a report to a lawyer under his or her name, the lawyer will keep the informant's name secret from the company?	Yes 58%	No
7. Do you think this system protects the informant and his/her anonymity?	Yes	No 51%
8. Do you think this system deals with reported incidents appropriately?	Yes 64%	No
9. Do you think this system effectively encourages self-monitoring among our organizations?	Yes 78%	No

Examples of internal reports and responses to them

Total reports in FY2004: 13

Report	Response
Business practices that go against company policy on asset expansion.	Compliance Department investigated situation and re-doubled guidance.
Poor handling of workload pressures.	Encouraged taking of breaks during overtime hours and implemented alternating substitute off-time to be taken after busy season.
Smoking outside designated smoking time.	Promoted separation of smoking areas by establishing smoking rules such as restricted spaces for smoking.

ing system. On the other hand, many people do not seem to know how the system works. 69% (79% last year) responded that they had not seen the Hotline's intranet page and 51% (53% last year) expressed doubt that anonymity and the informant will be protected. To make this system function effectively, we will make efforts to increase the employees' trust in the security of the system.



Internal poster about the Corporate Ethics Hotline

Complying with the Personal Information Protection Law

The entire Daiwa Securities Group is working on measures to comply with the Law concerning the Protection of Personal Information, which came into full effect on April 1, 2005.

The Information Technology Department is the department at Daiwa Securities Group Inc. that is responsible for the protection of personal information. This department surveyed the state of these compliance measures at each company, once at the end of January and once in mid-April 2005. Its task was to confirm that the Group handles personal information according to the law. We have developed an internal reporting and contact system to prepare for the potential event of a personal information leak. In the future, we will continuously follow up on the state of implementation of measures on the protection of personal information at each group company and will report this informa-

Acquired information security qualifications

Company	Qualification
Daiwa Securities Co. Ltd.	TRUSTe
Daiwa Asset Management Co. Ltd.	TRUSTe
Daiwa SB Investments Ltd.	SAS70
Daiwa Institute of Research Ltd.	ISMS Privacy Mark
Daiwa Securities Business Center Co. Ltd.	ISO9001 Privacy Mark

(As of April 14, 2005)

tion to the committees of group headquarters. In addition, we are considering measures such as the common use of online and other training materials for executives and managers on the protection of personal information and the sharing of information on cases in which there is a request to disclose, correct, or refuse the use of personal information in our possession.

Efforts to facilitate the adoption of a "compliance mindset" among employees

In addition to running compliance training sessions at each group company based on their specific business situations, we are also making efforts as a Group to hold training sessions on and thoroughly spread knowledge of compliance. These efforts include holding lectures on compliance for new recruits when they join the company and regularly thereafter, holding training sessions for newly appointed executives, and providing instruction on the revision of laws and regulations at various meetings.

As a measure for complying with the Personal Information Protection Law, we have provided information via our intranet and implemented training sessions for employees on the protection of personal information.

Protecting and respecting intellectual property rights

We regard intellectual property rights as an important strategy and have established an Intellectual Property Section within the Legal

Department of Daiwa Securities Group Inc. We have encouraged all group employees to report incidents that involve intellectual property rights. In fiscal 2004, we registered eight patents in and outside Japan.

In addition, we have strengthened our measures for managing trademarks and copyrights, and are working to prevent infringement by other companies on the Daiwa Securities Group's intellectual property rights. As part of our program of compliance, we are also working to prevent infringement by any party within the Group on intellectual property rights held by other companies.

Future issues and targets for fiscal 2005

Until now, our basic policy has extended autonomy to each group company in terms of the details of regulations and measures to enforce compliance. This policy was practiced because each group company had to comply with different laws due to their varying business structures and because it was our intention to respect, as a pure holding company, the professionalism and individuality of each company. However, with the strengthening of corporate governance and the increased importance of internal controls, and also with the transition to the committee system in June 2004, we see the need to expand internal administration and enhance our group-wide compliance system.

In fiscal 2005, we aim to achieve that expansion by enhancing coordination between the Legal Compliance Department of Daiwa Securities Group Inc. and the legal compliance departments at each group company.

Stakeholder comment

My expectations for the Daiwa Securities Group

I fully understand that the Daiwa Securities Group, with its commitment to complete compliance as a cornerstone of the Group's corporate principles, is aggressively working to build a compliance promotion system, operate and enhance its internal reporting system and training system, and disclose negative information. However, despite the fact that it takes time to disseminate awareness and understanding among employees, I am somewhat concerned that the level of trust regarding the protection of informants and their anonymity within the internal reporting system remains low. Looking ahead, I hope that the Daiwa Securities Group will develop voluntary action standards through a "bottom-up" process that enables employees to take ownership of and feel pride in the standards. I also hope that the Group will broadly demonstrate to society the meaning of the compliance that it advocates, going beyond mere obedience to the letter of the law in its business activities, as well as its firm determination to pursue compliance in this truest sense of the term.



Mr. Satoshi Yura
Socially Responsible Investment (SRI) Program Director
Center for Public Resources Development (NPO)

Compliance

Efforts at Daiwa Securities Co. Ltd.

Issues and targets for fiscal 2004 and beyond	Results and progress for fiscal 2004
Achieve more thorough legal compliance, eliminate improper conduct. Higher level of investor protection.	<ul style="list-style-type: none"> Increased internal detection rate from 73% in fiscal 2003 to 75% in fiscal 2004. (Elimination of improper conduct through strengthened internal checks.) Transferred the Customer Support Center to the Compliance Division. Developed system to provide quicker and more appropriate responses.
Appoint Compliance Officers.	Appointed Compliance Officers to 27 sales branches that were functioning as "core branches" as of April 1, 2004. As of the end of March 2005, there were 28 Compliance Officers.
Create a Work Manual for Internal Administration Supervisors.	Created a manual entitled, <i>Training Manual for Persons in Charge of Internal Audits</i> .

Concepts and important issues

We are continuing to work with the view that compliance is the most important concern in being a fair company that contributes to society. In fiscal 2004, we addressed investor protection as a key issue to move beyond mere legal compliance.

Compliance promotion system

In April 2004, we appointed Compliance Officers at "core branches," which oversee group branches in separate regions, to build a guidance and educational system that is more in tune with front-office business conditions. In October 2004, we established the Compliance Division, in which we brought together the former Internal Auditing Department, Compliance Department, and Customer Support Center. Additionally, in November 2004, we established the Information Security Dept. within the Compliance Division to strengthen our system under the Personal Information Protection Law.

Handling comments and complaints

We improved our handling of comments and complaints, given the centrality of this issue to enhancing customer trust. In April 2005, we established the Customer Support Dept., a dedicated organization tasked with handling complaints. Moreover, we clearly specified the reporting system for complaints and developed a manual to ensure thorough, appropriate handling of any com-

plaints that may arise with the aim of responding to complaints more correctly, faithfully, and promptly.

Elimination of improper conduct and investor protection

Daiwa Securities is constantly working to improve internal checks and monitoring. In fiscal 2004, we raised our internal detection rate*1 to 75%. We will continue our efforts from last year and aim to further eliminate improper conduct from occurring at all by strengthening internal checks. Additionally, to improve protection of our investors, we transferred the Customer Support Center to the Compliance Division and developed a system capable of more prompt and appropriate responses.

*1. The internal detection rate is the percentage of incidents of securities trouble reported to the Financial Services Agency that are detected in-house, rather than reported by customers or identified by outside investigations.

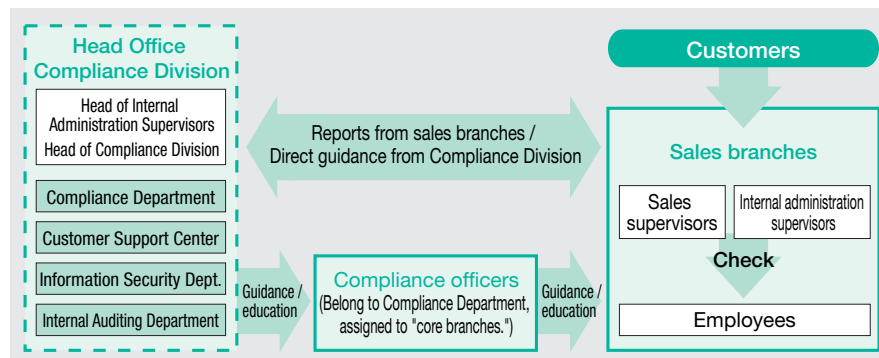
Dealing with anti-social forces

We have appointed special staff in Osaka branch, addition to Head Office, to strengthen our response to anti-social forces, such as organized crime organizations and corporate racketeers. We have made our response system more effective based on updated information on anti-social forces.

Future issues and targets for fiscal 2005

We recognize that compliance is not something that can be accomplished once and for all, but rather a situation that must be maintained through continuous effort. We always aim to maintain a high level of compliance by slowly but steadily repeating the cycle of training, incident analysis, planning and implementing measures, and evaluating their effectiveness. In fiscal 2005, we aim to further strengthen our sound business operations structure based on a keen "compliance mindset" by pursuing the following goals: A firm grounding of business activities in a commitment to legal compliance and investor protection; strengthening the system for managing comments and complaints; to follow the Personal Information Protection Law; and to strengthen and improve the Compliance Division.

Daiwa Securities' compliance promotion system



Efforts at Daiwa Securities SMBC Co. Ltd.

Issues and targets for fiscal 2004 and beyond
Strengthen compliance and online training for each division and department.
Revise <i>Handbook for Legal Compliance</i> .
Establish an electronic bulletin board for internal administration supervisors.
Strengthen functions of internal administration supervisors and internal administrators, enhance training, strengthen intra-departmental inspections, and enhance the environment to allow closer enforcement of legal compliance.
Create a booklet of <i>Compliance Newsletters</i> .
Take measures to minimize risk of information leaks.

Results and progress for fiscal 2004
Implemented internal training sessions on subjects selected to address problems typical of each workplace, primarily taught by internal administration supervisors at each department.
Revised <i>Handbook</i> to reflect new laws and revisions to company regulations.
Established and put online an electronic bulletin board for internal administration supervisors to share information and communicate rapidly. <ul style="list-style-type: none"> Improved information accessibility by creating a database of compliance information. Revised Q&A list on firewall rules.
Published a booklet of <i>Compliance Newsletters</i> Nos. 51-100.
Developed internal management system in compliance with Personal Information Protection Law.

Basic concepts

Daiwa Securities SMBC regards legal compliance as a management issue of primary importance. We see the keys to this as promoting a compliance mindset among all executives and managers, effectively operating a compliance system, and promoting fair business practices. Underlying this concept are the following steps, which we continuously carry out to ensure the effectiveness of our system: Establishment of business conduct rules in line with all laws and regulations; making the rules known throughout the organization and following them strictly; monitoring compliance with the rules; developing and enforcing measures to improve identified problems; and incorporating improvement measures into the rules.

Enhancing our compliance system

Internal administration supervisors and internal administrators are appointed to provide compliance leadership in each department. Kept informed of everyday business activities, these officers monitor the appropriateness of business operations, in cooperation with the Legal & Compliance Department—which is the department that oversees compliance—receiving legal consultations and information concerning the legality of new products.

In October 2002, we introduced an intra-departmental inspection system, which is operated by designated the internal administration supervisors and internal administrators. In this system, we analyze and assess the latent risks in the work of each department and regularly in-

spect those job areas that are rated as high-risk. In addition, we develop measures to solve problems that become obvious during intra-departmental inspections and incorporate them into the operating manuals of each department as new rules. In the process of performing this risk analysis and assessment, and the intra-departmental inspections, each department steadily carries out the steps shown at left, in order to encourage a compliance mindset and strengthen our compliance system.

In 2004, the Auditing Sections No. 1 and 2 and the Overseas Legal and Compliance Section were split off from the Legal & Compliance Department to become the Internal Auditing Department. This department conducts audits to check the effectiveness of the intra-departmental inspections, checks for violations of law and carries out other categorized audits.

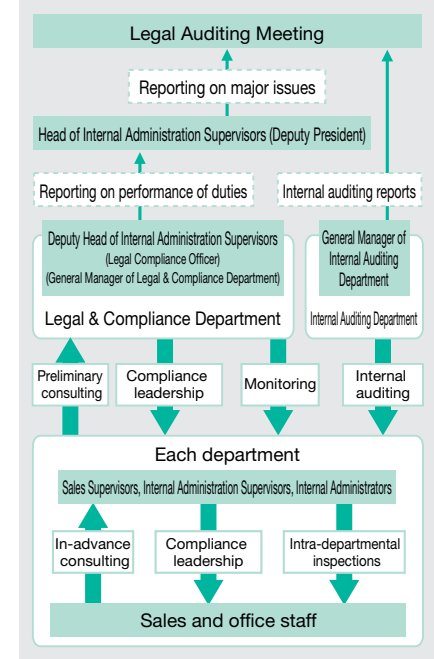
Compliance education for employees

We conduct training programs using online systems and implement group training sessions as necessary for new executives, newly promoted personnel, transferees, new recruits, and employees who will be posted outside Japan. We especially focus on intra-departmental training; subjects are selected by each department for their relevance to the department.

In addition, in fiscal 2004 we made a database out of our *Handbook for Legal Compliance*, which is our compliance manual, our *Compliance Newsletters*, which explain precedents, and our Compliance Communication Letters, all internal reference documents. This improved the accessibility of this information. We also made a booklet out of our *Compliance Newsletters*,

which have reached the 100th issue.

Daiwa Securities SMBC's compliance promotion system



Future issues and targets for fiscal 2005

In fiscal 2005, we will increase the content of online training programs to provide ample opportunities for training on topics suited to situations in each office. Other issues include assessing progress in measures to eliminate risks identified in previous internal audits, and strengthening our inspection system by incorporating items on personal information protection and new duties resulting from revisions to laws and regulations into our intra-departmental inspection lists.

Information Disclosure

We are committed to fair, timely, and appropriate information disclosure. Our aim in these efforts is to be an exemplary public corporation that is faithful to the spirit of its "Disclosure Policy".

Issues and targets for fiscal 2004 and beyond
Actively pursue two-way communication with stakeholders.
Increase percentage of shares owned by individual shareholders.

Results and progress for fiscal 2004
<ul style="list-style-type: none"> • Held small meetings for analysts and fund managers. • Actively participated in stock investment informational events and IR fairs for individual investors. • Broadened investor communication by revamping IR website.
Edged up from 20.7% in FY2003 to 20.9% in FY2004.

Our view of information disclosure

The Daiwa Securities Group's view of information disclosure is described in our Disclosure Policy, which we announced in April 2004. Based on that Policy, we strive for fair, timely, and appropriate disclosure of financial, social, and environmental information.

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 all 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.

Disclosure of financial, social, and environmental information

We disclose financial information through channels such as our *Annual Report*, securities reports, financial *tanshin* summary reports, and press releases. Moreover, we have incorporated a CSR perspective into our Disclosure Policy. Social and environmental information are included in the scope of information to be disclosed and we consider local communities

among our important stakeholders. We disclose social and environmental information primarily in our *Sustainability Report*.

Additionally, we use our IR and CSR websites, located at the Daiwa Securities Group Inc. website, to disclose information to all stakeholders. In 2004, we revamped our IR website to increase usability.

Fair, timely, and appropriate information disclosure

Disclosure system

Daiwa Securities Group Inc. aims to disclose information in a fair, timely, and appropriate manner in line with its Disclosure Policy and Disclosure Regulations. In 2004, we split the Corporate Communication Department into separate public relations and investor relations departments to more clearly establish their different roles.

The Disclosure Committee, which was es-

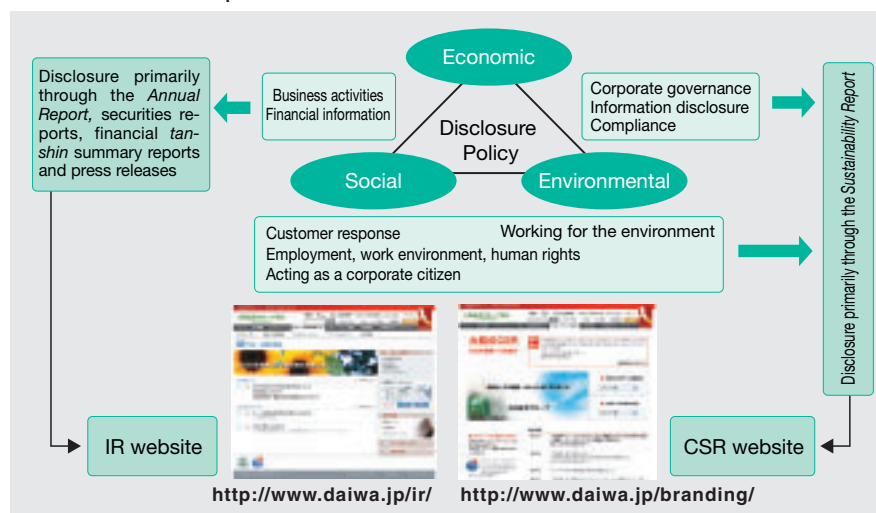
tablished in accordance with our Disclosure Regulations, meets regularly throughout the period between the closing day of each business quarter and the day quarterly results are announced, and also holds discretionary meetings as necessary.

Each group company has prepared Rules for Controlling Management-related Information in order to ensure the entire Group shares the spirit of our Disclosure Policy. These rules institute systems for collecting information and reporting it to group headquarters.

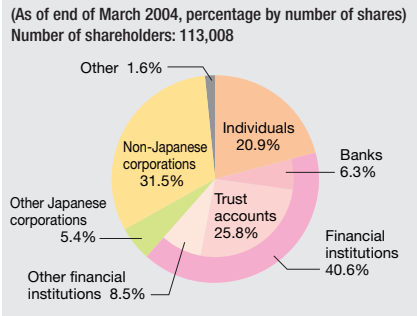
Announcement of the Declaration for Timely Disclosure

In 2005, the Tokyo Stock Exchange (TSE) revised its rules, requiring all listed corporations to submit a Declaration for Timely Disclosure. The Daiwa Securities Group submitted the declaration with accompanying forms on January 28, one month ahead of the February 28 deadline. Faithful to the spirit of our Disclosure Policy and to set an example for

Daiwa Securities Group information disclosure framework



Composition of Daiwa Securities Group Inc. shareholders



listed corporations, we immediately published our Declaration for Timely Disclosure on our IR website after submitting it to the TSE.

Two-way communication with stakeholders

We hold small briefings for analysts and fund managers, as the occasion may demand. In September 2004, we held three briefings on the retail business (online, separately managed accounts [SMA]), which were attended by 35 people. In December, together with Sumitomo Mitsui Banking Corporation, we held five briefings on investment banking activities, which were attended by 76 people. In March 2005, we held three briefings with the President of Daiwa Securities Group Inc., which were attended by 26 people.

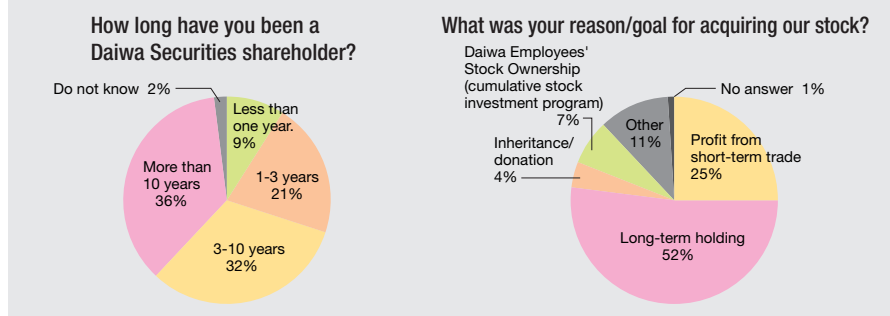
In September 2004, we participated in a company information session for individual investors, sponsored by Daiwa Investor Relations Co., Ltd., and an IR fair for individual investors, sponsored by Nihon Keizai Shimbun, Inc. In February 2005, we had a booth at the 10th Anniversary Forum of the Japan Association for Individual Investors.

Regular shareholder survey

We conduct a regular survey of shareholders in order to take account of their opinions in our dealings. One of the latest surveys was conducted in November 2004. We received about 9,600 replies, representing about 9% of our total shareholders.

Thirty percent of respondents said that they had been shareholders for less than three

Results of shareholder survey (Conducted November 2004)



years, an increase of seven points over the previous year, indicating an increase in new shareholders. The fraction of respondents with their own Daiwa Securities accounts increased seven points over the previous year to 69%. We have been running the Daiwa Point Program, a rewards program in which shareholders can exchange their points for gifts, as a way to encourage a greater number of shareholders to do business with Daiwa Securities. We take this increase as a mark of the success of this program.

Attendance rate at general meeting of shareholders and exercise of voting rights

To increase the attendance rate at our general meeting of shareholders, in 2004 we held the meeting three business days before the so-called end-June "concentration day," a day on which many Japanese companies have traditionally held their shareholders meetings at the same time. The meeting was attended

by 372 people, up by 150 people over the previous year.

We also developed a system to encourage shareholders to exercise their right to vote by enabling them to do so via the Internet. Moreover, in 2005 we made it possible to vote using a cellular phone. In 2004, about 28,000 shareholders exercised their right to vote, an increase of about 4,000 over the previous year, bringing the percentage of shareholders who voted up to 68.5%.

Future issues and targets for fiscal 2005

Our main issue for fiscal 2005 and beyond is to increase acquisition of new individual shareholders. To that end, we are considering working with the headquarters and branch offices of Daiwa Securities Co., Ltd., to hold company information sessions in regional towns and cities, and will pursue more proactive information disclosure. We will also look at the holding of informal shareholders forums as another issue.

Stakeholder comment

My expectations for the Daiwa Securities Group

The Daiwa Securities Group's commitment to information disclosure and investor relations is highly praised by investors and the media alike. Still, the Group is expected to maintain a very high standard, considering its position as an entity that is supposed to stimulate further development of the securities market. This is because the way in which the Group sets an example for all publicly-traded companies helps revitalize the securities market and, by extension, translates into an increase of the Group's own corporate value. I hope that the Daiwa Securities Group will play an even greater leadership role, not being satisfied with relative evaluations within the securities industry, in terms of both direct and indirect influences.



Ryuji Kakimoto
Equity Research
Credit Suisse First Boston