

# Distribution of Economic Value to Stakeholders

The following looks at the Daiwa Securities Group's revenue structure and how economic value is allocated to stakeholders.

## Rationale behind the Economic Report

The purpose of this report is to outline the economic relationship between the Group and each of its stakeholders, according to the Global Reporting Initiative (GRI) guidelines. The first section discusses the Group's profit structure, with total revenues earned by the Daiwa Securities Group in fiscal 2005 termed as revenues in this Economic Report. Following this section is a look at the distribution of economic value to each of the Group's stakeholders.

## Revenues in the Economic Report

For the purpose of this Economic Report, revenues are calculated as the sum of operating revenues, non-operating income, and extraordinary gains. This total is taken as representative of all revenues received by the Group in one year. Operating revenues make up 97.3% of these revenues.

In fiscal 2005, the Group's largest source of revenue was from commissions at 35.6% of revenues. The following are the three main types of commissions.

### Equity and fixed income commissions

These are commissions earned for broker services from individual and corporate customers for sales or purchases of securities, such as stocks and bonds.

### Investment banking commissions

These are the underwriting commissions earned when corporate customers issue stocks and bonds for fund raising purposes. There are also commissions earned from mergers and acquisitions (M&A).

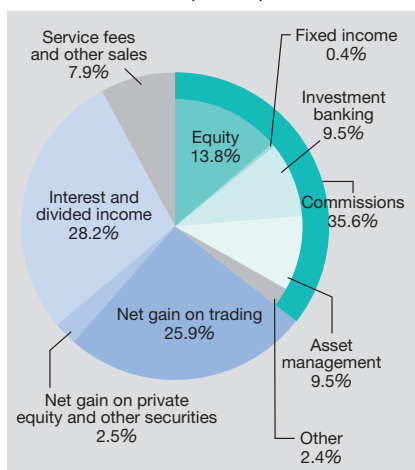
### Asset management commissions

These are the commissions earned from the sale of investment trusts, as well as fees from the management or holding of assets deposited by individual and corporate customers.

The net gain on trading securities made up 25.9% of revenues. These are profits that arise from the sale of the securities the Group has in its own account, or when the Group buys from or sells to its clients to meet their transaction needs.

Interest and dividend income are the interest and dividend income received from

## Revenue structure (FY2005)



the securities owned by the Group, as well as those for securities lending transactions.

## Distribution of economic value to stakeholders

The Daiwa Securities Group keeps track of how much economic value derived from its business activities is being distributed to its various stakeholders.

Economic value for the purpose of this Economic Report is calculated as revenues as previously defined, minus interest expense (less interest paid), the cost of sales, selling, general and administrative expenses (less personnel costs, taxes, and expenditure for corporate citizenship activities), non-operating expenses (less interest paid), and extraordinary losses.

### Executives and employees

The distribution of economic value to executives and employees is calculated as the sum of director bonuses paid for the fiscal year and personnel expenses (which include salaries, bonuses, welfare program costs, social insurance contributions, and lump sum payments for retiring executives). A fair and well-accepted compensation system for employees has been created that incorporates compliance evaluations, as well as revenue generation, customer assets under management, and assessments by related departments. In fiscal 2005, the distribution of economic value to executives and employees reached 172.9 billion yen, an increase of

## Revenue categories (FY2005)

Category	Amount
Commissions	309,188
Equity	120,216
Fixed income	3,202
Investment banking	82,403
Asset management	82,735
Other	20,631
Operating revenues	224,912
Net gain on trading	224,912
Net gain on private equity and other securities	21,539
Interest and dividend income	245,210
Service fees and other sales	44,808
Non-operating income	8,697
Extraordinary gains	14,825
<b>Economic report revenues</b>	<b>869,179</b>

\* The totals may not always add up due to rounding errors.

29.4 billion yen compared to the previous fiscal year. This represented 37.9% of the economic value produced by the Group.

### Society

Regardless of business cycle fluctuations, the Group aims to provide stable funding for its corporate citizenship activities which represents its economic contribution to society. In fiscal 2005, expenditure in this area totaled 600 million yen. For details concerning expenditure on corporate citizenship activities see page 43.

### Shareholders

Dividends are paid to shareholders annually as an allocation of economic value from the company. The Group's basic policy is to distribute profits twice a year, with an eye to maintaining the company's stability, at a dividend payout ratio of approximately 30%. This is based on the consolidated performance of the Group.

Interim and year-end dividend payments of 12 yen and 22 yen per share were made in fiscal 2005, for a total dividend payment of 34 yen per share. Consequently, the total dividend payout for fiscal 2005 was 45 billion yen.

### Creditors

The Group paid 18.4 billion yen in interest to creditors.

### Government

Paying taxes on income is part of a company's social responsibility. According to the Daiwa Securities Group's financial accounting, the tax amount paid is the sum of current income taxes, deferred income taxes, and other taxes and duties

including consumption tax. In fiscal 2005, the total tax amount paid was 86.1 billion yen. This accounts for 18.9% of the economic value produced by the Group.

#### Minority shareholders

Profit is returned to the minority shareholders of the Daiwa Securities Group companies. The principal minority shareholders are Sumitomo Mitsui Financial Group with a 40% share in Daiwa Securities SMBC Co. Ltd., and the shareholders of NIF SMBC Ventures, a JASDAQ-listed company in which Daiwa Securities Group Inc. holds a majority stake (46.2%). The minority interest for fiscal 2005 was 40.3 billion yen.

### Daiwa Securities Group's new Medium-term Management Plan: Passion for the Best 2008

In April 2006, the Daiwa Securities Group released its new Medium-term Management Plan: Passion for the Best 2008. It is management's objective to lead the Group towards becoming Japan's top securities group. The Group plans to expand its business by building customer confidence and employee enthusiasm and by achieving the following management goals. This plan calls for the distribution of economic value not only to shareholders, but also to employees, the government, society, and all other stakeholders.

#### • New Medium-term Management Plan goals

<b>Consolidated ordinary income</b>	¥ 350 billion or more
<b>Consolidated ROE</b>	15 % or more
<b>Retail</b>	Daiwa Securities customer assets balance: ¥ 45 trillion or more
<b>Wholesale</b>	No. 1 on the League Table
<b>Asset management</b>	Stock investment trust balance: ¥ 11 trillion or more Investment advisory account balance: ¥ 5 trillion or more

#### • Trends in the distribution of economic value to stakeholders

(¥ million)

Stakeholders	FY2001	FY2002	FY2003	FY2004	FY2005	Calculation method
Executives and employees	129,972	123,904	137,511	143,469	172,923	Personnel expenses in S&GA expenses, and directors' bonuses for the fiscal year
Society	N/A	320	332	708	604	Expenditures for corporate citizenship activities (see page 43).
Shareholders	7,971	7,969	13,307	17,297	45,031	Interim and yearend dividends for the fiscal year
Creditors	22,650	15,783	15,292	22,428	18,478	Interest expense and interest paid for non-operating expenses
Government	10,929	20,025	26,423	46,921	86,137	Income taxes, deferred income taxes, and other taxes and duties including consumption tax
Minority shareholders	4,976	2,810	13,480	19,770	40,339	Minority shareholders' interest
Internal reserve	▲138,518	▲14,291	28,782	34,650	93,055	Net income, less dividends and directors' bonuses for the fiscal year
<b>Total economic value</b>	<b>37,980</b>	<b>156,520</b>	<b>235,127</b>	<b>285,243</b>	<b>456,567</b>	<b>Total</b>

#### • Distribution of economic value to stakeholders (FY2005)

(¥ million)

