

Daiwa Securities Group

Sustainability Report

Building a Sustainable Society

2008

What we can do

What will the world be like when these 53 babies become adults?

The precious faces of these infants—all children of Daiwa Securities Group employees—express our hopes for the future. At the Daiwa Securities Group, we are determined to take responsibility as individuals and to do our part as a company to create a sustainable society living in happiness and in harmony with an unspoiled Earth.

Table of Contents

Table of Contents/Editorial Policy	1
The Daiwa Securities Group	2
Description of the Daiwa Securities Group's Business	3
Message from the President	5

Material Issues Report

Daiwa Securities Group CSR and Material Issues	7
Material Issue 1: Adding a Social Perspective to Investment	11
Material Issue 2: Commitment to the Development of a Sound Securities Market	17
Material Issue 3: Contribution to Global Environment	19
Material Issue 4: Communicating Information for a Sustainable Society	21

Management Report

CSR Issues: Performance and Targets	25
Corporate Governance	27
CSR Management	29
Compliance	31
Information Disclosure	33

Social Report

Customer Satisfaction	35
Respect for People and Human Resource Utilization	37
Corporate Citizenship	43

Environmental Report

Environmental Impact of the Daiwa Securities Group	47
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Economic Report

Distribution of Economic Value to Stakeholders	49
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Third-party Opinions	51
The Daiwa Securities Group's CSR Activities/Inquiries	53
Third-party Evaluations/Daiwa Securities Group Sustainability Report 2008 Booklet and Web Edition	54

Editorial Policy

The Daiwa Securities Group has published this report yearly since 2002 with the aim of disclosing, clearly and in good faith, our activities to create a sustainable society. We also view the process of preparing this report as an important opportunity for us to affirm the outcome of our efforts and single out issues requiring further attention.

The Daiwa Securities Group identifies four material issues related to corporate social responsibility (CSR) that are likely to have a major impact on stakeholders' decision-making and on society. This report focuses on describing our progress in dealing with those issues and also explains our management policy of building a company worth working for and our initiatives for putting this policy into practice.

This report was compiled in accordance with the 2006 Sustainability Reporting Guidelines, international guidelines published by the Global Reporting Initiative (GRI).^{*} Two particular objectives in preparing this publication were to raise CSR awareness among executives and employees and promote dialogue with various stakeholders.

^{*}Global Reporting Initiative (GRI): An organization founded in 1997 to draw up and disseminate international guidelines for sustainability reporting. Participants include a variety of stakeholders, such as businesses, non-governmental organizations (NGOs), consultants, accounting groups and trade associations.

Scope of Report

Intended Readership

This report is intended for the Daiwa Securities Group's diverse stakeholders, which primarily include customers, shareholders and investors, executives and employees, as well as business partners, non-profits (NPOs, NGOs), local communities where Daiwa Securities has offices, educational institutions, and the families of executives and employees.

Scope of Reporting

This report basically covers our nine main group companies,^{*} which account for approximately 90 percent of the Group's employees. The report does not, however, include data from all nine companies on all items reported; the information included is proportional to the respective companies' size and type of business handled. Environmental load data changed due to head office relocation in fiscal 2007. The scope of numerical data is noted along with the data.

Period Covered by Report

Fiscal 2007 (April 2007–March 2008). The report also includes some information on activities carried out in fiscal 2008 and on activities that occurred prior to fiscal 2006.

Publication Date

August 2008 (the previous report was published in September 2007; the next report is planned for June 2009).

^{*}See "Description of the Daiwa Securities Group's Business" on p. 4 for the Group's nine main companies.

Daiwa Securities Group Sustainability Report 2008 Booklet and Web Edition

Sustainability Report 2008 is available in booklet and Web editions. See p. 54 of this booklet for more details concerning the Web edition.

The Web edition of Sustainability Report 2008 can be found at the following URL:

<http://www.daiwa-grp.jp/ir/english/corporate/report/>

The Daiwa Securities Group

Principal Management Indicators (consolidated)

	FY2003	FY2004	FY2005	FY2006	FY2007
Operating revenues (¥ million)	453,813	519,337	845,659	917,307	825,422
Net operating revenues (¥ million)	352,434	390,432	579,358	526,764	447,491
Ordinary income (¥ million)	96,130	120,433	260,651	195,415	90,143
Net income (loss) (¥ million)	42,637	52,665	139,948	92,724	46,411
Net assets (¥ million)	604,170	648,332	792,281	1,223,225	1,082,923
Total assets (¥ million)	10,765,665	12,378,961	14,898,890	14,411,265	17,307,119
Return on equity (ROE) (%)	7.4	8.4	19.4	10.8	5.3
Net income (loss) per share (¥)	31.66	39.03	103.90	67.90	33.69
Net assets per share (¥)	453.60	486.70	598.27	665.98	607.64
Annual dividends per share (¥)	10.00	13.00	34.00	28.00	22.00

Corporate Profile (as of March 31, 2008)

Company name

Daiwa Securities Group Inc.

Headquarters

GranTokyo North Tower, 9-1,
Marunouchi 1-chome, Chiyoda-ku,
Tokyo 100-6751, Japan

Telephone

+81-3-5555-1111

Established

December 27, 1943 (Founded 1902)

President and CEO

Shigeharu Suzuki

Common stock

¥178.3 billion

Number of employees (consolidated)

14,456

Number of consolidated subsidiaries

46

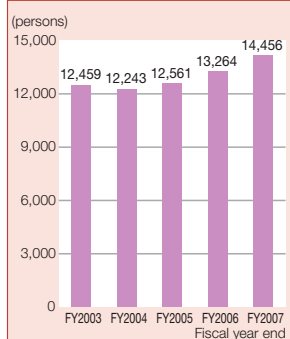
Number of equity-method affiliates

6

Shares issued and outstanding

1,404,664,000

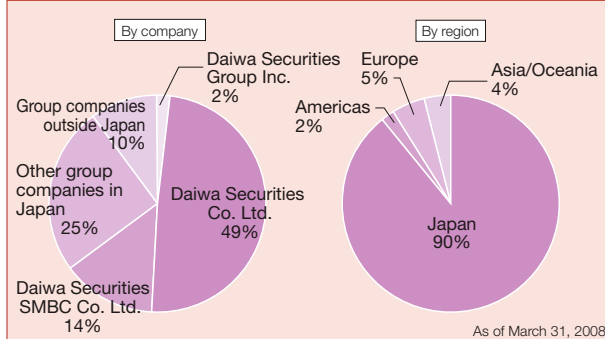
Number of Employees (Consolidated)*



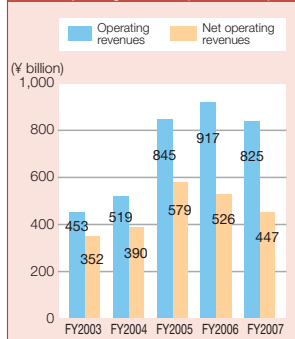
* No. of employees includes Financial Advisors (FA).

Employee Composition

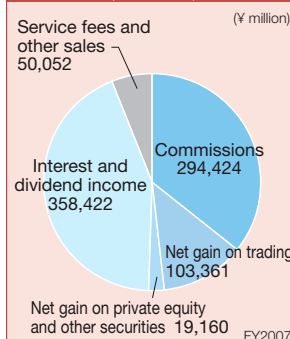
Number of employees: 14,456



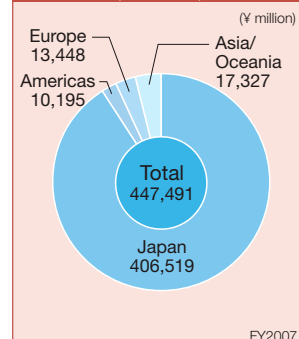
Operating Revenues and Net Operating Revenues (Consolidated)



Breakdown of Operating Revenues (Consolidated)



Breakdown of Net Operating Revenues by Region (Consolidated)



Description of the Daiwa Securities Group's Business

The Role of the Securities Business

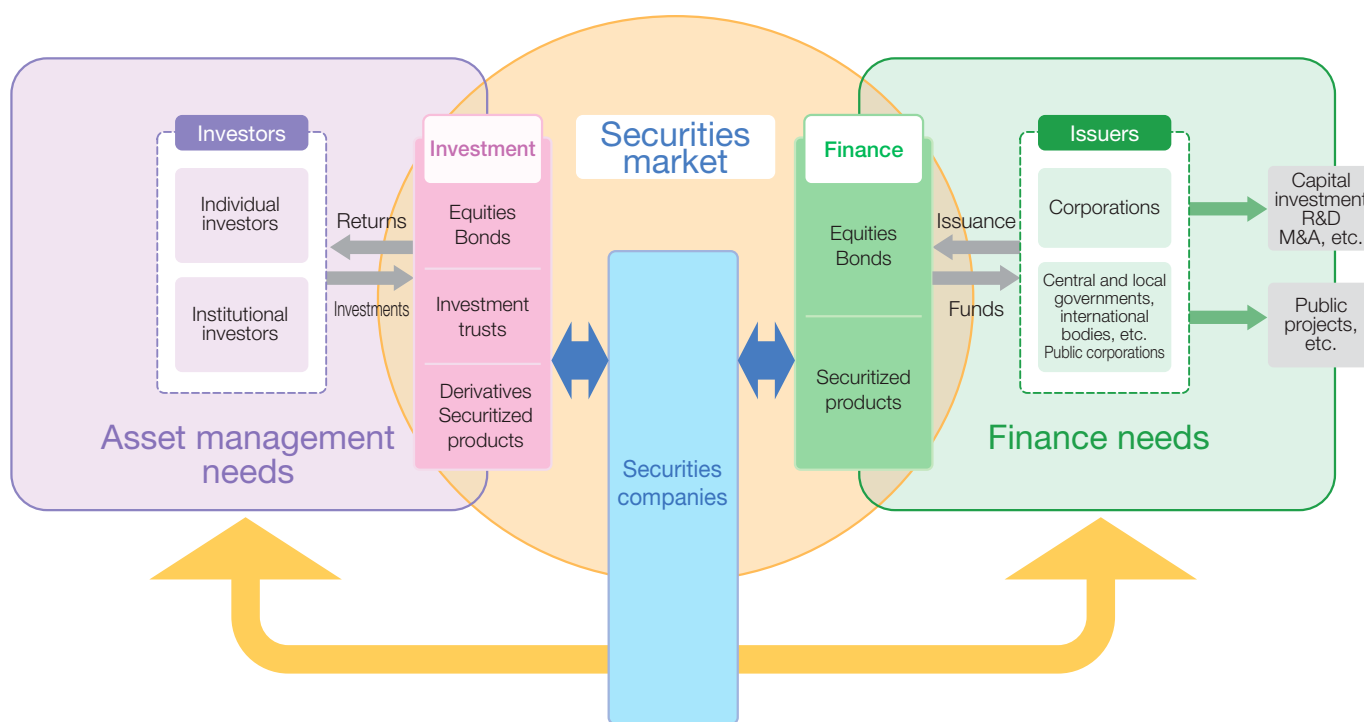
The securities business, which forms the core of the Daiwa Securities Group, plays a social role in bringing together parties seeking to finance corporate capital investment or public projects and investors wishing to invest efficiently.

With regard to corporate and public finance, securities companies help to raise funds for corporate capital investment or R&D or for public projects by governments, international organizations or public bodies by providing advisory services, or by assisting them to issue stocks, bonds or financial instruments.

In the area of asset management, securities companies provide appropriate investment information or advice in ac-

cordance with customers' investment goals and offer a full range of financial products and services to meet the needs of individual or institutional investors, pension funds and others with investment requirements.

In this way, the securities business, connecting capital demand and supply mainly through the finance and capital markets, creates a smooth flow of capital. By stimulating the flow of capital, our business contributes to the growth of industry and helps address issues confronting society.



Description of the Daiwa Securities Group's Business

The Daiwa Securities Group is composed of Daiwa Securities Group Inc., the holding company controlling the group companies, and two securities companies, Daiwa Securities Co. Ltd. and Daiwa Securities SMBC Co. Ltd., along with various companies providing securities-related services to offer a comprehensive range of investment and financial services.

Group Core Operations

1. Retail Securities Business

Through its domestic network of 117 branches, a call center and the Internet, Daiwa Securities Co. Ltd. offers two retail services, Daiwa Consulting and Daiwa Direct, which provide a wide range of financial products and services and support customer asset management, mainly for individuals and unlisted companies.

2. Wholesale Securities Business

Daiwa Securities SMBC Co. Ltd. provides fund management and investment banking services to institutional investors, corporate clients and financial institutions in and outside of Japan.

Asset management services: brokerage and trading of equities, bonds, derivatives and other financial products mainly for institutional investors.

Investment banking services: support for corporate oper-

ations ranging from business expansion to finance and capital strategies by assisting corporate clients and financial institutions to raise capital, issue bonds and manage assets.

3. Asset Management Business

The Group provides development and management of stock, bond and private investment trusts, as well as other investment management services.

4. Investment Business

Using its own funds, the Daiwa Securities Group invests in private equity, monetary receivables, real estate, venture capital opportunities, and business regeneration. It also forms and manages investment funds.

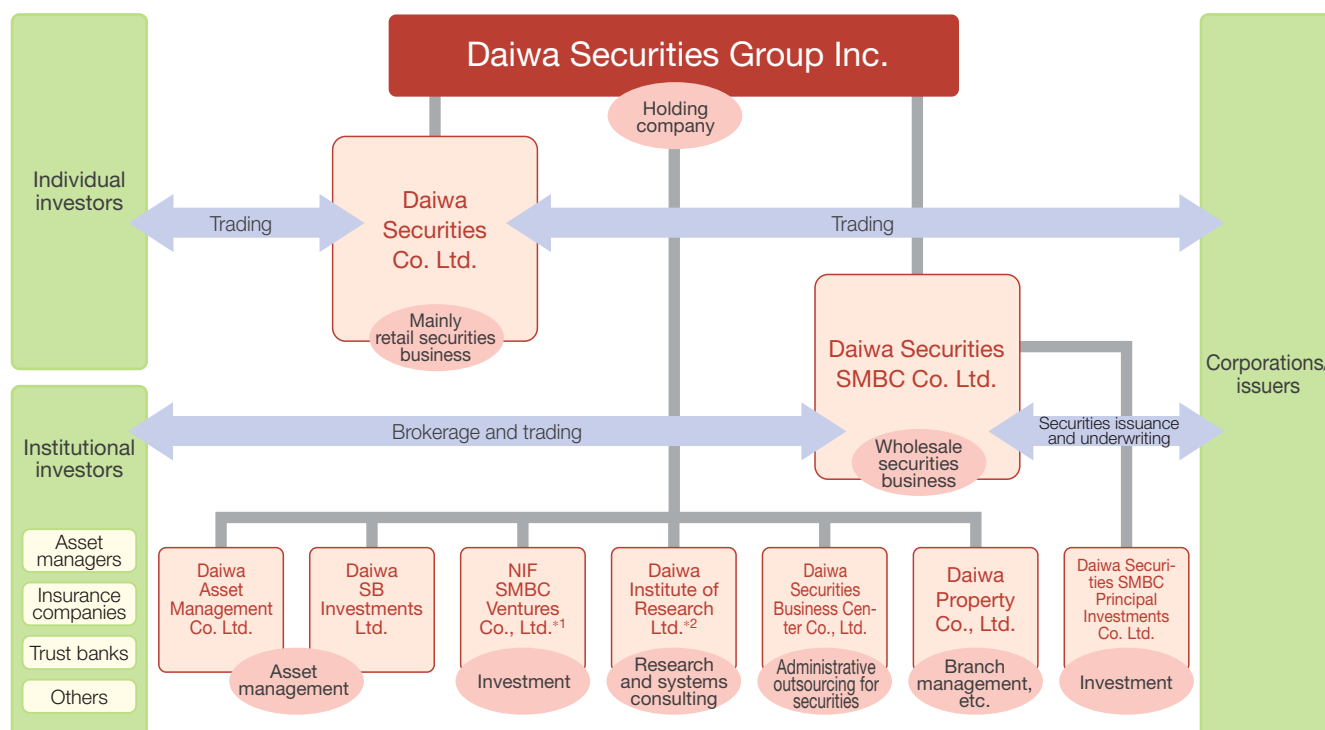
Group Support Operations

5. Research and Systems Business

The Group engages in various forms of consulting and research reporting in fields such as management, finance, and information technology, for institutional investors, corporate clients, financial institutions, and public organizations in and outside Japan.

6. Support Services

Services are supplied in areas such as administrative outsourcing relating to securities, as well as consulting for branch management, real estate and building management.



*1 Effective October 1, 2008, NIF SMBC Ventures Co., Ltd. will change its name to Daiwa SMBC Capital Co., Ltd.

*2 Effective October 1, 2008, Daiwa Institute of Research Ltd. will divide into two companies, Daiwa Institute of Research Ltd. and Daiwa Institute of Research Business Innovation Ltd.

Encouraging Commitment Is the Key

President and CEO Shigeharu Suzuki discussed the four CSR-related material issues*¹ identified by the Daiwa Securities Group.



Shigeharu Suzuki
President and CEO
Daiwa Securities Group Inc.

鈴木茂晴

■ Selling Socially Conscious Investment Products Motivates Employees

Corporations are public entities that exist because they have a social purpose. Those that do not serve society will not survive. I want our executives and employees to always be conscious of the important role that the Daiwa Securities Group plays in supporting the foundations of the economy, and at the same time I continue giving them the message that because of this they are performing work that truly benefits society. I can also say with confidence that out of all Japanese securities firms, Daiwa is the most committed to SRI funds.

From that viewpoint, vaccine bonds*² are clear and simple, as they can help save the lives of tens of thousands of children, and everyone at Daiwa can certainly feel that they are making a difference and helping society through such products.

Today, it is common for companies bring up environmental or social issues. But Daiwa is different because of our level of commitment, and I believe that the sentiment

of all executives and employees is the most important reason for this. I know that if everyone understands that the company's management is committed, projects helpful to society will evolve naturally from that stance. To me, the Daiwa Securities Group is an organization with the necessary flexibility to accomplish this.

■ Pride in One's Work Helps Build a Sound Securities Market

Corporate growth depends on investors putting up capital even if risk is entailed. In other words, companies cannot expand operations without risk money. Given that this is how the economy grows, this highlights the importance of the role played by securities companies as an intermediary between risk money and corporations. Therefore, employees who truly understand this and take pride in their work are unlikely to resort to unethical practices. As head of the Daiwa Securities Group, I pay close attention to creating a system to prevent ethical lapses by the organization and to spread this awareness to management executives and em-

employees through training and other means.

Profits and losses are inherent to the nature of the securities business, and it's natural for clients taking losses to want to complain. But sales staff can remain unruffled if they are confident that they have done their best. Clients will not trust our staff if they feel they are just chasing fees, and neither can staff feel pride in their work.

We must work in a principled manner that is a level above simply observing the law and maintaining compliance. Even if what we do is fully within the law, we must operate in a socially acceptable manner, and it is important for everyone to perform their work with this awareness.

■A Clean, Green Earth for the Next Generation

It is our responsibility to pass on a clean, green earth to our children and grandchildren.

Japan is resource-poor but is fortunate to possess many excellent environmental technologies. At Daiwa, we want to support implementation of these technologies by acting as a bridge between companies both in Japan and overseas.

Since April 2008, the Daiwa Securities Group has been selling the Russell Global Environmental Technology Fund, part of which is managed by Generation Investment Management LLP, a company established by former U.S. vice president Al Gore. Generation had initially intended not to accept further subscriptions to this fund, but after we described our success with vaccine bonds, Generation chose us as its sales partner. This, I believe, is an example of how our commitment to social issues can be useful in various ways.

Emissions trading is a difficult issue in some respects, given the differing positions of governments and enterprises, but we need to approach this concept with imagination and creativity to help conserve the global environment.

■Multi-channel Communication on Economics and Finance

To communicate the knowledge and expertise acquired through the securities business to the public, Daiwa is engaged in business-academia collaboration, for example dispatching management executives to lecture at universities and other activities, and is also active in economic and financial education.

We also broadcast through Daiwa Securities Information TV, with a lineup that includes programs on securities for beginners, to communicate information on economics and finance. And while we believe that schools should be doing more to teach children about how economics and fi-



nance work, the first step is to interest their teachers. To that end, we are planning to work in partnership with a non-profit organization to develop an economics and finance education program targeting school teachers.

■The Importance of Work-life Balance

Employees can work most productively if they enjoy fulfilling lives both at work and at home. Many people of my generation gave their lives over to their companies, but I do not expect executives and employees of the Daiwa Securities Group to do the same. Life is not a success if a person had a brilliant work career but neglected family in order to succeed in business. From now on, it is workplaces where employees can have satisfying private and professional lives that will attract talent.

I believe that employees will only be motivated or be proud of their company and their work if they can feel that they have something worth living and working for. I sincerely hope that everyone will approach life at home and at work with zest and vitality.

*1 The Daiwa Securities Group's Four CSR-related Material Issues: "Adding a Social Perspective to Investment," "Commitment to the Development of a Sound Securities Market," "Contribution to Global Environment," and "Communicating Information for a Sustainable Society." (See p. 10)

*2 Vaccine bonds: Bonds that provide funds for health care and inoculation programs in developing countries. (See p. 12)

Daiwa Securities Group CSR and Material Issues

Daiwa Securities Group Corporate Principles (adopted March 1998)

Customer trust

We stand on the trust of our customers. Prudently putting customer interests first and achieving a high standard of professional competence, we intend to become Japan's premier securities group at home and abroad.

Total compliance

We can be proud and prosper only when we achieve total compliance and gain the trust of our customers, markets and the whole of society. We will contribute to society by maintaining high standards of professional ethics and a fair code of conduct.

Human resources

Our competence is built on our human resources. We value the creativity of each individual, we will nurture a corporate culture where people are not afraid of challenges, and we will evaluate their capabilities and contributions fairly.

Sound profit

Our fundamental objective is to enhance shareholder value through sound business operations. We will offer valuable services to our customers and earn appropriate profits for distribution to our shareholders.

The Daiwa Securities Group and Sustainability

Modern society faces many issues having an impact on sustainability. These include, on a global scale, global warming and other environmental problems that threaten humankind's survival, growing disparities in prosperity, and in Japan, a rapidly aging population and a declining birthrate. There is no way to solve these problems without responsible action on the part of every sector of society—government, the private sector, and citizens.

Enterprises are key players because they have the power to influence the creation of a sustainable society, and financial institutions can fulfill their social missions through their main business of finance. At the Daiwa Securities Group,

we believe that in addition to contributing to the development and growth of fair and sound financial markets, our role is to promote the flow of capital to create a sustainable society by incorporating a social perspective into finance.

In accordance with this belief, we have joined the United Nations Environment Programme Finance Initiative (UNEP FI)^{*1} and signed the Principles for Responsible Investment (PRI)^{*2} and the Carbon Disclosure Project (CDP),^{*3} to do our part as a member of the international community.

Web Terms

*1 United Nations Environment Programme Finance Initiative (UNEP FI)

*2 Principles for Responsible Investment (PRI)

*3 Carbon Disclosure Project (CDP)

Approaches for Creating a Sustainable Society

1. Serving society through our business

Securities companies provide a public benefit by acting as intermediaries between parties needing financing and investors looking to invest, thus supporting Japan's transition from a savings-oriented society to one more attuned to investing.

The Daiwa Securities Group carries out its operations in full legal compliance and meets social expectations in day-to-day operations to ensure the sound functioning of the securities market.

2. Implementing a business strategy that takes society and the environment into account

By incorporating a social perspective into finance, the Group strives to practice the corporate social responsibility expected of a financial institution. We do this through SRI funds, World CO2L bonds^{*1} and vaccine bonds^{*2} which give ordinary investors an opportunity to participate in tackling social and environmental issues through investing.

3. Promoting CSR outside the company

Through the UNEP FI, PRI and CDP, the Group lends support to various stakeholders, including the financial industry, to encourage CSR activities.

4. Carrying out corporate citizenship

The Group is active in nurturing the next generation of economics and finance professionals, encouraging education in these fields as part of our Medium-term Management Plan. We will also continue providing long-term support for local communities and international society through financial mechanisms relating to our core business via the grant activities of foundations and NPOs/NGOs.

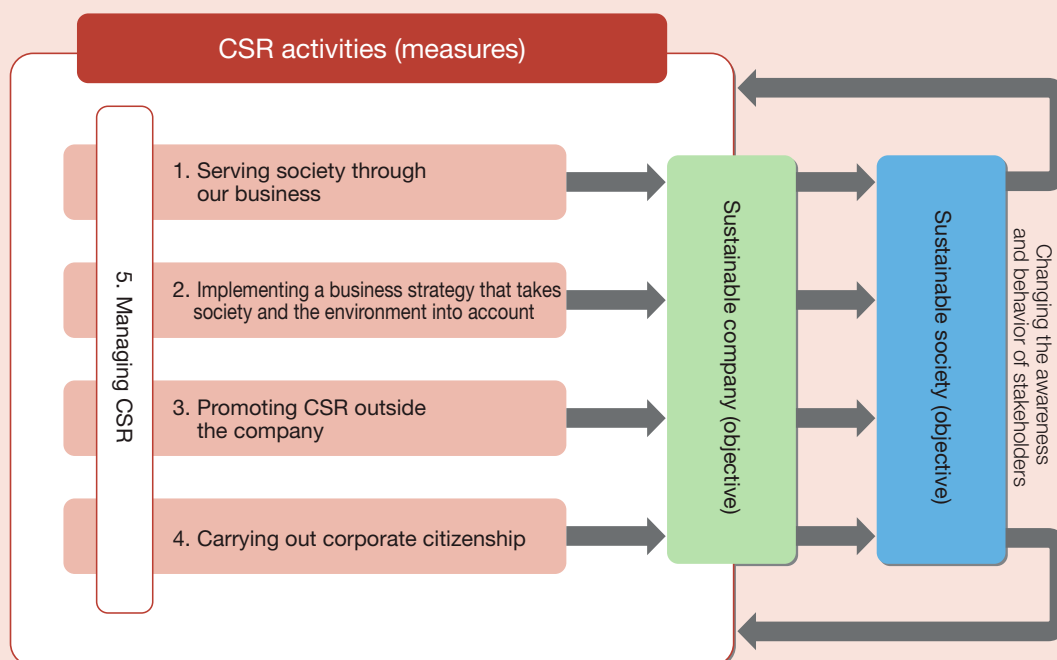
5. Managing CSR

The Group will continue doing business with awareness of its social and environmental impact. Along with instituting stronger corporate governance, achieving full compliance, attaining consumer satisfaction, and improving the workplace environment, we will strive to build an environmental management system and raise environmental awareness among employees. We are currently endeavoring to reduce the use of paper, a major environmental load generated by our business.

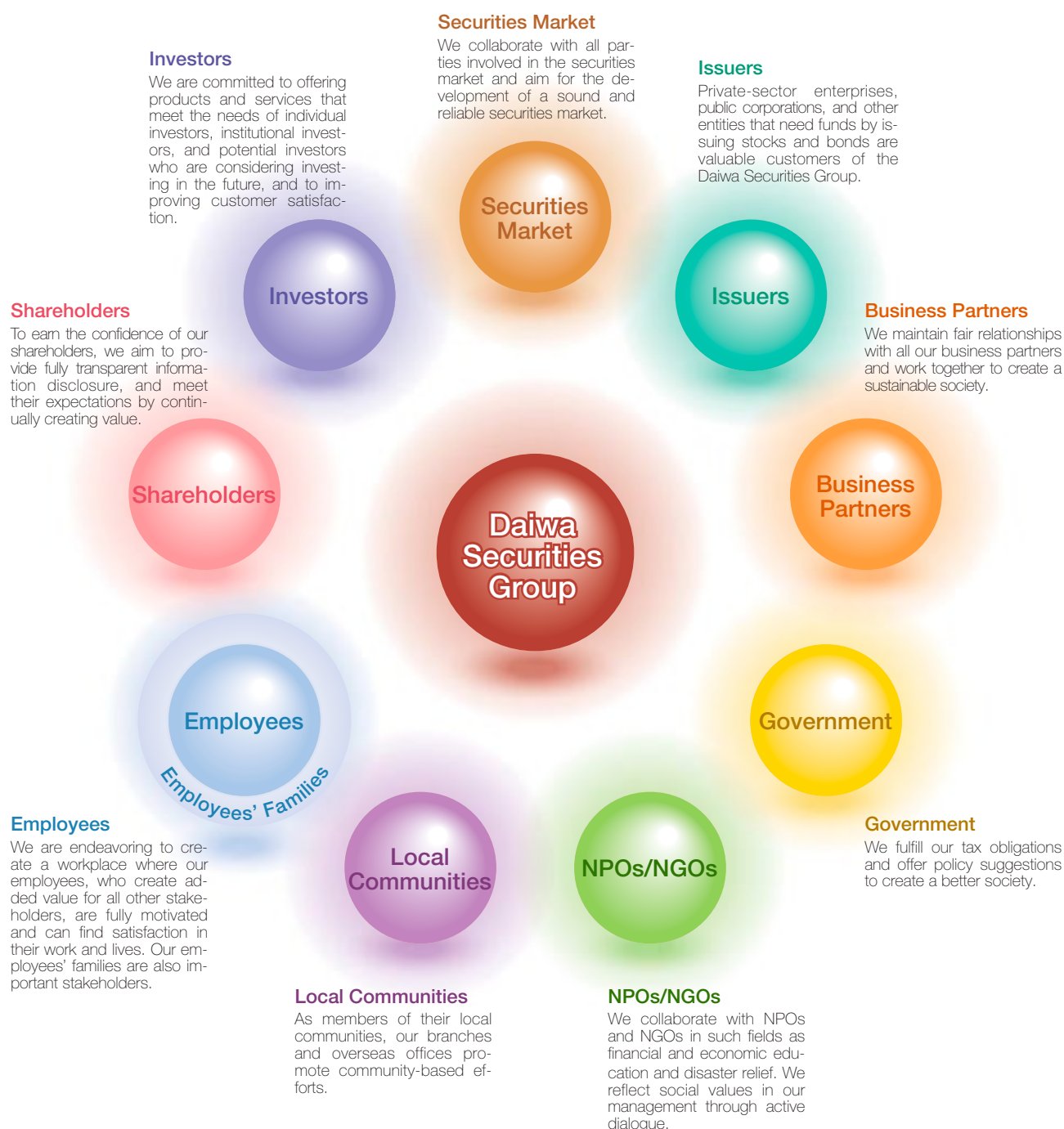
^{*1} World CO2L (Cool) Bonds: See p. 14 for more details.

^{*2} Vaccine bonds: See p. 12 for more details.

Daiwa Securities Group: Approaches for Creating a Sustainable Society



Daiwa Securities Group Stakeholders



Material Issues for the Daiwa Securities Group

The Daiwa Securities Group has identified certain issues as material issues having a major impact on decision-making by stakeholders. After a selection process on the basis of input from stakeholders, for example, executive and employee surveys, customer satisfaction surveys, shareholder surveys, opinions from outside experts, and requests from NPOs and other organizations in and outside Japan, four material issues were examined in depth from four viewpoints shown on the right.

Definition of material issues

- Issues with significant impact on society and on decision-making by stakeholders
- Issues with which many Daiwa Securities Group executives and employees are involved in through the Group's business
- Issues related to contributing to the sustainability of financial institutions expected by society
- Issues related to fulfilling corporate citizenship responsibilities and which contribute Group executives and employees to find satisfaction in their work and lives.

Material Issue 1 Adding a Social Perspective to Investment

To contribute to creating a sustainable society through its core securities business, the Daiwa Securities Group incorporates a social perspective into investment. Through SRI funds, development and sale of financial products supporting socially meaningful activities, procuring funds for enterprises with environmental technologies or other social value, providing CSR-related investment information, and through emissions trading, we promote the flow of financial resources toward finding solutions for social issues and creating a sustainable society.

Material Issue 2 Commitment to the Development of a Sound Securities Market

As companies in the securities industry, we will fulfill our responsibility to ensure the development of a sound, reliable securities market through compliance that lives up to our customers' and society's expectations and that does not stop at mere statutory compliance; strong ethical principles; and rejection of unlawful transactions and influence by criminal elements.

Material Issue 3 Contribution to Global Environment

We will try to reduce the environmental impact of our business as much as possible by using information technology to streamline operations, cut down on the volume of paper we use, and other measures. We also remain committed to collaborating in and promoting efforts to solve environmental problems, including conservation of biodiversity.

Material Issue 4 Communicating Information for a Sustainable Society

We will continue our communication activities, building on our expertise in handling information through education about finance and economics and industry-academia collaboration in research and development, and by offering the most up-to-date information on sustainability.

As one of our key management policies, we also focus on initiatives to create a company that affords executives and employees satisfaction in their work and lives, and a chance to use their talents to the full. More information on this topic can be found in the "Message from the President" (pp. 5–6) and in the "Respect for People and Human Resource Utilization" section (pp. 37–42)

Adding a Social Perspective to Investment

By providing financial products to remedy social problems, raising awareness of socially responsible investment (SRI),^{*1} offering CSR-related investment information, and conducting emissions trading, we want to create a better society through the securities industry.



Masaaki Goto
Corporate Executive Officer
Daiwa Securities Group Inc.

The Daiwa Securities Group, through its core securities business, helps promote solutions to global problems such as poverty or the environment by adding a social perspective to investment.

We have taken the initiative to add a social perspective to investment. As set out in the United Nations undertakings UNEP FI^{*2} and PRI,^{*3} this is also the role that the international community expects financial institutions to play toward creating a sustainable society. Specific examples of the Group's activities in this area are described on the right.

Raising awareness of socially responsible investment is one contribution that the Group can make to create a sustainable society. The Group considers promoting socially responsible investment a material CSR issue.

Adding a Social Perspective to Investment

Development and Sale of SRI Financial Products

The Daiwa Securities Group develops and sells financial products to support projects addressing international issues, such as vaccine bonds, and other financial products to support enterprises actively engaged in CSR through the securities market, such as SRI funds.

Financing for Enterprises with Environmental Technologies or Other Social Value

We support financing for companies with environmental technologies or companies engaged in socially significant activities.

SRI Education, CSR-related Information

We will encourage investors to make investment decisions taking into consideration CSR activities, and provide useful information for investors wishing to invest in companies operating responsibly toward society.

Involvement in Emissions Trading

We will contribute to activating market mechanisms to give depth to the emissions trading market and by doing so indirectly support the operation of mechanisms to offset global warming.

^{*1} Socially Responsible Investment (SRI) is an approach to investing in enterprises that considers not only financial performance and profit levels but also CSR performance such as environmental or social undertakings, ethical practices and so on. In addition to investment in SRI funds, SRI includes stock investment taking into account the target company's CSR performance, and investments that evaluate the social utility of capital use.

Web Terms

^{*2} United Nations Environment Programme Finance Initiative (UNEP FI)

^{*3} Principles for Responsible Investment (PRI)

Issues and Targets for Fiscal 2007

- Promote the widespread practice of SRI.

-
- Provide more information on socially responsible investment.

Performance/Progress Achieved in Fiscal 2007

- Sold vaccine bonds, the Russell Global Environmental Technology Fund, and the Daiwa Eco Fund; conducted SRI education at symposiums such as the Eco-Products Exhibition.

-
- Issued *Environment, Emerging Economies, New Technologies*, an investment information report on the environment, emerging markets and new technologies; expanded the research capabilities of the Daiwa Institute of Research Ltd.; communicated information on emissions trading, and arranged IR seminars focusing on the CSR activities of listed companies.

Retail and Wholesale Business Initiatives

Sales of Vaccine Bonds

In March 2008, the Daiwa Securities Group sold approximately 22 billion yen worth of vaccine bonds (South Africa rand denominated).

Every year, between two and three million children in developing countries around the world die from preventable infectious diseases. To address this problem, the Global Alliance for Vaccines and Immunisation (GAVI), a global private sector partnership carrying out vaccination programs, was formed, and vaccine bonds were issued by the International Finance Facility for Immunisation (IFFIm), the financial facility for GAVI. Using funds raised by vaccine bonds, GAVI provides free health care and vaccinations in 70 developing countries. The vaccine bonds are redeemed using funds donated by the governments of eight (as of May 2008) donor countries. The sale of vaccine bonds helped investors learn about the activities of these international bodies and raised funds to support their activities. The Daiwa Securities Group will continue playing an active role in developing and selling financial products that can help remedy other problems in the world.

Stakeholder Comment

Thank You for Your Support of Vaccine Bonds

IFFIm's goal is to accelerate the availability of funds for the GAVI Alliance's immunisation programs in 70 of the poorest countries around the world. From 2006 to 2015, we expect that the funds raised by IFFIm bonds could immunise an additional 500 million people, and strengthen the health and immunization services in these countries. IFFIm's first Uridashi bond was a great success, and we thank Daiwa Securities for their hard work and Japanese investors for their investment in the first "Vaccine Bonds". We look forward to working together with Japanese investors again in future.



Alan Gillespie

Chairman of the Board of Directors
International Finance Facility for Immunisation

The Russell Global Environment Technology Fund

In April 2008, the Daiwa Securities Group began selling the Russell Global Environment Technology Fund, which invests in companies providing environmental technologies and services.

This fund, following Russell Global Environment Technology Fund standards, invests in shares in companies in and outside Japan whose main business, such as clean energy or waste disposal, contributes to improving the global environment. Companies in which this fund invests include Vestas Wind Systems A/S (Denmark), which develops, sells and operates wind power generation systems, Veolia Water (France), which is involved in water purification and other water services, and other companies with superior technologies.

This fund is jointly managed by several fund management companies carefully selected by Russell Investments, the world's largest management rating company. The managers of the fund include Generation Investment Management LLP, a company founded by former U.S. vice president Al Gore.



Russell Global Environment
Technology Fund prospectus

Support for Listing China Boqi on the First Section of the Tokyo Stock Exchange

In July 2007, the Daiwa Securities Group acted as the lead manager for listing China Boqi Environmental Solutions Technology (Holding) Co., Ltd. (China Boqi) on the first section of the Tokyo Stock Exchange. China Boqi is the leading company in flue gas desulfurization projects and is making a major contribution to reducing sulfur oxide (SOx), nitrogen oxide (NOx) and other emissions from the continually growing number of coal-fired power generation plants in China.

Thanks to the strong support of numerous investors in China Boqi, we were able to participate in raising capital to help the company expand its environmental protection solutions business. Through our investment banking business, we will continue to act as an intermediary to finance projects that contribute to the global environment.

Adding a Social Perspective to Investment

In Our Asset Management Business

Management of SRI Funds

The most representative SRI fund* managed by the Daiwa Asset Management Co. Ltd. is the Daiwa SRI Fund (set up May 2004), which invests with a focus on CSR, and the Daiwa Eco Fund (set up March 2006), which takes into consideration environment-related activities and how shareholder capital is used. As of March 31, 2008, the Daiwa SRI Fund and the Daiwa Eco Fund had assets of 6.2 billion yen and 38.8 billion yen, respectively.

In fiscal 2007, we began managing two environment-oriented SRI funds—the Global Environment Foreign Bond Balance Fund and the Global Environment Equity Fund, which are sold mainly through Japanese regional banks. We will continue to provide timely information to and actively communicate with investors and financial institution staff selling investment trusts, to promote SRI funds as an accessible financial product.

* SRI funds: investment trusts designed for socially responsible investment.

In Our Research and Systems Business

Environment Seminars for Corporate Clients

In February 2008, Daiwa Institute of Research Ltd. and Daiwa Securities SMBC Co. Ltd. were joint sponsors of the 5th Strategic Management Laboratory seminar on the theme of creating a low-carbon society. The seminar, attended by 240 participants, was titled "Eco-innovation: What Industry Needs to Do on Global Warming Issues and Creating a Low-carbon Society."

At the seminar, Professor Ryoichi Yamamoto, the University of Tokyo's Institute of Industrial Science, lectured on what can be done to alleviate global warming. The lecture was followed by a panel discussion on the effects of climate change issues and what enterprises are doing for the environment. Participants found the seminar thought-provoking, with one person saying that "the discussions helped renew my awareness of global warming issues and made clear the need for a long-term approach to solving the problems."



Strategic Management Seminar

Communicating CSR-related Investment Information

The Daiwa Securities Group employs various formats to communicate information allowing investors to make investment decisions from different viewpoints, such as environmental, social or governance considerations, as well as from the CSR perspective.

At Daiwa Institute of Research Ltd., the Management Strategy Research Department conducts research and communicates information concerning CSR and management. The Investment Strategy Department has analysts specializing in the environment, who draw up investment strategies centering mainly in this field and disseminate information through reports or seminars.

In April 2008, the Investment Strategy & Research Department of Daiwa Securities Co. Ltd. published an investment report titled *Environment, Emerging Economies, New Technologies* which many investors found very useful.

Meanwhile, Daiwa Investor Relations Co. Ltd. arranges seminars on CSR by listed companies for individual investors. In December 2007, two listed companies held CSR briefings. In March 2008, the company arranged a joint briefing by five listed companies whose heads took part in a discussion on CSR; this briefing attracted 810 individual investor participants.

We will continue actively approaching companies in these ways, to enable us to provide data on market trends and information meeting investors' needs.



Environment, Emerging Economies, New Technologies investment report

In Our Emissions Trading Business

What the Daiwa Securities Group is Doing

Because we want to help take measures against global warming through our business, we are involved in the emissions trading business through self-investment.

Trading in emissions credits is a useful means for preventing global warming. The emissions credit market encourages the global economy to shift to a sustainable economy that takes environmental worth into consideration. A price is assigned to greenhouse gas emissions costs, and incentives to reduce those costs lead to reducing global warming. Our role is to create and nurture an emissions credit market and make the market mechanism work, and also to help raise financing for business ventures that reduces greenhouse gas emissions.

Investing in emissions trading is a business that starts with identifying projects that reduce greenhouse gases. The business takes a long time to develop and does not yield immediate profits, but I believe that involvement in projects to preserve the environment for future generations is very worthwhile. Another consideration is that using our financial know-how to stop global warming helps us meet our social responsibility as a financial institution. With the cooperation of companies in the Daiwa Securities Group, we are making steady progress in creating finance for the future.



Toshihiko Onishi
Deputy President
Daiwa Securities SMBC Principal
Investments Co. Ltd.

See pp. 15–16 for more details on the Daiwa Securities Group's emissions trading business.

Sale of World CO2L Bond Developed Jointly with the World Bank

In June 2008, we launched sales of the Certified Emission Reduction (CER) Linked USD Denominated Uridashi Bond (World CO2L [Cool] Bond).

The World CO2L Bond is a US dollar-denominated bond that pays interest to investors calculated according to emissions-reduction performance of specific greenhouse gas reduction projects and emissions credit prices. Emissions

credits are bought from hydro power generating businesses in China, which are then sold on the market before payment of bond interest. Transparency regarding the interest paid to investors is ensured as the interest is calculated according to a disclosed formula. This bond has the advantage of offering individual investors, who cannot usually participate directly in emissions trading, a chance to do so indirectly. It is also expected to provide a steady source of profits for greenhouse gas reduction projects.

Fiscal 2008 Targets and Action Plans

The Daiwa Securities Group will continue to develop financial products with a social perspective, help finance companies with social value, and actively pursue the emissions trading

business. We will also further expand communication of corporate environment and CSR information to investors and endeavor to promote SRI.

1 Adding a Social Perspective to Investment

The Daiwa Securities Group's Emissions Credit Trading Business

Daiwa Securities SMBC Principal Investments Co. Ltd. has been investing in emissions credits since August 2004. Further, following the September 30, 2007 implementation of the Financial Instruments and Exchange Law codifying handling of emissions trading by financial products dealers, Daiwa Securities SMBC Co. Ltd. also began handling this business in earnest in October of the same year. Ahead of other companies in the industry in Japan, three Daiwa Securities Group companies are currently involved in emissions trading. The following is an excerpt of a discussion on April 22, 2008 among employees of those companies about the significance of the emissions trading business.



Yuko Manabe

Consultant
Business Advisory Group
Daiwa Institute of Research Ltd.



Shizuka Jinno

GHG Business Team
Daiwa Securities SMBC
Principal Investments Co. Ltd. ("PI")



Misa Yuki

Specialised Finance Section
Structured Finance Department
Daiwa Securities SMBC Co. Ltd.

Group-wide Involvement in CDM* Projects

Manabe: At Daiwa Institute of Research, my job is to handle the initial stage of drawing up CDM projects (steps 1 and 2 in the diagram on p. 16). I also research various projects throughout the world to evaluate those that can be registered as CDM projects with the United Nations (UN) and draw up business plans.

Jinno: PI identifies and evaluates various projects. Working together with Daiwa Institute of Research, we participate in projects and obtain emissions credits (steps 3–8) after carefully researching what the projects actually involve. In our role as a project participant, we also keep track of the various steps in the process of issuing emissions credits—obtaining approval from the national governments and certification organizations involved, applying to the UN for registration, and

monitoring and verifying emissions reduction.

Yuki: Daiwa Securities SMBC provides services that match customer needs, handing over emissions credits as is to Japanese companies, or using our expertise to create financial products with higher added value. As a financial products dealer, our role is to create an emissions trading market and to generate ideas for meeting Japan's emissions credit needs.

* CDM: Clean Development Mechanism

Focusing on Environment-related Issues and Social Value, Not Just on Reducing Greenhouse Gases

Manabe: CDM projects need to meet various criteria to be registered with the UN. But the most important criterion is that the project contribute to sustainable development in the developing country implementing it. Paying attention to social aspects—does the project risk destroying the surround-

The Kyoto Mechanism and Emissions Credits

When countries ratifying the Kyoto Protocol are unable to meet reduction targets for CO₂ and other greenhouse gases compared to 1990 levels on their own, they can make use of the Kyoto Mechanism, a market-based mechanism for acquiring the reduction volumes of other countries. The Kyoto

Mechanism includes the Clean Development Mechanism (CDM),^{*1} Joint Implementation (JI)^{*2} and Emissions Trading.^{*3}

^{*1, *2} Clean Development Mechanism (CDM), Joint Implementation (JI): mechanisms whereby an industrialized country and a developing country (in the case of CDM), or industrialized countries (in the case of JI) implement an emissions-reduction program certified by the UN and through which the investing countries acquire the reduced emissions volume in the form of emissions credits.

^{*3} Emissions trading: emissions credit transactions between countries or enterprises through the carbon market.

ing natural environment; are human rights being protected—is also essential. In evaluating projects, we need to consider many environment-related issues, as well as social value. Other aspects to be considered include profitability as a business and the availability of local technicians to carry out the project. We select projects after carrying out field studies to evaluate all these issues.

Jinno: When projects are registered as CDM, close attention is paid to meeting the requisite criteria and also to adverse effects the project could have on the local environment or society. Meanwhile, going ahead with a project means that we need to deal with the developing country party handling the project, so we proceed after evaluating and taking steps to mitigate risk.

Explaining the Quality of the Emissions Reduction Product

Yuki: In Japan, enterprises and other entities are not legally required to reduce greenhouse gas emissions yet, and there are also no clear guidelines for doing so. Many companies are starting by doing what they can on their own, and only a handful have clear guidelines for buying emissions credits. When we call on companies, they often tell us that they want to start by taking their own measures to reduce emissions and that buying emissions credits is the next step. That's not a bad approach, but I feel that enterprises in this country view emissions credits as something to buy in order to meet their reduction targets. To companies thinking of trading emissions credits, we explain all the steps in the process leading to creation of emissions credits and let them know that through their indirect participation in greenhouse gas projects through the purchase of emissions credits, they can help stimulate the growth of the emissions credits market and contribute to meeting Japan's Kyoto Protocol targets.

Manabe: I believe that the Kyoto Mechanism is an excellent system. For emissions credits generated by emissions reduction projects, each ton of emissions is assigned a serial number which makes it possible to identify where the emissions credit was generated. Enterprises are becoming more

particular about the quality of the project (emissions credit) and if we can market this properly, I think the business has the potential of growing beyond simply buying and selling. I also feel that input from businesses can help improve the quality of CDM projects.

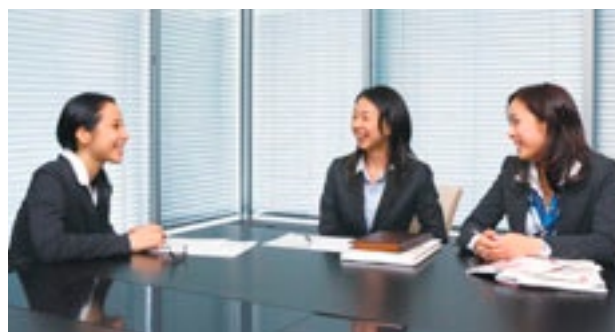
Speeding Up Prevention of Global Warming

Jinno: To expand the emissions trading business, it is important for us to be fully aware of the impact that generation of emissions credits has locally, the risks attached to emissions credits and other issues, and to communicate this information to customers and society in general. I believe this is an area where the Daiwa Securities Group can play a role.

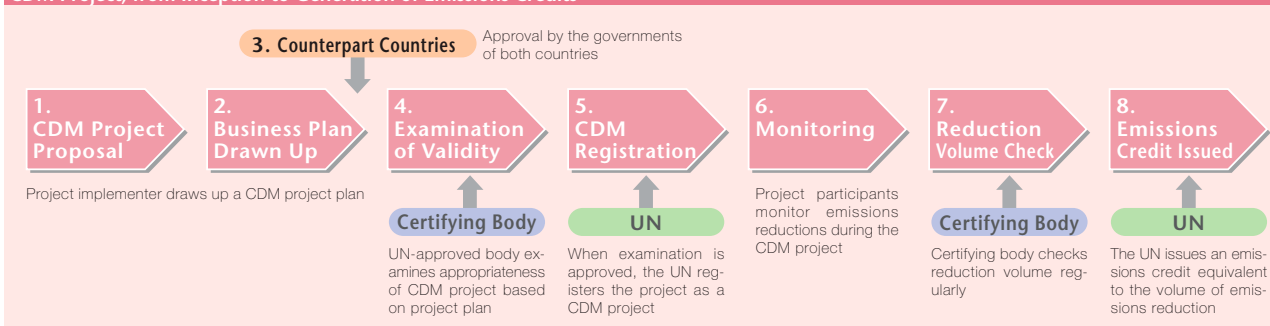
Manabe: We also need to be aware that it's important for companies within the Group to work well with each other from upstream to downstream in the emissions trading business.

Yuki: The emissions trading business has inherent risks, naturally. Therefore, we need to develop and provide financial products and transaction schemes that reduce the risks of price volatility and ensure stable volume, all the while sharing with our customers understanding of how the market for this business works and how it can help prevent global warming.

Jinno: The original aim of the emissions trading business is to prevent global warming. It's a business so it needs to make profits, but I feel that it is our role, through business, to help accelerate the movement to prevent global warming.



CDM Project, from Inception to Generation of Emissions Credits



Commitment to the Development of a Sound Securities Market

Maintaining and developing a sound securities market is a key responsibility of the Daiwa Securities Group. To live up to the confidence placed in us by society, we are working to create a compliance system based on principles and to implement it at a higher level than merely statutory observance.

Ensuring Better Compliance, Not through More Rules but by Explaining Their Intent



Masaki Shimazu

Senior Managing Director
Chief Compliance Officer
Member of the Board
Daiwa Securities Co. Ltd.

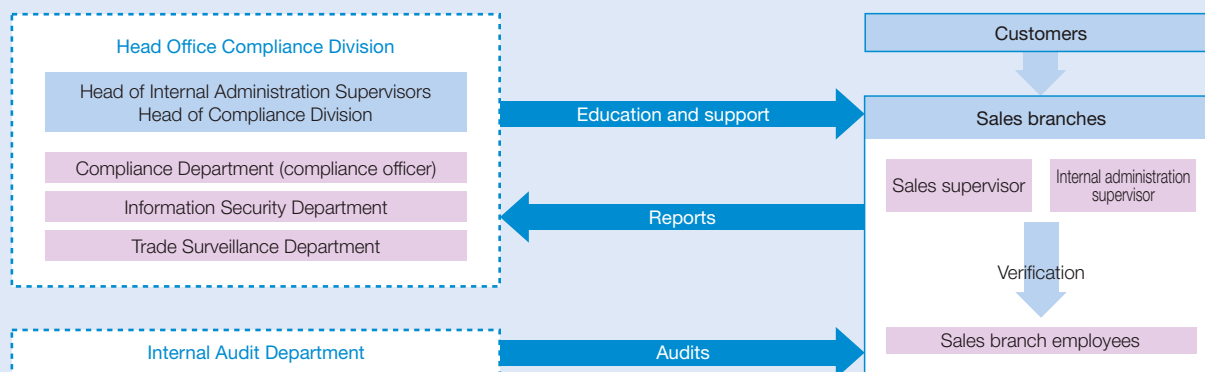
Change in Policy Regarding Method for Strengthening Internal Control Management

In fiscal 2007, we reviewed our policies regarding compliance activities to improve our internal control system. Following activities that successfully raised compliance awareness among our salespeople, we have gradually shifted the focus of our activities from uncovering problems to providing guidance and support for establishing internal control best practices in day-to-day sales operations in our aim to improve our compliance system. To prepare for implementa-

tion of this policy, we also simplified rules and procedures. Our previous practice had been to set down rules covering even the minutest points and control salespeople's actions based on those rules. But we found that not only does having a multitude of rules obscure what those rules are intended for, salespeople were having difficulty remembering them and sometimes found themselves in violation because they were not aware of a particular rule. Simplifying rules and procedures has reduced such occurrences and helped salespeople develop better knowledge of the intent behind the rules. This, I believe, has fulfilled our original aim and improved our compliance system.

Reviewing our policy in this area was also a conscious message on our part that the sales department and the compliance department are working together to improve internal control. The two departments should always think and act together—it's not a question of the former going full speed ahead and the latter acting as the brake. I feel that these measures have helped bridge the distance, in a positive way, between the sales branches and the compliance department.

Compliance Structure



Improving the Internal Control System in Accordance with Government Policy

We have basically acted in accordance with our own policies, although some of them are based on the views of the Financial Services Agency (FSA).

Today, the FSA says that a combination of rule- and principle-based supervision is the best solution for internal control. In other words, the FSA believes that rules and regulations should be kept to a minimum and that fundamentally, the securities business should be principle-based. In April 2008, the FSA released a document titled "The Principles in the Financial Services Industry," whose content is basically common-sense information. Naturally, this does not imply that our sales operations should simply remain within the law; we must ensure that we act according to principles and socially accepted norms. I believe that we should aim for a simple, clear and effective internal control system rather than one that is rule-bound, and I agree with the FSA's principle-based approach.

Issues for Fiscal 2008

Our operations are highly regulated, but we need to understand the reasons for the rules and regulations so that in sales we can put the customer first. In fiscal 2008, we intend to continue our initiatives carried out in 2007, concentrating on activities to help understand why rules and regulations exist.

Another important topic that must be addressed is improving the system for monitoring unlawful transactions. Insider trading and other unlawful transactions are a major social problem. Given that a public-interest role of securities companies is their market intermediation function, we devote many resources to employee training relating to unfair trading practices. Measures to eliminate unfair trading practices, including shutting out criminal elements, will become even more important in the future.

Business Continuity Plan

To ensure the safety of customers and Group executives and employees and protect assets, and in view of the public-interest aspect of our business as a securities company, Daiwa Securities has drawn up a business continuity plan (BCP) prioritizing important operations to be restored or continued in the event of a natural disaster, in order to keep the securities market functioning and protect customers' economic activities.

By putting our data in electronic form, we believe that we have the most advanced BCP in the financial industry. In addition to a backup center following best practice in Japan, we have created a structure allowing us to continue vital operations through an entirely separate system than the one we use for normal operations, should head office functions be impaired.

Expected Disasters and Damages

Our BCP will go into effect in the event that our sales branches are damaged or our head office/head office functions and/or our data center are affected and become inoperative due to earthquakes, fires, wind and water damage, abnormal weather, outbreaks of contagious disease, acts of terrorism, or major power failures or other breakdowns in essential services.

Priority Operations to be Restored or Continued

1. Market settlement of securities transactions contracted but not delivered
2. Payment operations
3. New orders from customers to sell or to liquidate long positions on margin transactions for the products below:
 - Domestic listed equities
 - MRF (money reserve funds), MMF (money market funds), medium-term government bond funds
 - Japanese government bonds for individual investors

Contribution to Global Environment

The Daiwa Securities Group takes measures to reduce the environmental load generated by its business activities and continues to implement a wide range of initiatives aimed at helping resolve environmental issues.

Reducing Environmental Impact through IT —A New Paperless Business Model



Takashi Fukai
Senior Managing Director
Head of Administration Division
Investment Program Officer
Daiwa Securities Co. Ltd.

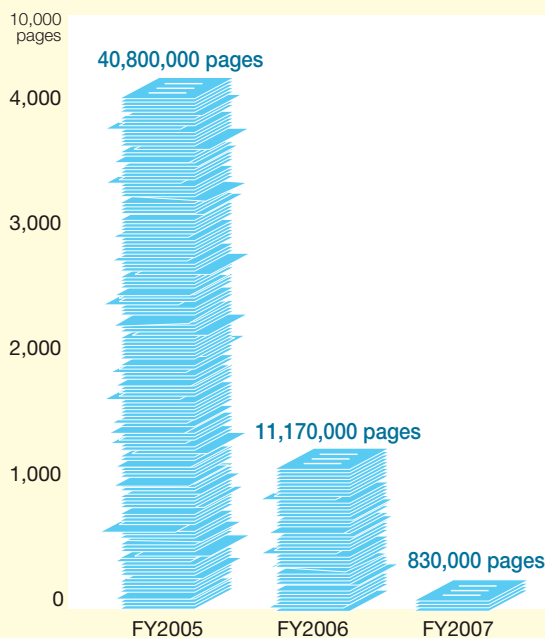
In the past, paper was the medium for communicating information between sales branches and customers, and between head office departments and our data center. We used tremendous amounts of paper for transaction order slips and customer transaction reports, as well as for clerical processing. In fiscal 2005, Daiwa adopted an electronic statement system, and we have been shifting clerical operations from paper to electronic data since then. This has not only helped us considerably reduce the amount of paper we use but has had the added benefit of eliminating the need to transport statements to sales branches and for labor involved in storing statements. Further, while putting into electronic form order slips and internal clerical statements sent to our sales branches, we also set up a clerical processing system using electronic data by working together with the front-line departments to digitize clerical processing.

As a result, the volume of internal statements generated, which stood at 40,800,000 pages in fiscal 2005, declined 97 percent to 830,000 pages in the two-year period to fiscal 2007. The benefits of adopting IT do not stop at reducing the environmental load. We have also been able to reap management-related benefits such as cutting costs by 2.8 billion yen by streamlining internal clerical processes, logistics and shipping; eliminating clerical errors; and devising a business continuation plan that will allow us to continue operating in an emergency.

In fiscal 2008, we will introduce a paperless management system for over 700,000 accounts of listed companies' employee stock ownership plans for which we have been managing the paperwork. We are also working toward "green IT" that is both efficient and environment-friendly, by setting up an efficient system infrastructure base through the adoption of blade server*1 and thin client*2 virtualization technologies.

In the December 2007 issue of *Nikkei Computer*, the Daiwa Securities Group was ranked in third place for overall use of IT in business. We intend to continue taking advantage of the benefits of IT to improve management efficiency and reduce environmental impact, and we hope that our activities will be a model for reducing the environmental load in office operations.

Number of Internal Statement Pages Printed at Daiwa Securities



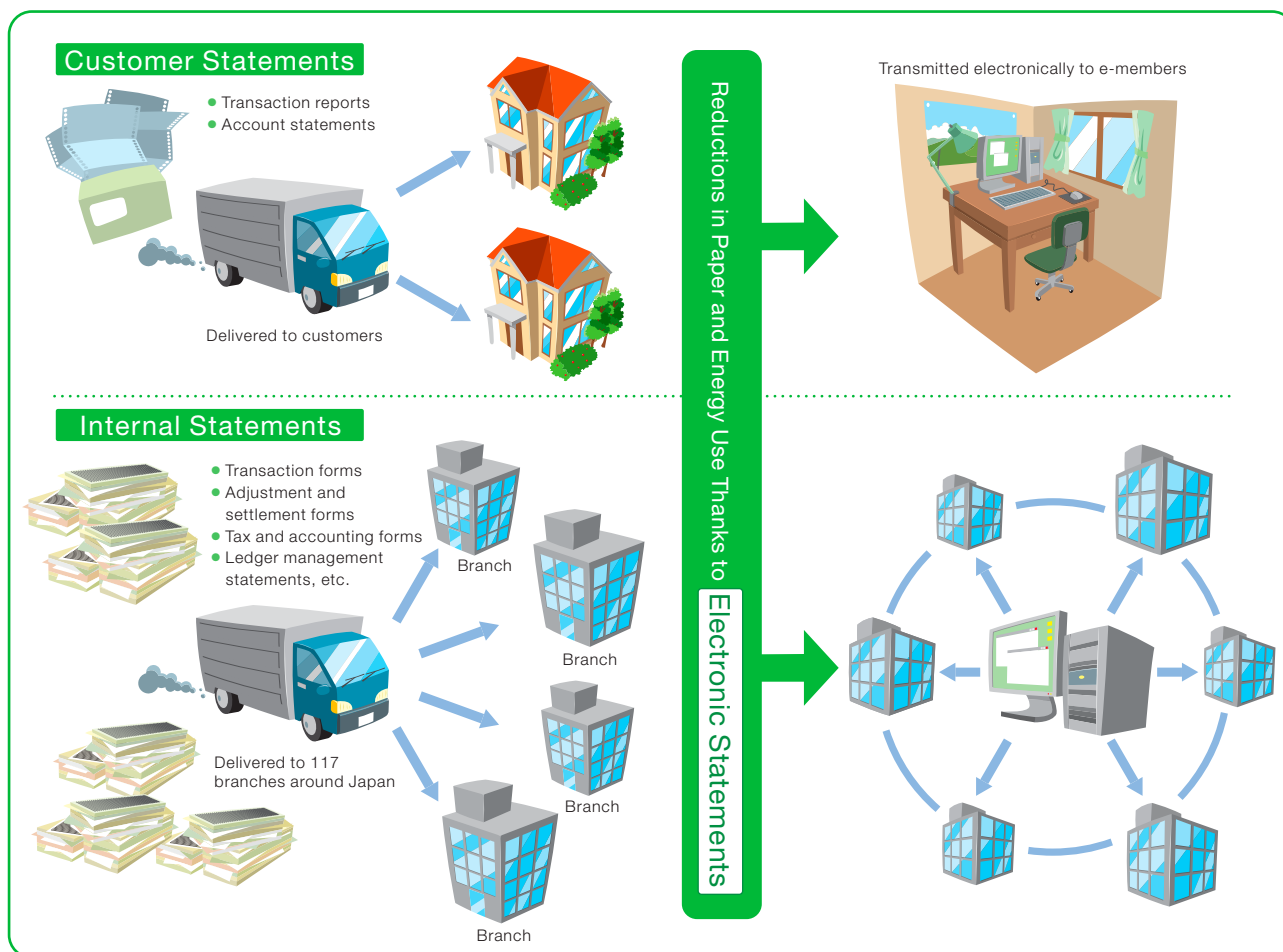
*1 Blade server

Server system consisting of multiple server blades arranged on a chassis, with each blade having the necessary components (memory, hard disk, microprocessors) to carry out server functions.

Server blades share a power cable, cooling equipment, external interface, etc., making it possible to have a large number of CPUs in a restricted space and use power efficiently. This arrangement also cuts down on energy used for cooling the server room.

*2 Thin client

New type of personal computer consisting of a terminal without a hard disk, and with applications such as Word or Excel and all data stored and administered on a central server. Compared to individual users having personal computers with hard disks at their own desks, thin client computing substantially reduces power consumption. Among other benefits are greatly enhanced security, since no data stays on the terminal, and access to data from anywhere within the company, making it possible to plan for business continuation in the event of a disaster.



Daiwa CI Biodiversity Conservation Fund

In partnership with global environmental NGO Conservation International (CI), the Daiwa CI Biodiversity Conservation Fund operates a program to carry out biodiversity conservation activities in biodiversity hotspots.* This program, funded by a part of profits earned from the sale and management of the Daiwa Eco Fund, operates in eight areas in the vicinity of World Natural Heritage sites in seven countries. Contributions from the Daiwa CI Biodiversity Conservation Fund have been used to help environment-friendly businesses take root in local communities, which previously had to rely on illegal logging for income. For example, contributions have been used to pay for business training and accounting or financial administration training to set up eco-tourism businesses or agroforestry for cacao or coffee. Started in November 2007, the fund is currently involved in pilot projects in Belize, Dominica and Mexico.

*Places where biodiversity is rich but highly threatened. Worldwide, 34 areas are designated as biodiversity hotspots.



World Natural Heritage Site Sian Ka'an (Mexico), where a pilot project is underway.

Web Activities • Project Areas

Communicating Information for a Sustainable Society

The Daiwa Securities Group communicates information with the goal of establishing a sustainable society. We work toward the creation of a harmonious society by communicating information through sustainability education and economic and financial education, and by making policy recommendations.

Economic and Financial Education

The Daiwa Securities Group hopes that young people will have the proper knowledge and wisdom to make their way in the world. To enable them to live independently, young people need to know not only about economics but also learn how finance and society work. To help them do so,

we want to pass on our knowledge and expertise to them at all stages of their education, teaching them in age-appropriate ways.

Web Activities • Economic and Financial Education

Issues and Targets for Fiscal 2007

- Enhance activities to raise awareness of sustainability.
-
- Promote economic and financial education initiatives for junior and senior high-school students.

Performance/Progress Achieved in Fiscal 2007

- The Daiwa-JFS Sustainability College was held. CSR Promotion Department staff lectured at universities.
-
- Supported economic and financial education for junior and senior high school teachers. Created and distributed finance and economics text materials and hosted student visits to our offices. Supported education programs, working in collaboration with an NPO.

Principal Daiwa Securities Group Business-academia Collaboration

Fiscal 2007 course endowments and collaboration	
Name of university	Topic (title)
Graduate School of International Corporate Strategy (ICS), Hitotsubashi University	Corporate Strategy
Faculty of Policy Management, Keio University	Corporate Governance Theory
Faculty of Policy Management, Keio University	Social Finance
Open Education Center, Waseda University (general lectures)	Basic Course in Venture Entrepreneurship and Business Planning
Graduate School of Economics, Kyoto University	Securities System Theory (spring session), Securities Investment Methodology (fall session)
Kyoto University (general education course)	Modern Business Administration B
Graduate School of Medicine, Kyoto University	Entrepreneurship
Meiji University (Surugadai Campus)	Coming up with Venture Business Ideas and Building a Business Plan (new from fiscal 2007)
Faculty of Law, Chuo University	International Venture Business and the Law (new from fiscal 2007)
College of Commerce, Nihon University	Creating a Venture Company (new from fiscal 2007)
Conferences, symposiums, internships and other programs	
Name of university	Topic (title)
Graduate School of Economics, Kyoto University	2007 Daiwa International Workshop on Financial Engineering
Graduate School of Economics, Kyoto University	Internships (for students attending Daiwa visiting lectures)
Graduate School of International Corporate Strategy (ICS), Hitotsubashi University	7th Porter Prize (Daiwa has supported this prize for the seventh time since its creation in 2001 and plans to also support the fiscal 2008 8th Porter Prize [to be held December 4].)

Business-academia Collaboration and Presence in Asia

As part of business-academia collaboration with universities and graduate schools, the Daiwa Securities Group sponsors various lectures and gives visiting lectures by experts in various fields at several universities.

In the Basic Course in Entrepreneurship and Business Planning we give at Waseda University, venture businesses created by former course students are beginning to find a firm footing, and lecturers offer them advice as necessary even today. In fiscal 2007, Meiji University, Nihon University and Chuo University added a training course for venture entrepreneurs to the curriculum that is very popular among students. In May 2008, we also agreed to support commercialization of Kyoto University's iPS cell* research in order to promote appropriate distribution of the fruits of this research to society.

We also promote business-academia collaboration in Asia. To train people who can contribute to the development of China's economy and society, we endowed a course titled "High-tech Venture Value Creation" at the School of Intellectual Property, Peking University, in May 2008 and have been dispatching employees as lecturers.

Another of our activities is the creation of the (provisionally-named) Daiwa Securities Group Asian Student Scholarship Fund jointly with the University of Tokyo, to offer financial support to international students from Asia and encourage personal and academic exchanges between Japan and Asia. We will provide 200 million yen to fund this scholarship, which will support a total of 100 international students from India and other Asian countries over a five-year period. We will also hold various symposiums on the topic of Asia.

* iPS cells: also called induced pluripotent stem cells, these cells can develop into various human tissues and organs. iPS cells are created by introducing several types of genes into somatic cells collected from the skin.

Economic and Financial Education for High School Students

The Student Company Program (SCP) is a hands-on economics education program for junior high and high school students that originated in the United States and that is offered by Junior Achievement Japan, an NPO involved in economics education for young people. The students set up a company and operate it through all phases from raising capital to manufacturing, sales and financial management. The Daiwa Securities Group began collaborating with the SCP at Ritsumeikan Senior High School in Kyoto in 2003 when the program first started. Group employees participate in the classes every week, advising students in their role as outside directors.

In 2007, the 24 students in the class set up SHIN Co. Ltd. to manufacture and sell handmade bracelets and pouches. They learned first-hand about running a company—sourcing materials, making innovations to their products, manufacturing and finding sales outlets, selling the products and handling bookkeeping. They also ran into difficulties such as product defects, slumping sales and accounting errors, but they worked together to run the company and ended with a profit of 33,000 yen.

SCP offers students a chance to learn and grow as they communicate to manage the organization smoothly and solve problems while working to achieve their goals. The Daiwa Securities Group will continue extending its cooperation to the program.



Students selling their products

Web Activities

- Finance Park Economic and Financial Education for Junior High School Students

Web Terms

- Junior Achievement Japan

Stakeholder Comment

My Experience with SCP

SCP was a wonderful, unforgettable experience. Everything—product development, production, sales—was so new that it was a continual challenge for me. I was the president of the company, so I needed to act like a leader and worried about how I could do that effectively. But having customers buy our products made me really happy and motivated us. Having to deal with employees, external directors, teachers and customers was invaluable experience that I could never have acquired from simply studying at my desk. It taught me the difficulties and the satisfaction of operating a company and the importance of establishing relationships with others. I'm really grateful to everyone who made the SCP possible at my school.

Kazue Ueda
Senior
Ritsumeikan High School



4 Communicating Information for a Sustainable Society

Economic and Financial Education for the General Public

The Daiwa Securities Group is the only company in the industry to operate a television channel in Japan, Daiwa Securities Information TV, which is devoted exclusively to providing the public with simple, clear information about securities. Beginning in fiscal 2007, our programs are broadcast on 101 cable TV stations throughout Japan, reaching an estimated 13 million households (as of March

31, 2008). In June 2008, we opened a new studio equipped for high-definition broadcasting on the first floor of the new Daiwa Securities Group head office building, which we hope will help us communicate information more accessibly.



Daiwa Securities Information TV open studio on the ground floor of our new head office building

Policy Recommendations

Communicating at International Conferences

In November 2007, Akira Kiyota, Chairman of the Board, Daiwa Securities Group Inc., attended the 21st International Conference of Private Business Organizations held in Australia on the topic of business organizations and climate change. Prior to the conference, he met with Australian government officials in Canberra to discuss Australia's global warming measures and explore cooperation between Australia and Japan in this area.

Kiyota also attended the annual meeting of the World Economic Forum in January 2008, and the International Monetary Conference held in Barcelona in June 2008, where he actively exchanged views with foreign political and corporate leaders.



Akira Kiyota
Chairman of the Board
Daiwa Securities Group Inc.

Initiatives on the Declining Birthrate Problem

Shigeharu Suzuki, President and CEO, Daiwa Securities Group Inc., has been serving as co-chairman of Nippon Keidanren (Japan Business Federation)'s Committee on Population Issues since May 2007. In his capacity as a representative of business and industry, he makes recommendations concerning measures that corporations should adopt to help boost the birthrate and what the central and local governments should do to improve the child-rearing environment. To reverse the downward trend in births, the Committee works to form a consensus and urge action on the framework for comprehensive measures to nurture future generations, so that effective measures can be implemented by government, business and the public. The Committee is also calling on member companies of Nippon Keidanren to take voluntary measures to promote work-life balance.

Measures taken by corporations to promote support for balancing work and family responsibilities and achieve work-life balance are also steady steps to help raise Japan's declining birthrate and deal with rapid population aging; these measures are essential for the sustained growth of Japanese society. To broaden our activities as a company contributing to measures regarding the declining birthrate, the Daiwa Securities Group presents examples of our activities and makes recommendations in this area.



Shigeharu Suzuki
President and CEO
Daiwa Securities Group Inc.

Communicating Information for Sustainability

CSR Website/Sustainability and Asset Management

In addition to information relating to its CSR activities, the Daiwa Securities Group Inc. website communicates general

CSR information and information about creating a sustainable society, in order to spread knowledge of sustainability and CSR among the general public. This website provides the latest information about CSR, along with clear descriptions of CSR, SRI and environmental issues, reports by researchers at Daiwa Institute of Research Ltd. and dialogues

with leading figures in the CSR field, to satisfy public interest in this topic.

The Daiwa Asset Management Co. Ltd. website includes a special section on sustainability and asset management and provides the most up-to-date news about SRI.



Daiwa Securities Group Inc.
CSR website
<http://www.daiwa-grp.jp/branding/>



Daiwa Asset Management Co. Ltd.
sustainability website
http://www.daiwa-am.co.jp/guide/jfs/jfs_index.html

Daiwa-JFS Sustainability College

The Daiwa Securities Group has been sponsoring the Daiwa-JFS Sustainability College since October 2006, given in partnership with NPO Japan for Sustainability (JFS), using part of our profits earned from the sale and management of the Daiwa Eco Fund. Approximately 190 students, mainly from universities, have registered for the course. The course's theme for fiscal 2007 was

"Fairness and Sustainability," with various experts' monthly lectures attended by about 40 students each time.

This course has motivated the students to arrange various activities on their own. For example, a group of students especially interested in food miles and traceability made a field trip to visit food manufacturers, and others arranged a meeting to exchange views with students from Singapore.

Classes to Date (October 2007 to September 2008)

1. Environment Ethics and the Creation of a Fair and Just Society
2. Bring Out Community Power, Bridge to City
3. Leaving Healthy Ecosystems for Future Generations
4. Thinking of Japan and the World through Food and Agriculture
5. Expanding Fair Trade for Poverty-free World
6. Local Money Enriches Regions
7. Sustainability, and Local Climates of Areas Becoming Uniform, Like Fast Food
8. Poverty and Sustainability—Haves and Have-nots in Japanese Society
9. The "Famine Problem" in Developed Countries
10. Using Social Capital to Overcome Negative Legacies
11. The Power of Tradition in Breathing Life into the Old
12. Social Awareness and Ecology: Innovation Created by Business

Stakeholder Comment

The Value of Daiwa-JFS Sustainability College

I have been a participant in Daiwa-JFS Sustainability College since the course's first year. I am learning about sustainability at university too, but the great value of this course to me is that I can learn about sustainability in a systematic way. Another great advantage is that lecturers include not only researchers but people active in the field, so we can learn about sustainability from a multi-dimensional perspective. The fact that the Daiwa Securities is Group offering this course with an NPO sends a clear message that the Group wants to pass something on to young people like me. To meet those expectations, I intend to continue actively participating in this course, and I hope to become someone who can make a contribution to society in the future. I also look forward to the two remaining years of the course.

Masayuki Ichikawa

1st year master's degree course student
Graduate School of Environmental and
Information Studies
Musashi Institute of Technology



Fiscal 2008 Targets and Action Plans

In the field of economics and financial education, we will continue expanding our business-academia collaboration programs with universities and graduate schools. We will also continue activities to help junior and senior high school students un-

derstand more clearly how economics and society work, creating clear text materials and so forth. Additionally, we will communicate more information about sustainability on our CSR website.



Management Report

CSR Issues: Performance and Targets

This section reports the fiscal 2007 results and fiscal 2008 targets for the wide range of initiatives conducted by the Daiwa Securities Group for the creation of a sustainable society.

		Issues and Targets for Fiscal 2007	Rating of Initiatives	Pages in Report
Material Issue 1 Adding a Social Perspective to Investment		Promote the widespread practice of SRI (continued).	G	11–16
		Provide more information on socially responsible investment.	G	
Material Issue 2 Commitment to the Development of a Sound Securities Market		See “Compliance.”		17–18
Material Issue 3 Contribution to Global Environment		Consider the development of financial products that enable investors to help resolve environmental issues.	G	19–20
		Expand environmental management systems to major overseas offices.	F	
		Reduce environmental impact by such means as appropriately adjusting air conditioning and using electronic statements.	VG	
		Achieve zero waste in relocation from former headquarters building.	– *	
Material Issue 4 Communicating Information for a Sustainable Society		Enhance activities to raise awareness of sustainability.	G	21–24
		Promote economic and financial education initiatives for junior and senior high-school students.	G	
Corporate Governance		Perform documentation and verification in anticipation of fiscal 2008 (first year that internal control system goes into effect).	G	27–28
		Create systems for new businesses.	G	
		Further promote BCP (Business Continuity Plan).	VG	
CSR Management		See “Material Issues.”		29–30
Compliance	Entire Group	Raise awareness of corporate ethics and compliance at Group companies (continued).	VG	31–32
		Strengthen measures against criminal elements (continued).	G	
	Daiwa Securities	Enhance systems compliant with such revised laws as the Financial Instruments and Exchange Law and the Financial Products Sales Law.	VG	
		Revise internal rules, including simplification and streamlining.	VG	
		Enhance customer and sales-force management systems.	G	
	Daiwa Securities SMBC	Enhance systems compliant with such revised laws as the Financial Instruments and Exchange Law and the Financial Products Sales Law.	VG	
		Manage information more stringently, and in particular establish systems to prevent leaks of personal information.	VG	
		Enhance compliance regimes relating to laws and regulations concerning foreign exchange.	VG	
Support greater sophistication in risk-management systems.		G		
Information Disclosure		Enhance disclosure of non-financial information.	G	33–34
		Further expand and enhance investor relations (IR) targeting individual investors.	VG	
Customer Satisfaction		Actively pursue post-sales follow up (continued).	G	35–36
		Improve skills of junior salespeople.	G	
		Improve customer-interface skills of branch counter staff who interact with customers.	G	
Respect for People and Human Resource Utilization		Further promote company-invigoration measures.	VG	37–42
		Enhance education and training programs to increase number of certified analysts and CFPs (continued).	VG	
		Develop workplace environments where women can fully use their abilities (continued).	VG	
Corporate Citizenship		Contribute to social welfare through grant programs and the like.	G	43–46
		Promote volunteer programs to enable more executives and employees to participate (continued).	G	
Environmental Impact of the Daiwa Securities Group		See Material Issue 3 “Contribution to Global Environment.”		47–48

Issues and Targets for fiscal 2008

Continue to develop and spread financial products with a social perspective and SRI.
Provide more information on investment from a social perspective (continued).

See "Compliance."

Raise awareness of environmental issues among executives and employees.
Reduce the environmental burden by setting temperatures appropriately, reducing use of paper and other means.
Promote reuse and recycling of fixtures when moving to headquarters building.

Communicate more information about sustainability on our CSR website.
Expand and promote economic and financial education initiatives.

Establish a system for evaluating internal control.
Organize and expand the Group's management system, including systems for new businesses.
Promote BCP.

Promote dialogue with stakeholders.
Raise awareness of CSR among executives and employees.
Improve coordination among related internal departments.

Carry out thorough compliance training at all companies.
Strengthen system to eliminate criminal elements.
Strengthen the internal control system.
Create an enhanced internal control structure for systems and IT.
Enhance the monitoring system for unfair transactions.

Improve the system for handling the Guidelines for Supervision of the Financial Instruments Business.
Implement new risk management for the Financial Instruments and Exchange Law.
Enhance the information management system.

Expand and make good use of IR channels.
Implement effective IR directed to individual investors.
Enhance disclosure of non-financial information (continued).

Actively pursue post-sales follow up (continued).
Improve employees' skills (continued).
Improve customer-interface skills of branch counter staff interacting with customers (continued).
Reassess all employees' working hours/time management (encourage employees to take yearly paid leave, etc.).
Change employee attitudes through child-rearing (encourage male employees to take child care leave, etc.).
Continue hiring persons with disabilities as regular employees.

Promote an environment encouraging executives and employees to participate in volunteer work.
Communicate information about volunteering and volunteer activities in-house.

See Material Issue 3 "Contribution to Global Environment."

*Since compilation of figures has not been completed at this time, details will be provided in the next *Sustainability Report*.

Fiscal 2007 Issues and Performance/
Fiscal 2008 Targets

■Fiscal 2007 Performance

The results of initiatives in fiscal 2007, and issues and targets for fiscal 2008, are listed as the issues and targets of each division. The Daiwa Securities Group's own rating for accomplishment of each initiative is shown.

■Fiscal 2008 Targets

Fiscal 2008 targets for the Daiwa Securities Group are based on performance and evaluation of fiscal 2007 targets. Coordination among Group companies and divisions with the aim of implementing and achieving these targets leads to maximizing value for all stakeholder groups.

Rating of initiatives

VG: Very good results toward achieving the target
G : Good results toward achieving the target
F : Fair; further implementation and results needed
NI : Not implemented



Management Report

Corporate Governance

The Daiwa Securities Group is united in its efforts to build a highly transparent and objective corporate governance system, in order to earn the confidence of all our stakeholders and continually improve our corporate value.

Initiatives and Targets

Against a backdrop of recent increasing market globalization and institutionalization, corporate governance has come to be considered vital for making investment decisions. The Daiwa Securities Group believes that earning the

confidence of all stakeholders will enable us to continuously increase corporate value. We actively incorporate outside viewpoints, building a transparent, dynamic and efficient corporate governance system that meets international standards. At the same time, we are leveraging the synergy of each Group company to build a unified Group management system.

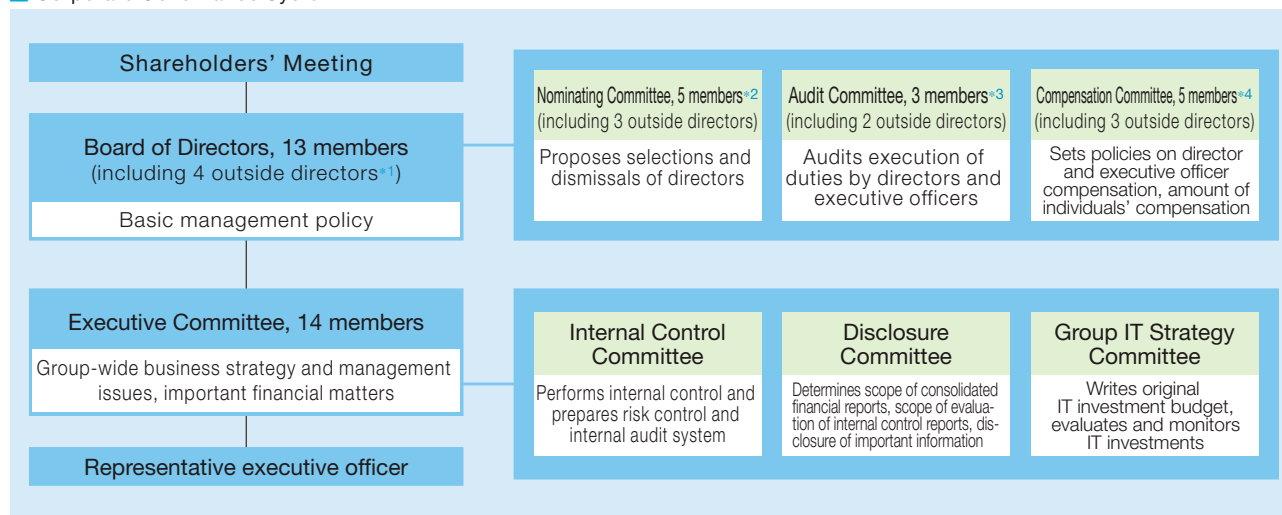
Issues and Targets for Fiscal 2007

- Perform documentation and verification in anticipation of fiscal 2008 (first year that internal control system goes into effect).
- Create systems for new businesses.
- Further promote BCP (Business Continuity Plan).

Performance/Progress Achieved in Fiscal 2007

- Completed documentation and established related standards.
- Prepared for compliance with changes in related laws, to promote new businesses such as loans secured by securities and others.
- Prepared a BCP manual for Daiwa Securities Group Inc.
- Set up an alternate office for business continuity at our Tama training center.

Corporate Governance System



*1 Outside directors

Tetsuro Kawakami
Counsel
Sumitomo Electric Industries, Ltd.
Ryuji Yasuda
Professor
Hitotsubashi University Graduate School
Koichi Uno
Certified public accountant
Nobuko Matsubara
Chair, Japan Institute of Workers' Evolution

*2 Nominating Committee

Internal
Akira Kiyota (Committee Chair)
Chairman of the Board and Executive Officer
Daiwa Securities Group Inc.
Shigeharu Suzuki
Director and President (CEO)
Daiwa Securities Group Inc.
External
Tetsuro Kawakami
Ryuji Yasuda
Nobuko Matsubara

*3 Audit Committee

Internal
Saburo Jifuku (Committee Chair)
Director, Daiwa Securities Group Inc.
External
Koichi Uno
Nobuko Matsubara

*4 Compensation Committee

Internal
Akira Kiyota (Committee Chair)
Shigeharu Suzuki
External
Tetsuro Kawakami
Ryuji Yasuda
Koichi Uno

Corporate Governance System

Daiwa Securities Group Inc. adopted a committee system in 2004, with the goal of achieving greater management transparency and agility. The corporate governance system of the Daiwa Securities Group consists of a Board of Directors, which serves in a supervisory role; the Nominating, Audit and Compensation Committees; the Executive Committee, which serves as the executive body; and the Internal Control Committee, the Disclosure Committee and the Group IT Strategy Committee, which are subcommittees of the Executive Committee.

Although our chairman of the board, who chairs the Board of Directors, is also an executive officer, he does not have any specific duties as an executive officer.

Web Activities • Preventing Conflicts of Interest among Group Companies

Supervisory Function

The Board of Directors consists of 13 directors, including four outside directors. The Board of Directors determines key management policy and supervises executive duties. In order to perform this supervisory role from multiple viewpoints in accordance with the demands of society, the policy for selecting new board members states that candidates must have a strong sense of ethics and lead by example. Additionally, external directors are experts in such fields as executive management and accounting.

Our supervisory function is reinforced by the Audit Committee and the Office of the Audit Committee. The Audit Committee, which consists of a majority of outside directors,* plays a central role in the supervision of executive duties. The Audit Committee is assisted by the Office of the Audit Committee, which is an independent department.

*Outside directors as defined by Article 2-15 of the Company Law.

Executive Body

The Executive Committee, consisting of 14 executive officers, is operated from Daiwa Securities Group Inc. The Executive Committee discusses and makes decisions regarding executive management, including the business strategy of the Group as a whole and group-wide management issues. In order to ensure uniform management across the Group, some of the executive officers of Daiwa Securities Group Inc. also serve as key directors in Group companies.

Internal Control

In anticipation of the internal control and reporting system for financial reports effective from April 2008, all Daiwa Securities Group companies completed documentation of standards in three areas: company-wide control, business process control, and general IT control. Regulations for the internal control and reporting system were newly formulated and related regulations were amended accordingly.

In accordance with these regulations, from April 2008, the internal audit department evaluates the effectiveness of each Group company's internal control and reporting system, and each company's council confirms evaluation results, which are then reported to Daiwa Securities Inc. After these reports are received, the Internal Control Committee discusses them and presents resolutions, and based on those resolutions the Disclosure Committee determines the effectiveness of the internal control and reporting system. Following this, the chief executive officer and the chief financial officer draw up an internal control and reporting system report and only then declare to investors and other stakeholders that financial reporting is accurate.

Information Security Management

The Daiwa Securities Group is aware of its responsibility toward society to protect the company's information assets, including customers' personal information, from various threats and to handle information appropriately, and endeavors to maintain a high level of information security management.

Toward this end, the Group has formulated a basic information security policy and a privacy policy for protecting personal information. Minimum standards for measures to be adopted have also been set out, which have been implemented by all Group companies. Security training regarding these policies and measures is also carried out for all executives and employees in accordance with the responsibilities of their posts.

In terms of organizational response, each Group company assigns a person with overall responsibility for information security. The Group IT Strategy Committee of Daiwa Securities Group Inc. discusses Group information security measures and reports information security risks to the Internal Control Committee.

Additionally, to raise the level of information security within the Group, we operate in conformity with the Information Security Management System (ISMS). A number of Group companies have already obtained ISMS and privacy mark certification in accordance with the evaluation certification system.

Fiscal 2008 Targets and Action Plans

We will verify the effectiveness of the Group's internal control system in accordance with documentation for evaluating the said system. Fiscal 2008 being the first year of implementation of the internal control and reporting system, we will establish a system for evaluating internal control at each Group company and ensure that it is put into practice.

With regard to the business continuity plan we have been developing, we will encourage sharing of scenarios among Group companies and further improve our BCP manual.



Management Report

CSR Management

We promote CSR activities through stronger awareness among executives and employees and through communication with our stakeholders, actively disseminating information related to CSR both inside and outside the company.

Initiatives and Targets

The Daiwa Securities Group has a wide range of CSR initiatives aimed at sustainable growth together with society. By carrying out CSR activities, we also aim to improve our executives' and employees' confidence in the company, their pride in their work, and their sense of solidarity, and to be a reputable company in the eyes of society and of all our stakeholders.

CSR Promotion System

We have established a CSR Promotion Department at Daiwa Securities Group Inc. which promotes CSR activities. This department participates regularly in department head meetings and departmental liaison meetings at Group headquarters and throughout the Group, where it reports on the Group's CSR activities and raises CSR-related issues. The department is also in charge of organizing CSR study groups both inside and outside the company to increase awareness of CSR.

We are also establishing a scheme to share information on CSR-related activities with our 43 major overseas facilities (which include foreign subsidiaries, branches and overseas offices).

CSR Promotion Activities

Activities at Our Overseas Facilities

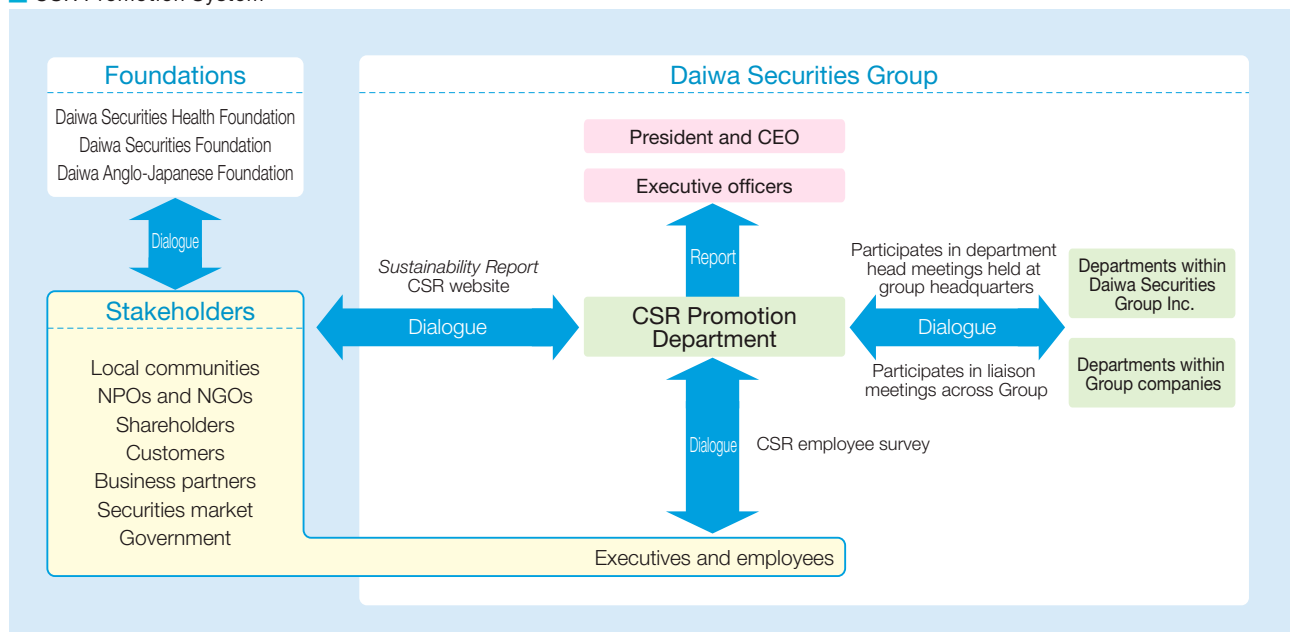
The Charity Committee at the London head office of Daiwa Securities SMBC Europe Limited actively carries out social contribution activities. In September 2007, staff from the London, Europe and Middle East branches contributed recipes and produced the "Daiwa Cookbook." A total of 460 copies were sold, raising proceeds of 1,200 pounds which were donated to an NGO addressing poverty and children's health care issues in developing countries.

In February 2008, the London head office organized a 24-hour tea and coffee party. Proceeds of 140 pounds raised by selling tea, coffee and cookies to employees, plus a matching donation from the company, were again channeled to the NGO named above.

At Daiwa Securities SMBC Hong Kong Limited, Japanese-language classes are held weekly on Mondays, Tuesdays and Wednesdays. Sixty-nine local employees participate in the classes, which are given by Japanese staff.

Daiwa Securities SMBC Australia Limited supports the Sydney Harbour Yacht Challenge yacht race. Customers and staff also participate in the race, which is a good opportunity for deepening relationships.

CSR Promotion System



The Daiwa Securities Group's Basic CSR Strategy

(Excerpted from "Passion for the Best 2008," the Daiwa Securities Group's medium-term management plan.)

To carry out more active communication with stakeholders and improve our standing in society, the Group contributes to the development of a sound economy and society.

Economics and finance education

To work with educational institutions and NPOs, in order to support education and research through business-academia collaboration and promote economics education.

Socially responsible investment (SRI)

To promote the widespread practice of SRI.

Environment conservation

To build an environmental management system, including the establishment of environmental policies, within Group companies, starting first with the principal Group companies in Japan, then the consolidated subsidiaries in Japan and later the overseas subsidiaries.

Fiscal 2008 Targets and Action Plans

We will reflect the expectations of society toward enterprises in our management and begin stakeholder dialogues between the Group's management executives and outside experts in fiscal 2008.

We will take measures to heighten awareness of CSR among employees so as to speed up our undertakings in CSR activities.

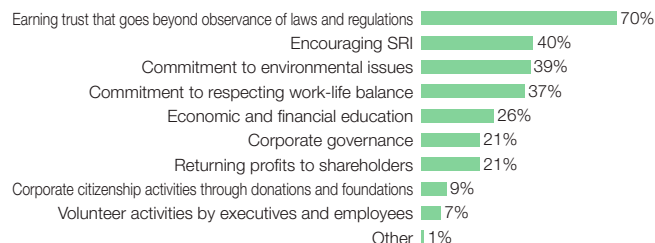
We will improve information-sharing among the departments concerned, to boost our social and environment-related business activities.

Results of CSR Employee Survey

The Daiwa Securities Group regularly conducts CSR surveys of all its executives and employees, in order to gauge current attitudes toward CSR and raise awareness of CSR through such surveys. In fiscal 2008, we conducted a survey in May targeting all 18,278 Group executives and employees (including temporary employees) and received 11,882 responses (65.01%). Some of the survey results are reported below. We treat these results very seriously and are committed to expanding CSR activities.

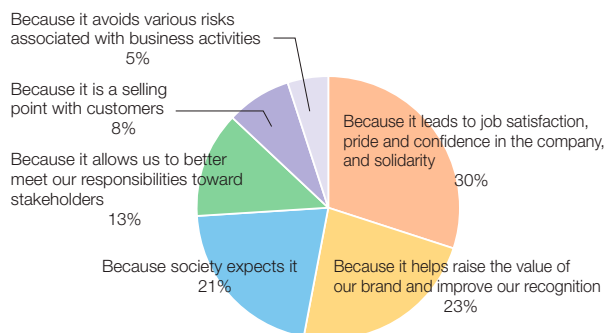
What aspects of CSR at the Daiwa Securities Group do you think are particularly important? (Multiple answers)

The most common responses (in descending order) were "Earning trust that goes beyond observance of laws and regulations" (70%), "Encouraging SRI" (40%, vs. 35% in 2007) and "Commitment to environmental issues" (39% vs. 22% in 2007), both mentioned by more respondents than last year.



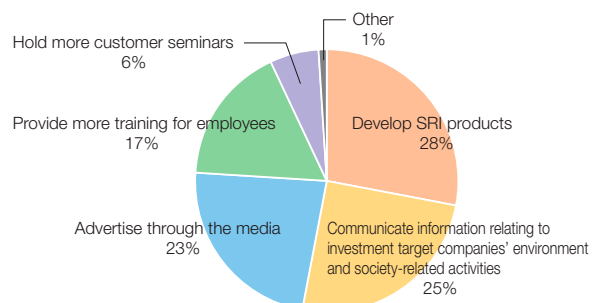
Why do you think the Daiwa Securities Group promotes CSR?

Continuity of data with the 2007 survey for comparison purposes has been affected by the addition of the answer "Because it allows us to better meet our responsibilities toward stakeholders," but the most common responses were "Because it leads to job satisfaction, pride and confidence in the company, and solidarity" (30%), "Because it helps raise the value of our brand and improve our recognition" (23%) and "Because society expects it" (21%).



What do you think would help spread SRI more widely in Japan?

The top-ranking answers were "Develop SRI products" (28%) and "Communicate information relating to investment target companies' environment and society-related activities" (25%). Compared to "Advertise through the media" (23%) and "Provide more training for employees" (17%), more respondents chose answers directly related to our day-to-day operations.





Management Report

Compliance

We believe that compliance does not stop with the letter of law but that it includes all actions for winning the confidence of our customers and society. We are committed to enhancing both Group-wide initiatives and independent initiatives by our Group companies.

Initiatives and Targets

To meet the expectations of society relating to compliance, all Daiwa Securities Group executives and employees must maintain a strong sense of ethics and contribute to the

sound development of the securities market, in the light of the public-interest aspect of the securities industry.

Through strong compliance awareness on the part of all our executives and employees, we will maintain a system with a self-cleansing function enabling us to independently identify and correct business-related risks.

Issues and Targets for Fiscal 2007

Entire Group

- Raise awareness of corporate ethics and compliance at Group companies.
- Strengthen measures against criminal elements (continued).

Daiwa Securities

- Enhance systems compliant with such revised laws as the Financial Instruments and Exchange Law and the Financial Products Sales Law.
- Revise internal rules, including simplification and streamlining.
- Enhance customer and sales-force management systems.

Daiwa Securities SMBC

- Enhance systems compliant with such revised laws as the Financial Instruments and Exchange Law and the Financial Products Sales Law.
- Manage information more stringently, and in particular establish systems to prevent leaks of personal information.
- Enhance compliance regimes relating to laws and regulations concerning foreign exchange.
- Support greater sophistication in risk-management systems.

Performance/Progress Achieved in Fiscal 2007

- Corporate ethics training officers conducted corporate ethics training at four Group companies.
- We continued to collect and accumulate data on criminal elements.

- The departments concerned worked together to set rules for practical application, communicated the information to sales branch employees and tested understanding of procedures through e-learning, etc.
- To improve effectiveness, internal rules were streamlined, simplified and systematized.
- The system of supervisors verifying customer suitability and sales staff's transaction records was reviewed and the control system was strengthened by establishing guidelines.

- Created a customer management system, an investment solicitation system, an examination system for sales literature, a contact record management system and others, to meet the requirements of the new laws.
- Conducted a check of the existence of personal information managed by each department.
- Created stricter rules concerning transfers of personal information using external memory devices.
- Implemented a system to speed up checking the accounts of parties whose assets have been frozen or that are subject to economic sanctions.
- Created a framework to implement internal examination of new latent risks.

Compliance Regime

Daiwa Securities Group Inc. plays a central role in setting compliance policy for the entire Group. Meanwhile, individual Group companies must comply with different sets of rules and regulations, due to differences in the types and details of their businesses. For this reason, each Group company's compliance department plays a leading role in setting out detailed compliance regulations and response.

In response to the Financial Instruments and Exchange Law and other laws that came into force in fiscal 2007, each Group company reviewed items affected by these laws and implemented systems to ensure more effective compliance. The compliance regime of the Group as a whole is maintained and promoted by having Daiwa Securities Group Inc. and Group companies fulfill their respective roles and by enhancing collaboration in their initiatives.

Important Issues and Initiatives Related to Compliance

In fiscal 2007, the most important compliance-related issue for Daiwa Securities Group Inc. was to implement stronger measures against criminal elements. Beginning in fiscal 2006, we also broadened our activities to nurture awareness of compliance, by conducting corporate ethics training at four Group companies and other initiatives.

In addition to measures related to enactment of the Financial Instruments and Exchange Law and the Financial Products Sales Law in September 2007, Daiwa Securities Co. Ltd. also made stronger efforts to spread understanding of the intent of the rules by simplifying internal rules, providing training for executives and employees and other measures (see pp. 17–18).

Daiwa Securities SMBC Co. Ltd. established a framework to conform with the Financial Products Sales Law, taking steps to prevent leaks of personal information and enhancing its system to check for conflicts of interest and money laundering.

Measures against Criminal Elements

Reflecting stronger social pressure to eliminate the influence of criminal elements, the government has drawn up guidelines for corporations to prevent damage by such elements. The Daiwa Securities Group, firmly believing that its role in the securities industry is to stoutly stand up to criminal elements and enhance trust by creating a sound securities market, has taken various measures toward this end.

In fiscal 2007, Daiwa Securities Group Inc. took the lead in accumulating more data, in order to shut out criminal elements.

Based on these initiatives, we also formulated the basic policy against criminal elements outlined below.

Basic Policy against Criminal Elements

Our stance

To ensure fairness and the sound development of the securities market and protect the safety of our customers and staff, the Daiwa Securities Group is creating a framework to eliminate the influence of organized crime groups, gang members, corporate extortionists and other criminal elements and taking systematic measures to cut all ties with such elements.

1. The Daiwa Securities Group will carry out no transactions of any type with criminal elements.
2. If it is determined that parties already having transactions with the Daiwa Securities Group are criminal elements, we will swiftly take appropriate measures to terminate dealings with them.
3. The Daiwa Securities Group will provide no funds to criminal elements.
4. The Daiwa Securities Group will accept no unfair demands from criminal elements. If it is determined that an unfair demand has been made by criminal elements, we will take legal action in the civil or criminal courts against the party making the demand.
5. The Daiwa Securities Group will establish close cooperative relationships with outside parties such as the police force, the National Center for the Elimination of Boryokudan [organized crime groups], legal experts and others.

Web Activities

- Calls Received at Our Customer Call Center
- Structure and Performance of the Corporate Ethics Hotline

Fiscal 2008 Targets and Action Plans

To further strengthen our actions toward eliminating ties with criminal elements, we will stress, both inside and outside the company, the importance of adhering to our basic policy against criminal elements and ensure that this policy is known and put into practice at Group companies.

We will endeavor to instill a stronger sense of ethics and compliance awareness by enhancing compliance training and further improving the Corporate Ethics Hotline. We will establish a system conforming to the Guidelines for Supervision of the Financial Instruments Business and will continue to improve our risk management and information management systems to meet the provisions of the newly enacted Financial Instruments and Exchange Law.



Management Report

Information Disclosure

The Daiwa Securities Group actively communicates with all its stakeholders, disclosing financial, social and environmental performance fairly, appropriately and in a timely manner.

Initiatives and Targets

As a member of the securities industry, the Daiwa Securities Group is committed to, in accordance with its Disclosure Policy, disclosing information appropriately and in a

timely manner that can serve as a model for other listed companies. We also strive to communicate fully with all our stakeholders, including shareholders and investors, providing a wide range of information from the social or environmental perspectives in addition to financial information.

Issues and Targets for Fiscal 2007

- Enhance disclosure of non-financial information.
-
- Further expand and enhance investor relations (IR) targeting individual investors.

Performance/Progress Achieved in Fiscal 2007

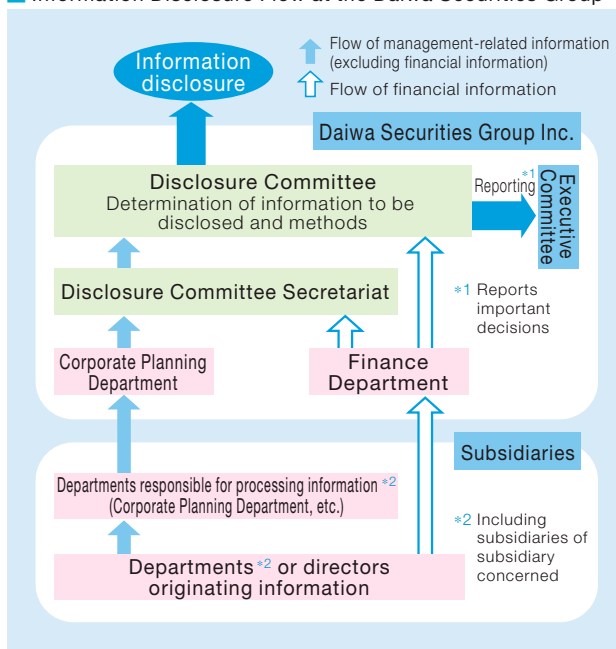
- Held IR meetings for institutional investors and analysts on specific topics
 - Held CSR seminars for institutional investors and analysts
 - Enhanced disclosure of intangible assets
-
- Held more IR information meetings for individual investors, participated in events
 - Expanded our shareholder reward program and improved program content
 - Created a fact sheet providing a clear outline of the Group

Information Disclosure System

Daiwa Securities Group Inc. has created Disclosure Regulations in order to achieve its Disclosure Policy. Our Disclosure Committee is responsible for final decisions regarding disclosure, in accordance with these regulations.

Group companies also create rules for controlling the release of management-related information. We have created a uniform disclosure system for the entire Group. Group companies collect and report information to Daiwa Securities Inc. without fail, including posting management-related information contact lists on our in-house network.

Information Disclosure Flow at the Daiwa Securities Group



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.

Communication with Shareholders and Investors

Individual Investor Initiatives

To communicate with a broader range of individual investors, in fiscal 2007 we held IR seminar for individual investors in Tokyo and Osaka, and also in Sapporo and Fukuoka for the first time. With other securities firms we participated in a joint IR seminar for women investors and in large-scale IR seminars for individual investors, where we described our business and strategies, and disclosure of non-financial information.

We also created a *Daiwa Securities Group Fact Sheet* outlining the Group's structure, business and performance, to facilitate understanding of our operations.



IR seminar for individual investors



Daiwa Securities Group Fact Sheet

Institutional Investor Initiatives

For institutional investors, we hold IR information meetings twice a year given by senior management executives and also have individual meetings with them. To further enhance information disclosure and deepen interest in and understanding of the Daiwa Securities Group, beginning in fiscal 2007 we held IR meetings focusing on specific topics, selected from among topics frequently requested by institutional investors during individual meetings or on other occasions.



Spring IR information meeting

Shareholder Initiatives

The general meeting of shareholders is an opportunity for direct communication with our shareholders. To encourage higher attendance, in 2006 we began holding these meetings on Saturdays. A total of 1,838 shareholders attended our 71st regular general meeting of shareholders, held on June 21, 2008. After the meeting, there was a break for light refreshments, followed by a lecture. The meeting was also broadcast live via satellite to halls in Osaka and Nagoya where 999 people gathered to observe the meeting.

We carry out shareholder surveys regularly in order to obtain direct feedback from shareholders which we can then reflect in our management or IR activities. We also intend to use the information obtained from these surveys to improve our future business activities and enhance satisfaction with our shareholder reward program.

Web Activities ● [Shareholder Survey Results](#)

Fiscal 2008 Targets and Action Plans

We will continue to enhance information disclosure of non-financial information, including CSR, and actively communicate with various stakeholders through various channels such as our annual report and other publications and our IR website. We will also expand our shareholder reward program to improve shareholders' satisfaction and refine the administrative system to ensure that the program operates smoothly.



Social Report

Customer Satisfaction

The Daiwa Securities Group will create a strong, lasting relationship of trust with its customers by offering high value-added services.

Initiatives and Targets

As the shift from saving to investing accelerates, customer needs are also diversifying. Our vision for the Daiwa Securities Group is to create a team of professionals who grasp

customers' needs appropriately and offer new services. Above all, we wish to respond to the trust our customers place in us by fielding staff who are sincere about putting customers first and who have acquired the specialized knowledge enabling them to do so. In this way, we aim to make customers feel truly welcome and pleased that they chose Daiwa Securities.

Issues and Targets for Fiscal 2007

- Actively pursue post-sales follow up (continued).
-
- Improve skills of junior salespeople.
-
- Improve customer-interface skills of branch counter staff who interact with customers.

Performance/Progress Achieved in Fiscal 2007

- Carried out post-sales follow up through investment seminars and Internet seminars at each branch, held seminars focusing on emerging markets.
- Improved customer convenience by revising our website.
-
- Created an Education and Training Department overseeing employee training.
- Trained new employees in product knowledge during group training stage.
- Adopted more practical role-playing training.
-
- Held role-playing hospitality training.

Initiatives for Building a Better Relationship with Customers

Actively Following Up on Customers after Sales

After-sales follow up is important for building trust among customers. At Daiwa Securities we stress the importance of this point during sales staff and branch staff training. We follow up with customers through monthly investment seminars and other activities at our branches. Additionally, in response to numerous customer inquiries, we have been holding seminars focusing on emerging markets since February 2008. To improve customer convenience, we also revised our website in April and September 2007.

Improving Employees' Customer Service Skills

In addition to their specialized knowledge of markets and products, employees who deal directly with customers at our branches must continually upgrade their customer service skills with emphasis on attentiveness and consideration. To reinforce their awareness, we remind employees at all stages of training of the importance of hospitality. In fiscal 2007, new employee training incorporated more practical training focusing on role-playing in specific customer interaction scenarios. We value warmth and hospitality and are committed to making a visit to our

branches a worry-free experience for all our customers, including seniors and persons with disabilities.



Hospitality training

Employee Education

As part of our activities to enhance employee education, we created a new Education and Training Department by amalgamating the Personnel Department's Training Section and the Branch Education Support Department's Education Promotion Section. This enables us to oversee employee training in a consistent manner. We have also actively adopted training involving role-playing, to add an element of more practical training to our usual training program for young sales staff. We now provide more opportunities for new em-

employees to acquire specialized product knowledge during the three month-long group training stage for new employees, by assigning specialist instructors and also trainers from the departments in charge of our various products.

■ Call Center Initiatives

Our Call Center is one of the main channels supporting our business model which centers on the Daiwa Consulting and Daiwa Direct transaction channels. Staffed by 450 telephone service representatives (TSR*), it is the largest in the domestic industry. TSR at the Call Center take orders, describe products and handle queries about clerical procedures or requests for sales literature, playing an important role as a transaction channel in customer support and for marketing as they provide customer feedback to help improve our operations. TSR training and regular checks of customer service skills help ensure consistently high levels of service to our customers. When problems occur, we make sure to analyze data for the cause in each case and communicate the results and provide feedback to the related departments and sales branches, in order to further improve our service and customer handling.

*TSR (telephone service representatives): telephone operators with specialized knowledge.

Web Activities • How Customer Feedback Is Utilized

Fiscal 2007 Customer Satisfaction Survey

We carry out a customer satisfaction survey every year to track how our customers rate us. In fiscal 2007, responses indicated increased satisfaction with hospitality and our website, indicating that our hospitality training and revision of our website have been effective. Notwithstanding more positive responses on some items compared to fiscal 2006, post-sales follow up continues to be an issue that we must focus on.

■ Customer Satisfaction Survey (Excerpts)*

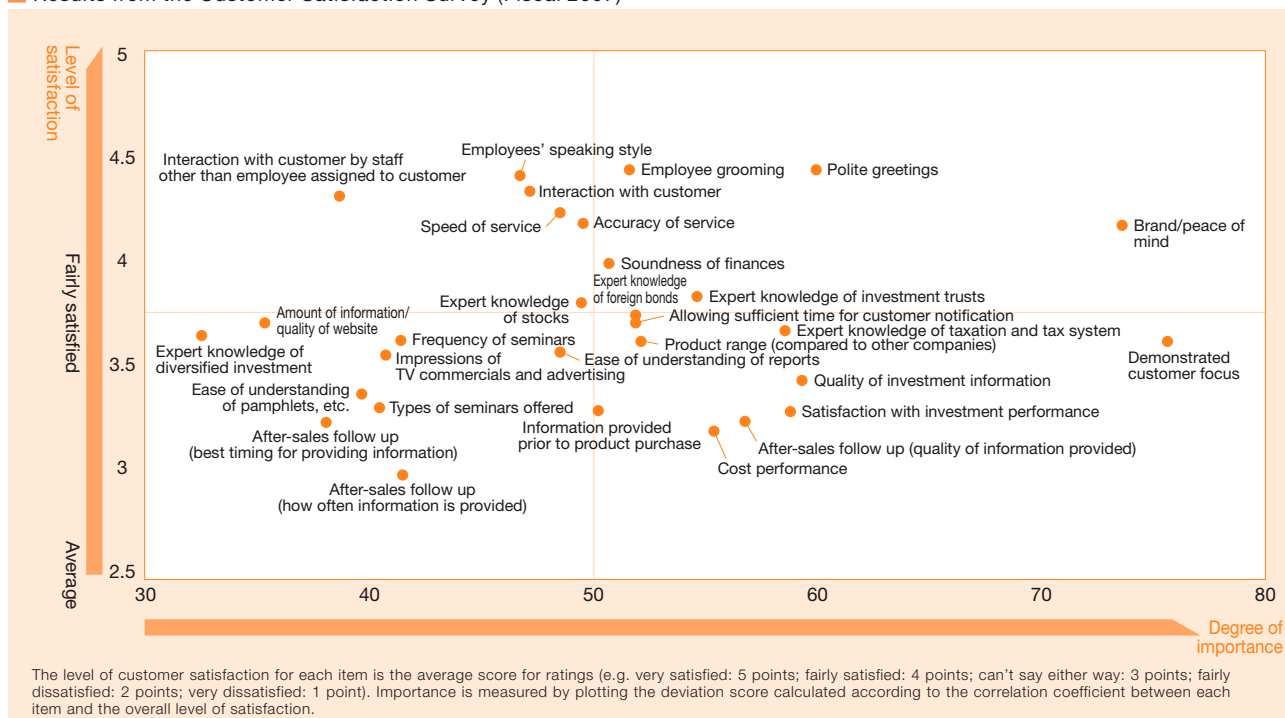
	FY2006	FY2007
Greetings by employees	4.26	↗ 4.43
Employees' speaking style	4.27	↗ 4.40
Interaction with customers	4.19	↗ 4.31
Amount of information/quality of website	3.37	↗ 3.72
Quality of information provided after purchase	3.20	→ 3.24

*Rated on a five-point scale

Fiscal 2008 Targets and Action Plans

We will continue focusing on after-sales follow up, improving employees' skills and enhancing branch employees' customer service skills to establish genuine communication with our customers. We are taking steps to institute consolidated management of customer feedback and will improve coordination to use customer feedback effectively.

■ Results from the Customer Satisfaction Survey (Fiscal 2007)





Social Report

Respect for People and Human Resource Utilization

The Daiwa Securities Group is committed to establishing sound work-life balance by creating a workplace where executives and employees feel that their work is fulfilling and that sustains their high motivation.

Initiatives and Targets

In its company invigoration program of July 2006 and March 2007, the Daiwa Securities Group set the target of becoming the leading securities group in Japan, where employees are enthusiastic and consider their work worthwhile. We have implemented various measures to give

executives and employees confidence in the company; help them understand the role and significance of the company and give them pride in their work; and help them share a sense of solidarity with the company and their colleagues. In April 2008, we also created the Work-life Balance Promotion Committee and the Work-life Balance Promotion Department, to support our initiatives for making Daiwa a company that is fulfilling to working for.

Issues and Targets for Fiscal 2007

- Further promote company-invigoration measures.
- Enhance education and training programs to increase number of certified analysts and CFPs (continued).
- Develop workplace environments where women can fully use their abilities (continued).

Performance/Progress Achieved in Fiscal 2007

- Implemented initiatives to create a workplace environment supportive of work-life balance (e.g. directed employees to leave the office before 7 p.m., etc.).
- Greatly expanded the list of available training programs.
- Promoted creation of an atmosphere conducive to use of in-house systems for work-life balance, such as having superiors actively encourage subordinates to make use of the systems.

Hiring Initiatives

The Daiwa Securities Group believes that long-term employment is essential for fostering confidence, pride in the company and a sense of solidarity. Toward this end, we are focusing on establishing a system, predicated on long-term employment, for expanding the number of employees who can share these ideas.

■ Number of New Graduates Hired by the Daiwa Securities Group (Consolidated) (persons)

		April 2006	April 2007	April 2008
Career-track employees/ Regional career-track employees*1	Male	401	570	563
	Female	326	610	477
General employees	Male	0	0	1
	Female	101	243	241
Financial advisors*2	Male	33	0	0
	Female	17	0	0
Total		878	1,423	1,282

*1 Regional career-track employees are a class of career-track employees who stay in one region and are not subject to transfers that require a change of residence. Full-scale hiring of new graduates in this class began in April 2002.

*2 Financial advisors are employees who work in sales at Daiwa Securities Co. Ltd., under one-year contracts.

In April 2007, we hired 1,282 new graduates. We believe it is vital for prospective employees to understand our ideas, and therefore we expanded communication in our hiring process by holding seminars and small meetings throughout Japan for student job-seekers. In fiscal 2007, we communicated with 33,400 students. These activities helped many students understand our message, and our efforts also improved our ranking on the list of companies that students most want to work for.

■ Full-time Employment Career Path for Temporary Employees

In fiscal 2006 we inaugurated a new program that offers temporary employees who have worked for three years or more the opportunity to become full-time employees, to increase the number of employees sharing the company's ideas and foster solidarity. In fiscal 2006, more than 100 employees became full-time employees, and over 70 did so in fiscal 2007.

■ Professional Return Plan

We implemented our Professional Return Plan (rehiring of sales staff) in fiscal 2005. Under this system, sales staff who retired from the Daiwa Securities Group due to marriage, having children or other reasons and who wish to return to work, can be re-hired as full-time employees. In fiscal 2007, three people were re-hired as full-time employees under this plan.

Rehiring of Veteran Employees

We actively employ veteran employees under the Daiwa Elder System, which re-hires employees who left the company after reaching mandatory retirement age, and the Daiwa Master System, which offers extended employment to age 65 to employees reaching the mandatory retirement age of 60 who meet certain criteria and wish to continue working. We are taking steps to employ highly motivated and experienced older people.

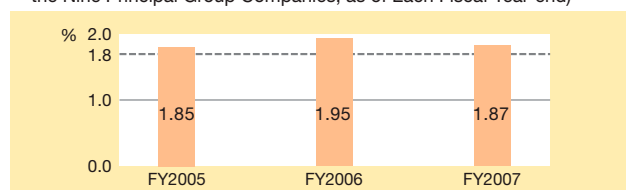
Reemployment under the Daiwa Elder System and the Daiwa Master System (Daiwa Securities Group Inc., Daiwa Securities Co. Ltd. and Daiwa Securities SMBC Co. Ltd.) (persons)

	FY2005	FY2006	FY2007
No. of employees hired under the Daiwa Elder System	80	83	86
No. of employees hired under the Daiwa Master System	—	6	14

Employing Persons with Disabilities

As of March 31, 2008, persons with disabilities accounted for 1.87 percent of our workforce, averaged across nine Group companies. To improve retention of employees with disabilities, in fiscal 2007 we implemented a system enabling contract employees to acquire full-time employee status, and 10 persons became full-time employees. In fiscal 2008, we began hiring new graduates with disabilities as full-time sales staff; seven persons were hired by Group companies in April 2008.

Employment Rate for Persons with Disabilities (Average across the Nine Principal Group Companies, as of Each Fiscal Year-end)



Human Resources Development and Skill Upgrading

With the goal of making Daiwa the number one professional team in the industry, we focus on human resources development. In particular, we see the first three years of employment as the optimum period for acquiring knowledge and skills and we offer a broad range of training programs to employees at this stage of their careers. We created a new Education and Training Department in 2007. Reflecting the increase in the number of new graduates we have hired, we have expanded our training system for young sales staff. In fiscal 2007 we also introduced coaching training and other initiatives aimed at improving the abilities of intermediate-level staff to direct younger employees in the field. For employees in their fourth year of employment, we conduct group training aimed at reinforcing awareness that they are working for the Daiwa Securities Group and fostering solidarity among colleagues.

To strengthen employees' motivation to study, we adopted a system requiring a certain number of points, based on qualifications obtained, for promotions and advancement. In 2007, we revised the point system in order to expand the staff resources suitable for contributing to our globalization strategy and reinforcement of our internal control system.

Web Activities

- Internal (Intra-Group) Job Postings and New Career Path Examinations
- Persons Earning Credentials (Nine Principal Group Companies)

Basic Employee Statistics (Daiwa Securities Group Inc.)

	FY2005	FY2006	FY2007
Average annual salary*	10.22 million	11.87 million	10.32 million
Average age	37.8	37.9	37.7
Average number of years of service	11.0	11.4	11.2

*Average annual salary includes bonuses and other forms of additional remuneration.

Employees at the Daiwa Securities Group (Consolidated)

		As of March 31, 2006			As of March 31, 2007			As of March 31, 2008		
		Employees	Financial advisors	Temporary employees*1	Employees	Financial advisors	Temporary employees*1	Employees	Financial advisors	Temporary employees*1
Japan	Male	6,971	357	—	7,341	324	—	7,821	256	—
	(Career track*2)	6,280			6,613			7,083		
	(Managers)	3,465			3,641			3,740		
	Female	3,300	698	—	3,666	593	—	4,401	465	—
	(Career track*2)	1,411			1,515			1,970		
	(Managers)	97			110			119		
Japan total		10,271	1,055	1,752	11,007	917	1,914	12,222	721	1,882
Overseas		1,235	—	46	1,340	—	37	1,513	—	34
Total		11,506	1,055	1,798	12,347	917	1,951	13,735	721	1,916

*1 Temporary employees are part-time hires; the figure shown here is the average number of such employees over the year. This class of employees is made up mostly of women but includes some men.

*2 Includes regional career-track employees and specialist positions.

Evaluation System

To make its evaluation system fair and acceptable to employees, the Daiwa Securities Groups implements a two-way evaluation system in which superiors and subordinates evaluate each other, and a multi-directional evaluation system in which evaluations are received from collaborating departments. Multi-faceted evaluations are carried out that also take compliance-related performance into account.

Creating a Workplace Supportive of Work-life Balance

■ Encouraging Work-life Balance

The Daiwa Securities Group believes that companies in the future will need to enable everyone working for them to have satisfying private and professional lives. In April 2008, we established a Work-life Balance Promotion Committee, with Daiwa Securities Group Inc. President and CEO Shigeharu Suzuki as chief work-life balance officer (CWO) and executives from the principal Daiwa Group companies in charge of human resources as members. A Work-life Balance Promotion Department was also created at Daiwa Securities Group Inc. This is a Group-wide undertaking aimed at balancing work and private life in order to improve motivation among all executives and employees.

One specific initiative is Daiwa Securities Group Inc.'s participation in a model work-life balance project promoted by the Ministry of Health, Labour and Welfare. We contribute to society through this project by implementing enhanced measures for work-life balance and by also communicating information outside the company about the measures we are taking.

Our practice of encouraging employees to leave work before 7 p.m. begun in July 2007 has become well-established at all Daiwa securities sales branches and has greatly changed how employees work. We also amended our childcare leave system in 2008 to make it easier for male executives and employees to take childcare leave. To help establish practical systems, we will be monitoring and analyzing the extent to which various leave programs are being used and how this relates to productivity.

■ Helping Women Use Their Abilities in the Workplace

The Daiwa Securities Group actively supports its female employees, introducing a wide range of opportunities and programs to enable women to make the most of their capabilities in the workplace. For example, we were the first in the industry to promote women to sales branch manager positions. As of April 30, 2008, nine out of Daiwa Securities' 117 sales branches throughout Japan are headed by women. In February 2005, Daiwa Securities Group Inc. started up a Women's Support Action Team, which has introduced programs in Group companies to help women balance work and family life, such as leave of absence for childbirth or child care, exemp-

tion from overtime work and so on. In fiscal 2007, materials describing the various programs were distributed to executives and managers of Group companies. We also established a system whereby when a staff member is eligible for the above programs, the Personnel Department notifies the individual's superior, who encourages her to make use of the programs. These measures have helped executives and employees understand the programs better and created a workplace atmosphere more supportive of those using the programs.

The Women's Career Design Seminar and Career Design Training programs are also offered at Group companies to enable female employees to take the initiative to map out their careers. In addition, mainly the members of the Women's Support Action Team seek out female employees to discuss various issues.

■ Main Initiatives of the Female Employee Support Plan (as of March 2008)

Program name	Program description
Professional Return Plan (rehiring of sales staff)	Offers opportunities for re-employment to former full-time employees who left their jobs due to marriage or childbirth
Job Location Change System	Offers a position in a new location when an employee must relocate due to marriage or spouse's job transfer
Childcare leave, shortened work hours	Employees can take childcare leave or opt for shortened work hours until their child's 3rd birthday
Exemption from or restricted overtime work	Employees can apply for an exemption from overtime work until their child completes the 3rd grade of elementary school. Employees can also apply for restricted overtime work until their child completes the 6th grade of elementary school.
Day care subsidy	The company offers a subsidy for day care expenses until the employee's child begins elementary school (age 6).
Expanded leave system	The company encourages employees to take paid vacation and has introduced leave for marriage preparations or "family day" leave to give employees a chance to spend time with their families.
Follow-up on program use	The Personnel Department keeps track of individual employees' childcare-related schedules and notifies them of programs available at the appropriate time.
Support after returning to work	The Daiwa Family Net website provides information for employees on childcare leave and provides support to facilitate their smooth return to the workplace.

■ Mental health

In August 2006, Daiwa Securities Group Inc. created a new Mental Health Support Promotion Department to ensure that personnel can work in the best of physical and mental health. This department provides counseling for Group executives and employees and their families. In April 2008, the support system was expanded by increasing the number of certified clinical psychologists on call from one to two, who were also made available for consultations daily, up from three times weekly. We also have arrangements with outside specialists so that Group personnel and their families can receive prompt attention anywhere in Japan. Further, to spread awareness of mental health and promote pre-

vention and early detection of mental health issues, the Mental Health Support Promotion Department's certified clinical psychologists give lectures at our departments and branches.

Human Rights Awareness

The Daiwa Securities Group has been a member of the Industrial Federation for Human Rights, Tokyo since 1998. Daiwa Securities Group Inc. established a Human Rights Awareness Promotion Committee which is headed by the Daiwa Securities Group Inc. director in charge of personnel management. All heads of Group departments and branches are members of the committee, which meets regularly and conducts activities to enhance awareness of human rights, such as training for executives and employees and canvassing for slogans. The Daiwa Securities Group will continue its human rights awareness initiatives to ensure fair, discrimination-free hiring and create a gender-equal society.

Workplace Environment

In December 2007, Daiwa Securities Group Inc. and the head offices of Daiwa Securities and Daiwa Securities SMBC relocated to Gran Tokyo North Tower. Prior to this, all Daiwa Securities sales branches were renovated to provide more spacious surroundings for customers and make the workplace more pleasant for employees.

Working Hours and Paid Vacation Usage Rate (Daiwa Securities Group Inc., Daiwa Securities Co. Ltd., Daiwa Securities SMBC Co. Ltd.)

	FY2005	FY2006	FY2007
Annual regular working hours (hours)	1845.0	1845.0	1837.5
Average monthly overtime hours (hours) ^{*1}	27.0	26.2	25.2
Paid vacation usage rate	34.3%	35.6%	37.4%
Paid vacation usage rate (including special summer vacation) ^{*2}	42.8%	44.5%	46.5%

^{*1} Figures indicate employees at the three companies who are members of the Daiwa Securities Group Employees' Union.

^{*2} In addition to annual paid vacation, the Daiwa Securities Group offers three days of special summer vacation. These figures show the usage rate for annual paid vacation when special summer vacation is included.

Daiwa Securities Group's Female Employee and Manager^{*} Ratios in Japan

	March 31, 2006	March 31, 2007	March 31, 2008
Ratio of female employees to all employees	32.1%	33.3%	36.0%
Ratio of female managers to all managers	2.7%	2.9%	3.1%

^{*} Deputy general manager or higher

Employee Welfare System Usage (Nine Principal Group Companies^{*1}) (persons)

		FY2005	FY2006	FY2007
Number of employees taking childcare leave ^{*2}	Female	138	150	209
	Male	0	2	4
Number of employees taking nursing care leave	Female	2	3	6
	Male	0	0	3

^{*1} Figures for FY2004 and FY2005 were for Daiwa Securities Group Inc., Daiwa Securities Co. Ltd., and Daiwa Securities SMBC Co. Ltd. only.

^{*2} Employees eligible for childcare leave include non-regular employees (contract workers, part-timers, etc.).

Communication

The Daiwa Securities Group believes that communication with executives and employees is vital. Communication takes place through interviews with the Personnel Department and a semi-annual self-assessment questionnaire giving personnel an opportunity to voice comments or wishes. We endeavor to reflect spring labor negotiations with the Employees' Union and findings from union member questionnaires conducted by the union in a variety of policies and initiatives. Other communication activities include our "Salon de Woman," a forum for communicating with young female sales staff and female sales staff with children, and Personnel Department staff participation in events organized by the Employees' Union. These activities give us opportunities to hear directly from executives and employees and reflect what we learn through such contacts in various policies and programs.

Number of Employees' Union Members (Seven Principal Group Companies,^{*} as of the End of Each Fiscal Year) (persons)

	FY2005	FY2006	FY2007
Employees' Union membership	5,747	6,078	6,969

^{*} Does not include Daiwa Asset Management Co. Ltd., which has its own employees' union, and Daiwa Property Co. Ltd., which has no employee union.

Initiatives for Families

The Daiwa Securities Group undertakes various activities to help executives' and employees' families become more familiar with the company. In November 2007, the company organized a festival open to the families of all Group personnel. We invite the families of prizewinners to the Daiwa Securities President's Awards ceremonies held twice a year, and all families receive flowers for Christmas. We have introduced a "family days off" holiday to make it easier to take yearly vacation time, and our mental health support program also makes care available to families.

In December 2007, we introduced a system providing a two million yen benefit for employees' third or subsequent children, to offset the financial burden of child-rearing. In fiscal 2008, we are planning to designate a day when employees can invite family members to their workplaces.

Fiscal 2008 Targets and Action Plans

We will continue focusing on work-life balance in order to keep executive and employee motivation strong. We will therefore encourage male employees to take childcare leave and try to improve the paid vacation usage rate. We will continue hiring persons with disabilities as full-time employees.

Respect for People and Human Resource Utilization

Stakeholder Comments

We are expanding and improving our systems and initiatives intended to make the workplace fulfilling, but ongoing checks are needed to find out what executives and employees think of them and to verify their effectiveness in order to make improvements. Comments from users of the main systems are presented here.

Opting to take a leave of absence for child care

I decided to take a leave of absence to care for my son, partly because my parents live far away and can't help out, but also because I wanted to raise him myself until he turns three. I thought of quitting my job when I discovered I was expecting, but my branch manager encouraged me to take childcare leave when I consulted him. I learned that his wife is also on childcare leave, so he was very supportive. Right now, I go to the Daiwa Family Net website occasionally so that I can keep up to speed in

preparation for going back to work. As for myself, now that I am on leave, I realized that going out to work is a wonderful thing.



Yukiko Takahashi, with son Kantaro (8 months)

Manager, Senior Consultant Section
Kichijoji Branch

Taking advantage of the Professional Return Plan

Ever since I started working for Daiwa, I had worked in a sales position at the Akita Branch, but then I got married and my husband was transferred to Tokyo so I left my job. But I had always wanted to keep on working even though I was married, so when I approached the company I learned about the Professional Return Plan. I started working again in 2007 after things had settled down at home. I'll be going on maternity leave soon, but I'm grateful for the understanding of my colleagues and

also the encouragement offered by customers. I'm happy that the company was there for me, in a situation where it would have been difficult for me to get something done on my own.



Ai Murakami

Asset Consultant Section III
Yokohama Station West Exit Branch

Thanks to the job location change system, I was able to continue working

My husband was transferred, so I moved from Daiwa Securities' Miyazaki Branch in Kyushu to its Ueno Branch in Tokyo. I thought of various alternatives, including quitting my job, but I felt there was no reason to leave so I took advantage of the job location change system. My parents or in-laws don't live close by and I sometimes worry as to how I would manage if I had a family, but I'm encouraged because I know there are other women at my branch who are working and raising children. It took me a while to get

used to working in a new city but I enjoy dealing with customers in my job. I feel pride in my work and I think I will also be able to lead a fulfilling private life.



Mika Sato

Team Leader, Manager,
Investment Service Section
Ueno Branch, Daiwa Securities Co. Ltd.

Combining work and motherhood

During work hours I concentrate on my job, and in the evenings and on weekends I prize the time I spend with my three-year old daughter. People tend to think that combining work and child-rearing is a tough job, but now that pregnancy and the birth are behind me I often feel that I'm not that different from male colleagues who have children. I can feel that way thanks to the company's various support systems and the warm encouragement of everyone at the branch where I work. Those sys-

tems make it easier for women to picture working life after they have children.



Makiko Mitani

Manager, Asset Consultant Section I
Kochi Branch, Daiwa Securities Co. Ltd.

Leaving work before 7 p.m.



**Tsunesato Yamashita and wife Chiaki,
daughter Mao (3) and son Shogo (6 weeks)**

Deputy General Manager, Section II, Senior Consultant Department
Shibuya Branch, Daiwa Securities Co. Ltd.

I really worried whether I could get my work done quickly enough at first, but now that I'm actually leaving before 7 p.m. it feels surprisingly natural. Everyone concentrates on working even more productively than before with this new system, so work gets done speedily and efficiently.

Our children are still young, so now that I'm getting home early I have more time for household chores or playing with the children and I enjoy life. In the future, I'd like to get involved in a hobby like the arts.

Comment from wife Chiaki

The best thing about this system is that the children are so happy to see their father, and it's comforting to me because he comes home early. I'm grateful for the company's consideration for employees' families.

Third-party Opinion on Respect for People and Human Resource Utilization

In order to obtain an objective evaluation of our human resources initiatives, the Daiwa Securities Group invited Kimiko Horii, president of GEWEL (Global Enhancement of Women's Executive Leadership), an NPO promoting diversity and inclusion in Japanese society and corporations for revitalizing corporate organizations, to contribute a third-party opinion on the Respect for People and Human Resource Utilization section of this report. Ms. Horii spent a total of 23 hours between February and May 2008 interviewing over 30 Daiwa Securities Group executives and employees and their families.



Kimiko Horii

President
GEWEL

I believe that the sustainability of securities companies depends on developing the talents of employees with diverse values, experience and lifestyles and increasing employee satisfaction, which in turn enhances customer satisfaction.

The measures adopted by the Daiwa Securities Group making it possible for women to continue working even after major milestones

such as childbirth and child-rearing are excellent, as they can put these experiences to use in their jobs and contribute to the company's growth. Collaboration between the departments concerned and the employees' labor union helps create a workplace environment supportive of women, and women using the various systems rated them positively. Families also appreciated the work-life balance measures such as leaving the office before 7 p.m., and the employees I met while preparing this report reported being very satisfied.

However, although I learned of the company's extensive measures for supporting child-rearing, my impression was that they are offered only to women rearing children. Women have diverse values and lifestyles

too. I am sorry that I did not have a chance to attend the Women's Career Design Seminar or Career Design Training mentioned in this report while I was interviewing employees or their families. Similarly, men have diverse values and lifestyles.

Like many other Japanese companies, the Daiwa Securities Group works hard to create systems and take measures to make it easier for women rearing children to continue working at Daiwa. Forward-looking companies, meanwhile, have realized that there are limits to what systems and measures can accomplish: they have started working on creating a corporate culture where people respect each others' values and lifestyles. I know that Daiwa has begun encouraging men to take childcare leave too, but before actually introducing the system I think it's necessary to be aware of whether the workplace atmosphere and culture make it easy for men to do so.

I also believe that Daiwa should clearly state why it has been promoting work-life balance and support for child-rearing in this *Sustainability Report*. The company devotes management resources to these activities because they are necessary for its business. I believe that the role of this report is to clearly communicate the stance of the top levels of management to all stakeholders regarding what effects they expect from these measures to boost the company's bottom line and ensure its sustainability.



Social Report

Corporate Citizenship

As part of its corporate citizenship activities, the Daiwa Securities Group supports social welfare projects and participation in volunteer work by executives and employees, provides support for cultural and artistic activities, and offers grants through foundations and NPOs for the benefit of international society.

Initiatives and Targets

We believe it is important to tackle the various issues that today's society faces and offer continuous support for solving problems in order to create a sustainable society. To accomplish this, we carry out various activities in the four fields on the right.

1. Education and research activities in the fields of economics and finance
2. Encouraging volunteerism among executives and employees
3. Support for culture and the arts
4. Assistance to communities both on the local and the international level through foundations and NPOs

Issues and Targets for Fiscal 2007

- Promote volunteer programs to enable more executives and employees to participate (continued).
-
- Contribute to social welfare through grant programs and the like.

Performance/Progress Achieved in Fiscal 2007

- Improved feedback from recycling activities, leading to increased participation.
-
- Created the Daiwa CI Biodiversity Conservation Fund (see p. 20).

Corporate Citizenship Activities

1. Education and research activities in the fields of economics and finance

Taking advantage of the knowledge and expertise built up in our main businesses of economics and finance, we are actively engaged in business-academia collaboration and we also support economic education programs in junior and senior high schools, in order to teach young people knowledge and wisdom about life through economics. These activities are described in more detail on pages 21 through 24.

2. Encouraging volunteerism among executives and employees

- Volunteer Awards

We implement the President's Awards system to recognize various achievements by executives and employees. Daiwa Securities Co. Ltd. created the Volunteer Awards in 2007, to acknowledge both private and professional activities. From the second half of fiscal 2007, we enhanced coordination between the Daiwa Securities Group Inc.'s CSR Promotion Department and Daiwa Securities Co. Ltd.'s Sales Planning Department in the volunteer award evaluation process. In order to broaden the scope of volunteer activities, award eligibility was expanded from individuals to groups and departments. The award ceremonies feature slides or other materials to describe the volunteer activities of the award recipients, which is also useful for educating other executives and employees.



Daiwa Securities Co. Ltd. Volunteer Award ceremony

- Hands-on environment experience on Mount Takao

In April 2008, 29 employees participated in a hands-on environment conservation experience on Tokyo's Mount Takao that we organized. This is the sixth year this event has been held, and this year the group repaired damaged walkways and signs and created footholds in a stream, using cross-pieces and stakes made from trees that had been thinned in 2007.



Hands-on environment experience on Mount Takao

● Volunteer and recycling activities by executives and employees

Group executives and employees organized sign language classes, helped clean up after community events and participated in various recycling activities. One recycling activity involves collecting used and unused stamps and prepaid cards, partially used postcards and similar items for donating to NPOs. When we provided more feedback to volunteers about the activities of the groups supported by volunteer activities, reports on yearly donation activities and so on, donations raised in fiscal 2007 totaled 665,585 yen, a 61 percent increase compared to fiscal 2006. Volunteers also started a new recycling activity of collecting used books and CDs.

We have been using a new tabulation method for calculating the cumulative number of volunteer activity participants (a total of 2,771 people, including the general public) since fiscal 2006. Excluding those who participated in collecting calendars and partially used postcards, the number of people voluntarily taking part in activities on weekends or after business hours in fiscal 2006 was amended from a cumulative total of 624 people to 569 people.

Web Activities ● Results of Recycling Activities by Executives and Employees (Fiscal 2007)

■ The Daiwa Securities Group's Initiatives as a Corporate Citizen

Type of activity		Expenditure (unit: ¥1,000)		
		FY2005	FY2006	FY2007
1. Education and research activities in the fields of economics and finance	Initiatives for elementary, and junior and senior high school students			
	Academia-business cooperation and initiatives for universities, graduate schools and the public	164,921	249,518	225,524
2. Encouraging volunteerism among executives and employees	Self-planned programs			
	Joint programs	6,208	6,765	6,471
3. Support for culture and the arts	Support for culture and the arts	358,000	517,000	560,000
4. Assistance to communities both on the local and the international level through foundations and NPOs	Foundations			
	Daiwa Securities Foundation			
	Daiwa Securities Health Foundation			
	Daiwa Anglo-Japanese Foundation			
	Assistance programs			
	Tsunami Reconstruction Fund			
	Daiwa SRI Fund Assistance Program	75,440	136,097	141,806
	Daiwa Eco Fund Assistance Program			
	Disaster relief, sponsorship fees for NPOs/NGOs, etc.			
Total		604,569	909,380	933,801

Web Activities ● The Daiwa Securities Group's Initiatives as a Corporate Citizen (Details)

3. Support for culture and the arts

The Daiwa Securities Group supports a wide range of cultural and artistic activities. As part of our support for the arts, we were the special sponsor of the Dresden Opera from Germany in November 2007. Additionally, we were the special sponsor of the "Renoir + Renoir" exhibit at the Bunkamura Museum of Art in Shibuya, Tokyo, from February to May 2008. This exhibit was also presented at the National Museum of Modern Art, Kyoto from May to July 2008. The ex-

hibit took the novel approach of focusing on two giants of the art world, Pierre Renoir and his paintings, and the films of his son Jean Renoir, and was a great success.



Performance of the Dresden Opera in Japan

We also focus on supporting traditional Japanese culture such as *shogi* and *go*. In addition to sponsoring the top title matches in *shogi* and *go*, the Meijin Title Match (*shogi*) and the Honinbo Tournament (*go*) since 2005, we are also the special sponsor of the Daiwa Securities Cup *shogi* and *go* title matches via the Internet. We support the Saikyo Tournament and the Women's Saikyo Tournament, which were the first official *shogi* matches to take place on the Internet, in 2007. In *go*, the Open, Ladies and Grand Champion Internet title matches, as well as the Amateur Championship, take place on the Internet year-round, and viewers can watch the matches in real time on the Internet. The matches, which begin at 8 p.m. on weekend evenings, attract a strong following not only among Japanese fans but also *shogi* and *go* devotees living abroad. For playoff games in the various tournaments, we organize commentary sessions by professional players who use large boards to describe the game's moves, which take place at the Daiwa Conference Hall on the 18th floor of the Daiwa Securities Headquarters Building in Tokyo. We also hold award ceremonies for winning players and provide opportunities for exchanges between amateurs and players.



Move-by-move commentary of the 1st Daiwa Securities Internet *shogi* Women's Saikyo Tournament

Fiscal 2008 Targets and Action Plans

Our goal is to communicate information on 50 volunteer activities per year and further encourage volunteerism among executives and employees. We will introduce the winners of Volunteer Awards and describe their activities at award ceremonies and also through other channels such as internal bulletins and the company intranet.

4. Assistance to communities both on the local and the international level through foundations and NPOs

● Daiwa Securities Health Foundation

Since 1973, the Daiwa Securities Health Foundation has been supporting outstanding research focusing on the improved health, medical care and welfare of middle-aged and older people, disbursing 30 million yen in grants of 1 million yen each every year. Fiscal 2007 marked the 34th year of this program, with a cumulative total of 922 recipients receiving 907 million yen in total. Since September 2006, the foundation has been offering health seminars for the public given by grant recipients. As of the end of March 2008, health seminars had been given at 71 Daiwa Securities branches throughout Japan.

● Daiwa Securities Foundation

The Daiwa Securities Foundation was established in 1994 in commemoration of the 50th anniversary of the founding of the Daiwa Securities Group for the benefit of society. The foundation provides yearly research grants in the fields of volunteerism and welfare; in fiscal 2007, the foundation provided 199 grants worth a total of 45.23 million yen to various applicants, and a one million yen grant for one research project. A new "disaster volunteer activities grant" was also created in fiscal 2004 to support the expenses of volunteers involved in disaster recovery work. Under this new grant, the foundation donated the sums of 1 million yen and 500,000 yen, respectively, to the municipalities of Kashiwazaki and Kariwa affected by the Niigata Chuetsu Offshore Earthquake of July 16, 2007. The foundation will continue activities contributing to improving social welfare.

Support for Disaster Survivors

The Daiwa Securities Group made a donation of 2 million yen to Japan Platform*1 through the Daiwa Securities Foundation to support local recovery activities by volunteers following the May 2008 cyclone in Myanmar.

Daiwa Securities Group Inc. also provided emergency support through the Japanese Red Cross after the Sichuan Earthquake in May 2008. Furthermore, we extended aid for recovery in Gansu Province, which was as severely affected as Sichuan but which, on the basis of information obtained locally, we learned had received less aid, by donating 1.52 million yuan (approx. 24 million yen) to the China Children and Teenagers' Fund*2 to build two permanent elementary school facilities.

In Japan, we donated 6 million yen to the Central Community Chest of Japan to help the areas affected by the Iwate-Miyagi Nairiku Earthquake of June 2008.

We hope that the affected areas will recover as soon as possible.

*1 Japan Platform: An international emergency humanitarian aid organization offering prompt and effective aid in times of natural disasters.

*2 China Children and Teenagers' Fund: Chinese government organization that coordinates donations for school construction and requests for school buildings from disaster-affected areas.

The Daiwa Securities Group Tsunami

The Daiwa Securities Group Tsunami Reconstruction Fund was established to assist survivors of the Sumatra Earthquake and Indian Ocean Tsunami of December 26, 2004. This fund provides long-term support for recovery over a 10-year period which began in fiscal 2005, disbursing 10 million yen annually for a total of 100 million yen over the period to help survivors become self-sufficient and establish occupational training facilities for orphans and persons with disabilities.

Aid-recipient Organizations

Country	Activity	Organization	Number of beneficiaries	Aid amount
Sri Lanka	Women's Independence and Development Program	Women's Savings Effort "Wilpotha"	200 women	¥3.5 million
Indonesia	Education support and mental health care for child survivors	Indonesia Planned Parenthood Association (IPPA), Aceh branch	135 children	¥2.4 million
India	Occupational training and self-sufficiency support for young people with disabilities and orphans	TRUE	75 young people	¥3 million (projected)

Daiwa SRI Fund Assistance Program

The Daiwa SRI Assistance Program provides grants for Japanese NGOs that help people whose lives are in danger for various reasons.

Working together with NPO Civil Society Initiative Fund, this program supports personnel and education costs to train staff and nurture organizations working on the front lines in outreach activities.

Aid-recipient Organizations

Project name (new grant)	Organization	Grant amount
Providing stable staff training to help create a support framework for a youth support center and strengthen the organization	NPO Tohoku Youth Support Center	¥2 million
Training staff for outreach activities directed to seniors on social assistance living alone	NPO COCOROOM	¥2 million
Training staff for home visit program to prevent youth suicides and social isolation	NPO Student Support Faith	¥1.87 million
Project name (continuing grant)	Organization	Grant amount
Training generalists who plan and implement programs to develop supporters for victims of sexual violence	NPO Center for Education and Support for Women, Japan	¥1.66 million
Training coordinators to develop, expand and propagate a health care support system for non-Japanese living in Japan	NPO Center for Multicultural Information and Assistance Kyoto	¥1.93 million

Reconstruction Fund

Stakeholder Comment

Supporting Self-help for Becoming Independent

Three and a half years have gone by since the tsunami disaster that took so many precious lives. Many support organizations that poured in to rebuild infrastructure, provide materials and build homes in the affected areas have left, and now the major issue is how to help residents become independent once more.

In projects in Sri Lanka, Indonesia and India, affected residents are actively participating in self-sufficiency. In Indonesia, mental health care and support for the education of 135 children are provided with the help of 20 local volunteer teachers. These volunteers, who have become the mainstay of the program, provide one-on-one psychological support, with regular

input by psychiatrists, and help the children with their schooling. In Sri Lanka, a microfinance organization for women operating small businesses was set up. The women actively share their experience with the management of a revolving fund, and in the second year, members made larger contributions to shore up the fund's finances. This women's organization can now negotiate with the government and outside organizations and ask for support, and is expanding its activities. The way that people have changed from passively receiving aid to actively carving out their own futures coincides with the idea of supporting self-help for becoming independent that is ACT's philosophy.



Mari Suzuki

Secretary General
Asian Community Center 21
The Asian Community Trust
(ACT) Secretariat

Stakeholder Comment

Daiwa SRI Fund Assistance Program in Its Third Year

Many NPO groups have weak organizations; staff training is an urgent issue for them but they cannot easily afford to spend money on training. In particular, it is important to improve the quality of staff in organizations involved in ordinary outreach activities having to do with the fundamentals of life or ensuring that people are treated with respect. We received a donation from the Daiwa Securities Group to address these issues and started the Daiwa SRI Fund Assistance Program three years ago. It is very gratifying to see numerous aid-recipient groups becoming stronger and better organized thanks to this support.

For example, one aid-recipient organization supporting refugees in Japan was able to become

a registered special non-profit organization, donations to which are tax-deductible, by strengthening its fund-raising and accounting staff. This attracted more donations and permitted the group to operate more stably. Another group involved in preventing bullying and child suicides organized its secretariat to operate more effectively and won a reputation for reliability and quick response by setting up a consultation service especially for schools, which in turn boosted the number of its supporters.

A grant program for staff training that focuses on personnel expenses is a new approach welcomed by many NPOs. People are at the heart of NPO activities and training takes time, but I am eager to see the long-term results of this program.



Kuniko Kamiyama

Program Officer
NPO Civil Society Initiative Fund



Environmental Report

Environmental Impact of the Daiwa Securities Group

Recognizing that the impact of the operations of the Daiwa Securities Group on the global environment is not inconsequential, we continue striving to reduce our environmental impact and raise employee awareness.

Initiatives and Targets

We believe that all executives and employees should be aware of global environmental issues and conduct themselves as set out below.

- Everyone should think of environmental problems as their

Issues and Targets for Fiscal 2007

- Consider the development of financial products that enable investors to help resolve environmental issues.
- Expand environmental management systems to major overseas offices.
- Reduce environmental impact by such means as appropriately adjusting air conditioning and using electronic statements.
- Achieve zero waste in relocation from former headquarters building.

Progress/Performance Achieved in Fiscal 2007

- Sold the World CO2L (Cool) Bond and the Russell Global Environmental Technology Fund.
- Monitored undertakings at our main overseas branches and expanded scope of data tabulation regarding use of electricity and paper.
- Implemented the "Cool Biz" policy (open collars and shirt-sleeves in the office) throughout the Group and adjusted office temperatures appropriately.
- Promoted paperless meetings, reduced paper use by monitoring copying paper usage per day, reduced the use of paper for statements by converting to electronic format.
- Disposal of waste from the former head office building was incomplete as of June 30; we plan to report on status of disposal in the next *Sustainability Report*.

Environmental Impact of the Daiwa Securities Group

Energy consumption at the Daiwa Securities Group's domestic offices (on a CO₂ emissions basis) rose 3.4 percent in fiscal 2007 compared to fiscal 2006. The main factors responsible for the increase are analyzed below.

Analysis of Higher Energy Consumption Breakdown

Factor	%
1. Duplicated use of buildings due to relocation of the head office building	+ 1.9%
2. Higher volume of entrusted data processing work, etc.	+ 3.0%
3. Effects of energy-saving measures	- 1.5%
Total	+ 3.4%

1. Duplicated use of buildings due to relocation of the head office building

Between December 2007 and March 2008, the Daiwa Securities Group moved its main offices, including Daiwa Securities Group Inc., to Gran Tokyo North Tower (9-1, Marunouchi 1-chome, Chiyoda, Tokyo). Use of both our former and our new offices during the relocation period was re-

sponsible for higher electricity consumption and more environmental impact.

- Everyone should strive to promote and raise awareness of socially responsible investment (SRI) and through the securities market, support companies that are environmentally aware.

Through these efforts, we are committed to contributing to economic growth and environment conservation.

sponsible for higher electricity consumption and more environmental impact.

Offices Relocated to the New Head Office Building (Gran Tokyo North Tower)

Building name	Main companies relocating
Daiwa Securities former head office building	Daiwa Securities Group Inc., Daiwa Securities Co. Ltd.
Kabutocho Bldg.	Daiwa Securities Co. Ltd., other Group companies
Daiwa Securities SMBC Headquarters Bldg.	Daiwa Securities SMBC Co. Ltd., other Group companies
Eitai Daiya Bldg.	Daiwa Securities SMBC Co. Ltd.

In addition to the above, relocation of the Daiwa SB Investments Ltd. head office also occasioned duplicated use of buildings.

We estimate that the higher environmental impact generated by duplicated use due to office relocation was 1,868 MWh for electricity consumption, equivalent to 1,603 tons of CO₂ emissions.

2. Higher volume of entrusted data processing work, etc.

Due to the higher volume of data processing work entrusted to the Daiwa Institute of Research Ltd., use of servers and other IT equipment increased, which led to more electricity consumption for the equipment itself and the cooling it requires.

3. Effects of energy-saving measures

Thanks to appropriate control of office temperatures at Daiwa Securities Group domestic offices other than those listed above, energy consumption at those offices fell by 1.5 percent compared to fiscal 2006.

■ Energy Consumption by the Daiwa Securities Group (Table 1)

	FY2004	FY2005	FY 2006	FY2007
Domestic offices				
Electricity (kWh)	89,546,672	86,320,394	88,732,751	92,659,304
City gas (m ³)	904,255	727,485	691,395	643,908
Gasoline (liters)	1,151,487	1,036,609	1,035,700	942,319
Heavy oil (liters)	61,739	30,146	34,087	23,677
Diesel fuel (liters)	11,048	1,267	73	0
Overseas offices				
Electricity (kWh)	—	—	—	7,717,773

- At overseas offices, only figures for electricity consumption were tabulated.
- For scope of data, see the "Scope of Environmental Impact Data" table on our [Web Activities](#).

■ Daiwa Securities Group's CO₂ Emissions (Table 2) (Unit: kg-CO₂)

	FY2004	FY2005	FY2006	FY2007
Domestic offices	54,465,324	51,920,594	53,190,910	55,023,361
Overseas offices	—	—	—	4,283,364
Total for domestic and overseas	—	—	—	59,306,725

- Shows data for consumption of electricity, gas, gasoline, heavy oil and diesel fuel at our domestic offices and electricity consumption at our overseas offices converted to CO₂ emissions (kg).
- For all fiscal years and regions, the emissions coefficient used for converting to CO₂ emissions is based on the ministerial ordinance related to the calculation of greenhouse gas emissions arising from the business activities of specified emitters (Ministry of Economy, Trade and Industry and Ministry of the Environment, Ordinance No. 3, March 2006).
- For scope of data, see the "Scope of Environmental Impact Data" table on our [Web Activities](#).

[Web Activities](#) ● Daiwa Securities Group's CO₂ Emissions (Details of Table 2)

■ CO₂ Emissions per Employee (Domestic) (Table 3) (Unit: kg-CO₂)

	FY2003	FY2004	FY2005	FY2006	FY2007
Per employee	5,556	5,393	5,055	4,832	4,502

- For scope of data, see the "Scope of Environmental Impact Data" table on our [Web Activities](#).

Initiatives to Reduce Environmental Impact

■ Adoption of "Cool Biz"

In July 2007, the Daiwa Securities Group adopted the "Cool Biz" policy group-wide and began setting office temperatures at appropriate levels. All employees wore badges promoting the "Cool Biz" style. Additionally, posters were displayed in all our departments and branches, and we used in-house broadcasting to promote "Cool Biz." Through these efforts, we have ensured that all Group employees are acquainted with and understand our commitment to contributing to solving global environment problems.

■ Shortening Business Hours by Encouraging Personnel to Leave before 7 P.M.

Encouraging personnel to leave the office before 7 p.m. in the interest of work-life balance means that lights and heating/cooling are used for shorter periods, thus contributing to reducing environmental impact.

■ Promoting Reductions in Paper Use

In addition to converting statements, etc. into electronic format (see pp. 19–20), we are promoting measures to reduce the amount of copying paper we use.

In January 2008, all Daiwa Securities Group Inc. departments appointed staff members in charge of reducing paper use. The duties of these individuals include gathering information about why it is necessary to use paper to produce documents for business operations and the amount of paper used, and promoting awareness of reducing paper use within their respective departments. These individuals are also responsible for tabulating the amount of paper used at regular meetings held by their departments and encouraging the use of projectors to reduce paper use during meetings.

■ Reduction of Environmental Impact Related to Relocation to New Head Office Building

The Daiwa Securities Group's new head office building in the Gran Tokyo North Tower uses energy-saving technologies such as an automatic lighting control system and high-efficiency air flow windows.* Among other environment conservation measures unique to the Daiwa Securities Group are the use of recyclable carpeting over 15,000 square meters of space on 14 floors, a paper recycling system that can dissolve discarded documents, and halon gas-free fire-fighting equipment.

During the move to our new quarters, we used re-usable packing boxes and tried to re-use and recycle unneeded items as much as possible, aiming to achieve a "zero waste" move. As of June 2008, disposal of fixtures and equipment from our former head office building has not been completed. We plan to report on status of disposal in the next *Sustainability Report*.

* Air flow windows: double-glazed windows equipped with an air intake slit in the interior panes that allows indoor air to circulate between the glass panes, thus reducing the external temperature load from windows.

- [Web Activities](#)
- New Head Office Building Environmental Impact Data
 - Volume of Copying Paper/Forms Purchased by the Daiwa Securities Group
 - Changes in Waste Generated and Recycling Volume (Table 4)
 - Changes in Electricity Consumption at the Daiwa Securities Group (Graph 1)
 - Changes in Water Consumption at the Daiwa Securities Group (Graph 2)
 - Scope of Environmental Impact Data

Fiscal 2008 Targets and Action Plans

We will heighten awareness of global environment issues among executives and employees and continue our efforts to reduce the Group's environmental impact.



Economic Report

Distribution of Economic Value to Stakeholders

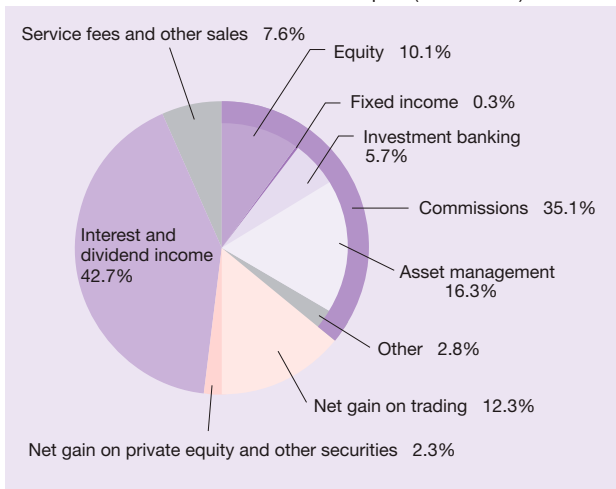
This section describes the revenue structure, economic value and distribution of economic value to all stakeholders of the Daiwa Securities Group.

Revenues in the Economic Report

Revenues for the purpose of this Economic Report is the total for all revenues received by the Daiwa Securities Group (consolidated) in fiscal 2007—operating revenues, non-operating income and extraordinary gains. In fiscal 2007, operating revenues accounted for 98.4 percent of revenues.

Web Activities • Classification of Revenue Types in the Economic Report (Fiscal 2007)

Revenue Structure in the Economic Report (Fiscal 2007)



Outline of Operating Revenues

Commissions

The three main categories of commissions, which account for 35.1 percent of revenues in the Economic Report, are described below.

1. Equity and fixed income commissions

Commissions earned on the purchase or sale of stocks, bonds and other securities by individual or institutional investors.

2. Asset management

Commissions earned on sales of investment trusts and fees charged for placing and managing individual or corporate customers' assets held in trust.

3. Investment banking

Underwriting commissions charged when corporate customers issue stocks or bonds to raise funds, and fees charged for M&A, etc.

Net Gain on Trading

These are profits that arise from the sale of securities the Group has in its own account, or when the Group buys from or sells to its clients to meet their transaction needs.

Net Gain on Private Equity and Other Securities

Net gain on private equity and other securities describes gains resulting from the purchase or sale, or unrealized gains or losses, on securities acquired for investment, and from the sale of investment limited partnerships, etc.

Interest and Dividend Income

Interest and dividend income describes income earned from interest on securities held, dividends, and from transactions of lending or borrowing securities.

Distribution of Economic Value to Stakeholders

Economic value for the purpose of this Economic Report is calculated as revenues as previously defined, minus interest expenses (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 personnel expenses (including reserves for salaries and bonuses, as well as welfare program costs and social insurance contributions). We have built a fair compensation system that is highly acceptable to all, in order to improve employee motivation and maximize the value provided to all stakeholders. In fiscal 2007, the Group distributed 156.7 billion yen to its executives and employees; this was 52.1 percent of its economic value.

Society

Regardless of business cycle fluctuations, the Group aims to provide stable funding for its corporate citizenship activities which represent its economic contribution to society. See page 44 for a breakdown of these expenditures.

Shareholders

The Group determines its dividend policy with an eye to

maintaining a stable dividend, and with the goal of providing a dividend payout ratio of 30 percent.

In fiscal 2007, the Group paid an interim dividend of 12 yen per share and a year-end dividend of 10 yen per share, for a total annual dividend of 22 yen per share. This amounted to a total of 29.9 billion yen in dividend payouts.

■Creditors

The Group paid 53.6 billion yen in interest to creditors.

■Government

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 2007, the total tax amount paid was 48.1 billion yen.

■Minority Shareholders

This is the profit and loss returned to the minority shareholders of the Daiwa Securities Group companies. The principal minority shareholders are Sumitomo Mitsui Financial Group with a 40 percent 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 percent). Since Daiwa Securities SMBC and NIF SMBC Ventures posted losses in fiscal 2007, the loss to minority shareholders was 5.2 billion yen.

■ Changes in Distribution of Economic Value to Stakeholders

(Unit: ¥ million)

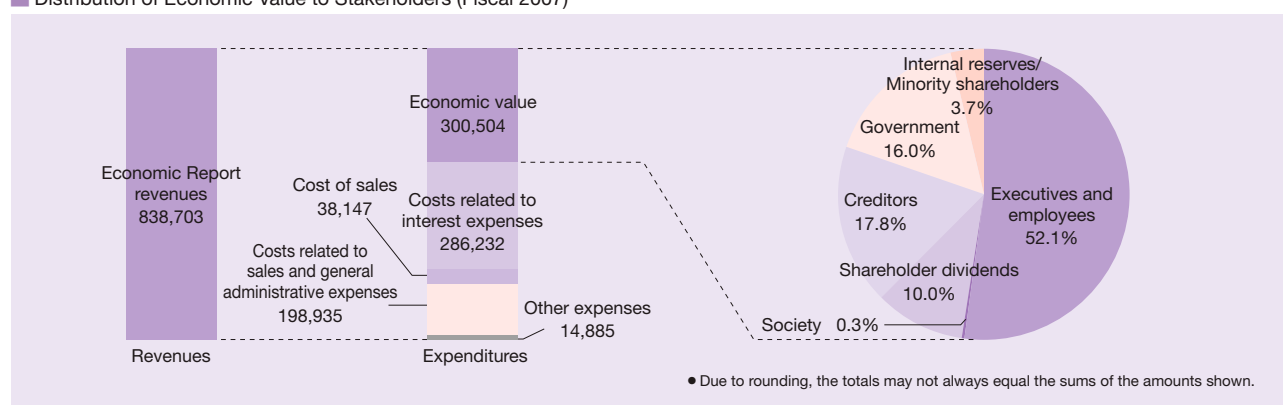
Stakeholders	FY2003	FY2004	FY2005	FY2006	FY2007	Tabulation method
Executives and employees	137,511	143,469	172,923	163,379	156,661	Selling expenses and personnel costs within general administrative expenses
Society	332	708	604	909	933	Expenditure for corporate citizenship activities (see p. 44)
Dividends to shareholders	13,307	17,297	45,031	39,072	29,919	Interim and year-end dividends for the fiscal year
Creditors	15,292	22,428	18,478	47,024	53,630	Interest expense and interest paid on non-operating expenses
Government	26,423	46,921	86,137	77,895	48,102	Income taxes, resident and business taxes, deferred income taxes, other taxes and duties
Minority shareholders	13,480	19,770	40,339	23,746	(5,233)	Minority shareholder profit/loss
Internal reserves	28,782	34,650	93,055	53,652	16,492	Balance after deducting dividends for the term from net income for the fiscal year
Total economic value	235,127	285,243	456,567	405,677	300,504	Total of the above

■ Comparison of Economic Report and Consolidated Financial Statements

(Unit: ¥ million)

	FY2003	FY2004	FY2005	FY2006	FY2007
Economic Report					
Economic Report revenues	468,788	536,798	869,181	931,845	838,703
Economic value	235,127	285,243	456,567	405,677	300,504
Consolidated financial statements					
Operating revenues	453,813	519,337	845,659	917,307	825,422
Net income	42,637	52,665	139,948	92,724	46,411

■ Distribution of Economic Value to Stakeholders (Fiscal 2007)



Third-party Opinions



Takeshi Mizuguchi
Professor, Takasaki City University
of Economics

1. Introduction

I wrote this third-party opinion at the request of the Daiwa Securities Group after observing the report-production process. This time, I focused on “adding a social perspective to investing,” which was identified as Material Issue 1 in this report, and starting from April 8, 2008 I spent more than 11 hours attending meetings with the departments concerned and participating in question-and-answer sessions. Together with the writer of the third-party opinion on “respect for people and human resource utilization” (see p. 42), the fact that the company offered access to outsiders for considerable lengths of time and allowed us to be involved in reviewing CSR activities themselves is an important initiative for heightening transparency. Another sign of progress over 2007 is that the company solicited the opinions of several third parties in different areas of specialization.

2. Reliability of Information

Ensuring the reliability of information through the third-party opinions of certified public accountants or auditing firms generally refers to assurance of the accuracy of numerical data; my opinion is not an assurance in the same sense. I believe that progress in “adding a social perspective to investment” should be measured by the degree of commitment of the Group’s employees, as President and CEO Shigeharu Suzuki touches upon in his message at the beginning of this report, rather than by dry facts and figures about the sale of bonds and funds. This is certainly the element that is the most difficult to verify, but as far as I can tell from the people I met, I believe that they were truly committed. In that sense, this report accurately details the attitude of those working on the front lines.

3. CSR Activities

(a) Appropriateness of goal-setting

As the starting point for CSR activities, it is important to correctly identify the issues that matter most to the company in question. In the case of the Daiwa Securities Group, focusing on “adding a social perspective to investment” as a material issue is very appropriate. There cannot be any solutions to global problems such as climate change or poverty unless there is a fundamental change in the market economy sys-

tem. The dual system where the markets pursue efficiency and governments ensure fairness is no longer effective for solving problems, and a shared global awareness is beginning to emerge among market players that their behavior must take society and the environment into consideration. In conjunction with this, the social role of securities companies will certainly change, and the present time is probably a transition period. In terms of being forward-looking in dealing with these changes, I believe that Daiwa has identified the issue appropriately.

(b) CSR promotion system

I am very impressed by the leadership shown by the key persons promoting investment from a social perspective. The Group’s enhanced research structure also deserves praise. It is also clear that the departments concerned are in the process of establishing good coordination. The points and lines have been drawn, but has the “big picture” been filled in? In other words, I believe that the PDCA cycle is working to a certain extent in individual departments, but it’s hard to see Group-wide PDCA in action beyond individual undertakings. If that were made clear, it would be possible to evaluate progress made and what still needs to be done.

(c) Implementation activities

In addition to the offering of the Daiwa Eco Fund and the Daiwa SRI Fund, the Daiwa Securities Group meets expectations by coming up with new ideas and offering a range of choices, such as the Russell Global Environmental Technology Fund, vaccine bonds, the World CO2L (Cool) Bond and others. I think that the idea planted by the UN’s Principles for Responsible Investment (PRI) was that all investment behavior should show concern for society and the environment. I hope that together with developing leading-edge financial products with a social perspective, Daiwa will also create a methodology for incorporating some consideration of society and the environment into all investment.

(d) Conclusion

No securities company can add a social perspective to investment working by itself. The parties providing the funds, especially institutional investors with large amounts of money, should act responsibly, and I think it’s also necessary for the government to establish a certain framework. If that is the case, I believe that securities companies, as specialists in their field, have an important role to play in lobbying institutional investors and governments to make this system a reality. This report mentions that Daiwa’s communication activities include policy recommendations. Adding a social perspective to investing is an issue that certainly needs policy recommendations made on its behalf, and I hope that Daiwa will demonstrate the required leadership.



Sanae Hara

Representative
Kinyu Ombudsnet

If a corporation's financial statements are its skeleton, its sustainability report is its flesh and blood, the face it presents to the world. The Daiwa Securities Group's report, with its photos of sweetly smiling infants on the cover, draws the eye. The future of these children, after all, depends on sustainability.

Daiwa's 2008 sustainability report begins with a very personal message from President and CEO Shigeharu Suzuki.

The major focus of my third-party opinion is whether Daiwa has met its goals in the four areas it has identified as material issues.

1. Adding a Social Perspective to Investment

One major initiative in this direction this year is the start of sales of vaccine bonds, through which Daiwa contributes to raising funds for vaccinations through the International Finance Facility for Immunization (IFFIm) public-private partnership. Even though denominated in South African rand, these bonds are selling well. Daiwa also sells the Russell Global Environmental Technology Fund. Daiwa deserves credit for these clear first steps on the road to investment with a social perspective.

This initiative is also held in positive regard by society. But although I can identify with the importance of investing from a social perspective, the question of whether the SRI products that Daiwa sells are good products from a financial viewpoint is a different issue. It is also essential to train people within the company in the necessary expertise. I would like to see more information on these background factors in Daiwa's sustainability report. My impression is that only a minimum of such information has been provided to describe emissions trading.

The Daiwa SRI Fund Assistance Program, while small in scale, is an interesting experiment. This program provides funding for training staff in NPOs involved in activities relating to life and human dignity.

2. Commitment to the Development of a Sound Securities Market

This issue relates to the health of the core business of securities companies. This report describes the measures implemented by Daiwa to meet the requirements of the Financial Instruments and Exchange Law which went into effect in September 2007. It further communicates the message that the Sales Department and the Compliance Department are working together

to enhance internal control, but few concrete details are provided as to what they have actually done.

I also noted that consumers were not included among stakeholders, and I hope that Daiwa will give this point further thought. I would like to know how Daiwa positions its Call Center and its handling of consumer complaints or requests for advice within the context of commitment to the development of a sound securities market.

3. Contributing to the Global Environment

Daiwa has made eye-opening progress with the shift in its business model to IT and paperless systems. The company said it wants to demonstrate a model case in solving resources issues, and I hope it will do so.

The information about the Daiwa CI Biodiversity Conservation Fund, funded by a part of Daiwa's profit earned from the sale and management of the Daiwa Eco Fund, should be highlighted much more prominently in this report. Contributing to the global environment is also connected with adding a social perspective to investment.

4. Communicating Information for a Sustainable Society

This report describes Daiwa's economics and finance education initiatives, its policy recommendations and other communication activities, but information on this topic should be expanded overall. The core of this type of communication of information for a sustainable society should be initiatives regarding disclosure, such as in the Management Report, and Daiwa should communicate this information to society through its website and sustainability report.

Further improvements are needed concerning CSR issues/performance and targets, which are evaluated solely from the company's perspective. The second half of this report carries management, social, environmental and economic reports; this information overlaps with that in the report's first half. I hope that Daiwa will focus more closely on respect for people and utilization of human resources from now on. The Daiwa Group has begun taking active initiatives regarding temporary workers, work-life balance and other issues, and its actions in these areas should be emphasized more prominently.

I hope that Daiwa will improve its ability to communicate information to society in the future.

The Daiwa Securities Group's CSR Activities

2004	
January	CSR/brand management website goes online.
March	Establishes Disclosure Policy.
May	Begins sales of the Daiwa SRI Fund, an SRI investment trust that invests in Japanese corporations.
June	Changes to committee system.
July	Daiwa Securities Group Inc. establishes the CSR Promotion Department.
October	SRI fund included in defined-contribution pension fund for Daiwa Securities Group employees.
November	Becomes a member in the United Nations Environmental Programme Finance Initiative (UNEP FI).
2005	
February	Decides to offer long-term support for areas devastated by the Sumatra earthquake and South Asian tsunami (Daiwa Securities Group Tsunami Reconstruction Fund). Daiwa Securities Co. Ltd. begins Electronic Statement Promotion Project
June	Provides support to Finance Park, a hands-on economics education program offered by Junior Achievement. Begins support project for women entrepreneurs.
July	Daiwa Asset Management Co. Ltd. participates in a GRI G3 project working group to study the usefulness of sustainability reporting from the perspective of finance and investors.
October	Daiwa Securities Co. Ltd. begins the Daiwa e-members service, through which customers can ask to receive electronic transaction reports.
November	Begins the Daiwa SRI Fund Assistance Program to support NPO staff.
2006	
January	The <i>Daiwa Securities Group Sustainability Report 2005</i> wins the Sustainability Report First Prize (Minister of the Environment Award) awarded by the Global Environmental Forum.
February	Develops Euro-dollar Bonds with Emissions Credit Value Referenced Coupons (CO2L [Cool] Bonds). Begins sales of the Daiwa Eco Fund.
April	Announces new medium-term management plan "Passion for the Best 2008," which includes the Group's basic CSR strategy. The <i>Daiwa Securities Group Sustainability Report 2005</i> wins the Excellence Prize in the sustainability report category awarded by Toyo Keizai Inc.
May	Daiwa Asset Management Co. Ltd. signs the Principles for Responsible Investment (PRI), jointly created by the United Nations Environment Programme Finance Initiative (UNEP FI) and the UN Global Compact.
October	Opens Daiwa-JFS Youth Sustainability College with environmental NPO Japan for Sustainability (JFS) as a grant program of the Daiwa Eco Fund.
November	The <i>Daiwa Securities Group Sustainability Report 2005</i> ranked 34th (first in rankings for Japanese companies) in the Global Reporters 2006, an international comparative survey.
2007	
January	The Daiwa Securities Group makes it into the Global 100 (the world's 100 most sustainable companies). Attendance at World Economic Forum (WEF) in Davos, Switzerland.
February	The <i>Daiwa Securities Group Sustainability Report 2005</i> wins the Sustainability Report Excellence Prize (the President's Award) awarded by the Global Environmental Forum.
April	The <i>Daiwa Securities Group Sustainability Report 2006</i> wins the Excellence Prize in the sustainability report category awarded by Toyo Keizai Inc. Holds CSR seminar for individual investors titled "New Trends in Investing: The Search for Sustainable Growth Companies."
May	Holds environmental seminar for customers titled "Daiwa Environmental Forum 2007: What Is Happening to the Earth Now?"
July	Implements "Cool Biz" policy (open collars and shirtsleeves in the office) group-wide as an initiative to combat global warming.
August	Establishes the Global Environment Foreign Bond Balance Fund and the Global Environment Equity Fund.
September	Receives Japanese government approval for four greenhouse gas reduction projects in China.
2008	
February	Daiwa Securities Group Inc. participates as a special sponsor in a global environment symposium held jointly by the Tokyo office of the United Nations Development Programme (UNDP), the World Bank and Conservation International Japan (CI Japan). Daiwa Securities SMBC and the Daiwa Institute of Research, Inc. hold the "Eco-innovation: What Industry Needs to Do on Global Warming Issues and Creating a Low-carbon Society" seminar.
March	Sells vaccine bonds. Creates the Daiwa Securities Group Asian Student Scholarship Fund (provisional name) with the University of Tokyo.
April	Begins sales of the Russell Global Environmental Technology Fund. Establishes the Work-life Balance Promotion Committee and the Work-life Balance Promotion Department. Participates in the Ministry of Health, Labour and Welfare's model project promoting work-life balance.
May	Inaugurates a sponsored course at Peking University. Agrees to support commercialization of iPS cell research at Kyoto University.
June	Begins sales of the Certified Emission Reduction (CER) Linked USD Denominated Uridashi Bond (World CO2L [Cool] Bond). Obtains the Certified Family-friendly Employer designation.

Daiwa Securities Group Sustainability Report 2008 Reader Questionnaire

Thank you for taking the time to read the *Daiwa Securities Group Sustainability Report 2008*.

We are conducting a survey on this report on the Japanese website below. Please let us know your opinions or comments about this report.

<http://www.daiwa-grp.jp/branding/report/>

GRI Application Level

This report was created with reference to the GRI^{*1} *Sustainability Reporting Guidelines 2006*. These guidelines recommend that sustainability reports declare their GRI Application Level,^{*2} which is an indicator of the level of compliance with the GRI defined by the guidelines. The Daiwa Securities Group believes that the *Daiwa Securities Group Sustainability Report 2008* meets the criteria of GRI Application Level B.

^{*1} Global Reporting Initiative (GRI): An organization founded in 1997 to draw up and disseminate international guidelines for sustainability reporting. Participants include a variety of stakeholders, such as businesses, non-governmental organizations (NGOs), consultants, accounting groups, and trade associations from different parts of the world.

<http://www.globalreporting.org/Home>

^{*2} See the following URL for details concerning GRI Application Levels.
<http://www.globalreporting.org/GRIReports/ApplicationLevels/>

Web Activities • GRI Guidelines Content Index



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Third-party Evaluations

FTSE4Good Index



FTSE is a subsidiary of the UK's *Financial Times* and the London Stock Exchange. It develops global indexes and provides data for investment.

Daiwa Securities Group Inc. has been included in the FTSE4Good, an index of socially responsible companies compiled by FTSE, since September 2006.

Dow Jones Sustainability World Indexes



The Dow Jones Sustainability World Index (DJSI World) is a stock index of companies with sustainable practices selected by Dow Jones & Company, Inc. of the United States and Sustainable Asset Management (SAM) of Switzerland.

Daiwa Securities Group Inc. has been included in DJSI World for ten consecutive years.

Certified Family-friendly Employer



Certification symbol for family-friendly employers based on the Ministry of Health, Labour and Welfare's Law for Measures to Support the Development of the Next Generation. Daiwa Securities Group Inc. obtained certification as a family-friendly employer on June 9, 2008.

Daiwa Securities Group Sustainability Report 2008 Booklet and Web Edition

Daiwa Securities Group Sustainability Report 2008 discloses information in a booklet and on a website in accordance with the policies below.

- **Booklet**

Includes mainly information likely to have a strong influence on stakeholder decision-making.

- **Website**

Reports on a broader range of Daiwa Securities Group activities. Also includes supplementary information, such as description of terms, etc.

The two types of information described on the right are carried on the website only.

Web Activities

Activities report carried on the website. Items identified by this symbol may be found on the corresponding page of the website.

Web Terms

Terms are explained on the website. Items identified by this symbol may be found on the website's terminology page at this URL:
<http://www.daiwa-grp.jp/ir/english/corporate/report/terms/index.html>



Click on this icon for a table of contents of information carried exclusively on the website and select the desired page.



Daiwa Securities Group



This report is printed on paper made from responsibly thinned timber.

At the Daiwa Securities Group, our business is finance. As such, we do not immediately face the environmental problems that some other industries do. Nevertheless, we use huge amounts of paper to print various documents—including this one—as well as prospectuses, sheets and forms. Becoming aware of our use of paper is a step toward protecting forests both in Japan and in developing countries, and therefore we have printed this report on paper made from responsibly thinned timber.



Dow Jones Sustainability Indexes
Member 2008/09