

Daiwa Securities Group

Sustainability Report 2004

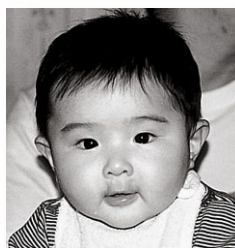
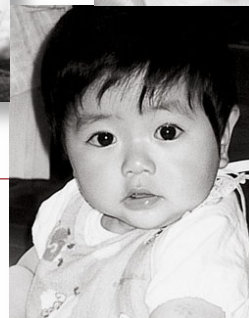
BUILDING
SUSTAINABLE
SOCIETY



What we can do

What kind of society will be waiting 20 years from now, when the 18 infants pictured on the cover become adults? The roles that enterprise plays and the roles that adults play are so important for achieving a sustainable society, where people are happy and living in harmony with a rich unspoiled planet.

This year's cover, showing the joyous faces of children of Daiwa Securities Group employees, represents our wish for a hopeful future.



What business must do for the future

CSR is a business's code of conduct. Society expects businesses to practice CSR.

Since last year the term CSR, or corporate social responsibility, has commanded the attention in and beyond the business world. The idea that enterprise must play a role as an organ of society and that it must fulfill its social responsibilities is not new. However, the market economy has gone through vigorous development in recent years, with economic activities going global, the IT revolution expanding information applications, and consumer consciousness changing as society matures. Along with the economic changes, society's expectations of enterprise have become more multi-faceted.

The CSR we hear about so much today is an expanded version of social responsibility in the general sense. It is a crucial element in a business's sustainable coexistence with society, and as such should be considered essentially the same as a business's code of conduct. In this age, the sustainability of businesses facing international competition depends on two things: how it conducts itself with stakeholders (customers, shareholders, employees and so on) and how, as a result, it can win the trust of those stakeholders and society as a whole. I am convinced that businesses that eagerly perform their CSR duties will earn the praise of all their stakeholders and the trust of society, which will lead to business success without exception.

A new role for financial institutions: Proving that CSR leads to business success

Whenever one considers CSR, one has to ask, "What should our business be doing for the sake of the future?" The economic education of the young generation that the Daiwa Securities Group actively supports is based on this theme. Society is an instrument for the common good. Unless we think in terms of each other's benefit, we can gain no lasting benefit for ourselves. In that sense, economic education leads to moral and ethical education. We believe that an understanding of economic principles gives people vitality and eagerness for their lives. The moral and ethical view that young people acquire through economic education will motivate them and vitalize the economy and society of the future.

The Daiwa Securities Group, moreover, conducts socially responsible investment (SRI) as part of the CSR activities of its core business. Our SRI funds are a good example. Customers and our sales staff get a sense of satisfaction from funds that directly invest in businesses that benefit society. Along with a sense of satisfaction, the funds encourage better performance, and this mutually beneficial effect enlarges the scale of the SRI funds. Additionally, when inclusion in an SRI fund becomes a measure of a company, it raises awareness of CSR within the company and further leads to the sustainable development of Japan's economy.

I believe that one of the essential future roles for the Daiwa Securities Group is creating frameworks in which companies that eagerly embrace CSR enjoy better results and win the praise of the market.



Yoshinari Hara
Chairman of the Board,
Daiwa Securities Group Inc.

原良也

The Daiwa Securities Group works for trust

Aiming for true professionalism

In June of this year Daiwa Securities Group Inc. evolved into a company based on a committee system, and at the same time I accepted the post of President and CEO.

My management ideal is to run the Daiwa Securities Group so that it is trusted by customers and society and indispensable to its stakeholders. Our employees are the contact point customers see when they deal with us, so the behavior of each and every employee is a vital concern for us. For our customers, the sense of trust they feel toward the individual employee is the sense of trust they have in the Group as a whole. Therefore, each employee must always be thinking about and acting on what he or she can do in order to be trusted and needed by the customer and society.

This means, of course, that the employee takes the customer's point of view, anticipating customer needs in order to offer products and services and serving as an advisor indispensable to the customer. In the securities industry, where we deal with risk-bearing products whose values change day to day, another critical requirement for building trusting relationships is adequate communication. To achieve this, I hope to oversee a company where all employees exhibit true professionalism based on their impeccable on-the-job ethics and a fair code of conduct in all aspects of the job, not just knowledge and technical aspects.

The Daiwa Securities Group: Aiming to win trust from customers and society through CSR

With this as my fundamental understanding, I intend to bring Daiwa Securities Group further down the road I inherited from former-President and CEO Hara, namely management with a heavy emphasis on corporate branding and CSR. CSR has so many aspects, including offering superior products and services to customers, dealing with customers sincerely, bringing a reasonable profit to shareholders and disclosing information to them, taking steps to improve the work environment for employees and evaluate personnel, as well as assuring legal compliance, corporate ethics, environmental management and social contributions. The Group's approach to each of these is to ask, "Will this action win the trust of society?"

The Daiwa Securities Group sells SRI funds as part of its CSR activities in its core business, and sales of these funds have exceeded expectations. Continuing to offer such products meeting the needs of customers and society is the Daiwa Securities Group's social mission and a forward step in the sustainable development of the Group. We will exhibit the high standard of professional competence and the challenging spirit called for in our Corporate Principles, and continue to develop and introduce new products and services for our customers.

In July of this year, the Group set up its CSR Promotion Department with the aim of further developing our existing measures and expanding the use of CSR in our management systems. I have faith in the idea that "CSR-based management will energize our employees and benefit society," and I intend to continue this effort proactively.

We in the Daiwa Securities Group will take new steps to earn greater and greater trust from customers and society.

Shigeharu Suzuki
President and CEO,
Daiwa Securities Group Inc.

鈴木茂晴



Contents

Message from Top Management	02
CSR-Based Management at the Daiwa Securities Group	05
The Role of Finance and the Business of the Daiwa Securities Group	06
Special Feature: Initiatives in the Daiwa Securities Group's Core Business	
Initiatives for Socially Responsible Investment	08
Initiatives for Economic and Financial Education	12
Management	
Results and Issues/Targets	16
Corporate Governance	18
Compliance	22
Information Disclosure	26
Economic Reporting	
Economic Relations with Stakeholders	28
Social Reporting	
Customer Satisfaction	30
Daiwa People	32
Philanthropy and Community Involvement	36
Environmental Reporting	
Working for the Environment	38
Communication	
Stakeholder Dialogue	42
Group Management Training	46
CSR Seminars	47
CSR Website	47
Third-Party Opinion	48
GRI Content Index	50
Milestones toward Sustainability	51
How to Reach Us	51

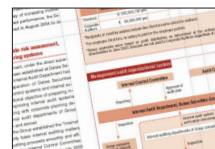
Key points of Daiwa Sustainability Report 2004



Initiatives in the Daiwa Securities Group's Core Business

P.08

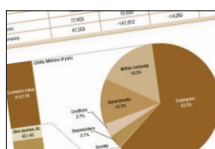
The Group performs CSR through its core business by promoting socially responsible investment (SRI), supporting the economic and financial education of young people and forming industry/academic partnerships with universities and graduate schools.



Corporate Governance

P.18

The Group is tying executive compensation more closely to performance and, to give management more transparency and mobility, has transitioned to a committee system.



Economic Reporting

P.28

This year's report provides more information on economic relations with stakeholders than the last report did.



Stakeholder Dialogue

P.42

Daiwa Securities Group managers met with outside parties on June 14, 2004 to discuss the topic "How CSR should be done in the Daiwa Securities Group."

Editorial Policy

The Daiwa Securities Group issues this year's report with a goal of disclosing, clearly and with complete sincerity, information relating to the Group's sustainability initiatives and social responsibility.

Another purpose that is served by creating this report is to enable the Group to self-check the state of our efforts and issues to be addressed.

This report has two distinctive features. First, its primary focus is on management reporting and social reporting, a feature of every Group report since the first issue in 2002. This is because, working as we do in the securities industry, it is essential to us to have the trust of our stakeholders in our management system.

Second, we have heavily emphasized reporting on activities undertaken in the course of our securities business, such as socially responsible investment and economic and financial education. As for environmental reporting, the Group has endeavored to disclose the state of its environmental management and its environmental burden data, even though our efforts are not yet satisfactory.

This report was produced following the 2002 Sustainability Reporting Guidelines, the international guidelines for sustainability reporting published by the Global Reporting Initiative (GRI)¹.

• Coverage of this report

Target readers:

Daiwa Securities Group's diverse stakeholders, primarily customers, shareholders, investors and employees as well as business partners, non-profit organizations, persons living near Daiwa Securities head and branch offices nationwide, and educational organizations.

Scope of reporting:

This report basically covers our nine main Group companies². However, it does not provide data from all nine companies on all items. Rather, the information is provided in proportion to the size and business area of each company. The scope of each category of numerical data is noted along with the data.

Period covered in report:

FY 2003 (April 2003 – March 2004). Some information is provided that became available close to the publication date and some activities are covered that occurred prior to FY 2003.

¹ Global Reporting Initiative (GRI): An organization founded to propose and promote international guidelines for sustainability reporting. Participants include a variety of stakeholders such as businesses, non-governmental organizations, consultants, accounting groups and business groups from different parts of the world. Operations began in the autumn of 1997.

² Nine main Group companies: See *The Business of the Daiwa Securities Group*, page 07.

CSR-Based Management at the Daiwa Securities Group

Efforts to bring our Corporate Principles to reality are the starting point for CSR-based management at the Daiwa Securities Group. The first pillar of our Corporate Principles, "Customer trust," recognizes our customers, the second, "Human values," recognizes employees, the third, "Total compliance," recognizes society as a whole, and the last, "Sound profit," recognizes shareholders. The Daiwa Securities Group understands that support from all these stakeholders is vital to its sustained growth. The Group therefore continues to communicate with its stakeholders and use their comments and wishes to improve management.

In 2000 the Daiwa Securities Group began a campaign to build a corporate brand based on these Corporate Principles. Trust is the most essential element of a corporate brand in the financial services industry and is another word for the ability to respond to customers and other stakeholders. Through a process of repeated trial and error to determine how to increase trust, the Group came to realize that a corporate brand

stems, in essence, from sustainability and CSR. Even this Sustainability Report which we began issuing in 2002 was created with the idea of checking up on the state of the Daiwa Securities Group in terms of the corporate brand.

The term "CSR" is rather abstruse and comprehends a wide-ranging concept. To put it into practice, it is essential to make it relevant to one's business. What can the Daiwa Securities Group do to achieve a sustainable society where economic, social and environmental concerns are in harmony with each other? At this time, the Group is promoting socially responsible investment (SRI)¹ as step 1 of CSR in our core business. This is in part because the Daiwa Securities Group itself strives to be a company in which persons practicing SRI will invest. Step 2 is economic and financial education and training². This effort requires the cooperation of many employees, so we believe our employees get a stronger sense and understanding of CSR.

¹ For details see *Initiatives for Socially Responsible Investment*, pages 08 - 11. ² For details see *Initiatives for Economic and Financial Education*, pages 12 - 15.

Daiwa Securities Group Corporate Principles (established 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 most appealing securities group at home and abroad.

Human values

People are the source of our competence. We highly value creative initiative by the individual, we cherish the challenging spirit and appreciate the capability and contributions of the individual.

Total compliance

We can be proud and prosper only when we achieve total compliance and gain the trust of our customers, our market and of our world society. We will maintain high standards of professional ethics and a fair code of conduct, thereby contributing to the development of our society.

Sound profit

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

Daiwa Securities Group Brand Statement (established March 2001)

We the Daiwa Securities Group are committed to acting as our clients' best partner and promoting their financial wellbeing. In order to achieve this, we shall redefine currently accepted best practice drawing on the following three core values.

We Shall Provide Products and Services that Exceed Expectations

It is important that we apply detailed knowledge of customer needs, innovation in our internal processes and a strong customer focus to provide solutions that routinely exceed customer expectations.

We Shall Bring the Full Strength of the Group to Bear

Cooperation among Group companies sweeping aside traditional corporate barriers, a flexible approach to business and swift decision making will enable us to offer comprehensive financial services precisely geared to meeting our customers' financial goals.

We Shall Continually Challenge the Limits of Financial Best Practice

Exploitation of our substantial store of professional knowledge and a pro-active approach to team building will enable us to remain pioneers in our marketplace.

The Role of Finance and the Business of the Daiwa Securities Group

The role of finance

Banks, securities companies, insurance companies: although the financial industry is all around us, it is not always easy to understand just what these companies do. Following is a brief explanation of the role of finance and the business conducted by the Daiwa Securities Group, which is a part of the financial world.

Finance is the act of providing funds. But specifically, where does the money come from and where does it go? Who provides funds to whom?

Most people keep some money in a bank account. The bank lends this money to different businesses, as they need it, in the form of everyday loans.

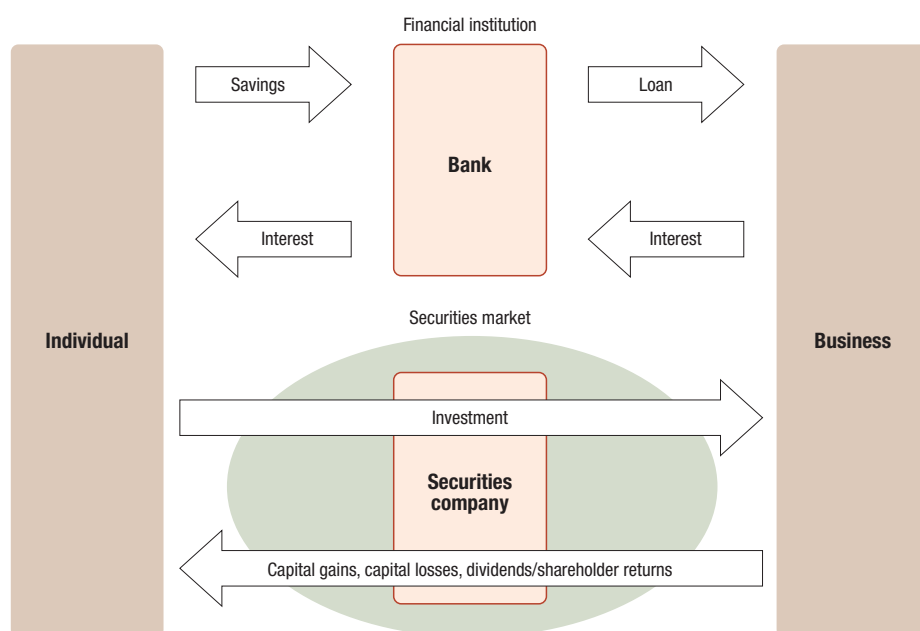
In other words, individuals' money is lent to businesses. In this transaction, the bank acts as a bridge supplying money from individuals

to businesses. In return for the money it lends, the bank collects interest from borrowing companies. In turn, individuals keeping their money at the bank earn interest from the bank.

Now let's consider the securities company. Like a bank, the securities company serves as a bridge between individuals and businesses. The difference is that when the bank is acting as a bridge, the bank itself selects the businesses it lends to, whereas when the securities company is the bridge, the individual chooses the businesses that receive the money. "Investment" is the act in which the individual buys shares in a company, which is expressed as the individual's choice of company in which to invest. In this act, the role of the securities company is to serve as an agent when the individual purchases shares on the market. When an individual lends money directly to a business, the return he or she gets is dividends. The securities company gets a commission called a brokerage fee from the individual making the transaction.

This summarizes the financing roles played respectively by banks and securities companies.

The role of finance



The business of the Daiwa Securities Group

The Daiwa Securities Group consists of a number of companies performing securities-related tasks and working together to provide customers with comprehensive financial services. Following is a summary of the roles played by the nine major Group companies.

Daiwa Securities Group Inc., first of all, functions to oversee and direct the overall Group by holding shares in each Group company. Specifically, it writes business strategy and sets targets for the Group as a whole and oversees the execution of the strategies.

Daiwa Securities Co. Ltd. and Daiwa Securities SMBC Co. Ltd. play large roles as the heart of the Daiwa Securities Group.

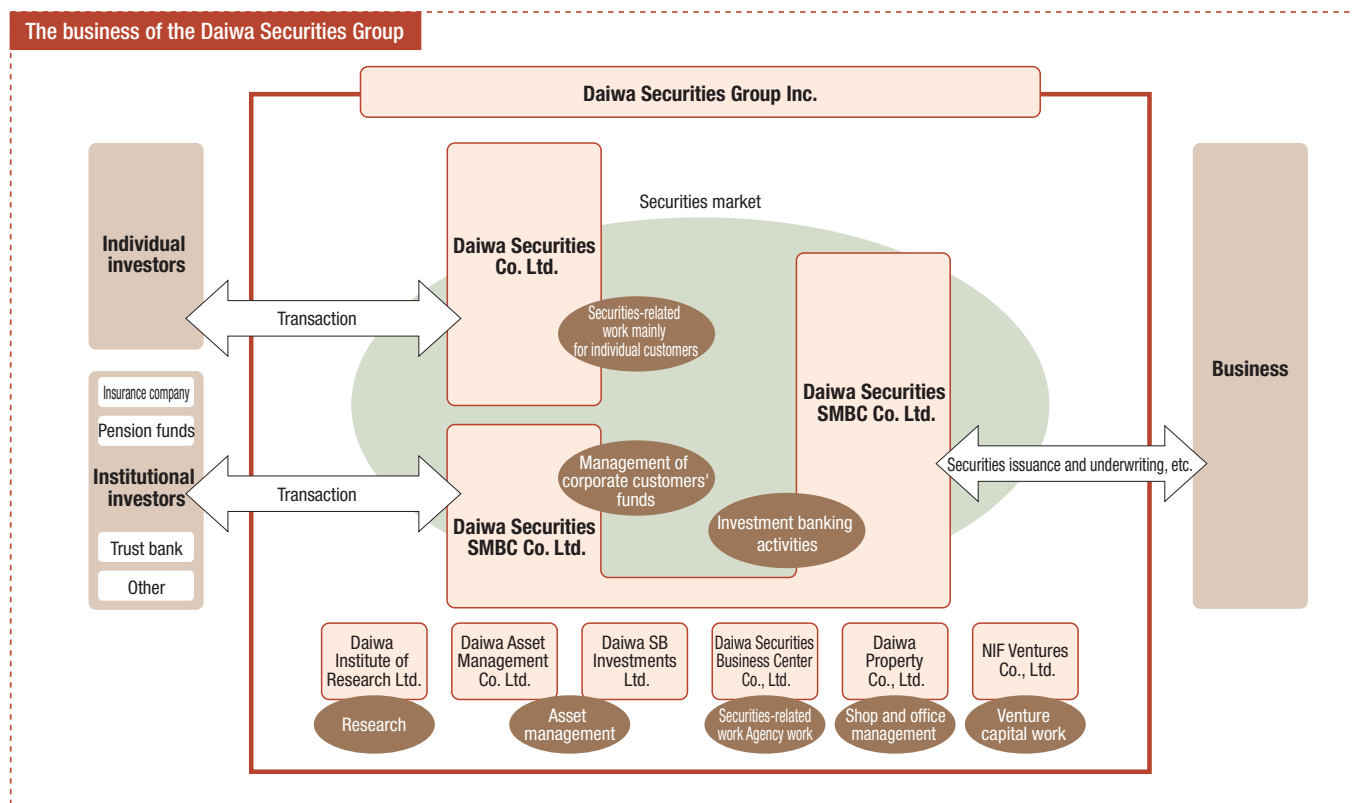
In the financial industry, the role of the securities company is to serve as a bridge between investors and businesses; Daiwa Securities primarily assists individual investors to invest in securities. Daiwa Securities SMBC, on the other hand, mainly helps corporations and other in-

stitutional investors to manage their funds. From the investor's point of view, finance is essentially funds management, but in the eyes of the company invested in, finance is funds procurement. In the field of investment banking activities, Daiwa Securities SMBC also helps companies with funds procurement.

The major Group companies listed below support these two securities companies as they play their differing roles.

Daiwa Institute of Research Ltd. is engaged in research, consulting and system development. Daiwa Asset Management Co. Ltd. and Daiwa SB Investments Ltd. work in asset management, overseeing investment trusts and pension funds. Daiwa Securities Business Center Co., Ltd. is an agent for performing securities-related work, Daiwa Property Co., Ltd. manages Group shop and administrative offices, and NIF Ventures Co., Ltd. performs venture capital work.

Group companies join their strengths so that the Daiwa Securities Group can provide a smooth flow of funds supporting economic activities day after day.



* For details about individual companies in the Daiwa Securities Group, visit the Group's website at <http://www.daiwa.jp/ir/english/>.

Initiatives for Socially Responsible Investment

What is SRI?

In the broad sense, socially responsible investment, or SRI, refers to the flow of money (including savings and financing) in ways conscious of the needs of society. Usually, however, it refers to a way of investing money that appraises not only a business's financial data (sales, return on equity, etc.) but also its corporate social responsibility (CSR), which includes its ethics and its actions for society and the environment. In the past, SRI has been considered a special way of investing in Japan, but hereafter, investment with an SRI perspective will be the primary approach taken by the Daiwa Securities Group.

Q&A: SRI at the Daiwa Securities Group

Q1. Why is the Daiwa Securities Group working so hard to implement SRI?

A1. Issues touched off by the 20th century capitalist economy, such as harm to the global environment and the growing gap between rich and poor, have caused many to fear for the sustainability of society. SRI can support the sustainability of society by actively investing in businesses working to solve these issues and deal sincerely with their stakeholders. Another important aspect is that, since it is likely that businesses practicing CSR will grow in value over the long term, SRI can be an attractive way for investors to invest their money for long periods of time. Because that is the core business of the securities industry, the Daiwa Securities Group believes that it is our social mission to lead in promoting SRI.

Q2. What initiatives is the Group taking presently?

A2. Between June 2001 and May 2004, the Daiwa Securities Group began managing and selling three SRI funds¹. Aside from investment trusts, the Group also supports SRI by offering Kamakura Midori Sai, or "Kamakura Green Bonds," and investing in a World Bank carbon fund. It further releases CSR/SRI information and supports NGOs and non-profits working to promote CSR/SRI.

¹ For details, see page 09.

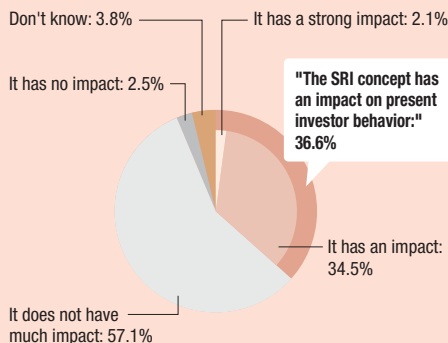
Q3. What is your outlook for the future of the SRI market in Japan?

A3. As of June 2004, the scale of the SRI market in Japan is estimated at about 150 billion yen. For comparison, the market is about 230 trillion yen in the US and 50 trillion yen in Europe, so Japan's SRI market has plenty of potential for growth.

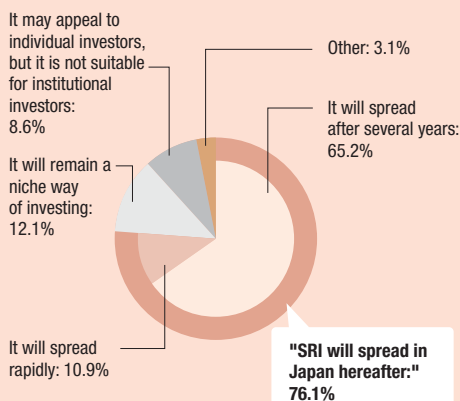
At the Daiwa SRI Investor Seminar held by the Group in June 2004, we asked primarily institutional investors and corporate CSR managers to fill out a questionnaire. According to the results, only 37% of respondents thought that "the SRI concept has an impact on present investor behavior," but 76% expected that "SRI will spread in Japan hereafter." As of 2004, SRI is still in the nascent stage in Japan.

SRI awareness survey (taken at Daiwa SRI Investor Seminar)

Q1 How much impact does the SRI concept have on the investment behavior of investors at the present time?



Q2 Do you think that SRI will spread in Japan?



(Valid responses: 240)

Fund managers and experts talk about the SRI fund concept

Investors have a wide range of investment trusts to choose from, but SRI funds have a number of unique features. This section introduces our readers to the characteristics of the three SRI funds the Daiwa Securities Group offers its customers and the ideas of fund managers and experts.



Ryoji Takaoka
Senior Fund Manager,
Japanese Equity
Management Department 1,
Daiwa Asset Management
Co. Ltd.

The Daiwa Securities Group is working to put "brand management" into effect to earn the trust of its stakeholders. Therefore putting CSR into practice in our core business was a great mission for us. This fund is the result.

Hereafter, we will be putting more time into fund manager reports and other tools to help our investors understand CSR and SRI, and I hope to help the fund grow over time as a result.

Daiwa SRI Fund² : **Japanese stocks only, with a focus on transparency and sincerity**

The Daiwa SRI Fund, which invests in Japanese stocks, was created in partnership with Integrex Inc., a firm that quantitatively assesses CSR. Using the comprehensive R-bec001 framework as based on Japan's original CSR standard ECS2000, this fund screens businesses' CSR by focusing on organizational systems, information disclosure attitude and "business sincerity and transparency" as revealed in its measures for dealing with emergencies. It then narrows down its investment targets by examining the future potential of company products and services, competitiveness, business strategy and so on. In the first two months since its launch in May 2004, it has grown to become Japan's largest SRI fund.

² Established May 2004. As of June 30, 2004, net assets totaled 29.4 billion yen.



Daiwa SRI Fund



Hideo Ueki, CFA, CMA
Executive Director, Chief Investment
Officer and Head of Japanese
Equities, UBS Global Asset
Management (Japan) Ltd.

This fund was created because Daiwa Securities Group wished to have a unique global equity SRI fund easy for Japanese investors to understand and because UBS had a good track record. The issues making up the portfolio are primarily from premium, well known companies outside of Japan with excellent CSR performance. SRI, which has just begun to draw attention in Japan, is most definitely not charity. Our role in SRI is to manage this fund so that investors will feel confident that they will get a high return on investment over the medium- to long-term.

UBS Global Equity 40 SRI+³ : **SRI fund consisting primarily of premium non-Japanese stocks**

With sales beginning in October 2003, UBS Global Equity 40 SRI+ focuses on companies' CSR performance by referring to issues listed in the Dow Jones Sustainability World Index (DJSI World) and SRI survey results of UBS AG. The fund invests primarily in large, premium company shares in major industrialized countries, selecting specific investment targets by assessing medium- to long-term company growth potential, product competitiveness, financial strength including profitability, and stock prices.

³ Established November 2003. As of June 30, 2004, net assets totaled 8.5 billion yen.



UBS Global Equity 40 SRI+



Masayuki Yoshida
Deputy General Manager,
Investment Trust Support,
Daiwa SB Investments Ltd.

"Mrs. GREEN" is an investment trust originated by a woman and brought to reality by female staff members. The portfolio consists of global stocks with a CSR perspective, primarily focusing on environmental aspects as based on environmental assessments by Innovest Strategic Value Advisors. Achieving social growth while protecting the environment is possible and these are not contradictory goals. Achieving

this, however, will require that each business's stakeholders change together. As people become more interested in "Mrs. GREEN," I think we will see society's consciousness change.

Global Eco Growth Fund (nickname: Mrs. GREEN)⁴ : **A CSR perspective with an environmental focus**

"The stock market assesses companies according to how they act toward the environment." Based on this concept, the fund, which invests in Japanese and global stocks, first selects issues from a growth (performance) perspective then further narrows down its choices based on environmental assessments by Innovest Strategic Value Advisors Inc.⁵

⁴ Established June 2001. The fund offers two options: Course A with foreign exchange hedging and Course B without foreign exchange hedging. As of June 30, 2004, combined net assets for Courses A and B totaled 4.8 billion yen.

⁵ Innovest Strategic Value Advisors Inc. is an investment research company that analyzes and assesses businesses in terms of environmental efficiency and sustainability and assigns an environmental ranking based on these.



Mrs. GREEN

Initiatives in the Daiwa Securities Group's Core Business

Revitalizing regional economies: Establishment of regional index funds

The Daiwa Securities Group sells "regional index funds"⁶ whose portfolios consist of issues from businesses with deep ties to a certain region. The goal of these funds is to inject vitality into regional economies. As of June 30, 2004, the Group has funds targeting businesses in four prefectures: Ibaraki, Kanagawa, Saitama and Shizuoka.

List of regional index funds

Fund name	Region	Net assets (As of June 30, 2004)
Ibaraki Fund	Ibaraki Prefecture	3.98 billion yen
Kanagawa Support Fund	Kanagawa Prefecture	1.36 billion yen
Sainokuni Support Fund	Saitama Prefecture	5.01 billion yen
Shizuoka Benchmark Fund	Shizuoka Prefecture	7.39 billion yen
Total		17.74 billion yen

Local bond enables citizens to care for their natural environment: Kamakura Midori Sai



Emi Fukuhara,
Branch Manager, Kamakura
Branch, Daiwa Securities

Kamakura Midori Sai, or "Kamakura Green Bonds," were issued in December 2003 as Kamakura City's first local "mini bonds" (lead manager: Daiwa Securities; amount issued: two billion yen). The goal was to procure funds from area citizens and use the funds to protect the environment of the forested, hilly western section of the city. Branch Manager Emi Fukuhara says that "The theme, which is appropriate for an age of direct financing, is 'Community building through the hands of Kamakura's citizens.' By getting deeply involved, Daiwa Securities also has the opportunity to make more people aware of the social role of a securities company." Branches worked together to promote the fund, so that the entire issue sold out just after 10:00 AM on the opening day of sales.



Staff members from
Kamakura Branch

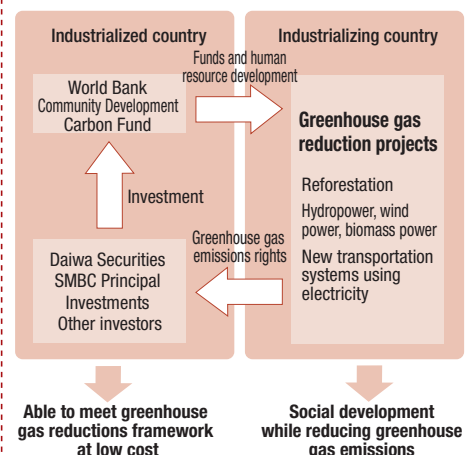
Investment in World Bank carbon fund

In July 2003, Daiwa Securities SMBC Principal Investments Co. Ltd. became the only securities company in the world to invest in a World Bank carbon fund (the Community Development Carbon Fund), purchasing a share worth US\$2.5 million. This carbon fund invests in emissions rights arising from development projects to reduce greenhouse gases, for example the use of wind power in industrializing countries, thus contributing to the reduction of greenhouse gases in industrializing countries and regions while supporting social development there. Daiwa Securities SMBC Principal Investments also participated in the Carbon Expo, held in Cologne, Germany in June 2004 to promote the active trading of emissions rights.

Greenhouse gas emissions trading is a system under which, for example, each nation (or business) is allowed to emit a certain amount of greenhouse gases, and those nations (or businesses) that exceed the limit can purchase rights to release the excess

amount from others that are under the limit. This system is drawing attention as a means for meeting emissions reduction targets promised under the Kyoto Protocol (emissions reductions from 2008 to 2012 are to be at least 5% vs. 1990 levels).

World Bank carbon fund scheme



⁶ Daiwa Asset Management has established and is operating the four regional index funds.

Activities to promote SRI

Daiwa SRI Investor Seminar

The Daiwa SRI Investor Seminar⁷ took place on June 18, 2004. The 420 attendees consisted mainly of company CSR managers and institutional investors. Exploring the theme "SRI and Its Possibilities," the seminar brought together company pension managers, SRI supervisors, CSR assessors and quantitative analysts, who discussed the question, "Does SRI lead to good investment performance?" Foreshadowing an age of wide-scale SRI investment in Japan, the seminar gave the participants a clear sense that SRI will soon no longer be a specialized way of investing.



A panel discussion at the seminar.



Lecture by Mariko Kawaguchi, Senior Analyst at Daiwa Institute of Research

Support for NGOs and non-profits advancing SRI

Taking part as a corporate member, the Daiwa Securities Group supports non-profits which advance the SRI cause. Social Investment Forum Japan⁸, launched in November 2003, pursues its mission of helping to establish social systems wherein funds flow to companies with strong pro-social characteristics. Additionally, the Association for Sustainable & Responsible Investment in Asia (ASrIA)⁹ held its Annual Conference¹⁰ in July 2004 in Singapore, at which Director and Executive Vice President Masayasu Oi of Daiwa Asset Management gave a speech on the status of SRI in Japan.



Speech by Masayasu Oi, Director and Executive Vice President of Daiwa Asset Management



SOCIAL
INVESTMENT
FORUM
JAPAN

Signatory to Carbon Disclosure Project (CDP)¹¹

Daiwa Securities Group Inc. became a signatory to the Carbon Disclosure Project (CDP) in March 2004. The CDP is the secretariat for an alliance of institutional investors interested in climate change who ask global businesses to disclose information on their actions and positions on global environmental problems. As of May 2004, the CDP has 95 participating financial institutions with combined working assets of approximately US\$10 trillion, demonstrating that institutional investors are highly concerned about climate change.

Publication of SRI/CSR report

SRI/CSR reports produced by the Daiwa Institute of Research are published on the Group's "CSR Website"¹². In addition, a compilation of multiple reports, "Daiwa Securities Group SRI Reports 2004"¹³, has been produced.

SRI awareness survey

Daiwa Investor Relations Co. Ltd. has performed a series of surveys for analysts and fund managers in Japan on the topic of "The impact of SRI on Japanese businesses" since December 2002. In the most recent such survey, performed in March - April 2004, only 21.0% of respondents said that "SRI has an impact on report writing and stocks chosen for investment," but 60.5% of respondents believed that "SRI will become widespread in Japan."

7

For details about the Daiwa SRI Investor Seminar, see <http://www.daiwa.jp/branding/sri/seminar040723.html> (Japanese only)

8

Social Investment Forum Japan: <http://www.sifjapan.org/> (Japanese only)

9

Association for Sustainable & Responsible Investment in Asia (ASrIA): <http://www.asria.org/>

10

ASrIA Annual Conference: <http://www.asria.org/events/singapore/july04/home>

11

Carbon Disclosure Project (CDP): <http://www.cdproject.net/>

12

<http://www.daiwa.jp/branding/> (Japanese only)

13

<http://www.daiwa.jp/branding/sri/report.html> (Japanese only)

SRI awareness survey by Daiwa Investor Relations (March - April 2004)

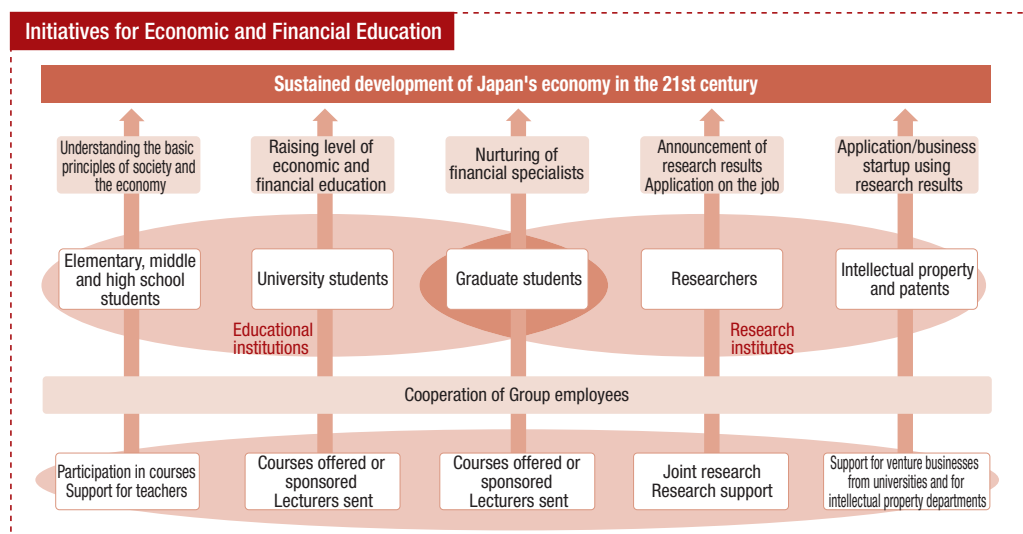
Respondents: total of 81 Japanese analysts and fund managers

Items	
I know about SRI	92.6%
I know about CSR	90.1%
SRI will become widespread in Japan	60.5%
SRI has an impact on report writing and stocks chosen for investment	21.0%

Initiatives for Economic and Financial Education

All of us from children to adults are getting along, using the medium of money in our day-to-day lives. Therefore we are all quite familiar with money, but the Daiwa Securities Group believes that, in Japan, we have not had sufficient education in money flows, economic systems or even social systems.

The Daiwa Securities Group works with a variety of educational institutions and non-profits to provide people with opportunities for economic and financial education and research. Specifically, we support 1) basic education for elementary, middle and high school students and 2) education and research through industry/academic partnerships with universities and graduate schools. We consider such activities to be a way for us to use our professional knowledge and skills to make a contribution to society in our core area of business.



Main industry/academic partnerships with universities and graduate schools in FY 2003

Main objectives	Major industry/academic partnerships	Major efforts in FY 2003
Educational support	Courses sponsored	Offered two courses at Hitotsubashi University Graduate School of International Corporate Strategy and one course at Kyoto University Graduate School of Economics
	Courses offered	Offered course on "Theory of Corporate Governance" at Keio University Shonan Fujisawa Campus. This introductory course teaching the importance of market-type finance gets many students every year. Announced partnership with Waseda Graduate School of Finance, Accounting and Law.
	Lecturers sent	Lecturers sent to 12 courses at as many universities in Japan, including Aoyama Gakuin University Graduate School of International Management.
Research support	Joint research	Performed joint research on company valuation with Hitotsubashi University Graduate School of International Corporate Strategy. Presented research results in Securities Analyst Journal. Research results also posted on our website.
Exchange support	Award system support	Provided comprehensive support for Porter Prize 2003 (given to Japanese businesses using excellent strategy to achieve high profitability).
	Scholarship system	Operated Daiwa Securities Group's scholarships for international students at Hitotsubashi University Graduate School of International Corporate Strategy (eight individuals received scholarships in FY 2003).
	Support for holding conferences	Supported Kyoto University's symposium on Chinese economic development and capital markets to mark the opening of the university's Shanghai Center for Economic Research.

Acquiring life skills: Economic education for elementary, middle and high school students

The Group's hope is to help children understand that the basic premise of the economy is to create a common good for society. The phenomena of day to day life exactly parallel the basic principles of the economy. Even the smallest actions that an individual takes can create value for society. We believe that when the child becomes keenly aware of this, it empowers the child to live. It is out of a desire for doing this that the Daiwa Securities Group supports economic education in elementary, middle and high schools.

Cooperative partnership with Junior Achievement¹ Japan

The Daiwa Securities Group endorses the economic education efforts of Junior Achievement Japan and supports the promotion of its programs and their implementation in places of education.

Activities for spreading economic education

The Daiwa Securities Group provided support to Junior Achievement Japan's third Global Leadership Forum for Elementary, Middle and High School Teachers, held in August 2003. This forum, which drew participation from nearly 800 teachers at the elementary to high school level from all over Japan, provided a venue to consider the hoped-for state of education in the 21st century. From the Daiwa Securities Group, Eiji Azuma, Managing Director at Daiwa Institute of Research, gave a lecture on the topic of "Conditions for Revitalizing Japan's Economy."



At the Global Leadership Forum

1

Junior Achievement:
A non-profit organization founded in the US in 1919. The world's largest organization dedicated to economic education, it provides materials and programs to schools free of charge in various countries. With the support of member businesses, Junior Achievement strives to educate young people about business management, economics and finance. Junior Achievement Japan was established in 1995, with the Daiwa Securities Group becoming a member in 2000.

2

The Student Company Program, or SCP, is Junior Achievement Japan's hands-on economic education program. For details, see <http://www.ja-japan.org/> (Japanese only).

Student Company Program (SCP)²: Working with JUGO Inc. at Ritsumeikan Senior High School

The Daiwa Securities Group has supported the "Student Company Program," or SCP, which has been given as part of the regular curriculum at Ritsumeikan Senior High School in Kyoto since October 2003. Under this program, 15 students started a company called JUGO Inc. with a capital of 10,000 yen. The students ran the business for a period of 16 weeks, in the meantime learning about social and economic systems. Three employees and one retiree from the Daiwa Securities Group took part in weekly classes and advised the students as outside directors.



A JUGO Inc. board meeting



Company members making products



Selling to PTA members



General meeting of shareholders

SCP: A 16-week struggle and maturing experience

For the 15 students who took part, SCP was a 16-week of struggle, anguish, joy and maturing. As the supervising teacher who spent time with the group during these 16 weeks, I came away feeling that children will show their unlimited potential, if just given a place and opportunity to do so. I appreciate the personnel from Junior Achievement who offered and supported the program and the members from the Daiwa Securities Group who gave such good advice to the students every week as outside directors.



Tetsuji Jinno, Teacher, Ritsumeikan Senior High School

Outline of the SCP

October 9, 2003:

A President is selected and the company established. JUGO Inc. starts activities.

November 22, 2003:

Company begins selling ornamental plant products "PLANCOAL" and "Kaguyahime."

February 1, 2004:

Street sales at Kyoto's Nishiki Market. JUGO sells out its stock of 27 PLANCOAL and 19 Kaguyahime products.

February 19, 2004:

Activities end

March 12, 2004:

Students visit Daiwa Securities Group Inc. and report activity results to President (now Chairman) Hara.

March 13, 2004:

Business performance announced at joint SCP general meeting of shareholders held at IBM Japan.

Industry/academic partnerships with universities and graduate schools

Industry/academic partnerships are an important way to contribute to the sustained development of the Japanese economy.

The heart of the Daiwa Securities Group's industry/academic partnerships is the sending of lecturers and offering and sponsorship of courses at universities around Japan, and joint research with graduate schools. Additionally, the Group sends employees to such organizations as university-originated ventures and university intellectual property departments to act as coordinators between the seeds of the academic world and the needs of the industrial world.

Offering courses and sending lecturers: Industry/academic partnerships taking advantage of regional characteristics

The Daiwa Securities Group sends lecturers to lead courses it provides of varying size and content. These include courses to which personnel from Daiwa Securities branch offices are sent as lecturers according to the needs of local universities. The Takamatsu Branch of Daiwa Securities, for example, has given spot lectures a total of nine times through FY 2002 at Kagawa University and an associated middle school and started its second series at a national university in FY 2003. Continuing in FY 2004, the manager of the Takamatsu Branch and directors from group companies have lectured on the theory of securities markets. We believe that, through local efforts like these, we can contribute to regional economies.

Nurturing economy-savvy citizens: Initiatives of the Takamatsu Branch

How can we make ourselves the most trusted company? That is the question that prompted the Takamatsu Branch of Daiwa Securities to form an industry/academic partnership with Kagawa University. During branch meetings, we staff members narrowed the discussion to ways of vitalizing Takamatsu's economy, after which we interviewed people from the prefectural and city governments as well as university and financial world personnel. This ended in a decision to try to help nurture human resources with practical skills. Twelve site managers from three companies in the Daiwa Securities Group came together to give a lecture exposing students to practical knowledge based on on-site experience.

In our lectures we talked about what we were doing on the job, what we were struggling with, what the workplace was really like, and so on. This is what we consider "practical knowledge." The students listened with great interest, since these were real-life stories from the business place.

Working in these industry/academic partnerships, we come to be better known within the community and to understand that our customers have developed a sense of trust in us in many ways.

Moreover, we got a strong impression of how important it is that activities taking place within a local community be planned by people who truly understand local characteristics. It is so critical that action come from the place that best understands the local people, economic conditions and problems of the area.



Tatsuru Asano,
Branch Manager
Takamatsu Branch, Daiwa Securities

Main points of Theory of Securities Market special lectures at Kagawa University in FY 2003.

Lecture topic		Lecturer	
No. 1	Special Lecture and Orientation	Eiji Azuma	Managing Director Daiwa Institute of Research
No. 2	The Securities Market: Its Effect on the Actual Economy	Sachiko Hanaoka	Deputy General Manager Investment Strategy & Research Department, Daiwa Securities
No. 3	The Role of the Securities Market as Seen in the Changes in Japan's Economy	Hiroshi Asano	Deputy General Manager Takamatsu Branch, Daiwa Securities
No. 4	The Stock Market I: The Market System	Toyofumi Oga	General Manager Equity Department, Daiwa Securities
No. 5	The Stock Market II: How are Stock Prices Determined?	Toyofumi Oga	General Manager Equity Department, Daiwa Securities
No. 6	The Bond Market I: What are Bonds? What is Rating?	Kouichi Ninomiya	General Manager Fixed Income Department, Daiwa Securities
No. 7	The Bond Market II: From Yield to Fiscal Problems	Kouichi Ninomiya	General Manager Fixed Income Department, Daiwa Securities
No. 8	Investment Trusts and Practical Asset Management	Tatsui Yanagisawa	Deputy General Manager Pension & Annuity Department, Daiwa Securities
No. 9	What are Derivatives?	Shizuka Osawa	Deputy General Manager Daiwa Institute of Research
No. 10	Investment and Securities Companies	Kinya Kuramoto	General Manager Corporate Planning Department, Daiwa Securities
No. 11	Securitized Products: New Finance Techniques	Yuichi Sato	Deputy General Manager Daiwa Institute of Research
No. 12	Information Disclosure and Investor Relations: From Black Boxes to Glass Windows	Makoto Yada	Deputy General Manager Takamatsu Branch, Daiwa Securities
No. 13	Case Studies in the Importance of Compliance	Yoshinori Shikada	Deputy General Manager Personnel Department, Daiwa Securities Group Inc.
No. 14	Overview and Role of Securities Markets Hereafter	Nobuyuki Sano	Branch Manager Takamatsu Branch, Daiwa Securities

(Titles given were valid as of FY 2003)

Joint research with graduate schools

Joint research between companies and graduate schools has a number of advantages both for the companies, who can apply graduate school research results to their business, and for the graduate schools, who can absorb company know-how. One example is the Group's joint research with the Hitotsubashi University Graduate School of International Corporate Strategy on the theme "Valuation of Diversified Corporations in Japan: Analysis by Fundamentals and Investment Strategies." Specifically, the research examined whether the concept of the "diversification discount," widely accepted in the West, can be applied to Japanese businesses, and this led to the development of a "diversified company evaluation tool." Published in the Security Analysts Journal®, the study has captured attention from many quarters.³

Other industry/academic partnerships

Japan at this time needs to find ways to take university and graduate school research and apply it promptly to the economy. The Daiwa Securities Group is endeavoring to support university-originated venture businesses and university intellectual property offices which seek to apply research results to private enterprise in a process of technical transfer. Moreover, it is helping to hold international conferences to which noted researchers from abroad are invited. The Group will continue to offer ongoing, multifaceted support and create ways to apply university and graduate school research directly to Japan's economy.

3

For details on joint research with Hitotsubashi University's Graduate School, see <http://www.daiwa.jp/branding/action/acd.html> (Japanese only)

Joint research using the respective strong points of graduate schools and businesses



Makoto Nakano (center), Associate Professor, Graduate School of International Corporate Strategy, Hitotsubashi University

As academic disciplines, corporate finance and finance in general are strongly characterized by practical knowledge, but within the university framework, the sense of being in the workplace is missing. We have done joint research with private enterprise because it gives one that sense of being in the actual workplace and one feels that the research can really be put to practical use. We have been able to accomplish some highly original research by working with people from the Daiwa Securities Group, who have real experience in quantitative analysis.

Naoya Kubo (right), Deputy General Manager, Quantitative Research Department, Daiwa Securities SMBC

The joint research made me feel that my theoretical knowledge of the field was lacking. That motivated me actually to become a student of Hitotsubashi University's Graduate School. The chance to mingle with people from the academic world is one of the great things about industry/academic partnerships.

Yukimitsu Yoshimura (left), Assistant Manager, Quantitative Research Department, Daiwa Securities SMBC

The Daiwa Securities Group has so many staff members, it's like a treasure house of human resources. Through the research process we were able to take the knowledge and experience of many employees and use it to produce results. As competition among businesses heats up, it is the ability to create new areas of business that will enable companies to grow. That is one way in which this type of industry/academic partnership is such a great opportunity.

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

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

Issues and targets for FY 2004 and beyond

Establish highly persuasive evaluation standards in keeping with Group strategy.

Establish a Corporate Governance Principle.

Further enhance internal control system.

Raise level of internal understanding of Corporate Ethics Hotline and periodically survey for awareness.

Examine establishment of "voluntary action standards."

"More thorough legal compliance and elimination of improper conduct," "achieve higher level of investor protection."

Established "Compliance Officers" (April 2004).

Create "Work Manual for Internal Administration Supervisor."

Re-examine from perspective of cross-Group voluntary action standards.

Strengthen compliance training and online training in departmental units.

Revise "Handbook for Legal Compliance."

Establish an electronic bulletin board for internal administration supervisors.

"Strengthen functions of internal administration supervisors and internal administrators," "enhance training," "enhance intra-departmental inspections" and "prepare environment to assure thorough legal compliance."

Create a booklet of Compliance Newsletters.

Increase percentage of ownership by individual shareholders.

Actively pursue two-way communication with stakeholders.

Established Daiwa SRI Fund (May 2004) and held Daiwa SRI Investor Seminar (June 2004).

Partnership with Waseda Graduate School of Finance, Accounting and Law (April 2004).

Continuous effort for "post-sales follow up:" Increase frequency of customer contact, learn customer needs and improve quality of suggestions for customers.

"Checking basic actions:" Be thorough in basic actions and fundamental services.

Pursue "understandability as seen from the customer's point of view:" Use simpler language in documents, forms, etc. intended for customers.

Increase customer satisfaction by improving sales and service systems.

Aim to stabilize employment of persons with disabilities, review nature of work and make workplace environment improvements.

Improve "evaluator training" to raise persuasiveness of evaluations.

Aim for 20% enrollment in Daiwa Leadership Program from Group overall.

Enhance personnel system with goal of fostering professional human resources.

Partner with parties subsidized by foundations and perform corporate citizenship activities closely tied to the community through branch offices.

Promote understanding of volunteerism among Group employees with social welfare experiences.

Strengthen environmental communication with goal of raising Group employee environmental awareness.

Study effectiveness of implementing ISO 14001, taking into account characteristics of business area.

Achieve greenhouse gas (CO₂ equivalent) reduction target (1.9% less than FY 2001) in Daiwa Eitai Building.

Learning the issues and setting targets

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

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

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

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

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

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

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

customer's point of view.

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

Preparation of executive compensation framework

The Daiwa Securities Group determines the monthly salaries and its bonus funds (a combined total for each Group company) to pay each Group company's Directors¹ and Corporate Executive Officers (and Executive Officers) based on performance evaluation standards of each Group company. Moreover, the monthly salaries and bonuses that individual Directors and Corporate Executive Officers actually receive goes up and down depending on their individual evaluations at Group companies.

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

Major performance criteria of the Daiwa Securities Group

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

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

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

Requirement to take part of executive compensation in company shares

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

Preparing Group-wide risk assessment, control and monitoring systems

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

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

Control Committee works to improve internal control systems.

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

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

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

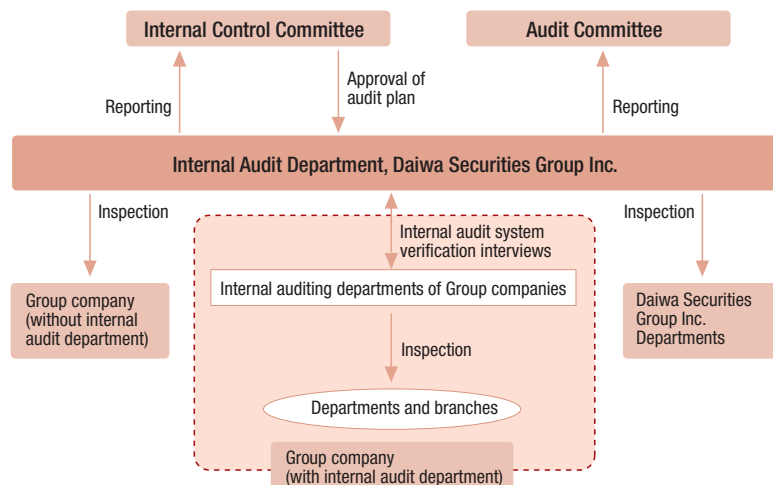
	Monthly salaries		Bonuses		Retirement gratuities	
	Recipients	Amount paid in year	Recipients	Amount paid	Recipients	Amount paid
Directors	9	245,050,730 yen	0	0 yen	2	41,499,200 yen
Corporate Auditors	4	60,000,000 yen	-	-	0	0 yen

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

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

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

Management audit organizational system



Transition to a "committee system"

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

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

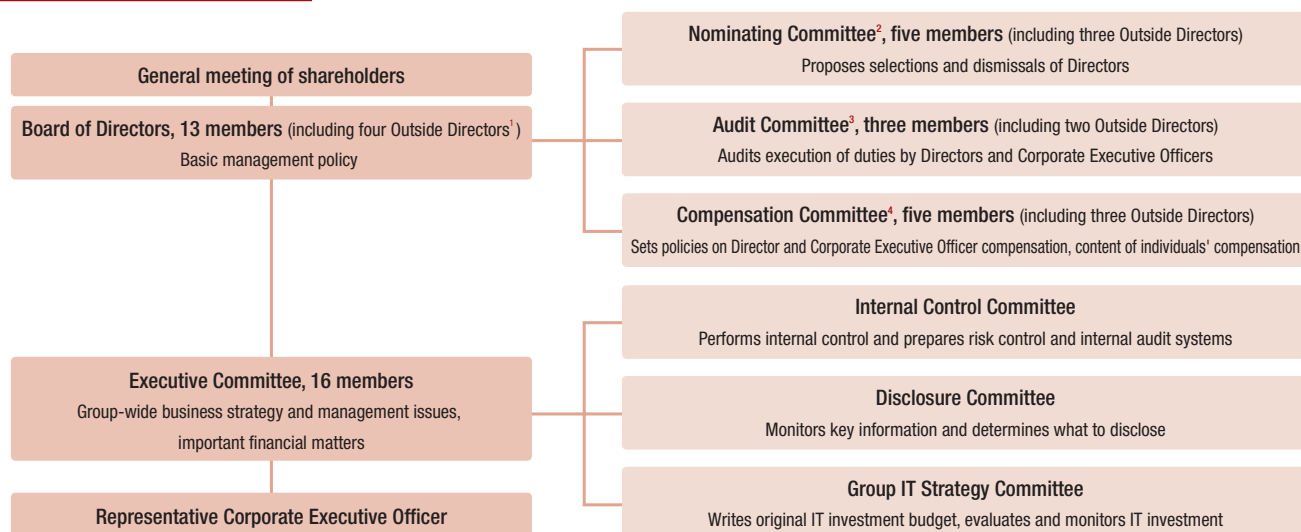
The number of Outside Directors has risen from two to four, and Nominating, Audit and Compensation Committees have been established to strengthen the directorship function. To coincide with these changes, the Group has eliminated the position of Corporate Auditor. Further, the Group has transferred broad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

³

A company based on a committee system:

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

Corporate governance organization



1 Outside Directors

Tetsuro Kawakami
Counsel of Sumitomo Electric Industries, Ltd.

Ryuji Yasuda
Chaired Visiting Professor,
Hitotsubashi University Graduate School

Keisuke Kitajima
Attorney

Koichi Uno
Certified Public Accountant

2 Nominating Committee

Yoshinari Hara (Committee Chair)
Chairman of the Board and Corporate Executive Officer,
Daiwa Securities Group Inc.

Shigeharu Suzuki
Director and President (CEO), Daiwa Securities Group Inc.
(internal)

Tetsuro Kawakami (external)
Ryuji Yasuda
Keisuke Kitajima

3 Audit Committee

Kenji Hayashibe (Committee Chair)
Director, Daiwa Securities Group Inc.

(internal)
Keisuke Kitajima (external)
Koichi Uno

4 Compensation Committee

Yoshinari Hara (Committee Chair)
Shigeharu Suzuki

(internal)
Tetsuro Kawakami (external)
Ryuji Yasuda
Koichi Uno

Appointing of Nominating, Audit and Compensation Committees

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

• Nominating Committee

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

• Audit Committee

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

• Compensation Committee

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

Transfer of authority from Board of Directors to Executive Officers

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

• Board of Directors

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

• Executive Committee

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

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

Preparation of executive system

Coinciding with the establishment of the Disclosure Policy⁴ in March 2004, the Daiwa Securities Group Inc. has appointed a new Disclosure Committee. With its change to a committee system, the Group has prepared its executive system by re-organizing the Internal Control Committee, Group IT Strategic Meeting and Disclosure Committee as subcommittees of the Executive Committee.

• Internal Control Committee

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

• Disclosure Committee

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

• Group IT Strategy Committee

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

Establishment of Corporate Governance Principle

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

⁴ For details, see Information Disclosure on page 26.

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

"Think for yourself, act for yourself" compliance initiatives

Having enshrined "Total compliance" in its Corporate Principles¹, the Daiwa Securities Group is developing a systematic organization that sets internal rules to assure thorough legal compliance, provides awareness-raising activities and leadership to employees and monitors employee work. For this organization to function effectively, the Group strives to firmly implant a consciousness in employees that "compliance is the wellspring of a business's income, and even one legal violation will damage the corporate brand and lead directly to a decline in income." For that reason, we believe it essential to create a culture of "think for yourself, act for yourself" compliance, in which each employee aims for compliance in his or her day to day work.

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

Total compliance

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

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

Cross-Group initiatives

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

Voluntary action standards

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

Daiwa Securities

Penetration of compliance consciousness

Following the principle of "think for yourself, act for yourself," Daiwa Securities branch offices hold Compliance Meetings once a month to discuss specific themes of their own choosing. Also, the Compliance Department continues to issue the "Compliance Letter" for employees, but in FY 2003 it began also to publish "Compliance One-Point Lesson" and "Compliance Weekly." Through dissemination of information and through training (described below), Daiwa Securities has worked continuously to raise compliance awareness and improve the internal restraint and monitoring functions. This has resulted, for example, in more frequent internal detection of improper conduct² in sales activity. Internal detection, which stood at 26% in FY 2001, rose to 50% in FY 2002 and 73% in FY 2003. For the future, Daiwa Securities hopes to step up internal restraints to eliminate the occurrence of improper conduct in the first place.

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

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

Thoroughgoing compliance training

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

Stepping up internal administration system

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

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

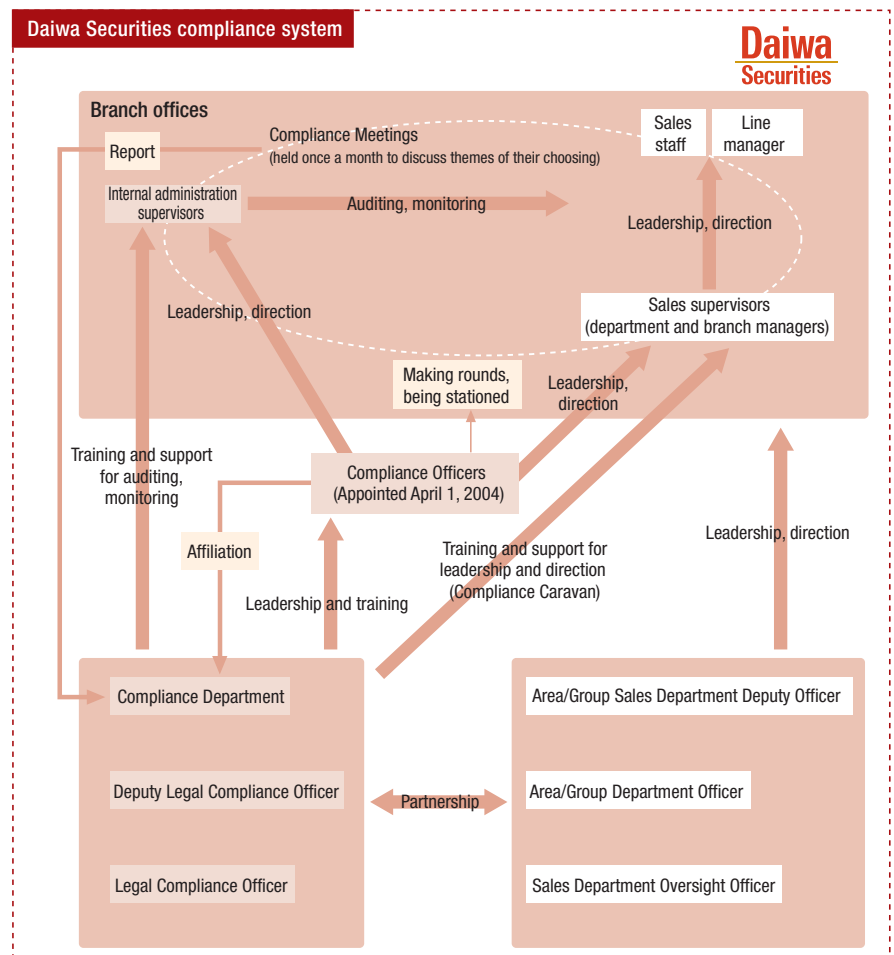
Daiwa Securities runs a customer interview system in which supervisors such as branch managers interview customers directly to check up on transactions. In FY 2003, supervisors interviewed an average of about 2,000 customers every month.

Preparation of manuals

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

FY 2004 goals

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



Daiwa Securities SMBC

Providing systematic compliance training

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

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

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

Raising of legal compliance awareness and understanding

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

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

Stepping up internal control

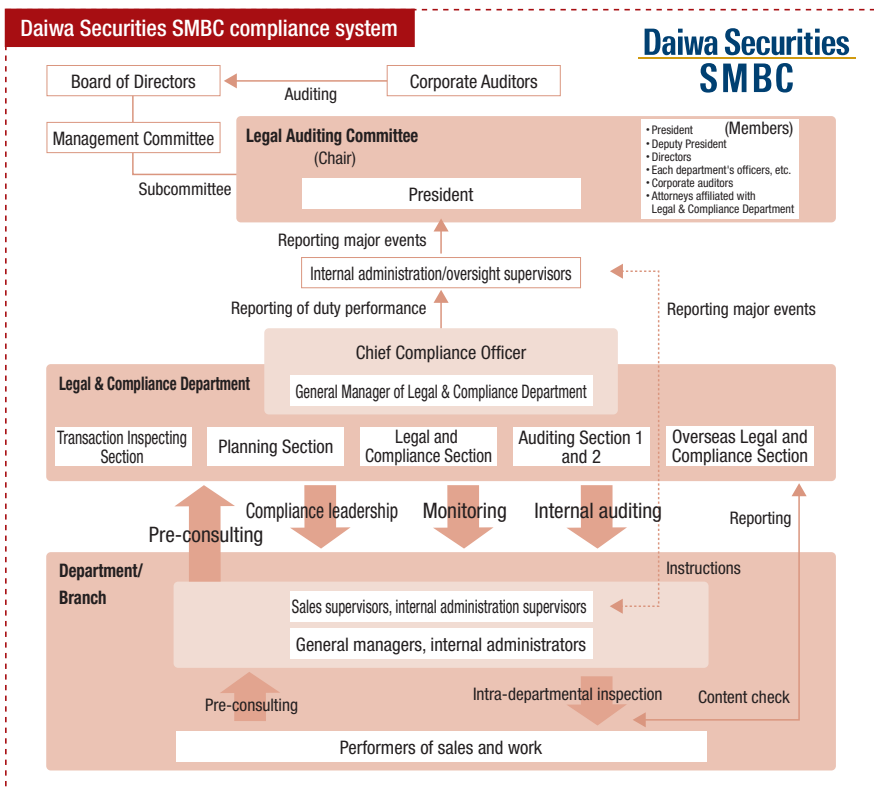
The affiliation of each office's internal administration supervisors, who are so pivotal to internal control, was changed in FY 2003 from that office alone to both the office and the Legal & Compliance Department, which reinforces the internal control function. Each office and the Legal & Compliance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

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

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

Prevention of unfair trades by Directors and employees

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



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

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

FY 2004 goals

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

Reports to Corporate Ethics Hotline

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

Internal report examples and responses

Total reports taken in FY 2003: 9

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

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



Internal announcement of Corporate Ethics Hotline

Corporate Ethics Hotline Employee Awareness Survey

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

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

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

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

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

Results of Corporate Ethics Hotline Employee Awareness Survey

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

My opinion of Daiwa Securities Group initiatives

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

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



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

Disclosure Policy established

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

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

Additionally, Group regulations require that a Disclosure Committee² be established as a subcommittee of the Executive Committee³. The Disclosure

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

Disclosure Policy

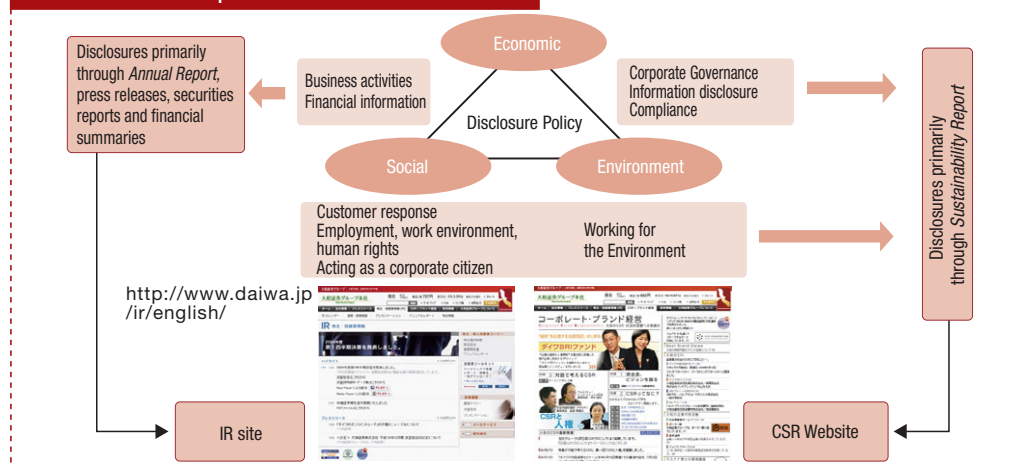
- We will observe fair and timely disclosure of important financial, social and environmental information ("Management-Related Information") regarding the Daiwa Securities Group so that our stakeholders (including shareholders, investors and the communities we operate in) may understand and maintain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

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

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

³ For details, see *Corporate Governance*, pages 20 - 21.

Daiwa Securities Group information disclosure framework



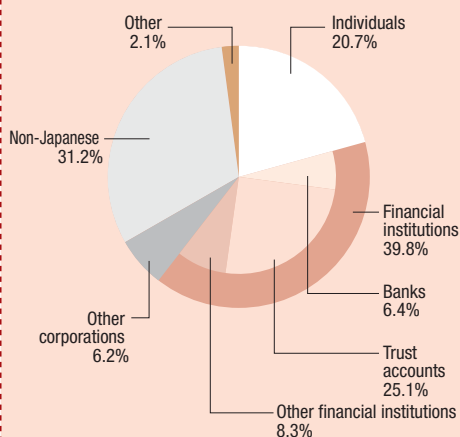
Ongoing shareholder survey

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

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

Shareholders breakdown

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



Disclosure through many media

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

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

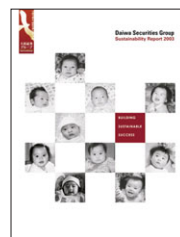
On our main website, the Group's CSR Website⁴ started up in January 2004 as a way to enrich CSR and SRI information presentation. Subsequently, the Daiwa Securities Group Inc. main website and IR site were updated in June 2004 to help increase knowledge of the information offered there and make it easier to access the needed information. The Group will continue to promote two-way communication with stakeholders by making content more understandable and disclosures timely, appropriate and fair.

⁴ For details, see *CSR Website*, page 47.

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



Annual Report (2004)



Sustainability Report (2003)

My opinion of Daiwa Securities Group initiatives

Senior Analyst, UBS Securities Japan Ltd.
Ayako Sato

One of the biggest difficulties in analyzing a securities company is the category "net gain on trading securities⁵." Because trading is a major source of income for a securities company, the risks must be examined. For that reason, securities companies are going to have to disclose more information than they do now. At the same time, if information disclosure leaks too much know-how about putting together products, this could work to the disadvantage of shareholders, so striking a balance is a concern. The Daiwa Securities Group discloses a relatively rich amount of information, and within the industry, they are considered to have excellent IR.



In this section, the Daiwa Securities Group explains its economic relations with its various stakeholders in keeping with GRI guidelines. First, we explain the Group's revenue structure from its core business providing products and services to customers. Following this, we explain how we then distribute those profits to our different stakeholders.¹

Daiwa Securities Group revenue structure

The Group's largest revenue source in FY 2003 was commissions, which made up 48.7% of the total revenue structure. Commissions fall under three categories as below.

1. Equity commissions, bond commissions

These are the commissions received for acting as an intermediary when individual or business customers buy or sell securities such as shares or bonds.

2. Investment banking commissions

Commissions received, for example, as underwriting commissions when corporate customers issue shares or bonds with the intent of procuring new funds, and commissions from mergers and acquisitions (M&A)², etc.

3. Asset management commissions

Investment trust sales commissions and commissions received for holding, using and managing assets of individual and corporate customers.

The Group's second largest revenue source at 30.2% of total revenue is net gain on trading securities. This is the net gain that the Group realizes in cases where it takes part in a transaction as buyer or seller in order to meet the needs of customers to transact securities like shares and bonds and the net

gain that the Group itself realizes from the buying and selling of securities.

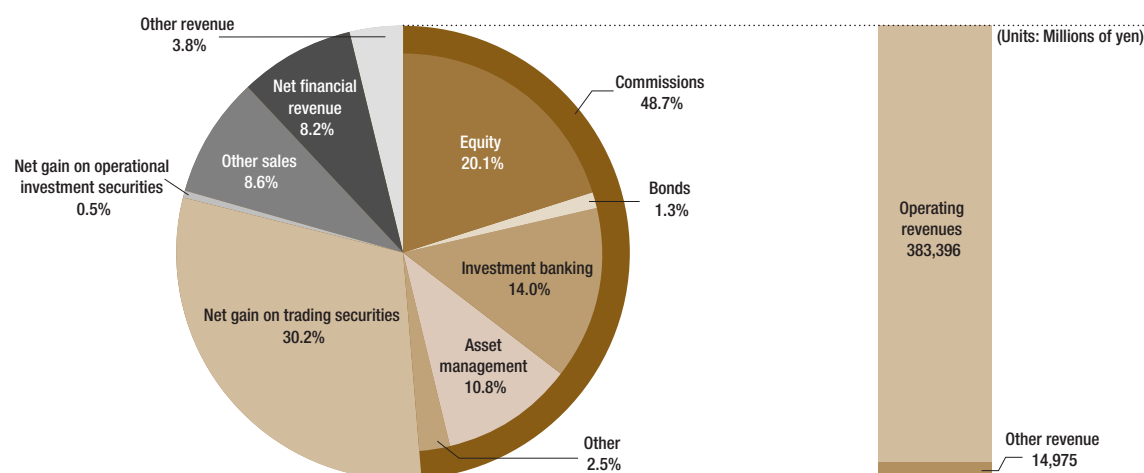
Geographically, on an ordinary income basis, 88.8% of the Group's revenue comes from Japan. Thus, the Daiwa Securities Group earns its revenue by managing funds and assisting in funds procurement for individual and corporate customers mainly in Japan.

The "Revenue in economic report" shown in the pie chart below is the total of operating revenues³, non-operating income and extraordinary gains.

Revenue categories (FY 2003)

(Units: Millions of yen)

Operating revenues ³	Commissions	194,162
	Equity	80,060
	Bonds	5,219
	Investment banking	55,805
	Asset management	43,045
	Other	10,032
	Net gain on trading securities	120,195
	Net gain on operational investment securities	1,817
	Other sales	34,413
	Net financial revenue ³ (interest and dividend income minus interest expenses)	32,807
Other revenue (non-operating income and extraordinary gains)		14,975
Revenue in economic report		398,372



¹ The numerical data uses figures shown in the consolidated financial statements of our securities reports. For financial information, also see our 2003 Annual Report.

² Mergers and acquisitions (M&A): The merging of companies into one, or the acquiring of one company by another. The term actually refers not only to business tie-ups such as mergers and acquisitions but also generally to transfers of operations or shares, capital tie-ups and so on.

³ The figure used is found by subtracting interest expenses (exclusive of interest unrelated to securities transactions) included under "Cost of service fees and other sales" from interest and dividend income in the Breakdown of Net Operating Revenues.

Distribution of economic value to stakeholders

The Daiwa Securities Group is working constantly to monitor the state of distributions of economic value derived from business activities to our various stakeholders. The economic value described in our economic reports is the value found by subtracting cost of sales, SG&A expenses, non-operating expenses, extraordinary losses and minority interest income from revenues.

Employees' compensation and benefits, which are the distribution of value to employees, have ranged in recent years between about 120 billion and 140 billion yen, fluctuating with net revenues. In FY 2003 employees' compensation and benefits totaled 136.9 billion yen, representing an increase of 13.0 billion yen from the previous year and 63.9% of the economic value created by the Group.

As for expenditures for corporate citizenship ac-

tivities⁴, which are the distributions we make to society, the Group intends to make these distributions at a steady rate regardless of performance. In FY 2003 these expenditures came to 300 million yen.

The Group pays ongoing, annual dividends as a way of distributing economic value to shareholders. The basic policy of the Group when distributing profits as dividends is to consider trends in consolidated performance and pay an amount that ensures stability. Total dividends paid in FY 2003 were 7.9 billion yen.

We also distributed 7.8 billion yen to creditors as interest on loans, etc.

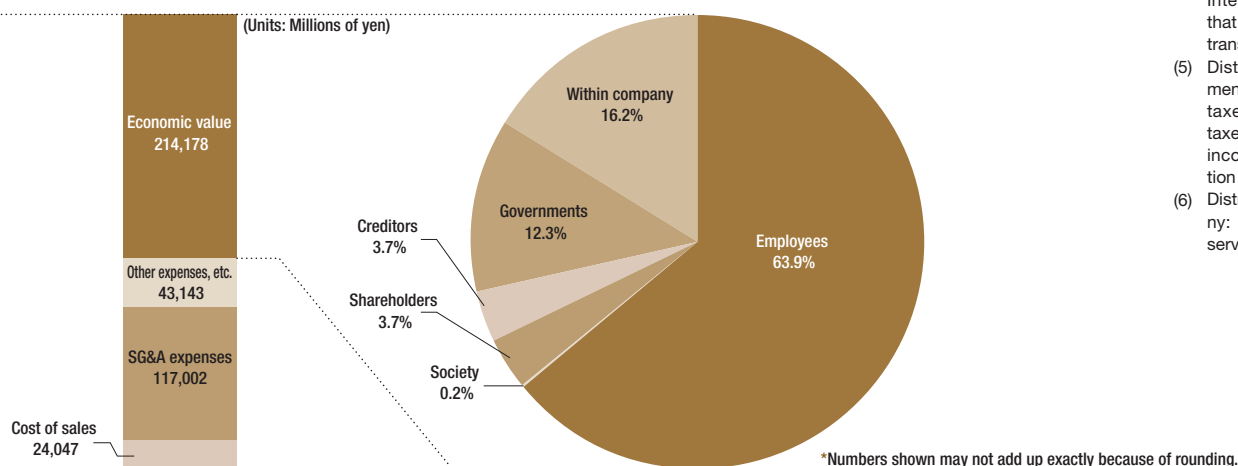
The Daiwa Securities Group's financial accounting in FY 2003 showed a tax total of 26.4 billion yen. Earning a profit and paying taxes are also part of a business's social responsibility. Taxes accounted for 12.3% of the economic value generated by the Daiwa Securities Group.

⁴ For details, see *Philanthropy and Community Involvement*, page 36.

Distribution of economic value to stakeholders				
(Units: Millions of yen)				
Stakeholders	FY 2000	FY 2001	FY 2002	FY 2003
Employees	140,426	129,972	123,904	136,963
Society	N/A	N/A	320	332
Shareholders	17,246	17,265	7,971	7,969
Creditors	14,890	11,134	8,388	7,821
Governments	77,403	10,930	20,026	26,424
Within company	47,303	-147,812	-14,293	34,667

Procedures for totaling distributions of economic value

- (1) Distributions to employees: Employees' compensation and benefits as a category of SG&A expenses
- (2) Distributions to society: Expenditures for corporate citizenship activities.
- (3) Distributions to shareholders: Dividends. Our procedures for totaling dividends in the 2004 report are slightly different from those of the 2003 report.
- (4) Distributions to creditors: Interest paid, excluding that arising from securities transactions
- (5) Distributions to governments: The total of income taxes, deferred income taxes and taxes other than income taxes (consumption tax, etc.)
- (6) Distribution within company: The total held in reserves internally.



Increasing customer satisfaction is one of the most important issues management must address. The results of the customer satisfaction survey taken by Daiwa Securities in FY 2003 showed an overall rising trend in the level of satisfaction. In addition to the surveys taken in ordinary years, in FY 2003 the Group gave a "Customer Questionnaire" to 410,000 customers.

A stronger system for increasing customer satisfaction

Responding to customer complaints head-on is indispensable for promoting customer satisfaction. At the same time, the Daiwa Securities Group believes in the importance not of "dealing" with complaints, but "responding" to them.

To further strengthen our system for rapidly using customer input forwarded from the Customer Support Hotline¹ and branch offices to improve products and services, the Customer Satisfaction (CS) Promotion Department was moved from the Compliance Department to the Marketing Department in June 2003. A new sales system was also begun in April 2004 to improve service quality further. The Investment Services Section, which encounters customers directly in branches of Daiwa Securities, has become a stronger organization, and a "Professional Certification System"² has been introduced for career-track employees and regional career-track employees.

In these ways Daiwa Securities listens directly to customer input and strives to prepare systems for improving service with the idea of being empathetic with our customers.

The biggest issue of all: "Post-sales follow up"³

Since FY 2002, Daiwa Securities has ranked post-sales follow up as the biggest issue in increasing customer satisfaction.⁴ In order to put post-sales follow up into practice in FY 2003, 123 branch offices throughout Japan wrote "post-sales follow up plans" and submitted them to the CS Promotion Department twice, once each in the first and second halves of the fiscal year. In these plans, the branch offices wrote down requests for the head office, such as making more materials available to customers, and also noted problems, such as quality control of products, and initiatives were undertaken to make improvements.

Customer Support Hotline calls and response

Inquiries and comments received by the Customer Support Hotline are used without exception as feedback for the branch office working with that customer and the results of the response are reported to the CS Promotion Department. The CS Promotion Department checks the log of calls to the Customer Support Hotline every day, studies the best response and the points in need of improvement and works to build systems to educate employees and give feedback to the management process.

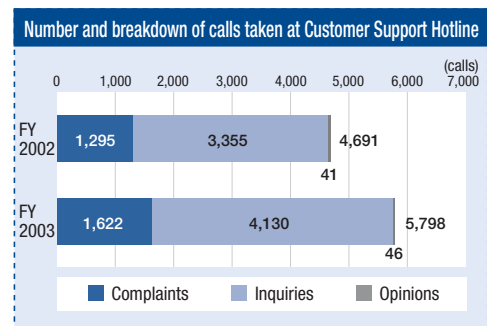
The most common comment to the Customer Support Hotline in FY 2003 was that account statements were hard to understand. Reflecting this customer opinion, the Group made improvements in its statements, such as noting market prices of foreign bonds.

¹ Set up in the Customer Satisfaction Promotion Department in November 2001.
Tel: 81-(0)3-3665-5111
Hours: 9:00 AM - 5:00 PM

² Conditions for certification include completing consulting skill training within a certain period of time and earning the credentials. For details, see *Daiwa People*, page 35.

³ "Post-sales follow up" at Daiwa Securities refers to following up with the customer after the sale has been made.

⁴ See *Results of third customer satisfaction survey*, page 31.



2003 customer satisfaction survey

Daiwa Securities has tracked customer opinion of our service by giving questionnaire-based customer satisfaction surveys once a year since FY 2001. In FY 2003, customer opinion went up on items relating to sales staff and the quality of products and services (blue lettering in figure at right). With "post-sales follow up," which is a critical item to improve, customer satisfaction rose by 0.4 points. Results of this customer satisfaction survey were incorporated in FY 2003 into the performance evaluation standards in the Group's medium-term management plan.⁵

Further, in October - November 2003, about 410,000 customers of Daiwa Securities received Customer Questionnaires, the objective of which was to take the customer's perspective in evaluating branch offices and employees. However, we have put off using the resulting responses as an evaluation indicator for branch offices and employees because of significant regional differences, such as varying levels of competition with other firms. This questionnaire, however, did bring some issues to light, such as the ability of sales staff to provide consulting and information and the level of post-sales follow up⁶.

Three major issues for FY 2004

In FY 2004 the Group faces the following three major issues.

1. Continuous effort for "post-sales follow up"

The Group seeks to increase the frequency of contact with the customer to better understand customer needs and improve the quality of its suggestions.

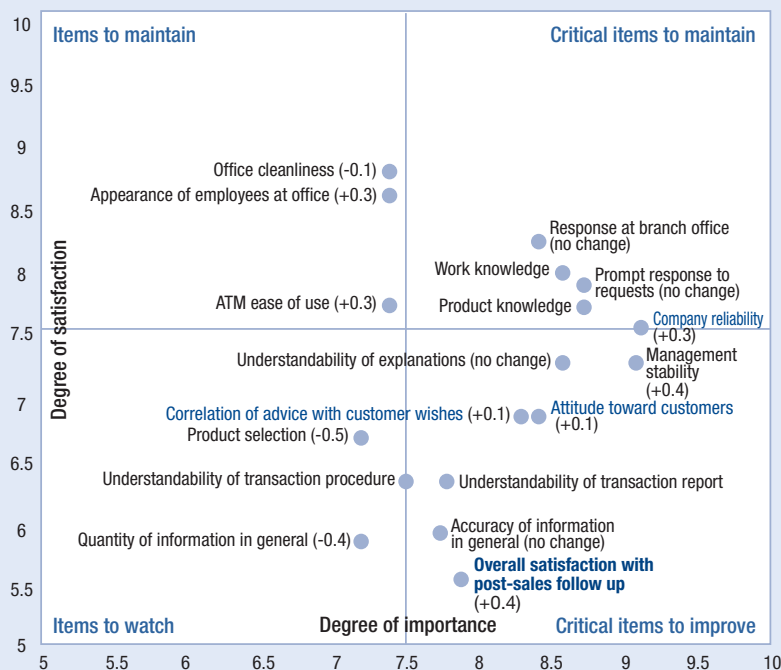
2. "Checking basic actions"

The Group is performing basic actions diligently not only to improve customer satisfaction but to make sure customer complaints and dissatisfactions do not occur in the first place.

3. Pursue "understandability as seen from the customer's point of view"

We are endeavoring to use simpler language in documents, forms, etc. intended for customers.

Results of third customer satisfaction survey (branding questionnaire)



*Daiwa Securities sent surveys by post to 5,000 customers in November 2003, getting responses from 1,807.

*The above graph shows results for just some of the 49 items on the survey. Respondents ranked their "degree of satisfaction" with each item in five grades from high to low and the "degree of importance" in three grades. In each case, the middle ranking ("Neither high nor low") was assigned a point value of 5.0. Average customer satisfaction exceeded 5.0 points in all categories.

*Numbers in parentheses show the relative change in degree of satisfaction since the previous survey in September 2002. Items without this number are new or revised items and did not exist in the previous survey.

5

For details see *Corporate Governance*, page 18.

6

Questionnaire results are posted on the Group intranet for all employees to view.

The hotline operator's first job: Listening

Customer Support Hotline, CS Promotion Department, Daiwa Securities
Manabu Koike

When we are responding to customer calls at the Customer Support Hotline, the first thing we are mindful to do is to really listen to what the customer is saying. The call may sound like a simple inquiry, but as you listen, you realize that the customer has some dissatisfaction or problem to talk about. That's not as easy to do as it sounds, but the staff members approach the task very sincerely.



The Daiwa Securities Group has introduced a compensation system based on work classification and more graduated salary levels as it has promoted fair compensation and a performance-based evaluation system. Further, the Group has sought to give its staff members more work choices and create an environment making it easier to work by addressing such themes as "promoting women to managerial positions," "support for post-retirement careers" and "expanding opportunities for personnel mobility through intra-Group job postings." We also continue to enrich our training system.

Working for fair compensation and performance-based evaluation

People are the source of the Daiwa Securities Group's competence. To help each individual bring out his or her creativity and desire to take on new challenges, we believe it essential to compensate our employees based on individual evaluations and work results.

Personnel system reform

The Group announced two important personnel system reforms in March 2003. These are "introducing a compensation system based on work classification" that varies the individual's basic pay according to the role he or she plays and "more graduated salary levels" wherein personnel evaluations are done in greater detail. The reforms took effect in April 2004. First, career-track employees of Rank 2 or higher were divided into three classes (sales, office and other) and different occupation-specific pay rates were assigned to each. Personnel evaluations increased the number of grades from 11 to 16 so that evaluations could be more appropriately reflected in salaries. As a result, whereas three-fourths of career-track employees had been concentrated in just two evaluation grades, now the same proportion of employees is spread across seven different grades. At the same time, the Group

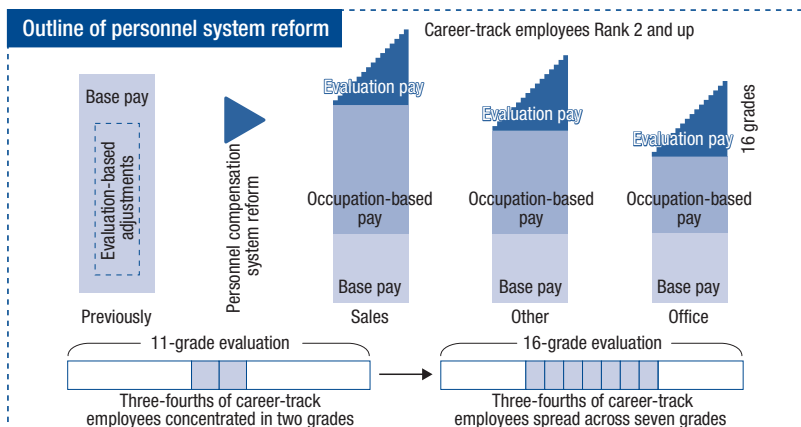
has shortened the time between periodic pay increases and made performance-based evaluation more thorough.

The Group will use employee awareness surveys and other tools to make the system work better and also take into account employee satisfaction.

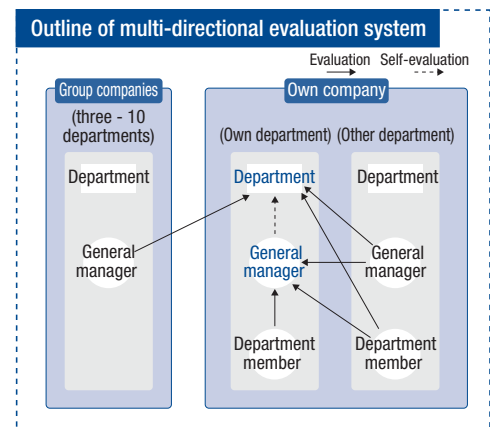
Comprehensive evaluations with multi-directional evaluation system

Fair evaluation is a basic element of personnel management. The Daiwa Securities Group practices a "two-way evaluation system" and a "multi-directional evaluation system." Under the two-way evaluation system, superiors and their subordinates evaluate each other. The multi-directional evaluation system, on the other hand, uses a wider range of people to make evaluations, involving members from other offices with positions closely connected to the work of the person evaluated. We believe that this allows the person to be evaluated more fairly. Currently, Daiwa Securities Group Inc. and Daiwa Securities SMBC alone practice the multi-directional evaluation system, but the system will expand to other Group companies in the future. Results from the two-way evaluation system and multi-directional evaluation system are used in making personnel movement and promotion decisions. To raise the persuasiveness of evaluations, we are also taking steps to improve evaluator training.

Outline of personnel system reform



Outline of multi-directional evaluation system



Fair and open employment

The Daiwa Securities Group adopted its Fair Employment Guidelines¹ in 1999 to assure fair employment. To make these guidelines better known, it posted a summary on the Group's career information website² in January 2004.

The Group hosts small-group "employment seminars" for new graduates to make sure they fully understand the Group's Corporate Principles and the nature of the work in advance. Employees engaged in the actual work give presentations at these seminars so that participants can see how things really are. The Group is also actively recruiting to fill internships. Daiwa Securities SMBC for example holds "Intern College" twice a year, with 72 students participating in FY 2003.

Jump in number of women in management positions

The number of women in management positions has risen sharply, from 39 at the end of March 2003 to 55 a year later. Female managers include general managers and branch managers. The reasons for the great increase include the Group's proactive promotional policy as well as the fact that women entering as career-track employees since the enforcement of Japan's Equal Employment Opportunity Law have reached the time in their careers when they are ready for promotion to management. Since more than 40% of newly graduated persons employed as career-track employees or regional career-track employees are women, it appears certain that the number of female managerial candidates will rise.

Supporting diverse post-retirement career choices

As the average age of our employees rises, the Daiwa Securities Group is offering support to employees seeking a post-retirement career. In FY 2003 it introduced a senior work system for employees age 55 and up. The policy of this program is to allow, as far as possible, senior workers to be appointed to whatever geographic area they wish to live in after their regular retirement age. This has made it easier for employees to plan their post-retirement lives. Other programs have been put in place to give these employees a greater number of choices, including voluntary retirement, sabbaticals to support second ca-

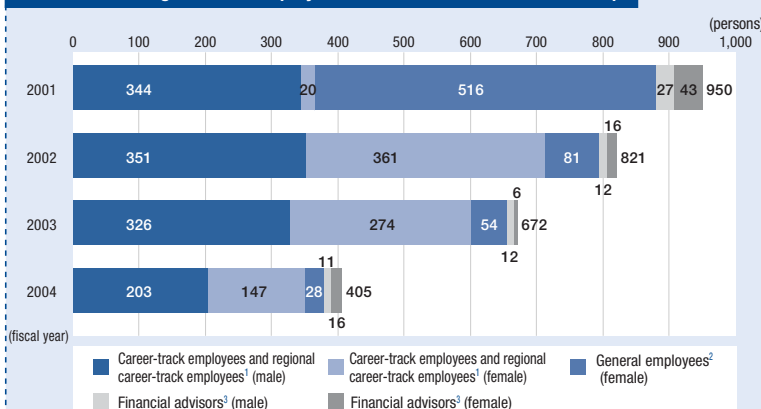
reers (three-month breaks for finding new employment or working independently) and the use of outplacement firms (with no time limit on use until the employee finds new work).

Additionally, the Group offers career management training for career-track employees of age 45 and up. This training helps the participant create a career vision for the future by recognizing his or her own experience and aptitudes as well as the social environment. Group-wide, 329 persons took this training in FY 2003.

¹ For details, see page 26 of *Sustainability Report 2003*.

² Career information website (Japanese only): <http://www.daiwa.jp/recruit/>

Number of new graduates employed in entire Daiwa Securities Group



¹ Regional career-track employees make up a class of career-track employees established at Daiwa Securities in 1998. These employees stay in one region and are not subject to transfers that require changing residence. Hiring of new graduates into this class began in earnest in April 2002.

² General employees make up a class that resulted in April 2003 by blending the old general employee class with the old area general employee class.

³ Financial advisors are employees who work in sales at Daiwa Securities under one-year contracts.

Employees in entire Daiwa Securities Group

		As of end of March 2002			As of end of March 2003			As of end of March 2004		
		Employees	Financial advisors	Temporary employees ¹	Employees	Financial advisors	Temporary employees ¹	Employees	Financial advisors	Temporary employees ¹
Japan	Men	6,656	116	-	6,799	123	-	6,920	166	-
	(career-track ²)	(6,073)	(-)		(6,151)	(-)		(6,197)	(-)	
	(manager)	(2,951)	(-)		(3,055)	(-)		(3,180)	(-)	
	Women	3,559	988	-	3,573	801	-	3,463	728	-
	(career-track ²)	(973)	(-)		(1,372)	(-)		(1,377)	(-)	
Japan total	(manager)	(36)	(-)		(39)	(-)		(55)	(-)	
		10,215	1,104	1,367	10,372	924	1,242	10,383	894	1,379
Overseas		1,268	-	25	1,187	-	23	1,182	-	36
Total		11,483	1,104	1,392	11,559	924	1,265	11,565	894	1,415

¹ Temporary employees are part-time employees; the figure shown here is the average number of such employees over the year.

The temporary employee class is made up mostly of women.

² Includes regional career-track employees and specialist positions.

Employment rate of persons with disabilities up to 1.9%

At the end of March 2004, the average employment rate of persons with disabilities at the nine major Group companies had risen to 1.9%, meeting our target for FY 2003. This success is related to participation in employment advisory circles, workplace experiences held for students of schools for persons with disabilities and job postings at websites recruiting persons with disabilities, among other measures. To stabilize employment of persons with disabilities, the Group will periodically interview these employees, review the nature of their work and try to improve the workplace environment.

A workplace that facilitates the job

The Daiwa Securities Group offers an environment facilitating work for women, for example, by offering maternity leave for two years after childbirth and excusing parents from overtime work for three years after childbirth, in both cases allowing more time than the legal minimum. As a result, the number of employees taking maternity leave in FY 2003 rose to 81.

On the other hand, the number of overtime hours worked by employees all together increased in FY 2003 and the rate of paid vacation time actually taken was poorer than the previous year. This stems from the fact that economic recovery has increased the amount of work, among other factors, but the Daiwa

Securities Group is working to make improvements, for example, by reviewing job content and by appealing to department and branch managers.³

Training new employees to fulfill their social mission

Focus on principles, ethics and social responsibility

In the financial business it is the ability of individuals and their combined strength that give a company its competence. At Daiwa Securities Group, new employee training starts by fostering people who are eager to learn and, reaching beyond their own capability, are ready to take new challenges.

After joining a Group company, new employees take a Group-wide one-week program. The objective of the week's training is to promote cross-Group communication as we focus less on work skills than on learning the Daiwa Securities Group's Corporate Principles, corporate ethics and social responsibility. The curriculum allows one day to learn about social contribution and human rights. Events may include offering nursing care support at a senior citizen's home, studying sign language or spending time wearing a blindfold to experience loss of eyesight.



Employee trying to walk wearing a blindfold

³ For information about other initiatives to improve the workplace environment, see page 27 of *Sustainability Report 2003*.

Workplace environment data at Daiwa Securities Group

	FY 2000	FY 2001	FY 2002	FY 2003
Average employment rate of persons with disabilities (end of March)	1.52%	1.54%	1.69%	1.90%
Daiwa Elder System ¹ employees (end of March) ²	N/A	46	57	68
Employees on prenatal/postnatal leave ³	76	74	88	96
Employees on maternity leave ³	57	69	80	81
Annual regular work hours	1,845 hours	1,837.5 hours	1,845 hours	1,860 hours
Monthly average of overtime hours worked ⁴	22.8 hours	21.8 hours	22.2 hours	25.6 hours
Paid leave usage rate ²	34.8%	34.6%	34.1%	33.0%
Employees that are union members (end of March) ⁵	6,371	6,419	6,388	6,220

¹ The Daiwa Elder System re-employs Group employees who have reached the standard retirement age.

² Figures cover three companies: Daiwa Securities Group Inc., Daiwa Securities and Daiwa Securities SMBC.

³ Employees covered under the prenatal/postnatal leave and maternity leave programs include non-regular employees (i.e. contract and part-time employees).

⁴ Figures show the number of union members among employees of three companies: Daiwa Securities Group Inc., Daiwa Securities and Daiwa Securities SMBC.

⁵ Figures exclude Daiwa Asset Management, which has its own employees' union, and Daiwa Property, which has no union.

Presentation by new employees

The new-employee welcoming ceremony that precedes the training has included a presentation on the theme "Building the brand: Seeking to be number 1 in trust." This presentation is given by a group representing the new employees (for example, new employees submitting exceptional essays in a contest). This presentation has given us a glimpse at the Daiwa Securities Group that these new hires envision, taking into account the conditions of the market and the times.



A representative of new employees gives a presentation

Fostering human resources and building skills

Increase in select leadership training graduates

As of June 30, 2004, there have been 110 graduates of the Daiwa Management Academy, begun in 2000 for General Managers. The graduates include 22 of the 102 Directors and Executive officers from the nine major Group companies. Of the 31 Directors and Executive officers newly appointed within the last three fiscal years, 19 are graduates.

Meanwhile, the Daiwa Leadership Program, started in 2001 for Deputy General Managers, has achieved its target of making program graduates out of 20% of Deputy General Managers at Daiwa Securities. For the entire Group, the percentage is 15%.

Building consulting and asset management skills

Developing professional human resources is of the utmost importance to the entire Group. Daiwa Securities in FY 2004 started its Professional Certification System with the goal of building consulting and asset management skills among its staff. This system gives professional certification to persons fulfilling certain conditions such as completing advanced training in areas like asset management or tax affairs and acquiring certain credentials. Under the present schedule, the first certifications will be awarded in April 2006. In February 2004 a total of 170 certification candidates were selected.

Independent study and online training

Daiwa Securities offers eight training courses through its online learning system "@DESK," which employees can access at any time or place. The system is accessed about 400 times a day, and 90% of em-

ployees had used it as of March 31, 2004. In FY 2003 Daiwa Securities SMBC also adopted the system, offering four courses.

Increasing successful recruitment within Group

An increasing number of employees have successfully applied for jobs through intra-Group job postings, intended to facilitate the movement of people across the Group and achieve the potential of eager and talented employees.⁴

⁴ For details about intra-Group job postings, see page 29 of *Sustainability Report 2003*.

Comments by successful intra-Group job posting applicant

A strong desire to get some mergers and acquisitions experience in my career motivated me to apply. There is so much work in which I have no experience, so every day is an education. I think that by setting goals with the idea of using my own skills to make history and then acting on those goals will enable me to do work that leaves something tangible behind.



Masakazu Kawai, who transferred from the Daiwa Securities Ueno Branch to the Strategic Advisory Department of Daiwa Securities SMBC

Employees qualifying under intra-Group job posting

Time of posting	Jobs offered	Applicants	Successful applicants
Summer FY 2000	Fund manager, analyst, venture capitalist	12	2
Winter FY 2000	Work abroad	71	6
Summer FY 2001	Fund manager, analyst, venture capitalist, investment information, principal finance, etc.	58	7
Summer FY 2002	Fund manager, mergers and acquisitions, derivatives, work abroad, internal wholesaler, satellite broadcaster, etc.	60	8
Summer FY 2003	Individual and corporate sales, analyst, derivatives, venture capitalist, internal wholesaler, dealer, trader	81	19
Winter FY 2003	Analyst, money manager, SMA consultant, sales, consultative planning, dealer, trader, derivatives, management consultant, pension consultant	60	16

Persons earning credentials (end of March 2004, nine Group companies)

Credentials	Earned by 3/2004
Chartered Member of the Security Analyst Association of Japan	1,124
Chartered Financial Analysts (USA credential)	35
Financial Planners (AFP)	2,448
Financial Planners (CFP)	167
Licensed Tax Accountant	12
Variable insurance sales credentials	5,557
System Analysts	21
Overseas MBA program graduates, etc.*	123

* Persons sent by the Group to earn degree. Other degrees include master's degrees in law and international affairs.

A word from the employees' union

Chairman, Daiwa Securities Group Employees' Union
Takashi Koshimizu

If the Daiwa Securities Group doesn't grow over the long term, that's of no benefit to union members. That is why our union believes that management and labor ultimately should be reaching for the same thing. The union is engaged in many activities, among them an effort to create a space where union members can transcend company borders and share a sense of enthusiasm. This is part of our goal of reforming communication within the Group and creating a workplace environment in which each employee can work with pride, eagerness and a dream.



Acting as a corporate citizen is a necessary investment for the sustainability of society as well as that of the Daiwa Securities Group. In FY 2003 the Group created a system allowing requests from the community to go to branch offices of Daiwa Securities. It also engaged in efforts to make activities more connected and wider in scope.

Approach to activities as a corporate citizen

The Daiwa Securities Group practices citizenship in four major ways: finance and securities education and research, support for employees doing volunteer work, support for local and international society through foundations, and patronizing arts and culture. In FY 2003 the Daiwa Securities Group provided 330 million yen for corporate citizenship activities, an amount equivalent to about 0.2% of the economic value derived from business activities.¹ The Daiwa Securities Group intends to continue its corporate citizenship activities steadily on the same scale and with the same level of funding, regardless of changes in the business environment and in Group performance.

1

For details see *Economic Relations with Stakeholders*, page 29.

2

Reorganized in July 2004 as the CSR Promotion Department from the Corporate Community Affairs Department.

3

It also studies the prevention and treatment of lifestyle diseases and works to raise awareness to maintain and promote health.

4

For details on activities of the Daiwa Anglo-Japanese Foundation, visit <http://www.dajf.org.uk/>.

Nationwide branches become community interface

Since 1999, ceremonies to present grants from the Daiwa Securities Foundation and Daiwa Securities Health Foundation have taken place at foundation offices as well as branch offices of Daiwa Securities. Branch managers and foundation and CSR Promotion Department² staff members take part in the presentation ceremonies at branch offices, with the branch manager presenting the grant money. In FY 2004, the Group also partnered with parties subsidized by the foundations to perform corporate citi-

zenship activities that are closely tied to the community through branch offices.



Daiwa Securities Foundation grant presentation ceremony



A grant ceremony led to cooperation in a group's bazaar.

Ongoing funding activities

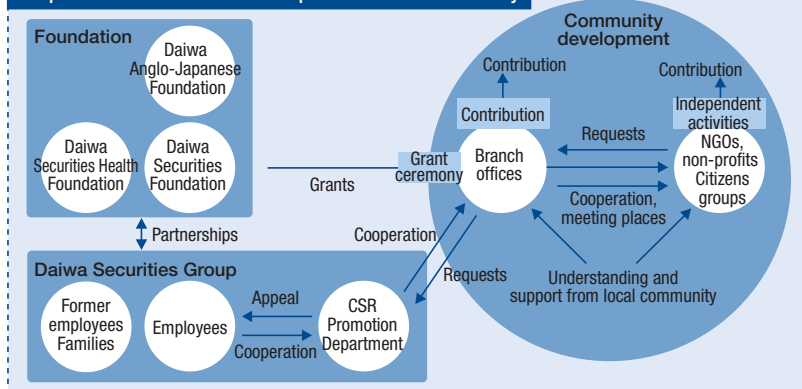
The Daiwa Securities Group has established two foundations in Japan and one abroad. The Daiwa Securities Health Foundation gives grants to universities and hospitals performing studies and research on insurance, health care, welfare and other concerns of middle-aged and older people.³ In FY 2003 it provided 30 grants worth a total of 30 million yen. The Daiwa Securities Foundation provides grants to support causes including volunteer efforts. It funded 220 volunteer activities in FY 2003 and one study/research project with total funds of 50 million yen.

The Daiwa Anglo-Japanese Foundation⁴ efforts to promote mutual understanding between the United Kingdom and Japan. Each year it invites scholarship recipients (Daiwa Scholars) to Japan. The thirteenth set of Daiwa Scholars, a total of five students, came to Japan in September 2003.

Sponsorship of arts and culture

The Group sponsored the first performances in Japan ever by the Fondazione Teatro Lirico "Giuseppe Verdi" Trieste opera company, which put on events in Tokyo and Shiga in May and June 2003. Following this, the Group is sponsoring November 2004 performances in Japan by the Berlin Philharmonic Orchestra, conducted by Sir Simon Rattle.

Corporate citizen activities with emphasis on ties to community



Volunteer activities show signs of expanding

Activity continuation and expansion

Volunteer activities give employees a wider world view, instill a number of values and consequently make an organization more flexible. Volunteer activities must, however, be truly voluntary, and the Group is very careful not to turn them into mandatory events. The Group gives training that includes "welfare experience courses," a chance to experience life with certain challenges⁵ and deepen understanding of volunteerism.

Typical ongoing events are sign language courses and experience with service dogs. The handmade picture book *Daisuke the Guide Dog*⁶ is distributed as part of the service dog experience and has been



Handmade book
Daisuke the Guide Dog

handed out to 98 elementary and middle schools to support the general curriculum (as of August 2004). The Group plans to continue putting these books together by hand at branch offices nationwide and distributing them to area schools desiring them.

Participation by many Group parties

The CSR Promotion Department uses the Group intranet to provide volunteer information enabling employees to get more involved in activities. Additionally, the Group's former employees' club (the Daiwa Fujikai, with 2,000 members) also shares the information to widen the circle of volunteers. A project to thin forested areas of Mt. Takao in March 2004 drew participation from many groups including current and former employees and Daiwa Scholars. We plan to keep widening the circle of volunteers by offering optional programs that can be expanded to the entire Group.



Thinning out forest on Mt. Takao

Economic and financial education and research⁷

The Daiwa Securities Group undertakes to leverage Japan's financial strength through industry/academic partnerships that include sponsored courses at universities and graduate schools and joint research with these institutions. The Group last year additionally began supporting economic education through hands-on programs at high schools.

5

As part of new employee training and Management Program (for career-track employees of Rank 3).

6

Created by the family of a Group employee, *Daisuke the Guide Dog* is assembled personally as a volunteer effort by a number of employees.

7

For details see *Initiatives for Economic and Financial Education*, pages 12-15.

Major social contribution activities in FY 2003

May	<ul style="list-style-type: none"> Seventeen employees from Daiwa Securities branch offices in Yamagata, Tsu, Kanazawa and Okayama take part in the 24th "Ashinaga P-walk 10," walking 10km over courses in their local area to help publicize the Ashinaga Fund, which helps orphans to continue their educations. Six employees assisted participants, handed out water and otherwise helped at Tokyo City Road Race 2003, a road run in which persons with physical and mental disabilities take part along with other runners.
June	<ul style="list-style-type: none"> A total of 238 employees, including 225 new employees, helped in a cleanup of Kujukurihama Beach in Shirako Town, Chiba Prefecture. The effort brought in 300kg of flammable garbage and 100kg of nonflammable garbage.
August	<ul style="list-style-type: none"> At the Azabu Juban Festival in Tokyo, 70 employees and family members helped out by cleaning, raising charity funds and making announcements in English, among other tasks. The Group invited 89 children from centers for disadvantaged children and mother/child support centers to the musical production <i>Chikyu no Inochi: Mori to Mizu</i>, about protecting the environment.
September	<ul style="list-style-type: none"> A total of 107 employees and family members from five branches in the North Osaka area (Umeda, Toyonaka, Ibaraki, Nishinomiya and Amagasaki) took part in a hike/cleanup of Mt. Rokko sponsored by Hyogo Prefecture cities Ashiya, Takarazuka and Nishinomiya. Participants helped to clean up on Mt. Rokko.
November	<ul style="list-style-type: none"> The Group took part in an event to gather PET bottle caps to purchase vaccines for children around the world, sponsored by MinatoNet of Minato Ward, Tokyo. Employees collected and donated 34,880 used PET bottle caps, which were exchanged for enough polio vaccine for 21.8 people.
February	<ul style="list-style-type: none"> A cooking seminar was held to give Daiwa Scholars (recipients of Daiwa Anglo-Japanese Foundation scholarships) an experience of Japan's food culture. Ten employees participated in this introduction to Japanese home cooking. Current and former employees donated 1,448,352 yen to the Japanese Red Cross Society for relief of Iranian earthquake victims.
March	<ul style="list-style-type: none"> The Group held a hands-on event to think about environmental protection by being in the forest at Mt. Takao, Tokyo. Twenty-eight current and former employees and Daiwa Scholars helped to thin the forest. Employees donated 666 pencils, 15 sets of crayons, 132 erasers, 95 ballpoint pens, 54 notebooks and four sets of colored pens to children in Samawa, Iraq, the base of rebuilding support efforts by Japan's Self-Defense Forces.

*For more information about the Daiwa Securities Group's social contribution activities, visit <http://www.daiwa.jp/branding/kouken/> (Japanese only).

My hope for the Daiwa Securities Group

Representative of Japanese sign language club Kunitachi Hands Mate (Kunitachi City, Tokyo)
Misa Wada

The grant we received from the Daiwa Securities Foundation sparked my interest in the social contributions of the Daiwa Securities Group. My hope is that the understanding and awareness of philanthropic activities that employees get through the "welfare experience courses" don't stop with individual volunteer activities but help to make improvements in the Group's level of customer satisfaction.



The Daiwa Securities Group recognizes that the environmental impact of its business is not trivial and is therefore working to reduce it. In FY 2003 it took initiatives in environment-related business areas and facilitated environmental communication for employees.

Reducing CO₂ emissions

In FY 2003 the Daiwa Securities Group accounted for 39,118 tons of CO₂ emissions¹. This represents a decline of 1,590 tons, or 3.9%, from FY 2002. CO₂ emissions per employee in Japan² came to 3.09 tons, a reduction of 0.16 tons since FY 2002.

The Group submitted Global Warming Action Programs to the government of Tokyo Prefecture in June 2002 for its relatively large buildings (Daiwa Securities Headquarters Building, Eitai Daiya Building and Daiwa Eitai Building). Under these plans the Group set goals of reducing greenhouse gas emissions derived from these buildings by 2%, 0.1% and 1.9% respectively vs. FY 2001 levels. The results in FY 2003 showed that the target was partially reached with, respectively, 12% and 3% reductions in the first two buildings but a 1% gain in the last.

Reducing electric power and water usage

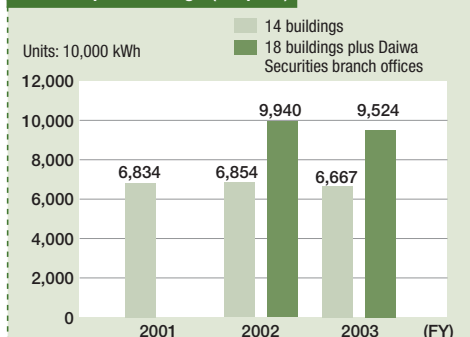
FY 2003 electric power consumption totaled 95.24 million kWh, a decrease of 4.16 million kWh since FY 2002. We believe that much of the credit goes to the practice of energy patrols, air conditioning equipment inspection and maintenance management and the use of energy conserving equipment, although the cool summer of 2003 was an external contributing factor. An energy shortage during the summer of 2003 gave the "Group Administrative Council," consisting of members of Group company general affairs departments, a common awareness of the issue, inspiring the Group as a whole to work to reduce power consumption.

In FY 2003 the Group used 438,430,000 liters of water, which is 34,620,000 less than in FY 2002, a 7.3% savings. We believe that the cool summer of 2003 and the September 2003 closing of the cafeteria in the Daiwa Securities Headquarters Building were principle factors in the decrease.

¹ This figure is a calculated equivalent found using the Ministry of the Environment's greenhouse gas emissions conversion formula. It is the CO₂ equivalent of the fuel, electric power and water usage of the Daiwa Securities Group in its 18 major office buildings and branch offices nationwide.

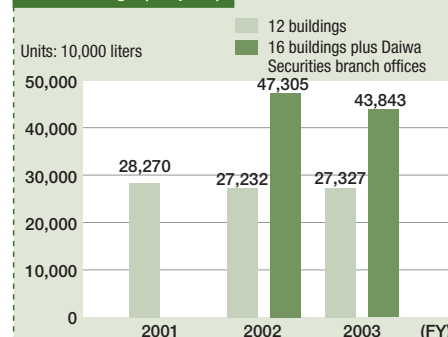
² Total employees, financial advisors and temporary employees in Japan: 12,656. For details, see *Daiwa People*, page 33.

Electric power usage (Graph 1)



*Scope of data collection was expanded in FY 2002. For details see table *Scope of environmental impact data*, page 39.
 *Revisions have been made to correct errors in part of the data of the 2003 report.

Water usage (Graph 2)



*Scope of data collection was expanded in FY 2002. For details see table *Scope of environmental impact data*, page 39.
 *Revisions have been made to correct errors in part of the data of the 2003 report.

Conserving resources, recycling and reducing waste

The FY 2003 data in the *Waste produced and recycled* table below does not include data for Daiwa Securities SMBC Headquarters Building, since this building changed in November 2003.

Efforts to put information in electronic form, use both sides of each sheet of paper and so on have resulted in total emissions of paper waste (exclusive of Daiwa Securities SMBC Headquarters Building) declining 5.8%, from 1,328.1 tons in FY 2002 to 1,250.6 tons in FY 2003.

Waste produced and recycled (Table 1)

(Units: tons)

		FY 2001	FY 2002	FY 2003
Paper	Waste produced	1,617.9	1,564.2	1,250.6
	Recycled	1,438.3	1,357.0	1,105.2
	Disposed	179.6	207.3	145.4
	Recycling rate	89%	87%	88%
Non-paper	Waste produced	297.1	352.6	260.1
	Recycled	88.7	101.0	84.7
	Disposed	208.5	251.6	175.4
	Recycling rate	30%	29%	33%

*See *Scope of environmental impact* data below for data coverage. Data for Daiwa Securities SMBC Headquarters Building is not included in the FY 2003 figures since the headquarters for this company has moved. Paper waste from Daiwa Securities SMBC Headquarters Building equaled 236.1 tons, and non-paper waste, 86.3 tons in FY 2002.

Scope of environmental impact data

(○ : Facilities added to scope of data collection in FY 2002)

Site name	Graph 1	Graph 2	Table 1
Daiwa Securities Headquarters Building	○	○	○
Daiwa Securities Kabutocho Building	○	○	○
Daiwa Securities SMBC Headquarters Building ¹	○	○	○
Eitai Daiya Building	○	○	○
Daiwa Securities Osaka Branch Building	○	○	○
Daiwa Securities Nagoya Branch	○	○	○
DAM Headquarters	○	○	○
DIR Headquarters Building	○	○	○
DIR Annex	○	○	○
Daiwa Eitai Building	○	○	○
DIR Kiyosumi Park Building	○	○	○
DIR Izumi Eitai Building	○	○	○
Daiwa Osaka Center Building	○	○	○
Toyochu Center Building	○	○	○
Daiwa Securities branch offices ²	○	○	○
Daiwa SB Investments Headquarters	○	○	○
NIF Ventures Headquarters	○	○	○
Daiwa Training Center	○	○	○
Daiwa Sanko Building (Main and Annex)	○	○	○

¹In November 2003, Daiwa Securities SMBC moved its headquarters to Marunouchi Trust Tower North Building.

²This applies to 123 office locations and does not include headquarters, Osaka Branch and Nagoya Branch (end of March 2004).

Additionally, the rate of recycling of paper waste was just under 90% overall.

Environmental business initiatives

The Daiwa Securities Group is directly engaged in environmental businesses through its three SRI funds (Daiwa SRI Fund, UBS Global Equity 40 SRI+, Global Eco Growth Fund), the Kamakura Midori Sai ("Kamakura Green Bonds") and its engagement with the World Bank's carbon fund program.³

Dr. Sustaina's Environmental Course

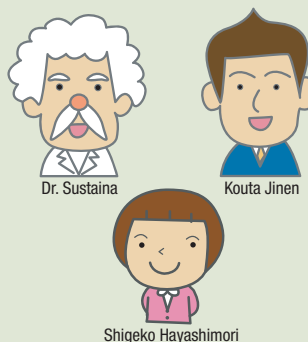
In May 2003 the Group ran its "Do Something Good for the Environment" campaign as a way of raising employee awareness about the environment. Some employees who took part in the campaign said that they did not adequately understand environmental issues and that some form of environmental communication was necessary. Comments like these resulted in the "Dr. Sustaina's Environmental Course."

"Dr. Sustaina's Environmental Course" began running in Fuji, a seasonal publication for Group employees, in the summer 2003 issue. The feature takes the broad theme of the relationship between the Daiwa Securities Group and the environment and explains global environmental problems in simple terms. The feature is also posted on our website for persons outside the Group.⁴

³ For details, see *Initiatives for Socially Responsible Investment*, pages 08 - 11.

⁴ For details, see *CSR Website*, page 47.

Dr. Sustaina's Environmental Course (portion covering November 2003 - August 2004)



No. 1 (November 2003):
Global Warming and the Environmental Impact of the Daiwa Securities Group

No. 2 (January 2004):
The Daiwa Securities Group and Environmental Management

No. 3 (May 2004):
Garbage Processing and Recycling at the Daiwa Securities Group

No. 4 (August 2004):
The Business of the Daiwa Securities Group and the Environment

Status of environmental management initiatives

Item	Content
Scope of environmental performance data	Nine major companies of Daiwa Securities Group
Major environmental impacts	1. CO ₂ emissions from workplace energy usage 2. Paper waste from the workplace
Environmental philosophy, environmental policy	The Daiwa Securities Group has established the following environmental policies within the Code of Conduct and Ethics. 1. The Daiwa Securities Group shall be mindful to practice business management that protects the environment and, when deciding whether or not to conduct a transaction with another business, shall take that business's attitude toward environmental protection into account. 2. In their day to day work, Group Directors and employees shall be mindful of conserving resources (electricity, water, gas, paper, etc.) and shall actively work to protect the environment. "The Daiwa Securities Group recognizes that the environmental impact of its business is not trivial and it is making efforts to reduce it."
Signing of/with charters, declarations, foundations	Signatory of Carbon Disclosure Project in March 2004.
Acquisition of third-party certifications (ISO14001, etc.)	None. Studying necessity of certifications.
Directors with environmental responsibility	Established position of Director to oversee CSR Promotion Department.
Decision-making organizations in which management participates	Board of Directors, Executive Committee and subcommittees of these (no decision-making organizations specifically for environment)
Environmental management departments	General Affairs Department, Daiwa Securities Group Inc.
Production of environmental report	Providing environmental information in <i>Sustainability Report</i> (first issued October 2002).
Environmental accounting	Not conducted.
Energy usage reduction	Set numerical targets for greenhouse gas reductions for three major buildings in Global Warming Action Programs submitted to Tokyo Prefecture.
Waste reduction, recycling	Set numerical targets for waste reduction and recycling rates for each major building in "large commercial building waste recycling plans" submitted to local governments.
Water usage reduction	Have run a campaign to prevent water waste since 2000. No reduction targets set.
Environmental measures for company vehicles	The Group has a fleet of 750 autos. An effort has been underway since FY 2003 to switch its 600 sales autos from compact to sub-compact (as of August 2004, the change has been made with about 200 autos). The Group is learning fuel consumption of its autos Group-wide.
Logistics environmental impact and response	Internal mail and use of transportation systems → streamlined internal mail and installed teleconferencing system.
Paper resource usage reduction	Set numerical targets and taking paper usage reduction measures.
Green purchasing	Joined Green Purchasing Network in June 2003. Through use of Sanko Net*, FY 2003 green purchasing rate reached about 40% of goods purchased.
Targets and plans for making products and services eco-friendly	Expanded product lineup of SRI funds, etc.
Making eco-friendly financial products and services better known	Made pamphlets for SRI funds available at branch offices. Information distribution via Internet. Issue periodic documents (<i>Sustainability Report</i>).
Cases of environmental violations	None.

*An intranet site run by Group company Daiwa Sanko Co., Ltd. and used by 14 Group companies.

Environmental targets and results

Issue	Efforts considered essential	Status of usage, etc. monitoring (March 2004)	Scope
Global warming prevention measures	Greenhouse gas emissions reductions (CO ₂ equivalent)	Measured for 18 buildings + Daiwa Securities branch offices. Reduction targets set for three buildings on the right.	Daiwa Securities Headquarters Building Eitai Daiya Building Daiwa Eitai Building
Resource recycling	Paper resource usage reduction	Measured for nine buildings	Daiwa Securities Headquarters Building Daiwa Securities Kabutocho Building Eitai Daiya Building DAM Headquarters DIR Headquarters Building Daiwa Osaka Center Building Daiwa Securities Osaka Branch Building NIF Ventures Headquarters Toyocho Center Building
	Waste recycling (paper waste)	Measured for nine buildings	Daiwa Securities Headquarters Building Daiwa Securities Kabutocho Building Eitai Daiya Building DAM Headquarters DIR Headquarters Building Daiwa Osaka Center Building Daiwa Securities Osaka Branch Building NIF Ventures Headquarters Toyocho Center Building
	Waste recycling (non-paper waste)	Measured for nine buildings	Above nine buildings
	Water usage reduction	Measured for 16 buildings + Daiwa Securities branch offices	See <i>Scope of environmental impact data</i> , page 39.
Other	Green purchasing	Purchasing through Sanko Net	14 Group companies

*FY 2004 targets were achieved at two buildings in FY 2003. Targets for next period are now under review.

Where addressed
<i>Sustainability Report 2003, 2004</i>
<i>Sustainability Report 2003</i>
Summary of the Code of Ethics printed in <i>Sustainability Report 2002</i>
<i>Sustainability Report 2002, 2003, 2004</i>
<i>Sustainability Report 2004</i>
<i>Sustainability Report 2003, 2004</i>
<i>Sustainability Report 2004</i>
<i>Sustainability Report 2004</i>
Included in CSR Website, <i>Sustainability Report</i>
See table below.
See table below.
<i>Sustainability Report 2003, 2004</i>
<i>Sustainability Report 2002</i>
See table below.
<i>Sustainability Report 2003</i>
<i>Sustainability Report 2004</i>

Base year	FY 2003 results	FY 2004 targets
FY 2001	2,689.8 tons (11.9% reduction)*	2,991.2 tons (2.0% reduction)
	3,011.9 tons (3.3% reduction)*	3,110.0 tons (0.1% reduction)
	10,329.0 tons (1.1% increase)	10,025.1 tons (1.9% reduction)
—	397.0 tons	382.0 tons (3.8% reduction)
	100.7 tons	94.0 tons (6.7% reduction)
	214.0 tons	212.0 tons (1.0% reduction)
	100.2 tons	95.5 tons (4.7% reduction)
	126.3 tons	115.5 tons (8.6% reduction)
	48.7 tons	43.7 tons (10.3% reduction)
	140.8 tons	140.0 tons (0.6% reduction)
	86.0 tons	80.0 tons (7.0% reduction)
	43.2 tons	38.2 tons (11.6% reduction)
—	92.1%	92.1%
	100.0%	100.0%
	100.0%	100.0%
	100.0%	100.0%
	54.0%	54.1%
	95.7%	95.2%
	74.0%	74.0%
	79.0%	81.3%
	100.0%	100.0%
—	-	Described in recycling plans
—	-	None
—	40%	None

Building an environmental management system

The table to the left summarizes the Daiwa Securities Group's environmental initiatives at this time.

In the process of building our environmental management system, the Daiwa Securities Group in FY 2001 gathered environmental performance data and set greenhouse gas (CO₂ equivalent) reduction targets for the three major Group buildings, and in FY 2002 expanded the scope of data collection.

The Group has also examined acquiring ISO14001 certification but has not acquired it as of June 2004. Although we believe that such environmental certifications are effective for building environmental management systems, the Group has not yet concluded whether acquiring certification would be cost-effective for a business like ours, that creates a relatively small environmental impact compared to other industries.

Beginning in FY 2003, the Group has run internal environmental campaigns and included awareness raising environmental features¹ in the internal publication *Fuji* to teach employees about environmental problems. The Group is now planning ways to expand environmental communication with a focus on the relationship between environmental issues and the Group.

Additionally, although the Group has not implemented environmental accounting, as the table at the left indicates, it is studying the effectiveness of doing so, taking into account the business characteristics of the Group.

¹ For details, see *Dr. Sustaina's Environmental Course* on page 39 of *Working for the Environment*.

My opinion of Daiwa Securities Group initiatives

Director, The CSR Institute, Inc.
Dr. Naoki Adachi

First of all, the Daiwa Securities Group has been very respectful of the idea of steadily pushing forward in its initiatives. However, I believe there is still much effort to be made in terms of the Group's scope of data collection and degree of achievement. Moreover, efforts to reduce the Group's environmental impact internally, as measured in paper and electric power use and waste output, are still in the beginning stages. It also needs to set environmental targets for its core business in order to answer, for example, how much the Group has helped protect the environment through SRI. I expect that the Group's initiatives will change the way money flows and move us closer to an eco-friendly society.



Following up on the first Stakeholder Dialogue, the second such meeting brought together five outside stakeholders with different areas of expertise, such as environmental issues, social contribution and consumer issues. As a new experiment, five departmental managers from the Daiwa Securities Group also took part. The dialogue featured a lively exchange on the topic "How CSR should be done in the Daiwa Securities Group."

(Date: June 14, 2004)

 <p>Sachiko Kishimoto Executive Director, Center for Public Resources Development</p> <p>Daiwa Securities ought to do more to display its attitude of wanting to contribute to society through SRI by incorporating the SRI perspective in its own company pension plan.</p>	 <p>Takatoshi Wakabayashi General Manager of Corporate Planning Department, Daiwa Securities Group Inc.</p> <p>Whenever a corporation innovates from within, the most important thing is transparency.</p>
 <p>Masaaki Kogure Senior Researcher, Institute of Prosocial Research</p> <p>If a business goes too far in making a profit, it's easy to say, "I take full responsibility," but even so businesses lose credibility this way.</p>	 <p>Kenji Wada Head of Corporate Ethics Department, Daiwa Securities Group Inc.</p> <p>In our trainings, we tell employees that "the basis of compliance is asking whether you would want the most important people in your life to see what you are doing."</p>
 <p>Yoko Takahashi Chief Director, Japan Philanthropic Association</p> <p>I believe there are many who want to do more than make a profit with their investments; they want their investments to be useful to society.</p>	 <p>Hideyuki Taniguchi Head of CS Promotion Department, Daiwa Securities</p> <p>It's never easy to make something abstract penetrate into the consciousness of employees on the job, so CSR initiatives can't be pursued in the usual way.</p>
 <p>Yukiko Furuya East Japan Compliance Management Research Group, Nippon Association of Consumer Specialists (NACS)</p> <p>People are really questioning how enterprise makes a profit, so it's important that CSR become a vital part of doing business.</p>	 <p>Tetsuya Kawaguchi General Manager of Personnel Department, Daiwa Securities Group Inc.</p> <p>To reform the culture of a company, you have to use a system that "matches the temperature" of the company. We're quite aware of how important our initiatives hereafter will be.</p>
 <p>Yoshiki Midorikawa Director, Green Consumer Research Group</p> <p>To practice CSR, you have to show how things really are. I commend Daiwa Securities for the ways in which it is sincerely disclosing information.</p>	 <p>Toshihiko Onishi General Manager of Corporate Planning Department, Daiwa Securities Group Inc.</p> <p>For SRI we really need sales techniques unlike anything in the past. I also hope to use SRI to benefit the Daiwa brand.</p>

(Titles given were valid as of June 2004)

The wide-ranging practice of CSR has to sink into an enterprise's activities

Kogure: The Daiwa Securities Group very clearly wants to have a correct corporate attitude and they're making great efforts. My job is to evaluate companies, but to speak frankly, I really don't understand CSR very well. One really has to think hard about some difficult things for something like this to appeal to the public. This is a big task for businesses.

Takahashi: CSR is something that is never completed, but I think CSR is the process by which a corporation changes itself.

Furuya: Businesses have to state clearly, "This is how we understand CSR, so this is the way in which we're going to deal with it." I think that will win praise from society.

As for myself, I would like to see more CSR efforts in the core business of the enterprise. If you ask whether the "core business" means simply making a profit, I say no, these days the question in particular is how that profit is made. I hope that CSR will become a vital part of the concrete activities of the Daiwa Securities Group. It's so important that CSR take root at the point of making the sale.

The greatest challenge: Growing the SRI market to promote CSR in the Group's core business

Takahashi: We live in a time of low interest rates, and many people are wondering where to invest their money. If you look at what the typical person is doing, he or she is investing in prefectural bonds. I think that many people don't just want to make a profit, they want to do something that benefits society. To address these needs, Daiwa Securities should be further expanding the SRI products market.

Kogure: Another way that Daiwa Securities can take initiatives in its core business is to assess companies on CSR principles and promote offerings of stock from those companies ranking high.

Right now you have an opportunity to develop a clear image as a leader in SRI. The difficulty is figuring out how to help consumers understand SRI. Even if we suppose that people recognize SRI as something good, many are still a long way from acting on it with their wallets. I think that you still need to do a little more to deal with that fact.

Onishi: I think that SRI products have to be sold with a different approach than securities companies have used in the past. I think they could really benefit the Daiwa brand as well.

Kishimoto: I find it particularly compelling that Daiwa Securities has taken up SRI as an example of an initiative in its core business. To bring this

act to the next step, the Daiwa Securities Group ought to do more to display its determination to contribute to society through SRI, for example by incorporating the SRI perspective in its own company pension plan.

Wakabayashi: Yes, it is just as you say. The Daiwa Securities Group has defined-contribution pension schemes, a Japanese version of the 401k. The Group has already decided to offer SRI funds as an option for employees.

The brand and the CSR idea only mean something if employees understand them

Onishi: Customers have a certain image of the Daiwa Securities Group, and questionnaire results show that many customers describe the Group with the word "kind." But communicating kindness is exceptionally difficult. And there is some debate as to whether being "kind" is really a good thing in the first place. The reality is that we still don't have a clear answer to the question of what kind of Daiwa brand we want to have.

Midorikawa: Recently the Journal of Research on Social Economic Life ran an essay entitled "Investment-type financial products and investor information." The essay compared information availability in the UK, US and Japan and made a very detailed argument that Japan is behind on this point. Doing a better job of offering information, I believe, is a key way in which the Group can demonstrate "kindness".

Taniguchi: It's very difficult to convey something like CSR or a brand when it's so hard to grasp what those things really are, so I'm really concerned about employee awareness. To what extent do our employees understand these things? We may be sending out messages about the brand, sustainability and CSR, but getting these ideas to penetrate into the understanding of the employees doing the job is not so easy. A business can't use the usual method when it practices CSR.



We may issue SRI funds, but it's important to be sure whether our employees have the same passion to sell those products. If our employees don't understand our social mission, our customers will not either.

And because customers will neither understand nor buy SRI products unless employees understand them, we will be working continuously to raise employee awareness.

Midorikawa: Speaking of employees, I notice your 2003 report has a section about personnel. This section states the case very well with the title *Respect for People*. [Editor's note: This section is entitled *Daiwa People* in the English version]. What kinds of management are you practicing in respect to labor? I think it important to state clearly your policies on your wage system, labor and work styles.

Kawaguchi: Establishing a system does change the culture of a company, but that takes time. To change a culture, it is essential to consider the "temperature" of the company. A system that is significantly different in temperature will only create greater confusion and is not likely to bring about any improvements. In the Group's case, the performance-based evaluation system penetrated long ago, but it is only relatively recently that we have begun to be aware of ideas like "how we work" or "ease of working," so we're quite aware that efforts must still be made.



Substituting "reliability" for "responsibility" and aiming to be a trusted company

Kogure: An enterprise is really a system for creating a profit. As a result, when an enterprise finds itself in violation of the law, there is a tendency to say, "I take full responsibility." Even so, claiming to take responsibility is not the same as actually taking responsibility.

Takahashi: The tendency is for that person to quit and be done with it, which doesn't mean anyone has taken responsibility.

Kogure: I'm actually opposed to interpreting the R in CSR as "responsibility." If we interpret it instead as "reliability," that is far more understandable. The reason is that responsibility is something that happens completely within the confines of a business. If a superior tells his subordinates, "Just do it, I'll take responsibility," they have little choice but to obey, even if it means doing something the superior cannot possibly take responsibility for. Even a very small part of an enterprise's actions can cause the entire organization to lose its credibility. Business needs to reconsider its management by asking the question, "Will society trust us?"

Taniguchi: Our Chairman Yoshinari Hara has actually been using the term "social reliability" for a long time. We've been engaged in a branding campaign since 2000, and the starting point of this is the recognition that we won't be able to do business unless we earn the trust of society.

Furuya: But whenever there is a choice between profits and compliance, it seems to me that profits always win. There's a strong tendency, isn't there, to think of profits and compliance separately. In the future we need to take a new view and ask how to make a profit while safeguarding fairness and reliability. Why not reform corporate activities by getting stakeholders more involved in them? Disclosing your processes would promote reliability. Of course, I understand this is not a simple thing.

Takahashi: If one looks at compliance alone, the focus gets very narrow. We look at things in so much detail and think, "Don't do this! Don't do that!" So I don't think addressing compliance alone is the way to go. Rather, one should think of CSR as part of total corporate management.

The basis of compliance: Would you tell your child?

Wada: In my role as the Head of the Corporate Ethics Department, I ask my trainees, "As long as you aren't violating the law, is it OK to do whatever you want?" Of course the answer is no. I tell the trainees that corporate ethics means acting in a way that a fair third party would have no cause to criticize in the slightest way. To put it more simply, you ask, "If the people most important to you saw you acting this way, would they say things behind your back? Would you be willing to have your parents, for example, or your children, see what you are trying to do? As I see it, it is my role to keep saying these things all the time.

Kishimoto: When you give these trainings, do you talk about any specific cases? Do you tell them that at times like these they do not need to obey their superiors?

Wada: Yes, I do. I'm especially sure to do so when we are training new employees. I also tell them about our internal reporting system, the Corporate Ethics Hotline.

Kishimoto: Is it an outside organization that runs the hotline?

Wada: The role of contact point for the hotline is shared between us and an outside attorney's office. Of the more than 10 reports we have gotten so far, all went to the attorney's office. Maybe many people think that if they report internally, we would not protect their confidentiality. However, that is not the case at all.

Midorikawa: Systems like hotlines are still in the formative stage, so it's



crucial to decide what kind of system you are going to make it. To make another point, I believe it's important that when something happens, it should always be reported both internally and externally.

Furuya: I've heard that in the past fiscal year there were nine reports to the hotline, which seems like a small number to me. Does this number include requests for advice?

Wada: Requests for advice are not included in the number of reports to the hotline. But nine reports is certainly a small number. I think there is a problem in the level of recognition and a sense that calling a hotline blows the issue out of proportion, and these are limiting use of the system. However, the Personnel Department has long gotten various inquiries, as do the counselors of the Health Development Center, and branch offices give input to our CS Promotion Department.

Nothing to hide: The most important part of corporate innovation is transparency

Midorikawa: To practice CSR, one first of all has to show how things really are. I commend the Daiwa Securities Group for the ways in which it is sincerely disclosing information.

Kogure: Specialized organizations have different lists of items they check to evaluate CSR at businesses, but I think it is enough just to assess how a company fulfills its responsibility to explain. Once that is done, society can make its own assessment. We are trying to see whether it is possible to evaluate how visible a company is to society, how "naked" it is, if you will.

Wakabayashi: I understand exactly what you are saying. Whenever a corporation like us innovates from within, the most important thing is transparency.

Takahashi: It may be that the typical customer is more interested in information protection than information disclosure. Information protection is another great responsibility, so even with company information, I think customers will understand if you explain why you are not releasing some information.

The next step: Defining stakeholders and creating opportunities to talk

Kishimoto: The next issue is how a business defines its stakeholders. What's your definition at the Daiwa Securities Group?

Wakabayashi: Shareholders, customers and employees are clearly stakeholders. It's a constant debate which of the stakeholders to place first; we haven't set any rank on them. The three are really one group. When thinking about CSR, how our internal stakeholders—our employees—feel about things and how they are acting is an important consideration.

Takahashi: From the CSR standpoint, I believe the internal stakeholders have to come first. It's important that employees take pride in their company and their jobs and be able to talk to their children about them. If you have more employees like that, it will naturally have a good impact on your external stakeholders and create a positive cycle. That cycle will assure that you have a good company, don't you think?

Kishimoto: There are groups capable of giving constructive opinions on how securities companies offer product information; don't you think you should find out who these groups are and meet with them regularly?

Onishi: Lately I really feel that we need to have close communication as you suggest. I thank you all for taking time from your schedules to offer us this valuable input.

In response to stakeholder dialogue

CSR does not have a strict definition, and I often hear people say they do not really understand what CSR means in the financial industry. In this year's stakeholder dialogue there was a clear belief that the SRI initiatives taken in our securities business are an important step. I also got a new awareness of the importance of reconsidering management by asking whether an act will encourage society to trust us or not.

For the Daiwa Securities Group, 2004 is Year 1 of SRI in Japan, and in this year we are endeavoring to raise investor consciousness by establishing SRI funds, offering SRI seminars and so on. We have a new sense of the need to accelerate activities through our core busi-

ness this way, including economic and financial education. This publication is our third *Sustainability Report*, but in the future we intend to do more to incorporate third-party opinions into the creation of this report so that these opinions will serve as a tool to diagnose the current state of our management and issues therein.

In July 2004 we created the CSR Promotion Department by joining the staff of our Corporate Communication Department, which previously provided CSR communication services, with members of the Corporate Community Affairs Department. The Daiwa Securities Group looks forward to the pursuit of greater CSR in the future.

Head of CSR Promotion Department, Daiwa Securities Group Inc.
Yasuaki Takakuwa



Communication to strengthen ties across Group

The Group Management Training given since FY 2001 are internal trainings that cut across the Group and seek to use communication so that Group directors and employees have a shared sense of values and ultimately develop the brand. In FY 2001 all Directors/Executive Officers and all department and branch leaders became subject to training, and starting the following year the training was extended to Deputy General Managers. Each session features a vigorous discussion on the progress and problems of branding initiatives and ways to address these issues.

General discussion and lecture, June 5, 2004

With Professor Kunio Ito of the Hitotsubashi University Graduate School serving as lecturer, this training examined issues in the Group's branding initiatives as based on short papers students had submitted in advance. All members discussed case studies on the themes "Strengths and weaknesses of the Daiwa Securities Group" and "How well branding initiatives have sunk into day to day work" as perceived by the students. Professor Ito gave a lecture entitled "Corporate branding" and the CS Promotion Department of Daiwa Securities reported results of analysis of its customer questionnaire.

Group discussions and presentations

After the general discussion in the morning, the 30 attendees broke into five small groups to continue the discussion there. They summed up their roughly three hours of group discussions in presentations given in front of President (now Chairman) Hara.

Group Management Training given and employees completing

(End of June 2004)

Directors: four times (taken by total of 114 persons)
Executive Officers: three times (95 persons)
Department and branch leaders: 13 times (397 persons)
Deputy General Managers: nine times (313 persons)



Group A

Putting branding into practice at the level of the workplace is not simple. Management has to persistently put out the message and we have to be leaders in spreading the practice.

Group B

If our employees believe strongly that they are acting in the interest of the customers, customers will sense the virtues of Daiwa Securities. In our post-sales follow up, there should be a shift in emphasis from "follow up" to "care." And we should have a spirit of caring for the customer all the time, not just after the sale.

Group C

We would like to create more opportunities to discuss brand management in the workplace. We in the middle levels would like to get together and create an action plan for brand establishment.

Group D

Traits we want to associate with the Daiwa brand are kindness, strength, speed, progressiveness and so on. It's critical that we match products and services to customer needs and raise the level of customer satisfaction. We feel that at present the abilities of Daiwa Securities are not yet adequately appreciated.

Group E

We have to create a system where we can share not only our successes but more importantly our failures, and we need a management style that values employee autonomy. By being able to show the customer what he needs, we should be able to achieve "products and services that exceeds customer expectations."

Summary comments by Professor Ito and President (now Chairman) Hara

After the small group presentations, Professor Ito remarked, "It's taken three years, but I think we're now seeing the buds of a Daiwa brand. Branding is a forward-looking activity that you take for your own benefit. When a company's brand value rises, each individual employee's brand value rises as well." To this President Hara added, "The people taking this training today are the generation that is at the core of the Daiwa Securities Group. I want you to be sure that Daiwa's business style is firmly rooted in how to satisfy customers. Our combined power is certainly on the rise. As each of us talks to people inside and outside the Group and shows confidence when we do so, we build the brand. You are Daiwa's greatest strength."



The Daiwa Securities Group holds CSR Seminars.

Since November 2003 the Group has held CSR Seminars to reconsider the Daiwa Securities Group from the viewpoint of social responsibility. At these sessions, we work with one of our most important groups of stakeholders—our employees—to envision the ideal Daiwa CSR.

- No. 1: 18 participants, November 26, 2003
- No. 2: 40 participants, February 3, 2004
- No. 3: 21 participants, February 4, 2004
- No. 4: 20 participants, March 4, 2004
- No. 5: 24 participants, April 15, 2004



Information disclosure and transmission via CSR Website



<http://www.daiwa.jp/branding/>

No. 1: Reading the Sustainability Report

Persons informally offered employment at the Group to start in April 2004 were invited to tell us their opinions after reading *Sustainability Report 2003* and to give their ideas on a vision of CSR. In group discussions, they gave lively opinions from their unique perspective as informal hires. They expressed their hopes for SRI, fostering pro-social business and giving economic and financial training to nurture a wide range of investors, among other topics closely connected to the Group's core business. Their views will be of great value to the Group over the long term.

No. 2: Future economic and financial education for young people

This session brought together employees with a deep interest in economic and financial education for young people. The guest speaker was Yoshihiro Nakamoto, COO of the non-profit Junior Achievement Japan, who discussed efforts to bring economic education to young people. Nakamoto stressed that the objective of Junior Achievement is to nurture children's ability to make decisions for themselves, a statement that drew many questions from the participants.

Nos. 3 – 5: The "What Can We Do?" Club of Daiwa Securities Group

Each of the three sessions featured two guest speakers, including NGO or non-profit representatives and other experts. These gave presentations on the environment and social affairs, after which participants split into groups and held roundtable seminars. The themes explored were conducive to a deep examination of CSR and addressed the real value of the forest, the economic mechanisms of hunger and poverty, and the reasons why globalization has come under such criticism. These themes made the participants aware of the connection between the economy on the one hand and the environment and social problems on the other, providing a stimulus for asking what we as a securities company can do for global-scale problems.

Guest speakers

Naoki Adachi and Ichiro Kobayashi, The CSR Institute, Inc.

Takehiko Uemura, Coordinator, Japan Self-Reliance Project/Coordinator for East Asia, World Civil Society Forum

The CSR Website opened in January 2003 within the Daiwa Securities Group Inc. main website. Following the key concept "CSR and brand management," the site introduces readers to our SRI initiatives, economic and financial education, philanthropic activities and the Sustainability Report, among others.

Special editions include articles on CSR. The first special edition, entitled "Chairman Hara discusses his vision," included CSR specialist Toshihiko Goto as a guest. He and Daiwa Securities Group Inc. Chairman Hara talked about a vision of "socially responsible management through corporate branding."

The second special edition, "What is CSR?" introduced readers to recent trends in CSR and explained the CSR concept in simple terms.

The third special edition, actually a series of editions beginning in August 2004, took up the theme, "A dialogue on CSR." In it, Mariko Kawaguchi, Senior Analyst at Daiwa Institute of Research Ltd., explored many aspects of CSR in a succession of dialogues with persons from NGOs, non-profits and enterprise. The first feature in this series concerned the relation between CSR and human rights.

SRI is a way in which the Daiwa Securities Group takes initiatives within its core business. The site includes content from the Daiwa SRI Investors Seminar of June 2004 and interviews with staff members working with the Group's SRI funds.

The Daiwa Securities Group is using this site to offer more information on its social and environmental activities and to deepen communication with stakeholders.



Dr. Iwao Taka

Professor, International School of Economics
and Business Administration,
Reitaku University

I had the opportunity to give a third-party opinion two years ago in the *Sustainability Report* of the Daiwa Securities Group. Now, after having read the report for 2004, I come away with the impression that the Group's corporate social responsibility (CSR) initiatives have made steady progress over these last two years. Chairman Hara has long talked about the Group's passion for CSR, but now I feel that this attitude has spread and taken root throughout the Group.

Another way we might define CSR is "the ways a business contributes to the building of a sustainable society," and I think that SRI as promoted by the Daiwa Securities Group is a perfect example of that. In particular I think that the Daiwa SRI Fund described on pages 08 – 09 of this report is an experiment in supporting "sincere Japanese companies" in a clear way that has never been tried before and by so doing it is transforming Japanese society into a sustainable community. I truly admire the fact that the Daiwa Securities Group recognizes the social need for such financial products and is therefore putting them together and selling them.

I particularly praise this report for the following three points. First, the Daiwa Securities Group is taking medium- and long-term CSR initiatives, not just a one-time program. On pages 16 – 17, this report lists issues and targets from the past year and shows how much progress has been made on them. I would particularly point out that the Group has reset targets for those issues where it did not sufficiently achieve its goals. At a time when many businesses are paying lip service to CSR, the initiatives of the Daiwa Securities Group are clearly different and more progressive.

Second, this report does not just give the positive information such as the contributions the Group is making to society; it also actively reveals compliance risks and other negative information. On page 22, for example, the report states straightforwardly that "Daiwa Securities is raising the ratio of internally detected cases" of problem conduct happening in the company. Many CSR reports try not to touch on problems like this, but this report admits latent problems, that the Group is detecting these problems in advance and nipping them in the bud and that it is

continuing to create systems and make improvements to do so. These things can be reported honestly because of the Daiwa Securities Group's persistent efforts to establish practical and effective governance systems and internal controls. We readers have to understand this point and commend the Group for it.

Third, this report states the contributions being made to each group of stakeholders, and it makes this easy to understand. The chart on page 29 showing the distribution of economic value to stakeholders is especially easy for readers to understand. Initiative details appear on the pages following this. For example, the introduction of the multi-directional evaluation system for employees (page 32) and the program to support post-retirement careers (page 33) are unique challenges the Group has undertaken.

There are improvements I would like to see made, however. First of all, the Group should try to convey the correct significance and possibilities of SRI to more citizens. To that end, perhaps the Group should more systematically give SRI training for people in the community and the persons selling products in the office. Second, I'd like to see the Group go further in promoting women to managerial positions. Certainly the number of such women is increasing, but as a percentage of the entire female work force, women in managerial positions are still relatively few as compared to men.

Listing these desired improvements does not by any means deny the value and progressive nature of the current *Sustainability Report*. This report boasts a degree of completeness rarely seen; I am merely stating my hope that the Group will not be satisfied with that and will instead push further. I hope that citizens and society will likewise think highly of the sincere and steady efforts of the Daiwa Securities Group.



Toshihiko Goto

Chair, Environmental Auditing Research
Group (EARG)
Member, Board of Directors,
Global Reporting Initiative (GRI)

I have come to see that the Daiwa Securities Group has basically a top-down system of CSR. In the sense that CSR is a policy of top management, the message will quickly spread that this is not just "*omikoshi* management," that pattern so often seen in Japanese business in which top management is aloof from on-the-ground issues. However, I had some concerns about the consistency of the Group's extremely varied CSR initiatives and whether they were being managed in a unified way, but in July of this year the Group set up a CSR Promotion Department, which I think will serve as the center for these functions. In top-down organizations where departments are divided vertically and operate with little contact with each other, there tends to be a disconnect between society's expectations and the organization's actions, but having different types of communication within and beyond the company can bridge the gap. The *GRI Content Index* found at the back of this report is useful not only for checking the items in the report but also the comprehensiveness of initiatives and activities to be given priority.

The Daiwa Securities Group has made compliance the foundation of its CSR initiatives and is addressing SRI as a strategic and challenging target. Compliance is given relatively great weight, but I think that as a matter of course compliance is the most important element of management in an industry that handles money. The Daiwa Securities Group has taken up the slogan "think for yourself, act for yourself," so I think it would be a wise idea to adopt voluntary action standards that apply across the Group and turn employees into participants. The Group is thinking beyond merely obeying the law, the usual concept of compliance. It would be even better if this led the top management to make definite commitments, including some quantitative statements about what it will do and how far it will go beyond merely obeying the law. The most desirable outcome of taking compliance initiatives would be an increase in customer satisfaction, so it would be interesting if the Group could think of some system for measuring the connection between the two.

In its promotion of SRI, the Daiwa Securities Group is not just screening funds for appropriateness; it is using such means as regional

index funds to invest in the communities. Awareness of CSR and SRI is still relatively low in the financial industry as a whole in Japan as compared to the US and Europe, but the initiatives of the Daiwa Securities Group are highly commendable. However, this report indicates the Group's perception that investing with an SRI perspective will be mainstream in the future, and if this is so, issues that the Group will have to face are how to incorporate SRI-like ideas into all functions and not just its SRI funds, and how to quantitatively measure the extent to which it has achieved its goals. In its core business, I would like to see the Group do such things as using the Clean Development Mechanism* on problems of the environment and poverty in industrializing countries through such means as carbon funds.

It was delightful to read about the Daiwa Securities Group's financial education initiatives, although this was included as part of its initiatives in its core business. That would be correct as long as the Group is referring to activities that are effective in terms of employee training and compliance, but its financial education initiative seems to be halfway between core business and philanthropic activities. Globally, the focus of CSR at this time is purely on core business initiatives, so in that sense this description may confuse readers.

As for the report itself, the 2003 report won high praise from parties outside the Group, and I feel this year's is even better. There is more numerical data, and I hope the Group will expand its use of such data in comparing targets and results and setting new targets. It is widely accepted that it is often difficult to quantify social goals, but I hope the Daiwa Securities Group will be a pioneer in developing creative ways to express these things quantitatively as far as possible.

Naturally, the Daiwa Securities Group ought to be monitoring all its goals on a Group-wide basis, but beyond that it also needs to look at its relationship with suppliers and subcontractors.

*Clean Development Mechanism: One of the Kyoto Mechanisms, or strategic means for the prevention of global warming, established under the Kyoto Protocol. Under the mechanism, industrialized countries conduct projects in industrializing countries to reduce emissions of greenhouse gases and the resulting emissions reductions are apportioned to the countries involved.

GRI Content Index/Milestones toward Sustainability

GRI Content Index

Section	Indicator	Pages in this report
1 Vision and strategy		
1.1	Statement of the organisation's vision and strategy regarding its contribution to sustainable development.	2-3
1.2	Statement from the CEO (or equivalent senior manager) describing key elements of the report.	2-3
2 Profile		
Organisational Profile		
2.1	Name of reporting organisation.	7,51
2.2	Major products and/or services, including brands if appropriate.	7,9-10,28,39
2.3	Operational structure of the organisation.	7,19,20-21
2.4	Description of major divisions, operating companies, subsidiaries, and joint ventures.	7,28
2.5	Countries in which the organisation's operations are located.	51
2.6	Nature of ownership; legal form.	51
2.7	Nature of markets served.	6,28
2.8	Scale of the reporting organisation.	28-29,33
2.9	List of stakeholders, key attributes of each, and relationship to the reporting organisation.	4,5,18,27,29,33
Report Scope		
2.10	Contact person(s) for the report, including e-mail and web addresses.	51
2.11	Reporting period (e.g., fiscal/calendar year) for information provided.	4
2.12	Date of most recent previous report (if any).	27
2.13	Boundaries of report (countries/regions, products/services, divisions/facilities/joint ventures/subsidiaries) and any specific limitations on the scope.	4,7
2.14	Significant changes in size, structure, ownership, or products/services that have occurred since the previous report.	20
2.15	Basis for reporting on joint ventures, partially owned subsidiaries, leased facilities, outsourced operations, and other situations that can significantly affect comparability from period to period and/or between reporting organisations.	39
2.16	Explanation of the nature and effect of any re-statements of information provided in earlier reports, and the reasons for such re-statement (e.g., mergers / acquisitions, changes of base years/periods, nature of business, measurement methods).	38
Report Profile		
2.18	Criteria/definitions used in any accounting for economic, environmental, and social costs and benefits.	29
2.20	Policies and internal practices to enhance and provide assurance about the accuracy, completeness, and reliability that can be placed on the sustainability report.	4,26-27
2.21	Policy and current practice with regard to providing independent assurance for the full report.	48-49
2.22	Means by which report users can obtain additional information and reports about economic, environmental, and social aspects of the organisation's activities, including facility-specific information (if available).	26-27,47
3 Governance structure and management systems		
Structure and Governance		
3.1	Governance structure of the organisation, including major committees under the board of directors that are responsible for setting strategy and for oversight of the organisation.	18-19,20-21
3.2	Percentage of the board of directors that are independent, non-executive directors.	20-21
3.4	Board-level processes for overseeing the organisation's identification and management of economic, environmental, social, and related policies.	19,20-21
3.5	Linkage between executive compensation and achievement of the organisation's financial and non-financial goals (e.g., environmental performance, labour practices).	18-19
3.6	Organisational structure and key individuals responsible for oversight, implementation, and audit of economic, environmental, social, and related policies.	19,20-21
3.7	Mission and value statements, internally developed codes of conduct or principles, and policies relevant to economic, environmental and social performance and the status of implementation.	5,26,40-41
3.8	Mechanisms for shareholders to provide recommendations or direction to the board of directors.	20-21,27
Stakeholder engagement		
3.9	Basis for identification and selection of major stakeholders	4,5,29,42
3.11	Type of information generated by stakeholder consultations.	42-45

Section	Indicator	Pages in this report
3.12	Use of information resulting from stakeholder engagements.	25,27,30-31,42-45
Overarching policies and management systems		
3.13	Explanation of whether and how the precautionary approach or principle is addressed by the organisation.	22-25
3.14	Externally developed, voluntary economic, environmental and social charters, sets of principles, or other initiatives to which the organisation subscribes or which it endorses.	11
3.15	Principal memberships in industry and business associations, and/or national/international advocacy organisations.	10-11,13
3.17	Reporting organisation's approach to managing indirect economic, environmental and social impacts resulting from its activities.	3
3.18	Major decisions during the reporting period regarding the location of, or changes in, operations.	39
3.19	Programmes and procedures pertaining to economic, environmental and social performance.	16-17,31,40-41
3.20	Status of certification pertaining to economic, environmental and social management systems.	40-41
4 GRI Content Index		
4.1	A table identifying location of each element of the GRI Report Content, by section and indicator.	50-51
5 Performance Indicators		
Economic Performance Indicators		
Core Indicators		
Customers		
EC1	Net sales.	28
EC2	Geographic breakdown of markets.	28
Suppliers		
EC3	Cost of all goods, materials and services purchased.	28
Employees		
EC5	Total payroll and benefits (including wages, pension, other benefits, and redundancy payments) broken down by country or region.	19,29
Providers of Capital		
EC6	Distributions to providers of capital broken down by interest on debt and borrowings, and dividends on all classes of shares, with any arrears of preferred dividends to be disclosed.	28-29
EC7	Increase/decrease in retained earnings at end of period.	29
Public Sector		
EC8	Total sum of taxes of all types paid broken down by country.	29
EC10	Donations to community, civil society, and other groups broken down in terms of cash and in-kind donations per type of group.	29,36
Environmental Performance Indicators		
Core Indicators		
Energy		
EN3	Direct energy use segmented by primary source.	38,40-41
Water		
EN5	Total water use.	38,40-41
Emissions, Effluents and Waste		
EN8	Greenhouse gas emissions (CO ₂ , CH ₄ , N ₂ O, HFCs, PFCs, SF ₆).	38,40-41
EN11	Total amount of waste by type and destination.	39,40-41
Social Performance Indicators		
[Labor Practices and Decent Work]		
Core Indicators		
Employment		
LA1	Breakdown of workforce, where possible, by region/country, status (employee/non-employee), employment type (full time/part time), and by employment contract (indefinite or permanent/fixed term or temporary). Also identify workforce retained in conjunction with other employers (temporary agency workers or workers in co-employment relationships), segmented by region/country.	33
LA2	Net employment creation and average turnover segmented by region/country.	33
Training and Education		
LA9	Average hours of training per year per employee by category of employee.	34-35
Diversity and Opportunity		
LA10	Description of equal opportunity policies or programmes, as well as monitoring systems to ensure compliance and results of monitoring.	32-35

Section	Indicator	Pages in this report
LA11	Composition of senior management and corporate governance bodies (including the board of directors), including female/male ratio and other indicators of diversity as culturally appropriate.	20,33,34
Additional Indicators		
Employment		
LA12	Employee benefits beyond those legally mandated.	33,34
Training and Education		
LA16	Description of programmes to support the continued employability of employees and to manage career endings.	33,34-35
LA17	Specific policies and programmes for skills management or for lifelong learning.	33,34-35
[Human Rights]		
Core Indicators		
Disciplinary Practices		
HR10	Description of non-retaliation policy and effective, confidential employee grievance system (including, but not limited to, its impact on human rights).	22-25
[Society]		
Core Indicators		
Community		
S01	Description of policies to manage impacts on communities in areas affected by activities, as well as description of procedures/programmes to address this issue, including monitoring systems and results of monitoring.	10,36-37
Bribery and Corruption		
S02	Description of the policy, procedures/management systems, and compliance mechanisms for organisations and employees addressing bribery and corruption.	22-25
Additional Indicators		
Competition and Pricing		
S07	Description of policy, procedures/management systems, and compliance mechanisms for preventing anti-competitive behaviour.	22-25,30-31
[Product Responsibility]		
Core Indicators		
Customer Health and Safety		
PR1	Description of policy for preserving customer health and safety during use of products and services, and extent to which this policy is visibly stated and applied, as well as description of procedures/programmes to address this issue, including monitoring systems and results of monitoring.	22-25
Products and Services		
PR2	Description of policy, procedures/management systems, and compliance mechanisms related to product information and labelling.	22-25,30-31
Respect for Privacy		
PR3	Description of policy, procedures/management systems, and compliance mechanisms for consumer privacy.	22-25
Additional Indicators		
Customer Health and Safety		
PR6	Voluntary code of compliance, product labels or awards with respect to social and/or environmental responsibility that the reporter is qualified to use or has received.	Back cover
Products and Services		
PR8	Description of policy, procedures/management systems, and compliance mechanisms related to customer satisfaction, including results of surveys measuring customer satisfaction. Identify geographic areas covered by policy.	30-31
Advertising		
PR9	Description of policies, procedures/management systems, and compliance mechanisms for adherence to standards and voluntary codes related to advertising.	23

Milestones toward Sustainability

Year	Month	Daiwa Securities Group Milestones toward Sustainability
2003	1	Group-wide Corporate Ethics Hotline internal reporting system set up
	2	Internal Audit Department established at Daiwa Securities Group Inc.
	3	New medium-term management plan (for FY 2003 - 2005) established
	4	New rewards program for shareholders inaugurated
	6	Total Daiwa Securities Group Inc. director and corporate auditor compensation disclosed
	7	Daiwa Securities SMBC Principal Investments invests in Community Development Carbon Fund, a World Bank carbon fund
	10	Began supporting Junior Achievement's Student Company Program, a hands-on economic education program
	10	Began selling UBS Global Equity 40 SRI+, an SRI investment trust that invests in global companies
	11	Joined Social Investment Forum Japan (SIF-Japan)
2004	1	Opened CSR Website
	3	Established Disclosure Policy
	4	Partnership with Waseda Graduate School of Finance, Accounting and Law
	5	Began selling Daiwa SRI Fund, an SRI investment trust that invests in Japanese companies
	6	Began new management system under the leadership of Shigeharu Suzuki and transitioned to a company based on a committee system
	7	Established CSR Promotion Department within Daiwa Securities Group Inc.

*For information on milestones through 2002, see *Sustainability Report 2003*, page 40.

Sustainability Report 2004 reader questionnaire

Thank you for reading the Daiwa Securities Group's *Sustainability Report 2004*. We are conducting a survey on this report with a questionnaire available at the website below. Please use this questionnaire to give us your comments. Readers may also find questionnaire results for the 2003 report at this site.

http://www.daiwa.jp/branding/report/form_e.html

For further information, please contact:

CSR Promotion Department, Daiwa Securities Group Inc.

6-4, Otemachi 2-chome, Chiyoda-ku, Tokyo

Tel: 81-(0)3-3243-5992

E-mail: brand@dsgi.daiwa.co.jp

URL: <http://www.daiwa.jp/>

Issued: November 2004 (next issue October 2005)

Design and production: Cre-en Inc.



Daiwa Securities Group

www.daiwa.jp



**30%
Minimum**

SA-coc-1210

FSC TRADEMARK © 1996 Forest Stewardship Council A.C.

At least 30% of the fibre used in the manufacturing process of this product comes from well-managed forest independently certified according to the rules of the Forest Stewardship Council.

