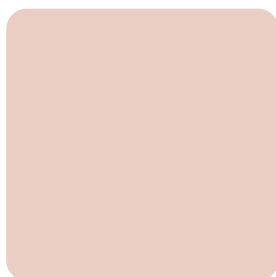




Daiwa Securities Group

Sustainability Report 2005



BUILDING
SUSTAINABLE
SOCIETY



What we can do

What kind of society awaits these 36 babies when they become adults 20 years from now? The precious faces of these infants—all children of Daiwa Securities Group employees—are an expression of our hopes for the future. At the Daiwa Securities Group, we are determined to take responsibility as individuals and to play our role as a company to create a sustainable society—a happy society that lives in harmony with an unspoiled Earth.

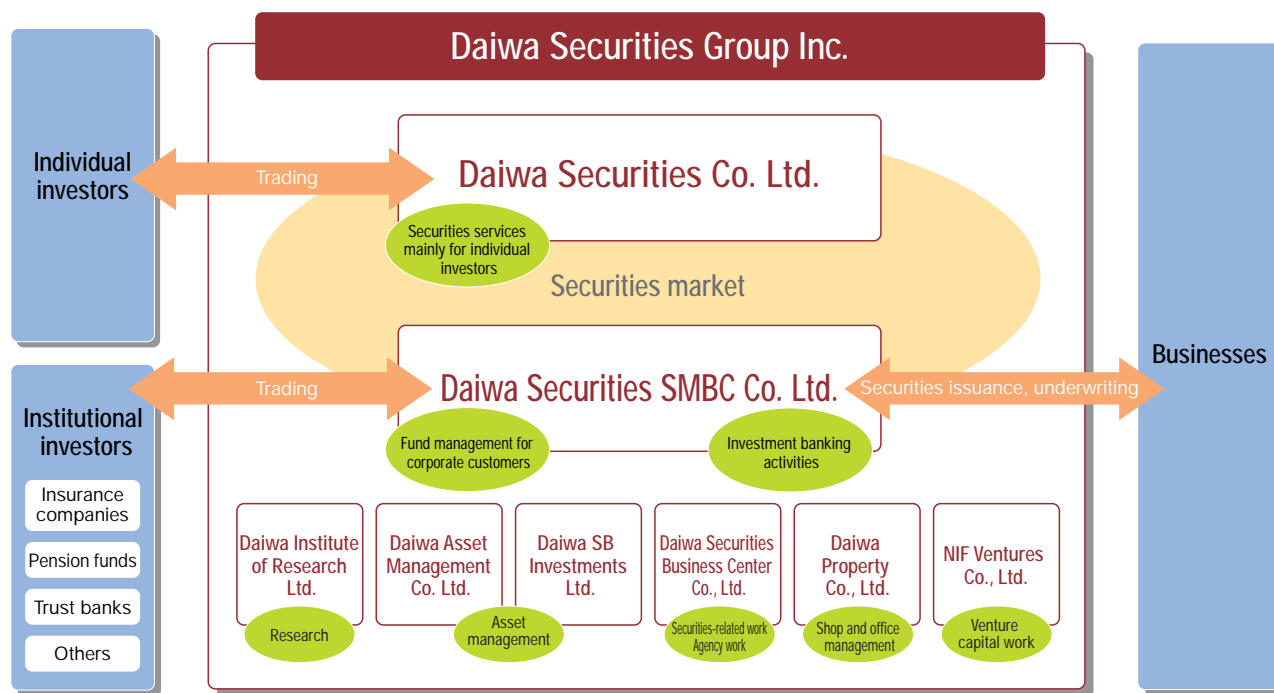


Overview of the Daiwa Securities Group

Businesses of the Daiwa Securities Group

The Daiwa Securities Group is composed of Daiwa Securities Group Inc., which holds the stock of the group companies, the two main corporations Daiwa Securities Co. Ltd. and Daiwa Securities SMBC Co. Ltd., and the many other companies that contribute to their operations. The Group provides customers with comprehensive investment and financial services.

Daiwa Securities Co. Ltd., primarily serves individual investors making securities investments. Daiwa Securities SMBC serves institutional investors, including businesses outside the finance industry, in the field of fund management, and also helps businesses and other organizations raise funds through its investment banking activities.



* For details about the individual companies of the Daiwa Securities Group, visit the Group's website at <http://daiwa.jp/tr/english/index.cfm>.

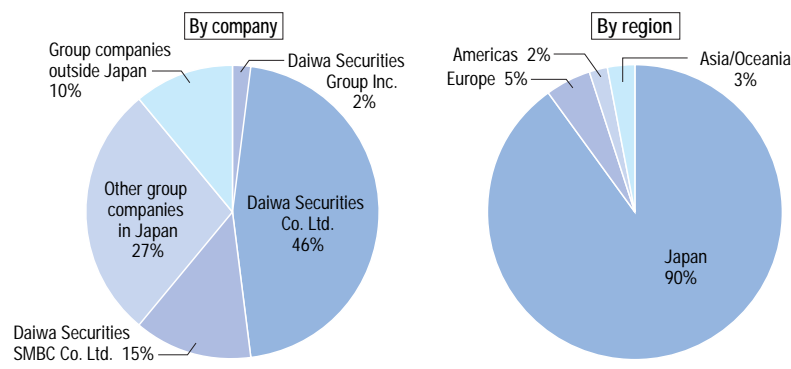
Corporate profile

Company name	Daiwa Securities Group Inc.
Headquarters	6-4, Otemachi 2-chome, Chiyoda-ku, Tokyo 100-8101, Japan
Telephone	81-(0)3-3243-2100
Established	December 27, 1943 (Founded 1902)
President and CEO	Shigeharu Suzuki
Capital	¥138.4 billion (As of March 31, 2005)
Shares issued and outstanding	1,331,736,000 (As of March 31, 2005)
Operating revenues (consolidated)	¥519.3 billion (FY2004)
Net operating revenues (consolidated)	¥390.4 billion (FY2004)
Ordinary income (consolidated)	¥120.4 billion (FY2004)
Number of employees* (consolidated)	11,295 (As of March 31, 2005)
Number of consolidated subsidiaries	46 (13 in Japan, 33 outside Japan)
Number of equity-method affiliates	5
Assets under custody	¥42.055 trillion (As of March 31, 2005)

* Excluding temporary employees and financial advisors.

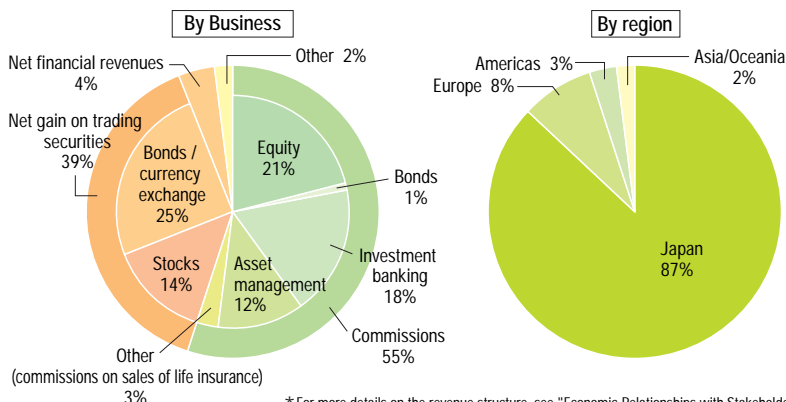
Employee composition (FY2004)

Number of employees: 11,295



Net operating revenues (FY2004)

Net operating revenues: ¥390.4 billion



* For more details on the revenue structure, see "Economic Relationships with Stakeholders" on page 34.

Key features of *Sustainability Report 2005*



Special Feature 1: Initiatives in the Daiwa Securities Group's Core Business

This feature reports on our progress in two initiatives to help realize a sustainable society through our everyday business: socially responsible investment (SRI) and economic and financial education.

► Page 8



Special Feature 2: Stakeholder Dialogue

We invited people who are related to the Daiwa Securities Group's CSR initiatives to join us in a dialogue in order to gain an understanding of society's expectations and demands. Read what they had to say.

► Page 16



Internal Stakeholders' Meeting

What do frontline employees think about the Daiwa Securities Group's CSR activities? We present a frank, roundtable discussion among three sales employees from Daiwa Securities Co. Ltd.

► Page 48

Editorial policy

We have published this report every year since 2002 with the aim of disclosing, clearly and in good faith, information relating to the Daiwa Securities Group's sustainability initiatives and corporate social responsibility. We also see the process of preparing this report as an important opportunity for us to confirm the status of our efforts and identify issues for further attention.

We gave particularly strong attention to the need for dialogue with stakeholders and the promotion of understanding among employees when planning and producing this year's report. As with the 2004 report, we focused this year's report on the efforts in socially responsible investment and economic and financial education that we are making in our everyday business, as well as on reports on management, and on social issues. As for environmental reporting, we are working to continuously collect environmental impact data in preparation for disclosure. We hope to be ready to report in this area as well in the near future.

The *2002 Sustainability Reporting Guidelines*, an international guideline for sustainability reporting published by the Global Reporting Initiative (GRI),^{*1} and *GRI's Financial Services Sector Supplement: Social Performance*, were used as references in the preparation of this report.

Scope of report

Intended readership:

The Daiwa Securities Group's diverse stakeholders, primarily customers, shareholders, investors, and employees as well as business partners, non-profit organizations (NPOs), persons living and working in the vicinity of Daiwa Securities headquarters and our branch offices nationwide, and educational organizations.

Scope of reporting:

This report basically covers our nine main group companies,^{*2} which account for about 90% of the Group's total number of employees. The report does not, however, encompass data from all nine companies on all items reported. Rather, information is provided in proportion to the size and business area of each company. The scope of numerical data is noted along with the data.

Period covered by report:

Fiscal 2004 (April 2004 - March 2005). The report includes some information on activities carried out in fiscal 2005 which became available close to the publication date, as well as some information on activities that occurred prior to fiscal 2004.

Publication date:

September 2005 (Previous report in September 2004, next report planned for September 2006).

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

^{*2} See "Overview of the Daiwa Securities Group" on page 2 for the Group's nine main companies.

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Fulfilling the Daiwa Securities Group's social role and responsibilities

Shigeharu Suzuki
President and CEO,
Daiwa Securities Group Inc.

鈴木茂晴



Contributing to society through everyday work is CSR

—What does corporate social responsibility, or CSR, mean for the Daiwa Securities Group?

I think that the essence of CSR is to help build a better society through our everyday work.

Businesses need to procure capital to run their business activities. On the other hand, investors are looking for better money management opportunities. Our job is to work as a bridge between businesses and investors. When we meet the needs of both, the economy and society continue to run smoothly and develop in a sustainable manner. Our work therefore has a very significant public aspect.

This contribution to the public good is inherent in the securities business, and I see it as the core of our social responsibility.

The switchover to the committee system was very natural

—Did the transition to a committee system in June 2004 bring about any repercussions related to the management setup?

I felt no discomfort at all when we switched over to the committee system. When the Daiwa Securities Group moved to a holding company structure in April 1999, we established the Advisory Board and Compensation Committee. We have had outside directors since 2002. So by June 2004, the Daiwa Securities Group already had a well-established culture, affirming separation of management and supervision.

Looking ahead, I think we have to continue improving our dialogue with shareholders. I want more of our stakeholders to know that the Daiwa Securities Group is a transparent, open group of companies.

A business that violates socially accepted norms will not succeed

—It seems that compliance is firmly established throughout the Group. What is your assessment?

In our business – which sometimes involves handling volatile financial products – sometimes customers see a profit and sometimes they see a loss. Our customers will simply not accept inadequate explanations of products that carry this kind of risk. In that sense, we are especially careful when it comes to compliance. For us, compliance is more than merely obeying laws and regulations; it means acting in accordance with corporate ethics as well as socially accepted norms. I have made it clear to all our employees that we are absolutely never to engage in any type of business that could even appear to be out of line with socially accepted norms, even if it does not violate the letter of the law or regulations. Even if that kind of practice made us some money, it would cost us the trust of society, which is by far our most valuable asset.

Honest disclosure protects a company

—How do you think about disclosure?

A company is a large group of people, and, someone is bound to make a mistake. In my view, the important thing is how quickly and accurately the facts, the cause, and the countermeasures are made public, after such a mistake is unfortunately made. Going public with a problem would be embarrassing for the company, but hiding it would be a much greater shame.

It is a universal truth that cover-ups risk the very survival of a company, while honest disclosure saves it.



SRI funds invest in promising companies

—The company is promoting socially responsible investment (SRI) as one of its CSR activities within the scope of its regular business. Can you give us your outlook on this?

Simply put, companies that are serious about CSR have strong growth prospects. That is why SRI funds, or funds that base investment decisions on thorough considerations of the CSR of the companies targeted for investment, can be expected to return good performance over the long-term. Once more investors come to understand this, I think SRI will grow significantly in the future.

Focusing on environmental protection to help achieve a sustainable society

—Why did you join the United Nations Environmental Programme Finance Initiative (UNEP FI) in November 2004?

The UNEP Statement by Financial Institutions on the Environment and Sustainable Development clearly proclaims a financial institution's intent to contribute to the sustainable development of society through its regular business. This statement is fully compatible with the Daiwa Securities Group's basic philosophy of conducting all of its business in a way that fulfills our CSR.

The simultaneous pursuit of economic growth and environmental protection is an important theme for human society in the 21st century. Going forward, Daiwa will be one of the financial institutions that work aggressively to help achieve that goal.

The Daiwa Securities Group and Sustainability

The role of a securities business is to support the smooth flow of funds between businesses and investors by bringing them together

The term finance, in its simplest sense, means making money available to people. Finance involves those who have funds to spare (individuals or businesses) making those monies available to those who have a shortage of funds (usually businesses and governments). Finance can take either the form of direct finance, in which a business or government procures funds directly from certain investors, or indirect finance, in which a business or government borrows funds through a financial institution such as a bank. The negotiable securities handled by a securities company are a means of conducting direct finance.

Negotiable securities represent a means for businesses to procure necessary funds and for investors to manage their funds. Negotiable securities include stocks, bonds, and investment trusts (also called "mutual funds"). Businesses issue stocks to raise capital for their operations. People who respond to the appeal of a business receive shares (stock certificates) from the business as proof of their investment of money and thereby become shareholders. A bond is one type of document of obligation (an IOU) issued by public institutions or businesses to borrow funds. An investment trust is an arrangement where a professional manages a sum of money belonging to a number of investors. Investors can receive dividends or interest as compensation for their investment in these negotiable securities.

When an investor buys or sells stocks, a securities company acts as an agent to carry out the trade at the securities exchange. Investors can also buy or sell bonds and investment trusts through a securities company.

At the same time, a securities company also helps businesses and organizations raise needed funds. For example, a securities company handles the procedures required to offer the stock of an unlisted company to the public and to increase the capital of publicly-traded companies.

Thus, the role of a securities company is to help investors build their assets by serving as a transaction agent in the buying and selling of securities, and to help businesses, public institutions, and other organizations raise needed funds. This is how a securities company supports the smooth supply of funds in society by bringing business and investors together.

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.

The role of financial institutions in building a sustainable society

Capitalism, which is supported by this financial structure, has brought about the economic development of modern society. On the flip side, however, attention is also coming to focus on the negative phenomena produced by business activities that pursue economic gain alone under the aegis of globalism and the capitalist economy, such as environmental destruction on a global scale and the expanding gap between the rich and poor. The global society is facing challenges to its present course as a result of these types of business activities.

The concept of sustainability derives from the idea of sustainable development articulated in "Our Common Future," a report published in 1987 by the United Nations' World Commission on Environment and Development, commonly known as the Brundtland Commission. The Brundtland Commission defined sustainable development as "development that meets the needs of the present without compromising the ability of future generations to meet their own needs." Achieving sustainable development requires that all actors on Earth must, in consideration of future generations, behave in accordance with principles that promote co-existence and shared prosperity.

The present economic system is the greatest factor underlying the apprehensions about sustainability. The lifeblood of that economic system is money, so in that sense, money has the potential to ruin the sustainability of society. On the other hand, however, money is also the key to solving a variety of problems that might affect sustainability. For that reason, financial institutions, which handle money, can play a significant role in terms of encouraging sustainability. That role would be to integrate a social perspective into the process of finance in order to help channel money in a manner that leads to solutions for sustainability problems.

UNEP Statement by Financial Institutions on the Environment and Sustainable Development (Signed November 26, 2004)

We members of the financial services industry recognize that sustainable development depends upon a positive interaction between economic and social development, and environmental protection, to balance the interests of this and future generations. We further recognize that sustainable development is the collective responsibility of government, business, and individuals. We are committed to working cooperatively with these sectors within the framework of market mechanisms toward common environmental goals...



UNEP FI

Contributing to sound economic and social development through our core business

As a financial institution working at the center of the economic world, the Daiwa Securities Group sees contributing to sound economic and social development through its everyday business as its most important corporate social responsibility (CSR). To that end, the Group is currently focusing on two areas.

The first is the popularization and promotion of socially responsible investment (SRI) in Japanese society. SRI supports the building of a sustainable society by investing proactively in companies that are working to solve societal issues and companies that are honest with their stakeholders. In November 2004, we joined the United Nations Environmental Programme Finance Initiative (UNEP FI) and signed UNEP Statement by Financial Institutions on the Environment and Sustainable Development in a move to co-operate with other financial institutions in further promoting SRI.

The second is educational and research activities in the field of economics and finance designed to foster a broad investor base and bolster development of the capital market. Our objective is to invigorate the financial and securities markets in order to contribute to revitalization of the Japanese economy. We will promote this by helping investors and the general public, especially young people, to acquire accurate knowledge of economics and finance.

The Daiwa Securities Group will push ahead with these two initiatives based on its Corporate Principles and its commitment to earning the trust of stakeholders.

Issues facing the Daiwa Securities Group

Moving these initiatives forward, however, is not an easy matter. The Daiwa Securities Group has a number of issues that it needs to overcome. Our first and biggest challenge is to promote a CSR mentality and communicate the significance of these initiatives to all employees. At present, we cannot say that all our employees fully understand key ideas such as the significance of SRI and the importance of Economic and Financial education. Moreover, we have only just begun to build a CSR promotion system and environmental management system.

There are no textbooks on initiatives for achieving sustainability. We will, therefore, venture forward in a spirit of exploration and experimentation, and will always keep our internal and external stakeholders informed by describing our progress in this *Sustainability Report*. Our management is determined to continue to improve the Group's sustainability initiatives by listening to the viewpoints and suggestions of our stakeholders.

Daiwa Securities Group stakeholders



Customers

We will raise customer satisfaction by providing better products and services, responding sincerely to customer feedback and understanding customer needs.

Employees

We will build work environments that enable employees to feel a sense of fulfillment, pride, and satisfaction in their work and enthusiastically demonstrate their abilities.

Stakeholders and investors

We will earn trust by disclosing information in a highly transparent manner and meet expectations by continuously creating value.

Local communities

We regard our corporate citizenship activities as an investment in society, and will contribute to the development of communities primarily in the field of economic and financial education.

NPOs and NGOs

We will not only provide monetary support, but also use our knowledge and expertise to collaborate with NPOs and NGOs. We will reflect the values of society in our management by proactively engaging in dialogue and collaborating with NPOs and NGOs.



Initiatives for Socially Responsible Investment

Initiatives for SRI funds

What are SRI funds?

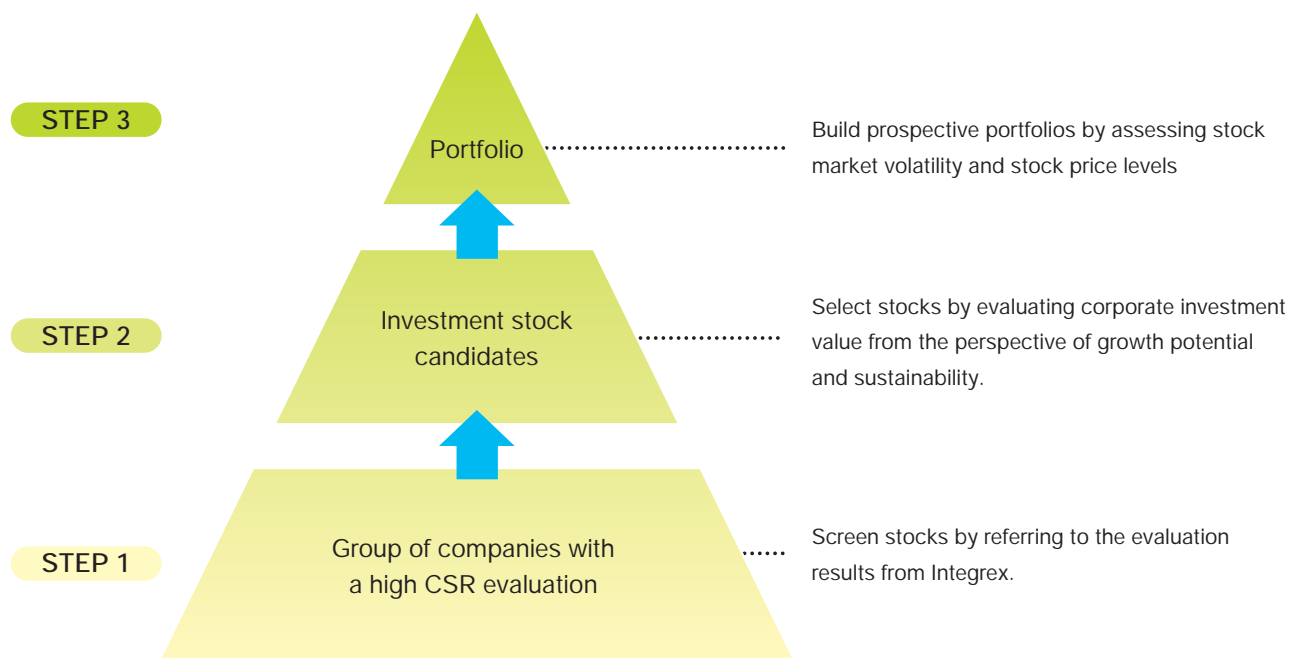
An investment fund is a financial product in which a company specializing in investment (the fund management organization) oversees the money collected from a large number of investors in a single investment account on behalf of the investors. One type of investment fund is an SRI fund, where the stocks for potential investment are screened from the perspectives both of growth potential and of sustainability under certain CSR evaluation standards. The eco funds (ecologically oriented investment funds) that began to appear in Japan in 1999 are one example of an SRI fund.

SRI fund products differ in their characteristics, depending on the portfolio construction process and the CSR evaluation standards. The CSR evaluation standards and portfolio building process for the Daiwa SRI Fund are shown in the diagram.

Evaluation points in the R-BEC001 CSR evaluation standards used for the Daiwa SRI Fund

Overall ethical and legal compliance activities
Ethics and integrity
Social contributions and responsibility
Environmental and green activities
Planning systems and processes
Management philosophy
Basic policies for ethical and legal compliance
Compliance manual
Implementation plans, legal rules, and internal regulations
Systems and processes for implementation and management
Divisions and departments in charge of ethical and legal compliance
Corporate governance
Education and training in ethics and legal compliance
Communication
Management and control
Preparation and measures for crisis management
Systems and processes for auditing and improvement
Self evaluation
Internal evaluation
Prevention and correction measures based on self and internal evaluations
Management system auditing
Follow-up audits
Improvement by management levels

Basic policy for Daiwa SRI Fund portfolio construction



* Integrex Inc. is a company that carries out quantitative CSR evaluation. Supported only by individual investors, it is an impartial evaluation company with no capital relationships with financial institutions or non-financial companies. Integrex carries out SRI evaluations using CSR evaluation standards (R-BEC001). These are based on Japan's own ECS2000 CSR standards and were mostly prepared by the Reitaku University Business Ethics and Compliance Research Center (Representative: Dr. Iwao Taka).

Socially responsible investment (SRI) is a method of investing that emphasizes firms' performance in the area of corporate social responsibility (CSR), including their environmental initiatives, social consciousness, and ethics, in addition to financial performance factors such as sales and profits. The Daiwa Securities Group, whose main business is the provision of financial services, is well-positioned to contribute to creating a sustainable society through the technique of SRI.

The following is a report on our initiatives for SRI funds, initiatives in the asset management business and the Daiwa Group's own investment business, as well as initiatives with the goal of improving awareness and understanding of SRI.

Daiwa Securities Group SRI funds

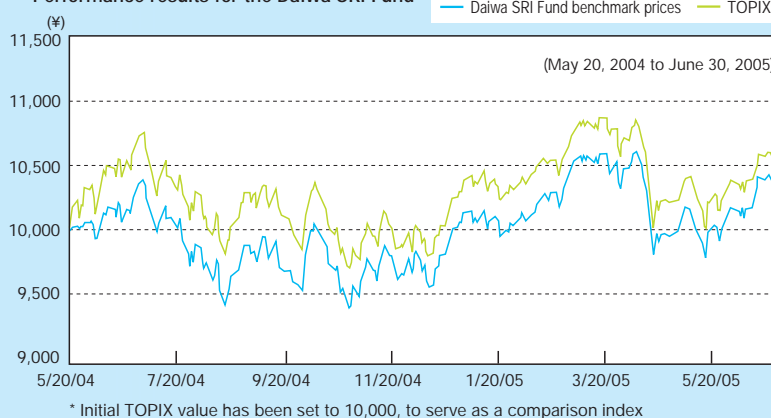
The Daiwa Securities Group began with the Global Eco Growth Fund (commonly called "Mrs. Green") in 2001, followed by the UBS Global Equity 40 SRI+ in 2003, and the Daiwa SRI Fund in 2004. The total net assets of these three SRI funds amount to ¥30.254 billion, which is 22.6% of the total net assets of all SRI funds in Japan (¥133.623 billion).

The Daiwa SRI Fund is a new product based on Japan's own ECS2000 CSR standards, which also evaluate the sincerity and transparency of companies. Although the performance of this fund is currently below that of the Tokyo Stock Price Index (TOPIX), we are aiming for performance results that are better than the TOPIX over the medium and long term.

(The figures are according to a Daiwa Securities Group survey, as of June 30, 2005.)



Performance results for the Daiwa SRI Fund

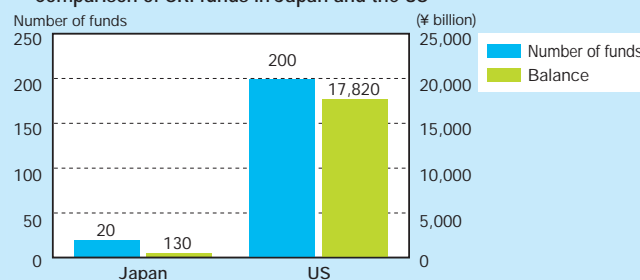


Current situation of Japanese SRI funds

In the US, the value of SRI fund assets has expanded rapidly since the 1990s, in 2003, the number of funds reached 200, achieving a combined value of about US\$162 billion (¥18 trillion). Meanwhile, Japanese SRI funds only number about 20, and their total asset worth is just over ¥130 billion.

(The US figures are from 2003, while the Japanese figures are as of June 30, 2005, according to a survey by the Daiwa Securities Group. Source: "2003 Report on SRI Trends in the US," SIF)

Comparison of SRI funds in Japan and the US



Issues and outlook for the popularization of SRI funds

SRI funds have only a brief history in Japan, and they have not yet demonstrated returns over the medium and long term. However, since companies that promote CSR activities are likely to increase in value over the long term, SRI funds provide an attractive investment tool.

An SRI awareness survey was conducted during the Daiwa SRI Investor Seminar held in June 2004. About 35% of respondents thought that the SRI concept is having an impact on

current investment behavior, and 76% thought that SRI will gain popularity in Japan in the future. Due to the increased interest among investors, the market for SRI funds has future growth potential.

One social mission of the Daiwa Securities Group is to lead the way in the popularization of SRI. Through our own initiatives and support for NPOs and NGOs that advance SRI, we intend to promote SRI funds in Japan.

Initiatives for Socially Responsible Investment

Initiatives in other investment business

Additional investment in a World Bank carbon fund, and clean development mechanism approval

In March 2005, Daiwa Securities SMBC Principal Investments Co. Ltd., added US\$5 million to its investment in the Community Development Carbon Fund, one of the World Bank's carbon funds (US\$2.5 million investment in July 2003, for a total investment of US\$7.5 million). In July 2005, the Community Development Carbon Fund's La Esperanza Hydroelectric Project was approved as a clean development mechanism (CDM)^{*1} by the CDM Executive Board at a meeting in Bonn, Germany.

Overview of the La Esperanza Hydroelectric Project

Near the city of La Esperanza in the Intibuca region of Honduras, a 12,700-kw hydroelectric plant will be built in order to supply electricity to 40,000 people in La Esperanza and the surrounding area. This effort will enable a 37,000-ton reduction in the annual emissions of greenhouse gases.

^{*1} A system that enables the trading of greenhouse gas reduction amounts to meet obligations under the Kyoto Protocol. This is achieved through development projects to reduce greenhouse emissions, which are subject to certain approval procedures. However, the project must be carried out in a developing country by a firm from a developed country that supplies the technology and financing.

Regional corporate recovery funds

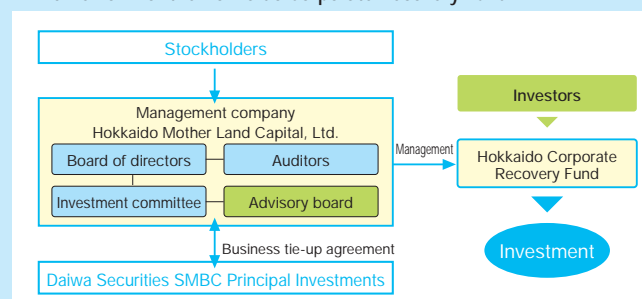
The recovery of local medium and small-scale businesses is indispensable for the revitalization of a region's economy and industry. Daiwa Securities SMBC Principal Investments participates in the formation and management of various regional corporate recovery funds. Through the acquisition of stocks and the purchase of loans from financial institutions, it is supporting the revitalization of small and medium-sized businesses in rural areas.

- Hokkaido Corporate Recovery Fund: ¥10 billion in total asset commitment
- Tochigi Corporate Recovery Fund: ¥8 billion in total asset commitment
- Tokyo Challenge Fund: ¥7.5 billion in total asset commitment

Regional recovery funds (Japanese only)

URL <http://www.daiwasmbcpi.co.jp/solution/sol400.html>

Framework for the Hokkaido Corporate Recovery Fund



Initiatives in the asset management business

Exercising our stockholder responsibilities

The two asset management companies of the Daiwa Securities Group recognize the importance of investment target companies living up to their social responsibilities. They are therefore moving forward with corporate governance initiatives that include the exercising of stockholder voting rights.

In May 2002, Daiwa Asset Management Co. Ltd., established its basic philosophy and guidelines for the exercising of stockholder voting rights, and in July 1998, Daiwa SB Investments Ltd., put in place the Corporate Governance Initiatives Objective and Basic Approach (these policies have been made public online, in Japanese). Both companies have increased stockholder value over the medium and long term, and have made it their policy to exercise voting rights in order to fulfill their responsibility as investment trustees. Specific votes on issues are determined by committees on the basis of corporate governance committee regulations. Daiwa is also going beyond voting and is striving to improve shareholder value by using various opportunities to encourage investment target companies and to improve their corporate governance.

Regional support funds

The Daiwa Securities Group puts together and sells regional support funds that are made up of companies based in certain regions of Japan, on the theme of revitalizing regional economies. In March 2005, we invested in listed companies from Toyama Prefecture, in a new fund called the Toyama Support Fund. This fund is not charity; its aim is to secure stable profits and to promote growth of the entrusted assets. This brings the total number of these support funds to five.

List of regional support funds (as of June 30, 2005)

Fund name	Region	Total net assets (¥ billion)
Ibaraki Fund	Ibaraki	3.7
Kanagawa Support Fund	Kanagawa	1.2
Sainokuni Support Fund	Saitama	4.2
Shizuoka Benchmark Fund	Shizuoka	7.2
Toyama Support Fund	Toyama	4.9
Total		21.2

Initiatives aiming to improve the awareness and understanding of SRI

SRI fund advertising activities

In order to convey the importance of SRI to as many people as possible, we placed an SRI fund advertisement in the magazine, *Nikkei Ecology* (April 2005).



Supporting NPOs and NGOs that advance SRI

The Daiwa Securities Group has become a member of two organizations: the Social Investment Forum Japan (SIF-Japan), which aims to establish social systems where capital is directed into reputable, socially responsible companies, and ASRIA, which seeks to promote SRI across Asia.



SOCIAL
INVESTMENT
FORUM
JAPAN



Issuing CSR and SRI reports

The Daiwa Institute of Research Ltd. publishes various reports relating to CSR and SRI on the CSR web site of the Daiwa Securities Group. The March 2005 report entitled "Good Stock Performance by Companies that Actively Support Female Employees" (Quantitative Analysis Team, Investment Strategy Department) examines the strong business performance of companies that actively promote women as well as those that have systems to make it easy for women to work while meeting childcare or elder care responsibilities at the same time. It is not possible to prove a causal relationship from these analysis results that the promotion of women is directly linked to better stock performance. However, it is possible to say that the selection of and investment in companies that have CSR management policies that address the needs of female employees is a valid investment strategy.

CSR and SRI related reports (Japanese only)

URL <http://www.daiwa.jp/branding/sri/report.html>

Adoption of Daiwa SRI Fund for corporate pension plans

Since November 2004, the Daiwa SRI Fund, which invests in companies that are highly rated for their CSR initiatives, was added to the selection of investment products for the Daiwa Securities Group 401k plans, our defined contribution pension plans for employees. This fund, which is already an investment product for defined contribution pension plans for general clients, will be further expanded in the future.

TOPICS | Current situation for the popularization of SRI

According to the Questionnaire on the Roles Companies Should Play in Society carried out in November 2004 by the Nikkei CSR Project^{*2} sponsored by the Nihon Keizai Shimbun, the level of recognition of SRI was only 10% among business people and individual investors. However, those that would invest in a company that actively pursues CSR management as opposed to another company of comparable standing exceeded 90%. Another survey of analysts and fund managers carried out in December 2004 by Daiwa Investor Relations Co. Ltd., showed the recognition level was 95% for SRI and 94% for CSR.

It is expected that investment in companies with active CSR policies will also gain popularity in Japan as CSR is more widely recognized and understood.

^{*2} The Daiwa Securities Group supported this project from April 2004 to March 2005.

Nikkei CSR Project: Questionnaire on the Roles Companies Should Play in Society

Target groups: Business people (356 men and women working at listed companies or companies with at least 100 employees)
Individual investors (326 owners of stocks or investment products) (November 2004)

Item	Business people	Individual investors
Recognize SRI	10.9%	13.8%
Would prefer to invest in a company that actively pursues a policy of corporate social responsibility, given a choice with another company of otherwise similar management and financial conditions.	92.7%	93.1%

SRI awareness survey by Daiwa Investor Relations

Target groups: 99 Japanese stock market analysts and fund managers (December 2004)

Item	Current survey	Compared to previous survey
Recognize SRI	94.9%	Up 2.3 percentage points
Recognize CSR	93.9%	Up 3.8 percentage points
SRI will gain popularity in Japan	67.7%	Up 7.2 percentage points
SRI affects report preparation and selection of stocks for investment	35.3%	Up 14.3 percentage points

Initiatives for Economic and Financial Literacy Education

Two core programs focused on economic and financial education

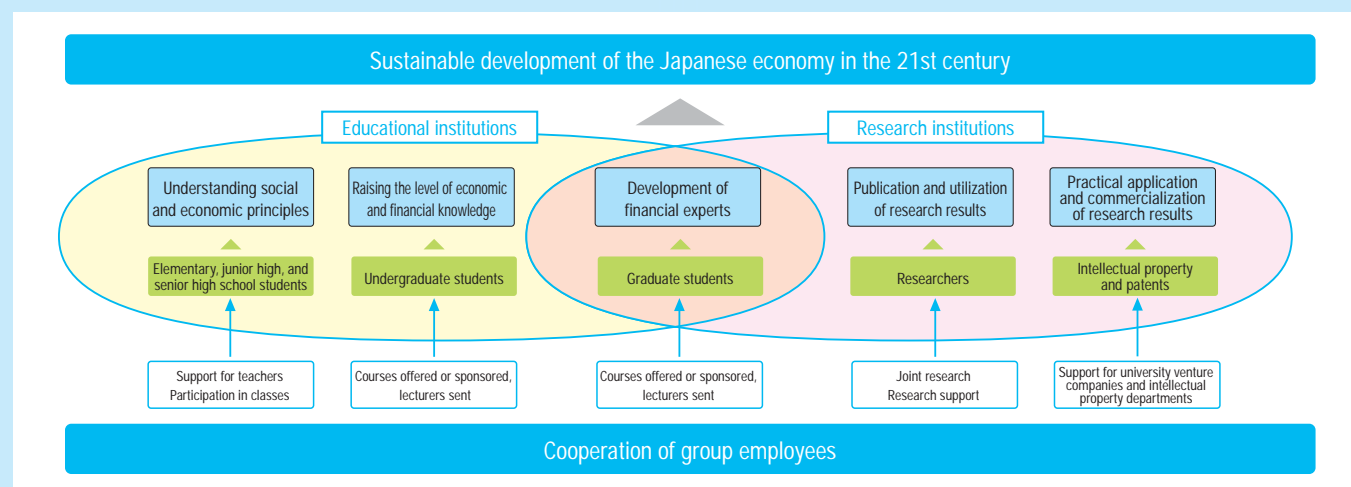
The Daiwa Securities Group recognizes the importance of educational and research activities for economics and finance. We are promoting initiatives focused on these two fields, by working with various educational institutions and NPOs.

The first initiative involves support for the education and research fields through partnerships with universities and graduate schools. In addition to promoting joint research with graduate schools and offering courses and sending lecturers to universities all over Japan, the Daiwa Securities Group sends out program coordinators in order to connect "seeds" (inside the universities) with "needs" (in industry).

The second initiative involves support for programs that are carried out in the classrooms, as well as activities to popularize economic learning among elementary, junior high, and senior high school students.

The Daiwa Securities Group places importance on corporate citizenship activities that utilize its own specialized knowledge and expertise, as part of the Group's core-business CSR activities, and we will continue to actively perform these activities in the future.

Initiatives for Economic and Financial Education



Main academic partnerships with universities until fiscal 2004

Main university partnerships	University name	Examples of main courses and themes
Courses sponsored or offered, lecturers sent	Graduate School of International Corporate Strategy (ICS), Hitotsubashi University	Daiwa Securities corporate strategy creation, corporate restructuring
	Faculty of Policy Management, Keio University (Shonan Fujisawa Campus)	Corporate governance theory
	Graduate School of International Management, Aoyama Gakuin University	Fund management, institutional investors and asset management
	Graduate School of Economics, Kyoto University	Institutional investors and asset management, securities system theory
	Graduate School of Medicine, Kyoto University	Entrepreneur development course
	Faculty of Law, Chuo University	International internship, international finance and securities market, and law
	Faculty of Comprehensive Welfare, Tohoku Fukushi University	Welfare society and securities
Joint research	Faculty of Economics, Kagawa University	Securities market theory
	Division of University Corporate Relations, Tokyo University	Joint research for commercialization of university technology
	Graduate School of Economics, Kyoto University	Calculation of voting right values
Support for commercialization of research results	Waseda Graduate School of Finance, Accounting and Law	Corporate governance
	Business, Research and Intellectual Property Center, Nihon University	Technology licensing organization (TLO) consulting and commercialization support
	Waseda University	TLO pilot fund and company activities for backing seed ventures
Support, courses, and holding joint conferences and lectures	Keio University	Joint research for technology commercialization through participation in the Keio University Venture Forum
	Graduate School of International Corporate Strategy (ICS), Hitotsubashi University	Public lectures by Assistant Professors Kerbini and Morimoto
		Guest Lecture by Michel Crouhy
		Special Lecture by Dr. Darrell Duffie
	Graduate School of Economics, Kyoto University	Special Commemorative Lecture for the Establishment of Daiwa Sponsored Courses
		2004 Daiwa International Workshop on Financial Engineering
		International Commemorative Symposium for the Opening of the Shanghai Center
		Commemorative Symposium for the Establishment of Daiwa Sponsored Courses

A company does not exist merely to perform business functions; rather it must also play a role as a member of society, a corporate citizen. Part of this role is to give back to society some of the technology, knowledge, and expertise that it accumulates in each of its core business areas.

As a corporate group mainly involved in the financial sector, the Daiwa Securities Group is utilizing the expertise that it has developed through its core business. We are working with NPOs and educational institutions including schools, and providing opportunities for the next generation to learn about economics and finance. This is one way that the Daiwa Securities Group is carrying out corporate social responsibility activities through its core business.

Partnerships with universities and graduate schools

The Daiwa Securities Group is promoting partnerships with universities and graduate schools, as part of its initiatives to contribute to the sustainable development of the economy. We are creating mutually beneficial dynamics between industry and academia through various channels including support for education, research, and exchanges.

Courses offered

At the Shonan Fujisawa Campus of Keio University, we offer a course on the theory of corporate governance. Started in the fall semester of 2001, this course is now in its fourth year and is open to both undergraduate and graduate students. Based on the theme of corporate governance in the securities market, the course is taught by both Keio University professors and executives and staff of various Daiwa Securities Group companies, primarily the Daiwa Institute of Research Ltd. The course has covered everything from basic knowledge to investor relations, socially responsible investment, corporate reorganization, and even the recent series of corporate scandals. Consequently, it is able to deepen students' understanding of securities in a systematic way. The course has been very well received thanks to incorporation of recent real-world cases, and the number of students enrolled is increasing every year. The course has become so popular that some students come to listen in on the lectures at the back of the large lecture hall.

Class at Keio University



Joint research

Joint research entitled "J-REIT Net Asset Value Calculation" was carried out by Professor Yuichiro Kawaguchi of Waseda University's Graduate School of Accounting Finance and Law, and the Structured Finance Department, Daiwa Securities SMBC Co. Ltd.

This joint research involves the preparation of a computer program to calculate the monthly total net asset value of real estate investment trusts (J-REIT) listed on the Tokyo and Osaka stock exchanges. It also includes the calculation of monthly total net asset value based on this program. By providing a useful index on J-REIT investment to investors, we expect to broaden the participation in the J-REIT market.

From the right: Assistant Professor Hiroshi Ishijima (Waseda University Center for Financial Research), Professor Yuichiro Kawaguchi (Waseda Graduate School of Finance, Accounting and Law), Deputy General Manager Masayuki Yokota, Assistant Manager Yoshiaki Iguchi (Structured Finance Department, Daiwa Securities SMBC)



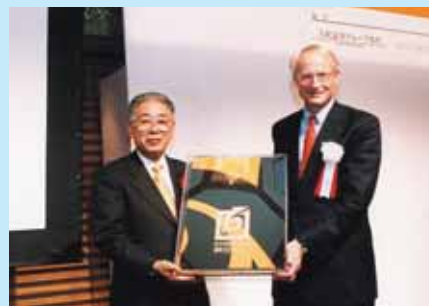
Supporting the Porter Prize

The Porter Prize was established in July 2001 by Graduate School of International Corporate Strategy, Hitotsubashi University (ICS), with Michael Porter of Harvard University serving as an advisor. The purpose of the award is to honor Japanese companies that implement a unique strategy to successfully achieve high, sustained profits in their industry. In May 2001, the Daiwa Securities Group and ICS established a comprehensive partnership based on the common philosophy of promoting cooperation between industry and academia in the fields of both finance and management, and contributing to the revitalization of the Japanese economy. As part of this partnership, the Daiwa Securities Group has provided comprehensive support for the Porter Prize since its inception.

The Porter Prize selection process is expected to become an innovative method of corporate evaluation for the future. The fourth annual Porter Prize ceremony was held on December 3, 2004. The awards went to Daido Life Insurance Company, and PHOENIX Electric Co., Ltd.



Awards ceremony
Professor Michael Porter (right) and Sadaichi Saito, then-President of PHOENIX Electric (now Chairman)



Initiatives for Economic and Financial Literacy Education

Developing life skills: Economic Literacy education for young people

The Daiwa Securities Group places high importance on learning about the flow of money and economic mechanisms, especially for young people, who are the leaders of tomorrow. We are providing program support in the classroom and pursuing activities to popularize economic education for elementary, junior high and senior high school students.

In the past there has been insufficient education for Japanese young people concerning real-world economics, while today, our young people get daily exposure to the virtual world of the Internet. Therefore, finding out about social mechanisms and developing communication skills through hands-on learning for economics is a great way to enable young people to grow.

Partnerships with NPOs

The Daiwa Securities Group supports the activities of Junior Achievement,^{*1} a non-profit organization that is providing economic literacy education around the world. Since joining the organization as a corporate member of Junior Achievement Japan/Board Chair, Mr. Takeo Shiina (Senior Advisor of IBM- Japan) in 2000, we have built a partnership with Junior Achievement through various activities. These include sending employees to participate in the Student Company Program at high schools, providing support to Global Leadership Forums for Elementary, Junior High and Senior High School Teachers, and producing the Japanese version of *Financial Fitness for Life* for students, teachers and parents.

*1. Founded in the US in 1919, Junior Achievement developed activities for the promotion and implementation of education related to finance, economics, and corporate management. Today, 40,000 companies support the organization through financial and human resources assistance, which includes company employees and managers who serve as Junior Achievement instructors. Each year the organization teaches 6.5 million young participants globally. Junior Achievement Japan was established in 1995.

Stakeholder comment

Expectations for the Daiwa Securities Group

The sentiment that companies ought to contribute to society as corporate citizens has become quite strong. However, there is also a strong sense in Japan that social contribution activities by companies are a type of charity. Since companies have greatly benefited from and depended on resources provided by local communities such as labor and government services, it is necessary for them to realize that they need to give back to the community through their activities as corporate citizens. I believe that, in the future, all companies will come to think this way. Based on the idea of giving back to society, the Daiwa Securities Group strives to enhance its activities in cooperation with NPOs and local communities. I think that the Daiwa Securities Group will be respected as a leading company in this new era for corporate responsibility.



Yoshihiro Nakamoto
President & Chief Operating Officer, Junior Achievement Japan

Global Leadership Forum for Elementary, Junior High and Senior High School Teachers

The Daiwa Securities Group has been supporting the Global Leadership Forum for Elementary, Junior High and Senior High School Teachers, sponsored by Junior Achievement Japan, since fiscal 2003. At the fourth annual forum held on February 26, 2005, with about 500 teachers in attendance, Yoshinari Hara, Chairman of the Board of Daiwa Securities Group Inc., gave a lecture entitled, "Why Companies Should Support Economic Literacy Education for Youth."

Why Companies Should Support Economic Education for Youth

An important focus of corporate social responsibility activities today is investment in the future to ensure sustainable growth. The Daiwa Securities Group is emphasizing support for financial and economic literacy education as an important pillar of its CSR activities. As professionals in the field of finance and economics, we are promoting education for youth, in the conviction that helping to create a better society also contributes to the development of our own corporate group.

Japan lags behind other parts of the world in economic education, even though we now live at a time when market economies are rapidly taking sway. This is an issue that the entire Japanese society needs to address in order to improve our future competitiveness and economic development. I hope that the elementary, junior high and senior high school students of today, who are also the leaders of tomorrow, will learn that society should be based on peace and mutual prosperity, that the actions of individuals can create value for society, and that individual autonomy and moral values are indispensable for economic activities.



Yoshinari Hara
Chairman of the Board
Daiwa Securities Group Inc.

Student Company Program (SCP)

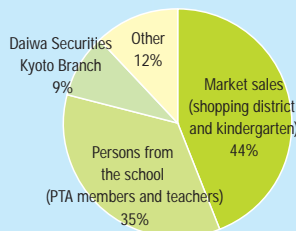
The Daiwa Securities Group has been supporting the Student Company Program (SCP) since fiscal 2003. This hands-on practical business education program is run by Junior Achievement, and is being provided as a regular course at Ritsumeikan Senior High School in Kyoto.

In fiscal 2004, 20 alumni of the second year of the course set up a joint-stock company with capital of ¥10,000. They then began developing, producing, and selling products, and after 16 weeks they announced the results at a general meeting of shareholders. For the second year in a row, three employees/retirees from Daiwa Securities Group participated in the classes each week by serving as "outside directors" for the students' company.

Overview of activities

September 16, 2004	Established Ichigan Inc.
December 12, 2004	Started product sales
January 24, 2005	Sales at the Daiwa Securities Kyoto Branch
January 29, 2005	Sales at the Takatsuki Futaba Kindergarten
February 2, 2005	Fifth sales event at the Otesuji shopping district in Fushimi-ku, Kyoto
February 3, 2005	Activities completed
March 25, 2005	Reported results to President Suzuki at Daiwa Securities Group Inc. headquarters
March 26, 2005	Announced results at the joint general meeting of shareholders

Sales activity details



Product: Angel Heart candles



Product sales on the street



Joint general shareholders meeting

Income Statement for Ichigan Inc. (for the period from September 16, 2004 to February 3, 2005)

Revenues and Expenses	
Sales	183,745
Cost of sales	28,580
Paraffin wax	17,500
Paint	550
Metal washers	2,110
Wrapping supplies	2,117
Other costs	6,303
Gross profit	155,165
Sales and general administrative expenses	43,775
Salaries	28,135
Employee bonuses	7,500
Facilities and equipment expense	2,380
Transportation	1,060
Other expenses	4,700
Operating income	111,390
Revenues and Other Income and Expenses	
Non-operating income	70
Other expenses	15,000
Income before taxes	96,460
Income tax	32,796
Net income	63,664
Retained earnings for the period	63,664

(¥)

Stakeholder comment

Participating in the Student Company Program

I helped out with this hands-on practical business education program by playing the role of an outside director, over a period of 16 weeks.

Since all of the activities in the program were ones that actually occur in the real world, I personally learned a lot of things even though I was there to help teach the young people, and the experience was very worthwhile. I was also amazed by how much the students grew through these activities.

I think the Student Company Program provides both students and business people the opportunity to learn and grow. All employees of Daiwa Securities Group should experience this program if they have the chance.

Kenji Kawamura
General Manager,
Corporate Communications Department
Daiwa Securities Group Inc.



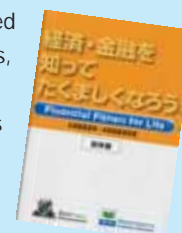
Production support for the Japanese version of *Financial Fitness for Life*

The Daiwa Securities Group provided support for the production of the Japanese version of *Financial Fitness for Life*, a teaching material that is widely used for economic and financial literacy education in junior high schools in the US. Among the volunteers who participated in the translation of the text were 44 employees from the Daiwa Securities Group.

By employing a consistent theme that economics is based on choices, the goal of this textbook is to enable children to use economic concepts in their daily decision making and future career

paths. To enable effective learning, it is comprised of three parts: one for students, one for teachers, and one for parents.

In the Japanese version, the translators strived to adapt the original US text to better reflect the culture and customs in this country, and to make it easier for Japanese children to understand. Junior Achievement Japan plans to utilize this Japanese version in its programs.



The Japanese version of *Financial Fitness for Life* (Trial version)

Conversation between Daiwa Securities Group Employees' Union and Personnel Department

Aspiring to build a work environment where people can display their professionalism

We want to stimulate communication among union members to broaden their horizons.

Wakabayashi: The union seems to have been organizing a lot of animated roundtable talks and social gatherings for its members recently.

Koshimizu: Yes, it has. We're trying to create as many opportunities as possible for union members to exchange opinions among themselves. Our slogan for this is "Communication Revolution." Examples include the Young Sales Employees Roundtable and the Evaluation System Review Team, which have been meeting about one to four times per month since August 2004. The goal is to stir up wide-ranging communication, at numerous locations, where union members with diverse points of view gather.

The Daiwa Securities Group is comprised of companies in diverse business categories. There are also regional differences and differences of attitude among employees, depending on how long they have been with the Group. I think that having lively face-to-face interactions to overcome these differences leads to personal and professional growth for the union members themselves. Sometimes members with radically different viewpoints have a clash of opinions. However, there are also cases where on-the-job communication becomes smoother after a heated discussion.

Wakabayashi: At the Daiwa Securities Group, the Employees' Union is recognized for having played the crucial role of facilitating communication among employees. I see the current drive to reinvigorate communication as an extension of that history.

Koshimizu: That's exactly right. The whole intention of union activities is to contribute to the well-being of employees. In the mid- and long-term, this goal cannot be achieved without the growth of the company. That's why I think that labor and management are ultimately after the same thing.

Nevertheless, having said that, it is true that people in different positions have different perspectives. The role I'd like to see the union play is to encourage the growth of individual union members and the Group overall by understanding those differences and communicating them to the company.

Stimulating communication among employees outside of the workplace is one method of realizing the union's basic stance. I think it's very



important for us to obtain an overall understanding of things that are not apparent during normal working hours or during training programs held by the company.

Wakabayashi: Yes, the regular route of communication within a corporate structure is top-down. But, I think that if you imagine the corporate structure as organic, like a living body, having diverse communication routes will, in the end, increase the collective strength of the organization.

We must constantly confirm whether the use of a performance-based evaluation system is actually resulting in the fulfillment of CSR.

Koshimizu: The current attempt to enhance communication is also an attempt to substantiate how employees are taking to the performance-based evaluation system that's been in place for several years now, and to measure how satisfied each of them is with the system.

Wakabayashi: Fairness and transparency are essential to making a performance-based evaluation system work. In that sense, communication is extremely important. I think it's effective both for management and employees to have the union provide feedback to management by tapping into opinions that employees find difficult to express directly to the company.

Koshimizu: The Daiwa Securities Group is engaged in quite a few lines of business, and not all results appear clearly in the numerical value. Even if those quantifiable areas may become clear, something always gets left out when it comes to specific or sensitive areas. It's true that the performance-based evaluation system is more difficult to accept than the



Takashi Koshimizu

Chairman
Daiwa Securities Group
Employees' Union

As evidenced by the Next Generation Education and Support Promotion Act and the spread of the concept of the "family-friendly company," society's demands for better work environments and the realization of better modes of employment have been increasing in recent years. The focus today is on the intangible aspect of how to make systems more accessible to employees, rather than on the tangible aspect of enhancing systems. The Chairman of the Daiwa Securities Group Employees' Union and the General Manager of the Personnel Department at Daiwa Securities Group Inc. held a discussion about the kind of work environment we should strive to develop.



traditional general evaluations.

Meanwhile, employees have come to expect an even higher level of implementation of performance-based evaluation. Now that the system is in place, they are asking whether they really have a sense of their own achievement, and they're looking for the relationships between their objectives and what they were actually evaluated on. When it comes down to it, I think the most important thing is for them to feel satisfied with the system's aims and implementation.

Wakabayashi: What I think you mean is, we are at a stage now where the question is how to breath life back into the performance-based evaluation system. An institutionalized system for, for example, raising performance or complying with the law, only begins to take on meaning when everyone puts their spirit and passion into it.

Koshimizu: For that to happen, employees must have a sense of ownership. The important question is whether or not the system allows each individual to have a sense that he or she is working as a professional, having set his or her own goals, rather than the feeling that they're just doing what the company asked them to do.

Wakabayashi: Quite right. There would seem to be an overlap between this idea and CSR, which has now become a significant driving force in society.

In the securities industry, we deal with the public market, and so are always playing a public role. Each employee has to behave fairly, with the awareness of being an economic and social leader.

Koshimizu: It's important for each and every employee to actualize CSR through his or her own work. Our union wants to communicate this importance to employees while exchanging our views at roundtables and

other meetings.

The challenge going forward is how to create a comfortable life and equal opportunities.

Koshimizu: While we're putting an effort into communication activities, as I emphasized before, the union is also continuing its traditional role of holding economic negotiations with the management and making proposals about the work environment. For instance, at the spring negotiation in 2005, we demanded that management develop an action plan that goes beyond the letter of the law by incorporating conditions letting every employee take care of their children while continuing to work at the company.

Wakabayashi: From the management side as well, we would like to implement better measures to address society's declining birthrate and aging population in our five-year plan. We're going to discuss this with the union. For example, although some women have taken child care leave, no men have done so, leaving us with a number of points for improvement. We're considering the introduction of a reemployment system or a return-to-work program, as well as support for child-rearing. We are going to establish a team for promoting the success of women to provide recommendations from the women's perspective.

Koshimizu: I feel there's a need to deepen company-wide understanding by promoting communication when running other programs, as well.

We believe that the union's key role is to go beyond merely demanding that the company provide systems that improve working conditions, as was common in the past, and actually encourage these programs to be utilized naturally. Even if the number of programs increases, it is meaningless if no one wants to use them. In that sense, I think it can be said that the points of contention have moved from the tangible to the intangible.

Wakabayashi: More and more people utilize the in-house staff recruitment system, and they like it more. Still, I think there's a need to confirm how effective this system is and to understand new demands, so that we can continue to tirelessly improve our personnel systems.

In that sense, I'd like to continue to conduct active exchanges of opinions and information with the Employees' Union, and I hope we can work together to build even stronger corporate activities.

Takatoshi Wakabayashi

Corporate Executive Officer
& General Manager of
Personnel Department
Daiwa Securities Group Inc.



Disaster Assistance through Corporate-NGO Partnerships

The decisive factors in our commitment to this project were the conditions of long-term support that makes use of the distinctive abilities of a financial business and the acceptance of accountability.

Kiyama: What was the sequence of events that led to the Daiwa Securities Group's providing assistance after the Sumatran earthquake and South Asian tsunami?

Miyashita: Until now, we have always collected money from group executives and managers when there was a large disaster. This time too, we immediately started a fundraiser, but the president provided strong direction. He said, "This is not a typical disaster. I want us to do all that we can, after considering the most basic point—what they really need in the afflicted areas." So, we met with some people from the Japan NGO Center for International Cooperation (JANIC).^{*1} We asked about the ACT scheme, and saw a close match with what we were looking for. We made it the framework for our support. We then proceeded into the details.

Kiyama: What kind of match do you mean?

Miyashita: First of all, it was a long-term initiative, capable of allowing us to see how the funds we provide are used on the ground. We also liked the fact that we would be able to make revisions after a few years. In addition, we were attracted to the possibility of making an effort that takes advantage of the characteristics of the financial industry, such as using a charitable trust, which is a financial mechanism, and utilizing the banking

practice of micro finance^{*2} as a means of reconstructing the affected areas.

Kiyama: Reconstruction takes a long, long time. But, not many donors commit to long-term support. Micro finance itself is a high-risk, high-return undertaking, but it's a truly important form of support. So, when I heard about this project, I felt that you are really aspiring to provide assistance that is truly for the good of the beneficiaries. It gave me a great deal of courage and hope for the future of our NGO activities.

Kaneda: I think there are two main factors related to accountability that enabled us to commit to a long-term initiative. One is that the funds would be managed by a trust bank, which would report back to us how the funds were used. The second is that we would receive activity reports each year, activity assessment reports every three years, and a comprehensive assessment report at the end of the project after ten years. I wonder if there are any NGOs that issue an activity report that records and assesses their activities across the board for a ten-year period.

Kiyama: I often hear of government five-year plans and ten year plans, but I've never heard of a report that covers ten years of a single, locally-based project like this one will. I hope that you'll make the report available to the public, so that other NGOs including ourselves can learn from it.

Kaneda: This project is something of a challenge for us, too, and we'd certainly like to provide the information so that it becomes a valuable asset for others as well.

Miyashita: The project is based on a charitable trust and was formed in partnership with an NGO. It's an unprecedented effort that we had to build up from scratch while consulting with the people at JANIC. During the process we included an provision allowing ¥1 million per year for administrative expenses. We put this in because we believed that administrative personnel costs and other such costs should be paid out of this money. I would be all the happier if the project scheme including this point gets used as a model in the future.

Kiyama: When you wish to perform well, you have to have things set up the right way. But in Japan, it is not widely understood that NGOs also need such a setup and it also costs decent amount of fund. I hope that you will spread the information of good results due to your support directed to setups. We would highly appreciate that.

Kaneda: Non-profit activities don't mean that you are volunteering for free. To conduct your activities as a professional, you need a proper budget. This is the same for both corporations and NGOs.



Keiko Kiyama

Secretary General
JEN (NPO)



Mayuko Murasawa

Relationship Development Manager
JEN (NPO)

JEN (formerly Japan Emergency NGOs)

Established in 1994, JEN is a registered nonprofit organization that supports the psychological care and self-reliance of people who have been deprived of their means of livelihood due to conflicts and or natural disasters. In the wake of the Sumatran earthquake and South Asian tsunami, JEN deployed emergency assistance to Sri Lanka, based on its ample experience providing refugee assistance in the former Yugoslavia and emergency assistance in western India, southeastern Iran, and following the Chuetsu earthquake in Niigata Prefecture, Japan. JEN is currently providing reconstruction assistance in Sri Lanka, Afghanistan, Eritrea, Iraq, and Niigata.

^{*1} Currently, the Asian Community Center 21 is serving as the secretariat for ACT.

^{*2} A financial service that provides small loans and savings mainly to low income earners and small-scale business owners with the aim of reducing poverty.

The Daiwa Securities Group would like to express once more its heartfelt condolences for the victims of the Sumatran earthquake and South Asian tsunami that struck on December 26, 2004. The Group is providing long-term support, which will continue for a period of ten years, through a public charitable trust—the Asian Community Trust (ACT)—to reconstruct the disaster area left in the wake of the earthquake and tsunami. On April 26, 2004, four months after the disaster struck, we invited representatives from an NGO that was conducting relief work in Sri Lanka to provide us with its opinion of corporate-NGO partnerships.

See page 43 for details about the Daiwa Securities Group's framework for assistance.



NGOs expect partner companies to provide their specialist know-how and promote internal communications.

Miyashita: What kinds of things do NGOs desire or hope for when entering into a partnership with a corporation?

Kiyama: Majority of Japanese NGOs are facing difficulties with fund raising. If companies will share even a small part of their expertise on marketing, we can speak the same language as corporations, which, I think, would in turn deepen their understanding of NGOs. Corporations have a lot of know-how that they have cultivated over the years.

Murasawa: I have had many opportunities to talk with company workers—mainly those from corporate community affairs departments or CSR promotion departments—but general employees working at other sections very rarely know of community activities undertaken primarily by these departments. I understand that the Daiwa Securities Group has 12,000 employees. I think it would be a great support for us just to have all these employees understand what their CSR Promotion Department does. It'd be great if each of these employees felt the desire to support the developments of this project over the next ten years while they work here.

Kaneda: I agree. The reason we wanted to get a yearly report about this project is because we have a strong desire to provide all employees with yearly feedback.

Kiyama: I understand that the Daiwa Securities Group is promoting SRI funds. I think this is very effective as a new vehicle for the general public as well as employees to help contribute

to society. In this sense as well, we expect a lot from the Daiwa Securities Group and hope that it will make rapid progress with these types of new initiatives.

Miyashita: Not all employees necessarily understand the full significance of either corporate citizenship activities or SRI funds yet. I think that facilitating understanding of these activities among all group employees is our biggest challenge here in the CSR Promotion Department.

Murasawa: We'd be very glad to speak about the situa-

tion in the field if it would help your internal communications. I think we can provide interesting inputs in many areas.

Kiyama: Another problem is that NGOs in Japan are not fully recognized or supported by civil society. Of course, we NGOs need to promote ourselves. At the same time, however, we would really appreciate it if corporations could send out the message that corporations and NGOs can work together as partners. I strongly hope this project to become a model for corporate-NGO partnerships, and hope that the Daiwa Securities Group will fulfill a leadership role in the corporate citizenship activities of Japan.

Miyashita: Thank you very much for this valuable conversation today.

Yoichi Miyashita

Head of CSR
Promotion Department
Daiwa Securities Group Inc.



Koichi Kaneda

Deputy General Manager,
CSR Promotion Department
Daiwa Securities Group Inc.



Results, Issues, and Targets

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

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

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

Understanding issues and setting targets

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

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

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

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

Corporate Governance

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

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

View of corporate governance

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

goal of a highly transparent and agile management structure.

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

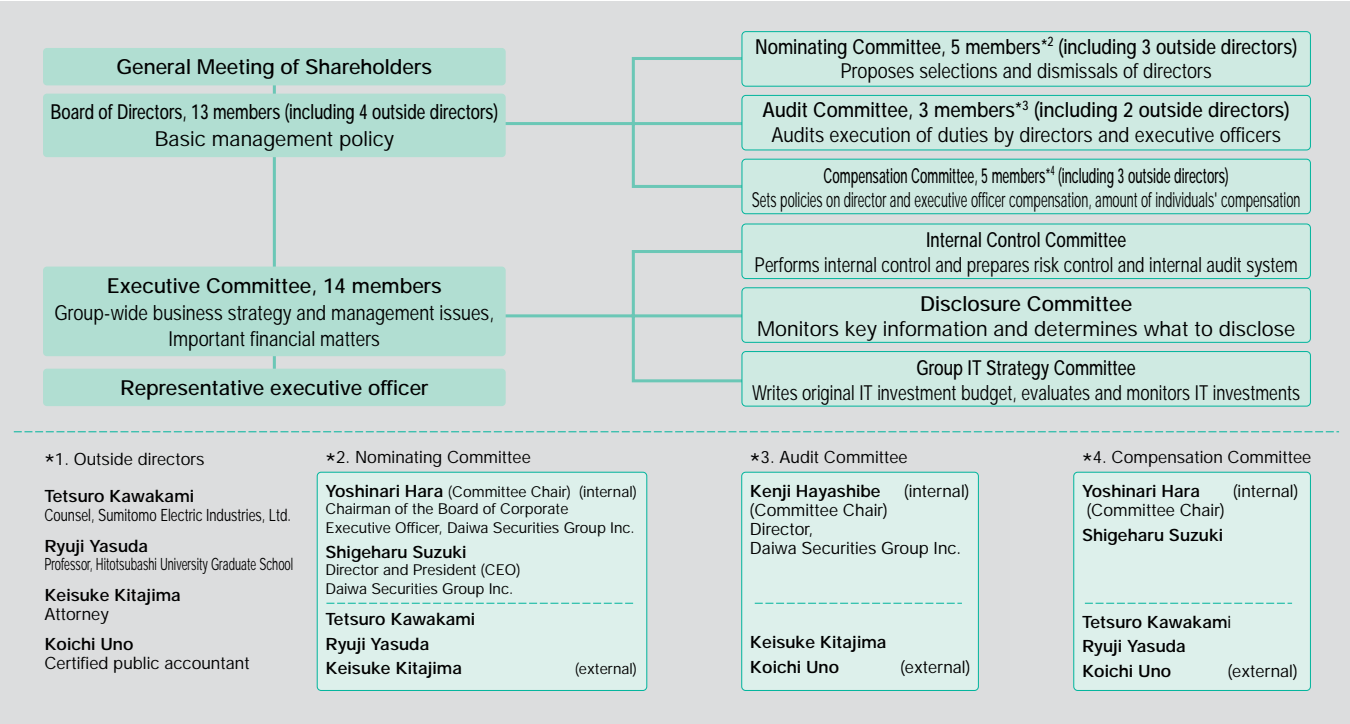
Governance structure under the committee system

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

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

The Nominating Committee met three times

Corporate governance organization chart (as of June24, 2005)



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

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

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

^{*2} Between June 23, 2004 and June 23, 2005.

Executive compensation structure closely linked to performance

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

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

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

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

Enhancing internal controls

Three objectives of internal controls

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

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

Comprehensive internal auditing on a consolidated base

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

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

Internal Control Committee oversees internal controls

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

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

Future issues and targets for fiscal 2005

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

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

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

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

April 1, 2004 to June 23, 2004

June 23, 2004 to March 31, 2005

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

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

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

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

CSR Management

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

CSR promotion system

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

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

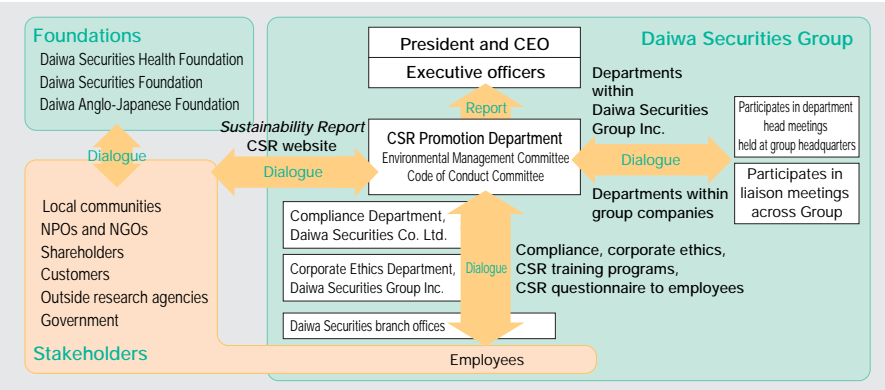
Activities of the CSR Promotion Department

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

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

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

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



Future issues and targets for fiscal 2005

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

CSR activities at overseas business sites

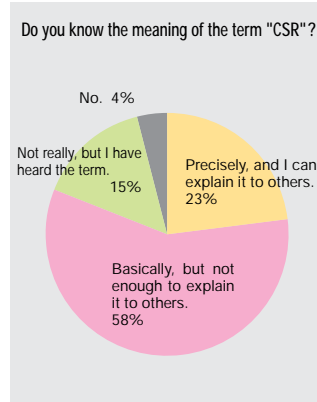
Below, we introduce representative CSR-related initiatives undertaken at the Daiwa Securities Group's overseas business sites. In the future we will expand these exemplary initiatives by sharing information within the Group.

- Daiwa Securities SMBC-Cathay Co. Ltd. (Taiwan)**
This company holds a monthly meeting attended by all employees. Opinions are solicited from employees and outside speakers are invited to give lectures on various topics. To foster a sense of family, monthly meetings are also used to introduce employees whose birthday falls within that month.
- Seoul Branch, Daiwa Securities SMBC Co. Ltd.**
This company specifies responses measures for natural disasters, cyber terrorism, and bio terrorism in its crisis management manual.
- Head Office, Daiwa Securities SMBC Europe Limited**
Recognizing the diversity of values of its employees, this company makes efforts to ensure that it provides all employees with equal opportunities in the workplace, regardless of factors such as ethnicity, religion, and nationality.
- NIF Ventures USA, Inc.**
All new employees sign a form to acknowledge that they have carefully read and agree to the Code of Ethics and Code of Conduct at the time they transfer from other offices or hire on locally.
- Daiwa Securities America Inc.**
This company holds an anti-harassment workshop once a year that is mandatory for all employees.
- Daiwa SB Investments (Singapore) Ltd.**
This company provides scholarships to educational institutions in Singapore and dispatches employees as lecturers.
- Daiwa Securities SMBC Australia Limited**
All employees read the Code of Ethics and Code of Conduct and submit a certificate indicating they understand its contents to the company.

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

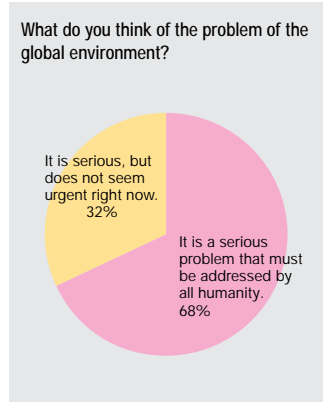
Employees who know the meaning of the term "CSR" : 81%

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



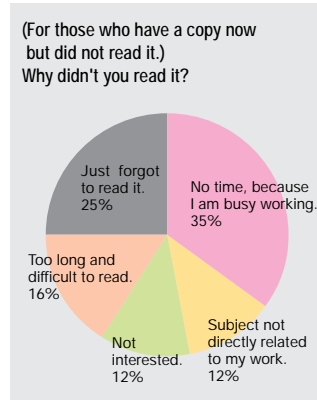
Employees who think that the global environment is a serious problem : 100%

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



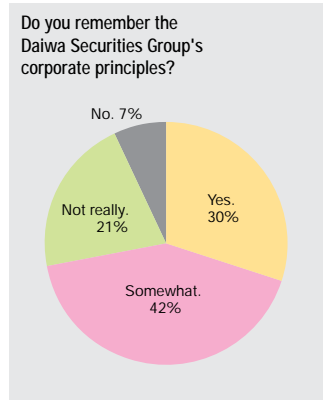
Employees who have not read the *Sustainability Report 2004* : 43%

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



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

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



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

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

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

Compliance

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

Group-wide efforts

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

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

Concepts and important issues

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

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

Compliance promotion system

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

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

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

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

Internal reporting system setup and results

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

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

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

Survey of employee awareness of the Corporate Ethics Hotline

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

Results of employee awareness survey (April 2005)

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

Examples of internal reports and responses to them

Total reports in FY2004: 13

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

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



Internal poster about the Corporate Ethics Hotline

Complying with the Personal Information Protection Law

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

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

Acquired information security qualifications

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

(As of April 14, 2005)

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

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

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

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

Protecting and respecting intellectual property rights

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

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

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

Future issues and targets for fiscal 2005

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

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

Stakeholder comment

My expectations for the Daiwa Securities Group

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



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

Compliance

Efforts at Daiwa Securities Co. Ltd.

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

Concepts and important issues

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

Compliance promotion system

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

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

Elimination of improper conduct and investor protection

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

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

Dealing with anti-social forces

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

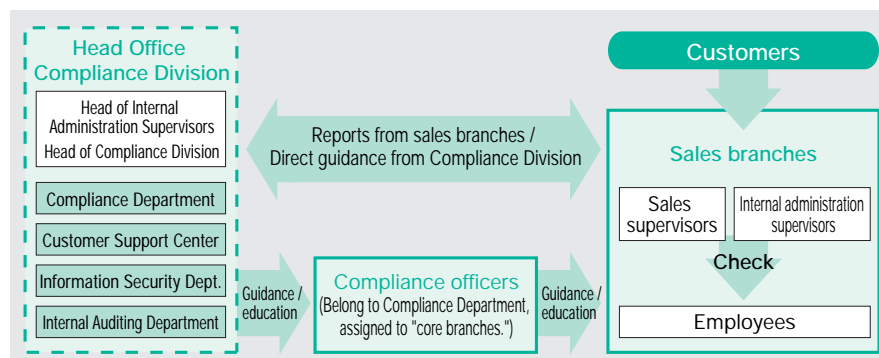
Future issues and targets for fiscal 2005

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

Handling comments and complaints

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

Daiwa Securities' compliance promotion system



Efforts at Daiwa Securities SMBC Co. Ltd.

Issues and targets for fiscal 2004 and beyond	Results and progress for fiscal 2004
Strengthen compliance and online training for each division and department.	Implemented internal training sessions on subjects selected to address problems typical of each workplace, primarily taught by internal administration supervisors at each department.
Revise <i>Handbook for Legal Compliance</i> .	Revised <i>Handbook</i> to reflect new laws and revisions to company regulations.
Establish an electronic bulletin board for internal administration supervisors.	Established and put online an electronic bulletin board for internal administration supervisors to share information and communicate rapidly.
Strengthen functions of internal administration supervisors and internal administrators, enhance training, strengthen intra-departmental inspections, and enhance the environment to allow closer enforcement of legal compliance.	<ul style="list-style-type: none"> Improved information accessibility by creating a database of compliance information. Revised Q&A list on firewall rules.
Create a booklet of <i>Compliance Newsletters</i> .	Published a booklet of <i>Compliance Newsletters</i> Nos. 51-100.
Take measures to minimize risk of information leaks.	Developed internal management system in compliance with Personal Information Protection Law.

Basic concepts

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

Enhancing our compliance system

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

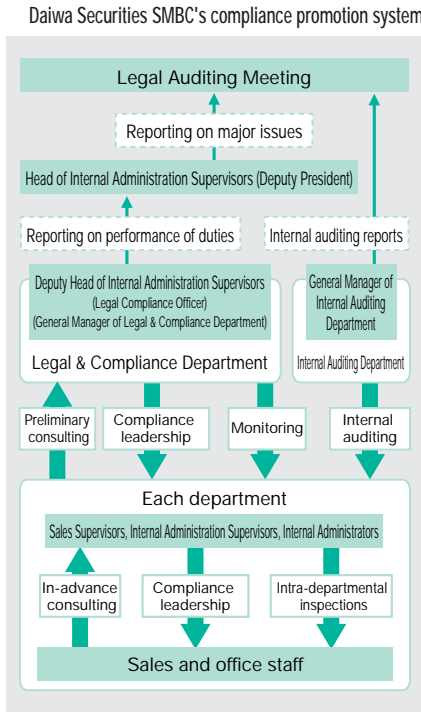
In October 2002, we introduced an intra-departmental inspection system, which is operated by designated the internal administration supervisors and internal administrators. In this system, we analyze and assess the latent risks in the work of each department and regularly in-

Compliance education for employees

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

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

which have reached the 100th issue.



Future issues and targets for fiscal 2005

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

Information Disclosure

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

Issues and targets for fiscal 2004 and beyond	Results and progress for fiscal 2004
Actively pursue two-way communication with stakeholders.	<ul style="list-style-type: none">• Held small meetings for analysts and fund managers.• Actively participated in stock investment informational events and IR fairs for individual investors.• Broadened investor communication by revamping IR website.
Increase percentage of shares owned by individual shareholders.	Edged up from 20.7% in FY2003 to 20.9% in FY2004.

Our view of information disclosure

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

Disclosure Policy

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

Disclosure of financial, social, and environmental information

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

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

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

Fair, timely, and appropriate information disclosure

Disclosure system

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

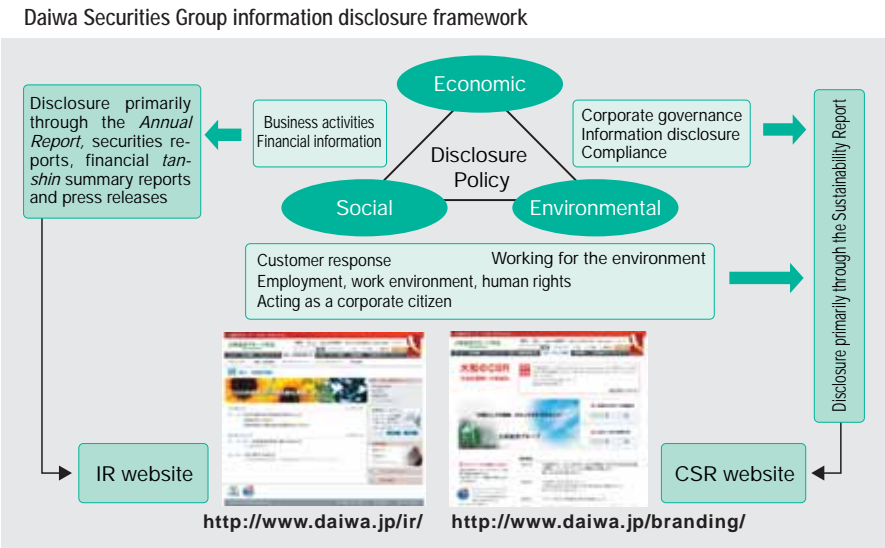
The Disclosure Committee, which was es-

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

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

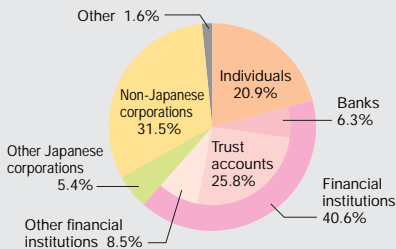
Announcement of the Declaration for Timely Disclosure

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



Composition of Daiwa Securities Group Inc. shareholders

(As of end of March 2004, percentage by number of shares)
Number of shareholders: 113,008



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

Two-way communication with stakeholders

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

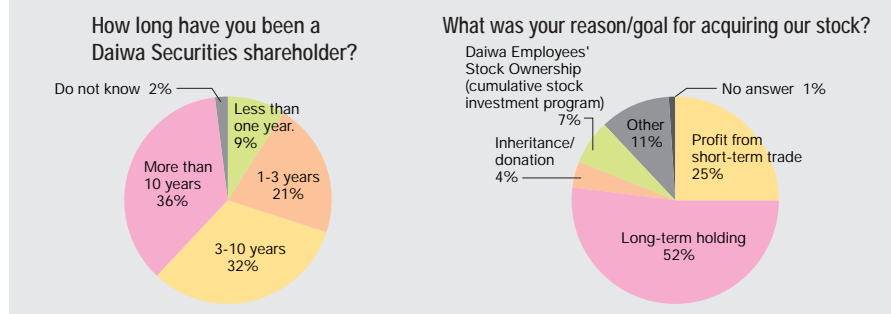
In September 2004, we participated in a company information session for individual investors, sponsored by Daiwa Investor Relations Co., Ltd., and an IR fair for individual investors, sponsored by Nihon Keizai Shimbun, Inc. In February 2005, we had a booth at the 10th Anniversary Forum of the Japan Association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

Regular shareholder survey

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

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

Results of shareholder survey (Conducted November 2004)



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

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

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

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

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

Future issues and targets for fiscal 2005

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

Stakeholder comment

My expectations for the Daiwa Securities Group

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



Ryuji Kakimoto
Equity Research
Credit Suisse First Boston

Business Results and Market Position of the Daiwa Securities Group

The following presents the business performance trends and financial strategy of the Daiwa Securities Group as well as its position in the market, including corporate scale and market share.

Principal management indicators*

		FY2000	FY2001	FY2002	FY2003	FY2004
Operating revenues	(million yen)	714,909	488,044	387,658	453,813	519,337
Net operating revenues	(million yen)	464,056	284,932	270,809	352,434	390,432
Ordinary income	(million yen)	177,795	25,849	29,200	96,130	120,433
Selling, general and administrative expenses	(million yen)	286,948	262,163	246,701	259,914	275,544
Net income (loss)	(million yen)	64,550	(130,547)	(6,322)	42,637	52,665
Total assets	(million yen)	7,694,051	7,827,306	9,502,825	10,765,665	12,378,961
Return on equity (ROE)	(%)	9.3	—	—	7.4	8.4
Net income (loss) per share	(yen)	48.62	(98.27)	(4.75)	31.66	39.03
Dividends per share	(yen)	13.00	6.00	6.00	10.00	13.00
Total shareholders' equity per share	(yen)	539.72	429.68	407.84	453.60	486.70

* The revised Uniform Accounting Standards of Securities Companies (approved by the Board of Directors of the Japan Securities Dealers' Association on September 28, 2001) have been applied since fiscal 2001. Fiscal 2000 figures have been recalculated based on the revised standards.

Fiscal 2004 business performance

Due to an increase in trading securities and commissions earned, fiscal 2004 operating revenues rose by 14% compared to fiscal 2003, to reach ¥519.3 billion. Net operating revenues, after subtracting financing and other expenses from operating revenues, also showed an increase of 11% year-on-year, for a total of ¥390.4 billion. Selling, general and administrative expenses only increased 6.0% to ¥275.5 billion, which contributed to ordinary income of ¥120.4 billion, up 25%. Net income also soared 24% to ¥52.6 billion.

Financial strategies of the Daiwa Securities Group

In order to continually improve shareholder value, it is important to have a financial strategy that balances both risks and returns.

The Daiwa Securities Group has always placed importance on improving financial security while raising consolidated return on equity (ROE).^{*1} As a result, by the end of fiscal 2004, we had strengthened our financial soundness, improved our credit ratings, and succeeded in achieving the highest consolidated ROE among the three major Japanese securities firms. We also established a dividend policy of a 30% dividend payout ratio^{*2} on a consolidated basis. In the future, we will pursue further development of this basic strategy, by promoting strategies that emphasize the expansion of the sales base and by improving business performance based on careful consideration of risk and enhanced ROE.

Based on the inherent risk in the securities business (market risk,^{*3} credit risk,^{*4} etc.), the Daiwa Securities Group is aiming for a higher level of financial security by incorporating risk management and building strong

breakeven structures to withstand revenue fluctuations. We are also pursuing higher returns based on careful consideration of risk by efficiently distributing management resources to fields with high growth and profit potential.

For more details on the financial performance of the Daiwa Securities Group, please refer to our *Annual Report* for the year ending March 31, 2005.

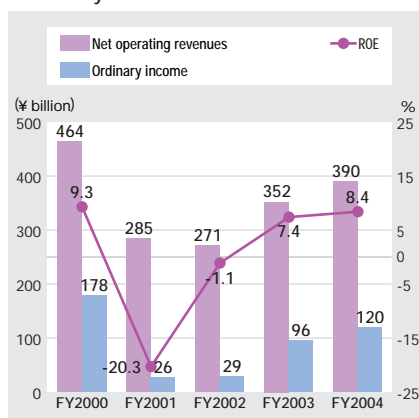
^{*1} Return on equity indicates how much profit the company is making on the investment in the company made by all the shareholders and investors. It is equal to net income divided by shareholders' equity (average of the period beginning and end).

^{*2} Dividend payout ratio is the ratio of dividends paid to income, and is the inverse of the retained earnings ratio. Generally, if a company has a low dividend payout ratio, this means that it is building up its retained earnings.

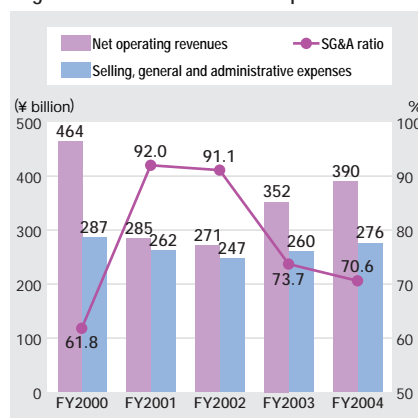
^{*3} Market risk indicates the possibility of loss as a result of fluctuations in the value of financial assets and liabilities held, due to interest rate or market value fluctuations in areas such as stocks, interest rates, foreign currency exchange, or derivative products.

^{*4} Credit risk indicates the possibility of loss as a result of a transaction partner not being able to fulfill the contract in question.

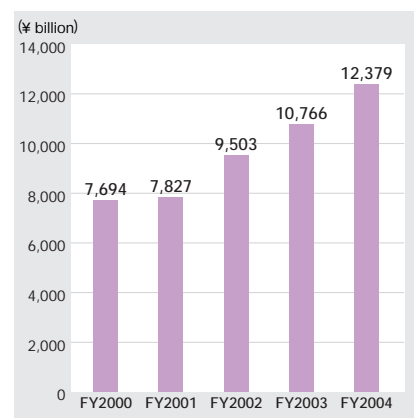
Trends in net operating revenues, ordinary income and ROE



Trends in net operating revenues and selling, general and administrative expenses



Trends in total assets



Market position of the Daiwa Securities Group

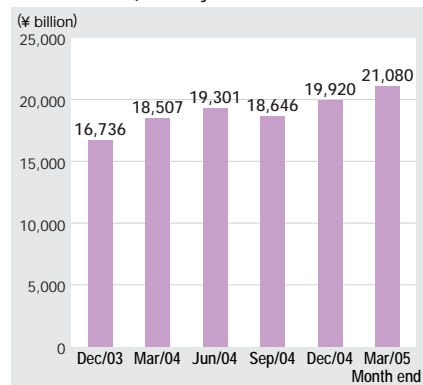
Retail securities business (Daiwa Securities Co. Ltd.)

The total value of assets (customer assets held by Daiwa Securities Co. Ltd.) such as cash and negotiable securities on deposit from customers who are individuals and non-listed companies (excluding financial institutions) was ¥21.1 trillion as of March 31, 2005. This marks an increase of ¥2.6 trillion compared to the end of the previous fiscal year.

This total surpasses the level of ¥18.0 trillion reached in December 1989, during the economic bubble period in Japan. It is equal to 1.5% of the ¥1,400 trillion in total individual financial assets in Japan.*5

*5 Since the customer assets held by Daiwa Securities Co. Ltd., include assets of some corporate customers, it is not statistically precise to compare this figure with the total individual assets in Japan. This information is only provided as a rough indication of the size of the business for Daiwa Securities Co. Ltd.

Customer assets (excluding those of financial institutions) held by Daiwa Securities Co. Ltd.



Wholesale securities business (Daiwa Securities SMBC Co. Ltd.)

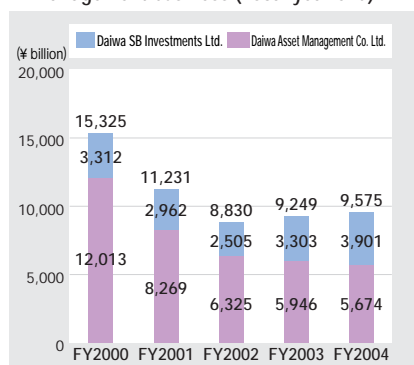
Daiwa Securities SMBC Co. Ltd., the investment bank of the Daiwa Securities Group, has secured the top position in the fields of public offerings and sales of company stocks as well as of overall bonds (total of straight corporate bonds and bonds issued by special public corporations eligible for fiscal investment and loans) according to the investment bank division of the league table ranking lead managing underwriters for fiscal 2004.*6 In the overall bond division, we obtained the top share for the fourth year in a row (from fiscal 2001 to 2004).

*6 This is the ranking of Japanese securities firms based on the share of stock and bond issues they have undertaken.

Asset management business (Daiwa Asset Management Co. Ltd., and Daiwa SB Investments Ltd.)

The investment asset balance on March 31, 2005 was ¥5.674 trillion for Daiwa Asset Management Co. Ltd., down ¥27.2 billion from the previous year, and was ¥3.901 trillion for Daiwa SB Investments Ltd., up ¥59.8 billion over the same period. The total investment asset balance for the two companies combined was ¥9.575 trillion.

Trends in investment asset balance in asset management business (fiscal year end)



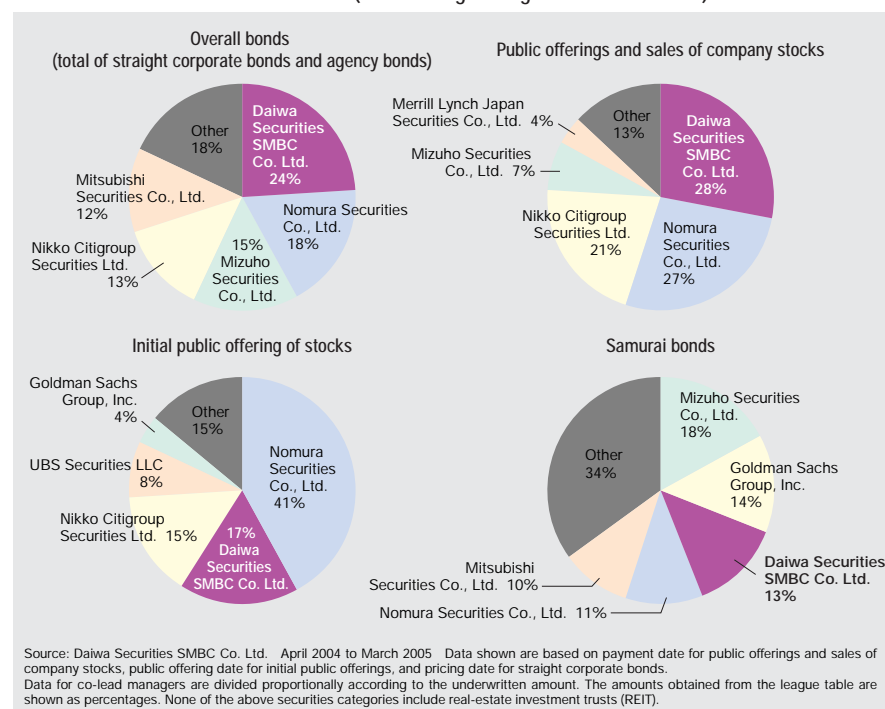
Research business (Daiwa Institute of Research Ltd.)

The Daiwa Institute of Research Ltd. ranked first for the second consecutive year in the Annual Research Analyst Poll of the *Nikkei Financial Daily*. It also achieved first place for the second year running in the analyst and economist ranking of *The Economist* magazine.

Annual Research Analyst Poll, Nikkei Financial Daily Total of all sectors (excluding the overall division) and strategists (by company)

	FY2001	FY2002	FY2003	FY2004
First place	Nomura Securities Co., Ltd.	Nomura Securities Co., Ltd.	Daiwa Institute of Research Ltd.	Daiwa Institute of Research Ltd.
Second place	Morgan Stanley Dean Witter & Co.	Daiwa Institute of Research Ltd.	Nomura Securities Co., Ltd.	Nomura Securities Co., Ltd.
Third place	Nikko Salmon Smith Barney Ltd.	Nikko Salmon Smith Barney Ltd.	Deutsche Securities Ltd.	UBS Securities LLC

Market share of wholesale business (Lead Manager League Table for FY2004)



Economic Relationships with Stakeholders

This section introduces the revenue structure for the Daiwa Securities Group in terms of the various products and services provided to customers, while also outlining the economic value delivered to each type of stakeholder. (Figures are based on the consolidated financial statements in the securities reports.)

Revenue structure for the Daiwa Securities Group

The revenues given in this economic report and shown in the pie chart below are the total of operating revenues,^{*1} non-operating income, and extraordinary gains. The greatest revenue source for the Daiwa Securities Group in fiscal 2004 was commissions earned. This accounted for 49.3% of the total revenues and is divided into the following three categories.

Equity and bond commissions

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

Investment banking commissions

These are the underwriting commissions earned when stocks and bonds are issued by corporate customers in order to procure new funds, as well as commissions from mergers and acquisitions (M&A).^{*2}

Asset management commissions

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

The second largest source of revenues is net gain on trading securities, which accounts for 34.5% of revenues. These are profits that arise from the sale of the securities the Group has on its own account, or when the Group buys from or sells to its clients, in order to meet the transaction needs of customers for negotiable securities, such as stocks and bonds.

Net financial revenues equal interest and dividend income such as dividends and interest receivables on negotiable securities owned, minus interest expenses such as interest payables and fees for discounts on notes. Furthermore, the net operating gain on investment securities is the total of the appraisal increase/decrease and the sales profit/loss from the negotiable securities obtained for the purpose of doing in-

vestment business by Daiwa Securities SMBC Principal Investments Co. Ltd. and NIF Ventures Co. Ltd.

Revenue categories (FY2004)

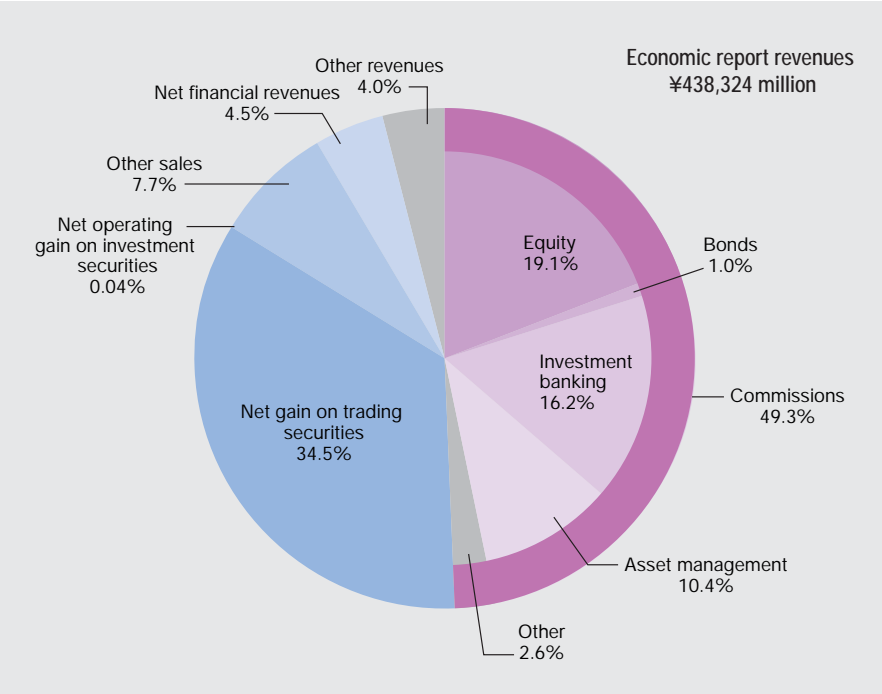
		(¥ million)
Operating revenues	Commissions	216,386
	Equity	83,887
	Bonds	4,263
	Investment banking	71,170
	Asset management	45,640
	Other	11,425
	Net gain on trading securities	151,117
	Net operating gain on investment securities	171
	Other sales	33,641
	Net financial revenues (Interest and dividend income minus interest expenses)	19,548
	Other revenues (Sum of non-operating income and extraordinary gains)	17,461
	Economic report revenues	438,324

*The totals may not always add up due to the rounding off of figures.

^{*1} Operating revenues are indicated after subtracting interest expenses (excluding interest payables not related to securities transactions), which is a component of operating expenses, from interest and dividend income in the operating revenues.

^{*2} Mergers and acquisitions (M&A) actually has a broad meaning that includes not just the joining of two companies through amalgamation or purchase, but also the transfer of operations, transfer of stock, or capital alliance.

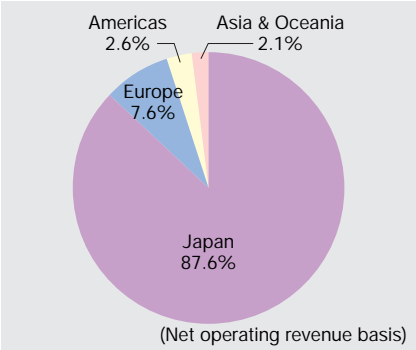
Revenue structure (FY2004)



Revenue structure by region

Looking at the revenue structure by region, 87.6% of our revenues are from Japan. The Daiwa Securities Group earns most of its revenues by serving individual and corporate customers in Japan through asset management and funds procurement.

Revenue structure by region (FY2004)



Distribution of economic value to stakeholders

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

Economic value for the purpose of this economic report is calculated as the revenues as given in this economic report minus the cost of sales, selling, general and administrative expenses, non-operating expenses, extraordinary losses, and minority interest.

Employees

Employees' compensation and benefits that are distributed to employees (including salaries, bonuses, welfare program costs, and social insurance contributions) have ranged from ¥120 billion to ¥140 billion in recent years, based on fluctuations in operating revenues. The personnel costs in fiscal 2004 rose by

¥5.8 billion over the previous year to ¥142.8 billion. This accounts for 57.4% of the total economic value generated by the Group.

Society

We aim to provide a stable amount of funds for our corporate citizenship activities,^{*3} which represents economic distribution to society, regardless of the fluctuation in our business results. In fiscal 2004, this type of expenditure totaled ¥710 million.

Shareholders

Every year, we pay dividends to shareholders as a distribution of economic value. Our basic policy is to distribute profits twice a year at a dividend payout ratio of approximately 30%, based on the consolidated performance of the Group, while also ensuring stability. Based on this policy, we made an annual dividend payment of ¥10 yen per share in fiscal 2003. In fiscal 2004, we made a total dividend payout of ¥20 billion, includ-

ing an interim dividend in September 2004.

Creditors

We paid ¥5.6 billion in loan interest to creditors.

Governments

Paying taxes on income is part of a company's social responsibility. According to the Daiwa Securities Group's financial accounting, the tax amount paid is the total of current income taxes, deferred income taxes and other taxes and duties including consumption tax paid. In fiscal 2004, the financial accounting tax amount was ¥46.9 billion. This accounts for 18.9% of the economic value produced by the Group.

^{*3} For details on expenditure for corporate citizenship activities, see page 42.

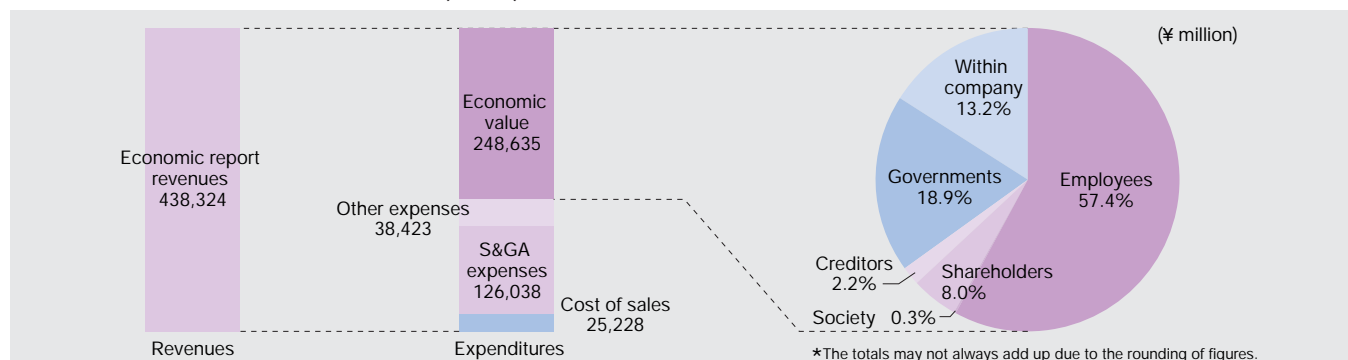
Procurement activities of the Daiwa Securities Group

It is extremely important for a company to consider society and the environment when considering what products and services to procure and selecting suppliers for these. That is why the Daiwa Securities Group carries out procurement based on social and environmental considerations, even though its procurement activities are relatively small compared to manufacturers. In fiscal 2004, we purchased about ¥71 million in products and services. This was performed using Sanko Net, an intranet site administered by Daiwa Sanko Co., Ltd., one of our group firms. Of this total procurement, 29%, or ¥20 million, was made based on green procurement standards, which take social and environmental factors into account.

Trends in distribution of economic value to stakeholders

(¥ million)						
Stakeholders	FY2000	FY2001	FY2002	FY2003	FY2004	Calculation method
Employees	140,426	129,972	123,904	136,963	142,751	Personnel expenses in S&GA expenses
Society	N/A	N/A	320	332	708	Expenditures for corporate citizenship activities
Shareholders	17,246	17,265	7,971	7,969	19,960	Dividends
Creditors	14,890	11,134	8,388	7,821	5,590	Interest payables, excluding those arising from securities transactions
Governments	77,403	10,930	20,026	26,424	46,921	Total of current income taxes, deferred income taxes and other taxes and duties including consumption tax paid
Retained within company	47,303	147,812	14,293	34,667	32,705	Amount of internal reserves

Distribution of economic value to stakeholders (FY2004)



Initiatives for Customer Satisfaction

Among the many relationships the Daiwa Securities Group has with various types of customers, this section focuses on initiatives taken by Daiwa Securities Co. Ltd. to improve the satisfaction of individual customers.

Issues and targets for fiscal 2004 and beyond	Results and progress for fiscal 2004
Make continuous efforts in post-sales follow up: Increase frequency of customer contact, study customer needs, and improve quality of proposals to customers.	Held information provision seminars after product purchase, and raised the customer contact frequency by staff and superiors.
Check basic actions: Be thorough in carrying out basic procedures and providing fundamental services.	Established leaders in each office with the goal of greater accountability on basic business etiquette and proper conduct.
Provide information that is easy for customers to understand: Use simple, straightforward language in documents and forms, etc., intended for customers.	Prepared easy-to-understand materials, handled account statements electronically, and simplified paperwork.
Increase customer satisfaction by improving sales organization and service programs.	Started a new sales system that meets customer needs (set up the Consulting Section, etc.).

Approach to customer satisfaction

The improvement of customer satisfaction is one of the most important issues in management. The Daiwa Securities Group is now working to establish a sales system that will provide new services for increased customer satisfaction, based on feedback from customers.

Daiwa Securities Group Brand Statement (established March 2001)

At the Daiwa Securities Group, we are committed to acting as our clients' best partner and to 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 Be a Leader in Defining 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.

Initiatives to address issues that arose in 2004

Ongoing initiatives for post-sales follow up^{*1}

Daiwa Securities Co. Ltd. holds seminars on investment trust products owned by many investors, and is actively working to provide information after product purchases.

We are improving customer materials and raising the level of information provided to customers. We are also striving to offer better quality post-sales follow up by increasing opportunities for direct customer contact, not just by the staff involved, but also by the sales representative's superior.

Emphasis on basic etiquette

In November 2004, leaders were established in each office with the goal of greater accountability on basic business etiquette and proper conduct.

Making things easy for customers to understand

We consider the need for understandability when preparing materials, diagrams, and graphs for distribution to customers. We have also simplified paperwork relating to specification accounts, and have introduced electronic delivery of account statements.

^{*1}. At Daiwa Securities Co. Ltd., we use the term "post-sales follow up" to describe follow-up service after product sales.

Organizational improvement for better handling of complaints

In order to increase customer satisfaction, we quickly identify any problems that arise due to differences in awareness between a customer and the company, or issues relat-

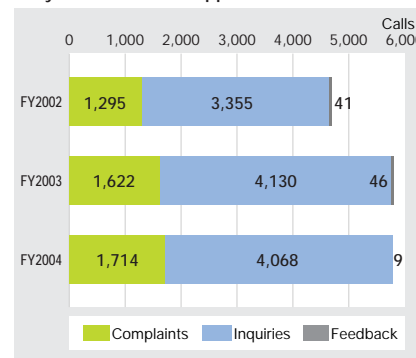
ing to investor protection. We also emphasize listening to customers in strengthening our compliance efforts.

As a result, in October 2004, we moved the Customer Support Center from under the Customer Satisfaction (CS) Promotion Department of the Sales Strategy Division, to the Compliance Division. In April 2005, we set up a Customer Support Dept. in the Compliance Division. Through the focused management of the Customer Support Dept., a faster and more appropriate system for handling complaints from customers is now in place, including complaints received by the Customer Support Center and the branch offices.

Customer Support Center inquiries and response

The Customer Support Center received 5,791 calls from customers in fiscal 2004. Of these, a majority of calls (4,068) were inquiries, while 1,714 were complaints. Most of the com-

Number and types of calls received by the Customer Support Center



plaints were related to service provided by branch offices, or employee etiquette.

The Customer Support Center issues a *Customer Support Center Monthly Report*, which is sent to executives, all branch managers, internal administration supervisors in the branch offices, and division general managers. This allows the details of customer complaints to be shared among all the relevant personnel. We are striving to improve our operations in each office based on customer feedback.

FY2004 customer satisfaction survey

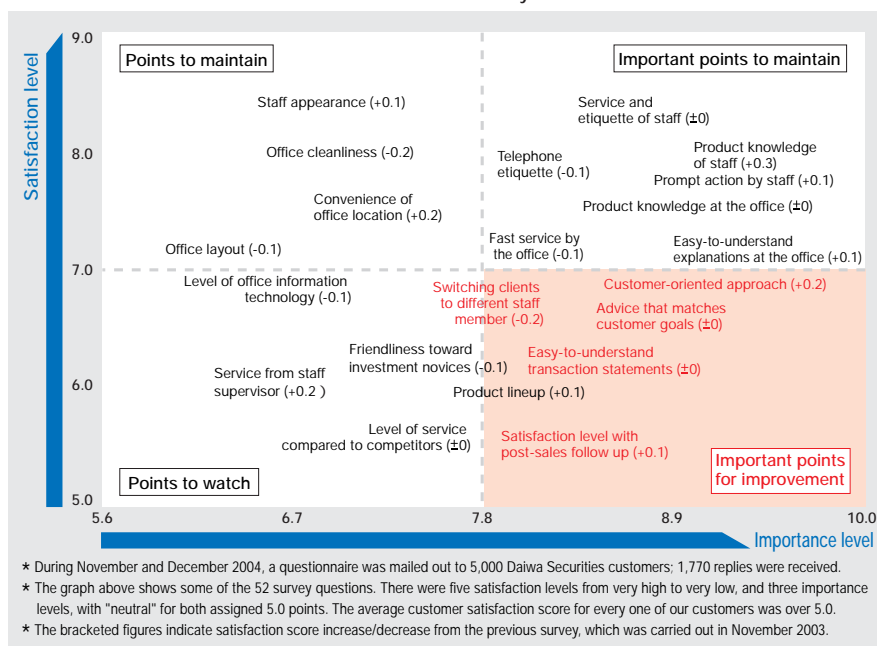
Every year since fiscal 2001, Daiwa Securities Co. Ltd. has been carrying out a customer satisfaction survey in order to assess customers' opinion of our services and help us provide even higher quality services. The results of the fiscal 2004 survey showed an increase in overall customer satisfaction compared to the previous year.

We increased our customer satisfaction for all the items related to post-sales follow up, including frequency, timing, and content, but levels remained low compared to the other evaluation items. We are aiming to increase these scores further, and follow up service will continue to be an important area of focus.

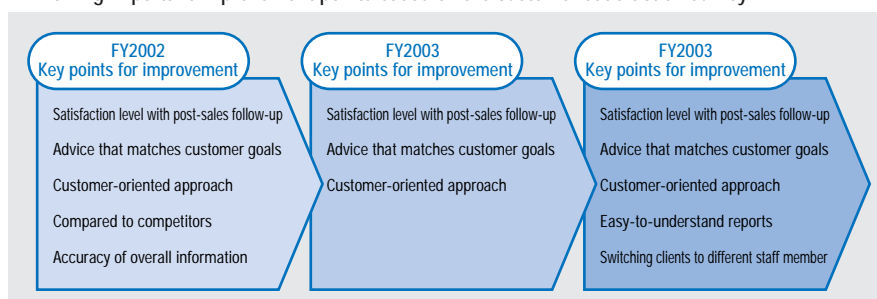
Future issues and targets for fiscal 2005

Based on the results of the fiscal 2004 customer satisfaction survey, Daiwa Securities Co. Ltd., will continue to actively emphasize post-sales follow up in fiscal 2005. We are working to increase the convenience of our offices with information technology, and will further improve services to customers using the Daiwa Direct course on investment. Also, we are renovating our offices to create spaces that will appeal to a wider range of customers.

Results of the fourth annual customer satisfaction survey



Evolving important improvement points based on the customer satisfaction survey



Stakeholder comment

Customer satisfaction initiatives of the Daiwa Securities Group

A book on customer satisfaction written over 20 years ago in the United States is still available in new editions. In this book are excerpts from customer letters: "A person who buys clothes is not actually looking for clothes, but rather a sophisticated look"; "A person who buys a toy is not looking for a toy, but is in fact seeking to make a child happy."

Therefore, it seems to me that what investors are actually seeking from the securities industry is "the pleasure of increasing assets" and "a secure and happy retirement." It is important that we continue our efforts to help customers reach their real goals in order to secure the sustainability of the Daiwa Securities Group.



Hiroyuki Sato
Deputy General Manager
CS Promotion Section, Sales Planning Department,
Daiwa Securities Co. Ltd.

Human Values and Human Resource Utilization

The source of competitiveness for the Daiwa Securities Group is its people. We are working to create outstanding work environments and improve our human resources system, which is designed to help employees to feel motivated, proud and satisfied in their work.

Issues and targets for fiscal 2004 and beyond

Review job descriptions and improve workplace environments with the aim of stabilizing employment of persons with disabilities.

Improve evaluator training to increase the objectivity of evaluations.

Achieve target of 20% group-wide enrollment in Daiwa Leadership Program.

Enhance personnel system with goal of fostering professional human resources.

Results and progress for fiscal 2004

- Ongoing regular interviews with Personnel Department staff.
- Held a get-together for employees with hearing disabilities (9 participants)

Most group companies have implemented this already, although some have not.

In fiscal 2004, 62 people entered the program, and at the end of the fiscal year 14% of the deputy general managers (career-track employees) had graduated from the program.

On June 1, 2005, a qualification point system was introduced as part of the promotion criteria. There will be a transition period until fiscal 2007, and full-scale implementation will begin in fiscal 2008.

Basic approach to human resources

In order to develop personnel that are a competitive resource for the Daiwa Securities Group, we are working to create a human resources system that reflects the idea of human values mentioned in the Group's Corporate Principles. Starting in fiscal 2003, we have been focusing on Performance-based Evaluation System, broadening employee choices, establishing a fair evaluation system, and qualitative improvement of personnel.

Basic employee statistics (Daiwa Securities Group Inc.)

Average annual salary*	¥8.68 million
Average age	37.1 years old
Average number of years of service	10.7 years

(as of March 31, 2005)

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

Hiring by career path

The Daiwa Securities Group operates its hiring system based on different career paths, since each of its member companies have different business functions. Job candidates are selected for each career path, based on the business areas of retail securities, investment banking, asset management, research, systems consulting, and venture capital. The system then assigns candidates to specific group companies based on the career path, though with the proviso that career paths generally require exchanges of personnel between group companies.

College internship system

At Daiwa Securities SMBC Co. Ltd., the financial industry's first internship program based on open applications was started in 2001. It is an opportunity for university students to learn about investment banking activities, to make direct connections with employees working on the frontlines, and to get a feel for the work and the atmosphere of Daiwa Securities SMBC.

The participants undertake work projects set by their departments and make presentations on their results on their final days. The employees also take part in the project, observe the presentations and discuss them. It is more than an internship system that functions like an extended company tour, as it is an opportunity for students to get real hands-on work experience and to obtain specialized knowledge and experience.

Initiatives for recruitment

Policies and initiatives for fair hiring

The Daiwa Securities Group has established guidelines for respecting human rights and for recruitment based on fair and objective evaluations. Those involved in hiring are thoroughly familiar with these guidelines, and they have also been posted on our recruitment information site for job-seekers to see.

Employment information web site (Japanese only)

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

Number of new graduates employed in entire Daiwa Securities Group

		(persons)		
		April 2003	April 2004	April 2005
Career-track employees and regional career-track employees* ¹	Male	326	203	252
	Female	274	147	235
General employees* ²	Male	0	0	0
	Female	54	28	81
Financial advisors* ³	Male	12	11	35
	Female	6	16	40
Total		672	405	643

*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 a change of residence. Full-scale hiring of new graduates into this class began in April 2002.

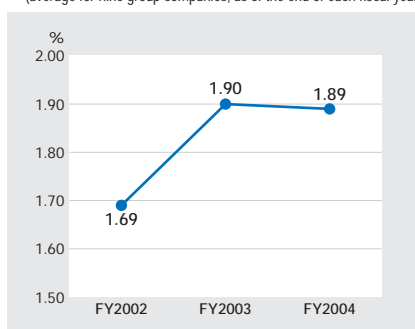
*2. General employees make up a class that was created in April 2003 by blending the old general employee class with the old area general employee class.

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

Employment of persons with disabilities

As of the end of March 2005, the average percentage of our workforce made up of employees with disabilities is 1.89% across nine group companies, which is above Japan's legally required level of 1.8%. The personnel departments of Daiwa Securities Group companies regularly conduct personal interviews with employees with disabilities to ensure that they are facing no unnecessary obstacles in their work, and are able to enjoy job satisfaction. In June 2004, we held a get-together for hearing-disabled employees, attended by nine people. These employees were able to strengthen ties with each other, and also offered suggestions for improvement.

Percentage of workforce made up of employees with disabilities (average for nine group companies, as of the end of each fiscal year)



Realizing people-friendly work environments

Initiatives to ensure human rights

In its Code of Conduct and Ethics, Daiwa Securities Group Inc. prohibits discriminatory treatment for reasons not related to fair business practices, as well as banning sexual and other forms of harassment. A Human Rights Awareness Promotion Committee has also been established with the director of human resources as its chairman. Regular human rights awareness training is carried out once a year. We are a member of the Industrial Federation for Human Rights, Tokyo, and we strive to protect human rights. One of our activities in this is human rights awareness training programs.

Employee welfare system usage (Daiwa Securities Group Inc., Daiwa Securities Co., Ltd., and Daiwa Securities SMBC Co. Ltd.)

		(persons)		
		FY2002	FY2003	FY2004
Employees taking childcare leave*	Female	80	81	115
	Male	0	0	0
Employees taking family-care leave	Female	1	0	0
	Male	0	0	0

*Employees eligible for childcare leave include non-regular employees (contract employees).
 *Since maternity leave is a legal requirement, the number of employees taking this leave is not listed.

Employee welfare system

With the aim of creating more people-friendly work environments, we are working to improve our employee welfare program.

Employees on maternity leave are paid their full monthly salary, and are also eligible for childcare leave of up to two years, which is longer than required by law. Although male employees are also entitled to childcare leave, none have taken it so far, so we are encouraging them to do so.

Employees are also eligible for up to 365 days of family-care leave, which also surpasses the legal requirement. In the case of an employee whose spouse is in need of care because of an illness or other hardship, a grant is available to cover home-helper expenses for up to sixty days. These benefits have not been used very much yet, and we will actively promote their use in the future.

Overtime hours and paid vacation usage rates

The average overtime working hours per month increased from 25.6 hours in fiscal 2003, to 29.3 hours in fiscal 2004. This was due to the sudden increase in stock certificate acceptance work in December 2004, resulting from the introduction of a specification account system at Daiwa Securities Co. Ltd. The Daiwa Securities Group aims to reduce the number of overtime work hours, and in May 2005, we began turning off the lights at 10 p.m. in the Daiwa Securities Headquarters Building.

The paid vacation usage rate grew slightly from 33.0% in fiscal 2003, to 33.2% in fiscal 2004.

Working hours and paid vacation usage rate (Daiwa Securities Group Inc., Daiwa Securities Co. Ltd., and Daiwa Securities SMBC Co. Ltd.)

	FY2002	FY2003	FY2004
Annual regular working hours (Hours)	1,845.0	1,860.0	1,837.5
Average monthly overtime hours* (Hours)	22.2	25.6	29.3
Paid vacation usage rate	34.1%	33.0%	33.2%

*This is the number of Employees' Union members in Daiwa Securities Group Inc., Daiwa Securities Co. Ltd., and Daiwa Securities SMBC Co. Ltd.

Employees of entire Daiwa Securities Group

		As of March 31, 2003			As of March 31, 2004			As of March 31, 2005		
		Employees	Financial advisors	Temporary employees*1	Employees	Financial advisors	Temporary employees*1	Employees	Financial advisors	Temporary employees*1
Japan	Male	6,799	123	-	6,920	166	-	6,879	258	-
	(career-track*1)	(6,151)	(-)		(6,197)	(-)		(6,127)	(-)	
	(manager)	(3,055)	(-)		(3,180)	(-)		(3,278)	(-)	
	Female	3,573	801	-	3,463	728	-	3,220	690	-
	(career-track*2)	(1,372)	(-)		(1,377)	(-)		(1,258)	(-)	
	(manager)	(39)	(-)		(55)	(-)		(75)	(-)	
Japan total		10,372	924	1,242	10,383	894	1,379	10,099	948	1,608
Overseas		1,187	-	23	1,182	-	36	1,196	-	44
Total		11,559	924	1,265	11,565	894	1,415	11,295	948	1,652

*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.

Human Values and Human Resource Utilization

Creating work environments that encourage women

Active recruitment and promotion

The Daiwa Securities Group is engaged in various initiatives to expand career opportunities for women. Four seminars were held between December 2004 and February 2005 for female university students interested in career-track employment. These included lectures by female executives and small discussion groups with young female career-track employees. Attendance for the seminars reached 222 women; we had the highest number of female applicants for career-track employment and the highest number of informal job offers to date.

We are also actively promoting women to management positions. As of March 2005, there were three female branch managers (Daiwa Securities Co. Ltd.), and two female general managers at group companies. In addition, we have promoted 75 women to management positions (2.2% of the entire management). As of June 2005, there are now three female branch managers, and four female general managers.

Establishment of the Women's Advancement Action Team

In February 2005, we established the Women's Advancement Action Team (tentative name) consisting mainly of the female staff of the Personnel Department of Daiwa Securities Group Inc. The team began looking into the improvement of work environments and the Daiwa Securities Group initiatives relating to the Next Generation Education and Support Promotion Act.

On June 1, 2005, the start of this new initiative was announced in-house. We will continue to promote full-scale efforts for this initiative in the future.

Human resource and skills development

The Daiwa Securities Group carries out various types of training based on the idea that it is human resources development that determines a company's competitiveness. In addition to training that meets the needs of individual group companies, we perform cross-

group training including combined orientations for new employees, and selective management training.

Combined new employee orientation

The Daiwa Securities Group has a shared program for the training of new recruits in order to promote better communication across the entire Group and for new employees to learn about social responsibility, corporate ethics and our Corporate Principles. The program sets aside one day for social responsibility learning including human rights. New recruits engage in corporate citizenship activities such as experiencing visual disability through a blindfold exercise, learning sign language, or offering care support in an elderly home. An hour has also been designated for new employees to learn about corporate social responsibility. Outside experts have been invited as guest lectures since fiscal 2004.



Presentation at combined new employee orientation

Selective management training

As of June 2005, 130 people have graduated from the Daiwa Management Academy program, which was instituted in 2000 for general managers; 356 people have completed the Daiwa Leadership program started in 2001 for deputy general managers. We are striving to develop human resources that will serve as the next generation of leaders.

Skills development training

Amid the major changes in the environment faced by financial institutions, the Daiwa Securities Co. Ltd., introduced a Professional Certification System in fiscal 2004, in order to focus on the important issue of professional development for our employees. We are aiming to award the first certifications in April 2006. In fiscal 2004, we carried out Consulting Skills

Training over six months, which culminated in a certification exam. 190 professional certification candidates have taken the course.

Implementation of qualification criteria for promotion

In June 2005, we greatly expanded the support system for obtaining qualifications, along with the introduction of fixed qualification criteria for personnel promotion. We have set "qualification points" for each managerial post or grade, and are promoting the acquisition of knowledge and credentials befitting an organization of professionals.

Persons earning credentials (nine group companies)

(persons)	
Credentials	Credentialed persons
Chartered Member of the Security Analyst Association of Japan	1,211
Chartered Financial Analyst (USA credential)	39
Financial Planner (AFP)	2,499
Financial Planner (CFP)	193
Licensed Tax Accountant	11
Variable insurance sales credentials	5,423
System Analyst	25
Overseas MBA program graduate, etc.*	117

(as of March 31, 2005)

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

Intra-Group Job postings

Our internal recruiting system facilitates personnel transfer across the Group, in order to realize the potential of employees with ambition and ability. In the summer of 2004, there were 13 successful candidates out of 65. In the spring of 2005, there were 24 successful applicants out of 87, marking a substantial increase.

The total number of applicants since the start in summer 2000 is 494, 95 of whom have been successful in their new positions.

A more impartial personnel evaluation system

With the aim of achieving fairer personnel evaluations, we perform "mutual evaluations" between superiors and subordinates, as well as "360 degree evaluations" where employees are evaluated by those in other positions they have

close connections with. Compliance objectives are also included in personnel evaluation, and are used for determining personnel reassignments and promotions. We have implemented evaluator training in order to improve the degree of acceptance for individual evaluations.

Communication with employees

We have established opportunities at our group companies to hear from employees directly, through a semi-annual self reporting system, and through interviews with the Personnel Department. We have also set up ways for employees to submit opinions to the company through the Corporate Ethics Hotline, and employee counselors.

We are also maintaining good labor relations, including the preparation of plans for the Next Generation Education and Support Promotion Act in consultation with the Daiwa Securities Group Employees' Union. We maintain close communication with the union through spring wage negotiations, and a union member questionnaire at the time of semi-annual bonus payments. As of March 2004, 5,786 employees are members of the union.

Number of Employees' Union members
(seven group companies,* as of the end of each fiscal year)

	(persons)		
	FY2002	FY2003	FY2004
Number of Employees' Union members	6,388	6,220	5,786

* Excluding Daiwa Asset Management Co. Ltd., which has its own employees' union, and Daiwa Property Co., Ltd., which has no employee union.

Retirement lifestyle support

The Daiwa Securities Group has a system to support the lifestyles of employees after they retire.

The Daiwa Elder System is a reemployment system for those employees who have reached mandatory retirement age. In fiscal 2004, we reemployed 84 people by increasing our job matching abilities. One program we offer is called the Senior Work system, which finds positions for employees that are 55 or older under a policy of assigning them to their desired locations for retirement life whenever possible.

Employee success results for intra-Group job postings

Period	Jobs offered	(Persons)	
		Applicants	Successful applicants
Summer 2000	Fund manager, analyst, venture capitalist	12	2
Winter 2000	Work abroad	71	6
Summer 2001	Fund manager, analyst, venture capitalist, investment information, principal finance, etc.	58	7
Summer 2002	Fund manager, mergers and acquisitions, derivatives, work abroad, internal wholesaler, satellite broadcaster, etc.	60	8
Summer 2003	Individual and corporate sales, analyst, derivatives, venture capitalist, internal wholesaler, dealer, trader	81	19
Winter 2003	Analyst, money manager, SMA consultant, sales, consultative planning, dealer, trader, derivatives, management consultant, pension consultant	60	16
Summer 2004	Compliance, product development, mergers and acquisitions, research, analyst, venture capitalist, fund manager	65	13
Spring 2005	Compliance, investment advisor, mergers and acquisitions, principal finance, analyst, venture capitalist, fund manager	87	24

We also have a program called the Voluntary Retirement system, which offers individuals a wide range of choices, as well as the Second Career Support Leave, which provides two months leave for retirement job hunting or preparations to start a new business.

Usage of the Daiwa Elder System

(Daiwa Securities Group Inc., Daiwa Securities Co. Ltd., and Daiwa Securities SMBC Co. Ltd., as of the end of each fiscal year)

	(Persons)		
	FY2002	FY2003	FY2004
Number employed through the Daiwa Elder System	57	68	84

Future issues and targets for fiscal 2005

In fiscal 2005, we will strive to improve work environments and revise job descriptions, with the goal of retaining employees with disabilities. We will launch full-scale efforts to improve the training system for the development of professional human resources, and to create work environments that encourage women.

Stakeholder comment

Thoughts on creating work environments that encourage women

In the past, there were no clear standards in the Daiwa Securities Group on career paths for women such as the work experience necessary for promotion. Recently however, there has been an increase in the appointment of women to managerial positions, and women now have a clearer idea of how they can pursue a career in the Group. The female employees seem to have higher morale as a result. There has also been an improvement in the awareness of childcare leave in the workplace, making it easier for women to take advantage of the system.

I think that steady progress has been made, and I hope that more measures will be taken in the future to help women in the workplace.



Naoko Saito
Branch Manager
Nakano Branch, Daiwa Securities Co., Ltd.

Working with Society as a Good Corporate Citizen

We are promoting measures to enhance the relationships we enjoy with local communities, based on the conviction that our activities as a good corporate citizen are an investment in society.

Issues and targets for fiscal 2004 and beyond

Partner with recipients of aid from foundations and perform community-based corporate citizenship activities through branch offices.

Promote group company employees' understanding of volunteer activities through "welfare experience courses."

Results and progress for fiscal 2004

Deepened communication through the holding of informal gatherings and grant presentation ceremonies at branch offices.

Promoted better understanding through sign language classes, visual disability simulation exercises, and visits to nursing homes.

Initiatives for social issues

The Daiwa Securities Group invests in society through its corporate citizenship activities. In fiscal 2002, we began creating a system enabling branch offices of Daiwa Securities Co. Ltd., to receive assistance requests from local communities, as part of the promotion of our measures to enhance our relationships with local communities.

Our efforts are divided into four sectors:

- (1) Education and research activities in the fields of economics and finance;
- (2) Support for volunteer work by employees;
- (3) Assistance for local communities in Japan and abroad through our foundations; and
- (4) Support for culture and the arts.

Contributions to corporate citizenship activities

(¥ thousand)		
Target sectors	FY2003	FY2004
(1) Education and research activities in the fields of economics and finance	212,500	184,040
(2) Support for volunteer work by employees	4,870	4,310
(3) Assistance through our foundations	15,000	160,000
(4) Support for culture and the arts	100,000	360,000
Total	332,370	708,350

tion in elementary, junior high and senior high schools. For details see pages 12 to 15.

Initiatives to increase the number of employees doing volunteer work

Volunteer activities expand the outlook of employees, create a new sense of values, and increase the flexibility of the organization. In conjunction with CSR training, the new employee orientation includes social welfare experience courses that consist of hands-on experiences such as learning sign language, doing visual disability simulations, and helping out at nursing care facilities. We also post volunteer opportunities on the Daiwa intranet for the benefit of interested employees. In fiscal 2004, a total of 2,295 employees participated in 100 volunteer programs.

Information for group employees on volunteer opportunities

Main employee volunteer activities

Our volunteer activities are broadly divided into independent activities carried out by the

Daiwa Securities Group on its own, and general activities performed in conjunction with local community groups and NPOs.

As part of our independent activities, 41 group employees participated in a forest maintenance project carried out on Mt. Takao, near Hachioji, Tokyo. Ten employees also participated in a general activity that involved a visit to Tokyo Disneyland with disabled people. These participants thoroughly enjoyed the experience, and expressed how meaningful it was to create an environment where a large group of the disabled could actively enjoy themselves alongside the rest of society.

We are also engaged in activities for utilizing canceled postage stamps, recycling plastic beverage bottle caps, and raising funds to help the victims of natural disasters.



Forest maintenance on Mt. Takao

Education and research activities in the fields of economics and finance

Partnership between companies and universities in the areas of education and research is an important way to contribute to the development of the Japanese economy. In fiscal 2004, we developed support for researcher exchange, including Daiwa-sponsored courses and joint research with Waseda Graduate School of Finance, Accounting and Law. We also continued to support economic educa-

Results of employee fundraising and recycling activities(FY2004)

Contributions for the Chuetsu earthquake in Niigata (including those from retired employees) ¥8 million	Disaster relief for the victims of the Sumatran earthquake and South Asian tsunami ¥8.5 million	Plastic beverage bottle caps 1,090.0 kg	Canceled postage stamps 30.0 kg	Used telephone cards 3,200 cards
Used prepaid cards 27,400 cards	Foreign coins 4.0 kg	Foreign bank notes 79 notes	Calendars 830 sets Pocket diaries 171 copies	Bell Mark 2,549 points = ¥2,549 (From Aug. 2004 to Feb. 2005)

Assistance for local communities in Japan and abroad through our foundations

The Daiwa Securities Health Foundation provides assistance to hospitals and universities for the advancement of empirical research relating to social welfare, and for promotion of health among the middle-aged and seniors. In fiscal 2004, the Foundation provided total assistance funds of ¥30 million to 30 projects. The Daiwa Securities Welfare Foundation provides support for volunteer activities and received a record 750 assistance applications in fiscal 2004. Based on the results of application reviews, the Foundation provided a total of ¥47 million in assistance to 206 projects carried out by volunteer organizations. Both of these Foundations solicit applications publicly and select assistance recipients based on the results of reviews.^{*1}

The Daiwa Anglo-Japanese Foundation was set up to support activities that promote mutual understanding between Japan and the UK, and each year it provides scholarships for British students to come and study in Japan. In fiscal 2004, seven students came to Japan.

^{*1} Details on the application procedures are available online at:

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

(Japanese only)

Support for reconstruction in the areas affected by the Sumatran earthquake and South Asian tsunami.^{*2}

As a reconstruction measure for the victims of the Sumatran earthquake and South Asian tsunami that struck in December 2004, we began a 10-year support effort in 2005 targeting NGOs in the three affected countries of Indonesia, Sri Lanka, and India. We established "the Daiwa Securities Group Tsunami Reconstruction Fund" as part of the Asian Community Trust (ACT), and are donating ¥10 million per year for a period of 10 years. This is a long-term reconstruction program that supports local NGOs in the affected countries, by providing livelihood assistance in the three areas of educational opportunities for children, counseling services, and micro-finance projects.^{*3}

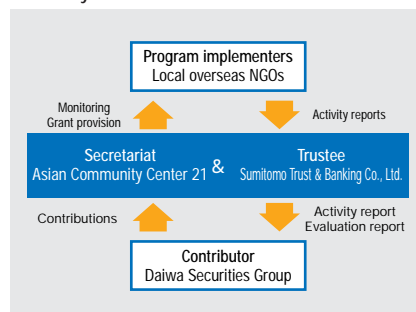
The Asian Community Center 21(ACC21) provides professional assistance in monitoring the activities of the local NGOs overseas,

while the Sumitomo Trust & Banking Co., Ltd., offers its services for the fund management. By utilizing the financial system that makes up the Daiwa Securities Group's core business, we are able to help meet the long-term needs of recipient communities in a way that is not possible with one-time contributions.



Children in Tricomalee (received by ACC21 from a local NGO)

ACT system



^{*2} See page 18, "Disaster Assistance through Corporate-NGO Partnerships," for information on our reconstruction support efforts for the victims of the Sumatran earthquake and South Asian tsunami.

^{*3} Financial services including deposit accounts and small-scale loans for low-income earners.

Support for culture and the arts

The Daiwa Securities Group provided funding for the Slovakia Philharmonic Orchestra's Tokyo performance in June 2004. Daiwa Securities SMBC Co. Ltd., also gave special support for the Berlin Philharmonic Orchestra's tour of Japan in November of the same year.

Special support was also provided for the Louvre Museum exhibitions held in Yokohama and Kyoto from April to October, 2005. As part of this effort, we held a private viewing of the Louvre exhibit for 65 people with disabilities (plus 63 companions for a total 128 people) on May 26, 2005



Special exhibition viewing

Future issues and targets for fiscal 2005

In fiscal 2005, we plan to further expand our independent volunteer program to allow more group employees to participate.

The Daiwa Securities Group understands that its own sustainability as an enterprise is intimately linked with the sustainability of society. As a good corporate citizen, we are actively engaged in efforts to address social issues in four priority sectors we have selected, and we are helping to foster a sustainable society.

Stakeholder comment

Participation in volunteer activities

I participated in the forest maintenance project on Mt. Takao with my wife and son. Half of the time was spent listening to an introductory lecture on the environment, and the other half of the time we helped to thin out the forest undergrowth. I think this was a good balance of activities, as it is important to understand the reason behind the forest thinning work. After just an hour and a half, I was drenched in sweat, so it was definitely not easy work. However, I felt that I wouldn't mind doing more actual work next time. Although there has been an increase in the selection of Daiwa-sponsored volunteer activities, it seems that there are not enough people participating in them. In the future, I think I will make an extra effort to invite my family and friends to participate with me.



Yuji Koseki
General Manager, Information Technology Department
Daiwa SB Investments Ltd.

Environmental Initiatives

The Daiwa Securities Group recognizes that the global environmental impact of its business activities is not inconsequential. It is working to build an environmental management system and increase the environmental awareness of its employees.

Issues and targets for fiscal 2004 and beyond	Results and progress for fiscal 2004
Strengthen environmental communication with the goal of raising group employees' environmental awareness.	Published "Dr. Sustaina's Environmental Course," a serial on environmental communication, in in-house magazine, Fuji, with aim of increasing group employees' environmental awareness (three installments appeared in FY2004).
Study effectiveness of implementing ISO 14001, taking into account characteristics of each business area.	In view of our business area, decided not to implement ISO 14001 group-wide at present. Established Environmental Management Committee in May 2005 to increase precision of our independent environmental management system.
Achieve greenhouse gas reduction target (1.9% less than FY2001, CO ₂ equivalent) at Daiwa Eitai Building.	Achieved reduction target with an 11.3% reduction compared to fiscal 2001.

Our perspective on environmental problems

Although the Daiwa Securities Group's business activities have a relatively small impact on the global environment compared to the manufacturing industry, their absolute impact is not inconsequential. We view the continuous reduction of environmental impact as a corporate responsibility, regardless of industry or business category. We are continuing to make efforts to reduce our environmental impact.

In fiscal 2001, we set about collecting environmental impact data. In fiscal 2004, we started preparations to build our own environmental management system.

Liaison committee established to help build an independent environmental management system

Daiwa Securities Group Inc. conducted a study between February and March 2005 to bring the debate over the pending question of whether to acquire ISO 14001 certification to a conclusion. As a result, it was decided to forego cer-

tification, and rather, to build an independent environmental management system.

Accordingly, in May 2005 Daiwa Securities Group Inc. established the Environmental Management Committee, chaired by the executive responsible for CSR, and it is now preparing to install an independent environmental management system.

Reducing CO₂ emissions

In fiscal 2004, the Daiwa Securities Group reduced its CO₂ emissions by 2,109 tons (5.4%) from fiscal 2003 to 37,009 tons.*1 In Japan, CO₂ emissions per employee*2 were brought down 0.17 tons to 2.92 tons. Moreover, in fiscal 2003, the Daiwa Securities Co. Ltd. Headquarters Building and the Eitai Daiya Building achieved the numerical targets for reduction of CO₂ emissions specified in the Global Warming Action Program that we submitted to the Tokyo Metropolitan Government in fiscal 2002. In fiscal 2004, the Daiwa Eitai Building reduced emissions by 11.3% from fiscal 2001, achieving the 1.9% reduction target.

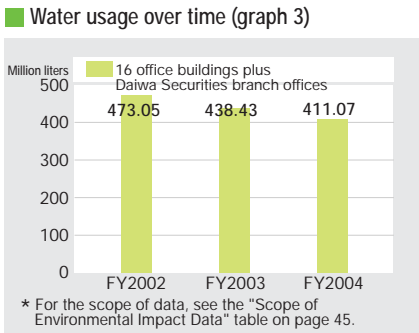
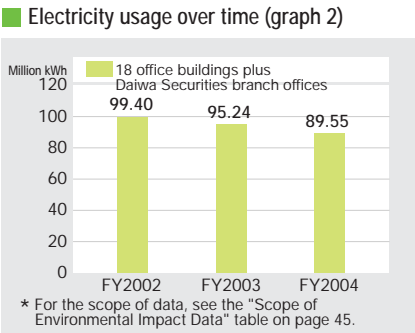
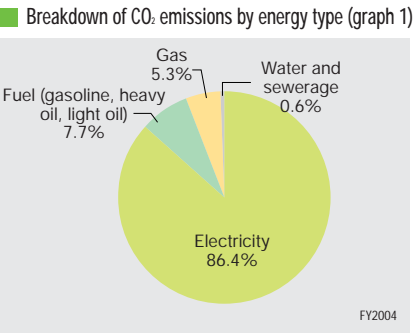
*1 Calculated CO₂ equivalent of fuel, electricity, gas, water, and sewerage usage of the Daiwa Securities Group at its 18 major office buildings and the branch offices of Daiwa Securities Co. Ltd., across Japan, using the Ministry of the Environment's greenhouse gas emissions conversion formula.

*2 For a total of 12,655 employees, including regular employees, financial advisors, and temporary employees in Japan. For details see "Human Values and Human Resource Utilization" on page 39.

Reducing electricity and water usage

In fiscal 2004, we reduced our electricity usage by 5.69 million kWh (5.9%) from that in fiscal 2003 to 89.55 million kWh. One of the primary factors in drastically reducing electricity usage was to install inverters on the 57 computer room air conditioners in the Daiwa Eitai Building; these facilities had consumed a lot of electricity compared to our other business sites.

We reduced our water usage from the previous year by 27.36 million liters (6.2%) in fiscal 2004, to 411.07 million liters.



Resource conservation, recycling, and waste reduction

In fiscal 2004, paper waste generated by the Daiwa Securities Group increased by 57.8 tons (4.6%) over fiscal 2003 to 1,308 tons. We maintained a recycling rate for paper waste of just under 90% overall.

Waste generation and recycling over time (table 1)

		(Unit: tons)		
Paper waste	Amount generated	2002	2003	2004
	Amount recycled	1,564.2	1,250.6	1,308.4
	Amount discarded	1,357.0	1,105.2	1,160.6
	Recycling rate	207.3	145.4	147.8
Non-paper waste	Recycling rate	87%	88%	89%
	Amount generated	352.6	260.1	330.7
	Amount recycled	101.0	84.7	114.3
	Amount discarded	251.6	175.4	216.4
	Recycling rate	29%	33%	35%

*For the scope of data, see the "Scope of Environmental Impact Data" table below.

Scope of Environmental Impact Data

Building	Graphs 1 & 2	Graph 3	Table 1
Daiwa Securities Headquarters Building	○	○	○
Daiwa Securities Kayabacho Building	○	○	○
Marunouchi Trust Tower North Building	○	○	○
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	○	○	○
DSC Headquarters	○	○	○
Daiwa Securities branch offices*	○	○	○
Daiwa SB Investments Headquarters	○	○	○
NIF Ventures Headquarters	○	○	○
Daiwa Training Center	○	○	○
Daiwa Sanko Buildings (main and annex)	○	○	○

*120 branch offices, excluding headquarters, Osaka and Nagoya Branch buildings (as of end of March 2005).

Green purchasing efforts

The Daiwa Securities Group promotes green purchasing of office supplies through Sanko Net, an intranet site operated by a group company, Daiwa Sanko Co., Ltd. The site lists products from the database of the Green Purchasing Network (which we joined in June 2003) that carry environmental marks.

Our green purchasing rate through this site for fiscal 2004 was 43% in terms of the number of items purchased and 29% on a monetary base.

Joining UNEP FI—committed to environmentally conscious finance

In November 2004, the Daiwa Securities Group joined the United Nations Environment Programme Finance Initiative (UNEP FI), signing the UNEP Statement by Financial Institutions on the Environment and Sustainable Development. By joining UNEP FI, we are now able to acquire information about overseas locations on the environment and sustainability. In cooperation with other signatory members, the Daiwa Securities Group will pursue ideal forms of cutting-edge finance that take the environment into consideration.



Signing UNEP Statement

Internal and external environmental communication

In November 2003, we began running "Dr. Sustaina's Environmental Course," a serial on environmental communication,

in our quarterly in-house magazine, *Fuji*, with aim of increasing group employees' environmental awareness.

This series explains global environmental problems in simple terms, focusing on linkages between the Daiwa Securities Group and the environment. In addition to our internal newsletter, "Dr. Sustaina's Environmental Course" is also published on the CSR site of the website of Daiwa Securities Group Inc.

CSR website (Japanese only)

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

Future issues and targets for fiscal 2005

The Daiwa Securities Group has traditionally practiced a certain level of environmental management, collecting environmental impact data and setting environmental impact reduction targets. In May 2005, we established the Environmental Management Committee at Daiwa Securities Group Inc. to help build a more precise, independent environmental management system.

From fiscal 2005 forward, we have been working through this committee to establish the "plan-do-check-action" (PDCA) quality control cycle, draw up group-wide environmental impact reduction targets, sort out direct environmentally related risks, such as electricity, gas, and water usage, as well as indirect environmental risks related to our business, and promote environmental communication. Moreover, a remaining issue is the formulation of a basic policy on green purchasing. We will work this out during fiscal 2005.

Stakeholder comment

My expectations for the Daiwa Securities Group

I would like to see more environmental efforts through your main business areas. As for CO₂ reduction, for example, efforts that utilize your various assets, rather than few percent reductions at offices with smaller environmental impact compared to other industries, are preferable. Although CSR efforts are lagging behind in the finance industry, I hope that you will fulfill a role as an industry leader by articulating a vision that describes what you will focus on and what you aim to achieve, now that you have taken the first step of joining UNEP FI. Furthermore, in terms of SRI initiatives, I think it is important to introduce numerical evaluations to help support various CSR efforts and to develop financial education in order to promote financial thinking from the SRI-based perspective.



Masaki Kimura
Secretary General
A SEED JAPAN
(International Youth Environmental NGO)

Paper Project

We launched the Paper Project to assess the use of paper throughout the Daiwa Securities Group. Paper usage is considered the largest direct environmental impact generated by the financial industry.

Paper Project: Assessing paper usage

Engaged as it is in the financial industry, the Daiwa Securities Group tends to use less electricity, gas, and water than other types of business. However, that does not mean that the Group generates no environmental impact. We examined where our greatest environmental impact was, and the answer came into focus: paper.

Paper usage in offices has tended to increase in proportion with the growth of copy machines and printers in recent years. The Daiwa Securities Group uses a tremendous amount of paper to print various types of reports—including this one—prospectuses,^{★1} sheets and forms, and other records.

Many employees had a sense that they were using a huge amount of paper in their daily work, but the truth is that we used to have no real grasp of just how much paper was being used group-wide.

Seeing that the most appropriate action for us to take to reduce the Group's environmental impact would be to address paper usage, we launched the Pa-

per Project in March 2005 to estimate group-wide paper usage.

Examining paper usage at Daiwa Securities Group Inc.

As the first step of the Paper Project, the CSR Promotion Department monitored the amount of paper used at Daiwa Securities Group Inc. during the one-year period from April 1, 2004 to the end of March 2005 to gain an understanding of the situation. This study covered copy paper, business cards, and envelopes used at Daiwa Securities Group Inc. and publications printed outside the company at the request of departments of Daiwa Securities Group Inc.

The results of the study showed that Daiwa Securities Group Inc. used 103 tons of paper during fiscal 2004, or 401 kg of paper per employee (see the "Paper Usage at Daiwa Securities Group Inc." table on the next page). Assuming that it takes about 20 logs of 14-cm diameter and 8-meter length to produce one ton of paper, the total usage was equivalent to about 2,060 timber logs.

Current status of efforts

The concrete figures obtained as a result of the study helped us realize that our environmental impact is by no means small.

Daiwa Securities Group Inc. has a history of printing its Sustainability Report on Forest Stewardship Council (FSC)-certified paper, which is made of timber that is cut from properly managed forests, and using recycled paper in its other publications.

In June 2005, we participated in the Study Group on Ecologically Ethical Paper Procurement, sponsored by five environmental organizations (Greenpeace Japan, FoE Japan, WWF Japan, Global Environmental Forum, and Japan Tropical Forest Action Network [JATAN]) with a view to further promoting the protection of paper resources. In the panel, we began to study with other participating corporations about the use and procurement of ecologically-responsible paper. Moreover, looking to protect forests in Japan, as is being done in developing countries, we used 10% thinned timber in the paper used to print this report, with a desire to promote healthy development of Japan's mountains and forests.

★1 Prospectuses are documents that, when selling or making public offering of securities, must be furnished to investors to describe the details of the securities and conditions of that offer or sale.



Amount of paper used by Daiwa Securities Group Inc.



Thinned timber logo mark.

Paper Project: Future issues

During the past year we gained an understanding of the paper usage at Daiwa Securities Group Inc. As we think about our paper usage going forward, the next step will be to gain an understanding of group-wide paper usage. We anticipate that paper usage at Daiwa Securities Co. Ltd. which is engaged in the securities business throughout Japan, will greatly exceed that of Daiwa Securities Group Inc.

In addition, Daiwa Securities Group Inc. has established a one-year paper reduction target for fiscal 2005 of 5% less than the previous fiscal year. We will also review the percentage of recycled paper contained in paper that we use as well as reconsider the raw materials used to make paper.

■ Paper usage at Daiwa Securities Group Inc. (FY2004)

Department	Description	Number of copies	Weight (kg) / copy	Total weight (kg)
Entire Daiwa Securities Group Inc. * Only items bought through central purchasing	Business cards	44,800	0.001	45
	Copy paper (A4)	1,490	10.2	15,198
	Copy paper (A3)	37	12.24	453
	Copy paper (B4)	71	15.6	1,108
	Copy paper (B5)	19	7.8	148
	Portfolio envelopes for securities (Kaku 2)	5,000	0.013	65
	Portfolio envelopes for securities (Kaku 3)	1,000	0.01	10
	Adhesive-type envelopes (Chou 3)	11,000	0.005	55
	Envelopes with flap (Kaku 1)	200	0.035	7
	Envelopes with flap (Kaku 2)	1,000	0.028	28
	OCS envelopes (Kaku 1)	1,000	0.0135	14
	Envelopes for valuables (Kaku 2)	1,000	0.013	13
	Daiwa <i>Senjukai</i> envelopes	9,000	0.013	117
Legal Department	Convocation notice	95,000	0.054	5,130
	Notification of resolution	113,000	0.005	565
	Announcement of simultaneous satellite broadcast	94,000	0.003	282
	Voting cards	93,100	0.003	279
Personnel Department	Introduction of the company for new career-track employees	20,000	0.33	6,600
	Introduction of the company for new regional career-track employees	10,000	0.134	1,340
	How to Read the <i>Sustainability Report</i>	85,000	0.046	3,910
	Other employment communications	—	—	1,717
Corporate Communications Department	Spring 2004 issue of <i>Fuji</i>	14,700	0.156	2,293
	Summer 2004 issue of <i>Fuji</i>	23,700	0.172	4,076
	Fall 2004 issue of <i>Fuji</i>	14,495	0.162	2,348
	2005 New Year's issue of <i>Fuji</i>	23,500	0.166	3,901
Investor Relations Department	<i>Annual Report 2004</i> (Japanese)	22,000	0.468	10,296
	<i>Annual Report 2004</i> (English)	6,000	0.477	2,862
	Daiwa Securities Group Business Report for Fiscal 2003	114,000	0.07	7,980
	Mid-term Business Report for Fiscal 2004 (68th Term)	111,000	0.039	4,329
	Performance for Fiscal 2003 and Vision of Future Growth	95,000	0.042	3,990
Finance Department	Securities reports	250	0.344	86
	Semiannual reports	120	0.192	23
CSR Promotion Department	<i>Sustainability Report 2004</i> (Japanese)	111,000	0.206	22,866
	<i>Sustainability Report 2004</i> (English)	2,000	0.192	384
	List of errata	92,000	0.00125	115
	<i>SCP News</i>	1,500	0.244	366
	Japanese trial version of <i>Financial Fitness for Life</i>	600	0.214	128
Total				103,128

Internal Stakeholders Meeting



Participating employees (from left to right)

Masaru Maruyama

Deputy General Manager,
Corporate Client Department, Tsu Branch
Daiwa Securities Co. Ltd.

"I am in charge of selling securities that fluctuate in value, such as bonds, to financial institutions. Financial institutions receive funds from customers in the form of deposits and manage them through financing, negotiable securities and, in particular, bonds. This is the main area in which I am helping customers."

Chikako Kuromiya

Assistant Manager,
Sales Department, Nagoya Station Branch
Daiwa Securities Co. Ltd.

"Since joining Daiwa Securities five years ago, I have been involved in sales, ranging from developing new customer segments to visiting individual customers for transaction assistance. I handle all kinds of financial products including stocks, bonds, and investment trusts."

Tomokazu Furuhashi

Deputy General Manager,
Consulting Department, Shibuya Branch
Daiwa Securities Co. Ltd.

"Although I handle all kinds of negotiable securities, I mainly provide asset-management consulting for non-listed companies and Foundations."

Three sales representatives from the frontline staff of the Daiwa Securities Group spoke candidly with each other about their views of CSR and SRI. Although not particularly self-conscious about "CSR" in their daily work, they showed themselves to be salespeople who act with sincerity, while always considering how to fulfill their responsibilities to customers.

Compliance now forms the basis of everyday work activities

Furuhashi : I've been with Daiwa Securities for 10 years now, and until being asked to participate in this discussion, I hadn't thought very seriously about CSR. To be honest, I didn't think much about how we can fulfill our social responsibilities and contribute to society as I carried out my job. I always thought just about how I could provide the best products and information to meet my customers' needs, and how I could improve the satisfaction of my customers.

Kuromiya : It was the same for me. We'd almost never discussed CSR in my branch office. When I dealt with customers, it was always in this context: first there was Daiwa Securities, then there was the Sales Department of the Nagoya Station Branch, and then there was me. Especially for individual customers, I think they feel that they are doing business with the sales representative as a person, rather than with Daiwa Securities as a company.

Maruyama : We handle products that fluctuate in value. So, our responsibility in selling something that does not guarantee any returns is to be honest, never to lie. If there isn't a strong relationship of trust between the customer and me, then the transactions will not go smoothly. The essential thing for building relationships of trust is to take immediate and proactive action whenever you receive negative information relating to a customer's assets.



Kuromiya : Of course, it's important to explain all the advantages and disadvantages before a customer places an order, but it's even more important to provide customer service after the purchase has been made. Since the market always goes up and down, it's especially

important to go to the customer to give an explanation as soon as their portfolio value falls, in order to help them understand the situation.

Furuhashi : As both of you mentioned, it's important to talk to the customer whenever there is negative news. Without good rapport and a relationship of trust with the customer, it's pretty hard to secure any orders.

Maruyama : We want customers to make purchases on their own personal responsibility, so it's essential to show them the risks and have them make decisions based on their personal investment goals. I think this process has been thoroughly implemented.



Furuhashi : Japanese investors are described as less mature than investors in Europe and North America. However, I feel that the principle of self-responsibility is really starting to take root here. Today, none of our customers would ignore the rules of the market and demand that we make up for their stock market losses. Daiwa Securities' compliance policy has become the basis of our business.

SRI funds are now part of our product lineup

Kuromiya : As investment advisors, we provide advice on SRI funds in the same way that we recommend other stock funds. Therefore, the question is whether we are properly conveying the fund mechanisms to customers in the first place. Of course, we hold in-house seminars for each investment trust that we sell. Although I liked the idea of SRI funds, I also felt like they were just another part of the sales pitch.

Maruyama : In the US, there are various reasons that people choose SRI funds, including religious or moral objections to investing in companies producing tobacco, alcohol, or weapons. In Japan, it's harder for people to see the point in taking a negative stance on beer or tobacco companies when choosing stocks. However, SRI funds can nicely match the goals of religious or healthcare organizations.

Furuhashi : I also think they work well for religious organizations. SRI funds have the appeal of giving the owner a sense of contributing to society, rather than just seeking financial performance.

Maruyama : I also think it's a question of individual values. In the future, I think there will be more people





who want to invest in SRI funds, based on the perspective that to do so means more than just wanting a profit. With the rise in online trading, the people who buy stocks on the Internet are probably investing with the desire to make a personal statement in the selection of their stocks. SRI funds will likely gain popularity, starting at the grass roots level.

Kuromiya : There seems to be more and more of a bearish market for companies that neglect their social responsibilities. I think investors have started to notice this, and the fund balances will gradually increase once SRI itself becomes better understood. Nevertheless, SRI funds will be attractive for organizations and individuals with a long-term perspective.

Furuhashi : When explaining the various product choices to customers, the SRI funds usually aren't among the top choices, but they are definitely something that always comes up in conversation. I think there is an increasing need for us to understand SRI when giving advice to customers. Recently, the head of an organization said to me, "We are at a point where we have to think about investing in SRI funds." This kind of comment was unheard of only five years ago.

Maruyama : Wealthy people in the US are often involved in charitable activities. It seems that SRI funds would be a good thing to recommend to executives, for example.

Kuromiya : There are probably a lot of customers that would get a lot of satisfaction from such investments. When Aichi Prefecture issued bonds for the opening of Expo 2005 Aichi, they were sold out on the first day. Certainly the interest rate provided was not that high, but they attracted a lot of interest from local people who wanted to contribute to the local community. If the same kind of interest could also be generated for SRI funds, they would certainly catch on.

Furuhashi : I won't hesitate to recommend SRI funds, depending on the customer's needs. We are likely to receive a lot more inquiries about them in the future. Since public sentiment appears to be heading in that direction, I am pleased that Daiwa Securities is offering SRI funds.

► Reaction to the discussion with stakeholders

Employees are a very important stakeholder group, which is why we asked three salespersons from the retail front lines to participate in the recent stakeholder discussion. As they work in direct contact with customers, they openly admitted that they have a minimal awareness of CSR and usually only think about customers on a daily basis. In their concern and constant efforts for customer satisfaction, it is easy to see the pride they have as securities sales

professionals. Because of this, I realized they actually had a strong sense of corporate social responsibility to their customers. At the same time, I see the need to work hard to improve CSR awareness for the entire Daiwa Securities Group, by supporting employees on the front lines through the utilization of various group company initiatives.



Yoichi Miyashita
Head of CSR Promotion Department
Daiwa Securities Group Inc.

Internal Communication to Increase CSR Awareness

In order to fulfill our responsibilities to society, we are pursuing various initiatives based on the notion that CSR awareness is essential for all employees in direct contact with the public.

CSR training at branch offices nationwide

In May 2005, staff from the CSR Promotion Department at Daiwa Securities Group Inc. began a tour of all branch offices of Daiwa Securities Co. Ltd., nationwide to provide CSR training. The training program includes an overview of corporate social responsibility, as well as the CSR activities being carried out by the Group. Its goal is to deepen employee understanding of CSR.



CSR training session

CSR seminar for job applicants provisionally hired

In December 2004, the Daiwa Securities Group held a *Sustainability Report* seminar for five university students who were provisionally hired, and scheduled to join the Group the following spring. It was a trial initiative for deepening the CSR awareness of employees. After reviewing the Daiwa Securities Group *Sustainability Report* together, the participants each gave a presentation on something that interested them from the Report. Four employees and two outside consul-

tants then joined the group, and a lively discussion ensued.



Sustainability Report seminar

High school students present results from an economic learning program

In May 2005, a presentation was held in the Asahi Tokai Building in Chiyoda-ku, Tokyo, to wrap up the second year of the School Company Program (SCP), which had begun in September 2004. Students from Ritsumeikan Senior High School in Kyoto announced the results of their real-world experience in founding and running Ichigan Inc. No fewer than 50 interested employees had come there to hear the results; the presentation was followed by an enthusiastic ques-



Presentation by the directors of Ichigan Inc.

tion and answer session. It was a great opportunity for students and employees to discuss the SCP results.

Providing information using various communication tools

Along with the establishment of the CSR Promotion Department in July 2004, a feature called, "CSR Bulletin" was created in the in-house magazine, *Fuji*. From six to eight pages of each issue are devoted to the feature, which contains information on the latest trends inside and outside of the company, upcoming CSR seminars, news related to environmental measures and social contributions, as well as profiles of volunteer activities carried out by employees. We are continually improving the content so that it can give every employee an opportunity to consider how the Daiwa Securities Group can contribute to building a sustainable society.

"CSR News," created by the Council for Better Corporate Citizenship (CBCC), a Nippon Keidanken-affiliated organization, is also posted on our group intranet. It provides employees with information about global trends in CSR.



In-house magazine, *Fuji*

TOPICS | Updating the CSR website: New design and simpler format

Daiwa's Japanese-language CSR website was redesigned in July 2005. The design was updated with Flash graphics for the top page. Now the content is better organized so that visitors can quickly find the information they are looking for.

With the aim of creating a simple and easy-to-understand format, the site content was divided into two sections entitled, "Daiwa's CSR Initiatives," and "Reflecting on CSR and SRI." In the first section, visitors can find the Daiwa Securities Group initiatives under categories such as "Initiatives for Socially Responsible Investment," and "Initiatives for Finance and Economic Educa-

tion." In the second section, information is provided for those that want to deepen their understanding of CSR and SRI. This includes "CSR Conversations," in which Mariko Kawaguchi, Senior Analyst at Daiwa Institute of Research Ltd. discusses CSR in dialogues with various people.

We plan to take advantage of the web and to continue expanding the content of this site. Our goal is to create a site that explains CSR and SRI in a friendly and enjoyable way.

CSR website (Japanese only)

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



Third-party Opinions



Chairperson, Committee of
Consumer-oriented
Management System Director,
Nippon Association of
Consumer Specialists (NACS)

Yukiko Furuya

This is the fourth Daiwa Securities Group *Sustainability Report* since 2002, and I feel strongly that the Group has come a long way with its compliance-based CSR initiatives. I have selected the following three points as outstanding aspects of this year's report.

The first point is the expanded disclosure of information from a CSR standpoint. We have given an abundance of numerical data and questionnaire results to measure the initiatives quantitatively. Based on the Disclosure Policy established in March 2004, there is a better system for information disclosure along with improvements in the information content and media. We have also made progress in disclosing negative information, while issues and objectives are outlined for each report item.

The second advance has been the greater clarity in the Daiwa Securities Group's CSR initiatives. Since the scope of CSR is quite broad, many other companies have just adopted a generic format for the content of their initiatives. The Daiwa Securities Group recognizes the importance of initiatives for SRI and economic and financial education and is pushing forward with its efforts in these areas, with the full understanding that its unique CSR is to contribute to the sound development of our economy and society through the Group's core business field. The Group has also clarified its own environmental initiatives, with the launch of the Paper Project to examine paper use, its largest direct environmental impact. The details of these specific CSR initiatives are explained in an easy-to-understand way.

The third point I would like to mention is the Group's substantial efforts in communication with stakeholders. This year the content of the "Stakeholder Dialogue" section was greatly improved with a dia-

logue with stakeholders: employees and NGOs providing disaster relief. The candid discussion among frontline employees on CSR and SRI as they relate to their work in the "Internal Stakeholders Meeting" feature provided a good window on the current situation.

Today, the shift in public focus from savings to investment has been accelerating in Japan, and the government has launched a specific policy of emphasizing consumer needs and strict adherence to consumer protection rules. The Daiwa Securities Group has also set goals for the pursuit of business activities based on investor protection, and for strengthening its management system for customer complaints. I would like to offer several suggestions that would help to increase the confidence of consumers and society in the Group to ensure safe and reliable securities transactions.

Firstly, the publication mentions incident reporting for securities improprieties under the section on elimination of improper conduct and investor protection. While disclosing the internal detection rate is a good first step, the Group should also provide information on what problems it considers to be securities improprieties, and what kind of solutions or measures it is taking in order to prevent any further incidents, and to secure the confidence of consumers. This would enable evaluation of the Group's compliance management.

Secondly, the Group is determined to make good on its commitment to improve customer satisfaction. Daiwa announces the number and types of inquiries to the Customer Support Center and mandates after-sales follow-up and ongoing customer satisfaction surveys in order to strengthen complaint handling. However, it is also necessary for us to disclose specific examples and details of customer complaints being used as input for the improvement of operations inside the Group, as well as to explain the policies and principles for responding to customers in a rapid, sincere, and correct manner. It is essential to make the customer satisfaction mechanisms more transparent.

Thirdly, I suggest that the management adopt a more consumer-oriented perspective. One cannot hope for the development of a sound economy and society just through a notion of ensuring customer satisfaction. It is necessary to understand the position of customers as consumers within the framework of the economy, as there is an overwhelming gap in the level of knowledge and the amount of information that they have, compared to what companies have, which puts them in a weak position with respect to firms. By adopting the consumer's perspective, the Daiwa Securities Group can jump to the next level of CSR initiatives based on its core business.



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

Toshihiko Goto

Stating, "The essence of CSR is to help build a better society through our everyday work," this *Sustainability Report* affirms that the Daiwa Securities Group is focusing its efforts on two CSR areas. The first is the promotion and popularization of socially responsible investment (SRI) through the Group's core business, and the second area is educational and research activities. This has been the Group's consistent approach for many years, and I could read from this entire report its strong intention to illustrate how Daiwa will continue to develop this approach.

In relation to the first area, the popularization and promotion of SRI, the Daiwa Securities Group has signed on to the United Nations Environment Programme Finance Initiative (UNEP FI). I think the Group should be commended for bringing itself up to international standards in its commitment to the global leadership principle. There is even a move within the UNEP toward dropping the "S" in "SRI" in favor of "responsible investment," because socially responsible investment is already normal practice in finance. So I applaud the Daiwa Securities Group for having the foresight to have adopted this policy of responsibility some time ago.

The Group is carrying out various initiatives in areas including World Bank carbon funds and regional support funds. At the same time, I think that the long-term issue of spreading the SRI approach across the entire business is becoming more apparent. Along with the tide of globalization, the eradication of poverty has become one of the most important issues from the standpoint of sustainability. I am waiting for some new creative ideas on how the Group can contribute to this issue through its core business in the financial sector.

Concerning the Group's second CSR area, education and research activities, last year I pointed out that by global standards the Group's high

school learning program would be considered something halfway between philanthropy and a CSR initiative related to the core business. Nevertheless, this shows the strong desire of the Daiwa Securities Group to position these activities as a part of its corporate brand. I think that consolidating this understanding throughout the Group would help increase corporate value. Therefore, I hope that ways will be found to develop and show quantitative, numerical, yet non-monetary indices for this intangible value, rather than just providing qualitative descriptions of this corporate value.

The *Sustainability Report 2003* was well received and was ranked 39th among CSR reports worldwide in the *Global Reporters* survey published by SustainAbility / UNEP. And this year's *Sustainability Report* has been further improved. The part of this year's report that really impressed me was the support initiative for the victims of the Sumatran earthquake and South Asian tsunami. This is a good CSR example that should be studied by other companies in the future, as it included a clear policy, a long-term plan, and cooperation with NPOs.

The Group's four Corporate Principles were outlined in the report: customer trust, human values, total compliance, and sound profit. However, since 28% of the group employees cannot recall the Corporate Principles, I think that this issue should have been addressed in the section on specific issues and objectives for the future. There is also the fact that 43% of employees have not read the *Sustainability Report*, even though they are part of the target audience for the publication. Systematic measures for this problem need to be implemented, such as using the report for internal training.

Last year I introduced the idea that to draw up group-wide voluntary action standards based on the participation of employees might be a good idea. As this year's report states that these standards will be decided during fiscal 2005, I have great expectations for the results. I was also impressed by the frank comment that there is a problem with the fact that no male employees have taken childcare leave.

It seems that good progress is also being made on environmental measures. The choice to build the Group's own environmental management system, rather than obtaining ISO 14001 certification, is a reasonable one. Toward this end, the establishment of transparency, reliability of information, and appropriateness of efforts will be future issues for the Group. The Group seems to have limited understanding of the issue of biodiversity, but this can also be said of most Japanese companies. The Group has been participating in the Study Group on Ecologically Ethical Paper Procurement as part of its Paper Project. Utilizing the knowledge gained at the Study Group, I hope that the Group would consider what kind of measures to take in its core business, and then expand on these initiatives, in order to help prevent deforestation, especially in rainforest regions, and protect biodiversity.

GRI Content Index

Item	Indicator	Pages
1. Vision and strategy		
1.1	Statement of the organisation's sustainability vision and strategy regarding its contribution to sustainable development	4-5, 6-7
2. Profile		
Organisational profile		
2.1	Name of reporting organisation	2
2.2	Major products and/or services, including brands if appropriate	2, 8-9, 10
2.3	Operational structure of the organisation	2, 34
2.4	Description of major divisions, operating companies, subsidiaries and joint ventures	2
2.5	Countries in which the organisation's operations are located	2
2.6	Nature of ownership; legal form	2
2.7	Nature of markets served	2, 33, 34
2.8	Scale of the reporting organisation	2, 32-33, 34-35
2.9	List of stakeholders, key attributes of each, and relationship to the reporting organisation	2, 3, 7, 31, 35, 38-39
Report scope		
2.10	Contact person(s) for the report, including e-mail and web addresses	55
2.11	Reporting period (e.g. fiscal/A32calendar year) for information provided	3
2.12	Date of most recent previous report (if any)	3
2.13	Boundaries of report (countries/regions, products/services, divisions/facilities/joint ventures/subsidiaries) and any specific limitations on the scope	2, 3
2.14	Significant changes in size, structure, ownership, or products/services that have occurred since the previous report	None
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	None
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 baseyears/periods, nature of business, measurement methods)	N/A
Report profile		
2.17	Decisions not to apply GRI principles or protocols in the preparation of the report	N/A
2.18	Criteria/definitions used in any accounting for economic, environmental, and social costs and benefits	35
2.19	Significant changes from previous years in the measurement methods applied to key economic, environmental and social information	None
2.20	Policies and internal practices to enhance and provide assurance about the accuracy, completeness, and reliability that can be attributed to the sustainability report	3, 30
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)	2, 10, 11, 30, 32, 38, 43, 45, 51
3. Governance structure and management systems		
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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	22-23
3.2	Percentage of the board of directors that are independent, non-executive directors	22
3.4	Board-level processes for overseeing the organisation's identification and management of economic, environmental, and social risks and opportunities	22-23
3.5	Linkage between executive compensation and achievement of the organisation's financial and non-financial goals (e.g., Environmental performance, labour practices)	23
3.6	Organisational structure and key individuals responsible for oversight, implementation, and audit of economic, environmental, social and related policies	22, 23, 24, 26, 27, 28, 29
3.7	Mission and values statements, internally developed codes of conduct or principles, and policies relevant to economic, environmental and social performance and the status of implementation	7, 30, 36
Stakeholder engagement		
3.9	Basis for identification and selection of major stakeholders	2, 3
3.10	Approaches to stakeholder consultation reported in terms of frequency of consultations by type and by stakeholder group	11, 24, 25, 26, 31, 36-37, 52-53
3.11	Type of information generated by stakeholder consultations	16-17, 18-19, 25, 26, 31, 36-37, 41, 43, 48-50, 52-53, Questionnaire
3.12	Use of information resulting from stakeholder engagements	37
Overarching policies and management systems		
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	6-7
3.15	Principle memberships in industry and business associations, as well as national/international advocacy organisations	11, 14
3.16	Policies and/or systems for managing upstream and downstream impacts	8-11

Item	Indicator	Pages
3.17	Reporting organisation's approach to managing indirect economic, environmental, and social impacts resulting from its activities	9
3.18	Major decisions during the reporting period regarding the location of, or changes in, operations	Nothing
3.19	Programmes and procedures pertaining to economic, environmental and social performance	20-21, 22-23, 24, 26, 27, 28, 29, 30, 31, 32, 36-37, 38-39, 40-41, 42-43, 45, 46
3.20	Status of certification pertaining to economic, environmental and social management systems	27, 44
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4.1	Provide a table identifying location in report of each element of GRI content (item and indicator) in the report	54-55
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EC3	Cost of all goods, materials, and services purchased	35
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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	35
EC7	Increase/decrease in retained earnings at end of period	35
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EC8	Total sum of taxes of all types paid, broken down by country	35
EC10	Donations to community, civil society, and other groups broken down in terms of cash and in-kind donations per type group	42
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Core indicators		
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EN5	Total water use	44
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EN8	Greenhouse gas emissions	44
EN11	Total amount of waste by type and destination	45
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Labor practices and decent work		
Core indicators		
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LA2	Net employment creation and average turnover segmented by region/country	39
LA3	Percentage of employees represented by independent trade union organisations or other bona fide employee representatives broken down geographically OR percentage of employees covered by collective bargaining agreements broken down by region/country	41
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LA10	Description of equal opportunity policies or programmes, as well as monitoring systems to ensure compliance and results of monitoring.	38-39, 41
LA11	Composition of senior management and corporate governance bodies (including the board of directors), including male/female ratio and other indicators of diversity as culturally appropriate	22, 39
Additional Indicators		
Employment		
LA12	Employee benefits beyond those legally mandated	39
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LA13	Provision for formal worker representation in decision-making or management, including corporate governance	41
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Item	Indicator	Pages
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HR4	Description of global policy and procedures/programs preventing all forms of discrimination in the reporter's operations, including monitoring systems and results	39
Additional indicators		
Strategy and management		
HR8	Employee training on the reporter's policies and practices concerning all aspects of human rights relevant to the reporter's operations	40
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HR9	Description of appeal practices, including, but not limited to, human rights issues	26
HR10	Description of non-retaliation policy and effective, confidential employee grievance system (including, but not limited to, its impact on human rights)	26
Society		
Core indicators		
Community		
S01	Description of policies to manage impacts on communities in areas affected by the reporting organisation's activities, as well as description of procedures/programmes to address this issue, including monitoring systems and results (include explanation of procedures for identifying and engaging in dialogue with community stakeholders)	10, 12-15, 42-43
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Community		
S04	Awards received relevant to social, ethical, and environmental performance	33
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PR3	Description of reporting organisation's policy, procedures/management systems and compliance mechanisms for consumer privacy	27
Additional indicators		
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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
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Social performance indicators

Corporate social responsibility (CSR) management

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INT7	Employee profile	39

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SOC2	Economic value added	34-35

Investment banking

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Asset management

AM1	Asset management policy (socially relevant elements)	10
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AM3	SRI oriented shareholder activity	10

The Road to Sustainability

Year	Month	Sustainability Milestones for the Daiwa Securities Group
2003	January	Corporate Ethics Hotline, a group-wide internal reporting system, introduced.
	February	Internal Audit Department established at Daiwa Securities Group Inc.
	March	New medium-term management plan (FY2003 — FY2005) drawn up.
	April	New shareholder benefit plan introduced.
	June	Total value of compensation paid to directors and corporate auditors of Daiwa Securities Group Inc. disclosed.
	July	Daiwa Securities SMBC Principal Investments Co., Ltd., invests in the World Bank's Community Development Carbon Fund.
	October	Support begins for Student Company Program, a hands-on economics education program provided by Junior Achievement.
	October	Marketing begins for UBS Global Equity 40 SRI+, an SRI investment trust that invests in global corporations.
	November	Membership in SIF-Japan, a socially responsible investment forum.
2004	January	CSR/brand management website goes online.
	March	Disclosure Policy established.
	April	Cooperation with Waseda University's Graduate School of Finance, Accounting and Law Begins.
	May	Management and marketing begins for Daiwa SRI Fund, an SRI investment trust that invests in Japanese corporations.
	June	New management introduced under the leadership of Shigeharu Suzuki. Change to committee system.
	July	CSR Promotion Department established at Daiwa Securities Group Inc.
	October	SRI fund included in defined-contribution pension fund for Daiwa Securities Group employees.
	November	Membership in the United Nations Environmental Programme Finance Initiative (UNEP FI).
2005	February	Long-term support determined for areas devastated by the Sumatran earthquake and South Asian tsunami.
	April	With Waseda University's Incubation Project Promotion Office, established a basic course to train venture entrepreneurs at Waseda University. Employee CSR questionnaire survey.
	May	Environmental Management Committee introduced at Daiwa Securities Group Inc.
	June	Special support provided for Finance Park, a hands-on economics education program offered by Junior Achievement.
	July	Daiwa Asset Management Co., Ltd., participates in the GRI G3 project working group to consider the usefulness of sustainability reporting from the perspective of finance and investors.

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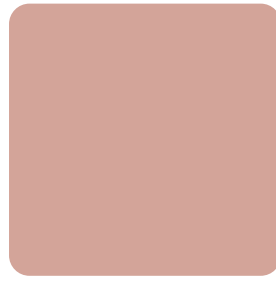
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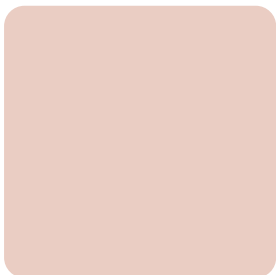
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At the Daiwa Securities Group, we are engaged in the financial business. As such, we are not confronted with environmental problems as immediately as those in some other industries. Nevertheless, it is true that we use huge amounts of paper in various reports—including this one—as well as in prospectuses, sheets and forms. Paper is therefore an environmental issue that the Daiwa Securities Group must address and is addressing. With a view to protecting forests in Japan, as well as in developing countries, we have printed this report on paper made from responsibly thinned timber. We are committed to encouraging the healthy growth of forests everywhere.

