

Daiwa Securities Group

# Sustainability Report 2006

## *What we can do*

What kind of society awaits these 54 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 contented  
people living in harmony with an unspoiled Earth.

## Message from the President

Employees who are proud of the work they do and the company they represent will earn society's confidence and achieve sustainable development



Shigeharu Suzuki  
President and CEO,  
Daiwa Securities Group Inc.

鈴木茂晴

**CSR involves contributing to society through daily operations. Attention to meeting compliance standards lead to better business performance.**

The essence of CSR does not involve doing anything extraordinary, it is simply to contribute to society through a company's core business operations. To achieve this, it is of utmost importance that all employees to approach their daily work with an awareness of their duty to society.

In the securities business, we handle financial products which are inherently subject to price fluctuations. Therefore, it is critical for us to be confident that our work is being carried out properly. We do not want to conduct any but truly fair, sensible and socially acceptable operations. Carrying out our work in a transparent and proper manner will bring profits as a matter of course. Indeed, compliance and business performance are not contrary goals; rather, compliance is the most direct way to sustainable long-term growth. I firmly believe that we have been able to improve the Daiwa Securities Group's performance as a result of educating our employees about this concept.

**Promoting CSR specified as a goal in the medium-term management plan. Taking action to encourage SRI.**

In April 2006, the Daiwa Securities Group established a three-year Medium-term Management Plan which is due to be completed by the end of fiscal 2008. With formulating a defined CSR strategy stated as a goal within the plan, the Group aims to promote socially responsible investment (SRI) as part of its CSR efforts.

The Daiwa Securities Group has become Japan's largest manager of SRI funds. We believe companies that take measures to protect the environment and help society are expected to perform better over the long term, and hence, offer satisfaction to their investors. I would therefore like to strive for a better understanding of SRI among existing and new customers.

**A company worth working for  
increases shareholder value.  
Employees are important stakeholders.**

As an executive of the firm, it is my greatest concern to make the Daiwa Securities Group an enterprise worth working for. Such a company is one that employees trust. They are aware of the importance of their roles, and they have a sense of solidarity with their co-workers.

One of our key goals as a commercial enterprise is to maximize shareholder value. Although the shareholders own the company, it does not exist solely for their benefit. The company is an integral part of society. If all stakeholders—customers, suppliers, employees—do not accept us as a desirable enterprise, we cannot maximize shareholder value.

In this regard, I think employees represent an important group of stakeholders. All communication between other stakeholders and the company is carried out through employees, and thus, the actions of employees reflect the actions of the company. It is through the employees' hard work that the company can excel, in turn, raising shareholder value. Therefore, by focusing on the welfare of employees, we are taking care of all our stakeholders.

**In order to realize a workplace  
that is conducive for staff to maximize  
their capabilities, we need to create  
an environment that is supportive of women.**

I think women have a huge role to play in the securities business, and I endorse the creation of workplaces that offer encouragement to female employees. In Japan, securities companies historically have been dominated by males, but I think this was largely due to an inability to provide the right environment for talented female employees to thrive.

Since the securities business requires specialized qualifications and skills, it is usually not possible for new employees entering the company to hit the ground running. Losing female employees who have acquired years of expertise because of marriage or childbirth is a great and needless expense to the company.

The Daiwa Securities Group already has women in branch manager and other management positions, and these employees are demonstrating their abilities to the fullest potential. In the future, we will continue to focus on giving our employees a work environment that will allow both men and women to balance their work and personal life. We want our employees to feel that this is a company worth working for.



**Employee pride earns us the confidence  
of our customers and society.  
Human resources are the key  
to sustainable development.**

The company's strategies and initiatives are publicized through the Sustainability Report, TV commercials, and other forms of media. However, these channels also serve to convey information from the company to our employees. I believe that this public announcement of our activities is a source of pride to our employees. The Daiwa Securities Group is a signatory to the United Nations Environment Programme Finance Initiative (UNEP FI), as well as the Principles for Responsible Investment (PRI). These types of public commitments also send important signals to our employees.

When our employees carry out their respective duties with pride based on the understanding of the Group's initiatives, they convey their faith in the company to the public, and in turn, earn the public's confidence. After all, winning society's trust and confidence is the ultimate goal of CSR.

I think the key to the Group's long-term sustainability depends solely on whether we can cultivate very loyal people who understand that the company's success is a reflection of their own success, and that the company's well-being also ensures their own happiness. I want to make the Daiwa Securities Group the type of company that attracts and energizes such people.

## 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 and corporate social responsibility (CSR) initiatives. We also see the process of preparing this report as an important opportunity for us to affirm the outcome of our efforts and identify issues for further attention.

The 2002 *Sustainability Reporting Guidelines*, an international set of requirements for sustainability reporting published by the Global Reporting Initiative (GRI)<sup>\*1</sup>, was used as reference when putting this report together. Raising CSR-awareness among employees and promoting dialogue with various stakeholders were two particular objectives in the preparation of this publication.

In the Special Feature sections, we focused on the social responsibility that the Daiwa Securities Group needs to take on as a financial institution, and gave serious consideration to issues and directions, presenting the exchange of opinions in and outside the Group. Two main initiatives that are highlighted are the promotion of socially responsible investment (SRI) by the Group, as well as educational and research efforts in the areas of finance and economics.

The goal in the Management section, as well as in subsequent chapters, was to account for the Daiwa Securities Group's management and execution systems to each stakeholder. Also, the Group's social, economic, and environmental performance in fiscal 2005 were reported according to the GRI guidelines.

## Scope of report

### Intended readership:

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

### Scope of reporting:

This report basically covers our nine main group companies<sup>\*2</sup>, 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 2005 (April 2005—March 2006). The report also includes some information on activities carried out in fiscal 2006 which became available close to the publication date, as well as some information on activities that occurred prior to fiscal 2004.

### Publication date:

September 2006 (Previous report was published in September 2005, and the next report is planned for September 2007).

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

<sup>\*2</sup> See "Daiwa Securities Group's Areas of Business" on page 5 for the Group's nine principal companies.

# BUILDING SUSTAINABLE SOCIETY

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# Overview of the Daiwa Securities Group

## Principle management indicators (consolidated)

	FY2001	FY2002	FY2003	FY2004	FY2005
Operating revenues (¥ million)	488,044	387,658	453,813	519,337	845,659
Net operating revenues (¥ million)	284,932	270,809	352,434	390,432	579,358
Ordinary income (¥ million)	25,849	29,200	96,130	120,433	260,651
Net income (loss) (¥ million)	△ 130,547	△ 6,322	42,637	52,665	139,948
Net assets (¥ million)	570,839	541,718	604,170	648,332	792,281
Total assets (¥ million)	7,827,306	9,502,825	10,765,665	12,378,961	14,898,890
Return on equity (ROE) (%)	—	—	7.4	8.4	19.4
Net income (loss) per share (¥)	△ 98.27	△ 4.75	31.66	39.03	103.90
Net assets per share (¥)	429.68	407.84	453.60	486.70	598.27
Annual dividends per share (¥)	6.00	6.00	10.00	13.00	34.00

## Corporate profile

### Company name

Daiwa Securities Group Inc.

### Headquarters

6-4, Otemachi 2-chome, Chiyoda-ku,  
Tokyo 100-8101, Japan

### Telephone

81-3-3243-2100

### Established

December 27, 1943 (Founded 1902)

### President and CEO

Shigeharu Suzuki

### Capital

¥138.8 billion (As of March 31, 2006)

### Number of employees\* (consolidated)

12,561 (As of March 31, 2006)

### Number of consolidated subsidiaries

46 (13 in Japan, 33 outside Japan)

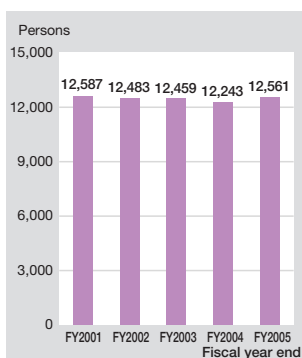
### Number of equity-method affiliates

5

### Shares issued and outstanding

1,332,460,000 (As of March 31, 2006)

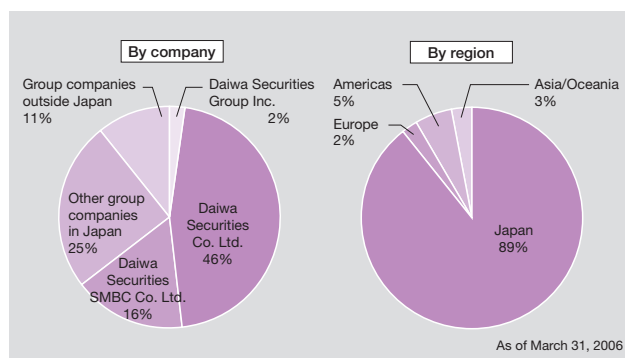
## Number of employees (consolidated basis)\*



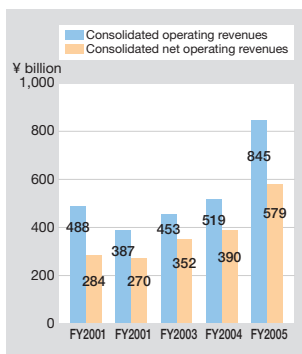
\* The number of employees includes the number of Financial Advisors (FA).

## Employee composition

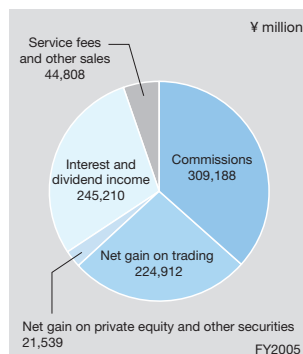
Number of employees 12,561



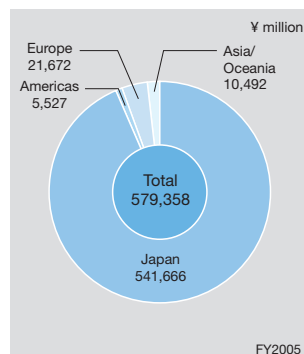
## Operating revenues, and net operating revenues



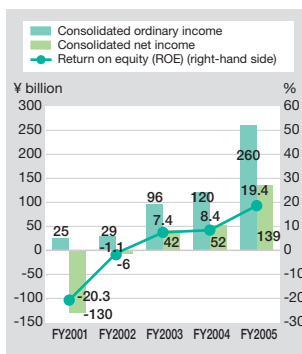
## Breakdown of operating revenues



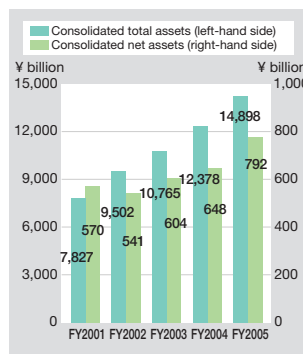
## Breakdown of net operating revenues by region



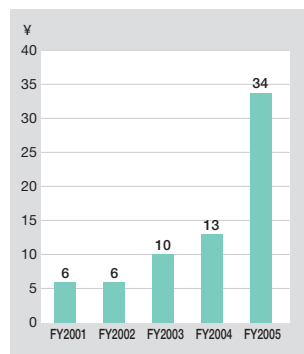
## Ordinary income, net income, and ROE



## Total assets, and net assets



## Annual dividends per share



# Daiwa Securities Group's Areas of Business

The Daiwa Securities Group is comprised of Daiwa Securities Group Inc., the holding company which controls the group companies, the two main corporations, Daiwa Securities Co. Ltd. and Daiwa Securities SMBC Co.

## ■ Daiwa Securities Group's Areas of Business

The Daiwa Securities Group is divided into the following six areas of business.

### 1. Retail securities business

Services are provided mainly to individual customers through the online trading service Daiwa Direct, the Call Center, and Daiwa Securities Co. Ltd.'s nationwide sales branches. All kinds of financial products and services are offered, with a focus on securities brokerage. Daiwa Securities Co. Ltd. is the Group's principal company in the retail securities business.

### 2. Wholesale securities business

The Daiwa Securities Group offers fund management and investment banking services to institutional investors, corporate clients and financial institutions, in and outside Japan. Daiwa Securities SMBC Co. Ltd., is the Group's principal company in the wholesale securities business.

### 3. Asset management business

The Group provides development and management of stock, bond, and private investment trusts, as well as other investment management services. Daiwa Asset Management Co. Ltd. and Daiwa SB Investments Ltd. are the Group's principal companies in the asset management business.

### 4. Investment business

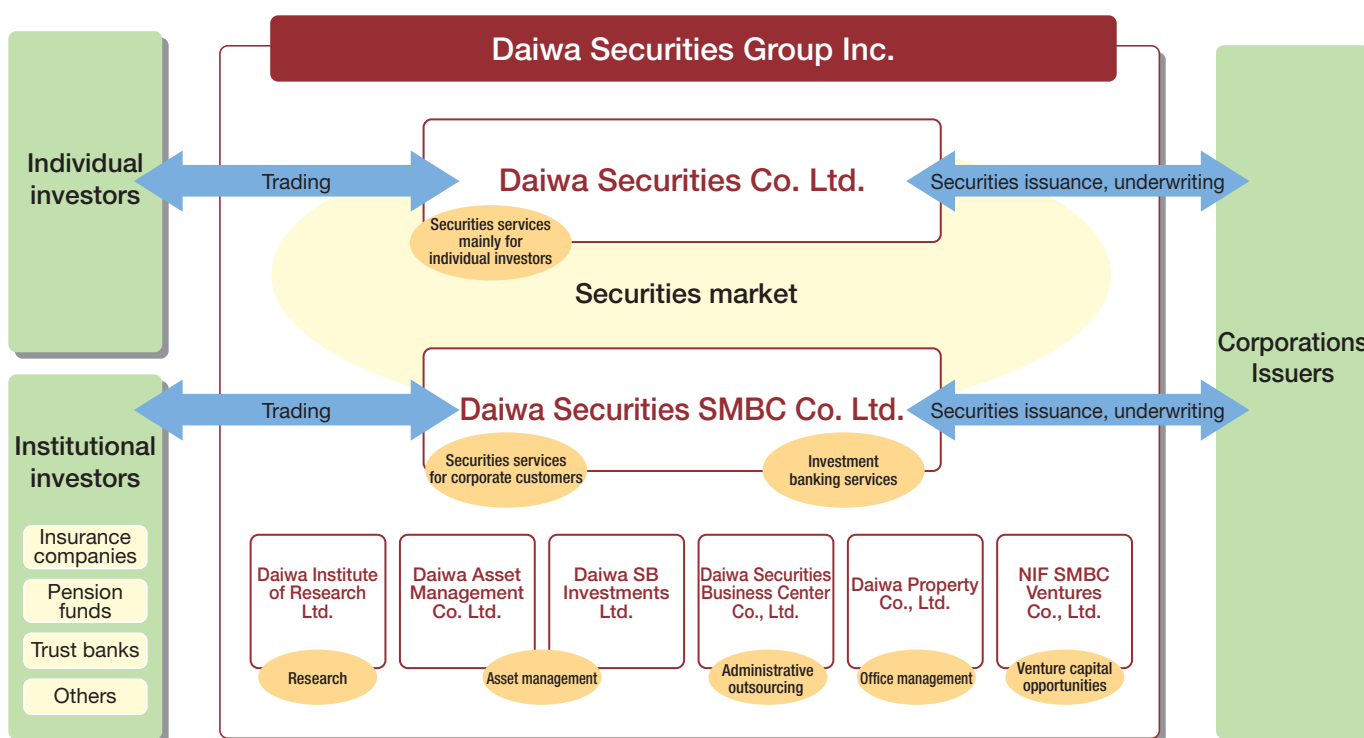
Using its own funds, the Daiwa Securities Group invests in private equity, monetary receivables, real estate, venture capital opportunities, and business regeneration. It also forms and manages investment funds. Daiwa Securities SMBC Principal Investments Co. Ltd. and NIF SMBC Ventures Co., Ltd. are the Group's principal companies in the investment business.

### 5. Research, systems, and consulting business

The Group is engaged in various forms of consulting and research reporting in fields such as management, finance, and information technology. This information is provided to institutional investors, corporate clients, financial institutions, and public institutions in and outside Japan. Daiwa Institute of Research Ltd. is the Group's principal company in the research, systems, and consulting business.

### 6. Group support

Services are supplied to member companies within the Daiwa Securities Group in areas such as administrative outsourcing relating to securities, as well as consulting for real estate and building management. Daiwa Securities Business Center Co., Ltd. and Daiwa Property Co., Ltd. are the Group's principal companies in the area of group company support.



▶▶▶ \* For details about the individual companies within the Daiwa Securities Group, please visit the Group's website at <http://daiwa.jp/ir/english/index.cfm>.

Ltd., and the many other companies that support their operations. The Group is therefore able to provide its customers with a comprehensive array of investment and financial services.

## ■ Overview of retail securities business

Daiwa Securities Co. Ltd. provides financial asset management services mainly to individual customers through three channels: the 115 branches across Japan (as of March 31, 2006), the industry's largest call center, and over the Internet.

### **Direct sales and brokerage of stocks, bonds, investment trusts, and insurance products**

The Daiwa Securities Co. Ltd. offers a wide array of financial products and services through its consulting services provided by sales staff. This effort is further enhanced by the Group's extensive sales support and detailed research. In fiscal 2005, the Daiwa Securities Co. Ltd. saw strong demand from individual investors for Japanese Government Bonds and foreign-currency bonds. Separately, the Group managed to raise ¥1 trillion from retail customers for the Daiwa Global Bond Fund, an investment trust composed of foreign bonds that pay monthly dividends.

### **Online trading**

Daiwa Direct, the Group's online trading service, provides customers with a wide range of products, information and services, all within a highly stable, easy-to-operate system with reasonable transaction fees. Technical support services for Daiwa Direct are also offered at the branches of Daiwa Securities Co. Ltd.

### **Call Center**

The Call Center has telephone service representatives (TSR), delivering customer service over the phone. In fiscal 2005, the Group increased the number of TSR and improved phone line capacity and interactive voice response (IVR) technology in order to handle a higher number of calls. In April 2006, the Call Center expanded from 300 to 450 operator lines.

### **Daiwa SMA**

Daiwa SMA (Separately Managed Account) is a new investment management service for high net-worth customers. Each customer has a personal SMA consultant, who provides services and advice, such as assisting in the determination of an investment strategy based on the customer's individual investment needs.

### **Securities intermediary business**

The securities intermediary business is gaining prominence in Japan as a new channel for the sale of securities products. Currently, the Daiwa Securities Group is working with the Sumitomo Mitsui Banking Corporation, the Sumitomo Trust & Banking Co., Ltd., regional banks, and non-financial corporations to help expand the customer base and sales of products and services.

## ■ Overview of wholesale securities business

By offering services in the area of corporate finance and investment, the Group supports all aspects of the institutional investor, corporate client, and financial institution, from business expansion to financial and capital strategies.

### **Brokerage and trading**

In order to meet the funds management needs of institutional investors in and outside Japan, the Group offers brokerage and trading of stocks, bonds, derivatives, and a full range of other securities and financial products.

### **Investment banking services**

#### **Corporate finance**

The Group offers companies in and outside Japan a wide range of services, including proposals for optimal finance and business strategies, advice on the issuing of stocks and bonds, and securities underwriting, based on research and analysis.

#### **Initial public offerings (IPOs)**

The Group supplies public offering guidance and underwriting services to companies seeking to raise funds and list on the stock exchange. Detailed business advisory services are offered in areas including corporate governance, internal control, and information disclosure.

### **Mergers and acquisitions (M&A)**

The Group is engaged in putting forth proposals and executing deals relating to corporate link-ups, such as acquisitions and mergers, business tie-ups, capital participation, joint ventures, and stock swaps. Through cooperation with its overseas subsidiaries, the Group has also successfully executed cross-border M&A deals.

### **Structured finance**

The Group securitizes many types of assets, repackaging them into products such as asset-backed securities (ABS) and real estate investment trusts (REIT). Securities backed by real estate or monetary receivables held by the company are issued under such structures.

### **Principal financing**

In order to support the diverse needs of companies undergoing business reorganization or new business development, the Group invests in private equity, monetary receivables, and real estate.

# Daiwa Securities Group's Social Mission

Money plays an important role in the creation of a sustainable society. Therefore, the Daiwa Securities Group's mission is to incorporate a social perspective into the finance industry, and help channel money towards the resolution of society's problems.

## ■ Corporate social responsibility is key for the realization of a sustainable society

Today's society is faced with various problems that threaten sustainability, such as global warming and the destruction of the natural environment. These are major issues that cannot be resolved unless public institutions, companies, and citizens all take responsibility for their own actions.

Through their roles in the economy, companies now have a major impact on society as a whole, and are therefore key players in the realization of a sustainable society. Financial institutions in particular

need to have a clear social mission in the way they approach their core business.

This mission is to fulfill a public and fundamental role in society, bringing together those who need financing and those who want to invest. This objective sets us on the path towards a sustainable society through the effective collection and re-distribution of money.

## ■ Incorporating a social perspective into investment and finance

Currently, there are various trends in the efforts to encourage a social viewpoint in the finance industry. The United Nations Environment Programme Finance Initiative (UNEP FI), which involves a partnership between the UN Environment Programme and various financial institutions worldwide, is striving to implement finance activities that take the environment and the concept of sustainability into account. The initiative, whose goal is to raise awareness of efforts towards achieving sustainability, has been in operation since 1992.

In April 2006, UNEP FI and UN Global Compact unveiled the Principles for Responsible Investment (PRI), guidelines to promote the incorporation of environmental, social, and corporate governance

(ESG) considerations into the decision-making processes of institutional investors. Major financial institutions from around the world have signed and agreed to these principles.

Daiwa Securities Group Inc. joined the UNEP FI in November 2004, and Daiwa Asset Management Co. Ltd., the Group's asset management division, became a signatory to the Principles for Responsible Investment in May 2006. Daiwa Securities Group Inc. also became a signatory to the Carbon Disclosure Project (CDP)\*1 in March 2004.

\*1 Carbon Disclosure Project: With the support of institutional investors concerned about climate change, the Carbon Disclosure Project asks global companies to disclose information relating to their initiatives and approaches to environmental problems.

### 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.

### Principles for Responsible Investment

The Principles for Responsible Investment (PRI) are investment guidelines for institutional investors concerned about environmental, social, and corporate governance (ESG) issues. They promote a CSR approach to asset management, lay out a plan for adopting the practices of socially responsible investment (SRI) in long-term investments, and emphasize the necessity of long-term evaluations by asset managers. The PRI are outlined below.

1. We will incorporate ESG issues into investment analysis and decision-making processes.
2. We will be active owners and incorporate ESG issues into our ownership policies and practices.
3. We will seek appropriate disclosure on ESG issues by the entities in which we invest.
4. We will promote acceptance and implementation of the Principles within the investment industry.
5. We will work together to enhance our effectiveness in implementing the Principles.
6. We will each report on our activities and progress towards implementing the Principles.

Principles for Responsible Investment: <http://www.unpri.org/principles/>



## ■ Five approaches to realize a sustainable society

### (1) Serving society in our daily operations

The work carried out by securities companies provides a very public benefit. This industry is key in supporting Japan's transition from a savings economy to that of an investing one. It acts as an intermediary, bringing together entities in need of financing and investors looking to invest.

The Daiwa Securities Group must execute its operations, not only in accordance with the local laws and regulations, but also to meet the expectations of society in its day-to-day conduct, and strive to promote the sound functioning of the securities markets.

### (2) A business strategy that takes society and the environment into account

The Group is striving to incorporate a social perspective into the way it conducts its core financial business, practicing the kind of CSR that should be expected from a financial institution. Specifically, the Group is providing investment opportunities for general investors to participate in tackling environmental and social issues, in the form of SRI funds and CO2L Bonds (Cool Bonds)<sup>\*1</sup>.

### (3) Promoting CSR outside the company

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

### (4) Corporate citizenship activities

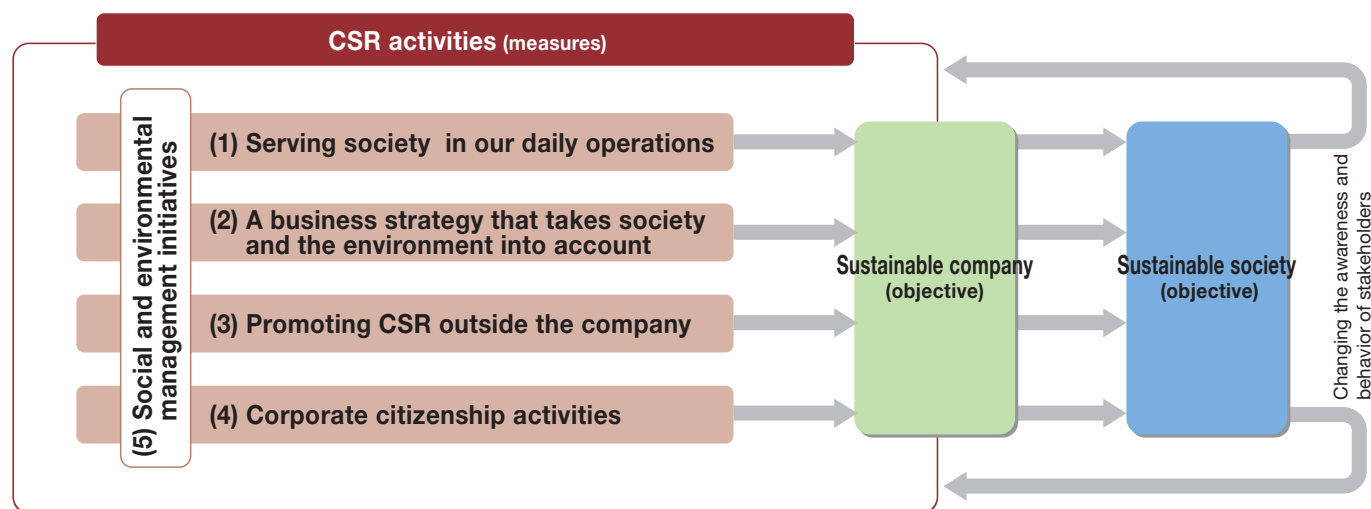
In order to develop the next generation of economics and financial professionals, the Daiwa Securities Group aims to encourage education in these fields as part of its Medium-term Management Plan. The Group will continue to provide long-term support through financial mechanisms relating to its core business, by offering assistance to the local and international communities via foundations and NPOs.

### (5) Social and environmental management initiatives

The Daiwa Securities Group is aware of the social and environmental impact of its own business operations. Along with achieving full compliance, attaining customer satisfaction, and improving the workplace environment, the Group is striving to raise environmental awareness among its employees and build an environmental management system. As a result, the Group is reducing its use of paper, the part of its daily operations which has the biggest direct impact on the environment.

<sup>\*1</sup> CO2L Bonds (Cool Bonds): See pages 9 and 10 for more details.

## ■ Daiwa Securities Group: Five approaches to realize a sustainable society



## ■ Future issues

No matter how much financial institutions talk about incorporating a social perspective into the way the finance industry works, without the participation of customers, this goal cannot be achieved. To gain widespread public support of this goal, the key is to increase the market's evaluation of companies with outstanding social initiatives,

and to enhance the performance of investments that maintain a social perspective, such as SRI funds. A future issue for the Daiwa Securities Group to consider will be how to demonstrate to investors the effectiveness of SRI.

## What Financial Institutions Can Do for CSR

## A New Financial Product to Promote the Development of the Emissions Trading Market



Kunihiro Nishikawa

Deputy General Manager  
Private Equity Investment Dept. &  
Carbon Finance Business  
Daiwa Securities SMBC Principal Investments Co. Ltd.

Daishu Nagata

Deputy General Manager  
Corporate Planning Dept.  
Daiwa Securities SMBC Co. Ltd.

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Masahisa Uryu

General Manager,  
Structured Products Department  
Daiwa Securities SMBC Co. Ltd.

Mariko Kawaguchi

Senior Analyst, Management Strategy  
Research Department  
Daiwa Institute of Research Ltd.

Cool Bonds: Raising awareness about the importance of CO<sub>2</sub> emissions reduction and curbing global warming

## The birth of Cool Bonds

**Nishikawa:** Daiwa Securities SMBC Principal Investments Co. Ltd. invests in companies with the Daiwa Securities Group's own investment funds. Since the effort to reduce CO<sub>2</sub> emissions affects the operations of many companies, we thought that it would very likely impact our corporate investment operations as well. However, we also realized that the emissions targets from the Kyoto Protocol are in line with economic rationality, and hence, new business opportunities would arise. Thus, the right conditions for the Cool Bond initiative were created.

We began our investigations two years prior to the implementation of the Kyoto Protocol. Initially, we invested in the Community Development Carbon Fund<sup>\*1</sup>. At that time, the predicted scale of the emissions trading market was fairly large, ranging between 300 billion yen and 30 trillion yen, and we could see that there was potential for development due to the unpredictability of the market. We became more firmly convinced that the concept could be commercialized; hence, we consulted with the Structured Products Department on the creation of a new financial product based on emissions trading.

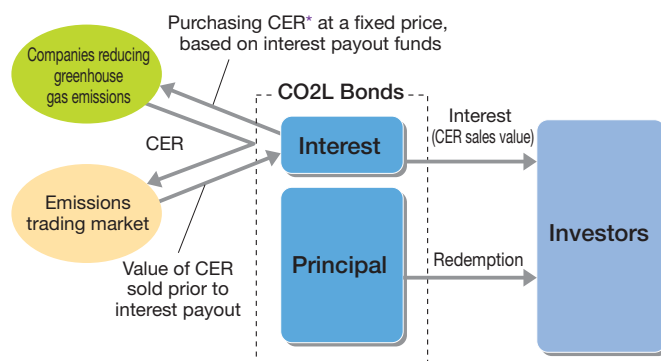
**Uryu:** The role of the Structured Products Department is to develop

## What are Cool Bonds?

Cool Bonds have a mechanism to return to investors as interest payment the value of emissions credits sold, as established by the Kyoto Protocol. For example, emissions credits obtained through greenhouse gas reduction in China are sold in the market for emissions credit transactions, and the sales proceeds are returned to the bond investors as interest payment. Based on this method, individual investors that normally would not be able to participate at all in emissions trading are now able to participate in these transactions indirectly. Cool Bonds are also expected to provide stable earnings for the greenhouse gas reduction business.

►► For more details on the website, visit:  
<http://www.daiwasmbcpi.co.jp/news/060216/060216.html> (in Japanese only)

## Cool Bond mechanism



\* CER: Certified Emissions Reduction

In February 2006, Daiwa Securities SMBC Co. Ltd. and Daiwa Securities SMBC Principal Investments Co. Ltd. Developed "CO2L Bonds" (Cool Bonds), a financial instrument whose interest is linked to the market value of greenhouse gas emissions credits.

The persons involved in the development, sales, and marketing of this financial product were brought together recently to discuss the development objective behind Cool Bonds, the future of the emissions credits business, and what financial institutions should do to help resolve environmental problems. (Discussion date: May 25, 2006)

the new financial products. When I first heard the words "emissions trading", "Kyoto Protocol", and "clean development mechanism (CDM)"<sup>\*2</sup>, I had no idea what it was all about. However, if there was a market involved, I knew that financial products could be made. Moreover, at that time, a graph I saw showed emissions trading values on the rise, and my intuition told me that interesting investment products could be made.

**Kashiwabara:** The Fixed Income Department's job is specifically to create the bond. To be honest, I thought it would take quite a lot of time to commercialize the concept, as there were so many types of related contracts and provisions that needed to be included. It was decided that the whole Group would start marketing and selling this new product on the first anniversary of the implementation of the Kyoto Protocol. As such, we worked with the lawyers at a feverish pace to complete the necessary preparations, and eventually, the product was ready for sale by the target deadline.

## Huge response from the media and individual investors

**Nagata:** The Corporate Planning Department is in charge of the media strategy. There was a tremendous interest in Cool Bonds at the time of its launch, since they had been covered by more than ten newspapers and television programs in Japan. There have also been a lot of inquiries from environmental magazines, and I think this can showcase the Daiwa Securities Group's environmental initiatives.

**Uryu:** The team members that created the product are also in charge of sales. Whenever I explain Cool Bonds to customers, I always begin with an explanation about the Kyoto Protocol. I tell them that Japan needs to meet its Kyoto Protocol obligations, and since companies generally incur heavy costs to reduce their CO<sub>2</sub> emissions, it is expected that there will be strong demand for emissions credits from the companies that cannot stay within their emissions quota. I then go on to explain that there is already an active market for emissions credits in North America and Europe, and the price of these credits is on the rise.

**Nagata:** Some individual customers see an article about Cool Bonds in newspapers or elsewhere, and then call us to learn more about purchasing them. However, since this product is a private placement issue<sup>\*3</sup> sold in minimum units of 500,000 dollars, it is not affordable for most individual investors at this time.

**Uryu:** While learning about environmental issues during the development of this product, I became keenly aware that environmental protection both offers a business opportunity for financial institutions, as well as poses a business risk. I also developed a greater awareness and concern for the environment as a result. Unfortunately, however, it has not quite reached the point where I've changed my own eating habits or other daily behavior.

**Kashiwabara:** That's true. As a result of this work, I now pay more

attention to articles in the newspaper about environmental issues. Once I started paying attention, I realized that there are actually a surprising number of articles about the environment.

## A financial institution's mission is to raise funds for global warming prevention projects

**Uryu:** Although Cool Bonds do not directly contribute to the reduction of greenhouse gas emissions, emissions trading will grow as the number of participants increase, and public awareness is expected to follow suit as a result.

**Kawaguchi:** Certainly, Cool Bonds will not directly reduce CO<sub>2</sub> emissions. But by increasing participation in emissions trading, I think there will be an increase in the awareness of costs related to CO<sub>2</sub> in our environment. As a result, there will be more done to control global warming.

**Nishikawa:** Currently, only international institutions and a limited number of professionals are able to provide funds for CDM projects. As the sources of funding increases, projects in developing countries will become more diversified. One of the Daiwa Securities Group's missions as a financial intermediary is to directly connect individuals, companies and global environmental projects.

**Nagata:** In the future, we would like to have a wider range of investors purchase Cool Bonds through public offering, and hence, greatly increase the number of people involved in emissions trading.

**Nishikawa:** Next, we'd like to increase the range of emissions trading-related instruments available by finding more opportunities to participate in similar green house gas reduction projects. At the same time, we'd like to continue telling our staff and the public that the creation of financial products based on emissions trading is contributing towards measures to prevent global warming.



<sup>\*1</sup> Community Development Carbon Fund: A World Bank fund that provides funding to projects to curtail emissions of greenhouse gases in developing countries. The fund investors receive portions of the emissions credits according to the resulting reduction in greenhouse gases.

<sup>\*2</sup> Clean development mechanism (CDM): One of the mechanisms established by the Kyoto Protocol. Developed countries provide funding, as well as other types of support, for projects to reduce emissions in developing countries, and then part of the reduction achieved can be counted as a reduction in the developed countries concerned.

<sup>\*3</sup> Private placement: Bonds that are issued for less than 50 purchasers. Issued mainly for institutional investors.

# What Financial Institutions Can Do for CSR

## Finance Drives CSR Efforts



Professor  
Yoshihiro Fujii

Graduate School of  
Global Environmental Studies  
Sophia University



Masaru Arai

Director & Principal Executive Officer  
Chief Investment Officer  
Daiwa Asset Management Co., Ltd.

**Financial institutions recognize their ability to help resolve social problems, and hence, are willing to acknowledge the reasons for their operation and existence within society.**

### **E**nvironment, society, and economy: Financial professionals must achieve balanced investment results

**Arai:** Professor Fujii, I was fortunate to have read your book, *Addressing Global Environmental Issues Using Financial Functions*. It made me realize that the changes described in your book are happening on a daily basis around the globe—the increase in depositors and investors who demand to know the stances of corporations on the environment and the measures they take; and investment and lending activities carried out based on these criteria.

To solve environmental problems on a global scale, utilizing the function and power of finance can prove to be an effective way to achieve this. This is certainly the perspective that underpins the Principles for Responsible Investment (PRI)\*<sup>1</sup> recently put forward by the United Nations Environment Programme Finance Initiative (UNEP FI).

**Fujii:** As a financial institution handling investments, your company should be commended for becoming one of the first signatories to the PRI. Since the investment professional is entrusted with funds from investors and has to decide how to best invest them, I applaud the Daiwa Securities Group for clearly stating its intention to perform investments that aim for a balance of environmental, social, and economic results. I look forward to good financial results based on this approach.

### **P**articipating in the creation of common CSR guidelines

**Fujii:** Although Japan has typically adopted CSR rules from Europe and North America in the past, it is very important that Japanese

financial institutions now participate in the writing of CSR guidelines at the global level. I think that in the near future, rules will be written to reflect the diverse values of people worldwide, so that everyone is more willing to observe them.

**Arai:** I participated in the third edition revision of the GRI\*<sup>2</sup> Guidelines, as a member of the Investor Consultation Group. The Investor Consultation Group makes recommendations from the viewpoint of the investor. I noticed that the guidelines created thus far, from a Japanese standpoint, were conceived with European and North American perspectives in mind. The thing that struck me, however, was that Europe and North America are keen to have Japan present its own perspective in this process. Since CSR and SRI are closely linked with the culture of each particular country, they are interested to know where companies and people in Japan stand on specific issues. The other members of the Investor Consultation Group are asking its Japanese members, as representatives of Asia, to actively express their own views on the subject.

### **I**f there are financial products that indicate the investment recipients, then investors can make choices as consumers

**Arai:** I think the purpose of stock investment is not only to maximize profits, but to actually achieve a wider set of benefits, not just for the individual, but for society. Just as there are investors looking only for short-term gains, there are also investors looking for long-term social results, such as a person raising a child or building a company.

Investment trusts are now offered by banks and post offices, and new types of investors are surfacing in Japan. By focusing on what



What role should financial institutions play to help resolve social problems such as environmental, labor, and poverty issues? Professor Yoshihiro Fujii, who specializes in environmental finance at the Graduate School Of Global Environmental Studies, Sophia University, and Masaru Arai, Director & Principal Executive Officer and Chief Investment Officer at Daiwa Asset Management Co. Ltd., sat down to discuss this question. (Discussion date: June 5, 2006)

is important when investing, these services are creating new investment opportunities. Our obligation is to actively promote the SRI concept.

**Fujii:** Individual investors are also consumers. Since the function of financial products is not immediately apparent, the eye initially turns to aspects such as the interest rate, dividends and yield. This is worsened by the fact that conventional investment trusts do not fully explain how they evaluate their investment choices.

Once it is clear which companies are selected for investment based on what criteria, investors are better able to select products depending on where they wish their money to go. Considerations for environmental and social impact are always going to be a part of one's decisionmaking process. Of course, people also consider their children and their own retirement in making investment decisions, and everyone wants good economic returns. At the same time, how healthy your neighborhood is, how long it'll stay that way, whether the sky above will be clouded from pollution, those are universal concerns, too.

As more investment products that show where the funds are going come to market, investors will display typical consumer behavior, making choices depending on their own perception of a good investment. This is where they will expect the professionals to help them.



## **A**ccountability and funding through financial markets. Focusing on socially responsible investment.

**Fujii:** When considering environmental issues that affect all countries, such as global warming, it is very hard to secure funds to tackle these problems on a global scale. No matter how many regulations the governments put in place, or how many subsidies are provided, there is an inherent market inefficiency. However, by utilizing the financial market, whose role is to move funds into investments, financial resources can be used to the benefit of all the parties involved—financial institutions, investors and society as a whole.

If those working at financial institutions take pride in the fact that their efforts can make the world a better place, I think that society will be headed in the right direction.

**Arai:** I feel a very heavy responsibility as an investment company employee or investment institution professional. SRI is certainly not a difficult thing. For example when you want to make a new friend, you have an idea of the kind of friend you are looking for. The same kind of approach should be applied when looking to invest in a company. The Daiwa Securities Group SRI funds have become the largest of their kind in Japan. This shows how motivated we are to provide SRI funds to investors. The Group's medium-term management plan announced this spring also emphasizes SRI in our basic strategy.

Stock exchanges and financial markets are gradually changing, and a new breed of investor is being created. As a corporate group, we want to keep explaining to investors that their money can help change the world.

**Fujii:** The world is facing great problems. However, if everyone recognizes that these problems are real, everyone will have to participate in solving them. By acknowledging that they have the ability to help address these issues, employees at financial institutions can fully appreciate the meaning of their work and existence. This gives them strength, and makes the company more competitive, creating a desirable self-reinforcing effect.

Money will then flow in the right direction, and many people will be satisfied with that. Financial institutions and their investment selection criteria will support this flow, and this will lead to higher profits. If you appeal to people's wish to do the right thing, and promote these kinds of financial products in an honest and sincere way, I think the Daiwa Securities Group will be supported by a large number of customers.

I really hope that your company will lead the way in this capital flow revolution.

\*1 PRI: Principles for Responsible Investment. These principles are based on environmental, social, and governance considerations. They are used in performing asset management and investment by institutional investors and fund managers.  
<http://www.unpri.org/principles/>

\*2 GRI: Global Reporting Initiative. An international institution established in 1997 with the goal of preparing and promoting international guidelines relating to corporate sustainability reporting.



# Initiatives Based on the Daiwa Securities Group's Core Business Initiatives for Socially Responsible Investment

## Daiwa Securities Group's approach to SRI and related initiatives

In its Medium-term Management Plan announced in April 2006, the Daiwa Securities Group listed its targets, including the promotion and popularization of SRI. Educating the public about SRI involves highlighting the importance of a company's impact on society, and how that, as well as profitability, should also be considered as an investment criterion. Indeed, this has become one of the main pillars in the Group's CSR efforts related to its core business.

SRI initiatives are specifically encouraged through the following three approaches.

### 1. Product development and marketing

Investment managers for SRI funds carefully screen potential companies for investment, based on environmental and social responsibility evaluations. The sales of such funds are the Group's most important effort towards the promotion of SRI. In addition, the Group is developing and selling regional support funds that invest in companies that are based in particular regions in Japan. Further, products that enable investors to access the emissions trading market, such as CO2L Bonds (Cool Bonds)\*, are being marketed to customers.

### 2. Self-financing investment

The Group invests its own money in the Community Development Carbon Fund, a fund created by the World Bank, as well as regional corporate recovery funds which are designed to help revitalize regional economies.

### 3. Supporting organizations that promote SRI

The Group supports NPOs that organize SRI-awareness events, either in Japan or overseas, such as Social Investment Forum Japan (SIF-Japan), and Association for Sustainable & Responsible Investment in Asia (ASrIA).

As an investor focusing on social consciousness in its decision making, the Daiwa Securities Group hopes to fulfill its social mission and promote the practice of making investment choices with a social perspective among individual investors. Once this concept becomes widespread, companies will be encouraged to resolve social issues in response to its investors' demands.

\* Cool Bonds: See pages 9 and 10 for more details.

## Daiwa Securities Group SRI funds

On March 31, 2006, the Daiwa Securities Group SRI funds were worth ¥78 billion. This is about 30% of the total value of SRI funds in Japan (¥260 billion) and represents the largest share of the Japanese market.

The Daiwa SRI Fund and the Daiwa Eco Fund are the Daiwa Securities Group's flagship SRI funds. The following are comments from investment managers from each of these funds.

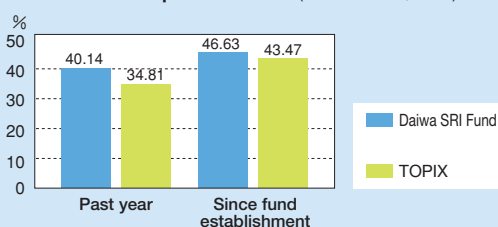
### Daiwa SRI Fund

Initial fund establishment: May 20, 2004

The Daiwa SRI Fund is a stock investment trust that invests in issues that are selected based on their CSR efforts and growth strategy.



■ Investment performance (as of June 30, 2006)



### Companies with outstanding CSR efforts also have strong management

Launched in May 2004, the Daiwa SRI Fund has outperformed the market since the rally in early 2005. By the end of the second year in May 2006, we were able to pay a dividend of ¥2,500 per unit. The companies selected for investment by this fund were picked for their active CSR approaches and also have good management teams. Specifically, the executives of these companies define clear CSR policies and management strategies, educate their employees about them, and construct systems and processes to check on the proper implementation of these policies. By publicizing the companies' stance and clearly stating strategy and initiatives in the areas of the environment, society and other concerns, these companies are able to secure the support of stakeholders. They are also able to achieve medium and long-term growth by increasing the awareness of their management's business and social strategies. I think most of the companies with outstanding CSR efforts operate globally and are among the most competitive in the international market.

In addition to seeking good returns on investments, I hope that investors will take a look at investing in companies that fulfill their social responsibilities.

Ryoji Takaoka  
Senior Fund Manager  
Daiwa Asset Management Co. Ltd.



Socially responsible investment (SRI) is an approach to investing in companies, considering not only the company's financial performance, but evaluating its efforts to deal with environmental issues, social programs, and ethical practices.

## Daiwa Eco Fund

Initial fund establishment: March 9, 2006

The Daiwa Eco Fund is a stock investment trust that invests in issues based on the improvement of corporate values such as return on equity (ROE) performance and measures to address environmental issues.



## Regional support funds

The Daiwa Securities Group is creating and selling regional support funds that aim to revitalize regional economies through the investment in companies active in certain regions of Japan. The Daiwa regional support funds have won the approval of local investors and financial institutions, and have grown from ¥21.2 billion (5 funds) at the end of June 2005, to ¥84.3 billion (16 funds) at the end of June 2006.

## Achieving both environmental goals and profit growth

The Daiwa Eco Fund was launched in 2006, which has become an extremely important year for corporate environmental initiatives worldwide. This is because a comprehensive set of environmental regulations now in effect obligates corporate management to be environmentally responsible. The RoHS Directive\*, which took effect in Europe on July 1, is representative of this type of legislation. In order to meet the requirements of the new environmental regulations, it is necessary for companies to build excellent supply chains that cover all suppliers of raw materials and parts to ensure that hazardous substances are not incorporated into the final products. This means companies are now confronted with the difficult task of instituting and requiring compliance from themselves and their suppliers. Indeed, we have now reached the point where a company's ability to be environmentally conscious and implement proper and comprehensive initiatives will determine its future.

Japanese companies are actively promoting measures to comply with environmental regulations, as well as developing new technologies to achieve environmental-friendly outcomes such as the new hybrid vehicles. I believe companies that have products and technology with superior environmental features will see better performance and further progress.

\* RoHS Directive: An EU directive to limit the use of six hazardous substances including lead and mercury in electrical and electronic devices.

Katsuya Kikuchi  
Senior Fund Manager  
Daiwa Asset Management Co. Ltd.



## CSR practices lead to sustainable development

Yoshinari Hara, Chairman of the Board of Daiwa Securities Group Inc., has also been serving as the Chairman of the Committee for Promotion of CSR Management (CSR Committee) at the Japan Association of Corporate Executives since fiscal 2004. This committee was established in order to encourage corporate management to focus on CSR practices. The corporate executives on the committee engage in discussion based on the latest developments and successful cases of CSR management in and outside Japan. The following is an excerpt of an interview with the Chairman that appeared in the March 2006 edition of *Keizai Doyu*, the official bulletin for the Japan Association of Corporate Executives.

I believe the most important issue for the 21st century is sustainability. We need to put CSR as a top priority for corporate management, and only those companies that emphasize and practice CSR will be able to enjoy sustainable development. The best approach for companies is not superficial treatment of the subject, but to incorporate the concept of CSR into their core businesses. This means that top executives must steer their companies with a strong hand to achieve their goals on the basis of efficiency and compliance.

In the future it will continue to be necessary to educate all on the importance of sustainability, and to take the steps needed to attain it. For example, SRI funds in Japan are still at the several hundred billion yen level. If they grow to the size of several tens of trillions of yen, as they have overseas, their impact on the economy will be quite powerful. We would like to prepare mechanisms and tools to encourage this kind of endorsement from capital markets.

Finally, I would like to emphasize the point that the market has already shifted towards a focus on CSR. As is clear from our survey, analysts and fund managers today do not make investment decisions based on statistics and financial results alone, but also consider other factors that are often overlooked by the market. Therefore, executives need to carefully respond to questionnaires sent by fund managers assessing companies for investment in the establishment of new SRI funds. On the whole, executives will definitely need to be more aware of CSR and SRI issues.



Yoshinari Hara  
Chairman of the Board  
Daiwa Securities Group Inc.

# Initiatives Based on the Daiwa Securities Group's Core Business

## Initiatives to Encourage Economic and Financial Literacy

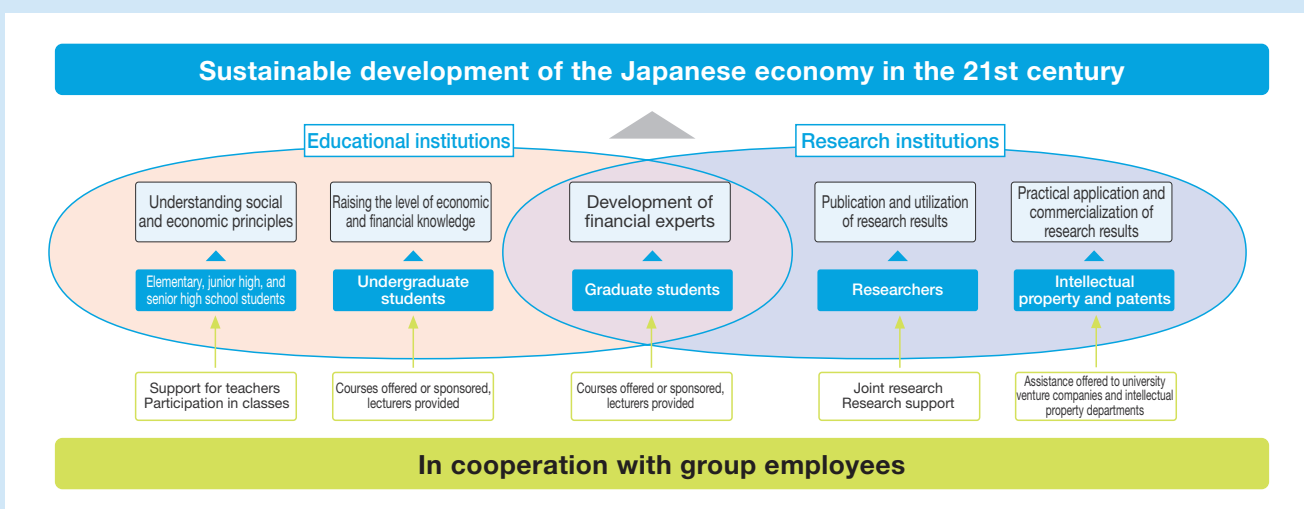
### Initiatives to encourage economics and financial literacy

The Daiwa Securities Group is keenly aware of the importance of education and research in the fields of economics and finance. Its initiatives address two main areas.

The first is the sponsorship of education and research through partnerships with universities and graduate schools. The Group is providing programs that teach practical business know-how, such as financial business courses by group employee instructors, while offering research positions with a focus on cutting-edge financial technology.

The second initiative entails support for programs that are carried out in the classrooms, as well as promotional activities to popularize the study of economics among elementary, junior high, and senior high school students. By learning about economics and society in secondary school, students will understand social interaction and discover the importance of work.

#### Education in economics and finance



#### Main academic partnerships with universities in fiscal 2005

Main university partnerships	University name	Examples of courses and themes
Courses sponsored or offered, lecturers provided	Graduate School of Economics, Kyoto University	Methods and theories for investment in securities
	Graduate School of Medicine, Kyoto University	Entrepreneurship
	Graduate School of International Corporate Strategy (ICS), Hitotsubashi University	Corporate strategy
	Faculty of Policy Management, Keio University (Shonan Fujisawa Campus)	Corporate governance theory
	Graduate School of International Management, Aoyama Gakuin University	Portfolio management, institutional investors and asset management
	Waseda Graduate School of Finance, Accounting and Law	Bond investment
	Open Education Center, Waseda University	Basic Course of Entrepreneurship and Business Planning
	Faculty of Comprehensive Welfare, Tohoku Fukushi University	Employee welfare management
	Faculty of Law, Chuo University	International finance and securities market, and law
	Faculty of Business Administration, Toyo University	New financial products and the transformation of the securities market
	Department of International Trade, Faculty of Economics, Kanagawa University	Special economic theory
	Otemon Gakuin University	Theory of venture capital and securities markets
	University of the Ryukyus	Securities market
Joint research	Okinawa University	Securities market theory
	Graduate School of Economics, Kyoto University	Construction of valuation models for intellectual property and intangible assets
	Graduate School of Business Administration, Keio University	Effects of IR activities on corporate value
	Graduate School of International Corporate Strategy (ICS), Hitotsubashi University	Development of models for fair stock option valuation
Aiding in the commercialization of research results	Waseda Institute of Finance	Creating processes for eliminating financial system uncertainty and the future role of capital markets
	Incubation Projects of Waseda University Intellectual Property Center	Venture management leadership course at Waseda University
Support, courses, and holding joint conferences and lectures	Business, Research and Intellectual Property Center, Nihon University	Technology Licensing Organization*
	Graduate School of International Corporate Strategy (ICS), Hitotsubashi University	Porter Prize
	Graduate School of Economics, Kyoto University	2005 Daiwa International Workshop on Financial Engineering

The Daiwa Securities Group is determined to help society enjoy sustained development. Now, it is giving back to the community, using its knowledge of its core business and its expertise accumulated over the years. One of these activities is education of young people in the areas of economics and finance.

Initiative  
example

## Basic Course of Entrepreneurship and Business Planning at Waseda University

The Basic Course of Entrepreneurship and Business Planning, a Daiwa Securities Group-sponsored course at Waseda University, provides practical financial and securities markets expertise. The course is taught by part-time instructors who are actual Daiwa Securities Group employees engaged in work in this field.

### Developing venture capitalists at university for the revitalization of the Japanese economy

The Basic Course of Entrepreneurship and Business Planning is a course that provides fundamental knowledge to university students ready to take on the challenge of becoming real entrepreneurs. The precursor of this course, the Waseda/Daiwa TLO\* Pilot Project, was started in 1997.

The course is offered to undergraduate students in their first through fourth years. Successful managers and young executives at newly listed companies are invited to come and speak to students about their experiences. These basic lectures cover topics such as the importance of management philosophy and vision, finance and accounting, legal matters, and approaches to intellectual property.



Lecture by Eiji Azuma, Senior managing director at the Daiwa Institute of Research

With this basic knowledge, the students prepare actual business plans. Employees at NIF SMBC Ventures Co. Ltd., the venture capital division at the Daiwa Securities Group, provide guidance including pointers on creating a presentation to venture capitalists. The course follows actual business practices, and offers guidance and evaluation from actual business professionals. The course culminates in a Business Plan Contest. The creator of the winning business plan is given free use of an office at the Waseda University Intellectual Property Center for one year.



Lecture by Eiji Suzue, Executive officer at the Daiwa Institute of Research Ltd.

**"I am grateful for this valuable experience which would not be available to me at any other university."**

"I learned things that are actually useful, ranging from financial affairs to effective presentation methods. Furthermore, I received expert advice from a professional, which I was able to put to use in my business plan." These are the words from a student at the School of Political Science and Economics at Waseda University, Mr. Taichi Murakami, who won the 2005 Business Plan Contest. "I received an internship at the Daiwa Institute of Research, and at class, I heard entrepreneurs recount their stories. It was a great experience."

By helping outstanding, enthusiastic student entrepreneurs with good ideas to realize their dreams, the Daiwa Securities Group is contributing to the revitalization of the Japanese economy.



Mr. Taichi Murakami in his company start-up office at the Waseda University Intellectual Property Center, after winning the Business Plan Contest.

\* Technology Licensing Organization

An organization that discovers and evaluates research results based on technology available at universities. Viable ideas are then patented and transferred to companies.



# Initiatives Based on the Daiwa Securities Group's Core Business

## Initiatives to Encourage Economic and Financial Literacy

Initiative  
example

### Finance Park for junior high school students

Since June 2005, the Daiwa Securities Group Inc. has been providing support to Finance Park, an educational facility set up to imitate a real economy and provide students an interesting way of learning economics and finance. The park, located in Tokyo's Shinagawa-ku, is the first of its kind in Japan. Established by the NPO Junior Achievement Japan\*, Finance Park gives children an opportunity to learn and experience economics. There are about 1,500 students from 18 public junior high schools in Shinagawa-ku. The students, playing different roles in society, learn about how their local community works and the function of economics within the community. They also learn how to manage their lifestyle, deciding on various plans that target living expenses and actual expenditure, as well as plans for individual investment. The students then go round to different booths set up by 14 participating companies and organizations. By putting principles learnt into action, the students not only accumulate knowledge, but also learn practical skills. At the Daiwa Securities Group Inc. booth, the students learn how to invest in stocks for asset management.



Daiwa Securities Group Inc. booth at Finance Park.



Finance Park opening ceremony.

#### Feedback from student participants in Finance Park

I'm glad I had a chance to learn how to manage my money in the future. I've never thought much about finances, but through this experience, I have realized the value of money.

I found out how hard it is to live on a limited income. By having a chance to experience the difficulties of life in this game, I feel I have gained knowledge that will be very useful to me in the future.

\* Junior Achievement was founded in 1919 in the United States, and promotes education in the areas of corporate management, economics, and finance, together with practical experience. Currently, the organization receives both financial support as well as human support in the form of instructors who are, in fact, corporate executives and employees from some 40,000 firms. Every year, 4.5 million youths participate in Junior Achievement programs worldwide. Junior Achievement Japan was established in 1995.

Initiative  
example

### Student Company Program for senior high school students

The Student Company Program (SCP) offered by Junior Achievement Japan is a program for senior high school students to learn about economics through practical experience. The students establish and manage a real company and thus learn how a company operates and the economy functions. Through this exercise, students develop the ability to make independent judgments and hone their decision-making skills. They also learn to take responsibility for the company's results. Since fiscal 2003, the Daiwa Securities Group Inc. has supported the SCP in Ritsumeikan Senior High School in Kyoto, as part of the school's regular curriculum. Group employees are sent to the school to provide practical business advice as "external directors" to the company established and managed by the students. The students show remarkable growth and maturity through the program by directly tackling business problems, and using their own abilities to solve them.



SCP participants discussing company business.



Candleholder produced by student enterprise, Sho Inc.



Initiative  
example

## Basic securities courses on the web and TV for the public

The Daiwa Securities Media Networks manage Daiwa Securities Information TV and Daiwa Internet TV, which broadcast information concerning securities and economics to the general public.

The Daiwa Securities Information TV is aired as Japan's only channel dedicated to securities information, and can be watched by subscribers of SKY PerfecTV (broadcasts are only in Japanese). One of the programs on this channel, Investment for Beginners, provides easy-to-understand information about securities and economics for beginner investors. As of May 31, 2006, the viewership for this channel was about 410,000 households.

Daiwa Internet TV (<http://www.daiwatv.jp/>) is a website for the large-scale distribution of videos relating to finance and securities. In the Website section entitled "Learning to Invest", visitors can watch five-minute lessons on basic topics such as types of securities products and fundamental investment concepts. The number of visitors to the site in May 2006 was about 890,000, and the number of video viewings numbered around 420,000.



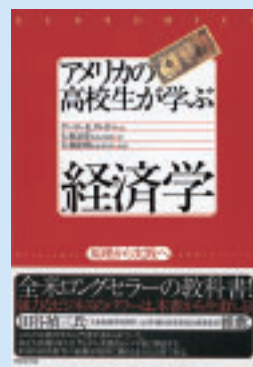
Daiwa Securities Information TV  
▶ <http://daiwa766.jp/> (in Japanese only)

Initiative  
example

## Encouraging the use of Japanese-translated American high school economics textbook

The Japanese translation of *Economics: Principles and Practices* by Gary E. Clayton (McGraw Hill), a textbook widely used by American senior high school students, was published in September 2005. The book uses examples taken from daily life, and provides easy-to-understand explanations of economic fundamentals. By covering topics like supply, demand and macroeconomics, it serves as a good introduction to economics for both students and working adults. Employees at Daiwa Securities Group Inc. felt it was important to encourage people in Japan to acquire a good foundation in economics, and hence, suggested the idea of having this book published in Japanese.

The translated book has been featured on the Daiwa Securities Group Inc.'s website, and 500 free copies have been distributed to teachers and education experts based on a lottery.



Japanese translation of  
an American high school  
economics textbook.

Initiative  
example

## Helping to publish *Financial Fitness for Life* in Japanese for use as primary and junior high school textbooks

The Daiwa Securities Group Inc. is sponsoring Junior Achievement Japan for the publication of the Japanese version of *Financial Fitness for Life*, a series of textbooks widely used in American junior high schools.

By employing a consistent theme that economics is based on choices, these textbooks are intended to teach children to use economic concepts in their daily decision making and future career paths. The text has been adapted to reflect local culture and customs, in order to make it more relevant for Japanese students.



The Japanese version  
of *Financial Fitness for Life*.

# Performance, Issues, and Targets

The following are the results of various initiatives taken by the Daiwa Securities Group in fiscal 2005 towards building a sustainable society. The targets for fiscal 2006 are also presented here.

		Issues and targets for fiscal 2005	Progress
Corporate governance		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 systems auditing at principal group companies.	○
		Perform categorized audits, such as on compliance with the Personal Information Protection Law.	◎
CSR management		Conduct training in compliance, corporate ethics, and CSR at all Daiwa Securities Co. Ltd. branches, to be completed by the end of fiscal 2007.	◎
		Promote group employees' understanding of CSR.	○
Compliance	Entire Group	Strengthen cooperation between the legal compliance department in Daiwa Securities Group Inc. and its counterparts in each group company.	△
		Raise level of internal understanding of Corporate Ethics Hotline and periodically survey awareness.	◎
		Examine establishment of Voluntary Action Standards.	△
	Daiwa Securities	Enforce management practices incorporating the perspectives of legal compliance and customer protection.	◎
		Further improve the compliance framework and eliminate violations of rules.	○
		Reinforce management of complaints and claims.	◎
		Comply with new Personal Information Protection Law.	○
		Upgrade Compliance Division.	○
	Daiwa Securities SMBC	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 personal information protection and new areas of business resulting from regulatory reform.	◎
Information disclosure		Encourage active disclosure of information to attract new individual shareholders.	△
Customer satisfaction		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.	○
Communication with shareholders		Hold shareholder forums and other events.	◎
Human values and human resource utilization		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.	◎
Corporate citizenship		Enhance volunteer programs so that as many group employees as possible can participate.	△
Working for the environment		Improve precision of Daiwa's independent environmental management systems.	△
		Promote environmental communication.	○
		Establish a basic policy on green procurement.	×

Page(s) in report	Issues and targets for fiscal 2006
21-22	Document internal standards relating to financial reporting and establish evaluation methods for the entire group.
	Prepare systems for each group company in compliance with upcoming changes in Japanese commercial law.
	Improve group management structures by investigating performance evaluation methods and promoting business continuity plans (BCP).
23-24	Focus more on economics and finance education.
	Promote the widespread practice of socially responsible investment (SRI).
25	Arrange activities to raise awareness of the Corporate Ethics Hotline among group companies.
	Strengthen measures against anti-social influences.
26-27	Practice proposal sales in order to support the asset formation that clients truly want.
	Streamline the way consultations are conducted between customers and senior branch officers.
	Improve quality of performance in order to eliminate complaints and claims.
	Keep rigorous guard against anti-social influences and unfair trading practices.
28	Implement training that includes current issues, and enrich e-learning content.
	Take steps to prevent any leakage of personal data during the implementation of measures.
	Build an inspection system to watch for conflicts of interest.
	Create a framework to comply with the Comprehensive Supervisory Guidelines for Securities Companies established by the Financial Services Agency.
	Set up a trading management system according to the new rules of the Japan Securities Dealers Association.
29-30	Encourage a better understanding of disclosure-related regulations within the Group.
	Expand IR programs to suit more types of investors.
33-34	Actively pursue post-sales follow up.
	Create office atmospheres that are appealing to a broad clientele.
	Implement education programs to improve manners and knowledge of younger sales staff.
35-36	Improve investor relations activities for individual investors.
37-40	Strengthen initiatives for job creation.
	Enhance education and training programs to increase the number of qualified analysts and certified financial planners (CFPs).
	Continue workplace initiatives in support of female employees.
43-46	Strengthen initiatives that address social issues.
	Promote volunteer programs that enable the participation of larger numbers of employees.
47-49	Expand the environmental management systems to consolidated subsidiaries in Japan.
	Reduce environmental impact through the computerization of documents and the reduction of office paper usage.
	Establish guidelines on procurement.

## ■ Fiscal 2005 ■ performance and ■ fiscal 2006 objectives

### ◎Fiscal 2005 performance

In fiscal 2005, in addition to ongoing initiatives, the Daiwa Securities Group focused on further strengthening its compliance framework and creating a workplace environment that better supports its female employees.

Female employees have greater and greater opportunities in the Group. The Group will continue promoting the support of women in the workplace and encourage female employees to utilize the programs available to them.

In the area of compliance, the Daiwa Securities Group strengthened workplace training in compliance awareness and conducted checks of the effectiveness of management and monitoring.

### ◎Fiscal 2006 targets

In fiscal 2006, the Daiwa Securities Group set targets based on the initial year of the action plan designed to achieve the new Medium-term Management Plan "Passion for the Best" 2008 announced in May 2006. The fiscal 2006 targets for each division correspond to this medium-term management strategy. The pursuit of these targets is intended to help maximize corporate value for all stakeholders.

### Progress

- ◎ : Implemented and good results achieved
- : Implemented and fair results achieved
- △ : Implemented, further work necessary
- × : Not yet implemented

# Corporate Governance

In order to maximize corporate value to its stakeholders, the Daiwa Securities Group is constantly improving its system of corporate governance to achieve greater management transparency and flexibility.

Issues and targets for fiscal 2005	Results and progress for fiscal 2005
Introduce the stock options (at an exercise price of ¥1) for executive compensation, replacing the system to acquire stock.	Awarded stock options at an exercise price of ¥1 as stock-price-linked compensation.
Continue to study ways of linking executive compensation with stock price.	Continued investigating the best approach for compensation linked to stock price in fiscal 2006.
Strengthen the systems auditing at principal group companies.	<ul style="list-style-type: none"> <li>Set up systems auditing at four departments in Daiwa Securities Co. Ltd., two departments at Daiwa Securities Group Inc., and two group companies that do not have internal audit departments.</li> <li>Appointed full-time systems auditors at Daiwa Securities SMBC Co. Ltd. and at Daiwa Securities Group Inc.</li> </ul>
Perform categorized audits, such as on compliance with the Personal Information Protection Law.	Thoroughly investigated and confirmed measures to be implemented to comply with the Personal Information Protection Law; also, inaugurated new information security management systems in the principal group companies.

## Daiwa Securities Group's approach to corporate governance

Corporate governance is how a company ensures the effective and efficient management of its business operations through the establishment of management policies, and the supervision and evaluation of top management. The Daiwa Securities Group moved to the committee system in June 2004. This was the Group's most important step toward achieving its goal of a highly transparent and agile management structure.

## Corporate governance system

### (1) Execution

The company is led by an Executive Committee comprising all the executive officers in the Daiwa Securities Group Inc; this committee deliberates and sets the overall group business strategy, group-wide management issues, and important financial matters. To expedite decision-making, the Executive Committee has been given the maximum authority permitted by law, without the need for prior review by the Board of Directors. As some of the Daiwa Securities Group Inc. corporate executive

officers also hold executive positions at each of the group companies, this provides a more unified and effective group management system.

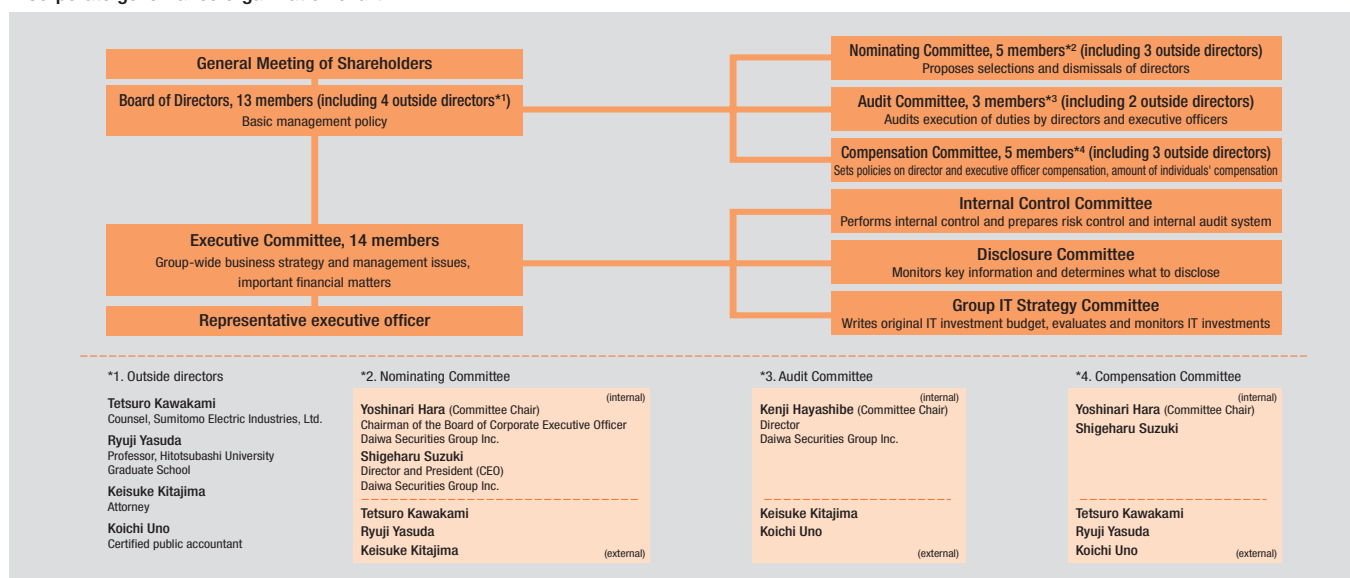
### (2) Audit and supervision

Headed by the Chairman of the Board, the Board of Directors serves as the management supervisory body, and is composed of 13 members, including four outside directors. Within the Board of Directors are three committees in charge of nominations, audit, and compensation.

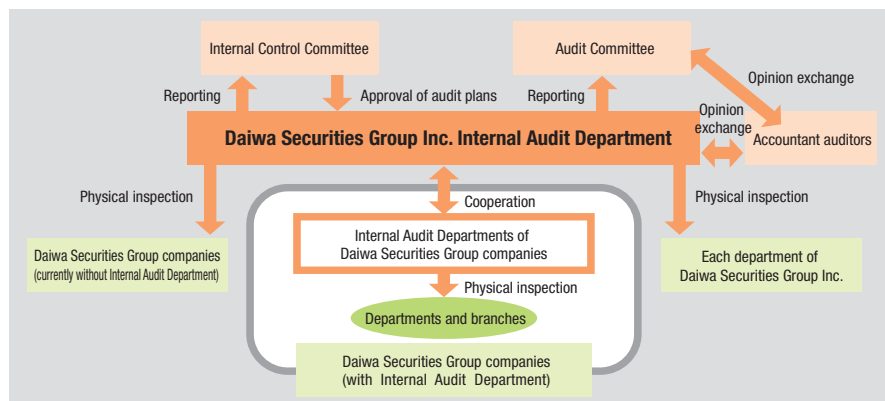
#### 1. Nominating Committee

This committee performs investigations relating to the selection of director

### • Corporate governance organization chart



## • Internal audit system



candidates, as well as developing the basic approaches to director candidate nomination and deciding the composition of the Board of Directors, in accordance with corporate governance policies.

### 2. Audit Committee

This committee inspects the performance of internal control systems, and the decisionmaking of directors and corporate executive officers, based on the Audit Committee Audit Standards.

### 3. Compensation Committee

This committee studies incentive plans for the entire group, which are intended to improve the group's consolidated results. It also investigates and determines policies related to director compensation and individual compensation packages.

### (3) Internal control

The Daiwa Securities Group aims to ensure 1) business effectiveness and efficiency, 2) reliability of financial reporting; and 3) compliance with laws and regulations. In order to achieve this, the Internal Audit Department, headed by the CEO of Daiwa Securities Group Inc., regularly coordinates with the internal audit departments in each of the principal group companies. Internal control is executed based on the regulations and ordinances applicable to each division. The internal audit plan and results are reported and approved by legal and compliance meetings at the principal group companies and by the Internal Control Committee, a subcommittee of the group's Executive Committee.

### (4) Compensation of the directors and executive officers

Compensation for directors and executive officers includes base salaries, performance-based bonuses, and stock-price-linked bonuses. These categories are defined as follows.

#### 1. Base

Base compensation is a fixed amount determined for the individual's position and responsibilities.

#### 2. Performance-based

Performance-based compensation is determined by the assessed contribution of the individual to the company's success. It is measured through indicators such as the company's consolidated ordinary profit and return on equity (ROE), as well as other factors like customer assets under management, productivity, and customer satisfaction. Directors not serving as executive officers do not receive performance-based bonuses.

#### 3. Stock-price-linked

In order to better align the executives' interests with those of its shareholders, the Group awards stock-price-linked compensation to its directors. The value of the stock options awarded is based on a fixed ratio according to the individual's base salary. Outside directors are not offered stock-price-linked bonuses.

### ■ Fiscal 2005 initiatives

#### (1) Stock-price-linked compensation

In order to align the executives' interests with those of its shareholders, in fiscal 2005, the previous system of outright gifts of stock

was abolished. It was replaced by a policy of allotting stock options to directors and executive officers at an exercise price of ¥1.

### (2) Strengthening systems auditing

A scheme has been created to implement detailed systems audits on the principal group companies. In fiscal 2005, systems audits were carried out at four departments in Daiwa Securities Co. Ltd., two departments at Daiwa Securities Group Inc., and two group companies that do not have internal audit departments. Part of this effort was the appointment of full-time systems auditors at Daiwa Securities SMBC Co. Ltd. and at Daiwa Securities Group Inc.

### (3) Enhancing the information security management approach

In September 2004 the management of information security, executed in accordance with the Minimum Standards for Information Security, was improved at the principal group companies to comply with the Personal Information Protection Law,.

### (4) Measures for internal control reporting

Internal control reporting will take effect in the year ending March 31, 2009. The Group established a basic internal control policy when it moved over to the committee system and is now in the process of adapting its internal control for financial reporting to conform with the Internal Control Reporting System. A working team promotes the measures necessary for this system.

### Future issues and fiscal 2006 targets

To improve the internal control reporting process, the Group will establish documentation and evaluation methods relating to financial reporting and implement them group-wide. The Daiwa Securities Group will improve its group management system; a group business continuity plan (BCP) and a performance evaluation framework will be created that reflect capital costs for each business division. It will also implement new measures for each group component to improve company structure and work procedures based on the new Japanese commercial law.



# CSR Management

Information relating to corporate social responsibility is actively distributed both inside and outside Japan. CSR activities are promoted through communication with stakeholders.

Issues and targets for fiscal 2005	Results and progress for fiscal 2005
Conduct training in compliance, corporate ethics, and CSR at all Daiwa Securities Co. Ltd. branches, to be completed by the end of fiscal 2007.	Implemented at 95 of Daiwa Securities Co. Ltd.'s branches, in cooperation with the Corporate Ethics Department (currently the General Affairs Department) and the Compliance Division at Daiwa Securities Co. Ltd.
Promote group employees' understanding of CSR.	Implemented a CSR questionnaire for all group heads and directors.

## Daiwa Securities Group's approach to CSR management

CSR means an entity or organization contributes towards the building of a better society, through daily business activities. In its medium-term management plan for 2006 to 2008, the Daiwa Securities Group has clearly established CSR as one of its major management objectives.

## CSR promotion system

The CSR Promotion Department was established at Daiwa Securities Group Inc. in July 2004. The department participates as needed in department head meetings at group headquarters and in departmental liaison meetings held through the Group, where it reports on the Group's CSR

activities and raises CSR-related issues. The department also serves as the secretariat for the Environmental Management Committee, which is tasked with improving the quality of environmental management systems group-wide.

The CSR Promotion Department also prepares the Daiwa Securities Group Sustainability Report, responds to various surveys from outside organizations, and communicates with external stakeholders such as NPOs and NGOs.

### Daiwa Securities Group's basic CSR strategy

Taken from "Passion for the Best 2008," Daiwa Securities Group's new medium-term management plan.

To carry out communication with stakeholders on a more comprehensive scale. The Group contributes to the development of a sound economy and society, as well as maintain its social status.

- Education in economics and finance: To work with educational institutions and NPOs to promote economics education, as well as support education and research based on the cooperation between business and universities.
- Socially responsible investment (SRI): To promote the widespread practice of SRI.
- Environmental protection: To build an environmental management system, including the establishment of environmental policies, within the group companies, starting first with the principal group companies in Japan, then the consolidated subsidiaries in Japan, and later, the overseas subsidiaries.

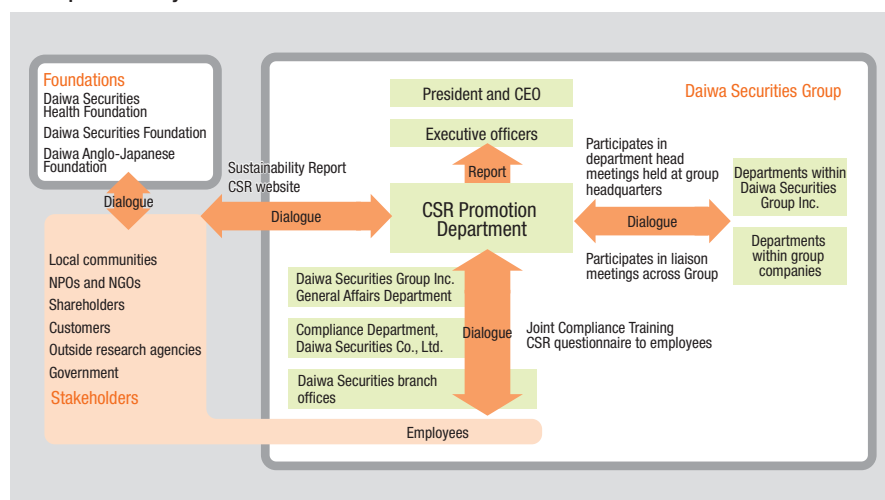
## Activities to promote CSR awareness

The Daiwa Securities Group strives to promote better understanding of CSR among its stakeholders inside and outside the Group, through various modes of communication.

### Promoting CSR awareness within the Group

The Daiwa Securities Group provides its employees with training in order to raise CSR awareness and understanding. The CSR Promotion Department conducts the Joint Compliance Training together with Daiwa Securities Group Inc.'s Corporate Ethics Department (currently the General Affairs Department) and Daiwa Securities Co. Ltd.'s Compliance Division, visiting each Daiwa Securities Co. Ltd. branch across Japan. As of March 31, 2006, the training had been held at 95 branches, and the Group plans to provide training at all 115 business sites by March 31, 2007. Seminars are also held for new employees, focusing on the significance of CSR activities and Daiwa Securities Group's basic approach to this subject.

### CSR promotion system



### ●Release of information outside the Group

The Daiwa Securities Group sees the provision of CSR information to the general public as one of its important responsibilities.

On the Daiwa Securities Group website, there is not only information about specific CSR activities carried out by the Group, but also a general explanation of CSR and socially responsible investment (SRI). The website for Daiwa Asset Management Co. Ltd. has a new section on sustainability.

Finally, the Group is striving to distribute information externally through industry publications, national newspapers, and business organizations' bulletins such as Nippon Keidanren and the Japan Association of Corporate Executives (Keizai Doyukai).



The sustainability section on the website for Daiwa Asset Management Co. Ltd.

► <http://www.daiwa-am.co.jp/sustainability/index.html>  
(in Japanese only)

### ■ Initiatives at overseas locations

The Daiwa Securities Group is promoting a global network for information sharing and sustainability activities.

The following initiatives are being carried out at almost all the Daiwa Securities Group's principal overseas sites (37 locations including local subsidiaries, branches, and representative offices).

- Establishment of a code of ethics and staff manuals
- Preparation of crisis management manuals
- Training to prevent gender harassment; creation of employee counseling services
- Maintenance of hiring and working conditions in compliance with local laws and guidelines
- Meeting the local minimum working age requirement when hiring
- Reduction of environmental impact by promoting recycling

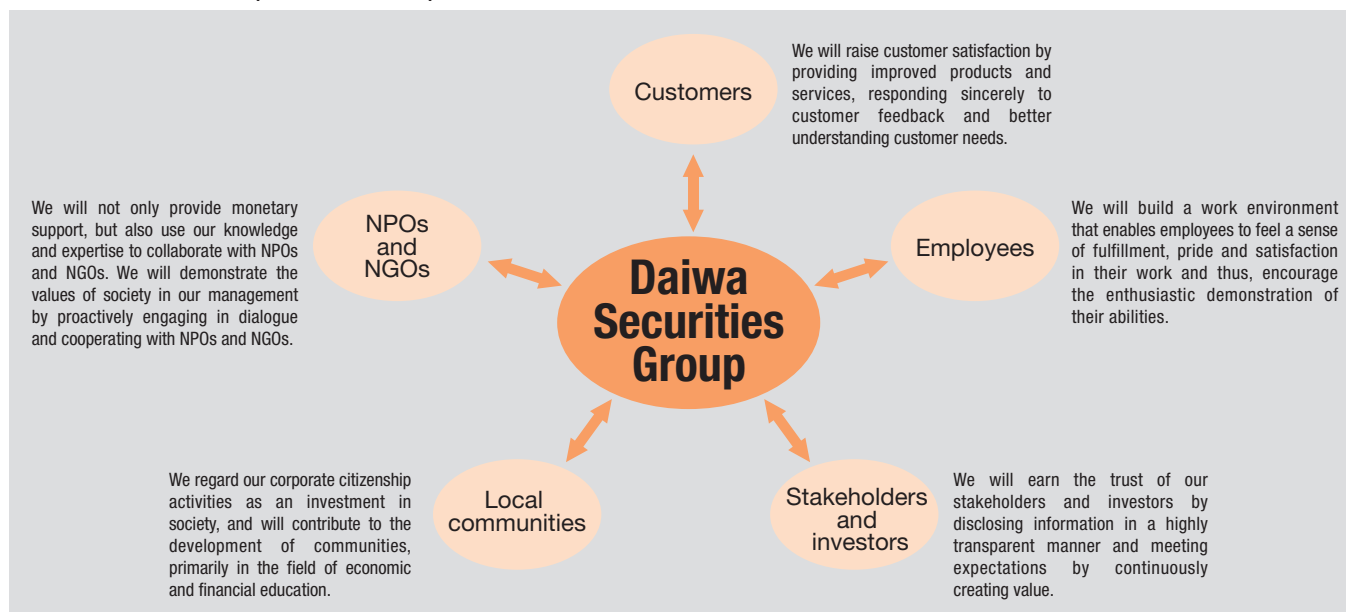
The Group is pursuing various other initiatives overseas in addition to the measures above. Daiwa Securities SMBC Europe Limited has prepared employment guidelines based on best practices in the industry, in an effort to provide employees with equal opportunities. Daiwa Securities America Inc. requires that all its employees attend harassment sensitivity seminars,

while in Australia, local employees are offered Japanese language classes. In the future, the Group intends to implement its environmental management measures at overseas sites, as well as corporate citizenship activities that best suit the respective locations.

### Future issues and fiscal 2006 targets

The Group's focus is on the three priority issues set out in the medium-term management plan: (1) Education in economics and finance; (2) promotion of socially responsible investment (SRI); and (3) environmental management. In fiscal 2006, the Daiwa Securities Group will continue to carry out Joint Compliance Training sessions and other related initiatives for the promotion of CSR awareness throughout the Group. At the same time, it will increase communication with various stakeholders both inside and outside the Group, as a means of providing information for the better understanding of CSR.

### ● The Daiwa Securities Group and its relationships with its stakeholders



# Compliance Group-wide efforts

Compliance is the basis of CSR. The Group is therefore strengthening its initiatives to achieve this goal, in terms of group-wide policies as well as of policies at the individual group company level.

Issues and targets for fiscal 2005	<p>Strengthen cooperation between the legal compliance department in Daiwa Securities Group Inc. and its counterparts in each group company.</p> <p>Raise level of internal understanding of Corporate Ethics Hotline and periodically survey awareness.</p> <p>Examine establishment of Voluntary Action Standards.</p>	Results and progress for fiscal 2005	<p>The checking operations at group headquarters concerning legal and compliance risk management by each group company were made more rigorous.</p> <p>Increased the level of awareness and the number of hotline reports by promoting in-house PR activities and organizing training at each sales branch.</p> <p>Emphasized the further application of the existing code of conduct and principles; also, continued investigating the establishment of a new code.</p>
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## Approach to compliance and initiatives

The Corporate Principles of the Daiwa Securities Group are underpinned by the concept of total compliance, which, in turn, forms the basis for the Group's approach to corporate social responsibility (CSR). As the Group consists of different types of companies, the laws that apply are also varied. For this reason, detailed compliance rules and initiatives are established at the group company level. Still, compliance at the group level is also essential; close cooperation between the legal and compliance department at Daiwa Securities Group Inc. and the legal and compliance departments of each group company is emphasized.

## Initiatives to spread compliance awareness among employees

Daiwa Securities Group Inc. and Daiwa Securities Co. Ltd. are jointly conducting training on corporate ethics, CSR, and compliance. The Group works to raise awareness of these matters during new employee training and highlights their importance in contributing to the development of sound securities markets.

## Structure and performance of the Corporate Ethics Hotline

The Corporate Ethics Hotline, is an internal reporting system for all employees group-wide to directly report ethical problems related to business operations and the workplace to either headquarters or an external legal body. There were 30 reports made through the hotline during 2005. This was a marked increase from the 13 reports made in 2004; the rise is attributed to increased awareness of the hotline within the Group, as well as greater confidence in the anonymity of the program. There were many reports relating to the length of working hours in 2004. However, due to proper guidance on time management, such reports decreased this year, revealing a definite improvement resulting from the hotline.

### Examples of reports made through the Corporate Ethics Hotline

Report	Response
Misuse of power and position, character disparagement, etc.	After an investigation of the situation, a warning was issued to the higher-ups and guidance was provided
Sexual harassment	After an investigation of the situation, a warning was issued to the staff and guidance was provided
Breaches of sales ethics and rules	After an investigation of the situation, special training and guidance was provided to the individuals concerned
Impoliteness	A warning was issued at a general meeting concerning proper business practices and conduct

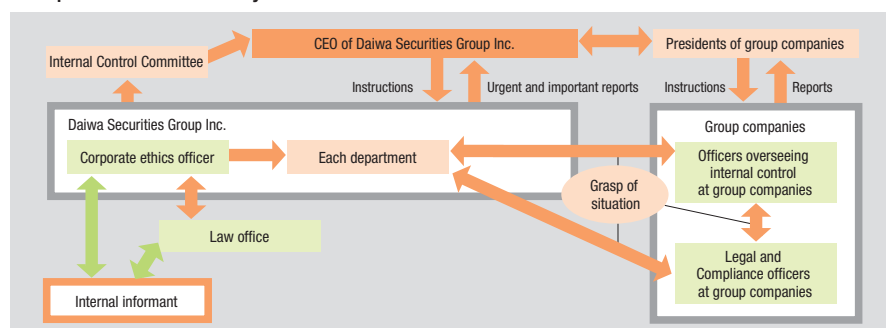
## Employee awareness survey for the Corporate Ethics Hotline

The Group surveyed all executives and managers with a questionnaire about the Corporate Ethics Hotline. This year the executives were asked about the hotline, and 90% indicated awareness, while 77% responded that they would make a hotline report if there was a problem. However, since only 51% thought the hotline provides anonymity, it is clear that there is still a lack of understanding in the program. Therefore, the Group will seek to build confidence in the hotline.

## Postponement of voluntary action standards and future initiatives

A yearlong investigation was carried out concerning the establishment of voluntary action standards, including surveys of executives and managers. The results suggested that rather than creating a new Code of Conduct and Ethics, it would be better to first promote a deeper comprehension of the current code at each group company. Training was therefore carried out at all sales locations and succeeded in building understanding of the existing code. However, the company will continue considering a new code.

### Corporate Ethics Hotline system



### Future issues and fiscal 2006 targets

Although most of the reports made through the Corporate Ethics Hotline have come from Daiwa Securities Co. Ltd., awareness-raising activities are being carried out at the other group companies. Moreover, through the collaboration between the compliance departments at the Daiwa Securities Group Inc. and Daiwa Securities Co. Ltd., efforts to eliminate antisocial influences are being stepped up.

## Initiatives at Daiwa Securities Co. Ltd.

Issues and targets for fiscal 2005	Enforce management practices incorporating the perspectives of legal compliance and customer protection.	Results and progress for fiscal 2005	Implemented various training programs including branch training sessions and on-the-job training for internal administration supervisors. Increased employee compliance awareness and emphasized the importance of value to the customer when carrying out sales activities.
	Further improve the compliance framework and eliminate violations of rules.		The number of rule violations was reduced by 40% compared to FY2004.
	Reinforce management of complaints and claims.		Appointed a senior officer responsible for handling claims, and created a system of cooperation between the Customer Support Center, Customer Support Section within the Compliance Department, and the sales branches.
	Comply with new Personal Information Protection Law.		<ul style="list-style-type: none"> <li>Continued to administer specific tests to check how its staff manages personal information; also, conducted instructor-led training.</li> <li>Carried out inspections of all departments and business sites in order to verify the effectiveness of the internal systems.</li> </ul>
	Upgrade Compliance Division.		<ul style="list-style-type: none"> <li>Actively promoted outstanding young employees to internal administration supervisor positions, and put effort into the development and training of these supervisors.</li> <li>Implemented various types of programs for staff skill development.</li> </ul>

### ■ Approach to compliance and initiatives

Compliance is an issue of utmost importance and forms the foundation of a company that contributes to society. To improve its ability to attain a better level of compliance, Daiwa Securities Group has taken various initiatives to improve practices, reducing administrative errors, combating antisocial influences, and strengthening claim handling. It emphasizes the importance of adopting the customer's point of view as the employees carry out sales activities.

### ■ Initiatives to improve the quality of operations activities

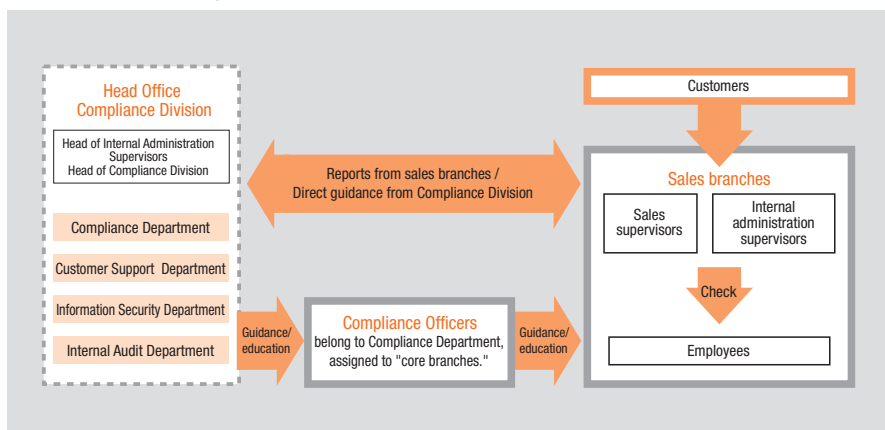
Compliance involves more than just an adherence to laws and regulations; it covers all awareness, attitudes, and actions that are necessary to earn the maximum confidence from customers. Therefore, starting in the second half of fiscal 2005, the Daiwa Securities Co. Ltd. has made the quality of operations activities a key compliance issue. Daiwa Securities Co. Ltd. is working hard to properly understand the needs and wishes of investor clients, to provide them with suitable

investment advice, while offering easy-to-understand explanations, and taking care to avoid errors at the time of order placement. Daiwa Securities Co. Ltd. intends to improve the quality of its operations, and increase customer confidence through these efforts.

### ■ Approach to promoting compliance

Compliance officers have been appointed in each of the 24 area groups that coordinate the network of Daiwa Securities Co. Ltd. branches across Japan. In fiscal 2005, Daiwa Securities Co. Ltd. actively promoted and groomed young employees for internal administration supervisor positions, as representatives of the next generation of compliance supervisors in each of the branches. In order to enhance the ability of departments and branches to uncover and resolve their own problems, a system has been created whereby the internal administration supervisors and compliance officers check management conditions in their sales branches and file monthly management reports with the Compliance Division.

#### • Approach to promoting compliance



## Initiatives at Daiwa Securities Co. Ltd.

### Conducting training to raise compliance awareness

Daiwa Securities Co. Ltd., provides ongoing training for executives, sales staff, managers, and new employees, according to the type of job and position. This includes branch visits and training by a team of Compliance Department staff, as well as Joint Compliance Training sessions conducted at the branches. The latter program is a collaborative effort between the departments in the Daiwa Securities Group Inc. responsible for corporate ethics and CSR. In addition, the company uses the intranet and small-group training sessions in the Compliance Division for the improvement of quality of operations activities, while also providing special training to conduct activities such as the mandatory testing of employees' knowledge of laws and regulations.



Joint Compliance Training

### Eliminating compliance violations and protecting investor clients

Compliance violations or incidents arising from improper execution of securities transactions occur when someone deviates from the various laws and regulations that govern a securities company and its executives and employees. A prime example of this is the failure to deliver prospectuses that should be given to customers before or at the time of investment. In fiscal 2005, Daiwa Securities Co. Ltd. was able to reduce the number of compliance violations by 40%, compared to the previous fiscal year. This was mainly due to the tight control over the staff's email communication, leading to a substantial reduction of cases where sales staff electronically sent unapproved investment promotion materials to customers.

In fiscal 2005, the internal detection rate\* of compliance violations dropped from 74% in the previous fiscal year to 63%. This was due to

the large drop in compliance violations related to unapproved electronically-available materials, as mentioned above. In the future, the company will continue to work towards zero compliance violations by making properly executed sales activities the primary compliance objective, in line with legal adherence and customer protection.

\*The internal detection rate is the percentage of incidents not revealed by customer complaints or external inspection, out of all the compliance violations reported to the Financial Services Agency.

### Combating unfair transactions and antisocial influences

In order to promote sound securities markets, Daiwa Securities Co. Ltd. is stepping up its efforts to combat illegitimate influences such as organized crime and corporate racketeers. The company provides data from various sources and guidance by specialized staff, and is determined to completely eliminate such influences from the market. Daiwa has also built a system to stop identity theft where criminals attempt to establish accounts in other people's names to carry out unlawful transactions.

### Compliance measures under the Personal Information Protection Law

Daiwa Securities Co. Ltd. continues to administer specific tests to check how its staff manages personal information, in order to promote awareness of the need to protect such information. In order to verify the

effectiveness of internal information management, the company carries out inspections at all branches and strives to make improvements. The TRUSTe Certification program has been updated as a means of evaluation from outside organizations. Further measures are planned in fiscal 2006 in business units at high risk of personal information leakage.

#### Future issues and fiscal 2006 targets

In order to maximize customer confidence, it is of utmost importance for Daiwa Securities Co. Ltd. to further improve the quality of its operations and sales. The company continually monitors and guides its sales staff to ensure the quality of their efforts and has also created procedures to properly ascertain customer intentions and hence, provide appropriate advice. Therefore, the customer interview process is being made more rigorous. Also, steps are being taken to eliminate unfair transactions and antisocial behavior.

#### Comments from stakeholders

##### My expectations of the Daiwa Securities Group

The Corporate Ethics Hotline now plays a major role in the Group's determination to achieve a higher level of compliance. However, what is the most important element for this system of internal monitoring to work? I think it is the confidence employees have in it. Without this confidence, the company cannot quickly identify in-house problems through internal reporting. I am of the view that the higher number of reports from the Daiwa Securities Group companies is a reflection of increased confidence in the system's effectiveness. However, the Group still needs to further boost employee confidence. In the end, the fastest way to achieve this will be to address each and every incident report in an honest and effective manner. I hope that the Daiwa Securities Group will continue its efforts in this area.



Mr. Naoki Yanagida  
Attorney  
Yanagida & Nomura



## Initiatives at Daiwa Securities SMBC Co. Ltd.

Issues and targets for fiscal 2005	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 personal information protection and new areas of business resulting from regulatory reform.
Results and progress for fiscal 2005	Developed online training content on the Personal Information Protection Law, firewall regulations, and the securities broker representative license.
	<ul style="list-style-type: none"> <li>Performed a comprehensive inspection of measures implemented in each division and department.</li> <li>Used specific case studies for training at each division and department.</li> <li>Put in place self-assessments and intra-departmental training relating to the firewall regulations ban on transferring non-public information.</li> </ul>
	Created a more exact approach to inspection by incorporating specific intra-departmental items such as policies to prevent the recurrence of order errors, and the management of personal information.

### Basic approach to compliance

Compliance is one of the key management issues for Daiwa Securities SMBC Co. Ltd. The company emphasizes proper operations under an effective system for monitoring compliance.

The company expects the following measures to ensure that the system is effective: 1) Establishing business conduct rules in line with all laws and regulations; 2) making the rules known and understood throughout the organization and following them strictly; 3) monitoring compliance with these rules; 4) developing and enforcing procedures to tackle identified problems; and 5) incorporating these procedures into the rules.

### System of achieving compliance

Daiwa Securities SMBC Co. Ltd. has appointed internal administration supervisors and internal administrators for each department who provide compliance guidance for daily operations. The Legal & Compliance Department, which coordinates these efforts, monitors and offers legal counsel on operational issues, watches out for unfair transactions, and provides guidance for intra-departmental inspections conducted by individual departments. This intra-departmental inspection watches for the effectiveness of the management of high-risk issues by having each division and department perform a self-assessment of its potential operational risks. The company is working towards a better approach to achieving compliance by creating procedures to deal with problems identified during inspections,

incorporating these procedures into operational manuals, and then putting them into practice. The Internal Audit department confirms that operations are being properly carried out through department audits and spot audits on specific issues.

### Improving compliance training

Daiwa Securities SMBC Co. Ltd. holds instructor-led training as necessary for newly appointed executives, fresh hires, recently transferred employees, and employees leaving for overseas posts. The company is developing intra-departmental training to include selected operational topics for each department and division. In fiscal 2005, online training content was prepared on the Personal Information Protection Law, firewall regulations, and the securities broker representative license. The company plans to continue its efforts building its online training content.

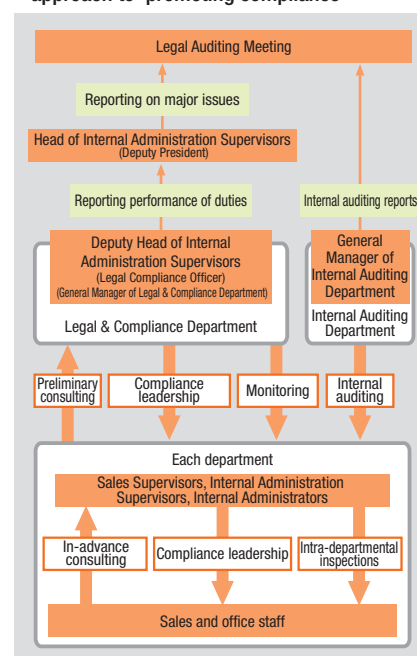
### Examining the implementation of measures resulting from internal audits

Between April and August of 2005, Daiwa Securities SMBC Co. Ltd. performed a comprehensive inspection of progress made on measures implemented to tackle issues highlighted in past internal audits at each division and department. The company carried out intra-departmental training that incorporated actual examples from other companies, including recommended administrative initiatives, as well as disciplinary action taken for violations. Self-assessments and training relating to the firewall regulations ban on transferring non-public information was also carried out.

### Complying with the Personal Information Protection Law

In addition to examining how personal information is handled in an internal assessment ordered by the Legal & Compliance Department, the company also prepared information management manuals and held training sessions for internal administration supervisors and information security managers. A system has been created through the preparation of indexes and individual management tables for each division and department to use in managing personal data.

#### Daiwa Securities SMBC's approach to promoting compliance



# Information Disclosure

The Daiwa Securities Group is committed to fair, timely, and appropriate information disclosure, in order to promote transparency for all stakeholders.

## Issues and targets for fiscal 2005

Encourage active disclosure of information to attract new individual shareholders.

## Results and progress for fiscal 2005

Improved efforts to reach individual investors by holding information disclosure sessions and setting up an IR section on the company's website.

## Daiwa Securities Group's understanding of information disclosure and initiatives

The Daiwa Securities Group unveiled its Disclosure Policy in March 2004. Based on this policy, the Group has been working towards providing information to stakeholders in a fair, timely, and appropriate manner.

Proper disclosure of information for investment decisions is vital for the sound operation of the stock markets. As a member of the securities industry, the Group is stepping up its efforts to offer investors a level

of transparency that can serve as a model to other listed companies.

The expansion of the individual shareholder base is also important for the basic health of the Japanese economy as savings are gradually diverted towards investment. Accordingly, the Daiwa Securities Group is providing greater disclosure to individual investors with information dissemination sessions. The decrease in the number of shareholders in fiscal 2005 was due to increased selling by individual shareholders following the rise in the stock price.

### 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.

## Approach to information disclosure

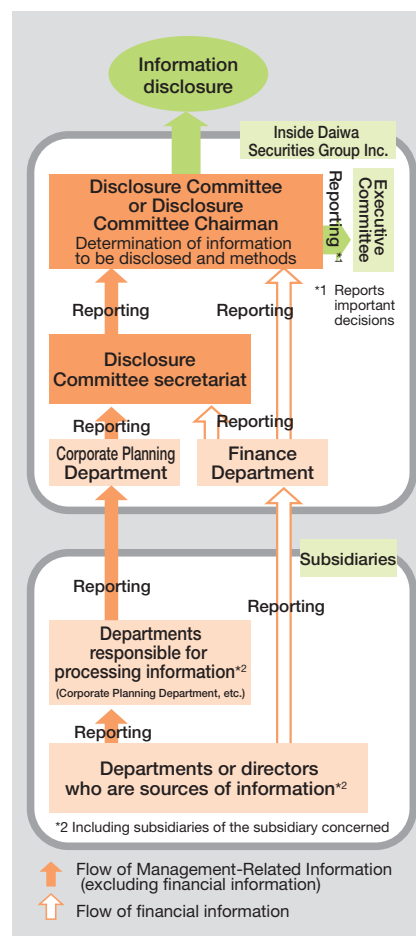
Daiwa Securities Group Inc. established the Disclosure Regulations in order to achieve the goals set in the Disclosure Policy. Based on these regulations, the Disclosure Committee, a subcommittee of the Executive Committee, makes the final decisions on information disclosure. There are also rules for controlling the release of Management-Related Information established at each of the group companies. Information is therefore collected in an efficient and effective manner at all the group companies and reliably reported to Daiwa Securities Group Inc.

## Fair, timely, and appropriate information disclosure

The Daiwa Securities Group believes that disclosing management information to its stakeholders in a timely and appropriate manner is of primary importance.

Various methods are used to disclose information, including press releases, the Internet, printed materials, and information dissemination sessions. The Group is committed to achieving fair disclosure of easy-to-understand information that is accessible to as many of its stakeholders as possible.

### Information disclosure flow at the Daiwa Securities Group





An IR information dissemination session held in New York.

### ■ Information disclosure with financial, social, and environmental impact

The Disclosure Policy mandates the announcement of financial, social, and environmental information to all stakeholders including shareholders, investors, and local communities. The Daiwa Securities Group publishes its Sustainability Report after the Disclosure Committee has vetted the suitability of the content.

The Daiwa Securities Group has been highly commended for its efforts to raise the level of transparency through the disclosure of quality information. As a result, the Daiwa Securities Group Sustainability Report 2005 received honors from the Japanese Ministry of the Environment's 9th Environmental Communication Awards 2005's environmental report division.

### ■ Disclosure of negative information

A company's approach to the disclosure of negative information can have a major impact on how it is assessed by investors and other stakeholders. Since the Daiwa Securities Group believes that gaining the confidence of its stakeholders is important for the company over the long-term, the Group chooses to disclose negative information as it does positive information in a timely and appropriate manner.

#### • Information disclosure tools



#### Future issues and fiscal 2006 targets

In order to further expand disclosure awareness among executives and managers, one goal for fiscal 2006 will be to increase understanding of disclosure-related regulations within the Group. This will be promoted using the Group's intranet and by incorporating related topics into in-house training programs.

Another issue to tackle is IR programs suited to more types of investor. IR activities at individual investors and one-on-one meetings with overseas investors and Japanese institutional investors will be arranged. The Daiwa Securities Group aims to create the best IR practices in Japan.

#### Comments from stakeholders

##### ■ Expectations for the Daiwa Securities Group

It is my view that the Daiwa Securities Group is leading the industry in information disclosure in terms of both content and communication. The most difficult thing in information disclosure is communications between management and investors. Management must convey strategy and business conditions in an easy-to-understand format while complying with laws and regulations at the same time. Individual executives are obligated to make the correct decisions as each situation arises. The attitude of the entire management team towards information disclosure, as well as the appreciation of the investor's concerns, may also affect the effectiveness of this communication. I hope that the Daiwa Securities Group will continue to improve on this area, and achieve the best practices in the industry.



Ms. Natsumu Tsujino  
Vice President  
J.P. Morgan Securities  
Asia Pte. Limited

# Distribution of Economic Value to Stakeholders

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

## Rationale behind the Economic Report

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

## Revenues in the Economic Report

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

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

### Equity and fixed income commissions

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

### Investment banking commissions

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

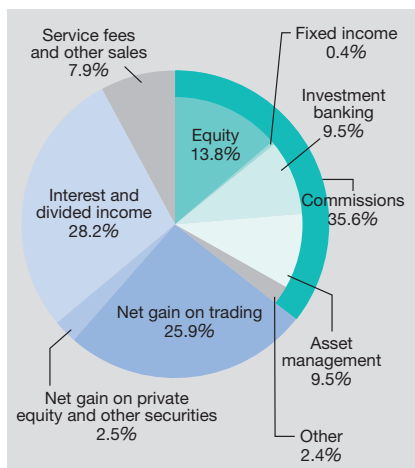
### Asset management commissions

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

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

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

## Revenue structure (FY2005)



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

## Distribution of economic value to stakeholders

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

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

### Executives and employees

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

## Revenue categories (FY2005)

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

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

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

### Society

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

### Shareholders

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

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

### Creditors

The Group paid 18.4 billion yen in interest to creditors.

### Government

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



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

#### Minority shareholders

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

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

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

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

##### Consolidated ordinary income

¥ 350 billion or more

##### Consolidated ROE

15 % or more

##### Retail

Daiwa Securities customer assets balance:  
¥ 45 trillion or more

##### Wholesale

No. 1 on the League Table

##### Asset management

Stock investment trust balance:  
¥ 11 trillion or more

Investment advisory account balance:  
¥ 5 trillion or more

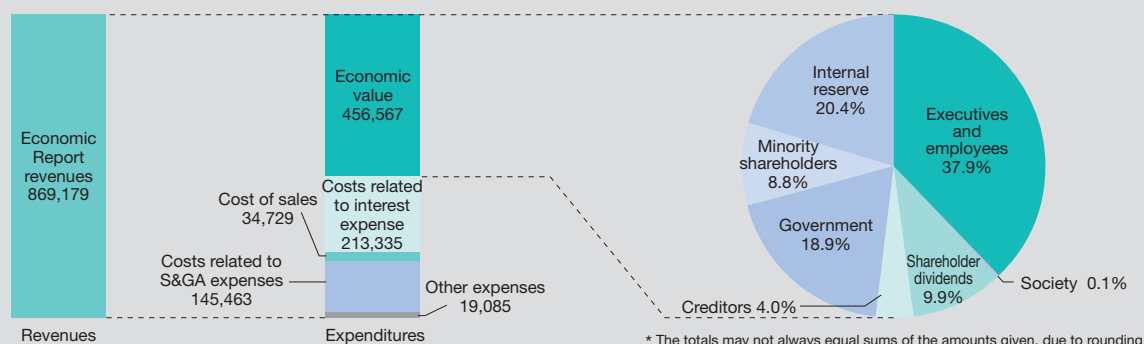
#### • Trends in the distribution of economic value to stakeholders

(¥ million)

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

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

(¥ million)



# Initiatives to Achieve Customer Satisfaction

Issues and targets for fiscal 2005		Results and progress for fiscal 2005
	Actively pursue post-sales follow up.	
	Enhance the convenience of branches offices through utilization of IT.	
	Create branch office atmospheres that are welcoming to a broad clientele.	
		Created more opportunities to gather customer feedback and provide information by holding post-sales follow up seminars, and encouraging interaction between customers, the staff and their superiors. Improved programs for training junior sales staff.
		Established online trading terminals and support desks at all branches, enabling customers to easily access information and place orders
		Commenced renovations at all branches. Promoted in-house projects with the goal of improving customer service quality.

## Approach to achieving customer satisfaction

The Daiwa Securities Group is built on the trust of its customers. Customer confidence is its number-one Corporate Principle. Moreover, the Group has made improving customer satisfaction a top priority among its management issues. The Group seeks the feedback from customers and uses this information to provide new services and to improve the quality of customer service.

## How customer feedback is utilized and initiatives

### ● Improving customer satisfaction

At Daiwa Securities Co. Ltd., the group company that has the most customer interaction, a Customer Satisfaction (CS) Promotion Section in the Sales Planning Department has been established to carry out initiatives to improve customer satisfaction. For example, each week, customer feedback received at the branches is shared and discussed by all executives and employees in the company.

## Initiatives to address fiscal 2005 issues

### 1. Actively pursue post-sales follow up

Based on the annual customer questionnaire as well as other forms of feedback, following up after sales is one of our most important services. In fiscal 2005, Daiwa Securities Co. Ltd. increased opportunities for customers to give feedback to staff and their superiors. It held more post-sales follow up seminars, keeping customers informed of new developments and encouraging them to provide feedback. The seminar content was also expanded to include more on customer

service. Further, Daiwa Securities Co. Ltd. encourages training programs for the development of junior sales staff to further emphasize, at an early stage, the importance of following up post sales.

### 2. Utilizing IT at the offices

Daiwa Securities Co. Ltd. has placed online trading terminals at its branches as conveniences for customers to gather information and place stock orders. Also, online support desks have been established at the branches to assist customers who are not familiar with personal computers or Internet transactions.

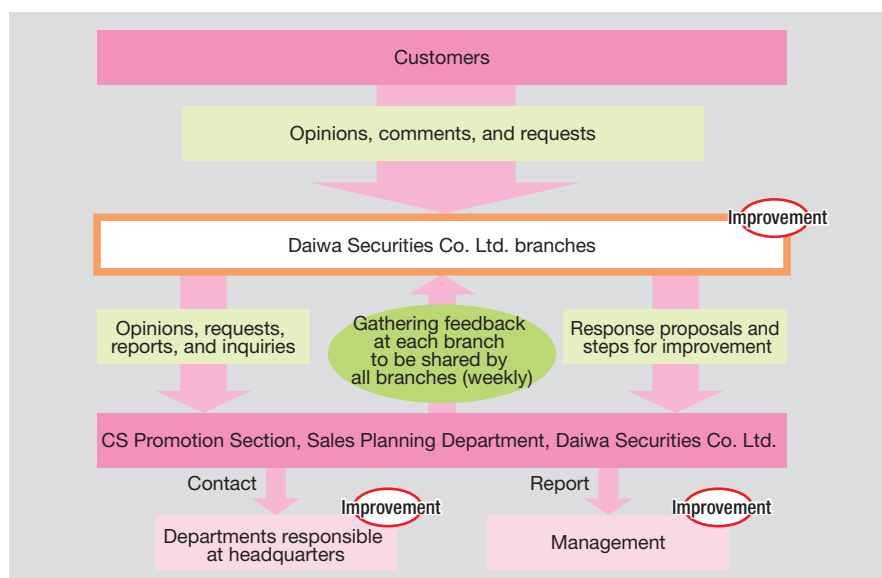
### 3. Creating a functionally appealing environment at all branches to satisfy a wider range of customers

Daiwa Securities Co. Ltd. plans to renovate all its branches by the end of fiscal 2007. The aim is to improve each branch's convenience and functionality, while creating a relaxed, private and secure setting for investment consultation.

In-house projects such as raising awareness of the basics like business etiquette and branch tidiness are also being pursued.

By improving both facilities and customer service etiquette, Daiwa Securities Co. Ltd. aims to create a pleasant branch environment for its customers.

### ● How customer feedback is utilized

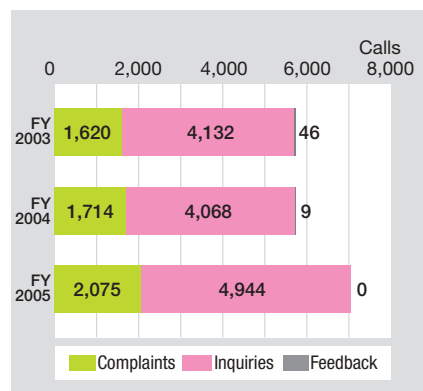


## Customer Support Center inquiries and responses

In fiscal 2005, there were 7,019 calls made to the Customer Support Center, an increase of 1,228 over the previous fiscal year. Of these calls, 2,075 were complaints, 361 more than the previous fiscal year. Problems with the online trading system were the cause of 223 of these increase in complaints.

Complaints concerning branches made up 1,354 of the complaints received in fiscal 2005. Half of these dealt with dissatisfaction over customer service and the business etiquette of sales staff. In these cases, the complaints were relayed to the branches or departments concerned within the same day. This system enables rapid response to customer complaints. Moreover, customer comments received by telephone are published in the *Customer Support Center*

### Number and types of calls received by the Customer Support Center



### Future issues and fiscal 2006 targets

In fiscal 2006, the Daiwa Securities Co. Ltd. will continue working on constructing a pleasant environment at its branches. Specifically, the Group aims to maximize the utilization of new office space post renovation and create a service flow that will give customers a better impression. Also, the company is implementing training programs that will improve the knowledge and etiquette of junior sales staff. Following efforts started in fiscal 2005, the Group will continue to work on the area of post-sales follow up.

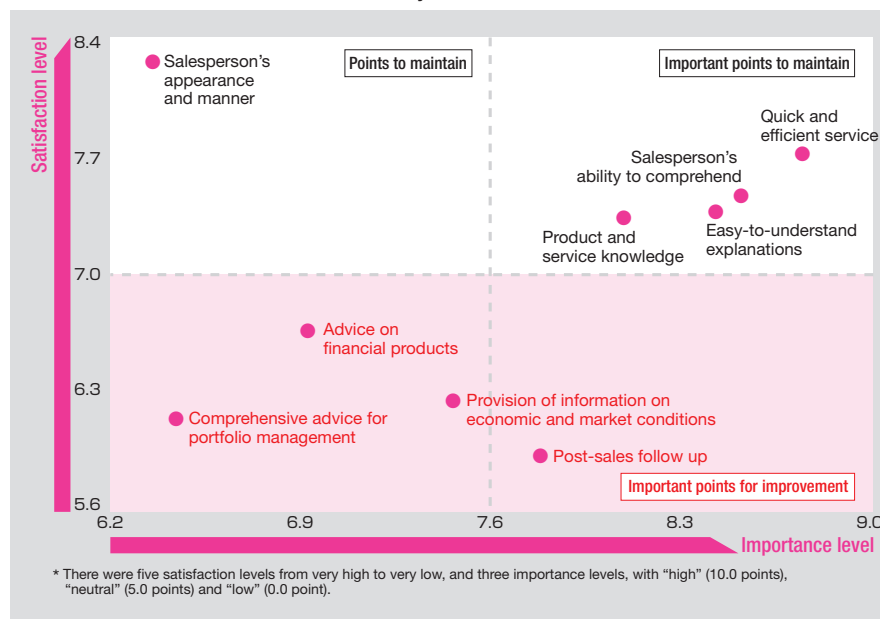
*Monthly Report*, which is sent to executives, all branch managers, branch internal administration supervisors, and general managers at headquarters.

## Fiscal 2005 customer satisfaction survey

Since fiscal 2001, Daiwa Securities Co. Ltd. has been carrying out an annual customer satisfaction survey in order to assess customers' opinion of our services. In fiscal 2005, over 220,000 questionnaires were sent out, and about 80,000 of them were returned.

From the responses, it was revealed that the greatest sources of dissatisfaction came from a change in salesperson due to transfers, and the lack of follow up after sales. These issues will be addressed in fiscal 2006.

### Results from the customer satisfaction survey



### Comments from stakeholders

#### Customer satisfaction initiatives at the Daiwa Securities Group

The Daiwa Securities Group is dependent on the satisfaction of its customers. As the employees that actually interact with customers in the branches, we in the Investment Services Section play a major role in delivering customer satisfaction. In order to ensure that customers are happy when they visit one of our branches, I think it is important to make them feel glad they came in, and encourage them to come again. If every employee appreciates the benefit of making customers feel this way, and thereby achieve in job fulfillment, we can improve customer satisfaction even further.



Mami Kunifuda  
Deputy General Manager  
Headquarters Investment Services Section  
Daiwa Securities Co. Ltd.

# Communication with Shareholders

The Daiwa Securities Group is working towards better communication with its shareholders by presenting information in forms that are easy to understand and with a shareholder reward program.

## Issues and targets for fiscal 2005

Hold shareholder forums and other events.

## Results and progress for fiscal 2005

Held the June 2006 general meeting for shareholders at a hotel on a Saturday to make it easier for individual shareholders to attend. Investor seminars were later held after the meeting.

## Regarding shareholders and initiatives to improve relations

As a member of the securities industry, the Daiwa Securities Group has a social responsibility to expand the individual investor base as part of the government's initiative to channel savings into investments. The Group is therefore aiming to implement initiatives such as the provision of easy-to-understand information and improving communications with shareholders, which will serve as a model to other listed companies.

## Shareholder composition

As of the end of March 2006, the Group's shareholders included 37.3% of non-Japanese corporations and individuals, a 5.6% increase from the end of previous fiscal year. The Daiwa Securities Group Inc.'s standing overseas improved due to

better business results, which increased, in turn, the number of overseas investors. The percentage of individual investors fell by 2.7% from the end of previous fiscal year to 18.0%, but this was largely attributed to profit-taking by many individuals after the stockprice appreciation.

## Regular shareholder survey

The Daiwa Securities Group Inc. conducts a regular shareholder survey in order to find out and take into account investor opinions. 8,800 participants responded to the survey carried out in November 2005.

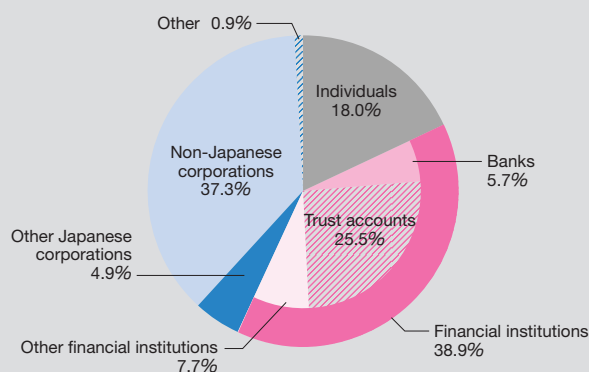
When asked why they bought Daiwa Securities Group Inc. shares, 26% of the participants chose "business results," while 23% replied "growth potential" and 16% indicated "dividend yield." In response to the question of how to increase the attractiveness of Daiwa Securities Group Inc.

shares, 33% said "increase in dividend," 31% replied "better business results," and 12% selected "enhance shareholder reward program." When asked to identify effective IR activities for individual investors, it was revealed that 36% of the participants were in favor of posting more information for individual investors on the group's IR website, while 30% favored information dissemination sessions presented by top management officials for individual investors.

As a result of this survey, the IR website for individual investors was created in June 2006. The focus now is to provide appropriate and useful investment information for its individual shareholders.

## Daiwa Securities Group Inc. shareholder composition

(As of the end of March 2006, percentage by number of shares)  
Number of shareholders: 76,871



Daiwa Securities Group IR website for individual investors.  
► <http://www.daiwa.jp/ir/individual/index.cfm> (in Japanese only)

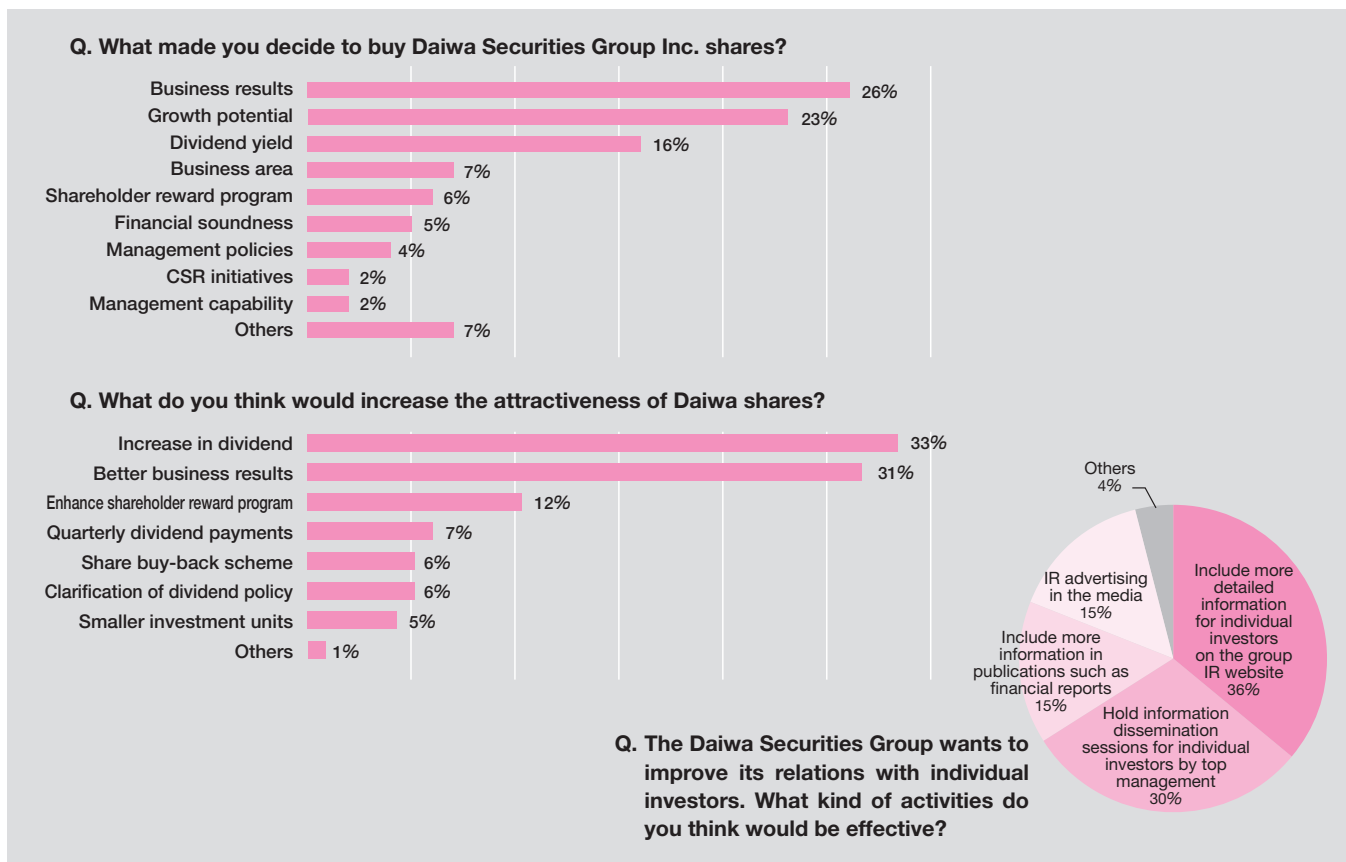
## Communication with shareholders

Holding the general meeting for shareholders on a Saturday

The 69th regular general meeting for shareholders was held for the first time at a hotel on a Saturday (June 24, 2006) in order to allow as many shareholders as possible to attend. The number of shareholders in attendance reached 1,681, which was a dramatic increase from 375 the previous year. At the meeting, shareholders raised issues such as the dividend policy and the promotion



• Shareholder survey results (November 2005)



of women, resulting in a lively exchange of questions and answers. The meeting was also telecast live by satellite to alternate sites in Osaka and Nagoya where there were 599 and 212 attendees respectively.

The general meeting for shareholders was followed by a luncheon, and then, an afternoon of seminars. Various booths were set up at the stand-up buffet lunch venue, enabling participants to view panel exhibits displaying initiatives by the Daiwa Securities Group to improve its relationship with society. During the afternoon seminars, novelist Mr. Taichi Sakaiya gave a talk on the economy and the baby boom generation, while Eiji Azuma, Senior Managing Director at the Daiwa Institute of Research Ltd., gave a presentation called, "The Favorable Wind Now Blowing through Japan".

A publication produced in collaboration with the Daiwa Securities Group [Supplement to the monthly magazine Sotokoto: "Chibikoto LOHAS (Lifestyles of Health and Sustainability Economics)"] was also distributed.



69th general shareholders meeting.

● **Information dissemination session for individual investors**

The Daiwa Securities Group is taking steps to provide information in an easily accessible format to a large number of individual investors. In November 2005 and February 2006, information dissemination sessions were held for individual investors in Tokyo. In March 2006, a similar session was held in Fukuoka, along with a seminar on the economy.

● **Shareholder reward program**

The shareholder reward program was implemented for shareholders. Under the Daiwa Point Program, shareholders with accounts at Daiwa Securities Co. Ltd. are awarded points according to the number of shares owned, which can then be exchanged for a selection of gifts.

**Future issues and fiscal 2006 targets**

The Daiwa Securities Group is working towards the goal of increasing the number of individual shareholders in the future, and hence, has been focusing its energies on ways to make investing easier for individuals. The Group is also working to provide information that is easily accessible for investors in Japan and overseas.

# Human Values and Human Resource Utilization

In light of the Group's Corporate Principle focusing on human values, the Daiwa Securities Group is continuing its efforts to create a workplace that provides equal opportunities for everyone, and hence, better help female employees realize their full potential.

## Issues and targets for fiscal 2005

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.

## Results and progress for fiscal 2005

Achieved an average disabled persons employment rate of 1.85% across the nine principal group companies (as of March 31, 2006). Two employees at Daiwa Securities Group Inc. obtained the Employment Counselor for People with Disabilities certification.

Implemented several training programs: management, skills improvement, CSR, information security, and compliance.

Enacted a plan to provide its female employees the support needed to maximize their abilities.

## Approach to human resources management and important issues

Human resources contribute to a company's competitiveness. The Daiwa Securities Group is building a personnel management system that reflects the Group's Corporate Principle of human values. In fiscal 2005, the Group implemented key initiatives welcoming disabled employees, improving employee training, and creating a workplace environment that is supportive of women employees.

### Basic employee statistics (Daiwa Securities Group Inc.)

	FY2004	FY2005
Average annual salary*	¥8.68 million	¥10.22 million
Average age	37.1 years old	37.8 years old
Average number of years of service	10.7 years	11.0 years

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

## Initiatives for recruitment

The Daiwa Securities Group has established recruitment guidelines that stipulate equal opportunity and fair treatment. The guidelines are clearly posted in the hiring section on the Group's website, and the staff responsible for recruitment are expected to fully apply these principles. The Group's policy for handling job applicants' personal information is also posted on the website.

### New graduate hiring increase

The Group's hiring target for new graduates in fiscal 2007 has been greatly expanded, to a total of 1,400 people. In addition to large-scale recruitment seminars, the Group is also scheduling smaller scaled discussion groups to attract talent by responding to their concerns. Recruitment drives are being held both independently and jointly with other companies nationwide. The Group is also

holding sessions for hiring people who want to find jobs in their hometowns or in another city.

### Active recruitment of women

In response to the initiatives taken to support women employees in the workplace, as well as the push to hire female candidates of high caliber, the number of female employees hired by the Daiwa Securities Group has been increasing each year. In fact, a key reason for the Group's jump in popularity among jobseekers is its various programs to support female employees.

### Employment of persons with disabilities

The group-wide employment rate for disabled persons is 1.85% as of March 31, 2006, higher than the government's guideline of 1.80%. However, since this represents a 0.04% drop from fiscal 2004, the Group is planning to take various measures to stabilize the employment of disabled persons. As part of these efforts, two employees have obtained the certification of Employment Counselor for People with Disabilities.

### Number of new graduates employed in Daiwa Securities Group as a whole

		(persons)			
		April 2003	April 2004	April 2005	April 2006
Career-track employees and regional career-track employees*1	Male	326	203	251	401
	Female	274	147	235	326
General employees*2	Male	0	0	0	0
	Female	54	28	81	101
Financial advisors*3	Male	12	11	34	33
	Female	6	16	40	17
Total		672	405	641	878

\*1. Regional career-track employees make up a class of career-track employees which was first established at Daiwa Securities Co. Ltd. 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 combining 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 rate for persons with disabilities (average across the nine principle group companies, as of the end of each fiscal year)

Fiscal year	%
FY2003	1.90
FY2004	1.89
FY2005	1.85

## Human resources and skills development

### Selective management training

The Daiwa Securities Group is enriching its highly selective leadership and management training program to groom the next generation of business leaders. So far, 150 employees have graduated from the Daiwa Management Academy for developing

general managers, and 415 have completed the Daiwa Leadership Program for the training of deputy general managers. The number of graduates from both these programs is steadily increasing.

#### ● Skills development training

The Consulting Skills Training has been enhanced to develop more proficient human resources. The Daiwa Securities Group introduced its Special Program for Improving the Skills of Junior Sales Staff, a course designed to train newly hired young salespeople. To build up the level of investment consulting skills, the fiscal 2005 training program was carried out for seven days on a selective basis, and a total of 409 employees completed the program.

#### ● Other training programs

The Daiwa Securities Group continues to improve its various training programs, including CSR training sessions and volunteering in joint training for new hires. Further, training related to information security in compliance with the Personal Information Protection Law is also offered.



Training for instructors responsible for junior sales staff.

#### ● Successful applicants for internal intra-Group job postings

Period	Jobs offered	(Persons)	
		Applicants	Successful applicants
7th, FY2004 summer	Compliance, product development, M&A, research, analysts, venture capitalists, fund managers	65	13
8th, FY2005 spring	Compliance, product development, investment advisors, M&A, principal finance specialists, analysts,	87	24
9th, FY2005 fall	Corporate sales, product development, overseas postings	40	9
10th, FY2006 spring	SMA consultants, individual and corporate sales, overseas study, M&A, product development, analysts, dealers	38	10

#### ● Internal (intra-Group) job postings and new career path examinations

The Daiwa Securities Group's internal recruiting system has been in place since fiscal 2000. This facilitates personnel transfer across the Group's companies, allowing employees the opportunity to explore different career options and realize their capabilities to the fullest. In the fall of 2005, nine out of 40 applicants were successful, while 10 of 38 made it in the spring of 2006. There have been a total of 572 applicants since 2000, with a total of 114 successful transfers.

The Group offers examinations for those in general positions or regional career-track jobs to move into a new career path.

#### ● Introduction of qualification criteria for promotion

In June 2005, the Group expanded its existing program for obtaining qualifications, and introduced the attainment of specified

qualifications as a criterion for personnel promotion. There are set "qualification points" to obtain for the promotion to each managerial post or grade. The Group is therefore encouraging the acquisition of knowledge and credentials befitting an organization of professionals.

#### ● Persons earning credentials (across the nine principal group companies)

Total as of	(persons)
	March 31, 2006
Credentials	Credentialed persons
Chartered Member, Security Analyst Association of Japan	1,576
Chartered Financial Analyst (USA credential)	49
Financial Planner (AFP)	2,489
Financial Planner (CFP)	195
Licensed Tax Accountant	22
Variable insurance sales credentials	5,551
System Analyst	26
Overseas MBA program graduate, etc.	205

#### ● Employees at Daiwa Securities Group as a whole

		(persons)								
		As of March 31, 2004			As of March 31, 2005			As of March 31, 2006		
		Employees	Financial advisors	Temporary employees*1	Employees	Financial advisors	Temporary employees*1	Employees	Financial advisors	Temporary employees*1
Japan	Male	6,920	166	-	6,879	258	-	6,971	357	-
	(career-track*2)	6,197	-	-	6,127	-	-	6,280	-	-
	(manager)	3,180	-	-	3,278	-	-	3,465	-	-
	Female	3,463	728	-	3,220	690	-	3,300	698	-
	(career-track*2)	1,377	-	-	1,258	-	-	1,411	-	-
	(manager)	55	-	-	75	-	-	97	-	-
Japan total		10,383	894	1,275	10,099	948	1,627	10,271	1,055	1,752
Overseas		1,182	-	31	1,196	-	48	1,235	-	46
Total		11,565	894	1,306	11,295	948	1,675	11,506	1,055	1,798

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

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

#### ■ Evaluation system

To achieve a fairer and hence more widely accepted framework for personnel evaluations, the Group carries out a "two-way evaluation system" between superiors and subordinates, as well as a "multi-directional evaluation system" which allow employees to be evaluated by those not necessarily in the same department, but with whom they work closely. Compliance objectives are also included in personnel evaluations and are used for determining personnel reassignments and promotions.

## Human Values and Human Resource Utilization

### Creating a healthy workplace environment

In order to establish a healthy and positive workplace for employees, the Daiwa Securities Group is continuing its efforts to improve awareness about the misuse of power and gender harassment through the group intranet and training videos. The Group has set up the Human Rights Awareness Promotion Committee, chaired by the Daiwa Security Group Inc. director in charge of personnel management, and holds training every year for all employees.

### Healthcare measures for employees

In May 2005, Daiwa Securities Group Inc. instituted a mandatory 10 p.m. "lights out curfew" for its headquarters building, in a bid to reduce overtime hours and achieve better time management. In December 2005, the "lights out curfew" was moved forward to 9:30 p.m., to obtain even better operations efficiency. In addition to having a full-time physician at headquarters, a psychiatrist and clinical psychologist also provide in-house counseling once a week to employees when needed.

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

	FY2003	FY2004	FY2005
Annual regular working hours (Hours)	1860.0	1837.5	1845.0
Average monthly overtime hours* (Hours)	25.6	29.3	27.0
Paid vacation usage rate	33.0%	33.2%	34.3%

\* Figures represent the employees at the three companies who are members of the Daiwa Securities Group Employees' Union.

### Employee welfare system

As part of efforts to build a flexible and understanding workplace, as well as to encourage work methods to incorporate the welfare of the employee, the Daiwa Securities Group expanded its childcare and family-care leave and subsidy program in October 2005. The Group initially offered its employees two years of childcare leave, exceeding the legally mandatory one and a half years. The

Group has now extended this period to three years. Further, it introduced a childcare cost assistance scheme to help cover expenses (to a specified limit) incurred by employees who send their children under the age of three to nurseries.

With regards to family care, employees are eligible for up to 365 days of leave, far beyond the legal requirement. In the event of an employee whose spouse is in need of daily care due to an illness or disability, a grant is available to cover home-helper expenses for up to sixty days. Although these programs are in place, they are hardly utilized, so the Group will endeavor to make them more widely known among its staff.

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

		(persons)		
		FY2003	FY2004	FY2005
Number of employees taking childcare leave*	Female	81	115	138
	Male	0	0	0
Number of employees taking family-care leave	Female	0	0	2
	Male	0	0	0

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

### Communication with employees

The Daiwa Securities Group recognizes the importance of direct feedback from employees. Therefore, it has instituted employee interviews by the Personnel Department and a semi-annual self-assessment questionnaire. The Group is striving for open communication with its employees by assigning counseling personnel and establishing alternative means of conveying employees' opinions to the company. Furthermore, the Group is in constant contact with the members of the Daiwa Securities Group Employees' Union through annual labor negotiations and a twice-a-year union-member questionnaire. These efforts have gone a long way to promoting better relations between employees and management.

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

(persons)				
	FY2002	FY2003	FY2004	FY2005
Number of Employees' Union members	6,388	6,220	5,786	5,747

\* Daiwa Asset Management Co. Ltd., which has its own employees' union, and Daiwa Property Co., Ltd. which has no employee union, are excluded from the Group's principal companies.

### Relocation project questionnaire

The Daiwa Securities Group is planning to move its headquarters to the Grand Tokyo North Tower (currently under construction in Chiyoda-ku, Tokyo) in November 2007. Consequently, the headquarters relocation project has been launched, and an employee questionnaire concerning desirable workplace features was distributed. Many opinions were received regarding features that would help relieve employee fatigue, including windows and informal meeting spaces to make the office environment more pleasant. The Group will continue its investigations as it prepares for the move.

- Opinions from the relocation project questionnaire

Which of the following is important to you in our new workplace (multiple responses)?

A pleasant office environment	14%
Easy access to public transport	13%
High level of earthquake resistance	11%
Nice restrooms	10%
Latest IT infrastructure	8%
High security	7%
Good interior design	6%
Environmental friendliness	5%
Good lunch options nearby	5%
Feelings of prestige	4%
Good exterior design	3%
Accessibility for persons with disabilities	3%
Others	11%



## ■ Creating a work environment that is supportive of women employees

### ● Utilizing the power of women in the company

The Daiwa Securities Group wants to provide more support to its female employees, not just from a CSR perspective, but also as part of its corporate strategy.

Of the 727 employees hired in April 2006 for career-track and regional career-track positions, women accounted for 326 persons or 44.8%. Furthermore, women are actively being promoted to management positions after joining the company. As of March 31, 2006, there were 97 female managers at group company offices in Japan, including 4 branch managers. This represents 2.7% of the total management positions in the Group, an increase over the end of the previous fiscal year.

### ● Female Employee Support Plan

In order to provide female employees the support needed to fulfill both work and family obligations, the Daiwa Securities Group introduced a Female Employee Support Plan in October 2005. The Group has been televising in-house satellite programs and distributing the Childcare Support Guidebook, to raise workplace awareness and encourage more women to take advantage of the plan.

These efforts have been recognized outside the Group. In June 2006, Daiwa Securities Group Inc., Daiwa Securities Co. Ltd., and Daiwa Securities SMBC Co. Ltd. received the Tokyo Labor Bureau Chief Award of Excellence in the Corporate Equal Opportunity Awards sponsored by the Ministry of Health, Labour and Welfare.



Childcare Support Guidebook.

### ● Female Employee Support Plan

Support plan	Program overview
Introduction of sales staff re-employment scheme (Professional Return Plan)	To provide re-employment opportunities to full-time employees who have resigned for reasons of marriage or childbirth
Extension of the period that employees can obtain childcare leave and time off for childcare needs during the workday	To extend the application period for childcare leave and hours from the current stipulation of "up to the day before the child reaches age two," to "up to the day before the child reaches age three."
Establishment of a new childcare cost assistance scheme	To assist with costs for nursery facilities for a child under the age of three
Improvement in employees' leave entitlement	To encourage employees to take annual paid leave by establishing marriage preparation leave and family days off (for employees to strengthen family ties)
Workplace return program	To promote the smooth re-entry into the workplace, by providing those on childcare leave with opportunities to interact with the company

### ● Daiwa Securities Group's female employee and manager rates in Japan

	March 31, 2004	March 31, 2005	March 31, 2006
Female employee rate	33.4%	31.9%	32.1%
Female manager rate	0.5%	0.7%	0.9%

### ● Usage of the Daiwa Elder System (Daiwa Securities Group Inc., Daiwa Securities Co. Ltd. and Daiwa Securities SMBC Co., Ltd. as the end of each fiscal year)

	(persons)		
	FY2003	FY2004	FY2005
Number employed through the Daiwa Elder System	68	84	80

## ■ Retirement lifestyle support

In April 2006, the revised Law concerning Stabilization of Employment of Older Persons went into effect. This amended law is the result of the predicted shortage of workers due to Japan's declining birthrate, as well as the increased desire of senior citizens to work following the reform of the pension system. In 2000, the Daiwa Securities Group introduced the Daiwa Elder System for the re-employment of employees who had retired under the mandatory retirement scheme. The Group later introduced the Daiwa Master System in April 2006 to allow mandatory retirees that have achieved a certain level the choice to stay until age 65. For employees 55 years of age or more, there is the new Home Base Declaration, which allows employees to be posted as close to their desired retirement home as possible. There is also the Voluntary Retirement system, and the Second Career Support Leave. The latter provides a two-month period of leave for the preparation of re-employment or independent activities.

### Future issues and fiscal 2006 targets

In April 2007, the Daiwa Securities Group will step up initiatives to create employment opportunities such as targeting to recruit 1,400 new graduates, a major jump from the year before. As indicated in its Medium-term Management Plan, the Group is working towards the betterment of its education and training programs, such as analysts' qualifications and CFP, aiming to increase the number of employees with professional qualifications. The Group is continuing efforts towards workplace improvement that will provide even more assistance to women, by establishing systems that will improve their morale and maximize their potential.

## Round-table Discussion

## What Makes a Good Workplace?

The Daiwa Securities Group is a member of the securities and financial industry, an area long considered as a masculine domain. The Group, however, is fully cognizant of the capabilities of women in the work force and seeks to tap this source of talent. The Group is taking further steps to encourage the advancement of women, by establishing schemes to actively promote female employees to management positions while giving them the tools and options needed to balance family and work obligations. What is the current situation for women in the workplace? What is needed to further encourage female employees? A discussion was held with a panel of working mothers and a branch manager from the Daiwa Securities Group. (Discussion date: June 29, 2006)

**In recent years, the workplace has gradually evolved into one of equality between men and women.**

**Yamazaki:** There are two aspects to the encouragement of female employees. The first is the active promotion of female workers. Even prior to the enactment of the Equal Employment Opportunity Law, the Daiwa Securities Group has taken the lead in this area. Just like Ms. Saito, women with real ability are being promoted to all types of positions, including branch manager.

**Saito:** I used to be in a regional career-track position, and the job of branch manager seemed like an unattainable goal for me at that point. In fact, up until five or six years ago, jobs were still divided along gender lines; nowadays, I think the inequality between men and women is gradually

disappearing. Indeed, the number of female managers is steadily increasing.

**Katsuura:** Until recently, women that rose through the ranks quickly had to try to act like men. But now you can see women with typically feminine qualities also being promoted. I'm glad that we have reached the point where women like Ms. Saito can be branch managers.

**It is the attitude rather than actual systems and processes that change an organization.**

**Yamazaki:** The other aspect is the establishment of a workplace that allows women to both have children and build a career. In October 2005, the Female Employee Support Plan was created, and various programs were introduced to

support women. In the future I think it will be important for each and every employee to help build an environment where women feel free to use these programs.

**Katsuura:** I was lucky enough to be able to have a child and continue my career, thanks to the great understanding and cooperation of my branch manager and superiors when I took maternity leave prior to returning to work. Even so, they actually had no concrete idea of what programs were available to me, and I felt like I had to explain it to them and receive permission. At this point, there are still a lot of higher-ups that are not aware of the programs available to women; I think they should be educated about them.

**Yamazaki:** The proper functioning of these programs is dependent on the understanding of male employees, especially male managers.



**Yuko Yamazaki**

Assistant Manager  
Personnel Department  
Daiwa Securities Group Inc.

Ms. Yamazaki serves as the leader of the Women's Advancement Action Team founded in the Personnel Department in February 2005. "We have already begun changing the focus from a workplace that is supportive of women to one that is supportive of both men and women."



**Seigo Hasegawa**

Deputy General Manager  
Product Planning Dept.  
Daiwa Securities Co. Ltd.

While working at the union executive office, Mr. Hasegawa focused on workplace environment issues. "The level of involvement of female employees serves as an important barometer of a company's vitality."



**Akiko Matsuo**

Deputy General Manager  
Shinjuku Center Building Branch  
Daiwa Securities Co. Ltd.

Ms. Matsuo moved from a general office position to a career-track job. She is currently working in sales, while raising a three-year-old. "It is hard work raising a child and working in sales at the same time. It consumes all my energy."



**Yukiko Katsuura**

Station Plaza, Headquarters,  
Daiwa Securities Co. Ltd.

Ms. Katsuura got married two years after joining the company. Her child was born two years after that, and is now five. "Since I'd like to work until mandatory retirement, I hope that the programs to support female employees will be improved and properly understood throughout the company."



**Naoko Saito**

Branch Manager  
Nakano Branch  
Daiwa Securities Co. Ltd.

In April 2005, Ms. Saito became the first person to be promoted to branch manager from a regional career-track position, without any transfers to other locations. "I think that branch managers need to realize that women can raise children and still maintain their careers."

In the future, we will have to make the programs more widely understood and accepted in the workplace.

**Saito:** Although I don't have children of my own, I try to be supportive of my employees when it comes to theirs. For example, if one of my employees asks for time off to attend his/her child's school entrance ceremony, then I agree to it, so long as it does not cause any problems in our operations. But some branch managers would see this as being too soft. They have the notion that taking a day off means you have no commitment to the job.

**Hasegawa:** During the period of rapid growth in Japan, from the fifties to the seventies, the archetype of a typical family gradually become one where the man's position was at the workplace and the woman's was at home raising the children. Admittedly, it is very hard to change this mindset, but I think the question is not whether we can change it, but whether we will change it. Consequently, a lot of this depends on management, and it would be great if the Daiwa Securities Group became a pioneer in the creation of a new workplace environment. First the management must get a proper understanding of the programs available to women employees, and then take the responsibility of explaining them to all their subordinates, especially those who are directly involved. The most important thing, however, is to remember to put yourself in the other person's shoes when considering these issues.

**Saito:** I really think a change in the mindset of branch managers is essential. If there was some way that the personnel department could make sure that female employees with small children are able to leave work at the official time, it would also help enforce a change in branch managers' attitudes.

**Yamazaki:** Don't you think that women employees need not only the understanding of male managers but co-workers, too?

**Matsuo:** That's true. It does not help if someone makes an insensitive comment about a female employee arriving late and leaving early for childcare reasons.

**Katsuura:** That really puts stress on the female employee. I hope that I can be an understanding colleague in this respect.

**Hasegawa:** Ultimately, I think it is the attitude rather than the mechanisms that will change an organization. The sum of these attitudes forms the corporate climate, and this will determine if a better workplace environment can be created.

### ■ Career women are a valuable resource. Childcare support helps secure corporate competitiveness.

**Saito:** We are part of a profit-making organization, thus the limited number of sales staff at the branches is under constant pressure to produce profits. If one of these salespersons leaves his or her job, then we need to think about how to fill this gap. Whether or not someone has to look after a child or family, everyone must be completely professional in their jobs.

**Matsuo:** That's true. I fully understand that as a manager, I am expected to work to maintain a certain standard regardless of whether I have children or not. On the other hand, there are time constraints, such as when my child has to be picked up. As a result, the demands of work and family push me to the point of exhaustion.

**Katsuura:** However, even if working mothers are at a disadvantage, I think they can still produce good results. I have never come across a saleswoman who slacked off just because she had a child. That kind of person would not come back to work after having a baby anyway. Since it is only those women with a lot of drive that return to work, I think they will help boost the profits of the company over the long term.

**Yamazaki:** Enabling women with experience and skill to meet their childcare needs and stay employed long term is the best way to secure an outstanding source of human capital. It takes a lot of time to develop good personnel from the time they are hired and it would definitely benefit the company to

enable as many women as possible to enjoy a long career with the company.

**Matsuo:** From a program perspective, I think the period of no overtime work should be longer. Although the nursery lets my child stay later, once she enters elementary school, she'll get out earlier and I want to be able to send her for after-school activities.

**Katsuura:** I think there should be a way for women to stay in touch with what is happening at the office while they are on maternity leave. It is very disconcerting not to know what is happening at work while you are on leave. It would also be great to have opportunities for working-mother colleagues to bring their children and get together. We could share tips and encourage each other.

**Yamazaki:** There are lots of programs for childcare support. In order to raise awareness of these programs, the Childcare Support Guidebook was distributed to all employees in June of this year. It presents the schemes in a very easy-to-understand format. A childcare support website called the Daiwa Family Net has been set up for employees on maternity leave. Through the online bulletin board, employees can communicate with each other, and co-workers can share news. Initiatives are currently being publicized based on the campaign to encourage female employees, but first, the company is aiming to put in place a work environment that is supportive of both men and women, in achieving a balance between work and family. We want to create a workplace where any employee can participate in childcare, regardless of gender.



# Corporate Citizenship

Companies are important institutions within society, not just economically, but also socially. Hence, the Daiwa Securities Group is going beyond volunteering and donations, and making corporate citizenship a core principle of its business operations.

Issues and targets  
for fiscal 2005

Enhance volunteer programs so that as many group employees as possible can participate.

Results and progress  
for fiscal 2005

Incorporated volunteerism into new employee training; organized clean-up projects around the station near the Daiwa Training Center with a total of 400 participants.

## Approach to corporate citizenship and initiatives

We believe a good corporate citizen invests in society through activities and projects that contribute to the welfare of the public.

Daiwa Group's corporate citizenship activities fall into four categories:

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

## (1) Education and research activities in the fields of economics and finance

The Daiwa Securities Group has undertaken to contribute to society the knowledge and expertise accumulated in its line of business in economics and finance. The Group supports economics education in junior and senior high schools and sponsors courses and joint research projects with universities. For more details, see pages 15 through 18.

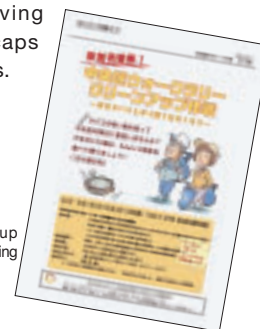
## (2) Encouraging volunteerism among employees

Volunteering broadens a person's horizon and teaches him or her to appreciate a broader set of values. The Daiwa Securities Group is encouraging its employees to volunteer through various programs. Volunteering is divided into two types: those planned and promoted

independently by the Group, and those held in cooperation with local communities and NPOs. In order to encourage employees to participate, various volunteering opportunities are posted on the group intranet.

In fiscal 2005, a total of 1,874 employees participated in 96 different activities. In addition, the Group has also expanded its programs to include fund raising for survivors of natural disasters, and recycling projects involving plastic bottle caps and used stamps.

Information for group employees on volunteering opportunities



## • Daiwa Securities Group's initiatives as a responsible corporate citizen

Activities	Activity type	Main activity details	Expenditure (unit: ¥10,000)		
			FY2003	FY2004	FY2005
(1) Education and research in the fields of economics and finance	Initiatives for elementary, and junior and senior high school students	Finance Park, Student Company Program (SCP)	21,250	18,404	16,492
	Tie-ups between corporates, universities and graduate schools	Sponsored courses, joint research			
(2) Encouraging volunteerism among employees	Independent activities	Joint training for new hires, Azabu-Juban Summer Festival, forest thinning awareness activities, sign language courses	487	431	621
	Joint activities	Communication courses, Chuo-ku clean-up			
(3) Support for culture and the arts	Promoting culture and the arts	Louvre Museum exhibitions, Teatro La Fenice Japan Concert 2005	10,000	36,000	35,800
(4) Assistance to communities both on the local and international level through foundations and NPOs	Three foundations	Daiwa Securities Foundation	1,500	16,000	7,544
		Daiwa Securities Health Foundation			
		Daiwa Anglo-Japanese Foundation			
	Two assistance programs	Daiwa Securities Group Tsunami Reconstruction Fund			
		SRI assistance programs			
	Other	Membership and support fees			
Total			33,237	70,835	60,457



### ●Independent activities

The Daiwa Securities Group has incorporated volunteering into its training for new employees. In the new-hire training program in April 2006, participants engaged in a cleanup around the station near the Daiwa Training Center, and helped out at a nursing care home. One new employee that had participated in the program remarked that she was touched by the expressions of thanks from local residents. Another new hire commented that there were an awful lot of cigarette butts to pick up. Since that employee was himself a smoker, he became more socially conscious, keenly aware of the problem it creates when people carelessly toss this kind of rubbish on the ground.

The Daiwa Securities Group has been organizing a sign language class, open not only to its employees, but also to members of the public, since 2000. The course takes six months, and about 50 people take part each time.



New hire training (clean-up project)



New hire training (volunteering at a nursing care home)



Sign language class

### ●Jointly sponsored activities

With the help of local communities and NPOs, the Daiwa Securities Group also participates in large-scale volunteering activities. In 2005, the Group participated in a Chuo-ku clean-up event promoted by Chuo Planet and 15 other companies located in that district of Tokyo. Participants picked up litter including cigarette butts, and helped beautify the urban environment. Separately, communication courses were held in Tokyo, Osaka, and Nagoya, providing participants the skills needed to interact and listen sympathetically to troubled or marginalized persons.

### (3) Support for culture and the arts

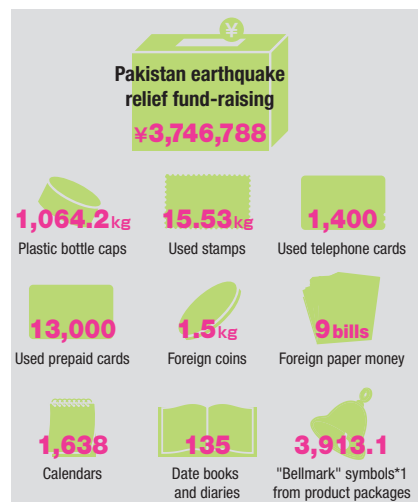
The Daiwa Securities Group has also undertaken various activities to support culture and the arts. Between April and October 2005, the Group sponsored the Louvre Museum exhibitions 'Masterpieces from the Louvre Museum', and in May, the Teatro La Fenice Japan Concert 2005.

The Louvre Museum exhibitions held in Kyoto and Yokohama attracted the greatest number of visitors to an art exhibit in Japan during fiscal 2005. In fiscal 2006, the Group sponsored another Louvre Museum exhibition 'Ancient Greek Art from the Louvre Museum'.



Private showing at the Louvre Museum exhibition

### ●Fund-raising by employees / Recycling activities and results (FY2005)



\*1. The "Bellmark" recycling program involves companies and schools, with the aim of giving children a clean and healthy environment in which to receive their education.

### (4) Assistance to communities both on the local and international level through foundations and NPOs

The Daiwa Securities Health Foundation provides assistance for surveys and research relating to public health, medical care, and welfare for the middle-aged and older. In fiscal 2005, the foundation provided assistance for 30 projects totaling ¥30 million.

The Daiwa Securities Foundation provides assistance for volunteer activities in the fields of welfare and medical care. In fiscal 2005, this foundation provided a total of ¥43.98 million in funding to 206 groups.

The Daiwa Anglo-Japanese Foundation is dedicated to promoting mutual friendship and understanding between Japan and the United Kingdom. Each year British students are awarded scholarships to come and study in Japan as Daiwa Scholars. There were seven recipients of this scholarship in fiscal 2005.

### Future issues and fiscal 2006 targets

The Daiwa Securities Group will continue its efforts to help resolve social issues and promote activities that value "human life" by supporting various assistance programs and cooperating with NPOs and NGOs.

## Corporate Citizenship

The Daiwa Securities Group aims to provide reliable support to regions in need by lending assistance to local NPOs.

### Fund to help survivors of the Sumatra earthquake and the South Asian tsunami

The Daiwa Securities Group Tsunami Reconstruction Fund was established to assist survivors of the major earthquake and resulting tsunami that struck Indonesia and other countries along the Indian Ocean on December 26, 2004. The fund will provide long-term support for ten years starting in fiscal 2005, with an annual disbursement of ¥10 million, totaling ¥100 million.

The Daiwa Securities Group Tsunami Reconstruction Fund was set up within the Asian Community Trust (ACT), and provides assistance to local NGOs in Indonesia,

Sri Lanka, and India that carry out projects in three areas: psychological well-being of children, education for children, and micro-finance projects. Project selection, implementation and monitoring are performed by the Asian Community Center 21 (ACC21), which serves as the ACT secretariat, and by the Sumitomo Trust & Banking Co., Ltd., according to their respective areas of specialty.

The major benefits of this fund are that firstly, it provides long-term rather than temporary reconstruction relief; secondly, it offers support by utilizing sustainable financial systems such as public trusts and micro-financing. Finally, professional monitoring

ensures that reconstruction efforts are carried out in the proper way.



Training to make handicrafts from coconut palm fronds

#### • Aid-recipient organizations

Country	Activity	Local NGOs	Number of beneficiaries	Aid*
Sri Lanka	Women's independence and development programs	Women's Savings Effort "Wilpotha"	225 female householders and 135 children	¥3.20 million
	Psychological care and educational support for children	O.E.R.	120 children and 1,200 adults needing educational support	¥1.60 million
India	Occupational training and self-sufficiency support for orphans and persons with disabilities	TRUE	75 children	¥1.19 million
Indonesia	Psychological care and educational support for children	WALSAMA-NAD	157 children living in evacuation camps	¥2.60 million

\* This is the amount spent in the first year of either a two- or three-year plan.



Distributing educational supplies to children

#### Comments from stakeholders

#### Rebuilding lives: Helping the survivors of the South Asian Tsunami

The monies from the Daiwa Securities Group Tsunami Reconstruction Fund are being used mainly for the following three programs. The first involves micro-financing and business development assistance for 225 women in the disaster-stricken region of Galle, Sri Lanka, which did not receive support from any other aid organization. Specifically, the following three projects were carried out over the past year: 1) Holding a total of nine awareness-raising workshops; 2) conducting occupational training and distributing tools in rope making, sewing, cement block making, farming, small shop keeping, stone masonry, food processing, and handicrafts; and 3) implementing campaigns by ten savings groups to generate savings (total amount of savings is 91,480 rupees or about ¥102,000 as of July 24, 2004).

In the second program, school supply kits were distributed to 135 children affected by the disaster. These kits included a school bag, cap, umbrella, textbooks, notebooks, shoes, pens, pencils, and a compass to help children get back to school. The third program involved taking children affected by the disaster on excursions to give them the opportunity to have fun and momentarily forget their difficulties. This program was placed on higher priority than other projects simply because there was a pressing need to help the children deal with the disaster and loss. Through these programs the local residents were able to rebuild their lives, and provide support to each other through this period. As a result, even people in the disaster-hit regions are starting to see these programs as more than simply relief aid - indeed, they help the survivors help themselves through this time of reconstruction.



Ms. Karunawathie Menike  
Chairperson,  
Women's Savings Effort "Wilpotha"  
(Sri Lankan NGO)

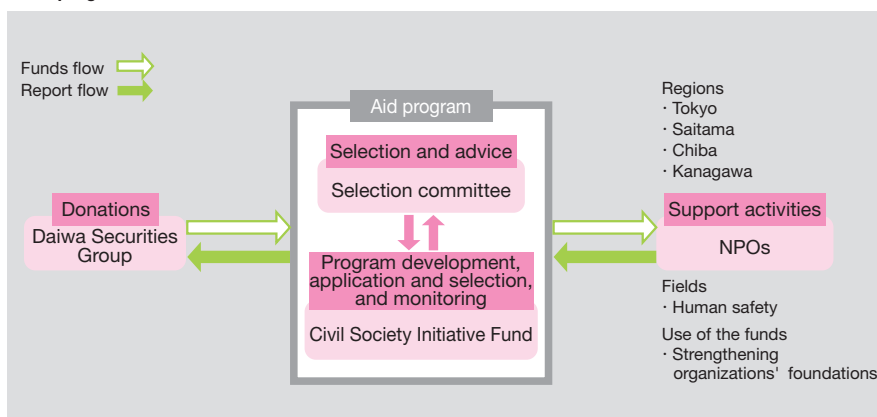
## ■ Developing NPO staff through the Daiwa SRI Fund Assistance Program

The Daiwa SRI Fund is a fund that evaluates the stocks of Japanese companies based on the company's corporate integrity and transparency. Daiwa Asset Management Co. Ltd., Daiwa Securities Co. Ltd., and Daiwa Securities SMBC Co. Ltd. donate fixed amounts based on the sales of this fund, and this is used to finance activities that value "human life".

The recipients of this assistance are NPOs that engage in projects to support people whose lives are in danger for various social reasons. Part of the funds go into strengthening the NPO organizations themselves, by assisting with education and personnel costs, rather than providing direct support to the programs organized.

A selection committee composed of NPO specialists determines the aid recipients. Donations are made from the three Daiwa companies that manage and sell the Daiwa SRI Fund to the Civil Society Initiative Fund, a special non-profit organization. The donations are then distributed where aid is needed.

### • Aid program



### • Aid recipient plans and organizations

Plan	Organization	Aid
Building staff capabilities in the areas of caring for prisoners and providing political advocacy on their behalf	Center for Prisoners' Rights	¥1.80 million
Human resources development aimed at improving organizations' efficacy in dealing with assisting refugees	Japan Association for REFUGEES	¥2.00 million
Developing coordinators for the Young for Young Sharing Program (YYSP), a mutual awareness-raising effort for young people concerning AIDS, human rights, and human security issues	JAPAN HIV CENTER (offices nationwide)	¥1.60 million
Creating a staff program to enable participation in volunteer projects for the poor	Non-Profit Organization: MOYAI (Independent Life Support Center)	¥1.60 million

### Comments from stakeholders

#### ■ Developing human resources to achieve a society that values "human life"

We were inspired to step up our efforts in corporate citizenship as the Daiwa Securities Group set up the Daiwa SRI Fund, eventually leading us to initiate contributions to NPOs. We studied the kinds of assistance programs that could clearly fulfill this purpose, and in the end, decided to undertake an issue that would be difficult in general to tackle. Our choice of issue is the realization of a society where human life is valued, and our focus is on staff development at NPOs that tackle projects of this nature. The most important thing for NPOs working to protect human life is to improve the efficiency and quality of the staff's daily work. Therefore, instead of project assistance, we now provide as much financial help as possible towards personnel costs.

For our first trial we decided to focus on the Tokyo region. Despite collecting NPO applications for only a short period of time, we have received appeals from 22 non-governmental organizations. After careful debate by the selection committee, we decided to provide assistance to four NPOs that deal with issues in Japanese society where the causes are difficult to pinpoint, and that are typically ignored by the majority of people.

The international community has made human security a key issue, and similarly, Japan cannot afford to ignore this topic either. The current assistance program will certainly become a pioneering example of working towards human security, an issue close to everyone's heart.



Professor Yoshinori Yamaoka  
President,  
Civil Society Initiative Fund  
(Professor, Hosei University)

## Environmental Initiatives

The Daiwa Securities Group recognizes that the impact of its day-to-day business activities on the global environment is not inconsequential. It is therefore working to build an environmental management system, as well as increase environmental awareness among its employees.

Issues and targets for fiscal 2005	<p>Improve precision of Daiwa's independent environmental management systems.</p> <p>Promote environmental communication.</p> <p>Establish a basic policy on green procurement.</p>
Results and progress for fiscal 2005	<p>Expanded the scope of the environmental management system from Daiwa Securities Group Inc. to include Daiwa Securities Co. Ltd. and Daiwa Securities SMBC Co. Ltd.</p> <p>Used the group website to distribute information, and exhibited at environmental events.</p> <p>Investigated the introduction of purchasing standards in the second half of fiscal 2006.</p>

### The Daiwa Securities Group's perspective on environmental problems

Environmental initiatives at the Daiwa Securities Group can be categorized into three types. The first approach is efforts to reduce the environmental impact of the Group's day-to-day business activities. The second is participation in activities which appeal to society. For example, the Group undertakes voluntary action standards recommended by international organizations. The third realm of action is so-called eco-business or environmental business, involving initiatives that help alleviate environmental problems through the Group's business operations.

#### (1) Steps taken to reduce the Group's environmental impact

The Daiwa Securities Group is aware of its obligations within society and is committed to do its part to resolve environmental issues. As such, the company is consciously working to reduce the environmental impact of its business. Along with recycling efforts, paper usage reduction through the computerization of information, and controlling the consumption of electricity, gasoline, and water, the Group is also investigating procurement standards including green purchasing and the use of environmental friendly paper such as Forest Stewardship Council certified paper. The Group informs employees of volunteer environmental projects and encourages them to initiate their own projects. These small and individual efforts add up to produce a great impact on society overall. Along the same vein, the

Daiwa Securities Group is also participating in Team Minus 6%, a national campaign to fight global warming by the Japanese Ministry of the Environment.

#### (2) Appealing to society

The Daiwa Securities Group emphasizes appeals to society to help resolve environmental issues. This includes active participation in voluntary action standards, and efforts through international organs to address social and environmental problems.

Daiwa Securities Group Inc. became a signatory company to the Carbon Disclosure Project (CDP)<sup>\*1</sup> in March 2004. It also joined the United Nations Environment Programme Finance Initiative (UNEP FI)<sup>\*2</sup> in November 2004. Then in May 2006, Daiwa Asset Management Co. Ltd. signed the newly announced Principles for Responsible Investment (PRI)<sup>\*3</sup>.



Signing UNEP FI (November 2004)

<sup>\*1</sup> See page 7 for more details  
<sup>\*2</sup> See page 7 for more details  
<sup>\*3</sup> See page 7 for more details

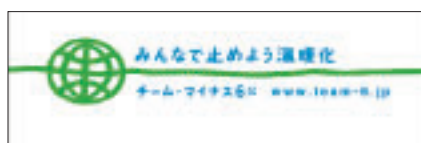
#### (3) Initiatives as part of the Group's business operations

The marketing of socially responsible investment (SRI) funds is one of the environmental initiatives being advanced by the Daiwa Securities Group in its core area of business. The Daiwa Eco Fund is representative of the SRI approach which

entails investing in companies that fulfill their social obligations and in this particular case, the focus is on environmental responsibilities. Through the formation and sale of SRI funds, the Group is channeling a wide range of public funds into companies that take CSR and environmental concerns seriously. At the same time, the Group is encouraging companies to put more effort into CSR and environmental initiatives in order to attract more investment funds.

The Daiwa Securities Group is now looking into transactions for greenhouse gas (GHG) emissions rights, as part of potential environment-related business. The Group is investing in development projects to control GHG emissions, such as wind-generated power in developing countries, and investing 7.5 million dollars in the World Bank's Community Development Carbon Fund. The GHG emissions rights obtained through this investment provide various business opportunities in investment banking such as product development, trading, and finance.

The current economic and societal structure relies too heavily on fossil fuels. This energy option has reached its limit and there are calls for new approaches such as energy saving and new energy sources. The Daiwa Securities Group recognizes its own social responsibility as a key participant in financial and capital markets; it must find companies with these kinds of advanced technologies, and assist them through corporate financing. The Group plans to create new markets in the area of environmental technology.





## ■ The Daiwa Securities Group and the environmental impact of its operations

### (1) Energy and water consumption

(Table 1, Graphs 1 & 2)

The form of energy most heavily used by the Group is electricity. Energy saving measures such as "lights out curfews" at the headquarters and branches and raising the office air-conditioner temperature setting in summer reduced the Group's electricity consumption in fiscal 2005 to 86.32 million kWh, a 3.6% improvement over the previous year.

By eliminating dining halls at the headquarters and branches, the Group was able to significantly reduce the amount of natural gas, heavy oil, light oil, and water consumed. The Group's use of gasoline is also declining, thanks to the move to highly fuel-efficient light motor vehicles for sales staff.

### (2) CO<sub>2</sub> emissions (Table 2)

When the Group's energy consumption is calculated in terms of CO<sub>2</sub> emissions, the Group was responsible for producing 51,921 tons of carbon dioxide in fiscal 2005. However, by reducing electricity consumption, which has the greatest impact on CO<sub>2</sub> output, the Group was able to lower its emissions by 4.7% compared to the previous fiscal year.

### (3) Waste generation and recycling (Table 3)

In fiscal 2005, the Daiwa Securities Group produced 1,470 tons of paper waste, which was a fall of 82.5 tons, or 5.3%, from fiscal 2004. The Group's paper recycling rate was 82%.

### • Waste generation and recycling over time (Table 3)

		(Unit: tons)		
		FY2003	FY2004	FY2005
Paper waste	Amount generated	1,495.5	1,552.8	1,470.3
	Amount recycled	1,297.4	1,328.8	1,212.3
	Amount discarded	198.1	224.0	258.0
	Recycling rate	87%	86%	82%
Non-paper waste	Amount generated	316.5	417.5	391.8
	Amount recycled	79.0	112.9	104.4
	Amount discarded	237.5	304.6	287.4
	Recycling rate	25%	27%	27%

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

### • Energy consumption (Table 1)

	FY2003	FY2004	FY2005
Electricity (kWh)	95,239,027	89,546,672	86,320,394
Natural gas (cubic meters)	885,700	904,255	727,485
Heavy oil (l)	45,179	61,739	30,146
Light oil (l)	12,732	11,048	1,267
Gasoline (l)	1,213,171	1,151,487	1,036,609

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

### • CO<sub>2</sub> emissions (Table 2)

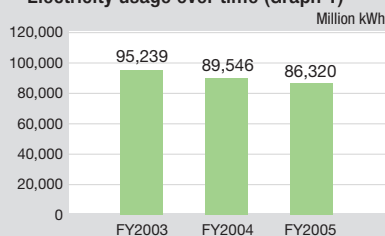
	FY2003	FY2004	FY2005
Electricity	52,857,660	49,698,403	47,907,819
Natural gas	1,841,955	1,880,543	1,512,921
Heavy oil	134,703	184,078	89,882
Light oil	33,349	28,937	3,319
Gasoline	2,816,571	2,673,362	2,406,654
Total	57,684,238	54,465,324	51,920,594

(Unit: Kg-CO<sub>2</sub>)

\* The emissions conversion factors used in the CO<sub>2</sub> output calculations are based on the ministerial ordinance related to the calculation of greenhouse gas emissions arising from the business activities of specified emitters (March 2006, Ministry of Economy, Trade and Industry and Ministry of the Environment, Ordinance No. 3), for all fiscal years. The emissions data from the previous year has been revised according to these new conversion factors.

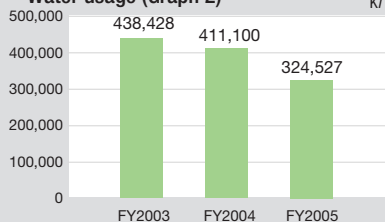
\* For the scope of data, see the "Scope of Environmental Impact Data" table.

### • Electricity usage over time (Graph 1)



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

### • Water usage (Graph 2)



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

### • Scope of environmental impact data (fiscal 2005)

Building	Tables 1 & 2 Graph 1	Graph 2	Table 3
Daiwa Securities Headquarters Building	○	○	○
Daiwa Securities Kabutocho Building	○	○	○
Marunouchi Trust Tower North Building	○	○	
Eitai Daiya Building	○	○	○
Sato Daiya Building	○	○	
Daiwa Securities Osaka Branch Building	○	○	○
Daiwa Securities Nagoya Branch	○	○	
Daiwa Asset Management Headquarters	○	○	○
Daiwa Institute of Research Headquarters Building	○	○	○
DIR Annex	○	○	○
Daiwa Eitai Building	○	○	○
DIR Kiyosumi Park Building	○		
Daiwa Osaka Center Building	○		
Toyochio Center Building	○	○	○
Daiwa Securities branch offices*	○	○	
Daiwa SB Investments Headquarters	○	○	
NIF SMBC Ventures Headquarters	○	○	○
Daiwa Training Center	○	○	
Daiwa Sanko Buildings (main and annex)	○	○	

\* 112 branch offices, excluding headquarters, Osaka and Nagoya Branch buildings.

## Environmental Initiatives

### Paper Project

Paper usage forms the single largest source of environmental damage by the Daiwa Securities Group. As a result, the Group initiated a Paper Project to reduce the use of paper. Investigations are carried out to assess the paper usage situation and how it can be further cut back.

In fiscal 2005's Paper Project, a target was set to reduce paper use by 5% over the previous year at Daiwa Securities Group Inc. By cutting back the number of copies printed of certain regular publications, the company was able to exceed its reduction target.

The Group also expanded the scale of this project from Daiwa Securities Group Inc. to all the principal group companies in Japan. The types of paper consumed by the Daiwa Securities Group in large quantities include copy paper at each of the group companies, and statement paper used at Daiwa Securities Co. Ltd. and Daiwa Securities SMBC Co. Ltd. In 2005, the Group bought approximately 933 tons of copy paper which was purchased in bulk for all group companies, as well as 1,557 tons of statement paper: 467 tons for Daiwa Securities Co. Ltd., and 157 tons for Daiwa Securities SMBC Co. Ltd.

### Reduced paper use by switching to electronic statements

Daiwa Securities Co. Ltd. is encouraging the reduction of paper used for printing statements, a major use of paper, through the Electronic Statement Promotion Project. The project went into full operation in February 2005. In addition to reducing the amount of paper and hence environmental impact, electronic statements offer other advantages such as lower costs, better internal administration efficiency, tightened information security, and improved customer convenience.

#### (1) Electronic statements for customers: e-members

Daiwa Securities Co. Ltd. is inviting customers who receive reports electronically, and those using online trading, to sign up as e-members. This type of customer receives his account statements, transaction reports and other notices by email, thereby greatly reducing the amount of statement paper needed.

#### • Copy and statement paper purchase amount for Daiwa Securities Group (fiscal 2005)

	Company	Total weight (kg)
Copy paper	Daiwa Securities Group Inc.	18,998
	Daiwa Securities Co. Ltd.	451,125
	Daiwa Securities SMBC Co. Ltd.	148,855
	Daiwa Institute of Research Ltd.	160,548
	Daiwa Asset Management Co. Ltd.	28,434
	Daiwa Business Center Co., Ltd.	51,039
	Daiwa SB Investments Ltd.	33,272
	Daiwa Property Co., Ltd.	3,108
	Daiwa Sanko Co., Ltd.	3,770
	Daiwa Card Service Co., Ltd.	268
	NIF SMBC Ventures Co., Ltd.	12,624
	Other	21,135
	<b>Total copy paper</b>	<b>933,176</b>
Statement paper	Daiwa Securities Co. Ltd.	467,134
	Daiwa Securities SMBC Co. Ltd.	157,020
	<b>Total statement paper</b>	<b>624,154</b>
	<b>Grand total</b>	<b>1,557,330</b>

In fiscal 2005, the initiative's first year of operation, the Group reduced the number of statements sent to customers by about 5.83 million pieces of paper. As a result, the consumption of statement paper by Daiwa Securities Co. Ltd. fell by 6.2% in fiscal 2005, which is estimated to be a savings of 31 tons of paper.

#### (2) Electronic statements for internal use

Along with the diversification of financial products, the types of internal statements and the number of pages printed have risen rapidly. Daiwa Securities Co. Ltd. has switched over to electronic statements in all its sales departments and branches, and stopped printing out 6,000 types of statements as of May 2006. As a result, the number of internal statement pages printed in May 2006 was decreased by 62.1% compared to the amount printed in May 2005, while printouts in June were decreased by 70.4% compared to the previous year's figure. A huge reduction in paper usage was achieved; a savings of about 140 tons of statement paper is expected for Daiwa Securities Co. Ltd. in fiscal 2006.

#### • Number of internal statement pages printed at Daiwa Securities Co. Ltd.

	(pages)		
	April	May	June
2005	3,225,509	3,198,168	3,281,186
2006	3,449,499	1,210,571	971,530
Compared to previous year	106.9%	37.9%	29.6%

#### Future issues and fiscal 2006 targets

During fiscal 2006, Daiwa Securities Group Inc., Daiwa Securities Co. Ltd., and Daiwa Securities SMBC Co. Ltd., are broadening the scope of their environmental management system to include consolidated companies in Japan, in an effort to further reduce the Group's impact on the environment. Specifically, the Group will further cut down on statement paper usage through the adoption of electronic statements, while also reducing electricity consumption required for printing. The Group is taking further steps to improve employee environmental awareness in terms of energy conservation and copy paper usage reduction. Investigations are also being made into setting procurement standards for the use of environmentally friendly paper, such as recycled paper or Forest Stewardship Council certified paper, especially for copy and statement paper.

## Third-party Evaluation

Daiwa Securities Group Inc. has been included in the following socially responsible investment (SRI) indices.

### FTSE4Good Index



FTSE4Good

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

Starting in September 2006, Daiwa Securities Group Inc. has been included in the FTSE4Good, an index of socially responsible companies compiled by FTSE. Mr. Will Oulton, Head of Responsible Investment at the FTSE Group offered this comment upon the inclusion of Daiwa Securities Group Inc. in the index.



Mr. Will Oulton  
Head of Responsible Investment  
FTSE Group

The FTSE4Good Index series has become one of the most internationally respected and influential responsible investment indices. To be eligible for inclusion, a company must meet a set of demanding criteria that are designed to reflect a broad global consensus on what constitutes good corporate responsibility practice. Companies gaining entry to the FTSE4Good index are able to represent that they have in place sufficiently robust policies and management systems to

manage the environmental social and governance ("ESG") risks and impacts.

Although Daiwa Group met the social and stakeholder criteria, Daiwa did not meet the environmental criteria. This year, FTSE are delighted to see an improvement in Daiwa's wide range of environmental measures and therefore judged Daiwa to be eligible for inclusion.

For achieving FTSE4Good status, Daiwa Securities Group Inc should be congratulated.

## Dow Jones Sustainability World Indices



The Dow Jones Sustainability World Index (DJSI World) is a stock index of companies with sustainable practices as selected by Dow Jones & Company, Inc. of the US, and Sustainable Asset Management (SAM) of Switzerland. Daiwa Securities Group Inc. has been in the DJSI World for eight years running now.

## Third-party Opinions

With regards to the Daiwa Securities Group's initiatives to promote corporate social responsibility, I would like to highlight two points of praise and suggest one issue for improvement.

The first point I'd like to praise is the Group's focus on social contributions through its core business. As presented in the Special Feature section of this report, the Daiwa Securities Group's CSR policy, drawn up based on clear principles and careful planning, involves emphasis on socially responsible investment (SRI) and the development and marketing of products based on the SRI concept.

Socially responsible investors have the desire to make the world we live in a better place. These investors are certainly on the rise and their concerns are becoming more differentiated. The Daiwa Securities Group is able to meet the expectations of these socially responsible investors, by clarifying and distinguishing its stock-picking criteria in response to the investors' diversifying and refining opinions. As a result, the Group has built up Japan's largest asset balance of SRI products.

The second point I commend is that the Group emphasizes ethical and legal compliance in order to improve the quality of its business and how it is conducted. The Group believes that by achieving a high standard in managing its business, the company can and will earn the confidence of its customers, including socially responsible investors.

After reviewing many companies, I have noticed that in the attempt to achieve full legal compliance on all aspects, companies sometimes lack the will to push through tough measures, resulting in only superficial efforts at compliance. In extreme cases, some companies just create and sign required compliance-related documents, hoping they will spare the company from scrutiny of its actual practices. The Daiwa Securities Group appears to be fully aware of such pitfalls, and has therefore made a determined effort to internalize the concept of legal compliance and integrity. Indeed, through the proper implementation of ethical measures, the Group has made real improvements to the quality of its business. But why go to such efforts? I think it is because the Group is keenly aware of the fact that it cannot offer SRI products to the public without first becoming a law-abiding corporate citizen and ethically respected company that has earned the confidence of its stakeholders.

Finally, I would like to point out an area in need of improvement. As the Group works toward improving the quality of its business operations, the number of customer complaints continues to increase at the same time.

The number of telephone complaints in fiscal 2005 increased by over 300 calls from fiscal 2004, reaching an annual total of more than 2,000 complaints. This development suggests that drastic measures must be taken to tackle this. Furthermore, the customer satisfaction surveys show that clients are unhappy when the handover of their accounts is managed poorly following a change in their account manager. Follow-up after sales was also highlighted as being poor. A greater number of complaints

may be expected as a result of the increase in the number of individual investors. However, to address the problem areas, some form of group-wide change is required. More importantly, the Daiwa Securities Group has chosen to be open about this issue and has included it in this report. This shows that the Group is ready and willing to take the necessary steps to make real improvements.

This highlighting of the problem of customer dissatisfaction could leave doubts in some readers' minds about how confident they can be in the Daiwa Securities Group. To answer this appropriately, let us take a look at what Daiwa Securities Co. Ltd. did after a large selling order was erroneously executed at a particular securities firm in 2005. As a result of an input error, it mistakenly sold a large quantity of stocks at a very low price.

As we see in the Message from the President, Shigeharu Suzuki, President and CEO of Daiwa Securities Group Inc., always tells his employees that he does not want any profits earned through unethical operations. If this were not the case, then the Daiwa Securities Group could have easily engaged in a massive purchase of the stocks, just like other individual speculators and institutional investors. However, once the Daiwa dealers noticed the spike in the volume of selling resulting from the erroneous order, they immediately stopped purchasing. During the few minutes that other companies were making large profits as a result of the error, frontline Daiwa staff made the decision without the need for direction from above.

I will leave the readers to decide whether or not the Daiwa staff made the right decision. In my opinion, however, I see their actions as proof that the top management's uncompromising integrity and honest stance towards ethical commitment have definitely become the foundation of the corporate culture at the Daiwa Securities Group.



Professor  
Iwao Taka

Graduate School of Economics  
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In the Message from the President at the beginning of this report, Mr. Suzuki said he believed that the Group's improvement in business performance is due to the increased CSR-awareness of its employees. It is clear from the Round-Table discussions and other information provided here that the Daiwa Securities Group is making a commendable effort to make itself a company worth working for, especially in the area of providing female employees a supportive environment in which to work. However, employees, as an important group of stakeholders, should be encouraged to read the Sustainability Report more strongly, a necessary measure I suggested in last year's report. If they do so, they can appreciate the positive information presented here, and may feel more inclined to provide direct and indirect support for the company's CSR efforts.

It is natural to expect that it, as Japan's top financial institution, should take the lead, still I think the Daiwa Securities Group should be praised for being one of the first signatories to the United Nations Environment Programme Financial Initiative (UNEP FI) charter and the UN Principles for Responsible Investment (PRI). Although the tasks of effectively implementing specific initiatives to realize these principles are not easy, I expect the Daiwa Securities Group will have the determination to enforce them successfully.

As part of the Group's important CSR efforts, the content in its program for education and research in economics and finance has been expanding and gaining depth each year. Moreover, the Group, as a financial institution, has been tackling the very important issue of achieving "Compliance", and hence, has taken steps to enforce and strengthen its measures. I highly appraise these efforts, but people in the company should note that these do not fit the definition of CSR in Europe. "Compliance" is a different matter from CSR, and the CSR efforts described are seen as kinds of philanthropy and no more than a common-sense endeavor at profit appropriation. There is no reason to be bound by the European definition of CSR, but in light of the increasing

number of overseas shareholders, I think there is a need for an explanation in the English version of this report to clarify that given the financial conditions here in Japan, these measures for education and research are to be emphasized as part of Daiwa's core business.

In addition to compliance, environmental measures represent core Japanese values when it comes to CSR in Japan. As the Daiwa Securities Group is following its own set of guidelines, different from the ISO 14000 series of environmental management standards, typically used within the Japanese manufacturing industry, I think the Group's concept must be explained when it implements efforts overseas. As I put forth in my comments in last year's report, in such cases the Group should seek to clarify its efforts to help secure biodiversity.

It appears that the Daiwa Securities Group has yet to establish its corporate governance charter, which was originally planned for 2004. There have been major changes in the external legal framework concerning governance, such as the enactments of the Company Law in 2005, and the Financial Products Transaction Law in 2006. Therefore, I presume that this new legislation delayed the establishment of a group corporate governance charter. However, since the Group has already publicly stated its intention to create such a charter, it should address this issue and provide a timeline as to when it will be ready.

The investigation into the establishment of voluntary action standards across the Group, a recommendation I made in 2004, has begun. Positive standards can be created that go beyond compliance and place human capital at the core of corporate values. It is important to stipulate the content of the corporate governance charter and voluntary action standards so that corporate governance, and internal control in particular, can be established to enhance corporate value. While setting up an internal control reporting system is an issue to tackle in the future for the Group, I hope that Daiwa Securities will put these and other policies in place to serve as the top-running example to other companies.

The Daiwa Securities Group Sustainability Report has become better every year, and external reaction to it has also been increasingly friendly. Still, with the large volume of information, sections on Corporate Governance and others are a little hard to understand. While the more detailed explanations about business operations are clear, the amount of technical terminology has also increased. Indeed, to appeal to a wider, more general audience, a better explanation of these terms is necessary. I hope that the Group will also take advantage of the web to make future improvements and expand the amount of information being provided.

Progress has also been made on the statistical data provided to make results more apparent to the reader. However, based on the "Plan-Do-Check-Act" (PDCA) approach, the sections where only the first two items, "Plan" and "Do", are presented need to be followed up with details about the latter two items, "Check" and "Act". I hope an effort will be made in this respect for future reports.



Mr.  
**Toshihiko Goto**

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



# GRI Content Index

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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 base years/periods, nature of business, measurement methods)	None
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<b>Core indicators</b>		
<b>Customers</b>		
EC1	Net sales	4, 31
EC2	Geographic breakdown of markets	4
<b>Suppliers</b>		
EC3	Cost of all goods, materials, and services purchased	32
<b>Providers of Capital</b>		
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	32
EC7	Increase/decrease in retained earnings at end of period	32
<b>Public sector</b>		
EC9	Subsidies received broken down by country or region	45
EC10	Donations to community, civil society, and other groups broken down in terms of cash and in-kind donations per type group	43, 45
<b>Indirect impacts</b>		
<b>Public sector</b>		
EC13	The organisation's indirect economic impacts	8
<b>Environmental performance indicators</b>		
<b>Core indicators</b>		
<b>Materials</b>		
EN1	Total materials use other than water, by type	49
<b>Energy</b>		
EN3	Direct energy use segmented by primary source	48
<b>Water</b>		
EN5	Total water use	48
<b>Emissions, effluents and waste</b>		
EN8	Greenhouse gas emissions (CO <sub>2</sub> , CH <sub>4</sub> , N <sub>2</sub> O, HFCs, PFCs, SF <sub>6</sub> )	48
EN11	Total amount of waste by type and destination	44, 48
EN13	Significant spills of chemicals, oil and fuels in terms of total number and total volume	None
<b>Products and Services</b>		
EN14	Significant environmental impacts of principal products and services	49
<b>Compliance</b>		
EN16	Incidents of and fines for non-compliance with all applicable international declarations/conventions/treaties, and national, sub-national, regional and local regulations associated with environmental issues	None
<b>Additional Indicators</b>		
<b>Energy</b>		
EN17	Initiatives to use renewable energy sources and to increase energy efficiency	48
<b>Water</b>		
EN20	Water sources and related ecosystems/habitats significantly affected by use of water	None
<b>Social performance indicators</b>		
<b>Labor practices and decent work</b>		
<b>Core indicators</b>		
<b>Employment</b>		
LA1	Breakdown of workforce, where possible, by region/country, status (employee/non-employee), employment type (full time/part time), and by employment contract (indefinite or permanent/fixed term or temporary). Also identify workforce retained in conjunction with other employers (temporary agency workers or workers in co-employment relationships), segmented by region/country	38
LA2	Net employment creation and average turnover segmented by region/country	37
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
<b>Diversity and opportunity</b>		
LA10	Description of equal opportunity policies or programmes, as well as monitoring systems to ensure compliance and results of monitoring	37-40
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, 38
<b>Additional Indicators</b>		
<b>Employment</b>		
LA12	Employee benefits beyond those legally mandated	39
<b>Labor/management relations</b>		
LA13	Provision for formal worker representation in decision-making or management, including corporate governance	39
<b>Training and education</b>		
LA16	Description of programmes to support the continued employability of employees and to manage career endings	37-38, 40
LA17	Specific policies and programmes for skills management or for lifelong learning	37-38

# The Road to Sustainability

Item	Indicator	Pages
<b>Human rights</b>		
<b>Core indicators</b>		
<b>Strategy and management</b>		
HR1	Description of policies, guidelines, corporate structure and procedures to deal with all aspects of human rights relevant to the reporter's operations, including monitoring mechanisms and results	24, 37-40
<b>Non-discrimination</b>		
HR4	Description of global policy and procedures/programs preventing all forms of discrimination in the reporter's operations, including monitoring systems and results of monitoring	24, 39
<b>Child Labour</b>		
HR6	Description of policy excluding child labour as defined by the ILO Convention 138 and extent to which this policy is visibly stated and applied, as well as description of procedures/programmes to address this issue, including monitoring systems and results of monitoring	24
<b>Forced and Compulsory Labor</b>		
HR7	Description of policy to prevent forced and compulsory labour and extent to which this policy is visibly stated and applied, as well as description of procedures/programmes to address this issue, including monitoring systems and results of monitoring	24
<b>Additional Indicators</b>		
<b>Strategy and management</b>		
HR8	Employee training on policies and practices concerning all aspects of human rights relevant to operations	39
<b>Disciplinary practices</b>		
HR9	Description of appeal practices, including, but not limited to, human rights issues	25
HR10	Description of non-retaliation policy and effective, confidential employee grievance system (including, but not limited to, its impact on human rights)	25
<b>Society</b>		
<b>Core indicators</b>		
<b>Community</b>		
SO1	Description of policies to manage impacts on communities in areas affected by activities, as well as description of procedures/programmes to address this issue, including monitoring systems and results of monitoring	14, 43-44
<b>Additional indicators</b>		
<b>Community</b>		
SO4	Awards received relevant to social, ethical, and environmental performance	30, 50
<b>Product responsibility</b>		
<b>Core indicators</b>		
<b>Respect for privacy</b>		
PR3	Description of reporting organisation's policy, procedures/management systems and compliance mechanisms for consumer privacy	27-28
<b>Additional indicators</b>		
<b>Customer health and safety</b>		
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	30, 50, Back cover
<b>Products and services</b>		
PR8	Description of policy, procedures/management systems, and compliance mechanisms related to customer satisfaction, including results of surveys measuring customer satisfaction. Identify geographic areas covered by policy	33-34
<b>Advertising</b>		
PR9	Description of reporting organisation's policies, procedures/management systems and compliance mechanisms for adherence to standards and voluntary codes related to advertising	27

## Financial Services Sector Supplement: Pilot Version 1.0

<b>Social performance indicators</b>		
<b>Corporate social responsibility (CSR) management</b>		
CSR1	CSR policy	1-2, 23-24
CSR2	CSR organisation	23-24
CSR4	Management of sensitive issues	25-30
CSR5	Non-compliance	27
CSR6	Stakeholder dialogue	9-10, 11-12, 33-46
<b>Internal social performance</b>		
INT1	Internal CSR Policy	37-40
INT2	Staff turnover and job creation	40
INT7	Employee profile	4, 38, 40
<b>Performance to society</b>		
SOC1	Charitable contributions	43-46
SOC2	Economic value added	31-32
<b>Investment banking</b>		
IB1	Investment policy	7, 11-12
IB2	Customer profile: Global Transaction Structure	5-6
IB3	Transactions with high social benefit	13-14
<b>Asset management</b>		
AM1	Asset management policy (socially relevant elements)	7, 13-14
AM2	Assets under management with high social benefit	9-14
AM3	SRI oriented shareholder activity	13-14

Year	Month	The Daiwa Securities Group's Road to Sustainability
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 the 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 Sumatra earthquake and South Asian tsunami. (Daiwa Securities Group Tsunami Reconstruction Fund)
	April	With the Incubation Projects of Waseda University Intellectual Property Center, set up a basic venture capitalist course for students.
		Employee CSR questionnaire survey.
	May	Environmental Management Committee introduced at Daiwa Securities Group Inc.
	June	Support provided to Finance Park, a hands-on economics educational program offered by Junior Achievement Japan.
	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.
	November	Inaugurated support program for NPO staff, funded by donations based on Daiwa SRI Fund sales.
2006	January	The <i>Daiwa Securities Group Sustainability Report 2005</i> wins the Sustainability Report First Prize (Minister of the Environment Award), sponsored by the Global Environmental Forum.
	February	Development of Euro-dollar Bonds with Emissions Credit Value Referenced Coupons (Cool Bonds). Started sales of Daiwa Eco Fund.
	April	New medium-term management plan "Passion for the Best 2008", which includes the Group's basic CSR strategy.
	May	Daiwa Asset Management Co. Ltd. signs the Principles for Responsible Investment (PRI), jointly created by the United Nations Environment Programme Finance Initiative (UNEP FI) and the UN Global Compact.



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