

Daiwa Securities Group Sustainability Report 2003



**BUILDING
SUSTAINABLE
SUCCESS**



Dialogue

Fulfilling the Mission of the Securities Industry

On May 29, 2003, Daiwa Securities Group Inc. President and CEO sat down with Corporate Social Responsibility expert Toshihiko Goto to talk about the Group's mission.

Goto: President Hara, you have been putting a great deal of effort into corporate branding. What is your objective for that?

Hara: The objective of corporate branding is to build trust. In the securities industry, we do business in an ever-changing market. The prices of stocks and bonds are constantly fluctuating, so our products bear a certain amount of risk. That is why trust from our customers is more important than anything. I think, however, that the philosophy of pursuing trustworthiness as one of the prime objectives has yet to be fully accepted in the securities sector. At the same time, customers and society in general are keeping a sharper eye on companies. These were my motivations in establishing "customer trust" as a cornerstone of our Corporate Principles as soon as I took the post of President. I was convinced of a need to change our employees' consciousness and to provide services that would give customers something they felt they could not get elsewhere. I felt it was critical to build up a trusted brand to get customers to choose us as their securities company. The branding activities for bringing this idea to reality have been underway for two and a half years, and we are starting to see the spread of a brand consciousness and sense of direction among our employees, ways of thinking that are critical to customer trust.

Goto: If this employee consciousness is weak and something goes wrong, many companies try to cover it up. But if employee consciousness is elevated, the organization goes to work to review the problem and make changes. That raises the value of the company.

Hara: In the last fiscal year, there was a problem at one of our Group securities companies that had a huge impact on our brand. This caused inconveniences to our customers and other stakeholders, but it also provided an incentive for system reform. The happiest benefit of the branding activities is the fact that if some irregularity happens, we do not try to hide it, we support our employees who are out there doing their jobs. This is because we have clearly stated the ideas I was just telling you. Of course our ultimate goal is to eliminate any problem of this sort, which is crucial if we are to establish the brand. Raising employee awareness is essential to making this happen, so we are making employee education a priority. Through training and



A handwritten signature in black ink, reading "Y. Hara". The signature is fluid and cursive, with the first letter of each name being capitalized and prominent.

Yoshinari Hara

President and CEO, Daiwa Securities Group Inc.



email, I have a dialogue going with our employees on the subject of the brand. The effort will take perseverance, but it is one of top management's most important jobs.

Goto: Lately I hear the word "commitment" quite frequently. What commitments are you making personally to people within and beyond your company?

Hara: The commitment I am talking about is a "promise to fulfill our duties," which is not a typical Japanese motto. Overseas investors expect a commitment primarily in terms of profitability, which is not always an easy task. My personal commitment is to implement the "Best Brand Daiwa 2005", a new medium-term management plan to guide us through FY 2005, and to be No. 1 in quality and productivity.

In addition, although it is difficult to quantify the results of the branding activities, I hope to create a system that will give us a sense of how much we have achieved. An example of this commitment is our ongoing award program for employees, called the Best Brand Daiwa award, which is a way to keep communication open with our employees and continue to detail my stance on these matters to them.

Goto: Commitment itself is an important quality overseas and an important element of a brand. In terms of social and environmental sustainability, I hope that corporations like yours will make stronger concrete commitments, like stating how you will set targets for hiring female employees. Incidentally, when your products are financial instruments, your products and office operations have a smaller direct impact on the environment than manufacturing or distribution. But even so, the financial acts of lending and investing do have a very significant impact. How does the Daiwa Securities Group plan to deal with environmental issues in its core business of dealing in securities?

Hara: One way of dealing with the environment within our core business is the Mrs. Green eco fund we have set up. Presently we are studying the incorporation of socially responsible investing, or SRI, in our business. Moreover, I have always thought that securities work is well suited to women. Unfortunately we don't have many female employees who are management candidates at this time, but we are working to promote more women.

Goto: SRI has risen to the level of a national strategy in Europe; is it possible that a Japanese-style SRI practice will arise, different from

that in Europe?

Hara: If you ask me what the key is to real development of Japan's financial market, it is corporate governance. From this perspective, it is fine to have investment trusts based on the ideas and efforts of the companies' top managements. But presently we at Daiwa Securities Group are struggling to come up with appropriate criteria to measure corporate governance.

Goto: In Europe and North America, corporate social responsibility and corporate governance in the broad sense are used interchangeably. As a result, investment trusts that look at each company's corporate governance in the broad sense are a perfect example of SRI. Moreover, in the corporate social responsibility approach, they emphasize assessing the final profit or loss, weighted by economic, social and environmental performance. When I say economic, I do not mean just the fiscal health and profitability of a company, but its economic effect on society as well, such as its ability to create jobs for communities. The trend is to examine companies from these aspects as well.

Hara: The more information corporations disclose, the more trust society will put in those firms in terms of investing. Our mission in the securities industry is to create healthy direct finance markets in cooperation with the most progressive corporations. The dawning era is one of direct finance. In Japan, however, in spite of our large economy, we have a small financial market, and individuals are not using their own financial resources in ways that have any risk. That is the biggest problem with Japan's economy. Our responsibility and mission is to aid the social transition from indirect to direct finance, which is to say, helping individuals become risk-assuming investors.

Goto: Now that you have explained your vision and mission, I look forward to seeing them in action at the Daiwa Securities Group.

Toshihiko Goto

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



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Editorial Policy

The Daiwa Securities Group released its first *Sustainability Report*¹ in 2002. This report provided information on Group pro-sustainability activities and social responsibility, and was written to be as readable and as sincere as possible. This year we offer our second *Sustainability Report*.

Each of its major sections (*Compliance, Corporate Governance, Information Disclosure, Initiatives in Our Core Business, Working for Customer Satisfaction, Daiwa People, As a Corporate Citizen and a Member of the Community* and *Working for the Environment*) addresses Group activities taken to promote economic, social or environmental sustainability.

Toshihiko Goto, Chair of the Environmental Auditing Research Group (EARG) and member of the Board of Directors of the Global Reporting Initiative (GRI), and Professor Iwao Taka of Reitaku University, a specialist in corporate ethics and compliance, provided third-party opinions in the 2002 *Sustainability Report*. As far as possible, the issues pointed out by these authorities have been addressed in this year's report. Specifically, we have expanded the scope of our environmental performance data, provided more quantitative social information, and revealed specific targets and issues and progress made on them. Additionally, the *Stakeholder Dialogue* section, new with this year's report incorporates comments that have been made to us whenever possible.

This report was prepared referring to GRI's² international guidelines for sustainability reports. We seek to offer information transparently and promote two-way communication with our stakeholders.

Scope of this report

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

Scope of reporting: This report basically covers our nine main Group companies³. However, it does not provide data from all nine companies on all items. Rather, the information is provided in proportion to the size and business area of each company. The scope of each category of numerical data is noted along with the data.

Period covered in report: FY 2002 (April 2002 – March 2003). Some information is provided that became available close to the publication date and some activities are covered that occurred prior to FY 2002.

¹ Sustainability report: Defined as a report on a company's efforts and systems for addressing three interdependent aspects of corporate activity—economic, social and environmental—as well as the results of these efforts.

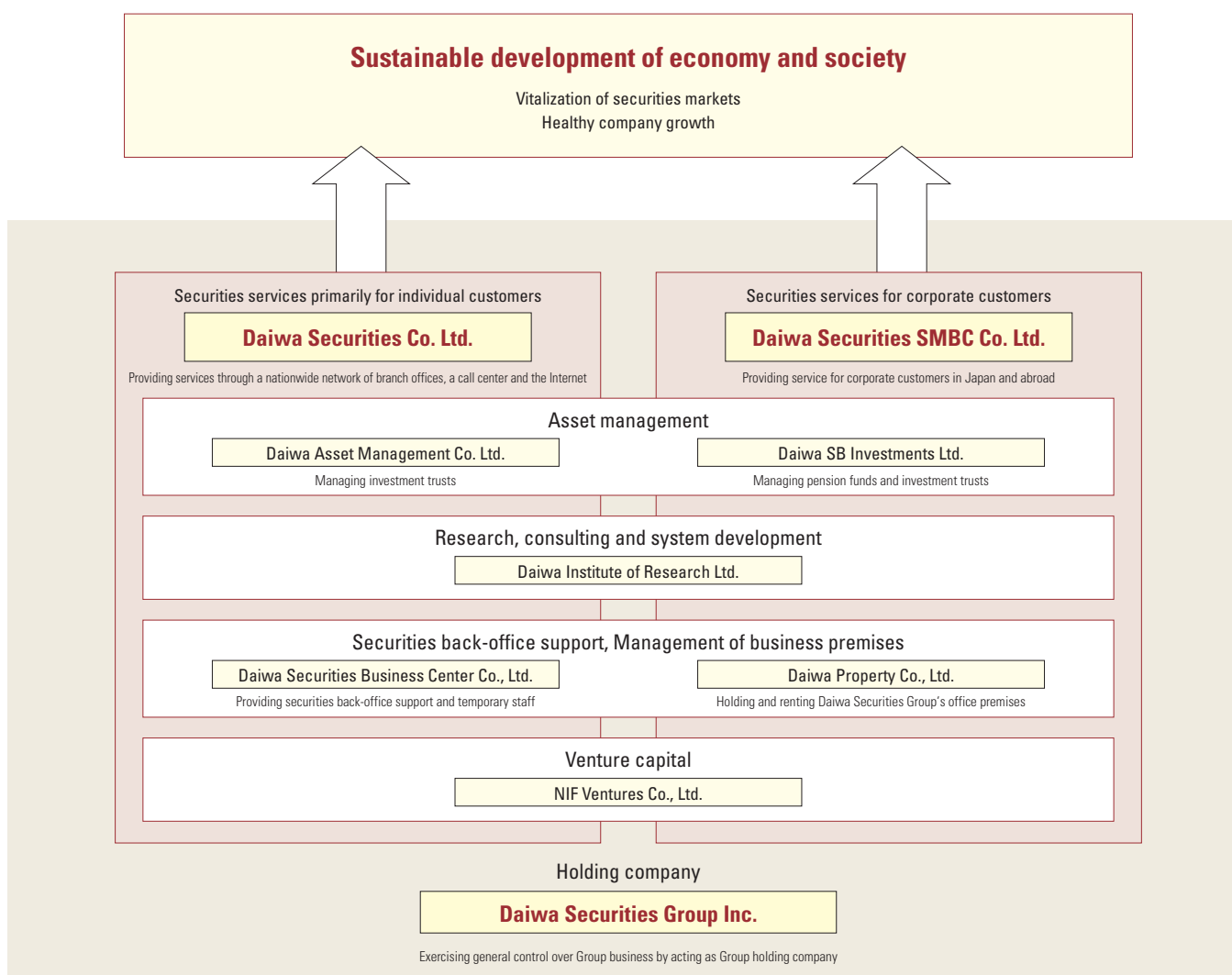
² Global Reporting Initiative (GRI): An organization founded to propose and promote international guidelines for sustainability reporting. Participants include a variety of stakeholders such as businesses, non-governmental organizations, consultants, accounting groups and business groups from different parts of the world. Operations began in the autumn of 1997. For details see *About the Global Reporting Initiative*, page 39.

³ Nine main Group companies: see *Profile of Daiwa Securities Group Companies*, page 05.

Profile of Daiwa Securities Group Companies

Daiwa Securities Group Inc.* 6-4, Otemachi 2-chome, Chiyoda-ku, Tokyo 100-8101, Japan	Daiwa Securities Co. Ltd. 6-4, Otemachi 2-chome, Chiyoda-ku, Tokyo 100-8101, Japan	Daiwa Securities SMBC Co. Ltd. 8-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-8289, Japan
Daiwa Asset Management Co. Ltd. 10-5, Nihonbashi, Kayabacho 2-chome, Chuo-ku, Tokyo 103-0025, Japan	Daiwa Institute of Research Ltd. Daiwa-Soken Building, 15-6, Fuyuki, Koto-ku, Tokyo 135-8460, Japan	Daiwa SB Investments Ltd. 7-9, Nihonbashi 2-chome, Chuo-ku, Tokyo 103-0027, Japan
Daiwa Securities Business Center Co., Ltd. 3-2, Toyo 2-chome, Koto-ku, Tokyo 135-0016, Japan	Daiwa Property Co., Ltd. 1-9, Nihonbashi, Kayabacho 1-chome, Chuo-ku, Tokyo 103-8219, Japan	NIF Ventures Co., Ltd. 2-1, Kyobashi 1-chome, Chuo-ku, Tokyo 104-0031, Japan

* This company issues the *Sustainability Report*.



Brand Management and Sustainability

Key Points

- Customer trust comes first in our Corporate Principles.
- Our holding company structure and spun off functions have made us more customer-oriented.
- Trust from customers and society builds the Group's brand.
- Brand management and sustainability are one and the same.

The Daiwa Securities Group puts more emphasis on customer trust than anything else. We believe that once we have trust, the Daiwa Securities Group brand starts to build itself. Moreover, we are working to win the trust not only of customers but also from society as a whole; this effort is contained in our pro-sustainability activities.

Establishing new Corporate Principles

The Daiwa Securities Group's pro-sustainability activities date back to March 1998, when we established our new Corporate Principles. The previous year, the former Daiwa Securities¹ and some of its officers and employees had been accused of violating the Securities and Exchange Law and the Commercial Code after payments had been made to corporate racketeers. In the immediate wake of this incident, newly appointed President Yoshinari Hara announced his firm belief that "Society will never accept the securities industry if it continues to do business the old way. The thing Daiwa needs above all is trust from customers and society." The company established the Corporate Principles as its spiritual pillar, and the first item in the principles was and is the principle of customer trust.

¹ Now Daiwa Securities Group Inc.

Corporate Principles

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.

Brand Statement

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

We Shall Provide Products and Services that Exceed Expectations

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

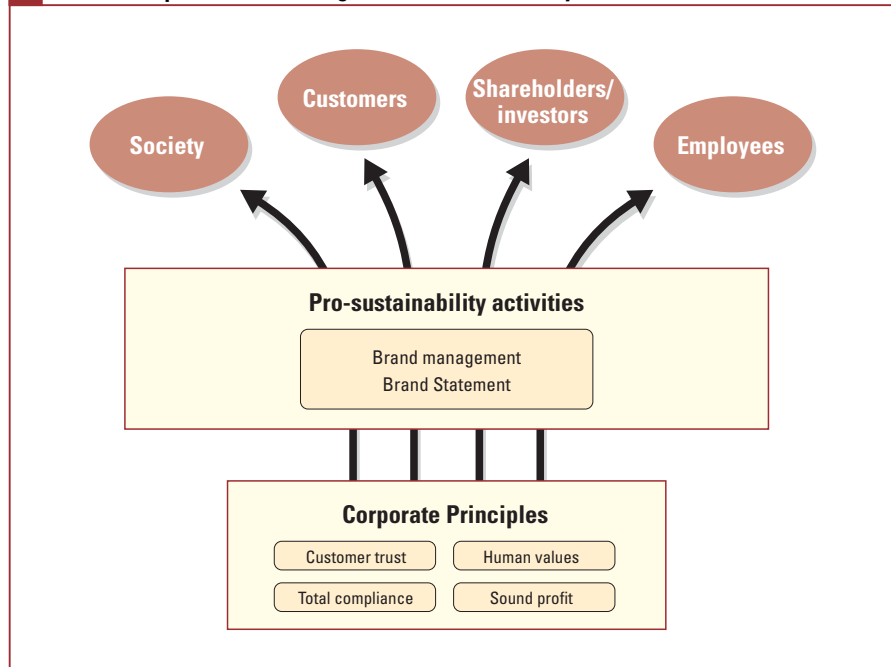
We Shall Bring the Full Strength of the Group to Bear

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

We Shall Continually Challenge the Limits of Financial Best Practice

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

Chart of corporate brand management and sustainability



Strengthening Corporate Governance: Adopting a Holding Company System

As regulations over the financial industry have been loosened and it has become more global, it has also become more competitive. The changing environment led us to seek a new business model in April 1999 by splitting the former Daiwa Securities into Daiwa Securities Co. Ltd. and Daiwa Securities SB Capital Markets Co. Ltd. (now Daiwa Securities SMBC Co. Ltd.) and moving to a holding company structure, the first such example among listed companies in Japan. The objective for this move was to adopt a group management system such as only a holding company could provide, and through this, enable strong corporate governance that would engender trust among our varied stakeholders. Additionally, by separating operations specifically for individual and corporate customers, we would be better able to serve these customers. Finally, we had determined that a group management system was the best for managing risk and enhancing the corporate value of the Daiwa Securities Group as a whole.

Earning trust, building the Daiwa brand

As the Daiwa Securities Group sees it, the mission of the securities industry is to provide both capital procurement and asset management for our customers in a partnership based on trust. As we transition from an economy of indirect financing to one of direct financing, the securities market will play an increasingly important role. However, in Japanese society, indirect financing has had the more dominant role; individuals have generally avoided investing in risk-bearing securities, delaying growth of the securities market in proportion to the economy. We believe that part of the reason is, the securities industry in Japan has not tried hard enough to build trust in the securities market among investors or society.

In October 2000, having come to the conclusion that our most important task was to earn customer

trust in an industry dealing in risk-bearing financial instruments, we started the cross-company Corporate Branding Project to fix the image of our brand as worthy of trust. We followed up by issuing our Brand Statement, clearly expressing our promises to our customers, in March 2001.

One does not build a corporate brand in a day. Securities companies find it especially challenging to follow one management strategy consistently over the long term when market trends are affecting their short-term results. Such companies have to make persistent efforts to build a corporate organization that deserves trust, both as a long-term asset management partner and as a corporate citizen. What this means to the management team is that they must conduct business in adherence to a long-term vision; for employees, it means doing their day to day jobs in ways that meet the needs of stakeholders, including customers, shareholders, investors and local communities.

Brand management =Sustainability management

Everything that the Daiwa Securities Group does in the name of brand management is completely consistent with our economic, social and environmental sustainability management.

As part of our branding activities, since FY 2001, the Group has given the Best Brand Daiwa award to departments and offices helping to build the Daiwa brand. Our efforts on behalf of sustainability—contributing to communities and society, increasing employee motivation—have won high praise (see below). We believe these activities lead to deeper stakeholder trust and are crucial to elevating the Group's brand.

Thus, for the Daiwa Securities Group, brand management is one and the same with pro-sustainability management. With this understanding, in 2002 we celebrated 100 years of doing business and began looking ahead to the next 100 years. It was at this historic time that the Group released its first *Sustainability Report* and publicly expressed its commitment to sustainability.

Best Brand Daiwa 2002, award for contributing to brand profile in FY 2002

Grand Prize

Efforts on Behalf of Brand Penetration Regionally

– Submission of "Securities Market Theory," special lecture at Kagawa University–
(Daiwa Securities)

Excellence Award

Details of updating of "Shareholder Rewards Catalog" and Materialization of Brand
(Daiwa Securities)

Working to create highly service-oriented sales outlets with local roots
(Daiwa Securities)

Start of distribution of Bloomberg Yen Bond Fixing Price
(Daiwa Securities SMBC)

Corporate investment in Ogihara Corporation
(Daiwa Securities SMBC)

Results, Issues and Targets

		Major results from FY 2002
Compliance	Entire Group	Group-wide Corporate Ethics Hotline internal reporting system set up.
	Daiwa Securities	Compliance Department staff members develop "Compliance Caravan." Compliance committees held at each branch office.
		Customer interview system substantially improved.
		Compliance Department increases staff for branch office checking and advising from four to 14 members.
	Daiwa Securities SMBC	Strengthened information risk management. Stricter control over employee ID cards, implementation of information security self-checks, etc.
		Established stricter control over information, including data in computers and servers.
Strengthened system of monitoring securities trading by employees and their families.		
		Gave centralized compliance training.
		Implemented internal auditing system based on self-assessments.
Corporate Governance	Appointment of first Outside Director and reduction of director terms from two years to one.	
	Establishment of new medium-term management plan—Best Brand Daiwa 2005.	
	Decision to implement payment in shares of our stock system as part of executive compensation following advice of Compensation Committee.	
	Establishment of Internal Audit Department at holding company to promote internal control in Group	
	Establishment of Internal Control Project and Internal Audit Rule	
Information Disclosure	Webcast of teleconference with institutional investors and analysts on day business results announced.	
	Shareholders allowed to cast votes by Internet on general shareholder meeting decisions.	
	First <i>Sustainability Report</i> of the Daiwa Securities Group issued.	
	Individual shareholders surveyed	
Core Business	Mrs. Green eco fund begun in June 2001.	
	Four regional index funds begun.	
	Supported Tokyo international conference of the Association for Sustainable & Responsible Investment in Asia (ASrIA).	
	Organized Japan's first company visits by investors committed to sustainable and responsible investment.	
	Surveyed institutional investors interested in SRI.	
	Established industrial-academic ties with more than 20 universities and graduate schools.	
Customer Satisfaction	Expanded support for establishment of investment clubs to 174 clubs.	
	Began publishing "Tento (Shop) Weekly", an employee newsletter for improving service quality at sales offices.	
	Gave second customer satisfaction survey and determined areas to emphasize.	
Daiwa People	Daiwa Securities places second among securities companies in Nikkei Financial Daily study of financial institution branch service.	
	Average employment rate of persons with disabilities at nine Group companies rose 0.15 points over previous year (1.69% as of end of March 2003).	
	Percentage of women in career-track and regional career-track employment programs among employees in Japan rose, and female managers rose by three (as of end of March 2003).	
	Period during which parents exempted from overtime work extended from first two to first three years of child's life.	
	Began joint training for new employees at nine companies. Strengthened programs in corporate principles, ethics and social responsibility.	
	Cumulative graduates of Daiwa Leadership Program rose to about 150. About 10% of Deputy General Managers were graduates.	
	Added eight courses to Daiwa Securities' online training system @DESK.	
Philanthropy and Community Involvement	Established system linking employee bonuses to company performance.	
	Decided to reform personnel compensation based on work classification, and more detailed personnel evaluations (to be fully implemented from FY 2004).	
	Provided 320 million yen for corporate citizen activities (about 1.1% of ordinary income).	
	Continued community affairs programs as part of new employee training and wheelchair experience in managers' training.	
	Continued sign language courses and guide dog experience courses in Tokyo, Osaka and Nagoya.	
Environment	Daiwa Securities Health Foundation provided 30 grants worth 30 million yen. Daiwa Securities Foundation gave 202 grants worth 52 million yen.	
	Daiwa Anglo-Japanese Foundation has sent 81 British students to Japan for study through the Daiwa Scholarships.	
	Sponsored Marc Chagall exhibition to honor Group centennial.	
Environment	Expanded scope of our environmental performance data. Added branch offices of Daiwa Securities and four buildings to collection locations.	
	Submitted Global Warming Action Program for three buildings to Tokyo Metropolitan Government.	
	Continued to support "Saving Forest Giants," a giant tree preservation program.	
	Took part in cleanups at Kujukurihama Beach, Mt. Rokko, etc.	

*Dates are provided for items already performed as of July 2003.

Issues and targets for FY 2003 and beyond*	Page in report
Provide systematic compliance training. Perform internal process-check inspections. Revise a compliance manual. Establish voluntary action standards. Changed affiliation of internal administration supervisors and methods of their personnel evaluation (April 2003). Systemize compliance training. Give division and theme-specific training, offer online training, etc. Revise inspection items and frequency based on regular self-assessments by each unit.	10~15
Increase Outside Directors from one to two (out of total of seven directors) (June 2003). Disclose total director and corporate auditor compensation (June 2003). Move to a "committee system" and establish Nominating, Compensation and Audit Committees. Perform results evaluation in accordance with new medium-term management plan. Establish a Corporate Governance Principle. Prepare Group-wide risk assessment, control and monitoring systems.	16~17
Held Experts' Roundtable with outside experts on environmental issues, social contributions, consumer issues and so on (April 2003). Start a new rewards program for shareholders (beginning FY 2003). Took first place in Gómez Japan's first securities company IR site ranking (May 2003). Establish a Disclosure Policy to provide standards and methods for information disclosure. Enhanced information on and improved user-friendliness of IR website.	18~19
Proposed elimination of double taxation on dividends, introduction of investment trust sales through post offices, etc. (April-June 2003). Signed agreement with Fukuoka Prefecture on support to attract system-on-chip companies (May 2003). Invested US\$2.5 million in World Bank carbon fund (July 2003). Support economics/financial education for young people (elementary school through high school students). Support socially responsible investing.	22~23
Established "customer retention rate" as an indicator of retail branch performance (April 2003). Transferred Customer Satisfaction (CS) Promotion Department from Compliance Division to Marketing Division (June 2003). Hold third customer satisfaction survey. Consider degree of customer satisfaction in assessments of retail branches and employees.	24~25
Raise average employment rate of persons with disabilities at nine companies to 1.8%. Promote women, by naming them as management candidates, etc. Graduated 20% of Deputy General Managers through Daiwa Leadership Program. Enrich programs designed for enhancing ability of consulting and asset management. Implement reform of personnel compensation (on left), and develop multi-directional assessment system. Greatly expand intra-Group job posting Study Nominating Committee operations system and director selection standards.	26~29
Sponsored performances by opera company Fondazione Teatro Lirico "Giuseppe Verdi" Trieste (May-June 2003). Support economics/investment education more actively. Provide more volunteer opportunities to interested employees.	30~31
Conduct company environmental campaign "Do Something Good for the Environment" (May 2003). Joined the Green Purchasing Network (June 2003). Establish a basic green purchasing policy and develop green purchasing. Introduce an Environmental Management System, study setting up a department of environmental management. FY 2004 greenhouse gas reduction targets at Group's three buildings: 0.1%, 1.9%, 2.0% respectively	32~35

Addressing Issues and Setting Targets

The Daiwa Securities Group is working in many ways to enhance the sustainability of both society and the Group itself. We see disclosure of the Group's issues and targets as a key part of our responsibility to explain ourselves to our stakeholders.

In FY 2002 our efforts focused primarily on strengthening our systems of corporate governance and legal compliance. For example, we established a new medium-term management plan (for FY 2003-2005), implemented an internal reporting system (the Corporate Ethics Hotline) and set up an Internal Audit Department. Additionally, we have established regional index funds and supported the diffusion of socially responsible investing in Japan as part of our efforts to fulfill the mission of the securities industry but also to revitalize the Japanese economy.

In FY 2003 and beyond, we will conduct our pro-sustainability efforts within our core business by enriching our economics and investing education programs. Moreover, in keeping with our corporate branding action plan, we will continue to promote customer satisfaction, create workplace conditions that encourage employee pride and morale, and reduce environmental burdens caused by corporate activities.

Compliance

In FY 2002 Daiwa Securities SMBC and Daiwa Securities were found to have deviated significantly from the Group's goal of brand management. To foster a corporate culture that will not allow such a thing to happen again, we are working to step up the Group's overall compliance system.

Branding requires an established compliance system

One of the pillars of the Daiwa Securities Group's Corporate Principles is "total compliance," under which the Group promises that "it will maintain high standards of professional ethics and a fair code of conduct, thereby contributing to the development of our society." Creating the internal standards and rules needed to comply with the law, guiding and raising the consciousness of employees and monitoring their work are major preconditions of corporate activity. Compliance as it is

Key Points

- The Group discovered incidents of deviation from the principles of brand management.
- A Group-wide Corporate Ethics Hotline internal reporting system was set up.
- We have adopted stronger control over undisclosed corporate information to prevent insider trading.
- We have substantially improved our customer interview system by branch managers and other sales supervisors.

meant to be practiced in the Daiwa Securities Group means that all employees respect the law and regulations in their day to day work, and that they do so with a strong sense of ethics.

At Daiwa Securities Group, we consider a strong system of compliance to be the key issue in our quest for brand management. Therefore, we have established a Group ethics code, built compliance systems suited to the business characteristics of each Group company, trained management and employees, and incorporated compliance into performance evaluations¹. Regrettably, in spite of all these efforts, Daiwa Securities SMBC and Daiwa Securities were found to have deviated significantly from the Group's sought-after ideal of brand management. We humbly apologize to our stakeholders for the problems this has caused.

Below we report on these incidents and on specific efforts the Group is making to strengthen its compliance system, including how we deal with such incidents internally and measures for preventing them in the future.

¹ For details see pages 18-21 of *Daiwa Securities Group Sustainability Report 2002*.

Administrative sanctions against Daiwa Securities SMBC

In May 2003 Daiwa Securities SMBC's former General Manager of the Institutions Department and the former Deputy General Manager of the Strategic Advisory (M&A) Department were indicted on charges of using undisclosed corporate information² to violate restrictions against insider trading. In June, the Financial Services Agency of Japan ruled on this case, saying that Daiwa Securities SMBC's control over such information was insufficient to prevent the unfair trades. Actions taken against Daiwa Securities SMBC were the suspension of business for one day in the Institutions Department (Section 1-7) and the Strategic Advisory (M&A) Department and an order to improve business practices. In response, Daiwa Securities SMBC halted operations in the above departments and submitted a Business Improvement Report to the Financial Services Agency detailing prevention measures and what it would do internally in response to the incidents.

Internally, the former General Manager was given the equivalent of a disciplinary dismissal (since he was "on-loan" from another company), but no action could be taken against the Deputy General Manager, because he had resigned before his case was discovered. Internal actions were also taken against Daiwa

Securities SMBC, especially the officers responsible for overseeing the related divisions at the time the incident occurred. Directors at Daiwa Securities Group Inc. also forfeited a portion of their compensation since they too had an oversight role as directors of the parent company.

A measure already in place to prevent insider trading at Daiwa Securities SMBC was to forbid employees from opening accounts at any securities company other than Daiwa Securities. Further internal rules that were in place included requiring employees to get permission from their superiors before buying or selling securities and a restriction on selling any stock within three months of purchase. Even so, the former General Manager and Deputy General Manager in this case both violated internal rules, failed to submit an application for approval of transaction and furthermore made these transactions through accounts at other securities firms, using names of family members. Internal monitoring failed to pick up these activities.

² Undisclosed corporate information: Information concerning a client company that is not publicly available but is learned in the course of doing business; this information, relating to mergers and acquisitions, corporate partnerships and so on, has the potential to greatly impact share prices.

Fraud by Daiwa Securities contract employee

A former contract employee at the Daiwa Securities branch at Nagoya Station was arrested in January 2003 on suspicion of investment fraud. According to authorities, starting in about 1987 the employee began telling customers about fictitious investments and had them deposit funds in her own bank account rather than Daiwa Securities customer accounts. In July 2002, after the employee had resigned, customers began to contact us about the situation, and Daiwa Securities responded by contacting the police and performing an internal investigation. In January 2003 the Nagoya District Public Prosecutor's Office indicted the former employee in Nagoya District Court on suspicion of fraud.

Although Daiwa Securities has in place a system whereby managers other than the sales person checks on customer accounts and all suspicious deposits and withdrawals can be checked, the system was unable to detect any irregularities because the money was not passing through Daiwa Securities accounts but straight into the employee's bank account.

Embezzlement by former Daiwa Securities Deputy General Manager

In January 2003 a former Deputy General Manager for Daiwa Securities' call center was reported to be under suspicion for embezzling approximately 80 million yen from the company. The former employee is accused of using another employee's ID card to access company payment system computers and transfer funds from company accounts to his own. Because Daiwa Securities checks account activity daily, the situation was discovered the next day. The former Deputy General Manager was immediately dismissed and the company filed with the police a complaint of fraud by computer. The suspect was arrested in May 2003.

The Daiwa Securities Group profoundly regrets this series of incidents and is endeavoring to further strengthen its compliance system.

Compliance

Further strengthening our compliance system

In light of the above incidents, the Daiwa Securities Group has become acutely aware that such incidents stem from employee problems and is taking concrete steps to buttress internal controls.

Daiwa Securities Group Inc.: New systems and organizations

Implementation of a Group-wide Corporate Ethics Hotline

The Daiwa Securities Group introduced a Group-wide Corporate Ethics Hotline in January 2003. The hotline is intended to boost early detection,

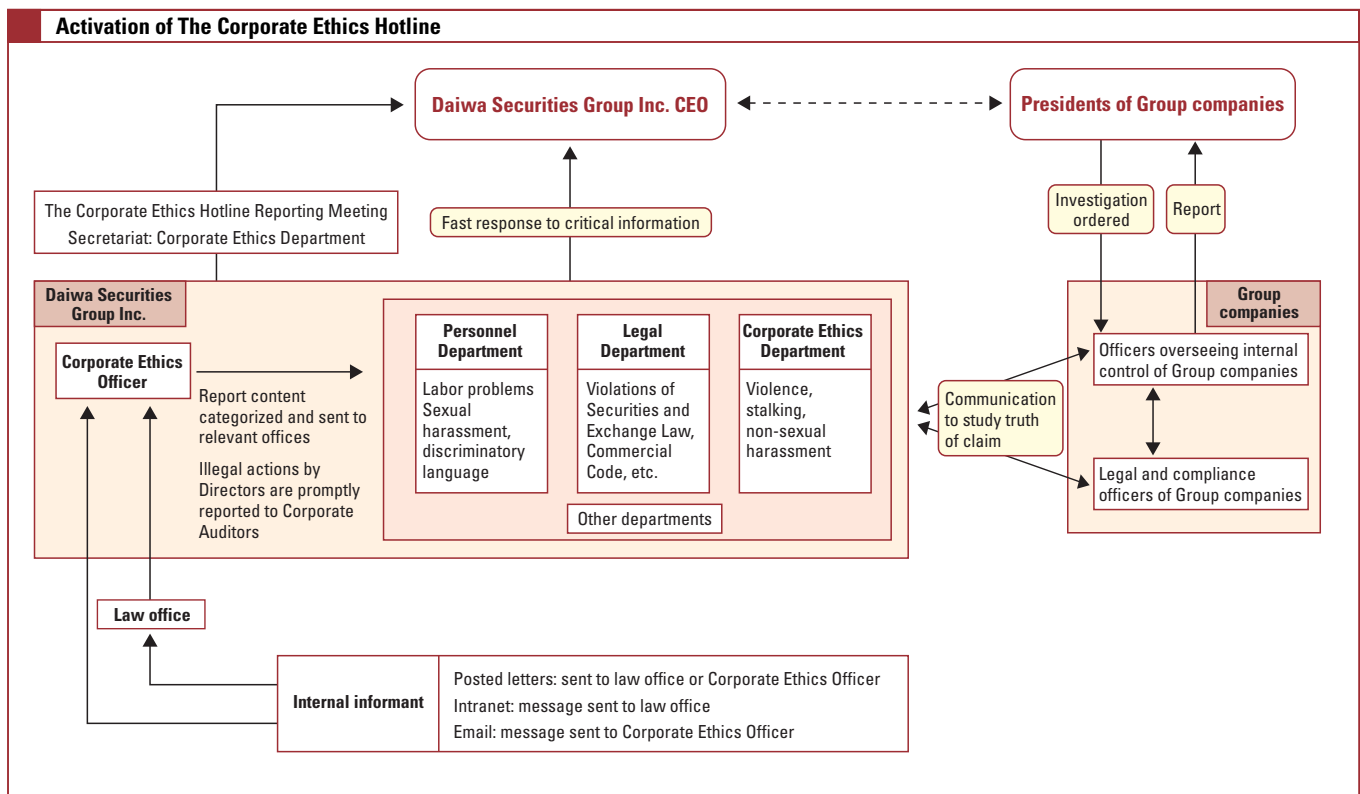
correction and deterrence of activities that are illegal or damaging to the Group brand. This system encourages the self-purifying function of our organizations.

Users can report information anonymously, and reported information is treated with the utmost confidentiality so that the informant does not suffer. The system is set up so that informants can use our intranet, email, post, telephone, or face to face interviews to contact either the Corporate Ethics Officer at Daiwa Securities Group Inc. or an outside law office. After receiving a report, the Corporate Ethics Officer at Daiwa Securities Group Inc. and compliance officers at Group companies work with each other to resolve the problem quickly. As of this writing (June 2003), in the first half year of operation, several reports had been fielded and handled appropriately.

Establishment of Internal Audit Department

A new Internal Audit Department was established at Daiwa Securities Group Inc. in February 2003. It responds directly to the Board of Directors. An Internal Control Project began in March 2003, and presently, the Group is setting up an internal control and auditing system³.

³ For details about the Internal Audit Department and Internal Control Project, see *Corporate Governance*, page 17.



Daiwa Securities SMBC: Information management and employee consciousness

Daiwa Securities SMBC took the concrete steps below in FY 2002 to prevent problems from recurring. In addition to these, it issued the "Compliance Newsletter" to all employees to encourage a common awareness of problems company-wide.

Strict control of undisclosed corporate information

Up to this time, Daiwa Securities SMBC had managed undisclosed corporate information by restricting it to the smallest possible number of people on a need-to-know basis. In addition, the company's Legal and Compliance Department had kept track of all individuals knowing this information. However, there had not been sufficiently strict control over employee access to information on our computer servers; this was a factor in the recent incidents. Therefore, the company has reviewed the scope of access rights and applied more stringent information control all the way down to the departmental LAN level.

In the past, when employees wished to make securities transactions, they had to get written permission in advance from their departmental heads. We have effected a change in which our investment banking employees must submit their applications for such transactions to the Legal and Compliance Department. This has strengthened early monitoring over transactions suspected of involving undisclosed corporate information. Other new requirements are that officers and employees must report to the company if their spouses or dependent children are opening accounts at securities companies, that transactions on these accounts are subject to monitoring, and that officers and employees must promise to cooperate when the company decides to investigate activity.

Assuring legal compliance with adequate training

All employees transferring from Group companies, the Sumitomo Mitsui Financial Group and so on are given intensive compliance training. All marketing staff members are tested for training effectiveness after completing sales retraining to assure that this course is having the intended effect.

In FY 2003 Daiwa Securities SMBC is giving training tailored to specific departments and themes and offering online training as part of the greater systemization of compliance training. Starting in FY 2003, moreover, all officers and employees are required to sign promises of compliance once a year.

Boosting restraint with internal administration supervisors

Internal administration supervisors earlier had been appointed to departments to create vital links in our internal restraint systems, but in April 2003, the affiliations and personnel assessment methods for these officers were modified. Rather than belonging solely to individual departments, internal administration supervisors are also now affiliated with the Legal and Compliance Department as well, and they receive their evaluations both from their own departmental head and from the General Manager of the Legal Compliance Department. These changes are making our restraint system with internal administration supervisors more effective.

Further, starting in April 2003, we have used the Legal and Compliance Officer to evaluate departmental heads on the issue of compliance. Standards during these appraisals include progress of the compliance program in the head's department, usage of internal administration supervisors and response to results of internal and external audits. These evaluation standards are announced within the company.

Development from voluntary checks to risk assessment-based internal check system

A new system begun in October 2002 uses internal checks based on the results of departmental self-assessments. This program contrasts with the past practice in which each department performed its own voluntary checks. The new system takes each department's working characteristics into account, identifies inherent risks, and analyzes how well risk mitigation measures are working. The objective is to make effective checks of risk in proportion to type, extent of damage and frequency of occurrence. As the business environment changes, the inherent risks will also vary, so departments perform annual self-assessments. Check categories and frequency of checks are revised as needed.

Compliance

Daiwa Securities: Steps to build trust among customers

Daiwa Securities believes that earning customer trust is our most important task and has based its marketing efforts on the company's Solicitation Policy⁴. In order to prevent the recurrence of recent incidents, the company is working to bolster compliance management by engaging all employees. The key priorities of this effort are changing the consciousness and increasing the understanding of every employee and the early detection and prevention of improper actions. Daiwa Securities has advanced a company-wide compliance program since December 2002 conforming to the Financial Services Agency's securities inspection manual. With a goal of eliminating actions that break laws or rules or are otherwise inappropriate, in FY 2003 we are systematically giving compliance training, conducting internal inspections based on process checks and preparing our own compliance manual, among other actions. Under review is a plan to establish and announce voluntary action standards, an idea also under discussion by the Quality-of-Life Policy Council.

⁴ For more information about our Solicitation Policy in Japanese, please visit http://www.daiwa.co.jp/ja/access/onlinetrade/before_use/index-s.html.

Stronger checks and leadership for branch offices

Daiwa Securities' Compliance Department has previously had a staff of four regional compliance officers (Deputy General Manager class) to inspect and give directions to branch offices, as well as internal administration supervisors at each office. In March 2003 the number of regional compliance officers was raised to 14. Because the persons added to staff had experience as branch office managers, they are better able to perform the check and leadership functions for branches both qualitatively and quantitatively.

Strengthening voluntary efforts at branch offices

Daiwa Securities has established compliance committees at each branch office with the objective of enabling them to deal with issues independently. The Compliance Department provides leadership as needed.

Improved face-to-face interviews with customers

Under Daiwa Securities' customer interview system, branch managers or others in a supervisory capacity interview customers directly to check on the solicitation styles of sales staff members and to look for any irregular transactions. Previously this system was directed only at certain customers, selected by such factors as transaction amount, but we have adopted a more flexible system where the supervisor can decide whom to interview at his or her own discretion⁵. During these interviews supervisors also show the customer recent values of the financial instruments they purchased and ask whether anything is unclear to them. The Compliance Department thoroughly checks records of these interviews. In addition to face-to-face interviews, supervisors sometimes check in with customers over the phone.

⁵ The FY 2002 implementation of our Customer Relationship Management (CRM) System for all sales staff members has made it possible for supervisors to learn more efficiently about transactions between sales staff and customers.

Encouraging compliance awareness and increasing understanding

The keywords for changing compliance awareness are "optimizing our sales attitude" and "respecting the basic rules of conformity⁶." In addition to group training, online learning and training by company satellite broadcasts, in October 2002, Daiwa Securities instituted the "Compliance Caravan," in which staff members of the Compliance Department visit sales branches to give training and advice. Two days are spent at each branch, checking the status of customer

transactions and giving training to employees. In FY 2002 the Compliance Caravan visited 33 branches.

In order to increase understanding about compliance and give employees common experience in the issues, Compliance Letters and Compliance Seminar (another publication) are regularly issued.

⁶ The rules for investor protection spelled out in Article 43 of the Securities and Exchange Law. Securities companies are required to solicit investments in ways that are appropriate to the customer's understanding, experience, financial means and so on.

Stronger information security risk management

Daiwa Securities has stepped up its risk management to prevent anyone from making illicit money transfers via a computer terminal. The company is making sure everyone is aware of strict management of employee ID cards and some departments are checked at random. In February 2003, management put all branch offices through "Information Security Self-Checks" to increase awareness of the information management system company-wide. Measures have been established to prevent incident recurrence by limiting the hours of the day during which money transfers can be entered and restricting the terminals used to transfer money at the head office to the Accounting & Finance Department.

Other Group companies

Daiwa Institute of Research: Stronger compliance in research

In March 2003 Daiwa Institute of Research transferred its Research Compliance Management Department from the Investment Research Division to the direct control of the representative directors. This lets our organization, including consulting staff, better handle internal and critical information throughout the research process.

Compliance at asset management companies

To learn more about compliance systems at Daiwa Asset Management⁷ and Daiwa SB Investments⁸, see those companies' respective web pages.

⁷ <http://www.daiwa-am.co.jp/>

⁸ <http://www.daiwasbi.co.jp/>

Excerpt from a "Compliance Newsletter" circulated to Daiwa Securities SMBC employees*

The Securities and Exchange Surveillance Commission, Financial Services Agency, Japan Securities Dealers Association and stock exchanges, among others, are actively monitoring market activity for illicit transactions. When an event of some significance happens to a particular corporation, these organizations ask securities companies to answer questions about transactions of the corporation's stocks for the designated peri-

od. Securities companies respond with details of purchases and sales. Daiwa Securities SMBC receives these requests nearly every day; in fact it is not unusual to receive 10 or more requests in a single day. Thus there are multiple layers of monitoring for illicit activity. Even if a transaction goes undetected within a company, it is sure to be found out.

According to newspaper accounts, two former employees are alleged to have made illic-

it transactions that netted them over two million yen and over three million yen respectively. These amounts are not much in comparison to the penalties they are paying for their actions.

*From "Compliance Newsletter" No. 89, June 16, 2003



"Compliance Newsletter"

Corporate Governance

The Daiwa Securities Group understands the importance of preparing a highly transparent and objective corporate governance system and using it to fulfill the social mission of the securities company and to increase corporate value.

Our vision on corporate governance

The establishment of our corporate brand and the pursuit of sustainability are of the greatest concern for the Daiwa Securities Group. We believe that corporate governance can help us to achieve both of these goals through the processes of setting management policies and directing and assessing the way management do their jobs, as well as by giving extra motivation to management. That is why the Group has taken the following stance: "People and companies are imperfect, and merely creating systems is not enough to perfect them. What is important and indispensable is the process of trying to be perfect and working ceaselessly toward that goal."

Key Points

- Our governance system based on business transparency and objectivity, emphasizes prompt decision-making.
- Executive compensation linked to performance and "payment in shares of our stock system" introduced.
- Internal Audit Department established to strengthen internal controls.
- Committee system to be adopted in FY 2004.

Group management system and the Board

In 1999 the Daiwa Securities Group became the Japan's first listed company to adopt a holding company system. Under this system, Daiwa Securities Group Inc. oversees Group operations as a whole while allowing each Group company autonomy to concentrate on its appointed task. The number of Outside Directors was increased at the ordinary general meeting of shareholders in June 2003. The Board consists of seven Directors, two of whom are Outside Directors. Exceptionally small for a listed company, this board is the hub of a governance system based on business transparency and objectivity and emphasizing prompt decision-making. Under the Board's leadership, Group Executive Officers also take responsibility for operations at Group companies¹.

¹ Refer to page 42 of the 2003 *Annual Report* for a listing of Daiwa Securities Group Inc. officers as of July 1, 2003.

Executive compensation

Following the advice of the Compensation Committee², the Daiwa Securities Group opted to link the compensation of Directors and Executive Officers to performance, beginning in June 2001. The total that these executives receive, in the form of monthly salaries, bonuses and retirement payments, goes up or down along with assessments of company and personal performance. Retirement payment is considered to be a deferred payment of part of each executive's annual compensation as based on performance during the period, so it no longer has the quality of being a "bonus for special services" typically given on retirement. The second feature of this system is that the Compensation Committee in FY 2002 implemented payment in shares of our stock, by which executives receive about 10% of their monthly pay not in cash but in company stock (beginning in July 2003)³. The purpose of this system is to tie executives' interests more closely to those of the shareholders and provide greater long-term incentive for maximizing shareholder value. The system prohibits executives from selling shares earned this way until they leave office.

² The Compensation Committee was established at Daiwa Securities Group Inc. in June 2000. See the page at the right for a list of Compensation Committee members as of July 1, 2003.

³ Specifically, the corresponding amount of monthly salary is directed into a fund for purchasing shares of our stock through the Executive Shareholding Association.

Total compensation paid to Daiwa Securities Group Inc. Directors and Corporate Auditors (FY 2002)

	Monthly salaries		Bonuses		Retirement payments	
	Recipients	Amount paid in year	Recipients	Amount paid	Recipients	Amount paid
Directors	10	205,080,000 yen	0	0	3	212,295,200 yen
Corporate Auditors	5	63,000,000 yen	—	—	1	14,400,000 yen

* Recipients of monthly salaries include three directors and one corporate auditor who retired in midterm.

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

* Bonus payments were based on profit distribution as determined at the ordinary general meeting of shareholders in June 2002. Bonuses are not paid to Corporate Auditors.

Strengthening internal control

The new Internal Audit Department was established within Daiwa Securities Group Inc. in February 2003 and answers directly to the Board of Directors. The role of this department is to coordinate with business planning and internal auditing departments within Group companies to plan and conduct internal audits.

Also, an Internal Control Project was begun at Daiwa Securities Group Inc. in March 2003 to create a system for getting a picture of and analyzing the Group's overall risk and applying appropriate control over it. Then in April the Group adopted its Internal Audit Rule, stating clearly the basic points to cover in internal audits. The goal is for these

audits to be as smooth and effective as possible. Additionally, an Internal Control Committee, headed up by the Daiwa Securities Group Inc. CEO, was founded in July 2003.

The Daiwa Securities Group will continue to step up its systems for assuring that 1) work is efficient and effective, 2) financial reporting is reliable and 3) laws and regulations are obeyed. With stronger control systems in place, we believe we will be able to meet the internal control requirements of the Commercial Code and the US Sarbanes-Oxley Act without difficulty.

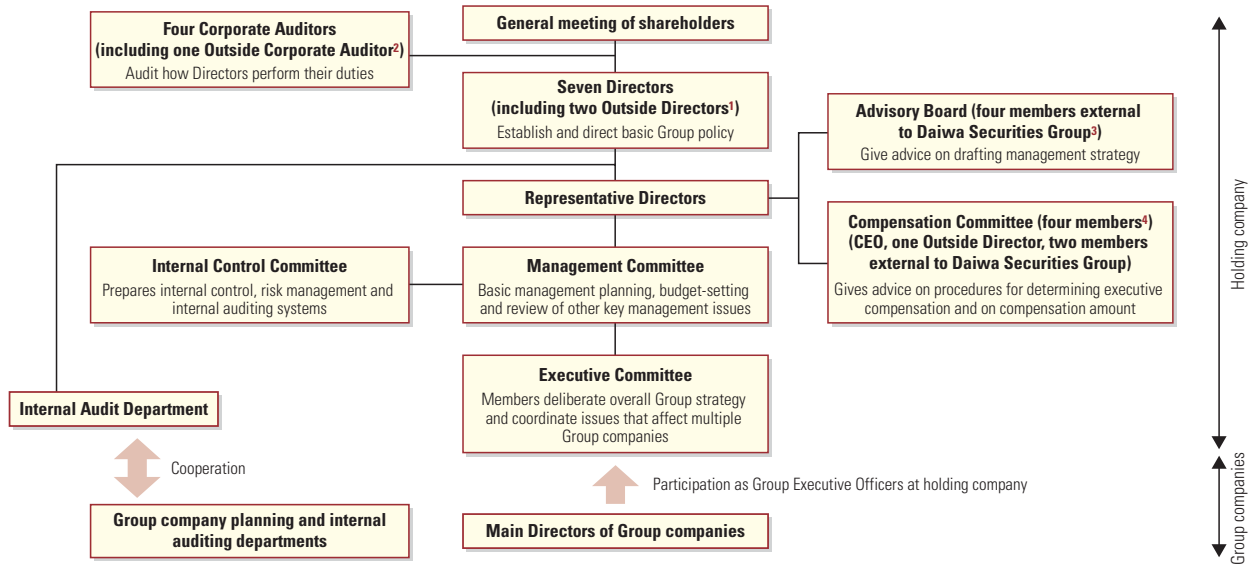
Towards greater corporate governance

The Daiwa Securities Group is working to prepare the way for corporate governance and improve it.

Preparing a system of corporate governance is a key issue in the new medium-term management plan – “Best Brand Daiwa 2005.”

As a first step, the Group will be transitioning to a committee system in June 2004. The goal is to increase management speed, transparency and accountability. The second step is to adopt a “Corporate Governance Principle.” The Group will establish this charter in FY 2004 in order to make our corporate governance ideas and systems clearer to outside parties and to help the same ideas and systems become better known to all Group employees. FY 2003 is a time of doing prep work for this charter.

Corporate governance system (July 2003)



1 Outside Directors

Tetsuro Kawakami
Counsel of Sumitomo Electric Industries, Ltd.

Ryuji Yasuda
Chaired Visiting Professor, Hitotsubashi University
Graduate School

2 Outside Corporate Auditor

Masahiro Yoshiike
President, Taiyo Life Insurance Co.

3 Advisory Board

Kazuo Inamori
Founder and Chairman Emeritus, Kyocera Corporation

Jiro Ushio
Chairman and CEO, USHIO INC.

Glen S. Fukushima
Chairman, Cadence Design Systems, (Japan) B.V.

Hiroataka Takeuchi
Dean, Hitotsubashi University Graduate School of International
Corporate Strategy

4 Compensation Committee

Ichiro Kawamoto
Attorney-at-Law, Senior Partner, Kawamoto & Miura

Yukio Yanagida
Attorney-at-Law, Senior Partner, Yanagida & Nomura

Ryuji Yasuda
Chaired Visiting Professor, Hitotsubashi University Graduate
School and Outside Director, Daiwa Securities Group Inc.

Yoshinari Hara
President and CEO, Daiwa Securities Group Inc.

Information Disclosure

The Daiwa Securities Group is endeavoring to improve communication with its stakeholders. In FY 2002 we issued our first *Sustainability Report*, thus beginning full-fledged efforts to offer social and environmental sustainability information. In April, 2002 we merged our former investor relations and public affairs departments to form the new Corporate Communication Department and thus assure a unified message.

Our vision on information disclosure

The Daiwa Securities Group believes that information disclosure should be made in a fair, appropriate and timely fashion. The Daiwa Securities Group Inc.'s IR website includes Our Commitment to Disclosure, although in FY 2003 the Group is establishing a more detailed Disclosure Policy. The Disclosure Policy will state that Group companies will have a common policy on information disclosure. It will prescribe the roles of information disclosure officers, standards and methods for information disclosure, and response to marketplace rumors. Thus, it will set up a more responsible information disclosure system.

Our Commitment to Disclosure

1. We will abide by all laws and regulations such as the Securities and Exchange Laws and other regulations set by the Stock Exchanges on which the company is listed, and endeavor to achieve accurate and timely disclosure.
2. We will endeavor to understand the needs of our investors and provide fair disclosure in terms of both time and in content.
3. We will endeavor to utilize various forms of media such as the Internet, conferences and printed material to provide easy to access company information.
4. We will be conscious of its role as a leader in the securities market and endeavor to become a role model for other listed companies.

Key Points

- In October 2002 we issued our first *Sustainability Report*.
- Gómez Japan ranked our IR website no. 1 among securities companies.
- We are starting a new rewards program for shareholders in FY 2003.
- We will establish our Disclosure Policy in FY 2003.

Information disclosure with focus on triple bottom line¹

The Daiwa Securities Group issued its first *Sustainability Report* in October 2002. Up until this time, we had reported on our efforts on behalf of corporate governance, our personnel system and our social contributions within our *Annual Report*. In FY 2002, with sustainability identified as a key business strategy, we decided that a more detailed report on social and environmental activities was needed. We wrote the *Sustainability Report* for our wide array of stakeholders, issuing 25,000 copies in Japanese and 3,000 in English. All employees received a copy, and an electronic version was loaded onto our IR website. In April 2003, we met with outside experts to discuss environmental issues, social contribution, con-

sumer issues and so on in an Experts' Roundtable².

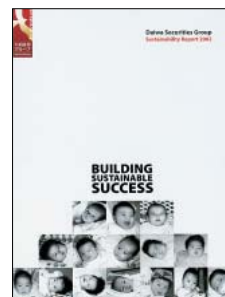
See below for the Group's information disclosure framework.

¹ Triple bottom line: An evaluation of a company not just from the economic perspective but also the social and environmental. John Elkington of the British environmental firm Sustain Ability first promoted this idea.

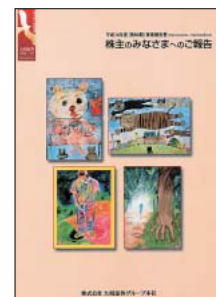
² For details see *Stakeholder Dialogue*, page 36.



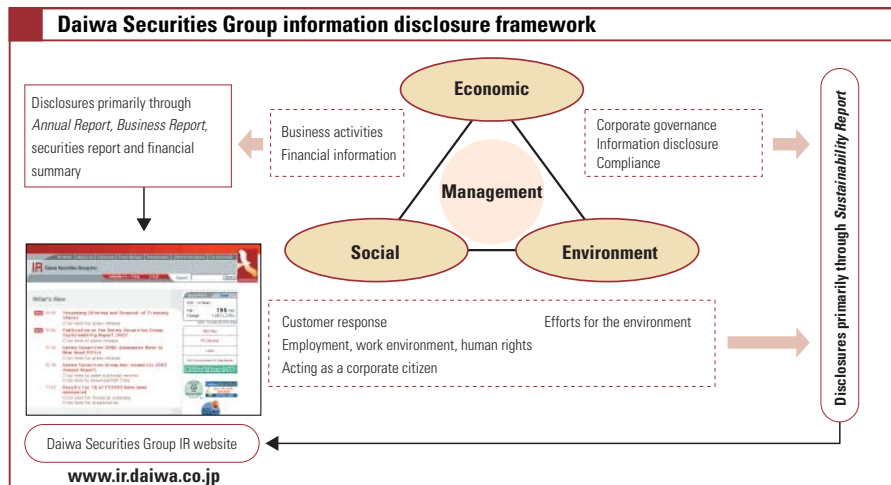
Annual Report



Sustainability Report



Business Report



Strengthening information disclosure

For the Daiwa Securities Group, the objective of information disclosure is not simply to release quarterly performance statements and important occasional business notices, but also to make Group strategy and trends easier to understand and to increase management transparency.

Immediately after such information is released, it is also posted to our IR website³ so that it is available to all stakeholders, individuals and organizations, with hardly any time lag, thus eliminating differences in the information provided to different stakeholders. In the evening of the day our performance results are announced, we hold a teleconference for institutional investors, analysts and the media, but starting with our April 2002 release of results for FY 2001, we have also held a simulcast from our IR website for individual investors. We are constantly performing IR for stakeholders overseas as well, by keeping an English-language IR website, holding a teleconference in English the night (Tokyo time) after results are announced, and other measures. In FY 2002 we began to expand beyond Europe and America to offer IR in more regions of the world; in Asia we have made our first individual visits to investors in Singapore and Hong Kong.

In addition to teleconferences and strategy meetings, Daiwa Securities Group is committed to using the Internet to provide easy-to-understand information to more stakeholders in Japan and abroad. The Group's IR website took first place in Gómez Japan's first securities company IR site ranking in May 2003, while Daiwa Investor Relations Co., Ltd. honored the Group with its Internet IR Best Company Award for 2003. While the site received high praise for stability, fairness and volume of information, improving user-friendliness is still a concern. A survey given to individual shareholders in November 2002⁴ found that 50.1% of respondents thought it was hard to find the information they required at the site.

Therefore, the Group will work on making this site easier.

³ IR website: The Internet page in Japanese and English where we post earnings, information and audio/video of teleconferences, company information sessions, press releases and so on.

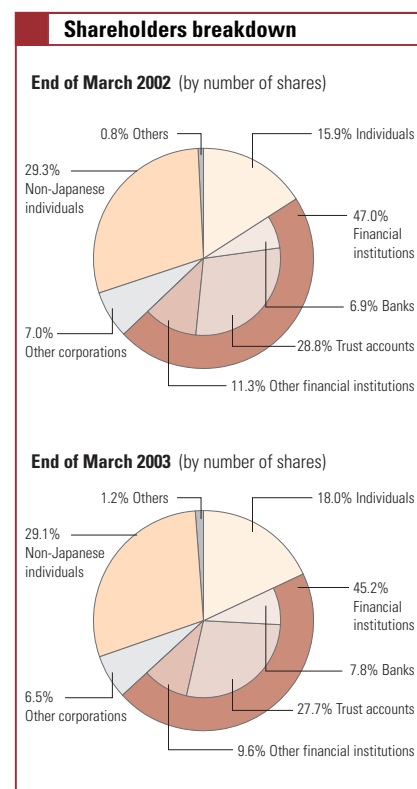
⁴ Responses were received from approximately 8,300 individuals. For details refer to FY 2002 (66th Year) *Business Report*, page 16.

Communicating with individual shareholders and investors

At the end of March 2003 individual shareholders of Daiwa Securities Group Inc. numbered 99,374, a gain of more than 5,000 from the previous year. (The number of all shareholders is 102,006.) The results of the individual shareholder survey given in November 2002 indicate that 67.9% had become shareholders in the company more than three years earlier, and 38.3% had done so more than 10 years earlier. Therefore, our shareholders have had their shares for a relatively long time. When asked the objective for acquiring their shares, 50.6% said they intended to hold their shares for the long term, while 28.3% were looking to make a profit by selling in the short term.

Regarding the general meeting of shareholders, which is an opportunity for shareholders to communicate with management, 89.6% of respondents said they had never attended a meeting and 43.2% had never exercised their voting rights. In FY 2002 we began to allow voting by Internet and to broadcast our general meeting of shareholders by satellite to locations in Osaka and Nagoya as ways to increase opportunities for communicating with individual shareholders. Besides these, we enlarged our *Business Report*, sent to investors twice a year, to a more readable A4 size.

In FY 2003 as a new shareholder rewards service we began offering exchangeable points in the "Daiwa Comprehensive Account Service (Cash Management Program) Port One" program. Customer rewards include a waiver of the account management fee. In these ways Daiwa Securities Group hopes to build long-term relationship with individuals not just as shareholders but as customers.



Financial Performance

Key Points

- FY 2002 was marked with smaller losses. Retail client assets under custody were 12.15 trillion yen.
- Depressed stock markets and low interest rates have greatly altered our revenue structure over the last three years.
- Personnel costs made up just under half of net operating revenues. Dividends stayed at six yen per share.
- Our share price over the past 10 years has fluctuated greatly, from about 280 to about 2,100 yen.

Daiwa Securities Group Inc.

Outstanding shares: 1,331,735,000

Accounting period	Operating revenues (Units: 1,000,000 yen)	Net operating revenues (Units: 1,000,000 yen)	Ordinary income (Units: 1,000,000 yen)	Net income (Units: 1,000,000 yen)	Net income/ share (Yen)	Dividend/ share (Yen)	Shareholders' equity/share (Yen)	<Share price> 487 yen (end of March 2003)	<PBR> 1.19	Dividend yield 1.23%
FY 1999	651,298	512,276	224,122	105,376	79.4	13.0	502.1			
FY 2000	714,909	464,057	177,796	64,549	48.6	13.0	539.7			
FY 2001	488,044	284,932	25,849	-130,547	-98.3	6.0	429.7			
FY 2002	387,659	270,810	29,200	-6,323	-4.8	6.0	407.8			

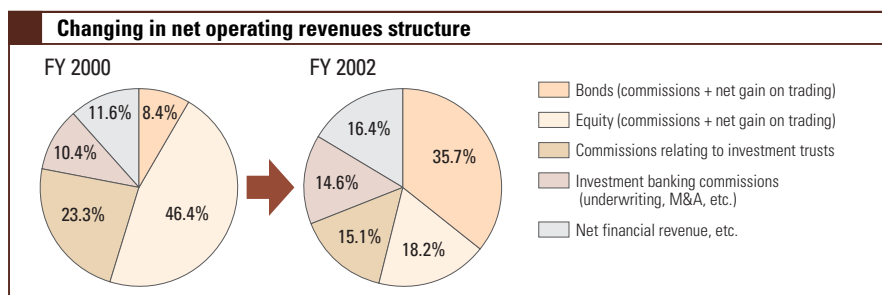
*For detailed financial information, see the Daiwa Securities Group 2003 Annual Report.

FY 2002 results

Consolidated operating revenues totaled 387.7 billion yen in FY 2002, a year-on-year decline of 21%, while consolidated net operating revenues (operating revenues minus financing costs) were 270.8 billion yen, down 5%. Selling, general and administrative expenses declined 6% to 246.7 billion yen, which is one factor boosting consolidated ordinary income 13% to 29.2 billion yen. Consolidated net income, on the other hand, was a negative 6.3 billion yen, dragged down by a write-down in investment securities among other factors.

Changing in revenue structure

With the stock market and interest rates staying low for long periods of time, investors' asset management needs are changing. Responding to these changes has led to big changes in the Daiwa Securities Group's revenue structure. The graph below shows our revenue structure in FY 2000 and FY 2002.



Market share in major business areas

Management of customer assets

As of the end of March 2003, Daiwa Securities had 12.15 trillion yen in retail client assets under custody. This accounts for a little less than 1% of the 1.378 quadrillion yen in individuals' financial assets in Japan¹.

¹ Because retail client assets under custody at Daiwa Securities include assets from corporate customers, it is slightly misleading comparing this to total individuals' financial assets in Japan, but this value is calculated as an indicator of the scale of the company's business.

Lead manager league table share (underwriting)

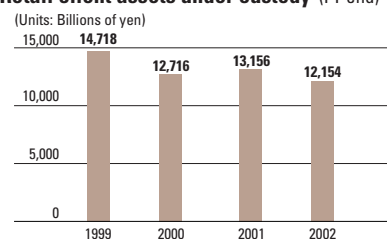
Over the past three years our lead manager league table share has risen in the categories of corporate straight bonds, initial public offerings, equity offerings and samurai bonds.

Assets under management

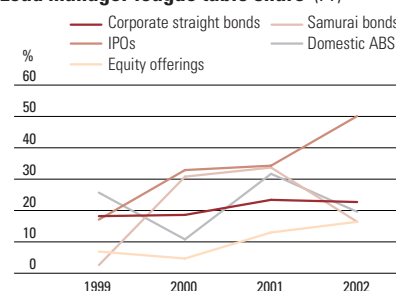
As of March 2003, Daiwa Asset Management and Daiwa SB Investments had 8.8 trillion yen in

assets under management. This significant decline is due to the last few years' extended period of stock market malaise, low interest rates and the negative effects of the collapse of Enron in the US.

Retail client assets under custody (FY end)

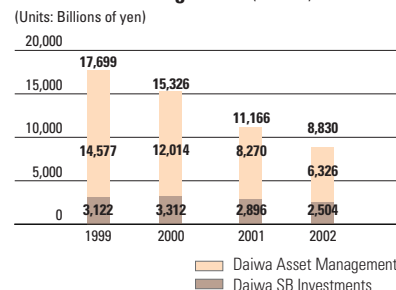


Lead manager league table share (FY)



Source: Daiwa Securities SMBC, Thomson Deal Watch for domestic ABS (book runner)

Assets under management (FY end)



Monetary returns to stakeholders

The Daiwa Securities Group thinks of its economic performance prepared under GRI guidelines as a monetary return to stakeholders. As Group net operating revenues have fluctuated, personnel costs (including wages, bonuses, welfare expenses and insurance), which are really returns to our employees, have varied between 120 billion and 140 billion yen. The FY 2002 personnel costs of 123.9 billion yen represented a six billion yen decline from the previous year and were equivalent to 46% of net operating revenues.

The Daiwa Securities Group strives to contribute a steady amount of financial support in our role as corporate citizen regardless of earnings performance.

The amount of tax shown in the Group's financial accounting is the sum of current and deferred

income taxes and other taxes such as the consumption tax.

Dividends are direct distributions of profit to shareholders. It is the Group's basic policy to make dividends as stable as possible given Group performance. Following this policy, in spite of a negative 6.3 billion yen consolidated net income in

FY 2002, we determined to again pay six yen per share, a decision that was approved at the ordinary general meeting of shareholders in June 2003. Total dividends paid in FY 2002 were 7.9 billion yen.

Monetary returns to stakeholders

(Units: 1,000,000 yen)

	Stakeholders	FY 1999	FY 2000	FY 2001	FY 2002
Personnel costs	Employees	140,648	140,426	129,972	123,904
(ratio to revenue ¹)	(%)	27	30	46	46
Payments as corporate citizen ²	Society	N.A	N.A	N.A	320
(ratio to profits ¹)	(%)	N.A	N.A	N.A	1.1
Taxes ³	Government	69,682	77,403	10,930	20,027
(ratio to profits ¹)	(%)	31	44	42	69
Dividends	Shareholders	17,247	17,265	7,971	7,970
(ratio to profits ¹)	(%)	8	10	31	27

¹ To make the weights of these amounts more tangible, we have calculated the ratio of personnel costs to revenue (net operating revenue) and that of other figures to ordinary income.

² For details about activities as a corporate citizen, see *As a Corporate Citizen and a Member of the Community*, page 30.

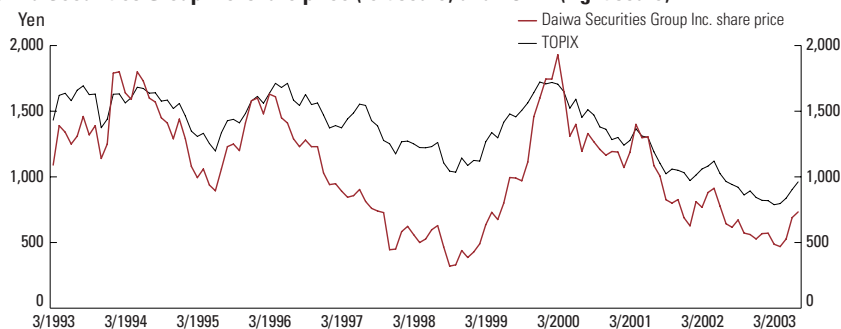
³ "Deferred income taxes" refers to an adjusted amount of tax paid as found by tax effect accounting and is different from the amount of tax actually paid.

Share prices

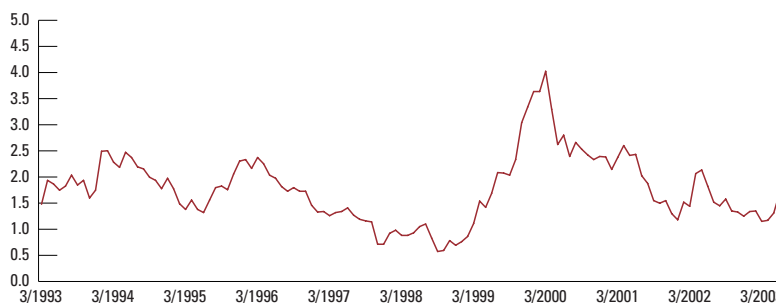
As the chart on the right shows, the share price of Daiwa Securities Group Inc. is very closely tied with the general stock market. Share prices over the past decade have fluctuated widely from a low of 281 yen in October 1998 to over 2,100 in February 2000.

Price/book value ratio (PBR) is one indicator of a stock's value. It is found by dividing share price by shareholders' equity per share. Our PBR based on our shares' closing price of March 31, 2003 was about 1.2, meaning that the market values the Daiwa Securities Group at 20% more than our shareholders' equity.

Daiwa Securities Group Inc. share price (left scale) and TOPIX (right scale)



PBR



Initiatives in Our Core Business

The Daiwa Securities Group is contributing to social sustainability in its core securities business.

Sustainable investing

The Daiwa Securities Group hopes to contribute to social sustainability by taking advantage of the unique features of its core business in securities. Three themes guide these efforts. First, we are building a system in which funds work for the benefit of the environment and society (socially responsible investing, for example). Second, we are offering our prescription for revitalizing the Japanese economy and fostering socially beneficial businesses, including environmental businesses. Third, we are giving training to nurture investors from all walks of life and to develop capital markets and we are promoting finance and securities education and research.

Creating a society-friendly flow of capital

Financial products

Eco funds: Investing in companies with high environmental performance

In June 2001 Daiwa SB Investments introduced an eco fund¹, the Global Eco Growth Fund, commonly known as Mrs. Green. This fund buys shares in companies around the world with strong growth potential and comparatively good environmental performance (indirect environmental companies) and in companies providing excellent environmental services or in possession of advanced environmental technologies (direct environmental companies). By selectively investing in such companies, it seeks to promote good environmental services and technologies while boosting environmental consideration at corporations. Net fund assets as of the end of March 2003 amounted to 6.30 billion yen, of which 57% was invested in the US, 33% in

Key Points

- Using the unique characteristics of its business, the Group has contributed to sustainability in the following three ways.
- The Group is building a system in which funds work for the benefit of the environment and society.
- We are proposing and fostering socially responsible businesses.
- We are providing education to develop a wide range of investors and promoting finance and securities research.

Europe and 6.2% in Asia.

¹ An investment fund that invests in companies chosen for environmental friendliness



Regional index funds: Investing to support regional economies

Daiwa Asset Management established the Shizuoka Benchmark Fund in April 2002, thus creating the first regional index fund² in Japan. This fund gave a new-concept opportunity to investors; namely, to build up assets while supporting Shizuoka Prefecture companies and the regional economy. In FY 2002 the company followed up with regional funds Ibaraki Fund (Ibaraki Prefecture), Kanagawa Support Fund (Kanagawa Prefecture) and Sainokuni Support Fund (Saitama Prefecture). Total assets in these funds has grown to nearly 14.5 billion yen by the end of March 2003.

² An investment fund targeting companies headquartered in a specific region, expanding into that region or creating employment there.

Supporting socially responsible investing (SRI)

Tokyo Conference of the ASRIA

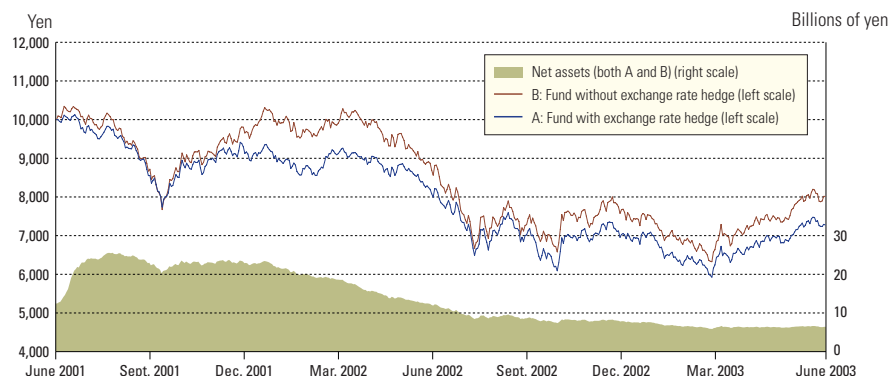
The Daiwa Securities Group in October 2002 sponsored the international conference of the Association for Sustainable & Responsible Investment in Asia³, which brought to Tokyo a crowd of 260 institutional investors and corporate representatives from Japan and abroad. Kenji Hayashibe, a Director from Daiwa Securities Group Inc., gave an address on sustainability efforts in our Group and the status of institutional investors in Japan. The day after the conference ended, Daiwa Securities Group led Japan's first SRI tour of companies for social responsible investors from abroad who had come to the conference.

³ For information about the ASRIA conference in Tokyo, visit <http://www.asria.org/events/japan/oct02/postconf/28fspeakerspanel>.



ASRIA Tokyo conference

Performance and net assets of Mrs. Green, from June 15, 2001 inception through June 2003



Survey of institutional investors on SRI

Daiwa Investor Relations, the IR consulting company of the Daiwa Securities Group, conducted a SRI survey in December 2002, which was the first SRI survey of analysts and fund managers in Japan. The survey received responses from 127 parties, with the result that 76% of analysts and fund managers in Japan were aware of SRI, while 50% of fund managers believed that the SRI principles affected the way they selected investment instruments⁴.

⁴ "Survey on Effect of Socially Responsible Investing (SRI) on Japanese Companies." For details visit <http://www.daiwair.co.jp/pdf/pr030116.pdf>.

Fostering socially beneficial businesses

Helping to revitalize regional economies

In January 2002 the Daiwa Securities Group partnered with the City of Kobe in an effort to attract businesses, especially in the biosciences, to the city. Following up on this, we joined Fukuoka Prefecture in a partnership to attract system-on-chip companies to that prefecture. By supporting Fukuoka Prefecture in its bid to build its profile as a system-on-chip design and development center in Asia, the Group seeks to vitalize the area and help foster venture companies⁵.

⁵ For details on the partnerships with Kobe City and Fukuoka Prefecture, see the press release at http://www.ir.daiwa.co.jp/japanese/index_press.asp.

Policy proposals to revitalize Japan's economy

As an urgent measure to stimulate the stock market and to foster individual investors, Daiwa Institute of Research in April 2003 proposed eliminating double taxation of dividends in Japan. It has also made other timely policy proposals, including pointing out the need in June 2003 to use post offices as sales outlets for equity mutual funds.

World Bank carbon fund

With an investment of US\$2.5 million in July 2003, Daiwa Securities SMBC Principal Investments became the only Japanese securities company to participate in the World Bank's Community Development Carbon Fund. This fund seeks to contribute to the social development of developing nations and regions while reducing emissions of greenhouse gases at the regional level. It does this by investing in emissions rights that arise from the use of wind power, biomass power generation, new electricity-based transportation systems and reforestation projects in the developing world.

Daiwa Institute of Research soil pollution study group

In March 2003 Daiwa Institute of Research became a partner in starting up a study group on cleaning and redeveloping areas of polluted soils. The study group is investigating the feasibility of such projects.

To help fostering a wide range of investors

Education and research in finance and securities

Vitalizing the financial and stock markets and fostering individual investors are nothing less than national issues for revitalizing the Japanese economy. The Daiwa Securities Group is collaborating with more than 20 universities, graduate schools and so on in partnerships in financial and securi-

ties education and research. The range of these partnerships includes lectures on the latest financial technology, joint research and investment training for students of all types. Additionally, the Group supports ventures such as technology licensing organizations (TLOs) originating in the academic sector and promotes industry-academia collaboration⁶.

⁶ For details about industry-academia collaboration, see *As a Corporate Citizen and a Member of the Community*, page 31.

Investment clubs

Seeking to aid and foster individual investors, Daiwa Securities began supporting the first investment clubs in Japan in 1996, having so far assisted in the launch of 174 such clubs. This corresponds to about 70% of all currently active clubs. Daiwa Securities branches nationwide offer guidebooks for starting up investment clubs, and the company sends employees to speak to clubs.



A lecturer from Daiwa Securities Group gives a talk.

Working for Customer Satisfaction

At the Daiwa Securities Group, promoting customer satisfaction is closely tied with our corporate branding campaign. Customer feedback comes to us directly, and day by day we are working to improve our sales and service systems.

Customer satisfaction at the core of corporate branding

The Daiwa Securities Group has undertaken its corporate branding campaign in the full awareness that trust from our stakeholders is critical if we are to fulfill our social mission. At the core of our branding activities is our effort to improve customer satisfaction. This means listening to what customers say, understanding their needs, and promptly using this feedback to improve products and services.

As part of this activity, Daiwa Securities in April 2001 established the Customer Satisfaction (CS) Promotion Department within its Compliance Division. In November of the same year, the CS Promotion Department launched its Customer Support Hotline. The CS Promotion Department compiles and analyzes the comments it hears from customers through the Customer Support Hotline and branch offices, organizes the issues it will address and then takes steps to resolve the issues, thus endeavoring to increase customer satisfaction.

Daiwa Securities began studying the effectiveness of these activities in 2001 when it gave its first independent survey of customer satisfaction, or "branding survey." To bolster its system for using customer opinions to improve products and services, the CS Promotion Department moved from the Compliance Division to the Marketing Division in June 2003. Additionally, in the belief that improved customer satisfaction should increase employee satisfaction by raising the morale of those actually providing the service, the CS Promotion Department started performing employee satisfaction surveys in September 2002.

Key Points

- Working to enhance customer satisfaction is the centerpiece of our branding campaign.
- The Group is periodically conducting surveys of customer satisfaction.
- Post-sales follow up is the greatest issue in increasing customer satisfaction.
- Comments received on our Customer Support Hotline are used to improve products and services.

Each employee has a part in "post-sales follow up"¹

Customer satisfaction surveys

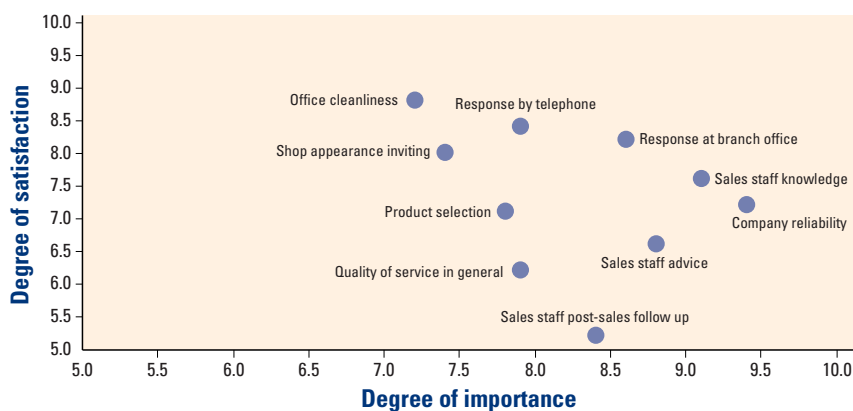
The second customer satisfaction survey, taken in September 2002, showed that customer satisfaction with branch office and telephone response was slightly higher than in the previous survey. This was confirmed by a February 2003 survey of financial institution branch offices by the Nikkei Financial Daily which ranked Daiwa Securities second among securities companies. The results of the second customer satisfaction survey also indicated, however, that after the first survey in 2001, the level of customer satisfaction was relatively low in the categories of post-sales follow up, quality of service in general and sales staff advice, and that these were high-priority items for customers. In response, Daiwa Securities decided to make post-sales follow up a central theme of its branding activities.

Although Daiwa Securities was certainly aware of the importance of post-sales follow up before, the low score that customers gave the company in this category suggested that not all employees

had a shared understanding of its importance and that the company had not taken sufficient concrete steps to address it. The CS Promotion Department therefore started a semimonthly publication on this theme in April 2003. This newsletter advises employees on specific ways to approach post-sales follow up. In addition, staff members of the CS Promotion Department are working to communicate with branch offices by visiting them directly and talking about conscientious customer response. The department further began producing posters for in-company use as another communication tool to raise employee awareness about post-sales follow up.

¹ "Post-sales follow up" expresses Daiwa Securities' commitment to maximizing our customers' satisfaction by following up after the sales of a product.

Results of second customer satisfaction survey (branding survey)



* Survey was sent by post in September 2002 to 5,000 Daiwa Securities customers, of whom 1,631 responded.

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

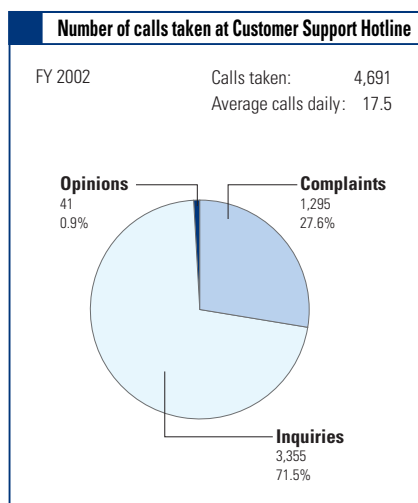
Customer Support Hotline²

The graph below shows a breakdown of the nature of the telephone calls taken by the Customer Support Hotline in FY 2002. Of the total, 71.5% were inquiries about services and procedures, while 27.6% were complaints. The complaints were mainly related to sales (insincere response, dissatisfaction with post-sales follow up) or company rules and systems (dissatisfaction with work procedures).

To make sure that customer comments and complaints are used to improve products and services, Daiwa Securities gives instructions and advice to its branch offices and immediately posts information on its intranet for employees under such titles as CS News or CS Message. This way, employees have a common awareness of customer opinions and become more motivated to enhance customer satisfaction. In addition, the publication "Tento (Shop) Weekly," aimed primarily at branch offices to help them improve service quality, has been



Customer Support Hotline



writing about both successes and shortcomings at the retail level since May 2002.

² Daiwa Securities Customer Support Hotline
Tel : 81-(0) 3-3665-5111 (Japanese only)

Sales and service systems to improve customer satisfaction

Daiwa Securities is working to improve its sales and service systems in order to offer high quality service reflecting customer opinion and further raise customer satisfaction.

New Satellite Branch System

Daiwa Securities implemented its new Satellite Branch System in FY 2002 to revise its sales operations. Under the Satellite Branch System, multiple branches in the same region are organized around a core (mother) branch. This arrangement means that Daiwa Securities can learn the characteristics and needs of customers in each area and respond promptly and appropriately. The Satellite Branch System was inaugurated in the Tokyo metropolitan and Osaka areas in July 2002 and to Nagoya in February 2003.

Reforming sales channels

Until this year Daiwa Securities offered services through three channels: Daiwa Consulting (over-the-counter service), Daiwa Call (a call center) and Daiwa Net (the Internet). Each offered different services and different fee structures. In May 2003 Daiwa Call and Daiwa Net merged into Daiwa Direct. Together Daiwa Direct and Daiwa Consulting are the two transaction service options we have available. Until this time there were limits on the products available to customers in each channel, but now customers can make transactions for the same product lineup in each service, the only difference being whether customers are provided investment consulting.

Start of point earning service

Under the "Daiwa Comprehensive Account Service (Cash Management Program) Port One" program, begun in December 2002, customers earn points for doing business. Points are awarded every time customers entrust assets to us or make a trade through us. These points entitle customers to a variety of services.

Future efforts

Daiwa Securities will endeavor to use customer opinion to improve its services more quickly in the future. That is why the company is currently putting in place new systems to assess branch offices and employees from the customer's point of view. As a first step, we added the item "customer retention rate" to our branch office performance evaluation in April 2003. Hereafter we plan to reflect the level of customer satisfaction, as determined by survey data, in evaluations of branch offices and employees.

Daiwa People

The Daiwa Securities Group is enriching its human resource management system as a key issue of its new medium-term management plan for FY 2003-05.

Group human resources platform

The Daiwa Securities Group Corporate Principles affirm that "People are the source of our competence." The Group has determined to foster its human resources by appropriately assessing each employee's skills and contribution. Assessments emphasize employee creativity. Raising the profile of the Group's brand and achieving continuous growth will require preparing an environment and systems in which employees take satisfaction and pride in their work and are eager to do it. Since 1999 the Daiwa Securities Group has endeavored to create a human resources platform reflecting our basic principles and sense of values, and to use this platform to construct a variety of human resource systems at Group companies, reflecting the nature of their business.

Equal opportunity

Any company desiring to fulfill its social responsibilities has to select its personnel fairly. Thus the Daiwa Securities Group created its "Fair Employment Guidelines" in 1999, based on the following three basic principles.

1. We shall give utmost respect to the human rights of applicants.
2. Any person meeting the hiring requirements is able to apply for employment.
3. We shall be fair and objective when we evaluate each applicant's appropriateness, skills and desire and make the hiring decision.

The guidelines stipulate that staff members in charge of the hiring process shall follow these principles in their application paperwork, recruitment notices, job vacancy ads and interviews. For

Key Points

- The Group increased employment of persons with disabilities in FY 2002 and expects to meet the legally mandated rate of such employment in FY 2003.
- In FY 2002 we improved our system to better accommodate employees with small children, decrease overtime and improve health considerations.
- We are fostering human resources through leadership training, online training and so on.
- The Group has adopted new compensation practices to be fully implemented by FY 2004.

example, the guidelines expressly forbid hiring managers to ask applicants or otherwise inquire about their family records, details of upbringing, family member employment and income, family makeup or home environment.

Staff members are classified as employees, securities advisors and temporary employees based on the length of contract.

Human rights

The Group's guidelines for ethical behavior prohibit discrimination against persons based on sex, age, nationality, race or other factors irrelevant to business and also forbid harassment, sexual or otherwise. The Group is establishing a Human Rights Awareness Promotion Committee, headed

up by the Daiwa Securities Group Inc. Director for Personnel Management, as a way to address human rights problems. The Group raises awareness about the issue of human rights and gives training in it; the subject is included in new employee training and manager training among others. Also, the Daiwa Securities Group participates in the Industrial Federation for Human Rights, Tokyo¹.

¹ The Industrial Federation for Human Rights, Tokyo is a voluntary organization formed to solve discrimination and human rights problems from industry's perspective.

Number of new graduates hired in entire Daiwa Securities Group

	April 2001	April 2002	April 2003
Career-track employees and regional career-track employees¹ (Female)	364 (20)	712 (361)	600 (274)
General employees² (Female)	516 (516)	81 (81)	54 (54)
Securities advisors³ (Female)	70 (43)	28 (16)	18 (6)

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

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

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

Employees in entire Daiwa Securities Group

	As of end of March 2002			As of end of March 2003			
	Employees	Securities advisors	Temporary employees ¹	Employees	Securities advisors	Temporary employees ¹	
Japan	Men	6,656	116	—	6,799	123	—
	(career-track)	(6,073)	(—)	—	(6,151)	(—)	—
	(manager)	(2,951)	(—)	—	(3,055)	(—)	—
	Women	3,559	988	—	3,573	801	—
	(career-track)	(937)	(—)	—	(1,372)	(—)	—
(manager)	(36)	(—)	—	(39)	(—)	—	
Japan total	10,215	1,104	1,367	10,372	924	1,242	
Overseas	1,268	—	25	1,187	—	23	
Total	11,483	1,104	1,392	11,559	924	1,265	

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

An increase in employment of the disabled in FY 2002

Since January 2001 the Daiwa Securities Group has participated in websites and seminars on the employment of people with disabilities. Average employment of persons with disabilities at the nine main Group companies was 1.69% of all employees as of the end of March 2003, a jump of 0.15 points from the 1.54% of the previous year. The new medium-term management plan sets a goal of meeting the legally mandated rate of 1.8%, which we intend to reach in FY 2003. The Group for example hosted interns with mental disabilities from a special school in 2002 and hired them in April 2003.

A workplace empowering women to excel

At the end of March 2003, 1,372 women were working throughout the Group as career-track and regional career-track employees. Women in these programs make up 13.2% of all employees in Japan, a gain over the 9.2% of the year before. There are also 39 female managers, an increase of three. Women make up 1.3% of managers in Japan, a slight rise over the previous 1.2%. One reason this rate is so low is because the Group has few female career-track employees with the necessary experience to be promoted to the manager class, but the Group is strongly aware of the need for actively employing female workers at this level. Incidentally, among recent new graduate hires, about half of all career-track and regional career-track employees are women.

Since 1992 the Daiwa Securities Group has let women take maternity leave for two years after childbirth so that they can better balance their careers with parenting. This was an improvement over the legally mandated one year. To help parents of young children even more, in 2002 the Group extended the period during which parents are excused from overtime work from two years to three after childbirth.

Better working conditions

The Group negotiates with the employees' union to set limits on holiday and overtime work, but occasionally these limits are exceeded. In FY 2002 we made certain to provide make-up holidays for Saturdays when Daiwa Securities branch offices were open and also reduce the number of such Saturdays. In April 2003 Daiwa Securities Group Inc. launched an Intranet-based overtime control system, which allows the Personnel Department to see overtime requests and approvals in real time and receive notice if the set number of hours is exceeded.

In addition to normal periodic health checkups, all Group employees (except temporary employees working short hours) get an in-depth physical exam at no cost to themselves. The Health Development Center at Daiwa Securities Group Inc. provides physical and mental health support for employees, with a full-time staff physician managing employee health and full-time counselors and mental health specialists also offering consultation. In FY 2002, the Group decided to focus on the increasing problems of employee

overwork and stress. The Personnel Department began listing individuals at Daiwa Securities Group Inc., Daiwa Securities and Daiwa Securities SMBC working more overtime than the established limit (80 hours/month). The staff physician now checks these workers very closely.

Finally, we stepped up smoking restrictions in the workplace in FY 2002. Daiwa Securities Group Inc., Daiwa Securities, Daiwa Securities SMBC and Daiwa Institute of Research have formulated rules on smoking areas, so now all nine main Group companies have smoke-free offices with the exception of designated smoking areas.

Workplace environment data at Daiwa Securities Group

	FY 2000	FY 2001	FY 2002
Average employment of persons with disabilities (end of March)	1.52 %	1.54 %	1.69 %
Daiwa Elder System¹ employees (end of March)²	N.A.	46	57
Employees on prenatal/postnatal leave	76	74	88
Employees on maternity leave	57	69	80
Annual regular work hours	1,845 hours	1,837.5	1,845
Monthly average of overtime hours worked³	22.8 hours	21.8	22.2
Paid leave usage rate²	34.8 %	34.6 %	34.1 %
Employees that are union members (end of March)⁴	6,371	6,419	6,388

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

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

³ Figures show the number of union members among employees of three companies: Daiwa Securities Group Inc., Daiwa Securities and Daiwa Securities SMBC.

⁴ Figures exclude Daiwa Asset Management, which has its own employees' union, and Daiwa Property, which has no union.

Daiwa People

Diverse training opportunities

How we foster our human resources will affect the Daiwa Securities Group's future competitiveness. The Group provides cross-Group training for new employees as well as leadership training and a system for studying in Japan or abroad, while individual companies give training primarily to help their employees gather the knowledge and skills they need on the job. Employees can take training in a number of ways: at the training center in groups, within their own companies via satellite broadcast, or online over the Intranet. The Group also supports employees working toward formal credentials².

² For more information about the Group training system, see *Sustainability Report 2002*, page 28.

Cross-Group training

The nine main Group companies began giving joint training for new career-track employees in FY 2002. This five-day training is less about increasing work skills than it is about the Daiwa Securities Group's Corporate Principles, corporate ethics and social responsibility. One day of the training is devoted to learning about social contribution and human rights and includes volunteer experiences, such as providing assistance at homes for the elderly³.

³ For more information about volunteer experiences within the training for new employees, see *As a Corporate Citizen and a Member of the Community*, page 30.



New employee training

Leadership training

The Daiwa Management Academy, begun in 2000 for select General Managers, and the Daiwa Leadership Program, started in 2001 for select Deputy General Managers, have steadily produced more graduates. Presently there are 90 graduates of the Daiwa Management Academy. Of the 104 officers⁴ at the nine main Group companies at the end of June 2003, 13 are graduates of the program. Of the Deputy General Manager class, 149, or about 10%, are graduates of the Daiwa Leadership Program. By the end of FY 2003, we expect to reach our goal of having 20% of the class consist of graduates of this course.

⁴ Directors (other than Outside Directors) and Executive Officers

Skill-building training

Daiwa Securities started its online learning system "@DESK" in March 2002. During FY 2002 the company added eight new courses and now operates a total of 10, preparing employees to take credentials exams, teaching them about products like pension insurance and bonds, and examining them on skills learned in group trainings and satellite courses. Because employees can take @DESK courses at any time or place, as of the end of March 2003, about 60% had done so. About 200 employees access the system every day. @DESK further enables training managers to check employees' progress and understanding by the net and thus provide more responsive support. There is also a cost advantage: unlike group courses, no time or money is lost in traveling to class. The company plans to bolster skill-building and specialized knowledge acquisition among employees by giving broader support for earning external credentials and introducing an internal credential system. Additionally, Daiwa Securities SMBC is starting up its own online learning system in FY 2003.

Because the systematic development of profes-

sional human resources is an issue for the Group as a whole in the future, the Group is expanding programs intended to enhance the ability of consulting and asset management.

Persons earning credentials

(end of March 2003, nine Group companies)

Credentials	Earned by 3/2003
Chartered Member of The Security Analyst Association of Japan	1,122
Chartered Financial Analysts (USA credential)	32
Financial Planners (AFP)	2,487
Financial Planners (CFP)	144
Licensed Tax Accountant	12
Variable insurance sales credentials	5,584
System Analysts	18
Overseas MBA program graduates, etc.*	121

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

Performance based compensation and career paths

The Daiwa Securities Group began linking employee bonuses to company performance in 1999 when it adopted the holding company system. This practice was nearly completely established by FY 2002. The great themes of the Group's medium-term management plan in effect from FY 2003 are to emphasize professional performance, give employees more choices, establish a fair evaluation system and improve the quality of our human resources.

Personnel compensation reforms announced in March 2003 called for job-specific compensation, performance reviews with more graduated salary levels (16 instead of 11), and a senior work system with reduced salary for basically all career-track employees age 55 and up⁵. All of these reforms come into full effect in FY 2004.

Furthermore, we will be greatly expanding intra-Group job postings. This is intended to encourage movement of personnel within the Group and to help skilled, eager employees reach their potential. Employees with the required qualifications and able to pass examinations (in the form of written essays, live interviews and so on) are able to transfer to other posts in other departments they hope to join within the Group. The table at the bottom of the page lists numbers of applicants

and how many were successful in the last four intra-Group job postings.

The Group is simultaneously setting up processes for the selection and promotion of officers. As we shift to a committee system⁶, scheduled for FY 2004, we are studying operations systems and officer selection standards that will assure that our new nominating committee can adequately function.

⁵ Under the senior work system, during their working years up to the regular retirement age, employees do not have to transfer from the area from which they originate.

⁶ See *Corporate Governance*, page 16, for more details about the transition to the committee system.

A multi-directional, evaluation system

Multi-directional evaluation

Fair personnel evaluations by the appropriate evaluator are a critical part of human resource management. The Daiwa Securities Group is working to implement a more plausible evaluation system, focusing heavily on quality and productivity. Daiwa Securities Group Inc. did this in a very concrete way in January 2002 by introducing its own multi-directional evaluation system⁷. Personnel are evaluated once a year by superiors, subordinates and others closely connected to their jobs, and this is fed back to the evaluatee. This type of system will be expanded to the entire Group in the

future. Moreover, the Group is enhancing its training of evaluation interviewers.

⁷ Daiwa Securities, Daiwa Securities SMBC and Daiwa Asset Management used a two-way evaluation system under which General Managers are assessed by their subordinates.

Customer satisfaction perspective

Daiwa Securities has begun creating ways to evaluate branch offices and employees from the point of view of customer satisfaction. To start, the company added the factor "customer retention rate" to its branch office performance evaluations in April 2003. It plans to send out its third customer satisfaction survey in the autumn of 2003 and will use the resulting data to reflect customer satisfaction in its evaluations of branch offices and employees.

Compliance perspective

The Daiwa Securities Group is adding a compliance component to its evaluation of all employees except temporary employees. In April 2003 Daiwa Securities SMBC modified its evaluation systems for internal administration supervisors and General Managers. For details see *Compliance*, page 13.

Employees' union

The Daiwa Securities Group Employees' Union has offices on the premises of Group companies and is helping to maintain good relations between labor and management through the efforts of members to improve the working environment and increase employee satisfaction. Membership stood at 6,388 at the end of March 2003⁸.

⁸ This figure excludes Daiwa Asset Management, which has its own employees' union, and Daiwa Property, which has no union.

Employees qualifying under intra-Group job posting

Time of posting	Jobs offered	Applicants	Successful applicants
Summer 2000	Fund manager, analyst, venture capitalist	12	2
Winter 2000	Work abroad	71	6
Summer 2001	Fund manager, analyst, venture capitalist, principal finance, etc.	58	7
Summer 2002	Fund manager, mergers and acquisitions, derivatives, work abroad, satellite broadcaster, etc.	60	8

As a Corporate Citizen and a Member of the Community

Acting in our capacity as a corporate citizen is a key form of “our investment in society.” The Daiwa Securities Group makes this investment toward its own sustainability as well as that of society as a whole. The Group forms partnerships with universities and other academic institutes, conducts volunteer activities through its Corporate Community Affairs Department, offers financial support through three foundations, and patronizes arts and culture.

Approach to activities as a corporate citizen

Actions taken in our role as corporate citizens can be broadly divided into four types: finance and securities education and research, support for employees doing volunteer work, support for local and international society through foundations, and patronizing arts and culture. In FY 2002 the Daiwa Securities Group provided 320 million yen through such activities, an amount equivalent to about 1.1% of ordinary income. The Daiwa Securities

Group intends to continue a steady level of financial support, regardless of earnings performance.

Support for employees performing volunteer work

The Daiwa Securities Group established its Corporate Community Affairs Department in 1999 and actively supports employee interest in volunteer work. The department sponsors programs that employees can participate in and additionally uses the Group intranet to publicize programs of foundations, non-profits and other companies among Daiwa employees. Thus, employees have plenty of chances to participate in activities of interest in their spare time. The department further serves as the Group’s contact for donations to the community and supports the activities of the foundations detailed below.

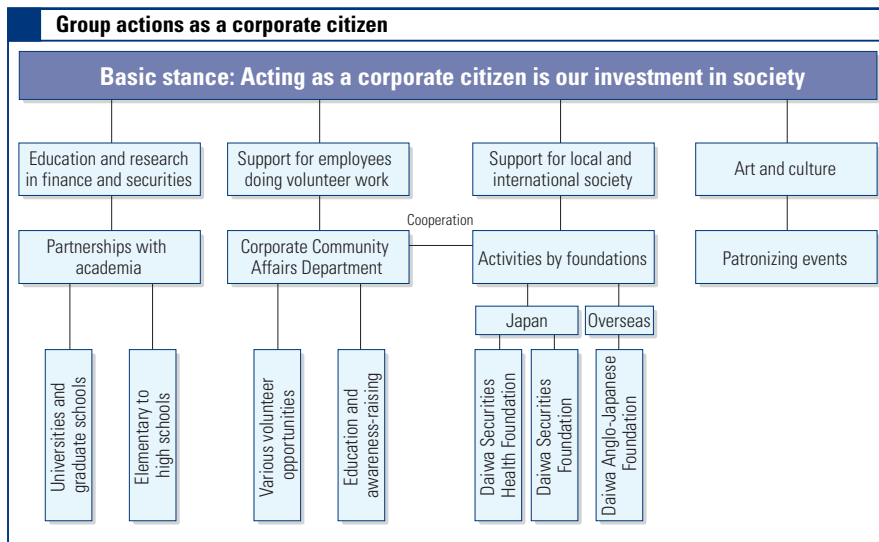
Volunteerism grounded in local communities

In April 2001 community affairs programs were incorporated into our training for new employees as a way of promoting employee volunteerism and generating interest in community work. The programs include sign language courses, lectures,

and hands-on experience like cleanups around our training center and assistance at homes for the elderly. Our Management Program of training and education for managers includes experience-based courses that let these managers experience life in a wheelchair or as an elderly person. This program seeks to inspire understanding and the practice of volunteerism on the part of managers, who can take the lead in such efforts. As a result, volunteerism becomes a habit in the offices where the training is given.

Sign language courses and guide dog experience are two ongoing activities. Offered twice a month, sign language courses began in 2000 in Tokyo and the following year in Osaka and Nagoya. Besides employees, family members and even customers have taken part. Branch office managers and other management members have occasionally joined to better their communication with employees that have hearing impairments. Meanwhile, the guide dog experience course began in 2000 and is held once or twice a year. A handmade picture book entitled “Daisuke the Guide Dog!” is distributed as part of this course and has been used to support the general curriculum in 67 elementary schools.

¹ Created by the family of a Group employee, “Daisuke the Guide Dog” is assembled personally as a volunteer effort by a number of employees.



Guide dog experience course



Sign language lesson

Education and research in finance and securities

Believing that societal awareness of the importance of direct finance is needed to revitalize Japanese society, the Daiwa Securities Group is putting its efforts into finance and securities education, particularly in universities and graduate schools. It also takes part in industry-academia partnerships by supporting university-based ventures in such forms as technology licensing organizations (TLO).

Additionally, officers and employees from Group companies lecture at several graduate schools, universities and junior colleges, including Okinawa University, Kagawa University and Tohoku Fukushi University.

Support for local and international society through foundations

Two Group foundations in Japan and another overseas actively support worthy goals. The Daiwa Securities Health Foundation, founded in 1972, performs surveys and research on the prevention and treatment of lifestyle diseases and increases understanding about maintaining and improving health. In FY 2002 it handed out 30 grants worth 30 million yen. The Daiwa Securities

Foundation, founded in 1994, supports volunteer efforts in the areas of social welfare and medical care and gave out 202 grants worth 52 million yen in FY 2002. The Foundation maximizes the exposure of these grants within and beyond the Group by handing out grant notices and certificates at branch offices of Daiwa Securities.

Finally, the Daiwa Anglo-Japanese Foundation², founded in London in 1988, seeks to enhance mutual understanding between the United Kingdom and Japan through its main program, the Daiwa Scholarship. Under this program, 81 young British people have studied in Japan to deepen their knowledge of Japan and the Japanese language as of the end of March 2003. In September 2002, five British students came to Japan, the twelfth set of students to do so; they are currently in the middle of a 20-month program. In addition to the existing Daiwa Adrian Prizes, two more award programs began in January 2003: the Daiwa Foundation Small Grants and Daiwa Foundation Awards.

² For more information about the Daiwa Anglo-Japanese Foundation, visit www.dajf.org.uk.

Key industry-academia partnerships in FY 2002

University/graduate school	Activities
Aoyama Gakuin University Graduate School of International Management	Sent instructor to course on management analysis
Kyoto University Graduate School of Economics	Sponsored lectures on theory of finance and securities systems
Kyoto University International Innovation Center	Supported industry-academia project
Keio University Faculty of Policy Management	Omnibus lectures primarily involving employees as lecturer
University of Cambridge Entrepreneurship Centre	Support of investment fostering project
University of Tokyo	Activity support for University of Tokyo Office of University Corporate Relations
Nihon University Business Incubation Center (NUBIC)	Consultation on Nihon University TLO operations
Hitotsubashi University Graduate School of International Corporate Strategy (ICS)	Sponsored course on Daiwa Securities investment strategy theory
	Sponsored course on Daiwa Securities corporate strategy building
	Group scholarship system for non-Japanese to study in Japan (nine students in FY 2002)
Waseda University	Waseda/Daiwa TLO Pilot Fund
	Joint research with Waseda University Institute of Financial Studies

Patronizing art and culture

In commemoration of the 100th anniversary of its founding, the Daiwa Securities Group sponsored an exhibition of the works of Marc Chagall from April to December 2002 in Tokyo, Niigata and Hiroshima. In May and June 2003 it sponsored Tokyo and Shiga performances by the Fondazione Teatro Lirico "Giuseppe Verdi" Trieste opera company from Northern Italy.



Poster for "Giuseppe Verdi" Trieste opera performance

Issues to be addressed

The Daiwa Securities Group believes that its social mission is to expand activities primarily in its main field of business: finance and securities. Specifically, we will actively support the education of young people in the areas of economics and investment.

Working for the Environment

The Daiwa Securities Group recognizes that the environmental impact of its business is not trivial and it is making efforts to reduce it.

Our vision on environmental issues

The direct impact that the business activities of Daiwa Securities Group have on the environment may be less than that of the manufacturing industry, but we still create a burden by consuming energy, water and paper and thus releasing carbon dioxide and waste. As environmental issues worsen, people today understand that businesses have an obligation to work continuously to mitigate environmental burden, no matter what the industry sector or form of business. Therefore the Group in FY 2001 began collecting data on its use of electric power, water and fuels (city gas, gasoline and so on) and its amount of waste and materials recycled at its major office buildings.

We are focusing to analyze now on trends in the data over the years and taking measures to reduce these burden. Further, we have begun to study about the possibility of acquiring certification under ISO14001, the international environmental standard, in order to implement environmental management. At the same time, we are putting highly effective systems in place to raise Group employee awareness through, for example, the environmental campaign described below.

Energy conservation

The data on energy consumption of major Group office buildings since FY 2000 show that electric power consumption has been flat, while there has been a slight decline in usage of natural gas and other fuels. The effort to conserve energy has included reducing electricity and fuel consumption that we deem excessive or low-priority and incorporating energy-conserving design when facilities

Key Points

- The Group is expanding the scope of environmental performance data it collects (adding Daiwa Securities branch offices nationwide, etc.).
- Average rate of paper recycled is just under 90%.
- The Group became a member of the Green Purchasing Network.
- Conducted company environmental campaign "Do Something Good for the Environment."

are updated. Specifically, we turn on lights only where needed, cut office equipment standby times, and run energy patrols to encourage staff to turn off unnecessary lights. We perform inspections and maintenance control to assure that air conditioning and other equipment is running efficiently. Windows are coated with light-blocking film and we use energy-saving air conditioning, lighting and elevators. Further, some Daiwa Institute of Research office buildings use "Eco-Ice" technology: hot water is derived from the process of keeping computers cool and some energy loads are supplied at night.

Daiwa Securities Group CO₂ emissions

In FY 2002 CO₂ emissions by the Daiwa Securities Group totaled 40,708 tons¹. This figure divided by total Group employment in Japan (12,538 employees²) yields per-capita emissions of about 3.25 tons.

The Group submitted its Global Warming Action Program for the Daiwa Securities Headquarters Building, Eitai Daiya Building and DIR Eitai Building, three of the Group's relatively large office buildings, to the Tokyo Metropolitan Government in June 2002. Our goals for reducing emissions of greenhouse gases (CO₂ equivalent) from these buildings by FY 2004 are 2.0%, 0.1%

and 1.9% respectively from FY 2001 levels. The Group is now pursuing these goals.

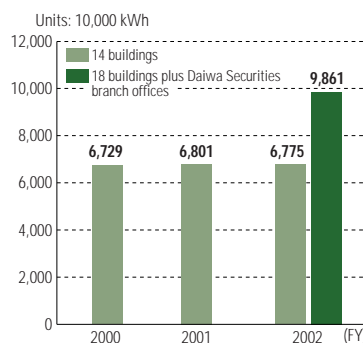
¹ This figure is a calculated equivalent found by using the Ministry of the Environment's greenhouse gas emissions conversion formula. It is the CO₂ equivalent of the fuel, electric power and water usage of the Daiwa Securities Group in its 18 major office buildings and branch offices nationwide.

² Total of employees, securities advisors and temporary employees in Japan. Refer to *Daiwa People*, page 26.

Reducing water usage

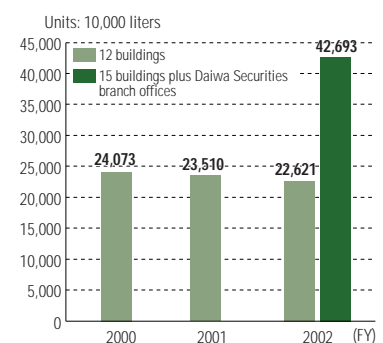
Water usage at the Daiwa Securities Group has been on a gradual declining trend since FY 2000. This is the result of a campaign to reduce water waste and the equipping of company cafeteria and lavatories with water-saving fixtures. Steps under consideration for further savings include using recycled water.

Electric power usage (Graph 1)



* Scope of data collection was expanded over that in FY 2002. For details see table *Scope of environmental performance data*, page 33.

Water usage (Graph 2)



* Scope of data collection was expanded over that in FY 2002. For details see table *Scope of environmental performance data*, page 33.

Resource conservation, recycling and waste reduction

The product that Daiwa Securities Group sells is information. Therefore, the question of what to do about paper usage is the key to our efforts to conserve resources, recycle and reduce waste. Our future success at reducing environmental impact will hinge on how we digitize information.

Resource conservation

Digitizing information is a very effective way of reducing paper use. E-mail and the Group intranet have greatly diminished the number of paper documents circulated internally. We encourage making copies on the back of earlier documents where confidentiality is not a concern. Daiwa Securities' investment fund prospectuses have been available electronically since May 2003 so that customers can view them at their PCs instead of in paper form.

Recycling and waste reduction

The Group thoroughly sorts its paper waste and sends it to recyclers. We separate the paper into high quality paper, newspaper, magazines and pamphlets, cardboard and mixed paper. We check up on our collection and hauling contractors, intermediate processors and recycling companies to confirm that the material is ultimately recycled as it should be. The rate of paper recycling varies by building, but the average is just under 90%.

Other waste includes kitchen waste, bottles, cans, PET bottles, plastic and old PCs. We encourage the reuse of PCs in other departments, and if that is not possible, we engage the services of a recycling company that makes sure each material is recycled.

Recycling volume and rates (Table 1)

(Units: tons)

	FY 2001				FY 2002			
	Waste produced	Recycled	Disposed	Recycling rate	Waste produced	Recycled	Disposed	Recycling rate
Paper	1,617.9	1,438.3	179.6	89%	1,564.2	1,357.0	207.3	87%
Non-paper	297.1	88.7	208.5	30%	352.6	101.0	251.6	29%

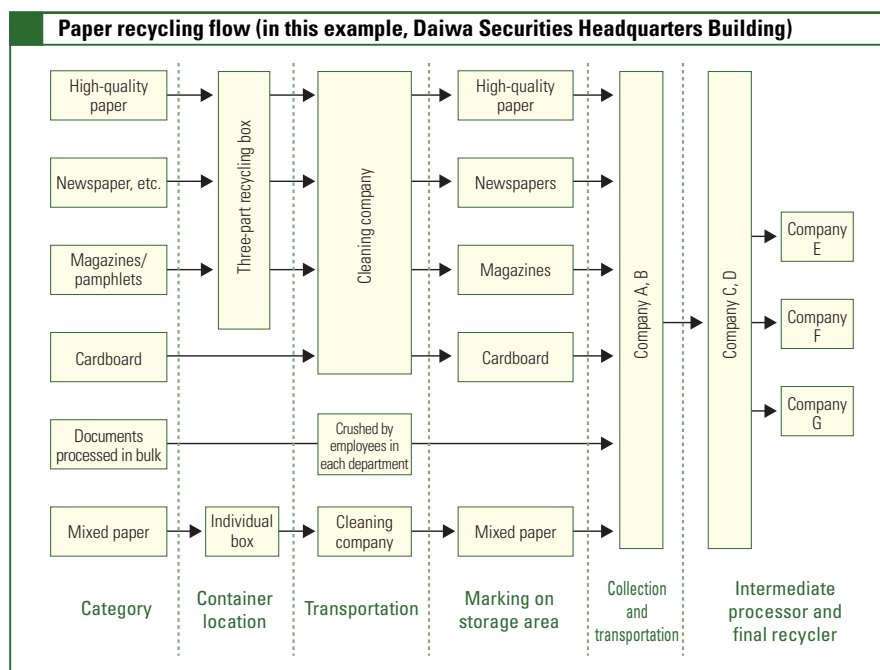
* See Scope of environmental performance data below for data coverage.

Scope of environmental performance data

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

Building name	Graph 1	Graph 2	Table 1
Daiwa Securities Headquarters Building	○	○	○
Kabutocho Building	○	○	○
Daiwa Securities SMBC Headquarters Building	○	○	○
Eitai Daiya Building	○	○	○
Osaka Branch	○	○	○
Nagoya Branch	○	○	
DAM Headquarters Building	○	○	○
DIR Head Office	○	○	○
DIR Annex	○	○	○
DIR Eitai Building	○	○	
DIR Kiyosumi Building	○		
DIR Izumi Building	○		
DIR Osaka Center	○	○	○
DSC Headquarters Building	○	○	○
Daiwa Securities branch offices*	◎	◎	
Daiwa SB Investments Headquarters	◎	◎	
NIF Ventures Headquarters	◎	◎	○
Daiwa Training Center	◎	◎	
Daiwa Sanko Headquarters/Annex	◎	◎	

* This applies to 125 office locations excepting headquarters, Osaka branch and Nagoya branch (end of March 2003).



Working for the Environment

Green purchasing

The Daiwa Securities Group encourages its employees to use the Sanko Net, run by Group company Daiwa Sanko, when they purchase office supplies. Sanko Net directs buyers to certified products from the Green Purchasing Network (GPN) database. Presently we purchase about 40% of our supplies with the GPN mark through Sanko Net.

Daiwa Securities Group Inc. joined the GPN in June 2003. The Group has just begun green purchasing, but is planning to establish a basic policy on this and will actively encourage it hereafter.

Community activities of environmental issues

The Group's Corporate Community Affairs Department is the hub of Group action on behalf of the environmental social contributions. We have supported "Saving Forest Giants," a giant tree preservation program, since December 2000, encouraging customer support by putting up posters and setting out donation boxes at Daiwa Securities branch offices nationwide.



Poster for giant tree preservation program



Kujukurihama Beach cleanup

Major pro-environment activities that current and former employees and their families volunteered for in FY 2002 are shown below.

Major environmental initiatives in FY 2002

<p>June</p>	<p>Volunteers removed vines and underbrush from the forest at Mt. Takao, Tokyo. Volunteers included about 100 employees and family members mostly from Daiwa Securities branch offices in Tama, Tachikawa, Kunitachi, Machida and Hachioji.</p> <p>About 540 current and former employees and their family members helped clean up Kujukurihama Beach in Chiba Prefecture.</p>
<p>July</p>	<p>Parents and children took a hands-on course in environmental work, cutting grass weeds and pruning trees.</p>
<p>July 5 September</p>	<p>Campaign to recycle used tennis rackets. Rackets were given to a non-profit organization, which restrung and reconditioned them and donated them to schools.</p>
<p>November</p>	<p>A total of 124 Daiwa Securities employees and family members from the North Osaka area (Umeda, Toyonaka, Nishinomiya, Amagasaki and Ibaraki) took part in effort to keep Mt. Rokko clean, sponsored by Hyogo Prefecture cities Ashiya, Takarazuka and Nishinomiya.</p>
<p>December</p>	<p>Employees donated 606 unneeded 2003 calendars and gave them to a second-hand market.</p>



Donation of surplus calendars to second-hand market

Group environmental campaign

In May 2003 the Group as a whole conducted its “Do Something Good for the Environment” campaign to raise employee awareness. This campaign asked employees to enter activities they were undertaking or ideas to benefit the environ-

ment. This was our first time to run the campaign and so we received just 22 entries, but they offered a variety of good ideas.

A committee looked through the entries and judged them on environmental awareness, day to day effort and extent of activity, finally selecting entries to receive the Eco-Grand Prize, Eco-Life Prize, Eco-Office Prize, Eco-Idea Prize

(Home/Private) and Eco-Idea Prize (Company). The Himeji Branch Office earned the Environment Grand Prize for its conservation efforts, which the employees have adopted as part of their routine (see feature below).

Conservation is part of the job

Yasuhiro Noguchi, Manager, Himeji Branch Office, Daiwa Securities

It was mostly young staff members at Himeji Branch Office who so eagerly accepted the Group’s environmental campaign challenge. I think what the prize committee was impressed by was our habit of reusing paper, separating waste and saving electricity, things we have done for the past decade. Separating waste has encouraged us to keep a more orderly workplace and to work more efficiently. No matter how much a company supports tree plantings and outside efforts like that, it means nothing if employees are wasting paper. Our employees remind each other to use paper wisely, separate waste for recycling, turn out the unnecessary lights and keep a reasonable room temperature. For new employees this is far more effective than

being scolded by their superiors and accounts for why these habits have become established. And I hear that employees are separating waste and saving energy in their homes and dormitories, not just the office. It is gratifying to hear that we have created such a persuasive environment. This took 10 years to happen, so I am grateful for all those employees who have been so persistent.

At the same time our members have engaged in community activities. The branch office has never failed to attend the cleanup of the boulevard that leads to Himeji Castle, the city’s great landmark which is designated a national treasure. Employees get into the community by taking part in the castle festi-



Himeji branch staff members

val, hosting a booth selling grilled yakisoba noodles and joining in the parade.

When these employees take part in environmental and community activities as Daiwa Securities staff members, and when they deal warmly with the people they meet, they do not brag about this; for them it is just part of the everyday life. As these deeds accumulate, they are reflected in the attitude these employees take when working with customers. Our day to day work may deal largely with numbers, but it is our attitude that makes us sustainable and should be the focus of all corporate activity.



Reminders to save energy



Controlling air conditioner temperature

Stakeholder Dialogue

The Group hosted an Experts' Roundtable on April 18, 2003 to try to answer the question, "What can the Daiwa Securities Group do to build a sustainable society?" We invited outside experts on such diverse topics as environmental issues, social contributions and consumer affairs to offer their unreserved opinions.

Participants

Dr. Naoki Adachi

Member of Rating Committee, Sustainability Management Rating Institute

Yukiko Furuya

East Japan Compliance Management Research Group, Nippon Association of Consumer Specialists (NACS)

Tadashi Hayami

Senior Fund Manager, Asahi Life Asset Management Co., Ltd.

Sachiko Kishimoto

Executive Director, Center for Public Resources Development

Masaaki Kogure

Senior Researcher, Institute of Prosocial Research

Yoshiki Midorikawa

Director, Green Consumer Research Group

Hiroaki Sugiyama

Graduate student at Tsukuba University and Secretariat, Global Reporting Initiative Forum Japan

Yoko Takahashi

Chief Director, Japan Philanthropic Association



Looking back on 2002 Sustainability Report

We started the discussion by asking participants for their impressions of the 2002 *Sustainability Report*. Midorikawa said, "I felt the report was written very sincerely." Takahashi and Kishimoto agreed that the forthright matter in which the report addressed Group problems showed that Daiwa Securities Group has resolved to restore the Group. Furuya added, "The report is commendable in that it examined Group problems, which will help build trust with customers." In general, there were many positive comments and the participants praised the Group's attitude on information disclosure.

Opinions were split, however, on the issue of the target reader the report should have been written for. By writing the report broadly for stakeholders outside the Group (customers, shareholders, investors and society at large) as well as employees, Kogure wondered if the Group had not lost track of who their target audience was. Midorikawa was more positive, saying that the report's multi-stakeholder approach was good enough without worrying about how to focus the content. Furuya suggested that "The report should make it clearer, from the consumer's point of view, whether you are really acting in compliance." She added, "If you fail to do that, it's hard to increase consumer trust, no matter how much you talk about law and ethics." Based on these responses, the Group realized it had to put greater emphasis on deciding what it wanted to say, and to whom.

As for employment, Midorikawa said that "Employment-related information disclosure is a weak point for Japanese firms, but this is of great importance to stakeholders, both directly and indirectly." This comment pointed out an issue that needed a closer look. Many students look at corporate environmental or sustainability reports when they are seeking employment; Sugiyama pointed out that "How you use your personnel and what your employment system is like are what students most want to know about." Thus we learned that we needed to describe employment practices in more detail.

Regarding issues and activities mentioned in the report, meeting participants expressed their belief that offering more concrete numbers and targets would make the report more effective. Kishimoto expressed the desire for more information about targets to be achieved rather than unconnected bits of data, while Takahashi added, "Even if there is little likelihood of reaching them, it's still important to have goals and then to work toward them."



What does society expect of us as an enterprise?

The second thing we wanted to ask was what the participants thought society expects of the Daiwa Securities Group as a business.

Adachi largely spoke for the invitees when he said that in an age when share prices are not simply going up and up, “The purpose of a securities company is not just to make more money for clients.” Explaining, he said, “The role of the finance industry is to make sure that the world’s flow of financial assets moves efficiently. A company has to act according to its own principles and vision rather than try to fulfill every wish the customer may have.”

Asked where we as a company should put our focus, Hayami pointed to “Those issues that all modern companies have in common, not just the securities industry. These include determining how to address social problems through its core business, and thinking about what one’s own company is capable of doing. Takahashi proposed that “Social contribution is fine, but what’s more important is how the company fulfills its social commitments in its core business.”

Thinking in these terms, Kogure said, “Makes it seem as if the 2002 *Sustainability Report* was expressing the Group’s corporate principles in a rather inward-looking way.” As he said, “When there is interaction between stakeholders and companies, the outcome based on company principles will occur.”

Kogure commented further that individuals are better able to decide where to invest their money when they know how it is being used. Hayami also made a reference to the basic principles of socially responsible investing when he said that as more companies describe their attitude toward the future, “It won’t even be necessary to refer specifically to socially responsible investing, because investors will be able to find for themselves those companies with an outlook like their own.”

Several participants, including Kishimoto and Furuya, pointed out that Daiwa Securities Group needs not only to disclose information to investors but also educate them. This conversation gave us the opportunity to see how many issues the securities industry faces.

The Daiwa Securities Group looks forward to hosting more of these meetings and using the comments they generate in our corporate activity.

Response to dialogue with stakeholders

In 2002 the Daiwa Securities Group put out its first *Sustainability Report*. Our Corporate Communication Department, which puts out both the *Sustainability Report* and the more financially oriented *Annual Report* for the Group, works hard to convey consistent messages to readers in these two reports. In 2002 we were for the first time releasing so much information in the form of the *Sustainability Report* and the process was completely new to us, but we

were glad to hear praise for our disclosure attitude from participants in the Experts’ Roundtable.

In this second report, the Group has endeavored to offer greater information on human resources and compliance, as our invitees suggested. Whereas in the first report, we focused on defining our current situation, in the second, we have followed their advice by setting targets and discussing our progress on them. Through this dialogue, we have learned that

socially responsible investing and investor education are two of the most important duties of the securities industry, and we look forward to carrying these out in our future work.

Toshihiko Onishi

General Manager, Corporate Communication Department,
Daiwa Securities Group Inc.

Third-Party Opinion



Yukiko Furuya

East Japan Compliance Management
Research Group, Nippon Association of
Consumer Specialists (NACS)

The Daiwa Securities Group has now released its second *Sustainability Report*. The Group and its corporate stance won praise for the first edition in 2002, which took an honest look at its management problems. That attitude is even stronger in the 2003 edition. Included here are objective discussions about the reality the Daiwa Securities Group finds itself in, including judicial and administrative penalties for violations of restriction on insider trading. Six pages are devoted to a detailed discussion of such topics as how the Group is stepping up its compliance efforts (particularly through the prevention and early detection of unfair practices) and the internal communication, training and personnel evaluation the company is undertaking to effect this stronger compliance. This report shows the reader directly that the Daiwa Securities Group intends to be a leader in corporate social responsibility.

Also praiseworthy is the fact that this report is written to be easy for the reader to read, as well as the fact that Daiwa Securities Group has made a sincere effort to incorporate the third-party opinions it included in the 2002 report. I attended the Group's Experts' Roundtable in April of this year and made the comment that the report should delve a little further into the nature of customer complaints and include some of their feedback. The Group acted right away and included that information in this report as well as details about specific strategies in response.

In these ways the attitude of the Daiwa Securities Group is in line with the objective of sustainability reporting, which is to provide information on pro-sustainability activities and social responsibility. Moreover, the *GRI Content Index* provided at the end gives readers an easy way to cross-reference guideline requirements with pages in the

report where the required content may be found. That helps make the report more objective. Finally, this report has a table balancing FY 2002 results on one side with future issues on the other, which is a good experiment in writing from the reader's point of view and clarifying company responsibility.

I do have a few suggestions for future reports and for the Daiwa Securities Group as viewed through these reports. First, while the structure of the report itself makes the content very easy to view, in some places, the lettering is so small that reading is difficult. Of course there are space limitations, but I hope future reports will find a way around this.

Second, I notice that the expression "accountability" and similar expressions occurred occasionally in the 2002 report, but for some reason there is little reference to this in the second report. It seems there should be a greater emphasis on the accountability, that possibly the Group should be more proactive on this point.

Third, as for the ways Daiwa Securities Group plans to be a leader in corporate social responsibility, the sections about corporate governance and compliance systems do an adequate job of conveying this information, but I believe the Group could enhance its corporate social responsibility efforts by applying definite standards. In the section *Information Disclosure*, for example, although efforts on behalf of corporate social responsibility are proceeding, the only policy mentioned in regards to information disclosure is that it shall be "timely, appropriate and fair." What is needed is some standard to guide the Group in assuring that information disclosures are timely, appropriate and fair, and even a standard that leads the Group to disclose information even when that disclosure is disadvantageous to it. The Group has now decided to adopt a disclosure policy, something which gives me high hopes.

Finally, while the Solicitation Policy was included in the *Compliance* section of the 2002 report, this year's report does not include it and only refers to it. To the extent it is possible, I would like to see the basic rules and laws affecting customer response quoted in their entirety. Additionally, I cannot tell how the Group's specific efforts to obey the Solicitation Policy and so on are linked to its sales and other systems, but they should be because this is one way that its efforts on behalf of corporate social responsibility are developed in concrete terms. I hope that Daiwa Securities Group will clarify this issue by establishing policies like the voluntary action standards it says are now under review.



Toshihiko Goto

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

Addressing the issue of corporate social responsibility in the *Third-Party Opinion* section of the Daiwa Securities Group's 2002 *Sustainability Report*, I wrote that there was "a broad-based movement to reexamine the role of corporations in the current structure of society." This issue has come to flower in Japanese society in the current year. I would suggest that these sustainability reports play a big role in the way officers and employees of the Daiwa Securities Group think through corporate social responsibility in Japan and the world.

The 2002 *Sustainability Report* mentioned issues still to be addressed, such as quantifying Group targets as much as possible, plus the Group has had to take on some serious incidents since the release of the 2002 report and face harsh opinion about that. Although these problems have not all been resolved, it seems to me that in the 2003 *Sustainability Report* the Daiwa Securities Group has made a sincere effort to improve and explain the issues. In particular, the Group has honestly addressed the indiscretions of some of its executives in its core business, and they talk about this in a way that makes it very clear they intend to learn from these cases. My hope is that Group officers and employees will act in solidarity and use this as a stepping stone to building trust.

Because society is built on trust, it goes without saying that trust should be the first item mentioned in the principles that express the soul of a corporation. The real issue, though, is how to achieve this trust. Here and there in this report I see the understanding that persistent, day to day effort is fundamental to this. The report mentions, for example, that the important and indispensable thing is the process itself of unceasing effort in the quest for perfection. But ideas this abstract are hard to make sink in throughout a large organization. The

2003 report says that the Group has begun taking a variety of steps to make this happen. For example, it is establishing a more detailed disclosure policy in FY 2003 and will establish a corporate governance principle the following year. Some may say the pace of writing these policies is too slow, but I believe this slow pace is good. If it were just a question of getting some words on paper, that could be done within a day. But engaging the input of many employees and officers and actually spending time will increase awareness of the process and inspire the members to think about the system they are putting into effect. I am convinced this is the type of effort the Group is making, not just coming up with a slogan.

As for what I would like to see in these reports in the future, I think there should be more emphasis on the Group's core business. Specifically, I would like to see the Group come up with more proactive basic policies on SRI, which also focuses on environmental issues for this, and create a system and means of support for regional and community investment. I'd like to see the Daiwa Securities Group anticipate the corporate social responsibility and SRI fundamentals that Europe is building into its economic and social policies.

About the Global Reporting Initiative

The Global Reporting Initiative, or GRI, is an international non-governmental organization established in 1997 and consists of diverse stakeholders including corporations, other non-governmental organizations, consultants, accounting organizations and business groups from around the world. The GRI authors the *Sustainability Reporting Guidelines* as a worldwide standard for reports issued for the purpose of achieving sustainable societies.

The guidelines do not provide models of good behavior or policies for it but rather appeal to corporations and organizations to report on their economic, social and environmental performance with the objective of increasing report quality, strictness and convenience.

As of August 2003, at least 309 corporations and organizations in 30 countries are using the GRI guidelines to create reports; 60 such companies are in Japan.

For more details, visit <http://www.globalreporting.org/>.

Milestones toward Sustainability

Year	Month	Daiwa Securities Group milestones toward sustainability
1997	Oct.	New management team led by Yoshinari Hara begins work
1998	Jan.	Business Improvement Report submitted regarding previous year's racketeer payoff
	Jan.	Suggestion Box System introduced to encourage direct suggestions to President
	Feb.	Personnel system reforms include specialist positions, regional career-track employees
	Mar.	Corporate Principles established
	Jun.	First Outside Corporate Auditor appointed
1999	Apr.	Daiwa Securities Group Inc. (the "Company"), first holding company listed in Japan, established, and Daiwa Securities Co., Ltd., Daiwa Securities SB Capital Markets Co. Ltd. (now Daiwa Securities SMBC Co. Ltd.) spun off
	Apr.	Executive Officer System implemented at the Company and Group companies
	Apr.	Advisory Board established at the Company
	Apr.	As part of reforms to personnel system, seniority-based salary increases and promotions abolished.
	July-Sept.	Corporate Community Affairs Department and Corporate Ethics Department established at the Company
	Sept.	Company's shares selected to be included in the Dow Jones Sustainability World Indexes
2000	Apr.	Group Executive Officer System introduced at the Company
	May	Daiwa Management Academy established with the aim to develop management personnel for the future
	June	Compensation Committee established at the Company
	June	Daiwa Elder System, allowing the reemployment of experienced persons up to age 65, introduced
	Aug.	First company information session aimed at individual investors held
	Oct.	Corporate Branding Project launched
	Nov.	Daiwa Securities Business Center acquired ISO9001 certification for quality system
	Nov.	Fundraising for relief to victims of Miyakejima volcanic eruption, heavy rains in Tokai region and earthquake in western Tottori Prefecture
	Dec.	Group's annual report receives highest award in "Nikkei Annual Report Awards"
	Dec.	Support begins for "Saving Forest Giants," a giant tree preservation program
2001	Jan.-Mar.	Daiwa Institute of Research publishes two reports called "Urgent Proposals for the Revitalization of the Japanese Economy" and "Urgent Proposals Concerning the Share Purchase Organization Plan"
	Mar.	"Brand Statement," which defines the Group's core values, released to public
	Mar.	Daiwa Securities, Daiwa Securities SMBC and Daiwa Asset Management publicly announce their Solicitation Policy
	Apr.	CS Promotion Department established at Daiwa Securities
	May	Comprehensive alliance formed with Hitotsubashi University's graduate school to form cooperative industrial-academic relationship in finance and management
	June	Mrs. Green eco fund established by Daiwa SB Investments
	June-July	Sponsorship of Japan staging of Gran Teatro La Fenice
	July-Mar.'02	Group Management Training Program that shares Group's sense of values with all officers and general managers implemented
	Aug.	Internship program for college students begun
	Sept.	"Letter from Yoshinari Hara," an e-mail newsletter from President Hara to officers and employees, begins distribution.
	Sept.	Lecture series "Corporate Governance in the Securities Market" held at Keio University
	Oct.	As part of relief efforts, Group executives and Group companies donate \$100,000 to families of victims of September 11.
	Nov.	Customer Support Hotline established at Daiwa Securities
	Nov.	Daiwa Leadership Program begun as screening and development training program for mid-level employees
2002	Jan.	Multi-directional evaluation system involving superiors, subordinates and relevant departments introduced at the Company
	Mar.	Joint industry/academia lecture with Tohoku Fukushi University
	Mar.	Comprehensive alliance to conduct joint research on areas relating to financial technology formed with Kyoto University's graduate division
	Mar.-Sept.	Regional index funds, such as the "Shizuoka Benchmark Fund," launched by Daiwa Asset Management
	Apr.	Daiwa Securities introduces online training system @DESK
	Apr.-Dec.	Exhibition of Marc Chagall artwork sponsored to commemorate Group centennial
	June	Online voting system introduced for the general meeting of shareholders by the Company
	June	First Outside Director appointed, Director terms reduced from two years to one
	June	Five hundred forty employees, family members and former staff members participate in Kujukurihama Beach cleanup in Chiba Prefecture
	Oct.	Daiwa Securities Group publishes its first Sustainability Report
2003	Jan.	Group-wide Corporate Ethics Hotline internal reporting system set up
	Feb.	Internal Audit Department established at Company
	Mar.	New medium-term management plan (for FY 2003-2005) established
	Apr.	New rewards program for shareholders inaugurated
	June	Total Company director and corporate auditor compensation disclosed

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Daiwa Securities Group
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Cover Message

When the 21 youngsters shown on the cover grow up, what kind of society will they live in? It is our role as a company and our responsibility as adults to do whatever we have to, so that these children can live happily in a society attuned to the natural world. The Daiwa Securities Group chose these photos of our employees' children to illustrate our commitment to the future.

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