



JASDEC, Japan's central securities depository, opened a new chapter in its business history in the fiscal year ended March 31, 2003, by taking its place as a stock corporation.

The Japan Securities Depository Center, Inc. (JASDEC), is the only central securities depository in Japan, designated under the Law Concerning Central Securities Depository and Book-Entry Transfer of Stock Certificates and Other Securities (CSD Law). JASDEC provides depository and book-entry transfer services for marketable securities, in accordance with the CSD Law.

In June 2002, JASDEC assumed all businesses previously undertaken by the Japan Securities Depository Center—its predecessor organization, which was established in December 1984 under the CSD law as a not-for-profit foundation—and began operations as a stock company.

JASDEC aims to contribute to the formation of a Japanese financial market that is highly competitive on an international basis. Toward this end, the Company will utilize its status as a stock company to make its operations more transparent and strengthen its financial position, while working to improve the safety, efficiency and convenience of securities settlement systems.

## Established

### DECEMBER 6, 1984

The Japan Securities Depository Center established as a not-for-profit foundation in line with the November 1984 enforcement of the CSD Law.

## Commenced business

### OCTOBER 9, 1991

Commenced business as Japan's only central securities depository for stock certificates.

## Expansion

### NOVEMBER 26, 2001

Began handling convertible bonds.

### MARCH 31, 2003

Began handling commercial paper in dematerialized form, in accordance with the Law Concerning Book-Entry Transfer of Corporate and Other Debt Securities.

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Cover:  
The character on the cover—pronounced “sou”—means creation. To JASDEC, this character is not merely a part of language but a true symbol of the creativity that infuses the Company, in the activities it undertakes today and those that it plans for tomorrow.

SHARES IN CUSTODY

**203** billion shares

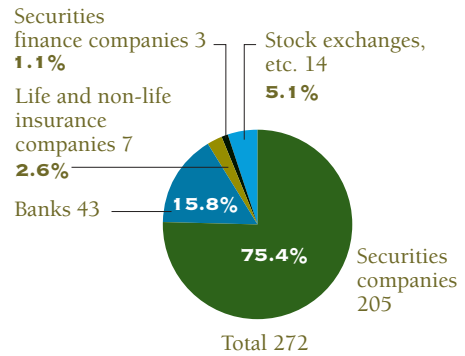
The number of shares in custody exceeded 200 billion in September 2002 and reached 203.1 billion by the end of March 2003.

SHARES TRANSFERRED BY BOOK ENTRY

**580** billion shares

Of the 580.8 billion shares transferred by book entry, non-exchange trade transfers accounted for 355.0 billion shares, or 61.1% of the total.

PARTICIPANTS BY CATEGORY  
(As of March 31, 2003)



New corporate structure

**JANUARY 4, 2002**

The Japan Securities Depository Center, Inc. incorporated as a stock company.

**JUNE 17, 2002**

Assumed all the businesses of the Japan Securities Depository Center, in accordance with the CSD Law.

Our mission

In view of our duty to serve the public, our mission is to provide a highly secure, efficient and convenient securities clearing and settlement infrastructure, which in turn contributes to functional improvement of the securities market. Toward this end, we place a special focus on reducing settlement risks, promoting straight-through processing (STP), and encouraging greater use of depository services for further immobilization of securities amid progress in the dematerialization of securities certificates.

NUMBER OF ELIGIBLE ISSUING COMPANIES

**3,626** companies

We handle the share certificates of nearly all publicly traded companies in Japan.

CUSTODY RATIO

**59** %

Shares in custody represents 59.1% of the entire domestic stock market. Our custody ratio for convertible bonds reached 93.5% as of the end of March 2003.

## FINANCIAL HIGHLIGHTS

	Thousands of yen		Thousands of US dollars
	2002	2003	2003
<b>For the year:</b>			
Operating income	¥ —	¥11,143,857	\$ 92,711
Income (loss) from operations	(11,518)	1,218,075	10,134
Net income (loss)	(11,167)	722,202	6,008
<b>At year end:</b>			
Total assets	¥2,489,145	¥14,590,662	\$121,387
Shareholders' equity	2,488,833	9,211,035	76,631
Net cash provided by (used in) operating activities	(14,339)	3,059,656	25,455
Common stock	1,250,000	4,250,000	35,358
Number of shares outstanding	2,500	8,500	
<b>Per share (yen and US dollars):</b>			
Net income (loss)—primary	¥ (4,466)	¥ 84,297	\$ 701
Cash dividends applicable to the year	—	25,000	208

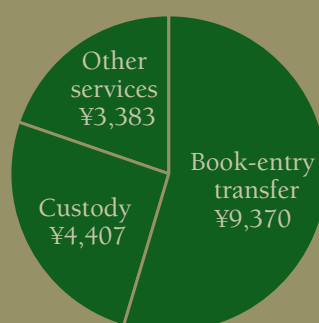
Notes: 1. The amounts stated in US dollars in this report are translated, solely for convenience, at ¥120.20=US\$1, the exchange rate prevailing on March 31, 2003.

2. The Company was established on January 4, 2002. Therefore, "2002" represents the period from January 4, 2002, to March 31, 2002, and "2003" represents the period from April 1, 2002, to March 31, 2003, in the above table.

### REVENUES BY OPERATIONS

Year ended March 31, 2003

Millions of yen



*Note: The above figures indicate the amount before refund of fees, which amounted to ¥6,018 million for the year ended March 31, 2003.*



Yoshinobu Takeuchi  
President & CEO

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## INDISPENSABLE TO SECURITIES CLEARING AND SETTLEMENT SYSTEM REFORM

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### OVERVIEW

On June 17, 2002, JASDEC opened a new chapter in its corporate history with the commencement of services as a stock company. Through this transformation, we have gained the governance function of shareholders, which will increase management transparency and strengthen our financial position. We are now able to engage in strategic activities with greater flexibility, including the ability to diversify financial resources.

To more accurately address the needs of users under our new structure, we assembled a Board of Directors on which the majority of members are representatives from participant companies. We also established the Committee for Business Operations to ensure that comments from users are reflected in all aspects of our business activities.

Our transformation into a stock company has also afforded administrative merits, such as heightened awareness of the importance of cost reduction and improvement in operating efficiency.

It is our ongoing objective to provide users with an expedient securities clearing and settlement system. Toward this end, we have identified four goals—to promote securities clearing and settlement system reform; to encourage greater use of securities depository and book-entry transfer services; to reinforce operating systems and ensure security; and to reduce the cost burden on participants—and we have embarked on several strategic projects to ensure successful implementation of each goal.

As part of this effort, we began providing book-entry transfer services for commercial paper in March 2003, in accordance with the amended Law Concerning Book-Entry Transfer of

*JASDEC posted a corporate milestone, and Japan achieved steady progress in securities clearing and settlement system reform.*

Corporate and Other Debt Securities (Transfer of Corporate Debt Securities Law). Also in March 2003, we implemented the Securities Information Tracing System (SITRAS) for lost stock certificates, paralleling revision of the Commercial Code and the subsequent introduction of a registration system for lost stock certificates.

Furthermore, we launched an advertising campaign using newspapers, television and other media to encourage individual investors to utilize our securities depository and book-entry services.

As a result, the number of shares in custody topped 200 billion, settling at 203.1 billion, as of March 31, 2003. This represented 59.1% of all outstanding shares in Japan.

### THEMES IN THE REFORM OF JAPAN'S SECURITIES CLEARING AND SETTLEMENT SYSTEM

*Paralleling liberalization and globalization of financial markets, JASDEC has made risk control and higher efficiency in securities settlement its highest priorities.*

In recent years, we have taken to compiling the many recommendations and proposals for enhancing the safety and efficiency of securities clearing and settlement systems that have been issued by such international organizations as the Committee on Payment and Settlement Systems and the International Organization of Securities Commissions (CPSS/IOSCO), the International Securities Services Association (ISSA); and the Group of Thirty (G30).

JASDEC fully supports these recommendations and advocates appropriate responses and implementation of required processes in Japan. We have been successful in many areas already, and we will strive to realize those areas still outstanding.

Of issues related to the securities clearing and settlement system that require attention in Japan, three are of particular importance.

The first issue is cost to users, in terms of both money and time, which arises because clearing and settlement functions are divided according to type of securities, such as stocks, government bonds, corporate bonds and investment trusts.

The second issue is realization of STP, viewed as the key to reducing settlement risks and curbing costs. Currently, the shift toward shorter settlement periods has become a worldwide trend. Already, many markets in Europe and Asia have adopted the T+2 cycle. A shorter settlement period is also preferred for Japan to make the market safer, more convenient and more competitive with overseas markets. The introduction of STP is indispensable to shorter settlement periods, but Japan lags behind other countries, especially in the establishment of an infrastructure for a delivery versus payment (DVP) settlement system for trades other than exchange trades, a crucial component of STP.

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**Straight-through processing (STP)** An electronic system with little or no human intervention for handling all trade-to-settlement processes involved in securities transactions.

The third issue is the standardization of trading data and the harmonization of communication protocols that will facilitate the processing of securities clearing and settlement following completion of securities transactions.

As Japan's central securities depository, JASDEC will aggressively tackle these issues from various approaches, including expansion of eligible securities and reform of the securities clearing and settlement system infrastructure.

## NEW BUSINESSES

In the area of eligible securities, in 2001 we expanded our depository services to include Real Estate Investment Trust (REIT) and Exchange Traded Fund (ETF) beneficiary certificates, as well as bonds with subscription warrants for new shares (convertible bonds). We further augmented the range of eligible securities in March 2003 with commercial paper issued in dematerialized form. We are also making headway in our preparations to handle corporate straight bonds and investment trust beneficiary certificates, both of which will be issued and traded in a paperless environment.

In September 2001, we launched the Pre-Settlement Matching System (PSMS), which functions as an important building block of the STP infrastructure. Since then, we have expanded the scope of applicable securities and trades. The first phase targeted stock transactions by domestic institutional investors. The second phase focused on trades by non-residents and trades on bonds with subscription warrants for new shares. In May 2003, we implemented the third and final phase of the first stage of the PSMS with the addition of a matching function for government bonds and exchange-traded futures and options.

The second stage of PSMS development is now under way. In this stage, we aim to connect to the DVP system for non-exchange transaction deliveries (NETD) that is scheduled to go online in May 2004. With the establishment of a clearing agency for government bonds, we are looking into the potential of a matching function used by the agency for government bonds and other securities.

In our effort to promote STP, we are pushing ahead with preparations geared toward implementation of the DVP system for NETD. To date, we have identified major points for processing, established a subsidiary to act as a clearing agency, and continued system development activities.

A revision of the Commercial Code has been broached that would lead to dematerialization of stocks in 2009. We are looking into the creation of an infrastructure that will facilitate the introduction of this new paperless system.

*Seeking to build a securities clearing and settlement system to international standards, JASDEC is aggressively tackling various issues.*

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[Pre-Settlement Matching System \(PSMS\)](#) Please refer to page 8.

[Delivery versus payment \(DVP\)](#) Please refer to page 8.

## USER-ORIENTED SERVICES

We have always endeavored to expand operations and cut costs to users through greater operating efficiency and steady fee reductions. Because profits were higher than initially anticipated for the term in review, we offered refunds to participants at the fiscal year-end. Comparing average custody fees in 1991, when we began operations, and today after the recent refund, we find that fees have dropped 94%. We plan additional reductions on fees, including custody, deposit and book-entry transfer fees, to lessen the cost burden carried by participants.

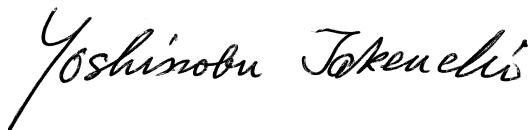
We utilized the opportunity afforded by our transformation into a stock company to reaffirm three business principles. The first is to ensure highly transparent business activities that place the users first and foremost. This principle has always been absolutely fundamental to our operations. The second is to provide capabilities on a par with overseas central securities depositories. The third is to extend highly reliable, cost-effective services.

*System fortification and security as well as reduced cost burdens are the most valued aspects of the services we provide to users.*

JASDEC will redouble its efforts to raise its deposit ratio and realize securities clearing and settlement system reform in Japan. Specifically, we will strive to pinpoint the needs of users, participants and investors with even greater accuracy, make the clearing and settlement system infra-

structure more user friendly, and further refine our capabilities.

On behalf of senior management and all the employees of JASDEC, I ask for the continued support of all parties that utilize and benefit from our operations, including shareholders, participants and issuers.



June 2003  
Yoshinobu Takeuchi  
President and CEO



# SPURRING GREATER CONFIDENCE IN THE JAPANESE MARKET

Reform of the securities settlement system has become an urgent priority in Japan. Dematerialization—paperless securities—and the reduction of settlement risks paralleling shorter settlement periods have gained favor in global financial markets. It is therefore important to Japan to establish integrated STP schemes linking a DVP system to the PSMS. JASDEC is also working on its own securities settlement system to enhance the reputation of the Japanese market in the eyes of overseas investors.

PSMS

Electronic CP

## Pre-Settlement Matching System

The move toward STP for securities settlement has acquired greater urgency as a means of reducing settlement risks and lowering costs. The indispensable steps toward implementing STP in Japan are the introduction of the PSMS and the creation of a DVP system that links to the PSMS.

### *Expanding PSMS to handle DVP for non-exchange transaction deliveries*

The third phase of the first stage in our development of the PSMS, which went online in May 2003, has expanded the system to cover transactions for government bonds and stock exchange-traded futures and options. We also added a transmission function that routes net asset value on investment trusts as well as information on the subscription and redemption of such trusts by investment trust management companies to trust banks.

In the second stage, we will be working to connect the system to DVP for non-exchange transaction deliveries (NETD). Once linked, PSMS-generated instruction data on settlements will be relayed to the DVP system automatically, obviating the need to input instructions through a separate step and bringing the settlement process to a smooth conclusion.

## DVP for NETD

We plan to apply a gross-net type DVP settlement system that links book-entry transfer of stocks and other securities with payment of funds, based on settlement instruction data generated by the PSMS. Under this structure, each book-entry delivery of securities will be processed on a trade-for-trade—or gross—basis, while payment of funds will be made on a net basis, wherein each participant pays or receives at the end of the day the balance that remains when payable amounts for receipts of securities and receivable amounts for deliveries of securities are offset.

Connecting the PSMS and the DVP for NETD will mark a major step forward in realizing STP for securities settlement in Japan.

### CONTROLLING RISKS IN THE DVP FOR NETD

*We are preparing several schemes for the DVP system, based on a risk-control perspective.*

1. **PRINCIPAL RISK MANAGEMENT:** *We will limit risk by having our clearing subsidiary hold assets for each DVP participant that exceeds the balance owing by that DVP participant.*
2. **LIQUIDITY RISK MANAGEMENT:** *We will establish participant funds and credit lines with banks to maintain an appropriate level of fund liquidity and offset possible participant default on final payment. To avert a shortfall in fund liquidity, we have set a net debit cap for each DVP participant.*
3. **PARTICIPANT MANAGEMENT:** *We will require DVP participants to meet certain financial criteria, and we will watch for any change in status.*

*\* We will establish a clearing subsidiary to execute fund netting with participants, thereby separating the netting function from our book-entry function and ensuring compliance with rules for risk management and netting.*

**Pre-Settlement Matching System (PSMS)** This system electronically matches information, such as trade reports and investment instructions, on trades and settlements among institutional investors, securities firms, trust banks and other entities, once stock certificates or other securities have been traded.

**Delivery versus payment (DVP)** This system establishes a strong connection between the delivery of and payment for securities. International standards, recommended by the G30 and other organizations, require the use of a DVP system in all securities settlements to eliminate settlement risk.

PROGRESS ON PSMS AND  
DVP SYSTEMS

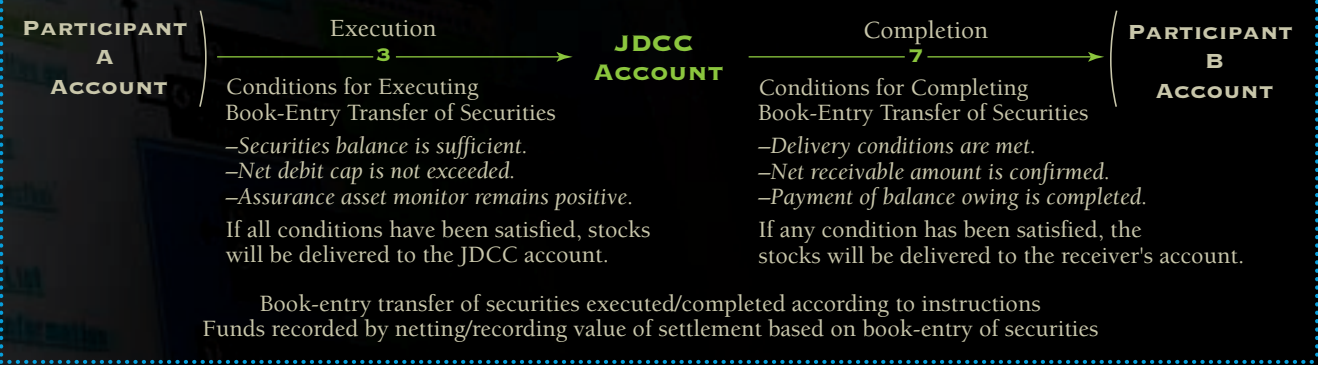
- 2001 MAY** DVP for exchange trade transfers begins.
- SEPTEMBER** First phase of first stage of PSMS implemented.  
(Covers stock transactions by domestic institutional investors.)
- 2002 FEBRUARY** Second phase of first stage of PSMS implemented.  
(Covers convertible bonds, initial offerings and trades by nonresidents.)
- 2003 MAY** Third phase of first stage of PSMS implemented.  
(Covers government bonds and stock exchange traded futures and options.)
- 2004 MAY** Anticipated start of DVP for NETD.

LINKING PSMS AND DVP SYSTEMS

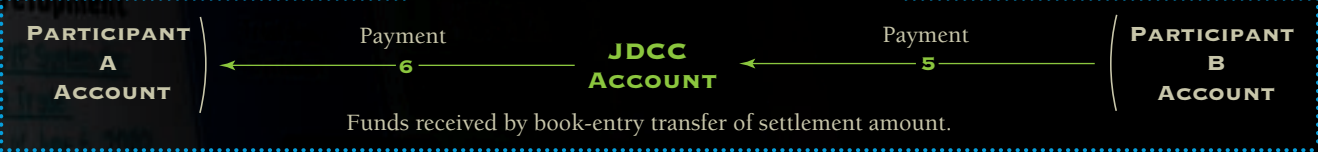
PRE-SETTLEMENT MATCHING SYSTEM



DVP BOOK-ENTRY TRANSFER SYSTEM FOR SECURITIES



BOJ FINANCIAL NETWORK SYSTEM



- Notes:
- 1. Approval from BOJ required to use the BOJ Financial Network System.
  - 2. Assurance asset monitor = Value of assurance asset — Net debit
  - 3. JDCC: JASDEC DVP Clearing Corporation, a subsidiary of JASDEC.
  - 4. SSI: Standing Settlement Instructions.

## Preparing to Handle Corporate and Municipal Straight Bonds and Investment Trust Beneficiary Rights

JASDEC is studying approaches for handling corporate straight bonds and local government bonds, as well as investment trust beneficiary rights in 2005.

### *Corporate and Municipal Straight Bonds*

In Japan, registering agencies, which number about 150, are used to settle the majority of corporate bond transactions through registration. These agencies execute the required book-entry transfer and essentially dematerialize the securities into registered bonds. In January 2003, introduction of the Transfer of Corporate Debt Securities Law enabled a new system for corporate and municipal straight bonds (SBs).

This law confirms the trend toward paperless securities and consolidates SB settlement operations with JASDEC, wherein the Company is the sole book-entry transfer institution for SB settlement. To execute this duty, we will adopt a book-entry transfer system for SBs to realize a DVP system and take us one step closer to the use of STP for securities settlement in Japan. Through these efforts, we aim to raise SB liquidity, enhance settlement efficiency, and set the stage for shorter settlement periods in the future.

Discussions in our Subcommittee on Corporate and Municipal Straight Bonds led to an implementation document for a book-entry transfer system for SBs. The document addresses the scope of eligible bonds; the participation format for interested parties; the content of the book-entry transfer account ledger; the procedures for issuing, transferring and redeeming bonds; bond settlement methods for all DVP systems; payment methods for principal and interest; and schemes for switching outstanding bonds to the new system.

We will utilize this document as a guide to determine book-entry operations and to develop the appropriate computer systems.

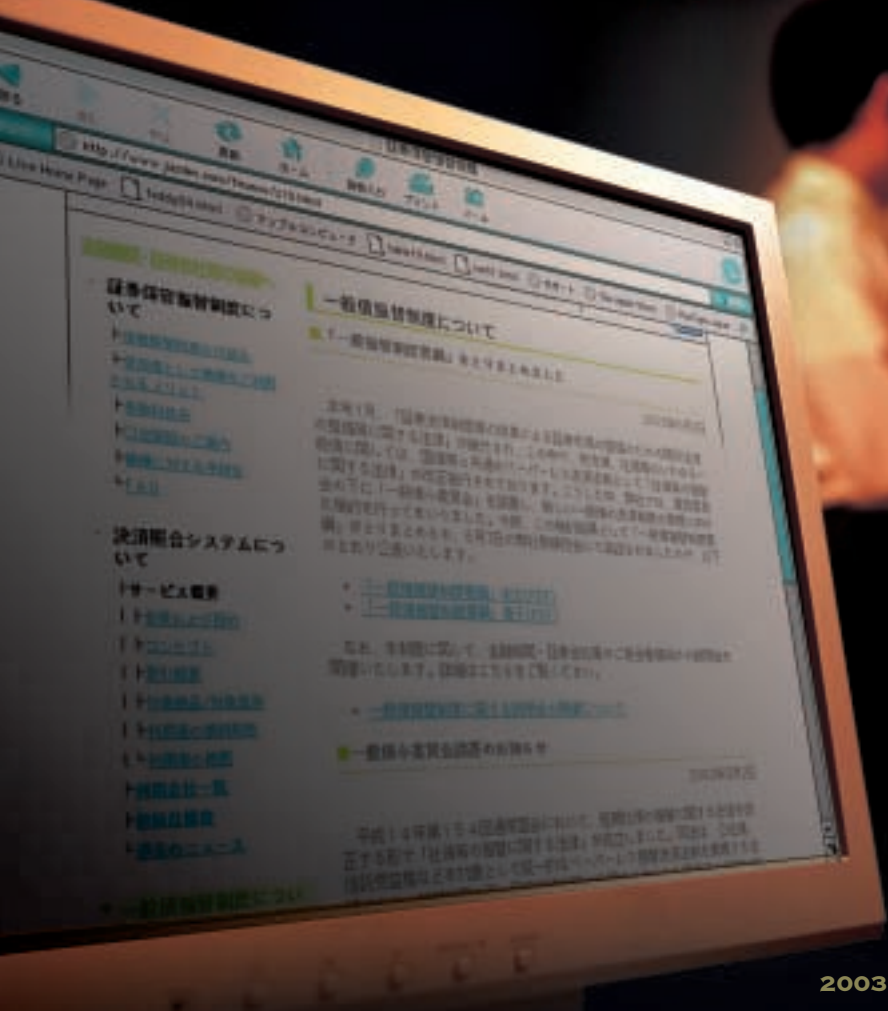
### *Investment Trust Beneficiary Rights*

The basic legal framework for a book-entry system applied to investment trust beneficiary rights is similar to that applied to commercial paper (CP) and SBs. We will dispense with processes previously deemed necessary to accommodate certificated beneficiary rights, and we will utilize book-based records on such aspects of investment trusts as subscription, transfer and redemption to streamline book-entry operations.

Our Subcommittee on Investment Trusts is discussing the scope of eligible investment trusts, the procedures for establishing, distributing and redeeming investment trusts, the application of DVP for each type of investment trust, procedures for handling earnings dividends, and methods to ensure that the pool of some two million beneficiary certificates already issued will make a smooth transition to the new system.

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**Registered Bonds** The Corporate Bond Registration Law (1942) allows a registering agency to register municipal and corporate bonds on the registry that the registering agency maintains so investors may settle transactions without bond certificates.



TRANSITION SCHEDULE FOR  
CORPORATE AND  
MUNICIPAL STRAIGHT BONDS

- 2003** **JANUARY 6** Transfer of Corporate Debt Securities Law goes into effect. *(Abrogation of the Corporate Bond Registration Law expected within five years of the new law's implementation.)*
- 2005** **SECOND HALF OF 2005** JASDEC plans start of book-entry transfer system for SBs.
- 2006-07** Registered bonds already in issue will be changed to book-entry bond status.
- 2008** **JANUARY 5** Temporary grace period applied to interest income tax on registered bonds ends. *(No more registered bonds will be issued.)*

TRANSITION SCHEDULE FOR EXISTING REGISTERED BONDS

The Corporate Bond Registration Law, which regulates existing registered bonds, will be abolished by January 5, 2008. JASDEC is thus working toward the start of book-entry transfer of new corporate and municipal bonds in the second half of 2005. We will then establish a transition period lasting about two years during which we anticipate trouble-free conversion of existing bonds from registered status to the book-entry status used in our system.

## Creation of Book-Entry Transfer System for Electronic Commercial Paper

On January 10, 2003, JASDEC was designated as a book-entry transfer institution, under the Transfer of Corporate Debt Securities Law. The Company launched a book-entry transfer system for CP on March 31, 2003.

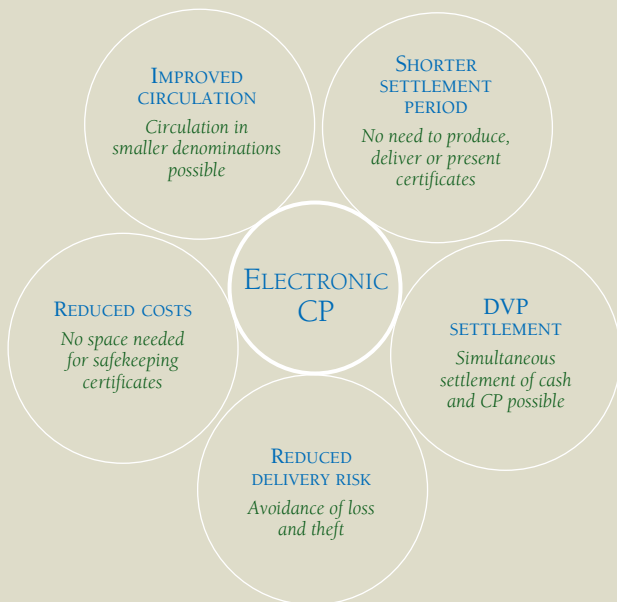
The development of a book-entry transfer system for dematerialized CP was prompted by a strong appeal from companies using CP to procure funds. JASDEC began discussions on such a system in January 2002, first identifying the primary points of a system for CP and then moving on preparations for implementation, including the creation of computer systems.

CP in the conventional paper form, or paper-based CP, is prepared in certificates of certain denominations, and these certificates must be delivered or presented to the assigned holder at settlement. Our system, however, dematerializes CP, from issuance through redemption, and records ownership and transfer of rights in a transfer account book. The use of “paperless” or “electronic” CP shortens the settlement period, removes the risks inherent in transporting certificates and eliminates the cost of safekeeping the certificates—all drawbacks of paper-based CP.

### PROMOTING ELECTRONIC COMMERCIAL PAPER

*As of June 30, 2003, the book-entry transfer system for electronic CP covered 85 issues, and the account balance stood at ¥424 billion. We plan energetic marketing and promotional campaigns, including information forums and advertisements, to encourage more issuers and investors to utilize electronic CP.*

### FEATURES OF THE BOOK-ENTRY TRANSFER SYSTEM FOR COMMERCIAL PAPER



The book-entry transfer system for CP utilizes a gross–gross-type DVP settlement system. This feature makes settlement safer and more efficient than with paper-based CP.

Paper-based CP is also hampered by a limited assortment of denominations in circulation, because the stamp duty that is charged on each certificate encourages issuers to cut the burden of cost by issuing large-denomination certificates. Electronic CP circumvents this restriction, allowing the issue and transfer of CP in smaller denominations and thus presenting greater investment flexibility.

The current paper-based CP market counts an average issuing balance of slightly more than ¥20 trillion. JASDEC expects remaining paper-based CP to be converted into electronic CP soon.

**Commercial paper in Japan** CP is issued by companies as a measure for procuring unsecured short-term funds. To date, in Japan, only companies with a rating for CP above a set mark have been able to issue CP in the form of promissory notes of less than one year in duration and more than ¥100 million in value. Under the Transfer of Corporate Debt Securities Law, CP is viewed as a short-term corporate bond rather than a note, and processing, from issuance to redemption, is handled electronically through JASDEC’s computer systems.

MILESTONES IN HANDLING ELECTRONIC  
COMMERCIAL PAPER

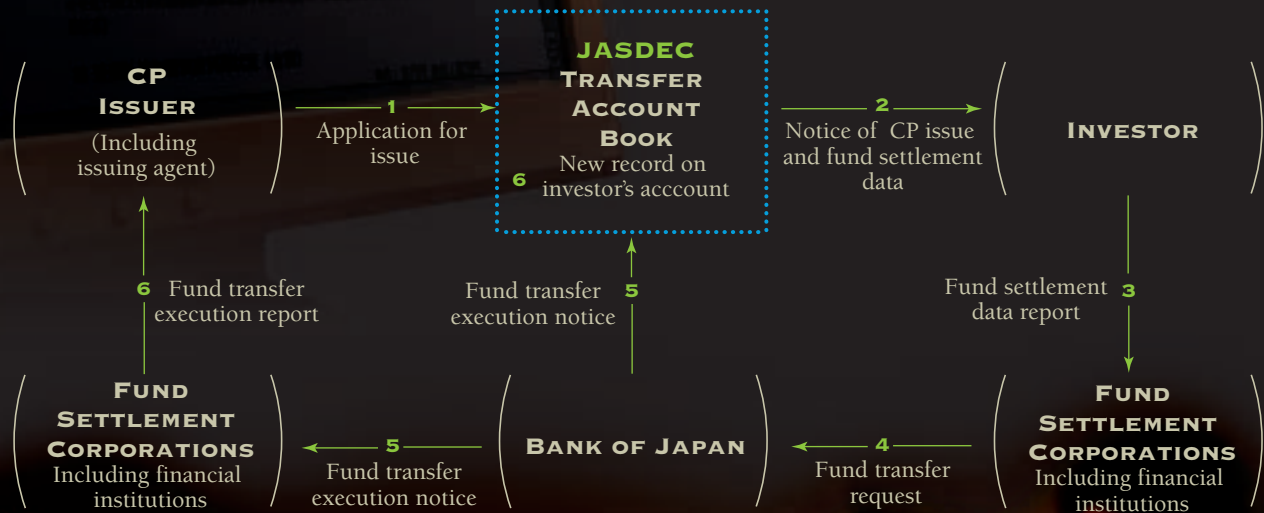
**2002 APRIL 1** The Law Concerning Transfer of Short-Term Corporate and Other Debt Securities was introduced

**2003 JANUARY 6** The law was amended and renamed the Law Concerning Book-Entry Transfer of Corporate and Other Debt Securities (Transfer of Corporate Debt Securities Law)

**JANUARY 10** JASDEC was designated as a transfer institution under the Transfer of Corporate Debt Securities Law

**MARCH 31** JASDEC commenced book-entry transfer services for commercial paper

Electronic CP Book-Entry  
Transfer System  
Issuing Flow



## Participants and Accounts

The domestic securities depository and book-entry transfer system involves JASDEC, its participants, participants' clients and issuing companies.

Entities eligible to become JASDEC participants are stipulated in the CSD Law, and include securities companies, banks, clearing agencies, insurance companies, securities finance companies, stock exchanges and the Japan Securities Dealers Association (JSDA). Investors participate in the system via client accounts opened on their behalf by participants. Participants may open up to 99 subaccounts with JASDEC.

As of March 31, 2003, accounts with JASDEC numbered 453, held by 272 participants. Compared with fiscal 2001, these figures represent losses of 18 in the number of participants and 24 in the number of accounts opened, mainly due to mergers between participants.

## Issuing Companies

Participation in the JASDEC system is voluntary at most domestic stock and securities exchanges, so JASDEC is generally required to have the consent of issuing companies to handle their shares. However, issuing companies whose shares are listed on the Tokyo Stock Exchange are required to participate in the JASDEC system according to that exchange's listing requirements.

As of March 31, 2003, 3,626 public companies in Japan had lodged their consent with JASDEC. During fiscal 2002, a further 143 issuers lodged their consent with JASDEC while 127 withdrew theirs, leading to a rise of 16 companies from the previous fiscal year.

## Handling of Shares

### DEPOSITS AND WITHDRAWALS

Participants may deposit their own shares and those of their clients (with their consent) with JASDEC. Clients may deposit shares with JASDEC only through participants.

Deposited share certificates are taken into custody and a record of all deposits is entered into the participants' accounts at JASDEC as well as into the accounts set up for clients by participants. The deposit of shares with JASDEC is entirely voluntary, and participants and clients may withdraw their shares any time. Like deposit requests, clients' withdrawal requests must be filed through participants.

In fiscal 2002, a total of 37,494 million shares were deposited, a decrease of 18,721 million shares, or 33.3%, from the previous fiscal year. Shares withdrawn totaled 25,875 million, an increase of 4,148 million shares, or 19.1%.

### CUSTODY

Shares deposited by participants are kept collectively by JASDEC and are not categorized by participant or by client. In accordance with the CSD Law, participants and their clients are legally regarded as having co-ownership of the shares in the proportions stated in their JASDEC accounts or participant accounts, respectively.

The re-registration of share certificates in the name of JASDEC is nominal, and JASDEC's rights are limited to conducting administrative procedures. Shareholders' rights, such as the right to claim dividends and residual assets, vote and request the resignation of directors or auditors rest with the beneficial shareholders (see the section on Beneficial Shareholder Notification on page 16).



Although deposited shares are kept collectively by JASDEC, the Company provides separate accounting for shares owned by participants (i.e. their own shares) and shares they receive from clients for safekeeping. This provides legal protection for the shares held on behalf of clients in the event of participant bankruptcy.

As of March 31, 2003, shares held in custody totaled 203,181 million, an increase of 11,619 million shares, or 6.1 %, over the previous fiscal year. The ratio of shares held in custody to total domestic shares outstanding increased 5.6 percentage points, to 59.1%. Compared with countries in which securities depository systems have been fully accepted, Japan is still lagging behind. To hasten an increase in the proportion of shares held in custody in the domestic market, we will further reduce costs and fees applicable to participants, and vigorously pursue wide-ranging promotional activities.

### UNCERTIFICATION OF CERTIFICATES

In Japan, shareholders may request issuers to replace their shares in an uncertificated form.

As a nominal shareholder, under the CSD Law JASDEC is also entitled to request this procedure. By exercising this right, we are able to rationalize administrative procedures and save space, while reducing the risk of losing physical share certificates.

Elimination of physical share certificates also offers advantages for issuing companies, particularly the opportunity to cut issuing costs for new share certificates and administrative costs related to stock splits or changes of corporate name.

In fiscal 2002, JASDEC had requested issuing companies to replace 105,490 million shares in uncertificated form, an increase of 9,933 million shares over the previous fiscal year, representing 51.9% of all shares kept in custody with JASDEC, up 2.0 percentage points.

### BOOK-ENTRY TRANSFER

When a participant or client trades the shares held in custody by JASDEC, or transfers such shares for collateral or other purposes, delivery of shares is effected by book-entry transfer between accounts. JASDEC offers two types of book-entry transfer between accounts: exchange trade transfers and non-exchange trade transfers.

Exchange trade transfers are transfers of shares between participants as a result of trades executed on stock exchanges or in the over-the-counter market (JASDAQ). Book-entry transfers for other purposes are non-exchange trade transfers. Regulations set by stock exchanges and JSDA require that trades of JASDEC-eligible issues executed in their respective markets be settled by book-entry transfers between participant accounts held with JASDEC.

The Japan Securities Clearing Corporation (JSCC), which is the body responsible for clearing all trades in the stock exchanges and JASDAQ, sends transfer instructions directly to JASDEC for settlement purposes. In the case of non-exchange trade transfers, the seller sends transfer instructions to JASDEC. Non-exchange trade transfers are most commonly used by institutional investors and non-resident investors, who keep shares in their accounts with custodian bank participants. In order to settle their trades in the stock exchanges or in the JASDAQ market, shares are transferred by book-entry between the custodian bank participant and the securities company participant.

In fiscal 2002, exchange trade transfers totaled 225.7 billion shares, down 5.9% from the previous year. Non-exchange trade transfers rose 5.3%, to 355.0 billion shares, and accounted for 61.1% of aggregate domestic book-entry transfers.

The number of exchange trade transfers in fiscal 2002 was 20.1 million, down 6.5%, while that of non-exchange trade transfers, which generally involve transfers of large amounts of shares, was 14.9 million, up 2.1%.

### BENEFICIAL SHAREHOLDER NOTIFICATION

Under the securities custody and book-entry transfer system in Japan, issuers are informed of the names of beneficial shareholders to facilitate the direct distribution of dividends and any other rights to beneficial shareholders, and beneficial shareholders exercise their rights directly to the issuers. Accordingly, JASDEC prepares and provides issuers with beneficial shareholder data.

Our beneficial shareholder notification service includes collection of information on beneficial shareholders as of the record date in accordance with reports from participants, and notification of this information to issuers. Issuers draw up beneficial shareholder lists based on this data and send notices of shareholder meetings and other information directly to the beneficial shareholders. Beneficial shareholders thus receive dividends directly from issuers, and exercise voting rights directly to issuers.

When new shares are distributed to beneficial shareholders, such as through stock splits, such stock allocation is also processed by book-entry in the accounts of concerned participants maintained with JASDEC as well as in the accounts of customers maintained with the participants.

JASDEC issued 54.7 million such notifications in fiscal 2002, up 2.1% from fiscal 2001. These notifications represented 430.2 billion shares, up 17.2%. Reflecting an increase in shares in custody, notifications to beneficial shareholders on record as of March 31, 2003, rose 2.3 million, or 11.1%, to 23.2 million notifications. These notifications represented 185.7 billion shares, an increase of 10.0 billion shares, or 5.7%, from the year before. These are the highest figures JASDEC has ever recorded.

## Other Securities Operations

Year ended March 31, 2003

### Convertible Bonds (Millions of yen)

Deposits	794,755
Withdrawals	2,228,492
Custody	6,651,418
Book-entry transfer	
Exchange trade transfer	2,102,721
Non-exchange trade transfer	10,537,845
Number of issues	379

### Exchange Traded Funds (ETFs) (Thousands of units)

Deposits	2,247,915
Withdrawals	372,862
Custody	2,567,313
Book-entry transfer	
Exchange trade transfer	1,555,507
Non-exchange trade transfer	7,482,241
Number of issues	19

### Real Estate Investment Trusts (REITs) (Number of units)

Deposits	687,055
Withdrawals	100,419
Custody	1,346,318
Book-entry transfer	
Exchange trade transfer	917,114
Non-exchange trade transfer	1,312,682
Number of issues	7

### Preferred Investment Securities of Financial Institutions Established by Cooperative Associations (Number of units)

Deposits	34,359
Withdrawals	7,449
Custody	237,438
Book-entry transfer	
Exchange trade transfer	36,532
Non-exchange trade transfer	52,975
Number of issues	1

## NON-CONSOLIDATED BALANCE SHEETS

Japan Securities Depository Center Inc.

As of March 31, 2002 and 2003

ASSETS	¥ (thousands)		\$ (thousands)
	2002	2003	(Note 3)
Current Assets:			
Cash and cash equivalents	¥ 85,661	¥ 427,882	\$ 3,560
Accounts receivable—trade	—	3,099,506	25,786
Prepaid expenses	—	98,271	818
Short-term loan receivable	2,400,000	—	—
Consumption tax receivable	—	382,927	3,186
Deferred income taxes (Note 8)	—	95,880	798
Other current assets	3,484	50,664	421
Total current assets	2,489,145	4,155,130	34,569
Property and Equipment			
Buildings	—	108,437	902
Automobiles	—	1,112	9
Tools and furniture	—	3,523,995	29,318
	—	3,633,544	30,229
Less: accumulated depreciation	—	(1,000,617)	(8,324)
Total property and equipment	—	2,632,927	21,905
Intangible Assets, Net			
Software	—	4,804,087	39,967
Construction in progress (software)	—	2,513,294	20,909
Rights for telephone	—	2,976	25
Rights for usage of telephone facilities	—	1,892	16
Total intangible assets	—	7,322,249	60,917
Investment and Other Assets			
Long-term refundable lease deposits	—	426,888	3,551
Long-term prepaid expenses	—	36,277	302
Deferred income taxes (Note 8)	—	17,191	143
Total investment and other assets	—	480,356	3,996
Total assets	¥2,489,145	¥14,590,662	\$121,387

### LIABILITIES AND SHAREHOLDERS' EQUITY

Current Liabilities:			
Short-term debt (Note 6)	¥ —	¥ 3,100,000	\$ 25,790
Accounts payable—trade	—	1,290,719	10,738
Accounts payable—other	154	215,219	1,790
Income tax payable	158	641,010	5,333
Returnable deposits	—	3,370	28
Accrued employees' bonuses	—	88,062	733
Other current liabilities	—	315	3
Total current liabilities	312	5,338,695	44,415
Long-term Liabilities			
Accrued employees' retirement benefits (Note 7)	—	22,572	188
Accrued executives' retirement benefits	—	18,360	153
Total long-term liabilities	—	40,932	341
Total liabilities	312	5,379,627	44,756
Shareholders' Equity			
Common stock			
Authorized: 10,000 shares at March 31, 2002 and 2003			
Issued, 2,500 shares at 31 March, 2002 and 8,500 shares at 31 March, 2003, respectively			
	1,250,000	4,250,000	35,358
Additional paid-in capital	1,250,000	4,250,000	35,358
Retained earnings (accumulated loss)	(11,167)	711,035	5,915
Total shareholders' equity	2,488,833	9,211,035	76,631
Total liabilities and shareholders' equity	¥2,489,145	¥14,590,662	\$121,387

The accompanying notes are an integral part of these statements.

## NON-CONSOLIDATED STATEMENTS OF INCOME

Japan Securities Depository Center, Inc.

For the period from January 4, 2002 (date of incorporation) to March 31, 2002 and the year ended March 31, 2003

	¥ (thousands)		\$ (thousands)
	(Note 1) 2002	2003	(Note 3) 2003
Operating Income	¥ —	¥11,143,857	\$92,711
<b>Operating Expense</b>			
Executives' compensations	—	92,310	768
Salaries	—	811,465	6,751
Severance costs for employees	—	2,823	23
Executives' retirement benefits	—	18,360	153
Maintenance for systems	—	2,467,192	20,526
Outside service	—	2,059,809	17,137
Registration fees	—	1,353,945	11,264
Depreciation	—	2,142,283	17,823
Rent	—	151,447	1,260
Advertisement	—	175,150	1,456
Others	11,518	650,998	5,416
Total operating expense	11,518	9,925,782	82,577
Income (loss) from operation	(11,518)	1,218,075	10,134
<b>Other Income (Expenses):</b>			
Interest income	583	55,047	458
Other income	—	8,324	69
Interest expense	—	(1,138)	(9)
Loss on disposal of property and equipment	—	(1,368)	(12)
Stock issuance cost	—	(28,800)	(240)
Others, net	(74)	—	—
Total	509	32,065	266
Income (loss) before income taxes	(11,009)	1,250,140	10,400
<b>Income Taxes (Note 8)</b>			
Current	158	641,010	5,333
Deferred	—	(113,072)	(941)
Net income (loss)	¥(11,167)	¥ 722,202	\$ 6,008
		Yen	U.S. Dollars (Note 3)
<b>Per Share (Note 10)</b>			
Net income (loss)—primary	¥(4,466)	¥84,297	\$701
Dividends	—	25,000	208
<b>Weighted Average Number of</b>			
Common Stock Shares Outstanding (in shares)	2,500	8,417	—

The accompanying notes are an integral part of these statements.

**NON-CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY***Japan Securities Depository Center Inc.**For the period from January 4, 2002 (date of incorporation) to March 31, 2002 and the year ended March 31, 2003*

	Number of common stock shares	¥ (thousands)		
		Common stock	Additional paid-in capital	Retained earnings
New stock issued for January 4, 2002	2,500	¥1,250,000	¥1,250,000	¥ —
Net loss for the year ended March 31, 2002	—	—	—	(11,167)
Balance as of March 31, 2002	2,500	1,250,000	1,250,000	(11,167)
New stock issued	6,000	3,000,000	3,000,000	—
Net income for the year ended March 31, 2003	—	—	—	722,202
Balance as of March 31, 2003	8,500	¥4,250,000	¥4,250,000	¥711,035

	Number of common stock shares	\$ (thousands) (Note 3)		
		Common stock	Additional paid-in capital	Retained earnings
Balance as of March 31, 2002	2,500	\$10,399	\$10,399	\$ (93)
New stock issued	6,000	24,958	24,958	—
Net income for the year ended March 31, 2003	—	—	—	6,008
Balance as of March 31, 2003	8,500	\$35,358	\$35,358	\$5,915

The accompanying notes are an integral part of these statements.

## NON-CONSOLIDATED STATEMENTS OF CASH FLOWS

Japan Securities Depository Center, Inc.

For the period from January 4, 2002 (date of incorporation) to March 31, 2002 and the year ended March 31, 2003

	¥ (thousands)		\$ (thousands)
	(Note 1)		(Note 3)
	2002	2003	2003
<b>Cash Flows from Operating Activities:</b>			
Income (loss) before income taxes	¥ (11,009)	¥ 1,250,140	\$ 10,400
Depreciation	—	2,142,283	17,823
Increase in accrued bonuses to employees	—	88,062	733
Increase in accrued employees' retirement benefits	—	166	1
Increase in accrued executives' retirement benefits	—	18,360	153
Interest income	(583)	(55,047)	(458)
Interest expense	—	1,138	9
Stock issuance costs	—	28,800	240
Loss on disposal of property and equipment	—	1,368	11
Increase accounts receivable, trade	—	(853,265)	(7,099)
Increase in accounts payable, trade	—	555,081	4,618
Increase in other assets	(3,032)	(63,374)	(527)
Increase (decrease) in other liabilities	153	(65,104)	(542)
Others, net	—	(32,755)	(272)
Sub-total	(14,469)	3,015,853	25,090
Interests and dividends received	130	55,499	462
Interest paid	—	(13,230)	(110)
Income tax paid	—	1,534	13
Net cash provided by (used in) operating activities	(14,339)	3,059,656	25,455
<b>Cash Flows from Investing Activities:</b>			
Payments for purchase of property and equipment	—	(1,495,721)	(12,444)
Payments for purchase of intangible assets	—	(3,867,261)	(32,174)
Disbursements for loans	(2,400,000)	(5,900,000)	(49,085)
Acquisition of business net of cash acquired	—	(474,366)	(3,946)
Others	—	(51,287)	(427)
Net cash flows used in investing activities	(2,400,000)	(11,788,635)	(98,076)
<b>Cash Flows from Financing Activities:</b>			
Proceeds from short-term debt	—	3,100,000	25,791
New stock issued net of stock issuance costs	2,500,000	5,971,200	49,677
Net cash flows provided by financing activities	2,500,000	9,071,200	75,468
Net Increase in Cash and Cash Equivalents	85,661	342,221	2,847
Cash and Cash Equivalents at Beginning of Period/Year	—	85,661	713
Cash and Cash Equivalents at End of Period/Year	¥ 85,661	¥ 427,882	\$ 3,560

The accompanying notes are an integral part of these statements.

## 1.

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**Basis of Presenting the Non-Consolidated Financial Statements**

The accompanying non-consolidated financial statements have been prepared from the accounts maintained by Japan Securities Depository Center, Inc. (the “Company”) with the provisions set forth in the Commercial Code of Japan (the “Code”) and the Securities and Exchange Law and in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Accounting Standards. Certain items presented in the non-consolidated financial statements filed with the Director of the Kanto Local Finance Bureau in Japan have been reclassified for the convenience of readers outside Japan.

Consolidated financial statements have not been prepared by the Company as the Company has neither subsidiary nor affiliate companies to be consolidated in the fiscal periods ended March 31, 2002 and 2003.

The Company was newly incorporated on January 4, 2002 and, accordingly, the non-consolidated statements of income, shareholders’ equity and cash flows of the Company for the period ended March 31, 2002 include the results of operations and cash flows of the Company for the period from January 4, 2002 to March 31, 2002.

## 2.

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**Summary of Significant Accounting Principles****(1) Cash and cash equivalents**

Cash and cash equivalents include all highly liquid investments, with original maturities of three months or less, that are readily convertible to known amounts of cash and are so near maturity that they present only an insignificant risk of changes in value because of changes in interest rates.

**(2) Property and equipment**

Depreciation for buildings, excluding improvements, is computed on the straight-line method using the estimated useful lives prescribed by Japanese Corporate Tax Laws. Depreciation for other capital assets is computed on the declining-balance method at the rates based on the estimated useful lives prescribed by such laws.

**(3) Software**

Software for internal use is amortized on the straight-line method computed over the estimated useful life of 5 years.

**(4) Stock issuance costs**

Stock issuance costs are charged to income as incurred.

**(5) Accrued bonuses**

Accrued employees’ bonuses represent liabilities estimated as of the balance sheet date. Bonuses to directors, which are subject to approval at the shareholders’ meeting, are accounted for as an appropriation of retained earnings.

**(6) Severance indemnity benefits**

The Company has a severance indemnity plan covering all employees who meet eligibility requirements of the Company’s retirement regulations. The Company records accrued employees’ retirement benefit costs based on the amount that would be payable if all eligible employees voluntarily terminated their employment with the Company at the balance sheet date.

Retirement benefits payable to directors and statutory auditors are accrued as accrued executives’ retirement benefits at the amount computed on the Company’s internal rules and regulations for the benefits.

(7) Finance leases

In the normal course of business, the Company has entered into lease agreements. Finance lease agreements, except for those agreements where the ownership of the leased assets is transferred to the Company, are accounted for as operating leases.

(8) Consumption taxes

The consumption taxes withheld by the Company on sales and the consumption taxes paid by the Company on its purchases of goods and services are not included in the amounts of relevant accounts in the accompanying statements of income. The consumption taxes withheld and paid is recorded as an asset or a liability, as the case may be, and the net balance is shown in the balance sheets.

(9) Appropriation of retained earnings

Under the Japanese Commercial Code and the Articles of Incorporation of the Company, the appropriation of retained earnings (including year-end cash dividend payments proposed by the Board of Directors must be approved at the shareholders' meeting, which must be held within three months after the end of each financial year. The appropriation of retained earnings reflected in the accompanying non-consolidated financial statements represents the results of appropriations which were applicable to the immediately preceding financial year and approved at the shareholders' meeting and disposed of during that year. Year-end cash dividends are paid to shareholders on the shareholders' register at the end of each financial year.

As is customary practice in Japan, the payment of bonuses to directors and statutory auditors is made out of retained earnings, instead being charged to income for the year, and constitutes a part of the appropriations cited above.

(10) Reclassification

Certain accounts in the non-consolidated financial statements for the period ended March 31, 2002 have been reclassified to conform to the 2003 presentation.

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3.

US Dollar Amounts

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Amounts in U.S. dollars are included solely for the convenience of readers outside Japan. The rate of ¥120.20=U.S. \$1, the rate of exchange as of March 31, 2003, has been used in translation. The inclusion of such amounts is not intended to imply that Japanese yen have been or could be readily converted, realized or settled in U.S. dollars at the rate or any other rates.

4.

Business Transfer from Japan Securities Depository Center, Zaidan

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On January 28, 2002, the Company reached an agreement with Japan Securities Depository Center, Zaidan (hereinafter referred as "Zaidan") for a transfer of the business of custody and book-entry transfer to the Company. Pursuant to the agreement, the Company effectively took over the business from Zaidan with approval at the Company's shareholders' meeting held on April 23, 2002 and was authorized by competent ministers in accordance with the "Law Concerning Central Securities Depository and Book-Entry Transfer of Stock Certificates and Other Securities" on June 11, 2002.



The assets and liabilities increased in the year ended March 31, 2003 as a result of the transfer of the business from Zaidan are summarized follow:

	¥ (thousands)	\$ (thousands)
Current assets	¥2,697,989	\$22,446
Non-current assets	6,955,744	57,868
Total assets	¥9,653,733	\$80,314
Current liabilities	¥ 856,962	\$ 7,129
Long-term liabilities	22,406	186
Total liabilities	¥ 879,368	\$ 7,316

In the settlement of the consideration for the business transferred from Zaidan, the loan receivable from Zaidan amounting to 8,300,000 thousand yen (69,052 thousand U.S. dollars) was netted against to it.

5.

Lease Transactions

Finance lease transactions, other than those of which the ownership of the leased asset transferred to the lessee, are accounted for as operating leases. Certain key information (in equivalent data) on such lease contracts of the Company for the periods ended March 31, 2002 and 2003 is as follows:

2002:

There are no finance lease transactions to be disclosed.

2003:

	As of March 31, 2003	
	¥ (thousands)	\$ (thousands)
Tools and furniture:		
Acquisition cost	¥90,549	\$753
Accumulated depreciation	(4,527)	(37)
Net book value	¥86,022	\$716

The scheduled maturities of future lease payments, which includes the portion of interest thereon, on such lease contracts as of March 31, 2003 is as follow:

	As of March 31, 2003	
	¥ (thousands)	\$ (thousands)
Due within one year	¥17,590	\$146
Due over one year	68,606	571
Total	¥86,196	\$717

Finance lease charges as well as depreciation and interest amounts (in equivalent data) for the year ended March 31, 2003 is as follow:

	For the year ended March 31, 2003	
	¥ (thousands)	\$ (thousands)
Finance lease charges	¥4,719	\$39
Depreciation (in equivalent data)	4,527	37
Interest (in equivalent data)	367	3

(Note) Methods applied in computation of the equivalent data are as follow:

Depreciation: Straight-line method with zero residual value over the lease contract period

Interest: Computed as the difference between the lease obligations and the acquisition cost and allocated for the period based on the interest rate method.

## 6.

## Short-Term Debts

Short-term debts at March 31, 2003 comprised loans from banks with weighted average interest rate of 1.675% per annum.

## 7.

## Accrued Severance Indemnities for Employees

Accrued employees' retirement benefits at March 31, 2003 represented the amount that would be payable for the Company if all eligible employees voluntarily terminated their employment at the balance sheet date. Severance costs for employees charged to income for the year ended March 31, 2003 amounted to 2,823 thousand yen (23 thousand U.S. dollars).

## 8.

## Income Taxes

The Company is subject to a number of different income taxes which, in the aggregate, indicate a nominal statutory tax rate in Japan of approximately 42.0% for the periods ended March 31, 2002 and 2003.

The significant components of deferred tax assets and liabilities at March 31, 2002 and 2003 are as follows:

	¥ (thousands)		\$ (thousands)
	2002	2003	2003
Deferred tax assets:			
Accrued bonuses	¥ —	¥ 36,986	\$308
Enterprise tax payable	—	58,184	484
Business facility tax	—	711	6
Accrued retirement benefits to employees	—	9,480	79
Accrued retirement benefits to executives	—	7,711	64
Tax loss carried forwards	4,612	—	—
	¥ 4,612	¥113,072	\$941
Less-valuation allowance	(4,612)	—	—
Net deferred tax assets	¥ —	¥113,072	\$941

## 9.

## Related Party Transactions

Material transactions of the Company with related companies or individuals, for the year ended March 31, 2002 and 2003 are as follows:

						(in thousand yen)
Titles	Name	Business	Transactions	Amount	Account	Ending Balance
Director	Yoshinobu Takeuchi	Representative Director	Loans	2,400,000	Short-term loans	2,400,000
		President of Japan Securities Depository Center, Zaidan				
	Hiromi Murai	Representative Director	Interest	452	Other receivable	452
		Managing Director of Japan Securities Depository Center, Zaidan				

1. Interest on loans is determined based on the market interest rate
2. This transaction is for the sake of third party

						(in thousand yen)
Titles	Name	Business	Transactions	Amount	Account	Ending Balance
Director	Yoshinobu Takeuchi	Representative Director	Loans	5,900,000	Short-term loans	—
		Liquidator of Japan Securities Depository Center, Zaidan	Collections	8,300,000	Short-term loans	—
	Hiromi Murai		Interest	55,004	—	—
			Net payment for business transfer	8,774,965	—	—
Director	Tatsunori Imagawa	Director	Borrowings	1,330,000	Short-term debt	1,330,000
		Senior Managing Director of Bank of Tokyo-Mitsubishi, Ltd.	Interest	488	Prepaid interest	5,187

1. Interest on loans is determined based on the market interest rate.
2. This transaction is for the sake of third party.
3. Interest of borrowings is determined based on the regular rule of the bank.

## 10.

## Net Income per Share

Basis for calculating earnings per share for the year ended March 31, 2003 is as follows:

	¥ (thousands)	\$ (thousands)
	2003	
Net income (statements of income)	¥722,202	\$6,008
Net income per common stock	709,602	5,904
Directors bonus by appropriation of retained earnings	12,600	105
Weighted average number of common stock shares outstanding (in shares)	8,417	8,417

## 11.

## Subsequent Events

## (1) Establishment of a subsidiary company:

The Company's board of directors voted in the affirmative on June 3, 2003 to establish a subsidiary which would deal with clearing for non-exchange transaction deliveries, which is to be settled on a DVP basis. The subsidiary was established on June 6, 2003.

The outline of the subsidiary follows:

• Entity's name:	JASDEC DVP Clearing Corporation
• Location of head office:	2-1-1 Kayaba-cho Nihombashi Chuo-ku Tokyo
• Business details:	Undertaking obligations concerning securities and incidental or other related business
• Capital:	10 million yen
* It is expected that additional capital will be paid by May, 2004, when the subsidiary starts its operations.	
• Shareholders:	This is a 100% subsidiary of the Company
• The number of shares held:	20 shares acquired for 20 million yen.

## (2) Appropriations of retained earnings:

Appropriations of retained earnings are recorded in the accounts only after shareholders' approval has been obtained. The following appropriation of retained earnings of the Company for the year ended March 31, 2003 were approved at the Ordinary General Shareholders Meeting held on June 20, 2003:

	¥ (thousands)	\$ (thousands)
Cash dividends	¥212,500	\$1,767
Bonuses to executives	12,600	104
(Including bonuses to statutory auditors amounting to 2,700 thousand yen ( 22 thousand U.S. dollars))		

## REPORT OF INDEPENDENT AUDITORS

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TO THE BOARD OF DIRECTORS AND SHAREHOLDERS OF  
JAPAN SECURITIES DEPOSITORY CENTER, INC.

We have audited the accompanying non-consolidated balance sheets of Japan Securities Depository Center, Inc. as of March 31, 2002 and 2003, and the related non-consolidated statements of income, shareholders' equity and cash flows for the period from January 4, 2002 (Date of Incorporation) to March 31, 2002 and for the year ended March 31, 2003, all expressed in Japanese Yen. These non-consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these non-consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the non-consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the non-consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the non-consolidated financial statements referred to above present fairly, in all material respects, the financial position of Japan Securities Depository Center, Inc. as of March 31, 2002 and 2003, and the results of its operations and its cash flows for the period from January 4, 2002 (Date of Incorporation) to March 31, 2002 and for the year ended March 31, 2003 in conformity with accounting principles and practices generally accepted in Japan.

The amounts expressed in U.S. dollars, which are provided solely for the convenience of readers, have been translated on the basis set forth in Note 3 to the accompanying non-consolidated financial statements.



ChuoAoyama Audit Corporation

Tokyo, Japan  
June 20, 2003

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**NOTICE TO READERS:**

*The accompanying non-consolidated financial statements are not intended to present the financial positions, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan. The standards, procedures and practices to audit such financial statements are those generally accepted and applied in Japan.*

## BOARD MEMBERS AND AUDITORS

(As of June 30, 2003)

### BOARD OF DIRECTORS



PRESIDENT & CEO  
Yoshinobu Takeuchi

SENIOR MANAGING DIRECTOR  
Hiromi Murai

MANAGING DIRECTOR  
Masao Yagi



DIRECTOR  
Katsuro Kanzaki  
*Honorary Professor,  
Kobe University*

DIRECTOR  
Mamoru Kikuichi  
*Managing Director,  
Japan Securities Dealers Association*

DIRECTOR  
Mikio Goto  
*Senior Executive Officer,  
UFJ Trust Bank Limited*



DIRECTOR  
Toshitsugu Shimizu  
*Executive Officer,  
Tokyo Stock Exchange, Inc.*

DIRECTOR  
Masaru Takei  
*General Manager,  
Tokyo Electric Power Company*

DIRECTOR  
Shinichiro Tanaka  
*Managing Executive Officer,  
Mizuho Corporate Bank, Ltd.*



DIRECTOR  
Masayuki Tanaka  
Managing Director,  
The Bank of  
Tokyo-Mitsubishi, Ltd.

DIRECTOR  
Nobuyoshi Nakano  
Managing Director,  
Nikko Citigroup  
Securities Inc.

DIRECTOR  
Akihiko Nakamura  
Member of Board of  
Executive Officers,  
Nomura Securities Co., Ltd.

DIRECTOR  
Kunihisa Hama  
Lawyer



DIRECTOR  
Fumiyuki Hara  
Executive Director,  
UBS Securities (Japan) Limited

DIRECTOR  
Teruo Watanabe  
Senior Executive Officer,  
Mitsui Asset Trust and Banking  
Company, Limited

DIRECTOR  
Hideo Watanabe  
Executive Officer,  
Daiwa Securities SMBC Co., Ltd.

AUDITORS



STANDING AUDITOR  
Takashi Daigo

AUDITOR  
Masari Ugai  
Vice Chairman,  
Japanese Bankers Association

AUDITOR  
Takeshi Kusakabe  
Executive Advisor,  
Shinko Securities Co., Ltd.

## LIST OF PARTICIPANTS

(As of July 1, 2003)

**TOTAL: 271**

### SECURITIES COMPANIES

- Access Securities Co., Ltd.  
\* Ace Securities Co., Ltd.  
\* Aioi Securities Co., Ltd.  
\* Aizawa Securities Co., Ltd.  
\* Akakiya Securities Co., Ltd.  
\* Alps Securities Co., Ltd.  
\* Ando Securities Co., Ltd.  
Aramachi Securities Co., Ltd.  
\* Ark Securities Co., Ltd.  
\* Awa Securities Co., Ltd.  
Axes Japan Securities Co., Ltd.  
\* Banyo Securities Co., Ltd.  
\* Bright Securities Co., Ltd.  
Capital Partners Securities Co., Ltd.  
Central Tanshi Securities Co., Ltd.  
\* Century Securities Co., Ltd.  
\* Chuo Securities Co., Ltd.  
Core Pacific – Yamaichi Securities Co., Ltd.  
\* Cosmo Securities Co., Ltd.  
\* Daikumamoto Securities Co., Ltd.  
\* Daiman Securities Co., Ltd.  
\* Daisei Securities Co., Ltd.  
\* Daitoku Securities Co., Ltd.  
\* Daiwa Securities Co., Ltd.  
\* Daiwa Securities SMBC Co., Ltd.  
D. Brain Securities Co., Ltd.  
DLJ direct SFG Securities Inc.  
\* Dojimakanto Securities Co., Ltd.  
\* E. Trade Securities Co., Ltd.  
\* Eiwa Securities Co., Ltd.  
\* Firstmake Securities Co., Ltd.  
Get Securities Co., Ltd.  
\* H. S. Securities Co., Ltd.  
\* Hikari Securities Co., Ltd.  
\* Himawari Securities, Inc.  
\* Hinode Securities Co., Ltd.  
\* Hirota Securities Co., Ltd.  
\* Ichiyoshi Securities Co., Ltd.  
Imamura Securities Co., Ltd.  
\* IRIYA BANSEI SECURITIES CO., LTD.  
\* Ise Securities Co., Ltd.  
ITM Securities Co., Ltd.  
ITOCHU Capital Securities Ltd.  
\* Iwai Securities Co., Ltd.  
\* Izumi Securities Co., Ltd.  
\* Japan Asia Securities Co., Ltd.  
\* Japan Cross Securities Co., Ltd.  
\* Japan Electronic Securities Co., Ltd.  
\* Jet Securities, Inc.  
\* Joko Securities Co., Ltd.  
\* Jonan Securities Co., Ltd.  
\* Jujiya Securities Co., Ltd.  
\* JVIC Securities Co., Ltd.  
\* Kabu. com Securities Co., Ltd.  
\* Kadoya Securities Co., Ltd.  
\* Kagawa Securities Co., Ltd.  
\* Kaneju Securities Co., Ltd.  
\* Kaneyama Securities Co., Ltd.  
\* Kaneyoshi Securities Co., Ltd.  
\* Kanzaki Securities Co., Ltd.  
\* Kimura Securities Co., Ltd.  
\* Kobe Securities Co., Ltd.  
\* Kokufu Securities Co., Ltd.  
\* Kotobuki Securities Co., Ltd.  
\* Kurokawakitoku Securities Co., Ltd.  
\* Kyokuto Securities Co., Ltd.  
\* Kyowa Securities Co., Ltd.  
\* Maeda Securities Co., Ltd.  
\* Maruchika Securities Co., Ltd.  
\* Marudai Securities Co., Ltd.  
\* Marufuku Securities Co., Ltd.  
\* Maruhachi Securities Co., Ltd.  
\* Maruko Daika Securities Co., Ltd.  
\* Marukuni Securities Co., Ltd.  
\* Marusan Securities Co., Ltd.  
\* Maruwa Securities Co., Ltd.  
\* Matsui Securities Co., Ltd.  
\* Meiwa Securities Co., Ltd.  
Me Net Securities Co., Ltd.  
\* Merrill Lynch Japan Securities Co., Ltd.  
Mirai Securities Co., Ltd.  
\* Mita Securities Co., Ltd.  
\* Mito Securities Co., Ltd.  
Mitsubishi Securities Co., Ltd.  
MITSUI SECURITIES CO., LTD.  
Mitsubishi Tokyo Wealth Management Securities Ltd.  
Miyako Securities Co., Ltd.  
\* Mizuho Securities Co., Ltd.  
\* Monex, Inc.  
\* Murosei Securities Co., Ltd.  
\* Musashi Securities Co., Ltd.  
\* Nagano Securities Co., Ltd.  
\* Naito Securities Co., Ltd.  
\* Nakaizumi Securities Co., Ltd.  
\* Nara Securities Co., Ltd.  
\* Naruse Securities Co., Ltd.  
\* NCS Securities Ltd.  
\* New-S Securities Co., Ltd.  
Nihon Kyoei Securities Co., Ltd.  
\* Niigata Securities Co., Ltd.  
\* Nikko Beans, Inc.  
\* Nikko Cordial Securities Inc.  
Nippon First Securities Co., Ltd.  
\* Nippon Global Securities Co., Ltd.  
\* Nishimura Securities Co., Ltd.  
\* Nishiwaki Securities Co., Ltd.  
\* Nissan Securities Co., Ltd.  
Nissho Iwai Securities Co., Ltd.  
\* Nomura Securities Co., Ltd.  
\* Norinchukin Securities Co., Ltd.  
\* Nozomi Securities Co., Ltd.  
\* Odawara Securities Co., Ltd.  
\* Okachi Securities Co., Ltd.  
\* Okasan Securities Co., Ltd.  
\* Okinawa Securities Co., Ltd.  
One Asia Securities Co., Ltd.  
\* Orient Securities Co., Ltd.  
\* Orix Securities Co., Ltd.  
\* Otsuka Securities Co., Ltd.  
\* Panta Rhei Securities, Co., Ltd.  
\* Port Satellite Securities, Co., Ltd.  
Privee Zurich Securities Co., Ltd.  
\* Retela Crea Securities Co., Ltd.  
Rokuwa Securities Co., Ltd.  
\* Sakamoto Hokuuriku Securities Co., Ltd.  
\* Sanei Securities Co., Ltd.  
\* Sanko Securities Co., Ltd.  
\* Sankyo Securities Co., Ltd.  
\* Sasayama Securities Co., Ltd.  
\* Shinbayashi Securities Co., Ltd.  
\* Shinko Securities Co., Ltd.  
\* Shin-Ogaki Securities Co., Ltd.  
Shinsei Securities Co., Ltd.  
\* Shinwa Securities Co., Ltd.  
Shizugin TM Securities Co., Ltd.  
\* Shizuoka Tokai Securities Co., Ltd.  
\* Shonai Securities Co., Ltd.  
\* Sieg Securities Co., Ltd.  
\* SMBC Friend Securities Co., Ltd.  
Sparx Securities Co., Ltd.  
\* Star Futures Securities Co., Ltd.  
Starts Securities Co., Ltd.  
\* Taicom Securities Co., Ltd.  
\* Takagi Securities Co., Ltd.  
\* Tama Securities Co., Ltd.  
\* Tamaki Securities Co., Ltd.  
\* The Asahi Retail Securities Co., Ltd.  
\* The Kosei Securities Co., Ltd.  
\* The Miki Securities Co., Ltd.  
\* The Mizuho Investors Securities Co., Ltd.  
\* The Nakahara Securities Co., Ltd.  
\* The Tachibana Securities Co., Ltd.  
\* Tobu Securities Co., Ltd.  
\* Tokai Tokyo Securities Co. Ltd.  
\* Toyo Securities Co., Ltd.  
Traders Securities Co., Ltd.  
\* Tsukamoto Securities Co., Ltd.  
\* Tsuyama Securities Co., Ltd.  
\* UFJ Tsubasa Securities Co., Ltd.



\* Usuki Securities Co., Ltd.  
 \* Utsumiya Securities Co., Ltd.  
 \* Utsunomiya Securities Co., Ltd.  
 \* WORLD NICHIEI Securities Co., Ltd.  
 \* Yahata Securities Co., Ltd.  
 \* Yamagata Securities Co., Ltd.  
 \* Yamagen Securities Co., Ltd.  
 \* Yamamaru Securities Co., Ltd.  
 \* Yamani Securities Co., Ltd.  
 \* Yamawa Securities Co., Ltd.  
 \* YOKOHAMA securities Co., LTD.  
 \* Yutaka Securities Co., Ltd.  
 Zukawa Securities Co., Ltd.  
 ABN Amro Securities (Japan) Limited  
 \* Banc of America Capital Markets – Japan, Inc.  
 \* Barclays Capital Japan Limited  
 \* Bear Stearns (Japan) Limited  
 \* BNP Paribas Securities (Japan) Limited  
 \* Citicorp International Securities Ltd.  
 \* Commerz Securities (Japan) Co., Ltd.  
 Credit Agricole Indosuez Securities (Japan) Limited  
 \* Credit Lyonnais Securities Europe Switzerland AG  
 \* Credit Suisse First Boston Securities (Japan) Limited  
 \* Deutsche Securities Limited, Tokyo Branch  
 \* Dresdner Kleinwort Wasserstein Ltd.  
 E\*T Institutional Securities Limited  
 Fidelity Brokerage Services (Japan), LLC  
 \* Goldman Sachs (Japan) Limited  
 \* HSBC Securities (Japan) Limited  
 HVB Capital Asia Limited  
 Hyundai Securities Co., Ltd.  
 ING Securities Japan Limited  
 \* Instinet Japan Limited  
 \* J.P. Morgan Securities Asia Limited  
 Jefferies (Japan) Limited  
 \* KBC Securities Japan  
 Lehman Brothers Japan Inc.  
 \* Morgan Stanley Japan Limited  
 \* Nikko Citigroup Limited  
 RBC Dominion Securities (Japan) Limited  
 Société Générale Securities (North Pacific) Ltd.  
 \* UBS Securities Japan Limited  
 \* WestLB Securities Pacific Limited

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**BANKS AND OTHER FINANCIAL INSTITUTIONS**

Aozora Bank, Ltd.  
 \* Japan Trustee Services Bank, Ltd.  
 \* JSF Trust & Banking Co., Ltd.  
 \* Mitsui Asset Trust and Banking Company, Limited  
 Mizuho Bank, Ltd.  
 \* Mizuho Corporate Bank, Ltd.  
 Mizuho Trust & Banking Co., Ltd.  
 NikkoCiti Trust and Banking Corporation  
 ORIX Trust and Banking Corporation  
 \* RESONA BANK LIMITED  
 Shinkin Trust Bank, Ltd.  
 Shinsei Bank, Limited  
 Shinsei Trust and Banking Co., Ltd.  
 \* Sumitomo Mitsui Banking Corporation  
 \* The Bank of Tokyo–Mitsubishi, Ltd.  
 \* The Bank of Yokohama, Ltd.  
 \* The Chuo Mitsui Trust and Banking Company, Limited  
 The Daishi Bank, Ltd.  
 The Hiroshima Bank, Ltd.  
 The Kyoto Shinkin Bank  
 \* The Master Trust Bank of Japan, Ltd.  
 \* The Mitsubishi Trust and Banking Corporation  
 \* The Nagano Bank, Ltd.  
 The Nomura Trust and Banking Co., Ltd.  
 \* The Norinchukin Bank  
 \* The Norinchukin Trust & Banking Co., Ltd.  
 \* The Sumitomo Trust & Banking Co., Ltd.  
 \* The Tokyo Tomin Bank, Limited  
 Tokyo Bankers Association  
 \* Tokyo Shoken Credit Cooperative  
 \* Trust & Custody Service Bank, Ltd.  
 \* UFJ Bank Limited  
 \* UFJ Trust Bank Limited  
 Barclays Global Investors Japan Trust & Banking Co., Ltd.  
 BNP Paribas Private Bank (Japan) Limited  
 Citibank, N.A.  
 Cititrust and Banking Corporation  
 Deutsche Trust Bank Limited  
 J.P. Morgan Trust Bank, Ltd.  
 SG Private Banking (Japan) Limited

Standard Chartered Bank  
 State Street Trust and Banking Company, Limited  
 The Hongkong and Shanghai Banking Corporation Limited  
 UBS (Trust and Banking) Limited

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**INSURANCE COMPANIES**

Mitsui Sumitomo Insurance Co., Ltd.  
 Nippon Life Insurance Company  
 Sampo Japan Insurance Inc.  
 The Dai-ichi Mutual Life Insurance Company  
 The Meiji Mutual Life Insurance Company  
 \* The Taiyo Life Insurance Company  
 The Tokio Marine & Fire Insurance Co., Ltd.

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**STOCK EXCHANGES AND OTHERS**

\* Central Tanshi Co., Ltd.  
 \* Chubu Securities Finance Co., Ltd.  
 \* Daiko Shoken Business Co., Ltd.  
 \* Fukuoka Stock Exchange  
 \* Japan Securities Agents, Ltd.  
 Japan Securities Clearing Corporation  
 \* Japan Securities Dealers Association  
 \* Japan Securities Finance Co., Ltd.  
 \* Japan Securities Settlement Custody, Inc.  
 Jasdaq Market, Inc.  
 \* Nagoya Stock Exchange, Inc.  
 \* Osaka Securities Exchange, Inc.  
 \* Osaka Securities Finance Co., Ltd.  
 \* Sapporo Securities Exchange  
 The Tokyo Tanshi Co., Ltd.  
 \* Tokyo Securities Transfer Agent Co., Ltd.  
 \* Tokyo Stock Exchange, Inc.  
 Ueda Yagi Tanshi Co., Ltd.  
 \* Shareholder

*Note: Overseas CSDs participating in JASDEC through JSSC; The Central Depository (Pte) Limited (Singapore)*

## HISTORY

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<b>MAY 1984</b>	The Law Concerning Central Securities Depository and Book-Entry Transfer of Share Certificates and Other Securities (CSD Law) was passed, and enforced in November 1984.
<b>DEC. 1984</b>	Japan Securities Depository Center (JASDEC) was founded as a not-for-profit foundation under a permit granted by the Minister of Finance and the Minister of Justice (competent ministers) pursuant to Article 34 of the Civil Code.
<b>MAY 1985</b>	JASDEC was designated as a depository under the CSD Law by the competent ministers.
<b>OCT. 1991</b>	JASDEC began offering its depository services for stocks listed on the Tokyo Stock Exchange.
<b>OCT. 1992</b>	JASDEC expanded its depository services, covering all stock exchange-listed stocks and OTC-registered stocks.
<b>JUN. 1993</b>	The U.K. Securities and Futures Authority approved JASDEC as an eligible foreign custodian.
<b>AUG. 1993</b>	The U.S. Securities and Exchange Commission issued a no-action letter to exempt JASDEC from Section 17(f) of the Investment Company Act of 1940 and Rule 17f-5(c)(2)(iii).
<b>JUN. 1997</b>	The Association of German Bankers approved JASDEC as an eligible foreign custodian.
<b>MAY 2000</b>	JASDEC replaced its securities depository and book-entry transfer system with new systems.
<b>SEP. 2000</b>	JASDEC constructed a back-up center in Osaka.
<b>DEC. 2000</b>	JASDEC started handling preferred investment securities.
<b>MAY 2001</b>	JASDEC launched its system for DVP settlement of exchange trades in Tokyo and Osaka.
<b>JULY 2001</b>	JASDEC started handling ETFs.
<b>SEP. 2001</b>	JASDEC started handling REITs.  JASDEC implemented the Pre-Settlement Matching System (PSMS) for domestic trades by domestic institutional investors.
<b>NOV. 2001</b>	JASDEC started handling of corporate convertible bonds.
<b>JAN. 2002</b>	Japan Securities Depository Center, Inc, was established.
<b>FEB. 2002</b>	PSMS was expanded to cover trades by nonresident investors.
<b>JUN. 2002</b>	All central custody and book-entry transfer business was transferred to the new, incorporated entity and the former entity was dissolved.  The Association of German Bankers approved the new incorporated entity as an eligible foreign custodian.
<b>JAN. 2003</b>	The Law Concerning Book-Entry Transfer of Corporate and Other Debt Securities became effective and JASDEC was designated as a transfer institution under the terms of the new law.
<b>MAR. 2003</b>	JASDEC launched the Securities Information Tracing System (SITRAS) for lost stocks.  JASDEC inaugurated its Electronic Commercial Paper book-entry system.
<b>MAY 2003</b>	PSMS was expanded to cover transactions for government bonds and stock exchange-traded futures and options.

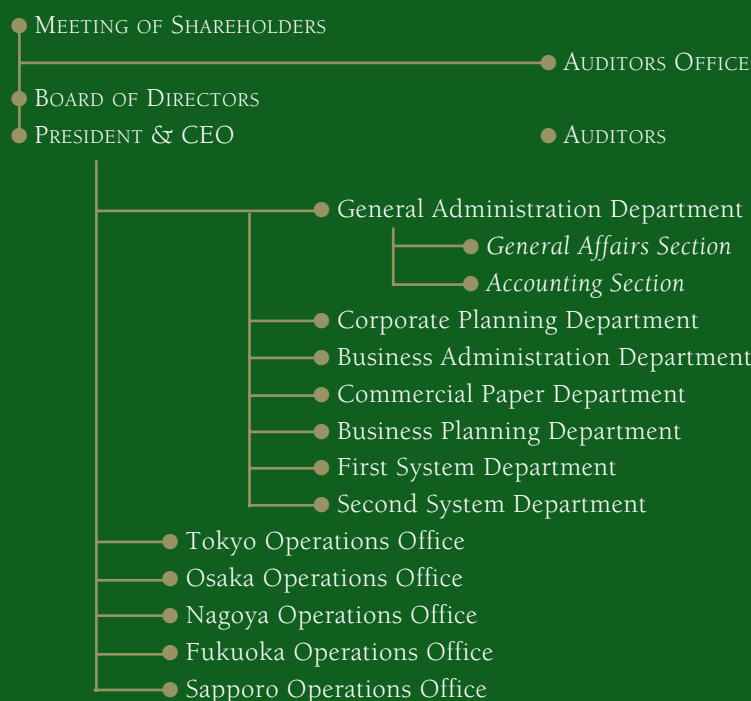
## CORPORATE INFORMATION

(As of June 30, 2003)

COMPANY NAME:	Japan Securities Depository Center, Inc.
DATE OF INCORPORATION:	January 4, 2002
DATE OPERATIONS BEGAN:	June 17, 2002
CAPITAL:	¥4.25 billion
COMMON STOCK ISSUED:	8,500 shares
NUMBER OF SHAREHOLDERS:	198
NUMBER OF EMPLOYEES:	95
ADDITIONAL PERSONNEL:	217 (working for entrustees) 101 (working on outsourced systems development and operations)
REGISTERED HEAD OFFICE	1-1, Nihombashi-Kayaba-cho 2-chome Chuo-ku, Tokyo 103-0025, Japan Phone: +81-3-3661-0161 Facsimile: +81-3-3661-2810 Website: <a href="http://www.jasdec.com">http://www.jasdec.com</a>
OPERATIONS OFFICES	
Tokyo Office:	6th Floor, Daini-Shoken Kaikan Bldg. 1-1, Nihombashi-Kayaba-cho 2-chome, Chuo-ku, Tokyo 103-0025
Osaka Office:	6-10, Kitahama 1-chome, Chuo-ku, Osaka 541-0041
Nagoya Office:	3-17, Sakae 3-chome, Naka-ku, Nagoya 460-0008
Fukuoka Office:	14-2, Tenjin 2-chome, Chuo-ku, Fukuoka 810-0001
Sapporo Office:	14-1, Minamiichijo-Nishi 5-chome, Chuo-ku, Sapporo 060-0061

## ORGANIZATION STRUCTURE

(As of June 30, 2003)





JAPAN SECURITIES DEPOSITORY CENTER, INC.