

## CONSOLIDATED BALANCE SHEET

Japan Securities Depository Center, Inc.

As of March 31, 2004

	¥ (thousands)	\$ (thousands)
	2004	2004
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	¥ 1,733,337	\$ 16,400
Accounts receivable—trade	3,803,049	35,983
Deferred income taxes (Note 7)	129,490	1,225
Other current assets	190,571	1,803
Total current assets	5,856,447	55,411
Property and Equipment		
Buildings	149,075	1,410
Tools and furniture	4,017,025	38,007
	4,166,100	39,417
Less: Accumulated depreciation	(2,164,535)	(20,479)
Total property and equipment	2,001,565	18,938
Intangible Assets, Net		
Software	3,625,338	34,302
Construction in progress (Software)	6,912,863	65,407
Other intangible assets	9,755	92
Total intangible assets	10,547,956	99,801
Investment and Other Assets		
Long-term refundable lease deposits	424,619	4,018
Long-term prepaid expenses	42,927	406
Deferred income taxes (Note 7)	30,869	292
Total investment and other assets	498,415	4,716
Total assets	¥18,904,383	\$178,866
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current Liabilities:		
Short-term debt (Note 5)	¥ 5,000,000	\$ 47,308
Accounts payable—trade	1,846,861	17,474
Income tax payable	644,945	6,102
Accrued employees' bonuses	100,675	953
Consumption tax payable	77,617	734
Other current liabilities	521,687	4,936
Total current liabilities	8,191,785	77,507
Long-term Liabilities		
Accrued employees' retirement benefits (Note 6)	32,863	311
Accrued executives' retirement benefits	43,170	409
Total long-term liabilities	76,033	720
Total liabilities	8,267,818	78,227
Shareholders' Equity		
Common stock		
Authorized: 10,000 shares		
Issued, 8,500 shares	4,250,000	40,212
Capital surplus	4,250,000	40,212
Retained earnings	2,136,565	20,215
Total shareholders' equity	10,636,565	100,639
Total liabilities and shareholders' equity	¥18,904,383	\$178,866

The accompanying notes are an integral part of these statements.

## CONSOLIDATED STATEMENT OF INCOME

Japan Securities Depository Center, Inc.

For the year ended March 31, 2004

	¥ (thousands)	\$ (thousands)
	2004	2004
Operating Income	¥17,124,010	\$ 162,021
<b>Operating Expense</b>		
Executives' compensations	117,438	1,111
Salaries and payable	1,139,758	10,784
Severance costs for employees	13,350	126
Executives' retirement benefits	24,810	235
Maintenance for systems	4,314,280	40,820
Outside service	2,543,018	24,061
Registration fees	1,866,472	17,660
Depreciation	2,838,420	26,856
Rent	237,525	2,248
Advertisement	264,327	2,501
Others	1,164,279	11,016
Total operating expense	14,523,677	137,418
Income from operation	2,600,333	24,603
<b>Other Income (Expenses):</b>		
Interest income	19	0
Interest expense	(30,439)	(288)
Loss on disposal of property and equipment	(4,557)	(43)
Other, net	1,524	15
Total	(33,453)	(316)
Income before income taxes	2,566,880	24,287
<b>Income Taxes (Note 7)</b>		
Current	963,539	9,116
Deferred	(47,288)	(447)
Net income	¥ 1,650,629	\$ 15,618
U.S. Dollars		
	Yen	(Note 3)
<b>Per Share (Note 10)</b>		
Net income—primary	¥192,579.99	\$1,822.12
Dividends	25,000	236.54
<b>Weighted Average Number of</b>		
Common Stock Shares Outstanding (in shares)	8,500	—

The accompanying notes are an integral part of these statements.

**CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY***Japan Securities Depository Center, Inc.**For the year ended March 31, 2004*

	¥ (thousands)				
	Number of common stock shares	Common stock	Capital surplus	Retained earnings	Total shareholders' equity
Balance as of March 31, 2003	8,500	¥4,250,000	¥4,250,000	¥ 711,036	¥ 9,211,036
Net income for the year	—	—	—	1,650,629	1,650,629
Cash dividends	—	—	—	(212,500)	(212,500)
Bonus to executives	—	—	—	(12,600)	(12,600)
Balance as of March 31, 2004	8,500	¥4,250,000	¥4,250,000	¥2,136,565	¥10,636,565

	\$ (thousands) (Note 3)				
	Number of common stock shares	Common stock	Capital surplus	Retained earnings	Total shareholders' equity
Balance as of March 31, 2003	8,500	\$40,212	\$40,212	\$ 6,727	\$ 87,151
Net income for the year	—	—	—	15,618	15,618
Cash dividends	—	—	—	(2,011)	(2,011)
Bonus to executives	—	—	—	(119)	(119)
Balance as of March 31, 2004	8,500	\$40,212	\$40,212	\$20,215	\$100,639

The accompanying notes are an integral part of these statements.

## CONSOLIDATED STATEMENT OF CASH FLOWS

*Japan Securities Depository Center, Inc.*

*For the year ended March 31, 2004*

	¥ (thousands)	\$ (thousands) (Note 3)
	2004	2004
<b>Cash Flows from Operating Activities:</b>		
Income before income taxes	¥ 2,566,880	\$ 24,287
Depreciation	2,838,420	26,856
Increase in accrued employees' bonuses	12,613	119
Increase in accrued employees' retirement benefits	10,291	97
Increase in accrued executives' retirement benefits	24,810	235
Interest income	(19)	(0)
Interest expense	30,439	288
Loss on sales of property and equipment	69	0
Loss on disposal of property and equipment	4,487	43
Increase in accounts receivable—trade	(703,543)	(6,657)
Increase in accounts payable—trade	556,142	5,262
Decrease in other assets	334,505	3,165
Increase in other liabilities	41,020	388
Other, net	(12,597)	(119)
Sub-total	5,703,517	53,964
Interests and dividends received	19	0
Interest paid	(33,260)	(314)
Income tax paid	(961,297)	(9,095)
Net cash provided by operating activities	4,708,979	44,555
<b>Cash Flows from Investing Activities:</b>		
Payments for purchase of property, plant and equipment	(435,224)	(4,118)
Payments for purchase of intangible assets	(4,656,346)	(44,056)
Proceeds from sales of property and equipment	546	5
Net cash flows used in investing activities	(5,091,024)	(48,169)
<b>Cash Flows from Financing Activities:</b>		
Proceeds from short-term debt	5,000,000	47,308
Repayment of short-term debt	(3,100,000)	(29,331)
Cash dividends paid	( 212,500)	(2,011)
Net cash flows provided by financing activities	1,687,500	15,966
Net Increase in Cash and Cash Equivalents	1,305,455	12,352
Cash and Cash Equivalents at Beginning of Year	427,882	4,048
Cash and Cash Equivalents at End of Year	¥ 1,733,337	\$ 16,400

The accompanying notes are an integral part of these statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Japan Securities Depository Center, Inc.

## 1.

### BASIS OF PRESENTING THE CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared from the accounts maintained by Japan Securities Depository Center, Inc. (“the Company”) and its subsidiary in accordance with the provisions set forth in 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 Finance Reporting Standards. Certain items presented in the 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.

## 2.

### SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

#### (1) Consolidation

The consolidated financial statements include the accounts of Japan Securities Depository Center, Inc. and its wholly-owned subsidiary, JASDEC DVP Clearing Corporation (JDCC) which is the only subsidiary of the Company. JDCC was newly established during the current fiscal year. JDCC uses a fiscal year ended on March 31, which is the same as that of the Company.

#### (2) Cash and cash equivalents

Cash and cash equivalents include all highly liquid investments, with original maturities of three months or less, those 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.

#### (3) Property and equipment

Depreciation for buildings, excluding improvements, is computed on the straight-line method using 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.

#### (4) Software costs

Costs of software for internal use are amortized on the straight-line method computed over the estimated useful life of capitalized and 5 years.

#### (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 enters into lease agreements. Finance lease agreements, except for those agreements where ownership of the leased assets is transferred to the Company, are accounted for as operating leases.

#### (8) Accounting standard for impairment of non-current assets

On August 9, 2002, the Business Accounting Council in Japan issued “Accounting Standard for Impairment of Non-current Assets”. The standard requires that non-current assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying

amount of an asset may not be recoverable. An impairment loss shall be recognized in the income statement by reducing the carrying amount of impaired assets or a group of assets to the recoverable amount to be measured as the higher of net selling price and value in use. The standard shall be effective for fiscal years beginning April 1, 2005. However, an earlier adoption is permitted for fiscal years beginning April 1, 2004 and for fiscal years ending between March 31, 2004 and March 30, 2005. The Company has not yet applied this new standard nor has determined the effect of applying it on the Company's consolidated financial statements.

(9) Consumption taxes

The consumption taxes withheld by the Company and its subsidiary on sales and the consumption taxes paid by the Company and its subsidiary 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.

(10) 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 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.

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.

3.

US DOLLAR AMOUNTS

Amounts in U.S. dollars are included solely for the convenience of readers outside Japan. The rate of ¥105.69=U.S. \$1, the rate of exchange as of March 31, 2004, 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.

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, 2004 is as follows:

	As of March 31, 2004	
	¥ (thousands)	\$ (thousands)
Tools and furniture:		
Acquisition cost	¥268,933	\$ 2,544
Accumulated depreciation	(48,108)	(455)
Net book value	¥220,825	\$(2,089)

The scheduled maturities of future lease payments, which includes the portion of interest thereon, on such lease contracts as of March 31, 2004 is as follows:

	As of March 31, 2004	
	¥ (thousands)	\$ (thousands)
Due within one year	¥ 52,660	\$ 498
Due over one year	169,597	1,605
Total	¥222,257	\$2,103

Finance lease charges as well as depreciation and interest amounts (in equivalent data) for the year ended March 31, 2004 is as follows:

	For the year ended March 31, 2004	
	¥ (thousands)	\$ (thousands)
Finance lease charges	¥31,697	\$300
Depreciation (in equivalent data)	30,435	288
Interest (in equivalent data)	2,135	20

(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.

## 5.

### SHORT-TERM DEBTS

Short-term debts at March 31, 2004 are comprised of loans from banks with weighted average interest rates of 1.675% per annum.

## 6.

### ACCRUED SEVERANCE INDEMNITIES FOR EMPLOYEES

Accrued employees' retirement benefits at March 31, 2004 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, 2004 amounted 13,350 thousand yen (126 thousand U.S. dollars).

## 7.

### INCOME TAXES

The Company and its subsidiary are 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 period ended March 31, 2004. A reconciliation between the nominal statutory income tax rate to the effective income tax rate in the accompanying consolidated statement of income for the year ended March 31, 2004 is as follows:

	2004
Nominal statutory income tax rate	42.0%
Adjustments:	
Permanent non-deductible difference	0.2
Equal proportion of inhabitant taxes	0.2
Income tax credit on investment in IT	(6.8)
Other, net	0.1
Effective income tax rate	35.7%

The significant components of deferred tax assets at March 31, 2004 are as follows:

	¥ (thousands)	\$ (thousands)
	2004	2004
Deferred tax assets:		
Accrued bonuses	¥ 41,175	\$ 390
Enterprise tax payable	72,408	685
Unpaid social insurance premium	5,465	51
Business facility tax	2,334	22
Tax loss carried forwards	8,108	77
Accrued retirement benefits to employees	13,342	126
Accrued retirement benefits to executives	17,527	166
Deferred tax assets	¥160,359	\$1,517

8.

SEGMENT  
INFORMATION

(1) Business Segment

The Company operates a single business unit, the central securities custody and book-entry transfer system, only.

(2) Geographic Information

The Company has no overseas consolidation subsidiaries and no overseas branches for the year ended March 31, 2004.

(3) Overseas sales

The Company does not have any sales overseas for the year ended March 31, 2004.

9.

RELATED PARTY  
TRANSACTIONS

Material transactions of the Company with related companies or individuals, excluding transactions with the consolidated subsidiary that are excluded in the consolidated financial statement, and other than those disclosed elsewhere in this financial statement, for the year ended March 31, 2004 are as follows:

(1) Directors

							(in thousand yen)
Titles	Name	Business	Transactions	Amount	Account	Ending balance	
Director	Toshitsugu Shimizu (* ) 1	Director of the Company President of Japan Securities Settlement & Custody, Inc	Outsourcing (* ) 1	1,728,381	Account payable-trade	65,113	
			Use of equipment (* ) 1	51	—	—	
Director	Masayuki Tanaka	Director of the Company Senior Managing Director of The Bank of Tokyo–Mitsubishi, Ltd	Repayment of borrowings	1,330,000	—	—	
			Interest on borrowings (* ) 2	10,302	—	—	
			Short term borrowing	2,140,000	Short-term dept	2,140,000	
			Interest (* ) 2	2,749	Prepaid interest	6,383	

(\* ) 1. Those transaction amounts mentioned above excluded consumption tax. however, ending balance include consumption tax.

2. Terms and Conditions

- (1) Those amounts include transaction with Japan Securities Settlement & Custody, Inc (JSSC) for the nine months period from July 2003 because Toshiji Shimizu has been appointed representative director of JSSC at June 19, 2003. JASDEC outsources to JSSC its operation as needed.
- (2) The terms and conditions of the above transactions are on an arms-length basis
- (3) Interests on borrowing are determined based on the market interest rate from bank



## (2) Principle shareholder and its subsidiaries

(in thousand yen)

Names of companies	Address	Capital	Principal business	Percentage of ownership with voting right	Relationship		Transactions	Amount	Descriptions	Ending balance
					Directors holding concurrent positions	Business relationship				
Tosho System Service Co. (Subsidiary of principal shareholder)	Koto-ku, Tokyo	100,000	Design, development, & development of software	—	—	Purchase of software	Outside service	1,359,083	Account payable-trade	148,426
							Purchase of software	1,626,653	Account payable-other	67,200
Japan Securities Clearing Corporation (Subsidiary of principal shareholder)	Chuo-ku, Tokyo	1,700,000	Clearing securities	—	Three	Commission income	Commission income	2,845,288	Account receivable-trade	556,184
Japan Securities Settlement & Custody, Inc (Subsidiary of principal shareholder)	Chuo-ku, Tokyo	300,000	Custody & settlement of securities	—	One	Outsourcing	Outside service	1,728,321	Account payable-trade	65,113
							Using equipments	51	—	—

(\*) 1. Those transaction amounts mentioned above excluded consumption tax. however, ending balance include consumption tax.

2. The terms and conditions of the above transactions are on an arms-length basis

**10.****NET INCOME PER SHARE**

Basis for calculating earnings per share for the year ended March 31, 2004 is as follows:

	¥ (thousands)	\$ (thousands)
	2004	2004
Net income as reported in the consolidated statement of income	¥1,650,629	\$15,618
Directors bonus by appropriation of retained earning	13,700	130
Net income pertaining to common stock shareholders	1,636,929	15,488
Weighted average number of common stock shares outstanding (in shares)	8,500	

**11.****SUBSEQUENT EVENTS**

## (1) Launch business of a subsidiary:

A consolidated subsidiary, JDCC was granted a license of securities obligation undertaking business by the Prime Minister on April 6, 2003. The license enabled JDCC to launch its business from May 6, 2004 and JDCC has started delivery versus payment settlement service for non-exchange transaction deliveries from May 17, 2004

## (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, 2004 was approved at the Ordinary General Shareholders Meeting held on June 22, 2004:

	¥ (thousands)	\$ (thousands)
Cash dividends	¥212,500	\$2,011
Bonuses to executives	13,700	129

(Including bonuses to statutory auditors amounting to 2,700 thousands yen (25 thousand U.S. dollars))