

TOWARD THE FINAL STAGE OF DOMESTIC SECURITIES AND SETTLEMENT SYSTEM REFORM

FISCAL 2004 REVIEW

In fiscal 2004, ended March 31, 2005, JASDEC continued to concentrate on the realization of a more user-friendly infrastructure for securities settlement and clearing in Japan. Concerted efforts were directed toward reform of this system through improved safety, efficiency and convenience in securities clearing and settlement.

Of note, in May 2004, JASDEC launched the DVP settlement system for NETD, and in less than a year settlement and clearing through this system already accounts for about 60% of all book-entry transfers for NETD. This result indicates that participants recognize the value of the system as a key to better settlement and clearing activities.

In addition, we have marked a steady increase in the volume of transactions handled through the book-entry transfer system for dematerialized CP, which went online in March 2003. Of note, the March 2005 end to a special stamp duty exemption for paper-based CP prompted a dramatic rise in the dematerialization of CP, equivalent to ¥13 trillion.

To make this system more convenient to users, we are pushing ahead with preparations for the introduction of a book-entry transfer system for Corporate Bonds in January 2006.

Coinciding with the May 2004 implementation of the DVP settlement system for NETD, we linked the book-entry transfer system to the pre-settlement matching system (PSMS) so that DVP transfer request data will, if trades are confirmed, automatically route to the book-entry transfer account and bring DVP settlement to a conclusion.

In February 2005, we added PSMS for domestic government bond repos and *gensaki* with undertaking settlement guarantee by the Japan Government Bond Clearing Corporation.

THE INTRODUCTION OF A
DVP SETTLEMENT SYSTEM FOR
NETD EXEMPLIFIES PROGRESS
IN CLEARING AND SETTLEMENT
SYSTEM REFORM IN JAPAN.

HIGHLIGHTS OF THE YEAR

MAY 2004

Implemented the DVP settlement system for NETD

NOVEMBER 2004

Signed a memorandum of understanding with Taiwan Securities Central Depository Co., Ltd.

FEBRUARY 2005

Established PSMS for domestic government bond repos and *gensaki*.
Signed a memorandum of understanding with Korea Securities Depository



To encourage investors and issuers to use our services, we ran advertisements in newspapers, on television and through other media. Our efforts were rewarded as the number of shares in custody climbed to 262.1 billion, as of March 31, 2005, accounting for 71.7% of all outstanding shares in Japan.

PROGRESS IN SECURITIES CLEARING AND SETTLEMENT REFORM

In 2000, the Financial Services Agency released a report highlighting “safety” and “efficiency” in securities clearing and settlement system reform, and Japan embarked on the task of creating an internationally competitive financial infrastructure to the world’s highest standards.

We emphasize two issues in our response to system reform.

First, to improve efficiency in the systems used in securities clearing and settlement, we have directed efforts into four areas:

- 1 promoting STP for PSMS;
- 2 broadening the range of eligible securities accepted;
- 3 using our demutualization to revitalize corporate governance capabilities as a central securities depository; and
- 4 elevating our profile through advertising to attract more investors and issuers to our services.

Second, to minimize principal risk, we prioritized the development of our DVP settlement system, and in May 2004, we successfully linked our DVP settlement system for NETD to PSMS.

Through these efforts, we have contributed to the establishment of an internationally competitive financial market infrastructure in Japan and achievement of first-half objectives set out for securities clearing and settlement system reform.

MEDIUM-TERM THEMES AND FUTURE TASKS

Management has identified five business themes JASDEC will address over the medium term, from fiscal 2005 through fiscal 2007. They are:

- 1 to endorse dematerialization of securities;
- 2 to facilitate wider use of STP;
- 3 to persuade more investors and issuers to grant us custody of securities;
- 4 to promote the DVP settlement system for NETD; and
- 5 to enhance the Group's capabilities.

While all five themes are important, we will spotlight dematerialization as the cornerstone of securities clearing and settlement reform in Japan.

We are making progress on the development of a book-entry transfer system for Corporate Bonds, scheduled to go online in January 2006. To facilitate implementation, we are preparing explanations for issuing companies about the system and formulating measures to ensure smooth conversion of paper securities from the outstanding registered format to book-entry bond status.

Concurrently, we have started working on a book-entry transfer system for investment trusts, which will go online in January 2007. As with the book-entry transfer system for Corporate Bonds, we are looking at ways to ensure a smooth conversion of existing paper certificates to dematerialized form.

Dematerialization of stock certificates will mark the final stage of domestic securities clearing and settlement system reform. To wrap up the transformation on a positive note, we are exploring suitable processing formats and conversion techniques, in line with the needs of participants, investors and users affected by the June 2004 promulgation of the Stock Settlement Rationalization Law — legislation for partial amendments to the law concerning book-entry transfer of Corporate Bonds and other securities for the purpose of streamlining settlement for trades of stocks and other securities. We are also putting together summaries of the new book-entry systems to help users understand them better.

A higher custody ratio will support conversion of paper stocks into dematerialized form, so JASDEC will strive to boost its custody ratio into the 80-percentile range through advertising designed to capture the attention of more investors, including individual investors.

OF MEDIUM-TERM OBJECTIVES,
OUR PRIORITY IS STOCK
DEMATERIALIZATION — THE
FINAL STAGE OF CLEARING AND
SETTLEMENT SYSTEM REFORM
IN JAPAN.

*A memorandum of understanding
with Taiwan Securities Central
Depository Co., Ltd.*



Straight-through processing (STP) An electronic system that eliminates human intervention from all trade-to-settlement processes involved in securities transactions.

Pre-Settlement Matching System (PSMS) Please refer to page 18.
A system that automatically matches various information, including the name and value of trades and settlements.

Delivery versus payment (DVP) Please refer to page 17.

ADDRESSING CORPORATE SOCIAL RESPONSIBILITY

The basic management direction at JASDEC hinges on the execution of business activities that meet the needs of the investors and issuers who use securities depository transfer systems through direct governance by shareholder participants.

Of the 17 members on the Board of Directors, 13 are external directors, including 10 who are representatives of eligible participants in the Company. Of the three auditors, one is a standing auditor. This structure supports management stability and transparency.

With the Bank for International Settlements' Lamfalussy Standards in mind, JASDEC established a backup center in September 2000, to secure its systems. To reinforce in-house information systems still further, we formulated a security policy of our own, based on such international standards as BS ISO/IEC17799 for information security management. In addition, in March 2005, we drew up a policy on protecting personal information to ensure such information is handled appropriately.

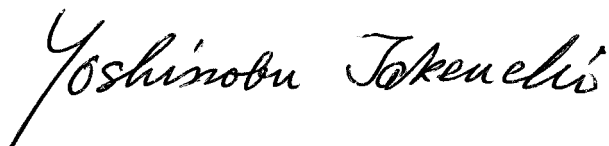
The Group has always endeavored to reduce fees to participants, which led it to adjust the standard for determining stock transfer fees from the number of shares involved to the number of transfers executed. We will continue to cut costs by making operations more efficient, thereby lightening the cost burden carried by participants.

JASDEC strives to cultivate and further strengthen its ties to central securities depositories abroad. During fiscal 2004, we signed memorandums of understanding with Taiwan Securities Central Depository Co., Ltd., in November 2004, and with Korea Securities Depository in February 2005, which will underpin business cooperation mutually beneficial to respective parties and generate opportunities for information exchange.

Guided by management policies devised to ensure highly transparent business activities that put users before all else and to extend services that are reliable and exceedingly cost-efficient, JASDEC will strive to pinpoint user needs with greater accuracy, lay a more user-friendly infrastructure for clearing and settlement and polish its capabilities as a central securities depository. These efforts will lead to a higher custody ratio and act as the driving force to accelerate securities clearing and settlement reform.

On behalf of the Board and employees of JASDEC, I ask for the continued support of our users, participants and investors.

June 2005



Yoshinobu Takeuchi
President and Chief Executive Officer



*A memorandum of understanding
with Korea Securities Depository*

OUR MISSION AS A GROUP IS
TO PROVIDE A HIGHLY SECURE,
EFFICIENT AND EASY TO
USE INFRASTRUCTURE FOR
SECURITIES CLEARING AND
SETTLEMENT.