

JAPAN SECURITIES DEPOSITORY CENTER, INC.

# Rapid Progress in Dematerialization

JASDEC

Annual Report  
**2007**

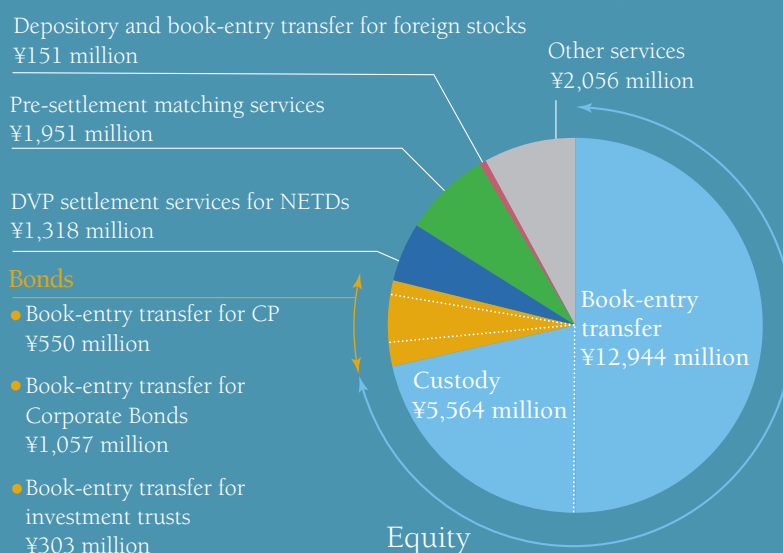
For the year ended March 31, 2007

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## REVENUES BY OPERATIONS

Year ended March 31, 2007



Notes: 1. Refund of fees amounted to ¥3,339 million for the year ended March 31, 2007.  
2. Book-entry transfer services for investment trusts began in January 2007, and the amount shown represents revenues generated from the start of operations until March 31, 2007.

## Established

### DECEMBER 6, 1984

The Japan Securities Depository Center (JASDEC) established as a not-for-profit foundation in line with the November 1984 enforcement of the Law Concerning Central Securities Depository and Book-Entry Transfer of Stock Certificates and Other Securities (the CSD Law).

### OCTOBER 9, 1991

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

## 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.

### JUNE 6, 2003

Established JASDEC DVP Clearing Corporation (JDCC) to undertake clearing services related to the delivery-versus-payment (DVP) settlement system for non-exchange transaction deliveries (NETDs).

## Our Mission

In view of our duty to serve the public, our mission as a group is to provide a highly secure, efficient and easy-to-use infrastructure for securities clearing and settlement, which in turn contributes to functional improvement of the securities market.

Toward this end, we advocate dematerialization of marketable securities and have already realized book-entry transfer systems for dematerialized commercial paper (CP), Corporate Bonds\* and investment trusts. We are currently focusing on preparations for the dematerialization of stock certificates. Other management priorities include efforts to promote straight-through processing (STP) using enhanced system functions and our pre-settlement matching system (PSMS), wider use of depository services for stock certificates, and more extensive application of such systems as the DVP settlement system for NETDs.

To achieve these goals, we will build and replace systems, in line with our medium-term management plan, and strive to cement a stronger foundation for improved stability and reliability in our business activities. We will also endeavor to make our services more convenient for overseas investors using our clearing and settlement systems and we will reinforce ties with international counterparts to foster cooperation mutually beneficial to both sides.

\* For clarity, "Corporate Bonds" in this report refers to general bonds covered by the book-entry transfer system for Corporate Bonds, i.e., corporate bonds, municipal bonds and investment company bonds, specified corporate bonds prescribed in the Law Concerning Liquidization of Assets, rights represented by bonds issued by corporations under a special law and rights represented on bond certificates issued by any government or by companies in foreign countries (excluding those viewed as bonds with subscription rights), such as Samurai bonds and Shogun bonds.

## FINANCIAL HIGHLIGHTS

<b>CONSOLIDATED</b> <i>For the years ended March 31, 2006 and 2007</i>	Thousands of yen		Thousands of US dollars
	2006	2007	2007
<b>For the year:</b>			
Operating income	¥21,745,176	¥22,559,853	\$191,477
Income from operations	4,855,929	4,671,951	39,653
Net income	3,121,382	2,651,958	22,508
<b>At year end:</b>			
Total assets	¥68,517,382	¥56,037,333	\$475,618
Net assets	14,352,092	16,689,350	141,651
Net cash provided by operating activities	8,467,571	6,041,058	51,273
Common stock	4,250,000	4,250,000	36,071
<b>Per share (yen and US dollars):</b>			
Net income—primary	¥365,197.98	¥311,995.13	\$ 2,648

Note: The amounts stated in US dollars in this report are translated, solely for convenience, at ¥117.82=US\$1, the exchange rate prevailing on March 31, 2007.

### AT A GLANCE

*As of March 31, 2007*

**SHARES IN CUSTODY** ————— **303** billion shares

The number of shares in custody reached 303.3 billion.

**SHARES TRANSFERRED BY BOOK ENTRY** ————— **1,012** billion shares

Of the 1,012 billion shares transferred by book entry, non-exchange trade transfers accounted for 638 billion shares, or 63.1% of the total.

**NUMBER OF ELIGIBLE ISSUING COMPANIES** ————— **3,952** companies

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

**CUSTODY RATIO** ————— **81.4** %

The percentage of shares in custody represents 81.4% of the entire domestic stock market. Our custody ratio for convertible bonds—that is, corporate bonds with subscription rights to new shares—reached 99.3%.

**AGGREGATE MARKET VALUE OF SHARES IN CUSTODY** ————— **¥464** trillion

The aggregate market value of shares in custody stood at ¥464,005 billion, up 2.9%, from a year earlier.

**TOTAL VALUE OF DVP SETTLEMENT SERVICES FOR NETDs** ————— **¥45** trillion

DVP settlement services for NETDs represented a value of ¥45,442 billion.

**Delivery versus Payment (DVP)** This system simultaneously attaches specific conditions to the delivery of and payment for securities. International standards, recommended by the Group of 30 and other organizations, require the application of a DVP settlement system to all securities settlements to eliminate settlement risk



*Yoshinobu Takeuchi, President and Chief Executive Officer, at CSD 9 Conference*

**“JASDEC SEEKS TO CREATE THE BOOK-ENTRY TRANSFER SYSTEMS OF AN ENHANCED SECURITIES CLEARING AND SETTLEMENT STRUCTURE IN JAPAN.”**

The JASDEC Group has consistently endeavored to promote system reform as it pertains to higher levels of safety, efficiency and convenience in securities clearing and settlement. The Company has approached this task with three key objectives in mind. The first is to reinforce corporate governance. The second is to encourage wider use of DVP as a means of minimizing principal risk in clearing and settlement operations, as well as greater application of a proprietary matching system as the cornerstone of STP. And the third is to expand the range of eligible securities accepted for custody and to promote dematerialization thereof.

In regard to corporate governance, JASDEC always undertakes business activities that put users before all else and seeks to strengthen monitoring capabilities through unwavering adherence to such structures as the internal auditing system.

To restrict principal risk, the Company initiated a DVP settlement system for NETDs in May 2004 and simultaneously linked it with PSMS. Currently, clearing and settlement through this system represents more than 60% of all book-entry transfers for NETDs, and participants view the system as an important clearing and settlement tool.

As for efforts to expand the volume of eligible securities accepted, JASDEC introduced a book-entry

transfer system for commercial paper (CP) in March 2003 and has marked a steady increase in the volume of CP in custody. In January 2006, the Company debuted a book-entry transfer system for Corporate Bonds. Later that year, in May, the Company began accepting stock certificates and other securities of foreign-registered companies listed on domestic securities exchanges, and as of March 31, 2007, had been granted custody of such securities by 11 organizations and 30 issues listed in Japan. More recently, in January 2007, the Company inaugurated a book-entry transfer system for investment trusts that electronically records the subscription, transfer and redemption of beneficiary rights associated with investment trusts.

The Company is currently focusing efforts on dematerialization of stock certificates, which will mark the final stage of the fundamental reform of securities clearing and settlement in Japan.

**“JASDEC IS MOVING PREPARATIONS FOR DEMATERIALIZATION OF STOCK CERTIFICATES STEADILY TOWARD IMPLEMENTATION IN JANUARY 2009.”**

Efforts directed toward dematerialization of stock certificates in fiscal 2006, ended March 31, 2007, included the release of an information manual for the system in May 2006 and the announcement of specifications for system connection in October 2006. The Company also conducted information meetings all over Japan.

In fiscal 2007, ending March 31, 2008, the

## JASDEC is aggressively working to build new book-entry transfer systems

Company will maximize its efforts to devise practical conversion procedures, to define the fee structure, and to promote system development for dematerialization of stock certificates

The custody ratio under the prevailing system is well into the 80-percentile range, but a higher level is needed to facilitate conversion of paper stock certificates into dematerialized form. To achieve this task, JASDEC must promote greater awareness of new book-entry services for dematerialization of stock certificates among issuers, brokers and investors.

At the same time, system safety has become an issue of growing priority, paralleling the focus on marketable securities and respective conversion to dematerialized form. With the Bank for International Settlements' Lamfalussy Standards in mind, JASDEC spearheaded the establishment of a backup center for the Group back in September 2000; and to reinforce information system management still further, JASDEC formulated its own security policy, based on such international standards as BS ISO/IEC17799 for information security management.

Complementing these concrete actions, the Group takes a proactive approach to system development that includes improving system capabilities to ensure stable operation of existing systems and further convenience for users.

**“MAINTAINING COOPERATIVE TIES WITH  
OVERSEAS CSDs IS A KEY MANAGEMENT  
PRIORITY.”**

In recent years, JASDEC has enthusiastically participated in international activities with other central securities depositories (CSDs). In November 2006, for example, the Company sent representatives to the 10th General Meeting of the Asia-Pacific CSD Group in Karachi, Pakistan.

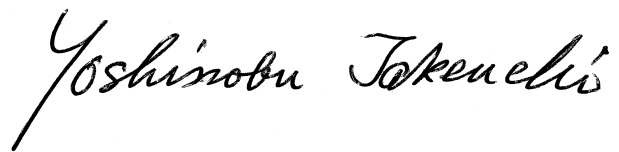
Most recently, in April 2007 JASDEC and Japan Securities Clearing Corporation (JSCC) joined Korea Securities Depository (KSD) and Taiwan Depository & Clearing Corporation (TDCC) in cohosting the 9th Conference of Central Securities Depositories in Seoul, Korea. The overall theme was “CSDs Facing the Future: Challenges and Opportunities through Harmonization and Globalization,” with an introductory panel discussion and individual sessions on related topics. The panel discussion fostered an animated exchange of opinions, while the individual sessions prompted new ideas and perspectives, culminating in a truly successful event for all those who attended.

In addition to conferences such as these, the JASDEC Group seeks to promote greater harmonization with counterparts abroad through such mechanisms as memorandums of understanding.

The Group will continue to stress basic management policies designed to ensure highly transparent business activities that place system users before all else, and to underpin the provision of services that are safe and exceedingly cost efficient. This emphasis will achieve two objectives: raise custody ratios within the Group, and expedite securities clearing and settlement reform in Japan.

On behalf of the Board of Directors and employees of JASDEC, I ask for the continued support of users, participants and investors as we work toward our stated goals.

June 2007



Yoshinobu Takeuchi  
President and Chief Executive Officer

# Rapid Progress in Dematerialization



Customer Focus

Issuer Focus

Investor Focus



## Central Securities Custody and Book-Entry Transfer System

The aim of the central securities custody and book-entry transfer system is to ensure smooth operation of the primary and secondary markets by streamlining the securities issuing process and raising the efficiency of custody and delivery of stocks and other securities.

Under this system custody of securities is centralized in the depository organization, thereby replacing the physical movement of securities with book-entry transfer in the accounts of such depository organization. Furthermore, shareholders can vote and transfer (including life-wide transfer) securities held by the depository organization.

Consent was given for Japan's central securities custody and book-entry transfer system at the passage of the Law Concerning the Japan Securities Depository Center, Inc. and the Book-Entry Transfer System (The CSC Law) in the following Diet session on the 17th day of the session of the new system JASDEC.

In May 2003, the Minister of Justice and Finance announced that the new system JASDEC would be established as a public corporation.

The same approval of the CSC Law was given by the Diet on the 17th day of the session of the new system JASDEC. JASDEC has begun its operations on the 1st day of the fiscal year 2004.

Domestic securities clearing and settlement reform has made progress toward the final goal: dematerialization of stock certificates. As the organization responsible for the infrastructure of securities clearing and settlement in Japan, the JASDEC Group is tackling several issues that will lead to the improved safety, efficiency and convenience of inherent systems.

## MEDIUM-TERM THEMES

The JASDEC Group will concentrate on the following themes.

### PROGRESS IN DEMATERIALIZATION

#### DEMATERIALIZATION OF STOCK CERTIFICATES

Working toward implementation of a new book-entry transfer system for stock certificates in January 2009, JASDEC is currently involved in discussions to fine-tune administrative processes and practical conversion techniques and define an appropriate fee structure, all based on a system outline for dematerialization of stock certificates. The Company will also execute system development, rooted in fundamentals, and run related checks in addition to performing required conversion and general tests.

**OPERATION OF BOOK-ENTRY TRANSFER SYSTEMS FOR CP, CORPORATE BONDS AND INVESTMENT TRUSTS, AND ENHANCED CONVENIENCE TO USERS** JASDEC seeks to ensure stable operation of book-entry transfer systems for CP and Corporate Bonds. The execution of activities to raise awareness of dematerialization is an ongoing pursuit that fosters wider use of these systems for enhanced circulation of securities.

The Company will strive to ensure stable operation of the recently launched book-entry transfer system for investment trusts and institute necessary responses, especially function upgrades to relevant systems, as required, to further improve convenience for users in

such areas as stock splits and consolidation of investment trust beneficiary rights.

### EXPANDING FUNCTION OF PSMS

JASDEC has taken a proactive approach in providing a matching function for stock lending and is currently considering extended capacity for PSMS to facilitate this focus.

### ENHANCED PROMOTIONAL ACTIVITIES

To generate increased familiarity with the idea of dematerialization of stock certificates and other securities, JASDEC will utilize mass media—particularly television, radio and newspapers—to develop enterprising promotional activities in cooperation with participants. By encouraging investors and issuers to grant custody of stock certificates to the Company, JASDEC will raise its custody ratio and thereby facilitate the conversion of paper certificates into dematerialized form.

### REINFORCING CUSTODY FUNCTION

**STRONGER SYSTEM INFRASTRUCTURE** Based on the formation of a medium- to long-term plan for systems—including the system for dematerialization of stock certificates, as well as system replacement, transfer of information to our data center and other aspects related to systems—JASDEC will strive to build an infrastructure featuring higher levels of safety, efficiency and convenience. This will ensure stable settlement and clearing operations.



**TOUGHER INTERNAL CONTROLS** JASDEC will enhance internal controls to ensure the integrity of financial data, improve information security, safeguard personal information, and work toward the establishment of a structure that supports uninterrupted operations in the event of an emergency.

**STRONGER TIES WITH OVERSEAS COUNTERPARTS** JASDEC will forge stronger ties with counterpart organizations abroad and create networking opportunities with other CSDs, primarily by building on the profile raised through activities of the Asia-Pacific CSD Group and the recent cohosting of the 9th Conference of Central Securities Depositories.

Activities to date are described on the following pages.

Dematerialization of

# Stock Certificates

For Implementation January 2009

## DEMATERIALIZATION OF STOCK CERTIFICATES IN JAPAN

On June 9, 2004, the Stock Settlement Rationalization Law—legislation to partially amend an existing law concerning book-entry transfer of corporate bonds and other securities—was introduced in Japan to streamline settlement procedures for trades of stocks and other securities. This legislation allows the stock of non-stock-issuing companies to be handled by the book-entry transfer system for stock certificates. All listed companies will be required to stop issuing stock certificates as of a date—the date of enforcement—determined by government ordinance, within five years of the date that the aforementioned legislation was announced.

The date of enforcement for conversion of stock certificates to dematerialized form will be established by government ordinance at a later time, but all parties with

a vested interest have agreed to set January 2009 as the target for commencement of dematerialization of stock certificates. The prevailing book-entry transfer system for stock certificates will be abolished and immediately supplanted by the new book-entry transfer system. When stock certificates undergo dematerialization, all names and corresponding numbers of shares will be electronically recorded in accounts opened by account management institutions for participants (clients), based on the new book-entry transfer system. Such records will show stockholdings.

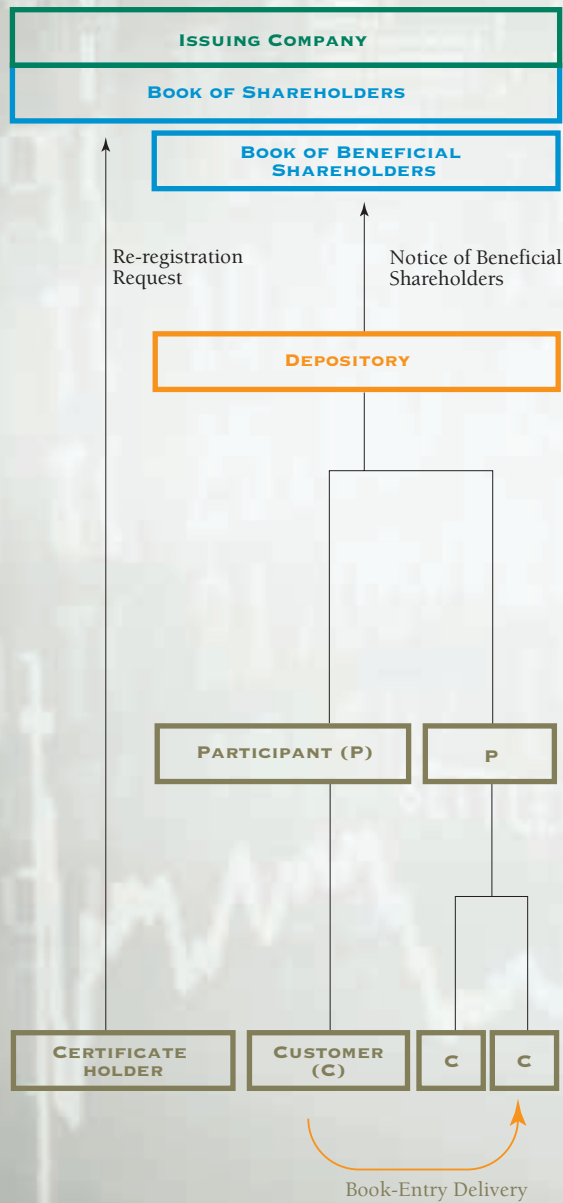
### BASIC STRUCTURE OF THE NEW SYSTEM

- Under the new book-entry transfer system, the ownership of stocks shall be determined by entries in the ledger book of transfer accounts and shall be transferred by account transfer.
- Twice a year, in principle, the central securities depository—namely, JASDEC—will give to issuers of shares in custody information regarding shareholders

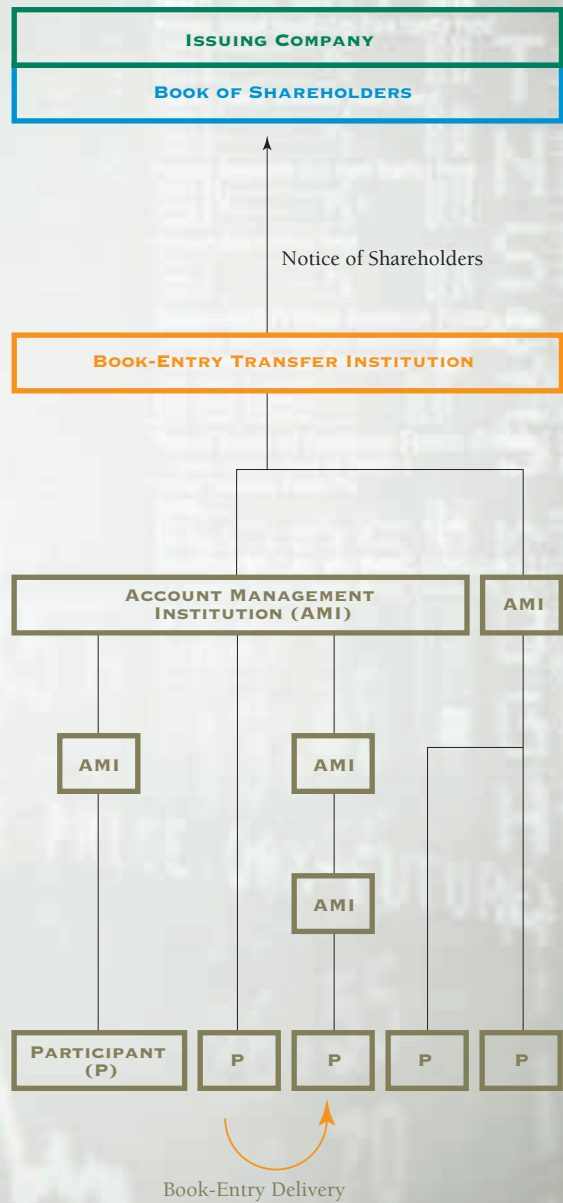


**STRUCTURAL DIFFERENCES BETWEEN THE DEMATERIALIZED AND CURRENT SYSTEMS**

**Current System**

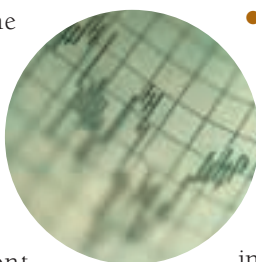


**Dematerialized Book-Entry Transfer System**



(general shareholders' notification), based on entries in the ledger book of transfer accounts. This service is similar to the one for beneficial shareholder notification under the current depository and book-entry transfer system. It differs, however, in that issuers may request the central securities depository to extend a general shareholders' notification at any time, provided that the reason for such a request is justified.

- Issuers will update their respective lists of shareholders, based on the aforementioned general shareholders' notification. Under the prevailing securities custody and book-entry transfer system, two lists of shareholders' ownership interests are maintained for stock certificates in the custody of the central securities depository: the shareholders' registry with the name of the CSD, and the beneficial shareholders' registry with the names of actual shareholders. The new system, however, will consolidate management of shareholders' ownership interests into the shareholders' registry alone, and only the names of actual shareholders will be recorded therein.
- When issuers undertake corporate actions, such as stock splits, bonus issues and mergers, the CSD and the account management institution, following notification from the issuer, will undertake procedures that automatically revise the record of shareholders' accounts.
- When shareholders wish to exercise minority and single-unit shareholder rights on shares in custody, they need to instruct their respective account management institution to notify the issuer of entries in the ledger book of transfer accounts. The CSD will then notify the issuer (specific shareholder notification) and within a specified period thereafter, shareholders may exercise rights.
- When the reason is justifiable, an issuer can request the CSD or an account management institution to provide information on record in the ledger book of transfer accounts.



## CONCRETE SYSTEM OUTLINE

JASDEC has explored various aspects of the new system, including practical procedures and techniques, to facilitate implementation and use.

- The new system will handle listed stock, subscription rights to new shares, corporate bonds with subscription rights to new shares, beneficiary ownership and preferred capital contribution, as well as unlisted subscription rights for new shares of stock and corporate bonds with unlisted subscription rights to new shares of stock, as long as specific criteria are satisfied.
- JASDEC will use information, such as shareholders' names, addresses and number of shares, which the Company receives from account management institutions for preparing general shareholders' notifications, specific shareholder notifications and responses to requests for data on the ledger book of transfer accounts.
- JASDEC will introduce DVP to eliminate settlement risk occurring when shares and corporate bonds with subscription rights to new shares are newly issued.
- JASDEC will disclose on a daily basis foreign shareholder ratios on stock in companies in such industries as broadcasting and aerospace, where shareholdings by foreigners are limited to a certain percentage.
- JASDEC will establish a registered account method for taking in shareholders' dividends. The Company will also consider a pro-rata allocation method based on the number of shares.

System configuration is progressing well. In May 2006, JASDEC released a general information manual featuring an outline of book-entry transfer systems for stocks and other securities—the foundation on which the new system is built—and conducted information meetings all over Japan to reinforce the content of the manual. In October 2006, the Company announced specifications for system connection, detailing the link between user systems and book-entry transfer systems for stocks and other securities.

JASDEC is working closely with representatives from relevant industries and authorities and will continue to promote discussions and system development efforts.

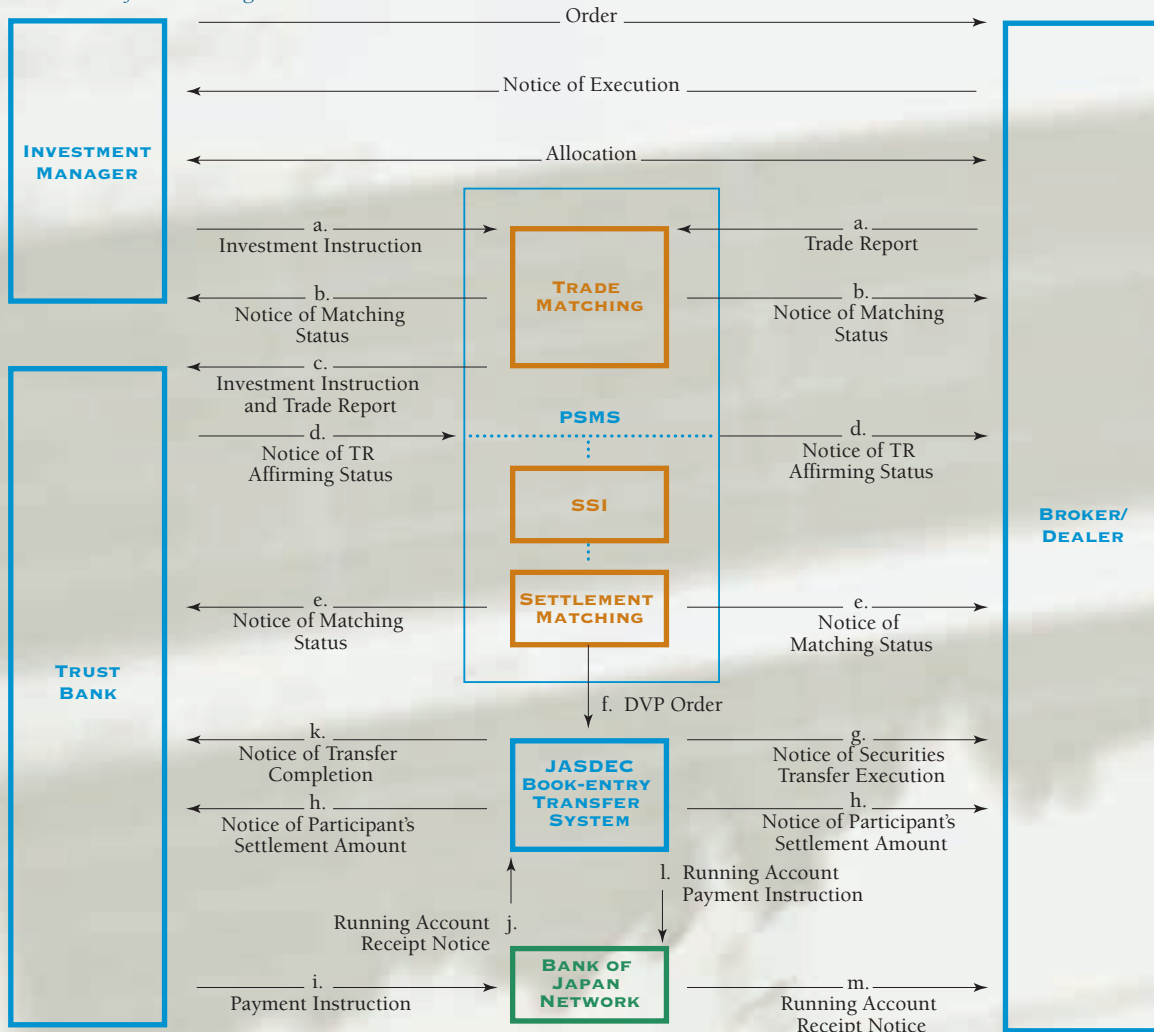
# Pre-Settlement Matching Services

In September 2001, JASDEC launched PSMS to electronically match information related to stock trades. Since then, the system has been successively expanded to cover such transactions as government bonds and stock-exchange-traded futures and options. In May 2004, coinciding with the start of the DVP settlement system for NETD, the Company linked PSMS to the book-entry transfer system, thereby facilitating, if trades are confirmed, automatic routing of DVP transfer request data to the book-entry transfer account to bring DVP settlement to a neat conclusion.

In February 2005, JASDEC added PSMS for domestic government bond repos and *gensaki* on the premise of debt assumed by the Japan Government Bond Clearing Corporation; and in January 2006, the Company began providing a pre-settlement matching function for Corporate Bonds and CP.

Preparations are moving steadily ahead toward commencement of a pre-settlement matching function for stock lending in October 2007.

## TRIPARTITE CENTER MATCHING TYPE (WITHOUT USING INVESTMENT INSTRUCTION DISTRIBUTION SERVICE) (In the case of stock trading)



**Pre-Settlement Matching System (PSMS)** This central matching system automatically confirms the contents of trade and settlement, such as trade names/amounts, counterparties and account numbers.

# Corporate Bonds

## MAIN FEATURES OF THE SYSTEM

The prevailing registration system requires certain responses to the physical issue of bonds because beneficiaries have the right to request the issue of such certificates. The book-entry system, however, is completely electronic, and thereby eliminates costs associated with issuing denominations and reduces the burden of office paperwork. Under our system, we revised custody procedures—from issuance to redemption, including transfers—into a management structure, based on the balance recorded in the transfer account book, and realized DVP (gross-gross formation known as BIS model 1) and STP by linking to PSMS.

## BOOK-ENTRY TRANSFER BASED ON BALANCE MANAGEMENT

Under the prevailing registration system, registration institutions enter the denomination type and serial number as well as ownership in their register book. Under the new book-entry system, transfer of ownership is executed by entering the net increase or decrease in the transfer account book, thereby expediting transition in secondary markets.

## MULTILAYER HOLDING STRUCTURE OF PARTICIPATION

Account management institutions are positioned in the multilayer holding structure in order to facilitate flexibility of business development and to promote affiliation among international institutions. In addition, under the book-entry transfer system, payment of principal is executed by the issuer's agent paralleling the layered structure.

## ELIGIBLE SECURITIES

A variety of bonds is eligible, excluding Japanese Government Bonds, regardless of whether the securities are public or private offerings. In addition, the system is flexibly designed and will accommodate floating-rate notes and foreign-currency-denominated bonds.

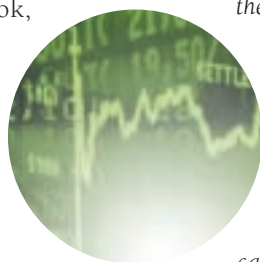
- Corporate bonds
- Municipal bonds
- Investment company bonds
- Corporate bonds issued by mutual companies prescribed in the Insurance Business Act
- Specified corporate bonds prescribed in the “Law Concerning Liquidation of Assets”
- Rights that should be represented by bond certificates issued by companies under a special law
- Rights that should be represented by bond certificates issued by any government or by companies in foreign countries, excluding those with the characteristics of bonds with subscription rights, such as Samurai Bonds and Shogun Bonds.

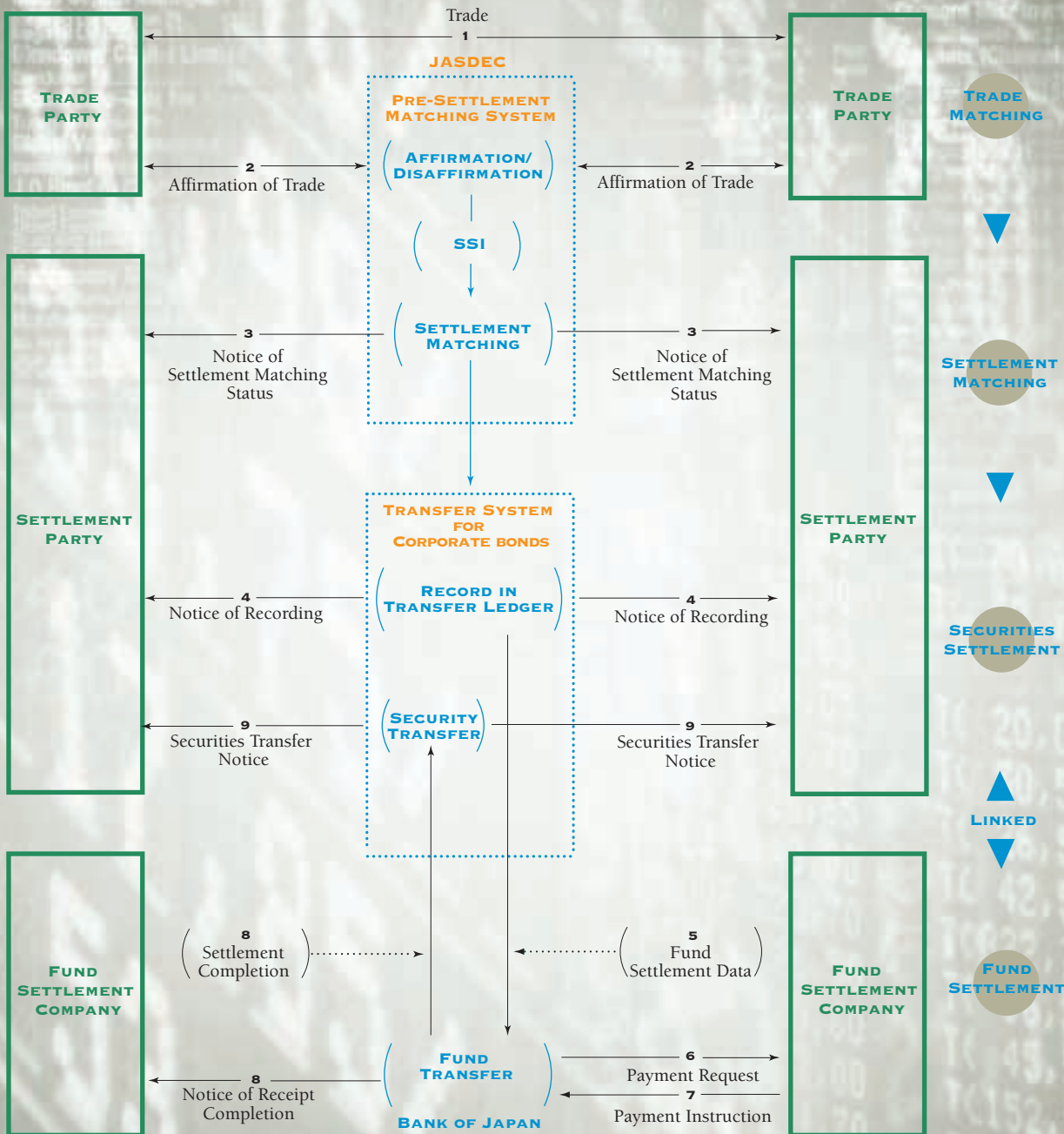
Notes:

1. Corporate bonds with subscription rights will become dematerialized when stocks are dematerialized.
2. Corporate bonds issued in overseas markets, such as euro-yen bonds, are excluded from eligibility.

## SMOOTH TRANSITION OF OUTSTANDING BONDS

From January 6, 2008, preferential tax treatment on interest income for such entities as tax-free corporations will apply only to book-entry bonds; recorded bonds and physical bonds will no longer be eligible for preferential tax treatment. In response, JASDEC will maintain efforts to promote the transition of outstanding bonds to book-entry bond status.







# CSD 9

Japan • Korea • Taiwan



## INTERNATIONAL ACTIVITIES

To promote greater harmony between our operations and those of counterpart organizations abroad, we take an enthusiastic approach to international activities, including efforts to standardize clearing and settlement systems and structures.

### PARTICIPATING IN INTERNATIONAL CONFERENCES

**NOVEMBER 2006: 10TH GENERAL MEETING OF ASIA-PACIFIC CSD GROUP** In November 2006, JASDEC sent representatives to Karachi, Pakistan, to attend the 10th General Meeting of the Asia-Pacific CSD Group, more commonly referred to as ACG, an association of CSDs in the Asia-Pacific region. A noteworthy development at the three-day meeting, which ran from November 8 to 10, was the unanimous approval of a proposal made by JASDEC to create an ACG Charter.

As always, this kind of event proved ideal for exchanging ideas and gaining new perspectives and prompted lively discussions among participants on a wide range of topics, including approaches to new business and updates to the ACG web site.

**April 2007—9TH CONFERENCE OF Central Securities Depositories** In April 2007, JASDEC, JSCC, KSD and TDCC jointly hosted the 9th Conference of Central Securities Depositories, or CSD9, in Seoul, South Korea. The biennial event, which ran for three days, from April 11 to 13, was a tremendous success, bringing 216 representatives from 97 depository-related institutions in 69 countries and territories together to exchange information and acquire new perspectives on issues common to every market and pertinent developments that characterize the business.

The introductory panel discussion, which highlighted the overall theme of the event—“CSDs Facing the Future: Challenges and Opportunities through Harmonization and Globalization”—and individual sessions on related topics led to animated dialogue among those in attendance. The conference program is presented below.

CSD9 marked the first top management meeting, an opportunity for senior representatives from CSDs worldwide to engage in a frank exchange of opinions. The meeting was chaired by JASDEC president, Yoshinobu Takeuchi, and resulted in agreement on the following three points.

1. To consider the creation of internal rules to guide execution of CSD conferences.
2. To schedule biennial meetings for representatives of the five regional CSD groups in the year that a worldwide CSD conference is not held to facilitate opinion exchange in response to rapidly evolving trends, especially in securities markets around the globe.
3. To release a communiqué about CSD9 to the media.

The next conference of CSDs—CSD10—will take place in Budapest, Hungary, in 2009.

### SIGNING MEMORANDUMS OF UNDERSTANDING

Through memorandums of understanding with the following CSDs abroad, JASDEC has been able to undertake information and personnel exchanges with counterpart organizations and offer training sessions of mutual benefit to all participants.

August 2003:	U.S. Depository Trust and Clearing Corporation (DTCC)
November 2004:	Taiwan Securities Central Depository Co., Ltd. (currently, Taiwan Depository & Clearing Corporation (TDCC))
February 2005:	Korea Securities Depository (KSD)
June 2005:	China Securities Depository and Clearing Corporation Limited (SD&C)

### TACKLING STANDARDIZATION

Standardization of securities clearing and settlement is an important topic in every country, paralleling globalization of financial and capital markets. JASDEC always addresses system reform with changing standardization in other countries in mind.

Specifically, we identify developments, such as recommendations issued by the Group of Thirty (G30), the International Securities Services Association (ISSA) and the Committee on Payment and Settlement Systems (CPSS) of Bank for International Settlements (BIS), and the International Organization of Securities Commissions (IOSCO). We constantly monitor our own systems and form decisions on the direction of new services and improvements to existing services, based on prevailing trends abroad.

## PRINCIPAL POLICY ON CORPORATE GOVERNANCE

As Japan's only central securities depository, JASDEC has a social obligation to adhere to a basic management direction that hinges on the creation of a highly secure, efficient and convenient securities clearing and settlement infrastructure.

Consequently, our principal policy on corporate governance requires us to undertake business activities that satisfy the wide-ranging needs of clients who utilize the Group's systems, from participants—securities companies, financial institutions and other users of our book-entry transfer services—to investors, and to ensure that these activities are highly transparent and characterized by fairness and integrity. Moreover, as the organization responsible for the infrastructure of securities clearing and settlement in Japan, we must earn and uphold a solid reputation for reliability.

## STATUS OF POLICY IMPLEMENTATION

### MANAGEMENT STRUCTURE AND OTHER CORPORATE GOVERNANCE SYSTEMS TO FACILITATE EXECUTIVE DECISION-MAKING, THE EXECUTION OF OPERATIONS AND THE IMPLEMENTATION OF AUDITS

#### CORPORATE STRUCTURES

**BOARD OF DIRECTORS** The Board of Directors comprises 17 members. A key requirement of the Board of Directors is to demonstrate a suitably balanced approach to business, guided by wide-ranging perspectives, including user-oriented views as well as business-oriented ideas on preserving operational neutrality and impartiality. To fully reflect the opinions of users in our business activities, nine of the 12 external directors are selected from eligible participants in the Company. The remaining three external directors belong to a stock-issuing company, academia and the legal profession.

In principle, the Board meets once a month to decide basic management policies.

**BOARD OF AUDITORS** JASDEC maintains a corporate auditor system. As of publication of this annual report, the Board of Auditors comprises three members, two of

whom are selected from eligible participants—one each from a securities firm and a financial institution—and all three auditors, including the standing auditor, are external auditors, in accordance with prevailing legislation.

The Board of Auditors meets once a month. However, in line with auditing plans and the direction established by the Board of Auditors, auditors will also attend important meetings, including those of the Board of Directors, and will execute audits of directors by assessing the status of services and assets to ascertain the effectiveness of directors in executing respective duties.

To ensure the practicality of audits, auditors will meet with the representative director and will strive to facilitate communication between auditors and directors.

**ADDITIONAL COMMITTEES** To accurately reflect the needs of system users in our operations, we established the Committee for Business Operations as a unit independent from other corporate structures, such as the Board of Directors. This committee addresses pertinent issues related to the business of the Company, based on queries from the Board of Directors, and assigns topics to the eight subcommittees under its control.

These subcommittees are responsible for a specific segment of operations and each comprises members who are actually involved in these operations. JASDEC applies results raised by each subcommittee to various operational issues that will facilitate early realization of securities clearing and settlement system reform in Japan.

To foster greater operational transparency, JASDEC, when appropriate, posts summaries of these discussions and other information on its web site.

As a key instrument of progress in the infrastructural development of the securities market, we strive for an extremely high level of fairness and integrity in our activities. To this end, we established the Advisory Committee, which enables the president to see the bigger picture regarding the administration of a securities clearing and settlement system by accessing the extensive knowledge of experts in financial and securities systems.

JDCC, a wholly owned subsidiary, maintains a business philosophy similar to that of JASDEC. JDCC set up the Committee for DVP Operations to study per-



tinent issues regarding operations and works to reflect the needs of users of the DVP settlement system for NETDs in its services. In addition, the company provides JASDEC's Board of Directors with updates on issues deemed pertinent by its own Board of Directors to ensure consistency in the activities of the two companies.

A summary of other corporate governance systems and the business structure at JASDEC is presented below.

### **INTERNAL CONTROLS AND RISK MANAGEMENT SYSTEM**

JASDEC established the Compliance Office and is steadily reinforcing its internal audit structure. In addition, the Company set up the Risk Management Committee, chaired by the president, and monitors the status of various risks on a regular basis. Reports on the status of risk management, including activities by designated committees, are given to the Board of Directors, as necessary.

### **AUDITS BY CORPORATE AUDITORS AND THE ACCOUNTING FIRM**

In regard to audits by corporate auditors, the standing auditor routinely attends important meetings, such as those of the Board of Directors and the Executive Committee, comprising managing directors, and examines internal memos requiring executive approval. The standing auditor will also perform audits, in accordance with auditing plans and the auditing direction established by the Board of Auditors, and provide the other corporate auditors with updates on the progress of such activities at the meeting of corporate auditors, which is scheduled to take place monthly.

Nonstanding auditors attend Board of Directors' meetings and check on the status of duties executed by directors. They also assess the level of duties executed by directors, based on several sources, including updates from the standing auditor on auditing activities.

JASDEC assigns staff specifically to assist corporate auditors in their audits.

Corporate auditors also investigate accounting audits in close cooperation with the Company's accounting firm. This effort includes hearing reports

from accounting auditors on auditing plans and the results of audits.

Two certified public accountants execute accounting audits for JASDEC: Hiroyuki Yamasaki and Tsutomu Nobuta (designated partners under Article 34, Paragraph 10-4 of the Certified Public Accountant Law). They are employed by Misuzu Audit Corporation (formerly, ChuoAoyama PricewaterhouseCoopers and renamed Misuzu Audit Corporation on September 1, 2006), a network firm of PricewaterhouseCoopers, and execute accounting audits, including checks of financial documents, based on the Corporation Law.

Mr. Yamasaki and Mr. Nobuta have audited JASDEC's accounts for six consecutive years and two years, respectively. They are assisted in their accounting audit by nine certified public accounts, junior accountants, and other assistants including system engineers.

No items of particular regard, such as serious irregularities or instances of illegal behavior, have been found through the execution of accounting audits.

### **DIRECTORS' AND CORPORATE AUDITORS' LIMIT OF LIABILITY**

To fully demonstrate the skills involved in successfully executing the duties of a director and a corporate auditor and to retain top-level personnel, limits have been set on liability for damages incurred by directors and corporate auditors.

### **RESOLUTIONS ON ELECTION/DISMISSAL OF DIRECTORS**

The election of directors by resolution at the general meeting of shareholders shall be conducted in the presence of shareholders representing no less than one-third of voting rights held by eligible shareholders, and directors shall be elected upon the majority vote of said shareholders.

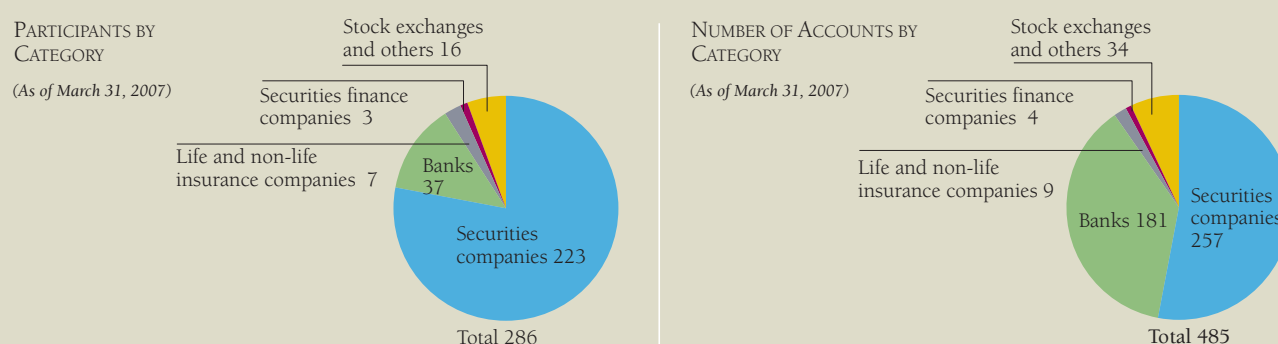
The dismissal of directors by resolution at the general meeting of shareholders shall be conducted in the presence of shareholders representing no less than one-third of voting rights held by eligible shareholders, and directors shall be dismissed on a vote of no less than two-thirds of voting rights held by said shareholders.

# BASIC DATA FOR STOCK CERTIFICATES BOOK-ENTRY TRANSFER

## Participants and Accounts

Participant firms open accounts at JASDEC and deposit the certificates they wish to consign. Such firms include securities companies, banks, trust banks, insurance companies, securities finance companies and stock exchanges.

As of the end of March 2007, the number of participants stood at 286, and the number of accounts stood at 485.



Notes: 1. Clients of participant firms do not deposit certificates directly with JASDEC. Rather, they utilize JASDEC's services through the accounts they establish at participant firms.

2. The category "Banks" includes The Norinchukin Bank, Tokyo Syoken Shinyoukumiai and Tokyo Bankers Association, Inc.

3. The category "Stock exchanges and others" includes Japan Securities Dealers Association, Japan Securities Settlement & Custody, Inc., Japan Securities Clearing Corporation, JASDEC DVP Clearing Corporation, Japan's three securities agencies and Japan's three money market dealers.

## Issuing Companies 3,952

As of March 31, 2007, all publicly traded companies in Japan have consented to JASDEC handling their stocks.

## Eligible Securities

ELIGIBLE SECURITIES (As of March 31, 2007)

Stocks	303,382 million shares	(3,952 issues)
Preferred investment securities	270,534 units	(1 issue)
Beneficiary certificates of ETFs	1,927,476 thousand units	(14 issues)
Certificates of REITs	6,784,524 units	(43 issues)
CBs	¥1,540,599 million	(117 issues)

Note: JASDEC accepts securities described in the CSD Law. Consent of the issuing company is also a prerequisite. Currently, eligible securities are domestic securities, including stocks, convertible bonds (corporate bonds with subscription warrants to new shares), beneficiary certificates of exchange-traded funds (ETFs), certificates of real estate investment trusts (REITs), and preferred investment bonds of financial institutions established by cooperative associations, which are listed on stock exchanges.

# REVENUES BY OPERATIONS

## Fiscal 2006 Review

Backed by economic recovery in fiscal 2006, ended March 31, 2007, stock trading remained brisk, exemplified by average daily stock trading volume exceeding two billion shares on the Tokyo Stock Exchange. Other favorable conditions, highlighted by an upward trend in stock prices and the return, albeit temporary, of the Nikkei Stock Average back to the 18,000 level, triggered an increase in account transfers through the Group's securities depository and book-entry transfer systems.

Consequently, operating income grew 3.7%, to ¥22,559 million. But operating expenses rose 5.9%, to ¥17,887 million, leading to a 3.8% drop in income from operations, to ¥4,671 million, and a 15.0% decline in net income, to ¥2,651 million.

Refund of fees amounted to ¥3,339 million, down 50.8%, for the year ended March 31, 2007.

## Stock Certificates

### ACCOUNT TRANSFER OPERATIONS

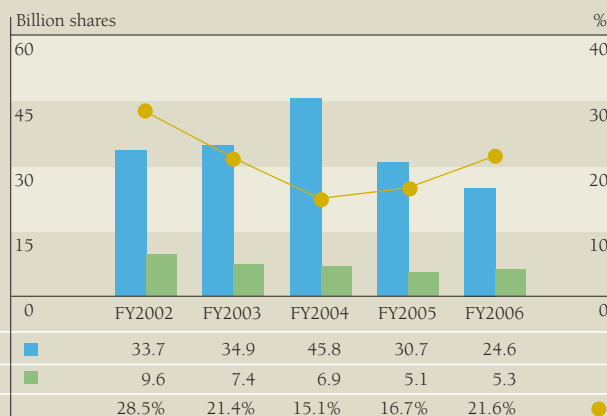
The number of shares in the transfer account—that is, combined exchange trade and non-exchange trade deliveries (NETDs)—averaged 84.3 billion a month, primarily because brisk stock trading sustained energetic momentum in account transfers from the previous fiscal year. However, JASDEC recorded a decline in fees, primarily owing to a 10% reduction in rates per transfer, effective from April 2006. Consequently, income related to account transfer operations, particularly services for stock certificates, corporate bonds with subscription warrants to new shares and ETF beneficiary certificates, retreated 22.0%, to ¥12,944 million.

### CUSTODY OPERATIONS

As of March 31, 2007, the custody balance comprised 303.3 billion shares of stock certificates, ¥1,540.5 billion in corporate bonds with subscription warrants to new shares, and 1,927 million units of ETF beneficiary certificates. As a result, income related to custody operations, particularly services related to stock certificates, corporate bonds with subscription warrants to new shares and ETF beneficiary certificates, amounted to ¥5,564 million, up 7.6% year-on-year.

### DEPOSITS AND WITHDRAWALS

The withdrawals to deposits ratio settled at 21.6%, as of March 31, 2007.



(Years ended March 31)

Number of Shares Deposited

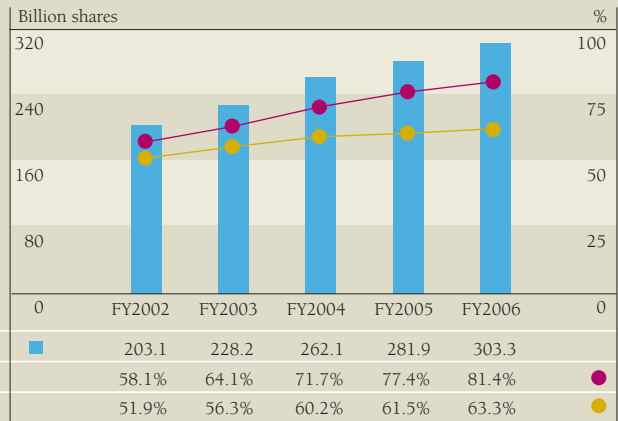
Number of Shares Withdrawn

Withdrawals to Deposit Ratio

Note: The ratios above are calculated based on the number of shares deposited, excluding shares deposited by stock splits, and shares withdrawn, excluding shares by stock transfer and merger.

### CUSTODY

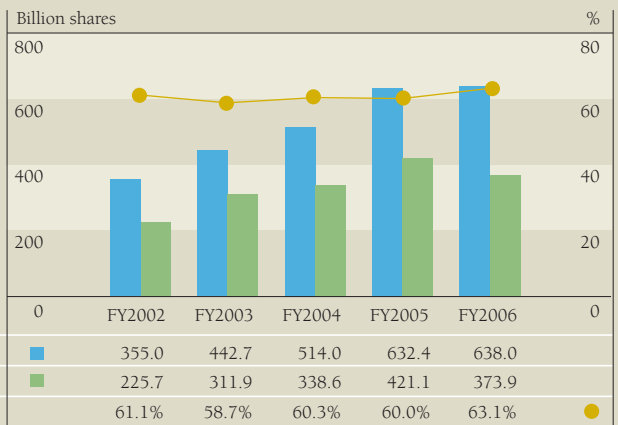
As of March 31, 2007, the number of shares in JASDEC's custody stood at 303,382 million and represented 81.4% of all outstanding shares issued by companies listed on stock exchanges in Japan.



Note: Immobilized shares are shares in custody that have been replaced by jumbo certificates, based on set criteria, to reduce administrative costs associated with custody and minimize risks, such as the physical loss of stock certificates.

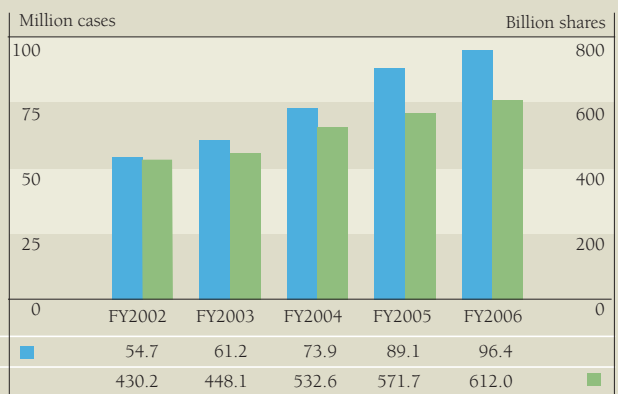
### BOOK-ENTRY TRANSFER

Of the number of shares transferred between accounts by book-entry transfer in fiscal 2007, the number of shares pertaining to ETFs represented 373,934 million and the number of shares pertaining to NETDs accounted for 638,080 million.



### BENEFICIAL SHAREHOLDER NOTIFICATION

In fiscal 2006, beneficial shareholder notification services covered 612,022 million shares and 96,469 thousand cases.



### FOREIGN STOCKS

Regarding foreign stocks entrusted to JASDEC by participants in Japan, the number of organizations rose to 11 and the number of issues increased to 30. As a result, income related to depository and book-entry transfer services for foreign stocks came to ¥151.2 million.

### OTHER SECURITIES OPERATIONS

An overview of other securities operations conducted in fiscal 2006 is presented below.

#### (a) Convertible Bonds (CBs) / Corporate Bonds with Subscription Warrants to New Shares

	(Millions of yen)
Deposits	¥ 681,016
Withdrawals	829,704
Custody	1,540,599
Book-entry transfer	
Exchange trade transfer	709,311
NETDs	5,912,741
Number of issues	117

#### (b) ETFs

	(Thousands of units)
Deposits	967,771
Withdrawals	668,934
Custody	1,927,476
Book-entry transfer	
Exchange trade transfer	2,075,069
NETDs	7,697,989
Number of issues	14

#### (c) Preferred Investment Securities of Financial Institutions

	(Number of units)
Deposits	1,870
Withdrawals	591
Custody	270,534
Book-entry transfer	
Exchange trade transfer	44,446
NETDs	70,452
Number of issues	1

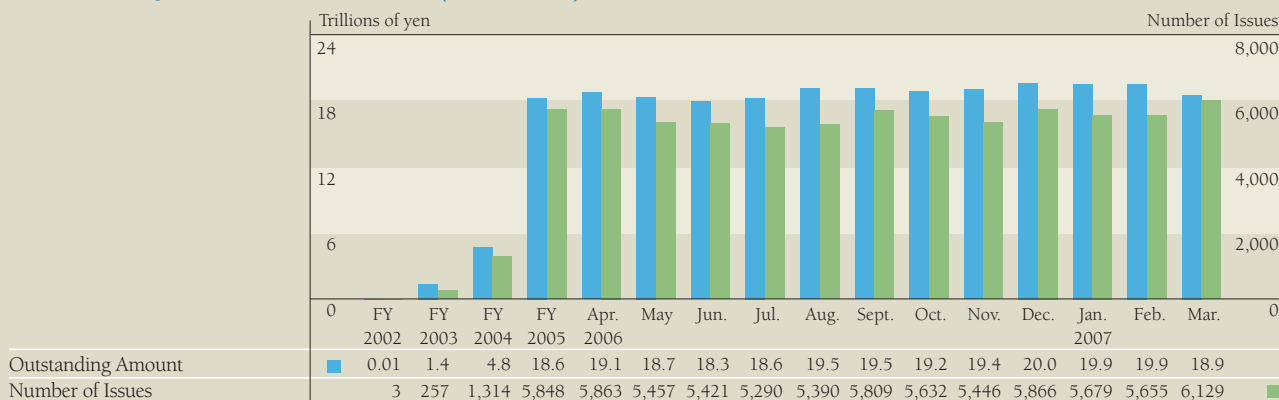
#### (d) REITs

	(Number of units)
Deposits	1,688,609
Withdrawals	81,301
Custody	6,784,524
Book-entry transfer	
Exchange trade transfer	7,262,106
NETDs	13,772,116
Number of issues	43

## Dematerialized Commercial Paper

As of March 31, 2007, book-entry transfer for dematerialized commercial paper (CP) had been extended to 439 issuers, an increase of 40 companies from a year earlier, and the number of issues reached 6,129, an increase of 281. The account balance stood at ¥18.9 trillion, up ¥343.1 billion, and the number of issues, transfers, and redemptions reached 249,223, up 58,227. The total value of issues reached ¥1,223.6 trillion, up ¥328.8 trillion, and ¥4.9 trillion per one business day. As a result, income related to book-entry transfer services for dematerialized CP reached ¥550 million, up 95.4%.

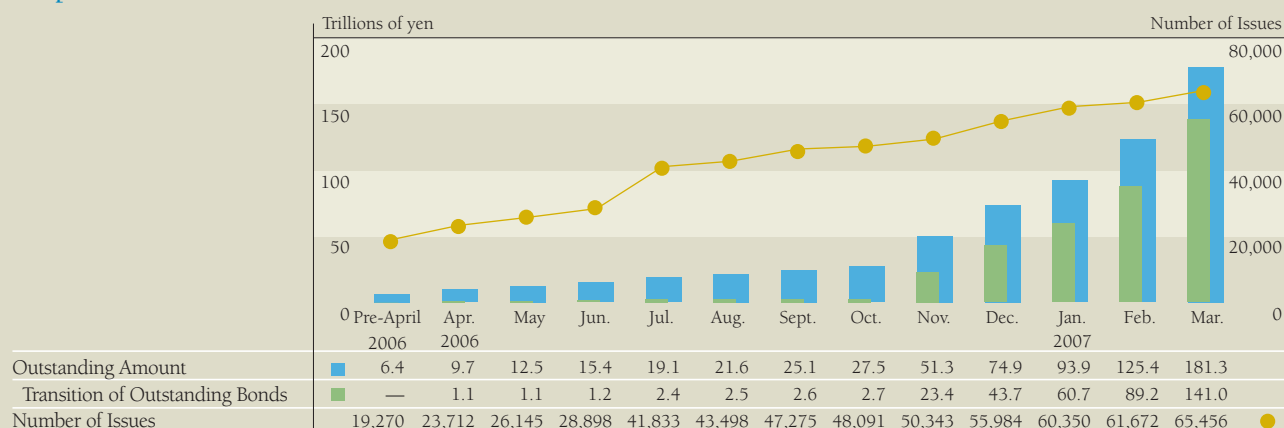
#### Dematerialized CP Account Balance (Month-end)



## Corporate Bonds

As of March 31, 2007, book-entry transfers for Corporate Bonds had reached 65,456 issues, an increase of 46,186 from a year earlier, the account balance stood at ¥181.3 trillion, up ¥174.9 trillion, and the number of issues, transfers, and redemptions was 251,033, an increase of 227,182. The total value of issues during fiscal 2006 reached ¥134.6 trillion, up ¥119.3 trillion. As a result, income related to book-entry transfer services for Corporate Bonds amounted to ¥1,057 million, up 292.9%.

### Corporate Bonds Account Balance (Month-end)



## Investment Trusts

As of March 31, 2007, book-entry transfers for investment trusts (which commenced on January 2007) had reached 5,084 issues, the account balance stood at ¥93,083.2 billion, and the number of transfers was 591,220. As a result, income related to book-entry transfer services for investment trusts reached ¥303 million.

## DVP Settlement Services for NETDs

Maintaining the trend set in the previous fiscal year, the number of transfers for DVP for NETDs averaged about 80,000 a day during fiscal 2006. However, JASDEC implemented a reduction in fees on DVP settlement, from ¥35 per assumed obligation to ¥30. As a result, income related to DVP settlement services for NETDs decreased 12.8%, to ¥1,318 million. JASDEC also instituted a rebate on DVP settlement fees in fiscal 2006.

## PSMS Services

In fiscal 2006, as in fiscal 2005, stock trading was brisk, sustaining steady use of JASDEC's PSMS. The Company implemented fee reductions of about 10% on equities and derivatives and 30% on bonds, effective April 2006. Consequently, income related to PSMS amounted to ¥1,951 million, a 2.7% decrease from a year earlier.

## Other Services

Income related to other services declined 23.8%, to ¥2,056 million, in fiscal 2006.

## CONSOLIDATED BALANCE SHEETS

Japan Securities Depository Center, Inc.

As of March 31, 2006 and 2007

	¥ (thousands)		\$ (thousands) (Note 4)
	2006	2007	2007
<b>ASSETS</b>			
<b>Current Assets:</b>			
Cash and cash equivalents	¥ 1,839,815	¥ 2,824,047	\$ 23,969
Accounts receivable—trade	3,625,987	3,455,111	29,325
Deferred income taxes (Note 10)	202,807	154,648	1,312
Designated assets for clearing funds (Note 3)	49,970,274	34,715,413	294,647
Other current assets	183,106	286,809	2,434
<b>Total Current Assets</b>	<b>55,821,992</b>	<b>41,436,030</b>	<b>351,689</b>
<b>Property and Equipment:</b>			
Buildings	776,667	823,700	6,991
Tools and furniture	4,138,412	5,481,521	46,524
Construction in Progress	—	790,457	6,709
	4,915,079	7,095,680	60,224
Less: Accumulated depreciation	(3,163,263)	(3,957,153)	(33,586)
<b>Total Property and Equipment</b>	<b>1,751,816</b>	<b>3,138,527</b>	<b>26,638</b>
<b>Intangible Assets, Net:</b>			
Software	9,679,743	8,816,461	74,829
Construction in progress (software)	611,745	1,915,654	16,259
Other intangible assets	10,766	11,676	99
<b>Total Intangible Assets</b>	<b>10,302,254</b>	<b>10,743,792</b>	<b>91,188</b>
<b>Investment and Other Assets:</b>			
Long-term refundable lease deposits	464,904	435,502	3,696
Long-term prepaid expenses	35,456	59,829	507
Deferred income taxes (Note 10)	140,958	223,650	1,898
<b>Total Investment and Other Assets</b>	<b>641,320</b>	<b>718,982</b>	<b>6,102</b>
<b>Total Assets</b>	<b>¥68,517,382</b>	<b>¥56,037,333</b>	<b>\$475,618</b>
<b>LIABILITIES</b>			
<b>Current Liabilities:</b>			
Accounts payable—trade	¥ 1,826,047	¥ 1,923,856	\$ 16,328
Income taxes payable	1,555,985	938,458	7,965
Accrued employees' bonuses	129,554	180,870	1,535
Accrued executives' bonuses	—	20,300	172
Consumption tax payable	240,382	6,842	58
Deposits received for clearing funds (Note 3)	49,970,274	34,715,413	294,647
Other current liabilities	302,698	1,399,711	11,880
<b>Total Current Liabilities</b>	<b>54,024,942</b>	<b>39,185,453</b>	<b>332,587</b>
<b>Long-term Liabilities:</b>			
Accrued employees' retirement benefits (Note 8)	79,508	114,409	971
Accrued executives' retirement benefits	60,840	48,120	408
<b>Total Long-term Liabilities</b>	<b>140,348</b>	<b>162,529</b>	<b>1,379</b>
<b>Total Liabilities</b>	<b>54,165,290</b>	<b>39,347,982</b>	<b>333,966</b>
<b>NET ASSETS</b>			
<b>Shareholders' Equity:</b>			
Common stock			
Authorized: 10,000 shares			
Issued: 8,500 shares	4,250,000	4,250,000	36,071
Capital surplus	4,250,000	4,250,000	36,071
Retained earnings	5,852,092	8,189,350	69,507
<b>Total Shareholders' Equity</b>	<b>14,352,092</b>	<b>16,689,350</b>	<b>141,651</b>
<b>Total Net Assets</b>	<b>14,352,092</b>	<b>16,689,350</b>	<b>141,651</b>
<b>Total Liabilities and Net Assets</b>	<b>¥68,517,382</b>	<b>¥56,037,333</b>	<b>\$475,618</b>

The accompanying notes are an integral part of these statements.

## CONSOLIDATED STATEMENTS OF INCOME

Japan Securities Depository Center, Inc.  
For the years ended March 31, 2006 and 2007

	¥ (thousands)		\$ (thousands) (Note 4)
	2006	2007	2007
Operating Income	¥21,745,176	¥22,559,853	\$191,477
Operating Expenses:			
Executives' compensation and bonuses	142,293	198,609	1,685
Salaries and bonuses	1,433,418	1,772,775	15,046
Severance costs for employees (Note 8)	39,860	62,397	529
Executives' retirement benefits	20,370	4,850	41
Maintenance for systems	4,734,433	5,087,273	43,178
Outside services	2,539,628	2,623,715	22,268
Registration fees	2,202,171	1,645,092	13,962
Depreciation and amortization	3,732,944	3,871,462	32,859
Rent	416,600	459,776	3,902
Advertisement	420,613	601,997	5,109
Others	1,206,912	1,559,951	13,240
Total Operating Expenses	16,889,247	17,887,901	151,823
Income from Operations	4,855,929	4,671,951	39,653
Other Income (Expenses):			
Interest income	0	125	1
Operational revenue on the designated assets for clearing funds	508	38,936	330
Interest expenses (Note 7)	(31,457)	—	—
Commitment fees	(38,095)	(38,377)	(325)
Commission fees	—	(28,500)	(241)
Fees for fund operation of designated assets for clearing funds	(9,609)	(8,876)	(75)
Loss on disposal of property and equipment	(35,548)	(19,273)	(163)
Loss on disposal of intangible assets	(6,445)	(26,489)	(224)
Nonrecurring depreciation of property and equipment (Note 9)	—	(185,093)	(1,570)
Others, net	226	113	0
Total	(120,420)	(267,435)	(2,269)
Income before Income Taxes	4,735,509	4,404,515	37,383
Income Taxes (Note 10)			
Current	1,752,475	1,787,090	15,167
Deferred	(138,348)	(34,532)	(293)
Net Income	¥ 3,121,382	¥ 2,651,958	\$ 22,508
Yen			
U.S. dollars (Note 4)			
Per Share (Note 15):			
Net income—primary	¥365,197.98	¥311,995.13	\$2,648
Dividends	35,000	40,000	339
Weighted-average number of common stock shares outstanding (in shares)			
	8,500	8,500	—

The accompanying notes are an integral part of these statements.



## CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Japan Securities Depository Center, Inc.  
For the years ended March 31, 2006 and 2007

¥ (thousands)

	Number of common stock shares	Common stock	Capital surplus	Retained earnings	Total shareholders' equity	Total net assets
Balance as of March 31, 2005	8,500	¥4,250,000	¥4,250,000	¥2,960,609	¥11,460,609	¥11,460,609
Cash dividends	—	—	—	(212,500)	(212,500)	(212,500)
Bonuses to executives	—	—	—	(17,400)	(17,400)	(17,400)
Net income for the year	—	—	—	3,121,382	3,121,382	3,121,382
Balance as of March 31, 2006	8,500	4,250,000	4,250,000	5,852,092	14,352,092	14,352,092
Cash dividends	—	—	—	(297,500)	(297,500)	(297,500)
Bonuses to executives	—	—	—	(17,200)	(17,200)	(17,200)
Net income for the year	—	—	—	2,651,958	2,651,958	2,651,958
Balance as of March 31, 2007	8,500	¥4,250,000	¥4,250,000	¥8,189,350	¥16,689,350	¥16,689,350

\$ (thousands) (Note 4)

	Number of common stock shares	Common stock	Capital surplus	Retained earnings	Total shareholders' equity	Total net assets
Balance as of March 31, 2006	8,500	\$36,071	\$36,071	\$49,669	\$14,352,092	\$14,352,092
Cash dividends	—	—	—	(2,525)	(2,525)	(2,525)
Bonuses to executives	—	—	—	(145)	(145)	(145)
Net income for the year	—	—	—	22,508	22,508	22,508
Balance as of March 31, 2007	8,500	\$36,071	\$36,071	\$69,507	\$ 141,651	\$ 141,651

The accompanying notes are an integral part of these statements. The Consolidated Statements of Changes in Net Assets for the fiscal year ended March 31, 2005 and 2006, are presented under the new standard.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

Japan Securities Depository Center, Inc.  
For the years ended March 31, 2006 and 2007

	¥ (thousands)		\$ (thousands) (Note 4)
	2006	2007	2007
<b>Cash Flows from Operating Activities:</b>			
Income before income taxes	¥ 4,735,509	¥ 4,404,515	\$ 37,383
Depreciation and amortization	3,732,944	3,871,462	32,859
Nonrecurring depreciation of property and equipment	—	185,093	1,570
Increase in accrued employees' bonuses	14,355	51,316	435
Increase in accrued executives' bonuses	—	20,300	172
Increase in accrued employees' retirement benefits	27,259	34,900	296
Increase (decrease) in accrued executives' retirement benefits	5,580	(12,720)	(107)
Interest income	(0)	(125)	(1)
Interest expense	31,457	—	—
Foreign exchange loss	—	91	0
Loss on disposal of property and equipment	35,548	19,273	163
Loss on disposal of intangible assets	6,445	26,489	224
Decrease in accounts receivable—trade	430,490	170,875	1,450
(Decrease) increase in accounts payable—trade	(455,858)	52,306	443
(Increase) in other assets	(15,916)	(134,823)	(1,144)
Increase (decrease) in other liabilities	136,111	(253,334)	(2,150)
Executives' bonuses	(17,400)	(17,200)	(145)
Subtotal	8,666,527	8,418,423	71,451
Interest and dividends received	0	125	1
Interest paid	(18,151)	—	—
Income taxes paid	(257,216)	(2,377,489)	(20,178)
Income taxes refunded	76,412	—	—
Net Cash Provided by Operating Activities	8,467,571	6,041,058	51,273
<b>Cash Flows from Investing Activities:</b>			
Payments for purchases of property and equipment	(255,017)	(1,564,250)	(13,276)
Proceeds from sales of property and equipment	—	75	0
Payments for purchases of intangible assets	(2,908,309)	(3,224,463)	(27,367)
Payment of guarantee money deposits received	(19,399)	(33,578)	(284)
Proceeds from refund of guarantee money deposits	64,151	62,980	534
Net Cash Flows Used in Investing Activities	(3,118,574)	(4,759,235)	(40,394)
<b>Cash Flows from Financing Activities:</b>			
Repayment of short-term debt	(4,500,000)	—	—
Cash dividends paid	(212,500)	(297,500)	(2,525)
Net Cash Flows Used in Financing Activities	(4,712,500)	(297,500)	(2,525)
Effect of exchange rate changes on cash and cash equivalents	—	(91)	(0)
Net Increase in Cash and Cash Equivalents	636,497	984,231	8,353
Cash and Cash Equivalents at Beginning of Year	1,203,318	1,839,815	15,615
Cash and Cash Equivalents at End of Year	¥ 1,839,815	¥ 2,824,047	\$ 23,969

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

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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

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#### (1) Consolidation

The consolidated financial statements include the accounts of Japan Securities Depository Center, Inc. and its wholly-owned subsidiary, JASDEC DVP Clearing Corporation (hereafter, “JDCC”) which is the only subsidiary of the Company. JDCC operates under a fiscal year ending 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, which 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. Cash and cash equivalents in consolidated balance sheets and consolidated statement of cash flows are identical in the financial statements.

#### (3) Property and equipment

Depreciation for buildings, excluding improvements, is computed on the straight-line method. Depreciation for other capital assets is computed on the declining-balance method.

The main estimated useful lives are as follows:

Buildings	3–49 years
Tools and furniture	2–15 years

#### (4) Software cost

Costs of software for internal use are capitalized and amortized on the straight-line method over the estimated useful life of five years. Software regarding physical stock certificates, which is to be made redundant after dematerialization of stock certificates, is estimated to be useful until January 2009, the date which all interested parties have set as the target for the commencement of dematerialization.

#### (5) Accrued bonuses

Accrued employees’ bonuses represent liabilities estimated as of the balance sheet dates. Accrued executives’ bonuses are reported based on the estimated amount of payment as of March 31, 2007.

Effective from the year ended March 31, 2007, the Company has applied the “Accounting Standard for Directors’ Bonuses” (ASBJ Statement No. 4 issued on November 29, 2005, by the Accounting Standards Board of Japan). This effect was to decrease operating income and income before income taxes by ¥20,300 thousand (\$172 thousand) compared with the corresponding amounts which would have been recorded if the previous method had been applied.

#### (6) Severance indemnity benefits

The Company has a severance indemnity plan covering all employees who meet the 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 based on the Company’s internal rules and regulations on these benefits. The executives’ retirement benefits plan was abolished on June 20, 2006. Accrued executives’ retirement benefits are

scheduled amounts for payment discontinued retroactive to the time of plan abolishment for those executives who had been in service since the plan was applied. Payments are applied only for the period of service up to June 20, 2006.

**(7) Finance leases**

In the normal course of business, the Company enters 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) 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 assets may not be recoverable. An impairment loss is recognized in the Statement of Income 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. However, earlier adoption was permitted for fiscal years beginning April 1, 2004 and for fiscal years ending between March 31, 2004 and March 30, 2005. The Company has applied this new standard as well as “Guidance for Accounting Standards for Impairment of Non-current Assets” (the Accounting Standards Board of Japan issued Financial Accounting Standards Implementation Guidance No. 6, October 31, 2003) for the fiscal year ended March 31, 2006. The Company’s profit and loss are not influenced by this standard.

**(9) Accounting standard for presentation of Net Assets in the Balance Sheet**

Effective from the year ended March 31, 2007, the Company has applied “Accounting standards for presentation of Net Assets in the Balance Sheet (Accounting Standards Board of Japan Statement No. 5)”, and “Implementation Guidance for Accounting Standards for Presentation of Net Assets in the Balance Sheet (Accounting Standards of Japan Guidance No. 8)”, both issued by the Accounting Standard Board of Japan on December 9, 2005.

The amount corresponding to the conventional “Shareholders’ equity” in the balance sheet is ¥16,689,350 thousand (\$141,651 thousand).

“Net assets” in the balance sheets for this year is presented according to the revision of “Regulations Concerning the Terminology, Form and Presentation Methods of Consolidated Financial Statements” dated April 25, 2006. Furthermore, the Company presented its net assets in the balance sheets using the new presentation as of March 31, 2005 and 2006.

**(10) 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 the relevant accounts in the accompanying statements of income. The consumption taxes withheld and paid are recorded as an asset or a liability, as the case may be, and the net balance is shown in the balance sheets.

**(11) Appropriation of retained earnings (for the fiscal year ended March 31, 2006)**

Under the Japanese Commercial Code (currently, Companies Act) 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) are approved at the shareholders’ meeting, which must be held within three months of 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, 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 executives is made out of retained earnings instead of being charged to income for the year, and constitutes a part of the appropriations cited above.

**3.****ASSETS AND LIABILITIES HELD FOR SOUND SETTLEMENT SYSTEM OPERATION AND MANAGEMENT**

In order to secure the Delivery Versus Payment (“DVP”) for Non-Exchange Transaction Deliveries (“NETDs”) settlement system, JDCC, a consolidated subsidiary of the Company, receives cash or securities as collateral from the DVP participants whom JDCC officially acknowledges as a party who undertakes securities obligations in accordance with the provisions set in JDCC’s general provisions in accordance with Article 156, Paragraph 7-1, of the Securities Exchange Law (Law No. 25, 1948).

JDCC manages cash and securities entrusted by the DVP participants as clearing funds defined in Article 156-11 of the Securities Exchange Law separately from other assets in accordance with Article 7 of the cabinet ordinance related to securities clearing agencies (Cabinet Ordinance No. 76, 2002).

**(1) Participant fund specified assets and participant funds under management**

Under the DVP for the NETDs settlement system, when JDCC accepts obligations from DVP participants, the DVP participants involved in the transactions make JDCC responsible for payment obligations and the content thereof.

JDCC requires each DVP participant to establish a participant fund in excess of the necessary amount set forth in JDCC’s general provisions to ensure that the respective obligations of DVP participants are covered. The aggregate amount of participant funds entrusted to JDCC as of March 31, 2006 and 2007 was ¥15,000,000 thousand (\$127,312 thousand). In the event a DVP participant defaults on the required payment obligations of the DVP for the NETDs settlement system, JDCC shall take deposits from the participant fund of this DVP participant to fulfill its obligations to other DVP participants.

The participant funds entrusted to JDCC will be managed as money trusts, in line with the stated general provisions of JDCC.

The evaluation technique applied to money trusts will be the cost basis for investments with no market value, a process corresponding to that used for other marketable securities.

Assets and liabilities pertaining to participant funds are expressed as line items for this purpose, with assets indicated as designated assets for clearing assets, and liabilities indicated as deposits received for clearing funds.

**(2) Collateral securities**

Under the DVP for the NETDs settlement system, DVP participants are able to entrust marketable securities listed in JDCC’s general provisions (hereafter, “collateral securities”) to ensure that obligations to JDCC are met.

When a DVP participant fails to meet its obligations to JDCC, JDCC is authorized to dispose of the entrusted collateral securities by selling them in securities markets or through other methods deemed appropriate by JDCC.

As of March 31, 2006 and 2007, the market value of collateral securities entrusted to JDCC was ¥140,341,857 thousand and ¥141,106,397 thousand (\$1,197,643 thousand), respectively.

**4.****US DOLLAR AMOUNTS**

Amounts in U.S. dollars are included solely for the convenience of readers outside Japan. The rate of ¥117.82=US\$1, the rate of exchange as of March 31, 2007, 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 this or any other rate.

**5.****COMMITMENT LINE AND OVERDRAFT CONTRACTS**

To ensure agile and stable fund-raising, the Company concludes commitment line agreements (¥12,000,000 thousand (\$101,850 thousand) in total) and overdraft contracts (¥5,000,000 thousand (\$42,437 thousand) in total) with three banks. To prepare for a possible deficiency of funds due to a default by DVP participants, JDCC has concluded commitment line agreements (¥45,000,000 thousand (\$381,938 thousand) in total) with three banks, as part of a liquid fund for completing fund settlement on the required day. The Company did not utilize them for the year ended March 31, 2007.

**6.****LEASE TRANSACTIONS**

Finance lease transactions, other than those in which the ownership of the leased asset is 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, 2006 and 2007, is as follows:

	¥ (thousands)		\$ (thousands)
	2006	2007	2007
Tools and furniture:			
Acquisition cost	¥ 267,272	¥ 267,272	\$ 2,268
Accumulated depreciation	(148,786)	(202,929)	(1,722)
Net book value	¥ 118,486	¥ 64,343	\$ 546

The scheduled maturities of future lease payments, including the portion of interest thereon, on such lease contracts as of March 31, 2006 and 2007, are as follows:

	¥ (thousands)		\$ (thousands)
	2006	2007	2007
Due within one year	¥ 54,803	¥50,985	\$432
Due over one year	66,247	15,261	129
Total	¥121,050	¥66,247	\$562

Finance lease charges as well as depreciation and interest amounts (in equivalent data) for the years ended March 31, 2006 and 2007, are as follows:

	¥ (thousands)		\$ (thousands)
	2006	2007	2007
Finance lease charges	¥56,132	¥56,377	\$478
Depreciation (in equivalent data)	53,909	54,142	459
Interest (in equivalent data)	2,421	1,574	13

Note: Methods applied in computation of the equivalent data are as follows.

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, allocated for the lease contract period based on the interest rate method.

**7.****DEBTS AND OTHER BORROWINGS**

Short-term debts comprised loans from banks with a weighted-average interest rate of 1.675% per annum and fully repaid during the year ended March 31, 2006. The Company does not have any debts or borrowings at March 31, 2006 and 2007.

**8.****ACCRUED SEVERANCE INDEMNITIES FOR EMPLOYEES**

Accrued employees' retirement benefits on March 31, 2006 and 2007, represented the amount that would be payable for the Company if all eligible employees voluntarily terminated their employment at the balance sheet dates. Severance costs for employees charged to income for the years ended March 31, 2006 and 2007, amounted to ¥39,860 thousand and ¥62,397 thousand (\$529 thousand), respectively. The Company has adopted a defined benefit pension plan as well as lump-sum retirement allowance plan.

**9.****NONRECURRING DEPRECIATION OF PROPERTY AND EQUIPMENT**

Nonrecurring depreciation of property was caused by depreciation, as a result of the decision to remove a self-power generator at the main computer site.

	¥ (thousands)	\$ (thousands)
	2007	2007
Buildings	¥185,093	\$1,570

## 10. 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 40.6% for the years ended March 31, 2006 and 2007. Reconciliation between the nominal statutory income tax rate and the effective income tax rate in the consolidated statements of income for the year ended March 31, 2006, is as follows:

	2006
Nominal statutory income tax rate	40.6%
Adjustments:	
Permanent nondeductible difference	0.2
Equal proportion of inhabitant taxes	0.1
Income tax credit on investment in IT	(7.0)
Other, net	0.1
Effective income tax rate	34.1%

The above table is omitted for the year ended March 31, 2007, since the difference between a nominal statutory tax rate and effective income tax rate is less than 5% of the nominal statutory tax rate.

### Breakdown of Deferred Tax Assets

	¥ (thousands)		\$ (thousands)
	2006	2007	2007
Deferred tax assets:			
Accrued bonuses	¥ 52,599	¥ 73,433	\$ 623
Enterprise tax payable	140,503	68,527	581
Unpaid social insurance premiums	6,569	9,171	77
Business facility tax	3,135	3,515	29
Accrued retirement benefits to employees	32,280	46,450	394
Accrued retirement benefits to executives	24,701	19,536	165
Excess depreciation of fixed assets	66,195	137,528	1,167
Excess deferred asset depreciation for tax purposes	17,781	20,135	170
Deferred tax assets	¥343,766	¥378,299	\$3,210

## 11. CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

### (1) Outstanding Stock

Type of stocks	2006	Increase	Decrease	2007
Ordinary share	8,500	—	—	8,500

### (2) Treasury Stock

Not applicable.

### (3) Stock Subscription Rights and Other Securities

Not applicable.

### (4) Dividends

#### 1. Payment of dividends

Resolution	Type of stocks	Total of dividends ¥ (thousands)	Dividend per share ¥	Record date	Effective date
Ordinary General Shareholders' Meeting (June 20, 2006)	Ordinary Share	¥297,500	¥35,000	March 31, 2006	June 21, 2006

2. Dividends for which record date is for the year ended March 31, 2007 and for which effective date will be for the year ending March 31, 2008

Resolution	Type of stocks	Revenue of dividends	Total of dividends ¥ (thousands)	Dividend Per share ¥	Record date	Effective date
Ordinary General Shareholders' Meeting (June 21, 2007)	Ordinary Share	Retained Earnings	¥340,000	¥40,000	March 31, 2007	June 22, 2007

## 12. STOCK OPTION

Not applicable.

## 13. SEGMENT INFORMATION

### (1) Business segment

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

### (2) Geographic information

The Company has no overseas consolidated subsidiaries and no overseas branches for the years ended March 31, 2006 and 2007.

### (3) Overseas sales

The Company does not have any overseas sales for the years ended March 31, 2006 and 2007.

## 14. RELATED PARTY TRANSACTIONS

The material transactions of the Company with related companies or individuals, excluding transactions with the consolidated subsidiary that are excluded from the consolidated financial statements, and other than those disclosed elsewhere in these financial statements, for the years ended March 31, 2006 and 2007, are as follows:

### (1) Directors

As of March 31, 2006						¥ (thousands)
Title	Name	Business	Transactions	Amount	Account	Ending balance
Director	Toshitsugu Shimizu (Note 2 (1))	Director of the Company, President and CEO of Japan Securities Settlement & Custody, Inc.	Outsourcing	¥2,357,861	Account payable—trade	¥88,369
			Use of equipment	¥63	—	—
Director	Fumiyuki Akikusa (Note 2 (2))	Director of the Company, Managing Director of The Bank of Tokyo–Mitsubishi, Ltd.	Interest on borrowings (Note 2 (4))	¥7,243	Short-term debt	¥1,925,000
			Commitment fee	¥3,744	—	—

Notes: 1. The transaction amounts above exclude consumption tax. However, ending balance includes consumption tax.

2. Terms and conditions

(1) These amounts include transactions with Japan Securities Settlement & Custody, Inc. (JSSC) for the period from April 1, 2005, to March 31, 2006.

(2) These amounts include transactions for the period from April 1, 2005, to June 21, 2005, because Fumiyuki Akikusa resigned from the Board of Directors of the Company, and ending balance is the amount as of June 21, 2005.

(3) The terms and conditions of the above transactions are on an arm's-length basis.

(4) Interest on borrowing is determined based on the market interest rate from banks.



As of March 31, 2007

¥ (thousands)

Titles	Name	Business	Transactions	Amount	Account	Ending balance
Director	Toshitsugu Shimizu (Note 2 (1))	Director of the Company, President and CEO of Japan Securities Settlement & Custody, Inc.	Outsourcing	¥622,184 (\$5,280 thousand)	Account payable—trade	¥217,764 (\$1,848 thousand)
Director	Koichiro Miyahara (Note 2 (2))	Director of the Company, President and CEO of Japan Securities Settlement & Custody, Inc.	Outsourcing	¥1,776,408 (\$15,077 thousand)	Account payable—trade	¥123,113 (\$1,044 thousand)

Notes: 1. The transaction amounts above exclude consumption tax. However, ending balance includes consumption tax.

2. Terms and conditions

(1) These amounts include transactions for the period from April 1, 2006, to June 30, 2006, because Toshitsugu Shimizu resigned from the Board of Directors of the Company on June 20, 2006, and ending balance is the amount as of June 30, 2006.

(2) These amounts include transactions for the period from July 1, 2006, to March 31, 2007, because Koichiro Miyahara was assigned to the Board of Directors of the Company on June 23, 2006.

(3) The terms and conditions of the above transactions are on an arm's-length basis.

## (2) Principal shareholder and its subsidiaries

As of March 31, 2006

¥ (thousands)

Name of company	Address	Capital	Principal business	Percentage of ownership with voting rights	Relationship		Amount of transactions (Note 1)	Descriptions (Note 2)	Ending balance	
					Directors holding concurrent positions	Business relationship				
Japan Securities Clearing Corporation (Subsidiary of other affiliates)	Chuo-ku, Tokyo	¥1,700,000	Clearing securities	—	Three	Commission income	Commission income	¥4,656,889	Accounts receivable—trade	¥564,292
Japan Securities Settlement & Custody, Inc. (Subsidiary of other affiliates)	Chuo-ku, Tokyo	¥300,000	Custody & settlement of securities	—	One	Outsourcing	Outsourcing  Use of equipment	¥2,357,861  ¥63	Accounts payable—trade  —	¥88,369  —

Notes: 1. These transaction amounts above exclude consumption tax. However, ending balance includes consumption tax.

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

As of March 31, 2007

¥ (thousands)

Name of company	Address	Capital	Principal business	Percentage of ownership with voting rights	Relationship		Amount of transactions (Note 1)	Descriptions (Note 2)	Ending balance
					Directors holding concurrent positions	Business relationship			
Tosho System Service Co. Ltd. (Subsidiary of other affiliates)	Koto-ku, Tokyo	¥100,000	Design & development of software	—	—	Purchase of software, maintenance of systems, etc.	Purchase of software (\$12,364 thousand)	Accounts payable—trade  Other account payable	¥19,316 (\$163 thousand) ¥8,221 (\$69 thousand)
Japan Securities Clearing Corporation (Subsidiary of other affiliates)	Chuo-ku, Tokyo	¥1,700,000	Clearing securities	—	One	Commission income	Commission income (\$32,908 thousand)	Accounts receivable—trade	¥462,939 (\$3,929 thousand)
Japan Securities Settlement & Custody, Inc. (Subsidiary of other affiliates)	Chuo-ku, Tokyo	¥300,000	Custody & settlement of securities	—	One	Outsourcing	Outsourcing (\$20,358 thousand)	Accounts payable—trade	¥123,113 (\$1,044 thousand)

Notes: 1. These transaction amounts above exclude consumption tax. However, ending balance includes consumption tax.

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

**15.****NET INCOME PER SHARE**

The basis for calculating earnings per share for the years ended March 31, 2006 and 2007, is as follows:

	¥ (thousands)		\$ (thousands)
	2006	2007	2007
Net income as reported in the consolidated statements of income	¥3,121,382	¥2,651,958	\$22,508
Directors' bonuses through the appropriation of retained earnings	17,200	—	—
Net income pertaining to common stock shareholders	¥3,104,182	¥2,651,958	\$22,508
Weighted-average number of common stock shares outstanding (in shares)	8,500	8,500	—

**16.****SUBSEQUENT EVENTS****Acquisition of Stocks of Affiliated Company:**

On February 23, 2007, the Board of Directors of the Company resolved to acquire 20% of the outstanding stock of TOSHO SYSTEM SERVICE CO., LTD. (TSS) to make TSS the Company's affiliated company. On May 15, 2007, the Company concluded a purchasing contract with Tokyo Stock Exchange, Inc., and acquired 400 shares of TSS on May 18, 2007.

**(1) The Purpose of Share Acquisition**

The Company's system operations are based on its recognition that a secure and efficient system is necessary for implementing services of a Central Securities Depository ("CSD") as a matter of public infrastructure. Since the system's importance is expected to further increase as the scope of the Company's business services is going to expand and becomes more sophisticated, the Company has decided to strengthen relations with TSS by acquiring its stock, and to further improve the safety and efficiency of system operations.

**(2) Overview of TSS**

Company Name: TOSHO SYSTEM SERVICE CO., LTD.

Capital: ¥100,000 thousand (\$848 thousand)

Business: (a) Designing, development, maintenance, sales and selling agent services of computer software, and also information processing in trust  
 (b) Administration, operation and maintenance services of computer systems  
 (c) Dispatching service of system engineers  
 (d) Consulting service of IT, quality management systems and the like  
 (d) Leasing, sales and selling agent services of computer equipment  
 (e) Telecommunications service specified in the Telecommunications Services Law

## Report of Independent Auditors

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

We have audited the accompanying consolidated balance sheets of Japan Securities Depository Center, Inc., and its subsidiary as of March 31, 2006 and 2007, and the related consolidated statements of income, changes in net assets, and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Japan Securities Depository Center, Inc., and its subsidiary as of March 31, 2006 and 2007, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles and practices generally accepted in Japan.

As described in Note 2. (5), effective for the year ended March 31, 2007, Japan Securities Depository Center, Inc., and its subsidiary changed their accounting policy for Accrued executives' bonuses.

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 4 to the accompanying consolidated financial statements.

*Misuzu Audit Corporation*

Misuzu Audit Corporation  
Tokyo, Japan  
June 21, 2007

## BOARD MEMBERS AND AUDITORS

As of June 30, 2007

### BOARD OF DIRECTORS



**PRESIDENT & CEO**  
Yoshinobu Takeuchi  
*President, JASDEC DVP  
Clearing Corporation*

**MANAGING DIRECTOR**  
Shoji Murata

**MANAGING DIRECTOR**  
Shigeru Omae  
*Managing Director,  
JASDEC DVP Clearing  
Corporation*

**MANAGING DIRECTOR**  
Seikichi Ihara  
*Managing Director,  
JASDEC DVP Clearing  
Corporation*

**MANAGING DIRECTOR**  
Yoshinori Seyama  
*Managing Director,  
JASDEC DVP Clearing  
Corporation*



**DIRECTOR**  
Kunihisa Hama  
*Lawyer*

**DIRECTOR**  
Ryusaburo Harasawa  
*Managing Director,  
The Bank of Tokyo–Mitsubishi UFJ, Ltd.*

**DIRECTOR**  
Junichi Kitamura  
*Managing Director,  
Head of Operations,  
Nikko Citigroup Limited*



**DIRECTOR**  
Shigeyuki Maeda  
*Professor of Law,  
Professional School of Law (Law School),  
Professional Course in Law,  
Gakushuin University*

**DIRECTOR**  
Eisuke Marumori  
*Managing Executive Officer,  
Mizuho Trust & Banking,  
Co., Ltd.*

**DIRECTOR**  
Kenichi Miki  
*Executive Officer,  
Daiwa Securities SMBC Co., Ltd.*



DIRECTOR  
Hironaga Miyama  
*Senior Executive Officer,  
Tokyo Stock Exchange, Inc.*

DIRECTOR  
Miyuki Nagahara  
*Managing Director,  
Head of Operations,  
UBS Securities Japan Ltd.*

DIRECTOR  
Takashi Sato  
*Managing Executive Officer,  
Mizuho Corporate Bank, Ltd.*



DIRECTOR  
Masaru Takei  
*Managing Director, Tokyo  
Electric Power Company*

DIRECTOR  
Yusuke Yamada  
*Executive Managing Director,  
Nomura Securities Co., Ltd.*

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

AUDITORS



STANDING AUDITOR  
Akemi Sasaki  
*Auditor, JASDEC DVP Clearing  
Corporation*

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

AUDITOR  
Koichi Miyata  
*Managing Director,  
Head of Treasury Unit,  
Sumitomo Mitsui Banking  
Corporation*

## HISTORY

<b>MAY 1984</b>	The Law Concerning Central Securities Depository and Book-Entry Transfer of Stock 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).
<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>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 Banks approved JASDEC as an eligible foreign custodian.
<b>SEP. 2000</b>	JASDEC constructed a back-up center in Osaka.
<b>MAY 2001</b>	JASDEC launched its system for delivery-versus-payment (DVP) settlement of exchange trades in Tokyo and Osaka.
<b>SEP. 2001</b>	JASDEC implemented the Pre-Settlement Matching System (PSMS) for domestic trades by domestic institutional investors.
<b>JAN. 2002</b>	Japan Securities Depository Center, Inc., was established.
<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 Banks approved the new incorporated entity as an eligible foreign custodian.
<b>JAN. 2003</b>	The Law Concerning Book-Entry Transfer of Corporate Bonds, etc. became effective and JASDEC was designated as a transfer institution under the law.
<b>MAR. 2003</b>	JASDEC launched the Securities Information Tracing System (SITRAS) for lost stocks.  JASDEC inaugurated its Commercial Paper book-entry system.
<b>JUN. 2003</b>	JASDEC established JASDEC DVP Clearing Corporation (JDCC) to undertake clearing services related to DVP settlement services for non-exchange transaction deliveries (NETDs).
<b>AUG. 2003</b>	JASDEC signed a memorandum of understanding with The Depository Trust & Clearing Corporation of the United States.
<b>APR. 2004</b>	JDCC acquired a licence for a securities clearing agency, enabling it to undertake securities obligations.
<b>MAY 2004</b>	JASDEC commenced DVP settlement services for NETDs.
<b>JUN. 2004</b>	The Law for Partial Amendments to the Law Concerning Book-Entry Transfer of Corporate Bonds and Other Securities for the purpose of streamlining the settlement for trades of stocks and other securities was promulgated.
<b>NOV. 2004</b>	JASDEC signed a memorandum of understanding with Taiwan Securities Central Depository Co., Ltd. (currently Taiwan Depository & Clearing Corporation (TDCC)).
<b>FEB. 2005</b>	JASDEC signed a memorandum of understanding with Korea Securities Depository (KSD).
<b>JUN. 2005</b>	JASDEC signed a memorandum of understanding with China Securities Depository and Clearing Corporation Limited (CSD&C).
<b>JAN. 2006</b>	JASDEC inaugurated its book-entry transfer system for Corporate Bonds.
<b>APR. 2006</b>	JASDEC inaugurated its depository and book-entry transfer system for foreign stocks.
<b>JAN. 2007</b>	JASDEC inaugurated its depository and book-entry transfer system for investment trusts.





JAPAN SECURITIES DEPOSITORY CENTER, INC.



Uses soybean ink in consideration of the environment

*Printed in Japan on recycled paper*