

Analysis of Business Performance and Financial Results

■ Business Overview

Fiscal 2007 Review

In the first half of the fiscal 2007, ended March 31, 2008, the corporate sector of the Japanese economy benefited from buoyant external demand reported good results. Capital investment maintained an upward trend, while an improvement was also seen in the employment conditions. In the latter half, however, the employment situation showed a loss of improvement momentum. By the fiscal year end, faced with negative factors such as downside risks in the U. S. economy, a surge in the price of crude oil, and a sharp appreciation of the yen against the U. S. dollar, the corporate sector, which has been the primary driver of growth, began to show signs of weakness, and the recovery of the Japanese economy eventually appears to be pausing.

In the Japanese securities markets, both the stock and corporate bond markets maintained steady performance during the first six months in response to solid fundamentals of the corporate sector. In the second half of the fiscal year, however, Japanese stock prices were affected by sparked concerns in global financial markets in the wake of the U. S. sub-prime loan crisis. The Nikkei Average declined sharply, closing below the psychological ¥12,000 level for the first time in two years and seven months.

Meanwhile, Tokyo Stock Exchange witnessed active trading with average daily trading volume of over two billion shares. Driven by the volume growth, the number of shares handled by book-entry transfer system under JASDEC depository and the custody balance increased steadily.

■ Financial Results

Operating Income

As a result, income from account transfer operations, on a consolidated basis, posted ¥13,603 million (up 5.1% year-over-year). The custody balance also increased steadily, and income from custody operations came to ¥5,781 million (up 3.9% year-over-year). Operating income prior to commission rebates was ¥28,027 million (up 8.2% year-over-year) and commission rebates amounted to ¥2,005 million (down 40.0% year-over-year). Consequently, operating income amounted to ¥26,022 million (up 15.3% year-over-year).

Operating Expenses

Operating expenses for fiscal 2007 amounted to ¥21,729 million (up 21.5% year-over-year), due to an increase of cost for the dematerialization of stock certificates, which requires upgrading of computer systems.

As JASDEC provides securities clearing and settlement infrastructure, the depreciation expenses relating to system maintenance amounted to ¥12,578 million, which accounted for 57.9% of total operating expenses.

Net Income

Net income for fiscal 2007 amounted to ¥1,547 million (down 41.6% year-over-year). Earnings per share was ¥182,082.62.

■ Financial Conditions

Total assets as of March 31, 2008, on a consolidated basis, were down by ¥1,197 million from the previous year-end, to ¥54,839 million. This was mainly due to a reduction in designated assets for clearing funds for deposited at our consolidated subsidiary JASDEC DVP Clearing Corporation for securing safe settlements under the DVP settlement system, although tools and furniture, as well as development of software in progress of dematerialization for stock certificate were increased. The assets and liabilities pertaining to participants' funds are presented as designated assets for clearing funds and deposits received for clearing funds, respectively. The balance was ¥29,884 million.

Net assets at the fiscal year-end stood at ¥17,897 million, an increase of ¥1,207 million year-over-year. This was mainly due to the increase in retained earnings.

Net cash provided by operating activities during this financial year, on a consolidated basis, came to ¥8,061 million, which includes income before income taxes of ¥2,613 million, depreciation and amortization of ¥5,604 million, and income tax payments of ¥1,789 million.

Net cash used in investing activities amounted to ¥11,128 million, mainly as a result of capital investment for system of dematerialization for stock certificates. Net cash provided by financing

activities amounted to ¥2,060 million, as cash outflow on dividend payments was more than offset by short-term bank borrowings.

As a result of the foregoing, cash and cash equivalents as of the fiscal year-end stood at ¥1,816 million, down by ¥1,007 million from the previous year.

As Japan's only central securities depository, JASDEC maintains stable development of financial operation with sound financial conditions and a sufficient level of operating cash flow, in order to achieve its public mission of providing reliable and certain infrastructure of securities clearing and settlement.

■ Financial results (on a consolidated basis)

