

New directions
in trade.



Annual Report
For the fiscal year ended March 31, 2005

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About TSE

Profile

Since Tokyo Stock Exchange, Inc. (TSE) was originally founded in 1878, it has functioned as Japan's "central market," playing an important role in the growth and expansion of the nation's economy. In 2004, TSE had an overwhelming 92% share of the total value of all trading on domestic stock exchanges.

TSE had a market value of ¥377 trillion as of the end of March 2005 and a trading value of ¥349 trillion for FY 2004 (year ended March 31, 2005), making it one of the leading stock exchanges in the world in terms of both size and liquidity.

In addition to its core Japanese equity market, TSE provides markets for derivatives products such as Japanese government bond futures and TOPIX futures. Furthermore, TSE offers not only market services, but also settlement and clearing services, market information services, and a wide range of other stock exchange business services.

TSE has led global markets in taking steps toward computerized and automated trading by introducing new systems, which provide unrivaled levels of reliability, capacity, and speed.

TSE makes the utmost effort to maintain abundant liquidity and a high level of integrity as well as providing market participants from Japan and overseas with attractive investment opportunities.

TSE, which became a stock corporation on November 1, 2001, will continue to fortify its earnings capacity and raise the value of its business.

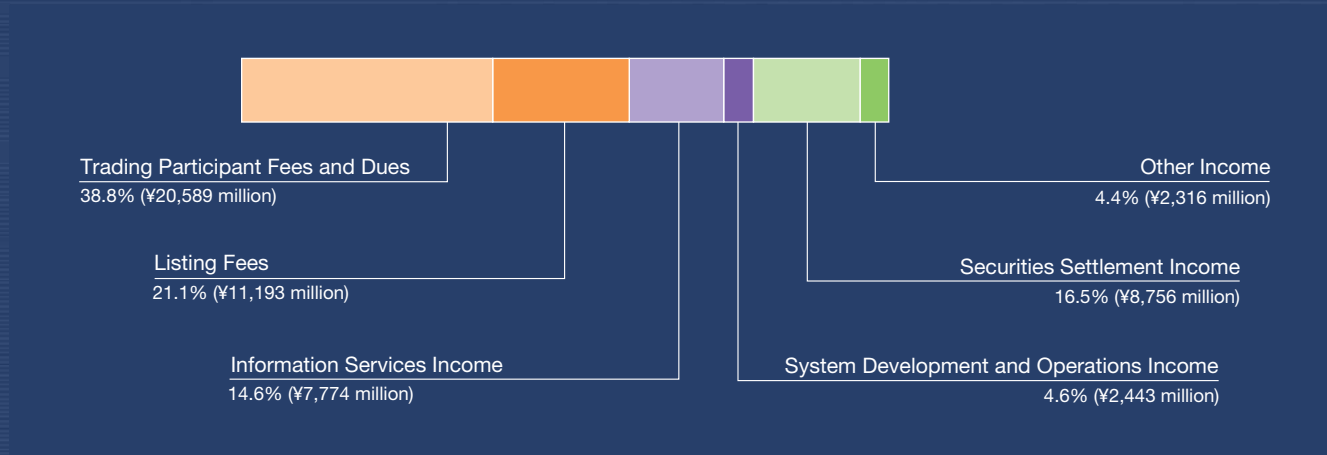
Contents

1	ABOUT TSE	27	OPERATING AND FINANCIAL REVIEW
3	FINANCIAL HIGHLIGHTS	31	CONSOLIDATED BALANCE SHEETS
5	TO OUR SHAREHOLDERS	33	CONSOLIDATED STATEMENTS OF INCOME
9	LISTING DIVISION	34	CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
11	MARKET DIVISION	35	CONSOLIDATED STATEMENTS OF CASH FLOWS
13	SELF-REGULATION DIVISION	36	NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
15	CLEARING AND SETTLEMENT DIVISION	46	REPORT OF INDEPENDENT AUDITORS
17	INFORMATION SERVICES DIVISION	47	MARKET DATA
19	CAPITAL MARKETS PROMOTION DIVISION	49	ORGANIZATION
21	BOARD OF DIRECTORS AND CORPORATE AUDITORS	50	CORPORATE DATA
23	CORPORATE GOVERNANCE		
25	CORPORATE SOCIAL RESPONSIBILITY		

Disclaimer

Descriptions concerning future plans and performance in this annual report are based on the current economic situation and business environment and are subject to change depending upon various factors including, but not limited to, future trends of the Japanese economy and securities markets, changes in legal and other systems, and development of new services and information technology.

Overview of Operating Revenues



Trading Participant Fees and Dues

Trading participant fees and dues are comprised of “fixed rate fees” charged to securities firms and other trading participants in accordance with their type of trading qualification and capitalization, and “variable rate fees” charged according to the trading value of stocks and the trading value or volume of other market instruments. Of these fees, “variable rate fees” depend on market trends.

Listing Fees

Listing fees are comprised of “listing examination fees” received from newly listing applicant companies, “initial listing fees” from newly listed companies for their listing, “fees for issuing new shares” when companies raise capital, and “annual listing fees” based on a company’s market capitalization. Of these fees, the “initial listing fees” and “fees for issuing new shares” are heavily influenced by conditions in the primary market, such as the level of financing.

Information Services Income

Information services income is derived from fees for market information services provided to information vendors and others.

System Development and Operations Income

System development and operations income is comprised of fees received for system development and management provided by Tosho System Service Co., Ltd.

Securities Settlement Income

Securities settlement income is comprised of fees for trade guarantees and other services provided by Japan Securities Clearing Corporation and securities custody and delivery services provided by Japan Securities Settlement and Custody, Inc.

Other Operating Income

Other operating income is derived from activities such as the leasing and maintenance of trading terminals to trading participants.

Financial Highlights

Tokyo Stock Exchange, Inc. and Consolidated Subsidiaries
For years ended March 31

Financial Data

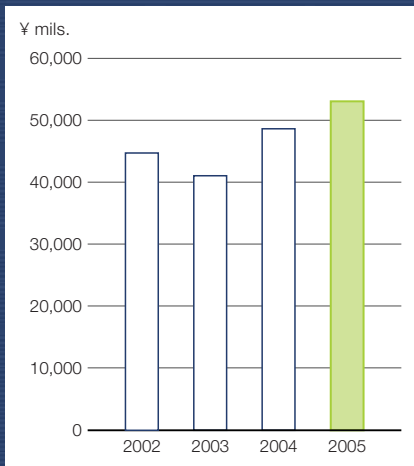
	¥ mils. except per share and ratio data				U.S.\$ thous. except per share and ratio data
	2002	2003	2004	2005	2005
FOR THE YEAR					
Operating revenues	¥ 44,735	¥ 41,065	¥ 48,643	¥ 53,071	\$ 494,191
Operating profit	1,753	2,460	8,206	11,360	105,785
Net income before income taxes and minority interests	1,960	2,859	8,082	7,580	70,588
Net income	844	3,277	5,031	4,978	46,353
YEAR END					
Current assets	¥ 1,319,987	¥ 1,159,208	¥ 1,504,944	¥ 303,760	\$ 2,828,566
Non-current assets	60,160	59,251	63,571	63,598	592,214
Total assets	1,380,147	1,218,459	1,568,515	367,385	3,420,780
Current liabilities	¥ 1,303,977	¥ 1,138,914	¥ 1,484,243	¥ 277,052	\$ 2,579,868
Non-current liabilities	10,951	10,657	10,854	12,660	117,890
Minority interests	—	392	481	622	5,793
Total shareholders' equity	65,219	68,496	72,937	77,024	717,229
Total liabilities and shareholders' equity	1,380,147	1,218,459	1,568,515	367,358	3,420,780
PER SHARE DATA					
EPS	¥ 366.83	¥ 1,424.85	¥ 2,305.44	¥ 2,164.82	\$ 20.16
BPS	28,355.82	29,780.73	31,982.03	33,852.25	315.23
BPS*	20,804.61	22,229.52	24,360.37	26,213.83	244.10
KEY FINANCIAL RATIO					
ROE	1.3%	4.9%	7.1%	6.6%	
ROE*	1.8%	6.6%	9.4%	8.6%	

*Calculated excluding the default compensation reserve funds

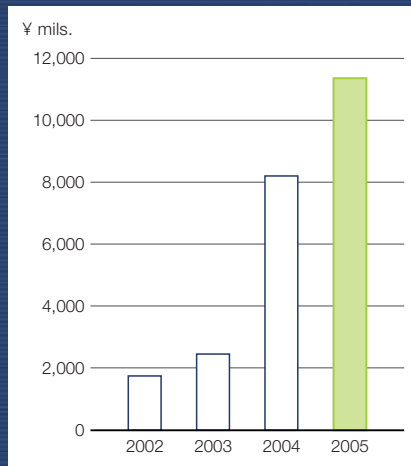
Market Data

FOR THE YEAR					
Domestic equities trading volume (mils. share)	210,910	216,298	355,238	400,413	
Domestic equities trading value (bils.)	¥ 201,189	¥ 181,885	¥ 290,729	¥ 349,059	\$ 3,250
Stock index futures trading value (bils.)	63,955	68,725	97,859	118,593	1,104
JGB futures trading volume (bils.)	700,802	590,559	693,785	829,030	7,720
YEAR END					
Number of listed companies	2,149	2,166	2,237	2,318	
Market capitalization (bils.)	¥ 305,797	¥ 232,862	¥ 369,798	¥ 377,049	\$ 3,511
Index (TOPIX)	1,060.19	788.00	1,179.23	1,182.18	

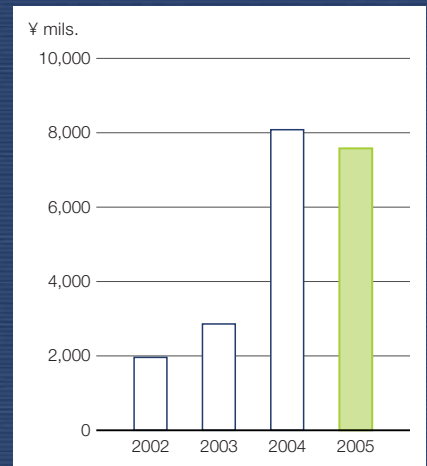
*Rate of U.S.\$1=¥107.39 used for conversion



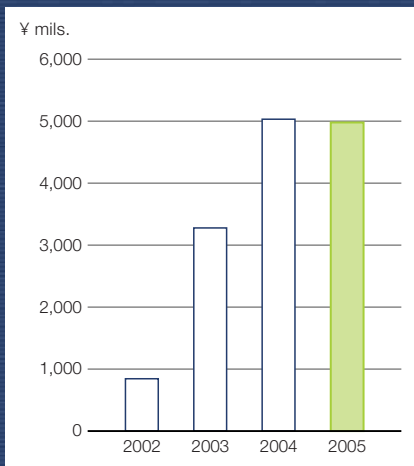
Operating revenues



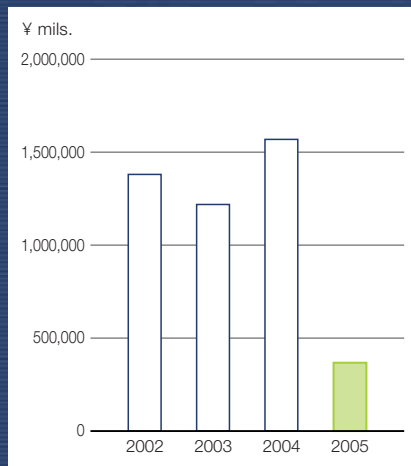
Operating profit



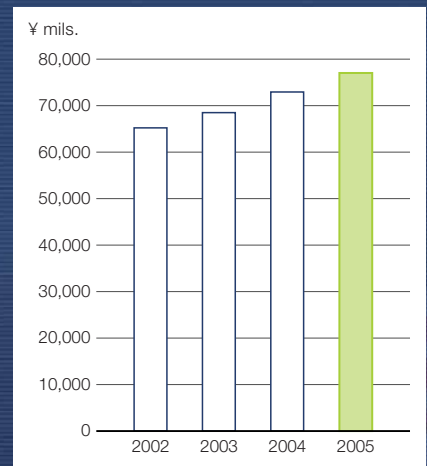
Net income before income taxes and minority interests



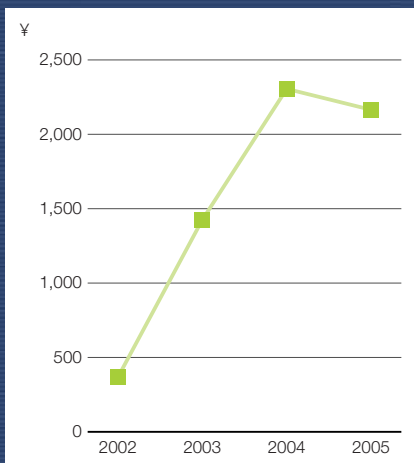
Net income



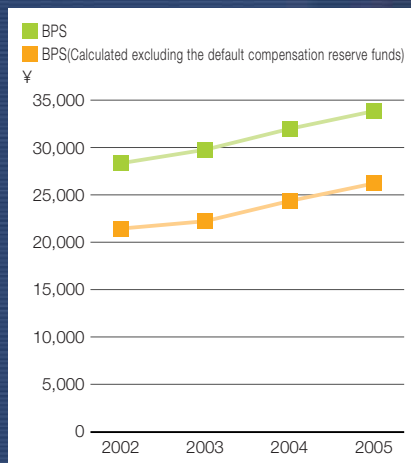
Total assets



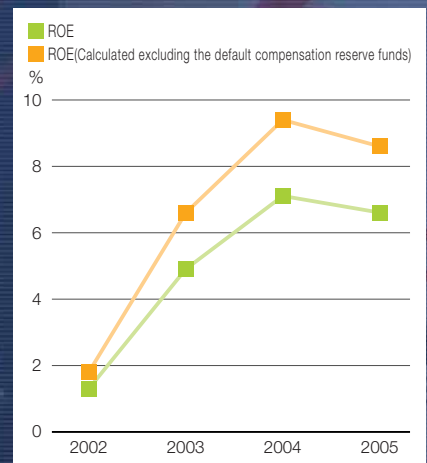
Total shareholders' equity



EPS



BPS



ROE



To Our Shareholders

Takuo Tsurushima
President & CEO

T. Tsurushima

Profile: President & CEO

Mr. Takuo Tsurushima was named president and CEO of TSE in April 2004. Prior to his appointment he served as president of Japan Securities Clearing Corporation from June 2002 to June 2003. Mr. Tsurushima joined TSE in 1961 and over the course of his career at TSE he held the positions of general administration director, executive auditor, managing director, senior managing director, and deputy president.

Securing Record Levels of Profit

I am pleased to report that the year ended March 2005 was a remarkable one for TSE. Active trading resulted in record-high average daily trading values of ¥1.4 trillion which led to record-high operating revenues and operating profits of ¥53.0 billion and ¥11.3 billion, respectively. TSE will endeavor to secure sustainable growth without affecting the current dynamism of the market.

Securing Market Reliability

It goes without saying that our stock market operations are based on the credibility that we have established with investors and other market users. During the term under review, there were cases involving improper disclosure of information by certain listed companies which could potentially be detrimental to investor confidence in the stock market. In response to these matters, we undertook a complete review of the listing system to improve the reliability of company information, including a written oath signed by CEOs declaring their sincere efforts toward timely and appropriate information disclosure to investors. We will continue to strive to enhance the trust in our operations from all market users.

Providing Highly Convenient and Efficient Market Infrastructure

As noted above, there has been a recent surge in daily trading turnover and a subsequent large increase in the number of orders. Against this background, we consider it critical to fully respond to the changing market environment by securing the credibility of the markets by providing participants with a convenient and efficient system infrastructure. In spring 2005, we replaced some of our core systems such as our market information system and our stock trading system, with larger capacity systems, and we will continue to take all necessary steps to respond to changes in our operating environment.

Disseminating Knowledge about Securities and Investment

The term under review marked the start of a new strategy in which we place a great deal of emphasis on educating the public about securities and investment. With the opening of TSE Academy in April 2004, we have strengthened the programs and activities that we offer, and we have seen a strong interest in these programs from the general public. Every effort will be made to help promote the transition from a “savings-oriented” economy to one that is “investment-driven.”

From the Perspective of Market Users

As outlined in our newly established “corporate philosophy,” the foundation of TSE’s operations is firmly rooted in our constant efforts to share the perspective of our market users. Toward this end, we will efficiently implement various measures and policies to further improve the market. We would like to request your continued support and cooperation as we build a better and stronger exchange.

July 2005

Takuo Tsurushima
President & CEO

TSE Corporate Philosophy

We will make every effort to maintain a sound market with high levels of trust and convenience from the standpoint of investors and all market users, thus contributing to the prosperity of the wider society.



New direct in trade

TSE leads the world in liquidity, opportunity, accessibility and reliability. With daily trading value reaching ¥1.4 trillion in 2004, it's ranked among the world's finest exchanges. Listing a range of companies from the firmly established to the high-growth startups of the Mothers market, it offers potential unheard of anywhere else. Overseas investors accounting for more than 50% of brokerage trade speaks volumes about accessibility. And superior systems based on leading-edge technology let users reap the rewards of complete assurance.

ions



Listing Division

TOKYO STOCK EXCHANGE



TSE's Listing Division ensures that investors have trustworthy investment opportunities through stringent listing examinations, continuous regulation of listed companies, as well as comprehensive disclosure support. This maintains the strong brand image of TSE's market and is a foundation for the listing of many high quality companies and attracting orders from a broad range of investors.

New Listings and Fund Raising

In addition to companies' strong desire to go public, TSE's successful promotional activities aided the listing of 127 companies during the year ending March, 2005. Of the 127 companies, 22 companies listed on the First Section, 58 on the Second Section, and 47 on the Mothers market. A great success for our international strategy was that in October of last year Xinhua Finance became the first foreign company to list on the Mothers market.

Against the background of a recovery in corporate capital investments, the amount of financing through issuing stocks rose significantly from ¥718 billion in the previous term to ¥1,421 billion during the current term.

Complete Review of Listing Regulations Aimed at Increasing the Reliability of Corporate Information

During the term under review, there were a number of cases in which certain listed companies did not disclose information properly, which could potentially be damaging to investor trust in the market. In light of these matters, in January 2005, we undertook a total review of our listing regulations to restore and enhance investor trust in the market.

Specifically, our listing regulations stipulate that "listed companies must always strive to disclose corporate information quickly, accurately and fairly from the standpoint of investor's interests, and perform their business operations in good faith." We now require companies to submit a written oath declaring their sincere efforts toward timely and appropriate information disclosure to investors as well as written confirmation stating that to the best of their knowledge there are no false statements in their financial reports. Additionally, we reviewed standards regarding the timely disclosure of information related to unlisted parent companies and the listing examination criteria in relation to the distribution of shares, as well as standards applying to false statements of information in relation to financial statements.

Requiring Quarterly Reporting

Listed companies in Japan have reported their earnings twice a year – at the end of the fiscal year and at the end of the mid-year term, and whenever extra information, such as revisions to earnings forecasts, became available, it was disclosed in a timely fashion. However, in recent years there has been an increasing demand for companies to announce their results quarterly so that investors can evaluate earning trends in a timelier manner.

Therefore, with a grace period of 3 years from April 1, 2004, TSE has been requiring companies to announce their consolidated net sales, operating and ordinary profit, as well as quarterly net income, total assets and shareholders' equity as an attachment to abbreviated versions of their balance sheets and statements of income.

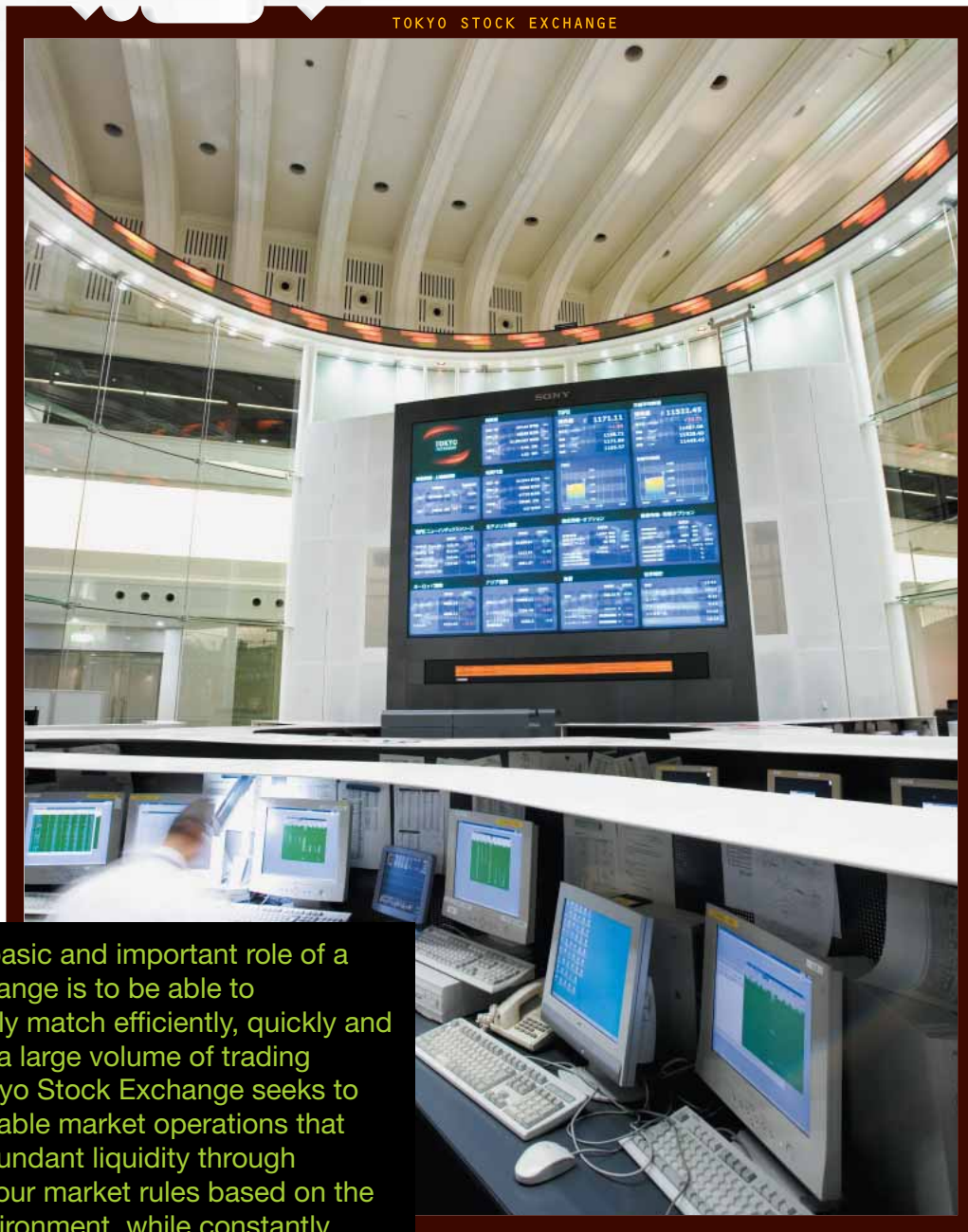
As a result, for the 3rd quarter of the fiscal year ending March 2005, 87.9% of all companies reported abbreviated versions of their balance sheets and statements of income.

Revitalizing the Trading of TSE Listed Foreign Stock

TSE has been conducting promotional activities to revitalize trading in listed foreign stock. In order to improve Japanese investors' image of investment in foreign stock and to attract more foreign companies to list on TSE, we assigned all foreign stock (excluding Mothers stock) to the First Section. At the same time, we have asked major newspapers and information providers to integrate foreign stock into lists of domestic stocks in their media.

M_{arket} Division

(Cash Market, Derivatives Market, and Trading Systems)



The most basic and important role of a stock exchange is to be able to continuously match efficiently, quickly and accurately a large volume of trading orders. Tokyo Stock Exchange seeks to maintain stable market operations that support abundant liquidity through reviews of our market rules based on the market environment, while constantly improving processing capabilities of trading systems.

Record Levels of Market Activity

During the term under review, average daily trading volume rose by 14.1% year-on-year to 1,634.34 million shares, and average daily trading value grew by 21.5% year-on-year to ¥1,424.7 billion, both figures exceed those recorded during the “bubble economy” period. Moreover, average daily trading volume of stock index futures contracts increased by 5.7% from the previous term to 42,347 contracts, and average daily contract value rose by 22.7% from last term to ¥484.0 billion. At the same time, average daily turnover value of JGB futures grew by 21.0% year-on-year to ¥3,383.8 billion.

Replacement of Stock Trading System

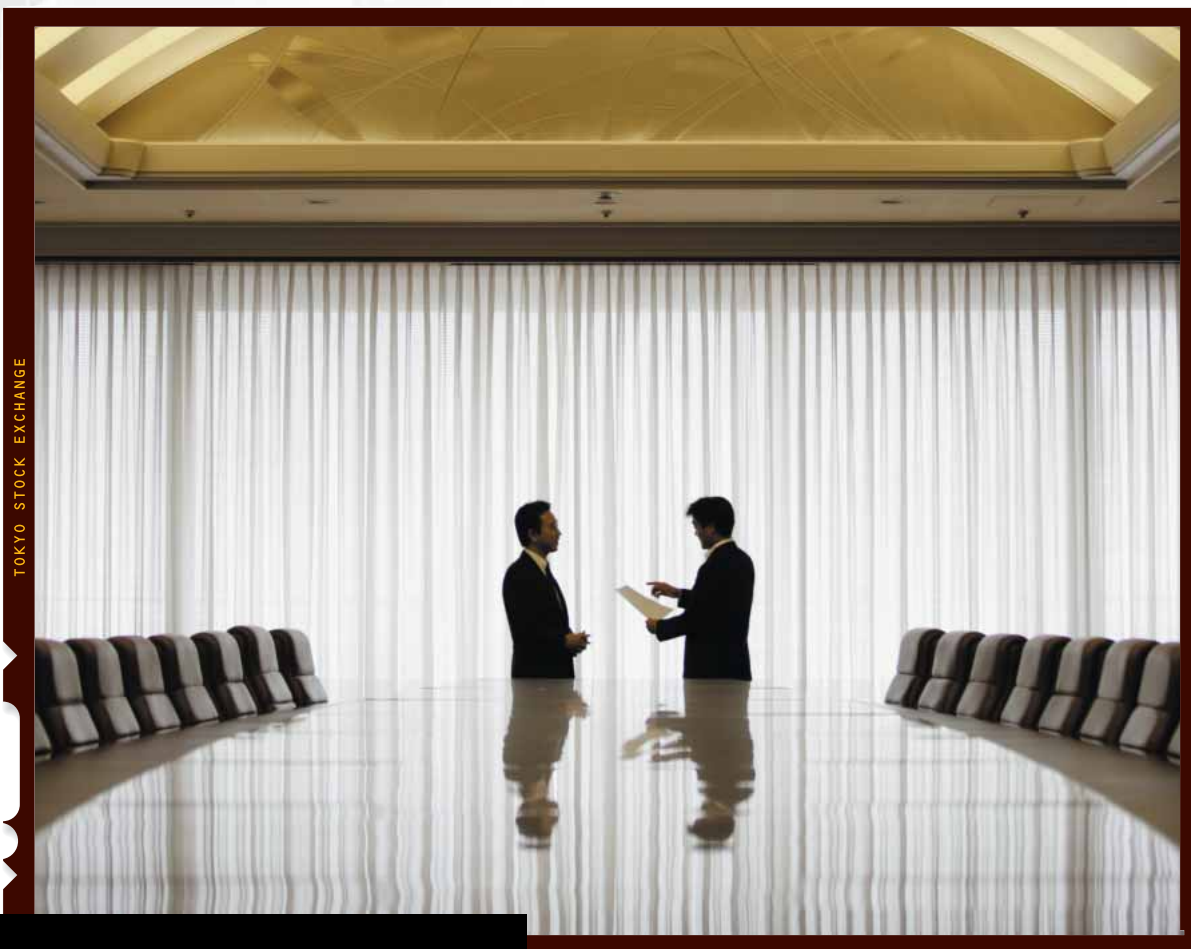
In recent years, continuous development of information technology has led to a rapid increase in trading via the internet and with the diversification of institutional investors’ trading methods, the number of trading orders is growing at a much faster rate than increases in trading volume and value.

To maintain stable market operations and to support TSE’s core business in an environment of ever increasing trading orders, in December 2003 we revised the then-existing system to an improved model capable of processing of 5.4 million orders per day. Following increases in the number of trading orders after December 2003, we increased the capacity of the system under development to 6.2 million orders per day in June 2004 to ensure adequate processing power for the foreseeable future. The new system has been in operation since May 2005.

Replacing of Trading System for Derivative Products

In May 2005, we decided to develop a new trading system for derivative products. The new system will offer significant functional improvements including the provision of more information to market participants, as well as doubling the current system’s processing capacity for order matching and the sending of messages to market participants. The new system is scheduled to be operational by the latter half of 2007.

Self-Regulation Division



TOKYO STOCK EXCHANGE

The surveillance of market participants by the Self-Regulation Division ensures a fair and reliable market. Ensuring the fairness and reliability of the market is key to increasing the market's liquidity.

Fortifying Self-Regulatory Functions

Establishing the markets' fairness and reliability through an effective self-regulatory function expands liquidity in the market by improving trust from both investors and issuers which will contribute to furthering our earnings.

We believe that the pursuit of profit and the self-regulatory function are not a conflict of interest. In order to secure the trust of market participants, we are well aware of the needs to implement appropriate precautionary measures designed not to impair our self-regulatory function, and give the function greater independence.

In regards to this, we took firm measures to increase the independence of our self-regulatory operations by strengthening the role of the Self-Regulation Committee and establishing the new position of Chief Regulatory Officer (CRO) in June 2004.

We will continue to give the highest priority to the appropriate conduct of self-regulatory operations and we will endeavor to achieve even higher levels of independence and fairness.

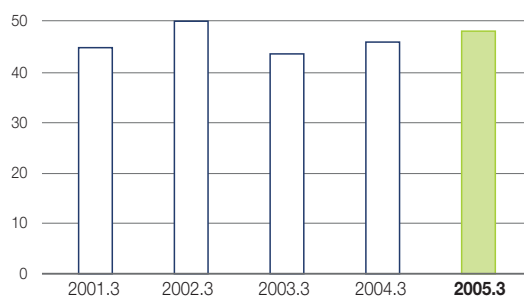
Market Surveillance

The Market Surveillance & Compliance Department works diligently to identify unfair trading on our Exchange and to alert any market participants found to be in potential violation of the laws and regulations. In addition, we actively engaged in educational activities to prevent unfair trading, including the holding of compliance seminars for market participants and seminars on insider trading restrictions for executives and employees of listed companies. We also made revisions to our guidelines on the prevention of unfair trading and published a new edition of our "Compliance Navigator," a compilation of FAQs and market surveillance case studies.

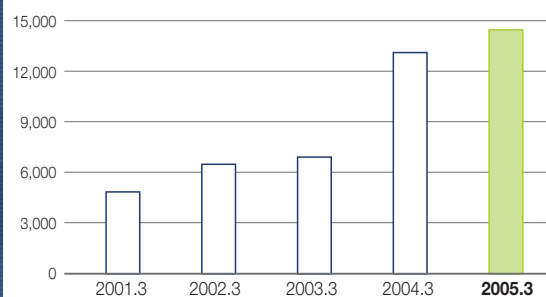
Participant Registration and Inspection

To increase the efficiency and effectiveness of our inspections of participants, we began joint examinations for general cases with the Japan Securities Dealers Association (JSDA) in September 2004. In addition, to promote strict observance to all legal regulations, we provide compliance support by holding meetings to explain compliance issues.

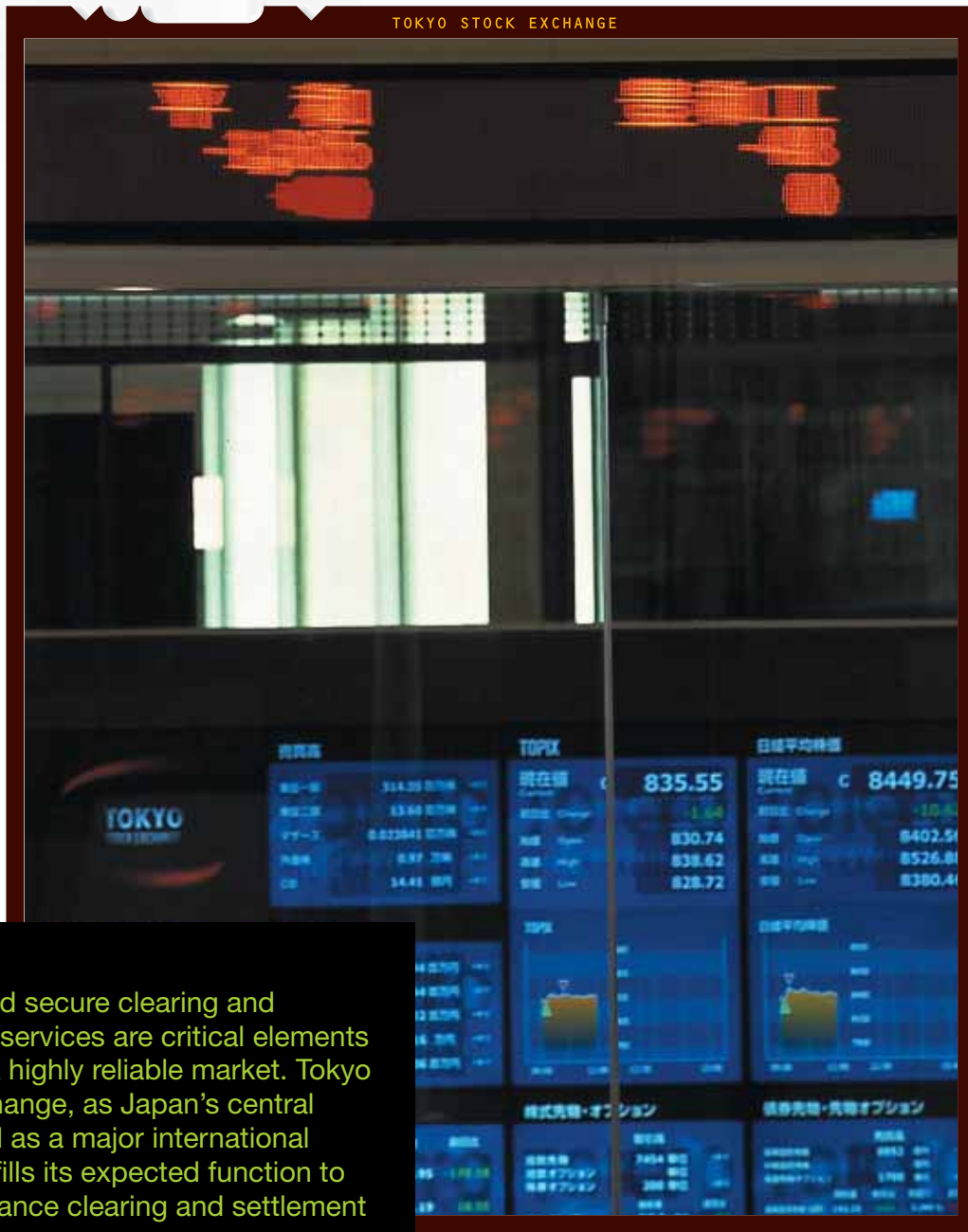
■ Number of Trading Participants Inspected



■ Number of Market Surveillance Cases



Clearing and Settlement Division



Efficient and secure clearing and settlement services are critical elements to ensure a highly reliable market. Tokyo Stock Exchange, as Japan's central market and as a major international market, fulfills its expected function to further enhance clearing and settlement infrastructure.

Development of the New Clearing System

TSE provides trade clearing processing services through our trade clearing system to the Japan Securities Clearing Corporation (JSCC). In order to respond to business needs and improve system maintenance, we are now developing a new trade clearing system, which is expected to be operational by early 2006.

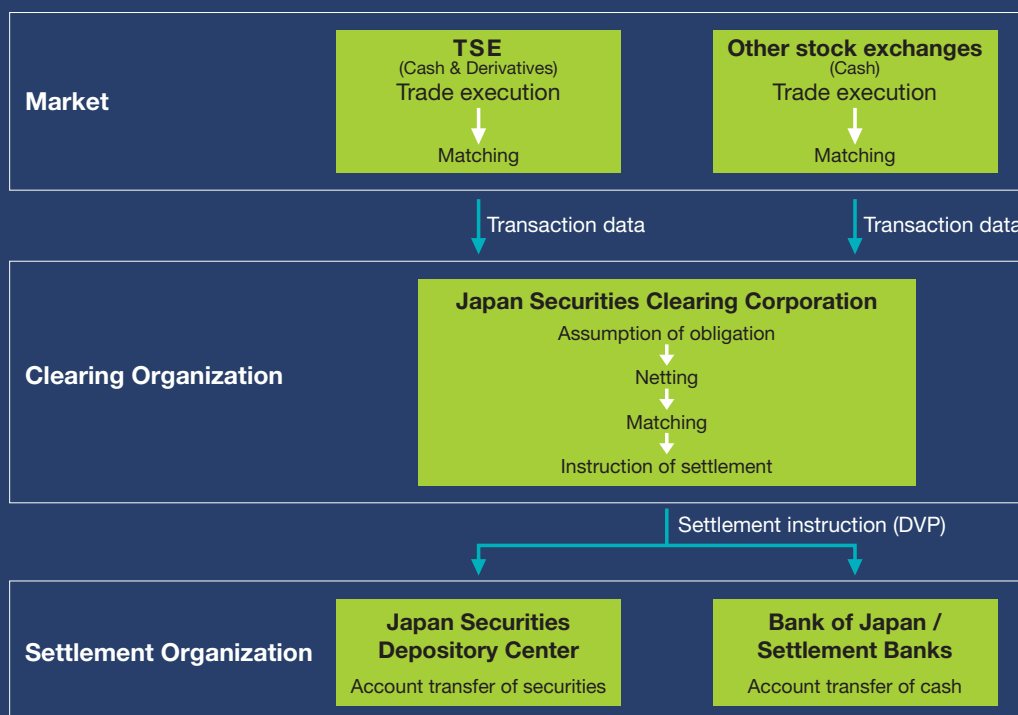
Review of Trade Settlement for Foreign Shares

In order to expand the investor base for foreign shares, we revised our settlement system for foreign shares to allow easier participation from institutional investors by taking into account their common practices of using custodian services in their trade settlements.

Toward the Post-Dematerialized Securities Market

In June 2004, the “Law concerning Book-entry Transfer of Corporate Bonds, Stocks and Other Securities” was enacted and therefore the dematerialized book-entry transfer system of stocks will be implemented by June 2009. We have participated in industry-wide discussions with market participants and government officials on the future shape of the securities market under a dematerialized environment, bringing our perspectives as the operator of Japan’s central stock market. In line with this landmark initiative, we have also started an internal analysis to design an appropriate clearing and settlement framework for exchange trades and other market functions.

Function of Organizations Related to Trading, Clearing, and Settlement



I nformation Services Division



The Information Services Division provides various market-related information including quotation and corporate disclosure to investors quickly and accurately.

Developing an Electronic Voting Platform

With regard to the exercise of voting rights at listed companies' general shareholders' meetings, in July 2004, we established a joint venture company named ICJ, Inc. with the Japan Securities Dealers Association (JSDA) and Automatic Data Processing, Inc. This aimed at developing and operating an "Electronic Voting Platform" as infrastructure that will enable non-residents and institutional investors including investment trusts and pension funds to exercise their voting rights in a timely and efficient manner.

Building an Infrastructure for Integrated Information Systems

In July 2004, we started developing an "integrated platform for information systems" that will integrate the common functions of the current 6 information systems such as "TDnet," the system which delivers listed companies' disclosure information. Along with the replacement of information systems, being scheduled from FY 2005 to FY 2008, each of the newly introduced information systems will start to utilize the integrated platform. We expect the new platform to reduce investment in these six systems by 20% over next five years.

Replacement of the Market Information System

In response to the increase in trading volumes in recent years, we replaced the market information system with a new system in April 2005.

Transition to Free-Float Adjusted TOPIX

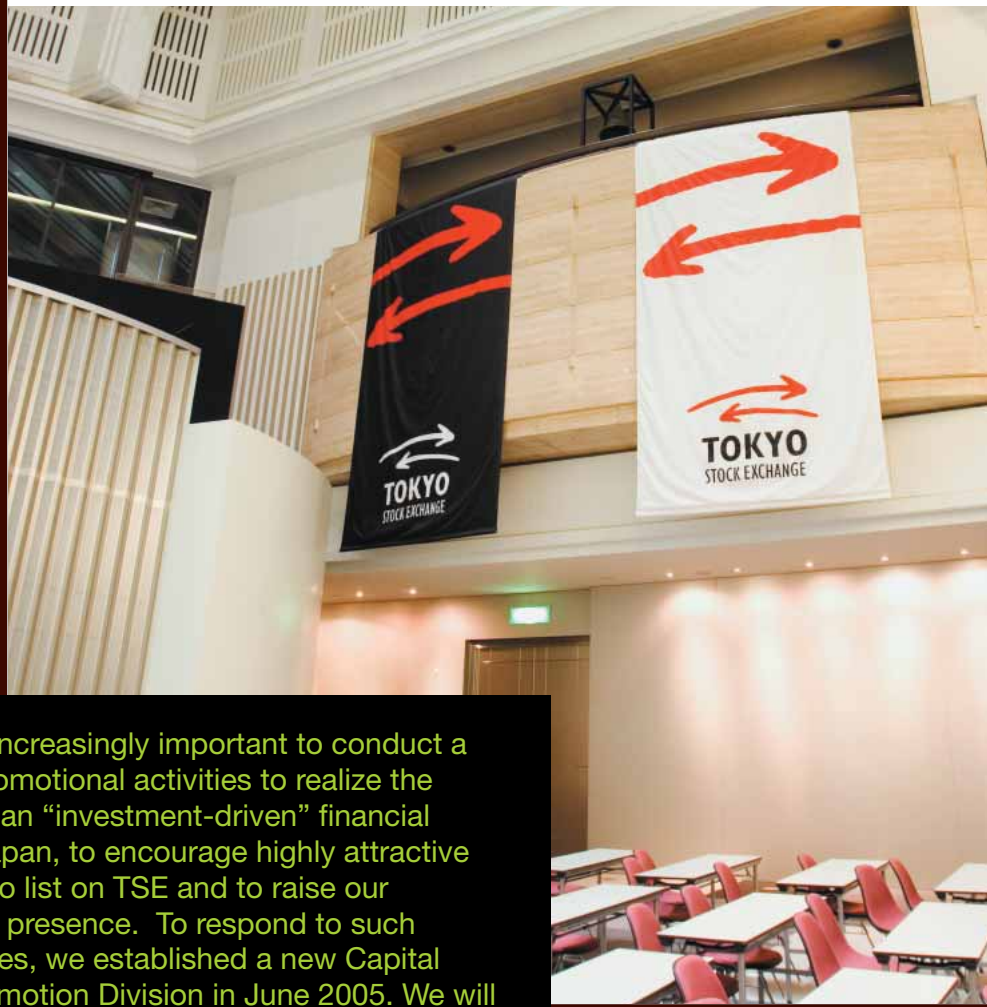
As interest regarding free-float adjusted indices grew among TOPIX users, we decided to shift current TOPIX and other stock indices calculated by TSE to free-float adjusted indices. We will begin the transition to free-float adjusted indices in three phases starting from October 2005 and the transition will be completed by the end of June 2006.

Enhancing the Scope and Range of Information Services

We have been actively expanding our information services and we have been striving toward expanding the business of "customized indices" which are calculated to meet our customers' individual needs. We have also improved the convenience of the corporate action data service that we have been offering via the Tokyo Market Information (TMI) service since 2001 by launching a distribution service of the data through SWIFTNet in January 2005.

Capital Markets Promotion Division

TOKYO STOCK EXCHANGE



It has been increasingly important to conduct a variety of promotional activities to realize the transition to an “investment-driven” financial system in Japan, to encourage highly attractive companies to list on TSE and to raise our international presence. To respond to such circumstances, we established a new Capital Markets Promotion Division in June 2005. We will exert our utmost efforts to promote our market both domestically and internationally.

The Opening of TSE Academy

In April 2004, we opened TSE Academy for the provision of more systematic and effective educational programs about the securities market. TSE Academy is attracting many participants by providing a variety of educational programs targeting individual investors, officials of listed companies, students, teachers and others.

Promotion of New Listings

TSE has taken active steps to visit companies in China, Korea and other parts of Asia that are interested in listing on our market. We have also met with top executives in business and Government communities to promote the listing of Asian companies on the TSE market. Our efforts assisted Xinhua Finance in becoming the first foreign company to list on our Mothers market in October 2004.

Within Japan, we also hold listing seminars and conduct visits to private companies. During this term, our effective promotional activities were complimented by many companies' strong desire to go public, keeping the number of new listings for the year at an impressive 127 firms.

Developing a Network in Asia and the Pan-Pacific Region

In line with our goal of raising the international standing of Japan's financial and capital markets, TSE has continued to strengthen its network in Asia and the Pan-Pacific region. Specifically, we have focused on personnel exchange programs to build close relationships with regional bourses and regulatory agencies, while sharing more information with them in an effort to fortify our cooperative relationships with various countries in the region. In accordance with the mutual cooperation agreements with both the Shanghai and Shenzhen Stock Exchanges, we continued to exchange trainees, and undertook active information exchange to enhance the development of our exchanges. Furthermore, we provided intellectual

support for neighboring countries through seminars for personnel working in Asian securities markets.

Annual Meeting of the World Federation of Exchanges in Tokyo

The annual meeting of the World Federation of Exchanges (WFE) was held in Tokyo in October 2004. As the host Exchange, we actively led discussion about stock exchange business models and other common issues of interest to the member exchanges.

Board of Directors and Corporate Auditors

As of June 30, 2005

Chairman of the Board



Taizo Nishimuro
Adviser to the Board
TOSHIBA CORPORATION

Directors



Takuo Tsurushima
President & CEO



Sadao Yoshino
Senior Managing Director & CFO
TSE Listing Planning



Yasuo Tobiyama
Managing Director & Executive Officer
Corporate Planning and General Affairs



Eisuke Nagatomo
Managing Director & Executive Officer
Listing



Tomio Amano
Managing Director & Executive Officer
Cash Market, Derivatives Market, and
System Development for Trading

Outside Directors



Yasuo Kuramoto
Director and Vice Chairman
Fidelity Japan Holdings K.K.



Hitoshi Maeda
Professor Emeritus
Gakushuin University



Hiroshi Okuda
Chairman
Toyota Motor Corporation



Nobuo Tateisi
Executive Adviser
OMRON Corporation



Junichi Ujiie
Chairman
Nomura Holdings, Inc.



Masahiro Wakita
Adviser
TOYO SECURITIES Co., LTD.

Statutory Auditors

Standing Statutory Auditors



Shigeaki Itsuki



Satoshi Shiibashi

Non-Standing Statutory Auditors



Toshiaki Katsushima
Professor, CPA/CPTA
Graduate School of Finance, Accounting & Law,
Waseda University



Koji Shindo
Lawyer and Professor Emeritus
University of Tokyo

Executive Officers



Toshitsugu Shimizu
Clearing & Settlement and
Capital Markets Promotion



Tomoyoshi Uranishi
Information Services



Hiroyuki Iwakuma
Chief Regulatory Officer
Self Regulation



Hironaga Miyama
Personnel and Finance

Corporate Governance

Basic Corporate Governance Policy

TSE strives to strike a balance between its public responsibility of providing financial infrastructure as Japan's central securities market and securing its own stable profitability. Therefore, our basic corporate governance philosophy is to reflect a wide range of opinions in our management and market operations; to increase the transparency of our management by clarifying the authorities and responsibilities of our corporate divisions and increasing their accountability; and to ensure reliable operations as a self-regulatory organization, thereby providing both shareholders and market participants with a high level of confidence in the market.

Executive Officer System and Board of Directors

TSE has an executive officer system to streamline the decision-making process and to clarify the authority and responsibility of its operational and administrative functions. The Board of Directors consists of 12 members. In order to increase the transparency and accountability of our management, to raise the legitimacy of operations, and to fortify the board's supervisory function, seven of the 12 are external directors (as of June 30, 2005). Of the seven external directors, three are from companies that are listed on TSE, two are from our trading participants, one is from an asset management company, and one is a lawyer. All of them have a deep insight in their specialist fields.

As a general rule, our Board of Directors meet once a month to determine basic policies, discuss important matters and oversee the execution of business operations by our executive officers.

Nomination and Compensation Committee

The Board of Directors has established an internal "Nomination and Compensation Committee" for the purpose of maintaining transparency and objectivity in appointing directors and determining their compensation. The committee is comprised of six directors, of which four are external directors. Only after it has carefully deliberated the nomination of directors and director compensation are such proposals then voted on by the Board of Directors.

Statutory Auditors

TSE currently implements an auditor system. Our Statutory Auditors Board consists of four individuals (including two standing statutory auditors), three of whom are external auditors. Of the three external auditors, one is an accountant, one is a lawyer, and one is a standing statutory auditor who was previously employed at the Bank of Japan (the Japanese central bank). To support our Statutory Auditors Board, we have established an Auditors Office with four support staff.

The standing statutory auditors attend significant meetings, including Board of Directors and Executive Officers meetings, and report on daily auditing activities including the review of approved documents, as well as auditing in accordance with the plan decided by our Statutory Auditors Board. Our non-standing auditors attend both the Board of Directors and Statutory Auditors Board meetings and provide advice and recommendations. They also coordinate their efforts with the financial auditors, the internal auditing team and the statutory auditors of TSE's subsidiaries to improve the overall efficiency of TSE's accounting and operational audits.

Advisory Committees

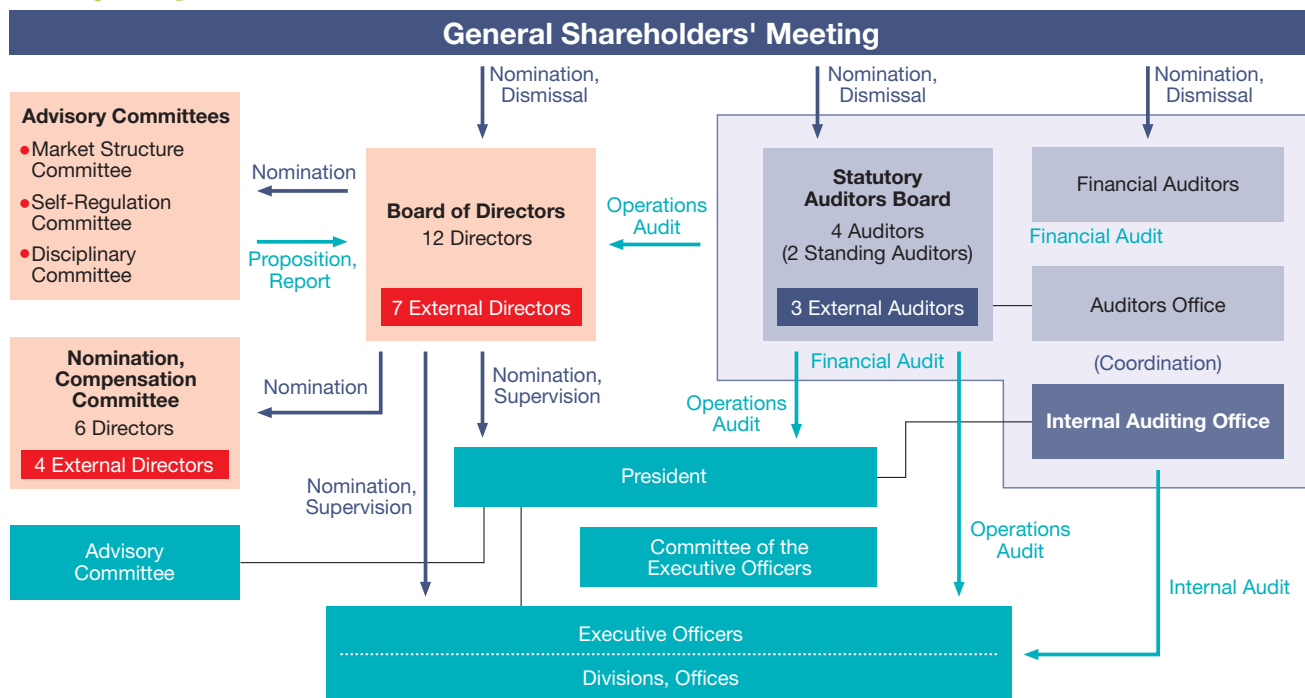
To represent a wide range of opinions in our operations and to advise the Board of Directors, TSE maintains three Advisory Committees, which consist of market participants and neutral third parties. The Market Structure Committee deliberates issues associated with transactions, settlements and listing. The Self-Regulation Committee discusses matters on market surveillance and the inspection of trading participants. The Disciplinary Committee deliberates disciplinary action and penalties on trading participants who violate regulations. During this term, the Market Structure Committee met three times, the Self-Regulation Committee met four times, and the Disciplinary Committee met five times.

In addition, to exchange a wide range of opinions about TSE and the securities markets in general, we established the “President’s Advisory Committee.” This committee is comprised of representatives from listed companies, institutional investors, and noted scholars. The Committee met twice during this term.

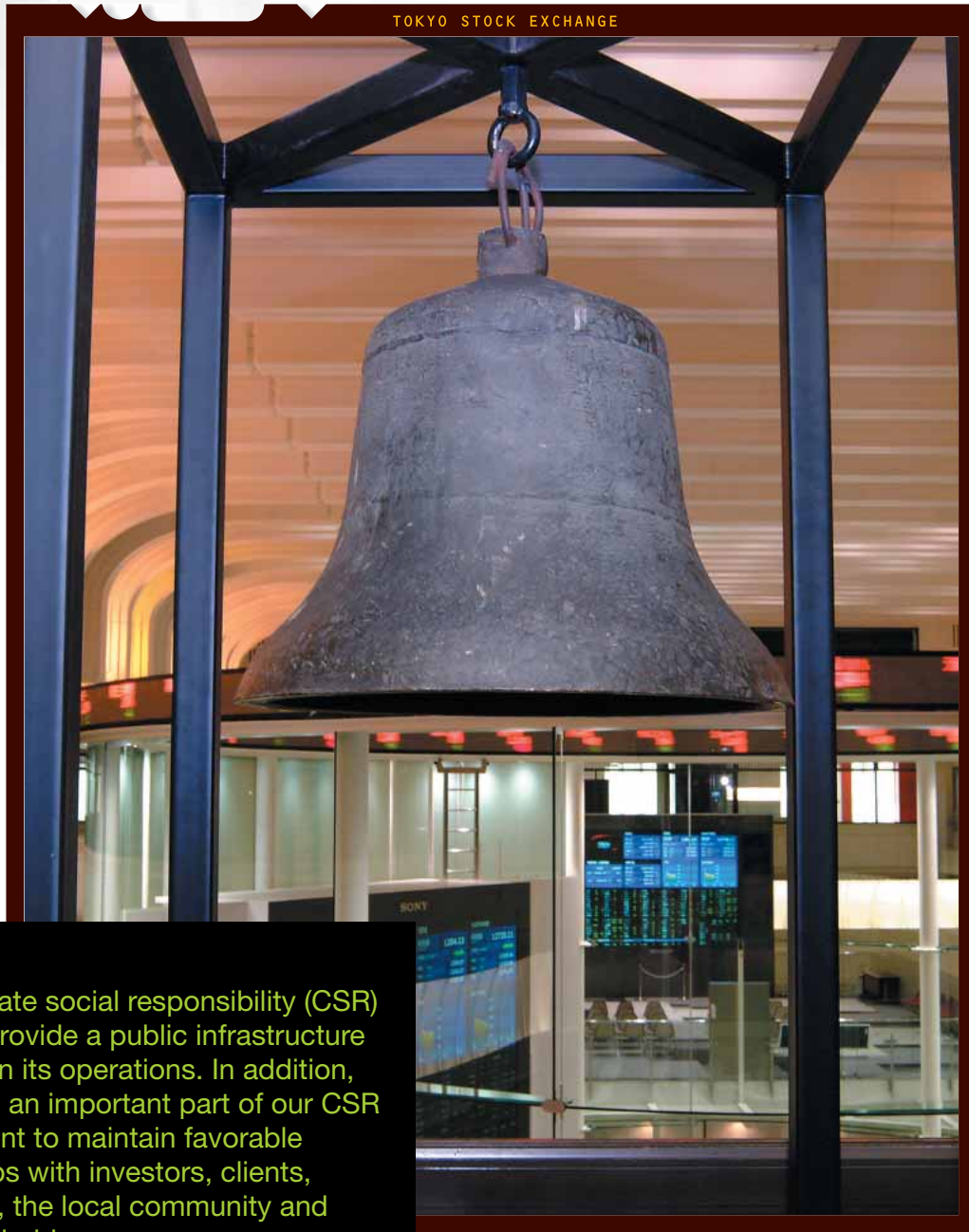
Internal Auditing Office

In order to prevent violations of statutory laws or TSE’s internal rules, we established internal control systems within each respective division. Additionally, to reinforce the systems, we established an Internal Auditing Office (with two staff) under the direct control of the President. The Internal Auditing Office performs internal audits of each division in accordance with our internal audit plan, which is based on the importance and immediacy of risks facing TSE. It not only reports the results of these audits to our President, but also issues reports to our statutory auditors. Moreover, the Internal Auditing Office responds to questions about the operational management of the audited departments, and provides them with information related to the auditing process.

Our corporate governance structure.



Corporate Social Responsibility



Our corporate social responsibility (CSR) goal is to provide a public infrastructure that is fair in its operations. In addition, we feel it is an important part of our CSR management to maintain favorable relationships with investors, clients, employees, the local community and other stakeholders.

Corporate Philosophy and Charter for Corporate Behavior

During the term under review, as part of our fundamental management policy, TSE established a corporate philosophy and a charter for corporate behavior. We will strive to reinforce our CSR activities by executing the directives in our charter for corporate behavior. (An outline of our charter for corporate behavior is provided below.)

Improving Compliance Systems

In addition to the introduction of our Charter for Corporate Behavior in January 2005, we made improvements to our compliance systems to help raise employee awareness about the importance of conforming to various regulations, as well as to achieve more effective internal controls. Specifically, we established a new section to take charge of compliance matters and also opened a compliance hotline as a channel to obtain information about our compliance to both legal regulations and our Charter of Corporate Behavior.

Risk Management Structure

With the advance of information technology and the diversification of our client base, the risks surrounding our Exchange are becoming increasingly diverse and complicated. In light of these developments, TSE is taking steps to strengthen risk management associated with our business operations. We established a Risk Management Committee, which met twice during the year under review, to be able to respond immediately to the emergence of a risk-related problem.

Moreover, we made an emergency “Business Continuity Plan (BCP)” which stipulates a fundamental policy, framework and procedures for when our business operations become difficult to maintain and to minimize impacts on market functions caused by unforeseen events such as natural disasters.

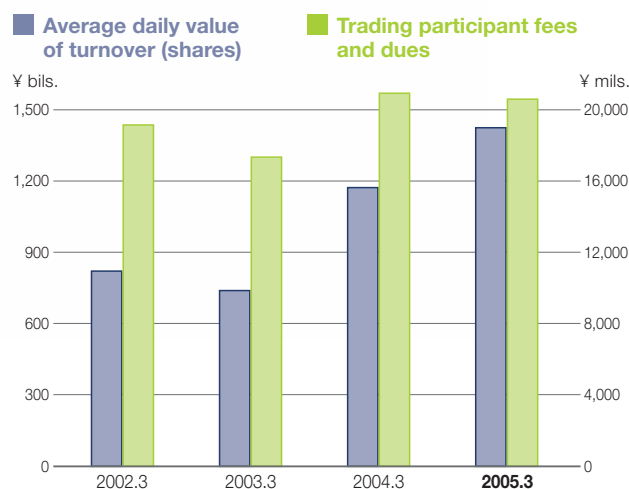


Operating and Financial Review

Operating Results

Operating Revenues Review

Trading participant fees and dues are comprised of “fixed rate fees” charged to securities firms and other trading participants in accordance with their type of trading qualification and their capitalization, and “variable rate fees” which are charged according to the trading values or volumes of securities traded. While the trading value of shares remained at a high level, trading participant fees during the term under review fell by 1.6% year-on-year to ¥20,589 million. This was due to a reduction in collection rates arising from a shift that began in November 2003 whereby Japan Securities Clearing Corporation directly collected fees charged to clearing participants for clearing trades.



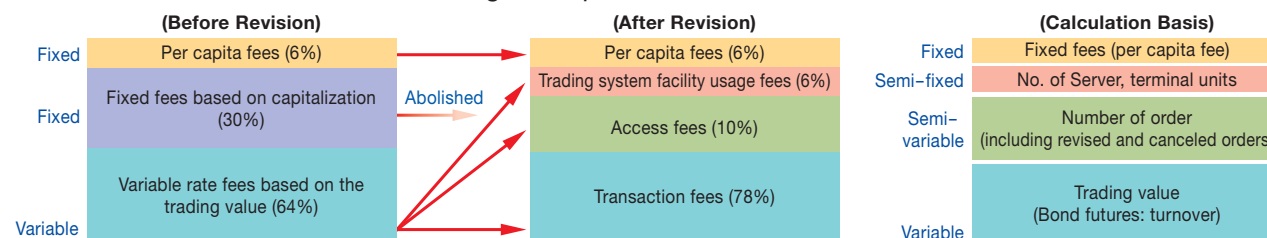
Review of Trading Participant Fees and Dues

In October 2004, we reviewed the structure of our trading participant fees and dues. We eliminated fees based on trading participants’ capitalization and changed the basic fee structure to the benefit principle payment system in which participants pay in accordance with the benefit they receive from services provided by TSE. In addition, taking into consideration recent surges in system processing volume from the increasing number of orders and executions, we are

going to introduce an additional fee based on use of the system infrastructure by market participants.

The new fee structure will be implemented in three phases to limit the impact of its introduction. The first phase took effect in April 2005 with a transitional measure of 30% of the new fee structure applicable in the first year, and this will rise to 60% in the second year and then there will be a complete shift to the new structure with trading from April 2007.

Introduction of a New Structure in Trading Participant Fees Proforma Calculation based on FY2004



Listing fees are comprised of “listing examination fees” received from newly listing applicant companies “initial listing fees” from newly listed companies for their listing, “fees for issuing new shares” when companies raise new capital, and “annual listing fees” based on a company’s market capitalization. During the term under review, listing fees rose by 17.8% year-on-year to ¥11,193 million due to a large increase in equity financings.



	2002.3	2003.3	2004.3	2005.3
¥ mils.				
Operating revenues				
Trading participant fees and dues	19,141	17,340	20,921	20,589
Listing fees	8,329	8,766	9,504	11,193
Information services income	6,467	6,657	7,254	7,774
System development & operations income	3,843	1,973	3,723	2,443
Securities settlement income	2,888	2,793	4,874	8,756
Other operating income	4,067	3,536	2,367	2,316
Total	44,735	41,065	48,643	53,071
Operating expenses				
Salaries and compensation	16,261	12,009	11,896	11,624
Real estate rental fees	6,703	5,685	5,629	5,817
System maintainace & operation costs	–	–	8,431	9,337
System-related expenses	3,951	3,867	–	–
Outsourcing business costs	2,424	3,921	–	–
Depreciation	7,897	7,523	6,999	7,965
Other operating expenses	5,746	5,600	7,482	6,968
Total	42,982	38,605	40,437	41,711
Operating profit	1,753	2,460	8,206	11,360
Net income before income taxes and minority interest	1,960	2,859	8,082	7,580
Net income	844	3,277	5,031	4,978

Operating and Financial Review

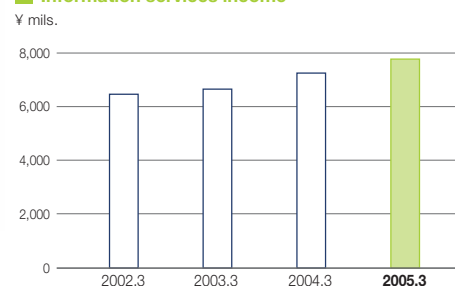
Information services income is derived from fees for market information services provided to information vendors and others. During the term under review, income from information services rose by 7.2% from the previous term to ¥7,774 million due to favorable market conditions and the subsequent strong increase in demand for real-time information.

Systems development and operations income is comprised of fees received for system development and management provided by Tosho System Services Co., Ltd. During the term under review, systems development and operations income fell by 34.4% from the previous year to ¥2,443 million due to the end of the general delivery versus payment (DVP) system project; the development of that project contributed significantly to this area's income in the previous term.

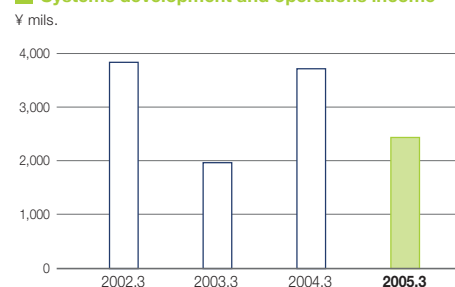
Securities settlement income is comprised of fees for trade guarantees and other services provided by Japan Securities Clearing Corporation and securities custody and delivery services provided by Japan Securities Settlement and Custody, Inc. During the term under review, securities settlement income rose by 79.6% year-on-year to ¥8,756 million on the back of increases in clearing fees accompanying the increase in trading turnover.

Other operating income is derived from activities such as the leasing and maintenance of trading terminals to trading participants. During the term under review, declines in the number of leased terminals brought a 2.1% decline from the previous year to ¥2,316 million.

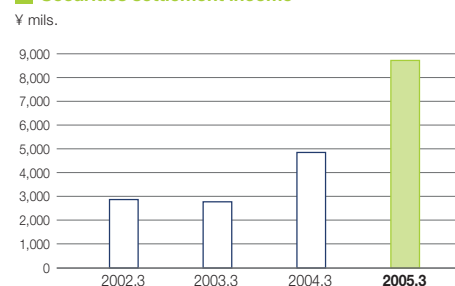
■ Information services income



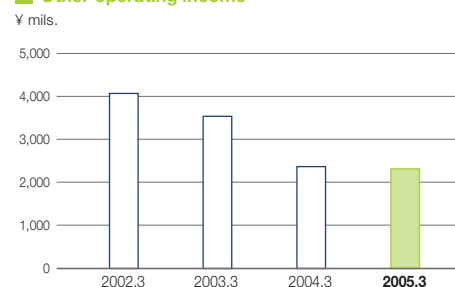
■ Systems development and operations income



■ Securities settlement income



■ Other operating income



Operating Expenses Review

Salaries and compensation fell by 2.3% year-on-year to ¥11,624 million due to a review of our compensation scheme and other costs associated with our personnel system, reductions in the number of employees, and subsequent declines in payroll and accrued pension expenses.

Real estate rental fees are comprised of rental fees paid for the use of buildings including the stock exchange's premises. During the term under review, rent associated with the relocation of our essential systems to a new site contributed to a 3.3% increase from the previous year to ¥5,817 million in real estate rental fees.

System maintenance and operation costs include costs associated with the maintenance and management of trading, market information and other systems used by TSE. During the term under review, increases in operating expenses associated with a new system, and outsourcing business cost paid for clearing services for active securities trading contributed to a 10.7% year-on-year increase in system maintenance and operation costs to ¥9,337 million.

Depreciation expenses associated with the buildings and attached facilities, hardware and software used in various systems, and lease assets increased across the board by 13.8% year-on-year to ¥7,965 million.

Consequently, consolidated performance results during the term under review were **operating revenues** of ¥53,071 million (a 9.1% year-on-year increase), **operating expenses** of ¥41,711 million (a 3.2% year-on-year increase), **operating income** of ¥11,360 million (a 38.4% year-on-year increase). However, during the term we incurred an extraordinary loss of ¥4,581 million for reserve provisions associated with a real estate rental contract. This led us to record a tax-adjusted **net income** of ¥4,978 million (a 1.1% year-on-year decline).

Financial Conditions

Overview of the Term Under Review

Cash flow from operating activities amounted to a total of ¥14,516 million of net cash inflows from net income before taxes and minority interests of ¥7,580 million and depreciation of ¥7,254 million.

Cash flow from investing activities resulted in a net outflow of ¥13,278 million due to purchases of software and fixed assets.

Cash flow from financing activities saw a net cash outflow of ¥1,255 million due to dividend payments by TSE and repayment of debts of our subsidiaries.

As a result, cash and cash equivalents at the end of the term under review fell by ¥17 million to ¥26,990 million.

Consolidated Balance Sheets

Tokyo Stock Exchange, Inc.

As of March 31, 2004 and 2005	¥ mils.		U.S.\$ thous. (Note 1)
	2004	2005	2005
ASSETS			
Current Assets			
Cash and bank deposits (Note 13)	¥ 26,506	¥ 27,389	\$ 255,044
Accounts receivable	4,394	4,967	46,256
Marketable securities (Note 6)	1,500	2,501	23,285
Inventories	292	177	1,645
Prepaid expenses	259	321	2,993
Short-term guarantee money deposits	2,008	768	7,149
Margin funds for derivatives and when-issued transactions (Note 3 and 13)	1,063,006	153,117	1,425,807
Deposits for clearing funds (Note 3 and 13)	230,268	65,881	613,472
Deposits as collateral preceding settlement day (Note 3 and 13)	172,059	47,911	446,140
Deferred income taxes (Note 8)	705	612	5,702
Other current assets (Note 3 and 13)	3,951	121	1,126
Allowance for doubtful accounts	(4)	(5)	(53)
Total current assets	1,504,944	303,760	2,828,566
Property and equipment			
Buildings	12,195	11,793	109,816
Information system equipments	14,254	22,957	213,773
Land	2,399	2,399	22,343
Construction in progress	5,378	223	2,078
Other property and equipment	6,836	6,846	63,750
Accumulated depreciation	(22,080)	(26,495)	(246,722)
Total property and equipment	18,982	17,723	165,038
Intangible fixed assets, net			
Software	4,872	4,200	39,111
Excess of cost over underlying net assets	22	14	133
Other intangible fixed assets	1,818	3,748	34,897
Total intangible fixed assets	6,712	7,962	74,141
Investments and other assets			
Investments in securities (Note 6)	3,789	5,063	47,147
Guarantee money deposits	9,525	8,754	81,511
Prepaid pension costs (Note 9)	2,124	2,041	19,002
Legal guarantee funds (Note 3 and 13)	2,998	638	5,940
Special assets for default compensation reserve funds	17,368	17,368	161,726
Deferred income taxes (Note 8)	1,870	3,855	35,894
Others	539	537	5,004
Allowance for doubtful accounts	(336)	(343)	(3,189)
Total investments and other assets	37,877	37,913	353,035
Total assets	¥ 1,568,515	¥ 367,358	\$ 3,420,780

The accompanying notes are an integral part of these statements.

	¥ mils.		U.S.\$ thous. (Note 1)
	2004	2005	2005
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities			
Long-term debt due within 1 year (Note 7)	¥ 420	¥ 168	\$ 1,564
Accounts payable - trade (Note 11)	2,503	2,382	22,180
Accounts payable - other	5,626	683	6,362
Income taxes payable	3,205	2,964	27,599
Consumption taxes payable	257	523	4,866
Allowance for employee bonuses	747	756	7,044
Deposits received	78	70	647
Margin funds received for derivatives and when-issued transactions (Note 3 and 13)	1,063,006	153,117	1,425,807
Deposits received for clearing funds (Note 3 and 13)	230,268	65,881	613,472
Deposits received as collateral preceding settlement day (Note 3 and 13)	172,059	47,911	446,140
Deposits received as trading participants guarantee (Note 3 and 13)	5,658	2,275	21,180
Other current liabilities (Note 11)	416	322	3,007
Total current liabilities	1,484,243	277,052	2,579,868
Non-current liabilities			
Long-term debt (Note 7)	222	52	483
Allowance for retirement benefits for directors	254	173	1,611
Allowance for retirement benefits for employees (Note 9)	5,939	5,807	54,075
Allowance for loss on real estate rental contract	—	4,581	42,657
Guarantee money deposits received	1,074	1,084	10,090
Returnable legal guarantee funds (Note 3 and 13)	2,998	638	5,940
Other non-current liabilities (Note 11)	367	325	3,034
Total non-current liabilities	10,854	12,660	117,890
Total liabilities	1,495,097	289,712	2,697,758
Minority interest	481	622	5,793
Commitments and contingencies (Note 12)			
Shareholders' equity			
Common stock			
Authorized 9,200,000 shares at March 31, 2004 and 2005			
Issued and outstanding 2,300,000 shares at March 31, 2004 and 2005	11,500	11,500	107,086
Capital surplus	22,875	22,875	213,006
Retained earnings (Note 18)	39,152	43,389	404,032
Treasury stock, at cost			
21,260 shares at March 31, 2004 and 26,260 shares at March 31, 2005	(590)	(740)	(6,895)
Total shareholders' equity	72,937	77,024	717,229
Total liabilities and shareholders' equity	¥ 1,568,515	¥ 367,358	\$ 3,420,780

The accompanying notes are an integral part of these statements.

Consolidated Statements of Income

Tokyo Stock Exchange, Inc.

	¥ mils.		U.S.\$ thous. (Note 1)
For the years ended March 31, 2004 and 2005	2004	2005	2005
Operating revenues			
Trading participant fees and dues	¥ 20,921	¥ 20,589	\$ 191,717
Listing fees	9,504	11,193	104,224
Income from information services	7,254	7,774	72,394
Income from system development and operations	3,723	2,443	22,749
Income from securities settlement	4,874	8,756	81,532
Other operating income (Note 11)	2,367	2,316	21,575
Total operating revenues	48,643	53,071	494,191
Operating expenses (Notes 11 and 14)	40,437	41,711	388,406
Operating profit	8,206	11,360	105,785
Other income (expenses)			
Interest and dividend income	29	15	144
Rent income (Note 11)	654	661	6,156
Income from fines levied	100	104	969
Grants in aid	207	226	2,107
Income from securities deposit for Japan Securities Finance Co., Ltd.	87	123	1,150
Equity in earnings of affiliated companies	78	144	1,345
Capital gain through sale of investments with special circumstances	22	—	—
Distribution of residual property	—	189	1,756
Interest expense	(0)	(0)	(4)
Rent expense	(821)	(771)	(7,182)
Provision for allowance for loss on real estate rental contract	—	(4,581)	(42,657)
Loss on disposal of fixed assets (Note 15)	(538)	(65)	(609)
Other, net	58	175	1,628
Total other income (expense)	(124)	(3,780)	(35,197)
Income before income taxes and minority interest	8,082	7,580	70,588
Income taxes - current (Note 8)	3,705	4,353	40,538
Income taxes - deferred (Note 8)	(743)	(1,891)	(17,609)
Minority interest	(89)	(140)	(1,306)
Net income	¥ 5,031	¥ 4,978	\$46,353

The accompanying notes are an integral part of these statements.

Consolidated Statements of Shareholders' Equity

Tokyo Stock Exchange, Inc.

¥ mils.

For the years ended March 31, 2004 and 2005	Number of shares of common stock	Common stock	Additional paid-in capital	Retained earnings	Treasury stock
Balance as of March 31, 2003	2,300,000	¥ 11,500	¥ 22,875	¥ 34,121	¥ —
Net income for the year ended March 31, 2004	—	—	—	5,031	—
Treasury stock acquired, net (21,260 shares)	—	—	—	—	(590)
Balance as of March 31, 2004	2,300,000	¥ 11,500	¥ 22,875	¥ 39,152	¥ (590)
Net income for the year ended March 31, 2005	—	—	—	4,978	—
Cash dividends paid (¥300 per shares)	—	—	—	(684)	—
Bonuses to directors and corporate auditors	—	—	—	(57)	—
Treasury stock acquired, net (5,000 shares)	—	—	—	—	(150)
Balance as of March 31, 2005	2,300,000	¥ 11,500	¥ 22,875	¥ 43,389	¥ (740)

U.S.\$ thous. (Note 1)

	Number of shares of common stock	Common stock	Additional paid-in capital	Retained earnings	Treasury stock
Balance as of March 31, 2004	2,300,000	\$107,086	\$213,006	\$364,576	\$(5,501)
Net income for the year ended March 31, 2005	—	—	—	46,353	—
Cash dividends paid (\$2.79 per shares)	—	—	—	(6,366)	—
Bonuses to directors and corporate auditors	—	—	—	(531)	—
Treasury stock acquired, net (5,000 shares)	—	—	—	—	(1,394)
Balance as of March 31, 2005	2,300,000	\$107,086	\$ 213,006	\$404,032	\$(6,895)

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

Tokyo Stock Exchange, Inc.

	¥ mils.		U.S.\$ thous. (Note 1)
For the years ended March 31, 2004 and 2005	2004	2005	2005
Cash flows from operating activities:			
Net income before income taxes and minority interest	¥ 8,082	¥ 7,580	\$ 70,588
Depreciation	6,065	7,254	67,551
Amortization of the excess of cost over underlying net assets	7	7	67
Loss on disposal of property, equipment and intangible fixed assets	538	65	609
Increase in allowance for doubtful accounts	31	7	62
Increase in allowance for employee-bonuses	11	9	86
Increase (decrease) in allowance for retirement benefits for directors	66	(81)	(757)
Increase in allowance for loss on real estate rental contact	—	4,581	42,657
Increase (decrease) in allowance for retirement benefits for employees	134	(132)	(1,229)
Equity in earnings of affiliated companies	(77)	(144)	(1,345)
Interest and dividends income	(29)	(15)	(144)
Interest expense	0	0	4
Increase in accounts receivable	(1,914)	(584)	(5,437)
Decrease in inventories	70	12	115
Increase (decrease) in accounts payable - trade	466	(120)	(1,125)
Capital gain through sale of investments with special circumstances	(22)	—	—
Others, net	(257)	(68)	(633)
Sub-total	13,171	18,371	171,069
Income taxes paid	(438)	(3,920)	(36,499)
Interest and dividends received	920	65	601
Interest paid	(0)	(0)	(4)
Receipt through sale of investments with special circumstances	22	—	—
Net cash provided by operating activities	13,675	14,516	135,167
Cash flows from investing activities:			
Acquisition of marketable securities	(999)	(5,999)	(55,863)
Proceeds from the sale of marketable securities	50	5,000	46,559
Acquisition of fixed deposits	—	(900)	(8,381)
Acquisition of investments in securities	(508)	(1,180)	(10,986)
Acquisition of property and equipment	(2,857)	(8,731)	(81,303)
Proceeds from the sale of property and equipment	3	5	49
Acquisition of software	(3,181)	(3,504)	(32,631)
Payment for guarantee money deposits	(40)	(9)	(86)
Proceeds from the return of guarantee money deposits	2,090	2,021	18,817
Payment of guarantee money deposits received	(64)	(15)	(143)
Proceeds from the receipt of guarantee money deposits	12	25	235
Payment of loan receivables	(2)	(3)	(25)
Collection of loan receivables	36	8	72
Others	0	4	44
Net cash used in investing activities	(5,460)	(13,278)	(123,642)
Cash flows from financing activities:			
Proceeds from long-term debt	300	—	—
Repayment of long-term debt	(981)	(421)	(3,931)
Proceeds from sale of treasury stock	7,298	—	—
Acquisition of treasury stock	(7,889)	(150)	(1,394)
Dividends paid	—	(684)	(6,366)
Net cash used in financing activities	(1,272)	(1,255)	(11,691)
Increase (decrease) in cash and cash equivalents	6,943	(17)	(166)
Cash and cash equivalents at beginning of year	20,064	27,007	251,492
Cash and cash equivalents at end of year (Note 5)	¥ 27,007	¥ 26,990	\$ 251,326

The accompanying notes are an integral part of these statements.

Notes to the Consolidated Financial Statements

Tokyo Stock Exchange, Inc.

1. Basis of Presenting the Consolidated Financial Statements

The accompanying consolidated financial statements of Tokyo Stock Exchange, Inc. ("TSE") and its subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the company based on the Securities and Exchange Law of Japan.

Certain items presented in the consolidated financial statements have been reclassified for the convenience of readers outside Japan.

Amounts in U.S. dollars are included solely for the convenience of readers outside Japan. The rate of ¥107.39=U.S. \$1, the approximate rate of exchange prevailing as of March 31, 2005, has been used in translation. The inclusion of such amounts are not intended to imply that Japanese yen have been or could be readily converted, realized or settled in U.S. dollars at the rate or any other rates.

2. Summary of Significant Accounting Policies

(1) Principles of Consolidation

The consolidated financial statements include the accounts of TSE and three subsidiaries listed below (together, hereinafter referred to as the "Companies").

	Country of Incorporation	Direct and indirect ownership percentage	Paid-in capital (¥ mils.)
Japan Securities Settlement & Custody, Inc.	Japan	100.0%	¥ 300
Tosho System Service Co., Ltd.	Japan	100.0	100
Japan Securities Clearing Corporation	Japan	86.3	1,700

All subsidiaries use a fiscal year ended on March 31 of each year, which is the same as that of TSE.

All significant inter-company transactions, account balances and unrealized profits among the Companies are eliminated in consolidation.

Differences between the cost of an investment in subsidiaries and the amount of underlying equity in net assets of the subsidiaries are deferred as assets or liabilities as the case may be, and amortized on a straight-line basis over a period of five years.

(2) Accounting for Investment in Affiliates

Affiliates accounted for by the equity method as of March 31, 2005 are listed below:

---NSB News Service Co., Ltd.

---Japan Securities Depository Center, Inc.

---Tosho Computer Systems Co., Ltd.

---ICJ, Inc.

Note: ICJ, Inc. has been accounted for by the equity method with effect from the current year due to incorporation.

(3) Remeasurement of Assets and Liabilities of the Subsidiaries

The full portion of the assets and liabilities of the subsidiaries is marked to fair value as of the acquisition of the control.

(4) Cash and Cash Equivalents

Cash and cash equivalents in the consolidated statements of cash flows are composed of cash in hand, bank deposits able to be withdrawn on demand, and short-term investments with an original maturity of three months or less and which represent a minor risk of fluctuations in value.

(5) Marketable Securities and Investments in Securities

Held-to-maturity debt securities, which the Companies intend to hold to maturity, are stated at cost after accounting for premiums or discounts on acquisition, which are amortized over the period to maturity.

Available-for-sale securities, for which market value is available, are valued at the fair market value prevailing at the fiscal year-end. Net unrealized gains or losses on these securities are reported as a separate item in the shareholders' equity at a net-of-tax amount. The cost of securities sold is based on the weighted-average cost of all shares of the respective securities held at the time of sale.

Available-for-sale securities, for which market value is not available, are valued at cost, with cost determined by the average method.

In cases where the fair value of held-to-maturity debt securities, equity securities issued by unconsolidated subsidiaries and affiliates, or available-for-sale securities has declined significantly, and such impairment of the value is not deemed to be temporary, those securities are written down to the estimated fair value and the resulting losses are included in net income for the period.

(6) Inventories

Work in process are valued using the specific cost method.

(7) Property and Equipment

Depreciation is computed using the declining-balance method at rates based on the estimated useful lives of the assets, which are determined by Japanese tax law.

However, the straight-line method is used for the buildings (excluding facilities attached to the buildings) acquired on and after April 1, 1998 by Japan Securities Settlement & Custody, Inc.

Furthermore, depreciation of property leased by Tosho System Service Co., Ltd. is computed using the straight-line method based on its entire lease period with no estimated residual value.

Notes to the Consolidated Financial Statements

(8) Intangible Fixed Assets

Intangible fixed assets, except software for internal use, are amortized using the straight-line method over the period regulated by the Japanese Commercial Code or Japanese tax law.

Software for internal use is amortized using the straight-line method over an estimated useful life, normally five years.

(9) Allowances

Allowance for Doubtful Accounts

Allowance for doubtful accounts is made against potential losses on collection at an amount measured using a historical bad debt ratio, plus an amount specifically identified based on the lack of collectibility of the accounts due to poor financial condition or insolvency.

Allowance for Employee Bonuses

Allowance is made for bonuses to employees at the amount expected to be paid in respect of the calculation period ended on the balance sheet date.

Allowance for Retirement Benefits for Directors

Allowance for retirement benefits for directors (including executive officers) and statutory auditors is provided at an amount equivalent to 100 percent of such benefits the Companies would be required to pay, had all eligible directors and statutory auditors retired at the year-end date, in accordance with the Companies' internal rules.

Allowance for Retirement Benefits for Employees

Allowance for retirement benefits for employees is provided, based on estimated projected benefit obligations and pension plan assets at the fiscal year end in order to cover required retirement benefits for eligible employees.

The excess of the estimated fair value of plan assets over the estimated present value of projected benefit obligations (adjusted by unrecognized actuarial differences) is recognized as prepaid pension expenses.

The unrecognized differences arising from adopting the new standard are recognized in expenses using the straight-line method over a fixed period of 15 years.

Unrecognized actuarial gains and losses are recognized in expenses using the straight-line method over a fixed period of 10 years, which is within the average estimated effective remaining working life of the employees, commencing from the following period.

Unrecognized prior service costs are recognized in expenses using the straight-line method over a fixed period of 10 years, which is within the average estimated effective remaining working life of the employees.

Allowance for Loss on Real Estate Rental Contract

Allowance for loss on real estate rental contract is made against estimated future loss related to long-term real estate rental contract.

(10) Leases

Leases that substantially transfer all the risks and rewards of

ownership of the assets are accounted for as capital leases.

However leases which do not transfer ownership of the assets at the end of the lease term are accounted for as operating leases, in accordance with accounting principles and practices generally accepted in Japan.

(11) Accounting for Hedging

Japan Securities Settlement & Custody, Inc. (JSSC) uses foreign exchange forward contracts to hedge exposures resulting from fluctuations in foreign currency exchange rates on monetary assets denominated in foreign currencies.

Using derivatives for speculative purposes is prohibited in internal rules of JSSC.

JSSC is exposed to the credit risk of non-performance by counterparties, but assesses the risk as low, as the counterparties are limited to major financial institutions.

Monetary assets hedged by qualified forward foreign exchange contracts, which JSSC uses, are translated at the corresponding contract rates.

(12) Accounting for Debt Assumption

Concerning the debt assumption of Japan Securities Clearing Corporation, assets and liabilities concerned are recognized on settlement basis.

(13) Appropriation of Retained Earnings

Under the Japanese Commercial Code and the Articles of Incorporation, the plan for appropriation of retained earnings proposed by the Board of Directors is required to be approved at the shareholders' meeting which must be held within three months after the end of each fiscal year (see Note 18).

The appropriation of retained earnings reflected in the accompanying Consolidated Statements of Shareholders' Equity represents the results of such an appropriation applicable to the preceding fiscal year which was approved at the shareholders' meeting and disposed of during the fiscal year.

(14) Income Taxes

Income taxes of the Companies consist of corporate income taxes, local inhabitants taxes and enterprise taxes. Income taxes are determined using the asset and liability method, where deferred tax assets and liabilities are recognized for temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements.

(15) Accounting for Consumption Taxes

Consumption taxes are imposed at a flat rate of 5% for all domestic consumption of goods and services with certain limited exemptions. Consumption taxes imposed on the Companies' sales are withheld by the Companies at the time of sale and are subsequently paid to the government tax authority.

Consumption taxes withheld and consumption taxes paid by

the Companies on the purchase of goods and services from vendors are not included in any amounts in the accompanying Consolidated Statements of Income.

(16) Foreign Currency Translation

All monetary assets and liabilities of the Companies denominated in foreign currencies are translated into yen at the year-end rate. The resulting transaction gains or losses are charged or credited to income.

(17) Accounting Standard for Impairment of Fixed Assets

On August 9, 2002, the Business Accounting Council in Japan issued "Accounting Standard for Impairment of Fixed Assets." The standard requires that fixed assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss shall be recognized in the income statement by reducing the carrying amount of impaired assets or a group of assets to the recoverable amount to be measured as the higher of net selling price and value in use.

The standard shall be effective for fiscal years beginning April 1, 2005. However, an earlier adoption is permitted for fiscal years beginning April 1, 2004 and for fiscal years ending between March 31, 2004 and March 31, 2005.

TSE has not yet adopted this new accounting standard. However, the management believes that an application of the new standard would not have significant impact on TSE's consolidated financial statements.

3. Accounting Change

TSE and its subsidiary, Japan Securities Clearing Corporation, obtain deposits from trading participants and clearing participants, in order to hedge the risks of securities trading according to laws, regulations and internal rules. Assets deposited to the Companies in accordance with the system are determined as monetary assets or securities.

Until the year ended March 31, 2004, deposited securities to the Companies were based on the calculation of, in accordance with the internal rules, multiplying their market values by a figure ranging between 70% and 95% depending on the type of securities, and were presented on the Consolidated Balance Sheets.

The Companies changed the accounting method for deposited securities in the year ended March 31, 2005. The deposited securities to the Companies were not presented on the Consolidated Balance Sheets (off-balanced) as of March 31, 2005. This change was intended to harmonize accounting method of the Companies with recent situations in accounting method of business in the same field.

As a result of the accounting change, assets and liabilities as of March 31, 2005 decreased by 921,491 million yen, comparing with those of 2004. Details of the items are as follows:

	¥ mils.	U.S.\$ thous. (Note 1)
Margin funds for when-issue transactions	¥ 1,728	\$ 16,091
Margin funds for derivatives	665,184	6,194,092
Deposit for clearing funds	153,979	1,433,829
Deposit as collateral preceding settlement day	94,710	881,927
Legal guarantee funds	2,194	20,436
Deposits received as trading participants guarantee	3,696	34,414
Total	¥ 921,491	\$ 8,580,789

4. Reclassifications

Certain reclassifications of the accompanying consolidated financial statements as of and for the year ended March 31, 2004 have been made to conform to the 2005 presentation.

5. Cash and Cash Equivalents

The relations between the cash and cash equivalents and balance sheets items are as follows:

	¥ mils.	U.S.\$ thous. (Note 1)	
	2004	2005	2005
Cash and bank deposits	¥ 26,506	¥ 27,389	\$ 255,044
Short-term investment in securities	1,500	2,501	23,285
Fixed deposits with a maturing over three months	—	(900)	(8,381)
Held-to-maturity-securities	(999)	(2,000)	(18,622)
Cash and cash equivalents	¥ 27,007	¥ 26,990	\$ 251,326

6. Marketable Securities and Investments in Securities

(1) Investments in securities as of March 31, 2004 and 2005 consisted of the following:

	¥ mils.	U.S.\$ thous. (Note 1)	
	2004	2005	2005
Short-term:			
Held-to-maturity securities	¥ 999	¥ 2,000	\$ 18,622
Available-for-sale securities	501	501	4,663
Total	¥ 1,500	¥ 2,501	\$ 23,285

	¥ mils.	U.S.\$ thous. (Note 1)	
	2004	2005	2005
Long-term:			
Held-to-maturity securities	¥ 502	¥ 1,498	\$ 13,946
Available-for-sale securities	13	13	127
Investments in affiliates	3,274	3,552	33,074
Total	¥ 3,789	¥ 5,063	\$ 47,147

Note: In addition, the available-for-sale securities amount of 3,000 million yen is included in the account of "Special assets for default compensation reserve funds" as of March 31, 2005.

Notes to the Consolidated Financial Statements

(2) Held-to-maturity securities for which market value as of March 31, 2004 and 2005 are available are as follows:

	¥ mils.		
	2004		
Held-to-maturity securities:	Carrying amount	Fair value amount	Unrealized gains (losses)
Market value over book value:			
Government bonds and municipal bonds	¥ —	¥ —	¥ —
Corporate bonds	—	—	—
Others	—	—	—
Market value less than book value:			
Government bonds and municipal bonds	¥ —	¥ —	¥ —
Corporate bonds	502	499	(3)
Others	—	—	—
	<u>502</u>	<u>499</u>	<u>(3)</u>
	<u>¥ 502</u>	<u>¥ 499</u>	<u>¥ (3)</u>

	¥ mils.		
	2005		
Held-to-maturity securities:	Carrying amount	Fair value amount	Unrealized gains (losses)
Market value over book value:			
Government bonds and municipal bonds	¥ —	¥ —	¥ —
Corporate bonds	—	—	—
Others	—	—	—
Market value less than book value:			
Government bonds and municipal bonds	¥ —	¥ —	¥ —
Corporate bonds	1,498	1,504	6
Others	—	—	—
	<u>1,498</u>	<u>1,504</u>	<u>6</u>
	<u>¥ 1,498</u>	<u>¥ 1,504</u>	<u>¥ 6</u>

	U.S. \$ thous. (Note 1)		
	2005		
Held-to-maturity securities:	Carrying amount	Fair value amount	Unrealized gains (losses)
Market value over book value:			
Government bonds and municipal bonds	\$ —	\$ —	\$ —
Corporate bonds	—	—	—
Others	—	—	—
Market value less than book value:			
Government bonds and municipal bonds	\$ —	\$ —	\$ —
Corporate bonds	13,946	14,001	55
Others	—	—	—
	<u>13,946</u>	<u>14,001</u>	<u>55</u>
	<u>\$ 13,946</u>	<u>\$ 14,001</u>	<u>\$ 55</u>

(3) Details of securities without market quotation are as follows:

	¥ mils.		U.S.\$ thous. (Note 1)
	2004	2005	2005
Held-to-maturity securities			
Asset Backed Commercial Paper	¥ 999	¥ 2,000	\$ 18,622
Available-for-sale securities			
Unlisted equity securities, excluding over-the-counter stock	13	13	127
Asset Backed Commercial Paper	2,999	3,000	27,932
Free Financial Fund	501	501	4,663
	<u>¥ 4,512</u>	<u>¥ 5,514</u>	<u>\$ 51,344</u>

(4) Redemption schedule of held-to-maturity securities as of March 31, 2005 are as follows:

	¥ mils.		U.S.\$ thous. (Note 1)	
	Within a year	Within 5 years over a year	Within a year	Within 5 years over a year
Debt Securities				
Government bonds and municipal bonds	¥ —	¥ 1,500	\$ —	\$ 13,967
Corporate bonds	—	—	—	—
Others	5,000	—	46,559	—
Others	—	—	—	—
Total	<u>¥ 5,000</u>	<u>¥ 1,500</u>	<u>\$ 46,559</u>	<u>\$ 13,967</u>

7. Long-Term Debt

Long-term debt as of March 31, 2004 and 2005 consists of the following:

	¥ mils.		U.S.\$ thous. (Note 1)
	2004	2005	2005
Long-term debt within 1 year	¥ 420	¥ 168	\$ 1,564
Long-term debt	222	52	483
	<u>¥ 642</u>	<u>¥ 220</u>	<u>\$ 2,047</u>

Average rate of long-term debt within 1 year as of March 31, 2005: 1.2%

Average rate of long-term debt as of March 31, 2005: 1.3%

The aggregate annual maturities of the non-current portion of long-term debt as of March 31, 2005 are as follows:

Year ending March 31	¥ mils.	U.S.\$ thous. (Note 1)
2007	¥ 51	\$ 475
2008	1	8
2009	—	—
Thereafter	—	—
	¥ 52	\$ 483

8. Income Taxes

The Companies in Japan are subject to several taxes based on income, which in the aggregate resulted in statutory tax rates of approximately 42.0% for the years ended March 31, 2004 and 40.7% for the years ended March 31, 2005.

Significant components of the Companies' deferred income tax assets and liabilities as of March 31, 2004 and 2005 are as follows:

	¥ mils.		U.S.\$ thous. (Note 1)
	2004	2005	2005
Deferred tax assets:			
Allowance for retirement benefits for employees	¥ 1,422	¥ 1,499	\$ 13,959
Allowance for employee bonuses	306	308	2,871
Depreciation and amortization	281	367	3,418
Allowance for loss on real estate rental contract	—	1,864	17,357
Accrued enterprise tax	363	271	2,522
Other	503	451	4,197
Sub-total	2,875	4,760	44,324
Less – Valuation allowance	(300)	(293)	(2,728)
Total deferred tax assets	2,575	4,467	41,596
Deferred tax liabilities:			
Total deferred tax liabilities	—	—	—
Net deferred tax assets	¥ 2,575	¥ 4,467	\$ 41,596

The reconciliation of the statutory tax rate to the effective tax rate for the year ended March 31, 2004 and 2005 is as follows:

	2004	2005
Statutory tax rate	42.0%	40.7%
Adjustments:		
Permanent non-deductible difference	0.6	0.9
Equity in earnings of affiliated companies	(0.4)	(0.8)
Decrease in deferred tax assets due to tax rate change	0.4	—
Deduction by investment in IT	(5.4)	(9.2)
Decrease in valuation allowances	(0.7)	—
Other factors	0.2	0.9
Effective tax rate	36.7%	32.5%

9. Allowance for Retirement Benefits for Employees

TSE has defined benefit retirement plans that are a tax qualified pension plan, and a lump-sum retirement payment plan.

The allowance for retirement benefits for employees as of March 31, 2004 and 2005 are as follows:

	¥ mils.		U.S.\$ thous. (Note 1)
	2004	2005	2005
Projected benefit obligations	¥ (26,181)	¥ (25,893)	\$ (241,116)
Plan assets	13,934	13,124	140,833
Unfunded benefit obligations	(12,247)	(10,769)	(100,283)
Unrecognized prior service costs	(1,061)	(910)	(8,475)
Unrecognized actuarial differences	3,235	2,223	20,704
Unrecognized transition amount	6,258	5,690	52,981
Accrued pension costs	(3,815)	(3,766)	(35,073)
Prepaid pension costs	2,124	2,041	19,002
Allowance for retirement benefits	¥ (5,939)	¥ (5,807)	\$ (54,075)

Note: The retirement payment plan and pension plan were amended on April 1, 2005. As a result of this amendment, prior service costs were decreased by 4,658 million yen.

Notes to the Consolidated Financial Statements

The net pension costs relating to retirement benefits for the years ended March 31, 2004 and 2005 are as follows:

	¥ mils.		U.S.\$ thous. (Note 1)
	2004	2005	2005
Service cost	¥ 844	¥ 764	\$ 7,112
Interest cost	654	574	5,347
Expected return on plan assets	(280)	(307)	(2,855)
Amortization of unrecognized prior service costs	(151)	(152)	(1,412)
Amortization of unrecognized actuarial differences	627	431	4,009
Amortization of transition adjustment	568	569	5,298
Net pension costs	¥ 2,262	¥ 1,879	\$ 17,499

Assumptions used in the calculation of the above information are as follows:

	As of March 31, 2004	As of March 31, 2005
Discount rate	2.2%	2.2%
Expected rate of return on plan assets	2.5%	2.2%
Method of attributing the projected benefits of services	straight-line basis	straight-line basis
Amortization of unrecognized prior service cost	10 years	10 years
Amortization of transition adjustment	15 years	15 years
Amortization of unrecognized actuarial differences	10 years	10 years

10. Lease Transactions

The Companies have various lease agreements whereby the Companies act both as a lessee and a lessor. Finance lease contracts other than those which are deemed to transfer the ownership of the leased assets to lessees are accounted for by the method that is applicable to ordinary operating leases.

(1) Lessee lease

(a) Acquisition cost, accumulated depreciation and net book value are as follows:

	¥ mils.		
	2004		
	Acquisition Cost	Accumulated Depreciation	Balance as of March 31, 2004
Information system Equipments	¥ 821	¥ 784	¥ 37
Other	29	27	2
Total	¥ 850	¥ 811	¥ 39

U.S.\$ thous.
(Note 1)

	¥ mils.			
	2005			
	Acquisition Cost	Accumulated Depreciation	Balance as of March 31, 2005	Balance as of March 31, 2005
Information system Equipments	¥ 446	¥ 435	¥ 11	\$ 105
Other	5	5	—	—
Total	¥ 451	¥ 440	¥ 11	\$ 105

(b) Outstanding future lease payments as of March 31, 2004 and 2005 including the interest portion thereon, categorized by contractual maturity are as follows:

	¥ mils.		U.S.\$ thous. (Note 1)
	2004	2005	2005
Due within one year	¥ 29	¥ 8	\$ 70
Due over one year	11	4	39
	¥ 40	¥ 12	\$ 109

(c) Lease payments, depreciation expense and interest expense amounts are as follows:

	¥ mils.		U.S.\$ thous. (Note 1)
	2004	2005	2005
Lease payments	¥ 155	¥ 30	\$ 283
Depreciation expense amount	90	28	265
Interest expense amount	2	0	4

(d) Computation of depreciation expense amount

Depreciation expense amount is computed using the straight-line method over a period up to the length of the relevant lease contract with no residual value.

(e) Allocation of interest expense amount

Interest expense amount is allocated using the interest method over the respective term of lease.

(2) Lessor lease

(a) Acquisition cost, accumulated depreciation, and net book value are as follows:

	¥ mils.		
	2004		
	Acquisition Cost	Accumulated Depreciation	Balance as of March 31, 2004
Leased assets	¥ 3,029	¥ 1,633	¥ 1,396

	¥ mils.		U.S.\$ thous. (Note 1)
	2005		
	Acquisition Cost	Accumulated Depreciation	Balance as of March 31, 2005
Leased assets	¥ 3,058	¥ 1,918	¥ 1,140
			\$ 10,614

(b) Outstanding lease commitments as of March 31, 2004 and 2005 are as follows:

	¥ mils.		U.S.\$ thous. (Note 1)
	2004	2005	2005
	Due within one year	¥ 811	¥ 605
Due over one year	722	726	6,760
	¥ 1,583	¥ 1,331	\$ 12,393

(c) Lease revenue, depreciation and interest income amounts are as follows:

	¥ mils.	U.S.\$ thous. (Note 1)	
	2004	2005	2005
Lease revenue	¥ 1,304	¥ 906	\$ 8,436
Depreciation	993	765	7,126
Interest income amount	107	88	819

(d) Allocation of interest income amount

Interest income amount is allocated using the interest method over the respective term of leases.

Notes to the Consolidated Financial Statements

11. Related Party Transactions

Material transactions of the Companies with related companies or individuals, excluding transactions with consolidated subsidiaries (which are eliminated in the consolidated financial statements), for the year ended March 31, 2004 and 2005, are as follows:

2004

Related company

¥ mils.

Name of related party	Address	Paid-in capital	Principal Business	Percentage of equity ownership by the Company	Relationship		Transactions		Account	End of period account balance
					Directors holding concurrent positions	Business relationship	Description of the Company's transaction	Amount of transactions		
Tosho Computer Systems Co. (an affiliated company)	Chuo-Ku, Tokyo	¥400	Data processing	Directly holds 35.0%	One director	Outsourcing of system operation	Outsourcing of system operation	¥3,589	Accounts payable	¥393
						Rent of real estate	Rent of real estate	¥318	Deferred revenue	¥58
									Long-term deferred revenue	¥164

- The above transaction amounts exclude consumption taxes, but consumption taxes are included in the end of period balances.
- The terms and conditions of the above transactions refer to market realized prices.

2005

(1) Individual

¥ mils. (U.S. \$ thous.: Note 1)

Name of related party	Address	Paid-in capital	Principal Business	Percentage of equity ownership by the Company	Relationship		Transactions		Account	End of period account balance
					Directors holding concurrent positions	Business relationship	Description of the Company's transaction	Amount of transactions		
Hiroshi Okuda (Director of TSE)	—	—	Director of Toyota Motor Corporation	—	—	—	WEF Tokyo general meeting sponsor contribution from Toyota	¥1 (\$9)	—	—

- The above transaction is done for a so-called third party.
- The above transaction amounts exclude consumption taxes.
- Transaction of which terms and conditions are determined uniformly, such as 'Trading participant fees and dues' and 'Listing fees,' are not included in the above list.

(2) Related company

¥ mils. (U.S. \$ thous.: Note 1)

Name of related party	Address	Paid-in capital	Principal Business	Percentage of equity ownership by the Company	Relationship		Transactions		Account	End of period account balance
					Directors holding concurrent positions	Business relationship	Description of the Company's transaction	Amount of transactions		
Tosho Computer Systems Co. (an affiliated company)	Chuo-Ku, Tokyo	¥400	Data processing	Directly holds 35.0%	—	Outsourcing of system operation	Outsourcing of system operation	¥3,783 (\$35,225)	Accounts payable	¥406 (\$3,784)
						Rent of real estate	Rent of real estate	¥303 (\$2,823)	Deferred revenue	¥58 (\$543)
									Long-term deferred revenue	¥123 (\$1,150)

- The above transaction amounts exclude consumption taxes, but consumption taxes are included in the end of period balances.
- The terms and conditions of the above transactions refer to market realized prices.

12. Guarantees

	¥ mils.	U.S.\$ thous. (Note 1)		
		2004	2005	2005
Guarantees for housing loans from banks for employees	¥ 4,940		¥ 4,823	\$ 44,916

13. Assets and Liabilities for Hedging Risks of Securities Trading

a) TSE and its subsidiary, Japan Securities Clearing Corporation, have a system including deposits for clearing funds, in order to hedge the risks of securities trading according to laws, regulations and internal rules. Assets deposited to the Companies in accordance with the system are determined as monetary assets or securities (limited in the rules), and according to internal rules, the amounts of the deposited securities are calculated by multiplying their market values by a figure ranging between 70% and 95%, depending on the type of securities. Deposited monetary assets and securities are segregated from other assets.

b) Japan Securities Clearing Corporation, as a clearing institution, assumes debts and obtains credits from clearing participants when securities are traded in the market. In order to hedge the clearing participants' default for the period between the trading date and settlement date, the company receives deposits for clearing funds and keeps them segregated from other assets.

Deposited monetary assets and related liabilities are presented in the Consolidated Balance Sheets as 'Margin funds (received) for derivatives and when-issued transaction,' 'Deposits (received) for clearing funds,' and 'Deposits (received) as collateral preceding settlement day.'

Deposited securities are not presented in the Consolidated Balance Sheets. The market value of such deposited securities as of March 31, 2005 is as follows:

	¥ mils.	U.S.\$ thous. (Note 1)
Margin funds for when-issued transactions	¥ 2,480	\$ 23,093
Margin funds for derivatives	820,017	7,635,880
Deposits for clearing funds	196,192	1,826,908
Deposits as collateral preceding settlement day	116,321	1,083,167

c) TSE receives Legal Guarantee Funds from the trading participants in order to hedge the risk of investors caused by trading participants' default, and keeps them separately from other assets.

Deposited monetary assets and related liabilities are presented in the Consolidated Balance Sheets as 'Guarantee money deposits (received).'

Deposited securities are not presented in the Consolidated Balance Sheets. The market value of such deposited securities as of March 31, 2005 is as follows:

	¥ mils.	U.S.\$ thous. (Note 1)
Legal guarantee funds	¥ 2,912	\$ 27,121

d) In addition, TSE receives guarantee from the trading participants so as to hedge the TSE's risk caused by the participants' default.

Deposited monetary assets and related liabilities are presented in the Consolidated Balance Sheets as 'Cash and bank deposits' and 'Deposits received as trading participants guarantee.'

Deposited securities are not presented in the Consolidated Balance Sheets. The market value of such deposited securities as of March 31, 2005 is as follows:

	¥ mils.	U.S.\$ thous. (Note 1)
Deposits as trading participants guarantee	¥ 5,220	\$ 48,607

14. Details of Operating Expenses

The following are the major elements of "operating expenses" for the years ended March 31, 2004 and 2005:

	¥ mils.	2005	2005
	2004	2005	2005
Salaries	¥ 6,964	¥ 7,112	\$ 66,225
Provision for bonus allowance	726	750	6,984
Pension costs	2,173	1,797	16,733
Provision for executive retirement allowance	93	54	499
System maintenance & operation costs	8,431	9,337	86,946
Real estate rental fees	5,629	5,817	54,163
Depreciation	6,999	7,965	74,168

Notes to the Consolidated Financial Statements

15. Details of Loss on Disposal of Fixed Assets

The following are the elements of "Loss on disposal of fixed assets" for the years ended March 31, 2004 and 2005:

	¥ mils.		U.S.\$ thous. (Note 1)	
	2004	2005	2005	
Buildings	¥ —	¥ 47	\$ 443	
Information system equipments	279	8	73	
Other property and equipment	45	2	17	
Software	214	7	67	
Other intangible fixed assets	—	1	9	
Total	¥ 538	¥ 65	\$ 609	

16. Net Income per Share

Net income per share of common stock is based upon the weighted average number of shares of common stock outstanding during each year.

Basis for calculating net income per share for the years ended March 31, 2004 and 2005 is as follows:

	¥ mils.		U.S.\$ thous. (Note 1)	
	2004	2005	2005	
Net income	¥ 5,031	¥ 4,978	\$ 46,353	
Less: Components not pertaining to common shareholders				
Bonuses to directors and corporate auditors	(57)	(52)	(484)	
Net income pertaining to common stock	4,974	4,926	45,869	
Average outstanding shares of common stock	2,157,511 shares	2,275,384 shares		

	Yen		U.S.Dollars (Note 1)	
	2004	2005	2005	
Net income per share	¥ 2,305.44	¥ 2,164.82	\$ 20.16	
Shareholders' equity per share	31,982.03	33,852.25	315.23	

17. Segment Information

(1) Business Segment

For the years ended March 31, 2004 and 2005, this information is not required to be disclosed because the revenue from operations, operating income and total assets for the stock exchange segment exceeds 90% of consolidated revenue from operations, operating income and total assets, respectively.

(2) Geographic Information

TSE has no overseas consolidated subsidiaries for the years ended March 31, 2004 and 2005.

(3) Net Sales—Overseas

For the years ended March 31, 2004 and 2005, this information is not required to be disclosed because overseas sales do not exceed 10% of consolidated revenue.

18. Subsequent Event

The appropriations of the retained earnings of TSE with respect to the year ended March 31, 2005, as proposed by the Board of Directors and approved at the shareholders' meeting of TSE held on June 22, 2005, are as follows:

	¥ mils.		U.S.\$ thous. (Note 1)	
Retained earnings as of March 31, 2005	¥ 43,389		\$ 404,032	
Appropriations:				
Dividends	1,160		10,798	
Bonuses to directors and corporate auditors	52		484	
Total appropriations	1,212		11,282	
Retained earnings to be carried forward	¥ 42,177		\$ 392,750	

Report of Independent Auditors

To the Board of Directors and Shareholders of
Tokyo Stock Exchange, Inc.

We have audited the accompanying consolidated balance sheets of Tokyo Stock Exchange, Inc. and its subsidiaries as of March 31, 2005 and 2004, and the related consolidated statements of income, shareholders' equity, 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 Tokyo Stock Exchange, Inc. and its subsidiaries as of March 31, 2005 and 2004, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

As described in Note 3, effective for the year ended March 31, 2005, Tokyo Stock Exchange, Inc. and its subsidiaries have changed the accounting method for deposited securities.

The amounts expressed in U.S. dollars, which are provided solely for the convenience of the reader, have been translated on the basis set forth in Note 1 to the accompanying consolidated financial statements.



ChuoAoyama PricewaterhouseCoopers
Tokyo, Japan
June 22, 2005

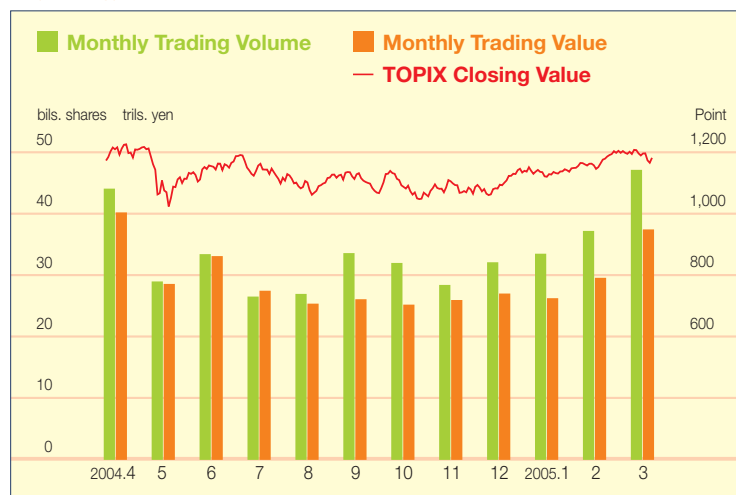
Market Data

Tokyo Stock Exchange, Inc. and Consolidated Subsidiaries
For years ended March 31

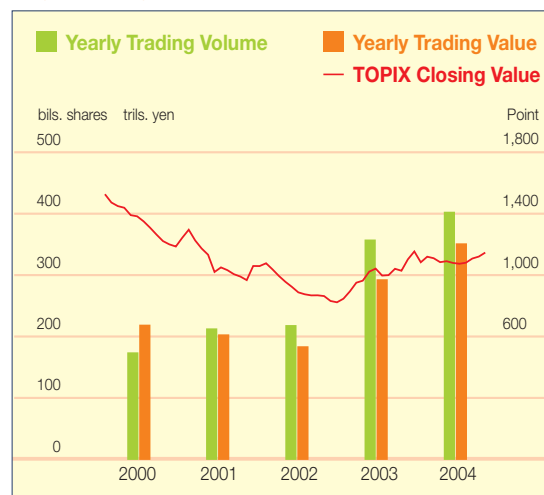
Trading Value of Domestic Stocks

	Daily Average <small>mils. yen</small>		Monthly Total	
	Ordinary Trades	Off-hour Trades	Trading Value <small>mils. yen</small>	Trading Volume <small>thous. shares</small>
2004. 4	1,739,722	159,673	39,887,293	43,740,615
5	1,441,555	131,436	28,313,839	28,713,479
6	1,351,947	139,769	32,817,762	33,135,468
7	1,196,610	99,120	27,210,315	26,265,004
8	1,040,312	101,481	25,119,433	26,697,205
9	1,175,403	116,358	25,835,206	33,303,330
10	1,153,498	94,564	24,961,244	31,709,537
11	1,160,911	124,601	25,710,248	28,149,373
12	1,160,397	113,751	26,757,121	31,819,385
2005. 1	1,262,886	105,653	26,002,245	33,204,717
2	1,386,841	155,539	29,305,205	36,893,346
3	1,532,208	155,911	37,138,636	46,781,689
FY 2004	1,299,831	124,898	349,058,550	400,413,154
FY 2003	1,064,036	108,257	290,728,726	355,237,963
FY 2002	636,840	102,529	181,884,814	216,298,477

TOPIX, Trading Volume and Trading Value of Domestic Stocks (Monthly)



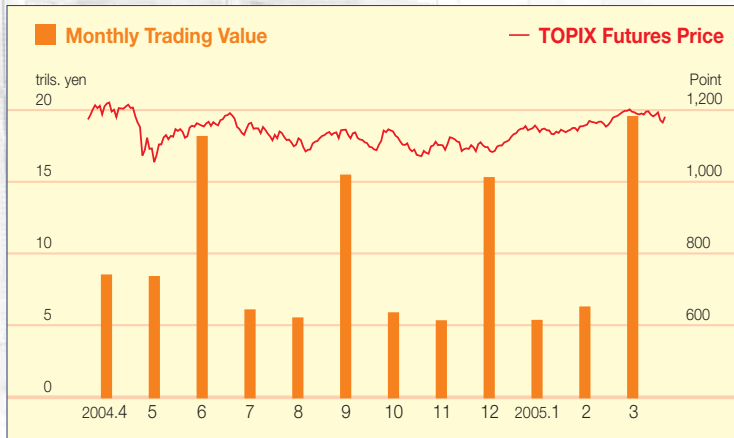
(Fiscal Year)



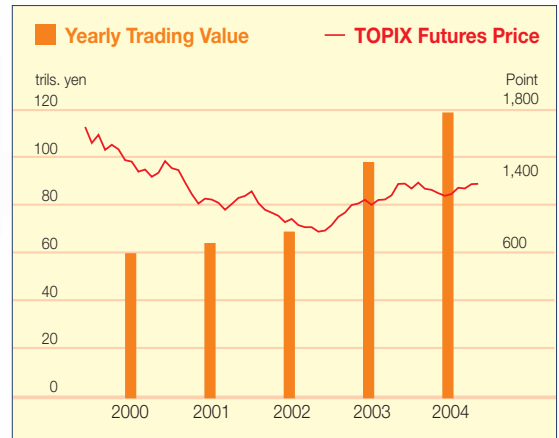
Market Data

Tokyo Stock Exchange, Inc. and Consolidated Subsidiaries
For years ended March 31

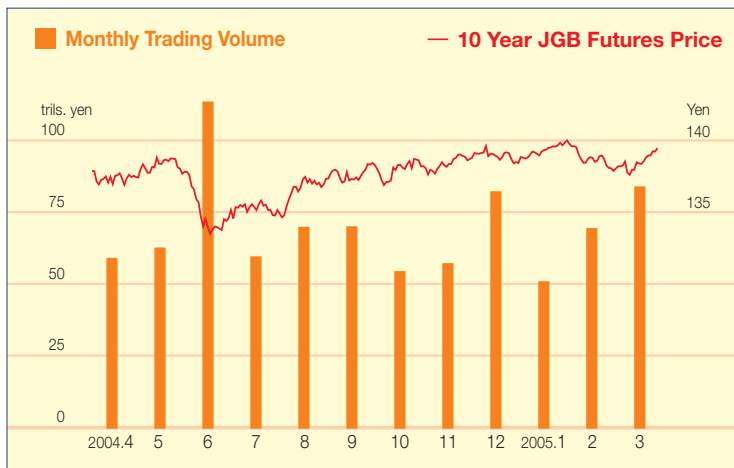
Stock Price Index Futures (Monthly)



(Fiscal Year)



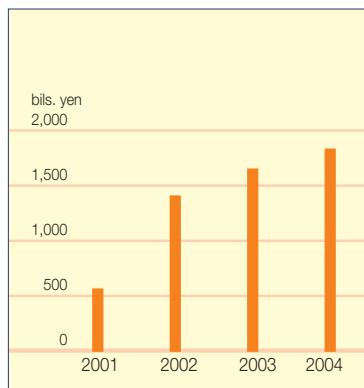
Japanese Government Bond Futures (Monthly)



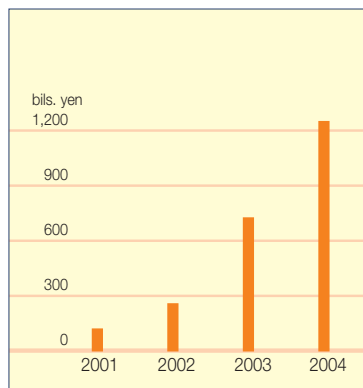
(Fiscal Year)



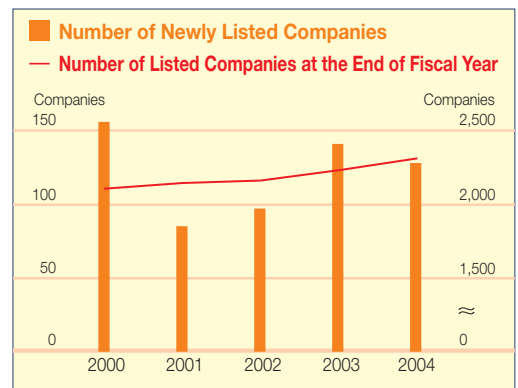
ETF's Yearly Trading Value



REIT's Yearly Trading Value

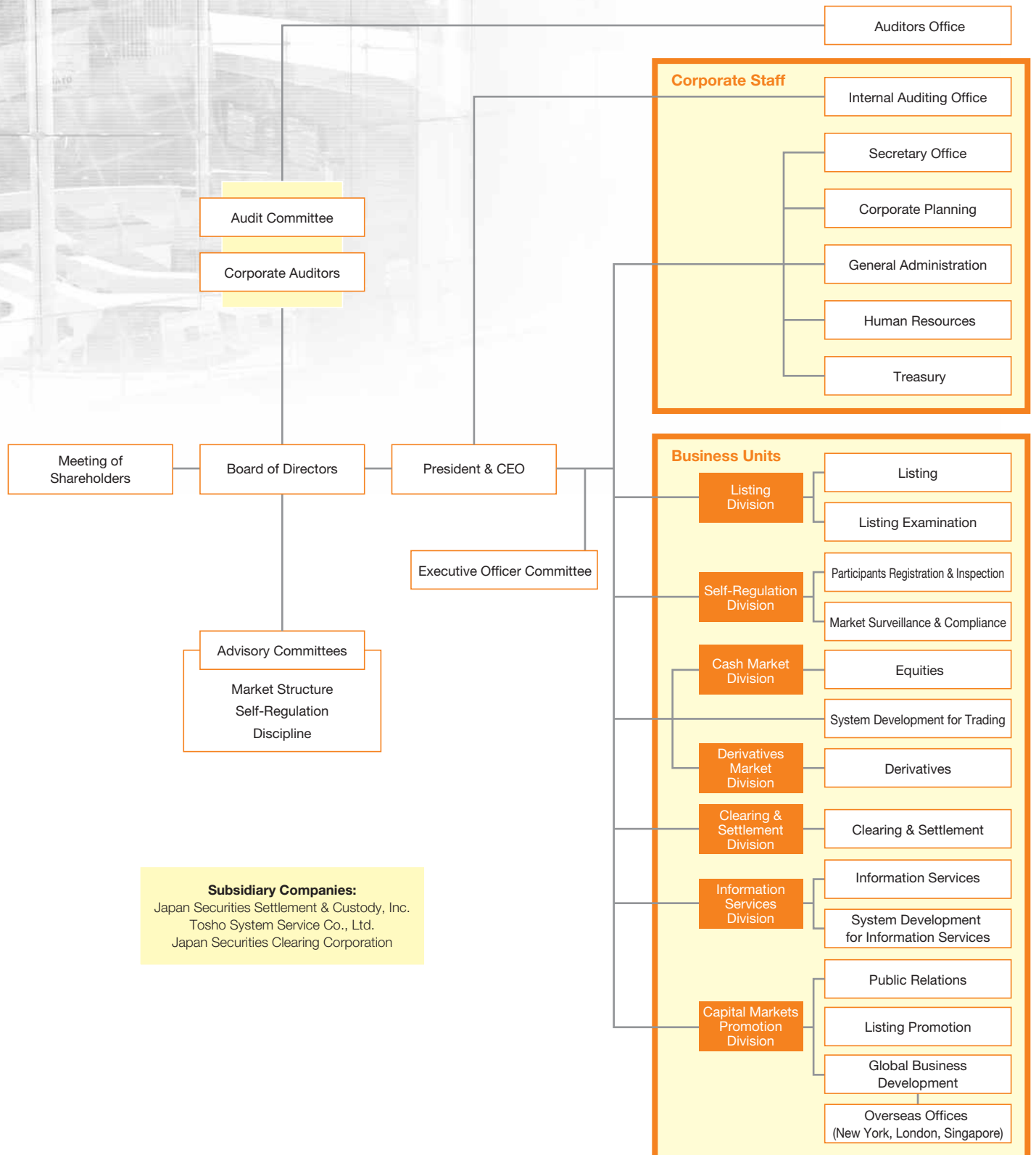


Number of Newly Listed Companies, Number of Listed Companies



Organization

As of June 30, 2005



Corporate Data

As of March 31, 2005

Name	Tokyo Stock Exchange, Inc.	
Representative Officer	Takuo Tsurushima President & CEO	
No. of Officers (As of June 30, 2005)	Board of Directors	12
	Corporate Auditors	4
	Executive Officers	9 (5 of whom are also Board members)
Address	2-1, Nihombashi-Kabuto-cho Chuo-ku, Tokyo 103-8220, Japan	
Foundation	April 1, 1949	
Capital	¥11.5 billion	
No. of Employees	720	
Main Business:	Market provision for the trading of cash and derivative securities; public announcement of market prices for those securities; maintenance of fair and equitable trading; other business related to the operation of a securities market.	

Share Information	Authorized Shares	9,200,000
	Shares Outstanding	2,300,000
	No. of Shareholders	123

Trading Participants	General Trading Participants	108
	JGB Futures and Options Trading Participants	68
	TOPIX Futures and Options Trading Participants	1

Overseas Offices	New York Representative Office 45 Broadway New York, NY 10006 U.S.A. Tel: (1) 212-363-2350
	London Representative Office Peninsular House 36 Monument Street London EC3R 8LJ U.K. Tel: (44) 20-7236-0885
	Singapore Representative Office 16 Raffles Quay #11-02, Hong Leong Building, Singapore 048581 Tel: (65) 6438-5100



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<http://www.tse.or.jp/english/index.shtml>