

Tokyo Stock Exchange, Inc. Annual Report 2006

Tokyo Stock Exchange, Inc.

For the fiscal year ended
March 31, 2006

Annual Report 2006



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 2005, TSE had an overwhelming 92% share of the total value of all trading on domestic stock exchanges.

TSE had a market value of ¥563 trillion as of the end of March 2006 and a trading value of ¥591 trillion for the fiscal year ended March 31, 2006, 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 clearing and settlement services, market information services, and a wide range of other stock exchange business services.

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.

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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.

Trading Participant Fees

Trading participant fees are comprised of "transaction fees" charged to securities firms and other trading participants in accordance with trading value or volume of stocks and other market instruments, "access fees" charged according to the number of orders, and other fees. This fee system was introduced in April 2005 with a transitional measure to hold the impact of the new system to 30% for the first year and 60% for the second year.

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.

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.

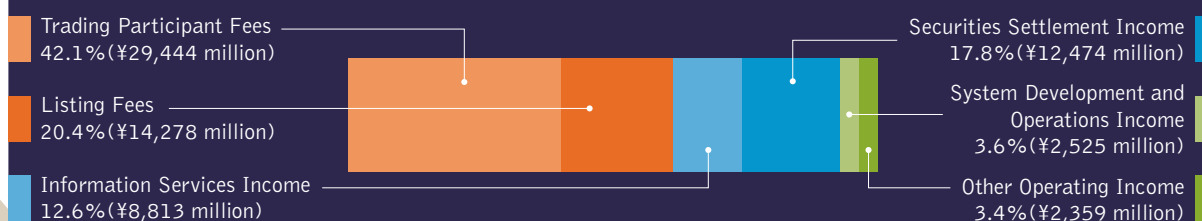
System Development and Operations Income

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

Other Operating Income

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

>>Overview of Operating Revenues



Financial Highlights

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

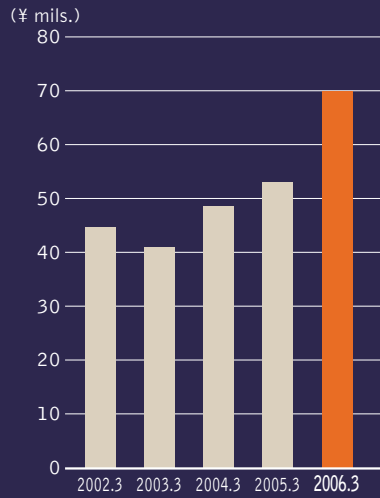
Financial Data	¥ mils. except per share and ratio data					US\$ thous. except per share data
	2002.3	2003.3	2004.3	2005.3	2006.3	2006.3
FOR THE YEAR						
Operating revenues	¥ 44,735	¥ 41,065	¥ 48,643	¥ 53,071	¥ 69,893	\$ 594,989
Operating profit	1,753	2,460	8,206	11,360	28,751	244,755
Income before income taxes and minority interest	1,960	2,859	8,082	7,580	29,332	249,698
Net income	844	3,277	5,031	4,978	18,833	160,321
YEAR END						
Current assets	¥1,319,987	¥1,159,208	¥1,504,944	¥ 303,760	¥ 546,032	\$4,648,270
Non-current assets	60,160	59,251	63,571	63,598	71,832	611,490
Total assets	1,380,147	1,218,459	1,568,515	367,385	617,864	5,259,760
Current liabilities	¥1,303,977	¥1,138,914	¥1,484,243	¥ 277,052	¥ 510,843	\$4,348,711
Non-current liabilities	10,951	10,657	10,854	12,660	11,360	96,703
Minority interest	—	392	481	622	1,016	8,655
Total shareholders' equity	65,219	68,496	72,937	77,024	94,645	805,691
Total liabilities and shareholders' equity	1,380,147	1,218,459	1,568,515	367,358	617,864	5,259,760
PER SHARE DATA						
EPS	¥ 366.83	¥ 1,424.85	¥ 2,305.44	¥ 2,164.82	¥ 8,257.83	\$ 70.30
BPS	28,355.82	29,780.73	31,982.03	33,852.25	41,600.08	354.13
BPS*	20,804.61	22,229.52	24,360.37	26,213.83	33,961.66	289.11
KEY FINANCIAL RATIO						
ROE	1.3%	4.9%	7.1%	6.6%	21.9%	
ROE*	1.8%	6.6%	9.4%	8.6%	27.5%	

*Calculated excluding the default compensation reserve funds
*Rate of US\$1=¥117.47 used for conversion

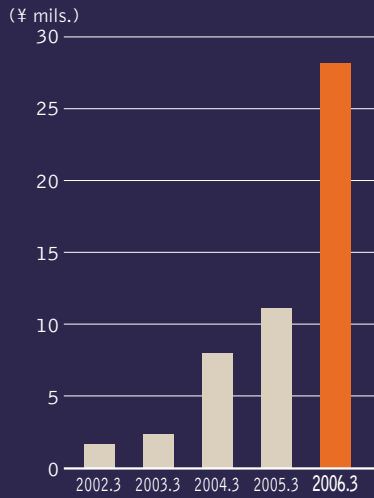
Market Data	2002.3	2003.3	2004.3	2005.3	2006.3	2006.3
FOR THE YEAR						
Domestic equities trading volume (mils. shares)	210,910	216,298	355,238	400,413	588,534	
Domestic equities trading value (bils.)	¥ 201,189	¥ 181,885	¥ 290,729	¥ 349,059	¥ 591,259	\$ 5,033
Stock index futures trading value (bils.)	63,955	68,725	97,859	118,593	204,080	1,737
JGB futures trading volume (bils.)	700,802	590,559	693,785	829,030	1,092,937	9,304
YEAR END						
Number of listed companies	2,149	2,166	2,237	2,318	2,372	
Market capitalization (bils.)	¥ 305,797	¥ 232,862	¥ 369,798	¥ 377,049	¥ 563,349	\$ 4,796
Index (TOPIX)	1,060.19	788.00	1,179.23	1,182.18	1,728.16	

*Rate of US\$1=¥117.47 used for conversion

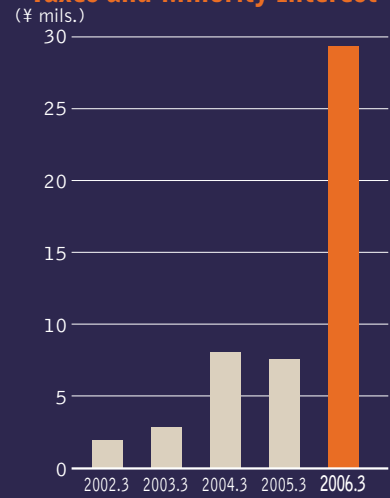
>>Operating Revenues



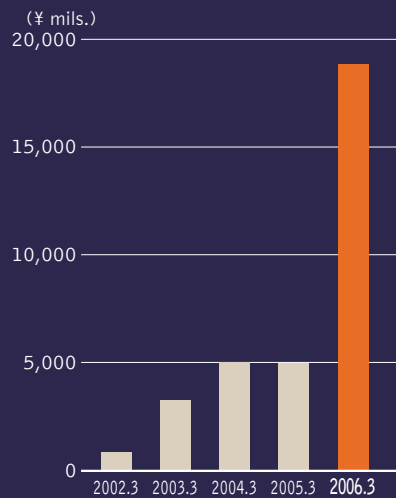
>>Operating Profit



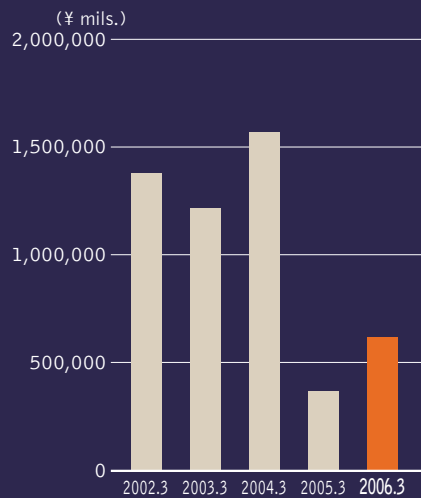
>>Income Before Income Taxes and Minority Interest



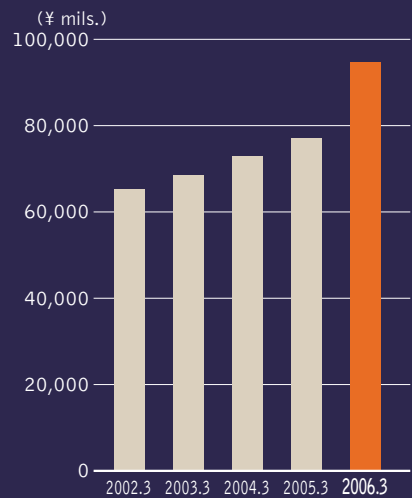
>>Net Income



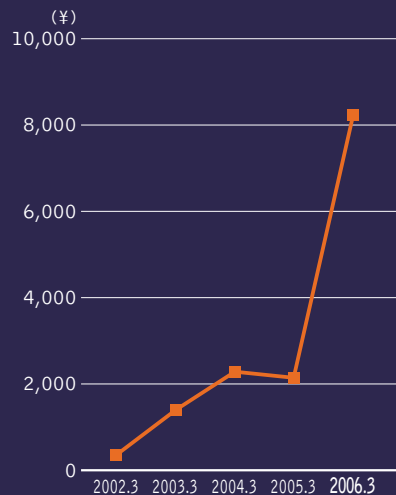
>>Total Assets



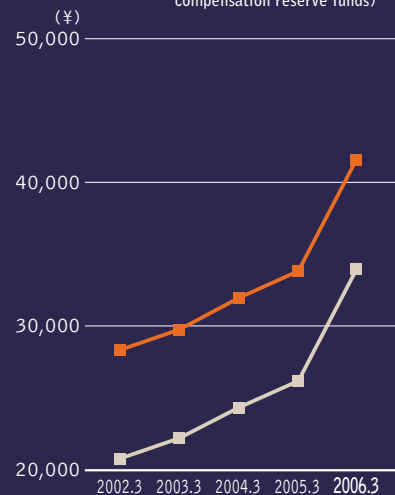
>>Total Shareholders' Equity



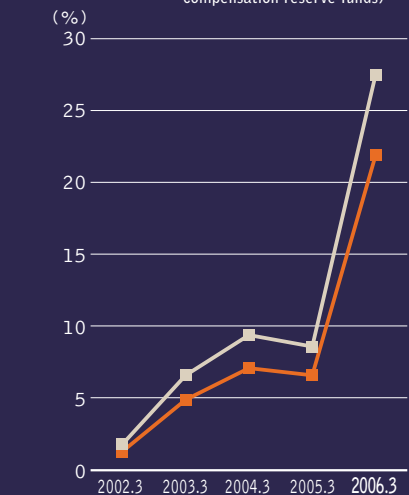
>>EPS



>>BPS



>>ROE





Taizo Nishimuro

President & CEO

Taizo Nishimuro joined Toshiba Corporation in 1961 and built his career in sales and marketing, most notably in semiconductors. Upon becoming President and CEO of Toshiba in 1996, Mr. Nishimuro initiated sweeping reforms designed to assure the company's continuing vitality. He was appointed Chairman of the Board of Toshiba in 2000 and became Adviser to the Board in July 2005. Based on his long and distinguished career in international business, he joined Tokyo Stock Exchange as Chairman of the Board in June of the same year, and in December he became Chairman and CEO, and is now President and CEO.

To Our Shareholders

Record High Profits since Demutualization

During the term under review, Tokyo Stock Exchange, Inc. set a new record high for average daily trading value for domestic equities (auction trading) of ¥2,215.7 billion (up 70.5% year-on-year). Against this backdrop, we were able to record large gains in both revenues and profits, with operating revenues of ¥69.9 billion, operating profit of ¥28.8 billion and net income of ¥18.8 billion. Each of these figures represents record high levels for us since demutualization in 2001.

Devoting Our Utmost Efforts in Restoring Trust

We unfortunately experienced system troubles twice during November and December of last year, and in January 2006, were forced to temporarily suspend trading due to capacity limitations in our systems. For the inconvenience caused by these recent problems, we offer our sincerest apologies to our shareholders and to all market participants.

However, these events led us to reaffirm the importance of our mission of maintaining a high level of reliability and providing ample liquidity as a key infrastructural element supporting the Japanese financial market. We are very much determined to devote our utmost efforts in restoring the public's trust in TSE.

Restoring Credibility in the Stock Exchange Infrastructure

In March 2006, when we drafted our new mid-term business plan, we placed an emphasis on the maintenance of a solid market infrastructure and the strengthening of our self-regulatory functions.

We are now working to fortify and expand our current IT systems as quickly as possible. In May 2006, we expanded the order processing capacity of our stock/CB trading system from 9 million to 12 million orders per day, and we will expand this yet

again to 14 million this November. At the same time, we have also begun working on developing a highly stable, fast, scalable and robust next-generation trading system, which we expect to introduce in 2009.

Effecting Stringent and Orderly Market Operations

With regard to strengthening our self-regulatory functions, we seek the cooperation of both listed companies and securities companies to help effect stringent and orderly market operations.

During the term under review, as public interest in measures designed to defend against hostile takeover activities has been increasing, in March 2006 we introduced new listing rules regarding takeover defense measures. We will continue to monitor changes in the market environment and further strengthen our self-regulatory functions so as to adequately respond to market participants' needs.

Reforms That Respond to the Needs of Market Participants

As globalization in the finance industry progresses, competition among international financial markets is intensifying. Under these circumstances, as the central securities market in Japan, we must strive to succeed in the face of this competition. As such, we need to rapidly implement reforms that will bring about the kind of changes desired by our market participants. To achieve this, we will actively promote dialogue with market participants in order to accurately assess their needs and ensure that the proper reforms are being implemented. We ask for your continued support and understanding of our endeavors in the future.

July 2006



Taizo Nishimuro

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With the recovery in financial markets in Japan, trading volume at TSE reached record-high levels last fiscal year. Factors that contributed to this trend include environmental elements such as the continuing overall economic recovery, and structural elements such as the rapid advancement of IT in securities trading and the globalization of the finance industry – which have brought about discontinuous, sudden changes in various aspects of the market. Against this backdrop, TSE will work to ascertain the factors behind changes in the environment in which we operate, and provide our market participants with the greatest value possible while creating an ongoing process of reform.

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IT Infrastructure

Today, the importance of the role that information technology (IT) plays in the operation of a stock exchange is undeniable. In order to secure a high level of credibility and liquidity, which are among the most important factors for market participants, we strive to strengthen our IT infrastructure while developing and implementing next-generation trading systems.

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Preventing Reoccurrence of System Failure and Increasing Capacity

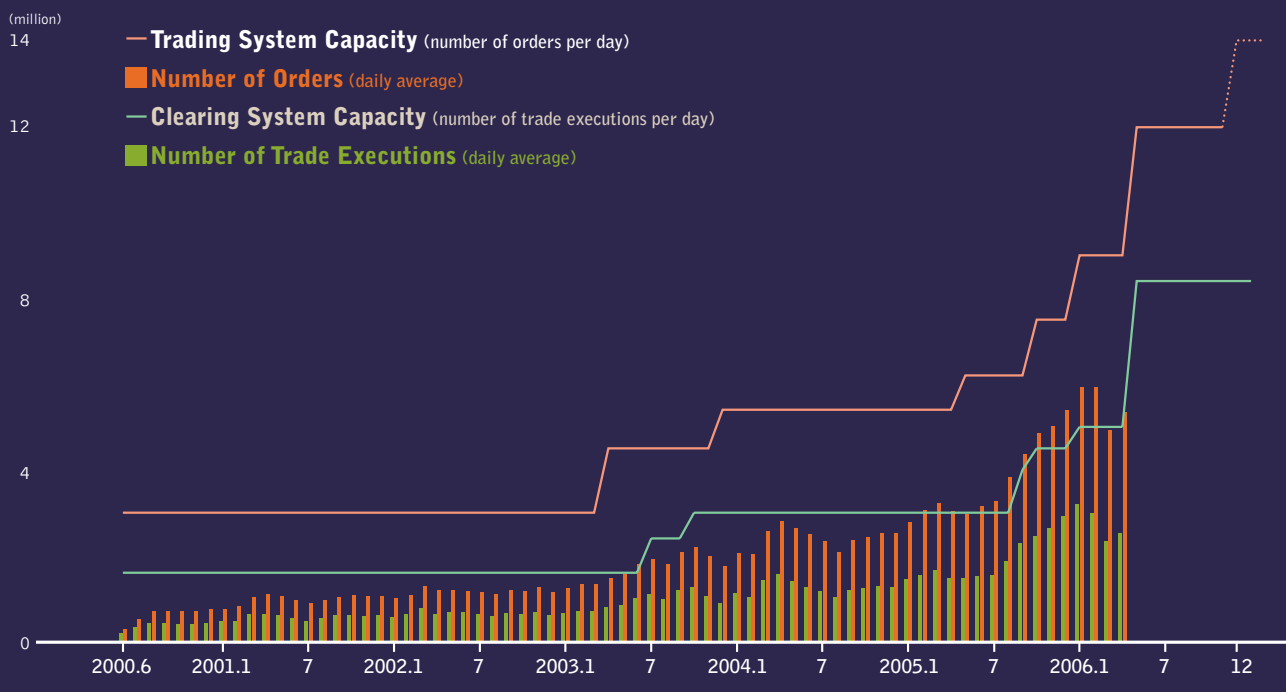
In order to restore the credibility lost due to the system failures and subsequent processing capacity shortage that occurred since November 2005, we thoroughly investigated the causes of the failures and implemented all possible measures to prevent a reoccurrence of this problem, including a total system inspection and an overhaul of related manuals. At the same time, we have introduced programs that can detect and help manage order aberrations, and can prevent input errors that might cause turmoil in the market.

In order to effectively accommodate the recent dramatic increases in the volume of trading, number of orders and number of trade executions, we are working as quickly as possible to increase the capacity of our trading and other systems. We expect

to implement further capacity increases in our trading and market information systems in November 2006.

We replaced our clearing system in January 2006, through which we have provided clearing processing services to the Japan Securities Clearing Corporation. The new clearing system is designed to be easier to maintain and expected to help us better respond to the various needs of clearing-related business.

>>Order and Trade Execution Trends, and System Capacity Enhancement



IT Infrastructure

Creation of a Next-Generation System

Amid the ongoing trends of globalization and the widespread diffusion of IT throughout the finance industry, global markets everywhere are trying to increase their competitive position by making aggressive investments to fortify and raise the level of their information technologies.

Against this backdrop, TSE has begun to develop a "next-generation trading system" that will allow us to maintain our preeminent position as Japan's central market. This next-generation system is planned to begin operations in 2009 and will offer the world's highest level of speed, scalability, flexibility and robustness.

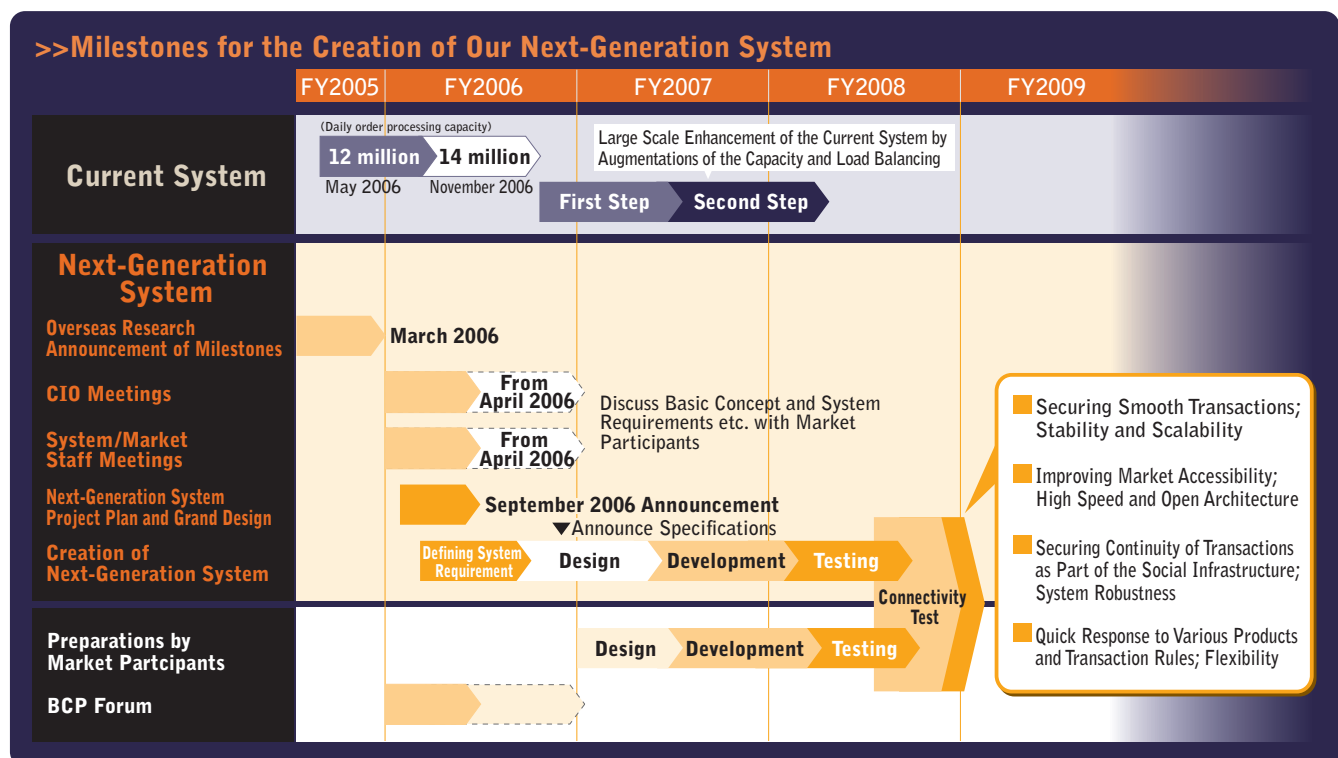
Organizational Reforms

In February 2006, TSE appointed Yoshinori Suzuki from outside TSE as our first Chief Information

Officer (CIO) to control our overall IT strategy. In addition, we have integrated previous IT system departments into one unit to centrally control the planning, development, operation and quality control functions involved with our backbone systems including our trading, clearing and market information systems, so as to optimize our overall systems.

BS7799 / ISMS Certification Acquired

In April 2006, TSE became the world's first major stock exchange to acquire the BS7799-2:2002 certification as a global standard for information security management systems (ISMS). At the same time, we were also the first stock market in Japan to acquire the accreditation under ISMS Conformity Assessment Scheme which represents domestic standard for ISMS.



<< Message from Our CIO >>

Working to Optimize Our Overall Systems

In the coming age, it will be necessary to create new businesses and to raise corporate value through the effective implementation of IT rather than simply using it to computerize our existing business processes. In keeping with the basic concept of enterprise architecture, the departments that handle our management and IT operations work together so as to determine the proper direction for our Exchange, and based on that, to optimize our entire organization's operations and systems.

Turning Our IT Departments into an Independent "System Unit"

In a time when businesses are being created through IT, the role that IT should play in our organization must also change. Therefore, we have reorganized our IT departments into an independent System Unit in order to increase awareness of the IT division throughout our organization, and create a structure in which IT plays a role in management.

Furthermore, in order to fortify the "C (Check)" and "A (Action)" portions of the "PDCA" cycle, which is the foundation of project management, we have created the System Quality Control Department, and we will continue to review our IT organizational structure on an ongoing basis in an effort to raise the quality and efficiency of our entire system operations, intending to create a single structure to comprehensively carry out the operation of our various systems.



CIO Yoshinori Suzuki

Creating a World-Class Next-Generation Trading System

We are aiming to make our next-generation trading system, which is planned for launch in 2009, the most advanced system of its kind in the world. Now that both institutional and individual investors regularly trade shares online via direct computer links to securities companies, our business model has changed from a "B to B" model to a "B to B to B" or "B to B to C" model. Because this new online trading reality has resulted in an overwhelming increase in the

number of transactions and volume fluctuation on a day-to-day basis, we need to create a system that is capable of responding accordingly. Therefore, it is extremely important for us to create a scalable system. High-speed processing capability is also an important factor, as speed is critical to ensuring that online investors and other computer-based market participants are satisfied with the system's performance. We believe that our Exchange must play an even greater

role in the infrastructure of the financial markets as part of our corporate social responsibility, and our new system will need to be robust enough to match the importance of our role. From that perspective, we are also developing a new back-up center to further ensure the stability of the system.

We believe that the entire securities industry should actively participate in the creation of the TSE system. That way, our next-generation system can reflect a consensus of the securities industry as a whole and we can provide a system that fully satisfies all of the market's needs.

*B to B: Business to Business B to B to C: Business to Business to Customer



Self-Regulatory

(Listing Examination and Listing Supervision)

With the enforcement of Japan's new Corporate Law in May 2006, the range of activities covered by articles of incorporation has expanded, giving greater freedom to corporate management. Together with this, market expectations for the self-regulatory function of TSE have also increased. The Listing Division, which provides investors with a high level of credibility for available investment opportunities through rigorous listing examination, listing supervision and support services for disclosure of corporate information, helps respond to these expectations.

Operations

Revision to the Listing Regulations Regarding Defensive Measures Against Takeover

With more Japanese companies showing interest in implementing defensive measures to ward off hostile takeover actions, we introduced amendments to the listing rules in March 2006 that clarify the rules governing takeover defense measures.

Through the introduction of these new rules, we now require more detailed disclosure of the purpose and framework of such defensive measures. Furthermore, the adequacy of disclosure, transparency of conditions for implementation and termination of takeover defense measures, the likely impact on the secondary market, and the protection of shareholder rights have all been incorporated as principles that publicly traded companies must respect. At the same time, in order to ensure the effectiveness of these principles, we have also put in place measures so that violations of these principles will be made public. In addition, we implemented a new rule that companies will be delisted if they do not rectify the impairment of basic shareholders' rights within six months. Such impairments include issuance of classified stocks that collectively have veto power over decisions on important issues made at the general shareholders meeting for ordinary shareholders, such as the nomination or dismissal of over half of a company's directors.

Creation of a Comprehensive Program to Improve the Listing System

As part of an effort to comprehensively review the listing system, in March 2006 TSE released a discussion paper presenting various proposals for further harmonization of listed companies' lively corporate activity and adequate investor protection. We sought comments on these proposals through to the end of April from a wide range

of market participants both in Japan and overseas. In the discussion paper, we presented discussion points from the perspective of "securing soundness," "raising transparency" and "fortifying surveillance structures to prevent fraudulent corporate practices," while giving examples of possible measures to take.

We received a wide range of valuable opinions on the discussion paper from investors and market users at home and abroad. Taking these opinions into account, we formulated the "Comprehensive Improvement Program for the Listing System" which are basic action guidelines for improving our listing system in the future.

Introduction of the Corporate Governance Reporting System

As a means of raising the attractiveness and trustworthiness of investment in listed shares, we started providing a service on the TSE website from June 2006 to allow investors to view the corporate governance reports for all listed companies.

Introduction of XBRL for Earnings Announcements

Application of the next-generation standard language for financial data transmission, called XBRL (eXtensible Business Reporting Language), is expanding on a global basis because of its compatibility with data processing and multiple languages. In order to create an environment that allows investors even easier use of earnings information and also to improve the convenience of market functions, in July 2003, TSE introduced XBRL-format data into its TDnet (Timely Disclosure network) system – the first practical use of XBRL in the world. In April 2006, we formulated our basic policy for implementing XBRL in all company earnings announcements by FY 2008, and we are considering further details of the plan.

Self-Regulatory

(Market Surveillance and Participant Registration and Inspection)

We will utilize monitoring and inspection of both market participants and their trading to provide a high level of fairness and credibility in the Tokyo stock market. We believe that securing a fair and reliable market will help to increase liquidity.

Operations

Reform of Regulation for Monitoring by Trading Participants of Customer Transactions

Securities companies, which act as representatives for their customers, play a vital role in preventing unfair trades from happening. In response to the increase in internet and other automated transactions and in an effort to prevent trading fraud, in June 2006 we implemented a new regulation that mandates trading participants to formulate internal rules on management and examination in order to prevent their customers from conducting unfair transactions.

Market Surveillance

The Market Surveillance Department proactively carries out examinations of unfair trades on our Exchange and issues warnings to trading participants who are found to be in potential violation of laws and regulations. In addition, we make efforts in activities for educating people related to the market on preventing unfair trading, including holding seminars for executives and employees of listed companies to enlighten them about insider trading restriction, seminars for trading participants to increase their knowledge of compliance issues, and issuing handbooks on our market surveillance and inspection activities.

Participant Registration and Inspection

Our Participant Registration and Inspection Department visits the branches of trading participants to investigate their compliance with laws and the TSE's regulations regarding their order acceptance, execution and settlement processes, as well as their business and financial conditions. We seek to reduce the burden of inspection on trading

participants by standardizing the documents that they must submit to various stock exchanges, and work together with the Jasdaq Securities Exchange to conduct joint inspections and thus increase the effectiveness and efficiency of inspection. In addition, we fortified our compliance support activities such as holding compliance seminars for trading participants to promote strict observance of laws and regulations.

Strengthening the Function of the Self-Regulation Committee

In June 2006, in an effort to strengthen the independence of the Self-Regulation Committee, one of our key advisory committees, we selected members of the Committee out of people who appeared to have no conflicts of interest with executive officers, trading participants, listed companies, major shareholders of TSE and other stakeholders. Furthermore, we reduced the number of Committee members from 15 to 9 to help speed-up the decision-making process.

In addition to its existing responsibilities in overseeing the market surveillance and inspection of trading participants, we have also expanded the responsibilities of the Self-Regulation Committee to include overseeing the listing examination, measures against improper disclosure of corporate information and delisting. In the event that a violation of rules and regulations relating to these matters is found, with the exception of minor infractions or true emergency conditions, the Self-Regulation Committee will be consulted before any action is taken.

Equity & Derivati Clearing & Sett

Matching a large amount of trading orders and then clearing and settling the matched trades quickly, accurately and stably are basic and extremely important functions of a stock exchange. TSE seeks to maintain orderly operations by keeping a close watch on the market and constantly reviewing trading regulations in response to changes in the market environment.

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Record-high Trading Activities

During the term under review, TSE recorded the highest level of trading activity in its history. The average daily trading value for Japanese company shares (auction trading) reached a record-high of ¥2.2 trillion (a 70.5% year-on-year increase).

Furthermore, the trading volume of TOPIX Futures reached an average of 58 thousand contracts per day (a 37% year-on-year increase), a record-high level, during the year under review.

October 2005 marked the 20th anniversary of TSE's Japanese government bond (JGB) futures market. After reaching an average daily trading volume of ¥7.6 trillion in 1998, trading activity continually diminished until 2002. Since then, trading activity has gradually recovered, and average daily trading volume reached ¥4.4 trillion during the term under review.

Fortifying Our Trading Supervision

We made fundamental reforms to our market supervision structure to detect erroneous orders and diminish their effect on the market.

As part of our moves to strengthen the structure for trading supervision, we have newly assigned to the forefront of our trading supervision activities an overall trading supervising manager authorized to halt or suspend trading and a person in charge of keeping watch on unusual orders in order to quickly deal with erroneous orders. We also introduced tools to systematically extract orders exceeding 5% of a company's listed shares and developed an emergency contact system for all market participants in order to raise the accuracy of our supervision activities. Besides this, we have also developed a framework to announce erroneous orders.

Shift of the Settlement Function for Foreign Stocks from JSSC to JASDEC

As one of the measures to promote the listing of foreign companies primarily from neighboring countries in Asia, we started transferring the handling of settlement for foreign stocks from our subsidiary, Japan Securities Settlement & Custody Inc., to the Japan Securities Depository Center, Inc. (JASDEC) in April, and transfer is scheduled to be completed in August 2006. Moving this function to JASDEC allows the integration of the transfer and settlement infrastructure for both domestic and overseas companies' shares, and should help to promote investment by overseas institutional investors in our foreign stock market.

I n f o r m a t i o n

Our Information Services Department provides investors with quick and accurate information regarding trading, listed companies and other information relating to the securities markets.

I n f o

S e r v i

S e r v i c e s

Transition to Free-Float Adjusted TOPIX

Against the backdrop of the global shift to free-float adjusted indices, which are said to represent trends of the market more precisely, the TOPIX index, which is used globally by investors as the benchmark for Japanese stock investments, has become a free-float adjusted index to respond to the needs of market participants. The transition was undertaken in three steps and completed in June 2006.

First Listing of a TOPIX-based ETF

In November 2005, the first Exchange Traded Fund (ETF) based on TOPIX was listed overseas on the Euronext Paris and on the Borsa Italiana in April 2006. These listings will help facilitate TOPIX-based investment by overseas investors and will boost their interest in investments in companies listed on our Exchange.

Electronic Voting Platform Established

In order to facilitate voting in general shareholders' meetings, we established ICJ, Inc., a joint-venture company, together with the Japan Securities Dealers Association and Automatic Data Processing, Inc., in order to create a platform that provides electronic voting services for non-residents, investment trusts, pension funds and other institutional shareholders. ICJ recently began services for companies ending their fiscal year in December 2005 and it already boasts over 100 client companies.

Developing a New CSR Index

In response to the recent growing interest in Corporate Social Responsibility (CSR) in Japan, TSE started working on development of a new index, "TOPIX 1000 CSR," that incorporates elements of CSR. TSE currently calculates and manages the "TOPIX 1000 FLOAT" customized index, which is composed of the 1,000 issues in the TSE First Section with the most liquidity and highest market capitalization. In autumn 2006, TSE will newly incorporate CSR factors into this index, and change the name to "TOPIX 1000 CSR."

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Global Stra

Amid increasingly fierce competition between global stock markets, TSE is looking to raise its global competitiveness by strengthening its market infrastructure and self-regulatory functions. We will also act proactively in approaching overseas markets, attracting more companies in other parts of Asia to list on our Exchange and striving to consolidate our position as one of the world's leading stock markets.

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Attracting Asian Companies to List

By listing Asian companies on the TSE market, we can not only provide Japanese investors with a variety of high quality investment opportunities, but by matching up Asian companies that have a strong need for capital with large Japanese funds in need of good investment vehicles, we can also help to promote economic growth and prosperity throughout the Asian region.

In attracting Asian companies to list on our Exchange, we are proactively promoting in particular the listing of companies that would choose TSE as their primary market and already have or plan to establish some type of relationship with Japan, such as developing their business activity in the country or making capital/business alliances with Japanese companies. In this way, TSE hopes to act as a business “bridge” to Japan. We intend to differentiate ourselves from overseas Exchanges and create a strong market for foreign company listings by leveraging the attractiveness of the Japanese economy.

With this strategy in mind, TSE is approaching quality companies in China, Korea, Taiwan and other Asian countries, and conducting seminars to explain and encourage listing on our Exchange. In May 2006, with the cooperation of a Chinese Government-related think-tank, we organized the first Japan-China Securities Conference, which was attended by a number of people involved in securities

markets and IPOs, including those from both Japanese and Chinese securities regulatory authorities.

As a result of these ongoing efforts, Xinhua Finance Japan Limited became the first Chinese company to list on our market back in October 2004, and POSCO became the first Korean company to list on our Exchange in November 2005. We will continue to endeavor to list as many high quality Asian companies as possible.

Creation of International Cooperative Business Relations

With the rapid formation of alliances between stock exchanges primarily in the U.S. and Europe, we have initiated discussions with various stock exchanges around the world regarding the possibility of strengthening relationships. This will enable us to take action to capitalize on possible business opportunities or respond to growing global competition. For example, TSE utilizes a continuous exchange of information with the New York Stock Exchange and other exchanges in the U.S. and Europe as a basis for mutual business alliances. In North Eastern Asia, we will take the initiative to create cooperative arrangements with regional stock exchanges.

In 2005, we signed a memorandum of understanding (MOU) for comprehensive cooperative arrangements with both the Mexican and Italian stock exchanges.

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Board of Directors and

As of June 30, 2006

Directors

Taizo Nishimuro
President & CEO



Yasuo Tobiyama
Senior Managing Director, COO & CFO
Market Operation Unit
Corporate Management Unit



Eisuke Nagatomo
Managing Director & CSRO
Self-Regulation Unit



Yoshinori Suzuki
Managing Director & CIO
System Unit



External Directors

Charles D. Lake II
Vice Chairman and Representative in Japan
Aflac Japan



Hitoshi Maeda
Professor Emeritus
Gakushuin University



Hiroshi Okuda
Senior Advisor, Member of the Board
Toyota Motor Corporation



Yasuhiro Sato
Executive Adviser
Kirin Brewery Co., Ltd.



Nobuko Takahashi
Independent journalist covering economics and
daily life



Junichi Ujiie
Chairman
Nomura Holdings, Inc.



Masahiro Wakita
Advisor
TOYO SECURITIES Co., LTD.



Auditors

Auditors

Standing Statutory Auditors

Shigeaki Itsuki



Satoshi Shiibashi



Statutory Auditors

Toshiaki Katsushima

CPA; Tax Accountant; Professor,
Waseda University Graduate School



Koji Shindo

Lawyer and Professor Emeritus
University of Tokyo



Executive Officers

Toshitsugu Shimizu

Senior Executive Officer
Capital Markets Promotion



Tomoyoshi Uranishi

Senior Executive Officer
General Administration, Treasury



Hiroyuki Iwakuma

Corporate Planning, Human Resources



Hironaga Miyama

Equities, Derivatives



Koichiro Miyahara

Information Services, Clearing & Settlement



Corporate Governance

Basic Concepts

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 based on the following principles: to increase the transparency of management by clarifying the authorities and responsibilities of our corporate divisions and increasing their accountability; to reflect a wide variety of opinions in management and operation of the market as a market provider; and to ensure impartial decision-making free from the influence of particular stakeholders as a self-regulatory organization, thereby providing the securities market with a high level of confidence and liquidity.

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 or less members (11 members as of June 30, 2006). Also, 7 of these 11 directors are appointed from outside the company in order to increase the transparency and accountability of management, raise the legitimacy of operations, and fortify the board's supervisory function. Of the seven external board members, two are from companies listed on the TSE, two are from TSE trading participants, one is from an institutional investor (life insurance company), one is an independent journalist and one is a lawyer. All of them have a deep insight in their specific field of expertise. As a general rule, our Board of Directors meets once a month to determine basic policies, discuss important matters and oversee the execution

of business operations by our executive officers.

Advisory Committees

TSE maintains three Advisory Committees consisting of market participants and neutral third parties in order to represent a wide range of opinions in our operations and to advise the Board of Directors. The Market Structure Committee deliberates issues associated with transactions, settlements, and listings. The Self-Regulation Committee discusses matters on market surveillance and the inspection of trading participants (In June 2006, we expanded the responsibilities of the Self-Regulation Committee. Please see P16). The Disciplinary Committee deliberates disciplinary actions and penalties on trading participants who violate laws and regulations. During the term under review, the Market Structure Committee met three times, the Self-Regulation Committee met seven times, and the Disciplinary Committee met five times.

In addition, to exchange a wide range of opinions about TSE and the securities market in general, we established the President's Advisory Committee. This committee is comprised of representatives from listed companies, institutional investors and persons from academic circles. This committee met twice during FY 2005.

Nomination and Compensation Committee

The Board of Directors has established an internal Nomination and Compensation Committee. The committee is comprised of six directors, of which four are external directors. Proposals for nomination of directors and director compensation are voted on by the Board of Directors only after careful deliberation by this committee.

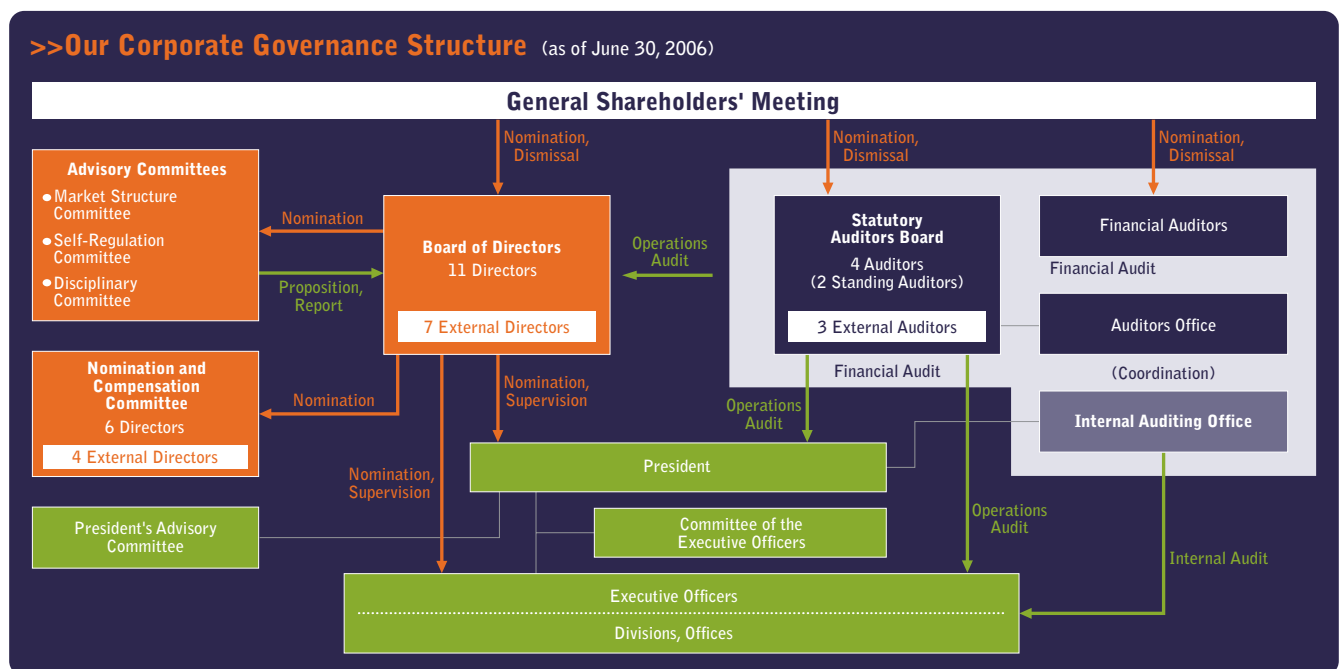
Statutory Auditors

TSE currently operates under 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 (Japan's Central Bank). To support our Statutory Auditors Board, we have established an Auditors Office.

The statutory auditors attend significant meetings, including Board of Directors and Executive Officers meetings, and conduct audits with a focus on the compliance aspects of TSE's operations. 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.

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 system, we established an Internal Auditing Office under the direct control of the President. The Internal Auditing Office performs internal audits of each division and reports the results of those audits directly to the President.

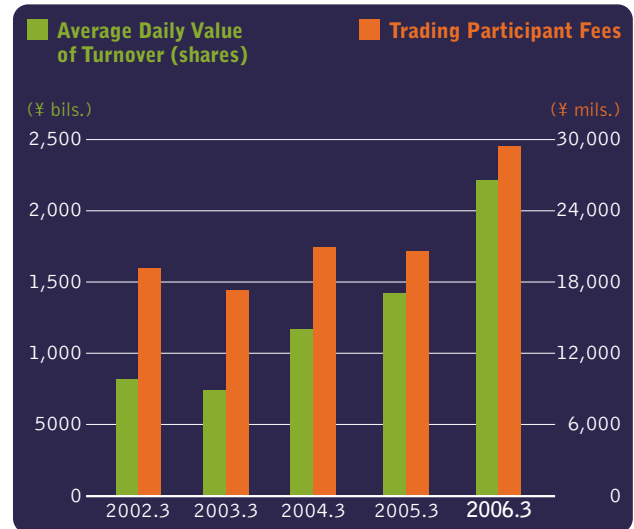


Operating and Financi

Operating Results

Operating Revenues Review

Trading participant fees are comprised of "per capita fees," "transaction fees," which are based on the trading value or volume of securities traded, "access fees," which are based on the number of orders, and "trading system facilities usage fees" which are based on the number of terminals and servers used by trading participants. From April 1, 2005, we implemented a revision of our trading participant fees and dues (see chart below). Thanks to a very strong year-on-year increase in the daily average trading value of domestic equities, etc., we were able to realize a 43.0% year-on-year increase in our trading participant fees to ¥29,444 million.

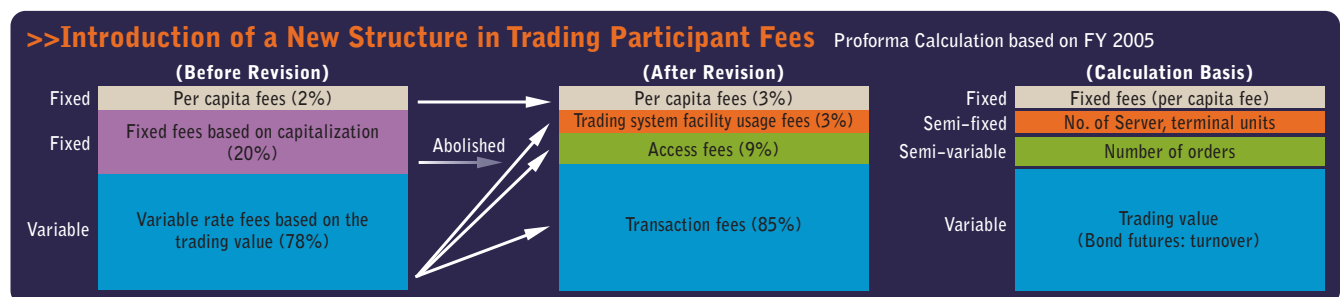


Revision of Trading Participant Fees

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 introduced an additional fee based on

use of the system infrastructure by market participants.

The new fee structure is being 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 rose to 60% in the second year, with a complete shift to the new structure occurring in April 2007.



al Review

Listing fees are comprised of “listing examination fees,” “initial listing fees,” “fees for issuing new shares” and “annual listing fees.” During the term under review, our listing fees rose by 27.6% year-on-year to ¥14,278 million due to the large growth in conversion of corporate bonds or preferred shares with CB-type options to common shares.

Information services income is derived from fees for market information services provided to information services vendors and others. During the term under review, thanks to strong trading activity in the markets, income from real-time market information services grew by a large margin, boosting our information services income by 13.4% to ¥8,813 million.

Securities settlement income is derived from 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 42.5% year-on-year to ¥12,474 million due to the increases in clearing fees associated with the rise in the trading value of domestic equities, etc.

Systems development and operations income is comprised of fees for system development and management provided by Tocho Systems Services Co., Ltd. During the term under review, this income grew by 3.4% year-on-year to ¥2,525 million.

Other operating income is derived from activities such as the leasing and maintenance of trading terminals. During the term under review, this income rose by 1.8% year-on-year to ¥2,359 million.



Operating and Financial

Operating Expenses Review

Salaries and compensation declined by 3.9% year-on-year to ¥11,175 million due to reductions in retirement benefit expenses resulting from a review of our retirement benefit system.

Real estate rental fees are comprised of rental fees paid for the use of buildings, including the Exchange building itself, and rose by 0.2% year-on-year to ¥5,828 million.

System maintenance and operation costs include costs associated with the maintenance and operation of trading, market information and other systems used by TSE. During the term under review, increases in operating expenses associated with the operation of new systems, and increasing outsourcing business costs for clearing services in line with the increase in the number of transactions contributed to a 4.8% year-on-year rise

in system maintenance and operation costs to ¥9,789 million.

Depreciation expenses declined, due to the liquidation of a part of our older systems and a decline in depreciation charges of information system equipment, whose depreciation is computed using the declining-balance method, by 19.5% year-on-year to ¥6,414 million.

Consequently, our consolidated performance during the term under review showed operating revenues of ¥69,893 million (a 31.7% year-on-year increase), operating expenses of ¥41,142 million (a 1.4% year-on-year decline), and operating profit of ¥28,751 million (a 153.1% year-on-year increase). And despite tax payments of ¥10,296 million, we were able to realize ¥18,833 million in tax-adjusted net income (a 278.3% year-on-year increase).

	¥ mils.				
	2002.3	2003.3	2004.3	2005.3	2006.3
Operating revenues					
Trading participant fees	19,141	17,340	20,921	20,589	29,444
Listing fees	8,329	8,766	9,504	11,193	14,278
Information services income	6,467	6,657	7,254	7,774	8,813
Securities settlement income	2,888	2,793	4,874	8,756	12,474
System development & operations income	3,843	1,973	3,723	2,443	2,525
Other operating income	4,067	3,536	2,367	2,316	2,359
Total	44,735	41,065	48,643	53,071	69,893
Operating expenses					
Salaries and compensation	16,261	12,009	11,896	11,624	11,175
Real estate rental fees	6,703	5,685	5,629	5,817	5,828
System maintenance & operation costs	–	–	8,431	9,337	9,789
System-related expenses	3,951	3,867	–	–	–
Outsourcing business costs	2,424	3,921	–	–	–
Depreciation	7,897	7,523	6,999	7,965	6,414
Other operating expenses	5,746	5,600	7,482	6,968	7,936
Total	42,982	38,605	40,437	41,711	41,142
Operating profit	1,753	2,460	8,206	11,360	28,751
Income before income taxes and minority interest	1,960	2,859	8,082	7,580	29,332
Net income	844	3,277	5,031	4,978	18,833

al Review

Financial Conditions

Assets

At the end of March 2006, we recorded total assets of ¥618 billion, which includes several funds or deposits of ¥492 billion. These funds and deposits are received from TSE's trading participants and JSCC's clearing participants as part of our efforts to ensure the safety of the settlements process. In addition, we maintain "Special assets for default compensation reserve funds" of ¥17 billion for clearing participant's default. These assets, which we list as specified assets, comprise 83% of our total assets. Assets not earmarked for the abovementioned specified assets amount to ¥108 billion.

(Note) Default compensation reserve funds

TSE has an indemnity agreement with Japan Securities Clearing Corporation (JSCC), with regard to clearing operations for cash, futures and options transactions. In the event that JSCC suffers a loss caused by its participant's default and the loss is not fully covered by the defaulting participant's deposit to JSCC, TSE (with other Exchanges for cash products) will compensate for the remaining loss up to the obligations set in the agreement. Thus, TSE maintains "Default compensation reserve funds", which are corresponding to the predetermined obligation amount, designed solely for the purpose of the above mentioned compensation.

The funds were recorded when TSE demutualized from a membership organization in November 2001, taking over the role of funds, which TSE originally had collected and reserved from member securities firms for the compensation in the event of a member's default.

Liabilities, Minority Interest, and Shareholders' Equity

As of the end of the term under review, we had ¥492 billion in liabilities and ¥17 billion in shareholders' equity, which correspond to the specified assets targeted to ensure the safety of transactions. Aside from those liabilities, other liabilities totaled ¥30 billion.

Likewise, our shareholders' equity aside from retained earnings for special purposes totaled ¥77 billion.

Cash Flow

Cash flow from operating activities amounted to a net inflow of ¥29,247 million due to factors such as cash inflows amounting to ¥29,332 million from income before income taxes and minority interest and ¥5,981 million from depreciation, and an outflow of ¥5,315 million for income taxes payments.

Cash flow from investing activities saw a net outflow of ¥11,554 million due to acquisitions of fixed assets and other factors.

Cash flow from financing activities resulted in a net outflow of ¥1,328 million due primarily to dividend payments.

As a result of these activities, our cash and cash equivalents at the end of the term under review increased by ¥16,365 million from the start of the term, to ¥43,355 million.

Balance Sheets

Consolidated Balance Sheets

Tokyo Stock Exchange, Inc.

As of March 31, 2005 and 2006	¥ mils.		US\$ thous. (Note 1)
	2005	2006	2006
ASSETS			
Current Assets			
Cash and bank deposits (Note 3, 5 and 13)	¥ 27,389	¥ 42,854	\$ 364,809
Accounts receivable	4,967	6,636	56,493
Marketable securities (Note 5 and 6)	2,501	2,501	21,287
Inventories	177	103	878
Prepaid expenses	321	357	3,036
Short-term guarantee money deposits	768	78	668
Margin funds for derivatives and when-issued transactions (Note 3 and 13)	153,117	263,403	2,242,301
Deposits for clearing funds (Note 3 and 13)	65,881	181,783	1,547,482
Deposits as collateral for facilitating settlement (Note 3 and 13)	47,911	46,911	399,345
Deferred income taxes (Note 8)	612	1,256	10,696
Other current assets	121	156	1,327
Allowance for doubtful accounts	(5)	(6)	(52)
Total current assets	303,760	546,032	4,648,270
Property and Equipment			
Buildings	11,793	11,773	100,224
Information system equipments	22,957	19,217	163,589
Land	2,399	2,399	20,426
Construction in progress	223	1,057	9,002
Other property and equipment	6,846	5,917	50,367
Accumulated depreciation	(26,495)	(24,040)	(204,654)
Total property and equipment	17,723	16,323	138,954
Intangible Fixed Assets, Net			
Software	4,200	8,954	76,223
Software in progress	3,636	2,711	23,080
Excess of cost over underlying net assets	14	7	61
Other intangible fixed assets	112	142	1,206
Total intangible fixed assets	7,962	11,814	100,570
Investments and Other Assets			
Investments in securities (Note 6)	5,063	6,360	54,144
Long-term loan to affiliates	—	145	1,232
Guarantee money deposits	8,754	8,305	70,698
Prepaid pension costs (Note 9)	2,041	2,544	21,659
Long-term deposits	—	5,000	42,564
Legal guarantee funds (Note 3 and 13)	638	369	3,142
Special assets for default compensation reserve funds	17,368	17,368	147,849
Deferred income taxes (Note 8)	3,855	3,402	28,962
Others	537	542	4,607
Allowance for doubtful accounts	(343)	(340)	(2,891)
Total investments and other assets	37,913	43,695	371,966
Total Assets	¥ 367,358	¥ 617,864	\$ 5,259,760

The accompanying notes are an integral part of these statements.

	¥ mils.		US\$ thous. (Note 1)
	2005	2006	2006
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities			
Long-term debt due within 1 year (Note 7)	¥ 168	¥ 50	\$ 426
Accounts payable –trade (Note 11)	2,382	2,454	20,893
Accounts payable –other	683	3,258	27,732
Income taxes payable	2,964	8,229	70,050
Consumption taxes payable	523	866	7,373
Allowance for employee bonuses	756	1,026	8,731
Deposits received	70	69	591
Margin funds received for derivatives and when-issued transactions (Note 3 and 13)	153,117	263,403	2,242,301
Deposits received for clearing funds (Note 3 and 13)	65,881	181,783	1,547,482
Deposits received as collateral for facilitating settlement (Note 3 and 13)	47,911	46,911	399,345
Deposits received as trading participants guarantee (Note 3 and 13)	2,275	2,229	18,977
Other current liabilities (Note 11)	322	565	4,810
Total current liabilities	277,052	510,843	4,348,711
Non-Current Liabilities			
Long-term debt (Note 7)	52	1	9
Allowance for retirement benefits for directors	173	98	833
Allowance for retirement benefits for employees (Note 9)	5,807	5,496	46,785
Allowance for loss on real estate rental contract	4,581	4,456	37,934
Guarantee money deposits received	1,084	707	6,020
Returnable legal guarantee funds (Note 3 and 13)	638	369	3,142
Other non-current liabilities (Note 11)	325	233	1,980
Total non-current liabilities	12,660	11,360	96,703
Total liabilities	289,712	522,203	4,445,414
Minority Interest			
	622	1,016	8,655
Shareholders' Equity			
Common stock			
Authorized 9,200,000 shares at March 31, 2005 and 2006			
Issued and outstanding 2,300,000 shares at March 31, 2005 and 2006	11,500	11,500	97,897
Capital surplus	22,875	22,875	194,728
Retained earnings (Note 18)	43,389	61,010	519,369
Treasury stock, at cost			
26,260 shares at March 31, 2005 and 2006	(740)	(740)	(6,303)
Total shareholders' equity	77,024	94,645	805,691
Total Liabilities and Shareholders' Equity	¥ 367,358	¥ 617,864	\$ 5,259,760
Commitments and Contingent Liabilities (Note 12)			

The accompanying notes are an integral part of these statements.

Income

Consolidated Statements of Income

Tokyo Stock Exchange, Inc.

¥ mils.

US\$ thous.
(Note 1)

For the years ended March 31, 2005 and 2006

	2005	2006	2006
Operating Revenues			
Trading participant fees	¥ 20,589	¥ 29,444	\$ 250,649
Listing fees	11,193	14,278	121,545
Income from information services	7,774	8,813	75,025
Income from securities settlement	8,756	12,474	106,192
Income from system development and operations	2,443	2,525	21,496
Other operating income (Note 11)	2,316	2,359	20,082
Total operating revenues	53,071	69,893	594,989
Operating Expenses (Notes 11 and 14)	41,711	41,142	350,234
Operating profit	11,360	28,751	244,755
Other Income (expenses)			
Interest and dividend income	15	41	351
Rent income (Note 11)	661	553	4,707
Income from fines levied	104	72	613
Grants in aid	226	226	1,928
Income from securities deposit for Japan Securities Finance Co., Ltd.	123	150	1,274
Equity in earnings of affiliated companies	144	609	5,182
Income from delinquency charge	—	457	3,890
Distribution of residual property	189	—	—
Interest expense	(0)	(0)	(2)
Rent expense	(771)	(539)	(4,586)
Provision for allowance for loss on real estate rental contract	(4,581)	—	—
Loss on disposal of fixed assets (Note 15)	(65)	(1,086)	(9,247)
Other, net	175	98	833
Total other income (expense)	(3,780)	581	4,943
Income before income taxes and minority interest	7,580	29,332	249,698
Income taxes – current (Note 8)	4,353	10,296	87,649
Income taxes – deferred (Note 8)	(1,891)	(192)	(1,632)
Minority interest	(140)	(395)	(3,360)
Net income	¥ 4,978	¥ 18,833	\$ 160,321

The accompanying notes are an integral part of these statements.

Shareholders' Equity

Consolidated Statements of Shareholders' Equity

Tokyo Stock Exchange, Inc.

¥ mils.

For the years ended March 31, 2005 and 2006

	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	¥ 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	—	—	—	(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)
Net income for the year ended March 31, 2006	—	—	—	18,833	—
Cash dividends paid (¥510 per shares)	—	—	—	(1,160)	—
Bonuses to directors	—	—	—	(52)	—
Balance as of March 31, 2006	2,300,000	¥ 11,500	¥ 22,875	¥ 61,010	¥ (740)

US\$ thous. (Note 1)

For the years ended March 31, 2005 and 2006

	Number of shares of common stock	Common stock	Additional paid-in capital	Retained earnings	Treasury stock
Balance as of March 31, 2005	2,300,000	\$ 97,897	\$ 194,728	\$ 369,363	\$ (6,303)
Net income for the year ended March 31, 2006	—	—	—	160,321	—
Cash dividends paid (\$4.34 per shares)	—	—	—	(9,872)	—
Bonuses to directors	—	—	—	(443)	—
Balance as of March 31, 2006	2,300,000	\$ 97,897	\$ 194,728	\$ 519,369	\$ (6,303)

The accompanying notes are an integral part of these statements.

Cash Flows

Consolidated Statements of Cash Flows

Tokyo Stock Exchange, Inc.

For the years ended March 31, 2005 and 2006

	¥ mils.		US\$ thous. (Note 1)
	2005	2006	2006
Cash Flows from Operating Activities:			
Income before income taxes and minority interest	¥ 7,580	¥ 29,332	\$ 249,698
Depreciation	7,254	5,981	50,910
Amortization of the excess of cost over underlying net assets	7	7	61
Loss on disposal of property, equipment and intangible fixed assets	65	1,086	9,247
Increase (decrease) in allowance for doubtful accounts	7	(3)	(22)
Increase in allowance for employee-bonuses	9	269	2,292
Decrease in allowance for retirement benefits for directors	(81)	(75)	(639)
Increase (decrease) in allowance for loss on real estate rental contract	4,581	(125)	(1,063)
Decrease in allowance for retirement benefits for employees	(132)	(311)	(2,650)
Equity in earnings of affiliated companies	(144)	(609)	(5,182)
Interest and dividends income	(15)	(41)	(351)
Interest expense	0	0	2
Increase in accounts receivable	(584)	(1,669)	(14,206)
Decrease in inventories	12	74	626
Increase (decrease) in accounts payable - trade	(120)	72	617
Income from delinquency charge	—	(457)	(3,890)
Others, net	(68)	484	4,113
Sub-total	18,371	34,015	289,563
Income taxes paid	(3,920)	(5,315)	(45,239)
Interest and dividends received	65	90	765
Interest paid	(0)	(0)	(2)
Delinquency charge received	—	457	3,890
Net cash provided by operating activities	14,516	29,247	248,977
Cash Flows from Investing Activities:			
Acquisition of fixed deposits	(900)	(5,000)	(42,564)
Proceeds from the refund of fixed deposits	—	900	7,662
Acquisition of marketable securities	(5,999)	(6,499)	(55,324)
Proceeds from the sale of marketable securities	5,000	6,500	55,333
Acquisition of investments in securities	(1,180)	(994)	(8,464)
Acquisition of property and equipment	(8,731)	(1,900)	(16,171)
Proceeds from the sale of software	5	2	17
Acquisition of software	(3,504)	(5,528)	(47,056)
Proceeds from the sale of intangible fixed assets	—	8	66
Payment for guarantee money deposits	(9)	(4)	(34)
Proceeds from the return of guarantee money deposits	2,021	1,142	9,721
Payment of guarantee money deposits received	(15)	(289)	(2,463)
Proceeds from the receipt of guarantee money deposits	25	14	115
Payment of loan receivables	(3)	(201)	(1,711)
Collection of loan receivables	8	5	39
Proceeds from the liquidation of affiliates	—	269	2,288
Proceeds from the sale of investments in affiliates	—	32	274
Others	4	(11)	(83)
Net cash used in investing activities	(13,278)	(11,554)	(98,355)
Cash Flows from Financing Activities:			
Repayment of long-term debt	(421)	(168)	(1,437)
Acquisition of treasury stock	(150)	—	—
Dividends paid	(684)	(1,160)	(9,872)
Net cash used in financing activities	(1,255)	(1,328)	(11,309)
Increase (decrease) in Cash and Cash Equivalents	(17)	16,365	139,313
Cash and Cash Equivalents at Beginning of Year	27,007	26,990	229,759
Cash and Cash Equivalents at End of Year (Note 5)	¥ 26,990	¥ 43,355	\$ 369,072

The accompanying notes are an integral part of these statements.

Financial 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 ¥117.47=US\$1, the approximate rate of exchange prevailing as of March 31, 2006, 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 end of 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 on 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, 2006 are listed below:

---Japan Securities Depository Center, Inc.

---Tosho Computer Systems Co., Ltd.

---ICJ, Inc.

NSB News service Co., Ltd. which had been accounted for by the equity method until the year ended March 31, 2005 completed liquidation procedures on August 18, 2005.

(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 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 fluctuation 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 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.

(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.

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(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 doubt 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. TSE abolished the retirement benefits plan for directors and auditors on June 22, 2005.

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 pension 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 over the following 10 year using the straight-line method, which is within the average estimated effective remaining working life of the employees.

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, unless they do not transfer ownership of the assets at the end of the lease term, which 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 Note18).

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 paid during the fiscal year.

As is customary practice in Japan, the payment of bonuses to directors is made out of retained earnings instead of being charged to income for the 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 base 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.

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 businesses 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.
Margin funds for when-issue transactions	¥ 1,728
Margin funds for derivatives	665,184
Deposit for clearing funds	153,979
Deposit as collateral for facilitating settlement	94,710
Legal guarantee funds	2,194
Deposits received as trading participants guarantee	3,696
Total	¥ 921,491

On August 9, 2002, the Business Accounting Council in Japan issued "Accounting Standard for Impairment of Fixed Assets," and on October 31, 2003, the Accounting Standards Board of Japan issued Financial Accounting Standards Guidance No.6, "Implementation Guidance for Accounting Standards 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 Companies adopted this new accounting standard from the year ended March 31, 2006. There is no effect on the consolidated financial statements by the adoption of the standard.

4. Reclassifications

Certain reclassifications of the accompanying consolidated financial statements as of and for the year ended March 31, 2005 have been made to conform to the 2006 presentation.

5. Cash and Cash Equivalents

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

	¥ mils.		US\$ thous. (Note 1)	
	2005	2006	2006	
Cash and bank deposits	¥ 27,389	¥ 42,854	\$ 364,809	
Short-term investment in securities	2,501	2,501	21,287	
Fixed deposits with a maturing over three months	(900)	—	—	
Held-to-maturity-securities	(2,000)	(2,000)	(17,024)	
Cash and cash equivalents per the cash flow statement	¥ 26,990	¥ 43,355	\$ 369,072	

6. Marketable Securities and Investments in Securities

(1) Investments in securities as of March 31, 2005 and 2006 consisted of the following:

	¥ mils.		US\$ thous. (Note 1)	
	2005	2006	2006	
Short-term:				
Held-to-maturity securities	¥ 2,000	¥ 2,000	\$ 17,024	
Available-for-sale securities	501	501	4,263	
Total	¥ 2,501	¥ 2,501	\$ 21,287	

	¥ mils.		US\$ thous. (Note 1)	
	2005	2006	2006	
Long-term:				
Held-to-maturity securities	¥ 1,498	¥ 2,493	\$ 21,219	
Available-for-sale securities	13	13	116	
Investments in affiliates	3,552	3,854	32,809	
Total	¥ 5,063	¥ 6,360	\$ 54,144	

Note: In addition to the above, the available-for-sale securities amounting to 3,000 million yen is included in the account of "Special assets for default compensation reserve funds" as of March 31, 2005 and 2006.

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(2) Held-to-maturity securities for which market values as of March 31, 2005 and 2006 are available are as follows:

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

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

	¥ mils.		US\$ thous. (Note 1)	
	2005	2006	2006	2006
Held-to-maturity securities				
Asset Backed Commercial Paper	¥ 2,000	¥ 2,000		\$ 17,024
Available-for-sale securities				
Unlisted equity securities, excluding over-the-counter stock	13	13		116
Asset Backed Commercial Paper	3,000	3,000		25,534
Free Financial Fund	501	501		4,263
	¥ 5,514	¥ 5,514		\$ 46,937

(4) Redemption schedule of held-to-maturity securities or available-for-sale securities with a maturity date as of March 31, 2006 are as follows:

	¥ mils.		
	2006		
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	¥ 2,493	¥ 2,461	¥ (32)
Corporate bonds	—	—	—
Others	—	—	—
	2,493	2,461	(32)
	¥ 2,493	¥ 2,461	¥ (32)

	¥ mils.		US\$ thous. (Note 1)	
	Within a year	Within 5 years and over a year	Within a year	Within 5 years and over a year
Debt Securities				
Government bonds and municipal bonds	¥ —	¥ 2,500	\$ —	\$ 21,282
Corporate bonds	—	—	—	—
Others	5,000	—	42,564	—
Others	—	—	—	—
Total	¥ 5,000	¥ 2,500	\$ 42,564	\$ 21,282

7. Long-Term Debt

Long-term debt as of March 31, 2005 and 2006 consists of the following:

	US\$ thous. (Note 1)		
	2006		
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	\$ 21,219	\$ 20,949	\$ (270)
Corporate bonds	—	—	—
Others	—	—	—
	21,219	20,949	(270)
	\$ 21,219	\$ 20,949	\$ (270)

	¥ mils.		US\$ thous. (Note 1)	
	2005	2006	2006	2006
Long-term debt within 1 year	¥ 168	¥ 50		\$ 426
Long-term debt	52	1		9
	¥ 220	¥ 51		\$ 435

Average rate of long-term debt within 1 year as of March 31, 2006: 1.0%

Average rate of long-term debt as of March 31, 2006: 5.8%

The aggregate annual maturities of the non-current portion of long-term debt as of March 31, 2006 are as follows:

Year ending March 31	US\$ thous. (Note 1)	
	¥ mils.	
2008	¥ 1	\$ 8
2009	—	—
2010	—	—
Thereafter	—	—
	¥ 1	\$ 8

The reconciliation of the statutory tax rate to the effective tax rate for the year ended March 31, 2005 and 2006 is as follows:

	2005	2006
Statutory tax rate	40.7%	40.7%
Adjustments:		
Permanent non-deductible difference	0.9	0.1
Equity in earnings of affiliated companies	(0.8)	(0.8)
Deduction by investment in IT	(9.2)	(5.4)
Other factors	0.9	(0.1)
Effective tax rate	32.5%	34.5%

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 40.7% for the years ended March 31, 2005 and 2006.

Significant components of the Companies' deferred income tax assets and liabilities as of March 31, 2005 and 2006 are as follows:

	US\$ thous. (Note 1)		
	2005	2006	2006
	¥ mils.		
Deferred tax assets:			
Allowance for retirement benefits for employees	¥ 1,499	¥ 1,258	\$ 10,710
Allowance for employee bonuses	308	418	3,558
Depreciation and amortization	367	234	1,996
Allowance for loss on real estate rental contract	1,864	1,818	15,479
Accrued enterprise tax	271	732	6,232
Other	451	390	3,314
Sub-total	4,760	4,850	41,289
Less – Valuation allowance	(293)	(191)	(1,631)
Total deferred tax assets	4,467	4,659	39,658
Deferred tax liabilities:			
Total deferred tax liabilities	—	—	—
Net deferred tax assets	¥ 4,467	¥ 4,659	\$ 39,658

9. Allowance for Retirement Benefits for Employees

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

The allowance for retirement benefits for employees as of March 31, 2005 and 2006 are as follows:

	US\$ thous. (Note 1)		
	2005	2006	2006
	¥ mils.		
Projected benefit obligations	¥ (25,893)	¥ (21,365)	\$ (181,878)
Plan assets	15,124	17,638	150,152
Unfunded benefit obligations	(10,769)	(3,727)	(31,726)
Unrecognized prior service costs	(910)	(4,951)	(42,147)
Unrecognized actuarial differences	2,223	605	5,156
Unrecognized transition amount	5,690	5,121	43,591
Accrued pension costs	(3,766)	(2,952)	(25,126)
Prepaid pension costs	2,041	2,544	21,659
Allowance for retirement benefits	¥ (5,807)	¥ (5,496)	\$ (46,785)

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The net pension costs relating to retirement benefits for the years ended March 31, 2005 and 2006 are as follows:

	¥ mils.		US\$ thous. (Note 1)
	2005	2006	2006
Service cost	¥ 764	¥ 598	\$ 5,087
Interest cost	574	464	3,947
Expected return on plan assets	(307)	(378)	(3,219)
Amortization of unrecognized prior service costs	(152)	(618)	(5,257)
Amortization of unrecognized actuarial differences	431	372	3,170
Amortization of transition adjustment other	569	569	4,844
	—	54	457
Net pension costs	¥ 1,879	¥ 1,061	\$ 9,029

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

	As of March 31, 2005	As of March 31, 2006
Discount rate	2.2%	2.2%
Expected rate of return on plan assets	2.2%	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. Leases

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 (Finance lease)

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

	¥ mils.		
	2005		
	Acquisition cost	Accumulated depreciation	Balance as of March 31, 2005
Information system			
Equipments	¥ 446	¥ 435	¥ 11
Other	5	5	—
Total	¥ 451	¥ 440	¥ 11

	¥ mils.		US\$ thous. (Note 1)	
	2006			
	Acquisition cost	Accumulated depreciation	Balance as of March 31, 2006	Balance as of March 31, 2006
Information system				
Equipments	¥ 1,235	¥ 198	¥ 1,037	\$ 8,830
Total	¥ 1,235	¥ 198	¥ 1,037	\$ 8,830

(b) Outstanding future lease payments as of March 31, 2005 and 2006 including the interest portion thereon, categorized by contractual maturity are as follows:

	¥ mils.		US\$ thous. (Note 1)	
	2005	2006	2006	
Due within one year	¥ 8	¥ 271	\$ 2,305	
Due over one year	4	775	6,602	
	¥ 12	¥ 1,046	\$ 8,907	

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

	¥ mils.		US\$ thous. (Note 1)	
	2005	2006	2006	
Lease payments	¥ 30	¥ 181	\$ 1,541	
Depreciation expense amount	28	169	1,442	
Interest expense amount	0	20	172	

(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) Lessee lease (Operating lease)

Outstanding future lease payments as of March 31, 2005 and 2006 for non-cancelable operating leases, categorized by contractual maturity are as follows:

	¥ mils.		US\$ thous. (Note 1)
	2005	2006	2006
Due within one year	¥ —	¥ 2	\$ 22
Due over one year	—	4	32
	¥ —	¥ 6	\$ 54

(3) Lessor lease (Finance lease)

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

	¥ mils.		
	Acquisition cost	Accumulated depreciation	Balance as of March 31, 2005
Leased assets	¥ 3,058	¥ 1,918	¥ 1,140

	¥ mils.			US\$ thous. (Note 1)
	Acquisition cost	Accumulated depreciation	Balance as of March 31, 2006	Balance as of March 31, 2006
Leased assets	¥ 2,118	¥ 1,448	¥ 670	\$ 5,705

(b) Outstanding lease commitments as of March 31, 2005 and 2006 are as follows:

	¥ mils.		US\$ thous. (Note 1)
	2005	2006	2006
Due within one year	¥ 605	¥ 671	\$ 5,715
Due over one year	726	1,300	11,067
	¥ 1,331	¥ 1,971	\$ 16,782

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

	¥ mils.		US\$ thous. (Note 1)
	2005	2006	2006
Lease revenue	¥ 906	¥ 634	\$ 5,399
Depreciation	765	479	4,078
Interest income amount	88	60	511

(d) Allocation of interest income amount

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

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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, 2005 and 2006, are as follows:

2005

(1) Individual

¥ 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		
Hiroshi Okuda (Director of TSE)	—	—	Director of Toyota Motor Corporation	—	—	—	WEF Tokyo general meeting sponsor contribution from Toyota	¥1	—	—

1. The above transaction is done for a so-called third party.

2. The above transaction amounts exclude consumption taxes.

3. 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.

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	Accounts payable	¥406
						Rent of real estate	Rent of real estate	¥303	Deferred revenue	¥58
									Long-term deferred revenue	¥123

1. The above transaction amounts exclude consumption taxes, but consumption taxes are included in the end of period balances.

2. The terms and conditions of the above transactions refer to market realized prices.

2006

Related company

¥ mils. (US\$ 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	¥4,183 (\$35,608)	Accounts payable	¥74 (\$633)
						Rent of real estate	Rent of real estate	¥253 (\$2,153)	Deferred revenue	¥50 (\$428)
									Long-term deferred revenue	¥82 (\$701)

1. The above transaction amounts exclude consumption taxes, but consumption taxes are included in the end of period balances.

2. The terms and conditions of the above transactions refer to market realized prices.

12. Guarantees

	¥ mils.		US\$ thous. (Note 1)
	2005	2006	2006
Guarantees for housing loans from banks for employee	¥ 4,823	¥ 4,578	\$ 38,970

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.

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 fund,' and 'Deposits (received) as collateral for facilitating settlement.'

Due to revisions to clearing regulations implemented on January 30, 2006, the asset or liability which was previously classified under 'Deposits (received) as collateral preceding settlement day' is now classified under a new accounting item 'Deposits (received) as collateral for facilitating settlement.'

Deposited securities are not presented in the Consolidated Balance Sheets. The market value of such deposited securities as of March 31, 2006 is as follows:

	¥ mils.		US\$ thous. (Note 1)
	2005	2006	2006
Margin funds for when-issued transactions	¥ 1,325	¥ 1,325	\$ 11,278
Margin funds for derivatives	972,920	972,920	8,282,285
Deposits for clearing funds	299,584	299,584	2,550,301
Deposits as collateral for facilitating settlement	204,281	204,281	1,739,009

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

Deposited monetary assets and related liabilities are presented in the Consolidated Balance Sheets as '(Returnable) legal guarantee funds.'

Deposited securities are not presented in the Consolidated Balance Sheets. The market value of such deposited securities as of March 31, 2006 is as follows:

	¥ mils.		US\$ thous. (Note 1)
	2005	2006	2006
Legal guarantee funds	¥ 2,748	¥ 2,748	\$ 23,392

d) In addition, TSE receives guarantees from the trading participants so as to hedge 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, 2006 is as follows:

	¥ mils.		US\$ thous. (Note 1)
	2005	2006	2006
Deposits as trading participants guarantee	¥ 7,237	¥ 7,237	\$ 61,604

14. Details of Operating Expenses

The following are the major elements of "operating expenses" for the years ended March 31, 2005 and 2006:

	¥ mils.		US\$ thous. (Note 1)
	2005	2006	2006
Salaries	¥ 7,112	¥ 7,176	\$ 61,087
Provision for bonus allowance	750	1,025	8,734
Pension costs	1,797	1,033	8,797
Provision for executive retirement allowance	54	26	218
System maintenance & operation costs	9,337	9,789	83,331
Real estate rental fees	5,817	5,828	49,611
Depreciation	7,965	6,414	54,605

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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, 2005 and 2006:

	¥ mils.		US\$ thous. (Note 1)	
	2005	2006	2006	
Buildings	¥ 47	¥ 16	\$ 135	
Information system equipments	8	655	5,575	
Other property and equipment	2	3	29	
Software	7	412	3,508	
Other intangible fixed assets	1	—	—	
Total	¥ 65	¥ 1,086	\$ 9,247	

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, 2005 and 2006 is as follows:

	¥ mils.		US\$ thous. (Note 1)	
	2005	2006	2006	
Net income	¥ 4,978	¥ 18,833	\$ 160,321	
Less components not pertaining to common shareholders:				
Bonuses to directors	(52)	(57)	(483)	
Net income pertaining to common stock	4,926	18,776	159,838	
Average outstanding shares of common stock	2,275,384 shares	2,273,740 shares		

	Yen		U.S. Dollars (Note 1)	
	2005	2006	2006	
Net income per share	¥ 2,164.82	¥ 8,257.83	\$ 70.30	
Shareholders' equity per share	33,852.25	41,600.08	354.13	

17. Segment Information

(1) Business Segment

For the years ended March 31, 2005 and 2006, 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, 2005 and 2006.

(3) Net Sales--Overseas

For the years ended March 31, 2005 and 2006, 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 in respect of the year ended March 31, 2006, proposed by the Board of Directors and approved at the shareholders' meeting of TSE held on June 22, 2006, are as follows:

	¥ mils.		US\$ thous. (Note 1)	
	2005	2006	2006	
Appropriations:				
Year-end cash dividends (¥2,100 per share)		¥ 4,775	\$ 40,647	
Bonuses to directors		47	400	

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 2006, 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 2006, 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, 2006

Market Data

>> Trading Value of Domestic Stocks Trading Value

(monthly)

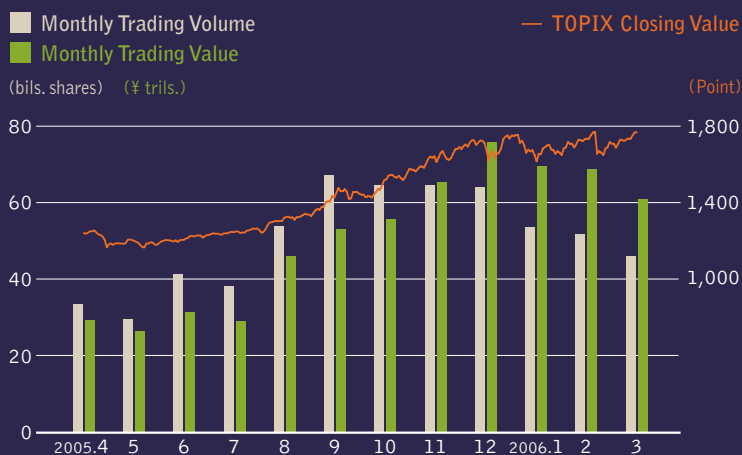
	Daily Average Trading Value (¥ mils.)		Total	
	Ordinary Trades	Off-hour Trades	Trading Value (¥ mils.)	Trading Volume (thous. shares)
2005.4	1,308,740	132,073	28,816,250	32,584,070
5	1,238,890	134,423	26,092,935	28,982,311
6	1,249,216	142,036	30,607,553	40,222,688
7	1,281,562	142,689	28,485,024	37,055,955
8	1,784,822	152,057	44,548,202	52,192,438
9	2,346,300	214,898	51,223,952	64,661,945
10	2,469,833	217,500	53,746,659	62,201,890
11	2,918,398	227,465	62,917,262	62,354,144
12	3,233,922	236,955	72,888,434	61,765,959
2006.1	3,323,691	207,360	67,089,957	51,854,410
2	3,068,319	237,867	66,123,715	50,161,347
3	2,457,990	211,046	58,718,797	44,497,098

(fiscal year)

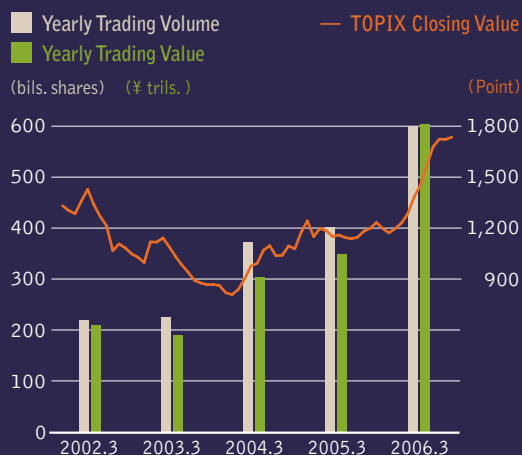
2002.3	732,812	88,369	201,189,221	210,909,712
2003.3	636,840	102,529	181,884,814	216,298,477
2004.3	1,064,036	108,257	290,728,726	355,237,963
2005.3	1,299,831	124,898	349,058,550	400,413,154
2006.3	2,215,747	187,743	591,258,744	588,534,260

>> TOPIX, Trading Volume and Trading Value of Domestic Stocks

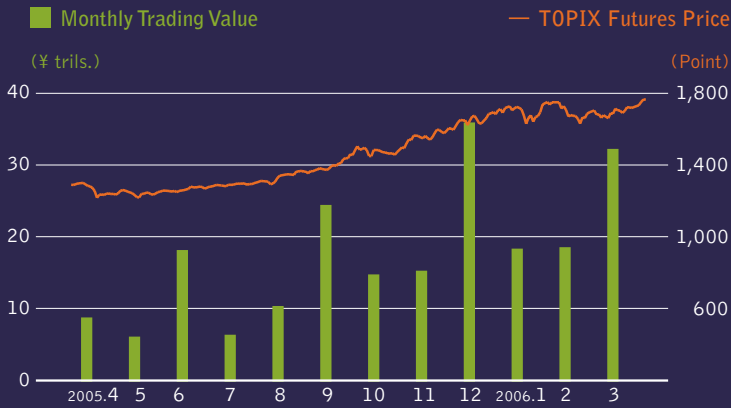
(monthly)



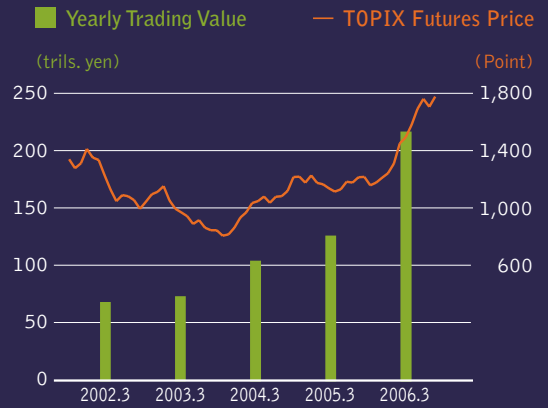
(fiscal year)



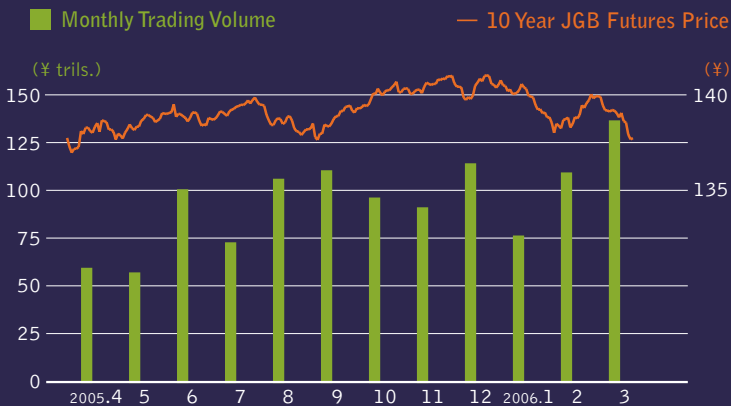
>>Stock Price Index Futures (monthly)



(fiscal year)



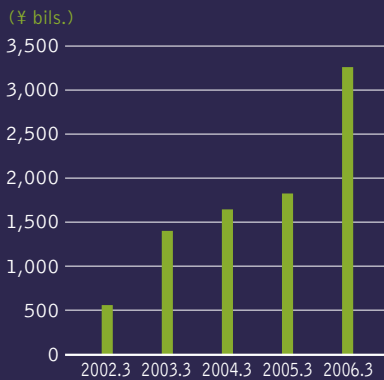
>>Japanese Government Bond Futures (monthly)



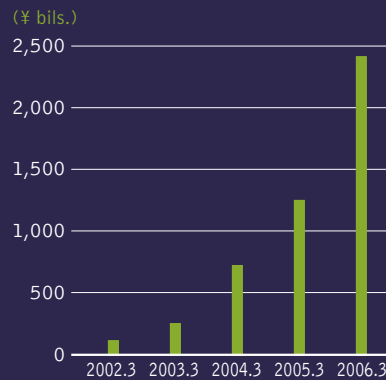
(fiscal year)



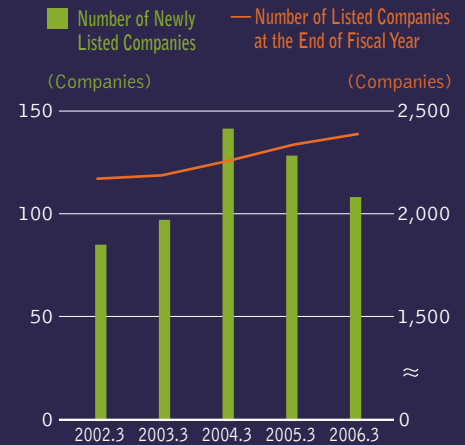
>>ETF's Yearly Trading Value



>>REIT's Yearly Trading Value

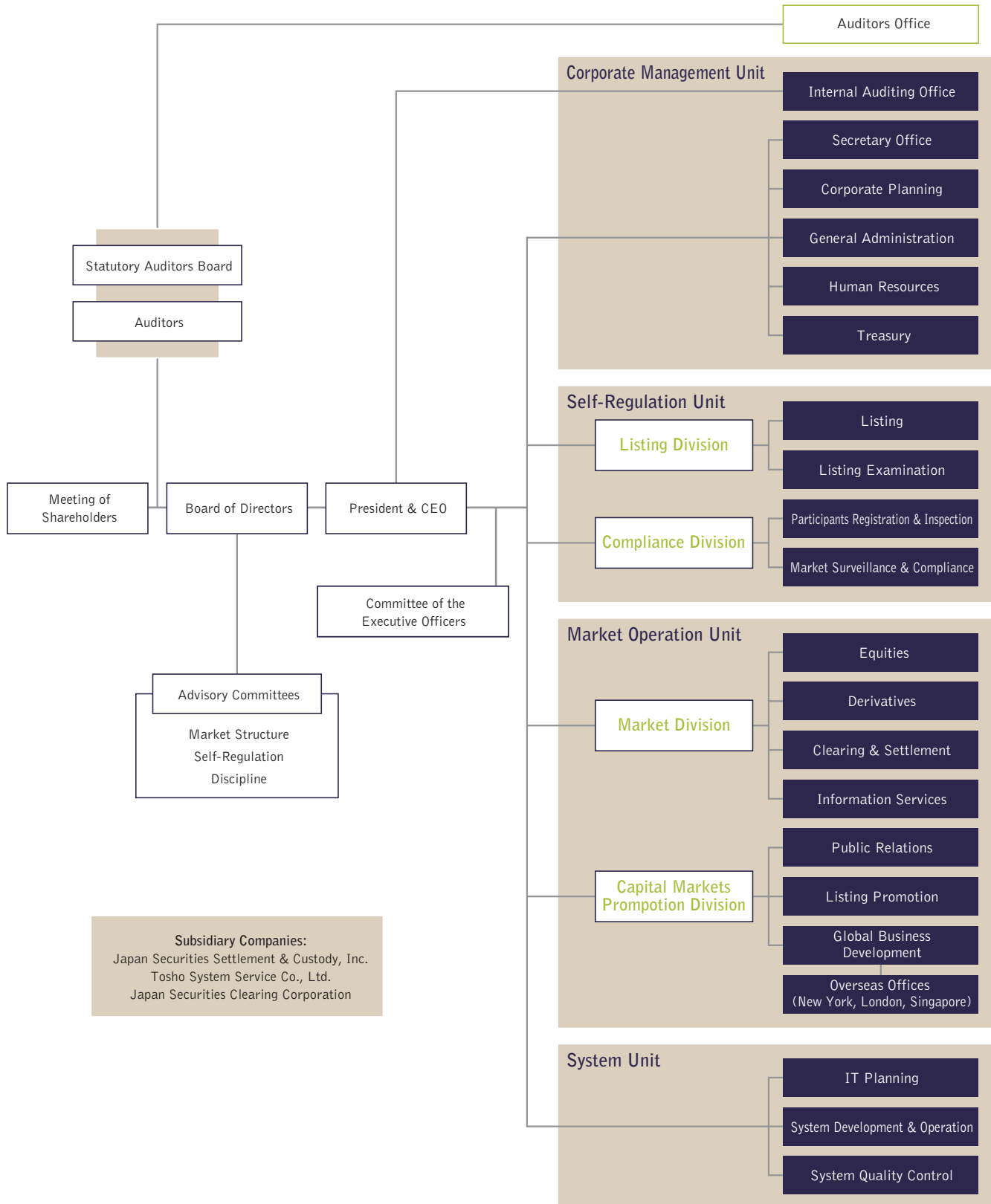


>>Number of Newly Listed Companies, Number of Listed Companies



Organization

As of June 30, 2006



Corporate Data

As of March 31, 2006

Name	Tokyo Stock Exchange, Inc.
Representative Officer	Taizo Nishimuro
No. of Officers (as of June 30, 2006)	Board of Directors 11 Auditors 4 Executive Officers 9 (4 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	716
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	120

Trading Participants	General Trading Participants	107
	JGB Futures and Options Trading Participants	64
	TOPIX Futures and Options Trading Participants	1

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

New directions in trade.



TOKYO
STOCK EXCHANGE

TOKYO STOCK EXCHANGE, INC.

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