

# TOKYO STOCK EXCHANGE GROUP



**TOKYO STOCK EXCHANGE GROUP, INC. Annual Report 2007**

For the fiscal year ended March 31, 2007

# TOKYO STOCK EXCHANGE REGULATION

# About the Tokyo Stock Exchange

## Profile

Since the Tokyo Stock Exchange (the 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 2006, the TSE accounted for an overwhelming 93% share of the total value of all stock trading on domestic exchanges.

The TSE had a market value of ¥559 trillion as of the end of March 2007 and a trading value of ¥678 trillion for the fiscal year ended March 31, 2007, making it one of the leading stock exchanges in the world in terms of both size and liquidity.

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

## 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.

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

The TSE, which became a stock corporation in November 2001, is changing its corporate structure to strengthen the independence and ensure the effectiveness of its self-regulatory function, as well as enable it to be more flexible in its international business strategy. The TSE established the holding company, Tokyo Stock Exchange Group, Inc. in August 2007, and the self-regulatory corporation, Tokyo Stock Exchange Regulation, was formed in October 2007. Soon, the TSE will begin operating under a new organizational system whereby TSE, Inc. and TSE Regulation are positioned underneath TSE Group, Inc.



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## Trading Participant Fees

Trading participant fees are comprised of “transaction fees” charged to securities firms and other trading participants in accordance with the trading value or volume of stocks and other market instruments, “access fees” charged according to the number of orders, and other fees.

## Listing Fees

Listing fees are comprised of “listing examination fees” received from companies applying for listing, “initial listing fees” from newly listed companies, “fees for issuing new shares” when companies raise capital, and “annual listing fees” based on a company’s market capitalization. Of these fees, “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



**Trading Participant Fees**  
43.5% (¥32,826 million)

**Securities Settlement Income**  
17.6% (¥13,288 million)

**Listing Fees**  
17.7% (¥13,370 million)

**System Development and Operations Income**  
3.4% (¥2,574 million)

**Information Services Income**  
13.6% (¥10,239 million)

**Other Operating Income**  
4.2% (¥3,181 million)

# Financial Highlights

Financial Data	¥ mils. except per share and ratio data					US\$ thous.** except per share data	
	2003.3	2004.3	2005.3	2006.3	2007.3	2007.3	
<b>FOR THE YEAR</b>							
Operating revenues	¥ 41,065	¥ 48,643	¥ 53,071	¥ 69,893	¥ 75,478	\$ 639,374	
Operating profit	2,460	8,206	11,360	28,751	33,016	279,682	
Income before income taxes and minority interest	2,859	8,082	7,580	29,332	34,407	291,466	
Net income	3,277	5,031	4,978	18,833	19,985	169,296	
<b>YEAR END</b>							
Current assets	¥1,159,208	¥1,504,944	¥ 303,760	¥ 546,032	¥ 491,219	\$ 4,161,105	
Non-current assets	59,251	63,571	63,598	71,832	74,300	629,396	
Total assets	1,218,459	1,568,515	367,358	617,864	565,519	4,790,501	
Current liabilities	¥1,138,914	¥1,484,243	¥ 277,052	¥ 510,843	¥ 443,355	\$ 3,755,650	
Non-current liabilities	10,657	10,854	12,660	11,360	10,917	92,481	
Total net assets	68,888	73,418	77,646	95,661	111,247	942,370	
Total liabilities and net assets	1,218,459	1,568,515	367,358	617,864	565,519	4,790,501	
<b>PER SHARE DATA</b>							
EPS	¥ 1,424.85	¥ 2,305.44	¥ 2,164.82	¥ 8,257.83	¥ 8,789.64	\$ 74.46	
BPS	29,780.73	31,982.03	33,852.25	41,600.08	48,289.71	409.06	
BPS*	22,229.52	24,360.37	26,213.83	33,961.66	40,651.29	344.36	
<b>KEY FINANCIAL RATIO</b>							
ROE	4.9%	7.1%	6.6%	21.9%	19.6%		
ROE*	6.6%	9.4%	8.6%	27.5%	23.6%		

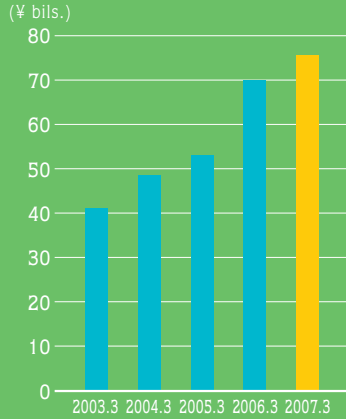
\* Calculated excluding the default compensation reserve funds

\*\*Rate of US\$1=¥118.05 used for conversion

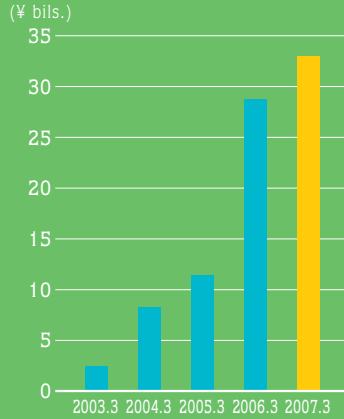
Market Data	2003.3	2004.3	2005.3	2006.3	2007.3	2007.3
<b>FOR THE YEAR</b>						
Domestic equities trading volume (mils. shares)	216,298	355,238	400,413	588,534	506,887	
Domestic equities trading value (bils.)	¥ 181,885	¥ 290,729	¥ 349,059	¥ 591,259	¥ 678,133	\$ 5,744
Stock index futures trading value (bils.)	68,725	97,859	118,593	204,080	241,360	2,045
JGB futures trading volume (bils.)	590,559	693,785	829,030	1,092,937	1,180,142	9,997
<b>YEAR END</b>						
Number of listed companies	2,166	2,237	2,318	2,372	2,413	
Market capitalization (bils.)	¥ 232,862	¥ 369,798	¥ 377,049	¥ 563,349	¥ 559,385	\$ 4,739
Index (TOPIX)	788.00	1,179.23	1,182.18	1,728.16	1,713.61	

\*\*Rate of US\$1=¥118.05 used for conversion

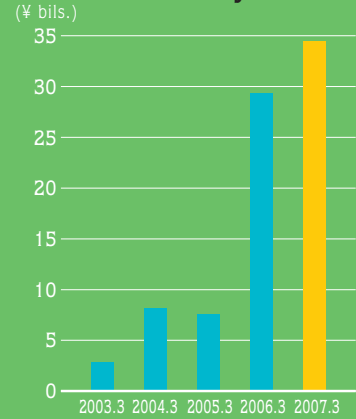
### Operating Revenues



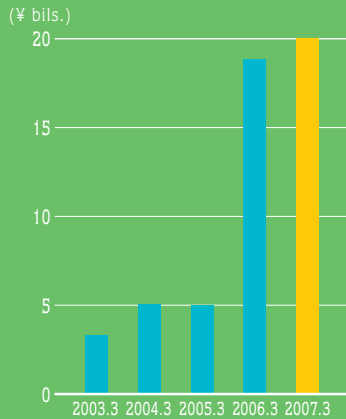
### Operating Profit



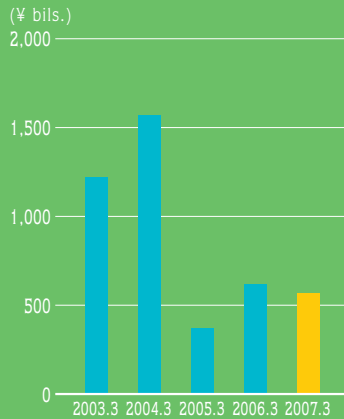
### Income Before Income Taxes and Minority Interest



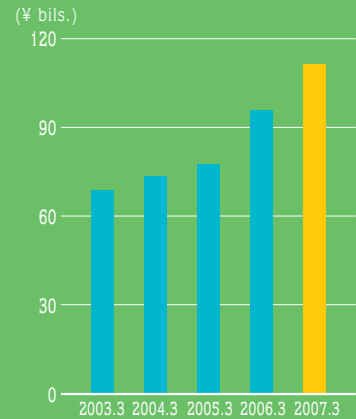
### Net Income



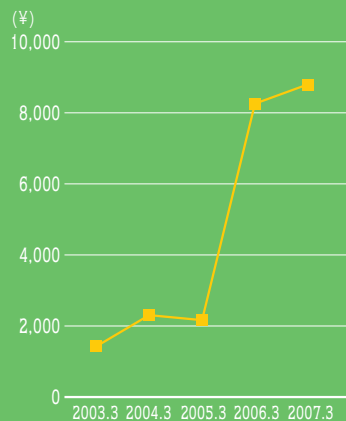
### Total Assets



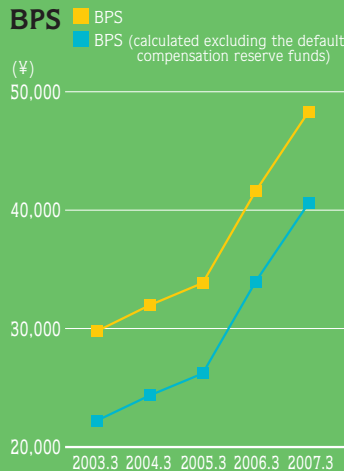
### Total Net Assets



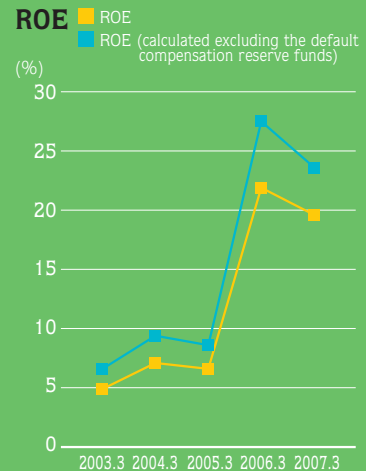
### EPS



### BPS



### ROE



# New direction in trade.



## **Corporate Philosophy**

We will make every effort to establish a sound market with a high level of trustworthiness and convenience from the standpoint of all market users including investors, thus contributing to the realization of a more prosperous society.



# ections

# To Our Shareholders

## Setting a course to destination future

In the fiscal year ended March 31, 2007, a record high volume of securities trading enabled the Tokyo Stock Exchange to record the highest net income since demutualization. The TSE has been implementing dramatic changes during this period, laying the foundation for improved market reliability and convenience by enhancing system infrastructure and self-regulatory functions. In tandem with these efforts, the TSE has also strengthened its international business base in response to the intensifying competitive atmosphere among exchanges around the globe. Autumn of 2007 is a historical turning point for the TSE, with the company establishing a new self-regulatory corporation and beginning operations under a new organizational system whereby a market operation company and a self-regulatory corporation are positioned underneath a holding company.

In his message below, Atsushi Saito, President and CEO of Tokyo Stock Exchange Group, Inc. (the holding company) discusses how he interprets the changing environment surrounding the TSE, what the TSE's vision for the future is, and how the TSE can change through organizational reform.

*Atsushi Saito was with Nomura Securities Co. Ltd. for 35 years, starting in 1963. After 2 stints in New York, he became a member of the board in 1986 and Executive Vice President in 1995. Over the course of his career with Nomura, he took charge of a wide range of projects in different divisions including Treasury & Fixed Income Dealing, Equity, Syndicate & New Products, and so on. In the late 1980s he focused on securitization of non-performing loans in the United States such as Financial Center Building in Manhattan. Prior to becoming President & CEO of the TSE in June 2007, he tackled various revitalization projects as President & CEO of the Industrial Revitalization Corporation of Japan since its inception in 2003.*



**Mr.  
Atsushi  
Saito**

President & CEO  
Tokyo Stock Exchange Group, Inc.





## Big changes afoot in capital markets worldwide

In the last ten or so years, advancements in computerization and the development of financial technology have led to revolutionary changes in the field of securities trading. Moreover, in recent years dramatic strides in communications technology have brought us a long way towards globalization. Such changes have reduced the cost of trading securities and consequently have increased liquidity in various markets worldwide. High liquidity enables prices to reach a more appropriate level and allows for a more appropriate re-distribution of risk money – the most crucial function of a securities exchange. We now recognize that the current competition amongst exchanges worldwide is in fact a fierce battle to acquire this liquidity.

However, I do see the dust settling from this struggle for the most part over the next several years. There are probably about 10 exchanges currently competing to become global exchanges, and I believe that about three or four exchanges or exchange groups will emerge as winners at the end of this process.

In such a scenario, the TSE seeks to overcome the competition and secure its place as a core exchange of Asia. With industries in Asia currently brimming with energy, the conditions are favorable. Leveraging Japan's geographical position, the TSE will proactively work towards continuing on as a global base exchange.





## How the TSE will succeed in international competition

The TSE has identified several policy themes for raising market liquidity.

First is strengthening system infrastructure. The beginning stages of our ongoing project to develop a next-generation trading system that is of the highest international standard in terms of functions and performance have already been completed, and we are steadily working towards launching the system in 2009.

Second is to improve the reliability of the market by strengthening our self-regulatory function. One initiative the TSE is currently undertaking to achieve this is a comprehensive review of the listing system.

Third is to diversify market products. The TSE, as "Asia's TSE," is working to establish a unique market for foreign stocks by focusing our efforts on promoting the listing of foreign companies, mainly from our Asian neighbors. Some mainland Chinese companies have actually already completed a listing on the TSE, demonstrating that our efforts are steadily getting results. The TSE has also been preparing a new listing system to expand the variety of products available on our markets, including new ETFs (Exchange Traded Fund) and derivatives products. I believe our efforts will produce results in this area very soon.

On a different tact, we are preparing the foundation necessary for international business with the intention of seizing new business opportunities. We have proactively engaged in talks with major exchanges in North America, Europe and Asia on establishing business alliances. For example, this year the TSE agreed to explore business alliances with the NYSE Euronext and the LSE in January and February respectively. Furthermore, the TSE announced in June that it has invested in the SGX in order to strengthen relations with this exchange.

To Our Shareholders  
**Setting a course to  
destination future**

## Our new corporate structure

In addition to these initiatives, the TSE is changing its corporate structure to strengthen the independence and ensure the effectiveness of its self-regulatory function, as well as enable us to be more flexible in our international business strategy. We established the holding company, Tokyo Stock Exchange Group, Inc. in August, and the self-regulatory corporation was formed in October. Soon, the TSE will begin operating as these three different entities. Under the new structure, the TSE group will continue to strive for effective market operation while ensuring the independence of the self-regulatory function, with the three parts working together as a whole.



### >> Transition to the New Corporate Structure

~July 2007

#### Tokyo Stock Exchange, Inc.

- Corporate Management Unit
- Self-Regulation Unit
- Market Unit

August 2007

Holding company was established by a transfer of stock from Tokyo Stock Exchange, Inc.

#### Holding Company

- Corporate Management Unit

100%

#### Market Operation Company

- Self-Regulation Unit
- Market Unit

Autumn 2007

The self-regulatory corporation was established by the holding company. The market operation company will delegate self-regulatory operations to the self-regulatory corporation.

#### Holding Company

- Corporate Management Unit

100%

#### Market Operation Company

- Market Unit

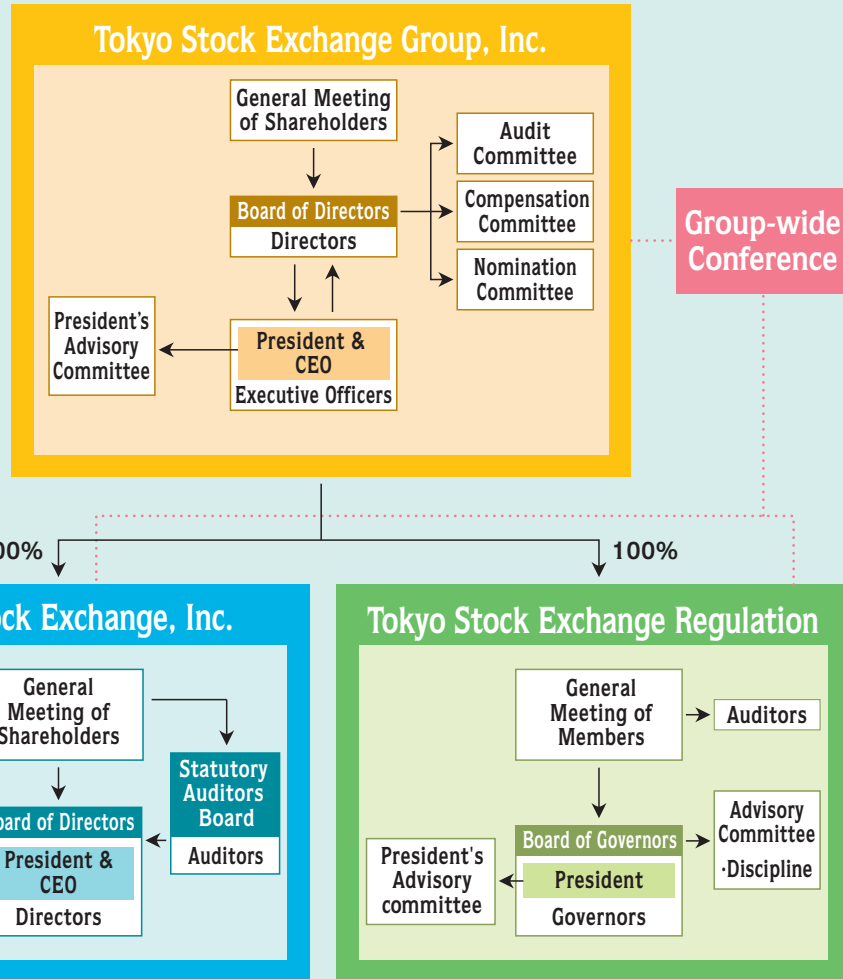
↓ Delegation of Operations

#### Self-Regulatory Corporation

- Self-Regulation Unit

100%

## Corporate Governance under the New Corporate Structure



### Business role of each corporation

The holding company will oversee business at both the market operation company and the self-regulatory corporation. Besides ensuring the independence of the self-regulatory corporation, it will be the holding company's role to raise the management efficiency of the group as a whole. The market operation company will be responsible for planning the market framework for listing, trading and so forth, overseeing operation of the market, and

# To Our Shareholders Setting a course to destination future

providing information services. It will also be responsible for the planning, development, operation and quality management of the trading, clearing and information systems. The self-regulatory corporation, structured to fulfill the duties delegated to it by the market operation company, shall perform self-regulatory operations including listing examination, examination of information disclosed by listed companies, making decisions regarding delisting, market surveillance and inspecting trading participants.

## Corporate governance under the new corporate structure

In order to ensure the independence of the self-regulatory corporation and effectively run the three entities as a whole, the governance for these organizations was established as follows.

The holding company adopts a committee-based governance structure. The market operation company adopts a statutory auditors system. The self-regulatory corporation, a non-profit corporation, establishes the board of governors. Also, a group-wide conference consisting of executive officers of the three entities has been established to discuss important matters pertaining to the management of the TSE group as a whole and to ensure that resources are effectively utilized and the most productive collaboration is achieved.

The board members of the holding company are primarily made up of the directors and the auditors of the market operation company, and the governors of the self-regulatory corporation. To maintain the independence of self-regulatory operations, the governors of the self-regulatory corporation will not act as directors of the market operation company at the same time.

## As a core market of Asia

Up until now our business has placed a strong emphasis on regulation, but this aspect of exchanges is beginning to change on a global scale as many around the world have listed their own shares. Exchanges have started to adopt a more aggressive stance, ceasing to be simply defensive in their nature. Under our new corporate structure we will plunge boldly into global competition, positioning ourselves as a base for supplying liquidity throughout Asia and acting as the core for the re-distribution of risk money throughout the region. We would sincerely appreciate your ongoing support and encouragement in achieving this end.

October 2007





# A lliance Strategies with Overseas Exchanges

- #1 After signing a Letter of Intent with the NYSE Euronext, the TSE Chairman, Taizo Nishimuro rings the NYSE opening bell. On the left is NYSE Euronext Chief Executive, John A.Thain. (January 2007)
- #2 Together with LSE Chairman, Chris Gibson-Smith (left) and CEO, Clara Furse (center) when signing a Cooperation Agreement with the LSE. (February 2007)
- #3 Signing a Memorandum of Understanding with the Korea Exchange. On the right is Korea Exchange Chairman and CEO, Young-Tak Lee. (July 2006)



## Recent developments concerning business alliances

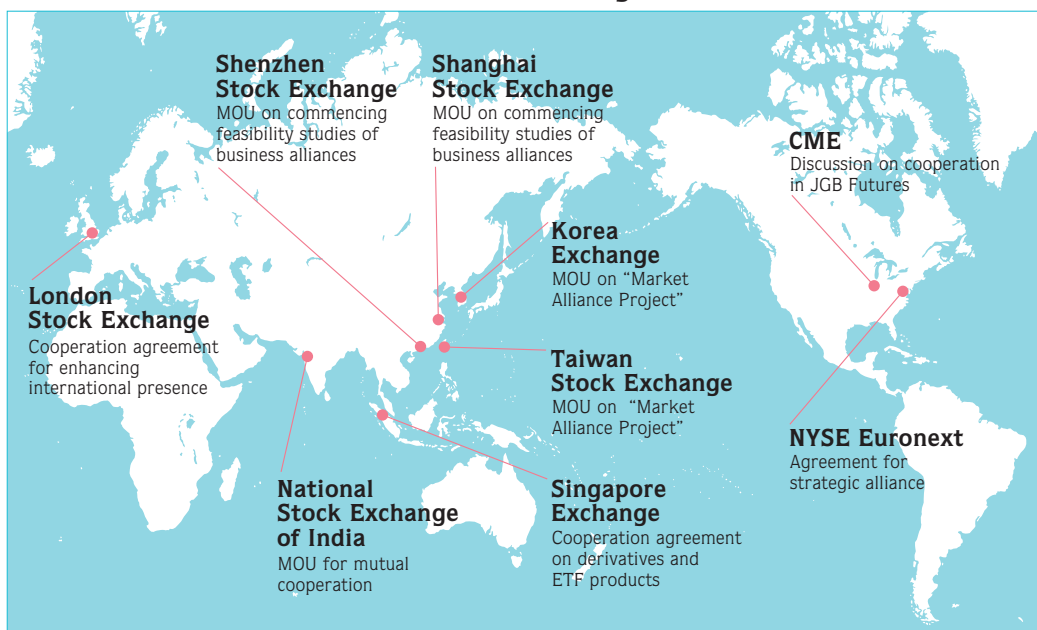
The TSE has long been focused on maintaining and strengthening cooperative relationships with many exchanges abroad, and in the last few years in particular, we have been ambitiously developing these relationships further in order to build more substantial alliances with higher added value.

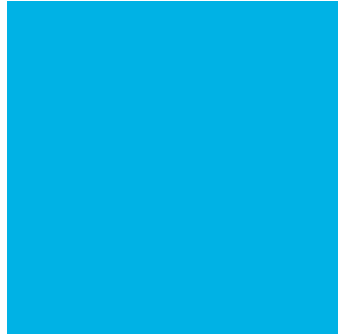
Securing our role as a core market in Asia is vital for the TSE. Since the summer of 2006 we have been strengthening our alliances with the Korea Exchange, the Shanghai Stock Exchange, the Shenzhen Stock Exchange, the Taiwan Stock Exchange, the National Stock Exchange of India, and the Singapore Exchange (SGX).

In particular, specific efforts have already commenced in promoting cross-border trading with Korea and Taiwan, such as the holding of joint investment seminars. In addition, we have held several working level staff discussions on the mutual listing of ETFs based on the stock indexes of each respective market.

Through a series of joint talks, the TSE and the NYSE Euronext agreed in January 2007 to move forward with a strategic alliance. The areas the alliance will cover include trading

### >> Active collaboration with overseas exchanges





systems and technology, investor and issuer services, investment products, and governance and regulation. Following this agreement, continuous working level discussions have been held, and in August 2007 an interim report was announced. The major points of the interim report are as follows:

**Information Technology**

- NYSE Euronext provides the TSE Group with technical consultation on network management and operation, as well as exchange system capacity, performance management, and operation.

**New Products**

- The two exchanges will cooperate in developing and listing new products and conduct joint promotional activities.

**Listings**

- The two exchanges will continue to exchange useful information on listing systems through activities such as a staff exchange program.

**Others**

- The two exchanges will further study market frameworks such as trading infrastructure in response to the expansion of off-exchange transactions.
- The two exchanges will continue to exchange information on their corporate governance structures and self-regulatory frameworks.

Under the TSE's alliance with the London Stock Exchange (LSE), both exchanges signed a cooperation agreement in February 2007 and have proceeded with practical level discussions held at working groups in three areas: management and regulation of the markets for emerging companies, mutual listing of new products, and the enhancement of mutual access to both markets.





## Acquisition of SGX shares

In order to further strengthen the alliance with the SGX, in June of this year the TSE acquired the equivalent of 4.99% of the exchange's total issued shares.

Preceding this, the TSE and the SGX entered into a basic agreement to grant SGX a license to trade derivatives products and ETF products based on TOPIX-related indexes in December of last year. In August, the Lyxsor ETF Japan (TOPIX) was listed on the SGX as the first product born of this alliance. The TSE and the SGX are also presently considering the possibility of collaboration in the trading and clearing in both exchange's derivatives markets, with an initial focus on Japanese Government Bonds (JGB) and TOPIX-related products. The TSE will continue to look to further expand the field of cooperation with the SGX in pursuit of maximum synergy through the alliance.

## Overseas listing of TOPIX-based ETFs

With the cooperation of overseas exchanges, the TSE has been promoting the overseas listing of TOPIX-based ETFs. Starting with the Euronext Paris in November 2005, TOPIX-based ETFs appeared on the Borsa Italiana, the Deutsche Bourse, and the SWX Swiss Exchange in fiscal 2006, and then on the SGX and the LSE in August and September of this year respectively. The TSE is working with these stock exchanges to jointly promote TOPIX-based ETFs. The net asset balance of overseas TOPIX-based ETFs, which was initially about 7 billion yen, stood at 76 billion yen as of August 2007 and is steadily increasing.

We expect to further raise overseas investors' interest in Japanese companies listed on the TSE by increasing the scale of assets of TOPIX-based ETFs overseas, and we expect that this will contribute to greater liquidity in the TSE market.

# Alliance Strategies with Overseas Exchanges



# To Provide a Wider Variety of Products

#1 In April 2007, Asia Media Co., Ltd. was listed on Mothers Global

#2 In August 2007, China Boqi Environmental Solutions Technology (Holding) Co., Ltd. was listed on the First Section of the TSE.

## Promoting the listing of foreign companies

### Listing of Asian Companies

We are striving to diversify our listed products to better respond to a wide range of investor needs. As part of these endeavors, we are promoting the listing of foreign companies, particularly those from neighboring Asian countries.

The TSE, backed by the strong Japanese economy and abundant investment funds including financial assets exceeding 1,500 trillion yen, will actively provide a means of raising funds for Asian companies with high growth potential. In order to do this, we are heavily promoting the advantages of listing on the TSE to growing companies in China, Korea and other Asian countries.

As a result of our promotion efforts, in April 2007 Asia Media Co., Ltd. was listed on the TSE, the first company from mainland China. In August as well, China Boqi Environmental Solutions Technology (Holding) Co., Ltd. was listed on the TSE First Section, becoming the first foreign company to have a primary listing on the TSE First Section. By listing mainland Chinese companies on both our venture board and our main board, we are confident that many foreign companies, especially those in Asia, will also show an interest in listing on the TSE.

### “Mothers Global”

We are also continually making improvements to the market framework for foreign stocks. Since December 2006, the foreign companies listed on the Mothers section have been collectively called “Mothers Global.” This name was provided to raise investors’ awareness of the foreign companies listed on the Mothers section and to encourage foreign emerging companies to list on this board. An additional reason is to allow investors to clearly identify these companies as non-Japanese companies, as there are some cases where the legal system and forms of organization are different than Japan. The first company to list on Mothers Global was a UK company, Japaninvest Group plc, which was listed in December 2006.

### Simplification of listing examination for companies whose primary listing is with another stock exchange

In December 2006, listing examination was modified so that if a foreign company’s primary listing is with another exchange and if the legal system and rules that apply to this exchange are recognized as reliable, the process for listing on the TSE is simplified.





## **Introduction of margin trading**

In April 2007, margin trading, which had previously been available only for domestic stocks, was extended to include foreign stocks. This is particularly beneficial in improving liquidity for foreign stocks that are primarily listed on the TSE.

## **Application of simplified listing procedure to triangular organizational restructuring**

When the Corporation Law was revised in May 2007, companies became able to conduct “triangular organizational restructuring.” Foreign companies yet to be listed on Japanese stock markets will likely play the main role in a triangular merger. Under these circumstances, the TSE will give proper heed to the protection of existing shareholders on one hand, and contribute to the revitalization of the economy by encouraging foreign investors to invest in Japan on the other. In order to achieve this, in July 2007 the TSE made a change to the listing system by applying the “technical listing system”—a simplified listing procedure applied to unlisted companies who will undergo an organizational restructuring through share swaps and share transfers—to triangular organizational restructuring as well.

## **Opening of office in Beijing**

The TSE will open a representative office in Beijing to strengthen communication channels with regulatory authorities, people involved in the market, and companies.



# To Provide a Wider Variety of Products

## Introduction of new products

With the enactment of the Financial Instruments and Exchange Law in Japan, the foundation has been laid for listing a wider range of financial products. The TSE is considering listing new products such as commodity ETFs, REIT index futures, and mini-TOPIX futures, and is continuing discussions on the issue with relevant parties such as securities companies and asset management companies. Also, the TSE is looking into the possibility of mutual listing of new products as part of the strategic alliances created with the NYSE Euronext and the LSE in January 2007 and February 2007, respectively.

Based on these discussions, in June 2007 the TSE publicly announced an outline for new listing rules related to the listing of foreign ETFs and JDRs.

## Listing of foreign ETF

The TSE currently lists eleven ETF products based on stock indexes including the TOPIX, Nikkei 225 and sector indexes. However, current regulatory restrictions have made it difficult to expand the range of ETF products, such as restrictions by the Investment Trust Law of Japan on in-kind contribution type domestic ETFs that disallow the creation of those ETFs not based on stock indexes previously approved by the Commissioner of the Financial Services Agency.

Regulations for the listing of foreign ETFs, by contrast, are relatively relaxed. For this reason, the TSE will first aim to list those foreign ETFs. The new listing rules introduced for this purpose will allow ETFs to be linked to not just stock indexes, but also REIT, commodities, and other indexes, and even commodity prices.

## Listing of JDR

When laws and regulations in their country prohibit foreign companies from listing their shares on another country's stock exchange, sometimes these companies entrust their shares to a custodian such as a trust bank, who then issues a depository receipt (DR) to be listed on a foreign exchange. For example, because Indian companies are unable to list their actual shares on overseas exchanges, the companies utilize ADRs and GDRs. The TSE, as a part of its endeavor to attract foreign company listings, will establish listing rules for JDRs (Japanese Depository Receipts) that use beneficiary certificates based on the new Trust Law. There is also a demand for use of JDRs in listing the abovementioned foreign ETFs, and as such, the underlying asset of a JDR may be not only a foreign share but also a foreign ETF.

# Development of Next-Generation Trading System

In its next-generation trading system development project, the TSE seeks to create a system with the world's highest level of functionality and performance. The needs of market participants are carefully incorporated into the project, which is proceeding according to schedule with the cooperation of the securities industry as a whole.

Since establishing and announcing basic objectives for the system such as speediness, scalability and reliability in March 2006, the TSE conducted meetings and individual hearings with securities company CIOs and staff members to discuss the future shape of the market and information distribution, as well as what type of system infrastructure is desirable under these circumstances. After several of these meetings, the TSE announced a general outline of the plan in September 2006.

One of the greatest features of the next-generation system is its high-speed processing capability. For example, the time elapsed from the point an order is received to the point the system returns an order acceptance message will be shortened to within 10 milliseconds – about 1% of the time it takes with the existing system. At the same time, the system will adopt a structure which enables flexible expansion of processing capacity through hardware augmentations, thereby continuously ensuring adequate processing capacity. We will also aim to achieve “Five Nine” (i.e. 99.999% availability), which is the highest level of reliability, and will also structure the system to prevent the loss of order messages received by holding the data in triplicate on high-speed in-memory databases, even without recording it to magnetic disc. In addition to speeding up and enhancing the distribution of market information, we will enable the creation of more user-friendly order-entry terminals by allowing third-party vendors to freely participate in the development of such terminals.

In August 2006, the TSE began a competition for development vendors around the world to compete to develop the exchange's next-generation system. After conducting a three-stage selection process, the TSE chose Fujitsu as development vendor in December 2006, who then established a “TSE Project Division” specifically for the project. At the end of each development phase, the presidents of both the TSE and Fujitsu partake in a Presidents' Review as part of project management.

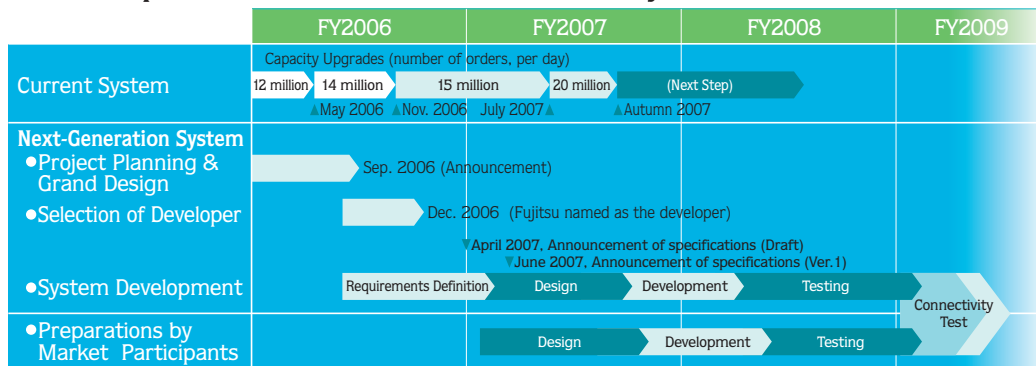
We plan to start connection tests with market participants beginning in the spring of 2009 and aim



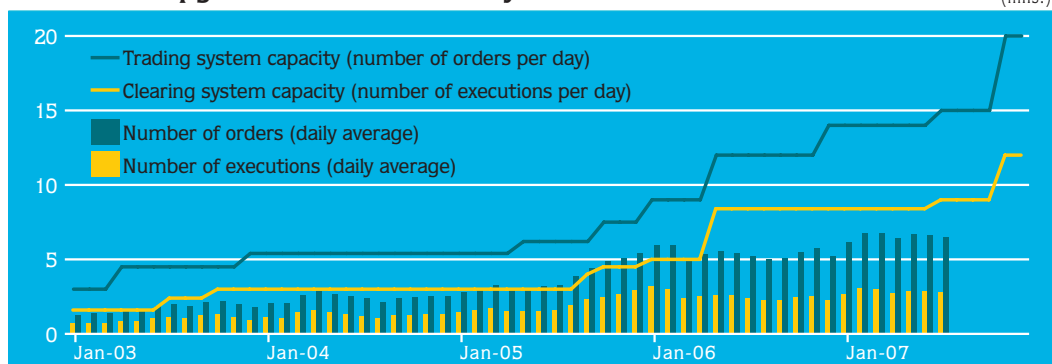
for full operation in the latter half of 2009.

Meanwhile, we intend to carry out an overall strengthening of the current system until the next-generation system goes into operation. The TSE is paying careful attention to ensure it always maintains adequate capacity and has been continually carrying out system upgrades.

### >> Development Schedule of Next-Generation System



### >> Further upgrades to the current system



# Strengthening the Self-Regulatory Function

## Comprehensive Improvement Program for the Listing System

With Japanese corporate law enabling companies greater freedom in their actions, ensuring soundness in the securities market is becoming an urgent issue from a listing system standpoint. In response to this situation, in June 2006 the TSE developed an action plan entitled the “Comprehensive Improvement Program for the Listing System,” which thoroughly lays out the points to discuss and the direction that needs to be taken to improve the listing system overall. Based on this program, the TSE looked at the issue of harmonizing corporate behavior with market discipline, and from this standpoint, added “consideration of the impact of stock splits on the secondary market” to the issues that companies are obliged to respect in December 2006. At the same time, the TSE also stated that an investment unit of between 50,000 to 500,000 yen is desirable from the perspective of enhancing liquidity and facilitating investor participation. A new follow-up inspection system has also been established for companies that have been required by the exchange to file an improvement report.

### # Framework of Program 2007

I	Improving the System Regarding Corporate Activities	<ol style="list-style-type: none"> <li>1. Enhancing timely disclosure</li> <li>2. Development of Corporate Code of Conduct</li> <li>3. Response to a listed company owned by a parent company</li> <li>4. Response to internal control reporting system</li> <li>5. Development of the listing system for classified stocks</li> </ol>
II	Improving the Market System	<ol style="list-style-type: none"> <li>1. Enhancing confidence in Mothers</li> <li>2. Review of trading units</li> <li>3. Review of criteria for liquidity, etc.</li> <li>4. Review of market segmentation</li> </ol>
III	System Improvements for Ensuring Listing Rule Effectiveness	
IV	Response to Listing of Various Financial Instruments	
V	Others	<ol style="list-style-type: none"> <li>1. Reinforcing cooperation with CPAs</li> <li>2. Reinforcing self-regulatory functions</li> </ol>



As part of this program, an Advisory Group on Improvements to the TSE Listing System comprised of academics and industry specialists was set up in September 2006. This group discusses matters designated as medium- to long-term issues, and in March 2007 the group published an interim report. Following the recommendations contained therein, in April, the TSE announced its policy to further improve the listing system in the “Comprehensive Improvement Program for the Listing System 2007.” Based on this program, in autumn 2007, the TSE intends to implement a variety of structural reforms such as establishing the “Corporate Code of Conduct,” reviewing liquidity standards in terms of listing requirements, and establishing the “Special Probationary Market.”

## Establishment of Liaison Council for the Exclusion of Antisocial Forces

In December 2006, the TSE established the Liaison Council for the Exclusion of Antisocial Forces with the National Police Agency and the Tokyo Metropolitan Police Department, with the purpose of preventing improper acts by antisocial forces and thereby contributing to the building of a sound and fair market. The liaison council has been promoting the exchange of information necessary for efforts to eliminate antisocial forces such as organized crime syndicates from the market, and will further strengthen this cooperative relationship in the future.

## Holding of the International CRO Conference in Tokyo

In November 2006, chief regulatory officers (CRO) of major exchanges and self-regulatory organizations around the world gathered in Tokyo to attend the International CRO Symposium and International CRO Conference held by the TSE. These events were held to promote the exchange of information, mutual understanding and cooperation on an international level, and to deepen the understanding of a wide range of securities market players from both Japan and abroad with respect to international trends in self-regulation. The members of the CRO Conference publicly announced a joint communiqué, agreeing to make mutual efforts in four areas, including the construction of a fair and transparent market.

▼ The first general meeting of the Liaison Council



▲ International CRO Symposium

# Board of Directors

As of the date that TSE Regulation commences operations

## Tokyo Stock Exchange Group, Inc.

### » Board of Directors



**Taizo Nishimuro**  
Chairman of the Board



**Tsuguoki Fujinuma**  
CPA



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



**Atsushi Saito**  
President & CEO



**Yoshinari Hara**  
Chairman of the Board  
Daiwa Securities Group Inc.



**Hitoshi Maeda**  
Professor Emeritus  
Gakushuin University



**Yasuo Tobiyama**  
Executive Vice President  
COO & CFO



**Masakazu Hayashi**  
President  
Tokyo Stock Exchange  
Regulation



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



**Shigeaki Itsuki**  
Audit Mission Director



**Toshiaki Katsushima**  
CPA, Tax Accountant



**Yasuhiro Sato**  
Executive Adviser  
Kirin Holdings Company,  
Limited

## Tokyo Stock Exchange, Inc.

### » Board of Directors

**Taizo Nishimuro**  
Chairman of the Board

**Atsushi Saito**  
President & CEO

**Yasuo Tobiyama**  
Senior Managing Director,  
COO

**Yoshinori Suzuki**  
Managing Director & CIO

**Yoshinari Hara**  
**Charles D. Lake II**

**Hitoshi Maeda**

**Hiroshi Okuda**

**Yasuhiro Sato**

**Nobuko Takahashi**

**Masahiro Wakita**

### » Auditors

Standing Statutory Auditor  
**Satoshi Shiibashi**

Statutory Auditors  
**Shigeaki Itsuki**

**Toshiaki Katsushima**

**Koji Shindo**

### » Executive Officers

**Atsushi Saito**  
President & CEO

**Yasuo Tobiyama**  
Senior Managing Director  
COO  
Market Service Unit  
General Administration

**Yoshinori Suzuki**  
Managing Director & CIO  
System Unit

**Tomoyoshi Uranishi**  
Senior Executive Officer  
Information Services



**Satoshi Shiibashi**  
Standing Statutory Auditor  
Tokyo Stock Exchange, Inc.



**Koji Shindo**  
Lawyer and Professor  
Emeritus University of Tokyo



**Nobuko Takahashi**  
Independent journalist  
covering economics and  
daily life



**Masahiro Wakita**  
Advisor  
TOYO SECURITIES Co., LTD

» **Nomination Committee**

- ◎ **Taizo Nishimuro**
- Hitoshi Maeda**
- Hiroshi Okuda**

» **Audit Committee**

- ◎ **Satoshi Shiibashi**
- Shigeaki Itsuki**
- Toshiaki Katsushima**
- Koji Shindo**

» **Compensation Committee**

- ◎ **Yasuhiro Sato**
- Yoshinari Hara**
- Taizo Nishimuro**

Note: A double circle indicates the committee chairperson.

» **Executive Officers**

**Taizo Nishimuro**  
Chairman of the Board

**Atsushi Saito**  
President & CEO

**Yasuo Tobiyama**  
Executive Vice President,  
COO & CFO

**Yoshinori Suzuki**  
Senior Executive Officer & CIO  
IT Planning

**Tomoyoshi Uranishi**  
Senior Executive Officer  
Corporate Communications  
CSR Promotion

**Hiroyuki Iwakuma**  
Senior Executive Officer  
General Administration  
Human Resources, Treasury

**Masaki Shizuka**  
Executive Officer  
Corporate Strategy

**Hironaga Miyama**  
Senior Executive Officer  
Market Operation

**Masaki Shizuka**  
Executive Officer  
Listing  
Trading Participants Services

## Tokyo Stock Exchange Regulation

» **Board of Governors**

**Masakazu Hayashi**  
President

**Koichiro Miyahara**  
Standing Governor  
Listing Regulation Unit

**Kiyoyuki Tsuchimoto**  
Standing Governor  
Compliance Unit

**Tsuguoki Fujinuma**

**Atsushi Shimizu**  
Professor of Law School  
Toin University of Yokohama

» **Auditors**

Standing Auditor  
**Kenji Sato**

Auditor  
**Toshiaki Katsushima**



# Operating and Financial Review

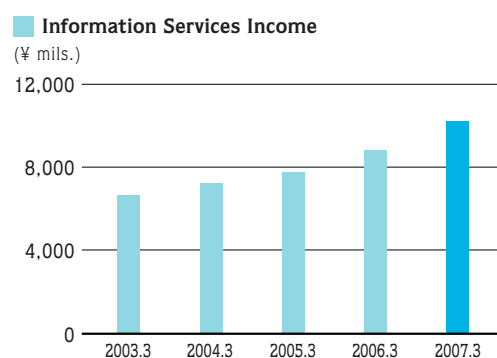
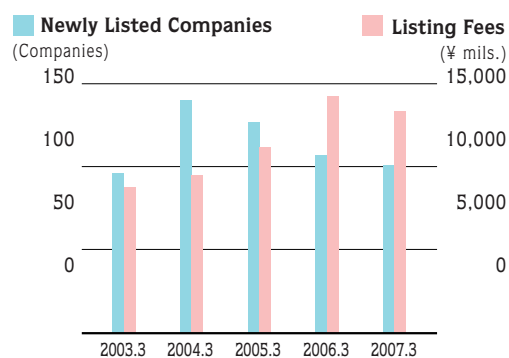
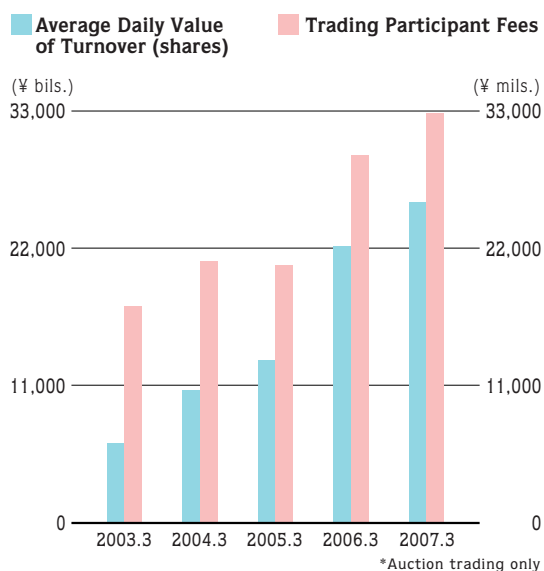
## Operating Results

### Operating Revenues Review

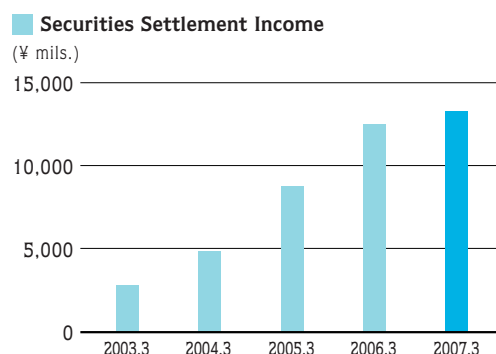
**Trading participant fees** are comprised of “per capita fees,” “transaction fees,” which are based on the trading value or volume of securities traded, “access fees,” which are based on the number of orders, and “trading system facilities usage fees” which are based on the number of terminals and servers used by trading participants. Although this fee structure has been adopted since April 2005, there was a transitional period in which the new system affected only 30% of operations in the first year and 60% in the second year. Thanks to an increase in the daily average trading value of domestic equities and other products, we realized an 11.5% year-on-year increase in our trading participant fees to ¥32,826 million.

**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 income decreased by 6.4% year-on-year to ¥13,370 million due to a decrease in the amount of funds raised by listed companies through equity financing.

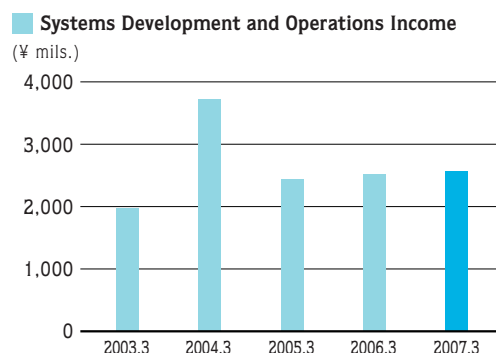
**Information services income** is derived from fees for market information services provided to information services vendors and others. During the term under review, thanks to strong trading activity in the markets, income from real-time market information services grew by a large margin, boosting our information services income by 16.2% to ¥10,239 million.



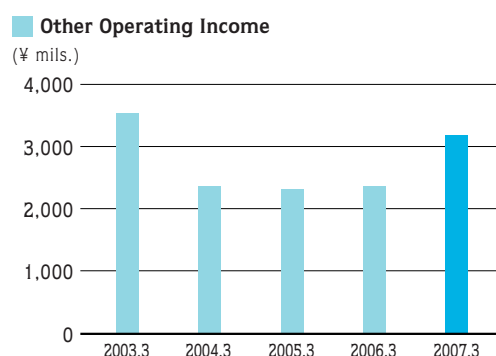
**Securities settlement income** is derived from fees for trade guarantees and other services provided by Japan Securities Clearing Corporation and securities custody and delivery services provided by Japan Securities Settlement and Custody, Inc. During the term under review, securities settlement income rose by 6.5% year-on-year to ¥13,288 million due to the increases in clearing fees associated with the rise in the trading value of domestic equities, etc. As of October 2006, the clearing fee structure associated with the cash market including equities and other securities has been changed from one that corresponds only to the value of obligation assumption to one that considers the number of trade guarantees, and a fixed fee structure has been introduced. There is a transitional period for these changes to take full effect and full migration to the new system is scheduled for October 2008.



**Systems development and operations income** is comprised of fees for system development and management provided by Tosho Systems Services Co., Ltd. During the term under review, this income grew by 1.9% year-on-year to ¥2,574 million.



**Other operating income** rose by 34.8% year-on-year to ¥3,181 million due to the income from the admission fee for trading participants and other sources.



# Operating and Financial Review

## Operating Expenses Review

**Salaries and compensation** increased by 1.6% year-on-year to ¥11,352 million.

**Real estate rental fees** are comprised of rental fees paid for the use of buildings, including the Exchange building itself, and rose by 1.8% year-on-year to ¥5,932 million.

**System maintenance and operation costs** include costs associated with the maintenance and operation of trading, market information and other systems used by the TSE. During the term under review, decreasing outsourcing business costs for clearing services associated with the introduction of the new clearing system in January 2006 contributed to a 21.9% year-on-year decrease to ¥7,648 million.

**Depreciation** expenses increased by 16.1% year-on-year to ¥7,444 million due to an increase in depreciation charges of software etc. relating to the introduction of the new clearing system.

**Other operating expenses** increased by 27.1% year-on-year to ¥10,086 million due to an increase in the sales costs relating to the resale of telecommunication lines by Tosho Systems Services Co., Ltd.

Consequently, our consolidated performance during the term under review showed **operating revenues** of ¥75,478 million (a 8.0% year-on-year increase), **operating expenses** of ¥42,462 million (a 3.2% year-on-year decrease), and **operating profit** of ¥33,016 million (a 14.8% year-on-year increase). And despite tax payments of ¥13,236 million, we were able to realize ¥19,985 million in tax-adjusted **net income** (a 6.1% year-on-year increase).

	¥ mils.				
	2003.3	2004.3	2005.3	2006.3	2007.3
Operating revenues					
Trading participant fees	17,340	20,921	20,589	29,444	<b>32,826</b>
Listing fees	8,766	9,504	11,193	14,278	<b>13,370</b>
Information services income	6,657	7,254	7,774	8,813	<b>10,239</b>
Securities settlement income	2,793	4,874	8,756	12,474	<b>13,288</b>
System development & operations income	1,973	3,723	2,443	2,525	<b>2,574</b>
Other operating income	3,536	2,367	2,316	2,359	<b>3,181</b>
Total	41,065	48,643	53,071	69,893	<b>75,478</b>
Operating expenses					
Salaries and compensation	12,009	11,896	11,624	11,175	<b>11,352</b>
Real estate rental fees	5,685	5,629	5,817	5,828	<b>5,932</b>
System maintenance & operation costs	–	8,431	9,337	9,789	<b>7,648</b>
System-related expenses	3,867	–	–	–	–
Outsourcing business costs	3,921	–	–	–	–
Depreciation	7,523	6,999	7,965	6,414	<b>7,444</b>
Other operating expenses	5,600	7,482	6,968	7,936	<b>10,086</b>
Total	38,605	40,437	41,711	41,142	<b>42,462</b>
Operating profit	2,460	8,206	11,360	28,751	<b>33,016</b>
Income before income taxes and minority interest	2,859	8,082	7,580	29,332	<b>34,407</b>
Net income	3,277	5,031	4,978	18,833	<b>19,985</b>

## Financial Conditions

### Assets

At the end of March 2007, we recorded total assets of ¥566 billion, which includes several funds or deposits of ¥425 billion. These funds and deposits are received from TSE trading participants and JSCC 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 78% of our total assets. Assets not earmarked for the abovementioned specified assets amount to ¥123 billion.

### Liabilities and Net Assets

As of the end of the term under review, we had ¥425 billion in liabilities and ¥17 billion in net assets, which correspond to the specified assets recorded in assets. Aside from those liabilities, other liabilities totaled ¥29 billion.

Likewise, our net assets aside from retained earnings for special purposes totaled ¥94 billion.

#### (Note) Default compensation reserve funds

The 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, the TSE (with other Exchanges for cash products) will compensate for the remaining loss up to the obligations set in the agreement. Thus, the 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 the TSE demutualized from a membership organization in November 2001, taking over the role of funds, which the TSE originally had collected and reserved from member securities firms for the compensation in the event of a member’s default.

### Cash Flow

**Cash flows from operating activities** amounted to a net inflow of ¥29,089 million due to factors such as cash inflows amounting to ¥34,407 million from income before income taxes and minority interest and ¥7,163 million from depreciation, and an outflow of ¥13,152 million for income taxes payments.

**Cash flows from investing activities** saw a net outflow of ¥18,519 million due to acquisitions of fixed assets and other factors.

**Cash flows from financing activities** resulted in a net outflow of ¥4,826 million due primarily to dividend payments of ¥4,775 million.

**As a result of these activities**, cash and cash equivalents at the end of the term under review increased by ¥5,744 million to ¥49,099 million.

# C Consolidated Balance Sheets

Tokyo Stock Exchange, Inc.

As of March 31, 2006 and 2007

	¥ mils.		US\$ thous. (Note 1)
	2006	2007	2007
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and bank deposits (Notes 5 and 13)	¥ 42,854	¥ 51,698	\$ 437,931
Accounts receivable	6,636	6,714	56,876
Marketable securities (Notes 5 and 6)	2,501	5,597	47,415
Inventories	103	508	4,304
Prepaid expenses	357	384	3,249
Short-term guarantee money deposits	78	128	1,082
Margin funds for derivatives and when-issued transactions (Note 13)	263,403	224,444	1,901,261
Deposits for clearing funds (Note 13)	181,783	134,584	1,140,057
Deposits as collateral for facilitating settlement (Note 13)	46,911	65,911	558,331
Deferred income taxes (Note 8)	1,256	1,147	9,715
Other current assets (Note 11)	156	109	926
Allowance for doubtful accounts	(6)	(5)	(42)
Total current assets	546,032	491,219	4,161,105
<b>Property and Equipment</b>			
Buildings	11,773	11,862	100,482
Information system equipments	19,217	23,890	202,368
Land	2,399	2,399	20,326
Construction in progress	1,057	300	2,542
Other property and equipment (Note 10)	5,917	5,700	48,286
Accumulated depreciation	(24,040)	(27,684)	(234,508)
Total property and equipment	16,323	16,467	139,496
<b>Intangible Fixed Assets, Net</b>			
Software	8,954	8,830	74,798
Software in progress	2,711	4,572	38,727
Goodwill	7	-	-
Other intangible fixed assets	142	176	1,490
Total intangible fixed assets	11,814	13,578	115,015
<b>Investments and Other Assets</b>			
Investments in securities (Note 6)	6,360	7,342	62,195
Long-term loan to affiliates	145	50	427
Guarantee money deposits	8,305	7,993	67,706
Prepaid pension costs (Note 9)	2,544	3,247	27,504
Long-term deposits	5,000	5,000	42,355
Legal guarantee funds (Note 13)	369	355	3,009
Special assets for default compensation reserve funds (Note 6)	17,368	17,368	147,122
Deferred income taxes (Note 8)	3,402	2,759	23,369
Others	542	529	4,482
Allowance for doubtful accounts	(340)	(388)	(3,284)
Total investments and other assets	43,695	44,255	374,885
<b>Total Assets</b>	¥ 617,864	¥ 565,519	\$ 4,790,501

The accompanying notes are an integral part of these statements.





	¥ mils.		US\$ thous. (Note 1)
	2006	2007	2007
<b>LIABILITIES AND SHAREHOLDERS' EQUITY/NET ASSETS</b>			
<b>Current Liabilities</b>			
Long-term debt due within 1 year (Note 7)	¥ 50	¥ -	\$ -
Accounts payable – trade (Note 11)	2,454	3,023	25,605
Accounts payable – other	3,258	818	6,926
Income taxes payable	8,229	8,333	70,587
Consumption taxes payable	866	684	5,792
Allowance for bonuses (Note 3)	1,026	1,163	9,849
Deposits received	69	142	1,203
Margin funds received for derivatives and when-issued transactions (Note 13)	263,403	224,444	1,901,261
Deposits received for clearing funds (Note 13)	181,783	134,584	1,140,057
Deposits received as collateral for facilitating settlement (Note 13)	46,911	65,911	558,331
Deposits received as trading participants guarantee (Note 13)	2,229	3,772	31,949
Other current liabilities (Note 11)	565	481	4,090
<b>Total current liabilities</b>	<b>510,843</b>	<b>443,355</b>	<b>3,755,650</b>
<b>Non-Current Liabilities</b>			
Long-term debt (Note 7)	1	-	-
Allowance for retirement benefits for directors	98	99	838
Allowance for retirement benefits for employees (Note 9)	5,496	5,435	46,036
Allowance for loss on real estate rental contract	4,456	4,114	34,848
Guarantee money deposits received	707	729	6,175
Returnable legal guarantee funds (Note 13)	369	355	3,009
Other non-current liabilities (Note 11)	233	185	1,575
<b>Total non-current liabilities</b>	<b>11,360</b>	<b>10,917</b>	<b>92,481</b>
<b>Total liabilities</b>	<b>522,203</b>	<b>454,272</b>	<b>3,848,131</b>
<b>Commitments and Contingent Liabilities (Note 12)</b>			
<b>Net Assets (Note 3)</b>			
<b>Shareholders' Equity</b>			
Common stock			
Authorized 9,200,000 shares at March 31, 2006 and 2007			
Issued and outstanding 2,300,000 shares at March 31, 2006 and 2007	11,500	11,500	97,416
Capital surplus	22,875	22,875	193,771
Retained earnings (Note 19)	61,010	76,164	645,185
Treasury stock, at cost 26,260 shares at March 31, 2006 and 2007	(740)	(740)	(6,272)
<b>Total shareholders' equity</b>	<b>94,645</b>	<b>109,799</b>	<b>930,100</b>
<b>Minority Interest</b>	<b>1,016</b>	<b>1,448</b>	<b>12,270</b>
<b>Total net assets</b>	<b>95,661</b>	<b>111,247</b>	<b>942,370</b>
<b>Total Liabilities and Net Assets</b>	<b>¥ 617,864</b>	<b>¥ 565,519</b>	<b>\$ 4,790,501</b>

The accompanying notes are an integral part of these statements.



# C Consolidated Statements of Income

Tokyo Stock Exchange, Inc.

For the years ended March 31, 2006 and 2007

	¥ mils.		US\$ thous. (Note 1)
	2006	2007	2007
<b>Operating Revenues</b>			
Trading participant fees	¥ 29,444	¥ 32,826	\$ 278,068
Listing fees	14,278	13,370	113,258
Income from information services	8,813	10,239	86,738
Income from securities settlement	12,474	13,288	112,560
Income from system development and operations	2,525	2,574	21,807
Other operating income (Note 11)	2,359	3,181	26,943
Total operating revenues	69,893	75,478	639,374
<b>Operating Expenses (Notes 3, 11 and 14)</b>	41,142	42,462	359,692
Operating profit	28,751	33,016	279,682
<b>Other Income (Expenses)</b>			
Interest and dividend income	41	144	1,220
Rent income (Note 11)	553	330	2,800
Income from fines levied	72	30	254
Grants in aid	226	226	1,918
Income from securities deposit for Japan			
Securities Finance Co., Ltd.	150	214	1,816
Equity in earnings of affiliated companies	609	489	4,139
Income from delinquency charge	457	-	-
Gains on sales of investment in securities (Note 6)	-	34	288
Compensation income for damages	-	385	3,261
Gain on sales of fixed assets (Note 15)	-	11	93
Interest expense	(0)	(0)	(2)
Rent expense	(539)	(266)	(2,254)
Provision for doubtful accounts for subsidiaries and affiliates	-	(50)	(427)
Loss on disposal of fixed assets (Note 16)	(1,086)	(236)	(1,997)
Other, net	98	80	675
Total other income (expense)	581	1,391	11,784
Income before income taxes and minority interest	29,332	34,407	291,466
Income taxes – current (Note 8)	10,296	13,236	112,125
Income taxes – deferred (Note 8)	(192)	753	6,379
Minority interest	(395)	(433)	(3,666)
Net income	¥ 18,833	¥ 19,985	\$ 169,296

The accompanying notes are an integral part of these statements.

# Consolidated Statements of Changes in Net Assets

¥ mils.

For the years ended March 31, 2006 and 2007	Number of shares of common stock	Shareholders' equity				Minority interest	Total net assets
		Common stock	Additional paid-in capital	Retained earnings	Treasury stock		
<b>Balance as of March 31, 2005</b>	2,300,000	¥11,500	¥22,875	¥ 43,389	¥ (740)	¥ 621	¥ 77,645
Net income for the year ended March 31, 2006		-	-	18,833	-	-	18,833
Cash dividends paid (¥510 per shares)		-	-	(1,160)	-	-	(1,160)
Bonuses to directors		-	-	(52)	-	-	(52)
Items other than changes in Shareholders' equity		-	-	-	-	395	395
<b>Balance as of March 31, 2006</b>	2,300,000	¥11,500	¥22,875	¥61,010	¥ (740)	¥ 1,016	¥95,661
Net income for the year ended March 31, 2007		-	-	19,985	-	-	19,985
Cash dividends paid (¥2,100 per shares)		-	-	(4,775)	-	-	(4,775)
Bonuses to directors		-	-	(56)	-	(1)	(57)
Items other than changes in Shareholders' equity		-	-	-	-	433	433
<b>Balance as of March 31, 2007</b>	2,300,000	¥11,500	¥ 22,875	¥76,164	¥ (740)	¥ 1,448	¥111,247

US\$ thous. (Note 1)

For the years ended March 31, 2006 and 2007	Number of shares of common stock	Shareholders' equity				Minority interest	Total net assets
		Common stock	Additional paid-in capital	Retained earnings	Treasury stock		
<b>Balance as of March 31, 2006</b>	2,300,000	\$ 97,416	\$ 193,771	\$ 516,818	\$ (6,272)	\$ 8,613	\$810,346
Net income for the year ended March 31, 2007		-	-	169,296	-	-	169,296
Cash dividends paid (\$17.79 per shares)		-	-	(40,448)	-	-	(40,448)
Bonuses to directors		-	-	(481)	-	(9)	(490)
Items other than changes in Shareholders' equity		-	-	-	-	3,666	3,666
<b>Balance as of March 31, 2007</b>	2,300,000	\$ 97,416	\$ 193,771	\$ 645,185	\$ (6,272)	\$ 12,270	\$942,370

Note: The consolidated statements of changes in net assets for the fiscal year ended March 31, 2006 are presented under new standard. The accompanying notes are an integral part of these statements.

# Consolidated Statements of Cash Flows

Tokyo Stock Exchange, Inc.

For the years ended March 31, 2006 and 2007

	¥ mils.		US\$ thous. (Note 1)
	2006	2007	2007
<b>Cash Flows from Operating Activities:</b>			
Income before income taxes and minority interest	¥ 29,332	¥ 34,407	\$ 291,466
Depreciation	5,981	7,163	60,675
Amortization of goodwill	7	7	61
Loss on disposal of property, equipment and intangible fixed assets	1,086	236	1,997
(Gain) Loss on sale of investments in securities	1	(34)	(288)
Increase (Decrease) in allowance for doubtful accounts	(3)	47	399
Increase in allowance for bonuses	269	137	1,160
Increase (Decrease) in allowance for retirement benefits for directors	(75)	1	8
Decrease in allowance for loss on real estate rental contract	(125)	(342)	(2,899)
Decrease in allowance for retirement benefits for employees	(311)	(61)	(519)
Equity in earnings of affiliated companies	(609)	(489)	(4,139)
Interest and dividends income	(41)	(144)	(1,220)
Interest expense	0	0	2
Increase in accounts receivable	(1,669)	(78)	(661)
Increase (Decrease) in inventories	74	(405)	(3,430)
Increase in accounts payable — trade	72	568	4,815
Compensation income for damages	-	(385)	(3,261)
Income from delinquency charge	(457)	-	-
Others, net	483	1,014	8,584
Sub-total	34,015	41,642	352,750
Income taxes paid	(5,315)	(13,152)	(111,408)
Interest and dividends received	90	214	1,814
Interest paid	(0)	(0)	(2)
Compensation received for damages	-	385	3,261
Delinquency charge received	457	-	-
Net cash provided by operating activities	29,247	29,089	246,415
<b>Cash Flows from Investing Activities:</b>			
Acquisition of fixed deposits	(5,000)	(11,450)	(96,993)
Proceeds from the refund of fixed deposits	900	7,750	65,650
Acquisition of marketable securities	(6,499)	(13,238)	(112,136)
Proceeds from the sale of marketable securities	6,500	11,250	95,299
Acquisition of investments in securities	(994)	(997)	(8,444)
Proceeds from the sale of investments in securities	-	42	356
Acquisition of property and equipment	(1,900)	(6,615)	(56,034)
Proceeds from the sale of software	2	28	241
Acquisition of software	(5,528)	(5,498)	(46,577)
Proceeds from the sale of intangible fixed assets	8	10	84
Payment for guarantee money deposits	(4)	(77)	(654)
Proceeds from the return of guarantee money deposits	1,142	340	2,882
Payment of guarantee money deposits received	(289)	(105)	(890)
Proceeds from the receipt of guarantee money deposits	14	26	222
Payment of loan receivables	(201)	-	-
Collection of loan receivables	5	5	39
Proceeds from the liquidation of affiliates	269	-	-
Proceeds from the sale of investments in affiliates	32	-	-
Others	(11)	10	76
Net cash used in investing activities	(11,554)	(18,519)	(156,879)
<b>Cash Flows from Financing Activities:</b>			
Repayment of long-term debt	(168)	(51)	(432)
Dividends paid	(1,160)	(4,775)	(40,448)
Net cash used in financing activities	(1,328)	(4,826)	(40,880)
<b>Increase in Cash and Cash Equivalents</b>	16,365	5,744	48,656
<b>Cash and Cash Equivalents at Beginning of Year</b>	26,990	43,355	367,259
<b>Cash and Cash Equivalents at End of Year (Note 5)</b>	¥ 43,355	¥ 49,099	\$ 415,915

The accompanying notes are an integral part of these statements.

# Notes to the Consolidated Financial Statements

## 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 the application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the company as required by 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 ¥118.05=US\$1, the approximate rate of exchange prevailing as of March 31, 2007, has been used in translation. The inclusion of such amounts are not intended to imply that the Japanese yen have been or could be readily converted, realized or settled in U.S. dollars at this 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 ("goodwill") 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, 2007 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 date of 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 progress is 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 Corporate Law or Japanese tax law.

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

## **(9) Allowances**

Allowance for Doubtful Accounts

Allowance for doubtful accounts is made against potential losses on collection. The amount is 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 Bonuses

Allowance is made for bonuses to directors, executive officers and employees at the amount expected to be paid.

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% 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 (transition adjustment) 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 Debt Assumption**

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

## **(12) 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.

### **(13) 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.

### **(14) 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**

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 ("ASBJ") 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 for years ended March 31, 2006 and 2007.

On December 9, 2005, ASBJ issued the Financial Accounting Standards No.5 "Accounting Standard for Presentation of Net Asset in the Balance Sheet" and Application Guideline of Financial Accounting Standard No. 8 "Application Guideline of the Accounting Standard for Presentation of Net Asset in the Balance Sheet etc." Under the New Accounting Standards, the balance sheet comprises

the assets, liabilities and net assets sections. Previously, the balance sheet comprised the assets, liabilities, minority interests and shareholders' equity sections. Also certain items, which were previously presented as liabilities, are now presented as components of net assets. Such items include stock acquisition rights, minority interest and any deferred gain or loss on derivatives accounted for under hedge accounting. Before the adoption, the total amount of the shareholders' equity was 109,799 million yen. The companies adopted this new accounting standard from the year ended March 31, 2007. As the result of the new accounting treatment, the total amount of the net assets is 111,247 million yen. In addition, the net assets part in the balance sheet of the year ended March 31, 2007 was prepared based on the revised consolidated financial reporting regulation. Furthermore, the company presented its net assets in the balance sheets using the new presentation as of March 31, 2006.

On November 29, 2005, ASBJ issued the Financial Accounting Standards No. 4 "Accounting Standards for Bonuses to Directors." The new standard requires the bonuses to directors be recognized as current expense. Before the adoption of the new standard, the bonuses to directors, after approved by the shareholder's meeting, were recognized as the minus of retained earnings. The companies adopted this new accounting standard from the year ended March 31 2007. As the result of the new accounting treatment, the operating expense increased 82 million yen while operating profit and income before income tax and minority interest decreased 82 million yen compared with the previous accounting treatment.

## **4. Reclassifications**

Certain reclassifications of the accompanying consolidated financial statements as of and for the year ended March 31, 2006 have been made to conform to the 2007 presentation.

## 5. Cash and Cash Equivalents

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

	¥ mils.		US\$ thous. (Note 1)
	2006	2007	2007
Cash and bank deposits	¥ 42,854	¥ 51,698	\$ 437,931
Short-term investment in securities	2,501	5,597	47,415
Fixed deposits with a maturity over three months	-	(3,700)	(31,343)
Held-to-maturity-securities	(2,000)	(4,496)	(38,088)
Cash and cash equivalents per the cash flow statement	¥ 43,355	¥ 49,099	\$ 415,915

## 6. Marketable Securities and Investments in Securities

(1) Investments in securities as of March 31, 2006 and 2007 consisted of the following:

	¥ mils.		US\$ thous. (Note 1)
	2006	2007	2007
Short-term:			
Held-to-maturity securities	¥ 2,000	¥ 4,496	\$ 38,088
Available-for-sale securities	501	1,101	9,327
Total	¥ 2,501	¥ 5,597	\$ 47,415

	¥ mils.		US\$ thous. (Note 1)
	2006	2007	2007
Long-term:			
Held-to-maturity securities	¥ 2,493	¥ 2,992	\$ 25,348
Available-for-sale securities	13	6	48
Investments in affiliates	3,854	4,344	36,799
Total	¥ 6,360	¥ 7,342	\$ 62,195

Note: In addition to the above, the available-for-sale securities, amounting to 2,999 million yen and 2,996 million yen as of March 31, 2006 and 2007 respectively, is included in the account of "Special assets for default compensation reserve funds."

(2) Held-to-maturity securities for which market values as of March 31, 2006 and 2007 are available are as follows:

	¥ mils.		
	2006		
	Carrying amount	Fair value amount	Unrealized gains (losses)
Held-to-maturity securities:			
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.		
	2007		
	Carrying amount	Fair value amount	Unrealized gains (losses)
Held-to-maturity securities:			
Market value over book value:			
Government bonds and municipal bonds	¥ -	¥ -	¥ -
Corporate bonds	-	-	-
Others	-	-	-
Market value less than book value:			
Government bonds and municipal bonds	¥ 6,489	¥ 6,476	¥ (13)
Corporate bonds	-	-	-
Others	-	-	-
	6,489	6,476	(13)
	¥ 6,489	¥ 6,476	¥ (13)

	US\$ thous. (Note 1)		
	2007		
	Carrying amount	Fair value amount	Unrealized gains (losses)
Held-to-maturity securities:			
Market value over book value:			
Government bonds and municipal bonds	\$ -	\$ -	\$ -
Corporate bonds	-	-	-
Others	-	-	-
Market value less than book value:			
Government bonds and municipal bonds	\$ 54,970	\$ 54,857	\$ (113)
Corporate bonds	-	-	-
Others	-	-	-
	\$ 54,970	\$ 54,857	\$ (113)

(3) Available-for-sale securities sold are as follows:

¥ mils.		
2007		
Sales amount	Gains on sale	Loss on sale
¥ 42	¥ 34	¥ -

US\$ thous. (Note 1)		
2007		
Sales amount	Gains on sale	Loss on sale
\$ 356	\$ 288	\$ -

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

	¥ mils.		US\$ thous. (Note 1)
	2006	2007	2007
Held-to-maturity securities			
Asset backed commercial paper	¥ 2,000	¥ 999	\$ 8,466
Available-for-sale securities			
Unlisted equity securities, excluding over-the-counter stock	13	6	48
Asset backed commercial paper	3,000	2,996	25,380
Free financial fund	501	1,101	9,326
	¥ 5,514	¥ 5,102	\$ 43,220





**(5) Redemption schedule of held-to-maturity securities or available-for-sale securities with a maturity date as of March 31, 2007 are as follows:**

	¥ 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	¥ 3,500	¥ 3,000	\$ 29,648	\$ 25,413
Corporate bonds	-	-	-	-
Others	4,000	-	33,884	-
Others	-	-	-	-
<b>Total</b>	<b>¥ 7,500</b>	<b>¥ 3,000</b>	<b>\$ 63,532</b>	<b>\$ 25,413</b>

## 7. Long-Term Debt

Long-term debt as of March 31, 2006 and 2007 consists of the following:

	¥ mils.		US\$ thous. (Note 1)	
	2006	2007	2006	2007
Long-term debt within 1 year	¥ 50	¥ -	\$ -	\$ -
Long-term debt	1	-	-	-
	<b>¥ 51</b>	<b>¥ -</b>	<b>\$ -</b>	<b>\$ -</b>

## 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, 2006 and 2007.

Significant components of the Companies' deferred income tax assets and liabilities as of March 31, 2006 and 2007 are as follows:

	¥ mils.		US\$ thous. (Note 1)	
	2006	2007	2006	2007
Deferred tax assets:				
Allowance for retirement benefits for employees	¥ 1,258	¥ 886	\$ 7,507	\$ 3,814
Allowance for bonuses	418	450	3,814	3,814
Allowance for doubtful accounts	39	59	502	502
Depreciation and amortization	234	211	1,787	1,787
Allowance for loss on real estate rental contract	1,818	1,674	14,180	14,180
Unrealized gain on fixed assets	43	28	238	238
Accrued enterprise tax	732	590	4,994	4,994
Other	308	272	2,299	2,299
Sub-total	4,850	4,170	35,321	35,321
Less – Valuation allowance	(191)	(176)	(1,492)	(1,492)
<b>Total deferred tax assets</b>	<b>4,659</b>	<b>3,994</b>	<b>33,829</b>	<b>33,829</b>
Deferred tax liabilities:				
Retained earnings in affiliate company	-	(88)	(745)	(745)
<b>Total deferred tax liabilities</b>	<b>-</b>	<b>(88)</b>	<b>(745)</b>	<b>(745)</b>
<b>Net deferred tax assets</b>	<b>¥ 4,659</b>	<b>¥ 3,906</b>	<b>\$ 33,084</b>	<b>\$ 33,084</b>

The reconciliation of the statutory tax rate to the effective tax rate for the years ended March 31, 2006 and 2007 is as follows:

	2006	2007
Statutory tax rate	40.7%	-
Adjustments:		
Permanent non-deductible difference	0.1	-
Equity in earnings of affiliated companies	(0.8)	-
Deduction by investment in IT	(5.4)	-
Other factors	(0.1)	-
<b>Effective tax rate</b>	<b>34.5%</b>	<b>-</b>

As the difference between the statutory tax rate and the effective tax rate for the year ended March 31, 2007 is less than 5% of the statutory tax rate, thus the note is omitted.

## 9. Allowances 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, 2006 and 2007 are as follows:

	¥ mils.		US\$ thous. (Note 1)	
	2006	2007	2006	2007
Projected benefit obligations	¥ (21,365)	¥ (21,151)	\$ (179,168)	\$ (179,168)
Plan assets	17,638	18,721	158,586	158,586
Unfunded benefit obligations	(3,727)	(2,430)	(20,582)	(20,582)
Unrecognized prior service costs	(4,951)	(4,334)	(36,709)	(36,709)
Unrecognized actuarial differences	605	24	202	202
Unrecognized transition amount	5,121	4,552	38,557	38,557
Accrued pension costs	(2,952)	(2,188)	(18,532)	(18,532)
Prepaid pension costs	2,544	3,247	27,504	27,504
Allowance for retirement benefits	¥ (5,496)	¥ (5,435)	\$ (46,036)	\$ (46,036)

The net pension costs relating to retirement benefits for the years ended March 31, 2006 and 2007 are as follows:

	¥ mils.		US\$ thous. (Note 1)	
	2006	2007	2006	2007
Service cost	¥ 598	¥ 581	\$ 4,919	\$ 4,919
Interest cost	464	466	3,947	3,947
Expected return on plan assets	(378)	(441)	(3,735)	(3,735)
Amortization of unrecognized prior service costs	(618)	(618)	(5,231)	(5,231)
Amortization of unrecognized actuarial differences	372	248	2,101	2,101
Amortization of transition adjustment	569	569	4,820	4,820
Other	54	55	462	462
<b>Net pension costs</b>	<b>¥ 1,061</b>	<b>¥ 860</b>	<b>\$ 7,283</b>	<b>\$ 7,283</b>

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

	As of March 31, 2006	As of March 31, 2007
Discount rate	2.2 %	<b>2.2 %</b>
Expected rate of return on plan assets	2.5 %	<b>2.5 %</b>
Method of attributing the projected benefits of services	straight-line basis	<b>straight-line basis</b>
Amortization of unrecognized prior service cost	10 years	<b>10 years</b>
Amortization of transition adjustment	15 years	<b>15 years</b>
Amortization of unrecognized actuarial differences	10 years	<b>10 years</b>

## 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.		
	2006		
	Acquisition cost	Accumulated depreciation	Balance as of March 31, 2006
Information system equipments	¥ 1,235	¥ 198	¥ 1,037
Total	¥ 1,235	¥ 198	¥ 1,037

	¥ mils.			US\$ thous. (Note 1)
	2007			
	Acquisition cost	Accumulated depreciation	Balance as of March 31, 2007	Balance as of March 31, 2007
Information system equipments	¥ 1,665	¥ 534	¥ 1,131	\$ 9,582
Total	¥ 1,665	¥ 534	¥ 1,131	\$ 9,582

(b) Outstanding future lease payments as of March 31, 2006 and 2007 including the interest portion thereon, categorized by contractual maturity are as follows:

	¥ mils.		US\$ thous. (Note 1)
	2006	2007	2007
Due within one year	¥ 271	¥ 382	\$ 3,236
Due over one year	775	771	6,532
	¥ 1,046	¥ 1,153	\$ 9,768

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

	¥ mils.		US\$ thous. (Note 1)
	2006	2007	2007
Lease payments	¥ 181	¥ 383	\$ 3,248
Depreciation expense amount	169	359	3,038
Interest expense amount	20	38	322

(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, 2006 and 2007 for non-cancelable operating leases, categorized by contractual maturity are as follows:

	¥ mils.		US\$ thous. (Note 1)
	2006	2007	2007
Due within one year	¥ 2	¥ 3	\$ 22
Due over one year	4	1	9
	¥ 6	¥ 4	\$ 31

### (3) Lessor lease (Finance lease)

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

	¥ mils.		
	2006		
	Acquisition cost	Accumulated depreciation	Balance as of March 31, 2006
Leased assets	¥ 2,118	¥ 1,448	¥ 670

	¥ mils.			US\$ thous. (Note 1)
	2007			
	Acquisition cost	Accumulated depreciation	Balance as of March 31, 2007	Balance as of March 31, 2007
Leased assets	¥ 1,870	¥ 1,533	¥ 337	\$ 2,854

(b) Outstanding lease payments receivable as of March 31, 2006 and 2007 are as follows:

	¥ mils.		US\$ thous. (Note 1)
	2006	2007	2007
Due within one year	¥ 671	¥ 642	\$ 5,439
Due over one year	1,300	1,070	9,064
	¥ 1,971	¥ 1,712	\$ 14,503



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

	¥ mils.		US\$ thous. (Note 1)
	2006	2007	2007
Lease revenue	¥ 634	¥ 412	\$ 3,492
Depreciation	479	322	2,731
Interest income amount	60	36	306

(d) Allocation of interest income amount

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

## 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 years ended March 31, 2006 and 2007, are as follows:

2006

(1) 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	¥4,183	Accounts payable	¥74
						Rent of real estate	Rent of real estate	¥253	Deferred revenue	¥50
									Long-term deferred revenue <sup>a</sup>	¥82

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.

2007

(1) 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%		Rent of real estate	Rent of real estate	¥162 (\$1,371)	Accounts receivable — others	¥2 (\$19)
									Deferred revenue	¥50 (\$426)
									Long-term deferred revenue <sup>a</sup>	¥41 (\$349)

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)
	2006	2007	2007
Guarantees for housing loans from banks for employees	¥ 4,578	¥ 4,426	\$ 37,494

## 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, 2007 is as follows:

	¥ mils.	US\$ thous. (Note 1)
Margin funds for when-issued transactions	¥ 552	\$ 4,680
Margin funds for derivatives	1,032,254	8,744,207
Deposits for clearing funds	278,444	2,358,694
Deposits as collateral for facilitating settlement	167,053	1,415,104

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, 2007 is as follows:

	¥ mils.	US\$ thous. (Note 1)
Legal guarantee funds	¥ 2,982	\$ 25,260

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, 2007 is as follows:

	¥ mils.	US\$ thous. (Note 1)
Deposits as trading participants guarantee	¥ 6,612	\$ 56,009

## 14. Details of Operating Expenses

The following are the major elements of "operating expenses" for the years ended March 31, 2006 and 2007:

	¥ mils.		US\$ thous. (Note 1)
	2006	2007	2007
Salaries	¥ 7,176	¥ 7,417	\$ 62,830
Provision for bonus allowance	1,025	1,179	9,990
Pension costs	1,033	818	6,925
Provision for executive retirement allowance	26	10	88
System maintenance & operation costs	9,789	7,648	64,782
Real estate rental fees	5,828	5,932	50,252
Depreciation	6,414	7,444	63,062

## 15. Details of Gain on Sale of Fixed Assets

The following are the elements of "Gain on sale of fixed assets" for the years ended March 31, 2006 and 2007:

	¥ mils.		US\$ thous. (Note 1)
	2006	2007	2007
Buildings	¥ -	¥ 11	\$ 93
Total	¥ -	¥ 11	\$ 93

## 16. 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, 2006 and 2007:

	¥ mils.		US\$ thous. (Note 1)
	2006	2007	2007
Buildings	¥ 16	¥ 12	\$ 100
Information system equipments	655	79	672
Other property and equipment	3	15	126
Software	412	130	1,097
Other intangible fixed assets	-	0	2
Total	¥ 1,086	¥ 236	\$ 1,997

## 17. 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, 2006 and 2007 is as follows:

	¥ mils.		US\$ thous. (Note 1)
	2006	2007	2007
Net income	¥ 18,833	¥ 19,985	\$ 169,296
Less components not pertaining to common shareholders:			
Bonuses to directors	(57)	-	-
Net income pertaining to common stock	18,776	19,985	169,296
Average outstanding shares of common stock	2,273,740 shares	2,273,740 shares	

	¥		US\$ thous. (Note 1)
	2006	2007	2007
Net income per share	¥ 8,257.83	¥ 8,789.64	\$ 74.46
Shareholders' equity per share	41,600.08	48,289.71	409.06

## 18. Segment Information

### (1) Business Segment

For the years ended March 31, 2006 and 2007, 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, 2006 and 2007.

### (3) Net Sales--Overseas

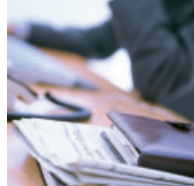
For the years ended March 31, 2006 and 2007, this information is not required to be disclosed because overseas sales do not exceed 10% of consolidated revenue.

## 19. Subsequent Event

### (1) Appropriation of Retained Earnings

The appropriations of the retained earnings of TSE in respect of the year ended March 31, 2007, proposed by the Board of Directors and approved at the shareholders' meeting of TSE held on June 22, 2007, are as follows:

	¥ mils.		US\$ thous. (Note 1)
Appropriations:			
Year-end cash dividends (¥2,200 per share)		¥ 5,002	\$ 42,374



## **(2) Establishment of a holding company by share transfer**

TSE received approval for establishing a holding company by share transfer from its shareholders at the general meeting held on June 22, 2007.

TSE is acutely aware of the necessity to avoid a conflict of interest between its stake as a business entity and its need, as a self-regulatory institution, to ensure the fairness of the market, all while maintaining its overall effectiveness. It also recognizes that it must prepare to respond appropriately to the trend of merger and acquisitions that is also on the horizon in Asia. Accordingly, it has decided to set up a market operation company and a self-regulatory corporation under the umbrella of a newly established holding company in order to accomplish the following three objectives: 1) to strengthen the independence of self-regulation; 2) to ensure the effectiveness of such; 3) to increase the level of freedom it has in developing international business strategies.

Outline of plan for the share transfer is as follows:

### **(a) Corporate name of the holding company**

Tokyo Stock Exchange Group, Inc.

### **(b) Principal office location of the holding company**

2-1, Nihonbashi-Kabuto-cho, Chuo-ku, Tokyo  
103-8220, Japan

### **(c) Type and total number of shares outstanding in the holding company**

Common stock 2,300,000 shares

### **(d) Amount of the holding company's common stock**

¥11,500 million (\$97,416 thousand)

### **(e) Share transfer ratio**

Tokyo Stock Exchange Group, Inc. shall allot and grant to the shareholders of TSE one share of its common stock for each share of common stock held in TSE.

### **(f) Basis for the determination of the share transfer ratio**

Through this share transfer, TSE will be independently establishing a new corporation, Tokyo Stock Exchange Group, Inc. Because there will be no change in the composition of shareholders of current

TSE and of Tokyo Stock Exchange Group, Inc. at the time of share transfer, TSE has decided to allot one share of stock in Tokyo Stock Exchange Group, Inc. for each stock that shareholders of TSE own.

### **(g) Date of share transfer**

August 1, 2007

## **(3) Acquisition of SGX shares**

Based on approval for acquiring Singapore Exchange Limited ("SGX") shares by the Board Meeting held on June 1, 2007, TSE has purchased 4.99 % of the total issued share capital of SGX for total amount of Singapore \$471 million.

Outline of the purchase of shares is as follows.

### **(a) Purpose of the purchase of shares**

Based on the idea that there is a variety of possible areas for collaboration between TSE and SGX, TSE initiated this purchase recognizing the importance of having closer collaboration with SGX.

### **(b) Outline and scale of business of the purchased company**

Outline of business: Setup and operation of exchange  
Capital: Singapore \$378 million  
Consolidated operating income: Singapore \$407 million (fiscal year ended on June 30, 2006)

### **(c) Acquisition cost of the purchased shares and ownership percentage after the purchase**

Acquisition cost: Singapore \$471 million  
Ownership percentage: 4.99%

### **(d) Financing method for the payment**

For the purchase, TSE has borrowed ¥17.5 billion from Nomura Capital Investment Co., Ltd. and allocate TSE's own cash for the balance due to pay.

## 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, 2006 and 2007, and the related consolidated statements of income, changes in net assets, and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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

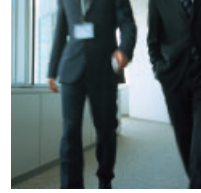
As described in Note 19-(2), effective for the year ended March 31, 2007, Tokyo Stock Exchange, Inc. received approval for establishing a holding company by share transfer from its shareholders at the general meeting held on June 22, 2007.

As described in Note 19-(3), effective for the year ended March 31, 2007, Tokyo Stock Exchange, Inc. received approval acquiring Singapore Exchange Limited ("SGX") shares by the board meeting held on June 1, 2007, and purchased 4.99% of the total issued share capital of SGX for total amount of Singapore \$471 million.

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.

*Mitsubishi Audit Corporation*

Tokyo, Japan  
June 25, 2007



# Market Data

## Trading Value of Domestic Stocks

(monthly)

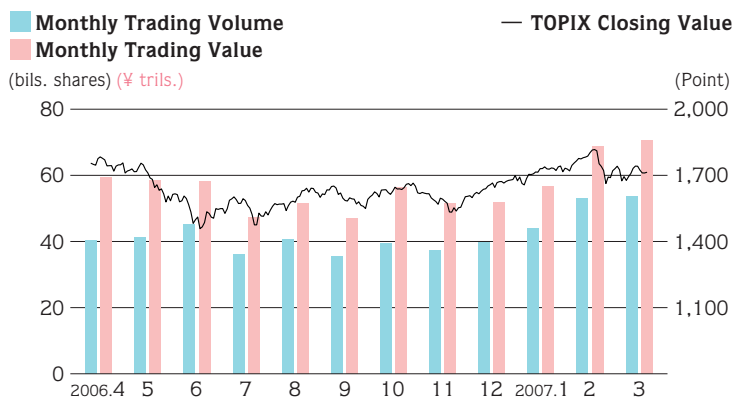
	Daily Average Trading Value (¥ mils.)		Total	
	Ordinary Trades	Off-hour Trades	Trading Value (¥ mils.)	Trading Volume (thous. shares)
2006. 4	2,733,722	236,691	59,408,262	40,472,327
5	2,700,191	226,956	58,542,935	41,300,994
6	2,470,363	178,028	58,264,595	45,171,260
7	2,203,757	155,785	47,190,854	36,216,617
8	2,101,897	140,617	51,577,813	40,813,317
9	2,211,222	144,412	47,112,689	35,501,669
10	2,487,831	196,657	56,374,249	39,484,783
11	2,390,498	181,966	51,449,292	37,247,133
12	2,283,263	188,609	51,909,297	39,742,390
2007. 1	2,778,263	205,840	56,697,957	44,104,957
2	3,393,239	234,419	68,925,511	53,116,245
3	3,181,884	183,828	70,679,947	53,715,748

(fiscal year)

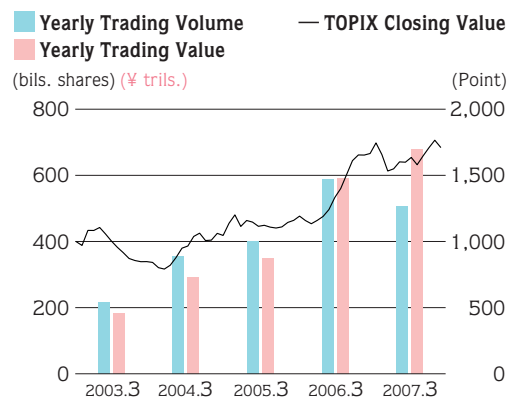
2003.3	636,840	102,529	181,884,814	216,298,477
2004.3	1,064,036	108,257	290,728,726	355,237,963
2005.3	1,299,831	124,898	349,058,550	400,413,154
2006.3	2,215,747	187,743	591,258,744	588,534,260
2007.3	2,568,091	188,548	678,133,405	506,887,445

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

(monthly)



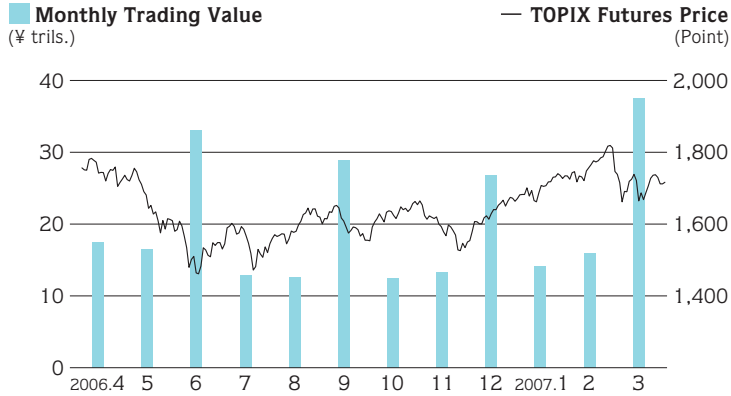
(fiscal year)



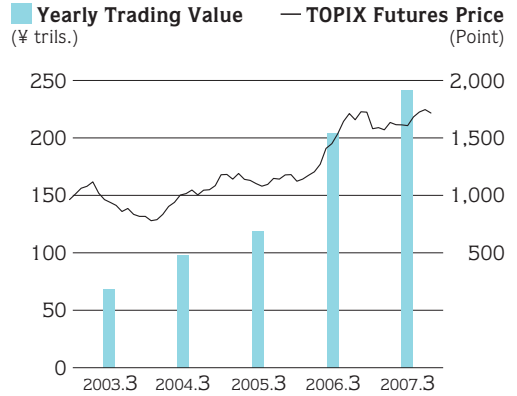


## Stock Price Index Futures

(monthly)

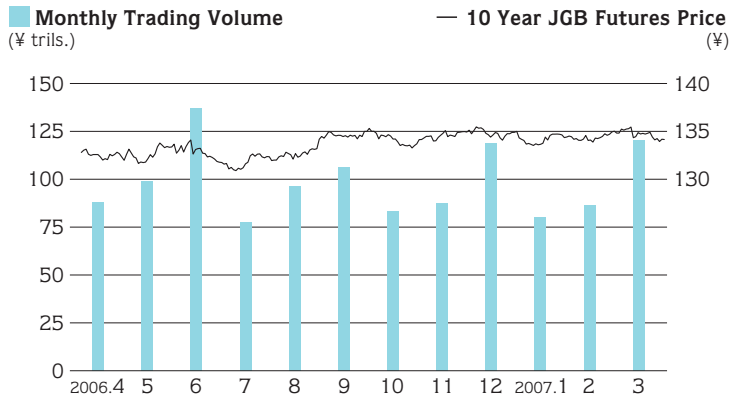


(fiscal year)

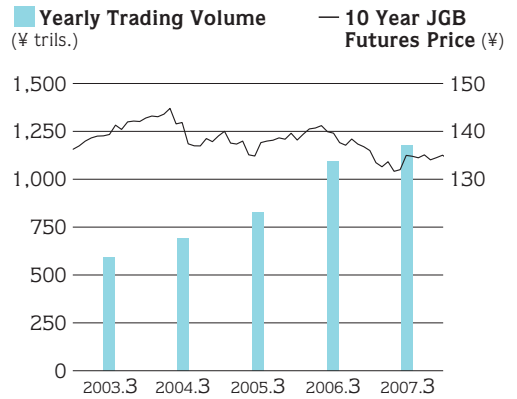


## Japanese Government Bond Futures

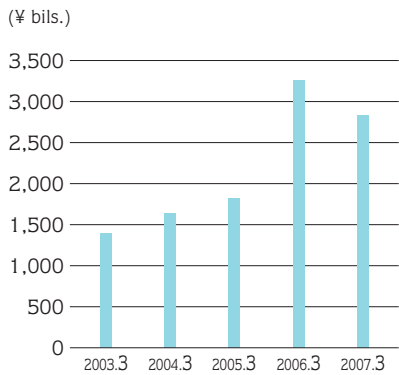
(monthly)



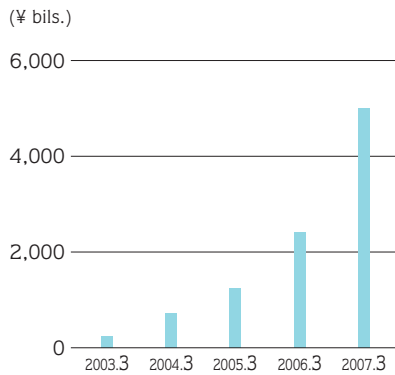
(fiscal year)



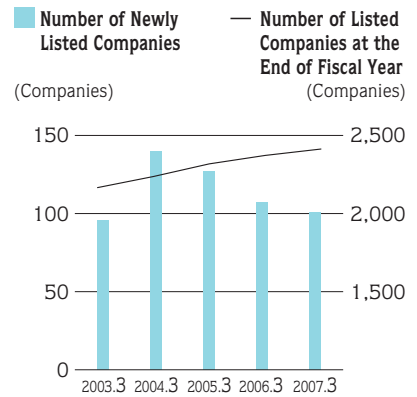
## ETF's Yearly Trading Value



## REIT's Yearly Trading Value

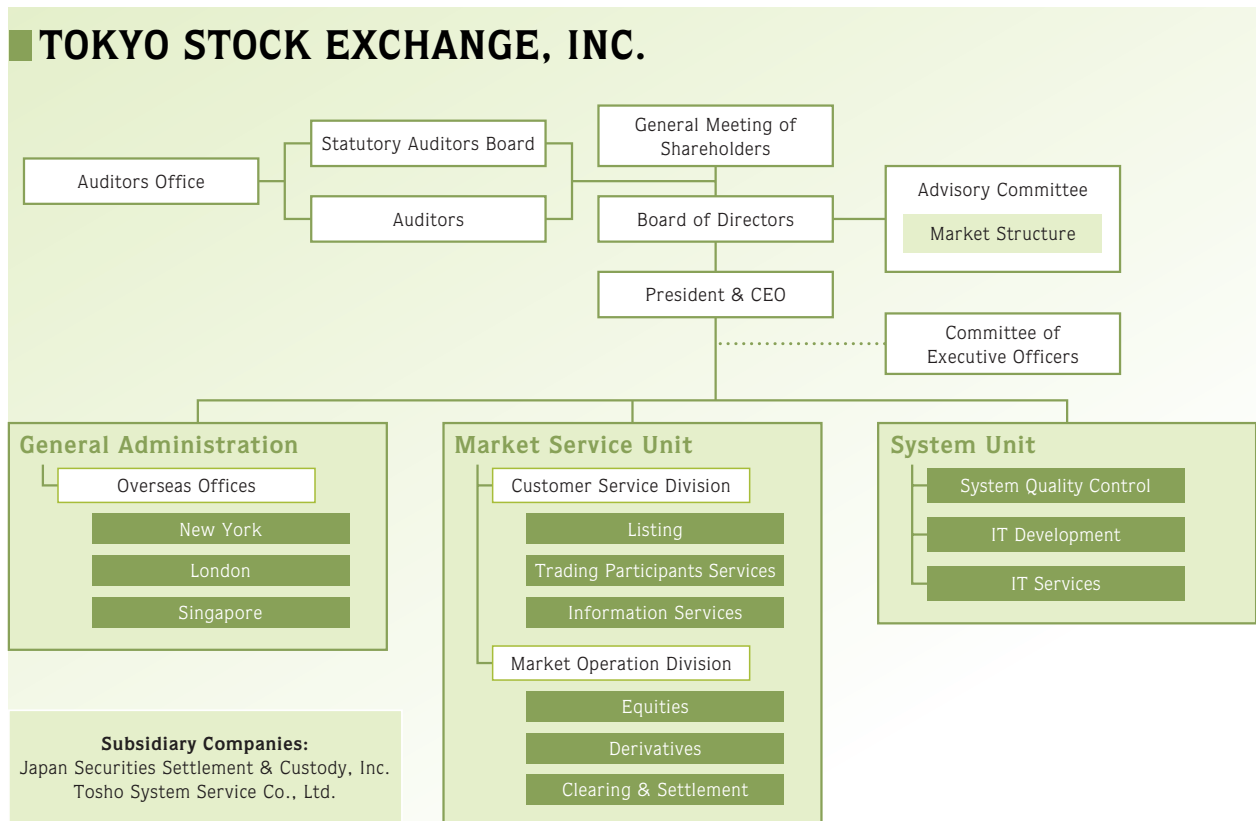
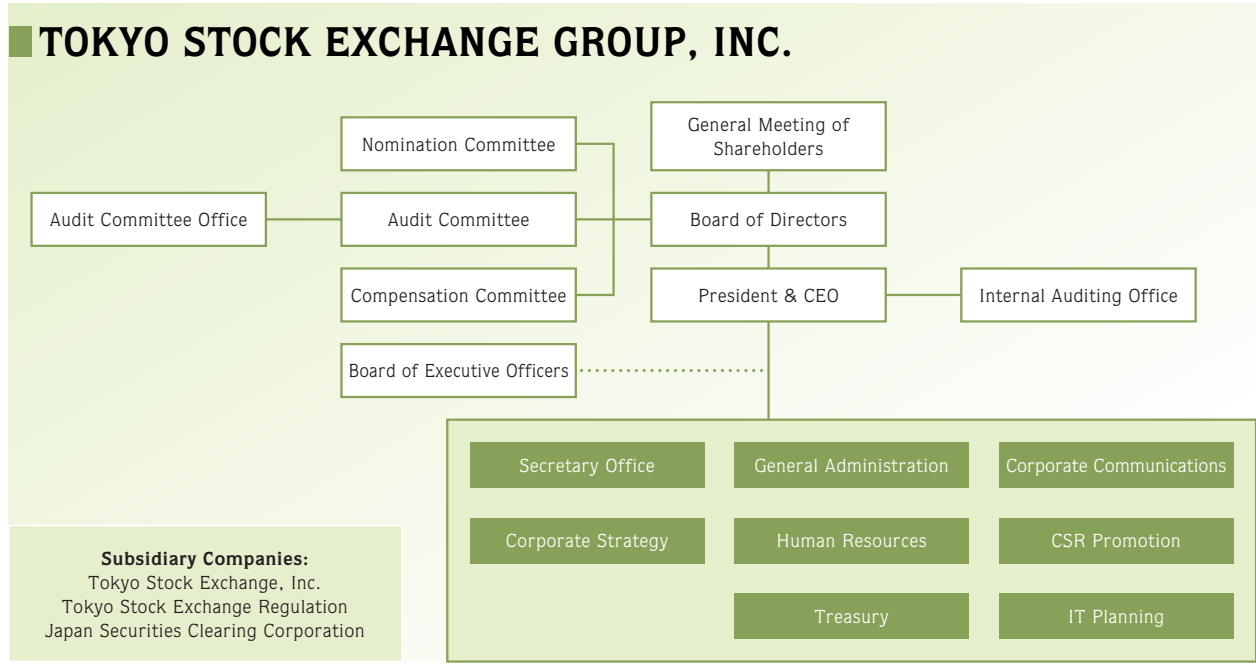


## Number of Newly Listed Companies, Number of Listed Companies



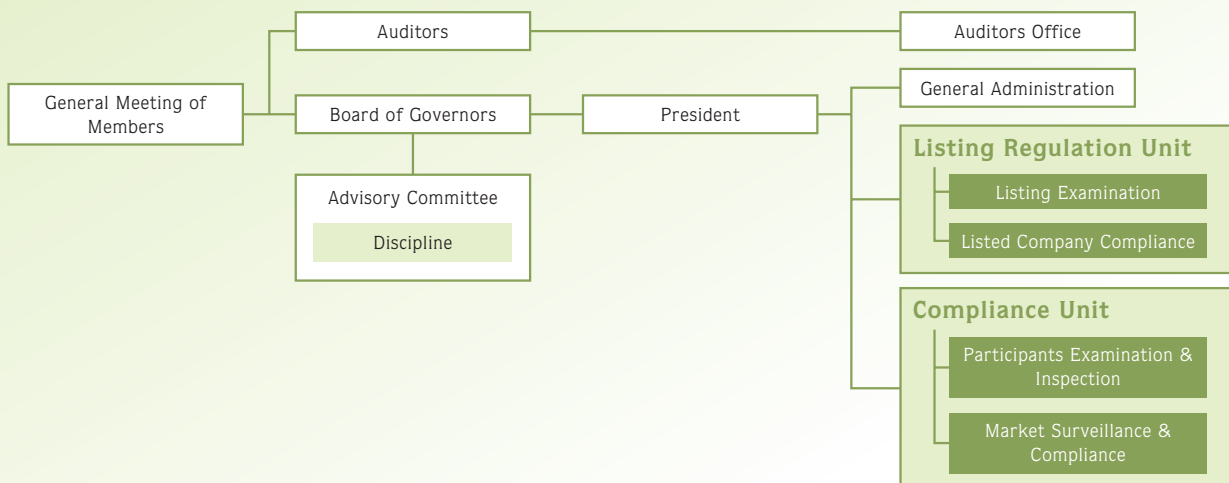
# Organization

As of the date that TSE Regulation commences operations





## TOKYO STOCK EXCHANGE REGULATION



## Corporate Data

As of Aug 1, 2007

<b>Name</b>	Tokyo Stock Exchange Group, Inc.	
<b>No. of Officers</b>	Directors	16
	Executive Officers	8
<b>Address</b>	2-1 Nihombashi-Kabuto-cho, Chuo-ku, Tokyo 103-0026, Japan	
<b>Tel</b>	(81) 3-3666-1361	
<b>URL</b>	<a href="http://www.tse.or.jp/english/index.html">http://www.tse.or.jp/english/index.html</a>	
<b>Foundation</b>	August 1, 2007	
<b>Capital</b>	¥11.5 billion	
<b>No. of Employees</b>	755	
<b>Share Information</b>	Authorized Shares	9,200,000
	Shares Outstanding	2,300,000
	No. of Shareholders	119

### Overseas Offices of Tokyo Stock Exchange, Inc.

#### New York Representative Office

45 Broadway, New York, NY 10006, USA  
Tel: (1) 212-363-2350

#### London Representative Office

4 St. Paul's Churchyard, London, EC4M 8AY, UK  
Tel: (44) 20-7329-2155

#### Singapore Representative Office

16 Raffles Quay #11-02, Hong Leong Building, Singapore 048581  
Tel: (65) 6438-5100



## **TOKYO STOCK EXCHANGE GROUP, INC.**

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