



# TOKYO STOCK EXCHANGE GROUP

Annual Report 2008

TOKYO STOCK EXCHANGE GROUP, INC.

For the fiscal year ended March 31, 2008



# **A**bout the Tokyo Stock Exchange Group

## Profile

The Tokyo Stock Exchange (TSE) has served as Japan's "central market" since its foundation in 1878, and has played a crucial role in the growth and expansion of the nation's economy. In 2007, the TSE accounted for an overwhelming 95% of the total value of all stock trading on domestic stock exchanges.

The TSE had a market value of ¥396 trillion as of the end of March 2008, and a trading value of ¥720 trillion for the fiscal year ended March 31, 2008, making it one of the leading stock exchanges in the world in terms of both size and liquidity.

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

The TSE tirelessly strives to maintain abundant liquidity and a high level of integrity, and provide market participants from Japan and abroad with attractive investment opportunities.

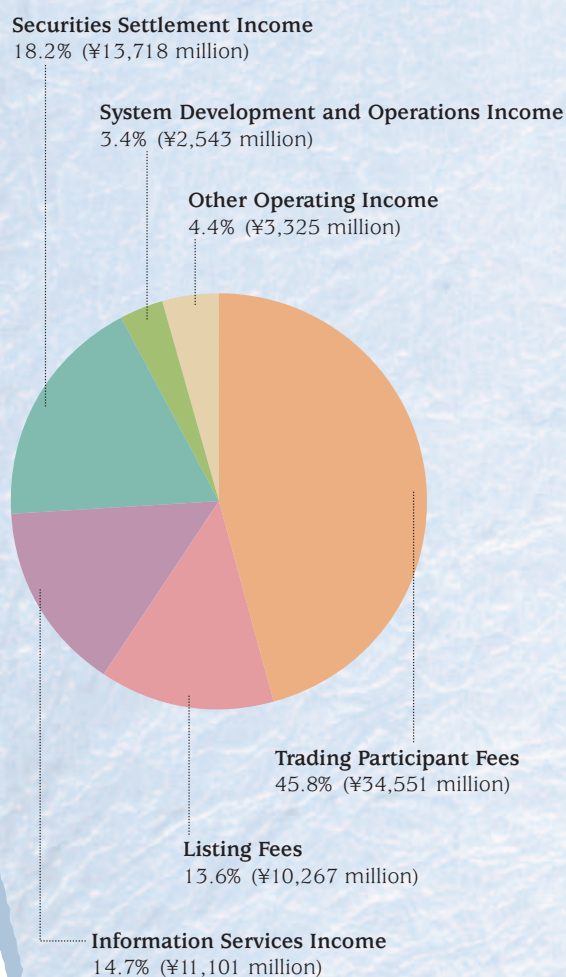
The TSE, which became a stock corporation in November 2001, revamped its corporate structure in 2007 to cement the independence and effectiveness of its self-regulatory function, as well as enable it to act with more flexibility in its international business strategy. The TSE established the holding company, Tokyo Stock Exchange Group, Inc., in August 2007, and the self-regulatory corporation, Tokyo Stock Exchange Regulation, was created in October of the same year. In November 2007, the TSE shifted to a new organizational system wherein the TSE, a market operation company and Tokyo Stock Exchange Regulation operate under the umbrella of Tokyo Stock Exchange Group, Inc.

## Contents

1	About the Tokyo Stock Exchange Group	
3	Financial Highlights	
5	To Our Shareholders	
9	Medium-Term Management Plan (for FY2008–FY2010)	
13	Derivatives Markets	
15	Cash Equities Market	
19	Self-Regulatory Functions	
20	Educational Activities	
21	IT Infrastructure	
23	TSE Group's Highlights in FY2007	
25	Board of Directors	
27	Operating and Financial Review	
31	Consolidated Balance Sheets	
33	Consolidated Statements of Income	
34	Consolidated Statements of Changes in Equity	
35	Consolidated Statements of Cash Flows	
36	Notes to Consolidated Financial Statements	
46	INDEPENDENT AUDITORS' REPORT	
47	Market Data	
49	Organization	
50	Corporate Data	



## Overview of Operating Revenues



### 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.

### 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.

# F inancial Highlights

Tokyo Stock Exchange Group, Inc. was established on August 1, 2007. The consolidated financial statements for year ended March 31, 2008 are a continuation of the previous consolidated financial statements of Tokyo Stock Exchange, Inc. The consolidated financial results for previous terms are those of Tokyo Stock Exchange, Inc.

## Financial Data

¥ mils. except per share and ratio data

US\$ thous\*\*\* except per share data

	2004.3	2005.3	2006.3	2007.3	2008.3	2008.3
<b>FOR THE YEAR</b>						
Operating revenues	¥ 48,643	¥ 53,071	¥ 69,893	¥ 75,478	¥ 75,505	\$ 753,623
Operating profit	8,206	11,360	28,751	33,016	28,787	287,323
Net income	5,031	4,978	18,833	19,985	17,701	176,676
EBITDA*	15,083	15,546	35,747	41,852	38,960	388,862
<b>YEAR END</b>						
Current assets	¥1,504,944	¥ 303,760	¥ 546,032	¥ 491,219	¥ 610,233	\$ 6,090,762
Non-current assets	63,571	63,598	71,832	74,300	107,443	1,072,389
Total assets	1,568,515	367,358	617,864	565,519	717,676	7,163,151
Current liabilities	¥1,484,243	¥ 277,052	¥ 510,843	¥ 443,355	¥ 588,991	\$ 5,878,738
Non-current liabilities	10,854	12,660	11,360	10,917	10,909	108,883
Total equity	73,418	77,646	95,661	111,247	117,776	1,175,530
Total liabilities and equity	1,568,515	367,358	617,864	565,519	717,676	7,163,151
<b>PER SHARE DATA</b>						
EPS	¥ 2,305.44	¥ 2,164.82	¥ 8,257.83	¥ 8,789.64	¥ 7,785.04	\$ 77.70
BPS	31,982.03	33,852.25	41,600.08	48,289.71	50,859.77	507.63
BPS**	24,360.37	26,213.85	33,961.66	40,651.29	43,221.35	431.39
<b>KEY FINANCIAL RATIO</b>						
ROE	7.1%	6.6%	21.9%	19.6%	15.7%	
ROE**	9.4%	8.6%	27.5%	23.6%	18.6%	

\* EBITDA = Income before income taxes and minority interest + Interest expense + Depreciation

\*\* Calculated excluding the default compensation reserve funds

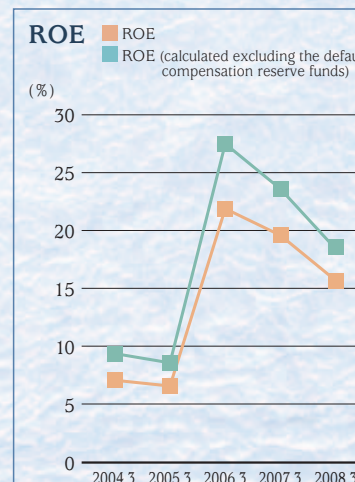
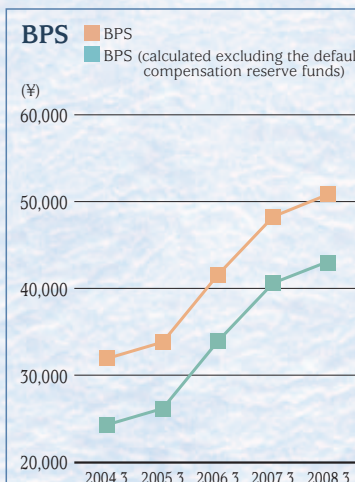
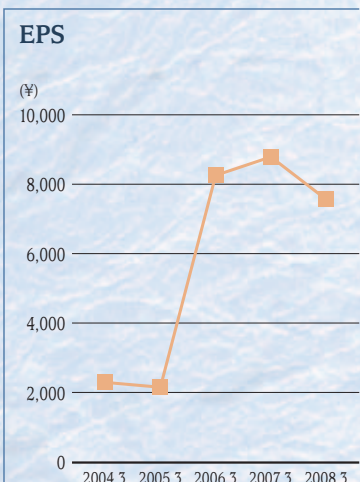
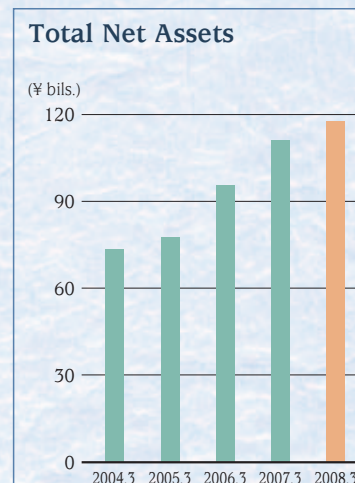
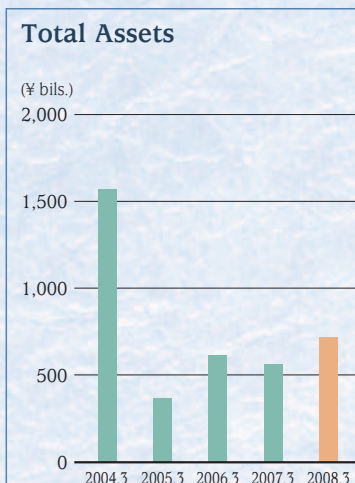
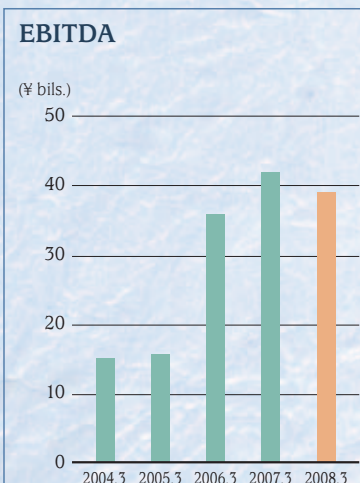
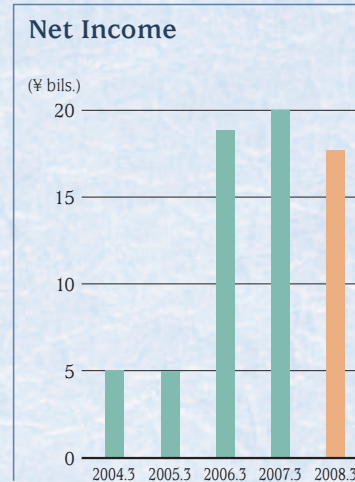
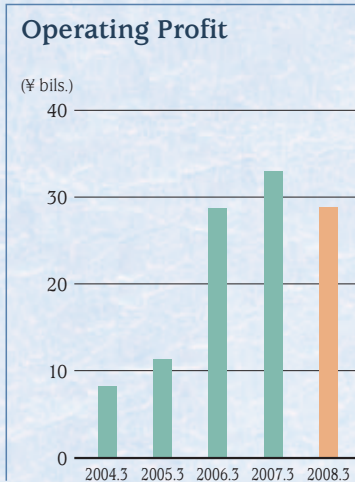
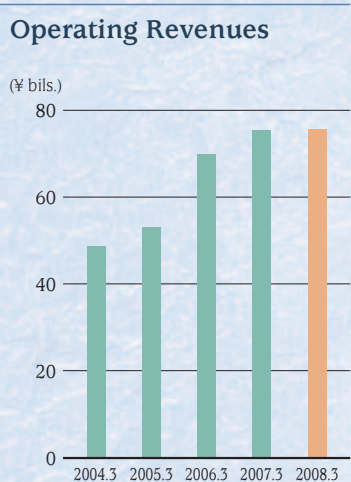
\*\*\*Rate of US\$1 = ¥100.19 used for conversion

## Market Data

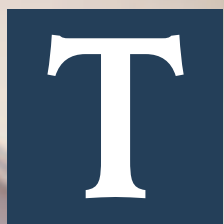
	2004.3	2005.3	2006.3	2007.3	2008.3	2008.3
<b>FOR THE YEAR</b>						
Domestic equities trading volume (mils. shares)	355,238	400,413	588,534	506,887	554,236	
Domestic equities trading value (bils.)	¥ 290,729	¥ 349,059	¥ 591,259	¥ 678,133	¥ 720,141	\$ 7,188
Stock index futures trading value (bils.)	97,859	118,593	204,080	241,360	266,565	2,661
JGB futures trading volume (thous. contracts)	6,938	8,290	10,929	11,801	14,090	
<b>YEAR END</b>						
Number of listed companies	2,237	2,318	2,372	2,413	2,415	
Market capitalization (bils.)	¥ 369,798	¥ 377,049	¥ 563,349	¥ 559,385	¥ 396,008	\$ 3,953
Index (TOPIX)	1,179.23	1,182.18	1,728.16	1,713.61	1,212.96	

\*\*\*Rate of US\$1 = ¥100.19 used for conversion









# To Our Shareholders



## Atsushi Saito

President & CEO

Tokyo Stock Exchange Group, Inc.

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.

### Record levels of market activity sustained operating revenues

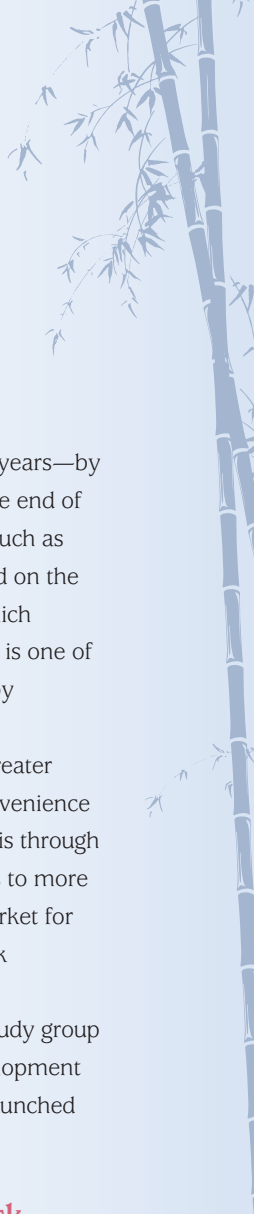
During the fiscal year under review, trading in both cash and derivatives markets became more active, with record high trading volumes posted in stocks and TOPIX futures. As a result, trading participant fees increased and operating revenues reached ¥75.5 billion—approximately the same as the previous year—despite the decline in listing-related income caused by sluggish initial and secondary offerings. On the other hand, system-related costs increased mainly due to upgrades to trading capacity and the launch of the

new system for derivatives transactions; therefore, operating profit decreased 12.8% year-on-year to ¥28.8 billion and net income declined 11.4% year-on-year to ¥17.7 billion.

### Engaging in business under the new structure

In order to bolster the independence of self-regulatory operations and ensure greater reliability in our markets, the TSE shifted to a new corporate structure in November of last year. Under this model, Tokyo Stock Exchange, Inc., which operates the markets and Tokyo Stock Exchange Regulation,





which exclusively handles self-regulatory operations, came under the umbrella of Tokyo Stock Exchange Group, Inc. After more than six months, we are confident that the originally intended purposes of ensuring both the independence of self-regulatory operations and the efficiency thereof are fulfilled, and we will seek to increase the overall corporate value of the TSE group by taking advantage of this structure in the future.

### **Toward a universal exchange**

We have now arrived at a critical juncture in terms of our future endeavors. Amid growing concern about the recent decline of the position of Japan's financial capital markets internationally, we believe the next several years will prove a critical period for assuring a steady flow of funds from savings into investment and ensuring Japan's financial capital markets become international in the truest sense of the word. In December of last year, the Financial Services Agency released the Plan for Strengthening the Competitiveness of Japan's Financial and Capital Markets, and in June of this year, the Diet passed a law that included important revisions to the Financial Instruments and Exchange Act. These actions are aimed at stimulating the Tokyo market by, for instance, establishing a market for professional investors. They are an illustration of how market related parties, including regulatory authorities, are exerting their utmost effort in reforming the markets.

As the operator of a vital element of market infrastructure, the TSE group also set forth specific targets in the recently formulated 3-year Medium-Term Management Plan, taking global competition into strong consideration. Our ultimate goal is to become a universal exchange that people all around the world are comfortable with using. Towards this end, we will strive to create a market that employs the momentum of the twin growth engines of the cash and derivatives markets in a balanced manner.

### **Focusing on the enhancement of the derivatives market**

As such, we will focus on enhancing the derivatives market—

a cornerstone management goal for the next three years—by doubling the market's current trading volume by the end of that time. We hope to achieve this through efforts such as introducing a new options transaction system based on the technology of LIFFE CONNECT® used in LIFFE—which operates under the umbrella of NYSE Euronext and is one of the largest derivatives exchange in the world, and by proactively listing new products.

We will also expand the cash market through a greater number of listed products and improvement in convenience and efficiency for market users. We will achieve this through efforts such as increasing the number of listed ETFs to more than 100 within three years; establishing a new market for professionals—a joint project with the London Stock Exchange underway since last year; establishing an emissions trading market, where we organized a study group in May and began a full-fledged study and the development of the next-generation stock trading system to be launched next year.

### **To provide a dynamic market for risk funds from around the world**

Concurrently, we will proactively implement measures to protect the rights and interests of shareholders and investors. Through such, the TSE group aims to build a market with both diversified products and the reliability fitting a place for obtaining risk funds from around the world.

No matter how the times change, our mission of providing the function of effective capital circulation in a capitalist economy remains the same. The TSE group will steadfastly fulfill our role in the development of the Japanese economy, the Asian economy, and the world economy as a whole, and we ask for your continued support and cooperation in the future.

July 2008

President & CEO  
Atsushi Saito



# A Universe

*Since 1878*





# rsal xchange

This year, the TSE group is celebrating the 130th anniversary of the establishment of the original Tokyo Stock Exchange in 1878.

Grounded in history and tradition, the TSE group will continue to move forward towards a new era.

## *Corporate Philosophy*

To strive to create a sound market with a high level of reliability and convenience from the standpoint of investors and other market users, thereby contributing to the realization of a more prosperous society.

2008  
TSE  
130th Anniversary

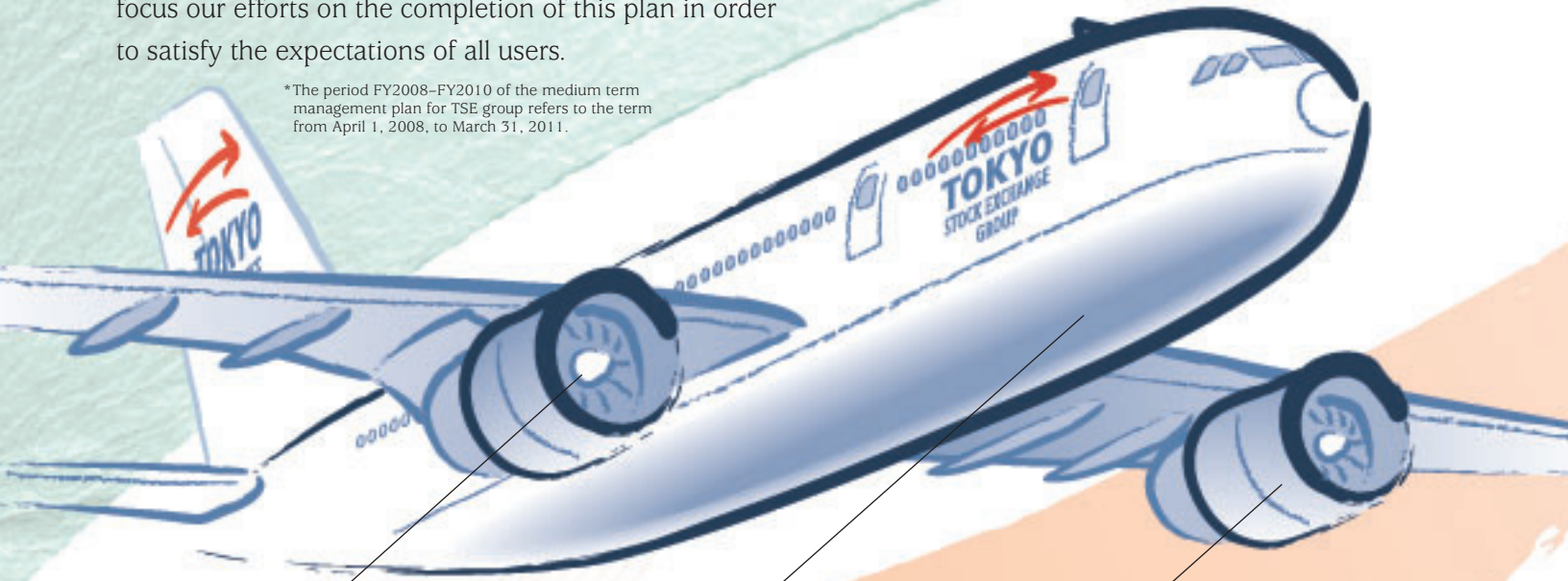
# Medium-Term Management Plan

## (for FY2008–FY2010)

In March 2008, the TSE group published a Medium-Term Management Plan for FY2008–FY2010\*. In this plan, we reconfirmed the “Targets” and the “Basic Strategies” of the TSE group in consideration of the changes in the environment surrounding us, and in order to realize these, we defined our “Medium-Term Management Goals” and “Priority Strategies” for the next three years. Recognizing our role in providing critical infrastructure for Japanese financial and capital markets, for the next three years, the TSE group will focus our efforts on the completion of this plan in order to satisfy the expectations of all users.

### Targets

\*The period FY2008–FY2010 of the medium term management plan for TSE group refers to the term from April 1, 2008, to March 31, 2011.



#### Cash Markets

Target a market cap of JPY 1,000 trillion

#### Tokyo Stock Exchange

#### Derivatives Markets

Become Asia's largest derivatives exchange

Create synergies through strategic alliances with overseas exchanges, etc.

### Evolution

## A Universal Exchange

- Attracting investors and listed companies from around the world
- Providing vertically (trading to settlement) and horizontally (cash and derivatives) integrated services



- Support the building of wealth based on diverse life plans
- Provide a dynamic market for risk money from around the world



# Management Plan

Evolution

## Basic Strategies

### Quantitative Expansion

- Diversify lines of trading products
- Provide top caliber trading systems

Maximize Synergies

### Qualitative Enhancements

- Facilitate enhanced corporate governance of listed companies
- Strengthen self-regulatory functions

to

Expand  
the Size of  
the Market

and

Secure Position  
as the Premier  
Exchange in Asia

Management and financial  
goals for FY2010 (consolidated)

Operating Revenues  
JPY 88 billion

Operating Expenses  
JPY 51 billion

Operating Profit  
JPY 37 billion

EBITDA  
JPY 50 billion

Notes:

1. The above figures are based on tentative assumptions including daily average trading value for stocks of 3.8 trillion yen and listed companies numbering 2,500 over the entire period.
2. EBITDA = Income before income taxes and minority interest + Interest expense + Depreciation

## “Targets” and “Basic Strategies”

First, the TSE group specified our target as evolution into a “universal exchange”—an exchange which provides diversified products and services, is convenient and user-friendly for everyone, and attracts investors and listed companies from around the world. With the twin engines of the cash market and derivatives market and through synergies created by strategic collaboration with overseas exchanges, we aim to grow into a market that supports wealth-building that accommodates the widely diversified life plans of people from all walks of life, as well as become a dynamic market for risk funds from around the world. To achieve this, all TSE group companies will strive for

quantitative expansion and qualitative enhancement of the market. In other words, quantitative expansion based on a combination of a bigger lineup of trading products and top caliber trading systems, and, with the TSE delivering its own message, qualitative enhancements by facilitating enhanced corporate governance of listed companies and strengthening the self-regulatory functions of the market and market participants. We have made it our basic strategy to expand the size of the market by maximizing synergies of the quantitative expansion and the qualitative enhancements and to secure our position as the premier market in Asia.

# **S**pecific measures in the FY2008–FY2010 Medium-Term Management Plan

## ■ “Medium-Term Management Goals” and “Priority Strategies”

We identified “the strengthening of derivatives markets” as both a Medium-Term Management Goal and an issue that should be addressed with intensive efforts over the next three years. Derivatives products can be relatively easily created through the ingenuity of the exchange itself and have the quality of being managed at a low cost and having high profitability after listing. In order for the TSE group to ensure further development, it is necessary to employ the momentum of the twin growth engines of the cash and derivatives markets in a balanced and efficient manner, and the strengthening of the derivatives market is an essential part of that strategy. Priority Strategies are divided into the three major themes of quantitative expansion, qualitative enhancements, and maximization of synergies, and several pillars have been outlined under each theme along with the formulation of specific measures. The strengthening of derivatives markets, a deeper cash market, and the provision of a safe high-performance trading system have been identified as the pillars for quantitative expansion, while the structuring of a market that protects the rights and interests of shareholders and investors and the structuring of a fair and reliable market have been defined as the foundation of qualitative enhancements. The foundation for these two prongs is an increase in corporate efficiency and customer satisfaction and broadening of the individual investor base by enhancing financial literacy.

### *Medium-Term Management Goals*

Establish an effective balance in the twin growth engine platform (cash and derivatives) to strengthen the overall market

### *Increase the output of TSE’s derivatives engine*

*Advantages of derivatives include*

- Standardized derivative products suited for exchange trading
- Lower operating costs as compared to cash markets

FY2008–FY2010 Medium-Term  
Management Goals

### *Strengthen Derivatives Markets*

The TSE group will make intensive efforts to achieve this goal in the next three years



## Priority Strategies

### Quantitative Expansion

#### Strengthen Derivatives Markets

- Increase new product listings and promote new index development (FY2008–FY2010)
- Enhance trading systems (FY2009)
- Expand trading hours (FY2008)
- Introduce a remote trading participant system (FY2008)
- Develop clearing and settlement systems to enable diversified products (FY2008–FY2010)

Double Derivatives Trading Volume  
(from FY2007 by FY2010)

#### Increase the Depth of the Cash Market

- Increase the number of listed ETFs to 100 by FY2010 (three times larger than FY2007)
- Establish a new market for professional investors (provision of capital to growing Asian companies) (FY2008)
- Take initiatives in emissions trading (FY2008)
- Diversify market information and expand index business (FY2008)
- Expand clearing and settlement services in tandem with share certificate dematerialization/Straight Through Processing (STP) development (FY2008–FY2010)

#### Provide a Safe High-performance Trading System

- Introduce the next-generation trading system (FY2009)

### Qualitative Enhancement

#### Strive to protect the rights and interests of shareholders and investors

- Formulate and implement a 2008 Comprehensive Listing System Improvement Program (FY2008)
- Improve the contents and quality of information provided to investors (FY2008–FY2010)

#### Promote a fair and reliable market

- Implement the Programs to Strengthen Self-Regulatory Functions (“R + ”) (FY2008–FY2010)
- Enhance listing examination and supervision operations (FY2008)
- Implement market-integrated inspections (FY2008–FY2010)
- Reform market surveillance and compliance related systems (FY2009)
- Establish a “TSE R (Regulation) Compliance Training Center” (FY2008)

### Maximize Synergies

#### Increase our own corporate efficiency and customer satisfaction

- Strengthen our internal control system (FY2008–FY2010)
- Employ/cultivate human resources with a high level of financial expertise and international experience (FY2008–FY2010)

#### Broaden individual investor base by enhancing financial literacy

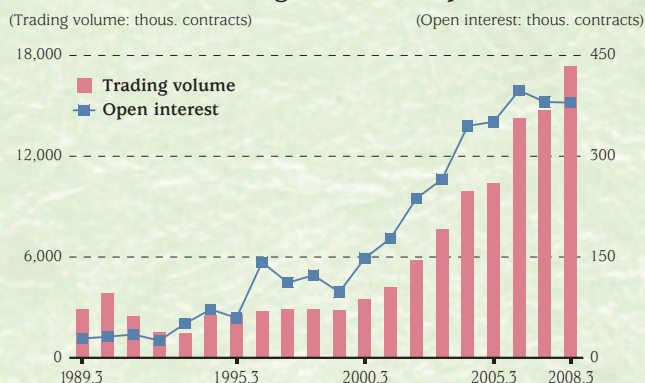
- Improve the TSE Academy (expand the type and number of classes) (FY2008)

# Derivatives Markets

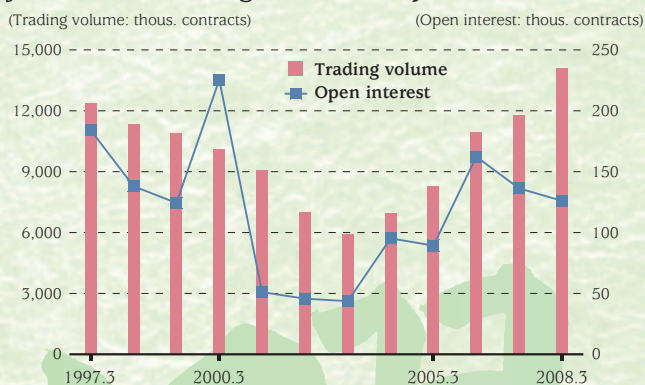
The TSE derivatives market (Tdex) boomed in FY2007. In particular, TOPIX futures trading volume grew dramatically, reaching an average daily trading volume of 71,000 contracts (an 18% year-on-year increase). As a result, a new record for annual trading volume was set for the sixth consecutive fiscal year since FY2002. Moreover, annual trading volume for 10-year JGB futures also increased for the fifth consecutive fiscal year, and the liquidity of Tdex has continued to increase steadily.

However, the TSE will have to make an even greater effort in order for Tdex to catch up with the world's major derivatives markets. Thus, the entire TSE group will come together as a whole to work towards the goal of doubling trading volume in three years as stated in the Medium-Term Management Plan (compared with FY2007 figures).

TOPIX Futures Trading Volume & Open Interest



JGB Futures Trading Volume & Open Interest



Leaping forward



## Launch of the new derivatives trading system

The TSE brought a new derivatives trading system online in January 2008. This system has realized not only greater reliability, but also significant improvements in areas such as processing speed. Furthermore, combining sufficient scalability and flexibility has enabled swift responses to increases in the number of orders and the addition of new products.

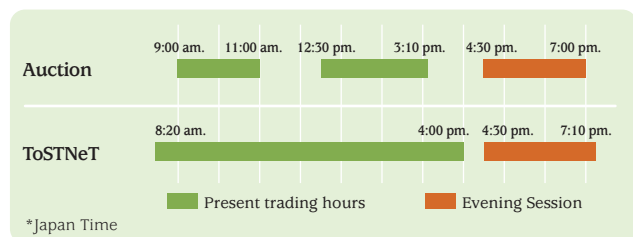
When the new derivatives trading system began operation, a “Give-up” system, which investors had strongly requested, was introduced simultaneously and is now being utilized by many investors.

## Expansion of derivative products

The provision of appealing products is vital in expanding the derivatives market. In June 2008, three products were newly listed on the market: mini-TOPIX futures, TOPIX Core30 futures, and TSE REIT index futures. Further efforts are now underway to introduce Tdex to an even broader range of investors, from individuals to institutional investors. In addition, with regard to individual options trading, which has been experiencing dramatic growth overseas, we have expanded the number of underlying securities and listed ETF and REIT options in June of this year.

## Extension of trading hours

The TSE introduced an Evening Session for stock price index futures and options trading in June 2008, enabling trading to be carried out between 16:30 and 19:00 Japan time (16:30 and 19:10 for the ToSTNeT market); and restrictions on minimum order size for ToSTNeT trading were lifted concurrently. These changes will not only respond to previously unmet trading needs, but will also improve convenience for market users.



## Further enhancement of Tdex

### (1) Introduction of remote trading participant system

The TSE plans to introduce a remote trading participant system in FY2008, enabling overseas brokers/dealers to participate directly in Tdex. Overseas investors' derivatives transaction needs are extremely high, and the introduction of this system is expected to attract a larger number of trading participants.

### (2) Development of a new options trading system

With regard to options trading systems, by mid-2009 the TSE plans to establish “Tdex+”—a new system based on LIFFE CONNECT® technology employed by LIFFE, an NYSE Euronext subsidiary. By introducing a system which has been already operational in LIFFE, one of the world's largest derivatives exchanges, the TSE will leap forward to the level of world major derivatives exchanges in terms of systems infrastructure.

### (3) Introduction of a market maker system

In order to ensure liquidity in the Tdex market, the TSE has introduced two new systems: the Individual Stock Options Supporters System in April 2006 and the TOPIX Options Liquidity Provider System in June 2008. The TSE also plans to introduce a new Market Maker system with the launch of Tdex+. Under this system, liquidity is ensured by participants registered as market makers continuously displaying both buy and sell quotes, providing expanded trading opportunities for investors. In this way, we will fully utilize the capacity of the new system.

# Cash Equities Market

Cash market trading on the TSE market for the fiscal year under review reached unprecedented levels, with average daily trading value for domestic stocks reaching ¥2.9 trillion, a 6.6% year-on-year increase. The TSE group will continue our efforts to ensure the sustainable growth of our cash equities market through quantitative expansion and qualitative enhancements.

飛翔

Soaring



## ■ Improving market convenience, efficiency, and safety

### Expansion of ToSTNeT market services

In response to the needs of global institutional investors, the TSE expanded the services of its off-auction market ToSTNeT in January 2008, enabling foreign stocks to be traded on the market and also allowing the use of ToSTNeT in cash market transactions during auction trading hours.

### Measures to protect the market from erroneous orders

In September 2007, the TSE implemented rules pertaining to the cancellation of transactions which are executed based on erroneous orders. With this, a series of measures taken against erroneous orders since the beginning of 2006, such as the introduction of computer programs for preventing erroneous orders and disclosure rules of erroneous orders, were completed.

### Efforts towards consolidating trading units

With the aim of increasing convenience for investors and other market users, in November 2007 the TSE, with other domestic exchanges, put together an “Action Plan to Consolidate Trading Units” aimed at consolidating the eight trading units currently in existence. We will also pay close attention to the situation following the share certificate dematerialization planned for January 2009, and aim to ultimately establish a standard trading unit of 100 shares in the future with the cooperation of listed companies.

### Developments in clearing and settlement operations

In the areas of clearing and settlement, concerned parties such as Japan Securities Depository Center, Inc. (JASDEC) have proceeded with share certificate dematerialization. Meanwhile, based on the recent market environment, Japan Securities Clearing Corporation (JSCC) took steps to strengthen its risk management functions for both the cash and derivatives markets such as a review of clearing fund calculation methods.

Schedule		
2008 April	<b>First phase</b> Early application period	Newly listed companies and companies who are planning to revise or newly set their basic lots are required to make the unit 100 shares
2008 December ..... 2009 January	<b>Suspension period</b> Corporate action self-restraint period due to share dematerialization	..... Commencement of dematerialization of shares*
2009 April	<b>Second phase</b> Period of transition to 100 share and 1,000 share units	
2012 April (tentative)	<b>Third phase</b> Period of transition to 100 share units	Consolidation into 100 share and 1,000 share units
100 share unit uniformity		

\*The above schedule is based on the assumption that share dematerialization will be implemented in January 2009.

## ■ Listing of a diverse range of products

### Expansion of the ETF market

With regard to ETFs (Exchange Traded Funds), the TSE revised the listing system in November 2007 and March 2008, making it possible to list ETF products listed overseas or linked to commodity prices or indexes, such as those for gold. Previously, only stock price index-linked ETFs created domestically could be listed. Moreover, in January 2008, the TSE Group entered into a comprehensive cooperation agreement with the Tokyo Commodity Exchange (TOCOM). Under this agreement, the two exchanges agreed to jointly study the possibility of cooperating in the listing of ETFs that track commodity prices and commodity indices, and to discuss the possibility of future cooperation. Against the background of such infrastructural improvements, the number of individual ETFs listed on the TSE has recently increased tremendously. With the listing of the Korean KOSPI200-linked ETF (KODEX200) in November 2007, 21 new domestic stock price index ETFs listed in March 2008, the Chinese CSI300-linked ETF (Panda) in April, and the gold price-linked ETF SPDR® Gold Shares in June, the TSE ETF market has expanded to approximately 55 listings as of July from around 10 listings the previous year, and we will continue to diversify and expand our products. In the future, the TSE aims to continue to list a diverse range of ETFs and increase the number of listed ETFs to 100 by FY2010.

### Promotion of foreign company listings

From the standpoint of promoting the listing of high-quality foreign companies with investment appeal, especially companies based in neighboring Asian countries, the TSE has proactively carried out promotional activities aimed at growth businesses in the Asian countries of China and Korea. As a result, in 2007, several Chinese mainland companies listed their stock on the TSE for the first time. Moreover, in November 2007, the JDR (Japanese Depositary Receipt) listing system was also implemented, opening the way for foreign companies to be eligible for listing on the TSE even in cases where local government regulations prohibit the listing of underlying stocks on securities exchanges in other countries.

### Establishment of a new growth market aimed at professional investors

In October 2007, the TSE Group and the London Stock Exchange (LSE)

announced their intention to establish a new market for emerging companies. Established in early 2009 and operated as a joint venture with the LSE, the new risk capital market will be for companies and investors from Japan and elsewhere in Asia. The market will build on the LSE's success in creating and developing a market structure designed for smaller companies through AIM as well as the TSE's local expertise and infrastructure. It will create new investment opportunities specifically for professional investors and provide a new fund raising option for growing companies not yet ready for existing public markets, providing exemption from current regulatory requirements such as disclosure made in Japanese, Japanese accounting standards, quarterly disclosure of financial information, and internal control reports.

### Establishment of the “TSE Carbon Market Study Group”

The TSE group is fully aware that global environmental issues are of paramount importance to the global community and should be addressed by both the public and private sectors. The TSE group will strive to make as great a contribution to these efforts as possible from the perspective of a securities exchange, and accordingly set up the “TSE Carbon Market Study Group” in May 2008. Through the study group, the TSE group aims to gather practical advice from experts and other concerned parties on the creation of a carbon market and wish to establish a market as early as some time in 2009.



The Chinese CSI300-linked ETF (Panda) was listed in April 2008.



The gold price-linked ETF SPDR® Gold Shares was listed in June 2008.



The 1st meeting of “TSE Carbon Market Study Group” was held in May 2008.



## ■ Qualitative market enhancement: review of listing regulations

### Formulation of a Code of Corporate Conduct

The amount of freedom companies have in their activities has risen dramatically due to liberalization and deregulation by the Corporate Law. From the standpoint of shareholder and investor protection, the TSE established the Code of Corporate Conduct within the Listing Regulations in November 2007 as areas that the exchange will require listed companies to appropriately address. The code is a reorganization of points previously prescribed in the listing regulations and those published as requests, and also includes new points. Moreover, in order to ensure the effectiveness of these regulations, the TSE will make recommendations and/or public announcements if a listed company should violate them.

	Newly established Items	Items included in the former listing regulations and others as request items
General Rules	○Respect for the functions of secondary markets and shareholders' rights.	
Equities-related	○Duty of respect pertaining to issue of MSCB, etc.	○Efforts to transition to and maintain a desirable investment unit level, etc. ○Efforts regarding stock splits, etc.
Organization-related	○Required corporate structures ○Exercise of voting rights in writing, etc. ○Structural development to ensure effective internal control systems ○Delivery of documents to nonvoting shareholders, which are sent out to voting shareholders	○Framework improvement to facilitate the exercise of voting rights
Other	○Structural development to eliminate organized crimes and violent groups	○Matters of respect pertaining to the introduction of takeover defense measures ○Structural development for prevention of insider trading

### Ensuring the effectiveness of the listing regulations

Amidst growing calls for greater listed company discipline, many have pointed out that currently no appropriate means exist for ensuring effectiveness when listed companies commit a violation of rules/regulations that is grave, but not of a nature that warrants delisting. Consequently, the TSE implemented a new "securities on alert" system in November 2007.

Under this system, by continuously monitoring companies designated as "under alert," the TSE has been encouraging designated companies to improve their internal control systems while at the same time notifying investors of the situation. In July of 2008, the TSE also introduced a system of fines for instances where a listed company violates its timely disclosure responsibility or the Code of Corporate Conduct, damaging investors' trust in the TSE market and listed companies as a whole, while not to the extent to where delisting is warranted.

### Enhancing corporate governance of listed companies

Since active discussion on corporate governance began in Japan, certain statutory enhancements have been made, such as enhancement of the functions of corporate auditors and the introduction of a system of corporate governance called "Company with Committees." Meanwhile, the TSE has promoted various measures including the establishment of Principles of Corporate Governance for Listed Companies and the development of the system for reporting corporate governance information. Efforts to improve and enhance corporate governance to boost corporate value by preventing corporate scandals and/or improving management efficiency have also been steadily ongoing at the individual listed company level.

However, some have pointed out that efforts towards further improvement and enhancement of corporate governance in Japan is stagnating. We consider the enhancement of the corporate governance of listed companies to be a key factor for the sound development of the Japanese securities market going forward, and the TSE will place highest priority on the development of measures to respond to corporate governance-related issues (including the improvement of the Code of Corporate Conduct) during the current fiscal year 2008.

# Self-Regulatory Functions

In response to the public's ever-increasing expectations for greater efficacy in the exchange's self-regulatory operations, in October 2007, the TSE established Tokyo Stock Exchange Regulation (TSE Regulation), a self-regulatory corporation, which launched operations in November 2007.

In October 2007 the TSE also announced "R+"—a series of programs designed to enhance self-regulatory functions. These programs consist of two main pillars: strengthening preemptive measures for prevention, and enhancing support for market participants' efforts in compliance.

## ■ Outline of the "R+"

### 1. Basic Policy

#### "Promote market integrity and investor confidence"

The TSE group will make the following efforts to further enhance market fairness and reliability:

- (1) Further strengthen the preventive function that a self-regulatory organization should fulfill
- (2) Develop efforts to improve discipline among trading participants and other market-related parties
- (3) Proactively promote communication with market players, authorities, and other self-regulatory organizations
- (4) Promote innovation and efficiency of operations as well as develop and train human resources

### 2. Top Priority Issues and Specific Measures

#### a) Keeping Ahead of the Curve by Enhancing Initiatives to Strengthen Prevention Functions

As a self-regulatory organization closest to the market, the TSE will stay ahead of the curve by further utilizing the current functions for advanced prevention, and detecting potential problems at an early stage.

- (1) Reinforcing inspection in areas strongly connected to the market

- (2) Making active use of the recommendation system based on inspection results

- (3) Promoting expeditious market surveillance and early action

- (4) Enhancing research and study on future changes in the market environment

#### b) Strengthening Support for Compliance

The TSE will enhance preemptive compliance support to prevent trading participants and listed companies from violating laws, rules, and regulations.

- (1) Improving various training tools
- (2) Improving support and training systems

#### c) Reinforcing the Framework for Self-Regulatory Operations under the Financial Instruments and Exchange Act

The TSE will strengthen and enhance the framework for carrying out self-regulatory activities under the recently enacted Financial Instruments and Exchange Act.

- (1) Ensuring that the self-regulatory corporation will conduct its operations in an appropriate manner
- (2) Developing a framework for possible acceptance on consignment of self-regulatory operations from other exchanges

Trust



# Educational Activities

## ■ Start of compliance training services

TSE Regulation has actively dispatched lecturers to trading participants and listed companies for internal training programs related to insider trading regulations and other issues.

In addition, it started the TSE-R e-Learning Compliance Training Service in December 2007 as a securities market education program effective for a wide range of investors.

Because of the increasing necessity to implement sufficient measures for preventing insider trading as a part of listed companies' risk management, this e-learning service has been offered for continuing education and awareness activities.

Moreover, TSE Regulation newly established a Compliance Learning Center called "TSE COMLEC" in June 2008. By consolidating and expanding compliance-related support functions into this center, TSE Regulation will enhance compliance support for listed companies and trading participants, creating a fairer, more reliable financial market.

## ■ Extensive course selection provided by the TSE Academy

As one of the CSR activities of the TSE group, the TSE Academy provides a broad range of programs for students and general investors to increase their knowledge and improve their understanding of securities investments. The TSE Academy provides a wide range of programs for primary, junior and senior high school students that include on-site teaching, the creation of learning materials, training for school teachers, and classes on the economy for parents and children. In particular, the "Seminar for

Parents and Children on the Economy" last summer attracted more than 1,800 persons for 53 lessons during the summer vacation period. Participants commented that the lecture on the economy and the function of companies was easy to understand and enjoyable. They also said they enjoyed spending quality time with their family. The TSE group aims to further spread enhanced economic and financial education from a neutral standpoint in the future.



# T Infrastructure

In this fiscal year as well, the TSE group made various improvements to its IT infrastructure to enhance the user-friendliness and the efficiency of its market infrastructure as a whole. In addition, the TSE group formulated the FY2008–FY2010 IT Master Plan and, in accordance with its Corporate Philosophy, identified the basic overall guidelines for all IT issues that must be achieved in order to further promote business through a combination of IT and management.

## ■ Enhancing the user-friendliness and the efficiency of the market infrastructure

The TSE group is striving to meet users' needs for more advanced order and execution processing, as well as effectively respond to increasingly smaller transaction sizes and sharply rising transaction numbers. In order to achieve this, the TSE replaced the derivatives trading system in January of this year and has been advancing the development of the next-generation trading system, aiming to go live in the latter half of 2009. Our goal is to achieve a system with the world class level of speed and scalability.

Also, continuing with its efforts from the previous fiscal year, the TSE systematically augmented the capacity of the current Stock/CB Trading System, the Clearing System, and the Market Information System in order to ensure the market's reliability and to appropriately accommodate expanding liquidity. The TSE group will continue to keep its eye on market trends and respond as necessary in the future.

In addition, the TSE will launch a new system called Tdex+ for option transactions in the first half of 2009. This system will be based on the technology of LIFFE CONNECT®, which is used by NYSE Euronext subsidiary LIFFE.

To maintain and provide market users with a market infrastructure that ensures trading stability, the TSE group has also pushed forward with efforts to strengthen its business continuity structure, which includes the construction of a secondary site. Also, to contribute to enhanced convenience and efficiency for market users, the TSE group has been improving all aspects of its system infrastructure while enhancing the internal organizational resources required for these systems, taking into consideration user needs and assessments—bearing foremost in mind the need to achieve overall optimization based on enterprise architecture (“EA”).

効率性 Efficiency



# IT Master Plan for FY2008–FY2010

In order for the TSE group to accomplish our mission of evolving into a “universal exchange” by promoting innovation through IT, we made it our basic policy in this plan to engage in efforts that focus on the following areas;

- i) Improve customer satisfaction, respond to the demands of the market, and strengthen global competitiveness
- ii) Increase efficiency in development and investment
- iii) Enhance and optimize business processes
- iv) Secure the confidence and business sustainability of the market infrastructure
- v) Decrease project risks, improve development capacity, and strengthen IT governance

The following are the specific priority issues we must address in achieving our mission. By realizing these, the TSE group will provide an infrastructure system that responds to changes in the market environment flexibly and expeditiously, and pays adequate heed to reliability and safety.

**[1] Construct and expand systems utilizing the latest technology**

- Construct a next-generation trading system with the world’s most advanced system architecture focusing on scalability, speed, reliability, flexibility, and robustness.
- To meet the demands of market users, increase the speed of information dissemination and the ability to make changes in information details.

**[2] Rapidly improve the system to meet the demands of the market**

- Provide flexible and efficient support for new products and services at a low cost to strengthen the value of the derivatives and cash markets.
- Provide a network infrastructure with high usability, speed, and reliability that meets user demands.

**[3] Reorganize IT functions for maximum performance; optimize and enhance IT operations and the organization structure**

- Integrate the various information systems to ensure mobility, cost reductions, and development optimization.
- Actively utilize IT to reform business processes to enhance the efficiency of management and business operations and further improve the manner and speed with which management responds to changes.

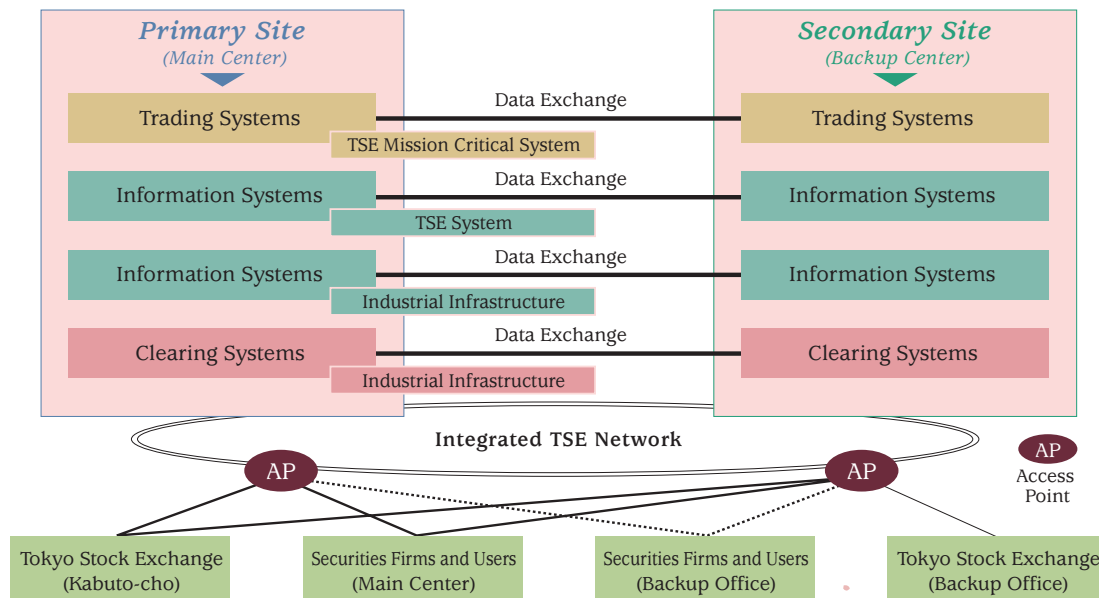
**[4] Ensure the stability of market operations and enhance the business sustainability system**

- Construct a secondary site (Backup Center) and strengthen the business sustainability system to further enhance the stability of market operations.

**[5] Strengthen project and quality control processes**

- Strengthen system quality and project controls, and implement strict measures to prevent system failure.

TSE Systems Schematic Diagram (March 2011)





# TSE Group's High

## April

- Publicized the Comprehensive Improvement Program for the Listing System 2007

## July

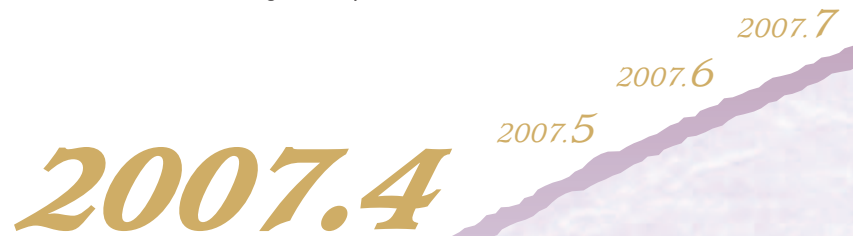
- Augmented capacity in the Stock/CB Trading System (Increased number of orders to be processed per day from 14 million to 15 million)

## August

- Established Tokyo Stock Exchange Group, Inc.
- Listed China Boqi Environmental Solutions Technology (Holding) Co., Ltd. on the TSE market as the first foreign company that was listed solely on the TSE First Section



Listing ceremony



## Developments concerning business alliances with overseas exchanges

**2007.10**  
London Stock Exchange: Agreement for jointly establishing a new growth market

**2007.10**  
Hochiminh Stock Exchange: MOU for mutual cooperation

**2007. 8**  
NYSE Euronext: Technology consulting agreement in IT

**2008. 1**  
Tokyo Commodity Exchange: MOU for comprehensive cooperation

**2008. 1**  
Abu Dhabi Securities Market: MOU for collaboration on cross-border investment

**2008. 5**  
Mongolian Stock Exchange: MOU for mutual cooperation

**2007.6**  
Acquisition of the Singapore Exchange Limited shares, comprising approximately 4.99% of the exchange's total issued shares

### Overseas listing of TOPIX-based ETFs

- August 2007: the Singapore Exchange
- September 2007: the London Stock Exchange
- April 2008: the NYSE Arca
- June 2008: the Hong Kong Exchanges and Clearing

### Overseas listing of TOPIX100-based ETFs

- February 2008: the Korea Exchange



Listing ceremony at the Korea Exchange

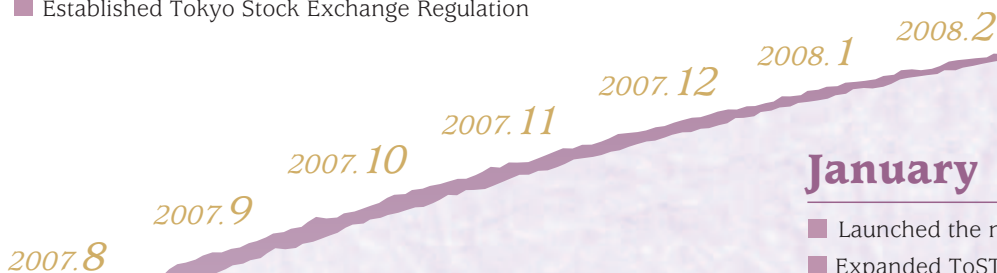


# lights in FY2007

## October

- Publicized the Program to Strengthen Self-Regulatory Functions (“R+”)
- Established Tokyo Stock Exchange Regulation

# 2008.3



## November

- Tokyo Stock Exchange Regulation commenced operations.
- Substantially revised listing regulations as one of the adjustments to the Comprehensive Improvement Program for the Listing System 2007 and organizational changes in the corporate structure
- Listed the first foreign ETF (KODEX200)
- Augmented capacity in the Stock/CB trading system (Increased the number of orders to be processed per day from 15 million to 23 million)

## January

- Launched the new Derivatives Trading System
- Expanded ToSTNeT market services (ToSTNeT trading for stocks became also available during auction trading hours.)
- Opened the Beijing representative office [The office was opened in Chao Yang district (CBD (Central Business District))] Beijing, China. The Beijing office joins offices in New York, London, and Singapore as the TSE’s fourth overseas representative office. Using this office as a hub, the TSE group is committed to continuing our efforts to promote the growth of capital markets in both China and Japan.



Ceremony in Beijing

## December

- Launched the S&P/TOPIX 150 Shariah Index in collaboration with Standard & Poor’s

## February

- Strengthened the listing regulations to eliminate organized crime and violent groups

## March

- Listed 21 new ETFs

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Chairman of the Board



**Tsuguoki Fujinuma**  
CPA  
Professor, Graduate School  
of Strategic Management



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



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President & CEO



**Yoshinari Hara**  
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Daiwa Securities Group Inc.



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Gakushuin University



**Yasuo Tobiyama**  
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COO



**Masakazu Hayashi**  
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Tokyo Stock Exchange  
Regulation



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Representative Director,  
President & CEO  
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**Shigeaki Itsuki**  
Audit Mission Director



**Toshiaki Katsushima**  
CPA, Tax Accountant



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

## Tokyo Stock Exchange, Inc.

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Chairman of the Board

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Senior Managing Director &  
COO

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**Hitoshi Maeda**

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**Hiroshi Okuda**

**Yasuhiro Sato**

**Nobuko Takahashi**

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Standing Statutory Auditor  
**Satoshi Shiibashi**

Statutory Auditors  
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**Koji Shindo**

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System Unit

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Information Services





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Honorary Senior Advisor  
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Limited



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Standing Statutory Auditor  
Tokyo Stock Exchange, Inc.



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



**Nobuko Takahashi**  
Freelance Journalist

» **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 chairman

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Chairman of the Board
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President & CEO
- Yasuo Tobiyama**  
Executive Vice President,  
COO
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Senior Executive Officer & CIO  
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- Tomoyoshi Uranishi**  
Senior Executive Officer  
CSR Promotion
- Hiroyuki Iwakuma**  
Senior Executive Officer & CFO  
Human Resources, Treasury
- Moriyuki Iwanaga**  
Executive Officer  
Corporate Strategy  
Corporate Communications

- Hironaga Miyama**  
Senior Executive Officer  
Market Operation
- Masaki Shizuka**  
Executive Officer  
Listing  
Trading Participants Services

**Tokyo Stock Exchange Regulation**

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- Koichiro Miyahara**  
Standing Governor  
Listing Regulation Unit  
General Administration
- Kiyoyuki Tsuchimoto**  
Standing Governor  
Compliance Unit
- Tsuguoki Fujinuma**
- Atsushi Shimizu**  
Lawyer

» **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.

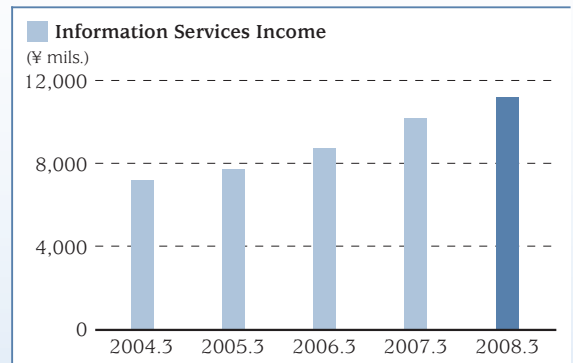
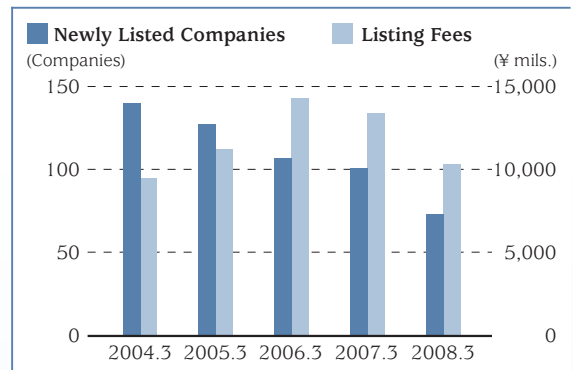
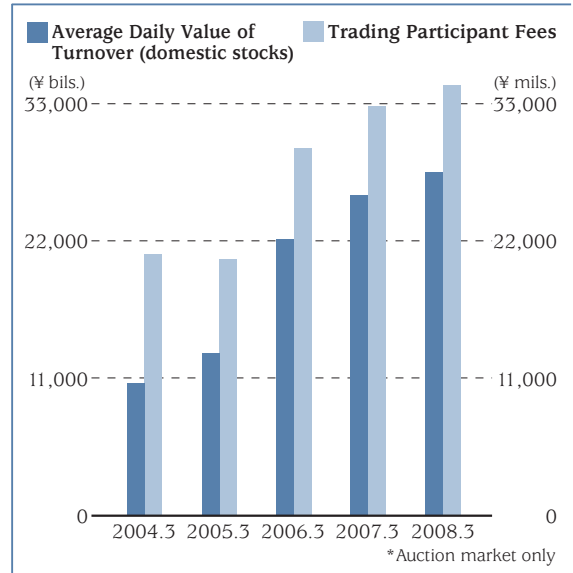
Thanks to an increase in the daily average trading value of domestic equities and other products, we realized a 5.3% year-on-year increase in our trading participant fees to ¥34,551 million.

**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 23.2% year-on-year to ¥10,267 million mainly because the number of newly listed companies and the amount of convertible bonds converted into common shares declined compared with the previous year.

**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 an increase in income from real-time market information services, we realized an 8.4% year-on-year increase in our information services income to ¥11,101 million.

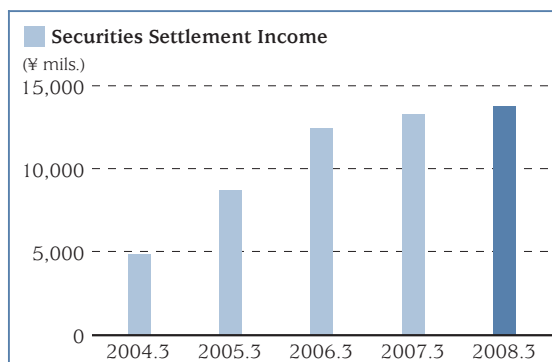




**Securities settlement income** is derived from fees for trade guarantees and other services provided by Japan Securities Clearing Corporation and securities custody and delivery services provided by Japan Securities Settlement & Custody, Inc.

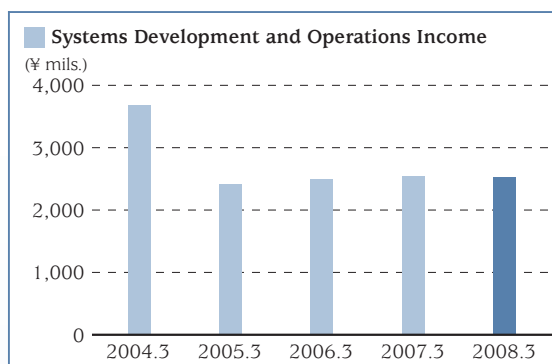
During the term under review, securities settlement income rose by 3.2% year-on-year to ¥13,718 million due to the increase in clearing fees associated with the rise in the trading value of domestic equities, etc.

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 conversion to the new system is scheduled for October 2008.

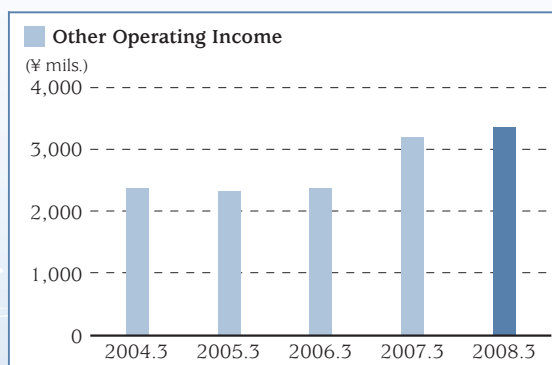


**Systems development and operations income** is comprised of fees for system development and management provided by TOSHO SYSTEM SERVICE CO., LTD.

During the term under review, this income decreased by 1.2% year-on-year to ¥2,543 million.



**Other operating income** rose by 4.5% year-on-year to ¥3,325 million.





# Operating and Financial Review

## ■ Operating Expenses Review

**Salaries and compensation** increased by 7.0% year-on-year to ¥12,152 million owing to the increase of personnel.

**Real estate rental fees** increased by 4.6% year-on-year to ¥6,204 million mainly because we rented space for the development of the next-generation trading system.

**System maintenance and operation costs** increased by 21.0% year-on-year to ¥9,252 million primarily due to an increase in expenses related to the upgrading of the trading system.

**Depreciation** expenses increased by 11.0% year-on-year to ¥8,266 million due to the increase in depreciation charges relating to the clearing system and the new derivatives trading system.

**Other operating expenses** increased by 7.5% year-on-year to ¥10,844 million.

Consequently, our consolidated performance during the term under review showed **operating revenues** of ¥75,505 million (a 0.0% year-on-year increase), **operating expenses** of ¥46,718 million (a 10.0% year-on-year increase), and **operating profit** of ¥28,787 million (a 12.8% year-on-year decrease). The TSE Group earned dividend income from holdings in Singapore Exchange Limited by the TSE as well as income from the equity in earnings of affiliated companies, while recording tax payments of ¥12,194 million. This resulted in tax-adjusted **net income** of ¥17,701 million (a 11.4% year-on-year decrease).

	¥ mils.				
	2004.3	2005.3	2006.3	2007.3	2008.3
Operating revenues					
Trading participant fees	20,921	20,589	29,444	32,826	34,551
Listing fees	9,504	11,193	14,278	13,370	10,267
Information services income	7,254	7,774	8,813	10,239	11,101
Securities settlement income	4,874	8,756	12,474	13,288	13,718
System development & operations income	3,723	2,443	2,525	2,574	2,543
Other operating income	2,367	2,316	2,359	3,181	3,325
Total	48,643	53,071	69,893	75,478	75,505
Operating expenses					
Salaries and compensation	11,896	11,624	11,175	11,352	12,152
Real estate rental fees	5,629	5,817	5,828	5,932	6,204
System maintenance & operation costs	8,431	9,337	9,789	7,648	9,252
Depreciation	6,999	7,965	6,414	7,444	8,266
Other operating expenses	7,482	6,968	7,936	10,086	10,844
Total	40,437	41,711	41,142	42,462	46,718
Operating profit	8,206	11,360	28,751	33,016	28,787
Income before income taxes and minority interest	8,082	7,580	29,332	34,407	30,582
Net income	5,031	4,978	18,833	19,985	17,701

# Financial Conditions

## ■ Assets

At the end of March 2008, we recorded total assets of ¥718 billion, which includes several funds or deposits of ¥551 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 settlement process. In addition, we maintain “Special assets for default compensation reserve funds” of ¥17 billion for clearing participant default. We list these assets as specified assets.

During the term under review, total assets increased by ¥152 billion compared with the previous year mainly owing to an increase in the special assets mentioned above and the acquisition of shares in Singapore Exchange Limited partly funded by short-term borrowing.

## ■ Liabilities and Equity

As of the end of the term under review, we had ¥551 billion in liabilities and ¥17 billion in equity, which correspond to the special assets recorded under assets.

During the term under review, total liabilities increased by ¥146 billion from the previous term to ¥600 billion because of an increase in deposits received corresponding to specified assets, as well as short-term borrowing made in connection with the acquisition of shares of Singapore Exchange Limited. Equity increased by ¥7 billion year-on-year to ¥118 billion as the result of an increase in shareholders' equity based on net income recorded, despite a decrease due to dividend payments and the recorded unrealized loss of Singapore Exchange Limited securities.

Total liabilities and total equity deducting liabilities recorded corresponding to the specified assets are ¥49 billion and ¥100 billion, respectively. The ratio of equity capital and equity per share computed from these figures are 65.7% and ¥43,221.35, respectively.

### (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 obligation amount set forth in the agreement. Thus, the TSE maintains “Default compensation reserve funds,” which correspond 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 compensation in the event of a member's default.

## ■ Cash Flow

**Cash flows from operating activities** amounted to a net inflow of ¥22,423 million. This was due to factors such as cash inflows of ¥30,582 million from income before taxes and minority interest in addition to ¥8,655 million from depreciation cash-ins, and an outflow of ¥14,845 million for income tax payments.

**Cash flows from investing activities** saw a net outflow of ¥50,478 million due to acquisition of the shares of Singapore Exchange Limited and other factors.

**Cash flows from financing activities** resulted in a net inflow of ¥14,568 million due to factors such as cash inflows from short-term debt for acquisition of the shares of Singapore Exchange Limited, and an outflow for dividend payments.

**As a result of these activities**, cash and cash equivalents at the end of the term under review decreased by ¥13,532 million to ¥35,567 million.





# Consolidated Balance Sheets

Tokyo Stock Exchange Group, Inc. and Subsidiaries

March 31, 2007 and 2008

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2007	2008	2008
<b>ASSETS</b>			
<b>CURRENT ASSETS:</b>			
Cash and bank deposits (Notes 4 and 13)	¥ 51,698	¥ 36,562	\$ 364,922
Accounts receivable—trade	6,714	5,853	58,422
Marketable securities (Notes 4 and 5)	5,597	11,806	117,835
Inventories	508	3,494	34,872
Prepaid expenses	384	572	5,709
Short-term guarantee money deposits	128	128	1,275
Margin funds for derivatives and when-issued transactions (Note 13)	224,444	280,416	2,798,844
Deposits for clearing funds (Note 13)	134,584	222,631	2,222,087
Deposits as collateral for facilitating settlement (Note 13)	65,911	47,411	473,211
Deferred income taxes (Note 7)	1,147	1,174	11,713
Other current assets (Note 11)	109	191	1,921
Allowance for doubtful accounts	(5)	(5)	(49)
Total current assets	¥ 491,219	¥ 610,233	\$ 6,090,762
<b>PROPERTY AND EQUIPMENT:</b>			
Land	2,399	2,399	23,949
Buildings	11,862	11,833	118,100
Information system equipment	23,890	24,500	244,537
Other property and equipment (Note 10)	5,700	4,405	43,957
Construction in progress	300	174	1,739
Accumulated depreciation	(27,684)	(28,645)	(285,903)
Net property and equipment	16,467	14,666	146,379
<b>INTANGIBLE FIXED ASSETS—Net:</b>			
Software	8,830	14,474	144,466
Other	4,748	2,275	22,705
Total intangible fixed assets	13,578	16,749	167,171
<b>INVESTMENTS AND OTHER ASSETS:</b>			
Investments in securities (Note 5)	7,342	33,771	337,071
Long-term loan to affiliates	50		
Guarantee money deposits	7,993	7,983	79,681
Prepaid pension costs (Note 8)	3,247	4,031	40,234
Long-term deposits	5,000	5,000	49,905
Legal guarantee funds (Note 13)	355	362	3,611
Special assets for default compensation reserve funds (Note 5 and 13)	17,368	17,368	173,348
Deferred income taxes (Note 7)	2,759	6,427	64,150
Others	529	1,413	14,098
Allowance for doubtful accounts	(388)	(327)	(3,259)
Total investments and other assets	44,255	76,028	758,839
<b>TOTAL</b>	¥ 565,519	¥717,676	\$ 7,163,151

See notes to consolidated financial statements.

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2007	2008	2008
<b>LIABILITIES AND EQUITY</b>			
<b>CURRENT LIABILITIES:</b>			
Short-term debt (Note 6)		¥ 19,570	\$ 195,329
Accounts payable—trade	¥ 3,023	3,587	35,805
Income taxes payable	8,333	6,240	62,277
Consumption taxes payable	684	159	1,589
Accrued bonuses	1,031	1,152	11,498
Accrued bonuses for directors	132	266	2,657
Deposits received	142	1,159	11,570
Margin funds received for derivatives and when-issued transactions (Note 13)	224,444	280,416	2,798,844
Deposits received for clearing funds (Note 13)	134,584	222,631	2,222,087
Deposits received as collateral for facilitating settlement (Note 13)	65,911	47,411	473,211
Deposits received as trading participants guarantee (Note 13)	3,772	4,450	44,417
Other current liabilities (Note 11)	1,299	1,950	19,454
Total current liabilities	¥ 443,355	¥ 588,991	\$ 5,878,738
<b>NON-CURRENT LIABILITIES:</b>			
Liability for retirement benefits for directors	99		
Liability for retirement benefits for employees (Note 8)	5,435	5,210	52,003
Allowance for loss on real estate rental contract	4,114	3,896	38,882
Guarantee money deposits received	729	733	7,314
Returnable legal guarantee funds (Note 13)	355	362	3,611
Other (Note 11)	185	708	7,073
Total non-current liabilities	10,917	10,909	108,883
Total liabilities	454,272	599,900	5,987,621
<b>COMMITMENTS AND LIABILITIES FOR GUARANTEES (Note 12)</b>			
<b>EQUITY (Notes 9 and 18):</b>			
<b>Shareholders' Equity</b>			
Common stock—authorized, 9,200,000 shares at March 31, 2007 and 2008; issued			
2,300,000 shares at March 31, 2007 and 2008	11,500	11,500	114,782
Capital surplus	22,875	25,359	253,107
Retained earnings	76,164	88,863	886,945
Treasury stock—at cost, 26,260 shares at March 31, 2007 and 2008	(740)	(4,333)	(43,247)
Total shareholders' equity	109,799	121,389	1,211,587
<b>Revaluation and translation adjustments</b>			
Unrealized loss on available-for-sale securities		(5,747)	(57,361)
<b>Minority interests</b>			
	1,448	2,134	21,304
Total Equity	111,247	117,776	1,175,530
<b>TOTAL</b>	¥ 565,519	¥ 717,676	\$ 7,163,151

See notes to consolidated financial statements.



# Consolidated Statements of Income

Tokyo Stock Exchange Group, Inc. and Subsidiaries

Years Ended March 31, 2007 and 2008

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2007	2008	2008
<b>OPERATING REVENUES:</b>			
Trading participant fees	¥ 32,826	¥ 34,551	\$ 344,854
Listing fees	13,370	10,267	102,479
Income from information services	10,239	11,101	110,803
Income from securities settlement	13,288	13,718	136,925
Income from system development and operations	2,574	2,543	25,385
Other operating income	3,181	3,325	33,177
Total operating revenues	75,478	75,505	753,623
<b>OPERATING EXPENSES (Notes 8 and 14)</b>	42,462	46,718	466,300
Operating profit	33,016	28,787	287,323
<b>OTHER INCOME (EXPENSES):</b>			
Interest and dividend income	144	1,774	17,709
Rent income (Note 11)	330	311	3,103
Income from fines levied	30	42	419
Grants in aid	226	226	2,260
Income from securities deposit for Japan Securities Finance Co., Ltd.	214	202	2,012
Equity in earnings of affiliated companies	489	279	2,785
Gains on sales of investments in securities (Note 5)	34		
Compensation income for damages	385		
Gain on sales of fixed assets	11		
Gain from prior period adjustment		59	594
Interest expense		(112)	(1,115)
Rent expense	(266)	(384)	(3,832)
Provision for doubtful accounts for unconsolidated subsidiaries and affiliates	(50)		
Organization costs		(81)	(803)
Loss on disposal of property and equipment, and intangible fixed assets (Note 15)	(236)	(152)	(1,521)
Special depreciation of fixed assets		(351)	(3,499)
Other—net	80	(18)	(194)
Other income—net	1,391	1,795	17,918
<b>INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS</b>	34,407	30,582	305,241
INCOME TAXES—Current (Note 7)	13,236	12,194	121,707
INCOME TAXES—Deferred (Note 7)	753	248	2,472
MINORITY INTERESTS	(433)	(439)	(4,386)
<b>NET INCOME</b>	¥ 19,985	¥ 17,701	\$ 176,676

	Yen		U.S. Dollars
	2007	2008	2008
<b>PER SHARE OF COMMON STOCK (Notes 3.q and 16):</b>			
Basic net income	¥ 8,789.64	¥ 7,785.04	\$ 77.70
Cash dividends applicable to the year	2,200.00	2,400.00	23.95

See notes to consolidated financial statements.





# Consolidated Statements of Changes in Equity

Millions of Yen

Years Ended March 31, 2007 and 2008

	Issued Number of Shares of Common Stock	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Unrealized loss on available- for-sale securities	Minority Interests	Total Equity
<b>BALANCE, APRIL 1, 2006</b>	2,300,000	¥ 11,500	¥ 22,875	¥ 61,010	¥ (740)		¥ 1,016	¥ 95,661
Net income				19,985				19,985
Cash dividends paid (¥2,100 per share)				(4,775)				(4,775)
Bonuses to directors				(56)			(1)	(57)
Other changes							433	433
<b>BALANCE, MARCH 31, 2007</b>	2,300,000	11,500	22,875	76,164	(740)		1,448	111,247
Net income				17,701				17,701
Cash dividends paid (¥2,200 per share)				(5,002)				(5,002)
Gain on revaluation of treasury stock associated with the share transfer			2,484		(3,593)			(1,109)
Other changes						¥ (5,747)	686	(5,061)
<b>BALANCE, MARCH 31, 2008</b>	2,300,000	¥ 11,500	¥ 25,359	¥ 88,863	¥ (4,333)	¥ (5,747)	¥ 2,134	¥117,776

Thousands of U.S. Dollars (Note 1)

Year Ended March 31, 2008

	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Unrealized loss on available- for-sale securities	Minority Interests	Total Equity
<b>BALANCE, MARCH 31, 2007</b>	\$ 114,782	\$ 228,313	\$ 760,196	\$ (7,391)		\$ 14,458	\$1,110,358
Net income			176,676				176,676
Cash dividends paid (\$21.96 per share)			(49,927)				(49,927)
Gain on revaluation of treasury stock associated with the share transfer		24,794		(55,856)			(11,062)
Other changes					\$ (57,361)	6,846	(50,515)
<b>BALANCE, MARCH 31, 2008</b>	\$ 114,782	\$ 253,107	\$ 886,945	\$ (43,247)	\$ (57,361)	\$ 21,304	\$1,175,530

See notes to consolidated financial statements.

# C Consolidated Statements of Cash Flows

Tokyo Stock Exchange Group, Inc. and Subsidiaries

Years Ended March 31, 2007 and 2008

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2007	2008	2008
<b>OPERATING ACTIVITIES:</b>			
Income before income taxes and minority interests	¥ 34,407	¥ 30,582	\$ 305,240
Depreciation	7,163	8,655	86,384
Amortization of goodwill	7		
Loss on disposal of property and equipment and intangible fixed assets	236	152	1,521
Gain on sale of investments in securities	(34)		
Increase (decrease) in allowance for doubtful accounts	47	(51)	(505)
Increase in accrued bonuses	137	133	1,328
Increase in accrued bonuses for directors		123	1,223
Decrease in allowance for loss on real estate rental contract	(342)	(218)	(2,179)
Decrease in liability for retirement benefits for employees	(61)	(224)	(2,240)
Equity in earnings of affiliated companies	(489)	(279)	(2,785)
Interest and dividend income	(144)	(1,774)	(17,709)
Interest expense		112	1,115
(Increase) decrease in accounts receivable	(78)	861	8,593
Increase in inventories	(405)	(2,986)	(29,801)
Increase in accounts payable—trade	568	565	5,635
Other—net	1,015	(97)	(961)
Sub-total	42,027	35,554	354,859
Income taxes paid	(13,152)	(14,845)	(148,170)
Interest and dividends received	214	1,813	18,094
Interest paid		(99)	(984)
Net cash provided by operating activities	¥ 29,089	¥ 22,423	\$ 223,799
<b>INVESTING ACTIVITIES:</b>			
Acquisition of fixed deposits	(11,450)	(8,700)	(86,836)
Proceeds from refund of fixed deposits	7,750	9,600	95,818
Acquisition of marketable securities	(13,238)	(22,967)	(229,235)
Proceeds from sale of marketable securities	11,250	19,000	189,640
Acquisition of investments in securities	(997)	(37,480)	(374,090)
Proceeds from sale of affiliated company stocks		315	3,147
Proceeds from sale of investments in securities	42		
Acquisition of property and equipment	(6,615)	(4,454)	(44,454)
Proceeds from sale of property and equipment	28	3	29
Acquisition of intangible fixed assets	(5,498)	(5,822)	(58,105)
Proceeds from sale of intangible fixed assets	10	12	117
Payment for guarantee money deposits	(77)	(204)	(2,038)
Proceeds from return of guarantee money deposits	340	213	2,122
Payment of guarantee money deposits received	(105)	(46)	(458)
Proceeds from receipt of guarantee money deposits	26	50	497
Collection of loan receivables	5	18	183
Others	10	(16)	(153)
Net cash used in investing activities	(18,519)	(50,478)	(503,816)
<b>FINANCING ACTIVITIES:</b>			
Increase in short-term debt		37,140	370,699
Repayment of short-term debt		(17,570)	(175,370)
Repayment of long-term debt	(51)		
Dividends paid	(4,775)	(5,002)	(49,927)
Net cash provided by (used in) financing activities	(4,826)	14,568	145,402
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>			
		(45)	(441)
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	5,744	(13,532)	(135,056)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	43,355	49,099	490,056
<b>CASH AND CASH EQUIVALENTS, END OF YEAR (Note 4)</b>	¥ 49,099	¥ 35,567	\$ 355,000

See notes to consolidated financial statements.

## 1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

Tokyo Stock Exchange Group, Inc. (the "TSE Group" or the "Company") was established on August 1, 2007, as a holding company of Tokyo Stock Exchange, Inc (the "TSE") by way of share transfer (see Note 2 below). The share transfer, company separation and establishment of a self-regulatory organization were accounted for in accordance with the "Accounting Standard for Business Combinations" (Business Accounting Council, October 31, 2003) and the "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (Accounting Standards Board of Japan, Guidance on Accounting Standards No. 10, December 22, 2006). The consolidated financial statements for the year ended March 31, 2007 included herein are those of the TSE.

The accompanying consolidated financial statements of the TSE Group and its subsidiaries and those of the TSE and its subsidiaries for 2007 are prepared in conformity with 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 as required by the Japanese Financial Instruments and Exchange Act (formerly, the Japanese Securities and Exchange Law) and its related accounting regulations.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2007 financial statements to conform to the classifications used in 2008.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which the TSE Group is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥100.19 to \$1, the approximate rate of exchange at March 31, 2008. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

## 2. ORGANIZATIONAL CHANGES

### a. Share transfers

The TSE established the TSE Group on August 1, 2007 as a holding company of TSE by the way of a share transfer upon the approval at the ordinary general meeting of shareholders held on June 22, 2007.

The purpose and outline of the establishment of the holding company are as follows.

#### (a) Purpose of the establishment of the holding company

The TSE was acutely aware of the necessity to avoid conflicts of interest arising between its stake as a business entity and its need, as a self-regulatory organization to ensure the fairness of the market while maintaining its overall effectiveness. It also

recognized that it must prepare to respond appropriately to the trend of mergers and acquisitions of the exchanges on the horizon in Asia. Accordingly, it set up a market operation company and a self-regulatory corporation under the umbrella of a newly established holding company in order to achieve the following 3 objectives: (1) to strengthen the independence of self-regulatory function; (2) to ensure the effectiveness of such function; (3) to increase the level of freedom for developing international business strategies.

#### (b) Outline of the share transfer

##### (1) Corporate name of the holding company

Tokyo Stock Exchange Group, Inc.

##### (2) Head office location of the holding company

2-1, Nihombashi-kabutocho, Chuo-ku, Tokyo

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

Common stock 2,300,000 shares

##### (4) Common stock amount

¥11,500 million

##### (5) Share transfer ratio

For each share of common stock of the TSE, 1 share of common stock of the holding company was allotted.

##### (6) Basis for the determination of the share transfer ratio

Because the holding company was established through the transfer of shares from the TSE and the shareholder composition of the existing TSE and the newly established holding company was not changed at the time of the transfer, the ratio was 1 to 1.

##### (7) Share transfer date

August 1, 2007

#### (c) Accounting for the transaction

The share transfer is a transaction under common control pursuant to the "Accounting Standard for Business Combinations" (Business Accounting Council, October 31, 2003) and the "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestiture" (Accounting Standards Board of Japan, Guidance on Accounting Standards No. 10, December 22, 2006). Accordingly, the transaction is treated as an internal transaction in the consolidated financial statements and no effect is given.

#### b. Company separation

Pertaining to the shares of Japan Securities Clearing Corporation ("JSCC") and Japan Securities Depository Center, Inc. ("JASDEC") held by the TSE, a resolution was passed at the general meeting of shareholders held on September 25, 2007 to effectuate a company separation on October 1, 2007 which made the Company the parent of JSCC and JASDEC as an equity investee.

#### (a) Purpose of the company separation

JSCC, a subsidiary of the TSE and JASDEC, an affiliate of the TSE have a highly public nature and represent the infrastructure of the entire securities market, which is intimately linked to the business of the TSE. Therefore, in order to proceed with the formulation of the holding company framework, these two companies were directly held by the Company like the TSE as a part of the



organizational structure changes.

(b) Separation method

Absorption-type company separation without an absorption-type reorganization value (Item 36 (b), Paragraph 3, Article 2 of the Corporate Accounting Rules) assigned.

(c) Outline of parties concerned in the separation (as of September 30, 2007)

Name	Tokyo Stock Exchange Group, Inc. (successor company)	Tokyo Stock Exchange, Inc. (separating company)
<b>Description of business</b>	-Management of financial instruments exchanges -Management of a self-regulatory corporation and other business ancillary to the above	-To provide market facilities for securities trading, derivatives trading, publicize market quotations, ensure fairness of securities trading, etc., and other business regarding provision of the exchange securities market -Other business ancillary to the above
<b>Head office</b>	2-1 Nihombashi-kabutocho, Chuo-ku, Tokyo	2-1 Nihombashi-kabutocho, Chuo-ku, Tokyo
<b>Common stock amount</b>	¥11.5 billion	¥11.5 billion
<b>Number of shares outstanding</b>	2,300,000 shares	2,300,000 shares

(d) Details of the separated share

JSCC

Separated asset item      Common share      25,890 shares

JASDEC

Separated asset item      Common share      1,855 shares

(e) Accounting for the transaction

The company separation is a transaction under common control pursuant to the “Accounting Standard for Business Divestitures” (Accounting Standards Board of Japan, Accounting Standard No. 7, December 27, 2005) and the “Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures” (Accounting Standards Board of Japan, Guidance on Accounting Standards No. 10, December 22, 2006). Accordingly the transaction is eliminated as an internal transaction in the consolidated financial statements for the year ended March 31, 2008.

c. Establishment of the self-regulatory corporation

The board of directors of the Company passed a resolution at its meeting held on September 25, 2007 to establish a self-regulatory corporation as stipulated in the Financial Instruments and Exchange Act. At the inaugural general meeting held on October 17, 2007, “Tokyo Stock Exchange Regulation (the “Corporation”)” was established.

(a) Purpose of the establishment

- To ensure the independence of self-regulatory operations through the formulation of a framework whereby self-regulatory operations in the TSE, a subsidiary of the Company, can be delegated to another organization.
- To ensure effectiveness of self-regulatory operations by appropriately coordinating the operations of the exchange and the self-regulatory corporations under the umbrella of the Company.

(b) Outline of the newly established self-regulatory corporation

<b>Name</b>	Tokyo Stock Exchange Regulation
<b>Establishment date</b>	October 17, 2007
<b>Head Office</b>	2-1 Nihombashi-kabutocho, Chuo-ku, Tokyo
<b>Common stock amount</b>	¥3 billion
<b>Contributor (Member)</b>	Tokyo Stock Exchange Group, Inc.
<b>Description of business</b>	<p>1. The Corporation shall conduct the self-regulatory operations listed in each of the following items upon the entrustment of the operations by financial instruments exchange(s):</p> <p>(1) Operations relating to listing and delisting of financial instruments, financial indicators or options (hereinafter referred to as the “financial instruments, etc.”) provided by the entrusting financial instruments exchange(s) (excluding operations relating to listing and delisting of the financial instruments, etc. for specified market derivatives trading (meaning market derivatives trading where the issue(s) of financial instruments for such market derivatives transactions are specified in the Business Regulations and other rules and regulations of the entrusting financial instruments exchange(s). The same shall be applied hereinafter.))</p> <p>(2) Inspections on trading participants or members of the entrusting financial instruments exchange(s) (hereinafter referred to as the “trading participants, etc.”) about their compliance with laws and regulations, disposition by the administrative agencies based on laws and regulations, the articles of incorporation and any other rules of the entrusting financial instruments exchange(s), or the fair and equitable principle of trading</p> <p>(3) Detailed examinations of securities trading or market derivatives trading carried out by the trading participants, etc. in the exchange financial instruments market (excluding examination instantaneously carried out for expediting securities trading or market derivatives trading in the exchange financial instruments market)</p> <p>(4) Examination of qualifications of the trading participants, etc.</p> <p>(5) Operations related to disposition and any other measures against the trading participants, etc.</p> <p>(6) Examinations on information disclosure by the issuer of listed securities with regard to the issuer, and operations regarding disposition and other measures to be taken against the issuer of listed securities</p> <p>(7) Drawing-up, amendments, or abolition of the Business Regulations and other rules of the entrusting financial instruments exchange(s) listed in each of the preceding items (hereinafter referred to as the “Specified Self-Regulatory Operations”) (excluding criteria for listing and delisting of financial instruments, etc. as well as criteria for granting qualifications of the trading participants, etc.)</p> <p>(8) Preparation of the summary of proposals for a general meeting or a general shareholders meeting of the entrusting financial instruments exchange pertaining to any amendment to the Articles of Incorporation of the entrusting financial instruments exchange concerning the Specified self-regulatory operations (excluding amendments to the Articles of Incorporation concerning criteria for listing and delisting of financial instruments, etc. and criteria for granting qualifications of the trading participants, etc.)</p> <p>2. The Corporation shall give consent to the financial instruments exchange concerning amendment or abolition of the Self-Regulatory Operations related matters provided by the Business Regulations and other rules of the entrusting financial instruments exchange, pursuant to the provisions of laws and regulations, give advices, if it deems necessary, on measures that should be taken against the entrusting financial instruments exchange, and conduct operations incidental to the operations listed in each of the preceding items.</p>

(c) Accounting for the transaction

The establishment of the self-regulatory corporation is a common control transaction pursuant to the “Accounting Standard for Business Divestitures” (Accounting Standards Board of Japan, Accounting Standard No. 7, December 27, 2005) and the “Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures” (Accounting Standards Board of Japan, Guidance on Accounting Standards No. 10, December 22, 2006). Accordingly the transaction is eliminated as an internal transaction in the consolidated financial statements for the year ended March 31, 2008.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### a. Principles of Consolidation

The consolidated financial statements as of March 31, 2008 include the accounts of the TSE Group (the TSE in 2007) and five (three (\*) in 2007) subsidiaries listed below (together, hereinafter referred to as the “Companies”).

	Country of Incorporation	Direct and Indirect Ownership Percentage	Millions of Yen Paid-in Capital
Tokyo Stock Exchange, Inc.	Japan	100.0%	¥11,500
Tokyo Stock Exchange Regulation	Japan	100.0	3,000
Japan Securities Settlement & Custody, Inc. (*)	Japan	100.0	300
TOSHO SYSTEM SERVICE CO., LTD. (*)	Japan	80.0	100
Japan Securities Clearing Corporation (*)	Japan	86.3	1,700

Under the control or influence concept, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Company has the ability to exercise significant influence are accounted for by the equity method.

Investments in three affiliated companies are accounted for by the equity method.

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

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Companies is eliminated.

Differences between the costs of investments in subsidiaries and the amounts of underlying equity in net assets of the subsidiaries (“goodwill”) are amortized on a straight-line basis over a period of five years.

#### b. Cash Equivalents

Cash equivalents in the consolidated statements of cash flows are composed of 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.

#### c. Marketable Securities and Investments in Securities

Marketable securities and investments in securities are classified and accounted for, depending on management’s intent, as

follows:

(1) trading securities, which are held for the purpose of earning capital gains in the near term are reported at fair value, and the related unrealized gains and losses are included in earnings, (2) held-to-maturity debt securities, which are expected to be held to maturity with the positive intent and ability to hold to maturity are reported at amortized cost and (3) available-for-sale securities, which are not classified as either of the aforementioned securities, are reported at fair value which is the average market value for the one-month period before the year end, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity.

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

The Company does not have any trading securities.

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 have 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.

#### d. Inventories

Work in progress is valued using the specific cost method.

#### e. Property and Equipment

Property and equipment are stated at cost. Depreciation is computed using the declining-balance method at rates based on the estimated useful lives of the assets, while 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 the initial lease term with no estimated residual value.

Property and equipment acquired on and after April 1, 2007 are depreciated by the declining-balance method in accordance with the revised corporate tax law, which is effective April 1, 2007.

The effect of this treatment was to decrease operating profit and income before income taxes and minority interests for the year ended March 31, 2008 by ¥218 million (\$2,175 thousand) and ¥289 (\$2,885 thousand), respectively.

Property and equipment had been depreciated up to 95% of acquisition cost with 5% of residual value carried until 2007. However, such 5% portion of property and equipment will be systematically amortized over 5 years starting in the year following the one in which the carrying value of property and equipment reaches 5% of the acquisition cost in accordance with the revised corporate tax law, which was effective for fiscal years beginning on and after April 1, 2007.

The effect of this treatment on income before income taxes and minority interests for the year ended March 31, 2008 was not material.

The range of useful lives is principally from 30 to 45 years for

buildings, 5 years for information system equipments, and from 3 to 15 years for furniture and fixtures.

**f. Software**

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

**g. Deferred Assets**

Organization costs are charged to income as incurred.

**h. Allowance for Doubtful Accounts**

Allowance for doubtful accounts is provided 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.

**i. Bonuses to Employees and Directors**

Bonuses to employees and directors are accrued at the year end at the amount expected to be paid.

**j. Retirement Benefits**

Liability 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 TSE abolished the retirement benefit plan for directors on June 22, 2005 and the unpaid balance is included in non-current liabilities—other in the accompanying consolidated balance sheet.

**k. 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.

**l. Leases**

All leases are accounted for as operating leases. Under Japanese accounting standards for leases, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, while other finance leases are permitted to be accounted for as operating lease transactions if certain “as if capitalized” information is disclosed in the notes to the lessee’s financial statements.

**m. Accounting for Obligation Assumption**

Obligations and credits that JSCC assumes and acquires in the securities obligation assumption business are accounted for at the time of settlement.

**n. 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.

**o. 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.

**p. 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.

**q. Per Share Information**

Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the year.

Cash dividends per share presented in the accompanying consolidated statements of income are dividends applicable to the respective years including dividends to be paid after the end of the year.

**4. CASH AND CASH EQUIVALENTS**

The reconciliations between cash and cash equivalents in the consolidated statements of cash flows and cash and bank deposits in the consolidated balance sheets are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2008	2008
Cash and bank deposits	¥ 51,698	¥ 36,562	\$ 364,922
Short-term investment in securities	5,597	11,806	117,835
Time deposits with a maturity over three months	(3,700)	(2,801)	(27,947)
Held-to-maturity securities	(4,496)	(9,993)	(99,738)
Others		(7)	(72)
Cash and cash equivalents	¥ 49,099	¥ 35,567	\$ 355,000

**5. MARKETABLE SECURITIES AND INVESTMENTS IN SECURITIES**

**(1) Investments in securities as of March 31, 2007 and 2008**

consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2008	2008
Short-term:			
Held-to-maturity securities	¥ 4,496	¥ 9,993	\$ 99,738
Available-for-sale securities	1,101	1,813	18,097
Total	¥ 5,597	¥ 11,806	\$ 117,835

	Millions of Yen		Thousands of U.S. Dollars
	2007	2008	2008
Long-term:			
Held-to-maturity securities	¥ 2,992	¥ 1,496	\$ 14,931
Available-for-sale securities	6	27,796	277,431
Investments in affiliates	4,344	4,479	44,709
Total	¥ 7,342	¥ 33,771	\$ 337,071

Note: In addition to the above, available-for-sale securities, amounting to ¥2,996 million as of March 31, 2007, are 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, 2007 and 2008 are available as follows:

	Millions of Yen		
	2007		
	Carrying amount	Fair value amount	Unrealized gains (losses)
Held-to-maturity securities:			
Market value less than book value:			
Government bonds and municipal bonds	¥ 6,489	¥ 6,476	¥ (13)
<b>Total</b>	<b>¥ 6,489</b>	<b>¥ 6,476</b>	<b>¥ (13)</b>

	Millions of Yen		
	2008		
	Carrying amount	Fair value amount	Unrealized gains (losses)
Held-to-maturity securities:			
Market value over book value:			
Government bonds and municipal bonds	¥ 2,495	¥ 2,502	¥ 7
Market value less than book value:			
Government bonds and municipal bonds	8,994	8,993	(1)
<b>Total</b>	<b>¥ 11,489</b>	<b>¥ 11,495</b>	<b>¥ 6</b>

	Thousands of U.S. Dollars		
	2008		
	Carrying amount	Fair value amount	Unrealized gains (losses)
Held-to-maturity securities:			
Market value over book value:			
Government bonds and municipal bonds	\$ 24,901	\$ 24,972	\$ 71
Market value less than book value:			
Government bonds and municipal bonds	89,768	89,756	(11)
<b>Total</b>	<b>\$ 114,669</b>	<b>\$ 114,728</b>	<b>\$ 60</b>

(3) Available-for-sale securities for which market values as of March 31, 2008 are available as follows:

	Millions of Yen		
	2008		
	Acquisition cost	Carrying amount	Unrealized gains (losses)
Available-for-sale securities:			
Market value over book value:			
Stocks	¥ 7	¥ 7	
Market value less than book value:			
Stocks	37,480	27,790	¥ (9,690)
<b>Total</b>	<b>¥ 37,487</b>	<b>¥ 27,797</b>	<b>¥ (9,690)</b>

	Thousands of U.S. Dollars		
	2008		
	Acquisition cost	Carrying amount	Unrealized gains (losses)
Available-for-sale securities:			
Market value over book value:			
Stocks	\$ 71	\$ 72	\$ 1
Market value less than book value:			
Stocks	374,090	277,375	(96,715)
<b>Total</b>	<b>\$ 374,161</b>	<b>\$ 277,447</b>	<b>\$ (96,714)</b>

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

Millions of Yen		
2007		
Sales amount	Gains on sale	Loss on sale
¥ 42	¥ 34	

There was no sales or disposition of available-for-sale securities during the year ended March 31, 2008.

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

	Millions of Yen		Thousands of U.S. Dollars	
	2007	2008	2008	2008
Held-to-maturity securities:				
Asset backed commercial paper	¥ 999			
Available-for-sale securities:				
Unlisted equity securities, excluding over-the-counter stock	6	¥ 6	\$ 57	
Asset backed commercial paper	2,996			
Free financial fund	1,101	1,806	18,025	
<b>Total</b>	<b>¥ 5,102</b>	<b>¥ 1,812</b>	<b>\$ 18,082</b>	

(6) Redemption schedule of held-to-maturity securities or available-for-sale securities with a maturity date as of March 31, 2008 are as follows:

	Millions of Yen		Thousands of U.S. Dollars	
	Within 1 Year	Within 5 Years and over 1 Year	Within 1 Year	Within 5 Years and over 1 Year
Debt securities:				
Government bonds and municipal bonds	¥ 10,000	¥ 1,500	\$ 99,810	\$ 14,972

## 6. SHORT-TERM DEBT

Short-term debt at March 31, 2008 consisted of borrowings from banks. The annual interest rates applicable to the short-term debt ranged from 0.78% to 1.375% at March 31, 2008.

## 7. INCOME TAXES

The Companies are subject to several taxes based on income, which in the aggregate resulted in statutory tax rates of approximately 41 % for the years ended March 31, 2007 and 2008.

Significant components of the Companies' deferred income tax assets and liabilities as of March 31, 2007 and 2008 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2008	2008
Deferred tax assets:			
Liability for retirement benefits for employees	¥ 886	¥ 531	\$ 5,304
Accrued bonuses	450	467	4,659
Allowance for doubtful accounts	59	34	335
Depreciation and amortization	211	140	1,394
Allowance for loss on real estate rental contract	1,674	1,585	15,821
Unrealized gain on fixed assets	28	34	344
Accrued enterprise tax	590	632	6,311
Unrealized loss on available-for-sale securities		3,943	39,354
Other	272	348	3,471
Sub-total	4,170	7,714	76,993
Less—valuation allowance	(176)	(113)	(1,130)
Total deferred tax assets	3,994	7,601	75,863
Deferred tax liabilities—Retained earnings in affiliated company	(88)		
Total deferred tax liabilities	(88)		
Net deferred tax assets	¥ 3,906	¥ 7,601	\$ 75,863

As the difference between the statutory tax rate and the effective tax rate for the years ended March 31, 2007 and 2008 is less than 5 % of the statutory tax rate, the reconciliation is omitted.

## 8. LIABILITY FOR RETIREMENT BENEFITS FOR EMPLOYEES

The TSE Group has non-contributory defined benefit pension plans that are tax qualified plans and an unfunded lump-sum retirement benefit plan.

The liability for retirement benefits for employees as of March 31, 2007 and 2008 is as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2008	2008
Projected benefit obligations	¥(21,151)	¥(21,217)	\$(211,768)
Plan assets	18,721	17,404	173,713
Unfunded benefit obligations	(2,430)	(3,813)	(38,055)
Unrecognized prior service costs	(4,534)	(3,716)	(37,089)
Unrecognized actuarial differences	24	2,367	23,623
Unrecognized transition amount	4,552	3,983	39,752
Accrued pension costs	(2,188)	(1,179)	(11,769)
Prepaid pension costs	3,247	4,031	40,234
Liability for retirement benefits	¥ (5,435)	¥ (5,210)	\$ (52,003)

The net pension costs relating to retirement benefits for the years ended March 31, 2007 and 2008 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2008	2008
Service cost	¥ 581	¥ 582	\$ 5,808
Interest cost	466	461	4,602
Expected return on plan assets	(441)	(468)	(4,671)
Amortization of unrecognized prior service costs	(618)	(618)	(6,164)
Amortization of unrecognized actuarial differences	248	217	2,166
Amortization of transition adjustment	569	569	5,679
Other	55	59	582
Net pension costs	¥ 860	¥ 802	\$ 8,002

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

	2007	2008
Discount rate	2.2 %	2.2 %
Expected rate of return on plan assets	2.5 %	2.5 %
Method of attributing the projected benefits of services	Straight-line basis	straight-line basis
Amortization of unrecognized prior service cost	10 years	10 years
Amortization of transition adjustment	15 years	15 years
Amortization of unrecognized actuarial differences	10 years	10 years

## 9. EQUITY

Since May 1, 2006, Japanese companies are subject to a new corporate law of Japan (the "Corporate Law"), which reformed and replaced the Commercial Code of Japan. The significant provisions in the Corporate Law that affect financial and accounting matters are summarized below:

### a. Dividends

Under the Corporate Law, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders meeting. For companies that meet certain criteria such as; (1) having the board of directors, (2) having independent auditors, (3) having the board of corporate auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the board of directors may declare dividends at any time during the fiscal year if the company has prescribed so in its articles of incorporation. The board of directors of companies with board committees (an appointment committee, compensation committee and audit committee) can also do so because such companies with board committees already, by nature, meet the above criteria under the Corporate Law, even though such companies have an audit committee instead of the board of corporate auditors. The Company is organized as a company with board committees.

### b. Increases/decreases and transfer of common stock, reserve and surplus

The Corporate Law requires that an amount equal to 10 % of dividends must be appropriated as a legal reserve (a component

of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total of aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Corporate Law, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Corporate Law also provides that common stock, additional paid-in capital, capital surplus, legal reserve, and other retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

**c. Treasury stock and treasury stock acquisition rights**

The Corporate Law also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the board of directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by specific formula. Under the Corporate Law, stock acquisition rights, which were previously presented as a liability, are now presented as a separate component of equity. The Corporate Law also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

**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:

	Millions of Yen		
	2007		
	Acquisition Cost	Accumulated Depreciation	Balance as of March 31, 2007
Information system — Equipments	¥1,665	¥ 534	¥ 1,131

	Millions of Yen			Thousands of U.S. Dollars
	2008			2008
	Acquisition Cost	Accumulated Depreciation	Balance as of March 31, 2008	Balance as of March 31, 2008
Information system — Equipments	¥ 2,389	¥ 936	¥ 1,453	\$ 14,501

(b) Outstanding future lease payments as of March 31, 2007 and 2008 including the interest portion thereon, categorized by contractual maturity are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2008	2008
Due within one year	¥ 382	¥ 550	\$ 5,494
Due over one year	771	932	9,301
Total	¥ 1,153	¥ 1,482	\$ 14,795

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

	Millions of Yen		Thousands of U.S. Dollars
	2007	2008	2008
Lease payments	¥ 383	¥ 489	\$ 4,877
Depreciation expense amount	359	457	4,563
Interest expense amount	38	39	393

(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, 2007 and 2008 for non-cancelable operating leases, categorized by contractual maturity are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2008	2008
Due within one year	¥ 3	¥ 1	\$ 11
Due over one year	1		
Total	¥ 4	¥ 1	\$ 11

**(3) Lessor Lease (Finance Lease)**

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

	Millions of Yen		
	2007		
	Acquisition cost	Accumulated depreciation	Balance as of March 31, 2007
Leased assets	¥ 1,870	¥ 1,533	¥ 337

	Millions of Yen			Thousands of U.S. Dollars
	2008			2008
	Acquisition cost	Accumulated depreciation	Balance as of March 31, 2008	Balance as of March 31, 2008
Leased assets	¥ 800	¥ 670	¥ 130	\$ 1,293



(b) Outstanding lease payments receivable as of March 31, 2007 and 2008 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2008	2008
Due within one year	¥ 642	¥ 730	\$ 7,280
Due over one year	1,070	1,070	10,683
Total	¥ 1,712	¥ 1,800	\$ 17,963

The above balances include lease payments receivable arising from sub-lease transactions of ¥1,262 million of which ¥403 million is due within one year as of March 31, 2007 and ¥1,482 million (\$14,792 thousand) of which ¥ 550 million (\$5,494 thousand) is due within one year as of March 31, 2008. Such sub-leases are contracted with the third party on nearly the same terms as the original leases. Substantially same balances are included in the outstanding future lease payments described in (1) (b) above.

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

	Millions of Yen		Thousands of U.S. Dollars
	2007	2008	2008
Lease revenue	¥ 412	¥ 253	\$ 2,521
Depreciation	322	171	1,702
Interest income amount	36	19	190

(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

There are no material transactions of the Companies with related companies or individuals, excluding transactions with consolidated subsidiaries (which are eliminated in the consolidated financial statements), for the year ended March 31, 2008. Material transactions for the year ended March 31, 2007 are as follows:

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 million	Data processing	Directly holds 35.0%		Rent of real estate	Rent of real estate	¥162 million	Accounts receivable—others	¥2 million
									Unearned income	¥50 million
									Long-term unearned income	¥41 million

Notes: 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. LIABILITIES FOR GUARANTEES

	Millions of Yen		Thousands of U.S. Dollars
	2007	2008	2008
Guarantees for housing loans from banks for employees	¥ 4,426	¥ 4,154	\$ 41,460
Guarantees for loans from banks for ICJ, Inc.		100	998

## 13. ASSETS AND LIABILITIES FOR HEDGING RISKS OF SECURITIES TRADING

(a) The TSE and JSCC have a system including receiving 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) JSCC, as a clearing institution, assumes obligations and obtains credits from clearing participants when securities are traded in the market. In order to secure against the clearing participants' default for the period from the trading date through the settlement date, JSCC receives deposits for clearing funds and keeps them segregated from other assets.

Deposited monetary assets and related offsetting liabilities are presented in the accompanying 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, 2007, 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 and related offsetting liabilities are not included in the accompanying consolidated balance sheets. The market value of such deposited securities as of March 31, 2008 is as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2008	2008
Margin funds for when-issued transactions	¥ 329		\$ 3,279
Margin funds for derivatives	851,715		8,500,980
Deposits for clearing funds	364,427		3,637,361
Deposits as collateral for facilitating settlement	109,564		1,093,559

(c) The TSE receives legal guarantee funds from the trading participants in order to hedge the risk to investors caused by a trading participants' default, and keeps them segregated from other assets.

Deposited monetary assets and related liabilities are presented in the accompanying consolidated balance sheets as "(Returnable)

legal guarantee funds."

Deposited securities and related offsetting liabilities are not included in the accompanying consolidated balance sheets. The market value of such deposited securities as of March 31, 2008 is as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2008	2008
Legal guarantee funds		¥ 2,044	\$ 20,398

(d) In addition, the 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 accompanying consolidated balance sheets as "Cash and bank deposits" and "Deposits received as trading participants guarantee."

Deposited securities and related offsetting liabilities are not included in the accompanying consolidated balance sheets. The market value of such deposited securities as of March 31, 2008 is as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2008	2008
Deposits as trading participants guarantee		¥ 2,848	\$ 28,423

(e) In addition, the TSE has concluded a loss compensation contract with JSCC with respect to clearing of security, futures and options transactions. According to this contract, the TSE will compensate JSCC for losses incurred due to default of clearing participants within the limitation of the amount which can not be covered by clearing deposits received from clearing participants. In order to secure such compensation, the TSE has maintained the compensation limitation amount and stated as Special assets for default compensation reserve funds for ¥17,368 million (US \$173,351 thousand) as of March 31, 2007 and 2008, respectively in the accompanying consolidated balance sheets.

## 14. DETAILS OF OPERATING EXPENSES

The following are the major elements of "operating expenses" for the years ended March 31, 2007 and 2008:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2008	2008
Salaries	¥ 7,417	¥ 7,834	\$ 78,195
Bonus allowance	1,179	1,181	11,788
Directors' bonus allowance		269	2,689
Pension costs	818	715	7,137
Executive retirement allowance	10		
System maintenance and operation costs	7,648	9,252	92,340
Real estate rental fees	5,932	6,204	61,918
Depreciation	7,444	8,266	82,507

## 15. DETAILS OF LOSS ON DISPOSAL OF FIXED ASSETS

The following are the elements of "Loss on disposal of fixed assets" for the years ended March 31, 2007 and 2008:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2008	2008
Buildings	¥ 12	¥ 78	\$ 782
Information system equipments	79	22	222
Other property and equipment	15	15	151
Software	130	37	365
Other intangible fixed assets			1
Total	¥ 236	¥ 152	\$ 1,521

## 16. NET INCOME PER SHARE

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

Basis for calculating net income per share for the years ended March 31, 2007 and 2008 is as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2008	2008
Net income	¥ 19,985	¥ 17,701	176,676
Less components not pertaining to common shareholders			
Net income pertaining to common stock	19,985	17,701	176,676
Average outstanding shares of common stock	2,273,740 shares	2,273,740 shares	2,273,740 shares

No dilutive effect on net income existed.

## 17. SEGMENT INFORMATION

### (1) Business Segment

For the years ended March 31, 2007 and 2008, 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

The TSE Group has no overseas consolidated subsidiaries for the years ended March 31, 2007 and 2008.

### (3) Net Sales—Overseas

For the years ended March 31, 2007 and 2008, this information is not required to be disclosed because overseas sales do not exceed 10% of consolidated revenue.

## 18. SUBSEQUENT EVENT

The following appropriation of retained earnings at March 31, 2008 was approved at the Company's board of directors meeting held on May 27, 2008:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥2,400.00 (\$23.95) per share	¥ 5,456	\$ 54,457



## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Tokyo Stock Exchange Group, Inc.:

We have audited the accompanying consolidated balance sheet of Tokyo Stock Exchange Group, Inc. (the "Company") and subsidiaries as of March 31, 2008, and the related consolidated statements of income, changes in equity, and cash flows for the year 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 audit. The consolidated financial statements of Tokyo Stock Exchange, Inc. and subsidiaries for the year ended March 31, 2007, which were included in the accompanying Company's consolidated financial statements (see Note 1), were audited by other auditors who have ceased operations. Those auditors expressed an unqualified opinion on those financial statements in their report dated June 25, 2007.

We conducted our audit 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2008 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Tokyo Stock Exchange Group, Inc. and subsidiaries as of March 31, 2008, and the consolidated results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Our audit also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

*Deloitte Touche Tohmatsu*

June 26, 2008

# M Market Data

## Trading Value of Domestic Stocks

(monthly)

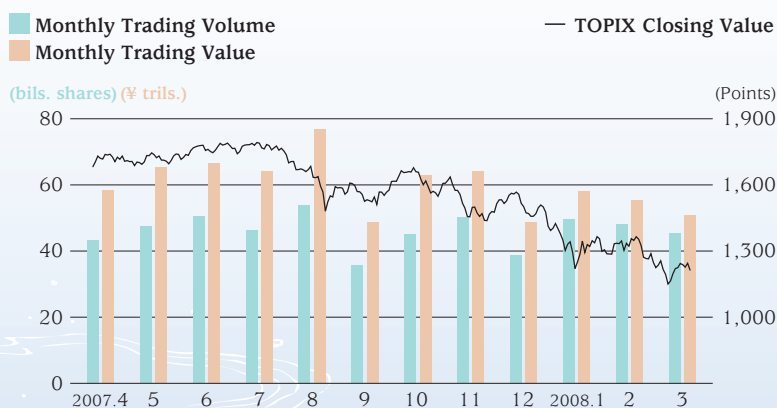
	Daily Average Trading Value (¥ mils.)		Total	
	Auction Trades	ToSTNeT Market	Trading Value (¥ mils.)	Trading Volume (thous. shares)
2007. 4	2,726,498	194,195	58,413,850	43,426,740
5	2,894,297	211,260	65,216,678	47,380,728
6	2,948,597	224,709	66,639,438	50,481,562
7	2,848,552	199,302	64,004,932	46,217,422
8	3,155,861	180,295	76,731,589	53,878,702
9	2,558,996	155,390	48,858,952	35,661,486
10	2,700,963	163,420	63,016,410	45,107,948
11	2,868,718	190,280	64,238,967	50,130,072
12	2,406,001	162,570	48,802,851	38,896,818
2008. 1	2,882,719	173,899	58,075,747	49,498,666
2	2,600,406	170,850	55,425,120	48,079,979
3	2,367,816	167,983	50,715,968	45,476,093

(fiscal year)

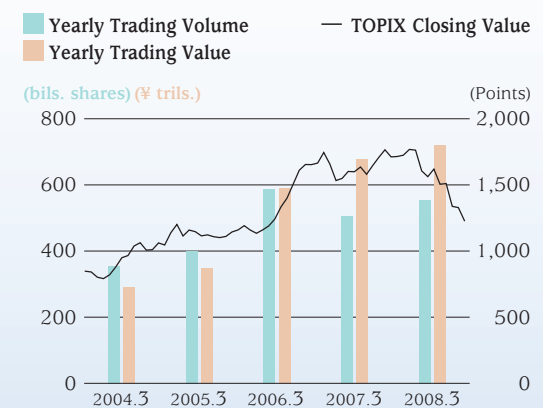
2004.3	1,064,036	108,257	290,728,726	355,237,963
2005.3	1,299,831	124,898	349,058,550	400,413,154
2006.3	2,215,747	187,743	591,258,744	588,534,260
2007.3	2,568,091	188,548	678,133,405	506,887,445
2008.3	2,755,965	183,384	720,140,507	554,236,224

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

(monthly)

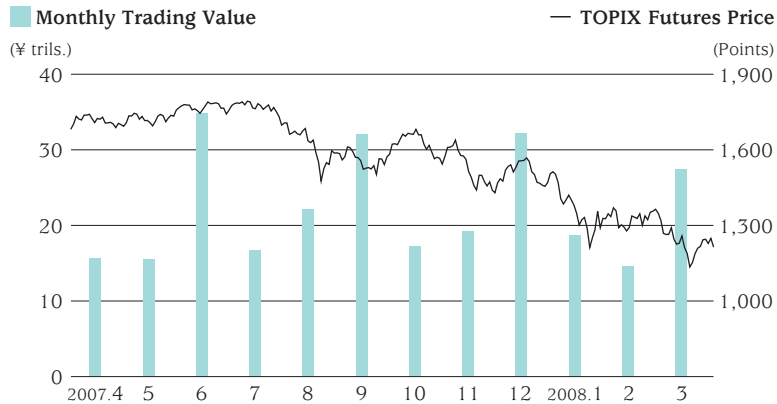


(fiscal year)

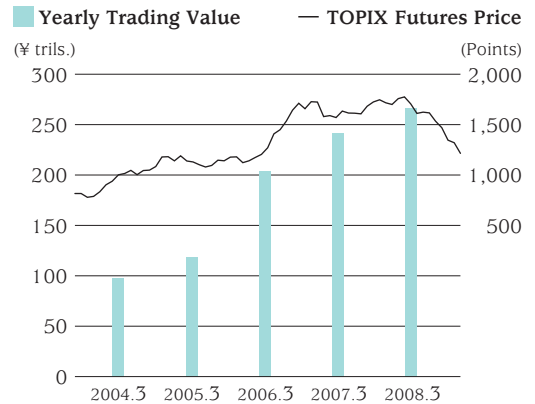


## Stock Price Index Futures

(monthly)

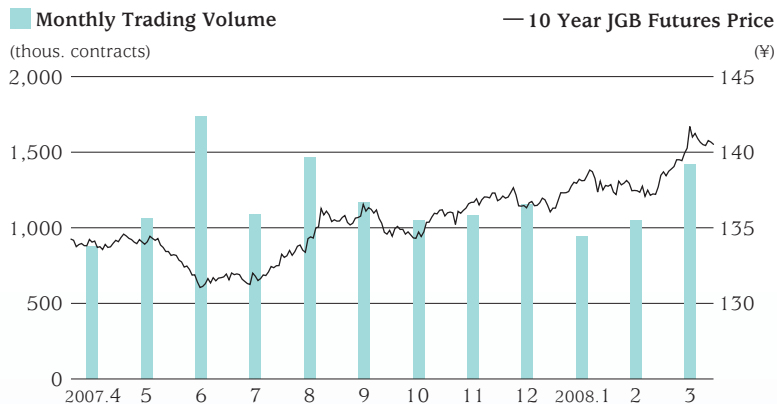


(fiscal year)

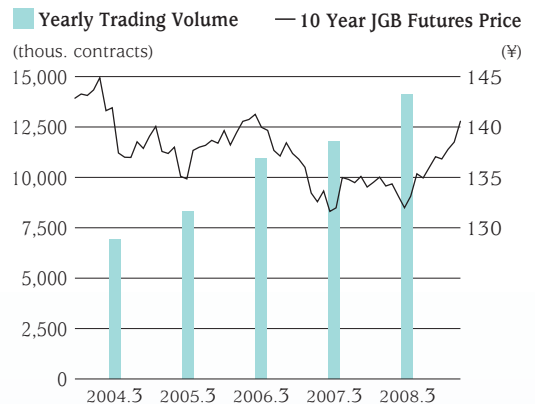


## Japanese Government Bond Futures

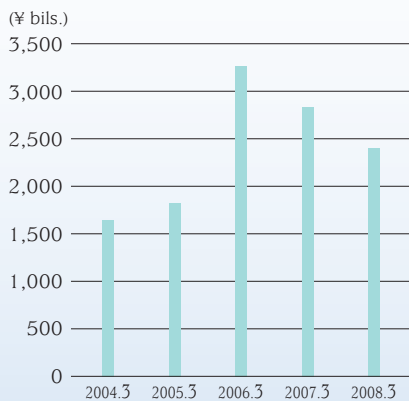
(monthly)



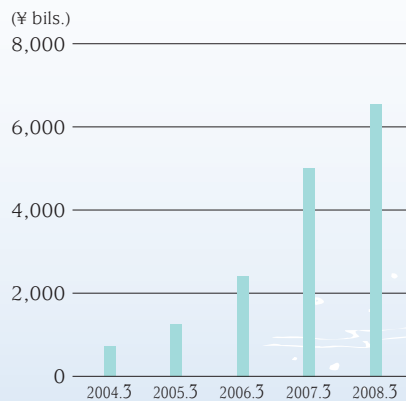
(fiscal year)



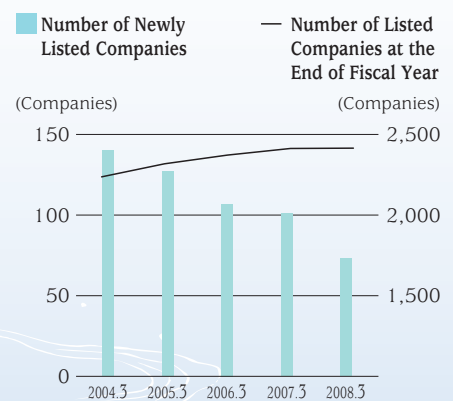
## ETF's Yearly Trading Value



## REIT's Yearly Trading Value



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



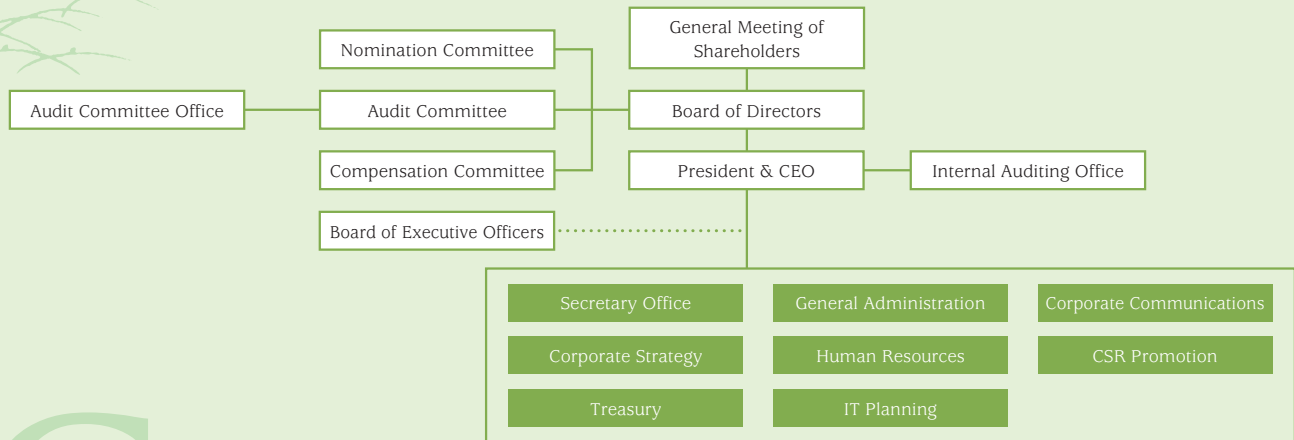




As of the date that TSE Regulation commences operations

# Organization

## TOKYO STOCK EXCHANGE GROUP, INC.

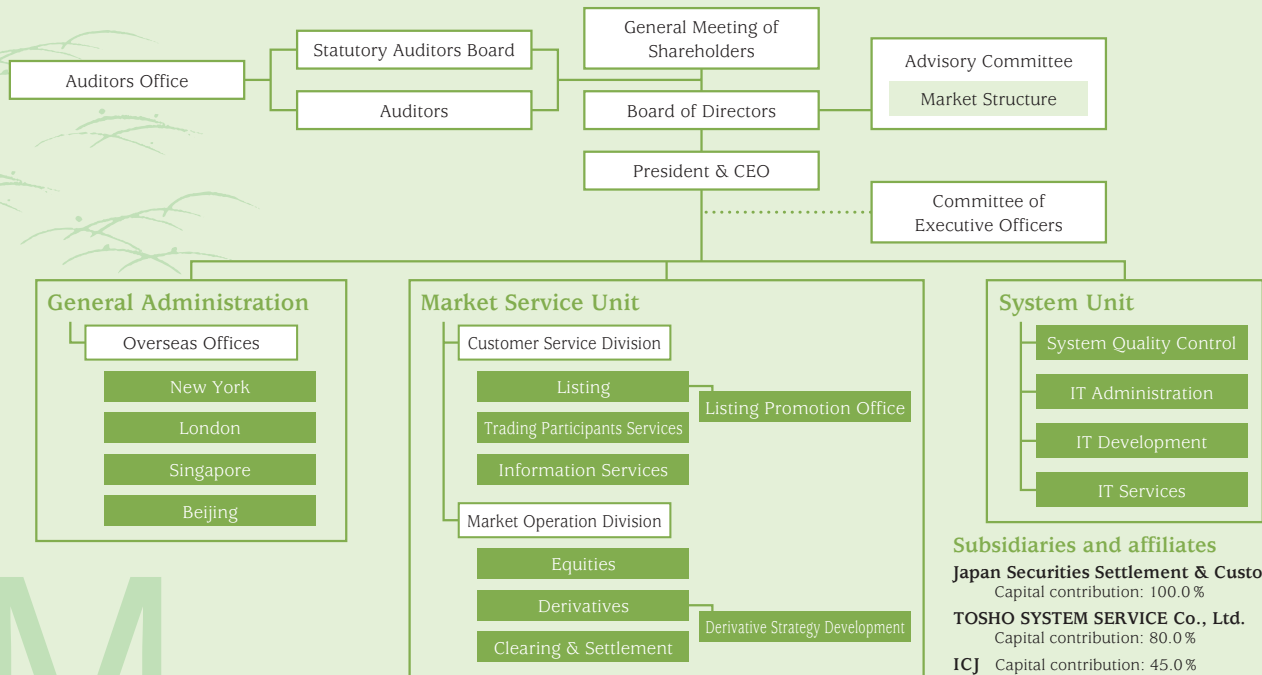


**Subsidiaries and affiliates**

- Tokyo Stock Exchange, Inc.** Capital contribution: 100.0%
- Tokyo Stock Exchange Regulation** Capital contribution: 100.0%
- Japan Securities Clearing Corporation** Capital contribution: 86.3%
- Japan Securities Depository Center, Inc.** Capital contribution: 21.8%

Ownership 100%

## TOKYO STOCK EXCHANGE, INC.



**Subsidiaries and affiliates**

- Japan Securities Settlement & Custody, Inc.** Capital contribution: 100.0%
- TOSHO SYSTEM SERVICE Co., Ltd.** Capital contribution: 80.0%
- ICJ** Capital contribution: 45.0%
- Tosho Computer Systems Co., Ltd.** Capital contribution: 35.0%

### Disclaimer

This annual report is prepared solely for the purpose of providing information regarding the Tokyo Stock Exchange Group, Inc., and as such, they are not intended as any offer or sale of securities or other similar action whether inside or outside Japan. Our securities have not been and will not be registered under the United States Securities Act of 1933, as amended (the "Securities Act"), and may not be offered or sold in the United States absent registration or an applicable exemption from registration requirements.

## Corporate Data

As of July 1, 2008

<b>Name</b>	Tokyo Stock Exchange Group, Inc.	
<b>No. of Officers</b>	Directors	16
	Executive Officers	7
<b>Address</b>	2-1 Nihombashi-Kabuto-cho, Chuo-ku, Tokyo 103-8224, 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>	795	
<b>Share Information</b>	Authorized Shares	9,200,000
	Shares Outstanding	2,300,000
	No. of Shareholders	118

### 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

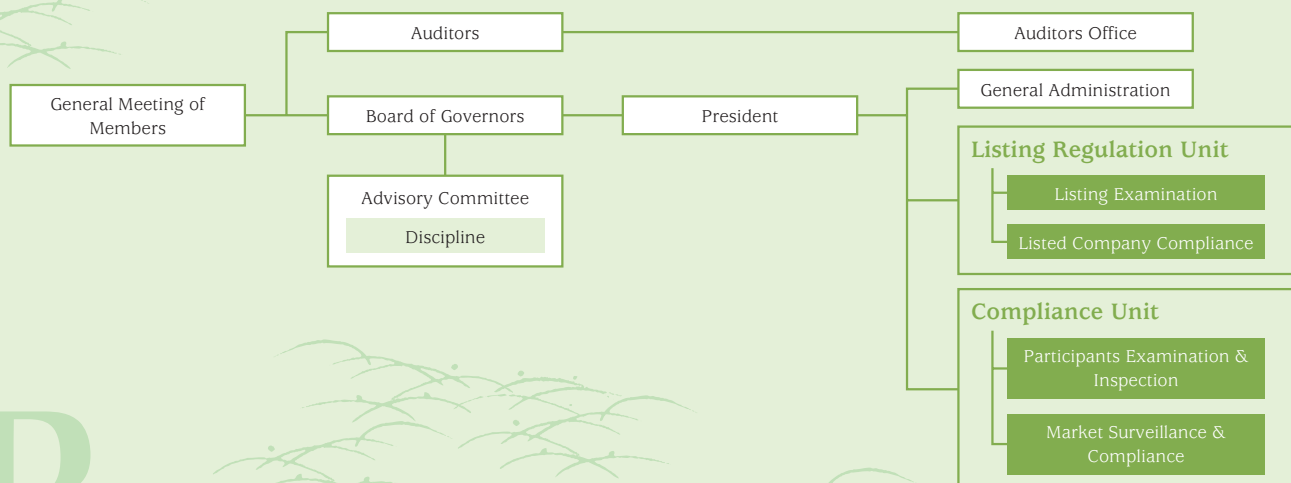
16 Raffles Quay #11-02, Hong Leong Building, Singapore 048581 Tel: (65) 6438-5100

#### Beijing Representative Office

Beijing Yintai Center, No.2 Jian Guo Men Wai Ave, Chao Yang District, Beijing, 100022, P.R.C. Tel: (86) 10-8517-1128

Ownership 100%

## TOKYO STOCK EXCHANGE REGULATION



This annual report contains forward-looking statements. These statements are based on our assumptions and beliefs in light of the information currently available to us and are subject to risks and uncertainties. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, our actual results may vary materially from those we currently anticipate. Given these risks and uncertainties, you are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date of these materials. We disclaim any obligation to update any of the forward-looking statements contained in these materials to reflect future actual events or developments.



## TOKYO STOCK EXCHANGE GROUP, INC.

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