

## Business Report

( From: April 1, 2008  
To: March 31, 2009 )

### (1) Review and results of operation

The global economy during the fiscal year under review started with the business crisis of Bear Stearns Companies, Inc., while sliding into a recession due to a chain spread of credit risk as the U.S. subprime mortgage crisis surfaced. Since the bankruptcy of U.S. Lehman Brothers in September, the economy further declined in a state of chaos and finally fell into the global financial crisis. The Japanese economy also suffered rapid deterioration due to the drastic economic slowdown across the world and the sharp appreciation of the yen, leading to consolidated ordinary loss of listed companies for two consecutive terms.

In such economic conditions, the bankruptcy of U.S. Lehman Brothers forced the Company (“JGBCC”), which had been steadily expanding business since the establishment in May 2005, to cope with default by clearing participants that was an emergent circumstance. In order to perform obligations of Lehman Brothers, the Company made financing and collective clearing in accordance with the business regulations. JGBCC also strived to early reduce failure occurred thereby, achieving to resolve all the failure by the end of September. Consequently, we successfully covered the loss within the extent of cash, etc. deposited by Lehman Brothers, helping other clearing participants and market associates recognize the reason of our existence as a clearing infrastructure.

With respect to operational performance, the volume of novations decreased by 17.7% compared to the previous year—the first decline since JGBCC’s establishment—due to the arrest of business growth, as the JGB market was forced to shrink. However, our share in market transactions including buy/sell transactions and repurchase transactions (*repo torihiki*, *gensaki torihiki*) continued to grow. Transaction processing volume (one-way basis) was 2,602 by number of transactions for each business day (7.0% YoY decrease) and ¥9.7 trillion by volume (7.0% YoY decrease). Operating income amounted to ¥1.226 billion, which is a decrease of 6.3% from the previous year, particularly as a result of unfavorable proceeds from commissions in the second half of the year, as the number of participants decreased from 37 as of the beginning of the year to 35 as of the end of the year due to various effects of integration and abolition (e.g. bankruptcy and business transfer) among participant companies. Operating expenses amounted to ¥1.179 billion (6.6% YoY increase) primarily due to an increase of maintenance fee of system-related information equipment and depreciation charges, greater personnel costs due to further hiring of permanent employees for an upgrade of in-house backbone systems, and attorney fees required for addressing the issue of participant bankruptcy. Consequently, ordinary income and income after taxes, etc., were recorded as ¥51 million and ¥29 million, respectively. This income will be reserved in preparation for further improvement of services for participants and system enhancement, as with the previous year.

## **(2) Capital investment**

The total amount of capital investment made during the current year was ¥160 million, which was mainly used for development of system infrastructure to strengthen the clearing system functions and business continuity system.

## **(3) Financing**

No statement will be made here.

## **(4) Major issues to be addressed**

Since the Company started its operations as a clearing organization, JGBCC has made every effort to improve services for participants and to build a stable operational infrastructure by developing a system infrastructure and improving personnel infrastructure, without trouble such as suspension of particular operations due to system failures on our part. By continuing our efforts to broaden our line of products and participant base, while responding appropriately to changes in the future market environment, principle reform and the needs of participants, we are committed to making efforts to improve our services to make them even more user-oriented, establish a stable financial infrastructure and improve management efficiency. Moreover, in terms of system development for the next term upon expiration of the maintenance term for the current system, we will execute our plans, serving as market infrastructure in pursuit of higher safety, efficiency and convenience. To this end, we humbly ask for and appreciate your continued support and encouragement.