

Business Report

(From: April 1, 2009
To: March 31, 2010)

(1) Review and results of operations

During the fiscal year under review, the Japanese economy, which continued to falter in the aftermath of the international economic crisis of 2008, exhibited certain signs of bottoming out, as evidenced by the pick-up in exports reflecting the recovery of the global economy and rallying stocks boosted by a sense of bottoming out in corporate earnings. However, the employment and income environment as well as capital investments remained in a state of austerity and the real economy as a whole continued to recover at an extremely slow pace.

Meanwhile settlement trends on the Japanese Government Bond market were impacted by the growing alarm toward credit risk following the bankruptcy of Lehman Brothers, which has resulted primarily in the shrinking of the repurchase transaction (*repo torihiki*) market, which, in turn, has led to a sharp drop in the number and volume of settlement and continues more or less to this day.

Under such circumstances, the Company, as the nation's only central counter party for Japanese Government Bonds, has made every effort to facilitate smooth management of settlement systems through such means as building a more stable financing structure, promoting projects to update backbone systems that aim to reinforce the settlement function, as well as developing and improving the personnel infrastructure.

With respect to operational performance, the volume of novations, amid stagnating growth on the JGB market, decreased by 7.1% compared to the previous year; transaction-processing volume (one-way basis) was 2,385 by number of transactions for each business day (8.7% YoY decrease) and ¥9.1 trillion by volume (6.8% YoY decrease). However, in terms of our share in market transactions, the ratio of transactions cleared by the Company to total JGB DVP transactions on the BOJ-network system increased substantially to 46.9% by number of transactions and 44.7% by volume (42.3% YoY increase by number of transactions and 38.7% YoY increase by volume). Operating income amounted to ¥1.297 billion (5.8% YoY increase) as a result of changes to the system that raised the caps on commissions. Operating expenses amounted to ¥1.214 billion (3% YoY increase) primarily due to increases in systems-related maintenance fees, depreciation charges and personnel costs. Consequently, ordinary income and income after taxes, etc., were recorded as ¥86 million and ¥49 million, respectively. This income will be reserved in preparation for further reinforcement of the operational infrastructure.

(2) Capital investment

The total amount of capital investment made during the current year was ¥133 million, which was mainly used for development of system infrastructure to strengthen the clearing system functions and the business continuity system.

(3) Financing

No statement will be made here.

(4) Major issues to be addressed

The Company, as the core infrastructure on the market for the settlement of Japanese Government Bonds, has made every effort to improve services for participants by reinforcing operational infrastructure including its systems. However, as a result of the dramatic changes to the market environment in the aftermath of the international financial crisis of 2008, the Company, as a central counter party, is being required to play an even more crucial role. We, therefore, intend to continue our efforts to further strengthen the safety, efficiency and convenience of our clearing operation and contribute to maintaining the stability and credibility of the securities market through the enhancement of our risk management, reinforcement of the business continuity system and fortification of our financial infrastructure by expanding our participant base.

To this end, we humbly ask for and appreciate your continued support and encouragement.