

Business Report

(From: April 1, 2007
To: March 31, 2008)

I. Overview of operation

(1) Review and results of operation

The disturbance in overseas financial markets resulting from the U.S. subprime mortgage crisis has spread across global markets during the second-half of the year, having caused the deterioration of trust in the securitization market, which had enjoyed rapid expansion until such time, as well as poor financial conditions for financial institutions. It has also brought significant uncertainty to the global economic outlook. The Japanese economy also has some cause for concern, which may trigger an economic slowdown, such as the slower growth in overseas economies (especially in the U.S.), declining profits of exporters suffering from the recent sharp rise in the yen, pressures on corporate earnings stemming from soaring energy and material prices and sluggishness in consumer spending.

In such an economic climate, Japanese short-term interest rates moved in a rather stable manner, whereas long-term interest rates (i.e., yields of 10-year JGB new issues) have fluctuated in a wide range, temporarily rising as high as 1.9% in May and June and subsequently gradually retreating after the summer in synchronicity with the movements of the rates in Europe and the U.S., breaking down through 1.3% by the year-end. As a result, the trading volume in the JGB's Buy/Sell transactions market has increased accordingly.

In the midst of these circumstances, the Company ("JGBCC"), as part of the core settlement infrastructure for JGB, has continued its efforts to improve its services from the perspective of users and develop its infrastructure based on the philosophy of safety, efficiency and the convenience of settlement. The measures that we have taken include the improvement of system responsiveness, which is key to our operations, including significant reinforcement of the system lineup and restructuring of internal information systems, etc. We have also built-up and strengthened personnel from a medium-term perspective, such as the introduction of a new personnel system and new hiring, as well as providing additional training, etc., to permanent employees.

In respect to operational performance, the volume of novations increased significantly by 45.7% compared to the previous year. Both the number and value of settlements for each business day (either buying or selling) have grown steadily, amounting to 2,799 (an increase of 26.8% from the previous year) and 10.4 trillion yen (an increase of 38.3% from the previous year), respectively. As a result, operating income amounted to 1,308 million yen, which is an increase of 5.4% from the

previous year, excluding the effect from the change in the consumption tax accounting method during the current term. We tried to keep costs down in general, however, in addition to the outsourcing costs for system-related administration and increased depreciation charges, personnel costs have also increased due to the expansion of business, all of which contributed to increased costs of 1,106 million yen, an increase of 7.1% from the previous year excluding the effect of the aforementioned accounting changes. Consequently, ordinary income and income after taxes, etc., were recorded as 206 million yen and 121 million yen respectively, which will be reserved in preparation for future system upgrades.

(2) Capital Investment

The total amount of capital investment made during the current year was 127 million yen, which was mainly used for strengthening clearing system functions.

(3) Financing

No statement will be made here.

(4) Major issues to be addressed

About three years have passed since JGBCC started its clearing business, during which we have had no operational suspensions due to system failures. While focusing on reinforcement of our system infrastructure, which is a core element of our business, as well as the development and enhancement of personnel, we have successfully managed our fast-growing business. We will continue our efforts to broaden our line of products and participant base, while responding appropriately to changes in the needs of participants. We are also committed to making efforts to improve our services to make them even more user-oriented and to facilitate STP (“Straight Through Processing”) services in the market. We also intend to replace initial facilities, which will have been in operation for 5 years as of the end of the current year, in a planned manner in the future, while keeping a close eye on the stability and efficiency of system operations.

Your continued support and encouragement are greatly appreciated.