

ANNUAL REPORT

Business Report 2012 for the fiscal year ended March 31, 2013



Tokyo Financial Exchange Inc.



To Our Shareholders

First, we would like to express our sincere gratitude to our shareholders for your continued support of our operations and business.

In fiscal 2012, a decelerating trend spread throughout the global economy, reflecting the stagnant European economy due to the euro crisis and slower growth in emerging economies, including China. In the United States, however, signs of an economic recovery were seen, mainly reflecting improving consumer confidence due to a recovery in the housing market.

Although the Japanese economy remained weak against the backdrop of the decelerating global economy, it also showed signs of a recovery, attributable to restoration demand from the Great East Japan Earthquake and the emergence of policy effects. Particularly after the turn of the year, positive prospects for the economy began to emerge, reflecting the expectations for the new government's Abenomics policies after the change in administration.

Under these economic conditions, Tokyo Financial Exchange(TFX) faced a challenging operating environment.

In short-term money markets, a comprehensive monetary policy continued. The new government introduced an inflation target of 2%, while the Bank of Japan instituted an extraordinary monetary easing policy, the first arrow of Abenomics.

As a result, the annual trading volumes of Three-month Euroyen futures continued to stagnate throughout the year, declining to 4,989 thousand lots, a drop of 14.2% from the previous fiscal year.

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• In foreign exchange markets, the yen remained strong against other currencies, reflecting investors' strong sense of caution due to the sovereign-debt problems in Europe. In the second half of the fiscal year, however, the yen depreciated significantly against the backdrop of expectations for the new government's bold monetary policies.

Trading volumes of Click 365, Exchange FX Margin Contracts, remained lower during 2012 than their level a year ago—mainly due to the application of a separate self-assessment tax to over-the-counter transactions since January 2012, intensified competition over spreads, and the prolonged appreciation of the yen—but increased after the turn of the year, thanks to the weaker yen.

As a result, annual trading volumes declined significantly, by 51.9%, from the previous fiscal year, to 58,200 thousand lots.

• The stock market remained sluggish in 2012, but turned buoyant after the turn of the year, rising sharply due to the effects of the new government's Abenomics policies.

Annual trading volumes of Click Kabu 365, Exchange Equity Index Margin Contracts, increased significantly, by 142.2% year on year, to 2,524 thousand lots.

As a result, the trading volume of all products during fiscal 2012 was 65,718 thousand lots, down 48.7% from the previous fiscal year. Operating revenues fell 40.9% year on year, to 5,456 million yen.

Although operating expenses were reduced by 19.2% year on year by strongly promoting cost reductions, an operating loss of 581 million yen was posted.

Ordinary loss after adding non-operating revenues from deposits and gains on investments in government bonds amounted to 378 million yen.

In addition, as a result of posting gains on the sales of investment securities of 510 million yen from selling the Japanese government bonds TFX had held during the period to secure fund resources for new trading system development, income before income taxes came to 131 million yen, down 90.7% from the previous fiscal year, and net income stood at 55 million yen, down 93.2%.

In the current fiscal year, we will maintain our overall profits by strongly promoting comprehensive measures to increase trading volumes in the Margin Contracts business to make up for losses in the Interest Rate Futures Contracts business, which remains weak.

We will also make efforts to sustain the reliability of our market operations by smoothly upgrading our Interest Rate and Margin Contracts trading systems over the fiscal year.

We sincerely ask our shareholders for your ongoing support and cooperation.

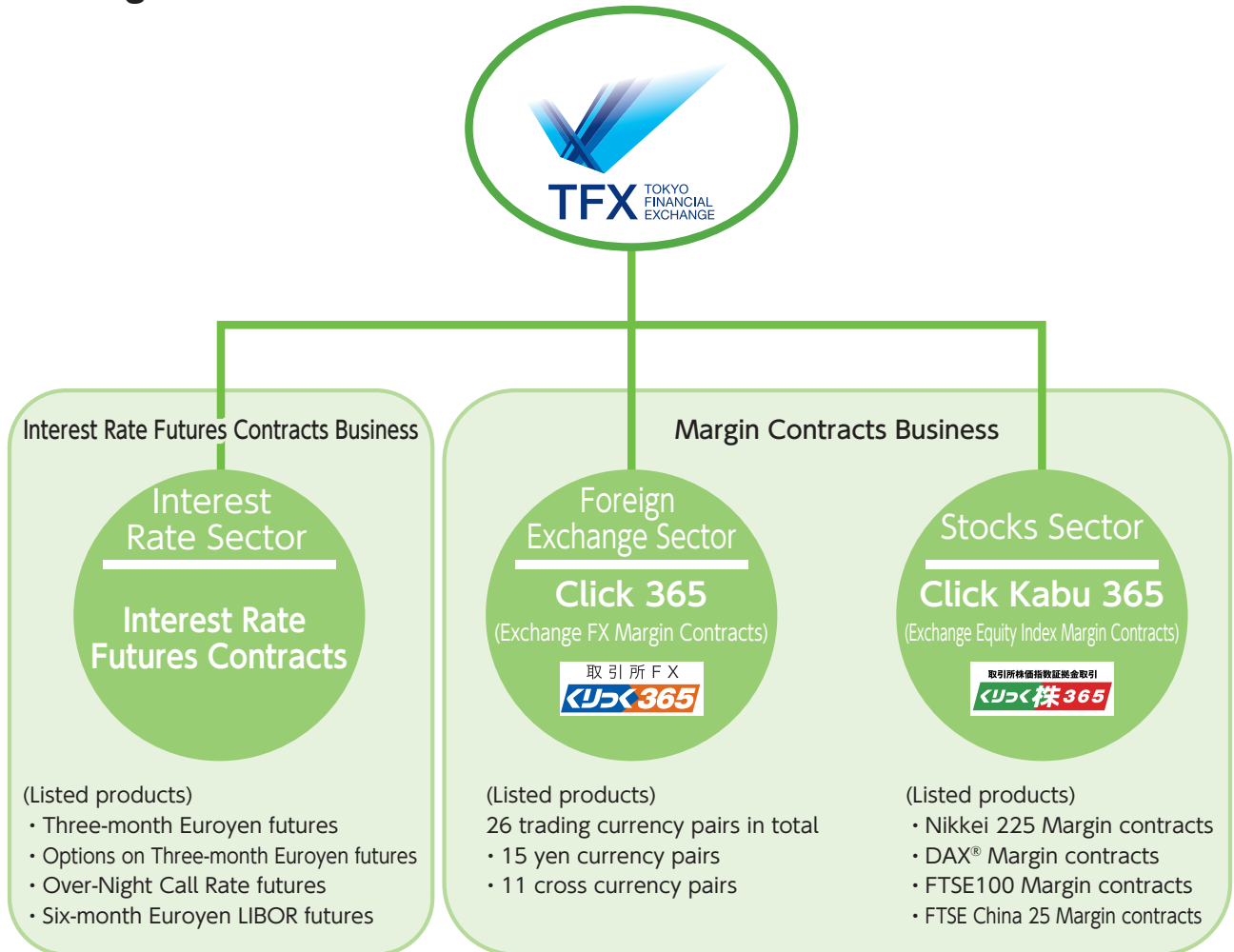
June 2013

President and CEO **Shozo Ohta**

About Tokyo Financial Exchange

Tokyo Financial Exchange (TFX) contributes to the sound development of the financial markets and the economy of Japan by developing financial instruments markets as public infrastructure related to financial instruments transactions that provide a superior degree of fairness, reliability, and convenience in accordance with the Financial Instruments and Exchange Act.

TFX, as a **comprehensive exchange for financial derivatives**, has now listed products that cover all three major sectors for financial derivatives: **interest rates**, **foreign exchange**, and **stocks**, as listed below.



Summary of Operating Results

Financial Accounts – Highlights

	FY2009	FY2010	FY2011	FY2012	Change from FY2011
Operating Revenues (million yen)	8,532	10,966	9,238	5,456	▲40.9%
Operating Profit or Loss (▲) (million yen)	2,525	3,927	1,761	▲ 581	—
Ordinary Profit or Loss (▲) (million yen)	2,770	4,232	2,086	▲ 378	—
Net Income (million yen)	1,728	2,242	807	55	▲93.2%
Net Income per Share (yen)	2,004.01	2,599.02	935.52	63.98	▲93.2%
Total Assets (million yen)	180,674	238,807	240,840	249,650	+3.7%
Net Assets (million yen)	21,433	23,244	23,447	23,071	▲1.6%
Net Assets per Share (yen)	24,843.53	26,942.55	27,178.08	26,742.06	▲1.6%

Outline of Financial Results

- Operating revenues declined 40.9% from the previous fiscal year, to 5,456 million yen, reflecting the continued severe sluggishness of Three-month Euroyen futures and a drop in trading volumes for Click 365.
- Meanwhile, operating expenses decreased 19.2% from the previous fiscal year, to 6,037 million yen, due to the strong promotion of cost reductions.
- As a result, operating loss was 581 million yen, and ordinary loss was 378 million yen.
- Net income decreased 93.2% from the previous fiscal year, to 55 million yen, as a result of posting gains on sales from selling Japanese government bonds to secure fund resources for new trading system development as extraordinary income.
- Net income per share declined 93.2% year on year, to 63.98 yen, and net assets per share decreased 1.6%, to 26,742.06 yen.
- Taking into account the significant drop in revenues and profits for the fiscal year under review, we decided to lower our dividend payments per share by 200 yen compared with the dividends for the previous fiscal year, to 300 yen, with a dividend payout ratio of 468.9%.

Market Highlights

Annual Trading Volume (Change from previous fiscal years)

Three-month Euroyen futures (in thousands)			
FY2009	FY2010	FY2011	FY2012
12,161 (▲34.6%)	11,466 (▲5.7%)	5,816 (▲49.3%)	4,989 (▲14.2%)

Click 365 (in thousands)			
FY2009	FY2010	FY2011	FY2012
80,368 (+66.3%)	123,432 (+53.6%)	121,116 (▲1.9%)	58,200 (▲51.9%)

Click Kabu 365 (in thousands)			
FY2009	FY2010	FY2011	FY2012
—	447 (—%)	1,042 (+132.8%)	2,524 (+142.2%)

Total Trading Volume of Listed Products (in thousands)			
FY2009	FY2010	FY2011	FY2012
92,549 (+36.9%)	135,346 (+46.2%)	128,019 (▲5.4%)	65,718 (▲48.7%)

Market Summary

- The trading volume of Three-month Euroyen futures fell 14.2% from the previous fiscal year, to 4,989 thousand lots, declining for the sixth consecutive term.
- The trading volume of Click 365 fell significantly, by 51.9% year on year, to 58,200 thousand lots, mainly reflecting the application of a separate self-assessment tax to over-the-counter transactions since January 2012.
- The trading volume of Click Kabu 365 increased 142.2% year on year, to 2,524 thousand lots, its highest annual trading volume since its listing in November 2010.
- As a result, the total trading volume of listed products declined 48.7% year on year, to 65,718 thousand lots.

Topics 1 | Efforts to Increase the Trading Volume of Click 365

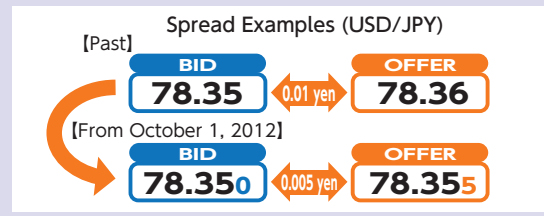
1 Reducing Tick Sizes of Major Currency Pairs to Three Decimal Places

In October 2012, TFX changed minimum tick sizes for major currency pairs (USD/JPY, EUR/JPY, AUD/JPY) of Click 365 from 0.01 (yen) to 0.005 (yen) (showing exchange rates to three decimal places).

This has enabled us to **narrow the spreads of major currency pairs** compared with the past.

Comparison of average spreads before and after the introduction of reduced tick sizes are as follows.

Minimum tick sizes of USD/JPY, EUR/JPY, and AUD/JPY changed to 0.005 yen!!



	USD/JPY		EUR/JPY		AUD/JPY	
Average spread	Before introduction 1.118	▶ March 2013 0.658	Before introduction 1.384	▶ March 2013 1.148	Before introduction 1.313	▶ March 2013 1.150

Period covered (based on trading days) : Before introduction September 3–28
March 2013..... March 1–29

* The average spreads above are the averages for all the effective data extracted from the spreads for bid/offer prices for each currency pair quoted during trading hours on trading days. The data above show the statistical data over a certain period in the past, and are not meant to show future forecasts or prospects or to guarantee them. Although TFX pays appropriate attention to the collection and processing of data, TFX provides no guarantee whatsoever (including its completeness or accuracy) as to the above data.

2 Expansion of Intermediate Brokers and Agents

To offer investors more investment opportunities, TFX has made trading more convenient by allowing investors to conduct transactions through intermediate brokers and intermediate agents, in addition to trading members who have a TFX trading membership.

One intermediate broker commenced business in December 2012, and another intermediate broker started business in May 2013.

1 Revenue Structure Improvements (Fee Structure Revision)

The Interest Rate Futures Contracts business suffered a loss for three consecutive years since the collapse of Lehman Brothers in 2008, as the trading volume of Interest Rate Futures Contracts continued to be sluggish against the backdrop of the monetary easing by the Bank of Japan.

Under these circumstances, TFX strengthened **its revenue structure, which had depended heavily on per-contract exchange fees** based on trading volumes in the past, revising its fee structure in April 2013 to stabilize its business profile.

In its new fee structure, TFX has revised its monthly exchange fee and established a system-related fee and a market information-related fee, as in other exchanges, based on the concept of the benefit principle.

TFX also plans to institute a TFX connection charge and a trading software usage fee after February 2014, when a new trading system will go into operation.

Increase in annual revenues in the Interest Rate Futures Contracts business due to the revision of fees

▶ **Approx. 160 million yen**
(Forecast for fiscal 2013)

<Introduction of the Inactive Member System>

Along with the revision of its fees, TFX recently established an Inactive Member System. Under this system, the rights and obligations of trading members or clearing members will be temporarily suspended for those trading members who have little need for trading in the current interest-rate environment in order to exempt them from the cost burden associated with the revision of fees and allow them to participate in trading when market conditions turn up in the future.

2 Increased Convenience (Lowering the Minimum Volume for Block Trades)

In July 2012, TFX lowered the minimum volume for block trades for Interest Rate Futures Contracts from 250 lots to 100 lots (from 500 lots to 100 lots for options on Three-month Euroyen futures) to better respond to investor needs.

<Minimum volume for block trades for Interest Rate Futures Contracts>

Products	Before	Now
Three-month Euroyen futures	250 lots	100 lots
Options on Three-month Euroyen futures	500 lots	100 lots
Over-Night Call Rate futures	250 lots	100 lots
Six-month Euroyen LIBOR futures	250 lots	100 lots

Topics 3 | Developing New Trading System, for Significant Cost Savings

TFX has embarked on the development of a new Margin Contracts trading system and a new Interest Rate Futures Contracts trading system, to commence operation in October 2013 and February 2014, respectively.

1 Cost Reduction

Through these new trading systems, TFX will **significantly reduce its operational costs** over five years, including its initial investments.

Total cost of both systems

Approx. **20** billion yen ▶ Halved to approx. **10** billion yen

Associated with this, break-even trading volume will also decline substantially in fiscal 2014.

2 Counterplans for System Failures

① Instant switchover to a standby system

If the system fails, TFX will avoid the suspension of trading by instantly switching over to a standby system.

② Installment of a disaster recovery site

For the Margin Contracts trading system, we **will further improve security** by installing a new disaster recovery site, so business can continue even if the data center experiences a widespread major disaster, etc.



3 Adoption of a Network Widely Used by Trading Members

TFX also expects to enhance **convenience for trading members** by selecting “arrownet”, which is widely used among TFX trading members, as a network to access all TFX listed products.

Topics 4 | Reducing Operating Costs

TFX strongly promoted reducing costs such as personnel expenses and marketing expenses (operating expenses declined 19.2% from the previous fiscal year), taking into account a loss for three consecutive years in the Interest Rate Futures Contracts business due to the sluggish trading volumes of Three-month Euroyen futures and a decline in the trading volumes of Click 365.

In particular, TFX cut personnel expenses significantly by suspending payments of summer bonuses to employees and freezing the hiring of new employees.

In addition, the human resources policy was changed to a pay-for-job system (in April 2013), so the wage system could become more clear and flexible according to employees' job duties and performances.

No directors' bonuses were paid in fiscal 2012.

Topics 5 | Active Promotion and Publicity

1 Click 365

TFX endeavored to further increase recognition of Click 365 and promote a better understanding of its product knowledge by holding various investor seminars and events throughout the year. TFX also actively waged campaigns, etc. to increase trading volumes.

In addition, to improve the information available to investors in Japan and overseas, TFX began regularly delivering market reports, and established an English homepage for Click 365 and an official Twitter account for TFX.

[Promotional activities for Click 365]

[Seminars/ events]

- Regular seminar in TFX (every other Wednesday)
- U.S. Employment Statistics Carnival! in TFX
- Seminars commemorating the implementation of reduced tick size in Click 365 (10 cities nationwide)
- Click Fair 2013 (Tokyo)
- Investment Strategy Fair at EXPO2013 (Tokyo)

[Campaigns, etc.]

- Incentive measures commemorating the implementation of reduced tick size in Click 365
- Gold Coin Present Campaign

[Publicities]

- Sponsoring Click365 Market Information, a program in Tokyo Market Wide on Tokyo MX TV
- Regular delivery of market reports
- Establishing an English homepage for Click 365
- Setting up an official Twitter account



Seminar commemorating the implementation of reduced tick size in Click 365



English homepage for Click 365
<http://www.click365.jp/en>



Official Twitter account for TFX
@tfx_pr

2 Click Kabu 365

For Click Kabu 365, trading volumes have been increasing steadily since its listing in November 2010. However, to expand the market further, TFX carried out promotion activities such as holding various seminars for first-time investors and waging campaigns, etc. for those who recently opened accounts, as described below.

[Promotional activities for Click Kabu 365]

[Seminars]

- Regular seminar in TFX (every other Wednesday)
- Click Kabu 365 Special Investment Seminar in TFX
- Instructor activities at seminars given by trading members (throughout Japan)

[Campaigns, etc.]

- Cash back campaign
- Incentives to open new accounts

[Advertising]

- Placing ads on ZAI ONLINE "Click Kabu 365 Special Site" (tie-up advertising)

3 Overseas PR

TFX is endeavoring to further increase market convenience by meeting the trading needs of market participants through communications with institutional investors and financial institutions in Japan and overseas, by giving presentations, and by participating in Expos (London, Chicago, Tokyo) and international conferences (Singapore, Tokyo) given by FIA (Futures Industry Association), etc.



FIA EXPO



FIA Japan Conference

Business Plans and Policies for Fiscal Year 2013

Basic policies

1. To ensure overall profits by continuing to promote comprehensive measures to increase trading volumes in the Margin Contracts business to make up for losses in the continuously sluggish Interest Rate Futures Contracts business.
2. To maintain the reliability of market operations by smoothly upgrading the Interest Rate and Margin Contracts trading systems.

Main measures

1. Click 365

- ① Implement measures to improve liquidity through the participation of overseas investors, and develop and launch new products.
- ② Introduce and expand automated trading.
- ③ Rebrand Click 365.
- ④ Enhance and strengthen campaigns for investors and investment information.

2. Click Kabu 365

- ① Increase trading members.
- ② Rebrand Click Kabu 365.
- ③ Enhance and strengthen campaigns for investors and investment information.

3. Interest Rate Futures Contracts

Aggressively promote new measures to increase trading volumes, taking market needs into account.

4. Upgrades to New Trading Systems, etc.

- ① Smoothly transition to new trading systems, and fully enforce measures to prevent system failures.
- ② Strengthen the development of human resources and improve the efficiency of workflows.

Financial Statements (Summary) and Market Data

► Balance Sheet (Summary)

(million yen)

Account Titles	FY2011 As of March 31, 2012	FY2012 As of March 31, 2013
(Assets)		
Current Assets	1,888	18,345
Cash and bank deposits	882	16,855
Accounts receivable-trade	614	557
Securities	90	610
Others	301	322
Non-current Assets	238,952	231,304
Tangible Fixed Assets	1,643	2,128
Buildings	456	440
Furniture and equipment	1,187	675
Construction in progress	—	1,012
Intangible Fixed Assets	2,144	3,170
Software	2,118	1,177
Software in progress	17	1,987
Others	8	4
Investment and Other Assets	18,586	1,201
Investment in securities	17,137	—
Others	1,449	1,201
Assets Held for Guarantee from Members	216,577	224,804
Total Assets	240,840	249,650

Account Titles	FY2011 As of March 31, 2012	FY2012 As of March 31, 2013
(Liabilities)		
Current Liabilities	396	1,269
Accounts payable-trade	212	193
Accounts payable-other	0	1,025
Others	183	49
Non-current Liabilities	216,995	225,309
Deposits received from members	216,577	224,804
Others	418	504
Total Liabilities	217,392	226,578
(Net Assets)		
Shareholders' Equity	23,447	23,071
Common stock	5,844	5,844
Capital surplus	6,045	6,045
Retained earnings	11,557	11,181
Default compensation reserve	3,594	3,594
Retained earnings brought forward	7,963	7,587
Total Net Assets	23,447	23,071
Total Liabilities and Net Assets	240,840	249,650

► Profit and Loss Statement (Summary)

(million yen)

Account Titles	FY2011 From April 1, 2011 to March 31, 2012	FY2012 From April 1, 2012 to March 31, 2013
Operating Revenues	9,238	5,456
Fixed amount exchange fees	52	50
Per-contract exchange fees	8,724	4,970
Income related to system equipment	218	185
Member registration fees, etc.	2	11
Income from information services	240	239
Operating Expenses	7,476	6,037
Personnel expenses	1,602	1,267
Marketing expenses	333	100
Facility-related expenses	5,275	4,454
Administrative expenses	264	215
Operating Profit or Loss (▲)	1,761	▲ 581
Non-operating Revenues	327	222
Non-operating Expenses	2	20
Ordinary Profit or Loss (▲)	2,086	▲ 378
Extraordinary Income	—	510
Extraordinary Losses	669	—
Income Before Income Taxes	1,417	131
Income taxes-current	687	16
Income taxes-deferred	▲ 77	60
Net Income	807	55

* The above statements are based on accounting standards of Japan.

► Market Data

(In lots; upper row: annual trading volume; lower row: average daily trading volume)

Products	FY2008	FY2009	FY2010	FY2011	FY2012
Three-month Euroyen futures	18,584,732 (75,856)	12,161,642 (49,843)	11,466,264 (46,801)	5,816,233 (23,643)	4,989,726 (20,366)
Options on Three-month Euroyen futures	678,197 (2,768)	19,000 (78)	0 (0)	35,547 (145)	1,500 (6)
Click 365	48,334,039 (191,139)	80,368,758 (309,111)	123,432,149 (472,920)	121,116,072 (466,391)	58,200,747 (224,754)
Click Kabu 365	— (—)	— (—)	447,814 (5,128)	1,042,524 (4,088)	2,524,870 (9,762)
All Listed Products	67,596,968 (269,763)	92,549,400 (359,031)	135,346,227 (524,849)	128,019,351 (494,471)	65,718,851 (254,896)

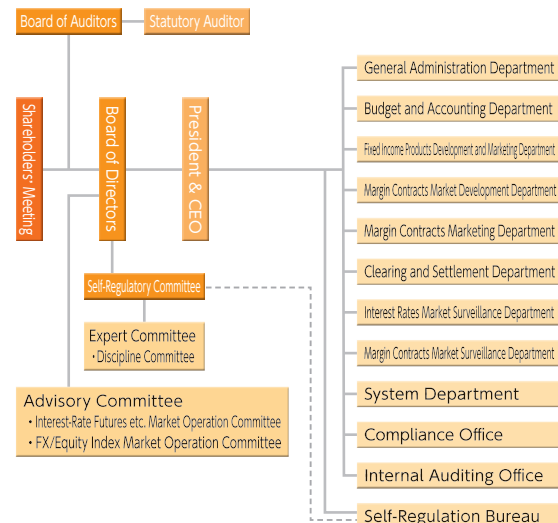
Corporate Profile

- **Company Name** Tokyo Financial Exchange Inc.
- **Founded** April 1989
(In April 2004, TFX changed from a membership organization to a stock company)
- **Address** Marunouchi Park Building 15th Floor, 2-6-1 Marunouchi, Chiyoda-ku, Tokyo, 100-6915
- **Capital** 5,844,650,000 yen
- **No. of Employees** 113
- **Fiscal term** March 31
- **Management**

President & CEO	Shozo Ohta
Managing Director	Wataru Ito
Managing Director	Takuo Hirota
Member of the Board	Takashi Imai
Member of the Board	Masahiro Okuno-Fujiwara
Member of the Board	Yoshihiko Shimizu
Member of the Board	Junko Hirakawa
Member of the Board	Shin Yoshidome
Standing Statutory Auditor	Nagao Hashimoto
Statutory Auditor	Osamu Sekine
Statutory Auditor	Toshihiko Fujie
- **No. of TFX Members**

- ① Interest Rate Futures Trading Members ... 35
(including 33 Interest Rate Futures Clearing Members)
- ② FX Margin Trading Members
(FX Margin Clearing Members) 23
(including 6 FX Market Makers)
- ③ Equity Index Margin Contracts Trading Members
(Equity Index Margin Contracts Clearing Members) ... 10
(including 2 Equity Index Market Makers)

Organizational Chart



Share Information (as of March 31, 2013)

Total No. of Shares Authorized	3,400,000
No. of Shares Issued and Outstanding	862,750
No. of Shareholders	75

■ **U R L** <http://www.tfx.co.jp/en/>

* Information without a specific date is as of June 24, 2013.

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Tokyo Financial Exchange Inc.

Marunouchi Park Building 15th Floor,
2-6-1 Marunouchi, Chiyoda-ku, Tokyo, 100-6915
TEL +81 3 4578 2400
FAX +81 3 3212 5780
<http://www.tfx.co.jp/en>



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