

The New TFX: Growth and Challenges

Aiming to be a Global Exchange



Tokyo Financial Exchange Inc.

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To Our Shareholders

We would like to take this opportunity to thank you for your continued support of our operations and business.

FY 2006 saw the Japanese economy continue to exhibit a gradual recovery, resulting from a steady increase in manufacturing and exports, although consumer spending declined slightly in the fall and winter.

In the short-term financial market, interest rates have been gradually recovering as a result of the Bank of Japan terminating its zero-interest rate policy in July 2006 and then raising interest rates again in February 2007.



Against this financial background, our efforts to improve our sales to foreign investors and enhance trading convenience have resulted in dramatic increases in transaction volumes for "Three-month Euroyen Futures."

Regarding the "Exchange FX Margin Contracts (Click 365)," we offered special workshops on the 1st anniversary of its listing and publicized the product name through the media. This effort helped us achieve significant increases in numbers of accounts, deposited margin, and transaction volume, as the FX margin market expanded thanks to the weakening Japanese yen.

As a result, the average daily transaction volume in FY 2006 increased to 147,496 for Three-month Euroyen Futures, 2.4 times higher than in the previous year, and to 61,564 for the Exchange FX Margin Contracts (Click 365), 2.7 times higher than the previous year.

This generated sales of ¥10.7 billion, ¥6.6 billion more than in the previous fiscal year. Our profit was ¥7 billion (an increase of ¥6 billion net profit from the previous FY), while the current-term net profit was ¥7.2 billion (a net increase of ¥6.4 billion net-profit.) These figures represent new records for us.

We, as a leading Japanese finance infrastructure, will strive to forecast global competition in exchanges and strive to become an internationally competitive exchange by improving the convenience that we offer and providing fair and reliable market operation.

June 2007

Jiro Saito, President & CEO

Milestones Leading to the New TFX

TFX was founded in 1989 with the full support of the financial sector. It originally set out to handle the interest-volatility risk presented by the financial liberalization and globalization. Subsequently, our business grew steadily.

The Bank of Japan's Zero-Interest Rate Policy, introduced in February 1999, and the introduction of a quantitative monetary easing policy in March 2001, however, paralyzed the Yen interest functions. This led to a significant fall in the number of transactions for our major product, Three-month Euroyen futures, and resulted in our operating in the red for six consecutive terms.

To allow us to weather this crisis, we demutualized to become a stock company in April 2004 and immediately undertook a drastic restructuring, as follows;

1. Demutualization

(1) Purpose

After short but intensive deliberations on how to eliminate our deficits and operate at a profit, in April 2004 we adopted the concept of profit-pursuit into our operations and reorganized TFX from a membership legal entity to a stock company.



The purpose of our forming a stock company was to;

1. Roll-out proactive business planning, so as to become competitive in both domestic and international markets, including efficient and profit-oriented business operations and product diversification.
2. Improve corporate governance including speedy and transparent decision-making and better accountability.
3. Stabilize our operations by diversifying fund procurement.

Over five billion yen was added to our capital when TFX demutualized to become a stock company, so as to increase our equity.

(2) Restructuring of the Organization and Raising the Awareness of the Employees

To quickly achieve our goals, including demutualization, we undertook a drastic

organizational restructuring while striving to raise employees' awareness.

Specifically, we:

1. Clarified the targets of the organization by establishing management principles.
2. Strengthened the governance system by inviting executives from outside and establishing an advisory committee.
3. Changed the salary system drastically from the seniority-based to performance-based.
4. Eliminated the divisions to make the organization more efficient, flat and flexible.
5. Built sales-oriented attitude and improved our relationships with trade participants by setting up the Market Promotion Department.
6. Improved our in-house training systems and held workshops to raise employees' awareness.
7. Completely changed the company logo and adopted "TFX" as our abbreviated name, replacing "TIFFE."

This, of course, meant abandoning our previous membership legal entity.

2. Thorough Company Downsizing

(1) Reducing Overall Personnel Costs

We reduced our total personnel costs by almost 30% by reducing board members' compensation as well as the number of management positions, introducing a performance-based salary system, eliminating certain benefits, offering performance-based bonuses and so on.

We reduced the total number of employees by approximately 10% and allocated existing employees to new business development.

(2) Streamlining of Systems Costs (Introduction of LIFFE CONNECT™ System)



Despite the financial challenge we have renewed our systems by making additional investment. The reason for this was to trim operating costs by reducing expensive systems-related costs as well as to introducing a new and flexible system with the capacity needed to satisfy global standards.

Specifically, the system introduced in April 2003 is called LIFFE CONNECT™, which

was developed by Euronext.liffe in the UK. This has given us the world's best processing capacity and excellent flexibility in terms of new product listings and connectivity with external systems.

This has also given us the ability to provide a cutting-edge infrastructure that allows us to diversify our Strategy orders, which is common in the North American and European markets.

Our systems-related expenses have been reduced by almost a half, which has greatly contributed to streamlining our cost structure.

(3) New Premises

To reduce our rental costs, we relocated to the current location (Ichibancho, Chiyoda-ku, Tokyo) in May 2003.

The new office is only about 25% smaller than the previous location, but this cut our office rental costs in half.



(4) Other Operational Costs

We have cut expenses wherever possible, including business trip/travel expenses, office supply expenses, commissions paid, advertising fees, and agent service fees.

(Reference) Development in Transaction Volume at Breakeven Point

The breakeven point in terms of average transaction volume per day was 80,000 in 1994, but this fell by 50%, to approximately 40,000, in FY 2004, the year in which TFX demutualized to become a stock company.

3. Strengthening Our Revenue Base

(1) Diversifying our Business and Entering the Retail Sector (24-Hour Trading)

It was difficult to stabilize our business operations when offering only one product - Three-month Euroyen Futures. So, we decided to join the FX Margin market and positioned it as our new core business, despite its poor reputation due to ongoing problems.



Upon the suggestion of the Financial Services Agency and Financial System Council, we decided to establish a sound market as a public exchange when the revised Financial Futures Trading Law became effective.

This gave rise to the birth of the Exchange FX Margin Contracts (Click 365).

This was our first foray into the retail sector and 24-hour trading as TFX, and presented us with a major challenge in the shape of the creation of a new business.

As we describe later in this document, our transaction volume has increased steadily, significantly exceeding our initial forecasts. As such, this has become our core product along with Three-month Euroyen Futures and has helped strengthen our revenue base.



(2) Business Development That Satisfies the Needs of Trading Members

To determine the needs of trading members swiftly and accurately and then using our findings to modify the TFX systems and institution in the future, we began holding regular “Traders Clubs” in October 2002, inviting well-known lecturers

to speak.

The purpose of this club is to give members the opportunity to exchange opinions freely and to understand their needs.

We have also expended considerable effort to determine the needs of our overseas investors and better promote our listed products by creating an opportunity to interact with foreign investors who had not had much contact with us previously, participating in overseas EXPOs, and attending an international conference in Boca Raton, USA.

We have also concentrated on improving the TFX presence and streamlining our business operations by keeping in touch with overseas financial futures exchanges, including CFTC in the USA and CSRC in China.

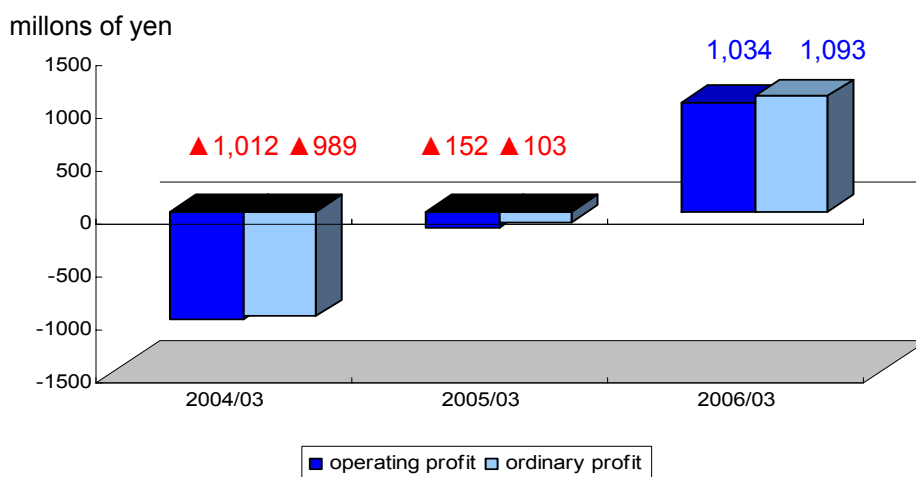
We directly collaborated and exchanged information with other major world exchanges through an MOU before any other domestic exchanges had joined. We recently focused on promoting the TFX such that it is now recognized as a leading-edge exchange in Europe, North America and Asia by being actively involved with FIA Japan and providing support to various exchanges in China.

(REF 1) Collaboration with Other Exchanges

We have agreed to form a business alliance and exchange a Memorandum of Understanding (MOU) with leading global futures exchanges including Euronext.liffe, CBOT, and other major exchanges in Asia, as listed below;

Euronext.liffe	Apr. 1996, L-T Link	Chicago Board of Trade	Mar. 2004, MOU
Singapore Exchange	Jan. 1998, MOU	Shanghai Exchange	May 2005, MOU
Sydney Futures Exchange	Mar. 2001, MOU	Tokyo Commodity Exchange	Nov. 2005, MOU
Korea Exchange	Sep. 2001, MOU	Dalian Commodity Exchange	Jun. 2006, MOU
Taiwan Futures Exchange	Jun. 2003, MOU		

(REF 2) Development of Operating Profit and Ordinary Profit



FY 2005, the second year since we demutualized to become a stock company, saw us return a profit for the first time since FY 1997 (about ¥1 billion of operating profit, turning around losses in eight consecutive terms.)

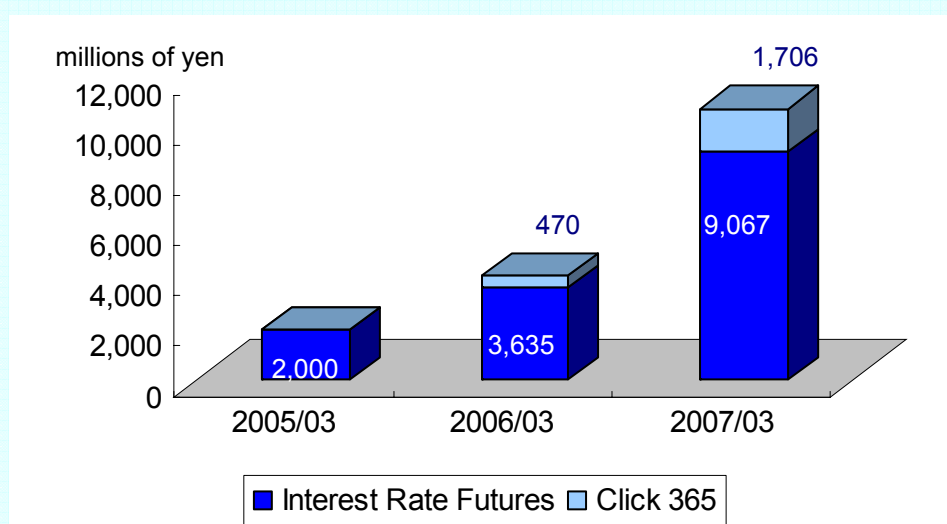
Financial Highlights

V-shape Recovery Data

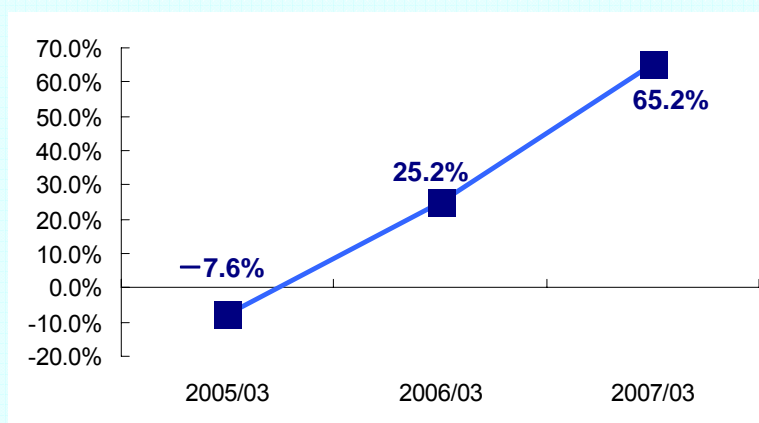
millions of yen

	2005/03	2006/03	2007/03	
Operating Revenues	2,000	4,106	10,774	162.4%
Operating Profit	▲152	1,034	7,021	578.8%
Ordinary Profit	▲103	1,093	7,166	555.1%
Current-term Net Profit	▲107	772	7,188	830.8%
Cur.-term Net Pft. per Share	▲159.77	859.62	8,296.63	865.1%
Total Assets	24,604	57,391	108,110	88.4%
Net Assets	11,947	12,719	19,717	55.0%
Net Assets per Share	10,263.64	11,158.76	19,269.90	72.7%

Development of Operating Revenue

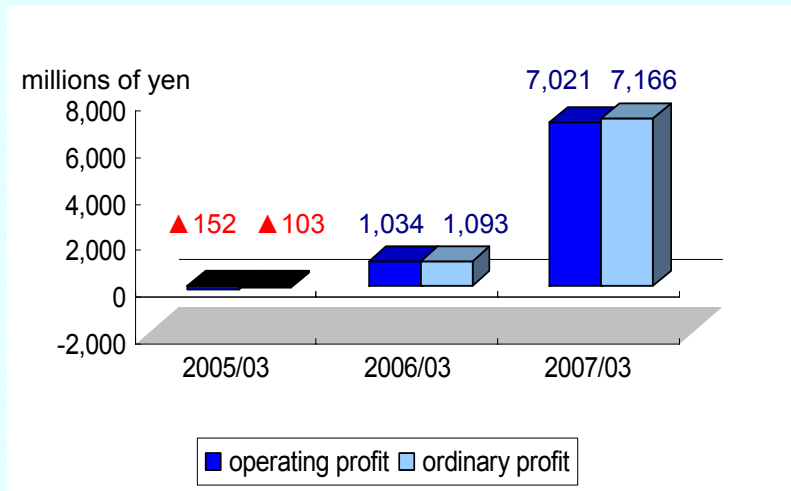


Development of Operating Margin

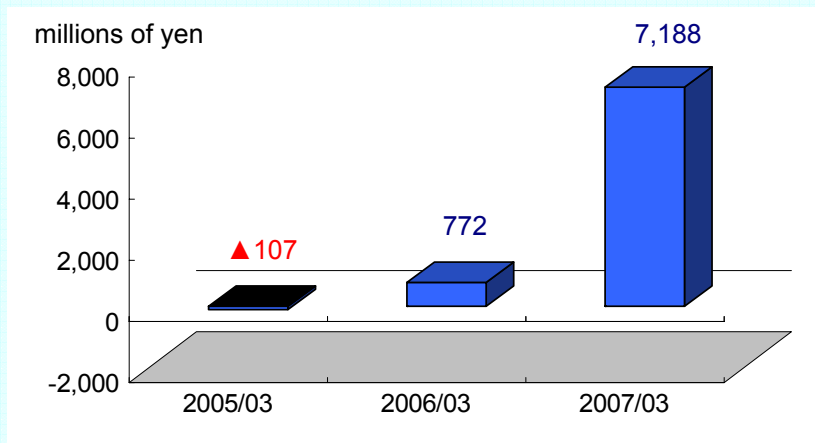


*Operating Margin = (Operating Profit / Operating Revenue) x 100

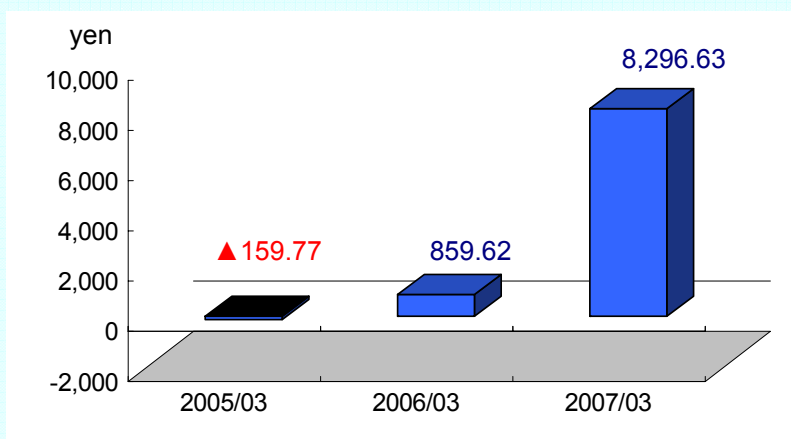
Development of Operating Profit and Ordinary Profit



Development of Current-Term Net Profit



Development of Current-Term Net Profit Per Share



Ongoing Endeavors toward Successful Growth

1. Milestones of 2006

(1) Three-month Euroyen Futures and Options on Three-month Euroyen Futures

1. Expansion of Trading Hours

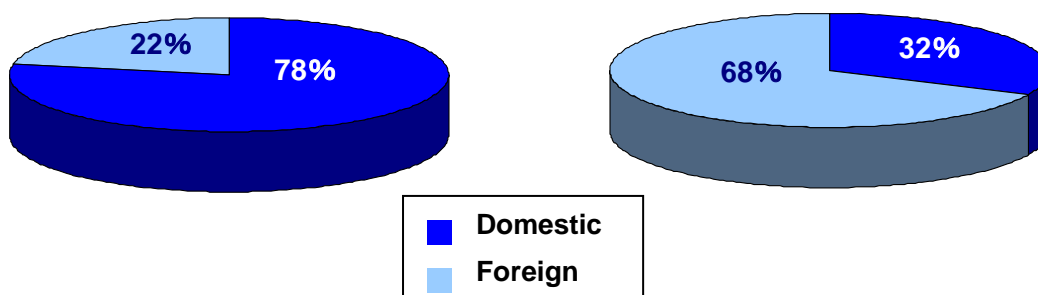
As the percentage of foreign investors trading TFX Three-month Euroyen Futures and Options on Three-month Euroyen Futures has been increasing recently, in February 2007 we decided to extend our trading hours by two hours until 8 pm JST.

This means that we are still open in the morning for the European financial markets. We improved the trading environment, making it more friendly for overseas investors to participate in the TFX market by alternating work shifts in the market surveillance group.

(REF) Traders Ratio (Domestic/Overseas Financial Institutions)

FY 1994 (Average 160,933 per Day)

FY 2006 (Average 147,496 per Day)



2. Improvement of Block Trading System

Taking a cue from the systems implemented by major overseas exchanges, TFX revised the conditions for approval of Block Trades in November 2006 so as to attain a "Fair and Reasonable Price" at the point of application, with the aim of making trading more convenient for overseas investors.

3. Introduction of Invalidation of Contracts

Internationally recognized rules of invalidation of contracts have been introduced for the first time ever in a Japanese exchange. This means that a contract that is not

intended to be finalized could be invalidated in the event of a failure in the operation of the Exchange system.

4. Measures for Vitalizing Option Market

To improve the convenience of the options on the Three-month Euroyen futures market and increase trading opportunities, we reintroduced the market-maker system in January 2007. This means that selling and buying orders are always indicated within a certain price range to make it possible for investors to actively participate in option trading.

To respond to the needs of customers from all over the world, in the meantime, TFX reduced the exchange fee for option per contract unit by 50% to ¥50.

5. Improved Clearing Function

Along with improving trading convenience, we have also made efforts to improve the clearing function.

Based on current conditions, whereby trading members have to take on more administrative work, including open interest management and give-up registration, we revised our system mechanism so as to reduce such administrative work.

6. Approach to Overseas Investors

With a growing number of foreign investors participating in trading, there is a strong need to introduce state of the art technology and global standards.

We established the International Business Office in April 2006 to form business alliance with overseas exchanges, improve the international

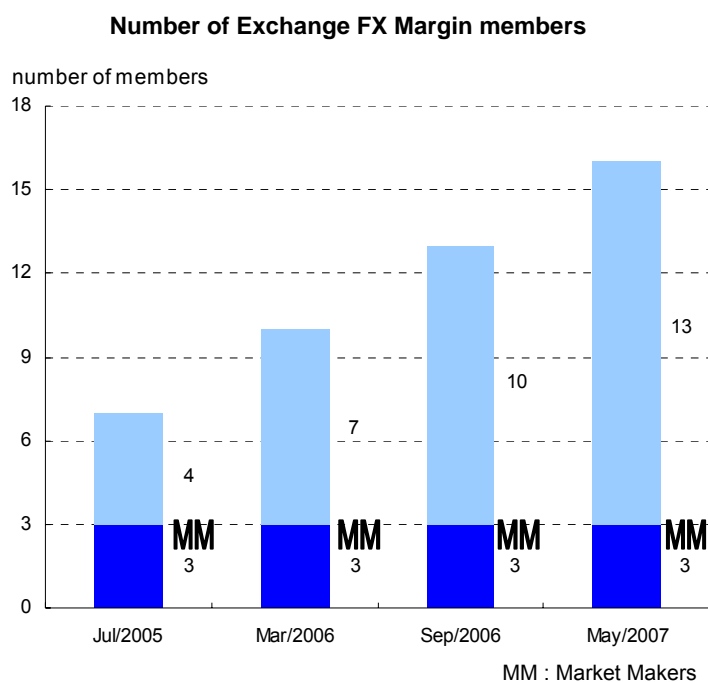
presence of TFX, and understand the needs of foreign investors.



(2) Milestones in the Exchange FX Margin Contracts(Click 365) in Its Second Year

FY 2006 brought a major breakthrough for Exchange FX Margin Contracts (Click 365) - its second year of listing.

As of the end of March, the number of accounts stood at 26,399 (up 211% compared to the previous FY), deposits stood at ¥48.9 billion (an increase of 203% compared to the previous FY) and the average daily trading volume was 61,564 (an increase of 169% compared to the previous FY.)



The Exchange FX Margin Contracts (Click 365) has been growing rapidly in terms of number of transactions, at double the pace of that of the retail FX. This is a result of the excellent merchantability, including our new emphasis on public exchange trades, tax benefits, the narrow price range, and a single-price swap point. In addition, our campaign marking the 1st anniversary of our listing, workshops in major cities (Sapporo, Sendai, Nagoya, Osaka, Hiroshima and others), and other PR activities in different media helped us achieve this.



2. Further Efforts

(1) Sales Promotion Aimed at Domestic Investors

In April 2007, we established our Promotion Department, separate from the Market Promotion Department, to enhance our sales system.

We are fully committed to further promoting the TFX presence and incorporating the

opinions and needs of our investors into our business operations.

1 Three-month Euroyen Futures

We will encourage domestic investors to participate in the Three-month Euroyen Futures market.

We will provide useful and practical information by distributing materials describing the trading methods employed by the Three-month Euroyen Futures market as well as giving trading examples, and also offer small workshops for different types of investors.

2 Exchange FX Margin Contracts (Click 365)



We will continue to offer our well-received workshops in major cities. We will also concentrate on expanding our market and increasing our name recognition by offering workshops in smaller cities and/or more often.

We are committed to making the extra effort needed to gaining the further support of investors by ensuring that they have an accurate understanding of the Exchange FX Margin Contracts (Click 365) excellent merchantability. We will also strive to establish this product as the de-facto standard in FX Margin Trading.

(2) Proactive Approach to Foreign Investors

1 Introduction of Direct Access



Currently, foreign financial institutions already account for 50% of transactions in Three-month Euroyen Futures. Providing foreign investors better access to the market is the most effective means of improving its liquidity.

To achieve this goal, we are planning to upgrade LIFFE CONNECT™ as described below, as well as introduce a new feature that enables foreign investors to submit orders directly to TFX (direct access.)

As a part of our preparations for this, we obtained a No-Action Letter from the US CFTC in March 2007 that allows investors in the US to submit orders directly to TFX system.

With increasingly intense competition between exchanges, we are committed to take every possible action to become the choice of the world's investors by offering excellent reliability and convenience.

2 Overseas IR and Workshops

To publicize TFX to improve its presence, we are planning to offer IR workshops in London and New York.



(3) System Enhancements (Becoming the World's Fastest)

1 System for Interest Rate futures

With a scheduled completion date of April 2008, we will upgrade LIFFE CONNECT™, introduced in April 2003, to the latest version at a cost of approximately ¥10 billion.

Along with this upgrade, we will further improve convenience for our trading members, such as by introducing a standard system that has been adapted to handle overseas interest futures markets (by, for example, supporting pro rata allocation method.)

In preparation for the major increase in Three-month Euroyen Futures orders and the number of contracts, we will enhance our network and core system performance to accelerate transaction speeds to the millisecond range (the world's fastest) and be capable of processing six million orders per day. Furthermore, we will invoke a Business Continuity Plan (BCP) to ensure that an impeccable system infrastructure is created.

2 System for Exchange FX Margin Contracts (Click 365)

Given that we expect transaction volumes and the number of trade participants in the Exchange FX Margin Contracts (Click 365) to keep increasing, we will introduce a

new system at a cost of about ¥8.5 billion around the summer of 2008. This will enhance our processing capacity significantly and provide us with a high level of robustness and flexibility.

(4) Response to the Enforcement of the Financial Instruments and Exchange Law

1 To the Next Stage

In response to the enforcement of the Financial Instruments and Exchange Law in September 2007, the TFX will transform from a "Financial Futures Exchange" that handles only financial futures, into a more comprehensive "Financial Exchange" that handles any kind of financial products, including securities and equities.

We will respond to the needs of investors and actively develop more attractive products.

To reflect the expansion in the range of our listed products, we changed our Japanese company name from the "Tokyo International Financial Futures Exchange" to the "Tokyo Financial Exchange."

Under the new law, we will continue to contribute the growth of Japanese financial markets as a leading exchange.

2 Establishment of a Self-Regulating Committee

After the enforcement of the Financial Instruments and Exchange Law, we will establish a self-regulating committee that will makes decisions in self-regulating tasks in the exchange operation. This is to ensure that the best system is provided while enhancing fair, transparent and reliable trades.



About TFX

1. About TFX

Company Name: Tokyo Financial Exchange Inc.

Founded: April 1989

Address: 21 Ichiban-cho, Chiyoda-ku, Tokyo 102-0082

Capital: ¥5,844,650,000

No. of Employees: 76 (as of March 31, 2007)

Fiscal Term: March 31

Management: President & CEO

(As of March 31, 2007)

Senior Managing Director & COO

Managing Director

Member of the Board

Member of the Board

Member of the Board

Member of the Board

Standing Statutory Auditor

Statutory Auditor

Statutory Auditor

Jiro Saito

Shozo Ohta

Takashi Murakami

Keimei Kaizuka

Sohei Sasaki

Shuntaro Higashi

Yoneo Sakai

Yoshio Hayakawa

Koji Kaihotsu

Seiji Nakata

No. of TFX Members: 46 (Interest Rate Futures Clearing Members)

6 (Interest Rate Futures Trading Members)

As of March 31, 2007

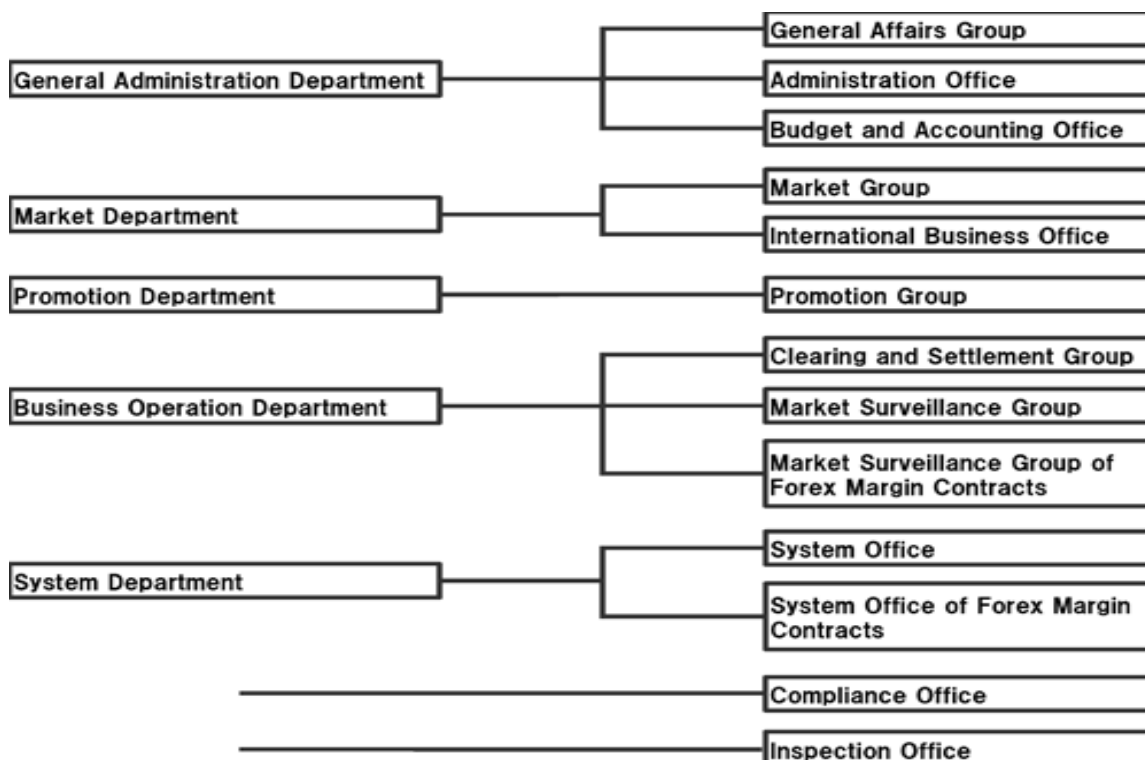
16 (FX Margin Trading and Clearing Members)

As of May 7, 2007

* Two of the above companies are also Interest-rate etc. Futures Trading members

URL: <http://www.tfx.co.jp/en/>

2. Organizational Chart As of April 1, 2007





Tokyo Financial Exchange Inc.