

Liquidity

Annual Report **2004**

For the fiscal year ended March 31, 2004

Opportunity

Integrity

Tokyo, where the world trades

ABOUT TSE

Profile

Tokyo Stock Exchange, Inc. (TSE) was founded in 1949 and has functioned since then as Japan's "central market," playing an important role in the growth and expansion of the nation's economy. In 2003, TSE had an overwhelming 95% share of the total value of all trading on domestic stock exchanges.

TSE had a market value of ¥363 trillion as of the end of March 2004 and trading value of ¥291 trillion for FY 2003 (year ended March 31, 2004), making it one of the leading stock exchanges in the world in terms of both size and liquidity.

In addition to its core Japanese equity market, TSE provides markets for derivatives products such as long-term Japanese government bond futures and TOPIX futures. Furthermore, TSE offers not only market services, but also settlement and clearing services, market information services, and a wide range of other stock exchange business services.

TSE has led global markets in taking steps toward computerized and automated trading by introducing new systems, which provide unrivaled levels of reliability, capacity, and speed.

TSE makes the utmost effort to maintain abundant liquidity and a high level of integrity, and to provide market participants from Japan and overseas with attractive investment opportunities.

TSE, which became a stock corporation on November 1, 2001, will continue to fortify its earnings capacity and raise the value of its business with the objective of listing in FY 2005.

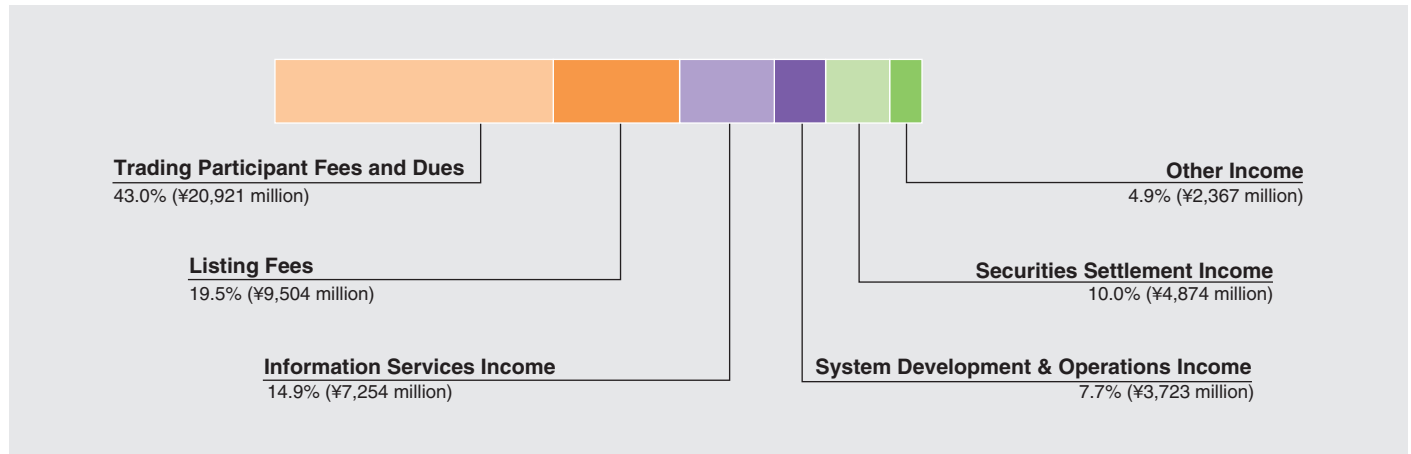
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Disclaimer

Descriptions concerning future plans and performance in this annual report are based on the current economic situation and business environment and are subject to change depending upon various factors including, but not limited to, future trends of the Japanese economy and securities markets, changes in legal and other systems, and development of new services and information technology.

Overview of Operating Revenues



Trading Participant Fees and Dues

Trading participant fees and dues are comprised of “fixed rate fees” charged to securities firms and other trading participants in accordance with their capitalization, and “variable rate fees” charged according to the trading value of stocks and the trading value or volume of other market instruments. Of these fees, the “variable rate fees” are greatly impacted by market trends.

Listing Fees

Listing fees are comprised of “listing examination fees” received from newly listing applicant companies upon their application for listing, “initial listing fees” from newly listed companies for their first listing, “fees for issuing new shares” for company capital increases, and “annual listing fees” based on company market value. Of these fees, the “initial listing fees” and “fees for issuing new shares” are heavily influenced by conditions in the primary markets, such as the level of financing.

Information Services Income

Information services income is derived from fees for various market information services provided to information vendors and others.

System Development & Operations Income

System development and operations income is comprised of fees received for development and management provided by Tosho System Service Co., Ltd.

Securities Settlement Income

Securities settlement income is comprised of fees for trade guarantee and other services provided by Japan Securities Clearing Corporation and securities custody and delivery services provided by Japan Securities Settlement and Custody, Inc.

Other Income

Other income is derived mainly from activities such as leasing and maintenance of trading terminals to trading participants.

FINANCIAL HIGHLIGHTS

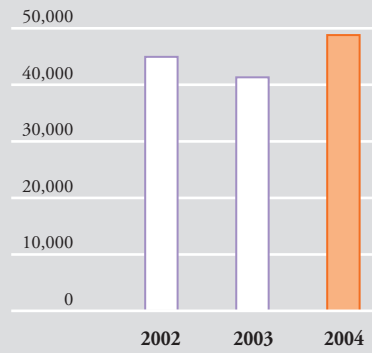
Tokyo Stock Exchange, Inc. and Consolidated Subsidiaries
For years ended March 31, 2002, 2003, and 2004

Financial Data	¥ mils. except per share and ratio data			U.S.\$ thous. except per share and ratio data
	2002 (unaudited)	2003	2004	2004
FOR THE YEAR				
Operating revenues	¥ 44,735	¥ 41,065	¥ 48,643	\$ 460,242
Operating profit	1,753	2,460	8,206	77,642
Net income before income taxes and minority interests	1,960	2,859	8,082	76,469
Net income	844	3,277	5,031	47,602
AT YEAR END				
Current assets	¥ 1,319,987	¥ 1,159,208	¥ 1,504,944	\$ 14,239,228
Non-current assets	60,160	59,251	63,571	601,485
Total assets	1,380,147	1,218,459	1,568,515	14,840,713
Current liabilities	¥ 1,303,977	¥ 1,138,914	¥ 1,484,243	\$ 14,043,363
Non-current liabilities	10,951	10,657	10,854	102,696
Minority interests	—	392	481	4,551
Total shareholders' equity	65,219	68,496	72,937	690,103
Total liabilities and shareholders' equity	1,380,147	1,218,459	1,568,515	14,840,713
PER SHARE DATA				
EPS	¥ 366.83	¥ 1,424.85	¥ 2,305.44	\$ 21.81
BPS*	20,804.61	22,229.52	24,360.37	230.49
KEY FINANCIAL RATIO				
ROE*	1.8%	6.6%	9.4%	
*Calculated excluding the default compensation reserve fund				
Market Data				
FOR THE YEAR				
Domestic equities trading volume (mils. share)	210,910	216,298	355,238	
Domestic equities trading value (bils.)	¥ 201,189	¥ 181,885	¥ 290,729	\$ 2,751
Stock index futures trading value (bils.)	63,955	68,725	97,859	926
JGB futures trading volume (bils.)	700,802	590,559	693,785	6,564
AT YEAR END				
Number of listed companies	2,112	2,132	2,205	
Market capitalization (bils.)	¥ 305,797	¥ 232,862	¥ 369,798	\$ 3,499
Index (TOPIX)	1,060.19	788.00	1,179.23	

*Rate of U.S.\$1=¥105.69 used for conversion

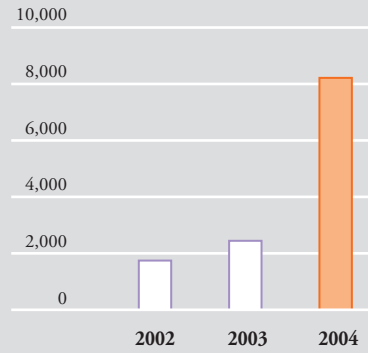
Operating revenues

¥ mils.



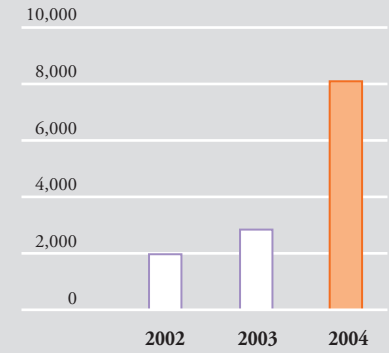
Operating profit

¥ mils.



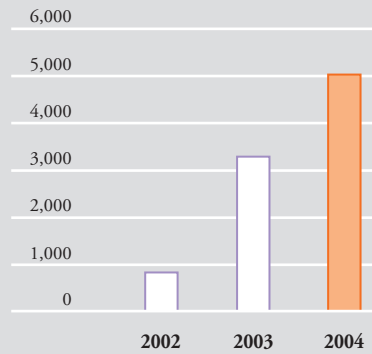
Net income before income taxes and minority interests

¥ mils.



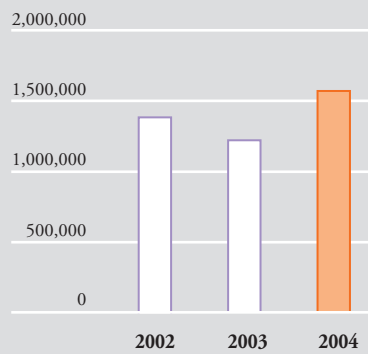
Net income

¥ mils.



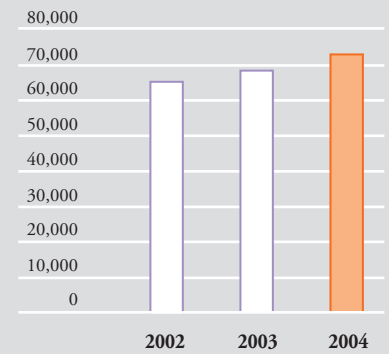
Total assets

¥ mils.



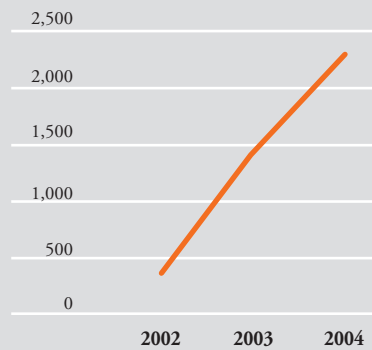
Total shareholders' equity

¥ mils.



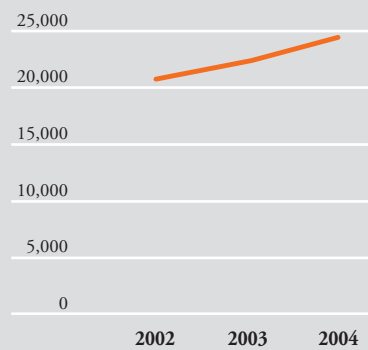
EPS

Yen



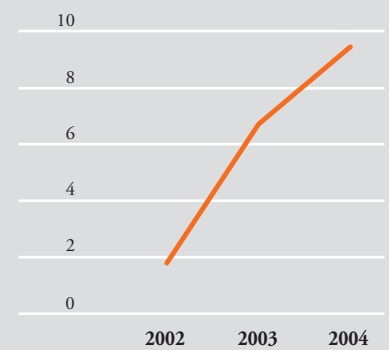
BPS

Yen



ROE

%



Swift action in a time of rapid change



Profile: President & CEO

Mr. Takuo Tsurushima was named president and CEO of TSE in April 2004. Prior to his appointment he served as president of Japan Securities Clearing Corporation from June 2002 to June 2003. Mr. Tsurushima joined TSE in 1961 and over the course of his career at TSE he held the positions of general administration director, executive auditor, managing director, senior managing director, and deputy president.

Cost reductions combined with a recovery in the markets produced large increases in profits.

During this fiscal year (FY 2003), our operating revenues rose by ¥7.5 billion to ¥48.6 billion, benefiting from a ¥3.5 billion increase in trading participant fees and dues. These strong results were due primarily to a recovery in the market as evidenced by an increase in average daily trading value to ¥1,172.2 billion, the highest level since fiscal year 1989.

At the same time, direct expenses grew as outsourcing business costs rose in line with the increase in trading activities. However, we were able to restrict the rise in operating expenses to ¥40.4 billion (a ¥1.8 billion year-on-year increase) through stringent cost reductions.

Consequently, we recorded an operating profit of ¥8.2 billion and a net income of ¥5.0 billion (a 53.5% year-on-year increase).

Taking into consideration our increased earnings and our level of internal reserves, we have decided to pay a dividend of ¥300 per share.

Continuing to strive toward a market known for its integrity and abundant liquidity.

As the Japanese economy continues to progress along a path of structural reform, the call for a shift from indirect financing to direct financing is growing. In response, TSE is moving to create a market that can satisfy society's changing needs.

Looking overseas, as the competition among stock markets has grown even stronger, it is extremely important to our future growth that we achieve our goals of maintaining our stature as one of the leading global markets and establishing TSE as the central market in Asia.

In this era of drastic change, our principal response to these issues, both in and outside of Japan, is to create a market that has “abundant liquidity” and a “high level of integrity,” and we continue to rapidly implement various appropriate measures.

Company-wide efforts to prepare for our listing in FY 2005.

Needless to say, the public listing of Tokyo Stock Exchange is extremely important for us. The recovery in market conditions during fiscal year 2003 allowed us to record a large increase in earnings. However, in fiscal year 2004, the year before our listing, we anticipate that large-scale investments in systems will have a negative impact on our earnings.

Nonetheless, we will promote structural reforms designed to increase our revenue sources and strengthen our financial base, while we continue to work to secure an appropriate level of profits so as to meet and exceed listing requirements.

July 2004



Takuo Tsurushima
President & CEO

INTERVIEW WITH THE PRESIDENT

Q1 Please tell us about what kind of issues TSE is facing and your basic strategy for dealing with those issues.



A1 Currently, TSE faces three main issues. First, we are striving to create a market that can deal with the fundamental social shift in the economy from indirect financing to direct financing. Second, as competition among markets is intensifying on a global scale, we are working to quickly establish our position as the central market of Asia. Third, we are strengthening our earnings base with a view toward our listing in fiscal year 2005.

Our principal response to these issues is to create a market that provides abundant liquidity and a high level of integrity.

The first of our concrete measures toward achieving these goals is to increase the investment appeal of listed products. Specifically, we will implement measures that will help us to realize a market that lists products that truly satisfy investor demands. TSE actively seeks to identify and list attractive, high-quality companies with strong growth potential. Furthermore, we seek to increase the investment appeal of our listed companies by encouraging them to improve their corporate governance and disclosure practices.

The second set of measures involves establishing a fair and reliable market infrastructure. In particular, we seek to strengthen our system infrastructure to better manage high levels of liquidity. Furthermore, by maximizing market surveillance, participant registration

Our principal response to these issues is to create a market that provides abundant liquidity and a high level of integrity.

and inspection, and other self-regulatory functions, we will ensure the fairness and reliability of our market and the stability and reliability of our settlement infrastructure.

Thirdly, we will encourage the participation of a broad range of investors by actively taking steps to educate the public and deepen its understanding of the securities markets and listed products. In April of this year, we began the “Tokyo Stock Exchange Academy.” We expect this Academy to provide easy-to-understand and useful information through the involvement of specialists in economics and other academics. We hope that this Academy will serve as a centering point in continuing to provide a diverse curriculum to investors, students, and educators.

By increasing the investment appeal of listed products, facilitating a fair and reliable market infrastructure, deepening the public’s understanding of securities investment, and other efforts, we hope to raise the stock market’s functionality and reliability, and to establish a foundation that will make investment in the Tokyo markets more attractive to both domestic and overseas investors.

Q2 You referred to “abundant liquidity” and that seems to be a key phrase. How do you currently view the liquidity situation?

A2 During fiscal year 2003, TSE benefited from a general recovery in earnings among Japanese companies, and the TOPIX index rose by roughly 50% during the year. Average daily trading value, which stood at only about ¥700 billion during the initial months of the term (April and May), reached ¥1,170 billion for the whole of fiscal year 2003. In particular, during March 2004, we saw the second-highest average daily trading value (¥1,695 billion) in TSE’s 50-year history, the highest recorded since February 1989 during the days of the “bubble economy.”

Special mention should be made of the activities of individual investors. In recent years, aside from trading for securities firms’ own accounts, the most influential investor group in the market has been foreign investors, whose share of brokerage trading has been nearly 40%. However, during fiscal year 2003, the share of trading by individual investors rose substantially, along with general trading activities in the market overall, and rivaled the level of foreign investors.

One reason for this increase was the rapid growth of online trading by individuals. TSE recognizes this trend and we want to maintain it. Thus, we hope to foster a deeper understanding of securities investments, and in particular, to encourage individual investors to make long term investments in equities, in an effort to broaden the individual investor base. At the same time, the increased trading activity and the burden upon our system infrastructure has created other critical issues for us. In July 2003, TSE decided to drastically increase the capacity of its trading and market information systems,



During March 2004, we saw the second-highest average daily trading value in TSE’s 50-year history.

which are our core systems, as the demands on processing capacity are growing even faster than the actual value of trading. This is due to both the rapid increase in online trading by individual investors and the automated programs associated with basket and arbitrage trading employed by institutional investors. As Japan’s central market and as a major global exchange, TSE is expected to provide a stable trading environment. For this reason, it is vital for us to make investments in system infrastructure that will provide for stable management of the markets, which will in turn lead both domestic and overseas investors to place their trust in TSE. As such, we have to accurately assess market conditions and take appropriate steps to rectify any potential problems.

Q3

Some observers might say that pursuing profit as a business corporation while at the same time functioning as part of the public infrastructure creates a contradiction. How do you view this situation?

A3 We do not believe that the pursuit of profitability and the provision of public infrastructure are contradictory goals. The self-regulatory functions of TSE are necessary to ensure the quality of the market. We believe that unless there is a high level of integrity in this market, investors will not choose TSE as a place to invest. Therefore, we are convinced that both our regulatory functions and our responsibilities as a public institution are indispensable in pursuing profitability as a commercial enterprise.

TSE allocates roughly one-third of its staff to compliance in order to secure the fairness and reliability of our market, and we are expanding its automated systems in order to manage our self-regulatory operations more efficiently. For example, with regard to market surveillance activities, which we carry out in order to identify fraudulent trading, we are continually bringing advanced systems online to effectively and efficiently analyze the large volumes of data used in the examination of fraudulently traded stocks. Among all exchanges in Japan, only TSE has devoted so much in terms of human resources and investments in automation to ensure the integrity of its exchange.

As a corporation we must secure stable profitability, but we must also strike a balance between our public responsibility and our profitability, and we have taken various measures to do so. We strengthened both our board of directors and board of auditors, and we established an internal auditing office, when we became a stock corporation in November 2001. We are particularly focused on maintaining the independence of our self-regulatory operations, and have therefore established an advisory committee to prevent any deterioration in their ability to function.

We also recognize that our self-regulatory function has become even more important with the current shift in personal financial assets from savings to investments, so in June of this year we implemented measures to increase the independence of our self-regulatory operations. We have clarified our self-regulatory function by stating in our Articles of Incorporation that “the Exchange shall conduct business with the purpose of securing the fairness and efficiency of securities trading in the public interest and for the protection of investors.” We also strengthened the function of our Self-Regulation Advisory Committee by requiring that more than half of its members be appointees from non-trading participants. In addition, we have established the new position of Chief Regulatory Officer (CRO) to further delineate the responsibilities for these self-regulatory operations.

We believe that unless there is a high level of integrity in this market, investors will not choose TSE as a place to invest.

We believe that by strengthening the independence of our corporate governance and using that as a base, we can not only strengthen our self-regulatory function, but also raise the level of fairness and integrity of our markets.

Q4

Against the backdrop of intensifying global competition among markets, can you tell us about TSE's global strategy, particularly with regard to Asia?

TSE, as a global market leader, will continue to take the initiative in fostering Asian market cooperation.



A4 Looking at global markets in terms of both geography and time zones, the world can be divided into three major areas: America, Europe, and Asia. One of the major goals of TSE is to secure its position as one of the leading markets in Asia, and thereby act as a major financial market across the three global zones.

While we see intensifying competition between global markets, we seek to encourage a healthy sense of competition within Asia, including various types of mutual cooperation designed to leverage the strengths of different markets in the region, in an effort to promote a harmonious co-existence with these other markets.

Following this basic philosophy, we have been working to develop a network linking TSE with other exchanges in Asia. First, in terms of bilateral relationships, we have established cooperative agreements with nearly all the Asian bourses, and have promoted the exchange of both people and information. We have also worked as an

organizer for the East Asian and Oceanian Stock Exchanges Federation (EAOSEF) and promoted cooperative research and the exchange of information between member bourses. We have also begun an exchange of information with clearing organizations in Asia.

Building upon this ongoing cooperation, we are now considering more concrete alliances with the Asian exchanges. Specifically, we have started feasibility studies on possible connections between other Asian markets and TSE.

Because each capital market in Asia has its own unique conditions, we believe it is vital to create networks that respond to those individual conditions, and equally vital to raise the functionality of all the capital markets throughout Asia. TSE, as a global market leader, will continue to take the initiative in fostering Asian market cooperation.

BOARD OF DIRECTORS AND CORPORATE AUDITORS

As of June 23, 2004

Directors



Takuo Tsurushima

President & CEO



Sadao Yoshino

Senior Managing Director & CFO
TSE Listing Planning



Yasuo Tobiyama

Managing Director & Executive Officer
Corporate Planning, Personnel, and New
Listing Services



Eisuke Nagatomo

Managing Director & Executive Officer
Listing (excluding New Listing Services)



Tomio Amano

Managing Director & Executive Officer
Cash Market, Derivatives Market, and
System Development for Trading

Non-Executive Directors



Yasuo Kuramoto

Vice Chairman
Fidelity Investments Japan Limited



Hitoshi Maeda

Professor Emeritus
Gakushuin University



Hiroshi Okuda

Chairman
Toyota Motor Corporation



Nobuo Tateisi

Executive Adviser
OMRON Corporation



Junichi Ujiie

Chairman
Nomura Holdings, Inc.



Yotaro Yasu

President
Jujiya Securities Co., Ltd.

Corporate Auditors

Standing Statutory Corporate Auditors



Hiroshi Nakajima



Yuji Matsumoto

Non-Standing Statutory Corporate Auditors



Seiichi Kato
Chairman
OKASAN HOLDINGS, INC.



Koji Shindo (Statutory Auditor)
Lawyer and Professor Emeritus
University of Tokyo

Executive Officers



Toshitsugu Shimizu
Finance, Clearing & Settlement, and
International Affairs



Tomoyoshi Uranishi
General Affairs, Information Services, and
Special Mission



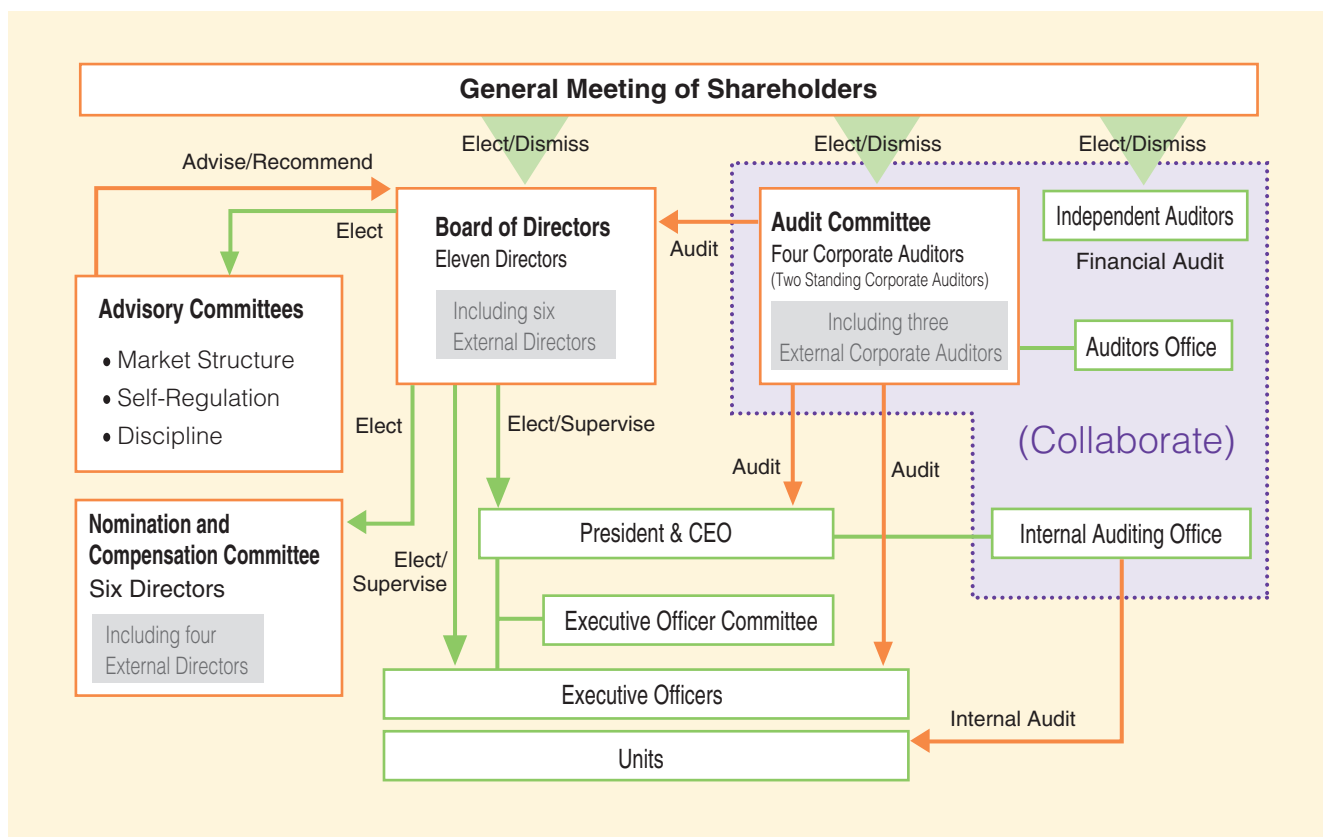
Hiroyuki Iwakuma
Chief Regulatory Officer
Self Regulation

CORPORATE GOVERNANCE

Basic Concepts

TSE, as Japan's central market, strives to strike a balance between its public responsibility in providing financial infrastructure and its own profitability. TSE's basic corporate governance philosophy seeks to reflect a wide variety of opinions in its management and market operations; to increase the transparency of its

management by clarifying the authorities and responsibilities of its corporate divisions, and increase their accountability; and to ensure reliable operations as a self-regulatory organization, thereby gaining investor and shareholder confidence.



System of Corporate Auditors

TSE currently employs several types of corporate auditors. The Audit Committee consists of four individuals (including two standing statutory corporate auditors), of which three are external corporate auditors. Of the three external corporate auditors, one is a director of a TSE trading participant, another is a lawyer, and the last — who is also a standing statutory corporate auditor — was previously employed at the Bank of Japan (Japan's Central Bank). The Audit Committee meetings are held once a month. Furthermore, TSE has staff members in its auditor's

office to assist the corporate auditors. The corporate auditors conduct audits in line with the compliance aspects of TSE's operations through activities that include, but are not limited to, attending important meetings, such as the Board of Directors meetings and the Executive Officer meetings. They also coordinate their efforts with the independent statutory auditors, the internal auditing team, and the corporate auditors of TSE subsidiaries to improve the overall efficacy of TSE's auditing functions.

Executive Officer System and Board of Directors

TSE introduced an executive officer system to streamline the decision making process and to clarify the authority and responsibility of its operational and administrative functions. The Board of Directors is responsible for the actual management of TSE, and in order to increase the transparency and accountability of management, to raise the legitimacy of operations, and to fortify the board's supervisory function, six of the eleven directors are external board members. Of the six external board

members, two directors are TSE trading participants, two are senior executives of companies listed on TSE, one is a senior executive at an asset management company, and one is a lawyer. All board members have exceptional expertise in their respective fields, allowing TSE's management to assimilate various external opinions. The Board of Directors decides the basic policies of management and other important issues, and supervises business operations in accordance with corporate policies.

Nomination and Compensation Committee

The Board of Directors has established a sub-committee called the "Nomination and Compensation Committee," which is comprised of six directors, of whom four are external board members. This committee is responsible for determining nominations and compensation of the directors, and submits proposals to the Board of Directors after extensive discussions. Total amount of compensation

paid to directors and corporate auditors during FY 2003 was ¥215 million: ¥136 million (which includes retirement allowances) to internal directors, ¥36 million to external directors, and ¥43 million to corporate auditors. Compensation for audit certification was ¥13 million.

Advisory Committees

To represent a wide range of opinions in the operations of TSE, and to advise the Board of Directors, TSE has established the Market Structure Committee, the Self-Regulation Committee, and the Discipline Committee. These advisory committees are composed of market participants and third parties. The Self-Regulation

Committee, which discusses transaction investigations and assessment issues, met once during FY 2003. The Discipline Committee, which deliberates issues associated with disciplinary actions and penalties on market violations, met twice during FY 2003.

President's Advisory Committee

To exchange a wide range of opinions regarding TSE and the stock market in general, the "President's Advisory Committee" was established as the President's private discussion panel. This committee is comprised of

representatives from listed companies, institutional investors, and persons from academic circles. The committee met twice during FY 2003.

Internal Auditing Office

In an effort to prevent violations of statutory laws, the Constitution and Business Regulations of TSE and its by-laws, and TSE's employee code of conduct, a system of checks and controls was constructed within each respective division. Additionally, to reinforce internal

controls, an internal auditing office was established under the direct control of the President. The internal auditing office performs internal audits of various divisions and reports the results of those audits directly to the President.

MID-TERM MANAGEMENT PLAN (For FY 2004 to FY 2006)

Management Policy

Basic Missions

- 1** TSE strives to be a true “Global Financial Exchange” with significant international presence by providing domestic and international investors, issuers and intermediaries with a liquid, reliable, and fair market.
- 2** TSE, in undertaking its responsibility as a public infrastructure for the central markets of Japanese securities, contributes to the healthy development and stable and sustainable growth of the Japanese financial markets.
- 3** TSE actively works to fulfill its role as a forerunner toward the improved standing of Japanese capital markets in the international marketplace.

Basic Management Policy

- 1** To consolidate its international position as the central market for Japanese financial products, TSE’s top priority shall be strengthening the functions of its market and increasing its international competitive advantage in Japanese stocks, the core products of its cash market, and long-term Japanese Government Bond futures and TOPIX futures, which form the cornerstone of its derivatives market.
- 2** To provide a more efficient and more convenient market infrastructure by positively employing advanced information technology in order to establish TSE’s “trustworthiness and attractiveness,” qualities befitting a global market.
- 3** To list various investment products in response to demand from market users by making full use of TSE’s market infrastructure. Also, TSE will take swift, appropriate action for non-performing products, thereby constantly renewing its line of products.
- 4** To extend its business into such fields where TSE has a competitive advantage, and to undertake structural reforms in order to build a corporation with a sound earnings position that is well compared with notable overseas Exchanges.
- 5** To accelerate the shift from a savings focus to an investment focus in order to establish liquid securities markets.
- 6** To enhance TSE’s international presence and brand image, and to consolidate its position as one of the world’s major Exchanges while promoting networks among the Asian/Oceanic regional Exchanges.

Management Objectives

Financial Objectives

(Consolidated)	FY 2004	FY 2005	FY 2006
Operating revenue	More than ¥42.6 billion	More than ¥41.9 billion	More than ¥41.6 billion
Operating expenses	Less than ¥41.0 billion	Less than ¥37.2 billion	Less than ¥35.6 billion
Operating profits	More than ¥1.5 billion	More than ¥4.6 billion	More than ¥5.9 billion
Consolidated ROE	More than 2.0 %	More than 4.0%	More than 5.2%

*In regard to reinforcement of system infrastructure which will go into operation in FY 2005, increases in running costs and depreciation costs during the development period will raise operating expenses in FY 2004.

Earnings Projections Explanation

As TSE plans to replace its main systems in FY 2005, the simultaneous operation of the new and existing systems during FY 2004 is expected to increase operating expenses, and the rise in depreciation resulting from the new system will negatively impact earnings, resulting in FY 2004 operating profits of only ¥1.5 billion.

TSE anticipates operating revenues to suffer a large drop in FY 2004, and continued declines during FY 2005. These estimates are based on operating conditions over the past few years and are considered to be very conservative.

TSE believes its business model rests on achieving a balance between fulfilling its public responsibility and preserving its corporate earnings. TSE believes that

many of the measures it is implementing will require some time before they contribute to operating revenues.

With these factors in mind, TSE has established a conservative estimate for average securities daily trading value at ¥1 trillion for FY 2004, which should be compared with the actual average daily trading value of over ¥1.1 trillion during FY 2003. TSE will make every effort to expand the number of new listings and to build up its market information business, and will do its best to secure stable earnings.

Given the outlook for operating revenues, TSE will try to restrain costs to the greatest extent possible and strive to maximize profits.

Listing of TSE shares

TSE plans to list its shares for trading on its market in FY 2005 in order to enhance its organizational basis for

enhancing its market function and international competitiveness.

MID-TERM MANAGEMENT PLAN (For FY 2004 to FY 2006)

Business Strategy

1 Facilitating the Listing of Attractive, High Quality Companies

TSE will facilitate the listing of attractive, high quality companies for investment on its First Section and Second Section, and will develop Mothers by

providing unlisted companies with its full support in their preparation for listing. (TSE's target for new listings will be 145 or more companies per year.)

2 Enhancing the Attractiveness of Listed Stocks

(1) Improving the Corporate Governance of Listed Companies

TSE will work to encourage acceptance of "Corporate Governance Principle of Listed Companies," which outlines main points of appropriate corporate governance for listed companies.

(2) Disclosure of Quarterly Financial Information

TSE will devote itself to establishing quarterly financial information disclosure as a common practice, working toward general improvement of disclosure procedures and methods. TSE will consistently encourage listed companies to disclose timely information necessary for investors properly.

3 Establishing a Fair and Reliable Market Infrastructure

(1) Enhancing the Market's Fairness and Reliability

TSE will further increase the fairness of its market by strengthening its self-regulatory functions (market surveillance and inspection of its participants).

In addition, TSE will assist trading participants and listed companies with understanding and complying with regulations imposed on them so as to prevent any unfair activities.

(2) Enhancing Settlement Infrastructure

To ensure stability and improve the efficiency of Japan's settlement system, TSE will strive toward the introduction of paperless settlement and Straight-Through Processing.

(3) Strengthening Risk Management

TSE will adopt measures to minimize possible adverse effects, such as market function deficiencies, resulting from natural disasters, terrorist attacks, etc., and will strengthen its risk management systems. At the same time, from the standpoint of provisions against litigation risk, TSE will enhance its compliance program while developing an intellectual property management system to protect intellectual rights such as business models and trademark rights.

4 Program for Encouraging Investment by Individual Investors —Shift from Savings to Investments—

TSE will energize its public relations activities and educational efforts in order to accelerate the shift from saving to investments. TSE will, in cooperation with other related organizations and with TSE Academy as

a core, help foster a better understanding of securities markets and listed products including Exchange Traded Funds (ETFs) and Real Estate Investment Trusts (REITs).

5 Strengthening its International Position as One of the Major Exchanges within the Asian Region

(1) Promoting the Listing of Asian Companies

TSE will actively promote the listing of foreign companies, especially from the Asian region. TSE also will review business conduct or other procedural matters which may be obstructive to listing or raising capital in Japan.

(2) Establishment of International Presence and Brand Image

TSE will actively undertake, in order to enhance its international presence and strengthen its brand image, promotional activities directed toward foreign stakeholders including investor relations activities for TSE's planned listing of its shares.

TSE actively contributes to the activities of the World Federation of Exchanges (WFE) and East Asian and Oceanian Stock Exchanges Federation (EAOSEF) so as to enhance TSE's international presence and to explore future business expansion opportunities.

(3) Promotion of Alliances and Cooperation

TSE will actively pursue opportunities for alliance and cooperation with major Exchanges across the world, in order to timely respond to changes in its business environment and to business opportunities. TSE will make every effort to achieve closer cooperation and build a wide range of networks within the Asian/Oceanic region.

6 Reform of Organizational Structure

(1) Broadening Business Lines

TSE will promote its information-providing services to pursue corporate growth by developing peripheral business. TSE will also promote the study of potential new products, including non-financial instruments, to seek new opportunities for profit.

(2) Improving IT Infrastructure

By promoting the improvement of its IT infrastructure under its IT Master Plan, TSE plans to develop highly flexible systems that can respond quickly to changes in the business environment as well as cut costs.

TSE will proactively pursue its IT-related investment plans with due consideration to investment efficiency. (The amount of cumulative IT investment is expected to total approximately ¥26.5 billion by the FY 2006.)

(3) Improving Cost Structures

By decreasing variable costs and compressing fixed costs, TSE will strive to reduce its operating costs (excluding the depreciation of IT investments, on an

unconsolidated basis) to ¥35.5 billion (¥4.7 billion less than the FY 2003 estimated level) by the end of FY 2006. TSE will also consider revising the structure of trading participant fees.

TSE will continue to contain the total number of its employees and will also realize 150 employees for its administrative departments (a 30% reduction from FY 2001) by the end of FY 2004.

(4) Reforming Corporate Culture and Developing Superior Talent

TSE will institute a corporate culture that encourages employees to engage in new challenges by creating an environment that enables each employee to make full use of his/her capabilities and by pursuing ongoing performance-based evaluation.

TSE will cultivate internationally minded and focused professionals in response to the globalization and sophistication of its business. TSE will also gather appropriate human resources in a flexible manner responding to new business developments.

1 Enhanced Appeal of the Market

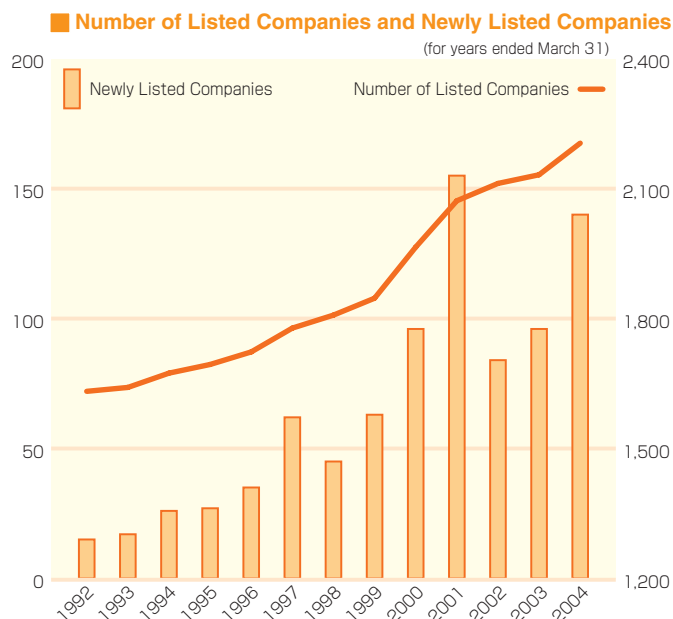
Taking advantage of the continued strong desire of companies to go public and list their shares, TSE undertook various promotional activities such as visits to unlisted companies and IPO seminars in an effort to solicit listings of attractive companies with high investment value. TSE also offered panel discussions, social events to exchange information, and various informative e-mail newsletters to make the listing process as smooth as possible. Through these efforts, TSE welcomed 101 new companies to its First and Second Sections and 39 new companies to its Mothers market during FY 2003*. This raised the total number of listed companies on the First and Second Sections to 2,121 (an increase of 36 from the end of the previous year), and the total on the Mothers market to 84 (an increase of 37).

With the objective of bolstering the investment appeal and credibility of listed shares by enhancing corporate governance practices of listed companies, TSE introduced a new regulation, requiring disclosure of corporate governance basic policies and practices in financial statements effective from fiscal year-end March 2003. Previously, such information was disclosed by listed companies voluntarily. Additionally, in March 2004, the Listed Company Corporate Governance Committee, established in November 2002, compiled and released “Principles of Corporate Governance for Listed Companies,” the culmination of discussions regarding corporate governance.

* This includes listings of companies established through mergers and stock transactions (technical listings); 18 companies on the First and Second Sections and one company on the Mothers market fall in this category.

Over the past year, TSE also worked to improve quarterly disclosure. In accordance with the Quarterly Financial Information Disclosure Action Program announced in June 2002, TSE established a regulation requiring quarterly disclosure of business performance starting with the first quarter of the fiscal year ended March 2004.

In addition, as part of efforts to realize quarterly financial and business disclosure, the Quarterly Financial Reporting Committee formed by TSE examined the actual process of creating and disclosing quarterly financial information and announced “Guidelines for Creation and Disclosure of Financial Information” in August 2003, together with “Steps to Promote the Quarterly Financial Information Disclosure Action Program.” Furthermore, TSE established a regulation requiring disclosure of quarterly financial and business overviews from FY 2004.



2 Trading, Clearing, and Settlement Infrastructure Reforms

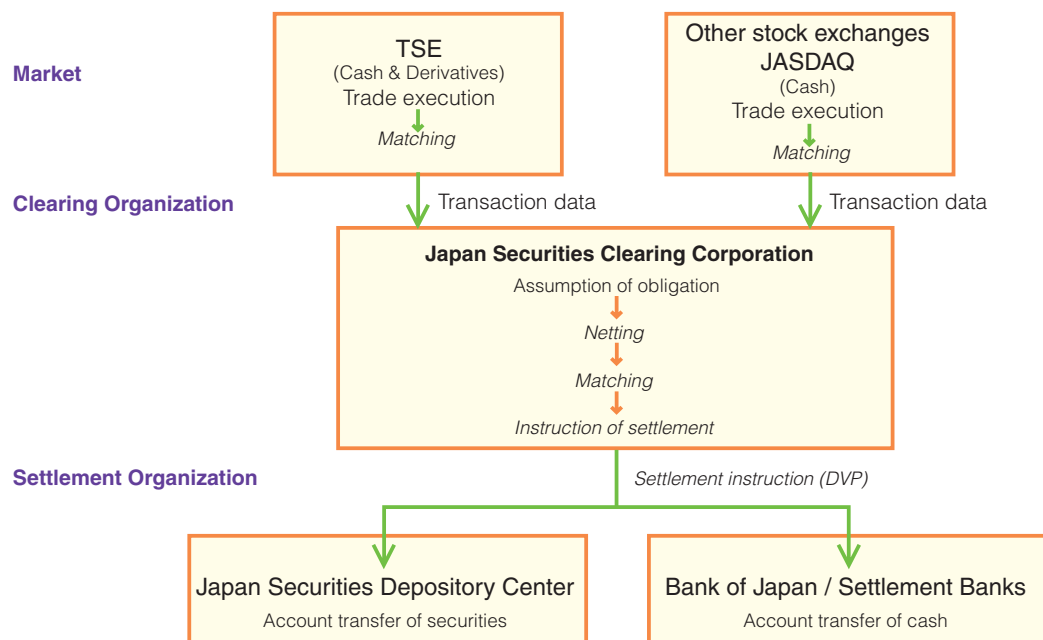
Since June 2003, a sharp rise in the number of order acceptances has dramatically intensified the burdens on the stock trading and market information systems. In order to ensure stable system operations, TSE decided to increase system capacity for its stock trading system in July 2003 and for its market information system in November 2003, with plans for construction of new systems to be launched at the beginning of FY 2005.

Also, to enhance market functions, in June 2003 TSE started to provide more order book information and discontinued the release of information on shares sold/purchased by individual securities firms. At the same time, in response to revisions to the “12-hour rule” regarding insider trading regulations, TSE began providing real-time display of timely disclosure information on its website.

In February 2003, to improve clearing and settlement infrastructure, TSE appointed Japan Securities Clearing Corporation, which began operations in January 2003 for cash transactions on Japanese stock exchanges, as its clearing organization for futures and options transactions. Through this appointment, clearing and settlement of all transactions on TSE are unified under a single organization, further improving convenience and efficiency.

TSE currently provides a clearing system and processing services to Japan Securities Clearing Corporation and has plans for a full replacement of its clearing system. TSE is now developing a new clearing system, scheduled to launch in the latter half of this calendar year, which will allow greater responsiveness to diversified business needs and improve maintainability.

■ Function of Organizations of Related to Trading, Clearing, and Settlement



3 Improved Fairness and Reliability of Markets

In the area of market surveillance, TSE aggressively undertook investigations of unfair trading and issued warnings to trading participants whose actions risked potential violations of relevant laws. Also, in order to prevent such unfair trading, TSE launched educational efforts such as compliance seminars for trading participants, seminars on insider trading regulations for directors of listed companies, and publication of a Q&A-style guidebook on revisions to the “12-hour rule” regarding insider trading regulations.

With regard to participant registration and inspection, TSE held compliance seminars for securities firms to encourage thorough adherence to laws and regulations while improving support systems for participant compliance practices. TSE and the Japan Securities Dealers Association also began to examine how to streamline the current screening system and establish a system realizing more effective and efficient self-regulation.

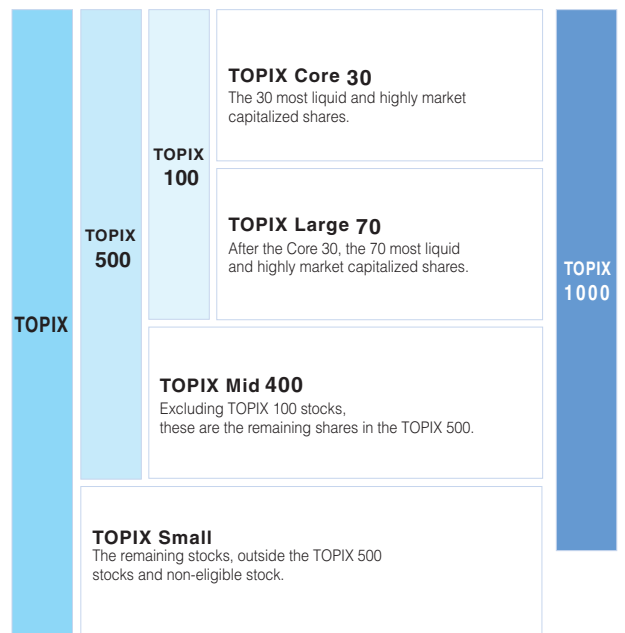
Moreover, regarding risk management, TSE started to develop a Business Continuity Plan to quickly respond to natural disasters, terrorism, and system failure, so as to maintain market functions to the highest degree possible.

4 Enriched Information Services

TSE heightened data information accessibility by adding a Web-based English version of fundamental TOPIX information in April 2003 as part of “Tokyo Market Information,” a service that delivers TOPIX and corporate action information.

In addition, TSE started real-time calculation and delivery of TOPIX 1000, Tokyo Stock Exchange Mothers Index, and Tokyo Stock Exchange REIT Index, and also developed the TOPIX 1000 FLOAT (free-float adjusted index), and actively publicized these new services. In addition, TSE further promoted its index calculation and licensing business, including trademark usage agreements, regarding the establishment of new funds linked to Tokyo Stock Exchange REIT Index and TOPIX 1000 FLOAT.

■ TOPIX New Index Series



5 Reinforcement of Global Market Functions

Viewing development in Asia as a key step to global expansion, TSE regularly took part in the exchange of both personnel and information with major Asian markets to promote cooperations among the markets in the region. In addition, TSE has started feasibility studies on market linkages between Asian markets and TSE, and begun internship programs with Shanghai and Shenzhen Stock Exchanges in accordance with previously concluded mutual cooperation agreements.

TSE also held seminars to provide information and support for staff of stock exchanges in neighboring Asian countries.

To further enhance its international presence, TSE presided at the World Federation of Exchanges (WFE) and served as a permanent secretary general for the East Asia and Oceania Securities Exchanges Federation (EAOSEF). TSE was also actively involved in the activities of other international organizations.

6 Commitment to Improve Domestic Stock Markets

To deepen public understanding of stock markets and make stock investment more accessible, TSE held various events and seminars at TSE ARROWS (TSE's event hall) and actively supported the investor relations activities of listed companies.

In addition, TSE held "TSE Community Meetings" and "TSE Open Schools" in major cities throughout Japan to interact and deepen ties with listed companies and local business communities nationwide.

In June 2003, TSE launched a stock price search function on its website providing information such as share price, trading volume, and earnings announcements for all listed companies. Moreover, TSE Academy was established in April 2004 to consolidate TSE's existing methods for the promotion of investor education about securities into a more effective centralized program that encompasses various levels of investors, from the potential first-time investor to more sophisticated, experienced investors.

OPERATING AND FINANCIAL REVIEW

1 Review of the Fiscal Year 2003 ended March 2004

General Overview

At the beginning of FY 2003, US economic trends, the outbreak of SARS in Asia, and other negative factors cast uncertainty across the Japanese economy. However, in the latter half of FY 2003, corporate capital investments started to recover and profitability of companies began to show an upward trend. In addition, signs of economic recovery were seen in many areas, such as the gradual pickup of consumer spending, most notably in digital home electronics, even though employment conditions remained severe in some industries.

In the stock market, prices fell to an all-time post-bubble economy low in April 2003. However, starting in May 2003, shares started to bounce back again, responding to clear signs of an economic turnaround such as a rise in long-term interest rates and strengthening of the yen, as well as a rise in US stock markets and improvements in Japanese corporate earnings. The market recorded large gains from summer to March 2004 and achieved overall

positive performance throughout FY 2003. Average daily trading value of stocks exceeded ¥1 trillion, a level equal to that of the “bubble economy” era.

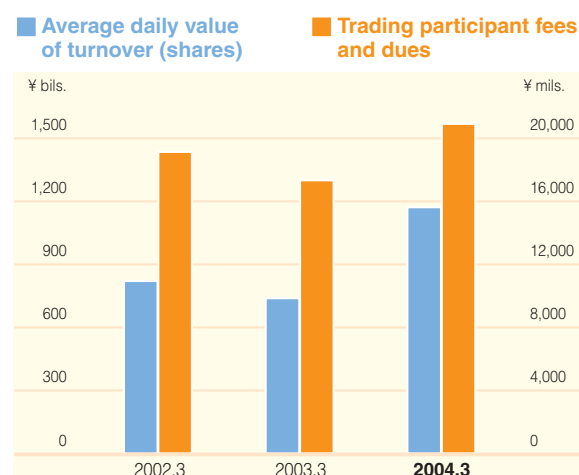
Under these circumstances, TSE set out various measures to achieve its objectives of: 1) making the stock market more attractive, 2) improving the fairness and reliability of markets, 3) reforming clearing and settlement infrastructure, 4) enriching information services, and 5) reinforcing TSE’s functions as a global market. While working toward these objectives, TSE also continued its efforts to reduce costs.

As a result, consolidated results were as follows: operating revenues ¥48,643 million (up 18.5% year-on-year), operating expenses ¥40,437 (up 4.7% year-on-year), net income before income taxes and minority interest ¥8,082 million (up 182.7% year-on-year), and net income ¥5,031 million (up 53.5% year-on-year).

	2002.3	2003.3	2004.3 (before revision)	2004.3 (after revision)
Operating revenues				
Trading participant fees and dues	19,141	17,340	20,921	20,921
Listing fees	8,329	8,766	9,504	9,504
Information services income	6,467	6,657	6,641	7,254
System development & operations income	3,843	1,973	3,723	3,723
Securities settlement income	2,888	2,793	4,874	4,874
Other operating income	4,067	3,536	2,980	2,367
Total	44,735	41,065	48,643	48,643
Operating expenses				
Salaries and compensation	16,261	12,009	11,896	11,896
Real estate rental fees	6,703	5,685	5,629	5,629
System maintainance & operation costs	–	–	–	8,431
System-related expenses	3,951	3,867	3,639	–
Outsourcing business costs	2,424	3,921	4,659	–
Depreciation	7,897	7,523	6,999	6,999
Other operating expenses	5,746	5,600	7,615	7,482
Total	42,982	38,605	40,437	40,437
Operating profit	1,753	2,460	8,206	8,206
Net income before income taxes and minority interest	1,960	2,859	8,082	8,082
Net income	844	3,277	5,031	5,031

Operating Revenues Review

Trading participant fees and dues are comprised of “fixed rate fees” charged to securities firms and other trading participants in accordance with their capitalization, and “variable rate fees” charged according to the trading value of stocks and the trading value or volume of other market instruments. During FY 2003, trading participant fees and dues, particularly after July 2003, rose 20.7% year-on-year to ¥20,921 million due to large increases in variable rate fees stemming from the rise in value and volume of stock trading.



	2002.3	2003.3	2004.3	YOY Change
Total number of market participants (FY end)	114	108	108	0.0%
Shares: Average daily value of turnover	¥821.1	¥739.3	¥1,172.2	58.6%
Bond futures: Average daily value of turnover	¥2,860.4	¥2,400.6	¥2,797.5	16.5%
Stock index futures: Average daily value of contracts	¥261.0	¥279.3	¥394.5	41.2%
TOPIX (FY end)	1,060.19	788.00	1,179.23	49.6%

* Turnover and contract figures in ¥ bills.; TOPIX in points

Listing fees are comprised of “listing examination fees” received from newly listed companies upon their application for listing, “initial listing fees” from newly listed companies for their first listing, “fees for issuing new shares” when companies raise new capital, and “annual listing fees” based on company market value. In FY 2003, funds raised by equity-linked financing declined from the previous year. However, the number of newly listed companies increased significantly from the year before, leading to a 8.4% increase in listing fees year-on-year to ¥9,504 million.



	2002.3	2003.3	2004.3	YOY Change
Capital increase (equity-linked financing, ¥bils.)	¥1,020.0	¥777.2	¥763.0	-1.8%
Newly listed companies	84	96	140	45.8%
Listed companies	2,112	2,132	2,205	3.4%
Market value (¥trils.)	¥306	¥228	¥363	59.2%

* Equity-linked financing excluding private placements.
All figures represent the combined total for the First and Second Sections and Mothers.

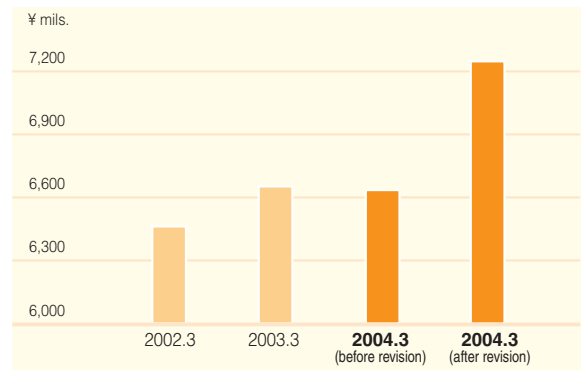
Information services income is derived from fees for various market information services provided to information vendors and others. WAN usage fees and TOPIX licensing fees that used to be recorded as other operating income are posted as information services income beginning from FY 2003. Due to this revision, information services income grew 9.0% year-on-year to ¥7,254 million yen (0.2% decrease to ¥6,641 million before the revision) despite a decline in income due to consolidation and closure of securities firms and a subsequent decline in usage fees for information systems.

Systems development and operations income is comprised of fees received for development and management provided by Tosho System Service Co., Ltd. In FY 2003, income rose by 88.7% year-on-year to ¥3,723 million due to general delivery vs. payment (DVP) development projects.

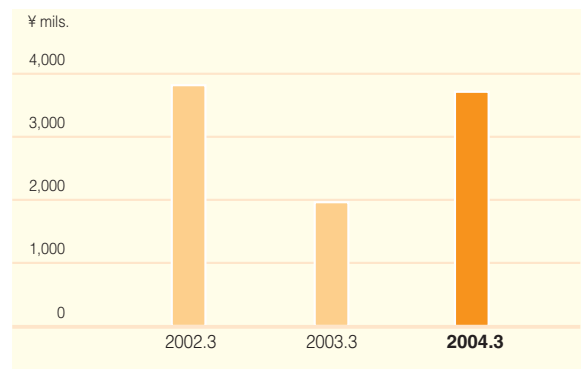
Securities settlement income is comprised of fees for trade guarantee and other services provided by Japan Securities Clearing Corporation and securities custody and delivery services provided by Japan Securities Settlement and Custody, Inc. During FY 2003, income rose by 74.5% year-on-year to ¥4,874 million due to increases in clearing fees that resulted from a rise in trade guarantee fees as stock trading turnover grew and a change in November 2003 to direct fee collection from clearing participants by the Japan Securities Clearing Corporation. Previously, those clearing fees were collected by TSE as a portion of trading participant "variable rate fees."

Other income is comprised of fees from the leasing and maintenance of trading terminals to trading participants. During FY 2003, fees declined by 33.1% year-on-year to ¥2,367 million (15.7% decline to ¥2,980 million before the revision of items) due to a decline in the number of terminals used and the accounting revision of the items as described above.

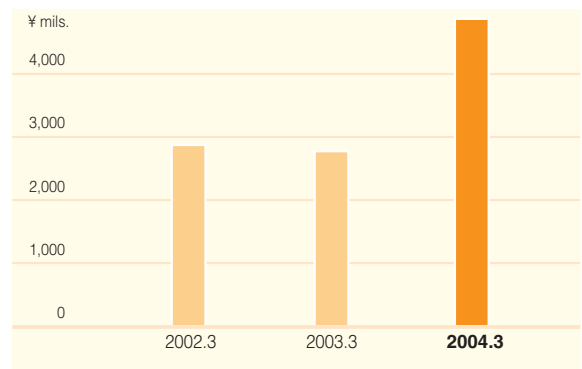
Information services income



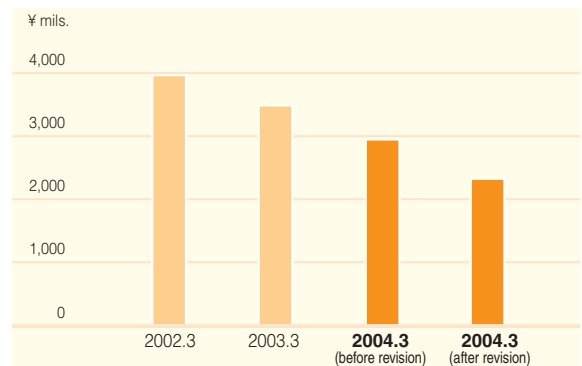
System development & operations income



Securities settlement income



Other income



Operating Expenses Review

Salaries and compensation fell by 0.9% year-on-year to ¥11,896 million due to the restructuring of compensation and other personnel systems, and also due in part to a decrease in the number of employees and subsequent declines in payroll.

Real estate rental fees are comprised of rental fees paid for the use of buildings including the main building, the stock exchange building, etc. Fees fell by 1.0% year-on-year to ¥5,629 million due to a slight rise in income from subletting part of the main building.

System maintenance and operation costs include costs associated with maintenance and management of various systems critical to operations, including the trading system, the market information system, and others. This item is newly established from FY 2003 to clarify the costs related to various systems such as the

trading and market information systems maintained and managed by TSE, which were previously classified under “system-related expenses” and “outsourcing business costs.”

In FY 2003, system maintenance and operation costs rose to ¥8,431 million due to an increase in outsourcing settlement expenses resulting from active stock trading, which consequently offset the reduction in leasing costs due to a decrease in the number of trading participant terminals. This represents an 8.3% increase from the combined total of system-related expenses and outsourcing business costs in the previous year.

Depreciation expenses related to buildings and attached facilities, various systems, hardware and software, and leased assets fell by 7.0% year-on-year to ¥6,999 million.

Financial Conditions

Cash flow from operations amounted to ¥13,675 million of net cash inflow due to inflows from net income before taxes and minority interests of ¥8,082 million and depreciation of ¥6,065 million.

Cash flow from investment activities resulted in a net cash outflow of ¥5,460 million due to purchases of fixed assets and software.

Cash flow from financing activities saw a net cash

outflow of ¥1,272 million due in part to the buyback of 283,900 treasury shares from August to September amounting to ¥7,889 million, most of which was liquidated in March 2004.

As a result, cash and cash equivalents at the end of FY 2003 rose by ¥6,943 million to ¥27,007 million.

2 Outlook for Fiscal Year 2004

(TSE Group's Income Summary and Earnings Estimates)

Key Points of Group Revenues/Costs and Earnings Forecasts

TSE has implemented various measures to improve the efficiency, fairness, and credibility of its markets. TSE expects that through these efforts to improve market operations and enhance global competitiveness, trading volume and value as well as the number of new listings will increase, and consequently improve performance as a whole. However, the positive business effects from these measures, such as an increase in income, may take some time to materialize, and therefore may not have a direct impact on short-term results.

As a portion of operating revenues, the variable-rate fees TSE charges trading participants depend on

levels of stock trading, and initial listing fees and fees for issuing new shares vary with levels of capital raised and the number of newly listed companies. Thus, these fees are greatly affected by trends in primary and secondary stock markets. Furthermore, these markets may dramatically fluctuate with the economic climate and other factors, and it is extremely difficult to forecast these trends with a high level of certainty.

Therefore, it should be noted that TSE's performance forecast is based on the most recent trends in primary and secondary markets and data available at present, and may differ from actual results due to uncertain factors.

Earnings Estimates FY 2004

In accordance with its mid-term management plan, TSE is determined to strengthen its earnings base by enhancing market operations to provide both domestic and overseas investors with the most optimal services, and by improving management efficiency.

Since July 2003, markets have been displaying signs of recovery, with trading reaching the "bubble economy" level. TSE expects that trading will continue to stay at relatively high levels in FY 2004, ending March 2005. However, because it is also

necessary to take downside risk into account, average daily trading value has been estimated at ¥1 trillion. A sharp rise in expenses is forecasted due to increases in depreciation and other costs relating to securities trading system hardware replacements, though TSE continues to step up its efforts to cut other costs.

At the consolidated level, TSE projects FY 2004 operating revenues of ¥42,600 million and net income of ¥1,100 million.

3 Fundamental Policy Regarding Appropriation of Earnings

TSE performs a vital role in the Japanese economy by acting as the central market for securities trading.

Entrusted with this mission, TSE seeks to contribute to the healthy expansion of Japan's financial markets, while helping to provide stability and support stable growth.

Therefore, based on its stated growth assumptions, TSE will strive to achieve improved intermediate to long-term earnings growth, and plans to actively return profits to investors in line with earnings growth.

TSE will work to provide a stable dividend while taking into consideration the financial stability and expansion of its business. With regard to retained earnings, TSE will make investments to maintain and expand the infrastructure needed to raise its future earnings level. Aside from returning profits to shareholders through dividends, TSE is also considering the possibility of using profits to buy back shares.

CONSOLIDATED BALANCE SHEETS

Tokyo Stock Exchange, Inc.	¥ mils.		U.S.\$ thous. (Note 1)
	2003 (unaudited)	2004	2004
As of March 31, 2003 and 2004			
ASSETS			
Current Assets:			
Cash and bank deposits (Note 11)	¥ 19,614	¥ 26,506	\$ 250,790
Accounts receivable	2,479	4,394	41,574
Marketable securities (Note 5)	500	1,500	14,192
Inventories	363	292	2,763
Prepaid expenses	197	259	2,451
Prepaid pension costs (Note 8)	2,197	—	—
Short-term guarantee money deposits	2,008	2,008	18,999
Margin funds for derivatives and when-issued transactions (Note 11)	799,414	1,063,006	10,057,773
Deposits for clearing funds (Note 11)	143,068	230,268	2,178,711
Deposits as collateral preceding settlement day (Note 11)	187,749	172,059	1,627,959
Deferred income taxes (Note 7)	357	705	6,670
Income taxes refundable	61	—	—
Other current assets (Note 11)	1,203	3,951	37,383
Allowance for doubtful accounts	(2)	(4)	(37)
Total current assets	1,159,208	1,504,944	14,239,228
Property and equipment:			
Buildings	12,204	12,195	115,384
Information system equipments	15,976	14,254	134,866
Land	2,399	2,399	22,699
Other property and equipment	6,610	12,214	115,564
Accumulated depreciation	(22,359)	(22,080)	(208,912)
Total property and equipment	14,830	18,982	179,601
Intangible fixed assets, net			
Software	6,325	4,872	46,097
Excess of cost over underlying net assets	29	22	208
Other intangible assets	548	1,818	17,201
Total intangible assets	6,902	6,712	63,506
Investments and other assets			
Investments in securities (Note 5)	4,094	3,789	35,850
Guarantee money deposits	11,575	9,525	90,122
Prepaid pension costs (Note 8)	—	2,124	20,096
Legal guarantee funds (Note 11)	2,736	2,998	28,366
Special bank deposit for default compensation reserve funds	17,368	17,368	164,330
Deferred income taxes (Note 7)	1,476	1,870	17,693
Others	578	539	5,100
Allowance for doubtful accounts	(308)	(336)	(3,179)
Total investments and other assets	37,519	37,877	358,378
Total assets	¥ 1,218,459	¥ 1,568,515	\$ 14,840,713

The accompanying notes are an integral part of these statements.

	¥ mils.		U.S.\$ thous. (Note 1)
	2003 (unaudited)	2004	2004
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities:			
Long-term debt due within 1 year (Note 6)	¥ 929	¥ 420	\$ 3,974
Accounts payable-trade	2,036	2,503	23,682
Accounts payable-other	793	5,626	53,231
Income taxes payable	—	3,205	30,325
Consumption taxes payable	—	257	2,432
Allowance for employee bonuses	736	747	7,068
Margin funds received for derivatives and when-issued transaction (Note 11)	799,414	1,063,006	10,057,773
Deposits received for clearing fund (Note 11)	143,068	230,268	2,178,711
Deposits received as collateral preceding settlement day (Note 11)	187,749	172,059	1,627,959
Deposits received as trading participants guarantee (Note 11)	3,193	5,658	53,534
Other current liabilities	996	494	4,674
Total current liabilities	1,138,914	1,484,243	14,043,363
Non-current liabilities:			
Long-term debt (Note 6)	395	222	2,100
Allowance for retirement benefits for directors	188	254	2,403
Allowance for retirement benefits for employees (Note 8)	5,804	5,939	56,193
Guarantee money deposits received	1,126	1,074	10,162
Returnable legal guarantee funds (Note 11)	2,736	2,998	28,366
Other long-term liabilities	408	367	3,472
Total non-current liabilities	10,657	10,854	102,696
Total liabilities	1,149,571	1,495,097	14,146,059
Minority interests			
Minority interests	392	481	4,551
Shareholders' equity:			
Common stock:			
Authorized: 9,200,000 shares at March 31, 2003 and 2004	11,500	11,500	108,808
Capital surplus	22,875	22,875	216,435
Retained earnings (Note 15)	34,121	39,152	370,442
Unrealized gain on securities	0	—	—
Treasury stock, at cost	—	(590)	(5,582)
Total shareholders' equity	68,496	72,937	690,103
Total liabilities and shareholders' equity	¥ 1,218,459	¥ 1,568,515	\$ 14,840,713

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF INCOME

Tokyo Stock Exchange, Inc.	¥ mils.		U.S.\$ thous. (Note 1)
For the years ended March 31, 2003 and 2004	2003 (unaudited)	2004	2004
Operating revenues:			
Trading participant fees and dues	¥ 17,340	¥ 20,921	\$ 197,947
Listing fees	8,766	9,504	89,923
Income from information services	6,657	7,254	68,635
Income from system development and operations	1,973	3,723	35,225
Income from securities settlement	2,793	4,874	46,116
Other operating income	3,536	2,367	22,396
Total	41,065	48,643	460,242
Operating expenses (Note 12)	38,605	40,437	382,600
Operating profit	2,460	8,206	77,642
Other income (expenses):			
Interest and dividends income	48	29	274
Rent income	629	654	6,188
Income from fines levied	98	100	946
Grants in aid	202	207	1,959
Equity in earnings of affiliated companies	509	78	738
Interest expense	(32)	0	0
Rent expense	(808)	(821)	(7,768)
Loss on disposal of assets	(437)	(538)	(5,090)
Other, net	190	167	1,580
Total	399	(124)	(1,173)
Net income before income taxes and minority interests	2,859	8,082	76,469
Income taxes – current (Note 7)	972	3,705	35,055
Income taxes – deferred (Note 7)	(1,371)	(743)	(7,030)
Minority interests (Loss)	19	(89)	(842)
Net income	¥ 3,277	¥ 5,031	\$ 47,602

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Tokyo Stock Exchange, Inc.

¥ mils.

For the years ended March 31, 2003 and 2004	Number of shares of common stock	Common stock	Additional paid-in capital	Retained earnings	Treasury stock
Balance as of March 31, 2002	2,300,000	¥ 11,500	¥ 22,875	¥ 30,844	¥ —
Net income for the year ended March 31, 2003	—	—	—	3,277	—
Balance as of March 31, 2003	2,300,000	¥ 11,500	¥ 22,875	¥ 34,121	¥ —
Net income for the year ended March 31, 2004	—	—	—	5,031	—
Treasury stock acquired, net (21,260 shares)	—	—	—	—	(590)
Balance as of March 31, 2004	2,300,000	¥ 11,500	¥ 22,875	¥ 39,152	¥ (590)

U.S.\$ thous. (Note 1)

For the years ended March 31, 2003 and 2004	Number of shares of common stock	Common stock	Additional paid-in capital	Retained earnings	Treasury stock
Balance as of March 31, 2003	2,300,000	\$ 108,808	\$ 216,435	\$ 322,840	\$ —
Net income for the year ended March 31, 2004	—	—	—	47,602	—
Treasury stock acquired, net (21,260 shares)	—	—	—	—	(5,582)
Balance as of March 31, 2004	2,300,000	\$ 108,808	\$ 216,435	\$ 370,442	\$ (5,582)

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Tokyo Stock Exchange, Inc.

	¥ mils.		U.S.\$ thous. (Note 1)
For the years ended March 31, 2003 and 2004	2003 (unaudited)	2004	2004
Cash flows from operating activities:			
Net income before income taxes and minority interests	¥ 2,859	¥ 8,082	\$ 76,469
Depreciation	6,417	6,065	57,385
Amortization of the excess of cost over underlying net assets	7	7	66
Loss on disposal of property, equipment and intangible assets	437	538	5,090
Increase (decrease) in allowance for doubtful accounts	(21)	31	293
Increase (decrease) in allowance for employee-bonuses	(11)	11	104
Increase (decrease) in allowance for retirement benefits for directors	(56)	66	624
Increase in allowance for retirement benefits for employees	149	134	1,267
Equity in earnings of affiliated companies	(509)	(77)	(728)
Interest and dividends income	(48)	(29)	(274)
Interest expense	32	0	0
(Increase) decrease in accounts receivable	323	(1,914)	(18,109)
(Increase) decrease in inventories	(333)	70	662
Increase in accounts payable	479	466	4,409
Capital gain through sale of investments with special circumstances	—	(22)	(208)
Others, net	(1,159)	(257)	(2,431)
Sub-total	8,566	13,171	124,619
Income taxes paid	(2,133)	(438)	(4,144)
Interest and dividends received	53	920	8,704
Interest paid	(62)	(0)	(0)
Receipt through sale of investments with special circumstances	—	22	208
Net cash provided by operating activities	6,424	13,675	129,387
Cash flows from investing activities:			
Acquisition of marketable securities	—	(999)	(9,452)
Proceeds from the sale of marketable securities	—	50	473
Acquisition of fixed deposits	(1,100)	—	—
Proceeds from the refund of fixed deposit	2,150	—	—
Acquisition of investments in securities	(867)	(508)	(4,807)
Proceeds from the sale of investments in securities	992	—	—
Acquisition of property and equipment	(2,659)	(2,857)	(27,032)
Proceeds from the sale of property and equipment	0	3	28
Acquisition of software	(1,622)	(3,181)	(30,097)
Payment for guarantee money deposits	(17)	(40)	(378)
Proceeds from the return of guarantee money deposits	2,052	2,090	19,775
Payment of guarantee money deposits received	(11)	(64)	(605)
Proceeds from the receipt of guarantee money deposits	54	12	113
Payment of loan receivables	(10)	(2)	(18)
Collection of loan receivables	29	36	340
Payment for purchase of business	(1,520)	—	—
Others	3	0	0
Net cash used in investing activities	(2,526)	(5,460)	(51,660)
Cash flows from financing activities:			
Proceeds from long-term debt	—	300	2,838
Repayment of long-term debt	(1,264)	(981)	(9,282)
Proceeds from minority interest	411	—	—
Proceeds from sale of treasury stock	—	7,298	69,051
Acquisition of treasury stock	—	(7,889)	(74,642)
Net cash used in financing activities	(853)	(1,272)	(12,035)
Increase in cash and cash equivalents	3,045	6,943	65,692
Cash and cash equivalents at beginning of year	17,019	20,064	189,838
Cash and cash equivalents at end of year	¥ 20,064	¥ 27,007	\$ 255,530

The accompanying notes are an integral part of these statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Tokyo Stock Exchange, Inc.

1. Basis of Presenting the Consolidated Financial Statements

The accompanying consolidated financial statements of Tokyo Stock Exchange, Inc. ("TSE") and its subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Securities and Exchange Law of Japan.

Certain items presented in the consolidated financial statements have been reclassified for the convenience of readers outside Japan.

Amounts in U.S. dollars are included solely for the convenience of readers outside Japan. The rate of ¥105.69=U.S. \$1, the approximate rate of exchange prevailing as of March 31, 2004, has been used in translation. The inclusion of such amounts are not intended to imply that Japanese yen have been or could be readily converted, realized or settled in U.S. dollars at the rate or any other rates.

2. Summary of Significant Accounting Policies

(1) Principles of Consolidation

The consolidated financial statements include the accounts of TSE and three subsidiaries listed below (together, hereinafter referred to as the "Companies").

	Country of Incorporation	Direct and indirect ownership percentage	Paid-in capital (¥ mils.)
Japan Securities Settlement & Custody, Inc.	Japan	100.0%	¥ 300
Tosho System Service Co., Ltd.	Japan	100.0	100
Japan Securities Clearing Corporation	Japan	86.3	1,700

All subsidiaries use a fiscal year ended on March 31 of each year, which is the same as that of TSE.

All significant inter-company transactions, account balances and unrealized profits among the Companies have been eliminated in consolidation.

Differences between the cost of an investment in subsidiaries and the amount of underlying equity in net assets of the subsidiaries are deferred as assets or liabilities as the case may be, and amortized over a period of five years on a straight-line basis.

(2) Accounting for Investment in Affiliates

Affiliates accounted for by the equity method as of March 31, 2004 are listed below:

- NSB News Service Co., Ltd.
- Japan Securities Depository Center, Ltd.
- Tosho Computer Systems Co., Ltd.

(3) Remeasurement of Assets and Liabilities of the Subsidiaries

The full portion of the assets and liabilities of the subsidiaries is marked to fair value as of the acquisition of the control.

(4) Cash and Cash Equivalents

Cash and cash equivalents in the consolidated statements of cash flows are composed of: cash in hand, bank deposits able to be withdrawn on demand, and short-term investments with an original maturity of three months or less and which represent a minor risk of fluctuations in value.

(5) Marketable Securities and Investments in Securities

Held-to-maturity debt securities, which the Companies intend to hold to maturity, are stated at cost after accounting for premiums or discounts on acquisition (which are amortized over the period to maturity).

Available-for-sale securities, for which market value is available, are valued at the fair market value prevailing at the fiscal year-end. Net unrealized gains or losses on these securities are reported as a separate item in the shareholders' equity at a net-of-tax amount. The cost of securities sold is based on the weighted-average cost of all shares of the respective securities held at the time of sale.

Available-for-sale securities, for which market value is not available, are valued at cost, with cost determined by the gross average method.

In cases where the fair value of held-to-maturity debt securities, equity securities issued by unconsolidated subsidiaries and affiliates, or available-for-sale securities has declined significantly, and such impairment of the value is not deemed to be temporary, those securities are written down to the fair value and the resulting losses are included in net income for the period.

(6) Inventories

Work in process are valued using the individual cost method.

(7) Property and Equipment

Depreciation is computed using the declining-balance method at rates based on the estimated useful lives of assets, which are determined by Japanese tax law.

However, the straight-line method is used for the buildings (excluding facilities attached to the buildings) acquired on and after April 1, 1998 by Japan Securities Settlement & Custody, Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Furthermore, depreciation of property leased by Tosho System Service Co., Ltd. is computed using the straight-line method based on its entire lease period with no residual value.

(8) Intangible Fixed Assets

Intangible fixed assets, except software for internal use, are amortized using the straight-line method over the period regulated by the Japanese Commercial Code or Japanese tax law.

Software for internal use is amortized using the straight-line method over an estimated useful life (five years).

(9) Income Taxes

Income taxes of the Companies consist of corporate income taxes, local inhabitants taxes and enterprise taxes. Income taxes are determined using the asset and liability method, where deferred tax assets and liabilities are recognized for temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements.

(10) Allowances

Allowance for Doubtful Accounts

Allowance for doubtful accounts is made against potential losses on collection at an amount measured using a historical bad debt ratio, plus an amount individually measured based on the collectibility of accounts that are expected to be uncollectible due to bad financial condition or insolvency.

Allowance for Employee Bonuses

Allowance is made for bonuses to employees at the amount expected to be paid in respect of the calculation period ended on the balance sheet date.

Allowance for Retirement Benefits for Directors

Allowance for retirement benefits for directors (including administrative directors) and corporate auditors is provided at an amount equivalent to 100 per cent of such benefits the Companies would be required to pay, had all eligible directors and corporate auditors retired at the year-end date, in accordance with the Companies' internal rules.

Allowance for Retirement Benefits for Employees

Allowance for retirement benefits for employees is provided based on estimated projected benefit obligations and pension plan assets at the fiscal year end in order to cover required retirement benefits for eligible employees.

The excess of the estimated fair value of plan assets over the estimated present value of projected benefit obligations (adjusted by unrecognized actuarial differences) is recognized as prepaid pension expenses.

The unrecognized differences arising from adopting the new standard are recognized in expenses using the straight-line

method over a fixed period (15 years).

Unrecognized actuarial gains and losses are recognized in expenses using the straight-line method over a fixed period (10 years), which is within the average estimated effective remaining working life of the employees, commencing from the following period.

Unrecognized prior service costs are recognized in expenses using the straight-line method over a fixed period (10 years), which is within the average estimated effective remaining working life of the employees.

(11) Leases

Leases that substantially transfer all the risks and rewards of ownership of the assets are accounted for as capital leases.

However, leases which do not transfer ownership of the assets at the end of the lease term are accounted for as operating leases, in accordance with accounting principles and practices generally accepted in Japan.

(12) Accounting for hedging

Japan Securities Settlement & Custody, Inc. (JSSC) uses foreign exchange forward contracts to hedge exposures resulting from fluctuations in foreign currency exchange rates on monetary assets denominated in foreign currencies.

JSSC does not use derivatives for speculative purposes.

For execution of derivative transactions, JSSC establishes internal rules to operate internal control effectively.

JSSC is exposed to the credit risk of non-performance by counterparties, but does not anticipate any losses arising from the risk, as the counterparties are limited to major financial institutions.

Monetary assets hedged by qualified forward foreign exchange contracts (which JSSC uses), are translated at the corresponding contract rates.

(13) Accounting for debt assumption

Concerning the debt assumption of Japan Securities Clearing Corporation, assets and liabilities concerned are recognized on settlement basis.

(14) Appropriation of Retained Earnings

Under the Japanese Commercial Code and the Articles of Incorporation, the plan for appropriation of retained earnings proposed by the Board of Directors is required to be approved at the shareholders' meeting (which must be held within three months after the end of each fiscal year).

The appropriation of retained earnings reflected in the accompanying Consolidated Statements of Shareholders' Equity

represents the results of such an appropriation applicable to the preceding fiscal year (which was approved at the shareholders' meeting and disposed of during the fiscal year).

(15) Accounting for Consumption Taxes

Consumption taxes are imposed at a flat rate of 5% for all domestic consumption of goods and services (with certain exemptions). Consumption taxes imposed on the Companies' sales are withheld by the Companies at the time of sale and are subsequently paid to the government.

Consumption taxes withheld and consumption taxes paid by the Companies on the purchase of goods and services from vendors are not included in any amounts in the accompanying Consolidated Statements of Income. The net balance of consumption taxes withheld and paid is included in "Other current liabilities" in the accompanying Consolidated Balance Sheets.

(16) Foreign Currency Translation

All monetary assets and liabilities of the Companies denominated in foreign currencies are translated into yen at the year-end rate. The resulting transaction gains or losses are charged or credited to income.

(17) Accounting standard for impairment of fixed assets

On August 9, 2002, the Business Accounting Council in Japan issued "Accounting Standard for Impairment of Fixed Assets."

The standard requires that fixed assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss shall be recognized in the income statement by reducing the carrying amount of impaired assets or a group of assets to the recoverable amount to be measured as the higher of net selling price and value in use.

The standard shall be effective for fiscal years beginning April 1, 2005. However, an earlier adoption is permitted for fiscal years beginning April 1, 2004 and for fiscal years ending between March 31, 2004 and March 30, 2005.

TSE has not yet applied this new standard nor has determined the effect of applying it on TSE's consolidated financial statements.

3. Reclassifications

Certain reclassifications of the accompanying consolidated financial statements as of and for the year ended March 31, 2003 have been made to conform to the 2004 presentation.

4. Cash and cash equivalents

The relations between the cash and cash equivalents and balance sheets items are as following:

	¥ mils.	U.S.\$ thous. (Note 1)	
	2003	2004	2004
Cash and bank deposits	¥ 19,614	¥ 26,506	\$ 250,790
Short-term investment in securities	500	1,500	14,192
Debt securities within a year	(50)	(999)	(9,452)
Cash and cash equivalents	¥ 20,064	¥ 27,007	\$ 255,530

5. Investments in Securities

(1) Investments in securities as of March 31, 2003 and 2004 consisted of the following:

	¥ mils.	U.S.\$ thous. (Note 1)	
	2003	2004	2004
Short-term:			
Held-to-maturity securities	¥ —	¥ 999	\$ 9,452
Available-for-sale securities	500	501	4,740
Investments in affiliates	—	—	—
Total	¥ 500	¥ 1,500	\$ 14,192

	¥ mils.	U.S.\$ thous. (Note 1)	
	2003	2004	2004
Long-term:			
Held-to-maturity securities	¥ —	¥ 502	\$ 4,750
Available-for-sale securities	13	13	123
Investments in affiliates	4,081	3,274	30,977
Total	¥ 4,094	¥ 3,789	\$ 35,850

Note: In addition, the available-for-sale securities amount of ¥2,999 million included in the account of "Special bank deposit for default compensation reserve funds" as of March 31, 2004.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(2) Held-to-maturity securities for which market value is available are as follows:

	¥ mils.		
	2004		
Held-to-maturity securities:	Carrying amount	Fair value amount	Unrealized gains (losses)
Market value over book value:			
Equity securities	¥ —	¥ —	¥ —
Debt securities	—	—	—
Others	—	—	—
Market value less than book value:			
Equity securities	¥ —	¥ —	¥ —
Debt securities	502	499	(3)
Others	—	—	—
	<u>502</u>	<u>499</u>	<u>(3)</u>
	<u>¥ 502</u>	<u>¥ 499</u>	<u>¥ (3)</u>

	U.S.\$ thous.(Note 1)		
	2004		
Held-to-maturity securities:	Carrying amount	Fair value amount	Unrealized gains (losses)
Market value over book value:			
Equity securities	\$ —	\$ —	\$ —
Debt securities	—	—	—
Others	—	—	—
Market value less than book value:			
Equity securities	\$ —	\$ —	\$ —
Debt securities	4,750	4,721	(29)
Others	—	—	—
	<u>4,750</u>	<u>4,721</u>	<u>(29)</u>
	<u>\$ 4,750</u>	<u>\$ 4,721</u>	<u>\$ (29)</u>

(3) Available-for-sale securities for which market value is available are as follows:

	¥ mils.		
	2003		
Available-for-sale securities:	Carrying amount	Fair value amount	Unrealized gains (losses)
Market value over book value:			
Equity securities	¥ —	¥ —	¥ —
Debt securities	50	50	0
Others	—	—	—
	<u>50</u>	<u>50</u>	<u>0</u>
Market value less than book value:			
Equity securities	¥ —	¥ —	¥ —
Debt securities	—	—	—
Others	—	—	—
	<u>—</u>	<u>—</u>	<u>—</u>
	<u>¥ 50</u>	<u>¥ 50</u>	<u>¥ 0</u>

(4) Details of securities without market quotation are as follows:

	¥ mils.		U.S.\$ thous. (Note 1)
	2003	2004	2004
Held-to-maturity securities			
ABCP	¥ —	¥ 999	\$ 9,452
Available-for-sale securities			
Unlisted equity securities, excluding over-the-counter stock	13	13	123
ABCP	—	2,999	28,375
FFF	450	501	4,740
	<u>¥ 463</u>	<u>¥ 4,512</u>	<u>\$ 42,690</u>

(5) Redemption schedule of held-to-maturity securities as of March 31, 2004 are as following:

	¥ mils.		U.S.\$ thous. (Note 1)	
	Within a year	Within 5 years over a year	Within a year	Within 5 years over a year
Debt Securities				
Government bonds	¥ —	¥ 500	\$ —	\$ 4,731
Corporate bonds	—	—	—	—
Others	1,000	—	9,461	—
Others	—	—	—	—
Total	<u>¥ 1,000</u>	<u>¥ 500</u>	<u>\$ 9,461</u>	<u>\$ 4,731</u>

6. Long-Term Debt

Long-term debt as of March 31, 2003 and 2004 consists of the following:

	¥ mils.		U.S.\$ thous. (Note 1)
	2003	2004	2004
Long-term debt within 1 year	¥ 929	¥ 420	\$ 3,974
Long-term debt	395	222	2,100
	<u>¥ 1,324</u>	<u>¥ 642</u>	<u>\$ 6,074</u>

Average rate of long-term debt within 1 year as of March 31, 2004: 1.5%

Average rate of long-term debt as of March 31, 2004: 1.5%

The aggregate annual maturities of the non-current portion of long-term debt as of March 31, 2004 are as follows:

Year ending March 31,	¥ mils.	U.S.\$ thous. (Note 1)
2006	¥ 170	\$ 1,608
2007	51	483
2008	1	9
Thereafter	—	—
	<u>¥ 222</u>	<u>\$ 2,100</u>

7. Income Taxes

The Companies in Japan are subject to several taxes based on income, which in the aggregate resulted in statutory tax rates of approximately 42.0% for the years ended March 31, 2003 and 2004.

Significant components of the Companies' deferred income tax assets and liabilities as of March 31, 2003 and 2004 are as follows:

	¥ mils.		U.S.\$ thous. (Note 1)
	2003	2004	2004
Deferred tax assets:			
Allowance for retirement benefits for employees	¥ 1,103	¥ 1,422	\$ 13,454
Allowance for employee bonuses	258	306	2,895
Depreciation and amortization	281	281	2,659
Net operating loss carried forward	78	26	246
Unrealized gains on fixed assets	18	27	255
Accrued enterprise tax	25	363	3,435
Other	380	450	4,258
Sub-total	2,143	2,875	27,202
Less – Valuation allowance	(305)	(300)	(2,839)
Total deferred tax assets	1,838	2,575	24,363
Deferred tax liabilities:			
Accrued enterprise tax	(5)	—	—
Total deferred tax liabilities	(5)	—	—
Net deferred tax assets	<u>¥ 1,833</u>	<u>¥ 2,575</u>	<u>\$ 24,363</u>

As of March 31, 2003 and 2004, the reconciliation of the statutory tax rate to the effective tax rate is as follows:

	2003	2004
Statutory tax rate	42.0%	42.0%
Adjustments:		
Permanent non-deductible difference	2.1	0.6
Equity in earnings of affiliated companies	(7.5)	(0.4)
Decrease in deferred tax assets due to tax rate change	1.1	0.4
Deduction by investment in IT	—	(5.4)
Temporary differences retroactive to the past years	(50.3)	(0.7)
Other factors	(1.4)	0.2
Effective tax rate	<u>(14.0)%</u>	<u>36.7%</u>

8. Allowance for Retirement Benefits for Employees

TSE has defined benefit retirement plans that are a tax qualified pension plan, a contributory pension plan, and a lump-sum retirement payment plan. Some subsidiaries have a contributory pension plan and a lump-sum retirement payment plan.

TSE has joined in Japan Securities Contributory Pension Fund, a joint-type pension fund, and thus amounts subject to the plan are not included in figures below.

The pro rate contribution amount of TSE's plan assets in the Japan Securities Contributory Pension Fund as of March 31, 2004, is ¥12,199 million.

The allowance for retirement benefits for employees as of March 31, 2003 and 2004 are as follows:

	¥ mils.		U.S.\$ thous. (Note 1)
	2003	2004	2004
Projected benefit obligations	¥ (26,277)	¥ (26,181)	\$ (247,715)
Plan assets	11,227	13,934	131,838
Unfunded benefit obligations	(15,050)	(12,247)	(115,877)
Unrecognized prior service costs	(1,213)	(1,061)	(10,038)
Unrecognized actuarial differences	5,829	3,235	30,608
Unrecognized transition amount	6,827	6,258	59,212
Accrued pension costs	(3,607)	(3,815)	(36,097)
Prepaid pension costs	2,197	2,124	20,096
Allowance for retirement benefits	<u>¥ (5,804)</u>	<u>¥ (5,939)</u>	<u>\$ (56,193)</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The net pension costs relating to retirement benefits for the years ended March 31, 2003 and 2004 are as follows:

	¥ mils.		U.S.\$ thous. (Note 1)
	2003	2004	2004
Service cost	¥ 813	¥ 844	\$ 7,985
Interest cost	688	654	6,188
Expected return on plan assets	(311)	(280)	(2,649)
Amortization of unrecognized prior service costs	(151)	(151)	(1,428)
Amortization of unrecognized actuarial differences	329	627	5,932
Amortization of transition adjustment	568	568	5,374
Net pension costs	¥ 1,936	¥ 2,262	\$ 21,402

Assumptions used in the calculation of the above information are as follows:

	As of March 31, 2003	As of March 31, 2004
Discount rate	2.5%	2.2%
Expected rate of return on plan assets	2.8%	2.5%
Method of attributing the projected benefits of services	straight-line basis	straight-line basis
Amortization of unrecognized prior service cost	10 years	10 years
Amortization of transition adjustment	15 years	15 years
Amortization of unrecognized actuarial differences	10 years	10 years

9. Lease Transactions

The Companies have various lease agreements whereby the Companies act both as a lessee and a lessor. Finance lease contracts other than those which are deemed to transfer the ownership of the leased assets to lessees are accounted for by the method that is applicable to ordinary operating leases.

(1) Lessee lease

(a) Acquisition cost, accumulated depreciation and net book value are as follows:

	¥ mils.		
	2003		
	Acquisition Cost	Accumulated Depreciation	Balance as of March 31, 2003
Information system Equipments	¥ 1,020	¥ 848	¥ 171
Other	57	49	7
Total	¥ 1,077	¥ 898	¥ 178

U.S.\$ thous.
(Note 1)

	¥ mils.			
	2004			
	Acquisition Cost	Accumulated Depreciation	Balance as of March 31, 2004	Balance as of March 31, 2004
Information system Equipments	¥ 821	¥ 784	¥ 37	\$ 350
Other	29	27	2	19
Total	¥ 850	¥ 811	¥ 39	\$ 369

(b) Outstanding future lease payments as of March 31, 2003 and 2004 including the interest portion thereon, categorized by contractual maturity are as follows:

	¥ mils.		U.S.\$ thous. (Note 1)
	2003	2004	2004
Due within one year	¥ 146	¥ 29	\$ 274
Due over one year	41	11	104
	¥ 187	¥ 40	\$ 378

(c) Lease payments, depreciation portion and interest expense portion are as follows:

	¥ mils.		U.S.\$ thous. (Note 1)
	2003	2004	2004
Lease payments	¥ 179	¥ 155	\$ 1,466
Depreciation portion	157	90	851
Interest expense portion	7	2	19

(d) Computation of depreciation portion

Depreciation portion is computed using the straight-line method over a period up to the length of the relevant lease contract with no residual value.

(e) Allocation of interest expense portion

Differences between total lease expenses and acquisition costs of the leased equipments comprise interest expense portion. Interest expense portion is allocated using the interest method over the terms of lease.

(2) Lessor lease

(a) Acquisition cost, accumulated depreciation, and net book value are as follows:

	¥ mils.			U.S.\$ thous. (Note 1)
	2003			
	Acquisition Cost	Accumulated Depreciation	Balance as of March 31, 2003	
Leased assets	¥ 2,781	¥ 1,092	¥ 1,689	

	¥ mils.			U.S.\$ thous. (Note 1)
	2004			
	Acquisition Cost	Accumulated Depreciation	Balance as of March 31, 2004	Balance as of March 31, 2004
Leased assets	¥ 3,029	¥ 1,633	¥ 1,396	\$ 13,208

(b) Outstanding lease commitments as of March 31, 2003 and 2004 are as follows:

	¥ mils.		U.S.\$ thous. (Note 1)
	2003	2004	2004
Due within one year	¥ 1,158	¥ 811	\$ 7,673
Due over one year	951	772	7,304
	¥ 2,109	¥ 1,583	\$ 14,977

(c) Lease revenue, depreciation, and interest income portion are as follows:

	¥ mils.		U.S.\$ thous. (Note 1)
	2003	2004	2004
Lease revenue	¥ 1,551	¥ 1,304	\$ 12,338
Depreciation	1,177	993	9,395
Interest income portion	250	107	1,012

(d) Allocation of interest income portion

Interest income portion is allocated using the interest method over the terms of leases.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

10. Related Party Transactions

Material transactions of the Companies with related companies or individuals, excluding transactions with consolidated subsidiaries (which are eliminated in the consolidated financial statements), for the year ended March 31, 2003 and 2004, are as follows:

2003

(1) Individual

Name of related party	Address	Paid-in capital	Principal Business	Percentage of equity ownership by the Company	Relationship		Transactions		Account	End of period account balance
					Directors holding concurrent positions	Business relationship	Description of the Company's transaction	Amount of transactions		
Junichi Ujiie	—	—	Director	—	Representative Director of Nomura Securities	—	Consulting	¥6	Other operating expense	—

¥ mils.

1. The terms and conditions of the above transactions are made on an arms-length basis.
2. The above transaction amounts exclude consumption taxes.

(2) Related company

Name of related party	Address	Paid-in capital	Principal Business	Percentage of equity ownership by the Company	Relationship		Transactions		Account	End of period account balance	
					Directors holding concurrent positions	Business relationship	Description of the Company's transaction	Amount of transactions			
Tosho Computer Systems Co. (an affiliated company)	Chuo-Ku, Tokyo	¥400	Data processing	Directly holds 35.0%	One director	Entrustment of system operation	Entrustment of system operation	¥3,531	Accounts payable	¥266	
							Rent of real estate	Rent of real estate	¥320	Advance receipt	¥3
										Deferred revenue	¥59
										Long-term deferred revenue	¥205

¥ mils.

1. The above transaction amounts exclude consumption taxes, but consumption taxes are included in the end of period balances.
2. The terms and conditions of the above transactions refer to market realized prices.

2004

Related company

Name of related party	Address	Paid-in capital	Principal Business	Percentage of equity ownership by the Company	Relationship		Transactions		Account	End of period account balance	
					Directors holding concurrent positions	Business relationship	Description of the Company's transaction	Amount of transactions			
Tosho Computer Systems Co. (an affiliated company)	Chuo-Ku, Tokyo	¥400 (\$4,228)	Data processing	Directly holds 35.0%	One director	Entrustment of system operation	Entrustment of system operation	¥3,589 (\$33,958)	Accounts payable	¥393 (\$3,718)	
							Rent of real estate	Rent of real estate	¥318 (\$3,008)	Deferred revenue	¥58 (\$548)
										Long-term deferred revenue	¥164 (\$1,551)

¥ mils. (U.S.\$ thous.: Note 1)

1. The above transaction amounts exclude consumption taxes, but consumption taxes are included in the end of period balances.
2. The terms and conditions of the above transactions refer to market realized prices.

11. Supplementary Consolidated Balance Sheets Information

(1) Guarantees

	¥ mils.		U.S.\$ thous. (Note 1)
	2003	2004	2004
Guarantees for employees' housing			
Loans from banks	¥ 4,837	¥ 4,940	\$ 46,740

(2) Assets and liabilities for hedging risks of securities exchange

a) TSE and its subsidiary, Japan Securities Clearing Corporation, have a system including deposits for clearing funds, in order to hedge the risks of securities exchange according to laws and regulations, and internal rules. Assets deposited to the Companies in accordance with the system are determined as monetary assets or securities (limited in the rules), and according to internal rules, the amounts of the deposited securities are calculated by multiplying their market values by a figure ranging between 70% and 95%, corresponding to their kinds.

b) Japan Securities Clearing Corporation, as a clearing institution, assumes debts and obtains credits from clearing participants when securities are traded in the market. In order to hedge the clearing participants' default for the period between the trading date and settlement date, the company receives deposits for clearing funds and keeps them separate from other assets. Related assets and liabilities are presented in the Consolidated Balance Sheets as follows:

	¥ mils.		U.S.\$ thous. (Note 1)
	2003	2004	2004
① Margin funds for when-issue transactions			
Deposit	¥ 124	¥ 307	\$ 2,904
Collateral securities	818	1,607	15,205
② Margin funds for derivative			
Deposit	98,129	235,032	2,223,787
Collateral securities	700,341	826,060	7,815,877
③ Deposits for clearing funds			
Deposit	41,527	79,370	750,969
Collateral securities	101,540	150,898	1,427,742
④ Deposits as collateral preceding settlement day			
Deposit	19,661	57,711	546,041
Collateral securities	168,087	114,348	1,081,918

c) TSE receives Legal Guarantee Funds from the trading participants in order to hedge the risk of trustors of securities exchange caused by trading participants' default, and keeps them separately from other assets. Legal Guarantee Funds are presented by related accounts as listed below:

	¥ mils.		U.S.\$ thous. (Note 1)
	2003	2004	2004
Legal guarantee funds			
Deposit	¥ 747	¥ 721	\$ 6,821
Collateral securities	1,989	2,277	21,545

d) In addition, TSE receives guarantee from the trading participants so as to hedge the TSE's risk caused by the participants' default. Thus TSE records monetary assets as "Cash and bank deposits" (¥1,839 million) and collateral securities as "Other current assets" (¥3,819 million). The related liabilities are recorded as "Deposits received as trading participants guarantee."

12. Supplementary Consolidated Profit and Loss Information

(1) The following are the major elements of "operating expenses" for the years ended March 31, 2003 and 2004:

	¥ mils.		U.S.\$ thous. (Note 1)
	2003	2004	2004
Salaries	¥ 8,199	¥ 7,768	\$ 73,498
Bonus allowance carried over	708	726	6,869
Pension costs	1,906	2,227	21,071
Executive retirement allowance carried over	79	93	880
System maintenance & operation costs	—	8,431	79,771
System related expenses	3,867	—	—
Real estate rental fees	5,685	5,629	53,260
Outsourcing business costs	3,921	—	—
Depreciation	7,523	6,999	66,222

Note: "System maintenance & operation costs" includes "system related expenses" by ¥3,639 million and "outsourcing business costs" by ¥4,659 million.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(2) The following are the elements of “Loss on disposal of fixed assets” for the years ended March 31, 2003 and 2004:

	¥ mils.		U.S.\$ thous. (Note 1)
	2003	2004	2004
Information system equipments	¥ 134	¥ 279	\$ 2,640
Other property and equipment	104	45	425
Software	78	214	2,025
Other intangible fixed assets	121	—	—
Total	¥ 437	¥ 538	\$ 5,090

13. Net Income per Share

Net income per share of common stock is based upon the weighted average number of shares of common stock outstanding during each year.

Basis for calculating net income per share for the years ended March 31, 2003 and 2004 are as follows:

	¥ mils.		U.S.\$ thous. (Note 1)
	2003	2004	2004
Net income	¥ 3,277	¥ 5,031	\$ 47,602
Less: Components not pertaining to common shareholders			
Bonuses to directors and corporate auditors	(—)	(57)	(539)
Net income pertaining to common stock	3,277	4,974	47,063
Average outstanding shares of common stock	2,300,000 shares	2,157,000 shares	

	Yen		U.S.Dollars (Note 1)
	2003	2004	2004
Net income per share	¥ 1,424.85	¥ 2,305.44	\$ 21.813
Shareholders' equity per share	29,780.73	31,982.03	302.602

14. Segment Information

(1) Business Segment

For the years ended March 31, 2003 and 2004, this information is not required to be disclosed because the revenue from

operations, operating income and total assets for the stock exchange segment exceeds 90% of consolidated revenue from operations, operating income and total assets, respectively.

(2) Geographic Information

TSE has no overseas consolidated subsidiaries for the years ended March 31, 2003 and 2004.

(3) Net Sales—Overseas

For the years ended March 31, 2003 and 2004, this information is not required to be disclosed because overseas sales do not exceed 10% of consolidated revenue.

15. Subsequent Event

The appropriations of the retained earnings of TSE with respect to the year ended March 31, 2004, as proposed by the Board of Directors and approved at the shareholders' meeting of TSE held on June 23, 2004, are as follows:

	¥ mils.	U.S.\$ thous. (Note 1)
Retained earnings as of March 31, 2004	¥ 39,152	\$ 370,442
Appropriations:		
Dividends	684	6,472
Director's bonus	57	539
Total appropriations	741	7,011
Retained earnings to be carried forward	¥ 38,411	\$ 363,431

Report of Independent Auditors

To the Board of Directors and Shareholders of
Tokyo Stock Exchange, Inc.

We have audited the accompanying consolidated balance sheets of Tokyo Stock Exchange, Inc. and its subsidiaries as of March 31, 2004 and 2003, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese Yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Tokyo Stock Exchange, Inc. and its subsidiaries as of March 31, 2004 and 2003, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

The amounts expressed in U.S. dollars, which are provided solely for the convenience of the reader, have been translated on the basis set forth in Note 1 to the accompanying consolidated financial statements.

ChuoAoyama PricewaterhouseCoopers

ChuoAoyama PricewaterhouseCoopers

Tokyo, Japan

June 23, 2004

SELF-REGULATORY FUNCTION

Necessity of a Self-Regulatory Function

The mission of a stock exchange is to facilitate effective capital allocation by providing a market that is characterized by efficiency, fairness, and a high degree of integrity, along with abundant liquidity and a sophisticated price discovery function.

In order to forge a fair market of high integrity, it is extremely important that a stock exchange itself maintain appropriate regulations to eliminate unfair trading in the markets and secure the trust of trading participants. Therefore TSE believes the self-regulatory function serves as a certification of quality and is indispensable for the Exchange.

Also in recent years, amidst structural reforms to

invigorate the Japanese economy, demand has been rising for a shift from a “savings” focused financial system to an “investment” focused one. As a result, there is an increasing need to strengthen our country’s overall market surveillance system by constructing an effective, efficient, and concordant system in which direct governmental regulation and self-regulation by self-regulatory organizations complement each other.

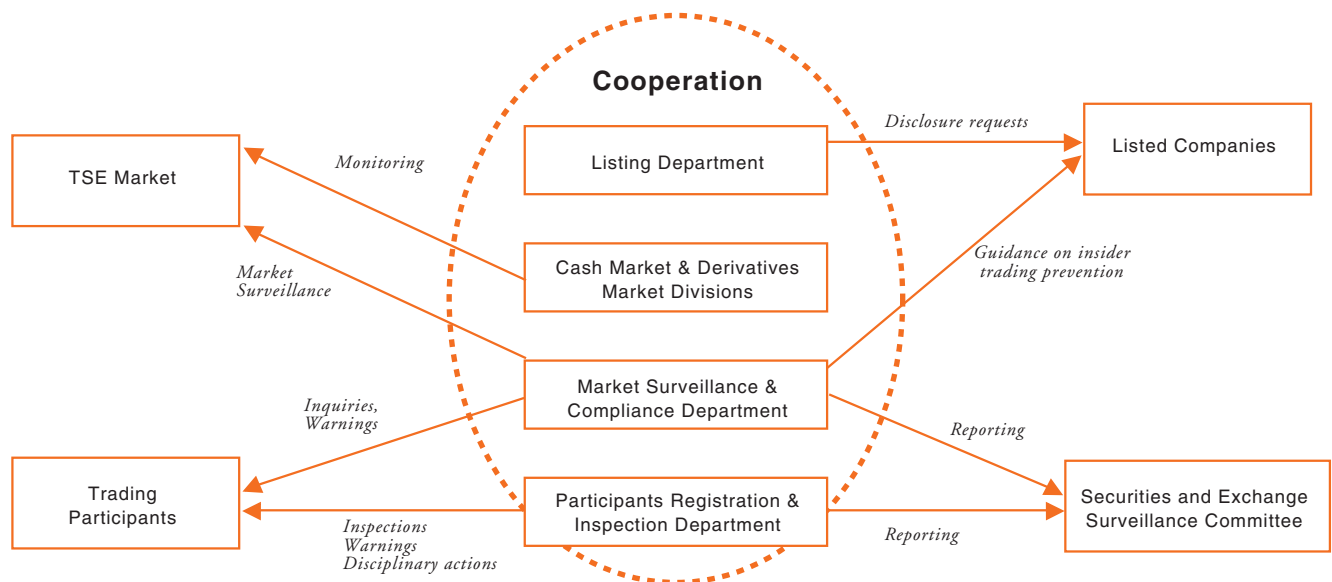
Based on these factors, TSE will continue to strengthen and reinforce its self-regulatory function to secure the fairness and integrity of its markets.

Overview of Self-Regulatory Operations

TSE's self-regulatory operations are composed of two main functions. The first is the “inspection” function designed to secure the soundness and credibility of trading participants in our market. The second is the “market surveillance” function designed to screen the market for manipulation, insider trading, and other unfair trading practices.

The Participants Registration and Inspection Department and the Market Surveillance and

Compliance Department comprise TSE's Self-Regulation Division. These two departments work together closely to ensure effective and efficient operations. They also work in cooperation with other sections such as the Market Division (Equities Department and Derivatives Department), which monitors the market in real time, and the Listing Department, which oversees appropriate and timely disclosure by listed companies..



Overview of Inspection Operation

Inspection encompasses the oversight of trading participants' business and financial conditions and their compliance with statutory laws and TSE's rules concerning operations, such as the receipt and execution of orders for trading in TSE's markets. TSE implements necessary measures based on inspection results in order to ensure the integrity of its trading participants. As a general rule, inspection operations are undertaken as follows:

- 1) Selection of trading participants to be inspected.
- 2) Review of documents submitted by the targeted trading participants.

- 3) Assignment of TSE staff to offices of targeted trading participants to examine books and records, which trading participants must maintain per laws, in order to determine whether or not any transactions are in violation of laws and/or regulations. Additionally, TSE reviews internal control and management systems.
- 4) In the event that TSE confirms that illegal and/or improper activities have occurred, or if a company's internal management system is inadequate, TSE issues warnings or takes disciplinary actions.

Overview of Market Surveillance Operation

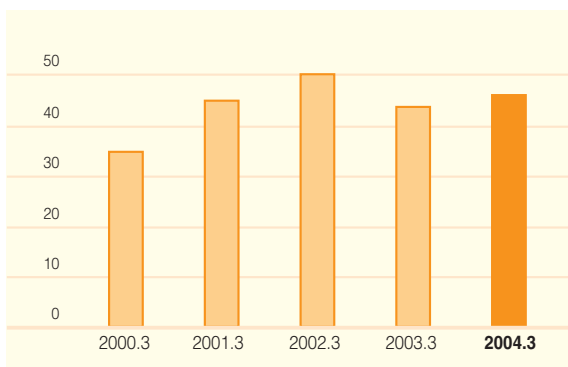
With regard to market surveillance and compliance, TSE takes appropriate measures against relevant trading participants when unfair trading is detected or suspected in an effort to eliminate such illicit activities.

As a general rule, market surveillance and compliance operations are performed in the following manner:

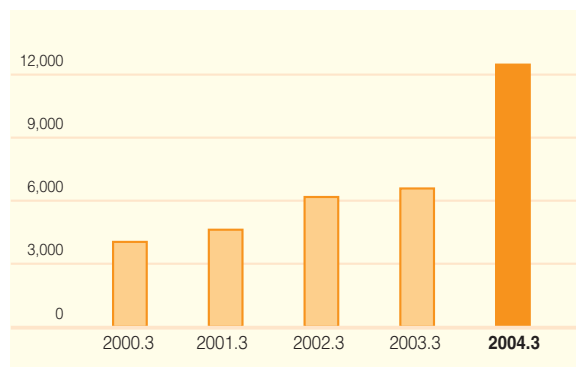
- 1) Extraction of stocks to be reviewed by surveying trends in share prices, trading patterns, and information disclosed by issuers.

- 2) Filtering of stock price movement, trading volumes, trading participant share volumes, and client names to determine suspicious trading.
- 3) Inquiry into and analysis of client details and background of acceptance and execution of orders.
- 4) When unfair trading is suspected or confirmed, TSE issues warnings to or takes disciplinary actions against relevant trading participants and/or publicly traded companies.

■ Number of Trading Participants Inspected



■ Number of Market Surveillance Cases

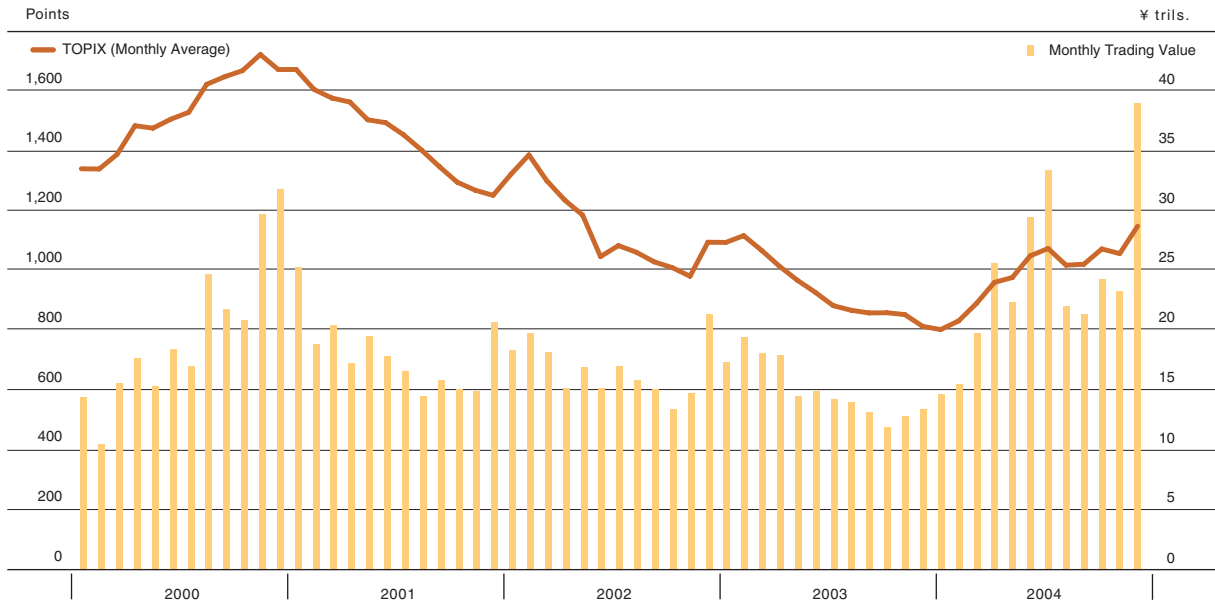


STATISTICAL DATA

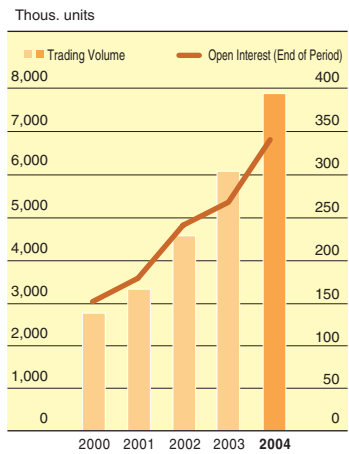
Tokyo Stock Exchange, Inc. and Consolidated Subsidiaries
For years ended March 31

Market Data

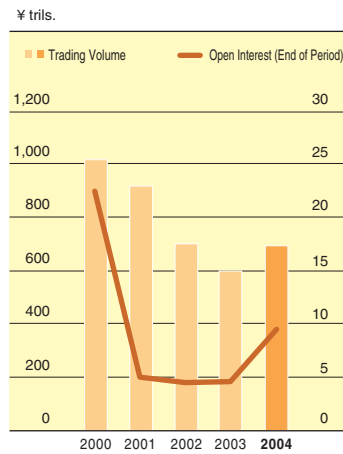
TOPIX & Domestic Equities Trading Value



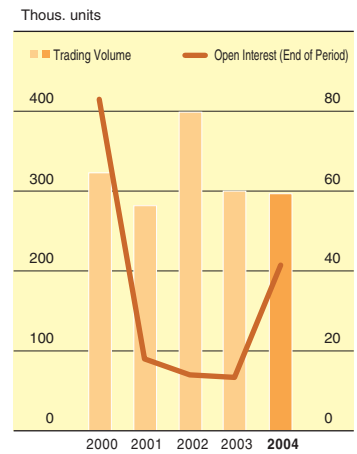
Stock Index Futures



JGB Futures



Equity Options



LISTED SECURITIES DATA

As of March 31, 2004

All figures in parenthesis represent comparisons with FY 2002 year-end data.

For the year ended March 31, 2003, TSE welcomed 140 newly listed companies, resulting in a rise in listings to 2,205 companies. TSE plans to continue to increase this number by sponsoring listing seminars and holding listing promotional activities throughout the year.

Domestic Equities

Listed Companies	2,205	(+73)
1st Section	1,551	(+35)
2nd Section	570	(+1)
Mothers	84	(+37)

Listed Issues	2,237	(+100)
1st Section	1,564	(+46)
2nd Section	580	(+8)
Mothers	93	(+46)

Listed Shares	331,516,889,244.38	(+7,285,609,484.75)
1st Section	318,151,680,624.20	(+7,595,252,443.84)
2nd Section	12,804,007,256.36	(-766,549,257.23)
Mothers	561,201,363.82	(+456,906,298.14)

Preferred Stocks

Listed Companies	1	(±0)
Listed Issues	1	(±0)
Listed Shares	3,072,000	(±0)

Foreign Equities

Listed Companies	32	(-2)
Listed Issues	32	(-2)
Listed Shares	72,097,736,799	(-1,458,605,800)

Preferred Subscription Certificates

Listed Companies	1	(±0)
Listed Issues	1	(±0)
Listed Certificates	354,111	(±0)

Investment Trust Beneficiary Certificates

Listed Issues	15	(-1)
Listed Certificates	2,016,798,559	(-602,326,412)

Foreign Investment Trust Beneficiary Certificates

Listed Issues	2	(±0)
Listed Certificates	220,000	(±0)

Real Estate Investment Trusts

Listed Issues	12	(+6)
Listed Certificates	2,034,994	(+904,020)

Straight Bonds

Issuers	3	(±0)
Listed Issues	231	(+23)
Face Value of Listed Issues	¥470,472,148,650,000	(+50,341,556,250,000)

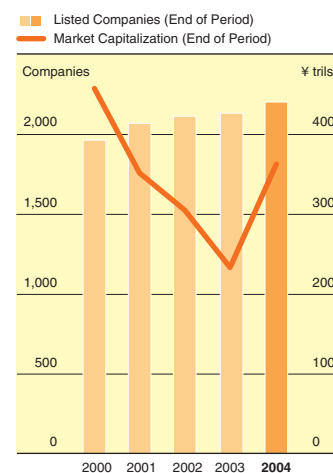
Convertible Bonds

Issuing Companies	163	(-105)
Listed Issues	193	(-149)
Face Value of Listed Issues	¥4,406,089,000,000	(-¥2,555,721,500,000)

Exchangeable Bonds

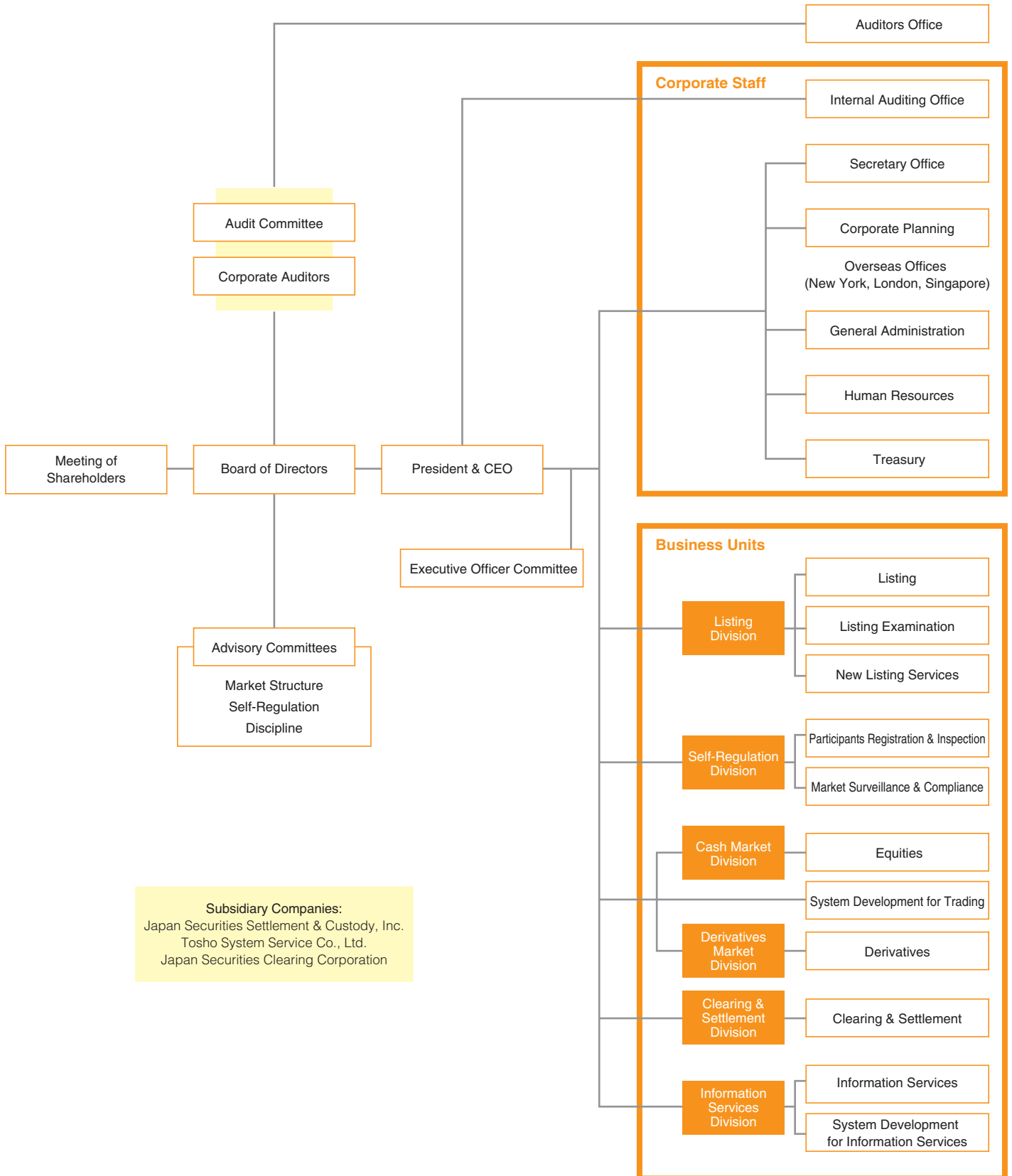
Listed Issues	2	(±0)
Face Value of Listed Issues	¥135,622,000,000	(±0)

Change in Domestic Listed Companies and Market Capitalization
(For years ended March 31)



ORGANIZATION

As of June 24, 2004



CORPORATE DATA

As of March 31, 2004

Name	Tokyo Stock Exchange, Inc.	
Representative Officer (As of April 1, 2004)	Takuo Tsurushima President & CEO	
No. of Officers (As of June 23, 2004)	Board of Directors	11
	Corporate Auditors	4
	Executive Officers	8 (5 of whom are also Board members)
Address	2-1, Nihombashi-Kabuto-cho Chuo-ku, Tokyo 103-8220, Japan	
Founding	April 1, 1949	
Capital	¥11.5 billion	
No. of Employees	730	
Main Business:	Market provision for the trading of cash and derivative securities; public announcement of market prices for those securities; maintenance of fair and equitable trading; other business related to the operation of a securities market.	

Share Information	Authorized Shares	9,200,000
	Shares Outstanding	2,300,000
	No. of Shareholders	135

Trading Participants	General Trading Participants	108
	JGB Futures and Options Trading Participants	73
	TOPIX Futures and Options Trading Participants	1

Overseas Offices	New York Representative Office 45 Broadway New York, NY 10006 U.S.A. Tel: (1) 212-363-2350
	London Representative Office 4th Floor, Peninsular House 36 Monument Street London EC3R 8LJ U.K. Tel: (44) 20-7236-0885
	Singapore Representative Office 16 Raffles Quay #11-02, Hong Leong Building, Singapore 048581 Tel: (65) 6438-5100



Tokyo Stock Exchange, Inc.

2-1 Nihombashi-Kabuto-cho, Chuo-ku, Tokyo 103-8220, Japan

Tel:(81)3-3666-0141 <http://www.tse.or.jp/>

What makes a market dynamic?

What makes a market attractive?

What makes a market successful?

Where do all these qualities come together? ○○○○○○