

Japanese Stocks

JGB Futures

TOPIX Futures

Annual Report

For the fiscal year ended March 31, 2003

Where the World Trades



PROFILE

- Tokyo Stock Exchange, Inc. (TSE) was founded in 1949 and has functioned as Japan's "central market," growing along with the Japanese economy. TSE claimed an overwhelming 92% share of the total value of all trading on domestic stock exchanges during 2002.
- Relative to global stock exchanges, TSE had a market value of ¥232 trillion (as of the end of March 2003) and an average daily trading value of ¥739 billion (FY2002), making it one of the leading stock exchanges in the world in terms of both size and liquidity.
- TSE is a major international capital market, with trading by non-Japanese investors accounting for nearly one third of the value of its trading turnover during 2002.
- TSE has become a comprehensive exchange, providing markets for derivative products such as long-term government bond futures and TOPIX futures, in addition to its core market for Japanese stocks. TSE plays a vital role in the management and sourcing of capital both domestically and internationally.
- Not only does TSE offer market services, but also settlement and clearing services, market information services and a wide range of other stock exchange business services.
- TSE has led the global markets in taking steps to computerize and automate trading by introducing new systems, and now boasts top levels of reliability, capacity and speed.
- TSE, which became a stock corporation on November 1, 2001, will continue to fortify its earnings capacity and raise its enterprise value with the objective of listing in FY2005.

2	FINANCIAL HIGHLIGHTS
3	OVERVIEW OF OPERATING REVENUES
4	TO OUR SHAREHOLDERS
6	INTERVIEW WITH THE PRESIDENT
12	NEW INTERIM BUSINESS PLAN
16	CORPORATE GOVERNANCE
18	YEAR IN REVIEW
22	OPERATING AND FINANCIAL REVIEW
26	CONSOLIDATED BALANCE SHEETS
28	CONSOLIDATED STATEMENTS OF INCOME
29	CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
30	CONSOLIDATED STATEMENTS OF CASH FLOWS
31	NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
39	REPORT OF INDEPENDENT AUDITORS
40	STATISTICAL DATA
41	LISTED SECURITIES DATA
42	BOARD OF DIRECTORS AND CORPORATE AUDITORS
44	ORGANIZATION
45	CORPORATE DATA

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.

FINANCIAL HIGHLIGHTS

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

Financial Data	¥ mil. except per share and ratio data	¥ mil. except per share and ratio data	\$ thou. except per share and ratio data
	2002 (unaudited)	2003	2003
FOR THE YEAR			
Operating revenues	¥ 44,735	¥ 41,065	\$ 341,639
Operating profit	1,753	2,460	20,467
Net income before income taxes and minority interests	1,960	2,859	23,789
Net income	844	3,277	27,264
AT YEAR END			
Current assets	¥ 1,319,987	¥ 1,159,208	\$ 9,643,997
Non-current assets	60,160	59,251	492,934
Total assets	1,380,147	1,218,459	10,136,931
Current liabilities	¥ 1,303,977	¥ 1,138,914	\$ 9,475,156
Non-current liabilities	10,951	10,657	88,662
Minority interest	—	392	3,265
Total shareholders' equity	65,219	68,496	569,848
Total liabilities and shareholders' equity	1,380,147	1,218,459	10,136,931
PER SHARE DATA			
EPS	¥ 366.83	¥ 1,424.85	\$ 11.85
BPS*	20,804.61	22,229.52	184.94
KEY FINANCIAL RATIO			
ROE*	1.8%	6.6%	

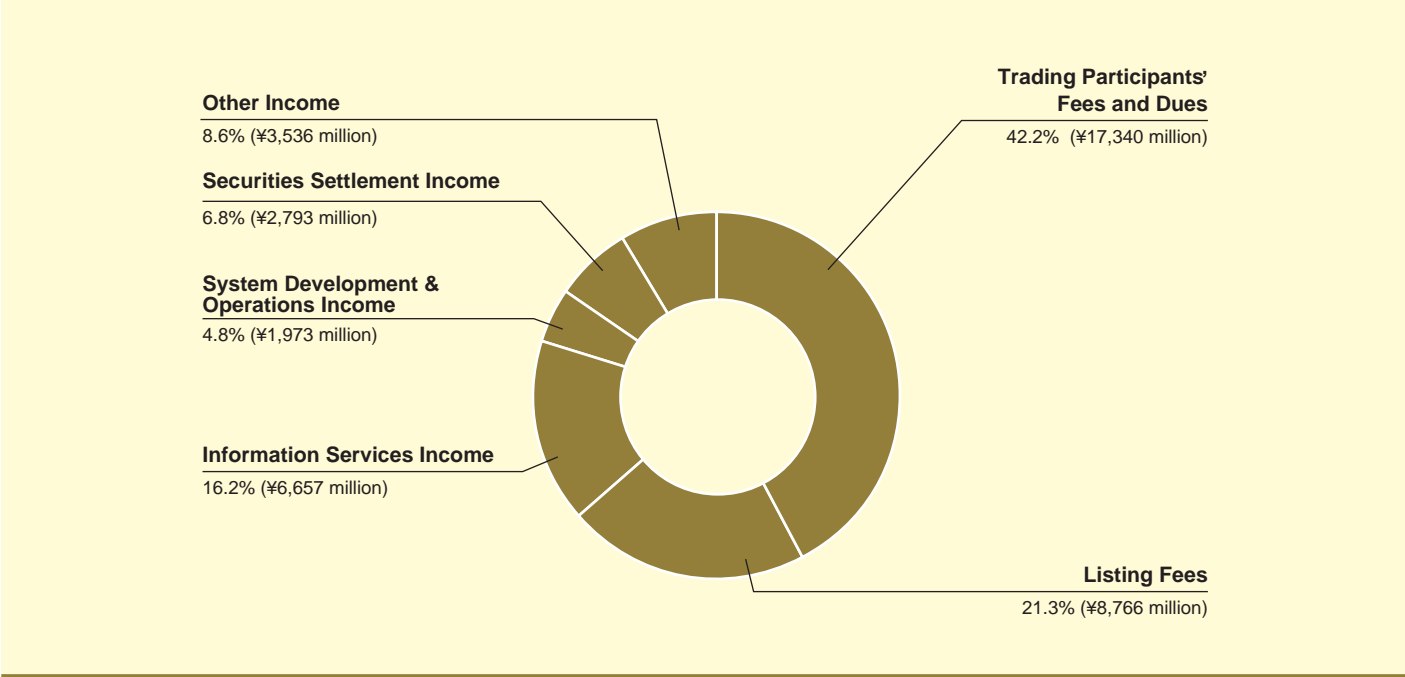
*Calculated excluding the default compensation reserve fund

Market Data

FOR THE YEAR			
Domestic equities trading volume (thousand)	210,909,712	216,298,477	
Domestic equities trading value (million)	¥ 201,189,221	¥ 181,884,814	\$ 1,513,185
JGB futures trading volume (billion)	¥ 700,802	¥ 590,559	\$ 4,913
TOPIX futures trading volume (units)	5,745,116	7,441,075	
AT YEAR END			
Number of listed companies	2,112	2,132	
Market capitalization (million)	¥ 305,797,491	¥ 232,862,134	\$ 1,937,289
Index (TOPIX)	1,060.19	788.00	

*Rate of \$1=¥120.20 used for conversion

OVERVIEW OF OPERATING REVENUES



Trading Participants' Fees and Dues

TSE receives fees and dues from securities companies and other trading participants, including both a “fixed rate fee” based on capitalization, and a “variable rate fee” based on a percentage of the trading value of stocks and the trading value or volume of other market instruments. Of these two fees, the “variable rate fee” is 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 companies for their original listing and subsequent listing of additional securities, and “annual listing fees” according to the number of shares outstanding. Of these fees, the “initial listing fees” 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 & operations income is derived from systems development and operations services provided by Tosho System Service Co., Ltd.

Securities Settlement Income

Securities settlement income is derived from the share custody and delivery services provided by Japan Securities Settlement & Custody, Inc., and trade guarantee and other services performed by Japan Securities Clearing Corporation.

Other Income

Other income is derived from activities such as the leasing of trading terminals to trading participants, the subsequent maintenance of those terminals, and the rental of space in TSE Arrows.

TO OUR SHAREHOLDERS

Making Proactive and Aggressive Efforts to Raise the Global Standing of Our Financial Markets Through a Shift to an Investment Based Financial System



Achieving Higher Profits through Company-Wide Cost Reduction Efforts

The stock markets suffered through very difficult conditions and after June of last year, TOPIX trended downward, slipping significantly below the previous “post bubble” low (980.11 points) recorded in October 1998 to touch 770.62 points on March 11, 2003. Trading value for FY2002 fell along with the stagnating markets, and TSE First Section average daily trading value slipped to ¥729 billion, well below the level of the previous year.

Against the backdrop of these difficult conditions, operating revenues fell by 8.2% year-on-year to ¥41,065 million during FY2002. However, company-wide efforts to reduce costs allowed us to achieve a 40.3% year-on-year increase in operating profit to ¥2,460 million.

Taking a Leading Role in Welcoming the Arrival of a Financial System Centered on Investment

As Japanese banks struggle with bad debts and non-performing loans, the Japanese economy continues to languish. Amidst this trend, the demand for a shift from a financial system based on savings to one based on investment is increasing, and that shift constitutes the central structural reform necessary to improve the intermediary functions of the financial markets.

In order to respond to these new demands it is imperative for TSE to take proactive and aggressive initiatives to become more efficient and

user friendly, while maintaining its status as a fair and reliable market, to help propel the shift from a financial system based on savings to one based on investment.

The time has arrived for an investment based financial system, and we hope to contribute to the healthy development of the Japanese financial capital markets, as well as to their stability and continued growth.

Seeking to Fortify Our Global Competitiveness as Japan's Central Market

Stock markets worldwide are becoming increasingly competitive as a result of globalization and trends in cross-border trading. Consequently, global markets are moving quickly to secure their competitive positions through associations with each other.

These trends have been particularly apparent in Europe for the past several years, and the pace of these activities has increased even more rapidly within the last two to three years. Now these changes are spreading to Asian markets as well.

In this environment, we will strive to boost our global competitiveness as Japan's central market, and will exert every effort to raise our pre-eminent international presence.

Striving to List in FY2005 and Become the World's Leading Securities Exchange

To further develop Japan's capital markets and secure our position as an international financial capital market, we seek to play a leading role in the revitalization of Japan's financial system and in raising its international competitiveness. Therefore, we are dedicated to (1) undertaking an open and transparent management style, (2) securing steady earnings and profits while maintaining a balance between public responsibility and profitability, (3) publicly listing in FY2005, and ultimately (4) becoming the world's leading exchange.

Domestic and overseas economies are facing increasingly difficult times and can expect further challenges in the near future. We will continue to work steadily towards our goals by pushing forward structural reforms in our own stock exchange.

July 2003



Masaaki Tsuchida
President & CEO

Q1 First, please tell us what you think are the relevant factors that make Tokyo Stock Exchange attractive.

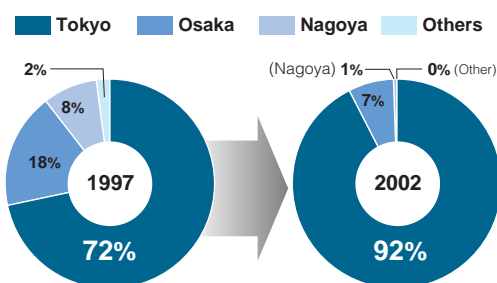
A First of all, TSE’s position as the central market for Japanese stocks is overwhelming. As reflected by the strong increase in our share of total domestic trading volume across all stock markets in Japan by 20 percentage points over the five years from 1997 to 2002, TSE’s standing as the leader among Japanese stock markets has been further affirmed. With a market capitalization of

¥232 trillion at the end of FY2002, and an average daily trading value of domestic stocks of ¥739 billion, TSE is one of the world’s leading markets in terms of both size and liquidity. Moreover, the fact that non-Japanese investors accounted for nearly one-third of the trading value during 2002 is a reflection that foreign investors recognize TSE as the central market for Japanese stocks.



“TSE’s position as the central market for Japanese stocks is overwhelming and continues to strengthen”

Share of Stock Trading Value by Exchanges in Japan



The Top 10 Exchanges in the World (2002) (ranking based on market capitalization)

Exchange	Country	Market cap. (\$mil.)	Trading value (\$mil.)
1. NYSE	USA	9,015,270.5	10,311,155.7
2. Tokyo	Japan	2,069,299.1	1,564,243.9
3. Nasdaq	USA	1,994,494.0	7,254,594.3
4. London	UK	1,800,658.0	4,001,339.9
5. Euronext	—	1,538,654.2	1,988,358.6
6. Deutsche Borse	Germany	686,013.5	1,212,301.6
7. Toronto Stock Exchange	Canada	570,223.5	408,164.9
8. Swiss Exchange	Switzerland	547,020.4	599,749.1
9. Italian Exchange	Italy	477,075.4	634,634.6
10. Hong Kong	China	463,054.9	194,003.6

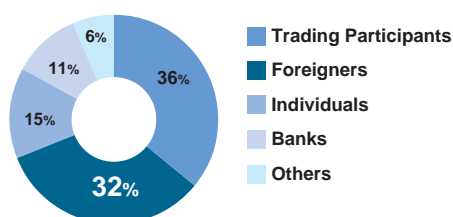
*Euronext includes Amsterdam, Brussels, Lisbon, and Paris figures
*Source: World Federation of Exchanges

Second, TSE not only offers investors Japanese equities, but also a wide range of other products. TSE is the only domestic exchange that handles listed bond futures and options and listed stock index futures and options, including products for both the benchmark TOPIX and long-term Japanese Government Bonds, making us the leading exchange for derivatives products in Japan. Of these various products, TOPIX futures have steadily expanded, with transactions in 2002 rising to 2.3 times their level in 1999. In addition, newer investment instruments such as REITs and ETFs have been introduced in Japan, and we have been aggressively promoting them.

Third, the TSE group of companies not only provides a market, it also offers settlement and clearing services, market information services and a wide range of other market related services. Consequently, we can offer investors highly reliable and efficient stock transaction services ranging from execution to settlement, and we have diversified our revenue sources, leading to increased stability in earnings.

Finally, TSE was one of the first stock exchanges in the world to implement electronic trading and automation. We have subsequently renewed our systems several times to maintain world-class levels of reliability, capacity and speed. Currently, our system processing capacity has the ability to handle 4.5 million orders and 3 million contract notices per day, and 400 orders and 222 contract notices per second. We also plan to further fortify our systems by investing another ¥32.5 billion in IT between now and FY2006.

Share of Stock Trading Value by Type of Investor (2002)



*Based on the First & Second Sections of Tokyo, Osaka and Nagoya Stock Exchanges.

Types of Securities Available at TSE

Equities	
ETFs, REITs	
Bonds	CBs, Bonds with Warrants, JGBs, Yen-Denominated Foreign Bonds, Straight Bonds
Derivative Products	TOPIX Futures, Stock Price Index Futures by Industry, JGB Futures, TOPIX Options, Equity Options, Options on JGB Futures

Q2 How do you plan to maintain or improve your current competitive advantage?

A We hope to increase market liquidity even further by raising the attractiveness and credibility of our market.

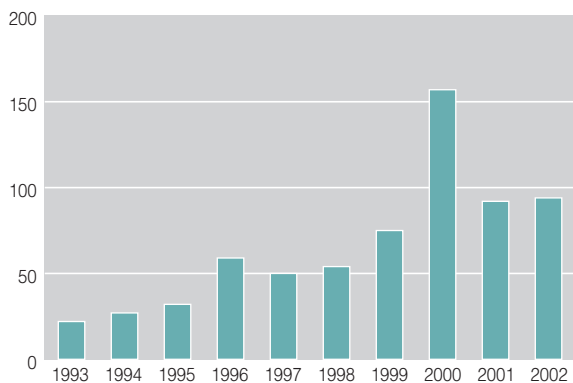
First, we will focus on finding new companies and supporting their listing in order to provide more attractive, high quality investments. On average, we hope to list more than 120 new companies per year, and we will request that existing listed companies further promote fair and accurate disclosure in order to provide investors with sufficient information on corporate performance and results. We will also urge listed companies to be conscious of the need for corporate governance and to emphasize the protection of investors' interests in their management

policies.

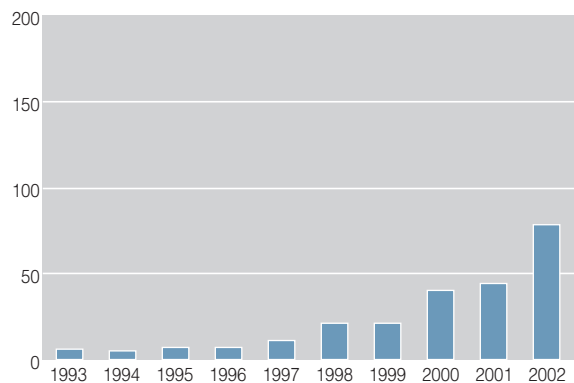
In addition, in September of last year we strengthened our delisting standards based on our belief that it is appropriate to delist companies that no longer have the support of the market or have suffered significant financial difficulties.

In short, we will welcome good companies, require existing companies to improve themselves, and have troubled companies withdraw from the markets in order to promote market regeneration and improve the overall quality of the market. We believe these efforts will contribute to the revitalization of the Japanese economy.

Number of Newly Listed Companies



Number of Delisted Companies



Second, we, as a market provider, believe that failure to allocate adequate business resources to a compliance division to assure the fairness and credibility of the market is unacceptable. TSE is the only stock exchange in Japan that has a team of over 200 people in its compliance division undertaking market surveillance and trading participant inspections, market watch activities for cash and derivative products, listing examinations, and activities to ensure timely disclosure by listed companies.

Amidst the debate surrounding our demutualization, we faced the question of how to reconcile our two goals of pursuing profitability and assuring public responsibility. At that time we emphasized that “the self regulatory function itself helps to guarantee fairness and credibility and is a guarantee of quality by TSE. Without upholding our responsibility to serve the public, the trust of investors can not be achieved, and without investors’ trust, solid earnings can not be

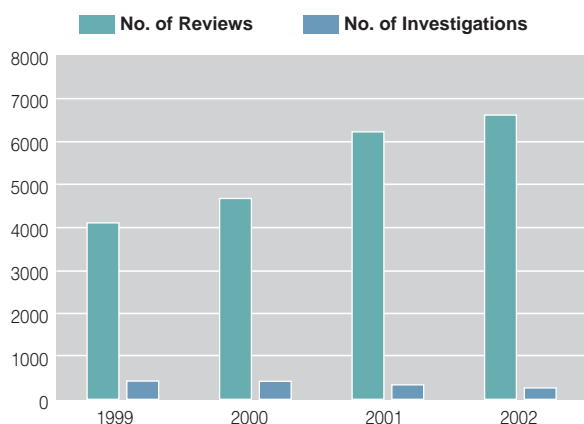
achieved.” We continue to stand behind those beliefs.

In fact, our focus on compliance, while in pursuit of commercial gains, has in effect lead us to firmly believe that public responsibility and profitability are compatible. We recognize that the key to our success lies in establishing investors’ trust in the stock market, and this basic tenet will continue to guide us as we move forward.



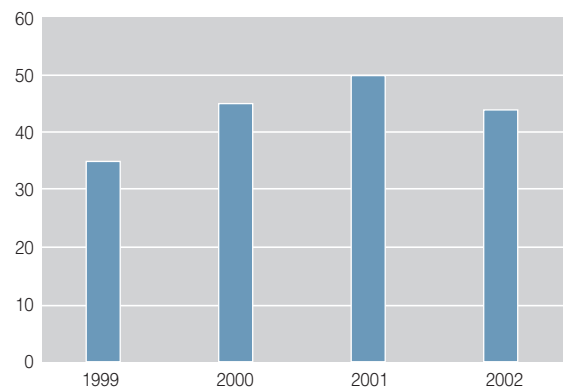
“We continue to stand behind the belief that, without the trust of investors, solid earnings cannot be achieved”

Number of Market Surveillance Cases



Our investigations consist of two levels. Unusual trading is screened in the “Review”. Trading deemed suspicious as a result of the Review is analyzed more deeply in the “Investigation”

Number of Trading Participants Inspected



Q3 When you look overseas, the competition amongst international markets seems increasingly severe. With that in mind, what is your global strategy?

A As Japan's central market, we need to strengthen our global competitiveness and firmly establish our international presence. We also want to establish ourselves as the leading stock exchange in Asia.

As the first concrete objective of our strategy, we want to promote the listing of Asian companies. In recent years, along with the growth in various Asian economies, numerous Asian companies have actively sought to list on overseas stock markets. Although we have sought to list companies from foreign countries, from here forward we plan to emphasize listings from neighboring Asian countries.

Next, we want to enhance the international presence of TSE and establish our brand. To that end, we hope to actively utilize various forms of public relations, including overseas seminars. For example, in September of last year we held a seminar in London to explain the Tokyo market's current condition and our management strategy to European investors. Also, as I have assumed a two-year term as Vice Chairman of the World Federation of Exchanges (WFE) beginning this January, I will endeavor to advance the

development of the WFE, as well as promote the upgrading and enhancement of the world's securities markets. The 2004 WFE General Assembly will be held in Tokyo, and as a host we look forward to creating a successful and meaningful conference beneficial to all participants.

We also hope to promote cooperation and alliances between the world's various exchanges in order to capture business opportunities and to keep abreast of the trends of global competition in overseas markets. In particular, in order to assure our position as the leading exchange in Asia, we hope to develop a wide network connecting exchanges across this region. Anticipated securities and exchange law reforms, which will allow cross access and remote memberships, are expected to be implemented in April of next year (2004). As such, we want to continue to study market linkages with other exchanges, focusing on a thorough analysis of cost benefits and investors needs.

Q4 Finally, TSE has set a management target of publicly listing in FY2005. What issues do you expect to face and how are you going to solve them? And are you confident in your plan to list in FY2005?

A TSE demutualized in November 2001, and we hope to list our company's stock at the earliest opportunity in order to establish greater efficiency and transparency in our management and to realize the benefits of having diversified means of raising capital. If we list our shares, it will be necessary for us to secure a solid financial foundation to ensure earnings stability, and to place an emphasis on invigorating the market so that earnings will continue to expand steadily. We will also continue to implement structural reforms in our organization.

Currently, the exchange's income streams are profoundly affected by domestic market conditions. So, in order to achieve the fortified financial platform necessary for stable earnings, we need to develop peripheral businesses. More specifically, we need to aggressively expand our information business as well as develop other business services.

Regarding expenses, we are striving to reduce our operating expenses (excluding depreciation expense arising from investments in IT) and convert as many of our expenses as possible into variable costs. We hope to reduce the total number of employees to 730 by FY2005 (down 100 from FY2001), in part by limiting the number of new hires. Also, we



“We will strive to diversify our income streams and continue our cost-cutting initiatives”

plan to reduce the size of our administrative division to 150 by FY2004 (a 30% reduction from FY2001), and we expect to achieve both of these goals within FY2004.

Finally, concerning the outlook for our listing, in light of domestic and overseas economic conditions we must be prepared for continued difficult times with respect to our earnings. Therefore, we do not expect the path to our FY2005 listing to be an easy one. However, we will do our best to achieve an appropriate level of profit by diversifying our income streams and reducing our costs, which should enable us to publicly list during FY2005.

NEW INTERIM BUSINESS PLAN

(For Fiscal Years 2003 to 2005)

Introduction

To respond proactively to changes in the economy, TSE is taking a “rolling approach” towards its interim business plan, making revisions on a yearly basis. This year represents the first revision to the interim business plan.

In this revision, management announced that TSE will “position itself to take on a central role in the coming investment-oriented financial system in order to meet the demands of the shift from a savings-based system to an investment-based one.” Additionally, TSE will “solidify its position as competition among the global markets increases.” These principles have been incorporated into TSE’s fundamental philosophy, basic management policies and business strategies.

In light of the worsening economic environment, we have been forced to make downward revisions to our operating revenue targets and have moved our operating profit target, which we had originally anticipated to achieve in FY2004, to FY2005.

Fundamental Principles

TSE aspires to become a true “Global Financial Exchange” with significant international presence through its ability to provide a fair, reliable and high-integrity market place rich in liquidity for overseas and domestic investors, market intermediaries and issuers of securities.

TSE, as part of Japan’s financial infrastructure, provides the “central market” for Japanese securities. As such, its mission is to contribute to the continued healthy development and stable growth of Japan’s capital markets.

TSE seeks to take a leading role in maintaining and fortifying the international standing of the Japanese financial capital markets.

Basic Management Policy

1. To consolidate our international position as the central market for Japanese financial products, TSE's priority will be to strengthen its market functions and to raise its international competitive advantage in its core cash market for Japanese stocks, as well as for long-term bond futures and TOPIX futures in the derivatives markets.
2. TSE will continue to review every system and practice, and actively utilize IT wherever appropriate, to raise the convenience and efficiency of its market functions. Furthermore, it will create additional "credibility and appeal" for its market, which are essential for a truly global exchange.
3. Taking full advantage of its market infrastructure, TSE will proactively list a variety of products to satisfy the needs of market participants. Unprofitable or inefficient products will be replaced quickly with products that better reflect current market demands.
4. TSE will promote structural reforms to aggressively develop businesses in areas where it has a competitive advantage, and will transform itself into a highly profitable exchange that is on par with major stock exchanges overseas.
5. TSE wants to play a leading role in the economic transition from a savings-oriented financial system to an investment-oriented financial system in order to establish a much larger securities market with broader appeal.
6. In order to increase its preeminent international presence and maintain its brand, TSE will work to solidify its position as the foremost stock exchange in Asia.

Management Objectives

TSE has set specific management objectives to be achieved by FY2005, which include an ROE of over 4%, operating revenues of ¥39.9 billion, operating expenses of ¥35.1 billion, and operating profits of ¥4.7 billion.

TSE has also targeted organizational restructuring designed to bolster its market functions and increase its international competitiveness, with the objective of publicly listing its stock in FY2005.

Business Strategy

1 Provide the Market with Attractive Investment Products

- (1) Facilitating the listing of attractive, high quality companies

TSE believes that it can promote the listing of attractive, high quality companies by offering more comprehensive support in their efforts to list on the First and Second Sections and Mothers market. (Over 120 new company listings are targeted per year).

- (2) Public awareness of ETFs and REITs

TSE will actively promote ETFs (exchange traded funds) and REITs (real estate investment trusts), which offer medium risk and medium return, to investors who have had little experience trading such instruments.

2 Enhance the Attractiveness of Listed Stocks

- (1) Improving the corporate governance of listed companies

TSE will enhance the corporate governance of listed companies by expanding the scope of disclosure with regards to corporate governance systems in each company, and by providing examples of ideal corporate governance models for TSE listed companies.

- (2) Promoting quarterly financial reporting

TSE will work to create a system that meets investors' demands for increased disclosure by actively encouraging listed companies to disclose quarterly financial information. TSE will prepare guidelines on the methods of disclosure (including infrastructure investments) for listed companies.

3 Establish its Position as the Leading Stock Exchange in Asia

- (1) Actively promoting the listing of foreign companies primarily from Asia

TSE will work to actively promote the listing of non-Japanese companies, particularly from neighboring Asian countries. Furthermore, TSE will facilitate a review of the systems and practices that act as barriers for foreign companies trying to list and raise money on exchanges in Japan, and will make revisions as necessary.

- (2) Enhancing the preeminent international presence and brand of TSE

TSE will actively promote its services in overseas markets by using investor relations (IR) activities and seminars for upcoming listings in order to raise its international presence and brand. Through participation in the World Federation of Exchanges (WFE), TSE plans to raise its international presence and develop future businesses.

- (3) Promoting international alliances and cooperation

TSE will seek to promote alliances and cooperation with other stock exchanges around the world to enable it to keep up with trends in competition in the global markets and to capture business opportunities. To strengthen its position as a leading stock exchange in Asia, TSE will seek to create a wide-ranging network with other stock exchanges in the region.

4 Establish Market Infrastructure that Enhances Efficiency and Credibility

(1) Securing the fairness and credibility of the market

TSE will publicize its self-regulatory operations (market surveillance and participant inspections) so as to provide market users with a deeper understanding of the fairness of its market.

(2) Facilitating settlement infrastructure

TSE will actively facilitate settlement infrastructure through the introduction of “paperless” and “straight-through processing (STP)” systems.

(3) Fortifying risk management systems

TSE will fortify its risk management systems against natural disasters and potential terrorist activities.

5 Reform of Organizational Structure

(1) Broadening business lines

Aiming for corporate growth by developing peripheral businesses, TSE will work on a company-wide basis to further enhance its market information business as well as pioneer new business services. It will also step up its research into potential new products, including non-financial products.

(2) Improving IT architecture

Through active improvements in its IT architecture, TSE hopes to develop a new system that will allow its management to respond more quickly and flexibly to changes in the business environment, leading to reduced costs (TSE plans

to spend ¥32.5 billion on IT investments by FY2006.).

(3) Cost structure reform

By FY2004 TSE targets a 15% reduction in operating costs (¥4.6 billion) over FY2001 and plans to convert as many of its operating cost factors as possible to variable costs (excluding IT investment related depreciation.) TSE will also reduce the number of its employees to 730 (down 100 from FY2001) by FY2005, as well as downsize its administrative division to 150 by FY2004 (a 30% reduction from FY2001).

(4) Corporate culture reform and human resource development

TSE will institute a performance-based system of compensation and create a corporate culture that encourages employees to engage in new challenges. TSE will also aggressively develop and foster highly specialized professionals with a global outlook, while at the same time acquiring appropriate personnel to meet the changing needs of its operations.

6 Program to Foster an Expansion of the Individual Investor Base – “Shift from Savings to Investment”

TSE will actively conduct financial education programs for schools and the general public to promote awareness and understanding of the stock exchange and available financial instruments. Furthermore, TSE will pursue public relations activities to educate investors about new tax measures for stock investments.

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 meeting is held once a month. Furthermore, TSE has a number of staff engaged 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 Officers 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 the number of directors is set at 11 or less to allow for efficient decision making. 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 directors are external board members. Of the six external board members, two directors are TSE trading participants, two are directors of companies listed on TSE, one is an analyst at a securities company, and one is a lawyer. Each has a high degree of expertise in his respective field, which allows 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 which 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.

Advisory Committees

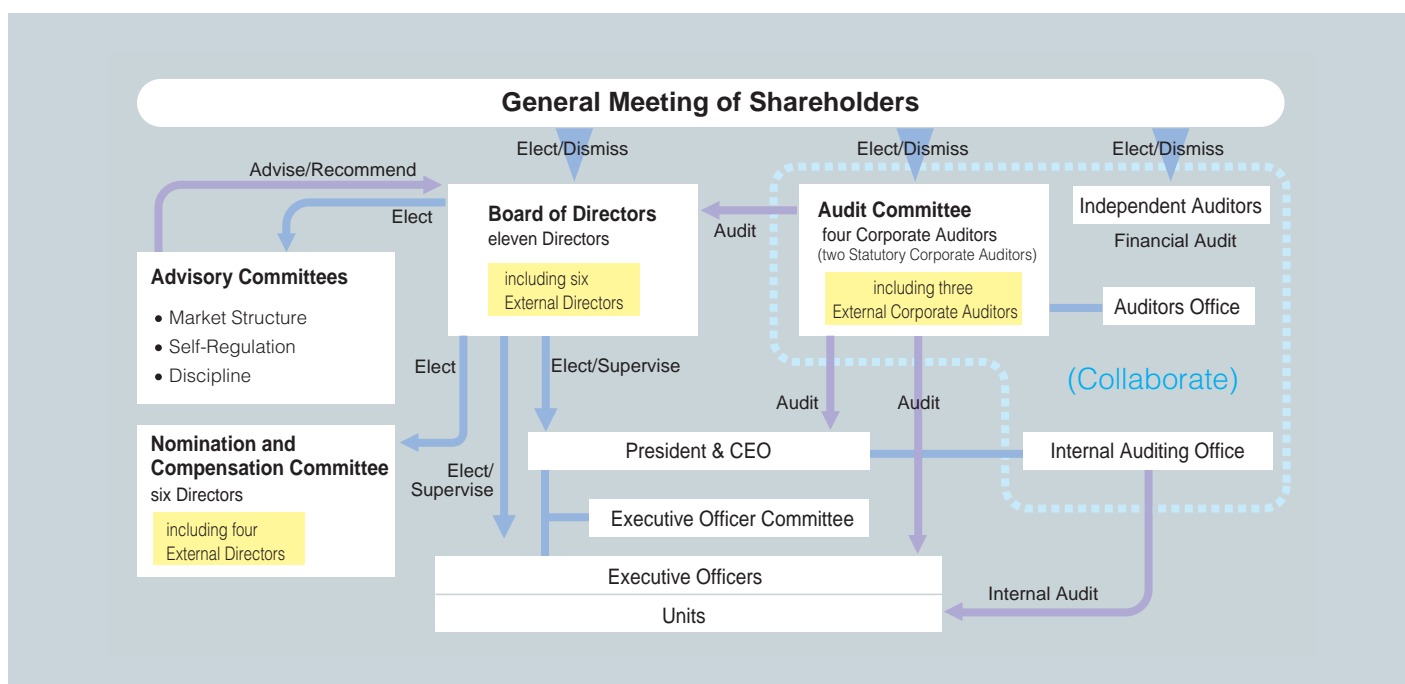
To represent a wide range of opinions in the operations of TSE, and to advise the Board of Directors, TSE has established the Market Structure Committee, the Self-Regulation Committee, and the Discipline Committee. These advisory committees are composed of market participants and third parties. The Market Structure Committee, which deliberates issues associated with transactions, settlements, and listings, met twice during FY2002. The Self-Regulation Committee, which discusses transaction investigations and assessment issues, met once during the same year. The Discipline Committee, which deliberates issues associated with disciplinary actions and penalties on market violations, met 6 times during the same year.

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 2002.

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.



1

Initiatives to Revitalize the Market

The mission of a stock exchange is to provide a high level of liquidity and achieve efficient management and allocation of funds based on market mechanisms by establishing an efficient, convenient, fair and reliable market. In order to fulfill this mission, TSE has undertaken the following measures.

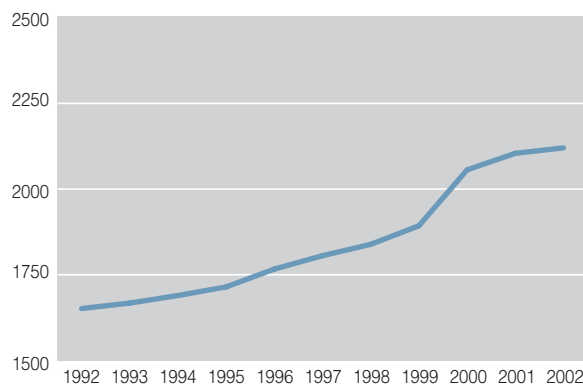
Promotion of the Listing of High Quality, Attractive Companies

In order to promote the listing of high quality, attractive companies, TSE undertook several promotional and supportive activities, including visiting unlisted companies individually, holding new listing seminars and panel discussions, and sending out e-mail newsletters. The number of new listings for this fiscal year was 96, versus 84 for the previous fiscal year. TSE began a “Comprehensive Program to Revitalize the TSE Mothers Market,” which includes the revision of its listing regulations to reflect more stringent delisting criteria and more aggressive support activities for companies wishing to list their stock. As a result, TSE had 15 new listings on the Mothers market in FY2002.

Initiative to Increase the Credibility of First and Second Section Companies

TSE revised its listing rules in October 2002 in order to increase the credibility of First and Second Section companies. Due to severe economic conditions, numerous listed companies have gone bankrupt. In order to maintain and improve investor confidence, it is essential to strengthen the delisting standards applied to companies which have financial conditions that have deteriorated significantly or which have lost the support of the market. At the same time, in an attempt to increase the number of attractive investment opportunities, TSE has also made provisions to allow companies that have strong market support and a favorable long-term earnings outlook to be listed even if they did not show profits in the year immediately preceding their listing application.

Number of Domestic Listed Companies



Enhancement of Corporate Governance

The initiative to enhance corporate governance of listed companies is attracting heightened interest. Under these conditions, TSE established a “Listed Companies Corporate Governance Committee” as a private advisory body to the President in November 2002. This Committee will develop the basic philosophy of and applications for corporate governance, and deliberate on how corporate governance should be best implemented by listed companies. Furthermore, TSE has urged companies to disclose information related to corporate governance, and in January of this year it revised the “Timely Disclosure Regulations” to require listed companies to disclose their basic philosophy towards corporate governance and to report on progress made in their implementation of corporate governance initiatives at the time of their earnings announcement.

Disclosure of Quarterly Financial Information

In order to respond to investors’ needs for better disclosure of recent earnings trends and to keep pace with the international markets, where quarterly earnings reporting is commonplace, TSE created an “Action Program for Quarterly Financial Disclosure” in June of last year. Furthermore, the “Timely Disclosure Regulations” were revised in January of this year to require that listed companies disclose, on a quarterly basis, progress in their operating performance and changes in their financial condition. Moreover, in order to work out the details of quarterly financial information disclosure practices, “The Quarterly Financial Information Preparation and Disclosure Exploratory Committee” was established in January of this year and is currently deliberating the issue of timely disclosure.

Promotion of Self-Regulation

In order to enhance the fairness and credibility of TSE’s market, relevant systems have been upgraded to fortify self-regulatory functions. TSE has also issued documents reporting on trading investigations and testing procedures, and is emphasizing an initiative to promote a deeper understanding of its self-regulatory activities by regularly publishing brochures about market surveillance and participant inspections. Additionally, TSE has actively undertaken an educational campaign, which includes holding seminars and publishing books, to raise the awareness of general securities market regulations among managers and employees of both listed companies and securities firms.

2 Solidification of TSE's Position as the Preeminent Stock Exchange in Asia

As global market competition has become increasingly severe, TSE has taken the following measures to solidify its position as the preeminent stock exchange in Asia.

Mothers' Listing Seminar (Seoul)

In the past, TSE has directed new listing marketing activities toward foreign companies and it will vigorously continue such efforts by targeting companies from neighboring Asian countries. In this fiscal year, as part of its Mothers' market listing promotion activities directed toward Korean venture companies, TSE held its second Mothers' Listing Seminar in Seoul in November 2002. With the support of broker-dealers, TSE introduced Japan's capital markets and the TSE Mothers market through presentations and an information booth at the seminar.

Overseas IR Seminars

In September of last year TSE held a seminar in London entitled "Transformation of Japan's Capital Market – One year following TSE's Demutualization." This seminar was designed to explain the current status and management strategy of TSE as it moves toward its goal of listing in FY2005. Over 120 European institutional investors and fund managers attended the seminar.

Information Sharing Agreement with NYSE

TSE and New York Stock Exchange (NYSE) formed a comprehensive mutual cooperation agreement in February 2000. Furthermore, in response to an expansion in global transactions and investments, and to enhance the fairness and transparency of both markets, TSE and NYSE entered into an agreement in June 2002 to share information regarding market surveillance operations. Due to this agreement, both stock exchanges have improved their ability to exchange information on market surveillance and fraud investigation.

Memorandum of Understanding Agreements with EURONEXT, the Shanghai Stock Exchange, and the Shenzhen Stock Exchange

In recent years, cooperation between stock exchanges, particularly in Europe, has progressed rapidly. In order to keep track of competitive trends among global markets and to capture diversified business opportunities for the future, TSE feels it is necessary to form collaborations and alliances with exchanges around the globe.

As such, TSE signed comprehensive memorandums of understanding with EURONEXT in September 2002, with the Shanghai Stock Exchange last December, and with the Shenzhen Stock Exchange in January of this year.

3 Activities to Expand the Individual Investor Base

In order to revive the financial intermediary function of the securities market, a shift to an investment-based financial system is urgently needed. TSE is taking aggressive measures to expand the individual investor base in order to bring about such a shift.

Investment Education Seminars

In order to achieve a “shift from savings to investment,” TSE is undertaking various activities to educate individual investors about securities in an effort to increase their knowledge of the stock market.

From May 2002, ten “TSE Evening Seminars” were held for students and office workers in order to accommodate their schedules. In August 2002, TSE sponsored a “Summer Vacation Financial Experience Tour” for junior and senior high school students, which included tours of various financial institutions commonly seen on television. TSE also gave a seminar series targeting women investors entitled “Ladies Securities Seminars.”

Public Relations (PR) Activities Regarding the New Securities Taxation System

The new securities taxation system announced in January of this year is simple and easy to understand. It is designed to give preferential treatment to securities investments, thereby speeding up the shift “from savings to investment” and promoting active participation in the stock market by individual investors.

TSE sought to deepen individual investors’ understanding of the new taxation system through aggressive PR. As part of its PR activities, TSE posted information about the new securities taxation system on its website, and hosted a seminar on the new system for investors in February of this year.

Lowering the Minimum Trading Unit

TSE believes that lowering the minimum trading unit is very important in promoting a wider range of individual investor participation. Since September 2001, TSE has actively implemented its “Action Program to Promote Reduction in Minimum Trading Units.” This fiscal year, TSE recommended minimum trading unit reductions to 11 listed companies.

Listed Company Awards

TSE gives awards once every year to listed companies that have provided superior disclosure and successfully expanded the number of their individual shareholders. This fiscal year, TSE established a new award entitled “Award for Broadening of Individual Shareholder Base” by combining the previous award categories for continuous dividend increase and minimum trading unit reduction. The award is now given to companies that have contributed to a widening of the securities market investor base by encouraging new individual investors to participate in the market through a variety of investor expansion activities.

TSE gave awards to a total of nine companies—five for their superior disclosure, and four for their efforts to expand their individual shareholder bases.

Operating Revenues

Trading participants' fees and dues are comprised of "fixed fees" and "variable fees" received from securities companies and other market participants. "Fixed fees" are based on firm capitalization, and "variable fees" are based on the trading value of stocks and the trading value or volume of other market instruments. During this year, a decline in the number of market participants arising from mergers was compounded by stagnant market conditions and contributed to a decline in overall trading value, which in turn led to a 9.4% year-on-year decline in related revenues to ¥17,340 million.

	FY3/03	FY3/02	YOY change
Total number of market participants (FY end)	108	114	-5.30%
Shares: average daily value of turnover	739.3	821.1	-10.00%
Bond futures: average daily value of turnover	2,400.6	2,860.4	-16.10%
Stock index futures: average daily value of contracts	279.3	261.0	7.00%
TOPIX (FY end)	788.00	1,060.19	-25.70%

* turnover and contract figures in billions of yen, TOPIX in points

Listing fees are comprised of "listing examination fees" received from newly listing applicant companies upon their application for listing, "initial listing fees" from companies for their original listing and subsequent listing of additional securities, and "annual listing fees" based on companies' number of shares outstanding (from FY2003, the stock exchange has changed calculation of the "annual listing fees" from outstanding share-based to market capitalization-based). During this fiscal year, a decline in financings was offset by an increase in the number of new listings and conversions of preferred stock and other types of securities to common stock, resulting in a 5.3% year-on-year related revenue rise to ¥8,766 million.

	FY3/03	FY3/02	YOY change
Capital increases (equity-related financings) (in billions of yen)	777.2	1,020.0	-23.80%
Newly listed companies	96	84	14.30%
Total number of listed companies (FY end)	2,132	2,112	0.90%
Total number of listed company shares (FY end)(in billions)	324.2	337.1	-3.80%
Market capitalization (FY end)(in trillions of yen)	228	306	-25.50%

(Note) Equity-related financings exclude private placements.
These figures represent the combined total for the TSE First and Second Sections and Mothers market.

Information services income is comprised of fees received for market data information sold to information vendors. During this fiscal year, an increase in the number of information services users contributed to a rise in related revenues of 2.9% year-on-year to ¥6,657 million.

System development & operations

income is comprised of income received for system development and management services that are provided by Tosho System Service Co., Ltd. During this fiscal year, the removal of Tosho Computer Systems Co., Ltd. (which is no longer a subsidiary of the TSE) from the TSE's consolidated financial statements led to the loss of its revenues; consequently, related revenues fell by 48.7% year-on-year to ¥1,973 million.

Securities settlement income is comprised of fees received for securities custody and delivery services provided by Japan Securities Settlement & Custody, Inc., and trade guarantee (from acting as a central counter-party for cash products) and other services provided by Japan Securities Clearing Corporation. Related revenues experienced a slight decline of 3.3% year-on-year to ¥2,793 million.

Other income is comprised mostly of fees from the leasing and maintenance of trading terminals to trading participants, and income from the rental of space in TSE Arrows. During the current fiscal year, a decrease in the number of market participants led to a decline in the leasing of trading terminals; consequently, related revenues fell by 13.1% year-on-year to ¥3,536 million.

	(Millions of Yen)		
Operating Revenues	FY3/03	FY3/02	YOY change
Trading participants' fees and dues	17,340	19,141	-1,801
Listing fees	8,766	8,329	437
Information services income	6,657	6,467	190
System development and operations income	1,973	3,843	-1,870
Securities settlement income	2,793	2,888	-95
Other operating income	3,536	4,067	-531
Total	41,065	44,735	-3,670

Operating Expenses

Salary and compensation expenses fell by 26.2% year-on-year to ¥12,009 million due to the removal of Tosho Computer Systems Co., Ltd. as a consolidated subsidiary, a reduction in the total number of personnel of the stock exchange, and revisions made to the compensation scheme that had been implemented in the previous fiscal year.

Real estate rental fees are comprised of rental fees paid for both the main building and the stock exchange building. Due to a reduction in rent for both buildings, and the decrease associated with the removal of Tosho Computer Systems Co., Ltd. as a consolidated subsidiary, rental costs fell by 15.2% year-on-year to ¥5,685 million.

System-related expenses are comprised of fees related to the maintenance and management of the various systems associated with the stock exchange, and fell by 2.1% year-on-year to ¥3,867 million.

Outsourcing business costs are fees paid for outsourced business services. The elimination of Tosho Computer Systems Co., Ltd. from the consolidated accounts resulted in a subsequent rise in outsourcing business fees (paid to Tosho Computer Systems), by 61.7% year-on-year to ¥3,921 million.

Depreciation costs are associated with buildings, facilities, various hardware and software systems, and leased assets. This fiscal year, the decline in the number of market participants and the subsequent decline in the number of terminals leased to them led to a decrease in related depreciation costs, thus allowing overall depreciation costs to fall by 4.7% year-on-year to ¥7,523 million.

Consequently, at the consolidated level, operating revenues were ¥41,065 million (down 8.2% year-on-year), operating expenses were ¥38,605 million (down 10.2% year-on-year), operating profit was ¥2,460 million (up 40.3% year-on-year) and net income registered ¥3,277 million (up 288.4% year-on-year).

(Millions of Yen)

Operating Expenses	FY3/03	FY3/02	YOY change
Salary and compensation expenses	12,009	16,261	-4,252
Real estate rental fees	5,685	6,703	-1,018
Systems-related expenses	3,867	3,951	-84
Outsourcing business costs	3,921	2,424	1,497
Depreciation costs	7,523	7,897	-374
Other operating expenses	5,600	5,746	-146
Total	38,605	42,982	-4,377

Outlook for the Fiscal Year 2003

Key Points of Group Revenues/Costs and Earnings Forecasts

Various measures are being implemented in the hope of raising the efficiency, fairness, and credibility of TSE—and by enhancing its market functions and international competitiveness, TSE expects improvements in operating performance such as increases in trading value and volume and the number of new listings. However, many of the measures TSE is in the process of implementing will take a considerable amount of time to contribute to earnings, and therefore may not lead to any near-term increase in earnings.

Furthermore, because the variable fees paid by market participants are impacted by the level of trading turnover, and listing fees reflect the number of new listings and financings, overall operating revenues are profoundly influenced by business activities in the primary and secondary markets for marketable securities, and such activities are very difficult to forecast.

Consequently, TSE bases its earnings forecast on the most recently available information for the primary and secondary markets for marketable securities. However, it should be noted that actual earnings may vary from projections due to many uncertainties, particularly those mentioned above.

FY2003 Earnings Estimates

During FY2002, the stock market languished, and the environment surrounding TSE was extremely difficult. Against this backdrop, it is difficult to see any radical improvement in the conditions confronting TSE's markets, and therefore FY2003 earnings projections are based on the assumption that very severe conditions will continue.

In accordance with the new interim business plan, TSE seeks to provide domestic and overseas investors with the most desirable services by strengthening market functions and improving management efficiency in an effort to help bolster its revenue platform. TSE uses revenue assumptions similar to those of this fiscal year and is dedicated to further cost reductions.

At the consolidated level, the TSE projects FY2003 operating revenues of ¥41,900 million and net income of ¥1,700 million.

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 on actively returning profits to shareholders in line with earnings growth.

TSE will strive 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.

However, in the period preceding its listing, TSE would like to emphasize the retention of earnings to facilitate stock buy-backs and to provide a stable level of dividends after listing. Based on these principles, TSE has decided to forgo dividend payments at the present time.

CONSOLIDATED BALANCE SHEETS

Tokyo Stock Exchange, Inc.	Millions of Yen		Thousands of U.S. Dollars (Note 1)
As of March 31, 2002 and 2003	2002 (unaudited)	2003	2003
ASSETS			
Current assets:			
Cash and bank deposits	¥ 17,058	¥ 19,614	\$ 163,175
Accounts receivable	2,392	2,479	20,626
Marketable securities (Note 3)	1,011	500	4,167
Prepaid expenses	149	197	1,638
Prepaid pension expenses	1,396	2,197	18,282
Short-term guarantee money deposits	2,008	2,008	16,703
Margin funds for derivatives and when-issued transactions (Note 10(3))	937,644	799,414	6,650,697
Deposits for clearing fund (Note 10(3))	195,797	143,068	1,190,253
Deposits as collateral preceding settlement day (Note 10(3))	160,842	187,749	1,561,970
Deferred income taxes (Note 6)	137	357	2,971
Income tax receivable	—	61	511
Other current assets	1,555	1,566	13,023
Allowance for doubtful accounts	(2)	(2)	(19)
Total current assets	1,319,987	1,159,208	9,643,997
Property and equipment:			
Buildings	12,264	12,204	101,538
Information system equipments	12,611	15,976	132,913
Land	2,399	2,399	19,962
Other tangible fixed assets	4,518	6,610	54,990
Accumulated depreciation	(19,583)	(22,359)	(186,027)
Total tangible fixed assets	12,209	14,830	123,376
Intangible assets, net			
Software	8,716	6,325	52,622
Excess of cost over underlying net assets	36	29	239
Other intangible assets	131	548	4,560
Total intangible assets	8,883	6,902	57,421
Investments and other assets			
Investments in securities (Note 3 and 10(1))	3,763	4,094	34,064
Guarantee money deposits	13,623	11,575	96,294
Legal guarantee funds (Note 10(3))	3,719	2,736	22,762
Special bank deposit for default compensation reserve funds	17,368	17,368	144,491
Deferred income taxes (Note 6)	325	1,476	12,276
Others	410	578	4,813
Allowance for doubtful accounts	(140)	(308)	(2,563)
Total investments and other assets	39,068	37,519	312,137
Total assets	¥ 1,380,147	¥ 1,218,459	\$ 10,136,931

The accompanying notes are an integral part of these statements.

	Millions of Yen	2003	Thousands of U.S. Dollars (Note 1)
	2002 (unaudited)		2003
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Accounts payable	¥ 2,004	¥ 2,036	\$ 16,938
Long-term debt due within 1 year (Note 5)	—	929	7,729
Income tax payable	1,100	—	—
Consumption tax payable	362	—	—
Returnable deposits	2,184	79	659
Allowance for employee-bonuses	747	736	6,122
Margin funds received for derivatives and when-issued transaction (Note 10(3))	937,644	799,414	6,650,697
Deposits received for clearing fund (Note 10(3))	195,797	143,068	1,190,253
Deposits received as collateral preceding settlement day (Note 10(3))	160,842	187,749	1,561,970
Deposits received as trading participants guarantee	3,154	3,193	26,565
Other current liabilities	143	1,710	14,223
Total current liabilities	1,303,977	1,138,914	9,475,156
Non-current liabilities:			
Long-term debt	11	395	3,282
Allowance for retirement benefits for directors	244	188	1,562
Allowance for retirement benefits for employees (Note 7)	5,656	5,804	48,289
Guarantee money deposits received	1,053	1,126	9,370
Returnable legal guarantee funds (Note 10(3))	3,719	2,736	22,763
Other long-term liabilities	268	408	3,396
Total non-current liabilities	10,951	10,657	88,662
Total liabilities	1,314,928	1,149,571	9,563,818
Contingent liabilities (Note 10(2))			
Minority interests			
Minority interests	—	392	3,265
Shareholders' equity:			
Common stock:	11,500	11,500	95,674
Authorized: 9,200,000 shares at March 31, 2002 and 2003			
Issued: 2,300,000 shares at March 2002 and 2003			
Capital surplus (Note 2)	22,875	22,875	190,305
Retained earnings (Note 14)	30,844	34,121	283,868
Unrealized gain on available-for-sale securities	—	0	1
Total shareholders' equity	65,219	68,496	569,848
Total liabilities and shareholders' equity	¥ 1,380,147	¥ 1,218,459	\$ 10,136,931

CONSOLIDATED STATEMENTS OF INCOME

Tokyo Stock Exchange, Inc.

Millions of Yen

Thousands of
U.S. Dollars
(Note 1)

For the years ended March 31, 2002 and 2003

2002
(unaudited)

2003

2003

	2002 (unaudited)	2003	2003
Operating revenues:			
Trading participants' fees and dues	¥ 19,141	¥ 17,340	\$ 144,261
Listing fees	8,329	8,766	72,931
Income from information services	6,467	6,657	55,383
Income from system development & operations	3,843	1,973	16,410
Income from securities settlement	2,888	2,793	23,240
Other operating income	4,067	3,536	29,414
Total	44,735	41,065	341,639
Operating expenses (Note 11)			
	42,982	38,605	321,172
Operating profit	1,753	2,460	20,467
Other income (expenses):			
Interest and dividend income	148	48	401
Rent income	267	629	5,230
Income from fines levied	190	98	815
Grants in aid	126	202	1,677
Amortization of the excess of cost over underlying net assets	7	—	—
Equity in earnings of affiliated companies	5	509	4,239
Capital gain from sale of subsidiary	1,264	—	—
Interest expense	(112)	(32)	(269)
Rent expense	(294)	(808)	(6,724)
Loss on disposal of assets	(490)	(437)	(3,630)
Other, net	(904)	190	1,583
Total	207	399	3,322
Net income before income taxes and minority interests	1,960	2,859	23,789
Income taxes—current	1,991	972	8,084
Income taxes—deferred	(829)	(1,371)	(11,405)
Minority interests	46	19	(154)
Net income	¥ 844	¥ 3,277	\$ 27,264

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Tokyo Stock Exchange, Inc.

Millions of Yen

For the years ended March 31, 2002 and 2003	Number of shares of common stock	Common stock	Capital surplus	Retained earnings
Balance as of March 31, 2001	2,300,000	¥ 11,500	¥ 22,875	¥ 30,188
Decrease in retained earnings before demutualization	—	—	—	(188)
Net income for the year ended March 31, 2002	—	—	—	844
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

Thousands of U.S. Dollars (Note 1)

	Number of shares of common stock	Common stock	Capital surplus	Retained earnings
Balance as of March 31, 2002	2,300,000	\$ 95,674	\$190,305	\$256,604
Net income for the year ended March 31, 2003	—	—	—	27,264
Balance as of March 31, 2003	2,300,000	\$ 95,674	\$190,305	\$283,868

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Tokyo Stock Exchange, Inc.

Millions of Yen

Thousands of
U.S. Dollars
(Note 1)

For the years ended March 31, 2002 and 2003

2002
(unaudited)

2003

2003

Cash flows from operating activities:

Net income before tax	¥ 1,960	¥ 2,859	\$ 23,789
Depreciation	6,143	6,417	53,389
Amortization of the excess of cost over underlying net assets	(7)	7	60
Loss on disposal of tangible and intangible assets	490	436	3,631
Capital gain from sale of subsidiary	(1,264)	—	—
(Increase) decrease in allowance for doubtful accounts	115	(21)	(178)
Decrease in allowance for employee - bonuses	(18)	(11)	(92)
Decrease in allowance for executive benefits	(104)	(56)	(466)
Increase in allowance for retirement benefits for employees	1,069	149	1,236
Equity in earnings of affiliated companies	(5)	(509)	(4,239)
Interest and dividend income	(148)	(48)	(401)
Interest expense	112	32	269
Decrease in accounts receivable	541	323	2,685
(Increase) decrease in inventories	33	(333)	(2,768)
Increase in accounts payable	132	479	3,985
Other, net	(2,227)	(1,158)	(9,632)
Sub-total	6,822	8,566	71,268
Income taxes paid	(1,213)	(2,133)	(17,750)
Interest and dividend received	287	53	439
Interest paid	(144)	(62)	(513)
Net cash provided by operating activities	5,752	6,424	53,444

Cash flows from investing activities:

Acquisition of marketable securities	(3)	—	—
Proceeds from the sale of short-term investments in securities	1,508	—	—
Acquisition of fixed deposits	(1,360)	(1,100)	(9,152)
Proceeds from the refund of fixed deposits	3,636	2,150	17,888
Proceeds from the sale of investment securities	850	992	8,255
Acquisition of investment securities	(1,447)	(867)	(7,213)
Proceeds from the sale of tangible fixed assets	4	0	6
Acquisition of tangible fixed assets	(1,849)	(2,659)	(22,120)
Acquisition of software	(1,727)	(1,622)	(13,493)
Proceeds from the return of participants' guarantee money deposits	3,311	2,052	17,070
Payment for participants guarantee money deposits	(1,015)	(17)	(143)
Payment of members' deposits	(13,160)	—	—
Proceeds from the receipt of guarantee money deposits	190	54	450
Payment of guarantee money deposits received	(153)	(11)	(90)
Payment of loan receivables	(33)	(10)	(87)
Collection of loan receivables	114	29	239
Payments for purchase of business	—	(1,520)	(12,647)
Proceeds from the transfer of subsidiary's stock	1,055	—	—
Other	(186)	3	23
Net cash used in investing activities	(10,265)	(2,526)	(21,014)

Cash flows from financing activities:

Repayment of long-term debt	(1,506)	(1,264)	(10,514)
Repayment of capital contribution	(1,434)	—	—
Proceed from minority interest	—	411	3,419
Net cash used in financing activities	(2,940)	(853)	(7,095)

Increase (decrease) in cash and cash equivalents

Increase (decrease) in cash and cash equivalents	(7,453)	3,045	25,335
Cash and cash equivalents at beginning of year	24,472	17,019	141,590
Cash and cash equivalents at end of year (Note 12)	¥ 17,019	¥ 20,064	\$ 166,925

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 have been prepared based on the accounts maintained by Tokyo Stock Exchange Inc. (TSE) and its consolidated subsidiaries (collectively the "Companies") in accordance with the provisions set forth in the Commercial Code of Japan and the Securities and Exchange Law, and in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects from the application and disclosure requirements of International Accounting Standards.

The financial statements of the Company as of March 31, 2002, have not been audited so there are no Notes to the consolidated financial statements as of March 31, 2002.

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

The consolidated financial statements are not intended to present the consolidated financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

Amounts in U.S. dollars are included solely for the convenience of readers outside Japan. The rate of ¥120.20=U.S. \$1, the approximate rate of exchange prevailing at March 31, 2003, 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) Scope of Consolidation

The consolidated financial statements include the accounts of TSE and three (two for 2002) subsidiaries listed below (together, hereinafter referred to as the "Companies").

	Country of Incorporation	Direct and indirect ownership percentage	Paid-in capital (Millions of Yen)
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

A subsidiary, Japan Securities Clearing Corporation, which was newly established during the year, is included in consolidation.

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

(2) Elimination and Combination for Consolidation

For the purposes of preparing the consolidated financial statements, all significant inter-company transactions, account balances and unrealized profits among the Companies have been eliminated.

A difference between the cost of an investment in subsidiaries and the

amount of underlying equity in net assets of the subsidiaries is deferred as an asset or a liability as the case may be and amortized over a period of five years of a straight-line basis.

(3) Revaluation of Assets and Liabilities of the Subsidiaries

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

(4) Accounting for Investment in Affiliates

The three unconsolidated subsidiaries accounted for by the equity method at and for the year ended March 31, 2003 are listed below:

---NSB News Service Co., Ltd.

---Japan Securities Depository Center, Ltd.

---Tosho Computer Systems Co., Ltd.

(5) Securities

Other securities are classified into two categories, where:

- Securities whose fair value is available are valued at the fair market value prevailing at the end of the fiscal year. Net unrealized gains or losses on these securities are reported as a separate component of 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.
- Securities whose fair value is not available are valued at cost, determined using the gross-average method.

(6) Inventories

Work in process is valued using the individual cost method.

(7) Property and Equipment

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

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

Furthermore, depreciation of property leased by Tosho System Service Co., Ltd. is computed on the straight-line method based on its entire lease period with a residual value of zero.

(8) Amortization of Intangible Assets

Intangible assets, included in "Other intangible assets" in the accompanying consolidated balance sheets except software for internal use, are amortized using the straight-line method over the period regulated by the Japanese Commercial Code or Japanese corporate income tax laws.

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

(9) Income Taxes

Income taxes of the Companies consist of corporate income taxes, local inhabitants taxes and enterprise taxes.

(10) Allowance for Doubtful Accounts

An 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 on collectibility of accounts receivable that are expected to be uncollectible due to bad financial condition or insolvency.

(11) Allowance for Employee Bonuses

An 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.

(12) Allowance for Retirement Benefits for Directors

An allowance for retirement benefits to directors (including administrative directors) and corporate auditors is provided at the amount incurred for the year ended March 31, 2003, which is made in accordance with the Company's internal rule.

(13) Allowance for Retirement Benefits for Employees

An allowance for retirement benefits for employees is provided at the amount incurred during the fiscal year, which is based on the estimated present value of the projected benefit obligation less the estimated fair value of plan assets at the end of the fiscal year. The excess of the estimated fair value of the plan assets over the estimated present value of projected benefit obligation adjusted by unrecognized actuarial differences is recognized as prepaid pension cost as of March 31, 2003. The unrecognized transition difference arising from adopting the new standard is allocated to expense under the straight-line amortization over the period of 15 years.

The unrecognized actuarial differences are amortized on a straight-line basis over the period of 10 years from the next year in which they arise.

The unrecognized service costs are allocated to expense under the straight-line amortization over the average remaining service life of employees (10 years).

(14) Leases

Finance leases other than those which are deemed to transfer the ownership of the leased assets to lessees, are accounted for by a method similar to that used for ordinary operating leases.

(15) Cash and Cash Equivalents

Cash and cash equivalents in the consolidated statements of cash flows are composed of cash on 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 fluctuation in value.

(16) 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.

As is customary in Japan, the payment of bonuses to directors and corporate auditors is paid out of retained earnings instead of being charged to income for the year. This constitutes a part of the appropriation explained above.

(17) 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 Company's sales are withheld by the Company at the time of sale and are subsequently paid to the government.

Consumption taxes withheld and consumption taxes paid by the Company on the purchase of goods and service 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.

(18) Foreign Currency Translation

All monetary assets and liabilities of the Company 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.

3. Investments in Securities

(1) Other Securities with Fair Value

The acquisition cost, carrying amount, gross unrealized holding gains and gross unrealized holding losses for securities with fair value by securities type at March 31, 2003 are as follows:

	Millions of Yen			
	Cost	Carrying amount	Gross unrealized gains	Gross unrealized losses
Market value over book value:				
Equity securities	¥ —	¥ —	¥ —	¥ —
Corporate debt securities	50	50	0	—
Other	—	—	—	—
	50	50	0	—
Market value less than book value:				
Equity securities	¥ —	¥ —	¥ —	¥ —
Corporate debt securities	—	—	—	—
Other	—	—	—	—
	¥ 50	¥ 50	¥ 0	¥ —

	Thousands of U.S. Dollars			
	Cost	Carrying amount	Gross unrealized gains	Gross unrealized losses
Market value over book value:				
Equity securities	\$ —	\$ —	\$ —	\$ —
Corporate debt securities	416	418	2	—
Other	—	—	—	—
	416	418	2	—
Market value less than book value:				
Equity securities	\$ —	\$ —	\$ —	\$ —
Corporate debt securities	—	—	—	—
Other	—	—	—	—
	\$ 416	\$ 418	\$ 2	\$ —

(2) Securities without Fair Value

The carrying amount of securities without fair value as of March 31, 2003 is summarized as follows:

Other Securities	Carrying amount	
	Millions of Yen	Thousands of U.S. Dollars
Unlisted equity securities, excluding over-the-counter stock	¥ 13	\$ 113
FFF	450	3,750
	¥ 463	\$ 3,863

(3) Time of Maturity and Redemption Amount of Held-to-Maturity Securities in Other Securities

	Millions of Yen			
	Within a year	Within 5 years over a year	Within 10 years over 5 years	Over 10 years
Debt Securities				
Government bonds	¥ —	¥ —	¥ —	¥ —
Corporate bonds	50	—	—	—
Others	—	—	—	—
Other	—	—	—	—
Total	¥ 50	¥ —	¥ —	¥ —

	Thousands of U.S. Dollars			
	Within a year	Within 5 years over a year	Within 10 years over 5 years	Over 10 years
Debt Securities				
Government bonds	\$ —	\$ —	\$ —	\$ —
Corporate bonds	416	—	—	—
Others	—	—	—	—
Other	—	—	—	—
Total	\$ 416	\$ —	\$ —	\$ —

4. Derivative Transactions

There were no derivative transactions for the year ended March 31, 2003.

5. Long-Term Debts

Long-term debts at March 31, 2003 consisted of the following:

	Millions of Yen	Thousands of U.S. Dollars
	2003	2003
Long-term loan within 1 year	¥ 929	\$ 7,729
Long-term loan	395	3,282
	¥ 1,324	\$ 11,011

Average rate of Long-term loans within 1 year as of March 31, 2003: 1.8%

Average rate of Long-term loans as of March 31, 2003: 1.9%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(1) The aggregate annual maturities of the non-current portion of long-term loans at March 31, 2003 are as follows:

Year ending March 31,	Millions of Yen	Thousands of U.S. Dollars
2005	¥ 324	\$ 2,689
2006	69	577
2007	1	8
2008	1	8
	¥ 395	\$ 3,282

6. 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 year ended March 31, 2003.

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

	Millions of Yen	Thousands of U.S. Dollars
	2003	2003
Deferred tax assets:		
Accrued retirement benefits to employees	¥ 1,103	\$ 9,179
Accrued bonuses to employees	258	2,150
Depreciation and amortization	281	2,344
Net operating loss carried forward	78	650
Unrealized gains on fixed assets	18	156
Accrued enterprise tax	25	211
Other	378	3,145
Sub-total	2,143	17,835
Less – Valuation allowance	(305)	(2,543)
Total deferred tax assets	1,838	15,292
Deferred tax liabilities:		
Accrued enterprise tax	(5)	(45)
Total deferred tax liabilities	(5)	(45)
Net deferred tax assets	¥ 1,833	\$ 15,247

At March 31, 2003, the reconciliation of the statutory tax rate to the effective income tax rate is as follows:

	2003
Statutory tax rate	42.0%
Adjustments:	
Permanent non-deductible difference	2.1
Equity in earnings of affiliated companies	(7.5)
Statutory tax rate change	1.1
Temporary differences retroactive to the past years	(50.3)
Other factors	(1.4)
Effective income tax rate	(14.0)%

Effective statutory tax rates, that the Companies is used to calculate deferred tax assets and deferred tax liabilities, are 42.0% for the years ended March 31, 2003, and 2004, 41% for thereafter. As a result of the change, "Deferred tax assets" (net of deferred tax liabilities) decreased by ¥32 million and "Income taxes (deferred)" increased by the same amount.

7. Retirement Benefit Plan

TSE has defined benefit retirement plans, which 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.

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

The pro rate contribution amount of the Company's plan assets in Japan Securities Contributory Pension Fund as of March 31, 2003, is ¥10,302 million (\$85,713 thousands).

The allowance for employee retirement costs as of March 31, 2003 is as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2003	2003
Projected benefit obligations	¥ (26,277)	\$ (218,611)
Plan assets	11,226	93,398
Funded status	(15,051)	(125,213)
Unrecognized prior service cost	(1,213)	(10,096)
Unrecognized actuarial differences	5,829	48,500
Unrecognized transition amount	6,827	56,802
Accrued pension costs	(3,607)	(30,007)
Prepaid pension expenses	2,197	18,282
Allowance for employee retirement benefits	¥ (5,804)	\$ (48,289)

The net pension expense relating to retirement benefits for the year ended March 31, 2003 is as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2003	2003
Service cost	¥ 812	\$ 6,762
Interest cost	688	5,726
Expected return on plan assets	(311)	(2,591)
Amortization of unrecognized prior service cost	(151)	(1,262)
Amortization of unrecognized actuarial differences	329	2,741
Amortization of transition adjustment	568	4,733
Net pension expense	¥ 1,936	\$ 16,109

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

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

8. Lease Transactions

The Companies has various lease agreements whereby the Companies acts 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 were as follows:

	Millions of Yen		Thousands of U.S. Dollars	
	Acquisition Cost	Accumulated Depreciation	Balance as of March 31, 2003	Balance as of March 31, 2003
Information system Equipments	¥ 1,020	¥ 849	¥ 171	\$ 1,426
Other	57	49	7	60
Total	<u>¥ 1,077</u>	<u>¥ 898</u>	<u>¥ 178</u>	<u>\$ 1,486</u>

(b) Outstanding future lease payments at March 31, 2003 including the interest portion thereon, categorized by contractual maturity were as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2003	2003
Due within one year	¥ 146	\$ 1,219
Due over one year	41	347
	<u>¥ 187</u>	<u>\$ 1,566</u>

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

	Millions of Yen	Thousands of U.S. Dollars
	2003	2003
Lease payments	¥ 179	\$ 1,496
Depreciation portion	¥ 157	\$ 1,307
Interest expense portion	¥ 7	\$ 58

(d) Computation of depreciation equivalent

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

The difference between total lease expenses and acquisition costs of the leased properties 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 were as follows:

	Millions of Yen		Thousands of U.S. Dollars	
	Acquisition Cost	Accumulated Depreciation	Balance as of 31-Mar-03	Balance as of 31-Mar-03
Leased assets	¥ 2,781	¥ 1,092	¥ 1,689	\$ 14,055

(b) Outstanding lease commitments at March 31, 2003 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2003	2003
Due within one year	¥ 1,158	\$ 9,635
Due over one year	951	7,917
	<u>¥ 2,109</u>	<u>\$ 17,552</u>

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

	Millions of Yen	Thousands of U.S. Dollars
	2003	2003
Lease revenue	¥ 1,551	\$ 12,905
Depreciation	¥ 1,177	\$ 9,794
Interest income portion	¥ 250	\$ 2,081

(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

9. Related Party Transactions

Material transactions of TSE with related companies or individuals, excluding transactions with the consolidated subsidiaries that are eliminated in the consolidated financial statements, and other than those disclosed elsewhere in these financial statements, for the year ended March 31, 2003 are as follows:

(1) Individuals

Millions of Yen (Thousands of U.S. Dollars)

Name	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 (\$50)	Other operating expense	—

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 companies

Millions of Yen (Thousands of U.S. Dollars)

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 (\$3,327)	Fiduciary obligation of office duties	Directly holds 35.0%	one director	Consignation of system operation	Consignation of system operation	¥3,531 (\$29,376)	Accounts payable	¥266 (\$2,214)
						Rent of real estate	Rent of real estate	¥320 (\$2,667)	Advance receipt	¥3 (\$32)
							Deferred revenue	¥59 (\$496)		
							Long-term deferred revenue	¥205 (\$1,712)		

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 are referred to market realized prices.

10. Supplementary Consolidated Balance Sheets Information

(1) Investments in affiliates

	Millions of Yen	Thousands of U.S. Dollars
Investments in affiliates (Stocks)	¥ 4,080	\$ 33,940

(2) Guarantees

	Millions of Yen	Thousands of U.S. Dollars
Guarantees for employee's housing loans from banks	¥ 4,837	\$ 40,241

(3) Deposits for clearing fund

TSE and its subsidiary, Japan Securities Clearing Corporation, which are not direct parties to trades, have recognized transactions on settlement basis, for debts assumed and credits obtained from the business of securities clearing.

According to internal rules, transactions for debts assumed and credits obtained from clearing parties are recognized at the trading date. TSE and Japan Securities Clearing Corporation, according to the rules, receive deposits of clearing funds in order to hedge default on an obligation of the clearing parties. The detailed items for clearing funds are as follows:

	Millions of Yen	Thousands of U.S. Dollars
① Margin funds for derivatives		
Deposit	¥ 124	\$ 1,034
Collateral securities	818	6,807
② Margin funds for when-issued transactions		
Deposit	98,129	816,383
Collateral securities	700,341	5,826,472
③ Deposits for clearing funds		
Deposit	41,527	345,487
Collateral securities	101,540	844,766
④ Deposits as collateral preceding settlement day		
Deposit	19,661	163,569
Collateral securities	168,087	1,398,401
⑤ Legal guarantee funds		
Deposit	747	6,214
Collateral securities	1,989	16,547

According to the internal rules, the amounts of collateral securities above are calculated by multiplying their market values by the range between 70% and 95%, corresponding to each kind.

11. Supplementary Consolidated Profit and Loss Information

The following are the major elements of "Operating expenses" for the year ended March 31, 2003:

	Millions of Yen	Thousands of U.S. Dollars
	2003	2003
Salaries	¥ 8,199	\$ 68,214
Allowance for bonus	708	5,896
Allowance for retirement benefits for employee	1,906	15,864
Allowance for retirement benefits for directors	79	659
System costs	3,867	32,173
Office rent	5,685	47,297
Commission expense for administration	3,921	32,622
Depreciation	7,523	62,591

12. Supplementary Statements of Cash Flows

(1) The relations between cash and cash equivalents and balance sheets items

	Millions of Yen	Thousands of U.S. Dollars
	2003	2003
Cash and bank deposits	¥ 19,614	\$ 163,175
Marketable securities	500	4,167
Corporate bonds within a year	(50)	(417)
Cash and cash equivalents	¥ 20,064	\$ 166,925

(2) The increase in assets and liabilities caused by transfers of operation

	Millions of Yen	Thousands of U.S. Dollars
	2003	2003
Current Assets	¥ 591	\$ 4,924
Non-current Assets	3,505	29,150
Total Assets	¥ 4,096	\$ 34,074
Non-current Liabilities	¥ 2,576	\$ 21,421
Total Liabilities	¥ 2,576	\$ 21,421

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 year ended March 31, 2003 as follows:

	Millions of Yen	Thousands of U.S. Dollars
Net income	¥ 3,277	\$ 27,264
Less: Components not pertaining to common shareholders	—	—
Bonuses to directors and corporate auditors	(—)	(—)
Net income pertaining to common stock	3,277	27,264
Average outstanding shares of common stock	2,300,000 shares	
	Yen	Dollars
Net income per share	¥ 1,424.85	\$ 11.85
Shareholders' equity per share	29,780.73	247.76

14. Segment Information

(1) Business Segment

For the year ended March 31, 2003, this information is not required to be disclosed because the revenue from operations, operating income and total assets for the stock exchange segment exceeded 90% of consolidated revenue from operations, operating income and total assets, respectively.

(2) Geographic Information

The company has no overseas consolidated subsidiaries and no material overseas branches for the year ended March 31, 2003.

(3) Net Sales-Overseas

For the year ended March 31, 2003, this information is not required to be disclosed because the Overseas sales did 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, 2003, as proposed by the Board of Directors and approved at the shareholders' meeting of the Company held on June 24, 2003 are as follows:

	Millions of Yen	Thousands of U.S. Dollars
Retained earnings as of March 31, 2003	¥ 4,014	\$ 33,399
Transfer from special bank deposit for default compensation reserve funds	17,367	144,490
	<u>21,382</u>	<u>177,889</u>
Appropriations:		
Transfer to default compensation reserve funds for spot transactions	6,926	57,626
Transfer to default compensation reserve funds for future/option transactions	10,441	86,864
Transfer to special reserve	4,000	33,278
Total appropriations	<u>21,367</u>	<u>177,768</u>
Retained earnings to be carried forward	<u>¥ 14</u>	<u>\$ 121</u>

Report of Independent Auditors

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

We have audited the accompanying consolidated balance sheet of Tokyo Stock Exchange, Inc. and its subsidiaries as of March 31, 2003, and the related consolidated statement of income, shareholders' equity, and cash flow for the year 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, procedures and practices generally accepted and applied 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, 2003, and the consolidated results of their operations and their cash flows for the year then ended in conformity with accounting principles and practices generally accepted in Japan (see Note 1).

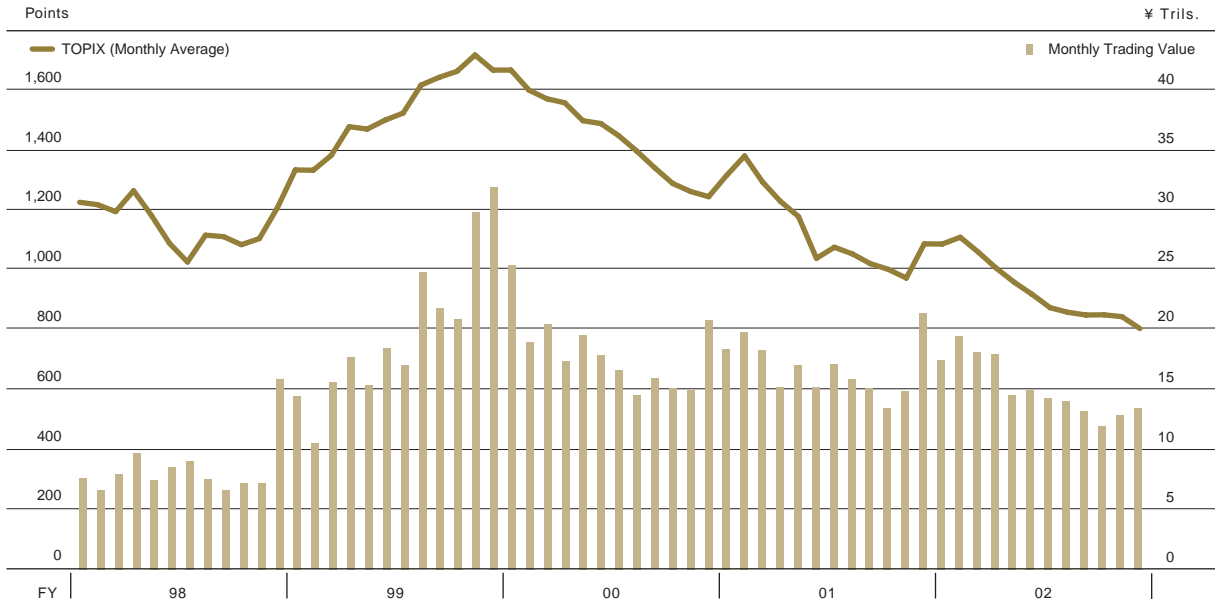
The amounts expressed in U.S. dollars, which are provided solely for the convenience of the reader, have been translated on the basis set forth in Note 1 to the accompanying consolidated financial statements.

ChuoAoyama Audit Corporation

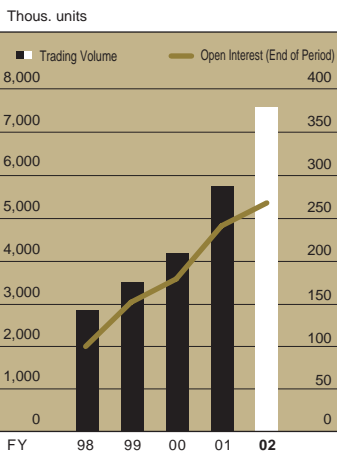
ChuoAoyama Audit Corporation
Tokyo, Japan
June 24, 2003

Market Data

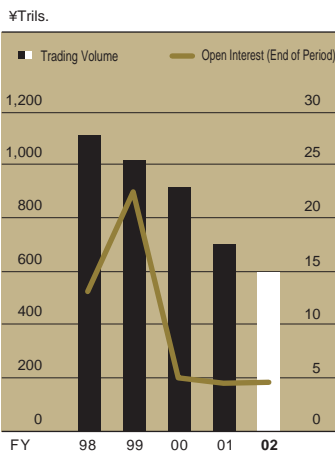
TOPIX & Domestic Equities Trading Value



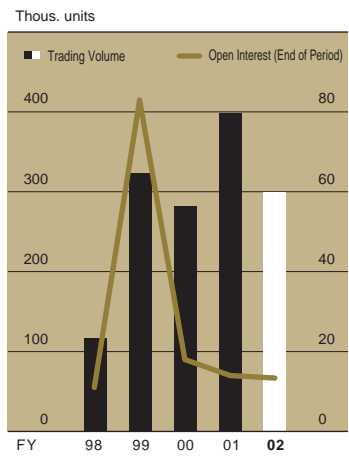
Stock Index Futures



JGB Futures



Equity Options



LISTED SECURITIES DATA

As of March 31, 2003

All figures in parenthesis represent comparisons with FY 2001 year-end data

For the year ending March 31, 2003, TSE welcomed 96 newly listed companies, resulting in a rise in listings to 2,132 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	2,132	(+20)
1st Section	1,516	(+15)
2nd Section	569	(-7)
Mothers	47	(+12)

Listed Issues	2,137	(+13)
1st Section	1,518	(+8)
2nd Section	572	(-6)
Mothers	47	(+11)

Listed Shares	324,231,806,526.63	
	(-12,860,073,473.46)	
1st Section	310,556,954,947.36	
	(-13,329,999,318.17)	
2nd Section	13,570,556,513.59	
	(+436,538,046.25)	
Mothers	104,295,065.68	
	(+33,387,798.46)	

Preferred Stock

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

Foreign Equities

Listed Companies	34	(-3)
Listed Issues	34	(-3)
Listed Shares	73,556,342,599	
	(+882,385,082)	

Preferred Subscription Certificates

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

Investment Trust Beneficiary Certificates

Listed Issues	16	
Listed Certificates	2,619,124,971	

Foreign Investment Trust Beneficiary Certificates

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

Real Estate Investment Trusts

Listed Issues	6	
Listed Certificates	1,130,974	

Straight Bonds

Issuers	3	(-2)
Listed Issues	208	(+15)
Face Value of Listed Issues	¥420,130,592,400,000	
	(+¥60,770,978,150,000)	

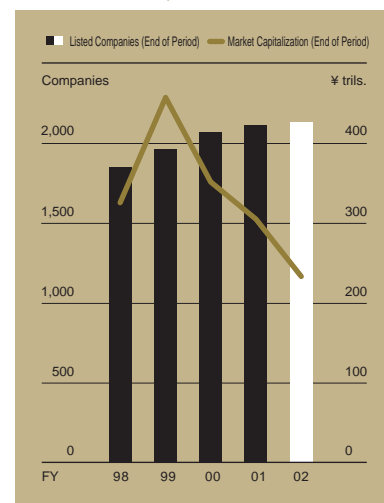
Convertible Bonds

Issuing Companies	268	(-77)
Listed Issues	342	(-143)
Face Value of Listed Issues	¥6,961,810,500,000	
	(-¥1,946,103,100,000)	

Exchangeable Bonds

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

Change in Domestic Listed Companies and Market Capitalization



BOARD OF DIRECTORS AND CORPORATE AUDITORS

As of June 25, 2003

Directors



Masaaki Tsuchida
President & CEO



Sadao Yoshino
Senior Managing Director & CFO
Corporate Planning



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



Yasuo Tobiya
Managing Director & Executive Officer
General Affairs, Personnel
and Information Services



Eisuke Nagatomo
Managing Director & Executive Officer
Listing

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 Ujii
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 Securities Co., Ltd.



Koji Shindo

Lawyer and Professor Emeritus
University of Tokyo

Executive Officers



Tomio Amano

Finance and Self Regulation

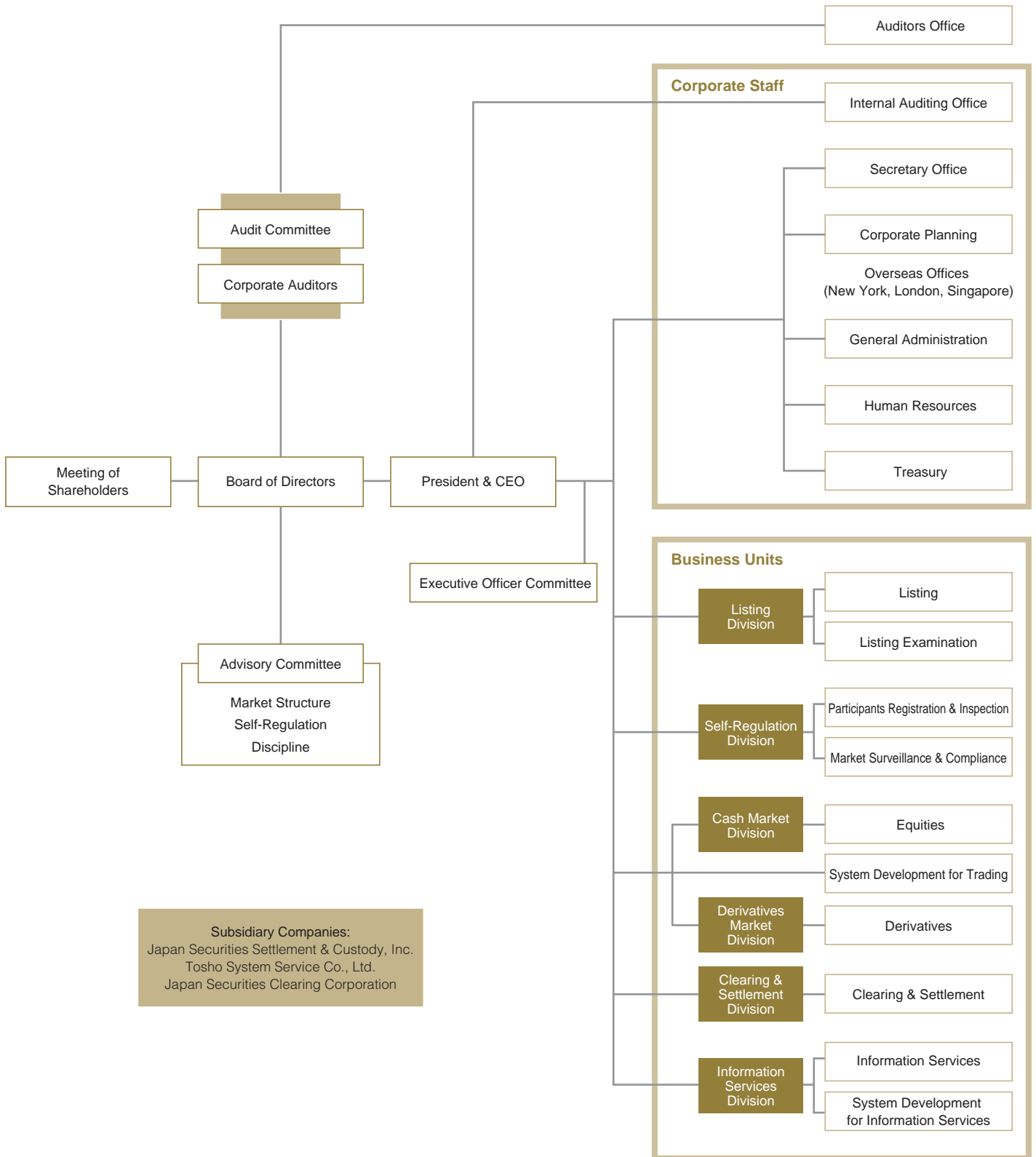


Toshitsugu Shimizu

Clearing & Settlement
and International Affairs

ORGANIZATION

As of June 25, 2003



CORPORATE DATA

As of March 31, 2003

Name	Tokyo Stock Exchange, Inc.	
Representative Officer	Masaaki Tsuchida President & CEO	
No. of Officers (As of June 25, 2003)	Board of Directors	11
	Corporate Auditors	4
	Executive Officers	7 (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	759	
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	119

Trading Participants	General Trading Participants	108
	JGB Futures and Options Trading Participants	84
	TOPIX Futures and Options Trading Participants	2

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 20 Collyer Quay, #10-02A Tung Centre, Singapore 049319 Tel: (65) 6438-5100



Tokyo Stock Exchange, Inc.

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Chuo-ku, Tokyo 103-8220, Japan
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