

Toronto Stock Exchange

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TSX Group Inc. (“TSX Group”), the publicly traded corporate parent of Canada’s two national stock markets, Toronto Stock Exchange and TSX Venture Exchange, enjoyed strong index gains in 2004 led by natural resources.

Toronto Stock Exchange outperformed all other major industrialised markets. The S&P/TSX Composite Index rose 21.4 per cent in 2004, in dollar terms. It was followed by: the Euronext 100, up 16.6 per cent; LSE’s FTSE 100, up 15.5 per cent; and Japan’s Nikkei 225, up 11.8 per cent in 2004. In the United States, home of Toronto Stock Exchange’s closest and biggest competitors, the S&P 500 gained nine per cent, while Nasdaq Composite was up 8.8 per cent and the DJIA rose 3.1 per cent.

Following the Canadian economy’s restructuring that took place during the 1990s as a result of government debt reduction and free trade agreements, Canada has been leading OECD growth and its stock market has benefited.

In that macro context, Toronto Stock Exchange, which had been a member-owned organisation since its first roots were planted in 1852, demutualised in 2000. It became part of a for-profit, publicly traded company in November 2002, when TSX Group’s shares were sold to the public at CDN\$18. The shares closed 2004 at CDN\$53.69 (\$44.67).

Taken together Toronto Stock Exchange and TSX Venture Exchange represent the seventh largest equity market in the world by market capitalisation with a value of over \$1.1 trillion as of November. In terms of the number of listed companies, Canada is the third largest market, after

the US and India. The total number of foreign companies listed on one of TSX Group’s exchanges grew by 38 per cent last year to 139.

TSX and TSX Venture exchanges have a high proportion of small- and mid-cap companies. TSX Venture Exchange, which serves emerging growth companies that intend to raise up to about \$16 million, is the leading and longest established venture market in the world.

TSX Group’s dynamism comes from its longstanding competition with the world’s largest exchanges in the US. That competition has fostered expertise in trading technology and product innovation.

Toronto Stock Exchange introduced electronic stock trading in 1977, the first major exchange in the world to do so. Twenty years later it eliminated the trading floor entirely and in 2001, it introduced a new electronic trading system.

In addition to its technology leadership, Toronto Stock Exchange also introduces innovative trading products regularly to meet the rapidly changing and varied needs of its growing market. Among its past innovations, the Exchange introduced the world’s first exchange traded fund (ETF) in 1990.

In 2004, TSX Group product introductions included: US dollar book, which makes it easier for US institutions to trade on Toronto Stock Exchange in some of the most high-volume stocks; and the Market on Close product, to

assist with increasing demand for trades that take place at the daily closing price.

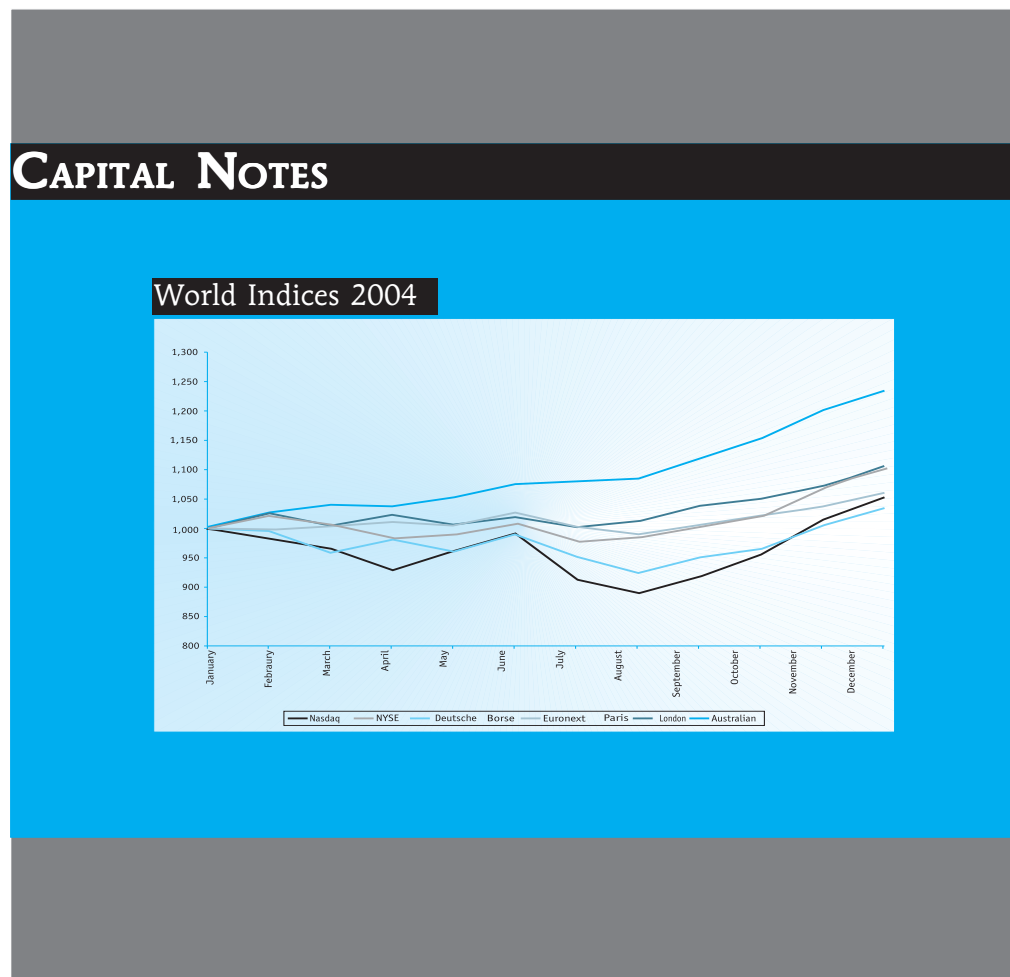
As part of its growth strategy, TSX Group is committed to extending its trading expertise to new fields. In 2004 it acquired an energy futures trading company, Natural Gas Exchange (NGX). It already owned a 45 per cent stake in CanDeal.ca Inc, a fixed-income trading company that serves the institutional market.

Effective governance, listing, disclosure and surveillance standards have evolved over 152 years as the Exchange worked with a range of market participants, such as members of the Investment Dealers Association, Market Regulation Services Inc., provincial securities regulators, including the Ontario Securities Commission, and the Canadian Depository for Securities.

During this period a growing number of retail investors have invested in the Canadian capital markets. As shown in TSX Group's most recent shareownership study, published in 2004, 49 per cent of adult Canadians own stocks directly or indirectly through mutual funds. That participation rate has grown dramatically in the last 20 years. In 1983, just 13 per cent of adult Canadians owned shares.

Traditionally Canadian stock exchanges have primarily served domestic companies and investors, but as globalisation continues and as Canada's sound economic fundamentals and strong dollar become better known internationally, involvement by foreign companies and investors is expected to grow.

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