

**INVESTMENT  
TECHNOLOGY  
GROUP, INC.  
ANNUAL REPORT  
2003**

# WHAT WE DO

ITG is a global company providing advanced trade execution technologies and sophisticated quantitative research to the institutional equity marketplace. No other firm offers a more extensive set of capabilities to measure and improve execution performance. We offer three main product lines in the U.S., Europe, the Asia-Pacific region, and Canada.

# OUR PRODUCTS

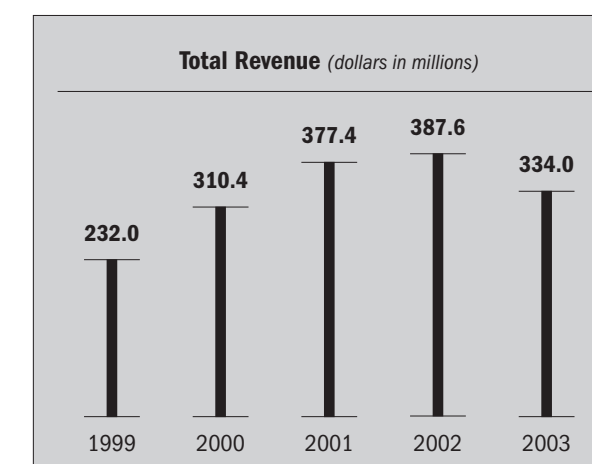
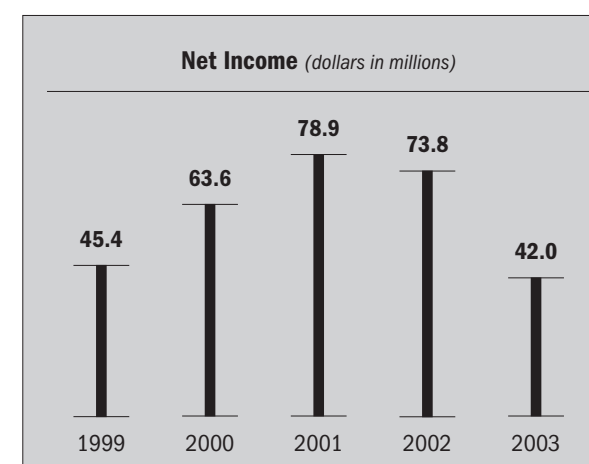
	<b>Execution Services</b>	<b>Client-Site Trading Products</b>	<b>Analytical Products</b>
<b>United States</b>	POSIT® TriAct™ Electronic Trading Desk	Triton™ Radical ITG SmartServers®	TCA® Peer Group Analysis ITG/Opt® ITG Risk™ ITG Fair Value Model
<b>International</b>	POSIT available in 14 countries  Electronic Trading Desk provides global portfolio trading capabilities	Desktop systems available in Canada, Europe, Australia, and Asia	TCA ITG/Opt Global Risk Model ITG Fair Value Model
<b>Provides clients</b>	Confidential, low-cost trading  Vast pools of alternative liquidity spanning the U.S. and international markets  Significant transaction cost savings	Powerful desktop interfaces that centralize and manage all electronic trading  Easy access to more than 75 liquidity destinations	Advanced tools for cost measurement, portfolio construction, and decision support
<b>Provides ITG</b>	Commission revenue for each trade executed  A core business with synergies extending across all product lines	Commission revenue for each trade executed  Continuing presence on client desktops	Increased commissions or hard dollar payments  Competitive advantage through value-added tools

# FINANCIAL HIGHLIGHTS

(Dollars in thousands, except per share amounts)

Year Ended December 31,	2003	2002	2001	2000	1999
<b>Consolidated Statement of Income Data:</b>					
Total revenues	\$333,992	\$387,581	\$377,407	\$310,405	\$232,044
Total expenses	264,291	260,328	241,295	197,409	149,183
Income before income taxes	69,701	127,253	136,112	112,996	82,861
Income tax expense	27,748	53,443	57,217	49,403	37,435
Net income	\$41,953	\$73,810	\$78,895	\$63,593	\$45,426
Basic earnings per share	\$0.89	\$1.52	\$1.65	\$1.37	\$0.99
Diluted earnings per share	\$0.89	\$1.51	\$1.62	\$1.34	\$0.95
Basic weighted average number of common shares outstanding (in millions)	47.0	48.5	47.9	46.5	46.0
Diluted weighted average number of common shares outstanding (in millions)	47.0	49.0	48.7	47.3	47.9
<b>Consolidated Statement of Financial Condition Data:</b>					
Total assets	\$649,848	\$594,254	\$418,478	\$281,712	\$179,488
Total stockholders' equity	\$361,303	\$356,509	\$317,944	\$210,416	\$115,652

Note: Please refer to Form 10-K for complete financials and footnotes.



# LETTER TO SHAREHOLDERS

To our shareholders, clients, and employees:

In 2003, ITG made substantial progress on our long-term strategies while navigating a difficult domestic marketplace. Every trend affecting institutional investors points to rising demand for equity trading technologies through the foreseeable future. Not surprisingly, the level of competition in this arena has also been on the rise.

Yet as a company, ITG remains unique. What sets us apart is our total focus on providing technology solutions that derive from a consistently high level of commitment to research and development and incorporate responsive client service.

*To build on this advantage, we are continuing to invest in our firm's product development and technology infrastructure.*

We continue to strengthen our product line with forward-looking capabilities that:

– **Add value to client equity transactions in many ways.** Our value proposition goes far beyond simply executing trades at low cost. ITG has a complete product suite enabling our clients to access liquidity throughout the equity marketplace, measure and control costs at every point in the execution process, and increase the productivity of their trading operations.

We also have a unique asset in our POSIT and TriAct trade matching systems. No other alternative trading system or ECN offers the same combination of electronic access, broad liquidity, anonymity, zero information leakage, and portfolio risk controls. Our Trading Desk, ITG SmartServers, and desktop execution systems all link to POSIT and TriAct, taking full advantage of their features.

– **Deepen penetration of our core client base of institutional investors.**

ITG is already well known among traders. But many of our products have appeal that goes far beyond institutional trading desks. With advanced tools

for portfolio optimization, cost measurement, and risk management, we are now reaching up into the investment management levels of client organizations. Our Peer Group Analysis is a new product aimed specifically at this market, as it shows exactly how managers rank in execution performance and cost control.

– **Make new inroads into other areas of the institutional marketplace.**

A prime example is hedge funds, a fast-growing market segment we are pursuing through our Hoenig division. We are also targeting active investment managers with products such as our new Radical single-stock trading system.

– **Build success globally.** We have made great progress in tailoring our domestic products to a range of international markets. For example, TCA, our trading cost analysis tool, now covers 35 countries and measures results in any of those currencies. We have also expanded and strengthened our trading desk services in each global region. As a result, our international subsidiaries all had robust performance gains in 2003. They remain an important source of growth and diversification of our revenue and earnings streams. We will continue to strengthen our presence and leverage product advances in the regions where we are already established.

*In 2003, we focused on positioning ITG for the future through continued substantial investment in the development of domestic and international products.* Despite the U.S. market rise, the climate for our domestic business remained challenging. Historically low levels of market volatility contributed to a significant decline in turnover rates among active investors, and an even greater falloff among the quantitative investors making up our core client base. For the market overall, institutional commissions were down an estimated 15 percent.

On the other hand, it was a stellar year for our international business, which posted a 45 percent gain in revenues for the year. Our subsidiaries in Europe, Canada, Asia, and Australia all achieved record-breaking revenues. This year

our international operations also achieved their first quarter of pre-tax profitability, and we expect them to attain consistent pre-tax profitability by mid-2004.

Consolidated 2003 revenues were \$334 million, down 14 percent from 2002. We remained a profitable company with healthy margins; net income was \$42 million and earnings per share were \$0.89.

*Because of our ongoing emphasis on R&D, we are entering 2004 with new advances in several key product lines.*

We have already seen a positive client response as measured by installations and order flow. Listed below are the most significant growth opportunities we are pursuing in 2004. While these initiatives will focus on domestic markets at first, they all have the potential for global application.

**Introducing a completely transformed client-site product line.**

We now have two new Windows-based desktop execution systems that put us back in the forefront of this product category and are leading our pursuit of new accounts. Triton is aimed primarily at quantitative and list traders; Radical is designed for single-stock trading. Both are next-generation systems combining automation tools and total market connectivity with access to ITG execution destinations and analytical capabilities.

**Reinforcing our unique trade matching abilities.**

Although market conditions did not favor POSIT in 2003, that doesn't mean we were sitting still. To better align POSIT with client needs, we expanded it from 8 to 15 daily matches and went to a one-minute intraday match window. We also saw an encouraging level of growth in TriAct, which we introduced to complement POSIT with continuous trade matching and to capture volume that would otherwise pass through our systems. For 2004, we are pursuing new automation features and other ways to enhance the appeal of POSIT and TriAct across a range of market segments.

**Upgrading and expanding our line of intelligent servers.**

Because of what some describe as the “molecularization” of the market, trading desks must now complete many more trades to execute the same number of shares they did in the past. This situation has created tremendous demand for intelligent servers to which institutions can “outsource” trades. ITG’s SmartServers were ahead of that curve, and the algorithms powering our servers lead the industry in sophistication. In 2003, we launched two additions to this product line: the Horizon™ SmartServer, which optimizes price performance of large orders worked over long time periods and is ideal for a VWAP strategy; and the activePeg™ SmartServer, designed to minimize transaction costs while completing trades within shorter time horizons. Not only do both products offer outstanding performance and speed, they also let users adjust the aggressiveness of the automated strategies based on their own market insights. The result is a highly competitive set of offerings in a fast-growing market segment.

**Building cost measurement into more of our products.**

Knowing that any serious effort to control trading costs has to begin by measuring them, we have put major effort into making TCA the industry’s most advanced toolkit for transaction cost analysis. We are building on that strength by incorporating cost measurement features into other products, including our ITG SmartServers and Triton, and adding new TCA components such as Peer Group Analysis and the TCA+ client-custom reporting structure.

**Pursuing hedge funds as a high-potential customer segment.**

Hedge funds have been one of the fastest-growing segments in the marketplace. In 2002, we acquired the Hoenig brokerage operation largely so we could link our products with its expertise in hedge fund trading. Since then we have achieved substantial economies in Hoenig’s operations, doubling its margins, while introducing hedge funds to ITG capabilities. Most recently we have had early success in rolling out our new Radical desktop system, which is ideally

suiting to hedge funds’ execution needs. Just six months after Radical’s introduction, this product has already logged more than 59 installations.

*ITG today is in a much stronger competitive position than we were a year ago.* We will continue to increase our investment in the development of technologies that serve the institutional marketplace. Toward that end, ITG is fortunate to have an exceptionally skilled and hardworking group of employees around the world. They accomplished some great things this year, and I am grateful to have such an outstanding team. I also appreciate the ongoing support we receive from clients and shareholders who understand and share our vision. My thanks to you all.



Robert J. Russel  
*President and  
Chief Executive Officer*

# PROGRESS IN 2003

<b>New Products</b>	<p>Two new client-site trading products—Triton, for quantitative and list trading, and Radical, for single-stock traders</p> <p>Two new ITG SmartServers—Horizon, to optimize market participation strategies over time, and activePeg, to improve price performance within a shorter timeframe</p> <p>Peer Group Analysis, providing execution performance rankings to portfolio managers and plan sponsors</p> <p>Fair Value Model, addressing the critical issue of fair value pricing, highlighted by recent legal and regulatory developments</p>
<b>Product Enhancements</b>	<p>Expansion of POSIT to 15 daily matches with a one-minute intraday match window</p> <p>Added TCA+ client-custom reporting structure to our cost measurement toolkit</p> <p>Major upgrade to ITG/Opt, our portfolio optimizer</p> <p>Expanded TCA coverage to 35 countries</p>
<b>Exceptional Results</b>	<p>Grew international revenues by 45% in 2003</p> <p>Portfolio Trading Group again ranked in top 5 for execution quality in the annual Greenwich Associates survey</p> <p>Completed integration of Hoenig into ITG to strengthen and streamline infrastructure; pre-tax margins have doubled since the acquisition in late 2002</p>



# GENERAL INFORMATION

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## Investment Technology Group, Inc.

### Executive Offices

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New York, New York 10017  
(212) 588-4000

### Directors

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J. William Burdett <sup>(3)</sup>

Neal S. Garonzik <sup>(1)</sup> <sup>(2)</sup> <sup>(3)</sup>

William I. Jacobs <sup>(1)</sup> <sup>(2)</sup> <sup>(3)</sup>

Raymond L. Killian, Jr.  
*Chairman of the Board*

Robert L. King <sup>(1)</sup> <sup>(2)</sup> <sup>(3)</sup>  
*Chairman and CEO*  
*Requisite Technology*

Maureen O'Hara <sup>(1)</sup> <sup>(2)</sup>  
*Robert W. Purcell*  
*Professor of Finance*  
*Johnson Graduate School*  
*of Management,*  
*Cornell University*

Robert J. Russel  
*President and*  
*Chief Executive Officer*

Mark A. Wolfson <sup>(1)</sup> <sup>(2)</sup>  
*Managing Partner*  
*Oak Hill Capital Management*  
*Vice President*  
*Keystone, Inc.*

<sup>(1)</sup> Member of Audit Committee  
<sup>(2)</sup> Member of Compensation Committee  
<sup>(3)</sup> Member of Nominating and Corporate  
Governance Committee

### Forward-Looking Statements

This Annual Report contains forward-looking statements within the meaning of the U.S. securities laws. All statements regarding our expected future financial position, results of operations, competitive positions, plans, strategies and objectives of management, and concerning securities markets and economic trends are forward-looking statements. Although we believe our expectations reflected in such forward-looking statements are based on reasonable assumptions, there can be no assurance that such expectations will prove to have been correct. Important factors that could cause actual results to differ materially from the expectations reflected in the forward-looking statements herein include, among others, the actions of both current and potential new competitors, rapid changes in technology, fluctuations in market trading volumes, changes in the regulatory environment, as well as general economic, business and financial market conditions. For additional factors which may cause results to differ materially from the forward-looking statements herein, please refer to our 2003 Annual Report on Form 10-K on file with the Securities and Exchange Commission.

### Officers

Robert J. Russel  
*President and*  
*Chief Executive Officer*

Ian Domowitz  
*Managing Director*

P. Mats Goebels  
*Managing Director*  
*General Counsel and Secretary*

Christopher J. Heckman  
*Managing Director*

Anthony J. Huck  
*Managing Director*

David Meitz  
*Managing Director*

Howard C. Naphtali  
*Managing Director*  
*and Chief Financial Officer*

Angelo Bulone  
*Senior Vice President*  
*and Controller*

### Form 10-K

A copy of the Company's 2003 Annual Report on Form 10-K, as filed with the Securities and Exchange Commission, is available to stockholders who request it by writing to:

*Director*  
*Investor Relations*  
*Investment Technology Group, Inc.*  
*380 Madison Avenue*  
*New York, New York 10017*

### Stockholder Assistance

Stockholders may communicate with the Company's registrar regarding their accounts, certificates, or dividends using the toll-free telephone number: (800) 426-5523

### Transfer Agent and Registrar

*EquiServe Trust Company, N.A.*  
*P.O. Box 43023*  
*Providence, RI 02940*  
*Phone: (800) 426-5523*  
*TDD: (800) 952-9245*

### Investor Relations

(800) 991-4484

### Legal Counsel

*Cahill Gordon & Reindel*

### Independent Auditors

*KPMG LLP*

### Company Securities

Investment Technology Group, Inc. Common Stock is traded on the New York Stock Exchange under the symbol *ITG*  
*Cusip #46145F-10-5*

### ITG Sales

(877) 399-4ITG

### World Wide Web Site

[www.itginc.com](http://www.itginc.com)



# The Future of Trading®

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