

Summary of Q&A at JPX 3rd Medium-Term Management Plan Briefing
(held on March 29, 2019)

(1)

Q: The 3rd Medium-Term Management Plan includes fiscal targets of JPY 130 billion in operating revenue and an annual derivatives trading volume of 400 million contracts in the last fiscal year. To what extent are synergies from the business combination with Tokyo Commodity Exchange (TOCOM) and effects of becoming a comprehensive exchange reflected in these targets?

A: The sooner TOCOM's products are transferred to OSE, the more synergies we expect to achieve, but a concrete date for completion has yet to be determined. As such, we did factor synergies from the merger in to a degree, but the figures as they are do not reflect the full extent of our expectations.

(2)

Q: In regards to financial targets, operating revenue will increase whereas net income will not. What are your predictions for operating expenses, and in which areas do you expect them to increase?

A: We expect an increase in capex for core systems, depreciation in connection with the capex, and an increase in system maintenance and operation costs, due mainly to the launch of a Kansai backup center in FY2021, and plans to replace systems such as the cash equities trading system (arrowhead) and the derivatives trading system (J-GATE). Such activities as building a backup center will not directly lead to an increase in revenue, but they will increase the necessary cost of providing stable market infrastructure, so in the 3rd Medium-Term Management Plan, income is not expected to increase as much as revenue.

(3)

Q: In relation to the structure of the new comprehensive exchange, why did you not decide to merge TOCOM with OSE? Also, could you give us an idea of your future plans, perhaps for incorporating other exchanges such as Tokyo Financial Exchange?

A: We discussed this a great deal, and decided that in order to realize the creation of the comprehensive energy market that TOCOM has been working on, although a merger with OSE would have been the most effective solution in the end, in the immediate future it would have become a barrier to seeing that goal. Thus, we chose to overlook that option in order to optimally realize our goal of building a comprehensive exchange.

As for the future, we will focus on the business combination with TOCOM for the time being, towards the realization of the comprehensive exchange, which has taken about ten years. We currently have no plans to incorporate any other exchanges.

(4)

Q: Of the total capex of approximately JPY 45 billion planned for three years, what is the proportion related to systems scheduled for launch during the same period?

A: Under the 2nd Medium-Term Management Plan, a considerable proportion of the planned capex was allocated to the clearing system. However, under the new Plan, capex will be spread out over various operations including on the cash equities trading system, the derivatives trading system, the clearing system, the information system, and the backup center. For the 2nd Medium-Term Management Plan, capex was originally estimated at JPY 46 billion, but as a result of consultation with securities companies and other market participants about the details of system development, that figure has come down to between JPY 35 billion and 40 billion. There is a possibility that the capex figure of JPY 45 billion estimated in the 3rd Medium-Term Management Plan will decrease in the same way.

(5)

Q: To what extent will the launch of systems scheduled for FY2019 impact later depreciation costs?

A: Total system expenses in three years' time, including depreciation costs and system maintenance/operation costs, are expected to have increased by approximately 10% from those in FY2018.

(6)

Q: You mentioned that synergies from the business combination with TOCOM are not fully reflected in the 3rd Medium-Term Management Plan. If such synergies were fully reflected, based on the best possible scenario, how much would you expect them to contribute to profits?

A: We do not expect synergies from the merger to be fully reflected in JPX's financial performance during the next three years. But if they were fully reflected, partially depending on market conditions and if everything goes well, I would expect TOCOM's current revenue to double as money flow from the financial industry starts to come in.

(7)

Q: You plan to increase revenue by JPY 10 billion within three years, but if you deduct the expected increase in revenue from TOCOM from that figure, it seems like revenue from the existing businesses will decrease. Is it correct to say that compared to the initially planned revenue increase of JPY 15 billion under the 2nd Medium-Term Management Plan, expectations for revenue increase from the existing businesses under the 3rd Medium-Term Management Plan are lower?

A: Estimates for market activities (average daily trading value of cash equities: JPY 3.45 trillion, annual trading volume of derivatives: 400 million contracts) are at record high levels, but the 3rd Medium-Term Management Plan is formulated on the premise of figures that do not foresee further records. In addition, we achieved considerable revenue stream diversification planned under the 2nd Medium-Term Management Plan, so we are assuming that a further increase of revenues is somewhat unlikely in those areas.

(8)

Q: Could you elaborate on your plans for "Creating 10 new data services"? Are you envisaging services that directly contribute to revenue, or will they be more directed towards improving market stability or usability in general?

A: We have three main ideas. The first is using API or cloud technology to sell smaller data sets to companies that want to use only a certain section of data, or start-ups just beginning to use market data. Second is making a business out of the creation and sale of value-added data, such as data analysis of listed companies' timely disclosures. The third idea is to look beyond our own data, and begin a business selling so-called 'alternative data' and such through collaboration with other providers. We are planning these new sales and distribution policies, growth in existing businesses and a revamp of our service offering.

(9)

Q: In regards to the financial target of 15% or more ROE in the 3rd Medium-Term Management Plan, can we interpret that ROE will drop to approximately 15% from the FY2018 forecast of approximately 17% due to accumulation of retained earnings? Or will the move to a comprehensive exchange enable you to aim for more ROE than the current 17% forecast in the long term after the new Plan?

A: I would like to stress that we intend to suitably maintain the level of owned capital and not increase it inappropriately, unless we come across opportunities for M&A in the indices or information areas, which we are always considering. With essential capital maintained in this way, if profits increase in line with targets, we expect ROE to be at around 15% in three years.

On the other hand, the Japanese derivatives market is some way behind its global peers, and therefore has huge potential for growth so we think that moving to a comprehensive exchange model could push ROE up to 16 or 17%.

(10)

Q: For the creation of a comprehensive exchange, what is the situation on movements or actions towards integrating the legal foundations and oversight authorities? What are your hopes or expectations for this?

A: Until now, we have been working towards the business combination with TOCOM. This basic agreement is a starting platform, but if we eventually want to grow the energy market, it will be more efficient to have everything in one market, literally – a one-stop shop for all TOCOM's products including energy products like LNG or electricity which are looking to list. This is what we would like to consider in the future.