Japan Exchange Group, Inc.

Earnings Conference for FY2022

April 28, 2023 11:00 – 11:50

Speaker: Yamaji Hiromi, Director & Representative Executive Officer, Group CEO

Tabata Atsushi, Senior Executive Officer & CFO

Presentation

Yaguchi: Thank you very much for taking time out of your busy schedule to join us today. We will now begin Japan Exchange Group, Inc.'s briefing about the FY2023 update of the medium-term management plan 2024 and the financial results for FY2022. This event is a hybrid of an on-site event and a live webinar.

First, please let me explain today's proceedings. We will first give an explanation and then move on to the question-and-answer session. I would like to introduce you to today's attendees. Yamaji Hiromi, Director & Representative Executive Officer, Group CEO; and Tabata Atsushi, Senior Executive Officer & CFO. I am Yaguchi from the Corporate Communications Department, and I am today's moderator.

First, Mr. Yamaji will give an overview of the FY2023 update of the medium-term management plan 2024 and the financial results for FY2022.

Yamaji: Hello, everyone. I am Yamaji, CEO of Japan Exchange Group. I have been speaking with shareholders and investors mainly at IR Day, a business presentation meeting, but since assuming the position of CEO this month, I would like to continue to exchange frank opinions with all of you and strive to continuously improve JPX's corporate value. Thank you very much for your cooperation.

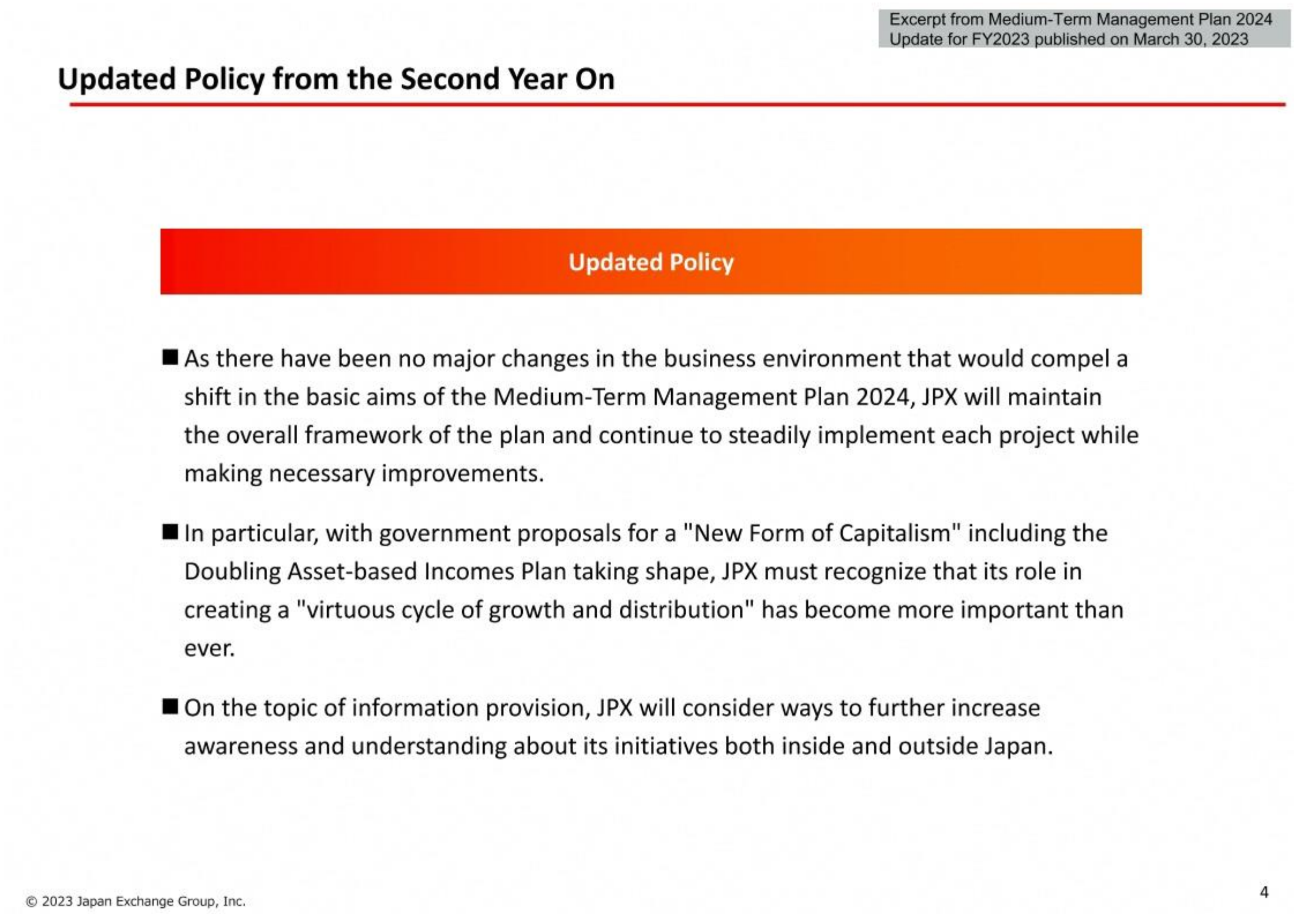
I. Medium-Term Management Plan 2024
Update for FY2023

Today, I will first explain the FY2023 update of the medium-term management plan 2024.

In March last year, JPX formulated its three-year plan, the medium-term management plan 2024, under the slogan, "Exchange & beyond," and is now moving forward with its initiatives.

I participated in the discussion of this medium-term management plan as Group COO since its formulation, and my ideas and policies are reflected in the 2024 plan.

The first year of the three-year plan has just passed. As we are to update the plan every year in light of the current changes in the environment, I will explain its points.



Please see the updated policy on page four of the presentation materials. As for the business environment, we believe that the outlook for the domestic and overseas economic environment remains uncertain due to the protracted situation in Ukraine and higher interest rates in the US and European countries.

However, the direction we should aim for remains the same, so we will maintain the general framework of the plan and continue to steadily implement it while making necessary improvements in each measure.

In particular, last November, the Japanese government formulated the Doubling Asset-based Income Plan. We recognize that JPX's role in creating a virtuous cycle of growth and distribution has become more important than ever. We hope to support the sustainable growth of companies and encourage the medium- to long-term asset building of the public through the provision of attractive products or the development of financial and economic education.

We also intend to strengthen our information provision to further increase awareness and understanding about JPX's initiatives both inside and outside Japan.

Focus 1 | Review of the First Year of the Plan (FY2022) and Planned Activities

■ We will support sustainable growth and value enhancement of companies and encourage mid- to long-term asset building among the public through the provision of attractive products as well as financial and economic education, thereby contributing to the "virtuous cycle of growth and distribution" that the Doubling Asset-based Incomes Plan aims for.

	Review of the First Year of the Plan	Planned Activities
Develop an environment that supports sustainable growth at companies	• Summarized discussions of the Council of Experts Concerning the Follow-up of Market Restructuring and set out TSE's future actions • Released outline of new index focusing on value creation • Released outline of specifications for a smoother initial listing process and other things • Concluded capital and business alliance agreement with Minsetsu, Inc. and made SCRIPTS Asia, K.K. a wholly owned subsidiary with the aim of promoting constructive dialogue between listed companies and investors	• Establishing a framework to motivate autonomous actions to enhance listed companies' medium- to long-term corporate value • Examining ways to make the Growth Market better fulfill its functions • Starting calculation of and promoting use of new index focusing on value creation • Reviewing TSE's quarterly disclosure rules in light of the legal revisions while promoting proactive disclosure • Promoting constructive dialogue between listed companies and investors with SCRIPTS Asia, K.K., ICJ, Inc. and Minsetsu, Inc.
Develop products and rules to contribute to asset formation	• Released outline of specifications for active ETFs • Released outline of specifications for optimization of tick sizes for medium liquidity stocks • Requested issuers to lower investment units • Launched "JPX Manebu Lab," a comprehensive financial and economic education portal site that provides information from a fair and neutral standpoint • Published list of TOPIX phased weighting reduction constituents	• Listing active ETFs and exploring further advancement • Implementing optimization of tick sizes for medium liquidity stocks • Further promoting financial and economic education in cooperation with related organizations in line with expansion of NISA scheme • Steadily implementing the transition of TOPIX and determining rules for post-transition
Further improve convenience and resilience as a market infrastructure	• Started development for upgrading the cash equity trading system • Completed construction of the secondary data center in the Kansai area in preparation for the predicted large earthquake under Tokyo	• Further developing and launching the next generation cash equity trading system, and extending cash equity trading hours at the time of launch • Developing an effective BCP system to improve resilience

Focus 2 | Review of the First Year of the Plan (FY2022) and Planned Activities

■ We will further invigorate the derivatives market through the enhancement of interest rate derivatives and small lot products, as well as creating new markets and services utilizing digital technology and using information in a more sophisticated way, thereby contributing to the efficiency of asset management.

	Review of the First Year of the Plan	Planned Activities
Strengthen functionality of interest rate-related markets	• Released outline of specifications for short term interest rate futures linked to the Bank of Japan's TONA	• Offering market infrastructure that enables trading, clearing, and settlement of long- and short-term interest rate products at a single venue • Introducing cross margining between interest rate swaps and short-term interest rate futures
Invigorate the derivatives market	• Launched holiday trading to enhance investor convenience by providing hedging opportunities • Released outline of specifications for Nikkei 225 micro Futures and Nikkei 225 mini Options • Released outline of specifications for the introduction of a new margin calculation method (VaR Method) for listed derivatives	• Listing Nikkei 225 micro Futures and Nikkei 225 mini Options • Changing derivatives trading hours in light of the extension of cash equity trading hours • Introducing the VaR Method
Advance digitization and enhance information usage	• With the aim of creating a digital securities market, issued a Digitally Tracked Green Bond, established a study group, joined consortia on digital issues, began joint discussions on establishing Progmat, and invested in BOOSTRY • Implemented DLT technology for settlement by physical delivery and payment of rubber futures contracts	• Collaborating with domestic platform providers to create a digital securities market • Using blockchain technology to further enhance settlement efficiency and future readiness

Excerpt from Medium-Term Management Plan 2024
Update for FY2023 published on March 30, 2023

Focus 3 | Review of the First Year of the Plan (FY2022) and Planned Activities

■ We will contribute to the creation of a sustainable society by promoting sustainable finance through the use of ESG-related information or other means.

	Review of the First Year of the Plan	Planned Activities
Strengthen dissemination of sustainability-related information	• Launched ESG Bond Information Platform to improve convenience for market users and visibility of the products • Launched "JPX Listed Company ESG Information WEB (beta version)," which provides a list of links to reports containing ESG information	• Reviewing the ESG bond information platform and considering further enhancement based on the review
Calculate ESG indices and list related ETFs/futures	• With FTSE, launched FTSE JPX Net Zero Japan Index Series, an index series using environmental metrics • Released outline of specifications for futures contracts based on ESG indices • Released outline of specifications for the revision to the contract unit of silver futures and palladium futures	• Listing futures on ESG indices • Implementing the revision to the contract unit of silver futures and palladium futures
Vitalize the energy market, advance the creation of an emissions trading market	• Launched Electricity Futures as a permanent listing and LNG Futures as a trial listing • Signed MoU with Japan Electric Power Exchange • Conducted trial trading of carbon credits as part of the "Technical Demonstration Project for Carbon Credit Market" commissioned by the Ministry of Economy, Trade and Industry	• Enhancing product and service lineups to develop the electricity futures market and streamlining calculation of margin • Discussing the creation of a Japanese carbon credit market

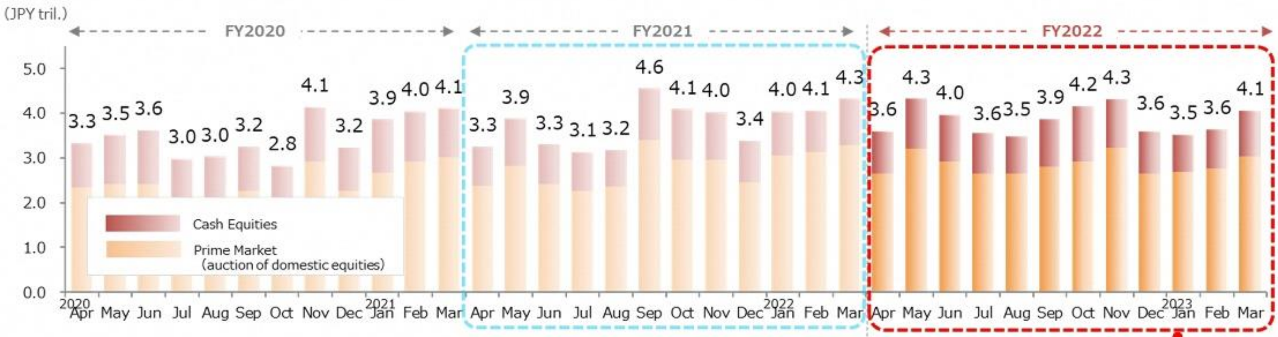
Then, as highlighted in yellow on the following pages, I will briefly talk about the key points of the first year of the plan.

In the first year of the plan, we followed up on the review of market restructuring and, based on this, requested listed companies to take actions to realize management being conscious of the cost of capital and stock prices, launched holiday trading in the derivatives market, and released the outline of specifications for active ETFs, short-term interest rate futures and small-lot products of derivatives.

From a medium- to long-term perspective, we are also in the process of steadily planting the seeds for the realization of our long-term vision, Target 2030, which we aim to achieve by 2030. To this end, we issued a Digitally Tracked Green Bond, and engaged in a demonstration project for the carbon credit market.

Market Trends (Cash Equities)

Cash Equities Average Daily Trading Value (April 2020 – March 2023)



Daily Average Trading Value by Market Division (JPY)

		FY2020	FY2021	FY2022	
		Annual Ave.	Annual Ave.	Annual Ave.	y/y
Auction	Prime Market (prev. 1st Sec.) Domestic Stocks *1	2.44 tril.	2.78 tril.	**2.85 trill.**	**+2.5 %**
	Standard Market (prev. 2nd Sec. + JQ Standard) *1	100.4 bil.	77.2 bil.	**85.1 bil.**	**+10.3 %**
	Growth Market (prev. Mothers + JQ Growth) *1	210.1 bil.	160.9 bil.	**142.5 bil.**	**(11.5 %)**
	ETFs / ETNs	272.9 bil.	261.1 bil.	**251.9 bil.**	**(3.5 %)**
Off-auction		402.8 bil.	425.4 bil.	**463.8 bil.**	**+9.0 %**
Cash Equities (auction/off-auction) Total *2		3.48 tril.	3.76 tril.	**3.84 tril.**	**+2.1 %**

*1 Trading value from before April 1, 2022 has been reclassified to match the new market segments.
*2 Average daily trading value of auction and off-auction trades of common stock on the Prime, Standard, and Growth Markets (1st/2nd Sections, Mothers, and JASDAQ up to FY2021) and TOKYO PRO Market, as well as ETFs/ETNs/REITs, etc.

Next, I would like to provide an overview of our financial results for FY2022. Please see page nine of the materials.

As for market trends in the cash equities market, the trading value in FY2022 was brisk throughout the year, influenced by price, interest rate, and exchange rate trends, and the average daily trading value of stock certificates and other securities was JPY3.84 trillion, a YoY increase of 2.1%. The daily trading value marked its record high for the second consecutive year.

Market Trends (Derivatives)

JPX

Monthly Trading Volume(April 2020 - March 2023)

Average daily trading volume/value of major products

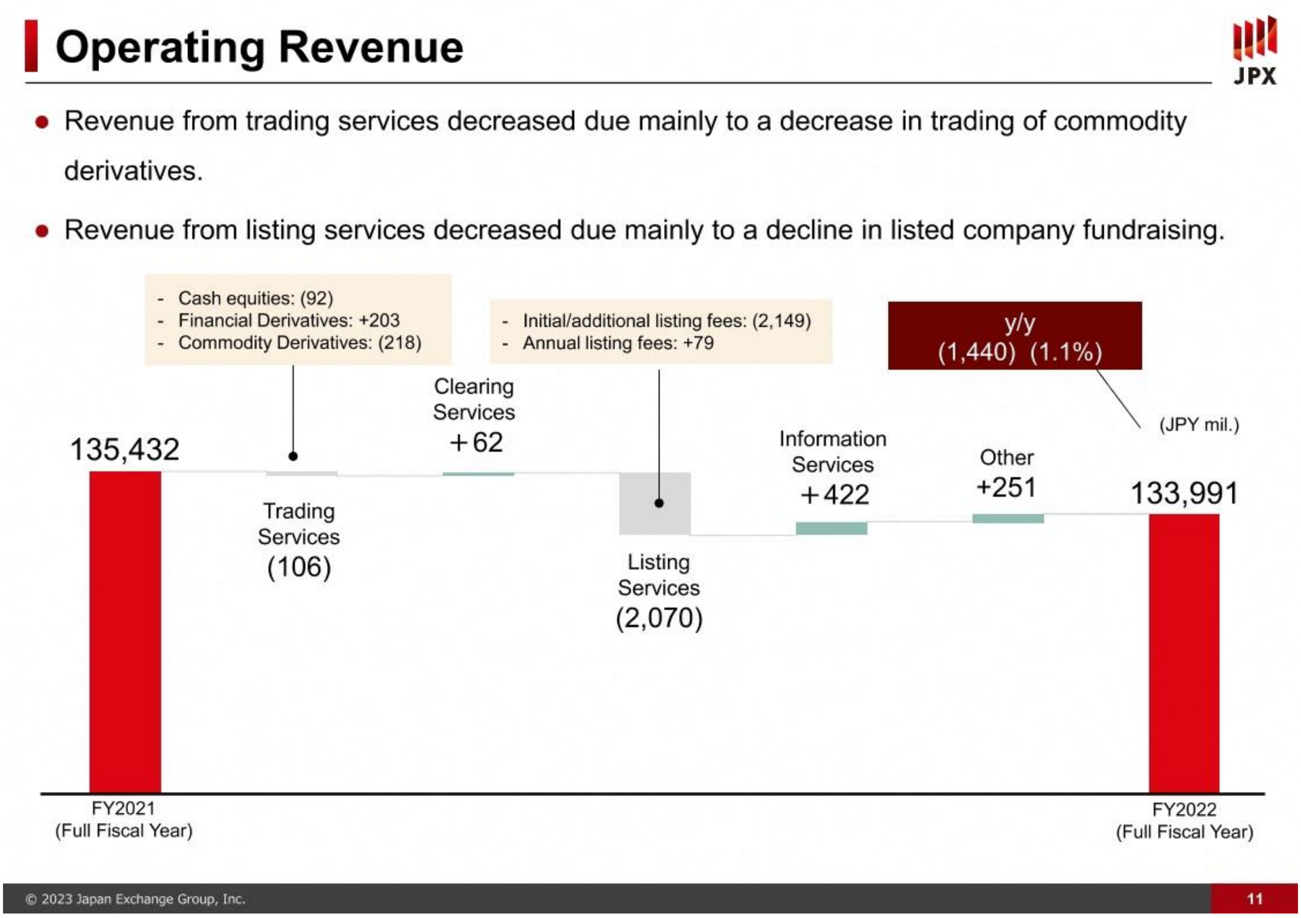
(Trading volume : 10,000 contracts)

	FY2020	FY2021	FY2022	
	Annual Ave.	Annual Ave.	Annual Ave.	y/y
TOPIX Futures	10.2	9.6	**10.4**	**+8.4 %**
Nikkei 225 Futures (Large)	9.2	7.6	**8.8**	**+15.3 %**
Nikkei 225 mini	107.6	98.9	**104.6**	**+5.7 %**
Nikkei 225 Options*	JPY 26.5 bil.	JPY 23.6 bil.	**JPY 25.7 bil.**	**+9.2 %**
10-year JGB Futures	2.9	3.3	**3.2**	**(3.4 %)**
Total Trading Volume for Financial Derivatives	**363 mil. contracts**	**335 mil. contracts**	**352 mil. contracts**	**+5.1 %**
Gold Futures (standard)	2.8	2.7	**2.9**	**+4.6 %**
Gold Futures (mini)	0.7	0.8	**0.6**	**(20.2%)**
Platts Dubai Crude Oil	2.5	1.5	**0.9**	**(42.3%)**
Total Trading Volume for Commodity Derivatives	**1,945**	**1,692**	**1,583**	**(6.4 %)**

* Excluding Weekly Options.

Next, please see the market trends for derivatives on page 10. The trading volume in financial derivatives was 352 million units, up 5.1% YoY, in the market where volatility remained relatively high, especially in H1.

On the other hand, the total trading volume for commodity derivatives declined 6.4% YoY to 15.83 million contracts. Trading in Dubai crude oil futures decreased, which was partially offset by an increase in precious metals products.

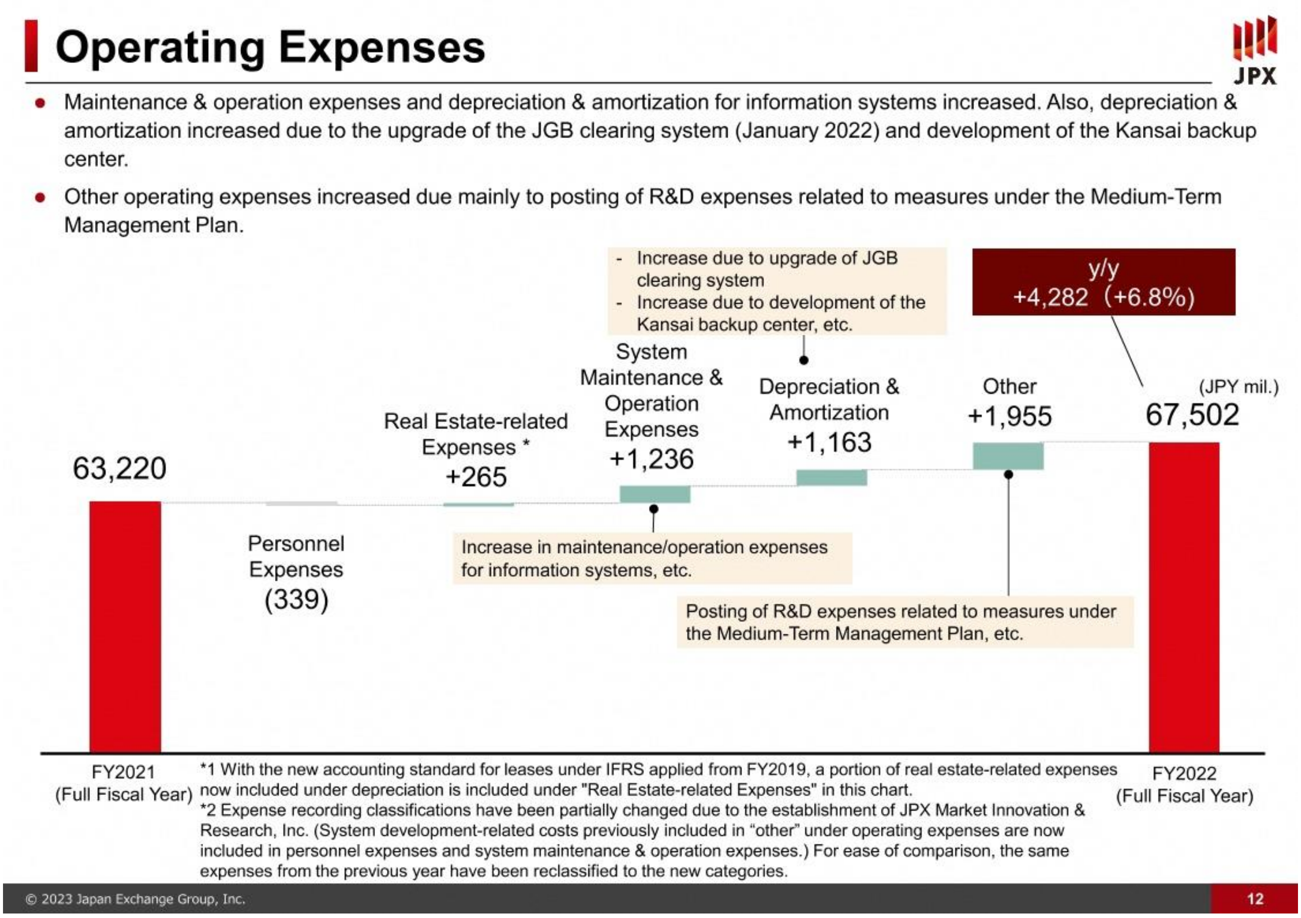


Please see page 11. This shows operating revenue under these market trends.

As I mentioned earlier, although the trading volume of financial derivatives increased, revenue from the trading services decreased YoY, affected by the decline in the trading volume of commodity derivatives. In addition, revenue from the listing services also declined due to a decrease in fund procurement by listed companies.

On the other hand, revenue from the information services increased due to an increase in market information usage fees resulting from the expanded use of market information, as well as an increase in index license revenue. Other operating revenue also increased.

As a result of the above, overall operating revenue was JPY133.9 billion, a YoY decrease of JPY1.4 billion, or 1.1%.



Please see page 12. This shows operating expenses.

First, system-related expenses increased due to higher system maintenance and operation expenses for information systems, as well as depreciation and amortization expenses due to the replacement of the Japanese government bond clearing system and the development of the Kansai backup center.

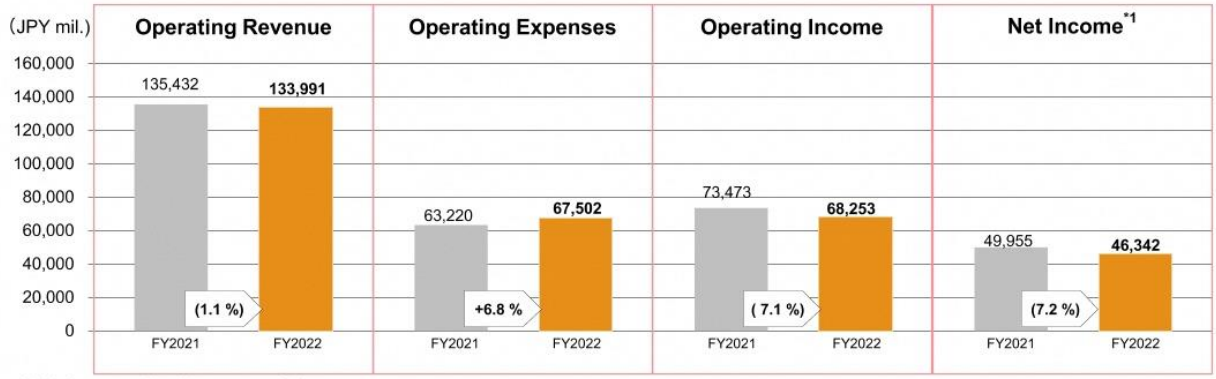
Other operating expenses also increased due to the posting of R&D expenses related to measures under the medium-term management plan, etc.

As a result, overall operating expenses increased by JPY4.2 billion, or 6.8%, YoY to JPY67.5 billion.

Highlights

JPX

- Net income decreased by 7.2% year-on-year due to a decrease in operating revenue, caused mainly by a decline in listing services revenues, and an increase in operating expenses which are mainly system-related expenses.



*1 Net Income attributable to owners of the parent company.

➢ **Average Daily Trading Volume/Value of Major Products**

	FY2021	FY2022	
			y/y
Cash Equities (trading value) *1	JPY 3,757.7 bil.	JPY 3,836.9 bil.	+2.1 %
TOPIX Futures (trading volume)	96,293 contracts	104,415 contracts	+8.4 %
Nikkei 225 Futures (trading volume) *2	174,933 contracts	192,187contracts	+9.9 %
Nikkei 225 Options (trading value) *3	JPY 23.6 bil.	JPY 25.7 bil.	+9.2 %
10-year JGB Futures (trading volume)	33,320 contracts	32,191 contracts	(3.4%)

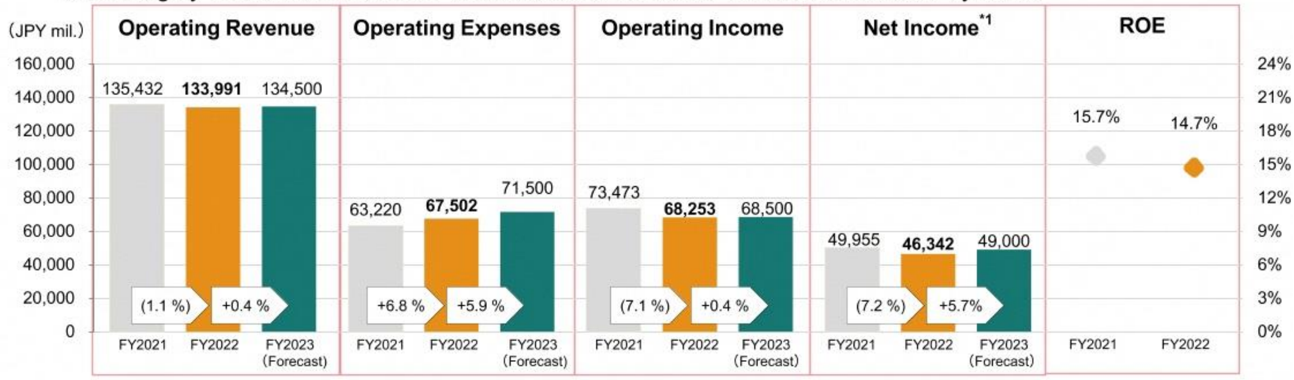
*1 Average daily trading value of auction and off-auction trades of common stock on the Prime, Standard, and Growth Markets (1st/2nd Sections, Mothers, and JASDAQ for FY2021 data) and the TOKYO PRO Market, as well as ETFs/ETNs/REITs, etc.
*2 Contracts of Nikkei 225 mini are calculated using a factor of 1/10. *3 Excluding Weekly Options.

Please move on to page 13. Here are the highlights of the financial results.

As I mentioned earlier, operating income decreased JPY5.2 billion, or 7.1%, YoY to JPY68.2 billion due to the decrease in operating revenue resulting from the decline in listing-related revenue and other factors, as well as the increase in operating expenses, mainly system-related expenses. Net income was JPY46.3 billion, a YoY decrease of JPY3.6 billion, or 7.2%.

FY2023 Forecast

- Operating revenue is forecast to be on the same level as FY2022 as the underlying market condition, average daily trading value for cash equities, is assumed to be consistent with the previous fiscal year.
- Operating expenses are expected to increase by 5.9% year-on-year due to implementation of measures for stable market operation and those under the Medium-Term Management Plan, but operating income is forecast to be roughly the same level as in FY2022 and net income is forecast to increase by 5.7%.



*1 Net Income attributable to owners of the parent company.

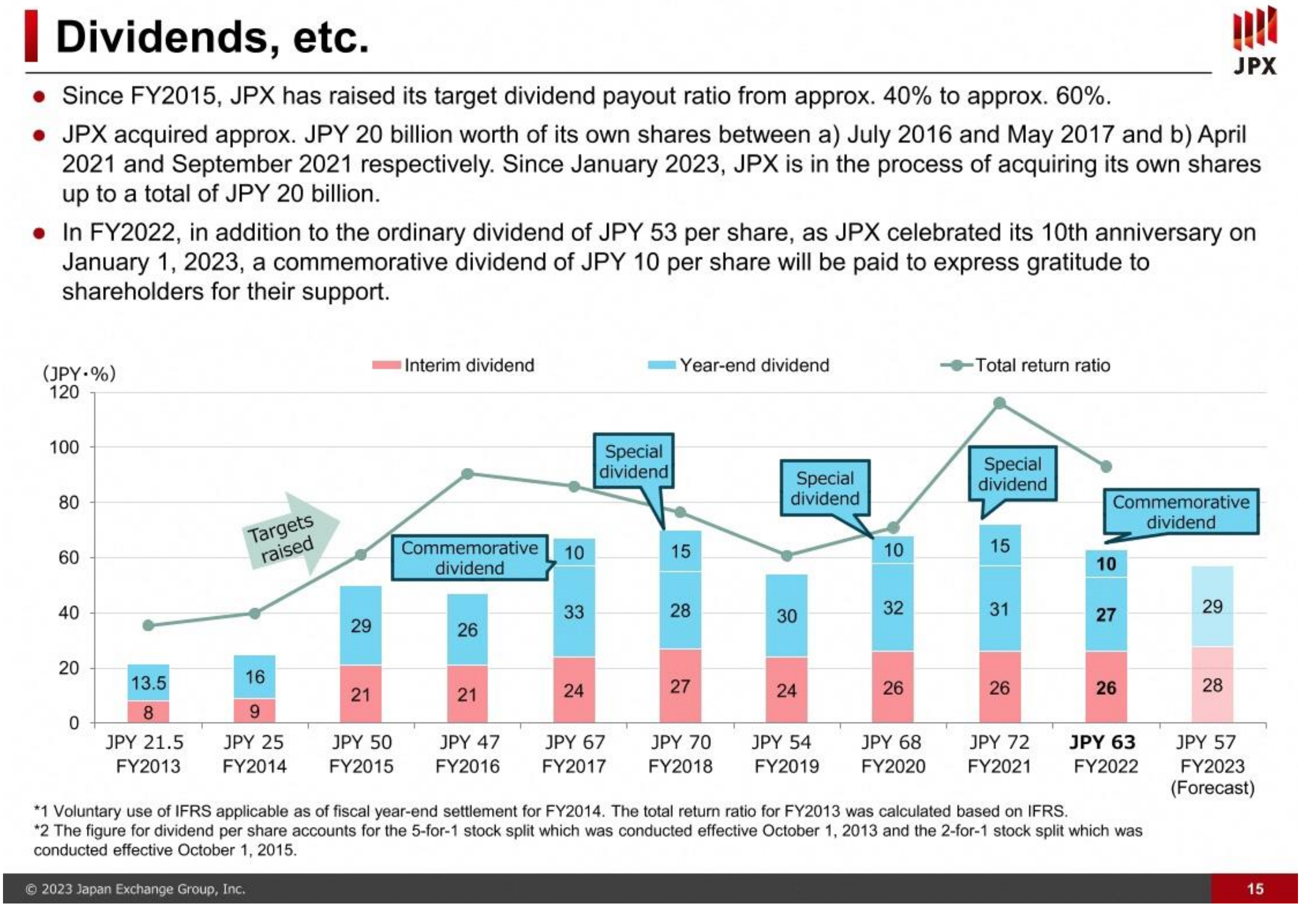
➢ **Average Daily Trading Volume/Value of Major Products**

	FY2021	FY2022		FY2023 (Forecast)	
			y/y		y/y
Cash Equities (trading value) *1	JPY 3,757.7 bil.	JPY 3,836.9 bil.	+2.1 %	JPY 3,800.0 bil.	(1.0 %)
TOPIX Futures (trading volume)	96,293 contracts	104,415 contracts	+8.4 %	104,000 contracts	(0.4 %)
Nikkei 225 Futures (trading volume) *2	174,933 contracts	192,187 contracts	+9.9 %	196,000 contracts	+2.0 %
Nikkei 225 Options (trading value) *3	JPY 23.6 bil.	JPY 25.7 bil.	+9.2 %	JPY 26.5 bil.	+3.0 %
10-year JGB Futures (trading volume)	33,320 contracts	32,191 contracts	(3.4 %)	31,000 contracts	(3.7 %)

*1 Average daily trading value of auction and off-auction trades of common stock on the Prime, Standard, and Growth Markets (1st/2nd Sections, Mothers, and JASDAQ for FY2021 data) and the TOKYO PRO Market, as well as ETFs/ETNs/REITs, etc. *2 Contracts of Nikkei 225 mini are calculated using a factor of 1/10. *3 Excluding Weekly Options.

Please move on to page 14. The forecast for FY2023 is based on the assumption that the daily trading value for cash equities and trading volumes for derivatives will remain flat YoY as the market environment will be affected by the situation in Ukraine and the trends in interest rates and exchange rates, and it is difficult to accurately predict the future. The forecast for operating revenue is JPY134.5 billion, the same level as the previous year.

On the other hand, due to stable market operations and the measures in the medium-term management plan, operating expenses are projected to increase 5.9% YoY to JPY71.5 billion. Meanwhile, operating income is expected to be JPY68.5 billion, roughly the same level as the previous year, and net income is projected to increase 5.7% YoY to JPY49 billion.



Please see page 15. JPX's basic policy on dividend payout ratio is around 60%. Based on this, the ordinary dividend for FY2023 will be JPY57 per share for the full year.

That is all from me.

Question & Answer

Yaguchi : We will now move on to the question-and-answer session. Starting this time, please note that SCRIPTS Asia, a JPX Group company, will transcribe the presentation and the Q&A session, and translate them into English and distribute them. We will post them on our website. Please be aware of this in advance.

Please ask questions now.

Watanabe : This is Watanabe from Daiwa Securities. I have two big questions. First, there are three sub-questions on page 14 of the document, regarding the assumptions for the FY2023 forecast.

The first one: Operating expenses are expected to increase by JPY4 billion in FY2023. What are the main reasons for the change?

The second sub-question: If we subtract operating expenses from operating revenue, we get JPY63 billion. As operating income will be JPY68.5 billion, there is a discrepancy of JPY5.5 billion. I think you are envisioning something in other revenues, but could you please tell us what you are looking at?

Thirdly, you assume that the tax rate will be lowered, but what is the background behind this? This is the first big question.

Tabata : I will answer the questions.

On the first point, the increase in expenses for FY2023, we expect personnel costs to be the largest factor. There are various reasons for the increase in personnel expenses, but the largest is that we have decided to extend the retirement age of our employees, and we expect that the related expenses will increase considerably.

Supplementary to this, since the decision was made in FY2022, the accumulation of retirement benefits for FY2022 temporarily declined as a special factor. That was a special circumstance, and as a result, it appears that personnel costs for FY2022 decreased and personnel costs for FY2023 increased considerably.

In addition, as for personnel expenses, which I believe are the same for other companies, in terms of human capital, we expect to include a variety of benefits for our employees so that they can work with peace of mind. Including that, nearly half of the YoY increase of approximately JPY4 billion will be for personnel expenses.

The second biggest factor is system-related costs, apart from some parts of smaller expenses. I think this also needs a little explanation. As for the system part, there are system maintenance and operating expenses and depreciation and amortization, but if you look at the balance sheet, you will see that there is a section for software under intangible assets.

In fact, the system maintenance and operation costs used for system development, including personnel costs for some employees, are deducted as other expenses and recorded as software assets on the balance sheet.

For example, a system is usually appreciated evenly over a five-year cycle, and if the portion I mentioned is taken into account as a negative part of the system costs, the situation in FY2023 will be almost the same as in FY2021.

There is one exception: We provide system services to outside corporations, and this part of our sales is in the form of outside sales, so of course we add a markup to the cost of the system and sell it. Therefore, if this portion is excluded, the cost level in FY2023 is expected to be almost the same as in FY2021.

There may be an increase of just JPY100 million to JPY200 million. However, that part includes a rise in IT staff costs and the payment of licenses to outside system vendors such as NASDAQ, etc. As these are the contracts based on the US dollar, the depreciation of the Japanese yen will increase these costs in yen terms. There will be a slight increase in these areas, but basically, excluding the external sales portion of the systems, there will be no large increase.

A major factor in expenses is the electricity rate, which is expected to increase by about JPY500 million in FY2023. I know all companies are probably in the same situation.

Then there are various other factors. The COVID-19 pandemic has been generally contained, and as the majority of our clients are overseas investors, we have to increase our expenses for sales and marketing, including business trips, and other small expenses. Including them, the total increase in operating expenses will be JPY4 billion. Therefore, the largest part will be labor costs. This explains the first point about the costs.

As for your second question, as you mentioned, there is a slight discrepancy in the difference between operating revenue minus operating expenses and the operating income amount. Regarding that, we are planning to sell part of our assets.

This is still under negotiation, and we are still discussing the contract, so I cannot explain the details, but there is such special factor.

The third point about taxes is that net income appears to be slightly higher than operating income because there is a portion of the calculation based on tax effects related to the sale of the assets in the second point. That is all.

<u>**Watanabe : Thank you very much. The second major question is about your capital policy. What steps will you take to achieve management being conscious of the cost of capital and stock prices? In a sense, I think it would be a model answer, but I would appreciate if I can hear from you. Thank you.**</u>

Yamaji : Thank you for your question. At the end of March, we made a request to the 3,300 companies listed on the Prime Market and Standard Market regarding this matter. Since the introduction of the Corporate Governance Code in 2015, our company has been engaged in management being conscious of capital efficiency and the cost of capital.

In our medium-term management plan and other plans, we are committed to maintaining ROE of 10% over the medium to long term, which is higher than the cost of capital. As of the end of FY2022, our ROE was 14.7%. In the medium-term management plan 2024, we aim to achieve ROE of 15% or more, and are promoting various measures to further improve return on capital.

In this sense, we have long been aware of such indicators of the cost of capital and return on capital, and have been careful in allocating management resources. We will also actively and constructively exchange opinions and engage in dialogue with investors, and we will consider disclosing additional necessary information as needed.

What exactly we are thinking about is a variety of things, some of which are investments. We will continue to disclose such information when it becomes necessary to do so in a timely manner.

Watanabe : I understand. Thank you very much.

Yaguchi : Thank you very much. Does anyone have any other questions? Please go ahead.

Niwa : This is Niwa from Citi. I have two questions. The first one: What is your point about the appropriate capital level? How do you allocate various types of capital to each business and what is the appropriate level of capital for your company? I have thought of this area as the core of communication.

In relation to this, I would like to know what kind of balance you have in mind between dividends, shareholder returns, and investments for growth, and I would appreciate your thoughts in this area.

Tabata : I will answer the question.

First of all, regarding the level of capital, as you have pointed out for some time, we currently have a capital level of JPY250 billion. However, since this is the minimum level required, we would like to maintain this level to a certain extent.

As you know, as part that will flow out from the capital, we are in the process of acquiring our own shares. As of the end of March, we purchased around JPY10 billion of our own shares. Since the planned total repurchase amount is JPY20 billion, the remaining JPY10 billion is planned for the current year of FY2023.

In addition, including an ordinary dividend and a commemorative dividend, we expect an outflow of capital worth around JPY20 billion at the end of March 2023. Considering that, we assume that the capital level is JPY250 billion and those JPY10 billion and JPY20 billion.

I would like to answer the question about dividends and investments as well. As you know, we have already announced a target dividend payout ratio of 60%, but I think the question is how to use the excess capital.

As explained earlier by CEO Yamaji, we are trying to expand our businesses rapidly under the slogan "Exchange & beyond," and we expect to conduct investments in M&A and other investments for future growth.

Therefore, we would like to announce such matters when there is the timing for them. If we face difficulty in conducting such investments, we will talk about and decide how to use the excess capital at the Board of Directors. That is all.

Niwa : The second question: From a long-term perspective, I wonder if the top line will expand significantly. I think there are various seeds of possible businesses, such as the data business, derivatives, etc., but I also think that it is difficult for such seeds to become larger as I look at your forecast for the current fiscal year.

I would like to know if that is the right way to look at it, or if it is something that will overcome that, please provide us with some tips.

Yamaji : Thank you for your question. As for the top line, first of all, as I explained earlier, there are some things we have to invest in as infrastructure. In addition to that, we will invest in new areas, new initiatives that were not previously considered within the framework of the exchange, from an R&D perspective. It could be digitalization, or it could be related to sustainability, anyway we have to invest in such areas.

Therefore, although we will be very scrutinizing with respect to costs, there is no doubt that they are on the rise. Then, the question is how we think about the top line.

As you mentioned, I think there is still a lot of potential for expansion in the area of derivatives, and I would like to conduct various measures, such as the introduction of new products and holiday trading.

We will introduce new products such as micro products and mini-options around May this year. Or the introduction of short-term interest rate futures. We started holiday trading last year and it has been more brisk than expected. However, as you mentioned, from an overall perspective, we are still far from being enough.

When you look at exchanges in other countries, for example, when they make big jumps, they usually make big M&A deals. In our case, however, due to the rather narrow interpretation of exchange-related businesses, it is difficult for us to make M&A deals that would change the level of sales all at once.

However, we have already made some partial investments and acquisitions related to the trading business, for example, and we are always considering other acquisitions related to the exchange.

The other thing is that if we want to increase sales in our businesses, we need to expand our bases.

What is meant by expanding the bases is, for example, increasing the quality and quantity of listed products, or expanding the number and range of investors participating in the market. By doing so steadily, the effect will be bigger when the situation turns favorable and trading increases and the decline will be smaller when the situation turns adverse.

Considering various environments, Japanese stocks are now attracting considerable attention, as you may know. This includes interest from both outside and inside of Japan. For one thing, NISA will be fundamentally expanded and made permanent from January next year, and I think we are gradually seeing a shift from savings to investment, or from savings to asset building, which has been the goal for many years.

I think there may be a trend of an increase in individual shareholders at the end of March as we will see more analysis of shareholder trends some other time. Individual shareholders increased for our company and we have some other information about the uptrend in the number of individual shareholders. I think that individuals may be becoming more aware of investment.

On the other hand, from a geopolitical viewpoint, while China has been the focus of much attention in Asia in terms of its growth potential and market size, there may be a correction to this trend.

Perhaps the focus on China will not change, but I wonder if there is a growing awareness that putting too many eggs in one basket may be dangerous, considering Russia, Ukraine, or Taiwan.

In this context, the first alternative market to emerge at this point is Japan. It has a very stable economy, market size, liquidity, legal system, regulations, and above all, a very stable political system. Considering these matters, it important for us to make our market more attractive. I think we are in a phase where such efforts will bear fruit.

As you mentioned, it is not easy to add and subtract specifics such as "we will do this and that, and we will get this revenue," but we would like to increase revenue by continuing such self-help efforts. In addition, we would like to keep M&A and the likes always in mind, and we will act if the opportunity arises.

Yaguchi : Thank you very much. Does anyone have any other questions? Then, Mr. Ban, please go ahead.

Ban : My name is Ban from Jefferies. Thank you for the presentation. I would like to confirm three points in this fiscal year's plan in light of the medium-term management plan.

The first point is a little out of the scope of the current fiscal year, but you mentioned earlier that you are considering various ways to achieve carbon neutrality in the value chain in 2030.

From an outside perspective, is it possible to set milestones and set targets that allow progress to be checked, when setting carbon neutral targets for the entire value chain? Or is it something that cannot be

easily confirmed from the outside until we get closer to 2030? If you have a way of thinking in this area, please explain it to us.

The second point is about the plan for the current fiscal year as the second year of the medium-term plan. As you explained earlier, I am fully aware that your annual plan itself is based on the current volumes, but if you aim for a 30% increase in ETFs, for example, how much will the introduction of active ETFs in June contribute toward the goals of the medium-term plan? It seems to me that your plan itself does not include much of that kind of thing.

In your medium-term plan and annual plan for this fiscal year, do you have any quantitative expectation of how much the new products and services such as ETFs and short-term interest rate derivatives will contribute to the growth of the top line or how much they will contribute to the achievement of the medium-term management plan? If you have any quantitative expectation, please let us know.

The third point is about the expense part. I know it is too early, but I am aware that there will be no major launch of service in the current fiscal year, but I think there are quite a few replacements planned for 2024.

In your explanation earlier, you mentioned that personnel expenses will increase in the current fiscal year, mainly due to various new initiatives, but if we consider the current fiscal year and, if it is too soon to say, the next fiscal year, when there will be a string of replacements or launches of services, is there any possibility of a significant change in the level of expenses for the next fiscal year compared to the current year? I would appreciate your comments to the extent possible. Thank you.

Yamaji : I will answer the first and second points, and Senior Executive Officer Tabata will answer the third point.

We have stated that we would like to achieve carbon neutrality in our value chain by 2030 in our long-term vision, Target 2030.

First of all, at this point, we have declared that we, the JPX Group, will achieve carbon neutrality by the end of FY2024. We have finally completed the power generation facilities that we had mentioned as an initiative, and we are currently conducting test operations. First, we would like to ensure that we, the JPX Group, will achieve carbon neutrality by the end of FY2024, and then think about 2030 at the same time.

As you mentioned, unless we set some milestones, even if we suddenly set the carbon neutrality target for the value chain by 2030, it will not be achieved all at once.

We have set the milestones for our own carbon neutrality, and I believe that we will probably be able to achieve carbon neutrality by the end of FY2024. Likewise, we will set milestones for the achievement in the value chain as well. At this point, we have not yet finalized such a plan, but we would like to consider it in that direction.

In addition, as for if we could give you some more figures on the various initiatives. As for new products, for example, there has been considerable interest in the micro or mini derivatives we are considering, and from the outset, online securities firms will participate in the new products.

Another thing is the fact that we have received requests from individual investors who say that the large and mini futures contracts are still too large, and that they would like to see finer and more user-friendly ones. Although we expect that there will be a certain volume of transactions from the first year, it is difficult to obtain concrete figures.

We have already received information from various domestic and foreign asset management companies that they are interested in active ETFs as well. However, I still think it will take several years for these things to take root and demonstrate a certain degree of profitability.

We were expecting that the volume of holiday transactions, for example, would be 10% to 20% of our weekday transactions, but the actual volume is unexpectedly higher than we expected. I would like to think about whether there are any measures that could be taken to promote their further growth.

Products that are being developed from now on require a period of time to develop the base, so it is difficult to say whether they will be ready in one or two years.

Tabata : I will answer the third question about the costs. I think the point of your question is a comparison between the projected costs for FY2023 and those for FY2024. As we have not announced the projected costs for FY2024, I would like to focus on a few areas to answer your question.

First, in terms of system-related costs, as you are aware, the release of the new arrowhead, the cash equity matching engine, is scheduled for FY2024.

The new arrowhead will include various functional improvements, the most significant of which is the establishment of a closing auction.

Compared to the current arrowhead, the refined version will inevitably require additional costs for system construction, and as I mentioned earlier, the overall costs of system construction, including IT staff costs, will increase in FY2024, due to the launch of the new arrowhead.

However, it is difficult to say how much the overall costs will increase, since the costs of other systems must also be estimated. I would like to make one more point that is a bit unique when it comes to the systems.

That means that the way the systems are used is gradually moving to the cloud, and it is not just our company. The impact of moving to the cloud is that depreciation and amortization expenses will decrease, and system maintenance and operating expenses will increase. This is the kind of phenomenon that occurs at least in our company.

Therefore, although there is a question of how to achieve an overall balance, such a phenomenon has already occurred, and we expect it to continue in FY2024 and beyond. This was about the system-related costs.

And then, there will be a slight increase in personnel costs in FY2023. As I mentioned earlier, there was the decrease in personnel expenses in FY2022 and will be an increase in FY2023, in terms of retirement benefits due to the extension of the retirement age.

We do not assume that there will be such increase in FY2024 and beyond. We assume that there will be a normal cycle. We expect personnel expenses almost the same in FY2024 unless we assume that we will increase mid-career hiring, continue to raise the pay scale for employees, or increase overall salary levels.

We are yet to determine such things at present and if we will raise the pay scale or make investments in human capital in FY2024, the amount will naturally increase. However, if such assumptions are not made, we expect that the cost level will remain almost the same.

At this point, the above points are the only areas that we can see that will have a significant impact in FY2024.

Ban : Thank you very much for your detailed explanation.

Yaguchi : Thank you very much. Does anyone have any other questions? Is that okay? Now that we have received all the questions, we will conclude our Q&A session.

This concludes today's briefing on the FY2023 update of the medium-term management plan 2024 and the FY2022 financial results. Thank you very much for your participation today.

[END]