



JPX
JAPAN EXCHANGE
GROUP

- Your Exchange of Choice -

Update of 2nd Medium-Term Management Plan

FY2016

FY2018

March 31, 2017 Japan Exchange Group, Inc.

Basic Policy for Updates

Heightened uncertainty in global politics and economies



Ongoing efforts needed to appropriately fulfill expected role as market infrastructure operator and secure mid- to long-term stability in revenue and financial bases



Accelerate and increase investments in Core Initiatives to meet new expectations from the economic society, such as appropriate response to high-speed trading

Updates to Core Initiatives

- | | | |
|------------|--|---|
| I | Satisfying diverse investor needs and encouraging mid- to long-term asset building | <ul style="list-style-type: none"> ▸ Increase efforts to encourage stable asset building by young generations and those new to investing ▸ Promote necessary improvement of an environment conducive to use of ETFs as a long-term regular and diversified investment tool ▸ Strengthen efforts to expand the range of investor base for derivatives trading |
| II | Supporting listed companies in enhancing corporate value | <ul style="list-style-type: none"> ▸ Encourage constructive dialogue between listed companies and investors in order to enhance effectiveness of cooperate governance |
| III | Fulfilling social mission by reinforcing market infrastructure | <ul style="list-style-type: none"> ▸ Strengthen the structure and operation of risk management for market operation ▸ Smoothly introduce rules and regulations for high-speed trading |
| IV | Creating new horizons of exchange business | <ul style="list-style-type: none"> ▸ Promote research and study towards utilization of fintech |

Increase investment for sustainable market development to build on successful TSE-OSE integration

Leverage competencies
across the JPX group

Aggressively pursue new business

Core Initiatives

I

Satisfying diverse investor needs and encouraging mid- to long-term asset building

- ▶ Promote asset building by retail investors **UPDATED**
- ▶ Diversify derivatives lineup **UPDATED**
- ▶ List attractive products **UPDATED**
- ▶ Attract diverse institutional participation **UPDATED**
- ▶ Develop index and information business **UPDATED**

II

Supporting listed companies in enhancing corporate value

- ▶ Enhance effectiveness of corporate governance **UPDATED**
- ▶ Ensure stable supply of risk money

III

Fulfilling social mission by reinforcing market infrastructure

- ▶ Expand clearing and settlement services and enhance system infrastructure **UPDATED**
- ▶ Strengthen BCP and cybersecurity **UPDATED**
- ▶ Design next-generation trading systems **UPDATED**
- ▶ Enhance self-regulatory functions **UPDATED**

IV

Creating new horizons of exchange business

- ▶ Enter into new business fields **UPDATED**
- ▶ Drive innovation
- ▶ Strengthen foundations for global business
- ▶ Strengthen research/analysis capabilities

3 Progress Made In the First Year (FY2016)

I Satisfying diverse investor needs and encouraging mid- to long-term asset building

Promote asset building by retail investors

▶ ETF holders: +280 thous. (vs the end of Jul. '15)

Diversify derivatives lineup

▶ Launched four new products, including TSE Mothers Index Futures

List attractive products

▶ Total NAV of ETFs exceeded JPY 22 tril.
▶ Listed three infrastructure funds

Attract diverse institutional participation

▶ Encouraged domestic institutional investors to actively use derivatives

Develop index and information business

▶ Developed unique indexes, such as JPX-Nikkei Mid Small.

II Supporting listed companies in enhancing corporate value

Enhance effectiveness of corporate governance

▶ Approx. 80% of companies appointed two or more independent directors (TSE 1st Sec. / as of Jul. '16)
▶ Evaluation of Japanese companies by foreign institutional investors improved

Ensure stable supply of risk money

▶ 88 IPOs

III Fulfilling social mission by reinforcing market infrastructure

Expand clearing and settlement services and enhance system infrastructure

▶ Improved convenience of IRS clearing through enhanced services

Strengthen BCP and cybersecurity

▶ Compiled discussions on BCP reviews

Design next-generation trading systems

▶ Studied concrete system enhancements to adapt to new rules and regulations on high-speed trading

Enhance self-regulatory functions

▶ Developed a system to use AI for market surveillance operations

IV Creating new horizons of exchange business

Enter into new business fields

▶ Started providing trading system to TOCOM

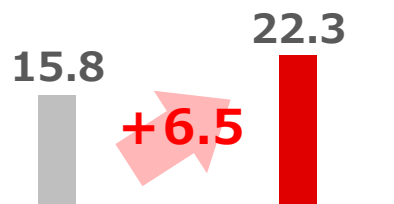
Drive innovation

▶ Published the results of POC testing on Blockchain technology



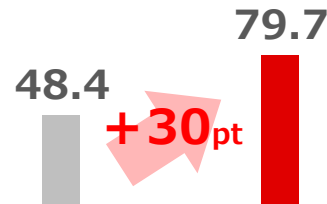
End of Jul. '15 End of Jul. '16

No of ETF holders (thous.)



FY2015 End of Feb. '17

Total NAV of ETFs (JPY tril.)



Jul. '15 Jul. '16

Ratio of companies appointing 2 or more independent directors (%)



Average during 1st Mid-Term Management Plan FY2016

No. of IPOs

I Satisfying diverse investor needs and encouraging mid- to long-term asset building

Overview of Updates

- ▶ Increase efforts to encourage stable asset building by young generations and those new to investing
- ▶ Promote necessary improvement of an environment conducive to use of ETFs as a long-term regular and diversified investment tool
- ▶ Strengthen efforts to expand the range of investor base for derivatives trading

Core Initiatives

1

UPDATED

Promote asset building by retail investors

- ▶ Provide programs on improving literacy on asset building for young generations and those new to investing
- ▶ Promote detailed designing of market-make system in the ETF market
- ▶ Increase awareness of derivatives products

2

UPDATED

Diversify derivatives lineup

- ▶ Have more securities companies offering new derivatives products, such as TSE Mothers Index Futures
- ▶ Consider launching new products and promote offering of such products by securities companies
- ▶ Continue working toward comprehensive exchange initiative

3

UPDATED

List attractive products

- ▶ Expand ETF lineup on various asset classes and support entry of new ETF providers
- ▶ Support listing of REITs and infrastructure funds

4

UPDATED

Attract diverse institutional participation

- ▶ Assist domestic institutional investors in actively using derivatives
- ▶ Expand connectivity services

5

UPDATED

Develop index and information business

- ▶ Facilitate creation of financial products linked to JPX-Nikkei Mid Small Index and development of new indices
- ▶ Expand customized index business

II Supporting listed companies in enhancing corporate value

Overview of Updates

- ▶ Encourage constructive dialogue between listed companies and investors in order to enhance effectiveness of corporate governance

Core Initiatives

1

UPDATED

Enhance effectiveness of corporate governance

- ▶ Promote constructive dialogue between listed companies and investors such as by encouraging disclosure in English

2

Ensure stable supply of risk money

- ▶ Strengthen listing support for non-listed companies located outside major metropolitan areas and listing promotion for cross-border issues
- ▶ Reconsider TSE market divisions

III Supporting listed companies in enhancing corporate value

Overview of Updates

- ▶ Strengthen the structure and operation of risk management for market operation
- ▶ Smoothly introduce rules and regulations for high-speed trading

Core Initiatives

- | | | |
|---|---|---|
| <p>1
UPDATED</p> <p>Strengthen BCP and cybersecurity</p> <ul style="list-style-type: none"> ▶ Strengthen market operations in preparation for a wide area disaster ▶ Strengthen and improve cybersecurity | <p>2
NEW</p> <p>Improve risk management of market operations</p> <ul style="list-style-type: none"> ▶ Introduce a comprehensive risk management framework | <p>3
NEW</p> <p>Prepare for new registration scheme for high-speed trading</p> <ul style="list-style-type: none"> ▶ Provide information to market users and realize a smooth migration ▶ Develop a market monitoring and surveillance system |
| <p>4
UPDATED</p> <p>Design next-generation trading systems</p> <ul style="list-style-type: none"> ▶ Develop specifications for enhancing functions of current systems ▶ Design concepts for next generation trading systems | <p>5
UPDATED</p> <p>Expand clearing and settlement services and enhance system infrastructure</p> <ul style="list-style-type: none"> ▶ Prepare for go live of new system ▶ Improve usability of OTC clearing services ▶ Promote initiatives for shorter settlement cycle for JGBs and stocks | <p>6
UPDATED</p> <p>Enhance self-regulatory functions</p> <ul style="list-style-type: none"> ▶ Apply AI technology to market surveillance ▶ Promote proactive listed company compliance with a focus on preventing new incidents and recurrence |

IV Creating new horizons of exchange business

Overview of Updates

- ▶ Promote research and study towards utilization of fintech

Core Initiatives

1

UPDATED

Enter into new business fields

- ▶ Continue examining possible launch of new OTC clearing services
- ▶ Improve ETF creation/redemption process
- ▶ Reinforce services to facilitate constructive dialogue between listed companies and investors

2

NEW

Promote study towards utilization of fintech

- ▶ Promote industry-wide proof of concept testing for Blockchain / distributed ledger technology
- ▶ Promote operational efficiency by using AI technology

3

Drive innovation

- ▶ Develop internal framework and work style reform to foster an innovative organizational culture

4

Strengthen foundations for global business

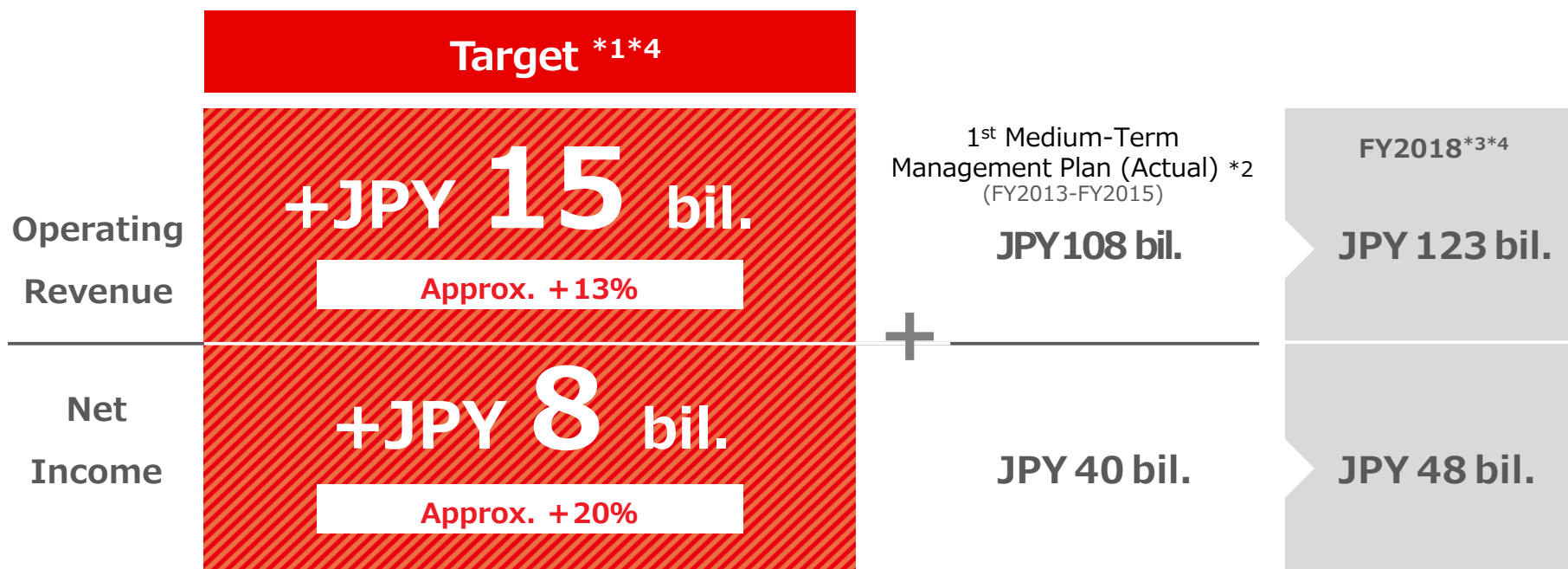
- ▶ Accelerate joint projects for and offer technical assistance in building systems and infrastructure with overseas exchanges

5

Strengthen research/analysis capabilities

- ▶ Strengthen research on domestic and overseas regulatory changes and advocacy, such as policy recommendations
- ▶ Strengthen research/analysis and convey findings to cultivate a deeper understanding of the market

Maintain the overall framework for management and financial policies for 2nd Medium-Term Management Plan and mid- to long-term capital policy
Accelerate capex, considering increase in the initially planned amount



(Reference)

FY2018^{*3*4}
ROE Approx. **17%**

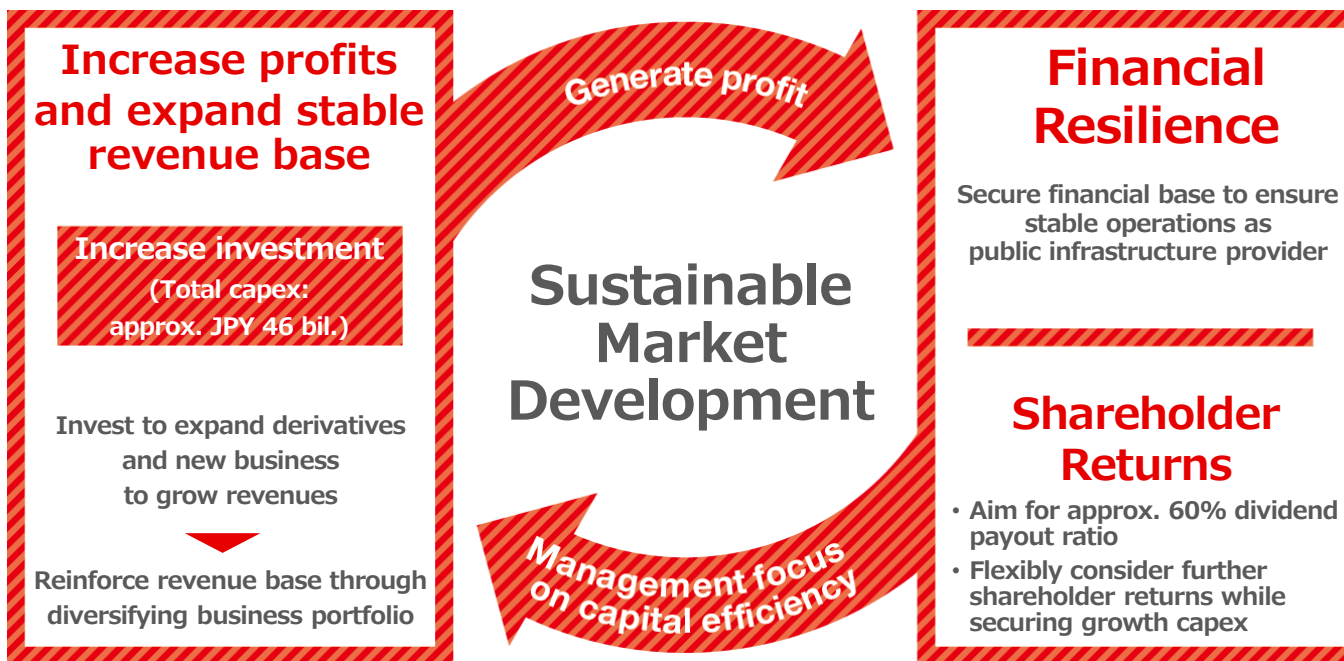
*1 Targeted revenue and income increase from initiatives in this 2nd Medium-Term Management Plan.

*2 Estimates based on 3-year average trading activity during the 1st Medium-Term Management Plan (cash equity daily trading value JPY 3.1 tril. and derivatives annual trading volume 350 mil. contracts)

*3 Revenue and income based on total of actual performance for 1st Medium-Term Management Plan and targets for 2nd Medium-Term Management Plan, ROE projections based on such income.

*4 Implementation of initiatives stated in this 2nd Medium-Term Management Plan and targeted revenue and income increase may be affected by external environment. Revenue is also linked to cash equities and derivatives trading conditions. As such, actual performance may deviate from targets due to market conditions and other factors.

Invest aggressively to pursue revenue/profit expansion and stability, while balancing sound financial health and shareholder returns, and thereby achieve sustainable development of the market.



ROE susceptible to market conditions

5yr avg. ROE before BOJ easing (FY2008-FY2012) approx.5%*

3yr avg. ROE after BOJ easing (FY2013-FY2015) approx.16%

Regardless of market conditions

Target 10% ROE that is above capital costs over the mid- to long-term

*5-year average ROE for FY2008-FY2012 is based on combined net income and equity capital of TSE and OSE before business integration.

Excerpt from 2nd Medium-Term Management Plan published on Mar. 22, 2016

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