Notes on Media Briefing by Akira Kiyota, Director and Representative Executive Officer, Group CEO, Japan Exchange Group, Inc., on April 27, 2018

There are three items on the agenda for today.

I would like to first present JPX's financial results for the fiscal year ended March 2018.

Operating revenue was JPY 120.7 billion, operating income JPY 71.7 billion, and net income (attributable to owners of the parent company) JPY 50.4 billion.

Expanding more on matters of revenue, operating revenue was up year on year to JPY 12.8 billion as trading volume of cash equities and derivatives were both higher than the previous year.

Operating expenses increased by approximately JPY 700 million to JPY 50.9 billion from the previous fiscal year. This is a result of a year-on-year increase in expenses related to the revenue increase.

Thus, while expenses slightly increased, revenue grew significantly. As a result, net income (attributable to owners of the parent company) increased by JPY8.3 billion year on year to JPY 50.4 billion. Both revenue and income reached a record high.

As for ordinary dividends for the fiscal year ended March 2018, we will pay a dividend per share of JPY 57 for the full-year, based on JPX's dividend policy with a target payout ratio of approximately 60%.

JPX Group marked its fifth anniversary in January this year. In commemoration of our establishment and our best-ever net income, we will pay a commemorative dividend of JPY 10 per share.

Next, I would like to announce that, in light of external changes and progress to date, we have updated 2nd Medium-Term Management Plan (FY2016–FY2018) to ensure we accomplish all objectives as we move into the final year of the plan.

The main objective with the 2nd Medium-Term Management Plan was to realize a well-balanced business portfolio as medium- to long-term vision; and, to that end, we have advanced our four core strategies.

Let us look at the progress JPX has made in the first two years. In terms of our on-going efforts to enhance the effectiveness of corporate governance, the number of companies appointing two or more independent directors has greatly increased.

In addition, to strengthen BCP and cybersecurity, we formulated a long-term backup scheme and prepared a new backup center to fully respond to disasters such as earthquakes in the Tokyo metropolitan area.

We have also made steady progress in other areas to advance our core strategies over the past two years.

Allow me to go over the highlights of the updated plan, which was formulated based on our progress and results to date. We have reviewed the action plan such that we can accomplish our targets and modified the core strategies.

During FY2018, we plan to conduct research and reinforce investment to address new challenges as preparation for our next medium-term management plan such as by promoting ESG investments, strengthening our human resource pool, and utilizing fintech.

When it comes to ESG investments, in particular, we will strengthen our business operations from the ESG perspective by establishing a new unit dedicated to said area.

As for the utilization of fintech, we will advance proof of concept testing on blockchain technology and improve efficiency of operations by using AI and RPA.

Also, allow me to briefly summarize our financial targets.

For FY2018 earnings forecasts based on the current market condition:

- Operating revenue will be JPY 123 billion;
- Net income will be JPY 48 billion; and
- ROE will be approximately 17%.

We expect to achieve the financial targets set two year ago in this last fiscal year of 2nd Medium-Term Management Plan.

Lastly, I would like cover the topic of candidates for directors.

JPX directors will assume their positions upon approval at the annual general shareholders meeting in June. This fiscal year, JPX has nominated a new candidate for a director: Mr. Nobuhiro Endo, Chairman of the Board (Representative Director) of NEC Corporation.

He is a corporate manager with expertise in systems and networks.

The number of candidates for JPX directors, including Mr. Endo, will be 14.

[Q&A]

Q: A leading online securities company, Monex Group, bought Coincheck. There are other listed companies considering entering the cryptocurrency business. Could you share your comments on this?

A: Monex Group purchased Coincheck, which had previously lost crypto coins, and made it its subsidiary. While innovations in the blockchain technology that serves as the base for cryptocurrencies are promising, cryptocurrency itself is regarded as just speculative. With its prices fluctuating, it is unstable from a social and economic perspective. We will carefully follow the developments.

We understand that the issue of Coincheck’s loss is largely attributed to how a customer's cryptocurrency is managed, that is, a matter of security has nothing to do with the reliability of a cryptocurrency itself. Cryptocurrency is judged strictly in Europe and the U.S. Their authorities are tightening their rules and increasing monitoring.

In the case of cryptocurrency, tokens are created through ICO and distributed to some extent. There seems to be many fraudulent cases in other countries. Under the circumstances, when a listed company that is a securities firm and trading participant has a subsidiary of a virtual currency exchange service provider, we expect such a company to conduct thorough risk management and information disclosure. We also hope that the company is committed to firmly conducting corporate management after assessing its capability to withstand a loss when risks materialize.

We hope that not only securities firms but also TSE-listed companies carefully deliberate on such matters before entering into the cryptocurrency business. As companies have to take excessive risks to enter into the business when the value of the cryptocurrency itself has yet to be determined, we are very concerned.

Q: I have one more question about ICO. What are your views on companies that have already conducted ICO and are going to be listed? The other question is about the 2nd Medium-Term Management Plan. Will there be a review of the current market sections?

A: We take an extremely skeptical view of ICO. We understand that no listed company has conducted ICO in Japan, whereas there is a listed company who did it overseas. The company disclosed its financial information late, which was attributed to its accounting processing.

ICOs may be used as a means for fraud or money laundering. In fact, there are some cases overseas where ICOs were under such motives. We are very concerned about the risk of involving listed companies in Japan.

Any problem may affect the credibility of all listed companies. We hope that listed companies approach ICO with extreme caution.

As reviewing the current market sections, we stated that we were not considering merging the Mothers and JASDAQ markets after some media outlets reported that we would. At the time of those reports, we said that we had no concrete plans to merge the two markets, but a review of the current sections itself is what we have been considering since our market integration.

The situation remains unchanged. We are not discussing specific plans, but we would like to hear comments from related parties after checking actual problems, etc. Still, it does not mean that we are taking any concrete steps.

Furthermore, Mothers and JASDAQ have different histories and purposes of establishment. Even if we sum them up as markets for growth companies due to the fact that they both cater to such enterprises, some companies have been listed on JASDAQ for decades. Thus, it is not that simple to consolidate these two markets where there are some similarities and differences in history and concept.

When TSE and OSE merged, the issues on the 1st and 2nd Sections of OSE were transferred to 1st and 2nd Sections of TSE, respectively; and, the issues on JASDAQ remained listed on JASDAQ. We also discussed the matter of sections at that time but stopped deliberating it further, because there were some difficulties with consolidating JASDAQ that were not present when consolidating the major boards.

In addition, when I joined TSE, the trading fees for JASDAQ were about ten times greater than those for the 1st and 2nd Sections at TSE whereas Mothers fees were the same as those for the 1st and 2nd Sections. Thus, I gave instructions to equalize fees of Mothers and

JASDAQ, because it was unnatural for there to be such a large fee difference between those two markets. At that time, we thought about the possibility of consolidating Mothers and JASDAQ; however, there were some difficulties. As such, they did not undergo any integration and remained unchanged. Still, we remember that it is a matter we have to consider again, but that is an issue we will tackle in the future.

Q: In November 2017, the Ministry of Economy, Trade and Industry established a study group for developing a better investment environment for venture businesses. Today, some media outlets reported that the study group will prepare a proposal to provide a better market environment to boost investment in venture businesses such as by easing delisting criteria for growth markets. Could you share your comments on this?

A: Of growing companies, bio ventures in particular seem to have difficulty in producing results after listing. It may take a long time for not only bio ventures but also venture companies to put them on a growth trajectory in a true sense.

According to the listing rules, stocks can be listed on Mothers even if their earnings are negative, based on the premise of being transferred to the 2nd or 1st Section at TSE within 10 years. There are criteria to delist issues on JASDAQ if earnings of those companies are negative for five years in a row after listing. We have feedback that these rules and criteria are too rigid for bio venture companies, and such companies in other countries can be listed longer even when their earnings are negative. Whichever the market, it is true that some venture companies could face delisting risk halfway through their research and development process.

Still, Mothers is a market for supporting venture companies in raising funds and growing. We lowered regulatory hurdles in terms of various rules and systems, including the listing examination. In this regard, Mothers has been supporting not only bio venture companies but also venture companies in their growth. They have been well-served.

Based on these points, we would like to study the actual situation overseas a little further and see whether a longer listing period would help the bio venture business grow. I do not mean we are reluctant to support the growth of venture companies, but we have to carefully consider the risk of investors incurring losses resulting from easing rules. A market operator needs to simultaneously weigh the risks of losses to investors and the benefits of growth for listed companies. We would like to fully examine the matter based on these aspects.

Q: The North and South Korea summit took place today. The situation in North Korea, such as repeated nuclear tests and missile launches, caused market fluctuations. Could you share your views on today's summit, which was held for the first time in a decade?

A: The North and South Korea summit was held based on a dramatic scenario. I think the event has been successfully conducted in its own way. When North Korea conducted nuclear tests or launched missiles, the market fluctuated in reaction to such geopolitical risks.

As summit talks between President Trump and North Korean leader Kim Jong Un might be realized, I assume that there are less geopolitical risks. I do not think North Korea will resume conducting nuclear tests or launching missiles the following day from the meeting with the South Korean leader. The market will be at peace at least until summit talks between the U.S. and North Korea are realized. I do not think they will end up as enemies at the talks. Thus, the geopolitical risks are receding for the time being.

As such, the market will tend to move in line with factors such as corporate performance, forex, and economic growth rates. There are many Japanese companies that achieved or expect favorable results, which will be a tailwind to share prices.

PER for Japanese shares has been relatively lower due largely in part to concerns over a trade war between the U.S. and China. When geopolitical risks abate, shares prices adapt accordingly due to better corporate performance and market factors, we expect that the market will take a firm tone as depressed share prices bounce back.