

Notes on Media Briefing by Akira Kiyota, Director and Representative Executive Officer, Group CEO, Japan Exchange Group, Inc., on July 30, 2018

First, I would like take this opportunity to offer my heartfelt sympathy to those who have suffered from the disastrous heavy rain this month and wish for early restoration from damages.

There is only one item on the agenda for today: the consolidated financial results for the first quarter of FY2018 ended June 30, 2018.

Operating revenue saw a year-on-year increase of JPY 1.6 billion (6.0%) to JPY 29.5 billion due mainly to a year-on-year increase of cash equities trading value.

Operating expenses rose JPY 900 million (7.9%) year on year to JPY 12.9 billion due to an increase of system maintenance & operation expenses

As a result, since the increases in revenues exceeded the increases in expenses, both revenues and incomes grew. Operating income increased JPY 900 million (5.9%) year on year to JPY 17.4 billion, and quarterly net income (attributable to owners of the parent company) increased JPY 700 million (6.9%) year on year to JPY 11.6 billion.

As for the earnings forecast, our financial performance is within the anticipated range with a slight underperformance.

[Q&A]

Q: A new regime began at Financial Services Agency (FSA) under new Commissioner Endo's leadership. What type of policy measures do you anticipate and what would you like to tell FSA?

A: Mr. Endo assumed his new role following the three-year tenure of Commissioner Mori, giving FSA a refreshing start. I expect that new Commissioner Endo will carry out financial administrative measures from a new perspective.

At FSA, Mr. Endo was Director-General of the Inspection Bureau, and then Director-General of the Supervisory Bureau for three years before taking the office of the Commissioner. He engaged in restoring financial order after the burst of the bubble economy and developing a safety net as well as improving and reforming financial regulations after the financial crisis in 2008. In recent years, as Director-General of the Supervisory Bureau, he has actively addressed issues, such as fulfillment of highly qualitative financial intermediation

functions and establishment of sustainable business models for financial institutions. I think that he was the driving force for Commissioner Mori's financial administration.

He also demonstrated an unprecedented ability for the administration of markets. I think that he is extremely reliable as a leader of the Japanese financial administration.

As financial administrative issues to tackle, FSA has set "securing effective financial intermediation and financial stability", "development of financial and capital markets contributable to stable asset building by the public", and "responding to financial innovation led by development of IT such as fintech". We would like to further cooperate with FSA on these points.

Commissioner Endo is now most responsible for the financial and capital markets in Japan. I hope that he will exercise strong leadership in supervising and administering the financial and capital markets. Today, when markets evolve on a global and real-time basis in the era of ICT, including fintech, we would like to make efforts to establish a highly credible and sound capital market in cooperation with FSA

Q: Recently, there seems to be no major news about the Saudi Aramco listing. What are your thoughts on raising the presence of the Tokyo market through listing such a notable foreign company? Do you plan to implement initiatives, if any, for attracting foreign companies that gain attention from investors?

A: In connection with the possible listing of Saudi Aramco, two years ago when then-Deputy Crown Prince of Saudi Arabia visited Japan, I was invited to the dinner hosted by Prime Minister Abe, and met senior officials of the Saudi Arabian government. As the visit was just after the news on possible listing of Saudi Aramco, I strongly requested them to consider listing of the company on TSE. Our staff in charge of new listings is in touch with Saudi Aramco staff in charge of IPO. So far, there has been no significant progress, but we are occasionally receiving inquiries on what will be issues to be addressed for listing on TSE and what points should be taken into account. As the Tokyo market is not the only candidate for listing, I think that they are surveying various markets.

If we consider the positioning of Saudi Arabia in the Middle East region after then-Deputy Crown Prince's visit to Japan and the circumstances that Deputy Crown Prince was appointed Crown Prince in 2017 and that power concentrated

heavily on him, coupled with busyness, we can assume that it is not easy to solve the issue of listing. Exchanges in New York, London, Hong Kong, Singapore, and Toronto, among others, are requesting the company to list its shares on their markets, too. The more the company examines the issue of listing, including such markets, the more they probably learn the gap of regulatory levels between the market in their home country, that is, Saudi Stock Exchange (Tadawul) and global markets. So I infer that they are feeling difficulties in taking actions.

There are various pieces of news, regardless of whether they are pieces of fake news, it is reported that the company has ceased to consider listing or that the company has decided to list on the New York and London markets. I don't know the truth. Today there was an article that stated that the company will buy a stake in a government-affiliated petrochemical maker, which would be strategically clever. The article said that Saudi Aramco is taking measures to boost corporate value for listing.

Considering such factors, I believe that Saudi Aramco has never given up listing of its shares. However, as I mentioned earlier, if you look at the levels of the regulations in the global markets and other aspects, realistically speaking, I personally think that the solution would be to list shares only on Tadawul or to list them on both Tadawul and one foreign market. As such, even if Saudi Aramco actually lists its shares, I don't think that there is a high possibility that TSE will be chosen as the first listing market.

Saudi Aramco's listing will entail an enormous IPO. Listed market capitalization is said to reach JPY 200 trillion for a single company. So it is already understood that one single market, say Tadawul, will be not enough to accommodate such a huge market capitalization. Even the New York market will be unable to accommodate JPY 200 trillion-cap company in a spot IPO. Even if the company supplies shares to the market in the unit of 5% in phases, depending on cases, there will still be a high possibility that they will choose multiple markets for listing.

Therefore, we will, of course, make efforts to become the first exchange that will list the company, but even if we fail to be chosen as the first listing market, we will continue pursuing Saudi Aramco. Even if we were to be chosen as a secondary listing market, we will continue to have a strong desire to list it. I believe that they have not ruled out TSE. If Saudi Aramco prepares to list its shares, and if necessary, we are willing to dispatch an executive or director in

charge to Saudi Arabia. Until last year, they came to Japan and had meetings with JPX. We will continue to contact them and take various measures involving the government.

Q: You talked about Saudi Aramco. Do you have in mind certain countries, regions, or sectors other than the Middle-East region, for example Silicon Valley, for proactively marketing or promoting to companies for listing?

A: We are engaging in this issue, because this is a special case in which a company wholly owned by the Saudi Arabia government will be privatized. As you know, dual listing of foreign companies on TSE was very popular during the bubble economy for foreign blue-chips that were listed on TSE without public offerings. During the same period, many Japanese companies listed their shares on London, Amsterdam, and New York markets without conducting public offerings

However, for the sake of ICT, now that countries are connected globally on a real-time basis, they can advertise themselves to Japan without listing on TSE. As such, private companies do not have significant desire to be dually listed in a foreign country. This holds true of not only Japanese but also foreign companies. Although we do not especially attract specific companies, there will be needs for listing in cases of foreign companies closely related to Japan, such as companies founded by Japanese entrepreneurs, and we are approaching and promoting to them for listing

Q: BOJ revised the flow-of-funds numbers on June 27, 2018. With this, the amount of investment trusts held by households decreased by JPY 30 trillion, which revealed that the ratio of such amount against the whole household financial assets decreased. This is a great disappointment.

It could be said that the shift from savings to investment is not progressing well. What are your thoughts on this? What do you think is necessary for asset building?

As you pointed out, BOJ revised the flow-of-funds statistics, which led to changes in the value of investment trusts held by households. As a result, such value decreased JPY 33 trillion from JPY 109 trillion to JPY 76 trillion, which proved that investment trusts holding ratio of households is on the decline. Considering that the government, exchanges, and securities companies elaborate

strategies and tactics based on BOJ statistics, the revision is embarrassing and, even, a problem.

Although the revision created a gap of JPY 33 trillion, the issue is not what would be done for such a gap. Rather, under the situation where the government is promoting asset building, the securities industry as a whole should once again make efforts to emphasize the usability of investment trusts for asset building.

As for household financial assets, there is a difference in structure between foreign countries and Japan. For example, in the U.S., the ratio of indirect holding of stocks via investment trusts and pensions is high while in Japan the ratio of direct holding of stocks by retail investors is high. The aim is to boost securities investment in individuals' financial assets by indirect holding of stocks via ETFs and investment trusts in their asset building. I would like to request BOJ to ensure that mistakes like this will never occur again so that various initiatives can be taken based on reliable data.

Q: Commissioner Endo is well-versed in the administration of markets. Will the prolonged issue of the comprehensive exchange initiative be addressed under his leadership? Please tell us your expectations.

A: We still possess enthusiasm toward the comprehensive exchange initiative. As the new administration started at FSA, I do wish to address this issue.

I think that FSA is currently figuring out which issues and themes to address. We would like FSA to consider the comprehensive exchange initiative as an issue to address. As such, we would like to consult with FSA on this issue, and, of course, with MITI as well.