Notes on Media Briefing by Akira Kiyota, Director and Representative Executive Officer, Group CEO, Japan Exchange Group, Inc., on April 26, 2019

There are two items on the agenda today.

First, I would like to talk about the consolidated financial results for FY2018 (ended March 2019).

Operating revenue was up JPY 0.4 billion (+0.4%) year on year to JPY 121.1 billion, mainly due to an increase in revenues from clearing and information services.

Operating expenses were up JPY 3.2 billion (+6.3%) year on year to JPY 54.1 billion, due to an increase in system-related costs.

Since expenses increased more than revenue, operating income decreased JPY 2.2 billion (-3.1%) to JPY 96.5 billion, with net income (attributed to owners of the parent company) down JPY 1.4 billion (-2.8%) to JPY 49 billion. Thus, revenue increased but profit decreased compared to the previous year.

Regarding the ordinary dividend for FY2018, we aim for a dividend payout ratio of around 60%, and have therefore set the full year dividend at JPY 55 per share.

In addition, in FY2018 we achieved the final year profit target for the 2nd Medium-Term Management Plan, and in calendar year 2018 we commemorated the 140th anniversary of the founding of the Tokyo Stock Exchange and Osaka Stock Exchange, the predecessors of today's TSE and OSE. To mark these achievements and express our appreciation for the support of our shareholders, we have decided to give out a special dividend of JPY 15 per share.

Next, I would like to talk about our decisions on candidates for directors.

We have decided on the candidates who will be put forth for approval at the group companies' annual general shareholders meetings and general meetings of members scheduled for June 19, 2019. I will introduce the new candidates now.

Firstly, Mr. Kazuaki Kama is the candidate to replace the outgoing Mr. Atsushi Shimizu as outside statutory auditor of TSE. Mr. Kama is an Executive Corporate Advisor of IHI Corporation and President of the Financial Accounting Standards Foundation (FASF).

Secondly, Mr. Hideki Kanda is the candidate to replace the outgoing Mr. Koichi Masuda as Outside Governor of JPX-R. Mr. Kanda is a Professor at the Professional School of Law, Gakushuin University.

The new candidate for JPX-R President was announced in January.

[Q&A]

Q: This is the final press conference of the Heisei era. Looking back over the 30 years since the era began, how do you feel the stock exchange has changed?

A: I saw on the news earlier that the Nikkei's closing price today, the last of the Heisei era, was 26% lower than that of 30 years ago. Looking back, the Heisei era began at the height of the bubble economy, when the Nikkei was well on its way to reaching its highest ever price of JPY 38,915 at the end of 1989 (the first year of Heisei).

After that, as you all know, a number of crises occurred which changed the stock exchange's market environment completely. The bubble burst [in 1990], causing a deep market slump, then that was followed by another Japanese financial crisis [in 1997], the [1997] Asian financial crisis, the Lehman Shock, and the 2011 Great East Japan Earthquake and tsunami.

As far as changes within the stock exchange, notably in April 1999 we closed down the open outcry trading floor, and went from people agreeing prices through hand signals across the floor to full computerization. For the industry as a whole, there was also the liberalization of brokerage commissions, and the demutualization of both TSE and OSE.

The biggest change of them all, though, was the merger of 135-year rivals TSE and OSE on January 1, 2013, creating JPX, and the listing of the new company on the 1st Section of TSE on the first trading day of that year, January 4.

The next big structural change will surely be JPX's business combination with Tokyo Commodity Exchange, which is currently in progress, and when that is complete, our evolution into a Comprehensive Exchange. Through all of this, including the computerization of trading floor operations like I mentioned, and then the more recent changes in market behavior as the world's institutional investors go electronic using algorithms and HFT, we have also made efforts to invest in our systems and transform the exchange.

In very recent times, the evolution of fintech and other technology has begun to make a big impact on exchange operations, so we keenly feel the need to continue focusing on and indeed investing in our systems for the future.

Another big focus for the near future will be the market structure reforms, which we have been looking into since autumn last year and will be discussing in earnest from now.

Over the last 30 years, the Nikkei went from just over JPY 30,000 to 38,915 at its highest, then fell dramatically, dipping below 7,000 during trading hours at one point, before picking itself back up relatively well over the last 6 years thanks to Abenomics. Overall, I think the performance of the Nikkei over the last 30 years reflects the changes in the exchange environment quite well.

Q: Tomorrow is the start of the first 10-day consecutive run of non-business days in the post-war era. It has been suggested that there may be a rush of trading on the first trading day after the holiday, so as the market operator, what are you planning in response to this?

A: As you have all been reporting, it will be the first 10-day stretch of non-business days in history, and exchange rules state that the exchange must close on national holidays, etc. However, we are expecting all kinds of things to happen overseas in that time, including the Federal Reserve Bank's FOMC meeting in the US, PMI announcements in the US and China, among others, and the release of US labor statistics next weekend. With these and all kinds of other events and announcements about economic indicators happening, we have to expect some impact on the markets, and this is why we, along with the FSA, securities companies and others, have endeavored to make sure all investors, both institutional and individual, are aware that the market will close for 10 days. We have advised everyone to work on the assumption that whatever happens, the market will be closed for those 10 days.

As you suggest, there is a risk that if something big does happen during the holiday, there may be a rush of trading or a sudden spike in volatility when the market re-opens. In preparation for this, we will be continuing thorough and comprehensive tests on our systems, which are the key to running a stable market that can be securely used and trusted in any situation, and we are also planning to run extra tests during the holiday with the cooperation of some securities companies.

Also, from yesterday we doubled the usual number of staff on market surveillance. Although today's final trading before the holiday went smoothly with no unusually large movements, we will be continuing market surveillance with double the usual number of staff for the two days after the holiday, the 7th and 8th. Finally, during the holiday, we will be closely watching the markets for products following Japanese stocks traded overseas such as the SGX and CME Nikkei 225 futures, and will make appropriate preparations if anything is needed.

Q: Last week you made an agreement with the Shanghai Stock Exchange (SSE) to carry out cross-listings of Japanese and Chinese ETFs, so there is a chance that ETFs listed on SSE could also be listed on TSE. What are your expectations from this?

A: It was this week, not last week, but I was in Shanghai for two days one night, and we did the signing ceremony in Shanghai during an event with 99 Japanese attendees, including FSA Commissioner Endo, JSDA Chairman Suzuki, and representatives from the securities industry. We plan to conduct cross-listings of well-known Japanese and Chinese ETFs on both the Shanghai and Tokyo exchanges. This ETF agreement was born from Prime Minister Abe's trip to China in October last year, when an agreement was made for cooperation in the two countries' capital markets as part of a wider collaborative relationship.

We do already have China shares-based ETFs listed on TSE, so it is not as if there has been no way for Japanese investors to invest in China up until now. However, if a Japan shares-based ETF lists on SSE, it will be a first for China, so for a Chinese investor it will become much easier to invest in Japan. Cross-listing of Japanese and

Chinese ETFs will both improve access for Japanese investors to Chinese stocks, and open up for the first time a route for Chinese investors to invest in Japanese stocks, so it is an extremely valuable first initiative, as mentioned at the Japan-China Capital Markets Forum. If we can further advance these kinds of initiatives in future, it could lead down a road where Japanese investors' asset management is linked to the Chinese economy and Chinese businesses' development. Furthermore, we have a growing number of Chinese tourists coming to Japan every year, increasing to 8 million last year, and according to some high-up people I spoke with in Shanghai, more and more of those tourists come back saying that they love Japan and Japanese things. I have hope that these potentially high net-worth individuals can become interested in investing in Japanese stocks too.

Q: Earlier, you referred to the market structure review as a big focus for the future. Last month TSE published “Comments Received from Market Participants in Response to the Review of the TSE Cash Equity Market Structure” and other papers, but how have things progressed since then?

And one more thing. Today is the final trading day of the Heisei era. As you have just reflected on the exchange over the last 30 years, could you also share your views on the stock market during that period?

A: In terms of the market structure review, we published the summary of comments received from market participants and the current issues summarizing what has been discussed so far on March 27. Having received a wide range of comments, we have yet to reach a conclusion on an ideal market structure, but we are still exchanging opinions with stakeholders in the market and putting ideas in order.

Also, the FSA has said that a new expert group will be established within the Working Group on Financial Markets under the Financial System Council to conduct discussion on a more open platform. I hope that the group will carry out more in-depth deliberation based on the varied opinions. We do not intend to proceed hastily but will continue exploring what the ideal market should look like while cooperating with the expert group's discussions.

The second question is about the stock market over the last 30 years as the final trading day of the Heisei era has ended. I think the best way to describe it is as a period where the Japanese economy really struggled - to overcome asset deflation after the burst of the bubble economy, and to overcome market sentiment which felt like a bottomless swamp.

In the early 2000s, then Minister Takenaka in the Koizumi administration introduced the so-called Financial Revitalization Program to overcome the financial crisis, which included bold steps to dispose of non-performing loans. I think that was when the recession bottomed out. Once we saw the bottom, then it became a turning point for the Japanese economy and the stock market to recover. It took another decade for the Japanese economy to overcome deflation, but during that period politics were very unstable with the prime minister changing every year, so I assume that the stock market was also affected by the concerns of corporate leaders.

Then, the government came round to the idea that the Japanese economy would not revitalize without making exit from deflation a top priority. I believe this served as a driving force for Abenomics. Many people are talking about the possibility of adverse effects from measures taken to overcome deflation. What the Governor of the Bank of Japan talked about at the press conference yesterday was how the bank changed its course by implementing radical quantitative-qualitative monetary easing, and how although a two percent inflation target has yet to be achieved, we have overcome deflation through various measures. I think most of us can agree on this.

However, we have yet to achieve what we really want to achieve. Looking back now we know that the stock price in the early Heisei Era was inflated by the stock market bubble and stock valuations were therefore inaccurate based on current standards, but even taking that into consideration, a stock price fall of 26% does not fit with the growth of other countries' markets during the period. The recent improved stock price reflects the current situation in Japan. I have to say we have had a tough 30 years after all.

Q: Could you give us your comments as Group CEO on the income and dividend decline for the FY2019 forecast?

Another question is that candidates for your new board members include Mr. Kama, who is a corporate advisor to IHI Corporation (IHI). IHI is a company which falsified its accounts, hugely impacting its shareholders. Why have you selected Mr. Kama as a candidate, who was the President and CEO of IHI when the accounting fraud was revealed?

A: As for the question on performance, our forecast for FY2019 is based on the assumption that the current market conditions will remain the same. As such, we forecast that revenues will slightly increase, as we hope for growth in areas other than market-related businesses. However, we forecast that income will reduce by approximately JPY 3 billion due mainly to an increase in depreciation in connection with our system-related investment such as the launch of the new clearing-related systems.

With respect to dividends, we have committed to shareholders a payout ratio of 60%, so based on a 60% payout ratio, the ordinary dividend for FY2019 will be reduced year on year to JPY 52. The income for FY2018 also slightly decreased from those of the previous year, and the ordinary dividend was JPY 55 based on the 60% payout ratio. However, JPX paid a special dividend, resulting in a higher overall dividend year on year.

Still, as we had been acquiring our own shares in the beginning of FY2017, the total shareholder return ratio in the previous fiscal year was higher. Thus, without a special dividend, the dividend for FY2018 declined from the previous year, but in terms of giving out a special dividend next year, as of now we have no such plan. Since we released the dividend payout ratio, the figure just indicates the result of a simple calculation.

The second question is about the nomination of Mr. Kama, advisor to IHI Corporation (IHI) as a new outside statutory auditor of TSE. We are of course aware of what happened with IHI. Mr. Kama was indeed in the management team when the event occurred, but he implemented improvement measures before leaving the company. Mr. Kama has not dealt with practical business within IHI for a long time, and has demonstrated considerable insight about the ideal accounting system in Japan as President of the Financial Accounting Standards Foundation.

He also has ample experience as an outside director in other companies, and from our point of view has a respectable reputation as an outside director. All things considered, we have determined Mr. Kama to be a suitable candidate.

Q: I believe that this will be the first time that JPX records income decline for two consecutive fiscal years. I understand that the decline is attributable to costly system expenses, but I still think that there are initiatives JPX should engage in to increase revenue. I would like to ask what measures you have in mind to this end. Also, with respect to the Comprehensive Exchange initiative, a basic agreement was concluded at the end of March. How is the business combination project progressing?

A: With respect to the expected income decline, because the characteristics of our business are that market-related revenues are very large and that market condition is a major factor in rise or fall of revenues, there are aspects which are largely uncontrollable.

Even under the 2nd Medium-Term Management Plan, the basic policy was to establish a management structure that does not excessively rely on the market condition of Japanese equities. We are expanding revenue streams, such as those related to information, indices, and clearing, that form an alternative to revenues relying on the market condition of Japanese equities. These revenue streams may not yet be big enough, but the expansion is progressing steadily.

In terms of revenues, as indicated partly in the 3rd Medium-Term Management Plan, we are planning expansion of our information- and indices-related business, as well as development of new revenue streams with sophisticated uses of data. But these ideas have yet to take shape into specific projects able to be incorporated into budgets. As such, budgets are based only on our current business models.

Therefore, revenues and expenses from the business combination with TOCOM are also not budgeted in. As the business combination is not yet completed, we cannot incorporate it into our budgets. Our budgets are based on the current situation, not taking into account changes expected in terms of management.

However, as I mentioned earlier, although it is not directly connected to revenue, JPX is continuing to invest in the stability, security, and reliability of the market, such as for establishing a Kansai backup center. These investments have been understood and approved by our shareholders. It is a fact that when such facilities go live, costs such as system-related depreciation will greatly increase, weakening our earning power. In this way, it is not something that can be done in a year, but I think that our major challenge is how we will work on expanding our revenue base in other areas that currently cannot be budgeted within the period of the 3rd Medium-Term Management Plan.

With respect to the business combination with TOCOM, since the conclusion of the basic agreement last month, working-level meetings have been held frequently to discuss various practical issues, and the project team is steadily proceeding with discussions. At the moment we can say the project is moving forward as scheduled. If things go well with due diligence being completed and the TOB price, etc. being agreed by the end of June, we will start the TOB in July.

With regard to the project, as I mentioned last month, the basic agreement has been concluded, and TOCOM products excluding some commodities such as crude oil will be transferred to Osaka Exchange. Although the time schedule for the transfer is not yet fixed, we think the ideal timing would be the first half of FY2020, possibly around July. We are proceeding with this time schedule in mind.

Q: There have been continuous media reports about Nissan Motor. I presume that JPX is examining their internal management system, but is that examination still going or has it been completed? Could you tell us about its progress?

A: The issue of Nissan Motor has two aspects. One is that a criminal investigation is under way against Mr. Carlos Ghosn, an individual person, while the other is that Nissan Motor, a corporation, has been indicted on the charge of false statements in securities reports. It seems that the media are preferring to focus on Mr. Carlos Ghosn, rather than

Nissan Motor. However, our concern is with Nissan Motor as a corporation.

As I am always saying, examinations on the internal management system are entrusted to JPX-R. No information will reach me before said examinations are over.

But, needless to say, we will continue to request Nissan Motor to disclose various types of information in a timely, appropriate, and careful manner.