Notes on Media Briefing by Atsushi Saito, Director & Representative Executive Officer, Group CEO, Japan Exchange Group, Inc., on January 30, 2013

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1. Third quarter financial results for the FY ending March 31, 2013

Good afternoon. Please let me start today's briefing. Please look at the handout. First, I would like to explain our third quarter financial results for the current fiscal year ending March 2013. These are cumulative results up to December 2012, prior to the launch of Japan Exchange Group (JPX).

In accordance with the accounting rules, the interim results of Osaka Securities Exchange (OSE) for the first half of the current fiscal year (April to September 2012) are not included but the profit/loss of OSE for the period from October to the end of December 2012 is included in the consolidated figures. The consolidated financial results for the first three quarters is ¥45.9 billion in operating revenue, ¥10.6 billion in operating income, ¥12.7 billion in ordinary income, and ¥7.3 billion in net income.

It is not possible to do a straight comparison with results from the previous fiscal year. So I would like to explain using the reference material accompanying the handout. We have taken the sum of OSE's results in the first half of the current fiscal year and the consolidated earnings of JPX for the first three quarters and compared this with the sum of the earnings of Tokyo Stock Exchange Group (TSEG) and OSE for the first three quarters of the previous fiscal year. The operating revenue in the first three quarters of the current fiscal year is ¥56.7 billion, a year-on-year increase of about ¥1 billion or 1.8%.

The main reasons for this increase are detailed on page 2 of the reference material. Trading of derivatives such as TOPIX futures, Nikkei 225 futures as well as 10-year JGB futures has been strong since the beginning of this fiscal year. Coupled with this robust derivatives market, the recent sharp market recovery has considerably reduced the effect of the decline in cash market trading value since the beginning of the fiscal year.

Under these conditions revenue from "trading participation fees" increased by ¥421 million or 1.9%. This was accompanied by an increase in "income from securities settlement" by ¥739 million or 10.5%, with contribution from new clearing services for yen-denominated interest rate swaps (IRS) launched by Japan Securities Clearing Corporation (JSCC) in October last year. Meanwhile, "listing fees" increased by ¥430 million or 6.3%, as listed companies raised more funds in the market, in addition to the large-scale listing of REIT.

Going back to the first page, "operating income" increased by about ¥1.9 billion or 15.8% due to a reduction in staffing and depreciation costs. On the other hand, net income showed only a modest increase of ¥900 million or 11.7% due to accounting for merger costs such as consultant fees under "extraordinary losses." I believe the chart in the reference material will help you to have a clearer picture of the financial results.

2. Revision to earnings forecast and dividend forecast for the FY ending March 31, 2013

Let’s move on to the next topic. I will be using the other handout to explain the upward revision of our consolidated earnings forecast. On December 18 last year, I briefed you on our consolidated earnings forecast for the current fiscal year ending March 2013. In the response to the significant recovery in market conditions, we have revised our earnings forecast upwards to ¥67.5 billion in operating revenue, up 8% from the previous forecast, ¥15.5 billion in operating income, up 40.9%, ¥17.5 billion in ordinary income, up 34.6%, and ¥9.5 billion in net income, up 35.7%.

The revised earnings forecast is based on the assumption that the average daily trading value of stocks on both the TSE and OSE markets in the current fiscal year is ¥1.4

trillion, an increase of ¥0.2 trillion from ¥1.2 trillion in our forecast last December. Similarly, the assumptions for derivatives trading were revised upward for 10-year JGB futures, we have raised it by 5,000 contracts to 40,000 contracts from 35,000 contracts, for TOPIX futures from 60,000 to 67,000 contracts, and for Nikkei 225 futures from 127,000 to 147,000 contracts, including mini contract trading volume converted to large-sized contracts. The assumption for Nikkei 225 options was also raised from ¥17.5 billion to ¥22 billion. Turning to the next page, the increase in the net income forecast naturally translates into increased dividend per share. In line with our target dividend payout ratio of approximately 40% announced previously, we have raised our dividend forecast by ¥20 from ¥50 to ¥70 per share.

For a year-on-year comparison on a consolidated basis as JPX, please refer to the attached reference material, which shows the sum of the earnings of TSEG and OSE in the previous fiscal year in order to compare it with the sum of OSE's results in the first half of the current fiscal year and the consolidated earnings forecast of JPX. Operating revenue in the current fiscal year will be ¥78.2 billion, an increase of about ¥2.7 billion or 3.6% from the previous year, while operating income will increase by ¥1.2 billion or 7.3%. However, net income will decrease by ¥0.2 billion or 2.3% due to extraordinary losses from merger costs.

3. Basic policy in our Medium-Term Management Plan (FY2013- FY2015)

Third, I want to explain the basic policy in our Medium-Term Management Plan, which we are planning to release at the end of March.

In our Medium-Term Management Plan from fiscal year ending March 2014 to fiscal year ending March 2016, we have set out our future vision of "The Most Preferred Exchange in the Asian region," and positioned this plan as one for the first three-years toward achieving this goal. In the Medium-Term Management Plan, in addition to realizing synergies from the integration and consolidation of market functions and IT systems as early as possible, we have three pillars, "creation of a new Japanese stock market," "expansion of the derivatives market," and "expansion of exchange business fields."

Our plans to create a new Japanese stock market include the development of new stock price indices, which we have already begun preparing for. Moreover, we have to make the Japanese stock market more attractive by further enriching corporate governance in Japan. At the same time, we will help to nurture growth companies through encouraging IPOs, and hope that this will lead to a more vibrant market.

In expanding our derivatives market, we are considering entry into the field of commodities as a part of our efforts toward becoming a comprehensive exchange, as well as listing new products focused on Asia or developing new products to enrich our lineup of, for instance, products related to the JGB market to which how it is shaping up for the future is drawing attention.

In terms of expanding the fields of our exchange business, we are considering expanding our clearing services related to OTC derivatives. Even as the demand for OTC derivative clearing services continues to increase considerably, that for IRS (interest rate swaps) has been the sharpest, with the notional amount outstanding reaching about ¥100 trillion. This is second only to LCH.Clearnet in London, as I mentioned in a previous briefing. Centralized clearing of OTC derivatives is today an issue that is being addressed worldwide. On the back of this trend, we will also work to expand our clearing services for OTC derivatives. This is one of the features we want to develop as a financial center in Asia.

We also want to put effort into building up our Pro-Bond Market, in which there are today program listings totaling about ¥4 trillion yen. Going forward, I expect to see a battle to build bond markets in Asia, and we will channel energies toward developing ours.

The consolidation of market and clearing functions has been progressing on schedule as announced last October. This is described on the page 2 of the handout.

Moving on to page 3, cost synergies from system integration is expected to be about ¥7 billion, from the sum of IT system related costs of both TSE and OSE in fiscal year 2012 (ending March 2013). In the current and coming fiscal year (ending March 2013 and 2014 respectively), IT system costs will increase temporarily due to the accelerated depreciation of systems which will no longer be used as a result of the consolidation. However, we will be able to see the cost synergies from the fiscal year ending March 2015.

Detailed on page 4 of the handout is the effect of market consolidation on profitability. We expect increased revenue due to factors such as greater efficiency, a larger number of IPOs by companies drawn to a more attractive market, enriched information services, as well as new financial products developed by crossing the boundary between TSE and OSE. On the other hand, fees and charges which trading participants, listed companies, and information vendors now pay to both TSE and OSE will be sorted out. This will surely be welcomed by users but result in reduced revenue. According to our calculation on a yearly basis, the decrease in revenue will be about ¥1.2 billion in transaction fees, about ¥0.5 billion in listing fees, and about ¥0.8 billion in income from information services. However, we believe that this will lead to better and more user-oriented services.

Based on the aspects which I have just mentioned, we will proceed to draw up our Medium-Term Management Plan and release it in late March.

4. Establishment of rules and regulations related to the integration of our cash markets and clearing functions

The fourth topic for today is the establishment of rules and regulations related to the integration of our cash markets and clearing functions. At the board meeting held today, we decided on the outline for establishing the rules and regulations related to exchange functions such as listing, trading, and clearing, and also fixed the integration date at July 16, 2013. You can refer to the handout we distributed today for details on the integration of cash markets and clearing functions. It contains many technical aspects so I would like to just pick up some important points.

In principle, the current rules and regulations of TSE shall be applied to listing and trading. All clearing will be handled under JSCC, and its current rules and regulations shall be applied. We are paying particular attention to the needs of OSE listed companies, trading participants, and clearing participants so that integration is smooth.

Regarding the cash markets, since the companies listed on the First and Second Sections of OSE will be moved to the First and Second Sections of TSE, the current listing rules and fee structure of TSE shall be applied. However, we will set a three-year transition period for companies listed only on OSE before applying TSE delisting criteria and listing fees. Current OSE listing rules and fee structure shall continue to be applied to such companies for three years after the integration date.

Regarding JASDAQ, the current rules such as listing and delisting criteria as well as listing fees will remain unchanged. There is little difference between the rules of TSE and OSE in regard to rules like the code of corporate conduct such as timely disclosure and corporate governance. However, as there are some rules unique to JASDAQ, we have decided to continue to apply current JASDAQ rules for the time being. After integration, companies will not be allowed to be listed on multiple markets within TSE. Therefore, companies currently listed on both JASDAQ and the First or Second Section of TSE will have to decide on which market they want to be listed.

As for trading participant rules and qualifications, we will grant OSE-only trading participants a qualification to trade in the TSE cash market subject to certain financial requirements. This qualification will be granted on the integration date. As for trading participation fees, or transaction fees, the TSE fee structure will be applied. However, the current JASDAQ fee structure will continue to be applied for the time being.

As announced last October, for trading, we will use current TSE trading rules, TSE's arrowhead and ToSTNeT (Tokyo Stock Exchange Trading NeTwork System) systems. Issues eligible for standardized margin trading or loan trading only on OSE will be selected for the corresponding designation on TSE on the integration date.

The derivatives clearing function at OSE will be brought under JSCC, which will unify the margin systems. Clearing participants qualified only on OSE will be granted JSCC clearing qualification subject to certain financial requirements. The JSCC clearing qualification will be granted on the integration date. Similarly, OSE-FX clearing participants will be granted an FX clearing qualification which will be newly introduced at JSCC.

From today, we are gathering comments from the public on the outline. We will consider feedback from market users when we move on to the final process of amending the rules and other specific tasks toward integration.

5. Joint research on IT for realizing a stable and efficient financial instrument markets with the University of Tokyo's School of Engineering

Finally, I would like to take this chance to highlight an initiative. Since last December, Tokyo Stock Exchange and the University of Tokyo's School of Engineering have been engaged in joint research on IT for realizing a stable and efficient financial instrument markets. We have just released a working paper on the relationship between tick sizes and trading volume, the first publication to come out of this initiative.

As we are positioning this paper as a basis for seeking comments from wide ranging fields such as academics, research institutes, market participants, we would like to gather opinions of experts not only in Japan but from overseas and reflect the findings in our business. I hope this will lead to many high-quality research papers which may be acclaimed internationally. Anyone interested can view the paper on our website.

Thank you very much.

Q&A:

Q: There was a piece of big news on exchanges from the US which made headlines last December. Intercontinental Exchange announced plans to buy NYSE Euronext. For many exchanges overseas, management emphasis has been shifting from cash equity trading toward derivatives trading. Expanding the derivatives market seems to be included in the Medium-Term Management Plan to be released in March. In this respect, I want to ask what measures you think are necessary in order to achieve that goal, including possible integration with Tokyo Commodity Exchange (TOCOM).

A: First and foremost, I want you to understand that cash and derivatives trading are considerably different between the stock and commodities markets.

For stocks, cash equities lie at the foundations of the market. As I have said before, the raison d'etre of exchanges is to supply risk capital to companies. This is one of the missions of an exchange. In this respect, stock derivatives are a financial instrument that is less essential. It is, literally, a derivative. Derivatives greatly contribute to market liquidity but companies cannot use them to raise funds. This is why I say they are less essential.

In contrast, commodities trading was originally based on the idea of index futures. For example, there were the days when gold bullion was moved across the high seas. Then, trading on a physical-delivery basis was impossible because of the actual commodity did not move freely enough to be traded in such a manner. This is true for gold, crude oil, or any other commodity. Trading is based on index futures and the actual commodities only move during delivery.

As such, I do not think it accurate to say that there is a move away from cash markets as far as stocks and other securities are concerned. They are and will continue to be at the foundations of the market. In contrast, commodities markets have always been based around futures. In developing management policies and strategies of JPX, I think this will be an important point to consider.

Of course, we will be developing new derivatives instruments based on bonds, Japanese and foreign stocks, and other securities, and hope to include commodities in nurturing derivatives with international appeal or growth potential. This will be our strategy toward expanding our derivatives business.

Q: The government and the Bank of Japan recently released a joint statement on January 22 to announce the introduction of a 2% inflation target and additional monetary easing measures. To this, some say that the Bank of Japan should purchase more risk assets such as ETF. Can I ask your opinion as CEO on this joint statement? I would also like to ask you what kind of policies targeting an exit from deflation that you would like to see.

A: As you all know, the reality is that past administrations could not take effective measures against the deflationary spiral in which the Japanese economy has been trapped for almost 20 years since its peak in 1989. Before everything else, I would highly evaluate the announcement because it shows the strong will of the government to take bold measures against deflation.

This joint statement is not merely an announcement of words, it comes with concrete actions being performed with impressive speed. I would like to welcome this situation in which politics is guiding national policy. I think I haven't seen this for a long time. Naturally, the market is also responding well with rising trading volumes and stock prices.

To answer your question on future policies, I would say that the most immediate and biggest problem which Japan must tackle is how to provide enough electricity for Japan. If we stop all nuclear power generation in Japan, then we will have to bear the huge cost of importing natural gas and crude oil in order to generate enough power to sustain our economy even as the yen continues to depreciate. It will be the Japanese industries and consumers who bear the cost.

The weak yen will be good for exports. However, this puts strong, upward pressure on the prices of imported goods such as food and oil. If the yen continues to depreciate beyond a certain level, not necessarily where it is currently, it will do more harm than good to the economy.

With the advent of the shale-gas revolution in the US, the price of natural gas has dropped dramatically to 3 dollars from 13 dollars. It is said that shale-gas occupies nearly 40% of the total production of natural gas in the US. Whether to secure a framework to import this will be a critical factor in considering the cost of power generation.

Korea has a free trade agreement with the U.S. When their outgoing President assumed office, he promised to sign FTAs or EPAs (economic partnership agreement) mentioning specific countries. He actually delivered almost all that he said he would. I believe that even some Japanese manufacturers think it better for them to move their factories to Korea and export products from there.

I can understand that participation in TPP (Trans-Pacific Partnership) comes with various conditions. However, having said this, I think TPP would be useful to some extent if we can secure certain conditions. If we abolish all the nuclear power generation in Japan without buying cheap energy imports from the US, and maintain our policy of keeping our currency weak, the outcome will clearly be bad inflation. It is necessary for the government to explain the pros and cons to the public. This is also a question of striking a balance. The weak yen is desirable to some extent. However, yen depreciation also brings higher costs. I think deciding on a policy that seeks to strike this delicate balance will bring great cheer to the market.

It seems to me that so far the international community has been viewing the policies of the new administration positively. They are saying that "This is the only way for Japan to get out of deflation." Some argue against these policies in largely general terms but fail to offer concrete ideas on bringing Japan out of 20 years of deflation. This is why, from a practical perspective, I share the sentiment of the market, which is positive for the time being.

Q: You mentioned that the basic policy of the Medium-Term Management Plan of JPX aspires toward becoming a "comprehensive exchange." Could I ask about more specific means toward achieving this? Can we understand collaboration or integration with TOCOM to be a goal for JPX?

A: This is a rather difficult question. I hope you understand that I can neither respond in the affirmative nor negative.

For example, if we consider actual operations, currently, the regulatory authorities of the commodities markets are the Ministry of Economy, Trade and Industry (METI) and the Ministry of Agriculture, Forestry and Fisheries, because futures contracts are settled by physical delivery through commodities exchanges. There are a lot of issues to consider due to such differences. For example, when brokerages recommend commodities trading to their customers, will these customers be able to use their securities trading accounts for commodities trading? Yes, the bill for a "comprehensive exchange" was passed, but I think the authorities have to listen carefully to the voices of those at entities like securities companies who are engaged in actual operations before drawing up cabinet ordinances or orders.

Another problem is solicitation. What consumer groups are saying about this is understandable. I'm aware of the improprieties that happened in the past. So, it is necessary to discuss with a wide range of parties. It's not just about making exchanges "comprehensive" but also about building an infrastructure which allows for actual investments and intermediation.

Furthermore, I think the concept of a comprehensive exchange should be placed under national strategy. Its ultimate purpose is to build a commodities exchange which is the best in Asia. Even though, there are many issues, I'll be glad if there are moves toward this direction together with the many parties concerned.

Q: The establishment of a "comprehensive exchange" of Japan is included in emergency economic measures. Is there any actual government backing? In other words, can I understand that you don't have specific to talk about it yet?

A: I have not heard anything concrete.

Q: Today, the Nikkei Stock Average has risen again by more than 2% with rather high trading volume. The market is showing great energy. How long do you expect the current market conditions to continue?

A: My position does not allow me to comment on stock prices, and, honestly speaking, it is beyond me. On hindsight, my impression is that we are finally seeing what we had wanted to see, or at least to an indication of it, as if the energy that had been gathering for a market recovery, which is long overdue, has finally ignited.

In particular, participation by individual investors is growing. They now occupy 30% in trading value terms, and 40% of trading volume. The share occupied by foreign investors has declined from 70% to the current level of about 60% but investment continues to come in from overseas. This means that having been extremely underweight in Japanese stocks so far, portfolio managers are considerably nervous about the rise in Japanese market. If they measured their performance by world indices, it would inevitably be underperform.

They have pride as professionals and will do everything they can to catch up with the Japanese market. Therefore, there might possibly be so many of them ready to buy Japanese stocks when there is a temporary lull in gains or a dip in the market, although I don't know how long and to what extent this trend will continue.

Q: I'm sorry, but I would like to take this opportunity of your assuming the position of

CEO of JPX Group to ask you a question which I have asked several times before the business combination. Could you provide some insight on how you are planning to use your operational base in Osaka? There seems to be a concern among companies located in the Osaka area that Osaka may be abolished or downsized.

A: As I have clearly answered before, we have arranged to secure a venue for releasing financial results in Osaka, especially for companies listed only on OSE and continuously take communication with the press. OSE will not disappear, far from it, its role will get bigger. The JPX Group has two legs. One, TSE, stands on the cash market. The other one, on the derivatives market, is firmly placed by Osaka. I promise that our operational base in Osaka will not disappear.

Q: Could I ask you what you think of the Japanese version of ISAs (Individual Saving Accounts) included in the tax revision package released the other day? What are your expectations or interpretation of it?

A: Firstly, I hold very high expectations. This year's tax revision contains an extended tax regime of 10 years, and investors can make tax exempt investments of up to ¥1 million on a yearly basis or up to ¥5 million in total. I don't think these amounts are too much considering the general level in our society.

Under the mandatory public pension scheme for all citizens of Japan, the pension fund is managed by the government. The scale of the fund is said to be about ¥110 trillion today, but it used to be about ¥130 trillion at its peak. The ISA system in the UK is based on the principle that citizens should be able to plan for their future by on their own rather than leaving it totally to the government. This is, in my opinion, the role a government should play in a democracy.

Japan should follow suit by making this permanent. Apart from the issue of how much investment should be tax-free per person, it is desirable that each of us can independently plan for life after retirement to a certain extent. In this respect, the US is on the extreme end of the spectrum. Why do Republicans criticize so harshly the policies proposed by President Obama? Behind this criticism is the idea that the government is interfering when everyone is already planning on their own. This is the essence of the debate going on between the Republicans and the Democrats in the US. Although it seems to me that the right solution about social care exists somewhere in between the situations in Japan and the US, in reality there is almost no personal pension program available in Japan.

One of the purposes of the AIM (Alternative Investment Market) market in the UK was, since Prime Minister Thatcher was in power, to revive its struggling industries, to stimulate the industries in Eastern Europe, or to provide them with risk capital to invigorate the UK pension system by leveraging on this growth. If you looked into the tax regime applied to AIM, you will find them surprisingly unique. If you invest your inheritance in a fledgling growth company, fresh out of the incubator, in the name of your children or grandchildren, the capital gain tax rate decreases with the length of your investment. This is a social system for handing down inheritance from parents to grandchildren, or future generations. Currently, something similar is being considered in Japan. In the UK, the system has resulted in a virtuous cycle of nurturing industries.

In this way, I hope the Japanese version of the ISA is discussed in regard to the pension problem. Some may say, "I'm not interested" or "No need to give many benefits to the rich," regarding this as a special incentive for investing in stocks, but the important thing is to develop this system the idea of making this a pension program for the people. I appreciate the inclusion of ISA that has come about from proactive discussions and I look forward to future developments.

Thank you.