

Notes on Media Briefing by Atsushi Saito, Director and Representative Executive Officer, Group CEO, Japan Exchange Group, Inc., on January 30, 2015

Thank you for taking time out of your busy schedule for this conference today. I am Atsushi Saito, Group CEO of Japan Exchange Group.

As this meeting is usually televised from Tokyo, we are pleased to have this opportunity to meet you face to face in Osaka today.

I would like to go through our earnings results for the third quarter for the year ending March 2015. Please refer to the earnings report.

Cumulative third quarter results up to December 2014 were operating revenue of JPY 78.8 billion, operating income of JPY 36.3 billion, ordinary income of JPY 38.5 billion, and net income of JPY 24.1 billion. JPX will be adopting IFRS from the earnings report at the end of this fiscal year. Net income based on IFRS would be JPY 26.7 billion, JPY 2.6 billion more than the figure based on Japanese standards.

The daily average trading value of about JPY 2.7 trillion we saw this quarter exceeded the assumption of JPY 2.6 trillion, which was already revised upwards from JPY 2.3 trillion on January 20. But if we compare it to figures from last year, we see a decline from the approximately JPY 3.1 trillion achieved in booming conditions, with operating revenue down by JPY 10.2 billion (-12%).

However, overall operating expenses fell by 6.5 billion (-13%) due to reduced system maintenance and operation costs with system integration for cash equities and derivatives. In addition, the absence of the JPY 900 million in extraordinary expenses for system integration meant that net income fell slightly by JPY 200 million (-1%) to remain around the same level as last year.

Since second quarter net income had declined by JPY 2.4 billion year-on-year, the improvement is significant.

For details on the results, please refer to the earnings report and the attached document. The main factors for the overall income decline are decreases in trading participant fees, down by about JPY 5.3 billion, income from securities settlement, by about JPY 700 million, and other operating revenue, by about JPY 4.4 billion.

The large year-on-year drop in other operating revenue is due to a special one-time inclusion of a large-scale system development project last year. Thus, other operating expenses declined by JPY 4.3 billion.

Finally, I would like to explain the full-year earnings forecast, which was revised on

January 20.

Operating revenue is forecast at JPY 101 billion, operating income JPY 42.5 billion, ordinary income JPY 44.5 billion, and net income at JPY 26.5 billion based on Japanese standards, and JPY 30 billion based on the IFRS.

Calculated from the IFRS-based net income forecast of JPY 30 billion, the forecasted annual dividend is JPY 44. This is up JPY 1 per share from the actual JPY 43 payout for the last fiscal year, which would mean a slight increase in the overall dividend payout by nearly JPY 300 million.

For average daily trading values and volumes, the bases for the assumptions are JPY 2.6 trillion for all equity trading, 172,000 contracts for Nikkei 225 futures (Large and mini), 79,000 contracts for TOPIX futures, JPY 27 billion for Nikkei 225 options, and 35,000 contracts for 10-year JGB futures.

Q&A:

Q: My question is about the market. Europe is being rocked by the Greek debt issue and the removal of the currency cap on the Swiss franc. Meanwhile in China, the Shanghai Composite Index is slightly declining. Could you share your views on the impact of these trends on the financial market in Japan and the outlook?

A: Some analysts see Europe as the region most at risk this year. The main reasons are the issues in Greece and Ukraine. Since both countries are influenced by Russia, geopolitical issues are involved, which makes things more difficult.

However, at this point, I don't think this will directly affect the Japanese economy.

As I always say, what is important is the third arrow of Abenomics, the core growth strategy of TPP issues and regulatory changes in the fields of agriculture, employment, and healthcare.

There may be an indirect influence in terms of sluggish exports due to issues in Europe or possible euro weakness, but with steady progress on corporate tax cuts, I think the impact in itself will be limited.

Q: I would like to ask about derivatives related to Osaka Exchange. What is the outlook for this fiscal year and the prospects for achieving 400 million contracts for derivatives in FY 2015 as stated in your medium-term management plan?

A: There are about two months left in this fiscal year. Volatility fell in the first half of this fiscal year but it has been rising in the second half. So, for the third quarter alone, the results have exceeded last year's.

The results for the nine-month period, however, are slightly lower than those of the last year due to the impact of a slow first-half performance. If we maintain this pace, we will reach around 340 million contracts for the fiscal year.

Given that JPX-Nikkei 400 futures launched about two months ago, and Nikkei 225 weekly options will start in May this year, the 400-million target for FY2015 may be aggressive, but there is no reason for us to drastically revise it at present.

Q: Could you tell us your strategy or how you plan to achieve 400 million contracts?

A: There is no ingenious scheme, to be honest.

However, as I said, there are two new products involved - JPX-Nikkei 400 futures launched in November, and Nikkei 225 weekly options to be launched in May.

Looking at trends in markets such as Taiwan, we have confidence in the weekly options. The current system does not allow us to increase customers or products easily, so the real expansion will be next year after we launch the new derivatives system. The current system has also been upgraded, and the market is expanding to some extent. However, the real boost will be when the J-GATE (derivatives trading) system is overhauled.

As such, even though 400 million contracts is slightly out of reach in the short term, we see it as an achievable target in the long term.

Q: Today is the first time that JPX has held its board of directors meeting and the press conference in Osaka. What is behind this change? Do you plan to hold them in Osaka more regularly?

A: We do not have plans to do this regularly. However, we have staff here and we do want to meet the press in Osaka. As such, we have decided to hold our board meeting and press conference in Osaka to promote communication.

Q: Is this something related to your disaster recovery plan?

A: That is a separate issue, but of course we make the necessary considerations. So far,

we thought about diversifying risk by locating systems in different parts of the Kanto area. However, when we looked at commercial banks, they tend to install their systems separately in eastern and western Japan.

Our system functions are concentrated in Tokyo. We believe this is the right way in terms of efficiency, and the results justify our actions.

However, in terms of risk diversification for emergencies, we will naturally consider Osaka and the Kansai region.

Q: Close to 20% of derivatives are traded by individual investors. Do you see their share growing? Or since derivatives trading requires expert knowledge and carries high risk, is 20% slightly too high, and would you prefer more institutional participation?

A: There are a variety of views on this matter. Individual investors tend to be more involved in active trading.

As you can see in markets elsewhere such as South Korea, individual investors are present in high liquidity.

Derivatives trading sounds speculative and risky, however, impressions have changed for the better.

The original function of derivatives is hedging. It should allow you to effectively hedge large cash equity trades or when there is higher volatility.

Therefore, in that sense, Japanese institutional investors account for a low share of derivatives trading. It has been gradually growing, but the situation has not significantly changed.

For instance, more than 20% Nikkei 225 minis are traded by individual investors. Other than individual investors, overseas institutional investors also have a large share, but my hope is for increased participation from Japanese institutional investors. Investment trusts are being taken up and growing, so I hope they go on to develop models for hedging risk and so participate more in derivatives trading.

Q: What is the ideal share for individual investors?

A: It is not easy to specify a figure, but theoretically, professionals tend to resemble each other in investment behavior, while individual investors invest in the opposite way.

In terms of the cash equity market in Japan, individual investor patterns are totally

opposite to those of US and European institutional investors, and there is some success and also failure.

If there is only participation by investors with similar behavior patterns, it may sway the market in a certain direction, and this may be regarded as unhealthy. In this sense, the market is healthier with a certain amount of participation by individual investors.

Q: I have two questions. The first is about accounting standards. JPX will adopt IFRS from FY2014-end. Financial Services Agency launched business accounting deliberation council to discuss expansion of the voluntarily adoption of IFRS last year. There is also Japan's Modified International Standard (JMIS). From investors' point of view, there are four financial standards. Could you share your view on this situation?

The second question is about Universal Entertainment. A report from the second third party committee was disclosed at the end of last year. I would like to hear your view on that and about the actions JPX will take.

A: For the first question, as I said before, there was a great deal of resistance in Japan to immediately adopt pure IFRS. As such, JMIS has been come up with as a passing point.

I understand that there are very few people among the authorities and market participants who regard JMIS as Japan's final goal on IFRS.

About 60 companies voluntarily adopt pure IFRS to facilitate international comparisons of their financial results. JMIS does not make it easier to compare financial results internationally.

So, why is JMIS needed? I understand it as a stepping-stone toward adopting pure IFRS.

For the second question, as I said before, it is not appropriate for me to provide any comment. I am not involved in the investigations or comments made by JPX Regulation. There is some information about issues between the third party committee and the company, but I would like to avoid making any official comment on this.

Q: We are at the peak of the earnings season for the third quarter today. Many companies seem to be revising them upwards. Do you see promising signs in the current trading volume and trading value?

A: The earnings results of Japanese companies have improved in the third quarter as we move into the final quarter.

Performance has been boosted by the weak yen, of which many of you already understand. Although I do not say that there is no negative aspect, weak oil prices will also have quite a good effect from the macroeconomic point of view.

As you know, some experts predict significant GDP growth in FY2015.

Despite destabilizing factors remaining in Europe and China, I understand that the overall Japanese economy and the business environment are good.

It is not easy to talk about the impact on the trading volume from a quantitative perspective, but as I said, at least the assumption for the full year announced on January 20 can realistically be attained.

Q: For diversifying risks in preparation for emergencies, you mentioned that Osaka and the Kansai area will be considered. Do you mean that a backup center will be located in Osaka?

A: We have not yet discussed anything concrete, but we can refer to what commercial banks or the US are doing. In the US, for instance, CME relocated its nearby backup facility to a remote area a little while ago.

Japan is not a large country but since we experience natural disasters such as earthquakes, it may be better to diversify risks by locating backups in western and eastern Japan instead of spreading them in the Kanto area.

However, I cannot say this lightly as it would involve significant expenses for the entire industry. Our systems are located only in the Kanto area, but risks are diversified by locating them where quake resistance is high in terms of ground structure.

If we were to spread them in eastern and western Japan, we need a facility whose level is close to the one for live operations, which is not an easy task. Relocating staff for the whole industry may be another issue. I did not mean that risks would be diversified by locating centers in eastern and western Japan but meant that it would be a matter for consideration.

Q: Will it take more time to consider the matter?

A: We have not begun considering the matter yet.

Q: I would like to ask about the possibility of a comprehensive exchange. Joint system usage with TOCOM has been determined. Osaka Dojima Commodity Exchange is located here in Osaka. To boost derivatives, I think some coordination with the commodity exchanges in the Kansai area will be required. What is your view on this?

A: This is related to why we have Osaka Exchange, a derivatives exchange. From our point of view, since price formation mechanisms are common in derivatives in a broad sense, integrating such systems in Osaka, where derivatives have been long traded, and increasing liquidity will bring increased international competitiveness. I think this is good for both exchanges and also good for Japan. There are few who oppose the idea but since there are many people involved, progress has been slow. As I said before, the authorities for commodities are different and we have not obtained approval for commodities transactions. We should all share the idea of offering a variety of products at a single venue.

Q: About Skymark Airlines, unfortunately the delisting decision has been made. While this is about a specific company, since it is the first bankruptcy in a while, I would like to hear your comment from the viewpoint of investor protection.

A: This is about a specific company, and I can only speak in general terms. Businesses may go under, they may thrive. What is important is to constantly maintain open and proper communications to keep investors informed of the risks. I would like to step away from my position as CEO to make a personal comment. Skymark has worked very hard to challenge the two domestic airline giants. I believe users have benefitted from the competition in terms of prices and services. It is unfortunate that a company that posed a challenge with a unique perspective is going to leave the market. That is how I feel personally, and I am very sad that this is going to have an impact on their users and shareholders.