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Notes of Media Briefing by Atsushi Saito, President & CEO, Tokyo Stock Exchange Group, Inc. on June 19, 2012

1. 5th Annual General Shareholders Meeting
2. TSE's Efforts to Revitalize the Japanese Stock Market

1. 5th Annual General Shareholders Meeting

The TSE Group 5th annual general shareholders meeting was held earlier today at 10 am in the TSE Hall located on the second floor of this building. A total of 101 shareholders exercised 2,153,740 voting rights, including voting rights exercised in writing or via electromagnetic means. The agenda on the election of directors was approved in its original form by a shareholder majority.

The appointment of executive directors, which was previously announced, was also approved in its original form in the board of directors meeting held after the general shareholders meeting.

2. TSE's Efforts to Revitalize the Japanese Stock Market

Since there is nothing else to report, I would like to take the chance to talk briefly about various initiatives at TSE to revitalize the Japanese stock market.

On June 4, TOPIX reached 695.51 points, the lowest since December 1983. The market since then has remained sluggish. Even as stock markets across the world fall on stress over European nations Greece and Spain, and worries over a global economic slowdown, the drop in our stock market has been larger than that elsewhere.

Even if we compare stock market levels at the end of March and at the end of the last week, TOPIX has fallen by 15%, whereas stock markets in New York and London have both only dipped 3% and 4% respectively. Declines in Europe are slightly larger, but

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even so, the German and French markets have stopped at around 10% lower. At the epicenter of the Eurozone crisis, Spain and Italy, the next in line, have dropped by about 16%. Japan has fallen by the same level as these countries.

As I've said before, Japan's financial system is currently stable. The 10 trillion yen demand from recovery efforts and the negative effects of disasters such as earthquake damage and floodwaters in Thailand have receded. 2012 is a year where Japan is ranked high among developed countries and is expected to be on level terms with the US, achieving at least 2% economic growth. Japanese companies are estimated to deliver a 22% rise in ordinary profits. Looking at the momentum in our economy and the strong fundamentals of corporate Japan, the extent of the recent decline in the Japanese market leaves me utterly bewildered.

While there may be many reasons, one of them is the extreme imbalance in the market participant structure. First, the share of brokerage trading occupied by overseas investors has recently hovered above 70%, reaching up to 73%. They invest worldwide, but once their capacity for risk dips due to factors such as a deepening Eurozone crisis, then it can easily cause a sell-off of risk assets in markets across the world. This kind of selling may be one of the reasons behind the dearth of buying from investors who recognize the positive signs in our economy and corporate Japan, causing the recent drop in the Japanese stock market.

Since the start of the month, as part of our caravan promotion activities for Japanese stocks, our senior executive officer for marketing and promotion, Mr. Tsuchimoto went to Boston and New York to hold individual meetings with 14 institutional investors. Many of them thought it was odd that Japanese institutional investors and individuals were not investing in Japanese stocks.

Another reason is the unmistakable trend of growing short-termism amongst investors. If we look at the individual investors who account for about 20% of trading, more than 60% engage in margin trading. 10 years ago, this proportion was less than half. From this, we can tell that there has been a gradual decrease in long-term investments by individuals. If we consider the fact that HFT and their extremely short-term presence in

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the market occupies 40% of trading, this means that more than half of trading conducted in the TSE market is short-term.

While we cannot simply add up the share of trading by overseas investors and HFTs since that would result in some trades being double-counted, I think it is quite clear that many of the current participants in the TSE market are not necessarily making long-term investments based on the momentum of the Japanese economy or corporate performance.

To avoid any misinterpretation of what I've just said, I want to stress that overseas investors, HFT, and margin trading are all indispensable to the market. The huge presence of overseas investors in our market means that our securities infrastructure and trading systems are well-developed, and we are a market with powerful listed companies that cannot be ignored by the world. This is something that we should be proud of. Overseas investors also make decisions different from domestic investors and also contribute a great deal to market depth.

It is also an undeniable fact that HFT and margin trading both offer liquidity in the market, reducing execution costs overall, enhancing the price discovery function of the market, and increasing market efficiency. Offsetting trades used to close positions also help in the sense that they function to suppress sudden fluctuations in the market.

We at TSE think that it is necessary to maintain market convenience and reliability by welcoming active participation from these investors.

However, at the same time, we recognize the need for balance through the active participation of individuals and pension funds and other institutional investors who make buy-and-hold long-term investments based on proper valuations of the Japanese economy and the fundamentals of corporate Japan. It is clear that we are being expected to become a balanced market so that we can fulfill the primary function of a securities market of efficiently distributing industrial capital and being a place for the formation of individual assets.

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In the past decade, even as nominal GDP has fallen by 6% and TOPIX has plunged by 20%, the stock prices of 56% of TSE-listed companies, or about 900 companies have risen. Nearly 30% of companies are up at least 1.5 times while 15% have at least doubled. These figures are based on a comparison of the stock prices of more than 1600 companies at the end of March 2002 and 2012, excluding the approximately 800 new listings and 650 delistings during this period. Even though the larger market was in a slump amid deflation, it is again clear that a substantial number of companies have increased their corporate value despite the circumstances.

If we look at companies whose stock prices have risen, it is plain-to-see that there are many with high ROE. There are 24 companies whose stock price is now more than 5-fold. The ROE of these companies is on average 14%. As for the approximately 200 companies whose price has risen between 2 to 5 times, their ROE is around 9%. On the other hand, if we look at the close to 700 companies whose prices have fallen during the past 10 years, you will see that their ROE is only about 0.9%. While ROE is not everything, I want to highlight the fact that companies that seek efficient management are being recognized for their efforts.

The average fixed deposit interest rate over the past decade is around 0.6%, so if some care was put into selecting stocks, a long-term investment would not have had zero appeal. We are now holding seminars across Japan to communicate this situation to investors as part of our project to supporting the Japanese economy. We have already held five seminars in Tokyo and the surrounding Kanagawa, Saitama, and Chiba prefectures, and will continue to communicate to participants the meaning of investment, the current situation in the securities market, the important points when selecting stocks, and other topics of general interest.

To add to what I just said about ROE, the ROE for TSE 1st Section stocks is on average 5%. We cannot be too proud of this figure. In the US and the UK, the average is 15%. Even though German companies are usually considered to have a management style similar to Japanese ones, theirs is 12%. There is a huge gap between them and us. This gap is also a factor contributing to the increased possibility of overseas investors selling Japanese stocks when their capacity for risk decreases.

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A management style that seeks capital efficiency is very important and I hope listed companies will pay attention to this. In line with this idea, we established a new listed company award for improved corporate value which uses ROE and other management indicators and also recognizes efforts to reduce capital costs.

We will also hold a symposium for listed companies on July 6 about how institutional investors select targets for investment. We hope that the symposium will allow listed companies to have a deeper understanding of the investment returns that stakeholders are looking for, or from a company's perspective, the importance of corporate efforts towards lowering capital cost.

Our "Supporting the Japanese Economy" project is at the core of TSE's business plan for this year. The project aims to reinvigorate the Japanese stock market by directly communicating and disseminating information to investors and listed companies. We at TSE will work toward a balanced, high-quality market by expanding the layers of investors who, recognizing the positive conditions in the Japanese economy and strong corporate fundamentals, make long-term investments, and by supporting initiatives by listed companies to improve corporate value.

Q&A

Q: I have two questions. The first one is about your merger with Osaka Securities Exchange (OSE). The required documents were submitted to the Japan Fair Trade Commission (JFTC) the other day. Please share your thoughts on the process at this time.

My second question is on the issue of insider trading. After Mizuho Financial Group, we now know that there was an information leak at Nomura Securities on Tokyo Electric Power's capital increase. I would like to know your thoughts on these repeated information leaks in the same securities company on large-scale capital increases.

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A: For your first question, as I've always said, I cannot comment on the matter until we receive a "notification to the effect that a cease and desist order will not be issued" from JFTC. However, I can give you an update on the situation.

The examination has continued since the first round began on January 4, and last Friday, we submitted all the documents requested by JFTC for the second round. We have received notice from JFTC that they have received the necessary documents. Of course, the documents contain material with particular focus, but I am unable to provide details at this point.

With regard to the schedule, unless something exceptional occurs, we should be able to give you an update within 90 days. Our hope is to obtain a "notification to the effect that a cease and desist order will not be issued" from JFTC, so that we can quickly proceed with the TOB.

As for progress, at this point, everything is smooth according to the schedule we announced on November 22 last year, and OSE and ourselves both share the hope that we will be able to establish a new company on January 1, 2013 and list the company on the TSE First Section.

My thoughts on this are that I want to get this done as quickly as possible. However, JFTC is currently examining the proposal and we have to respond to their requests appropriately.

For your second question, I think it is regrettable and really disappointing. Particularly, Nomura Securities is a traditional leader in the Japanese securities industry and, together with TSE, raising the quality and transparency of the Japanese market is also 50% of their work. While short-term profits are of course important to companies, the management at securities firms, banks and such companies which have a public role, must be aware of their public nature.

In this sense, they must develop strict and transparent internal rules and proper

employee education. Even if this comes at a cost, they should have done so. I was previously at Nomura, so I am very disappointed and, at the same time, I also regret the inconvenience this is causing to all related parties.

This time, Securities and Exchange Surveillance Commission (SESC) advised to issue an order for a monetary penalty on First New York Securities of the US. As you all know, today, there is a clampdown on insider trading not only in Japan but worldwide. Recently, there have been a series of cases in the UK and Sweden. In the US, there have been very stringent checks since around 2011. Only the other day, Rajat Gupta formerly of Goldman Sachs and once the managing director of McKinsey, was found guilty. Of course, the case continues. The person at the root of this case, Raj Rajaratnam was sentenced to prison for 11 years and fined 92.80 million dollars, the largest ever fine for an individual. We can see that the US is seriously taking strict measures against insider trading.

Acts of reaping profit through unfair trading and offering others help in doing so are not tolerated. There were problems at Nomura, of course, other securities companies and also related parties. We all need to take this issue seriously together.

As for us at TSE, the market surveillance and other divisions of our self-regulatory arm will need to communicate with JSDA and the authorities and take appropriate measures.

I believe you all know that we have immediately gone about developing rules for rights offerings. However, we did not see a clear indication from Japanese securities companies, which conduct underwriting business, wanting to take on some risk or seek rights offerings from issuers on the back of dwindling income. This strikes me as highly disappointing. If we bear the responsibility for maintaining a clean market, then it should not be just the exchanges and authorities collaborating, but all of us working together for the cause.

I think there is a common stance on this. Nomura will be conducting an internal

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inquest and I understand that there will be an update around the end of June, so we will be looking at that closely.

Q: In relation to the insider trading issue, is there any thoughts on making the current process at the self-regulatory body more stringent than what it is now?

A: At this point, I do not think TSE Regulation is thinking about writing new rules or making them stricter, and I have not heard of plans to do so.

However, this is a crime and an infringement of the law, so I think this is a problem that goes beyond self-regulatory operations.

Q: Please share your view on the global economy now that the Greek re-election has ended.

Based your outlook, please also share with us how you see your business combination, your new journey, whether it will face headwinds, or whether due to the circumstances, it will be necessary to reconsolidate the financial market in Japan.

A: I think the Greek situation was halted on the verge of the worst possible scenario. However, as reported by media agencies all over the world, as long as the fundamental problems inherent in Europe are not resolved, it will take quite some time until such problems are completely eradicated.

What this means is that, even though there is a single currency, the individual countries have their national fiscal policies. As such, the best way would be for progress on fiscal union for the entire Eurozone. Without this, there will be policy imbalance. Every nation will put their interests first and it will not benefit all of Europe.

Therefore, I think you already know the solution to the problem, a Eurozone bond. However, in Germany this was ruled as a breach of the constitution and

such a bond will be difficult to achieve.

As for why this is a breach of the constitution, it's an issue of sovereignty. If all the nations are able to reach a point where they all agree to give up sovereignty, the EU would then be a truly remarkable union. Now there is the G20 summit followed by the meeting of European heads of state and finance ministers. A series of meetings are lined up heading into the end of the month.

The US does not want this European problem to reach their shores. We are the same and this sentiment is also strong among countries in Asia, such as China. I believe Europe will face a great amount of pressure in the G20 and other international meetings.

In Europe, the problem lies with Germany, so how it will unfold will hinge upon how far they are able to come up with a conciliatory response. While it may be going too far to say that Germany made use of the weak euro since it may have just been by chance, but Germany's exports have been very strong. Even though some clouds have gathered recently, the German economy still remains strong. Its position on this situation is clearly unacceptable.

Even if we look at yesterday's stock market, Germany and the UK remained in positive territory while others plunged. In particular, the Spanish interest rate reached 7.3%. Under these circumstances, I'm surprised that they went on to announce yesterday their bad debt ratio is around 8%. When I started at the Industrial Revitalization Corporation of Japan, Japan's bad debt ratio was 8.3%. When I was finished, it had been reduced to the 3% level. It took 4.5 years. If an all-out effort is made over 4.5 years, 8% or 9% of bad debt can be dealt with.

There is no need to get emotional in coming up with a response. A calm approach would suffice. If we try to be extremely positive, with the circumstances ultimately resulting in a Eurozone bond issue, then it would be a truly remarkable EU. The euro market would be revived instantly. Of course, it would be a burden to Germany, but it would be an extremely positive

development for the entire Eurozone.

With the G20, the EU finance ministers meeting on June 22nd, and the meeting of the European head of states on June 28th and 29th, I hope some issues will be cleared up.

With regard to your other question, our business combination is not just about the market. For example, Hong Kong Exchanges and Clearing won the bid for LME. I think the decision by their CEO Charles Li to make them into a gateway linking China to the metal market was made with perfect timing.

Even though it is not reported often in the press or media, a battle rages on every day in the capital markets. It is a battle for national supremacy. How a capital market is positioned is extremely important. This takeover is a case of Asia's most profitable market operator snatching at a weakness in Europe and entering the market. We should also be thinking along the same lines, but first we want to complete our combination with Osaka.

As such, our business combination with Osaka is not one along the lines of the current trend in the global economy.