Notes on Media Briefing by Atsushi Saito, President & CEO, Tokyo Stock Exchange Group, Inc. on December 18, 2012

1. Forecast of Consolidated Financial Results of Japan Exchange Group, Inc. for the FY ending March 31, 2013
2. Looking back at 2012

1. Forecast of Consolidated Financial Results of Japan Exchange Group, Inc. for the FY ending March 31, 2013

Please look at the handout. On December 11, last Tuesday, FSA (Financial Services Agency) approved the listing of JPX on the TSE First Section. As planned, JPX will be listed on both the TSE First Section and JASDAQ from the year's opening session on January 4. As we look forward to the listing, today, I would like to give a presentation on the consolidated earnings forecast of JPX for the current fiscal year ending March 2013. Please refer to the handout.

The following consolidated earnings forecast is the sum of the consolidated forecast of TSE Group for the period from April to the end of December 2012 and the consolidated forecast of JPX for the period from January to the end of March 2013, in accordance with accounting rules. As such, the interim results of OSE for the first half of the current fiscal year (April to September 2012) are not considered in the forecast.

The consolidated earnings forecast is ¥62.5 billion in operating revenue, ¥11 billion in operating profit, ¥13 billion in ordinary profit, and ¥7 billion in net income. This consolidated earnings forecast is based on the assumptions that the daily average trading value of stocks on both the TSE and OSE markets in the current fiscal year is ¥1.2 trillion, a decrease of 10% from the previous fiscal year. The assumptions for derivatives trading are a 20% rise for 10-year JGB futures to 35,000 contracts, and 5% growths from the previous fiscal year for both TOPIX futures and Nikkei 225 futures (including mini contract trading volume converted to large-sized contracts), at 60,000 contracts and 127,000 contracts respectively. The trading value of Nikkei 225 options is projected at ¥17.5 billion, down 7%.

It is not possible to do a straight comparison of the operating revenue forecast with results from the previous fiscal year, so we have taken the sum of the earnings of TSE and OSE in the previous fiscal year and compared this with the sum of OSE's results in the first half of the current fiscal year and the consolidated earnings forecast of JPX. The operating revenue in the current fiscal year is ¥73.2 billion, a decrease of about ¥2.2 billion or 3%.

A similar comparison of operating profit shows a decrease of about ¥3.1 billion or 18% from the previous year, mainly due to factors such as costs from "goodwill amortization" expected to come to about ¥1.4 billion and the accelerated depreciation of the current IT system in consideration of the system integration which is planned in the next fiscal year. The consolidated net income for the current fiscal year will decrease by ¥2.8 billion or 23% due to extraordinary losses from merger costs.

Our dividend payout policy is to target a payout ratio of approximately 40% as we had announced before. Currently, we are planning to pay out ¥50 per share in dividends. This concludes my presentation on the earnings forecast. I will now move on to the next topic.

2. Looking back at 2012

As this is the last media briefing session for the year, I would like to take this opportunity to take a brief look back at 2012.

Uncertainties clouded the outlook of the world economy throughout 2012. The European debt crisis repeatedly threatened amid periods of brief respite, and the region's real economy remained sluggish. The business climate seemed to be on track to recovery but we did not see a full-fledged one in the US, where the fiscal cliff cast a shroud over investor sentiment and corporate activities. It was also difficult to assess the extent of the economic slowdown in China, which has deep ties with Europe.

Japan was initially expected to return to normal this year after the earthquake. Its economy was expected to grow more than 2% with considerably improved corporate performances partly due to the huge demand from reconstruction. However, in the latter half of the year, the economy lost momentum, affected by developments such as

excessive yen strength due to the rekindling of the European debt crisis since May, downturns in other economies, a trade imbalance fuelled mainly by energy imports, and tension with China. In the OECD growth forecast released the other day, Japan's growth rate was cut to 1.6%.

In addition to the flagging economy, financial institutions were rushing to respond to the new financial regulations such as the Volcker Rule, Dodd–Frank, and Basel III. They were transforming their business models and reducing risk assets. This resulted in an overall conservative investor mindset, which in turn led to significantly lower levels of liquidity in securities markets worldwide. Thus, 2012 has been very difficult in comparison with last year.

According to statistics released by the WFE (World Federation of Exchanges), of which we are a member, the total trading value in all exchanges throughout the world during the period from January through November this year had dropped to 80% of last year. This does not even reach 50% of pre-Lehman Shock levels. The trading values of leading exchanges like NYSE, NASDAQ, LSE, and Shanghai Stock Exchange had declined by 20% to 30% on a year-on-year basis. Looking at this situation, TSE may have fared better, suffering a decline of only 15%.

In the Tokyo market, where overseas investors account for nearly 70% of trading, it was natural that their sentiment had an effect on the market. When there was monetary easing, their appetite for risk increased, and stock prices rose while the yen declined. However, when the effects of monetary easing faded or the European debt crisis flared up again, risk aversion became increasingly evident, which led to falling stock prices and yen gains. In my view, this is how the market turned out this year.

From the beginning of 2012 through March, central banks such as the ECB, FRB, and BOJ launched easing measures one after another. The yen depreciated considerably from ¥76 to ¥82 against the dollar, and from ¥99 to ¥110 against the euro. Amid growing expectations for a recovery in corporate results, TOPIX reached 872 points on March 27, the record high for the year, while the Nikkei average climbed to ¥10,255. Meanwhile, overseas investors were net buyers of Japanese stock by ¥1.2 trillion.

Afterward, concerns over Europe returned to trigger yen appreciation to the ¥77-level against the dollar, and to the ¥94-level against the euro. After falling to a year-low 692

points on June 4 (the Nikkei average fell to ¥8,238), TOPIX remained between 700 to 750 points (the Nikkei average fluctuated between ¥8,000 to ¥8,500). Overseas investors were net sellers by ¥700 billion from May through to September when the ECB launched an unlimited government bond purchase program and the FRB announced QE3.

Overseas investors were net buyers again after September's easing measures, but then an incident triggered problems in Japan's relationship with China. The stock market fell until mid-November, when Mr. Abe (Liberal Democratic Party president) expressed his intent to take bold monetary measures to stimulate the economy. So far, overseas investors have been net buyers by more than ¥700 billion since September.

While we also welcome overseas investors and short-term investments, the important thing in price formation is to have a variety of investors with different investment decisions participating in the market. This is why we launched the "+You" project to promote Japanese stocks and encourage long-term investments on the basis of a better and more accurate understanding of Japanese companies and the Japanese economy. Under this project, we've visited more than 70 venues in Japan, as well as 5 countries overseas. We will continue to make efforts to encourage long-term investments and reach out to domestic investors.

Next, I will talk about a rather negative issue that must be mentioned in any review of the market this year. I am referring to the series of irregularities involving insider trading based on confidential information leaked from major securities companies. These cases were highly regrettable and caused great damage to the trust in the Tokyo market. From an overseas perspective, these irregularities significantly undermined trust in the TSE market. To recover lost trust, besides the various measures already taken by FSA, Japan Securities Dealers Association, and exchanges, amendments to laws to strengthen the regulations against insider trading are being discussed at the Financial System Council.

Finally I would like to end off with some brighter news. First is IPOs. As many of you have already reported, the figure is expected to reach 48 companies, 11 more than last year. I am also delighted to see many of these companies receiving high valuations after listing on the market. In particular, the number of IPOs on Mothers this year will be 23 companies, twice as many as last year. We are starting to see the effects of our efforts

such as the rule revisions in March last year to invigorate Mothers and activities to attract listings. Some of these companies may be transferred to the First Section early next year. I hope that the transfers of high growth companies to the First Section will bring greater vibrancy to the overall market.

There are also an increasing number of IPOs of companies based outside Tokyo. We made efforts such as the rule revisions in March this year aimed at invigorating IPOs by small- and mid-sized companies as well as activities to support such companies. These efforts are gradually beginning to bear fruit.

The fact is that out of the leading nations, IPOs are only increasing in the US and Japan. Markets which welcomed many IPOs in 2010 such as London, Shanghai, Shenzhen, Australia, and India are all seeing significant declines. I think that the IPO boom in Japan will continue and we will see even more companies going public next year. With so many candidate companies preparing for IPO, we, as JPX, will continue to encourage this trend.

In all, the number of newly listed companies on the TSE market in 2012, including those that switched their listings from other venues, will be 60. This means that we will be able to achieve the annual target of 60 IPOs set out in the Medium-Term Management Plan about 15 months ahead of schedule.

Besides IPOs, we welcomed a new REIT in April, the first REIT listing in four and a half years. This led a total of 4 REITs listings this year, including the large-scale listing planned for Friday this week. They draw attention due to their high 5% yield, but the Tokyo market is also gaining interest among foreign issuers as the "only market in Asia where an issuer can come to raise funds in the region of ¥100 billion." The amount of funds which Japan Airlines raised though re-listing also became a topic of discussion all over the world. There are not many markets today where one can raise several hundred billion yen all at once. As such, many are taking a fresh look at the Tokyo market.

In this context, GLP J-REIT, a real estate trust of logistics properties, backed by Singapore's Global Logistic Properties Ltd, is seeking to raise more than ¥100 billion in its initial public offering this Friday. Companies from Singapore are also coming to raise money in Japan. I want you to understand that there has been this tectonic shift in the market.

The amount of funds available in Japan stands out from that in other markets and we are constantly thinking of how to channel this money to the industries. The TOKYO PRO-BOND Market is the result of our painstaking efforts. Although this scarcely gained any attention from the media, there are currently three listed bond issuance programs, that of ING Bank of the Netherlands, the UK and Netherlands group subsidiaries of Nomura Holdings, and Korea's largest mobile service provider SK Telecom, bringing the total amount of issued debt to ¥4.6 trillion.

ING Bank also has three individual bond issues, raising a total of about ¥230 billion. On top of this, tomorrow it will be issuing two yen-denominated bonds (a fixed rate 3-year bond: ¥164.5 billion, and a floating rate 3-year bond: ¥11.4 billion) on TOKYO PRO-BOND Market. With a combined value of ¥175.9 billion, this is not only the year's largest yen-denominated foreign bond issue, but also the largest issue of samurai bonds by a European financial institution in history.

These cases suggest that the potential of the Japanese market is being appraised overseas. Although Japanese business persons are not aware of its potential, I really hope that Japanese companies will use TOKYO PRO-BOND Market, where raising money in currencies other than yen is also possible. Companies from Hong Kong or Korea can come to raise funds in Japanese yen. My wish is to develop TOKYO PRO-BOND Market into a leading Asian bond market, where even blue chip companies from Indonesia, the Philippines, or India can issue bonds to raise money.

Let’s move on to another low profile topic. As I had mentioned in the previous briefing, Japan Securities Clearing Corporation (JSCC) started clearing yen-denominated interest rate swaps (IRS) since October, adding it to its list of clearing services.

In just two and a half months, open interest of IRS cleared by JSCC has surpassed ¥50 trillion. JSCC has overtaken CME of the US, which is the pioneer in interest rate swaps, and SGX of Singapore, which is often highlighted in the media, to become the second largest clearinghouse in the world, behind only LCH Clearnet. When we started this service, we had a rather conservative projection of about 100 transactions per day. Recently about 200 transactions are cleared daily, exceeding ¥3 trillion in obligation assumption value.

We started this service with the idea of exploring the field. I'm really glad that now it is being highly appreciated by major financial institutions, both domestic and foreign. The worldwide trend of expanding the functions of clearinghouses has turned into a global race. From another perspective, this is also what we have been asked to do in the national interest.

The G-20 nations led the formation of a consensus toward improving the transparency of over-the-counter (OTC) instruments. However, Japan may be the only nation which went on to actually do as promised. The deadline was the end of 2012. The US has obviously been making efforts, but other nations still have nothing to show for theirs. Japan was the first nation to start providing such services, which we developed in collaboration with FSA.

While the market has been sluggish this year, there have also been bright spots in IPOs, REITs, and bonds on the issuer side, as well as mounting expectations for the new LDP (Liberal Democratic Party) administration in the market. In addition to easing measures, the new administration should proceed with the structural reforms or develop growth strategies to raise Japan's growth potential and bring about sustainable economic growth.

I want to highlight that it is important to revitalize the financial sector so that our nation will rise again. Although you may not agree with the idea, history shows us that many nations got out of the doldrums and rose again to power by first revitalizing their financial sectors. Once the money gets going, this activity will bring vitality to the industries. This will trigger a virtuous cycle to drive the economy. This is what I ask of the new administration.

Q&A

Q: I have two questions. TSE and OSE will merge next month, and the earnings forecasts have just been presented. I would like to take this opportunity to hear about your ambitions for the new company. This is my first question.

A: As I have talked about in previous briefings, the purpose of the business combination has been quite clear from the very beginning. In contrast to the drastic

financial innovations or reforms going on in other parts of the world, especially in neighboring Asian countries, Japan is always one or two steps behind. If this situation continues, it will become a problem in the future. This is why we decided to create a market that is competitive at least in Asia. If you are competitive in Asia, then you'll be able to compete anywhere. In the future, Asia will be the epicenter of the global economy, in terms of the amount of money and economic size. The purpose of this merger lies in the creation of a market of some importance in Asia.

It follows that we will look to create a highly convenient market. We want to build an exchange that considers costs and, at the same time, the convenience of market users. We are determined to proceed with the integration of JPX, aggressively, putting aside our differences from the past rivalry between Tokyo and Osaka.

Q: In the general election held the other day, voters expressed very strong dissatisfaction with the DPJ (Democratic Party of Japan) which had been in power for more than 3 years. What do you think about this result? At the same time, expectations for the new Abe administration are mounting in the market. What do you expect the new administration to do specifically regarding the revitalization of the financial sector, which you mentioned earlier?

A: Regarding the DPJ, I have nothing to add to the judgment of the voting public. On the other hand, I hold great hope for the new administration. For almost three years, growth in the Japanese economy stalled. If we cannot find a breakthrough to this situation, there will be no future for this country. What I do want the new government to do with their strong mandate is to boldly implement necessary policies, even if they are unpleasant to voters.

Under the prevalent election system in Japan, politicians are not willing to say things that are unpleasant to voters. Voters also do not have the sense to listen carefully to unwelcome but necessary words from politicians. This may be a cost of democracy. With the overwhelming majority the LDP have in the Lower House, if it wins the majority in the Upper House in next year's election, the LDP can stay in power until 2016. The important point is that the political situation will be stable for 4 years.

With political leaders changing so frequently, the image of Japan suffered in the international community. I even think that the stature of Japan itself was doubted. Although instability in Japanese politics has been a problem even before the DPJ came to power, I really hope to see stable government for the next few years. Of the 4 years in power, an administration can use the first 3 years to implement well thought-out strategies for the future of the nation and launch policies which may be necessary but unpleasant to voters. They will not be able to do so in the fourth year ahead of the coming election. This is common in almost all democracies. Even past presidents of the US implement severe policies in the first 3 years of their terms. As such, I hope to see the same from the new LDP administration.

Regarding the consumption tax rate, the LDP won the Upper House election in 2010 with a campaign that promised to raise the rate to 10%. In this context, the new administration should not hesitate no further. They should have the courage to do what they said they would. Even under the former administration of DPJ, voters seemed to support this move, and seemed ready to bear the burden. So it's the responsibility of the new government to do it with courage.

Although it is not a magic wand, the consumption tax hike will, first and foremost, improve the confidence of overseas investors in the Japanese economy to a considerable degree. What they are concerned about is the fiscal debt of ¥1,000 trillion, which is equal to 200% of Japanese GDP. The most important thing is to send out the message that Japanese people are ready to bear the pain to deal with this problem.

Another topic I want to pick up today again is the rank of Japan in terms of per capita GDP. Around 1990, Japan had constantly been third in the world, but it fell sharply after that to 23rd at one time. Currently it is hovering around 17th in the world. Meanwhile, the Scandinavian nations and Switzerland have always been the leaders, with the United States coming in around 10th. Singapore overtook Japan in 2007, and currently ranks far ahead of Japan at 12th.

In my view, Japan should simply and humbly learn how these nations have succeeded. Looking to these nations, we should ask ourselves, "What do we lack?" and then learn from their success. It might even be good to copy them up to the halfway point. History tells us that nations which succeeded in rapidly modernizing

themselves did it by learning from other nations, or importing successes from other nations rather than doing something original. This has been the case of China, Korea, and even Japan itself.

How about having a Singapore in Tokyo? Although some may get angry at this idea, I think it would be interesting to make Tokyo's Chuo ward into a special zone which models itself on Singapore. I understand that there may be a lot of opposition. Some may say, "Why do we give foreigners such advantages?", or others may ask, "Do you have any idea of the proper tax system for this at all?" I believe the ripple effect of something like this would be really tremendous, spreading from Tokyo and Yokohama, the Tohoku region, to Osaka.

Once such a long-term vision is established, there should not be contrary ideas such as short-term increases in rates for venture businesses or securities taxes. Such measures will only serve to stem the inflow of risk money. Taxes must be low. Once risk money flows in abundance to the market, the pie will become larger. Then, for example, a rise in real estate prices or more jobs in the sector will result in greater tax revenue.

Look at Hong Kong and Singapore. They enjoy higher GDP growth rates with tax rates of 16%, 17%. Even their absolute annual growth is larger than that of Japan. This shows us that lower tax rates do not necessarily lead to lower tax revenues. On the contrary, their governments are actually getting richer. Of course, I also admit that there is a limit to low taxes. For an appropriate tax regime, there must be a balance as well as micro-level policies.

For example, the minimum taxable income is rather low in Hong Kong. The system imposes taxes on almost everyone. As for its securities tax system, there are taxes on trading in Hong Kong. I don’t mean to say that 16% or 17% tax on everything is the best way to go, but rather than a corporate tax rate of about 40% or a securities tax rate of 20%, more effort should be given to thinking about a stimulus.

Let me add one final thing to my answer. As you know, a lot of Chinese companies are delisting from NYSE. According to some sources, US funds seem to be shifting to Japan as a result of this trend. They seem to have recognized that there is a significant amount of legal risk involved in investing in the stocks of Asian or

Chinese companies. In this context, the Japanese market is familiar and easy to understand because we generally share the same rules as those in the US or Europe.

There are many Japanese companies doing business in Asia. It is not an exaggeration to say that the growth of the Japanese economy depends on Asia. To take another perspective, they can invest in future Asian growth by investing in Japanese companies. They want to make investments in Asia, which is an unfamiliar market where some unforeseen risk may lurk. This explains a growing tendency to buy or include Japanese stocks in their portfolios to adjust or bolster them.

Please also think about the reason behind the rising real estate prices in Tokyo. There was a time when many foreign companies moved their branches from Tokyo to Hong Kong or Singapore. They haven't returned. What we are observing today is a trend among foreign companies to set up new offices in Tokyo, whether it is a second office or, in case of the finance company which is an affiliate of a major U.S. electronics manufacturer, a site in Tokyo to manage its Asian operations. Although this is only sporadic, we have to make efforts to accelerate it. I really want the new government to do something about this.

Q: Let me ask another question related to the topic of the Japanese economy. The new Abe administration is leaning toward taking aggressive monetary easing policies under an accord with the BOJ, which is planning to hold a monetary policy meeting from tomorrow. How do you see the relation between the Abe administration and the BOJ and how should they develop this relationship?

A: I haven't heard directly from Mr. Abe about this matter, but I believe that, having been prime minister before, he will act pragmatically, considering various aspects thoroughly before implementing any measures.

Q: You talked about Japan's economic ties with Asia. The market seems to be paying close attention to the sort of diplomatic policy the new government will take toward improving bilateral relations with nations, especially China, even considering it a risk factor. What is your opinion on the foreign policy which the new government will take towards China and Asia, considering the available information such as

their campaign pledges?

A: I read a short article about this yesterday. As Mr. Abe responded to questions from a journalist, I felt that the tone was largely different from what he had been saying during the election campaign.

Currently, relations between Japan and China have been drawing a lot of attention. No one in the world, not even Japanese or Chinese, will think that the tensions between the two nations are good.

As we all know, the whole world has been having mature discussions on the issue, recommending that both nations keep the peace in some way. To this, Japan should also respond in a mature way. I am not saying that it is OK for us to lose a part of our territory. This would be absurd, so I'll leave it at that.

History teaches us that conflicts or wars which could have been avoided ignite suddenly from trivial incidents in situations where the parties concerned had been unable to engage in frank and open dialogue. The conflict in the Middle East is one of many such examples. As both Japan and China have already learnt its lessons from history, I think that not only Japan but also China should make efforts to find a way which satisfies the interests of both parties.

Let me take this chance to talk about my recent week-long trip around Asia. In India, Vietnam, Myanmar, Singapore, and Malaysia, I was struck by the astonishing scale and speed of infrastructure projects in progress. Most of these projects are being conducted using Japanese technology, in particular, small but indispensable technologies of Japanese SMEs, as well as those of big enterprises. Although we are not aware of those technologies or their SMEs, my experience evoked a strong sentiment that Asia would not have grown without those technologies. You might think that this is an exaggeration, but this is the impression I got.

I guess this had been the case in China, too. The same could probably be said about Korea. I learnt about this from a book published recently which analyzes how Korea developed to become what it is today. Of course, the core effort came out of Korea itself. However, Japanese technologies or Japanese engineers were involved in almost every aspect of its modernization. This is a good thing. This is how things

should be.

So, we, Japanese should have more confidence in our nation, in ourselves. We should not dwell on tiny issues, but instead look to provide money and technology to all of Asia. In the end, this will make Japan an even more prosperous nation.

Q: Let me ask about the share price of OSE. Recently, it rose considerably. How do you see this large gain? Does this reflect market expectations for future JPX growth? Or is this a technical issue? People have varying views on this. What's your view?

A: This is a difficult question to answer. JPX will be listed from January 4, and I will be its CEO so I should not comment on the share price. I'm sorry, but I am afraid I cannot answer your question.

Thank you.