Japan Exchange Group

Update of Medium-Term Management Plan for FY2013 to FY2015

Your Exchange of Choice

April 28, 2014

01 Highlight – Update of the Medium-term Management Plan –

Update of Core Strategies

- Steady progress is being made toward the “Creation of a New Japanese Stock Market,” “Expansion of the Derivatives Market,” “Expansion of Exchange Business Fields,” and “Early Realization of Integration Benefits.”
- With major overseas exchanges actively seeking to incorporate Asian growth into their business, the expansion of JPX’s initiatives toward Asia is a matter of urgent importance.

- JPX is working to expand its business fields through important initiatives, including the “Spread and adoption of JPX Nikkei Index 400,” “Promotion of IPOs,” and “Expansion into commodity fields.”
- JPX is implementing its Asian strategy primarily targeting the ASEAN region, while also closely monitoring trends in China.

Update of Management and Financial Goals

- Operating profits rose greatly due to active market conditions last fiscal year. Equity trading volume estimates for FY2015 were upwardly revised due to JPX steadily expanding its business platform.
- The integration of overlapping systems to reduce costs is making steady progress.

- Operating revenue for FY2015 was upwardly revised alongside the revision of trading volume from JPY 90.5 billion to JPY 97.0 billion.
- While JPX is maintaining its JPY 8.5 billion cost reduction target, it has also specified additional costs related to measures added after the original plan's release.

02 Overview of Medium-term Management Plan(FY2013 – FY2015)

Positioned as the first 3 years of JPX's plan to become "the most preferred exchange in Asia"

This plan was formulated as a core strategy to fulfill both JPX's responsibility to shareholders and its social responsibility of supporting Japan's capital market as the single "Japan Exchange"

Key 1

Creation of a New Japanese Stock Market

Using the opportunity provided by the market integration, re-envision the Japanese stock market as one that develops with the Asian economy

Improve Appeal of Japanese Stocks

- Develop new stock indices
- Improve corporate governance
- Renew arrowhead
- Revise tick sizes/trading hours
- Propose policies to improve market functions
- Expand ETF/REIT products

Promote IPOs

- Support company growth through IPO promotion

Key 2

Expansion of the Derivatives Market

Combine the trading infrastructure and marketing capabilities of both TSE and OSE and promote ourselves as a comprehensive exchange to become a top-class Asian derivatives market

Comprehensive Exchange/ New Product Development, etc.

- Expand into commodity derivatives fields
- Enrich product lineup
- Dynamically improve rules coinciding with integration
- Plan for next generation derivatives system

Key 3

Expansion of Exchange Business Fields

Realize the diversification of our revenue streams mainly through expanding our OTC clearing business to become the most preferred destination for investments in Asia

Expand Clearing Business

- Increase use of OTC derivatives clearing

Prepare New Product Platforms

- Realize a Listed Infrastructure Market
- Invigorate the Pro-Bond market

Early Realization of Integration Benefits

Promptly and smoothly integrate market functions and systems, promptly realize synergies (cost reduction, etc.), and establish a more efficient and creative corporate culture

Asian Strategy (Create business opportunities in Asia)

Updated Items

03 Medium-term Management Plan 1st Year Progress

Key 1 Creation of a New Japanese Stock Market

Average daily trading value for stocks rose greatly to JPY 2.9 trillion in FY2013. There were 4 more IPOs than the previous year, for a total of 56. ETF trading value rose to the top in Asia.

- Tick size optimization for highly liquid issues (Jan. 14, 2014)
- Launch of JPX-Nikkei Index 400 (Jan. 6, 2014)
- Continuous activities to attract IPOs to support company growth

Key 2 Expansion of the Derivatives Market

Derivatives trading volume saw a large increase to 360 million contracts in FY2013. JPX's global ranking for trading volume rose to 14th (total for TSE/OSE ranked 17th in the previous FY).

- Trading hours extended for all derivatives products to 3AM after the market integration (March 24, 2014)
- New products listed, including CNX Nifty futures and 20yr JGB futures

Key 3 Expansion of Exchange Business Fields

Obligations outstanding for yen-denominated Interest Rate Swaps rose to JPY 718 trillion at the end of March 2014 (JPY182 trillion at end of March 2013)

- Client clearing was newly offered as a new service aimed to expand use of IRS clearing (Feb. 24, 2014)

Early Realization of Integration Benefits

The integration of the cash equity and derivatives systems and consolidation of business functions was completed in March 2014.
Steady progress is being made on the integration of group-wide rules and infrastructure.

04 Core Strategy 1 "Creation of a New Japanese Stock Market"

1 Creation of a New Japanese Stock Market

Uncertainties regarding Future Market Conditions

Despite the large improvement in the Japanese stock market's performance last year due to recovering corporate performance, rising expectations from domestic/overseas investors, and the selection of Tokyo for the 2020 Olympics, recent international conditions developments have caused insecurity over the market's future.

JPX must pursue initiatives with a sense of urgency, without being swayed by the external environment.

Pro-actively Support Adoption of JPX-Nikkei 400

JPX will engage in initiatives to increase awareness of the new index's attributes and merits and improve its penetration through society with the aim of increasing recognition and promoting use by public pensions, etc. [FY2014]

Promote IPOs

JPX will further support new listings to accelerate the provision of growth funds via the capital market, with the aim of supporting the Japanese economy's recovery.

Initiatives to Expand Trading Hours

JPX will make a decision on whether to expand trading hours based on the discussions of the "Round Table regarding the Extension of Trading Hours."

Propose policy from a market-based perspective

Based on the discussions of the government's "Panel for Vitalizing Financial and Capital Markets" last year, JPX will propose specific policies toward revising current regulations and tax rules, and positioning the Tokyo market as an international financial center. [FY2014]

Enhancement of Corporate Governance, Promotion of IFRS

For the improvement of attractiveness of Japanese stock market from domestic/overseas investors' perspective, JPX will enhance the improvement of corporate governance of listed companies and promote the use of IFRS.

05 Core Strategy 2 "Expansion of the Derivatives Market"



Expansion of the Derivatives Market

Major Exchange Focus on Derivatives / Growing Interest in Asian Expansion

Major exchanges are increasingly focused on the derivatives business. M&As and other activities aiming to respond to growing commodity derivatives needs in Asia are also on the rise.

Measures to expand the derivatives market, including expanding into the commodities field, are required.

Expansion into Commodities Field

JPX will continue coordinating with related organizations to plan for expansion into the commodities field.

Grand Design for Next Generation Derivatives Market

JPX will select a developer for the next generation derivatives system. [Summer FY2014]

JPX will determine what products and rules will be introduced at the new system's launch. [mid-FY2015]

Listing of New Derivatives Products

JPX-Nikkei 400 futures will be listed. [Fall 2014],

JPX will develop products to meet OTC market needs.

Promotion of Increased Trading by Domestic Institutional Investors

JPX will enhance promotional activities using TSE/OSE's client network and know-how to encourage increased trading from domestic institutional investors. [FY2014]

06 Core Strategy 3 "Expansion of Exchange Business Fields"



Expansion of Exchange Business Fields

Entry of Overseas Clearing Houses into Japanese OTC Derivatives Clearing

While JSCC has secured its presence in yen-denominated interest rate product clearing to a certain extent, overseas clearing institutions are also weighing entry into Japan to develop businesses in the same field.

Enhancing the competitiveness of yen-denominated interest rate OTC derivatives clearing is of urgent importance.

Expansion of OTC Derivatives Clearing Usage

In response to the entry of overseas clearing institutions into Japan, JPX will further establish and expand yen-denominated Interest Rate Swap (IRS) trading via cross-margin for yen-denominated interest rate products. JPX also plans to introduce clearing of foreign-denominated IRS as well. [FY2015]

Asian Strategy - Create Business Opportunities in Asia -

Continuing Asian Growth

Despite concerns of economic slowdown in emerging countries, Asia remains positioned to be an engine of global growth for the medium-to-long term, with many major exchanges seeking to harness that growth.

With ASEAN as its main target, JPX must fully implement its Asian strategy while monitoring trends in China.

Support for Establishment of Stock Exchange in Myanmar and Expansion into Surrounding Countries

The operations company for Yangon Stock Exchange will be established and start its operations. [by Fall 2015]

JPX also will leverage its success in Myanmar and extend support in surrounding countries.

Listing of TOPIX ETFs and Futures, etc. on Asian Exchanges

JPX will realize the listing of TOPIX ETFs and futures, etc. on Asian exchanges to secure order flows from Asia and increase the prominence of the Japanese market within the region.

Fund Provision through the PRO-BOND Market

JPX will promote the listing of bonds issued under sovereign guarantee programs for developing countries and strengthen promotion efforts towards Asian issuers and professional investors.

Fund Provision through the Infrastructure Fund Market

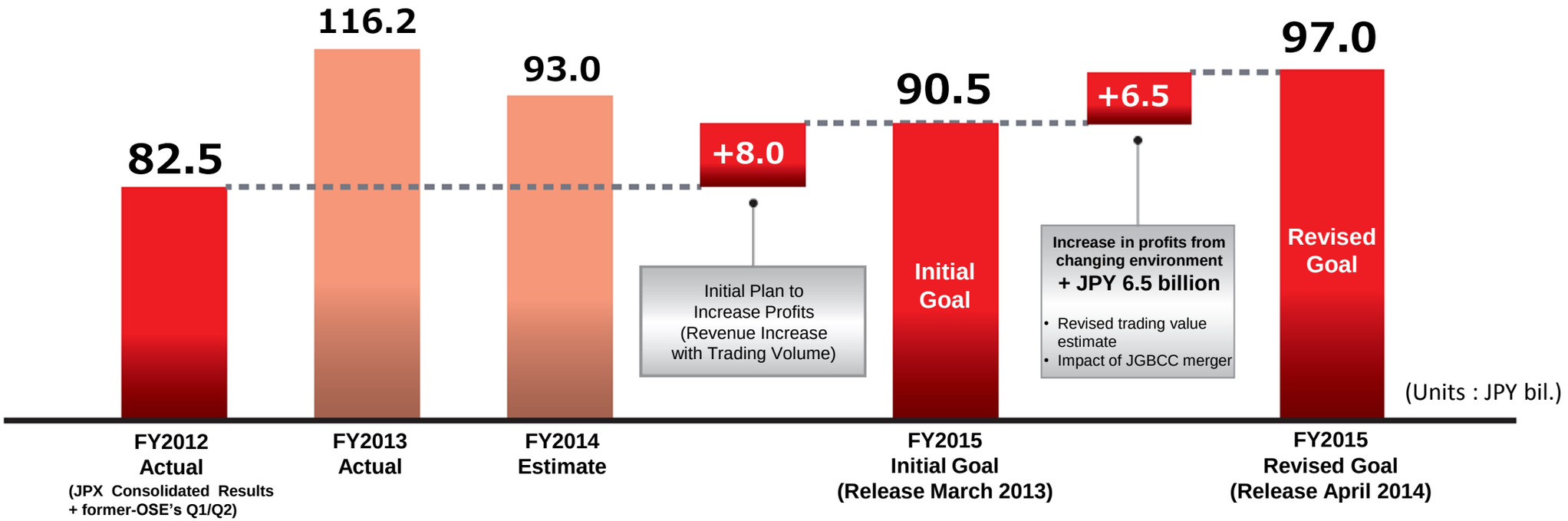
JPX will open a Listed Infrastructure Market【FY2014】, and work toward the first listing【By end of 2015】

JPX will strengthen promotion beyond domestic efforts toward the listing of funds from Asian issuers.

08 Revised Goals for FY2015 Operating Revenues

Revised Estimates for Average Daily Trading Value/Volume

	FY2012 (Actual)	FY2013 (Actual)	FY2014 (Estimate)	FY2015 (initial Estimate)	→ FY2015 (Rev. Estimate)
Stocks (Auction/Off -Auction Market)	JPY 1.6 trillion	JPY 2.9 trillion	JPY 2.1 trillion	JPY 1.7 trillion	**JPY 2.1** trillion
TOPIX Futures	68,200 contracts	94,000 contracts	104,000 contracts	104,000 contracts	**115,000** contracts
Nikkei 225 Futures (Large & Mini Total)	153,000 contracts	218,000 contracts	211,000 contracts	217,000 contracts	**234,000** contracts
Nikkei 225 Options	JPY 23.5 billion	JPY 40.0 billion	JPY 35.5 billion	JPY 47.0 billion	**JPY 41.0** billion
(Derivatives contracts)	(260 million contracts)	(360 million contracts)	(340 million contracts)	(400 million contracts)	(400 million contracts)



09 Revised Goals for FY2015 Operating Expenses

<Cost Reduction from Integration JPY -8.5 billion>

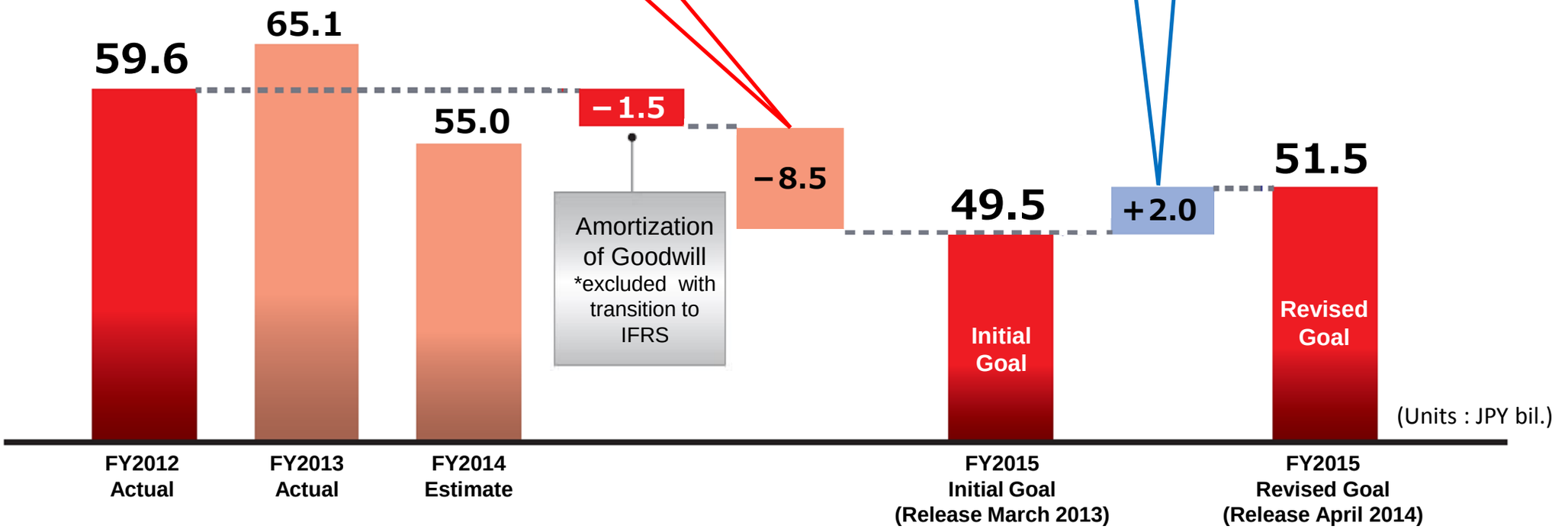
Steady progress on system integration

① System-related Cost Reduction: **Goal JPY 7.0 billion**

② Other Cost Reductions: **Goal JPY 1.5 billion or more**
(Revised facilities, efficient operations, etc.)

<Increase in Expenditures due to Environmental Changes JPY +2 billion>

Impact of JGBCC's merger with JSCC and expanding arrowhead capacity in response to increased trading, etc.



(Note) Due to the scheduled adoption of IFRS from the end of FY2014, "amortization of goodwill" will be excluded from operating costs in FY2014 and FY2015.

10 Management and Financial Goals

Management and Financial Goals

	FY2012 (Actual)	FY2013 (Actual)	**FY2014 (Estimate)**	**FY2015 (Revised Goal)**	(Ref.) FY2015 (Initial Goal)
Operating Revenues	JPY 82.5 bil.	JPY 116.2 bil.	**JPY 93.0 bil.**	**JPY 97.0 bil.**	JPY 90.5 bil.
Operating Expenses	JPY 59.6 bil.	JPY 65.1 bil.	**JPY 55.0 bil.**	**JPY 51.5 bil.**	JPY 49.5 bil.
Operating Income	JPY 22.8 bil.	JPY 51.1 bil.	**JPY 38.0 bil.**	**JPY 45.5 bil.**	JPY 41.0 bil.
Net Income	JPY 12.9 bil.	JPY 29.8 bil.	**JPY 24.5 bil.**	**JPY 29.5 bil.**	JPY 26.0 bil.
Annual Dividends per share	JPY 16	JPY 43	**JPY 36**		

<Reference>

	Revised	Initial
Capital Investment (FY2013 - FY2015)	**JPY 40.0 bil.** (JPY 36.0 bil. + JPY 4 bil.)	**JPY 36.0 bil.**

		Revised	Initial
FY2015 Financial Indicators	**ROE**	**15% (approx.)**	**14% (approx.)**
	EBITDA	**JPY 57.0 bil. (approx.)**	**JPY 50.0 bil. (approx.)**

(Note)
1. The above management and financial goals are based on the average daily trading value/volume and other figures shown on P.8. The average daily trading value/volume figures were set by JPX based on actual past results, but may be largely influenced to market conditions and other external factors.
2. Due to the scheduled adoption of IFRS from the end of FY2014, “amortization of goodwill” will be excluded from operating costs in FY2014 and FY2015.
3. The figure for annual dividends per share includes the 5-for-1 stock split effective on October 1, 2013.
4. ROE is calculated excluding special assets for default.



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