Overview of Earnings for Q3 FY2016

Japan Exchange Group, Inc.

January 30, 2017

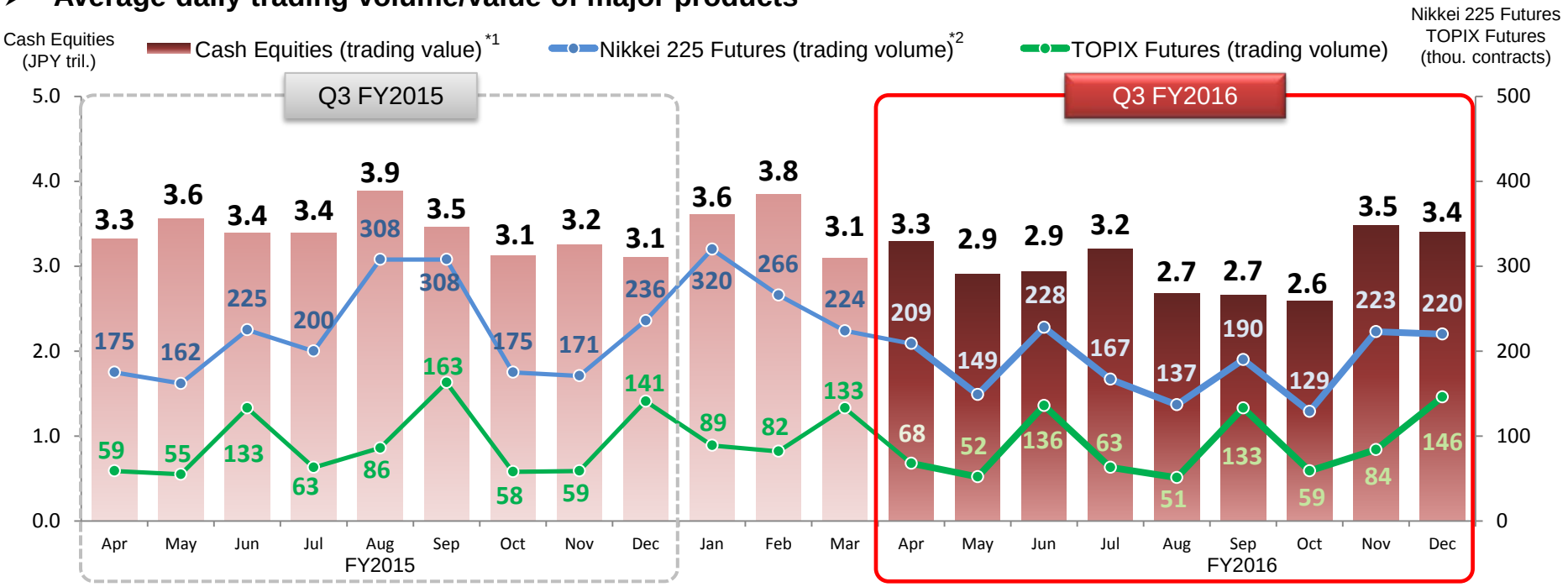
I. Business Developments

* This document is not subject to the audit procedures required under the Financial Instruments and Exchange Act. Please note that its contents have not been audited on a consolidated basis in accordance with the Act as of the time of disclosure.

Market Trend

- Daily average trading value for cash equities declined from August, bottoming out at 2.6 trillion yen in October, but picked up significantly from November onward. Average daily trading value for the cumulative third quarter exceeded the assumptions for the earnings forecast by 3.7% to reach approximately JPY 3.0 trillion.
- While the daily average volume for Nikkei 225 futures fell short of the earnings forecast assumptions by 4.1% with 183,899 contracts, this was offset by TOPIX futures, which exceeded the earnings forecast assumptions by 4.4% with 88,660 contracts, thereby falling largely within expectations for derivatives overall.

➢ **Average daily trading volume/value of major products**

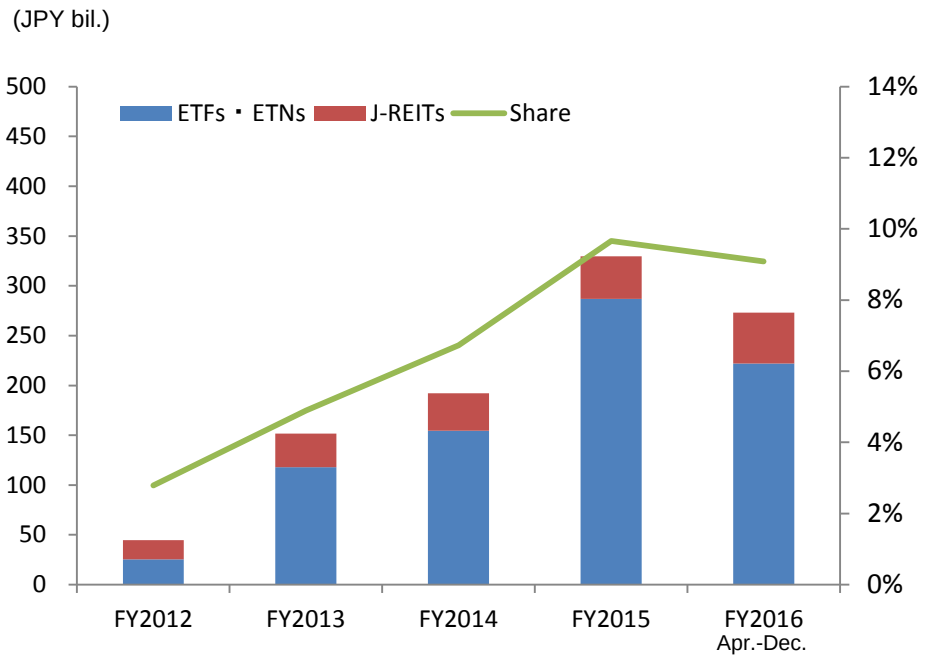


*1 Total value of daily averages of auction and off-auction trading of common stocks on 1st/2nd Sections, Mothers, JASDAQ, TOKYO PRO Market, and ETFs/ETNs, REITs etc.
*2 Contracts of Nikkei 225 mini are calculated using a factor of 1/10.

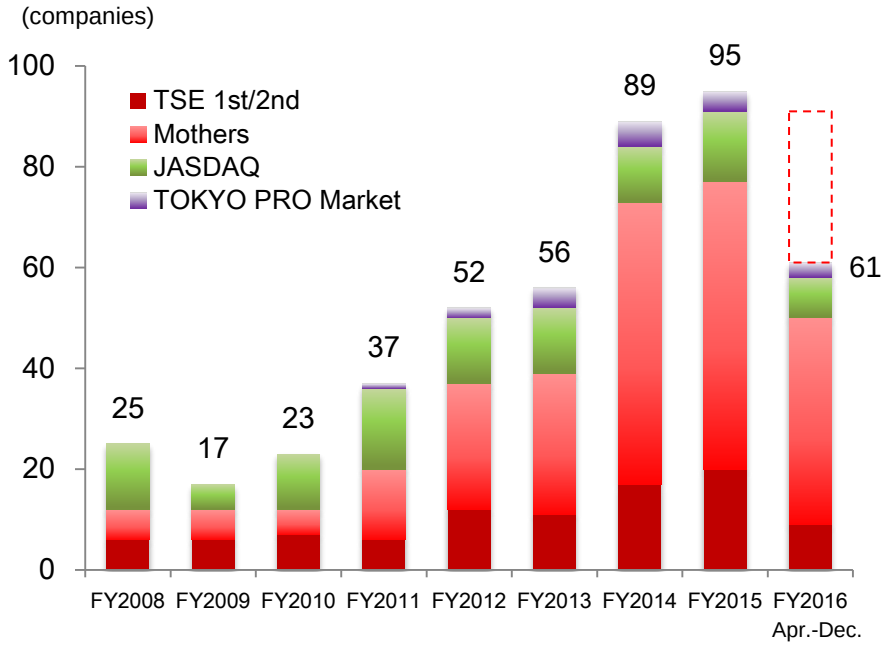
Cash Equities

- Average daily trading values of ETFs/ETNs and REITs for the cumulative third quarter shrank by 17.1% year-on-year. However, the ratio of trading value for cash equities overall maintained a similar level to that of last year.
- IPO figures for the full-year will fall slightly below the level reached last year as the number of IPOs on TSE for the cumulative third quarter fell to 61 from 72 for that of last year.

➢ **ADV of ETFs/ETNs and REITs**



➢ **IPOs on TSE markets**

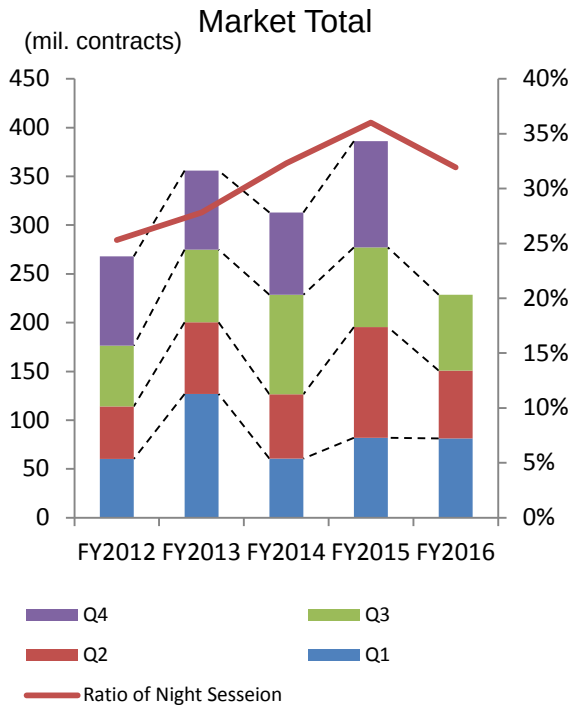


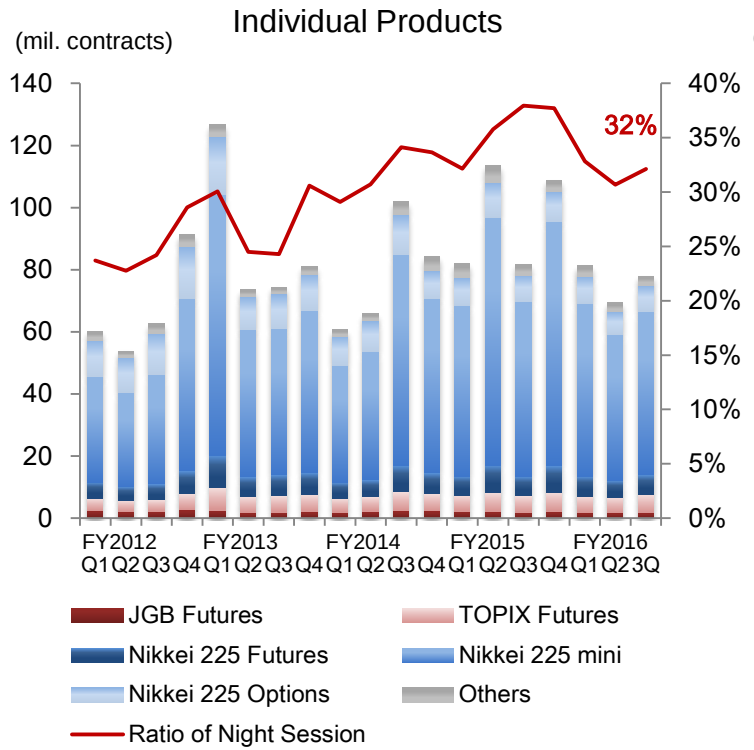
Share indicates trading value of ETFs, ETNs, and REITs of overall cash equity trading value.

Derivatives

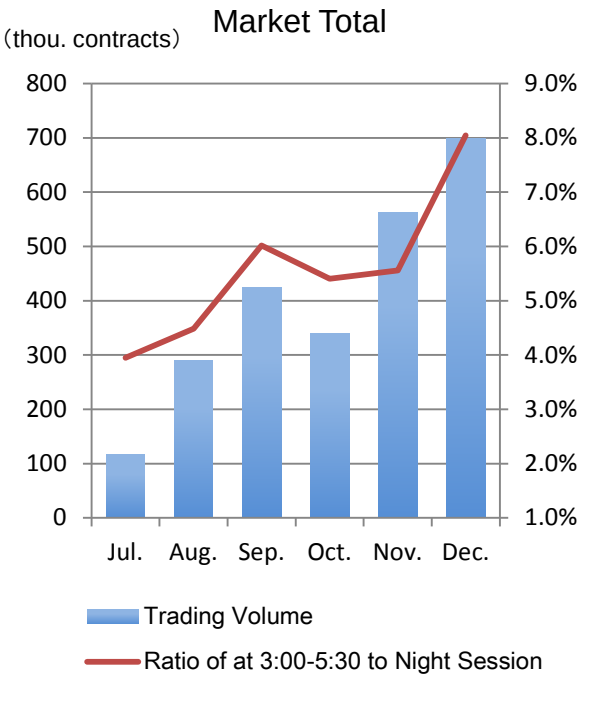
- Overall derivatives trading volume declined 17% year-on-year from last year's record levels.
- Night session trading volumes after 3am have increased since the trading hours were extended with the launch of new J-GATE. During Q3, the ratio of trading during this 2.5h period has risen from an average of 5.0% to 6.4%.

➢ Derivatives Trading Volume and Ratio of Night Session





➢ Trading at 3:00–5:30 after New J-GATE Launch

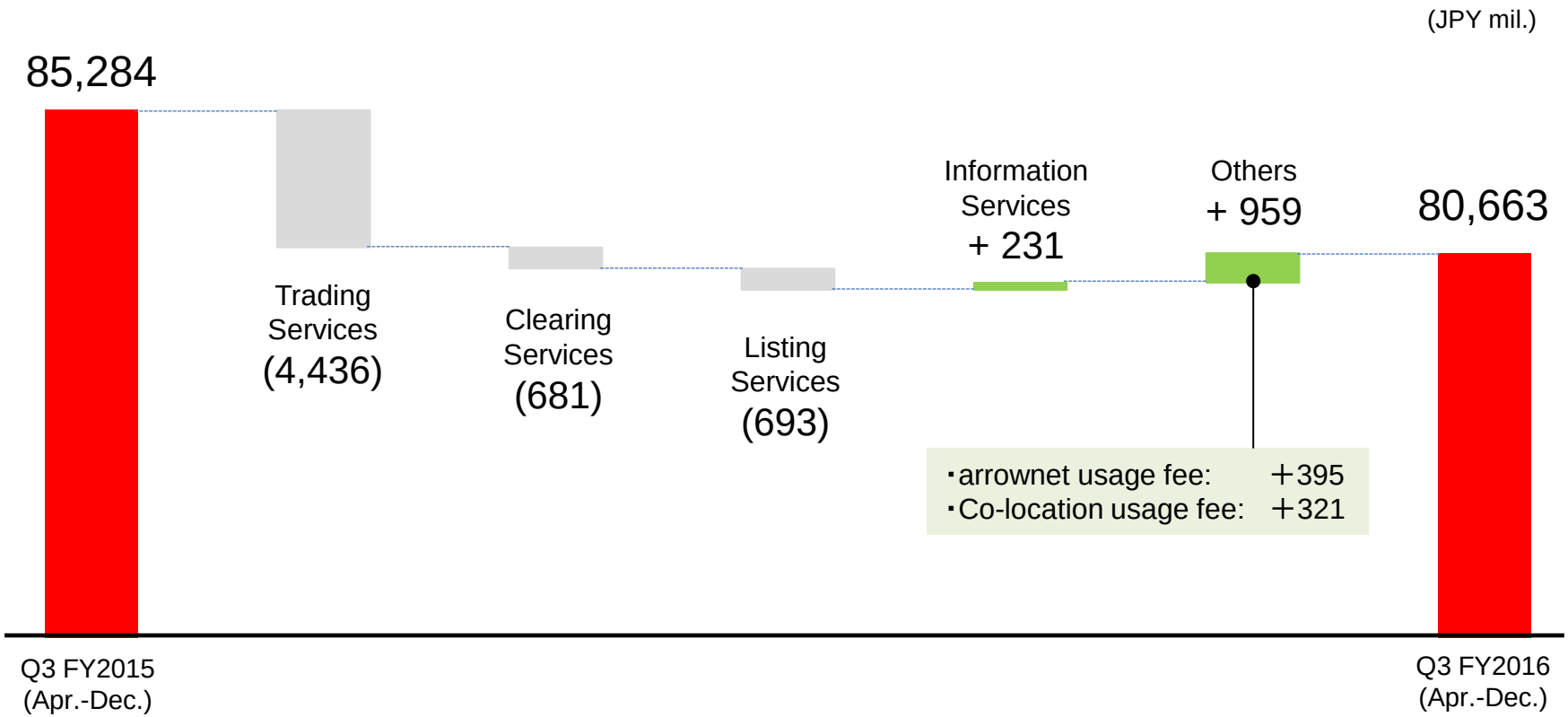


II. Overview of Earnings for Q3 FY2016〔IFRS〕

(April 1, 2016 – December 31, 2016)

Operating Revenue

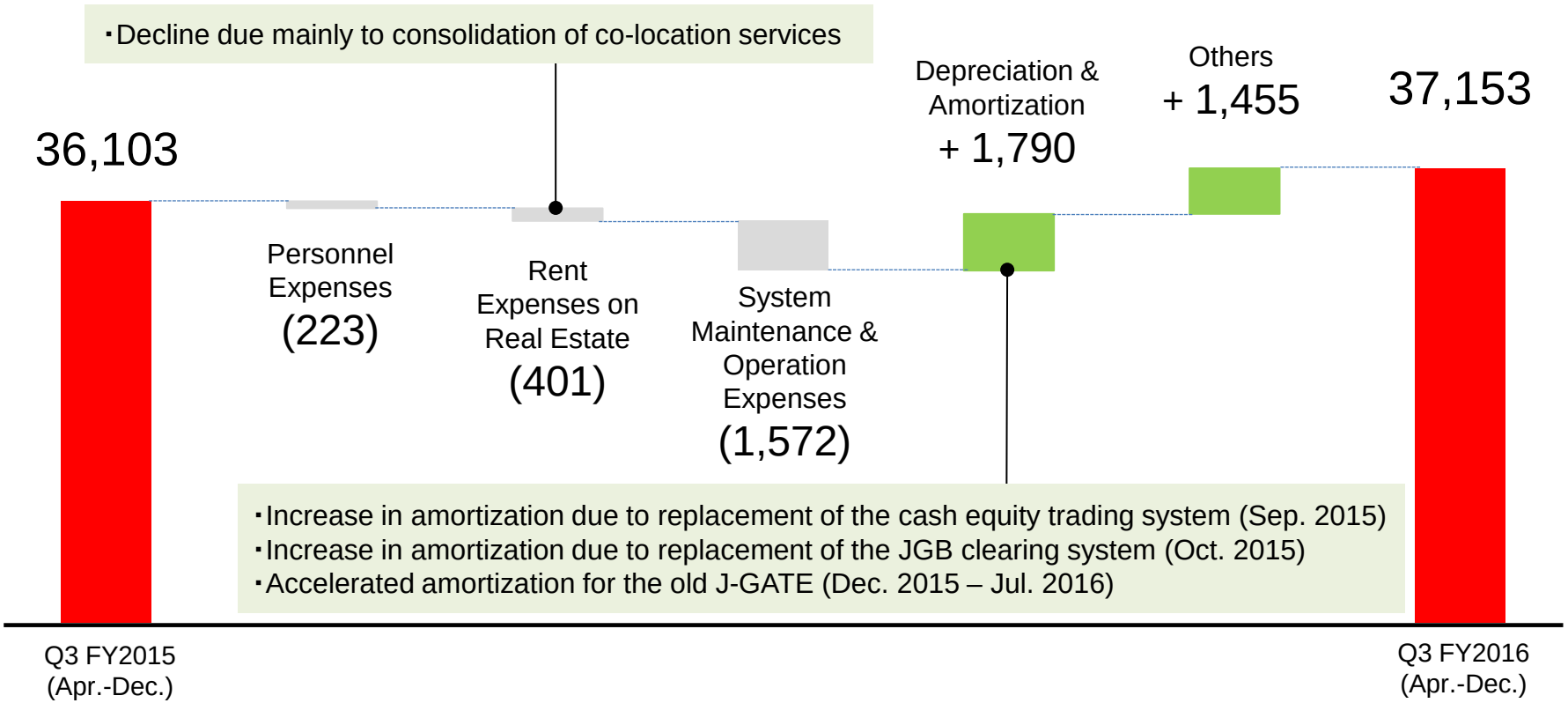
- Revenues from trading services and clearing services declined due to a year-on-year decrease in overall trading.
- Other revenues increased due to, among others, an increase in network (arrownet) and co-location usage fees, as well as system provision to Tokyo Commodity Exchange, Inc. since September 2016.



Operating Expenses

- Amortization has increased since the second half of FY2015 mainly due to the replacement of the cash equity and derivatives trading systems.
- System maintenance & operation expenses decreased due to more efficient system operations since the launch of new systems.

(JPY mil.)



Highlights and FY2016 Forecast

- Operating income for the cumulative third quarter decreased 13.4% year-on-year due to lower trading volumes and values for both cash equities and derivatives and increased amortization caused by system replacements.
- Progress on the operating income forecast has exceeded expectations, reaching 83.0%.

(JPY mil.)

	Q3 (April – December)				Full-year (April – March)		
	Q3 FY2015	Q3 FY2016			FY2015	FY2016 (Forecast) (Revised on Oct. 28)	
			y/y	FY2016 %			y/y
Operating Revenue	85,284	80,663	(5.4%)	76.1%	114,776	106,000	(7.6%)
Operating Expenses	36,103	37,153	+ 2.9%	70.4%	50,925	52,800	+ 3.7%
Operating Income	51,745	44,814	(13.4%)	83.0%	66,271	54,000	(18.5%)
Net Income*1	35,504	31,832	(10.3%)	82.7%	44,877	38,500	(14.2%)
EBITDA	59,738	54,312			77,791	-	-
Dividend per share*2	-	-			50.0yen	42.0yen	(8.0yen)

*1 Net Income attributable to owners of the parent company.
*2 Total of Q2-end and year-end figures. Figures account for the 2-for-1 stock split conducted with an effective date of October 1, 2015.

➢ **Average Daily Trading Volume/Value of Major Products**

	Q3 FY2015 (Apr.-Dec.)	Q3 FY2016 (Apr.- Dec.)	y/y	FY2015	FY2016 (Assumptions for forecasts) (Revised on Oct. 28)	y/y
Cash Equities (trading value) *1	JPY 3,383.0 bil.	JPY 3,007.8 bil.	(11%)	JPY 3,412.6 bil.	JPY 2,900.0 bil.	(15%)
TOPIX Futures (trading volume)	90,976 contracts	88,660 contracts	(3%)	93,824 contracts	85,000 contracts	(9%)
Nikkei 225 Futures (trading volume) *2	218,123 contracts	183,899 contracts	(16%)	230,435 contracts	198,000 contracts	(14%)
Nikkei 225 Options (trading value) *3	JPY 27.2 bil.	JPY 25.8 bil.	(5%)	JPY 30.7 bil.	JPY 27.5 bil.	(10%)
10-year JGB Futures (trading volume)	34,313 contracts	28,291 contracts	(18%)	34,658 contracts	28,000 contracts	(19%)

*1 Total value of daily averages of auction and off-auction trading of common stocks on 1st/2nd Sections, Mothers, JASDAQ, TOKYO PRO Market, and ETFs/ETNs, REITs etc.
*2 Contracts of Nikkei 225 mini are calculated using a factor of 1/10. *3 Excluding Weekly Options.

Acquisition of Own Shares and Issuance of Corporate Bonds

- Implement a capital policy that utilizes debt, in light of the current interest rate environment, and increase shareholder returns.
- Funds for this own share acquisition will initially be made up of capital reserves, with issuance of corporate bonds to follow.

Acquisition of Own Shares

Total Value of Shares to be Acquired (max.)	JPY 16 billion(*)
Total No. of Shares to be Acquired (max.)	16,000,000 shares (2.9% of total no. of shares issued)
Acquisition Method	Purchase on the market of TSE
Acquisition Period	Jan. 31, 2017 – Jul. 27, 2017

*Combined with own share acquisition (of 2,746,800 shares, JPY 3,994,268,900) in line with board resolution made on Jul. 28, 2016 for a planned total acquisition value of around JPY 20 bil.

Issuance of Corporate Bonds

Class of Corporate Bonds	Domestic unsecured straight bonds (To be listed on TOKYO PRO-BOND Market operated by Tokyo Stock Exchange)	
Issuance Amount	JPY 20 billion	
Maturity	10 years	
Schedule (Plan)	Jan. 31	Date of filing program information to Tokyo Stock Exchange
	In March	Issuance of corporate bonds
	In March (business day after issuance date)	Listing date on TOKYO PRO-BOND Market

* In addition to the above, JPX is planning to acquire JPX shares through a Stock-Granting ESOP Trust as indicated below.

Total Value of Shares to be Acquired	Approximately JPY 1 billion
Acquisition Method	Purchase on the market of TSE
Acquisition Period (Plan)	Feb. 3, 2017 – Feb. 17, 2017

III. Reference Materials



3rd Quarter Developments (Oct.-Dec.)

JPX-Nikkei Mid and Small Cap Index

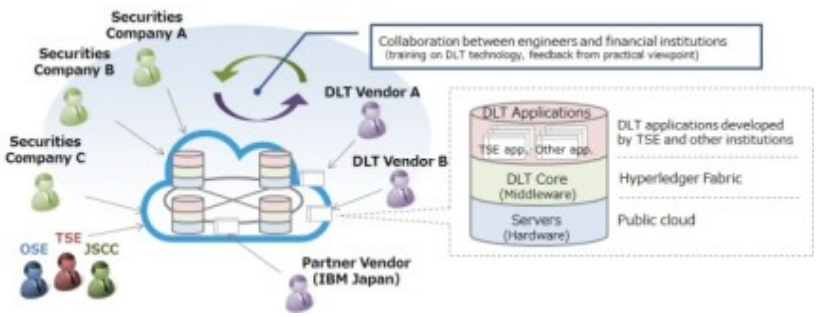
- Announced JPX-Nikkei Mid and Small Cap Index (Oct. 27)
- Released index guidebook (Dec. 14)

Infrastructure Fund Market

- Ichigo Green Infrastructure Investment Corporation became the market's second listing. (Dec. 1)

PoC Test on Blockchain Technology

- Announced launch of consortium for PoC testing of blockchain / DLT (Nov. 30)
- Testing to begin in Spring 2017



Launch of Educational Website

- Launched a comprehensive website for Japanese retail investors to help them learn about mid-to-long term asset formation and quality use of ETFs (Only in Japanese) (Dec. 8)



Referential Financial Data

➢ Quarterly Business Performance

(JPY mil.)

	FY2015				FY2016		
	Q1 (Apr. 1, 2015– Jun. 30, 2015)	Q2 (Jul. 1, 2015– Sep. 30, 2015)	Q3 (Oct. 1, 2015- Dec. 31, 2015)	Q4 (Jan. 1, 2016– Mar. 31, 2016)	Q1 (Apr. 1, 2016– Jun. 30, 2016)	Q2 (Jul. 1, 2016– Sep. 30, 2016)	Q3 (Oct. 1, 2016- Dec. 31, 2016)
Operating Revenue	27,802	30,149	27,331	29,492	26,721	26,161	27,780
Operating Expenses	11,498	11,803	12,801	14,821	13,069	12,523	11,559
Operating Income	16,737	18,558	16,450	14,525	14,348	13,909	16,555
Net Income *	10,773	13,106	11,624	9,373	9,583	10,013	12,235
EBITDA	18,878	21,393	19,467	18,052	17,762	17,486	19,064

* Net income attributable to owners of the parent company.

Referential Financial Data

➢ Operating Revenue

(JPY mil.)

	FY2015				FY2016				
	Q1 (Apr.1, 2015– Jun. 30, 2015)	Q2 (Jul.1, 2015– Sep.30, 2015)	Q3 (Oct.1, 2015–Dec. 31, 2015)	Q4 (Jan.1, 2016– Mar.31, 2016)	Q1 (Apr.1, 2016– Jun. 30, 2016)	Q2 (Jul.1, 2016– Sep.30, 2016	Q3 (Oct.1, 2016– Dec. 31, 2016		
	Amount	Amount	Amount	Amount	Amount	Amount	Amount	Ratio	y/y
Trading services revenue	**12,912**	**14,045**	**11,816**	**13,696**	**11,671**	**10,843**	**11,822**	**43%**	**+ 0%**
Transaction Fees	10,684	11,749	9,551	11,308	9,338	8,569	9,535		(0%)
Cash Equities	7,985	8,117	6,986	7,694	6,679	6,186	6,725	71%*1	(4%)
Derivatives	2,699	3,631	2,565	3,613	2,659	2,382	2,809	29%*1	+ 10%
TOPIX Futures	441	529	441	521	438	426	497		+ 13%
Nikkei 225 Futures (incl. mini)	1,069	1,526	1,056	1,484	1,061	970	1,130		+ 7%
Nikkei 225 Options *2	661	1,099	648	1,133	768	623	835		+ 29%
10-year JGB Futures	437	388	359	411	331	330	326		(9%)
Others	88	86	59	63	59	32	19		(67%)
Basic Fees	266	265	264	265	260	260	261		(1%)
Access Fees	1,231	1,306	1,250	1,377	1,321	1,250	1,212		(3%)
Trading System Facilities Usage Fees	709	700	725	719	728	743	791		+ 9%
Others	21	24	23	27	23	19	21		(9%)
Clearing services revenue	**5,643**	**6,028**	**5,486**	**5,981**	**5,573**	**5,292**	**5,610**	**20%**	**+ 2%**
Listing services revenue	**2,900**	**3,572**	**3,578**	**3,198**	**2,710**	**3,320**	**3,326**	**12%**	**(7%)**
Initial/Additional Listing Fees	985	1,632	1,567	1,143	675	1,259	1,104		(30%)
Annual Listing Fees	1,914	1,940	2,010	2,055	2,034	2,060	2,221		+ 11%
Information services revenue	**4,358**	**4,421**	**4,412**	**4,513**	**4,491**	**4,465**	**4,466**	**16%**	**+ 1%**
Other operating revenue	**1,988**	**2,080**	**2,038**	**2,101**	**2,274**	**2,238**	**2,554**	**9%**	**+ 25%**
arrownet Usage Fees	555	591	568	600	672	705	733		+ 29%
Co-location Usage Fees	689	721	712	763	873	787	783		+ 10%
Others*3	743	767	757	737	728	744	1,037		+ 37%
Total	**27,802**	**30,149**	**27,331**	**29,492**	**26,721**	**26,161**	**27,780**	**100%**	**+ 2%**

*1 Figures are indicate percentage of Transaction Fees.
*2 Excluding Weekly Options.
*3 Including Proximity Usage Fees.

Referential Financial Data

➢ Operating Expenses

(JPY mil.)

	FY2015				FY2016		
	Q1 (Apr. 1, 2015– Jun. 30, 2015)	Q2 (Jul. 1, 2015– Sep. 30, 2015)	Q3 (Oct. 1, 2015– Dec. 31, 2015)	Q4 (Jan. 1, 2016– Mar. 31, 2016)	Q1 (Apr. 1, 2016– Jun. 30, 2016)	Q2 (Jul. 1, 2016– Sep. 30, 2016)	Q3 (Oct. 1, 2016– Dec. 31, 2016)
Personnel expenses	3,785	3,734	3,858	5,059	3,684	3,808	3,662
System maintenance & operation expenses	2,330	2,392	2,353	2,403	2,147	1,752	1,605
Depreciation & amortization	1,904	2,075	2,754	3,239	3,180	3,043	2,301
Rent expenses on real estates	1,174	1,174	1,147	1,124	1,131	1,000	962
Other	2,304	2,426	2,688	2,995	2,926	2,919	3,028
Total	11,498	11,803	12,801	14,821	13,069	12,523	11,559

Referential Financial Data

➢ Consolidated Statement of Financial Position

(JPY mil.)

		As of Mar. 31,2016	As of Dec. 31,2016
Assets			
	Current assets		
	Cash and cash equivalents	66,547	45,391
	Trade and other receivables	10,096	12,762
*1	Clearing business financial assets	26,395,558	36,548,320
*2	Specified assets for deposits from clearing participants	2,809,433	3,572,121
*3	Specified assets for legal guarantee funds	483	474
	Income tax receivables	5,055	8,586
	Other financial assets	65,600	73,600
	Other current assets	1,163	1,926
	Total current assets	29,353,939	40,263,182
	Non-current assets		
	Property and equipment	6,025	5,350
	Goodwill	67,374	67,374
	Intangible assets	31,033	30,177
	Retirement benefit assets	3,626	3,546
	Investments accounted for using the equity method	7,592	8,502
*5	Specified assets for default compensation reserve funds	27,948	27,948
	Other financial assets	38,639	34,059
	Other non-current assets	5,854	5,833
	Deferred tax assets	4,741	4,703
	Total non-current assets	192,836	187,494
Total assets		29,546,776	40,450,677

		As of Mar. 31,2016	As of Dec. 31,2016
Liabilities and equity			
Liabilities			
	Current liabilities		
	Trade and other payables	4,413	2,604
	Loans payable	22,500	32,500
*1	Clearing business financial liabilities	26,395,558	36,548,320
*2	Deposits from clearing participants	2,809,433	3,572,121
*3	Legal guarantee funds	483	474
*4	Trading participant security money	7,429	8,142
	Income tax payables	10,714	4,966
	Other current liabilities	6,403	5,620
	Total current liabilities	29,256,937	40,174,750
	Non-current liabilities		
	Loans payable	10,000	–
	Retirement benefit liabilities	7,352	7,572
	Other non-current liabilities	3,924	3,805
	Deferred tax liabilities	5,650	4,252
	Total non-current liabilities	26,926	15,630
	Total liabilities	29,283,864	40,190,380
Equity			
	Share capital	11,500	11,500
	Capital surplus	59,726	59,725
	Treasury shares	(9)	(4,003)
	Other components of equity	13,321	10,154
*6	Retained earnings	172,656	177,073
	Total equity attributable to owners of the parent company	257,194	254,449
	Non-controlling interests	5,717	5,847
	Total equity	262,912	260,297
Total liabilities and equity		29,546,776	40,450,677

*1 Japan Securities Clearing Corporation (JSCC) guarantees settlement as a clearinghouse for financial instruments transactions by assuming obligations for trades by market participants to become the counterparty for such trades, posting claims and obligations for cleared trades under clearing business financial assets and liabilities.
*2 Deposits from clearing participants requested by JSCC for covering the risk of clearing participants defaulting on their obligations.
*3 Deposits from trading participants requested by Tokyo Stock Exchange (TSE) and Osaka Exchange (OSE) for covering the risk at entrusting parties, etc. of trading participants defaulting on their obligations.
*4 Deposits from trading participants requested by TSE and OSE for covering the risk of trading participants defaulting on their obligations.
*5 Reserve funds for compensating losses incurred by JSCC in clearing operations.
*6 Including reserve funds for compensating losses incurred by JSCC in clearing operations.

Major Product Data

➢ Trading Volume/Value

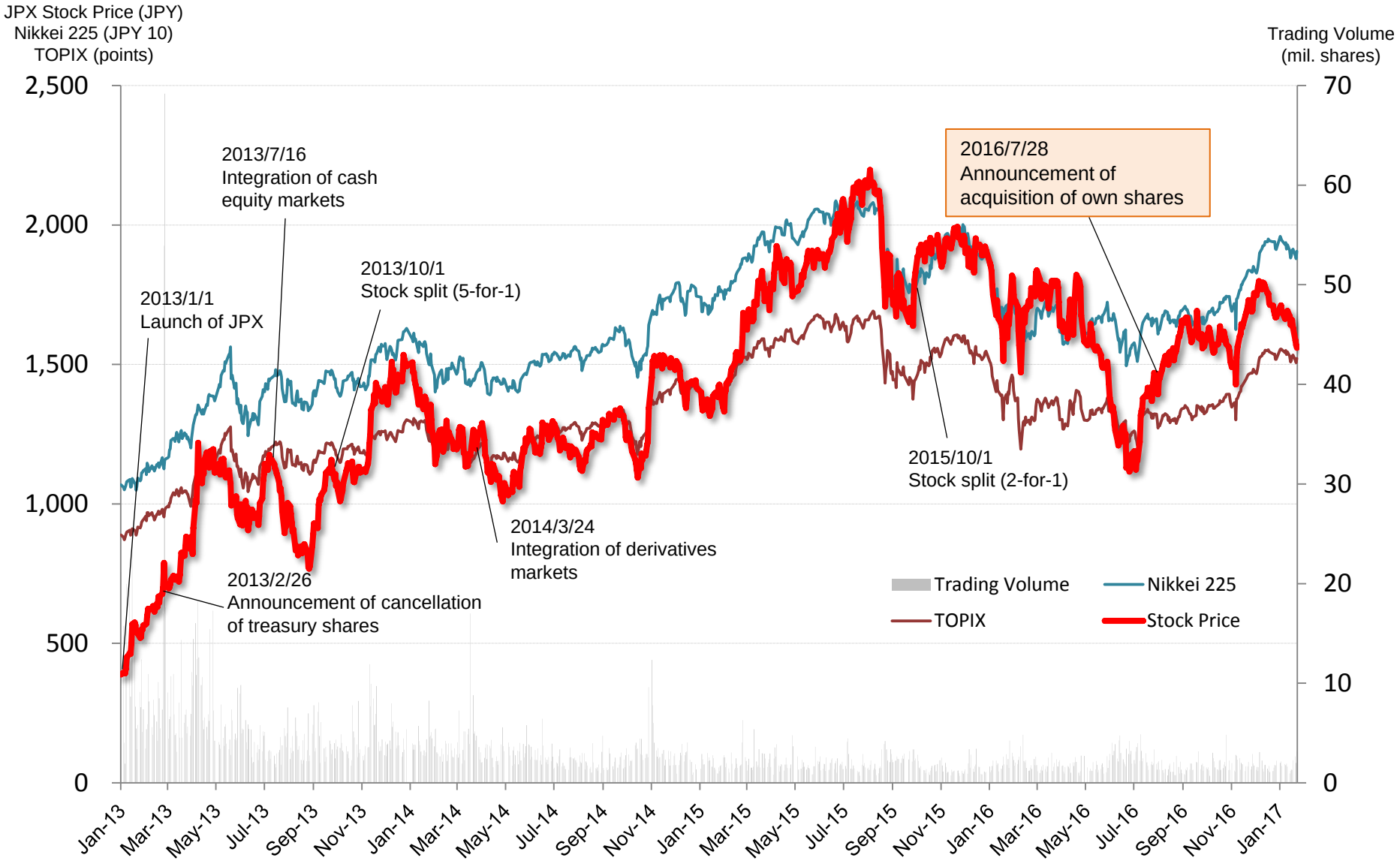
	FY2015				FY2016		
	Q1 (Apr. 1, 2015– Jun. 30, 2015)	Q2 (Jul. 1, 2015– Sep. 30, 2015)	Q3 (Oct. 1, 2015– Dec. 31, 2015)	Q4 (Jan. 1, 2016– Mar. 31, 2016)	Q1 (Apr. 1, 2016– Jun. 30, 2016)	Q2 (Jul. 1, 2016– Sep. 30, 2016)	Q3 (Oct. 1, 2016– Dec. 31, 2016)
Trading Value of Cash Equities (JPY mil.)							
TSE 1st/2nd Section *1	180,820,436	189,247,280	166,310,629	177,748,541	149,927,942	151,897,987	169,767,175
Mothers *1	5,894,082	5,487,907	5,757,308	6,849,645	12,553,461	5,481,621	5,285,439
JASDAQ *1	5,409,453	4,458,234	3,432,110	3,933,113	3,007,765	2,360,710	2,892,175
ETFs/ETNs and REITs etc. *2	16,299,502	22,455,832	16,903,303	25,087,403	20,067,756	15,399,947	14,794,360
Derivatives Trading Volume (contracts) (Trading Value for Nikkei 225 Options)							
TOPIX Futures	5,152,726	6,284,469	5,302,308	6,247,344	5,356,506	5,042,339	5,914,516
Total Nikkei 225 Futures/mini *3	11,551,509	16,714,992	11,868,112	16,322,078	12,015,630	10,163,636	11,658,150
Nikkei 225 Futures	6,041,354	8,736,954	6,243,886	8,465,489	6,442,034	5,454,262	6,403,675
Nikkei 225 mini	55,101,557	79,780,382	56,242,263	78,565,899	55,735,969	47,093,746	52,544,759
Nikkei 225 Options (JPY mil.) *4	1,471,850	2,137,320	1,404,173	2,505,727	1,751,195	1,258,955	1,743,221
10-year JGB Futures	2,323,310	2,070,202	1,920,076	2,177,737	1,744,496	1,741,404	1,719,661

➢ Average Daily Trading Volume/Value

	FY2015				FY2016		
	Q1 (Apr. 1, 2015– Jun. 30, 2015)	Q2 (Jul. 1, 2015– Sep. 30, 2015)	Q3 (Oct. 1, 2015– Dec. 31, 2015)	Q4 (Jan. 1, 2016– Mar. 31, 2016)	Q1 (Apr. 1, 2016– Jun. 30, 2016)	Q2 (Jul. 1, 2016– Sep. 30, 2016)	Q3 (Oct. 1, 2016– Dec. 31, 2016)
Trading Value of Cash Equities (JPY mil.) *5	3,416,778	3,575,030	3,154,153	3,501,946	3,041,917	2,824,872	3,159,659
Derivatives Trading Volume (contracts) (Trading Value for Nikkei 225 Options)							
TOPIX Futures	84,471	101,362	86,923	102,415	87,812	81,328	96,959
Total Nikkei 225 Futures/mini *3	189,369	269,597	194,559	267,575	196,978	163,930	191,117
Nikkei 225 Futures	99,039	140,919	102,359	138,779	105,607	87,972	104,978
Nikkei 225 mini	903,304	1,286,780	922,004	1,287,966	913,704	759,577	861,389
Nikkei 225 Options (JPY mil.) *4	24,129	34,473	23,019	41,078	28,708	20,306	28,577
10-year JGB Futures	38,087	33,390	31,477	35,701	28,598	28,087	28,191

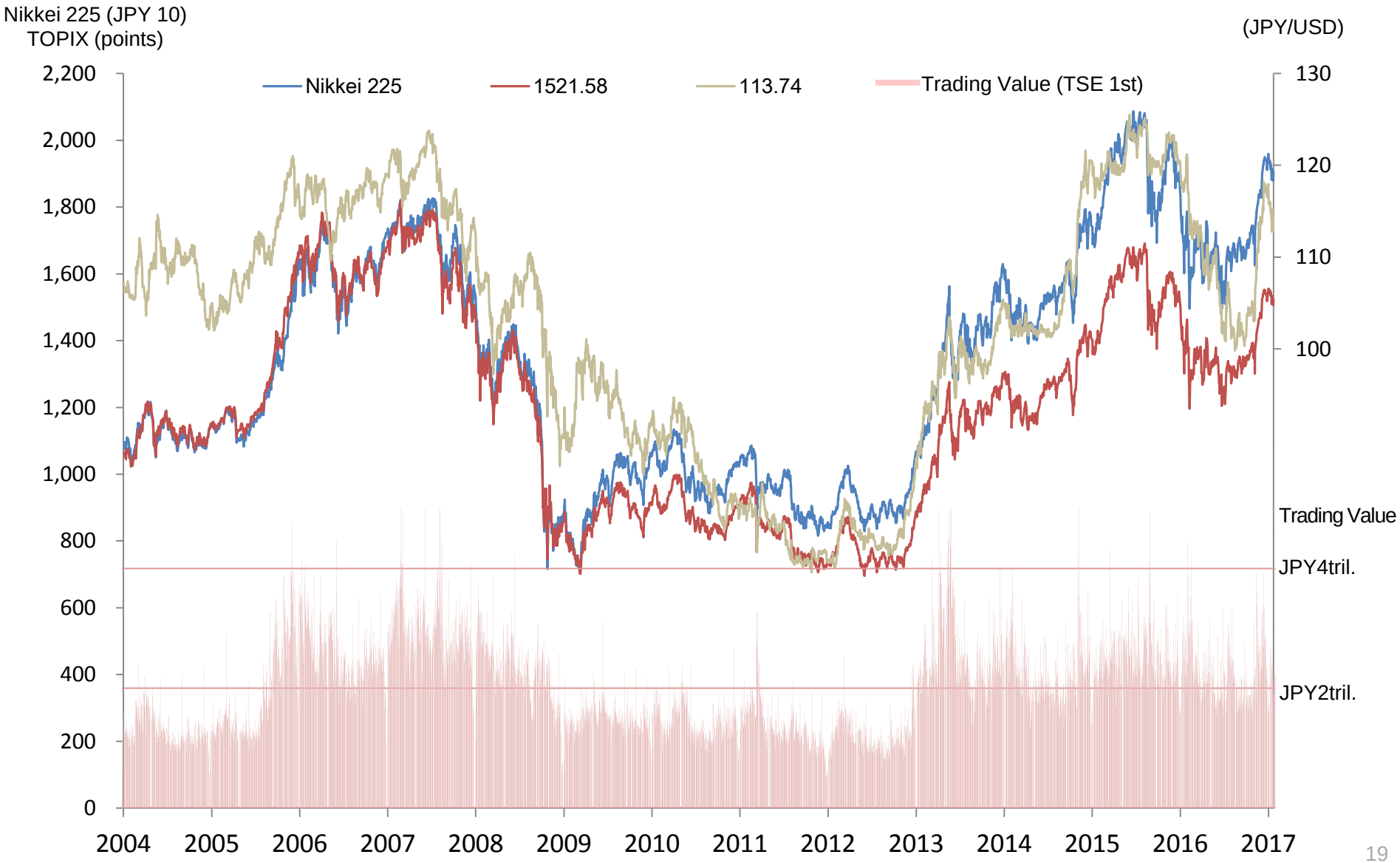
*1 Value of auction and off-auction trading of common stocks. *2 Total value of auction and off-auction trading. *3 Contracts of Nikkei 225 mini are calculated using a factor of 1/10.
*4 Excluding Weekly Options. *5 Total value of daily averages of auction and off-auction trading of common stocks on 1st/2nd Sections, Mothers, JASDAQ, TOKYO PRO Market, and ETFs/ETNs, REITs etc.

JPX Stock Price



Listed on both the TSE1st Section and JASDAQ from January 1 to July 15, 2013. Prices above are prices on the TSE1st Section. Trading volumes above are the total of those on TSE1st Section and JASDAQ. Two stock splits were conducted separately with respective effective dates of October 1, 2013 and October 1, 2015. Stock prices and trading volume before said stock splits were converted to reflect both events.

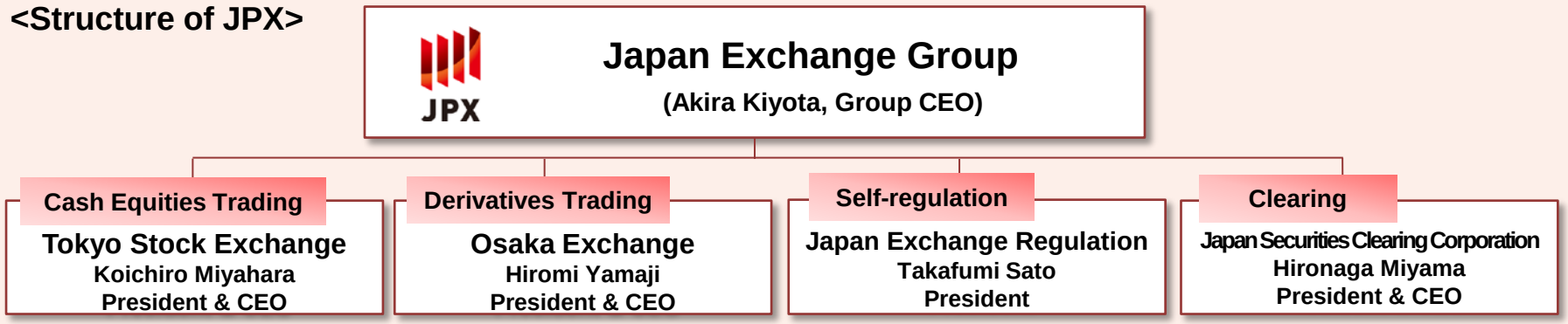
Japanese Stock Market



Outline of JPX Stock

Stock Code	8697
Listed Exchange	Tokyo Stock Exchange 1st Section
Fiscal Year End	March 31
Annual General Shareholders Meeting	June
Record Date	Annual general shareholders meeting: March 31 Year-end dividend: March 31 Interim dividend: September 30
Number of Shares in One Trading Unit	100 shares
Total number of shares issued	549,069,100 shares
Basic Policy on Profit Distribution	JPX adopts a dividend policy with a target payout ratio of about 60% tied to business performance while giving due consideration to the importance of internal reserves for the following purposes: • Maintaining sound financial health as a financial instruments exchange group, • Preparing for risks as a clearing organization, and • Enabling the group to pursue investment opportunities to raise the competitiveness of its markets as they arise.

<Structure of JPX>



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