

Message from the President



President & CEO
Director and Representative Executive Officer
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Raison d'Être of Japan Post Group

What kind of group is Japan Post Group and why has it been able to keep going for so long? I believe our Raison d'Être lies in the answers to these questions.

Twenty years ago, the per capita GDP of Japan was the world's third highest, but now it stands at around 25th in the world. Per capita GDP, however, is not the sole indicator of wealth. I believe people can lead spiritually enriched lives if they enjoy a high level of happiness such as in the Kingdom of Bhutan. Japan Post Group has the potential to contribute to people's happiness and enrich their lives. We inaugurated postal deliveries 147 years ago, commenced banking services four years later and subsequently began insurance sales. This is the basis of our universal services and I am confident that other services can also contribute to people's spiritual richness. Companies do not exist solely for the purpose of undertaking social welfare activities and cannot exist perpetually without earning returns proportionate to costs. Nevertheless, getting closer to customers and, above all, interacting with them face-to-face is still of the utmost importance.

Today, a variety of opportunities have come into view as we leverage our main strength, the post office network—one that is closely connected with our customers.

An excellent example of such an opportunity is Fintech, which has developed rapidly in recent years, and how we build on it through our nationwide network of post offices. The adoption of Fintech allows us to contemplate an array of arrangements by integrating cutting-edge technologies with the post offices that are closely connected to the local community. I believe we are extremely privileged to work in such an environment.

In addition, we are witnessing a shift “from savings to asset-building.” Although the financial assets of individuals in Japan amount to approximately ¥1,830 trillion, the number of individuals who have begun to invest remains small, as evidenced by the exceedingly low balance of investment trusts at approximately ¥70 trillion. Japan Post Group operates approximately 18,000 post office counters where investment trusts can be introduced to our customers. In this way, we are well-positioned as a financial institution that is close to its customers to contribute to the move toward asset-building.

Although recently the main topic of dialogue between the management of other companies and institutional investors has centered on the environment, society and governance (ESG), Japan Post Group as a socially-focused company has always dealt with ESG. Actually, ESG initiatives are the key activities for fulfilling the mission of every company operating within society. Companies must make the utmost effort to contribute to and be acknowledged by society. Although they certainly need to generate profit,

companies are unlikely to survive unless they also focus on their role in society. Going forward, Japan Post Group will continue to be asked what it should do as a socially-oriented company, so we must continue to strive to answer this question.

Issues Facing Japan Post Group

Meanwhile, we also need to address any threats that may arise in the future. Many parts of our business are still handled by people, so the shrinking population of Japan is a serious issue when it comes to making our performance all the more sustainable. The population of Japan was approximately 33 million during the Meiji Restoration around 1868 and grew by almost 100 million over the following 150 years. Now, it is said that the population will decrease just as fast as it increased. In 2017, the number of births in Japan dipped below one million. Meanwhile, Japan Post Group has approximately 400,000 employees. Assuming that they work for 40 years, roughly 10,000 employees will resign every year, which means that we have to hire another 10,000 annually to compensate. This decline in labor supply capacity makes it extremely difficult to continue hiring people at past levels. On top of that, employee shortages are certain to drive up personnel expenses. Therefore, I have a sense that we will be forced into an extremely dire situation over the long term unless we sufficiently give serious consideration to how to address this issue.

There is another serious issue facing Japan Post Group over the long term. As provided in the Postal Service Privatization Act, Japan Post Holdings Co. will finally sell all of its shares in Japan Post Bank Co. and Japan Post Insurance Co., which are large contributors to our profits. When this happens, we will no longer be able to reflect the profits of both companies on a consolidated basis. For this reason, we must create new earnings sources—perhaps through M&A, equity investments, business alliances or other means. As one measure, we launched Japan Post Real Estate Co., Ltd. in April 2018, but it will require approximately 10 years to raise its performance and produce solid results. Because of the time required to nurture new businesses, we must start to prepare for building new earnings sources for the future, now. By establishing this company, management's message is that we are committed to positioning real estate as a core business to be undertaken as invaluable work. It is impossible to know what will succeed but I believe it is essential that we take these kinds of actions, and as frequently as possible.

Reflecting on the Previous Medium-term Management Plan and Looking Toward the Fiscal Year Ending March 2021

On May 15, 2018, Japan Post Group announced its new



Medium-term Management Plan for the period from the fiscal year ending March 31, 2019 to the fiscal year ending March 31, 2021.

Before explaining the details of the new plan, let me briefly review the achievements of the previous Medium-term Management Plan (from the fiscal year ended March 31, 2016 to the fiscal year ended March 31, 2018). Under the previous plan, we implemented the following five strategies for business growth and development.

The first strategy was “revival of the postal and logistics business.” The number of Yu-Pack items topped 800 million, surpassing our target of 680 million in the fiscal year ended March 31, 2018 thanks to an increase in parcels on the back of an expansion of e-commerce markets and implementation of measures such as expanded pick-ups of Yu-Pack and other items at convenience stores and expanded installation of HAKO POST receiving lockers.

Second was “vitalization of the post office network.” In utilizing the post office network outside our three main businesses, we increased the number of post offices handling cancer insurance as an affiliated financial service to about 20,000 locations, broadened our product lineup and steadily expanded earnings in the merchandise business.

Third was “further increase in Japan Post Bank Co.’s revenues.” We increased the amount of sales and the balance of asset management products by enhancing those products and services such as investment trusts. Concurrently, we increased income from service transactions by expanding the installation of ATMs.

Fourth was “recovering from bottoming out of Japan Post Insurance Co.’s policies in force.” We achieved our target of ¥50 billion in contracted monthly premiums for new policies ahead of schedule in the fiscal year ended March 31, 2016 and further expanded insurance premiums

in the fiscal year ended March 31, 2017. Although actual insurance premiums for new policies declined in the fiscal year ended March 31, 2018 due to the impact of a revision of insurance premiums, sales of protection-type products increased due to strengthened sales that emphasize protection.

Fifth was “sophisticated asset management for revenue growth.” Our two financial institutions achieved progress in sophisticating and diversifying their asset management. Japan Post Bank Co. attained its target of increasing its satellite portfolio (SP) balance to ¥60 trillion ahead of schedule in the fiscal year ended March 31, 2016. Additionally, Japan Post Bank Co. progressed with global asset allocation and further expanded its SP balance.

As a result of these initiatives, net income attributable to Japan Post Holdings Co. in the fiscal year ended March 31, 2018 amounted to ¥460.6 billion, significantly exceeding the ¥400.0 billion target for the final fiscal year of the Medium-term Management Plan.

Despite these achievements, Japan Post Group is facing an exceedingly difficult operating environment such as prolonged, historically ultra-low interest rates. The next three years is expected to be perhaps the most severe period yet.

Under these conditions, we will implement our new Medium-term Management Plan. This plan embodies our desire to leverage the post office network and utilize universal services while implementing various initiatives for raising earnings. Specifically, we will implement the following policies.

The first policy is for the postal and domestic logistics business. Although mail volume continues trending downward, the home delivery market is expected to expand alongside growth in the e-commerce market. In this view, we will pursue greater flexibility in deploying our limited employee resources, such as shifting persons in charge of mail collection to the parcel operations, to also responding to the difficulty in securing labor amid rising labor unit costs. We will also promote mailbox posting, one of our strengths, by encouraging the use of smaller parcels.

Second is our policy for the post office business. The roles demanded of post offices differ by region. Therefore, rather than providing across-the-board, uniform products and services throughout Japan as in the past, we will deploy unique and diverse post offices that continually add products and services to meet the different needs of each community in addition to always offering universal services. Going forward, we will pursue initiatives that continuously take advantage of our network of post offices, which serve as points of contact with our valued customers.

Third is our policy for the international logistics business. We will steadily implement management improvement measures and aim to raise earnings through selection and

concentration of management resources such as deploying contract logistics in Japan by strengthening synergies with Toll Holdings Limited.

Fourth is our policy for the banking business. We will strive to expand service commissions such as those for ATMs and further raise the investment trust balance. In addition, we will strive to sophisticate and diversify investment management and expand risk assets and areas of strategic investments as we work to counter a severe operating environment.

Fifth is our policy for the life insurance business. We aim for a reversal and growth in annualized premiums of policies in force by strengthening sales of products that emphasize protection and improve solicitation quality. Moreover, we will improve customer service through the use of ICT and also reduce costs by enhancing operational efficiency.

We will also take measures to spur the development of our real estate business. With the establishment of Japan Post Real Estate Co., Ltd. in April 2018, we will effectively develop assets held by Japan Post Group and cultivate new sources of revenue by participating in joint projects and acquiring income-producing properties.

Regarding capital alliances and M&A, we will consider capital partnerships and M&A in a broad range of fields that lead to the growth of Japan Post Group as a “Total Lifestyle Support Group.” In this field, we aim to contribute to profits by considering investments of several hundred billion yen over the three-year period up to the fiscal year ending March 31, 2021.

Through the implementation of these policies, Japan

Post Holdings Co. aims to maintain stable dividends of ¥50 or higher per share.

Our new Medium-term Management Plan serves as a start toward securing stable profits and achieving sustainable growth amid the severe business environment. Japan Post Group will continue to work as one as we aim to be a “Total Lifestyle Support Group.”

Importance of Human Resources and Education for Management

I regard human resources and education as particularly crucial in executing the new Medium-term Management Plan.

Customers also change with the flow of the times and perceiving these changes and customizing products and services in response is absolutely essential. Organizations must be able to focus closely on what customers are demanding and the directions of the times while maintaining a sense of urgency to immediately adapt to such changes. As customer needs evolve rapidly throughout the world, it is certainly best to initially have the human resources with a deep understanding of these new developments.

However, we cannot stop doing new work just because we may lack suitable human resources. So long as there are needs, our approach should be “Let’s do it!” even if we lack the know-how. People can accomplish anything if they are determined to change themselves along with the changes happening around them. Therefore, I believe we should both introduce new human resources and focus on employee education at the same time.



Moreover, as a member of management, I always remember that we have to be a company that anyone would be proud of if we are to capitalize on our human resources.

Renowned novelist Raymond Chandler once remarked, *“If I wasn’t hard, I wouldn’t be alive. If I couldn’t ever be gentle, I wouldn’t deserve to be alive.”* I believe companies, too, must be organizations that are respected around the world. Especially since we are now a listed company, we will be unable to earn any respect without the strength to achieve adequate performance. At the same time, we must also strive to be an organization that makes people think, *“That’s an amazing company.”* Fortunately, Japan Post Group boasts a long history as a public institution and operates an extensive network of post offices across Japan. We are an organization that is strongly determined to serve our customers to the very end without withdrawing even from regions that seem to have lost vitality.

Reflecting back personally, rather than making money, I had hoped to discuss the state of the world and country with everyone around me and thought about how to serve my country, so I joined the former The Industrial Bank of Japan, Limited after graduating college. Now, I have a strong sense of personally having come full circle in joining Japan Post Group and returning to an organization that is essential to the nation. This is my calling, so I will devote my

utmost efforts for the future of Japan Post Group. At the same time, I am pleased to know I can contribute to something for Japan.

It will likely take another 10 to 20 years before Japan Post Group becomes an even more respected company. During my term in office and upon passing the baton to a younger successor, I would like to build Japan Post Group into such a company. There are many employees who joined Japan Post Group because of their strong affection for the post office, so I believe it is my mission to build an environment that will enable them to make their aspirations and dreams come true.

A Sense of Unity Is Also Important in Management

A “sense of unity” is also important when considering the medium- and long-term management of Japan Post Group. Although Japan Post Group is a single entity comprised of four companies, several difficulties arise when corporate systems are divided separately under such a structure. Three of these companies also made simultaneous listings. Therefore, we must pay attention and avoid triggering the types of forces that cause companies to move away from the core of Japan Post Group. As one management measure, it will be crucial to continually emphasize that Japan Post Group must constantly act as one team. With





this in mind, I have created the “*Team JP*” slogan to encourage thinking about synergies across the entire Japan Post Group.

To help maintain solidarity, I have asked each company to increase the combination of personnel between work sites and the head office when implementing personnel rotations. Employees who have continually remained at the head office should be dispatched to frontline work sites. I believe personnel strategies are the most recognizable message from top management, so we must employ various methods to disseminate and successfully implement the Team JP concept.

In Closing—To Our Stakeholders

I would like to express my wishes for the happiness of all of Japan Post Group’s stakeholders. For our shareholders, it will of course be essential to raise our stock price and reliably pay dividends as a listed company. Meanwhile, for our employees, we must set appropriate salary and compensation levels as well as consider important issues such as diversity, nursing care for family members and child-rearing. Besides dealing with these issues, it will also be necessary to focus our attention on the promotion of women and elimination of discrimination against the LGBT

community. Therefore, assuring the quality of work-life will become essential. In this regard, I would like to create an environment where employees can come to work each day with a sense of happiness. This requires that we make all-out efforts as Team JP to ensure the happiness of every single stakeholder. And for our newest employees, my ultimate goal is to build Japan Post Group into a company that they absolutely want to be a part of.