Operations of Japan Post Co.

Review of the Fiscal Year Ended March 31, 2018

In the fiscal year ended March 31, 2018, although the postal and domestic logistics business was faced with a difficult environment characterized by a decrease in the volume of mail handled and strained labor supply-demand conditions, the volume of Yu-Pack items handled surged by 25.6% over the previous year to 876 million on the back of an increase in demand for deliveries following expansion of the e-commerce market. Within this context, we worked to maintain delivery operations at post offices nationwide in order to provide services that continue to meet our customers’ satisfaction.

In the post office business, amid continued, historically low interest rates, we supported asset-building for many more customers primarily through the provision of simple, easy-to-understand products and the expansion of post offices handling investment trusts. We are also striving to increase customer convenience through such measures as installing other banks’ ATM machines in our post offices and starting the nationwide operation of the “Watch Over Service” where post office staff visit elderly customers to report their living conditions to family members.

In the international logistics business, we made efforts to boost performance at our subsidiary Toll Holdings Limited by steadily implementing measures to improve management that includes structural reform.

As a result of these initiatives, Japan Post Co. recorded operating income of ¥3,881.9 billion, net operating income of ¥88.5 billion and net income attributable to Japan Post Co. of ¥58.4 billion.

Operating Environment and Issues

With regard to the environment facing Japan Post Co., we expect a decrease in the volume of mail handled, persistently ultra-low interest rates and advancement in Japan’s super-aged society while at the same time forecasting continued growth in Yu-Pack sales in line with dramatic developments in the e-commerce market and further acceleration in the trend of people shifting away from savings toward asset-building. We are aware of the issue facing management of putting our business on a stable growth trajectory by recognizing changes in the business environment early on and responding to them swiftly.

Strategy and Policy for the Fiscal Year Ending March 31, 2019

For the first fiscal year of Japan Post Group Medium-term Management Plan announced in May 2018, we aim to strengthen our postal and logistics functions and post office network and secure stable income by conducting a review of our operations and providing products and services that meet society’s needs.

In the postal and domestic logistics business, we will seek to create a higher value-added Yu-Pack service by making it easier to send and receive parcels, amid growing opportunities for individual customers to use home delivery services. In addition, we continue to try to provide stable services, by augmenting facilities and building a framework for transport and delivery in response to the increase in parcel volume.

In the post office business, we will strive to expand sales of investment trusts and insurance as well as increase the number of new customers, centered on the young and middle-aged, through the provision of services that match the needs and life stages of each customer.

In the international logistics business, we will promote business development that leverages synergies with Toll Holdings Limited while continuing to steadily implement measures to improve management.

Moreover, we will keep striving to enhance compliance, particularly through the appropriate receipt of postage fees to earn even greater trust from our customers.

Going forward, we will continue working to boost the value of our post office network by taking a customer-first approach and providing diverse services that are unique to post offices.

We appreciate your patronage and continued use of our post offices.
In the postal and domestic logistics business, operating income increased year-on-year mainly due to the impact by the revision in postage fees for standard mail, in addition to an increase in volume of Yu-Pack and Yu-Packet handled resulting from the expansion of the Electronic Commerce market. On the other hand, although operating expenses grew mainly owing to an increase in bonuses and a rise in volume of Yu-Pack and Yu-Packet handled, the increase of operating expenses was kept within the increase in operating income. As a result, operating income amounted to ¥2,022.5 billion (up ¥92.5 billion year-on-year) and net operating income amounted to ¥41.9 billion (up ¥29.8 billion year-on-year).

Under the “send and receive with greater ease” concept, Japan Post Co. is making efforts to improve Yu-Pack service in response to changes in lifestyle and society, including expansion of the e-commerce market, and an increase in double-income and single-person households. As the first step toward this goal, Japan Post Co. started a service on March 1, 2018 that enables customers to specify a pickup day and time as well as have packages sent to one’s workplace or received at any post office throughout Japan for initial delivery. In addition, we launched Weighted Yu-Pack for packages over 25 kg up to 30 kg with improved Yu-Pack fees in order to maintain stable service. Japan Post Co. expanded its e-shipping service to all post offices (excluding contracted post offices) in October 2017 to make it easier and more convenient to send items from flea market apps and auction sites. With this service, an invoice is made by scanning a two-dimensional code acquired through an e-commerce site at a post office counter or using dedicated printers called “Yu-Pri Touch,” which have been installed at approximately 5,700 post offices. This service is also being provided at Lawson convenience stores through Loppi machines. Certain e-commerce sites also allow privacy-protected shipping, through which the seller and purchaser do not exchange information, and receipt at convenience stores and other locations.
Revision of Postage Fees

Japan Post Co. partially revised postage fees (for second-class mail and nonstandard-size items, etc.) in response to increasing costs in recent years caused by rising personnel expenses, a decline in mail, and an increase in the need for redelivery and returning large parcels to the post office when customers are not at home. Fees for 2018 New Year’s postcards remained unchanged at ¥52, limited to those items sent during the specified period (December 15, 2017 to January 7, 2018), but will be raised to ¥62 for 2019 New Year’s postcards.

Nationwide Deployment and Increased Overseas Destinations of International ePacket Light

International ePacket Light permits confirmation of the delivery status via the Internet and provides delivery of postal items to the addressee’s mailbox or to the addressee in person, within around two weeks, making it particularly suitable for light, relatively inexpensive items. A trial phase mainly for cross-border e-commerce sellers was launched on October 1, 2016, with full-scale operation starting on October 1, 2017. The service is now available at post offices throughout Japan to an increasing number of countries and territories overseas.

Post Logitech Innovation Program

Japan Post Co. launched its first open-innovation program in September 2017, working on joint developments with four start-up companies that have adopted the program. The Post Logitech Innovation Program was started with the aim of realizing a more enriched society through the provision of postal and logistics services befitting a new era. Details of the joint developments were announced at a demonstration day. Through trials and demonstration testing conducted with the adopting companies, efforts are being made to utilize drone delivery, optimize delivery routes using AI, introduce a parcel storage service, and make use of mobile infrastructure to find lost items using postal service vehicles.

Application of Technology Using the Postal Network

Japan Post Co. is selling a loss prevention tag called “MAMORIO” at certain post offices in conjunction with MAMORIO, Inc., one of the companies that have adopted the open-innovation program whose mission is “to help people stop losing things.” We are also conducting demonstration testing for mounting MAMORIO receivers on postal service vehicles. The aim is to expand our network for mobile-type communications infrastructure and use it to search for lost items over a wider area while conducting postal services.
Operations of Japan Post Co.

JAPAN POST GROUP Annual Report 2018

Financial Results for the Year Ended March 2018

In the post office business, operating income decreased due to a fall in banking and insurance commissions, although operating income from third-party financial product agency services expanded and the real estate business is growing steadily. On the other hand, operating expenses remained nearly at the same level as the previous fiscal year despite a drop in personnel expenses resulting from a decrease in new policy sales at Japan Post Insurance Co. and various measures to improve efficiency as well as efforts to reduce other expenses. As a result, operating income amounted to ¥1,358.7 billion (down ¥27.6 billion year-on-year) and net operating income amounted to ¥39.7 billion (down ¥23.5 billion year-on-year).

Initiatives in the Year Ended March 2018

Expanding Sales of Investment Trusts

Japan Post Co. is striving to expand sales of investment trusts in order to support asset-building in consideration of customers’ life plans and needs amid a trend from savings toward asset-building. In the fiscal year ended March 31, 2018, we increased the number of post offices handling investment trusts to 1,416 and the number of post offices referring investment trusts that includes consultation on asset-building to around 18,000 nationwide. We also actively provided guidance on installment-type NISAs that started in January 2018.

Lineup of Affiliated Financial Services

Japan Post Co. offers a variety of affiliated financial services in order to meet different needs, including: cancer insurance (all post offices handling insurance services (excluding contracted post offices); medical insurance with eased underwriting conditions recommended for people who have passed on purchasing insurance for health reasons, under consignment from life and non-life insurance companies (1,467 post offices); individual variable annuities where pension payments, etc. fluctuate depending on management (1,079 post offices); life insurance for companies (for management-level personnel) in order to respond to a variety of needs for executives, such as retirement benefit-related measures for managers and executives, business insurance, business succession and inheritance countermeasures (200 post offices); and automobile insurance with the post office as a non-life insurance agency (1,495 post offices).

*Trends in the Earnings Structure

<table>
<thead>
<tr>
<th>Year ended March 31</th>
<th>Operating income</th>
<th>Net operating income</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>¥1,360.3 billion</td>
<td>¥208.5 billion</td>
</tr>
<tr>
<td>2017</td>
<td>¥1,112.0 billion</td>
<td>¥275.0 billion</td>
</tr>
<tr>
<td>2018</td>
<td>¥1,358.7 billion</td>
<td>¥39.7 billion</td>
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</tbody>
</table>

Sales of Investment Trusts

<table>
<thead>
<tr>
<th>Fiscal years ended March 31</th>
<th>Number of trusts sold</th>
<th>Value (Millions of yen)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>157,098</td>
<td>536</td>
</tr>
<tr>
<td>2017</td>
<td>196,631</td>
<td>584</td>
</tr>
<tr>
<td>2018</td>
<td>258,850</td>
<td>816</td>
</tr>
</tbody>
</table>

* Of the investment trust products sold by Japan Post Bank Co., results indicate total sales handled through Japan Post Co.

The numbers of post offices handling each service stated in parentheses are as of April 1, 2018.
Merchandise Sales

Japan Post Co. has garnered immense praise from customers for the array of merchandise available in its catalogs and at post offices. Popular catalog products include a framed stamp set featuring Mao Asada and Licca-chan dolls, and limited edition Doraemon tableware. At post offices, we started selling “Pokitto-Orrundesu”, an innovative & environment-minded umbrella in June 2017 that was picked up by media and purchased by many customers.

Start of Watch Over Service

Japan Post Co. started providing the Watch Over Service at directly-operated post offices throughout Japan in October 2017. Services include: Visiting Service, where post office staff visit elderly customers on a regular basis to report their living conditions to family members via email; Phone Service, where daily, automated voice calls are made to confirm physical condition of customers, with the results reported to family members; and On-call Service, where personnel from a security firm rush to a customer’s home if requested in case of emergency. Over 10,000 people were using these services as of the end of the fiscal year ended March 31, 2018.

Effective Use of Underutilized Space

Japan Post Co. continues to strive to make use of underutilized space. Specifically, we have established paid parking spots at around 20 underutilized locations and leased unused post office space to other companies. These and other efforts have helped increase earnings. In addition, sharing space inside Japan Post Co. and leasing it to Group companies has led to the cancellation of external borrowings. We are also working hard to sell underutilized real estate that we foresee will not be used.

Developments in the Real Estate Business

The real estate business revolves around the leasing of offices and retail properties, residences, nursery schools and facility services for the elderly. KITTE, a retail facility located in JP Tower, one of the buildings we lease, celebrated fifth anniversary of opening on March 21, 2018 and has had over 123 million people since opening. We are also working the “JP noie” series of rental housings built mainly in the Tokyo area. We are aiming to get stable source of operating revenue. In addition, we built a nursery school and rented it to a nursery operator in support of children and child-raising in Itabashi-ku, Tokyo, in consideration of the recent social background and business feasibility. The nursery operator opened the authorized nursery in April 2018.
In the international logistics business, we proceeded with the Transformation plan measures such as revising Toll’s organizational structure by unification and simplification of divisions and reducing headcount. In addition, Toll worked to improve its consolidated financial results by promoting growth strategies such as capturing the logistics needs in high growth fields such as health care, among other measures. As a result, operating income amounted to ¥704.3 billion (up ¥59.8 billion year-on-year) and net operating income amounted to ¥10.2 billion (up ¥4.6 billion year-on-year) owing to increases in operating income and net operating income in the Global Logistics business and a decrease in net operating loss in the Global Express business and the Global Forwarding business.

Maximizing Synergies between Japan Post Co. and Toll

Japan Post Co. is making efforts to build synergies with Toll by leveraging our nationwide infrastructure in Japan and Toll’s management resources in over 50 countries. Through sales activities for Japanese companies in the Asia Pacific region, we have realized a collaboration on international logistics with a beverage manufacturer, and the transportation of coal through a Japanese-owned Australian mine, among other endeavors. Going forward, we aim to secure new business from multinational corporations that seek further global development, not only in the Asia Pacific region but also in Japan.

Completion of Toll City

Toll is making investments to drive future growth while considering returns on investment. In Singapore, Toll constructed Toll City, a logistics facility used as a hub to expand the provision of services to the Asia Pacific market. Toll City provides high-quality logistics services to customers in such high-growth fields as medical and healthcare through the use of cutting-edge technology. In addition, Toll is currently building two ships, for service between the Australian mainland and Tasmania, as well as a freight terminal in Auckland, New Zealand.