

Message from the President



Masatsugu (Mat) Nagato

President & CEO
Director and Representative Executive Officer
Japan Post Holdings Co., Ltd.

Japan Post Group is Leveraging Its 148-Year History to Become a “Total Lifestyle Support Group” That is Close to Its Customers

“Total Lifestyle Support Group” Envisioned by Japan Post Group

Japan Post Group initiated the postal business in 1871 with the establishment of modern postal service and four years later began postal savings services followed by the start of insurance sales. Our network of 24,000 post offices that reaches to every corner of Japan is a close part of people's lives in local communities. Throughout our 148-year history, we have continually provided reliable services in rain, wind and all types of weather in regions ranging from mountaintops to remote islands. We have also consistently developed products tailored to the needs of a large number of customers. For example, although the first life insurance services in Japan initially targeted high-income households, we began offering small-amount Postal Life Insurance through our post offices driven by our determination to provide “insurance that responds to the needs of an even greater number of customers.” By repeatedly implementing such initiatives, we have built strong trust in today's post office network. In this manner, Japan Post Group has maintained our indispensable presence for each and every customer in local communities.

A “Total Lifestyle Support Group” is our future vision that will be further developed in coming generations based on Japan Post Group's history of getting close to its customers in local communities.

Today as well, we provide services that support “customers throughout their entire lifetime.” These include delivery services such as Yu-Pack that are

matched to customer needs in addition to savings and cashless services that offer convenience in everyday life and core financial services such as insurance that provides people with peace of mind about their future.

Japan Post Group also implements initiatives for supporting local communities such as undertaking business consigned by local public entities through post offices, providing services in collaboration with other companies and participating in regional vitalization funds in cooperation with regional financial institutions.

Going forward, we will develop our postal and logistics, banking and insurance services that are provided mainly via the post office network. We will also promote new services that support and are a close part of people's lives with the assumption that these services will naturally be viable as new businesses.

Issues Surrounding Japan Post Group

In reviewing current circumstances, I anticipate that the management environment this year will become increasingly severe and that global economic growth will likely decelerate gradually over the medium and long terms.

Regarding the Japanese economy, I expect the harsh interest rate environment to continue. Furthermore, from an overall perspective, the Japanese economy is becoming saturated and GDP growth of 10% that was recorded in the past is no longer possible. Japan's latent real GDP growth rate is now under 1%. Moreover, the structurally declining birthrate and aging

of the population will advance, while declines of regional areas and a tightening of supply and demand for labor are expected to persist. For the logistics industry in particular, the redelivery of packages due to the absence of recipients is a major issue everywhere.

Meanwhile, responding to technology is also another key issue. As we maintain our awareness of cost effectiveness, in the logistics business we must keep a close watch on cutting-edge technologies such as automation in a broad sense as well as drones and autonomous driving. In the banking and life insurance businesses as well, we must rapidly adopt Fintech and other technologies. By utilizing technology to improve efficiency, I hope to deploy employees in growth fields more than ever before.

Entering the Second Year of Japan Post Group Medium-Term Management Plan 2020

In the fiscal year ended March 31, 2019, Japan Post

Group announced Japan Post Group Medium-Term Management Plan 2020 for realizing its future vision of becoming a “Total Lifestyle Support Group,” which I alluded to at the outset of this message. When the plan was announced, I remarked that “This three-year plan will face the toughest environment than will any other future Medium-Term Management Plan.” By this, I mean that approximately 70% of Japan Post Group’s profits are accounted for by Japan Post Bank Co. and 20% by Japan Post Insurance Co. So more than anything, ultra-low interest rates in Japan will have a tremendous adverse impact on the Group’s profits during the Medium-Term Management Plan.

Even though we operated under such challenging conditions in the fiscal year ended March 31, 2019, the first year of the Medium-Term Management Plan, our results exceeded the initial forecast, as revenues from Yu-Pack and Yu-Packet expanded at Japan Post Co. and investment income by Japan Post Insurance Co. trended firmly. Thanks to these results, net income attributable to Japan Post Holdings Co. amounted to ¥479.4 billion, topping the initial forecast of ¥330.0





billion. Nonetheless, as we enter the second year of the Medium-Term Management Plan, the environment surrounding Japan Post Group is becoming increasingly harsh. First of all, I believe it is imperative that we faithfully and speedily pursue the directions articulated in the Medium-Term Management Plan.

Despite the recent downtrend in our postal services business at Japan Post Co., an expansion in EC markets is expected to continue. Given this outlook, we aim to achieve further growth in the handling of Yu-Pack and Yu-Packet. We are also promoting various measures in response to tightening supply and demand for labor. For instance, to reduce the number of redeliveries, in December 2018 we undertook verification testing of OKIPPA, a service for leaving packages in designated areas, together with Yper Inc. We will also push forward with the establishment of receiving facilities beginning with “HAKO POST” receiving lockers.

We also intend to promote businesses that effectively utilize the postal network together with other companies and regional entities. As prime examples,

we are starting new businesses using the 24,000 post offices across Japan such as installing regional bank ATMs inside post offices and offering a luggage handling service for travelers. Besides these, we are now pursuing collaborative businesses by investing in venture companies through JAPAN POST CAPITAL Co.

Japan Post Bank Co.’s revenue is derived almost entirely from asset management. With this in mind, we will secure stable earnings by continuously sophisticating and diversifying asset management under appropriate risk management. On the other hand, compared with asset management revenues, service commission revenues such as from remittances, settlements and investment trust sales are still small. Although our share for deposits in Japan is roughly 20%, our investment trusts balance share is just around 3%. This amounts to ¥2 trillion in a ¥70 trillion market. As these figures suggest, we still have significant leeway for growing our market share. Additionally, regional vitalization is currently a major theme in Japan, and so we are also actively promoting investments in regional

revitalization funds in collaboration with regional financial institutions.

Japan Post Insurance Co.'s premium income from policies in force accounts for the largest portion of its revenue. Insurance products consist of savings-type

products and protection-type products. However, sales of savings-type products are becoming increasingly difficult under current low interest rate policies. On the brighter side, we foresee growing demand for protection-type products amid rising

● Trends in Medium-Term Management Plans

Business fields	Basic policies	Results of the fiscal year ended March 31, 2019
1. Postal and domestic logistics business	Comprehensive review of products and operations systems and strengthening of service infrastructure to support an expansion in parcels	<ul style="list-style-type: none"> ● Strengthening of sales to medium- and small-scale customers and building of a sales structure that can make unified responses to the wide-ranging needs of customers ● Improvement of Yu-Pack services that include commencement of new services such as Yu-Pack Smartphone Discount and e-Receiving Assistance and expansion of desired delivery time frame ● Consolidation and mechanization of internal operations at collection and delivery post offices and improvement of transportation efficiency, improvement of productivity of letter collection and delivery operations, and establishment of facilities for responding to an increase in parcels and a system for transportation and collection and delivery
2. Post office business	Coexistence with local community by maintaining, strengthening and maximally utilizing the post office network through deployment of unique and diverse post offices in accordance with regional needs, etc.	<ul style="list-style-type: none"> ● Improvement of sales capabilities of employees and of the management capabilities of managers through training in collaboration with Japan Post Bank Co. and Japan Post Insurance Co. ● Expansion of post offices handling investment trusts, permeation of management style emphasizing financial assets under management through means such as convening the Comprehensive Financial Consultation Meetings, expansion of new policies and new customers ● Expansion, upgrading and development of products, promotion of diversification of sales channels ● Promotion of leasing business that includes offices leased in JP Tower, commercial facilities, residences and nursery schools ● Strategic locating of post offices, including locating of post offices inside shopping centers ● Completion of increased deployment of cash management machines and introduction of new business flows ● Provision of Watch Over Service
3. International logistics business	Improvements in management of Toll and deployment of contract logistics in Japan through strengthening synergy between JP and Toll	<ul style="list-style-type: none"> ● Enhancement of efficiency through building of new financial accounting systems and introduction of shared services ● Entry into healthcare and other high-growth fields, opening of Toll City cutting-edge logistics hub ● Launch of JP TOLL LOGISTICS Co. that aims to provide integrated solutions
4. Banking business	Diversification and sophistication of investment management, expansion of non-interest revenue and efficient resource allocation	<ul style="list-style-type: none"> ● Increasing of asset management consultant staff, cultivation of human resources through guidance and training ● Installation and relocation of ATMs to highly convenient locations, promotion of installation of compact ATMs mainly in FamilyMart stores, installation of compact ATMs in branches of Aozora Bank, Ltd. ● Promotion of quick permeation and usage of Yucho Pay smartphone settlement service ● Promotion of internationally diversified investments under appropriate risk management, execution of alternative investments and foreign securities investment based on the market environment ● New participation in regional revitalization funds
5. Life insurance business	Reversal/growth of policies in force through sales activities focusing on protection needs and improvement in solicitation quality	<ul style="list-style-type: none"> ● Training for sales personnel, improving the sales skills, cultivation of new customer base utilizing the Family Registration Scheme ● Thoroughgoing customer-first sales activities such as further strengthening the confirmation of intent of elderly customers ● Obtained approval for new operations (underwriting of whole life insurance, endowment insurance, etc., with relaxed underwriting criteria; and underwriting of advanced medical rider) ● Expansion of digital contact points utilizing LINE and the health support app (<i>Sukoyakanpo</i>) ● Phased introduction of insurance procedure support system for automatically creating invoices based on policy information and claim contents ● Expansion of investments in risk assets within the scope of risk buffer based on ALM



longevity risk among individuals along with the ongoing aging of the population. Accordingly, we are starting to witness competitive battles of ingenuity in addressing such challenges as how to insure these risks faced by individuals, and in doing so, what types of insurance products should be developed and sold. As part of these efforts, in April 2019 we commenced sales of a newly developed rider for advanced medical care. By developing such new products, we aim to expand our business results in third sector products. As we work to strengthen sales focused on protection, we will strive to improve the development and sales skills of sales personnel. From April 2019, we launched products with relaxed underwriting criteria to enable previously uninsurable persons to enroll in insurance in line with our policy for achieving growth in the number of contracts.

Turning to the real estate business, we established Japan Post Real Estate Co. to serve as Japan Post Group's fourth primary source of revenue after the postal and logistics, banking and life insurance businesses. By establishing this company, we aim to accelerate our real estate business.

On a different front, in April 2019 we sold shares in Japan Post Insurance Co., and as a result, the Company's shareholdings in Japan Post Insurance Co. declined to 64.5%. Concerning the sale of shares of the two financial companies, in accordance with the purpose of the Postal Service Privatization Act, with a view to increasing management flexibility of these two financial companies, securing the Group's unity, and demonstrating the Group's comprehensive capabilities, the Company intends to sell shares of these two financial companies step by step so that Company's

ownership ratio will be around 50%. Although the share sale in April does not immediately eliminate the additional statutory operational regulations imposed on Japan Post Insurance Co., I believe this amply demonstrates Japan Post Holdings commitment to providing a greater degree of independence to the management of Japan Post Insurance Co.

Anticipating the Future of Japan Post Group

With an eye to the future, I believe that maintaining corporate value through self-sustaining growth alone will be difficult. To further raise the corporate value of Japan Post Group, we must therefore focus on three points.

The first is securing alternate earnings sources to replace those of Japan Post Bank Co. and Japan Post Insurance Co. In adhering to the intention of the Postal Service Privatization Act, we will, first of all, implement a policy of gradually selling shares in these two financial companies until our ownership ratio reach the 50% level. As the sale of shares in Japan Post Bank Co. and Japan Post Insurance Co. moves forward, we will gradually lose consolidated revenues and profits so we must create new sources of revenue to replace these.

The second point is to establish a solid position as our envisioned "Total Lifestyle Support Group." We must never pass up any opportunities to collaborate with other companies that have management philosophies similar to our mission or with growth companies regardless of whether these are Japanese or overseas companies.

Third, we must hedge any risk of disruptions arising from path-breaking innovations that shake the foundation of Japan Post Group's businesses and undermine these businesses.

Without the awareness of this risk of disruptions as a company that aims to be a "Total Lifestyle Support Group," we could lose out on irreplaceable major business opportunities, and this could precipitate our own decline. I believe that one of management's important responsibilities is to respond to anything that significantly changes the world.

So how will we further develop Japan Post Group? One effective means is to make investments, and in

broad terms this encompasses M&A. One such previous investment was our acquisition of Toll Holdings Limited, an Australian logistics company. More recently, Japan Post Holdings Co. invested in Aflac Incorporated.

With the investment in Aflac Incorporated, we acquired approximately 7% of Aflac Incorporated's outstanding common shares. To encourage long-term investment by shareholders, Aflac Incorporated's Articles of Incorporation stipulate that each share is entitled to 10 votes, or a ten-fold increase, after holding shares for four years. Therefore, Japan Post Holdings voting rights are expected to surpass 20% four years after acquisition. Although Japan Post Holdings Co. initially receives only dividend income from this investment, when voting rights exceed 20% we will reflect a portion of Aflac Incorporated's earnings in our consolidated earnings via application of the equity method of accounting.

In this manner, the investment for the acquisition of 7% of Aflac Incorporated's outstanding common shares will enable Japan Post Holdings Co. to earn large returns by applying the equity method. Besides

further advancing initiatives in cancer insurance carried out to the present by Aflac Life Insurance Japan Ltd., Japan Post Co. and Japan Post Insurance Co., we will also consider new initiatives for cooperation. These include leveraging digital technology in various processes, cooperation in new product development, collaboration in domestic and overseas business expansion, joint investments in third-party entities and cooperation in asset management.

Toward Sustainable Growth

Environmental, social and governance (ESG) is an essential theme when considering long-term management into the future. There are of course things we need to do regarding ESG as a company and we will make proactive efforts toward this end.

This year, I once again participated in the Davos World Economic Forum. During this time, I gained a strong sense that implementing management strategies with a long-term perspective is emerging as an



extremely important theme for a great many investors. It was also evident that making environmental considerations in business operations is becoming increasingly crucial. Regarding this point, I foresee actions, such as divestments from fossil fuel-related companies, gaining further momentum.

In April 2019, Japan Post Holdings Co., Japan Post Bank Co. and Japan Post Insurance Co. declared their support for the Recommendations of the Task Force on Climate-related Financial Disclosures (TCFD)*1. To the present, Japan Post Group has promoted efforts to contribute to the realization of a sustainable society that include initiatives to reduce greenhouse gas emissions and investments in Green Bonds. Japan Post Group will strive for increased information disclosure by deepening its analysis of the impact of climate change on the business of each Japan Post Group company based on the TCFD recommendations.

At the Davos World Economic Forum, I was told by participants from various foreign countries that governance (G) is an important issue for Japan, as governance-related problems have occurred at several Japanese companies. Due in part to these incidents, Japan's corporate governance is once again being closely scrutinized. Japan Post Group pays careful attention to its governance. For example, it is frequently said that companies with listed parent and subsidiary companies should have a high percentage of outside directors. The majority of directors at Japan Post Group are outside directors, which represents an extremely high proportion of outside directors. Moreover, these directors are outstanding persons who are leading figures in Japan. Japan Post Group is continually fortified at the Board of Directors Meeting through active discussions that draw on the knowledge and experience of these directors.

*1. Established by the Financial Stability Board on December 4, 2015

Human Resources are Japan Post Group's Most Important Asset

For well over 100 years, it has been none other than our dedicated employees who have gotten close to customers and the local communities and earnestly continued to provide services. Our human resources form our team of human capital. The energy of each

and every employee is absolutely essential for us to remain an outstanding organization. Japan Post Group employees sometimes speak to me frankly about their concerns whenever I exchange opinions with them. Although work style reforms are of course essential to fully deploy the capabilities of each employee, I believe that creating environments in which supervisors can address these matters worrying employees is also important.

The most important factor for raising the motivation of every employee is for Japan Post Group to be a "Good Company." That said, regardless of the good work environments we establish, employees will never acquire passion for their jobs in a company that lacks a bright future. Mindful of this, I will strive to make Japan Post Holdings Co. a "Good Company" that is admired the world over.

To become a "Good Company," Japan Post Group must carry out unified business management while also combining individual strengths. In doing so, I aim to more firmly establish "Team JP." Experience is the best way to gain knowledge. For this reason, we implement job rotations that transcend company boundaries and also believe job rotations that can improve communications between the head office and the front lines of business are also important.

In Conclusion

When undertaking business, thinking humbly about people's needs and responding to these throughout the world is important. If we are continually aware of devoting our utmost efforts to customers, this will inevitably lead to our next business. We should continually put this idea into practice. In the future, we will naturally encounter times of difficulty because that is the very nature of business, and there will be challenges that we must overcome. As its fate, Japan Post Group is a company that must continue to shine for the next 100 years drawing on its 148-year history.

Team JP will never forget its aspirations and mission in working as one and will make its utmost efforts as it strides toward the future.