# Teleconference of the Financial Results for the Fiscal Year Ended March 31, 2019 Summary of Q&A

(May 15, 2019)

Q Can you tell us about your thinking behind the financial results forecast of Japan Post Co. and its consistency with the business plan approved by the Minister of Internal Affairs and Communications? Does the financial results forecast reflect the prevailing situation after the formulation of the business plan?

A While the definition of the business plan may vary to a certain extent, the basic assumptions (e.g., the volume of items handled) remain the same. The forecast does not particularly reflect the prevailing situation after the formulation of the business plan.

Q There is a discrepancy of ¥43.0 billion between the consolidated net income of ¥420.0 billion forecasted for Japan Post Holdings for the fiscal year ending March 31, 2020, and the total amount of net income forecasted for the three companies - Japan Post Co., Japan Post Bank, and Japan Post Insurance. Can you explain this difference?

A The main factor for this difference is the net income attributable to non-controlling interests. In particular, 11% for Japan Post Bank and, approximately 35% for Japan Post Insurance, which percentage for Japan Post Insurance has increased compared to the previous fiscal year as a result of the offering of its shares in April. The remainder can be attributed to the impact of Japan Post Holdings' own businesses and the effects of consolidated adjustments.

Q The consolidated net income for the fiscal year ended March 31, 2019 of approximately ¥480.0 billion deviated above the forecast of ¥430.0 billion by 11.5%. However, on a non-consolidated basis, the differences from the forecast for individual companies were not as much, at +1.3% for Japan Post Co., +2.3% for Japan Post Bank, and +8.5% for Japan Post Insurance. What was the largest factor behind the deviation of the consolidated results above the forecasts?

A The major factor that caused the consolidated results to deviate more substantially above the forecast than the individual companies' was the fact that the expenses for the holding company were lower than expected, and income taxes also turned out to be much lower than expected.

Q The offering of shares of Japan Post Insurance was conducted in April. How was this incorporated into the financial results forecast for the fiscal year ending March 31, 2020? I would also like to know how you intend to use the proceeds from the offering, going forward.

A The decrease in Japan Post Holdings' equity interests has been incorporated into the forecast. The gain or loss on the sale of shares has had a certain degree of impact on non-consolidated net income. However, there has been no impact on consolidated net income.

As for the use of the funds, it is being considered in the context of the capital policy as a whole, and we intend to use these funds effectively in growth investments for the Japan Post Group and to return profits to shareholders, among other uses.

Q Regarding the new system under which a portion of the commissions paid by Japan Post Bank and Japan Post Insurance to Japan Post will be converted to contributions / funds starting from the fiscal year ending March 31, 2020, has this change been incorporated in the company's business plan? In addition, please explain the background for the lower Postal Office Business earnings forecast despite an expected increase in commissions from Japan Post Insurance. We understand that Japan Post Insurance is expecting an increase in operating expenses and commissions as part of its efforts to achieve the bottoming out/reversal of policies in force.

A We expect that the so-called contribution / fund system will reduce consumption tax payments by approximately ¥20.0 billion for the entire Japan Post Group, which is incorporated in our plan. The Life Insurance Business is conducting sales activities with the goal of achieving an increase in policies in force. However, this will be offset by higher expenses for IT systems and replacement of terminals, resulting in the forecast of decreased net operating income.

Q I would like to hear more details regarding the plan of the Postal and Domestic Logistics Business for the fiscal year ending March 31, 2020. For example, do you expect increases in revenue but decreases in net income, or decreases in both revenue and net income? Also, what exactly are the one-time expenses?

A In terms of revenue, we continue to expect increases in revenue in the parcel business, including Yu-Packs. However, given that the effect of price hikes on improving revenue will run its course in the fiscal year ending March 31, 2020, we will not see increases in revenue on the scale of the previous fiscal year. In addition, Postal Business has been expecting a decrease in the volume of mail, and postage sales are also expected to decline.

Meanwhile, in terms of expenses, we will continue to address the improvement of productivity and cost control. However, we are expecting raises in the wages of fixed-term employees. In addition, we are expecting several billion yen in temporary expenses for system renewals, and because of these increasing factors in expenses, we are forecasting a decrease in net operating income.

Q The International Logistics Business, which had generally flat performance during the fiscal year ended March 31, 2019, is expecting an increase in net operating income in the fiscal year ending March 31, 2020. Why is the trend expected to be different from the previous year?

A The business environment surrounding the International Logistics Business is expected to remain harsh in the fiscal year ending March 31, 2020 due to the outlook for the Chinese economy, among other factors. Under such circumstances, we plan to expand our logistics business in Asia, mainly in Singapore, in addition to closing unprofitable bases and cutting costs.

There is also the impact of changes in the IFRS lease accounting standards. Lease expenses that had previously been recorded under operating expenses will be divided and recognized as depreciation and interest expenses, and interest expenses will no longer be included in EBIT. While there will be no changes on a net income basis, on an EBIT basis, this is expected to have the effect of boosting net operating income by roughly ¥5.0 billion.

Q What are the reasons for leaving dividends unchanged, at ¥50 per share? Are you considering a share repurchase using the funds generated from the strong business performance? Are you exploring the possibility of a share buyback using the funds generated from the sale of Japan Post Insurance shares? What is the background for the statement, “Japan Post Holdings will also consider the share repurchase” in the IR materials?

The materials also stated dividends per share of “at least ¥50.” What are your thoughts on this “at least ¥50” in relation to business performance?

A In terms of the policy for return to shareholders, we stated in our medium-term management plan that we will aim for stable distribution of annual dividends of at least ¥50 per share, and we decided ¥50 per share, primarily based on this policy. Meanwhile, as business performance significantly exceeded our initial forecast, we noted that we would consider repurchasing shares from the standpoint of returning profits to the shareholders. However, the share repurchase will require a consideration of various elements, and there is also the issue of how to effectively use the funds from the sale of Japan Post Insurance shares. In determining the use of the funds, our decisions will be based on a balance between the Group’s growth strategies and a return to shareholders, as we have done in the past. At the moment, we have not yet reached a specific decision. However, we have stated in the materials our intention to thoroughly consider the matter.

Q It says that you expect an increase in the volume of Yu-Packs handled. What are your thoughts on the underlying pricing strategies and the trends of competitors?

A The home delivery industry as a whole moved forward with massive price hikes from FY2017 to FY2018, and from the latter half of the previous fiscal year, the industry seems to have transitioned to a policy of steadily redirecting increases in costs. Our pricing strategy is basically the same. In light of a current decrease in the volume of parcels, we do not intend to lower our prices simply for the sake of capturing a bigger market share. However, we are considering a number of strategies including certain price adjustments on a per-customer basis, and we will promote a policy of capturing customers that should be captured.

End

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