Company Briefing
(Financial Results for the Fiscal Year Ended March 31, 2019)
Summary of Q&A
(May 22, 2019)

Q Why did you conduct the secondary offering of Japan Post Insurance shares at this scale? What was the reason for not reducing the ratio of voting rights to 50%?

A We considered conducting the offering of shares of Japan Post Bank and Japan Post Insurance carefully from a management point of view, and decided to first deal with Japan Post Insurance shares, which maintained a higher price than the offer price of IPO. The percentage of the offering was determined based on various simulations including the effects of dilution and an enhancement of managerial freedom.

Q What is the outlook for personnel expenses of Japan Post Co.?

A In FY 2020/3, we are anticipating a combined Yu-Pack and Yu-Packet volume of 1,080 million items, of which Yu-Pack is expected to contribute a total of 600 million items, thus maintaining a level similar to FY 2018/3. In addition, while we expect a continued increase in Yu-Packet volume, we are planning to increase automation with the use of sorting machines, and combined with a decrease in the volume of mail, the increase in workload is expected to be modest.

Due to the accelerated rise in the unit price of wages and the growing problem of labor shortages, how to control personnel expenses in FY2020/3 continues to be an issue. We will attempt to build systems that increase productivity, such as mechanization, and support efficient workstyles.

Q Are you expecting a surge in personnel expenses due to the introduction of a system of equal pay for equal work and improvement of labor conditions similarly to other logistics companies?

A While Japan Post Co. will be revising its allowance for dependents and raising the mandatory retirement age in order to ensure equal pay for equal work as a result of the 2019 spring labor offensive, we will see the impact of these measures in and after FY 2021/3 and its monetary impact is also expected to be negligible.

Following the spring labor offensive, we have been meticulously implementing measures related to the labor environment—for example, granting marriage leave to LGBT employees. Going forward, management intends to meet labor-related issues head-on, and respond to rising personnel expenses and other issues caused by the tightening of labor supply and demand.

Q How will the proceeds from the sale of Japan Post Insurance shares be used? Will the proceeds be used for the capital alliance with Aflac, as funds for new M&A activity, or returns to shareholders?

A We intend to consider various possibilities to use the proceeds from the sale in a well-balanced and constructive manner. We will consider returns to shareholders as well as proactive M&A activity, if any.

We decided to invest in Aflac from the perspective of securing the necessary economic viability, and as such, this decision was not connected to the sale of Japan Post Insurance shares.

Japan Post Holdings has ample borrowing capacity, therefore new loans are also possible. When we implement something that requires a large amount of funds, we may use the proceeds from the sale of Japan Post Insurance shares or take out a loan.

Q Regarding the capital alliance with Daiwa Securities, why did Japan Post Holdings decide to acquire their equity? Also, are there any plans for additional acquisitions in the future?

A We offered to acquire equity in Daiwa Securities in an effort to indicate our stance on cooperation based on the belief that, in the shift "from savings to investment," Japan Post Holdings and Daiwa Securities would be able to mutually utilize their respective strengths and management resources. Going forward, we intend to establish a cooperative framework, such as the development of discretionary investment services through wrap accounts and new consulting services.

As the current equity investment is not intended for members of one group to join the other, there are no plans for additional acquisitions.

Q What are your future strategies for Yu-Pack and Yu-Packet?

A We are promoting various measures including improvements in the convenience of shipment and receipt of Yu-Packs and Yu-Packets, careful attempts to re-approach to customers who have left us as a result of rate revisions, deployment of marketing of business solutions services, provision of apps for printing address labels, and offering of logistics services by utilizing unused space at post offices. Moreover, through further reviews of products and services as well as new product development, in line with the expansion of e-commerce, we aim to secure an appropriate profit margin as well as increases in the volumes of these items handled.

Q What is your assessment of the progress in improvement of the International Logistics Business?

A Since recognizing impairment losses on Toll, we have been promoting business unit reorganization and controlling costs through reduction of employees and other means. We have also recently standardized accounting operations in approximately 50 countries by adopting a new financial accounting system. Although we have secured a certain level of profits by steadily implementing these measures, expansion of net sales will be crucial for a further growth in profits.

Within Toll's profit structure, logistics relating to the natural resources and energy industry accounts for a certain proportion of gross profit, and current crude oil price levels have proven to be a severe factor in the business environment for Toll. We have been implementing various measures to increase sales, including prioritized allocation of management resources to the healthcare and technology sectors, which promise high growth potential, and installation of the "Japan Desk" at Toll, a sales team dedicated to capturing business from Japanese companies operating in Australia.

Q Given that the medium-term management plan indicates earnings per share of ¥100 or more as a quantitative target for FY 2021/3 on a consolidated basis, and that equity in net income of Japan Post Bank and Japan Post Insurance are expected to decline, is Japan Post Holdings considering a share repurchase using the proceeds from the sale of shares of Japan Post Insurance?

A The targets for EPS were disclosed with the intent of offering EPS and DPS as benchmarks in evaluating Japan Post Holdings at a time when it was unclear when shares of Japan Post Bank and Japan Post Insurance would be offered for sale, and we are committed to achieving these targets. We are considering a share repurchase as one of the possible capital policies, since it leads to returns to shareholders and an increase in EPS.

However, we believe that a share repurchase should be decided by maintaining a balance between an inflow of funds, including various financing methods not limited to proceeds from the sale of shares such as loans, and profit levels, and an outflow of funds such as funds to be allocated to future investments including funds to acquire equity in Aflac.

The proceeds from the recent sale of Japan Post Insurance shares are therefore not directly linked to any potential share repurchase, and various factors would need to be considered therefor.

Q Given the condition imposed by the Postal Privatization Committee for future deliberations on raising the deposit ceiling of Japan Post Bank (to lower the shareholding ratio of Japan Post Holdings to less than two-thirds), in terms of the sales of the shares of Japan Post Bank and Japan Post Insurance, will the sale of shares of Japan Post Bank be given priority? Will it make a sale of shares of Japan Post Insurance less likely?

In addition, are you also considering the possibility of Japan Post Insurance repurchasing shares directly from Japan Post Holdings, lowering the shareholding ratio of Japan Post Holdings to 50%?

A We have no intention of selling the shares of Japan Post Bank first because we need to raise the Bank's deposit ceiling to increase deposits. The deposit ceiling has been raised as a way of ensuring the convenience of customers whose deposit balances had exceeded the ceiling.

We are aiming, first of all, to sell shares of Japan Post Bank and Japan Post Insurance to reduce our shareholding ratio to 50% in order to gain managerial freedom. However, the actual sale will be determined through a consideration of various factors, including the business conditions of each company, the performance of the entire Group, and the feasibility of offering universal services, among other factors. With that said, we have no intention of prioritizing the sale of Japan Post Bank shares, or to de-prioritize sales of Japan Post Insurance shares.

Furthermore, regarding any possible share repurchase by Japan Post Insurance from Japan Post Holdings, we would also need to consider the capital adequacy of Japan Post Insurance. However, we will keep that in mind as a valuable suggestion.

Q What are the benefits of making equity investments in Aflac Incorporated? In terms of post office sales strategies, will this not result in cannibalization between the products of Japan Post Insurance and that of Aflac?

A We have been engaged in regular exchanges of opinion with Aflac since we began to sell cancer insurance in 2008, and have established a solid relationship of mutual trust. This strategic alliance aims for a sustained growth cycle for both parties, as the growth of Aflac Life Insurance is expected to contribute to the profits of Japan Post Holdings. As we have known since the approval of the planned privatization scheme that our equity in net income from the sale of shares of Japan Post Bank and Japan Post Insurance will eventually cease, we needed to secure a new source of revenue. This is why we decided to invest in Aflac, in anticipation of its high economic viability, as indicated by increases in its dividends for the past 36 consecutive years. We have no intention of acquiring either a controlling interest or management control over the Aflac Group, or intervening in its business.

We are also promoting a policy for various avenues of collaboration, including reconfirming our initiatives in cancer insurance for future development and the utilization of digital technology.

For the Japan Post Group, Japan Post Insurance, which we consider a "family member" of our Group, has greater priority than Aflac Life Insurance, which is a business partner. In the agreement among Japan Post Holdings, Aflac Incorporated and Aflac Life Insurance, collaborative measures require the consent of all three companies, and we would reject any measure that could negatively impact Japan Post Insurance.

Q The Ministry of Finance is planning a third offering of shares of Japan Post Holdings. However, the stock prices seem to have fallen since the first offering. What is management planning to do to raise stock prices?

A Stock prices are determined by the market based on various factors. As management, we plan to do what needs to be done to enhance corporate value.

Q The financial results for the fiscal year ended March 31, 2019 have exceeded the profit targets of the medium-term management plan. Shouldn't Japan Post Holdings make further appeals to the market regarding how its business results are improving, for example, by making changes to the plan?

A We have no plans to make changes to the medium-term management plan at the present time. On the other hand, we do not consider the current plan to be absolute. We may change our strategies as necessary, although not necessarily in the form of the medium-term management plan. If any additional measures are required, we will disclose them to the market as appropriate.