

Company Briefing
(Interim Financial Results for the Six Months Ended September 30, 2020)
Summary of Q&A
(November 18, 2020)

Q There are reports of a partial sale of your equity interests in Toll Holdings Limited (Toll). Will there be any change in your positioning of international logistics?

A The international logistics business will remain an important sector. Although we are considering selling the global express business, as for our other businesses, we will promote management reforms. We are currently heavily affected by the COVID-19 pandemic, but will carefully watch trends in the international logistics market and build up a solid scheme in order to explore a range of possibilities.

Q The “Japan Post Group Basic Approach to the Group Medium-term Management Plan (2021 - 2025)” (the “Basic Approach”) states that you will make operations more flexible at post offices, in order to improve efficiency and productivity. What plans do you have for post offices and their network in dealing with this?

Also, there are issues regarding the suspension of postal deliveries on Saturdays. What is your approach to universal services?

A As universal services involve the fundamentals of relevant laws, our opinions form only one side of the discussion. However, in our view, the content of universal services should change with the times.

We intend to lobby the government to make minor changes to the details of universal services so as to meet the needs of the times.

Our post office network will work to streamline human resources and other assets. However, as the current post office network is a unique asset that is not easily replaced, we are exploring business models that leverage the post office network while flexibly addressing the needs of communities that differ from region to region. In order to come up with ideas of how to best utilize the post office network and generate profits, we have set up a point of contact for regional vitalization, and the New Businesses Office is looking into the inputs.

We intend to find new ways of using our network and turn them into a business model of the future, including the adoption of subsidy programs for regional vitalization hosted by the government.

Q In the Basic Approach, it seems that you are keen on disposing of your equity interests in subsidiaries. In case you are not able to promptly apply the

proceeds from the sale of shares in Japan Post Bank and Japan Post Insurance to investment, will there be share repurchases?

Furthermore, if you are using the proceeds for M&As, what is your policy?

A Basically, the proceeds will be used for investment, and we expect that considerable cost will be incurred for digital transformation (DX) investment. While we intend to aggressively invest in areas that lead to future growth, share repurchases are always an option.

Future M&A policies need to be discussed in detail in the next Group Medium-term Management Plan, but we intend to actively pursue M&As especially in areas with strong synergistic effects. In addition, by way of DX investment, we will make proper use of the various forms of data and information that currently pass before our very eyes untouched by digitizing them for future businesses.

The amount and timing of investment will be duly verified concurrently with the possibility of share repurchases and other capital policy measures.

Hopefully, society would have overcome the COVID-19 pandemic when we proceed with the next Group Medium-term Management Plan. We will actively work on appropriate investment and capital and dividend policies.

Q Do you feel the need to form new partnerships and implement M&As inside and outside Japan in the areas of international logistics and business to business (B-to-B) logistics?

A Japan Post Holdings acquired a B-to-B company Toll Express Japan through the merger of Toll. To reinforce our business base for B-to-B logistics in Japan, which is still very weak, two years ago we jointly established JP Toll Logistics with Toll. This was aimed at expanding our B-to-B business in Japan by utilizing Toll's know-how, in addition to international logistics to and from Japan, but it still has not produced sufficient results.

Going forward, we believe it is necessary to expand our B-to-B logistics business, which leaves plenty of room for partnerships or M&As.

Q We understand that shares in Japan Post Bank and Japan Post Insurance will be sold in the long run, but is there an option of promoting structural reform by temporarily making them wholly-owned subsidiaries of Japan Post Holdings? Isn't it natural to review the plan, given the current business environment has significantly changed from that when the related laws were formulated?

A As the Postal Service Privatization Act resulted from extensive political discussion sweeping the nation, it is not our place to give an opinion. The law has been laid down to fully dispose of our shares in the two financial subsidiaries at an early stage, and basically we must move in that direction, with a sense of speed.

Meanwhile, as you pointed out, structural reforms are necessary, and we aim

to reduce our share of voting rights to around 50%, as early as possible. We will study various measures for example to enrich our product lineup necessary for gaining the support of customers by allowing more flexibility in management.

Q Competitors are promoting cost structure reforms and launching large logistics centers. What measures are Japan Post Co. taking for its logistics business?

A In the first half, both Yu-Pack and Yu-Packet grew significantly thanks to increased stay-at-home consumption. Meanwhile, competition is intensifying, as some major online retailers switch to in-house delivery. Against this backdrop, Japan Post Co. will promote operational reforms by improving efficiency through DX, thereby achieve low-cost, efficient and high quality operations, to provide competitive services. Furthermore, we recently announced a new product called Yu-Packet Post. We will improve and enhance our services while continuing to develop various products that will enhance convenience for customers receiving parcels.

Q Japan Post Insurance has commented they are fundamentally reviewing its operating cost structure for commissions paid to Japan Post Co. However, there are limits to costs that can be reduced by Japan Post Insurance alone. Shouldn't Japan Post Co. also reduce the cost of counter operations at its post offices to reduce the commissions?

A We are well aware of cost reduction needed in the post office business, and are addressing it in an ongoing manner. In the next Group Medium-term Management Plan, for example, we are considering the adoption of tablet devices in consulting services and digitizing consulting tools and administrative procedures as solutions for a variety of issues. We recognize that the challenge we are currently facing is how to achieve higher efficiency and automation of counter operations through digitization in unison with sales operations.

Q Amidst the background of a declining population in society, it is necessary to reform cost structure. Can't you reduce the number of post offices while maintaining the level of service by promoting DX?

A As much as we would like to fully streamline our services and reduce cost by changing the cost structure through DX, it will require us to review the level of our universal services.

In regional areas where the population will rapidly decrease, naturally, there will be a decline in the number of customers visiting post offices. The number of post offices will decline in line with the decrease in population. On the other hand, the service levels required by customers involve various

community issues and the needs of community residents, which extend beyond the services we offer, such as financial products, mail and parcel services, and the stamps provided at our post office counters. We are eyeing the potential of post offices to function as a platform that provides new services, such as relaying needs, and in some cases, solving issues.

For all the charitable intentions underlying such services, they must be feasible as a business, for our post offices to go beyond the reach of government services.

Going forward, the population is expected to dramatically change every five years. We will review the locations and number of post offices accordingly.

Q With a limited market for selling savings-type life insurance products in the future, premium income is unlikely to increase. How will you increase products that will sell themselves?

A Current interest rate conditions take away from the product appeal of our lineup. We need to further expand in other areas, such as medical insurance. To that end, we will continue disposing of our equity interests in the subsidiaries to shift from the authorization system to a notification system, which will shorten the lead time from product planning to launch. We will review our product mix and lineup to meet customer intentions, and explore new sales channels to offer services tailored to customer needs in future.

Q The Basic Approach mentions that you will continue to consider returning profits to shareholders as an important management measure. What are the details of your shareholder return policy?

A We need to take more factors into consideration regarding the dividend policy under the next Group Medium-term Management Plan. We would like to consider the next year and beyond based on how life will change with and after the coronavirus up to March 2021, as well as the financial results for the fiscal year ending March 31, 2021.

We intend to live up to the promises made in the current Group Medium-term Management Plan of paying dividends of ¥50 per share. At the same time, the next Group Medium-term Management Plan will be developed by incorporating these developments.

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