

Small Meeting: Part 1 (Japan Post Co.)
Summary of Q&A
(July 6, 2021)

Q You have indicated that you will be cutting personnel expenses by 160 billion yen by 2025. However, personnel expenses are projected to fall by around a little less than 100 billion yen as a result of having consultants dispatched to Japan Post Insurance. Can we assume that the difference between these two amounts will actually manifest as a decrease in said expenses?

A Through the dispatch of financial services consultants and other individuals to Japan Post Insurance, we will see a decrease in personnel expenses in an amount of around just under 100 billion yen. On the other hand, the dispatch of these consultants will reduce commissions received from Japan Post Insurance in association with the sale of policies and other such elements. While we will see a slight time lag, these two changes will more or less offset each other.

Q Your profit plan for the period leading up to 2025 says that profits will remain on the decline. What are your thoughts on what profit levels will look like in FY2025 onward?

A With respect to the JP Vision 2025 period, we plan to undertake significant changes, such as an overhaul of post office services in association with the amendment of Japan's Postal Act, the promotion of P-DX (Postal-Digital transformation), and a reorganization of the sales system in place at Japan Post Insurance. As such, we will refrain from making any predictive statements in relation to what profit levels will look like after FY2025. What we want to do first, is ensure that these initiatives are executed in an assured manner and are made to facilitate a reversal of our current situation.

Q What are the contributing factors to the upturn you expect to see in terms of the profit plan for Japan Post Co.?

A While we have incorporated the decreasing trend of mail volumes in our plan, some conceivable examples of significant contributing factors to the upturn we expect to see are instances where the pace of the decrease has softened, instances where the number of items acquired in package delivery services has increased more than expected, and/or instances where we see a softened pace in terms of decreases in the number of cash transfers handled in relation to the Japan Post Bank in the post office business. Additionally, with Japan Post Holdings' stake in Japan Post Insurance having fallen below 50%, we also believe agency sales of Japan Post Insurance's products in the post office business will increase and thus contribute to both commissions and profits if new products are launched along with a great level of customer service.

Q What is the reason why a decrease is being assumed when it comes to the settlement of cash transfers? Also, what is your outlook in terms of the settlement of cash transfers going forward?

A The past decreasing trend we have seen is assumed to continue during the JP Vision 2025 period because of the diversification in the cash transfer settlement channel. Cash transfer settlements constitute a certain percentage of our commissions received from Japan Post Bank. As such, there is a significant impact seen when swings in numbers occur in that respect.

Q Your plan says that you are going to be seeing decreased profits until FY2025. I believe that essentially no investors exist who would invest in a company with falling profits. During the Medium-term Management Plan period, what kind of reforms will you undertake and what are you going to achieve outside the area of profit?

A During the JP Vision 2025 period, we plan to undertake an overhaul of postal services, introduce a data-driven core system for our Postal-Digital transformation (P-DX) initiative, a reorganization of the sales system in place at Japan Post Insurance, and other such initiatives. While we do need to ensure that these initiatives go forward in a steady manner, we are still in the initial stages of planning and implementation. Thus, we do not have an overly optimistic outlook on the matter at this point in time. We do, however, acknowledge the critical views on the matter which we have been provided with on this occasion. These transformations are something we want to get done quickly to further increase both our efficiency and the level of the services we provide in a manner which serves to facilitate a reversal of our current situation.

Q Some might say that your plans tend to be on the conservative side. What is the reason for that? It is my understanding that other companies frequently formulate cycles where they set ambitious goals and go above and beyond those goals.

A It is not about being conservative or ambitious. In the postal and logistics business in particular, we handle incredible volumes, and small changes can provoke significant fluctuations as a result of economic conditions, customer trends, disasters and other emergent events. Based on this, our understanding is that the actions we have disclosed are reasonable. However, we would like to undertake further consideration of the situation based on the various matters which have been pointed out to us here today.

Q What kind of profit levels would you consider sufficient when it comes to being able to continue with the current universal services?

A Universal services constitute a wide-ranging concept. Our maintenance costs will change significantly if we can achieve higher levels of energy saving

through the advancement of elements such as digitalization. Thus, it would be difficult for us to give an indication on the matter using a blanket numerical figure. We believe that our duty is to strive toward securing as much profit as possible within the given scope in adherence with the stipulations of the law.

Q You have set up a joint venture (JV) company together with the Rakuten Group. What do you project in terms of the scale of the investment you are going to be making into this joint venture? Do you have any plans such as the purchase of logistics centers?

A We plan to have the Rakuten Group allow us to use their logistics centers through term lease agreements and the like. It is possible that we will be investing in such facilities in the future, but we do not foresee any significant investments being undertaken in that respect at this point in time. For this joint venture, we are first going to focus our efforts on speedily and efficiently processing packages delivered from logistics centers belonging to the Rakuten Group.

Q What is the current investment amount which you have put forward in relation to the joint venture with the Rakuten Group? And what kind of contribution to profits do you project this joint venture to have?

A We will refrain from talking about the investment amount provided for the joint venture and the profit plan. However, the paid-in capital amount is 100 million yen, and our investment ratio is 50.1%. While it goes without saying that the joint venture company will be securing profit as an individual entity, we will also be having the joint venture contribute to increases in the number of Yu-Pack packages handled and in profit of Japan Post Co. as well, which will be achieved by delivering Rakuten Group packages. As a result of this initiative, we want to increase the number of Yu-Pack packages handled annually within the scope of this joint venture to around 300-500 million pieces by FY2025.

Q I would like to ask you about the method by which returns on investment provided to the Rakuten Group are measured. You say that by FY2025 you want to have between 300-500 million units handled through the joint venture annually, with a total of 1.36 billion Yu-Pack packages being handled each year. What is the relationship between those two figures?

A When it comes to packages shipped through Rakuten Ichiba, there are two types of packages: those which are shipped from logistics centers and those which are shipped from affiliates by the customers themselves. Packages constituting the former, meaning packages shipped from logistic centers, will be what are handled within the scope of this joint venture. In the future, we will increase the volumes handled by enhancing and expanding upon shipments being sent from logistics centers.

With respect to the number of items handled as Yu-Pack and other packages during the JP Vision 2025 period, we plan to increase our annual total number of items from 1.09 billion pieces in FY2020 to 1.36 billion by FY2025. The portion handled within the scope of the joint venture is included within that figure. By enhancing and expanding upon the portion handled at logistics centers, we are aiming for an increase of 300-500 million packages by FY2025.

Q Does Japan Post Co. have any operational track record that is on par with the logistics centers of the Rakuten Group? If no such track record exists, will the joint venture with the Rakuten Group be responsible for that?

A Japan Post Co. also has logistics solution centers deployed around the country, which deal with not just the sending of packages, but also things like inventory management and cargo handling. The scale of this, however, is small because this effort involves the utilization of elements like open space available at post offices. During the JP 2025 period, we will expand to have 26 commercial warehouses (logistics centers) nationwide to which the entirety of logistics operations is contracted by customers who are developing their business in the e-commerce industry. Pivoting on the expansion of these commercial warehouses, we will strengthen 3PL (3rd Party Logistics). While one of the aims of this joint venture is to cultivate know-how for that purpose, we will also acquire information related to the sending of packages at early stages in the shipping process, which will allow us to execute subsequent operations more efficiently, such as the assignment of vehicles and the allocation of personnel. Our intention is to acquire know-how in that respect as well. With respect to the joint venture, we will initially see the handling of shipments sent from logistics centers playing a central role. In the future, however, what we want to do is build a DX platform for efficient and highly convenient logistics, thereby aiming to ensure an open system so that other business operators can utilize it as well.

Q Is it possible that the volumes of packages coming from Amazon and other businesses will decrease as a result of the strengthening of your relationship with the Rakuten Group?

A It is our understanding that this matter constitutes a separate discussion. We would like to continue building a relationship with Amazon as well.

Q What do you project in terms of the outcome of investments into digital technologies? While I believe that you can increase profit if you do not invest, are these investments necessary?

A In the postal and logistics business, we are planning to undertake upfront investments to facilitate renewals for our core system used to more efficiently conduct data processing that is in line with the operations by means of P-DX and operational reforms, such as the deployment of drones.

At the same time, we will reduce expenses. These are based on elements such as the future state of the mail and logistics business and trends we will be seeing in terms of population decreases, difficulties in hiring and insufficient numbers of delivery staff. Thus, we believe that these investments are necessary.

Q While I understand shifting personnel to the area of packages as an outcome of the end of certain Saturdays deliveries, will it be possible to see an improvement in profitability resulting from productivity improvements in the last mile delivery during the period of the Medium-term Management Plan?

A We will be making the last mile delivery more efficient through means such as the introduction of telematics, as described within JP Vision 2025. While the initiative is a low-profile one, we believe that there will be a certain extent of advantageous effects which will come about given that there are approximately 54,000 delivery areas in the whole country.

Q Can you tell us about your growth in the international logistics business and your strategies in that respect?

A As a result of the sale of our global express business in Australia to Allegro, we have moved one step forward with improvements in profits and losses. Going forward, we will be working toward improving the profitability of our remaining logistics and forwarding operations, as well as making changes from a business structure that is currently reliant on Australia, to a business model which places a focus on Asia, including Japan.

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