OUTLINE OF 2004 PENSION SYSTEM REVISION

Outline of 2004 pension system revision

Pension reserve funds are united and inseparable with the framework for benefits and contributions under pension systems.

Contributions

(1) Raising the premium level step by step: Raising the premium level step by step while fixing the future premium level

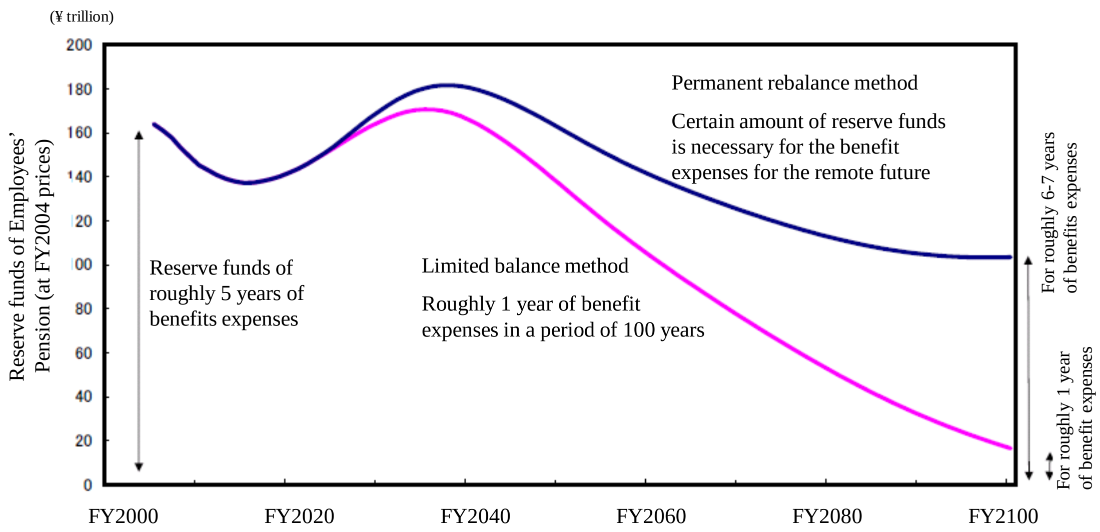
(2) Raising the portion of national subsidy for basic pension: Raising it to a half by FY2009

Benefits

○ Rebalancing the benefit level through macro-economy indexation

Reserve funds

○ The method of maintaining a certain amount of reserve funds into the future was changed to “a limited balance method” that will maintain roughly 1 year of benefit expenses in a period of roughly 100 years.



Approaches to investment of reserve funds

Conditions in those days

○ Given that cumulative loss amounted to ¥6 trillion at the end of FY2002 because of the sluggish stock markets in Japan and overseas, there was a growing argument led by the Diet that “stock investments should be discontinued.”

Basic approaches

○ The Subcommittee for Pension Fund Management of the Social Security Council (consisting of well-informed persons, including those concerned in labor and management) and others clarified their approaches, such as “focusing on domestic bonds,” “focusing on index investments,” and “minimization of risks to the whole portfolio.”

○ Independence and expertise should be strengthened through, for example, the establishment of the “Government Pension Investment Fund” in charge of the investment and the “Investment Advisory Committee.”

〈Investment targets〉

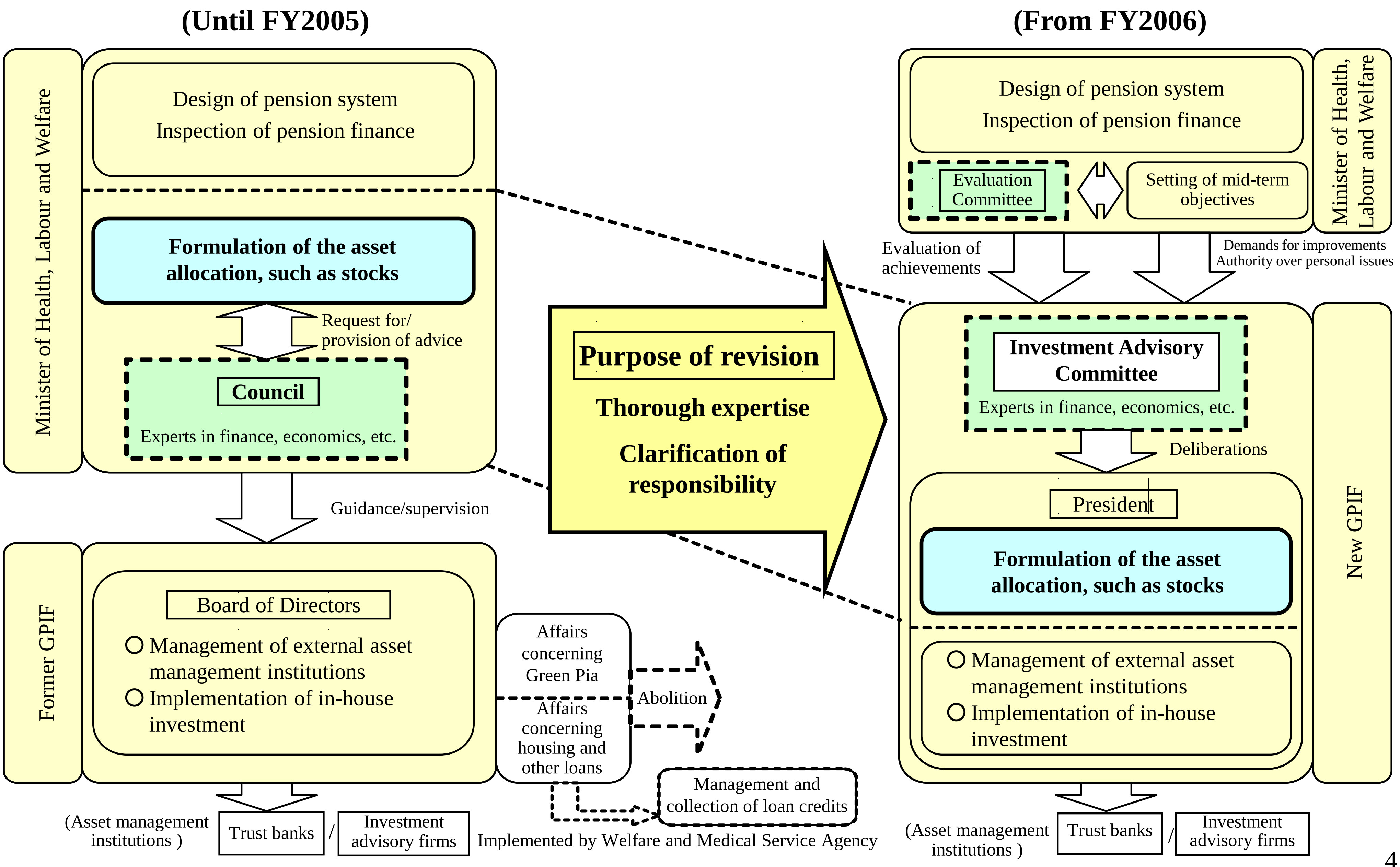
○ Target yield

Real investment yield that exceeds the wage growth rate by 1.1%

○ Basic portfolio

- Domestic bonds: 67%
- Domestic stocks: 11%
- Foreign bonds: 8%
- Foreign stocks: 9%
- Short-term assets: 5%

REVISION OF PENSION RESERVE FUND INVESTMENT



INVESTMENT CONDITIONS OF PENSION RESERVE FUNDS

○ With regard to the GPIF's investment results of the past six years (from FY2003, the first year of estimation of financial re-calculation, to FY2008), the nominal investment yield was 2.00% on annual average, which exceeded the nominal investment yield that becomes the basis for financial re-calculation.

Changes in investment results

(Unit: %)

	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	6 years (Annual average)
Real investment yield for financial re-calculation	1.10	1.10	1.10	1.10	1.10	1.10	1.10
Nominal wage growth rate (actual result)	-0.27	-0.20	-0.17	0.01	-0.07	-0.26	-0.16
Nominal investment yield in line with financial re-calculation	0.83	0.90	0.93	1.11	1.03	0.84	0.94
Nominal investment yield for all investment assets	8.40	3.39	9.88	3.70	-4.59	-7.57	2.00

(Note 1) Investments were made by the former GPIF from FY2003 to FY2005.

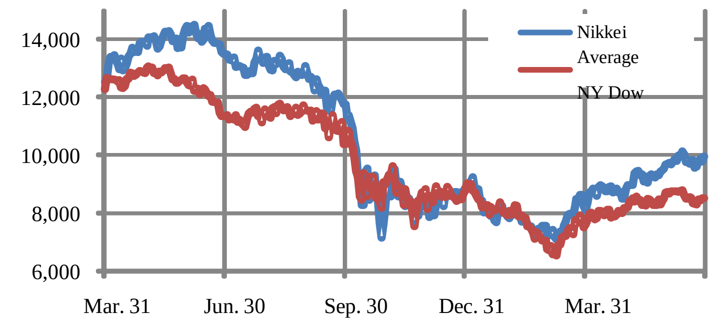
(Note 2) Investment results are the results of investments by the GPIF (including FILP bonds).

(Note 3) For the purpose of the financial re-calculation in FY2004, the real investment yield was estimated to be between 0.3% and 0.8% in the transitional period between FY2003 to FY2008, and the long-term yield from FY2009 was estimated to be 1.1%. Therefore, it may be appropriate to apply a real investment yield lower than 1.1%. In the above table, however, the real investment yield is estimated to be 1.1% for the purpose of comparison from a long-term viewpoint.

INVESTMENT PERFORMANCE OF GPIF (FY2008)

○ Due to a global financial crisis, stock prices in domestic and foreign stock markets greatly fell and the value of yen sharply increased especially against Euro in exchange markets. As a result, the GPIF's investment yield was <u>minus 7.6% in FY2008 (about minus ¥9.4 trillion (after deducting investment charges))</u>.

* The yield only from its market investments was minus 10.0% (about minus ¥9.7 trillion).



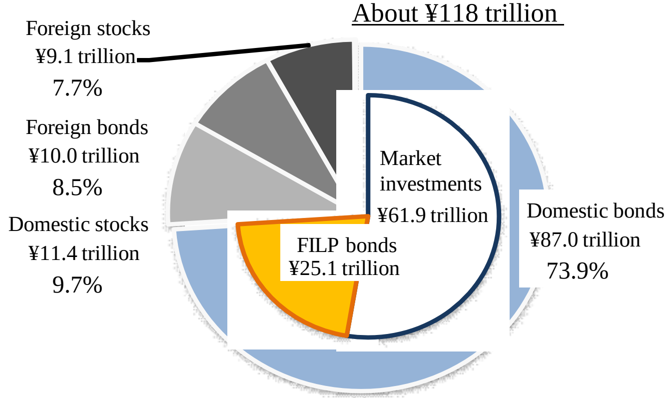
○ Amount and rate of return by type of assets (FY2008)

(Unit: ¥100 million)

		Amount of return	Rate of return
Market investments	Domestic bonds	8,700	1.4%
	Domestic stocks	-50,613	-35.6%
	Foreign bonds	-6,213	-6.8%
	Foreign stocks	-48,547	-43.2%
	Total	-96,670	-10.0%
FILP bonds		3,189	1.2%
All invested assets		-93,481	**-7.6%**
Charges & loan interests		-534	-
Investment balance		**-94,015**	-

○ Amount of GPIF's invested assets (as of the end of Mar. 2009)

<u>About ¥118 trillion</u>



○ The nominal investment yield was 2.0% on average in the past six years, exceeding the basis for the financial re-calculation in 2004.

(Note) The financial re-calculation in 2004 was based on the real investment yield of 1.1% (because the wage growth rate was minus 0.2% on average in the past six years, if this is taken into account, the nominal investment yield becomes 0.9%).

(Reference) Results of investment of reserve funds

(from beginning of discretionary investment until FY2008)

(Unit: ¥100 million)

Fisical year	GPIF	Funds entrusted	Return on investment of reserve funds	Rate of return	Cumulative return
FY2001	-13,084	40,870	27,787	1.9%	27,787
FY2002	-30,608	32,968	2,360	0.2%	30,146
FY2003	44,306	24,407	68,714	4.9%	98,860
FY2004	22,419	17,169	39,588	2.7%	138,448
FY2005	86,811	11,533	98,344	6.8%	236,792
FY2006	37,608	8,061	45,669	3.1%	282,461
FY2007	-56,455	4,678	-51,777	-3.5%	**230,684**
FY2008	**-94,015**	-	-	-	-
Total	-3,018 <-19,908>	-	-	-	-

* The figure in < > indicates a cumulative balance of investments, including the Pension Welfare Service Public Corporation's balance in or before FY2000 and the increase through revaluation at the time of the establishment of the new GPIF in April 2006.

○ Compared with foreign pension funds, more importance is placed on the <u>safety of investments</u> ("diversified investments centering on domestic bonds").

(Reference) Investment of pension funds in foreign countries (FY2008)

- CalPERS <Ratio of stocks: about 60%> : -29.1%
  (California Public Employees' Retirement System)
- CPPIB (Canada) <Ratio of stocks: about 70%> : -18.6%
- GPF-G (Norway) <Ratio of stocks: about 60%> : -9.5%
- <u>GPIF <Ratio of stocks: about 20%> : -7.6%</u>
  (Market investments -10.0%)
- AP1-4 (Sweden) <Ratio of stocks: about 50%> : -21.6% (Jan. to Dec.; average for each fund)

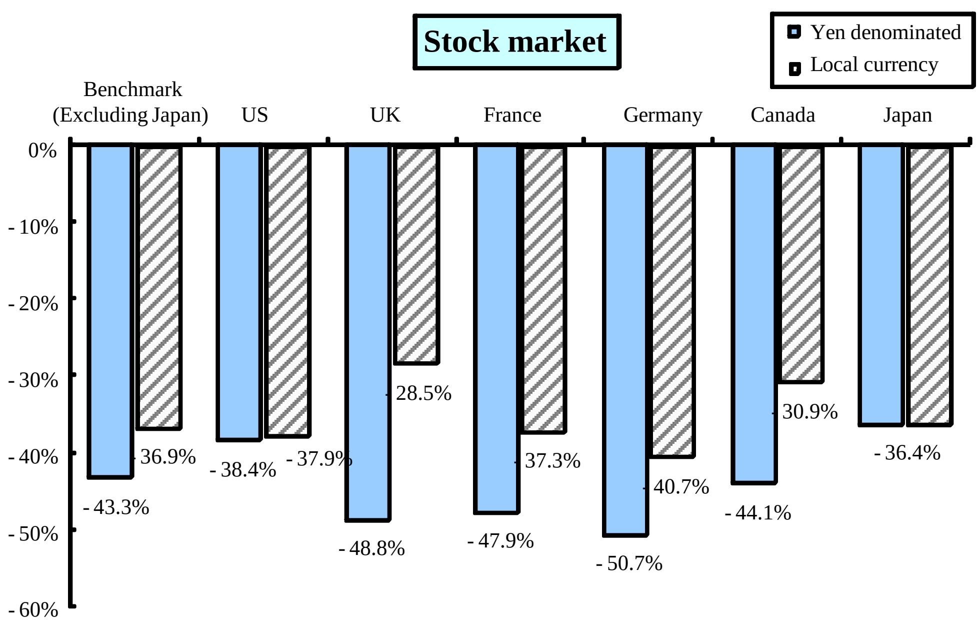
MARKET TRENDS (FY2008)

○ As for the stock market, benchmark shows:

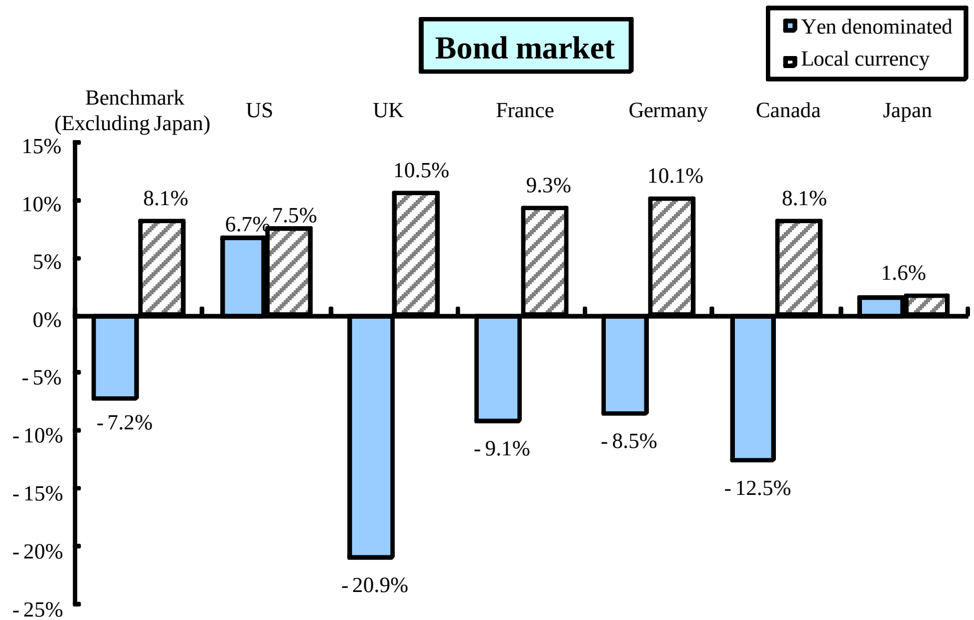
- The Japanese market suffered a sharp decline in stock prices by 35.55% because the financial crisis expanded due to the Lehman Shock and its effect reached the real economy, resulting in a sharp economic slowdown.
- Developed nations' markets suffered a decline by 36.9%. In addition, as a result of a decline of about 6% due to stronger yen, their declining rate became 43.2%.

○ As for the bond market, benchmark shows:

- The Japanese market rose by 1.35% in line with lower interest rates.
- In overseas markets, developed nations' national bond markets rose by 8.1% on local currencies. However, they reduced by 6.8% as a result of a decline of 15% due to stronger yen.



(Note) Benchmark: MSCI-WORLD "KOKUSAI" for developed nations excluding Japan



(Note) Benchmark: Citigroup World Government Bond Index "World Government Bond" for developed nations excluding Japan; Nomura BIP Government Bond for Japan

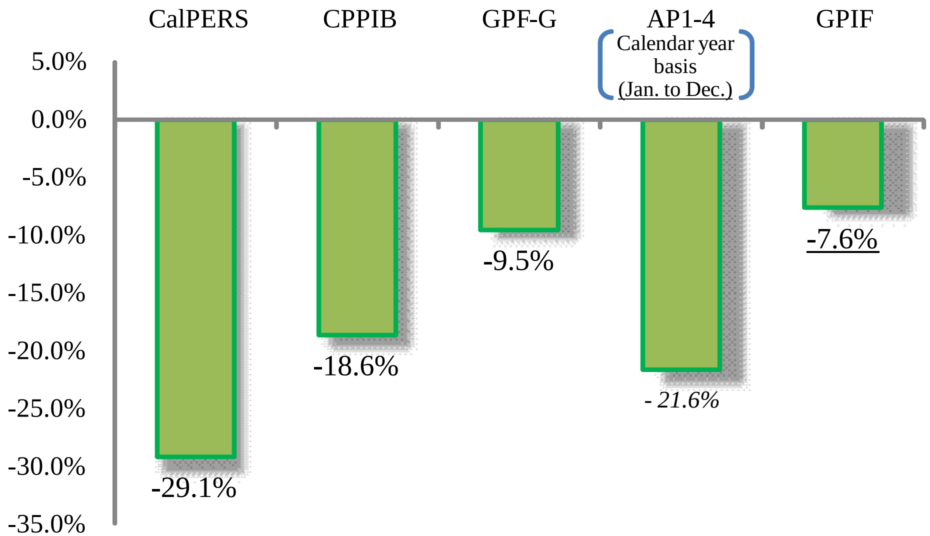
COMPARISON WITH FOREIGN COUNTRIES' PENSION FUNDS

○ Size of assets (as of the end of March 2009)

CalPERS (US) (California Public Employees' Retirement System)	CPPIB (Canada) (Canada Pension Plan Investment Board)	GPF-G (Norway) (Government Pension Fund-Global)	AP1-4 (Sweden) (National Pension Funds 1-4)	GPIF (Government Pension Investment Fund)
¥17 trillion	¥8 trillion	¥30 trillion	¥8 trillion (about ¥2 trillion for each fund)	¥118 trillion

* As of end of Dec. 2008

○ Investment performance in FY2008 (Apr. 2008 to Mar. 2009)



(Note) The figure for each fund was calculated by the GPIF based on each fund's website and annual report.

○ Basic (reference) portfolio