Purpose and System of Public Pension Fund Management

1. Purpose of the management

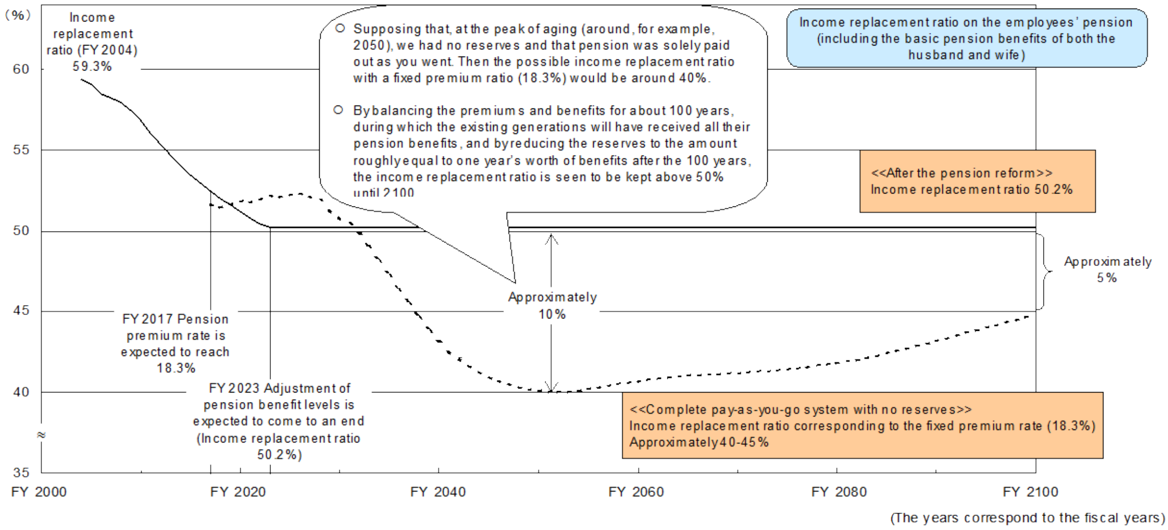
Japan's public pension system (the Employees' Pension Insurance and National Pension) is operated based on the concept that the active worker generation supports the elderly generation. Therefore, there is no intent to reserve necessary funds for pension benefit payments.

However, the Japanese population is rapidly aging with fewer children, meaning that, if the pension benefits should be only funded by the working generation's contributions, then a drastic increase in contribution payments and a drop in pension benefits would be inevitable. Therefore, the system has developed a financial plan to reserve a certain amount of fund and make good use of income from reserve fund investment.

According to the financial system before the reformation of the pension system in 2004, the whole period of the future should be taken into account and a certain amount of fund should be reserved for the future and invested for effective gains (the permanent equilibrium system). However, as a result of the reform in 2004, a new financial system was adopted so that a period of approximately 100 years should be taken into account and the amount of reserves in the final year of this period should be allocated to benefits for one year (the limited equilibrium system). The new system also requires a fund equivalent to benefits for one year or longer to be reserved over a period of approximately 100 years and income from reserve fund investment should become an important source of pension payment.

Comparing prospects for income replacement ratios between the financial system that requires reserves after the reformation of the pension system in 2004 and the complete pay-as-you-go system that does not require reserves, the former can achieve a higher ratio by use of reserves than the latter.

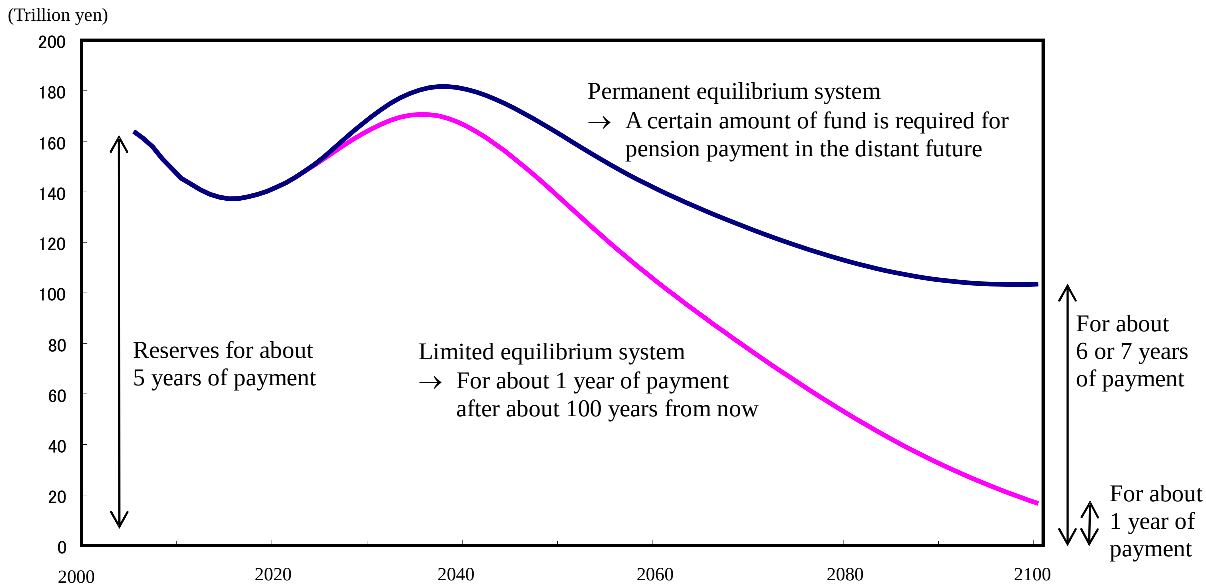
Income Replacement Ratios based on the Reformed Pension System and on the Complete Pay-As-You-Go System
- 2004 Fiscal Budget Recalculation -



Note: The income replacement ratios shown above are those on newly starting pension benefits in the respective years.

Illustration of Prospects for Pension Reserves (Employees' Pension)

Based on Prices in 2004



2. System of the management

Until FY 2000, the management of pension reserves was totally entrusted to the former Trust Fund Bureau of the Ministry of Finance (now the Fiscal Loan Fund of the Ministry of Finance). However, the drastic reformation of the Fiscal Investment and Loan Program created a new system in which the Minister of Health, Labour and Welfare should entrust the reserves directly to the former Government Pension Investment Fund (hereinafter referred to as “the former GPIF”) whereby the reserve assets should be managed.

However, as part of the plan to reduce and rationalize corporations with special status, the pension system was reformed for the thorough specialization of organizations which manage pension reserves and the clarification of their responsibilities. In accordance with the New Government Pension Investment Fund Act enacted in June 2004, the New Government Pension Investment Fund (hereinafter referred to as “the new GPIF”) was established in April 2006, following which the former GPIF was dissolved and the reserve assets began to be managed by the new GPIF.

The fund investment services that the former Pension Welfare Service Corporation had conventionally operated by borrowing funds from the former Trust Fund Bureau were succeeded by the former GPIF. They are sustained as succeeded fund investment services from FY 2006 to FY 2010 when the new GPIF could complete repayment.

With regard to the management of pension reserves by the new GPIF, the Minister of Health, Labor and Welfare is required to set a mid-term target as a standard for evaluating the performance of the new GPIF as well as guidelines for the new GPIF to develop a mid-term plan. The Evaluation Committee under the Ministry of Health, Labor and Welfare, which is composed of external knowledgeable people, takes responsibility for evaluating the performance of the new GPIF.

On the other hand, the new GPIF has developed a mid-term plan by themselves as a specific plan to achieve the above-mentioned mid-term target in which they have determined (i) Fundamental policies for investment, (ii) Assets proportion (the basic portfolio) in a long perspective, and (iii) Items to be observed. According to this plan, they will systematically provide management and investment services specifically for the benefit of the insured in a safe and efficient manner from a long-term perspective.

The new GPIF is required to set up an investment committee composed of members appointed by the Minister of Health, Labor and Welfare from among those who are highly capable of judgment on economy and finance. The Committee will review a mid-term plan and supervise the situation of investment and the implementation of investment and management services.

In connection to this matter, the Reports on the Operation of the Pension Reserve Fund will be abolished with those related to FY 2005 (reports of this fiscal year), and after FY 2006, the Minister of Health, Labour and Welfare will annually verify the effect(s) the application of the pension reserve fund has on pension financing and report to the IACEC.

Concerning the new GPIF, the actual results of its operations during each fiscal year are evaluated by the IACEC in consideration of the results of the survey/analysis on the state of implementation of its medium-term plan during the relevant fiscal year as well as the details of the said reporting conducted by the Minister of Health, Labour and Welfare.

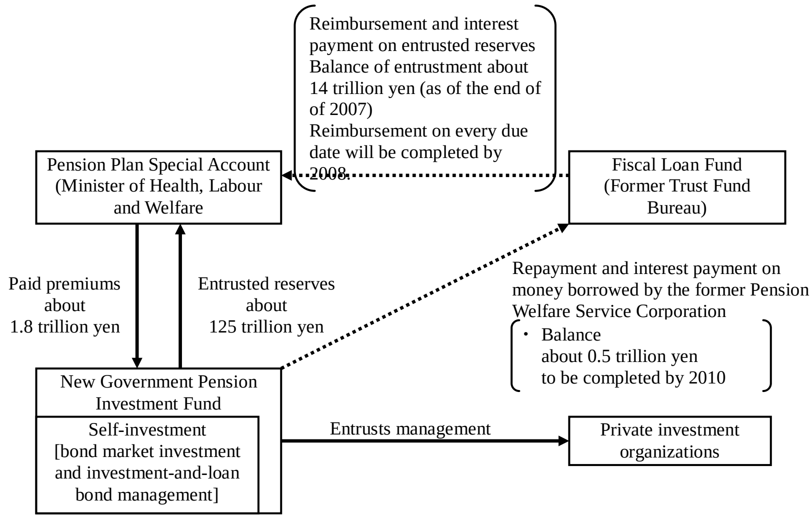
[Current system (from FY 2001)]

(Points)

- ○ Managed by the Minister of Health, Labour and Welfare
  Abolished entrustment to former Trust Fund Bureau
- ○ The Minister of Health, Labour and Welfare conducts management by entrustment to new GPIF (former GPIF till end of Mar. 06)

* Numbers in this figure are balances as of the end of FY 2008. (Paid premiums in FY 2008)

* The fund investment services operated by the former Pension Welfare Service Corporation were succeeded by the new GPIF (the former GPIF until FY 2005) and will be continuously provided as succeeded fund investment services until FY 2010.



3. Management Methods

As stated in Section 2, pension reserves are managed under such a system that the Minister of Health, Labor and Welfare directly entrusts them to the new GPIF (the former GPIF until FY 2005). The new GPIF invests the pension reserves as government funds entrusted by the Minister in the market through private investment institutions and also manages and invests (or holds to maturity) the investment-and-loan bonds accepted directly from the special account of the Fiscal Loan Fund from FY 2001 to FY 2007. The new GPIF is also required to manage the assets succeeded in connection with the former Pension Welfare Service Corporation.

In addition, the pension reserves are managed in the form of "interim entrustment to fiscal investment and loan funds" until the end of FY 2008 when the reserves entrusted to the former Trust Fund Bureau are to be fully reimbursed.

(1) Management by the New GPIF

1) Market Investment

Employees' and national pension reserves entrusted by the Minister of Health, Labor and Welfare are to be systematically managed and invested by the new GPIF according to its own mid-term plan. They diversify their investment based on the basic portfolio with the focus on domestic bonds in combination with internal and external stocks to a certain extent.

Actual market investment is made through private investment institutions (trust banks and investment consultants), through which the reserves are well managed to steadily achieve the target proportion of assets in each year on the basis of assets to be invested (five types of assets, namely domestic bonds and stocks, foreign bonds and stocks and short-term assets)

2) Acceptance of Investment-and-loan Bonds

The new GPIF (the former GPIF until FY 2005) manages and invests (or holds to maturity) the investment-and-loan bonds accepted directly from the special account of the Fiscal Loan Fund from FY 2001 to FY 2007, separating them from market investments.

Although the former Trust Fund Bureau lent funds procured from the entrustment of postal savings and pension reserves to corporations with special status, the fiscal investment reform has required corporations with special status to procure necessary funds by issuing investment institution bonds in the market. As for corporations with special status which have difficulty in issuing such bonds, investment-and-loan bonds as a sort of government bond will be issued from the special account of the Fiscal Loan Fund and the market-procured funds will be lent to those corporations. It is stipulated by the law that some of investment-and-loan bonds should be transitionally accepted with the pension reserves entrusted to the new GPIF (the former GPIF until FY 2005) as well as postal savings.

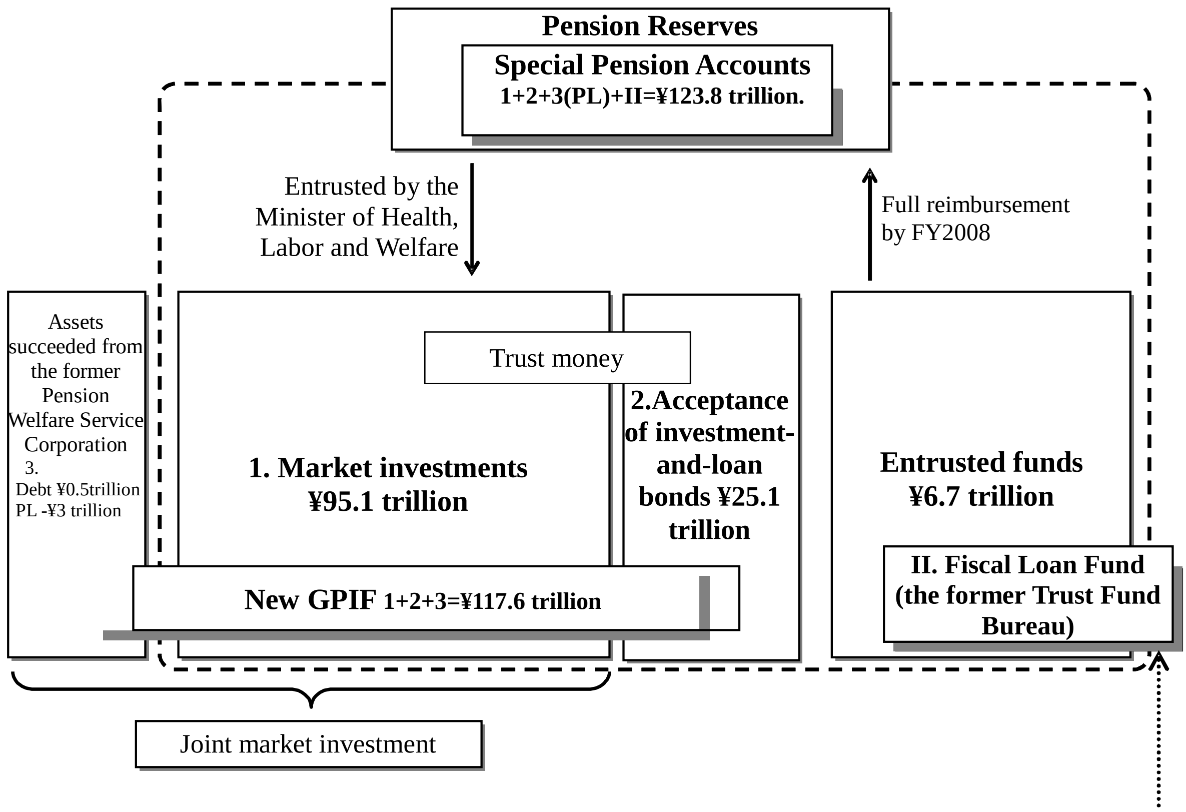
3) Management of Assets Succeeded from the Former Pension Welfare Service Corporation

The new GPIF (the former GPIF until FY 2005) succeeded to assets worth about 26 trillion yen for the fund investment services operated by the former Pension Welfare Service Corporation together with the debts to the former Trust Fund Bureau and has invested these assets as well as the pension reserves entrusted by the Minister of Health, Labor and Welfare for market investment as described in Subparagraph 1) above.

(2) Entrustment to the Fiscal Loan Fund

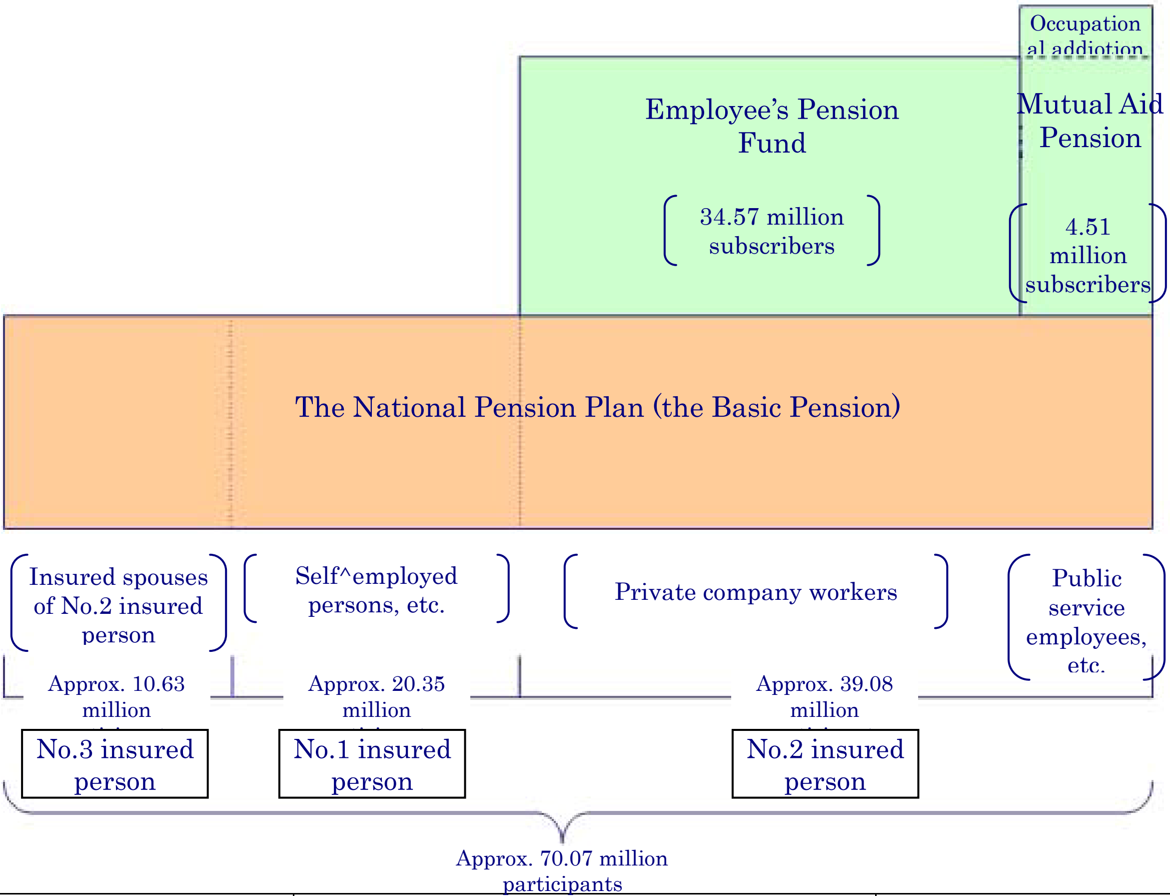
Until FY 2000, it was stipulated that the full amount of pension reserve fund should be totally entrusted to the former Trust Fund Bureau and about 147 trillion yen of fund was actually entrusted to the bureau as of the end of FY 2000. This amount of fund should be reimbursed from the Fiscal Loan Fund at a rate of about 20 trillion yen a year in the period from FY 2001 to FY 2008. Until the completion, some of pension reserves transitionally continued to be entrusted to the Fiscal Loan Fund.

On the entrusted funds, interest will be paid from the Fiscal Loan Fund at the rate fixed at the time of entrustment.



[Structure of the Public Pension System]

(The figures are as of 31 March 2008.)



No. 1 insured person	No. 2 insured person	No. 3 insured person
○ Self-employed persons, farmers, etc. aged 20 or over but under 60.	○ Employees in private sector, public employees, etc.	○ Spouses of employees in private sector and public employees, etc.
○ Each pays a fixed amount of premium. 14,660 yen per month (From April 2009 through March 2010)	○ Remuneration-based premium. Premium rate of the Employees' Pension Insurance is fixed at 15.704% (from Sep. 2009 to Aug. 2010) • The premium is raised by 0.354% every year. • Insurance premiums based on total remunerations in April 2003 and after. • Appropriated for the Basic Pension and Employees' Pension Insurance Scheme (remuneration-based portion) for No. 2 and No. 3 insured person. ○ Employers and employees bear evenly the premium.	○ The insured themselves bear no cost. ○ The premium is paid by the insurer of the pension the husband (wife) is participating in.
The national subsidy rate is 1/2 for the basic pension.		

Outline of Mid-Term Objectives and Plans of the New Government Pension Investment Fund

1. Period of Mid-Term Objectives
Four years starting from April 2006 and ending in March 2010.

2. Items pertaining to streamlining of operation administration
Mid-Term Objectives and Plans concerning optimization of operations and system
On the basis of audits toward operations and system and innovation-feasibility surveys, prepare and publicize optimization plan concerning operations and system by fiscal 2007, and promptly implement such plan.

Mid-Term Objectives and Plans concerning expenditure reduction

- Administrative expenses (excluding expenses in transition to an independent organization, pension benefits, office relocation expense)

  Reduce administrative expenses in the final fiscal year of the Mid-Term Objectives by more than 12% compared with expenses spent in fund management operations in the final fiscal year as a governmental corporation (fiscal 2005). Labor expenses, based on "Important Policies in Administrative Reform" (Cabinet approval in on December 24, 2005), will be reduced by more than 4% compared with the labor expenses in fund management operations in the final fiscal year as a governmental corporation (fiscal 2005).

- Operation expenses (excluding system development expenses, and consignment fees in fund management)

  Reduce operation expenses in the final fiscal year of the Mid-Term Objectives by more than 4% compared with expenses spent in fund management operations in the final fiscal year as a governmental corporation (fiscal 2005).

3. Items pertaining to improving quality of operations
Mid-Term Objectives and Plans concerning the enforcement of fiduciary responsibility
Conduct thorough compliance with related laws and regulations, the Mid-Term Objectives, and the Mid-Term Plans, prepare sanction policies, notifications, etc.

Mid-Term Objectives and Plans concerning information disclosure
Post on website the purpose and structure of the management of pension reserve fund, and promptly disclose information concerning management and application results for each fiscal year.

4. Items pertaining to management and application of the pension reserve fund
1) Basic policies concerning management and application of the pension reserve fund

Basic stance on application
(Mid-Term Objectives)
The application of pension reserve fund will be <u>conducted safely and efficiently with long-term viewpoint, with a focus on return to contributors</u>, with the purpose of contributing stable administration of pension welfare in future years.

(Mid-Term Plans)
<u>Conduct management of pension reserve fund with diversified investment as basic stance, and prepare an asset composition ratio to be maintained long-term (hereinafter, Basic Portfolio").</u>

Mid-Term Objectives and Plans concerning application objectives

- Determine Basic Portfolio and appropriately conduct management for the purpose of establishing on a long-term basis the actual yield on investment within the various conditions present in pension financing.
- By appropriately implementing selection, management, and evaluation of application trustees, aim to secure benchmark earning rates of each assets in each fiscal year, and establish benchmark earning rates of each assets in the period of the Mid-Term Objectives as well.

2) Items pertaining to the long-term asset composition in the management and application of the pension reserve fund

Preparation and review of portfolio (Mid-Term Objectives)

The portfolio will be prepared so that it is consistent with the various conditions in pension financing with attention paid to the following points.

- Asset composition will be designed to secure actual yield on investment within the various conditions present in pension financing.
- Asset composition will be designed to suppress volatility risk at a certain range from the viewpoint of stabilizing pension financing.

In addition, verifications will be conducted to determine if the application environment assumed at the time of portfolio preparation has deviated from the actual conditions, and revisions will be made as necessary.

Basic Portfolio (Mid-Term Plan)

With total redemption of pension reserve fund from the Fiscal Loan Fund aimed to be completed in fiscal 2008, the Basic Portfolio shall be determined as the following.

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

Target yield: 3.37%, risk (standard deviation): 5.55%

Unit: %

	Domestic bonds	Domestic shares	Foreign bonds	Foreign shares
Accepted range of deviation	±8	±6	±5	±5
Range of fluctuation in asset	59-67-75	5-11-17	3-8-13	4-9-14

Transition Portfolio (Mid-Term Plan)

By preparing and managing portfolio for each year (hereinafter, Transition Portfolio) until the end of the transition period in fiscal 2008, smoothly shift to the composition rate adopted in the Basic Portfolio. Transition Portfolio of each fiscal year shall be prepared by the end of the previous fiscal year.

3) Items pertaining to be upheld concerning the management and application of the pension reserve fund

Mid-Term Objectives and Plans concerning management of the Basic Portfolio or the Transition Portfolio and other risk management

Confirm for deviation between the asset composition ratio of the entire market application funds with the Basic Portfolio or the Transition portfolio at least once a month. In addition, based on reports, etc. from application trustees or asset management institutions, conduct risk management on entire market application funds, each asset, etc.

Mid-Term Objectives and Plans concerning application method

Each asset shall be mainly applied passively. Active application shall be conducted only when there is a high possibility of securing excess yield.

Other

- Pay due consideration of the scale of the funds applied and strive to prevent suffering from significant market impact, and be aware of the funds' influence on market price formation, etc.
- Pay due consideration of the influence on corporate management, etc., and do not select individual companies for investment.
- Pay due consideration of the influence on corporate management, etc., and from the viewpoint of maximizing shareholders' long-term return, take appropriate measures such as execution of voting rights as shareholder.

OUTLINE OF THE GOVERNMENT PENSION INVESTMENT FUND

○Purpose of Business:
The Government Pension Investment Fund (GPIF) shall manage and invest the reserve funds of the Government Pension Plans entrusted by the Minister of Health, Labour and Welfare, and shall contribute to the financial stability of the Employees' Pension Insurance Plan and the National Pension Plan by remitting profits of investment to the Special Accounts for the Government Pension Plans.

○Date of Establishment: April 1, 2006

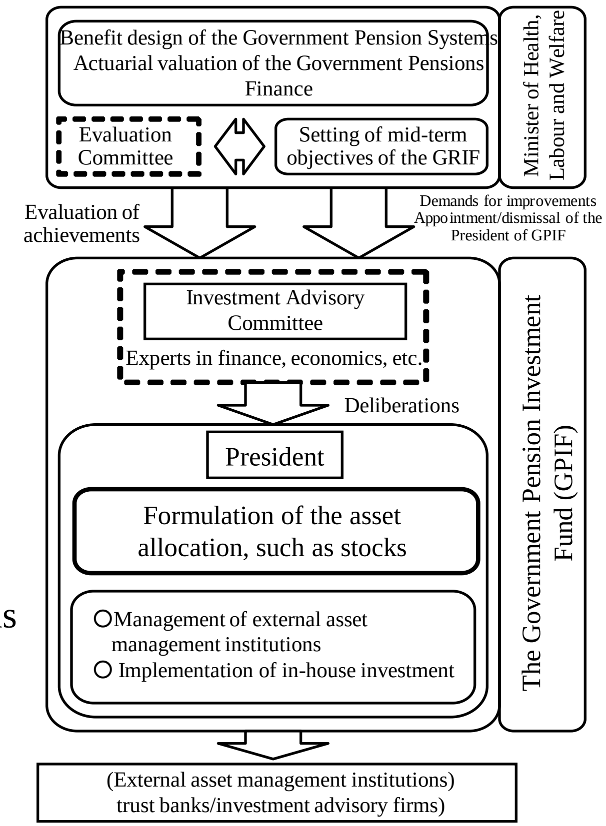
○Organization: President (one person), Executive Managing Director (one person), Executive Auditors (two persons), staff (74 persons) (as of July 2009)

○Outline of Business:
Management and investment of the pension reserve funds entrusted by the Minister of Health, Labour and Welfare
(total investment assets: about ¥118 trillion (at the end of March, FY2009)

○Investment method: The reserve funds are entrusted and invested by private investment institutions (trust banks and investment advisory firms). In addition to that, it carries a certain portion of domestic bonds investment.

○Investment Committee:
- Its mission is to; (1) deliberate the medium-term plans and permit operational methods documents and (2) supervise the operation of reserve fund management and investment which are carried out by the GPIF.
- Members are appointed by the Minister of Health, Labour and Welfare from among people having significant insight into economic or financial matters as well as other people having academic experience.

(From FY2006)



ROLE OF THE GOVERNMENT PENSION INVESTMENT FUND

Basic approach to investment

○ The GPIF should safely and efficiently invest pension reserve funds from a long-term viewpoint only for the benefit of the insured, especially keeping in mind that pension reserve funds are premiums collected from the insured and will become valuable financial sources for the payment of pensions in the future (Article 79-2 of the Employees' Pension Insurance Act; Article 75 of the National Pension Act).

Objectives of investment

(1) Securing of real investment returns

Because pension finance basically receives no influence as long as a real investment yield is secured (as long as the investment yield exceeds the wage growth rate by 1.1% or more), a long-term portfolio should be established and investments should be made according to the portfolio so that a real investment yield can be secured as a precondition for pension finance.

(2) Securing of average market rate of return

In each fiscal year, efforts should be made to secure the benchmark rate of return for each asset. In addition, each benchmark rate of return should be secured in the mid-term objective period ((1) and (2) are mid-term objectives).

Main Duties of the Government Pension Investment Fund

○ Establishment of a portfolio

Establish a portfolio in accordance with the preconditions for pension finance, paying attention to the following:

- Establish the composition of assets that can make it possible to secure a real investment yield as a precondition for pension finance.
- Establish the composition of assets that can make it possible to control the fluctuation risk within a certain level from the viewpoint of stabilization of pension finance. When establishing the composition, the GPIF carefully estimates the stock return risk, taking into consideration the characteristics of the risk, and minimize the risk on the whole portfolio.

○ Selection and management of asset management institutions

Except for some domestic bonds, the investment of reserve funds is entrusted to trust banks and investment advisory firms, both of which are specialized in investment. The GPIF selects and manages such asset management institutions.

○ Management (risk management) of all the assets managed by the GPIF

○ Securing of liquidity for the purpose of paying pension benefits whenever necessary

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

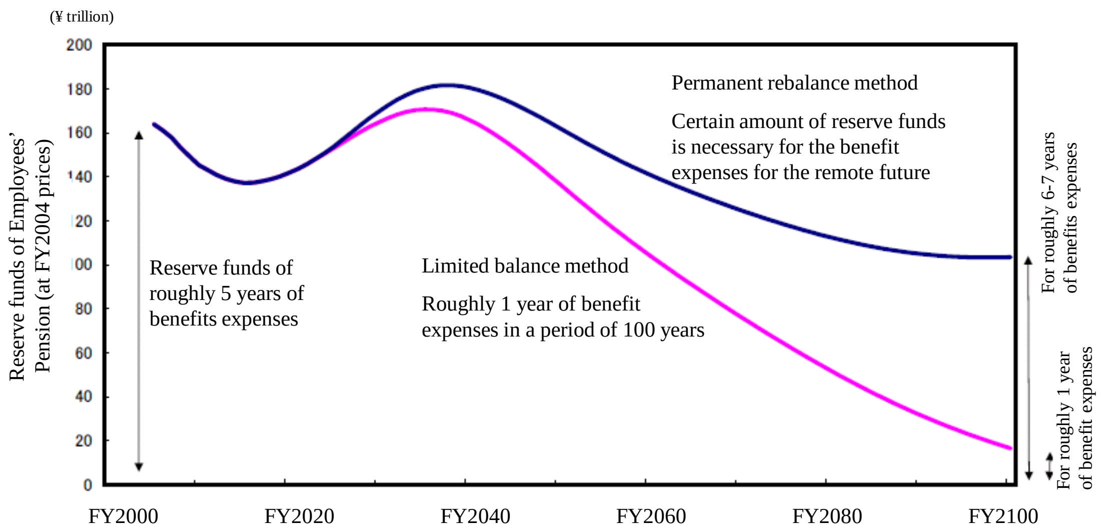
(2) Raising the portion of national subsidy for basic pension: Raising it to a half by FY2009

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〉

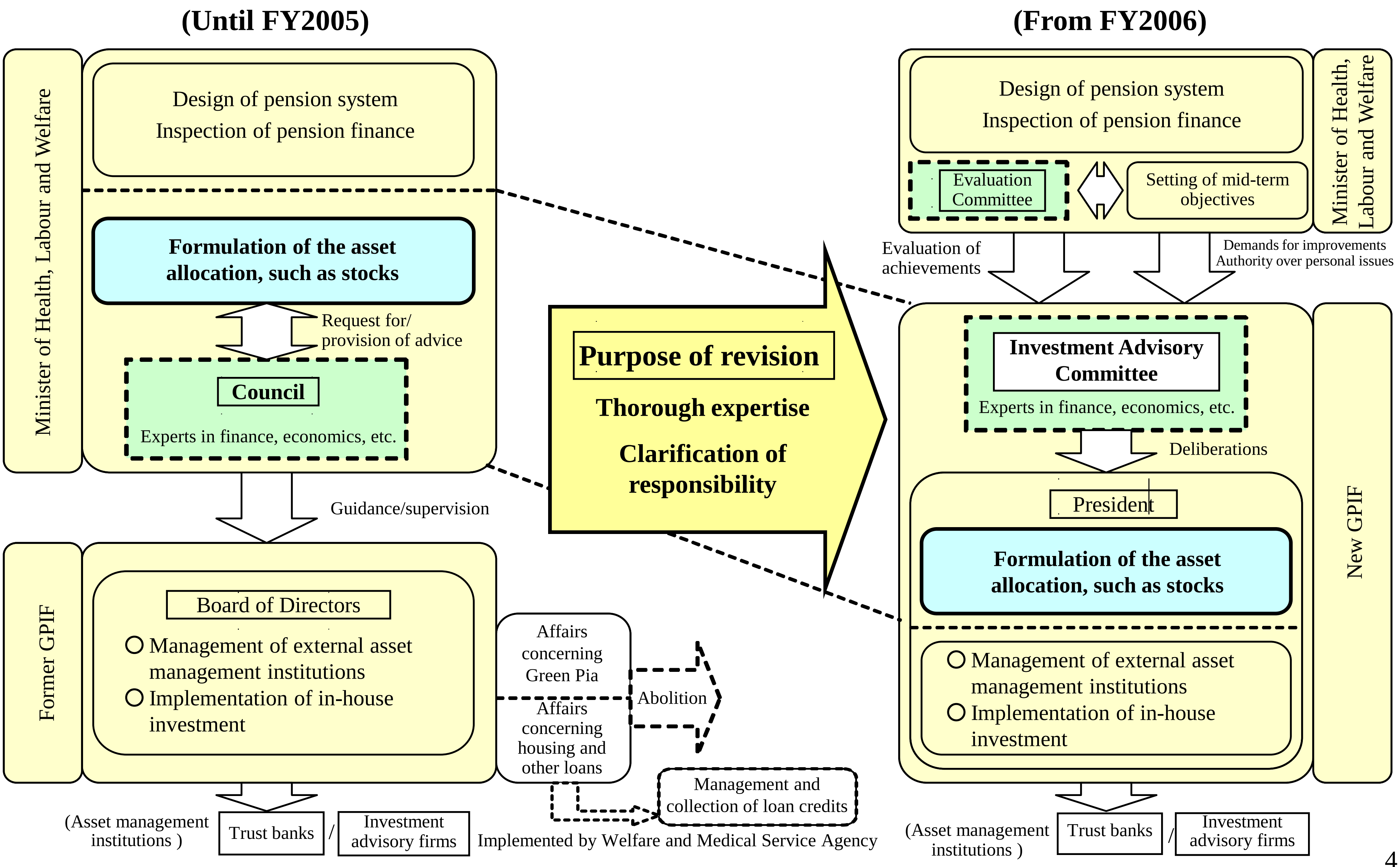
○ Target yield

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: %)

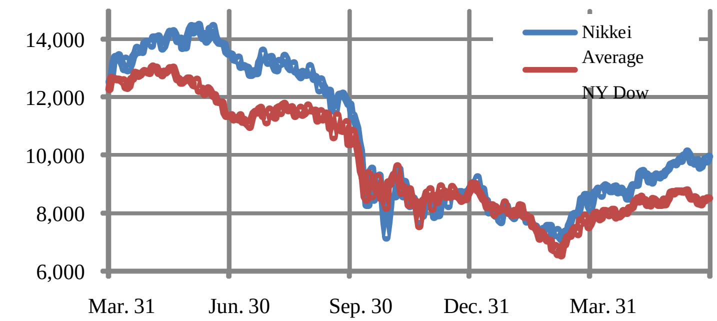
	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	6 years (Annual average)
Real investment yield for financial re-calculation	1.10	1.10	1.10	1.10	1.10	1.10	1.10
Nominal wage growth rate (actual result)	-0.27	-0.20	-0.17	0.01	-0.07	-0.26	-0.16
Nominal investment yield in line with financial re-calculation	0.83	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).



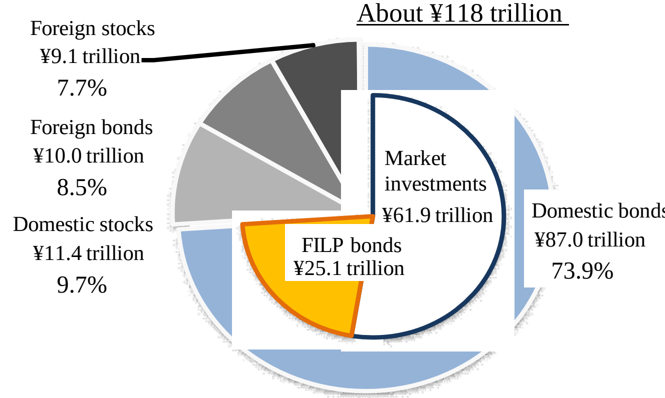
○ Amount and rate of return by type of assets (FY2008)

(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)

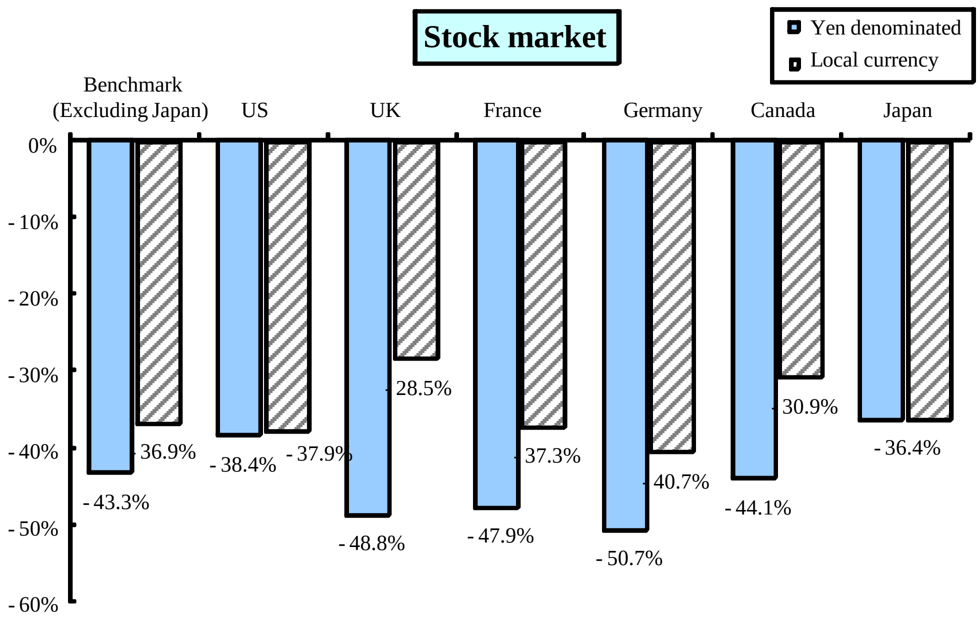
MARKET TRENDS (FY2008)

○ As for the stock market, benchmark shows:

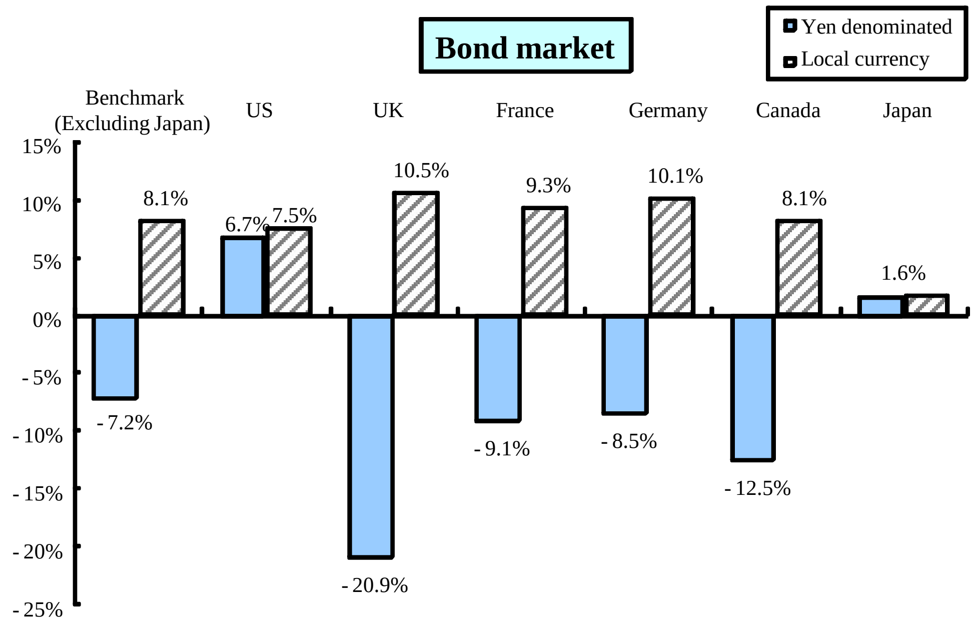
- The Japanese market suffered a sharp decline in stock prices by 35.55% because the financial crisis expanded due to the Lehman Shock and its effect reached the real economy, resulting in a sharp economic slowdown.
- Developed nations' markets suffered a decline by 36.9%. In addition, as a result of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

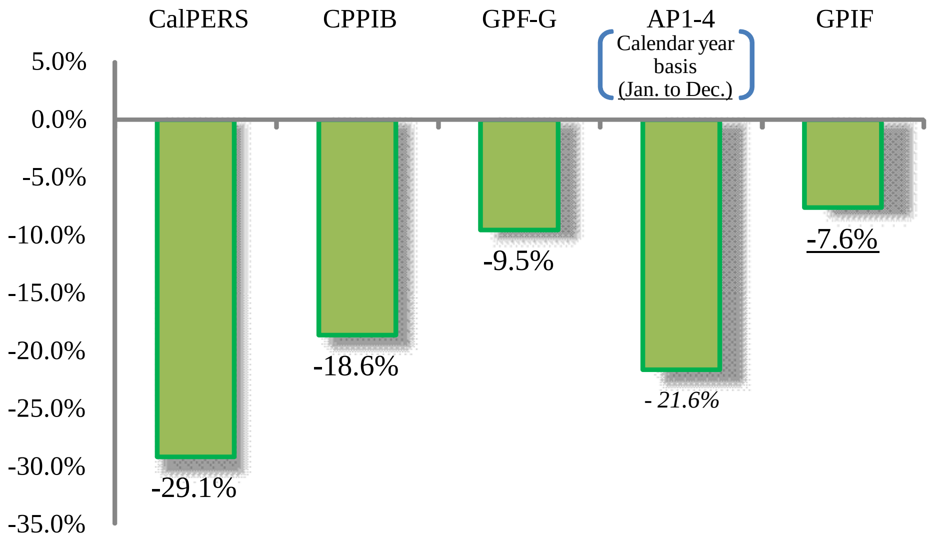
COMPARISON WITH FOREIGN COUNTRIES' PENSION FUNDS

○ 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

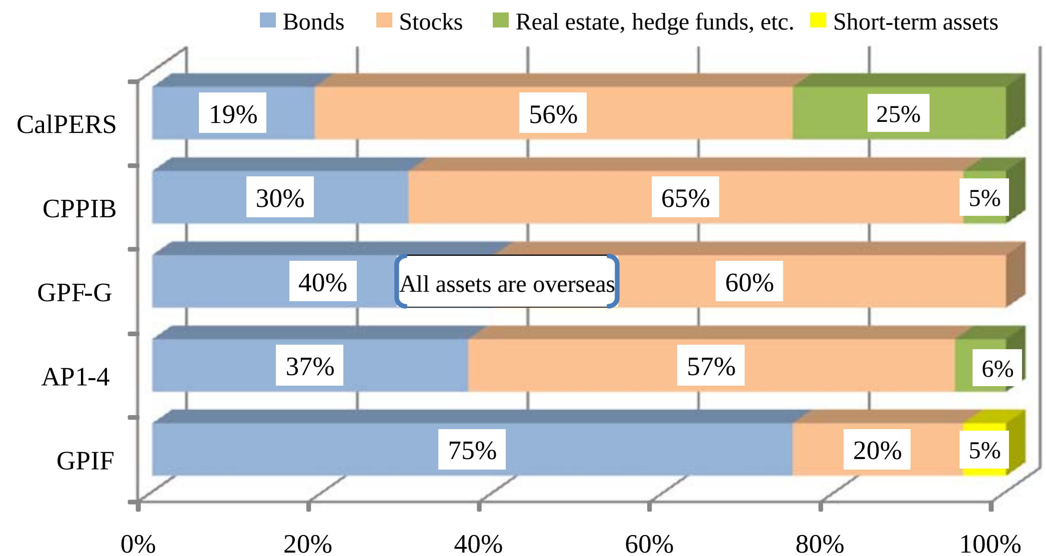
* As of end of Dec. 2008

○ 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



INVESTMENT OF PUBLIC PENSION RESERVE FUNDS IN FOREIGN COUNTRIES

- The pension systems in three countries whose ratio of reserve funds is high are in the following conditions:

  (1) Canada and Sweden:
  Without confining investments to the small domestic market, they aim to expand investment returns by raising the ratios of risk assets – for example, raising the ratio of stocks to more than 60% and the ratio of foreign assets to more than50%.

  (2) US:
  All funds have been invested in non-marketable treasury securities (debt securities issued by the Secretary of the Treasury).

- Recent investment performance shows that the higher the ration of risk assets rises, the more investment performance fluctuates.

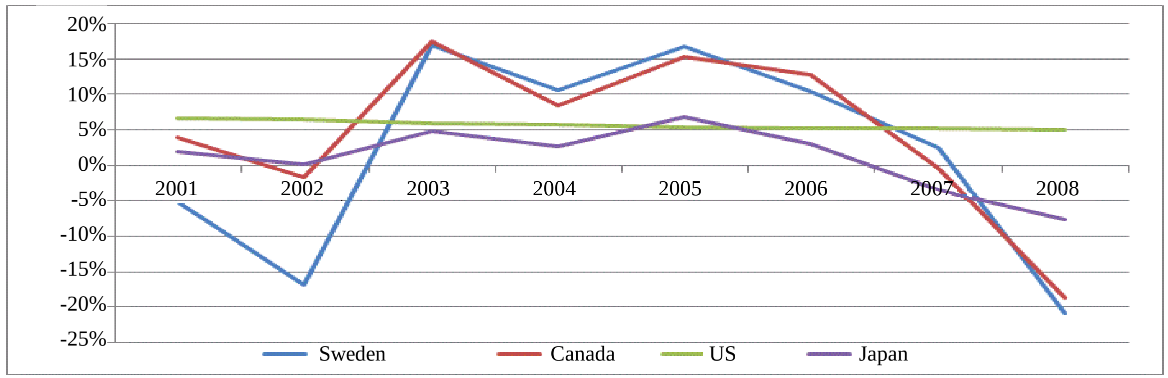
*Around 2001-2002 in Canada, the impact from the stock market was extremely minor, as the most of the reserve funds were invested in municipal bonds (the ratio of stocks was roughly 10%).

Portfolios of major countries

	Sweden	Canada	US	Japan
Bonds	37%	30%	100%	75%
Stocks	57%	65%	0	20%
Short-term assets	6%	5%	0	5%
Assets	¥8 trillion	¥8 trillion	¥219 trillion	¥118 trillion

(Note) The figures were as of the end of FY2008. The table was made based on each fund's website.

Investment performance of major countries



	2001	2002	2003	2004	2005	2006	2007	2008
Sweden	-5.0%	-16.8%	17.0%	10.6%	16.9%	10.5%	2.5%	-20.8%
Canada	4.0%	-1.5%	17.6%	8.5%	15.5%	12.9%	-0.3%	-18.6%
US	6.6%	6.4%	6.0%	5.7%	5.5%	5.3%	5.3%	5.1%
Japan	1.9%	0.2%	4.9%	2.7%	6.8%	3.1%	-3.5%	(-7.6%)

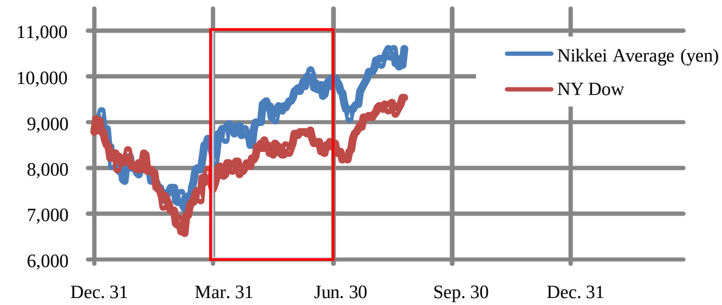
(Note 1) Calendar year in the US and Sweden (AP4); fiscal year from April to March in Canada and Japan
(Note 2) Canada raised the ratio of stocks step by step (ratio of stocks: about 10% in 2002 and about 60% in 2006).
(Note 3) All pension reserve funds in the case of Japan. The figure for 2008 is the rate of return of the assets managed by the GPIF.

INVESTMENT PERFORMANCE OF GPIF (APRIL-JUNE QUARTER OF FY2009)

○ In the first quarter (from April to June), the GPIF's investment return was 3.9% (about ¥4.6 trillion), because financial and capital markets recovered their composure and stock prices sharply rose in domestic and foreign stock markets.

* The return only from its market investments was 4.9% (about ¥4.5 trillion).

(Reference) With regard to the pension reserve funds as a whole, about ¥18 trillion accumulated from FY2001 (when discretionary investment began).



○Amount and rate of return by type of assets (1st quarter of FY2009)

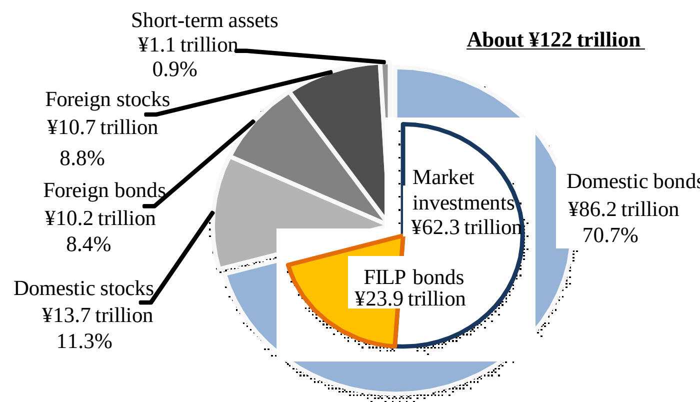
(Unit: ¥100 million)

		Q1 (Apr. to Jun.)	
			Rate of return
Market investments	Domestic bonds	3,811	0.6%
	Domestic stocks	23,425	20.6%
	Foreign bonds	1,677	1.7%
	Foreign stocks	16,007	17.6%
	Total	44,921	4.9%
FILP bonds		761	0.3%
All invested assets		45,682	3.9%

○ Amount of assets managed by GPIF (as of end of Jun. 2009)

(Unit: ¥100 million)

	Amount of invested assets	% to total
Domestic bonds	861,763	70.7%
Market investments	622,697	51.1%
FILP bonds	239,065	19.6%
Domestic stocks	137,411	11.3%
Foreign bonds	101,812	8.4%
Foreign stocks	106,735	8.8%
Short-term assets	10,898	0.9%
Total	1,218,619	100.0%



(Reference) Results of investment of reserve funds
(from beginning of discretionary investment until FY2008)

(Unit: ¥100 million)

Fisical year			Return on investment of reserve funds	Rate of return	Cumulative return
	GPIF	Funds entrusted			
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	839	-93,176	-6.9%	137,508
FY2009	(45,682)	-	(45,682)	-	(183,190)
Total	(42,663) <25,774>	140,526	(183,190)	-	-

* 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 safety of investments ("diversified investments centering on domestic bonds").

(Reference) Investment of pension funds in foreign countries

		FY2009 (Q1)	(FY2008)
• CalPERS (California Public Employees'' Retirement System)	<Ratio of stocks: about 60%>	7.1%	(-29.1%)
• CPPIB (Canada)	<Ratio of stocks: about 70%>	7.1%	(-18.6%)
• GPF-G (Norway)	<Ratio of stocks: about 60%>	12.9%	(- 9.5%)
• GPIF	<Ratio of stocks: about 20%>	3.9%	(- 7.6%)
	(Market investments	4.9%	(-10.0%))

MARKET TRENDS (APRIL-JUNE QUARTER OF FY2009)

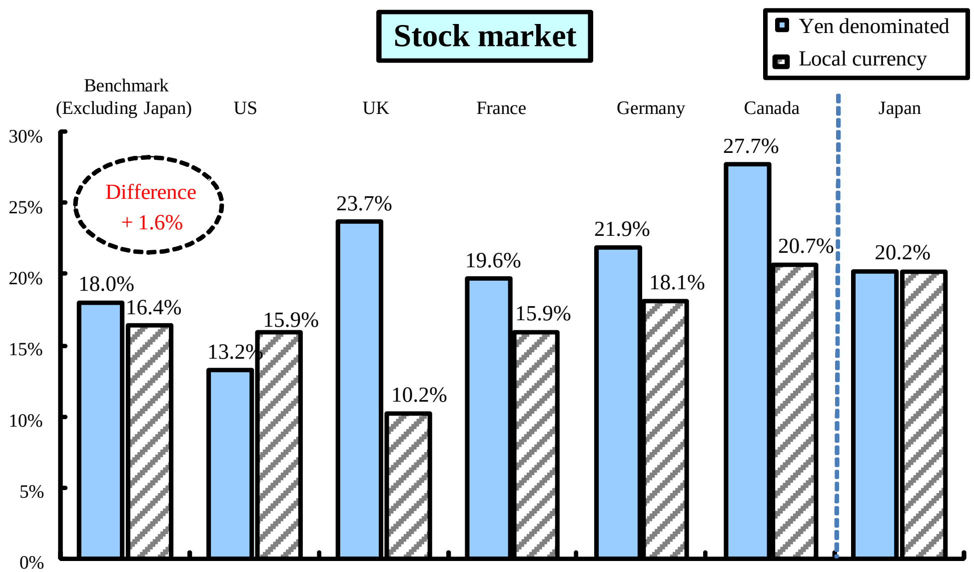
《All invested assets (market investments + FILP bonds) 》

	FY2008	FY2009				
		Q1	Q2	Q3	Q4	**Fisical year**
Rate of return (%)	-7.57	**3.89**	-	-	-	-
Amount of return (¥100 million)	-94,015	**45,682**	-	-	-	-
Invested assets (¥100 million)	1,176,286	**1,218,619**	-	-	-	-

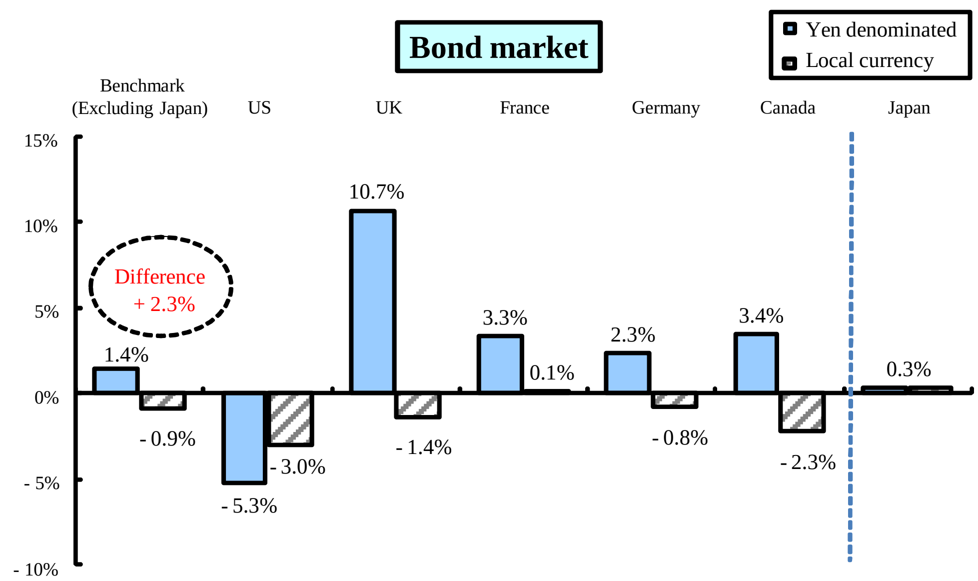
* Investment charges, loan interests, etc. are deducted from the amount of return in FY2008.

○ Reference indexes

	End of Mar. 2009	End of Jun. 2009	End of Jul. 2009
Nikkei Average (Change on end of Mar. 2009)	¥8,109.5	¥9,958.4 (22.8%)	¥10,356.8 (27.7%)
NY Dow (Change on end of Mar. 2009)	$7,608.9	$8,447.0 (11.0%)	9,171.6 (20.5%)
Exchange rate			
(Dollar/yen) (Change on end of Mar. 2009)	¥98.8	¥96.5 (-2.3%)	¥95.2 (-3.6%)
(Euro/yen) (Change on end of Mar. 2009)	¥131.1	¥135.3 (3.2%)	¥135.0 (2.9%)



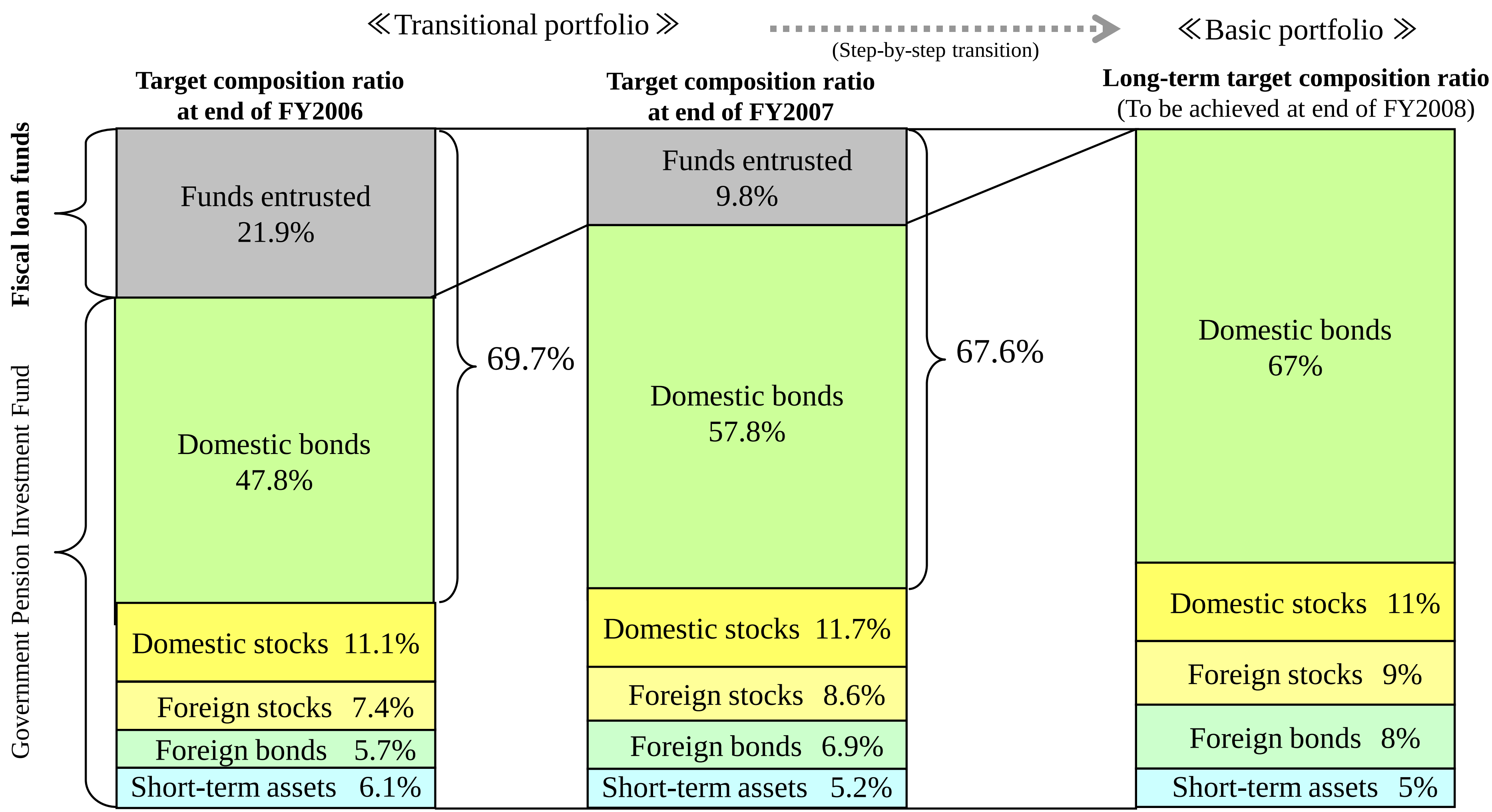
(Note) Benchmark: MSCI-KOKUSAI (North America: Europe: others = 6:3:1)



(Note) Benchmark: Citigroup World Government Bond Index (North America: Europe = 1:2)

○ ASSET COMPOSITION RATIO OF PENSION RESERVE FUNDS

In its mid-term plan, the GPIF itself determines the asset composition ratio of pension reserve funds based on the mid-term targets set by the government.
(Note) The present asset composition ratio was determined based on discussions at the Subcommittee for Pension Fund Management of the Social Security Council and others.
The present asset composition ratio is transitional, and step-by-step transition is now in progress to achieve a long-term asset composition ratio (basic portfolio) by the end of FY2008, when the public reserve funds entrusted to the former Trust Fund Bureau (present fiscal loan funds) will be completely returned (the portfolios for FY2006 and FY2007 are transitional ones).



VARIOUS OPINIONS ON RECENT PENSION RESERVE INVESTMENT

○ In the last fiscal year, the Council on Economic and Fiscal Policy (Expert Committee on Reforms Addressing Globalization (the Working Group on the Financial and Capital Markets)), based on awareness that present investments mainly in domestic bonds are insufficient in diversifying risk and returns are also not enough compared to other countries, compiled a report including the following points:

(1) Investments centered on domestic bonds should be changed and risk should be diversified (raising the ratio of risk assets, such as domestic and foreign stocks).

(2) Investments should be expanded to commodities futures and real estate funds, etc.

(3) Turnover of assets should be dynamically implemented to respond changing environment of financial market by employing specialist with high level of financial expertise from the inside and the outside of the country.

(4) The investment organization should undergo drastic reform (such as treatment of officers to be the same level with that of officers and staff at international investment institutions, independency that is the same level with that of the Bank of Japan, establishment of overseas bases and split of the funds into several units).

○ At the Council on Economic and Fiscal Policy held on May 23, 2008, private-sector member submitted a paper based on the above report and the discussion was made on that. For the material submitted, the Minister of Health, Labour and Welfare pointed out the following and asked for careful consideration:

- A large amount of investment loss is possibly incurred if the ratio of risk assets is raised sharply. How should we consider the responsibility thereof?
- Since investment costs are surely to increase substantially, is it possible to obtain understanding and acceptance from pension contributors (investment costs are disbursed from pension reserve funds)?
- Since resources of pension reserve funds are premiums collected from pension contributors, isn’t it necessary to have perspective of pension contributors?

○ On the other hand, with regard to the investment of pension funds, some have the opinion that the risk of the investment should be reduced, for example, by investing only in government bonds.

THE FORM THAT PENSION RESERVE FUND INVESTMENT AND INVESTMENT ORGANIZATION WILL TAKE

【The form that pension reserve fund investment will take】

○ Such approaches as “investments centered on domestic bonds,” “investments centered on passive investments,” “curbing risk” and “efficient system” which were presented by the Subcommittee for Pension Fund Management of the Social Security Council and a ruling party in the 2004 pension system revision are the promise to the citizens.

*In the deliberations at the Diet, etc., there are many opinions that are critical to stock investments. Opinions in favor of lowering the ratio of domestic bonds and raising the ratio of stocks and other risk assets (high-risk, high-return oriented opinions) are limited.

○ From the standpoint of citizens, such arguments as “risk diversification is insufficient” and “returns are low” have the meaning same as lowering the ratio of domestic bonds and raising the ratio of risk assets including stocks, commodities futures, real estate funds, etc. How should we consider the responsibility if large investment loss is incurred as a result of raising the ratio of risk assets?

○ Resources of pension reserve funds are premiums collected from pension contributors through compulsory coverage to apply for pension benefits. It is essential that the labor and the management participate in the discussion on the basic form that pension reserve fund investment will take.

⇒ “Discussion through participation of the labor and the management based on the discussion at the Diet” (discussion in absence of interested parties should be avoided.)

【The form that investment organization will take】

○ To begin with, professionalism of the Investment Committee should be improved and specific discussion that fully takes into account of investment practices will be held.

○ Costs of investment organization are disbursed from pension reserve funds. Under the circumstances where harsh words are heard among citizens on the use of pension premiums and pension reserve funds, a top priority should be given on the basic form that investment will take.

○ In Sweden where investments are carried out through multiple funds, there aren’t any significant differences from fund to fund, and full attention is necessary to be paid that such investments have been criticized in terms of efficiency.

(Example 1) CPPIB in Canada was newly established (1997) to switch over from traditional investments through municipal bonds to investments centered on stocks and foreign assets.

(Example 2) In AP funds in Sweden, multiple wager-earner funds were liquidated and consolidated based on the consensus of both the ruling and opposition parties to raise investment returns through competition among each fund (each fund raised the ratio of risk assets).

(Example 3) In order to implement such approaches as “investments centered on domestic bonds,” “investments centered on passive investments and “efficient system” as stated above, the GPIF was established under the Government Pension Investment Fund Act of 2004. The Law stipulates that the head office shall be placed in Kanagawa Prefecture, and therefore, the relocation is mandated.

OUTLINE OF ORGANIZATIONS OF PUBLIC PENSION RESERVE FUND MANAGEMENT AND INVESTMENT IN VARIOUS COUNTRIES (1)

○The form that an investment organization takes greatly differs by the basic form of investment.

<Major factors>

- Ratio of risk assets (the higher the ratio of risk assets rises, the larger an investment organization tends to become.)
- Investment styles: (1) whether investments are centered on passive investments or active investments.
  (2) Whether the asset composition ratio is maintained (portfolio investment) or is dynamically changed.
- Whether investments are centered on in-house investments or centered on entrusted-investments to investment management firms.

○Compared to investment costs of the GPIF, those of investment organizations in Canada and Sweden are higher in comparison to the scale of their reserve funds because the ratio of risk assets are high and investments are centered on in-house and active investments.

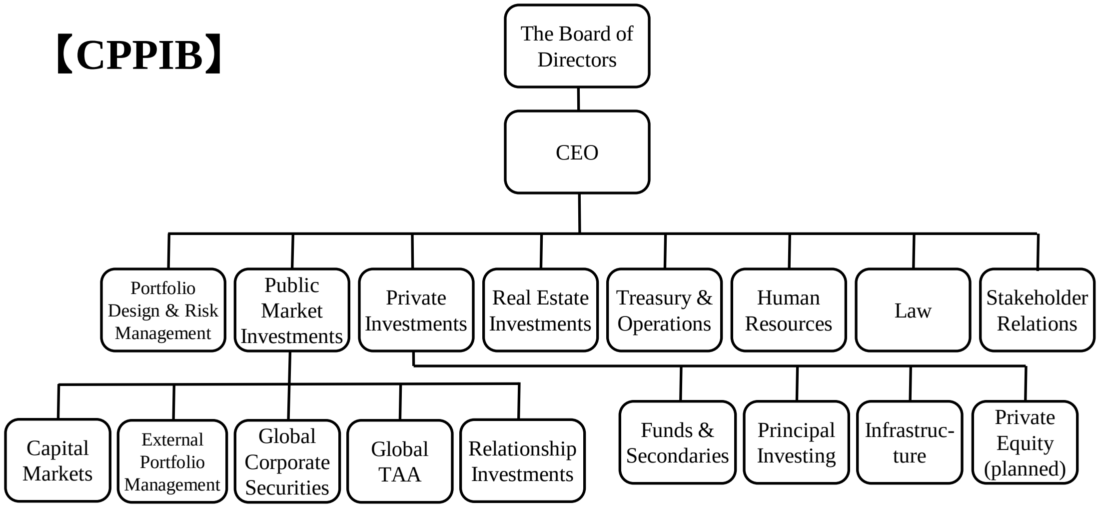
	Canada	Sweden				(Reference) Japan
Name	CPPIB	AP1	AP2	AP3	AP4	GPIF
Outline of organization	• A professional investment organization (Crown Corporation) to invest reserve funds under the CPPIB Act (established in 1997) • Directors are appointed by the federal finance minister (comprised of people having academic experience, officers of business corporations, people having experience of working at local governments, officers of investment firms and others) • The Board of Directors appoints CEO (CEO appoints executive officers, etc.)	• An independent legal entity (the organization underwent a drastic reform in 1999 based on the pension reform of the 90's) • Directors (comprised of people having academic experience, management (officers) of business corporations, people responsible for labor unions, management (officers) of investment firms and others) are appointed by the Ministry of Finance. • The Board of Directors appoints CEO (CEO appoints executives officers and staff.)				• A professional organization to invest and manage employees' pension reserve funds and national pension reserve funds • The Minister of Health, Labour and Welfare appoints President.
Number of executive officers	12 directors and 18 executive officers	8 directors and 6 executive officers	9 directors and 6 executive officers	9 directors and 6 executive officers	9 directors and 6 executive officers	2 directors
Number of staff	350	64	54	50	47	76
Board of Directors, etc.	The Board of Directors (12 part-time directors) * The Investment Committee, the Audit Committee, the Human Resources and Compensation Committee and the Governance Committee are established.	The Board of Directors (roughly 9 part-time directors) *Investment activities, execution of voting rights, decision on the risk management plan, etc.				Investment Advisory Committee * Experts in finance and economics (including those in labor-management relationship); 11 or fewer (part-time) * Supervision of investment conditions and deliberations on the mid-term plans
Executive's compensation (Average per executive)	Director (part-time): ¥4.78 million Executive officer: ¥166.4 million	CIO:¥46.6 million Others: ¥20.93 million	CIO:¥44.17 million Others: ¥30.28 million	CIO:¥54.57 million Others: ¥30.26 million	CIO:¥30.5 million Others: ¥32.22 million	President: ¥20 million Director: ¥16 million
Staff's compensation (Average per staff)	¥21.84 million	¥12.12 million	¥9.8 million	¥13.16 million	¥12.55 million	¥8.47 million
Expected investment yield	4.2% (real)	5.1% - 6.7% (nominal)	5.7% (nominal)	4.0% (real)	4.5%(real)	3.2% (nominal)
Investment assets	About ¥12 trillion (March 2007)	About ¥3.6 trillion (December 2006)	About ¥3.8 trillion (December 2006)	About ¥3.7 trillion (December 2006)	About ¥3.5 trillion (December 2006)	About ¥115 trillion (March 2007)
Overseas bases	None	None	None	None	None	None
Investment costs	About ¥11.4 billion	About ¥5.3 billion	About ¥4.5 billion	About ¥4.4 billion	About ¥4.7 billion	About ¥32.7 billion
Investment costs/Investment assets	0.10%	0.15%	0.12%	0.12%	0.13%	0.03%

*1 In US, all reserve funds are invested in non-marketable government bonds, and no organization to invest pension reserve funds is established.

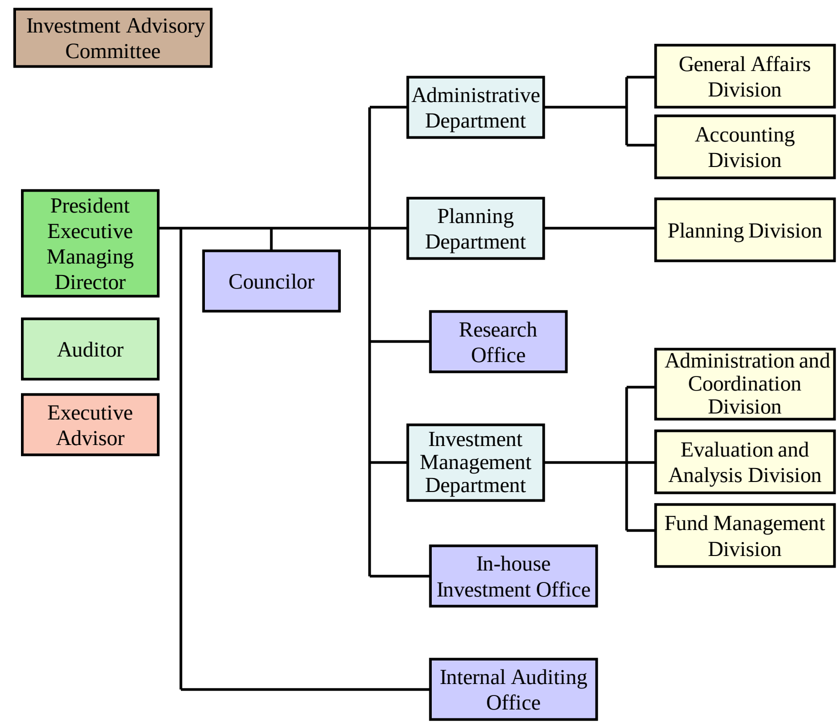
*2 Source: "Research on Organizations of Public Pension Reserve Fund Investment in Major Countries" (March 2008, Nomura Institute of Capital Markets Research)

OUTLINE OF ORGANIZATIONS OF PUBLIC PENSION RESERVE FUND MANAGEMENT AND INVESTMENT IN VARIOUS COUNTRIES (2)

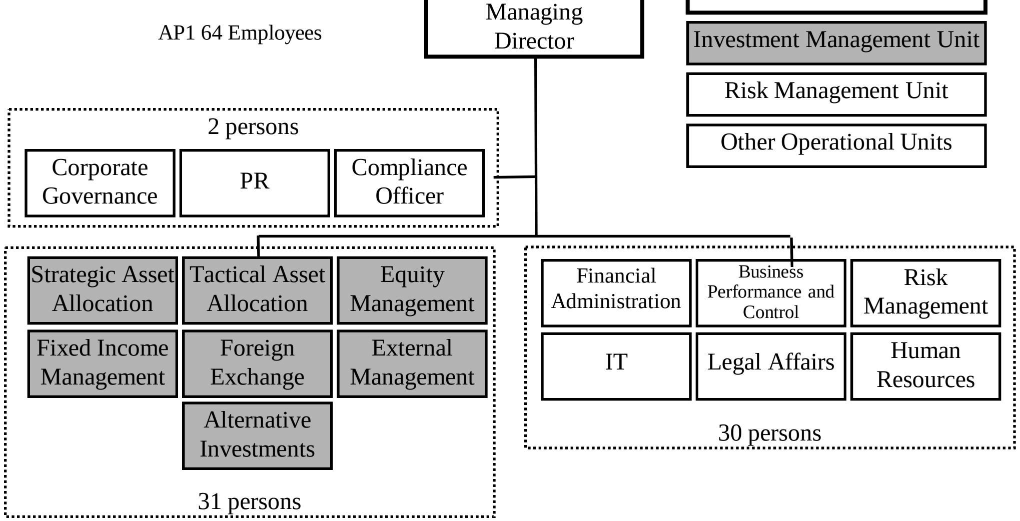
【CPPIB】



【GPIF】



【AP Funds (AP1)】



○ Besides Canada and Sweden, the conditions of investment organizations in other foreign countries are as follows.

(1) Norway (Norges Bank Investment Management: NBIM) *Pension premiums collected from pension contributors are not the resources.

- A state-owned investment fund (SWF) which carries out active investments mostly in foreign assets with huge amount of oil money as the resources.
- The amount of investment assets of the pension fund (Government Pension Fund – Global) which NBIM invests: about ¥38 trillion (2007)
- Investments are carried by the Central Bank (a part of the Bank) (investments were started in 1996 and their assets have been growing rapidly from around 2000 in line with rising oil prices).
- Asset composition ratio of Government Pension Fund – Global: stocks at 40% and bonds at 60% (most of them are foreign assets)
- There are 5 executive officers including CEO and 150 staff (2006).
- Under CIO, NBIM has equity section and fixed income section as investment units. Besides these, there are other independent units, such as corporate governance, risk management, performance control and compliance.
- Overseas bases (New York, London, Shanghai) are established.

(2) Ireland (National Pension Reserve Fund: NPRF)

- Due to limited economic scale of own country, investments are made only in foreign assets mainly in those of EU countries to increase the resource of pension benefits through active investments.
- NPRF has entrusted the investment and management of the funds to NTMA (The National Treasury Management Agency) (investments started in 2001).
- The amount of investment assets: about ¥3 trillion (2006). Asset composition ratio; stocks at 80% and bonds at 20% (target by 2009)

(3) Denmark (Arbejdsmarkedets Tillegspension: ATP)

- Investments are carried out so that necessary benefits can be provided at any time (target is to seek for absolute return).
- The amount of investment assets: about ¥8 trillion (2006). Asset composition ratio; stocks at 30% and bonds at 70% (2006)

(4) Swiss (Ausgleichsfonds der Alters-und Hinterlassenenversicherung: AHV equalization reserve fund)

- The organization was established for the purpose of securing AHV stability (1997).
- The amount of investment assets: about ¥2.4 trillion. Asset composition ratio; stocks at 40%, bonds at 50% and others at 10%

(Note) UK, France and Germany apply “pay-as-you-go” method. Pension reserve funds of each country are small in scale.