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## Business Activities and Financial Highlights

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# 1 Status of Operations

## 1 Overview of Postal Service

### VOLUME OF MAIL HANDLED

In fiscal 2003, the total volume of mail handled was 25,586.63 million items, a decline of 593.71 million items or 2.3% compared with the previous fiscal year.

Annual per capita mail volume was 202, which was a decrease of five items compared to the previous fiscal year.

An overview according to mail category is as follows:

#### a) Letter Post

In a difficult business environment, first-class mail (sealed letters) and second-class mail (postcards), which account for about 90% of all mail, fell 2.7% compared to the previous year to 23,363.98 million items (total of first- and second-class, first-class: 12,334.73 million items, second-class: 11,029.24 million items, includes New Year and election mail). This was despite the fact that the volume of New Year's mail exceeded the previous year for the first time in six years with 3,358.61 million items, up 0.3% year on year, due to a proactive sales campaign. The decline was due to the impact of computerization (the move to e-mail), a shift to private mail services, and a fall in corporate mail because of cuts in communications expenses.

The volume of third-class mail was 856.52 million items, down 11.6% year on year, due to factors that included a decrease in the mailing of periodical publications issued at least three times a month.

The volume of fourth-class mail was 40.54 million items, up 9.2% year on year, thanks to factors such as an increase in correspondence-course mailings.

The volume of special-handling mail fell 14.0% year on year to 543.41 million items. The reasons included a fall in the volume of express mail due to the impact of computerization (the move to e-mail), and the increased speed of delivery for ordinary mail.

As a result, the overall volume of letter post fell by 842.95 million items year on year to 24,804.45 million items.

#### b) Parcel Post

For ordinary parcels, Japan Post has established a target of expanding its share of the small-parcel market (total volume handled of private parcel delivery services and ordinary parcels) from 5.7% in fiscal 2002 to 10% three years later in fiscal 2005. It has been making efforts to promote business. As a result, the volume of ordinary parcels has increased 9.9% year on year to 182.18 million items. This is due to an increase in use by department stores and mail order companies, as well as the efforts of Japan Post in marketing, such as the nationwide sale of EXPACK 500, which may be easily used with one coin, since October 14, 2003.

Moreover, as a result of efforts to improve service, including rate reductions on July 1, 2003 and February 1, 2004, the volume of booklet parcels has risen, up 86.5% year on year to 515.83 million items. As a result, the overall volume of parcel post increased by 255.70 million items year on year to 698.01 million items.

### c) International Mail

In international mail, the volume of international express mail (EMS) increased 3.6% year on year to 9.45 million items, due to factors such as an expansion in the number of countries covered. Moreover, international letter post fell 11.3% year on year to 73.17 million items because of the impact made by the spread of e-mail. The volume of international parcel post rose 0.2% year on year to 1.55 million items. As a result, the volume of international mail overall fell by 6.46 million items compared to the previous fiscal year to 84.17 million items.

For incoming mail, international letter post declined 12.1% year on year to 230.49 million items, international parcel post was down 2.3% year on year to 2.10 million items, and international express mail (EMS) rose 6.2% year-on-year to 5.13 million items. The volume of international mail (incoming) overall was 237.71 million items, down 11.7%, a decline of 31.53 million items compared to the previous fiscal year.

Unit: million items

Classification	FY 2003	FY 2002	Year over year (%)
Total	25,586.63	26,180.34	-2.3
Domestic mail	25,502.46	26,089.71	-2.3
1 Letter post	24,804.45	25,647.40	-3.3
(1)Ordinary mail	24,261.05	25,015.25	-3.0
A.First-class mail	12,334.73	12,839.42	-3.9
B.Second-class mail	7,560.44	7,808.33	-3.2
C.Third-class mail	856.52	968.88	-11.6
D.Fourth-class mail	40.54	37.13	9.2
E.New Year's mail	3,358.61	3,346.93	0.3
F.Election mail	110.19	14.56	656.7
(2)Special-handling mail	543.41	632.15	-14.0
A.Registered mail	138.62	159.19	-12.9
B.Delivery-certified mail	215.03	229.94	-6.5
C.Express mail,etc.	189.75	243.02	-21.9
2 Parcel post	698.01	442.31	57.8
(1)Ordinary parcels	182.18	165.73	9.9
(2)Booklet parcels	515.83	276.58	86.5
International mail (outgoing)	84.17	90.63	-9.6
1 Letter post	73.17	79.96	-11.3
2 Parcel post	1.55	1.54	0.2
3 EMS	9.45	9.12	3.6

## POSTAL SERVICE OPERATING REVENUES

Postal service operating revenues (revenues from postal service charges received from customers, not including internal use by Japan Post) in fiscal 2003 were 1,906.3 billion yen, down 45.4 billion yen, or 2.3% year on year.

A breakdown by type of revenue is as follows:

### a) Stamp Revenues

In terms of stamp revenues (revenues on sales of postage stamps), revenue from sales of ordinary stamps was down 7.2% to 328.4 billion yen due to the decline in letter usage. Revenue from sales of special issue stamps issued for special purposes, such as commemorating various events, fell 24.6% to 27.3 billion yen because of a reduction in the number of stamps issued. Total stamp revenues were down 8.8% to 355.7 billion yen.

## b) Postcard Revenues

Postcard revenues (revenues from sales of postcards, postal letters (mini-letters), international postcards, aerograms, standard parcels (EXPACK 500) and standard international express mail (EMS Asia/World) totaled 274.7 billion yen, a 2.8% increase, with sales revenues of 74.4 billion yen, down 0.2%, for ordinary postcards (including summer greetings postcards, picture postcards and advertising cards), and 200.3 billion yen for New Year's lottery postcards, which was up 4.0%.

## c) Deferred-payment Fees

Deferred-payment fees (revenues from mail with deferred payment of fees) were 813.2 billion yen, up 1.5%, due to factors that included a review of the guarantee system for deferred-payment fees.

## d) Non-affixed Postage Fees

Non-affixed postage fees (revenues from mail with non-affixed postage fees) were 445.7 billion yen, a decline of 7.4%, because of a shift to deferred-payment fees resulting from the review of the guarantee system for deferred-payment fees.

## e) Miscellaneous Postal Service Revenues

Miscellaneous postal service revenues (revenues arising from the postal service such as sales charges for goods, which are postal service operating revenues not included above) rose 38.6% to 17.0 billion yen, due to such factors as an increase in revenues from the handling of election postcards.

Unit: billion yen

	FY 2000	FY 2001	FY 2002	FY 2003
Postal service operating revenues	2,048.6	2,012.8	1,951.7	1,906.3
Stamp revenues	478.4	422.6	390.1	355.7
Ordinary stamps	405.9	381.7	353.9	328.4
Special issue postage stamps	72.5	40.9	36.2	27.3
Postcard revenues	287.8	275.7	267.2	274.7
Ordinary postcards	82.0	78.3	74.6	74.4
New Year's postcards	205.8	197.4	192.6	200.3
Deferred-payment fees	773.7	805.3	800.8	813.2
Non-affixed postage fees	493.5	494.6	481.4	445.7
Miscellaneous postage service revenues	15.2	14.7	12.2	17.0

Note 1: Above amounts are receipts and include consumption tax.

Note 2: Explanations of categories are as below:

Stamp revenues: Revenue from sales of postage stamps and international reply paid stamps

Ordinary stamps: Revenue from postage stamps other than special issue postage stamps

Special issue postage stamps: Revenue from sales of postage stamps issued for special purposes, such as the commemoration of various events

Postcard revenues: Revenue from sales of postcards, letter-cards (mini-letters) and aerograms

Ordinary postcards: Revenue from postcards other than New Year's postcards

New Year's postcards: Revenue from sales of New Year lottery postcards

Deferred-payment fees: Revenue from fees for deferred-payment postal items

Non-affixed postage fees: Revenue from fees for postage items with non-affixed postage fees

Miscellaneous postal service revenues: Revenue from postal business arising from postal operations other than those above, such as charges for goods sold

## 2 Overview of Postal Savings Service

### BALANCE OF POSTAL SAVINGS

The balance of postal savings has continued to fall since peaking at the end of fiscal 1999 due to the large volume of teigaku savings reaching maturity in fiscal 2000 – 2001. The balance at the end of fiscal 2003 was 227 trillion yen, a decline of 6 trillion yen, or 2.5%, compared to the end of the previous fiscal year.

Unit: billion yen

	FY 2000	FY 2001	FY 2002	FY 2003
Ordinary savings	40,766.2	48,037.2	51,063.9	53,750.7
Collection savings	577.4	530.8	476.3	405.0
Teigaku savings	193,712.2	175,895.6	167,861.9	160,189.8
Time savings	14,867.8	14,868.0	13,834.2	13,026.9
Housing collection savings	3.3	3.0	2.5	2.0
Education collection savings	6.7	7.2	7.6	7.7
Total	249,933.6	239,341.8	233,246.5	227,382.0

Note 1: The figures given in the financial statement are not consistent as the balance includes unpaid interest on postal savings.

Note 2: Ordinary Savings includes New Ordinary Savings, while Teigaku Savings includes Teigaku Savings for Wage Earner's Property Accumulation.

## MAIN SERVICE TRANSACTIONS

In fiscal 2003, there were 1,518.39 million postal giro transactions, an increase of 67.14 million, or 4.6%, compared to the previous year, and 43.50 million postal money-order transactions, an increase of 790,000, or 1.9%, compared to the previous fiscal year.

In addition, the number of affiliated service transactions, including ATM tie-up transactions, increased steadily. There were 55.095 million ATM entrustment handling transactions (See Note 1), an increase of 11.764 million, or 27.1%, year on year, and 51.710 million ATM customer handling transactions (See Note 2), up 16.032 million, or 44.9%, year on year. Amidst persistently ultra-low interest rates, counter sales of government bonds rose 143.2 billion yen, or 8.9%, year on year to 1.7586 trillion yen, due to sales efforts at post offices.

Note 1: ATM entrustment handling transactions

The handling of deposits, payments, cashing, balance inquiries and cashing inquiries at postal savings

ATMs and CDs nationwide using cash cards of financial institutions, such as banks, insurance companies, securities companies or credit card companies which have operational tie-ups with Japan Post ("affiliated financial institution" below).

Note 2: ATM customer handling transactions

The handling of ordinary postal savings deposits, repayments and balance inquiries at the ATMs/CDs of affiliated financial institutions using postal savings cash cards.

## Postal Money Orders and Postal Giro

Unit: transaction in thousands, billion yen

	FY 2000		FY 2001		FY 2002		FY 2003	
	Number of transactions	Amount	Number of transactions	Amount	Number of transactions	Amount	Number of transactions	Amount
Postal money orders	42,384	508.3	43,070	475.5	42,709	371.5	43,505	324.7
Postal giro	1,324,621	62,908.4	1,398,808	67,371.8	1,451,249	67,632.5	1,518,390	70,615.9
Inpayments	1,119,933	29,688.9	1,176,602	31,042.3	1,211,512	30,742.4	1,247,670	30,812.9
Transfers	20,933	6,834.9	29,121	7,978.5	36,979	8,332.3	49,046	9,384.7
Outpayments	183,755	26,384.7	193,085	28,351.0	202,757	28,557.8	221,674	30,418.3

## Affiliated Services

Unit: transaction in thousands, billion yen

	FY 2000		FY 2001		FY 2002		FY 2003	
	Number of transactions	Amount	Number of transactions	Amount	Number of transactions	Amount	Number of transactions	Amount
Transactions using ATMs and cash dispensers	39,979	2,436.5	61,583	3,796.2	79,009	4,762.4	106,805	6,213.2
At post offices with cash cards issued by private banking institutions	20,537	2,018.7	30,842	3,106.0	43,331	3,945.1	55,095	5,091.5
At private banking institutions with Postal Savings cash cards	19,442	417.8	30,741	690.2	35,678	817.3	51,710	1,121.7
Mutual remittances	21	139.0	74	609.8	164	927.7	220	1,321.4

## Counter Sales of Government Bonds

Unit: billion yen

	FY 2000		FY 2001		FY 2002		FY 2003	
	Underwritten	Sold	Underwritten	Sold	Underwritten	Sold	Underwritten	Sold
Long-term government bonds	267.5	205.4	200.0	138.2	200.0	199.6	199.5	172.0
Medium-term government bonds	2,715.5	2,599.5	3,625.0	1,652.5	1,747.4	1,313.4	1,598.6	1,187.7
Discount government bonds	166.5	125.7	70.2	53.8	100.0	52.5	-	-
Bonds for individuals	-	-	-	-	50.0	49.9	400.0	398.8
Total	3,149.5	2,926.6	3,895.2	1,844.5	2,097.4	1,615.4	2,198.1	1,758.6

### 3 Overview of Postal Life Insurance Service

#### NEW POLICIES

Policies for the fiscal year under review were as below:

##### 1) New Policies for Fiscal 2003

Due to such factors as the prolonged economic recession and protracted low interest rates, the number of new insurance policies fell 823,000, or 17.5%, year on year to 3.875 million, and the insured amount fell 2.6295 trillion yen, or 19.3%, year on year to 11.82 trillion yen.

The number of new annuity insurance policies declined 96,000, or 19.2%, year on year to 405,000, and the annuity amount dropped 42.3 billion yen, or 20.8%, year on year to 160.7 billion yen.

##### 2) Policies in Force at the End of Fiscal 2003

As a result of the decline in the number of new policies and a concentration in the number of insurance policies reaching maturity, the number of policies in force fell 4.14 million, or 5.7%, year on year to 68.50 million. The insured amount declined 8.8349 trillion yen, or 4.6%, compared with the end of last fiscal year to 185.2784 trillion yen.

The number of annuity insurance policies in force decreased 90,000, or 1.2%, compared to the end of the last fiscal year to 7.31 million, and the annuity amount rose 22.1 billion yen, or 0.9%, to 2.5637 trillion yen.

## New Policies of Life Insurance by Type

Unit: thousand items, billion yen

Policy Type		FY 2000		FY 2001		FY 2002		FY 2003	
		Number of policies	Insured amount	Number of policies	Insured amount	Number of policies	Insured amount	Number of policies	Insured amount
Whole Life Insurance	Ordinary Whole Life Insurance	332	704.4	233	494.4	180	376.5	207	481.9
	Special Whole Life Insurance	623	1,475.9	525	1,247.9	462	1,097.3	328	781.4
	Whole Life Insurance with Nursing Subsidy	1	2.2	0	1.3	0	0.8	0	0.6
Term Insurance	Ordinary Term Insurance	4	17.5	4	14.8	2	10.6	2	11.1
	Workplace Insurance	42	120.7	16	43.2	9	22.9	7	18.6
Endowment Insurance	Ordinary Endowment Insurance	2,597	6,553.1	2,147	5,346.9	1,888	4,580.2	1,642	3,827.5
	Endowment Insurance with Living Benefit	334	610.3	12	20.9	4	7.0	-	-
	Special Endowment Insurance	868	4,106.4	1,466	6,509.2	1,487	6,494.3	1,153	4,983.9
	Designated Endowment Insurance	40	70.2	26	48.4	25	46.1	27	49.4
	Educational Endowment Insurance	660	1,034.9	583	909.6	512	792.6	449	742.8
	Adult Insurance	105	139.1	64	87.6	47	64.9	-	-
	Asset Accumulation Annuity Endowment Insurance	0	0.1	0	0.0	0	0.0	-	-
Family Insurance	Husband-and-Wife Insurance	2	4.5	1	2.5	1	2.9	1	2.7
Asset Accumulation Insurance	Asset Accumulation Deposit Savings Insurance	15	22.6	13	22.0	3	4.5	1	1.5
	Asset Accumulation House Savings Insurance	4	8.4	0	0.4	0	0.1	0	0.1
Whole Life Insurance with Whole Life Annuity		1	2.2	0	1.8	0	1.7	0	1.8
Educational Endowment Insurance with Scholarship Annuity		127	228.4	101	178.1	78	135.4	53	100.0
Husband-and-Wife Insurance with Husband-and-Wife Annuity		0	0.1	0	0.0	-	-	0	0.0
Total		5,756	15,101.0	5,193	14,929.0	4,698	13,637.6	3,875	11,008.2

Note: Total for fiscal 2003 includes policies for discontinued products concluded in the relevant fiscal year.

## New Annuity Policies by Type

Unit: thousand items, million yen

Policy Type		FY 2000		FY 2001		FY 2002		FY 2003	
		Number of policies	Annuity amount	Number of policies	Annuity amount	Number of policies	Annuity amount	Number of policies	Annuity amount
Whole Life Annuity	Immediate Whole Life Annuity	6	1,839	4	1,243	3	1,009	2	515
	Deferred Whole Life Annuity	46	18,506	32	12,264	23	8,892	15	5,707
	Whole Life Annuity with Additional Nursing Annuity	0	8	0	2	0	3	0	8
	Asset Accumulation Whole Life Annuity	0	0	0	0	-	-	-	-
Term Annuity	Immediate Term Annuity	178	66,038	168	63,093	155	57,955	113	40,664
	Deferred Term Annuity	348	141,089	338	142,028	320	135,075	275	113,742
Husband-and-Wife Annuity	Immediate Husband-and-Wife Annuity	0	2	0	2	0	2	0	3
	Deferred Husband-and-Wife Annuity	0	36	0	19	0	16	0	53
	Special Husband-and-Wife Annuity	0	3	0	5	0	2	-	-
Total		578	227,521	542	218,655	501	202,953	405	160,693

Note: Total for fiscal 2003 includes policies for discontinued products concluded in the relevant fiscal year.

## Life Insurance Policies in Force by Type

Unit: ten thousand items, billion yen

Policy Type		Fiscal 2000		2001		2002		2003	
		Number of policies	Insured amount	Number of policies	Insured amount	Number of policies	Insured amount	Number of policies	Insured amount
Whole Life Insurance		1,210	25,497.6	1,231	26,278.9	1,241	26,764.7	1,241	27,059.6
	Ordinary Whole Life Insurance	559	11,133.2	557	11,205.5	550	11,171.4	547	11,259.9
	Special Whole Life Insurance	649	14,331.0	674	15,040.3	690	15,560.4	693	15,767.5
Term Insurance		29	745.1	24	618.5	20	503.5	16	410.5
	Workplace Insurance	27	651.0	22	526.2	18	420.5	14	321.6
Endowment Insurance		6,493	174,447.9	6,214	170,186.4	5,799	162,313.6	5,397	153,451.4
	Ordinary Endowment Insurance	3,404	80,224.3	3,229	76,925.8	2,913	70,338.2	2,630	63,932.1
	Endowment Insurance with Living Benefit	605	12,748.7	540	11,387.8	484	10,138.5	439	9,150.3
	Special Endowment Insurance	1,259	61,143.7	1,301	62,503.8	1,337	63,490.6	1,337	63,031.7
	Designated Endowment Insurance	4	68.3	6	112.3	8	151.9	11	193.3
	Educational Endowment Insurance	1,092	18,484.9	1,033	17,811.9	973	17,023.6	914	16,229.2
Family Insurance		28	768.4	26	723.2	14	458.9	10	353.5
Asset Accumulation Savings Insurance		21	379.9	16	292.8	6	106.1	5	73.0
Whole Life Insurance with Whole Life Annuity		14	748.2	13	733.5	13	719.8	13	708.1
Educational Endowment Insurance with Scholarship Annuity		166	3,138.8	170	3,203.9	170	3,212.1	168	3,188.4
Husband-and-Wife Insurance with Husband-and-Wife Annuity		1	36.4	1	35.5	1	34.6	1	33.8
Policies Dating From May 1949 or Earlier		0	0.0	0	0.0	0	0.0	0	0.0
Total		7,962	205,762.4	7,695	202,072.7	7,264	194,113.2	6,850	185,278.4

## Annuity Policies in Force by Type

Unit: thousand items, million yen

Policy Type		Fiscal 2000		2001		2002		2003	
		Number of policies	Annuity amount	Number of policies	Annuity amount	Number of policies	Annuity amount	Number of policies	Annuity amount
Whole Life Annuity		1,485	471,384	1,488	472,886	1,484	471,439	1,474	467,670
	Whole Life Annuity with Additional Nursing Annuity	2	949	2	910	2	890	2	870
	Asset Accumulation Whole Life Annuity	1	194	1	191	1	171	1	166
Term Annuity		5,520	1,818,480	5,702	1,943,087	5,784	2,033,265	5,707	2,059,380
Husband-and-Wife Annuity		137	37,613	135	37,233	134	36,926	134	36,689
Policies Dating From August 1981 or Earlier		0	3	3	2	0	2	0	2
Total		7,141	2,327,480	7,326	2,453,209	7,402	2,541,633	7,314	2,563,742



## 2 Financial Condition

### 1 Japan Post

#### PROFIT AND LOSS

##### Revenues, expenses and ordinary income

As a result of efforts by the postal service, postal savings and postal life insurance to ensure earnings in a difficult business environment, Japan Post overall recorded revenues of 24,602.3 billion yen with income of 1,921.9 billion yen in the postal service, 5,868.8 billion yen in postal savings and 16,811.5 billion yen in postal life insurance. On the other hand, expenses for Japan Post overall were 22,053.4 billion yen. This was the result of cuts in personnel expenses, including a downward revision in salaries by 2.58% compared to the previous year, as well as a reduction in the number of months used to calculate bonus payments by 0.25 months and efforts to reduce procurement costs. As a result, ordinary income stood at 2,548.8 billion yen.

##### Extraordinary Income and Extraordinary Losses

Japan Post recorded 24.8 billion yen in extraordinary income and 106.0 billion yen in extraordinary losses. The main breakdown of this figure included 4.1 billion yen in transfers to the price fluctuations reserve to provide for the risk of price fluctuations in postal life insurance assets, a 28.5 billion yen loss on disposal of unproductive assets (premises and equipment) prior to the implementation of accounting for the impairment of assets and 1.8 billion in valuation losses due to the superannuation of stamps and goods for sale. In addition, the company booked extraordinary income and losses associated with the partial revision of assets and liabilities recorded on the balance sheet at the time of the establishment of Japan Post.

##### Net Income

Japan Post overall recorded net income of 2,301.8 billion yen as a result of incorporating the extraordinary income and losses into ordinary income, and the additional 165.7 billion yen transfer to policyholders' dividend reserve.

Unit: billion yen

		Revenues	Expenses	Ordinary income	Net income
Japan Post overall (Note 1)	FY 2003	24,602.3	22,053.4	2,548.8	2,301.8

##### Overview of Each Service (Before offsetting for internal transactions)

Unit: billion yen

		Revenues	Expenses	Ordinary income	Net income
Postal service (Notes 2 and 3)	FY 2003	1,972.2	1,926.7	45.5	26.3
	FY 2002 (Note 4)	2,040.4	2,051.7	(11.3)	(22.5)
Postal savings (Note 2)	FY 2003	5,871.4 (Note 5)	3,600.6	2,270.7 (Note 5)	2,275.5 (Note 5)
	FY 2002 (Note 6)	6,291.3	4,561.0	1,730.3	1,730.3
Postal life insurance (Note 2)	FY 2003	16,857.7	16,625.2	232.5 (Note 7)	(4.1) (Note 8)
	FY 2002 (Note 9)	19,783.1	17,714.7	2,068.4	3,111.0 (Note 10)

Note 1: Discrepancies between the total of figures for each service and the figures for Japan Post overall are due to offsetting and elimination of transactions between the postal service, postal savings and postal life insurance as internal transactions within the corporation.

Note 2: A simple comparison between figures for fiscal 2003 and those for fiscal 2004 is not possible because of the change from accounting procedures that were previously based on government accounting laws and regulations and accounting procedures based on corporate accounting principles at the time of the transfer from government to public corporation.

Note 3: In the postal service, operating revenues for fiscal 2003 were 1,966.6 billion yen (2,035.0 billion yen in fiscal 2002), operating costs were 1,813.6 billion yen and SG&A expenses were 92.5 billion yen (total of operating costs and SG&A expenses in fiscal 2002: 2,033.7 billion yen), and operating income stood at 60.5 billion yen (1.3 billion yen in fiscal 2002).

Note 4: Figures for fiscal 2002 profit and loss in the postal service are adjusted for tax, etc., in order to adjust to figures based on public corporation accounting standards. An assessment of interim accounts and recording of assets such as inventory was not implemented.

Note 5: Money fund investment profit of 1,158.6 billion yen includes 793.9 billion yen in valuation differences.

Note 6: Figure for fiscal 2002 Postal Savings Special Account

Note 7: Includes 165.7 billion yen in transfers to reserve for policyholders' dividend.

Note 8: Accumulated internal reserve (price fluctuations reserve).

Note 9: In addition to adding figures for the Life Insurance Welfare Association to figures for the Postal Life Insurance Special Account, figures have been adjusted for after tax to adjust figures based on public corporation accounting standards. Assessment of interim accounts and recording of assets such as inventory was not implemented.

Note 10: Earned surplus for fiscal 2002 Postal Life Insurance Special Account.

## ASSETS AND LIABILITIES

### Assets

The total assets of Japan Post stood at 404,191.6 billion yen at the end of fiscal 2003. The main breakdown consisted of 9,244.7 billion yen in cash and deposits, 207,200.3 billion yen in financial instruments such as marketable securities and money held in trusts, 183,275.3 billion yen in deposits to fiscal loan and loans, 3,567.4 billion yen in premises and equipment, and 924.3 billion yen in other assets (573.1 billion yen in uncollected income, 101.6 billion yen in uncollected premium and 22.7 billion yen in accounts due).

### Liabilities

The total liabilities of Japan Post stood at 399,584.1 billion yen at the end of fiscal 2003. The main breakdown included 220,049.8 billion yen in postal savings, 119,735.4 billion yen in policy reserve, and 2,764.8 billion yen in employees retirement benefits reserve.

Unit: billion yen

		Total assets	Capital
Japan Post overall (Note 1)	FY 2003	404,191.6	4,607.5
	Time of establishment of Japan Post	415,525.3	1,268.8

### Outline of Each Service (Before offsetting for internal transactions)

Unit: billion yen

		Total assets	Capital
Postal service	FY 2003	2,284.2	(551.8)
	Time of establishment of Japan Post	2,721.3	(578.2)
Postal savings	FY 2003	280,553.0	3,666.3
	Time of establishment of Japan Post	290,923.0	1,804.4
Postal life insurance	FY 2003	121,911.9	1,493.1 (Note 2)
	Time of establishment of Japan Post	122,962.2	42.6

Note 1: Discrepancies between the total of figures for each service and the figures for Japan Post overall are due to offsetting and elimination of transactions between the postal service, postal savings and postal life insurance as internal transactions within the corporation.

Note 2: Capital at the end of fiscal 2003 for postal life insurance includes 1,450.5 billion yen in valuation gains on money held in trusts (net unrealized gains on securities) due to the rise in share prices.

## CASH FLOWS

Unit: billion yen

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financial activities	Cash and cash equivalents at the end of the year
Japan Post overall (Note 1)	(12,885.4)	9,250.8	(625.8)	9,244.7

### Outline of Each Service (Before offsetting for internal transactions)

Unit: billion yen

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financial activities	Cash and cash equivalents at the end of the year
Postal service	127.4	(27.6)	(451.5)	182.2
Postal savings	(11,556.8)	8,850.0	(15.6)	6,675.7
Postal life insurance	(2,481.6)	453.6	(14.9)	2,392.3

Note 1: Discrepancies between the total of figures for each service and the figures for Japan Post overall are due to offsetting and elimination of transactions between the postal service, postal savings and postal life insurance as internal transactions within the corporation.

## 2 Postal Service

### PROFIT AND LOSS

#### Operating Revenue

Operating revenue for postal services was 1,966.6 billion yen, and the majority of this figure consisted of postal service operating revenues, such as stamp sales revenues and deferred payment fees, which came to 1,878.9 billion yen.

The total mail volume handled in fiscal 2003 was 25,586.63 million, down 2.3% year on year. This figure includes 25,502.46 million domestic mail, down 2.3%, and 84.17 million international mail, down 9.6%.

Letter post, which accounts for 97% of the total domestic mail handled, declined overall by 3.3% year on year to 24,804.45 million items due to the advance of computerization and intensifying competition, although this included New Year postcards, which exceeded the previous year for the first time in six years, up 0.3% year on year.

In addition, ordinary parcels recorded 9.9% year-on-year growth and booklet parcels were up 86.5% year on year as a result of service improvements, including the expansion of next-day delivery areas and reductions in charges for booklet parcels, and marketing efforts.

In addition to this, revenue included 69.1 billion yen from sales of revenue stamps.

#### Operating Prime Costs, SG&A Costs and Operating Profit

Operating prime costs were 1,813.6 billion yen, and this is broken down into 1,351.3 billion yen in personnel expenses, and 462.3 billion yen in expenses.

In addition, SG&A costs came to 92.5 billion yen, broken down into 51.5 billion yen in personnel expenses and 40.9 billion yen in other expenses.

As a result, operating profit stood at 60.5 billion yen. This was due to efforts to boost marketing capabilities, including service improvements, such as the expansion in next-day delivery areas and a strengthening of the collection system. At the same time, reductions have been made in personnel and non-personnel expenses at Japan Post overall, as well as the cutting of 6,720 full time employees through the promotion of automation and transfer of full time staff to part time work, improvements in productivity based on the Japan Post System (JPS), and reductions in outsourcing expenses.

The operating expense ratio (See Note) in fiscal 2003 was 96.9%.

Note: Operating expense ratio = (operating prime costs + SG&A costs)/operating revenue × 100

#### Non-operating Revenue, Non-operating Expenses and Ordinary Profit

Non-operating revenue was 5.5 billion yen, non-operating expenses were 20.5 billion yen, and ordinary profit was 45.5 billion yen.

#### Extraordinary Profit and Extraordinary Loss

Extraordinary profit was 4.3 billion yen and extraordinary loss stood at 23.5 billion yen. The main breakdown was a partial revision of assets and liabilities recorded on the balance sheet at the time of the establishment of Japan Post, losses on disposal of unproductive premises and equipment, and valuation losses due to the superannuation of stamps and goods for sale.

## Current Profit

As a result of the above, current profit in the postal service for fiscal 2003 stood at 26.3 billion yen.

## Outlook for Fiscal 2004

In terms of revenue, Japan Post will improve its products and services at the same time as strengthening marketing capabilities through the establishment of a marketing system.

On the other hand, expenses include an increase in the burden of new taxation (13.4 billion yen), in addition to investment to boost competitiveness. However, Japan Post will continue striving to reduce expenses overall by promoting greater efficiency and improving productivity.

Japan Post aims to secure 20.0 billion yen in current profit by taking such measures.

## ■ ASSETS AND LIABILITIES

### Assets

Total assets at the end of fiscal 2003 stood at 2,284.2 billion yen, which was a decline of 437.0 billion yen compared with total assets of 2,721.3 billion yen at the time of the establishment of Japan Post.

This figure included 302.4 billion yen in current assets, which was a decline of 353.6 billion yen, due to a fall in cash and deposits.

Moreover, fixed assets stood at 1,981.8 billion yen, a fall of 83.4 billion yen.

### Liabilities

Total liabilities at the end of fiscal 2003 were 2,836.1 billion yen, a decline of 463.4 billion yen compared with liabilities at the time of the establishment of Japan Post.

This figure included 1,007.8 billion in current liabilities, which was a decline of 314.3 billion yen, and this was because short-term borrowings fell by 570.8 billion yen. Long-term liabilities were 1,828.3 billion yen, a decline of 149.0 billion yen compared with long-term liabilities at the time of the establishment of Japan Post. This was due to factors such as a 102.3 billion yen reduction in the reserve for retirement benefits.

### Capital

Total capital at the end of fiscal 2003 was minus 551.8 billion yen due to the booking of 26.3 billion yen in current profit, in addition to a difference of assets and liabilities at the time of the establishment of Japan Post of minus 578.2 billion yen.

## 3 Postal Savings Service

### PROFIT AND LOSS

#### Revenues

Interest income, which accounts for the majority of revenues, was 4,589.4 billion yen. Interest earned from trust funds of 3,712.5 billion yen and interest earned from securities of 857.8 billion yen made up most of this figure.

Moreover, income from service transactions came to 85.0 billion yen, due to the steady expansion in ATM partnerships and active efforts to sell government bonds.

Money trust management income is the main component of other operating income. This consists of holding shares through money trusts from the perspective of diversifying medium and long-term risk, and income stood at 1,158.6 billion yen (including 793.9 billion yen in valuation differences) in fiscal 2003, due to rising share prices.

#### Expenses and Ordinary Income

Interest expenses, which account for the majority of expenses, were 2,498.8 billion yen. Interest on postal savings at 1,298.0 billion yen and interest on borrowings at 1,197.5 billion yen accounted for most of this figure.

Other major items in expenses included operating expenses, personnel expenses and non-personnel expenses. As a result of efforts to reduce expenses overall, such as reductions in personnel and non-personnel expenses at Japan Post generally, in addition to the reorganization of the postal savings operation center, reductions in the number of externally contracted staff and automation of administrative processes, operating expenses stood at 1,053.8 billion yen (1,107.5 billion yen in fiscal 2002: See Note 1). The expense ratio (See Note 2) in fiscal 2003 was 0.46%.

As a result of the foregoing, ordinary income stood at 2,270.7 billion yen.

Note 1: The figure for fiscal 2002 is comprised of the figures that relate to postal savings operations from the Fiscal 2002 Postal Savings Special Account and the Postal Services Special Account.

Note 2: Expense ratio = operating expenses/balance of postal savings (average end-of-month balance) × 100

#### Cash Flows

Cash flows, which is the difference between interest income of 4,589.4 billion yen and interest expenses of 2,498.8 billion yen, is the basis of management in postal savings operations. Cash flows in fiscal 2003 stood at 2,090.6 billion yen (2,916.7 billion yen in fiscal 2002).

The reason for the contraction in cash flows compared with the previous fiscal year is that while in terms of liabilities (interest expenses) the cost of funds has already fallen considerably due to a concentration of maturities in fiscal 2000-2001, interest rate spreads have shrunk with the maturity of bonds acquired when interest rates were high in terms of assets (interest income).

Unit: %, billion yen

	FY 2002	FY 2003	Change
Interest surplus			
(Investment yield-fund procurement costs)	1.00	0.75	(0.25)
Investment yield	2.17	1.65	(0.52)
Fund procurement costs	1.17	0.90	(0.27)
Cash flows (Interest income-interest expenses)	2,916.7	2,090.6	(826.1)

## Extraordinary Income and Extraordinary Losses

Extraordinary income stood at 14.0 billion yen and extraordinary losses were 9.2 billion yen. The main components in these figures included the partial revision in the amounts of assets and liabilities recorded on the balance sheet at the time of the establishment of Japan Post and losses on the disposal of unproductive premises and equipment.

## Net Income

As a result of the foregoing, net income for the postal savings service in fiscal 2003 stood at 2,275.5 billion yen. Income excluding money trust management income (1,158.6 billion yen) stood at 1,116.8 billion yen.

## Outlook for Fiscal 2004

In terms of service, at the same time as living up to the trust of customers by enhancing customer services and improving the quality of operations, Japan Post will maintain and strengthen its customer base by raising customer satisfaction levels.

In terms of revenues, Japan Post will seek greater sophistication in Asset and Liability Management (ALM) at the same time as consistently carrying out stable investment of funds, primarily in domestic bonds. It will ensure 1.9 trillion yen in cash flows as well as endeavor to expand commission revenues through proactive efforts to sell government bonds.

In terms of expenses, Japan Post will take measures to further reduce costs through an exhaustive use of expenses based on cost-benefit, including the simplification of goods and services and a review of its sales and promotion structure.

Cash flows is expected to contract for the time being, partly as the balance of post office savings declines amidst the persistence of ultra-low interest rates. However, Japan Post aims to secure 950.0 billion yen in net income by seeking to establish the risk management system and tackling the strategies described above.

Balance of postal savings : 217 trillion yen (End of fiscal 2004)
Expense ratio : 0.47%
Service transactions revenue : 87.0 billion yen
Net income : 950.0 billion yen (excluding money held in trust management income)

## ASSETS AND LIABILITIES

### Assets

Total assets at the end of fiscal 2003 stood at 280,553.0 billion yen. The main components of this figure were securities and deposits to the fiscal loan fund.

Securities totaled 109,160.5 billion yen (92,533.7 billion yen at the time of the establishment of Japan Post), and Japanese government bonds comprised the majority of this figure at 89,273.2 billion yen (73,844.1 billion yen at the time of establishment of Japan Post). Deposits to the fiscal loan fund stood at 156,095.4 billion yen (See Note) (177,563.3 billion at the time of the establishment of Japan Post) with money entrusted to the Ministry of Finance in the past progressively maturing.

Note: The balance at the end of fiscal 2003 was 112,895.4 billion yen, excluding deposits corresponding to the former Fund to Cope with Financial Deregulation borrowings.

## Liabilities

Total liabilities at the end of fiscal 2003 stood at 276,886.6 billion yen, and the main components of this figure were postal savings and borrowings. (See Note)

The balance of postal savings has continued to decline since peaking in fiscal 1999 due to the large volume of teigaku savings reaching maturity between fiscal 2000 and 2001. The balance at the end of fiscal 2003 was 227,382.0 billion yen, a decline of 5,864.5 billion yen compared to the previous fiscal year, with the balance progressively falling.

Note: Borrowings refers to borrowing of funds for the operation of the former Fund to Cope with Financial Deregulation, and totaled 43,200.3 billion yen at the end of fiscal 2003 (47,950.5 billion yen at the time of the establishment of Japan Post).

Unit: billion yen

	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003
Postal Saving balance	259,970.2	249,933.6	239,341.8	233,246.5	227,382.0
Amount of change	7,383.5	(10,036.6)	(10,591.8)	(6,095.3)	(5,864.5)

## Capital

Total capital at the end of fiscal 2003 was 3,666.3 billion yen. This was due to 2,275.5 billion yen in net income and minus 413.6 billion yen in the net unrealized losses on securities, in addition to the 1,804.4 billion yen in the difference of assets and liabilities at the time of the establishment of Japan Post.

Difference of assets and liabilities at the time of the establishment of Japan Post: 1,804.4 billion yen  
 Net income: 2,275.5 billion yen  
 (includes money held in trust management income: 1,158.6 billion yen)  
 Net unrealized losses on securities: -413.6 Billion yen  
 Total capital: 3,666.3 billion yen



4,079.9 billion yen (See Note)

Amount necessary to cover main risks incurred in the management of postal savings operations and to ensure the soundness of management (Japan Postal Public Corporation Law, Article 37)  
 End of fiscal 2003: 6,821.4 billion yen  
 (balance of postal savings × 3%)

Note: According to the Japan Postal Public Corporation Law, the amount necessary to ensure the financial soundness is the cumulative total of net profit and the difference of assets and liabilities at the time of the establishment of Japan Post. Net unrealized losses on securities are not included.

## 4 Postal Life Insurance Service

### PROFIT AND LOSS

#### Current Income

Current income in fiscal 2003 came to 16.8577 trillion yen, a decline of 2.9254 trillion yen year on year. Premium income was 12.2915 trillion yen, a decline of 2.0316 trillion yen year on year due to the decline in the number of policies in force. In addition to this, investment income fell 653.6 billion yen year on year to 2.3100 trillion yen with the impact of such factors as sustained low interest rates. 2.1550 trillion yen in return of policy reserve was recorded in other current incomes.

The policy reserve is set aside to provide for the payment of future claims payable. Therefore, 117.0330 trillion yen was set aside at the time of the establishment of Japan Post, but this figure was 114.8779 trillion yen at the end of fiscal 2003 due to the decline in the number of policies in force. As a result, the difference of 2.1550 trillion yen was recorded as a return.

This figure includes 1.9751 trillion yen in the return of policy reserve set aside based on calculations at the time of entry and 179.9 billion yen in the return of additional policy reserves set aside to allow for negative interest rate spread.

The additional policy reserve is a policy reserve that is set aside in addition to the amount calculated at the time of entry in order to allow for negative interest rate spreads expected in the future. It is set aside in advance to assign funds for negative interest rate spreads each fiscal year, enabling it to be automatically returned. The amount automatically transferred in fiscal 2003 was 440.2 billion yen, but this amount increased by 260.3 billion in proportion to an expected negative interest rate spread, which increased due to a decline in interest rates, resulting in a return of 179.9 billion yen.

#### Ordinary Expenses and Ordinary Profit

Ordinary expenses in fiscal 2003 fell 1.0895 trillion yen year on year to 16.6252 trillion yen. Insurance reaching maturity declined compared with the previous year, and payment of insurance money stood at 15.8677 trillion yen, down 995.7 billion year on year. Moreover, operating expenses were 48.1 billion yen lower than in the previous year at 616.7 billion yen. This was due to cost cutting by Japan Post overall as well as a cut of 451 full time employees resulting from a reduction in the number of externally contracted staff because of greater efficiency in the administration of premium collection and the reorganization of the Postal Life Insurance Operations Center, and efforts to reduce costs through a strategy review. The operating expense ratio (See Note) in fiscal 2003 was 5.02%.

As a result of the foregoing, the postal life insurance service recorded 232.5 billion yen in ordinary profit, down 1.8359 trillion year on year.

Note: Operating profit ratio = operating expenses/insurance premium income × 100

#### Extraordinary Profit, Extraordinary Loss and Policyholders' Dividend Reserve

The postal life insurance service recorded an extraordinary profit of 8.8 billion yen and an extraordinary loss of 75.6 billion yen. The main components of these figures included a 4.1 billion yen transfer to the reserve for price fluctuation booked as an extraordinary loss, in addition to the partial revision of the amount of assets and liabilities recorded on the balance sheet at the time of the establishment of Japan Post and loss on the disposal of unproductive assets (premises and equipment).

The full 165.7 billion yen in ordinary profit, in addition to extraordinary profit and loss, was transferred to the policyholders' dividend reserve.



## Three Profit Sources

An analysis of profit factors in terms of the three profit sources, which are the basic elements of the postal life insurance service, shows mortality profit of about 800.0 billion yen and loading profit of around 750.0 billion, but an interest loss of 2.01 trillion yen (fiscal 2003 is the peak) for fiscal 2003. This meant that the total turned to a 449.8 billion yen deficit, a decline of 718.9 billion year-on-year. Meanwhile, the realizable amount was 169.9 billion yen, due to a 179.9 billion return from the additional policy reserve and a capital gain of 502.4 billion yen recorded as a result of the firm share market. In addition to transferring 165.7 billion yen of this amount to the policyholders' dividend reserve, 4.1 billion yen was set aside for price fluctuation reserve. As a result, internal reserves stood at 818.1 billion yen (price fluctuation reserve: 4.1 billion yen, contingency reserve: 814.0 billion yen).

## Outlook for Fiscal 2004

In terms of marketing, Japan Post will establish its marketing structure and further enhance consulting and sales, aiming to secure 65.5 billion yen in new policy premiums (63.7 billion yen in fiscal 2003).

In investment, Japan Post will conduct long-term, stable investment, primarily in domestic bonds, while engaging in appropriate ALM. Moreover, it will follow up fiscal 2003 by continuing to promote greater efficiency in administration for the collection of premiums and a review of administrative processes, striving to cut operating expenses.

Negative interest rate spreads (about 1.8 trillion yen) are expected to continue in fiscal 2004 due to the persistence of low interest rates, but Japan Post anticipates increasing internal reserves (in the form of both price fluctuation reserve and contingency reserve) by 12.0 billion yen by implementing the measures above.

## ASSETS AND LIABILITIES

### Assets

Total assets at the end of fiscal 2003 stood at 121.9119 trillion yen, down 1.0503 trillion yen compared to the time of the establishment of Japan Post. The main components in this figure were 81.6707 trillion yen in securities, 24.7553 trillion yen in loans, and 11.7188 trillion yen in money held in trust.

### Liabilities

Total liabilities at the end of fiscal 2003 came to 120.4188 trillion yen, and the majority of this figure was accounted for by the policy reserve, which stood at 114.8779 trillion yen. The policy reserve included additional policy reserves of 8.8244 trillion yen and contingency reserves of 814.0 billion yen.

### Capital

Total capital at the end of fiscal 2003 came to 1.4931 trillion yen, due to a 42.6 billion yen difference of assets and liabilities at the time of establishment of Japan Post, in addition to the recording of 1.4505 trillion yen in revaluation of marketable securities.

# 3 Fund Management

## 1 Postal Savings

### BREAKDOWN OF INVESTMENT BY TYPE

(As of March 31, 2004)

	Balance of assets (billion yen)	Proportion of total (%)
Securities	105,896.4	92.3
Japanese government bonds	86,009.1	75.0
Japanese local government bonds	9,483.4	8.3
Japanese corporate bonds	6,902.6	6.0
Public corporation bonds, etc.	3,837.0	3.3
Foreign bonds	3,501.1	3.1
Money held in trusts	3,776.0	3.3
Loans	2,786.1	2.4
Loans to local governments	2,041.1	1.8
Loans to depositors, etc.	576.0	0.5
Loans to postal service	169.0	0.1
Deposits, etc.	2,219.5	1.9
Total	114,678.2	100.0

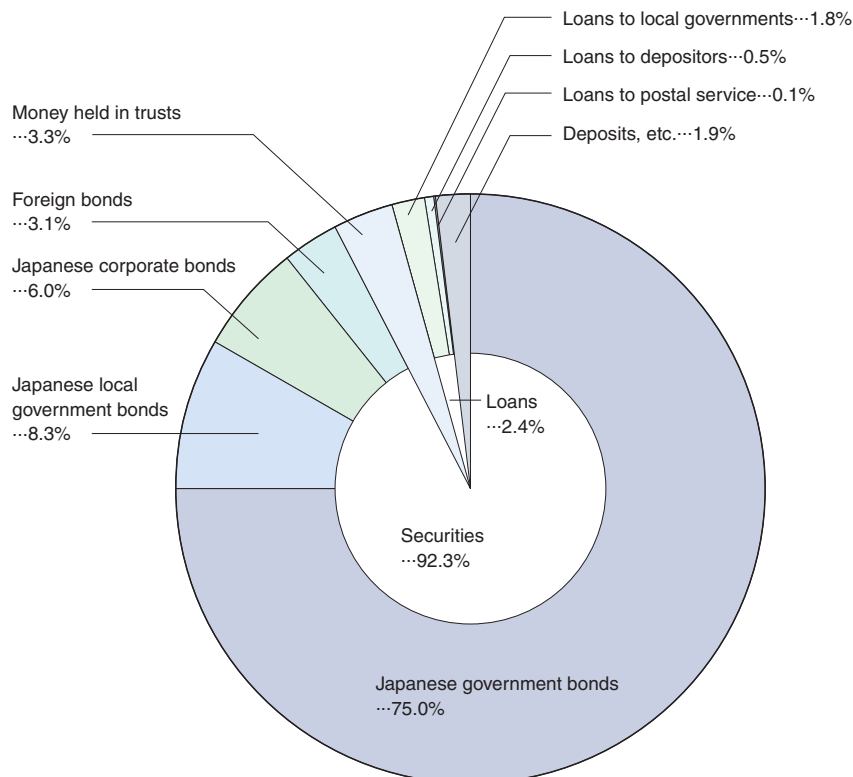
Note 1: Balance of assets for financial instruments is valuation according to accounting standards.

Note 2: Foreign bonds are bonds issued by overseas issuers, and include yen-dominated bonds.

Note 3: In addition to the amounts above, there is also 112,720.0 billion yen in entrusted money (excludes entrusted money corresponding to the former Special Fund to Cope with Financial Deregulation), making a total of 227,398.2 billion yen.

### INVESTMENT OF POSTAL SAVINGS FUNDS, MARCH 31, 2004

114,678.2 BILLION YEN



## 2 Postal Life Insurance

### INVESTMENT OF KAMPO FUNDS

(As of March 31, 2004)

	Balance of assets (billion yen)	Proportion of total (%)
Securities	81,670.6	67.9
Japanese government bonds	51,402.5	42.8
Japanese local government bonds	7,188.0	6.0
Japanese corporate bonds, etc.	21,485.0	17.9
Public corporation bonds, etc.	18,370.3	15.3
Foreign bonds	1,595.0	1.3
Money held in trusts	11,718.8	9.7
Loans	24,755.3	20.6
Loans to local governments	19,116.5	15.9
Loans to public corporation, etc.	3,253.5	2.7
Loans to policyholders	2,192.6	1.8
Loans to postal service	192.6	0.2
Deposits, etc.	2,052.0	1.7
Total	120,196.9	100.0

Note 1: Discrepancies between balance of assets and funds are due to the application of market price to financial instruments to which market valuation applies in accordance with accounting standards.

Note 2: Foreign bonds are bonds issued by overseas issuers, and include yen-dominated bonds.

Note 3: Disparities in the total for assets are due to rounding down.

### INVESTMENT OF KAMPO FUNDS, MARCH 31, 2004

120,196.9 BILLION YEN

