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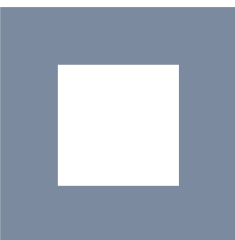
# Postal Services in Japan

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2005

Annual Report

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**Aiming for a Japan Post  
that satisfies customers,  
earns their trust,  
and is loved by them**



# As a lifeline for basic social life

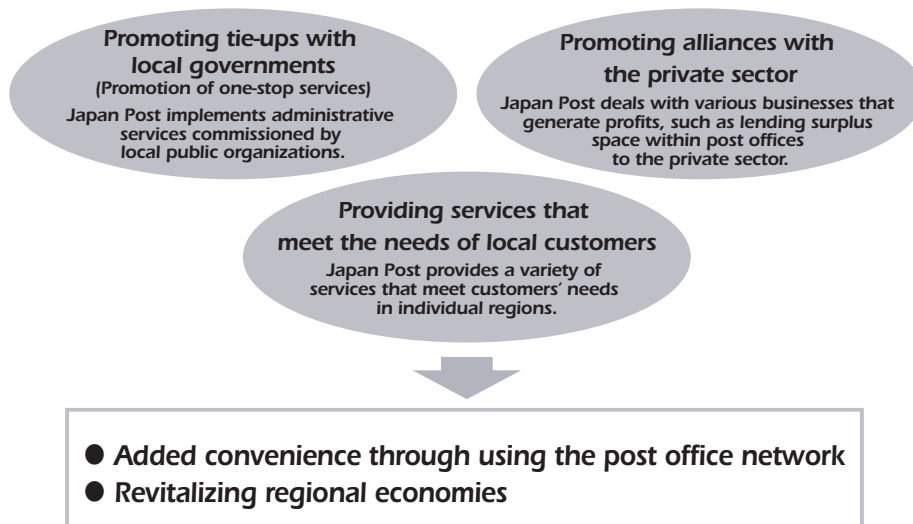
## Provision of universal services

Japan Post is engaged in the postal, postal savings, and postal life insurance businesses, providing equitable services for customers throughout the country. To implement these services, post offices—the company’s fundamental assets—have been established in every city, town and village. Through the counters of these post offices, we offer services as a lifeline for basic social life. At present, we are making great efforts to further satisfy our customers, raise overall productivity, and improve operational efficiency, under the slogan of “Macco Services” that gives top priority to customers’ needs, aiming to be an entity that further satisfies customers, earns their trust, and is loved by them.

## One-stop, convenience office

In Japan, the regional community and economy are projected to drastically change from now on, given the aging population and the falling birthrate, the progressive urbanization and depopulation of areas, the progress of annexation of municipalities, the streamlining of public services, and increases in the outsourcing of operations.

Under such circumstances, Japan Post is striving to become a “one-stop convenience office” which offers various services that meet the needs of regional customers. To this end, we use the management resources of the nationwide post office network, which has both distribution and financial functions, to provide an infrastructure for the lives of local residents.



# Postal Services in Japan 2005

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## MESSAGE FROM THE PRESIDENT

Two years have passed since Japan Post was established in April 2003. During the year ended March 31, 2005, all of Japan Post has done its utmost to achieve the three-part corporate vision: (1) to provide our “Macco Services”; (2) to create a “sound management base”; and (3) to provide a “satisfying working environment,” as well as working to ensure it achieves its four-year mid-term management goals, while following an action plan that outlines specific activities. As a result, all three businesses posted profits for the second consecutive year, strong evidence that the company’s management reform is steadily progressing. We would like to take this opportunity to express our heartfelt gratitude for your warm support.

### PROMOTING MANAGEMENT REFORM USING PRIVATE SECTOR MANAGEMENT METHODS; ACHIEVING THE GOALS OF ACTION PLAN PHASE 1

Two years have passed since Japan Post was established, and during this period I have worked on coming up with a concept of new worth and then creating new values based on this concept.

To this end, we have promoted the “reform of employees’ consciousness and corporate culture,” regarding it as a basis of this concept. We have also drastically transformed a government agency-type body into a profit-oriented corporate entity, focusing on the organization, the make-up of personnel, the work practices and work flow. For the management structure, we have introduced an executive officer system, which is a management style never seen before in a government agency, that consolidates corporate governance and compliance through a sharing of the Board of Directors’ roles.

In fiscal 2004, which was the final year of the two-year Action Plan Phase 1, and which we positioned as the “year for straightforward competition,” we could largely achieve the goals that had originally been set for that period.

In the postal business, we fully revamped the Yu-Pack door-to-door parcel delivery service in October 2004, and Lawson, Inc. began handling Yu-Pack parcels at all its outlets nationwide in November. Thanks to these improved services, the number of parcels handled through the Yu-Pack service hit an all-time high of 214.69 million items, exceeding the previous high of 184.72 items recorded in 1970. We also delivered New Year’s cards on January 2 for the first time in 32 years.

As for financial services, in December Japan Post completed ATM tie-ups with all the major banks giving a finishing touch to these projects. We also began selling the “Nagaiki-kun” lifetime insurance plan (balance type), and offering a consulting service for our customers through the “Kanpo Call Center,” which was launched nationwide. Thus, we strove to improve various services, aiming to satisfy the needs of our customers.

We expanded the Japan Post System (JPS) to include the whole company, including the financial and common sectors. This is a campaign to raise productivity that has been working for the postal service ever since the company was founded.

Procurement costs decreased 183.2 billion yen, down 22% from the level of fiscal 2002, exceeding the original target of a 20% drop over this two-year period. This favorable development was attributable to the results of reviewing all the procurement processes, without exception. As part of these efforts, we fully adopted a competitive bidding process after examining private contract practices.

As a result of these efforts, Japan Post overall posted a net income of 1,237.8 billion yen in fiscal 2004, compared with 2,301.8 billion yen for fiscal 2003, and the entire amount was booked as retained earnings, which resulted in increasing capital to a total of 6,139.2 billion yen (1,268.8 billion yen at the time of establishment; 4,607.5 billion yen as of the end of fiscal 2003). Accordingly, the capital ratio rose 0.5 percentage points from the previous year, to 1.6%.

In the postal business, although the handling of parcel post substantially increased, the total volume of mail received declined by 2.3% year-on-year due to the spread of information technology (IT), including e-mail, and intensified competition with private sector firms. Revenues fell by 36.7 billion yen. Amid this harsh environment, the company strove to enhance its management foundation through prior investment in necessary systems and training to improve customer satisfaction. We also worked hard to make our operations more efficient, raise productivity (a 9.1% improvement was achieved at about 1,000 post offices nationwide), and reduce procurement costs, which resulted in a profit of 28.3 billion yen (26.3 billion yen for fiscal 2003). Nevertheless, the business environment remains harsh, with a negative net worth of 523.5 billion yen.

As for the postal savings business, the balance of



postal savings decreased by 13 trillion yen from the previous year to 214 trillion yen, which means there is a steady streamlining of its management. Net income was 1.2095 trillion yen, down 1.0659 trillion yen from 2.2755 trillion yen in a year earlier. However, the income excluding profit on money held in trust remained almost unchanged, at 1.0660 trillion yen.

In the postal life insurance business, premium income declined from the preceding year, as the number of policies in force declined, due to a fall in the number of new policies. However, we could increase our internal reserves by 551.7 billion yen (4.1 billion yen in fiscal 2003) thanks to a reduction in costs and capital gains amid a bullish stock market.

### STEADY IMPROVEMENT, AIMING FOR FUTURE SOUND GROWTH AND PROCEEDING WITH ACTION PLAN PHASE 2

For two years, from fiscal 2005, Japan Post will do its utmost to overhaul its earnings and cost structures, make prior investments, and optimize its management resources in order to accelerate, establish and ensure corporate reform, under the Action Plan Phase 2. By doing this, we intend to lay the foundations for future sound growth of the company.

In regard to the postal business, we aim to grab a 10% share of the parcel delivery market with the Yu-Pack service, under the slogan "Target 10," and raise productivity by more than 15% in the approximately 1,000 post offices where JPS has a presence. Letter post faces a difficult business environment, decreasing 5%-6% annually. Against this backdrop, we will develop Yu-Pack and DM, growth fields, and international mail, aiming to reduce the ratio of letter post to other post from the current level of 9:1 to 8:2.

As for the financial sector, post offices will offer better consulting services while improving the quality of overall services and operations, in order to further live up to customers' expectations as a "family bank."

This coming autumn, we will begin selling trust funds at 575 post offices nationwide.

The overall organization will continue to increase employee satisfaction, which in turn leads to increased customer satisfaction, aiming at establishing first-class services and then improving them.

While expanding JPS throughout the company,

we will fundamentally reform the operational structure, for example, by reconstructing the post office network. We will also cut procurement costs by 10% (from the level of fiscal 2004) over the next two years.

Since its establishment, Japan Post has implemented various measures to achieve the three-part corporate vision: (1) providing our "Macco Services"; (2) creating a "sound management base"; and (3) providing a "satisfying working environment." Specifically, we have improved merchandise and services, created new business models, enhanced the functions of the post office as a "one-stop convenience office," and reformed management by converting the corporate culture into a profit-oriented one.

Thanks to the efforts of the entire company, we fulfilled Action Plan Phase 1. Amid a rapidly changing business environment, we will reform employees' consciousness and corporate culture, create new values, and pursue sound growth, aiming for even further improvement in the future.

We aim to establish an "open public corporation" which has highly transparent management and earns the trust of customers, by striving to have a good communication with society while proactively and fairly disclosing management information. We have prepared this report so that our public will gain a better understanding of Japan Post's efforts. I shall be happy if this report helps you further deepen your trust in the company.

From now on, the entire staff will continue to offer "Macco Services" from the customers' perspective, based on the fundamental principles which the company pursues. We ask for your support and good faith.

August 2005



Masaharu Ikuta  
President, CEO  
Japan Post

A handwritten signature in black ink, appearing to read "Masaharu Ikuta". The signature is stylized and fluid.

There may be discrepancies in the totals for figures and percentages in the tables of this report as a result of rounding.