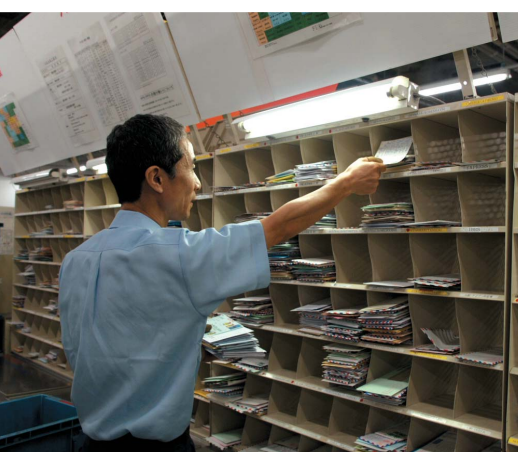


Postal Services in Japan 2006

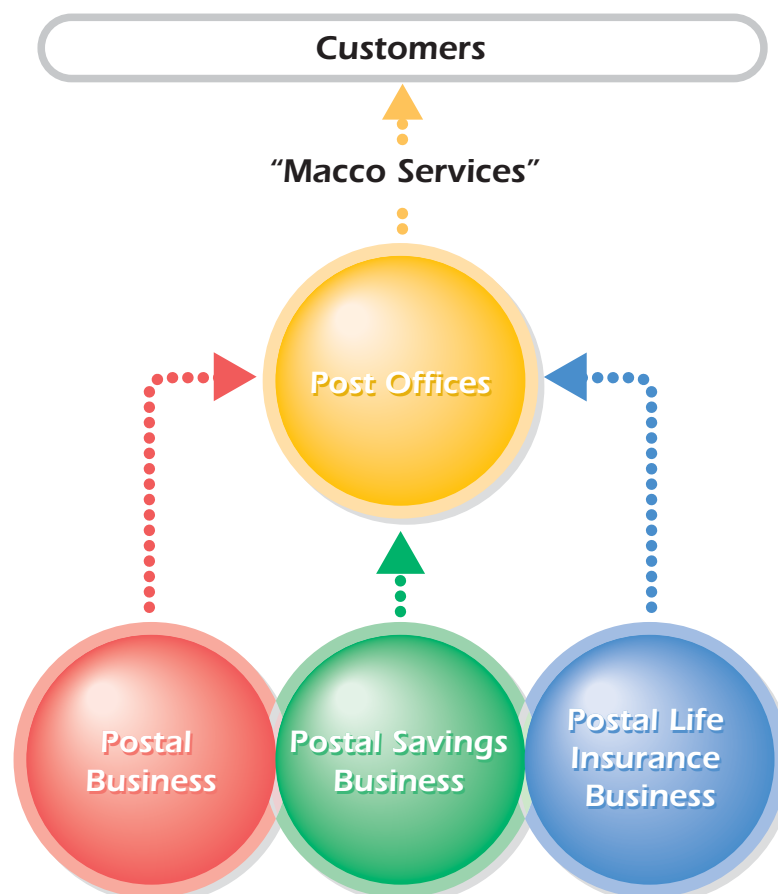
Annual Report



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

As a lifeline for everyday life

Japan Post is engaged in the Postal, Postal Savings, and Postal Life Insurance Businesses, and has been offering services as a lifeline for everyday life, through post offices established in every city, town and village. At present, we are tackling various issues such as improvement of our services and enhancement of our management base, aiming to make a further leap forward. Under the slogan of “Macco Services,” we will carry out various reforms and create new value from now on.



Postal Services in Japan 2006

Annual Report

Message from the President	6
----------------------------------	---

1

Highlights

1. Status of Operations	10
(1) OVERVIEW OF POSTAL SERVICE	11
(2) OVERVIEW OF POSTAL SAVINGS SERVICE	12
(3) OVERVIEW OF POSTAL LIFE INSURANCE SERVICE	13
2. Financial Condition	14
(1) JAPAN POST	14
(2) POSTAL SERVICE	16
(3) POSTAL SAVINGS SERVICE	18
(4) POSTAL LIFE INSURANCE SERVICE	20
3. Fund Management	22
(1) POSTAL SAVINGS SERVICE	22
(2) POSTAL LIFE INSURANCE SERVICE	22
4. Overview of Privatization and Split-up	23
(1) OVERVIEW OF JAPAN POST'S PRIVATIZATION AND SPLIT-UP	23
(2) HANDLING OF SERVICES AND PRODUCTS AFTER PRIVATIZATION	24

2

Topics

EXPANSION INTO INTERNATIONAL LOGISTICS BUSINESS	26
IMPROVEMENT OF FACILITIES FOR INTERNATIONAL MAIL SERVICE	26
LAUNCH OF TOTAL MAIL SERVICE	27
EXPANSION OF YU-PACK HANDLING AT CONVENIENCE STORES	28
LAUNCH OF YU-PACK RECEIPT SERVICE USING DELIVERY BOXES	29
POSPACKET (SIMPLE PARCEL POST)	30
TOWN PLUS (DELIVERY-AREA DESIGNATED BOOKLET PARCEL POST SERVICE)	31
INTRODUCTION OF INVESTMENT TRUST SERVICE	32
LAUNCH OF HANDLING PAYMENT OF PREMIUMS THROUGH BANK TRANSFER AND PAYMENT OF INSURANCE INTO BANK ACCOUNTS	34

3

Management Policy

1. Japan Post Management Philosophy	36
2. The Japan Post Charter	36
3. Japan Post's Declaration on the Environment	37
4. Management Vision	38

4

Management Efforts

1. Mid-term Management Goals and Mid-term Management Plan	40
(1) MID-TERM MANAGEMENT GOALS AND MID-TERM MANAGEMENT PLAN	40
(2) MANAGEMENT PLAN FOR FISCAL 2006	40
2. Action Plan	42
(1) ACTION PLAN OBJECTIVES	42
(2) MAIN MENUS OF ACTION PLAN PHASE 2 (OVERVIEW OF THE WIDE STRATEGY)	42
(3) JAPAN POST'S ACTION PLAN FOR THE POSTAL SERVICE - PHASE 2	44
(4) JAPAN POST'S ACTION PLAN FOR THE POSTAL SAVINGS SERVICE SECTOR - PHASE 2	46
(5) JAPAN POST'S ACTION PLAN FOR THE POSTAL LIFE INSURANCE SERVICE SECTOR - PHASE 2	48
3. Corporate Governance	50
(1) GOVERNANCE WITHIN JAPAN POST	50
(2) OUTSIDE GOVERNANCE OF JAPAN POST	50
4. Compliance Efforts	53
5. Personal Information Protection Efforts	56
POLICY ON THE HANDLING OF PERSONAL DATA	56
6. Information Security	57
7. Risk Management Efforts	57
(1) BASIC CONCEPT ON RISK MANAGEMENT	57
(2) RISK MANAGEMENT IN POSTAL SAVINGS BUSINESS	58
(3) RISK MANAGEMENT IN POSTAL LIFE INSURANCE BUSINESS	60
(4) RISK MANAGEMENT IN POSTAL BUSINESS	63
8. Internal Audit System	64
9. Efforts of JPS	65
(1) POSTAL SERVICE	65
(2) POSTAL SAVINGS BUSINESS	66
(3) POSTAL LIFE INSURANCE BUSINESS	67
10. Improving Customer Satisfaction	67
11. Using Surplus Space in Post Offices	68

12. Partnerships with Private Sector Operators	69
13. Environmental Efforts	70
(1) THE JAPAN POST'S ECO PLAN (THE JAPAN POST'S MEDIUM-TERM PLAN FOR THE ENVIRONMENT)	70
(2) TOPICS ON ENVIRONMENTAL MEASURES	72
14. Relationships with Local Communities	74
FURUSATO (HOMETOWN) PARCELS	74
FURUSATO (HOMETOWN) PRODUCT EXHIBITIONS	75
SUBMITTING REQUESTS FOR COPIES OF RESIDENCE CARDS AND OTHER DOCUMENTS	75
RESPONSIBILITIES TO LOCAL GOVERNMENTS	75
HIMAWARI SERVICES FOR THE HOUSEBOUND ELDERLY	76
DISASTER MANAGEMENT AGREEMENT WITH LOCAL AUTHORITIES	77
15. Social Contribution Activities	78
(1) SOCIAL WELFARE CONTRIBUTIONS	78
(2) ACTIONS IN EMERGENCY SITUATIONS	82
(3) COMMUNITY EXCHANGES	84
(4) ACTIVITIES TO IMPROVE HEALTH	88
(5) INVOLVEMENT IN THE INTERNATIONAL COMMUNITY	88
(6) INTERNATIONAL EXCHANGES	90

5

About Japan Post

1. Organization Overview	94
(1) ORGANIZATION CHART	94
(2) NUMBER OF POST OFFICES	95
(3) EMPLOYEE SITUATION	95
(4) NUMBER OF MAILBOXES	95
(5) NUMBER OF ATMs INSTALLED	96
2. Post Office Network Characteristics	97
3. Board of Directors	98
4. Content of Operations	99
5. Line-up of Products and Services	100
(1) POSTAL SERVICE	100
(2) POSTAL SAVINGS SERVICE	104
(3) POSTAL LIFE INSURANCE SERVICE	111
6. Address of Head Office and Regional Offices	114
7. History	114
8. Relationships with Subsidiaries	115

1. Main Results Data	118
(1) OPERATIONAL INDICATORS	118
(2) INVESTMENT INDICATORS	119
(3) ACCOUNTING INDICATORS	125
(4) NUMBER OF POST OFFICES BY PREFECTURE	126
2. Main Financial Data	128
OUTLINE OF JAPAN POST'S ACCOUNTS SYSTEM AND RESTRUCTURING INTO SERVICE CLASSIFICATIONS	128
JAPAN POST AS A WHOLE	132
POSTAL SERVICE	135
POSTAL SAVINGS SERVICE	139
POSTAL LIFE INSURANCE SERVICE	142
3. Information Disclosure	145
DISCLOSURE BROCHURES	145
JAPAN POST WEBSITES	145
4. Service Hours/Inquiries	147
(1) SERVICE HOURS	147
(2) INQUIRIES	148
(3) CONSULTATION VIA THE INTERNET	151
(4) INFORMATION DISCLOSURE COUNTERS	151

Message from the President

Three years have already passed since Japan Post was established in April 2003. During this period, all our staff have implemented the “Macco Services” giving top priority to customers’ needs, and pursued sound growth of our businesses by creating new values while promoting the reform of employees’ consciousness and corporate culture. Through these efforts, we were able to achieve steady results. We would like to take this opportunity to express our heartfelt gratitude for your warm support.

IMPLEMENTATION OF MACCO SERVICES; PROMOTION OF DRASTIC MANAGEMENT REFORM OF JAPAN POST

Three years have passed since Japan Post was established in April 2003. During this period, the corporation has done its utmost to realize the three management visions: (1) to provide Macco Services; (2) to create a sound management base; and (3) to provide a satisfying working environment, as well as steadily achieve the mid-term management goals. To this end, I have formulated action plans and worked on drastic management reform of the corporation.

In fiscal 2005, which was the first year of the Action Plan Phase 2, Japan Post made various efforts, including: improvement of products and services; development of new businesses; promotion of tie-ups with private companies; strengthening of the functions of the post office as a one-stop convenience office; reform of management to become a profit-oriented one. The corporation also strove to establish a management base for sound growth, and was able to achieve steady results.

In the Postal Business, Japan Post extended its alliance with convenience stores to increase the convenience of the Yu-Pack door-to-door parcel delivery service. We also began offering a total service from planning to printing and delivering of mail through JP Biz Mail Co., Ltd., a subsidiary established in February 2006.

As the first step in advancing into the international logistics business, Japan Post set up a joint-venture cargo airline ANA & JP Express Co. Ltd. in April 2006 with All Nippon Airways Co., Ltd. and other companies, targeting North America and the rapidly growing Asian market.

As for financial services, Japan Post began to sell investment trusts in October 2005 at its 575 post offices nationwide, a project that challenges the intrinsic value of the post office as a “family bank.” In selling investment trusts, all the directors and employees placed top priority on thoroughly carrying out compliance. Consequently, we managed to gain customers’ confidence in investment trusts and the sales of these products started smoothly.

Under the Japan Post System (JPS), which we have

worked on throughout the corporation, about 1,000 post offices nationwide increased their productivity of mail operations by 10.2% from the previous year.

To reduce procurement costs, Japan Post basically adopted a competitive bidding process as well as making all-out efforts, including optimizing procurement volume and reviewing special specifications. Thanks to these efforts, ordinary procurement costs were brought down 9.8% or 63.6 billion yen from the preceding year’s level.

As a result of the above efforts, Japan Post saw its three businesses secure profits in fiscal 2005 for the third consecutive year, despite the severe business environment. Japan Post overall posted a net income of 1,933.1 billion yen, compared with 1,237.8 billion yen for fiscal 2004.

In the Postal Business, the handling of letter post decreased in fiscal 2005 due to the spread of information technology (IT), including e-mail, while that of the growing sector of parcel post increased. The ratio of income from letter post to that from parcel post was 8:2 in fiscal 2005, compared with 9:1 for fiscal 2003. In response, we reformed our earnings structure. Despite such efforts, net ordinary income in this business substantially dropped from the previous year, hurt by such special factors as impairment losses, and net income posted 2.6 billion yen, down from 28.3 billion yen for fiscal 2004.

As for the Postal Savings Business, the favorable financial environment sharply pushed up net income to 1,930.4 billion yen in fiscal 2005, compared with 1,209.5 billion yen for fiscal 2004.

The Postal Life Insurance Business remained harsh during fiscal 2005 due mainly to a continuing fall in the number of new policies. However, we increased our internal reserves by 931.8 billion yen, compared with 551.7 billion for fiscal 2004, thanks to capital gains of 845.9 billion yen reflecting higher stock prices and other favorable factors, and we raised the dividend paid to our policyholders for the first time in four years.

Masaharu Ikuta
President & CEO
Japan Post

生田正治



PUTTING THE FINISHING TOUCHES TO JAPAN POST REFORM IN FISCAL 2006 ACCOMPLISHING ACTION PLAN PHASE 2

As you know, the Japan Post privatization bills were passed on October 14, 2005. With the passage of the bills, Japan Post will be privatized and split up on October 1, 2007. On January 23, 2006, Japan Post Co., Ltd. was established, as the predecessor of a holding company which is to be set up after the privatization and split-up of Japan Post.

Under such circumstances, Japan Post will set the stage for its privatization and split-up in fiscal 2006 on a full-scale basis, and go all out to accomplish Action Plan Phase 2 as the finishing touch to the corporation's reform.

In the Postal Business, Japan Post will boost customer satisfaction and fully implement compliance in fiscal 2006. To this end, the corporation will promote the "0-D Campaign" (the 0 refers to efforts to reduce postal mishaps and crimes to zero), and implement measures for increasing the use of Postal Services, including improvement of the Yu-Pack, DM and international mail services and issuance of attractive stamps and postcards. We will also rebuild the postal information system to enhance convenience for customers.

Japan Post is working hard to restructure the Postal Business so that it becomes profitable, but this task is still far from finished. Recognizing that fiscal 2006 is a crucial year before privatization of the corporation, we will strive to establish a management base that generates a steady profit, for example, through reduction of costs under the JPS.

As for the financial sector, Japan Post aims to offer services that further satisfy customers. To do this, with full implementation of compliance as its fundamental policy, the corporation will improve its consulting capabilities and the quality of services, and enhance security by introducing IC cards.

By appropriately managing income and risks, Japan Post will also make every effort to implement a sound management system.

There is only about one year left until Japan Post is privatized and split up. In fiscal 2006, we will prepare for the privatization and split-up under a complete framework, according to a basic plan for succession. In addition, all staff will endeavor to fulfill projects for achieving better privatization, including the ongoing reform of post offices, the reorganization of collection and delivery bases, and strengthening of internal control.

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

From now on, all our staff will continue to improve customer services and reform management. We ask for your support and good faith.

August 2006

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