



Annual Report

Postal Services in Japan 2007

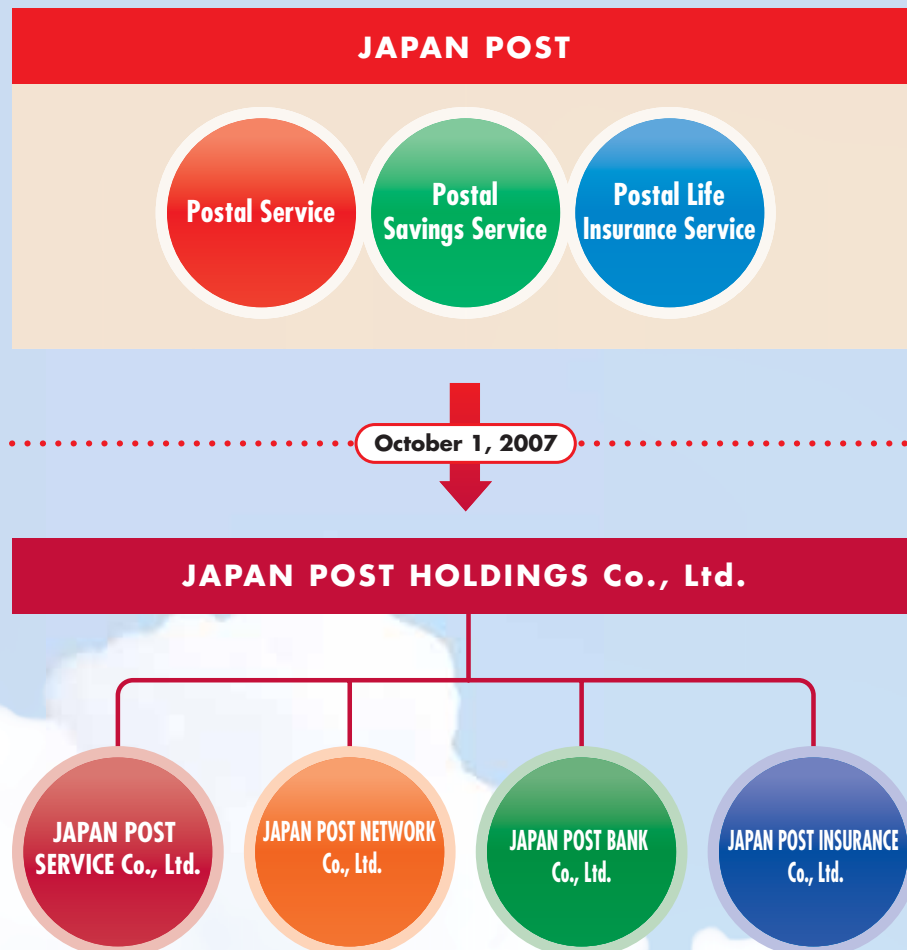


We Will Take A New Step
On October 1, 2007.

Striving to Create New Value

Japan Post is engaged in the Postal, Postal Savings and Postal Life Insurance Business, and has been offering services indispensable to everyday life, through post offices established nationwide.

Now, we are making every effort to tackle various issues, such as improvement of our services and enhancement of our management base, prior to Japan Post's privatization in October 2007. Japan Post will strive to create new value in order to meet the expectations of our customers, increase their satisfaction and grow together with them.



Postal Services in Japan 2007

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Message from the President

The entity in charge of Japan's postal business, which started in 1871, has changed from the Ministry of Communications to the Ministry of Posts and Telecommunications to the Postal Services Agency to Japan Post. On October 1, 2007, Japan Post is scheduled to be privatized, and begin to take a new step as the JAPAN POST GROUP. All officers and employees will make a unified effort toward this privatization, which you could call the second foundation of postal business, so that all users will "be truly pleased with the privatization" of Japan Post.

We would like to take this opportunity to express our sincere gratitude for your warm support you have extended. We hope that you will extend the same support to the JAPAN POST GROUP.

Japan Post's efforts over the past four years

FY 2006 earnings results

In the 2006 fiscal year, Japan Post's three businesses secured profits for the fourth consecutive year, despite the continued severe business environment. Japan Post overall had a net income of 942.5 billion yen (1,933.1 billion yen for FY 2005).

In the Postal Business, handling of letter post decreased due to the spread of information technology (IT) including e-mail, while handling of the growing sector of parcel post increased. Against the backdrop, we reformed our earnings structure, aiming to raise sales in the growing sector. As a result, ordinary income rose 3.3 billion yen from the previous fiscal year, the first year-on-year growth since the foundation of Japan Post. Ordinary expenses dropped 10.3 billion yen from the previous fiscal year, due mainly to a decrease in personnel expenses caused by the increased number of retirees and a reduction in outsourcing costs for collection, delivery and transport. For FY 2006, we had initially expected to post losses, given a rise in preparatory expenses for the above-mentioned privatization, but because of these efforts and contributing factors, we posted a net income of 1.8 billion yen, down from 2.6 billion yen in FY 2005.

As for the Postal Savings Business, Japan Post booked a net income of 940.6 billion yen, down from 1,930.4 billion yen in FY 2005. This year-on-year decline amounting to 989.7 billion yen is attributable chiefly to an annual fall of money trust management income totaling about 1 trillion yen deriving from the lack of substantial change in stock prices. Cash flows, which account for most of the income, remained almost unchanged from a year earlier, despite a decrease of about 13 trillion yen in the balance of postal savings.

The Postal Life Insurance Business remained harsh due primarily to a continuing fall in the number of new policies. However, we increased our internal reserves

by 1,025.0 billion yen (931.8 billion yen for FY 2005), due to an increase in interest income amid rising long-term interest rates and capital gains on consigned management of funds. We raised dividends paid to our policyholders for the second consecutive year. Three sources of profits (mortality profits/losses, interest profits/losses and loading profits/losses) totaled 117.6 billion yen, compared with losses up through the previous year, owing mainly to decreased interest losses.

Preparation for privatization and the JAPAN POST GROUP after privatization

Preparation for privatization

Since the passage of the Japan Post privatization bills in October two years ago, we have made preparations for the privatization of Japan Post under a comprehensive structure, with such preparation as the top-priority management issue. Among the major issues we have implemented the consolidation and reorganization of collection operations, and the like, aiming at establishing an efficient network. Furthermore, for post offices to which more than one company will be attached, we have had those offices constructed with partitions. Some Japanese financial institutions had system trouble when they merged. Taking this as a lesson, we are conducting a rehearsal of computer systems operations and simulations of employees' operations, in order to ensure that customers will not be inconvenienced at the time of privatization.

With regard to changes in products and services provided after the privatization, we have continuously notified the public by posting on our website, distributing leaflets at post offices, and publishing in newspapers, as well as by distributing booklets to every household.

As described above, we have implemented various measures to prepare for the privatization and will continue to do so, with a sense of tension, in order to achieve a smooth privatization.

Yoshifumi Nishikawa
President & CEO
Japan Post
President & Representative Director
JAPAN POST HOLDINGS Co., Ltd.

西川善文



JAPAN POST GROUP after privatization

After October 2007, Japan Post will be transformed into the JAPAN POST GROUP consisting of JAPAN POST SERVICE Co., Ltd., JAPAN POST NETWORK Co., Ltd., JAPAN POST BANK Co., Ltd., and JAPAN POST INSURANCE Co., Ltd. under the holding company of JAPAN POST HOLDINGS Co., Ltd. and will provide services. At post office counters, we will provide postal, savings and insurance services as we have done before, which are outsourced by the three operating companies. Besides, each company to be established after the privatization will strive to provide new services that meet the varied needs of our customers in addition to providing conventional services.

Taking this opportunity, we have created a new slogan for the Group: “Atarashii-futsu-wo-tsukuru.”^(Note 1) Up until now, Japan Post has fostered among people a sense of security and confidence in it, taking advantage of being a public organization. After being privatized though, we will have to gain customers’ confidence through the comprehensive implementation of compliance and by great efforts on our own part.

“Futsu”^(Note 2) represents the peace of mind and trust which customers have when using our services and which are invaluable assets for the JAPAN POST GROUP.

“Futsu” also represents the services available to anyone in Japan. The JAPAN POST GROUP will maintain universal services, the sources of peace of mind and trust, even after privatization.

“Atarashii-futsu”^(Note 3) should change constantly with the times, and as they do not come into existence automatically, we need to create them.

Taking advantage of privatization, we will become a corporate group that creates new universal services, while emphasizing customers’ peace of mind and trust.

The slogan shows that the JAPAN POST GROUP is a corporate group which will continue to be close to customers by promoting reforms and growing together with customers.

JAPAN POST GROUP will give the highest priority to the customers’ viewpoint by providing in an integrated manner products and services that score highly with customers. By doing this, we expect that every customer will be truly pleased with the privatization. We will also aim to be a corporation that further enhances convenience for regional residents and contributes to their lives.

We would like to ask for your continued support and good faith.

August 2007

Note 1: a Japanese expression by which we intend to show creating new value services

Note 2: a Japanese word by which we intend to show value services

Note 3: a Japanese expression by which we intend to show new value services

The figures and the percentages in the tables of this report are shown by rounding up and down the fractional figures to the nearest unit. Meanwhile, with regard to the numerical data in the financial statements, etc., the fractional figures below the unit are shown by rounding down. Because of this, there may be discrepancies between the totals of the figures or percentages shown and actual accumulation of the figures or the percentages in this report.