

# 3 Management Efforts



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# 3 Management Efforts

## 1. Management Policy

### 1. Japan Post Management Philosophy

#### We at Japan Post...

- ... will strive as professionals to provide every customer with exceptional service.
- ... promise to contribute to the enrichment of people's lifestyles, and the community.
- ... create new value and continue to grow, while reinforcing the foundation of trust that supports us.

### 2. The Japan Post Charter

1. Japan Post places customer trust at the heart of all our business activities. We will rigorously observe all relevant laws and codes of conduct, act in a fair manner at all times, and fulfill the missions and responsibilities of a public corporation, while taking care not to act in any way that might damage trust in Japan Post.
2. In order to offer services that will provide a high level of satisfaction to our customers throughout the nation, and to ensure that we deliver them in a friendly and trustworthy manner, Japan Post will constantly and creatively seek ways to benefit its customers.
3. We will work to maintain close contact with the public and with local communities. By actively disclosing management information in an appropriate way, Japan Post will continue striving to be an open organization on which people can rely.
4. We fully recognize the significance of personal customer details that come into our possession in the course of our work, and Japan Post will continue to rigorously safeguard the privacy of customer information.
5. Japan Post will aim to form partnerships with local communities that contribute to their welfare and provide them with appropriate services.
6. Japan Post will continue to firmly confront unreasonable demand and antisocial forces that threaten the order and safety of civil society.
7. Looking to the future, Japan Post will actively promote environmental conservation, so as to help pass on a more pleasant world to the next generation.
8. Taking a global perspective, Japan Post will extend its activities into the world at large and actively cooperate with the international community.
9. Japan Post will continue to emphasize financial safety and security, using sound and astute fund management methods while taking into consideration both the public interest and the influence we exert on the market.
10. Japan Post aims to be an organization that is a pleasure to work for, in which all employees can take pride and can envisage bright prospects for the future.

### 3. Japan Post's Declaration on the Environment

#### Principles

Japan Post shall carry out its business activities in an environmentally friendly manner, with a network that provides services throughout the country, so as to conserve the local natural environment and to pass on to future generations the irreplaceable global environment.

#### Policies

1. Japan Post shall comply with all laws, regulations, and ordinances as well as related agreements pertaining to the environment, and shall further carry out activities to reduce environmental destruction and strive to prevent environmental pollution.
2. Japan Post shall set environmental goals and targets and systematically achieve them, and endeavor to improve continuously its environmental management system by building a framework for periodic review of these goals.
3. Japan Post shall endeavor to conserve the global environment in its business activities, by engaging actively in saving resources and energy and by recycling used materials.
4. Japan Post shall take an active approach to create a recycling-oriented society, utilizing environmentally-friendly products and other means.
5. Japan Post shall endeavor to encourage public awareness of environmental issues, by making related information widely available and by promoting educational activities.
6. Japan Post shall support and take an active part in various environmental protection programs in local communities through its post offices that are members of their communities.
7. Japan Post shall enhance its employees' understanding and awareness of these environmental policies and make the policies available widely to the public.

Enacted on April 1, 2003  
Amended on April 27, 2005

### 4. Management Vision

**“Macco Service”  
Straightforward  
Customer Oriented Service**

Japan Post will deliver better and more attractive services to all customers nationwide, and will always wholeheartedly strive to serve its customers from their perspective to satisfy them.

**Creating a Sound Management  
Foundation**

Introducing private-sector management tools, Japan Post will make each of its sectors (Postal Services, Postal Savings and Postal Life Insurance) profitable and self-financing, to realize the sound management of the Company as whole.

**Providing a Satisfying Working  
Environment**

Japan Post will establish systems to evaluate staff performance in a fair and transparent manner, and will foster a climate in which each employee is encouraged to contribute opinions actively, regardless of rank or place of work.

## 2. Mid-term Management Goals and Mid-term Management Plan

### 1. Mid-term Management Goals and Mid-term Management Plan

Japan Post has set Second Mid-term Management Goals and formulated Mid-term Management Plan as described in 1-4 below on the basis of the Japan Postal Public Corporation Law (2002 Law No. 97) and the regulations for the enforcement of the Japan Postal Public Corporation Law (2003 Ministry of Internal Affairs and Communications Ordinance No. 4). The objectives and the plan have been approved by the Minister for Internal Affairs and Communications.

Since Japan Post will be privatized on October 1, 2007, the Second Mid-term Management Goals and the Mid-term Management Plan cover a period of half year from April 1, 2007 through September 30, 2007.

### 2. Management Plan for Fiscal 2007

According to stipulations in the Japan Postal Public Corporation Law and in the regulations for the enforcement of the Japan Postal Public Corporation Law, Japan Post established a plan concerning management for fiscal 2007 on the basis of the Second Mid-term Management Plan, and presented the plan to the Minister for Internal Affairs and Communications at the end of March 2007.

The details of the Management Plan for Fiscal 2007 are the same as those of the Second Mid-term Management Plan, since the period of the management plan is the same as that of the Second Mid-term Management Plan—a half year from April 1, 2007 through September 30, 2007.

Note: For detailed information on the Mid-term Management Goals, Mid-term Management Plan and the Management Plan for fiscal 2007, please see Japan Post's website:

(<http://www.japanpost.jp/>)

#### 1. Outline of the Second Mid-term Management Goals

Classification	Japan Post as a Whole	Postal Services	Postal Savings Services	Postal Life Insurance Services
Ensuring management soundness	Ensuring financial soundness	Accumulated funds of minus ¥ 105 billion or more	Accumulated funds of ¥ 290 billion or more	Total added Contingency Reserve and Price Fluctuation Reserve: ¥ 140 billion or more
	Enhancement of operational efficiency	Business expense rate: 109.5% or less	Business expense rate: 0.62% or less	Business expense rate: 7.0% or less
Maintenance and enhancement of service level	Improving customer satisfaction	On-time delivery rate: 97.0% or higher	Improving customer satisfaction	Lapse and Surrender rates: Insurance: 1.80% or less Annuity insurance: 1.15% or less
	Effective use of the post office network			
Enhancement of internal control structure	Total commitment to meeting compliance requirements Establishment of an accounting system based on corporate accounting principles Enhancement of risk management system Improving internal audit system			
Smooth shift to new company	Measures relating to information systems Preparation for business transition			

Note 1: Accumulated funds are profit (loss) during the period of the Second Mid-term Management Goals.

Note 2: Financial numerical targets, including accumulated funds and business expense rate, exclude the influence of charge for recognition of obligations under the Public Official Mutual Assistance Association Law (\*), which is planned for fiscal 2007, and capital gains (insurance).

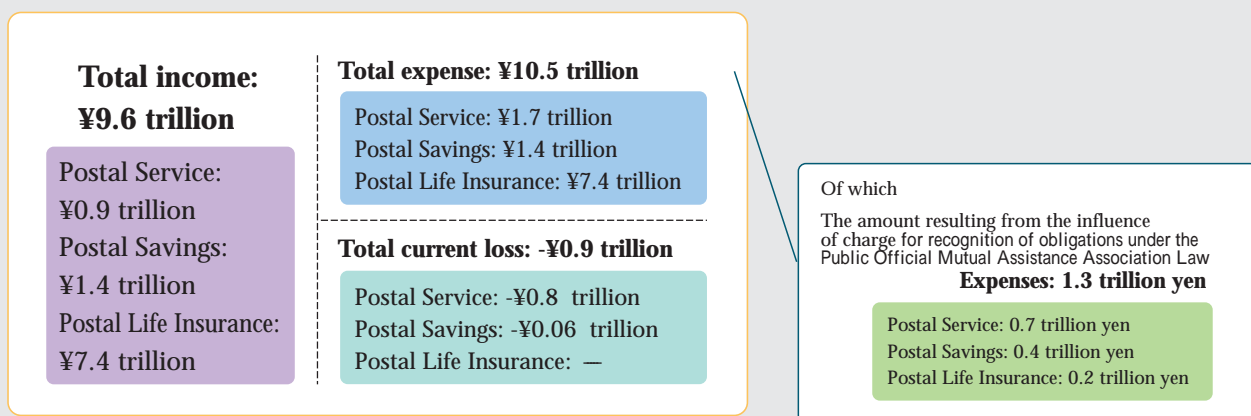
\* Charge for recognition of obligations under the Public Official Mutual Assistance Association Law is expenses charge for recognition of obligations under the Public Official Mutual Assistance Association Law concerning the pension terms in and before 1959, included in mutual aid welfare pension benefits under the National Public Service Personnel, etc. Mutual Aid Association Law.

Note 3: Postal services suffer red figures in the first half of a business year, since they are greatly affected by revenue from sale of New Year's lottery postcards (November to January).

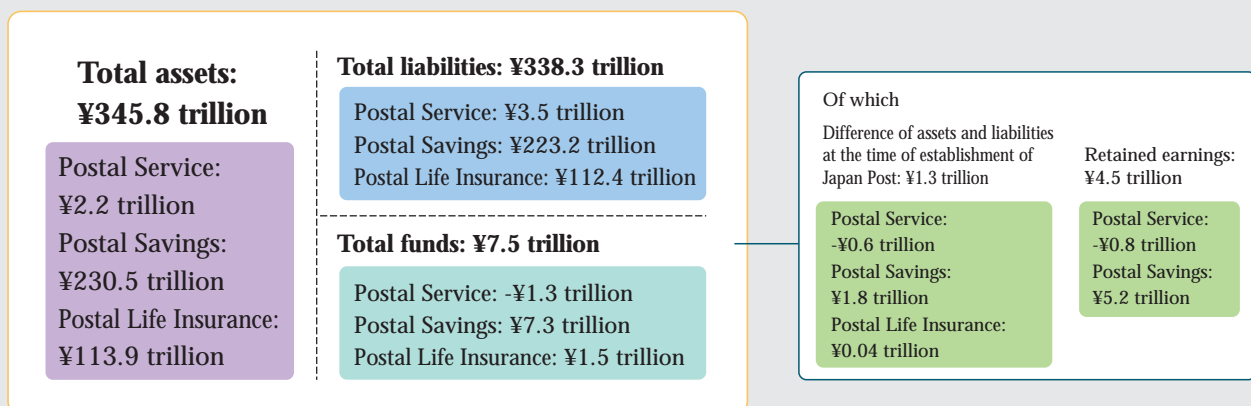
## 2. Mid-term Management Plan (Second term)

Classification	Objectives for all business operations
Japan Post as a Whole	<p>Improvement of customer satisfaction (business improvement based on opinions of customers, raising of the levels of customer service and employee manners, international cooperation and partnership, etc.)</p> <p>Effective use of the post office network ("one-stop service," ATM Tie-Up services, etc.)</p> <p>Enhancement of internal control (prevention of crimes by insiders, enforcement of compliance training, sophistication of risk management, etc., establishment of structures according to corporate accounting, improvement of internal audit system, etc.)</p> <p>Smooth shift to new company (responses to information systems, clerical and infrastructure shift work and implementation of training)</p> <p>Enhancement of operational efficiency (reduction of procurement costs, control of facility related expenses, etc.)</p>
Postal Services	<p>Improvement of customer satisfaction (improvement of operation quality, prevention of incidents of excessive or insufficient cash and entry into international logistics)</p> <p>Enhancement of internal control (prevention of crimes by insiders, appropriate management of postal income, total commitment to meeting compliance requirements and upgrading of management)</p> <p>Enhancement of operational efficiency (improvement of productivity and review of the content of contracts)</p>
Postal Savings Services	<p>Improvement of customer satisfaction (improvement of operation quality, prevention of incidents of excessive or insufficient cash and enhancement of complaint response system)</p> <p>Enhancement of internal control (prevention of crimes by insiders, resolution of excess of deposit ceiling limit and violation of the limit to the number of passbooks, upgrading of ALM and risk management, etc.)</p> <p>Enhancement of operational efficiency (computerization of business processing)</p>
Postal Life Insurance Services	<p>Improvement of customer satisfaction (establishment of consulting-based sales, establishment of structure to reflect opinions of customers in management, prevention of incidents of excessive or insufficient cash, prevention of accidents in handling business operations, etc.)</p> <p>Enhancement of internal control (prevention of crimes by insiders, establishment of insurance solicitation management system, upgrading of ALM and risk management, etc.)</p> <p>Enhancement of operational efficiency (improvement of productivity, improvement of efficiency of operation of policyholder welfare facilities, etc.)</p>

## 3. Provisional Income and Expense during the Second Mid-term Management Plan Period (Fiscal 2007 First Half)



## 4. Provisional Assets and Liabilities of the Second Mid-term Management Plan Period (at September 30, 2007)



1 Highlights

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### 3. Status of Achievement of Mid-term Management Goals

Status of achievement of Mid-term Management Goals for the first term (fiscal years 2003-2006) is as follows:

			FY 2003	FY 2004	FY 2005	FY 2006	1st term: 4 years (Total or average)
Postal Service	Accumulated funds of ¥50 billion or more	Goal	- 2.6billion yen	11.8billion yen	20.8billion yen	22.4billion yen	-
		Results	26.3billion yen	28.3billion yen	2.6billion yen	1.8billion yen	59.2billion yen
	Business expense rate: 98.5% or less	Goal	99.3%	98.6%	98.1%	98.1%	-
		Results	96.9%	98.4%	99.2%	98.5%	98.3%
	On-time delivery rate: 97.0% or higher	Goal	97.0%	97.0%	97.0%	97.0%	-
		Results	97.5%	97.2%	97.3%	97.3%	97.3%
Postal Savings Service	Accumulated funds of ¥3.9 trillion or more	Goal	1,135.5billion yen	961.8billion yen	923.1billion yen	878.1billion yen	-
		Results	2,275.5billion yen	1,209.5billion yen	1,930.4billion yen	940.6billion yen	6,356.2billion yen
	Business expense rate: 0.52% or less	Goal	0.50%	0.51%	0.53%	0.54%	-
		Results	0.46%	0.45%	0.47%	0.51%	0.47%
Postal Life Insurance Service	Total added Contingency Reserve and Price Fluctuation Reserve: ¥300 billion or more	Goal	- 32.4billion yen	55.1billion yen	77.6billion yen	207.0billion yen	-
		Results	4.1billion yen	551.7billion yen	931.8billion yen	1,025.0billionyen	2,512.8billion yen
	Business expense rate: 5.1% or less	Goal	4.91%	4.96%	5.05%	5.30%	-
		Results	5.02%	4.80%	4.86%	6.10%	5.14%
	Lapse and Surrender rates: Insurance: 3.6% or less Annuity insurance: 2.3% or less	Goal	3.6%	3.6%	3.6%	3.6%	-
		Results	3.4%	3.1%	3.1%	3.1%	3.2%
			1.7%	1.5%	1.5%	1.5%	

Note 1: "Goal" above denotes estimated figures based on the Mid-term Management Plan for each fiscal year.

Note 2: Business expense rate of Postal Service = (Operating cost + SG&A expenses)/Operating income × 100

Business expense rate of Postal Savings Service = Operating expense/Average balance of Postal Savings × 100

Business expense rate of Postal Life Insurance Service = Business expense/Premium income × 100

(Reference)

In accordance with Article 37 of Japan Post Law, etc., Japan Post completed the payment earmarked for the national coffer, amounting to 962.5 billion yen, on July 10, 2007.

Note: Payment earmarked for the national coffer (Article 37 of Japan Post Law, Articles 2-3 of the enforcement regulation of the same law):

In accordance with relevant laws and regulations, Japan Post shall pay to the government half the balance amount of the accumulated funds arising out of net income for the final fiscal year of the four-year period of Mid-term Management Plan subtracted by the amount necessary for ensuring the soundness of Japan Post's management (base amount); Provided, however, that the payment shall be made only when the accumulated funds surpass the base amount.

# 3. Action Plan

## 1. Action Plan Objectives

The Action Plan is a corporate action program for further strengthening the management foundation of Japan Post, by turning its management vision into reality and ensuring the achievement of goals for mid-term management plan, under the new management structure after its change to a public corporation. We have worked hard to restructure our management under this plan, which was divided into two phases: Phase 1 for the first two years, and Phase 2 for the remaining two and a half years beginning in fiscal 2005.

Japan Post regards phase 2 as the “step” stage in which we will further nurture the burgeoning results achieved in Phase 1, which is regarded as the “hop” stage. With an eye toward “growth and development,” or the “jump” stage, after privatization and partition of Postal services in October 2007, we are striving to carry through Action Plan Phase 2 in order to put the finishing touches to Japan Post’s reform by further promoting and ensuring management restructuring.

## 2. Main Menus of Action Plan Phase 2 (Wide Strategy)

Japan Post has set two themes for Action Plan Phase 2: “Promote the reformation of awareness and the workplace culture, create new value and pursue sound growth” and “Strengthen our footholds during these two and half years for growth and development in fiscal 2007 and beyond.” We have also formulated a corporation-wide strategy, focusing on five core areas: “Business,” “Growth,” “Strengthening competitiveness,” “Personnel” and “Organization” and “Internal control” that supports all of the such core areas. The specific main menus for each area are established.

### Main Menus

#### “Business”

To realize “Macco Services,” we will further boost goods, services, and marketing capabilities, and make great efforts to raise customer satisfaction (CS).

In the Postal Business, we will further improve services, for example, by increasing the speed of the Yu-Pack service, aiming to grab a 10% share of the parcel delivery market under the slogan “Target 10.” We will improve services that meet corporate needs to expand the market for corporate mail and direct mail.

Regarding the Postal Savings Business, we will expand ATM alliances, increase partners in association with remittance services, and enhance the multi-payment network service. At the same time, we will establish a system for selling trust funds and promote their sales through offering consultation services.

In the Postal Life Insurance Business, we will reinforce the system for providing customers with consultation services through the Kampo Call Center, and promote sales by offering consultation services based on face-to-face communication.

To boost CS, we will introduce the Customer Treatment Level Certification System, through which we will improve employees’ customer service skills and have them thoroughly implement the basic standards of behavior required when dealing with customers, while correcting any discrepancies among employees or post offices concerning customer service.

#### “Growth”

We will strive to create new earnings sources, aiming to reform earnings structures of the current three service sectors responding to the changes of customer needs and the market. To this end, we will make a prior investment of about 470 billion yen in total, with the future in mind.

As for the Postal Business, we will invest around 350 billion yen in the improvement of information systems to enhance customer services, including the reorganization of the network to increase the speed of services and increasing the number of points where postal tracking information is input. In the financial business, we will invest about 100 billion yen in boosting the functions of post offices as a family bank. Specifically, we will install automatic cashier machines at all post offices, and improve security functions by introducing IC-based cash cards to increase the accuracy of identifying the individual concerned. Furthermore, we will make an investment worth some 20 billion yen to strengthen the IT base of post offices.

To realize a “one-stop convenience office concept,” which is designed to enhance counter services, we will strengthen alliances with private companies and local public organizations. We engage in expansion of clerical work entrusted by local public bodies and offer services.

#### “Strengthening Competitiveness”

Japan Post runs operations in the logistics and financial markets, and aims to be competitive to rank alongside its rivals in

these markets.

With regard to the JPS (a campaign to raise productivity), in the Postal Business, we will further increase the number of post offices that adopt the JPS, which reached 1,000 in fiscal 2004, aiming to boost productivity by 15% over the two-and-a-half-year period of Phase 2. In the Postal Savings and Postal Life Insurance Businesses, we will strive to maintain operational quality as a financial institution, for instance, by eradicating a surplus or lack of cash, promote the JPS, and improve the efficiency of bill collection. As we did in Phase 1, we will also cut procurement costs, aiming for a reduction of at least 10% from fiscal 2004 over the period of two years.

Through these efforts, we will shift to a highly productive system, and reduce the work force (to 253,000 employees as of the end of September 2007).

#### **“Personnel”**

We consider it important to increase employee satisfaction (ES), in order to: offer “Macco Services” to customers; and make the workplace pleasant, make employees feel that they have good prospects for the future and feel that their jobs are worth doing. Hence, we will endeavor to create workplaces where employees can do lively work, and to make the best use of our human resources.

Specifically, we will improve and boost in-house communication through “ES bottom-up meeting” and by other means, aiming to deepen employees’ understanding of management policies. By doing this, we will strengthen the structure for offering “Macco Services.” We will also expand courses for training such specialists as consulting staff, assign personnel according to their ability and experience, and reclassify the different categories of work to promote the mobility of personnel, including duty staff that are both internal and external to the company. In addition, we will proactively hire employees from outside the company and assign the right staff in the right place within the corporation.

#### **“Organization”**

We will further promote “the reformation of awareness and the workplace culture” to enhance the core functions of post offices, thorough compliance efforts, build an accounts system that is comparable with that adopted by private businesses and establish risk management systems that financial institutions need to build.

Specifically, we will reform post offices to convert them to “market-oriented corporate” organizations, and promote “cultural reforms” to create a culture that helps to invigorate the company and provide flexibility, departing from the conventional culture and eradicating the governmental managed-type workplace.

We will also establish compliance efforts and personal information protection systems to strictly implement the crime prevention guidelines (“red sheet”) and promote crime prevention action plans. With regard to the establishment of an accounts-settlement system, we will thoroughly follow corporate accounting principles in two stages (May and October 2007). Furthermore, we will further develop risk management systems and reconstruct crisis management systems.

#### **“Internal Control”**

Establishment of internal control is a prerequisite to every process of business and enables us to win the support and trust of customers and raise market value. Against this backdrop, we are working on the “establishment of a mechanism (internal control) for protecting customers, business and employees.”

Specifically, we will redistribute management resources intensively to internal management, and raise the weight of business process quality and compliance efforts in performance assessment.

We will also enhance the inspection system for the improvement of operational quality by establishing a PDCA cycle of operational management and setting up a structure to grasp the actual status of the frontline and the organizational reform of internal management at the head office, branch offices and operations centers.

Furthermore, we will enhance training and increase the number of comprehensive audit on post offices, while the management will verify the improvement of items pointed out by internal audit.

Note: Since it is necessary to reach an agreement with the labor unions concerned regarding items that require the revision of agreements as a result of implementing measures to increase efficiency or changing labor conditions, hereafter Japan Post will conduct consultations and negotiations with the unions concerned.

For further details of the Action Plan, please see the Japan Post website at:  
<http://www.japanpost.jp/top/action/index.html>



### 3. Japan Post's Action Plan for the Postal Service - Phase 2

#### Development of the foundations for business expansion and reorganization through reforms and customer satisfaction improvements that put the customers' interests first

##### I Provision of service achieving a high level of customer satisfaction Establishment and further enhancement of first-rate service

- (1) Customer satisfaction improvement: Accelerate and continue the 0-D Campaign\*, as well as take exhaustive measures to prevent misdelivery, ensure the observance of delivery dates and times, improve customer service and employee manners, and promote expansion of call centers handling requests for collection and redelivery.

Note: The 0-D Campaign is a "zero-defect campaign" which aims to achieve zero postal accidents and crime from the perspective of improving customer service – the fundamental aim of the service business.

- (2) Product and service improvement: Improve Yu-Pack, business mail, direct mail (DM) and EMS services, issue appealing stamps and postcards, enrich overall service, and enter into international logistics business.
- (3) Improvement of convenience: Expand access points through such efforts as increasing the number of Yu-Pack service counters, along with post offices operating on Saturdays and Sundays, and extending their counter service hours, quickly provide detailed operational information concerning mail, and improve Japan Post's Internet website.
- (4) Employee satisfaction improvement: Review employees' benefits and compensation based on their performance, increase the number of courses aimed at utilizing and fostering employees, and appoint capable staff with specialist knowledge and experience in the head office and branches.

##### II Structural reforms to achieve reliably profitable operations Productivity, operation foundations, marketing promotion system, etc.

- (1) Promotion of JPS (Japan Post System): Firmly establish and enhance JPS, and introduce a structure for evaluating the actual effects of JPS.
- (2) Sweeping reform of operational foundations: Establish Tokyo Metropolitan bypass networks, reorganize regional operations, set up Chubu International Post Office, reorganize collection/distribution bases nationwide, and improve delivery quality and enhance collecting and marketing capabilities through a re-evaluation of external work systems.
- (3) Reinforcing sales capabilities: Implement sales strategies tailored to each industry's trends, improve all corporate sales skills, train employees capable of providing a wide range of proposals from sales promotion to logistics, improve sales capabilities for small- and medium-size companies, promote sales at service counters, and increase staff at the international postal service sales center.
- (4) Cost reduction: Reduce personnel expenses and slash transport expenses for all mail collection and distribution.
- (5) Improvement of information system: Promote further enhancement of the postal information system.

##### III Enhancement of internal control

- (1) Thorough implementation of compliance: Enhance a compliance promotion system, intensively give guidance in appropriate receipt of charges and confidence of letters, and reform the mindsets of employees during compliance training.
- (2) Thorough observance of appropriate receipt of charges: Improve the procedures for receiving charges, enhance the acceptance inspection system, strengthen monitoring, and establish a structure that ensures appropriate receipt of charges through mutual inspection by post offices, and the like.
- (3) Prevention of incidents of excessive or insufficient cash: Investigate the causes of frequent occurrence of incidents of excessive or insufficient cash and implement proper measures to cope with such cases.

## 4. Japan Post's Action Plan for the Postal Savings Service Sector - Phase 2

### 1. "Macco Service" (straightforward customer oriented service)

Ensuring operational quality and compliance expected of a financial institution

- Establishment of a structure to completely eliminate incidents of excess or insufficient cash reserves (installation of Automatic Cashier Machines (to be implemented in all post offices by the end of 2007))
- Thorough implementation of compliance and customer information control through the utilization of training programs, red sheets, etc., and verification of the state of observance of handling procedures, etc. through monitoring
- Prevention of theft and fraud resulting from the use of stolen passbooks and forged and stolen cash cards through the introduction of IC cards and bio-certification (in October 2006)

Thorough implementation of operational risk management of the post office counter by setting rigorous numerical goals

- Strict implementation of ceiling limit management (through establishment of a new system to identify multiple accounts under the same name (operations slated to begin in October 2007))

Establishment of a structure to prevent crimes by employees

Improvement of customer service

- Improvement of the level of customer satisfaction through effective utilization of the "Text for Improving Customer Service and Staff's Manners"
- Improvement of services through effective utilization of the results of customer satisfaction surveys

### 2. Building a sound management base (efforts from the perspective of in-house procedures)

Strengthening earnings management and risk management of existing services

- Bolstering of ALM control through strengthening analysis of liability trends
- Reevaluation of investment assets portfolios
- Promotion of the Teigaku savings deposit and Time savings deposit from the perspective of ALM
- Reevaluation of products, services and fee systems for remittance and settlement services, etc.
- Establishment of a new system that enables thorough implementation of earnings management and risk management

Improvement of the marketing base and effective utilization of data

- Promotion of efficient sales through the introduction of a marketing data system for user households
- Improvement of the customer retention rate through winning new high-quality contracts and extensive

promotion of multiple contracts

Selective investment in new business service fields

- Securing profitability of investment trust sales and improvement of customer service on early date
- Establishment of a management system and structure in preparation for diversification of asset types
- Development of products and systems to enrich IC card related services

Reevaluation of delivery channels

- Improvement of productivity through the reevaluation of the placement of ATMs and personnel
- Strengthening of direct channels

Promotion of JPS (JAPAN POST SYSTEM; efforts to improve productivity)

- Improvement of the productivity of Postal Savings Operations Centers
- Implementation of JPS in all post offices

### 3. Providing a satisfying work environment where employees can look forward to a bright future (efforts from the perspectives of skill and ability development and growth)

Developing and securing human resources

- Encouragement and support for the acquisition of the Securities Solicitation Agent Qualification
- Securing persons possessing specialized abilities in fields requiring advanced specialized knowledge and experience, such as fund management and risk management
- Improvement of skills and abilities of part-time workers through setting up Postal Savings Training Centers
- Granting incentives for strategic product sales

Improvement of the working environment

- Improvement of employee satisfaction through setting of goals and evaluations based on a points system that is devised to show employees' contribution to the business in a better and clearer way
- Invigoration of the organization through the mutual exchange of opinions by reforming communications
- Improvement of service counter operations through installation of more Automatic Cashier Machines

## 5. Japan Post's Action Plan for the Postal Life Insurance Service Sector - Phase 2

### Business Philosophy Strive to be a Postal Life Insurance Service that offers first rate satisfaction by providing “the best service for basic livelihood security”

#### Business Vision (direction in which business management should move)

Macco Service	Practicing “business management that puts the customer first” Strengthening of family bank functions
Creating a sound management foundation	Building of a firm and sound financial foundation by strengthening sales abilities and fund management abilities Secure a fixed share of the individual life insurance market
Providing a satisfying working environment where employees can have expectations for a bright future	Providing a congenial and satisfying working environment

#### Goals of Action Plan – Phase 2: “Strengthening the structure of the core business and system improvement for new growth”

##### I Maintain and improve the brand

We will strive to maintain and improve the “Kampo” brand as life insurance of familiar post offices in order to provide “security” to more customers

- (1) We will strive to further ensure all employees’ compliance awareness in a bid to strengthen customers’ trust in us. We will also work on improvement plans to enhance internal control on a company-wide basis. We will take the following improvement measures in the postal life insurance service sector:
  - Thoroughgoing implementation of compliance (enhancement of sales management system, prevention of crimes by insiders, implementation of personal identification, etc.)
  - Improvement of operational quality (prevention of accidents of excessive or insufficient cash, prevention of accidents in handling operations, etc.)
- (2) We will provide more appealing services to customers by collecting opinions of customers extensively and making efforts for the improvement of services and operations from the standpoint of customers.

##### II Improvement of profitability

We will strive to establish a firm financial basis and guarantee the lives of customers over a super long term.

- (1) We will strive to improve the consulting techniques of staff and conduct consulting sales activities that match the needs of customers. We will also enhance follow-up for customers and curb lapses and surrenders to retain the guarantee of customers.
- (2) We will do our utmost to improve the efficiency of operational management through promotion of JPS and improvement of the efficiency of collection operations.
- (3) We will strive to improve investment earnings through establishment of investment system and enhancement of investment abilities.

##### III Enrichment of business management

To maintain sound management in the postal life insurance service, which offers super-long term insurance policies, in the future, we will increase the sophistication of ALM and risk management, while properly carrying out ALM and risk management.

##### IV Improvement of employee satisfaction

To improve employee satisfaction, we will establish an environment that enables employees to actually feel “Japan Post provides a satisfying working environment where employees can have expectations for a bright future.”

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# 4. Enhancement of Internal Control

Japan Post set up “Internal Control Enhancement Headquarters” in May 2006, discussed improvement measures for the enhancement of internal control, with its privatization and partition of postal services in October 2007 in view, and formulated “Improvement Plan for the Enhancement of Internal Control” (in September 2006).

Japan Post is currently making company-wide efforts to implement this improvement plan, regarding the implementation of the plan as the most important management challenge.

## “Improvement Plan for the Enhancement of Internal Control” (Outline)

Particularly urgent issues positioned as the “four most important items”

### (1) Prevention of crimes by insiders

- Establish structures and systems by the privatization of Japan Post to extendedly prevent the occurrence of crimes and immediately detect crimes when they occur.

- Promote cashless operations (promotion of transfer of insurance benefit, etc. to accounts), introduce key/card management machines, install security cameras inside offices and take other measures.

### (2) Prevention of incidents of excessive or insufficient cash

- Sharply reduce the number of incidents of excessive or insufficient cash in the three service sectors before the privatization.
- Install Automatic Cashier Machines in all post offices

(postal savings), install cartons separately for receipt and payment, exhaustively issue receipts (postal service), introduce cash handling record slips (postal savings and insurance), install change machines on a trial disposition (postal service), and take other measures.

### (3) Proper management of postal income

- Establish structures and systems to restrain the occurrence of improper cases and quickly detect such cases when they occur.
- Make known to everyone the work methods, assign

inspection manager exclusively responsible for inspection, increase the number of inspection equipment, review layout, continue to implement mutual inspection between post offices, enhance the monitoring structures at the head office and branches, and take other measures.

### (4) Establishment of insurance sales management system

- Establish a structure to eradicate improper matters before the privatization.
- Intensively implement the idea about thorough

implementation and promotion of proper sales and specific measures to infiltrate action guidelines, enhance the inspection/check systems at branches and the Postal Life Insurance Operations Center, and take other measures.

Extraction of “cross-sectional issues” common to individual challenges and efforts for them (General control)

### (1) Management policy and mindset reform

#### Understanding and infiltration of management policy

- Send messages of the president/CEO to all directors and employees.
- Hold operational research meetings targeting all employees.

#### Review of distribution of management resources

- Redistribute human resources, goods and money intensively to internal management.
- Necessary personnel measures: About 1,200 full-time employees and about 900 part-time employees
- Budget measures: About ¥150 billion for fiscal 2006 and 2007 in total

#### Review of performance assessment of branch and post office managers

- Raise the weight of operational quality and compliance in assessment.

### (2) Enhancement of structures

#### Infiltration of directions to post offices

- Enhance functions of the Post Office Network Business Department and unify directions.

#### Clarification of roles of branches, operations centers, etc.

- Clarify the position of branches as a guidance organization and that of operations centers as a check organization, and clarify authority and responsibility.

#### Enhancement of structures to investigate and clarify violation of compliance

- Establish a reporting system and enhance the structures by assigning branches specialists who belong to the head office and are responsible for the investigation and solution of causes of violation cases.

#### Review of systems to grasp the actual status of the frontline

- Analyze and report important opinions and complaints of customers to the management.

### (3) Review of business flow

#### Installation of business planning department, etc.

- Promote PDCA cycle of operational management and implement day-to-day operational improvement

#### Enhancement of inspection system for the improvement of operational quality

- Review inspection items and quantitatively restrict directions requiring reports

#### Drastic review of regulations, manuals, etc.

- Carry out standardization (unification of forms) and nationwide unification (abolition of original rules)

### (4) Review of staff training, disposition, etc.

#### Enhancement of training

- Improve linkage between group training and OJT and review curricula of career staff training

#### Review of personnel rotation, incentives, etc.

- Enhance the system to make employees continuously leave workplace, with transfer as principle

#### Correction of mismatch between necessary personnel and workload

- Investigate the actual status of the business at post offices and necessary personnel measures

#### Improvement of convincingsness of disciplinary punishment and admonition

- Correct an imbalance of determination and decide “important deals” at the head office

### (5) Internal audit, etc.

#### Enhancement of internal audit structures, etc.

- Implement comprehensive audit on all post offices once a year

#### Reflection of items pointed out in management

- Periodically verify the improvement status at the Board of Directors, the Executive Committee, etc.

Extraction of “individual important issues” in consideration of suggestions from outside organizations, in addition to the “four most important four items”, and efforts for them (business operation control)

**(1) Securing of accuracy of settlement and accounting processing**

- Enhance the system for investigation of causes of counting disagreement at operation centers, establish a system to clarify causes and resolve trouble and drastically resolve the issue in the settlement of accounts in September 2007.
- Secure accuracy of management operation for stamps, etc. to establish a system under which money and goods are consistent with each other.

**(2) Elimination of antisocial forces**

- Clarify the stance of the management toward the elimination of antisocial forces by clearly stating the elimination of antisocial forces in the “The Japan Post Charter”, etc.
- Cope with antisocial forces systematically and effectively, establish standards for the elimination of unreasonable demand, and set up a system to support handling of unreasonable complaints.

**(3) Protection of personal information and information security**

- Transfer the information system (including information security) operations of regional network centers to branches to operate the systems integrally with protection of personal information at post offices.
- Abolish personal computers bought and brought in by employees and those bought by offices on their own to implement unitary management of PCs within Japan Post.

**(4) Securing of quality of information systems**

- Stipulate judgment and confirmation procedures when new systems come on stream and existing system are revised, with important judgments to be made at the Board of Directors, etc.
- Implement transfer judgment based on quantitative indicators, coinciding with the revision of the postal insurance comprehensive information system, and verify processes.

**(5) Management of deposit limit and restriction on number of passbooks (postal savings)**

- Resolve those who have deposits in excess of the ceiling limit by September 2007, excluding persons to who request cannot be made since heirs are not known due to the death of account holders and persons who temporarily have deposits in excess of the ceiling limit.
- Continue to demand those who have more passbooks than the limit to decrease the number of passbooks, and take a measure to pay no interest to them.

**(6) Personal identification (postal savings)**

- Enhance inspection subjects at the Operations Centers and strengthen analysis of incomplete items.
- Branches and regional centers give instructions to post offices based on the analysis.

**(7) Management of insurance limit (postal life insurance)**

- Establish systems for grasping the full picture of contracts that exceed the limit at the head office and the Operations Centers and thoroughly implement limit management at post offices.
- Implement inspection using “new contract application check sheet” and enhance limit management at the Operations Centers (investigations into causes of occurrence and preparation of points to be considered in limit audit).

**(8) Identity verification (postal life insurance)**

- Establish system check mechanism at Operations Centers.
- Compile and distribute identity verification document list, and implement inspection using “new contract application form check sheet.”

**(9) Management of payment groups (postal life insurance)**

- Thoroughly implement schedule management to eradicate improper payment groups and enhance efforts to cope with improper payment groups that are difficult to be improved.

**(10) Insurance money payment operations (postal life insurance)**

- Enhance the insurance money payment management system at the head office by the privatization, referring to the supervisory guidelines of the Financial Services Agency.
- Establish a division in charge of audit on insurance money payment screening, etc. at Operations Centers, and start post verification and external check by lawyers.

**“Issues to be tackled by Japan Post and JAPAN POST HOLDINGS Co., Ltd. in cooperation” toward implementation after the privatization**

**(1) Drastic review of business flows in general (standardization and systematization)**

- Push forward with discussions to realize drastic review of business flow by fully introducing computer systems, since it is necessary for drastic resolution to eliminate manual handling as much as possible and reconstruct business flows that will not allow handling against regulations and that will leave necessary records.

**(2) Drastic review of merchandise and services**

- With regard to merchandise and services for which internal control cannot be fully established, push forward with discussion, with fully system-based response in mind, since drastic review and study are necessary, including abolition and limit to post offices that handle such merchandise and services.

For further details of Improvement Plan for the Enhancement of Internal Control, please see the Japan Post website at:

<http://www.japanpost.jp/pressrelease/japanese/sonota/060920j901.html>

# 5. Corporate Governance

## 1. Governance within Japan Post

In Japan Post, the “Board of Directors,” which consists of the President, Senior Executive Vice Presidents and Executive Vice Presidents, serves as the highest decision-making body and discusses and decides on such key managerial issues as management strategies, budgets and settlement of accounts. Among participants in Board of Directors meetings are outside Executive Vice Presidents (three of them as of June 2007). In April 2004, as part of its management overhaul, the corporation introduced an executive officer system to strengthen its management capabilities.

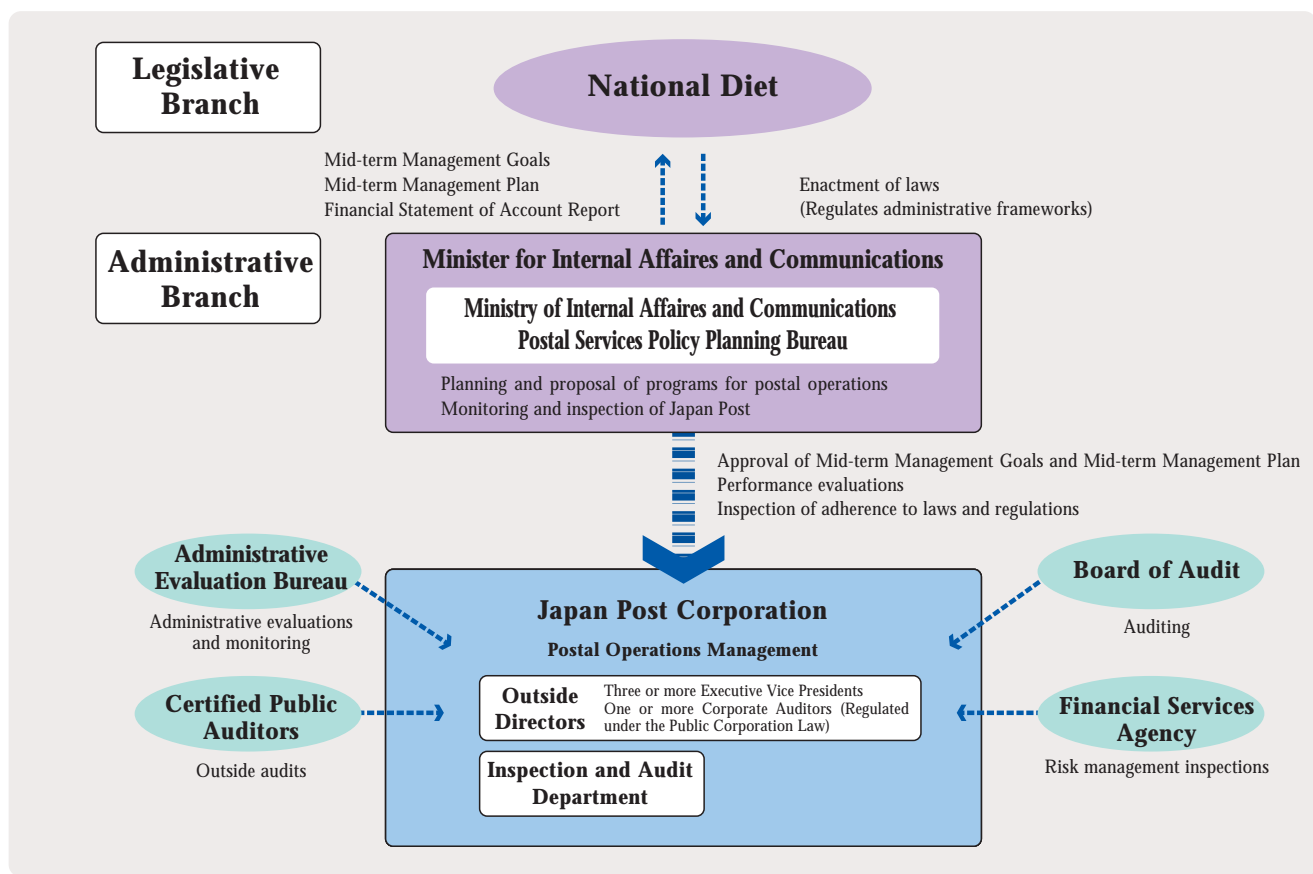
The “Strategic Committee” (which consists of Executive Officers who hold responsible posts) deliberates on important matters concerning Japan Post’s management or business operations. The “Executive Committee” (which is composed of all Executive Officers) discusses important matters decided by the president.

Under the Executive Committee, there are ten special committees, including the IT Strategy Committee, the Governance and Compliance Committee and the Investment Committee, which complement the Executive Committee’s functions through deliberation of special matters about management or business operations.

Under the above corporate structure, the corporation is also working hard to thoroughly implement compliance and strengthen its risk management system, in order to enhance the internal control structure.

## 2. Outside Governance of Japan Post

As a national public corporation providing services of high public value, Japan Post engages in independent and flexible management under national government supervision. For example, its mid-term management goals and mid-term management plans require approval by the Minister for Internal Affairs and Communications. This minister also assesses the corporation’s performance. Furthermore, as with private companies, independent accountants audit the corporation and the Financial Services Agency inspects our risk management, in order to check whether we are appropriately implementing business operations. Japan Post uses this public outside governance to establish sound management practices and to fulfill its responsibilities for stable provision of high-quality services to customers.



# 6. Compliance Efforts

Japan Post believes that compliance is one of its most important management issues and is striving to ensure observance. We strive to put compliance into practice in daily work to gain the customers' trust (society's trust).

"Compliance" does not simply refer to observance of laws, regulations and rules. All Japan Post executives and employees observe such laws as a matter of course and also strive to practice ethical behavior, observe social mores, morals and manners, as well as act in an equitable manner.

We establish compliance policies and a system to ensure compliance throughout Japan Post. Further, we strive to inculcate awareness of compliance issues through conferences and training.

## 1. Establishment of Compliance Policies

Japan Post has established the compliance policies outlined below:

### (1) Japan Post Basic Compliance Policy

The Basic Compliance Policy establishes the basic components to promote compliance, based on Japan Post Management Philosophy and the Japan Post charter.

### (2) Guidelines for Provision of Products and Services

Based on (1), the basic stance on providing products and services at post offices is established.

### (3) Japan Post Compliance Program

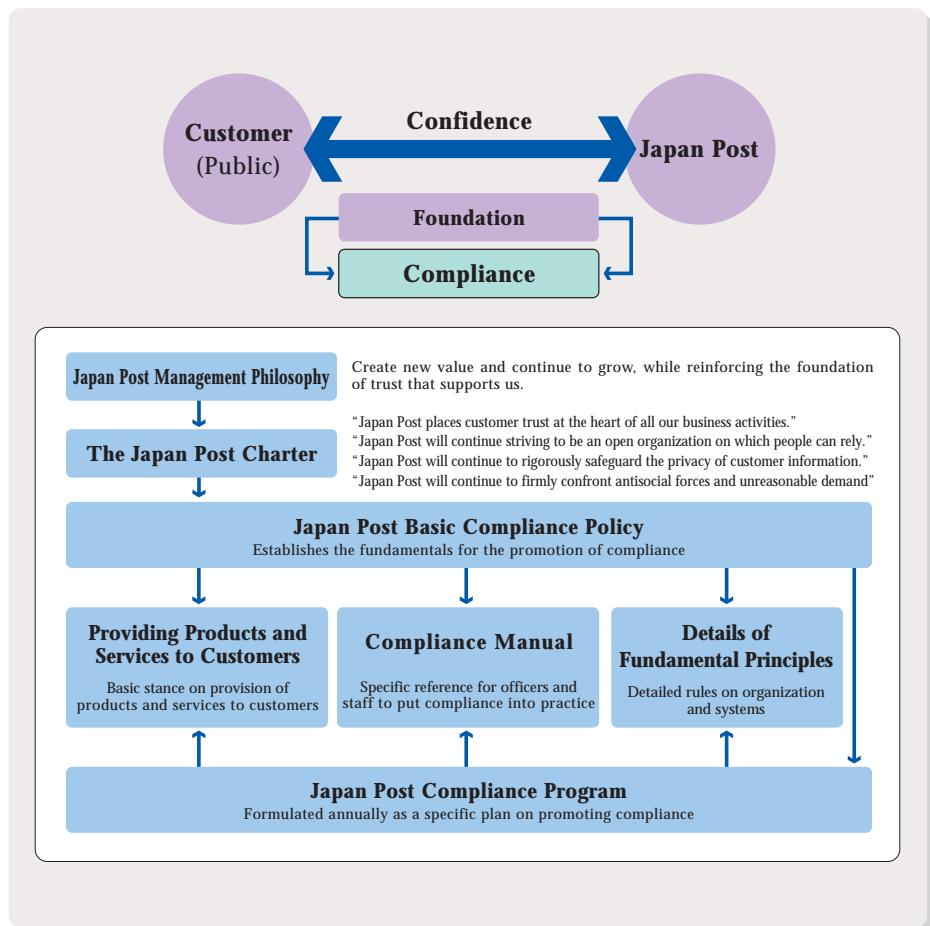
Based on (1), the Compliance Program establishes specific plans to promote compliance and is formulated on an annual basis.

### (4) Compliance Manual

Based on (1), the Compliance Manual serves as specific guidelines so that executives and employees practice compliance and is distributed to all executives and employees.

In addition to the above Compliance Manual for all executives and employees, we have also written and distributed a "Compliance Manual (for employees engaged in investment trusts operations)," a "Compliance Manual (for employees in the insurance area)," a "Compliance Manual (for employees in the Policyholder Welfare Facilities)" and a "Compliance Manual (for employees in the Japan Post Hospitals)."

### System of Compliance Principles



## Guidelines for Provision of Products and Services

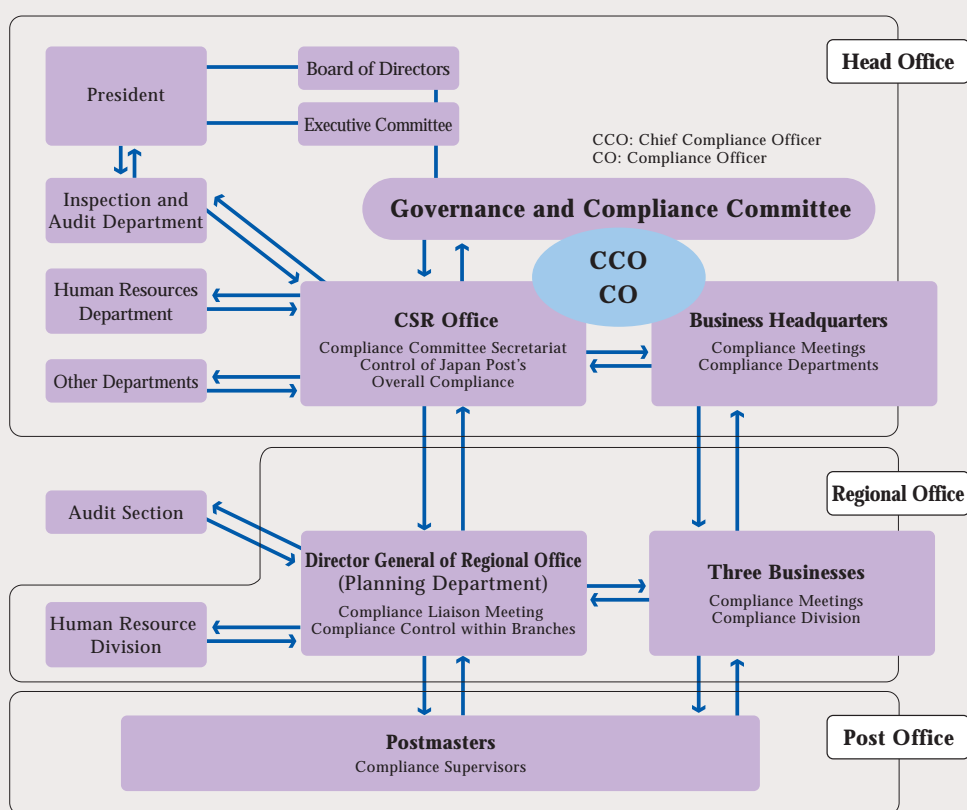
At Japan Post, we shall observe all relevant laws and regulations and endeavor to provide products services in an appropriate manner, as detailed below, on the basis of the Japan Post Charter.

1. We shall seek to meet customer needs by providing products and services in an appropriate manner.
2. We shall endeavor to provide information that leads to an adequate understanding of the content of goods and services so that customers are able to make their own choices.
3. We shall not give out uncertain or untrue information, or otherwise provide misleading explanations to our customers.
4. We shall strive to provide explanations concerning our products and services at times and locations that do not pose an inconvenience to our customers.
5. We shall strictly maintain the confidentiality of customer information in the course of providing our products and services.
6. As training to facilitate the provision of goods and services is enhanced in a fair manner, each individual shall also endeavor to acquire required knowledge.

## 2. Creating a System for Compliance Promotion

The Japan Post Governance and Compliance Committee was established at Head office as a system to promote compliance based on the Japan Post Basic Compliance Policy. The Chief Compliance Officer (CCO) was also appointed to take responsibility for controlling the promotion of compliance measures throughout Japan Post. Compliance Officers (CO) were also appointed at the headquarters' CSR Office and the three business departments to take responsibility for controlling the promotion of compliance efforts, and a compliance supervisor was appointed in each organization.

### Compliance Promotion System Chart





# 7. Internal Audit System

Japan Post has established the Inspection and Audit Department at the head office and regional Inspection and Audit Offices (in 50 locations), and these are independent of bodies such as the business headquarters. The Inspection and Audit Department of the head office and Inspection and Audit Offices verify and evaluate how management activities of all businesses of Japan Post are executed and controlled from the standpoints of appropriateness and effectiveness, so that the postal business can be managed efficiently and economically.

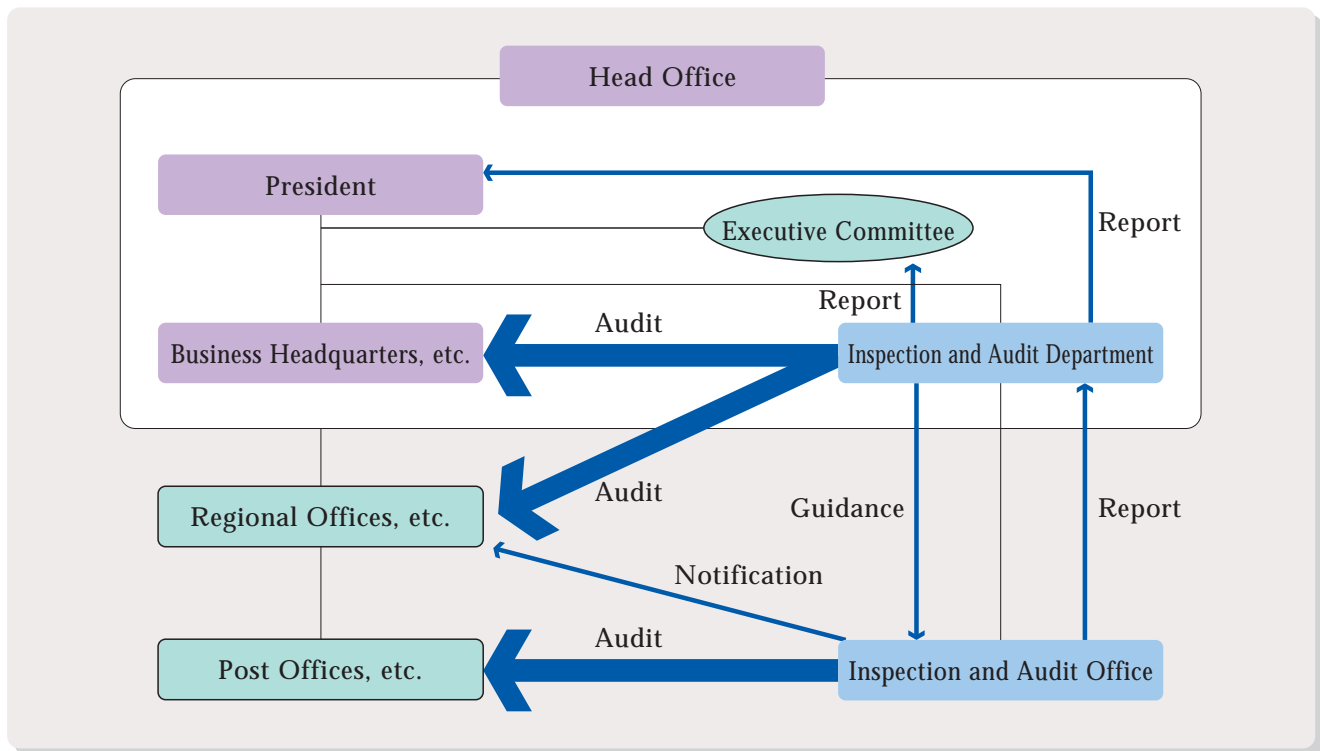
The Inspection and Audit Department at the head office conducts risk assessment for each department including the business headquarters, and audits relevant divisions of the head office, regional offices, administration centers and affiliated facilities (excluding Policyholder Welfare Facilities) based on the results of the risk assessment.

The Inspection and Audit Offices audit post offices and Policyholder Welfare Facilities in line with the audit items set by the Inspection and Audit Department at the head office based on risk analyses. They implement “general audits” on post offices, which cover clerical work in general, and “specific audits” which are aimed at specific areas of clerical work.

The results of audits carried out by the Inspection and Audit Department at the head office and the Inspection and Audit Offices are compiled into reports containing problems and directions, and submitted to the Executive Committee.

The results of audits of individual post offices are reported to the branch offices so that they can be utilized to provide guidance for post offices.

## Internal Audit Structure of Japan Post



# 8. Risk Management Efforts

## 1. Basic Concept on Risk Management

Japan Post runs the Postal Business, Postal Savings and Postal Life Insurance three distinct businesses that each face different risks.

In order to ensure sound management and earn the customers' trust, Japan Post prioritizes risk management as one of its most important management issues. The Board of Directors establishes the Japan Post's Basic Principles on Risk Management to serve as the company-wide policies that will guide Japan Post's efforts to manage risk.

### Japan Post's Risk Management System

Japan Post has established a Postal Business Headquarters in charge of the Postal Business, a Postal Savings Headquarters in charge of the Postal Savings and a Postal Life Insurance Headquarters in charge of the Postal Life Insurance Businesses. Separate departments are set up to take charge of overlapping operations, such as human resources and accounting. Based on Japan Post's Basic Principles on Risk Management, risk management supervisors are appointed to develop methods appropriate to the features of their operations for risk management.

In particular, an Integrated Risk Management Department was established in the Postal Savings Headquarters and the Postal Life Insurance Headquarters as a risk management department whose role is to conduct integrated risk management for their respective businesses. Additionally, a Risk Management Committee was respectively set up to discuss risk management issues. These steps are intended to enhance the risk management system.

The Internal Monitoring Department regularly monitors the effectiveness and validity of the risk management functions of these Headquarters.

## 2. Risk Management in Postal Savings Business

### (1) Basic Concepts on Risk Management

Japan Post recognizes that coping with risks arising from operational management is an important governance issue in postal savings business, and is working on the establishment of risk management systems.

These systems roughly classifying risks into “corporate value fluctuation risks,” which are evaluated for the purpose of maintaining sound management, and “operational risks<sup>(note)</sup> (market risk, liquidity risk, computer system risk and operation risk),” which are managed with the intention of maintaining reliability.

Note: In the Postal Savings Business, Japan Post regards market and liquidity risks, given the management type of a public corporation, and manages the risks by focusing on conformity to rules. Hence, the operational risks described in this document differ from those that are generally used.

Japan Post is also straining to establish a risk management structure appropriate to the diverse and complex nature of its operations as it moves towards the split-up and privatization in October 2007.

### (2) Risk Management in Postal Savings Business

Postal Savings is a financial service essential to individuals’ daily lives and is available at about 24,100 post offices across Japan. Its distinctive characteristics distinguish it from other financial institutions.

Postal Savings risk management system makes the best use of managerial resources, and is based on the concept of “simple and efficient risk management”. The system takes into consideration the balance between the effectiveness of risk management and the efficiency of operation.

Specifically, the Integrated Risk Management Department uses quantitative, probabilistic methods to directly measure and manage risks affecting sound management. The Postal Savings Business organization is divided for convenience into front (The front is further divided with the first tier having jurisdiction over all operations and establishing management relations with the second tier which is responsible for risk management conditions) and middle. The integrated middle (third tier) they indirectly exercises authority over the management system of the first and second tiers. Furthermore, the organization relating to the Postal Savings Business is arranged so that in principle conflicts of interest are divided organizationally and by positions of responsibility, It is an organizational structure that provides mutual checks and balances from the risk management viewpoint.

The risk management in the Postal Savings Business is regularly discussed at the Postal Savings Risk Management Committee under the control of the Director General of the Postal Savings Business Headquarters.

1 Highlights

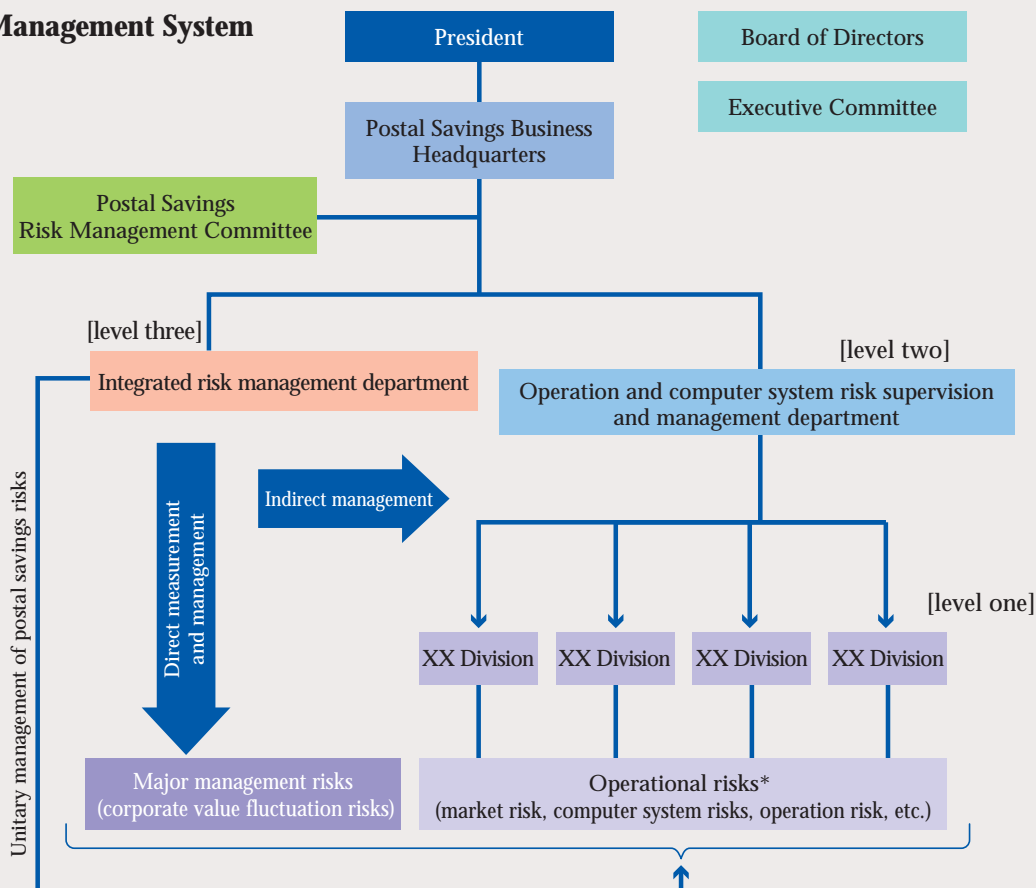
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## Risk Management System Chart



## Roles of each level under the three-level management system

### Front (level one management)

Self-management of risks by departments in charge

### Middle (level two management)

Management by departments responsible for supervising and managing each risk

### Integrated Middle (level three management)

Management by independent integrated risk management departments

### (3) Specific Method of Risk Management

#### Sustain sound management

Postal Savings' assets primarily consist of securities, such as government bonds, apart from fiscal loan deposits (with a deposit period of seven years at a fixed interest rate), which were deposited before fiscal 2001 when full-scale autonomous investment of Postal Savings funds started. Meanwhile, liabilities chiefly consist of Teigaku Savings (with maximum deposit duration of 10 years, fixed rates and withdrawal permitted after six months).

The primary risks resulting from Postal Savings' assets and liabilities are that customers will transfer their deposits to new Teigaku Savings when interest rates rise, resulting in a mismatch between the interest period of Teigaku savings and asset holdings. This creates the risk of future volatility in profits and losses, and the risk that interest rate volatility will change the value of asset holdings such as Japanese government bonds. These are crucial risks for management, and the two risks are managed together as "corporate value fluctuation risk."

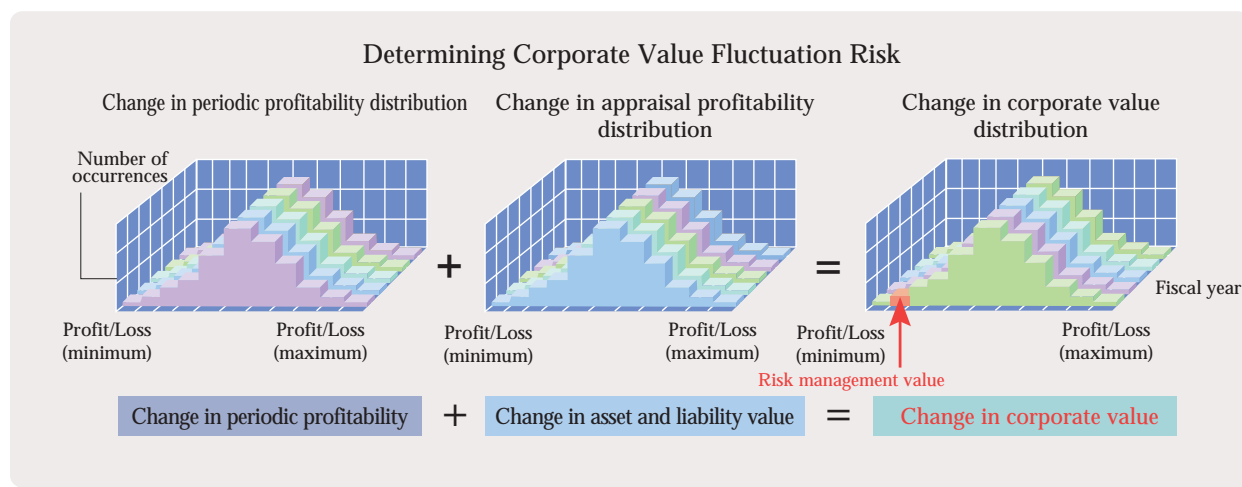
#### Measuring Corporate Value Fluctuation Risk

Company Earnings and Value at Risk (CEVaR), a method devised by expanding Earnings at Risk (EaR) that takes into account changes in periodic profits and losses, is adopted to measure corporate value fluctuation risk. When making actual measurements, we use the Postal Savings' risk management model that measures CEVaR in practical terms.

Specifically, future assets and liabilities are calculated based on scenarios generated from 10,000 randomly generated interest rates, exchange rates and share prices. Simulating fluctuations in periodic profits and losses and asset values enables Japan Post to gain a quantitative and probabilistic understanding of corporate value fluctuation risk from the profit and loss distribution. The corporation manages its risks by ensuring that 95% of "CEVaR (based on the balance sheet)" (the 9,500th value starting from positive values) among the 10,000 simulation results will not become a deficit.

Postal Savings is also carrying out stress tests using particular scenarios as assumptions that have various effects on management to ensure that a thorough risk management strategy is in place.

Note: "CEVaR (based on the balance sheet)" is the sum of the "difference in assets and liabilities at establishment," "retained earnings (or losses)," and "differences in valuation losses on other securities" (corresponding to capital in the balance sheet of the financial statements)



#### Measurements Results of Corporate Value Fluctuation Risk (End of March 2007)

	End of FY 2007	End of FY 2008	End of FY 2009
95% CEVaR (based on the balance sheet)	7,497.9 billion yen	8,126.8 billion yen	8,849.6 billion yen

Note 1: The figures for each fiscal year correspond to capital in the balance sheet of the financial statements. The figures represent 95% of CEVaR for each fiscal year using probability distribution.

Note 2: 95% of CEVaR (based on the balance sheet) is the sum of the "difference in assets and liabilities at establishment," "retained earnings (or losses)," and "differences in valuation losses on other securities" (corresponding to capital in the balance sheet of the financial statements), and represents the 9,500th value starting from the positive values among the 10,000 simulation results.

Note 3: The figure for each year does not take into account payment of funds earmarked for government coffers.

Note 4: CEVaR is premised on the current system, not taking into account taxes, such as the corporation and prefectural and municipal fixed assets taxes, deposit insurance premiums, etc.

(Reference) Approximate estimates of risk (sensitivity) from market fluctuations (interest rates, share prices, foreign exchange)

End of March 2007

Factor	Asset		Balance (market value)	Sensitivity	
Interest rate	Yen denominated bonds	Bonds held until maturity	131 trillion yen	+ 0.1%	- 490 billion yen
		Other securities	31 trillion yen	+ 0.1%	- 70 billion yen
	Foreign currency denominated bonds		3 trillion yen	+ 0.1%	- 9 billion yen
Foreign exchange				10 yen appreciation	- 230 billion yen
	Foreign shares		2 trillion yen	10 yen appreciation	- 50 billion yen
Share prices				- 100 points	- 10 billion yen
	Domestic shares			- 100 points	- 70 billion yen

Note 1: The sensitivity of foreign exchange is the sum of the changes of each currency when they change at the same rate as the U.S. dollar.

Note 2: The sensitivity of foreign shares is based on the MSCI Kokusai index, while that of domestic shares is based on the Tokyo Stock Price Index (TOPIX).

Note 3: The sensitivity of foreign shares is the sum of the changes of stock prices when the stock prices of each country change at the same rate as the MSCI Kokusai index.

## Maintain confidence

The “operational risks,” which consist of market risk, liquidity risk, system risk and administration risk, are managed mainly by conforming to various rules. We identify risks using a risk evaluation sheet for every operation process, understanding the causes of the risks and the current risk management system. A risk map is used to measure the frequency with which a risk occurs and the extent of its impact is categorized.

In particular, we are striving to reduce risks that are categorized as “risks that needs to be managed” by setting up management systems that go beyond the previous operations management.

Furthermore, we manage market and liquidity risks by limiting them depending on their nature. This is done by determining the amount of the risks fluctuation and their maximum value, while selecting business partners in accordance with internal rating standards.

### Market Risk

The risk of loss due to improper management or management standards relating to market transactions (procurement, investment, and investment consignment) and ALM operations is categorized and managed as market risk.

Specific risk management is as follows:

#### ALM risk management

ALM risk is managed by setting management standards for: the maturities allocation of new investment funds; and the amount of fluctuation in postal savings for fund procurement, in order to ensure compliance with standards set in ALM policy.

#### Credit risk management

When investing in domestic bonds, foreign bonds and short-term investments, credit risk is managed by setting criteria for the type of financial instruments that can be bought, the maximum amount that can be held for each issuing body, as well as sales criteria, using rates based on internal rating standards.

#### Management of investment consignment risk

The risk associated with investment consignment (single-managed money trust, etc.) is managed by using internal rating standards to set consignee standards and the maximum tracking error.

### Liquidity Risk

This is a risk that could result in losses due to difficulties in securing the necessary funds for fund settlements and not being able to repay savings deposits because of improper management or management standards for financing and fund arrangements. Liquidity risk is managed by setting criteria to ensure that the necessary funds for fund settlements can be secured for postal savings funds, postal transfer funds and savings surplus.

### System Risk

This risk results in losses due to failures of computer systems, unauthorized use of the systems, and the like, because of improper management or management standards for planning, developing and operating such systems, consigning systems, and security.

### Administration Risk

This risk results in losses due to improper management or management standards for administration work and administration consignment.

### 3. Risk Management in Postal Life Insurance Business

The Postal Life Insurance Service is entrusted with the important funds contributed by our customers in order to provide means of financial security and offer assistance for policyholders in the event of an emergency.

While the management environment for Postal Life Insurance is changing a great deal, appropriate risk management has become even more important to maintain sound business management in the future and so that customers may benefit from Kampo products and services with a safe confidence.

In consideration of such a situation, the Postal Life Insurance Service recognizes effective risk management in accordance with risk characteristics as an important management issue, and manages risks in accordance with "Postal Life Insurance's Basic Policy for Risk Management," which stipulates the basic functions, including the management system and management methods.

#### (1) Risk Management System

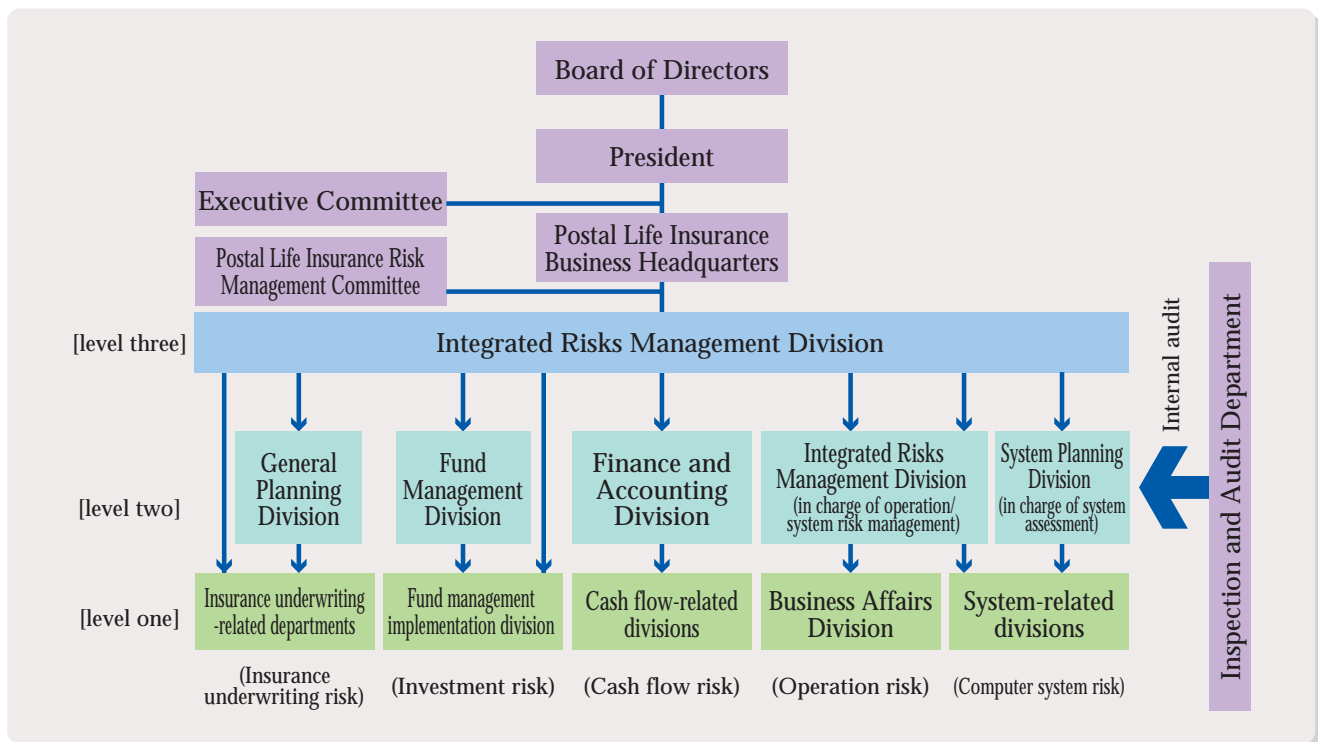
The Postal Life Insurance Business identifies its business risks in an exhaustive way and manages these risks based on their degree of importance.

- (1) The Business Affairs Division is divided into the Service Division (level one), which pursues profits, and the Business Planning Division (level two), which provides support and management, and these two divisions work together to manage risks through a system of checks and balances.
- (2) The Integrated Risk Management Division (level three) was established to be independent of the Business Affairs Division and manage risk in a unified and comprehensive manner. (Responsibilities are partially separated, so that the Integrated Risks Management Division (in charge of operation/system risk management) carries out the level two function for operation risk, while the Integrated Risks Management Division (in charge of operation/system risk management) and the System Planning Division (in charge of system assessment) carry out the level two function for system risk.)

This multi-layered risk management system ensures business management's soundness.

Risk related matters are reported and discussed monthly at the Postal Life Insurance Risk Management Committee, comprising senior officials of the Postal Life Insurance Business. In addition, the risk management status is regularly reported to the Board of Directors and the Executive Committee.

This risk management system is audited by the Inspection and Audit Department, independent of the Postal Life Insurance Business, to further enhance the internal check function through check of the appropriateness and effectiveness of the system.



## (2) Types and Content of Major Risks

The Postal Life Insurance Business classifies and defines the types and content of risks it faces as follows, establishes management systems, regulations, etc. in accordance with risk characteristics, and implements various efforts for proper risk management.

Risk	Definition
Insurance underwriting risk	Risk that profits will deteriorate due to deviation from incidence rates of insured events, investment returns and business expenses at the time of setting the insurance premiums
Investment risk	Risk of fluctuations in investment returns or assessed amounts of assets (including off-balance sheet assets) due to changes in the market environment
Cash flow risk	Risk of shortages of available cash due to sudden deterioration in financing resulting from increases in policy cancellations
Operation risk	Risk of incurring loss due to incidents, unlawful actions or negligence in the performance of work by executives or employees
Computer system risk	System risks resulting in losses due to failures of information systems, unauthorized use of them, and the like

## (3) Efforts to Address Various Types of Risk

### (1) Insurance Underwriting Risk

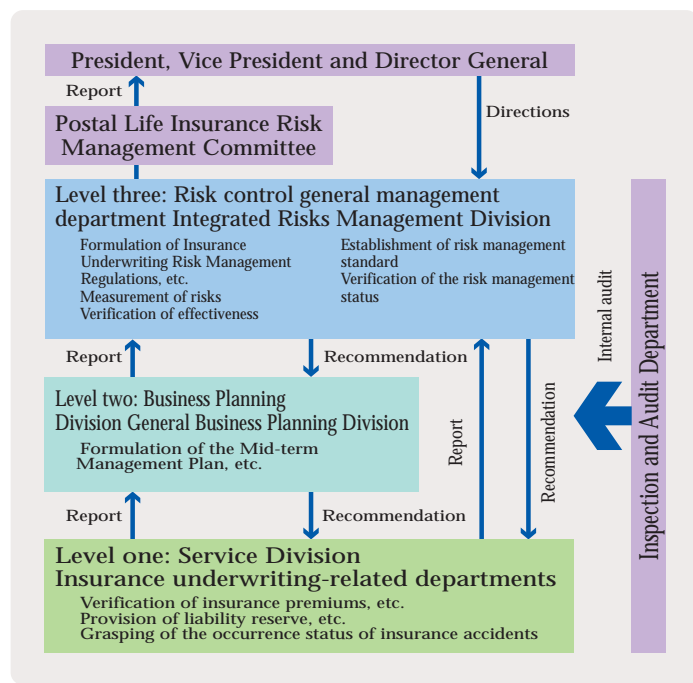
Life insurance contracts commit the Postal Life Insurance Service to contracts which cover the customer's risk of death, illness and injury for long periods of several decades. This means that, when underwriting insurance contracts, we must accurately ascertain the types of risk which might occur and manage the risks accordingly.

With regard to the management of insurance underwriting risk, while reporting and recommendation systems between the levels are maintained, the Service Division, or level one, implements self-management on verification of insurance premiums, etc., provision for responsible reserves and others, grasping of the occurrence status of insurance accidents, and the like, and the Business Planning Division, or level two, has a structure to discuss, as necessary, reviews of insurance premiums and the Mid-term Management Plan based on reports from level one.

The Integrated Risk Management Division, or level three, measures risks based on the insured event occurrence rate, market trends, business expenses, etc. and verifies and reports the risk management status at level two to the Postal Life Insurance Risk Management Committee, etc.

Thus, we manage insurance underwriting risks by maintaining mutual check functions between each department through a multi-layered risk management and by properly setting insurance premiums and putting aside necessary reserve funds.

### Management System for Insurance Underwriting Risk





## (2) Investment Risk

We focus on the safety and certainty in managing the funds entrusted to us by our customers under life insurance contracts to provide for payment of insurance money, etc. in the future. However, risk of incurring unexpected losses due to changes in the market environment cannot be denied. In the Postal Life Insurance Business, we pay maximum attention to the management of investment risk, so that customers can utilize postal insurance without anxiety.

With regard to organizational systems, we consider that securing of mutual check between divisions is important. As for the risk management system for Postal Life Insurance, we adopt a multi-layered risk management system, comprising the Service Division, or level one, the Business Planning Division, or level two, and the Integrated Risks Management Division, or level three, which is independent of level one and level two. The Service Division conducts everyday self-management concerning the implementation of management of

postal life insurance funds, while the Business Planning Division manages the progress, etc. in the management plan based on the reports from level one. The Integrated Risks Management Division directly measures risks, and verifies and reports the risk management status of level one and level two to the Postal Life Insurance Risk Management Committee. Thus, risks are managed rigorously.

Investment risks are classified into market risk, credit risk and market liquidity risk, and managed accordingly. Some Kampo funds are entrusted to investment banks and investment consultants, and the Postal Life Insurance Service also ascertains the investment risk of these entrusted funds and manages the investment risk in a unified manner.

Derivatives trading enables trading for large amounts using only small amounts of capital with the leverage and can also result in profits as well as unexpected losses. We only engage in derivatives trading for hedging purposes and derivatives are not involved in speculative trading.

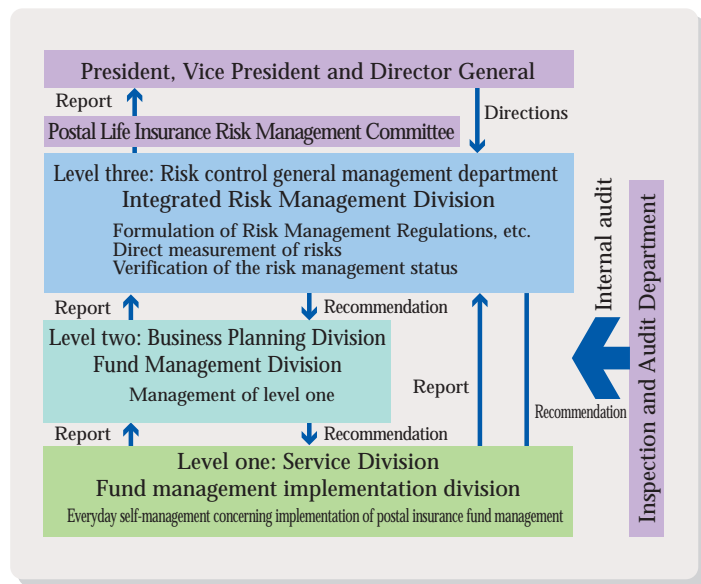
### 1) Market Risk

Market risk is the risk of fluctuations in asset valuation amounts or investment returns due to changes in interest rates, stock prices and foreign exchange rates.

As for managing market risk, we use Value at Risk (VaR) model to control market risk from different investments such as stocks and bonds utilizing standardized indices in order to make market risk confined within certain limits.

While VaR can easily be utilized to grasp risks in an integrated way, it merely indicates risk amount under ordinary market environment, which is a disadvantage of VaR. To supplement this disadvantage, we formulate harsh market environments, including unexpectedly sharp declines in quotations, and simulate the amount of losses (through implementation of stress tests), thereby recognizing risks that cannot be grasped by VaR.

## Management System for Investment Risk



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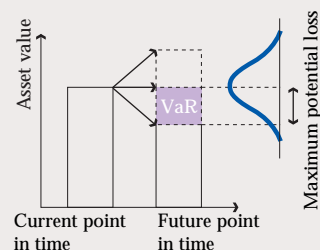
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### Value at Risk (VaR)

is the maximum potential loss (amount of risk) of holding assets which might be incurred at a certain probabilities



(Reference) Estimated amount of risks (sensitivities) from market fluctuations (interest rates, share prices, foreign exchange)

End of March 2007

Factor	Asset	Balance	Sensitivity	
Interest rates	Bonds held to maturity	27 trillion yen	+ 0.1%	- 161.0 billion yen
	Bonds to cover premium reserves	47 trillion yen	+ 0.1%	- 243.0 billion yen
	Other (balance sheet)	12 trillion yen	+ 0.1%	- 43.0 billion yen
Foreign exchange	Foreign currency-denominated bonds (balance sheet)	4 trillion yen	10 yen appreciation	- 392.0 billion yen
	Foreign stocks (balance sheet)	0 trillion yen	10 yen appreciation	- 41.0 billion yen
Share prices	Domestic stocks (balance sheet)	3 trillion yen	- 1,000 yen	- 228.0 billion yen

Note 1: Bonds held to maturity and bonds to cover premium reserves are not evaluated at market value and are not reflected on the balance sheet.

Note 2: The balance and sensitivity of figures of the "Interest rates-other" include foreign currency-denominated bonds.

Note 3: Sensitivity of the "Foreign exchange" is calculated on the assumption that all currencies fluctuate at the same rate as the US dollar.

Note 4: Sensitivity of the "Share prices-domestic stocks" indicates the loss posted in case of the Nikkei Average fall below 1,000 yen.

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## 2) Credit Risk

Credit risk is the risk of fluctuations in asset valuation amounts or investment returns due to the deterioration of debtors' financial situations.

The Postal Life Insurance Business mainly manages bonds, deposits, etc., since it is allowed to extend loans only to regional public organizations under the Japan Postal Public Corporation Law. When managing credit risks, we set standards for unqualified debtors, referring to the ratings graded by ratings agencies. We also set credit line for each debtor.

We figure out the risk represented by debtors, adding up each individual company's bonds, deposits and stocks so that credit risk is not concentrated on a particular company and Japan Post would not be at risk of huge losses.

## 3) Market Liquidity Risk

Market liquidity risk is the risk of fluctuations in asset valuation amounts or investment returns due to unavoidable transactions at remarkably disadvantageous prices, or not being able to perform transactions in the market due to deterioration of market situations.

As for managing market liquidity risk, we set limits for issue holdings to manage risk in accordance with an analysis of the market's trading conditions. This ensures a certain degree of market liquidity.

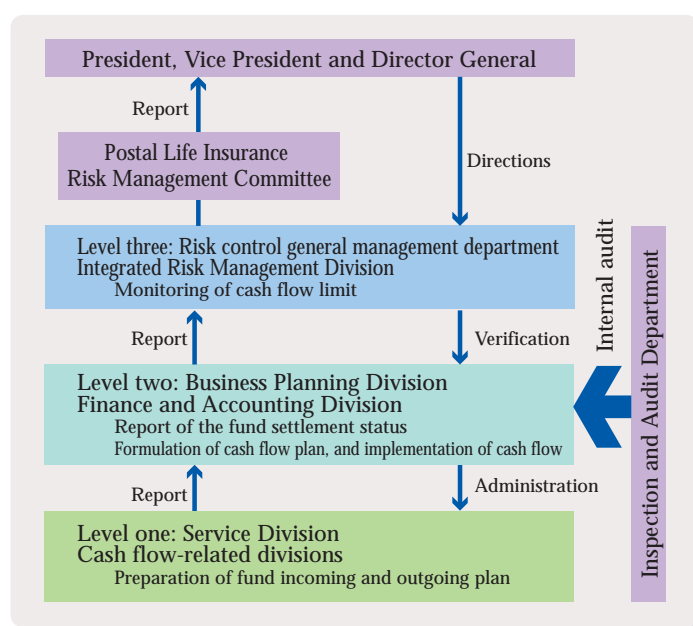
## (3) Cash Flow Risk

For the management of the life insurance business, it is necessary to receive and pay funds from and to customers and business partners, including payment of claims, etc. and investment of funds. When trouble is caused to fund settlement when we receive and pay funds, we would not only cause trouble to the persons concerned but also be unable to operate the business itself.

Against this backdrop, Postal Life Insurance sets reserve amounts for incoming and outgoing insurance premiums and claims and incoming and outgoing investment funds for the fund management in the Postal Life Insurance Business, so that such incoming and outgoing of funds would not be hindered. Securing these reserves ensures an appropriate management of cash flow risk.

To manage this risk, Postal Life Insurance defines classifications according to the tightness of financing, and it sets, manages and monitors the reserve limits for each of these classifications so that no impediments occur to fund management.

## Management System for Cash Flow Risk

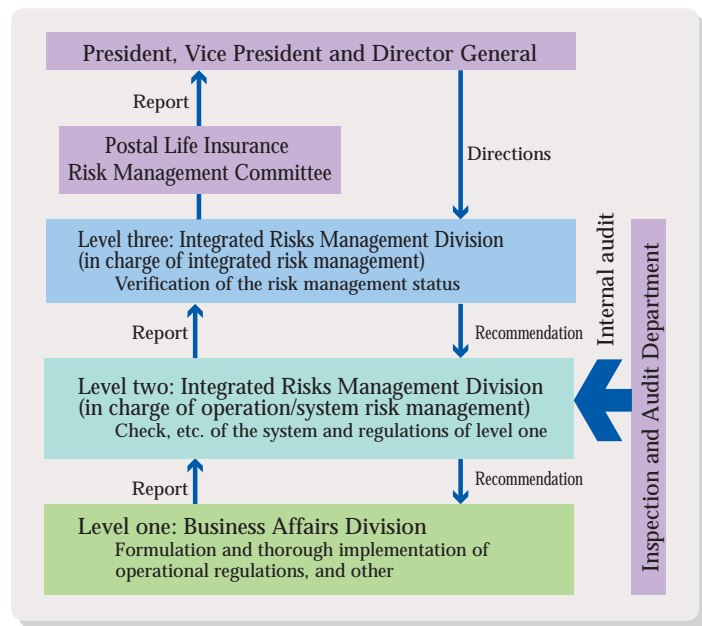


#### (4) Operation Risk

If accidents in handling business operations, etc. occur, we would not only put customers to much trouble, but also lose customers' trust in Postal Life Insurance. Under such circumstances, the Business Affairs Division, or level one, ascertains incidents that have occurred in the past or that could be accrued, and establishes office regulations to ensure appropriate business transactions, and also strives to raise awareness and educate employees. In addition, the Integrated Risks Management Division (in charge of operation/system risk management), or level two, examines the operation risk management system of level one and conducts surveys as necessary in the event that problems do occur. This system works as mutual checks and balances.

The Integrated Risks Management Division (in charge of integrated risk management), or level three, verifies the effectiveness of risk management, and regularly reports the management status of operation risks to the Postal Life Insurance Risk Management Committee, jointly with level two.

#### Management System for Operation Risk



#### (5) Computer System Risk

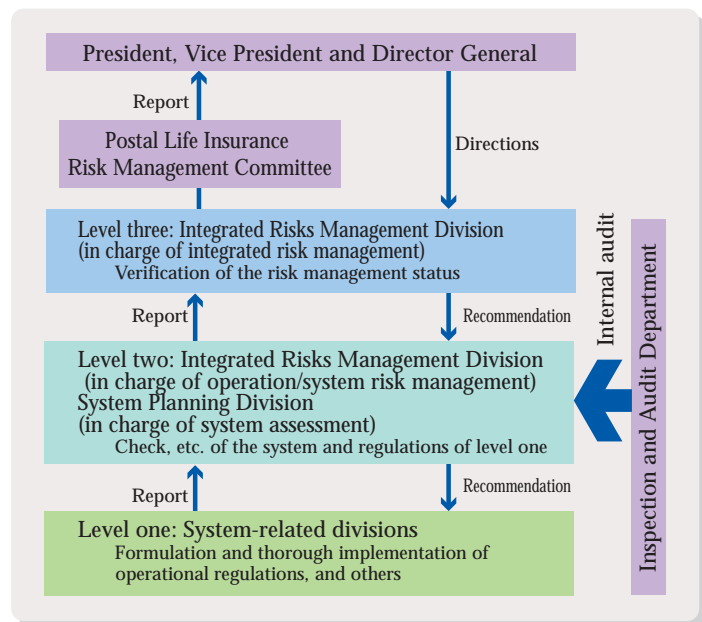
Currently, a large part of business operations is dependent on information systems. When a system goes down or other major troubles occur, we would put customers to much trouble and lose customers' trust in postal life insurance just as when operation risk is revealed. Against this backdrop, we have set up two main computer centers with electronic computing systems, each in eastern and western Japan. We have also formulated a manual with guidelines on responding to severe interruptions in our computing system. Thus we have established a structure enabling a quick response to system risks.

Furthermore, we carry out a variety of security measures and strive to thoroughly secure information assets, based on the Japan Post's Policy on Information Security.

At the same time, the Integrated Risks Management Division (in charge of operation/system risk management) and the System Planning Division (in charge of system assessment), which are level two, verify whether system management is properly implemented by system-related divisions, or level one, and strive to reduce system risks using a system of checks and balances.

The Integrated Risk Management Division (in charge of integrated risk management), or level three, verifies the effectiveness of risk management, and regularly reports the management status of computer system risks to the Postal Life Insurance Risk Management Committee, jointly with level two.

#### Management System for Computer System Risk



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## 4. Risk Management in Postal Business

The Postal Business endeavors to prevent accidents and irregularities to ensure that the important letters and parcels customers entrust to us are delivered safely, and toward this goal, has also established a reporting system. If an accident should occur, we endeavor to ensure a speedy solution to the situation.

### (1) Risk Management System

We secure a system of checks and balances within the Postal Business Headquarters, while all divisions and offices within the headquarters manage risks involved in the operations of which they are in charge.

The general manager of the Operations Supervision Division is responsible for comprehensive coordination, such as drawing up of risk management conditions at the Postal Business Headquarters.

### (2) Risk Management Methods

In order to manage risks effectively and in line with its characteristics, the Postal Service manages risks in accordance with the "Postal Service's Basic Policy for Risk Management," which stipulates the basic functions of the management system.

All divisions and offices within the Postal Business Headquarters ascertain the risks involved in the operations of which they are in charge, evaluate these risks, and then devise necessary countermeasures based on their assessment.

The general manager of the Operations Supervision Division requests reports on risk management conditions in all divisions and offices as needed to ensure the appropriateness and effectiveness of risk management. After examining the results, the general manager provides guidance on improvements as necessary.

#### Management Classification of Risks Involved in Postal Service

Risk	Definition
Operation risk	Risk of incurring loss due to improper handling of business operations, negligence in the performance of work by employees or accidents, unlawful actions, etc. caused by employees
Computer system risk	System risk resulting in losses due to failure of information systems, unauthorized use of them, and the like

## 9. Information Security

Currently, many customers are using Japan Post's Postal, Postal Savings and Postal Life Insurance Services, and hence, we deal with huge amounts of information about these customers. We consider that such information should be strictly managed and handled. We also believe that the services they use should be safe. In order to offer services that customers can have confidence in, we are striving to pay special attention to information security, which we consider important. For this, we will safeguard customer information against unauthorized access, loss or accidents and disasters, and we will safely manage this information. To achieve this, we will focus on the following matters:

1. To promote information security, we will formulate Japan Post's Policy on Information Security and carry out this policy.
2. We will continually deepen our understanding of the importance of information security and enhance our awareness of such security, through continuous education of information security.
3. We will maintain and heighten information security, by reviewing and improving necessary measures through continuous inspections.

# 10. Personal Information Protection Efforts

Japan Post has established “Policy on the Handling of Personal Data” (Privacy Statement) and strictly manages personal data under this policy.

The policy is made public in Home of Japan Post on the internet.

## Policy on the Handling of Personal Data

Japan Post recognizes that the protection of personal data is an important element in the provision of high-quality services that meet with the full satisfaction of our customers. It has therefore implemented the following personal data protection policy.

- 1. Collection of personal data**  
To conduct transactions with customers in a reliable way, Japan Post only collects the personal data from customers that is necessary to provide excellent products and services. This data is collected and stored in a proper and secure manner.
- 2. Clear indication of how the data will be used**  
Japan Post clearly indicates the purpose for which personal data is collected in written form, (except in simple cases when the purpose is obvious), and uses the data only within the scope of the stated purpose.
- 3. Protection of personal data**  
Japan Post assigns an official at each post office, Postal Savings Operations Center, and Postal Life Insurance Operations Center, as well as at all other Japan Post organizations, to be responsible for the handling of customers’ personal data at that site. The official is charged with implementing appropriate measures to prevent unauthorized access to the personal data, or the destruction, tampering with, or leaking of the data.
- 4. Accuracy of personal data**  
Japan Post devises appropriate measures to ensure that customers’ personal data is accurate and up-to-date within the scope of the purpose of its use. In addition, to protect the interests of customers, Japan Post responds to customers’ requests to view and/or revise their own personal data that is held by Japan Post.
- 5. Provision of personal data to third parties**  
Japan Post only provides personal data to a third party in one of the following cases, and only to the extent necessary to ensure the sound operation of Japan Post:
  - When the customer him/herself agrees to the information being provided
  - When Japan Post is compelled to provide the personal data by law
  - When Japan Post commissions services from a third party and when a confidentiality agreement has been concluded with that party to protect customers’ personal data.
- 6. Observance of laws and regulations**  
To ensure the thorough protection of personal data, Japan Post observes relevant national laws and regulations, as well as its own internal rules, and takes every precaution in the handling of personal data.
- 7. Ongoing improvements**  
To maintain and improve the proper protection of personal data, Japan Post reviews its internal rules on an ongoing basis and always strives to maintain the best possible system of personal data protection.

# 11. Efforts of JPS

## 1. Postal Service Business

### (1) Our Past Efforts

Japan Post has been striving to improve productivity and security, provide quality services to customers and enable employees to work with satisfaction by reviewing the entire process of operations, from the receipt, collection of mail right through to its transport and delivery, and has also made efforts to eliminate waste, irregularities and irrationalities from the system. To achieve this, we have applied the JPS to Koshigaya Post Office in Saitama Prefecture since January 2003.

We divided 1,000 post offices (ordinary post offices) nationwide into groups in fiscal 2004, and focused on the following measures:

- 1) Thoroughly implementing a practice of tidying and cleaning, which is the basis of creating a comfortable, safe and efficient working environment;
- 2) Thoroughly implementing the practice of having standardized work, under which everyone handles a “set amount of work” “within a set amount of time” “according to a set operation process”; and
- 3) Clarifying the overall workload and time required by establishing on “original unit” through division of standardized work into a “set amount of work” – 15 minutes – as well as standardizing working processes and reviewing staff assignment to assign staffers corresponding to the workload.

To further push forward with our efforts, we selected 112 regional post offices as core offices and intensively implemented improvement measures in fiscal 2005. Neighboring post offices also took part in the intensive improvement, and enhancement was carried out at these post offices based on the know-how acquired through the intensive improvement.

### (2) Efforts in Fiscal 2006

In fiscal 2006, we continued to implement intensive improvements at core post offices, eliminating surplus staff through correction of the unevenness, aimed at assigning staff corresponding to the daily workload, and changes in working shift, and we also worked on the following measures:

- 1) Further clarifying the progress/delay in delivery work and utilizing the clarification in daily work assistance directions;
- 2) Improving efficiency of delivery work, which is highly dependent on human resources, by implementing regular training to workers in route composition, etc.; and
- 3) Improving efficiency of collection work through review of working hour zones and collection courses in accordance with the peak time zone of acceptance volume and the number of collection points.

As a result, we have produced successes in reducing personnel expenses, achieving a 5.1% year-on-year decrease (target: 5.0% decrease) in working hours as of the end of March 2007.

#### Improvement example in the Collection, Delivery and Marketing Section



Group meeting of the Collection, Delivery and Marketing Section, utilizing the work progress management board

- The progress status of work by delivery district indicated on the board
- The progress status in each delivery district checked by all group members before starting delivery in the afternoon, and utilized in work directions, including assistance

### (3) Future Efforts

In fiscal 2007, we will strive to steadily improve productivity (reduction of cost) by following up on improvement measures at core post offices, which are bases for regional improvement, expanding the measures laterally and making improvement activities take root among employees through fostering of personnel in charge of improvement and block improvement support.

## 2. Postal Savings Business

In the Postal Saving Business, we constantly strive to improve post office counters by applying the production system used by Toyota Motor Corp. as part of JPS. To this end, our Postal Savings employees are working tirelessly to improve customer services, business quality and productivity by examining the convenience of customer lobbies and the current administrative processes at their workplace and using creativity and ingenuity to make continuing efforts to improve operations at post office counters as a whole.

Employees at Postal Savings Operations Centers are also working on JPS in a similar way. They are improving the efficiency of operations by reviewing work processing methods and through other measures.

By repeatedly implementing the above efforts, we will create post office counters that can be utilized easily by customers and revitalize the workplace to make it a place that provides job satisfaction.

### Specific Efforts at Post Offices

#### Improvements of the customer lobby

Review of the way forms are placed on entry counters has made it possible to choose the correct form by the "number" of the form.

Before improvement



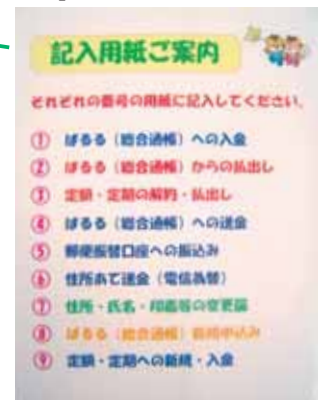
After improvement



- Forms stored by number



- Explanation of each number



Review of the arrangement of objects such as entry counters has made it easier for customers to utilize offices.

Before improvement



After improvement



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### Improvement within offices

Together with changes in the layout of offices to ensure better queueing and other measures, classification of drawers to store various forms by color and setting of storage space according to the frequency of use mean customers now spend less time locating the correct form.

Before improvement



After improvement



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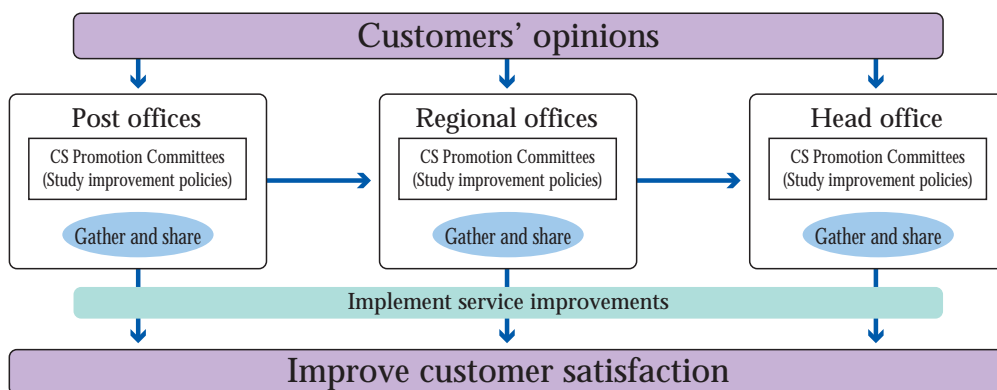
## 3. Postal Life Insurance Business

In the Postal Life Insurance Business, as part of JPS (efforts to improve productivity by applying the production system of Toyota Motor Corp.) at post offices and Postal Life Insurance Operations Centers, each employee is making efforts to improve productivity as well as enhance and strengthen the business management base by examining workplace administrative processes and operating environments and using creativity and ingenuity to make continuing efforts for improvement and reform.

## 12. Improving Customer Satisfaction

As one of the most important issues in the management of the public corporation, Japan Post has established CS Promotion Committees at post offices, regional offices and the Japan Post headquarters to urgently gather opinions and comments from customers, and from the employees who have the most direct contact with customers, and to quickly reflect those opinions and comments in improved services and operations.

In addition to local post offices, which respond directly to customer opinions and demands, Japan Post has established assistance and consultation windows, and customers can also make comments on the phone or via e-mail. Basically, these centers are intended to respond to customer concerns regarding each respective institution, and to refer insoluble problems to the headquarters CS Promotion Committees for investigation and discussion, to ensure positive and swift improvement in customer services. Japan Post actively listens to customers' opinions in order to provide excellent service as a professional in its line of business.





# 13. Using Surplus Space in Post Offices

To improve convenience for post office customers, Japan Post is actively leasing surplus space in post offices and other places.

## 1. Leasing of Space in Post Office Buildings

Example of surplus post office space being leased to private-sector businesses:

Lease Period	Details of Lease Participating	Post Offices
May 2003	Gallery, concert hall	Shimonoseki Nabe-cho Post Office
August 2003	Convenience store (Lawson)	Yoyogi Post Office Aobadai Post Office
October 2003	Tourist goods sales counter	Kakunodate Post Office
November 2003	Stationery sales counter	Nagano Central Post Office
November 2003	Japanese confectionery sales counter	Matto Post Office
August 2004	Convenience store (Lawson)	Japan Post Hokkaido Office
October 2004	Convenience store (am/pm)	Hongo Post Office
September 2005	Travel agency (JTB)	Shibuya Post Office
May 2006	Convenience store (Lawson)	Aoba Post Office
December 2006	Convenience store (Lawson)	Hiroshima-Higashi Post Office



## 2. Development of Soft Drink Vending Machines at Post Offices

Soft drink vending machines have been installed in post office lobbies and other places since March 2004, in tie-ups with many different manufacturers.

### Vending Machine Features:

- A good mixture of products selected without any bias toward any particular manufacturers, a diverse choice offered to customers
- A unique color design (five colors) based on a traditional Japanese style
- Cutting-edge, environmentally friendly, and energy-saving vending machines are adopted
- A space below the drinks window to attach post office notices, and the like



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# 14. Partnerships with Private Sector Operators

## 1. Alliances with Convenience Stores

The Post Office has formed alliances with convenience stores, and placed post boxes inside the stores for the collection of postal items, in addition to using the convenience stores as pick-up points for Yu-Pack items.

### List of Tie-ups

Launch date	Overview of alliances	Partners
January 2003	<ul style="list-style-type: none"> <li>Postboxes established in all Lawson stores nationwide (about 7,700 outlets)</li> </ul>	Lawson, Inc.
December 2003	<ul style="list-style-type: none"> <li>Post boxes established in Circle K and Sunkus stores situated in Aichi, Gifu, Shizuoka and Mie Prefectures (about 1,400 outlets)</li> </ul>	Circle K Sunkus Co., Ltd. <sup>(Note 1)</sup>
April 2004	<ul style="list-style-type: none"> <li>Postboxes established in Circle K and Sunkus stores situated in prefectures other than Aichi, Gifu, Shizuoka and Mie Prefectures (about 3,300 outlets)</li> </ul>	Circle K Sunkus Co., Ltd. <sup>(Note 1)</sup>
June 2004 <sup>(Note 2)</sup>	<ul style="list-style-type: none"> <li>Pilot program for Yu-Pack collection introduced in some directly operated Daily Yamazaki stores (16 outlets in Tokyo) and some directly operated am/pm stores (10 outlets in Tokyo)</li> <li>Postboxes also established in those stores</li> </ul>	Daily Yamazaki Co., Ltd. am/pm Japan Co., Ltd.
November 2004	<ul style="list-style-type: none"> <li>Yu-Pack collection service introduced in Lawson stores nationwide (about 7,900 outlets)</li> </ul>	Lawson, Inc.
June 2005	<ul style="list-style-type: none"> <li>Yu-Pack collection service introduced in Ministop stores nationwide (about 1,700 outlets), Daily Yamazaki stores in Tokyo (about 200 outlets) and am/pm stores in Tokyo (about 700 outlets)</li> <li>Postboxes established in Ministop stores nationwide and Daily Yamazaki stores nationwide <sup>(Note 3)</sup></li> </ul>	Ministop Co., Ltd. Daily Yamazaki Co., Ltd. am/pm Japan Co., Ltd.
July 2005	<ul style="list-style-type: none"> <li>Postboxes installed in am/pm stores situated in Ibaraki, Tochigi, Gunma, Saitama, Chiba, Tokyo and Kanagawa Prefectures (about 850 outlets)<sup>(Note 3)</sup></li> </ul>	am/pm Japan Co., Ltd.
September 2005	<ul style="list-style-type: none"> <li>Yu-Pack collection service introduced in Daily Yamazaki stores located in prefectures other than Tokyo (about 1,700 outlets) and am/pm stores located in prefectures other than Tokyo (about 700 outlets)</li> </ul>	Daily Yamazaki Co., Ltd. am/pm Japan Co., Ltd.
November 2005	<ul style="list-style-type: none"> <li>Yu-Pack collection service introduced in Circle K and Sunkus stores nationwide (about 6,300 outlets)</li> </ul>	Circle K Sunkus Co., Ltd.
March 2006	<ul style="list-style-type: none"> <li>Yu-Pack collection service introduced in Seicomart stores nationwide (about 990 outlets)</li> </ul>	Seicomart Company, Ltd.

Note 1: C&S Co., Ltd. at the time of launch.

Note 2: Started when the store had been ready.

Note 3: Excludes the stores which have already a post box in the same site.

## 2. Tie-up with Oriental Land Co., Ltd.

Under a business alliance formed between Japan Post and Oriental Land Co., Ltd. in December 2003, Japan Post took the following activities.

Oriental Land Co., Ltd. launched Kodomo Post House for the sale of stamps and postcards, acceptance of Yu-Pack parcels, and sale of original goods for children in May 2004.



# 15. Environmental Efforts

When Japan Post was founded, it established The Japan Post Declaration on the Environment (please see p.53), representing Japan Post's commitment to run its operations in an environmentally-friendly way. In addition, Japan Post has put into practice its plans and specific measures, thus translating The Japan Post Declaration on the principles and policies of Environment into reality.

## 1. The Japan Post's Eco Plan (The Japan Post's Medium-term Plan for the Environment)

The Japan Post's Eco Plan, "The Japan Post's Medium-term Plan for the Environment" is a medium-term plan for the three-year period from fiscal 2004 through fiscal 2006 and incorporates targets and activities to achieve its environmental measures. To achieve the goals of the plan, we have formulated and worked on "Eco Action Plan (Environmental Action Plan)," a single-year plan for numerical targets and measures for reducing electricity consumption, photocopier paper and the use of water, in each fiscal year, and have strived to achieve the targets. The content of the Japan Post's Eco Plan, the final results at the end of fiscal 2006 and major measures implemented are as follows.

### (1) Reduction in Environmental Burdens (Overall)

Area	Targets to achieve	Final results/Measures implemented and others
(Overall)	Cut CO <sub>2</sub> emissions in fiscal 2006 by 2.2% compared to fiscal 2002 levels	Cut CO <sub>2</sub> emissions by 3.4% compared to fiscal 2002 levels <sup>(Note)</sup>

Note: Estimated figure based on the sampling research.

### (2) Efforts to Decrease Environmental Burdens

Area	Targets (points to be achieved over three years to achieve)	Final results/Measures implemented and others
1. Energy and resource conservation	<p><b>Conservation of energy, such as electricity and gas, at facilities</b></p> <ul style="list-style-type: none"> <li>Cut electricity consumption by 6% (relative to fiscal 2002 levels [same below])</li> <li>Reduce fuel consumption by 8% Conserve</li> </ul> <p><b>Resources such as paper and water</b></p> <ul style="list-style-type: none"> <li>Reduce photocopier paper usage (per employee) by 25%</li> <li>Reduce water usage by 5%</li> </ul>	<p>[Final results] <sup>(Note)</sup></p> <ul style="list-style-type: none"> <li>Cut electricity consumption by 6.4% (relative to fiscal 2002 levels [same below])</li> <li>Reduce fuel consumption by 11.5%</li> <li>Reduce photocopier paper usage (per employee) by 13.5%</li> <li>Reduce water usage by 18.1%</li> </ul> <p>[Measures implemented]</p> <ul style="list-style-type: none"> <li>Ensure promotion of energy conservation at 683 sites that have undergone energy conservation assessment</li> </ul>
2. Upgrading post offices	<p><b>Set up post offices that are environmentally friendly (Eco Post Offices) CO<sub>2</sub> emissions per unit area</b></p> <ul style="list-style-type: none"> <li>Cut emissions by 13% when building new post offices</li> <li>Cut emissions by 6% when making large renovations</li> </ul>	<p>CO<sub>2</sub> emissions per unit area</p> <ul style="list-style-type: none"> <li>Cut emissions by 27% when building new post offices</li> <li>Cut emissions by 15% when making large renovations</li> </ul>
3. Commodity procurement	<p><b>Targets for specified procurement goods referred to in the Law on Promoting Green Purchasing</b></p> <ul style="list-style-type: none"> <li>100% target for all commodities</li> </ul>	<p>[Measures implemented and others]</p> <ul style="list-style-type: none"> <li>Introduce procurement by catalog</li> <li>Ensure to maintain appropriate inventories of goods and other items</li> <li>Reduce amount of resources used in packaging goods</li> </ul>
4. Logistics	<p><b>Encouragement of environment-friendly distribution by introducing low-emission vehicles and shifting to an improved distribution system</b></p> <ul style="list-style-type: none"> <li>(Reduce CO<sub>2</sub> emissions by 4.1% for each ton of postal items)</li> <li>(Cut total nitric oxide (NO<sub>x</sub>) emissions by 6.3% from four-wheel vehicles owned by Japan Post)</li> </ul>	<p>[Measures implemented and others]</p> <ul style="list-style-type: none"> <li>Reduce CO<sub>2</sub> emissions by 23.9% for each ton of postal items</li> <li>Cut total nitric oxide (NO<sub>x</sub>) emissions by 6.2% from four-wheel vehicles</li> <li>Switch our 308 vehicles to low-fuel consumption and ultra low-emission ( ) vehicles</li> <li>Introduce 58 two-ton hybrid vehicles</li> <li>Cut 1,911 two-wheeled motor vehicles</li> </ul>
5. Reduction in waste matter	<p>Promote the 3Rs ("Recycle, Reuse and Reduce") and cut back on waste matter</p>	<p>[Measures implemented and others]</p> <ul style="list-style-type: none"> <li>Promote active 3Rs at post offices, and other places</li> <li>Recycle all postcards and stamps exchanged at post offices</li> <li>Cut garbage emissions at Policyholder Welfare Facilities by 20.8%</li> </ul>
6. Social contributions made in environmental area	<p>Encourage environmental conservation activities in local communities</p>	<p>[Measures implemented and others]</p> <ul style="list-style-type: none"> <li>Implement tree planting, voluntary cleaning and other activities at post offices nationwide mainly during the environmental month</li> </ul>

Note: Estimated figure based on the sampling research.

### (3) Foundation of Promotion of Environmental Policies

Area	Targets to achieve	Final results/Measures implemented and others
1. Promotional system	Implement regular environmental conservation patrols and self-checks to establish and upgrade environmental measures at the Japan Post head quarters, regional offices and post offices	[Results of environmental conservation patrol in FY2006] <ul style="list-style-type: none"> <li>Implement 76.6% practice of regular (four times a year) environmental conservation patrols</li> <li>Check 81.2% of all the check items</li> </ul> [Results of Self-check in FY2006] <ul style="list-style-type: none"> <li>Implement 76.2% practice of regular (two times a year) self-check</li> <li>84.4% employees participation in these self-checks</li> </ul>
	Build and operate the environmental management system (EMS) to autonomously deal with environmental measures on a continuous basis <ul style="list-style-type: none"> <li>Attain ISO 14001 certification at model post offices</li> <li>Prepare manual based on the environmental management system (EMS) created at model post offices and expand to all post offices</li> </ul>	[Measures implemented and others] <ul style="list-style-type: none"> <li>Attain ISO 14001 certification at 77 post offices nationwide: including regional sorting offices and sorting offices (March 2007)</li> <li>Expand the penetration and establishment of the Japan Post environmental management system (EMS) by implementing specific efforts such as clarifying role sharing</li> </ul>
2. Education and training	Promotion of training in environmental matters for employees and heightened awareness of environmental matters in the workplace	[Measures implemented and others] <ul style="list-style-type: none"> <li>Addition of environmental education to training topics</li> <li>Publish an environmental article in JAPAN POST bulletin "Yusei"</li> <li>Use Japan Post's "Environmental Grand Prize" to pay tribute to post offices and showcase especially praiseworthy examples</li> <li>Create posters and videos for training for employees</li> </ul>
3. Public relations	Actively disseminate Japan Post's environmental efforts through the environmental report and website	[Measures implemented and others] <ul style="list-style-type: none"> <li>Prepare "Environmental Report 2006", release it on the website and make it available at post office counters</li> <li>Create environmental posters for public relations with customers</li> <li>Present original logo "Hybrid Vehicle" upon introduction of hybrid vehicles</li> </ul>
4. Understanding environmental burdens and so on	Build a system to count data on environmental burden and so on Quantitatively understand the status of the environmental burden and so on of Japan Post as a whole	[Measures implemented and others] <ul style="list-style-type: none"> <li>Build "Environmental data count system" (April 2006) and utilize it effectively to various environmental policies</li> <li>Promote and manage numerical targets drawn up under The Japan Post's Eco Plan</li> <li>Promote and manage progress at post offices and other facilities</li> <li>Accurately fulfill obligations for governmental reporting under various laws</li> <li>Assess the performance of branch offices in the terms of environmental policies</li> <li>Understand basic data in preparation for the introduction of environmental accounting</li> </ul>

### (4) Promotion of the Plan

Area	Targets to achieve	Final results, measures implemented, etc.
1. Environmental Action Plan for the fiscal year	Formulate "Environmental Action Plan" of the Japan Post as a whole, including specific measures for the said fiscal year, in order to specifically promote this plan	[Measures implemented, etc.] <ul style="list-style-type: none"> <li>Formulate and work on "Environmental Action Plan" in each fiscal year at each facility, including post offices</li> </ul>
2. Progress management	Inspect and review the progress status every year at the Environmental Committee of the head office in order to steadily push forward with this plan	[Measures implemented, etc.] <ul style="list-style-type: none"> <li>Check the progress status of the Environmental Action Plan half-annually at the Environmental Committee, and reflect the assessment results in the Environmental Action Plan of the next fiscal year</li> </ul>

## 2. Topics on Environmental Measures

### (1) Attainment of ISO14001 Certification

In addition to 27 post offices that had already attained ISO 14001 certification, an international standard of environmental management, 50 regional post offices and postal intensive offices nationwide obtained the certification in March 2007, which brought the total of post offices with the certification to 77.

The other post offices introduced the "Japan Post environmental management system," which was standardized based on ISO 14001, and have been continuously making efforts for improvement, including reduction of environmental burdens.

### (2) Equipping Low-emission Vehicles

Complying with the Law Concerning the Promotion of Procurement of Eco-Friendly Goods and Services by the State and Other Entities ("Green Procurement Guidelines"), Japan Post has been promoting the introduction of ecofriendly low-emission vehicles.

In fiscal 2006, Japan Post deployed 308 light four-wheel vehicles (ultra low-emission vehicles ( )) and 5 two-ton trucks (hybrid vehicles).

### (3) Operation of System to Grasp Data on Environmental-related Measures

Japan Post started operations of “system to grasp data on environmental-related measures” at postal offices nationwide and such facilities as the Postal Service Training Center” and Postal Services Agency Hospitals. The system records monthly actual data such as amounts and costs of utility, including electricity, gas and water, their charges, amount of copy paper used, emissions of wastes and amount of fuel supplied to collection and delivery vehicles. The system can grasp the emission status of environmental burdens of Japan Post as a whole by totalizing recorded data and converting them into CO<sub>2</sub> emissions. It is also utilized by post offices for managing the progress in their plans. Thus, the system serves as a basic system for environmental policies of Japan Post.

### (4) Use of Yu-Pack for Items Collected in Household PC and Used Fire Distinguisher Recycling System

#### a) Household PC recycling

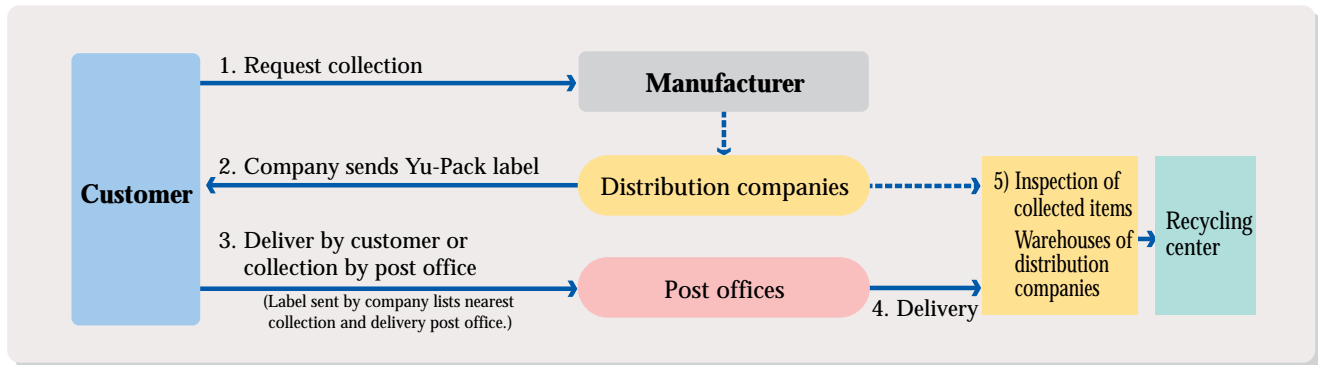
Starting from October 1, 2003, Japan Post started collecting used family PC units as Yu-Pack in cooperation with distribution companies.

Specifically, the manufacturers who are the main collectors submitted a plan concerning the collection of used home computers that was authorized by the Ministry of Environment. Post offices (Japan Post) are designated as “general waste collectors and transporters,” as specified in the Waste Management and Public Cleaning Law.

The number of used home computers we collected for recycling was about 310,000 in Fiscal 2006. (Source: PC 3R Promotion Center)

#### b) Household fire extinguisher recycling

Starting from October 2, 2006, Japan Post started collecting used household fire extinguishers as Yu-Pack in cooperation with distribution companies, in response to requests of customers for easier collection and reuse of used home fire extinguishers. (Collected fire extinguishers are recycled as recycled fire extinguishing agent.)



### (5) Creating of Eco Post Offices

When Japan Post builds new post offices, expands existing post offices or carries out significant renovations, it will create Eco Post Offices (environment-friendly post offices) with environment-friendly technology and methods.

Odawara-Higashi Post Office (in Odawara City, Kanagawa Prefecture), completed in 2001, as an experimental office to become an Eco Post Office has cut CO<sub>2</sub> emissions an average of about 45% compared to post offices of an equivalent size, while its annual target is 30%.

Japan Post is shifting to Eco Post Offices, through trial operations, with a view to cutting CO<sub>2</sub> emissions by 20% when building new post offices and by 6% when making large renovations. A total of 208 Eco Post Offices have been completed.

208 Eco Post Office cut CO<sub>2</sub> emissions per floor unit per year (average) around 27% in newly built offices and around 15% in largely renovated offices.

### (6) Use of Recycled and Non-wood Paper for Postcards

To help conserve forest resources and preserve the global environment, Japan Post has issued postcards made of recycled paper since 1993 for traditional summer greeting cards (Kamo-Mail), since 1996 for New Year’s cards, and since 2003 for conventional postcards and reply-paid postcards.

# 16. Relationships with Local Communities

Japan Post is striving to live together with local communities, as a basic lifeline of social life that supports local communities. To that end, we engage in local development and business operations for regional public organizations, mainly through post offices.

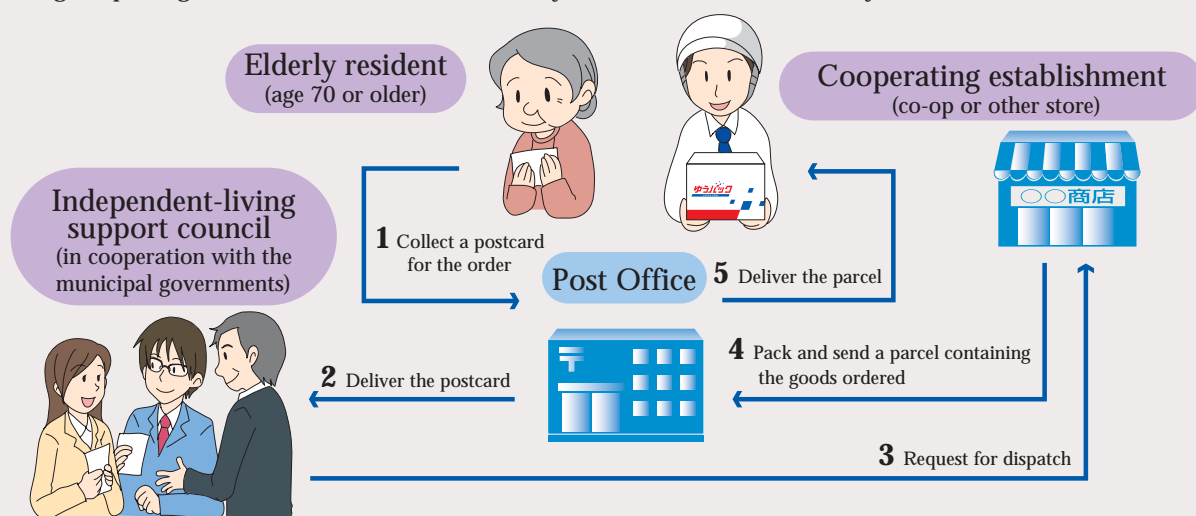
## Main Efforts

Efforts/Service	Summary
Responsibilities to Local Governments	Post office counters are now involved in issuing identification, such as copying residence certificates, and also selling bus coupon tickets. External postal employees also provide information on the illegal disposal of waste.
Submitting Requests for Copies of Residence Cards and Other Documents	The postal system offers a service that allows the public to apply for copies of residence cards, as well as certified copies and extracts of official registers.
Furusato (Hometown) Parcels	Furusato Parcels service allows the public to select local specialties from around the country by product catalogs and leaflets at Post Offices and have them delivered directly via Yu-Pack.
Himawari Services for the Housebound Elderly	The Postal Service has been promoting a support system called Himawari Services that provides assistance related to the basic daily needs of elderly housebound individuals. The objective of this program, which is a joint effort undertaken by post offices, local governments, and such organizations as social welfare councils, is to create a society in which it is easier for elderly residents of sparsely populated areas to continue living at home.
Disaster Management Agreement with Local Authorities	Japan Post establishes cooperative relationship with local governments and calls for close reciprocal communication and cooperation under the Japan Post Disaster Management Operations Plan. (as of the end of fiscal 2006 agreements had been concluded with 1,477 municipalities)

## Himawari Services

Under Himawari Services, postmen provide elderly people with a few words of encouragement and pick up outgoing mails on their delivery routes. In addition, postmen collect orders for daily necessities and then deliver these items. Another component of Himawari Services is the periodic distribution of cheerful messages from schoolchildren and other wellwishers. This system is in principle designed for individuals or couples who are 70 years old or above who living by their own. Launched in August 1997, the Himawari Services program was available in 151 municipalities as of March 31, 2007.

Image depicting the collection of orders for daily necessities and the delivery of these items



# 17. Social Contribution Activities

Japan Post is entrusted with an important mission in contributing to each individuals prosperity and the affluence of society as a whole by providing basic living services indispensable to everyday life, including postal service, postal savings and postal life insurance, to customers through post offices located from coast to coast across the country. To fulfill this mission, Japan Post is working on social contribution activities in various ways.

## 1. Social Welfare Contributions

Japan Post provides social welfare support in various fields, such as special services, postage discounts, exemption from postage and preferential interest rates to the disabled as well as promotion of employment of the disabled.

- **Postage Discounts for the Disabled**
- **Free Distribution of Aotiori Postcards**
- **Postcards for the Visually Impaired (postcard with a semicircle cut at the left side of its right face)**
- **Exemption from Postage for Registered Mail Containing Charitable Donations and Remittance Charge for Businesses for the Purpose of Promoting Social Welfare.**
- **Issuance of New Year's Greeting Postcards and Stamps with New Year's Gifts and Charity Donations**
- **New Welfare Time Savings**
- **Nursing Care Time Savings**
- **Pension Delivery Service**
- **Various Braille Services**
- **Employment of the Disabled**

### Employment of the Disabled

Japan Post is proactively working to employ more disabled persons, hiring them for such business operations as the sorting of mail. In addition, Japan Post has been employing the mentally disabled as non-permanent employees, with 258 such challenged employees currently engaged in cleaning tasks at post offices and other facilities. Disabled employees accounted for 1.43% of the Japan Post's regular employees as of June 1, 2006, under the calculation standard established by law. Though this percentage is presently below the legally required employment rate (2.1%), Japan Post is striving to expand its employment of the disabled, so that it can achieve the prescribed rate as quickly as possible.

## 2. Actions in Emergency Situations

When natural disasters and other emergencies occur, Japan Post is committed to undertaking various measures, such as providing assistance to disaster-stricken areas, activities and services for relief of victims of disasters and exemption from postage and fees.

- **Free Distribution of Postcards and the Like to Disaster Victims**
- **Exemption from Postage for Standard Mail Items Sent by Disaster Victims**
- **Exemption from Postage and Fees for Relief Supplies and Related Mail Items Sent to the Disaster Area**
- **Charity Donations for Disaster Relief from Sales of Specially Issued Stamps**
- **Free Remittance of Disaster Relief Donations**
- **Disaster Voluntary Aid Account**
- **Emergency Handling of Insurance Contracts**

### Donations Handled for the Period of Fiscal 2006

At end of March 2007

Disaster	Period	Number of cases	Amount
Niigata Chuetsu earthquake	Since October 25, 2004 (ongoing)	3,703	63.39 million yen
Okinawa long rain and landslides	June 19, 2006 - July 18, 2006	709	6.35 million yen
July 2006 heavy rain	July 21, 2006 - September 27, 2006	9,455	110.19 million yen
Typhoon No.13	September 20, 2006 - October 19, 2006	2,453	30.71 million yen
Tornado	November 10, 2006 - February 9, 2007	8,740	125.35 million yen
Noto Peninsula earthquake	Since March 27, 2007 (ongoing)	21,360	269.10 million yen

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### 3. Activities to Improve Health

#### Promotion of Radio Taiso and Minna no Taiso

Radio Taiso (Radio Calisthenics) was initiated in 1928, and Minna no Taiso (Exercise for Everybody) was created in 1999 to commemorate the United Nations' International Year of the Elderly. Both are intended to promote and maintain the health of not just policyholders but the general public, and are aired daily on the television and radio networks of the Japan Broadcasting Corporation (NHK).

To encourage greater participation, events such as the Radio Calisthenics and Exercise for Everybody Festival for Ten Million People (held in Hiroshima-city, Hiroshima in fiscal 2006) and the Summer Radio Calisthenics and Exercise for Everybody Tour are held annually in cooperation with NHK and the National Radio Calisthenics Association.

### 4. Community Exchanges

Japan Post attends community events and holds contests and other activities as opportunities for post offices to build ties with and contribute to local communities.

- **Attend Community Events**
- **Interaction with Local Communities**
- **“My Ideal Piggy Bank” Contest**
- **The Society of Postal Life Insurance Policyholders**

#### “My Ideal Piggy Bank” Contest

Japan Post started the annual “My Ideal Piggy Bank” contest in 1975 to help instill artistic creativity in children, as well as to encourage them to save, through creating their own original piggy banks.

At the 2006 contest, about 2.08 million entries (28.9% of all pupils) from about 19,200 elementary schools (84% of all elementary schools nationwide) were collected.



### 5. Involvement in the International Community

Japan Post makes efforts to contribution to the international community through cooperation with international institutions and other organizations to realize secure universal service, fast and reliable delivery of international mail and other important services, in today's accelerating globalization.

- **The Postal Network Connecting the World Together**
- **Contribution to the UPU and Other Organizations**
- **Cooperation with the APPU**
- **Postal Savings for International Voluntary Aid**
- **Cooperation in the Introduction and Development of Foreign Postal Savings Systems**



### Postal Savings for International Voluntary Aid

Postal savings for international voluntary aid enables customers to donate all or part of the after-tax interest accrued on their Ordinary Savings or New Ordinary Savings. The donation is distributed among non-profit nongovernment organizations (NGOs) to improve the welfare of people living in developing regions, and used chiefly for basic necessities (medicine, sanitation, education, and the like). The amount distributed to non-governmental organizations up to fiscal 2007 is approximately 18.8065 billion yen.

Handling of postal savings for international volunteer aid (donation of interest) will be terminated at the end of September 2007, since the law, which serves as the grounds for such postal savings, will be abolished with the privatization of Japan Post. The collected donations will be taken over by the Incorporated Administrative Agency Management Organization for Postal Savings and Postal Life Insurance and will continue to be distributed to private aid organizations, until the funds have been dispersed.

## 6. International Exchanges

Japan Post also makes efforts in international exchanges as well as contribution to international communities.

- **Cooperation Extended on the Basis of Official Development Assistance (ODA)**
- **Acceptance of Staff Members from Overseas Postal Agencies**
- **Activities as a Member of the Universal Postal Union (UPU)**
- **Activities as a Member of World Savings Banks Institute (WSBI)**

### Cooperation Extended on the Basis of Official Development Assistance

As one element of Japan's Official Development Assistance (ODA), the Postal Services Agency offers an annual Postal Executives' Seminar for the top management of developing countries' postal services. The seminar agenda includes discussion of such topics as problems that postal administrations are facing in each country.



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