

Annual Report

# Postal Services in Japan 2007.9







## **From Japan Post to JAPAN POST GROUP**

Since its inauguration in 1871, Japan's postal business has provided services indispensable to social life, namely postal service, postal savings and postal life insurance to customers through post offices located all over the country.

With the watchword of "Macco Service" (straightforward customer oriented service), Japan Post devoted all its effort to tackle various issues, such as improvement of the services and enhancement of our management base. In October 2007, Japan Post was privatized, and embarked on a new chapter as the JAPAN POST GROUP consisting of JAPAN POST SERVICE Co., Ltd., JAPAN POST NETWORK Co., Ltd., JAPAN POST BANK Co., Ltd. and JAPAN POST INSURANCE Co., Ltd. under the holding company of JAPAN POST HOLDINGS Co., Ltd.

All officers and employees will join forces and make a unified effort to accomplish the privatization, which can be regarded as the second foundation of postal business, so that all users will be truly pleased with the results of the privatization.

# Postal Services in Japan 2007.9

## Annual Report

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With its privatization and partition, JAPAN POST was liquidated on October 1, 2007. Japan Post's last fiscal year, fiscal 2007, was the 6 months from April 1, 2007 to September 30, 2007, the day before liquidation.

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

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# 1 Highlights

## 1. Status of Operations

### 1. Overview of Postal Service

#### (1) VOLUME OF MAIL HANDLED

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In fiscal 2007, the total volume of mail handled was 10,618.11 million items, up 0.7% or 77.67 million items from the first half of the previous year.

Annual per capita mail volume was 84 items, one item more than the first half of the previous year.

An overview by mail category is as follows:

#### LETTER POST

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First-class (letters) and second-class (postcards) mail, comprising about 90% of the total volume of mail, amounted to 8,845.13 million items (first class: 5,418.68 million items, second class: 3,426.45 million items [including election-related cards]), up 0.4% (for the total of first- and second-class mail) from the previous fiscal year.

Third-class mail decreased (down 13.9% from the first half of the previous year) to 259.13 million items, due mainly to a drop in the number of periodicals that are issued three times or more per month.

Fourth-class mail totaled 13.70 million items (down 11.2% from the first half of the previous year), due mainly to a decreased number of academic publications.

Specially handled mail increased to 288.22 million items (up 2.9% from the first half of the previous year) in total, due to a rise in delivery certified mails.

As a result, the total volume of letter post handled was 9,406.18 million items, down 1.58 million items from the first half of the previous year.

#### PARCEL POST

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As for general parcels, Japan Post strove to expand its share in the small-item delivery market (total volume handled of private-sector home-delivery parcels and Japan Post's general parcels) by improving services and enhancing sales activities. As a result, the general parcels handled totaled 133.64 million items (up 6.1% from the first half of the previous year), due to an increase in the use of this service by department stores and mail-order companies.

The volume of book parcels (including simplified parcels) handled amounted to 1,046.71 million items, (up 7.4% from the first half of the previous year), thanks to a rise in the use of this service by mail-order companies and the like.

As a result, the total volume of parcel post handled was 1,180.35 million items, up 80.08 million items from the first half of the previous year.

#### INTERNATIONAL MAIL

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##### i. Outbound mail

The volume handled of letter post bound for overseas totaled 25.81 million items (down 3.9% from the first half of the previous year), while that of international express mail (EMS) increased (up 3.2% from the previous year) to 5.01 million items.

Outbound parcels handled amounted to 0.76 million items (up 6.6% from the first half of the previous year).

As a result, the total volume handled of international mail bound for overseas was 31.58 million items, down 0.84 million items from the previous year.

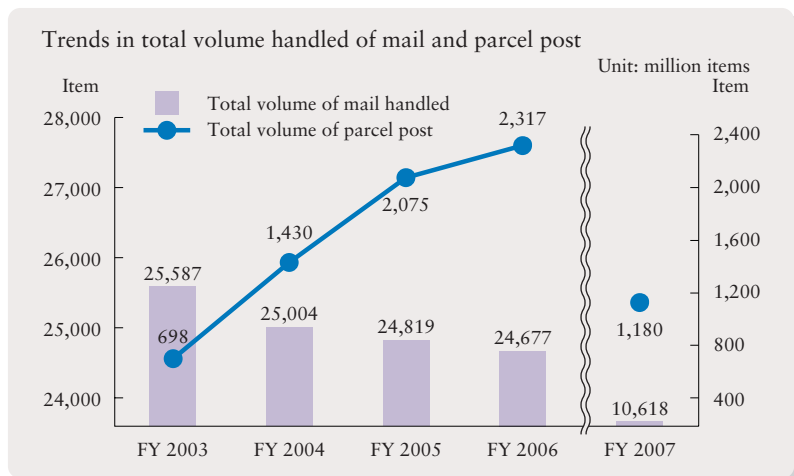
##### ii. Inbound mail

The volume handled of letter post from abroad totaled 85.20 million items, (down 8.7% from the first half of the previous year), that of inbound parcels amounted to 0.85 million items, (down 1.1% from the first half of the previous year), and that of EMS from overseas was 2.59 million items, (down 7.6% from the first half of the previous year). As a result, the total volume handled of international mail from abroad was 88.64 million items, down 8.37 million items

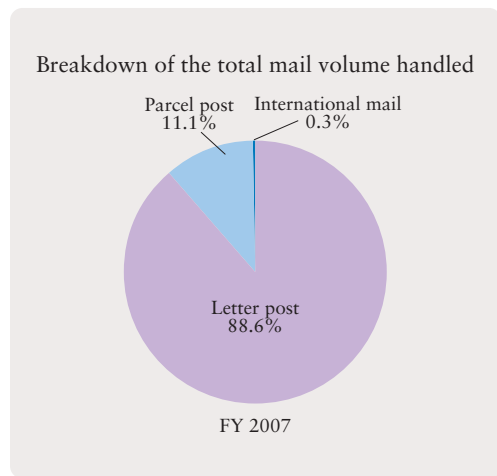


from the first half of the previous year.

### ■ Total volume handled of mail and parcel post



### ■ Total volume of mail handled



## (2) Postal Service Operating Revenues

In fiscal 2007, Postal Service operating revenues (postal charge revenue from customer, excluding internal use by Japan Post) were 833.9 billion yen, up 0.9% or 7.4 billion yen from the first half of the previous year. A breakdown by type of revenue is as follows.

### STAMP REVENUES

Stamp revenues (revenues from sales of postage stamps) were 126.4 billion yen (down 4.3% from the first half of the previous year), which comprised 121.1 billion yen in revenues from sales of ordinary stamps (down 4.4% from the first half of the previous year), due to a decline in the use of letters, and 5.3 billion yen in revenues from sales of special stamps (down 0.7% from the first half of the previous year).

### POSTCARD REVENUES

As for revenues from sales of postcards, letter-cards, international postcards, air letters and standard-size parcels (EXPACK500), sales of ordinary postcards (including summer greeting postcards, picture postcards and postcards with advertisements) amounted to 37.3 billion yen, down 2.9%.

### DEFERRED-PAYMENT FEES

Deferred-payment fees (revenues from fees for deferred-payment postal items) amounted to 494.0 billion yen, (up 3.5%), owing mainly to an increase in the use of month-discount mails.

### NON-AFFIXED POSTAGE FEES

Non-affixed postage fees (revenues from fees for postage items with non-affixed postage fees) were 166.5 billion yen, down 3.8%, due mainly to customers' shift to deferred-payment fees.

### MISCELLANEOUS POSTAL SERVICE REVENUES

Miscellaneous postal service revenues (revenues from postal business arising from postal operations other than those above, such as charges for goods sold) were 9.7 billion yen, up 70.9%.

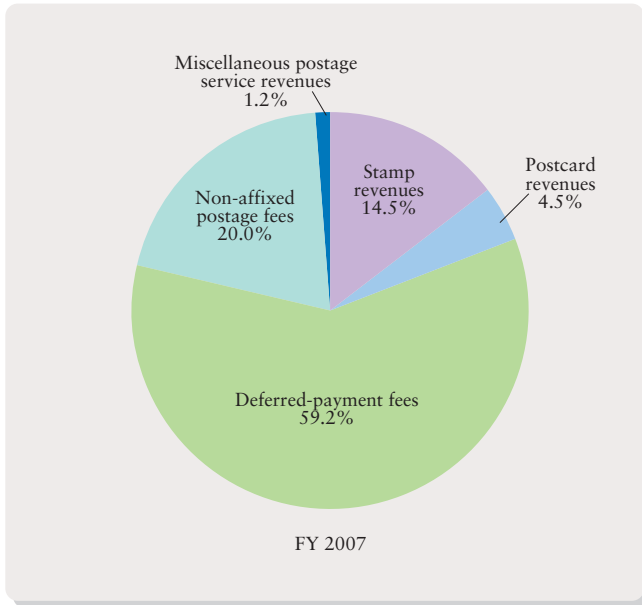
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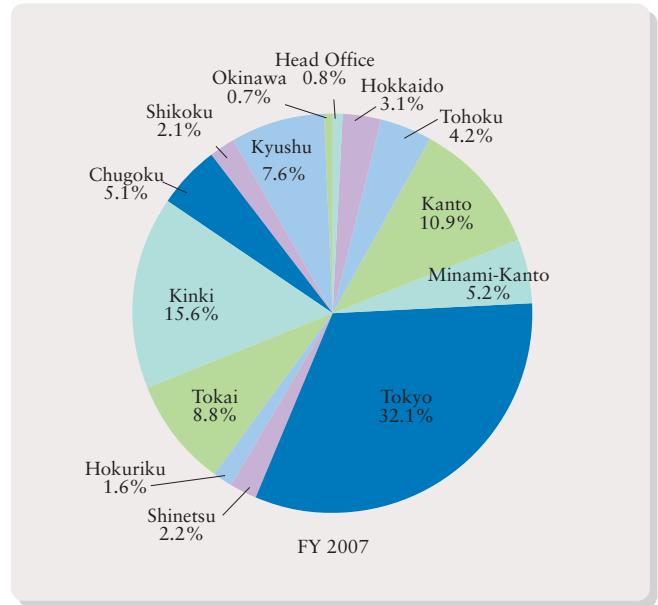
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## Breakdown of operating revenues



Refer to P.57.

## Breakdown of operating revenues by branch



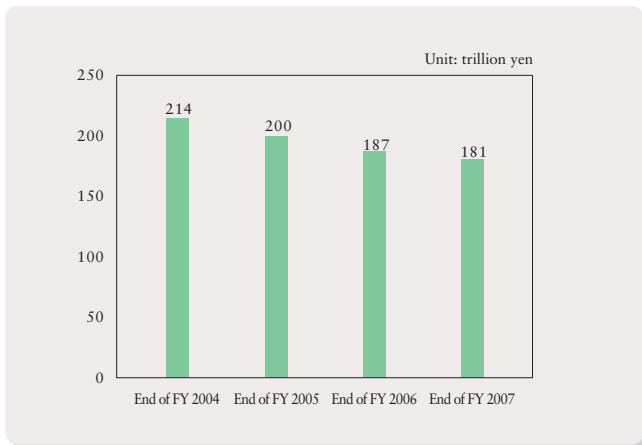
Refer to P.57.

## 2. Overview of Postal Savings Service

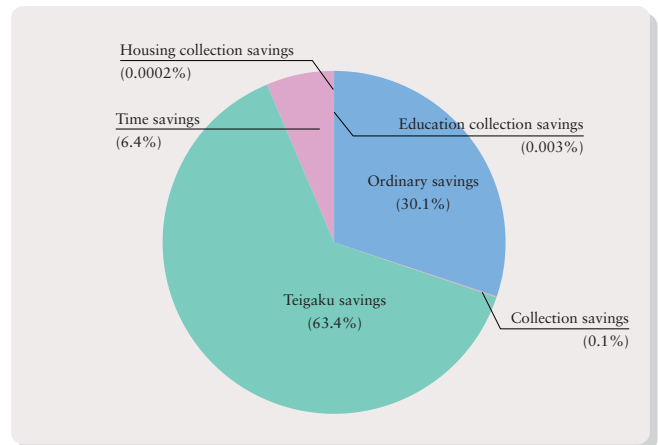
### (1) BALANCE OF POSTAL SAVINGS

The balance of postal savings continued to decrease since peaking at the end of fiscal 1999 due to the large volume of Teigaku Savings reaching maturity in fiscal 2000-2001. The balance at the end of fiscal 2007 was 180,909.9 billion yen, down 3.2% or 6,059.3 billion yen from end of the previous year.

#### Trends in the balance of postal savings



#### Balance of postal savings by type End of FY 2007



Classification	End of FY 2004	End of FY 2005	End of FY 2006	End of FY 2007
Ordinary Savings	55,705.6	56,355.4	56,108.4	54,420.1
Collection Savings	334.0	282.9	227.9	204.2
Teigaku Savings	146,440.1	135,393.1	120,994.7	114,680.1
Time Savings	11,660.1	7,962.9	9,631.7	11,599.5
Housing Collection Savings	1.5	1.1	0.6	0.4
Education Collection Savings	7.6	7.0	5.9	5.5
<b>Total</b>	<b>214,149.0</b>	<b>200,002.3</b>	<b>186,969.2</b>	<b>180,909.9</b>

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

Note 2: Ordinary Savings include New Ordinary Savings, while Teigaku Savings include Teigaku Savings for Wage Earners' Property Accumulation

## (2) MAIN SERVICE TRANSACTIONS

In fiscal 2007, there were 816.44 million postal giro transactions, down 1.3% from the first half of the previous year, and 28.74 million postal money order transactions, up 30.9%. Meanwhile, the number of affiliated service transactions, including ATM tie-up transactions, showed that there were 33,038 thousand ATM entrustment handling transactions (See Note 1), down 6.0% from the first half of the previous year.

ATM customer handling transactions (See Note 2) were up 4.4% or 52,596 thousand. Counter sales of government bonds totaled to 1,174.8 billion yen (down 14.9% from the first half of the previous year).

The sales volume of investment trusts, which Japan Post began handling in fiscal 2005, amounted to 1,165 thousand units or 356.9 billion yen, up 211.6% and 48.6% respectively from the first half of the previous year. The net asset balance was 1,008.3 billion yen, up 42.6% from the first half of the previous year.

Note 1: ATM entrustment handling transactions

The handling of deposits, payments, cashing and cashing inquiries at Postal Savings ATMs and cash dispensers nationwide using cash cards of financial institutions, such as banks, insurance companies, securities companies or credit card companies which have operational tie-ups with Japan Post (hereinafter referred to as "affiliated institutions").

Note 2: ATM customer handling transactions

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

### ■ Postal money orders and postal giros

Unit: transactions in ten thousands, billion yen

Classification	FY2004		FY2005		FY2006		FY2007	
	Number of Transactions	Amount	Number of Transactions	Amount	Number of Transactions	Amount	Number of Transactions	Amount
Postal money orders	4,098	231.7	4,833	208.8	4,392	165.0	2,874	67.1
Postal giros	157,170	74,422.6	161,686	81,340.7	163,968	83,734.8	81,644	45,549.5
In-payments	128,395	32,993.2	131,943	35,694.5	132,446	37,010.2	65,956	21,501.1
Transfers	5,805	9,633.2	6,599	11,284.0	6,823	11,269.3	3,156	5,878.1
Out-payments	22,970	31,796.2	23,144	34,362.2	24,699	35,455.3	12,532	18,170.3

### ■ Affiliated services using ATMs and cash dispensers

Unit: transactions in thousands, billion yen

Classification	FY2004		FY2005		FY2006		FY2007	
	Number of Transactions	Amount	Number of Transactions	Amount	Number of Transactions	Amount	Number of Transactions	Amount
Transactions using ATMs and cash dispensers	139,995	7,778.8	161,987	9,226.8	168,820	8,802.6	85,634	4,361.5
At post offices with cash cards issued by private banking institutions	62,883	6,146.6	70,524	7,286.0	69,149	6,758.6	33,038	3,302.0
At private banking institutions with Postal Savings cash cards	77,112	1,632.2	91,463	1,940.8	99,672	2,044.0	52,596	1,059.5
Mutual remittances	251	1,856.2	273	2,496.9	274	2,796.9	144	1,574.8

### ■ Counter sales of government bonds

Unit: billion yen

Classification	FY2004		FY2005		FY2006		FY2007	
	Underwritten	Sold	Underwritten	Sold	Underwritten	Sold	Underwritten	Sold
Long-term government bonds	200.0	199.6	300.0	295.7	400.0	180.6	76.0	58.9
Medium-term government bonds	1,598.4	1,454.0	1,698.2	1,637.2	1,795.6	1,466.3	940.0	692.4
Bonds for individuals	825.0	815.4	900.0	894.1	900.0	890.2	620.0	423.5
Total	2,623.4	2,469.1	2,898.2	2,827.0	3,095.6	2,537.1	1,636.0	1,174.8

Note: In "Postal Services in Japan 2007," Japan Post failed to book some sales figures for fiscal 2005 (that is, 300 million yen in long-term government bonds and 900 million yen in medium-term government bonds), which was corrected in this report as shown above.

### 3. Overview of Postal Life Insurance Service

#### (1) NEW OR IN-FORCE POLICIES

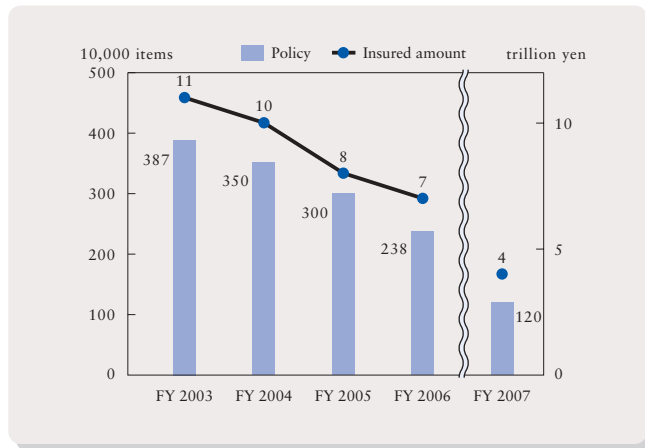
New or in-force policies for fiscal 2007 are described below.

##### (1) New Policies for Fiscal 2007

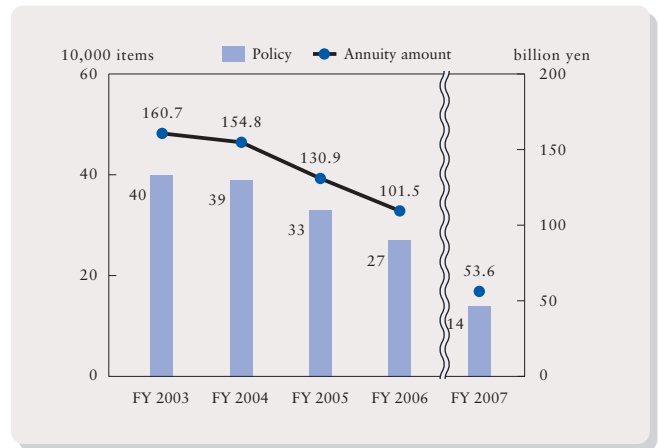
The number of new insurance policies fell 4.7% or 59,000 from the first half of the previous year to 1.198 million, and the insured amount dropped 2.2% or 79.2 billion yen to 3,551.8 billion yen.

The number of new annuity insurance policies increased 2.4% or 3,000 from the first half of the previous year to 138,000 and the annuity amount increased 4.5% or 2.3 billion yen to 53.6 billion yen.

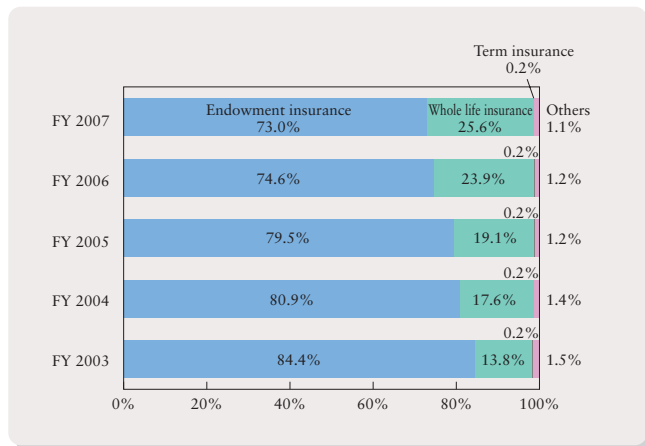
##### ■ Trends in new policies of life insurance



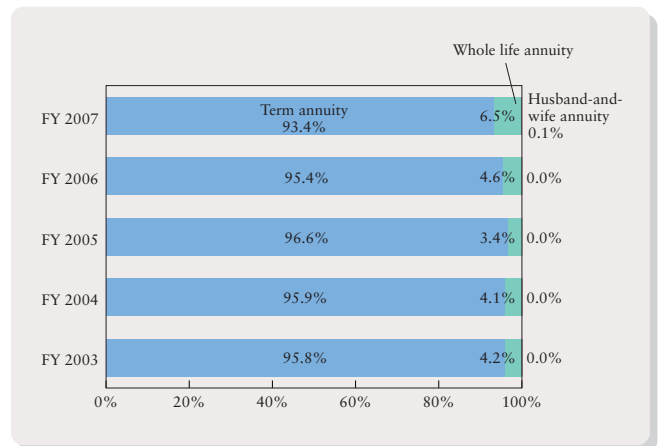
##### ■ Trends in new policies of annuity insurance



##### ■ New insurance policies by type (number of policies)



##### ■ New annuity policies by type (number of policies)

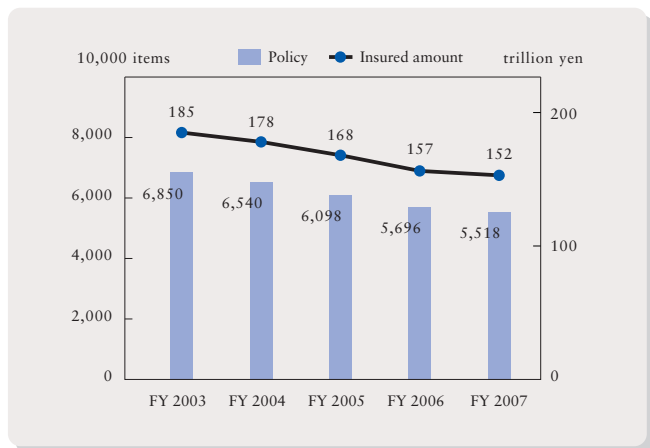


## (2) Policies in Force at the End of Fiscal 2007

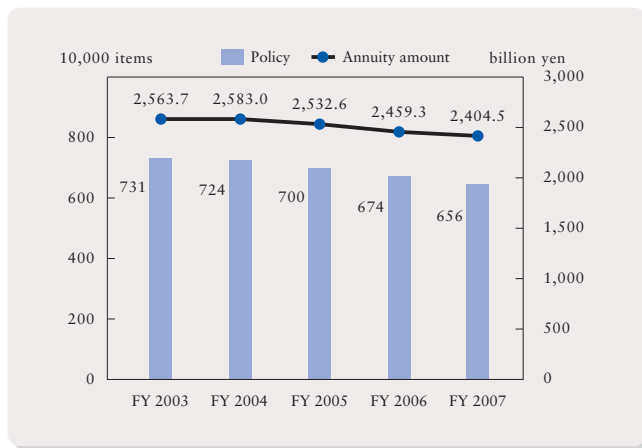
There were 55.18 million insurance policies in force at the end of fiscal 2007, down 6.6% or 3.90 million policies from the first half of the previous year, and the insured amount totaled 152,298.9 billion yen, down 6.3% or 10,324.5 billion yen from the first half of the previous year.

There were 6.56 million annuity insurance policies in force as of the end of fiscal 2007, down 4.3% or 300,000 from the first half of the previous year, and the annuity amount dropped 3.7% or 91.3 billion yen from the first half of the previous year to 2,404.5 billion yen.

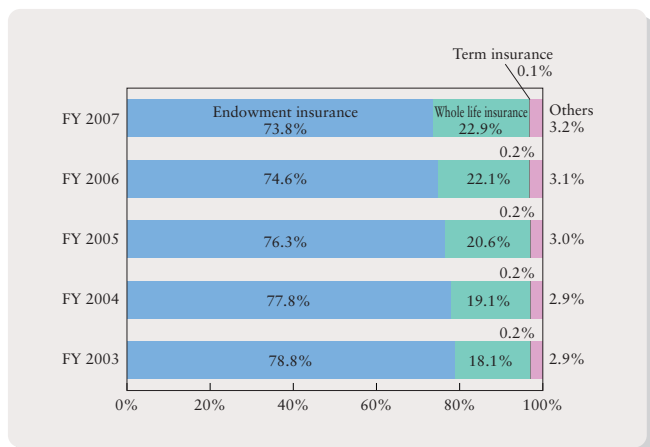
### ■ Trends in policies in force



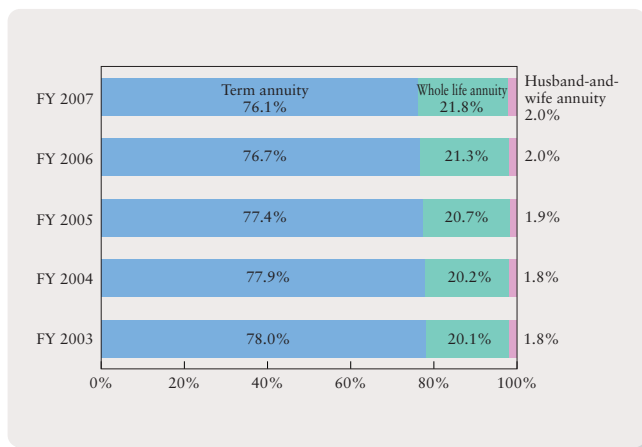
### ■ Trends in annuity policies in force



### ■ Insurance policies in force by type (number of policies)



### ■ Annuity policies in force by type (number of policies)



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

Japan Post established goals for the Second Mid-term Management Plan (April 1, 2007 through September 30, 2007), including “ensuring management soundness,” “maintenance and enhancement of service level,” “enhancement of internal control structure,” such as thoroughgoing implementation of compliance, and “smooth shift to new company.” These goals were approved by the Minister of Internal Affairs and Communications in March 2007.

To achieve the above goals, Japan Post steadily carried out the Second Mid-term Management Plan, which was approved by the minister simultaneously with these goals.

Status of achievement of management goals is as follows:

		Targets <sup>(Note 1)</sup>	Actual Results <sup>(Note 1)</sup>	
Postal Service	Accumulated funds	-105.0 billion yen or more	-125.0 billion yen <sup>(Note 2)</sup>	
	Business expense rate <sup>(Note 3)</sup>	109.5% or less	106.8%	
	On-time delivery rate	97.0 % or higher	98.0%	
Postal Savings Service	Accumulated funds	290.0 billion yen or more	763.7 billion yen	
	Business expense rate <sup>(Note 3)</sup>	0.62 % or less	0.58%	
Postal Life Insurance Service	Total added contingency reserve and price fluctuation reserve	140.0 billion yen or more	167.3 billion yen	
	Business expense rate <sup>(Note 3)</sup>	7.0 % or less	5.61%	
	Lapse and surrender rates	Insurance	1.80 % or less	1.64%
		Annuity insurance	1.15 % or less	0.82%

Note 1: Financial numerical targets for accumulated funds and business expense rate exclude the influence of allowance for recognition of obligations under the Public Official Mutual Assistance Association Law and capital gains (insurance), and actual values are also based on this.

Note 2: During the period of the Second Mid-term Management Plan, Japan Post booked the allowance for the government employees' accident compensation, which it did not assume at the time of establishing goals for the plan. Without this factor, accumulated funds of postal service were minus 102.3 billion yen.

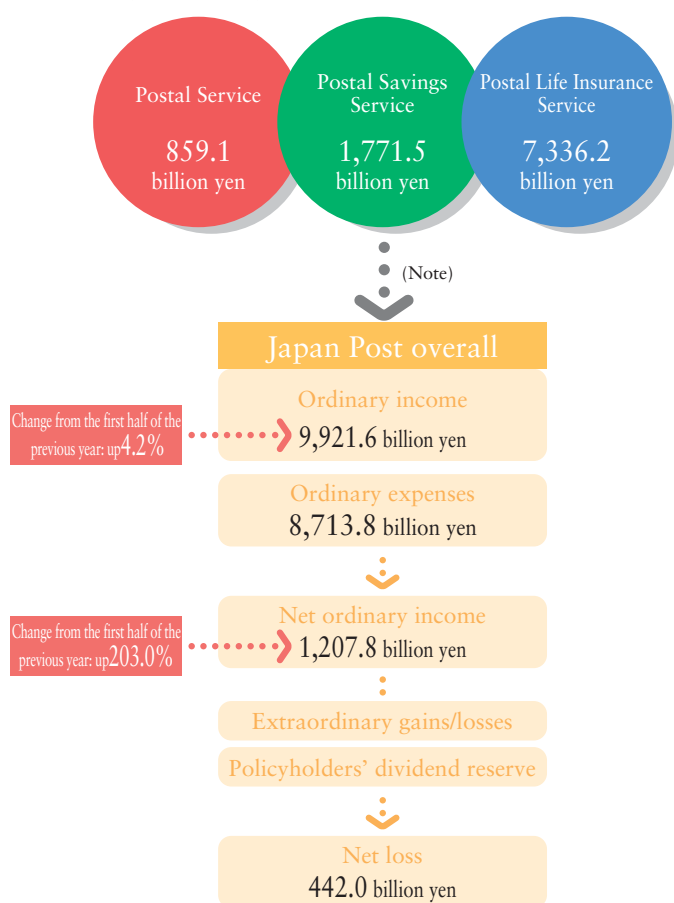
Note 3: Business expense rate of Postal Service = (Operating cost + Sales, general and administrative expenses) / Operating income × 100  
 Business expense rate of Postal Savings Service = General and administrative expenses / Balance of Postal Savings (average end-of-month balance) × 100 / 183 days × 365 days  
 Business expense rate of Postal Life Insurance Service = Operating expenses / Insurance premium income × 100

# 3. Financial Condition

## 1. Japan Post

### (1) PROFIT AND LOSS

#### ■ Ordinary income by service



Note: Discrepancies between the total of figures for each service and the figures for Japan Post overall are due to the offsetting and elimination of transactions between the Postal, Postal Savings, and Postal Life Insurance Services as internal transactions within the corporation.

#### ■ Ordinary Income, Ordinary Expenses and Net Ordinary Income

During this period, Japan Post saw the total volume of letter post and the number of new insurance policies decreased. Amid such a harsh business environment, the corporation strove to ensure earnings in the Postal, Postal Savings and Postal Life Insurance Services as well as to reduce costs. As a result, the corporation's ordinary income and net ordinary income exceeded the first half of the previous year.

Specifically, ordinary income was 835.2 billion yen in the Postal Service, 1,768.1 billion yen in the Postal Savings Service and 7,318.2 billion yen in the Postal Life Insurance Service.

Overall, ordinary income posted 9,921.6 billion yen from the first half of the previous year's 9,517.8 billion yen.

On the other hand, ordinary expenses for Japan Post were down 405.3 billion yen from 9,119.1 billion yen in the first half of the previous year to 8,713.8 billion yen because of decreased insurance payments, etc. As a result, net ordinary income was up 809.1 billion yen from 398.6 billion in the first half of the previous year to 1,207.8 billion yen.

#### ■ Extraordinary gains/losses

In fiscal 2007, Japan Post booked extraordinary gains of 20.5 billion yen and extraordinary losses of 1,579.2 billion yen.

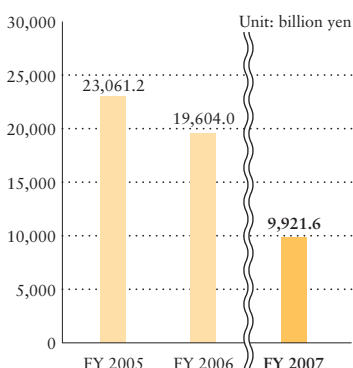
The losses are attributable to a one-time charge of 1,419.5 billion yen for recognition of obligations under the Public Official Mutual Assistance Association Law, 46.0 billion yen in provision of reserve for price fluctuations in the Postal Life Insurance Service, and 38.5 billion yen in impairment losses.

#### ■ Net loss

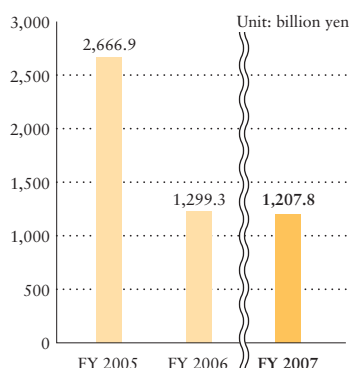
Japan Post recorded a net loss of 442.0 billion yen in fiscal 2007, down 679.7 billion yen from a net income of 237.7 billion yen for the first half of the previous year, as a result of incorporating extraordinary gains and losses into net ordinary income, and transferring an additional 91.1 billion yen to the policyholders' dividend reserve in the Postal Life Insurance Service.

The net loss is attributable mainly to one-time booking of 1,419.5 billion yen-worth charge for recognition of obligations under the Public Official Mutual Assistance Association Law as extraordinary losses.

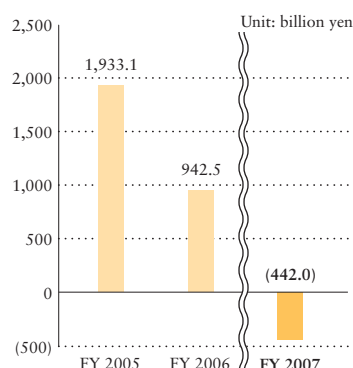
#### ■ Trends in ordinary income



#### ■ Trends in net ordinary income

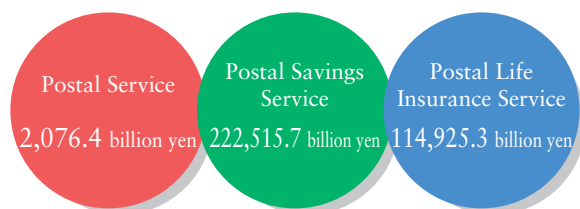


#### ■ Trends in net income



## (2) ASSETS AND LIABILITIES

### ■ Total assets by service



(Note)



### ■ Assets

The total assets of Japan Post were 338,456.8 billion yen as of the end of fiscal 2007, a decrease of 11,361.6 billion yen from the first half of the previous year's 349,818.4 billion yen.

The assets' decrease is mainly due to the fall in deposits to the fiscal loan fund because of the maturity.

### ■ Liabilities

The total liabilities of Japan Post amounted to 330,775.3 billion yen at the end of fiscal 2007, a decrease of 8,910.5 billion yen from the previous year's 339,685.9 billion yen.

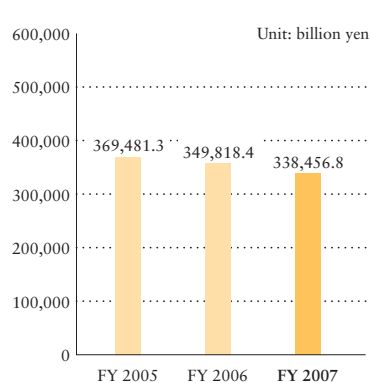
The main factors of the decrease were a drop of 5,758.4 billion yen in the balance of postal savings and a repayment of 3,390.0 billion yen to the fiscal loan fund, which was borrowed for investment management.

### ■ Capital

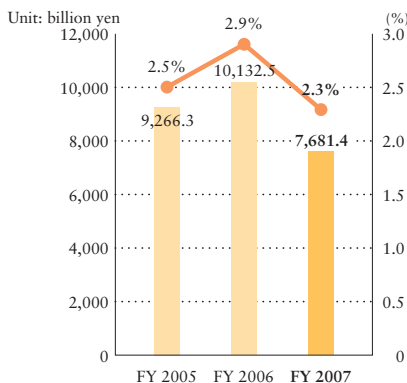
Total capital stood at 7,681.4 billion yen as of the end of fiscal 2007, as a result of booking 1,268.8 billion yen in capital; 5,010.8 billion yen in retained earnings, including a current net loss of 442.0 billion yen; and 1,401.7 billion yen in net unrealized profit or loss on securities.

Note: Discrepancies between the total of figures for each service and the figures for Japan Post overall are due to the offsetting and elimination of transactions between the Postal, Postal Savings, and Postal Life Insurance Services as internal transactions within the corporation.

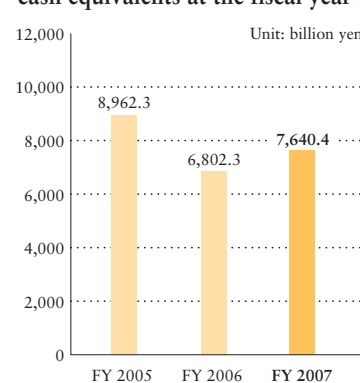
### ■ Trends in total assets



### ■ Trends in capital and capital ratio



### ■ Trends in the balance of cash and cash equivalents at the fiscal year-end



## (3) CASH FLOWS

### ■ Statements of cash flows

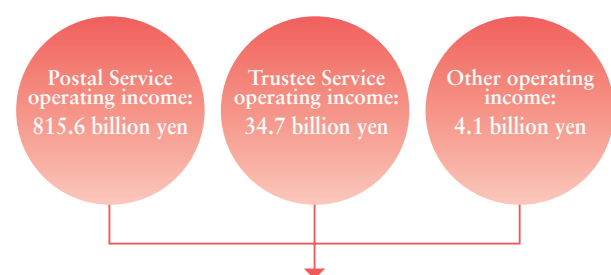
	First half of FY 2006	FY 2007	Change
Cash flows from operating activities	(10,829.5)	(10,946.8)	(117.3)
Cash flows from investing activities	8,120.2	11,796.9	3,676.7
Cash flows from financial activities	(3.7)	(12.3)	(8.5)
Cash and cash equivalents at the end (end of the interim) of the year	6,249.5	7,640.4	1,390.8



## 2. Postal Service

### (1) PROFIT AND LOSS

With regard to the Postal Service, the total volume of mail handled had a tendency to decrease due to the recent intense competition. Amid this situation, Japan Post implemented proactive sales activities in the parcel post sector, which resulted in increasing the use of the sector's service by department stores and mail-order companies. Ordinary parcels handled reached 133.64 million items. As a result, ordinary income increased 4.0 billion yen from the first half of the previous fiscal year to 859.1 billion yen. As for profit, Japan Post also made considerable efforts to reduce personnel expenses and outsourcing costs for collection, delivery, and transport. Consequently, net operating loss was reduced by 34.0 billion yen to 32.3 billion yen, and net ordinary loss was reduced by 33.6 billion yen to 32.2 billion yen. Meanwhile, net loss was 814.6 billion yen, which worsened by 743.2 billion yen from the first half of fiscal 2006, influenced by extraordinary gains of 1.8 billion yen, including gains on return of reserve for reimbursement for Fumi Cards, and extraordinary losses of 784.2 billion yen, including a one-time charge for recognition of obligations under the Public Official Mutual Assistance Association Law.



**Operating income**  
854.4 billion yen (up 0.4% from the first half of the previous year)

Operating costs 833.1 billion yen  
Sales, general and administrative expenses 53.6 billion yen

**Net operating loss** 32.3 billion yen

Non-operating income 4.6 billion yen

Non-operating expenses 4.5 billion yen

**Net ordinary loss** 32.2 billion yen

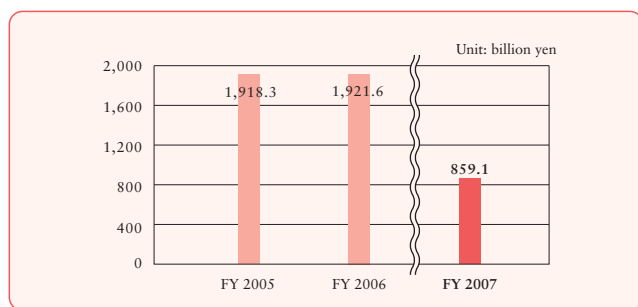
Extraordinary gains 1.8 billion yen

Extraordinary losses 784.2 billion yen

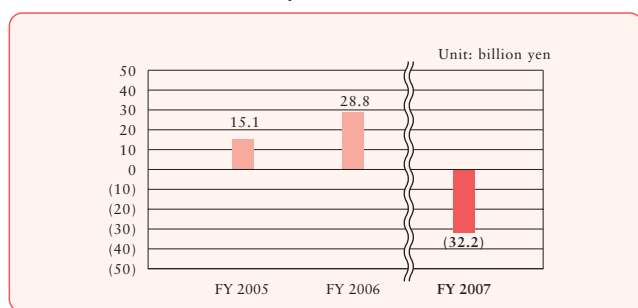
**Net loss** 814.6 billion yen

The figures in parentheses represent percentage changes from the first half of the previous year.

#### ■ Trends in ordinary income



#### ■ Trends in net ordinary income



#### ■ Trend in business expense ratio

FY 2005	FY 2006	FY 2007
99.2%	98.5%	103.8%

Business expense rate of Postal Service = (Operating cost + Sales, general and administrative expenses) / Operating income × 100

## (2) ASSETS AND LIABILITIES

Total assets for the Postal Service were 2,076.4 billion yen at the end of fiscal 2007, a decrease of 168.8 billion yen from the first half of the previous fiscal year, due to a decrease in current assets (mainly in cash and deposits) and etc. Total capital stood at minus 1,333.6 billion yen, down 814.6 billion from the first half of the previous fiscal year.

1 Highlights

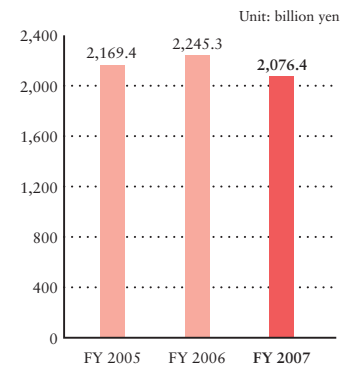
2 Management Efforts

3 About Japan Post

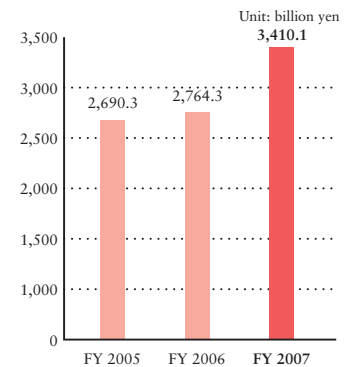
4 Data

Assets		Liabilities	
Total assets <b>2,076.4 billion yen</b>		Total liabilities <b>3,410.1 billion yen</b>	
Major items		Major items	
Current assets	229.2 billion yen	Current liabilities	1,305.2 billion yen
Fixed assets	1,847.2 billion yen	Long-term liabilities	2,104.9 billion yen
Tangible fixed assets	1,817.2 billion yen		
Intangible assets	28.2 billion yen		
Investment and other assets	1.7 billion yen		
Capital			
Total capital <b>(1,333.6 billion yen)</b>			
Difference of assets and liabilities at the time of establishment of Japan Post (578.2 billion yen)			
Retained earnings (755.4 billion yen)			

### ■ Trends in total assets



### ■ Trends in total liabilities



## (3) CASH FLOWS

### ■ Statements of cash flows

	Unit: billion yen		
	First half of FY 2006	FY 2007	Change
Cash flows from operating activities	(207.6)	(302.6)	(95.1)
Cash flows from investing activities	(12.0)	(100.5)	(88.5)
Cash flows from financial activities	87.6	188.2	(100.5)
Cash and cash equivalents at the end (end of the interim) of the year	71.8	101.8	(30.0)

### 3. Postal Savings Service

#### (1) PROFIT AND LOSS

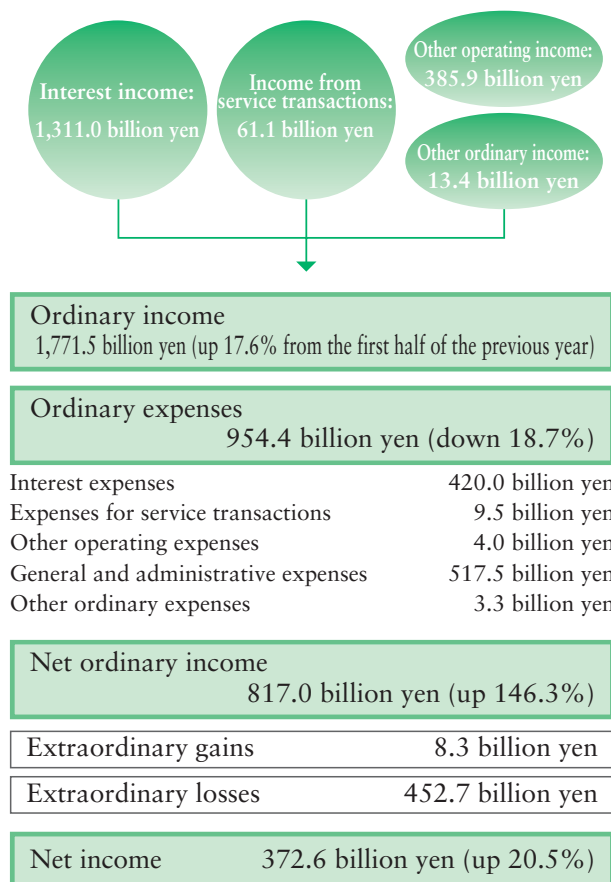
Ordinary income for the Post Savings Service was 1,771.5 billion yen, up 265.6 billion yen from the first half of the previous fiscal year's 1,505.8 billion yen. Ordinary expenses were 954.4 billion yen, down 219.6 billion yen from the first half of the previous fiscal year's 1,174.0 billion yen. As a result, net ordinary income was 817.0 billion yen, up 485.2 billion yen from the first half of the previous fiscal year's 331.8 billion yen.

To diversify risks in the medium and long term, Japan Post held stocks through money held in trust. In fiscal 2007, it posted income from money held in trust of 29.1 billion yen, up 153.7 billion yen against losses of 124.5 billion yen in the first half of the previous fiscal year.

Extraordinary gains were 8.3 billion yen, while extraordinary losses were 452.7 billion yen, including a one-time charge of 411.2 billion yen for recognition of obligations under the Public Official Mutual Assistance Association Law.

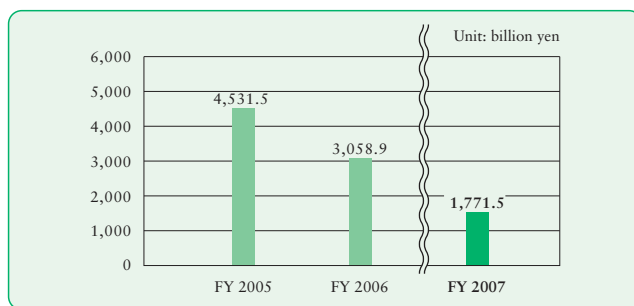
As a result of incorporating extraordinary gains and losses into net ordinary income, net income in fiscal 2007 was 372.6 billion yen, up 63.4 billion yen from the first half of the previous fiscal year's 309.2 billion yen. Net income excluding income and losses from money held in trust decreased 90.2 billion to 343.4 billion yen, compared with 433.7 billion yen in the preceding year.

Japan Post secured cash flows of 890.9 billion yen through appropriate asset and liability management (ALM).

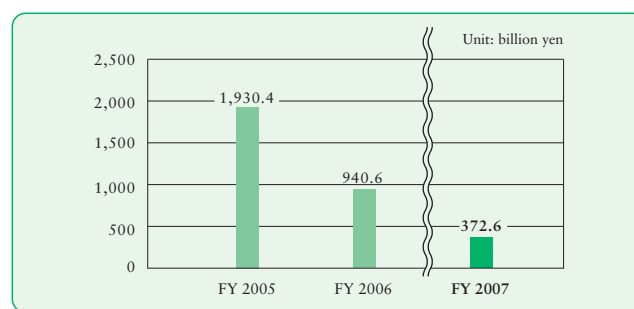


The figures in parentheses represent percentage changes from the first half of the previous year.

#### ■ Trends in ordinary income



#### ■ Trends in net income



#### ■ Trend in business expense ratio

Fiscal Year	FY 2005	FY 2006	FY 2007
Business expense ratio	0.47%	0.51%	0.58%

Note 1: Business expense rate of Postal Savings Service = General and administrative expenses / Balance of Postal Savings (average end-of-month balance) × 100 (FY2005, FY 2006)

Business expense rate of Postal Savings Service = General and administrative expenses / Balance of Postal Savings (average end-of-month balance) × 100 × 365 days / 183 days (FY 2007)

Note 2: General and administrative expenses for fiscal 2007 exclude the influence of a decrease in expenses of 14.7 billion yen associated with recognition of obligations under the Public Official Mutual Assistance Association Law.

## (2) ASSETS AND LIABILITIES

At the end of fiscal 2007, total assets were 222,515.7 billion yen, down 9,112.4 billion yen from the end of the previous fiscal year, in which amounted to 231,628.2 billion yen. Total liabilities stood at 214,929.9 billion yen, down 8,283.8 billion yen from the end of the previous fiscal year's 223,213.7 billion yen.

Balance of postal savings (including interest on postal savings) was on the decrease, posting 180,909.9 billion yen at the end of fiscal 2007, down 6,059.2 billion yen from the end of the previous fiscal year's 186,969.1 billion yen.

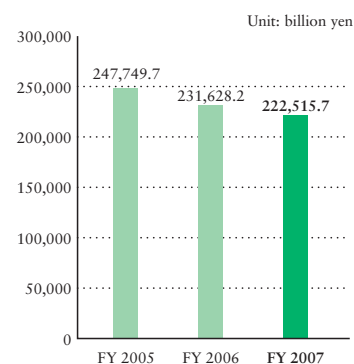
Unit: billion yen

	End of FY 2003	End of FY 2004	End of FY 2005	End of FY 2006	End of FY 2007
The balance of postal savings	227,382.0	214,149.0	200,002.3	186,969.2	180,909.9
Amount of increase or decrease	(5,864.5)	(13,233.0)	(14,146.7)	(13,033.1)	(6,059.2)

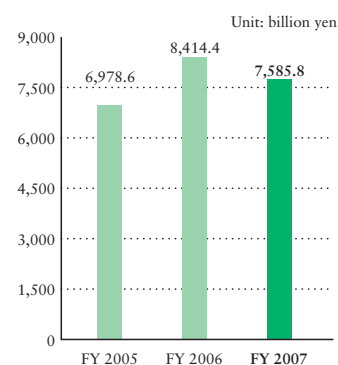
Capital was 7,585.8 billion yen at the end of fiscal 2007, down 828.5 billion yen from the end of the previous fiscal year's 8,414.4 billion yen, due to the following factors: Of the reserves of 6,356.2 billion yen at the beginning of the fiscal year under review, Japan Post paid 962.5 billion yen as funds earmarked for the national coffer; Japan Post booked: 1,804.4 billion yen in difference of assets and liabilities at its establishment; retained earnings of 5,766.3 billion yen including a net income of 372.6 billion yen; and net unrealized profit or loss on securities of 15.1 billion yen.

Assets		Liabilities	
Total assets 222,515.7 billion yen		Total liabilities 214,929.9 billion yen	
Major items		Major items	
Cash and deposits	5,703.4 billion yen	Postal money orders	13.0 billion yen
Call loans	800.0 billion yen	Postal giros	6,442.0 billion yen
Receivables under resale agreements	—	Postal savings	180,064.1 billion yen
Money held in trust	603.1 billion yen	Borrowings	24,810.0 billion yen
Securities	170,509.2 billion yen	Other liabilities	2,555.8 billion yen
Deposits to the fiscal loan fund	38,858.5 billion yen	Reserve for employees' bonuses	37.5 billion yen
Loans	4,561.6 billion yen	Reserve for employees' retirement benefits	1,003.2 billion yen
Other assets	794.2 billion yen		
Premises and equipment, net	686.7 billion yen		
Allowance for doubtful accounts	(1.2 billion yen)		
		Capital	
		Total capital 7,585.8 billion yen	
		Difference from assets and liabilities at the time of establishment of Japan Post 1,804.4 billion yen	
		Retained earnings 5,766.3 billion yen	
		Net unrealized profit or loss on securities 15.1 billion yen	

### Trends in total assets



### Trends in total capital



## (3) CASH FLOWS

### Statements of cash flows

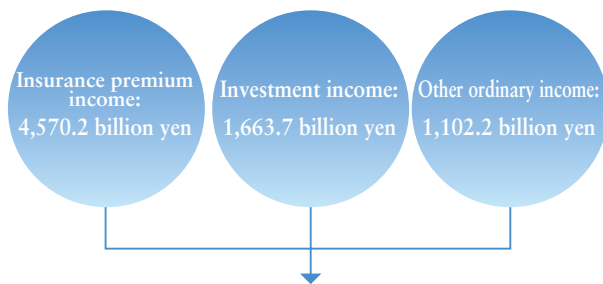
Unit: billion yen

	First half of FY 2006	FY 2007	Change
Cash flows from operating activities	(8,989.2)	(9,175.5)	(186.2)
Cash flows from investing activities	7,086.8	9,501.2	2,414.4
Cash flows from financial activities	(0)	(0)	0
Cash and cash equivalents at the end (end of the interim) of the year	4,931.5	5,703.4	771.9

## 4. Postal Life Insurance Service

### (1) PROFIT AND LOSS

With regard to the Postal Life Insurance Service, the number of new policies for annuity increased, while the number of new policies for insurance and the number of policies in force for both insurance and annuity decreased. Against the backdrop, ordinary income for the service was 7,336.2 billion yen in fiscal 2007, an increase of 150.6 billion yen from the first half of the previous fiscal year. The reason behind this increase is because investment income rose 382.6 billion yen to 1,663.7 billion yen influenced by booking of capital gains and losses, although insurance premium income dropped 232.4 billion yen to 4,570.2 billion yen due mainly to a decline in the number of policies in force. Ordinary expenses were 6,895.7 billion yen, down 156.9 billion yen, as insurance claims and other insurance payments decreased 72.5 billion yen to 6,580.2 billion yen due to a fall in insurance that matured. As a result, net ordinary income was 440.4 billion yen, up 307.6 billion yen from the first half of the previous fiscal year. Extraordinary gains were 10.3 billion yen, while extraordinary losses stood at 359.6 billion yen, including a one-time charge of 269.3 billion yen for recognition of obligations under the Public Official Mutual Assistance Association Law and 46.0 billion yen in provision of reserve for price fluctuations. Japan Post transferred for the full amount of 91.1 billion yen obtained by incorporating extraordinary gains and losses into net ordinary income to the policyholders' dividend reserve.



**Ordinary income**  
7,336.2 billion yen (up 2.1% from the first half of the previous year)

**Ordinary expenses**  
6,895.7 billion yen (down 2.2%)

Insurance claims and other insurance payments 6,580.2 billion yen  
 Provision for reserve for insurance contracts 11.5 billion yen  
 Investment expenses 22.3 billion yen  
 Operating expenses 256.3 billion yen  
 Other ordinary expenses 25.2 billion yen

**Net ordinary income**  
440.4 billion yen (up 231.6%)

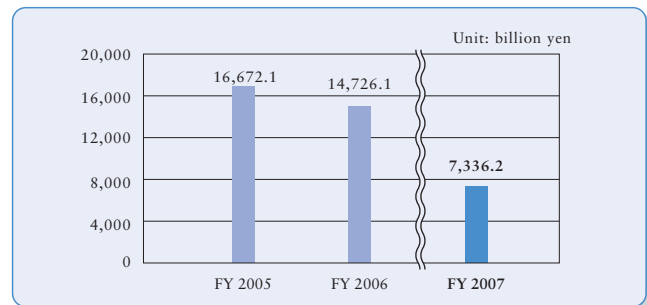
Extraordinary gains 10.3 billion yen

Extraordinary losses 359.6 billion yen

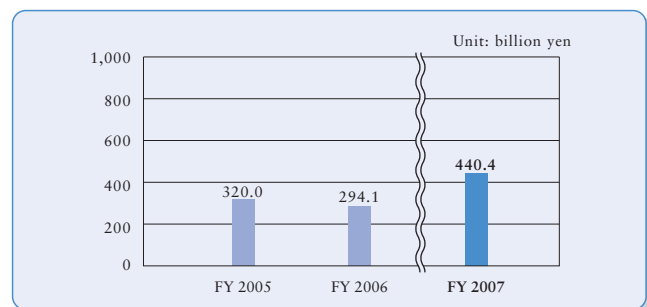
**Provision for policyholders' dividend reserve**  
91.1 billion yen (up 34.4%)

The figures in parentheses represent percentage changes from the first half of the previous year.

#### ■ Trends in ordinary income



#### ■ Trends in net ordinary income



#### ■ Trend in business expense ratio

Fiscal Year	FY 2005	FY 2006	FY 2007
Business expense ratio	4.86%	6.10%	5.61%

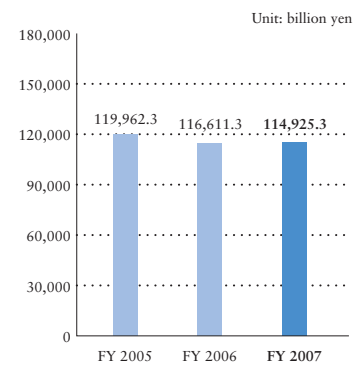
Business expense rate of Postal Life Insurance Service = Operating expenses / Insurance premium income × 100

## (2) ASSETS AND LIABILITIES

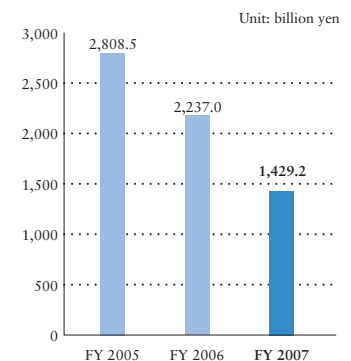
As of the end of fiscal 2007, total assets were 114,925.3 billion yen, down 1,685.9 billion yen from the end of the previous fiscal year. Capital stood at 1,429.2 billion yen, including 42.6 billion yen in difference from assets and liabilities at Japan Post's establishment and 1,386.6 billion yen in net unrealized profit or loss on securities.

Assets		Liabilities	
Total assets <b>114,925.3 billion yen</b>		Total liabilities <b>113,496.0 billion yen</b>	
Major items		Major items	
Cash and deposits	2,001.5 billion yen	Policy reserves	111,936.9 billion yen
Money held in trust	5,899.4 billion yen	Other liabilities	124.4 billion yen
Securities	84,289.9 billion yen	Reserve for employees' bonuses	22.4 billion yen
Loans	21,533.5 billion yen	Reserve for employees' retirement benefits	734.2 billion yen
Premises and equipment, net	445.9 billion yen	Allowance for compensation for accidents in the line of duty	5.4 billion yen
Other assets	755.7 billion yen	Reserve for price fluctuations	672.5 billion yen
Allowance for doubtful accounts	(0.8 billion yen)		
<b>Capital</b>			
Total capital <b>1,429.2 billion yen</b>			
Difference from assets and liabilities at the time of establishment of Japan Post 42.6 billion yen			
Retained earnings —			
Net unrealized profit or loss on securities 1,386.6 billion yen			

### ■ Trends in total assets



### ■ Trends in total capital



## (3) CASH FLOWS

### ■ Statements of cash flows

	First half of FY 2006	FY 2007	Change
Cash flows from operating activities	(1,750.7)	(1,525.3)	225.4
Cash flows from investing activities	1,055.0	2,404.5	1,349.5
Cash flows from financial activities	(0)	(0)	0
Effect of exchange rate changes on cash and cash equivalents	—	—	—
Net increase (or decrease) in cash and cash equivalents	(695.7)	879.1	1,574.9
Cash and cash equivalents at the beginning of the year	1,946.7	1,122.3	(824.4)
Cash and cash equivalents at the end (end of the interim) of the year	1,251.0	2,001.5	750.4

# 4. Funds Management

## 1. Postal Savings Service

### Investment of Postal Savings Funds

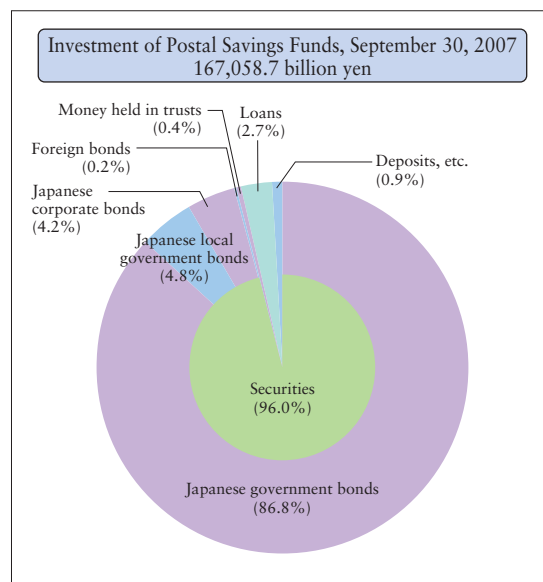
As of September 30, 2007

Classification	Balance of assets (billion yen)	Percentage (%)
Securities	160,330.4	96.0
Japanese government bonds	145,032.0	86.8
Japanese local government bonds	8,007.6	4.8
Japanese corporate bonds	7,023.1	4.2
Public corporation bonds, etc.	4,409.6	2.6
Foreign bonds	267.5	0.2
Money held in trusts	603.1	0.4
Loans	4,561.6	2.7
Loans to local governments	3,688.8	2.2
Loans to depositors, etc.	303.7	0.2
Loans to Postal Service	569.0	0.3
Deposits, etc.	1563.5	0.9
<b>Total</b>	<b>167,058.7</b>	<b>100.0</b>

Note 1: The balance of assets in financial instruments is calculated in accordance with accounting standards.

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

Note 3: In addition to the amounts above, there is also 14,000 billion yen in entrusted money (excludes entrusted money corresponding to the former Special Fund to Cope with Financial Deregulation), making a total of 181,058.7 billion yen.



1 Highlights

2 Management Efforts

3 About Japan Post

4 Data

## 2. Postal Life Insurance Service

### Investment of Kampo Funds

As of September 30, 2007

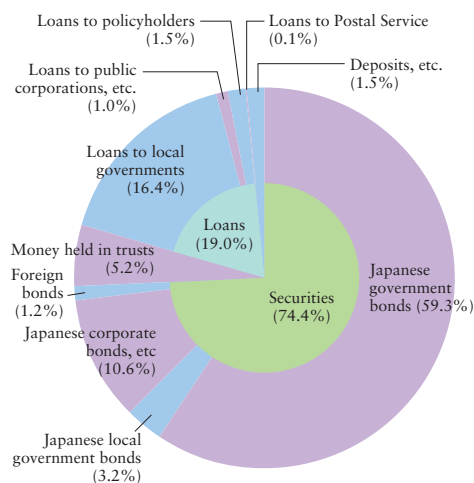
Classification	Balance of assets (billion yen)	Percentage (%)
Securities	84,289.8	74.4
Japanese government bonds	67,219.3	59.3
Japanese local government bonds	3,628.2	3.2
Japanese corporate bonds, etc.	12,048.0	10.6
Public corporation bonds, etc.	9,694.5	8.6
Foreign bonds	1,394.1	1.2
Money held in trusts	5,899.4	5.2
Loans	21,533.5	19.0
Loans to local governments	18,553.0	16.4
Loans to public corporation, etc.	1,111.5	1.0
Loans to policyholders	1,748.5	1.5
Loans to Postal Service	120.3	0.1
Deposits, etc.	1,645.3	1.5
<b>Total</b>	<b>113,368.1</b>	<b>100.0</b>

Note 1: There may be discrepancies between the balance of assets and funds because of the application of market prices to the relevant financial instruments in accordance with accounting standards.

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

Note 3: Figures in the balance of assets are rounded down, and consequently the sum of these figures does not match the figure in Total.

Investment of Kampo Funds, As of September 30, 2007  
113,368.1 billion yen





# 5. Overview of Privatization

On October 1, 2007, Japan Post was privatized in accordance with Japan Post privatization and related laws, handing over its operations and others to holding company JAPAN POST HOLDINGS Co., Ltd. and four companies.

Placing emphasis on security and confidence that Japan Post, as a public organization, has fostered, each JAPAN POST GROUP unit will offer products and services which satisfy customers by using the freedom of management as a private company and exerting its originality and ingenuity, strengthen its earnings power, and secure independent, sound management.

The outline of the succeeding companies based on (Implementation Plan Concerning the Business Succession of Japan Post,) which was approved by the government on September 10, 2007, is as follows.

## OVERVIEW OF THE SUCCEEDING COMPANIES

### JAPAN POST HOLDINGS Co., Ltd.

#### Group management philosophy

Giving stress on security and confidence that Japan Post, as a public organization, has fostered, the Group, as a private corporation, will demonstrate creativity and efficiency to the greatest extent possible, meet customers' expectations, raise customer satisfaction, and grow together with customers. The Group will also pursue managerial transparency on its own, observe rules, and contribute to the development of society and region.

#### Group governance

1. Two financial companies are required to go public in four years after the privatization at latest or three years, if possible, and dispose of stocks in five years after the privatization. Prior to listing, control will be made taking into account the balance of management structures required for financial holding companies and independence from the holding company. JAPAN POST HOLDINGS Co., Ltd. also needs to prepare so that it will be able to go public at the same time as the two financial companies do so, while pursuing management according to market rules. Ahead of its listing, JAPAN POST HOLDINGS will direct and supervise the two non-financial companies in formulating and implementing their business plan, manage the progress and control, if necessary, by providing proper support.
2. JAPAN POST HOLDINGS will be a company with committees, and establish the nomination, compensation and audit committees. Under the management meeting, it will also set up special committees, such as the compliance committee and the CSR committee.
3. JAPAN POST HOLDINGS will formulate basic policies of the Group and require each company to follow them. In case there are matters affecting the entire Group, JAPAN POST HOLDINGS will administer the Group's operations by giving approval to and requesting reports on individual such matters. Such administration will be revised as needed responding to, for example, listing of the two financial companies. Each Group unit will draw up a medium-term business plan, and carry out the Group's management strategies along the time axis, formulate an annual business plan, and manage earnings based on managerial accounting on a monthly basis.
4. JAPAN POST HOLDINGS will establish fundamental policies of internal control, including internal audits, risk management, compliance and information security, require each company to improve the structure for internal control and report on the status of internal control, and direct it in improving its measures, when necessary.

#### Long-term strategy vision

JAPAN POST HOLDINGS will assume the following three steps over the long term, provide necessary investments and supports as a holding company, and require each company to make reforms to become independent, aiming to maximize the Group's value.

- First step: Each company will strengthen its capabilities as a private corporation and establish a solid corporate foundation. Two financial companies aim to go public at latest in the fourth year after the privatization or third year, if possible. JAPAN POST HOLDINGS will also prepare so that it will be able to go public at the same time as the two financial companies do so.
- Second step: JAPAN POST HOLDINGS will accelerate strategic investments so that each company will be able to realize a self-sustaining growth. The two financial companies will achieve complete privatization, as well as each company will realize continuous growth by diversifying and strengthening earnings sources.
- Third step: JAPAN POST HOLDINGS will make efforts toward a new growth after the period of privatization process ends.

#### Organization

Corporate center functions: Inspection & audit, corporate planning, compliance, finance/accounting, personnel/general affairs, and CRE (corporate real estate) departments

Functions to handle operations common to the entire Group: System department, personnel/accounting integration center, health management center, facility management department, and facility center

Business operating functions: Hospitals (14) and accommodations (82)

#### Employees

JAPAN POST HOLDINGS will take over about 3,500 employees of Japan Post, as well as reappointed staff.

\*The entire JAPAN POST GROUP is expected to take over a total of about 240,100 full-time employees from Japan Post.

#### Financial conditions

(Non-consolidated)

Assets: 9,458.0 billion yen (including the head office, hospitals, accommodations and four subsidiaries' shares)

Liabilities: 1,519.0 billion yen (including reserve for employees' retirement benefits)

Net assets: 7,939.0 billion yen

(Consolidated)

Total assets: 338,830.0 billion yen

Net assets: 7,939.0 billion yen

#### Outlook for profit/loss

(Non-consolidated)

Net income: 143.0 billion yen (FY2008)

287.0 billion yen (FY2011)

(Consolidated)

Net income: 508.0 billion yen (FY2008)

587.0 billion yen (FY2011)

Note 1: The figures in Financial Conditions and Outlook for profit/loss are those estimated as of April 27, 2007, when the implementation plan was submitted to the government for approval, and actual results may differ from the above forecasts impacted by Japan Post's earnings results in the future and evaluation of succeeded assets as well as changes in financial and economic conditions, such as interest rates and stock prices.

Note 2: The figures in Outlook for profit/loss do not include any impact of new products and services that need to be submitted, but include the impact of new businesses, etc. that JAPAN POST NETWORK Co., Ltd. will conduct by filing reports.

Note 3: The figures in Financial conditions on a consolidated basis represent those obtained by partially offsetting lending and borrowing among the five succeeding companies from total assets and liabilities of these companies. The figures in Outlook for profit/loss on a consolidated basis represent those obtained by partially offsetting internal transactions and dividends that occur among the five succeeding companies from total assets and liabilities of these companies.

## JAPAN POST SERVICE Co., Ltd.

### Management philosophy

While maintaining universal services for postal businesses, JAPAN POST SERVICE will create a “network that sincerely connects people, corporations and society,” by providing communications in which the public feels secure, and certain and speedy logistics functions.

### Corporate governance

1. JAPAN POST SERVICE will be a company with board of corporate auditors. Under the management meeting, it will set up special committees, such as the risk management committee and the compliance committee.
2. JAPAN POST SERVICE will establish the inspection & audit department that is independent from departments to be audited, and 13 regional inspection & audit offices.
3. JAPAN POST SERVICE will establish compliance supervisory offices at the head office and regional offices, where compliance officers will be assigned. JAPAN POST SERVICE will also post personnel in charge of compliance at each department of the head office and regional offices and at branch offices.

### Business strategy

#### 1. Provision of services meeting customers' needs

Such services include the issuance of attractive stamps and postcards, comprehensive DM service from planning to mailing, faster and better quality EMS, real-time provision of information on delivery of Yu-Pack parcels, and Web service for sending mails through personal computer.

#### 2. Establishment of bases to support services

JAPAN POST SERVICE will expand the urban bases to receive Yu-Pack parcels, enhance the corporate business system, activate the functions of access points such as Yu-Pack parcel handling offices, improve the sales system and implement business management with emphasis on profitability and efficiency.

#### 3. Enhancement of management base

JAPAN POST SERVICE will distribute manpower according to business volume, promote JPS activities, make mechanization and computerization more efficient, build an efficient transport network, establish personnel and wage systems in which employees' capabilities and performance are appropriately evaluated, and employ fixed assets effectively.

#### 4. Entry into new growth fields

- Domestic logistics field: JAPAN POST SERVICE will propose measures for more efficient logistics operations, and offer a logistics service which undertakes comprehensively a series of logistics operations, including transport, storage, disposal, etc. of products.

- International logistics field: JAPAN POST SERVICE will advance into the international express business, centering on the Asian region, and expand the international logistics business.

#### 5. Securing reliability and transparency of management

JAPAN POST SERVICE will promote CSR efforts, boost CS activities, strengthen internal control, including measures for ensuring conformity to the Financial Instruments and Exchange Law, and make efforts toward information security and personal information protection.

### Organization

JAPAN POST SERVICE will consist of the head office, 13 regional offices, 1,093 branch offices, one international accounting center, two mail transportation centers, four logistics centers, and one customer service inquiry center.

### Employees

JAPAN POST SERVICE will take over about 99,700 employees of Japan Post, as well as reappointed staff and postal short-time workers.

### Financial conditions

Assets: 1,942.0 billion yen (including branch offices, the logistics center, stocks of subsidiaries, such as JP Biz Mail Co., Ltd.)

Liabilities: 1,742.0 billion yen (including reserve for retirement benefits)

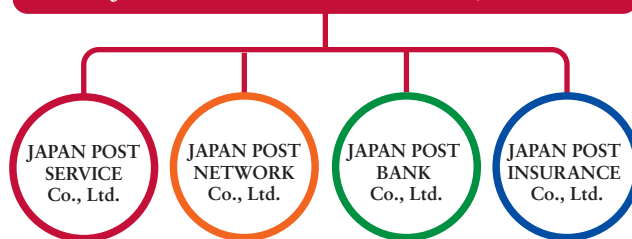
Net assets: 200.0 billion yen

### Outlook for profit/loss

Net income: 34.0 billion yen (FY2008)

45.0 billion yen (FY2011)

## JAPAN POST HOLDINGS Co., Ltd.



## JAPAN POST NETWORK Co., Ltd.

### Management philosophy

JAPAN POST NETWORK will offer products and services transparently through readily available post office networks, aiming to contribute to “helping customers lead a better and comfortable life at present and in the future” and realize excellent management so that customers and consignors will use JAPAN POST NETWORK's services over the long term.

### Corporate governance

1. JAPAN POST NETWORK will be a company with board of corporate auditors. Under the management meeting, it will establish special committees, such as the compliance committee and the risk management committee.
2. JAPAN POST NETWORK will establish the inspection & audit department that is independent from departments to be audited, and 50 regional inspection & audit offices nationwide.
3. JAPAN POST NETWORK will establish the compliance supervisory department at the head office, and the compliance office at regional offices, where compliance officers will be assigned. JAPAN POST SERVICE will also post personnel in charge of compliance at each department and post office.

### Business strategy

#### 1. Establishment of a hub-and-spoke system based on post office networks nationwide

JAPAN POST NETWORK will enhance its consulting service for customers on their life plan and asset building, for example, by providing investment trusts under a close cooperation between post offices with smaller number of staff (spoke) and post offices which have specialist staff to sell investment trusts (hub).

#### 2. Active sales of various financial products meeting customers' needs

JAPAN POST NETWORK will increase the number of post offices which provide investment trusts, expand its lineup of investment trusts, and actively sell automobile insurance products (immediately after the privatization), and life and non-life insurance products, such as variable annuities and third-sector insurance products.

#### 3. Business strategy for new businesses such as real estate

JAPAN POST NETWORK will engage in the real estate development business, and rent, manage and sell its three central post offices as offices, commercial facilities and housing. It will also conduct the real estate leasing/management business, including operations of parking lots and shops for rent by effectively utilizing less or unused properties, as well as the mail-order business such as catalog sales.

#### 4. Improvement of operations quality

JAPAN POST NETWORK will give operational guidance to post offices and inspect post offices, maintain a high security level by providing thoroughgoing training, etc., manage personal information appropriately as a bank agency and a financial product agency, and secure internal control for financial reports that conform to examination requirements for three Group companies' listing.

#### 5. Improvement of efficiency

JAPAN POST NETWORK will standardize and simplify various operations processing schemes, and improve service counter staff's knowledge and skills.

#### 6. Reform of wage system

JAPAN POST NETWORK will establish a wage system based on employees' ability and performance, taking into account various allowances to enhance employees' incentive.

#### 7. Autonomous management through profit/loss management by post office and introduction of unique systems

JAPAN POST NETWORK will introduce a profit/loss management by post office and general-purpose terminals, and develop full-scale systems.

#### 8. Promotion of CSR

JAPAN POST NETWORK will manage its offices with emphasis on conservation of energy and natural resources and on environmental protection, actively subcontract operations for local public organizations, provide nationwide information on regional special products, and implement exchanges with local residents.

### Organization

JAPAN POST NETWORK will consist of the head office, 13 regional offices, about 24,000 post offices, 10 training centers and 50 regional inspection & audit offices.

\* 10 to 20 post offices constitute an area group and about 10 area groups constitute a region group.

### Employees

JAPAN POST NETWORK will take over about 119,900 employees of Japan Post, as well as reappointed staff.

### Financial conditions

Assets: 3,340.0 billion yen (including cash, regional offices, three central post offices, non-collection and delivery post offices, company houses and staff training institutes)

Liabilities: 3,140.0 billion yen (including deposits from two financial companies and reserve for retirement benefits)

Net assets: 200.0 billion yen

### Outlook for profit/loss

Net income: 50.0 billion yen (FY2008)

49.0 billion yen (FY2011)

## JAPAN POST BANK Co., Ltd.

### Management philosophy

JAPAN POST BANK aims to become the a “most reliable bank that is readily available” with customers’ voice as a compass for the future.

### Corporate governance

1. JAPAN POST BANK will be a company with committees, and establish the nomination, audit and compensation committees. Under the management meeting, it will also set up special committees, such as the risk management committee, the compliance committee and the ALM committee.
2. JAPAN POST BANK will establish the inspection & audit department that is independent from departments to be audited, and this department will support the audit committee.
3. JAPAN POST BANK will introduce the “integrated risk management” method, as well as the RCSA method against operational risks to implement quantitative and qualitative risk management according to risk characteristics.
4. JAPAN POST BANK will establish a compliance supervisory office, where compliance officers will be assigned. It will also post personnel in charge of compliance at each office.
5. JAPAN POST BANK will reinforce the system for managing and supervising the agent (JAPAN POST NETWORK).

### Business strategy

#### 1. Realization of business models and sophistication of ALM

JAPAN POST BANK will disperse risks and diversify earnings sources, by diversifying means of investments (into trading of derivatives, acquisition and sales of monetary credits, syndicated loans, securitized products, beneficiary rights, and investments in stocks), while controlling interest rates-associated risks appropriately.

#### 2. Realization of retail business models

- Development and selection of distinctive products

JAPAN POST BANK will implement unique product strategies, including development of custom-made investment products, which are attractive so that investors want to hold over the long term, easy-to-understand, and of low costs/high quality.

- Producing group synergies from combination with JAPAN POST NETWORK

JAPAN POST BANK will strengthen channels of post office networks, by providing its infrastructure and sales support tools, improve the compliance system, help improve quality and enhance training programs.

- Establishment of consulting-based marketing

JAPAN POST BANK will boost consulting-based marketing activities about customers’ life plan and asset building (through proposal of investment portfolios consisting of deposits, investment trusts, etc., promotion of the businesses of housing loans, card loans and credit cards, and operations of offices specializing in consulting services).

#### 3. Enhancement of internal control

JAPAN POST BANK will overhaul its operational flows, etc., in preparation for its listing, including measures for ensuring conformity to the Financial Instruments and Exchange Law, and further improve and strengthen its internal control system.

#### 4. Strengthening of management foundations

JAPAN POST BANK will reform and enhance the personnel system by adopting the evaluation and wage systems with emphasis on employees’ capabilities and performance, and make operations more efficient.

### Organization

JAPAN POST BANK will consist of the head office, 234 offices, 49 regional centers, 11 Postal Savings Operations Centers and two Postal Savings Computer Centers.

### Employees

JAPAN POST BANK will take over about 11,600 employees of Japan Post as well as reappointed staff.

### Financial conditions

Assets: 222,225.0 billion yen (including securities, loans to the Deposit Insurance Corporation and postal savings operations centers)

Liabilities: 214,558.0 billion yen (including transfer savings, ordinary savings, special savings, borrowings and reserve for employees’ retirement benefits)

Net assets: 7,667.0 billion yen

### Outlook for profit/loss

Net income: 321.0 billion yen (FY2008)

304.0 billion yen (FY2011)

Balance of savings: 188 trillion yen (at the time of privatization)

164 trillion yen (at the end of fiscal 2011)

## JAPAN POST INSURANCE Co., Ltd.

### Management philosophy

JAPAN POST INSURANCE aims to be the “most reliable insurance company that is readily available,” while gazing into the future together with customers.

### Corporate governance

1. JAPAN POST INSURANCE will be a company with committees, and establish the nomination, audit and compensation committees. Under the management meeting, it will also set up special committees, such as the risk management committee, the compliance committee and the earnings management committee.
2. JAPAN POST INSURANCE will establish the inspection & audit division that is independent from departments to be audited, and this division will support the audit committee.
3. To promote appropriate solicitation of insurance, JAPAN POST INSURANCE will provide education and training for life insurance solicitors, and inspect received contracts on the spot.
4. JAPAN POST INSURANCE will establish the risk management supervisory division to comprehensively manage risks according to risk characteristics.
5. JAPAN POST INSURANCE will set up the compliance supervisory branch at the head office and area compliance offices at 13 supervisory branch offices, where full-time compliance officers are assigned. It will also post personnel in charge of compliance at directly-run offices, service centers, etc.

### Business strategy

#### 1. Establishment of new sales models

(Channel of post offices)

- Product strategy

-- JAPAN POST INSURANCE will regard Education Endowment Insurance and Endowment Insurance as mainstay products, as it has done so far, and aim to increase profits by improving medical riders and introducing new products, including the one in which the maximum amount is increased in case of the elapse of a certain period after the entry.

-- JAPAN POST INSURANCE will reconsider eligible ages for Ordinary Endowment Insurance, etc.

-- JAPAN POST INSURANCE will reinforce its management structure, and develop/offer new products including third-sector products. To this end, JAPAN POST INSURANCE may form an alliance with other companies.

- Market/channel strategies

-- JAPAN POST INSURANCE will expand sales of guarantee-type products (such as Special Endowment Insurance and 2-fold Coverage Type Whole Life Insurance) through salespersons, and sales of saving-type products (such as Education Endowment Insurance and Endowment Insurance) through post office counters.

(Channel of directly-run offices)

- Product strategy

JAPAN POST INSURANCE will make Endowment Insurance, which is designed for employees’ welfare, its mainstay product for corporations, while undertaking from other companies insurances for managers, including Long-Term Level Term Life Insurance, and offering them.

- Market strategy

JAPAN POST INSURANCE will position contracts by small and midsize firms as its main business domain, while exploring the market for individuals.

#### 2. Improvement of business infrastructures

- Overhaul of operations and system infrastructures

JAPAN POST INSURANCE will standardize operations so that it can efficiently assign staff, and systematize operations to make undertaking and payment operation flows efficient.

- Reform of personnel and wage systems

JAPAN POST INSURANCE will adopt the double track personnel administration system and the incentive-based wage system.

#### 3. Establishment and enhancement of internal control, etc.

JAPAN POST INSURANCE will reinforce its internal control system in preparation for its listing, including measures for ensuring conformity to the Financial Instruments and Exchange Law, establish a system for managing undertaking and payment by systematizing checking functions and assigning staff on a priority basis, and improve a system for managing personal information.

#### 4. Maintaining soundness of financial foundation

JAPAN POST INSURANCE will expand profit-earning opportunities through enhancement of internal management accounting, improvement of its ALM method, sophistication of ALM by improving and boosting systems, and diversified investment vehicles (such as syndicated loans, beneficiary rights and investments in stocks).

#### 5. Contribution to regions and society

JAPAN POST INSURANCE will proactively contribute to improving people’s health, and operate businesses that are friendly to people and the environment.

### Organization

JAPAN POST INSURANCE will consist of the head office, 81 directly-run offices, five service centers and one call center.

### Employees

JAPAN POST INSURANCE will take over about 5,400 employees of Japan Post as well as reappointed staff.

### Financial conditions

Assets: 112,855.0 billion yen (including securities, loans to the Deposit Insurance Corporation and the Postal Life Insurance Operations Center)

Liabilities: 111,855.0 billion yen (including policy reserves, reserve for price fluctuations and reserve for employees’ retirement benefits)

Net assets: 1 trillion yen

### Outlook for profit/loss

Net income: 41.0 billion yen (FY2008)

130.0 billion yen (FY2011)

Balance of total assets: 113 trillion yen (at the time of privatization)

91 trillion yen (at the end of fiscal 2011)

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# 2 Management Efforts



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# 2 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, providing "joy of interaction" and "power to move forward with ease."
- ... 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 wide and deep opinions freely, regardless of rank or place of work.

## 2. Compliance Efforts

Japan Post believes that compliance is one of its most important management issues and is striving to ensure observance. It strives to put compliance into practice in daily work to gain the trust of its customers and of society.

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

Japan Post establish compliance policies and a system to ensure compliance throughout the Company. Further, it strove to inculcate awareness of compliance issues through conferences and trainings.

### 1. Establishment of Compliance Policies

Japan Post established the compliance policies outlined below:

#### (1) Japan Post Basic Compliance Policy

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

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

The basic stance on providing products and services at post offices was established based on (1).

#### (3) Japan Post Compliance Program

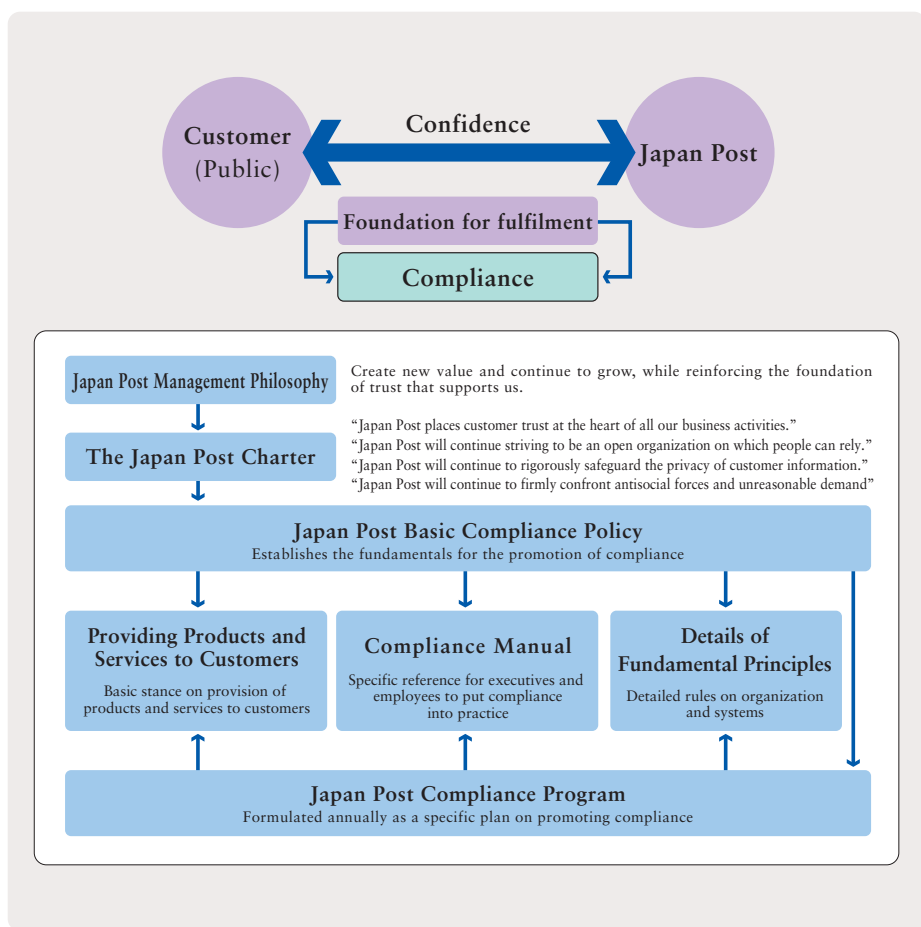
The Compliance Program established specific plans to promote compliance and was formulated annually according to (1).

#### (4) Compliance Manual

The Compliance Manual was served based on (1) as specific guidelines so that executives and employees practiced compliance. The manual was distributed to all executives and employees.

In addition to the above Compliance Manual for all executives and employees, Japan Post also formulated 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

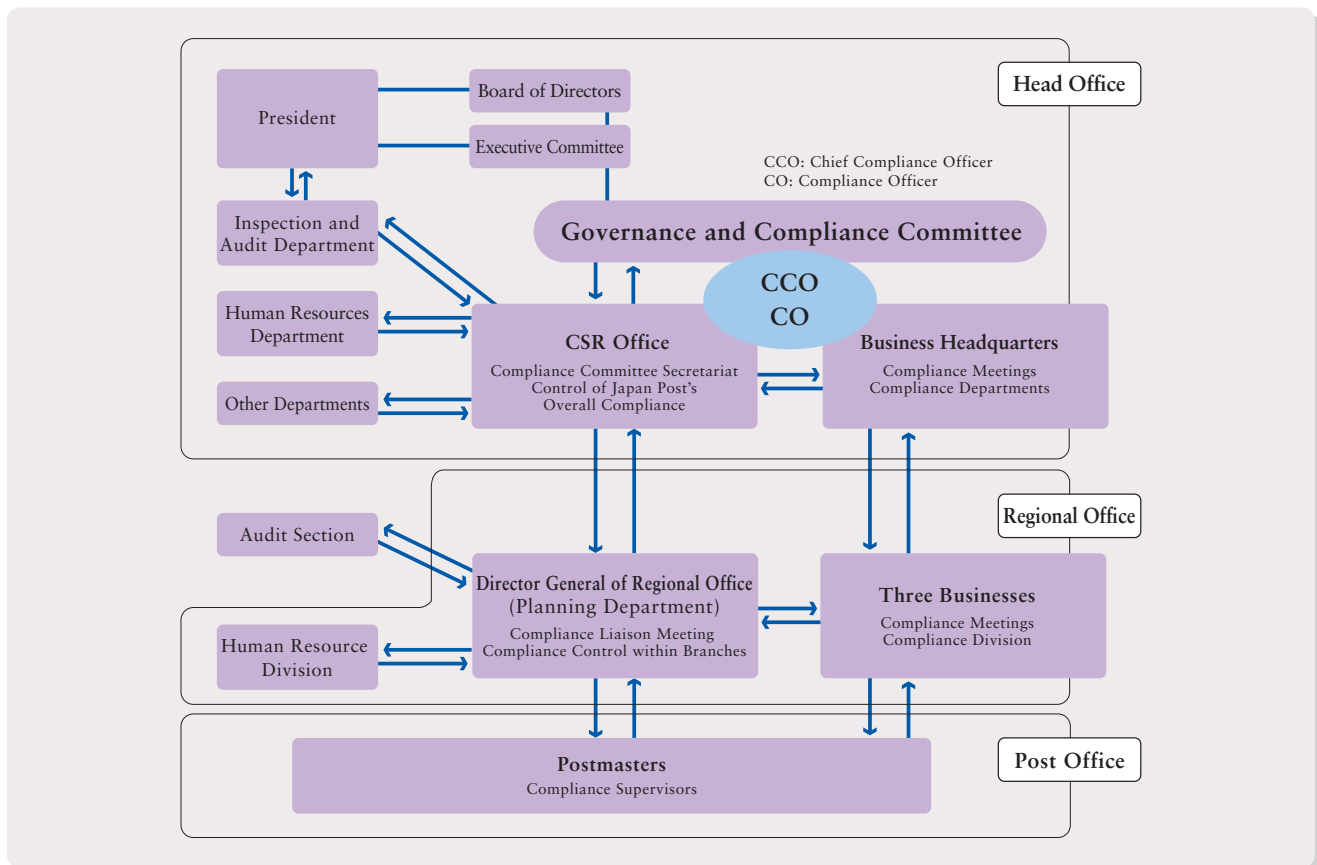
At Japan Post, we shall observe all relevant laws and regulations and endeavor to provide products and services in an appropriate manner, as detailed below, on the basis of the Japan Post Charter.

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 the Company's Head office as a system to promote compliance based on the Japan Post Basic Compliance Policy. A Chief Compliance Officer (CCO) was 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 headquarters to take responsibility for controlling the promotion of compliance efforts, and a compliance supervisor was appointed in each organization.

### ■ Compliance promotion system chart



## 3. Risk Management Efforts

### 1. Basic Concept on Risk Management

Japan Post ran the Postal Business, Postal Savings and Postal Life Insurance – three distinct businesses that each faced different risks.

In order to ensure sound management and earn customer trust, Japan Post prioritized risk management as one of its most important management issues. The Board of Directors established the Japan Post's Basic Principles on Risk Management to serve as the company-wide policies that guided Japan Post's risk management efforts.

### Japan Post's Risk Management System

Japan Post 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 were 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 were 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 was to conduct integrated risk management for their respective businesses. Additionally, a Risk Management Committee was set up to discuss risk management issues. These steps were intended to enhance the risk management system.

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

## 2. Risk Management in Postal Business

The Postal Business strove to prevent accidents and irregularities to ensure that important letters and parcels customers entrusted were delivered safely. To this end, Japan Post established a reporting system and it endeavored to ensure a speedy solution in case of an accident.

### (1) RISK MANAGEMENT SYSTEM

Japan Post secured a system of checks and balances within the Postal Business Headquarters, while all divisions and offices within the headquarters managed risks involved in the operations of which they were in charge.

The general manager of the Operations Supervision Division was 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 according to the characteristic of this business, the Postal Service acted in accordance with the Postal Service Basic Policy for Risk Management, which stipulated the basic functions of the management system.

All divisions and offices within the Postal Business Headquarters ascertained the risks involved in the operations of which they were in charge, evaluated these risks, and devised necessary countermeasures based on their assessment.

The general manager of the Operations Supervision Division requested 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 provided 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 risks resulting in losses due to failure of information systems, unauthorized use of them, and the like

### 3. Risk Management in Postal Savings Business

#### (1) BASIC CONCEPTS ON RISK MANAGEMENT

---

Japan Post recognized that coping with risks arising from operational management is an important governance issue in postal savings business, and worked to establish risk management systems.

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

Note: In the Postal Savings Business, Japan Post regards market and liquidity risks as operational 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 also strove to establish a risk management structure appropriate to the diverse and complex nature of its operations as a financial institution as it moved towards the split-up and privatization in October 2007.

#### (2) RISK MANAGEMENT IN POSTAL SAVINGS BUSINESS

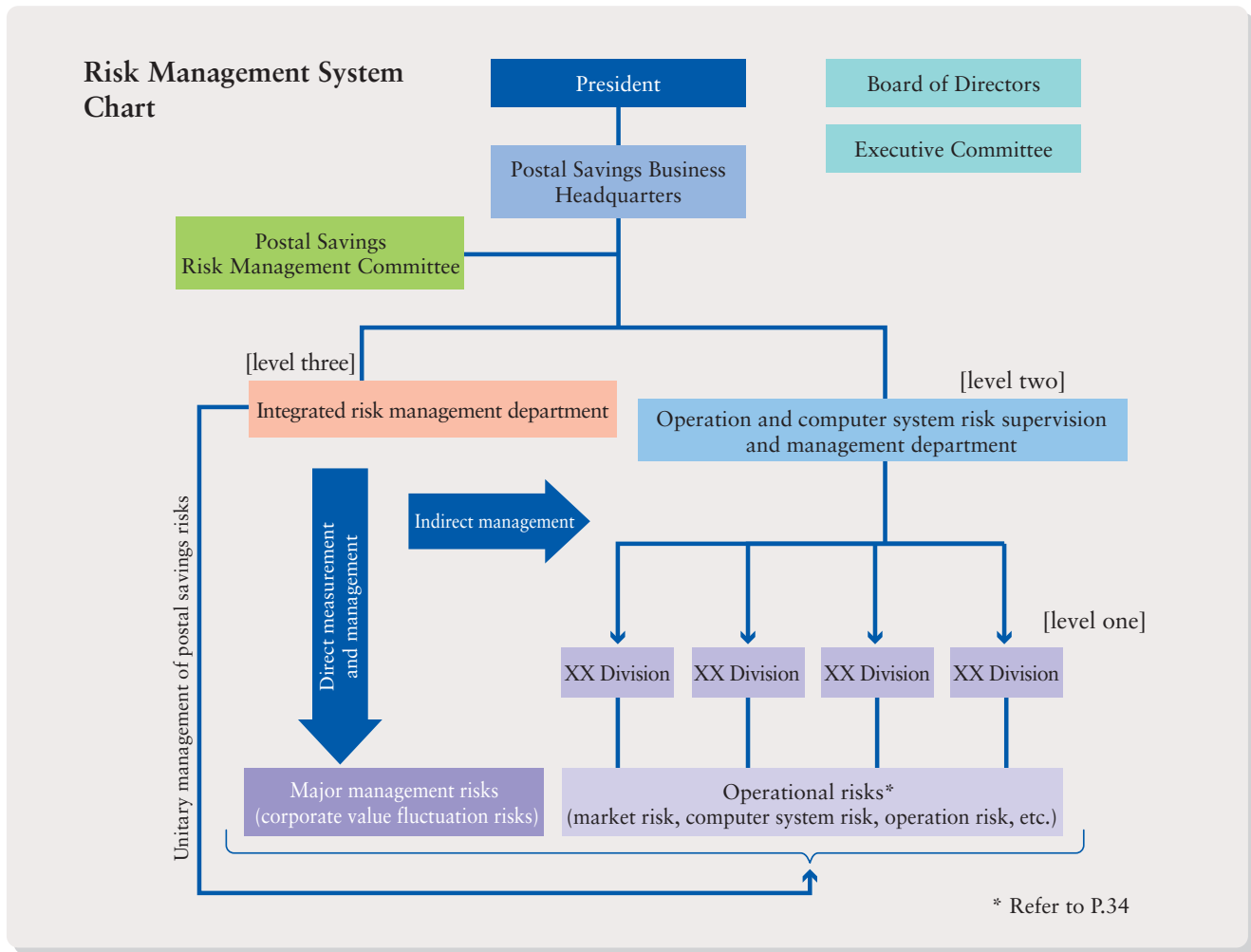
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Postal Savings is a financial institution which provides financial service essential to individuals' daily lives and is available at about 24,100 post offices across Japan. Its distinctive characteristics distinguish it from other financial institutions.

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

Specifically, the Integrated Risk Management Department used quantitative, probabilistic methods to directly measure and managed risks affecting sound management. The Postal Savings Business organization was divided for convenience into front (The front was further divided with the level one having jurisdiction over all operations and establishing management relations with the level two which was responsible for risk management conditions) and middle. The integrated middle (level three) indirectly exercised authority over the management system of the level one and level two. Furthermore, the organization relating to the Postal Savings Business was arranged so that in principle conflicts of interest were divided organizationally and by positions of responsibility. It was an organizational structure that provided mutual checks and balances from the standpoint of risk management.

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



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### 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, except for 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 were that customers transferred their deposits to new Teigaku Savings when interest rates rose, resulting in a mismatch between the interest period of Teigaku savings and asset holdings. This created the risk of future volatility in profits and losses, and the risk that interest rate volatility would change the value of asset holdings such as Japanese government bonds. These were crucial risks for management, and the two risks were managed together as corporate value fluctuation risks.

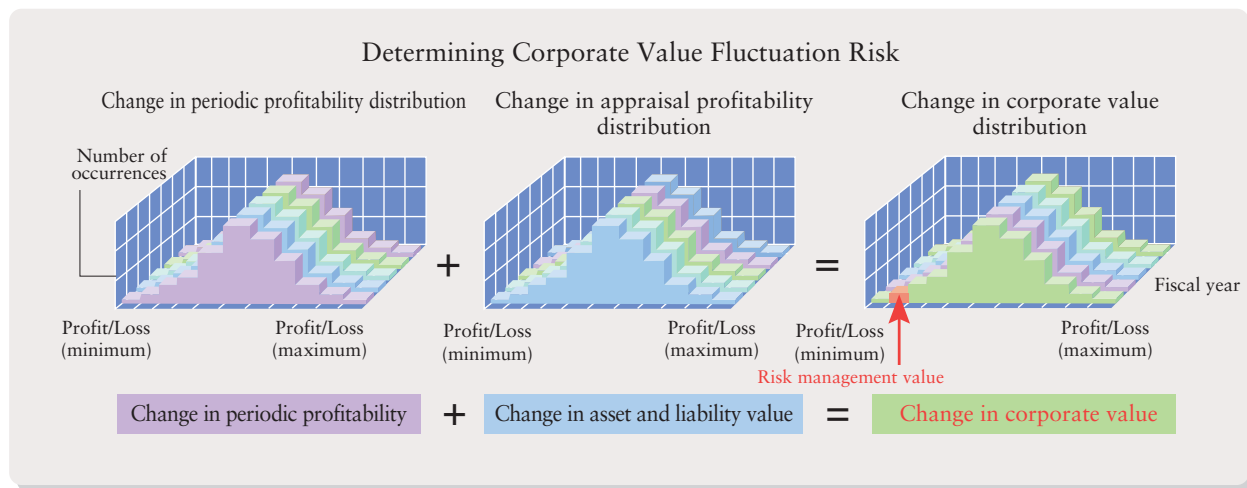
#### Measuring Corporate Value Fluctuation Risk

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)



## MAINTAIN CONFIDENCE

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The “operational risks,” which consisted of market risk, liquidity risk, computer system risk and operation risk (please refer to P.34), were managed mainly by conforming to various rules. Japan Post identified risks using a risk evaluation sheet for every operation process, understanding the causes of the risks and the current risk management system. Risk maps were used to measure the frequency with which a given risk occurs and the extent of its impact was categorized.

In particular, Japan Post strove to reduce risks categorized as “risks that needs to be managed” by setting up management systems that went beyond the previous operations management.

Furthermore, Japan Post managed market and liquidity risks by limiting them depending on their nature. This was done by determining the amount of risk fluctuation and the relevant 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 was categorized and managed as market risk.

Specific risk management is as follows:

○ALM risk management

ALM risk was 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 was managed by setting criteria for the type of financial instruments able to be bought, the maximum amount able to be held for each issuing body, and 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.) was managed by using internal rating standards to set consignee standards and the maximum tracking error.

### Liquidity Risk

This is a type of 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. These risks were classified as “liquidity risks” and managed accordingly by setting criteria to ensure that the necessary funds for fund settlements were secured for postal savings funds, postal transfer funds, and savings surplus.

### Computer System Risk

This type of 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. These risks were classified as “computer system risks” and managed accordingly.

### Operation Risk

This type of risk results in losses due to improper management or management standards for administration work and administration consignment. These risks were classified as “operation risks” and managed accordingly.

## 4. Risk Management in Postal Life Insurance Business

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

As the economic climate and other management environment factors for Postal Life Insurance are 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 recognized effective risk management in accordance with risk characteristics as an important management issue, and managed risks in accordance with the “Postal Life Insurance Basic Policy for Risk Management”, which stipulated basic functions, including the management system and management methods.

### (1) RISK MANAGEMENT SYSTEM

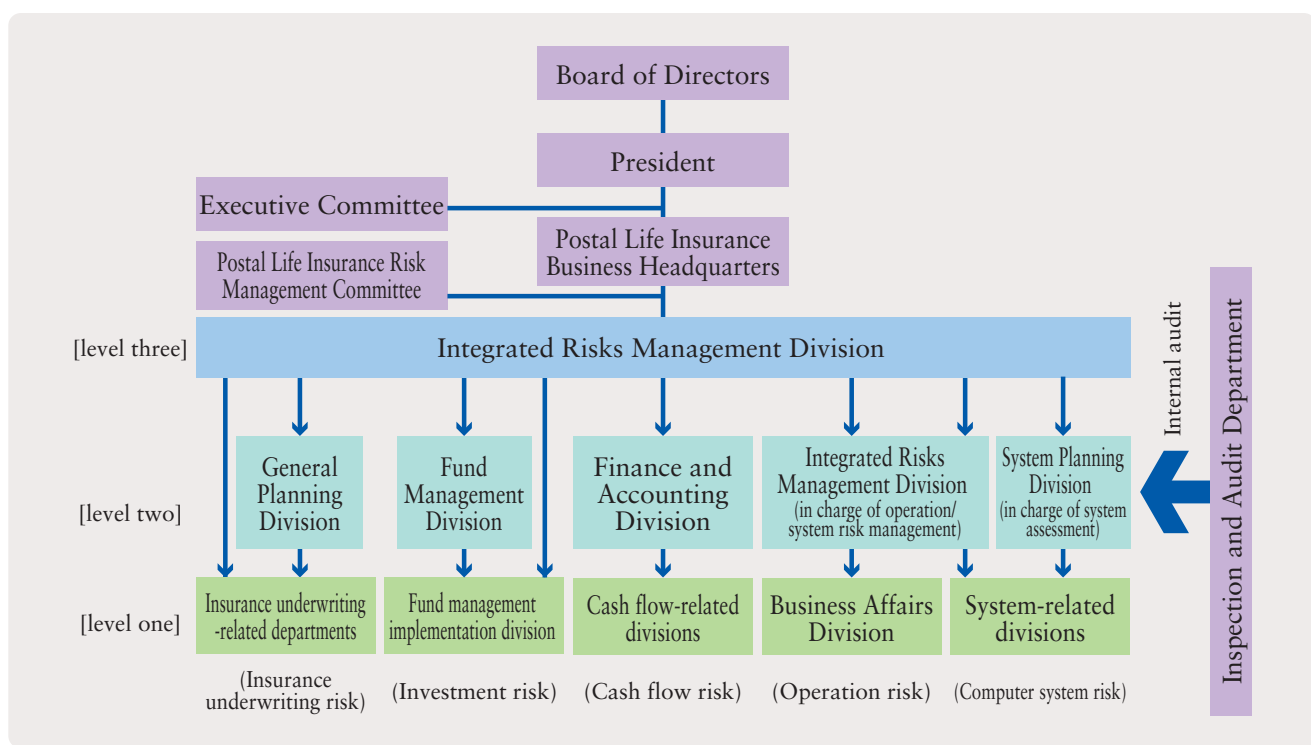
The Postal Life Insurance Business comprehensively identified its business risks and managed them based on their degree of importance.

- (1) The Business Affairs Division was divided into the Service Division (level one), which pursued profits, and the Business Planning Division (level two), which provided support and management, and these two divisions worked 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 managed risk in a unified and comprehensive manner. (Responsibilities were partially separated such that the Integrated Risks Management Division (in charge of operation/system risk management) carried out level two functions 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) carried out level two functions for computer system risk.)

This multi-layered risk management system ensured sound business management.

Risk-related matters were 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 was regularly reported to the Board of Directors and the Executive Committee.

This risk management system was 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 classified and defined the types and content of risks it faced as shown below, established management systems and regulations in accordance with risk characteristics, and implemented 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

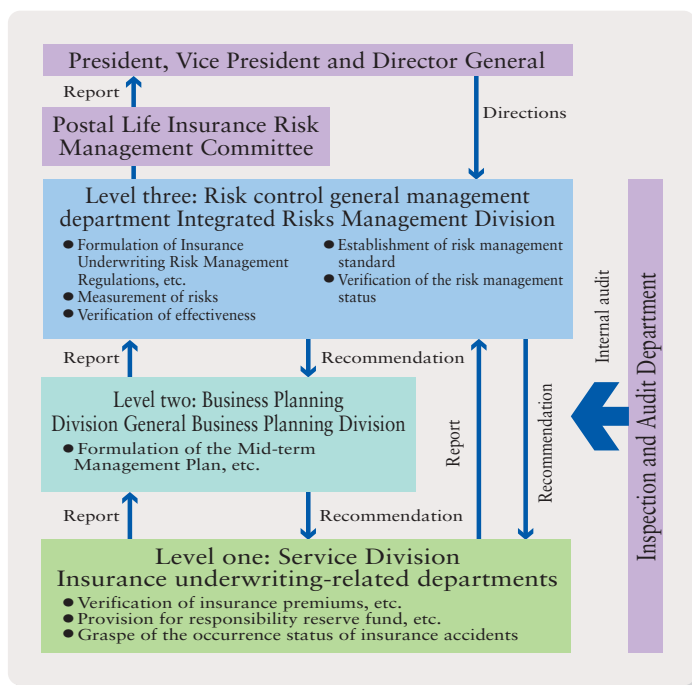
Life insurance contracts commit the Postal Life Insurance Service to contracts that cover the customer's risk of death, illness and injury for long periods of several decades. This means that, when underwriting insurance contracts, Japan Post needs to accurately ascertain the types of risk that might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

With regard to the management of insurance underwriting risk, while reporting and recommendation systems between the levels were maintained, the Service Division, or level one, implemented self-management on activities such as verification of insurance premiums, provision for responsibility reserve fund and other activities, and graspe of the occurrence states of insurance accidents, while the Business Planning Division, or level two, had 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, measured risks based on the insured event occurrence rate, market trends, business expenses, etc. verified and reported the risk management status at level two to the Postal Life Insurance Risk Management Committee.

Thus, Japan Post managed 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

Japan Post focused on the safety and certainty in managing the funds entrusted by the customers under life insurance contracts to provide for payment of insurance money in the future. However, the risks of incurring unexpected losses due to changes in the market environment cannot be denied. In the Postal Life Insurance Business, Japan Post paid maximum attention to the management of investment risk so that customers were able to utilize postal insurance without anxiety.

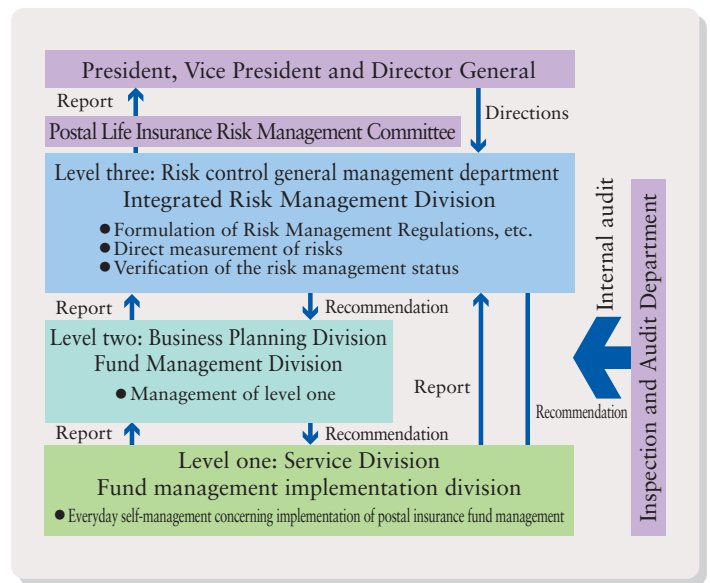
With regard to organizational systems, Japan Post believed that mutual checks between divisions were important. As for the risk management system for Postal Life Insurance, Japan Post adopted a multi-layered risk management system, comprising the Service Division, or level one, the Business Planning 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 conducted everyday self-management concerning the implementation of management of postal life insurance funds, while the Business Planning Division managed progress in the management plan based on the reports from level one. The Integrated Risks Management Division directly measured risks, verified and reported the risk management status of level one and level two to the Postal Life Insurance Risk Management Committee. Thus, risks were rigorously managed.

Japan Post classified investment risks into market risks, credit risks, and market liquidity risks, and managed them accordingly. Some Kampo funds were entrusted to investment banks and investment consultants, and the Postal Life Insurance Service also ascertained the investment risk of these entrusted funds and managed the investment risk in a unified manner.

Japan Post engaged in derivatives trading, which could make a large amount of transactions with less capital and could also result in unexpected losses, as means for hedging only but not for speculative dealings.

Japan Post engaged in derivatives trading, which could make a large amount of transactions with less capital and could also result in unexpected losses, as means for hedging only but not for speculative dealings.

## Management system for investment risk

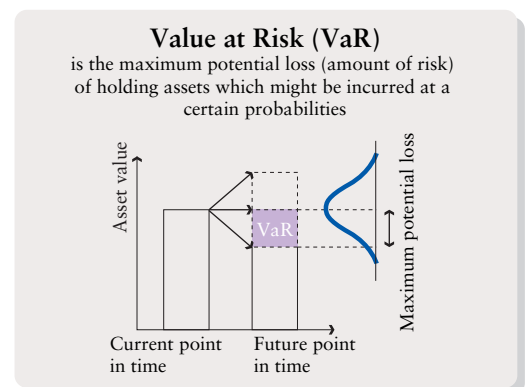


### 1) Market Risk

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, Japan Post used the 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, Japan Post formulated harsh market environments, including unexpectedly sharp declines in quotations, and simulated the amount of losses (through implementation of stress tests), thereby recognizing risks that could not be grasped by VaR.



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

End of September 2007

Factor	Asset	Balance	Sensitivity	
Interest rates	Bonds held to maturity	30 trillion yen	+ 0.1%	(- 187.0 billion yen)
	Bonds to cover premium reserves	45 trillion yen	+ 0.1%	(- 235.0 billion yen)
	Other (balance sheet)	10 trillion yen	+ 0.1%	- 39.0 billion yen
Foreign exchange	Foreign currency-denominated bonds (balance sheet)	4 trillion yen	10 yen appreciation	- 353.0 billion yen
Share prices	Domestic stocks (balance sheet)	2 trillion yen	- 1,000 yen	- 173.0 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.

## 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 managed bonds, deposits, etc., since it was allowed to extend loans only to regional public organizations under the Japan Postal Public Corporation Law. When managing credit risks, Japan Post set standards for unqualified debtors, referring to the ratings graded by ratings agencies, and also set credit lines for each debtor.

Japan Post figured out the risk represented by debtors, adding up each individual company's bonds, deposits, and stocks, so that credit risk was 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, Japan Post set limits for issue holdings to manage risk in accordance with an analysis of the market's trading conditions. This ensured a certain degree of market liquidity.

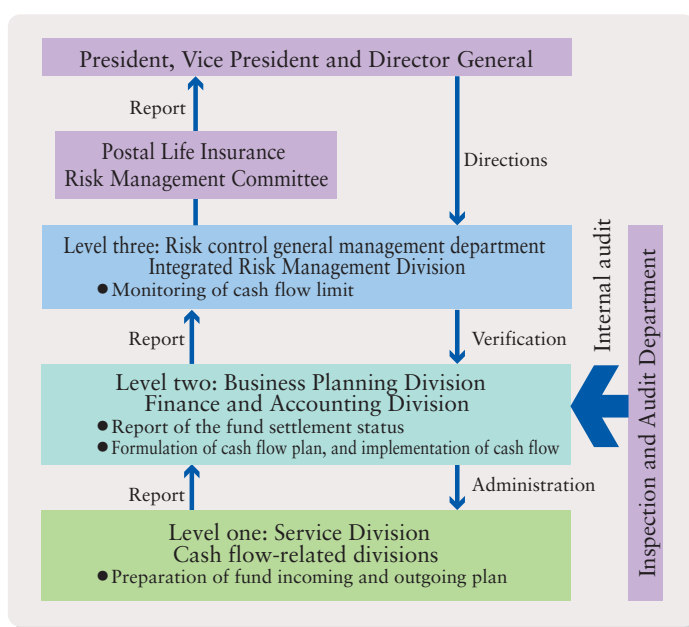
## (3) Cash Flow Risk

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. If fund settlements are jeopardized at the time of receiving and paying funds, it could cause inconvenience to the persons concerned, and could also make it impossible for Japan Post to operate the business itself.

Consequently, Postal Life Insurance set 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 ensured an appropriate management of cash flow risk.

To manage this risk, Postal Life Insurance defined classifications according to the tightness of financing, and it set, managed, and monitored the reserve limits for each of these classifications so that no impediments occurred to fund management.

### Management system for cash flow risk

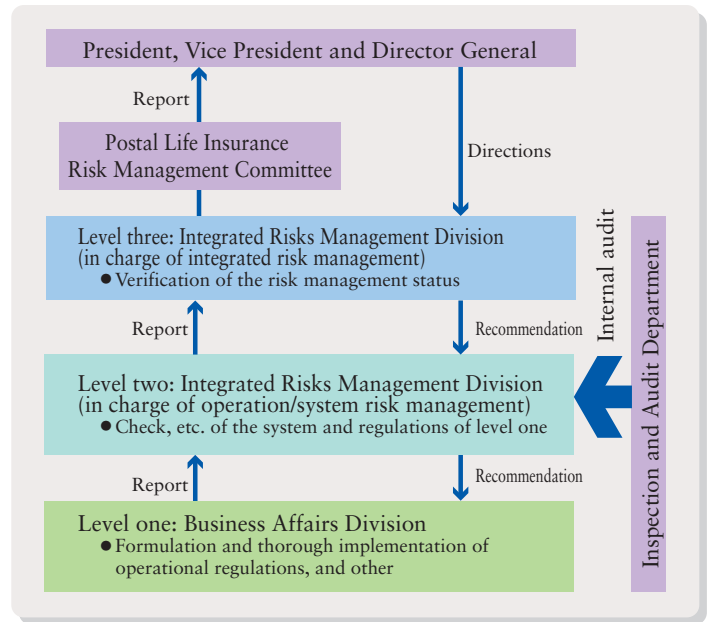


#### (4) Operation Risk

If accidents in handling business operations, etc. occur, Japan Post would not only have inconvenienced customers, but would also have lost their trust in Postal Life Insurance. Under such circumstances, the Business Affairs Division, or level one, ascertained incidents that have occurred in the past or that could be accrued, and established office regulations to ensure appropriate business transactions, and also strove to raise awareness and educate employees. In addition, the Integrated Risks Management Division (in charge of operation/system risk management), or level two, examined the operation risk management system of level one and conducted surveys as necessary in cases where accidents may have occurred. This system worked as mutual checks and balances.

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

#### Management system for operation risk



#### (5) Computer System Risk

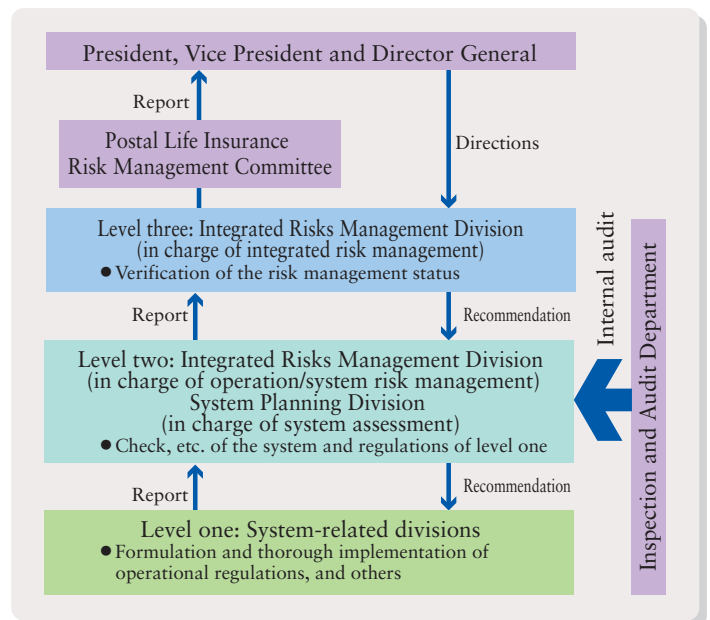
A large part of business operations is dependent on information systems and in case that the system were to go down or other major trouble were to occur, Japan Post could make it inconvenience to customers and could also lost their trust in postal life insurance in the same way as if operation risks were revealed. For this reason, Japan Post set up two main computer centers with electronic computing systems, each in eastern and western Japan, and formulated a manual with guidelines on responding to severe interruptions in our computing system. Thus Japan Post established a structure enabling a quick response to computer system risks.

Furthermore, Japan Post carried out a variety of security measures and strove to thoroughly secure information assets, based on the Japan Post 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 were level two, verified whether system management was properly implemented by system-related divisions, or level one, and strove to reduce computer system risks using a system of checks and balances.

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

#### Management system for computer system risk



# 3 About Japan Post

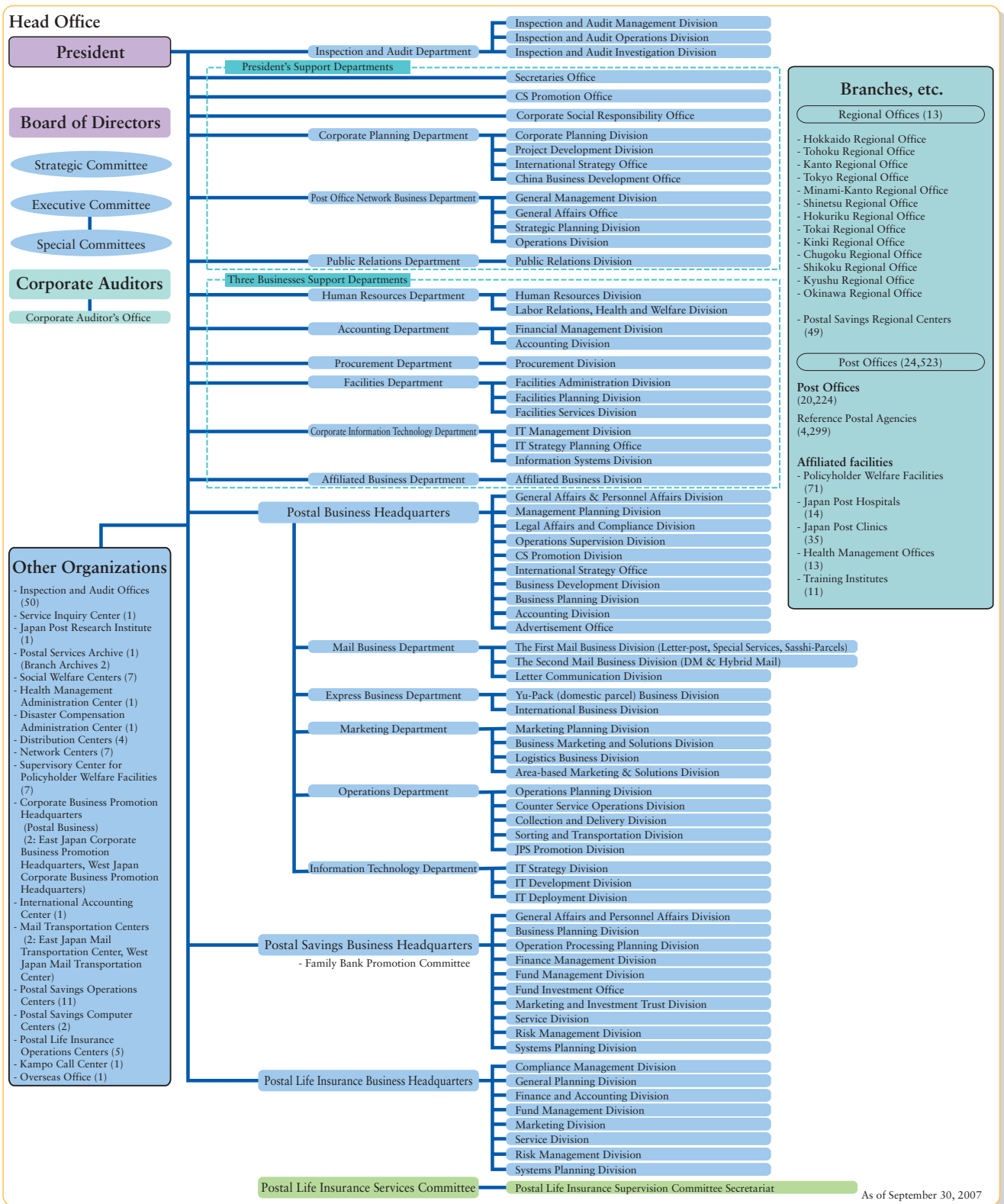


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# 3 About Japan Post

## 1. Organization Overview

### 1. Organization Chart



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## 2. Number of Post Offices

Unit: post office

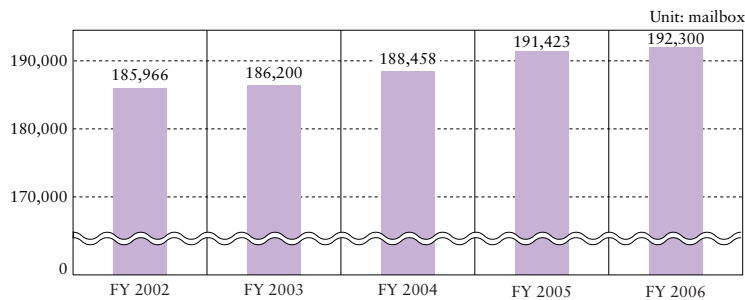
	Ordinary post offices			Special post offices			Postal agencies	Total
	Collection-and-delivery post offices	Non-collection-and-delivery post offices	Subtotal	Collection-and-delivery post offices	Non-collection-and-delivery post offices	Subtotal		
End of FY 2007	1,239	58	1,297	2,405	16,522	18,927	4,299	24,523
End of FY 2006	1,243	51	1,294	2,418	16,506	18,924	4,356	24,574
End of FY 2005	1,257	47	1,304	3,438	15,479	18,917	4,410	24,631
End of FY 2004	1,261	47	1,308	3,465	15,458	18,923	4,447	24,678
End of FY 2003	1,262	48	1,310	3,530	15,405	18,935	4,470	24,715

## 3. Employee Circumstances

Unit: person

	Japan Post total	Postal Services	Postal Savings	Postal Life Insurance	Other
End of FY 2007	253,814	109,709	55,373	40,295	48,437
End of FY 2006	254,177	109,193	55,415	40,405	49,164
End of FY 2005	256,572	110,579	55,410	41,248	49,335
End of FY 2004	261,937	114,158	56,316	41,994	49,469

## 4. Number of Mailboxes



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## 5. Number of ATMs Installed

The first ATMs were installed in FY 1979, and by the end of FY 1992 every post office in Japan had an ATM (with the exception of a small number of post offices and postal agencies that could not install ATMs owing to lack of space).

Unit: ATM, location

	End of FY 2003	End of FY 2004	End of FY 2005	End of FY 2006	End of FY 2007
Total Number of ATMs	26,483	26,519	26,297	26,103	26,097
Off Premises ATMs	2,874	2,869	2,564	2,226	2,179

## 2. Post Office Network Characteristics

Post offices provide post, savings, and life insurance services to the public through the nationwide post office network. At the same time, they serve as focal points for the community where information can be obtained and advice provided on a variety of issues related to the requirements of everyday life.

### Maintaining Post Office Network Standards

With post offices established in all 1,827 cities, towns and villages in Japan (as of end of fiscal 2007), Japan Post offered a complete network of services across the country. (Total number of post offices as of the end of fiscal 2007: 24,523)

### Lifeline Function during Disasters

The Post Office Network, which reaches every corner of Japan, provided various services as needed by residents in times of disasters or other emergency-related situations. (Disaster services included free supplies of postcards, etc., emergency handling for lost postal savings passbooks or stamps, and immediate payment of insurance claims and loans.)

**Other lifeline services included handling of various government administrative services, sales of revenue stamps, payment of pension benefits, and other items essential for daily life.**

### Local-oriented Policies

Japan Post promoted policies to boost post office capabilities in response to local demands and expectations, strengthened the links between local communities and post offices, and raised the profile of post offices as the public institution closest to the people. (Acceptance of administrative work on behalf of local government authorities, the Himawari Service, participation in fire prevention agreements, etc.)

### Private-sector Utilization of the Post Office Network

Japan Post opened up the life infrastructure of the Post Office Network through promotion of tie-ups with private-sector services to improve customer convenience. (ATM service tie-ups with private-sector financial institutions, sales of compulsory liability insurance for motorcycles, etc.)



# 3. Board of Directors

## LIST OF BOARD OF DIRECTORS AS OF END OF FISCAL 2007

As of September 30, 2007

The number of the directors of fiscal 2007: 1 President, 2 Executive Deputy Presidents, 14 Managing Executive Officers (including 3 non-standing Managing Executive Officers), and 2 Corporate Auditors (including 1 non-standing auditor)

### President

NISHIKAWA Yoshifumi

### Executive Deputy Presidents

TAKAGI Shokichi

DAN Hiroaki

### Managing Executive Officers

(Standing)

YAMASHITA Izumi

SASAKI Hideharu

NISHIMURA Kiyoshi

MORI Takamasa

FUJIMOTO Eisuke

ITO Takao

OKADA Katsuyuki

MASE Tomohisa

YOSHIMOTO Kazuhiko

SAIO Chikanori

GANNYO Hisamitsu

(Non-standing)

SETO Yuuzo

MUNEKUNI Yoshihide

IKEO Kazuhito

### Corporate Auditors

TAKAHASHI Morikazu

INOUE Hidekazu

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## 4. Content of Operations

As of September 30, 2007, Japan Post engaged in the following operations, based on regulations in Article 19 of the Japan Post Law (2002 Law No. 97).

- (1) Postal service operations based on regulations in the Postal Law
- (2) Postal savings operations based on regulations in the Postal Savings Law
- (3) Postal money order operations based on regulations in the Postal Money Order Law
- (4) Postal giro operations based on regulations in the Postal Transfer Law
- (5) Postal life insurance operations based on regulations in the Postal Life Insurance Law
- (6) Sells revenue stamps, consigned by the government
- (7) Pays retirement allowances and other government disbursements, consigned by the government
- (8) Issues New Year Lottery Postcards and Charity Donation postcards
- (9) Establishes and operates general announcements on postal savings and dissemination facilities
- (10) Handles placement of government bonds, etc.
- (11) Processes contributions to postal savings for International Voluntary Aid
- (12) Exchanges foreign currencies and purchases and sells travelers checks
- (13) Processes contributions to Disaster Voluntary Aid Account
- (14) Manages and controls defined contribution pension fund (limited to individual pension fund)
- (15) Establishes and operates postal life insurance policyholder welfare facilities
- (16) Handles treasury funds entrusted by the Bank of Japan
- (17) Federation of National Public Service Personnel Mutual Aid Association pension and lump sum payments
- (18) Administrative work involved in the sale of lottery tickets and payment to lottery winners
- (19) Handles operations concerning acceptance of applications for small-scale educational fund loans and grant of loans, consigned by National Life Finance Corporation and Okinawa Development Finance Corporation
- (20) Handles deposit and withdrawal operations for financial deposits, stipulated by the law related to the entrustment and consignment of acceptance and payment of postal savings, deposits, etc.
- (21) Handles operations provided for in Article 61, Paragraph 1 of the Defined Contribution Pension Law, including acceptance of application for personal pensions, consigned by the Federation of National Pension Fund Association
- (22) Handles operations of local government authorities conducted based on regulations in the law concerning handling of specified operations of local government authorities at post offices, and operations consigned by local government authorities
- (23) Handles applications for motorcycle liability insurance
- (24) Handles operations contributing to the convenience of regional residents, consigned by NTT East and West, successor to Kokusai Denden, specified in Article 5, Paragraph 1 of the supplementary rules to the Telecommunications Business Law, or NHK
- (25) Handles placement of beneficiary certificates of securities investment trusts

## 5. Address of Head Office and Regional Offices

■ As of September 30, 2007

	Zip code	Addresses
Headquarters	1 0 0 - 8 7 9 8	1-3-2, Kasumigaseki, Chiyoda-ku, Tokyo
Hokkaido Regional Office	0 6 0 - 8 7 9 7	4-3, Kitanijo-nishi, Chuo-ku, Sapporo, Hokkaido
Tohoku Regional Office	9 8 0 - 8 7 9 7	1-1-34, Ichiban-cho, Aoba-ku, Sendai, Miyagi Prefecture
Kanto Regional Office	3 3 0 - 9 7 9 7	3-1, Shintoshin, Chuo-ku, Saitama, Saitama Prefecture
Minami-Kanto Regional Office	2 2 0 - 8 7 9 7	1-1-3, Hiranuma, Nishi-ku, Yokohama, Kanagawa Prefecture
Tokyo Regional Office	1 0 6 - 8 7 9 7	1-6-19, Azabudai, Minato-ku, Tokyo
Shinetsu Regional Office	3 8 0 - 8 7 9 7	801, Kurita, Nagano, Nagano Prefecture
Hokuriku Regional Office	9 2 0 - 8 7 9 7	1-1-1, Owari-cho, Kanazawa, Ishikawa Prefecture
Tokai Regional Office	4 6 9 - 8 7 9 7	3-2-5, Marunouchi, Naka-ku, Nagoya, Aichi Prefecture
Kinki Regional Office	5 3 0 - 8 7 9 7	3-9, Kitahama-higashi, Chuo-ku, Osaka, Osaka Prefecture
Chugoku Regional Office	7 3 0 - 8 7 9 7	19-8, Higashishiroshima-cho, Naka-ku, Hiroshima, Hiroshima Prefecture
Shikoku Regional Office	7 9 0 - 8 7 9 7	8-5, Miyata-cho, Matsuyama, Ehime Prefecture
Kyushu Regional Office	8 6 0 - 8 7 9 7	1-1, Joto-cho, Kumamoto, Kumamoto Prefecture
Okinawa Regional Office	9 0 0 - 8 7 9 7	26-29, Higashi-cho, Naha, Okinawa Prefecture

# 6. Number of Post Offices by Prefecture

■ As of September 30, 2007

Unit: post office, branch office

Regional office	Prefecture	Ordinary post offices			Special post offices			Postal agencies	Total	Branch offices (separate tabulation)
		Collection-and-delivery post offices	Non-collection-and-delivery post offices	Subtotal	Collection-and-delivery post offices	Non-collection-and-delivery post offices	Subtotal			
Hokkaido	Hokkaido	72	2	74	213	928	1,141	300	1,515	—
Tohoku	Aomori	11	—	11	55	201	256	95	362	—
	Iwate	15	—	15	75	218	293	124	432	—
	Miyagi	18	3	21	67	276	343	93	457	—
	Akita	10	—	10	68	195	263	128	401	—
	Yamagata	13	—	13	55	221	276	109	398	—
	Fukushima	22	—	22	103	307	410	116	548	—
	Subtotal	89	3	92	423	1,418	1,841	665	2,598	—
Kanto	Ibaraki	37	—	37	49	379	428	56	521	—
	Tochigi	21	—	21	48	242	290	47	358	—
	Gunma	20	—	20	39	243	282	38	340	—
	Saitama	52	2	54	17	553	570	19	643	—
	Chiba	48	1	49	47	597	644	34	727	2
		Subtotal	178	3	181	200	2,014	2,214	194	2,589
Minami-Kanto	Kanagawa	57	3	60	6	687	693	16	769	—
	Yamanashi	15	—	15	10	176	186	66	267	—
		Subtotal	72	3	75	16	863	879	82	1,036
Tokyo	Tokyo	88	29	117	12	1,382	1,394	8	1,519	3
Shinetsu	Niigata	32	—	32	70	433	503	149	684	1
	Nagano	28	1	29	76	340	416	215	660	—
		Subtotal	60	1	61	146	773	919	364	1,344
Hokuriku	Toyama	20	—	20	18	174	192	79	291	—
	Ishikawa	11	—	11	34	210	244	72	327	1
	Fukui	10	—	10	32	168	200	33	243	—
		Subtotal	41	—	41	84	552	636	184	861
Tokai	Gifu	24	—	24	76	255	331	102	457	1
	Shizuoka	37	—	37	63	384	447	119	603	—
	Aichi	65	2	67	41	729	770	95	932	5
	Mie	16	—	16	55	301	356	95	467	—
		Subtotal	142	2	144	235	1,669	1,904	411	2,459
Kinki	Shiga	14	2	16	28	185	213	32	261	—
	Kyoto	28	—	28	21	393	414	34	476	2
	Osaka	69	8	77	5	1,012	1,017	31	1,125	6
	Hyogo	51	—	51	62	727	789	123	963	3
	Nara	16	—	16	35	190	225	82	323	—
	Wakayama	14	—	14	36	213	249	54	317	—
		Subtotal	192	10	202	187	2,720	2,907	356	3,465
Chugoku	Tottori	4	—	4	22	121	143	100	247	—
	Shimane	9	—	9	66	182	248	122	379	—
	Okayama	23	—	23	69	327	396	114	533	4
	Hiroshima	29	2	31	77	476	553	121	705	1
	Yamaguchi	20	—	20	54	280	334	65	419	2
		Subtotal	85	2	87	288	1,386	1,674	522	2,283
Shikoku	Tokushima	10	—	10	48	145	193	36	239	—
	Kagawa	15	—	15	17	157	174	38	227	—
	Ehime	18	—	18	42	257	299	81	398	—
	Kochi	14	1	15	30	184	214	94	323	—
		Subtotal	57	1	58	137	743	880	249	1,187
Kyushu	Fukuoka	54	1	55	39	621	660	97	812	—
	Saga	13	—	13	28	125	153	40	206	—
	Nagasaki	16	—	16	83	212	295	138	449	—
	Kumamoto	18	—	18	76	297	373	178	569	—
	Oita	16	—	16	58	234	292	94	402	—
	Miyazaki	11	—	11	54	131	185	114	310	—
	Kagoshima	22	—	22	105	309	414	283	719	2
		Subtotal	150	1	151	443	1,929	2,372	944	3,467
Okinawa	Okinawa	13	1	14	21	145	166	20	200	1
	Total	1,239	58	1,297	2,405	16,522	18,927	4,299	24,523	34

Note 1: Showa Base post offices and post offices on ships are not included.

Note 2: The number of post offices includes ones that are temporarily closed.

# 7. History

1 Highlights

2 Management Efforts

3 About Japan Post

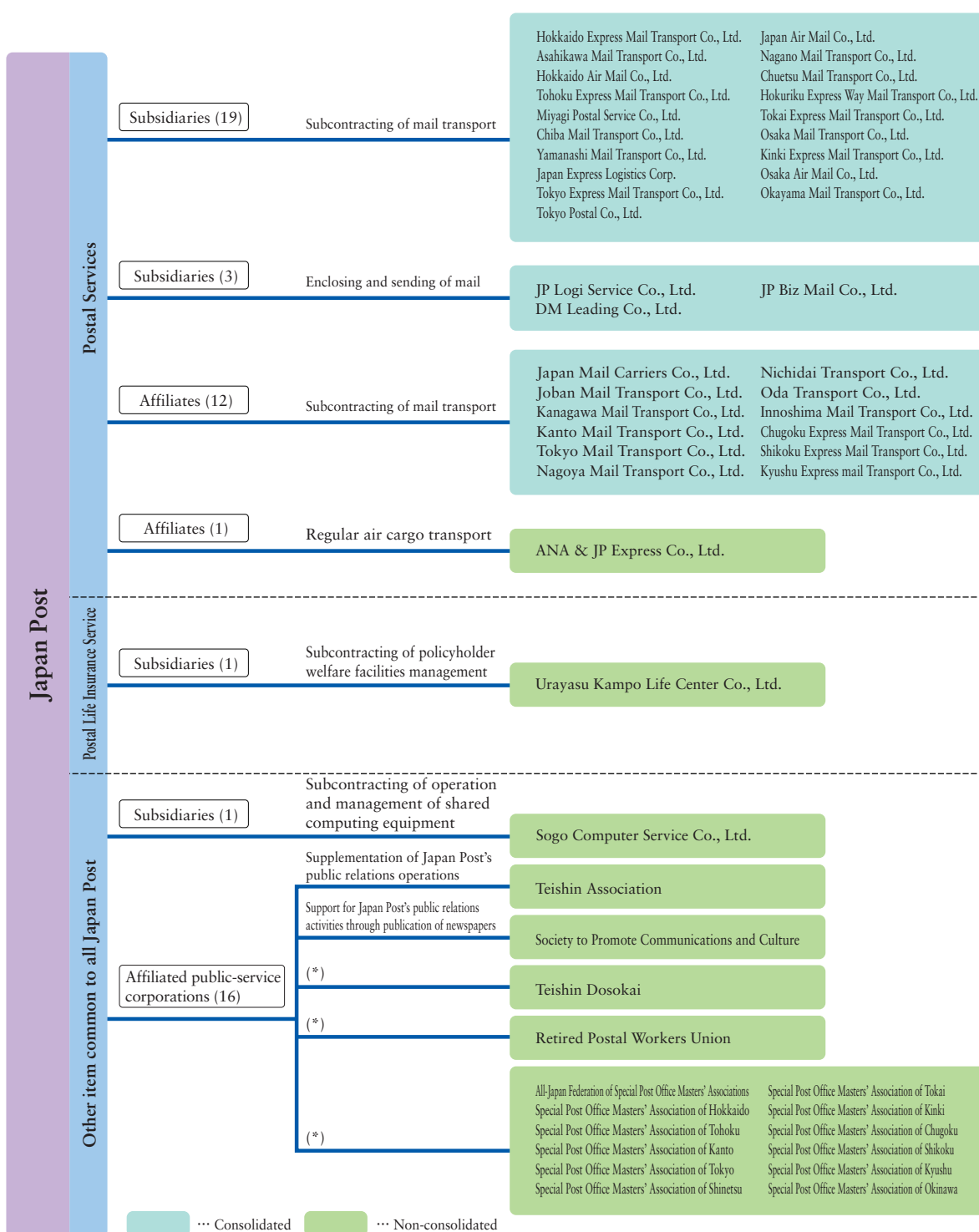
4 Data

Date	Facts
April 20, 1871	Modern Postal Service Introduced
January 1, 1875	Government mail offices and mail handling offices renamed post offices
January 2, 1875	Postal Money Order Service established
May 2, 1875	Postal Savings Services inaugurated
December 22, 1885	Ministry of Communications established
March 1, 1906	Postal Giro Service inaugurated
October 1, 1916	Postal Life Insurance Services inaugurated
June 1, 1949	The Ministry of Posts and Telecommunications established
January 6, 2001	In accordance with the Central Government Reform, Ministry of Public Management, Home Affairs, and Posts and Telecommunications (MPHPT) and Postal Service Agency established
April 1, 2003	Japan Post established
October 1, 2007	Dissolution of Japan Post (Privatization and split-up) Succeeded by 5 Companies (JAPAN POST HOLDINGS Co., Ltd., JAPAN POST SERVICE Co., Ltd., JAPAN POST NETWORK Co., Ltd., JAPAN POST BANK Co., Ltd., and JAPAN POST INSURANCE Co., Ltd.) and the Management Organization for Postal Savings and Postal Life Insurance

# 8. Relationships with Subsidiaries

## Organizational Tree

As of end of September 2007

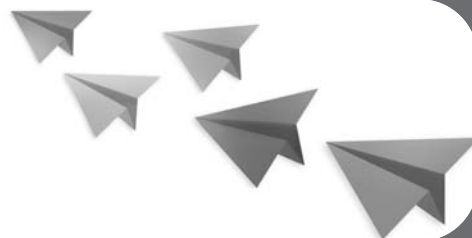


\* Companies where former Japan Post officers account for at least one third of the officers, and are affiliated public-service corporations.  
 Note 1: The Special Post Office Masters' Association of Hokuriku, which was an affiliated public-service corporation until the previous fiscal year, is not listed because starting in fiscal year under review the number of officers who have experience working in a public corporation dropped below one-third of the total number of officers.  
 Note 2: Urayasu Kampo Life Center is a directly capitalized (51% share) subsidiary of Japan Post. Although the operations of its associated facilities were partially outsourced, all of those facilities were abolished while Japan Post was still a public corporation, and the company was dissolved on January 25, 2008.  
 Note 3: Sogo Computer Service Co., Ltd. was dissolved on March 21, 2008.  
 Note 4: Japan Express Logistics Corp. acquired Tokyo Express Mail Transport Co., Ltd. on October 1, 2007.

- 1 Highlights
- 2 Management Efforts
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- 4 Data



# 4 Data



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# 4 DATA

## 1. Main Results Data

### 1. Operational Indicators

#### POSTAL SERVICE INCOME AND EXPENDITURE BY CLASS

Postal Service income and expenditure by class for FY 2007 (April 1 to September 30, 2007) is as follows.

##### Income and Expenditure by Mail Class for FY 2007

Unit: billion yen

Class	Operating income	Operating expenses	Operating profit
Letter post	620.8	650.8	(30.0)
First class (sealed letters)	378.3	351.8	26.4
Second class (postcards)	134.8	153.8	(19.0)
Third class (newspapers and magazines)	10.7	19.6	(8.9)
Fourth class (correspondence courses, etc.)	0.5	1.3	(0.8)
Special handling (registered delivery, express)	96.5	124.2	(27.7)
Parcel post	156.5	155.6	0.9
International mail	37.3	32.4	4.9
Total	814.6	838.8	(24.2)

Note: The above figures are based on the financial statements which were submitted by JAPAN POST HOLDINGS Co., Ltd. to the Minister of Internal Affairs and Communications.

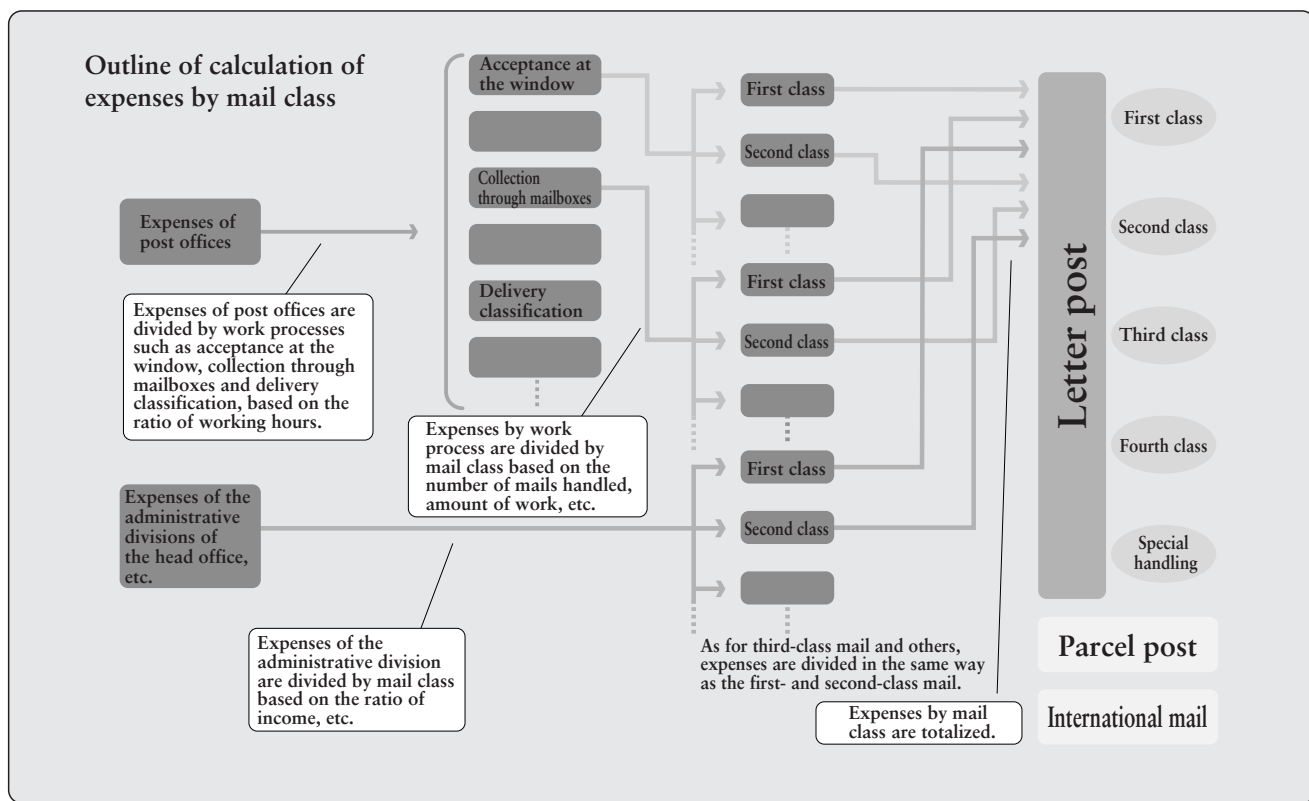
The chart above covers the postal services specified in the Postal Act in the corresponding fiscal year and does not match the figures on income statements.

##### Reference: Income and Expenditure by Mail Class for FY 2006

Unit: billion yen

Class	Operating income	Operating expenses	Operating profit
Letter post	1,424.6	1,398.7	25.9
First class (sealed letters)	776.4	709.7	66.7
Second class (postcards)	423.6	399.6	24.0
Third class (newspapers and magazines)	23.7	44.3	(20.6)
Fourth class (correspondence courses, etc.)	1.1	2.9	(1.8)
Special handling (registered delivery, express)	199.8	242.2	(42.4)
Parcel post	323.9	322.1	1.8
International mail	81.7	72.8	8.9
Total	1,830.2	1,793.5	36.6





## ■ Comparison of Profit and Loss by Fiscal Year

Unit: billion yen

Class	FY 2004	FY 2005	FY 2006	FY 2007
I. Operating income	1,924.8	1,909.0	1,913.4	854.4
II. Operating cost	1,794.1	1,792.3	1,785.9	833.1
Gross operating profit	130.6	116.6	127.4	21.3
III. Sales, general and administrative expenses	99.8	101.9	99.4	53.6
Operating profit	30.7	14.7	27.9	(32.3)
IV. Non-operating income	8.1	9.3	8.1	4.6
V. Non-operating expenses	12.7	8.9	7.3	4.5
Ordinary profit	26.2	15.1	28.8	(32.2)
VI. Extraordinary gains	6.8	12.9	6.0	1.8
VII. Extraordinary losses	4.7	25.4	33.0	784.2
Net income	28.3	2.6	1.8	(814.6)

### Reference

Income (I + IV + VI)	1,939.8	1,931.2	1,927.6	861.0
Expenses (II + III + V + VII)	1,911.5	1,928.5	1,925.7	1,675.6
Net income	28.3	2.6	1.8	(814.6)

Note: The above-mentioned amounts do not include the consumption tax.

## ■ Breakdown of Operating Income

The breakdown of operating income in each fiscal year is as follows:

Unit: billion yen

Classification	FY 2004	FY 2005	FY 2006	FY 2007
Operating income of postal services	1,844.2	1,827.8	1,832.6	815.6
Letter post	1,524.7	1,439.7	1,424.6	620.8
Parcel post	234.5	305.2	323.9	156.5
International mail	82.3	80.3	81.7	37.3
Others	2.8	2.7	2.4	1.0
Income of consigned services	70.4	72.0	72.0	34.7
Revenue stamp selling service	67.8	69.6	70.0	33.8
Services entrusted by broadcaster	2.5	2.4	1.9	0.8
Services entrusted by telephone companies	0.0	0.0	0.0	0.0
Other operating income	10.1	9.1	8.7	4.1
Total of operating income	1,924.8	1,909.0	1,913.4	854.4

Note 1: The above-mentioned amounts do not include the consumption tax.

Note 2: Since fractions less than ¥1 billion are discarded, figures cannot be added up correctly in some cases.

## ■ Breakdown of Operating Expenses

The breakdown of operating expenses in each fiscal year is as follows:

Unit: billion yen

Classification	FY 2004	FY 2005	FY 2006	FY 2007
Personnel expenses	1,420.7	1,423.8	1,424.7	660.3
Directors' remunerations	0.0	0.0	0.1	0.0
Salaries and allowances	1,026.4	1,038.8	1,048.2	472.1
Basic salary	721.9	727.4	736.7	355.3
Various allowances	58.6	58.8	61.2	36.0
Overtime pay	92.5	104.0	103.0	47.9
Bonuses	151.4	146.3	144.0	31.9
Other salaries and allowances	1.8	2.2	3.0	0.8
Provision for reserve for employees' bonuses	72.9	70.5	66.7	65.3
Retirement benefit expenses	102.9	99.4	94.7	49.2
Provision for reserve for directors' retirement benefits	0.0	0.0	0.0	—
Legal welfare expense	210.1	206.7	206.8	70.0
Other personnel expenses	8.2	8.1	7.9	3.6
Expenses	473.2	470.3	460.7	226.4
Business consignment expenses	200.1	213.4	209.6	95.5
Collection, delivery and transportation consignment expenses	169.8	184.4	180.6	82.5
Handling commissions	30.2	29.0	28.9	13.0
Expenses other than business consignment expenses	273.1	256.8	251.1	130.8
Fuel cost	6.5	7.7	8.6	4.5
Vehicle repair cost	5.4	6.2	5.8	3.2
Stamp and postcard purchase cost	12.0	10.9	10.6	2.7
Depreciation	89.3	78.8	73.9	38.7
Advertising cost	10.2	9.8	7.5	2.9
Facility charges	33.2	31.0	29.5	12.6
Taxes and public charges	8.7	8.9	8.5	8.0
Allowance for doubtful accounts	—	0.2	0.0	0.0
Losses on bad loans	0.0	0.0	0.1	0.0
Other expenses	107.6	103.0	106.1	57.7
Total operating expenses (personnel expenses + expenses)	1,894.0	1,894.2	1,885.4	886.8

Note 1: Operating expenses are the total of operation costs and SG&A expenses.

Note 2: The above-mentioned figures do not include the consumption tax.

Note 3: Since fractions less than ¥1 billion are discarded, figures cannot be added up correctly in some cases.

## ■ Breakdown of Postal Service Income

Unit: billion yen

Classification	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Postal service revenue	1,906.3	1,855.6	1,855.6	1,854.3	833.9
Postal stamp revenue	355.7	318.7	290.3	275.9	126.4
Ordinary postal stamps	328.4	295.2	273.6	264.5	121.1
Special postal stamps	27.3	23.5	16.7	11.4	5.3
Postcard charge	274.7	267.8	261.3	251.9	37.3
Ordinary postcards	74.4	76.4	75.4	72.5	37.3
New Year's lottery postcards	200.3	191.4	185.9	179.4	—
Subsequent payment of postage	813.2	850.1	911.0	949.6	494.0
Separate payment of postage	445.7	404.9	378.2	364.1	166.5
Postal miscellaneous income	17.0	14.1	14.8	12.8	9.7

Note 1: The above-mentioned amounts are not consistent with the numerical values on the financial statements, since they are the amounts received (including the consumption tax).

Note 2: Explanations of items are as follows:

- Postal stamp revenue: Revenue from sale of postal stamps and international mail coupons
- Ordinary postal stamps: Of postal stamp revenue, revenue of those other than special postal stamps
- Special postal stamps: Revenue from sale of postal stamps issued for special purposes, including commemoration of various events
- Postcard charges: Revenue from sale of postcards, postal letters, air letters, etc.
- Ordinary postcards: Of postcard charges, revenue from those other than New Year's lottery postcards
- New Year's lottery postcard: Revenue from sale of postcards with New Year's lottery
- Subsequent payment of postage: Revenue from charges of mails with subsequent payment of postage
- Separate payment of postage: Revenue from charges of mails with separate payment of postage
- Postal miscellaneous income: Income from postal services other than those mentioned above, such as charges of goods for sale

## ■ Breakdown of Postal Service Revenue by Branch Office

Unit: billion yen

Classification	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Hokkaido	74.2	70.1	66.7	64.8	25.6
Tohoku	91.0	85.9	83.1	82.7	35.3
Kanto	194.2	187.3	187.6	191.3	90.9
Minami-Kanto	112.7	107.3	104.7	100.3	43.3
Tokyo	536.3	538.4	558.8	566.4	268.0
Shinetsu	55.9	49.9	47.5	44.5	18.4
Hokuriku	34.2	32.9	32.4	32.6	13.3
Tokai	183.8	176.5	172.4	171.6	73.0
Kinki	311.5	301.3	294.5	292.5	130.0
Chugoku	106.2	102.0	99.8	98.0	42.9
Shikoku	45.5	44.4	43.8	41.6	17.3
Kyushu	146.7	143.2	141.5	144.6	63.2
Okinawa	12.4	12.5	12.4	12.3	5.9
Head office	1.7	3.9	10.4	11.1	6.7
Total	1,906.3	1,855.6	1,855.6	1,854.3	833.9

Note 1: The above-mentioned amounts are not consistent with the numerical values on the financial statements, since they are the amounts received (including the consumption tax).

Note 2: The revenues of the head office include commissions on the national edition of advertising postcards and income from handling of post cards for election.

## 2. Investment Indicators

### (1) MAIN ASSETS (POSTAL SAVINGS AND POSTAL LIFE INSURANCE SERVICES)

#### ■ Composition and Changes in Main Assets (Postal Savings Services)

Unit: million yen, %

Item	Composition of assets				Change in assets FY 2007
	End of FY 2006	Percentage	End of FY 2007	Percentage	
Cash and deposits	5,377,477	2.3	5,703,496	2.6	326,018
Call loans	1,000,000	0.4	800,000	0.3	(200,000)
Receivable under resale agreements	119,893	0.1	—	—	(119,893)
Monetary claims bought	—	—	—	—	—
Money held in trust	1,927,293	0.9	603,123	0.3	(1,324,169)
Securities	165,016,502	71.7	170,509,254	77.1	5,492,751
Japanese bonds	162,283,689	70.5	170,241,750	77.0	7,958,061
Japanese government bonds	146,721,107	63.8	155,210,921	70.2	8,489,814
Japanese local government bonds	8,130,698	3.5	8,007,685	3.6	(123,013)
Japanese corporate bonds	7,431,883	3.2	7,023,144	3.2	(408,739)
Foreign bonds	2,732,813	1.2	267,503	0.1	(2,465,310)
Other securities	—	—	—	—	—
Deposits to the fiscal loan fund	52,243,500	22.7	38,858,500	17.6	(13,385,000)
Loans	4,376,059	1.9	4,561,627	2.1	185,568
Loans to depositors	328,230	0.1	302,857	0.1	(25,373)
Loans on security of government bonds	873	0.0	907	0.0	34
Loans to local governments	3,686,955	1.6	3,688,861	1.7	1,906
Loans to Postal Service	360,000	0.2	569,000	0.3	209,000
Total	230,060,726	100.0	221,036,001	100.0	(9,024,725)
Foreign currency-denominated assets within the above totals	2,636,627	1.1	207,632	0.1	(2,428,994)

Note 1: Foreign bonds are bonds issued by overseas issuers and include yen-dominated bonds.

Note 2: Cash and deposits covers cash, Bank of Japan deposits, certificates of deposit and private financial institution deposits.

#### ■ Composition and Changes in Investment Assets (Postal Life Insurance Service)

Unit: million yen, %

Item	Composition of assets				Change in assets FY 2007
	End of FY 2006	Percentage	End of FY 2007	Percentage	
Cash and deposits	920,989	0.8	1,637,328	1.4	716,339
Call loans	304,600	0.3	—	—	(304,600)
Receivable under resale agreements	—	—	—	—	—
Monetary claims bought	29,989	0.0	—	—	(29,989)
Money held in trust	7,575,213	6.6	5,899,453	5.2	(1,675,760)
Securities	84,217,647	73.1	84,289,840	74.4	72,193
Japanese bonds	82,212,005	71.3	82,895,685	73.1	683,679
Stocks	3,141	0.0	—	—	(3,141)
Foreign bonds	2,002,500	1.7	1,394,155	1.2	(608,345)
Other securities	—	—	—	—	—
Loans	22,203,178	19.3	21,533,574	19.0	(669,603)
Loans to policyholders	1,836,700	1.6	1,748,556	1.5	(88,144)
Loans to government finance and public corporations, etc.	1,187,904	1.0	1,111,529	1.0	(76,375)
Loans to local governments	19,049,756	16.5	18,553,090	16.4	(496,665)
Loans to Postal Service	128,818	0.1	120,399	0.1	(8,419)
Others	5,440	0.0	7,987	0.0	2,547
Total	115,257,058	100.0	113,368,185	100.0	(1,888,873)
Foreign currency-denominated assets within the above totals	1,785,909	1.5	1,205,622	1.1	(580,286)

Note: Changes are the differences between the amount at the end of FY 2007 and FY 2006.

## (2) AVERAGE BALANCE OF MAIN ASSETS AND YIELD (POSTAL SAVINGS AND POSTAL LIFE INSURANCE SERVICES)

### ■ Average Balance of Main Assets and Yield (Postal Savings Service)

Unit: million yen, %

Item	FY 2006		FY 2007	
	Average balance	Yield	Average balance	Yield
Cash and deposits	5,018,405	0.14	5,748,982	0.30
Call loans	344,794	0.30	766,939	0.55
Receivable under resale agreements	89,266	0.30	74,802	0.61
Monetary claims bought	—	—	—	—
Securities	160,995,732	0.93	160,969,386	1.03
Japanese bonds	158,049,244	0.87	168,570,640	1.00
Japanese government bonds	141,815,444	0.82	153,285,658	0.97
Japanese local government bonds	8,457,335	1.70	8,014,324	1.63
Japanese corporate bonds	7,776,464	0.93	7,270,657	1.00
Japanese public corporations bonds	5,039,864	1.06	4,606,576	1.13
Foreign bonds	2,946,487	4.01	1,398,746	4.81
Other securities	—	—	—	—
Deposits to the fiscal loan fund	64,762,870	1.97	42,660,822	1.85
Loans	4,216,787	1.08	4,329,646	1.11
Loans to local governments	3,660,582	1.19	3,666,825	1.22
Total	235,427,856	1.20	223,550,581	1.17

Note 1: The average balance for money trusts (average month-end balance at market price) is 1,190,175 million yen (2,504,542 million yen in FY 2006).

Note 2: The time-weighted rate of return for money trusts (rate of return measured for portion excluding deposits) is -1.28% (4.37% in FY 2006).

Note 3: Cash and deposits covers Bank of Japan deposits, certificates of deposit and private financial institution deposits.

### ■ Average Balance of Main Assets and Yield (Postal Life Insurance Service)

Unit: million yen, %

Item	FY 2006		FY 2007	
	Average balance	Yield	Average balance	Yield
Cash and deposits	870,857	0.24	1,023,904	0.44
Call loans	331,014	0.28	495,496	0.60
Receivable under resale agreements	—	—	—	—
Monetary claims bought	32,378	0.21	23,490	0.42
Money held in trust	5,461,121	18.85	4,906,638	30.37
Securities	85,370,895	0.94	84,793,332	1.36
Japanese bonds	83,455,386	0.87	83,125,373	1.04
Japanese government bonds	63,784,656	0.75	66,705,267	0.99
Japanese local government bonds	4,399,714	0.74	3,757,461	1.05
Japanese corporate bonds	15,271,015	1.43	12,662,644	1.34
Japanese public corporations bonds	12,663,045	1.58	10,221,850	1.47
Foreign bonds	1,913,788	3.86	1,667,385	16.85
Stock	1,720	3.24	573	449.58
Other securities	—	—	—	—
Loans	22,610,813	2.87	21,588,520	2.93
Loans to local governments	19,188,653	2.75	18,518,065	2.69
Total investments	114,684,352	2.16	112,839,364	2.91
Overseas loans and investments	1,916,923	3.86	1,668,713	16.83
Total	115,999,729	2.14	114,212,938	2.87

### (3) FISCAL INVESTMENT AND LOANS RELATED (POSTAL SAVINGS AND POSTAL LIFE INSURANCE SERVICES)

#### ■ Amount of Fiscal Investment and Loan Bonds Underwritten (Postal Savings Service)

Item	FY 2003	FY 2004	FY 2005	FY 2006	Unit: billion yen	
					FY 2007	FY2007 (projected for the year)
Two-year bonds	4,059.9	8,864.9	3,684.9	3,469.9	1,244.7	2,475.0
Five-year bonds	2,469.9	3,939.9	2,459.9	2,669.9	554.6	1,100.0
Ten-year bonds	3,429.9	6,894.9	5,054.9	4,859.9	959.6	1,925.0
Total	9,959.9	19,699.8	11,199.8	10,999.8	2,759.1	5,500.0

Note: Amount of fiscal investment and loan bonds underwritten using postal savings assets as an interim measure accompanying the reform of fiscal investment and loan system (based on paid amounts excluding accrued interests).

#### ■ Amount of Fiscal Investment and Loan Bonds Underwritten (Postal Life Insurance Service)

Item	FY 2003	FY 2004	FY 2005	FY 2006	Unit: billion yen	
					FY 2007	
Five-year bonds	1,349.9	—	—	—	—	
Ten-year bonds	1,289.9	2,099.9	1,049.9	499.9	—	
Twenty-year bonds	299.9	299.9	299.9	499.9	251.6	
Total	2,939.9	2,399.9	1,349.8	999.9	251.6	

■ Kampo Fund Investment by FILP Agency (Postal Life Insurance Service)

Unit: million yen, %

Section		FY 2003		FY 2004		FY 2005		FY 2006		FY 2007	
		Investment amount	Percentage	Investment amount	Percentage	Investment amount	Percentage	Investment amount	Percentage	Investment amount	Percentage
Japanese government	Special Account for Measures to Cope with the More Sophisticated Demand Structure of Petroleum and Energy	22,603	0.1	13,403	0.0	7,812	0.0	4,419	0.0	—	—
	Special account for energy measures	—	—	—	—	—	—	—	—	1,121	0.0
	General Account	666,087	1.8	510,284	1.5	242,243	0.8	—	—	—	—
Government finance and public corporations	Government Housing Loan Corporation	648,634	1.8	435,695	1.3	275,171	0.9	155,035	0.6	—	—
	Japan Housing Finance Agency	—	—	—	—	—	—	—	—	119,794	0.5
	National Life Finance Corporation	437,080	1.2	143,880	0.4	—	—	—	—	—	—
	Japan Finance Corporation for Small Business	1,454,053	4.0	1,034,261	3.1	683,627	2.3	446,325	1.7	296,536	1.2
	Agriculture, Forestry and Fisheries Finance Corporation	53,512	0.1	37,487	0.1	25,815	0.1	15,966	0.1	15,966	0.1
	Okinawa Development Finance Corporation	98,366	0.3	69,671	0.2	47,038	0.2	28,752	0.1	21,629	0.1
	Development Bank of Japan	409,552	1.1	280,874	0.9	191,144	0.7	118,754	0.5	104,035	0.4
	Japan Bank for International Cooperation	216,824	0.6	155,418	0.5	103,856	0.4	64,613	0.2	64,613	0.3
	Urban Development Corporation	2,122,336	5.8	—	—	—	—	—	—	—	—
	Urban Renaissance Agency	—	—	1,760,845	5.3	1,317,153	4.5	764,967	3.0	603,008	2.5
	Employment and Human Resources Development Organization of Japan	8,614	0.0	2,503	0.0	600	0.0	—	—	—	—
	Environmental Restoration and Conservation Agency	9,568	0.0	6,540	0.0	4,410	0.0	2,640	0.0	1,961	0.0
	Japan Railway Construction, Transport and Technology Agency	142,724	0.4	103,501	0.3	65,134	0.2	33,747	0.1	19,496	0.1
	Japan Regional Development Corporation	167,232	0.5	—	—	—	—	—	—	—	—
	Promotion and Mutual Aid Corporation for Private Schools of Japan	51,305	0.1	35,420	0.1	23,136	0.1	14,228	0.1	10,565	0.0
	Japan Small and Medium Enterprise Corporation	20,909	0.1	—	—	—	—	—	—	—	—
	Organization for Small & Medium Enterprises and Regional Innovation, Japan	—	—	42,840	0.1	8,923	0.0	7,125	0.0	7,126	0.0
	Japan Highway Public Corporation	7,438,395	20.4	6,125,124	18.6	—	—	—	—	—	—
	Metropolitan Expressway Public Corporation	1,455,947	4.0	1,177,824	3.6	—	—	—	—	—	—
	Hanshin Expressway Public Corporation	1,236,432	3.4	1,093,488	3.3	—	—	—	—	—	—
	Honshu-Shikoku Bridges Authority	73,381	0.2	73,398	0.2	—	—	—	—	—	—
	Japan Expressway Holding and Debt Repayment Agency	—	—	—	—	6,718,921	23.0	4,902,436	18.9	4,454,455	18.1
	Japan Water Agency	164,189	0.4	113,163	0.3	97,752	0.3	80,340	0.3	70,346	0.3
	Tokyo Metro Co., Ltd.	90,087	0.2	59,123	0.2	44,388	0.2	29,822	0.1	28,336	0.1
	Narita International Airport Corporation	97,216	0.3	64,662	0.2	58,479	0.2	47,369	0.2	47,378	0.2
	Electric Power Development Company	131,074	0.4	88,949	0.3	55,896	0.2	26,395	0.1	18,405	0.1
	Loans to Postal Service	192,614	0.5	169,317	0.5	147,800	0.5	128,818	0.5	120,399	0.5
Local governments	19,116,552	52.3	19,364,544	58.7	19,124,953	65.4	19,049,756	73.5	18,553,090	75.5	
<b>Total</b>	<b>36,525,297</b>	<b>100.0</b>	<b>32,962,223</b>	<b>100.0</b>	<b>29,244,255</b>	<b>100.0</b>	<b>25,921,513</b>	<b>100.0</b>	<b>24,558,266</b>	<b>100.0</b>	

Note 1: Employment and Human Resources Development Organization bonds were taken over by the Employment and Human Resources Development Organization of Japan on March 1, 2004.

Note 2: Urban Development Corporation loans and bonds were taken over by Urban Renaissance Agency on July 1, 2004.

Note 3: Japan Environment Corporation loans were taken over by Environmental Restoration and Conservation Agency on April 1, 2004.

Note 4: Teito Rapid Transit Authority loans and bonds were taken over by Tokyo Metro Co., Ltd. on April 1, 2004.

Note 5: Japan Regional Development Corporation loans and bonds were taken over by Urban Renaissance Agency, and Organization for Small & Medium Enterprises and Regional Innovation on July 1, 2004.

Note 6: Japan Small and Medium Enterprise Corporation bonds were taken over by Organization for Small & Medium Enterprises and Regional Innovation on July 1, 2004.

Note 7: New Tokyo International Airport Authority loans and bonds were taken over by Narita International Airport Corporation on April 1, 2004.

Note 8: Japan Highway Public Corporation, Metropolitan Expressway Public Corporation, Hanshin Expressway Public Corporation, and Honshu-Shikoku Bridges Authority loans and bonds were taken over by Japan Expressway Holding and Debt Repayment Agency on October 1, 2005.

Note 9: National bonds (Special Account for Measures to cope with the More Sophisticated Demand Structure of Petroleum and Energy) were taken over by the Japanese government (Special account for energy measures) on April 1, 2007.

Note 10: Government Housing Loan Corporation loans and bonds were taken over by the Japan Housing Finance Agency on April 1, 2007.

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#### (4) PROPORTIONS OF FOREIGN BONDS BY CURRENCY AND REGION (POSTAL SAVINGS SERVICE)

##### ■ Proportion by Currency

Unit: million yen, %

Category	End of FY 2006		End of FY 2007	
	Amount invested	Percentage	Amount invested	Percentage
U.S. dollars	733,625	26.8	80,028	29.9
Euro	1,623,419	59.4	102,466	38.3
Japanese yen	99,987	3.7	64,758	24.2
Canadian dollars	147,377	5.4	10,002	3.7
British pounds	128,402	4.7	10,247	3.8
Total	2,732,813	100.0	267,503	100.0

##### ■ Proportion by Region

Unit: million yen, %

Category	End of FY 2006		End of FY 2007	
	Amount invested	Percentage	Amount invested	Percentage
North America	739,707	27.1	114,021	42.6
America	568,138	20.8	80,028	29.9
Canada	171,569	6.3	33,992	12.7
Europe	1,819,418	66.6	153,481	57.4
Germany	812,338	29.7	73,263	27.4
Italy	208,634	7.6	42,426	15.9
France	352,507	12.9	25,987	9.7
Spain	103,224	3.8	236	0.1
U.K.	120,370	4.4	10,247	3.8
Others	222,343	8.1	1,320	0.5
International institutions	173,687	6.4	0	0.0
Total	2,732,813	100.0	267,503	100.0

#### (5) OVERSEAS LOANS AND INVESTMENT (POSTAL LIFE INSURANCE SERVICE)

##### ■ Proportion by Assets

Unit: million yen, %

Category	End of FY 2003		End of FY 2004		End of FY 2005		End of FY 2006		End of FY 2007		
	Amount invested	Percentage	Amount invested	Percentage	Amount invested	Percentage	Amount invested	Percentage	Amount invested	Percentage	
Foreign currency dominated assets	Bonds	1,031,230	64.5	1,096,141	70.0	1,431,644	77.0	1,785,909	89.1	1,205,622	86.5
	Cash and deposits, others	—	—	—	—	—	—	—	—	—	—
	Sub-total	1,031,230	64.5	1,096,141	70.0	1,431,644	77.0	1,785,909	89.1	1,205,622	86.5
Foreign currency dominated assets with fixed yen value	Bonds	—	—	—	—	—	—	—	—	—	—
	Cash and deposits, others	—	—	—	—	—	—	—	—	—	—
	Sub-total	—	—	—	—	—	—	—	—	—	—
Yen dominated assets	Bonds (yen dominated foreign bonds)	568,121	35.5	468,698	30.0	427,581	23.0	218,705	10.9	188,532	13.5
Total		1,599,351	100.0	1,564,840	100.0	1,859,226	100.0	2,004,614	100.0	1,394,155	100.0

Note: Foreign currency dominated assets with fixed yen value are those which the yen value is fixed at the time of settlement through the use of foreign exchange contracts, and the same value is recorded in assets in the balance sheets.



## ■ Proportion by Region/Issuing Country

Unit: million yen, %

Country	FY 2003		FY 2004		FY 2005		FY 2006		FY 2007	
	Amount invested	Percentage	Amount invested	Percentage	Amount invested	Percentage	Amount invested	Percentage	Amount invested	Percentage
North America	415,599	26.1	447,189	28.7	588,042	31.7	760,139	38.0	768,603	55.1
America	415,599	26.1	447,189	28.7	588,042	31.7	760,139	38.0	768,603	55.1
Europe	896,174	56.2	813,385	52.1	961,643	51.8	1,017,745	50.8	423,048	30.3
Germany	395,986	24.8	424,498	27.2	528,680	28.5	596,315	29.8	180,305	12.9
U.K.	100,737	6.3	93,830	6.0	122,305	6.6	144,610	7.2	149,341	10.7
France	149,368	9.4	128,680	8.2	162,897	8.8	222,402	11.1	51,319	3.7
The Netherlands	41,598	2.6	41,242	2.6	40,164	2.2	39,814	2.0	29,707	2.1
Italy	31,861	2.0	19,557	1.3	12,954	0.7	12,588	0.6	12,374	0.9
Other countries	176,621	11.0	105,576	6.8	94,641	5.1	2,014	0.1	—	—
International institutions	283,234	17.8	299,981	19.2	305,356	16.5	224,616	11.2	202,503	14.5
Total	1,595,008	100.0	1,560,556	100.0	1,855,042	100.0	2,002,500	100.0	1,394,155	100.0

Note 1: Bonds issued by entities not residing in Japan (foreign bonds) are the targets of overseas fiscal loan investments.

Note 2: International institutions include International Bank for Reconstruction and Development (IBRD), European Investment Bank, American Development Bank, and Asian Development Bank.

## ■ Proportion by Currency

Unit: million yen, %

Currency	Fiscal year-end	FY 2003		FY 2004		FY 2005		FY 2006		FY 2007	
		Amount invested	Percentage	Amount invested	Percentage	Amount invested	Percentage	Amount invested	Percentage	Amount invested	Percentage
Foreign currency denominated assets	US dollars	494,982	30.9	549,372	35.1	711,587	38.3	898,576	44.8	904,999	64.9
	Euro	421,744	26.4	438,094	28.0	577,183	31.0	712,631	35.5	120,896	8.7
	Pounds sterling	114,503	7.2	108,674	6.9	142,874	7.7	174,700	8.7	179,727	12.9
Foreign currency denominated assets subtotal		1,031,230	64.5	1,096,141	70.0	1,431,644	77.0	1,785,909	89.1	1,205,622	86.5
Yen denominated assets		568,121	35.5	468,698	30.0	427,581	23.0	218,705	10.9	188,532	13.5
Total		1,599,351	100.0	1,564,840	100.0	1,859,226	100.0	2,004,614	100.0	1,394,155	100.0

## 3. Accounting Indicators

### ■ Policy Reserve

Unit: million yen

Account		End of FY 2003	End of FY 2004	End of FY 2005	End of FY 2006	End of FY 2007
Policy reserve (excluding contingency reserve)	Premium reserve	96,016,098	96,055,958	92,691,843	90,318,234	89,100,961
	(additional policy reserve)	(8,824,472)	(8,394,239)	(7,970,331)	(7,569,111)	(7,377,939)
	Unearned premium	18,047,810	17,380,929	17,078,815	15,699,075	15,241,042
	Subtotal	114,063,908	113,436,887	109,770,659	106,017,310	104,342,003
	Insurance	93,292,485	92,470,612	88,888,347	85,584,406	84,128,226
	Annuity insurance	20,771,422	20,966,275	20,882,312	20,432,903	20,213,776
Contingency reserve		814,036	844,438	1,724,466	2,700,387	3,316,245
Total		114,877,945	114,281,325	111,495,125	108,717,697	107,658,249

Note: The additional policy reserve is set aside for cases in which the original policy reserve that is based on calculations at the time of entry is not sufficient to compensate for deficiencies in insurance and other payments due to possible negative net worth.

## 2. Financial Data

### 1. Outline of Japan Post's Accounts System and Restructuring into Service Classifications

According to Article 29 of the Japan Postal Public Corporation Law, in which it is stipulated that Japan Post's accounts are to be based on standard business accounting practices, financial statements (balance sheet, statement of income, statement of cash flows, appended statements, etc.) will be prepared that, for example, evaluate securities according to classifications based on the purposes for which they are held.

Because Japan Post has Postal, Postal Savings, and Postal Life Insurance Services that have differing characteristics and objectives, we will not only prepare financial statements for the entire corporation, but in order to meet our obligations of accountability relating to each service area, we are required to clarify the financial positions and management results of each service through separate financial statements for each of these service areas. This will also make it possible to make comparisons with similar private-sector businesses.

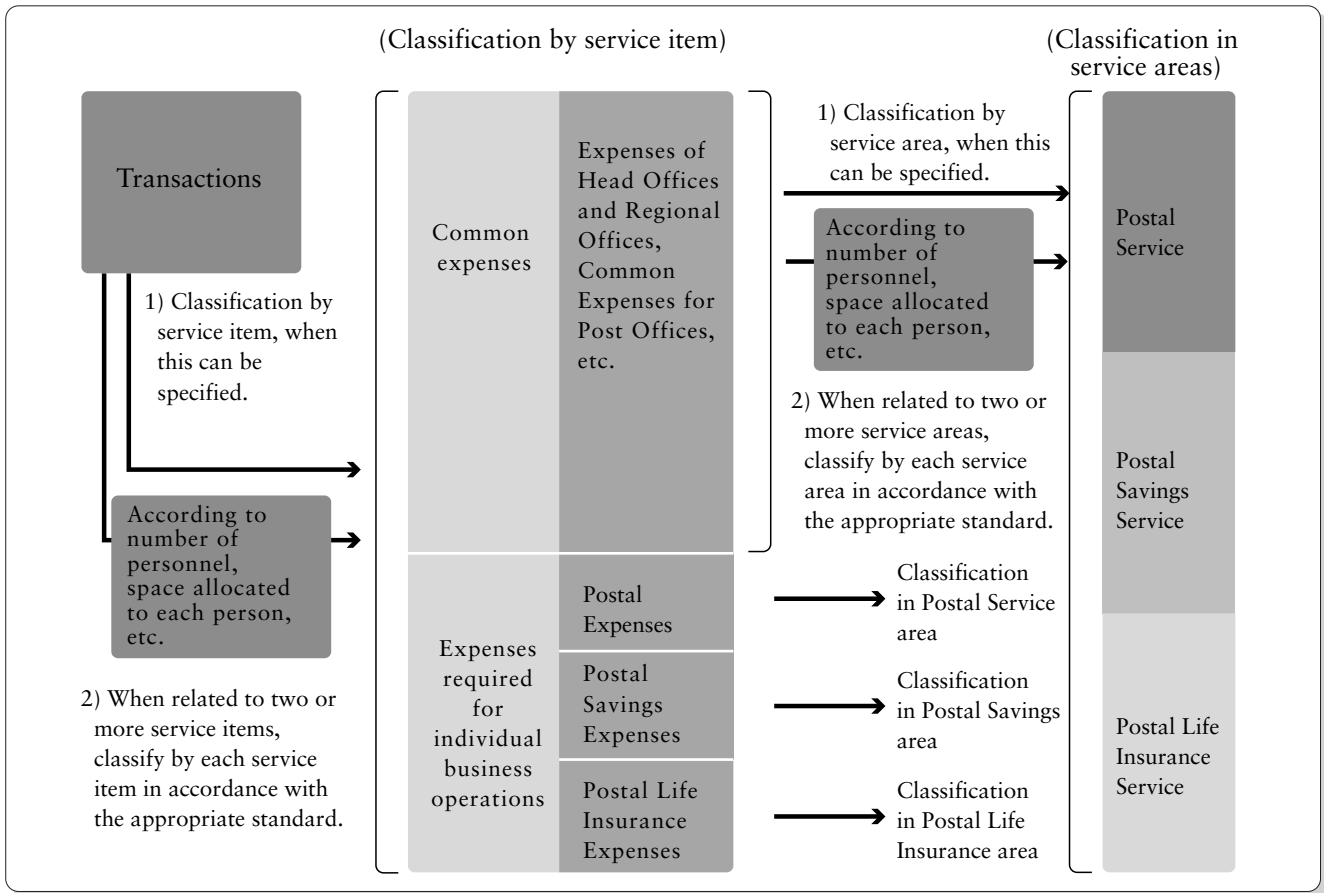
In order to provide appropriate financial information for each of the different services, appropriate standards are used for new acquisitions, assets, liabilities, and income and expenses generated in two or more of these service classifications, and these are included under their respective classifications.

The following provides further details on the format adopted for these service classifications:

1. Assets, liabilities and income that clearly belong to any of these service classifications will be included under the relevant service and assets relating to two or more of these service areas are included under each classification according to the proportion of expenditure ratio, liability, and income generated for that purpose at the time of acquisition.
2. Expenses incurred directly in the operation of each service, such as the salaries of employees engaged in the Postal, Postal Savings and Postal Life Insurance Services provided by post offices, are included under the respective service classifications.
3. Expenses for management divisions such as the head office and regional offices and expenses for post offices for which the generation of such expenses is clearly attributable to one of the services (expenses incurred by Postal Business Headquarters, Postal Savings Business Headquarters, and Postal Life Insurance Business Headquarters at Japan Post's head office), are included under their respective classifications.

All other expenses are included under each service classification in appropriate and fair proportions according to criteria such as the ratio of employee working hours. (See the following diagram.)

Furthermore, the financial statements for Japan Post as a whole and for each of the service areas are reviewed by independent auditors, which ensures the appropriateness and objectivity of financial information, thereby enhancing the transparency of management.



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## SIGNIFICANT ACCOUNTING POLICIES

- 1) Securities
- (a) Held-to-maturity debt securities  
Stated at amortized cost (straight-line method) using the moving-average method.
  - (b) Bonds classified as debt securities earmarked for policy reserves  
Stated at amortized cost (straight-line method) using the moving-average method in accordance with Industry Audit Committee Report No. 21 “Temporary Treatment of Accounting and Auditing Concerning Securities Earmarked for Policy Reserves in Insurance Industry” issued by the Japanese Institute of Certified Public Accountants (“JICPA”).
  - (c) Investments in subsidiaries and affiliates  
Stated at cost using the moving-average method.
  - (d) Available-for-sale securities
    - i Securities with fair market value  
Stated at fair market value (the cost of securities sold is calculated using the moving-average method).  
Net unrealized gains and losses on investments are reported as a separate component of capital.
    - ii Securities without fair market value  
Stated at cost or amortized cost (straight-line method) using the moving-average method.
- (2) Money held in trust
- (a) For trading purposes  
Securities included in money held in trust for trading purposes are stated at fair market value.
  - (b) For other purposes
    - i Securities with fair market value  
Stated at fair market value (the cost of securities sold is calculated using the moving-average method).  
Net unrealized gains and losses on investments are reported as a separate component of capital.
    - ii Securities without fair market value  
Stated at cost or amortized cost (straight-line method) using the moving-average method.  
The building portion of the premises which constitute the trust asset is valued after considering depreciation under the straight-line method.
- (3) Inventories  
Stated at cost using the moving-average method.
- (4) Premises and equipment
- (a) Premises and equipment
    - i Buildings (excluding structure and equipment)  
the straight-line method
    - ii Others  
declining-balance method  
The useful lives of the major premises and equipment are as follows:  
Buildings 2-75 years  
Equipment 2-20 years
  - (b) Software  
Amortized over the straight-line method over its estimated useful life of 5 years, which is included in other assets.
- (5) Translation of foreign currencies  
Assets and liabilities denominated in foreign currencies are translated into Japanese yen at the exchange rates prevailing at the fiscal year end.
- (6) Reserves and allowances
- (a) Allowance for doubtful accounts  
An allowance for doubtful accounts is provided for specifically identified doubtful accounts in the amount deemed uncollectable based on an assessment of each account, and for all other accounts based on the historical ratio of losses.
  - (b) Reserve for employees’ bonuses  
A reserve for employees’ bonuses is provided based on the estimated amounts to be paid, allocated over the period to which the bonuses are applicable.
  - (c) Reserve for employees’ retirement benefits
    - i To provide for the payment of retirement benefits to employees, a reserve for employees’ retirement benefits is established based on the estimated projected benefit obligations at the fiscal year ended.  
The actuarial difference is amortized using the straight-line method over the certain years (fourteen to fifteen years) within the estimated average remaining service lives for employees from the fiscal year after the difference is incurred.  
Past service liability is amortized using the straight-line method over the certain years (fourteen years) within the estimated average remaining service lives for employees in the fiscal year the difference is incurred.
    - ii We calculated charges for the expenses concerning the pension benefits for the service period in and before December 1958 of those who had worked for the then Ministry of Communications and the then Ministry of Posts and Telecommunications (engaged in postal services) and retired in and after January 1959 (hereinafter referred to as “adjustment resources”), among expenses for the retirement mutual aid welfare pension of national public service personnel, and booked them as part of “allowance for employees’ retirement benefits.”  
The actuarial difference is amortized using the straight-line method over the certain years (fifteen years) within the estimated average remaining payment periods for eligible personnel from the fiscal year after the difference is incurred.
    - iii We calculated charges for the expenses concerning the pension benefits for those who had worked for the then Ministry of Communications and the then Ministry of Posts and Telecommunications (engaged in postal services) (hereinafter referred to as “charges for pension benefits”) and retired in and before December 1958, among expenses for the retirement mutual aid welfare pension of national public service personnel, and booked them as part of “allowance for employees’ retirement benefits.”  
The actuarial difference is amortized using the straight-line method over the certain years (seven years) within the estimated average remaining payment periods for eligible personnel from the fiscal year after the difference is incurred.
  - (d) Allowance for compensation for accidents in the line of duty  
Allowance for compensation for accidents in the line of duty is provided to prepare for paying pensions to personnel who

sustained a casualty in work-related accidents or while commuting or to their surviving families. We booked the amount of pension obligations associated with compensation for accidents in line of duty as of the end of the fiscal year under review. The actuarial difference is amortized using the straight-line method over the certain years (twenty-one years) within the estimated average remaining payment periods for eligible personnel from the fiscal year after the difference is incurred.

#### (7) Leases

Finance leases, excluding those leases that are considered to transfer the ownership of the leased properties to the lessees, are accounted for by a method similar to that used for operating leases.

#### (8) Hedge accounting

The Postal Life Insurance Service adopts assignment accounting or deferred hedge methods in the forward foreign exchange contract of foreign currency assets.

With respect to evaluation of hedge efficiency, Japan Post uses forward foreign exchange contracts with the same currencies, the same settlement dates and the same notional principals as the hedged assets. Thus the relationship between cash flows from the hedged assets and the hedging instruments is closely correlated. As a result, Japan Post deems its hedges to be highly effective.

#### (9) Derivative transactions

Derivative transactions are valued by the market value method. However, assignment accounting is used for transactions that meet the requirement for such accounting, such as forward foreign exchange contracts.

#### (10) 'Cash and cash equivalents'

'Cash and cash equivalents' in the statements of cash flows are composed of 'Cash and Deposits'.

#### (11) Others

##### (a) Policy reserves

Policy reserves are based on Article 34 of The Japan Post Law (Law No. 97 of 2002). Insurance reserves are recorded as the higher of the following calculations as required by the method stipulated by the Minister of Public Management, Home Affairs, Post and Telecommunications (Notification No. 82 by Ministry of Public Management, Home Affairs, Post and Telecommunications (MPHPT) of 2003):

i The amount calculated at the end of the fiscal year based on the calculation method instruction statement on the policy reserves for a postal life insurance (net level premium method).

ii The present value amount which is deemed necessary based on the future income and expenditure of the postal life insurance contracts owned at the end of the current accounting period.

Any amendment to the calculation method instruction statement for postal life insurance, which is the basis for recording policy reserves at the end of the current fiscal year, is required to be approved by the Minister of Public Management, Home Affairs, Post and Telecommunications.

##### (b) The policyholders' dividend reserve

The policyholders' dividend reserve is a reserve based on Article 28 of The Enforcement Ordinance of the Japan Post Law (Ministerial Ordinance No. 4 of 2003 by MPHPT) and is recorded in accordance with the calculation method instruction statement for postal life insurance (including the policyholders' dividend which will be paid out in the following fiscal year).

##### (c) The reserve for price fluctuation

The amount of the reserve for price fluctuation is recorded pursuant to the provisions of Article 32 of The Japan Post Law (Law No. 97 of 2002).

##### (d) Accounting policies for consumption tax and local consumption tax

Amounts are recorded exclusive of tax.

#### (12) Changes in accounting policies

Previously, pensions paid to personnel who suffered from a work-related accident or an accident while commuting, or to their surviving families, were booked as expenses when they were incurred. Since the beginning of the fiscal year under review, such pensions have been stated as "allowance for compensation for accidents in line of duty" after calculating the amount of pension obligations associated with compensation for accidents in line of duty.

Given that Japan Post was to be privatized according to the Law of the Privatization of the Postal Services (2005, Law No. 97), it was unlikely that the new compensation pension would be paid based on the Government Employees' Accident Compensation Law (1951, Law No. 191). Accordingly, Japan Post made the above change in order to recognize pension obligations associated with compensation for accidents in line of duty, which Japan Post should bear, and disclose its financial conditions appropriately.

With this change, Japan Post booked a one-time charge of 30,057 million yen related to compensation for accidents in line of duty at the beginning of the fiscal year under review under extraordinary losses. The said charge is included in "One-time provision for reserve for expenses for adjustment resources etc."

As a result, compared with the conventional method, ordinary profit and net loss increased 715 million yen and 29,341 million yen, respectively.

#### (13) Additional information

Since Japan Post was going to be privatized according to the Law of the Privatization of the Postal Services (2005, Law No. 97), Japan Post reached an agreement with government agencies as of April 23, 2007 on expenses for adjustment resources. Under the agreement, the expenses were limited to those in and after FY 2007 regarding former postal personnel and their surviving families. Previously, the said expenses for adjustment resources were booked when they were incurred. Now that it has become possible to rationally estimate liabilities concerning adjustment resources, such liabilities are included in "allowance for employees' retirement benefits," beginning in the fiscal year under review.

Among the expenses for the retirement mutual aid pension of national government employee, some expenses were also calculated and booked for governmental pensions or the pension benefits for the service period in and before December 1958, beginning in the fiscal year under review as well as adjustment resources. The said expenses are included in "allowance for employees' retirement benefits."

Japan Post recorded 1,384,310 million yen as a one-time disposal of expenses for adjustment resources and 5,211 million yen as a one-time disposal of expenses for pensions to public servants in extraordinary losses at the beginning of the fiscal year under review. The said disposals are included in "one-time disposal of burden charge for adjustment resources."

## 2. Financial Statements of Japan Post as a Whole

### NON-CONSOLIDATED BALANCE SHEETS (JAPAN POST AS A WHOLE)

	Unit: million yen	
	As of March 31, 2007	As of September 30, 2007
<b>Assets</b>		
Cash and deposits .....	6,802,350	7,640,405
Call loans .....	1,304,600	800,000
Receivables under resale agreements .....	119,893	—
Monetary receivables purchased .....	29,989	—
Money held in trust .....	9,502,506	6,502,577
Securities .....	249,235,118	254,800,063
Deposits to the fiscal loan fund .....	52,243,500	38,858,500
Loans .....	26,090,419	25,405,803
Premises and equipment, net .....	2,865,249	2,948,433
Other assets .....	1,636,868	1,504,515
Allowance for doubtful accounts .....	(12,011)	(3,473)
<b>Total assets</b> .....	<b>349,818,485</b>	<b>338,456,824</b>
<b>Liabilities</b>		
Postal savings .....	185,822,575	180,064,175
Policy reserves .....	113,108,840	111,936,937
Borrowings .....	28,200,000	24,810,000
Other liabilities .....	9,378,853	9,318,660
Reserve for employees' bonuses .....	120,983	125,313
Reserve for employees' retirement benefits .....	2,428,117	3,818,425
Reserve for directors' retirement benefits .....	102	—
Allowance for compensation for accidents in the line of duty .....	—	29,341
Reserve for price fluctuations .....	626,501	672,538
<b>Total liabilities</b> .....	<b>339,685,974</b>	<b>330,775,392</b>
<b>Capital</b>		
Capital .....	1,268,807	1,268,807
Government investment in capital .....	1,268,807	1,268,807
Retained earnings .....	6,415,420	5,010,841
Reserve fund .....	5,472,853	5,452,843
Net income (loss) .....	942,567	(442,002)
Net unrealized profit or loss on securities .....	2,448,282	1,401,783
<b>Total capital</b> .....	<b>10,132,510</b>	<b>7,681,432</b>
<b>Total liabilities and capital</b> .....	<b>349,818,485</b>	<b>338,456,824</b>

## NON-CONSOLIDATED STATEMENTS OF INCOME (JAPAN POST AS A WHOLE)

Item	Unit: million yen	
	For the first half of FY 2006	For the fiscal year ended September 30, 2007
Ordinary income	9,517,819	9,921,643
Postal Service income	836,588	835,214
Postal Savings Service income	1,503,517	1,768,133
Postal Life Insurance Service income	7,177,713	7,318,295
Ordinary expenses	9,119,161	8,713,808
Operating expenses	7,809,006	7,423,419
Personnel expenses	1,192,152	1,155,188
Taxes and dues	20,642	34,491
Depreciation	95,191	97,585
Other ordinary expenses	2,168	3,124
Net ordinary income	398,658	1,207,834
Extraordinary gains	6,049	20,569
Gain on sale of premises and equipment	249	9,969
Gain on adjustment to income and losses in the previous year	644	5,899
Other extraordinary gains	5,155	4,699
Extraordinary losses	99,123	1,579,238
Loss on disposal of premises and equipment	3,363	18,499
Loss on impairment of fixed assets	67,012	38,571
Provision for reserve for price fluctuations	25,392	46,037
Loss on adjustment to income and losses in the previous year	16	66
One-time provision for reserve for expenses for adjustment resources etc.	—	1,419,578
Other extraordinary losses	3,338	56,484
Provision for policyholders' dividend reserve	67,812	91,168
Net (interim) income (or loss)	237,771	(442,002)

## NON-CONSOLIDATED STATEMENTS OF APPROPRIATIONS OF RETAINED EARNINGS (JAPAN POST AS A WHOLE)

Item	Unit: million yen	
	FY 2007 As of September 30, 2007	
Unappropriated retained earnings at the end of the period	442,002	
Net income	442,002	
Appropriation of retained earnings	442,002	
Reversal of reserve fund	442,002	

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# NON-CONSOLIDATED STATEMENTS OF CASH FLOWS (JAPAN POST AS A WHOLE)

Unit: million yen

	For the first half of FY 2006	For the fiscal year ended September 30, 2007
<b>Cash flows from operating activities</b>		
Net (interim) income (or loss) .....	237,771	(442,002)
Gain on adjustment to income and losses in the previous year .....	(644)	(608)
Loss on adjustment to income and losses in the previous year .....	16	66
Depreciation .....	95,348	97,701
Loss on impairment of fixed assets .....	67,012	38,571
Net change in policy reserves .....	(952,131)	(980,313)
Net change in allowance for doubtful accounts .....	(5,462)	(8,538)
Net change in reserve for employees' bonuses .....	7,596	4,330
Net change in reserve for employees' retirement benefits .....	(17,352)	1,390,308
Net change in reserve for directors' retirement benefits .....	10	(102)
Net change in allowance for compensation for accidents in the line of duty .....	—	29,341
Net change in reserve for price fluctuations .....	25,392	46,037
Net gains (losses) investing activities .....	(1,963,393)	(2,895,036)
Net gains (losses) from disposal of premises and equipment .....	3,125	8,542
Net change in loans .....	(176,533)	23,431
Net change in postal savings .....	(6,102,527)	(5,758,400)
Net gains change in borrowings .....	(2,430,000)	(3,390,000)
Interest received .....	884,365	1,520,626
Interest paid .....	(693,632)	(518,273)
Other, net .....	(355,355)	58,743
Subtotal .....	(11,376,394)	(10,775,573)
Interest and dividends received .....	732,035	982,142
Interest paid .....	(21)	(0)
Dividend payment to insurance policyholders .....	(185,126)	(190,885)
Payment to the national treasury .....	—	(962,576)
Net cash used in operating activities .....	(10,829,506)	(10,946,894)
<b>Cash flows from investing activities</b>		
Purchases of monetary receivables purchased .....	(284,973)	(159,961)
Proceeds from sale and redemption of monetary receivables purchased .....	315,000	190,000
Proceeds from redemption of deposits to the fiscal loan fund .....	14,442,300	13,385,000
Purchases of securities .....	(46,209,578)	(52,232,474)
Proceeds from sale of securities .....	2,965,613	5,135,919
Proceeds from redemption of securities .....	35,317,494	41,717,804
Proceeds from sale of money held in trust .....	1,601,005	3,050,075
Investment in loans .....	(1,660,020)	(1,267,148)
Collection of loans .....	1,479,901	1,928,333
Purchases of premises and equipment .....	(17,522)	(233,965)
Proceeds from sale of premises and equipment .....	3,911	20,305
Other, net .....	167,124	263,111
Net cash provided by investing activities .....	8,120,256	11,796,999
<b>Cash flows from financing activities</b>		
Repayment of lease obligations .....	(3,789)	(0)
Repayment of money transferred from the general account .....	—	(12,320)
Net cash used in financing activities .....	(3,789)	(12,320)
Effect of exchange rate changes on cash and cash equivalents .....	299	270
Net increase (or decrease) in cash and cash equivalents .....	(2,712,740)	838,055
Cash and cash equivalents at the beginning of the year .....	8,962,312	6,802,350
Cash and cash equivalents at the end (end of the interim) of the year .....	6,249,571	7,640,405

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### 3. Financial Statements of Postal Service

#### NON-CONSOLIDATED BALANCE SHEETS (POSTAL SERVICE)

	Unit: million yen	
	As of March 31, 2007	As of September 30, 2007
<b>Assets</b>		
Current assets		
Cash and deposits	316,862	101,882
Accounts receivable - trade	118,932	108,884
Inventories	2,496	11,367
Prepaid expenses	1,210	1,326
Accounts receivable - other	5,628	5,513
Other current assets	231	417
Allowance for doubtful accounts	(161)	(142)
Total current assets	445,198	229,248
Fixed assets		
Tangible fixed assets		
Automotive equipment	10,042	12,332
Accumulated depreciation	(7,354)	(8,098)
Buildings	982,340	1,024,985
Accumulated depreciation	(209,161)	(231,376)
Structures	35,296	38,066
Accumulated depreciation	(12,171)	(13,372)
Machinery and equipment	80,367	79,856
Accumulated depreciation	(42,962)	(45,544)
Tools, furniture and equipment	73,141	88,330
Accumulated depreciation	(36,591)	(43,613)
Land	907,015	914,688
Construction in progress	2,873	983
Total tangible fixed assets	1,782,835	1,817,238
Intangible assets		
Leaseholds	111	570
Telephone subscription rights	447	468
Software	8,662	26,926
Other intangible assets	6,627	249
Total intangible assets	15,849	28,214
Investments and other assets		
Shares in affiliates	891	891
Long-term prepaid expenses	284	448
Other investments and other assets	1,622	1,703
Allowance for doubtful accounts	(1,318)	(1,272)
Total investments and other assets	1,480	1,771
Total fixed assets	1,800,165	1,847,224
Total assets	2,245,364	2,076,473

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As of March 31, 2007 As of September 30, 2007

**Liabilities**

## Current liabilities

Accounts payable - trade .....	46,397	43,385
Short-term borrowings from other business segments of Japan Post .....	360,000	—
Current portion of long-term borrowings from other business segments of Japan Post .....	16,838	—
Accounts payable - other .....	256,580	785,501
Accrued expenses .....	7,825	10,104
Advances received .....	420	321
Postage received in advance .....	44,494	41,388
Deposits received .....	449,373	351,422
Contribution money from postcards with donations .....	705	170
Reserve for employees' bonuses .....	66,793	65,302
Other current liabilities .....	34,205	7,637
Total current liabilities .....	1,283,632	1,305,233

## Long-term liabilities

Long-term borrowings from other business segments of Japan Post .....	111,980	—
Deposits received .....	2,661	2,164
Reserve for employees' retirement benefits .....	1,362,171	2,080,894
Reserve for directors' retirement benefits .....	34	—
Reserve for reimbursement for Fumi Cards .....	3,020	1,159
Allowance for compensation for accidents in the line of duty .....	—	20,001
Other long-term liabilities .....	865	702
Total long-term liabilities .....	1,480,733	2,104,922

## Total liabilities

.....	2,764,366	3,410,156
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**Capital**

Difference from assets and liabilities at the time of establishment of Japan Post .....	(578,220)	(578,220)
Retained earnings .....	59,217	(755,462)
Reserve fund .....	57,344	59,217
Net income (loss) .....	1,873	(814,680)
Total capital .....	(519,002)	(1,333,682)

## Total liabilities and capital

.....	2,245,364	2,076,473
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## NON-CONSOLIDATED STATEMENTS OF INCOME (POSTAL SERVICE)

Unit: million yen

Item	For the first half of FY 2006	For the fiscal year ended September 30, 2007
Operating income	850,887	854,481
Operating costs	870,884	833,154
Gross margin (or gross loss)	(19,997)	21,327
Selling, general and administrative expenses	46,369	53,655
Personnel expenses	26,243	27,642
(Provision for reserve for employees' bonuses)	3,310	3,588
(Expenses for employees' retirement benefits)	2,054	2,372
(Provision for reserve for directors' retirement benefits)	5	—
Depreciation	5,356	5,503
Advertising expenses	1,748	2,965
Taxes and dues	3,197	6,296
Provision for allowance for doubtful accounts	72	86
Outsourcing expenses	2,037	3,460
Others	7,712	7,699
Net operating loss	(66,366)	(32,327)
Non-operating income	4,197	4,656
Interest income	0	0
Income from rental property	2,863	3,068
Income from compensation payment for damages	645	503
Other non-operating income	688	1,084
Non-operating expenses	3,785	4,594
Interest expenses	3,279	3,618
Other non-operating expenses	506	976
Net ordinary loss	(65,955)	(32,265)
Extraordinary gains	1,782	1,868
Gain on adjustment to income and losses in the previous year	132	47
Gain on sale of fixed assets	17	29
Gain on return of reserve for reimbursement for Fumi Cards	1,490	1,753
Other extraordinary gains	142	39
Extraordinary losses	7,296	784,283
Loss on adjustment to income and losses in the previous year	1,922	58
Loss on sale of fixed assets	12	29
Loss on disposal of fixed assets	952	6,395
Loss on impairment of fixed assets	3,309	6,568
One-time provision for reserve for expenses for adjustment resources etc.	—	739,020
Other extraordinary losses	1,098	32,210
Net (interim) loss	(71,468)	(814,680)

## NON-CONSOLIDATED STATEMENTS OF OPERATING COSTS (POSTAL SERVICE)

Unit: million yen

Item	For the first half of FY 2006	For the fiscal year ended September 30, 2007
Personnel costs	672,861	632,748
(Provision for reserve for employees' bonuses)	71,060	61,713
(Expenses for employees' retirement benefits)	45,573	46,863
Other costs		
Fuel costs	4,344	4,531
Automotive repair costs	2,764	3,227
Procurement costs for stamps and postcards	2,744	2,784
Depreciation	30,047	33,274
Rental expenses	13,371	10,558
Taxes and dues	1,719	1,751
Fees for entrusting collection and delivery	87,752	82,560
Handling costs	13,047	13,018
Other	42,232	48,698
Total costs	198,023	200,405
Total operating costs	870,884	833,154

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# NON-CONSOLIDATED STATEMENTS OF CASH FLOWS (POSTAL SERVICE)

Unit: million yen

	For the first half of FY 2006	For the fiscal year ended September 30, 2007
<b>Cash flows from operating activities</b>		
Net (interim) loss	(71,468)	(814,680)
Gain on adjustment to income and losses in the previous year	(132)	(47)
Loss on adjustment to income and losses in the previous year	1,922	58
Depreciation	35,561	38,893
Loss on impairment of fixed assets	3,309	6,568
Net change in allowance for doubtful accounts	(3,384)	(65)
Net change in reserve for employees' bonuses	3,824	(1,490)
Net change in reserve for employees' retirement benefits	(10,239)	718,723
Net change in reserve for directors' retirement benefits	3	(34)
Net change in reserve for reimbursement for Fumi Cards	(1,432)	(1,860)
Net change in allowance for compensation for accidents in the line of duty	—	20,001
Interest income	(0)	(0)
Interest expenses	3,279	3,618
Gain on sale of tangible fixed assets	(17)	(29)
Loss on sale of tangible fixed assets	13	42
Loss on disposal of tangible fixed assets	963	6,271
Net change in accounts receivable – trade	8,671	10,138
Net change in inventories	(1,636)	(8,871)
Net change in accounts payable – trade	482	(3,011)
Net change in accrued payables – other	(77,792)	(157,486)
Net change in deposits received	(99,725)	(98,448)
Net change in accrued consumption tax	9,640	(14,242)
Other, net	(6,084)	(3,887)
Subtotal	(204,242)	(299,840)
Interest received	0	0
Interest paid	(3,295)	(2,830)
Net cash used in operating activities	(207,538)	(302,671)
<b>Cash flows from investing activities</b>		
Purchases of shares in affiliates	(42)	—
Purchases of tangible fixed assets	(9,161)	(86,962)
Proceeds from sales of tangible fixed assets	64	176
Other, net	(2,886)	(13,783)
Net cash used in investing activities	(12,025)	(100,568)
<b>Cash flows from financing activities</b>		
Proceeds from short-term borrowings	1,082,000	997,000
Repayment of short-term borrowings	(981,000)	(788,000)
Repayment of long-term borrowings	(9,530)	(8,419)
Repayment of lease obligations	(3,788)	(0)
Repayment of money transferred from the general account	—	(12,320)
Net cash provided by financing activities	87,681	188,260
Effect of exchange rate changes on cash and cash equivalents	—	—
Net increase in cash and cash equivalents	(131,882)	(214,979)
Cash and cash equivalents at the beginning of the year	203,746	316,862
Cash and cash equivalents at the end (end of the interim) of the year	71,864	101,882

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## 4. Financial Statements of Postal Savings Service

### NON-CONSOLIDATED BALANCE SHEETS (POSTAL SAVINGS SERVICE)

Unit: million yen

	As of March 31, 2007	As of September 30, 2007
<b>Assets</b>		
Cash and deposits .....	5,377,477	5,703,496
Call loans .....	1,000,000	800,000
Receivables under resale agreements .....	119,893	—
Money held in trust .....	1,927,293	603,123
Securities .....	165,016,502	170,509,254
Deposits to the fiscal loan fund .....	52,243,500	38,858,500
Loans .....	4,376,059	4,561,627
Other assets .....	943,608	794,239
Premises and equipment, net .....	633,523	686,750
Allowance for doubtful accounts .....	(9,618)	(1,202)
<b>Total assets</b> .....	<b>231,628,239</b>	<b>222,515,789</b>
<b>Liabilities</b>		
Postal money orders .....	9,732	13,082
Postal giros .....	6,124,997	6,442,054
Postal savings .....	185,822,575	180,064,175
Borrowings .....	28,200,000	24,810,000
Other liabilities .....	2,428,091	2,555,897
Reserve for employees' bonuses .....	33,219	37,562
Reserve for directors' bonuses .....	17	—
Reserve for employees' retirement benefits .....	595,088	1,003,271
Reserve for directors' retirement benefits .....	34	—
Allowance for compensation for accidents in the line of duty .....	—	3,861
<b>Total liabilities</b> .....	<b>223,213,756</b>	<b>214,929,905</b>
<b>Capital</b>		
Difference from assets and liabilities at the time of establishment of Japan Post .....	1,804,415	1,804,415
Retained earnings .....	6,356,202	5,766,303
Reserve fund .....	5,415,509	5,393,626
Net income .....	940,693	372,677
Net unrealized profit or loss on securities .....	253,863	15,164
<b>Total capital</b> .....	<b>8,414,482</b>	<b>7,585,884</b>
<b>Total liabilities and capital</b> .....	<b>231,628,239</b>	<b>222,515,789</b>

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## NON-CONSOLIDATED STATEMENTS OF INCOME (POSTAL SAVINGS SERVICE)

Unit: million yen

	For the first half of FY 2006	For the fiscal year ended September 30, 2007
Ordinary income .....	1,505,864	1,771,539
Interest income .....	1,429,247	1,311,040
Income from service transactions .....	59,914	61,154
Other operating income .....	5,629	385,903
Other ordinary income .....	11,073	13,440
Ordinary expenses .....	1,174,060	954,458
Interest expenses .....	466,110	420,045
Expenses for service transactions .....	9,305	9,510
Other operating expenses .....	214,559	4,037
General and administrative expenses .....	482,113	517,542
Other ordinary expenses .....	1,971	3,322
Net ordinary income .....	331,804	817,080
Extraordinary gains .....	4,295	8,379
Gain on disposal of premises and equipment .....	24	5,638
Gain on bad debt recovered .....	59	74
Gain on adjustment to income and losses in the previous year .....	1,436	—
Gain on return of allowance for doubtful accounts .....	1,887	1,516
Gain on donation of fixed assets .....	—	985
Other extraordinary gains .....	887	164
Extraordinary losses .....	26,859	452,782
Loss on disposal of premises and equipment .....	1,987	6,690
Impairment loss .....	23,987	7,733
Loss on adjustment to income and losses in the previous year .....	—	54
One-time provision for reserve for expenses for adjustment resources etc. ....	—	411,240
Other extraordinary losses .....	884	27,063
Net (interim) income .....	309,240	372,677

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# NON-CONSOLIDATED STATEMENTS OF CASH FLOWS (POSTAL SAVINGS SERVICE)

Unit: million yen

	For the first half of FY 2006	For the fiscal year ended September 30, 2007
<b>Cash flows from operating activities</b>		
Net (interim) income	309,240	372,677
Gain on adjustment to income and losses in the previous year	(1,436)	—
Loss on adjustment to income and losses in the previous year	—	54
Depreciation	42,878	43,275
Impairment loss	23,987	7,733
Net change in allowance for doubtful accounts	(2,088)	(8,416)
Net change in reserve for employees' bonuses	3,089	4,342
Net change in reserve for directors' bonuses	(15)	(17)
Net change in reserve for employees' retirement benefits	(3,123)	408,183
Net change in reserve for directors' retirement benefits	3	(34)
Net change in allowance for compensation for accidents in the line of duty	—	3,861
Interest income	(1,429,247)	(1,311,040)
Interest expense	466,110	420,045
Net gain and loss on securities	88,899	(338,339)
Gain on money held in trust	124,515	(29,190)
Foreign exchange gains (losses), net	(2,423)	(13,026)
Net loss on disposal of premises and equipment	1,962	1,051
Net change in loans	(277,533)	(185,568)
Net change in postal money orders	(934)	3,350
Net change in postal giros	162,342	317,057
Net change in postal savings	(6,102,527)	(5,758,400)
Net change in borrowings	(2,430,000)	(3,390,000)
Net change in call loans, bills bought and receivables under resale agreements	(220,488)	319,893
Interest received	884,493	1,520,839
Interest paid	(693,632)	(518,273)
Gain on donation of fixed assets	—	(985)
Other, net	66,710	(82,010)
Subtotal	(8,989,218)	(8,212,937)
Payment to the national treasury	—	(962,576)
Net cash used in operating activities	(8,989,218)	(9,175,513)
<b>Cash flows from investing activities</b>		
Proceeds from redemption of deposits to the fiscal loan fund	14,442,300	13,385,000
Purchases of securities	(36,675,160)	(40,782,364)
Proceeds from sale of securities	2,273,509	3,605,778
Proceeds from redemption of securities	26,404,562	32,051,048
Proceeds from sale of money held in trust	650,005	1,353,359
Purchases of premises and equipment	(6,065)	(106,808)
Proceeds from sale of premises and equipment	297	12,627
Other, net	(2,592)	(17,378)
Net cash provided by investing activities	7,086,855	9,501,261
<b>Cash flows from financing activities</b>		
Repayment of lease obligations	(0)	(0)
Net cash used in financing activities	(0)	(0)
Effect of exchange rate changes on cash and cash equivalents	299	270
Net increase (or decrease) in cash and cash equivalents	(1,902,063)	326,018
Cash and cash equivalents at the beginning of the year	6,833,580	5,377,477
Cash and cash equivalents at the end (end of the interim) of the year	4,931,517	5,703,496

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## 5. Financial Statements of Postal Life Insurance Service

### NON-CONSOLIDATED BALANCE SHEETS (POSTAL LIFE INSURANCE SERVICE)

Unit: million yen

	As of March 31, 2007	As of September 30, 2007
<b>Assets</b>		
Cash and deposits .....	1,122,361	2,001,507
Call loans .....	304,600	—
Monetary receivables purchased .....	29,989	—
Money held in trust .....	7,575,213	5,899,453
Securities .....	84,217,724	84,289,917
Loans .....	22,203,178	21,533,574
Premises and equipment, net .....	450,128	445,974
Other assets .....	709,018	755,755
Allowance for doubtful accounts .....	(912)	(855)
<b>Total assets</b> .....	<b>116,611,301</b>	<b>114,925,328</b>
<b>Liabilities</b>		
Policy reserves .....	113,108,840	111,936,937
Other liabilities .....	147,084	124,434
Reserve for employees' bonuses .....	20,952	22,449
Reserve for employees' retirement benefits .....	470,857	734,259
Reserve for directors' retirement benefits .....	34	—
Allowance for compensation for accidents in the line of duty .....	—	5,478
Reserve for price fluctuations .....	626,501	672,538
<b>Total liabilities</b> .....	<b>114,374,271</b>	<b>113,496,097</b>
<b>Capital</b>		
Difference from assets and liabilities at the time of establishment of Japan Post ...	42,612	42,612
Retained earnings .....	—	—
Net income .....	—	—
Net unrealized profit or loss on securities .....	2,194,418	1,386,618
<b>Total capital</b> .....	<b>2,237,030</b>	<b>1,429,231</b>
<b>Total liabilities and capital</b> .....	<b>116,611,301</b>	<b>114,925,328</b>

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# NON-CONSOLIDATED STATEMENTS OF INCOME (POSTAL LIFE INSURANCE SERVICE)

Unit: million yen

	For the first half of FY 2006	For the fiscal year ended September 30, 2007
Ordinary income	7,185,531	7,336,214
Insurance premiums	4,802,615	4,570,205
Investment income	1,281,163	1,663,794
Other ordinary income	1,101,753	1,102,214
Ordinary expenses	7,052,722	6,895,729
Insurance claims and other insurance payments	6,652,809	6,580,234
Provision for reserve for insurance contracts	50,522	11,573
Investment expenses	66,839	22,366
Operating expenses	259,485	256,340
Other ordinary expenses	23,065	25,213
Net ordinary income	132,808	440,485
Extraordinary gains	2,079	10,370
Gain on disposal of premises and equipment	207	4,320
Gain on adjustment to income and losses in the previous year	1,183	5,901
Other extraordinary gains	688	148
Extraordinary losses	67,076	359,687
Loss on disposal of premises and equipment	425	5,604
Impairment loss	39,715	24,268
Provision for reserve for price fluctuations	25,392	46,037
Loss on adjustment to income and losses of the previous year	201	1
One-time provision for reserve for expenses for adjustment resources etc.	—	269,318
Other extraordinary losses	1,340	14,456
Provision for policyholders' dividend reserve	67,812	91,168
Net (interim) income (or loss)	—	—

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# NON-CONSOLIDATED STATEMENTS OF CASH FLOWS (POSTAL LIFE INSURANCE SERVICE)

Unit: million yen

	For the first half of FY 2006	For the fiscal year ended September 30, 2007
Cash flows from operating activities		
Net (interim) income	—	—
Gain on adjustment to income and losses in the previous year	(1,183)	(609)
Loss on adjustment to income and losses of the previous year	201	1
Depreciation	16,908	15,532
Impairment loss	39,715	24,268
Net change in reserve for outstanding claims	38,946	(23,607)
Net change in reserve for insurance contracts	(1,070,466)	(1,059,447)
Provision for accumulated interest of policyholders' dividends	11,575	11,573
Provision for policyholders' dividend reserve	67,812	91,168
Net change in allowance for doubtful accounts	10	(56)
Net change in reserve for employees' bonuses	697	1,496
Net change in reserve for employees' retirement benefits	(3,989)	263,401
Net change in reserve for directors' retirement benefits	3	(34)
Net change in allowance for compensation for accidents in the line of duty	—	5,478
Net change in reserve for price fluctuations	25,392	46,037
Interest, dividends and other income	(773,939)	(811,967)
Gain on money held in trust	(505,916)	(744,816)
Net loss on securities	66,616	(77,219)
Foreign exchange gains (losses), net	(1,267)	(7,302)
Net loss on disposal of premises and equipment	203	1,208
Net change in other assets (excluding assets related to investing and financing activities)	(203,426)	(32,767)
Net change in other liabilities (excluding assets related to investing and financing activities)	(9,006)	(20,850)
Other, net	264	(728)
Subtotal	(2,300,846)	(2,319,241)
Interest, dividends and other income received	735,182	984,760
Dividend payment to insurance policyholders	(185,126)	(190,885)
Net cash used in operating activities	(1,750,790)	(1,525,367)
Cash flows from investing activities		
Purchase of call loans	(3,641,600)	(4,123,000)
Proceeds from redemption of call loans	3,820,400	4,427,600
Purchase of monetary receivables purchased	(284,973)	(159,961)
Proceeds from sale and maturity of monetary receivables purchased	315,000	190,000
Proceeds from sale of money held in trust	951,000	1,696,715
Payments for purchases of securities	(9,534,376)	(11,450,109)
Proceeds from sale and redemption of securities	9,605,037	11,196,897
Investment in loans	(1,660,020)	(1,267,148)
Collection of loans	1,489,431	1,936,752
Other, net	30	(62)
Subtotal	1,059,929	2,447,683
(Net cash used in operating activities + subtotal)	(690,861)	922,316
Purchases of premises and equipment	(2,276)	(40,713)
Proceeds from sale of premises and equipment	3,486	7,672
Other, net	(6,132)	(10,128)
Net cash provided by investing activities	1,055,006	2,404,514
Cash flows from financing activities		
Repayment of lease obligations	(0)	(0)
Net cash used in financing activities	(0)	(0)
Effect of exchange rate changes on cash and cash equivalents	—	—
Net increase (or decrease) in cash and cash equivalents	(695,784)	879,146
Cash and cash equivalents at the beginning of the year	1,946,793	1,122,361
Cash and cash equivalents at the end (end of the interim) of the year	1,251,009	2,001,507

1 Highlights

2 Management Efforts

3 About Japan Post

4 Data

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