

# 2008

## JAPAN POST GROUP Annual Report

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The Japan Post Group launched its operations as a company limited following its privatization on October 1, 2007. Since Japan Post Holdings Co., Ltd., Japan Post Bank Co., Ltd., and Japan Post Insurance Co., Ltd., were established earlier to prepare for the privatization, their fiscal years began on April 1, 2007. Therefore, the accounts for these companies include figures for the preparatory companies.

The accounts for Japan Post Network Co., Ltd., and Japan Post Service Co., Ltd., cover the period from October 1, 2007, through March 31, 2008.

This *Annual Report* is a translation of the *Disclosure Document* (the written explanation in Japanese of the Company's business and financial condition) that was prepared pursuant to Article 52-29 of the Banking Act and Article 271-25 of the Insurance Business Act.

This *Annual Report* contains forward-looking statements regarding future performance and other matters. These forward-looking statements do not constitute guarantees of future performance and are subject to risks and uncertainties. Please note that actual performance may differ materially from these statements as a result of changes in the underlying assumptions regarding the business environment.

Figures and percentages shown in this *Annual Report* have been rounded off, except for financial numbers in the accounting statements, etc., that have been truncated without rounding. As a consequence, sums of figures may not match the totals presented.

Figures and percentages, with exceptions as specifically indicated, are as of March 31, 2008.

# 1. Message from the President



It is a pleasure to have this opportunity to explain our operations and objectives to customers, investors, and other stakeholders in this, the first annual report of the Japan Post Group since our privatization in October 2007. We hope this report will make you more familiar with the Japan Post Group and our activities.

## The Start of the Japan Post Group

The modern postal service in Japan dates back to 1871. For more than 130 years, the postal business has provided postal, banking, insurance, and other services through its post office network that covers every region and community in Japan. As a result, the postal service has developed and grown as an essential part of the nation's public infrastructure.

On October 1, 2007, as one step toward structural reforms in Japan, Japan Post was privatized and became the Japan Post Group. The group comprises four operating companies under the holding company, Japan Post Holdings Co., Ltd.

We are planning to make the most of the privatization and division of Japan Post as a means to achieve more efficient operations grounded in market discipline. At the same time, we will work to further improve the quality of our services, while shifting the flow of funds from the public to the private sector. We have taken our first steps toward achieving these targets in order to play a role in strengthening the overall Japanese economy.

## Review of Fiscal 2007

Immediately following privatization, there were instances when the introduction of unfamiliar systems, revisions to business practices, and other factors created inconveniences for our customers. We deeply regret these inconveniences and extend our sincere apology to all of our customers. As a group, we are determined to prevent such problems from happening again.

Toward this end, we are enhancing our compliance activities and simplifying our business processes. We are also determined to enhance the activities of our post offices, the points of interface where we meet and serve our customers, aiming to provide even better services from their perspective.

Our first annual report since privatization covers the six-month period to March 31, 2008. In this period, consolidated net ordinary income was ¥438.7 billion and net income after tax was ¥277.2 billion. This was notably higher than the ¥215.0 billion projection in the implementation plan concerning the business succession of Japan Post.

The Japan Post Group has had to meet the challenges of intense competition, many difficulties in business operations, and other factors in the early period after privatization that have negatively impacted performance. Given the many issues we have faced, we believe that we performed well during this six-month period.

Privatization has allowed the Japan Post Group to operate a broader range of businesses, and we have already established several alliances and other relationships with other companies. While operating our current businesses, we will continue to enter new fields, as we speed up the diversification and enhancement of our services with the goal of developing new businesses as future core profit centers for the group.

## Objectives for Our First Full Fiscal Year

As private-sector companies, we must improve our capabilities and lay sound foundations for operations.

Many structural changes are taking place in our operating environment. Japan's population is aging even faster as the number of children declines. People are shifting their monetary assets from savings to investments, and customers have higher expectations and demands for services. Emerging products and services are replacing existing ones. Companies must meet greater demands for systems that

protect customers and investors, as well as for tighter internal controls. In addition, expectations are growing with regard to corporate citizenship and greater contribution to environmental protection.

As a group, we must respond quickly to these and other changes. Moreover, we must meet and overcome challenges posed by fair yet intense competition in the market place.

The nationwide post office network is the single most valuable strength of the Japan Post Group. We will make this resource the primary element of our competitive strength. At the same time, we will continue to move quickly to improve operating efficiency in every possible way.

Japan Post Group companies are aiming to go public as soon as possible. We are focusing on achieving rapid progress in all areas where we need to become more self-reliant. We are pursuing distinctive business strategies, such as building new business models that make full use of the post office network, reinforcing internal controls, upgrading the quality of our operations, and taking many other initiatives.

Our key mission as a private-sector company is to operate efficiently and profitably while continuing to provide essential public services universally throughout Japan. We will change everything that should be changed and retain everything that should be retained. As a public-sector organization, Japan Post has made its brand synonymous with "confidence and trust." Now, as a private-sector company, we must, through our own efforts, raise our brand value to the highest level. To accomplish this, everyone in the Japan Post Group is committed to tackling the challenge of taking the group to the next stage of its development. As we aim for higher goals in the years ahead, we look forward to your continued support.

**Yoshifumi Nishikawa**

President & CEO  
Japan Post Holdings Co., Ltd.

July 2008



# 2. Japan Post Group Financial Review

## 1 Consolidated Summary

In the first fiscal period since privatization, which is the second half of the fiscal year ended March 31, 2008, Japan Post Holdings, Japan Post Bank, and Japan Post Insurance had a good start toward their goals of becoming publicly owned. The Japan Post Group as a whole reported a steady performance. Consolidated net ordinary income was ¥438.7 billion, net income was ¥277.2 billion, and at the end of the fiscal year total assets amounted to ¥327,588.2 billion and net assets amounted to ¥8,311.4 billion.

### ■ Information about the Fiscal Period

Companies were established to prepare for the privatization of Japan Post Holdings, Japan Post Bank, and Japan Post Insurance. The financial statements of these three companies include the operations of their respective preparation companies, which have fiscal years that started on April 1, 2007.

## 1. Results of Operations

### ■ Results of Operations (March 31, 2008)

	Japan Post Group (consolidated)	Japan Post Holdings (non-cons.)	Japan Post Network (non-cons.)	Japan Post Service (non-cons.)	Japan Post Bank (non-cons.)	Japan Post Insurance (non-cons.)
Ordinary income	¥10,097.9 billion	¥137.1 billion	¥634.3 billion	¥1,068.3 billion	¥1,328.9 billion	¥7,686.8 billion
Net ordinary income	¥ 438.7 billion	¥ 37.8 billion	¥ 18.5 billion	¥ 113.7 billion	¥ 256.1 billion	¥ 11.9 billion
Net income	¥ 277.2 billion	¥ 42.5 billion	¥ 4.6 billion	¥ 69.4 billion	¥ 152.1 billion	¥ 7.6 billion

### Analysis of results of operations

Japan's economy continued to recover at a moderate pace during the fiscal year. Corporate earnings were weak and consumer spending was generally flat. However, growth in exports and private-sector capital expenditures continued. In the fiscal year's second half, concerns about a U.S. recession, the high cost of crude oil, and other developments produced an increasing risk of an economic downturn in Japan.

In financial markets, Japan left its policy interest rate at 0.5%, but the market-determined long-term interest rate declined in the final months of the fiscal year. Stock prices were weak during the fiscal year, with the Nikkei Average falling to the ¥11,000 level at one point.

In the freight distribution industry, slow growth in the volume of home-delivery parcels and other small items handled continued. However, competition remained fierce as every company worked on improving services to match customers' needs. Along with the sharp increase in the price of crude oil, the result was a difficult operating environment.

In the banking industry, Japan enacted the Financial Instruments and Exchange Act, which imposed a broad range of restrictions on financial instruments to protect investors. In addition, companies from outside the banking sector entered the banking market as Japan continued lowering barriers that separate different financial service sectors. Lower barriers are also producing conglomerates that provide a full line of financial services. Overall, these events are making Japan's retail financial services market even more competitive.

In the life insurance industry, sales of new policies are sluggish in Japan. Customers' needs are becoming more diversified and there are a growing number of sales channels for life insurance policies. Individuals can purchase policies using the Internet, at life insurance stores, and even at banks. As a result, the life insurance market is becoming increasingly competitive.

In this operating environment, the Japan Post Group had consolidated net income of ¥277.2 billion.

## 2. Financial Condition

### ■ Financial Condition (March 31, 2008)

	Japan Post Group (consolidated)	Japan Post Holdings (non-cons.)	Japan Post Network (non-cons.)	Japan Post Service (non-cons.)	Japan Post Bank (non-cons.)	Japan Post Insurance (non-cons.)
Total assets	¥327,588.2 billion	¥9,705.5 billion	¥3,286.4 billion	¥2,149.5 billion	¥212,149.1 billion	¥112,524.6 billion
Total liabilities	¥319,276.8 billion	¥1,659.0 billion	¥3,081.8 billion	¥1,880.1 billion	¥204,072.3 billion	¥111,620.4 billion
Net assets	¥ 8,311.4 billion	¥8,046.5 billion	¥ 204.6 billion	¥ 269.4 billion	¥ 8,076.8 billion	¥ 904.2 billion

### Analysis of financial condition

Consolidated total assets were ¥327,588.2 billion, including ¥258,124.1 billion of securities and ¥23,670.8 billion of loans.

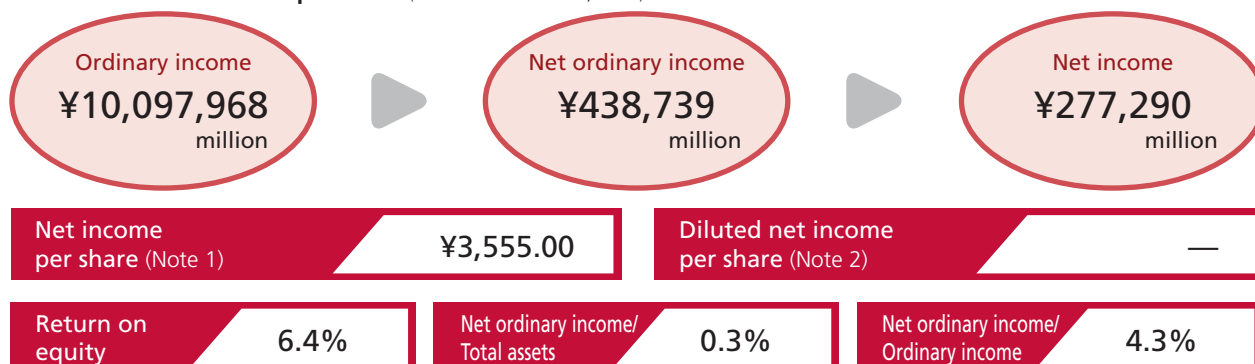
Liabilities totaled ¥319,276.8 billion, including deposits of ¥180,743.3 billion and policy reserves of ¥108,479.9 billion.

Net assets amounted to ¥8,311.4 billion, including a net unrealized loss on other securities of ¥49.6 billion.

As of March 31, 2008, the consolidated capital adequacy ratio (domestic standard) was 60.91%.

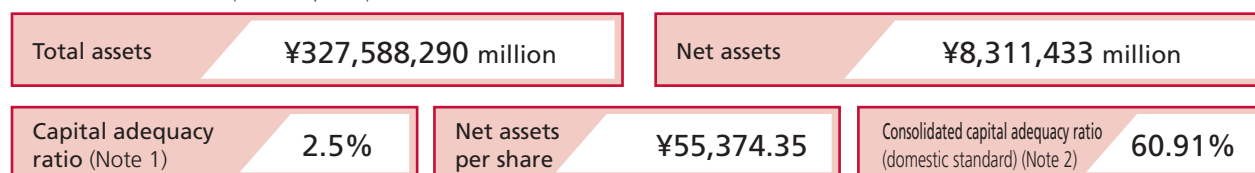
### 3. Consolidated Financial Highlights (April 1, 2007 to March 31, 2008)

#### ■ Consolidated Results of Operations (Year Ended March 31, 2008)



Notes: 1. Net income per share obtained by dividing net income following the October 1, 2007, privatization by the average number of shares of common stock during the six-month period that ended on March 31, 2008, is ¥1,868.94.  
2. Diluted net income per share is not shown because there are no common stock equivalents.

#### ■ Financial Condition (March 31, 2008)



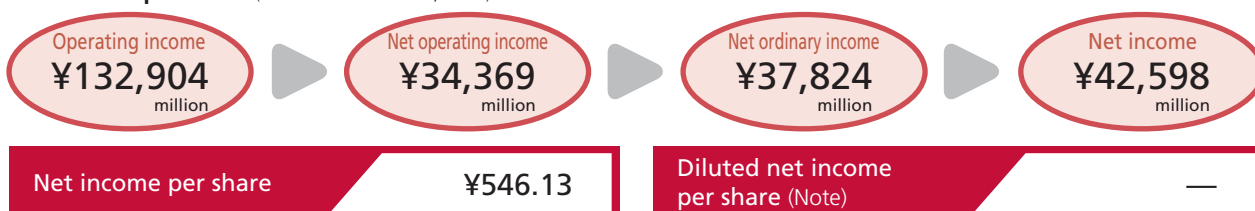
Notes: 1. The capital adequacy ratio is calculated by dividing net assets less minority interests at the end of the fiscal year by total assets at the end of the fiscal year.  
2. The consolidated capital adequacy ratio (domestic standard) is calculated in line with the provisions of Article 52-25 of the Banking Act and on the basis of calculation formulae prescribed under the criteria to be used by a Bank Holding Company for deciding whether or not the adequacy of equity capital of the Bank Holding Company and its Subsidiary Companies is appropriate in light of the circumstances such as the assets owned by that Bank Holding Company and its Subsidiaries (Financial Services Agency Notification No. 20 of 2006).

## 2 Japan Post Holdings Financial Highlights (April 1, 2007 to March 31, 2008)

Japan Post Holdings is a holding company that operates hospitals and also provides shared services to group companies. Net ordinary income was ¥37.8 billion and net income was ¥42.5 billion.

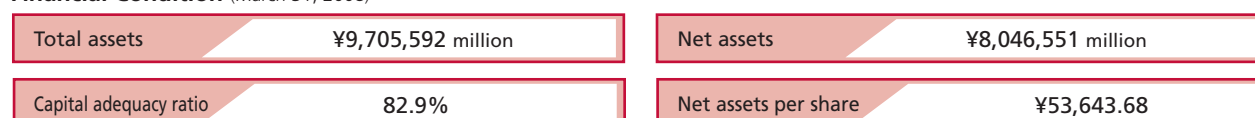
### Results of Operations and Financial Condition

#### ■ Results of Operations (Year Ended March 31, 2008)



Note: Diluted net income per share is not shown because there are no common stock equivalents.

#### ■ Financial Condition (March 31, 2008)





### 3 Japan Post Network Financial Highlights (October 1, 2007 to March 31, 2008)

Japan Post Network has started operations based on a new business model in which the nationwide network of post offices is used to provide counter services and other services on an outsourcing basis for three Japan Post Group companies. Net ordinary income was ¥18.5 billion and net income was ¥4.6 billion.

#### Results of Operations and Financial Condition

##### Results of Operations (Six Months Ended March 31, 2008)



Net income per share	¥1,169.53	Diluted net income per share (Note)	—
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Return on equity	2.3%	Net ordinary income/Total assets	0.6%	Operating income/Operating revenue	1.2%
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Note: Diluted net income per share is not shown because there are no common stock equivalents.

##### Financial Condition (March 31, 2008)

Total assets	¥3,286,487 million	Net assets	¥204,678 million
Capital adequacy ratio	6.2%	Net assets per share	¥51,169.53

### 4 Japan Post Service Financial Highlights (October 1, 2007 to March 31, 2008)

Japan Post Service handled 12,556.86 million items of mail, 138.07 million Yu-Pack parcels, and 1,209.45 million Yu-Mail booklet parcels. Operating income was ¥1,053.6 billion, net ordinary income was ¥113.7 billion, and net income was ¥69.4 billion.

#### Results of Operations and Financial Condition

##### Results of Operations (Six Months Ended March 31, 2008)



Net income per share	¥17,371.89	Diluted net income per share (Note)	—
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Return on equity	29.6%	Net ordinary income/Total assets	5.7%	Operating income/Operating revenue	9.8%
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Note: Diluted net income per share is not shown because there are no common stock equivalents.

##### Financial Condition (March 31, 2008)

Total assets	¥2,149,599 million	Net assets	¥269,487 million
Capital adequacy ratio	12.5%	Net assets per share	¥67,371.89

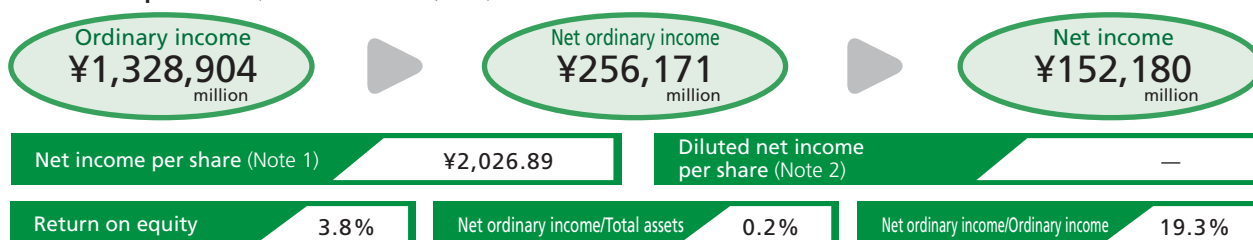
## 5 Japan Post Bank Financial Highlights (April 1, 2007 to March 31, 2008)

At Japan Post Bank, deposits totaled ¥181,743.8 billion (note), net ordinary income was ¥256.1 billion, net business profit was ¥301.9 billion, and net income was ¥152.1 billion. The capital adequacy ratio (non-consolidated, domestic standard) was 85.90% as of March 31, 2008.

Note: Including accrued interest, deposits totaled ¥182,384.3 billion.

### Results of Operations and Financial Condition

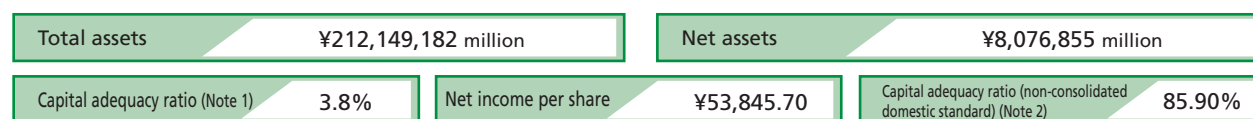
#### Results of Operations (Year Ended March 31, 2008)



Notes: 1. Net income per share obtained by dividing net income following the October 1, 2007, privatization by the average number of shares of common stock during the six-month period that ended on March 31, 2008, is ¥1,019.41.

2. Diluted net income per share is not shown because there are no common stock equivalents.

#### Financial Condition (March 31, 2008)



Notes: 1. The capital adequacy ratio is calculated by dividing net assets at the end of the fiscal year by total assets at the end of the fiscal year.

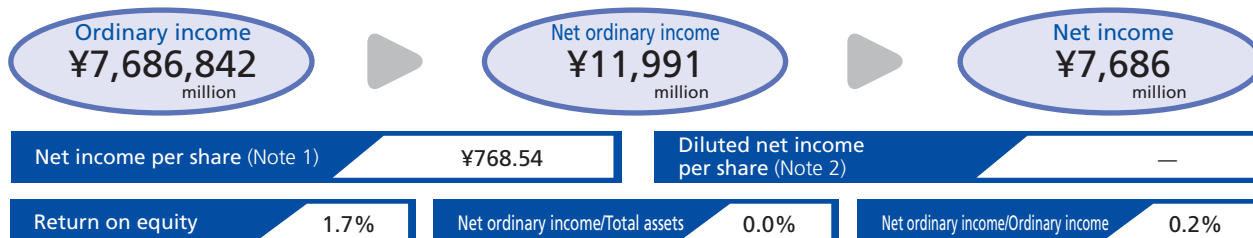
2. The capital adequacy ratio (domestic standard) is calculated in line with provisions of Article 14-2 of the Banking Act and on the basis of calculation formulae prescribed under the criteria for judging whether a bank's capital adequacy ratio is appropriate in light of assets held (the Financial Services Agency Notice No. 19 of 2006).

## 6 Japan Post Insurance Financial Highlights (April 1, 2007 to March 31, 2008)

At Japan Post Insurance, insurance premiums were ¥3,886.6 billion, core earnings were ¥267.2 billion, and net income was ¥7.6 billion. Retained income (reserve for price fluctuations and risk reserve) totaled ¥3,635.2 billion and the solvency margin ratio was 1,116.3% as of March 31, 2008.

### Results of Operations and Financial Condition

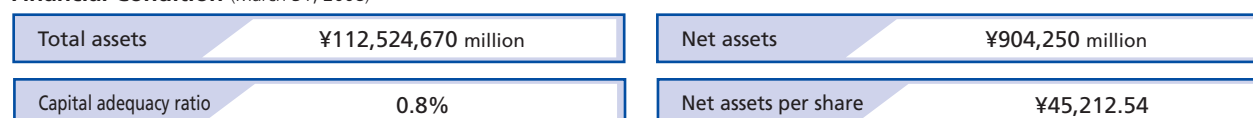
#### Results of Operations (Year Ended March 31, 2008)



Notes: 1. Net income per share obtained by dividing net income following the October 1, 2007, privatization by the average number of shares of common stock during the six-month period that ended on March 31, 2008, is ¥385.37.

2. Diluted net income per share is not shown because there are no common stock equivalents.

#### Financial Condition (March 31, 2008)





# 3. Overview of the Japan Post Group

Following the October 1, 2007, privatization, all businesses of the Japan Post Group have been taking many actions to operate as private-sector companies. This section explains the operations, accomplishments, and other highlights of each business segment.

## 1. Post Office Service

Japan Post Network strengthened sales capabilities in cooperation with Japan Post Service, Japan Post Bank, and Japan Post Insurance, which commission operations to Japan Post Network, and worked on maintaining the high level of the post office network.

There were several actions to upgrade sales capabilities: high-profile activities to sell New Year's postcards, various sales campaigns in collaboration with companies commissioning services, and measures to maintain and expand relationships with current customers and build relationships with new customers.

To maintain the high level of the post office network, we established a conference to investigate ways to strengthen

contracted post office service channels. We discussed how to retain current operators of contracted post offices and locate new partners that can operate contracted post offices that have been closed temporarily. As a provisional measure until permanent contracted post office operators are designated, we have been providing services since February 2008 by sending sales personnel from nearby directly operated post offices.

High-profile sales activities for New Year's postcards

Sales campaigns with other Japan Post Group companies

Established conference to maintain the scale of the post office network

Providing services in areas where contracted post offices have been closed temporarily

## 2. Postal Business and Parcel Delivery Business

Japan Post Service concentrated on measures to operate more efficiently and provide services from the perspective of customers.

In October 2007, Japan Post Service and Nippon Express Co., Ltd., signed an agreement to integrate their parcel delivery operations. In November 2007, Japan Post Service established subsidiary Japan Post Transport Co., Ltd. The new company is to build a framework for providing a parcel and cargo distribution service that can maintain high quality and efficiency over the long term. Nippon Mail Transportation Co., Ltd., and 13 other mail transportation companies had become subsidiaries of the new company by March 2008.

For New Year's postcards, we have taken measures to stop the decline in sales and deliver an even larger number of these postcards on New Year's Day.

In addition, Japan Post Service and Mitsukoshi, Ltd., jointly established JP Logistics Partners Co., Ltd., in November 2007. This new company provides a full line of services extending from the receipt of merchandise through its packaging and delivery. In February 2008, to expand Japan's direct mail market, we established JP Media Direct Co., Ltd., as a joint venture with Dentsu Inc. and, in the international freight distribution sector, we reached an agreement with Sankyu Inc. to jointly establish a company that offers distribution services ranging from small items to large shipments. These actions are allowing us to meet the diverse needs of our customers.

Agreed to integrate parcel delivery businesses of Japan Post Service and Nippon Express

Established Japan Post Transport to build a framework for distribution services

Took actions to increase volume of New Year's postcards delivered on New Year's Day

Established JP Logistics Partners with Mitsukoshi

Established joint venture JP Media Direct to expand Japan's direct mail market

Agreed with Sankyu to establish jointly owned company for international freight distribution

### 3. Banking Business

Japan Post Bank made progress in establishing sound operations as a private-sector bank.

Japan Post Bank conducted a lottery campaign to commemorate the privatization, offered the elimination of fees for internal transfers of funds through Japan Post Bank ATMs, and provided other benefits for customers. In addition, in November 2007 we applied for permission to issue credit cards, sell variable annuities for individuals, and offer consumer loans (as an intermediary). Approval for all these businesses was granted in April 2008.

Under the Law Concerning Postal Privatization, we are unable to make investments in certain asset categories. Therefore, in October 2007 we applied for permission to invest in new types of assets that can improve earnings. We received permission to invest in syndicated loans (participation type) in December 2007. As a private-sector bank, we are building the risk management systems needed to manage the risks accompanying asset management.

Lottery campaign to commemorate the privatization

Elimination of fees for internal transfers of funds through Japan Post Bank ATMs

Received approval to start several new business activities

Received approval to invest in more asset categories

### 4. Life Insurance Business

Japan Post Insurance made progress in building a sound base of operations as a private-sector life insurance company.

We applied permission to sell hospitalization insurance that pays benefits even for a single-day hospitalization and to increase the number of disorders covered under our surgery insurance. The same month, we also applied for permission to sell corporate life insurance policies of other companies, including flat-term insurance and increasing-term insurance. We received permissions in April 2008.

In addition, to increase our earnings, we took actions concerning restrictions on our investments that are imposed by the Law Concerning Postal Privatization. In October 2007, we applied for permission to invest in syndicated loans

(participation type) and received permission in December. In February 2008, we agreed with Nippon Life Insurance Company to form an alliance covering certain operations. We are using this alliance to develop new products and services and establish the associated clerical and IT systems in order to reinforce our operations.

Along with these measures, we are working with NHK (Japan Broadcasting Corporation) and the All-Japan Radio Exercise Federation to promote the popular “radio exercise” and “everyone’s exercise” programs. Both exercise programs contribute to the health of people in all areas of Japan.

Received approval to start several new business activities

Received approval to invest in more asset categories

Formed selective business alliance with Nippon Life Insurance

Helping people lead healthier lives

# 4. The Japan Post Group

## 1 The Group Slogan

# あたらしい ふうをつくる。 "Atarashii-Futsu-wo-Tsukuru" <sup>(1)</sup>

### "Futsu" <sup>(2)</sup> expresses two thoughts

"Futsu" represents the peace of mind and trust which customers have when using our services and which are invaluable assets for the Japan Post Group.

"Futsu" also represents the services available to anyone in Japan. The Japan Post Group will maintain universal services, the sources of peace of mind and trust, even after privatization.

### Thoughts expressed in "Atarashii-Futsu-wo-Tsukuru"

"Atarashii-Futsu" <sup>(3)</sup> should change constantly with the times, and as they do not come into existence automatically, we need to create them.

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

Notes 1: A Japanese expression by which we intend to show the creation of new value services

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

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

The new slogan represents the idea that the Japan Post Group will unite for the purpose of changing in order to deepen relationships with our customers and will be a corporate group that can grow together with our customers.

## 2 Corporate Logo

### 1. The Group Logo



The new logo of the Japan Post Group, “JP,” has been designed to reflect our hearts supporting the “J” and “P” of Japan Post, which respectively offer the highest-quality services for the convenience and security of our customers, regions, and society and a reliable entity that continues to exist side by side with the customers we seek to benefit.

From another perspective, the “J” represents all our customers within the nation and internationally, and the “P” the Japan Post Group, through which we intend to express the supportive attitude of the group toward our customers and society through Japan’s largest collection and delivery networks and through continuously providing universal services for the new era.

### 2. Japan Post Group Company Logos

#### Japan Post Holdings Co., Ltd.



Japan Post Holdings has always used the traditional color red for its logo. As the holding company, serving as the core of the group, Japan Post Holdings will carry on the proud history of Japan’s postal business, while reforming it to meet the challenges of the new era. The refined, deep “Yusei red” is thus used to express the enhanced reliability of the newly privatized Japan Post Group.

#### Japan Post Network Co., Ltd.



Japan Post Network uses “Yubinkyoku orange” for its logo to represent familiarity, security, and comfort as a reliable entity with close associations to local people.

#### Japan Post Service Co., Ltd.



The color of this logo has been changed to the modern “Yubin red” (the same color as “Yusei red”), portraying the aim that Japan Post Service, like Japan Post Holdings, also assumes the task of advancing the history and tradition of Japan’s postal business and provides essential universal service for the coming new era.

#### Japan Post Bank Co., Ltd.



Japan Post Bank has chosen “Yucho green” to express its refreshing image to symbolize becoming a more enterprising bank institution founded on the reliability that Japan Post has long fostered.

#### Japan Post Insurance Co., Ltd.



Japan Post Insurance uses a refined, bright “Kanpo blue” for its logo because it aims to become a more progressive life insurance company reflecting the security that Japan Post has long cultivated.

### 3 Group Management Philosophy, Policy, and Charter of Corporate Conduct

#### 1. Group Management Philosophy

Stressing the 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 the region.

#### 2. Group Management Policy

1. We will respect our customers' point of view, exercise our creativity, and provide through our nationwide network a selection of products and services that customers truly appreciate.
2. We will establish the effective corporate governance and compliance programs, including internal audits and internal controls, needed for the self-reliant management of our four businesses.
3. We will maintain the transparency of the group's operations through the timely and proper disclosure of information, the appropriate use of intra-group transactions, and other activities.
4. We will aim to sell the shares of Japan Post Bank and Japan Post Insurance as soon as possible. Japan Post Holdings will prepare to go public at about the same time as these two group companies.
5. We will create opportunities for all employees, business partners, and the community to grow and develop through mutual cooperation.

#### 3. Japan Post Group Charter of Corporate Conduct

##### 1. Earn the trust of customers

- We earn the trust of customers by adopting their perspective and meeting their expectations.
- We protect and manage information strictly so that customers can use our services with peace of mind.
- We fulfill our responsibility to explain our operations by conducting highly transparent business operations and disclosing information in a fair manner.

##### 2. Observe ethical standards

- We continue to conduct business activities with sincerity by complying with laws, regulations, social standards, and internal rules.
- We stand firmly against antisocial forces and organization that threaten the order and safety of civil society.
- We maintain workplace discipline by clearly defining responsibilities and authority and fairly evaluating performance and results.

##### 3. Place priority on coexistence

- We actively promote environmental conservation and make a significant contribution to society through business activities.
- We aim for sustainable coexistence by placing importance on maintaining dialogues with diverse stakeholders.
- We respect human rights and provide safe and pleasant workplaces.

##### 4. Create value

- We provide valuable and high-quality services with value and quality that exceed customers' expectations.
- We create value consistently by pursuing greater operating efficiency.
- We play a role as individual employees to create corporate value by promoting mutual understanding and cooperation.

##### 5. Be a source of change

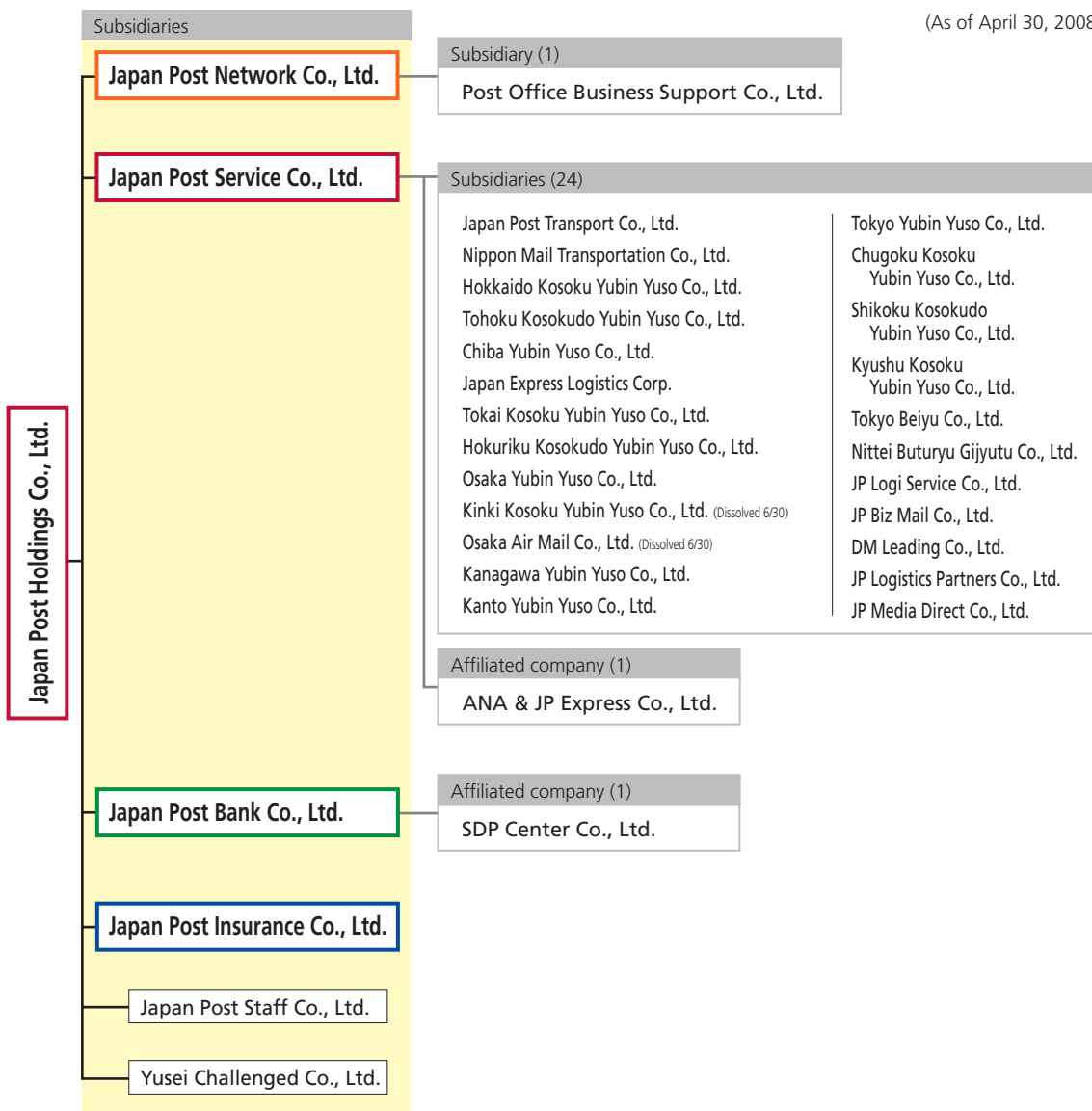
- We make improvements by responding swiftly to changes and emphasizing speed.
- We exercise our creativity from a broad viewpoint and lofty perspective.
- We aggressively take on the challenge of conducting global business activities.





## 5 Organization Tree and Group Companies

(As of April 30, 2008)

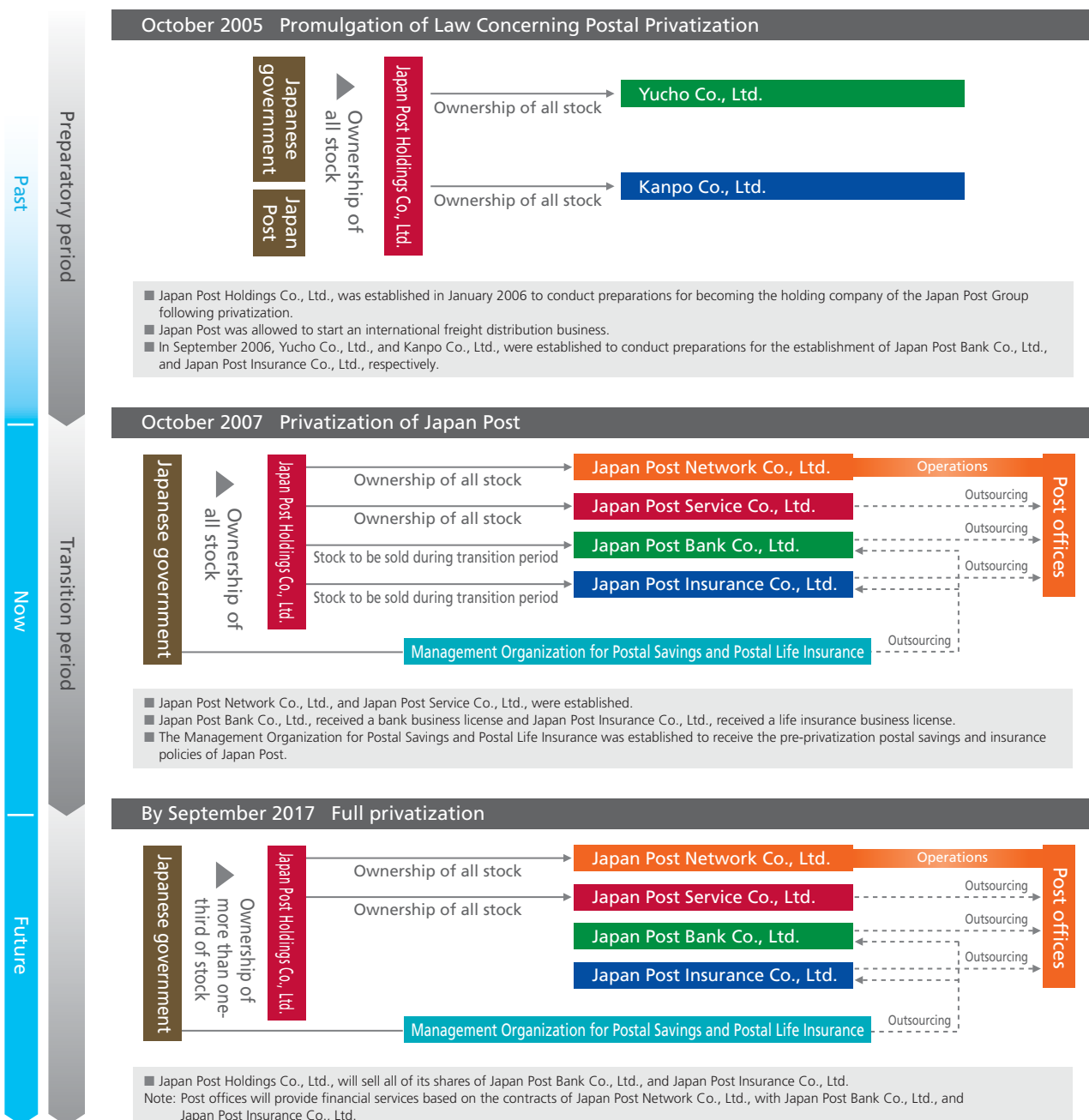


## 6 Privatization Schedule

The privatization process is to be completed by September 2017.

The privatization of Japan Post took place on October 1, 2007, following a preparatory period that ended in September 2007. The next 10 years are positioned as a transition period that is to end in September 2017 with the full privatization of the Japan Post Group.

Under the Law Concerning Postal Privatization, Japan Post Holdings is to sell all of its stock in Japan Post Bank and Japan Post Insurance. These two financial services companies plan to go public no more than four years after the privatization in order to become self-reliant as soon as possible. If possible, the two companies intend to list their shares in their third year of post-privatization operations, assuming that an exception is granted for the Tokyo Stock Exchange listing approval standards. The goal is for Japan Post Holdings to sell all of its stock in Japan Post Bank and Japan Post Insurance within five years after both companies' initial public offering. Japan Post Holdings as well is preparing for an initial public offering that is to take place at about the same time as at the two financial services companies.



# 5. Group Company Messages



Shigeo Kawa  
Chairman and CEO  
Japan Post Network Co., Ltd.

川 茂夫

The primary business of Japan Post Network is the provision of counter and other services through the post office network, reaching every nook and cranny of Japan, that have been commissioned to us by Japan Post Service, Japan Post Bank, and Japan Post Insurance.

Although certain post offices caused some inconvenience for their customers, our operations as a whole proceeded with no major difficulties after the privatization.

Regarding our performance in fiscal 2007, we worked on earning profits and cutting expenses while conducting many marketing campaigns in conjunction with the other three Japan Post Group core companies. For example, we held the first-ever post office fair, an event called the “Spring Customer Appreciation Fair.” Operating results were affected somewhat by difficulties in some post office operations associated with changes in IT systems and business processes following privatization. In this fiscal period, we had net ordinary income of ¥18.5 billion and net income of ¥4.6 billion.

In response to issues involving our recent operations, looking to fiscal 2008, we announced the “Post Office Vitality Improvement Declaration” in February 2008. Our front line is using this declaration to make significant revisions to its operations. The objective is to take full advantage of our network for serving customers. The entire Japan Post Network workforce is dedicated to providing even better services by aiming for a common set of goals.

Providing postal, banking, and insurance services will remain the core business of the post offices and Japan Post Network. At the same time, we will take full advantage of benefits of the privatization in order to add products and services that can even more accurately target the diverse needs of our customers.

To improve services, we are enlarging our line of products. We started selling catalog products and automobile insurance in October 2007 and variable annuities in May 2008. We will start selling company life insurance policies and third-sector insurance policies in October 2008. Activities are also aimed at creating a new image for post offices.

By listening to what our customers want, we intend to enhance our ability to offer one-stop convenience. For instance, we are selling movie tickets and a variety of merchandise on a trial basis.

As for provision of universal services, the entire Japan Post Group is dedicated to maintaining and upgrading the operations of the post office network. Resuming operations at contracted post offices that have been temporarily closed is a particularly important issue. Until these offices reopen, we are sending sales personnel and mobile post offices to areas where contracted post offices are not available.

Along with the activities I have just outlined, Japan Post Network is working on earning even more trust and confidence among customers. This is the foundation for the support we receive from customers. To build on this valuable asset of ours, we will continue to strengthen our operating framework, such as by reinforcing compliance programs and establishing effective internal management systems.

Everyone at Japan Post Network is dedicated to earning the trust of customers and providing services of an even higher quality. We look forward to making more improvements in our operations in the years ahead to meet the expectations of our customers and other stakeholders.

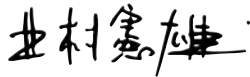
## Management Philosophy

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 more 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.

1. We will supply products and services that precisely match customers’ needs from the perspective of each one of them.
2. We will create an even better infrastructure for our customers’ lives, constantly upgrading the post office network’s capabilities by evolving with social and regional changes.
3. We will fulfill our responsibilities as a corporate citizen by establishing corporate governance systems and strictly implementing compliance.
4. We will encourage all employees to refine their skills and aim for higher goals while interacting with society and the residents of the communities we serve.



Norio Kitamura  
Chairman and CEO  
Japan Post Service Co., Ltd.



Following the start of modern postal services in Japan in 1871, the postal business was a government-operated entity that provided services to anyone, at any time, and any place. No other form of communication in Japan has been more easily accessible or closely linked to daily life.

The postal business was privatized on October 1, 2007, and split into four main operating companies that are supervised by Japan Post Holdings Co., Ltd. Japan Post Service is proud to be one of these companies that is playing a key role in this new beginning for Japan's postal business.

Since its establishment, Japan Post Service has been concentrating primarily on maintaining universal mail service. We are dedicated to providing a reliable means of communication as well as fast and dependable logistics services. In this way, we aim to fulfill our management philosophy of providing a “network that sincerely connects people, corporations, and society.”

Our operating environment today is extremely challenging. Most significantly, the volume of mail is declining due to the spread of email, and there is intense competition in the parcel delivery market. During the past fiscal year, Japan Post Service continued to enhance its quality of services to meet customers' higher expectations. At the same time, we have taken steps to become even more efficient.

As a result, in our first fiscal year following privatization, our net ordinary income was ¥113.7 billion, which is about ¥10 billion higher than in our initial business plan. Although net income fell short of the planned figure, I believe that we achieved an impressive start in our first year as a private-sector company.

In determining to make our services even better, we decided to integrate our parcel delivery operations with those of Nippon Express. We are currently formulating an effective business plan for this integration and are moving ahead with the necessary preparations. Additionally, in the field of international freight distribution, we established a company with Sankyu that is centered on Sankyu's air cargo business. The new company has begun by focusing primarily on international logistics services linking Japan with China and other Asian countries, a market with substantial demand. International cargo ranging from small items to very large shipments are handled by this new company. Our plans also include making even greater use of DM Leading Co., Ltd., and other Japan Post Service subsidiaries. Together, these initiatives allow us to better serve our customers' diversifying needs.

Continuing to earn the trust of our customers is vital to fulfilling our mission. We will disclose information on our operations in a positive and fair manner as one of our highest priorities.

All of these accomplishments since privatization clearly demonstrate that Japan Post Service is fully prepared to take on new challenges and meet even higher expectations as a private-sector organization.

### 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 that enable the public to enjoy secure, certain, and speedy communications and logistics functions.

1. We will provide postal service as a universal service by making our business operations even more efficient.
2. We will expand and upgrade logistics services in Japan and overseas by making extensive use of our resources with the aim of meeting customers' diversifying needs.
3. We will supply services that achieve true customer satisfaction, improving the quality of services and developing new services while always adopting the viewpoint of our customers.
4. We will maintain effective corporate internal audits and internal controls and conduct a strict compliance program. We will appropriately disclose information to preserve the transparency of our business activities.
5. We will create opportunities for customers, employees, and the public to lead their lives with even more energy and enjoyment.



**Koji Furukawa**  
Chairman & CEO  
Japan Post Bank Co., Ltd.

古川 滄次

Japan Post Bank provides banking products and services for individuals in Japan through an immense network made up of 233 of our own branches and about 24,000 post offices of Japan Post Network that serve as agents for us.

Our goal is to earn solid confidence among customers as the most convenient and dependable bank in Japan. Based on our slogan of “Supporting your steady efforts,” we are dedicated to meeting the diverse needs of our customers by supplying products and services they can use with a sense of security and confidence.

We recognize the importance of ensuring the safety of our customers’ deposits, and under sophisticated risk management, we will exert our best efforts to maintain the soundness of our assets while seeking higher returns.

During the 2007 fiscal period, which was our first stage as a private-sector bank, our highest priority was achieving a smooth transition in line with our privatization plan, and from this perspective we have endeavored to establish sound operations and effective internal control systems. Also, we took many initiatives to convey to customers the benefits of our privatization. One example was a marketing campaign offering our close customers premium interest rates on deposits, which had been legally prohibited as a government-owned entity. Another is the elimination of fees for internal transfers of funds through our ATMs.

In December 2007, we received permission to deal with syndicated loans and other financial instruments. This enlarged our range of investment tools, although the interest income on Japanese government bonds is still the main stream of our revenue. Due to these activities, our fiscal 2007 net income was ¥152.1 billion that exceeded our plan for the 2007 fiscal period made prior to the privatization.

In fiscal 2008, which is the year ending in March 31, 2009, our goal is to ensure that customers can use our services with complete confidence.

We will concentrate on establishing a sound reputation for the Japan Post Bank brand by placing priority on conducting rigorous programs focused on compliance and the quality of our banking operations. We will deepen our ties with Japan Post Network and will expand our customer base along with deposit operations and sales of investment trusts and Japanese government bonds. In addition, we plan to start many business activities that will allow us to assist customers with all aspects of their lives. For example, in April 2008, we obtained permission to issue credit cards, sell variable annuities for individuals, and offer consumer loans (as an intermediary).

We obtained permission to join the Zengin Data Telecommunication System and plan to start offering fund transfers with financial institutions throughout Japan as soon as January 2009. We will continue to increase our lineup of products and services.

With our customers’ viewpoints as our first consideration, we will enlarge our service lineup and reinforce our internal control systems. Further improving our profitability is another objective. By taking these actions, we plan to conduct an initial public offering as soon as possible. Everyone at Japan Post Bank is committed to providing our customers with more and better products and services, and we do hope our privatization will give our customers further confidence in and satisfaction with Japan Post Bank. We sincerely appreciate your understanding and continued support.

### Management Philosophy

Japan Post Bank is dedicated to serving as “the most convenient and dependable bank in Japan,” with operations that are guided by the needs and wishes of our customers.

**Dependability:** We will comply with laws, regulations, and other standards of behavior in order to earn the trust of markets, shareholders, and employees and consistently serve as a responsible corporate citizen.

**Innovation:** We will constantly use innovative ideas to improve our management and business activities in response to input from customers and changes in market conditions.

**Efficiency:** We will pursue improvements in speed and efficiency in order to be a source of products and services that match our customers’ requirements.

**Expertise:** We will work continually on upgrading expertise in specialized fields with the aim of meeting the high expectations of our customers.



**Josuke Shindo**  
Chairman, CEO  
Japan Post Insurance Co., Ltd.

連原史介

Japan Post Insurance began operations on October 1, 2007, with the privatization of Japan Post and its division into several operating companies. We were able to begin operations as a new company generally as planned. I am very appreciative of the support and cooperation that we received from our customers and other stakeholders during this start-up phase.

We have received insurance policies from the Management Organization for Postal Savings and Postal Life Insurance in the form of reinsurance. Additionally, during the six-month period since we began operations, we have sold 592 thousand insurance policies with an insured amount of ¥1,635.0 billion and 62 thousand annuity policies with an annuity amount of ¥217.3 billion. This is not necessarily a satisfactory performance because we have only recently established our relationship with Japan Post Network, which serves as our primary sales agent. However, I believe that our sales activities are currently improving month by month. We will concentrate on increasing sales of new policies by further deepening our relationship with Japan Post Network.

Regarding asset management, upon the privatization of Japan Post, we received at market value the stocks and foreign bonds that were owned as money held in trust. The subsequent drop in stock prices and increase in the yen's value caused us to report expenses for management of funds of ¥494.8 billion. However, we offset this expense with a reversal of retained earnings (the reserve for price fluctuations and risk reserve). As a result, our net income was ¥7.6 billion. Our core earnings, an indicator of an insurance company's fundamental earnings in a fiscal period, totaled ¥267.2 billion.

In fiscal 2008, improving clerical operations and IT systems and strengthening compliance programs remain two of our primary goals. Another objective is improving the quality of our business processes involving insurance sales, underwriting, policy management, and the payment of benefits.

We have received permission from the Japanese government to begin sales of two more types of policies: insurance for companies, where we sell the policies of other insurers, and a new hospitalization benefit rider for life insurance policies. The new rider is extremely appealing because it offers benefits even for single-day hospitalization procedures and surgery benefits for a wider range of disorders. I believe this rider will generate a strong response among our customers. Japan Post Insurance will continue to add products that can further meet the needs of its customers.

Japan Post Insurance proudly carries on the social mission of "providing basic coverage for the people of Japan with insurance sold using simple procedures," which was the original goal of postal life insurance when it was created in 1916. At the same time, we are guided by our management philosophy of "moving forward with our customers while serving as Japan's most convenient and trusted insurance company." Japan Post Insurance combines the 91-year tradition of postal life insurance with the resources of the entire Japan Post Group. We will take full advantage of these strengths to provide customers with new forms of value and create a new era for Japan Post Insurance and our policyholders.

## Management Philosophy

### Moving forward with our customers while serving as "Japan's most convenient and trusted insurance company"

To translate this philosophy into specific activities, Japan Post Insurance makes the following promises to stakeholders.

#### Our promise to customers

We value every contact with customers. We will offer products and services that are easy to understand and use. We will supply accurate information so that customers can use these products and services with confidence.

#### Our promise to shareholders

We will aim for constant growth in corporate value to fulfill our obligation to shareholders. We will use sound management systems backed by a suitable risk management framework. We will maintain strong lines of communication with shareholders and other investors.

#### Our promise to society

We will make compliance one of the most important elements of our business activities. We will make substantial contributions to public health. We will operate in a manner that is kind to people and the environment.

#### Our promise to business partners

We will build mutually beneficial relationships based on close cooperation and extensive support. We will supply services and improve the quality of those services by working closely with our business partners. We will increase the value of our brand as a member of the Japan Post Group.

#### Our promise to employees

We will provide employees with a pleasant and rewarding workplace. We will respect each employee and provide equal opportunities to everyone. We will provide many forms of assistance for employees to upgrade their skills.



# 6. Japan Post Group Company Issues and Initiatives

This section explains major issues and initiatives involving the management of the members of the Japan Post Group: Japan Post Holdings Co., Ltd.; Japan Post Network Co., Ltd.; Japan Post Service Co., Ltd.; Japan Post Bank Co., Ltd.; and Japan Post Insurance Co., Ltd.

## JAPAN POST HOLDINGS

To perform its functions and roles as a holding company, Japan Post Holdings concentrates on the effective use of group company resources and the pursuit of synergies. The main objectives are to establish sound bases of operations for each

group company and prepare for the initial public offerings of Japan Post Holdings, Japan Post Bank, and Japan Post Insurance. In addition, the holding company is taking actions aimed at improving compliance programs throughout the group.

## JAPAN POST NETWORK

Japan Post Network will continue to reinforce its marketing operations and maintain the high level of the post office network. For marketing operations, we are conducting a variety of marketing campaigns in conjunction with Japan Post Service, Japan Post Bank, and Japan Post Insurance, which commission services to us. In addition, we are building and utilizing a customer database. We are diversifying our profit structure. One way is by starting sales of variable annuity policies, and another is the planned start in October 2008 of sales of life insurance to companies (for company owners and managers) and third-sector insurance. We plan to use these actions to establish a sound base of operations.

Regarding maintaining the level of services of the post office network, we established a conference to investigate ways to strengthen contracted post office service channels in response to the temporary closure of some contracted post offices. Based

on the results of this investigation, we revised outsourcing fees for contracted post office services, improved the support system for these post offices, and took other actions. These changes will make it easier for third parties to perform contracted post office operations on an outsourcing basis. As provisional measures during the time needed to outsource contracted post office operations, sales personnel of nearby post offices are going to locations previously served by contracted post offices to provide postal services.

Operating a strict compliance program and improving the quality of our operations are two of our highest priorities. We are building an internal management system that includes compliance activities, working on the protection of personal information and information security, and taking actions to prevent errors when performing clerical procedures.

## JAPAN POST SERVICE

The operating environment for Japan Post Service is challenging due to intense competition in the distribution industry and an expected decline in the volume of materials sent by post. In response, we will continue to concentrate on operating efficiently and offering services from the standpoint of our customers. For example, we are creating a slimmer operating framework that holds down personnel expenses. We carefully examine operating expenses based on benefits in relation to costs and are cutting procurement costs. Additionally, we established a new company in June 2008 to prepare for the integration of our parcel delivery business operations with those of Nippon Express. We are moving ahead with business plans and other preparations required for parcel delivery business integration, which is scheduled for April 2009.

In the international freight distribution sector, we have established a jointly owned company that is based on the air cargo business of Sankyū. This operation will focus mainly on cargo shipments between Japan and other Asian nations,

especially China. The company will handle distribution services ranging from small items to large shipments. Furthermore, we will make greater use of associated subsidiaries to meet a diverse range of customer needs.

To conduct an effective compliance program, we will continue to upgrade training in order to make employees more aware of the importance of compliance. In addition, we are creating an environment where compliance violations are unlikely to occur, such as by installing more cash management machines and reviewing business processes.

In October 2007, a large number of inappropriate certification activities by postal certification agents was discovered. In April 2008, we discovered many instances where unqualified employees had been performing this certification process. We deeply regret these incidents and are taking many actions to perform certification operations properly and prevent this type of problem from happening again.


**JAPAN POST BANK**

The retail banking business in Japan is becoming even more competitive due to the entry of companies from other industries, the emergence of one-stop sources of financial services, and other developments. Financial planning needs are increasing in Japan as the population ages. Furthermore, there are growing needs for the diversification of investments as individuals in Japan hold an increasing volume of financial assets.

In this environment, Japan Post Bank is concentrating on the following three objectives in order to go public as soon as possible. While taking these actions, we will continue strengthening our base of operations as a private-sector bank.

The first objective is to improve internal control systems as soon as possible. We view compliance and managing operational quality as important issues to earn the trust of customers so that they can use our services with confidence. This is why we are raising the efficiency of our branches and administration service centers in order to establish an even more effective operating framework. As one way to establish this framework, we have established rules for important activities, such as the provision of proper explanations to customers as required by the Financial Instruments and Exchange Act. We back this up with enhanced training programs, a more effective system for extending guidance to our branches and post offices, and the necessary computer systems. Through these measures, we plan to upgrade our operational quality, provide better support for compliance programs, and improve other aspects of internal management.

The second objective is to build a retail banking business model. A nationwide customer base and service network covering all areas of Japan are two of our core strengths. We

want to further deepen the ties between our branches and the post offices that make up this service network. This will better enable us to provide customers everywhere in Japan with simple and basic products and services. In April 2008, we obtained permission to issue credit cards, sell variable annuities for individuals and other life insurance policies, and serve as an intermediary for consumer loans. Going forward, we plan to join the Zengin Data Telecommunication System, which handles domestic fund transfers, broaden the menu of “Yucho Direct” (our online banking services), and take other actions to expand our IT system infrastructure. Plans also include increasing our lineup of products and services to serve our customers in even more ways. These measures demonstrate our commitment to meeting the growing range of customer needs.

The third objective is to establish an investment business model and advanced asset-liability management (ALM). We currently rely primarily on Japanese government bonds to earn income from investments. We are starting to diversify our sources of investment income by adding more ways to use our funds while using suitable methods to manage and control risks. Another theme is using more advanced ALM techniques. These measures will allow us to create more value from our investments and earn a more consistent stream of income. Interest rate swaps are one example of how we control risk associated with fluctuations in interest rates. Using such methods makes it possible to earn profits while controlling the impact of market volatility on our performance. Furthermore, while carefully evaluating associated credit risk, we plan to increase our investments in syndicated loans and other market-based, credit-related assets.


**JAPAN POST INSURANCE**

Japan’s life insurance market is shrinking as the volume of new policies declines. At the same time, customers’ needs are diversifying and Japan’s population continues to age as the number of children falls. Even as challenges grow, competition is heating up. The primary cause is the increasing number of sales channels, including mail order, life insurance stores, and banks, where all restrictions on life insurance sales have been lifted.

In response to these challenges, Japan Post Insurance is building a more powerful base of operations in order to go public as soon as possible.

With regard to sales of new policies, many initiatives are under way that are expected to produce a recovery in our performance. In April 2008, we received permission to start offering new products and services. One is a hospitalization rider with expanded coverage for single-day care and payments for more types of surgery and other benefits. Another example is sales under consignment of policies to corporate clients. This includes ordinary term insurance and increasing term life insurance. In addition, we are deepening our relationship with Japan Post Network, the major distribution channel for our policies. At the same time, we are strengthening our framework for conducting marketing activities to revive business performance.

For our investments, we received permission in December 2007 to invest funds in more types of assets. We plan to use this permission to start investing in syndicated loans (participation type) and other assets while properly managing earnings and associated risks.

Japan Post Insurance regards compliance as the basis for all business activities. We are strengthening compliance programs and believe that conducting even more stringent compliance activities is a vital part of our management philosophy of being “Japan’s most convenient and trusted insurance company.” We will continue to concentrate on measures to improve compliance activities while establishing an even stronger framework for compliance.

The management of insurance benefit payments is one of the most important responsibilities of any life insurance company. We are making steady progress in verifying the payments made by Japan Post. In addition, we are putting in place the systems needed to ensure the proper payment of benefits from now on.

We are determined to use these initiatives to achieve sustained growth in corporate value and earn a reputation as “Japan’s most convenient and trusted insurance company.” We believe this will make Japan Post Insurance a company that can meet the expectations of everyone.

