

## Message from the Management

The Yamato Group converted to a pure holding company structure in November 2005. Along with developing attractive services by combining the management resources possessed by Group companies, we are raising our market competitiveness by drastically reforming our approach to management. We have established six business formations and are currently building a new, value-infused business model in these areas. By pooling management resources, starting with business infrastructure and expertise cultivated in a variety of areas, we intend to generate completely new synergies.



Keiji Aritomi  
Chairman

Kaoru Seto  
President

### Q. Please tell us about the operating environment and your business results for fiscal 2006.

We carried out reforms to create a corporate group capable of growing in a sustainable manner and controlling costs. *Takkyubin*, Yamato Transport Co., Ltd.'s core service, has reached its thirtieth anniversary and, in view of the ongoing reforms, the time has come for it to be radically revamped.

In fiscal 2006 we set a new record high for income, beating the previous high recorded in fiscal 2003, and also achieved substantially higher sales. Consolidated operating revenues totaled ¥1,144,961 million, an increase of 6.8% over the previous fiscal year.

On the cost front, while we were hit by the impact of skyrocketing oil prices, we successfully enhanced our ability to control costs, and as a result generated operating income of ¥68,721 million, an increase of 34.2% over the previous year. We ended fiscal 2006, however, with a net loss of ¥23,968 million due in part to loss on devaluation of land associated with splitting up the Delivery business, which was stated in order to shore up our financial position.

Companies in the ground transportation industry continued to face difficult operating conditions. In addition to surges in oil prices, competition among companies, especially over prices, has been fierce, due in part to the impact of

Japan Post aggressively entering the market for private door-to-door delivery.

Even more intense competition is expected going forward as Japan Post is officially privatized in 2007. In the midst of this environment, the Yamato Group initiated the "Yamato Group Revolution Plan 2007: New Value & Innovation Three-Year Plan," our new medium-term management plan that started in the year under review, in a bid to convert to a business structure that enables us to maintain and accelerate growth. On November 1, 2005 we switched from an operating holding company structure to a pure holding company structure by splitting the former Yamato Transport into Yamato Holdings, which handles decision-making and

supervision for the Group as a whole, and the new Yamato Transport, which executes the Delivery business.

Under a new Group structure that combines six business formations, including the Delivery business, Yamato Holdings makes strategic decisions for the entire Group and flexibly allocates management resources in an optimal manner to accelerate the growth of the Group. Based on this plan, we are working to steadily expand the Delivery business and are starting to implement business strategies for accelerating the growth of non-delivery businesses by leveraging the Group's management resources. We believe that our measures to realize high-efficiency management by restructuring processes in every business domain have also played a significant role.

### Q. What are your approach and strategies for raising the corporate value of the Yamato Group?

The management strategy of the Yamato Group requires the companies in each business formation to jointly and effectively use the management resources possessed by the Group, to sufficiently narrow in on target markets, and to capture the top share in each market segment.

To this end, the Yamato Group together launched the "Yamato Group Revolution Plan 2007: New Value & Innovation Three-Year Plan" in April 2005. The plan establishes two goals for Group management: 1) Accelerate growth for

the Group as a whole by incorporating new forms of value into the *Takkyubin* network; and 2) Realize high-efficiency management by restructuring processes in every business domain for the entire Group. We intend to provide new forms of convenience to our corporate clients and individual customers and create new business domains for the Group. For existing businesses, we will radically revamp our cost structure to ensure the ongoing efficiency of operations.

As a part of this strategy, Yamato Holdings formed a partnership with Seino Holdings Co., Ltd. on February 27, 2006 to enhance the existing *Kuroneko Box Charter* service by providing just-in-time delivery of medium-lot cargo over medium- to long-distances to companies seeking to reduce their distribution stock and in-process inventory. Out of this partnership, on April 3 we launched *JITBOX Charter*, a service that helps customers construct supply chain management systems. The goal of the enterprise is to become the new de facto standard in business-to-business distribution.

Also on April 3, 2006, we established a joint venture for direct marketing in Japan with DHL Global Mail (Japan) KK, an affiliate of Deutsche Post World Net, in order to rapidly secure a competitive advantage in the direct mail market, which is expected to grow going forward.

The operating environment surrounding the Yamato Group is becoming increasingly challenging as competition between companies heats up, and this

includes the soon-to-be-privatized Japan Post. To meet the goals of the abovementioned three-year medium-term plan, we intend to work to improve corporate value for the entire Group by increasing the speed of management and enhancing Group supervision and control.

### Q. You converted to a holding company structure in November 2005. What was the purpose of that change?

In line with the "Yamato Group Revolution Plan 2007: New Value & Innovation Three-Year Plan," launched in April 2005, the Yamato Group aims to achieve steady expansion of its Delivery business while initiating strategies to accelerate growth in non-delivery businesses that draw on the resources of the group as a whole. In parallel, it is pursuing high-efficiency management by restructuring processes in every business domain. Within this context, in November 2005 the group shifted from an operating holding company structure to a pure holding company structure, creating a new group configuration whereby Yamato Holdings incorporates six business formations, including the Delivery business.

This move was made to accelerate the growth of the Group by flexibly conducting strategic decision-making for the Group as a whole and allocating management resources in an optimal manner. The overarching aim was to create a

means to optimize the distribution infrastructure. Under the previous operating holding company structure, the way the businesses were configured meant that the Delivery business tended to have a disproportionate weight. In future we will avoid this type of structure and consider tie-ups with other companies that combine the group's tangible and intangible resources to establish an outstanding configuration. The new structure will incorporate logistics and financial technologies as well as information technology to generate unprecedented synergies. We are currently leveraging the combined strengths of the group to launch new businesses known as BU (business units) to accelerate the growth of non-delivery businesses. We believe that the key to growing our non-delivery operations is to aim to create unique businesses in niche markets "so targeted you can see the customer's face." We therefore believe that the shift to a pure holding company system has created the best organization to promote the growth of our non-delivery businesses.

### Q. What is the basic policy of the Yamato Group on earnings distribution?

We have developed six business formations rooted in Group management. Accordingly, with respect to distributing earnings, it is our policy to pay a dividend based on our business performance with the goal of having a payout ratio of 30% of consolidated net income. For the dividend in the fiscal year under review, we

increased the term-end dividend by ¥2, to ¥11 per share. Combined with the ¥9 per share interim dividend that has already been paid out, this brings the dividend for the full year to ¥20.

Internal reserves are used to facilitate the growth of the Group as a whole through capital investments—to strengthen our network and develop new businesses, for example—and investments are aimed at raising the corporate value in the future. Internal reserves are also used to acquire treasury stock, which is another way of returning profits to shareholders. At a meeting on February 23, 2006, the Board of Directors voted to purchase treasury stock off the market and acquire 4,478,000 shares for a total of ¥9,999 million. On March 9 we canceled 12,459,000 shares of treasury stock.

### Q. Please discuss the Yamato Group's initiatives in the area of corporate social responsibility.

Since its founding the Yamato Group has considered it important to conduct business activities with sufficient attention to the needs of society, the environment and local communities, as well as to develop on an ongoing basis in step with society at large. We have sought to be a corporate group that has earned the trust of the public by valuing our relations with our various stakeholders—customers, shareholders, business partners and local communities. With Yamato Holdings' CSR Division as the administering body, we ensure checks and balances by existing

management organs function effectively and carry out activities to ensure compliance with both the law and corporate ethical standards via a system of compliance management.

In 1995 the Yamato Group took the pioneering step of documenting its policies from the time of its establishment in a concise form: the Yamato Transport Corporate Philosophy. In April 2005, ten years after the document was created, we revamped it, renaming it the Yamato Group Corporate Philosophy and including new information on such topics as handling corporate scandals, fulfilling disclosure and reporting responsibilities, and protecting personal information. Employees of the Yamato Group carry with them a small booklet that contains the Group's corporate philosophy, credo, policies, goals and latest medium-term management plan. They do their utmost to understand the booklet and put it into practice.



**Keiji Aritomi**  
Chairman



**Kaoru Seto**  
President