

Strategy and Status of “Yamato Group Revolution Plan 2007: New Value & Innovation Three-Year Plan”



1. Yamato Group Strategy

Business Innovation:

Moving Away from Over-Weighting of Delivery Business

In fiscal 2007, the second year of our “Yamato Group Revolution Plan 2007: New Value & Innovation Three-Year Plan,” we restructured processes in every business domain to realize high-efficiency management. The “Yamato Group Revolution Plan 2007: New Value & Innovation Three-Year Plan” is set to run through fiscal 2008, and is aimed at creating a corporate group capable of growing in a sustainable manner.

In the 88 years of operations since its establishment, the Yamato Group has pursued steady expansion of its Delivery business, centered on *Takkyubin* (door-to-door parcel delivery), while initiating strategies to accelerate growth in non-delivery businesses that draw on the resources of the Group as a whole, giving it two major pillars.

Based on this business strategy, the Yamato Group is working to develop unique services that help improve the convenience of customers’ lives, and rigorously pursues greater management efficiency. At the same time, we are shifting from Delivery business-oriented management and implemented innovations aimed at accelerating the growth of non-delivery businesses.

Approach 1:

Steadily Expand the Delivery Business

The Delivery business has been the Yamato Group’s core business since its founding. In fiscal 2007, the Delivery business accounted for around 80% of consolidated operating revenues. The Delivery business faced a business environment that remained harsh owing to soaring crude oil prices, enforcement of the revised Road Traffic Law, and increased competition with

business rivals, including a low-price offensive implemented by the Japan Post.

Under these conditions, we utilized a proactive sales approach tailored to each market sector. This approach, underpinned by the Group's corporate philosophy in this business of Total Reliability, was taken in order to respond flexibly to diversifying customer needs.

In the *Takkyubin* service, we worked to increase customer convenience on the delivery side by promulgating our *Mail Notification Service* and the *Takkyubin Store Pickup Service*. We also strived to further integrate Group functions, including settlement functions and tracing functions, pursuing business expansion underpinned by delivery through our own national network and our own sales drivers.

Meanwhile, in the *Kuroneko Mail* service, the Group put in place a stronger system for improved service quality and productivity. At the same time, the Group pursued aggressive sales activities, including renewing its product lineup in October 2006 and introducing *Kuroneko Mail Express Service*. Furthermore, as the direct mail market is projected to expand going forward, in April 2006 Yamato Holdings formed a joint venture in Japan, Yamato Dialog & Media Co., Ltd., with DHL Global Mail (Japan) K.K., an affiliate of Deutsche Post World Net.

In September 2006, the Yamato Group petitioned the Fair Trade Commission for application of the Anti-Monopoly Law to the business activities of Japan Post, which is scheduled for privatization in October 2007.

Going forward, the Yamato Group, as one of the delivery industry's leading companies, will work to continually enhance quality from the perspective of customers, while developing unique services that help improve the convenience of people's lives.

Approach 2:

Initiate Strategies to Accelerate Growth in Non-Delivery Businesses

As a method of spurring business innovation, we carry out aggressive investments to develop new businesses and

Proposed tie-up with NYK Group (Figure 1)

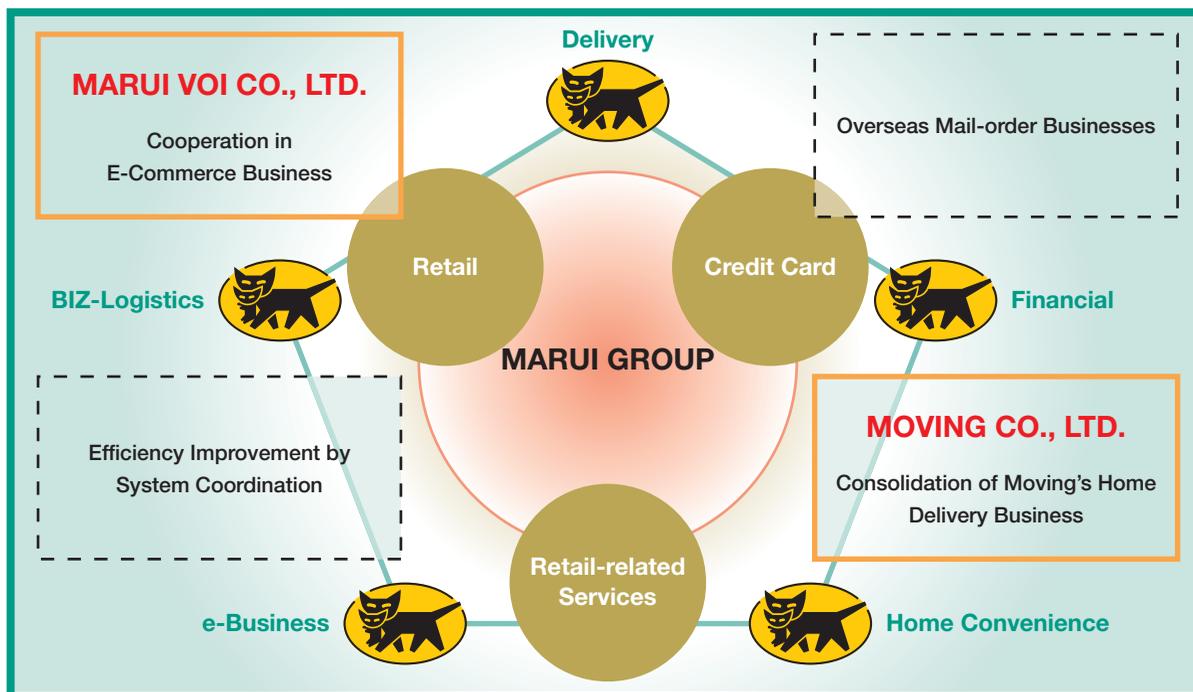


products targeting significant growth in non-delivery businesses. Within this, efforts are poured into our overseas strategy and services targeted at businesses.

The Yamato Group agreed on a strategic tie-up with the NIPPON YUSEN KABUSHIKI KAISHA (NYK LINE) Group on May 10, 2006, and implemented business and capital alliances. The aim of these alliances is to provide high-quality global logistics services by taking an organic and efficient approach to making the best possible use of the two groups' overseas and domestic management resources (See Figure 1). Furthermore, we launched *JITBOX Charter*, a franchise service in April 2006, aimed at realizing just-in-time delivery in one-box units to accommodate the shift from large-volume, one-time shipments to multiple small-lot shipments. In August 2006, we established a franchise-type sales organization based on a corporate group of 15 companies, and we proactively expanded marketing aimed at creating a new *de facto* standard for B2B logistics.

Additionally, in the Home Convenience business, in May 2007, we concluded a basic agreement on a strategic tie-up with MARUI CO., LTD., aimed at strengthening the *Household Takkyubin* service among other goals (See Figure 2).

Strategic alliance with MARUI (Figure 2)



With these and other efforts, we are working to accelerate growth in non-delivery businesses that draw on the resources of the group as a whole.

2. Key Words for Fiscal 2008

Accelerating and Integrating Businesses that Leverage the Comprehensive Capabilities of the Group

As detailed above, we are targeting steady expansion of the Delivery business and accelerating growth in the non-delivery businesses. To successfully pursue these approaches in parallel, it will be necessary to leverage the overall capabilities of the Group by fusing the functionalities of our six business formations, in particular, logistics technology (LT), information technology (IT), and financial technology (FT).

Specifically, we aim to achieve further integration among the respective LT, IT, and FT in the following areas. The first area is logistics, which has a strong track record and abundant expertise

in LT, cultivated from the delivery business, which specializes in individual customers, beginning with home delivery of parcels and mail, the BIZ-Logistics business, which is strong in corporate services, that is, the forwarding and third-party logistics businesses, and the Home Convenience business, which focuses on moving services and the delivery of large items. The second area is e-Business, which has a record of IT-driven achievement in tracking more than 10 billion parcels and pieces of mail annually. The third area is the Financial business, which uses FT to offer five types of settlement services. Our strategic partnership with MARUI is a prime example of where we are integrating these technologies (See Figure 2).

Through this strategy, we aim to accelerate our business endeavors, underpinned by the Yamato brand, characterized by security and reliability built through a strong record of *Takkyubin* performance spanning more than 30 years, since the business was launched in 1976. In November 2005, with a view toward



organizational optimization, we established Yamato Holdings, which is responsible for decision-making and business oversight for the Group as a whole. Under the holding company are six business formations, giving us a framework that is well-suited for the pursuit of continual business innovation.

For fiscal 2008, the final year of our current medium-term management plan, we have set a target for ordinary income of ¥74 billion, including the ¥6 billion impact of a change in the accounting rules for depreciation. Through our effort to achieve this goal, we will work to increase corporate value based on the key words accelerating and integrating.

3. CSR Management

Moving Forward With Our Shareholders and Other Stakeholders

Compliance is a top priority of management at the Group. As such, the Group believes that sustained growth is largely contingent upon not only growing business profitability, but also proper conduct that befits a group of companies that operate businesses with a highly public-service character.

Moreover, as an enterprise whose business depends on the use of public roads, the Yamato Group places extremely high importance on fulfilling its social responsibility with regard to safety and the environment.

On the safety front, Yamato Transport Co., Ltd. is actively engaged in opening more satellite centers. Deliveries from these centers use handcarts and electronic bicycles equipped with mini trailers instead of regular trucks. Also, since 1998, we have held traffic safety classes for children in every region of Japan to provide them with the skills to avoid accidents, while simultaneously increasing safety awareness for our own employees. On the environmental front, we have set global warming prevention targets, and are actively adding low-emission delivery vehicles to our fleet. Moreover, we started holding classes on the environment for children in 2005.

Going forward, while conducting CSR activities that are closely oriented with local communities, we aim to win ever greater trust from all of our stakeholders, and thereby build a Yamato brand underpinned by unshakable security and trust.

With respect to the appropriation of retained earnings, the Company's policy is to pay dividends based on our consolidated net income level with a goal of having a payout ratio of 30%. In fiscal 2007, the Company declared a year-end dividend of ¥10 per share, making an annual dividend of ¥20 per share combined with the interim dividend of ¥10 per share.

I look forward to your continued support as we move forward together toward our goals.