

Interview with the President

The erosion of barriers separating companies that deliver parcels to individuals and companies that handle commercial freight has sparked heated competition as firms target each others' markets. Amid these circumstances, Yamato Transport has transcended its traditional logistics function of transporting goods in order to expand into business domains that provide opportunities to leverage its logistics infrastructure, information systems, and personnel.

Q. PLEASE DESCRIBE THE COMPETITIVE ENVIRONMENT THAT YAMATO TRANSPORT CURRENTLY FACES.

The door-to-door parcel delivery industry, now in its 28th year, has become a mature market. However, even as the total volume of freight declines, we are still seeing growth in the volume of door-to-door parcel delivery. Amid the decline in volume of commercial goods, the barriers between companies that deliver parcels to individuals and handle commercial freight are disappearing, intensifying the competition for market share. Many people believe that, because of its huge size alone, the new Japan Post, established in April 2003, represents a formidable competitor to parcel delivery companies. We, however, are confident of our ability to provide services tailored to the needs of customers and will respond to this new entrant by continuing to improve our services while keeping our rates in line with the value we provide. Although the parcel volume of our competitors is also rising, we are quite different from them in two respects. The first is our profitability. The second is our ability to achieve differentiation by offering flexible services that address the shift from deliveries to households to handling parcels for specific individuals. We have the network, the extensive service menu and the expertise in addressing specific customer requests that are required to benefit from this shift.



Q. PLEASE OUTLINE THE SPECIFIC ACTIONS WITHIN THE SCOPE OF THE NEW THREE-YEAR PLAN THAT WILL CONTRIBUTE TO GROWTH.

Our goal is to increase the value of the Yamato Group as a whole. To this end, we have established a more effective business formation system, a process that resulted in the creation of five key business domains. We have also fleshed out a system for providing Group support to these businesses. The five key domains are



the delivery business (centered on door-to-door parcel delivery), BIZ-logistics, E-business, the financial business, and the home convenience business. Also included under this structure is the system for using the resources of the entire Yamato Group to support all these business activities. We believe this sharper delineation of business domains will foster greater cohesiveness within the Group. In turn, we think this structure will provide seamless connections among the individual business groups and generate synergies while promoting growth.

We also plan to increase our network of delivery centers, our core service bases, to 5,000 from the current 2,600 by fiscal 2012. However, this does not mean we will establish new centers that are the same size as existing ones. Rather, we will segment our network to avoid higher costs. We will accomplish this by setting up smaller centers with space for two to three vehicles and two to three employees to reduce leasing and personnel expenses per center. Previously, an increase in parcel handling volume of 100 million units required 10,000 additional employees. However, we expect the new system will enable us to reduce the number of back-office staff and handle increased volume by adding only drivers.

Q. WHAT ARE THE COMPANY'S STRENGTHS IN THE FIELD OF PARCEL DELIVERY SERVICES AND WHERE DO YOU PLAN TO UPGRADE CAPABILITIES?

The parcel delivery service is characterized most of all by the delivery of items to individuals. Consequently, that area offers the greatest prospects for differentiation. Differences in service quality emerge along with the accumulation of track records in delivery, including methods for specifying delivery times and the manner in which customer needs are met. Our first goal is to eliminate stress on the part of the parcel recipient. We strive to minimize the stress associated with waiting for a delivery, late deliveries, and procedures for a second delivery. To address these problems, we notify customers beforehand of the delivery times (*Takkyubin* e-mail Notification Service) and have set up a system that enables customers to communicate directly with sales drivers by mobile phone to arrange times for delivery of an item following an unsuccessful attempt.

Another strategy is to leverage our strength of coming into direct contact with customers nearly one billion times every year. Our home convenience business derives value by helping individuals and households to eliminate tasks that are time consuming and inconvenient. This business originated from merchandise marketing and moving services. At first, we targeted the sale of heavy or bulky items such as water and toilet paper. The business subsequently added a service that eliminates the hassle of rearranging furniture at a new residence following a move. Because the nature of inconveniences differs by geographic area, we have expanded our menu of services in line with the needs of each region of Japan rather than offering a set menu of services nationwide. The delivery of parcels affords direct contact with customers and thus opportunities to gather information on what households perceive as inconvenient. We then take this information and offer services that address specific needs. The graying of Japanese society and the nation's falling birthrate are creating a definite source of demand for these services. We therefore think this business will be able to stand on its own in a short period of time.



Q. HOW ARE YOU EXPANDING SERVICES FOR CORPORATE CUSTOMERS?

Until now, our networks and systems have been geared for small-lot deliveries, mainly parcels. In light of the substantial needs of corporate customers, we have taken steps to utilize our logistics infrastructure in this direction and made strenuous efforts to increase transactions in this area of the market as the BIZ-logistics business. The competitive environment is very harsh in the commercial goods delivery market; major transportation companies already have solid ties with major customers and firm market shares. Even so, we plan to use our extensive network and deft business maneuvers to capture market share in services for small and midsize firms and small-offices/home-offices that lack their own distribution infrastructure. To meet corporate demand, we will further upgrade our commercial-goods logistics capabilities, with an emphasis on Yamato Logistics Corporation (YLC). Having already acquired infrastructure through our own activities, we are exploring the sale of high-precision, real-time parcel tracking systems to outside parties. We call this the E-business and envision demand coming from small- and medium-sized retailers and chain stores that are unable to construct their own systems. We are also thinking of ways to conduct transactions with customers in areas other than transportation alone. Towards this end, we are considering the launch of a financial business to provide a service that integrates the settlement, financing, and credit functions traditionally conducted by wholesalers.

Q. WHAT ARE YOUR FUTURE AMBITIONS FOR THE COMPANY?

The transportation industry plays a vital role in business activities of all kinds. Moreover, parcel delivery, our main product, has taken hold in society as something integral to people's everyday lives.

Our business requires a large number of vehicles. We are very aware of our social responsibilities, including preservation of the environment in the regions we serve, as well as on a global scale. We have enacted numerous policies aimed at protecting the environment, including the 1991 establishment of the Global Environmental Committee, the creation of various recycling systems, and the use of low-emission vehicles. We achieved our target for the deployment of low-emission vehicles eight years ahead of schedule. We accomplished this through various measures, including the establishment of LPG fuel stations on our own to compensate for the lack of infrastructure in this area.

We aim to increase earnings while stepping up our contribution to society as a company with the mechanisms to provide high-quality services. In doing so, we will base our activities on a management philosophy that emphasizes conformance with regulations and playing a useful role in local communities.

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Atsushi Yamazaki
President