Message from the Management

Under the "Rebirth and Evolution Three-Year Plan," the Group's previous medium-term business plan inaugurated in April 2002, the Yamato Group took steps to set the foundations for further growth. We hope to combine the new network created under the plan with the Group's existing functions and know-how to speed up the growth of the entire Group, take bold reform measures in various business areas and realize efficient management.

Q: Please tell us about your operating environment and business results in fiscal 2005.

During the fiscal year ended March 31, 2005, the domestic transportation industry faced tighter environmental laws and regulations, and greater demand to fulfill its social responsibility. The business environment was also harsher amid escalating price competition among transportation companies, including the aggressive entry of the Japan Post into the private sector with its revamped *Yu-Pack*, a low-price package delivery service launched in October 2004.

In this climate, we recorded consolidated operating revenues of ¥1,071,903 million, up 6.0% from the previous fiscal year. Operating income rose 9.7% to ¥51,203 million. On the other hand, net income dropped 32.0% to ¥33,848 million, due to a lower gain on reversal of allowance for retirement benefits, as well as an asset impairment loss resulting from the early adoption of asset impairment accounting. While these decreases resulted in a drop in net income, operating revenues and operating income posted results fulfilling forecasts—quite an achievement given the difficult operating environment. In the Delivery business, although higher costs for structural reforms led to lower income in fiscal 2004, the new business structure has now completely replaced the old one, with no more negative effects on income. In fact, the Delivery business has entered a phase in which the business framework built through the Group's financial efforts are now generating earnings.

We believe that Japan Post's entry into the private sector creates an unfair and unethical competition, especially since Japan Post receives preferential treatment from the government. We have publicized this position in newspaper editorials and filed suit against Japan Post at the Tokyo District Court on September 28, 2004 to demand fair and ethical business conduct. While taking legal means to realize fair competition, we hope to emerge as a winner in this competition by relying on the relationship we have built with our customers and a hard-won reputation for offering quality services in the delivery business sector.

Q. How do you view the results of the previous business plan and what is your approach to the new medium-term business plan?

The "Rebirth and Evolution Three-Year Plan," the final year of which was fiscal 2005, endeavored to strengthen group management and expand business fields. As a result of efforts made thus far for the three-year period under the plan, we have successfully implemented structural reforms

Business Targets

(¥ Millions)	March 2005	March 2008 (Target)	Change
Operating Revenue	1,071,903	1,300,000	21%
Ordinary Profit	53,517	80,000	49%
Ordinary Profit Margin	5.0%	over 6%	
ROE	7.5%	over 8%	
ROA	5.1%	approx. 5%	

*ROE is calculated by dividing net income by average total shareholders' equity.
*ROA is calculated by dividing net income by average total assets.

in the Delivery business, built a framework for business formation and bolstered the basis for group management. However, these accomplishments were offset by higher expenses for structural reforms, leading to a drop in earnings. We hope to address these issues in the new plan to be inaugurated next fiscal year.

When we became the first to start a *Takkyubin* delivery business in 1976, the market was not yet in existence and competition was thus absent. Thirty years later, the competition today has become fierce. I expect that the delivery business market will feel the full weight of the competition when Japan Post is officially privatized in 2007 and thereafter.

The distribution industry is also undergoing changes as the population continues to shrink and inventory-free manufacturing methods permeate. To remain the company of choice amid these changes, we must further exploit the variety of management resources we possess throughout the Group, maximize their synergies, offer superior services that surpass those of our rivals, compete on a higher level and introduce a new *Takkyubin* delivery business model that is tailored to meet future market needs and distribution structures. These strategic aims are formulated in the “Yamato Group Revolution Plan 2007: New Value & Innovation Three-Year Plan,” which seeks to realize efficient management and growth for the entire Group.

Q. Please explain the goals and strategies laid out in the new medium-term business plan.

The major goals of the “New Value & Innovation Three-Year Plan” are to secure further growth and extensively promote efficient management. By “further growth,” we envision that each business segment, which in the previous medium-term business plan established its own business domain, narrows down its target market and achieves top share in its niche.

For the fiscal year ending March 31, 2008, our management goals comprise operating revenues of ¥1,300 billion, ordinary profit of ¥80 billion, an ordinary profit margin of 6% or more, return on equity (ROE) of 8% or more and return on assets (ROA) of around 5%. One key point to focus on here is the change in the breakdown of revenues by business segment. Although the Delivery business itself has grown and targets an 14% increase in revenue relative to fiscal 2005, its share of operating revenues will drop from 80% to 70% due to greater growth of revenues generated by Group subsidiaries—implying that non-delivery businesses will grow substantially. For example, from fiscal 2005, the BIZ-Logistics and Home Convenience will increase their revenues by 63% and 47%, respectively. In addition, we will strive to realize efficient management through bold measures to reform our business processes, thereby reducing fixed expenses per delivery unit and improving profitability.

Left **Keiji Aritomi**
Chairman
Right **Atsushi Yamazaki**
President

Q: Please elaborate on your plans to establish a pure holding company.

We have made organizational reforms such as clarifying the boundaries of business segments to bolster the Group's strength. As the final step, in April 2005 we established provisional organizations in preparation for actual business activities that we plan to conduct as a pure holding company. By doing so, we hope to speed up management and make assessments of business activities that further emphasize shareholder interests and generate returns that better meet their expectations. This phase will be completed on November 1, 2005, when we will spin off the Delivery business and establish a pure holding company.

We are currently focusing on developing new businesses. Our previous business framework focused too heavily on the Delivery business, disproportionately concentrating investments in this field. The new scheme attempts to reexamine the ways in which we handled new businesses as secondary to the Delivery business and made decisions accordingly. Going forward, we will instead allow each business segment to conduct their activities more independently. By doing so, we can boost business efficiency and improve supervision, transparency and disclosure, ultimately allowing us to provide higher returns to shareholders.

Q: What is your approach to corporate social responsibility (CSR)?

Our CSR management is headed by the Division of Corporate Social Responsibility, which is directly supervised by the president. Actually, the basic principles of the Group's approach to CSR were already laid out in our company motto, management principles, corporate stance and Employee Code of Conduct. Of these, three tenets, based on our company motto adopted in 1931, capture the spirit of our current approach to CSR.

Namely, they are "Taking All Employees on Board," "Customers First," and "CSR." All employees of Yamato Transport carry a booklet containing the company motto, policies and the most recent medium-term business plan at all times so that they understand the rules and principles underlying our business and act accordingly.

In addition, one of Yamato Transport's guiding management principles is "Safety First, Business Second." This reflects the absolute priority we place on human lives over profit, based on the belief that we exist side by side with people, local communities, and society. We strive to bring people happiness by taking safety measures that put top priority on the protection of human life, treasure our relationships with all stakeholders and provide a social infrastructure that makes life more convenient for everyone.

Keiji Aritomi
Chairman

Atsushi Yamazaki
President

Sales Targets by Business Segment

(¥ Millions)

	March 2005	March 2008 (Target)	Change
Operating Revenues	**1,071,903**	**1,300,000**	**21%**
Delivery	936,274	1,065,000	14%
BIZ-Logistics	137,801	225,000	63%
Home Convenience	59,325	87,000	47%
e-Business	43,012	63,000	46%
Financial	33,726	50,000	48%
(Eliminations)	(138,235)	(190,000)	