

Message from the Management I



Targeting Steady Growth

In fiscal 2008, the final year of “Yamato Group Revolution Plan 2007: New Value & Innovation Three-Year Plan,” we achieved year-on-year growth in both revenue and earnings. Specifically, operating revenues grew 5.5%, and operating income rose 1.5%. We provide an overview of each business segment in the section starting on page 12. In this message, we will look back on the final year of the three-year plan.

The plan featured two major policies, which aimed to ensure long-term future growth for the Group. The first was to steadily expand the Delivery business, centering on *Takkyubin*. The second was to expedite growth in non-delivery businesses—BIZ-Logistics, Home Convenience, e-Business, and Financial—by deploying Groupwide resources. This entailed combining three functions: logistics technology (LT), central to the door-to-door parcel delivery business, information technology (IT), and financial technology (FT).

In order to achieve this aim, it was necessary to separate the decision-making and business execution functions and optimally allocate business resources and raise the speed of management. In November 2005, therefore, we established a pure holding-company group structure with Yamato Holdings as the parent company.

On May 21, 2007, Yamato reached an agreement to form a strategic alliance with the MARUI GROUP. Under the agreement, in September 2007 the door-to-door parcel delivery business of MOVING CO., LTD., a member of the MARUI GROUP, merged with Yamato Home Convenience Co., Ltd. With this move, we established the industry’s most competitive network for delivery services, including onsite installation of home electronic appliances and other products.

As these results attest, the Group made good progress over the three-year period of its medium-term plan, with success in two key areas.

First, the contribution of non-delivery businesses to our performance increased significantly each year. In fiscal 2005,

Business Results

	Millions of Yen				Change	
	2005	2006	2007	2008	Increase/ Decrease	YoY (%)
Operating Revenues						
Delivery	–	¥ 908,228	¥ 934,607	¥ 981,142	¥46,535	5.0
Non-Delivery	–	236,733	226,961	244,832	17,871	7.9
Total	¥1,071,903	1,144,961	1,161,568	1,225,974	64,406	5.5
Operating Income	51,203	68,721	67,161	68,180	1,019	1.5
(Margin)	4.8%	6.0%	5.8%	5.6%	–	–
Net Income (loss)	33,848	(23,968)	33,813	35,353	1,540	4.6
(Margin)	3.2%	(2.1%)	2.9%	2.9%	–	–

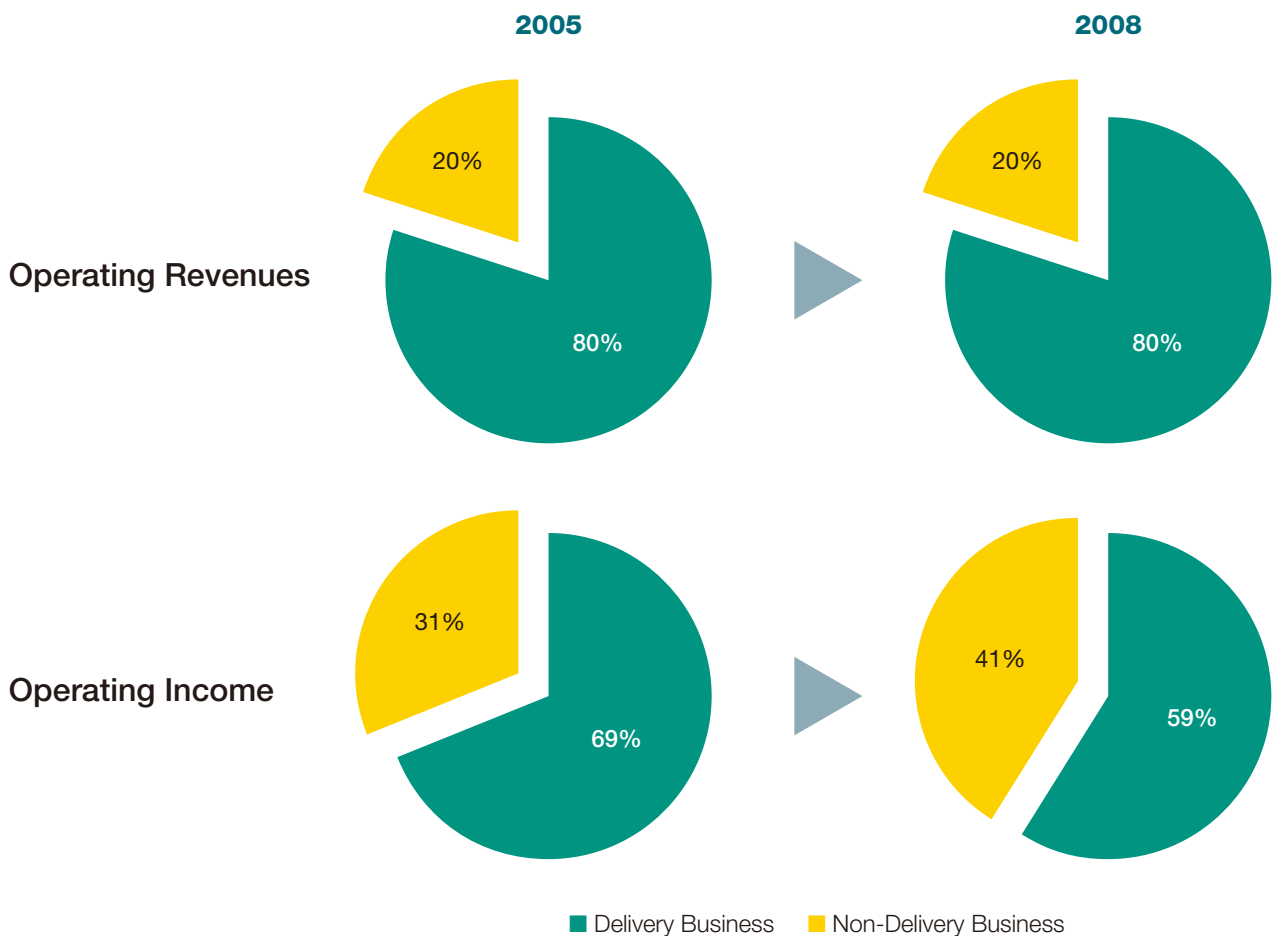
prior to the plan, non-delivery businesses accounted for around 30% of total Income. In the past three years, this share has grown to about 40%. Going forward, we will strive to generate dramatic growth in our non-delivery businesses, surpassing our performance to date. We regard the increased presence of such businesses in overall Group operations over the past three years as a major success story.

Second, we consistently outperformed market growth with respect to handling volume of small-lot delivery services, notably *Takkyubin* and *Kuroneko Mail*, which are core services of our delivery business. Competition in this business has intensified, due in part to the impact of a low-price onslaught by Japan Post, which was privatized in October 2007.

Indeed, the competitive environment for the delivery business has remained extremely challenging. In light of such conditions, our ability to post steady growth reflects the correctness of our Total Reliability corporate philosophy, based on long-term perspectives. Guided by this philosophy, we took the lead in developing services that match customer needs, particularly package recipients, while building an effective pick-up and delivery system. As a result, more and more customers have chosen Yamato. We see this as a major success.

Note: See also pp. 2-3 Market Data (from the Ministry of Land, Infrastructure, Transport and Tourism)

Revenue Composition



Delivery Business: Current Market Status and Future Outlook

The domestic market for home parcel deliveries grew sharply after the launch of *Takkyubin* in 1976 as a consumer-to-consumer (C2C) delivery service. Some, however, believe that in recent years the market has begun contracting.

What is certain is that the logistics business has changed considerably in the past several years, and I believe that this market remains on a path of growth.

For example, the business-to-consumer (B2C) market, centering on mail order, continues to show solid growth. Japanese consumers are embracing a new lifestyle that allows them to conveniently purchase high-quality products at reasonable prices, without leaving the comfort of their own homes. The increasing prevalence of this lifestyle has been the key factor in the success of the B2C model, and we believe the trend is poised to continue.

The business-to-business (B2b) market, based on distribution between companies, is also growing, driven by companies in various industries that have adopted cash-flow-driven management policies. This model calls for maintenance of minimal inventories with sufficient stock for short-term sales only, or adopting made-to-order production. This trend has prompted many companies to use *Takkyubin* services. Although using *Takkyubin* causes delivery costs to increase vis-à-vis total distribution expenses, it significantly alleviates the cost burden of maintaining inventories in distribution warehouses. The result is a reduction in total distribution costs, achieved in a surprisingly simple way. More and more companies are coming to recognize the advantages of *Takkyubin* services, and more and more company and divisional managers are turning to logistics companies like Yamato.

Moreover, the consumer-to-business (C2B) market is expanding as major manufacturers in various industries jointly build platforms enabling customers to easily return products for recalls, repairs, recycling, and other reasons.

At Yamato, we refer to recalls, repairs, and recycling as the “3 Rs.” In the past, most companies issuing recalls lacked the physical capability to collect defective product returns. Using the resources of the Yamato Group, however, they can now accept recalls in a seamless manner. In addition to pickup and delivery, we provide comprehensive support services to address complex back-office tasks, such as accepting telephone orders and account reconciliation after product collection.

With respect to repairs, using Yamato’s services purchasers of electronic goods and other products in need of repair or upgrade can simply send their items back to the manufacturer, and the repaired product can be delivered back to the customer via *Takkyubin* within two or three days. Under this innovative model, Yamato can also act as agent for collection of repair fees if required. Recycling works in a similar fashion, mainly with copier toner cartridges and similar products. The consumer sends back an empty cartridge, for example, and a refilled one is delivered.

In all cases, customers can take advantage of our diverse network of sales channels. On regular business days, this consists of 32,000 sales routes, 3,770 directly managed operations, and roughly 275,000 outlets that handle our services (as of March 31, 2008). Customers also benefit from our comprehensive support resources, including guaranteed-quality delivery, tracking information, and payment agency services. This is a revolutionary framework that has earned us an excellent response from customers.

Note: See also pp. 2-3 Market Data (from the Ministry of Land, Infrastructure, Transport and Tourism)

Takkyubin Growth by Customer Segment (2008)

	Growth in Delivery Volume (%)
Retail Solutions (incl. small-lot retail and individual customers)	104.7
Individual Customer Market	100.3
Distribution Solutions (Department stores/Distributors)	109.7
Manufacturer Solutions (Manufacturers)	102.4