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Outside Director

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Representative Director and Chairman

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Outside Director

THREE-WAY DISCUSSION ON GOVERNANCE BY THE CHAIRMAN AND THE OUTSIDE DIRECTORS

In Anticipation of the Yamato Group's Further Growth

— The Yamato Group will be marking its centenary in 2019. Amid a changing business environment, Chairman Makoto Kigawa engaged in a three-way discussion with outside directors Toshitaka Hagiwara and Masakatsu Mori on the Yamato Group's corporate governance-related efforts as well as what the Group needs to do to further improve corporate value over the next 100 years.

Approach toward Corporate Governance

Kigawa: Corporate governance is necessary for improvements in corporate value and is the mechanism for supervising the execution of fair and equitable business and overseeing execution with a high degree of transparency. The guidelines that have been shown to ensure this mechanism are recognized as the Corporate Governance Code, which came into effect in June 2015. In 2005, at the time that we switched to a holdings system, we had been implementing initiatives from early on that reflect ideas that are now incorporated in the Corporate Governance Code, such as the introduction of outside directors and outside Audit & Supervisory Board members.

Hagiwara: Corporate governance has to focus on contributing to the improvement of reliability of all stakeholders surrounding a company. While keeping this point in mind, the Board of Directors must meet the expectations of each individual shareholder by engaging in sufficient deliberations and making precise and

earnest decisions. In doing so, I think that corporate governance enables the sustainable development of a company.

Mori: By providing superior products and services, employees are useful to both customers and society. And, being useful in this way leads to employee happiness. I believe that repeating this process helps to improve corporate value. This very mechanism is in itself corporate governance. With regard to the traditional governance requirements, in respect of the focal point of the Board of Directors at Japanese companies being placed on decision making, it is recognized that the Corporate Governance Code is intended to strengthen the monitoring and supervisory functions of that decision making itself.

Hagiwara: In addition to monitoring and supervisory functions, I think that another purpose served by the Code is the strengthening of backup systems for "aggressive management decisions" geared toward growth.



I believe that outside directors should ascertain whether or not the initiatives of the Group's management reflect the interest of stakeholders and provide a supportive push in moving forward with growth strategies.

Toshitaka Hagiwara

Outside Director

Kigawa: Speaking of backup, at the time we switched to the holdings system, we only received the simple opinions of outside directors. There was also the aspect to which we were not accustomed to having constructive discussions, but these days I have the feeling that attitudes have changed as we now repeatedly engage in dialogue and proactively incorporate valuable opinions in management.

Hagiwara: What I have realized in the many years that have passed since my appointment as an outside director is that there has been a change in the awareness of the members of the Board of Directors. I feel that the awareness of the Board toward leveraging our opinions as outside directors and outside Audit & Supervisory Board members in growth strategies and important policies has become a pump primer for spirited discussion.

Mori: Three years have passed since I was appointed director, and I feel that discussions at Board of Directors meetings are very lively. Furthermore, I think that Audit & Supervisory Board members excel at freely expressing a range of opinions in comparison with other companies. As for myself, when I engage in a discussion at the Board of Directors meeting, I endeavor to speak while remaining constantly aware that the Group is confronting a

difficult issue, namely a decline in the domestic population, and that there is an urgent need to accelerate global business development and to nurture global human resources.

Emphasizing the Front Line in Leveraging Business Judgment

Kigawa: The one thing we are kindly and constantly asking of our outside directors is to see the "front line" for themselves. I don't think there are many companies where outside directors visit the front lines and subsequently maintain communications, including with the executive candidates who will be responsible for the next generation.

Mori: By visiting the front line, regardless of whether the front line happens to be in Japan or overseas, you are able to gain a sense of the kind of human resources who are conducting business there and what type of approach they take in doing so. In terms of promoting a growth strategy, it remains an extremely important point that the management policies and future targets decided at Board of Directors meetings make it through to the front line. What we term an outside director will generally have little opportunity to come into contact with front line personnel, but as you will be able to gain an impression of the front line thanks to this system, you will be able to develop a discussion in an active manner, even a discussion at the Board of Directors meetings.

Hagiwara: By going to the front line, we have the opportunity to talk directly with the next generation of management, providing us with a forum for discussing evaluations based on this dialogue.

Kigawa: Under the holdings system, many scenarios exist that will allow some degree of freedom as a result of having transferred authority for overseeing wide-ranging business domains to the front line. For this reason, verifying whether appropriate risks are being taken is something that is expected of outside directors.



To my mind, however, for these verifications it is important to have actually seen the front line for themselves.

Necessary Strategies for the Yamato Group in Anticipation of Further Growth

Kigawa: The Yamato Group will celebrate its centenary in three years' time. In the meantime, while the *TA-Q-BIN* business has grown significantly, at the present time it is approaching a great turning point. In domestic terms, the *TA-Q-BIN* business has been growing as an overwhelmingly strong business, but already the market is reaching a saturation point. These severe circumstances are creating a difficult environment for improving profit ratios. Accordingly, while it is necessary for the Group to expand the fields of its global business, challenges remain from the standpoints of eliminating new forms of risk and establishing overseas strategies. In view of this situation, it will be necessary to continue strengthening the corporate governance system. In relation to risk in particular, checking from the dual standpoints of the risks necessary for growth and risks to avoid in the first place are recognized as being necessary in management from now on.

Mori: In association with expanding global business, we have to gain the trust of an unprecedentedly large number of stakeholders. Moreover, the fusing of logistics and IT that has been evident in the business environment in recent years is naturally providing added impetus to the Yamato Group, which has capabilities in both of those areas. I would like to express an opinion from the perspective of whether appropriate investment is being conducted for business expansion.

Kigawa: Merely incorporating support functions that utilize IT will dramatically change productivity. We acknowledge that we are an innovation company; however, if we consider whether or not we truly have a good command of IT, there are sure to be as many issues as ever that need to be addressed. Naturally, IT governance is a management strategy itself.

In relation to risk, checking from the dual standpoints of the risks necessary for growth and risks to avoid in the first place are recognized as being necessary in management from now on.

Makoto Kigawa

Representative Director and Chairman



I endeavor to speak while remaining constantly aware that the Group is confronting a difficult issue, namely a decline in the domestic population, and that there is an urgent need to accelerate global business development and to nurture global human resources.

Masakatsu Mori

Outside Director

Hagiwara: As for the Yamato Group's management strategies, there are two roles that we should continue to fulfill as outside directors. The first role is to ascertain whether the Group's management is implementing initiatives that reflect the interests of stakeholders, including the Group's shareholders, or whether those initiatives will run contrary to their expectations. To do so requires a wide variety of experience, as knowledge alone is not enough. The second role is to provide a supportive push for management regarding growth strategies as well as risks that must be overcome. I maintain a constant awareness of these two roles.

Kigawa: As you both have pointed out, for the further growth of the Yamato Group two factors remain in question: the current status of growth strategies through globalization and the spread of IT, and the current status of the associated governance. Please be kind enough to give us a range of opinions from a variety of perspectives going forward.