

A Message from the President



In this annual report, I would like to explain the Yamato Group's medium-term strategies in line with the following four themes.

The Four Themes

1. The Yamato Group's Vision
2. Our Unique Competitive Advantages
3. Tackling the Challenges of a Growing E-Commerce Market
4. Fiscal 2014 Forecasts and Shareholder Returns

Makoto Kigawa

Representative Director,
President and Executive Officer

1. The Yamato Group's Vision

Through its network innovations, the Yamato Group will develop logistics as a means for generating value. By reforming logistics, we will launch a *value networking concept* that contributes to growth strategies in Japan's economy.

Seeking to Become Asia's No. 1 Solution Provider in Distribution and Lifestyle Support

In fiscal 2014, the final year of DAN-TOTSU Three-Year Plan HOP, we aim to link regional economic zones and fully harness the unparalleled transportation speed of three logistics terminals. These are the *Atsugi Gateway*, *Haneda Chronogate*, and the *Okinawa International Logistics Hub*.

We will seamlessly integrate the overwhelming speed of these three facilities with the strength of our "last mile" network, which covers Japan and Asia, and our proprietary information technology (IT), logistics technology (LT), and financial settlement technology (FT), to launch new solutions that dramatically improve logistics speed, costs, and quality.

Through our network innovations, we will develop logistics as a means for generating value. By reforming logistics, we will launch a *value networking concept* that contributes to growth strategies in Japan's economy, thereby becoming Asia's No. 1 solution provider in distribution and lifestyle support.

Value Networking Concept

In an increasingly borderless age, boosting international competitiveness by reducing costs is a key ongoing challenge for world-class Japanese manufacturers and companies in primary industries. However, they have already reached the limits to which they can trim production and personnel expenses.

But there is still great scope to lower costs in the logistics domain, our core business. The Yamato Group believes that there are four issues that it can help resolve.

The first issue is that in the retail sector logistics costs are tending to rise as companies look to handle many small orders and cut lead times to avoid losing sales opportunities amid stiffer competition with major e-commerce businesses.

The second is that logistics costs remain high at manufacturers, who have reached the limits to which they can lower production costs, because they have left everything up to logistics companies after shipment.

The third issue is that advancing globalization and borderlessness have resulted in increasing dispersion and complexity with respect to the locations of suppliers and production sites, meaning that overall logistics, including inventory volume management, has not been optimized.

Finally, since the Great East Japan Earthquake of March 2011, there has been a growing need among manufacturers, retailers, and other companies regardless of industry or size to control risks by dispersing inventory from a business continuity planning (BCP) perspective.

The Yamato Group aims to resolve these issues by seamlessly integrating the overwhelming speed of three facilities with our “last mile” network, which covers Japan and Asia and our proprietary IT, LT, and FT, to launch new solutions that dramatically improve logistics speed, costs, and quality.

Specifically, we will leverage the five engines below to attain greater speed, lower costs, and higher quality, and reduce overall inventory volumes so we can reform logistics and contribute to Japan’s growth strategies.

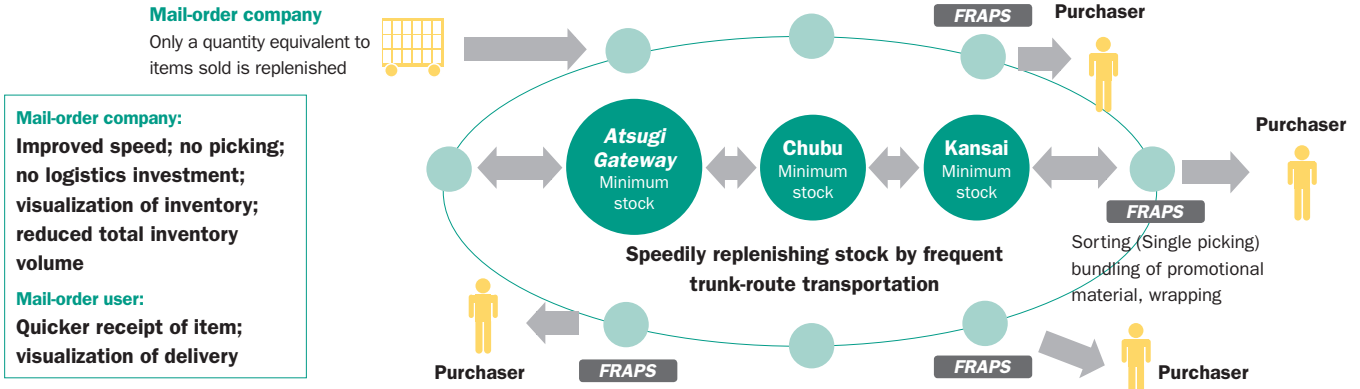
The Five Engines of Value Networking

- (1) Non-stop logistics to add value by swiftly networking operations. This will be made possible by launching full-fledged operations at *Haneda Chronogate*, *Atsugi Gateway*, and the *Okinawa International Logistics Hub*—multifunctional super-hubs that integrate speed and high value-added capabilities.
- (2) Cloud-based networking regardless of shipping location, shipment type and shipment volume through *FRAPS**, which uses a network to swiftly and accurately ensure delivery to multiple locations by optimizing the collection of goods.
- (3) The world’s first network for the integrated global delivery of refrigerated packages through the launch of *International Cool TA-Q-BIN*.
- (4) Visualization of logistics by both senders and receivers through seamless digital informatization from shipment through arrival.
- (5) Demand chain perspective innovations that satisfy needs of purchasers and suppliers.

*FRAPS is an acronym for the *Free Rack Auto Pick System*, a cloud-based setup that can use “last mile” networks. This picking system uses proprietary flow-through racks. As the racks move along, items are sorted and cross-merged on the network, reducing overall inventory by enhancing flow speeds and visualizing inventory volumes and flows.

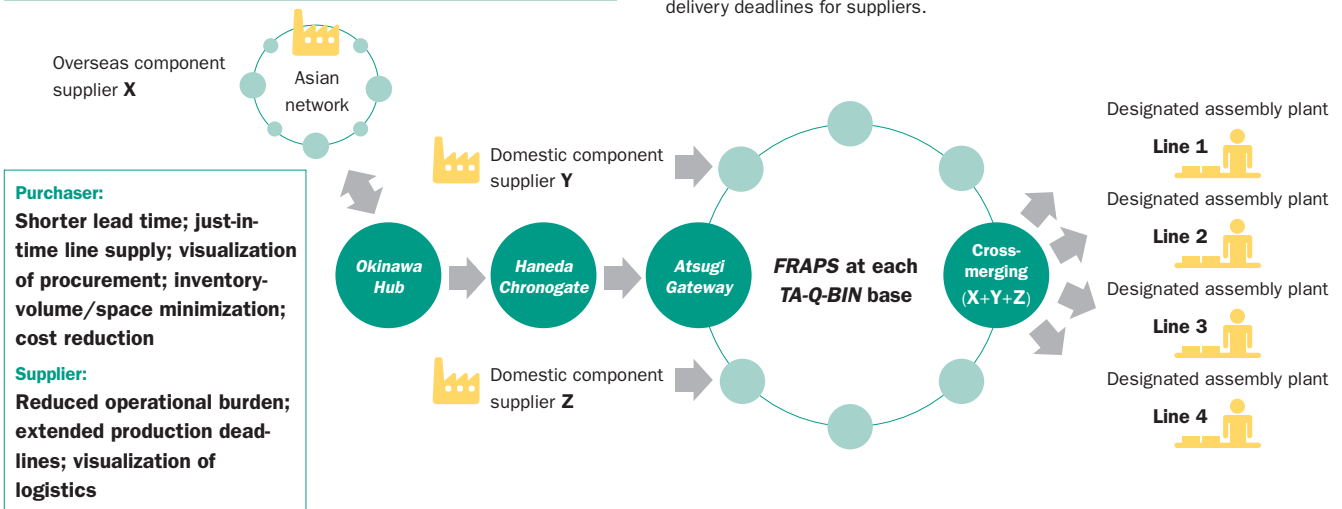
Example of “Logistics Reform” For Mail-Order Industry
Speedy Mail-Order Delivery
by Dispersed Warehousing

The Yamato Group offers fast delivery times as quick as four hours, with the minimum stock inventory dispersed close to the principal markets. As only a quantity equivalent to items sold is speedily replenished, an improved level of service is realized without increases in cost or inventory volume.



Example of “Logistics Reform” For Machine Builders
Component Procurement from Multiple Suppliers

The Yamato Group provides a service for just-in-time bulk procurement from suppliers dispersed throughout Japan and Asia to factory lines. This service shortens the procurement lead time, reduces inventory, and extends delivery deadlines for suppliers.



We will harness these five engines to pursue logistics structure innovations extending from suppliers and manufacturers to end-users and retail stores.

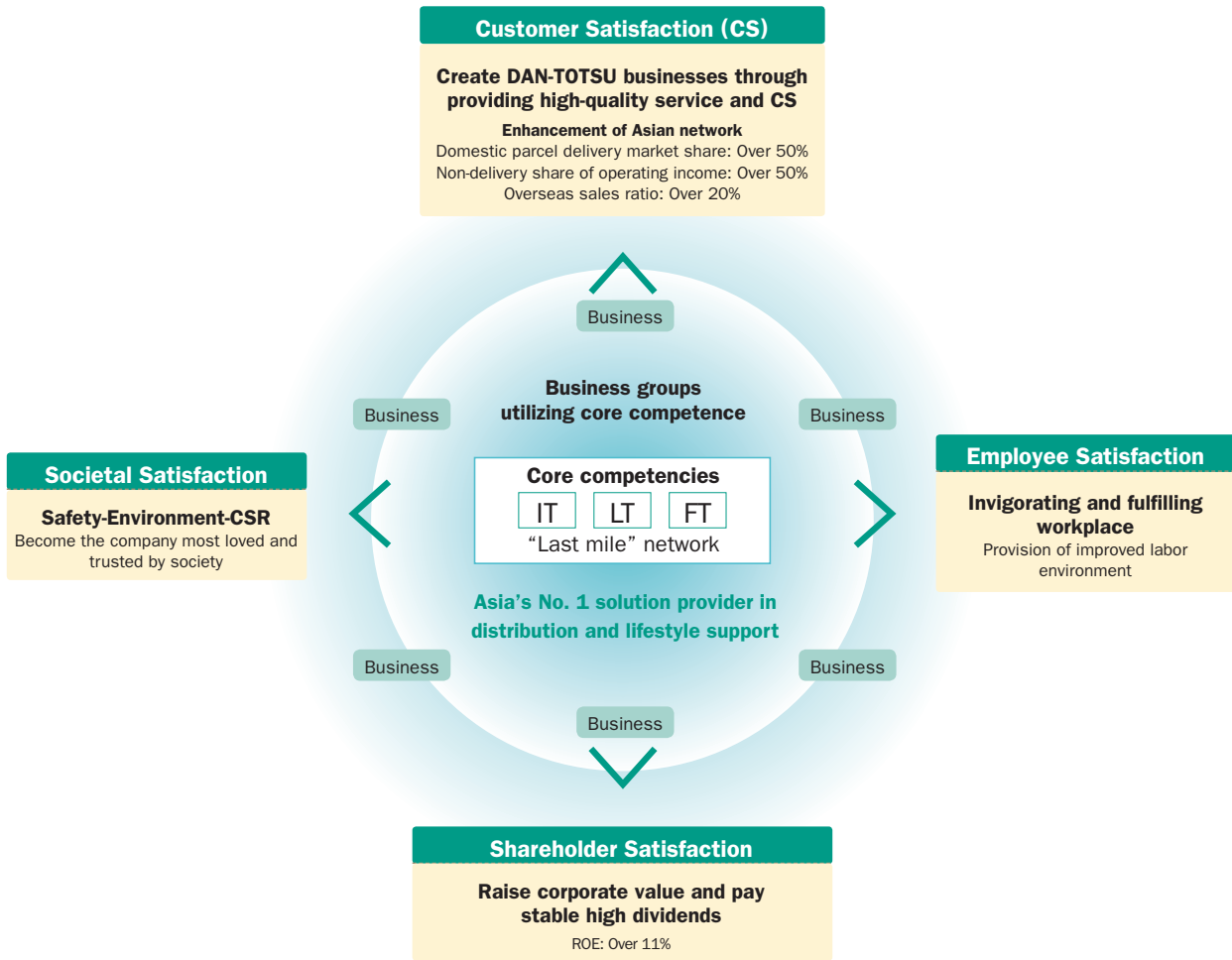
To illustrate specific current and future initiatives, we present two business model examples above.

Establishing Platforms to Revitalize Communities and Provide Lifetime Lifestyle Support

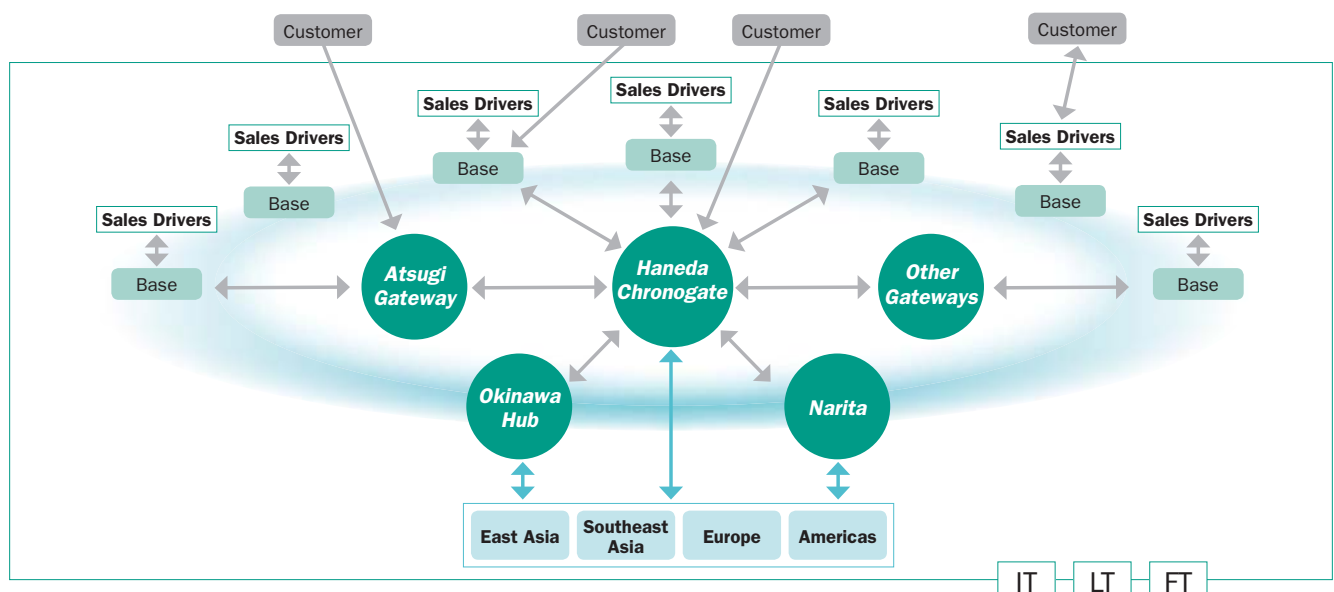
Another key element in our drive to become Asia’s No. 1 solution provider in distribution and lifestyle support is establishing *platforms to revitalize communities and provide lifetime lifestyle support*.

Japan’s socioeconomic structure, values, and lifestyles are changing due to trends such as population aging, rural depopulation and greater social advancement by women. The Yamato Group is therefore forming partnerships with the government, local public bodies and other companies to establish platforms for revitalizing communities and providing *lifetime lifestyle support platforms* closely tied to local communities and lifestyles.

Yamato Group Concept Map Ahead of 100th Anniversary



Overall Image of Value-Networking Design



For example, we offer the *Magokoro TA-Q-BIN* service through a tie-up with the Iwate Prefectural Council of Social Welfare. The service combines checking on the wellbeing of the elderly and daily package deliveries. In another example, we collaborated with Tottori Prefecture to jointly open the *Sanin Ryutsu Trinity Center*, which is helping promote local industry and job creation.

Over the years, the Yamato Group has built its business through close ties with the lifestyles of individuals and communities. It is essential for us to co-exist with society so that we can continue to generate sustainable corporate value. We believe that it is important to balance the optimization of economic returns and the maximization of social contributions.

From this perspective, we are refining our past approach to CSR, deploying regional revitalization measures and providing lifetime lifestyle support through our core businesses based on a Creating Shared Value concept to help create an affluent society.

2. Our Unique Competitive Advantages

We will pursue sustainable growth by combining the unique strengths of our “last mile” network covering Japan and Asia and our non-delivery businesses, which maintain high profitability, to enhance added value.

The Yamato Group has several unique competitive advantages.

The following three elements are the cornerstones to the Yamato Group attaining sustainable growth.

1. A network extending the “last mile” in the Delivery Business
2. Enhancing added value by combining services with non-delivery businesses
3. Building our Asian *TA-Q-BIN* network

A Network Extending the “Last Mile” in the Delivery Business

The *TA-Q-BIN* business, which started as a consumer-to-consumer (C2C) delivery service, has been operating for 37 years since its launch in 1976.

We have run that service steadily from the outset through pioneering efforts to become as close as possible to our customers by operating from their perspective.

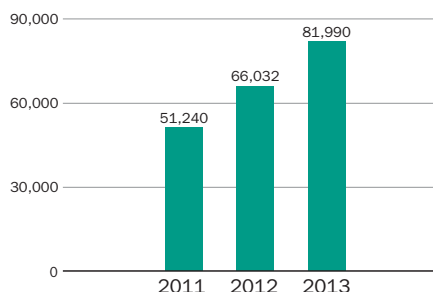
As with electricity and water supplies, the “last mile” of our network has become essential to the lifestyles of end-users.

In the fiscal year ended March 31, 2013, our approximately 3,900 direct retail stores around Japan employed about 54,000 sales drivers. We maintained the No. 1 industry share in terms of delivery volumes as a result of our high-quality transportation and high value-added services.

The brand strength stemming from the Yamato Group’s *TA-Q-BIN* services and great customer trust in its quality are tremendous assets of the Group.

Delivery Volume (Including Taiwan)

(Parcels)



Enhancing Added Value by Combining Services with Non-delivery Businesses

The Yamato Group adopted a pure holding company structure in November 2005.

We took advantage of that transition to reduce our reliance on *TA-Q-BIN* and other Delivery Business services by organically linking resources with non-delivery businesses. These non-delivery businesses are the BIZ-Logistics, Home Convenience, e-Business, Financial and Truck Maintenance business segments. In this way, we are developing and deploying new business models, accelerating strategies to increase the earnings power of the entire Group.

Regarding the logistics reforms mentioned earlier, seamlessly integrating such non-delivery businesses as IT and FT with the “last mile” networks of our Delivery Business will empower us to provide new solutions that dramatically improve logistics speed, costs, and quality.

Building Our Asian *TA-Q-BIN* Network

We launched Asian *TA-Q-BIN* services in 2000, expanding our business by providing know-how to Taiwan’s Uni-President Enterprises Corp.

In January 2010, we took advantage of the economic growth potential of Asia by launching our own businesses in the region, starting with Shanghai and Singapore.

In the fiscal year ended March 31, 2013, we also developed businesses in Hong Kong and Malaysia, in addition to Shanghai and Singapore. Demand for delivery services is steadily rising in these locations.

Only a handful of companies anywhere have “last mile” networks in Asia.

We plan to engage in borderless logistics by reinforcing operations in countries in which we already do business while reinforcing internationally integrated transportation services that link countries and regions.

Our first step toward building an internationally integrated transportation services structure in Asia was in November 2012, when we used our *Okinawa International Logistics Hub* to launch a next-day delivery service of documents to Shanghai, Singapore, Hong Kong, and Malaysia, where we have *TA-Q-BIN* capabilities. In May 2013, we extended next-day deliveries to include small parcels.

Our Asian *TA-Q-BIN* network will likely play an important role as we roll out international *Cool TA-Q-BIN* services and build a global supply chain.

3. Tackling the Challenges of a Growing E-Commerce Market

The Yamato Group has successfully expanded its solutions business, by organically combining consumer-driven differentiation strategies, which it pioneered and has continued to rigorously deploy, with its non-delivery businesses. And as a result we have quickly increased our presence in the growing e-commerce market.

The prime driver of the express home delivery market in Japan is expansion in the B2C segment, particularly mail-order customers. This trend should continue.

In fiscal 2013, *TA-Q-BIN* delivery volume increased 4.5% from a year earlier. As of the start of fiscal 2014, we project 8.6% growth for the year.

The e-commerce market has expanded on the strength of enabling people to buy quality products at reasonable prices from the comfort of their homes, in what amounts to a change in lifestyles. *TA-Q-BIN* services have underpinned the expansion of this market.

Since initiating *TA-Q-BIN* services, the Yamato Group has remained true to its pioneering commitment to becoming as close as possible to customers by operating from their perspective and continuing to deploy its differentiation strategies while succeeding with its solutions proposals. As a result, we have quickly increased our presence in the e-commerce market.

We draw on our 54,000 sales drivers, approximately 3,900 direct retail stores, and the channel diversity of our roughly 250,000 express agencies around Japan, including convenience stores, to offer uncompromising delivery quality, information and tracking management, and payment and settlement systems. These and other resources comprehensively support e-commerce companies and consumers alike, giving us large first-mover advantages in the e-commerce market.

We are endeavoring to enhance delivery quality and labor productivity by building a team-based structure that covers part-time employees and sales drivers to concurrently deliver parcels during times when customers are most likely to be home.

These efforts have enabled us to constrain additional cost pressures even as the number of packages in the e-commerce market increases.

We also offer solutions that satisfy the needs of mail-order businesses that are seeing logistics costs rise as they try to handle many small orders more quickly to avoid losing sales opportunities.

For example, we can ensure speedy deliveries through our *Today Shopping Service*, which can deliver goods in as quick as four hours after an order, and our *Distributed Inventory-based Fast Direct Sales* service quickly delivers orders and swiftly replenishes products sold, preventing costs and inventory volumes from increasing. This is achieved by maintaining minimal inventories near key markets.

We therefore satisfy the needs of both senders and recipients. In other words, we have organically integrated a pioneering consumer-centric strategy of differentiation with non-delivery businesses to successfully expand our solution business. This has enabled us to capture package delivery demand in the growing mail-order market.

The Yamato Group is thus perfectly placed to do well in an e-commerce market that should steadily expand in the years ahead.

4. Fiscal 2014 Forecasts and Shareholder Returns

Our basic shareholder policy is to try to increase total returns through a combination of dividends and share buybacks.

In fiscal 2014, the final year of DAN-TOTSU Three-Year Plan HOP, in the domestic market we aim to continue creating new businesses and leverage Group collaboration to engage in proposal-based sales, while supplying services closely tied to communities.

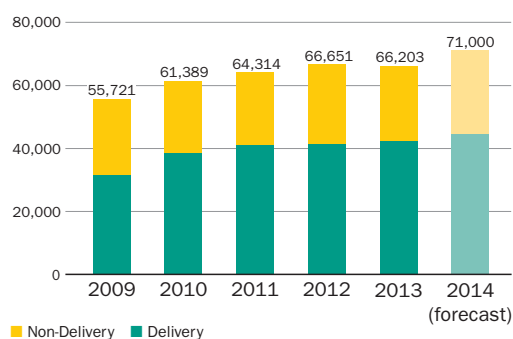
In overseas markets, we will reinforce management in locations that our *TA-Q-BIN* business covers. In addition, we will engage in borderless logistics in Asia by bolstering our internationally integrated transportation services structure.

We will link our strategies in the domestic and overseas markets to build a network that accelerates our long-term growth strategies. This will be achieved by completing the *Atsugi Gateway* and *Haneda Chronogate* and fully operating our *Okinawa International Logistics Hub*.

For fiscal 2014, we forecast that consolidated operating revenues will increase 4.9% year on year to ¥1,345.0 billion. Operating income is projected to rise 7.2% to ¥71.0 billion, while net income is forecast to increase 15.2% to ¥40.5 billion. We expect to increase capital investment 70.5% to ¥90.0 billion, as we look to deliver record-setting performance.

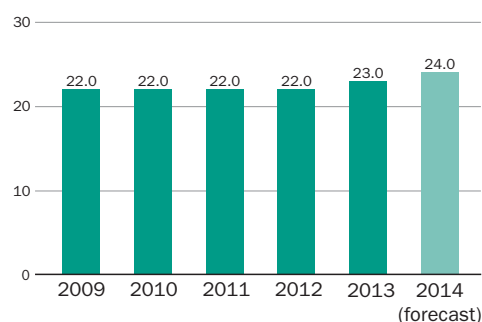
Operating Income

(Millions of Yen)



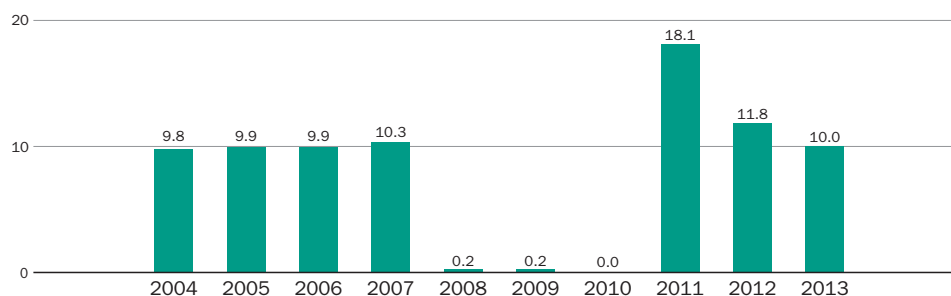
Cash Dividends per Share

(Yen)



Acquisition of own shares

(Billions of Yen)



Capital investment will be higher than in previous years because of several factors. These include spending to maintain existing businesses and investments in growth areas, one being emerging business opportunities that we have identified in intercompany logistics, which encompasses e-commerce and procurements/deliveries.

Under the DAN-TOTSU Three-Year Plan HOP, ending in fiscal 2014, we are aiming for ROE exceeding 7.0%. Meanwhile, we seek to generate an ROE of more than 11.0% under DAN-TOTSU Management Plan 2019, which runs through fiscal 2020.

Our basic shareholder returns policy is to try to increase the total return through a combination of dividends and share buybacks.

We will continue to increase our earnings power by steadily executing our business plan, while raising capital efficiency by implementing flexible capital policies, as and when needed, by taking advantage of our solid financial base.

For the fiscal year ended March 31, 2013, we paid dividends of ¥23 per share, up ¥1 from a year earlier.

For fiscal 2014, management plans to increase dividends by ¥1 per share, to ¥24.

The Yamato Group is striving concertedly to materialize its management philosophy, which is to help enrich our society by enhancing the social infrastructure of *TA-Q-BIN* networks, creating more convenient services for comfortable lifestyles and developing an innovative logistics system. By increasing the satisfaction of all stakeholders, including shareholders, customers, society, and employees, we aim to enhance corporate value.

We ask our shareholders for their ongoing encouragement and support.



August 2013

A handwritten signature in black ink that reads "M. Kigawa" with a long horizontal flourish extending to the right.

Makoto Kigawa
Representative Director,
President and Executive Officer