

Message from the Management II

Next Stage of Growth

In February 2008 the Yamato Group announced our new medium-term management plan, entitled “Create Satisfaction Three-Year Plan.” The main objective of this plan is to lay the groundwork for the next stage of growth by expanding the Yamato Group’s business territory to cover the Asian region. The plan also emphasizes Group-wide management, which is becoming more important than ever.

In last year’s annual report, we stated our targets for fiscal 2011, the final year of the “Create Satisfaction Three-Year Plan” medium-term management plan: consolidated operating revenues of ¥1,450.0 billion and consolidated operating income of ¥100.0 billion. Alongside these targets, we were also aiming for an operating margin of 6.9% and ROE of 10.0%.

In fiscal 2009, however, we were faced with the rapid deterioration of the economy, and we regret to say that those targets now look extremely difficult to achieve. Still, there will be no changes to the basic policies and strategies set out in the “Create Satisfaction Three-Year Plan,” and we have updated our fiscal 2009 action plan as follows for fiscal 2010.

1. Generate steady results in the solutions business for corporate clients in manufacturing, mail-order and logistics businesses, and continue to create new business models.
2. Conduct rigorous portfolio management in order to achieve optimal allocation of management resources.
3. Promote expansion into Asia.

We are placing particular emphasis on expansion into Asia in order to secure new growth capabilities.

In the future, we expect the international distribution business to gather pace due to the distance between the places where goods are made and where they are consumed. We also expect increased demand for distribution linking Japan to other countries. Over the next three years, therefore, we plan to expand the Group’s business area to cover the Asian region. At the same time, we will build a differentiated foundation for business by providing seamless supply chain logistics

services on a global scale. No other company, including importers, offers such comprehensive support services covering import administration, domestic delivery, payment agency, and tracking information.

To realize this differentiation strategy, we will draw on our solid domestic pickup and delivery network and on the expertise we have amassed over our many years in business. Thanks to our strengths in these areas, we believe that our competitors will be hard pressed to keep pace with us in both quantitative and qualitative terms. I believe that the initiatives taken during the previous three-year plan, Yamato Group Revolution 2007, will continue to bear fruit over the next three years.



Capital Strategy

The Yamato Group’s earnings appropriation policy is to maintain a healthy balance between business investments and shareholder returns, including share buybacks. Through increases in net income, we also plan to improve net income per share, with the aim of reaching ROE of 10%.

Business investments will be used to generate growth for the entire Yamato Group. They will include capital expenditures centering on our network, as well as investments in new businesses and new product development and investments to raise corporate value.

We are also targeting a dividend payout ratio of 30% based on consolidated net income. At the same time, we will make flexible use of treasury stock, including to pursue M&A opportunities that are consistent with our capital strategy.



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. According to some however, in recent years the market has begun contracting.

What is certain, however, 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 strengthen.

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, 3,900 directly managed operations, and roughly 270,000 outlets that handle our services. 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.