

# REFORM FOR THE NEXT 100 YEARS

Strengthening Our Management  
Foundation for Sustainable Growth

Integrated Report 2018



*M. Yamauchi*

**Masaki Yamauchi**

Representative Director,  
President and Executive Officer

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## A Letter to Our Stakeholders

The Yamato Group is pursuing business activities under its Management Philosophy of enriching 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. The Group is currently facing significant changes in the business environment, including the recent rapid expansion of the e-commerce market and tightening labor market conditions. Amid these changes, the Group has been promoting its medium-term management plan “KAIKAKU 2019 for NEXT100” (hereinafter, “KAIKAKU 2019”), starting from the fiscal year ended March 31, 2018, with the aim of enhancing its management foundation to achieve sustainable growth for the next 100 years.

Under KAIKAKU 2019, which concludes in the fiscal year ending March 31, 2020, we are aiming to realize our Vision for 2025 through the earnest pursuit of three reforms: “Structural Reform in the Delivery Business,” “Reform of Revenue and Business Structure Geared to Achieving Discrete Growth,” and “Reform of Group Management Structure Geared to Achieving Sustainable Growth,” while also placing “Reforming Working Styles” at the center of our management. In the fiscal year ended March 31, 2018, we prioritized the issue of “Reforming Working Styles” so that we could implement “inclusive management,” which is a Yamato Group founding principle. To that end, we achieved steady results with efforts to establish a work environment that is more employee friendly, offers rewarding experiences, and encourages a high level of motivation. We have positioned the fiscal year ending March 31, 2019 as a year in which we will establish the framework of our management foundation, and we will continue to make Groupwide efforts to achieve this aim.

Also, we deeply regret the actions that occurred at Yamato Home Convenience Co., Ltd. related to the inappropriate billing of corporate clients for its moving services. I will lead the way in reforming the Group’s corporate governance to ensure that such an incident never occurs again. By instilling a strong sense of ethics in each employee throughout the Group and working together toward realizing our Management Philosophy, we will aim to once again become a company that earns the trust of all our stakeholders, starting with our clients.

Going forward, we will steadily implement the reforms I mentioned above so that we can continue to achieve sustainable growth well beyond our 100-year anniversary, which we will celebrate in November 2019, and contribute to an enriched society.

# Inappropriate Billing for Moving-Related Services to Employees of Corporate Clients at Yamato Home Convenience

In regard to the inappropriate billing for moving-related services to the employees of corporate clients that occurred at Yamato Home Convenience Co., Ltd. (hereinafter, “YHC”), a company under our corporate umbrella, we sincerely apologize for betraying the trust of our customers, shareholders, investors, and all other affected parties and for any inconvenience and concerns these actions may have caused. This section summarizes the results of the investigation carried out by an in-house investigative committee consisting of independent experts from outside the Company (hereinafter, “the investigative committee”). We will also provide an explanation regarding our efforts to prevent a reoccurrence of such incidents in light of the recommendations made by the investigative committee and the administrative sanctions and business improvement orders from the Ministry of Land, Infrastructure, Transport and Tourism (MLIT) on January 23, 2019.

Note: The information below is as of January 31, 2019.

## Summary of Investigation Results

- YHC had significant inadequacies in terms of product design, employee education, corporate contracts, organizational structure, employee treatment, internal whistle-blower system, and internal audits.
- As a result, employees were unaware of the potential for revising initial estimates, which tended to overestimate costs based on the uncertainties involved in moving and preventing left-off cargo, under a clause in the contracts of numerous customers. Accordingly, it became common practice for YHC to bill customers based on the initial estimate that was previously agreed upon, even if there was a change in the actual load.
- In some cases, employees exploited YHC’s inadequacies to deliberately overcharge customers.
- Furthermore, YHC failed to discover these significant inadequacies nor take drastic measures to resolve them despite reports from both inside and outside the company.

## Overview

The Company and YHC conducted an in-house investigation regarding the amounts charged to all 3,367 corporate clients to which YHC provided the *Hikkoshi Rakuraku Timely Service* (hereinafter, “*Timely*”) and the *Tanshin Hikkoshi Just Service* (hereinafter, “*Just*”), two moving-related services provided to employees of corporate clients, over the past 26 months (May 2016–June 2018). This investigation determined that a total of 48,000 cases of overbilling occurred that impacted 2,640 companies, with the total amount overbilled coming to ¥1.7 billion.

In addition, an investigation by the in-house investigative committee estimated that 16% of the ¥1.7 billion that was inappropriately billed came from the deliberate overcharging of customers. The remaining portion of the ¥1.7 billion of inappropriate billing resulted from taking too much leeway in initial estimates, which were based on the uncertainties involved in moving and aiming to prevent left-off cargo, and failing to revise unfixed estimates regardless of the change in circumstances after providing the estimate, such as the disposal of household belongings.

## Circumstances Leading up to the Incident

Sales of the *Timely* and *Just* services, which were designed by YHC, commenced in 2008. However, YHC did not appropriately carry out trial operation of the services nor did it verify results based on the opinions of those working on the front lines before commencing sales of these services. Furthermore, YHC failed to provide appropriate education to employees before launching these services, and it did not sufficiently verify and analyze the operation and profitability of these services post launch. Additionally, in terms of clauses within contracts, YHC did not examine and verify estimate revisions and calculations through the use of specific cases.

Fees for the *Timely* and *Just* services were determined in accordance with a point system based on the amount of household belongings. Accordingly, this made it easy for personnel providing estimates to add extra amounts, which eventually led to the inappropriate billing.

## Efforts to Prevent Reoccurrence

The Company takes the results of these investigations and the recommendations by the investigative committee very seriously, and will reexamine means for ensuring compliance with contract clauses for all of YHC's moving services, including those offered to individual customers. YHC has suspended new orders for all services with compliance violations until products are redesigned to ensure strict compliance with contract clauses. Moreover, in light of the recommendations made by the investigative committee and the administrative sanctions and business improvement orders from the MLIT, the Company and YHC are currently undertaking the following drastic efforts to prevent such an incident from reoccurring. The following are the main initiatives undertaken by the Company and YHC.

### Efforts by YHC

#### Strengthening of Governance

- The Company's Representative Director, Vice President, and Executive Officer serves concurrently as the chairman of YHC's board of directors and is in charge of implementing and supervising all reoccurrence-prevention efforts.

#### Redesign of Moving Products and Services

- YHC has established the Division of Moving Services and is currently working to identify issues related to product standards, manuals, workflow, and other matters. YHC is also moving ahead with the redesign of its moving products and services based on the needs of customers, the establishment of a structure and system for conducting proper estimates, and the formulation of appropriate clauses.

#### Clarification of Divisions Responsible for Employee Education and Management of Corporate Clients

- YHC has established the Division of Human Resource Development. The company has also held panel discussions at all branch offices and its head office to ensure a shared awareness of issues by both the upper management and employees. Furthermore, YHC is implementing training and other educational activities for all employees according to their position within the company to improve awareness of compliance and corporate ethics.
- YHC has established the Division of Corporate Sales and is working to improve its moving contracts with corporate clients through such measures as establishing standards and rules for approving discount rates and contracts, updating corporate contract records, and developing an appropriate, highly transparent pricing system.

#### Other

- YHC is promoting the review of such matters as employee treatment, performance evaluation, document storing standards, data management standards, whistle-blower system, and auditing operations.

### Efforts by the Entire Yamato Group

#### Strengthening of Governance

- To enhance its management soundness, the Yamato Group has established the Group Governance Project, which is under the direct control of the president, and is promoting drastic and comprehensive measures to reestablish governance on a Groupwide basis.

#### Comprehensive Examination of Products and Services

- For the products and services of each domestic Group company, the Group is comprehensively examining such matters as compliance with laws and regulations, management of necessary documents, risk monitoring functions, and risk response.

#### Improvement to the Operation of Whistle-Blower System

- To promptly discover and appropriately respond to law and/or internal regulation violations, the Group is revamping specific shared response procedures, handling methods, and risk assessment criteria.

#### Implementation of Ethics Education

- To spread awareness of the Yamato Group's corporate philosophy, which is grounded on a strong sense of ethics, we provide all Group employees with ethics training according to their position.

## Core Values

1. We all represent the company.
2. We connect our customers' hearts with every delivery.
3. We conduct ourselves both professionally and ethically.

## Management Philosophy

**Yamato helps enrich our society by enhancing our social infrastructure, creating more convenient services for evolving lifestyles and industries, and developing innovative logistics and distribution systems.**

### Editorial Policy

Having built up long-standing relationships of trust with all of its many and varied stakeholders, the Yamato Group discloses not only information of a legal nature but also information considered necessary for its stakeholders. The Yamato Group adopted the policy that such information shall be conveyed promptly and accurately as well as fairly and equitably.

This document, *Integrated Report 2018*, contains information on our efforts to improve corporate value over the medium to long term, centered on measures put forth based on our medium-term management plan, "KAIKAKU 2019 for NEXT100," and includes information on current company conditions.

### Profile

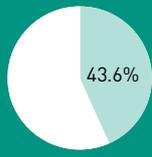
The special characteristic of management at the Yamato Group is its "management starts in the field" way of thinking. Formulated in 1931 to serve as its founding spirit, the Company's Core Values, which have not changed once since the *TA-Q-BIN* services were started in 1976, are positioned as the genesis of the Yamato Group.

The Yamato Group has been creating unprecedented services that are needed by society to respond to changes in social structure, markets, and customer needs (companies and consumers), which have been subtly perceived by employees in the field on the front line of business. These efforts have given the Yamato Group of today its competitive edge.

### Domestic Parcel Delivery Market Share

(Year Ended March 31, 2018)

No. **1**



### Proportion of Japan Covered by TA-Q-BIN Network

(As of March 2018)

**100%**



### TA-Q-BIN Annual Delivery Volume

(Year Ended March 31, 2018)

Approx. **1.8 billion** parcels



### Employees

(As of March 2018)

Approx. **210,000**



### Sales Drivers

(As of March 2018)

Approx. **60,000**



### TA-Q-BIN Centers

(As of March 2018)

Approx. **7,000\***



\* Number of organizations

# Business Structure

## Delivery Business



### ■ Delivery

In the Delivery Business, the Yamato Group concentrated on *TA-Q-BIN*-centered business development, aiming to provide infrastructure that best suits our customers and contribute to enriching people's lives.

Composition Ratio of Operating Revenues  
78.1%

Operating Revenues  
¥1,538.8 billion

## Non-Delivery Businesses



### ■ BIZ-Logistics

In the BIZ-Logistics Business, the Yamato Group is providing customers with innovative logistics systems by combining management resources such as the *TA-Q-BIN* network with logistics functions, maintenance and recall handling functions, cleansing functions for medical devices, and international transportation functions.

7.9%



### ■ Home Convenience

In the Home Convenience Business, the Yamato Group is working toward enabling customers to achieve greater convenience and comfort in their lives through lifetime lifestyle support businesses and corporate enterprise support business that draw on the Yamato Group's nationwide network.

3.2%



### ■ e-Business

In the e-Business, the Yamato Group helps customers streamline their business processes and solve potential issues by proactively developing the solution platform business that combines logistics technology and financial technology with information technology. In addition, with the aim of helping to accelerate growth of Yamato Group businesses, we have been moving beyond conventional information technologies through efforts geared to promoting use of emerging technologies that harness artificial intelligence (AI), the Internet of Things (IoT), and other such innovations.

3.0%



### ■ Financial

In the Financial Business, the Yamato Group has been developing settlement and financial services tailored to a range of customer needs for payment collection of mail-order products, business-to-business transaction settlement, and vehicle leasing.

5.4%



### ■ Autoworks

In the Autoworks Business, the Yamato Group develops its "24-hour-a-day, 365-day-a-year service that enables customers to service their vehicles without stopping operation," thereby providing value to logistics operations and logistics service providers in the form of "improvement of vehicle maintenance convenience" and "reduced maintenance expenses." Furthermore, to better provide one-stop service solutions geared toward customer business operations, we have added services for "maintaining and safeguarding logistics facilities and equipment, and improving such workplace environments," along with "offering insurance plans tailored to customer risk management needs," which provide coverage for such assets.

1.6%



### ■ Other Services

The Yamato Group's Other Services segment provides box charter business, such as the *JITBOX Charter* service, and extensive shared services centered on the trunk-route transport business.

0.8%

(Year Ended March 31, 2018)

# Organization

As of March 31, 2018

Yamato Holdings Co., Ltd.

■ Consolidated subsidiaries ● Non-consolidated subsidiaries  
◆ Equity-method affiliates



# Performance Highlights

## Performance Highlights for the Fiscal Year Ended March 31, 2018

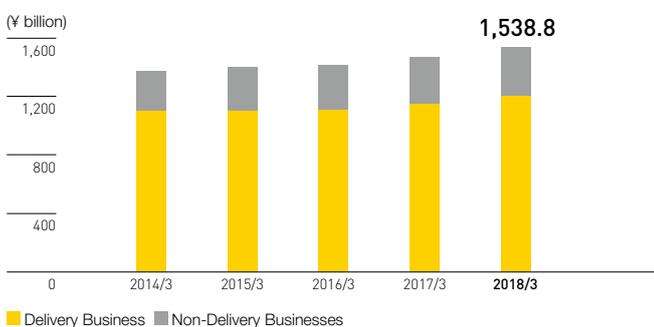
Operating revenues rose 4.9% year on year, to ¥1,538.8 billion. In addition to an increase in the *TA-Q-BIN* unit price, this rise was due to our efforts to enhance existing services in non-delivery businesses, which leveraged the strengths of each Group company, and the active promotion of solution-based sales. These positive factors helped offset the decrease in *TA-Q-BIN* delivery volume that followed the promotion of “Structural Reform in the Delivery Business.”

Operating profit was up 2.3%, to ¥35.6 billion, as growth in

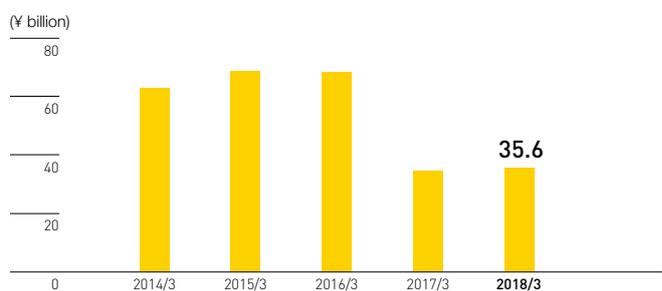
operating revenues outpaced increases in operating expenses. This growth helped outweigh such factors as an increase in labor costs, including those for outsourcing our workforce, which occurred in conjunction with a rise in *TA-Q-BIN* delivery volume in the first half of the fiscal year and efforts to reduce employee workloads.

As a result, profit attributable to owners of parent increased 1.0%, to ¥18.2 billion, while ROE edged down 0.1 of a percentage point, to 3.3%.

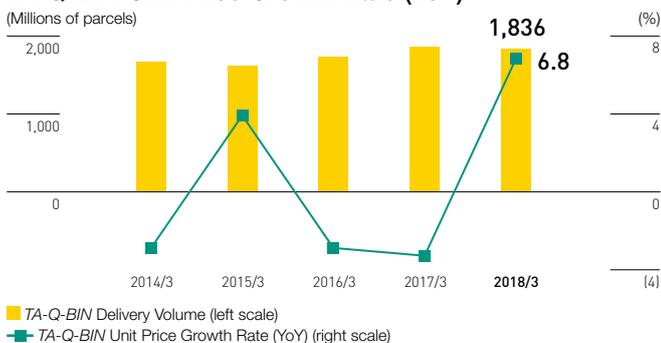
### Operating Revenues



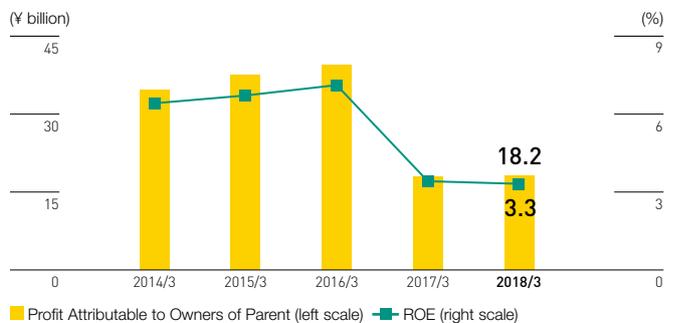
### Operating Profit



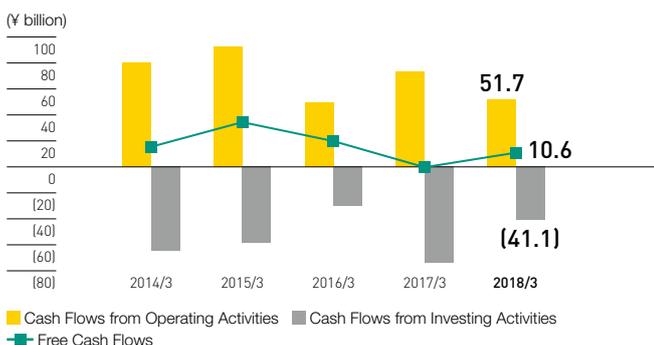
### TA-Q-BIN Delivery Volume / TA-Q-BIN Unit Price Growth Rate (YoY)



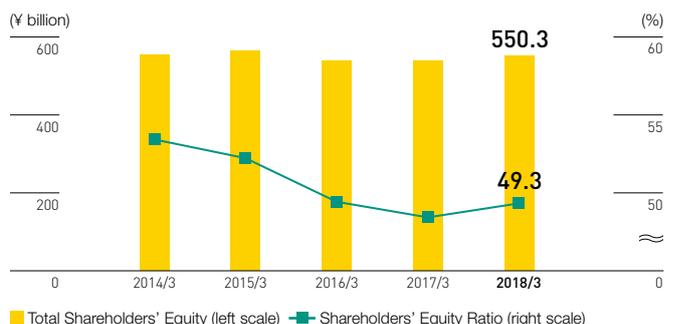
### Profit Attributable to Owners of Parent / ROE



### Operating and Investing Cash Flows / Free Cash Flows\*



### Total Shareholders' Equity / Shareholders' Equity Ratio



\* Free Cash Flows = Cash Flows from Operating Activities + Cash Flows from Investing Activities

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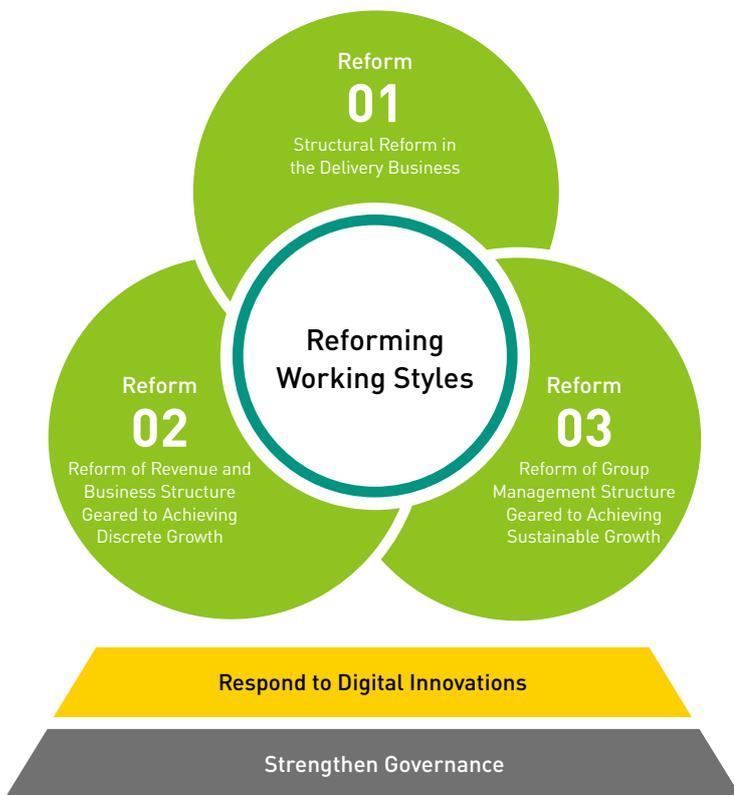
### Forward-Looking Statements

This integrated report contains forward-looking statements concerning Yamato Holdings' future plans, strategies, and performance. These statements represent assumptions and beliefs based on information currently available and are not historical facts. Furthermore, forward-looking statements are subject to a number of risks and uncertainties that include, but are not limited to, economic conditions, customer demand, foreign currency exchange rates, tax laws, and other regulations. Yamato Holdings therefore cautions readers that actual results may differ materially from these predictions.

# Long-Term Vision and Medium-Term Management Plan

In order to realize its long-term vision for 2025, the Yamato Group is moving forward with its three-year medium-term management plan, “KAIKAKU 2019 for NEXT100.” In November 2019, the Group will celebrate its 100-year anniversary, which it views as a major milestone. Looking beyond this milestone, the Group will strive to realize its aim of “Reforming Working Styles” as well as carrying out three major structural reforms. In doing so, the Group will reinforce a management foundation that will allow it to realize sustainable growth for the next 100 years.

## Overview of “KAIKAKU 2019 for NEXT100”



### ➤ Reforming Working Styles to Implement “Inclusive Management”

#### (1) Make new working styles a reality

- Drastically reduce total working hours
- Adopt personnel systems that enable working styles tailored to an individual’s stage of life
- Develop programs that enable part-time employees (temporary and permanent) to enhance their abilities
- Promote work-life balance
- Enhance managerial assignments exhibiting greater care toward employees

#### (2) Maximize “individual capabilities”

- Establish an educational system
- Set up a framework for leveraging the opinions of employees in management
- Encourage the active role of overseas, elderly, and female employees through the further promotion of diversity
- Realize an employment ratio for persons with disabilities of 2.5%

#### (3) Thoroughly streamline operations

- Expand open-type parcel lockers (PUDO\*)
- Enhance efficiency of pickup and delivery operations through the 8th NEKO System
- Fully leverage technologies such as AI and robotics

\* Pick Up & Drop Off station

### ➤ Reform 01: Structural Reform in the Delivery Business

- (1) Rebuild business structure to enable sustainable growth
- (2) Recover profit margins by implementing a pricing strategy and thoroughly streamlining operations
- (3) Develop foundations for businesses that can solve community issues

### ➤ Reform 02: Reform of Revenue and Business Structure Geared to Achieving Discrete Growth

- (1) Develop an industry-wide platform
- (2) Develop a cross-border platform
- (3) Promote an account management approach
- (4) Develop a platform for e-commerce (EC)

2017/3

## Yamato Group's Long-Term Vision

### Vision for 2025

At the Yamato Group, with transportation itself as the catalyst, we will create new value by developing open platform solutions through leveraging the strengths of our points of contact with local communities and companies based in Japan and overseas, and the information these provide.

2020/3  
(100-year  
anniversary)

2025

NEXT100

#### ➤ Reform 03: Reform of Group Management Structure Geared to Achieving Sustainable Growth

- (1) A “function-oriented organizational structure” to a “customer-oriented organizational structure”
- (2) “Individual optimization” to “overall optimization”
- (3) “Income and expenditure controls per vertically segmented organization unit” to “account management”
- (4) “Investment on a per-business function basis” to “forward-looking investment through an ‘R&D + D’ approach”
- (5) “Self-sufficiency” to an “open approach”

#### ➤ Respond to Digital Innovations

- (1) Three-pronged “R&D + D” strategy
  - Develop and use a Kuroneko big data approach
  - Use a corporate venturing approach
  - Promptly identify business models that can bring about disruptive innovation, and draw up action plans in that regard
- (2) Established Yamato Digital Innovation Center (YDIC) in April 2017

#### ➤ Strengthen Governance

Promote Group governance reform to enhance sound Group management

## Key Management Indicators

### Proactive Investments

Recurring investment* <sup>1</sup>	¥200 billion
Growth investment* <sup>2</sup>	¥150 billion
<b>Total</b>	<b>¥350 billion</b>

\*1 Land, buildings, cargo handling equipment, vehicles, etc.

\*2 Digital innovation, alliances with outside entities, “Reforming Working Styles,” etc.

### Targets

#### Consolidated operating revenues

2017/3 (actual result)	➤	2020/3 (plan)
¥1,466.8 billion	+¥203.1 billion (+13.8%)	¥1,670.0 billion

#### Consolidated operating profit

2017/3 (actual result)	➤	2020/3 (plan)
¥34.8 billion	+¥37.1 billion (+106.4%)	¥72.0 billion

#### Consolidated operating margin

2017/3 (actual result)	➤	2020/3 (plan)
2.4%	+1.9 percentage points	4.3%

#### ROE

2017/3 (actual result)	➤	2020/3 (plan)
3.4%	+4.3 percentage points	7.7%

## Message from the President

The fiscal year ended March 31, 2018 was a year in which the Yamato Group took a significant first step toward reform.

By implementing “inclusive management,” we will realize sustainable growth for the next 100 years. To this end, we will steadily promote the next step toward reform.



### **Masaki Yamauchi**

Representative Director,  
President and Executive Officer

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Since the fiscal year ended March 31, 2018, we have been moving forward with the medium-term management plan “KAIKAKU 2019 for NEXT100.” I would like to take this moment to explain the current state of the Yamato Group and provide an outline of our vision for beyond our 100-year anniversary.

### “Inclusive Management” Represents the Yamato Group’s Greatest Strength

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“At Yamato, we believe there are things that should change and then there are things that should not change.” These are the words of Masao Ogura, the inventor of *TA-Q-BIN*. These words have been passed down over many years and are shared to this day within the Group. They therefore provide the guiding principles for the entire Group.

The things that should change for the Yamato Group include its services, frameworks, and networks. These represent things that need to change in accordance with the needs of the times and conditions in the business environment.

On the other hand, the things that should not change are the beliefs we have valued since our foundation. These include ensuring that our employees understand the concerns of our customers, providing services catered to our customers that will bring them joy, and ultimately contributing to the realization of a more enriched society. These beliefs are something that Yamato Group employees should take pride in. At the same time, these beliefs help us achieve “inclusive management,” where each employee gives

consideration to our customers and makes decisions based on their own judgment.

“Inclusive management” therefore represents the Yamato Group’s greatest strength. To put it in different terms, if we are not able to leverage this strength sufficiently, then our very meaning for existence as a company would be cast into doubt.

Recently, we have been facing massive changes in the business environment, such as the rapid expansion of the e-commerce market and tightening labor conditions. As a result, we have been falling behind in terms of building an operational framework, which has placed a heavy burden on the employees working on the front lines. Our sales drivers therefore had their hands full simply from delivering packages, which gave them less and less time to interact with our customers. This in turn led to a state in which we were unable to properly implement “inclusive management.” To overcome this crisis, we focused on returning to our guiding principles. Accordingly, we decided to take a thorough look at the things we should change so that we can continue to pass down and implement the things we should not change.

## Message from the President

### Reform for the Next 100 Years

#### Implementing Decisions That Change the Entire Group

In the fiscal year ended March 31, 2018, we set out on a path toward significant reform. To achieve sustainable growth beyond our 100-year anniversary, a major milestone that will be reached in November 2019, we determined that not only do we need to respond to the market changes that are occurring right before our eyes, we also need to steadily implement drastic structural reforms with our sights set on the next 100 years. To this end, we formulated a long-term vision that targets 2025. In addition, we decided to transition from the “DAN-TOTSU Management Plan 2019” to the new three-year medium-term management plan “KAIKAKU 2019 for NEXT100” (hereinafter, “KAIKAKU 2019”), which places “Reforming Working Styles” at the center of our management.

#### Steadily Taking the First Step toward “Reforming Working Styles”

In the fiscal year ended March 31, 2018, the first year of KAIKAKU 2019, I believe we took a genuine first step toward reform by steadily promoting efforts that focus on the issues we need to address. For “Reforming Working Styles,” which is our highest priority issue, we made concerted efforts to improve labor management through such means as integrating methods to control working hours and increasing the number of managers. In addition, we took steps to revise the content of our services. These included changing the framework for designated delivery times and moving up the cut-off time for accepting

requests for redelivery. By doing so, we steadily set up a structure for alleviating the burden placed on our employees on the front lines. Through these efforts, we have ensured that our sales drivers are able to properly take breaks, and I believe that this has brought us closer to realizing an ideal working environment.

The aim of “Reforming Working Styles” is to not only make the working environment more employee-friendly but also to make the work itself more rewarding. This means that in addition to establishing a better working environment through rules and frameworks and other measures, we also have to change the awareness of our employees. As an effort to do so, we have increased the number of opportunities for dialogue between management and employees working on the front lines through such means as panel discussions. In our initiatives toward “Reforming Working Styles,” we have been working to change the awareness of our employees by encouraging their understanding of what we as a company are thinking, what are goals are, what kinds of measures we will implement going forward, and what the overall direction of the Group is.

As we have progressed in these efforts, we have started to see major changes in employee awareness. The driving force behind these changes has been the presence of our customers. In October 2017, we took steps to change our pricing schemes for both our individual and corporate customers, starting with revising the basic *TA-Q-BIN* fees for individual customers for the first time in 27 years. The number of customers





who understood and cooperated with these price changes was far greater than we expected. To have our customers understand and accept our fee revisions sends a clear message to our sales drivers that they wish to continue to rely on the Yamato Group. This understanding also means that our customers recognize the value we offer. I therefore believe that our front-line employees were able to reaffirm the meaningfulness of the role they play and also understand the great responsibilities and rewards that come with that job.

However, these results represent nothing more than the first step toward realizing “Reforming Working Styles.” For the fiscal year ending March 31, 2019, we are taking steps to establish a new diversified “last mile” network. By setting up a delivery-specific driver network that specializes in early evening and night deliveries, we will reduce our sales drivers’ overtime hours. At the same time, we will create time for sales drivers to engage in dialogue with our customers. If we can enhance dialogue with our customers, I believe this will increase the number of opportunities to offer them convenient and useful services, in addition to providing a more fulfilling work experience for our employees. Going forward, we will continue to pursue the necessary measures to establish a more employee-friendly working environment and create a more rewarding work experience.

#### **Steadily Taking the Next Steps to Complete Our Reform**

By returning *TA-Q-BIN* prices to an adequate level, we will establish a business structure that can generate stable profits. While there have been times where we have offered discounted prices taking into account *TA-Q-BIN* delivery volume, we believe that providing valuable services and securing appropriate profit for these services are what will enable us to fulfill our social responsibility as a crucial part of social infrastructure.

In addition to continuing adequate pricing initiatives, we will pursue efforts to expand points at which customers can receive packages in such ways as rebuilding our “last mile” network and establishing Pick Up & Drop Off (PUDO) stations. By steadily promoting these efforts as the next steps toward reform, we will successfully complete “Structural Reform in the Delivery Business,” a business that represents the foundation of the Group. In turn, we will leverage this foundation to realize growth in our non-delivery businesses. At the same time, we will work to further strengthen the Group’s corporate governance. In these ways, we will continue to improve corporate value and make great strides toward growth for the next 100 years.

## Message from the President

### Vision for 2025—Looking Beyond Reform

After completing KAIKAKU 2019 and welcoming our 100-year anniversary, we aim to realize our long-term vision for 2025.

I believe there are two engines that will drive growth beyond our 100-year anniversary. The first engine is the global domain. Amid the further progression of borderless businesses, the production, consumption, and corporate activities that have been carried out solely in Japan thus far will, without a doubt, become borderless as well. The second engine is the corporate domain. In around 2025, we anticipate e-commerce to extend beyond the B2C domain and become widespread in the B2B domain as well due to the further progression of digitalization. As a result, goods will flow directly between companies without the need for wholesalers or retail shops.

In light of these future conditions, what we are aiming for is the establishment of a platform. The Yamato Group has developed a solid network

and formed connections with its individual and corporate customers, centered on *TA-Q-BIN*. Using this physical logistics network as a foundation, we will combine the customer information we have collected through this network, as well as data on future customer needs, with digital technologies in the form of big data. By doing so, we will establish a platform that integrates both physical and virtual aspects. Also, we will establish this platform as an open platform so that it can be used by anybody, not just specific people in specific locations. In this way, we will address various needs and issues around the world, including those related to consumers, corporations, and society as a whole.

Moving beyond our 100-year anniversary, we will aim for further growth by offering the new value created from this integration of physical and virtual aspects to not only corporations and consumers in Japan but to those overseas as well.

### Turning Risks into Growth Opportunities by Assessing Changes in the External Environment

**In a society where birthrates are declining and the population is aging, the ability to provide services via people will become a significant competitive edge.**

To realize our vision and continue to grow well into the future, it is crucial that we accurately assess the changes occurring in the external environment. This is because such changes bring about both risks and opportunities.

The most significant change that the Yamato Group is dealing with is to its labor supply structure as a result of the declining birthrate and aging population. As the workforce shrinks, securing employees will become our most important issue.

However, if we look at this issue from a different angle, the ability to provide services through people is an excellent way to set us apart from other companies amid the trend of a declining birthrate and aging population, and such differentiation will tie directly into enhanced competitiveness. Viewing this as an opportunity, we are hiring drivers for early evening and night deliveries as full-time employees to act as the core of our diversified “last mile” network. While doing so will

increase fixed costs, securing human resources that can work in a stable manner will allow us to increase our pickup capacity and maintain and improve our service quality, which in turn will help us sharpen our competitive edge.

#### **Incorporating New Technologies and Turning Them into Growth Engines**

Another significant environmental change is digitalization. Advances in digitalization will result in greater risks of the emergence of new rivals and businesses that use digitalization to completely change the way business is done. If we fall behind in riding this wave of change caused by digitalization, then we risk losing our position as a leading company and having to adapt to an entirely transformed industry structure.

To respond to such risks, we established the Yamato Digital Innovation Center (YDIC) in 2017. YDIC was established with the aim of raising awareness of new global trends and technologies and promptly incorporating them into our services. For functions and technologies that the Group does not possess, we will actively pursue partnerships with external organizations. We cannot

create the platform we are aiming for simply through the Group's strengths alone, and external partnerships will not only help us improve the quality of this platform, it will also accelerate its establishment. Accordingly, under KAIKAKU 2019, we will proactively invest in this area.

Although digitalization can bring about several risks and threats, it can also act as a major growth engine if we respond to it appropriately. Behind the roughly five million packages we deliver each day are roughly five million customers and approximately one million corporate clients.

The number of participants in our *Kuroneko Members* service, a members-only service for individual customers, has grown to over 25 million and continues to increase even further. The big data we possess and the information we collect on a daily basis through our customer contact points only become more valuable with advances in digitalization. By leveraging this data and information in high-value-added services for our customers, we will expand profits while working to enhance operational productivity.

## Continuing to Be a Company That Is Needed by Society for the Next 100 Years

The Yamato Group promotes the concept of Creating Shared Value (CSV), which involves realizing both economic and social value while addressing the needs of customers through our businesses. The foundation of CSV is "inclusive management," in which all of our employees give consideration to people and society as a whole as they make decisions based on their own judgment. Recently, awareness toward environmental, social, and governance (ESG) factors has been rising. In addition, there have been more extensive efforts made by companies to resolve social issues, including addressing the Sustainable Development Goals (SDGs). Amid these trends, we will continue to share our guiding principles on a Groupwide basis and leverage our network that spans across various regions. By doing so, we will contribute to the resolution of social issues.

In November 2019, the Yamato Group will welcome its 100-year anniversary, and from April 2020, the next 100 years for the Group will begin. We aim to continue to contribute to a more enriched society through our business activities so that we can remain a necessary presence for not only our customers but also our employees, shareholders, and society at large. To accomplish this aim, we will steadily complete KAIKAKU 2019 and work to create new value over the next 100 years.

February 2019

*M. Yamauchi*



## Message from the Chief Financial Officer



We will actively carry out the necessary investments to enhance our management foundation and further strengthen business growth while bearing in mind our financial stability. In doing so, we aim to increase our corporate value over the medium to long term.

### Kenichi Shibasaki

Director  
Senior Managing Executive Officer  
Responsible for overseeing  
Financing and Investor Relations

### Review of the Fiscal Year Ended March 31, 2018 and Key Initiatives for the Fiscal Year Ending March 31, 2019

During the fiscal year ended March 31, 2018, our financial performance progressed toward recovery despite the increased expenses incurred from our promotion of “Reforming Working Styles.” Under “Structural Reform in the Delivery Business,” one of our key measures under the medium-term management plan “KAIKAKU 2019 for NEXT100” (hereinafter, “KAIKAKU 2019”), we made progress in negotiations for review of our rates with respect to our corporate clients and adjustments to shipping schedules based on our requests to some large-lot corporate clients. Accordingly, since the third quarter, *TA-Q-BIN* delivery volume has taken a downward turn while *TA-Q-BIN* unit price has risen due to our adequate pricing initiatives.

As a result of the above, operating revenues amounted to ¥1,538.8 billion, up ¥71.9 billion (4.9%) from a year ago, while operating profit amounted to ¥35.6 billion, up ¥0.8 billion from the previous year.

In the fiscal year ending March 31, 2019, the second year of KAIKAKU 2019, we are advancing structural reforms centered on continuing our adequate pricing initiatives and “Reforming Working Styles.” In light of this, we are working to expand our delivery capacity for the Delivery Business by promoting such measures as establishing a diversified “last mile” network through the use of “Anchor Cast” (drivers for early evening and night deliveries).

## Investment and Financial Strategies in Creating Future Cash Flows

### Investment Strategies

Regarding our investment decisions, they will be based on whether or not the investment leads to the maintenance and improvement of our corporate value over the medium to long term. Over the three-year period of KAIKAKU 2019, covering the fiscal year ended March 31, 2018 through the fiscal year ending March 31, 2020, we are anticipating investments of ¥350.0 billion. This amount will likely consist of recurring investments for the maintenance and expansion of networks, including land, buildings, and vehicles, as well as growth investments for “Reforming Working Styles” and alliances with outside entities (overseas expansion, digital innovation, etc.). We will continue to focus on “Reforming Working Styles,” which we place as an utmost priority for implementing “inclusive management,” one of the Yamato Group’s founding principles. In particular, we intend on taking a proactive approach to investments in our efforts to establish working environments where our employees can work with high levels of enthusiasm.

Through these investments, we will accelerate structural reform in the Delivery Business, a Group foundation, and build a management structure that generates stable profits. In addition, we will strive to further expand our profit margin through the growth of our non-delivery businesses, thereby improving our corporate value over the medium to long term.

### Financial Strategies

The Yamato Group will continue to work to bolster its management foundation and corporate value by maintaining and improving financial stability, which represents the basic policy of its financial strategy.

We intend on procuring funds through investments while regarding the importance of improving our financial stability and efficiency. Further, we will strive to maintain our credit rating (AA-, Rating and Investment Information, Inc.) while keeping in mind a shareholders’ equity ratio of around 50% to ensure financial stability.

## Improving Corporate Value over the Medium to Long Term

The Yamato Group considers ROE to be an important indicator for increasing shareholder value and accordingly, will work to enhance ROE by improving its profit margin.

Meanwhile, we will work to achieve honest and fair disclosure of management conditions, including ESG (environmental, social, governance) and other non-financial information, growth strategies going forward, important risk information, etc., and

proactively implement IR and SR activities such as conducting constructive dialogues with all shareholders and investors.

For the fiscal year ending March 31, 2020, the final year of KAIKAKU 2019, we are targeting operating revenues of ¥1,670.0 billion, operating profit of ¥72.0 billion, operating margin of 4.3%, and ROE of 7.7%.

## Basic Policy on Shareholder Returns

Regarding returns to shareholders, we will flexibly review and deliver returns with a targeted consolidated dividend payout ratio of 30% of profit attributable to owners of parent.

In the fiscal year ended March 31, 2018, our cash dividend per share was ¥27.00 and our dividend payout ratio was 58.4%.

### Returns to Shareholders

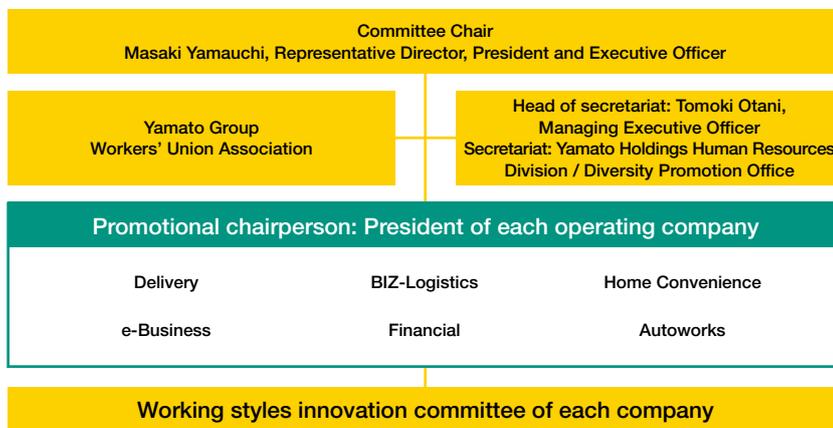


# 1. Reforming Working Styles to Implement “Inclusive Management”



The Yamato Group has made the notion of “Reforming Working Styles” a matter of priority in order to continue to provide high-quality services. By enhancing “employee-friendly” and “rewarding” working environments across the entire Group and implementing “inclusive management,” a Yamato Group founding principle, we aim to realize sustainable growth.

## Establishment of the Yamato Group Working Styles Innovation Committee



We established the Yamato Group Working Styles Innovation Committee, which is chaired by the president of Yamato Holdings, in April 2017 with the aim of moving forward with reforming working styles on a Groupwide basis. The committee has laid out “observance of compliance,” “promotion of diversity,” and “work process revision and enhancement and communication” as its three main principles and is promoting efforts to realize these principles through collaboration between management and labor unions.

## The Yamato Group’s Main Initiatives for Reforming Working Styles

### Strengthening Management Structure

April 2017– | Yamato Transport

#### Revising Rules for Managing Working Hours and Digitizing Building Exit and Entry Data

To manage working hours in an easy-to-understand and highly transparent manner, Yamato Transport transitioned from rules stipulating that working hours be managed via mobile terminals to rules that establish the time employees arrive at and leave the office as their working hours. Starting from August 2017, the time employees start and finish work has been digitized and determined by registering building entry and exit times via a tablet device.

April 2017– | Yamato Transport

#### Reorganizing Regional Branches (Transitioning from 71 branches to 88)

To strengthen the foundation of the Delivery Business through such means as maintaining and improving the quality of services we offer our customers, recruiting new talent, and cultivating our employees, we reorganized the management structure of our regional branches, which act as the core of our regional management across Japan. Through this reorganization, we established 17 new regional branches.

### Revitalizing Communication and Promoting Diversity

June 2017– | The Yamato Group

#### Sharing Insights between the President, Executive Officers, and Employees at Panel Discussions

The Yamato Group holds panel discussions on a continuous basis in order to realize even better working styles. These discussions provide an opportunity for the Group’s president and executive officers to directly communicate the purpose and vision behind “Reforming Working Styles” to Group employees. At the same time, these discussions allow employees on the front lines to directly communicate their opinions and proposals for improving work processes to the president and executive officers.

March 2017– | The Yamato Group

#### Supporting Career Development through the Female Leaders Meeting

With the aim of supporting career development, the Yamato Group has held the Female Leaders Meeting—a Groupwide program



that encourages female employees to achieve self-fulfillment—a total of nine times, with 260 employees participating. In addition, the Group conducts training for the supervisors of meeting participants geared toward the empowerment of female employees. The Female Leaders Meeting gives participants a chance to consider their own career path and helps enhance their motivation.

### Introducing New Working Styles

March 2017 and gradually onward | Yamato Logistics, Yamato Transport, etc.

#### Implementing a Work Interval System

To ensure employees have ample time for their private life and sleep, and to establish a working environment that promotes work-life balance, Yamato Logistics, Yamato Transport, and other Group companies have introduced a system whereby employees are required to take a certain amount of time off between their check-out time and their check-in time the following day.

May 2018– | Yamato Transport

#### Implementing the Use of “Anchor Cast” (Drivers for early evening and night deliveries)

To reform the working styles of its sales drivers and secure its pickup and delivery capacity, Yamato Transport has implemented a new working style involving the handling of early evening and night deliveries and introduced a new personnel system accordingly.

▶ Please refer to [Establishing a New Diversified “Last Mile” Network](#) on page 23 for more details.

May 2018– | Yamato Transport

#### Introducing a System Allowing Transition to Permanent Employment Contracts

To create a working environment where employees can work with even greater peace of mind, Yamato Transport has introduced a system that allows full-time employees on fixed-term contracts who have worked continuously for over three years to transition to permanent employment contracts ahead of the five-year period designated by law. This system can also be used by part-time employees on fixed-term contracts who have met certain requirements under Yamato Transport’s internal “step up” system.\*

\* A system that evaluates employees’ individual skills and approach to work and promotes them to higher positions in accordance with their level of growth.

May 2018– | Yamato Transport

#### Expediting the Process for Sales Drivers to Become Permanent Employees

Yamato Transport has revised its process for promoting full-time sales drivers to permanent employees with the aim of establishing a working environment that offers employees peace of mind and securing human resources on a continuous basis. Up until now, employees were hired as contract workers and promoted to permanent positions after going through an in-house “challenge” system, a process that took approximately two years. Yamato Transport has revised this process and is now hiring new talent immediately as permanent employees.

September 2018– | Yamato Transport

#### Introducing a System Allowing Employees to Choose Number of Work Days and Work Hours

To establish an environment in which employees can continue to work with peace of mind, Yamato Transport has introduced a system that targets employees who wish to limit their number of work days and work hours because of personal circumstances such as raising children, providing nursing care, or managing the loss of physical

strength due to aging. Under this system, employees can choose the number of hours they work in a day, anywhere from four to eight. In addition, these employees can select the number of days they work in a week, which includes the option of working only three or four days a week.

### Improving Working Environments and Enhancing Support for License Acquisition

June 2018– | Yamato Transport



#### Carrying Out Construction to Improve Office Working Environments

With the aim of realizing office environments that allow employees to work in a safe, secure, and comfortable manner, Yamato Transport has established office restoration criteria, starting with the establishment of breakrooms

and changing rooms. Based on these criteria, and upon on-site inspections performed by contractors, the company has been promoting restoration efforts to improve its office environments.

October 2018– | Yamato Transport

#### Enhancing the Support System for Semi-Medium-Sized Vehicle License Acquisition

In regard to licenses required for working as a sales driver, a new semi-medium-sized vehicle license category was established on March 12, 2017, and this license is now required for operating two-ton trucks and other similar-sized delivery vehicles. In light of this, Yamato Transport has introduced a system that provides support to its sales drivers for acquiring the semi-medium-sized vehicle license. The system also covers the expenses involved in changing from an ordinary driver’s license to a semi-medium-sized vehicle license.

Furthermore, to boost the competitiveness of its recruiting activities and secure human resources on a continuous basis, and to continue to provide high-quality services to its customers, Yamato Transport has enhanced its system to provide support for sales drivers who are new graduates, or who have graduated recently and have prior work experience, upon entering the company.

### Revising Services and Fees

April 2017– | Yamato Transport

#### Changing the Framework for Designated Delivery Times

As part of its efforts to maintain and improve the working environment for its employees, Yamato Transport moved up the cut-off time for accepting requests for redeliveries from 8 p.m. to 7 p.m. Additionally, in June 2017, the company changed its designated delivery time slots for the TA-Q-BIN service. Through these changes, the company changed its 8 p.m. to 9 p.m. time slot to 7 p.m. to 9 p.m. and eliminated the 12 p.m. to 2 p.m. time slot, thereby reducing the total number of delivery time slots from six to five.

October 2017– | Yamato Transport

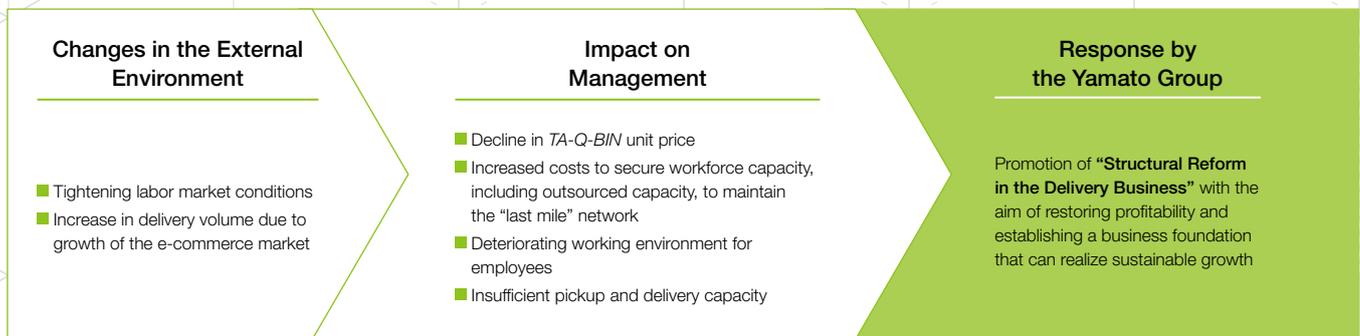
#### Revising TA-Q-BIN Basic Fees

As part of the Group’s efforts to achieve “Structural Reform in the Delivery Business,” Yamato Transport revised the basic fees for its TA-Q-BIN service for the first time in 27 years. This revision was carried out in order to secure labor capacity, improve employee treatment, and strengthen the “last mile” network.

# 2 Structural Reform in the Delivery Business



In response to rapid changes in the business environment, including the shrinking workforce and the growth of the e-commerce market, we are promoting “Structural Reform in the Delivery Business” to ensure that we continue to provide high-quality services to our customers well into the future. By reinforcing the Delivery Business, which serves as the foundation for the Yamato Group, and restoring its profitability, we will realize further growth across the entire Group.

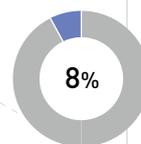


## Main Initiatives of “Structural Reform in the Delivery Business”

### Implementing a Pricing Strategy for Restoring Profitability

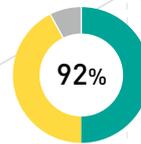
With a view to implementing adequate pricing initiatives, in the fiscal year ended March 31, 2018, we negotiated the revision of contract fees with our corporate clients. Also, for our individual customers, we revised the basic fees in our *TA-Q-BIN* service.

In the fiscal year ending March 31, 2019, we are continuing negotiations with our corporate clients on adopting a “corporate client pricing system” that incorporates not only shipping volumes but also costs related to rate of absence during delivery and cost fluctuations caused by changes in the external environment, among other factors. By doing so, we are continuously working to implement adequate pricing initiatives.



#### Individual Customers

Revision of basic *TA-Q-BIN* fees  
 ➤ First fee revision in 27 years



#### Corporate Clients

Request to large-lot and low-price clients to control shipping volume  
 Negotiations with large-lot and small-lot clients to revise fees determined under contracts  
 ➤ Continuous revisions by utilizing “corporate client pricing system”



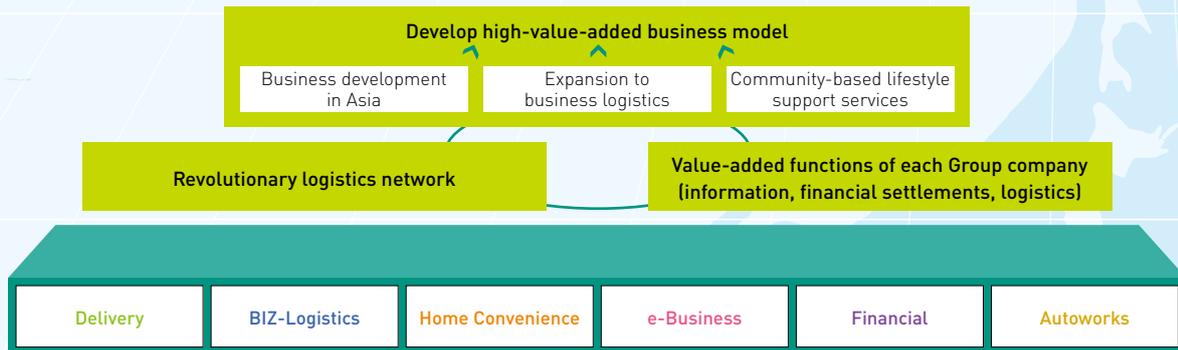
TA-Q-BIN Delivery Volume		
2017/3		2018/3
1,867.56	-30.88 million parcels (-1.7%)	1,836.68
million parcels		million parcels
TA-Q-BIN Unit Price		
2017/3		2018/3
¥559	+¥38 (+6.8%)	¥597



# 3. Continuously Evolving Our “Value Networking” Design

The “Value Networking” design, which we commenced in 2013, revolutionizes logistics operations by combining our “last mile” network in Japan and Asia—the core competence of the Yamato Group—and our non-delivery businesses to evolve logistics from simply moving things to a means of creating value, thereby giving birth to high-value-added business models. This design continues to gradually evolve over the years through such means as establishing main core terminals, centered on *Haneda Chronogate*, and logistics networks both in Japan and overseas, as well as through the creation of services that offer added value.

## Overview of “Value Networking” Design



### Speedy Transportation Essential for Added Value Creation

Through our gateways established in Kanto, Chubu, and Kansai, and our frequent trunk-route transportation, we are able to offer our customers logistics solutions for the management issues they face. These solutions include the integration of inventory storage locations and the adjustment of product inventories.

#### Commencement of Operations of Kansai Gateway

In November 2017, we commenced full-scale operations of *Kansai Gateway* in the Kansai region, which represents the economic and industrial center and largest consumer market of western Japan. By combining the Yamato Group’s highly regarded “last mile” network and high-quality logistics processing functions through the use of cutting-edge material handling equipment,\* *Kansai Gateway* revolutionizes logistics operations in terms of enhancing speed and shortening process times.



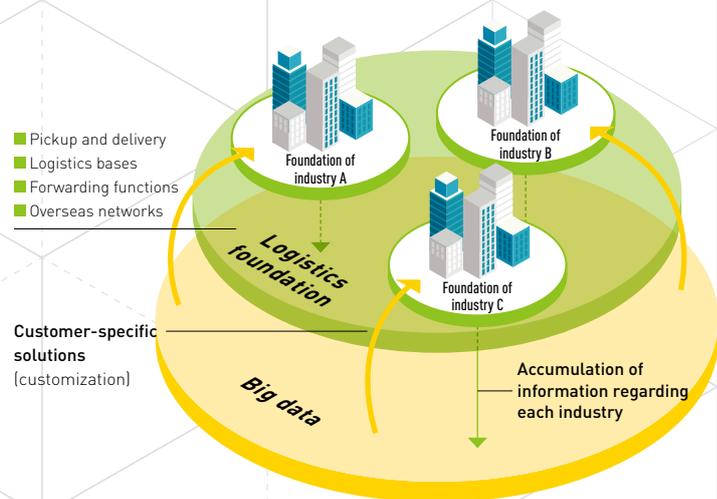
\* Manufacturing equipment that automates sorting and transportation processes

### Speedy Transportation Network



## Industry-Wide Platforms – The Key to Evolving Our “Value Networking” Design

With the aim of further evolving our “Value Networking” design, we are working to establish industry-wide platforms in the corporate and global domain. By leveraging the broad range of data we receive in each industry via our daily contact with clients and organically combining our long-cultivated, innovative network foundation with functions for creating added value, we are offering solutions that address the needs and issues shared across various industries. By doing so, we are expanding the areas in which we can contribute to the business growth of our customers.



### Platform for Healthcare Industry That Leverages Our Abundant Track Record and Advanced Know-How

Logistics operations for medical devices and pharmaceuticals require a safe, secure, and high-quality logistics structure. Such operations also require logistics facilities that fulfill the standards laid out in the Pharmaceuticals and Medical Devices Law and the submission of requests to various institutions, starting with the Ministry of Health, Labour and Welfare. Yamato Logistics is leveraging its over 10 years of experience and solid track record related to medical logistics to not only carry out the transport of medical devices and pharmaceuticals on behalf of companies in the healthcare industry but also provide “loaner support services,” which offer comprehensive support that covers everything from lending surgical equipment used at hospitals to cleaning, maintaining, and relending such equipment. By conducting the cleaning and



“Loaner support services” in operation

maintenance of this equipment at locations within the Yamato Group’s speedy transportation network, Yamato Logistics is reducing the lead times for each loan and drastically improving inventory turnover.

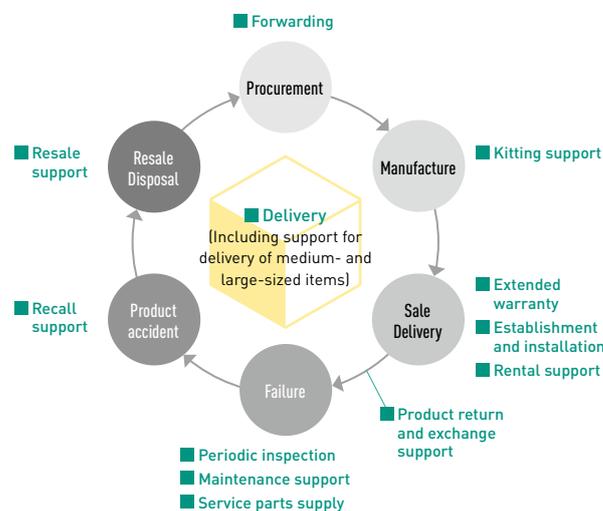
### Support for Manufacturers’ Products throughout Their Entire Lifecycle

In April 2018, the Group was restructured, transferring the Multi-Maintenance Business and Risk Management Business of Yamato Multi-Maintenance Solutions Co., Ltd. (YMM), the Technical Network Business of Yamato Home Convenience Co., Ltd. (YHC), and the Setup and Logistics Solution Business of Yamato System Development Co., Ltd. (YSD) to Yamato Logistics Co., Ltd. (YLC). Through this reorganization, we put in place a

structure for providing support for the products of manufacturers throughout their entire lifecycle.

Until now, YMM developed its business centered on so-called “reverse logistics,” which entails after-sales services such as maintenance services for products after they have reached the end user and recall support. However, by integrating YMM into YLC, we will now be able to conduct forward logistics operations, which handle products before they reach the end user. We will also be able to offer comprehensive support to manufacturers throughout the entire lifecycle of their products, from procurement and manufacturing to sale, maintenance, recall, refurbishing, resale, and disposal. In these ways, we will provide new value going forward.

### Functions for Support throughout Product Lifecycle



## Accelerating Expansion with a Global Five-Zone System

Events such as the addition of Hong Kong and ASEAN to the Free Trade Agreement (FTA) denote an accelerating movement toward a “mega FTA,” which sees economic zones in terms of entire regions and not single countries. As the flow of people, goods, and money is becoming more borderless, production systems are becoming dispersed across countries and regions, with distribution processing needs in the supply chain steadily increasing in kind.

To respond quickly to these changes in the global economic environment and support the business of Japanese manufacturers and producers, the Yamato Group is promoting global expansion via a five-zone system targeting Japan, East Asia, Southeast Asia, Europe, and the Americas.



## Moving to a Cross-Border Networking Platform

Currently, we are working to create added value by establishing our five-zone system and making connections at each of these zones. As part of these efforts, in addition to our “last-mile” speedy transportation network, we are building a platform that offers functional solutions for our forwarding and trunk-route transport services as well as for distribution processing, and other operations at our logistics bases.

What is important to this process is expanding our network in a swift manner while leveraging the strengths of the Yamato Group, namely our understanding of the demand chain from a customer point of view and the expertise that we have developed over the years. Instead of relying on self-sufficient policies, we are building a global platform while utilizing M&A and our partnerships with other companies, which include our acquisition of the Malaysia-based Overland Total Logistic (OTL) Group and investment in the Guangzhou Wisepower Transportation & Distribution Group based in Guangzhou, China.

## Globally Expanding the Cold Chain

Cross-border transport is not limited to industrial and consumer goods, and is expanding to include foodstuffs such as agricultural and marine goods. Leveraging the certification of international standards related to small-lot, chilled and frozen delivery services, the Yamato Group is taking active steps to build a cross-border network with high added value.

### Acquisition of PAS1018, International Standard for Small-Lot, Chilled and Frozen Delivery, and Its Expansion Worldwide

PAS1018 was adopted as an international standard in order to establish an environment for the safe and secure use of small-lot, chilled and frozen delivery services across the globe, particularly in Asia. PAS1018 was also adopted to improve convenience in day-to-day life, stimulate regional economies, and contribute to the growth of markets related to chilled and frozen parcel delivery services.

Headed by the Yamato Group, this standard was formulated in collaboration with 21 institutions from four countries, including Japanese logistics companies, overseas organizations and shipping companies, and various experts, via a fair and neutral process. The standard was launched by the British Standards Institution\* in February 2017.

As of December 31, 2018, eight companies within the Yamato Group have obtained certification, and we are working with our partners—including JD.com, one of China’s largest retailers—to create a cross-border network with high added value.

\* The British Standards Institution is a professional standards formulation organization that was established in 1901, and is the world’s first national standards institution and a founding member of ISO.



# 4. Responding to Digital Innovation

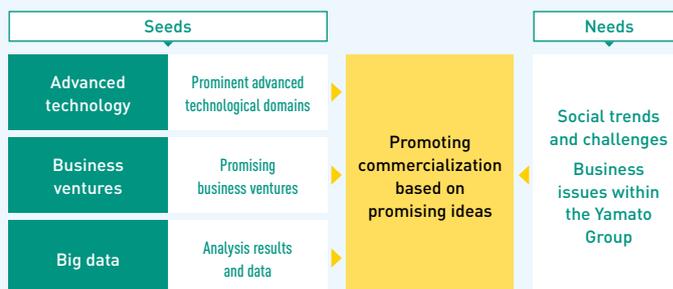


The environment surrounding the Yamato Group is going through a period of major change, including a shrinking workforce, diversifying lifestyles, and changes to industry structure caused by technological innovation. As part of “KAIKAKU 2019 for NEXT100,” we will strengthen the functionality of our “R&D + D,”\* allowing us to incorporate digital technology into the Group, and to create new businesses and strengthen and revolutionize existing businesses. At the same time, we will prepare for the emergence of new business models that could potentially “disrupt” our existing businesses. In these ways, we will aim for further growth.

\* Research and Development + “Disruption.” Disruption refers to the disruption of previous modes of thought.

## Establishing the Digital Innovation Center

To promote digital transformation, create digital business, and evolve our logistics platform, we established the in-house Yamato Digital Innovation Center (YDIC) in April 2017. Using this facility, we are working to create businesses that meet needs and resolve issues within the Group and society as a whole based on advanced technology, business ventures, and big data analysis.



## Conducting R&D for Next-Generation Logistics Services

### Creating a New Air-Transport Mode

In order to provide even higher quality delivery services to our customers, we have begun a partnership with Bell Helicopter, a subsidiary of U.S.-based Textron. By fully leveraging next-generation solutions and combining our collective expertise, we will work to create a new mode of air transport. Both companies aim to realize the practical application of this mode by the mid-2020s.

#### Roles of Each Company

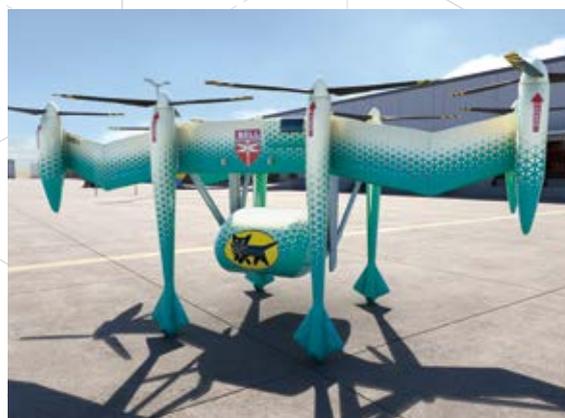
##### Bell Helicopter

Planning, development, and manufacturing of Autonomous Pod Transport (APT)



##### Yamato Holdings

Development of external shipping containers (pods) by leveraging logistics expertise



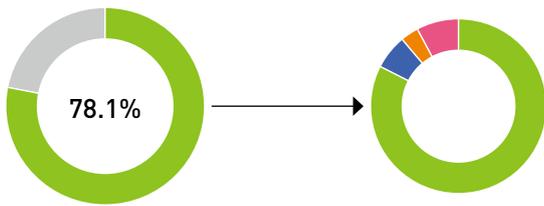
Rendering of Bell Helicopter electric vertical takeoff and landing vehicle APT70  
 Flight speed: Over 160 km/h  
 Load capacity: 35 kg (demo experiments show a potential increase to 450 kg in the future)



# Delivery

In the Delivery Business, the Yamato Group concentrated on *TA-Q-BIN*-centered business development, aiming to provide infrastructure that best suits our customers and contribute to enriching people's lives.

## Composition Ratio of Operating Revenues



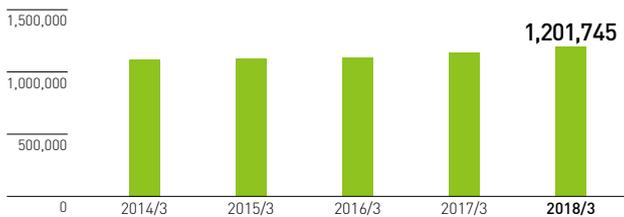
Breakdown of the Composition Ratio of Operating Revenues

■ <i>TA-Q-BIN</i>	71.4%
■ Kuroneko DM-Bin	5.4%
■ Express	2.8%
■ Others	6.7%
Eliminations	(8.2)%

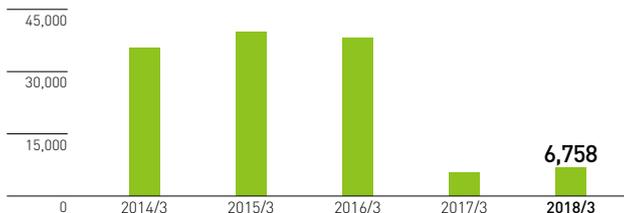
## A Look Back at the Year Ended March 31, 2018

- Promoted “Structural Reform in the Delivery Business,” while placing “Reforming Working Styles” at the center of our management
- In addition to moving up the cut-off time for accepting *TA-Q-BIN* collection and delivery requests, revised the number of time slots for *TA-Q-BIN* deliveries from six to five in an effort to ensure our employees can properly take breaks and prevent long working hours
- Revised *TA-Q-BIN* basic fees in October 2017. Negotiated revisions to fees for our corporate clients and made progress with requests to certain large-lot clients to adjust *TA-Q-BIN* shipment volumes
- Raised *TA-Q-BIN* unit price from the third quarter on. Realized a recovery in business performance amid rising investments and expenses due to promoting “Reforming Working Styles” and other measures
- Promoted the expansion of sales of *TA-Q-BIN Compact* and *Nekopos* to respond to the continued growth in the e-commerce market. At the same time, collaborated with multiple flea market websites to expand shipment counter
- As a result of the above, revenues and profit increased year on year

## Operating Revenues (¥ million)



## Operating Profit (¥ million)



## Efforts to Upgrade Touchpoints as Part of “Structural Reform in the Delivery Business”

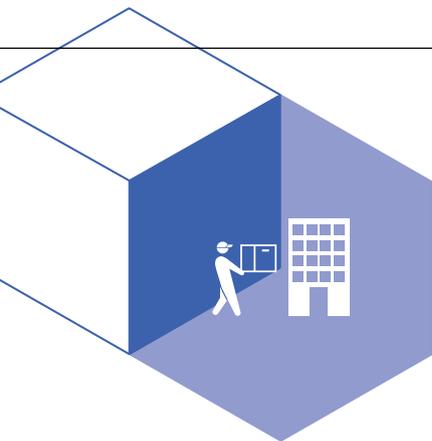
As part of our efforts to reform our business structure in order to realize sustainable growth, we are working to upgrade the touchpoints where customers can receive packages. In the fiscal year ended March 31, 2018,



we promoted the establishment of designated Pick Up & Drop Off (PUDO) stations, which function as re-delivery locations when recipients are not home as well as delivery points for products purchased through e-commerce websites, and increased the number of stations, primarily at train stations, supermarkets, and drugstores in the Tokyo metropolitan area. These efforts were undertaken in order to reduce the number of re-deliveries and improve the convenience of receiving packages in accordance with customer lifestyles.

Additionally, we have been collaborating with e-commerce companies to create a service environment where customers who have purchased a product are able to specify either a business office of Yamato Transport, a convenience store, or a PUDO station as a pickup location. At the same time, we have been taking other steps to improve the convenience of receiving packages for our customers. These include the *My Calendar* service for *Kuroneko Members*, which allows customers to select the most convenient day and time for deliveries, as well as the addition of a new feature that allows customers to designate pickup locations.

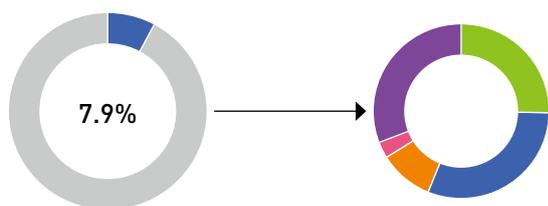
By continuing these efforts, we will establish a foundation that allows us to adapt to the changing business environment as we aim to realize sustainable business growth going forward.



# BIZ-Logistics

In the BIZ-Logistics Business, the Yamato Group is providing customers with innovative logistics systems by combining management resources such as the *TA-Q-BIN* network with logistics functions, maintenance and recall handling functions, cleansing functions for medical devices, and international transportation functions.

## Composition Ratio of Operating Revenues



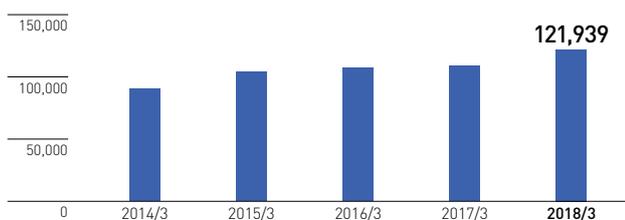
### Breakdown of the Composition Ratio of Operating Revenues

Trading logistics service	2.5%
Sales and Logistics	3.0%
Multi maintenance	1.0%
Products Logistics	0.3%
Others	3.0%
Eliminations	(2.0)%

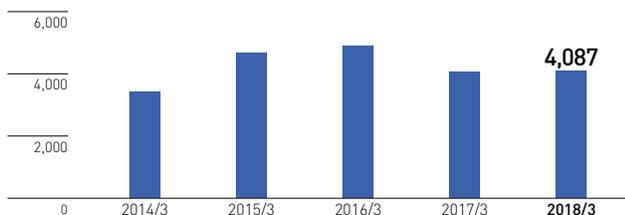
## A Look Back at the Year Ended March 31, 2018

- Offered a wide variety of logistics support services for the e-commerce industry, including services for placing and accepting orders, visually monitoring inventories, and promoting speedier shipments, on a one-stop basis in line with customer needs. Realized solid performance in terms of revenues due to the favorable performance of existing services
- Expanded use by new customers through services that help revolutionize logistics operations, including medical device loaner support (storage, cleaning, and delivery), a service we developed for medical service providers
- As a result of the above, revenues and profit rose year on year

## Operating Revenues (¥ million)



## Operating Profit (¥ million)



## Introduction of Japan's First Automated Fit-To-Size Packing System at Atsugi Gateway

The Yamato Group is working to enhance its value-added functions with the aim of further evolving its "Value Networking" design. In addition, we are actively promoting the digitization and automation of our overall logistics



operations in order to respond to social issues such as the declining workforce, which will become an even more serious problem going forward, as well as the expansion of the e-commerce market. As part of these efforts, Yamato Packing Technology Institute Co., Ltd., which develops packing materials used in the transportation field, introduced a fit-to-size packing system at the *Atsugi Gateway*. Operations of this system were commenced in October 2017.

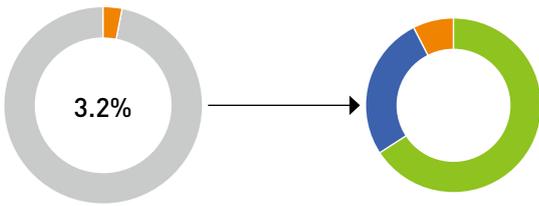
This fit-to-size packing system automatically measures the three sides of a product and creates the most appropriately sized cardboard box for that product. In addition, the system automates various processes, including processes for packing and attaching invoices. By doing so, the fit-to-size packing system achieves productivity levels that are approximately 10 times higher than those of conventional packing done by hand. Also, through packing that best suits the shape of the product, this system contributes to reducing environmental burden by improving loading efficiency during shipping and reducing the amount of cushioning materials that need to be used. Furthermore, this system helps reduce the amount of space needed to store packing materials.



# Home Convenience

In the Home Convenience Business, the Yamato Group is working toward enabling customers to achieve greater convenience and comfort in their lives through lifetime lifestyle support businesses and corporate enterprise support business that draw on the Yamato Group's nationwide network.

## Composition Ratio of Operating Revenues



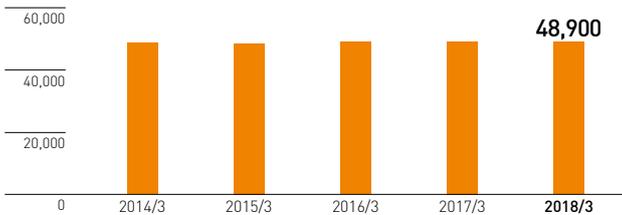
Breakdown of the Composition Ratio of Operating Revenues

Home convenience	2.7%
Business convenience	1.1%
Technical Network	0.3%
Eliminations	(0.9)%

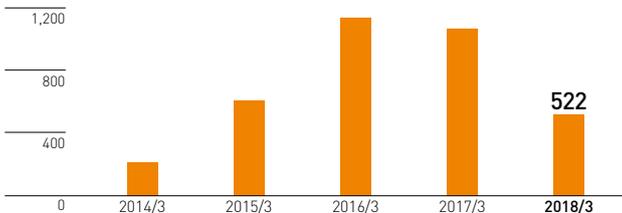
## A Look Back at the Year Ended March 31, 2018

- Worked to increase volume of the *Raku Raku Household TA-Q-BIN* service, which makes it easier to send large packages, in collaboration with flea market apps. At the same time, actively promoted the expansion of sales of the *Comfortable Lifestyle Support* service, which works to reduce daily household inconveniences
- Steadily acquired orders for office relocations and other projects through our business support services for corporate clients, including the one-stop *Technical Network Business* service that covers everything from household equipment delivery and setup to installation and maintenance
- Promoted “Reforming Working Styles” and engaged in efforts to control workloads during peak moving and relocation season
- Despite the above, revenues and profit declined year on year

## Operating Revenues (¥ million)



## Operating Profit (¥ million)



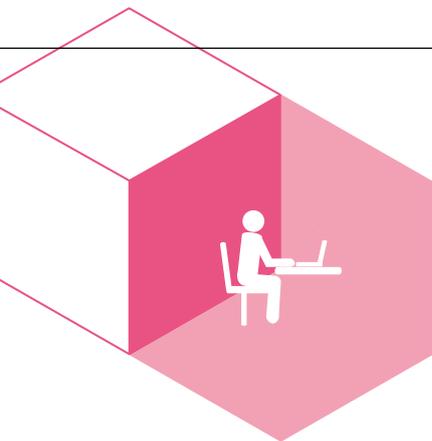
## Commencement of Delivery Service for Large Products in Collaboration with Flea Market Apps

Yamato Home Convenience Co., Ltd. collaborated with Mercari, Inc. to commence the provision of *Large-Item Raku Raku Mercari Delivery*, a new delivery service for the flea market app Mercari, in April 2017. Mercari is a rapidly growing service, with monthly distribution volumes totaling



¥10.0 billion and the number of items listed per day reaching over 1 million. While Yamato Transport has been working with Mercari in the provision of the *Raku Raku Mercari Delivery* service since April 2015, there were instances where this service could not respond to transactions involving larger items such as furniture and household appliances. In light of this, we received a large number of requests from customers for a service that could handle such transactions.

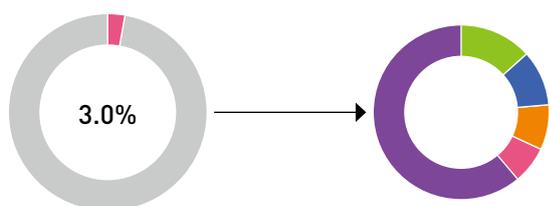
Yamato Home Convenience offers services including the shipping of furniture and household appliances. The company also possesses a nationwide shipping network for large items. With the *Large-Item Raku Raku Mercari Delivery* service, staff members from Yamato Home Convenience visit the homes of sellers to pack and pick up items being sold. In addition, these staff members unpack and set up items once they have reached their destination and collect used packing materials. In these ways, *Large-Item Raku Raku Mercari Delivery* is an easy-to-use, highly convenient service.



# e-Business

In the e-Business, the Yamato Group helps customers streamline their business processes and solve potential issues by proactively developing the solution platform business that combines logistics technology and financial technology with information technology. In addition, with the aim of helping to accelerate growth of Yamato Group businesses, we have been moving beyond conventional information technologies through efforts geared to promoting use of emerging technologies that harness artificial intelligence (AI), the Internet of Things (IoT), and other such innovations.

## Composition Ratio of Operating Revenues



### Breakdown of the Composition Ratio of Operating Revenues

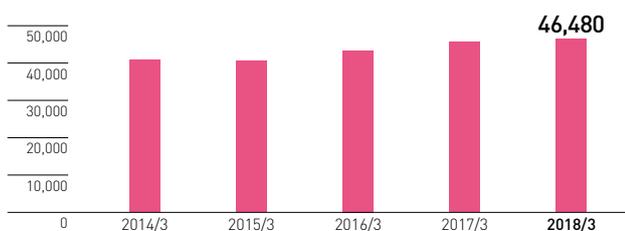
e-logistics solution	0.8%
Credit card solution	0.6%
IT operating*	0.5%
Web-based mail order solution	0.4%
Others	3.6%
Eliminations	(2.8)%

\* Starting with the fiscal year ended March 31, 2018, the name of IT operating solution has been changed to "IT operating."

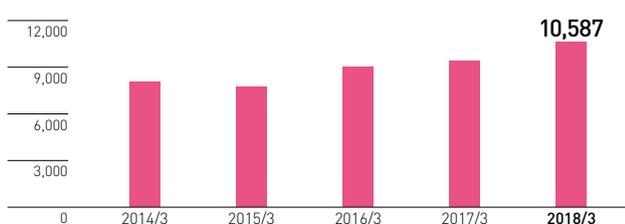
## A Look Back at the Year Ended March 31, 2018

- Against a backdrop of e-commerce market growth, expanded service use particularly among existing large-lot customers through the *Web-Based Shipment Control* service, which provides comprehensive support for such operations as dispatch information processing, delivery slip printing, and package tracking
- Increased use of services among new and existing customers through the e-On Demand Solutions business, which is geared toward customers who mainly make use of pamphlets, catalogues, and other such promotion materials in their marketing activities and involves the provision of total solutions in terms of systems for ordering promotion products, warehouse storage, administration, delivery and other logistic functions, and printing
- As a result of the above, revenues and profit increased year on year

## Operating Revenues (¥ million)



## Operating Profit (¥ million)



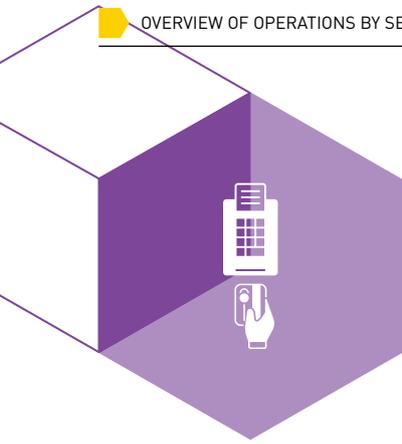
## Provision of Online Service to General Insurance Companies for Collecting Documentation

Yamato System Development Co., Ltd. offers an online service for collecting documentation. With this service, personal identification and other necessary documents can be submitted online easily and with peace of mind via smartphone, PC, and other devices, without having to download a specialized app. Users are able to submit documents via this service 24 hours a day, 365 days a year, for processes where submitting documentation is necessary, such as opening a bank account, applying for a credit card loan, and receiving an inspection for leasing real estate. Accordingly, this service helps corporations resolve the issue of lengthy response time due to inadequate document preparation. It also eliminates the need for users to make copies of documents and send them via mail. In these ways, the service improves convenience levels for both corporations and users. In addition, as this service guarantees high levels of security, including conformance with PCI DSS,\* it enables the secure transmission, receipt, and management of personal information.



Receiving high praise for these various features, this service was introduced at SBI Insurance Co., Ltd. in 2018. Going forward, we intend to actively promote the introduction of this service at not only general insurance companies but also life insurance companies. We also plan on expanding the service's features in such ways as enabling the collection of necessary documentation for insurance product applications, insurance payments, and various other procedures.

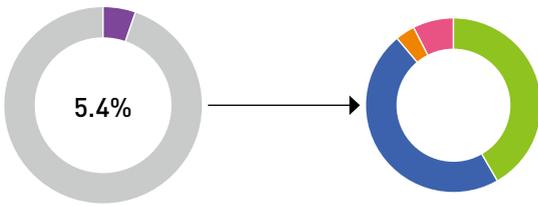
\* An abbreviation for Payment Card Industry Data Security Standard, a global security standard for the credit card industry



# Financial

In the Financial Business, the Yamato Group has been developing settlement and financial services tailored to a range of customer needs for payment collection of mail-order products, business-to-business transaction settlement, and vehicle leasing.

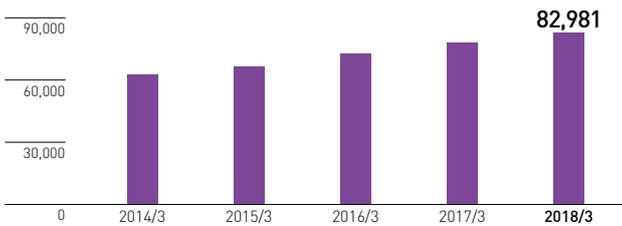
## Composition Ratio of Operating Revenues



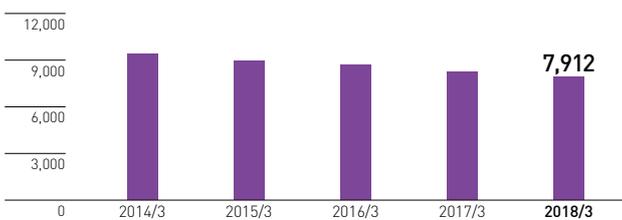
Breakdown of the Composition Ratio of Operating Revenues

Payment	2.3%
Lease	2.6%
Credit & Finance	0.2%
Others	0.4%
Eliminations	(0.2)%

## Operating Revenues (¥ million)



## Operating Profit (¥ million)



## A Look Back at the Year Ended March 31, 2018

- Provided a wide range of payment settlement services to our customers by promoting use of the *Kuroneko Web Collect* and *Kuroneko Pay After Delivery* services
- Launched sales of the *Raku-uru Cart* service to enable business operators to enter the e-commerce market, which is expected to continue to expand going forward. Promoted efforts to enhance our services in such ways as providing one-stop options in terms of payment settlement, delivery support, and shopping cart features
- Generated favorable sales in the lease services business with regard to financial leases primarily involving trucks, and installment sales. At the same time, developed peripheral operations, including vehicle referrals and resale support, and promoted proposals for total solutions related to vehicles
- Experienced a decline in the delivery volume of the mainstay service *TA-Q-BIN Collect* following the shrinking market for cash on delivery
- As a result of the above, revenues increased year on year while profit decreased

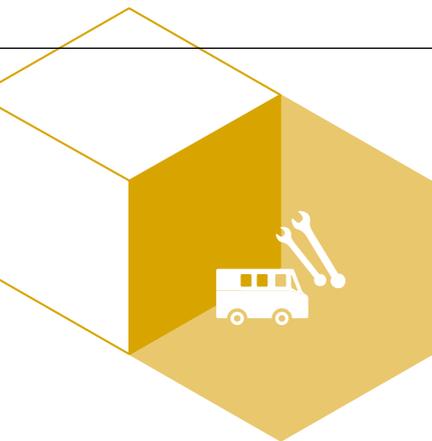
## Provision of Platforms That Simplify Operation of E-Commerce Businesses

Many new e-commerce business operators have to undertake a wide range of duties with only a small team of people, and there is often little room to sufficiently allocate management resources toward efforts to improve customer satisfaction.



In particular, to manage an e-commerce website, business operators must conclude contracts with each vendor that provides functions, and the online administration screen for managing these functions differ from function to function. These factors have made operating an e-commerce website extremely complex.

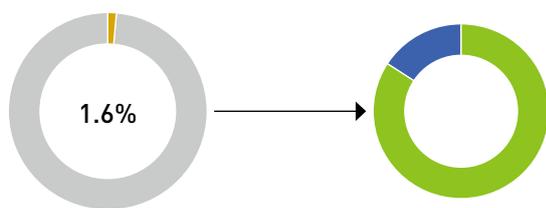
To address this issue, Yamato Financial Co., Ltd. established a new shopping cart feature for e-commerce websites and, in January 2018, began offering this feature as the *Raku-uru Cart* service, which integrates the payment settlement and delivery support functions of the Yamato Group. The *Raku-uru Cart* service can be easily introduced even by operators who lack sufficient know-how related to websites, including on how to launch a new e-commerce site. In addition, users are able to manage invoice issuance and payment settlement functions via the same screen, allowing for the highly efficient management of online stores. Also, *Raku-uru Cart* offers a diverse range of payment settlement services and services that allow users to select their desired pickup location. In this manner, *Raku-uru Cart* links the various services of the Yamato Group to offer enhanced functions that can be used in accordance with consumers' lifestyles.



# Autoworks

In the Autoworks Business, the Yamato Group develops its “24-hour-a-day, 365-day-a-year service that enables customers to service their vehicles without stopping operation,” thereby providing value to logistics operations and logistics service providers in the form of “improvement of vehicle maintenance convenience” and “reduced maintenance expenses.” Furthermore, to better provide one-stop service solutions geared toward customer business operations, we have added services for “maintaining and safeguarding logistics facilities and equipment, and improving such workplace environments,” along with “offering insurance plans tailored to customer risk management needs,” which provide coverage for such assets.

## Composition Ratio of Operating Revenues



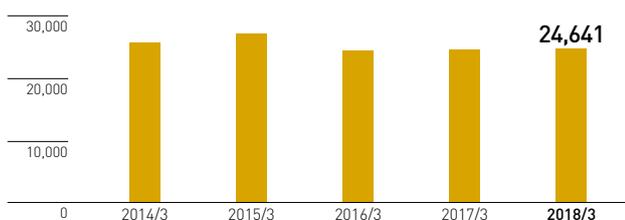
### Breakdown of the Composition Ratio of Operating Revenues

Truck solution	3.2%
Others	0.6%
Eliminations	(2.1)%

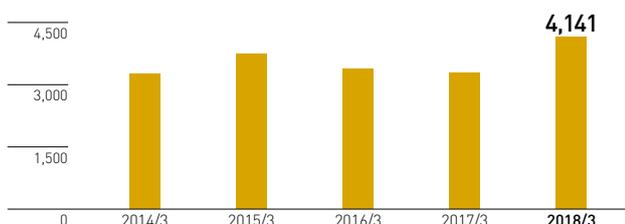
## A Look Back at the Year Ended March 31, 2018

- Took steps to expand sales through such means as proactively promoting sales of our *Repairworks* service, which entails periodic on-site customer visits
- Realized an increase in the number of vehicles serviced
- Made progress with regard to streamlining business processes such as standardizing and visually monitoring business operations
- As a result of the above, both revenues and profit were up year on year

## Operating Revenues (¥ million)



## Operating Profit (¥ million)



## Commenced Inspection and Maintenance Services for Commercial Electric Vehicles as a New Business Domain

In the Autoworks Business, we commenced inspection and maintenance services for commercial electric vehicles. As the use of commercial electric vehicles in logistics operations is expected to become more widespread going forward, we view these services as a new business domain that focuses on the changing business environment. In the fiscal year ended March 31, 2018, Yamato Transport introduced compact electric trucks, which significantly reduce environmental burden due to the fact that they do not generate exhaust emissions. In addition, as these trucks require significantly less components for assembly, they reduce the number of disposal parts that need to be replaced within a set time cycle. Accordingly, the trucks help reduce running costs. These trucks also have less oscillation compared with diesel vehicles, reducing the physical burden on our sales drivers. Furthermore, Yamato Autoworks Okinawa Co., Ltd. has commenced inspection and maintenance services for large-sized electric buses that have been introduced by Okinawa Ship's Agency Corporation, a company that conducts ship agency operations for cruise ships. In these ways, we are actively promoting expansion into this new business domain.



Going forward, we will promote inspection and maintenance services for our customers without stopping operations. We will also work to make these services more sophisticated. At the same time, by promptly responding to new technologies and features such as low-emission vehicles, we will provide support for high-quality logistics services going forward.

# Other Services

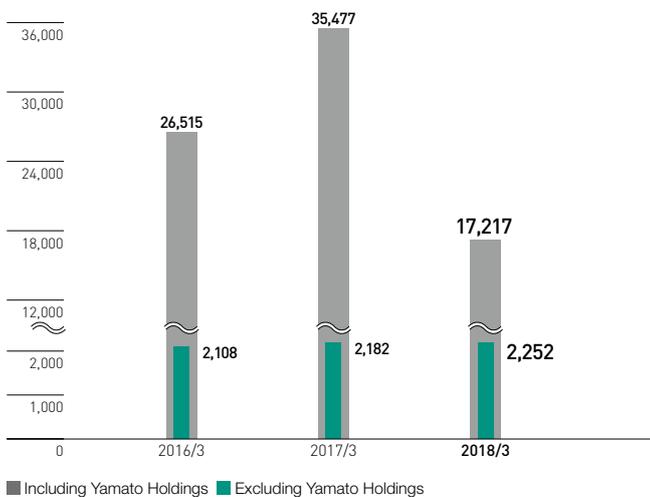
Through Other Services, we provide a broad range of shared services such as the arterial route transportation business and the box charter business. The *JITBOX Charter* service provides transportation by transport box. The service takes advantage of a network consisting of multiple companies and provides added value to customers through timely delivery and frequent, right-volume delivery. In the fiscal year ended March 31, 2018, service use grew steadily due to favorable results with respect to existing services.

Excluding such factors as dividends that Yamato Holdings received from Group companies, operating profit of Other Services increased 3.2%, to ¥2,252 million.

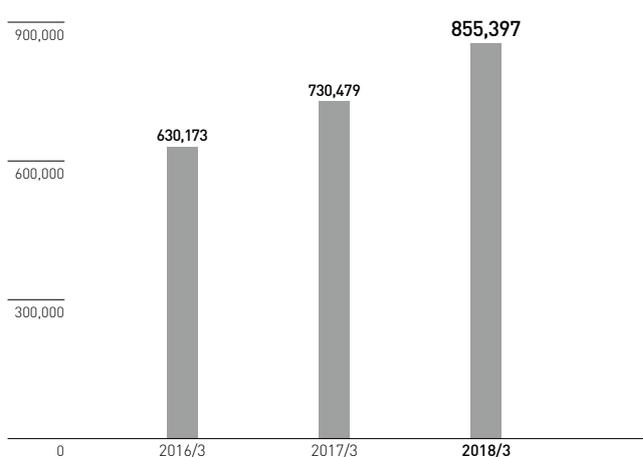


JITBOX Charter

## Operating Profit (¥ million)



## Track Record of JITBOX Charter (Units)





## THE YAMATO GROUP'S ESG

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# Corporate Governance

## Basic Position on Corporate Governance

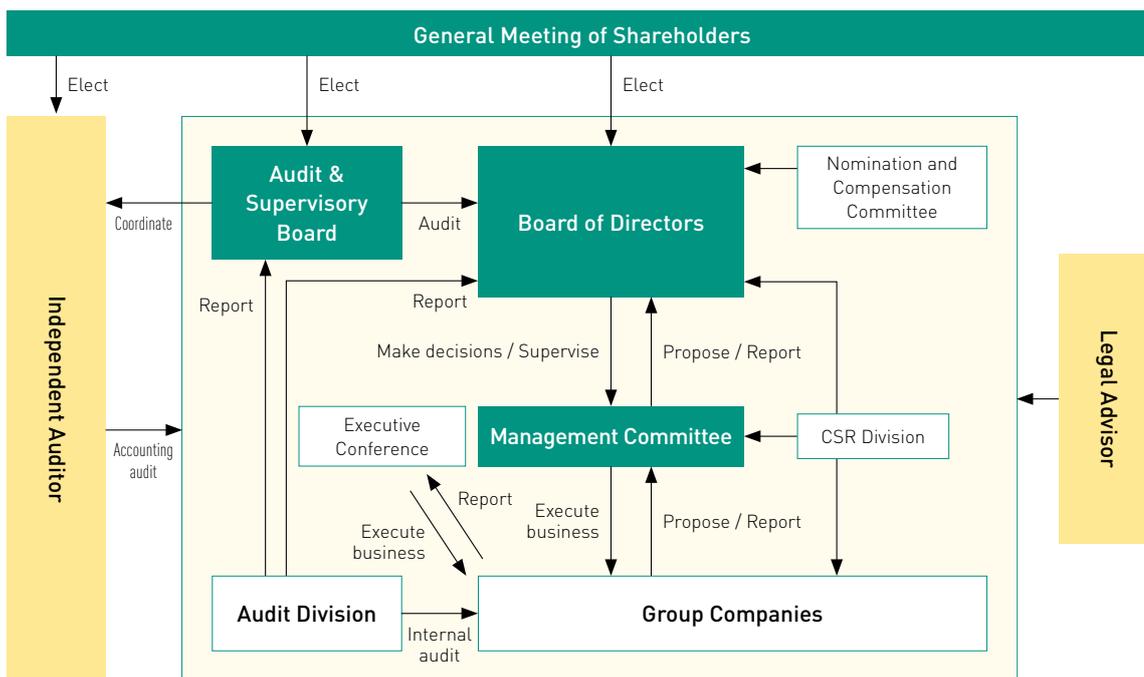
Based on its corporate philosophy, the Yamato Group carries out business activities in accordance with the law and social norms and actively promotes compliance management. Striving to maximize corporate value by

effectively utilizing the management resources of the Group is one of the top priorities of management, and we have implemented measures and bolstered management systems as part of our corporate governance initiative.

## Characteristics of Corporate Governance System (As of January 31, 2019)

System	Company with auditors
Number of directors	9
Outside directors	4
Number of Audit & Supervisory Board members	4
Outside auditors	2
Term of directors	1
Executive officer system in place	Yes
Independent auditor	Deloitte Touche Tohmatsu LLC

## Corporate Governance Framework



## Efforts to Improve Corporate Governance

### Medium-Term Management Plan

	DAN-TOTSU Three-Year Plan HOP	DAN-TOTSU Three-Year Plan STEP	KAIKAKU 2019 for NEXT100
2002	2011	2014	2017–
<b>Board of Directors and Audit &amp; Supervisory Board</b>			
<ul style="list-style-type: none"> <li>Shortened the term of directors to one year (June 2003)</li> <li>Appointed outside directors (June 2005)</li> </ul>		<ul style="list-style-type: none"> <li>Implemented evaluation of effectiveness of the Board of Directors (June 2016)</li> <li>Transitioned to a structure in which outside directors made up one-third of all directors (June 2015)</li> </ul>	<ul style="list-style-type: none"> <li>Appointed a female outside director (June 2017)</li> </ul>
<b>Committees, etc.</b>			
<ul style="list-style-type: none"> <li>Established the Nomination and Compensation Committee (June 2005)</li> <li>Established the Compliance and Risk Committee (August 2006)</li> </ul>			
<b>Corporate Structure and Other Systems and Initiatives</b>			
<ul style="list-style-type: none"> <li>Introduced executive officer system (June 2004)</li> <li>Eliminated retirement benefit system for corporate officers (June 2004)</li> <li>Disclosed ROE target in medium-term management plan (January 2005)</li> <li>Introduced performance-based compensation system (April 2005)</li> <li>Transitioned to a pure holding company (November 2005)</li> <li>Introduced succession plans (July 2006)</li> </ul>	<ul style="list-style-type: none"> <li>Established interim holding companies to be responsible for regional management (Southeast Asia and East Asia) Southeast Asia (January 2014), East Asia (April 2017)</li> <li>Established an advisory board (October 2014)</li> </ul>	<ul style="list-style-type: none"> <li>Abolished adviser position (June 2018)</li> <li>Established Corporate Governance Guidelines (September 2015)</li> <li>Implemented corporate officer training (October 2015)</li> </ul>	

## Concurrent Posts and Main Activities of Outside Directors and Outside Audit & Supervisory Board Members

	Name	Independent officer	Concurrent posts (As of June 26, 2018)	Main activities	Attendance at meetings of the Board of Directors and/or Audit & Supervisory Board during the fiscal year ended March 31, 2018
Outside Directors	Toshitaka Hagiwara	Yes	<ul style="list-style-type: none"> <li>Adviser of Komatsu Ltd.</li> <li>Outside Director of Zensho Holdings Co., Ltd.</li> <li>Outside Director of Hino Motors, Ltd.</li> <li>Outside Director of Takamatsu Construction Group Co., Ltd.</li> </ul>	Toshitaka Hagiwara has ample experience and extensive knowledge as a businessperson, and he comments and advises as needed on all aspects of business management. Furthermore, his collaboration with the independent auditor and the Audit Division enhances governance.	Board of Directors: 17 of 18 meetings
	Masakatsu Mori	Yes	<ul style="list-style-type: none"> <li>Senior Advisor of International University of Japan</li> <li>Outside Director of Stanley Electric Co., Ltd.</li> <li>Outside Audit &amp; Supervisory Board Member of Kirin Holdings Company, Limited</li> </ul>	Masakatsu Mori has ample experience and extensive knowledge as a businessperson, and he comments and advises as needed on all aspects of business management. Furthermore, his collaboration with the independent auditor and the Audit Division enhances governance.	Board of Directors: 18 of 18 meetings
	Mariko Tokuno	Yes	<ul style="list-style-type: none"> <li>Outside Director of Happinet Corporation</li> <li>Outside Director of Mitsubishi Materials Corporation</li> </ul>	Mariko Tokuno has ample experience and extensive knowledge as a businessperson, and he comments and advises as needed on all aspects of business management. Furthermore, his collaboration with the independent auditor and the Audit Division enhances governance.	Board of Directors: 14 of 14 meetings
	Yoichi Kobayashi	Yes	<ul style="list-style-type: none"> <li>Vice Chairman of ITOCHU Corporation</li> </ul>	Yoichi Kobayashi has ample experience and extensive knowledge as a businessperson, and he comments and advises as needed on all aspects of business management. Furthermore, his collaboration with the independent auditor and the Audit Division enhances governance.	Appointed in June 2018
Outside Audit & Supervisory Board members	Hiroyuki Kanae	Yes	<ul style="list-style-type: none"> <li>Partner, Anderson Mori and Tomotsune LPC</li> </ul>	Hiroyuki Kanae provides necessary advice based on his high level of expertise and abundance of experience as an international lawyer. Furthermore, he attends regular meetings to exchange opinions with the representative director and president, outside directors, and Audit & Supervisory Board members, monitoring directors' execution of duties primarily by asking questions related to overseas business risk.	Board of Directors: 18 of 18 meetings Audit & Supervisory Board: 20 of 20 meetings
	Takashi Yamashita	Yes	<ul style="list-style-type: none"> <li>Representative of Takashi Yamashita CPA Office</li> <li>Outside Director of Shin Nippon Biomedical Laboratories, Ltd.</li> </ul>	Takashi Yamashita possesses sufficient insight into finance and accounting through his work as a Certified Public Accountant. Furthermore, he attends regular meetings to exchange opinions with the representative director and president, outside directors, and Audit & Supervisory Board members, monitoring directors' execution of duties primarily by asking questions related to finance and accounting.	Board of Directors: 11 of 14 meetings Audit & Supervisory Board: 14 of 14 meetings

## Corporate Governance

The Company is a company with an Audit & Supervisory Board. In addition to important management decision-making and the supervision of business execution by the Board of Directors, Audit & Supervisory Board members and the Audit & Supervisory Board, which are independent from the Board of Directors, shall audit the status of execution of duties by directors.

Also, to complement the functions of the Board of Directors, the Company established a Nomination and Compensation Committee comprising a majority of outside directors. At the same time, the Company has adopted an executive officer system to ensure prompt decision-making related to business execution.

### Board of Directors

#### Roles and duties

- The Board of Directors shall make important decisions concerning the Company's business and supervises the execution of duties by executive directors and executive officers.
- The Board of Directors shall recognize the medium-term management plan as one of the commitments to shareholders and do its utmost to achieve the goals of the plan. Moreover, the Board of Directors shall sufficiently analyze the initiatives aimed at realizing the goals of the medium-term management plan as well as the extent to which the plan's objectives are being achieved. In addition to providing explanations to shareholders, such analyses shall be reflected in future management plans.
- The Board of Directors shall encourage executive officers to demonstrate a healthy entrepreneurial spirit and not excessively avoid or curb risk, while at the same time establishing a framework that enables it to ensure accountability.
- The scope of responsibility of each executive officer shall be decided by the Board of Directors and disclosed. Executive officers shall execute business in accordance with internal regulations.

#### Management

- To allow Board of Directors meeting attendees the opportunity to prepare for meetings in advance, the Board of Directors secretariat shall send agenda items and related materials to directors well in advance of the meeting date and provide explanations in advance as needed.
- The annual schedule of Board of Directors meetings as well as anticipated agenda items shall be decided in advance, and this information shall be provided to directors and Audit & Supervisory Board members.
- The number of issues to be deliberated as well as the frequency of meetings shall be appropriately set, and the time of meetings shall be decided so as to allow sufficient time for deliberations.
- As needed, meetings comprising Board of Directors meeting attendees shall be held for the purpose of exchanging ideas, thereby encouraging lively debate.

- The effectiveness of the Board of Directors shall be evaluated through questionnaires and interviews performed by the chair.

#### Evaluation of effectiveness

To verify the effectiveness of the Board of Directors, the Company listens to the individual opinions of all directors and Audit & Supervisory Board members regarding the composition and operational status of the Board of Directors. Based on these opinions, the Company carries out an evaluation on the Board's effectiveness in terms of such matters as the condition of the Board's operation and the state of deliberation held at Board meetings.

By sharing the issues brought to light through the evaluation at Board of Directors meetings, the Company makes efforts to examine and implement measures toward realizing improvements.

#### Results of Evaluation for the Fiscal Year Ended March 31, 2018

The evaluation deemed that the composition, operating conditions, and state of deliberations of the Board of Directors are generally appropriate for an organization that fulfills a supervisory function. The evaluation also determined that the Board has fostered an environment that allows its members to actively participate in Board meetings and hold open-minded discussions.

The fiscal year ended March 31, 2018, was a year in which the Company made a dramatic change in course with its policies, as reflected by revisions to the content of *TA-Q-BIN* services and their fees.

The lively discussions held by the Board of Directors, which centered on reforming working styles, provided the backdrop to this kind of dramatic decision-making. Accordingly, the Company believes that the Board has sufficiently fulfilled its responsibility in implementing important measures during the fiscal year ended March 31, 2018.

In light of this, the Company confirmed that the Board of Directors is functioning in an effective manner that contributes to its Corporate Governance Guidelines of "securing sound management" and "achieving prompt and accurate decision-making and business execution."

Going forward, the Company will enhance the effectiveness of its working style reforms. At the same time, the Company will continue to maintain and improve the effectiveness of its Board of Directors with a view to

executing its growth strategy aimed at the next 100 years upon celebrating its 100-year anniversary in the fiscal year ending March 31, 2020.

## Audit & Supervisory Board

### Roles and duties

- The Audit & Supervisory Board and its members shall exercise their authority actively and proactively, and they shall appropriately state their opinions at Board of Directors meetings as well as to members of senior management.
- The full-time Audit & Supervisory Board members shall attend Board of Directors meetings and other important meetings related to the execution of

business, express reasonable opinions, hold effective Audit & Supervisory Board meetings, and ensure that information is shared and that members work together in a coordinated manner.

- The Audit & Supervisory Board shall regularly hold information exchange meetings for the purpose of sharing information with outside directors, thereby ensuring more robust gathering of information and encouraging teamwork.

## Nomination and Compensation Committee

- The Nomination and Compensation Committee shall comprise outside directors and the same number of or fewer internal directors with an outside director serving as the committee chair.
- The committee shall deliberate on matters related to the appointment or removal of senior management members based on business performance and multifaceted observations and evaluation, thereby verifying the validity of such decisions, and decide policies on

compensation and other matters related to senior management members.

- The committee shall propose candidates as successors to the representative director to the Board of Directors, following deliberation based on multifaceted observations and evaluations of candidates' track records, human nature, and other factors, thereby increasing management transparency.

## Support Framework for Directors and Audit & Supervisory Board Members

- The Company shall establish a support framework that enables it to provide necessary and adequate information at the necessary time to allow directors to effectively fulfill their roles and duties.
- By participating in key business strategy meetings for the overall Group, such as the "Business Summit," "Business Conference," and "Management Plan Unveiling," as well as by observing key Group business sites, including those overseas, participants are able to better understand the business strategies and provide opportunities to see how these strategies are being advanced.
- As a system to help Audit & Supervisory Board members smoothly perform their duties, employees in the internal audit division shall be appointed to assist Audit & Supervisory Board members.

- Audit & Supervisory Board members shall exercise their authority to perform investigations in accordance with the Companies Act. In addition, if a director or employee discovers a fact that could potentially inflict marked damage on the Company, he/she shall immediately report this fact to an Audit & Supervisory Board member, even if there is no request to do so from an Audit & Supervisory Board member.
- If a director or Audit & Supervisory Board member believes it to be necessary, he/she shall obtain advice from an outside expert at the Company's expense.
- The internal audit division shall regularly hold meetings with the full-time Audit & Supervisory Board members, and provide audit reports in a planned manner to the Board of Directors and the Audit & Supervisory Board, thereby enhancing the provision of information to as well as bolstering coordination with outside directors and outside Audit & Supervisory Board members.

## Corporate Governance

### Compensation of Directors and Audit & Supervisory Board Members

Directors and Audit & Supervisory Board members	Total compensation and other remuneration (Millions of yen)	Total by compensation and remuneration category (Millions of yen)	Head count of eligible directors and Audit & Supervisory Board members
		Basic compensation	
Directors (excluding outside directors)	274	274	5
Audit & Supervisory Board members (excluding outside Audit & Supervisory Board members)	48	48	2
Outside directors and Audit & Supervisory Board members	61	61	6

for determining director compensation, deliberations are conducted through the Nomination and Compensation Committee, more than half of whose members are outside directors, with the Board of Directors making resolutions.

Director compensation comprises fixed remuneration that reflects external standards and performance-based amounts. In addition, a certain percentage of their compensation is allocated to purchasing shares of the Company through the Officers and Executives' Shareholding Association. The compensation of Audit & Supervisory Board members and outside directors is fixed in keeping with the nature of their work.

#### ► Policies related to methods for calculation and determination of director compensation

To ensure the objectivity and transparency of policies

### Policy on Cross-Shareholdings

The Company shall maintain a policy of owning stocks that are deemed meaningful, based on a comprehensive consideration from a medium- to long-term perspective of the relationship with the Group's businesses, the profitability of the Company, and the potential for creating new business opportunities, among other factors. A decision shall be made every year at the Board of Directors meeting concerning whether to continue holding the stocks based on careful consideration of various factors including previous business transactions with the Company and the market price of the shares, and after

verifying the benefits and risks associated with holding the stocks from a quantitative and qualitative perspective. The Company works to reduce the number of stocks it owns that are deemed to be of little significance.

In exercising the voting rights of shares held, the decision to support or oppose agenda items at the shareholders' meeting shall be made on a case-by-case basis, with consideration given to the issuing company's enhancement of corporate value, the issuing company's compliance framework, and the possibility of a negative impact on the Group's business, among other factors.

### Compliance

#### ► Strengthening internal control for the Group overall

The Yamato Group has established an internal control system in order to promote sound corporate culture in the Group as a whole and to enable employees to perform their duties effectively and efficiently without any misbehavior or mistakes. Having stipulated its basic policy on the internal control system in accordance with the Companies Act, each Group company is working on strengthening internal control.

In addition, in order to respond to the internal control report system pursuant to the Financial Instruments and Exchange Act, we are promoting reviews of business rules and the standardization of operations, checking whether operations have been effectively performed in accordance with the rules, and establishing a system to immediately put improvements in place should there be any shortcomings.

Internal control over the financial reporting of the Yamato Group as of March 31, 2018, was considered valid, and a report was submitted to the Kanto Local Finance Bureau.

#### ► Reinforcing the Whistle-Blower System

With regard to compliance violations by the Company, employees, directors, and other members, the Yamato Group ensures an appropriate framework related to whistle-blowing by having in place a contact point for the president, a contact point managed by the Compliance and Risk Committee, and a contact point managed by an outside attorney. The Company shall secure a framework in which employees who report on such violations are protected under whistle-blower regulations.

Furthermore, to promptly discover violations of laws, internal regulations, and other regulations and enact an appropriate response, the Company is moving forward with various operational improvements, including determining a specific whistle-blowing response process shared across the Group, in addition to establishing handling methods and risk assessment standards. Violations and responses to violations shall be regularly reported to the Compliance and Risk Committee and the Board of Directors.

## Business Continuity Plan (BCP)

As a corporate group that offers the *TA-Q-BIN* service as a part of social infrastructure, the Yamato Group has formulated a business continuity plan (BCP) to ensure that it can keep offering services in a steady manner even under unforeseeable circumstances. Based on the experience gained after the Great East Japan Earthquake and other disasters, we are anticipating various emergency scenarios in an effort to reinforce our crisis management system on a Groupwide basis.

We have also established the Yamato Group BCP Basic Policy, which is supported by the three pillars of giving the utmost priority to human life, aiming for the prompt recovery of operations at each Group company,

and meeting the expectations of local community members as a part of social infrastructure. Guided by this policy, we have determined various Groupwide standards and have created a wide range of manuals in accordance with the business continuity of each Group company.

Going forward, we will strengthen our response to dealing with damage from natural disasters such as earthquakes, for which damage is expected to be large in scale, and flooding caused by heavy rain and other factors. At the same time, we will promote extensive examinations of various risks that could impact our business continuity.

## Accountability

The Yamato Group considers the explanation of corporate and management data to shareholders, investors, and other stakeholders to be an important corporate governance issue and is committed to the speedy, accurate, and fair disclosure of information. Furthermore, the Group

has established the Disclosure Policy in order to disclose and manage information in a more appropriate manner and enhance the reliability of that information.

The main investor relations activities are listed below.

Item	Number of times	Content
Settlement of Accounts Meetings for analysts and institutional investors	4	The first-quarter meeting is held by telephone with the Chief Financial Officer. Meetings for the second, third, and fourth quarters are held with the president.
Visits by the president to investors in the United States, Europe, and Asia	1 or more per year to each region	The president or chairman makes regular overseas visits to investors in the United States, Europe, and Asia to explain management policies.
Small meetings with the president	2 per year	Creating regular opportunities for direct dialogue with management
Facility tours	2 or more per year	Creating regular opportunities to promote understanding of business operations
Website for investor relations materials	—	Financial results, news releases, securities reports, and quarterly reports; materials pertaining to settlement of accounts meetings, convocation notices for the ordinary general meeting of shareholders, notices of resolution, and disclosure of voting results. Publication of most important information in two languages—Japanese and English—so that information can be communicated to foreign investors.
Establishment of IR department	—	Responsible for developing IR strategies to initiate dialogue with shareholders and other investors and disclosing information

## Directors

As of January 31, 2019



### Makoto Kigawa

Director and Chairman

Apr. 1973 Joined the Fuji Bank, Limited  
 Apr. 2004 Managing Director, Chief Risk Officer / Head of Risk Management Group, and Chief Human Resources Officer / Head of Human Resources Group of Mizuho Corporate Bank, Ltd.  
 Apr. 2005 Joined the Company  
 Jun. 2005 Managing Director  
 Nov. 2005 Representative Managing Director  
 Apr. 2006 Representative Director and Managing Executive Officer  
 Jun. 2006 Representative Director and Senior Managing Executive Officer  
 Mar. 2007 Representative Director and Executive Officer  
 Mar. 2007 Representative Director, President and Executive Officer of Yamato Transport Co., Ltd.  
 Jun. 2008 Director and Executive Officer of the Company  
 Apr. 2011 Representative Director, President and Executive Officer  
 Apr. 2015 Representative Director and Chairman  
 Apr. 2018 Director and Chairman (current)



### Masaki Yamauchi

Representative Director,  
President and Executive Officer

Apr. 1984 Joined the Company  
 Apr. 2005 Executive Officer  
 Apr. 2005 President, Tokyo Regional Office  
 Nov. 2005 Executive Officer of Yamato Transport Co., Ltd.  
 Nov. 2005 General Manager of Human Resources and Administration  
 Mar. 2007 Executive Officer of the Company  
 Mar. 2007 Responsible for Human Resources Strategy  
 May 2007 Responsible for Management Strategy  
 Apr. 2008 Representative Director, President and Executive Officer of Yamato Logistics Co., Ltd.  
 Apr. 2011 Representative Director, President and Executive Officer of Yamato Transport Co., Ltd.  
 Jun. 2011 Director and Executive Officer of the Company  
 Apr. 2015 Representative Director, President and Executive Officer (current)



### Haruo Kanda

Representative Director,  
Vice President and Executive Officer

Jan. 1985 Joined the Company  
 Apr. 2004 General Manager of Human Resources  
 Aug. 2005 Executive Officer  
 Nov. 2005 Executive Officer of Yamato Transport Co., Ltd.  
 Jul. 2006 Managing Executive Officer  
 Apr. 2008 Managing Executive Officer of the Company  
 Jun. 2008 Representative Director and Managing Executive Officer  
 Apr. 2013 Representative Director and Senior Managing Executive Officer  
 Apr. 2014 Responsible for Human Resources Strategy, Network Strategy, Legal Affairs, CSR Strategy and Audit  
 Apr. 2015 Representative Director, Vice President and Executive Officer (current)



### Kenichi Shibasaki

Director,  
Senior Managing Executive Officer

Apr. 1980 Joined the Company  
 Jun. 1997 Regional Branch Manager of Saitama Regional Branch  
 Jun. 1999 General Manager of Education Division  
 Apr. 2003 General Manager of Operation Division  
 Feb. 2006 Representative Director, President and Executive Officer of Yamato Financial Co., Ltd.  
 Apr. 2006 Executive Officer of the Company  
 Apr. 2012 Managing Executive Officer  
 Apr. 2016 Senior Managing Executive Officer (current)  
 Apr. 2017 Responsible for Financing Strategy and Coordinator-General of Investor Relations Strategy (current)  
 Jun. 2018 Director, Senior Managing Executive Officer (current)



### Yutaka Nagao

Director,  
Executive Officer

Apr. 1988 Joined the Company  
 Apr. 2004 Regional Branch Manager of Yamaguchi Regional Branch  
 Apr. 2006 Regional Branch Manager of Saitama Regional Branch of Yamato Transport Co., Ltd.  
 Apr. 2009 General Manager of TSS Sales Promotion Office  
 Apr. 2010 Executive Officer and President of Kanto Regional Office  
 Apr. 2013 Managing Executive Officer  
 Apr. 2015 Executive Officer of the Company  
 Apr. 2015 Representative Director, President and Executive Officer of Yamato Transport Co., Ltd. (current)  
 Jun. 2017 Director and Executive Officer of the Company (current)



## Toshitaka Hagiwara

Outside Director

Dec. 1969 Joined Komatsu Ltd.  
 Jun. 1990 Director  
 Jun. 1995 Managing Director  
 Jun. 1997 Executive Managing Director  
 Jun. 1999 Executive Vice President  
 Jun. 2003 Chairman and Representative Director of the Board  
 Jun. 2007 Councilor and Senior Adviser  
 Jun. 2009 Director of the Company (current)  
 Jul. 2011 Senior Adviser of Komatsu Ltd.  
 Jul. 2013 Adviser (current)



## Masakatsu Mori

Outside Director

Apr. 1969 Joined Arthur Andersen & Co. (currently: Accenture Japan Ltd)  
 May 1972 Qualified as Certified Public Accountant  
 Sep. 1981 Partner (business partner) of Arthur Andersen & Co. (currently: Accenture Japan Ltd)  
 Feb. 1989 President of Andersen Consulting (currently: Accenture Japan Ltd)  
 Board Member of Andersen Consulting (Global) (currently: Accenture)  
 Apr. 2003 Representative Director and Chairman of Accenture Japan Ltd  
 Sep. 2007 Corporate Advisor of Accenture Japan Ltd  
 Oct. 2009 President of the International University of Japan (IUJ)  
 Apr. 2013 Senior Advisor of IUJ  
 Jun. 2013 Director of the Company (current)  
 Nov. 2013 Vice Chairman of IUJ  
 Apr. 2018 Senior Advisor of IUJ (current)



## Mariko Tokuno

Outside Director

Jan. 1994 Joined Louis Vuitton Japan KK  
 Apr. 2002 Senior Director for Sales Administration  
 Mar. 2004 Vice President of Tiffany & Co. Japan Inc.  
 Aug. 2010 Representative Director and President of Christian Dior Japan KK  
 Sep. 2013 Representative Director, President and CEO of Ferragamo Japan KK  
 Jun. 2017 Director of the Company (current)



## Yoichi Kobayashi

Outside Director

Apr. 1973 Joined ITOCHU Corporation  
 Jun. 2004 Executive Officer  
 Apr. 2006 Managing Executive Officer  
 Jun. 2006 Representative Executive Managing Director  
 Apr. 2008 Representative Senior Managing Director  
 Apr. 2011 Representative Director and Executive Vice President  
 Apr. 2015 Senior Advisor  
 Apr. 2016 Vice Chairman (current)  
 Jun. 2018 Outside Director of the Company (current)

# Audit & Supervisory Board Members

As of January 31, 2019



## Etsuo Ogawa

Full-time Audit & Supervisory Board Member

- Nov. 1973 Joined the Company
- Jun. 2002 President, Chugoku Branch
- Jun. 2003 Director
- Apr. 2004 Responsible for Financing and Accounting
- Jun. 2004 Director and Managing Executive Officer
- Jun. 2005 Managing Executive Officer
- Oct. 2005 Representative Director, President and Executive Officer of Yamato Logistics Co., Ltd.
- Apr. 2008 Director and Chairman of the Board of Yamato Logistics Co., Ltd.
- Jun. 2009 Audit & Supervisory Board Member of Yamato Home Convenience Co., Ltd.
- Jun. 2014 Audit & Supervisory Board Member of Yamato Transport Co., Ltd.
- Jun. 2015 Full-time Audit & Supervisory Board Member of the Company (current)



## Mamoru Matsuno

Full-time Audit & Supervisory Board Member

- Apr. 1981 Joined the Company
- Jun. 2000 Manager of Audit Section No. 1 of Audit Division
- Jun. 2002 Manager of Audit Section of Audit Division
- Jul. 2006 Audit Function Manager
- Apr. 2012 Audit Function Senior Manager
- Apr. 2018 Attached to the President
- Jun. 2018 Full-time Audit & Supervisory Board Member (current)



## Hiroyuki Kanae

Outside Audit & Supervisory Board Member

- Apr. 1979 Licensed and registered as an attorney at law (Bengoshi) at Daini Tokyo Bar Association
- Sep. 1987 Coudert Brothers LLP (New York)
- Jul. 1988 Licensed and registered as an attorney at law in the State of New York
- Sep. 1988 Joined Nishi, Tanaka & Takahashi Law Office
- Apr. 1992 Partner of Nishi, Tanaka & Takahashi Law Office
- May 2001 Joined Shin-Tokyo Law Office as partner
- Oct. 2007 Through the consolidation of law offices, name change to Bingham McCutchen Murase, Sakai Mimura Aizawa, Foreign Law Joint Enterprise (Partner)
- Jun. 2012 Outside Audit & Supervisory Board Member of the Company (current)
- Apr. 2015 Through the consolidation of law offices, name change to Anderson Mori & Tomotsune LPC (Partner) (current)



## Takashi Yamashita

Outside Audit & Supervisory Board Member

- Oct. 1983 Joined Asahi Accounting Company
- Mar. 1987 Registered as a Certified Public Accountant
- May 2003 Representative Partner of Asahi & Co. (currently: KPMG AZSA LLC)
- Aug. 2014 Established Takashi Yamashita CPA Office, Representative (current)
- Jan. 2015 Registered as a Certified Tax Accountant
- Jun. 2017 Outside Audit & Supervisory Board Member of the Company (current)



# Executive Officers

As of January 31, 2019



## Kenji Minaki

Executive Officer and Vice President  
Global Business in Charge, President,  
Yamato (China) Co., Ltd.



## Hideo Tanzawa

Managing Executive Officer  
Responsible for Public Relations Strategy,  
Business Strategy, Tokyo Olympic and  
Paralympic Promotion



## Shinji Makiura

Managing Executive Officer  
Responsible for Corporate Strategy and  
Yamato Digital Innovation Center



## Tomoki Otani

Managing Executive Officer  
Responsible for Human Resources  
Strategy and Work Style Reform



## Seichi Awa

Managing Executive Officer  
Responsible for General Affairs, CSR, and  
Internal Audit



## Katsuhiko Umetsu

Senior Executive Officer  
Director and Chairman, Yamato Global  
Logistics Japan Co., Ltd.  
Responsible for Global Strategic Planning  
and Development, Group Cold Chain  
Platform Development



## Atsushi Kashimoto

Senior Executive Officer  
Responsible for Investor Relations Strategy



## Yoshihiko Hoshino

Executive Officer  
Representative Director and President,  
Yamato System Development Co., Ltd.



## Tetsuya Egashira

Executive Officer  
Representative Director and President,  
Yamato Autoworks Co., Ltd.



## Naomi Ogata

Executive Officer  
Representative Director and President,  
Yamato Financial Co., Ltd.



## Makoto Wada

Executive Officer  
Representative Director and President,  
Yamato Home Convenience Co., Ltd.



## Tsutomu Sasaki

Executive Officer  
Representative Director and President,  
Yamato Logistics Co., Ltd.



## Richard Chua Khing Seng

Executive Officer  
Chairman and Director, Yamato Asia Pte. Ltd.  
Responsible for M&A Collaboration,  
Partnership



## Yorimasa Tanaka

Executive Officer  
Responsible for Technology Strategy



## Ryutarō Narui

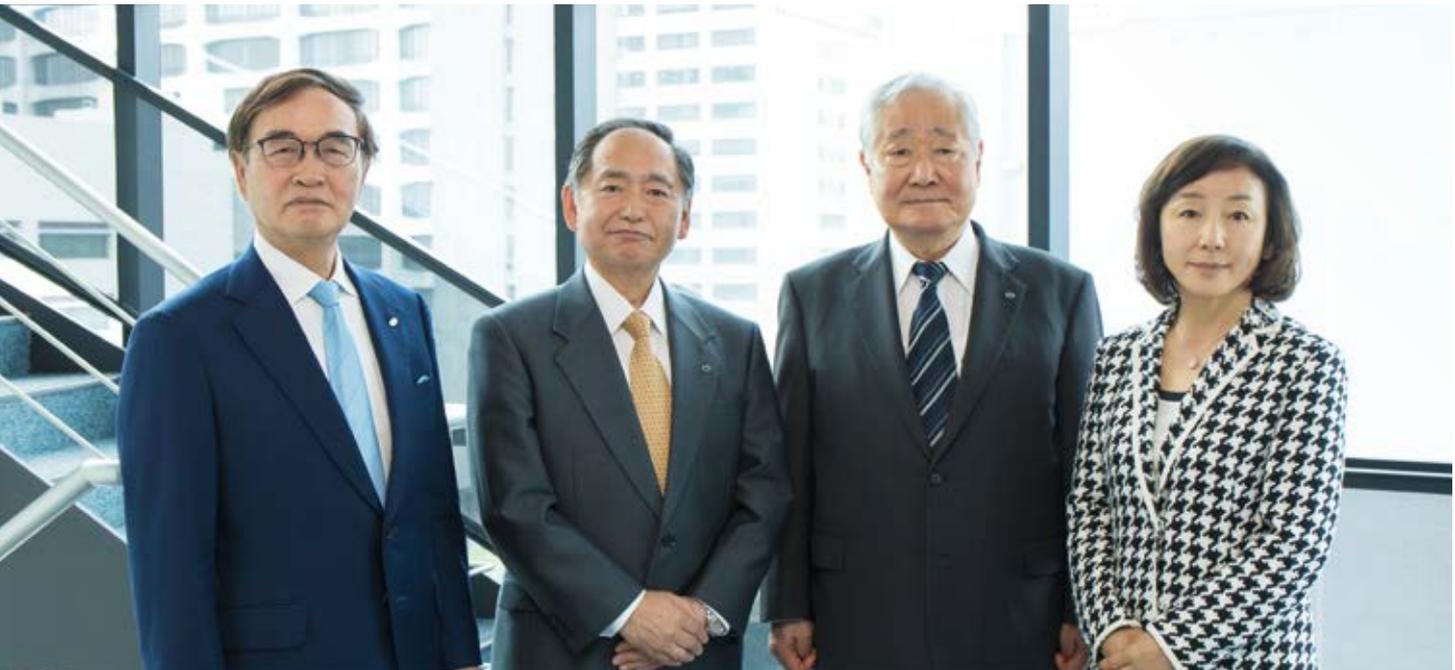
Executive Officer  
Responsible for Planning and  
Management of Strategic Alliance



## Hiroyuki Yasuda

Executive Officer  
Responsible for Legal Affairs

## Discussion between the Outside Directors and Chairman on Corporate Governance



**Masakatsu Mori** Outside Director

**Makoto Kigawa** Director and Chairman

**Toshitaka Hagiwara** Outside Director

**Mariko Tokuno** Outside Director

## Realizing Sustainable Growth for the Next 100 Years

In June 2018, a discussion was held between outside directors Toshitaka Hagiwara, Masakatsu Mori, and Mariko Tokuno and the Company's chairman Makoto Kigawa. These four participants exchanged opinions regarding a variety of topics, including the decision-making process behind moving forward from "DAN-TOTSU Management Plan 2019" to "KAIKAKU 2019 for NEXT100," the steps necessary for the Company to improve corporate value in a sustainable manner over the next 100 years, and the effectiveness of the Board of Directors, which holds discussions and makes decisions pertaining to these matters, as well as the issues facing the Board.

### Decisions of the Board of Directors to Address the Rapidly Changing Business Environment

#### Promoting Adequate Pricing Initiatives to Maintain Social Infrastructure

**Kigawa** We have been fortunate enough to celebrate the 43rd year since the start of *TA-Q-BIN* in 1976. Over this long history, 2017 represented a year in which the Yamato Group reached a major turning point. The e-commerce market, which we hoped would help us realize further growth, expanded at a rate that far exceeded our expectations, and we were unable to keep up in terms of establishing an operational structure in response to this expansion. As a result, a heavy burden was placed on our sales drivers and other employees working on

the front lines. These circumstances provided us with the impetus to pursue dramatic reforms under "KAIKAKU 2019 for NEXT100." I would like to ask the outside directors to provide their candid opinion regarding the conditions of the Group and the decision-making by the Board of Directors leading up to "KAIKAKU 2019 for NEXT100."

**Hagiwara** I have been an outside director of the Company since 2009. Regardless of the various changes that have occurred over the years, the Company has continued to provide high-quality services based on an understanding of its role as a part of social infrastructure, while also making



Companywide efforts to maintain its low rates. However, due to the particularly remarkable changes in recent years, such as the rapid increase in delivery volumes and severe personnel shortages, the Company has not only struggled to generate a sufficient amount of profits, but has also been unable to respond to its current shipping volumes. While it is important for the Yamato Group to be aware of its role as a part of social infrastructure, that awareness is meaningless if it is unable to fulfill that role and function. In light of this situation, I stated my opinion that the Company should take the lead over its competitors in promoting adequate pricing initiatives. I also emphasized the need for the Company to temporarily contain its delivery volumes. As an outside director, I have strongly encouraged the Company to gain an understanding of its customers and other stakeholders by properly explaining its current business conditions and maintaining full accountability.

**Mori** Throughout the decision-making process leading up to these reforms, I consistently placed emphasis on ensuring that the Group, as a corporate group that makes up a part of social infrastructure, does not engage in any action that would halt the flow of goods. I specifically focused on helping the Group make management decisions that were meaningful for both itself and society as a whole. A corporation needs to maintain a cycle in which it generates an appropriate level of profit and invests that profit toward further growth. If a corporation is unable to maintain such a cycle, it will fail. Recently, Yamato has requested the understanding of both its individual and corporate clients regarding fee revisions. In particular, the Company has begun negotiating with customers that have been making use of services at discounted rates, even preparing for an outcome in which these customers discontinue the use of such services. With a year gone by since these decisions were made, I believe they were the right course of action to take.

Also, what makes me especially happy as an outside director is that these decisions gained the understanding of society. Starting with the media, the overall reception of these decisions was positive, and I believe this underscores the fact that the

Yamato Group is truly working in behalf of society. This is precisely why I feel the fee revisions made by the Company were accepted so positively.

**Tokuno** I was appointed as an outside director of the Company exactly one year ago. At the time, news reports on Japan's home delivery crisis had slowly started to taper off. Before becoming an outside director, I viewed the Yamato Group from the perspective of a consumer. What I found particularly surprising was that there was really no difference between my view of the Group before joining, which was based on my observations of the employees working on the front lines, and my view of the Group now as one of its members. I have gained a sense of the strong solidarity among the sales drivers. I believe this sense of solidarity comes from the fact that these drivers place fulfilling their social mission as the precedent for their work. I previously worked at a foreign-owned company, and to be honest I sometimes wonder if it is necessary for a private enterprise to place such a heavy social and public responsibility on itself. However, the Group's strong adherence to fulfilling its mission is what assures me that it will be able to overcome any difficulty it faces.

#### **Reforming Working Styles— Enhancing Employee Motivation and Productivity**

**Kigawa** As you all have stated, the Group's most important characteristics are its awareness of fulfilling its role as a part of social infrastructure and its adherence to realizing its mission. To maintain high levels of these characteristics, we are implementing a strategy that focuses our management on adequate pricing initiatives and working style reforms, which will boost our employees' overall level of satisfaction. We at the Group believe that we are playing a leading role in Japan with our pursuit of "Reforming Working Styles," but I would like to ask the outside directors on how you view these reforms.

**Mori** I feel that the most important issue to address in "Reforming Working Styles" is improving productivity. While



## Discussion between the Outside Directors and Chairman on Corporate Governance



there are many methods to do this, including the use of IT and automation, the true key to boosting productivity lies in the motivation of each employee. Employee productivity can change significantly depending on their level of motivation. Simply reducing working hours leads to a decline in morale, which consequently lowers productivity as well. If the Group does not implement working style reforms in a well-balanced manner, then it will become a slow-moving company with low levels of productivity and will eventually lose out against the competition. I believe that close communication between the Company's management and its employees is crucial for improving productivity while maintaining high levels of employee motivation.

**Hagiwara** From the standpoint of productivity, the Group has taken steps to revise its service specifications as part of its efforts under "Reforming Working Styles," and I think this move has provided both the Group and its customers with a major realization. The Group has realized that it can increase productivity by shifting away from its conventional approach of providing services to all its customers in a uniform manner to

establishing choices for service specifications and changing working styles accordingly. Customers have renewed their awareness that home delivery services are not free of charge and their operation requires time and money. Going forward, the Group needs to promote efforts that provide mutual benefit to itself and its customers through a trial-and-error process, including the expansion of contact points with customers such as parcel lockers.

**Tokuno** Customers want to be able to select service specifications that meet their individual lifestyles. Therefore, allowing them to do so is a significant initiative for the Group. In addition, I strongly believe that the value provided by the service industry in Japan has yet to receive the praise it deserves. I will be very interested to see how the Group's efforts under "Reforming Working Styles" will impact and contribute to Japanese society as a whole.

**Kigawa** In 2017, the Group began taking action to establish a new operational structure that will allow it to continue to function as a part of social infrastructure. At the same time, we started to pursue structural reforms to ensure that we can continue to grow while securing appropriate levels of profit. Under the deflation-oriented economy in Japan several years ago, these kinds of continuous reforms would not have been accepted by society. However, if we delayed our efforts to carry out these reforms any further, we certainly would have fallen far behind the changing business environment by now. I therefore believe that we made the managerial decision to implement these reforms at the appropriate time.

Also, as Mr. Mori mentioned, we were extremely encouraged by the fact that the media, society, and, above all else, our customers were so accepting of the Group's new approach. While there are plenty of issues we still need to address, I believe we have been making solid progress in the right direction.

### Improving the Effectiveness of the Board of Directors

**Kigawa** Next, I would like to ask all of you about your evaluation regarding the effectiveness of the Board of Directors. Coming from the executive side of things, I believe that the most important thing for all members involved in the Company's business execution is to never be satisfied with the status quo and to constantly maintain an appropriate sense of crisis. As we use this sense of crisis to carefully consider our next move, the outside directors question us on whether our actions are sufficient enough. This process leads to thorough and meaningful debate. I believe that the opinions and suggestions we receive from the outside directors on a daily basis help us sharpen our awareness of the next issue we need to tackle.

**Mori** What I pay the closest attention to from the perspective of effectiveness is whether or not appropriate authority is devolved to the executive side. The Board of Directors is the highest decision-making body of the Company. The Board firmly decides on the major direction of management and the executive side is responsible for taking action to pursue this direction. If decision-making is entrusted 100% to the Board of Directors, the speed of the Company's business execution will decline. As an outside director, I therefore place my focus on determining if the executive side is operating at a high speed with an appropriate level of authority.

**Hagiwara** I have been a member of the Board of Directors for nine years now, and I feel that the effectiveness of the Board has improved over this time. Personally, I have always made sure to question the actions made on the executive side.

Of course, there are still issues that need to be addressed. While the front lines operate in a swift manner, the management level needs to accelerate the PDCA cycle when it comes to the implementation of important strategies. The greater the importance of a strategic theme, the greater the need for a detailed plan that addresses that theme. The Board needs to closely monitor the status of progress and issues regarding such plans and analyze the relevant circumstances at times when a plan's goals are not met. The Board also needs to promptly engage in discussion related to the next step of a plan. By doing so, I believe the Board can further enhance its effectiveness.

**Tokuno** The discussions held at Board of Directors meetings are extremely lively. However, there are certain times when discussions become too one-sided. As outside directors with a wide range of experience in various fields, we expect the actions of the Board to be carried out at a high level, and to this end we ask numerous questions and provide guidance. Sometimes, our approach to Board meetings can cause those on the executive side to become rather passive. However, it is important for the executive side to be exposed to various ways of thinking and for opposing opinions to be voiced internally, as this will enable more meaningful discussions. Accelerating the pace of decision-making is an issue of focus, but I feel it is also necessary to make discussions more in-depth for both the supervising side and the executive side.

**Kigawa** The Company's Board of Directors maintains a strong sense of urgency. Certain things we could only see from one angle in the past are now seen from a variety of perspectives thanks to having outside members join the Board. This keeps us constantly aware of new outlooks and issues. We will continue to view the speed of decision-making and in-depth discussions as important issues going forward. We have our outside directors participate in a variety of other meetings and events aside from Board of Directors meetings, which may mean that we place a greater burden on them than other companies. However, we strongly believe that doing so will help us improve the soundness and effectiveness of our corporate governance.

**Hagiwara** We periodically visit Company offices and have discussions with those working on the front lines, and that certainly requires a large investment of time. With that said, such visits allow us to gain a clearer understanding of the actual conditions of the Group than solely from the explanations provided before Board meetings. In addition, while

Yamato Holdings is a company with an Audit & Supervisory Board, it has voluntarily established a Nomination and Compensation Committee. In examining new management structures and the appointment of personnel, the Group has created opportunities for all members of the executive side to come together at least once a year to spend two days engaging in open discussion on various themes.

**Mori** I am truly grateful for the range of opportunities to visit the front lines and meet a variety of people. Such efforts by the Company are extremely helpful in allowing me to fulfill my duties as an outside director.

**Tokuno** Based on my experience with the Company, the other companies I am involved with have introduced meetings between outside directors and the managerial candidates who alone are not enough to base our decisions on. Accordingly, I view the Company's efforts to have the outside directors be active in a variety of settings as an example for other companies to follow.

**Kigawa** Thank you all very much for the opinions you have offered us today. They will play a major part in invigorating and supporting the Company going forward.

The Yamato Group is currently entering into a period of dramatic change. In light of these circumstances, the Group's management began to undertake major challenges in the fiscal year ended March 31, 2018. At the moment, our pursuit of these challenges is going as planned overall, but the true test is still in front of us. To engage in lively discussion and make appropriate decisions that will help us improve corporate value over the next 100 years starting from 2020, we ask that our outside directors continue to provide us with a variety of candid opinions.

Note: At the 153rd Ordinary General Meeting of Shareholders, which was held after this discussion, the Company decided to increase the number of outside directors to four (appointing one new director), thereby further enhancing its governance.





Society

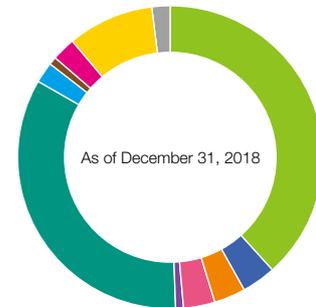
## Promotion of CSV in Cooperation with Local Communities

The Yamato Group aims to become the “company most loved and trusted by society.” Based on the concept of Creating Shared Value (CSV), which involves realizing both economic and social value as a company while addressing the needs of customers and local communities, the Group is collaborating with local governments in such efforts as supporting watch-over services for the elderly, promoting tourism, and helping expand sales channels for local products.

Number of Project G Solutions: **953** (As of December 31, 2018)

### Breakdown of the 373 Project Agreements with Local Governments

Watch-over support	143	Hometown tax payments	9
Shopping support services	14	Environmental conservation	3
Product support services	12	Combined passenger-cargo operations using buses	9
Tourism promotion support	13	Comprehensive support	34
Event support	3	Other	7
Disaster relief support	126		



### Providing Day-To-Day Support Utilizing Locations in the Community

Amid the declining birthrate and aging population, the population in Japan is centralizing in certain urban areas while thinning out in regional communities. In such communities, it is anticipated that community members will face various lifestyle-related issues going forward due to the rapid progression of the aging population. On April 28, 2016, the Yamato Group launched the lifestyle support service *Nekosapo* with the aim of enriching the lives of people living in Tokyo's Tama New Town area.

At *Nekosapo* Stations, which have been set up within housing complexes, we communicate local information and hold exchange events in an effort to revitalize the community. In addition, we are collaborating with the local government and private companies to offer a wide range of lifestyle-related services, including taking care of housework and shopping needs on behalf of local community members. We also offer a consolidated delivery service that includes delivering parcels of other providers so that residents can receive all their parcels at the same time.

To ensure that our efforts to invigorate the community around Tama New Town become a prototype for urban revitalization in the future, we will work in collaboration with the Urban Renaissance Agency, the city of Tama, and members of local communities to promote new efforts going forward.

### Pursuing Initiatives for Combined Passenger-Cargo Operations

Yamato Transport is collaborating with local governments and bus and railway companies to promote combined passenger-cargo operations, which involve moving passengers and parcels at the same time. By doing so, Yamato is helping to maintain bus and railway networks in hilly and mountainous areas where the population is substantially declining and aging, and improve lifestyle-related services for local community members through more-efficient logistics.

### Merits of Combined Passenger-Cargo Operations

#### Regional Customers

For regional customers, combined passenger-cargo operations help maintain and stabilize public transportation in underpopulated

areas, allowing access to various public facilities such as hospitals and supermarkets. In this way, combined passenger-cargo operations help reinforce lifestyle support services in these areas. These operations also increase the amount of time our sales drivers spend in local communities, thereby further enhancing the convenience of our *TA-Q-BIN* services in such ways as enabling customers to extend parcel pickup deadlines. Furthermore, combined passenger-cargo operations help improve traffic safety and benefit the environment by reducing the number of vehicles driven in local communities.

#### Bus and Railway Companies

By transporting *TA-Q-BIN* in areas not occupied by passengers, bus and railway operators can improve productivity and secure new sources of revenue to help maintain routes.

#### Promoting “Hands-Free Travel” through Japan’s First Tourism-Oriented Combined Passenger-Cargo Operations

Beppu City in Oita Prefecture is widely known among Japanese and overseas visitors alike as being home to one of the highest number of hot springs in Japan, making it a highly visited tourist spot. However, due to a lack of coin lockers for storing luggage, among other circumstances, tourists have had trouble moving around the city as they often have to carry their luggage with them.



To resolve this issue, Yamato Transport collaborated with Oita Transportation Co., Ltd. and Oita Air Terminal Co., Ltd. to commence Japan's first tourism-oriented combined passenger-cargo operations in April 2018. By transporting luggage from Oita Airport to Yamato Transport's Oita base using an airport limousine bus, luggage can be delivered to hotel facilities throughout Beppu City and the central area of Oita City on the day of arrival, allowing tourists to move around freely without any luggage soon after they arrive.

Going forward, these three companies will look at extending luggage receipt times and expanding the coverage area, thereby further enhancing this service and revitalizing local communities.

Please visit Yamato Transport's corporate website for specific examples of its ongoing initiatives.  
<http://www.kuronekoyamato.co.jp/yt/government/> (in Japanese only)



# Safety Measures to Support Business Continuity

The Yamato Group deems community streets and roads as the places to carry out its business activities. Based on our corporate stance of thorough safety management that places respect for human life as its top priority, the Group thoroughly adheres to its philosophy of placing safety first and business second to position respect for human life as a priority at all times.

## Safety Management Disclosure Information

With ensuring the safety of transport business operators as its goal, the Yamato Group has built up a transport safety management system, based on the Transport Safety Management System stipulated by the Ministry of Land, Infrastructure, Transport and Tourism, and remains actively involved in its implementation. Results for the fiscal year ended March 31, 2018, and part of the goals for the fiscal year ending March 31, 2019, are listed below.

### Transport Safety Goals and Achievement Status (The Yamato Group)

#### Traffic Accidents

Item	2016/3 (Results)	2017/3 (Results)	2018/3 (Results)	2019/3 (Targets)
No. of serious traffic accidents*1	7	4	4	0
No. of serious work-related accidents*2	0	0	1	0

Note: \*1 and \*2 are defined as follows

\*1 Deaths from traffic accidents (including accidents where driver was not at fault)

\*2 Deaths from disasters

Reference: Yamato Transport's publicly disclosed "Transport Safety Management" information (in Japanese only)  
[http://www.kuronekoyamato.co.jp/ytc/corporate/pdf/csr/anzen\\_management.pdf](http://www.kuronekoyamato.co.jp/ytc/corporate/pdf/csr/anzen_management.pdf)

## Safety Management Structure

Based on the Yamato Group's Safety Management Regulations, each Group company has established a safety management structure.

Guided by the leadership of its top management, the Group has set up an organizational management structure involving collaboration between those on the transportation front lines and those in administrative divisions, in order to enhance the effectiveness of its transportation safety management.

Also, in regard to important information on such matters as serious transportation-related accidents, the Group maintains a framework for sharing such information with Yamato Holdings, which oversees the Group, in an effort to promote transportation safety on a Groupwide level.

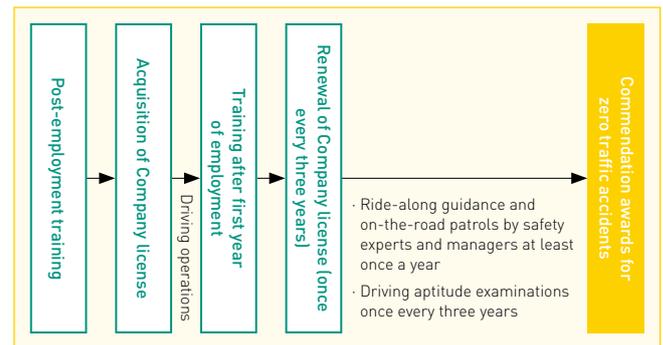
## Driver Aptitude Examination

Automotive transportation operators are required to have their drivers take an aptitude examination that is recognized by the Ministry of Land, Infrastructure, Transport and Tourism. The drivers of the Yamato Group undergo driver aptitude examinations on a timely basis. These examinations consist of two types: mandatory examinations, which include post-employment examinations, age suitability examinations, and specific examinations; and voluntary examinations, which include general examinations. In addition to the mandatory examinations, Group drivers take voluntary examinations once every three years to ensure safe driving.

## Training of Sales Drivers

To develop excellent drivers who strictly practice safe driving, the Group provides them with detailed guidance on a daily basis. Yamato Transport drivers hired following a rigorous aptitude test receive training upon joining the Company that includes safety training and other forms of training for approximately one month. After acquiring their Company license, they are able to engage in driving operations for the first time. Even after that, they continue to hone their driving skills through training sessions one year after joining, regular ride-along guidance and on-the-road patrols by safety experts and managers, and a driving aptitude examination once every three years.

### Outline of Internal Education



## Safety Expert System (Yamato Transport)

Yamato Transport introduced the Safety Expert System in 1974. Since then, this system has helped the company continue to steadily support safety and provided the foundation for its safety strategy.

Safety experts are assigned to each regional branch and specialize in safety measures. As of April 2018, Yamato Transport employed 325 safety experts. In addition to making rounds between their designated areas, these safety experts work on a daily basis to ensure strict compliance with laws and regulations, improve the abilities of individual drivers, and thoroughly prevent traffic and work-related accidents.

The Safety Expert System and related systems have been established at other Group companies aside from Yamato Transport. Please refer to our ESG-related data for the number of safety experts at each company.

<http://yamato-hd.co.jp/english/csr/esg/performance.html>

For more detailed information, please see the CSR section of the corporate website.  
<http://www.yamato-hd.co.jp/english/csr/index.html>



Environment

# Environmental Measures for Realizing a Sustainable Society

The Yamato Group recognizes climate change, air pollution, depletion of resources, and loss of biodiversity as important issues to address in order to realize a sustainable society, and is working to enhance its environmental efforts.

## CO<sub>2</sub> Emissions Targets and Results

The Yamato Group has formulated targets for mitigating CO<sub>2</sub> emissions, which serve as concrete environmental goals.

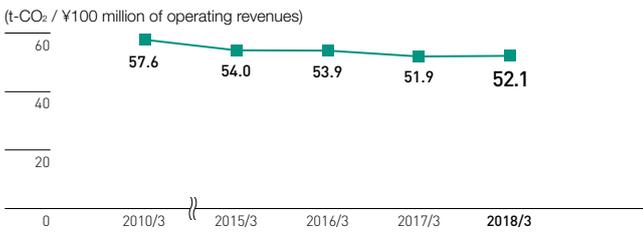
### CO<sub>2</sub> Emissions Targets for 2019

Reduce CO<sub>2</sub> emissions per unit (t-CO<sub>2</sub> / ¥100 million of operating revenues) by 10% by the fiscal year ending March 31, 2020 (compared with the fiscal year ended March 31, 2010).

### Results for the Fiscal Year Ended March 2018

	2010/3 (Base year)	2018/3 (Results)	Comparative change
CO <sub>2</sub> emissions per unit (t-CO <sub>2</sub> / ¥100 million of operating revenues)	57.6	52.1	-10% (target reached)

### Trend in CO<sub>2</sub> emissions per unit



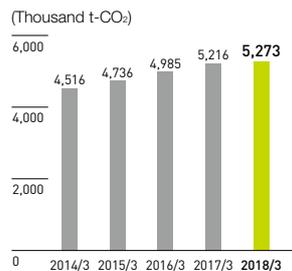
## Initiatives to Address Climate Change

Climate change is one of the highest priority issues facing international society. The Yamato Group believes that climate change can lead to an increase in areas where it would be difficult to sustain the TA-Q-BIN business. This increase stems from higher costs related to stricter environmental regulations on facilities, vehicles, and fuel as well as the effects of abnormal weather. Under the “eco in transport” and “eco in facilities” sections of its statement on environmental protection policies, the Group is introducing low-emission vehicles and utilizing hand-pushed trolleys for pickup and delivery. The Group is also promoting other energy conservation efforts and working to mitigate climate change risks, thereby enhancing the continuity of its services. Furthermore, the Group is focused on switching to low-emission vehicles and other similar efforts, which it views as important measures for controlling air pollution.



Electric bicycle with attached rear car

### Trend in Number of Electrically Power Assisted Bicycles



## Introduction of Low-Carbon Pickup and Delivery and Low-Carbon Vehicles

To the best of its ability, Yamato Transport has been providing pickup and delivery services to urban and densely populated residential areas without using vehicles. In addition, Yamato Transport is also continuing its shift toward low-emission vehicles. For instance, 128 electric vehicles were in use as of March 2018.

## Greater Trunk-Route Transportation Efficiency

To provide more efficient trunk-route transportation to major cities, Yamato Transport has introduced the Super-Full Trailer 25 (a 25 meter long connected trailer) for the first time ever in Japan, and commenced its operations between *Atsugi Gateway*, *Chubu Gateway*, and *Kansai Gateway*. Through such methods, we are working to enhance the efficiency of trunk-route transportation and reduce CO<sub>2</sub> emissions.



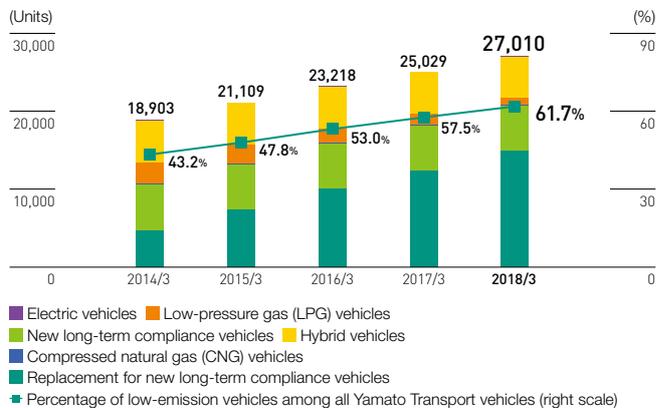
Super-Full Trailer 25

## Services That Contribute to Lower Carbon

The reduction of redeliveries within our TA-Q-BIN business is not only related to the provision of high-quality services that are tailored to meeting the schedules of our customers but is also directly linked to reducing CO<sub>2</sub> emissions. Yamato Transport has been making efforts to upgrade its services, such as the establishment of open-type parcel lockers\* and services for *Kuroneko Members*, to provide greater convenience to customers receiving packages, thereby increasing efficiency of deliveries and lowering CO<sub>2</sub> emissions.

\* Lockers established at 3,200 locations as of October 31, 2018

## Trend in Introduction of Low-Emission Vehicles (Yamato Transport Co., Ltd.)



For more detailed information, please see the CSR section of the corporate website.  
<http://www.yamato-hd.co.jp/english/csr/index.html>

## FINANCIAL SECTION

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## Ten-Year Summary and Business Highlights

	2009/3	2010/3	2011/3	2012/3	2013/3	2014/3	2015/3
<b>RESULTS OF OPERATIONS:</b>							
Operating revenues	¥1,251,922	¥1,200,834	¥1,236,520	¥1,260,833	¥1,282,374	¥1,374,610	¥1,396,708
Delivery	997,898	966,480	995,651	1,014,564	1,028,219	1,099,400	1,101,439
Non-delivery	254,024	234,354	240,869	246,269	254,155	275,210	295,269
Operating costs	1,167,764	1,110,971	1,143,006	1,163,777	1,181,834	1,274,471	1,290,715
Selling, general and administrative expenses	28,437	28,474	29,200	30,405	34,337	37,043	37,046
Operating profit	55,721	61,389	64,314	66,651	66,203	63,096	68,947
Profit before income taxes	48,996	60,434	61,836	45,817	64,284	65,882	69,158
Income taxes	23,349	28,096	28,491	26,059	29,563	31,003	31,555
Profit attributable to owners of parent	25,523	32,282	33,208	19,787	35,144	34,776	37,533

### PER SHARE OF COMMON STOCK:

Basic earnings	¥ 57.60	¥ 71.84	¥ 73.42	¥ 46.00	¥ 81.85	¥ 82.22	¥ 90.41
Diluted earnings	56.45	71.16	73.30	44.87	79.84	80.18	88.26
Cash dividends	22.00	22.00	22.00	22.00	23.00	24.00	25.00
Net assets per share	1,073.86	1,130.33	1,173.60	1,197.26	1,261.35	1,316.12	1,368.66
Stock price (closing), end of year	927	1,314	1,290	1,279	1,740	2,224	2,772

### FINANCIAL POSITION:

Working capital	¥ 159,937	¥ 165,890	¥ 185,922	¥ 182,111	¥ 186,868	¥ 179,999	¥ 209,172
Total shareholders' equity	475,815	512,910	515,602	514,996	534,451	551,379	565,521
Total assets	869,606	878,641	899,363	919,295	950,153	1,032,134	1,082,531
Capital expenditures	45,856	39,700	52,472	48,615	48,052	79,531	52,022
Depreciation and amortization	42,697	39,883	39,583	38,682	37,936	42,266	46,058
Net cash provided by operating activities	84,463	77,064	87,899	71,843	73,950	80,075	92,620

### KEY RATIOS:

Operating profit margin (%)	4.45	5.11	5.20	5.29	5.16	4.59	4.94
Net margin (%)	2.04	2.69	2.69	1.57	2.74	2.53	2.69
Return on assets (ROA) (%)	2.93	3.69	3.74	2.18	3.76	3.51	3.55
Return on equity (ROE) (%)	5.42	6.53	6.46	3.84	6.70	6.41	6.75
Current ratio (%)	158.00	159.82	170.34	164.50	162.39	151.82	158.59
Shareholders' equity ratio (%)	54.72	58.38	57.33	56.02	56.25	53.42	52.24
Assets turnover (Times)	1.44	1.37	1.39	1.39	1.37	1.39	1.32
Interest coverage ratio (Times)	58.57	88.35	73.71	90.52	108.36	153.41	173.45
Price earnings ratio (PER) (Times)	16.1	18.3	17.6	27.8	21.3	27.0	30.7
Price book-value ratio (PBR) (Times)	0.9	1.2	1.1	1.1	1.4	1.7	2.0

### NON-FINANCIAL DATA:

Number of employees	170,662	167,555	171,642	177,301	177,108	193,146	197,056
Full-time	82,601	82,395	83,427	84,293	84,422	87,279	88,247
Part-time	88,061	85,160	88,215	93,008	92,686	105,867	108,809
TA-Q-BIN delivery volume (Millions of parcels)	1,232	1,262	1,348	1,423	1,487	1,665	1,622
Unit price (Yen)	646	624	609	600	591	574	595
Kuroneko DM-Bin handling volume (Millions of units)	2,231	2,262	2,312	2,187	2,112	2,084	1,901
Unit price (Yen)	65	65	64	62	61	61	61

Foreign currency translation: U.S. dollar amounts have been translated, for convenience only, at the rate of ¥106.24 to U.S.\$1.

Note: On March 31, 2015, we ceased accepting items for Kuroneko Mail and from April 1 launched Kuroneko DM-Bin.

		Millions of Yen	Thousands of U.S. Dollars
2016/3	2017/3	2018/3	2018/3
¥1,416,413	¥1,466,852	<b>¥1,538,813</b>	<b>\$14,484,313</b>
1,111,867	1,151,028	<b>1,201,745</b>	<b>11,311,609</b>
304,546	315,824	<b>337,068</b>	<b>3,172,704</b>
1,306,200	1,385,492	<b>1,452,485</b>	<b>13,671,742</b>
41,673	46,475	<b>50,642</b>	<b>476,675</b>
68,540	34,885	<b>35,686</b>	<b>335,896</b>
68,079	33,038	<b>33,123</b>	<b>311,779</b>
28,415	14,673	<b>14,435</b>	<b>135,873</b>
39,425	18,054	<b>18,232</b>	<b>171,610</b>

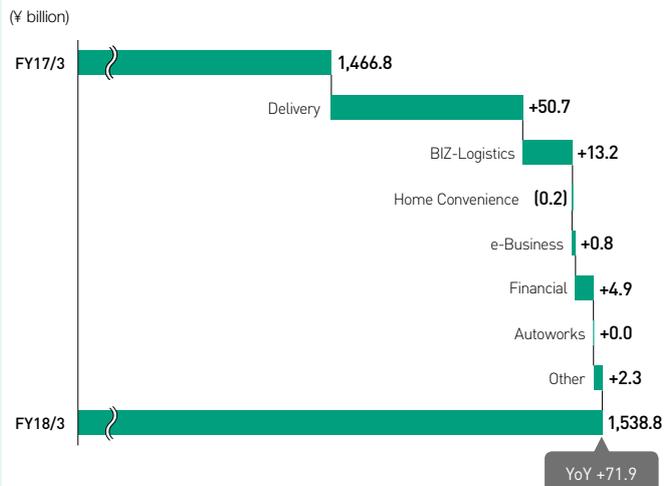
		Yen	U.S. Dollars				
¥	96.45	¥	45.37	¥	<b>46.24</b>	\$	<b>0.44</b>
	95.64		—		—		—
	28.00		27.00		<b>27.00</b>		<b>0.25</b>
	1,349.56		1,367.51		<b>1,395.74</b>		<b>13.14</b>
	2,247		2,332.5		<b>2,668.5</b>		—

		Millions of Yen	Thousands of U.S. Dollars				
¥	235,884	¥	214,661	¥	<b>183,844</b>	\$	<b>1,730,453</b>
	537,821		539,179		<b>550,308</b>		<b>5,179,852</b>
	1,089,437		1,114,672		<b>1,115,434</b>		<b>10,499,187</b>
	53,945		48,994		<b>54,482</b>		<b>512,821</b>
	46,739		46,114		<b>46,423</b>		<b>436,968</b>
	49,715		73,325		<b>51,728</b>		<b>486,899</b>

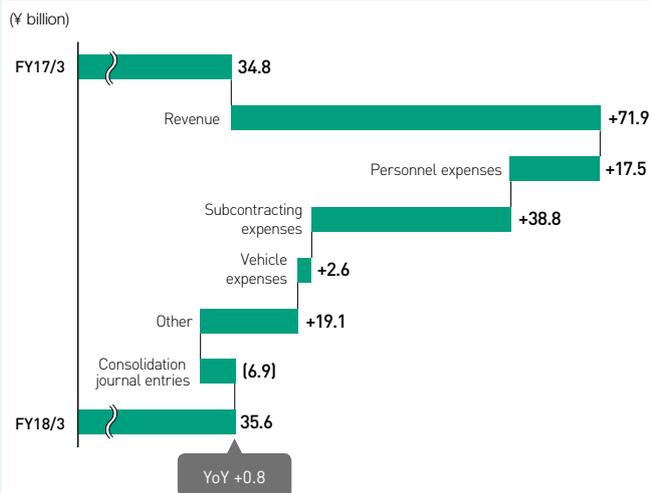
	4.84	2.38	<b>2.32</b>
	2.78	1.23	<b>1.18</b>
	3.63	1.64	<b>1.64</b>
	7.15	3.35	<b>3.35</b>
	167.76	157.73	<b>146.54</b>
	49.37	48.37	<b>49.34</b>
	1.30	1.33	<b>1.38</b>
	125.33	81.45	<b>131.94</b>
	23.3	51.4	<b>57.7</b>
	1.7	1.7	<b>1.9</b>

	196,582	201,784	<b>213,096</b>
	89,112	90,737	<b>93,534</b>
	107,470	111,047	<b>119,562</b>
	1,731	1,867	<b>1,836</b>
	578	559	<b>597</b>
	1,536	1,542	<b>1,464</b>
	57	55	<b>56</b>

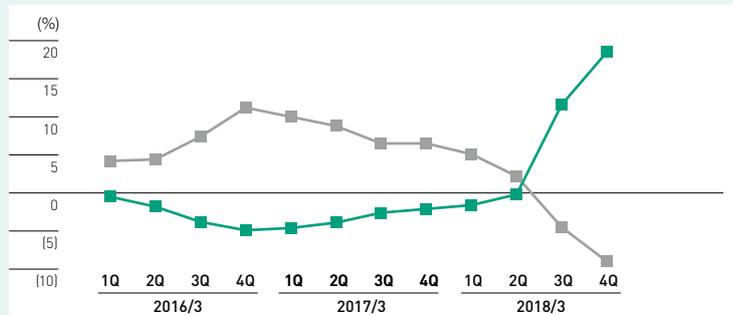
## Analysis of Operating Revenues



## Analysis of Operating Profit



## Quarterly YoY Growth Rates of TA-Q-BIN Delivery Volume and Unit Price



■ TA-Q-BIN Delivery Volume Growth Rate  
 ■ TA-Q-BIN Unit Price Growth Rate

Delivery Volume:  
YoY [1.7]%  
Unit Price:  
YoY +6.8%

# Consolidated Balance Sheet

March 31, 2018

ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2018	2017	2018
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents (Notes 2.d and 13)	¥ 204,422	¥ 230,129	\$ 1,924,157
Notes and accounts receivable (Note 13):			
Trade	224,099	208,131	2,109,367
Installment (Note 3)	46,693	46,142	439,504
Lease (Note 12)	52,642	50,777	495,498
Allowance for doubtful accounts	(1,365)	(1,283)	(12,849)
Inventories (Note 4)	2,816	2,775	26,505
Deferred tax assets (Note 11)	19,246	20,684	181,150
Prepaid expenses and other current assets	30,328	29,155	285,469
Total current assets	578,881	586,510	5,448,801
<b>PROPERTY, PLANT AND EQUIPMENT—At cost:</b>			
Land	174,960	178,621	1,646,836
Buildings and structures	336,986	341,134	3,171,934
Vehicles	197,587	194,073	1,859,819
Machinery and equipment	128,454	123,569	1,209,095
Leased assets (Note 12)	15,670	16,449	147,492
Construction in progress	16,201	11,749	152,492
Others	28,490	23,492	268,165
Total	898,348	889,087	8,455,833
Accumulated depreciation	(493,290)	(484,017)	(4,643,165)
Net property, plant and equipment	405,058	405,070	3,812,668
<b>INVESTMENTS AND OTHER ASSETS:</b>			
Investment securities (Notes 5 and 13)	36,232	32,588	341,038
Investments in and advances to unconsolidated subsidiaries and affiliates, net of valuation allowance of ¥127 million (\$1,193 thousand) in 2018 (Note 13)	25,293	22,086	238,079
Long-term loans	1,167	968	10,986
Software	17,260	18,149	162,459
Lease deposits	17,391	16,232	163,700
Deferred tax assets (Note 11)	28,341	26,643	266,760
Other assets (Notes 2.k and 8)	5,811	6,426	54,696
Total investments and other assets	131,495	123,092	1,237,718
<b>TOTAL</b>	<b>¥1,115,434</b>	<b>¥1,114,672</b>	<b>\$10,499,187</b>

See notes to consolidated financial statements.

LIABILITIES AND EQUITY	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2018	2017	2018
<b>CURRENT LIABILITIES:</b>			
Short-term bank loans (Notes 7 and 13)	¥ 33,352	¥ 20,098	\$ 313,935
Current portion of long-term debt (Notes 7, 13 and 14)	45,840	43,304	431,472
Notes and accounts payable (Note 13):			
Trade	155,324	155,736	1,462,009
Other	19,992	8,680	188,175
Income taxes payable	11,020	14,400	103,727
Accrued expenses	75,100	68,166	706,888
Deferred profit on installment sales (Notes 3 and 13)	5,900	6,010	55,539
Provision for special wage payments (Note 2.j)		15,129	
Other current liabilities (Notes 9 and 11)	48,509	40,326	456,603
Total current liabilities	395,037	371,849	3,718,348
<b>LONG-TERM LIABILITIES:</b>			
Long-term debt (Notes 7, 13 and 14)	73,849	114,767	695,114
Liability for employees' retirement benefits (Notes 2.k and 8)	75,495	70,952	710,611
Deferred tax liabilities (Note 11)	4,651	3,162	43,771
Other long-term liabilities (Note 9)	8,815	8,383	82,972
Total long-term liabilities	162,810	197,264	1,532,468
<b>COMMITMENTS LIABILITIES</b> (Note 12)			
<b>EQUITY</b> (Notes 10 and 18):			
Common stock—authorized, 1,787,541,000 shares in 2018 and 2017; issued, 411,339,992 shares in 2018 and 2017	127,235	127,235	1,197,617
Capital surplus	36,813	36,813	346,509
Retained earnings	416,855	409,271	3,923,710
Treasury stock—at cost, 17,064,197 shares in 2018 and 17,062,391 shares in 2017	(39,081)	(39,078)	(367,861)
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities	12,959	10,975	121,975
Foreign currency translation adjustments	1,146	(423)	10,790
Remeasurements of defined employees' retirement benefit plans (Notes 2.k and 8)	(5,619)	(5,614)	(52,888)
Total	550,308	539,179	5,179,852
Non-controlling interests	7,279	6,380	68,519
Total equity	557,587	545,559	5,248,371
<b>TOTAL</b>	¥1,115,434	¥1,114,672	\$10,499,187

# Consolidated Statement of Income

Year Ended March 31, 2018

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2018	2017	2018
<b>OPERATING REVENUES</b>	<b>¥1,538,813</b>	¥1,466,852	<b>\$14,484,313</b>
<b>OPERATING COSTS AND EXPENSES:</b>			
Operating costs	1,452,485	1,385,492	13,671,742
Selling, general and administrative expenses	50,642	46,475	476,675
Total operating costs and expenses	1,503,127	1,431,967	14,148,417
Operating profit	35,686	34,885	335,896
<b>OTHER INCOME (EXPENSES):</b>			
Interest and dividend income	981	847	9,232
Interest expense	(272)	(430)	(2,556)
Loss on sales and disposal of property, plant and equipment—net	(1,042)	(66)	(9,806)
Loss on impairment of long-lived assets (Note 6)	(3,241)	(1,284)	(30,507)
Gain on sales of marketable and investment securities (Note 5)	1,639	600	15,428
Loss on valuation of investment securities (Note 5)	(1)	(1)	(9)
Loss on valuation of investment in unconsolidated subsidiaries and affiliates	(55)	(209)	(514)
Share of loss of entities accounted for using equity method	(1,355)	(799)	(12,758)
Provision of allowance for investment loss of unconsolidated subsidiaries	(127)		(1,193)
Provision of allowance for doubtful accounts	(136)		(1,284)
Disaster recovery expenses for the Kumamoto Earthquake		(886)	
Other—net	1,046	381	9,850
Other expenses—net	(2,563)	(1,847)	(24,117)
<b>PROFIT BEFORE INCOME TAXES</b>	<b>33,123</b>	33,038	<b>311,779</b>
<b>INCOME TAXES</b> (Note 11):			
Current	14,622	22,094	137,628
Deferred	(187)	(7,421)	(1,755)
Total income taxes	14,435	14,673	135,873
<b>PROFIT</b>	<b>18,688</b>	18,365	<b>175,906</b>
<b>PROFIT ATTRIBUTABLE TO NON-CONTROLLING INTERESTS</b>	<b>456</b>	311	<b>4,296</b>
<b>PROFIT ATTRIBUTABLE TO OWNERS OF PARENT</b>	<b>¥ 18,232</b>	¥ 18,054	<b>\$ 171,610</b>

	Yen		U.S. Dollars (Note 1)
	2018	2017	2018
<b>PER SHARE OF COMMON STOCK</b> (Notes 2.r and 16):			
Basic earnings	¥46.24	¥45.37	\$0.44
Cash dividends applicable to the year	27.00	27.00	0.25

See notes to consolidated financial statements.

# Consolidated Statement of Comprehensive Income

Year Ended March 31, 2018

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2018	2017	2018
<b>PROFIT</b>	<b>¥18,688</b>	¥18,365	<b>\$175,906</b>
<b>OTHER COMPREHENSIVE INCOME</b> (Note 15):			
Unrealized gain on available-for-sale securities	2,514	1,269	23,665
Foreign currency translation adjustments	1,569	(1,174)	14,773
Remeasurements of defined employees' retirement benefit plans	1	4,456	5
Share of other comprehensive income of entities accounted for using equity method		1	(2)
Total other comprehensive income	4,084	4,552	38,441
<b>COMPREHENSIVE INCOME</b>	<b>¥22,772</b>	¥22,917	<b>\$214,347</b>
<b>TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:</b>			
Owners of parent	¥21,780	¥22,519	\$205,007
Non-controlling interests	992	398	9,340

See notes to consolidated financial statements.

# Consolidated Statement of Changes in Equity

Year Ended March 31, 2018

	Thousands		Millions of Yen								
	Outstanding Number of Shares of Common Stock	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income			Total	Non-controlling Interests	Total Equity
						Unrealized Gain on Available-for-Sale Securities	Foreign Currency Translation Adjustments	Remeasurements of Defined Employees' Retirement Benefit Plans			
<b>BALANCE, APRIL 1, 2016</b>	398,516	¥127,235	¥36,813	¥402,376	¥(29,076)	¥ 9,790	¥ 751	¥(10,068)	¥537,821	¥6,034	¥543,855
Profit attributable to owners of parent				18,054					18,054		18,054
Cash dividends, ¥28 per share				(11,159)					(11,159)		(11,159)
Purchase of treasury stock	(4,239)				(10,002)				(10,002)		(10,002)
Disposal of treasury stock	1										
Net change in the year						1,185	(1,174)	4,454	4,465	346	4,811
<b>BALANCE, MARCH 31, 2017</b>	394,278	127,235	36,813	409,271	(39,078)	10,975	(423)	(5,614)	539,179	6,380	545,559
Profit attributable to owners of parent				18,232					18,232		18,232
Cash dividends, ¥27 per share				(10,646)					(10,646)		(10,646)
Adjustment of retained earnings for changes in the scope of equity method				(2)					(2)		(2)
Purchase of treasury stock	(2)				(4)				(4)		(4)
Disposal of treasury stock					1				1		1
Net change in the year						1,984	1,569	(5)	3,548	899	4,447
<b>BALANCE, MARCH 31, 2018</b>	<b>394,276</b>	<b>¥127,235</b>	<b>¥36,813</b>	<b>¥416,855</b>	<b>¥(39,081)</b>	<b>¥12,959</b>	<b>¥ 1,146</b>	<b>¥ (5,619)</b>	<b>¥550,308</b>	<b>¥7,279</b>	<b>¥557,587</b>

	Thousands of U.S. Dollars (Note 1)									
	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income			Total	Non-controlling Interests	Total Equity
					Unrealized Gain on Available-for-Sale Securities	Foreign Currency Translation Adjustments	Remeasurements of Defined Employees' Retirement Benefit Plans			
<b>BALANCE, MARCH 31, 2017</b>	\$1,197,617	\$346,509	\$3,852,323	\$(367,821)	\$103,305	\$ (3,981)	\$(52,844)	\$5,075,108	\$60,050	\$5,135,158
Profit attributable to owners of parent			171,610					171,610		171,610
Cash dividends, \$0.25 per share			(100,202)					(100,202)		(100,202)
Adjustment of retained earnings for changes in the scope of equity method			(21)					(21)		(21)
Purchase of treasury stock				(40)				(40)		(40)
Disposal of treasury stock										
Net change in the year					18,670	14,771	(44)	33,397	8,469	41,866
<b>BALANCE, MARCH 31, 2018</b>	<b>\$1,197,617</b>	<b>\$346,509</b>	<b>\$3,923,710</b>	<b>\$(367,861)</b>	<b>\$121,975</b>	<b>\$10,790</b>	<b>\$(52,888)</b>	<b>\$5,179,852</b>	<b>\$68,519</b>	<b>\$5,248,371</b>

See notes to consolidated financial statements.

# Consolidated Statement of Cash Flows

Year Ended March 31, 2018

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2018	2017	2018
<b>OPERATING ACTIVITIES:</b>			
Profit before income taxes	¥ 33,123	¥ 33,038	\$ 311,779
Adjustments for:			
Income taxes—paid	(12,866)	(32,138)	(121,105)
Depreciation and amortization	46,435	46,126	437,078
Loss on sales and disposal of property, plant and equipment—net	1,042	66	9,806
Loss on impairment of long-lived assets	3,241	1,284	30,507
Gain on sales of marketable and investment securities	(1,639)	(600)	(15,428)
Loss on valuation of investment securities	1	1	9
Loss on valuation of investment in unconsolidated subsidiaries and affiliates	55	209	514
Share of loss of entities accounted for using equity method	1,355	799	12,758
Changes in assets and liabilities:			
Increase in notes and accounts receivable	(18,774)	(15,594)	(176,717)
Decrease in inventories	227	20	2,141
(Decrease) increase in notes and accounts payable	(478)	7,454	(4,498)
(Decrease) increase in provision for special wage payments	(15,129)	15,129	(142,407)
Increase in liability for employees' retirement benefits	2,232	1,898	21,012
Other—net	12,903	15,633	121,450
Total adjustments	18,605	40,287	175,120
Net cash provided by operating activities	51,728	73,325	486,899
<b>INVESTING ACTIVITIES:</b>			
Proceeds from sale of property, plant and equipment	6,632	1,874	62,421
Purchases of property, plant and equipment	(36,671)	(43,987)	(345,175)
Proceeds from sales of marketable and investment securities	2,672	1,600	25,151
Purchases of marketable and investment securities	(790)	(1,714)	(7,435)
Increase in investments in and advances to unconsolidated subsidiaries and affiliates	(4,137)	(22,507)	(38,940)
Collection of loans	997	1,017	9,390
Payment of loans	(1,197)	(975)	(11,265)
Other	(8,680)	(9,308)	(81,705)
Net cash used in investing activities	(41,174)	(74,000)	(387,558)
<b>FINANCING ACTIVITIES:</b>			
Proceeds from (repayments of) short-term debt—net	10,683	(5,802)	100,552
Proceeds from long-term debt	4,000	43,720	37,651
Repayments of long-term debt	(40,876)	(35,499)	(384,752)
Dividends paid	(10,733)	(11,209)	(101,023)
Purchase of treasury stock—net	(4)	(10,005)	(39)
Other		17	
Net cash used in financing activities	(36,930)	(18,778)	(347,611)
<b>FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS</b>	<b>313</b>	<b>(883)</b>	<b>2,947</b>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(26,063)</b>	<b>(20,336)</b>	<b>(245,323)</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b>228,926</b>	<b>249,262</b>	<b>2,154,805</b>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR (Note 2.d)</b>	<b>¥202,863</b>	<b>¥228,926</b>	<b>\$1,909,482</b>

See notes to consolidated financial statements.

# Notes to Consolidated Financial Statements

Year Ended March 31, 2018

## 1. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations, and in accordance with accounting principles generally accepted in Japan (“Japanese GAAP”), which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications and rearrangements have been made in the 2017 consolidated financial statements to conform them to the classifications and presentations used in 2018.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which Yamato Holdings Co., Ltd. (the “Company”) is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥106.24 to \$1, the approximate rate of exchange at March 31, 2018. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**a. Consolidation**—The consolidated financial statements as of March 31, 2018, include the accounts of the Company and its 40 significant (39 in 2017) subsidiaries (together, the “Group”).

Under the control and influence concepts, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Group has the ability to exercise significant influence are accounted for by the equity method.

YAMATO (CHINA) CO., LTD. was newly established and is included in the scope of consolidation effective from the fiscal year ended March 31, 2018.

The unconsolidated subsidiaries, whose combined assets, net sales, profit and retained earnings in the aggregate are not significant to the consolidated financial statements, have not been consolidated with the Company.

There were 16 (14 in 2017) affiliates accounted for by the equity method.

Effective from the fiscal year ended March 31, 2018, the scope of equity method includes SCG YAMATO EXPRESS CO., LTD. and one other company mainly due to their increased materiality.

Investments in the unconsolidated subsidiaries and several affiliates not accounted for by equity method are stated at cost, less a valuation allowance representing possible losses on the investments that are deemed to be other than temporary. If the equity method of accounting had been applied to the investments in such companies, the effect on the accompanying consolidated financial statements would not be material.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is also eliminated.

### **b. Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements**—

Under Accounting Standards Board of Japan (“ASBJ”) Practical Issues Task Force (“PITF”) No. 18, “Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements,” the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements. However, financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or generally accepted accounting principles in the United States of America tentatively may be used for the consolidation process, except for the following items which should be adjusted in the consolidation process so that profit is accounted for in accordance with Japanese GAAP, unless they are not material: (a) amortization of goodwill; (b) scheduled amortization of actuarial gain or loss of pensions that has been recorded in equity through other comprehensive income; (c) expensing capitalized development costs of R&D; and (d) cancellation of the fair value model accounting for property, plant and equipment and investment properties and incorporation of the cost model accounting.

**c. Recognition of Operating Revenues**—The Group recognizes freight charge income as operating revenue at the time when freight has been received from the shipping customer for transportation.

Fees from customers based on installment sales contracts are recognized by the equal installment method.

**d. Cash Equivalents**—Cash equivalents in the consolidated statement of cash flows are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value. Cash equivalents in the consolidated statement of cash flows include time deposits, certificates of deposit, and mutual funds investing in bonds that represent short-term investments, all of which mature or become due within three months of the date of acquisition.

The difference between cash and cash equivalents in the accompanying consolidated balance sheet and cash and cash equivalents in the accompanying consolidated statement of cash flows was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Cash and cash equivalents presented in the consolidated balance sheet	¥204,422	¥230,129	\$1,924,157
Time deposits due beyond three months	(1,559)	(1,203)	(14,675)
Cash and cash equivalents presented in the consolidated statement of cash flows	¥202,863	¥228,926	\$1,909,482

**e. Inventories**—Inventories are stated at the lower of cost determined by the first-in, first-out method or net selling value.

**f. Marketable and Investment Securities**—Marketable and investment securities are classified and accounted for, depending on management's intent, as follows: (1) trading securities, which are held for the purpose of earning capital gains in near term, are reported at fair value, and the related unrealized gains and losses are included in earnings; (2) held-to-maturity debt securities, for which there is a positive intent and ability to hold to maturity, are reported at amortized cost; and (3) available-for-sale securities, which are not classified as either of the aforementioned securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity. The Group had no trading securities at March 31, 2018 and 2017.

Non-marketable available-for-sale securities are stated at cost determined by the moving-average method.

For other-than-temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

**g. Property, Plant and Equipment**—Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment excluding leased assets of the Company and its domestic consolidated subsidiaries is computed substantially by the declining-balance method, while the straight-line method is applied to buildings acquired on or after April 1, 1998, and facilities attached to buildings and structures acquired on or after April 1, 2016. Depreciation of leased assets is computed by the straight-line method over the lease period with no residual value carried.

The depreciation of property, plant and equipment of foreign consolidated subsidiaries is computed by the straight-line method over the estimated useful lives of the assets. The range of useful lives is principally as follows:

Buildings and structures	7–60 years
Vehicles	2– 7 years
Machinery and equipment	2–20 years

Maintenance and repairs, including minor renewals and improvements, are charged to income as incurred.

**h. Long-Lived Assets**—The Group reviews its long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss is recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

**i. Other Assets**—Amortization of intangible assets is computed by the straight-line method.

Depreciation of leased assets is computed by the straight-line method over the lease period with no residual value carried.

## Notes to Consolidated Financial Statements

**j. Provision for Special Wage Payments**—The Group conducted investigation during the fiscal year ended March 31, 2017, in order to measure unrecognized working hours. The provision for special wage payments has been recorded on the basis of the estimated amount of payment with regard to consideration for labor in accordance with the result of the investigation.

**k. Retirement and Pension Plan**—The Company and consolidated subsidiaries mainly have a contributory trusted pension plan and an unfunded retirement benefit plan. In addition, a defined contribution retirement plan was introduced along with these defined benefit pension plans.

In calculating the retirement benefit obligations, the straight-line basis is used in determining the amount of the expected retirement benefit obligations attributed to service performed up to the end of the current fiscal year.

Past service costs are recognized in profit or loss in full in the fiscal year in which it arises. Actuarial gains and losses are amortized on a straight-line basis over five years within the average remaining service period of the eligible employees on and after the fiscal year following the fiscal year in which it arises.

Actuarial gains and losses are recognized within equity on the consolidated balance sheet after adjusting for tax effects, and funded status is recognized as a liability or asset.

**l. Asset Retirement Obligations**—An asset retirement obligation is recorded for a legal obligation imposed either by law or contract that results from the acquisition, construction, development, and normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset.

The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of the asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as reconciliation to the carrying amount of the liability and the capitalized amount of the related asset retirement cost.

**m. Leases**—For a lessee, all finance lease transactions are capitalized to recognize lease assets and lease obligations in the balance sheet.

For a lessor, all finance leases that deem to transfer ownership of the leased property to the lessee are recognized as lease receivables, and all finance leases that deem not to transfer ownership of the leased property to the lessee are recognized as investments in leases.

**n. Income Taxes**—The provision for income taxes is computed based on the pretax income included in the consolidated statement of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted income tax rates to the temporary differences.

**o. Foreign Currency Transactions**—All short and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date.

**p. Derivative Financial Instruments**—The Company and certain consolidated subsidiaries use derivative financial instruments to manage their exposures to fluctuations in interest rates. Interest rate swaps are utilized by the Company and the consolidated subsidiaries to reduce interest rate risks. The Group has a policy not to enter into derivatives for trading or speculative purposes.

The interest rate swaps, which qualify for hedge accounting and meet specific matching criteria, are not remeasured at market value but the differential paid or received under the swap agreements is recognized and included in interest expense or income.

**q. Foreign Currency Financial Statements**—The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date except for equity, which is translated at the historical rate. Differences arising from such translation are shown as “Foreign currency translation adjustments” under accumulated other comprehensive income in a separate component of equity.

Revenue and expense accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rates as of the balance sheet date.

**r. Per Share Information**—Basic earnings per share is computed by dividing profit attributable to common shareholders by the weighted-average number of common shares outstanding for the period, retroactively adjusted for stock splits.

Diluted earnings per share reflects the potential dilution that could occur if securities were exercised or converted into common stock. Diluted earnings per share of common stock assumes full conversion of the outstanding convertible notes and bonds at the beginning of the year (or at the time of issuance) with an applicable adjustment for related interest expense, net of tax, and full exercise of outstanding warrants.

For the years ended March 31, 2018 and 2017, diluted earnings per share is not disclosed because the Company had no dilutive securities.

Cash dividends per share presented in the accompanying consolidated statement of income are dividends applicable to the respective fiscal years, including dividends to be paid after the end of the year.

**s. Accounting Changes and Error Corrections**—Under ASBJ Statement No. 24, “Accounting Standard for Accounting Changes and Error Corrections,” and ASBJ Guidance No. 24, “Guidance on Accounting Standard for Accounting Changes and Error Corrections,” accounting treatments are required as follows:

(1) Changes in Accounting Policies—When a new accounting policy is applied following revision of an accounting standard, the new policy is applied retrospectively unless the revised accounting standard includes specific transitional provisions, in which case the entity shall comply with the specific transitional provisions. (2) Changes in Presentation—When the presentation of financial statements is changed, prior-period financial statements are reclassified in accordance with the new presentation. (3) Changes in Accounting Estimates—A change in an accounting estimate is accounted for in the period of the change if the change affects that period only, and is accounted for prospectively if the change affects both the period of the change and future periods. (4) Corrections of Prior-Period Errors—When an error in prior-period financial statements is discovered, those statements are restated.

#### **t. New Accounting Pronouncements**

**Tax Effect Accounting**—In February 2018, the ASBJ revised ASBJ Guidance No. 28, “Implementation Guidance on Tax Effect Accounting,” and ASBJ Guidance No. 26, “Implementation Guidance on Recoverability of Deferred Tax Assets.”

The guidance has been revised mainly for accounting treatment of future taxable amount of stocks of subsidiaries, etc. in individual financial statements and recoverability of deferred tax assets in companies corresponding to (Category 1).

The guidance will be applied from the beginning of the fiscal year that begins on or after April 1, 2018.

The Company is now in the process of measuring the effect of applying the guidance.

**Accounting Standards for Revenue Recognition**—In March 2018, the ASBJ issued ASBJ Statement No. 29, “Accounting Standard for Revenue Recognition,” and ASBJ Guidance No. 30, “Implementation Guidance on Accounting Standard for Revenue Recognition.” An entity should recognize revenue by applying the following steps:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

The accounting standard and guidance will be applied from the beginning of the fiscal year that begins on or after April 1, 2021.

The Company is now in the process of measuring the effect of applying the accounting standard and guidance.

## Notes to Consolidated Financial Statements

## 3. INSTALLMENT RECEIVABLES

Sales recorded on the installment basis were 0.3% of operating revenues in both 2018 and 2017.

Annual maturities of installment receivables at March 31, 2018, and related amortization of deferred profit on installment sales are as follows:

Year Ending March 31	Millions of Yen		Thousands of U.S. Dollars	
	Receivables	Deferred Profit on Installment Sales	Receivables	Deferred Profit on Installment Sales
2019	¥23,306	¥2,314	\$219,369	\$21,781
2020	11,448	1,624	107,756	15,286
2021	6,404	985	60,278	9,268
2022	3,195	522	30,073	4,919
2023	1,524	276	14,345	2,595
2024 and thereafter	816	179	7,683	1,690
Total	¥46,693	¥5,900	\$439,504	\$55,539

## 4. INVENTORIES

Inventories at March 31, 2018 and 2017, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Merchandise	¥ 750	¥ 740	\$ 7,057
Work in process	146	216	1,380
Raw materials and supplies	1,920	1,819	18,068
Total	¥2,816	¥2,775	\$26,505

## 5. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities as of March 31, 2018 and 2017, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Non-current:			
Marketable equity securities	¥34,218	¥31,350	\$322,079
Non-marketable equity securities	1,210	743	11,393
Other	804	495	7,566
Total	¥36,232	¥32,588	\$341,038

Information regarding each category of the securities classified as available-for-sale at March 31, 2018 and 2017, is as follows:

	Millions of Yen			
	2018			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale: Equity securities	¥14,798	¥19,426	¥6	¥34,218
	Millions of Yen			
	2017			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale: Equity securities	¥15,815	¥15,540	¥5	¥31,350
	Thousands of U.S. Dollars			
	2018			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale: Equity securities	\$139,288	\$182,851	\$60	\$322,079

Information for available-for-sale securities, which were sold during the years ended March 31, 2018 and 2017, is as follows:

March 31, 2018	Millions of Yen		
	Proceeds	Realized Gains	Realized Losses
Available-for-sale:			
Equity securities	¥2,672	¥1,639	¥—
Other			
<b>Total</b>	<b>¥2,672</b>	<b>¥1,639</b>	<b>¥—</b>
March 31, 2017			
Available-for-sale: Equity securities	¥1,543	¥600	¥—
Thousands of U.S. Dollars			
March 31, 2018	Proceeds	Realized Gains	Realized Losses
Available-for-sale:			
Equity securities	\$25,151	\$15,428	\$—
Other			
<b>Total</b>	<b>\$25,151</b>	<b>\$15,428</b>	<b>\$—</b>

Loss on valuation of available-for-sale equity securities for the year ended March 31, 2018 and 2017, were ¥1 million (\$9 thousand) and ¥1 million, respectively.

## 6. LONG-LIVED ASSETS

The Group reviewed its long-lived assets for impairment as of the years ended March 31, 2018 and 2017. As a result, the Group recognized an impairment loss of ¥3,241 million (\$30,507 thousand) as other expense for the asset groups of the Miyagi Regional Branch of Yamato Transport Co., Ltd. and fourteen other asset groups for the year ended March 31, 2018, and ¥1,284 million as other expense for the asset groups of the Aomori Regional Branch of Yamato Transport Co., Ltd. and nine other asset groups for the year ended March 31, 2017, due to continuous operating losses of those units or significant declines in market prices. The carrying amounts of the relevant asset groups were written down to their recoverable amounts. In the case where the net selling prices were used as recoverable amounts, the relevant asset groups were evaluated mainly based on Real Estate Appraisal Standards, assessed value of fixed assets, and posted land prices. In the case where the recoverable amounts were measured at its value in use, the discount rate used for computation of present value of future cash flows was 5.26%.

## Notes to Consolidated Financial Statements

**7. BANK LOANS AND LONG-TERM DEBT**

Short-term bank loans consisted of notes to banks at March 31, 2018, and notes to banks and bank overdrafts at March 31, 2017. The weighted-average interest rates applicable to the bank loans as of March 31, 2018 and 2017, were approximately 0.134% and 0.103%, respectively.

Long-term debt at March 31, 2018 and 2017, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
0.010% to 0.299% loans from banks due 2018 to 2022	¥ 93,900		\$ 883,847
0.010% to 0.430% loans from banks due 2017 to 2022		¥130,776	
Lease obligations	5,789	7,295	54,485
Unsecured 0.050% bonds due in March 2019	10,000	10,000	94,127
Unsecured 0.090% bonds due in March 2021	10,000	10,000	94,127
Total	119,689	158,071	1,126,586
Less current portion	(45,840)	(43,304)	(431,472)
Total	¥ 73,849	¥114,767	\$ 695,114

Annual maturities of long-term debt at March 31, 2018, are as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2019	¥ 45,840	\$ 431,472
2020	42,541	400,427
2021	16,452	154,860
2022	14,408	135,613
2023	168	1,579
2024 and thereafter	280	2,635
Total	¥119,689	\$1,126,586

**8. RETIREMENT AND PENSION PLANS**

The Group has defined benefit pension plans and defined contribution retirement plans for employees.

The defined benefit pension plans provide, under most circumstances, that employees terminating their employment are entitled to retirement benefits determined based on the rate of pay at the time of termination, years of service, and certain other factors. Such retirement benefits are made in the form of a lump-sum severance payment from the Company or from the consolidated subsidiaries and annuity payments from a trustee. Employees are entitled to larger payments if the termination is involuntary, by retirement at the mandatory retirement age, by death, or by voluntary retirement at certain specific ages exceeding the standard retirement age.

**(1) Defined Benefit Pension Plans**

The changes in defined benefit obligation for the years ended March 31, 2018 and 2017, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Balance at beginning of year	¥158,382	¥153,513	\$1,490,788
Service cost	12,221	11,520	115,033
Interest cost	151	147	1,423
Actuarial loss (gain) arising during the year	5,884	(49)	55,383
Retirement benefits paid	(6,985)	(6,749)	(65,742)
Balance at end of year	¥169,653	¥158,382	\$1,596,885

The changes in plan assets for the years ended March 31, 2018 and 2017, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Balance at beginning of year	<b>¥87,547</b>	¥82,016	<b>\$824,047</b>
Expected return on plan assets	<b>875</b>	820	<b>8,240</b>
Actuarial gain arising during the year	<b>3,565</b>	2,486	<b>33,552</b>
Contributions from the employer	<b>4,343</b>	4,313	<b>40,882</b>
Retirement benefits paid	<b>(2,043)</b>	(2,088)	<b>(19,232)</b>
Balance at end of year	<b>¥94,287</b>	¥87,547	<b>\$887,489</b>

Reconciliation between the liability recorded in the consolidated balance sheet and the balances of defined benefit obligation and plan assets as of March 31, 2018 and 2017, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Defined benefit obligation of funded plan	<b>¥ 64,355</b>	¥ 61,358	<b>\$ 605,754</b>
Plan assets	<b>(94,287)</b>	(87,547)	<b>(887,489)</b>
	<b>(29,932)</b>	(26,189)	<b>(281,735)</b>
Defined benefit obligation of unfunded plan	<b>105,298</b>	97,024	<b>991,131</b>
Net liability arising from defined benefit obligation	<b>¥ 75,366</b>	¥ 70,835	<b>\$ 709,396</b>

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Liability for employees' retirement benefits	<b>¥75,495</b>	¥70,952	<b>\$710,611</b>
Asset for employees' retirement benefits	<b>(129)</b>	(117)	<b>(1,215)</b>
Net liability arising from defined benefit obligation	<b>¥75,366</b>	¥70,835	<b>\$709,396</b>

The amount of the liability and asset for employees' retirement benefits that are offset individually by the Company and subsidiaries are combined.

The components of net periodic benefit costs for the years ended March 31, 2018 and 2017, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Service cost	<b>¥12,221</b>	¥11,520	<b>\$115,033</b>
Interest cost	<b>151</b>	147	<b>1,423</b>
Expected return on plan assets	<b>(875)</b>	(820)	<b>(8,240)</b>
Recognized actuarial loss	<b>2,321</b>	3,966	<b>21,844</b>
Others	<b>(29)</b>	(24)	<b>(267)</b>
Net periodic benefit costs	<b>¥13,789</b>	¥14,789	<b>\$129,793</b>

## Notes to Consolidated Financial Statements

Amounts recognized in other comprehensive income (before income tax effect adjustments) in respect of defined retirement benefit plans for the years ended March 31, 2018 and 2017, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Actuarial gain	¥2	¥6,501	\$13
Total	¥2	¥6,501	\$13

Amounts recognized in accumulated other comprehensive income (before income tax effect adjustments) in respect of defined retirement benefit plans as of March 31, 2018 and 2017, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Unrecognized actuarial loss	¥(8,028)	¥(8,030)	\$(75,568)
Total	¥(8,028)	¥(8,030)	\$(75,568)

Plan assets as of March 31, 2018 and 2017, consisted of the following:

	2018	2017
General accounts	30%	32%
Debt investments	25	26
Equity investments	23	23
Others	22	19
Total	100%	100%

Assumptions used for the years ended March 31, 2018 and 2017, were set forth as follows:

	2018	2017
Discount rate	0.1%	0.1%
Expected rate of return on plan assets	1.0%	1.0%

The expected rate of return on plan assets is determined on the basis of the distribution of plan assets, past performance of respective assets that make up investments of plan assets, and market trends.

## (2) Defined Contribution Retirement Plans

The amounts contributed to the defined contribution retirement plans of the Group for the years ended March 31, 2018 and 2017, were ¥2,330 million (\$21,931 thousand) and ¥2,235 million, respectively.

## 9. ASSET RETIREMENT OBLIGATIONS

The changes in asset retirement obligations for the years ended March 31, 2018 and 2017, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Balance at beginning of year	<b>¥5,535</b>	¥5,184	<b>\$52,102</b>
Additional provisions associated with the acquisition of property, plant and equipment	<b>257</b>	326	<b>2,416</b>
Reconciliation associated with passage of time	<b>104</b>	99	<b>978</b>
Reconciliation associated with changes in accounting estimates	<b>(1)</b>	15	<b>(6)</b>
Reduction associated with settlement of asset retirement obligations	<b>(85)</b>	(46)	<b>(799)</b>
Others	<b>(10)</b>	(43)	<b>(101)</b>
Balance at end of year	<b>¥5,800</b>	¥5,535	<b>\$54,590</b>

Changes in accounting estimates were recorded as it became evident that the estimate of the discounted cash flows required for future asset retirement would change at the beginning of the year. A reconciliation has been prepared for the change, which resulted in a decrease and increase of the asset retirement obligation for the years ended March 31, 2018 and 2017, by ¥1 million (\$6 thousand) and ¥15 million, respectively.

## 10. EQUITY

Japanese companies are subject to the Companies Act of Japan (the "Companies Act"). The significant provisions in the Companies Act that affect financial and accounting matters are summarized below:

### a. Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting. For companies that meet certain criteria such as (1) having a Board of Directors, (2) having independent auditors, (3) having an Audit & Supervisory Board, and (4) the term of service of the directors being prescribed as one year rather than the normal two-year term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends-in-kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. The Company meets all the above criteria.

The Companies Act permits companies to distribute dividends-in-kind (non-cash assets) to shareholders subject to a certain limitation and additional requirements.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. The Companies Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

### b. Increases/Decreases and Transfer of Common Stock, Reserve and Surplus

The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus, and retained earnings can be transferred among the accounts within equity under certain conditions upon resolution of the shareholders.

## Notes to Consolidated Financial Statements

**c. Treasury Stock**

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders, which is determined by a specific formula. The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity.

**11. INCOME TAXES**

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes, which, in the aggregate, resulted in normal effective statutory tax rates of 30.9% for the years ended March 31, 2018 and 2017.

The tax effects of significant temporary differences, which resulted in deferred tax assets and liabilities at March 31, 2018 and 2017, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Deferred tax assets:			
Current:			
Accrued expenses	¥ 10,146	¥ 9,835	\$ 95,500
Enterprise tax	1,502	1,925	14,135
Allowance for doubtful accounts	270	269	2,545
Legal welfare expense	1,659	2,377	15,619
Provision for special wage payments		4,682	
Tax loss carryforwards	4,323	192	40,687
Other	1,686	1,783	15,873
Less valuation allowance	(137)	(160)	(1,289)
Deferred tax assets—current	¥ 19,449	¥ 20,903	\$ 183,070
Non-current:			
Liability for employees' retirement benefits	¥ 23,184	¥ 21,775	\$ 218,224
Loss on valuation of investment securities	1,731	1,872	16,293
Loss on valuation of land	20,759	20,760	195,400
Loss on impairment of long-lived assets	4,211	4,447	39,632
Loss on valuation of telephone subscription rights	469	469	4,416
Unrealized profit	2,457	2,278	23,124
Other	10,739	10,479	101,078
Less valuation allowance	(31,748)	(32,085)	(298,829)
Deferred tax assets—non-current	¥ 31,802	¥ 29,995	\$ 299,338
Deferred tax liabilities:			
Current—other	¥ (205)	¥ (220)	\$ (1,936)
Deferred tax liabilities—current	¥ (205)	¥ (220)	\$ (1,936)
Non-current:			
Unrealized gain on available-for-sale securities	¥ (5,125)	¥ (3,731)	\$ (48,240)
Other	(2,987)	(2,783)	(28,109)
Deferred tax liabilities—non-current	¥ (8,112)	¥ (6,514)	\$ (76,349)
Deferred tax assets—net	¥ 42,934	¥ 44,164	\$ 404,123

Reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statement of income for the year ended March 31, 2018, with the corresponding figures for 2017 was as follows:

	2018	2017
Normal effective statutory tax rate	30.9%	30.9%
Per capita levy of local taxes	9.2	8.9
Difference of tax rates for foreign subsidiaries	2.8	1.3
Valuation allowance	(0.0)	2.9
Other—net	0.7	0.4
Actual effective tax rate	43.6%	44.4%

## 12. LEASES

### (1) Lessee

The Group leases certain machinery, computer equipment and other assets.

Future rental payments under non-cancelable operating leases at March 31, 2018 and 2017, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Due within one year	¥ 3,066	¥164	\$ 28,865
Due after one year	32,812	304	308,845
Total	¥35,878	¥468	\$337,710

### (2) Lessor

The net investments in lease as of March 31, 2018 and 2017, were summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Gross lease receivables	¥49,797	¥48,702	\$468,725
Unguaranteed residual values	6,584	5,875	61,972
Unearned interest income	(3,739)	(3,800)	(35,199)
Investments in leases—current	¥52,642	¥50,777	\$495,498

Maturities of lease receivables for finance leases that are deemed not to transfer ownership of the leased property to the lessee as of March 31, 2018, are as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2019	¥17,409	\$163,862
2020	13,645	128,438
2021	9,819	92,428
2022	6,250	58,831
2023	2,334	21,969
2024 and thereafter	340	3,197
Total	¥49,797	\$468,725

## Notes to Consolidated Financial Statements

The minimum rental commitments under non-cancelable operating leases at March 31, 2018 and 2017, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Due within one year	¥ 4,399	¥3,735	\$ 41,406
Due after one year	7,154	6,212	67,336
Total	¥11,553	¥9,947	\$108,742

### 13. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

#### (1) Group Policy for Financial Instruments

The Group uses financial instruments, mainly long-term debt including bank loans and bonds, in order to expand its business based on its investment plan to expand its network. Cash surpluses, if any, are invested in low risk financial assets. Derivatives are used, not for speculative purposes, but to manage exposure to interest fluctuation risk. Certain consolidated subsidiaries conduct leasing or installment sales operations.

#### (2) Nature and Extent of Risks Arising from Financial Instruments and the Risk Management for Financial Instruments

Receivables such as notes and accounts receivable and installment sales receivable are exposed to customer credit risk. Therefore, the Group minimizes customers' credit risk by monitoring collections and accrued receivables at due dates.

Marketable and investment securities are mainly equity securities of the companies with which the Group has business relationships or capital alliances. Such securities are exposed to the risk of market price fluctuations.

Most payment terms of payables such as notes and accounts payable are less than one year.

Short-term bank loans and long-term bank loans are mainly related to a financial business. Most of the bank loans are fixed interest rate loans.

Accounts payable and bank loans exposed to liquidity risks are managed by each company of the Group, such as through fund settlement, bookkeeping, monitoring of the balances outstanding, and managing cash flows.

#### (3) Fair Values of Financial Instruments

Fair values of financial instruments are based on quoted prices in active markets. If a quoted price is not available, other rational valuation techniques are used instead. The value could vary depending on the technique used.

Fair values of financial instruments at March 31, 2018 and 2017, were as follows:

March 31, 2018	Millions of Yen		
	Carrying Amount	Fair Value	Difference
Assets:			
Cash and cash equivalents	¥204,422	¥204,422	
Trade notes and accounts receivable	224,099		
Allowance for doubtful accounts	(113)		
	223,986	223,781	¥ (205)
Installment sales receivable	46,693		
Allowance for doubtful accounts	(755)		
Deferred profit on installment sales	(5,900)		
	40,038	45,782	5,744
Available-for-sale securities	34,218	34,218	
Shares of affiliates	13,592	21,259	7,667
Liabilities:			
Trade notes and accounts payable	155,324	155,324	
Short-term loans	66,952	66,966	14
Long-term loans	60,300	60,283	(17)

March 31, 2017	Millions of Yen		
	Carrying Amount	Fair Value	Difference
<b>Assets:</b>			
Cash and cash equivalents	¥230,129	¥230,129	
Trade notes and accounts receivable	208,131		
Allowance for doubtful accounts	(134)		
	207,997	207,984	¥ (13)
Installment sales receivable	46,142		
Allowance for doubtful accounts	(764)		
Deferred profit on installment sales	(6,010)		
	39,368	45,230	5,862
Available-for-sale securities	31,350	31,350	
Shares of affiliates	13,712	13,884	172
<b>Liabilities:</b>			
Trade notes and accounts payable	155,736	155,736	
Short-term loans	60,974	60,997	23
Long-term loans	89,900	89,897	(3)
<b>Derivatives</b>			

March 31, 2018	Thousands of U.S. Dollars		
	Carrying Amount	Fair Value	Difference
<b>Assets:</b>			
Cash and cash equivalents	<b>\$1,924,157</b>	<b>\$1,924,157</b>	
Trade notes and accounts receivable	<b>2,109,367</b>		
Allowance for doubtful accounts	<b>(1,061)</b>		
	<b>2,108,306</b>	<b>2,106,368</b>	<b>\$ (1,938)</b>
Installment sales receivable	<b>439,504</b>		
Allowance for doubtful accounts	<b>(7,098)</b>		
Deferred profit on installment sales	<b>(55,539)</b>		
	<b>376,867</b>	<b>430,928</b>	<b>54,061</b>
Available-for-sale securities	<b>322,079</b>	<b>322,079</b>	
Shares of affiliates	<b>127,934</b>	<b>200,102</b>	<b>72,168</b>
<b>Liabilities:</b>			
Trade notes and accounts payable	<b>1,462,009</b>	<b>1,462,009</b>	
Short-term loans	<b>630,200</b>	<b>630,329</b>	<b>129</b>
Long-term loans	<b>567,582</b>	<b>567,422</b>	<b>(160)</b>

## Notes to Consolidated Financial Statements

**Cash and cash equivalents**

The carrying values of cash and cash equivalents approximate fair value because of their short maturities.

**Trade notes and accounts receivable**

The fair values of receivables are measured at the amount to be received at maturity discounted at the Group's assumed corporate discount rate. A portion of these receivables is determined by discounting the future cash flows related to the receivables at the rate of government bonds.

**Installment sales receivable**

Allowances for doubtful accounts and deferred profit on installment sales are deducted from the fair values of installment sales receivable, which are determined by discounting the future cash flows related to the installment sales receivable at the market interest rate.

**Marketable and investment securities**

The fair values of marketable and investment securities are measured at the quoted market price of the stock exchange for the equity instruments, and at the quoted price obtained from the financial institution for certain debt instruments. Fair value information for marketable and investment securities by classification is included in Note 5.

**Trade notes and accounts payable**

The fair values of payables, all of which are substantially paid within one year, are measured at the amount to be paid.

**Short-term loans and long-term loans**

The fair values of short-term bank loans and long-term loans are determined by discounting the future cash flows related to the debt at the Group's assumed corporate borrowing rate.

The current portion of long-term bank loans is included in short-term loans in the above table in addition to short-term bank loans on the consolidated balance sheet. Lease payments are not included in long-term loans in the above table.

**Derivatives**

Fair value information for derivatives is included in Note 14.

**(4) Financial Instruments Whose Fair Value Cannot Be Reliably Determined**

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Shares of affiliates	¥6,412	¥5,862	\$60,350
Other	5,620	3,359	52,903

### (5) Maturity Analysis for Financial Assets and Securities with Contractual Maturities

	Millions of Yen		
	Due in One Year or Less	Due after One Year through Five Years	Due after Five Years
March 31, 2018			
Cash and cash equivalents	¥204,422		
Trade notes and accounts receivable	205,743	¥18,165	¥ 191
Installment sales receivable	23,306	22,571	816
<b>Total</b>	<b>¥433,471</b>	<b>¥40,736</b>	<b>¥1,007</b>
March 31, 2017			
Cash and cash equivalents	¥230,129		
Trade notes and accounts receivable	191,192	¥16,725	¥214
Installment sales receivable	22,982	22,412	748
<b>Total</b>	<b>¥444,303</b>	<b>¥39,137</b>	<b>¥962</b>

	Thousands of U.S. Dollars		
	Due in One Year or Less	Due after One Year through Five Years	Due after Five Years
March 31, 2018			
Cash and cash equivalents	\$1,924,157		
Trade notes and accounts receivable	1,936,587	\$170,987	\$1,793
Installment sales receivable	219,369	212,452	7,683
<b>Total</b>	<b>\$4,080,113</b>	<b>\$383,439</b>	<b>\$9,476</b>

### (6) Maturity Analysis for Long-term Loans

Year Ending March 31	Thousands of U.S. Dollars	
	Millions of Yen	U.S. Dollars
2019	¥33,600	\$316,265
2020	40,800	384,036
2021	5,500	51,769
2022	14,000	131,777
<b>Total</b>	<b>¥93,900</b>	<b>\$883,847</b>

Please see Note 7 for annual maturities of long-term loans.

## 14. DERIVATIVES

The Company and certain consolidated subsidiaries use derivative financial instruments to manage their exposure to fluctuations in interest rates. Interest rate swaps are utilized by the Company and the consolidated subsidiaries to reduce interest rate risk. The Group has a policy not to enter into derivatives for trading or speculative purposes.

The interest rate swaps, which qualify for hedge accounting and meet specific matching criteria, are not remeasured at market value but the differential paid or received under the swap agreements is recognized and included in interest expense or income.

### Derivative Transactions to Which Hedge Accounting Is Applied

March 31, 2017	Hedged Item	Millions of Yen		
		Contract Amount	Contract Amount Due after One Year	Fair Value
Interest rate swaps (fixed rate payment, floating rate receipt)	Long-term bank loans	¥8,220	¥—	*

There were no derivative transactions to which hedge accounting was applied at March 31, 2018.

\* The fair value of interest rate swaps is included in that of hedged items (long-term bank loans due within one year is considered as short-term loans). Please see Note 13.

## Notes to Consolidated Financial Statements

## 15. OTHER COMPREHENSIVE INCOME

The components of other comprehensive income for the years ended March 31, 2018 and 2017, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Unrealized gain on available-for-sale securities:			
Adjustments arising during the year	¥ 5,567	¥ 2,194	\$ 52,403
Reclassification adjustments to profit or loss	(1,639)	(599)	(15,428)
Amount before income tax effect	3,928	1,595	36,975
Income tax effect	(1,414)	(326)	(13,310)
Total	¥ 2,514	¥ 1,269	\$ 23,665
Foreign currency translation adjustments:			
Adjustments arising during the year	¥ 1,658	¥(1,174)	\$ 15,608
Reclassification adjustments to profit or loss	(89)		(835)
Total	¥ 1,569	¥(1,174)	\$ 14,773
Remeasurements of defined employees' retirement benefit plans:			
Adjustments arising during the year	¥(2,319)	¥ 2,535	\$(21,831)
Reclassification adjustments to profit or loss	2,321	3,966	21,844
Amount before income tax effect	2	6,501	13
Income tax effect	(1)	(2,045)	(8)
Total	¥ 1	¥ 4,456	\$ 5
Share of other comprehensive income of entities accounted for using equity method:			
Adjustments arising during the year	¥ —	¥ 1	\$ (2)
Total other comprehensive income	¥ 4,084	¥ 4,552	\$ 38,441

## 16. EARNINGS PER SHARE

Basic earnings per share ("EPS") for the years ended March 31, 2018 and 2017, was as follows:

Year Ended March 31,	Millions of Yen	Thousands of Shares	Yen	U.S. Dollars
	Profit Attributable to Owners of Parent	Weighted-average Shares	EPS	
2018	¥18,232	394,277	¥46.24	\$0.44
2017	¥18,054	397,930	¥45.37	

## 17. SEGMENT INFORMATION

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### *(1) Description of Reportable Segments*

The Group identifies operating segments as components of entity for which discrete financial information is available and whose operating results are regularly reviewed by the Board of Directors in order to make decisions about resources to be allocated to the segments and assess their performance.

The Company, as a pure holding company, forms six reportable segments classified according to business content and manages them based on these reportable segments. Therefore, the Group has the following six reporting segments: “Delivery,” “BIZ-Logistics,” “Home Convenience,” “e-Business,” “Financial,” and “Autoworks” based on the above policy.

The Group defines the reporting segments as follows:

Delivery:	Small-parcel delivery services such as TA-Q-BIN (door-to-door parcel delivery) and Kuroneko DM-Bin (posting service)
BIZ-Logistics:	Intercompany logistics services, aimed at the B2B supply-chain management market
Home Convenience:	Lifestyle support services intimately connected with the needs of local markets, such as moving and household effects delivery services
e-Business:	Information services targeted at the business market, including ASP services and the development of information systems
Financial:	Financial services targeted at business customers and consumers, such as settlement and collection
Autoworks:	Vehicle maintenance services and fuel supply targeted at transport companies

### *(2) Methods of Measurement for the Amounts of Segment Revenues, Segment Profit, Segment Assets, and Other Items for Each Reportable Segment*

The accounting policies of each reportable segment are consistent with those disclosed in Note 2, “Summary of Significant Accounting Policies.”

## Notes to Consolidated Financial Statements

## (3) Information about Segment Revenues, Segment Profit, Segment Assets, and Other Items

Millions of Yen										
2018										
	Delivery	BIZ-Logistics	Home Convenience	e-Business	Financial	Autoworks	Other	Total	Reconciliation	Consolidated
Segment revenues:										
Segment revenues from customers	¥1,201,745	¥121,939	¥48,900	¥46,480	¥ 82,981	¥24,642	¥12,126	¥1,538,813	¥ —	¥1,538,813
Intersegment revenues	69,670	13,800	13,806	39,190	2,899	30,299	44,273	213,937	(213,937)	
Total segment revenues	¥1,271,415	¥135,739	¥62,706	¥85,670	¥ 85,880	¥54,941	¥56,399	¥1,752,750	¥(213,937)	¥1,538,813
Segment profit	¥ 6,758	¥ 4,088	¥ 523	¥10,588	¥ 7,912	¥ 4,141	¥17,217	¥ 51,227	¥ (15,541)	¥ 35,686
Segment assets	662,582	74,571	21,993	49,068	258,791	28,014	13,543	1,108,562	6,872	1,115,434
Other:										
Depreciation and amortization	32,916	2,157	582	4,120	5,233	696	374	46,078	345	46,423
Investment in entities accounted for using equity method	523	5,349						5,872	13,957	19,829
Increase of tangible and intangible fixed assets	34,380	3,589	897	2,023	11,645	830	804	54,168	314	54,482

Millions of Yen										
2017										
	Delivery	BIZ-Logistics	Home Convenience	e-Business	Financial	Autoworks	Other	Total	Reconciliation	Consolidated
Segment revenues:										
Segment revenues from customers	¥1,151,028	¥108,644	¥49,164	¥45,639	¥ 77,985	¥24,614	¥ 9,778	¥1,466,852	¥ —	¥1,466,852
Intersegment revenues	66,561	13,357	14,594	34,672	3,049	28,186	60,875	221,294	(221,294)	
Total segment revenues	¥1,217,589	¥122,001	¥63,758	¥80,311	¥ 81,034	¥52,800	¥70,653	¥1,688,146	¥(221,294)	¥1,466,852
Segment profit	¥ 5,638	¥ 4,072	¥ 1,077	¥ 9,368	¥ 8,244	¥ 3,274	¥35,477	¥ 67,150	¥ (32,265)	¥ 34,885
Segment assets	638,180	69,957	22,342	47,879	252,745	25,798	11,941	1,068,842	45,830	1,114,672
Other:										
Depreciation and amortization	32,417	2,575	542	4,368	4,402	735	410	45,449	665	46,114
Investment in entities accounted for using equity method	305	5,057						5,362	13,712	19,074
Increase of tangible and intangible fixed assets	31,611	4,798	708	3,445	7,379	264	591	48,796	198	48,994

Thousands of U.S. Dollars										
2018										
	Delivery	BIZ-Logistics	Home Convenience	e-Business	Financial	Autoworks	Other	Total	Reconciliation	Consolidated
Segment revenues:										
Segment revenues from customers	\$11,311,609	\$1,147,773	\$460,281	\$437,501	\$ 781,071	\$231,946	\$114,132	\$14,484,313	\$ —	\$14,484,313
Intersegment revenues	655,780	129,892	129,946	368,882	27,288	285,194	416,728	2,013,710	(2,013,710)	
Total segment revenues	\$11,967,389	\$1,277,665	\$590,227	\$806,383	\$ 808,359	\$517,140	\$530,860	\$16,498,023	\$(2,013,710)	\$14,484,313
Segment profit	\$ 63,614	\$ 38,474	\$ 4,920	\$ 99,657	\$ 74,475	\$ 38,979	\$162,060	\$ 482,179	\$ (146,283)	\$ 335,896
Segment assets	6,236,650	701,914	207,013	461,861	2,435,905	263,683	127,478	10,434,504	64,683	10,499,187
Other:										
Depreciation and amortization	309,832	20,304	5,482	38,780	49,255	6,550	3,520	433,723	3,245	436,968
Investment in entities accounted for using equity method	4,925	50,346						55,271	131,376	186,647
Increase of tangible and intangible fixed assets	323,611	33,782	8,446	19,037	109,610	7,817	7,564	509,867	2,954	512,821

Notes: "Other" includes JITBOX charter services and shared services.

Segment revenues and segment profit of "Other" include dividends for the years ended March 31, 2018 and 2017, of ¥17,483 million (\$164,558 thousand) and ¥34,410 million, respectively, which the Company received from its subsidiaries as a pure holding company.

Reconciliations are as follows:

- (1) Reconciliations of segment profit for the years ended March 31, 2018 and 2017, of ¥15,541 million (\$146,283 thousand) and ¥32,265 million, respectively, are intersegment eliminations and others.
- (2) Reconciliations of segment assets at March 31, 2018 and 2017, of ¥6,872 million (\$64,683 thousand) and ¥45,830 million, respectively, include intersegment eliminations of assets and liabilities of ¥154,669 million (\$1,455,844 thousand) and ¥150,292 million, and corporate assets which are not allocated to each reporting segment of ¥161,541 million (\$1,520,527 thousand) and ¥196,122 million, respectively.
- (3) Reconciliations of investments in entities accounted for using equity method at March 31, 2018 and 2017, of ¥13,957 million (\$131,376 thousand) and ¥13,712 million, respectively, are investments which are not allocated to each reporting segment.
- (4) Reconciliations of increases of tangible and intangible fixed assets at March 31, 2018 and 2017, of ¥314 million (\$2,954 thousand) and ¥198 million, respectively, include the Company's capital investment.

Segment profit is reconciled with operating profit in the consolidated statement of income.

**[Related Information about Reporting Segments]**

**(1) Information about Products and Services**

Operating revenues from customers for the years ended March 31, 2018 and 2017, were as follows:

2018				2017			
TA-Q-BIN	Kuroneko DM-Bin	Other	Total	TA-Q-BIN	Kuroneko DM-Bin	Other	Total
¥1,035,053	¥78,789	¥424,971	¥1,538,813	¥981,002	¥81,277	¥404,573	¥1,466,852

Thousands of U.S. Dollars

2018			
TA-Q-BIN	Kuroneko DM-Bin	Other	Total
\$9,742,589	\$741,615	\$4,000,109	\$14,484,313

**(2) Information about Geographical Areas**

Operating revenues for the years ended March 31, 2018 and 2017, were as follows:

2018				2017			
Japan	North America	Other	Total	Japan	North America	Other	Total
¥1,510,742	¥10,848	¥17,223	¥1,538,813	¥1,441,673	¥9,789	¥15,390	¥1,466,852

Thousands of U.S. Dollars

2018			
Japan	North America	Other	Total
\$14,220,086	\$102,110	\$162,117	\$14,484,313

Property, plant and equipment at March 31, 2018 and 2017, were as follows:

2018				2017			
Japan	North America	Other	Total	Japan	North America	Other	Total
¥403,241	¥370	¥1,447	¥405,058	¥403,528	¥365	¥1,177	¥405,070

Thousands of U.S. Dollars

2018			
Japan	North America	Other	Total
\$3,795,570	\$3,477	\$13,621	\$3,812,668

**(3) Information about Loss on Impairment of Long-Lived Assets by Reporting Segments**

Loss on impairment of long-lived assets by reporting segments for the years ended March 31, 2018 and 2017, were as follows:

	Millions of Yen									
	2018									
	Delivery	BIZ-Logistics	Home Convenience	e-Business	Financial	Autoworks	Other	Total	Eliminations or Corporate	Consolidated
Loss on impairment of long-lived assets	¥2,426	¥685	¥38			¥92		¥3,241		¥3,241

	Millions of Yen									
	2017									
	Delivery	BIZ-Logistics	Home Convenience	e-Business	Financial	Autoworks	Other	Total	Eliminations or Corporate	Consolidated
Loss on impairment of long-lived assets	¥765	¥322	¥178			¥19		¥1,284		¥1,284

	Thousands of U.S. Dollars									
	2018									
	Delivery	BIZ-Logistics	Home Convenience	e-Business	Financial	Autoworks	Other	Total	Eliminations or Corporate	Consolidated
Loss on impairment of long-lived assets	\$22,838	\$6,450	\$358			\$861		\$30,507		\$30,507

## Notes to Consolidated Financial Statements

**18. SUBSEQUENT EVENT***Appropriations of Retained Earnings*

The following appropriation of retained earnings at March 31, 2018, was approved at the Company's Board of Directors meeting held on May 17, 2018:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥14.00 (\$0.13) per share	<b>¥5,520</b>	<b>\$51,957</b>

# Independent Auditor's Report

# Deloitte.

Deloitte Touche Tohmatsu LLC  
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[www.deloitte.com/jp/en](http://www.deloitte.com/jp/en)

*To the Board of Directors of  
Yamato Holdings Co., Ltd.:*

We have audited the accompanying consolidated balance sheet of Yamato Holdings Co., Ltd. and its consolidated subsidiaries as of March 31, 2018, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

### *Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Yamato Holdings Co., Ltd. and its consolidated subsidiaries as of March 31, 2018, and the consolidated results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

### *Convenience Translation*

Our audit also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in accordance with the basis stated in Note 1 to the consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.



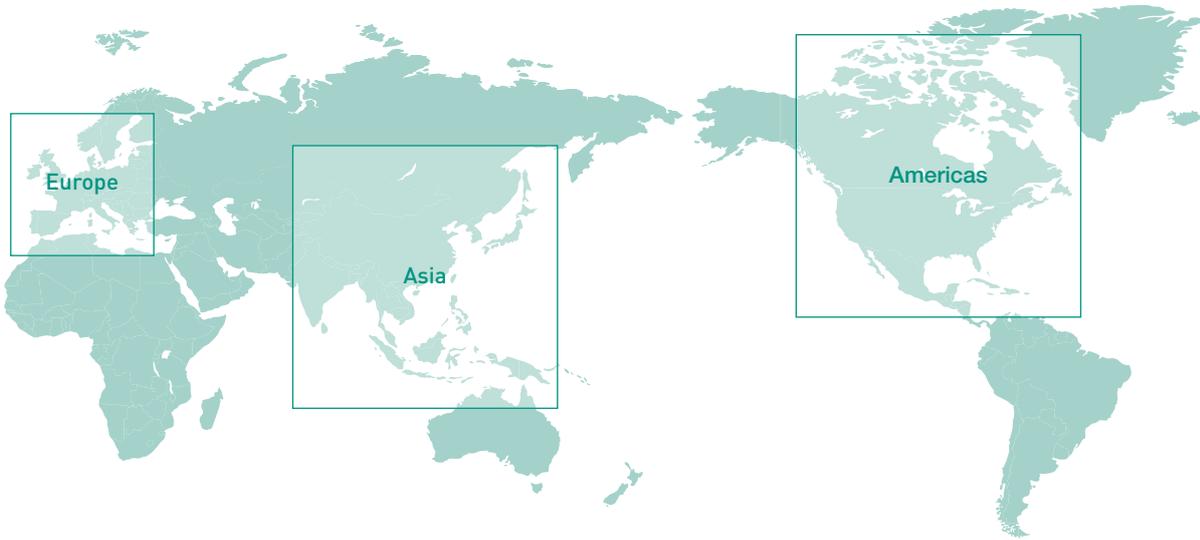
June 15, 2018

Member of  
Deloitte Touche Tohmatsu Limited

# Global Network

As of March 31, 2018

**27** overseas subsidiaries   **24** countries and regions of operation (including representative offices)



Countries and regions with local subsidiaries  
 Countries and regions with representative offices

# Corporate Data / Stock Information

As of March 31, 2018

## Company Name

Yamato Holdings Co., Ltd.

## Head Office

16-10, Ginza 2-chome, Chuo-ku, Tokyo  
104-8125 Japan  
Telephone: 81-3-3541-4141  
Facsimile: 81-3-5565-3427

## Established

November 29, 1919

## Registered

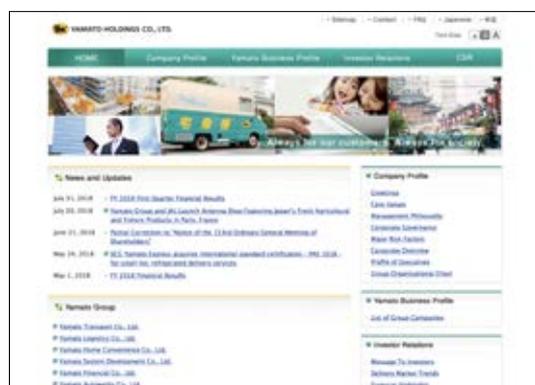
April 9, 1929

## Paid-in Capital

127,234,791,077 yen

## Website

<http://yamato-hd.co.jp/english/>



## Fiscal Year

From April 1 to March 31

## Common Stock

Authorized: 1,787,541,000 shares  
Issued: 411,339,992 shares

## Stock Exchange Listing

Tokyo Stock Exchange

## Transfer Agent and Registrar

Mizuho Trust & Banking Co., Ltd.

## General Meeting of Shareholders

Held in June

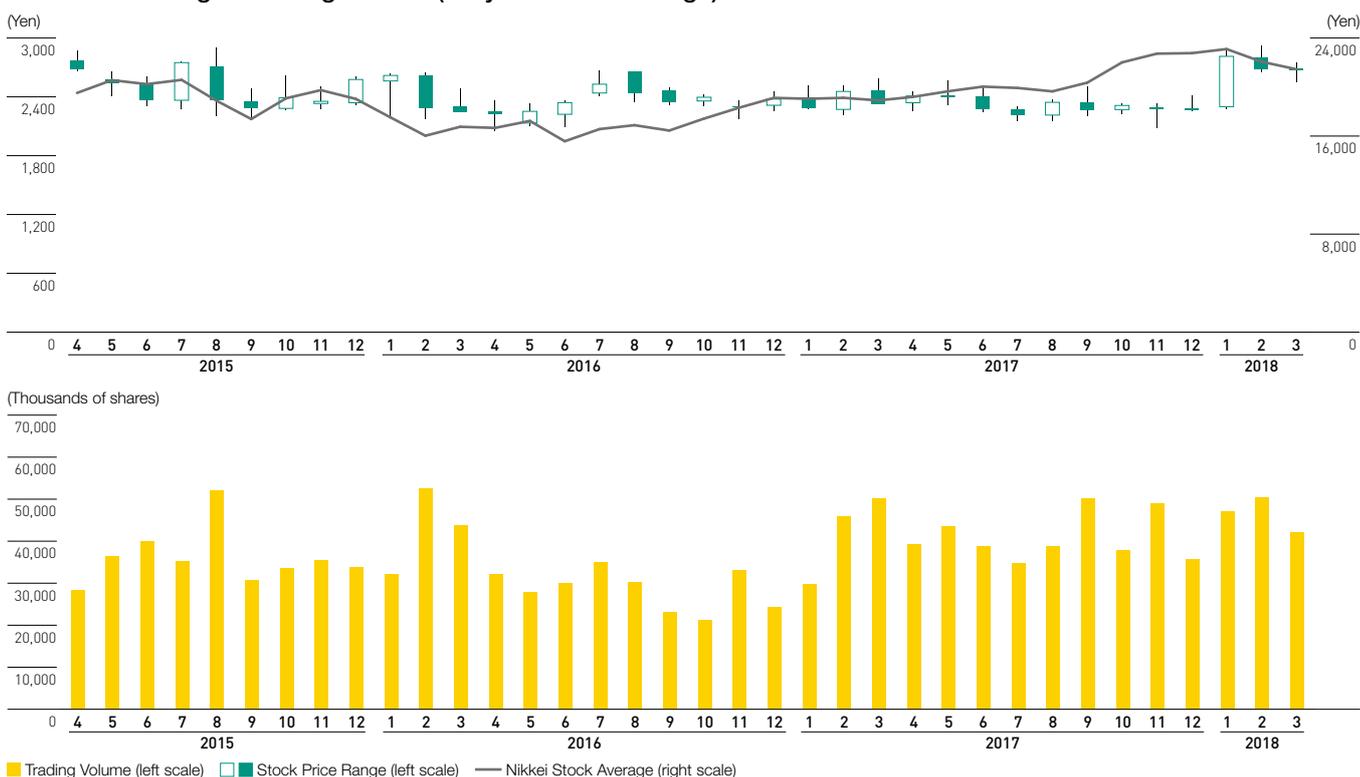
## Auditor

Deloitte Touche Tohmatsu LLC

## Principal Shareholders

	Percentage of total shares outstanding
The Master Trust Bank of Japan, Ltd. (Trust Account)	10.58%
Japan Trustee Services Bank, Ltd. (Trust Account)	6.25%
Yamato Employees' Shareholding Association	4.97%
JP Morgan Chase Bank, N.A. 380055	4.33%
Nippon Life Insurance Company	3.75%
Meiji Yasuda Life Insurance Company	3.63%
Mizuho Bank, Ltd.	2.98%
Yamato Trading-Partner Shareholding Association	2.18%
State Street Bank and Trust Company 505223	2.17%
Japan Trustee Services Bank, Ltd. (Trust Account 5)	1.61%
<b>Total</b>	<b>42.45%</b>

## Stock Price Range / Trading Volume (Tokyo Stock Exchange)





**YAMATO HOLDINGS CO., LTD.**

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Printed in Japan

Published in March 2019