

## A Message from the President



In April 2014, the Yamato Group began working on *DAN-TOTSU Three-Year Plan STEP* as the second phase to our long-term *DAN-TOTSU Management Plan 2019*, which we aim to complete in the year ending March 2020.

In this 2014 annual report, I would like to explain our medium-term strategies along the lines of the following four themes.

### The Four Themes

1. The Yamato Group's Vision
2. Promoting the "Value Networking" Design and Forging a Robust Corporate Culture
3. Our Unique Competitive Advantages
4. Forecasts and Shareholder Returns for the Year Ending March 2015

**Makoto Kigawa**  
Representative Director,  
President and Executive Officer

### 1. The Yamato Group's Vision

**The Yamato Group is striving to become Asia's No. 1 solution provider in distribution and lifestyle support by fiscal 2020, when we will be celebrating our 100th anniversary.**

**In relation to this, I think sustainable growth and co-existing with society are interconnected, and that it is vital for us as a Company that maximization of our profits and contribution to society are compatible.**

The Yamato Group is striving to become Asia's No. 1 provider in distribution and lifestyle support solution services by fiscal 2020, when we will be celebrating our 100th anniversary.

To this end, the following three objectives were set forth in our long-term *DAN-TOTSU Management Plan 2019*, scheduled for completion in the year ending March 2020:

- (1) Enhance the logistics network in Asia
- (2) Raise the product sophistication of *TA-Q-BIN*
- (3) Establish *lifetime lifestyle support platforms* that are in close touch with local communities

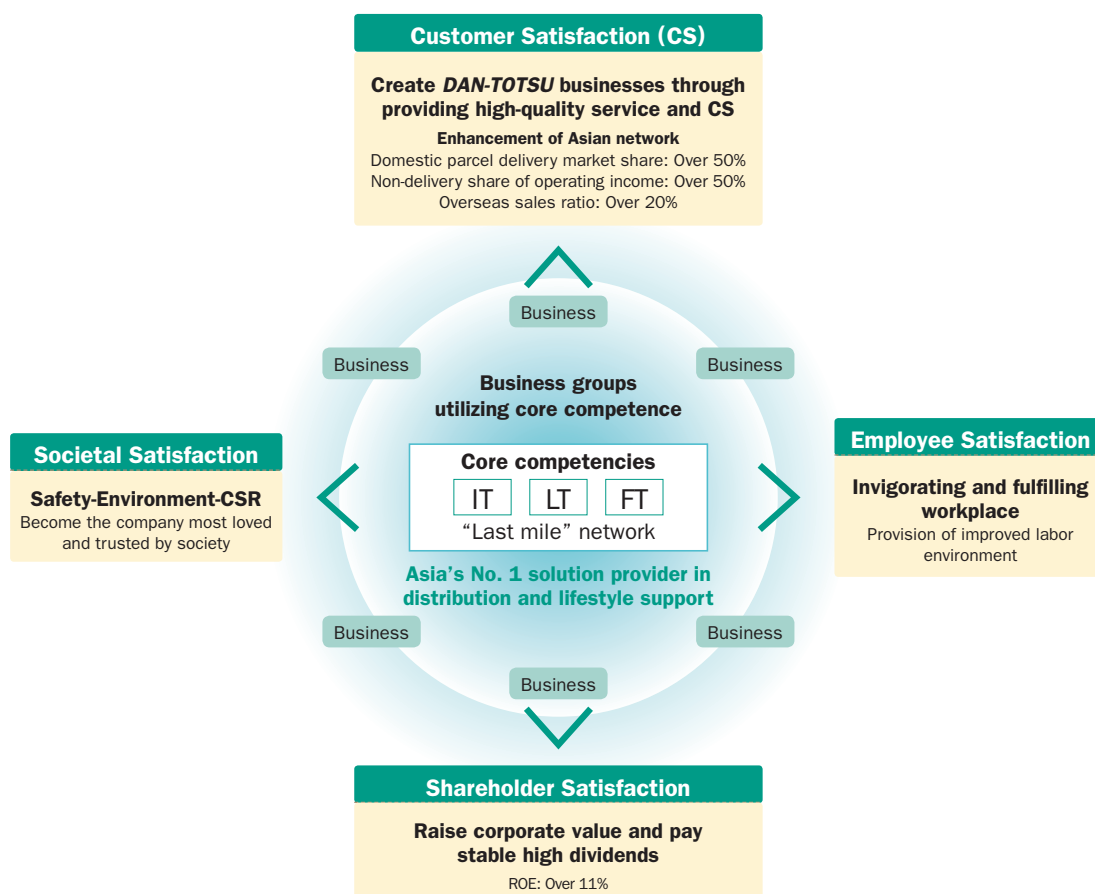
These three objectives have served as guideposts in our pursuit of innovation for realizing growth in *TA-Q-BIN* services, and cost structure reforms for giving rise to high profit margins.

Over the years, the Yamato Group has developed businesses in close touch with the lifestyles of individuals in local communities. As a result, I have come to think that sustainable growth and co-existing with society are interconnected, and that it is vital for us as a Company that maximization of our profits and contribution to society are compatible.

This perspective has led us to refine our concept of CSR into a *Creating Shared Value* concept on which we base the revitalization of communities and the lifestyle support we provide as part of the structural innovations in our logistics business.

In that sense, our vision as a Group also entails delivering sustainable growth to the greater satisfaction of all our stakeholders, including shareholders, customers, the communities we serve, and our employees, by maximizing our profits in combination with social contributions.

### Yamato Group Concept Map Ahead of 100th Anniversary



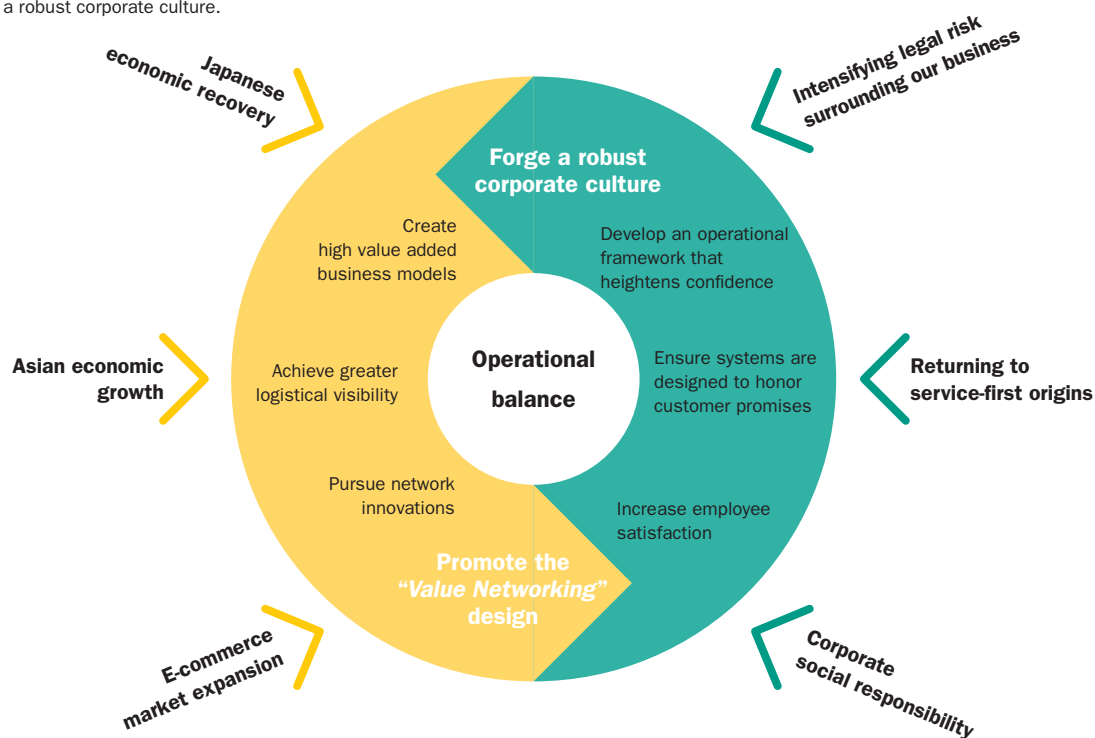
## 2. Promoting the “Value Networking” Design and Forging a Robust Corporate Culture

Under *DAN-TOTSU Three-Year Plan STEP*, the Yamato Group will promote its “Value Networking” design and give rise to business models with high added value that not only benefit customers but also contribute to the growth of the Japanese economy.

At the same time, we will forge a robust corporate culture by rigorously educating our employees to instill in them the Yamato Group Corporate Philosophy and make the trust we earned from customers unshakable.

### Achieve Operational Balance

We aim to achieve operational balance through a two-pronged approach of pursuing our “Value Networking” design while also forging a robust corporate culture.



The *DAN-TOTSU Three-Year Plan STEP* we began implementing in April 2014 is the second phase to our long-term *DAN-TOTSU Management Plan 2019*. Our aim in *STEP* is to give shape to our vision of becoming Asia’s No. 1 solution provider in distribution and lifestyle support.

This second phase is comprised of two main strategic pillars: the first for promoting our new “Value Networking” design, and the second for forging a robust corporate culture through enhanced corporate governance and CSR activities.

### **Basic Group Strategy 1: Promoting the “Value Networking” Design**

The “Value Networking” design describes our attempt to raise logistics to a new evolutionary stage by upgrading our services as a “means for generating new value.” This will be achieved by integrating our “last mile” delivery network, built up in Japan and Asia as the Group’s core competence, with an array of non-delivery services we are developing. The concept will differentiate the Yamato Group from conventional third-party logistics (3PL) providers who are dependent on warehousing and delivery of inventory for revenue.

Our “Value Networking” design activates the following five engines in giving rise to business models with high added value for improving the speed and quality of our logistics dramatically, and holding down the total distribution cost of our customers.

### **The Five Engines of the “Value Networking” Design**

- (1) A non-stop logistic network, branching out from the full operation of *Haneda Chronogate*, *Atsugi Gateway*, and *Okinawa International Logistics Hub*, providing swift value-added services 24 hours a day, 365 days a year.
  - (2) A cloud-based network, interfaced with *FRAPS\**, which is unrestrained by shipping location, shipping format, and shipping volume
- \* *FRAPS* is an acronym for the *Free Rack Auto Pick System*, a cloud-based setup that can use “last mile” networks. This picking system uses proprietary flow-through racks. As the racks move along, items are sorted and cross-merged on the network, reducing overall inventory by enhancing flow speeds and visualizing inventory volumes and flows.
- (3) The world’s first integrated delivery network of international refrigerated packages, initiated by *International Cool TA-Q-BIN*
  - (4) Seamless digital informatization enabling both senders and receivers to visualize logistics from shipment to arrival
  - (5) Demand-chain-perspective innovation satisfying the needs of both purchasers and suppliers

### **Finding Insights to Changing Market Conditions**

The “Value Networking” design was an insight that came to us as we observed the business conditions of Japanese companies become increasingly borderless, and also intertwined with the rapidly growing economies of Asia.

For example, our customers in the retail and distribution industry are facing intensifying competition with major e-commerce companies and are encountering growth of cross-border e-commerce markets. Accepting smaller orders to stay in business and seeking prompt international delivery had meant yearly increases in logistics costs for these customers.

Meanwhile, many Japanese manufacturers were having difficulty reining in their total distribution cost, including inventory control, as they internationalized. This was because, while capable of keeping manufacturing costs under control, they had to resort to outsourcing for shipments from the overseas factories they were opening.

We think that the solutions the Yamato Group is capable of providing can help these customers reduce their total distribution cost, while improving the speed and quality of their logistics dramatically.

Meanwhile, the Yamato Group has also had to cope with various changes in its operating environment, including an aging and shrinking population in Japan, labor shortages, and the rapid expansion of cross-border and domestic e-commerce markets.

It was around seven years ago that we began initiating cost structure reforms in earnest. Since then we have been working to raise our baseline

profit margins, while maintaining or enhancing our service quality, in anticipation of intensifying cost pressure.

As part of cost structure reform, we have invested approximately ¥200.0 billion in new logistics facilities such as *Haneda Chronogate* and *Atsugi Gateway* and in speeding up our conventional *TA-Q-BIN* service to revolutionize our logistics network.

These capital investments for revolutionizing our logistics network will reach the final stage in the year ending March 2015. From then on, the Yamato Group will enter a new phase of reaping benefits from the reform.

In my analysis, the time-efficiency advantages of being ahead of others gained from the initiatives we took will become a factor differentiating the Yamato Group substantially from our competitors.

As the objectives to our medium- to long-term strategy, we will continue to:

- (1) Give rise to business models with high added value based on our “*Value Networking*” design,
- (2) Push for cost structure reforms by re-examining our logistics network and package pickup and delivery system,
- (3) Apply pricing strategies for receiving fees for added value we provide,
- (4) Stimulate new demand in Asia centered on *TA-Q-BIN*, and
- (5) Build a global demand chain for our services.

### **Basic Group Strategy 2: Forging a Robust Corporate Culture**

As the other strategic pillar to *DAN-TOTSU Three-Year Plan STEP*, the Yamato Group will concentrate more than ever on building an open and transparent corporate culture. To this end, we will conduct employee education programs for the entire group to instill in them the Yamato Group Corporate Philosophy and make the trust we have earned from our customers unshakable.

At the same time, we will bolster corporate governance to make Group management more transparent, realize a sound financial structure, and take a strategic approach to legal affairs to ensure risk management is functioning as a check against the new business lines we create. The objectives behind these measures we implement will be to 1) incentivize our employees to seek customer satisfaction and 2) build a system that ensures that the promises we make customers will be kept.



In addition, we are aiming to develop a next-generation information system by the end of March 2017 to strengthen our IT platform. The new system will apply tools for making cargo flow handled by the Group as a whole and each pickup and delivery area visible, so that an appropriate system for maintaining and enhancing the quality of our services can be honed.

We will also try to fully commercialize the community lifestyle support services we developed with local municipalities as part of our *Creating Shared Value* concept of embracing values important to society in our main business activities.

### 3. Our Unique Competitive Advantages

**The Yamato Group’s strength stems from the added value generated by fusing the “last mile” delivery network, built up in Japan and Asia as the Group’s core competence, with an array of high-margin, non-delivery services.**

The Yamato Group has numerous unique competitive advantages unequaled by other companies.

But the following two strengths are the most salient as a foundation in realizing sustainable growth for the Yamato Group and promoting the “*Value Networking*” design for driving growth in the medium- to long-term.

1. The Yamato Group’s “last mile” delivery network in Japan and Asia
2. The added value generated by fusing this network with an array of non-delivery businesses

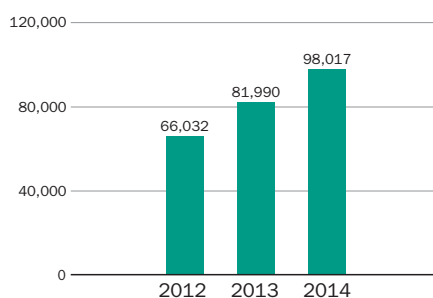
#### The Yamato Group’s “Last Mile” Delivery Network in Japan and Asia

The *TA-Q-BIN* business, which started as a home delivery service for consumers, has been operating for 38 years since its launch in 1976.

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

#### Delivery Volume (Including Taiwan)

(Thousand Parcels)



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

In the year ended March 2014, we maintained the No. 1 industry share in terms of delivery volumes as a result of our high-quality transportation and high value-added services.

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

We began expanding our *TA-Q-BIN* business in Asia when we provided our expertise in *TA-Q-BIN* nurtured in Japan to Taiwan's Uni-President Enterprises Corp. in 2000.

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

As of March 31, 2014, we had developed the *TA-Q-BIN* delivery business in Hong Kong and Malaysia, in addition to Shanghai and Singapore. Demand for delivery services is steadily rising in these locations.

Courier companies with a "last mile" delivery network in Asia are few and far between globally. We are convinced that this unique delivery network of ours is a strong advantage in capturing the market for borderless logistics, extending the reach we have with customers in the countries in which we already operate, and promoting a plan linking the regions and countries we serve with an integrated international transportation service.

To build this integrated international transportation service in Asia, we used our *Okinawa International Logistic Hub* to launch an overnight delivery service of documents in November 2012 from Japan to Shanghai, Singapore, Hong Kong, and Malaysia, where we have *TA-Q-BIN* services available. In May 2013, we extended next-day deliveries to include small parcels.

In October 2013, we launched *International Cool TA-Q-BIN*, our service for delivering small refrigerated packages internationally. The target area of this service between Japan and Hong Kong is scheduled to expand to Taiwan and Singapore, as well.

Such *TA-Q-BIN* networks we have developed in Asia will play an important role in addressing our medium-term objective of building up a global demand chain for the Yamato Group.

### **The Added Value Generated by Fusing our Network with an Array of Non-delivery Businesses**

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

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

Seamlessly integrating such non-delivery businesses as IT and financial settlement technology (FT) with the "last mile" networks of our Delivery Business will empower us to provide new solutions that dramatically improve logistics speed, costs, and quality.

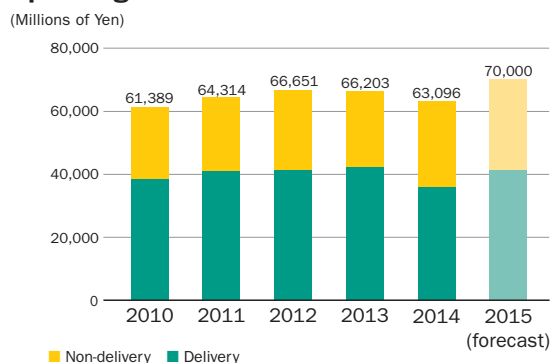
## 4. Year Ending March 2015 Forecasts and Shareholder Returns

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

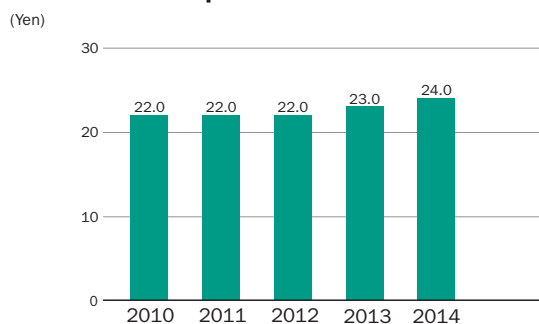
In the year ending March 2015, the first year of the *DAN-TOTSU Three-Year Plan STEP*, we forecast that consolidated operating revenues will increase 4.5% year on year to ¥1,437.0 billion. Operating income is projected to rise 10.9% to ¥70.0 billion, while net income is forecast to increase 17.9% to ¥41.0 billion. We expect to reduce capital investment 9.6% to ¥80.0 billion, as we look to deliver a record-setting performance.

Capital investment will peak out from the year ending March 2015. That said, the budget for the year will include spending to maintain existing businesses and growth investments that include new business opportunities such as e-commerce and procurement and delivery in the corporate logistics category.

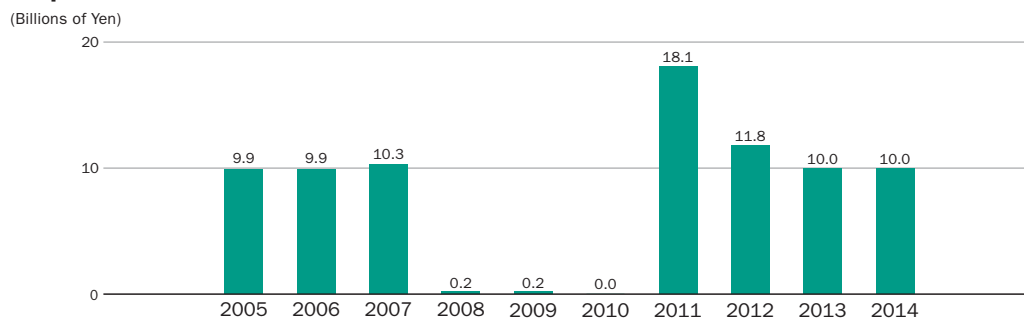
### Operating Income



### Cash Dividends per Share



### Acquisition of own shares





Under the *DAN-TOTSU Three-Year Plan STEP*, ending March 2017, we are aiming for ROE exceeding 9.0%. Meanwhile, we seek to generate an ROE of more than 11.0% under the *DAN-TOTSU Management Plan 2019*, which runs through the year ending March 2020.

For the year ended March 2014, we paid dividends of ¥24 per share, up ¥1 from a year earlier.

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

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

We ask our shareholders and other investors to look forward to the steps the Yamato Group has begun taking on a journey in pursuit of new growth, and appreciate their ongoing encouragement and support.

September 2014



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

Makoto Kigawa  
Representative Director,  
President and Executive Officer