

REVITALIZING For Our Network

Increasing the Number of Delivery Centers

In April 2003, Yamato Transport embarked on a plan to segment its *Takkyubin* service areas and service centers. The related organizational reforms include a shift to smaller operating units, centered on our service departments, to sustain a high level of employee motivation. Another component of this plan is the solidification of our business base by increasing the number of delivery centers. Going forward, we plan to grant more autonomy within this segmented organization and expand the number of delivery centers from 2,600 to 5,000 by fiscal 2008 (ending March 2008). Simultaneously we are revamping the internal structures that support our delivery business to gain greater efficiencies. Previously, each delivery center had its own administrative, sorting, delivery, and sales functions. Under

the new system, however, administrative and sorting operations will be carried out separately from delivery centers, which will focus exclusively on customer service and thus be converted into strategic business bases. To increase efficiency, administrative and sorting operations will be consolidated and shifted to our top 71 logistics terminals around Japan. As of March 31, 2004, we had completed selection of the top 71 terminals and had 2,675 delivery centers, an increase of 363 such centers on the year. Our plan is to have 3,300 delivery centers by the end of March 2005 and expand the number by approximately 600 or more locations each year through fiscal 2008.

Investment Plan

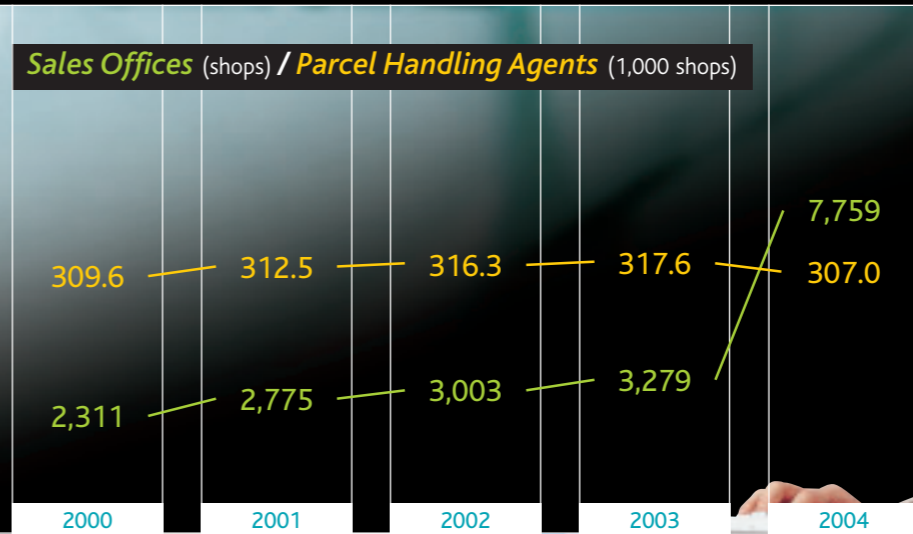
Under the new system, each organizational segment will be comprised of smaller delivery centers ranging in size from

one-half to one-third the scale of existing locations, with a supervisor assigned to each business area. As fiscal 2004 marked the beginning of our transition to the new system, not only did we incur costs associated with the opening of new delivery centers, we invested considerable amounts in IT and call centers necessary to consolidate administrative operations. Although the build-out of our network to 5,000 delivery centers will require additional investment costs, centered on expenditures related to the ongoing opening of delivery centers, we expect overall investment to stabilize as factors causing sharp cost increases drop out of the picture.

Increasing Administrative Efficiency

We are shifting administrative and sorting functions to our top logistics terminals to consolidate indirect operations. As an interim measure, we are staffing both business centers

and logistics terminals while conducting a complete review of internal operations. This situation has resulted in variations in proficiency among staff members. Moreover, we have made reinforcements in light of the risk that service quality might suffer under a new system that is untested by the heavy shipment volumes of the summer/winter gift-giving seasons. Consequently, operating expenses, mainly personnel costs, have risen. However, we conducted a review of the system at the end of fiscal 2004 and as a result reduced the number of full-time administrative supervisors. We expect to take another step toward a new growth phase in fiscal 2005, when we expect administrative efficiencies to start emerging.



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REVITALIZING For Our Service

Overview of Kuroneko Mail Service and Development of New Demand

In March 2003, the Ministry of Public Management, Home Affairs, Posts and Telecommunications updated its policy regarding the treatment of certain materials as correspondence, ruling that direct mail distributed in unspecified numbers does not fall under the category of correspondence, clearing the way for private firms to handle this type of mail. Yamato seized this opportunity to renew its *Kuroneko Mail* service, revising it to make customer convenience the top priority. For example, in the market for the delivery of magazines and catalogs to mailboxes, we began offering delivery for ¥80 per A4-size item, next-day delivery (excluding some regions), and delivery notification. The service received high marks from the market for its convenience, such as its more refined volume and price bands and

elimination of the need to insert contents into fixed-size envelopes if address labels are affixed. As a result, handling volume has increased dramatically.

The elimination of the need for a receipt stamp, traditionally required for matter delivered by *Takkyubin*, satisfied market needs for company-to-household delivery of direct mail. As the number of people in Japan that receive direct mail is one-seventh of that in the United States and one-half of that in Europe, we fully expect the domestic direct mail market to expand going forward. We think the potential market for *Kuroneko Mail* is very substantial, taking into account latent corporate demand and the prospects for acquiring existing demand. Following service modifications, *Kuroneko Mail* handling volume showed remarkable growth in fiscal 2004, rising 64.0% from the previous fiscal year.

Evolution of Delivery Services

Historically, makers stocked inventories of manufactured goods based on projected demand, with retailers displaying the goods until sold, forcing them to also hold inventories. The emergence of revolutionary *Takkyubin* services paved the way for mail order sales that required neither stores nor inventories, which substantially boosted corporate operating efficiency.

Today, although next-day *Takkyubin* delivery is taken for granted, the Yamato Group is pushing forward with the next revolution in delivery services to make them even faster and more convenient. As part of this effort, we instituted the industry's first late-night flight between Hokkaido and Tokyo to launch an ultra-fast *Takkyubin* service covering Tokyo and seven other prefectures in the Kanto region.

By ferrying parcels on planes traveling at 700km/hour, we are able to offer next-day service to Hokkaido.

We have also designed our new network so that the average access time from delivery center to customer is 10 minutes. Shorter access times mean shorter drive times, and with this saved time, drivers can provide more value-added services. We believe that this, combined with the enhancement of our core transport system into a high-density network, will generate demand from individuals who would have ordinarily transported articles themselves, and we think the potential in this end of the market is fairly substantial. As with conventional *Takkyubin* services, we think that infrastructure upgrades will provide previously unimagined methods of utilization and the opportunity to create high-growth markets.



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Group Business Formation



Delivery Business



BIZ-Logistics Business



Home Convenience Business



e-Business



Financial Business



REVITALIZING For Your Satisfaction

Enhancing Corporate Strength Through Business Formation

The Yamato Group is cultivating business opportunities in its five core business domains and offering innovative services that combine its corporate resources with its accumulated expertise. The aim is to achieve further earnings growth by managing the overall Group in a way that generates even greater synergies. By using these businesses as a platform to offer new services centered on our capabilities in logistics, information, and settlement, we intend to more fully leverage our competitive advantages as a Group. Yamato Transport possesses a logistics infrastructure that dates back 85 years and has accumulated specialized know-how in settlement and information systems that support rapid and accurate transport. Today, more than 1 billion items pass through our logistics mechanisms, from our parcel tracking system to our customer management

system, requiring advanced information technologies. As a result, we have very sophisticated system development/operation capabilities. By normalizing this know-how, that is, strong technical and competitive capabilities, within the Group and combining them in novel ways, we aim to add more value to the solutions we provide to outside customers and thereby strengthen the Company as a whole.

Developing Diversified Services

The Yamato Group started realigning its corporate resources in April 2003 based on a spin-off format in its five core business domains. In the process, we clearly delineated operating areas for Yamato Logistics Corporation (business-to-business transport), Yamato Global Freight Co., Ltd. (overseas cargo transport), the companies that make up the home convenience business (highly region-specific lifestyle support solutions, including moving and housework

outsourcing services), and Yamato System Development Co., Ltd. (IT system construction).

Now unfettered by the existing *Takkyubin* business, these companies have the flexibility to develop products and services in new areas. For example, in the BIZ-Logistics business, which addresses needs in the area of company-to-company transport, more than just supporting logistics, we provide solutions that meet customers' needs for efficiency and low-cost operations. By outsourcing inventory management of promotional merchandise to Yamato Logistics, one manufacturer reduced its inventory levels and reduced stock-out rates. Moreover, by having orders for promotional merchandise delivered to the nearest Yamato Group logistics center, the manufacturer improved the productivity of its sales force. This case illustrates how the BIZ-Logistics business was able to leverage the assets of

the Yamato Group as a whole to provide its customers with winning solutions.

Every Group company is working to expand its business domain and develop innovative services like those highlighted above. Just as the concept of transporting items that people often take with them on trips gave rise to ski *Takkyubin* and golf *Takkyubin* services, we are confident that the increased density of our logistics network will provide opportunities to uncover and meet demand at the community level. The Yamato Group has already launched a delivery service for heavy and bulky consumer goods to encourage the outsourcing of household work. Still, we plan to introduce even more diversified services going forward, including personal shopper services, the delivery of nursing care-related supplies, and dry cleaning pickup and delivery.



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