

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.