

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



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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.

