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Outside Director Roundtable

Improvement of Corporate Value over the Medium to Long Term Through Business Structure Reforms

The Yamato Group is engaging in business structure reforms to realize sustainable growth and the medium- to long-term enhancement of corporate value, alongside the reinforcement of corporate governance that supports this endeavor. Five independent outside directors gathered to engage in lively discussions about the issues surrounding the current status of corporate governance and the achievement of the medium- to long-term enhancement of corporate value.

Effectiveness of the Board of Directors and Nomination and Compensation Committee

Pertinent Discussions Held by the Board of Directors That Focus on Important Matters

Sugata The Yamato Group Board of Directors has been increasing the ratio of outside directors and continuously transforming the governance structure. An example of this is myself, an outside director, acting as chairperson. In addition to implementing pre-planned agenda setting for the year and pre-meeting briefings, we are also advancing our initiatives for improving the effectiveness of the Board of Directors, such as relaunching site observations.

In light of these topics, I would like to hear everyone's opinions about the status of discussions regarding the actual Board of Directors meetings.

Kobayashi I believe that Yamato's governance structure is highly advanced even among Japanese companies, considering actions such as outside directors making

up more than half of the Board of Directors and an outside director acting as chairperson of the Board. Having an outside director as the chairperson enables a selection of appropriate agenda items discussion by the Board of Directors. This also enables the enhancement of discussions by dividing each item into resolutions, information on matters, and agendas. If the chairperson deems it necessary to hold further discussions of topics that arose from the day of Board of Directors meetings, they will actively facilitate these discussions, such as requiring the executive side to provide other opportunities for comprehensive explanations and reports.

Furthermore, during site observations in the Kyushu area, I gained a comprehensive understanding of the ideal future operations regarding our facility strategies, which are a key issue in business structure reforms, such as the consolidation and enlargement of sales offices and separation of terminal functions. In addition to dialogues with various site managers, I received further explanations from the responsible executive officer who accompanied us from the Head Office, which further deepened my understanding. Based on such initiatives, I recognize that the Board has been able to focus on important matters and hold pertinent discussions.

Yin In recent years, there has been a need to reinforce corporate governance in response to the sense of uncertainty caused by geopolitical risks and sudden changes in the business environment. So, Yamato is creating a governance structure in line with the changing times. Through dialogues with employees during observations, we are developing practical discussions with the Board of Directors while understanding the implementation status of and issues with management strategies.

The logistics industry has recently been facing international headwinds, such as the COVID-19 pandemic and rising fuel costs. However, Yamato has been treating these circumstances as an opportunity. I believe Yamato can enhance its competitiveness by dramatically innovating logistics and its own business model. As a logistics company that represents Japan, I believe Yamato can become a company able to win on a global scale by proactively adopting the management techniques and sense of speed of global corporations, and I myself will actively engage in these efforts.

Outside Director Roundtable

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Numerical-Based Discussions that are Reasonable and Objective

Sugata Institutional investors in small meetings, which have been held continuously since the fiscal year ended March 31, 2022, have also shown a high level of interest in improving the efficiency of the Board of Directors. Please share some examples of where the remarks and advice of the outside directors have been reflected in the activities of the executive side, improving the quality or speed of discussions and decision-making.

Kuga To put it into other words, the effectiveness of the Board of Directors is whether it can contribute to the improvement of corporate value and whether it can monitor the legitimacy of execution. Since the executive side is often required to provide more concrete and quantitative explanations regarding the improvement of corporate value, we have ensured that we have numerical-based discussions. In this sense, I believe that our discussions are reasonable and objective.

Tokuno I think that we have improved effectiveness as a result of the more precise strategies presented by the executive side in response to the basic message of the outside directors, which is that it should be shown through figures. Accordingly, rather than only improving the effectiveness of the Board of Directors, I believe that the performance of the executive side of the Board has also improved.



Kobayashi We have a vision and strategies, but what about quantitative targets? I have also repeatedly stated how vital it is to know the results and progress of quantitative targets. I believe that we are improving on these points.

Looking at one individual project, the outside directors exchanged various opinions with the executive side when deciding to introduce freighters in 2022. In light of issues in the logistics industry, such as the 2024 problem, and aimed at the creation of a sustainable and robust logistics network, we purchased and remodeled three airplanes from overseas. This was a major investment project and faced the risks of the exchange rate and fuel procurement. We have provided a lot of advice to the executive side on agenda items based on awareness of the significant impact on performance and in view of the personal experience possessed as outside directors. I believe that such discussions have led to the execution of this project with appropriate consideration of the risks involved.

Tokuno The purpose of Yamato's human resource strategies has changed according to the suggestions of outside directors, including myself. Since I was appointed as a director, I have felt that Yamato has good labor management but lacks human resource strategies linked to management strategies. By encouraging the discussion of this issue at every opportunity, I feel that we have made appropriate changes.



Lively Discussions Focused on Outside Directors Conducted by the Nomination and Compensation Committee

Sugata Next, regarding the effectiveness of the Nomination and Compensation Committee, I would like to ask you about the status of activities, concrete details of discussions, and content and issues you would like to discuss in depth in the future.

Tokuno Since June 2022, all outside directors participate in the Nomination and Compensation Committee and it comprises one inside director and five outside directors. I, an outside director, was appointed as chairperson. The committee is held once a month and I believe that the outside directors actively stating their opinions based on the combined expertise from their various backgrounds really enhances the Nomination and Compensation Committee. To describe one specific discussion, succession plans for the next generation of management team members are not simply about who will be the successor, but also about the layers below, connecting it to the discovery and development of management personnel that play a core role in the Company. It is necessary for the Nomination and Compensation Committee to understand human resource strategies and hold discussions that include the connection to these strategies.

Kuga Currently, there are major changes occurring within the Yamato Group. Following these changes, I believe the vital role the Nomination and Compensation Committee should play is holding discussions related to the human resource system and compensation system, drafting succession plans, and conducting follow-up evaluations.

Issues in Achieving Medium- to Long-Term Corporate Value Improvement

Enhancement of Profitability by Thoroughly Implementing Structural Reforms and Promoting Growth Strategies

Sugata At the accounts meetings held in the fiscal year ended March 31, 2023, Yamato disclosed the road

map for its medium-to long-term strategies up to the fiscal year ending March 31, 2027. With various environmental changes expected to occur in the future, what kind of issues do you think are of particular importance to the Company to realize an improvement of medium- to long-term corporate value?

Kobayashi Since President Nagao took over the management structure, we have been actively promoting structural reforms for the entire Group. Despite needing time to do so, current initiatives and policies are moving in the right direction and the implementation has been highly praised.

The key to measures for improving profitability is increasing operating profit margin in the short term. Accordingly, the first step is to determine how much we can reduce costs and how much we can reduce business losses and other losses. I believe that Yamato's measures for improving profitability are the further reinforcement of its strongest asset, *TA-Q-BIN*, and its differentiation from other companies. We must also minimize and withdraw from our weak points as much as possible. This is exactly what we intend to do through the structural reforms that are currently being implemented. One pillar of these reforms is Yamato's facility strategies. We have been vastly reducing fixed costs and enhancing profitability by optimizing the number of facilities necessary for providing services through consolidation and enlargement of sales offices and establishment of terminals with different functions.

Meanwhile, as a medium- to long-term growth strategy, we must establish a new revenue base in line with Yamato's specialty, *TA-Q-BIN*. I believe that one way to do this is to enter into global business, such as various countries in Asia, rather than just the Japanese market, where the problems of the falling birth rate and aging population are worsening. We could do this through measures that include M&As with foreign businesses.

Kuga To develop globally and expand corporate business domains, Yamato needs to create added value and differentiate itself since it is in the position of a follower. Thinking in terms of time, we should keep in mind cooperation and collaboration outside the company and must also further refine our strengths, including *TA-Q-BIN*. I hope the executive side holds discussions and considers numerous aspects from these perspectives.

Outside Director Roundtable

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Yin *TA-Q-BIN* started as a CtoC service, but today corporate clients make up 90% of the overall delivery amount handled. I am aware that increasing the profitability of these services for corporate clients is an urgent issue. It has been identified that Japanese companies are over a decade behind those in Europe and the Americas within the corporate-oriented marketing domain. During such a global era, to provide solutions to corporate clients we need to utilize global-standard marketing strategies and business intelligence and create an organization that corresponds to this scope.

Key issues regarding corporate clients in the Yamato Group are the implementation of up-selling and cross-selling and realization of even higher value-added proposals. For example, we must rapidly scale out our high-value-added solutions, such as Lead Logistics Partners (LLPs), at the same time as strategically and actively engaging in new developments. Furthermore, it is vital that we set KPIs that promote these initiatives. Yamato's current management team members recognized the importance of this, and we are seeing changes within the organization. However, in terms of time, we should be advancing both organic growth and strategic approaches and M&As.

Tokuno For Yamato to grow, it is important to first strengthen the management foundation, then take on challenges in new areas. Balancing these two endeavors leads to the long-term development of the Company. We are currently engaging in structural reforms to strengthen Yamato's management founda-

tion, in which human resources are highly significant.

Now, Yamato is clarifying the definitions of duties, such as aiming to subdivide the operations of sales drivers, creating a framework for so-called "job classes". We will deploy employees to the appropriate places in the company in line with the development of an employee evaluation system based on these definitions. I believe that the key to increasing the effectiveness of facility strategies is connecting these initiatives with the promotion of such strategies while advancing both the hardware aspects of consolidating and enlarging facilities and software aspects of optimal personnel allocation.

Since it is difficult to develop new growth areas with only internal human resources, it is important that external personnel with expertise enter the Company as leaders and promote this development while fostering internal employees. Furthermore, since this nurturing requires a fixed amount of time, acquiring external personnel is necessary to increase speed. While acquiring external personnel with expertise is liable to generate friction with internal employees, we should carefully share the direction of the Company with all employees and proceed with conviction and understanding. Meanwhile, Yamato should also re-skill internal employees who have the potential to strengthen base domains. Naturally, it is important that Yamato is a company where each employee continues to be aware of its mentality of "we all represent the Company." Employees who don't understand the direction the Company is heading are likely to leave.



I believe that doing everything we can to fully communicate Yamato's direction is a prerequisite of promoting human resource strategies going forward.

Kuga Focusing on capital efficiency, the Tokyo Stock Exchange recently notified listed companies of requests for support in realizing management that is aware of capital costs and stock prices. While the Corporate Governance Code introduces the concept of capital costs, Yamato has also set targets for ROE. However, I believe it is important to further deepen discussions about what specifically to implement in order to maximize corporate value, such as optimization of capital structure that includes the purpose of growth investments and shareholder returns, in addition to measures for enhancing the profitability and growth of the business based on capital costs.

Sugata Since the fiscal year ended March 31, 2021, we have been promoting Yamato's grand design for management over the medium- to long-term, "YAMATO NEXT100," and the medium-term management plan "One YAMATO 2023." While these plans have been described as a full model redesign for the Yamato Group, for a while after their launch I did not feel a sense of change. However, these changes have become visible between the fiscal year ended March 31, 2023 and the fiscal year ending March 31, 2024. An example of this is the consolidation of 3,500

TA-Q-BIN sales offices around the country to 1,800, and their subsequent enlargement. Yamato is also advancing initiatives to utilize both the existing *TA-Q-BIN* network and dedicated networks that are dedicated to the needs of target areas. This includes the creation of three new major networks—an EC logistics network that fully launched in the fiscal year ended March 31, 2022, a refrigerated and "Temperature-controlled only" network, and a Transportation & delivery network designated for corporate clients. Additionally, there have been major reforms moving forward, including, the consignment of posting services *Kuroneko DM-Bin* and *Nekopos* to Japan Post at the beginning of the fiscal year ending March 31, 2024.

I think that appropriate monitoring indicators will be necessary in the future to measure the results of the significant reforms that we have been steadily implementing. Furthermore, the final evaluation is a medium- to long-term increase in stock price, based on enhancement of profitability and improvement of corporate value. I will continue to fulfill my role as an outside director and chairperson of the Board to further support appropriate discussions and decision-making to realize these targets.

