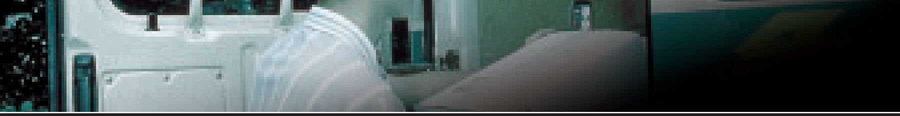
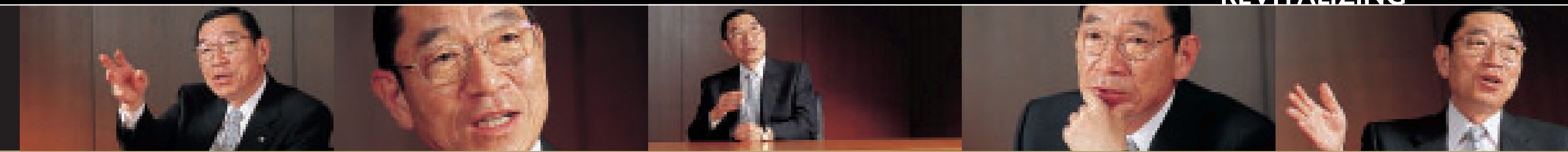


Discussion With the President



In fiscal 2004, the second year of our current three-year-plan, we executed various plans aimed at reengineering our *Takkyubin* network, rejuvenating *Kuroneko Mail*, and refining Group operations. The term also marked several milestones in the Group's history, including the handling of more than 1 billion packages in a single year and the achievement of consolidated operating revenues in excess of ¥1 trillion.

Question

What is your assessment of the operating environment and the Group's business results for fiscal 2004?

The establishment of Japan Post on April 1, 2003, further intensified competition within the parcel delivery industry, resulting in the continuation of a harsh operating environment. Still, our determined efforts to expand business translated into higher handling volume and operating revenues. We attribute this success largely to revenue growth associated with the modification of *Kuroneko Mail* into a more user-friendly service in April 2003.

The decline in operating income, despite higher revenues, was a reflection of investment to reengineer our *Takkyubin* network. To prevent deterioration in service quality, the migration to the new system required the deployment of personnel and other corporate resources to support both the old and new systems, and this caused expenses to be higher than we had expected. This reengineering is the first major overhaul of our *Takkyubin* system since its inception and is aimed at securing future growth. Basically, we are building necessary infrastructure. We think many will find it laudable that we are totally revamping our organization, personnel structure, and *Takkyubin* network without any decline in service quality based on a long-term strategy of rolling out higher-quality, services. We decided to place priority on these efforts out of confidence that, when our new network is completed, customer satisfaction with a service lineup and level of quality previously unachievable will be reflected in earnings. We believe that this emphasis on quality while retooling operations was instrumental in preventing service from deteriorating during the year-end gift-giving season in December, resulting in delivery volume exceeding the level in the previous year.

We view the decline in operating income in fiscal 2004 as the result of growth-oriented "creative destruction." In other words, this decline in operating income is in no way an indication of diminished earnings power. Actually, we are in a period where earnings are growing and we have reserve capacity as a company, meaning that this decrease reflects nothing more than proactive structural enhancements and investment aimed at future expansion.

Question

How much progress has been made toward reengineering the *Takkyubin* network?

The factors that prompted us to reengineer the Company's *Takkyubin* network were slowing year-on-year growth in handling volume and the ongoing decline in average unit delivery fees. Although our handling volume has exhibited stable growth to now, the parcel delivery business as a whole is maturing, prompting us to reengineer our network, tap latent markets, and help rejuvenate the overall sector to head off a decline phase. We also recognized that we needed to become more competitive. We therefore decided to transform our administrative procedures and the nature of our services in conjunction with an overhaul of our business structure, all with the goal of providing our customers with higher value-added solutions.

Moreover, we recognized the potential for Japan Post to be privatized and not merely become a public corporation as a threat to our market dominance. We therefore embarked on a plan to reengineer our organization, personnel structure, and logistics network to bring us closer to our customers and make Yamato the clear best choice for consumers in parcel delivery. Starting in April 2003, we shifted to an organizational structure based on small groups, that is, "*Takkyubin* area centers". We have made progress in reforms in other areas as well, including the introduction of a new personnel system in May 2002.

In fiscal 2004, we did not allow rising costs to slow down our reengineering efforts. Because incremental modifications strain local operations, we think it is preferable to carry out changes all at once on a nationwide basis. Also, we think it is crucial to construct our new infrastructure at a pace that is faster than the speed of change in the operating environment. Furthermore, given indications that the economy is improving, we believe it is important to focus on profit growth amid currently favorable conditions, including rising handling volume for *Kuroneko Mail*. Although we could achieve earnings in line with our plan by ignoring the pace of reform and focusing exclusively on profitability, more critical in our view is to take care not to fall behind the curve in terms of improvement in the operating environment. As such, we have expedited the concentration of corporate resources to hasten the timing of the next business upswing.

We aim to have 5,000 delivery centers when our reengineering activities are completed at the end of March 2008. After that we plan to continue expanding our network at a pace of 600 locations per year for the subsequent four years.

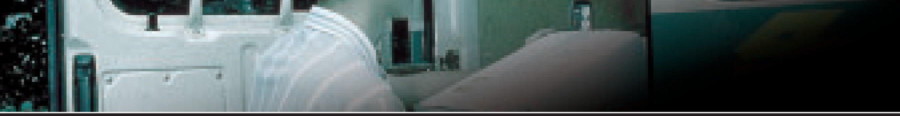
Question

How will the service lineup be different following construction of the new system?

The reengineering of our *Takkyubin* network involves the expansion of delivery centers and the consolidation of indirect operations. Simultaneously, we aim to grow earnings by increasing handling volume and improve margins by heightening operating efficiency.

Our goal in expanding the number of delivery centers was to design our new network so that the average access time from the delivery center to the customer is 10 minutes. Underpinning this concept is a shift toward a larger network comprising a greater number of smaller hubs. We are confident that a high density service network will enhance service quality and translate into higher market share over the longer term. As for new services, we have extended the operating hours of our service departments to provide more detailed customer support and satisfy immediate household needs. We believe that this will enable us to better address demand for quick transport, whether it be business-to-business or business-to-individual. We see one untapped market as the delivery of in-house articles that companies currently transport on their own. By tailoring solutions according to the type of article and required pickup times, we think it is possible to convince companies to outsource the inter-office delivery of documents and other such items.

We view increasing the density of our network coverage and broadening our service menu as an integral part of our strategy of controlling the market for downstream logistics (i.e., delivery to the final recipient) and securing an even more solid industry position.



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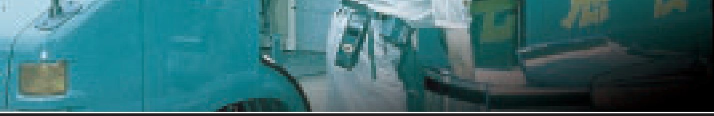

Question

How much progress has been made in achieving the targets laid out in the Company's current three-year business plan?

Our current three-year-plan represents the first medium-term plan for the Yamato Group as a whole. It calls for a review of the Company's corporate resources and accumulated know-how, the construction of a new business model that skillfully combines these factors in fields where the Group excels, and an increased focus on Group management. Under the plan, which is aimed at wholesale realignment of our operations, we have refined the roles of the various Group companies that operate our nationwide network and logistics infrastructure. We have also segmented our business domains for better management within the Group.

We have five profit units: the Delivery business, the BIZ-Logistics business, the Home Convenience business, e-Business, and the Financial business. The operations that support these profit centers are broadly categorized as Group support businesses. These businesses not only perform in-house functions, such as servicing rolling stock and conducting training programs, they also operate as independent business units and do business with external customers. Our objective is to convert these cost centers to profit centers and thereby benefit society by creating new corporate value. Another component to this strategy is to maximize Group synergies. To accomplish this, in fiscal 2004, we pursued reorganization and integration as part of a move to establish each operation as an independent business and took steps to ensure that each business is capable of surviving on a stand-alone basis. Within this context, we gave more authority to divisional managers and set up a new management system that facilitates speedier and more accurate decision-making.

In the BIZ-Logistics business, we upgraded our systems for responding to diverse customer needs, including export/import services encompassing the order stage through inventory management. The thrust of our efforts here involved leveraging our warehouse operations, which we have fine tuned over many years by responding to the needs of corporate cargo owners, and utilizing our nationwide network to offer improved business-to-business logistics solutions. In the home convenience business, we worked to provide various services, tailored to regional needs, that make life more convenient for individuals and families, with the goal of being viewed by customers as a close partner in eliminating everyday hassles around the home.

In our e-Business, we used systems built on the know-how of Yamato System Development Co., Ltd., which single-handedly designs, develops, and operates the Company's transportation-related IT systems, as a platform to develop various outsourcing and business software and to market software packages. Our financial business encompasses a wide variety of services, ranging from collection to funding. In fiscal 2004, we leveraged our accumulated strengths in lending to make further inroads into the settlement and collection agency businesses.

At this point, we see no obstacles to the reengineering of our *Takkyubin* network as our delivery business moves forward as planned. As such, not only do we expect the increase in the number of Yamato *Takkyubin* delivery centers to generate certain synergies, we aim to roll out new services in our non-delivery businesses.

Question

In fiscal 2004, what did Yamato do to fulfill its obligations in terms of environmental issues, corporate governance, and corporate social responsibility?

Due to our societal role as a transport company, Yamato maintains a large fleet of delivery vehicles, and we have always been proactive in reducing their environmental impact. In recent years, we have been shifting our fleet to low-environmental-impact hybrid vehicles. In fiscal 2005, we plan to introduce another 516 of these vehicles. On the employee side, we have introduced a company-wide driver-training program called "Eco-Drive." Aimed at boosting fuel efficiency and increasing vehicle operating safety, this program features activities to improve driving techniques and stresses the importance of maintaining constant operating speeds, utilizing low gears before stopping, and turning off engines when vehicles are not moving (i.e., eliminating idling).

In the area of corporate governance, the Company has invested decision-making, executive, and oversight authority in the Board of Directors, Executive Board, and Group Joint Management Council. In addition to making decisions on vital matters, these bodies delegate responsibilities to each branch and business unit for flexible, responsive management. Also, the Company has an auditing system comprising two full-time in-house auditors and two outside auditors. In addition to attending critical management meetings, these auditors monitor the appropriateness of the business and affairs of the Company and otherwise work to safeguard the Company's financial health and enhance its public trust. In conjunction with reengineering of the Company's *Takkyubin* network and in line with management forms, several key resolutions were passed at the June 2004 General Meeting of Shareholders. One such resolution was the introduction of an Executive Officer System, which is aimed at clearly delineating corporate decision-making, oversight, and executive functions. Others included a reduction in the number of Board members, the abolition of the system for recognition of past service, and the standardization of a system whereby annual compensation is based on the Company's earnings and individual employee performance. We are confident that these measures will enable the Company to act more speedily and effectively with regard to shifts in the operating environment as well as increase the transparency of management and the financial health of the Group as a whole.

We also believe that compliance is crucial to the Company's business management being trusted by all stakeholders. In January 2003, we established at the Head Office a Compliance Committee chaired by the president. In January 2004, we conducted activities at all offices, business headquarters, and affiliated companies to reinforce the importance of compliance with all laws and regulations in sustaining the Yamato brand.

The Yamato Group's business activities center on the provision of social infrastructure in the form of a comprehensive logistics network. On a more personal level, the Company offers services that help people lead more convenient and abundant lives. As such, we believe that our business, by its very nature, contributes to society in a very significant way. We, at the Yamato Group, are steadfastly committed to contributing to making the world a more convenient and better place to live for everyone.

August 2004

Atsushi Yamazaki
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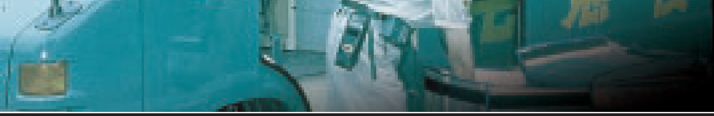

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