Kaoru Seto
Representative Director, President and Executive Officer

There Is Always Progress to Be Made

The Yamato Group is committed to becoming a global supply-chain logistics company based in Asia by organically combining information technology, logistics technology and financial technology—our management resources—to create new value, while also expanding the delivery business centered on *Takkyubin* operations.

Fiscal 2010 marked the second year of our "Create Satisfaction Three-Year Plan" medium-term management plan, and also coincided with the ninetieth anniversary of our establishment.

In this message I will first recap initiatives I promoted in fiscal 2010, while adding some of my own analysis, and then discuss the direction forward for the Yamato Group.

Review of Fiscal 2010

Consolidated operating revenues in fiscal 2010 declined 4.1% from the previous year to ¥1,200,834 million, while operating income increased 10.2% to ¥61,389 million. Although not entirely pleased with these results, we were able to achieve higher profits, albeit on lower revenues, in the midst of harsh business conditions caused by Japan's prolonged economic slump.

However, starting in the year under review, accounting for air freight was changed from a gross basis to a net basis, which impacted both operating revenues and operating costs by approximately ¥32.2 billion. Effectively therefore, consolidated operating revenues

Financial Results

Millions of Yen

	FY08/3	FY09/3	FY10/3	Change: Increase/ Decrease	Change: YoY (%)
Operating Revenues					
Delivery	¥ 981,142	¥ 997,898	¥ 966,480	¥(31,418)	(3.1)
Non-Delivery	244,832	254,024	234,354	(19,670)	(7.7)
Total	1,225,974	1,251,922	1,200,834	(51,088)	(4.1)
Operating Income	68,180	55,721	61,389	5,668	10.2
(Margin)	5.6%	4.5%	5.1%	–	–
Net Income	35,353	25,523	32,282	6,759	26.5
(Margin)	2.9%	2.0%	2.7%	–	–

Results of Labor Productivity Improvement Measures

FY2010 Delivery Business Revenues (Actual)

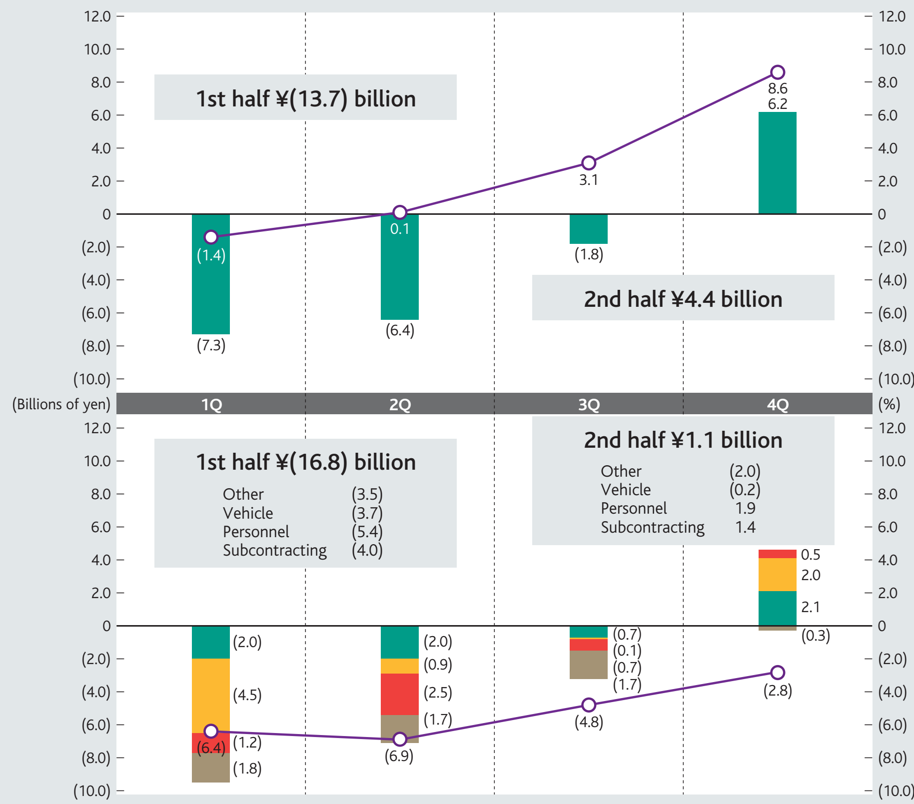
Excluding impact of Yamato Global Express split

- YoY change in revenues from external customers
- YoY growth rate of *Takkyubin* transactions (right scale)

FY2010 Delivery Business Expenses (Actual)

Excluding impact of Yamato Global Express split

- Subcontracting
- Personnel
- Vehicle expenses
- Other expenses
- YoY growth rate of Yamato Transport Co., Ltd. employees (right scale)



declined by 1.5%. Operating income was not affected.

At the start of fiscal 2010 I laid out two major policies aimed at sustained growth for the Yamato Group into the future: 1) Establish an overwhelming leading position in the parcel delivery service market, and 2) Create strategic global footholds in the Asia region.

With regard to the first policy, in the first half of fiscal 2010 shipment movements overall were not particularly good, as is shown in the chart above, but transaction volume was up year on year starting in the second half.

Our solution models for corporate clients in manufacturing, mail order and distribution, which leverage information technology, logistics technology and financial technology, were launched in fiscal 2009, and while their contribution to our bottom line is still modest, in my analysis their steady growth has produced some positive results.

For individual customers, we added to our lineup of enhanced services for members of the *Kuroneko Members*

Revenues from 5 solution models

(Billions of yen)

- Today Shopping Service
- Maintenance Support
- Other (Net Super; Global Direct; Web Shipment)

Takkyubin Center in Shanghai

Sales driver and *Takkyubin* Center in Singapore

club by employing rigorous customer relationship management, and successfully paved the way for further solidifying the Yamato Group's customer base.

At the same time, on the cost side, fundamental operational reforms in the *Takkyubin* business bore fruit. One benefit was being able to continue lowering personnel costs and other expenses through increased labor productivity.

As for the second policy, in January 2010 we successfully launched *Takkyubin* operations in Shanghai and Singapore.

Transaction volume in both countries is still modest, but an analysis of customer trends and market penetration suggests a positive response, indicating the potential for major revenues in the future. I think it is extremely significant that we were able to make inroads toward future growth.

In fiscal 2011 we intend to make headway on a strategy to differentiate ourselves in the parcel delivery market and on our global strategy in the Asia region.

Industry Analysis

I will next summarize trends in the parcel delivery market using the chart to the bottom left of the page in order to provide you with a better understanding of the trajectory of the Yamato Group's strategy.

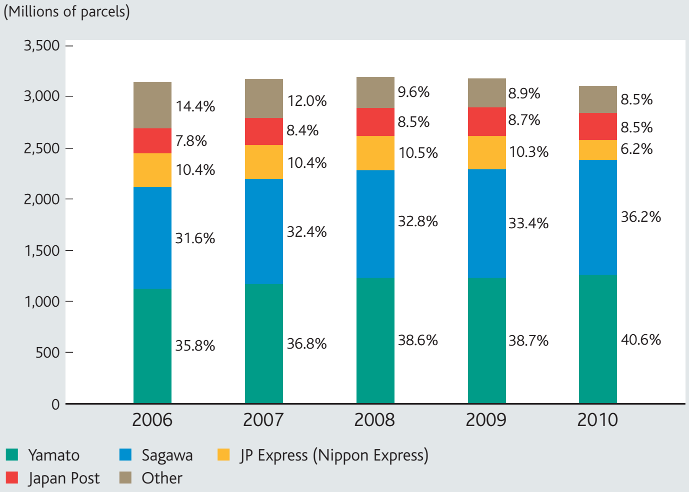
The chart shows market shares for delivery companies based on annual data from Japan's Ministry of Land, Infrastructure, Transport and Tourism on parcels handled by each company.

As you can see, Japan's parcel delivery market has been dominated by the top two companies, one of which is Yamato Transport. I believe that this trend will continue and will likely accelerate going forward.

A careful analysis of the criteria and values employed by customers when choosing a logistics company "with legs" like us provides one reason why the market is trending this way: customers want comprehensive logistics services that cover the entirety of supply-chain management. This includes not only highly refined services like end-user pickup, delivery at specific times, refrigerated delivery and settlement services, but

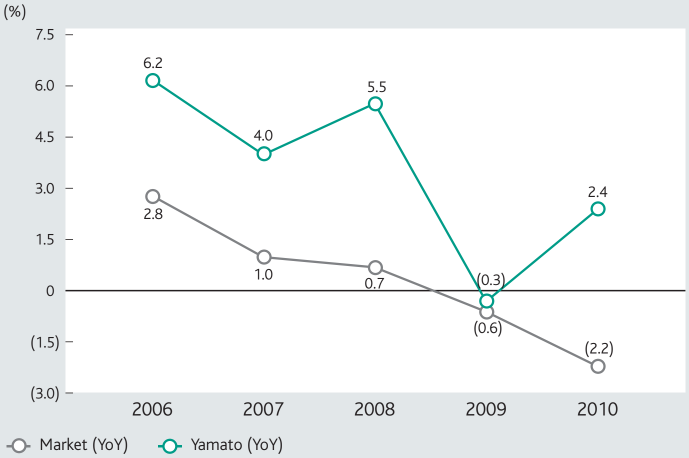
Market Share

(Millions of parcels)



Sources: Ministry of Land, Infrastructure, Transport and Tourism and Japan Post Holdings Co., Ltd.

Comparison of Domestic Parcel Delivery Market Growth and Yamato *Takkyubin* Service Growth



Sources: Ministry of Land, Infrastructure, Transport and Tourism and Japan Post Holdings Co., Ltd.

also maintenance, operation and management of inventory itself at the customer's warehousing facilities.

The Yamato Group provides comprehensive logistics services, including *Takkyubin* parcel delivery, to manufacturers and mail order companies. A certain foreign-affiliated manufacturer with global operations rates the Yamato Group's logistics services as "Excellent," the highest ranking in the company's internal assessment scheme. The services we provide have helped this customer reduce their own logistics costs. We also have customers that use our services as an internal benchmark.

The domestic parcel delivery market has grown at a rapid pace alongside our *Takkyubin* service, which has been making door-to-door deliveries since 1976. Some observers contend that market growth has come to an end, a view derived perhaps from the downturn in handling volumes of the last two or three years or structural factors like the shift toward international specialization and the declining population.

However, in my view what is occurring now through this series of events does not represent market contraction but rather signals changes in shipment movements.

That is to say, the era in which parcels were acquired and business scale expanded based on the conventional approach to financial progress, which was based on how much transportation costs could be reduced per customer parcel, is coming to an end. The future will be about providing solutions to customers based on the approach of raising corporate value by improving cash flow efficiency for customers.

Next, I will explain some of the specific signs of change taking place in customer value while using actual examples from the Yamato Group to illustrate.

Transition in Customer Value

In Japan at present the business-to-consumer market continues to grow, centering on mail order sales and the like. We recognize this as evidence that a new lifestyle pattern has become widespread in the country: shopping

from the comfort of home and purchasing high quality products at reasonable prices compared to standard market prices. I believe that this trend will continue.

The B2B (business-to-business) market is also growing. As background, various industries are working to reduce inventory by stocking only the amount of product that will sell or by only making the amount of product that will sell (built-to-order), in an effort to better manage cash flow. As a part of this process companies are effectively utilizing *Takkyubin* services.

While it is true that parcel delivery costs may rise as a portion of logistics expenses, operation and maintenance costs for round-the-clock warehousing at distribution facilities will decline considerably. It is unexpectedly easy to reduce total logistics costs in this way. Upper management and divisional heads who recognize this fact, I believe, are effectively utilizing a logistics company "with legs" like us.

Moreover, C2B (consumer-to-business) logistics has also grown substantially in recent years. This is because major manufacturers in various industries have jointly created platforms that make it easy for consumers to send back a product to the manufacturer, due to a recall, for repairs or to recycle, for example.

With regard to recalls, first of all, procedures for collecting defective product when a defect is discovered have generally been inadequate. Fully leveraging the Group's resources, however, we offer a total solution in which we collect the defective product for the customer. We do the legwork involved in picking up and delivering the product, but we can also comprehensively provide support for cumbersome back-office tasks, including taking orders by phone and reconciliation work for product collection.

We also have an innovative scheme for repairs. When repairs or upgrades are needed for an electronics product or other product, the consumer sends the product to the manufacturer and requests the repair or upgrade. Two or three days later the repaired product is sent to the consumer via *Takkyubin* and, if necessary, the cost of the repair is collected on delivery.

Our recycling scheme is very similar to this. It can be used for products like copier toner, which is refilled and then returned to the customer.

Such schemes are made possible by our resources, which enable us to provide comprehensive support. These resources include channel diversity, in the form of some 32,000 sales drivers active on weekdays, 3,900 direct retail stores and 260,000 express agencies, as well as guaranteed high-quality delivery, tracking information management, and payment agency services, for which we have received high praise from customers.

Initiatives for Further Growth

The environment surrounding the Yamato Group is undergoing great change. As can be seen from the business targeting consumer-to-consumer delivery of *Takkyubin* parcels at 740 yen per parcel, considered an extremely niche segment of the logistics industry, the market is still growing.

I predict that this trend will not remain limited to distribution in Japan but that it will emerge in international logistics. This is because international specialization is becoming more and more ingrained in the global economy.

With sites of production becoming separated from sites of consumption, international logistics is expected to accelerate and, in addition to conventional distribution, I believe we will see dramatic growth in demand for seamless global logistics, such as logistics from overseas to end-users in Japan or logistics from Japan to end-users overseas.

There are currently no logistics companies, even when looking at imports from overseas, that provide total support services for everything from import procedures to domestic delivery, payment services and tracking information management. The growth driver for the Yamato Group over the medium term, therefore, will primarily be differentiation through seamless global supply-chain logistics, which we will accomplish by expanding our sphere of business to include the Asia region.

What will make this differentiation strategy possible is the Yamato Group's robust delivery network in Japan and the know-how we have built up over many years. It will be very difficult for competitors to keep up, either qualitatively or quantitatively.

The lynchpin of the strategy is the Haneda Logistics Center, which is scheduled to commence operations in the fall of 2012. Our business model is to rigorously carry out the differentiation strategy by providing customers with seamless global supply-chain management, from procurement to distribution, and to comprehensively support supply-chain management for customers through global cross-docking and innovative logistics services that cover Asia.

The Yamato Group will unflaggingly continue efforts to become a global supply-chain logistics company based in Asia.

Raising Shareholder Value

The Yamato Group regards returning profits to shareholders as one of the highest priorities of management. We conduct management with sufficient recognition of capital costs, which reflect the profit expectations investors have of us. Return on equity (ROE) is therefore used as a management indicator for capital efficiency.

In fiscal 2010, we took measures to ensure adequate cash in order to reinforce liquidity, due to as yet unpredictable financial markets and expected investment necessary for future growth, including the Haneda Logistics Center. As a result the equity ratio was 58.4% and return on equity was 6.5%.

We plan to pay out dividends, buy back stock and cancel treasury stock while balancing growth potential, financial soundness and operating efficiency, with a view to sustained corporate growth and maximum corporate value for the medium to long term. We will pursue capital efficiency to achieve a shareholders' equity ratio of around 50% on a steady basis and a return on equity of 10% over the medium term.

Depending on profit growth and progress of investment plans, we will continue to approach stock buy-backs with flexibility. On dividend policy, we are committed to increasing the per-share dividend alongside profit growth, but for the immediate future we will maintain a consolidated payout ratio of 30%.

Based on this policy, for fiscal 2010 we will pay a full-term dividend of ¥22 per share, which includes the ¥11 per share dividend paid for the first half.

The Yamato Group will continue working to raise corporate value through dialogue with stakeholders. We thank you for your ongoing encouragement and support.

September 10, 2010

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