Nippon Express Group’s New Three-year Plan

Power-up Three-year Plan

－ Take on Reform, Together with our Customers －

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Summary of Current Management Plan（1）

(Non-consolidated)

(Unit: Million Yen)

	Target Value	March 2005 Results	March 2006 Projection	Remarks
Operating revenues	1,270,000	1,275,648	1,293,000	
Operating income	40,000	29,387	27,000	
Ordinary income	41,000	32,732	30,000	
Net income	22,000	23,263	6,800	Career change support measure 12.5 billion yen Impairment loss 13.2 billion yen
ROE	6.2%	6.7%	1.9%	
ROA	2.5%	2.5%	0.7%	

(Consolidated)

(Unit: Million Yen)

	Target Value	March 2005 Results	March 2006 Projection	Remarks
Revenues	1,720,000	1,753,306	1,785,000	
Operating income	54,000	43,025	41,500	
Ordinary income	56,000	47,114	46,500	
Net income	29,000	32,190	16,000	Impairment loss 13.7 billion yen
ROE	6.5%	7.4%	3.5%	
ROA	2.3%	2.5%	1.2%	

Summary of Current Management Plan（2）

■ **Target revenues and operating income have been achieved in the first year on both consolidated and non-consolidated basis**

Contributing factors

Non-consolidated:

Expanded international forwarding services in air/marine transport

Expanded warehouse-related businesses such as domestic 3PL (Third-Party Logistics) business

Differentiated products & products which captured customer needs grew

Consolidated:

Steady growth in overseas business ((Increase in both revenue and net income in three poles)

Expansion in goods sales business

While the overall trend is moving upward, trucking service is a weak point on the non-consolidated basis.

Small Cargo ・・・・・・Intensified competition

→ Some major customers went to other removal service providers

Chartered Cars ・・・・Unit price drop and cargo volume was sluggish

Summary of Current Management Plan (3)

■Profit is significantly lower than the target, and profit ratio declined

Operating profit ratio	Initial target	Non-consolidated 3.1%	Consolidated 3.1%
	Projection for March 2006 Term	Non-consolidated 2.1%	Consolidated 2.3%

Contributing factors

① Decline in the unit prices at which actual orders have been received for trucking services, etc.
② Sharp rise in air and marine transport costs, etc.
③ Rise in procurement cost of fuels, etc.
④ Increase in outsourcing cost such as subcontracting and car chartering cost
In view of the above, it is an urgent task for us to make improvements in these areas in order to boost the profit ratio.

■Net Income (Projection for March 2006 Term)

Extraordinary loss due to asset impairment accounting	Non-consolidated 13.2 billion yen Consolidated 13.7 billon yen
Extraordinary loss due to career change support measure	Both Non-consolidated and consolidated 12.5 billion yen

Among consolidated subsidiaries, overseas subsidiaries and goods sales divisions have seen growth in both business size and profits

Contributing factors

・Overseas business ・・・・・・Forwarding and warehousing distribution businesses expanded

・Goods sales business・・・・Logistics support, leasing, and petroleum sales, etc. were strong.

Summary of Current Management Plan（4）

■ For the next management plan

- **Efforts to increase revenues in trucking business**

  Challenges lie in improvement of unit price and revenue increase by expanding services and reducing costs
  Focus on the expansion of combined services in warehousing, incidental operations, and forwarding service

- **Room for further expansion in global logistics business inside and outside Japan**

  Expansion to other regions in the world (establish businesses in new regions), expansion of the scope of services (local logistics overseas, logistics within regions, warehousing business, and incidental operations)

- **Response to emerging needs in domestic business and differentiated products to be the new revenue source**

  Warehousing (3PL), railway transportation utilization (reduction of CO_2), security transport（CSD, etc.),
  Heavy-haulage & construction (facility transportation, etc.)
  Domestic air transport (protection of private information and various planned products such as specified mail delivery, etc.), removal service, etc.

- **Further specialization in the businesses in which we have strength/competitive edges**

  Overall profitability increase achievable by expanding businesses in which we can leverage our strength, such as international forwarding service or products which are differentiated from our competitors

■ Recent Situation and Breakthrough

- **Chartered trucks**

  Since the start of the new fiscal year, certain progress has been made in price-increase negotiation. Growth in industrial cargo handling is gathering expectations.

- **Pelican Express Service**

  Volume drop is soon to complete its cycle. New customers cultivated.

- **Escalation in fuel prices and cost shifting**

  Fuel prices are staying at a high level after rising.

  Shifting costs to customers is still a challenge for trucking service and domestic air transport.

- **Growing trend in air freight export**

- **Railway utilization transportation, warehousing, heavy-haul & construction, and incidental operations are strong.**

- **Effect of labor cost reduction from career transfer support measure**

<u>It is possible to increase profits in the new fiscal year, though variable factors remain.</u>

■ Power-up Three-year Plan

－ Take on Reform, Together with our Customers －

- **Raise the share of overseas-related (international) business among overall revenue.**

  Respond to the trend of Japanese companies shifting their production sites overseas.
  Pay attention to the positive future prospect in the international cargo service market.
  Accelerate expansion of international business from/to Japan, and of overseas companies.
  Pay attention to the relative advantage of the sales profit ratio in forwarding service and warehouse distribution.

- **Boost competitive edge in businesses within specific regions.**

  Strengthening competitiveness in each region
  (cost, quality, appeal of products, proposal-making capability)
  Consolidation of organization/businesses, improvement in procurement method,
  and elimination and consolidation of sites, etc.
  Re-alignment of operational capability and sales forces (HR system, educational system, etc.)

■ Directions in the next three years

- Enhance international business and overseas business.
- Strengthen 3PL business.
- Develop and expand sales of differentiated products.
- Reform of small cargo business.

■Five Power-up Items

- **Power-up in sales**
  Try to strengthen sales by implementing measures based on the characteristics of each business.
  Expand global business, enhance 3PL business, and develop new businesses

- **Power-up at operational fronts**
  Development of human resources, quality improvement, sales promotion capability, and improvement of operational efficiency, etc.

- **Power-up in CSR practices**
  Compliance, risk management/security control, and environmental management

- **Power-up in management practices**
  Effective use of assets, low cost, efficient use of funds, and IT, etc.

- **Power-up in small cargo business**
  Try to solve management issues by promoting reforms in businesses.

※This three-year plan consists of two major pillars: Business expansion by power-ups in “Sales”, “Operational fronts”, “CSR” and “Management Practices,” and reform in “Small Cargo Business”, which are to be pushed forward in parallel.

Specific Measures for the Five Power-ups

■Power-up in Sales（1）

Separate operational systems for nationwide/globally-common service and those for region-specific products/services within a single organization, and drive business operation leveraged on synergy effects.

- **Measures on nationwide (global) products**

  Common service contact point for networked products
  Maintain same level of quality and customer response
  （→ Nationwide education/training and product planning, integration of management organization, etc.)

- **Measures on Region-specific products**

  Pursue further cost reduction and strengthen competitiveness against local companies
  （→ Scale-down management organization, competitive labor cost structure)

■Power-up in Sales（2）

< Expansion of global business >

- **Enhance overseas network, expand business operations**
  (Inland areas of China, India, Russia, East Europe, and South Africa, etc.)

- **Business expansion via capital participation/business tie-ups with air carriers**

- **Enhance overseas warehousing facilities and distribution system**

- **Expansion with an eye towards M&A**

- **Expand revenues in non-consolidated marine/air transport business**
  37 billion yen in three years

- **Boost revenue from overseas companies**
  46 billion yen in three years

- **Incorporate local subsidiaries in Asia into our consolidated-group by increasing ownership interests in them, etc.**
  35 billion yen

Raise the share of non-consolidated overseas-related revenue plus revenues from overseas subsidiaries to over 30 percent of total consolidated revenue. (600 billion yen, if the target revenue is 2 trillion yen)

■Power-up in Sales（3）

< Expansion in corporate distribution centered on 3PL business >

- **Take in comprehensive logistics with a focus on distribution warehouse management.**
- **Expand capital investment in warehouses, etc.**
- **Bring out our strength**
  (respond to all kinds of modes, superb international logistics handling capability, building in-house information system, quality workforce and follow-up system, etc.)
- **Expansion with en eye towards M&A**
- **Sales expansion in 3PL business**
  49 billion yen in three years

■Power-up in Sales（4）

- **Improvement in services and sales expansion in regions inside and outside Japan**
  Respond to the rise in demand for environmentally-friendly transportation
  (Development of new type of containers and products, etc.)
  Sales expansion based on our proprietary technology and differentiations
  Product development and sales expansion through competitive quality and price for each region

- **Expansion of recycling-oriented/resource saving businesses (forwarding service, domestic air transport, and ecology business)**
  12 billion yen

- **Deeper specialization (heavy-haulage & construction, security transport, art works)**
  22 billion yen

- **Strengthening region-specific services and removal service inside and outside Japan, etc.**
  7 billion yen

- **Development of new services**
  3 billion yen

- **Revenue expansion via contributions from other consolidated group member companies (including M&A options)**
  55 billion yen (Nittsu Shoji, domestic transportation companies, Nittsu Real Estate, and other new businesses, etc.)

Expand revenues by 44 billion yen on a non-consolidated basis and 99 billion yen on a consolidated basis through services differentiated by region or product.

■Power-up at Operational Fronts

- **Strengthen the matters involving people, including operations, clerical work, sales**

  Management of operational quality and quality control, capabilities in operation and labor management, and proposal-providing/sales capabilities, etc.

- **Secure people with a high degree of expertise, with a view toward leveraging mid-career recruiting**

  Active hiring and promoting of women
  In-house recruiting system
  Wide-range promotion of personnel change

- **In technical areas, hire people with a certain level of expertise as immediate capability, and educate and train people for the leadership layer**

- **Promote improvement in quality-sustaining and handing down technology by using a re-hiring system**

- **Separate utilization of functions such as immediate capability (leadership layer), branch operation companies (high-quality, stable operational capability), chartered cars/dispatch (wave handling, simple work)etc.**

- **Efficient management at branch operational companies**

- **Enhance in-house education by layer, business type, or product**

■Power-up in CSR Practices

- **Thorough compliance management**
  Thorough understanding of applicable business laws, promotion of CSR education, thorough inspection and guidance at operational fronts, etc.

- **Promotion of risk management and safety control, etc.**
  Companywide guidance based on safety control policy and various education, etc.

- **Promotion of environmentally-friendly management**
  Promotion to acquire Green Management Certification
  Promotion to introduce environmentally-friendly vehicles (1,500 new vehicles initially, and bringing the number up to 3,500 vehicles in the final year)
  Reduce CO_2 emissions (use of digital tachograp, reduce fuel consumption by promotion of ecologically-friendly driving practice)
  Promotion of modal shift (utilization of railway transportation, domestic air transport), etc.

■Power-up in Management Practices（1）

< Efficient management of managerial resources and appropriate allocation >

- **Enhancement and development of operational bases to boost revenues**
  Capital investment: 120 billion yen on a non-consolidated basis and 276 billion yen on a consolidated basis (three years)
  50 billion yen set aside for first year capital investment, aiming for prompt positive effects on management
- **Thorough selection and concentration**
  Promote disposal of inefficient assets/facilities (30 billion yen on a non-consolidated basis)
  Respond flexibly to any specific project and promote restructuring of assets
- **Consolidate regionally distributed sites into a larger site with an assumption of acquiring new businesses.**
- **Study multi-purpose use, in addition to logistics, in the cases of certain urban sites**
- **Leverage the Nittsu Real Estate function**

■Power-up in Management Practices（2）

< Establish low-cost structure >

- **Reduce costs by improving efficiency in clerical work leveraged on IT**

  ・・・・ 4.2 billion yen (per year)

  Reduce costs on a steady basis by linking the above with the following:

- **Consolidate clerical work such as accounting function, etc. by incorporating information technology (Headquarters, business divisions, and blocks)**

- **Cost reduction in line with age-limit retirees**

  Clerical employees: Simplify branch office operation system → Reduce replacements for retirees

  Technical employees: retirement of employees (nationwide) → Replace with local employees or hire subcontractors

【Reference】Number of (nationwide) retiree projections (Unit: persons)

	March 2007 Term	March 2008 Term	March 2009 Term	Total for entire period
Clerical employees	260	290	370	920
Technical employees	450	530	450	1,430
Total	710	820	820	2,350

■Power-up in Management Practices（3）

● **Pursue fund efficiency**

Fund procurement using liquidation methods (notes receivables, cash CSD)
Enhance CMS function (Lump-sum payment, netting, and long-term loan, etc.)

● **Drive IT-based reform**

Reform and simplification of work flow
Consolidation into a clerical work center

■Power-up in Management Practices（4）

< Promote efficiency in Nippon Express Group-based Management >

● **Expansion through business tie-ups and M&A**

Switch company policy from doing everything in-house

(promote efficient operations, save time for business expansion, and obtain know-how)

Promotion of business tie-ups

Small cargo, air forwarding, overseas business, and transportation peripheral business, etc.

Tie-ups with air carriers and capital participation

→ Secure spaces on a stable base, strengthen competitive edge

Logistics business in China

→ Tie-up with Mitsubishi Corporation (Launch regular service connecting 80 cities)

Business expansion via M&A

Enter into new businesses, make inroads into countries or regions where we do not have any bases

Flexible pricing to be adopted

● Expand the consolidated basis

Include more companies into our consolidated basis by increasing ownership interest in joint venture companies in Asia.

● Re-building our branch operational companies

■Power-up in Small Cargo Business（1）

- **Increase number and sales of Pelican Express packages**

  Continue our policy of placing emphasis on quality and unit price
  (accept changes in mixture of services, such as smaller size and closer distance)

  Development of new cargo service by dedicated small-lot sales system
  (certain results achieved for March 2006 Term)

- **Reform in small cargo business**

  Promote efficiency

  Promote consolidation of operations within the Nippon Express Group by involving member companies such as Japan Truck

  Domestic air freight

  Specialize in B to B (Withdraw from B to C such as gift package handling)
  Strengthen domestic transport in conjunction with 3PL and international freight, and premium products such as privacy guards and specified mail delivery

  Consolidated cargo for corporations such as Arrow Express ・・・ Demand is rising, drive efficiency

■Power-up in Small Cargo Business（2）

● **Reform in Pelican Express business**

We have come to the limit in terms of further efficiency improvement by doing everything in-house (while providing top quality)

Effectiveness in tie-ups with other companies (Secure certain volume from businesses in the process industry)

Specific ideas are still under review

We recognize this business as an important element for B to B and B to C products in order to acquire 3PL business

■Target performance values (March 2009 Term)

(Consolidated)

Item	Consolidated
Revenue	2,000 billion yen
Operating income （Ratio of operating income to revenue）	54.5 billion yen 2.7%
Ordinary income （Ratio of ordinary income to revenue）	60 billion yen 3.0%
Net income （Ratio of net income to revenue）	35.3 billion yen 1.8%
Return on equity（ROE）	6.6%
Return on assets（ROA）	2.7%
Capital investment (total for three years)	276 billion yen
Outstanding interest-bearing debt	360 billion yen

■Performance Projection for March 2009 Term

(Non-consolidated) (unit: billion yen)

		Operating revenue	Ordinary income
Projection for March 2006		1,293	30
Revenue changes	Global business	37	11
	3PL business	49	
	Regional/new services	44	
	Reductions in handling, etc.	(39)	
	Total	91	11
Target for March 2009 Term		1,384	41

(Consolidated) (unit: billion yen)

		Revenue	Ordinary income
Projection for March 2006		1,785 (balance after deducting non-consolidated amount: 492)	465 (balance after deducting non-consolidated amount: 16.5)
Revenue changes	Non-consolidated revenue increase	91	13.5
	Overseas business	46	
	Overseas new consolidated	35	
	Nittsu Shoji, etc.	55	
	Consolidated eliminations	(12)	
	Total	215	13.5
Target for March 2009 Term		2,000 (Total for each company excluding non-consolidated amount: 616)	60 (Total for each company excluding non-consolidated amount: 19)

【 Summary 】

■Power-up Three-year plan

Numerical targets for March 2009 Term	･Consolidated revenue: 2 trillion yen, Operating income: 54.5 billion yen, Ordinary income: 60 billion yen
Business direction	･Growth in non-consolidated overseas-related operating income and consolidated overseas business: 118 billion yen (The sum of the above two items is targeted at 30% and above of the consolidated revenues, 2 trillion yen.) ･Expansion in 3PL business: 49 billion yen ･Business expansion by products differentiated by region or business: 44 billion yen ･Expansion through domestic consolidated companies: 55 billion yen (including M&A)
Capital investment, investment in M & A	**Capital investment (three years)** ･Consolidated basis: 276 billion yen, non-consolidated: 120 billion yen ･Accelerate investment in non-consolidated warehouse facilities **M & A investment** ･Pursue aggressively

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