



SG HOLDINGS GROUP
SUSTAINABILITY REPORT 2007



みんなで止めよう温暖化
チーム・マイナス6%



Commitment to CSR

The mainstay of our Group businesses is logistics. In conducting our logistics business, we are aware of our responsibility of underpinning an important part of the social infrastructure. If the infrastructure should collapse, it would disrupt people's lives and ultimately shake the entire social structure. With this in mind, we are determined to fulfill our responsibility completely and contribute to society through our main business, the service of transporting packages; this very idea is the foundation of our corporate social responsibility (CSR) efforts.

The logistics business by nature involves use of highways and numerous vehicles, entailing no small risk of traffic accidents and environmental pressures. Ensuring safety and mitigating environmental pressures are prerequisites of our mainstay business. We therefore recognize that commitment to safety and the environment is essential in ensuring the basis of our CSR efforts.

We deeply appreciate the generous support of our stakeholder over the past 50 years. We will continue our CSR efforts, centering on full implementation of compliance management and commitment to safety and the environment, and will return our business profits to society so as to promote the development of communities and cultures. By ensuring that this idea permeates our management activities and by encouraging all our employees put this idea into practice, we aim to grow steadily and continuously in harmony with society and natural environment.

June 2007

栗和田 栄一

Eiichi Kuriwada

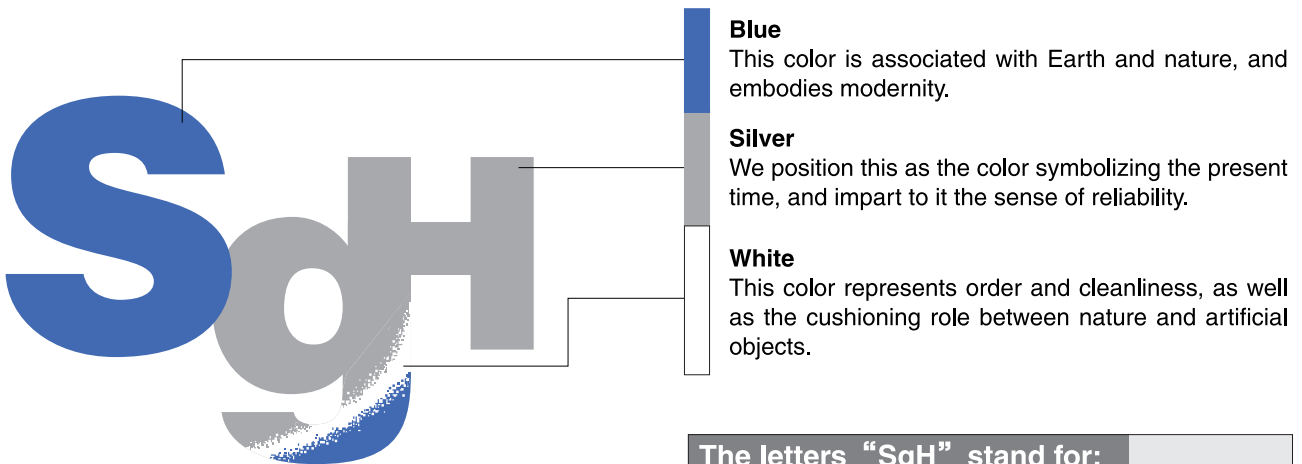
Chairman and President

SG Holdings Co., Ltd.

About SG Holdings Group

All employees of SG Holdings Group shall, as good corporate citizens, act sensibly and responsibly in accordance with the corporate philosophy in place at the time of the company's founding.

Corporate Symbol



- We aim to convey a “sense of speed, reliability and major presence.”
- The Galaxy Design, the existing corporate image design for Sagawa Express, is incorporated onto the letter “g,” giving the three-letter combination a unique character.

The letters “SgH” stand for:

S = SAGAWA
g = SAGAWA
GLOBAL
GALAXY
GROUP
H = HOLDINGS

Corporate Philosophy

SG Holdings Group shall seek sustained growth, and shall conduct corporate activities and practices as a good corporate citizen, in accordance with our founding philosophy. With a view to contributing to society by having a full awareness of what responsibilities we have to society and by

encouraging good practices of each employee, we have established the SG Holdings Action Charter. Based on this charter, we shall strive to become a company needed by society, while pursuing a harmonious coexistence with society and nature.

Corporate philosophy at the time of the company's founding

The SG Holdings Group has inherited the “*Hikyaku*” messenger spirit, based on which Sagawa Express was founded, and is engaged in fair and free corporate activities while respecting human rights and observing the letter and spirit of laws and regulations.

The “*Hikyaku*” messenger spirit is expressed by the motto “Quickly, Carefully, Courteously” and entails the following:

- Thorough adherence to a customer-first policy;**
- Contributing to the growth of local communities; and**
- Adopting the notions of responsibility and good faith as pillars of our mission.**

Structure of SG Holdings Group

Company Profile of SG Holdings Co., Ltd.

SG Holdings Co., Ltd. was established as a pure holding company of the Group including Sagawa Express and other Group companies.

Under this new Group structure, SG Holdings possesses the management strategy formulation and administration functions for the entire Group, while each Group company specializes in business operating functions. This new management structure has allowed us to ensure faster decision making and to effectively mobilize the comprehensive strength of the Group in response to diverse social demands, which change on a daily basis.

Corporate name :	SG Holdings Co., Ltd.
Date of establishment :	March 21, 2006
Business description :	Formulation and administration of Group management strategies and related operations
Head Office :	68 Tsunoda-cho, Kamitoba, Minami-ku, Kyoto
Chairman and President :	Eiichi Kuriwada
Capital :	11.275 billion yen
Fiscal year end :	March 20

Domestic Group Companies and Organizations

Operating Companies

Sagawa Express Co., Ltd.
 Sagawa Moving Center Co., Ltd.
 Galaxy Airlines Co., Ltd.
 Sagawa Global Logistics Co., Ltd.
 Sagawa Financial Co., Ltd.
 Sagawa Advance Co., Ltd.
 Sagawa Galaxy Motors Co., Ltd.
 Sagawa Computer System Co., Ltd.
 Nouvelle Golf Club Co., Ltd.
 Logistics Quality Register Inc.
 Sagawa Forestry Co., Ltd.

Foundations

Sagawa Foreign Students' Scholarship Foundation
 Sagawa International Economic Cooperation Foundation
 Sagawa Cancer Research Promotion Foundation
 Sagawa Art Museum Foundation

Auxiliary Organizations

SG Holdings Group Health Insurance Association
 SG Holdings Group Corporate Pension Fund

Under the new operating structure that enables us to exploit to the fullest the comprehensive strength and synergy of the Group, SG Holdings Group aims to become a company needed by society.



Overseas Group Companies



- Sagawa Express Asia Pte., Ltd.
- Beijing Sumisho Sagawa Logistics Co., Ltd.
- Tianjin Poly-Sagawa International Trading Co., Ltd.
- Shanghai Poly-Sagawa Logistics Co., Ltd.
- Shanghai Dazhong Sagawa Logistics Co., Ltd.
- Poly-Sagawa Logistics Co., Ltd.
- Sagawa Express (H.K.) Co., Ltd.
- Sagawa Express International Taiwan Corp.
- P.T. Sagawa Express Indonesia
- Sagawa Express Philippines, Inc.
- Sagawa Express Vietnam
- Sagawa Express Korea Co., Ltd.
- Sagawa Express Singapore, Pte., Ltd.
- Sagawa Express Thai Container Distribution Service Co., Ltd.
- Sagawa Express Malaysia., Inc.
- Sagawa Express Hawaii., Inc.

Business Tie-up with China Courier Service Corporation

With the aim of offering quality and speedy international courier services to a wide range of clients, Sagawa Global Express (now renamed Sagawa Global Logistics) concluded a business tie-up agreement with China Courier Service Corporation, a subsidiary of China Post, on December 7, 2006 with regard to international courier operations for imports and exports between the two countries.

This alliance enabled both parties to share distribution

networks in both countries: networks established by Sagawa Express and Sagawa Global Express (now renamed Sagawa Global Logistics) in Japan, and China Post's network in China. By sharing in China Post's enormous managerial resources, which are spread across the country, including a network of 66,000 business bases, a fleet of 50,000 delivery vehicles and 400,000 staff, we are providing competitive international courier services covering both countries.



Domestic Business Operation Structure

We offer clients reliability and trust based on the domestic operation structure of our Group, including Sagawa Express and other Group companies.

Business Outlines of Domestic Group Companies

SAGAWA EXPRESS CO., LTD.

As the core company of SG Holdings Group, Sagawa Express aims to boost and expand its courier business, while providing total logistics solutions in cooperation with other Group companies. The daily number of packages handled by the company is approximately 4.5 million during a normal season, and over 6 million during a busy season. Sagawa Express transports this huge number of packages quickly, carefully and courteously.



SAGAWA MOVING CENTER CO., LTD.

With its 23 business offices spreading throughout the country, Sagawa Moving Center provides moving services and chartered transportation services on a nationwide basis, 365 days a year and 24 hours a day. In addition, the company transports special products and art works that are not handled by Sagawa Express.



GALAXY AIRLINES CO., LTD.

Galaxy Airlines was founded in May 2005 with the aim of providing novel business services based on long-haul, speedy transportation, the greatest advantage of airfreight.



SAGAWA GLOBAL LOGISTICS CO., LTD.

Sagawa Global Logistics, which possesses distribution bases throughout the country that total in area 230,000 *tsubo* (1 *tsubo* = approx. 3.3m²), and Sagawa Global Express, a company providing international transportation, customs brokerage and domestic air cargo services, were consolidated as the new Sagawa Global Logistics, which was inaugurated in March 2007.



SAGAWA FINANCIAL CO., LTD.

Sagawa Financial provides a range of financial services, centering on "e-collect" settlement, a COD service offered by Sagawa Express.

With the enhanced convenience of our newly introduced credit/debit card settlement services, along with conventional cash settlement, the e-collect service, launched in June 2000, has won praise from many clients. The annual amount of settlements handled via this service in 2006 was approximately one trillion yen.



SAGAWA ADVANCE CO., LTD.

Since its establishment as an insurance agent in 1975, Sagawa Advance has provided a broad range of services, such as automobile insurance service for Group-owned trucks and employees' private cars, as well as accident insurance service.

Currently, the company covers five business fields on a nationwide scale, including insurance, travel, facility management, product development and human resource development. On the basis of its long-accumulated expertise in supporting Group businesses, the company is now actively broadening its operations to clients of diverse fields beyond the Group framework.



SAGAWA GALAXY MOTORS CO., LTD.

Sagawa Galaxy Motors is engaged in total automotive business comprising official automotive inspection service, vehicle maintenance, new and used car sales and auto body production, serving various client needs with its wide range of automobile experience and expertise.

In 2003, the company developed environmentally friendly vehicle bodies called ECO Auto Bodies, whose cumulative number introduced in the Group has reached 5,000.



SAGAWA COMPUTER SYSTEM CO., LTD.

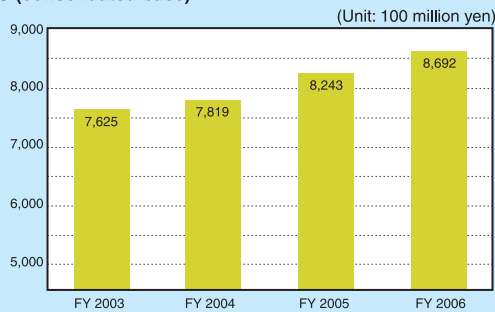
Sagawa Computer System is a think-tank for IT strategy management, providing client-oriented systems and solutions with deep insight into client needs, as well as managerial and strategic perspectives.

The company improves client operations through IT, harnessing long-term achievements and accumulated expertise.

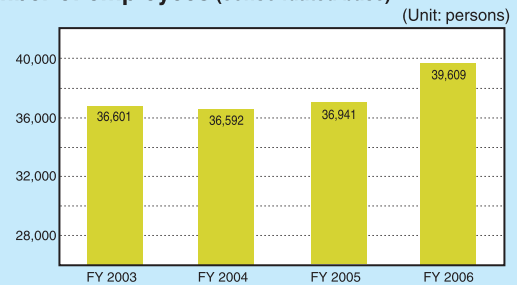


Business Data of SG Holdings Group

Sales (consolidated base)

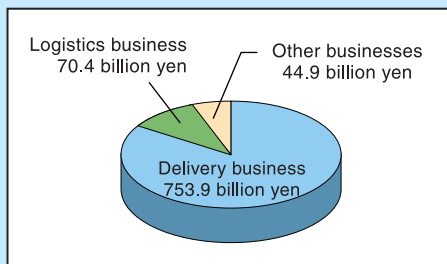


Number of employees (consolidated base)



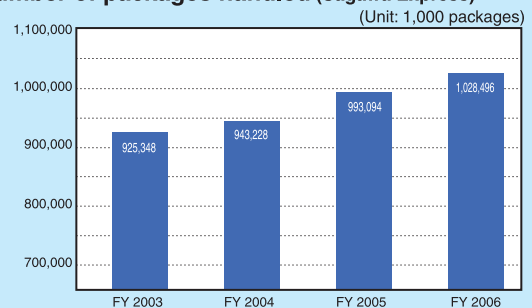
* Figures for fiscal 2003, 2004 and 2005 indicate number of domestic employees. From fiscal 2006, number includes staff of overseas Group companies.

Sales composition (consolidated base)

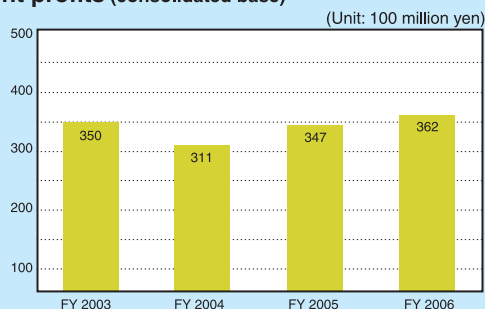


* 2006 was the first fiscal year for SG Holdings Group; since then, sales composition has been calculated according to a new business classification.

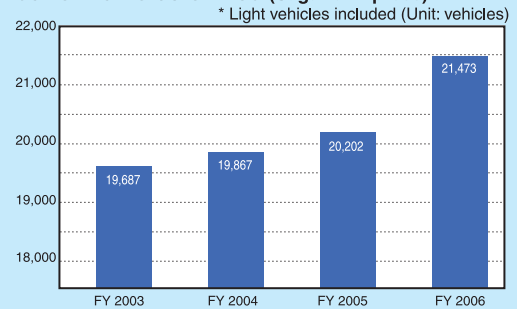
Number of packages handled (Sagawa Express)



Current profits (consolidated base)



Number of vehicles owned (Sagawa Express)



* All figures indicate actual results for each fiscal year from 2003 to 2006.

* For employees and vehicles owned, respective figures as of March 20 are indicated as actual results for fiscal year.

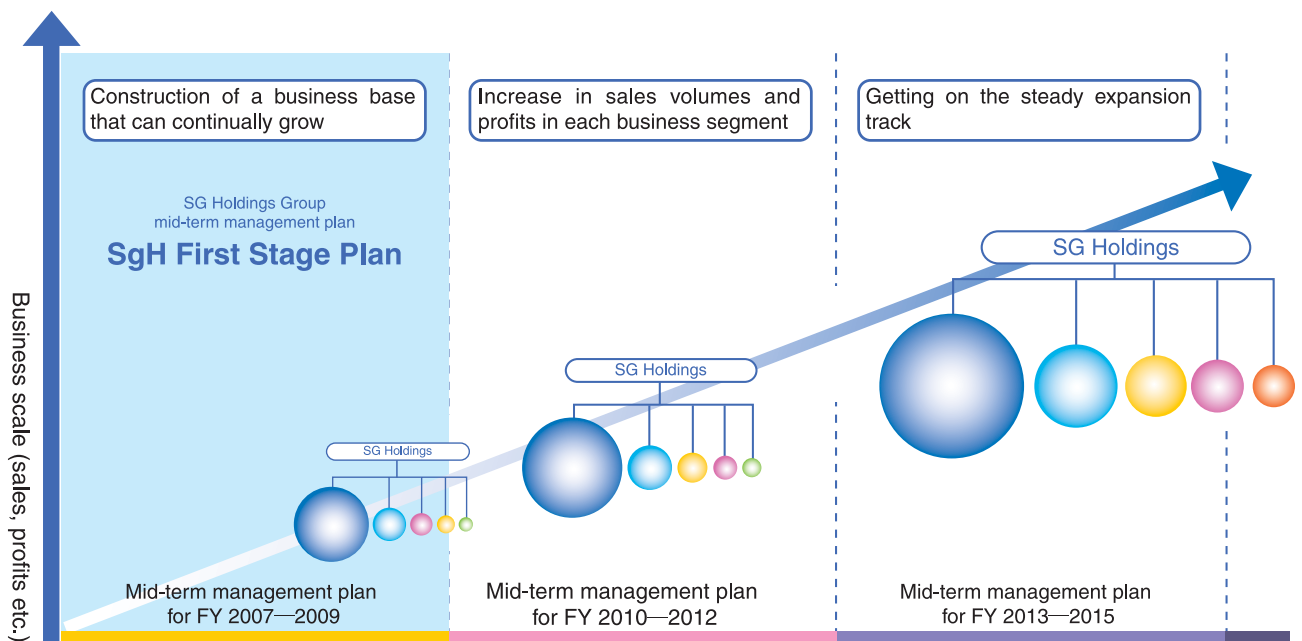
Management Vision

Looking ahead at how we'd like SG Holdings Group to be a decade from now, we have formulated the SgH First Stage Plan as the first step of our plans for promoting cross-sectional business operations from a long-term perspective.

Management Vision and Mid-Term Management Plan of SG Holdings Group

“Each Group company builds up its business base and creates new value.”

We shall strive to quickly respond to changes in client needs and market environment, take innovative and bold steps toward lasting prosperity, and create new and novel “value,” thereby developing the second, third and fourth business pillars following the existing mainstay business.



Group Overview

FY 2007—2009 Starting period for achieving the 10 year management vision

SgH First Stage Plan

Determining the foundation for realizing the ideal state of the Group 10 years from now



In light of the Group's mid-term management plan, each Group company formulates its own mid-term management plan.

CSR System

SG Holdings Group's corporate social responsibility (CSR) commitment is stipulated in the SG Holdings Action Charter. Guided by this Charter, we have organized the CSR Committee and are making strenuous efforts to establish a group-wide cross-sectional CSR system.

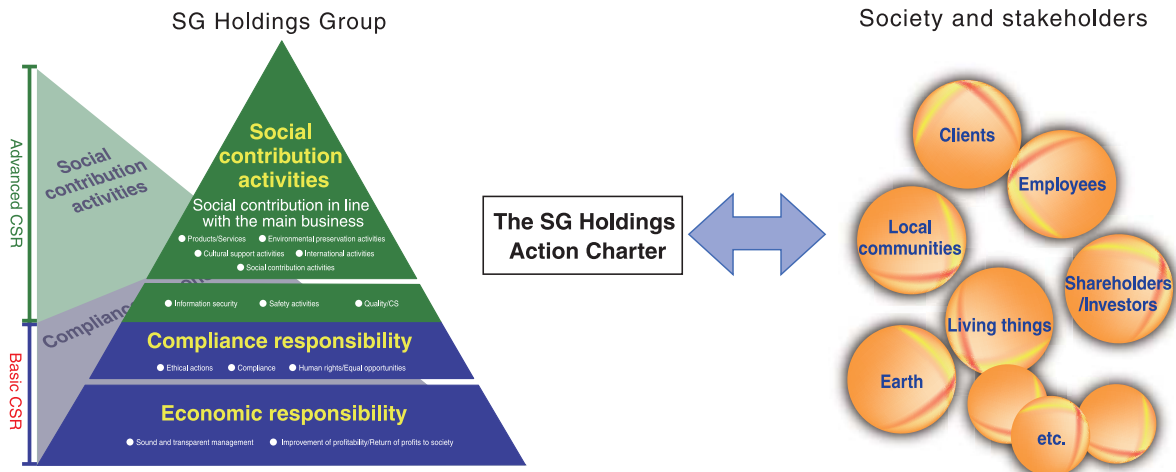
Basic Concepts Underlying CSR Activities

Amid the increasing diversification, complication and sophistication of society/consumer needs, fulfilling CSR responsibilities represents the ability to accommodate diverse social demands. We are convinced that Group-wide continuous efforts to fulfill such responsibilities are indispensable in winning the trust of society. As for our CSR activities, we divide the CSR concept into two

categories, Basic CSR and Advanced CSR, and recognize that the compliance responsibility (system) essential for the company's survival comes under the Basic CSR category as a requisite condition.

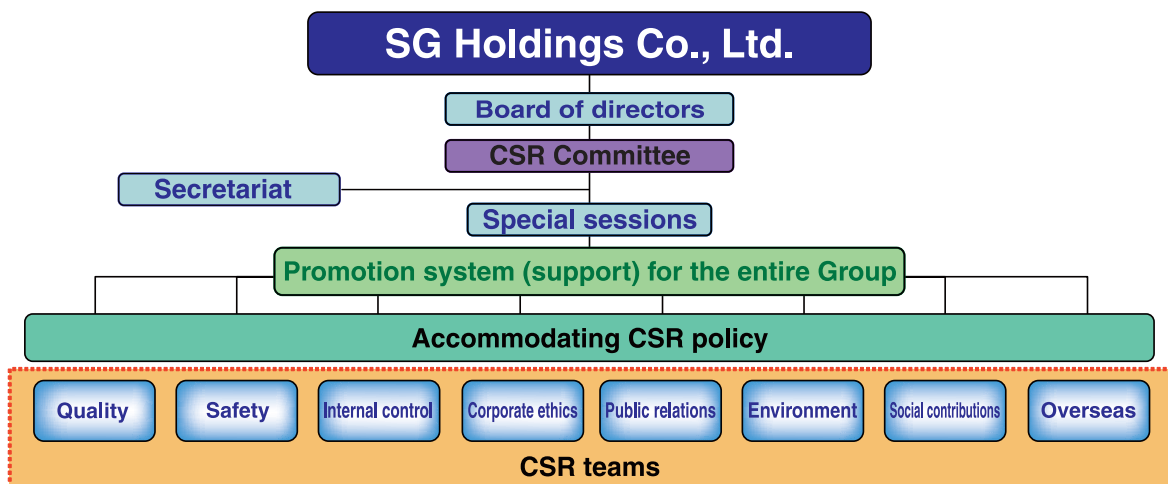
Above this Basic CSR, Advanced CSR is positioned as the conceptual basis on which the Group promotes social contribution activities in accordance with its strength.

Basic Concepts Underlying Our CSR Activities



CSR Promotion System

The Group's CSR Promotion System



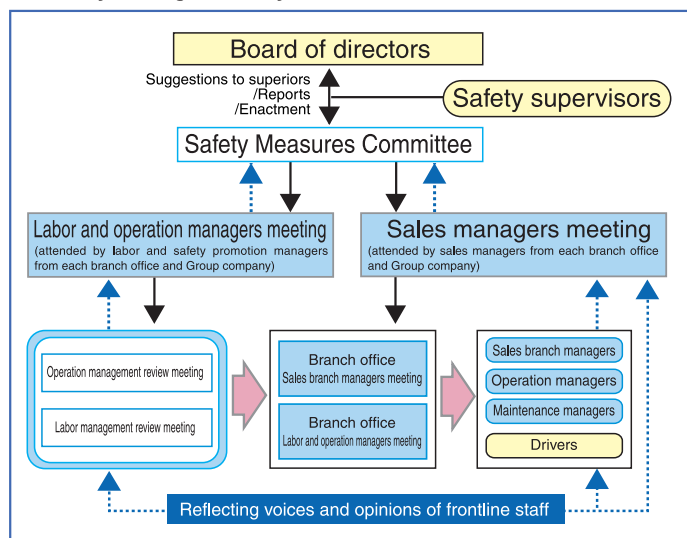
Establishing Safety Support System

To forestall possible traffic accidents, it is essential to establish a bedrock system to prevent such accidents. In taking safety as our top priority, we make continuous efforts to build up a system with the aim of reducing traffic accidents to zero.

Safety Management System

With an eye to achieving transportation safety as an integral part of its business management, Sagawa Express has organized the Safety Measures Committee, whose members comprise operating executives from nine blocs nationwide. The Committee engages in discussions concerning a range of issues, based on their awareness of the current status of safety promotion activities and of incidents involving accidents and violations. Moreover, at regular review meetings by managers on site, varied safety measures reflecting frontline opinions have been devised and improved.

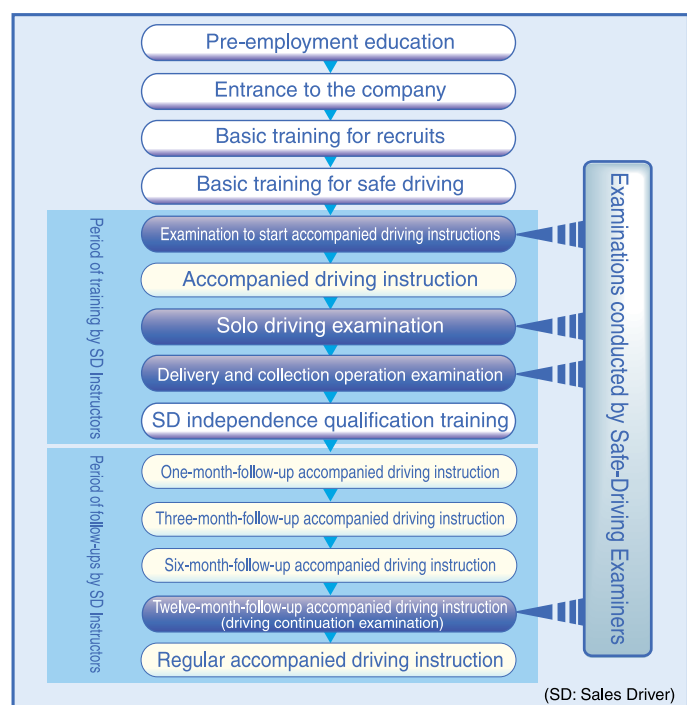
Safety Management System



Drivers Education Based on Sagawa License

Aiming for “zero traffic accidents,” we have introduced the in-house Sagawa License. This license system is designed to designate instructors who are qualified to train and educate both newly recruited and existing drivers on site. The Sagawa License is of two types. Previously, the training of new drivers was left to veteran drivers, without established standardized training procedures. However, the introduction of this system has enabled us to provide standardized training programs for safe driving on a nationwide basis.

Training Flow for Newly Recruited Drivers



SD Instructor Certificate



Safe-Driving Examiner Certificate

Initiatives for Eco-Safe Driving

Focusing on the fact that safe driving and eco-friendly driving have many factors in common, we are promoting our unique driving method “eco-safe driving” based on safety and environmental considerations.

Promotion of eco-safe driving

Sagawa Express is engaged in company-wide efforts to promote its unique driving method, “eco-safe driving,” as one of the skills required of all Sagawa drivers, including new drivers.

By enhancing safety awareness so as to prevent traffic accidents and by practicing smooth and gentle driving without rapid acceleration, “jack-rabbit” starts or sudden braking, drivers can drive in an eco-friendly manner. This is the basic idea of “eco-safe driving.”

Seven Conditions of Eco-Safe Driving

A range of specific approaches to promoting eco-safe driving was narrowed down to the key items that comprise the Seven Conditions of Eco-Safe Driving. These conditions are specified in the employee handbook and printed on posters so as to enlighten all employees.

Through providing instructions based on the video “Practice Manual for Seven Conditions of Eco-Safe Driving” at individual sales branches, we are striving to ensure that these conditions permeate all members of the company.



Seven conditions stipulated in the employee handbook



Poster for employee enlightenment

Eco-Safe Driving Training

To ensure that the idea of eco-safe driving takes root throughout the company, the development of knowledgeable, highly skilled instructors is essential. We therefore provide a training program for eco-safe driving instructors.

For fiscal 2006, a total of 484 safety promoters from all sales branches of Sagawa Express participated in 14 training seminars on eco-safe driving; now there are such instructors in place at all sales branches.



Achievement in an Eco-Driving Contest

At Eco-Driving Contest 2006, Sagawa Express Kawasaki Sales Branch received the Environmental Minister Award, the highest prize of the contest. This Contest is held by the Environmental Restoration and Conservation Agency of Japan under the Ministry of the Environment, for the purpose of evaluating the practices and achievements of eco-driving activities promoted at the individual company level. In addition to the top award, conferred to the Kawasaki Sales Branch, the Kameoka Sales Branch also won a prize in this Contest, with 175 groups participating.



Safety Initiatives Based on Vehicular Safety Measures

In an effort to prevent traffic accidents stemming from vehicular malfunctions, we have introduced all possible measures for vehicular management.

Thorough Inspection and Maintenance

Vehicular Inspection and Maintenance System

At Sagawa Galaxy Motors, a total of 353 highly skilled auto mechanics, including 10 First-Class Automotive Mechanic certificate holders and 76 Automotive Examiner certificate holders, maintain vehicles in the company's workshops with state-of-the-art equipment. Of these workshops, at 21 locations nationwide, 15 are nationally designated workshops ("private auto inspection workshops") that carry out official car inspections in place

of national authorities. Through their operations, these workshops are contributing to car-user safety and environmental preservation.

Also, in cooperation with 277 other firms the company has built up a nationwide network of vehicle inspectors with the objective of establishing a vehicle inspection system conducive to safe transportation in society at large.

Thorough Maintenance of Vehicles

All the transportation vehicles possessed by SG Holdings Group are inspected by drivers daily before delivery operations. In addition to these daily inspections, three-month and 12-month periodic inspections are conducted, based on vehicle maintenance plans. We are confident that this implementation of daily and periodic inspections is contributing to the prevention of traffic accidents attributable to vehicle malfunction, and that our in-depth inspection and maintenance operations are mitigating environmental burdens. Sagawa Galaxy Motors and other vehicle inspectors involved in the network, which are responsible for maintaining Group-owned vehicles, conduct maintenance operations for over 20,000 vehicles. By carefully following standardized inspection and maintenance procedures, the company aims to stem traffic accidents caused by vehicle malfunction.

Flow of Periodic Inspection



Acceptance inspection



Vehicle maintenance



Completion examination

Aiming for a Safe Society

We are engaged in a wide variety of activities with the aim of achieving a safe transportation environment in which all can feel safe and secure.

Sagawa Express Traffic Safety Seminar

Starting from 2003, Sagawa Express Traffic Safety Seminars have been held nationwide by the company's branch offices and sales branches, inviting children from pre-schools and the lower-grades of elementary schools.

Children, being in the developmental stage, are curious about everything, but at the same time are often inattentive and do not have sufficient knowledge of traffic rules, so can take sudden and unexpected action. Having a strong wish to protect children, with their promising futures, from tragic accidents, we held 727 Seminars in fiscal 2006, in which a total of 118,403 children participated, nationwide.

Encouraged by children's earnest eyes and bright smiles, employees involved in the Seminars learn a lot from teaching, further raising awareness of safety.



Aiming to Prevent Traffic Accidents (Understanding Features of Pedestrians)

In order to prevent serious accidents, drivers must instantly judge and respond to surrounding conditions. We provide hands-on training to simulate dangerous driving,

and encourage drivers to acquire a driving habit that considers vulnerable road users.

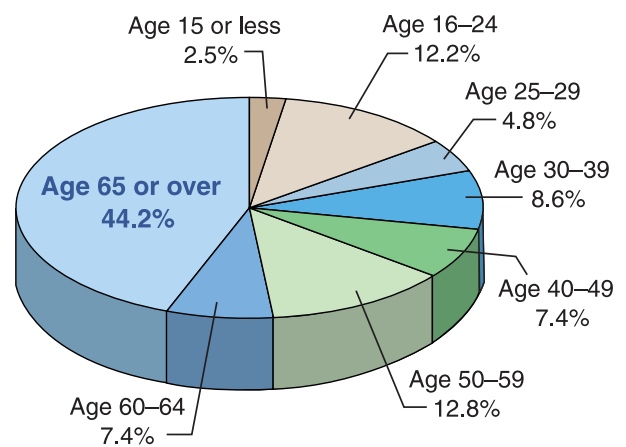
Understanding the Characteristics of Elderly Road Users

According to statistics released by the National Police Agency, of the 6,352 people killed in traffic accidents in 2006, the percentage of elderly (age 65 or over) victims comprised 44.2%. This figure is extremely serious, being twice the percentage of elderly population, which is 20.1% (census as of Oct. 1, 2005).

Thus far, we have opened traffic safety seminars primarily for pre-school and elementary school children. In addition, we will actively organize such seminars specifically for the elderly, and further increase our efforts to prevent traffic accidents.



Traffic safety seminar for the elderly

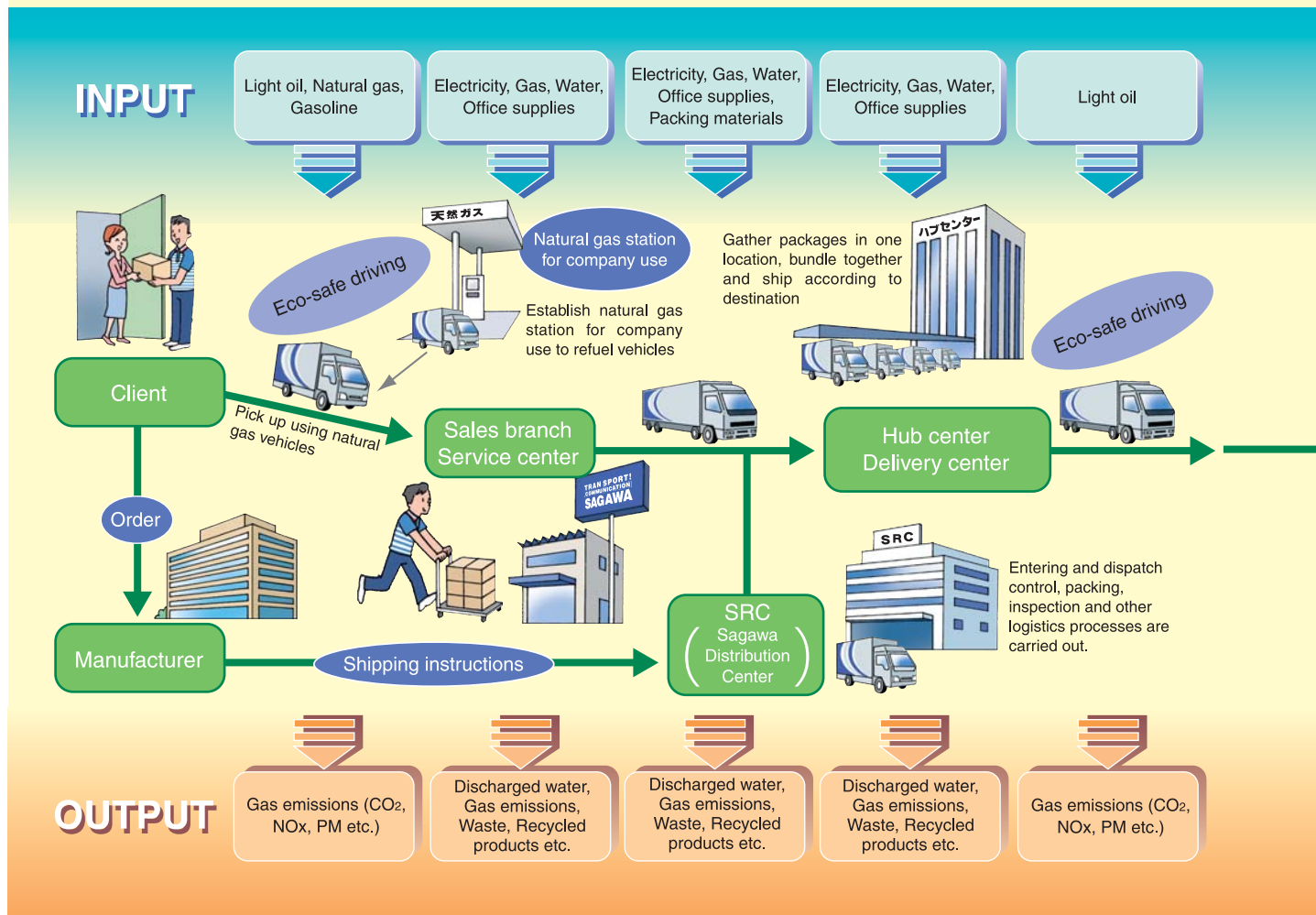


Death toll in traffic accidents by age group for FY 2006
<Source: National Police Agency>

Aiming for the Mitigation of Environmental Burdens

We ascertain the environmental burden generated by our operational activities and are engaged in efforts to forge a recycling society.

Environmental Burdens Imposed by Logistics Operations



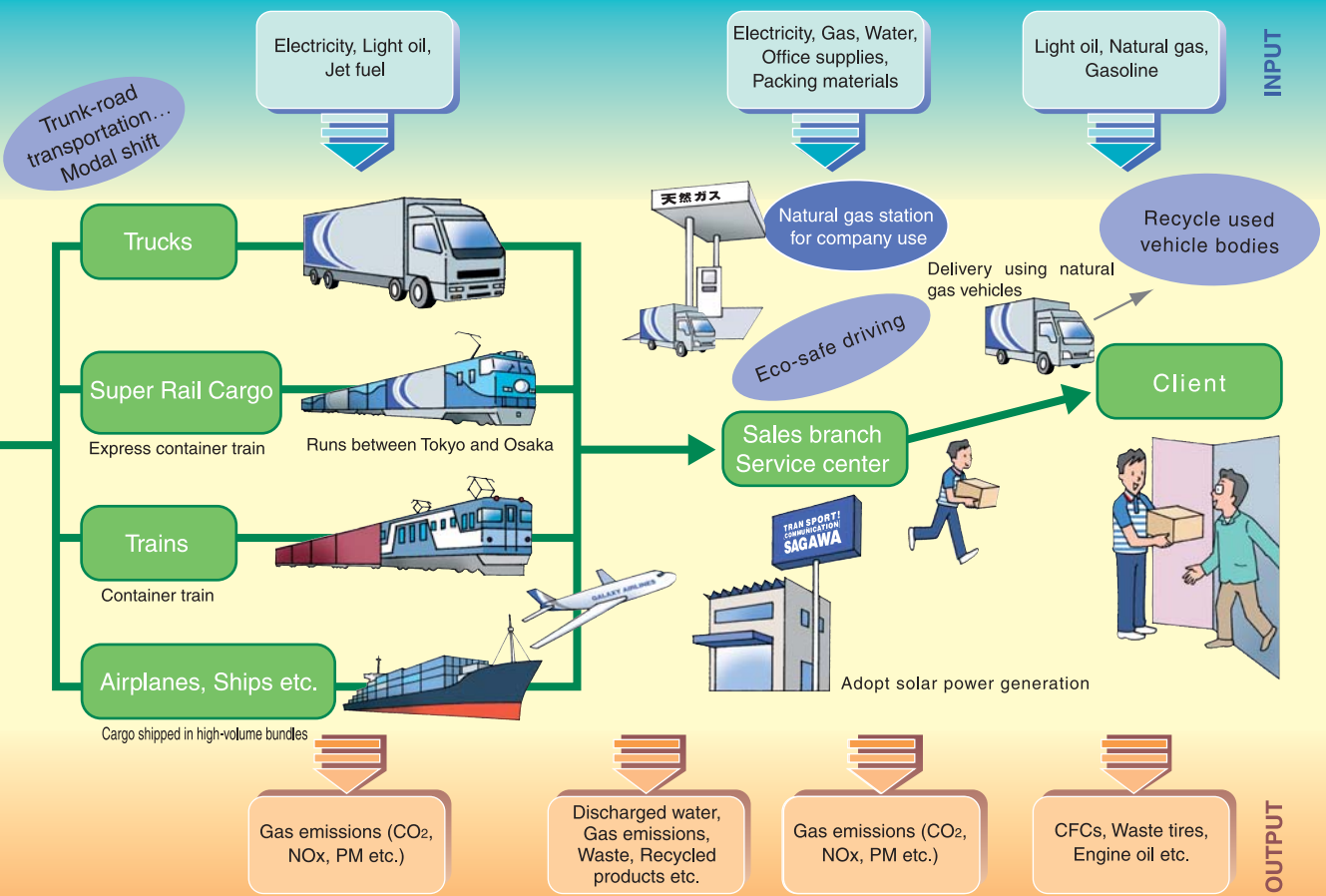
Environmental Principles

Environmental Principles

As a good corporate citizen, Sagawa Express will formulate a basic policy for autonomously and continuously protecting the environment, work to coexist harmoniously with society and nature, deal with environmental issues on a global scale and contribute to the growth of local communities.

	Amount of emissions
CO ₂	345.7 thousand tons
*NO _x (incl. light cars)	254.14 tons
*PM (incl. light cars)	33.47 tons

●CO₂ emission coefficient: Based on the enforcement ordinance for the Law Concerning the Promotion of Measures to Cope with Global Warming, released by the Ministry of the Environment on Dec. 19, 2002
 ●Figures exclude respective items emitted from Group companies and outside tenants located inside facilities of Sagawa Express.
 ●Method of calculating NO_x/PM emissions: Figures indicate theoretically estimated values based on emission coefficients by vehicle model, as provided by the Ministry of Land, Infrastructure and Transport, as well as on the distance covered by each vehicle.
 Calculation formula: The aggregate of [respective emission coefficient (by vehicle model) of all vehicle models owned by Sagawa Express (g/km) × the annual distance (km) covered by each vehicle owned by Sagawa Express]



* NO_x: Nitrogen Oxide (air pollutant inducing photochemical smog, acid rain etc.)
 * PM: Particulate Matter (substance inducing asthma, bronchitis etc.)

Environmental Policy

Environmental Policy

1. In order to help prevent global warming and air pollution attributed to exhaust gases, we seek to promote greater transport efficiencies, the adoption of low-emission vehicles and the practice of eco-driving, and to make continuous improvements in our efforts to conserve the environment.
2. We shall promote resource- and energy-saving measures as well as the "3Rs," and make improvements, plans and proposals toward such initiatives with a view to establishing a recycling-oriented society.
3. We shall comply with environmentally related statutory regulations, ordinances, pacts and other such requirements, and endeavor to minimize the burdens placed on the environment and to help prevent environmental pollution.
4. We shall promote our environmental preservation efforts by ensuring that all employees are familiar with these Policies through environmental education and enlightenment programs, and shall promote the broad sharing of information with the general public regarding these Policies, as well as our environmental activities.
5. By formulating environmental goals and targets and reviewing them on a periodic basis, we will strive to make continuous improvements to our environmental management system.

Efforts to Prevent Global Warming and Air Pollution

As a comprehensive logistics company that employs a fleet of trucks to conduct daily operations, we are engaged in efforts to help prevent global warming and air pollution, putting our highest priority on reducing the impact imposed on the atmosphere.

Climate Savers Program

The Climate Savers Program is an initiative to reduce greenhouse gas emissions through collaborative efforts between the World Wide Fund for Nature (WWF), the world's largest non-governmental environmental preservation organization, and companies around the world taking proactive measures to conserve the environment. The primary features of the Program are the setting of

reduction targets through consultation with the WWF and target appropriateness verification by independent organizations. This enables participant companies to ensure transparency and confidence.

Sagawa Express is the first company in Japan and the only logistics company in the world to participate in this program.



Challenge of Sagawa Express

In 2003, Sagawa Express concluded a memorandum with the WWF and set a target to reduce its total CO₂ emissions by 6% below the 2002 level by 2012.

Assuming that the company continued to expand only its fleet of diesel vehicles until 2012, without introducing any natural-gas vehicles, its CO₂ emissions would grow from

360,000 tons in 2002 to 390,000 tons in 2012.

Therefore, in order to meet its target of cutting CO₂ emissions by 6% to approximately 340,000 tons by 2012, the company decided to introduce 7,000 natural-gas vehicles.

Reduction of CO₂ Emissions by 2.86% in Four-Year Period (FY 2002–2006)

Sagawa Express expanded the number of its natural-gas vehicles from 1,110 to 3,290 during the four years from 2002 to 2006, and reduced the number of its diesel (light oil) vehicles from 17,246 to 15,145 during the same time period. This introduction of natural-gas vehicles, and other measures, resulted in emission reduction of 2.86% from the 2002 level to 10,503 tons, in terms of CO₂.

However, due to the increased number of diesel vehicles for addressing the growing number of packages to handle, the company's CO₂ emissions in 2006 exceeded the previous year's level. We will thoroughly review our current approach, and will devise additional measures to improve the situation.



CO₂ emissions for FY 2002–2006

(Unit: tons of CO₂)

	Light oil	Gasoline (incl. high octane)	Natural gas	Electricity	Total
FY 2002	244,552	18,780	5,810	97,477	366,619
FY 2006	207,515	25,893	24,300	98,407	356,116
Amount change (2006–2002)	▲37,037	7,113	18,490	930	▲10,503
Percentage change (2006–2002)	84.86%	137.88%	418.25%	100.95%	97.14%

* The base year is 2002, when we commenced Climate Savers activities.

* CO₂ emission coefficient: Based on the enforcement ordinance for the Law Concerning the Promotion of Measures to Cope with Global Warming, released by the Ministry of the Environment on Dec. 19, 2002

* Figures are calculated according to range of 2002 baseline calculation (includes electricity and externally sold fuel of Group companies and outside tenants located inside facilities of Sagawa Express).

Promotion of Modal Shift

Sagawa Express promotes modal shift in transportation by switching its means of transportation operations to trains and vessels, which impose but a small burden on the environment, without depending only on trucks, and by combining such means of transportation in intermodal fashion.

Trunk roads linking Tokyo and Osaka are the “arteries” of the Japanese archipelago, carrying heavy traffic, and so are considered one of the main sources of environmental burden. The company employs Super Rail Cargo, an express container train, to handle approximately 10% of its transportation operations between the two areas.

Effects of Modal Shift (FY 2006)

	Annual number of trucks reduced (calculated at 10 tons per vehicle) (Vehicles)	Volume of CO ₂ emissions reduced (tons of CO ₂)
Super Rail Cargo	16,407	12,874
Train transport (other than Super Rail Cargo)	26,693	47,662
Ferry transport	39,760	31,437
Total	82,860	91,973

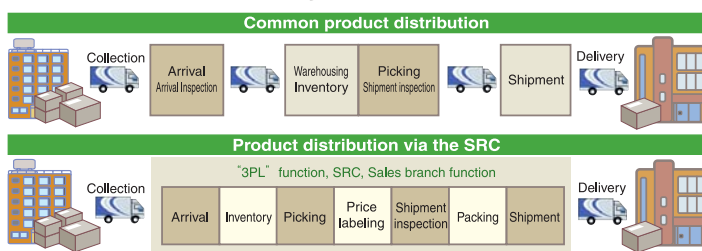
* Calculated based on basic units of CO₂ emission by cargo transport means (FY 2001) provided by the Ministry of Land, Infrastructure and Transport

* Calculated based not on actual reductions in 2006, but on environmental burden generated when no modal shift is undertaken

Efforts to Lower Environmental Pressures Undertaken by Sagawa Distribution Center

Sagawa Distribution Center (SRC) has functions to comprehensively support a series of logistics processes and shipment operations, promoting drastic streamlining of operations based on its centralized management. This enables us to eliminate unnecessary transportations between work processes, thereby contributing to the reduction of environmental burdens.

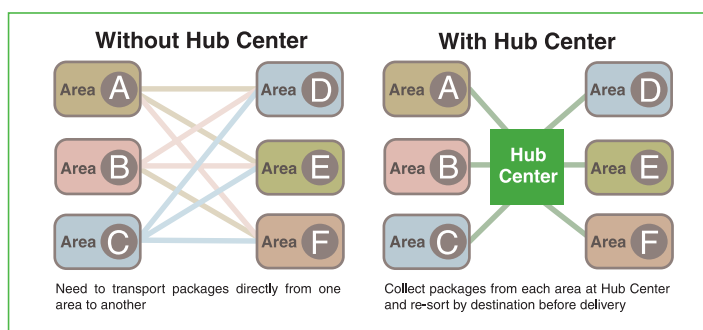
Transportation flow at Sagawa Distribution Center



Increased Transportation Efficiency Achieved by Hub Center

As part of efforts to build up a network supporting transport operations, we have established Hub Centers as large-scale package collection facilities so as to increase transportation efficiency. By gathering packages to Hub Centers for re-sorting by destination, vehicle loading rates have increased and the number of trucks required for delivery has declined. Consequently, exhaust gas emissions from our delivery trucks have diminished considerably, leading to the reduction of air pollutants and CO₂ emissions.

Distribution flow via Hub Center



Service Center's Transportation Service without Vehicle Use

We have established Service Centers, primarily in metropolitan areas including Tokyo and Osaka, where traffic volumes are high and parking space is limited. Delivery vehicles are not based at these Centers; instead, deliveries and collections are via platform hand trucks and

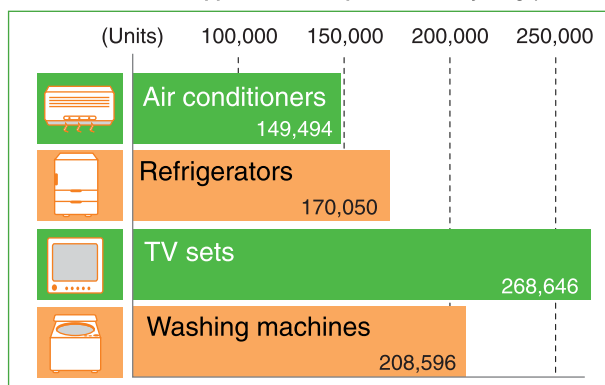
bicycles. This approach has enabled us to help eliminate traffic jams and minimize unnecessary travel in search of parking space, thereby reducing wasteful time and unnecessary fuel consumption, and ultimately contributing to the mitigation of environmental pressures.

Other Environmental Considerations

Transporting Home Appliances for Recycling

To support the process of recycling certain home appliances subject to the Law for Recycling of Specified Kinds of Home Appliances, 24 sales branches of Sagawa Express based in the Kinki, Chubu and Shikoku regions, as designated transportation operators, transport collected home appliances to recycling facilities at the request of home appliance manufacturers.

■ Number of home appliances transported for recycling (FY 2006)



Introducing ECO Auto Bodies

Sagawa Galaxy Motors developed ECO Auto Bodies in June 2003, with the aim of preserving the natural environment as well as enhancing convenience in loading/unloading works conducted by drivers.

For fiscal 2006, a total of 1,576 vehicles were converted as ECO-Auto-Body vehicles; the cumulative number of ECO-Auto-Body vehicles shipped from the company has topped 5,000.



Introducing Eco-Uniforms

SG Holdings Group promotes green procurement. The uniforms worn by our employees are made of polyester fibers recycled from PET bottles, and are Eco Mark-certified products.

We ordered 185,000 uniforms in 2006, a quantity equivalent to approximately 530,000 recycled PET bottles.



Introducing Solar Power Generation System

Starting from 2003, as part of our efforts to preserve the environment by using natural energy, we are promoting the introduction of a solar power generation system. For fiscal 2006, this system was installed in seven sales branches of Sagawa Express.

This has brought the total number of sales branches equipped with the system to 16, and the total solar battery capacity to 300 kW, the largest scale of introduction of solar power generation system in the logistics industry.



Initiatives toward Environmental Enlightenment

It is impossible to achieve global environmental preservation only through the industrial sector's efforts. With a view to promoting environmental preservation activities on a global scale, we organize a range of enlightenment activities for many people, especially for children, who will lead the next generation.

Efforts toward Environmental Actions in 2006

Even if a variety of eco-friendly facilities are introduced, environmental preservation efforts will not bear fruit if staff members, who use these facilities, do not have heightened awareness regarding the environment. We have developed the Environmental Actions program with the objective of encouraging all of our 40,000 Group members to further

increase environmental awareness by engaging in environmental activities.

This participatory program, launched in 2003, has been continued in a variety of forms. Under the program, diverse activities are conducted throughout the year.

Environmental Enlightenment Activities for the Public

Environmental Lesson for Elementary School Children

We partake in a project organized by the Kyoto Chamber of Commerce and Industry to provide environmental lessons for elementary school children. In this project, our employees, as instructors, explain to students the importance of the natural environment and introduce environmental preservation activities undertaken by our Group. During one of these lessons, when our employees performed a comparison experiment between exhaust gases of a natural-gas truck and a diesel truck, the children curiously asked why the exhaust gas of the natural-gas truck was not black. These lessons are a valuable opportunity for us to communicate the importance of the environment to children.



Compare exhaust gases of natural-gas vehicle and diesel vehicle



Natural-gas vehicles do not emit black smoke.

Partnership with the Japanese Olympic Committee

As an official environmental partner of the Japanese Olympic Committee (JOC), Sagawa Express participates in environmental activities organized by JOC and promotes environmental enlightenment through sports activities. Since being designated an official environmental partner in March 2003, Sagawa Express has introduced, in various JOC events, including Olympic Day Run and Olympic Concert, the company's environmental activities at Olympic venues, and other efforts to protect the environment. Through introducing the relationship between sports and the environment, Sagawa Express communicates the importance of environmental preservation efforts to event participants.



Growing with Employees

In accordance with its policy of engaging in personnel training with the aim of expanding the diverse abilities of individuals while respecting the dignity of workers and providing equal opportunities, SG Holdings Group seeks to become a company that grows with its employees.

Personnel Management Policy

Sagawa Express has 35,648 employees, including part-time workers, as of March 20, 2007.

We use four personnel management systems, with a view to respecting human resources as valuable corporate assets, regardless of academic background and age, and to revitalizing our organizational strength so as to achieve further development of the entire Group.

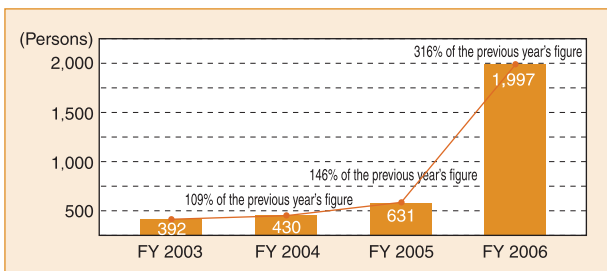
Appointment of Female Employees

Thus far, most female employees have been appointed to clerical work. However, as attentive services provided by female workers are favorably received by our clients, we are expanding employment of female workers, especially for sales positions. Consequently, the number of female employees hired by Sagawa Express in 2006 has leaped, reaching 316% of the previous year's figure.

We will further promote the appointment of female workers to managerial positions, and will increase our efforts to provide better working environments for all employees, regardless of gender.



Number of female employees who have joined the company

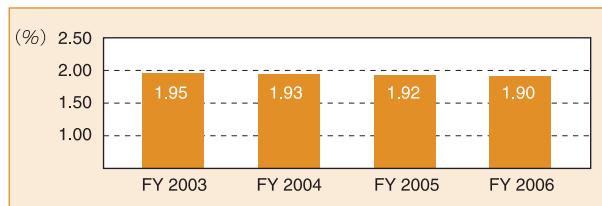


Employment Promotion

To help realize a society in which people with disability can lead self-reliant lives, it is essential to expand an environment in which people of all abilities, including both disabled and non-disabled, can work together on the same field and share the effort with each other, without depending only on collective employment by certain organizations. This is a prerequisite to sharing with various people the joy of achieving goals.

In line with this idea, we will further promote an employment policy that enables us to grow with our employees.

Rate of employees with disability



Human Resource Training

To create a working environment in which individual employees can fully realize their own development and achieve fulfillment through the medium of work, we use a standardized personnel education and training system nationwide.

Trainings conducted in fiscal 2006

No.	Training Name	Number of attendees	Number of trainings held
1	Induction training for sales branch managers	44	2
2	Training course for sales branch manager candidates	115	1
3	Basic training for sales chiefs	318	10
4	Advanced training for sales chiefs	164	8
5	Basic training for CS chiefs	53	2
6	Advanced training for CS chiefs	41	2
7	Basic training for safety promotion chiefs	168	4
8	Training course for telephone-handling instructors	54	1
9	Hands-on school for logistics	32	1
10	Overseas training	95	5
11	Eco-safe driving training	484	14

Serving Clients

We aim to offer quality service with added value, so as to accommodate client needs and foster good relations with our clients by gaining trust as a good partner.

Aiming for Satisfactory Services

Sagawa Express's "Hikyaku mark" having been renewed, we have reorganized our service system and reviewed the names of our services so that our clients are readily and clearly reminded of the content of each service.

By attaching the word "Hikyaku," which is associated with Sagawa Express, to the top of each service name, we aim to enhance client recognition of the products and services provided by Sagawa Express. We also aim to increase communication efficiency by combining the renewed names and the new "Hikyaku mark."

Meanwhile, all sales branches of Sagawa Express have obtained ISO (International Organization for Standardization) 9001: 2000 certification, in the effort to ensure thorough adherence to quality control in transport operations.



ISO 9001 conformity certificate

Former service names	New service names
Sagawa Express (Courier service)	Hikyaku Express
Sagawa Express Free-Size Package	Hikyaku Free-Size Package
Sagawa Personal Computer Express	Hikyaku Personal Computer Express
Sagawa Security Package	Hikyaku Security Express
Hobby Express	Hikyaku Golf Express, Hikyaku Ski Express
Sagawa Yu-Mail	Hikyaku Yu-Mail
Sagawa Green Mail	Hikyaku Green Mail
Sagawa Hanger Transportation	Hikyaku Hanger Transportation
Sagawa Art Transportation	Hikyaku Art Transportation
Sagawa Moving Transportation	Hikyaku Moving Transportation
Sagawa Charter Transportation	Hikyaku Charter Transportation

Providing Safe and Secure Services

In today's technetronic society, there is a growing risk regarding information management, such as personal information leakage and counterfeiting.

Sagawa Express is engaged in efforts to provide safe and secure services, so as to protect our client information from such risks.

■ Addressee Identification Delivery Service

With the use of the Internet becoming widespread, the number of Internet crimes, such as credit card fraud and Internet auction fraud, is surging. It is more necessary than ever before to ensure heightened security and safer transaction environment in delivery operations.

With this as background, Sagawa Express has developed its addressee identification delivery service, which employs settlement terminals, for the first time in the courier industry. Through this service, we aim to prevent "spoofing" at the time of package receipt, thereby providing safer services for our clients.

■ Hikyaku Security Express

The leakage of personal information has grown into a serious social issue. With enactment of the Act on the Protection of Personal Information, it is now a necessary obligation for companies to pay close attention to the handling of personal and other confidential information.

In response to the growing needs for services with higher transportation safety and confidentiality, Sagawa Express has developed special transportation cases equipped with a dial lock, and provides a security transportation service called Hikyaku Security Express, employing those cases. A PHS terminal mounted inside the case transmits location information on a real-time basis, so that the current location of the case can be monitored via the Internet. Through this service, Sagawa Express offers safety and reliability to society at large.



Special transportation case for Hikyaku Security Express

Harmonious Coexistence with Local Communities

We aim for harmonious coexistence with local communities, while acting as a good corporate citizen and pursuing the realization of fulfilling and healthy living for people, as well as the establishment of a society in which all can feel safe and secure.

Friendship across Borders

A national order was conferred upon Sagawa International Economic Cooperation Foundation by the government of the Lao People's Democratic Republic (Laos) with respect to the donation of used trucks, including sprinkler trucks, to that country.

The Foundation has donated used trucks (including sprinkler trucks) to Laos annually since 2003, through the national public corporation for land and river transportation under the Laotian government. The number of donated trucks (including sprinkler trucks)

totaled 37 as of March 2007.

These donated trucks are used for transporting consumer commodities and for maintaining public roads in the country.



Vehicle donation ceremony



Donated truck running in Laos (capital city of Vientiane)

The Third SAGAWA Stakeholder Dialog

Since 2004, Sagawa Express has offered a venue for dialog with its stakeholders from diverse fields, with the aim of inquiring about expectations for the company and sharing opinions regarding a range of social issues. In the third Dialog, held in 2006, a total of 30 stakeholders were invited from governments, academia, NGOs, companies and media, to share opinions with the company's President and other staff members under the theme "the role of the logistics sector regarding the achievement of sustainable nation building."



Activities Undertaken by Foundations

Sagawa Art Museum Foundation

<http://www.sagawa-artmuseum.or.jp/>

The Sagawa Art Museum mainly exhibits works by two leading Japanese artists: Ikuo Hirayama, a Japanese-style painter, and Churyo Sato, a sculptor. In its special exhibitions, the Museum also introduces many valuable art works from around the world, under the theme of cultural exchange between East and West, thereby contributing to international cultural promotion. In fiscal 2007, as part of a project commemorating the 50th anniversary of Sagawa Express's foundation, the Museum plans to open its third gallery, Raku Kichizaemon Gallery, based on Mr. Raku's own planning. This gallery will be a unique

facility characterized by his works and a tea ceremony space produced by the artist himself.



Sagawa International Economic Cooperation Foundation

<http://www.sagawa-kokusaikeizai.or.jp/>

With a view to nurturing friendship and goodwill between Japan and developing countries, including China, the Sagawa International Economic Cooperation Foundation has been engaged, since its founding in October 1986, in projects of donating used trucks and accepting trainees in vehicle maintenance techniques. In September 2006, the seventeenth Sagawa Japan-China friendship vehicle maintenance technique

training program commenced. In this two-month training course, conducted at Sagawa Galaxy Motors and other auto manufacturers' training centers, the six trainees acquired comprehensive knowledge and techniques regarding vehicle maintenance operations employed in Japan.



Sagawa Foreign Students' Scholarship Foundation

<http://www.sagawa-ryugakusei.or.jp/>

The Sagawa Foreign Students' Scholarship Foundation was established in February 1986 as part of Sagawa Express's 30th anniversary commemorative project. Since then, the Foundation has been engaged in scholarship projects with the aim of promoting international exchange activities and fostering friendship and goodwill between Japan and Southeast Asian countries. Under these projects, the Foundation provides

economic support by granting scholarships (100,000 yen per month per person, for twenty-four months) to students from Southeast Asian nations who study in Japan at their own expense, in order to achieve their respective future dreams.



Sagawa Cancer Research Promotion Foundation

<http://www.sagawa-gan.or.jp/>

Established in February 1989, the Sagawa Cancer Research Promotion Foundation is engaged in projects to aid basic research and practical treatment research for cancer, which is the number one cause of



death among Japanese people. With an eye to helping enhance healthcare and welfare, the Foundation provides grant-in-aids for research activities, confers research grant awards, promotes cancer prevention enlightenment activities and disseminates to the general public accurate information on maintaining health.

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