Management's Discussion and Analysis

Scope of Consolidation

The Yamato Group's consolidated financial statements include 50 major consolidated subsidiaries. The number of subsidiaries included in the statements was 43 at fiscal 2005 year-end. However, in fiscal 2006, seven new companies were brought within the scope of consolidation. These included Yamato Transport, established on November 1, 2005 as the receiver company for the Delivery business that was spun off from the Company, and Fine Credit, which became a consolidated subsidiary on April 1, 2005. There are no non-consolidated subsidiaries or affiliates accounted for by the equity method during the period under review.

Results of Operations

In the fiscal year ended March 31, 2006, the Japanese economy held to a recovery track, supported by improved corporate earnings and an expansion in private-sector capital expenditures, as well as modest growth in consumer spending. In contrast to these upbeat conditions, the domestic transportation industry continued to face a harsh operating environment as the impact of elevated crude oil prices was compounded by intensifying price-based competition within the industry. This escalation in the competitive environment was due in part to the aggressive entry of Japan Post into the private-sector package delivery market.

In this context, the Group completed its shift from an operating holding company structure to a pure holding company structure. On November 1, 2005 we split the former Yamato Transport into Yamato Holdings, which handles decision-making and supervision for the Group as a whole, and the new Yamato Transport, which executes the Delivery business. The new Group structure under Yamato Holdings is composed of six business formations that include the Delivery business. By enabling strategic decision-making encompassing the entire Group and the capacity to flexibly allocate management resources in an optimal manner, the Yamato Group has put in place a system that will accelerate the pace of growth for the Group as a whole.

From the year under review, the Group embarked on its latest management plan, "Yamato Group Revolution Plan 2007: New Value & Innovation Three-Year Plan." In a competitive environment expected to heat up further with the impending privatization of Japan Post in 2007, this plan aims to help the Group switch to a business structure that can retain and extend its growth capabilities. Guided by this plan, the Group continued striving to systematically expand its Delivery business. Alongside the initiation of business strategies to accelerate growth in non-delivery businesses capitalizing on group resources, the Group has also taken steps to achieve highly efficient management by restructuring processes in every business domain.

As a result of the above and other factors, Yamato Holdings recorded consolidated operating revenues of ¥1,144,961 million, up ¥73,058 million, or 6.8%, from the previous fiscal year. Operating income also grew ¥17,518 million, or 34.2%, to ¥68,721 million, as efforts to enhance cost-control capabilities offset costs, namely the effects of surging crude oil prices. Reflecting sharply higher operating income, the operating income margin rose 1.2 percentage points to 6.0%. However, the Company posted a net loss of ¥23,968 million for the year. This was primarily due to the booking of a loss on devaluation of land accompanying the spin-off of the Delivery business, a move that was enacted to further strengthen the Company's financial position.

Review by Operating Segment

The following are summaries from each operating segment:

Delivery

The Delivery business is mainly focused on small parcel delivery services for consumers and corporate clients and includes *Takkyubin* and *Kuroneko Mail* services.

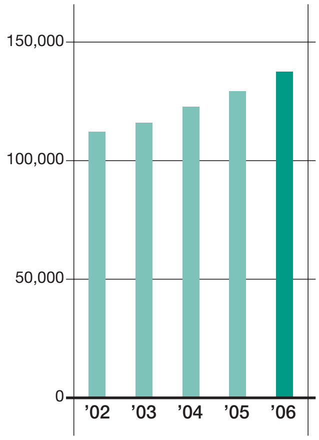
Both the total delivery volume and revenue for the *Takkyubin* service increased sharply due to the introduction of new services to meet diversifying customer needs and active measures taken to improve customer convenience. Overall delivery volume in the parcel delivery business climbed to 1,129.0 million parcels, up 6.2% year on year. Contributing to growth was *Cool Takkyubin*, where volume increased 6.5% to 137.5 million units. Moreover, the *Collect Service* handling volume increased 14.7% to 78.6 million units. Meanwhile, the unit price for the *Takkyubin* service dropped ¥13 from ¥666 in fiscal 2005 to ¥653. This drop was due mainly to intensifying competition in the parcel delivery market, which sparked the roughly 2 percentage-point decline in unit price. The net result of the above was that total *Takkyubin* service revenue increased 4.1% to ¥737,399 million.

Both total delivery volume and revenue for the *Kuroneko Mail* service increased, reflecting stronger operations, including increased handling services for corporate customers and expansion of service counters. Another factor was the commencement of sales of *Kuroneko International Mail* from July 2005. Handling volume increased 21.1% to 1,734.8 million units. Meanwhile, the unit price for the *Kuroneko Mail* service dropped ¥4 from ¥73 in fiscal 2005 to ¥69, reflecting the impact of volume discounts offered by Japan Post starting February 2003. The net result of the above was that revenue for the *Kuroneko Mail* service grew 16.0% to ¥120,549 million.

As a result, total operating revenues for the Delivery business were ¥915,952 million, an increase of ¥49,200 million, or 5.7%. Operating income was ¥48,816 million, an increase of ¥12,549 million, or 34.6%, despite the impact of higher personnel expenses for strengthening the quality of delivery services by employing more part-time staff.

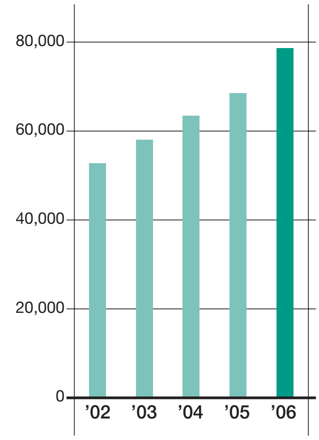
Cool Takkyubin Delivery Volume

(1,000 parcels)



Collect Service Delivery Volume

(1,000 parcels)



Takkyubin Revenues, Delivery Volume, and Unit Price

Years ended March 31	2002	2003	2004	2005	**2006**
Takkyubin revenues (Millions of Yen)	683,589	698,499	690,088	708,503	**737,399**
Delivery volume (1,000 parcels)	947,895	983,938	1,011,150	1,063,057	**1,128,998**
Unit price (Yen)	721	710	682	666	**653**

Unit price declined in the fiscal years ended March 2003 and 2004 due to the merger of Shikoku Yamato Transport Co., Ltd. and Kyushu Yamato Transport Co., Ltd.

BIZ-Logistics

BIZ-Logistics provides inter-company logistics services aimed at the B2B supply chain management market and includes air-freight forwarding, logistics business and marine forwarding.

Revenue from the marine forwarding business rose a healthy 14.0% to ¥19,747 million year on year. In contrast, the air-freight forwarding business posted a modest increase of 1.2% to ¥67,223 million, while revenue from the logistics business edged just 0.2% higher to ¥17,539 million.

Combining other areas such as packing operations and other services, operating revenue edged up ¥797 million, or 0.7%, to ¥111,488 million, with operating income down ¥115 million, or 2.8%, to ¥4,036 million.

Home Convenience

Home Convenience services include moving services and lifestyle support services, such as home services intimately connected with the needs of local markets, in addition to merchandise marketing.

Despite a tough market environment due to intensified competition with rival companies, moving services posted ¥33,667 million in revenue, up ¥577 million, or 1.7%, from the previous fiscal year. Merchandise marketing also grew steadily, recording ¥24,179 million in revenue, up 13.7%, or ¥2,918 million.

As a result, operating revenues increased ¥1,114 million, or 2.6%, to ¥44,498 million. Furthermore, operating income was ¥381 million, reversing an operating loss of ¥638 million posted for the previous fiscal year.

e-Business

The e-Business segment encompasses information services targeting business customers, including ASP services and the development of information systems.

During the year under review, e-Business established a marketing framework tailored to specific industry sectors and took steps to change its on-premise business format to solution-oriented services. The segment's proactive marketing efforts, meanwhile, included proposals comprised of elements such as tracing and security.

As a result, operating revenues increased 11.7% to ¥27,279 million, largely reflecting strong performance in information management services for the credit and consumer finance industry.

Financial

The Financial business includes financial services targeted at business customers and consumers, such as settlement and collection.

In the fiscal year ended March 31, 2006, revenue from *Collect Service* was ¥26,068 million, up 12.6% from a year ago. Revenue from installment credit loans was ¥12,218 million, due to the addition of Fine Credit to the Yamato Group.

Consequently, operating revenues for this segment, which included the April 1, 2005 consolidation of Fine Credit, increased 71.7% to ¥45,744 million.

Financial Review

Operating Costs

In the fiscal year ended March 31, 2006, the Company recorded consolidated operating costs and expenses of ¥1,076,240 million, up ¥55,540 million, or 5.4% from the previous fiscal year. Significant components of the operating costs were as follows:

Breakdown of operating costs

			Millions of Yen
Years ended March 31	2005	**2006**	Increase/ decrease
Personnel expenses	¥ 542,306	**¥ 563,267**	¥ 20,961
Subcontracting expenses	357,024	**387,956**	30,932
Vehicle expenses	27,277	**31,502**	4,225
Other expenses	235,163	**250,463**	15,300
Elimination of internal procurement costs	(141,070)	**(156,948)**	(15,878)
Total	¥1,020,700	**¥1,076,240**	¥ 55,540

Major factors contributing to increased operating costs and expenses were higher subcontracting expenses for *Kuroneko Mail* and increased subcontracting expenses resulting from delivering more diverse types of goods. As a result, subcontracting expenses for fiscal 2006 increased ¥30,932 million.

Personnel expenses increased ¥20,961 million, mainly from an increase of ¥20,513 million in salaries to employees to boost service quality. The number of employees increased 11,185 to 152,787, due largely to a higher number of part-time employees in the Delivery business.

Other Income and Expenses

In fiscal 2006, other expenses—net totaled ¥61,009 million.

The major factor contributing to expenses was a ¥60,161 million loss on devaluation of land accompanying the spin-off of the Delivery business. Moreover, a ¥2,177 million loss on impairment of long-lived assets was booked due to the application of impairment accounting beginning the previous year, continued negative growth in operating activities at six asset groups, including the Kyoto branch office of Kyoto Yamato Transport Co., Ltd., and a significant drop in market prices.

Net Income

In fiscal 2006, income before income taxes and minority interests decreased ¥54,029 million, or 87.5%, to ¥7,712 million. Income taxes increased ¥3,317 million to ¥31,276 million.

With the inclusion of ¥404 million in minority interests, the Company posted a net loss of ¥23,968 million. Return on equity (ROE) was negative 5.4%, while net loss per share was ¥53.47.

In light of sharply higher operating income, the annual dividend was ¥20.00, an increase of ¥2.0 from the previous fiscal year.

Cash Flows

Operating Activities

Net cash provided by operating activities totaled ¥84,675 million, an increase of ¥8,033 million from the previous fiscal year. The major factors included a decrease in income before income taxes and minority interests of ¥54,029 million to ¥7,712 million, the booking of a loss on devaluation of land of ¥60,161 million, and a ¥9,729 million increase in allowance for retirement benefits.

Investing Activities

Net cash used in investing activities was ¥54,271 million, an increase of ¥14,281 million. The principal uses of cash in investing activities were ¥41,566 million for acquiring fixed assets, ¥5,123 million more than in the previous year, and ¥4,780 million for the acquisition of Fine Credit.

Financing Activities

Net cash used in financing activities totaled ¥25,355 million, a decrease of ¥8,557 million from the previous fiscal year. This result was principally due to ¥78,740 million in proceeds from loans by Fine Credit and others, ¥85,532 million for repayments of debt, and the absence of ¥17,000 million used for the redemption of company bonds in the previous fiscal year.

As a result of these factors, cash and cash equivalents at the end of the fiscal year totaled ¥125,504 million, up ¥5,474 million from the end of the previous fiscal year.

Financial Position

Total current assets as of March 31, 2006 were ¥405,608 million, an increase of ¥136,119 million, or 50.5%. This growth came mainly atop of an increase in the installment receivable balance of ¥113,648 million accompanying the new consolidation of Fine Credit.

Net property, plant and equipment decreased ¥46,911 million, or 14.5%, to ¥277,630 million. The major factor contributing to this decrease was a loss on devaluation of land of ¥60,161 million from the spin-off of the Delivery business.

Investments and other assets increased ¥27,858 million, or 33.9%, to ¥109,984 million. This was due primarily to an increase of ¥23,254 million in investment securities to ¥46,305 million.

As a result of the foregoing, total assets increased ¥117,066 million, or 17.3%, from the end of the previous fiscal year, to ¥793,222 million.

The new consolidation of Fine Credit was responsible for increases in current and long-term liabilities. The former included short-term bank loans of ¥43,705 million, up ¥43,668 million from the previous year, and deferred profit on installment sales of ¥23,368 million. The latter consisted of an increase in long-term debt of ¥38,768 million to ¥54,189 million.

As a result, total current liabilities increased ¥93,479 million, or 49.6%, to ¥282,125 million. The current ratio was 143.8%. Total long-term liabilities increased ¥55,162 million, or 192.7%, to ¥83,782 million.

Total shareholders' equity declined ¥35,102 million, or 7.7%, to ¥423,690 million. The principal factors were the decrease in retained earnings due to the posting of ¥23,968 million in net loss, as well as a ¥19,981 million decrease in capital surplus due largely to the disposal of treasury stock.

Net assets per share for the period under review declined ¥67.94, or 6.7%, to ¥951.08. The shareholders' equity ratio dropped 14.5 percentage points to 53.4%.

Capital Expenditure

Capital expenditure was ¥48,865 million, providing the necessary delivery framework to improve the quality of the core *Takkyubin* services and offer additional services across Japan. The following is a breakdown of capital expenditure:

Breakdown of capital expenditure	Millions of Yen		Thousands of U.S. Dollars
	2005	**2006**	**2006**
Delivery	¥26,657	**¥33,557**	**$285,667**
BIZ-Logistics	830	**1,539**	**13,102**
Home Convenience	458	**381**	**3,239**
e-Business	906	**1,406**	**11,969**
Financial	11,632	**11,884**	**101,164**
Eliminations and Corporate	483	**98**	**837**
Consolidated	¥40,966	**¥48,865**	**$415,978**

In the Delivery business, capital expenditure was used for the opening of new *Takkyubin* centers, additional purchase and replacement of delivery vehicles, and other purposes. Major changes in the Delivery business network are detailed below.

Network	2005	**2006**
Number of vehicles	49,046	**54,693**
Number of delivery channels	8,467	**10,777**
Number of sub-agents	296,438	**289,598**