YAMATO HOLDINGS CO., LTD.

Innovation

Accelerating Growth: **A Dual Approach**

Annual Report 2007

Year ended March 31, 2007

Profile

The Yamato Group consists of Yamato Holdings Co., Ltd. ("the Company"), 46 subsidiaries and five affiliated companies. It is primarily involved in six business segments: Delivery, BIZ-Logistics, Home Convenience, e-Business, Financial and Other, as well as services incidental to these activities.

The goal of the Yamato Group is to help bring about a better society by further refining the Takkyubin network, which is a part of the social infrastructure, creating services that facilitate more convenient, comfortable lifestyles, and developing innovative logistics systems. The Group has managed its businesses in pursuit of this goal, toward which it will continue to strive. To this end, the Group is working to enhance corporate value through improving quality by constantly putting ourselves in our customers' position, while also using the capabilities of the whole Group to develop unique services that further improve convenience for our customers.

Contents

Forward-Looking Statements

This annual report contains forward-looking statements concerning Yamato Holdings' future plans, strategies and performance. These statements represent assumptions and beliefs based on information currently available and are not historical facts. Furthermore, forward-looking statements are subject to a number of risks and uncertainties that include, but are not limited to, economic conditions, customer demand, foreign currency exchange rates, tax laws and other regulations. Yamato Holdings therefore cautions readers that actual results may differ materially from these predictions.

Consolidated Financial Highlights

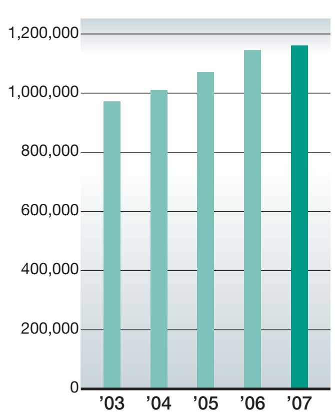
Years Ended March 31

	Millions of Yen			Thousands of U.S. Dollars
	2007	2006	2005	2007
Operating revenues	¥1,161,568	¥1,144,961	¥1,071,903	$9,839,624
Operating costs	1,064,044	1,043,372	998,786	9,013,501
Selling, general and administrative expenses	30,363	32,868	21,914	257,203
Operating income	67,161	68,721	51,203	568,920
Income before income taxes and minority interests	66,825	7,712	61,741	566,078
Income taxes	32,470	31,276	27,959	275,052
Net income (loss)	33,813	(23,968)	33,848	286,433
	Yen			U.S. Dollars
Per share of common stock:				
Basic net income (loss)	¥ 75.59	¥ (53.47)	¥ 74.02	$ 0.64
Diluted net income	74.00		72.48	0.63
Cash dividends	20.00	20.00	18.00	0.17
	Millions of Yen			Thousands of U.S. Dollars
Working capital	¥ 140,377	¥ 123,483	¥ 80,843	$1,189,129
Total shareholders' equity	445,263	423,690	458,792	3,771,817
Total assets	829,721	793,222	676,156	7,028,556
Capital expenditures	48,881	48,865	40,966	414,071
Depreciation and amortization	40,150	35,003	37,146	340,109
Takkyubin Delivery Volume (Millions of parcels)	1,174	1,128	1,063	–

Note: U.S. dollar amounts have been translated, for convenience only, at the rate of ¥118.05 to U.S.$1.

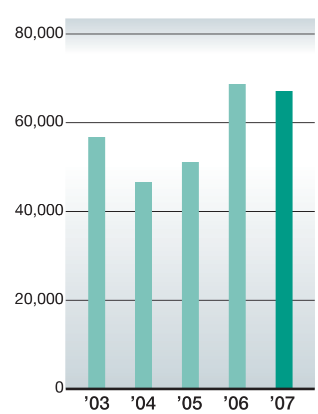
Operating Revenues

(Millions of Yen)



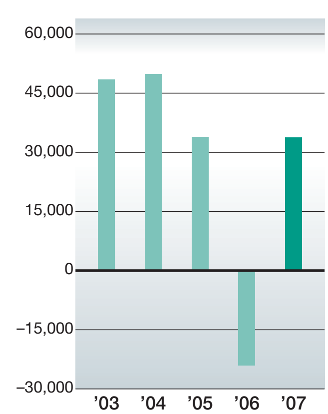
Operating Income

(Millions of Yen)



Net Income (Loss)

(Millions of Yen)



To Our Shareholders

Left
Keiji Aritomi

Right
Kaoru Seto

In fiscal 2007, the second year of our medium-term management plan "Yamato Group Revolution Plan 2007: New Value & Innovation Three-Year Plan," consolidated operating revenues totaled ¥1,161,568 million, and operating income amounted to ¥67,161 million. This marks solid progress in our medium-term plan.

Although the operating environment is expected to remain harsh, the Yamato Group is committed to working as one to implement continuous business innovation aimed at further raising corporate value.

Keiji Aritomi

Keiji Aritomi
Director and Chairman

Kaoru Seto

Kaoru Seto
Representative Director,
President and Executive Officer

Strategy and Status of "Yamato Group Revolution Plan 2007: New Value & Innovation Three-Year Plan"

1. Yamato Group Strategy

Business Innovation: Moving Away from Over-Weighting of Delivery Business

In fiscal 2007, the second year of our "Yamato Group Revolution Plan 2007: New Value & Innovation Three-Year Plan," we restructured processes in every business domain to realize high-efficiency management. The "Yamato Group Revolution Plan 2007: New Value & Innovation Three-Year Plan" is set to run through fiscal 2008, and is aimed at creating a corporate group capable of growing in a sustainable manner.

In the 88 years of operations since its establishment, the Yamato Group has pursued steady expansion of its Delivery business, centered on *Takkyubin* (door-to-door parcel delivery), while initiating strategies to accelerate growth in non-delivery businesses that draw on the resources of the Group as a whole, giving it two major pillars.

Based on this business strategy, the Yamato Group is working to develop unique services that help improve the convenience of customers' lives, and rigorously pursues greater management efficiency. At the same time, we are shifting from Delivery business-oriented management and implemented innovations aimed at accelerating the growth of non-delivery businesses.

Approach 1:

Steadily Expand the Delivery Business

The Delivery business has been the Yamato Group's core business since its founding. In fiscal 2007, the Delivery business accounted for around 80% of consolidated operating revenues. The Delivery business faced a business environment that remained harsh owing to soaring crude oil prices, enforcement of the revised Road Traffic Law, and increased competition with business rivals, including a low-price offensive implemented by the Japan Post.

Under these conditions, we utilized a proactive sales approach tailored to each market sector. This approach, underpinned by the Group's corporate philosophy in this business of Total Reliability, was taken in order to respond flexibly to diversifying customer needs.

In the *Takkyubin* service, we worked to increase customer convenience on the delivery side by promulgating our *Mail Notification Service* and the *Takkyubin Store Pickup Service*. We also strived to further integrate Group functions, including settlement functions and tracing functions, pursuing business expansion underpinned by delivery through our own national network and our own sales drivers.

Meanwhile, in the *Kuroneko Mail* service, the Group put in place a stronger system for improved service quality and productivity. At the same time, the Group pursued aggressive sales activities, including renewing its product lineup in October 2006 and introducing *Kuroneko Mail Express Service*. Furthermore, as the direct mail market is projected to expand going forward, in April 2006 Yamato Holdings formed a joint venture in Japan, Yamato Dialog & Media Co., Ltd., with DHL Global Mail (Japan) K.K., an affiliate of Deutsche Post World Net.

In September 2006, the Yamato Group petitioned the Fair Trade Commission for application of the Anti-Monopoly Law to the business activities of Japan Post, which is scheduled for privatization in October 2007.

Going forward, the Yamato Group, as one of the delivery industry's leading companies, will work to continually enhance quality from the perspective of customers, while developing unique services that help improve the convenience of people's lives.

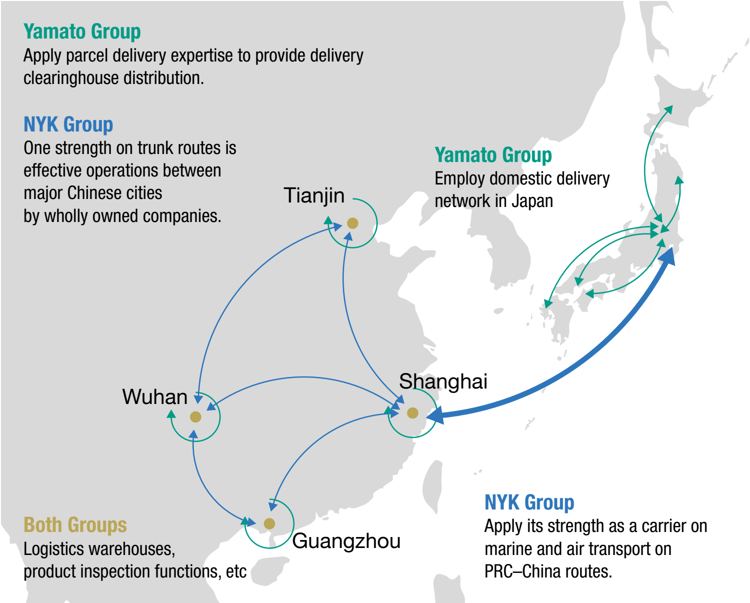
Approach 2:
Initiate Strategies to Accelerate Growth in Non-Delivery Businesses

As a method of spurring business innovation, we carry out aggressive investments to develop new businesses and products targeting significant growth in non-delivery businesses. Within this, efforts are poured into our overseas strategy and services targeted at businesses.

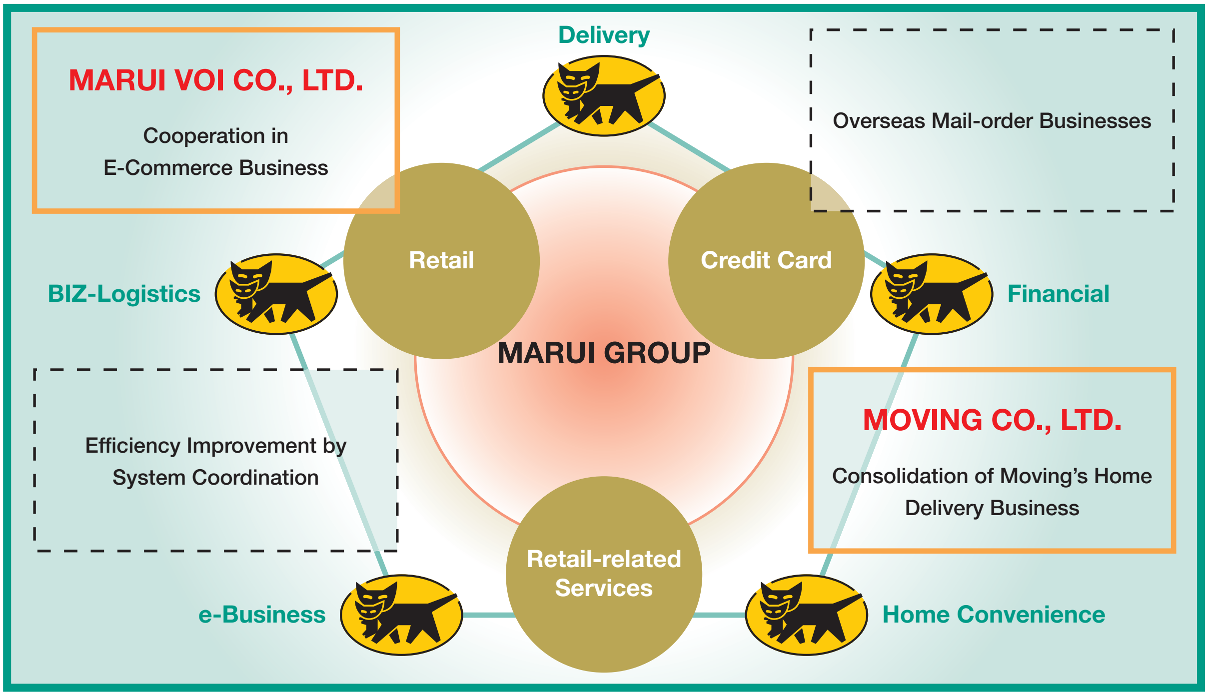
The Yamato Group agreed on a strategic tie-up with the NIPPON YUSEN KABUSHIKI KAISHA (NYK LINE) Group on May 10, 2006, and implemented business and capital alliances. The aim of these alliances is to provide high-quality global logistics services by taking an organic and efficient approach to making the best possible use of the two groups' overseas and domestic management resources (See Figure 1). Furthermore, we launched *JITBOX Charter*, a franchise service in April 2006, aimed at realizing just-in-time delivery in one-box units to accommodate the shift from large-volume, one-time shipments to multiple small-lot shipments. In August 2006, we established a franchise-type sales organization based on a corporate group of 15 companies, and we proactively expanded marketing aimed at creating a new *de facto* standard for B2B logistics.

Additionally, in the Home Convenience business, in May 2007, we concluded a basic agreement on a strategic tie-up with MARUI CO., LTD., aimed at strengthening the *Household Takkyubin* service among other goals (See Figure 2).

Proposed tie-up with NYK Group (Figure 1)



Strategic alliance with MARUI (Figure 2)



With these and other efforts, we are working to accelerate growth in non-delivery businesses that draw on the resources of the group as a whole.

2. Key Words for Fiscal 2008

Accelerating and Integrating Businesses that Leverage the Comprehensive Capabilities of the Group

As detailed above, we are targeting steady expansion of the Delivery business and accelerating growth in the non-delivery businesses. To successfully pursue these approaches in parallel, it will be necessary to leverage the overall capabilities of the Group by fusing the functionalities of our six business formations, in particular, logistics technology (LT), information technology (IT), and financial technology (FT).

Specifically, we aim to achieve further integration among the respective LT, IT, and FT in the following areas. The first area is logistics, which has a strong track record and abundant expertise in LT, cultivated from the delivery business, which specializes in individual customers, beginning with home delivery of parcels and mail, the BIZ-Logistics business, which is strong in corporate services, that is, the forwarding and third-party logistics businesses, and the Home Convenience business, which focuses on moving services and the delivery of large items. The second area is e-Business, which has a record of IT-driven achievement in tracking more than 10 billion parcels and pieces of mail annually. The third area is the Financial business, which uses FT to offer five types of settlement services. Our strategic partnership with MARUI is a prime example of where we are integrating these technologies (See Figure 2).

Through this strategy, we aim to accelerate our business endeavors, underpinned by the Yamato brand, characterized by security and reliability built through a strong record of *Takkyubin* performance spanning more than 30 years, since the business was launched in 1976. In November 2005, with a view toward

organizational optimization, we established Yamato Holdings, which is responsible for decision-making and business oversight for the Group as a whole. Under the holding company are six business formations, giving us a framework that is well-suited for the pursuit of continual business innovation.

For fiscal 2008, the final year of our current medium-term management plan, we have set a target for ordinary income of ¥74 billion, including the ¥6 billion impact of a change in the accounting rules for depreciation. Through our effort to achieve this goal, we will work to increase corporate value based on the key words accelerating and integrating.

3. CSR Management

Moving Forward With Our Shareholders and Other Stakeholders

Compliance is a top priority of management at the Group. As such, the Group believes that sustained growth is largely contingent upon not only growing business profitability, but also proper conduct that befits a group of companies that operate businesses with a highly public-service character.

Moreover, as an enterprise whose business depends on the use of public roads, the Yamato Group places extremely high importance on fulfilling its social responsibility with regard to safety and the environment.

On the safety front, Yamato Transport Co., Ltd. is actively engaged in opening more satellite centers. Deliveries from these centers use handcarts and electronic bicycles equipped with mini trailers instead of regular trucks. Also, since 1998, we have held traffic safety classes for children in every region of Japan to provide them with the skills to avoid accidents, while simultaneously increasing safety awareness for our own employees. On the environmental front, we have set global warming prevention targets, and are actively adding low-emission delivery vehicles to our fleet. Moreover, we started holding classes on the environment for children in 2005.

Going forward, while conducting CSR activities that are closely oriented with local communities, we aim to win ever greater trust from all of our stakeholders, and thereby build a Yamato brand underpinned by unshakable security and trust.

With respect to the appropriation of retained earnings, the Company's policy is to pay dividends based on our consolidated net income level with a goal of having a payout ratio of 30%. In fiscal 2007, the Company declared a year-end dividend of ¥10 per share, making an annual dividend of ¥20 per share combined with the interim dividend of ¥10 per share.

I look forward to your continued support as we move forward together toward our goals.

Business Framework

Delivery

(Millions of Yen)

Operating Revenues 934,607
Operating Income 43,302

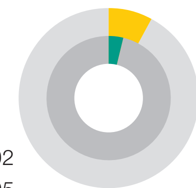
The Delivery business is involved in small parcel delivery services for the general public and corporations centering on *Takkyubin* and *Kuroneko Mail*.

The business has also quickly introduced to the market high value-added services developed from the customer's point of view, such as *Cool Takkyubin* and *Takkyubin Collect*.

Furthermore, as the direct mail market is projected to expand going forward, in April 2006 Yamato Holdings formed a joint venture in Japan with DHL Global Mail (Japan), an affiliate of Deutsche Post World Net, called Yamato Dialog & Media.

BIZ-Logistics

(Millions of Yen)



Operating Revenues 91,392
Operating Income 3,795

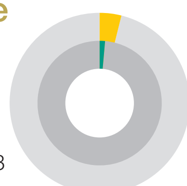
BIZ-Logistics handles logistics and other B2B distribution operations.

BIZ-Logistics helps its corporate clients manage their supply chains by providing innovative logistics services and reducing total costs, and presents proposals for optimized logistics systems.

In May 2006, the Yamato Group and the NIPPON YUSEN KABUSHIKI KAISHA (NYK LINE) Group agreed on a strategic tie-up, and implemented business and capital alliances. The aim of these alliances is to provide high-quality global logistics services by taking an organic and efficient approach to making the best possible use of the two groups' overseas and domestic management resources.

Home Convenience

(Millions of Yen)



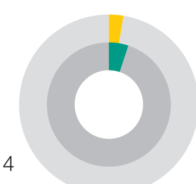
Operating Revenues 44,983
Operating Income 1,347

Home Convenience is rooted in moving services, lifestyle support services and distribution services. It provides lifestyle support services tailored closely to the needs of particular regions.

Regarding *Household Takkyubin*, which is expected to demonstrate increasing growth going forward, Yamato Holdings concluded a basic agreement on a business and capital tie-up with MARUI in May 2007. The Home Convenience business, with its nationwide network for transporting household electronics and furniture, etc., and MOVING, a subsidiary of MARUI, with its know-how in transporting large items, combined their corporate and individual customer bases, contributing to greater customer convenience.

e-Business

(Millions of Yen)



Operating Revenues 30,714
Operating Income 5,029

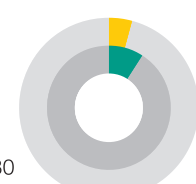
e-Business is involved in a range of information services for corporations, including ASP services and information system development.

Based on the three keywords "tracking," "security," and "packages," the e-Business strives to provide unique services making the most of the Group's management resources.

In addition, it conducts proactive marketing activities, such as the *Critical Information Tracking ASP Service* launched in August 2006. This service provides effective management of the processing and location of important documents, including member applications and survey postcards that contain personal information.

Financial

(Millions of Yen)



Operating Revenues 48,430
Operating Income 9,049

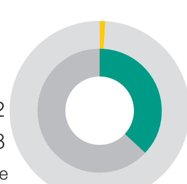
The Financial business includes settlement and other financial services targeted at consumers and business customers, beginning with mail order firms.

The business has five types of settlement methods, including payment on delivery and payment by credit card. Along with the increasing popularity of Internet shopping in recent years, we have constructed an environment that enables customers to conduct transactions with complete peace of mind.

In April 2005, Fine Credit Co., Ltd., became a subsidiary of the Yamato Group. The lending and liability management functions of this subsidiary are the main factor that makes it possible to provide a single window for a series of operations, from transport to settlement and funds procurement, based on combining LT, IT and FT.

Other

(Millions of Yen)



Operating Revenues 11,442
Operating Income 36,528

Note: Earnings for this business include dividends and business management fees received from subsidiaries and affiliates.

The Other business segment carries out vehicle maintenance primarily by Yamato Autoworks Co., Ltd., and is chiefly responsible for the *JITBOX Charter*, mainly operated by Box Charter Co., Ltd.

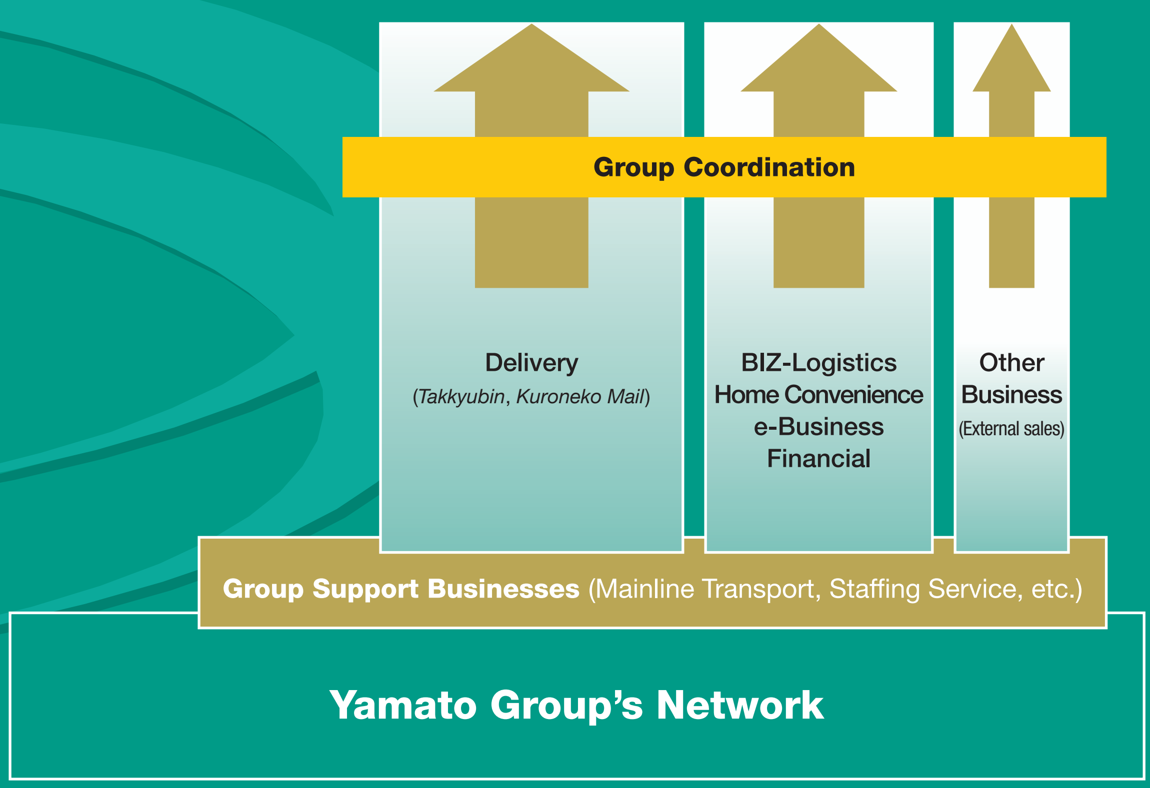
The focus now is on generating profit from these services by providing them to customers outside the Group, using expertise acquired within the Group over the years and the creation of new businesses as benchmarks for success.

In the *JITBOX Charter*, launched in April 2006, we established a franchise-type sales system based on a group of 15 companies starting in August of the same year, and we aggressively promoted sales in an effort to establish a new *de facto* standard for B2B logistics.

Business Strategy and Overview

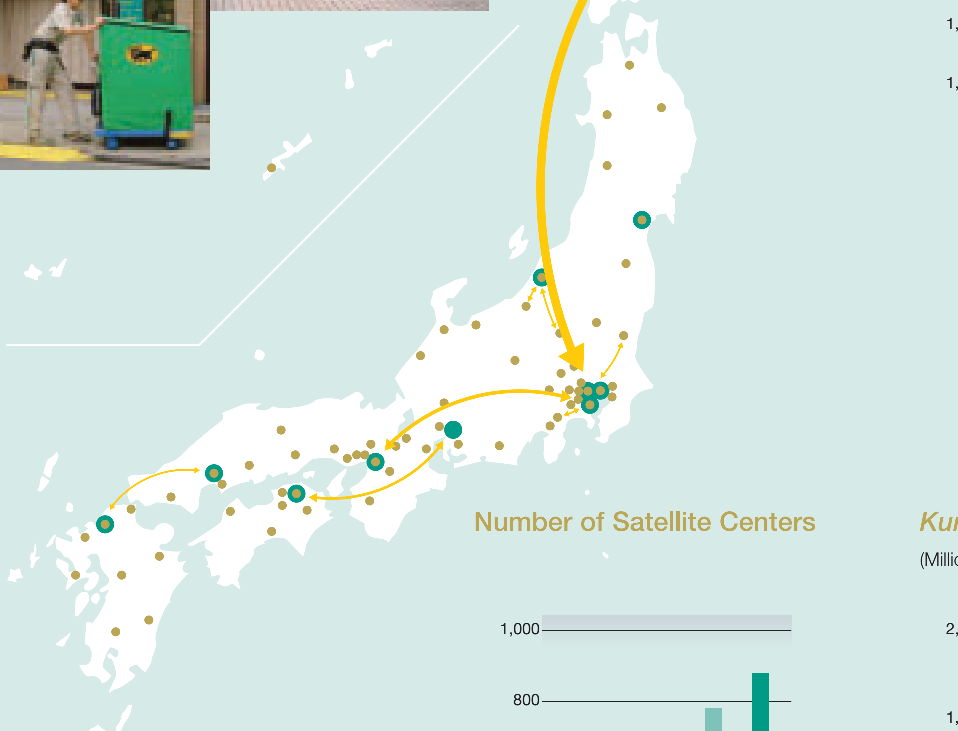
In fiscal 2007, the Group embarked on the second year of its current medium-term management plan, "Yamato Group Revolution Plan 2007: New Value & Innovation Three-Year Plan." This business strategy is aimed at creating a Yamato Group that is capable of growing in a sustainable manner not only in fiscal 2008, but also well into the future. In the 88 years of operations since its establishment, the Yamato Group has pursued steady expansion of its Delivery business, centered on *Takkyubin* (door-to-door parcel deliveries), while initiating strategies to accelerate growth in non-delivery businesses that draw on the resources of the Group as a whole, giving it two major pillars.

Outline of Management



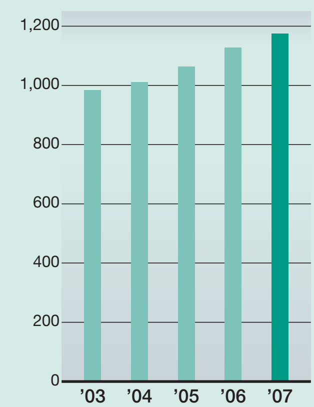
Delivery Business

The Delivery business is involved in small parcel delivery services for the general public and corporations centering on *Takkyubin* and *Kuroneko Mail*. It also led the industry in offering high value-added services developed from the customer's point of view, such as *Cool Takkyubin* and *Takkyubin Collect*. The business boasts a nationwide network incorporating 3,600 Takkyubin centers from Hokkaido in the north to Okinawa and the remote islands in the south. This network and the 60,000 sales drivers employed by the Yamato Group ensure the continued high-quality of its services, which will be enhanced to offer even greater convenience to customers going forward.

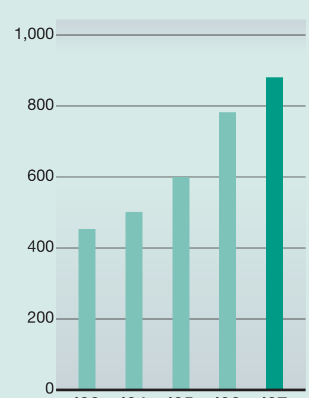


Takkyubin Delivery Volume

(Millions of parcels)

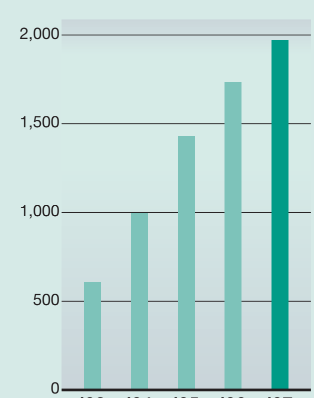


Number of Satellite Centers



Kuroneko Mail Handling Volume

(Millions of parcels)



Delivery

Overview of fiscal 2007

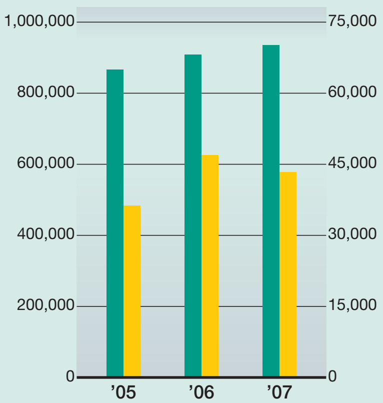
The Delivery business is mainly focused on small parcel delivery services for consumers and corporate clients and includes *Takkyubin* and *Kuroneko Mail* services.

In the *Takkyubin* business, the Group carried out proactive marketing activities for each market segment to flexibly meet diversifying customer needs, based on the Group's corporate philosophy in this business of Total Reliability.

As a result, total delivery volume in the parcel delivery business during the year under review reached 1,174 million parcels, rising 4.0% year on year, which compares favorably to the 0.4% growth in volume for the door-to-door (by truck) parcel delivery market as a whole, as measured by a Ministry of Land, Infrastructure and Transport survey.

Operating Revenues and Operating Income

(Millions of Yen)



Meanwhile, the Group endeavored to strengthen the framework of the *Kuroneko Mail* service with the aim of improving quality and operating productivity. For example, in October 2006, we carried out a product revamp, and implemented proactive marketing activities, including the launch of the *Kuroneko Mail Express Service*. Total handling volume in the *Kuroneko Mail* service increased by 13.6% to 1,970 million units, compared with growth of 11.7% for total mail handling volume according to a Ministry of Land, Infrastructure and Transport survey. As a result, total operating revenues for the Delivery business were ¥934,607 million, an increase of 2.9%. However, operating income was ¥43,302 million, a decrease of 7.7%. This decline reflected the impact from the surge in crude oil prices and the enforcement of the revised Road Transportation Law, as well as a rise in expenses accompanying the reinforcement of the *Kuroneko Mail* delivery system.

Topic

Kuroneko Mail Service: Product Revamp and Entry Into the Direct Marketing Business

In recent years, the mail market has been expanding along with growth in direct marketing and Internet-based retailing, resulting in the diversification of customer use scenarios. In light of these shifts, in October 2006, we revamped our *Kuroneko Mail* service from a weight-based system to a size-based system to better accommodate customer requests.

Also in April 2006, we established a joint venture—Yamato Dialog & Media—for direct marketing in Japan with DHL Global Mail (Japan), an affiliate of Deutsche Post World Net, in order to rapidly secure a competitive advantage in the direct mail market, which is expected to grow going forward. In fiscal 2007, the *Kuroneko Mail* service saw handling volume increase 13.6% from the previous fiscal year to 1,970 million units.

Press conference

Delivery Business Strategy:

Respond to customers' requirement promptly and readily

In the *Takkyubin* service, we focused on enhancing customer convenience on the delivery side. For example, we worked to popularize our *Mail Notification Service*, which keeps customers notified by e-mail from the time a delivery is scheduled to when it is completed, including occasions when delivery was attempted but the addressee was absent, as well as our *Takkyubin Store Pickup service*, which allows customers to have local convenience stores receive parcels on their behalf when they are not present. Customers are then free to pick up parcels at their convenience 24 hours a day 365 days a year.

The number of customers completing the required Web registration to use the *Mail Notification Service* has grown steadily compared to when the service was first initiated, underscoring the fact that this convenient service is taking firm hold.

Our *Takkyubin Store Pickup service* was available through three convenience store chains when the service was launched. As of July 2007, however, participation by a fourth chain has expanded the number of stores to approximately 20,000 nationwide, as we construct an environment that makes the service even easier to use.

Not only have we made it more convenient for our customers to receive packages, we have integrated Group functions, including settlement and tracking functions. In parallel with this, we have pursued business growth based on the key words security and reliability, and the guiding concept of prompt deliveries as often as customers require. The foundations of our efforts here are our 60,000 sales drivers and our own network of 3,600 business locations throughout Japan (as of March 31, 2007).

Our fiscal 2008 operating revenues target for the Delivery business as a whole is ¥977,000 million.

Topic

Forthcoming Privatization of Japan Post

Japan Post is scheduled to be privatized in October 2007. The Yamato Group seeks competition in a free and fair market with private business operators.

For this reason, in September 2006, the Yamato Group petitioned the Fair Trade Commission for application of the Anti-Monopoly Law to the business activities of Japan Post. At this time, the case is before the Court of Second Instance in the Tokyo High Court.

As the leading company in Japan's delivery industry, we are committed to continual quality improvement from the perspective of customers and to developing unique services that enhance customer convenience.

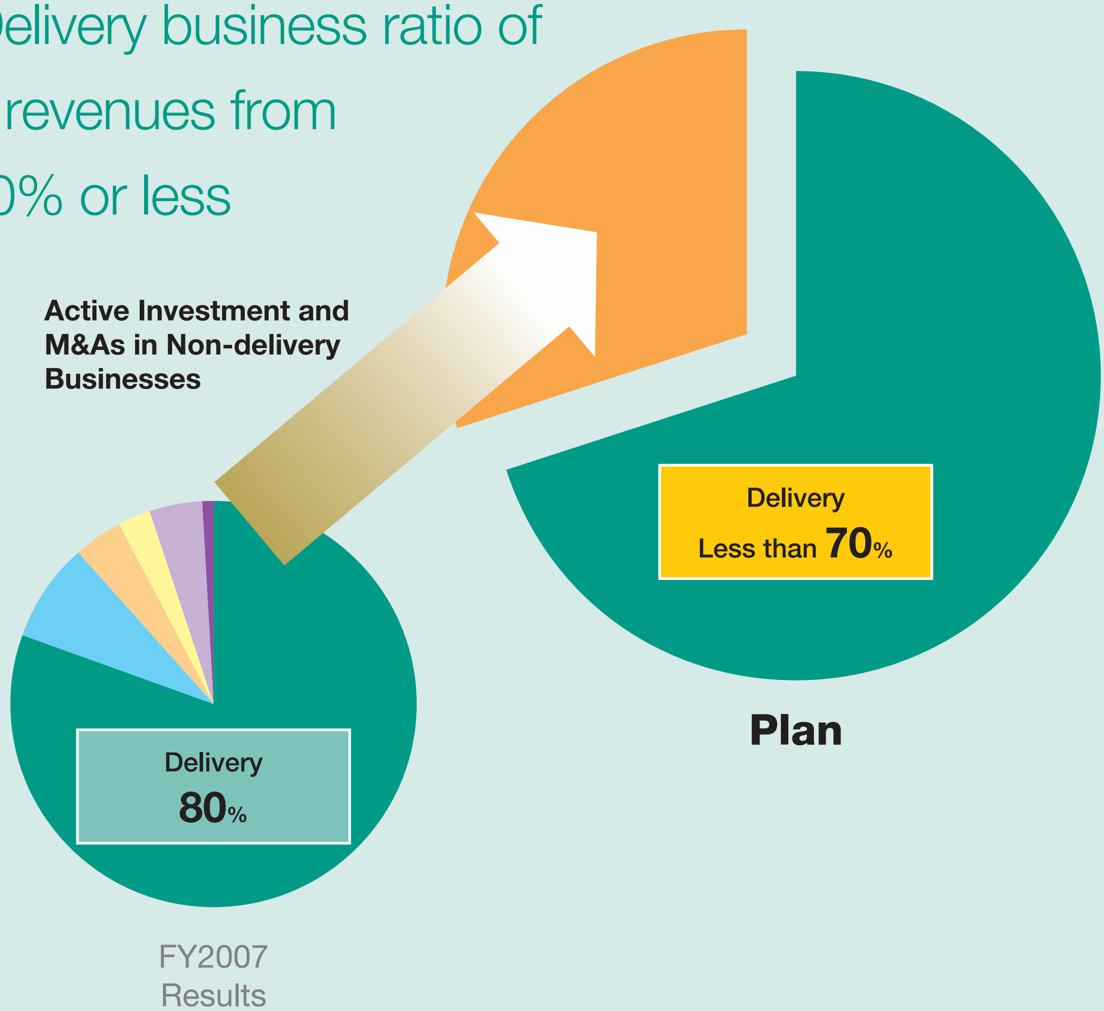
Non-Delivery Business

In the non-delivery businesses, we are working to implement business innovation to accelerate growth centered on services for corporate client business and our overseas strategy.

In November 2005, with a view toward organizational optimization, we established Yamato Holdings, which is responsible for decision-making and business oversight for the Group as a whole. Under the holding company are six business formations, giving us a framework that is well-suited for the pursuit of continual business innovation. Specifically, we are working to achieve further fusion of the existing six business formations with respect to logistics technology (LT), information technology (IT) and financial technology (FT). By leveraging the comprehensive capabilities of the Group, we intend to develop unique services that further enhance customer convenience.

Expand Non-Delivery Business

Reduce Delivery business ratio of operating revenues from 80% to 70% or less



BIZ-Logistics

Overview of Fiscal 2007

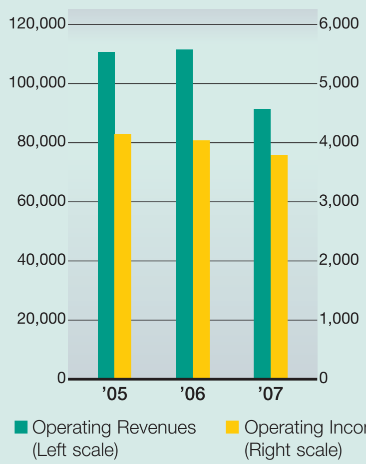
BIZ-Logistics provides inter-company logistics services aimed at the B2B SCM market.

To bolster its overseas strategy, the Yamato Group agreed to a strategic tie-up with NIPPON YUSEN KABUSHIKI KAISHA (NYK LINE) Group in May 2006, and implemented business and capital alliances. The aim of this alliance is to provide high-quality global logistics services by taking an organic and efficient approach to making the best possible use of the two groups' overseas and domestic management resources.

Based on its strategic business alliance with the NYK Group, in October 2006, BIZ-Logistics began co-loading of air freight with Yusen Air & Sea Service Co., Ltd. for flights originating from Narita International Airport. Similar operations were launched at Central Japan International Airport and Kansai International Airport in December 2006. Although the portion of total volume accounted for by this coloaded cargo is not particularly large, growth is strong, especially for shipments to the United States and Asia.

Operating Revenues and Operating Income

(Millions of Yen)



However, in fiscal 2007, owing to the impact of sluggish air-freight transportation demand and intensifying price competition, the air-freight forwarding and logistics operations both continued to face challenging conditions.

Also, a change in the method of booking air freight revenues from fiscal 2007 had an impact of ¥18,533 million. As a result, overall operating revenues in the BIZ-Logistics segment fell 18.0% to ¥91,392 million, while operating income declined 6.0%, to ¥3,795 million. Amid expectations of escalating competition with international freight integrators, which are expanding globally, we are working not only to reinforce our high-profit framework but also to upgrade our customer-centric sales system and to provide services created by bundling the Group's management resources.

For fiscal 2008, the BIZ-Logistics business targets total operating revenues of ¥102,000 million.

Topic

Strategic Tie-up With NYK Group

To bolster its overseas strategy, the Yamato Group agreed to a strategic tie-up with NIPPON YUSEN KABUSHIKI KAISHA (NYK LINE) Group in May 2006, and implemented business and capital alliances.

In October 2006, we initiated co-loading of cargo with Yusen Air & Sea Service, for shipments bound for destinations in the United States, Asia, and Europe. This was followed by the upgrade of our uniform information management system for air freight being imported into Japan from overseas. The aim of this alliance is to provide high-quality global logistics services by taking an organic and efficient approach to making the best possible use of the two groups' overseas and domestic management resources.

Press conference

Home Convenience

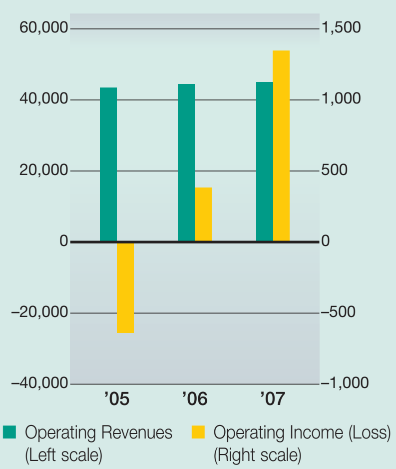
Overview of Fiscal 2007

Home Convenience services encompass three businesses intimately connected with supporting the lifestyle needs of local markets: moving services, lifestyle support services, and merchandise marketing.

In Home Convenience services, although the segment continued to face a tough market environment due to intensified competition, especially in the moving business, *Household Takkyubin*, which targets customers buying/selling consumer electronics and household furniture through Internet auctions and customers that are moving with few items, posted steady growth chiefly by acquiring corporate clients, with the number of handled items exceeding 500,000. As a result, operating revenues increased 1.1% to ¥44,983 million, while operating income soared 253.2% to ¥1,347 million, as the Home Convenience business made efforts to reduce operating expenses.

Operating Revenues and Operating Income (Loss)

(Millions of Yen)



In May 2007, Yamato Holdings concluded a basic agreement on a business and capital tie-up with MARUI. In *Household Takkyubin*, which is expected to demonstrate increasing growth going forward, the Home Convenience business, with its network for transporting household electronics and furniture, etc., and MOVING, a subsidiary of MARUI, with its know-how in transporting large items, combined their corporate and individual customer bases, contributing to greater customer convenience through the realization of logistics innovation for household electronics and furniture by providing nationwide coverage of transport services that include setting technologies.

The Home Convenience business targets operating revenues of ¥56,500 million in fiscal 2008.

Topic

Basic Agreement on Business and Capital Alliance with MARUI

In May 2007, the Yamato Group concluded a basic agreement on a business and capital tie-up with MARUI, with the aim of enhancing the corporate value of both companies by improving convenience for customers.

The agreement allows the Yamato Group's business domain of small- and large-lot package delivery and logistics to be married with MARUI's business domain of retailing and logistics. In this way, the two companies are making optimum use of their combined management resources to proactively construct and offer new products, services and systems tailored to customer needs.

Press conference

e-Business

Overview of Fiscal 2007

The e-Business segment encompasses information services targeting business customers, including ASP services and the development of information systems. Based on the three keywords “tracking,” “security,” and “packages,” the e-Business strives to provide unique services making the most of the Group’s management resources.

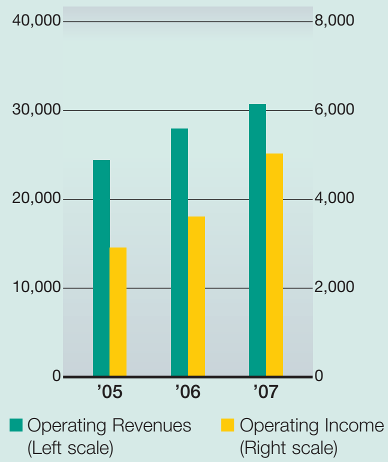
In addition, it conducted proactive marketing activities, such as the launch of the *Critical Information Tracking ASP Service* in August 2006. This service provides effective management of the processing and location of important documents, including member applications and survey postcards that contain personal information. Also, information processing services related to the credit and consumer credit industries performed favorably, providing services to credit card companies. These services leverage the Yamato Group’s neutral stance as a firm that is unaffiliated with any financial group. The segment’s performance in managing information for the installation of credit inquiry terminals for affiliates is especially well regarded. The department responsible for managing information for these affiliates is steadily growing its market share, centered on the recovery and recycling of credit terminals.

As a result, operating revenues grew 9.8% to ¥30,714 million, while operating income rose 39.3% to ¥5,029 million.

For fiscal 2008, the e-Business segment targets total operating revenues of ¥34,500 million.

Operating Revenues and Operating Income

(Millions of Yen)




Server Room

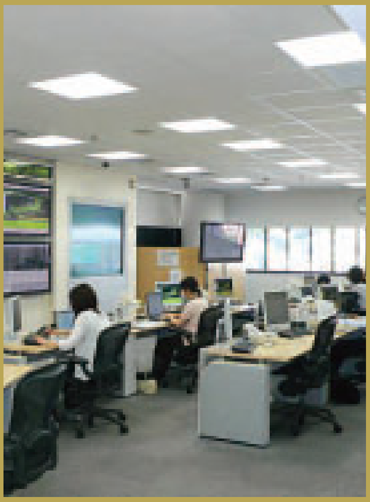
Topic

Three Key Words: “Tracking,” “Security,” and “Packages”

The starting point for this business is the construction and implementation of inquiry systems for *Takkyubin* parcels handled by the Delivery business. Currently the combined total of tracked items for the *Takkyubin* and *Kuroneko Mail* is 10 billion annually.

We are improving our sales framework, where the key word is “packages,” by leveraging our tracking expertise based on this system and our data backup systems in Tokyo and Osaka to safeguard information against earthquakes, disasters, and security breaches 24 hours a day 365 days a year.

As part of this strategy, we are shifting to a solutions-driven business from a contract-oriented business that develops systems upon request. We will continue to endeavor to provide unique services leveraging the Group’s management resources.



Financial

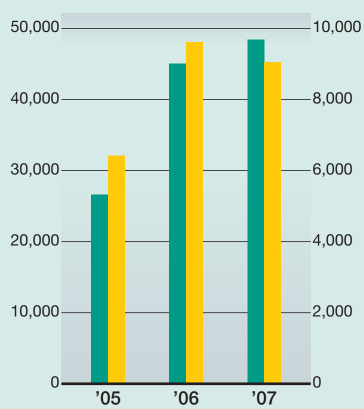
Overview of Fiscal 2007

The Financial business includes settlement and other financial services targeted at consumers and business customers, beginning with mail order firms.

The business currently has five types of settlement methods, including payment on delivery and payment by credit card or debit card. Along with the increasing popularity of Internet shopping in recent years, we have constructed an environment that enables customers to conduct transactions with complete peace of mind.

Operating Revenues and Operating Income

(Millions of Yen)



In July 2007, we launched a *payment slip issuance service* for online shopping, which enables mail order firms to issue necessary payment slips when the recipient and person making the order are different, such as in the case of goods ordered as a gift.

Money flow increased along with the surge in the flow of goods domestically and internationally. At the forefront of the ever-changing flow of goods is not only greater needs for more efficient methods of shipping but also for improvements in cash flow, reductions in inventories, and rationalization on the financial side, starting with settlement. In the Financial business, the Yamato Group is constructing services that are capable of addressing both the logistics and financial needs of customers through services that combine the Group's LT, IT and FT.

Consequently, operating revenues for this segment increased 7.5% to ¥48,430 million. However, owing partly to an increase in interest payments and leased asset disposal expenses, operating income decreased 5.9% to ¥9,049 million.

The Financial business targets operating revenues of ¥53,000 million for fiscal 2008.

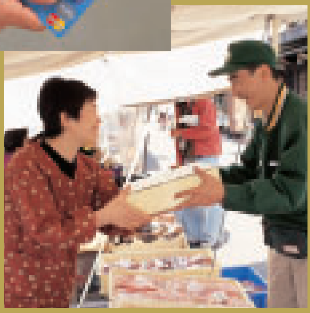
Topic

Financial Business Strategy Keyword: One Stop Services

Underpinned by the logistics network of the Yamato Group, the Financial business contributes to enhanced customer convenience by enabling a smooth flow of funds for such purposes as settlement and collection through services that combine LT, IT, and FT.

For example, when a components maker ships goods to an overseas factory, under the current logistics structure, various intermediaries, such as packagers and forwarders, become involved, requiring contracts to be concluded with each company, which greatly increases costs.

To eliminate the aforementioned inconveniences for customers, the Yamato Group has combined LT, IT, and FT to offer services that provide a single window for a series of operations, from transport to settlement and funds procurement.



In addition to eliminating the cumbersome workflow, these services have various other merits for customers, including improved cash flow and reduced balance sheets.

The provision of these services is made possible primarily by the lending and liability management functions of Fine Credit, which became a subsidiary of the Yamato Group in April 2005.

Other

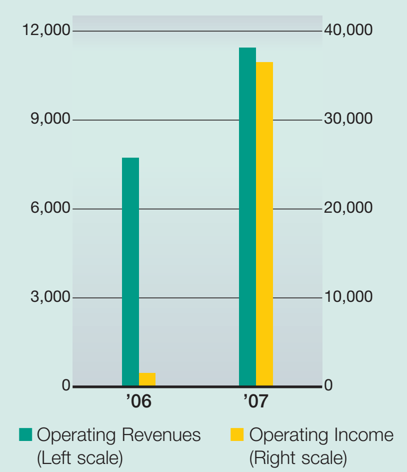
Overview of Fiscal 2007

The Other business segment carries out vehicle maintenance primarily by Yamato Autoworks, and is chiefly responsible for the *JITBOX Charter*, mainly operated by Box Charter. In this business, the Group has typically pursued support services that best allocate and optimally utilize management resources by consolidating operations common to all Group companies, such as human resources and accounting.

The focus now is on generating profit from these services by providing them to customers outside the Group, using expertise acquired over the years and the creation of new businesses as benchmarks for success.

Operating Revenues and Operating Income

(Millions of Yen)



Note: Earnings for this business include dividends and business management fees received from subsidiaries and affiliates.

The vehicle maintenance business is one example of this business direction. Utilizing expertise forged in maintaining Group assets, in this case 50,000 vehicles, and related administrative operations, the business aims to become the partner of choice for delivery companies. Currently, this business helps delivery companies maintain stable operations through various services, including expert maintenance, vehicle inspections conducted overnight and insurance sales. In particular, because overnight vehicle inspections are conducted when trucks are not operating, and the fact that there is no need to secure replacement vehicles due to the inspections, the overnight vehicle inspection business has seen yearly increases in the number of contracted vehicles.

Meanwhile, in the *JITBOX Charter*, launched in April 2006, we established a sales system based on a group of 15 companies starting in August of the same year, and we aggressively promoted sales in an effort to establish a new *de facto* standard for B2B logistics. As a result, handling volume exceeded 220,000 units in fiscal 2007, and current volume has grown nearly fivefold compared with that at launch.

Going forward, we intend to develop unique services and accelerate the rollout of this business.

Topic

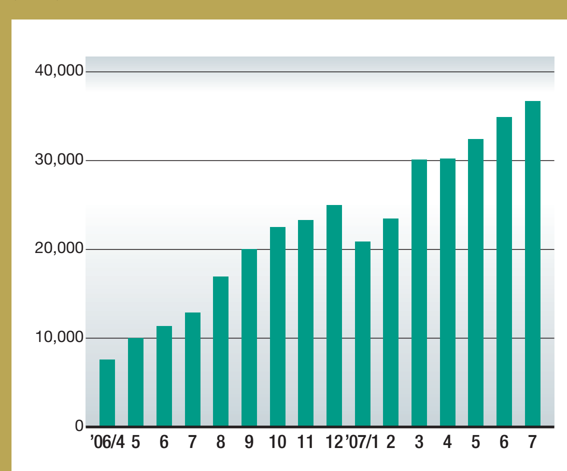
Sales of *JITBOX Charter* Using the Industry's First 15-Member Company Group

JITBOX Charter was launched in April 2006 following a business alliance with Seino Holdings Co., Ltd. the preceding February. The service was originally started as *Kuroneko Box Charter* in May 2004.

This business aims to establish the *de facto* standard for inter-company logistics by targeting the distribution of goods produced by makers with SCM needs and goods produced by component and raw materials makers, which are seeking just-in-time delivery. The business has constructed the industry's first franchise-format sales framework consisting of 15 firms. In the first fiscal year of sales, handling volume totaled 220,000 units, and is showing strong monthly growth.

Track Record of *JITBOX Charter*

(Units)



Corporate Governance

Status of Corporate Governance

Basic Position on Corporate Governance

Based on its corporate philosophy, the Yamato Group carries out business activities in accordance with the law and social norms and actively promotes compliance management. Striving to maximize corporate value by effectively utilizing the management resources of the Group is one of the top priorities of management, and we work to bolster management systems and implement policies to this end.

Status of Corporate Governance

The Board of Directors, Management Advisory Committee and Executive Committee serve as administrative organs involved in decision-making, supervision and execution for the Yamato Group. This management structure enables decisions to be made rapidly and precisely on important matters. The number of Board members cannot exceed 12 as stipulated in the Company's articles of incorporation, and the term of office of directors has been set at one year in order to clarify management responsibilities for each fiscal year.

Of the Company's five Board members, two are outside directors. Outside directors provide necessary comments and advice on overall management as appropriate from the perspective of managers with rich experience.

The Board of Auditors is made up of two full-time auditors and two outside auditors. Auditors attend meetings of the Board of Directors and other important meetings to assist them in conducting audits on the legality of business execution, and otherwise endeavor to improve the soundness of management and the trust of the public. A full-time staff member has been appointed to assist the auditors to put in place a framework that enables the auditors to smoothly carry out their functions. Also, Group Auditors' Liaison Meetings are held periodically for the full-time auditors of the major operating companies to confer on auditing policies and procedures, exchange information and otherwise enhance collaboration. Meetings with internal auditors are also held periodically to exchange information.

Outside auditors attend Board of Auditors meetings as well as periodic meetings to exchange opinions with the president and auditors and to present necessary views from their standpoint as auditors. These meetings also serve to confirm the status of the execution of the duties of directors, including questions regarding management policy.

Internal audits are performed by a five-member team that operates independently from any other Group organ. These internal auditors check whether business and affairs of the Group as a whole are being carried out appropriately and efficiently based on the annual auditing plan. The results are reported to the Board of Directors and the Board of Auditors. Also, the Group Internal Auditing Committee meets regularly for the internal auditors of the operating companies to confer on auditing policies and audit results, exchange information, and to otherwise enhance collaboration.

As the Group's appointed accounting auditor, Deloitte Touche Tohmatsu holds regular meetings with auditors and conducts effective accounting audits.

Construction of Internal Control System

Basic Position

As an organization with a highly public-service character, the Yamato Group recognizes fair business practices as a major premise for its sustainable growth. Consequently, we have established internal control system policies aimed at preventing improper business activities and mistakes. Management believes that it is crucial for these mechanisms to be built into every level and area of the business and to ensure that they are in continual operation.

Establishment of Compliance and Risk Management Systems

The Yamato Group has established a Compliance Charter to go along with its Group Corporate Philosophy to serve as the basis for the conduct of business by the Group's directors and employees.

To ensure rigorous attention to this Charter, one director is appointed to preside over the compliance framework for the Group as a whole. Additionally, we have established a Compliance and Risk Committee, which is chaired by the aforementioned director. Thus, we have created a compliance and risk management framework for the entire Group. To monitor the degree of observance of this framework, the Division of Internal Audit conducts monitoring and information is gathered through an internal reporting system. These measures allow early detection, quick resolution, and implementation of measures to prevent reoccurrence in the event any problems arise.

New Measures Aimed at Enhancing the Group's Corporate Governance

Yamato Holdings, which was created in November 2005, handles management and oversight for its subsidiaries and affiliates. As of March 31, 2007, the Yamato Group was made up of 52 companies, including 46 subsidiaries and five affiliates.

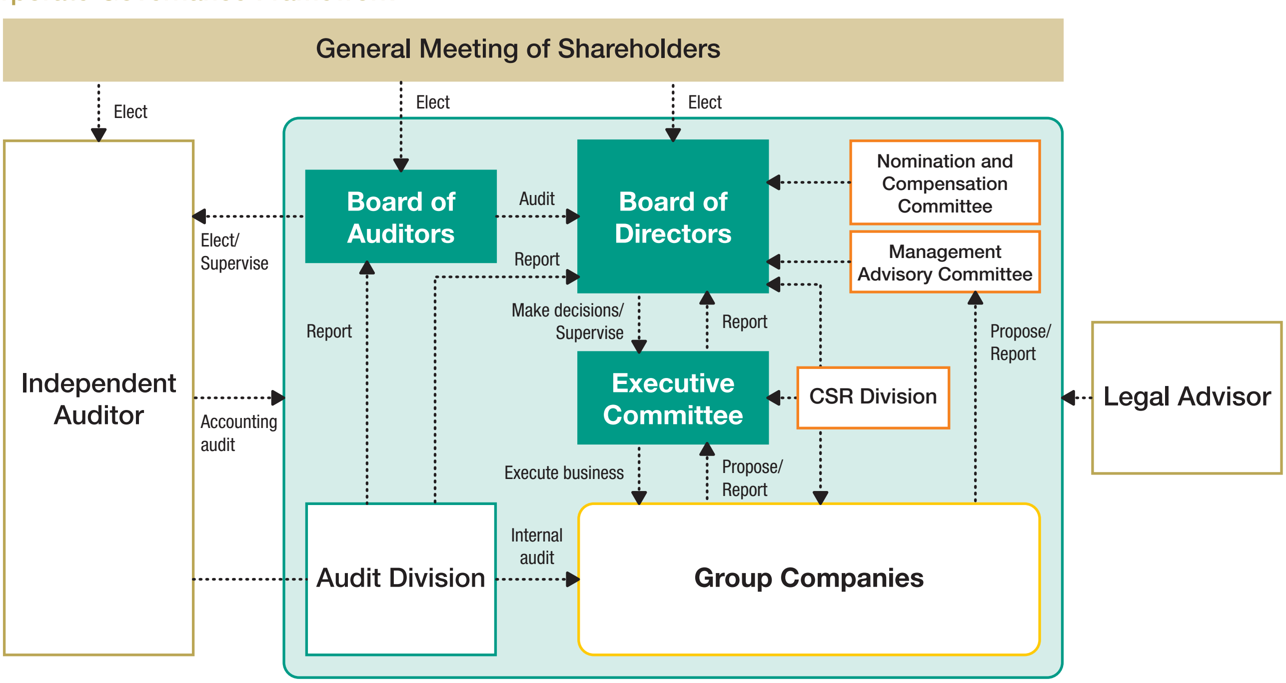
With regard to the establishment of a compliance and risk management framework, the department in charge of CSR for Yamato Holdings is leading efforts to put in place departments and personnel to handle compliance and risk management in each Group company. The ultimate aim is to create a framework to assess risk status in all Group companies on a timely basis and manage the risks identified.

Meanwhile, as part of efforts to enhance internal oversight activities, the Yamato Group has improved its framework for conducting internal audits of all domestic business offices and focused greater attention on the training and guidance of its internal auditors.

Furthermore, as one of our measures to establish a compliance and risk management framework, in August 2007 we held a compliance seminar using knowledgeable individuals, mainly directors in charge of the compliance framework and the presidents of domestic Group companies.

Going forward, the Yamato Group will work to conduct its business in a fair and transparent manner and to ensure the highest possible levels of corporate governance.

Corporate Governance Framework



Directors and Auditors

Director and Chairman

Keiji Aritomi

Representative Director,
President and Executive Officer

Kaoru Seto

Representative Director and
Executive Officer

Makoto Kigawa

Members of the Board

Hiroshi Oura

Takeshi Yoshii

Auditors

Michio Abe

Takeshi Morishita

Shigemichi Matsuka

Keiko Kitamura

Executive Officers

Hiroshi Kawada

Mikio Hijikata

Etsuo Ogawa

Kenichi Shibasaki

Kenji Minaki

Toshizo Kurisu

Hideo Mori

Masaki Yamauchi

(As of September 1, 2007)

Environmental Preservation and Social Activities

Compliance is one of the top priorities of management at the Group. As such, the Group believes that the company's sustained growth is largely contingent upon not only business profitability, but also proper conduct as a business group with a highly social nature.

For this reason, the Yamato Group revamped its group corporate philosophy from the perspective of corporate social responsibility (CSR) in 2005. This philosophy establishes CSR management as a priority, and is to be shared by all Yamato Group employees.

Yamato Group Corporate Philosophy

The Yamato Group's Corporate Philosophy has three components: The Management Philosophy, the Corporate Stance, and the Employee Code of Conduct.

Corporate Social Responsibility (CSR)

Corporate Social Responsibility (CSR) activities are carried out on an ongoing basis from the perspectives of safety, the environment and society in line with the Yamato Group Corporate Philosophy.

By conducting CSR activities in close touch with local communities, we seek to build stronger trust-based relationships with our various stakeholders and to create a Yamato brand that stands for unshakable security and reliability in the minds of the public.

Safety

Aggressively Opening Satellite Centers and Pursuing Delivery without the Use of Regular Trucks

Yamato Transport is actively engaged in opening more satellite centers, which use handcarts and electronic bicycles with trailers attached for delivery instead of regular vehicles.

Having more satellite centers will expand the range of options available to us for the safe pickup and delivery of parcels in urban areas and dense residential neighborhoods. These centers also enable our sales drivers to visit customers more quickly and more frequently, thereby not only enhancing customer convenience but also boosting pickup and delivery efficiency.

Diagram of Yamato Group Corporate Philosophy

It also has an aspect of environmental friendliness in that it will also limit increases in vehicles required to handle higher delivery volumes.

As of the end of March 2007, 880 satellite centers had been established, and we intend to open a total of 1,000 centers by the end of March 2013.

We expect this will reduce the need for delivery vehicles by roughly 1,500 trucks.

Safety Classes for Children Exceeds 10,000 Classes Held

The Yamato Group always puts safety first in its business activities. Preventing traffic accidents involving children is an especially important safety issue. We have held safety classes for children since 1998. Held all over Japan, these classes also serve to raise the safety consciousness of Yamato Group employees. The classes, lead by employees of Yamato Transport, employ various means to teach children about traffic safety, including fun lessons, putting on costumes, and explanations of traffic rules. The classes also use an actual delivery vehicle to teach about safety based on the key words "look," "touch," and "think." In fiscal 2007, classes were held 1,164 times and a total of approximately 118,000 children participated.

In recent years, in addition to kindergartens and elementary schools, we have received requests to hold the classes at facilities such as nursing homes and senior citizens' clubs.

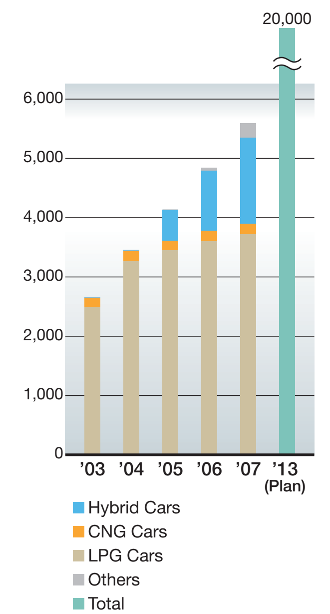
Environment

Deployment of Low-Emission Delivery Vehicles

As a means to achieve its global warming prevention goals of reducing CO_2 emission volume per delivery vehicle by 30% to curb its total CO_2 emission volume to 99% of the level in fiscal 2003 by fiscal 2013, Yamato Transport has set a target of putting 20,000 low-emission delivery vehicles into operation by that fiscal year. In fiscal 2007, we added 758 low-emission vehicles, including 434 hybrids, to bring the total to 5,596. This number represents 12.4% of Yamato Transport's total fleet of vehicles.

Also, in January 2007, we started the full-scale deployment of hybrid versions of the walk-through vehicles that are synonymous with *Takkyubin*, with 31 such vehicles put into operation by March 31, 2007.

Changes in the Number of Low-emission Vehicles



Winning accolades for its corporate stance on the environment, in 2006, Yamato Transport was selected by Toyota Motor Corporation for joint trials to supply various data necessary for the commercialization of fuel cell-powered vehicles.

Kuroneko Environmental Classes for Children

Yamato Transport started holding environmental classes for children in October 2005.

Aware of our corporate responsibilities as a transportation company, we support environmental education for children, who are responsible for the next generation. Another objective of the Kuroneko environmental classes for children is to increase the environmental awareness of our employees and to renew their awareness that environmental protection activities are being put into actual practice.

The classes are conducted by Yamato Transport employees who visit schools. The classes address the issue of how *Takkyubin*'s methods of operation relate to the prevention of global warming, which is a top priority for the Yamato Group.

In fiscal 2007, the classes for children were held 241 times. We are committed to continuing to pursue activities in close touch with local communities and to conducting ongoing CSR activities as a Corporate Group with a highly public-service character.

Six-year Consolidated Financial Summary

	Millions of Yen						Thousands of U.S. Dollars
	2007	2006	2005	2004	2003	2002	**2007**
Operating revenues	**¥1,161,568**	¥1,144,961	¥1,071,903	¥1,011,344	¥972,135	¥932,120	**$9,839,624**
Operating costs	**1,064,044**	1,043,372	998,786	945,201	896,023	861,775	**9,013,501**
Selling, general and administrative expenses	**30,363**	32,868	21,914	19,484	19,294	17,156	**257,203**
Operating income	**67,161**	68,721	51,203	46,659	56,818	53,189	**568,920**
Income before income taxes and minority interests	**66,825**	7,712	61,741	87,293	91,063	49,905	**566,078**
Income taxes	**32,470**	31,276	27,959	37,515	42,538	22,217	**275,052**
Net income (loss)	**33,813**	(23,968)	33,848	49,783	48,502	27,512	**286,433**

	Yen						U.S. Dollars
Per share of common stock:							
Basic net income (loss)	**¥ 75.59**	¥ (53.47)	¥ 74.02	¥ 107.51	¥ 104.51	¥ 59.36	**$ 0.64**
Diluted net income	**74.00**		72.48	105.20	101.63	57.38	**0.63**
Cash dividends	**20.00**	20.00	18.00	18.00	15.00	14.00	**0.17**

	Millions of Yen						Thousands of U.S. Dollars
Working capital	**¥ 140,377**	¥ 123,483	¥ 80,843	¥ 74,803	¥ 77,514	¥ 84,630	**$1,189,129**
Total shareholders' equity	**445,263**	423,690	458,792	443,715	406,306	364,806	**3,771,817**
Total assets	**829,721**	793,222	676,156	652,792	655,877	678,939	**7,028,556**
Capital expenditures	**48,881**	48,865	40,966	47,587	42,591	40,379	**414,071**
Depreciation and amortization	**40,150**	35,003	37,146	35,663	31,731	31,764	**340,109**
Net cash provided by operating activities	**80,763**	84,675	76,642	41,064	86,035	69,724	**684,141**
Number of employees	**157,653**	152,787	141,602	131,974	112,948	108,700	–
Operating income margin (%)	**5.78**	6.00	4.78	4.61	5.84	5.71	–
Return on revenues (%)	**2.91**	(2.09)	3.16	4.92	4.99	2.95	–
Return on assets (%)	**4.17**	(3.26)	5.09	7.61	7.27	4.08	–
Return on equity (%)	**7.78**	(5.43)	7.50	11.71	12.58	7.76	–
Current ratio (%)	**149.30**	143.77	142.85	142.39	145.44	147.94	–
Equity ratio (%)	**53.66**	53.41	67.85	67.97	61.95	53.73	–
Assets turnover (Times)	**1.43**	1.56	1.61	1.55	1.46	1.38	–
Interest coverage ratio (Times)	**260.66**	137.92	104.19	65.17	36.68	24.99	–
Net assets per share (Yen)	**1,005.63**	951.08	1,019.02	971.84	875.08	790.58	**8.52**

Note: U.S. dollar amounts have been translated, for convenience only, at the rate of ¥118.05 to U.S.$1.

Management's Discussion and Analysis

Scope of Consolidation

At the end of the fiscal year ended March 31, 2007 (fiscal 2007), the Yamato Group comprised Yamato Holdings (the Company), 46 subsidiaries, and five affiliated companies. The number of subsidiaries included in the consolidated statements was 50 at fiscal 2006 year-end, but owing to such factors as the reorganization of the Group, the number decreased to 37 at fiscal 2007 year-end. As Yamato Architects & Designing Co., Ltd. increased its importance, it was included in the scope of consolidation from fiscal 2007. In addition, as the importance of Yamato Transport (U.K.) Ltd., Yamato (Shanghai) Logistics Co., Ltd. and World Computer Center Co., Ltd., which were included in the scope of consolidation until fiscal 2006, decreased, they were excluded from the scope of consolidation from fiscal 2007. There were no non-consolidated subsidiaries or affiliates accounted for by the equity method at the end of the period under review.

Results of Operations

In the fiscal year ended March 31, 2007, the Japanese economy stayed on a recovery track, supported by the expansion of private-sector capital expenditures and moderate growth in consumer spending. In contrast to these favorable conditions, the domestic transportation industry continued to face a harsh operating environment. Crude oil prices rose steeply, the revised Road Transportation Law was implemented, and competition among the companies in the industry intensified, including the impact of a low-price offensive by Japan Post.

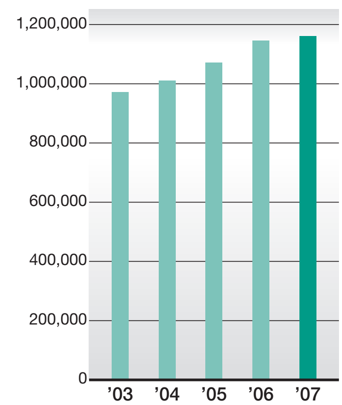
In this context, the Group embarked on the second year of its latest management plan, "Yamato Group Revolution Plan 2007: New Value & Innovation Three-Year Plan." Guided by this plan, the Group continued striving to steadily expand its Delivery business, promoted business strategies to accelerate growth in non-delivery businesses capitalizing on group resources, and also took steps to achieve highly efficient management by restructuring processes in every business domain.

Based on these business strategies, the Yamato Group and the NIPPON YUSEN KABUSHIKI KAISHA (NYK LINE) Group agreed on a strategic tie-up on May 10, 2006, and implemented business and capital alliances. The aim of these alliances is to provide high-quality global logistics services by taking an organic and efficient approach to making the best possible use of the two groups' overseas and domestic management resources.

Furthermore, as the direct mail market is projected to expand going forward, in April 2006 Yamato Holdings formed a joint venture in Japan with DHL Global Mail (Japan), an affiliate of Deutsche Post World Net.

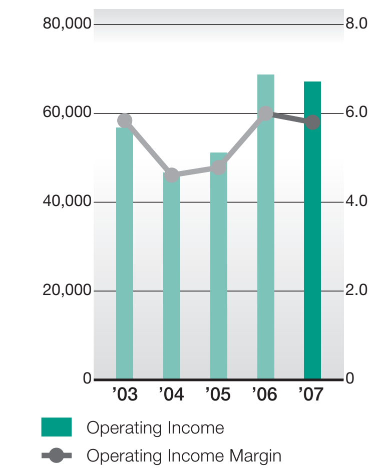
Operating Revenues

(Millions of Yen)



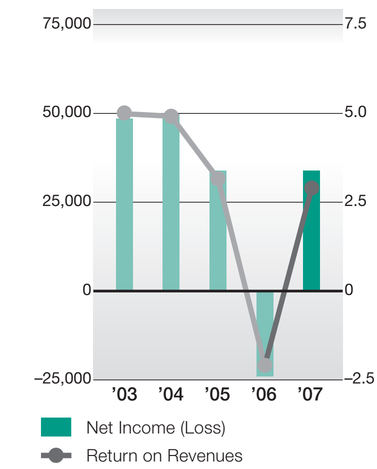
Operating Income / Operating Income Margin

(Millions of Yen, %)



Net Income (Loss) / Return on Revenues

(Millions of Yen, %)



The Yamato Group launched *JITBOX Charter*, a business based on the franchise format, in April 2006. In August 2006, we established a sales organization based on a corporate group of 15 companies, and we proactively expanded marketing aimed at creating a new *de facto* standard for B2B logistics.

As a result of the above and other factors, Yamato Holdings recorded consolidated operating revenues of ¥1,161,568 million, up ¥16,607 million, or 1.5%, from the previous fiscal year. However, owing partly to the impact of surging crude oil prices and a rise in expenses in the Delivery business, operating income declined ¥1,560 million, or 2.3%, to ¥67,161 million. The operating income margin decreased 0.2 of a percentage point to 5.8%. However, the Company posted net income of ¥33,813 million, compared to a net loss of ¥23,968 million in the previous fiscal year. This improvement was primarily due to the absence of a loss on devaluation of land accompanying the spin-off of the Delivery business that was booked in fiscal 2006. The return on revenues improved to 2.9% from a negative 2.1% in the previous fiscal year.

Review by Operating Segment

The following are summaries from each operating segment.

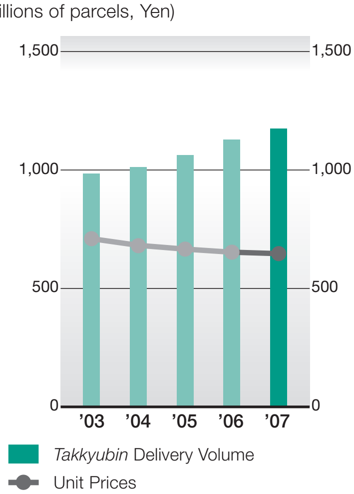
Delivery

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

In the *Takkyubin* business, the Group carried out proactive marketing activities for each market segment to flexibly meet diversifying customer needs, based on the corporate philosophy in this business of Total Reliability. During the year under review, we worked particularly to improve customer convenience. For example, in November 2006, we launched *Auction Takkyubin*, enabling customers who use Internet auctions to benefit from convenient and safe handling of the process from settlement after a successful bid to delivery of purchased items. As a result, total delivery volume in the parcel delivery business reached 1,174 million parcels, with *Cool Takkyubin* recording an increase of 7 million parcels, or 5.7%, to 145 million parcels. In the cash on delivery-based *Takkyubin Collect*, handling volume grew 6.5%, or 5 million units. In the *Time Service*, which promises to deliver goods quickly within a definite time period, handling volume rose only 2.6% to 18 million parcels. Meanwhile, the unit price for the *Takkyubin* service dropped ¥6 from ¥653 in fiscal 2006 to ¥647.

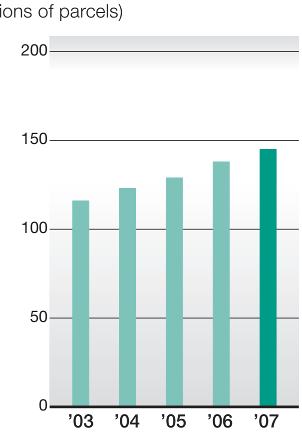
Takkyubin Delivery Volume / Unit Prices

(Millions of parcels, Yen)



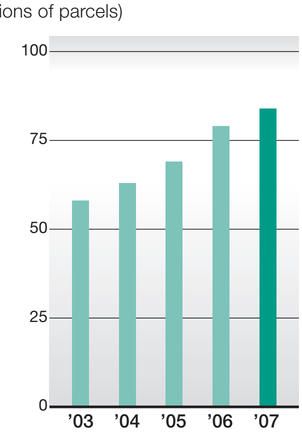
Cool Takkyubin Handling Volume

(Millions of parcels)



Takkyubin Collect Handling Volume

(Millions of parcels)



In the *Kuroneko Mail* service, the Group endeavored to strengthen the organization in order to improve quality and operating productivity. For example, we established the Mail Service Company in April 2006. In October 2006, we also carried out a product revamp, and we implemented proactive marketing activities, including the launch of the *Kuroneko Express Mail Service*. As a result, total handling volume in the *Kuroneko Mail* service increased by 235 million units, or 13.6%, to 1,970 million units. Meanwhile, the unit price for the *Kuroneko Mail* service dropped ¥3 from ¥69 in fiscal 2006 to ¥66.

As a result, total operating revenues for the Delivery business were ¥934, 607 million, an increase of ¥26,379 million, or 2.9%. However, operating income was ¥43,302 million, a decrease of ¥3,608 million, or 7.7%. This decline reflected the impact from the surge in crude oil prices and the enforcement of the revised Road Transportation Law, as well as a rise in expenses accompanying the reinforcement of the *Kuroneko Mail* delivery system.

Takkyubin Delivery Volume and Unit Price

Years ended March 31	2003	2004	2005	2006	**2007**
Takkyubin delivery volume (Millions of parcels)	983	1,011	1,063	1,128	**1,174**
Cool Takkyubin	115	122	129	137	**145**
Takkyubin Collect	58	63	68	78	**83**
Time Service	16	16	17	17	**18**
Unit price (Yen)	710	682	666	653	**647**

Kuroneko Mail Delivery Volume and Unit Price

	2003	2004	2005	2006	**2007**
Kuroneko Mail handling volume (Millions of units)	606	994	1,432	1,734	**1,970**
Unit price (Yen)	103	84	73	69	**66**

BIZ-Logistics

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

Based on the strategic alliance with the NIPPON YUSEN KABUSHIKI KAISHA (NYK LINE) Group, the BIZ-Logistics business initiated co-loading of cargo leaving Narita International Airport with Yusen Air & Sea Service in October 2006, followed by the start of these operations from Central Japan International Airport and Kansai International Airport as well in December 2006. In addition, we have responded to customers' needs by, for example, launching sales of *Secure Recycle Packs* using the *JITBOX Charter* service in December 2006. However, owing to the impact of sluggish air-freight transportation demand and intensifying price competition, the air-freight forwarding and logistics businesses both continued to face challenging conditions.

Owing partly to a change in the method of booking air freight revenues from fiscal 2007, revenue from the air-freight forwarding business declined ¥19,835 million, or 29.5%, to ¥47,387 million. Revenue from the marine forwarding business, however, rose ¥1,411 million, or 7.1%, to ¥21,158 million. In addition, revenue from the logistics business dropped ¥2,272 million, or 13.0%, to ¥15,267 million.

Overall operating revenue in the BIZ-Logistics segment fell ¥20,095 million, or 18.0%, to ¥91,392 million, while operating income declined ¥241 million, or 6.0%, to ¥3,795 million.

Home Convenience

Home convenience services include moving services and lifestyle support services, mainly targeting general individual consumers, and merchandise marketing.

Despite a tough market environment due to intensified competition, moving services posted ¥35,531 million in revenue, up ¥1,863 million, or 5.5%, from the previous fiscal year. *Household Takkyubin* performed strongly due to factors such as the acquisition of corporate customers and contributed to revenue growth. In contrast, revenue from merchandise marketing decreased ¥2,296 million, or 9.5%, to ¥21,882 million because of the persistent impact of voluntary restraints on sales of food and beverages.

As a result, operating revenues increased ¥484 million, or 1.1%, to ¥44,983 million. However, operating income soared 253.2% to ¥1,347 million as the Home Convenience business made efforts to reduce operating expenses.

e-Business

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

The three key words in the e-Business are “tracking,” “security,” and “packages.” During the year under review, e-Business strove to provide unique services that utilize the Group’s management resources. In addition, it conducted proactive marketing activities, such as the launch of the *Critical Information Tracking ASP Service* in August 2006, and information processing services related to the credit and consumer credit industries performed favorably.

As a result, operating revenues grew ¥2,731 million, or 9.8%, to ¥30,714 million, while operating income rose ¥1,417 million, or 39.3%, to ¥5,029 million.

Financial

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

In May 2006, the Financial business started handling the *Household Takkyubin Collect* service and endeavored to enhance customer convenience. In August 2006, it also introduced *3D Secure*, a personal authentication service, for credit card payments at the time of orders for *Takkyubin Collect*, and developed an environment that enables purchasers to carry out transactions with reassurance in the case of Internet shopping.

Consequently, operating revenues for this segment increased ¥3,390 million, or 7.5%, to ¥48,430 million. However, owing partly to an increase in interest payments and leased asset disposal expenses, operating income decreased ¥570 million, or 5.9%, to ¥9,049 million.

Other

The Other business segment carries out vehicle maintenance primarily by Yamato Autoworks, and is chiefly responsible for the *JITBOX Charter*, mainly operated by Box Charter.

In the vehicle maintenance business, the number of vehicles handled increased steadily, as the Yamato Group realized total cost reductions. It achieved this by offering customers integrated services encompassing vehicle maintenance and management, including vehicle inspections that do not stop operations, targeting trucking companies. Moreover, in October 2006, we established a joint venture company to provide similar services in the area of bus maintenance operations. Meanwhile, in the *JITBOX Charter*, the number of deliveries handled increased steadily after establishing a sales system based on a group of 15 companies.

Financial Review

Operating Costs

In the fiscal year ended March 31, 2007, the Company recorded consolidated operating costs and expenses of ¥1,094,407 million, up ¥18,167 million, or 1.7%, 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	2006	**2007**	Increase/ decrease
Personnel expenses	¥ 563,267	**¥ 580,188**	¥16,921
Subcontracting expenses	387,956	**402,605**	14,649
Vehicle expenses	31,502	**34,968**	3,466
Other expenses	250,463	**243,424**	(7,039)
Elimination of internal procurement costs	(156,948)	**(166,778)**	(9,830)
Total	¥1,076,240	**¥1,094,407**	¥18,167

Major factors contributing to increased operating costs and expenses were higher personnel expenses and subcontracting expenses. Measures were enacted to target improvements in the quality of the *Kuroneko Mail* service by reinforcing collection and delivery strength. As a result, personnel expenses rose ¥16,921 million and subcontracting expenses increased ¥14,649 million compared with the previous fiscal year.

The number of employees increased by 4,866 to 157,653 from 152,787 in the previous fiscal year, due largely to a higher number of part-time and full-time employees in the Delivery business.

Other Income and Expenses

In fiscal 2007, other expenses—net totaled ¥336 million, an improvement of ¥60,673 million from a year earlier. The major factor contributing to the improvement was the absence of a ¥60,161 million loss on devaluation of land accompanying the spin-off of the Delivery business that was booked in fiscal 2006.

Net Income

In fiscal 2007, income before income taxes and minority interests increased ¥59,113 million to ¥66,825 million from ¥7,712 million in the previous fiscal year. Income taxes rose ¥1,194 million to ¥32,470 million.

After deducting ¥32,470 million in income taxes and ¥542 million in minority interests from income before income taxes and minority interests, net income improved ¥57,781 million to ¥33,813 million from the previous fiscal year, when the Company posted a net loss. As a result, net income per share was ¥75.59 and return on equity (ROE) was 7.8%.

The annual dividend was ¥20.00, the same amount as in the previous fiscal year.

Cash Flows

Operating Activities

Net cash provided by operating activities totaled ¥80,763 million, a decrease of ¥3,912 million from the previous fiscal year. The major factors included a decrease of ¥1,560 million in operating income due to a rise in personnel expenses accompanying the reinforcement of the *Kuroneko Mail* delivery system and an increase of ¥2,460 million in income taxes—paid.

Investing Activities

Net cash used in investing activities was ¥60,898 million, an increase of ¥6,627 million. This mainly reflected ¥47,117 million for purchases of property, plant and equipment, an increase of ¥5,551 million from the previous fiscal year, purchases of shares accompanying the strategic alliance with NYK Line and proceeds from sales of shares of subsidiaries and affiliates.

Financing Activities

Net cash used in financing activities was ¥15,172 million, a decrease of ¥10,183 million. This is mainly attributable to ¥4,943 million in proceeds from the issuance of corporate bonds and the disposal of treasury stocks underwritten by NYK Line.

As a result of these factors, cash and cash equivalents at the end of the fiscal year totaled ¥130,145 million, up ¥4,641 million from the end of the previous fiscal year.

Financial Position

Total current assets as of March 31, 2007 were ¥425,103 million, an increase of ¥19,495 million, or 4.8%. This growth is mainly attributable to an increase in notes and accounts receivable—trade.

Investments and other assets increased ¥11,492 million, or 10.4%, to ¥121,476 million. This was due primarily to an increase of ¥10,080 million in investment securities resulting from such factors as the purchase of shares accompanying the strategic alliance with NYK Line.

As a result of the foregoing, total assets increased ¥36,499 million, or 4.6%, from the end of the previous fiscal year, to ¥829,721 million.

Total liabilities were ¥378,026 million, an increase of ¥12,119 million, or 3.3%. This mainly reflected a rise in long-term liabilities.

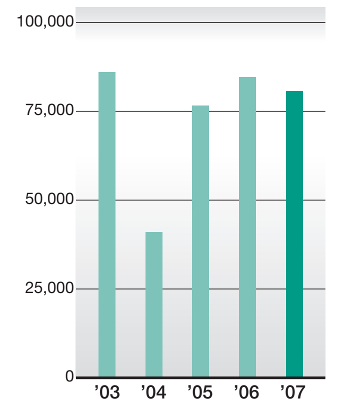
Total current liabilities were ¥284,726 million, almost equivalent to the level at the end of the previous fiscal year. Although short-term bank loans decreased ¥10,506 million, notes and accounts payable—trade increased. Long-term liabilities rose ¥9,518 million, or 11.4%, to ¥93,300 million, mainly reflecting an increase in long-term debt and corporate bonds.

Total equity was ¥451,695 million, up ¥24,380 million. The principal factors were the posting of net income of ¥33,813 million, the payment of ¥9,998 million for the purchase of treasury stocks, a decrease of ¥9,380 million resulting from the payment of cash dividends, and the disposal of treasury stocks accompanying the strategic alliance with NYK Line.

As a result of the above, total shareholders' equity was ¥445,263 million, and the equity ratio improved 0.3 of a percentage point to 53.7%.

Operating Cash Flows

(Millions of Yen)



Capital Expenditure

Capital expenditure in fiscal 2007 was ¥48,881 million, approximately equivalent to the level of the previous fiscal year. The following is a breakdown of capital expenditure.

Millions of yen

	2006	**2007**
Delivery	¥32,539	**¥33,132**
BIZ-Logistics	1,539	**1,507**
Home Convenience	381	**408**
e-Business	1,465	**605**
Financial	11,825	**11,773**
Other	1,086	**1,408**
Eliminations and Corporate	30	**48**
Consolidated	¥48,865	**¥48,881**

Major changes in the Delivery business network are detailed below.

Network

	2006	**2007**	Increase/ decrease
Number of vehicles	54,693	**51,386**	(3,307)
Number of delivery channels	10,777	**13,171**	2,394
Number of sub-agents	289,598	**282,719**	(6,879)

Forecasts for Fiscal 2008

The Yamato Group expects the operating environment to remain challenging in fiscal 2008, due to uncertain factors such as the trend in crude oil prices and intensifying competition among industry competitors. Nevertheless, in the face of these conditions, we will strive to improve quality and concentrate on developing unique services that help to further enhance convenience. Through these measures we aim to steadily expand the Delivery business and achieve substantial growth in non-delivery businesses.

After taking into account the impact of the change in the method of depreciation associated with the revision of the tax system, we are forecasting operating revenues of ¥1,240,000 million, operating income of ¥72,000 million, and net income of ¥39,000 million.

Major Risk Factors

The Yamato Group believes that the following matters related to the implementation of the Group's business operations may have a significant impact on the decisions of investors.

It should be noted that matters relating to the future in this document are based on what the Yamato Group has concluded as of the end of fiscal 2007.

Operating Revenues Highly Dependent on *Takkyubin* Business

In fiscal 2007, the *Takkyubin* business accounted for more than 60% of the Yamato Group's consolidated operating revenues. Consequently, earnings in the *Takkyubin* business have a large impact on the Group's earnings.

The *Takkyubin* business is significantly affected by the impact of domestic economic trends. Moreover, packages handled include agricultural produce, and this is affected by the natural environment, including inclement weather conditions. Furthermore, transportation volume for midsummer, year-end, and other gifts tends to change according to customs that are in trend at the time. If the rate of market growth slows because of these factors, this could have an adverse impact on the Yamato Group's business performance.

In addition, for customers that send packages, *Takkyubin* is only one of the options available among express home delivery services, and is thus not indispensable. The Yamato Group is endeavoring to achieve differentiation based on service composition and delivery quality rather than on price. However, if unit prices decline beyond the range expected and the Group's customers switch to its competitors as a result of fierce price competition among companies in the industry, this could have an adverse impact on the Yamato Group's business performance.

Securing Human Resources

Many of the businesses that the Yamato Group operates are labor intensive. It is important to secure high-quality personnel in terms of manpower for these businesses, and in specialized fields such as e-business, it is also important to secure human resources. Moreover, it is important for the growth of the Yamato Group to continuously hire competent staff and allocate staff to appropriate positions as well as to endeavor to keep employees in the Group by developing a good work environment and improving training and education systems. However, if we are unable to achieve these objectives, the growth of the Yamato Group could slow in the future, and this could have an adverse impact on the Yamato Group's business performance.

Leakage of Business Know-How Resulting From Personnel Leaving the Group

The Yamato Group has accumulated various kinds of know-how, such as ways to develop new products and methods of building networks, in an effort to differentiate its services from those of its competitors. As it is difficult to legally protect most of this know-how we have accumulated, the know-how could leak outside when personnel leave their employment in the Group and it may not be possible to effectively prevent a third party from providing similar services. This could have an adverse impact on the Yamato Group's business performance.

Consolidated Balance Sheets

March 31, 2007 and 2006

ASSETS	Millions of Yen 2007	Millions of Yen 2006	Thousands of U.S. Dollars (Note 1) 2007
CURRENT ASSETS:			
Cash (Note 2.c)	**¥ 130,157**	¥ 125,511	**$ 1,102,557**
Marketable securities (Note 4)	**4,000**	891	**33,885**
Notes and accounts receivable:			
Trade	**136,130**	129,352	**1,153,159**
Installment (Note 3)	**103,419**	113,648	**876,063**
Allowance for doubtful accounts	**(6,618)**	(6,773)	**(56,065)**
Inventories	**2,177**	2,667	**18,442**
Deferred tax assets (Note 9)	**17,452**	17,467	**147,836**
Prepaid expenses and other current assets	**38,386**	22,845	**325,163**
Total current assets	**425,103**	405,608	**3,601,040**
PROPERTY, PLANT AND EQUIPMENT—At cost:			
Land (Notes 5 and 6)	**91,833**	92,030	**777,916**
Buildings and structures (Note 5)	**237,142**	232,054	**2,008,831**
Vehicles	**169,249**	185,175	**1,433,703**
Leasing property	**27,358**		**231,751**
Machinery and equipment	**86,345**	97,528	**731,430**
Construction in progress	**9,836**	4,557	**83,317**
Total	**621,763**	611,344	**5,266,948**
Accumulated depreciation	**(338,621)**	(333,714)	**(2,868,452)**
Net property, plant and equipment	**283,142**	277,630	**2,398,496**
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 4 and 6)	**56,385**	46,305	**477,640**
Investments in and advances to non-consolidated subsidiaries and affiliates, net of valuation allowance of ¥118 million ($1,000 thousand) in 2007 and ¥75 million in 2006	**1,654**	401	**14,014**
Long-term loans	**3,155**	3,002	**26,728**
Lease deposits	**25,917**	26,699	**219,540**
Deferred tax assets (Note 9)	**12,870**	11,010	**109,017**
Other assets	**21,495**	22,567	**182,081**
Total investments and other assets	**121,476**	109,984	**1,029,020**
TOTAL	**¥ 829,721**	¥ 793,222	**$ 7,028,556**

See notes to consolidated financial statements.

LIABILITIES AND EQUITY	Millions of Yen 2007	2006	Thousands of U.S. Dollars (Note 1) 2007
CURRENT LIABILITIES:			
Short-term bank loans (Note 6)	**¥ 32,519**	¥ 43,025	**$ 275,466**
Current portion of long-term debt (Note 6)	**3,180**	680	**26,938**
Notes and accounts payable:			
Trade	**107,170**	102,935	**907,832**
Construction	**14,906**	16,083	**126,269**
Income taxes payable	**23,438**	22,075	**198,544**
Employees' savings deposits	**3,389**	3,355	**28,710**
Accrued expenses	**50,613**	49,055	**428,745**
Deferred profit on installment sales (Note 3)	**21,233**	23,368	**179,866**
Other current liabilities	**28,278**	21,549	**239,541**
Total current liabilities	**284,726**	282,125	**2,411,911**
LONG-TERM LIABILITIES:			
Long-term debt (Note 6)	**60,727**	54,189	**514,418**
Liability for employees' retirement benefits (Note 7)	**25,948**	22,819	**219,808**
Retirement allowances for directors and corporate auditors	**34**	96	**283**
Deferred tax liabilities (Note 9)	**4,553**	4,823	**38,570**
Other long-term liabilities	**2,038**	1,855	**17,266**
Total long-term liabilities	**93,300**	83,782	**790,345**
MINORITY INTERESTS		3,625	
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 10 and 11)			
EQUITY (Notes 6, 8 and 14)**:**			
Common stock—authorized, 1,787,541,000 shares in 2007 and 2006; issued, 457,295,372 shares in 2007 and 457,062,665 shares in 2006	**120,717**	120,576	**1,022,590**
Capital surplus	**114,894**	113,474	**973,269**
Retained earnings	**224,226**	199,972	**1,899,418**
Unrealized gain on available-for-sale securities	**12,583**	11,380	**106,589**
Foreign currency translation adjustments	**(26)**	(172)	**(222)**
Treasury stock—at cost, 14,525,492 shares in 2007 and 11,654,307 shares in 2006	**(27,131)**	(21,540)	**(229,827)**
Total	**445,263**	423,690	**3,771,817**
Minority interests	**6,432**		**54,483**
Total equity	**451,695**	423,690	**3,826,300**
TOTAL	**¥829,721**	¥793,222	**$7,028,556**

Consolidated Statements of Operations

Years Ended March 31, 2007 and 2006

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2007	2006	**2007**
OPERATING REVENUES	**¥1,161,568**	¥1,144,961	**$9,839,624**
OPERATING COSTS AND EXPENSES:			
Operating costs	**1,064,044**	1,043,372	**9,013,501**
Selling, general and administrative expenses	**30,363**	32,868	**257,203**
Total operating costs and expenses	**1,094,407**	1,076,240	**9,270,704**
Operating income	**67,161**	68,721	**568,920**
OTHER (INCOME) EXPENSES:			
Interest and dividend income	**(786)**	(559)	**(6,656)**
Interest expense	**259**	500	**2,191**
Amortization of negative goodwill		(130)	
Gain on adjustment of leasing property		(1,250)	
Gain on sales of marketable and investment securities	**(19)**	(45)	**(162)**
Gain on sales of investments in subsidiaries	**(608)**		**(5,149)**
Loss on disposal of property, plant and equipment	**919**	1,121	**7,783**
Loss on impairment of long-lived assets (Note 5)	**1,127**	2,177	**9,550**
Bond issuance costs	**9**	4	**74**
Loss on devaluation of land		60,161	
Other—net	**(565)**	(970)	**(4,789)**
Other expenses—net	**336**	61,009	**2,842**
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	**66,825**	7,712	**566,078**
INCOME TAXES (Note 9)**:**			
Current	**31,734**	35,152	**268,814**
Deferred	**736**	(3,876)	**6,238**
Total income taxes	**32,470**	31,276	**275,052**
MINORITY INTERESTS IN NET EARNINGS OF CONSOLIDATED SUBSIDIARIES	**542**	404	**4,593**
NET INCOME (LOSS)	**¥ 33,813**	¥ (23,968)	**$ 286,433**

	Yen		U.S. Dollars
	2007	2006	**2007**
PER SHARE OF COMMON STOCK (Notes 2.s and 12)**:**			
Basic net income (loss)	**¥ 75.59**	¥ (53.47)	**$ 0.64**
Diluted net income	**74.00**		**0.63**
Cash dividends applicable to the year	**20.00**	20.00	**0.17**

See notes to consolidated financial statements.

Consolidated Statements of Changes in Equity

Years Ended March 31, 2007 and 2006

	Thousands	Millions of Yen								
	Outstanding Number of Shares of Common Stock	Common Stock	Capital Surplus	Retained Earnings	Unrealized Gain on Available-for-sale Securities	Foreign Currency Translation Adjustments	Treasury Stock	Total	Minority Interests	Total Equity
BALANCE, APRIL 1, 2005	450,119	¥120,550	¥133,455	¥232,151	¥ 4,325	¥(653)	¥(31,036)	¥458,792		¥458,792
Adjustment of retained earnings for newly consolidated subsidiaries				3				3		3
Net loss				(23,968)				(23,968)		(23,968)
Cash dividends, ¥18 per share				(8,101)				(8,101)		(8,101)
Bonuses to directors and corporate auditors				(113)				(113)		(113)
Repurchase of treasury stock	(4,773)						(10,545)	(10,545)		(10,545)
Disposal of treasury stock	19		4				30	34		34
Retirement of treasury stock			(20,011)				20,011			
Shares issued on conversion of convertible debt	43	26	26					52		52
Net increase in unrealized gain on available-for-sale securities					7,055			7,055		7,055
Net change in foreign currency translation adjustments						481		481		481
BALANCE, MARCH 31, 2006	445,408	120,576	113,474	199,972	11,380	(172)	(21,540)	423,690		423,690
Reclassified balance as of March 31, 2006 (Note 2.k)									¥3,625	3,625
Adjustment of retained earnings for newly consolidated subsidiaries				53				53		53
Net income				33,813				33,813		33,813
Cash dividends, ¥21 per share				(9,380)				(9,380)		(9,380)
Bonuses to directors and corporate auditors				(71)				(71)		(71)
Adjustment of retained earnings for exception of consolidated subsidiaries				(161)				(161)		(161)
Repurchase of treasury stock	(5,437)						(10,336)	(10,336)		(10,336)
Disposal of treasury stock	2,566		1,279				4,745	6,024		6,024
Shares issued on conversion of convertible debt	233	141	141					282		282
Net change in the year					1,203	146		1,349	2,807	4,156
BALANCE, MARCH 31, 2007	**442,770**	**¥120,717**	**¥114,894**	**¥224,226**	**¥12,583**	**¥ (26)**	**¥(27,131)**	**¥445,263**	**¥6,432**	**¥451,695**

	Thousands of U.S. Dollars (Note 1)								
	Common Stock	Capital Surplus	Retained Earnings	Unrealized Gain on Available-for-sale Securities	Foreign Currency Translation Adjustments	Treasury Stock	Total	Minority Interests	Total Equity
BALANCE, MARCH 31, 2006	$1,021,396	$961,238	$1,693,960	$ 96,397	$(1,460)	$(182,462)	$3,589,069		$3,589,069
Reclassified balance as of March 31, 2006 (Note 2.k)								$30,707	30,707
Adjustment of retained earnings for newly consolidated subsidiaries			449				449		449
Net income			286,433				286,433		286,433
Cash dividends, $0.18 per share			(79,461)				(79,461)		(79,461)
Bonuses to directors and corporate auditors			(597)				(597)		(597)
Adjustment of retained earnings for exception of consolidated subsidiaries			(1,366)				(1,366)		(1,366)
Repurchase of treasury stock						(87,558)	(87,558)		(87,558)
Disposal of treasury stock		10,837				40,193	51,030		51,030
Shares issued on conversion of convertible debt	1,194	1,194					2,388		2,388
Net change in the year				10,192	1,238		11,430	23,776	35,206
BALANCE, MARCH 31, 2007	**$1,022,590**	**$973,269**	**$1,899,418**	**$106,589**	**$ (222)**	**$(229,827)**	**$3,771,817**	**$54,483**	**$3,826,300**

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Years Ended March 31, 2007 and 2006

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2007	2006	**2007**
OPERATING ACTIVITIES:			
Income before income taxes and minority interests	**¥ 66,825**	¥ 7,712	**$ 566,078**
Adjustments for:			
Income taxes—paid	**(37,785)**	(35,325)	**(320,080)**
Depreciation and amortization	**40,150**	35,003	**340,109**
Loss on disposal of property, plant and equipment	**919**	1,121	**7,783**
Loss on impairment of long-lived assets	**1,127**	2,177	**9,550**
Loss on devaluation of land		60,161	
Gain on sales of marketable and investment securities	**(628)**	(45)	**(5,321)**
Changes in assets and liabilities, net of effects from newly consolidated subsidiaries:			
Decrease (increase) in notes and accounts receivable	**3,568**	(5,124)	**30,229**
Decrease in inventories	**582**	114	**4,933**
Increase in notes and accounts payable	**4,209**	9,812	**35,650**
Increase in liability for employees' retirement benefits	**3,207**	9,729	**27,162**
Other—net	**(1,411)**	(660)	**(11,952)**
Total adjustments	**13,938**	76,963	**118,063**
Net cash provided by operating activities	**80,763**	84,675	**684,141**
INVESTING ACTIVITIES:			
Proceeds from sale of property, plant and equipment	**1,144**	724	**9,693**
Purchases of property, plant and equipment	**(47,117)**	(41,566)	**(399,125)**
Proceeds from sales of marketable and investment securities	**4,435**	436	**37,571**
Purchases of marketable and investment securities	**(16,030)**	(7,029)	**(135,793)**
(Increase) decrease in investments in and advances to non-consolidated subsidiaries and affiliates	**(1,270)**	73	**(10,760)**
Acquisition of new subsidiaries' shares, net of cash owned by those subsidiaries		(4,780)	
Cash collected from long-term loans	**2,159**	2,523	**18,292**
Cash advanced for long-term loans	**(2,332)**	(2,457)	**(19,758)**
Other	**(1,887)**	(2,195)	**(15,989)**
Net cash used in investing activities	**(60,898)**	(54,271)	**(515,869)**
FINANCING ACTIVITIES:			
Proceeds from short-term bank loans	**37,521**	42,000	**317,840**
Repayments of short-term bank loans	**(48,033)**	(80,752)	**(406,887)**
Proceeds from long-term debt	**9,944**	36,740	**84,231**
Repayments of long-term debt	**(680)**	(4,780)	**(5,760)**
Dividends paid	**(9,565)**	(8,138)	**(81,021)**
Paid in from minority shareholders		35	
Repurchase of treasury stocks	**(4,312)**	(10,511)	**(36,529)**
Other	**(47)**	51	**(395)**
Net cash used in financing activities	**(15,172)**	(25,355)	**(128,521)**
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	**47**	263	**398**
NET INCREASE IN CASH AND CASH EQUIVALENTS	**4,740**	5,312	**40,149**
CASH AND CASH EQUIVALENTS OF NEWLY CONSOLIDATED SUBSIDIARIES, BEGINNING OF YEAR	**84**	162	**714**
CASH AND CASH EQUIVALENTS DECREASED BY EXCEPTION OF CONSOLIDATED SUBSIDIARIES	**(190)**		**(1,606)**
CASH AND CASH EQUIVALENTS INCREASED BY CORPORATE DIVISION	**7**		**60**
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**125,504**	120,030	**1,063,141**
CASH AND CASH EQUIVALENTS, END OF YEAR	**¥130,145**	¥125,504	**$1,102,458**

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Years Ended March 31, 2007 and 2006

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

On December 27, 2005, the Accounting Standards Board of Japan (the "ASBJ") published a new accounting standard for the statement of changes in equity, which is effective for fiscal years ending on or after May 1, 2006. The consolidated statement of shareholders' equity, which was previously voluntarily prepared in line with the international accounting practices, is now required under Japanese GAAP and has been renamed "the consolidated statement of changes in equity" in the current fiscal year.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications and rearrangements have been made in the 2006 financial statements to conform to the classifications and presentations used in 2007.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which Yamato Holdings Co., Ltd. (the "Company") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥118.05 to $1, the approximate rate of exchange at March 31, 2007. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Consolidation—The consolidated financial statements as of March 31, 2007 include the accounts of the Company and its 37 significant (50 in 2006) subsidiaries (together, the "Group").

Under the control or influence concept, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Group has the ability to exercise significant influence are accounted for by the equity method.

The remaining non-consolidated subsidiaries, whose combined assets, net sales, net income and retained earnings in the aggregate are not significant to the consolidated financial statements, have not been consolidated with the Company.

There were no affiliates accounted for by the equity method in 2007 or 2006.

Investments in the remaining non-consolidated subsidiaries and affiliates are stated at cost less a valuation allowance representing possible losses on the investments that are deemed to be other than temporary. If the equity method of accounting had been applied to the investments in such companies, the effect on the accompanying consolidated financial statements would not be material.

The excess of the costs over the underlying net equity of investments in consolidated subsidiaries is recognized as goodwill and amortized on a straight-line basis over a five-year period, with the exception of minor amounts which are charged or credited to income in the period of acquisition.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is eliminated.

b. Recognition of Operating Revenues—The Group recognizes freight charge income as operating revenues at the time when freight has been received from the shipping customer for transportation.

The Group also records installment sales receivables, which include principal and fees from customers, after the Group has accepted the relevant contracts which are referred to the Group by participating member stores. Fees from customers and member stores were generally recognized in equal installment over the lives of each respective contract.

c. Cash Equivalents—Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value. Cash equivalents include time deposits, certificate of deposits and mutual funds investing in bonds that represent short-term investments, all of which mature or become due within three months of the date of acquisition.

The difference between cash and time deposits in the accompanying consolidated balance sheets and cash and cash equivalents in the accompanying consolidated statements of cash flows is as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	**2007**
Cash	**¥130,157**	¥125,511	**$1,102,557**
Time deposits due beyond three months	**(6)**	(7)	**(50)**
Bank overdraft included in cash	**(6)**		**(49)**
Cash and cash equivalents	**¥130,145**	¥125,504	**$1,102,458**

d. Inventories—Inventories which mainly consist of supplies are stated at cost as determined by the first-in, first-out method.

e. Marketable and Investment Securities—Marketable and investment securities are classified and accounted for, depending on management's intent, as follows: (1) trading securities, which are held for the purpose of earning capital gains in near term are reported at fair value, and the related unrealized gains and losses are included in earnings, (2) held-to-maturity debt securities, which are expected to be held to maturity with the positive intent and ability to hold to maturity are reported at amortized cost and (3) available-for-sale securities, which are not classified as either of the aforementioned securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity. The Group has no trading securities at March 31, 2007 and 2006, respectively.

Non-marketable available-for-sale securities are stated at cost determined by the moving-average method.

For other than temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

f. Property, Plant and Equipment—Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment of the Company and its domestic consolidated subsidiaries is computed substantially by the declining-balance method at rates based on the estimated useful lives of the assets, while the straight-line method is applied to the buildings acquired after April 1, 1998. The depreciation of property, plant and equipment of foreign consolidated subsidiaries is computed on the straight-line method over the estimated useful lives of the assets. The range of useful lives is principally as follows:

Buildings and structures	7–60 years
Vehicles	2– 7 years
Machinery and equipment	2–20 years

Maintenance and repairs including minor renewals and improvements are charged to income as incurred.

g. Long-lived Assets—The Group reviews its long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

h. Other Assets—Amortization of intangible assets is computed on the straight-line method.

Bond issuance costs are deferred as other assets and amortized on the straight-line method over a repayment method.

i. Retirement and Pension Plan—The Company and substantially most domestic certain consolidated subsidiaries have a contributory trusteed pension plan and an unfunded retirement benefit plan. In addition, a defined contribution retirement plan was newly introduced on December 1, 2006. Certain domestic consolidated subsidiary participates a cooperative welfare pension fund as a substitution for the aforementioned contributory trusteed pension plan. The foreign subsidiaries have respective defined contribution retirement plans.

Directors and corporate auditors are not covered by the retirement and pension plans described above. Benefits paid to such persons are charged to income as paid. Any amounts payable to directors and corporate auditors upon retirement are subject to the approval of the shareholders.

j. Retirement Allowances for Directors and Corporate Auditors—Retirement allowances for directors and corporate auditors for certain subsidiaries are recorded to state the liability at the amount that would be required if all directors and corporate auditors retired at each balance sheet date.

k. Presentation of Equity—On December 9, 2005, the ASBJ published a new accounting standard for presentation of equity. Under this accounting standard, certain items which were previously presented as liabilities are now presented as components of equity. Such items include minority interests. This standard is effective for fiscal years ending on or after May 1, 2006. The consolidated balance sheet as of March 31, 2007 is presented in line with this new accounting standard.

l. Leases—All leases are accounted for as operating leases. Under Japanese accounting standards for leases, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, while other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the lessee's financial statements.

***m. Bonuses to Directors and Corporate Auditors*—**Prior to the fiscal year ended March 31, 2005, bonuses to directors and corporate auditors were accounted for as a reduction of retained earnings in the fiscal year following approval at the general shareholders meeting. The ASBJ issued ASBJ Practical Issues Task Force ("PITF") No. 13, "Accounting Treatment for Bonuses to Directors and Corporate Auditors," which encouraged companies to record bonuses to directors and corporate auditors on the accrual basis with a related charge to income, but still permitted the direct reduction of such bonuses from retained earnings after approval of the appropriation of retained earnings.

The ASBJ replaced the above accounting pronouncement by issuing a new accounting standard for bonuses to directors and corporate auditors on November 29, 2005. Under the new accounting standard, bonuses to directors and corporate auditors must be expensed and are no longer allowed to be directly charged to retained earnings. This accounting standard is effective for fiscal years ending on or after May 1, 2006. The companies must accrue bonuses to directors and corporate auditors at the year end to which such bonuses are attributable.

The Company adopted the new accounting standard for bonuses to directors and corporate auditors from the year ended March 31, 2007. The effect of adoption of this accounting standard was to decrease income before income taxes and minority interests for the year ended March 31, 2007 by ¥58 million ($498 thousand).

***n. Income Taxes*—**The provision for income taxes is computed based on the pretax income included in the consolidated statements of operations. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

***o. Appropriations of Retained Earnings*—**Appropriations of retained earnings at each year end are reflected in the consolidated financial statements for the following year upon shareholders' approval.

***p. Foreign Currency Transactions*—**All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date.

***q. Derivative Financial Instruments*—**Certain consolidated subsidiaries use derivative financial instruments to manage their exposures to fluctuations in interest rates. Interest rate swaps are utilized by the consolidated subsidiaries to reduce interest rate risks. The consolidated subsidiaries do not enter into derivatives for trading or speculative purposes.

Derivative financial instruments and foreign currency transactions are classified and accounted for as follows: (a) all derivatives are recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the statements of income and (b) for derivatives used for hedging purposes, if derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on derivatives are deferred until maturity of the hedged transactions.

The interest rate swaps which qualify for hedge accounting and meet specific matching criteria are not remeasured at market value but the differential paid or received under the swap agreements are recognized and included in interest expense or income.

***r. Foreign Currency Financial Statements*—**The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date except for equity, which is translated at the historical rate. Differences arising from such translation were shown as "Foreign currency translation adjustments" in a separate component of equity.

Revenue and expense accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rates as of the balance sheet date.

***s. Per Share Information*—**Basic net income per share is computed by dividing net income available to common shareholders, by the weighted-average number of common shares outstanding for the period, retroactively adjusted for stock splits.

Diluted net income per share reflects the potential dilution that could occur if securities were exercised or converted into common stock. Diluted net income per share of common stock assumes full conversion of the outstanding convertible notes and bonds at the beginning of the year (or at the time of issuance) with an applicable adjustment for related interest expense, net of tax, and full exercise of outstanding warrants.

Cash dividends per share presented in the accompanying consolidated statements of operations are dividends applicable to the respective years including dividends to be paid after the end of the year.

t. New Accounting Pronouncements

Measurement of Inventories

Under Japanese GAAP, inventories are currently measured either by the cost method, or at the lower of cost or market. On July 5, 2006, the ASBJ issued ASBJ Statement No. 9, "Accounting Standard for Measurement of Inventories," which is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted. This standard requires that inventories held for sale in the ordinary course of business be measured at the lower of cost or net selling value, which is defined as the selling price less additional estimated manufacturing costs and estimated direct selling expenses. The replacement cost may be used in place of the net selling value, if appropriate. The standard also requires that inventories held for trading purposes be measured at the market price.

Lease Accounting

On March 30, 2007, the ASBJ issued ASBJ Statement No. 13, "Accounting Standard for Lease Transactions," which revised the existing accounting standard for lease transactions issued on June 17, 1993.

Under the existing accounting standard, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, however, other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the note to the lessee's financial statements.

The revised accounting standard requires that all finance lease transactions should be capitalized. The revised accounting standard for lease transactions is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted for fiscal years beginning on or after April 1, 2007.

Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements

Under Japanese GAAP, a company currently can use the financial statements of foreign subsidiaries which are prepared in accordance with generally accepted accounting principles in their respective jurisdictions for its consolidation process unless they are clearly unreasonable. On May 17, 2006, the ASBJ issued ASBJ PITF No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements." The new task force prescribes: (1) the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements, (2) financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or the generally accepted accounting principles in the United States tentatively may be used for the consolidation process, (3) however, the following items should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP unless they are not material;

(1) Amortization of goodwill
(2) Actuarial gains and losses of defined benefit plans recognized outside profit or loss
(3) Capitalization of intangible assets arising from development phases
(4) Fair value measurement of investment properties, and the revaluation model for property, plant and equipment, and intangible assets
(5) Retrospective application when accounting policies are changed
(6) Accounting for net income attributable to a minority interest

The new task force is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted.

3. NOTES AND ACCOUNTS RECEIVABLE

Sales recorded on the installment basis were 1.0% and 1.1% of net sales in 2007 and 2006, respectively.

Annual maturities of notes and accounts receivable—installment at March 31, 2007 and related amortization of deferred profit on installment sales are as follows:

	Millions of Yen		Thousands of U.S. Dollars	
	Receivables	Deferred Profit on Installment Sales	Receivables	Deferred Profit on Installment Sales
2008	**¥ 50,162**	**¥ 8,703**	**$424,918**	**$ 73,722**
2009	**27,363**	**5,974**	**231,796**	**50,603**
2010	**14,699**	**3,539**	**124,515**	**29,979**
2011	**7,078**	**1,868**	**59,954**	**15,822**
2012	**3,059**	**835**	**25,917**	**7,075**
2013 and thereafter	**1,058**	**314**	**8,963**	**2,665**
Total	**¥103,419**	**¥21,233**	**$876,063**	**$179,866**

4. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities as of March 31, 2007 and 2006 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	**2007**
Current:			
Government and corporate bonds	**¥ 4,000**		**$ 33,885**
Other		¥ 891	
Total	**¥ 4,000**	¥ 891	**$ 33,885**
Non-current:			
Marketable equity securities	**¥42,161**	¥33,918	**$357,150**
Non-marketable equity securities	**3,014**	2,039	**25,531**
Other	**11,210**	10,348	**94,959**
Total	**¥56,385**	¥46,305	**$477,640**

Information regarding each category of the securities classified as available-for-sale and held-to-maturity at March 31, 2007 and 2006 was as follows:

	Millions of Yen			
	2007			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	**¥23,131**	**¥19,388**	**¥358**	**¥42,161**
Other	**10,025**	**28**		**10,053**
Held-to-maturity	**4,000**		**6**	**3,994**

	Millions of Yen			
	2006			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	¥13,121	¥20,799	¥ 2	¥33,918
Other	5,010	1		5,011
Held-to-maturity	4,891		20	4,871

	Thousands of U.S. Dollars			
	2007			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	**$195,942**	**$164,237**	**$3,029**	**$357,150**
Other	**84,924**	**233**		**85,157**
Held-to-maturity	**33,885**		**54**	**33,831**

The majority of available-for-sale securities whose fair value is not readily determinable as of March 31, 2007 and 2006 were as follows:

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	**2007**
Available-for-sale:			
Equity securities	**¥3,014**	¥2,039	**$25,531**
Preferred shares	**1,000**	1,000	**8,471**

Proceeds from the sales of available-for-sale securities for the years ended March 31, 2007 and 2006 were ¥34 million ($286 thousand) and ¥265 million, respectively. Gross realized gains on these sales, computed on the moving average cost basis, were ¥19 million ($162 thousand) and ¥45 million for the years ended March 31, 2007 and 2006, respectively.

The carrying values of debt securities by contractual maturities for securities classified as held-to-maturity at March 31, 2007 are as follows:

	Millions of Yen	Thousands of U.S. Dollars
	Held to Maturity	Held to Maturity
Due in one year or less	**¥4,000**	**$33,885**

5. LONG-LIVED ASSETS

The Group reviewed its long-lived assets for impairment as of the years ended March 31, 2007 and 2006 and, as a result, recognized an impairment loss of ¥1,127 million ($9,550 thousand) as other expense for the asset groups of the Akita Regional Branch of Yamato Transport Co., Ltd. and another three regional branches for the year ended March 31, 2007, and ¥2,177 million as other expense for the asset groups of the Kyoto Branch of Kyoto Yamato Co., Ltd. and another six regional branches for the year ended March 31, 2006, respectively, due to continuous operating losses of those units. The carrying amounts of the relevant asset groups were written down to the recoverable amounts. In the case where net selling prices were used as recoverable amounts, relevant buildings were evaluated based on assessed value of fixed assets, and relevant lands were evaluated based on posted land price.

6. BANK LOANS AND LONG-TERM DEBT

Short-term bank loans at March 31, 2007 and 2006 consisted of notes to banks and bank overdrafts. The annual interest rates applicable to the bank loans ranged from 0.048% to 1.680% and 0.570% to 1.680% at March 31, 2007 and 2006, respectively.

Long-term debt at March 31, 2007 and 2006 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	**2007**
1.340% to 2.295% loans from a Japanese bank due 2007 to 2012	**¥43,820**	¥39,500	**$371,199**
Unsecured 1.05% bonds due in December 2007	**2,000**	2,000	**16,942**
Unsecured 1.59% bonds due in November 2010	**5,000**		**42,355**
Unsecured 1.2% convertible debentures, convertible into common stock at ¥1,211.80 per share, due in September 2009	**13,087**	13,369	**110,860**
Total	**63,907**	54,869	**541,356**
Less current portion	**(3,180)**	(680)	**(26,938)**
Total	**¥60,727**	¥54,189	**$514,418**

Annual maturities of long-term debt at March 31, 2007 were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2008	**¥ 3,180**	**$ 26,938**
2009	**15,180**	**128,589**
2010	**35,007**	**296,544**
2011	**5,180**	**43,880**
2012	**5,180**	**43,880**
2013 and thereafter	**180**	**1,525**
Total	**¥63,907**	**$541,356**

At March 31, 2007, land with carrying amount of ¥209 million ($1,772 thousand) was pledged as collateral for short-term bank loans of ¥13 million ($110 thousand). Investment securities with a carrying amount of ¥12 million ($104 thousand) were deposited as security for dealings at March 31, 2007.

Convertible debentures of the Company at March 31, 2007, were convertible into 10,800 thousand shares of common stock of the Company. The conversion prices are subject to adjustments to reflect stock splits and certain other events.

7. RETIREMENT AND PENSION PLANS

The Group has severance payment plans for employees.

Under most circumstances, employees terminating their employment are entitled to retirement benefits determined based on the rate of government bonds, years of service and certain other factors. Such retirement benefits are made in the form of a lump-sum severance payment from the Company or from the consolidated subsidiaries and annuity payments from a trustee. Employees are entitled to larger payments if the termination is involuntary, by retirement at the mandatory retirement age, by death, or by voluntary retirement at certain specific ages prior to the mandatory retirement age. The retirement benefits for directors and corporate auditors are not included in aforementioned plans, which are paid subject to the approval of the shareholders.

The liability for employees' retirement benefits at March 31, 2007 and 2006 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	**2007**
Projected benefit obligation	**¥ 78,942**	¥ 76,037	**$ 668,720**
Fair value of plan assets	**(60,775)**	(56,319)	**(514,827)**
Unrecognized actuarial gain	**7,751**	3,067	**65,658**
Prepaid pension cost	**30**	34	**257**
Net liability	**¥ 25,948**	¥ 22,819	**$ 219,808**

The components of net periodic benefit costs for the years ended March 31, 2007 and 2006 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	**2007**
Service cost	**¥ 4,352**	¥ 4,929	**$36,864**
Interest cost	**1,506**	1,620	**12,760**
Expected return on plan assets	**(1,114)**	917	**(9,440)**
Recognized actuarial loss	**3,373**	7,393	**28,578**
Net periodic benefit costs	**¥ 8,117**	¥14,859	**$68,762**

Assumptions used for the years ended March 31, 2007 and 2006 are set forth as follows:

	2007	2006
Discount rate	**2.0%**	2.0 %
Expected rate of return on plan assets	**2.0%**	(2.0)%
Amortization period of prior service cost	**1 year**	1 year
Recognition period of actuarial gain/loss	**5 years**	5 years

The estimated amount of pension assets calculated by the contribution ratio for the cooperative welfare pension fund is ¥663 million ($5,613 thousand) and ¥797 million for the years ended March 31, 2007 and 2006, respectively.

8. EQUITY

On and after May 1, 2006, Japanese companies are subject to a new corporate law (the "Corporate Law"), which reformed and replaced the Commercial Code of Japan with various revisions that are, for the most part, applicable to events or transactions which occur on or after May 1, 2006 and for the fiscal years ending on or after May 1, 2006. The significant changes in the Corporate Law that affect financial and accounting matters are summarized below:

a. Dividends

Under the Corporate Law, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders meeting. For companies that meet certain criteria such as; (1) having the Board of Directors, (2) having independent auditors, (3) having the Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. The Company meets all the above criteria.

The Corporate Law permits companies to distribute dividends-in-kind (non-cash assets) to shareholders subject to a certain limitation and additional requirements.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. The Corporate Law provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

b. Increases/Decreases and Transfer of Common Stock, Reserve and Surplus

The Corporate Law requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total of aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Corporate Law, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Corporate Law also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

c. Treasury Stock

The Corporate Law also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by specific formula. The Corporate Law also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity.

9. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 40% for the years ended March 31, 2007 and 2006.

The tax effects of significant temporary differences which resulted in deferred tax assets and liabilities at March 31, 2007 and 2006 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	**2007**
Deferred tax assets:			
Current:			
Accrued expenses	**¥ 10,771**	¥ 10,643	**$ 91,245**
Enterprise tax	**2,253**	2,126	**19,083**
Allowance for doubtful accounts	**1,472**	1,495	**12,470**
Legal welfare expense	**1,452**	1,409	**12,305**
Other	**1,551**	1,835	**13,136**
Less valuation allowance			**(3)**
Deferred tax assets—current	**¥ 17,499**	¥ 17,508	**$ 148,236**
Non-current:			
Liability for employees' retirement benefits	**¥ 10,290**	¥ 9,072	**$ 87,165**
Investment securities	**2,702**	2,692	**22,892**
Investment in and advances to non-consolidated subsidiaries and affiliates	**197**	196	**1,672**
Loss on devaluation of land	**27,182**	26,598	**230,253**
Loss on impairment of long-lived assets	**3,265**	2,797	**27,661**
Loss on devaluation of telephone subscription rights	**604**	603	**5,115**
Unrealized profit	**698**	678	**5,915**
Other	**1,631**	980	**13,813**
Less valuation allowance	**(32,303)**	(28,546)	**(273,640)**
Deferred tax assets—non-current	**¥ 14,266**	¥ 15,070	**$ 120,846**
Deferred tax liabilities:			
Current—other	**¥ 47**	¥ 41	**$ 400**
Deferred tax liabilities—current	**¥ 47**	¥ 41	**$ 400**
Non-current:			
Unrealized gain on available-for-sale securities	**¥ 5,421**	¥ 8,335	**$ 45,920**
Other	**528**	548	**4,479**
Deferred tax liabilities—non-current	**¥ 5,949**	¥ 8,883	**$ 50,399**
Deferred tax assets—net	**¥ 25,769**	¥ 23,654	**$ 218,283**

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statements of operations for the years ended March 31, 2007 and 2006 is as follows:

	2007	2006
Normal effective statutory tax rate	**40.0%**	40.0%
Per capita levy of local taxes	**3.5**	28.4
Valuation allowance	**4.2**	322.2
Other—net	**0.9**	15.0
Actual effective tax rate	**48.6%**	405.6%

10. LEASES

(1) Lessee

Total lease payments under finance lease arrangements that do not transfer ownership of the leased property to the lessee were ¥4,413 million ($37,382 thousand) and ¥4,022 million for the years ended March 31, 2007 and 2006, respectively.

Pro forma information of leased property such as acquisition cost, accumulated depreciation, accumulated impairment loss and obligations under finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis for the years ended March 31, 2007 and 2006 was as follows:

	Millions of Yen				
	2007				
	Buildings and Structures	Vehicles	Machinery and Equipment	Other Assets	Total
Acquisition cost	¥99	¥503	¥19,501	¥681	¥20,784
Accumulated depreciation	44	146	7,869	207	8,266
Net leased property	¥55	¥357	¥11,632	¥474	¥12,518

	Thousands of U.S. Dollars				
	2007				
	Buildings and Structures	Vehicles	Machinery and Equipment	Other Assets	Total
Acquisition cost	$843	$4,257	$165,194	$5,767	$176,061
Accumulated depreciation	376	1,233	66,661	1,747	70,017
Net leased property	$467	$3,024	$ 98,533	$4,020	$106,044

	Millions of Yen				
	2006				
	Buildings and Structures	Vehicles	Machinery and Equipment	Other Assets	Total
Acquisition cost	¥99	¥386	¥19,438	¥508	¥20,431
Accumulated depreciation	33	136	7,275	137	7,581
Net leased property	¥66	¥250	¥12,163	¥371	¥12,850

Obligations under finance leases which included the imputed interest expense portion, and noncancelable operating leases as of March 31, 2007 and 2006 were as follows:

	Millions of Yen		Thousands of U.S. Dollars	
	2007		2007	
	Finance Lease	Operating Lease	Finance Lease	Operating Lease
Due within one year	¥ 4,149	¥ 528	$ 35,146	$4,472
Due after one year	8,369	586	70,898	4,966
Total	¥12,518	¥1,114	$106,044	$9,438

	Millions of Yen	
	2006	
	Finance Lease	Operating Lease
Due within one year	¥ 4,026	¥ 591
Due after one year	8,824	1,084
Total	¥12,850	¥1,675

(2) Lessor

Acquisition cost, accumulated depreciation, accumulated impairment loss and net book value of leasing property as of March 31, 2007 concerning the finance leases are as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2007	2007
	Leasing Property	Leasing Property
Acquisition cost	¥27,358	$231,751
Accumulated depreciation	10,725	90,853
Net leasing property	¥16,633	$140,898

Future lease payments to be received on finance leases as of March 31, 2007 are as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2007	2007
Due within one year	¥ 5,891	$ 49,901
Due after one year	12,092	102,431
Total	¥17,983	$152,332

Lease income, depreciation and interest income as of March 31, 2007 are as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2007	2007
Lease income	¥5,204	$44,079
Depreciation	4,746	40,203
Interest income	748	6,334

11. CONTINGENT LIABILITIES

Contingent liabilities for guarantees and items of a similar nature at March 31, 2007 amounted to ¥92 million ($781 thousand) representing guarantees of loans of an unaffiliated company jointly and severally by the Company and 18 other unaffiliated companies and ¥141 million ($1,197 thousand) as guarantees of loans of a non-consolidated subsidiary.

12. NET INCOME PER SHARE

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the year ended March 31, 2007 is as follows:

	Millions of Yen	Thousands of Shares	Yen	U.S. Dollars
Year Ended March 31, 2007	Net Income	Weighted-average Shares	EPS	
Basic EPS—Net income available to common shareholders	¥33,813	447,350	¥75.59	$0.64
Effect of dilutive securities—Convertible bonds	99	10,909		
Diluted EPS—Net income for computation	¥33,912	458,259	¥74.00	$0.63

Diluted net income per share for the year ended March 31, 2006 is not disclosed because of the Company's net loss position.

13. SEGMENT INFORMATION

Information about industry segments, geographic segments and operating revenues to foreign customers of the Company and consolidated subsidiaries for the years ended March 31, 2007 and 2006 is as follows:

(1) Industry Segments

	Millions of Yen							
	2007							
	Delivery	BIZ-Logistics	Home Convenience	e-Business	Financial	Other	Eliminations or Corporate	Consolidated
a. Operating revenues and operating income:								
Operating revenues to customers	¥934,607	¥ 91,392	¥44,983	¥30,714	¥ 48,430	¥11,442		¥1,161,568
Intersegment operating revenues	36,123	12,644	14,028	17,132	6,666	77,650	¥(164,243)	
Total operating revenues	970,730	104,036	59,011	47,846	55,096	89,092	(164,243)	1,161,568
Operating costs and expenses	927,428	100,241	57,664	42,817	46,047	52,564	(132,354)	1,094,407
Operating income	¥ 43,302	¥ 3,795	¥ 1,347	¥ 5,029	¥ 9,049	¥36,528	¥ (31,889)	¥ 67,161
b. Assets, depreciation and capital expenditures:								
Assets	¥457,672	¥ 46,935	¥15,623	¥24,529	¥211,861	¥19,711	¥ 53,390	¥ 829,721
Depreciation	28,059	1,025	500	1,150	8,605	777	34	40,150
Capital expenditures	33,132	1,507	408	605	11,773	1,408	48	48,881

	Thousands of U.S. Dollars							
	2007							
	Delivery	BIZ-Logistics	Home Convenience	e-Business	Financial	Other	Eliminations or Corporate	Consolidated
a. Operating revenues and operating income:								
Operating revenues to customers	$7,917,045	$774,182	$381,047	$260,174	$ 410,252	$ 96,924		$9,839,624
Intersegment operating revenues	305,995	107,102	118,836	145,132	56,462	657,773	$(1,391,300)	
Total operating revenues	8,223,040	881,284	499,883	405,306	466,714	754,697	(1,391,300)	9,839,624
Operating costs and expenses	7,856,232	849,141	488,470	362,703	390,057	445,271	(1,121,170)	9,270,704
Operating income	$ 366,808	$ 32,143	$ 11,413	$ 42,603	$ 76,657	$309,426	$ (270,130)	$ 568,920
b. Assets, depreciation and capital expenditures:								
Assets	$3,876,936	$397,585	$132,340	$207,784	$1,794,669	$166,976	$ 452,266	$7,028,556
Depreciation	237,689	8,682	4,237	9,746	72,892	6,579	284	340,109
Capital expenditures	280,664	12,761	3,459	5,128	99,725	11,923	411	414,071

The Group has changed its segmentation method from the year ended March 31, 2007. The reclassified segment information by the revised segmentation method for the year ended March 31, 2006 is as follows:

	Millions of Yen							
	2006							
	Delivery	BIZ-Logistics	Home Convenience	e-Business	Financial	Other	Eliminations or Corporate	Consolidated
a. Operating revenues and operating income:								
Operating revenues to customers	¥908,228	¥111,487	¥44,499	¥27,983	¥ 45,040	¥ 7,724		¥1,144,961
Intersegment operating revenues	31,151	13,401	15,524	16,616	6,597	38,167	¥(121,456)	
Total operating revenues	939,379	124,888	60,023	44,599	51,637	45,891	(121,456)	1,144,961
Operating costs and expenses	892,469	120,852	59,642	40,987	42,018	44,330	(124,058)	1,076,240
Operating income	¥ 46,910	¥ 4,036	¥ 381	¥ 3,612	¥ 9,619	¥ 1,561	¥ 2,602	¥ 68,721
b. Assets, depreciation and capital expenditures:								
Assets	¥424,894	¥ 49,808	¥16,840	¥23,262	¥222,793	¥19,791	¥ 35,834	¥ 793,222
Depreciation	24,043	1,017	530	1,131	7,579	701	2	35,003
Capital expenditures	32,539	1,539	381	1,465	11,825	1,086	30	48,865

Notes: Delivery: Small-parcel delivery services such as Takkyubin (door-to-door parcel delivery) and Kuroneko Mail
BIZ-Logistics: Intercompany logistics services, aimed at the B2B supply-chain management market
Home Convenience: Lifestyle support services intimately connected with the needs of local markets, such as moving and home cleaning services
e-Business: Information services targeted at the business market, including ASP services and the development of information systems
Financial: Financial services targeted at business customers and consumers, such as settlement and collection
Other: Group support service and shared service centering on vehicle maintenance, mainline transport, and staffing services

(2) Geographic Segments
The geographic segments of the Company and consolidated subsidiaries for the years ended March 31, 2007 and 2006 are summarized as follows:

	Millions of Yen					
	2007					
	Japan	U.S.A.	Europe	Asia	Eliminations or Corporate	Consolidated
Operating revenues:						
Outside customers	¥1,136,854	¥13,932	¥3,373	¥ 7,409		¥1,161,568
Interarea	5,472	3,458	1,636	4,353	¥(14,919)	
Total operating revenues	1,142,326	17,390	5,009	11,762	(14,919)	1,161,568
Operating costs and expenses	1,075,480	16,914	5,164	11,579	(14,730)	1,094,407
Operating income (loss)	¥ 66,846	¥ 476	¥ (155)	¥ 183	¥ (189)	¥ 67,161
Assets	¥ 741,225	¥ 3,320	¥1,523	¥ 4,930	¥ 78,723	¥ 829,721

	Thousands of U.S. Dollars					
	2007					
	Japan	U.S.A.	Europe	Asia	Eliminations or Corporate	Consolidated
Operating revenues:						
Outside customers	$9,630,272	$118,019	$28,573	$62,760		$9,839,624
Interarea	46,359	29,294	13,858	36,873	$(126,384)	
Total operating revenues	9,676,631	147,313	42,431	99,633	(126,384)	9,839,624
Operating costs and expenses	9,110,378	143,284	43,744	98,082	(124,784)	9,270,704
Operating income (loss)	$ 566,253	$ 4,029	$ (1,313)	$ 1,551	$ (1,600)	$ 568,920
Assets	$6,278,904	$ 28,125	$12,905	$41,760	$ 666,862	$7,028,556

	Millions of Yen					
	2006					
	Japan	U.S.A.	Europe	Asia	Eliminations or Corporate	Consolidated
Operating revenues:						
Outside customers	¥1,120,372	¥14,292	¥3,324	¥6,973		¥1,144,961
Interarea	5,047	3,352	1,444	2,664	¥ (12,507)	
Total operating revenues	1,125,419	17,644	4,768	9,637	(12,507)	1,144,961
Operating costs and expenses	1,056,925	17,306	4,976	9,540	(12,507)	1,076,240
Operating income (loss)	¥ 68,494	¥ 338	¥ (208)	¥ 97		¥ 68,721
Assets	¥ 665,639	¥ 3,247	¥1,426	¥4,196	¥118,714	¥ 793,222

Operating revenues and assets are summarized by geographic area based on the countries where subsidiaries are located.

(3) Operating Revenues to Foreign Customers
Operating revenues to foreign customers for the years ended March 31, 2007 and 2006 amounted to ¥26,243 million ($222,304 thousand) and ¥27,078 million, respectively.

14. SUBSEQUENT EVENTS

a. Acquisition of the Delivery Business from Marui Co., Ltd.
On May 21, 2007, the Company entered into a memorandum of understanding with Marui Co., Ltd. ("Marui") in which it is stated that the Group will acquire the delivery business (which is wholly owned by Marui).

The outline scheme of this transaction is as follows:

Dividing entity	— Moving Co., Ltd. (a wholly owned subsidiary of Marui)
Successor entity	— Yamato Home Convenience Co., Ltd. (a wholly owned subsidiary of the Company)
Succeeding business	— Delivery, installation of appliance and moving service
Amount of succeeding assets and liabilities	— To be settled as estimated fair value at effective date of the divestiture
Proposed effective date of the divestiture	— September 1, 2007

b. Appropriations of Retained Earnings
The following appropriations of retained earnings at March 31, 2007 were approved at the Company's shareholders meeting held on June 27, 2007:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥10.00 ($0.08) per share	¥4,428	$37,507

Independent Auditors' Report

Deloitte.

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To the Board of Directors of
Yamato Holdings Co., Ltd.:

We have audited the accompanying consolidated balance sheets of Yamato Holdings Co., Ltd. (the "Company") and consolidated subsidiaries as of March 31, 2007 and 2006, and the related consolidated statements of operations, changes in equity, and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Yamato Holdings Co., Ltd. and consolidated subsidiaries as of March 31, 2007 and 2006, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

Our audits also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu

June 27, 2007

Corporate Data

Head Office

Yamato Holdings Co., Ltd.
16-10, Ginza 2-chome, Chuo-ku, Tokyo
104-8125, Japan
Telephone: (03) 3541-4141
Facsimile: (03) 5565-3427

Major Subsidiaries

Delivery

Yamato Transport Co., Ltd.*
Okinawa Yamato Transport Co., Ltd.*
Yamato Dialog & Media Co., Ltd.

BIZ-Logistics

Yamato Logistics Co., Ltd.*
Yamato Packing Service Co., Ltd.*
Yamato Packing Technology Institute Co., Ltd.*
Konan Industry Co., Ltd.*
Yamato Transport U.S.A., Inc.*
Yamato Transport Europe B.V.*
Yamato Transport (Hong Kong) Ltd.*
Yamato Transport (S) Pte. Ltd.*
Taiwan Yamato International Logistics Inc.*
Yamato International Logistics Co., Ltd.*
Yamato Transport (U.K.) Ltd.
Yamato (Shanghai) Logistics Co., Ltd.
Yamato Transport (M) Sdn. Bhd.

Home Convenience

Yamato Home Convenience Co., Ltd.*
Hokkaido Yamato Home Convenience Co., Ltd.*
Tohoku Yamato Home Convenience Co., Ltd.*
Hokushinetsu Yamato Home Convenience Co., Ltd.*
Chubu Yamato Home Convenience Co., Ltd.*
Kansai Yamato Home Convenience Co., Ltd.*
Chugoku Yamato Home Convenience Co., Ltd.*
Shikoku Yamato Home Convenience Co., Ltd.*
Kyushu Yamato Home Convenience Co., Ltd.*
Book Service Co., Ltd.*

e-Business

Yamato System Development Co., Ltd.*
Yamato Career Service Co., Ltd.*
Yamato Systems U.S.A., Inc.*
Yamato Contact Service Co., Ltd.
Dream Create Ltd.

Financial

Yamato Financial Co., Ltd.*
Yamato Lease Co., Ltd.*
Fine Credit Co., Ltd.*

Other

Yamato Autoworks Co., Ltd.*
Yamato Autoworks Okinawa Co., Ltd.*
Kyoto Yamato Transport Co., Ltd.*
Kobe Yamato Transport Co., Ltd.*
Box Charter Co., Ltd.*
Yamato Box Charter Co., Ltd.*
Yamato·Staff·Supply Co., Ltd.*
Yamato Management Service Co., Ltd.*
Yamato Architects & Designing Co., Ltd.*
Yamato Autoworks Hokushinetsu Co., Ltd.
Swan Co., Ltd.
Swan Net Co., Ltd.

*Consolidated subsidiaries

Common Stock

Authorized: 1,787,541,000 shares
Issued: 457,295,372 shares

Stock Exchange Listing

Tokyo Stock Exchange

Transfer Agent and Registrar

Mizuho Trust & Banking Co., Ltd.

Annual Meeting

The annual meeting of shareholders is normally held in June in Tokyo, Japan.

Auditors

Deloitte Touche Tohmatsu
(by Tohmatsu & Co., the Japanese member of Deloitte Touche Tohmatsu)

Principal Shareholders

	Percentage of total shares outstanding
The Master Trust Bank of Japan, Ltd. (Trust Account)	8.20%
Japan Trustee Services Bank, Ltd. (Trust Account)	5.42%
Mizuho Bank, Ltd.	3.77%
Yamato Employees' Shareholding Association	2.97%
Meiji Yasuda Life Insurance Company	2.68%
OM04 SSB Client Omnibus	2.20%
Yamato Trading-Partner Shareholding Association	2.05%
Sumitomo Life Insurance Company	1.85%
JPMCB USA Residents Pension JASDEC Lend 385051	1.50%
SOMPO JAPAN INSURANCE INC.	1.42%
Total	32.07%

Stock Price Range

(Tokyo Stock Exchange) (Yen)

	High	Low
First quarter	2,570	1,762
Second quarter	2,155	1,685
Third quarter	1,872	1,712
Fourth quarter	1,993	1,788

Distribution of Shareholders

Financial Institutions	39.79%
Securities Companies	2.09%
Other Institutions	7.19%
Foreign Investors	32.15%
Individuals and Others	18.78%
Total	100.00%

(As of March 31, 2007)

YAMATO HOLDINGS CO., LTD.

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