



YAMATO TRANSPORT CO., LTD.

# THE WILL

Annual Report 2005

Year ended March 31, 2005



# Profile

Established in 1919, Yamato Transport Co., Ltd. is today a comprehensive transportation services group with 56 subsidiaries and 4 affiliates. Major activities include the Delivery, BIZ-Logistics, Home Convenience, e-Business and Financial businesses. *Takkyubin* (door-to-door parcel delivery) service, launched in 1976, is the company's core business. Covering almost all of Japan, this business handled about 1.1 billion parcels during the past fiscal year. In a drive to secure further growth and realize highly efficient management, Yamato Transport is implementing "Yamato Group Revolution Plan 2007: New Value & Innovation Three-Year Plan," a new medium-term management plan launched in April 2005. Yamato Transport will continue to contribute to realize a better society through the refinement of *Takkyubin* services as a social infrastructure, the provision of even more convenient services, and the development of innovative approaches to logistics.

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## Forward-Looking Statements

This annual report contains forward-looking statements concerning Yamato Transport's 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 Transport therefore cautions readers that actual results may differ materially from these predictions.

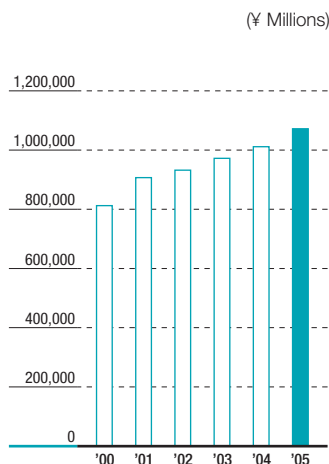
# Consolidated Financial Highlights

Years Ended March 31

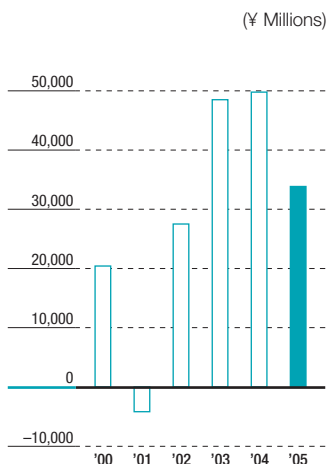
	Millions of Yen			Thousands of U.S. Dollars
	2005	2004	2003	2005
Operating revenues	¥1,071,903	¥1,011,344	¥972,135	\$9,981,406
Operating costs	998,786	945,201	896,023	9,300,548
Selling, general and administrative expenses	21,914	19,484	19,294	204,062
Income before income taxes and minority interests	61,741	87,293	91,063	574,921
Income taxes	27,959	37,515	42,538	260,352
Net income	33,848	49,783	48,502	315,190
	Yen			U.S. Dollars
<b>Per share of common stock:</b>				
Net income	¥ 74.02	¥ 107.51	¥ 104.51	\$ 0.69
Diluted net income	72.48	105.20	101.63	0.67
Cash dividends	18.00	18.00	15.00	0.17
	Millions of Yen			Thousands of U.S. Dollars
Working capital	¥ 80,843	¥ 74,803	¥ 77,514	\$ 752,797
Total shareholders' equity	458,792	443,715	406,306	4,272,208
Total assets	676,156	652,792	655,877	6,296,266
Capital expenditures	40,966	47,587	42,591	381,474
Depreciation and amortization	37,146	35,663	31,731	345,899

Note: U.S. dollar amounts have been translated, for convenience only, at the rate of ¥107.39 to U.S.\$1.

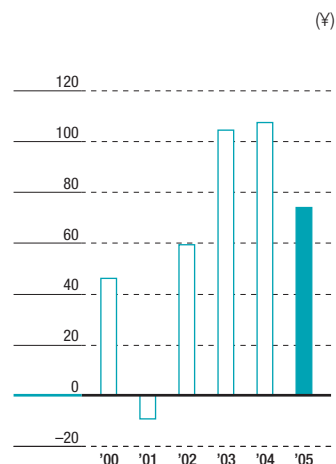
## Operating Revenues



## Net Income (loss)



## Net Income (loss) per Share



# Message from the Management

Under the “Rebirth and Evolution Three-Year Plan,” the Group’s previous medium-term business plan inaugurated in April 2002, the Yamato Group took steps to set the foundations for further growth. We hope to combine the new network created under the plan with the Group’s existing functions and know-how to speed up the growth of the entire Group, take bold reform measures in various business areas and realize efficient management.

## Q: Please tell us about your operating environment and business results in fiscal 2005.

During the fiscal year ended March 31, 2005, the domestic transportation industry faced tighter environmental laws and regulations, and greater demand to fulfill its social responsibility. The business environment was also harsher amid escalating price competition among transportation companies, including the aggressive entry of the Japan Post into the private sector with its revamped *Yu-Pack*, a low-price package delivery service launched in October 2004.

In this climate, we recorded consolidated operating revenues of ¥1,071,903 million, up 6.0% from the previous fiscal year. Operating income rose 9.7% to ¥51,203 million. On the other hand, net income dropped 32.0% to ¥33,848 million, due to a lower gain on reversal of allowance for retirement benefits, as well as an asset impairment loss resulting from the early adoption of asset impairment accounting. While these decreases resulted in a drop in net income, operating revenues and operating

income posted results fulfilling forecasts—quite an achievement given the difficult operating environment. In the Delivery business, although higher costs for structural reforms led to lower income in fiscal 2004, the new business structure has now completely replaced the old one, with no more negative effects on income. In fact, the Delivery business has entered a phase in which the business framework built through the Group’s financial efforts are now generating earnings.

We believe that Japan Post’s entry into the private sector creates an unfair and unethical competition, especially since Japan Post receives preferential treatment from the government. We have publicized this position in newspaper editorials and filed suit against Japan Post at the Tokyo District Court on September 28, 2004 to demand fair and ethical business conduct. While taking legal means to realize fair competition, we hope to emerge as a winner in this competition by relying on the relationship we have built with our customers and a hard-won reputation for offering quality services in the delivery business sector.

## Q. How do you view the results of the previous business plan and what is your approach to the new medium-term business plan?

The “Rebirth and Evolution Three-Year Plan,” the final year of which was fiscal 2005, endeavored to strengthen group management and expand business fields. As a result of efforts made thus far for the three-year period under the plan, we have successfully implemented structural reforms

### Business Targets

(¥ Millions)

	March 2005	March 2008 (Target)	Change
Operating Revenue	1,071,903	1,300,000	21%
Ordinary Profit	53,517	80,000	49%
Ordinary Profit Margin	5.0%	over 6%	
ROE	7.5%	over 8%	
ROA	5.1%	approx. 5%	

\*ROE is calculated by dividing net income by average total shareholders’ equity.

\*ROA is calculated by dividing net income by average total assets.

in the Delivery business, built a framework for business formation and bolstered the basis for group management. However, these accomplishments were offset by higher expenses for structural reforms, leading to a drop in earnings. We hope to address these issues in the new plan to be inaugurated next fiscal year.

When we became the first to start a *Takkyubin* delivery business in 1976, the market was not yet in existence and competition was thus absent. Thirty years later, the competition today has become fierce. I expect that the delivery business market will feel the full weight of the competition when Japan Post is officially privatized in 2007 and thereafter.

The distribution industry is also undergoing changes as the population continues to shrink and inventory-free manufacturing methods permeate. To remain the company of choice amid these changes, we must further exploit the variety of management resources we possess throughout the Group, maximize their synergies, offer superior services that surpass those of our rivals, compete on a higher level and introduce a new *Takkyubin* delivery business model that is tailored to meet future market needs and distribution structures. These strategic aims are formulated in the “Yamato Group Revolution Plan 2007: New Value & Innovation Three-Year Plan,” which seeks to realize efficient management and growth for the entire Group.

### Q. Please explain the goals and strategies laid out in the new medium-term business plan.

The major goals of the “New Value & Innovation Three-Year Plan” are to secure further growth and extensively promote efficient management. By “further growth,” we envision that each business segment, which in the previous medium-term business plan established its own busi-

ness domain, narrows down its target market and achieves top share in its niche.

For the fiscal year ending March 31, 2008, our management goals comprise operating revenues of ¥1,300 billion, ordinary profit of ¥80 billion, an ordinary profit margin of 6% or more, return on equity (ROE) of 8% or more and return on assets (ROA) of around 5%. One key point to focus on here is the change in the breakdown of revenues by business segment. Although the Delivery business itself has grown and targets an 14% increase in revenue relative to fiscal 2005, its share of operating revenues will drop from 80% to 70% due to greater growth of revenues generated by Group subsidiaries—implying that non-delivery businesses will grow substantially. For example, from fiscal 2005, the BIZ-Logistics and Home Convenience will increase their revenues by 63% and 47%, respectively. In addition, we will strive to realize efficient management through bold measures to reform our business processes, thereby reducing fixed expenses per delivery unit and improving profitability.



Left **Keiji Aritomi**  
*Chairman*

Right **Atsushi Yamazaki**  
*President*

**Q: Please elaborate on your plans to establish a pure holding company.**

We have made organizational reforms such as clarifying the boundaries of business segments to bolster the Group’s strength. As the final step, in April 2005 we established provisional organizations in preparation for actual business activities that we plan to conduct as a pure holding company. By doing so, we hope to speed up management and make assessments of business activities that further emphasize shareholder interests and generate returns that better meet their expectations. This phase will be completed on November 1, 2005, when we will spin off the Delivery business and establish a pure holding company.

We are currently focusing on developing new businesses. Our previous business framework focused too heavily on the Delivery business, disproportionately concentrating investments in this field. The new scheme attempts to reexamine the ways in which we handled new businesses as secondary to the Delivery business and made decisions accordingly. Going forward, we will instead allow each business segment to conduct their activities more independently. By doing so, we can boost business efficiency and improve supervision, transparency and disclosure, ultimately allowing us to provide higher returns to shareholders.

**Q: What is your approach to corporate social responsibility (CSR)?**

Our CSR management is headed by the Division of Corporate Social Responsibility, which is directly supervised by the president. Actually, the basic principles of the Group’s approach to CSR were already laid out in our company

motto, management principles, corporate stance and Employee Code of Conduct. Of these, three tenets, based on our company motto adopted in 1931, capture the spirit of our current approach to CSR.

Namely, they are “Taking All Employees on Board,” “Customers First,” and “CSR.” All employees of Yamato Transport carry a booklet containing the company motto, policies and the most recent medium-term business plan at all times so that they understand the rules and principles underlying our business and act accordingly.

In addition, one of Yamato Transport’s guiding management principles is “Safety First, Business Second.” This reflects the absolute priority we place on human lives over profit, based on the belief that we exist side by side with people, local communities, and society. We strive to bring people happiness by taking safety measures that put top priority on the protection of human life, treasure our relationships with all stakeholders and provide a social infrastructure that makes life more convenient for everyone.



**Keiji Aritomi**  
Chairman



**Atsushi Yamazaki**  
President

**Sales Targets by Business Segment**

(¥ Millions)	March 2005	March 2008 (Target)	Change
<b>Operating Revenues</b>	<b>1,071,903</b>	<b>1,300,000</b>	<b>21%</b>
Delivery	936,274	1,065,000	14%
BIZ-Logistics	137,801	225,000	63%
Home Convenience	59,325	87,000	47%
e-Business	43,012	63,000	46%
Financial	33,726	50,000	48%
(Eliminations)	(138,235)	(190,000)	



# THE WILL

In February 2005, the Yamato Group announced its “New Value & Innovation Three-Year Plan.” The goals laid out in this plan are vital to winning the competition in the delivery industry, which is expected to intensify. We will make an all-out effort to reach our targets by creating new value and taking innovative measures.

## Realizing an extensive delivery network

During the past three years, Yamato has been implementing the Area Center System in the Delivery business to improve service quality and increase delivery volumes. Specifically, the scheme aims to restructure the *Takkyubin* network so that it comprises smaller organizational units enabling us to access customers in 10 minutes of delivery time.

As of March 31, 2005, we increased the number of service centers by over 400 from 2,600 at fiscal 2004 year-end to exceed 3,000. Although the increase was slow in fiscal 2005, we will continue expanding to build a business framework eventually encompassing 5,000 *Takkyubin centers*.

## New services from development of an extensive delivery network

By developing an extensive delivery network and reducing the travel distance between *Takkyubin centers* and custom-

ers, Yamato has improved its delivery service quality. Specifically, we have designated a sales driver (SD) to each delivery area, who communicates directly with customers using a cell phone. We will differentiate our service quality and become the delivery company of choice by enabling pick-ups and deliveries at multiple time periods during the day and fine-tuning our services to meet the individual schedule of each customer.

The key to improving services is "Driver Direct," a system started in November 2004 that enables addressees to directly contact an SD according to the specific requests of the customer. This system has enabled Yamato to pick up frozen and chilled packages, as well as packages that must be picked up within a short period of time. We hope to expand the delivery volume by offering customers much greater convenience. In addition, we have added a service that allows customers to search for SD cell phone numbers on the Internet in a bid to raise awareness of this new service. Using the Internet also gives us the advantage of sending e-mail delivery notification and other information in



# THE WILL To Achieve Steady Growth

## Expansion of services, the basis of growth

In the *Takkyubin* network, we are transitioning from the standard package service to a "flexible" one with a business framework that responds to *Takkyubin* market needs more quickly, accurately and efficiently so that we will continue to grow.



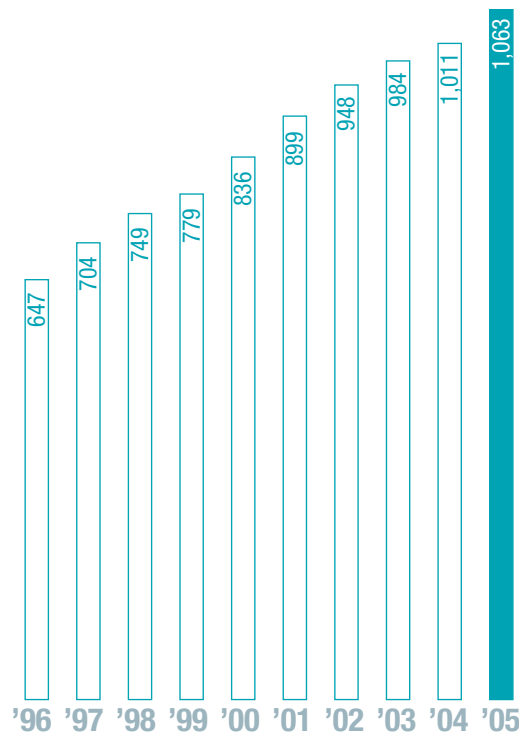
real time in an accurate manner. Without the hassle of communicating through call centers, we can respond immediately to customer requests by having the nearest SD contact customers directly. Through these efforts, we offer quality services, while also realizing higher delivery volume and operational efficiency.

### Boosting customer convenience by improving and developing merchandise

Yamato is constantly developing new merchandise and improving existing merchandise to enhance convenience. In the *Takkyubin* business, we have added *Mail Notification Service*, a new service that notifies registered customers of delivery dates and times by e-mail. We have also shortened delivery times. For example, *Air Speed Takkyubin* has reduced delivery time to the Kyushu region from two days to one by using night flights. We are also diversifying collection and settlement methods for *Takkyubin*, which currently accepts credit cards, debit cards and credit card settlements over the cell phone.

In *Kuroneko Mail*, Yamato has improved customer convenience by offering the service at all store branches of partner Seven-Eleven Japan Co., Ltd., and by launching sales of *Eco Mail*, a partial wrapping system that reduces waste. Because *Kuroneko Mail* has grown strongly since its inception and its delivery volume is expected to increase further, we established a Mail Business Development Division in May 2005 to devise measures to strengthen the business framework for future services. Finally, we have launched *Kuroneko Box Charter* for business customers. Each box has dimensions of 1.1m x 1.1m x 1.7m, an optimal size for high-quality, low-price shipping.

**Takkyubin Delivery Volume**  
(million parcels)





### Marketing our know-how

Backing our Delivery business is our superior know-how. Through handling around 1 billion delivery units annually, we have attained expertise in distribution, moving services and

packaging. We have also created a package-tracking system and boast many years of experience in settlement and collection services. During the past three years, we have restructured these businesses into four major segments to enhance our business base. Each segment will expand sales as an independent entity and help the entire Group grow.

### BIZ-Logistics

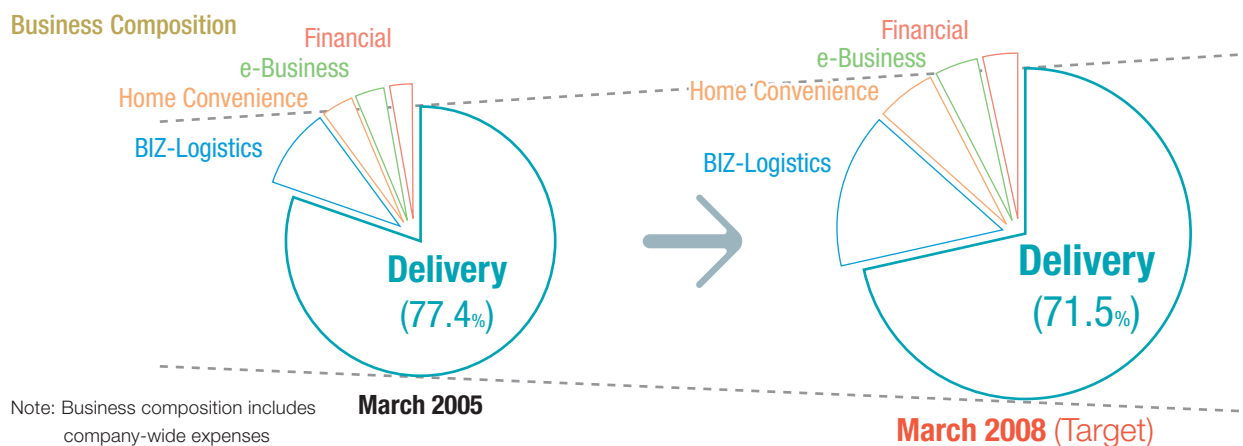
In the BIZ-Logistics, which provides inter-company logistics services, in fiscal 2005 Yamato merged Yamato Logistics Co., Ltd., Yamato Global Freight Co., Ltd. and Yamato Parcel Service Co., Ltd. This merger enables Yamato to provide services encompassing all phases, from packaging to delivery, domestic or

# THE WILL To Achieve Steady Growth

## Diversification of services

Combining new value with long years of expertise in the *Takkyubin* business, Yamato Transport offers new services, which are the driving force for the Group's growth. A high growth rate will be achieved by developing new business areas and offering new convenient services to corporate and individual customers.





overseas. We are also building a solutions model by drawing on the resources of overseas subsidiaries, and hope to expand our capabilities in offering better solutions to customers.

Going forward, we will expand our business in company-to-company, or B2B, transport by exploiting our strengths in providing a coherent service ranging from identifying customer needs to consulting and actual operation. Specifically, we will increase order volumes by developing one-stop services for contract processing in Japan and overseas, as well as businesses at distribution centers including management of inventories and maintenance tools. These are areas in which the Group's strong knowledge and experience in package tracking and imports and exports will attract a higher number of orders.

## Home Convenience

The Home Convenience will make a transition from its previous focus on moving services and merchandise marketing to lifestyle support services, such as home services more intimately connected with the needs of local markets. Because of the declining birthrate and a growing proportion of senior citizens, single elderly people and single-person households are on the rise. We believe this trend will create a higher demand for our Home Convenience services. Therefore, we will strive to grow by increasing our lineup of merchandise and services to provide better lifestyle support, in addition to existing services such as delivery of heavy food products and everyday goods, and pick-up services for furniture and other items.

## e-Business

The e-Business changed its on-premise business format to solution-oriented services and now offers new services

including information security consulting. Accordingly, Yamato restructured this segment's sales framework by the business type and industry of its customers. In developing systems for distribution, settlement and collection and security, we boast strong know-how accumulated through building our delivery business from scratch. We will offer solutions that address the needs of many corporate customers by drawing on this expertise and knowledge in developing e-conference support services (information solutions), POS systems for restaurants and support systems for gift businesses.

The enforcement of the Personal Information Protection Law in April 2005 has also sparked interest in stronger security systems, creating a new business opportunity. We have already moved quickly to offer services and solutions that respond to this demand, including the launch of information consulting services.

## Financial

Alongside its mainstay settlement and collection services, the Financial will diversify its services, strive to develop the capability to offer comprehensive settlement and collection services for distribution businesses, and provide a variety of financial services to customers. To offer collection and settlement agent business, credit services and other new financial services to small and medium-sized enterprises, in April 2005 Yamato made Fine Credit Co., Ltd., a company that purchases installment credit loans, its subsidiary. We will provide new collection and settlement services by integrating Fine Credit's credit application screening and credit management capabilities with Yamato's distribution functions. In addition, we will actively develop leasing businesses that exploit the Yamato Group's customer base.

# THE WILL To Ensure Highly Efficient Management



## Promoting efficient management

We will strive to realize efficient management through bold measures to reform our business processes, thereby reducing fixed expenses per delivery unit. We will improve profitability through heightened productivity and efficiency made possible by our extensive delivery network.

## Improving productivity

The Yamato Group has over 140,000 employees. Hence, we can substantially improve overall productivity and efficiency if we boost the productivity of each employee. We believe that this is possible by providing a business framework that facilitates efficient operations, raising company loyalty among employees and increasing operational efficiency.

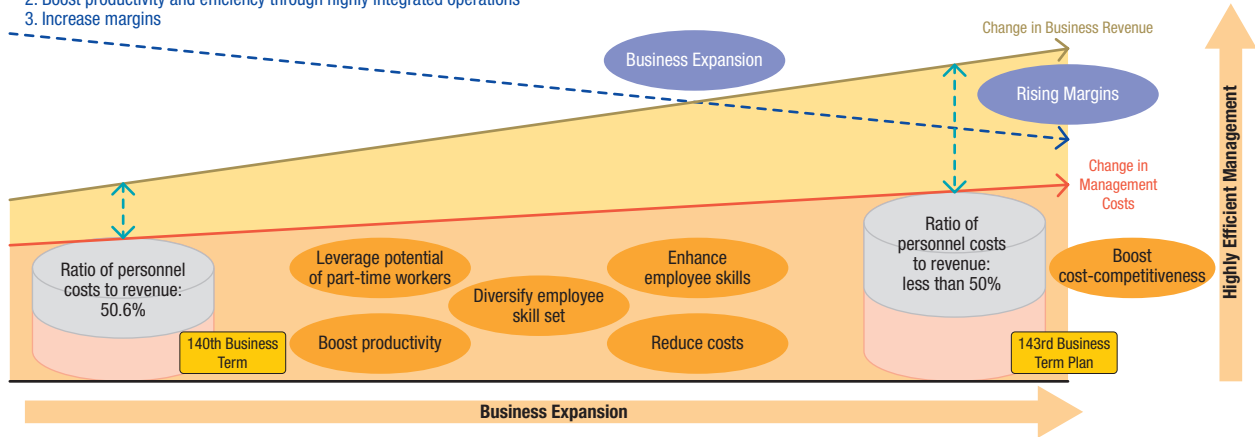
In restructuring the Delivery business, we isolated sorting and administrative functions from the delivery process and consolidated them so that delivery centers can focus on delivery functions. By expanding our service network, we have shortened the access time from delivery centers to customers, making more time for sales



## Actively Promote Efficient Management

Overall expense for volume handled is declining

1. Reduce fixed cost burden per unit handled through business expansion
2. Boost productivity and efficiency through highly integrated operations
3. Increase margins



activities and communication with customers. Moreover, by adopting the Area Center System for the *Takkyubin* service, we have segmentalized its organizational structure. These smaller units will clarify the division of labor and strengthen company loyalty among employees.

Moreover, by adopting advanced information technology (IT), drivers can now complete many tasks on site that were previously done once they returned to the service center, enabling an efficient use of work time and substantially increasing productivity. Currently, approximately 25% of information in the Delivery business is digitalized and we plan to increase this ratio in the future.

## Development and introduction of next-generation information systems

Yamato will introduce next-generation information systems as a new strategic tool in bolstering our *Takkyubin* service network, which continues to be restructured. We will further improve our delivery services and maximize synergies among the functions and values of Group companies.

Since the late 1960s, Yamato has led the industry by promoting the use of computers in our operations, posting nationwide network information online, offering online inquiry and account services and monitoring of delivery progress. In June 2005, we introduced a next-generation information system that accommodates the expanded service network in line with Yamato's service center expansion strategy and the proliferation of mobile communications.

The new system allows SDs to carry a four-in-one system comprising a portable POS (PP), a printer, a mobile phone and a Pin PAD for collection and settlement, im-

proving service quality. The data read by PP will be sent through the wireless network of the cell phone and will be posted in real time on the Web, realizing more accurate information on the Delivery Inquiry System. In addition, the use of the Pin PAD will enable collection and settlement by credit cards and debit cards, offering greater convenience to customers when they receive packages.

## Cutting costs

Cost management is vital to improving profitability. Considering the difficult operating environment, Yamato believes that there is still more room for cost reductions in both procurement and indirect costs. In procurement, we will step up our efforts to slash costs by taking creative measures to consider how we will provide uniforms and delivery vehicles for over 3,000 service locations. This number alone indicates the large volume of equipment and fixtures that must be procured in bulk, hence the potential to lower costs even further.

In terms of indirect costs, we will concentrate administrative functions of the Group in specialized Group companies to improve efficiency. For example, administrative and personnel functions for 57 Group companies will be handled by Yamato Management Service Co., Ltd., while the responsibility of vehicle maintenance and repairs will be undertaken by Yamato Autoworks Co., Ltd. These measures will cut costs, improve operational quality and boost the efficiency of all Group companies. We will also take measures to cut personnel expenses in the Delivery business and other businesses vulnerable to seasonal changes by actively recruiting part-time employees.

# At a Glance

## Segment

## Business Description

### *Delivery*

The Delivery business covers a diverse array of services, including *Takkyubin*, *Cool Takkyubin*, *Collect Service*, and *Kuroneko Mail*. Except certain regions, *Takkyubin* next-day parcel delivery service is available throughout Japan. Yamato Transport also operates a secure parcel tracking system, allowing the Company to manage parcel shipping status and realize high-quality service.

### *BIZ-Logistics*

The BIZ-Logistics business encompasses an infrastructure that enables Yamato Transport to offer logistics services fully linking Japan and locations overseas. These services include international marine forwarding, air-freight forwarding, logistics, and packing. Through the BIZ-Logistics business, Yamato Transport provides customers with optimized logistics systems according to their needs.

### *Home Convenience*

The Home Convenience business combines moving services and merchandise marketing, aligning these services to meet diversifying customer needs. Moving services are aimed at families and individuals, and offers moving services for handling individual pieces of furniture and a range of other moving-related customer services. Meanwhile, merchandise marketing involves online sales and other services.

### *e-Business*

Leveraging know-how accumulated over the course of Yamato Transport's operations, the e-Business segment is involved in outsourced information processing, as well as the operation and management of computer systems.

### *Financial*

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

## Performance

In this business, Yamato Transport took steps during the past year to further improve the convenience of its *Takkyubin* services and delivery quality by launching “Mail Notification” and “Driver Direct” services. As a result, during the year under review, overall delivery volume climbed 5.1% year on year to 1,063 million units. In *Kuroneko Mail*, total handling volume climbed substantially by 44.1% year on year to 1,432 million parcels, driven by stronger sales initiatives, including increasing the number of service counters. Moreover, in November 2004, Yamato Transport commenced delivery of Deutsche Post Global Mail parcels destined for Japan. Aggressive marketing efforts of this kind helped lift operating revenues in the Delivery business 3.9% to ¥866,752 million.

On April 1, 2004, the logistics operations of Yamato Transport were spun off and merged with Yamato Logistics Co., Ltd. This was followed on October 1 the same year with a merger between Yamato Logistics, Yamato Global Freight Co., Ltd. and Yamato Parcel Service Co., Ltd. in a bid to further boost efficiency and provide an integrated menu of comprehensive domestic and international logistics services. These efforts resulted in operating revenues of ¥110,691 million, up 22.7% from the previous fiscal year.

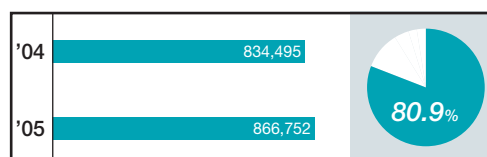
Following a review of the product and service lineup, steps were taken to enhance sales initiatives in this business, which included revamping of the entire lineup in December 2004. In the Re-use business, online sales commenced as part of a drive to develop new sales channels, while proactive marketing measures in merchandise marketing saw Yamato Transport bolster sales of its original “*Tokusen Ichiba*” (Special Select Market) brand, among other actions. As a result, operating revenues increased 1.8% to ¥43,384 million.

In the course of offering an array of services in logistics and settlement, Yamato Transport enacted initiatives that switched this business from an on-premise business format to one focused on the provision of solutions. New services were also unveiled, among them information security consulting services launched in November 2004. The result was an increase in operating revenues of 15.9% year on year to ¥24,432 million.

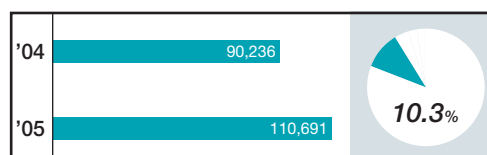
Since April 2004, this business has marketed a new settlement service, “*Collect Split Service*”, in parallel with a marketing campaign to boost usage of *Collect Service*. These and other vigorous marketing efforts drove operating revenues 16.2% higher to ¥26,644 million compared to the previous fiscal year.

## Operating Revenues and Operating Revenues Composition

### Operating Revenues (¥ millions)



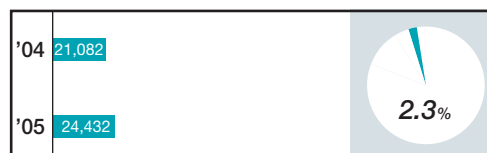
### Operating Revenues (¥ millions)



### Operating Revenues (¥ millions)



### Operating Revenues (¥ millions)



### Operating Revenues (¥ millions)



# Highlights of the Year

## Yamato Launches International Mail Delivery Service

As the deregulation of postal services gains pace and the world becomes increasingly borderless, the quality of Yamato's *Kuroneko Mail* is becoming better known internationally. Against this backdrop, Yamato developed its relationships with international partners, and in November 2004, commenced *Kuroneko Mail* domestic delivery of items originating overseas. Then, in July 2005, Yamato launched the *Kuroneko International Mail* service, delivering mail from Japan to overseas destinations.

Going forward, the Group will make the most of its capabilities in expanding and upgrading its extensive lineup of value-added services, with the ultimate aim of making *Kuroneko Mail* and its related services available to still more customers worldwide.

## New Credit Card Settlement Service for Collect Service

The Yamato Group introduced new payment options for *Collect Service* that allow customers to use cash, credit card, or debit card starting April 2005 in selected areas of the Kanto region and in all parts of Japan since July 2005. This alternative to the usual cash-on-delivery payment method for *Collect Service*, is a response to accommodate the need for more payment options from both sending and receiving customers, who have become more accustomed to using credit cards and debit cards in recent years.

By allowing customers to choose from cash, credit card, and debit card, the new *Collect Service* has eliminated the burden of preparing cash in advance to receive packages. The new service also gives senders the flexibility of using any one of 12 major credit cards for payment. This can be done once the sender enters into a *Collect Service* agreement with Yamato and passes the credit card company's screening process. Application for the screening process will be handled by Yamato Financial Co., Ltd. on the customer's behalf. We are confident that this innovation will improve convenience for both package senders and their customers, boost mail-order businesses, and ultimately expand the scope of the *Takkyubin* services.





## Establishment of Yamato International Logistics Co., Ltd. in Guangzhou, China

As a measure to conduct a global logistics business strategically focused on services within China, Yamato established Yamato International Logistics Co., Ltd., a locally incorporated company located in Guangzhou, China. The company's operations began in April 2005. As a growing commercial city second only to Shanghai, Guangzhou offers exciting business prospects for market expansion, as seen in the rapid emergence of high-tech and automobile companies in the area. Seizing opportunities created by this development, Yamato is offering logistics services geared to collect products and components manufactured in various areas of China for export to Japan and deliver them within Japan using the *Takkyubin* network. In addition, Yamato delivers components procured within Japan to Japanese companies located in China.



## Purchase of Fine Credit Co., Ltd. and World Computer Center Co., Ltd.

In April 2005, Yamato purchased the stocks of Fine Credit Co., Ltd. and World Computer Center Co., Ltd. to acquire them as subsidiaries. As a measure to bolster the functions and services of the Financial business, the Yamato Group aims to diversify settlement methods for greater customer convenience, especially collection and settlement agent businesses and advance payment services tailored to medium and small companies. To this end, the Group acquired the stocks of Fine Credit and World Computer Center. Going forward, Yamato will combine their functions with those of other business formations to devise and offer higher value-added services across the Group.

# Corporate Governance

Based on the “Yamato Group Revolution Plan 2007: New Value & Innovation Three-Year Plan,” since April 2005, the Yamato Group has implemented top-to-bottom reforms to secure new growth potential and realize even more efficient management. Measures included restructuring Group businesses to bolster Group management. In particular, on April 1, 2005, the Group instituted provisional entities in preparation for the actual business activities that would be conducted as a pure holding company. Plans call for the final move to a pure holding company to be established on November 1, 2005.

## Basic Position on Corporate Governance

The Yamato Group is working to enhance its compliance management, in addition to conducting business activities that adhere to its Corporate Philosophy and observe laws and social norms. As one of its most important tasks on the effective use of management resources and maximizing corporate value. The Group strives to strengthen its management framework and put into practice measures to enhance corporate governance.

## The Corporate Governance System

The Yamato Group has invested decision-making, executive, and oversight authority in the Board of Directors and the Management Advisory committee. In addition to making decisions on vital matters in a timely and accurate manner, these bodies delegate responsibilities to each branch and business unit for flexible, responsive management. The appointment term for directors is set at one year so that management responsibilities for each fiscal year are clarified.

Moreover, the Company has established the Board of Auditors, comprising two corporate auditors, one full-time

and one part-time, and two outside corporate auditors. In addition to attending critical management meetings, these auditors monitor the appropriateness of the business and affairs of the Company and otherwise work to safeguard the Company’s financial health and enhance its public trust. The Audit Division, in charge of internal auditing, assesses the viability of internal controls and reports its audit results to the directors and auditors.

After the Ordinary General Meeting of Shareholders held on June 29, 2004, a resolution was passed to introduce an Executive Officer System, which is aimed at clearly delineating corporate decision-making, oversight, and executive functions. Once it is in place, this system will clarify roles and responsibilities in each of these three areas to boost management efficiency and flexibility. In addition, the Company terminated retirement benefits for executives in favor of annual compensation, the amount of which is determined by business results and individual performance.

Yamato also believes that compliance is crucial to the Company’s business management being trusted by all shareholders. In line with this thinking, Yamato ensures that its system of checks and balances at the management level is fully functional, and has established a compliance management system. Central to this framework is the CSR Promotion Office, which regularly holds Compliance Committee meetings and other activities designed to promote observance of laws, regulations, and corporate ethics.

Finally, Yamato has been making organizational reforms to bolster the Group’s strength. To this end, we will appoint new outside directors and create a committee to consult and report to the Board of Directors on remuneration for executives. By doing so, we hope to increase management transparency and further boost corporate value.

# Directors and Auditors

## Representative Director

### Chairman

**Keiji Aritomi**

## Representative Director

### President

**Atsushi Yamazaki**

## Managing Director

**Makoto Kigawa**

## Member of the Board

### Delivery Company President

### Managing Executive Officer

**Koji Ogura**

## Members of the Board

**Yuji Uenuma**

**Nobuyuki Kurihara**

**Hiroshi Kawada**

**Hideo Suzuki**

**Hiroshi Ooura**

**Takeshi Yoshii**

## Auditors

**Michio Abe**

**Takeshi Morishita**

**Noriaki Kinoshita**

**Shigemichi Matsuka**

## Managing Executive Officers

**Kaoru Seto**

**Kiyoshi Ikari**

**Etsuo Ogawa**

## Executive Officers

**Nobuyoshi Ito**

**Koji Honma**

**Tadao Mikami**

**Shinichi Tsukamoto**

**Masaki Yamauchi**

**Kenji Shibasaki**

**Tadashi Okamura**

**Eiji Fujiguchi**

**Toshio Nakatsuka**

**Yuji Noguchi**

**Yoshikazu Tahara**

**Keishiro Sasaki**

**Osamu Okada**

(As of June 29, 2005)

# Environment Preservation and Social Activities

## Environment Preservation Activities

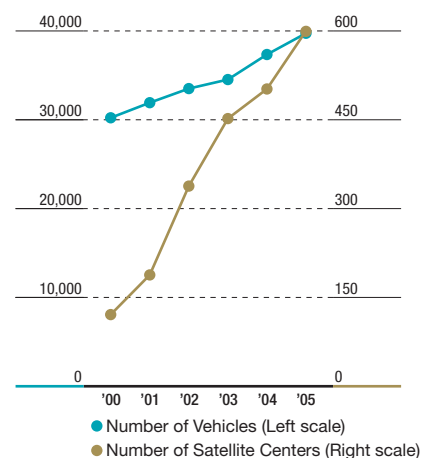
It is Yamato's desire to meaningfully contribute to the environment ten years hence while maintaining sustainable corporate growth. To this end, we set the Yamato Transport Global Warming Prevention Targets in September 2003. They include implementing measures to combat global warming and, as the means to achieving this, reducing its reliance on delivery trucks while switching to hybrids and other low-emission vehicles. Specifically, Yamato is taking solid steps each year to reach its target environmental goals by fiscal 2012. Moreover, in accordance with the Kyoto Protocol that took effect in February 2005, Yamato set for itself the task of reducing CO<sub>2</sub> emission levels in fiscal 2012 to 99% of levels in fiscal 2002. To achieve this, Yamato is striving to cut CO<sub>2</sub> emissions per parcel delivered by 30%. The following describes the establishment of satellite centers for deliveries using handcarts, measures to increase the use of low-emission vehicles, and introduction of hybrid vehicles, all of which are central to reaching this goal.



## Establishment of Additional Satellite Centers

Yamato is working to establish additional satellite centers, which are geared to deliveries using handcarts and minivans instead of relying on regular trucks, in developing its highly decentralized service network that currently encompasses some 5,000 locations nationwide. By doing this, we can boost delivery efficiency in cities and densely populated residential areas and stop the number of conventional delivery trucks from rising in line with annual increases in delivery volume. Satellite centers will also help reduce emission of air pollutants and greenhouse gases, as well as traffic pollution created by illegal parking and traffic jams.

Changes in the Number of the Satellite Centers



The Yamato Transport Global Warming Prevention Targets include a plan to double the number of satellite centers, which primarily use handcarts in their pickup and delivery operations, from today's 500 to 1,000. There were 600 centers nationwide as of the end of March 2005. Going forward, we will continue our efforts to expand this eco-friendly service network.

### Switching to Low-emission Vehicles

Yamato has consistently led the industry in adopting vehicles that have the lowest possible impact on the environment. The Yamato Transport Global Warming Prevention Targets call for a deployment of 20,000 low-emission trucks by fiscal 2012. To reach this goal, Yamato introduced 685

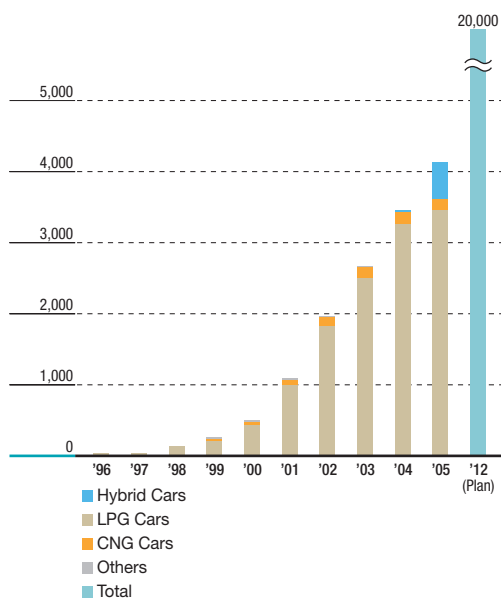
such vehicles in fiscal 2004, bringing the cumulative total to 4,135, a record high for any single company. As a result, low-emission trucks accounted for 10.35% of 39,952 vehicles owned by Yamato as of the end of fiscal 2005.

In recent years, Yamato has been replacing vehicles in its mostly diesel fleet with LPG-powered vehicles. Today, however, the refueling infrastructure is in place to make the jump to hybrid vehicles a viable option. Hybrids break new ground in terms of minimizing impact on the environment, and Yamato is assigning these vehicles a more prominent role in the composition of its fleet.

### Speeding up the Introduction of Hybrid Trucks

Combining electric motors with diesel engines, hybrid cars can be fueled at existing gasoline stands, are highly fuel-efficient, and help to substantially reduce CO<sub>2</sub> emissions. Because none of Yamato's two-ton trucks, comprising the majority of delivery vehicles, are hybrid, Yamato took initiatives to collaborate with automobile manufacturers to develop eco-friendly trucks. The effort came to fruition when Yamato launched its first hybrid truck for experimental purposes in December 2002 and began introducing them in January 2003. After numerous trials, they were fully deployed in August the same year. The CO<sub>2</sub> emissions and fuel used by these hybrid trucks are less than 30% of their diesel counterparts, with a corresponding saving of over 30% in fuel costs. Yamato will continue its efforts with the aim of introducing 20,000 low-emission vehicles, with a focus on hybrid trucks, by fiscal 2012.

Changes in the Number of Low-emission Vehicles



## Social Contribution

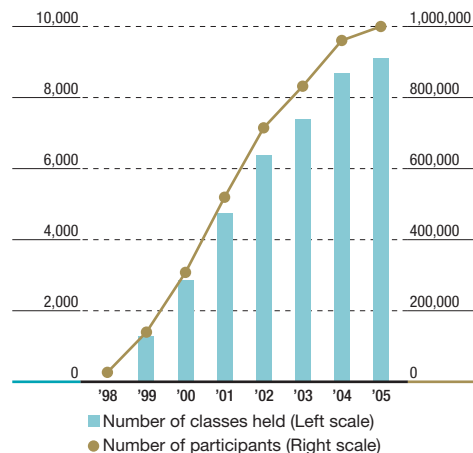
The Yamato Group boasts a nationwide network of offices and agents—the operation of which is made possible through the support of customers across the country. Based on this understanding, Yamato is working to build a close relationship with local communities and contribute to a better society. To this end, Yamato holds activities to interact with customers and their children. In keeping with its corporate philosophy, Yamato seeks to share enjoyment with members of each local community through various non-business activities. The following is one of our community-based activities.

### Over 1 Million Children Participate in Yamato's Road Safety Classes for Children

Safety always comes first in Yamato's operations. In particular, children's safety is one of its major concerns. Alongside calling for the prevention of traffic accidents in the local communities in which it operates, Yamato holds nationwide road safety classes for children, thereby raising awareness of road safety issues among its employees. Started in 1998, Yamato employees wearing costumes bring actual delivery trucks to child daycare centers and kindergartens and put on performances to teach children

traffic rules. To date, the program has been held at over 9,100 locations for a total of 1 million children. Programs for elementary school children and local communities are also being offered starting fiscal 2003. These road safety classes for children offer children first-hand experience of sitting in an actual truck and simulating driving to learn the concept of dead angles in driving. This unique safety session using sight and touch has drawn great interest and acclaim from children, teachers, and parents alike.

### Changes in the Number of Road Safety Classes for Children



# Six-year Consolidated Financial Summary

	Millions of Yen						Thousands of U.S. Dollars
	2005	2004	2003	2002	2001	2000	2005
Operating revenues	<b>¥1,071,903</b>	¥1,011,344	¥972,135	¥932,120	¥906,944	¥812,355	<b>\$9,981,406</b>
Operating costs	<b>998,786</b>	945,201	896,023	861,775	838,219	753,674	<b>9,300,548</b>
Selling, general and administrative expenses	<b>21,914</b>	19,484	19,294	17,156	16,699	14,431	<b>204,062</b>
Operating income	<b>51,203</b>	46,659	56,818	53,189	52,026	44,250	<b>476,796</b>
Income (Loss) before income taxes and minority interests	<b>61,741</b>	87,293	91,063	49,905	(3,554)	37,339	<b>574,921</b>
Income taxes	<b>27,959</b>	37,515	42,538	22,217	484	16,876	<b>260,352</b>
Net income (loss)	<b>33,848</b>	49,783	48,502	27,512	(4,181)	20,418	<b>315,190</b>
	Yen						U.S. Dollars
Per share of common stock:							
Net income (loss)	<b>¥ 74.02</b>	¥ 107.51	¥ 104.51	¥ 59.36	¥ (9.25)	¥ 46.11	<b>\$ 0.69</b>
Diluted net income	<b>72.48</b>	105.20	101.63	57.38	–	43.63	<b>0.67</b>
Cash dividends	<b>18.00</b>	18.00	15.00	14.00	14.00	14.00	<b>0.17</b>
	Millions of Yen						Thousands of U.S. Dollars
Working capital	<b>¥ 80,843</b>	¥ 74,803	¥ 77,514	¥ 84,630	¥ 93,534	¥ 75,199	<b>\$ 752,797</b>
Total shareholders' equity	<b>458,792</b>	443,715	406,306	364,806	344,209	338,295	<b>4,272,208</b>
Total assets	<b>676,156</b>	652,792	655,877	678,939	670,246	642,477	<b>6,296,266</b>
Capital expenditures	<b>40,966</b>	47,587	42,591	40,379	37,144	32,761	<b>381,474</b>
Depreciation and amortization	<b>37,146</b>	35,663	31,731	31,764	29,900	28,917	<b>345,899</b>
Net cash provided by operating activities	<b>76,642</b>	41,064	86,035	69,724	55,249	60,887	<b>713,683</b>
Number of employees	<b>141,602</b>	131,974	112,948	108,700	101,784	93,425	–
Operating income margin (%)	<b>4.78</b>	4.61	5.84	5.71	5.74	5.45	–
Return on revenues (%)	<b>3.16</b>	4.92	4.99	2.95	(0.46)	2.51	–
Return on assets (%)	<b>5.09</b>	7.61	7.27	4.08	(0.64)	3.26	–
Return on equity (%)	<b>7.50</b>	11.71	12.58	7.76	(1.23)	6.33	–
Current ratio (%)	<b>142.85</b>	142.39	145.44	147.94	154.34	150.44	–
Equity ratio (%)	<b>67.85</b>	67.97	61.95	53.73	51.36	52.65	–
Assets turnover (Times)	<b>1.61</b>	1.55	1.46	1.38	1.38	1.30	–
Interest coverage ratio (Times)	<b>104.19</b>	65.17	36.68	24.99	20.55	13.55	–
Shareholders' equity per share (Yen)	<b>1,019.02</b>	971.84	875.08	790.58	746.21	759.46	<b>9.49</b>

Note: U.S. dollar amounts have been translated, for convenience only, at the rate of ¥107.39 to U.S.\$1.

# Management's Discussion and Analysis

## Scope of Consolidation

Yamato's consolidated financial statements include 43 major consolidated subsidiaries. The number of subsidiaries included in the statements was 40 at fiscal 2004 year-end. However, in fiscal 2005, 4 new companies, including Yamato Career Service Co., Ltd., were included to reflect their contribution to the business, while one company was dissolved due to a merger between consolidated subsidiaries. There are no non-consolidated subsidiaries or affiliates accounted for by the equity method during the period under review.

## Results of Operations

In the fiscal year ended March 31, 2005, the Japanese economy showed some encouraging signs of recovery, underpinned by increased exports and capital expenditures in the private sector. These gains, however, fell short of full recovery in consumer spending and other deflationary trends, and the economic environment remained difficult.

The domestic transportation industry faced tighter environmental laws and safety regulations and strove to fulfill its social responsibility. The business environment remained harsh amid escalating competition among transportation companies, including the aggressive entry of Japan Post into the private sector with its renewed *Yu-Pack*, a package delivery service launched in October 2004.

In this context, the Group aimed for higher profit by taking proactive steps to expand its business. Entering the final year of the Yamato Group "Rebirth and Evolution Three-Year Plan," the Group offered products and services that satisfy customers even more and strengthened its corporate structure.

As a result of the above and other factors, Yamato Transport recorded consolidated operating revenues of ¥1,071,903 million (U.S.\$9,981.4 million), up ¥60,559 million, or 6.0%, from the previous fiscal year. Operating income also grew ¥4,544 million, or 9.7%, to ¥51,203 million (U.S.\$476.8 million). Total operating costs included ¥723 million that reflects a change in the depreciation method used for all *Cool Takkyubin* facilities from the straight-line method to the declining-balance method.

The operating income margin rose 0.2 of a percentage point to 4.8%. This is mainly due to the transfer of the premium and the additional portion of the basic portion of the governmental pension program to the cash balance plan of the new retirement benefit system on March 31, 2004, as well as to the reduced provision for retirement funds resulting from the transfer of the retirement allowance plan to the cash balance plan on October 1, 2004.

## Review by Operating Segment

The following are summaries from each operating segment:

### *Delivery*

The Delivery business is mainly focused on small parcel delivery services for consumers and corporate clients and includes *Takkyubin* and *Kuroneko Mail* services. Both the total delivery volume and revenue for the *Takkyubin* service increased strongly, due to introduction of new services and active measures taken to improve customer convenience. Overall delivery volume in the parcel delivery business climbed to 1,063.1 million parcels, up 5.1% year on year. Contributing to growth was *Cool Takkyubin*, where volume increased 5.3% to 129.2 million units. Moreover, the *Collect Service* handling volume increased 7.9% to 68.5 million units. Meanwhile, the unit price for the *Takkyubin* service dropped ¥16 from ¥682 in fiscal 2004 to ¥666, due to acquisition of large accounts and intensifying competition in the parcel delivery business. Consequently, total *Takkyubin* service revenue increased 2.7% to ¥708,503 million.



Both total delivery volume and revenue for the *Kuroneko Mail* service grew substantially, reflecting stronger operations including increased handling services for corporate customers and expansion of service counters. Handling volume increased 44.1% to 1,432.4 million units. Meanwhile, the unit price for the *Kuroneko Mail* service dropped ¥11 from ¥84 in fiscal 2004 to ¥73, reflecting volume discounts offered by Japan Post starting February 2003. Consequently, revenue for the *Kuroneko Mail* service grew 24.3% to ¥103,959 million.

Total operating revenues, including Domestic Air Freight, *Yamatobin*, moving services and Rail-Freight Forwarding and Others, were ¥866,752 million (U.S.\$8,071.1 million), an increase of ¥32,257 million, or 3.9%. Operating income was ¥36,267 million (U.S.\$337.7 million), an increase of ¥719 million, or 2.0%, despite higher personnel expenses for strengthening the quality of delivery services.

#### Takkyubin Revenues, Delivery Volume, and Unit Price

Years ended March 31	2001	2002	2003	2004	2005
<i>Takkyubin</i> revenues					
(Millions of Yen)	658,156	683,589	698,499	690,088	708,503
Delivery volume					
(1,000 parcels)	898,595	947,895	983,938	1,011,150	1,063,057
Unit price (Yen)	732	721	710	682	666

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

#### BIZ-Logistics

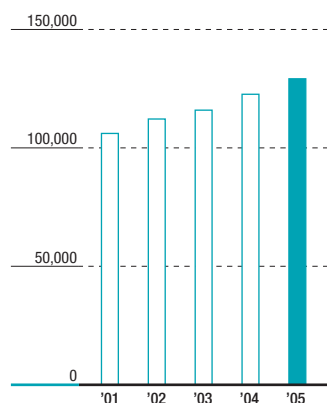
The BIZ-Logistics provides inter-company logistics services aimed at the B2B supply chain management market and includes air-freight forwarding, logistics business and marine forwarding.

The air-freight forwarding business posted an increase of 17.1% to ¥66,448 million, reflecting strong growth of the forwarding business in North America. The logistics business recorded revenue of ¥17,513 million, up 76.9%, due to integrated services encompassing both domestic and international networks.

Combining other areas such as marine forwarding, packing operations, and other services, operating revenue rose ¥20,455 million, or 22.7%, to ¥110,691 million (U.S.\$1,030.7 million), with operating income rising by ¥1,063 million, or 34.4%, to ¥4,151 million (U.S.\$38.7 million).

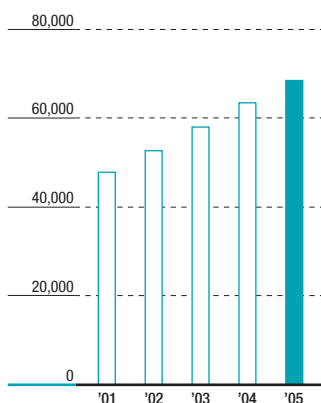
#### Cool Takkyubin Delivery Volume

(1,000 parcels)



#### Collect Service Delivery Volume

(1,000 parcels)



### *Home Convenience*

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

Due to intensified competition with rival companies, moving services posted ¥33,090 million in revenue, down 5.2% from the previous fiscal year, despite measures taken to strengthen moving service operations, including reassessment of the service lineup. Meanwhile, merchandise marketing recorded ¥21,261 million in revenue, up 9.1%, reflecting favorable sales of gift merchandise.

As a result, operating revenues, including other businesses, increased ¥773 million, or 1.8%, to ¥43,384 million (U.S.\$404.0 million). However, there was an operating loss of ¥638 million (U.S.\$5.9 million), reflecting increased fixed expenses for moving services and other items.

### *e-Business*

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

During the year under review, e-Business changed its on-premise business format to solution-oriented services and offered other new services, including information security consulting. As a result, operating revenues increased ¥3,350 million, or 15.9%, to ¥24,432 million (U.S.\$227.5 million). Operating income rose ¥462 million, or 18.9%, to ¥2,909 million (U.S.\$27.1 million).

### *Financial*

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

In the fiscal year ended March 31, 2005, Financial services were actively promoted through campaigns and other initiatives to increase delivery volumes for our *Collect Service* and new settlement services. Consequently, operating revenues increased ¥3,724 million, or 16.2%, to ¥26,644 million (U.S.\$248.1 million). Operating income rose ¥81 million, or 1.3%, to ¥6,427 million (U.S.\$59.8 million).

## **Financial Review**

### *Operating Costs*

In the fiscal year ended March 31, 2005, Yamato Transport recorded consolidated operating costs and expenses of ¥1,020,700 million (U.S.\$9,504.6 million), up ¥56,015 million, or 5.8% from the previous fiscal year. Significant components of the operating costs were as follows:

Breakdown of operating costs	Millions of Yen		
	2004	2005	Increase/ decrease
Years ended March 31			
Personnel expenses	¥ 526,882	¥ 542,306	¥ 15,424
Subcontracting expenses	311,349	357,024	45,675
Vehicle expenses	23,346	27,277	3,931
Other expenses	217,143	235,163	18,020
Elimination of internal procurement costs	(114,035)	(141,070)	(27,035)
Total	¥ 964,685	¥1,020,700	¥ 56,015

Personnel expenses increased ¥15,424 million, reflecting a decrease of ¥4,654 million in provision for retirement benefits, offset by an increase of ¥18,748 million in salaries to employees to boost service quality and other factors. The number of employees increased by 9,628 to 141,602, reflecting a higher number of part-time employees in the Delivery business.

Major factors contributing to increased operating costs and expenses are higher subcontracting expenses for *Kuroneko Mail* and increased subcontracting expenses resulting from delivering more diverse types of goods. As a result, subcontracting expenses for fiscal 2005 increased ¥45,675 million, or 14.7%.

Vehicle expenses rose ¥3,931 million due to the conversion of the vehicle maintenance division into a subsidiary in October 2003.

Other expenses increased ¥18,020 million, primarily due to higher expenses to support the launch of more *Takkyubin centers* and the adoption of pro forma standard taxation.

### ***Other Income and Expenses***

In fiscal 2005, other income—net decreased ¥30,096 million to ¥10,538 million (U.S.\$98.1 million).

The major factor contributing to this decrease was a ¥40,470 million gain on decrease of pension obligation upon transfer of funded retirement benefits plan to cash balance plan booked last year, which was absent this fiscal year, while there was a ¥14,383 million gain on decrease of retirement benefit obligation upon transfer of unfunded retirement benefits plan to cash balance plan in fiscal 2005. Moreover, ¥4,597 million in loss on impairment of long-lived assets was posted due to the application of impairment accounting, continued negative growth in operating activities at five asset groups including major offices in the Saikyo regional branch, and a significant drop in market prices.

### ***Net Income***

In fiscal 2005, income before income taxes and minority interests decreased ¥25,552 million, or 29.3%, to ¥61,741 million (U.S.\$574.9 million). Income taxes decreased ¥9,556 million to ¥27,959 million (U.S.\$260.4 million). The result was a net ¥15,935 million, or 32.0%, decrease in net income to ¥33,848 million (U.S.\$315.2 million). This figure reflects a ¥66 million loss in minority interests. Return on equity (ROE) declined 4.2 percentage points to 7.5%.

As a result of these factors, diluted net income per share amounted to ¥72.48 (U.S.\$0.67), a decrease of ¥32.72, or 31.1%.

The annual dividend was ¥18.00 (U.S.\$0.17), the same level as the previous fiscal year.

## **Cash Flows**

### ***Operating Activities***

Net cash provided by operating activities totaled ¥76,642 million (U.S.\$713.7 million), an increase of ¥35,578 million from the previous fiscal year. The major factors included a decrease in income before income taxes and minority interests of ¥25,552 million to ¥61,741 million, the amount of decrease in liability for employees' retirement benefits, which fell behind the previous fiscal year by ¥24,397 million, and an increase of ¥31,016 million in notes and accounts payable compared to fiscal 2004.

### *Investing Activities*

Net cash used in investing activities was ¥39,990 million (U.S.\$372.4 million), a decrease of ¥694 million. The principal uses of cash in investing activities were ¥36,443 million in acquiring fixed assets, primarily vehicles, though total expenses in acquiring fixed assets decreased ¥10,503 million from the previous fiscal year.

### *Financing Activities*

Net cash used in financing activities totaled ¥33,912 million (U.S.\$315.8 million), an increase of ¥17,472 million from the previous fiscal year. The principal use of cash was ¥17,000 million for redeeming company bonds. This was adequately covered by higher cash flow from operating activities.

As a result of these actions, cash and cash equivalents at the end of the fiscal year totaled ¥120,030 million (U.S.\$1,117.7 million), up ¥2,999 million from the end of the previous fiscal year.

## **Financial Position**

Total current assets as of March 31, 2005 were ¥269,489 million (U.S.\$2,509.4 million), an increase of ¥18,228 million, or 7.3%, mainly because of a ¥20,816 million, or 21.8 %, increase in notes and accounts receivable.

Net property, plant and equipment decreased ¥2,454 million, or 0.8%, to ¥324,541 million (U.S.\$3,022.1 million). The major contributing factor to this decrease was a net ¥3,458 million drop in buildings and structures, ¥1,777 million of which is included as an asset impairment loss. The asset impairment loss for land was ¥2,820 million.

Investment and other assets increased ¥7,590 million, or 10.2%, to ¥82,126 million (U.S.\$764.7 million). This was due primarily to an increase of ¥5,383 million in investment securities to ¥23,051 million, from the establishment of long-term time deposits and other factors.

As a result of the foregoing, total assets increased ¥23,364 million, or 3.6%, from the end of the previous fiscal year, to ¥676,156 million (U.S.\$6,296.3 million).

Total current liabilities as of March 31, 2005 were ¥188,646 million (U.S.\$1,756.6 million), an increase of ¥12,188 million, or 6.9%, from the end of the previous fiscal year, due primarily to an increase in notes and accounts payable by ¥24,641 million, or 31.6%. The decrease of ¥17,000 million in the current portion of corporate bonds is due to the redemption of straight corporate bonds issued by Yamato Transport Co., Ltd. and Yamato Lease Co., Ltd.

Total long-term liabilities fell ¥3,835 million, or 11.8%, to ¥28,620 million (U.S.\$266.5 million). The principal factors contributing to the decline were a decrease of ¥5,233 million in pension obligation with transfer to the new retirement allowance plan and an increase of ¥2,000 million in corporate bonds, reflecting bonds issued by Yamato Lease Co., Ltd. Other factors include a switch to DA accounting and the introduction of a CMS system to reduce interest-bearing debt, in addition to the establishment of a credit facility to strengthen the Group's financial position, all implemented since fiscal 2003.

Total shareholders' equity rose ¥15,077 million, or 3.4%, to ¥458,792 million (U.S.\$4,272.2 million). The principal factor was the addition of ¥25,274 million in retained earnings from the posting of net income. The decrease of ¥10,315 million in treasury stocks mainly reflects market purchases during the fiscal year under review. Shareholders' equity per share rose ¥47.18, or 4.9%, to ¥1,019.02 (U.S.\$9.49). The shareholders' equity ratio dropped 0.1 of a percentage point to 67.9%.

## Retirement and Pension Plan

The Group's defined benefits pension plans include a contributory funded defined benefit pension plan based on a cash balance plan and a lump-sum severance payment plan. However, on October 1, 2004, revisions were made to the Group's regulations on pension allowance payments, transferring the retirement allowance plan to the cash balance plan. Some consolidated subsidiaries have a defined contribution retirement benefits plan.

## Capital Expenditure

Capital expenditure was ¥40,966 million (U.S.\$381.5 million), providing the necessary delivery framework to improve the quality of the core *Takkyubin* services and offer additional services across Japan. The following is a breakdown of capital expenditure.

Breakdown of capital expenditure	Millions of Yen		Thousands of U.S. Dollars
	2004	2005	2005
Delivery	¥35,753	<b>¥26,657</b>	<b>\$248,225</b>
BIZ-Logistics	678	<b>830</b>	<b>7,733</b>
Home Convenience	1,183	<b>458</b>	<b>4,264</b>
e-Business	857	<b>906</b>	<b>8,433</b>
Financial	8,972	<b>11,632</b>	<b>108,319</b>
Eliminations and Corporate	144	<b>483</b>	<b>4,500</b>
Consolidated	¥47,587	<b>¥40,966</b>	<b>\$381,474</b>

In the Delivery business, capital expenditure was ¥26,657 million, including the opening of new *Takkyubin* centers, additional purchase and replacement of delivery vehicles, new construction of base terminals, purchase of freezers and refrigerators and other items.

Network	2004	2005
	Number of vehicles	41,563
Number of delivery channels	8,267	<b>8,467</b>
Number of sub-agents	306,986	<b>296,438</b>

In the Financial business, capital expenditure was ¥11,632 million, which mainly included the purchase of office equipment such as personal computers and light-duty vehicles for leasing.

# Consolidated Balance Sheets

March 31, 2005 and 2004

ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2005	2004	2005
<b>CURRENT ASSETS:</b>			
Cash (Note 2.c)	¥ 119,694	¥116,913	\$ 1,114,576
Time deposits (Note 2.c)	342	119	3,186
Marketable securities (Notes 4 and 6)	111	8,078	1,030
Notes and accounts receivable:			
Trade	116,174	95,358	1,081,790
Allowance for doubtful accounts	(501)	(509)	(4,661)
Inventories	2,464	2,367	22,946
Deferred tax assets (Note 9)	15,957	13,766	148,592
Prepaid expenses and other current assets	15,248	15,169	141,982
Total current assets	269,489	251,261	2,509,441
<b>PROPERTY, PLANT AND EQUIPMENT—At cost:</b>			
Land (Notes 5 and 6)	152,270	152,876	1,417,912
Buildings and structures (Note 5)	221,403	217,364	2,061,672
Vehicles	173,614	154,317	1,616,670
Machinery and equipment	103,942	97,340	967,895
Construction in progress	3,714	336	34,586
Total	654,943	622,233	6,098,735
Accumulated depreciation	(330,402)	(295,238)	(3,076,656)
Net property, plant and equipment	324,541	326,995	3,022,079
<b>INVESTMENTS AND OTHER ASSETS:</b>			
Investment securities (Notes 4 and 6)	23,051	17,668	214,649
Investments in and advances to non-consolidated subsidiaries and affiliates, net of valuation allowance of ¥75 million (\$698 thousand) in 2005 and ¥150 million in 2004	762	823	7,098
Long-term loans	3,058	4,586	28,477
Lease deposits	27,039	27,518	251,779
Deferred tax assets (Note 9)	6,812	7,475	63,433
Other assets	21,404	16,466	199,310
Total investments and other assets	82,126	74,536	764,746
<b>TOTAL</b>	¥ 676,156	¥652,792	\$ 6,296,266

See notes to consolidated financial statements.

<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	<b>2005</b>	2004	<b>2005</b>
<b>CURRENT LIABILITIES:</b>			
Short-term bank loans (Note 6)	¥ 37	¥ 145	\$ 344
Current portion of long-term debt (Note 6)		17,000	
Notes and accounts payable:			
Trade	91,118	68,368	848,478
Construction	11,489	9,598	106,982
Income taxes payable	20,508	16,366	190,969
Employees' savings deposits	3,309	3,821	30,817
Accrued expenses	49,310	44,606	459,168
Other current liabilities	12,875	16,554	119,886
Total current liabilities	188,646	176,458	1,756,644
<b>LONG-TERM LIABILITIES:</b>			
Long-term debt (Note 6)	15,421	13,425	143,598
Liability for employees' retirement benefits (Note 7)	13,012	18,245	121,164
Other long-term liabilities	187	785	1,745
Total long-term liabilities	28,620	32,455	266,507
<b>MINORITY INTERESTS</b>	<b>98</b>	164	<b>907</b>
<b>CONTINGENT LIABILITIES</b> (Note 11)			
<b>SHAREHOLDERS' EQUITY</b> (Notes 6, 8 and 14):			
Common stock—authorized, 530,000,000 shares; issued, 469,478,756 shares in 2005 and 469,475,456 shares in 2004	120,550	120,548	1,122,542
Capital surplus	133,455	133,453	1,242,711
Retained earnings	232,151	206,877	2,161,758
Unrealized gain on available-for-sale securities	4,325	4,183	40,276
Foreign currency translation adjustments	(653)	(625)	(6,080)
Treasury stock—at cost, 19,359,536 shares in 2005 and 13,067,113 shares in 2004	(31,036)	(20,721)	(288,999)
Total shareholders' equity	458,792	443,715	4,272,208
<b>TOTAL</b>	<b>¥676,156</b>	¥652,792	<b>\$6,296,266</b>

# Consolidated Statements of Income

Years Ended March 31, 2005 and 2004

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2005	2004	2005
<b>OPERATING REVENUES</b>	<b>¥1,071,903</b>	¥1,011,344	<b>\$9,981,406</b>
<b>OPERATING COSTS AND EXPENSES:</b>			
Operating costs	998,786	945,201	9,300,548
Selling, general and administrative expenses	21,914	19,484	204,062
Total operating costs and expenses	1,020,700	964,685	9,504,610
Operating income	51,203	46,659	476,796
<b>OTHER (INCOME) EXPENSES:</b>			
Interest and dividend income	(492)	(436)	(4,585)
Interest expense	496	723	4,620
Gain on sales of marketable and investment securities	(427)	(4,093)	(3,975)
Loss on disposal of property, plant and equipment	1,015	1,643	9,450
Loss on impairment of long-lived assets (Note 5)	4,597		42,807
Bond issuance costs	4	14	37
Equity in earnings of affiliated companies		(531)	
Gain on decrease of pension obligation upon transfer of funded retirement benefits plan to cash balance plan (Note 2.i)		(40,470)	
Gain on decrease of retirement benefit obligation upon transfer of unfunded retirement benefits plan to cash balance plan (Note 2.i)	(14,383)		(133,930)
Loss on devaluation of land		897	
Loss on devaluation of telephone subscription rights		1,519	
Other—net	(1,348)	100	(12,549)
Other income—net	(10,538)	(40,634)	(98,125)
<b>INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS</b>	<b>61,741</b>	87,293	<b>574,921</b>
<b>INCOME TAXES</b> (Note 9):			
Current	29,485	29,808	274,561
Deferred	(1,526)	7,707	(14,209)
Total income taxes	27,959	37,515	260,352
<b>MINORITY INTERESTS IN NET LOSS OF CONSOLIDATED SUBSIDIARIES</b>	<b>(66)</b>	(5)	<b>(621)</b>
<b>NET INCOME</b>	<b>¥ 33,848</b>	¥ 49,783	<b>\$ 315,190</b>
		Yen	U.S. Dollars
	2005	2004	2005
<b>PER SHARE OF COMMON STOCK</b> (Notes 2.o and 12):			
Basic net income	¥ 74.02	¥ 107.51	\$ 0.69
Diluted net income	72.48	105.20	0.67
Cash dividends applicable to the year	18.00	18.00	0.17

See notes to consolidated financial statements.



# Consolidated Statements of Shareholders' Equity

Years Ended March 31, 2005 and 2004

	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
<b>BALANCE, APRIL 1, 2003</b>	464,131	¥120,548	¥133,340	¥163,483	¥ 248	¥(383)	¥(10,930)
Adjustment of retained earnings for newly consolidated subsidiaries				1,189			
Net income				49,783			
Cash dividends, ¥16 per share				(7,426)			
Bonuses to directors and corporate auditors				(152)			
Repurchase of treasury stock	(7,837)						(10,022)
Disposal of treasury stock	114		113				231
Net increase in unrealized gain on available-for-sale securities					3,935		
Foreign currency translation adjustments						(242)	
<b>BALANCE, MARCH 31, 2004</b>	456,408	120,548	133,453	206,877	4,183	(625)	(20,721)
Take-over of retained earnings for merger of non-consolidated subsidiaries				(28)			
Adjustment of retained earnings for newly consolidated subsidiaries				286			
Net income				33,848			
Cash dividends, ¥19 per share				(8,671)			
Bonuses to directors and corporate auditors				(161)			
Repurchase of treasury stock	(6,323)						(10,364)
Disposal of treasury stock	31						49
Shares issued on conversion of convertible debt	3	2	2				
Net increase in unrealized gain on available-for-sale securities					142		
Foreign currency translation adjustments						(28)	
<b>BALANCE, MARCH 31, 2005</b>	<b>450,119</b>	<b>¥120,550</b>	<b>¥133,455</b>	<b>¥232,151</b>	<b>¥4,325</b>	<b>¥(653)</b>	<b>¥(31,036)</b>

	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
<b>BALANCE, MARCH 31, 2004</b>	\$1,122,523	\$1,242,695	\$1,926,405	\$38,956	\$(5,817)	\$(192,953)
Take-over of retained earnings for merger of non-consolidated subsidiaries			(259)			
Adjustment of retained earnings for newly consolidated subsidiaries			2,667			
Net income			315,190			
Cash dividends, \$0.18 per share			(80,744)			
Bonuses to directors and corporate auditors			(1,501)			
Repurchase of treasury stock						(96,503)
Disposal of treasury stock						457
Shares issued on conversion of convertible debt	19	16				
Net increase in unrealized gain on available-for-sale securities				1,320		
Foreign currency translation adjustments					(263)	
<b>BALANCE, MARCH 31, 2005</b>	<b>\$1,122,542</b>	<b>\$1,242,711</b>	<b>\$2,161,758</b>	<b>\$40,276</b>	<b>\$(6,080)</b>	<b>\$(288,999)</b>

See notes to consolidated financial statements.

# Consolidated Statements of Cash Flows

Years Ended March 31, 2005 and 2004

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2005	2004	2005
<b>OPERATING ACTIVITIES:</b>			
Income before income taxes and minority interests	¥ 61,741	¥ 87,293	\$ 574,921
Adjustments for:			
Income taxes—paid	(27,805)	(36,320)	(258,915)
Depreciation and amortization	37,146	35,663	345,899
Loss on disposal of property, plant and equipment	1,015	1,643	9,450
Loss on impairment of long-lived assets	4,597		42,807
Loss on devaluation of land		897	
Loss on devaluation of telephone subscription rights		1,519	
Gain on sales of marketable and investment securities	(427)	(4,093)	(3,975)
Equity in earnings of affiliated companies		(531)	
Changes in assets and liabilities, net of effects from newly consolidated subsidiaries:			
Increase in notes and accounts receivable	(19,719)	(9,470)	(183,620)
(Increase) decrease in inventories	(88)	977	(817)
Increase (decrease) in notes and accounts payable	22,292	(8,724)	207,577
Decrease in liability for employees' retirement benefits	(5,255)	(29,652)	(48,928)
Other—net	3,145	1,862	29,284
Total adjustments	14,901	(46,229)	138,762
Net cash provided by operating activities	76,642	41,064	713,683
<b>INVESTING ACTIVITIES:</b>			
Proceeds from sale of property, plant and equipment	143	687	1,326
Purchases of property, plant and equipment	(36,443)	(46,946)	(339,350)
Proceeds from sales of marketable and investment securities	8,480	6,704	78,967
Purchases of marketable and investment securities	(5,353)	(8)	(49,850)
(Increase) decrease in investments in and advances to non-consolidated subsidiaries and affiliates	(194)	6,626	(1,804)
Cash collected from long-term loans	2,942	2,684	27,391
Cash advanced for long-term loans	(2,443)	(3,579)	(22,750)
Other	(7,122)	(6,852)	(66,316)
Net cash used in investing activities	(39,990)	(40,684)	(372,386)
<b>FINANCING ACTIVITIES:</b>			
Proceeds from short-term bank loans		97	
Repayments of short-term bank loans	(105)	(240)	(975)
Proceeds from long-term debt	1,988		18,512
Repayments of long-term debt	(17,000)		(158,302)
Dividends paid	(8,667)	(7,427)	(80,705)
Treasury stocks	(10,315)	(9,984)	(96,049)
Other	187	1,114	1,739
Net cash used in financing activities	(33,912)	(16,440)	(315,780)
<b>FOREIGN CURRENCY TRANSLATION ADJUSTMENTS</b>			
ON CASH AND CASH EQUIVALENTS	(11)	(81)	(104)
CASH AND CASH EQUIVALENTS INCREASED BY MERGER	156		1,448
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,885	(16,141)	26,861
CASH AND CASH EQUIVALENTS OF NEWLY CONSOLIDATED SUBSIDIARIES, BEGINNING OF YEAR	114	779	1,061
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	117,031	132,393	1,089,777
CASH AND CASH EQUIVALENTS, END OF YEAR	¥120,030	¥117,031	\$1,117,699

See notes to consolidated financial statements.

# Notes to Consolidated Financial Statements

Years Ended March 31, 2005 and 2004

## 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, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

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 2004 financial statements to conform to the classifications and presentations used in 2005.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which Yamato Transport 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 ¥107.39 to \$1, the approximate rate of exchange at March 31, 2005. 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, 2005 include the accounts of the Company and its 43 significant (40 in 2004) 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 2005. Two affiliates were accounted for by the equity method in 2004.

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 allocated to identifiable assets, and the remaining amount 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.

**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
	2005	2004	2005
Cash	¥119,694	¥116,913	\$1,114,576
Time deposits	342	119	3,186
Total	120,036	117,032	1,117,762
Time deposits due			
beyond three months	(6)		(63)
Bank overdraft included in cash		(1)	
Cash and cash equivalents	¥120,030	¥117,031	\$1,117,699

**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 the 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 shareholders' equity. The Group has no such trading securities.

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 (See Note 3, Accounting Change)**—Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment of the Company and its consolidated domestic 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** — In August 2002, the Business Accounting Council issued a Statement of Opinion, "Accounting for Impairment of Fixed Assets," and in October 2003 the Accounting Standards Board of Japan ("ASB") issued ASB Guidance No.6, "Guidance for Accounting Standard for Impairment of Fixed Assets." These new pronouncements are effective for fiscal years beginning on or after April 1, 2005 with early adoption permitted for fiscal years ending on or after March 31, 2004.

The Group adopted the new accounting standard for impairment of fixed assets as of April 1, 2004. 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.

The effect of adoption of the new accounting standard for impairment of fixed assets was to decrease income before income taxes and minority interests for the year ended March 31, 2005 by ¥ 4,597 million (\$42,807 thousand).

**h. Other Assets**—Amortization of intangible assets is computed on the straight-line method over the period specified by the Japanese Commercial Code (the "Code").

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

**i. Retirement and Pension Plan**—The Company and certain consolidated subsidiaries have a contributory trustee pension plan and an unfunded retirement benefits plan. The foreign subsidiaries have a defined contribution retirement plan. Other consolidated subsidiaries have an unfunded retirement benefits plan.

According to first paragraph of Article 112 of the Defined Benefit Pension Plan Law, the Company obtained an approval by the Ministry of Health, Labour and Welfare on March 31, 2004, transferred the premium of the basic portion of the governmental pension program and additional portion from the contributory funded defined benefit pension plan to the cash balance plan.

As a result of this transfer, the Company recognized a gain on the decrease from pension obligation with transfer to cash balance plan in the amount of ¥40,470 million for the year ended March 31, 2004.

The Company and certain consolidated subsidiaries revised their retirement benefit regulations on October 1, 2004, and transferred their unfunded retirement benefits plan to the cash balance plan.

As a result of this transfer, the Company recognized a gain on the decrease of its retirement benefit obligation in the amount of ¥14,383 million (\$133,930 thousand) for the year ended March 31, 2005.

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 approval of the shareholders.

**j. 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.

**k. Income Taxes**—The provision for income taxes is computed based on the pretax income included in the consolidated statements of income. 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.

**l. 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.

**m. 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.

**n. 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 shareholders' 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 shareholders' 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.

**o. 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 income are dividends applicable to the respective years including dividends to be paid after the end of the year.

### 3. ACCOUNTING CHANGE

Effective April 1, 2004, the Company adopted the declining-balance method of depreciation for equipment used for refrigerated delivery service, which, previously, had been depreciated by the straight-line method.

The effects of this change were to increase depreciation by ¥723 million (\$6,731 thousand) and to decrease income before income taxes and minority interests by ¥723 million (\$6,731 thousand) for the year ended March 31, 2005.

### 4. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities as of March 31, 2005 and 2004 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
<b>Current:</b>			
Government and corporate bonds	¥ 10	¥ 4,511	\$ 93
Other	101	3,567	937
Total	¥ 111	¥ 8,078	\$ 1,030
<b>Non-current:</b>			
Marketable equity securities	¥14,229	¥13,986	\$132,494
Non-marketable equity securities	1,754	1,509	16,337
Other	7,068	2,173	65,818
Total	¥23,051	¥17,668	\$214,649

Information regarding each category of the securities classified as available-for-sale and held-to-maturity at March 31, 2005 and 2004 was as follows:

	Millions of Yen			
	2005			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	¥7,019	¥7,253	¥43	¥14,229
Other	5,010			5,010
Held-to-maturity	1,004	4		1,008

	Millions of Yen			
	2004			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale —				
equity securities	¥7,013	¥6,987	¥14	¥13,986
Held-to-maturity	9,076	7		9,083

	Thousands of U.S. Dollars			
	2005			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	\$65,361	\$67,534	\$401	\$132,494
Other	46,649			46,649
Held-to-maturity	9,350	37		9,387

The majority of available-for-sale securities whose fair value is not readily determinable as of March 31, 2005 and 2004 were as follows:

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Available-for-sale:			
Equity securities	¥1,754	¥1,509	\$16,337
Preferred shares	1,000	1,000	9,312

Proceeds from sales of available-for-sale securities for the years ended March 31, 2005 and 2004 were ¥440 million (\$4,100 thousand) and ¥3 million, respectively. Gross realized gains and losses on these sales, computed on the moving average cost basis, were ¥427 million (\$3,975 thousand) and ¥0 million (\$0 thousand), respectively, for the year ended March 31, 2005 and ¥0 million and ¥0 million, respectively, for the year ended March 31, 2004.

The carrying values of debt securities by contractual maturities for securities classified as held-to-maturity at March 31, 2005 are as follows:

	Millions of Yen	Thousands of U.S. Dollars
	Held to Maturity	Held to Maturity
Due in one year or less	¥ 111	\$1,030
Due after one year through five years	893	8,320
Total	¥1,004	\$9,350

## 5. LONG-LIVED ASSETS

The Group reviewed its long-lived assets for impairment as of the year ended March 31, 2005 and, as a result, recognized an impairment loss of ¥4,597 million (\$42,807 thousand) as other expense for the asset groups of the Saikyo Regional Branch and other five regional branches 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, 2005 and 2004 consisted of notes to banks and bank overdrafts. The annual interest rates applicable to the bank loans were at 1.375% and ranged from 1% to 6% at March 31, 2005 and 2004, respectively.

Long-term debt at March 31, 2005 and 2004 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Unsecured 2.6% bonds due in July 2004		¥ 15,000	
Unsecured 0.8% bonds due in December 2004		2,000	
Unsecured 1.05% bonds due in December 2007	¥ 2,000		\$ 18,624
Unsecured 1.2% convertible debentures, convertible into common stock at ¥1,211.80 per share, due in September 2009	13,421	13,425	124,974
Total	15,421	30,425	143,598
Less current portion		(17,000)	
Total	¥15,421	¥ 13,425	\$143,598

Based on debt assumption agreements with financial institutions, the Company has transferred the debt repayment obligation for certain bonds to such financial institutions and provided such financial institutions with cash for the payment of principal and interest on these bonds. As a result of these transactions, the balance of such bonds has derecognized amounted to ¥25,000 million (\$232,796 thousand) as of March 31, 2005 and 2004 (see Note 11).

Annual maturities of long-term debt at March 31, 2005 were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2007	¥ 2,000	\$ 18,624
2009	13,421	124,974
Total	¥15,421	\$143,598

At March 31, 2005, land with carrying amount of ¥209 million (\$1,948 thousand) was pledged as collateral for short-term bank loans of ¥37 million (\$344 thousand). Marketable securities and investment securities with a carrying amount of ¥10 million (\$93 thousand) and ¥16 million (\$146 thousand) were deposited as security for dealings at March 31, 2005.

All outstanding convertible debentures of the Company at March 31, 2005, were convertible into 11,075 thousand shares of common stock of the Company. The conversion prices are subject to adjustments to reflect stock splits and certain other events.

The Company has entered into loan commitment agreements amounting to ¥30,000 million (\$279,356 thousand) with financial facilities. The loans receivable outstanding and the unused balances under these credit facilities as of March 31, 2005 amounted to ¥0 million (\$0 thousand) and ¥30,000 million (\$279,356 thousand), respectively.

## 7. RETIREMENT AND PENSION PLANS

The Company and its consolidated subsidiaries have severance payment plans for employees.

Under most circumstances, employees terminating their employment are entitled to retirement benefits determined based on the rate of government bond, 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 paid subject to the approval of the shareholders.

The liability for employees' retirement benefits at March 31, 2005 and 2004 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Projected benefit obligation	¥ 80,367	¥ 87,154	\$ 748,369
Fair value of plan assets	(45,643)	(40,293)	(425,026)
Unrecognized actuarial loss	(21,712)	(28,616)	(202,179)
Net liability	¥ 13,012	¥ 18,245	\$ 121,164

The components of net periodic benefit costs for the years ended March 31, 2005 and 2004 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Service cost	¥ 4,981	¥ 8,665	\$ 46,385
Interest cost	1,608	2,541	14,968
Expected return on plan assets		(490)	
Recognized actuarial loss	7,110	7,763	66,209
Amortization of prior service cost	(14,383)	(39,674)	(133,930)
Net periodic benefit costs	¥ (684)	¥(21,195)	\$ (6,368)

Assumptions used for the years ended March 31, 2005 and 2004 are set forth as follows:

	2005	2004
Discount rate	2.0%	2.0%
Expected rate of return on plan assets	0.0%	2.0%
Amortization period of prior service cost	1 year	1 year
Recognition period of actuarial gain/loss:		
Company	7 years	7 years
Consolidated subsidiaries	5 years	5 years

## 8. SHAREHOLDERS' EQUITY

Japanese companies are subject to the Code.

The Code requires that all shares of common stock are recorded with no par value and at least 50% of the issue price of new shares is required to be recorded as common stock and the remaining net proceeds as additional paid-in capital, which is included in capital surplus. The Code permits Japanese companies, upon approval of the Board of Directors, to issue shares to existing shareholders without consideration as a stock split. Such issuance of shares generally does not give rise to changes within the shareholders' accounts.

The Code also provides that an amount at least equal to 10% of the aggregate amount of cash dividends and certain other appropriations of retained earnings associated with cash outlays applicable to each period shall be appropriated as a legal reserve (a component of retained earnings) until such reserve and additional paid-in capital equals 25% of common stock. The amount of total additional paid-in capital and legal reserve that exceeds 25% of the common stock may be available for dividends by resolution of the shareholders. In addition, the Code permits the transfer of a portion of additional paid-in capital and legal reserve to the common stock by resolution of the Board of Directors.

The Code allows Japanese companies to repurchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The repurchased amount of treasury stock cannot exceed the amount available for future dividend plus amount of common stock, additional paid-in capital or legal reserve to be reduced in the case where such reduction was resolved at the shareholders meeting.

In addition to the provision that requires an appropriation for a legal reserve in connection with the cash payment, the Code imposes certain limitations on the amount of retained earnings available for dividends. The amount of retained earnings available for dividends under the Code was ¥134,525 million (\$1,252,681 thousand) as of March 31, 2005, based on the amount recorded in the parent company's general books of account.

Dividends are approved by the shareholders at a meeting held subsequent to the fiscal year to which the dividends are applicable. Semiannual interim dividends may also be paid upon resolution of the Board of Directors, subject to certain limitations imposed by the Code.

## 9. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in normal effective statutory tax rates of approximately 40% and 41% for the years ended March 31, 2005 and 2004, respectively.

On March 31, 2003, a tax reform law concerning enterprise tax was enacted in Japan which changed the normal effective statutory tax rate from 41% to 40%, effective for years beginning on or after April 1, 2004. The deferred tax assets and liabilities which will be realized on or after April 1, 2004 are measured at the effective tax rate of 40% as at March 31, 2004.

The tax effects of significant temporary differences which resulted in deferred tax assets and liabilities at March 31, 2005 and 2004 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
<b>Deferred tax assets:</b>			
Current:			
Accrued expenses	¥11,410	¥10,109	\$106,253
Enterprise tax	1,942	1,501	18,082
Legal welfare expense	1,454	1,187	13,536
Other	1,151	969	10,721
<b>Deferred tax assets—current</b>	<b>¥15,957</b>	<b>¥13,766</b>	<b>\$148,592</b>
Non-current:			
Liability for employees' retirement benefits	¥ 4,901	¥ 6,687	\$ 45,634
Investment securities	2,534	2,542	23,603
Investment in and advances to non-consolidated subsidiaries and affiliates	2,836	2,636	26,406
Loss on impairment of long-lived assets	1,861		17,329
Loss on devaluation of telephone subscription rights	525	475	4,888
Unrealized profit	607	572	5,657
Unrealized gain on available-for-sale securities	(2,884)	(2,789)	(26,857)
Other	200	(12)	1,861
Less valuation allowance	(3,768)	(2,636)	(35,088)
<b>Deferred tax assets—non-current</b>	<b>¥ 6,812</b>	<b>¥ 7,475</b>	<b>\$ 63,433</b>

A reconciliation between the normal effective statutory tax rate for the year ended March 31, 2005 and the actual effective tax rate reflected in the accompanying consolidated statements of income is as follows:

	2005
Normal effective statutory tax rate	40.0%
Per capita levy of local taxes	3.4
Valuation allowance	1.8
Other—net	0.1
<b>Actual effective tax rate</b>	<b>45.3%</b>

The difference between the normal effective statutory tax rate for the year ended March 31, 2004 and the actual effective tax rate was not exceeding 5% of the normal effective statutory tax rate.

## 10. LEASES

Total lease payments under finance lease arrangements that do not transfer ownership of the leased property to the lessee were ¥3,259 million (\$30,350 thousand) and ¥3,252 million for the years ended March 31, 2005 and 2004, respectively.

Pro forma information of leased property such as acquisition cost, accumulated depreciation 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, 2005 and 2004 was as follows:

Millions of Yen					
2005					
	Buildings and Structures	Vehicles	Machinery and Equipment	Other Assets	Total
Acquisition cost	¥99	¥180	¥16,768	¥96	¥17,143
Accumulated depreciation	22	132	8,821	40	9,015
Net leased property	¥77	¥ 48	¥ 7,947	¥56	¥ 8,128

Thousands of U.S. Dollars					
2005					
	Buildings and Structures	Vehicles	Machinery and Equipment	Other Assets	Total
Acquisition cost	\$919	\$1,673	\$156,145	\$890	\$159,627
Accumulated depreciation	203	1,227	82,141	371	83,942
Net leased property	\$716	\$ 446	\$ 74,004	\$519	\$ 75,685

Millions of Yen					
2004					
	Buildings and Structures	Vehicles	Machinery and Equipment	Other Assets	Total
Acquisition cost	¥99	¥288	¥16,114	¥106	¥16,607
Accumulated depreciation	11	190	9,290	58	9,549
Net leased property	¥88	¥ 98	¥ 6,824	¥ 48	¥ 7,058

Obligations under finance leases which included the imputed interest expense portion, and noncancelable operating leases as of March 31, 2005 and 2004 were as follows:

	Millions of Yen		Thousands of U.S. Dollars	
	2005	2005	2005	2005
	Finance Lease	Operating Lease	Finance Lease	Operating Lease
Due within one year	¥2,636	¥ 88	\$24,548	\$ 818
Due after one year	5,492	124	51,137	1,154
Total	¥8,128	¥212	\$75,685	\$1,972

Millions of Yen		
2004		
	Finance Lease	Operating Lease
Due within one year	¥3,063	¥456
Due after one year	3,995	92
Total	¥7,058	¥548

## 11. CONTINGENT LIABILITIES

Contingent liabilities for guarantees and items of a similar nature at March 31, 2005 amounted to ¥214 million (\$1,989 thousand) representing guarantees of loans of an unaffiliated company jointly and severally by the Company and 18 other unaffiliated companies and ¥86 million (\$797 thousand) as guarantees of loans of a non-consolidated subsidiary.

Based on debt assumption agreements with financial institutions, the Company has transferred the debt repayment obligation for certain bonds to such financial institutions. At March 31, 2005, the Company had contingent obligations of ¥25,000 million (\$232,796 thousand) in respect of these bonds.

## 12. NET INCOME PER SHARE

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended March 31, 2005 and 2004 is as follows:

Year Ended March 31, 2005	Millions of Yen	Thousands of Shares	Yen	U.S. Dollars
	Net Income	Weighted-average Shares	EPS	
Basic EPS—Net income available to common shareholders	¥33,735	455,771	¥74.02	\$0.69
Effect of dilutive securities— Convertible bonds	101	11,075		
Diluted EPS—Net income for computation	¥33,836	466,846	¥72.48	\$0.67

Year Ended March 31, 2004	Millions of Yen	Thousands of Shares	Yen	U.S. Dollars
	Net Income	Weighted-average Shares	EPS	
Basic EPS—Net income available to common shareholders	¥49,625	461,598	¥107.51	
Effect of dilutive securities— Convertible bonds	101	11,078		
Diluted EPS—Net income for computation	¥49,726	472,676	¥105.20	

### 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, 2005 and 2004 is as follows:

#### (1) Industry Segments

Millions of Yen							
2005							
	Delivery	BIZ- Logistics	Home Convenience	e-Business	Financial	Eliminations or Corporate	Consolidated
a. Operating revenues and operating income (loss):							
Operating revenues to customers	¥ 866,752	¥ 110,691	¥ 43,384	¥ 24,432	¥ 26,644		¥1,071,903
Intersegment operating revenues	30,238	10,734	14,971	14,776	6,882	¥ (77,601)	
Total operating revenues	896,990	121,425	58,355	39,208	33,526	(77,601)	1,071,903
Operating costs and expenses	860,723	117,274	58,993	36,299	27,099	(79,688)	1,020,700
Operating income (loss)	¥ 36,267	¥ 4,151	¥ (638)	¥ 2,909	¥ 6,427	¥ 2,087	¥ 51,203

b. Assets, depreciation and capital expenditures:							
Assets	¥ 407,299	¥ 45,682	¥ 16,442	¥ 22,263	¥ 86,163	¥ 98,307	¥ 676,156
Depreciation	28,250	1,012	740	891	6,064	189	37,146
Capital expenditures	26,657	830	458	906	11,632	483	40,966

Thousands of U.S. Dollars							
2005							
	Delivery	BIZ- Logistics	Home Convenience	e-Business	Financial	Eliminations or Corporate	Consolidated
a. Operating revenues and operating income (loss):							
Operating revenues to customers	\$8,071,067	\$1,030,737	\$403,986	\$227,510	\$248,106		\$9,981,406
Intersegment operating revenues	281,568	99,957	139,411	137,589	64,087	\$(722,612)	
Total operating revenues	8,352,635	1,130,694	543,397	365,099	312,193	(722,612)	9,981,406
Operating costs and expenses	8,014,921	1,092,038	549,337	338,011	252,345	(742,042)	9,504,610
Operating income (loss)	\$ 337,714	\$ 38,656	\$ (5,940)	\$ 27,088	\$ 59,848	\$ 19,430	\$ 476,796

b. Assets, depreciation and capital expenditures:							
Assets	\$3,792,708	\$ 425,381	\$153,111	\$207,313	\$802,335	\$ 915,418	\$6,296,266
Depreciation	263,060	9,426	6,891	8,300	56,463	1,759	345,899
Capital expenditures	248,225	7,733	4,264	8,433	108,319	4,500	381,474

Millions of Yen							
2004							
	Delivery	BIZ- Logistics	Home Convenience	e-Business	Financial	Eliminations or Corporate	Consolidated
a. Operating revenues and operating income:							
Operating revenues to customers	¥ 834,495	¥ 90,236	¥ 42,611	¥ 21,082	¥ 22,920		¥1,011,344
Intersegment operating revenues	22,600	6,400	12,944	13,437	7,680	¥ (63,061)	
Total operating revenues	857,095	96,636	55,555	34,519	30,600	(63,061)	1,011,344
Operating costs and expenses	821,547	93,548	55,545	32,072	24,254	(62,281)	964,685
Operating income	¥ 35,548	¥ 3,088	¥ 10	¥ 2,447	¥ 6,346	¥ (780)	¥ 46,659

b. Assets, depreciation and capital expenditures:							
Assets	¥ 405,577	¥ 39,056	¥ 18,167	¥ 19,308	¥ 52,709	¥ 117,975	¥ 652,792
Depreciation	27,806	1,007	687	850	5,123	190	35,663
Capital expenditures	35,753	678	1,183	857	8,972	144	47,587

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



## (2) Geographic Segments

The geographic segments of the Company and consolidated subsidiaries for the years ended March 31, 2005 and 2004 are summarized as follows:

Millions of Yen						
2005						
	Japan	U.S.A.	Europe	Asia	Eliminations or Corporate	Consolidated
Operating revenues:						
Outside customers	¥1,048,648	¥ 13,925	¥ 3,905	¥ 5,425		¥1,071,903
Interarea	5,128	2,665	1,356	2,256	¥ (11,405)	
Total operating revenues	1,053,776	16,590	5,261	7,681	(11,405)	1,071,903
Operating costs and expenses	1,003,398	16,219	5,135	7,354	(11,406)	1,020,700
Operating income	¥ 50,378	¥ 371	¥ 126	¥ 327	¥ 1	¥ 51,203
Assets	¥ 554,329	¥ 2,853	¥ 1,793	¥ 3,439	¥ 113,742	¥ 676,156

Thousands of U.S. Dollars						
2005						
	Japan	U.S.A.	Europe	Asia	Eliminations or Corporate	Consolidated
Operating revenues:						
Outside customers	\$9,764,858	\$129,669	\$36,363	\$50,516		\$9,981,406
Interarea	47,751	24,817	12,623	21,008	\$ (106,199)	
Total operating revenues	9,812,609	154,486	48,986	71,524	(106,199)	9,981,406
Operating costs and expenses	9,343,498	151,028	47,810	68,479	(106,205)	9,504,610
Operating income	\$ 469,111	\$ 3,458	\$ 1,176	\$ 3,045	\$ 6	\$ 476,796
Assets	\$5,161,834	\$ 26,564	\$16,693	\$32,023	\$1,059,152	\$6,296,266

Millions of Yen						
2004						
	Japan	U.S.A.	Europe	Asia	Eliminations or Corporate	Consolidated
Operating revenues:						
Outside customers	¥ 991,961	¥ 11,576	¥ 3,610	¥ 4,197		¥1,011,344
Interarea	3,998	2,459	1,143	1,975	¥ (9,575)	
Total operating revenues	995,959	14,035	4,753	6,172	(9,575)	1,011,344
Operating costs and expenses	949,648	13,879	4,768	5,932	(9,542)	964,685
Operating income (loss)	¥ 46,311	¥ 156	¥ (15)	¥ 240	¥ (33)	¥ 46,659
Assets	¥ 515,953	¥ 2,738	¥ 1,734	¥ 2,068	¥ 130,299	¥ 652,792

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, 2005 and 2004 amounted to ¥26,201 million (\$243,982 thousand) and ¥22,831 million, respectively.

## 14. SUBSEQUENT EVENTS

### a. Shares purchase

In order to offer new settlement service, the Company acquired shares of new subsidiaries.

(1) On April 1, 2005, the Company acquired 589,400 shares of Fine Credit Co., Ltd. for ¥5,589 million (\$52,047 thousand). As a result, the Company owns 70.0% of issued shares of Fine Credit Co., Ltd.

Financial information of Fine Credit Co., Ltd. for the year ended March 31, 2004 is as follows:

Operating revenues:	¥13,259 million (\$123,464 thousand)
Ordinary profit:	¥1,125 million (\$10,477 thousand)
Net income:	¥567 million (\$5,284 thousand)
Common stock:	¥500 million (\$4,656 thousand)
Assets:	¥140,822 million (\$1,311,310 thousand)

(2) On April 1, 2005, the Company acquired 68,000 shares of World Computer Center Co., Ltd. for ¥61 million (\$573 thousand). As a result, the Company owns 85.0% of issued shares of World Computer Center Co., Ltd. Financial information of World Computer Center Co., Ltd. for the year ended June 30, 2004 is as follows:

Operating revenues:	¥1,338 million (\$12,455 thousand)
Ordinary profit:	¥1 million (\$8 thousand)
Net loss:	¥22 million (\$203 thousand)
Common stock:	¥40 million (\$372 thousand)
Assets:	¥353 million (\$3,290 thousand)

### b. Appropriations of Retained Earnings

The following appropriations of retained earnings at March 31, 2005 were approved at the Company's shareholders meeting held on June 29, 2005:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥9.00 (\$0.08) per share	¥4,051	\$37,723
Bonuses to directors and corporate auditors	58	540

# Independent Auditors' Report

# Deloitte.

**Deloitte Touche Tohmatsu**  
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To the Board of Directors of  
Yamato Transport Co., Ltd.:

We have audited the accompanying consolidated balance sheets of Yamato Transport Co., Ltd. (the "Company") and consolidated subsidiaries (together, the "Group") as of March 31, 2005 and 2004, and the related consolidated statements of income, shareholders' 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 Transport Co., Ltd. and consolidated subsidiaries as of March 31, 2005 and 2004, 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.

As discussed in Note 3, the Company changed its method of accounting for depreciation of equipment used for refrigerated delivery service as of April 1, 2004.

As discussed in Note 2.g, the Group adopted the new accounting standard for impairment of fixed assets as of April 1, 2004.

As discussed in Note 14.a, the Company acquired the shares of Fine Credit Co., Ltd. and World Computer Center Co., Ltd. on April 1, 2005 to make them subsidiaries.

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 29, 2005

## Corporate Data

### Head Office

Yamato Transport Co., Ltd.  
16-10, Ginza 2-chome, Chuo-ku, Tokyo  
104-8125, Japan  
Telephone: (03) 3541-3411  
Facsimile: (03) 5565-3427

### Domestic Offices

3,279

### Major Subsidiaries and Affiliates

#### Delivery

Okinawa Yamato Transport Co., Ltd.\*  
Okinawa Catworks Co., Ltd.\*  
Yamato Autoworks Co., Ltd.\*  
Kyoto Yamato Transport Co., Ltd.\*  
Kobe Yamato Transport Co., Ltd.\*  
Miyagi Green Liner Co., Ltd.\*  
Iwate Green Liner Co., Ltd.\*  
Saitama Green Liner Co., Ltd.\*  
Kanagawa Green Liner Co., Ltd.\*  
Niigata Green Liner Co., Ltd.\*  
Kanazawa Green Liner Co., Ltd.\*  
Aichi Green Liner Co., Ltd.\*  
Chugoku Green Liner Co., Ltd.\*  
Okayama Green Liner Co., Ltd.\*  
Shikoku Green Liner Co., Ltd.\*  
Fukuoka Green Liner Co., Ltd.\*  
Kagoshima Green Liner Co., Ltd.\*  
Yamato · Staff · Supply Co., Ltd.\*  
Yamato Management Service Co., Ltd.\*  
Shizuoka Green Liner Co., Ltd.  
Kumamoto Green Liner Co., Ltd.  
Yamato Architects & Design Co., Ltd.

Yamato Transport Spin-off Preparation Co., Ltd.

#### BIZ-Logistics

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

#### 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.\*

Swan Co., Ltd.  
Swan Net Co., Ltd.  
Swan Charcoal Distribution 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 Co., Ltd.

#### Financial

Yamato Financial Co., Ltd.\*  
Yamato Lease Co., Ltd.\*

\*Consolidated subsidiaries

### Common Stock

Authorized: 530,000,000 shares  
Issued: 469,478,756 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)	8.72%
Japan Trustee Services Bank, Ltd. (Trust Account)	5.03%
Mizuho Bank, Ltd.	3.67%
Yamato Employees' Shareholding Association	2.97%
Meiji Life Insurance Co.	2.61%
State Street Bank and Trust Company 505103	2.15%
Yamato Trading-Partner Shareholding Association	2.04%
Sumitomo Life Insurance Co.	1.80%
The Chase Manhattan Bank, NA London	1.61%
JPMCB Omnibus US Pension Treaty JASDEC 380052	1.52%
Total	32.13%

### Stock Price Range

(Tokyo Stock Exchange)	(Yen)	
	High	Low
First quarter	1,809	1,469
Second quarter	1,875	1,480
Third quarter	1,577	1,400
Fourth quarter	1,704	1,476

### Distribution of Shareholders

Financial Institutions	39.3%
Securities Companies	1.5%
Other Institutions	5.9%
Foreign Investors	31.6%
Individuals and Others	21.7%
Total	100.0%

(As of March 31, 2005)



YAMATO TRANSPORT CO., LTD.

