Management's Discussion and Analysis

Scope of Consolidation

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

Results of Operations

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

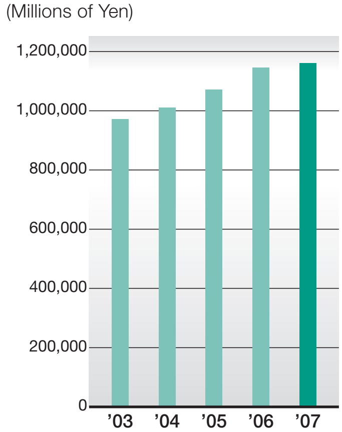
In this context, the Group embarked on the second year of its latest management plan, "Yamato Group Revolution Plan 2007: New Value & Innovation Three-Year Plan." Guided by this plan, the Group continued striving to steadily expand its Delivery business, promoted business strategies to accelerate growth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

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

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

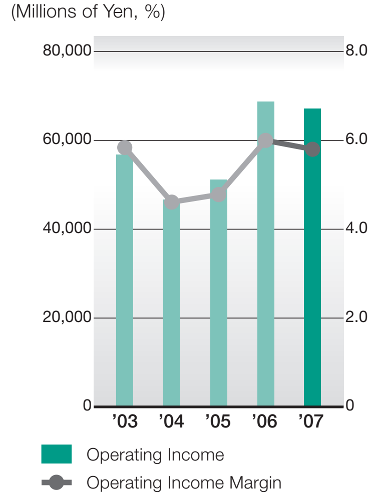
Operating Revenues

(Millions of Yen)



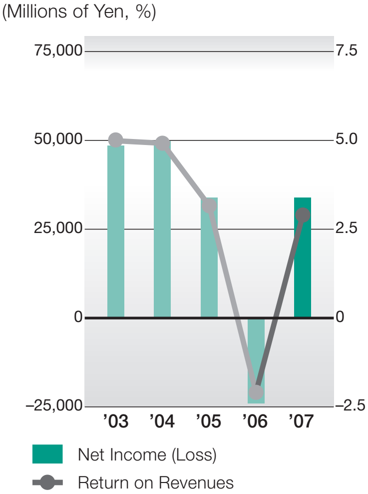
Operating Income / Operating Income Margin

(Millions of Yen, %)



Net Income (Loss) / Return on Revenues

(Millions of Yen, %)



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

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

Review by Operating Segment

The following are summaries from each operating segment.

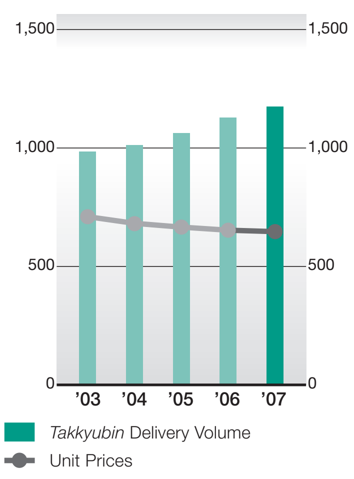
Delivery

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

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

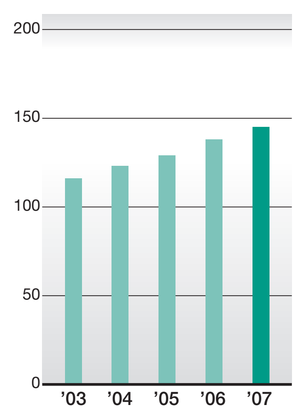
Takkyubin Delivery Volume / Unit Prices

(Millions of parcels, Yen)



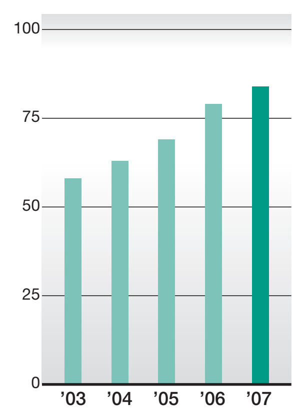
Cool Takkyubin Handling Volume

(Millions of parcels)



Takkyubin Collect Handling Volume

(Millions of parcels)



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

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

Takkyubin Delivery Volume and Unit Price

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

Kuroneko Mail Delivery Volume and Unit Price

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

BIZ-Logistics

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

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

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

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

Home Convenience

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

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

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

e-Business

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

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

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

Financial

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

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

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

Other

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

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

Financial Review

Operating Costs

In the fiscal year ended March 31, 2007, the Company recorded consolidated operating costs and expenses of ¥1,094,407 million, up ¥18,167 million, or 1.7%, from the previous fiscal year. Significant components of the operating costs were as follows.

Breakdown of operating costs — Millions of yen

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

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

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

Other Income and Expenses

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

Net Income

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

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

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

Cash Flows

Operating Activities

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

Investing Activities

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

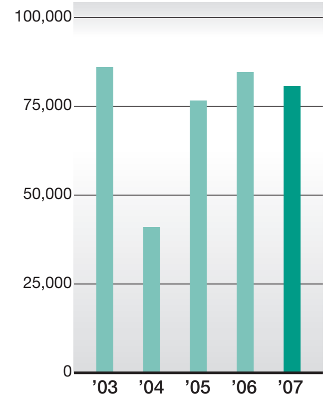
Financing Activities

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

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

Operating Cash Flows

(Millions of Yen)



Financial Position

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

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

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

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

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

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

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

Capital Expenditure

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

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

Major changes in the Delivery business network are detailed below.

Network

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

Forecasts for Fiscal 2008

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

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

Major Risk Factors

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

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

Operating Revenues Highly Dependent on *Takkyubin* Business

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

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

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

Securing Human Resources

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

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

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