

Management's Discussion and Analysis

- Amid difficult business conditions, the Yamato Group reported a 5.5% year-on-year increase in consolidated operating revenues and a 1.5% rise in operating income.
- Due to increasing costs, operating income in the Delivery business declined 7.9%.
- In the BIZ-Logistics business, efforts to upgrade services and cut costs led to increases in operating revenues and operating income, which rose 4.7% and 35.7%, respectively.
- The purchase of land for construction of a terminal complex led to a ¥84,194 million, or 29.7%, increase in property, plant, and equipment.
- Cash and cash equivalents rose ¥12,176 million owing to an increase in cash flows from operating activities.

Scope of Consolidation

At the end of the fiscal year ended March 31, 2008 (fiscal 2008), the Yamato Group consisted of Yamato Holdings Co., Ltd. (the Company), 38 subsidiaries, and five affiliated companies. The number of subsidiaries included in the consolidated statements was 37 at the previous fiscal year-end, but declined to 29 at the end of fiscal 2008, due to reorganization of the Group and other factors. As Yamato Autoworks Hokushinetsu Co., Ltd. increased in importance, it was included in the scope of consolidation from fiscal 2008. By contrast, Book Service Co., Ltd., included in consolidation until the previous fiscal year, has been excluded in fiscal 2008 due to the sale of its shares. There were no non-consolidated subsidiaries or affiliates accounted for by the equity method at the end of the period under review.

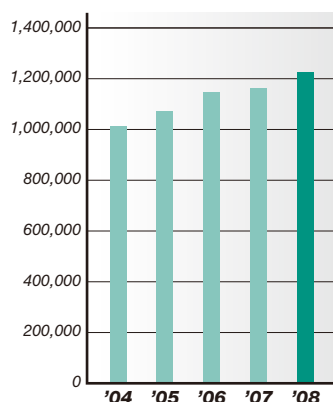
Results of Operations

In the fiscal year ended March 31, 2008, the Yamato Group posted a 5.5% year-on-year increase in consolidated operating revenues. Due largely to rising costs of fuel and personnel, however, growth in operating income was limited to 1.5%.

During the period, the Japanese economy remained on a growth path, buoyed by firm private-sector capital expenditures and personal consumption. This was despite concerns of an economic slowdown arising from various risk factors, such as financial market instability stemming from the subprime loan crisis in the United States, as well as soaring prices of raw materials. The domestic logistics market (including the *Takkyubin* door-to-door parcel delivery market) continued to face a harsh operating environment, impacted by surging crude oil prices and the enactment of the revised Road Transportation Law, as well as privatization of Japan Post and the intensifying competition.

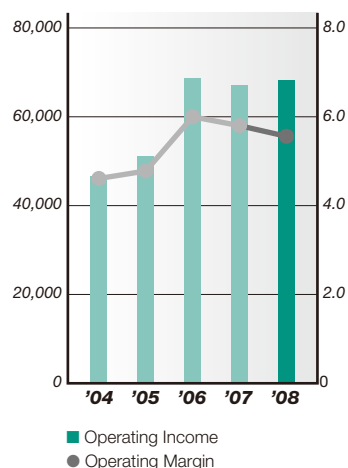
Operating Revenues

(Millions of Yen)



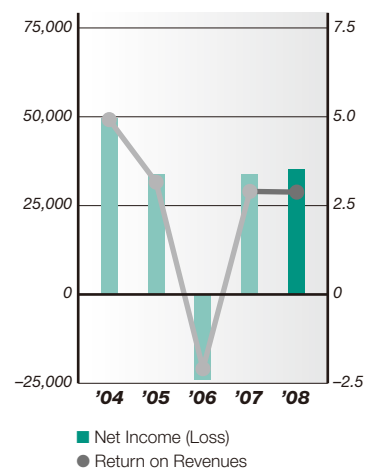
Operating Income / Operating Margin

(Millions of Yen, %)



Net Income (Loss) / Return on Revenues

(Millions of Yen, %)



The year under review was the final year of the Yamato Group's medium-term management plan, entitled "Yamato Group Revolution Plan 2007: New Value & Innovation Three-Year Plan." Guided by the plan, the Group continued targeting steady growth in its Delivery business while advancing initiatives aimed at expediting growth in other businesses.

Under our strategic alliance with MARUI GROUP, in September 2007 we integrated the door-to-door parcel businesses of Yamato Home Convenience Co., Ltd. and MOVING CO., LTD., a member of the MARUI GROUP.

In a future-oriented initiative aimed at providing highly competitive, integrated domestic and overseas services, we purchased by tender a piece of land next to the Tokyo International Airport (Haneda Airport), which is slated for further internationalization. In this way, we prepared to build the infrastructure necessary to function as an air, land, and sea logistics service provider.

As a result, consolidated operating revenues for the year amounted to ¥1,225,974 million, up ¥64,406 million, or 5.5%, from the previous fiscal year. However, operating income rose only ¥1,019 million, or 1.5%, to ¥68,180 million, due to increased fuel costs in the Delivery business accompanying escalating oil prices, as well as higher personnel and other expenses. The operating margin edged down 0.2 of a percentage point, to 5.6%. Net income climbed ¥1,540 million, or 4.6%, to ¥35,353 million, and the return on revenues remained unchanged, at 2.9%.

Review by Operating Segment

The following are summaries from each operating segment.

Delivery

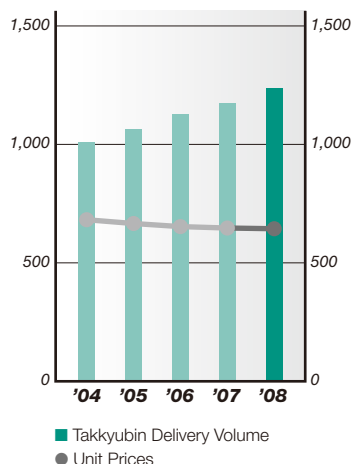
In the Delivery business, we reported a 5.0% increase in operating revenues as we upgraded our services and advanced our integrated solutions sales approach. However, segment operating income declined 7.9% due to increases in fuel, personnel, and other costs.

The Delivery business focuses mainly 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 sought to provide highly convenient services, based on its "Total Reliability" corporate philosophy. In November 2007, we launched *Kuroneko Members*, a membership-based service for individual customers. During the year, we also introduced *Takkyubin Easy Address Label Issuance Service*, provided via service terminals installed at *Takkyubin* centers. In addition, we targeted more

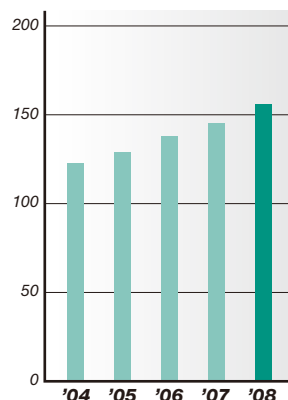
Takkyubin Delivery Volume / Unit Prices

(Millions of Parcels, Yen)



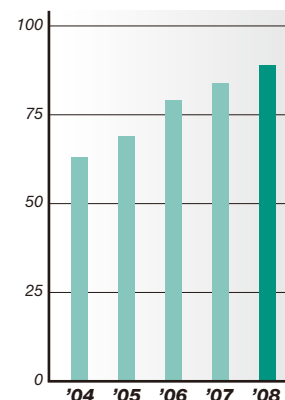
Cool Takkyubin Handling Volume

(Millions of Parcels)



Takkyubin Collect Handling Volume

(Millions of Parcels)



meticulous services by increasing the number of outlets, and we strove to further differentiate ourselves from competitors in terms of delivery service quality.

For corporate customers, we promoted solution-based marketing combining three key functions of the Yamato Group—logistics technology (LT), information technology (IT), and financial technology (FT)—as we targeted flexible responses to customers' diversified needs.

As a result, total delivery volume in the parcel delivery business reached 1,236 million parcels in fiscal 2008, up 5.2% from the previous year. Within this figure, *Cool Takkyubin* reported an increase of 10 million parcels, or 7.2%, to 155 million parcels. In the *Takkyubin Collect* cash-on-delivery service, handling volume grew 5 million units, or 6.8%. In the *Time Service*, which promises to deliver goods quickly within a definite time period, handling volume edged down 0.6%, to 17 million parcels. Meanwhile, the unit price for the *Takkyubin* service slipped ¥3, from ¥647 to ¥644.

In the expanding direct mail market, the Group endeavored to increase transactions through aggressive sales activities targeting corporate customers. As a result, total handling volume for the *Kuroneko Mail* service increased 236 million units, or 12.0%, to 2,206 million units. Meanwhile, the unit price for the *Kuroneko Mail* service declined ¥2, from ¥66 to ¥64.

As a result, total operating revenues for the Delivery business were ¥981,142 million, an increase of ¥46,535 million, or 5.0%. However, operating income fell ¥3,430 million, or 7.9%, to ¥39,872 million. This was due to increased personnel costs associated with our employees' meticulous service approach, as well as various expenses aimed at raising our service quality. Surging oil prices also affected earnings in this segment.

Takkyubin Delivery Volume and Unit Prices

Years ended March 31	2004	2005	2006	2007	2008
<i>Takkyubin</i> delivery volume (Millions of Parcels)	1,011	1,063	1,128	1,174	1,236
<i>Cool Takkyubin</i>	122	129	137	145	155
<i>Takkyubin Collect</i>	63	68	78	83	89
<i>Time Service</i>	16	17	17	18	17
Unit price (Yen)	682	666	653	647	644

Kuroneko Mail Delivery Volume and Unit Price

Years ended March 31	2004	2005	2006	2007	2008
<i>Kuroneko Mail</i> handling volume (Millions of Units)	994	1,432	1,734	1,970	2,206
Unit price (Yen)	84	73	69	66	64

BIZ-Logistics

Operating revenues in this business segment rose 4.7% year-on-year, owing to enhanced responses to recalls and improved trade logistics services. Segment operating income jumped 35.7% thanks to cost-cutting efforts.

BIZ-Logistics provides inter-company logistics services, including trade logistics services, sales logistics services, and overseas lifestyle support services.

In October 2007, we launched the *Kuroneko Yamato Recall Support Service* to provide swift responses to corporate clients who need to recall or voluntarily collect their products. By offering one-stop services, including notification, acceptance of recall request, and collection on behalf of the client, we provide an innovative solution that minimizes both time and risk. Handling volume for this service has been solid.

Export Factory is a trade logistics service to support the export business of customers. This is an integrated outsourced service combining multiple functions, including weighing and packaging, customs clearance, and arrangement of overseas delivery. In providing this service, we have built a business model that realizes reductions in the time and cost associated with the export business.

As a result, operating revenues from the trade logistics services business edged up ¥614 million, or 0.8%, to ¥75,159 million; operating revenues from the sales logistics services business increased ¥1,316 million, or 5.4%, to ¥25,500 million; and operating revenues from the overseas lifestyle support services business declined ¥295 million, or 3.5%, to ¥8,220 million.

Overall operating revenues in the BIZ-Logistics segment rose ¥4,301 million, or 4.7%, to ¥95,693 million. Operating income jumped ¥1,353 million, or 35.7%, to ¥5,148 million, as the Group sought to constrict loading fare and otherwise reduce subcontracting expenses.

Home Convenience

During the year, the Group strengthened its sales system through integration with MARUI GROUP operations. Accordingly, operating revenues from the Home Convenience segment increased 8.8%. Due to higher initial costs for business integration and other cost increases, however, segment operating income fell 51.3%.

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

In September 2007, we reinforced our sales system by integrating the delivery businesses of Yamato Home Convenience Co., Ltd. and MOVING CO., LTD., a member of the MARUI GROUP. The purpose of the integration was to bring together the respective strengths of the two companies—a nationwide delivery network and know-how in electronic product installation. The unique combination of a delivery function with a technical component has made deep inroads into the market, attracting an increase in corporate customers and resulting in a strong performance for *Household Takkyubin*. In January 2008, we merged the operations of Yamato Home Convenience and eight regional Home Convenience companies in the Yamato Group, thus further enhancing efficiency.

Despite a tough market environment due to intensified competition, our moving services business generated an increase in revenue of ¥8,288 million, or 23.3%, to ¥43,819 million. This solid performance stemmed largely from our success in attracting corporate customers. By contrast, revenue from merchandise marketing decreased ¥2,357 million, or 10.8%, to ¥19,526 million.

As a result, overall operating revenues in the Home Convenience segment rose ¥3,955 million, or 8.8%, to ¥48,938 million. However, operating income fell 51.3% to ¥657 million, due to an increase in initial costs related to the integration with MOVING, as well as higher subcontracting expenses for hired vehicles and other items.

e-Business

In fiscal 2008, the Yamato Group actively promoted its solution-based marketing, centering on ASP services. Accordingly, the e-Business segment posted a 6.8% increase in operating revenues and a 23.8% rise in operating income.

This segment encompasses development of ASP and information systems, mainly targeting business customers. The three keywords in e-Business are “tracking,” “security,” and “packages.” In the year under review, we actively promoted solution-based marketing tailored to the needs of industries and business segments. Through unified management and sharing of tracking data with customers who require traceability of specific items, we offer *e-Logistics Tracing Solution*, which optimizes the overall process for customers by enabling them to “visualize” the movement of products shipped. These services performed steadily in the year under review.

As a result, operating revenues in this segment grew ¥2,081 million, or 6.8%, to ¥32,795 million, while operating income rose ¥1,199 million, or 23.8%, to ¥6,228 million.

Financial

In the year under review, we sought to enhance convenience for customers with the launch of electronic money settlement services. Operating revenues in the Financial business increased 6.3%, and operating income climbed 20.7%.

The Financial business covers settlement services and provision of financial products, mainly to business customers and general consumers.

In July 2007, we launched *Payment Slip Issuance Service*, which provides all-round support for customers engaged in the mail-order business, from issuance of payment slips to delivery and collection of payment. In November 2007, we started an electronic money (Edy) settlement service as a new means of settlement for the *Takkyubin Collect PC & Cell Phone* service in an effort to expand settlement options. Striving to enhance customer convenience, in February 2008 we introduced *Kuroneko Mail Collect*, an all-in-one payment slip that includes the address label and a variety of settlement methods to choose from.

Consequently, operating revenues for this segment increased ¥3,028 million, or 6.3%, to ¥51,458 million. Operating income rose ¥1,876 million, or 20.7%, to ¥10,925 million.

Other

In the Other business segment, operating revenues jumped 39.4%, and operating income surged 68.0%, to ¥2,656 million, excluding dividends received by Yamato Holdings from other companies in the Group. These results were thanks to solid expansion of the vehicle maintenance business and significant growth in volume handled by the *JITBOX Charter* service.

The main activities of the Other business segment are vehicle maintenance, carried out primarily by Yamato Autoworks Co., Ltd., and the *JITBOX Charter* service, operated mainly by Box Charter Co., Ltd.

In the vehicle maintenance category, we actively targeted truck and bus transport companies, promoting solutions that help reduce overall outlays related to vehicle operation, including maintenance, fuel, parts procurement, and insurance. The number of vehicles handled by this business increased as a result.

The *JITBOX Charter* service is underpinned by a sales structure based on a group of 15 companies. In fiscal 2008, we provided services to meet the diversified needs of customers distributing goods between companies, including just-in-time, high-frequency, right-volume delivery by transport box. In this way, we sought to raise our presence in product-driven markets. As a result, the number of *JITBOX Charter* deliveries jumped 236,565, or 105.6%, to 460,506.

Financial Review

Operating Costs

In fiscal 2008, the Company recorded consolidated operating costs and expenses of ¥1,157,794 million, up ¥63,387 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
Years ended March 31	2007	2008	Increase/ Decrease
Personnel expenses	¥ 580,188	¥ 609,994	¥ 29,806
Subcontracting expenses	402,605	430,023	27,418
Vehicle expenses	34,968	38,946	3,978
Other expenses	243,424	256,668	13,244
Elimination of internal procurement costs	(166,778)	(177,837)	(11,059)
Total	¥1,094,407	¥1,157,794	¥ 63,387

Major factors causing increased operating costs and expenses were higher personnel expenses and subcontracting expenses.

Personnel expenses rose ¥29,806 million, due mainly to a correction advice received from the Labor Standards Supervision Office pertaining to the vehicle maintenance business. Subcontracting expenses rose ¥27,418 million, due mainly to an increase in costs for such items as outsourcing and hire vehicles.

The number of employees at fiscal year-end was 169,836, up 12,183 from 157,653 a year earlier, due largely to a higher number of part-time and full-time employees in the Delivery business.

Net Income

In fiscal 2008, income before income taxes and minority interests increased ¥771 million, or 1.2%, to ¥67,596 million. Income taxes declined ¥1,023 million, to ¥31,447 million. After deducting income taxes and ¥796 million in minority interests, net income improved ¥1,540 million, or 4.6%, to ¥35,353 million. As a result, net income per share was ¥79.80, and return on equity (ROE) was 7.8%. The annual dividend was ¥22.00 per share, up ¥2.00 from the previous fiscal year.

Cash Flows

Operating Activities

Net cash provided by operating activities in fiscal 2008 amounted to ¥116,896 million, an increase of ¥36,133 million from fiscal 2007. Major factors included a ¥13,933 million decrease in notes and accounts receivable—trade, due to a decline in installment receivables in the Financial business, as well as an ¥11,288 million increase in notes and accounts payable—trade and a ¥5,389 million decrease in income taxes—paid.

Investing Activities

Net cash used in investing activities totaled ¥112,039 million, up ¥51,141 million. This mainly reflected a ¥67,661 million year-on-year increase in purchases of property, plant and equipment, including land for construction of a terminal complex. By contrast, purchases of investment securities declined ¥15,019 million.

Financing Activities

Net cash provided by financing activities was ¥7,301 million, compared with ¥15,172 million used in such activities in the previous fiscal year. This was mainly due to a ¥24,056 million increase in proceeds from long-term debt in the form of long-term borrowings from financial institutions associated with the purchase of land for construction of a terminal complex. By contrast, there was a ¥3,771 million decrease in proceeds from short-term bank loans stemming from a decline in installment receivables in the Financial business.

Financial Position

The equity ratio edged down 0.4 of a percentage point to 53.3%, due to the purchase of land for construction of a terminal complex and other factors.

At March 31, 2008, total current assets amounted to ¥404,594 million, down ¥20,509 million, or 4.8%, from a year earlier. This was mainly due to a ¥25,707 million decline in installment receivables in the Financial business.

Property, plant, and equipment increased ¥84,194 million, or 29.7%, to ¥367,336 million. This was primarily the result of an ¥85,083 million increase in land following the purchase of land adjacent to Haneda Airport for the construction of a terminal complex.

Investments and other assets declined ¥19,187 million, or 15.8%, to ¥102,289 million. This was due mainly to a ¥14,659 million decrease in investment securities.

As a result of the foregoing, total assets increased ¥44,498 million, or 5.4%, to ¥874,219 million.

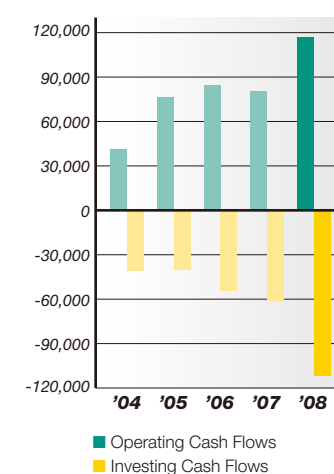
Total liabilities rose ¥20,209 million, or 5.3%, to ¥398,235 million. The primary factor was an increase in short-term bank loans and long-term debt as the Company raised funds from financial institutions to purchase land for construction of a terminal complex. Accordingly, total interest-bearing debt rose ¥15,796 million, or 14.1%, to ¥112,222 million.

Total equity climbed ¥24,289 million, or 5.4%, to ¥475,984 million. This was attributable mainly to ¥35,353 million in net income, which outweighed an ¥8,860 million decline in retained earnings due to payment of cash dividends.

As a result of the above, total shareholders' equity was ¥465,801 million, and the equity ratio was 53.3%, down 0.4 of a percentage point.

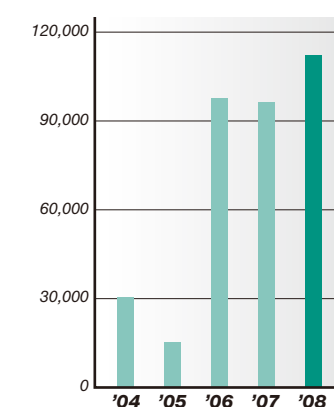
Operating and Investing Cash Flows

(Millions of Yen)



Interest-bearing Liabilities

(Millions of Yen)



Capital Expenditures

Capital expenditures in fiscal 2008 totaled ¥124,832 million, up ¥75,951 million, or 155.4%, from the previous fiscal year. The increase stemmed mainly from purchase of land by the Delivery business for construction of a terminal complex. The following is a breakdown of capital expenditures.

	Millions of Yen	
	2007	2008
Delivery	¥33,132	¥106,991
BIZ-Logistics	1,507	1,437
Home Convenience	408	375
e-Business	605	606
Financial	11,773	13,503
Other	1,408	1,912
Eliminations and Corporate	48	8
Consolidated	¥48,881	¥124,832

Major changes in the Delivery business network are detailed below.

Network

	2007	2008	Increase/ Decrease
Number of vehicles	51,386	52,947	1,561
Number of delivery channels	13,171	13,391	220
Number of sub-agents	282,719	274,924	(7,795)

Forecasts for Fiscal 2009

In the Delivery business, the Yamato Group will strive to achieve recovery and get the business on a path of renewed growth. In non-delivery activities, we will seek to transform our unique business model into a market-leading model.

We expect domestic operating conditions to become even more challenging in fiscal 2009 as sluggish growth in the U.S. economy threatens to cause economic slowdown in Japan. Other factors include rising prices of crude oil and other raw materials, as well as winding down of capital expenditures by Japanese companies.

In the Delivery business, we will strengthen solution-based marketing to better address the needs of customers. At the same time, we will seek to differentiate Yamato from its competitors by providing meticulous, high-quality services. In addition, we will significantly raise productivity by enhancing existing functions and implementing new mechanisms. In these ways, we will target drastic reforms of our earnings structure, restore our performance, and shift to a path of renewed growth.

In non-delivery businesses, we will organically combine our three key functions—logistics technology (LT), information technology (IT), and financial technology (FT)—to create a unique business model to satisfy customers in a compartmentalized market. By also strengthening cooperation across the Group, we will transform this model into a market-leading business model targeting significant future growth.

For fiscal 2009, the Yamato Group forecasts operating revenues of ¥1,290 billion, operating income of ¥74 billion, and net income of ¥38 billion.

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 forward-looking statements in this document are based on information available as of the end of fiscal 2008.

Operating Revenues Highly Dependent on *Takkyubin* Business

In fiscal 2008, 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.

International Factors

The Yamato Group and its main business partners are active in a number of geographical regions. If any such regions are subject to acts of terrorism, war, or other international conflicts or spread of disease, it may be necessary to suspend deliveries or evacuate employees, which could have an adverse impact on the Group's business performance.

The Group's delivery business and other businesses center mainly on the transport of cargo using vehicles. In such businesses, the regular, stable, and optimal supply of diesel and other fuel is indispensable. Addressing this issue, we are taking measures to reduce the amount of fuel used, including by shifting transport modes, introducing low-emission vehicles, and promoting handcart-based collection and delivery. If the stable supply of fuel is restricted due to international events, however, or if fuel prices continue to surge, this could have an adverse impact on the Group's business performance.