Notes to Consolidated Financial Statements

Years Ended March 31, 2008 and 2007

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 Financial Instruments and Exchange Law (formerly, the Japanese Securities and Exchange Law) and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

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 2007 financial statements to conform to the classifications and presentations used in 2008.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which Yamato Holdings Co., Ltd. (the "Company") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥100.19 to $1, the approximate rate of exchange at March 31, 2008. 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, 2008 include the accounts of the Company and its 29 significant (37 in 2007) 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 2008 or 2007.

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

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

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

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

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

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

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

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	**2008**
Cash	**¥147,569**	¥130,157	**$1,472,894**
Time deposits due beyond three months	**(5,000)**	(6)	**(49,905)**
Bank overdraft included in cash	**(248)**	(6)	**(2,474)**
Cash and cash equivalents	**¥142,321**	¥130,145	**$1,420,515**

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

***e. Marketable and Investment Securities*—**Marketable and investment securities are classified and accounted for, depending on management's intent, as follows: (1) trading securities, which are held for the purpose of earning capital gains in near term are reported at fair value, and the related unrealized gains and losses are included in earnings, (2) held-to-maturity debt securities, which are expected to be held to maturity with the positive intent and ability to hold to maturity are reported at amortized cost and (3) available-for-sale securities, which are not classified as either of the aforementioned securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity. The Group has no trading securities at March 31, 2008 and 2007, respectively.

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

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

***f. Property, Plant and Equipment*—**Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment of the Company and its domestic consolidated subsidiaries is computed substantially by the declining-balance method, while the straight-line method is applied to the buildings acquired after April 1, 1998. Property, plant and equipment of the Company and its domestic consolidated subsidiaries acquired on and after April 1, 2007 are depreciated by the declining-balance method in accordance with the revised corporate tax law, which is effective April 1, 2007. The effect of this treatment was to decrease income before income taxes and minority interests for the year ended March 31, 2008 by ¥2,996 million ($29,908 thousand). Property, plant and equipment had been depreciated up to 95% of acquisition cost with 5% of residual value carried until previous fiscal years. However, such 5% portion of property, plant and equipment of the Company and its domestic consolidated subsidiaries is systematically amortized over 5 years starting in the following year in which the carrying value of property, plant and equipment reaches 5% of the acquisition cost in accordance with the revised corporate tax law, which is effective for fiscal years beginning on and after April 1, 2007. The effect of this treatment was to decrease income before income taxes and minority interests for the year ended March 31, 2008 by ¥1,165 million ($11,626 thousand). The depreciation of property, plant and equipment of foreign consolidated subsidiaries is computed on the straight-line method over the estimated useful lives of the assets. The range of useful lives is principally as follows:

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

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

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

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

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

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

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

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

k. Presentation of Equity—On December 9, 2005, the Accounting Standards Board of Japan ("ASBJ") published a new accounting standard for presentation of equity. Under this accounting standard, certain items which were previously presented as liabilities or assets, as the case may be, are now presented as components of equity. Such items include minority interests and any deferred gain or loss on derivatives accounted for under hedge accounting. This standard was effective for fiscal years ending on or after May 1, 2006. The balances of these items as of March 31, 2006 were reclassified as separate components of equity as of April 1, 2006 in the consolidated statement of changes in equity.

l. 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. All leases are accounted for as operating leases.

m. Bonuses to Directors—Bonuses to directors are accrued at the year end to which such bonuses are attributable.

n. 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.

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

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

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

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

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

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

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

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

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

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

t. New Accounting Pronouncements

Measurement of Inventories

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

Lease Accounting

On March 30, 2007, the ASBJ issued ASBJ Statement No. 13, "Accounting Standard for Lease Transactions", which revised the existing accounting standard for lease transactions issued on June 17, 1993. The revised accounting standard for lease transactions is effective for fiscal years beginning on or after April 1, 2008. Under the existing accounting standard, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, however, other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the note to the lessee's financial statements. The revised accounting standard requires that all finance lease transactions shall be capitalized recognizing lease assets and lease obligations in the balance sheet.

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

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

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

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

3. NOTES AND ACCOUNTS RECEIVABLE

Sales recorded on the installment basis were 0.8% and 1.0% of net sales in 2008 and 2007, respectively.

Annual maturities of notes and accounts receivable—installment at March 31, 2008 and related amortization of deferred profit on installment sales are as follows:

	Millions of Yen		Thousands of U.S. Dollars	
	Receivables	Deferred Profit on Installment Sales	Receivables	Deferred Profit on Installment Sales
2009	**¥39,051**	**¥ 6,963**	**$389,769**	**$ 69,494**
2010	**20,687**	**4,526**	**206,482**	**45,177**
2011	**10,622**	**2,620**	**106,015**	**26,149**
2012	**4,952**	**1,318**	**49,427**	**13,155**
2013	**1,829**	**501**	**18,252**	**5,001**
2014 and thereafter	**571**	**168**	**5,697**	**1,678**
Total	**¥77,712**	**¥16,096**	**$775,642**	**$160,654**

4. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities as of March 31, 2008 and 2007 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	**2008**
Current:			
Government and corporate bonds		¥ 4,000	
Other			
Total		¥ 4,000	
Non-current:			
Marketable equity securities	**¥28,475**	¥42,161	**$284,215**
Non-marketable equity securities	**3,015**	3,014	**30,092**
Other	**10,236**	11,210	**102,165**
Total	**¥41,726**	¥56,385	**$416,472**

Information regarding each category of the securities classified as available-for-sale and held-to-maturity at March 31, 2008 and 2007 was as follows:

	Millions of Yen			
	2008			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale:				
Equity securities	**¥20,126**	**¥8,932**	**¥582**	**¥28,476**
Other	**10,025**	**95**		**10,120**

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

	Thousands of U.S. Dollars			
	2008			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale:				
Equity securities	**$200,875**	**$89,149**	**$5,808**	**$284,216**
Other	**100,063**	**941**		**101,004**

The majority of available-for-sale securities whose fair value is not readily determinable as of March 31, 2008 and 2007 were as follows:

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	**2008**
Available-for-sale:			
Equity securities	**¥3,015**	¥3,014	**$30,092**
Preferred shares		1,000	

Proceeds from the sales of available-for-sale securities for the years ended March 31, 2008 and 2007 were ¥4,231 million ($42,229 thousand) and ¥34 million, respectively. Gross realized gains on these sales, computed on the moving average cost basis, were ¥1,216 million ($12,140 thousand) and ¥19 million for the years ended March 31, 2008 and 2007, respectively.

5. LONG-LIVED ASSETS

The Group reviewed its long-lived assets for impairment as of March 31, 2007 and, as a result, recognized an impairment loss of ¥1,127 million as other expense for the asset groups of the Akita Regional Branch of Yamato Transport Co., Ltd. and another three regional branches for the year ended March 31, 2007 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. No impairment loss was recognized for the year ended March 31, 2008.

6. BANK LOANS AND LONG-TERM DEBT

Short-term bank loans at March 31, 2008 and 2007 consisted of notes to banks and bank overdrafts. The annual interest rates applicable to the bank loans ranged from 1.020% to 4.750% and 0.940% to 4.750% at March 31, 2008 and 2007, respectively.

Long-term debt at March 31, 2008 and 2007 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	**2008**
1.230% to 2.095% loans from a Japanese bank due 2008 to 2013	**¥ 75,903**	¥43,820	**$ 757,591**
Unsecured 1.05% bonds due in December 2007		2,000	
Unsecured 1.59% bonds due in November 2010	**5,000**	5,000	**49,905**
Unsecured 1.2% convertible debentures, convertible into common stock at ¥1,211.80 per share, due in September 2009	**13,070**	13,087	**130,452**
Total	**93,973**	63,907	**937,948**
Less current portion	**(22,008)**	(3,180)	**(219,663)**
Total	**¥ 71,965**	¥60,727	**$ 718,285**

Annual maturities of long-term debt at March 31, 2008 were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2009	**¥22,008**	**$219,663**
2010	**28,748**	**286,935**
2011	**20,078**	**200,399**
2012	**17,008**	**169,757**
2013	**6,131**	**61,194**
2014 and thereafter		
Total	**¥93,973**	**$937,948**

At March 31, 2008, land with carrying amount of ¥209 million ($2,088 thousand) was pledged as collateral for short-term bank loans of ¥1 million ($10 thousand). Investment securities with a carrying amount of ¥13 million ($129 thousand) were deposited as security for dealings at March 31, 2008.

Convertible debentures of the Company at March 31, 2008, were convertible into 10,786 thousand shares of common stock of the Company. The conversion prices are subject to adjustments to reflect stock splits and certain other events.

7. RETIREMENT AND PENSION PLANS

The Group has severance payment plans for employees.

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

The liability for employees' retirement benefits at March 31, 2008 and 2007 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	**2008**
Projected benefit obligation	**¥ 81,422**	¥ 78,942	**$ 812,673**
Fair value of plan assets	**(56,988)**	(60,775)	**(568,800)**
Unrecognized actuarial gain	**2,728**	7,751	**27,229**
Prepaid pension cost	**53**	30	**531**
Net liability	**¥ 27,215**	¥ 25,948	**$ 271,633**

The components of net periodic benefit costs for the years ended March 31, 2008 and 2007 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	**2008**
Service cost	**¥ 4,567**	¥ 4,352	**$ 45,582**
Interest cost	**1,562**	1,506	**15,592**
Expected return on plan assets	**(1,199)**	(1,114)	**(11,966)**
Recognized actuarial loss	**1,691**	3,373	**16,879**
Net periodic benefit costs	**¥ 6,621**	¥ 8,117	**$ 66,087**

Assumptions used for the years ended March 31, 2008 and 2007 are set forth as follows:

	2008	2007
Discount rate	**2.0%**	2.0%
Expected rate of return on plan assets	**2.0%**	2.0%
Amortization period of prior service cost	**1 year**	1 year
Recognition period of actuarial gain/loss	**5 years**	5 years

8. EQUITY

On and after May 1, 2006, Japanese companies have been subject to the Corporate Law of Japan (the "Corporate Law"), which reformed and replaced the Commercial Code of Japan. The significant provisions in the Corporate Law that affect financial and accounting matters are summarized below:

a. Dividends

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

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

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

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

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

c. Treasury Stock

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

9. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 40% for the years ended March 31, 2008 and 2007.

The tax effects of significant temporary differences which resulted in deferred tax assets and liabilities at March 31, 2008 and 2007 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	**2008**
Deferred tax assets:			
Current:			
Accrued expenses	**¥ 10,878**	¥ 10,771	**$ 108,574**
Enterprise tax	**1,964**	2,253	**19,602**
Allowance for doubtful accounts	**1,417**	1,472	**14,139**
Legal welfare expense	**1,460**	1,452	**14,577**
Other	**2,109**	1,551	**21,055**
Less valuation allowance			**(4)**
Deferred tax assets—current	**¥ 17,828**	¥ 17,499	**$ 177,943**
Non-current:			
Liability for employees' retirement benefits	**¥ 10,833**	¥ 10,290	**$ 108,121**
Investment securities	**3,541**	2,702	**35,348**
Investment in and advances to non-consolidated subsidiaries and affiliates	**265**	197	**2,642**
Loss on devaluation of land	**27,181**	27,182	**271,299**
Loss on impairment of long-lived assets	**3,265**	3,265	**32,588**
Loss on devaluation of telephone subscription rights	**600**	604	**5,989**
Unrealized profit	**760**	698	**7,585**
Other	**2,167**	1,631	**21,629**
Less valuation allowance	**(34,079)**	(32,303)	**(340,145)**
Deferred tax assets—non-current	**¥ 14,533**	¥ 14,266	**$ 145,056**
Deferred tax liabilities:			
Current—other	**¥ 142**	¥ 47	**$ 1,418**
Deferred tax liabilities—current	**¥ 142**	¥ 47	**$ 1,418**
Non-current:			
Unrealized gain on available-for-sale securities	**¥ 2,741**	¥ 5,421	**$ 27,358**
Other	**596**	528	**5,951**
Deferred tax liabilities—non-current	**¥ 3,337**	¥ 5,949	**$ 33,309**
Deferred tax assets—net	**¥ 28,882**	¥ 25,769	**$ 288,272**

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statements of income for the years ended March 31, 2008 and 2007 is as follows:

	2008	2007
Normal effective statutory tax rate	**40.0%**	40.0%
Per capita levy of local taxes	**3.7**	3.5
Valuation allowance	**2.8**	4.2
Other—net		0.9
Actual effective tax rate	**46.5%**	48.6%

10. LEASES

(1) Lessee

Total lease payments under finance lease arrangements that do not transfer ownership of the leased property to the lessee were ¥4,392 million ($43,833 thousand) and ¥4,413 million for the years ended March 31, 2008 and 2007, respectively.

Pro forma information of leased property such as acquisition cost, accumulated depreciation, accumulated impairment loss and obligations under finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis for the years ended March 31, 2008 and 2007 was as follows:

	Millions of Yen				
	2008				
	Buildings and Structures	Vehicles	Machinery and Equipment	Other Assets	Total
Acquisition cost	¥102	¥647	¥20,221	¥471	¥21,441
Accumulated depreciation	55	287	10,083	243	10,668
Net leased property	¥ 47	¥360	¥10,138	¥228	¥10,773

	Thousands of U.S. Dollars				
	2008				
	Buildings and Structures	Vehicles	Machinery and Equipment	Other Assets	Total
Acquisition cost	$1,016	$6,460	$201,824	$4,707	$214,007
Accumulated depreciation	545	2,870	100,635	2,429	106,479
Net leased property	$ 471	$3,590	$101,189	$2,278	$107,528

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

Obligations under finance leases which included the imputed interest expense portion, and noncancelable operating leases as of March 31, 2008 and 2007 were as follows:

	Millions of Yen		Thousands of U.S. Dollars	
	2008		2008	
	Finance Lease	Operating Lease	Finance Lease	Operating Lease
Due within one year	¥ 4,152	¥485	$ 41,439	$4,843
Due after one year	6,621	80	66,089	799
Total	¥10,773	¥565	$107,528	$5,642

	Millions of Yen	
	2007	
	Finance Lease	Operating Lease
Due within one year	¥ 4,149	¥ 528
Due after one year	8,369	586
Total	¥12,518	¥1,114

(2) Lessor

Acquisition cost, accumulated depreciation, accumulated impairment loss and net book value of leasing property as of March 31, 2008 and 2007 concerning the finance leases were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
	Leasing Property	Leasing Property	Leasing Property
Acquisition cost	¥34,597	¥27,358	$345,320
Accumulated depreciation	13,796	10,725	137,700
Net leasing property	¥20,801	¥16,633	$207,620

Future lease payments to be received on finance leases as of March 31, 2008 and 2007 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Due within one year	¥ 7,460	¥ 5,891	$ 74,454
Due after one year	15,034	12,092	150,058
Total	¥22,494	¥17,983	$224,512

Lease income, depreciation and interest income as of March 31, 2008 and 2007 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Lease income	¥7,038	¥5,204	$70,251
Depreciation	6,036	4,746	60,246
Interest income	1,297	748	12,947

11. CONTINGENT LIABILITIES

Contingent liabilities for guarantees and items of a similar nature at March 31, 2008 amounted to ¥31 million ($314 thousand) representing guarantees of loans of an unaffiliated company jointly and severally by the Company and 18 other unaffiliated companies and ¥98 million ($976 thousand) as guarantees of loans of a non-consolidated subsidiary.

12. NET INCOME PER SHARE

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended March 31, 2008 and 2007 is as follows:

	Millions of Yen	Thousands of Shares	Yen	U.S. Dollars
Year Ended March 31, 2008	Net Income	Weighted-average Shares	EPS	
Basic EPS—Net income available to common shareholders	¥35,353	443,023	¥79.80	$0.80
Effect of dilutive securities—Convertible bonds	98	10,788		
Diluted EPS—Net income for computation	¥35,451	453,811	¥78.12	$0.78

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

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, 2008 and 2007 is as follows:

(1) Industry Segments

	Millions of Yen							
	2008							
	Delivery	BIZ-Logistics	Home Convenience	e-Business	Financial	Other	Eliminations or Corporate	Consolidated
a. Operating revenues and operating income:								
Operating revenues to customers	¥ 981,142	¥ 95,693	¥48,938	¥32,795	¥ 51,458	¥15,948		¥1,225,974
Intersegment operating revenues	38,239	12,530	15,199	18,497	6,900	75,893	¥(167,258)	
Total operating revenues	1,019,381	108,223	64,137	51,292	58,358	91,841	(167,258)	1,225,974
Operating costs and expenses	979,509	103,075	63,480	45,064	47,433	59,701	(140,468)	1,157,794
Operating income	¥ 39,872	¥ 5,148	¥ 657	¥ 6,228	¥ 10,925	¥32,140	¥ (26,790)	¥ 68,180
b. Assets, depreciation and capital expenditures:								
Assets	¥ 525,683	¥ 49,613	¥24,940	¥25,709	¥193,469	¥22,525	¥ 32,280	¥ 874,219
Depreciation	31,149	1,056	878	969	9,852	838	30	44,772
Capital expenditures	106,991	1,437	375	606	13,503	1,912	8	124,832

	Thousands of U.S. Dollars							
	2008							
	Delivery	BIZ-Logistics	Home Convenience	e-Business	Financial	Other	Eliminations or Corporate	Consolidated
a. Operating revenues and operating income:								
Operating revenues to customers	$ 9,792,810	$ 955,110	$488,456	$327,329	$ 513,605	$159,179		$12,236,489
Intersegment operating revenues	381,666	125,067	151,702	184,619	68,870	757,489	$(1,669,413)	
Total operating revenues	10,174,476	1,080,177	640,158	511,948	582,475	916,668	(1,669,413)	12,236,489
Operating costs and expenses	9,776,508	1,028,794	633,603	449,787	473,435	595,873	(1,402,021)	11,555,979
Operating income	$ 397,968	$ 51,383	$ 6,555	$ 62,161	$ 109,040	$320,795	$ (267,392)	$ 680,510
b. Assets, depreciation and capital expenditures:								
Assets	$ 5,246,863	$ 495,186	$248,930	$256,605	$1,931,021	$224,828	$ 322,183	$ 8,725,616
Depreciation	310,904	10,543	8,758	9,667	98,335	8,368	299	446,874
Capital expenditures	1,067,882	14,339	3,746	6,048	134,770	19,088	82	1,245,955

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

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 household effects delivery services
- e-Business: Information services targeted at the business market, including ASP services and the development of information systems
- Financial: Financial services targeted at business customers and consumers, such as settlement and collection
- Other: Group support service and shared service centering on vehicle maintenance, mainline transport, and staffing services

On September 1, 2007, Yamato Home Convenience Co., Ltd. succeeded a delivery business, installation of appliance business and moving service business of Moving Co., Ltd. The effect of this change was to increase operating revenue of "Home Convenience" by ¥8,776 million ($87,595 thousand) and operating cost of "Home Convenience" by ¥9,276 million ($92,588 thousand) and decrease operating income of "Home Convenience" by ¥500 million ($4,994 thousand) for the year ended March 31, 2008.

As discussed in Note 2.f, effective April 1, 2007, the Company and its domestic subsidiaries changed its method of depreciation for property, plant and equipment. The effect of this change was to decrease operating income of "Delivery" by ¥2,861 million ($28,546 thousand) for the year ended March 31, 2008. The effect for the other industry segments is immaterial.

(2) Geographic Segments
The geographic segments of the Company and consolidated subsidiaries for the years ended March 31, 2008 and 2007 are summarized as follows:

	Millions of Yen					
	2008					
	Japan	U.S.A.	Europe	Asia	Eliminations or Corporate	Consolidated
Operating revenues:						
Outside customers	¥1,201,726	¥12,205	¥4,051	¥ 7,992		¥1,225,974
Interarea	5,821	3,727	1,930	4,463	¥(15,941)	
Total operating revenues	1,207,547	15,932	5,981	12,455	(15,941)	1,225,974
Operating costs and expenses	1,139,607	15,482	5,922	12,094	(15,311)	1,157,794
Operating income	¥ 67,940	¥ 450	¥ 59	¥ 361	¥ (630)	¥ 68,180
Assets	¥ 803,258	¥ 3,085	¥1,992	¥ 5,115	¥ 60,769	¥ 874,219

	Thousands of U.S. Dollars					
	2008					
	Japan	U.S.A.	Europe	Asia	Eliminations or Corporate	Consolidated
Operating revenues:						
Outside customers	$11,994,470	$121,819	$40,436	$ 79,764		$12,236,489
Interarea	58,098	37,202	19,263	44,545	$(159,108)	
Total operating revenues	12,052,568	159,021	59,699	124,309	(159,108)	12,236,489
Operating costs and expenses	11,374,460	154,524	59,115	120,705	(152,825)	11,555,979
Operating income	$ 678,108	$ 4,497	$ 584	$ 3,604	$ (6,283)	$ 680,510
Assets	$ 8,017,354	$ 30,792	$19,882	$ 51,052	$ 606,536	$ 8,725,616

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

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, 2008 and 2007 amounted to ¥26,123 million ($260,730 thousand) and ¥26,243 million, respectively.

14. SUBSEQUENT EVENT

Appropriations of Retained Earnings
The following appropriations of retained earnings at March 31, 2008 were approved at the Company's Board of Directors held on May 15, 2008:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥12.00 ($0.12) per share	¥5,318	$53,084