Notes to Consolidated Financial Statements

Years Ended March 31, 2006 and 2005

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

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

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications and rearrangements have been made in the 2005 financial statements to conform to the classifications and presentations used in 2006.

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 ¥117.47 to $1, the approximate rate of exchange at March 31, 2006. 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, 2006 include the accounts of the Company and its 50 significant (43 in 2005) 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 2006 or 2005.

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

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

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

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

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
	2006	2005	**2006**
Cash	**¥125,481**	¥119,694	**$1,068,195**
Time deposits	**30**	342	**259**
Total	**125,511**	120,036	**1,068,454**
Time deposits due beyond three months	**(7)**	(6)	**(64)**
Cash and cash equivalents	**¥125,504**	¥120,030	**$1,068,390**

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 shareholders' equity. The Group has no trading securities.

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

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

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

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

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

g. Long-lived Assets—In August 2002, the Business Accounting Council ("BAC") issued a Statement of Opinion, "Accounting for Impairment of Fixed Assets," and in October 2003 the Accounting Standards Board of Japan ("ASBJ") issued ASBJ Guidance No. 6, "Guidance for Accounting Standard for Impairment of Fixed Assets." These new pronouncements are effective for fiscal years beginning on or after April 1, 2005 with early adoption permitted for fiscal years ending on or after March 31, 2004.

The Group adopted the new accounting standard for impairment of fixed assets as of April 1, 2004. The Group reviews its long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

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

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

i. Retirement and Pension Plan (See Note 3, Accounting Change)—The Company and certain consolidated subsidiaries have a contributory trusteed pension plan and an unfunded retirement benefit plan. The foreign subsidiaries have a defined contribution retirement plan. Other consolidated subsidiaries have an unfunded retirement benefit plan and a general establishment welfare pension fund.

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

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

Directors and corporate auditors are not covered by the retirement and pension plans described above. Benefits paid to such persons are charged to income as paid. Any amounts payable to directors and corporate auditors upon retirement are subject to 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. Leases—All leases are accounted for as operating leases. Under Japanese accounting standards for leases, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, while other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the lessee's financial statements.

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

m. 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.

n. 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.

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

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

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

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

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

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

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

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

r. New Accounting Pronouncements

Business combination and business separation

In October 2003, the BAC issued a Statement of Opinion, "*Accounting for Business Combinations*," and on December 27, 2005 the ASBJ issued "*Accounting Standard for Business Separations,*" and ASBJ Guidance No. 10, "*Guidance for Accounting Standard for Business Combinations and Business Separations*." These new accounting pronouncements are effective for fiscal years beginning on or after April 1, 2006.

The accounting standard for business combinations allows companies to apply the pooling of interests method of accounting only when certain specific criteria are met such that the business combination is essentially regarded as a uniting-of-interests. These specific criteria are as follows:

(a) the consideration for the business combination consists solely of common shares with voting rights,

(b) the ratio of voting rights of each predecessor shareholder group after the business combination is nearly equal, and

(c) there are no other factors that would indicate any control exerted by any shareholder group other than voting rights.

For business combinations that do not meet the uniting-of-interests criteria, the business combination is considered to be an acquisition and the purchase method of accounting is required. This standard also prescribes the accounting for combinations of entities under common control and for joint ventures. Goodwill, including negative goodwill, is to be systematically amortized over 20 years or less, but is also subject to an impairment test.

Under the accounting standard for business separations, in a business separation where the interests of the investor no longer continue and the investment is settled, the difference between the fair value of the consideration received for the transferred business and the book value of net assets transferred to the separated business is recognized as a gain or loss on business separation in the statement of income. In a business separation where the interests of the investor continue and the investment is not settled, no such gain or loss on business separation is recognized.

Bonuses to directors and corporate auditors

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

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

3. ACCOUNTING CHANGE

Beginning fiscal year 2005, the Group changed its policy of reporting actuarial differences in the accounting for its employee retirement benefit plan. Formerly, the Group recorded actuarial differences from the fiscal year in which they occurred. However, effective April 1, 2005, actuarial differences will be recorded from the fiscal year following when they occurred.

The Company also changed the recording period of actuarial differences from seven years to five years.

The effects of these changes were to increase recognized actuarial loss and to decrease income before income taxes and minority interests by ¥3,483 million ($29,650 thousand) for the year ended March 31, 2006.

4. NOTES AND ACCOUNTS RECEIVABLE

Sales recorded on the installment basis were 1.1 % of net sales in 2006.

Annual maturities of notes and accounts receivable—installment at March 31, 2006 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
2007	**¥ 54,345**	**¥ 9,421**	**$462,626**	**$ 80,199**
2008	**30,310**	**6,640**	**258,025**	**56,525**
2009	**16,705**	**4,000**	**142,203**	**34,049**
2010	**7,673**	**2,019**	**65,317**	**17,191**
2011	**3,417**	**924**	**29,087**	**7,862**
2012 and thereafter	**1,198**	**364**	**10,203**	**3,101**
Total	**¥113,648**	**¥23,368**	**$967,461**	**$198,927**

5. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities as of March 31, 2006 and 2005 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	**2006**
Current:			
Government and corporate bonds		¥ 10	
Other	**¥ 891**	101	**$ 7,580**
Total	**¥ 891**	¥ 111	**$ 7,580**
Non-current:			
Marketable equity securities	**¥33,918**	¥14,229	**$288,741**
Non-marketable equity securities	**2,039**	1,754	**17,357**
Other	**10,348**	7,068	**88,090**
Total	**¥46,305**	¥23,051	**$394,188**

Information regarding each category of the securities classified as available-for-sale and held-to-maturity at March 31, 2006 and 2005 was as follows:

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

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

	Thousands of U.S. Dollars			
	2006			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	**$111,699**	**$177,061**	**$ 19**	**$288,741**
Other	**42,646**	**16**		**42,662**
Held-to-maturity	**41,637**	**4**	**173**	**41,468**

The majority of available-for-sale securities whose fair value is not readily determinable as of March 31, 2006 and 2005 were as follows:

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	**2006**
Available-for-sale:			
Equity securities	**¥2,039**	¥1,754	**$17,357**
Preferred shares	**1,000**	1,000	**8,513**

Proceeds from the sales of available-for-sale securities for the years ended March 31, 2006 and 2005 were ¥265 million ($2,252 thousand) and ¥440 million, respectively. Gross realized gains on these sales, computed on the moving average cost basis, were ¥45 million ($383 thousand) and ¥427 million for the years ended March 31, 2006 and 2005, respectively.

The carrying values of debt securities by contractual maturities for securities classified as held-to-maturity at March 31, 2006 are as follows:

	Millions of Yen	Thousands of U.S. Dollars
	Held to Maturity	Held to Maturity
Due in one year or less	**¥ 891**	**$ 7,580**
Due after one year through five years	**4,000**	**34,057**
Total	**¥4,891**	**$41,637**

6. LONG-LIVED ASSETS

The Group reviewed its long-lived assets for impairment as of the years ended March 31, 2006 and 2005 and, as a result, recognized an impairment loss of ¥2,177 million ($18,537 thousand) as other expense for the asset groups of the Kyoto Branch of Kyoto Yamato Co., Ltd. and six regional branches of Yamato Transport Co., Ltd. and ¥4,597 million as other expense for the asset groups of the Saikyo Regional Branch and another five regional branches, respectively, due to continuous operating losses of those units. The carrying amounts of the relevant asset groups were written down to the recoverable amounts. In the case where net selling prices were used as recoverable amounts, relevant buildings were evaluated based on assessed value of fixed assets, and relevant lands were evaluated based on posted land price.

7. BANK LOANS AND LONG-TERM DEBT

Short-term bank loans at March 31, 2006 and 2005 consisted of notes to banks and bank overdrafts. The annual interest rates applicable to the bank loans ranged from 0.570% to 1.680% and were at 1.375% at March 31, 2006 and 2005, respectively.

Long-term debt at March 31, 2006 and 2005 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	**2006**
1.340% to 2.295% loans from a Japanese bank due 2007 to 2012	**¥39,500**		**$336,256**
Unsecured 1.05% bonds due in December 2007	**2,000**	¥ 2,000	**17,026**
Unsecured 1.2% convertible debentures, convertible into common stock at ¥1,211.80 per share, due in September 2009	**13,369**	13,421	**113,808**
Total	**54,869**	15,421	**467,090**
Less current portion	**(680)**		**(5,789)**
Total	**¥54,189**	¥15,421	**$461,301**

Annual maturities of long-term debt at March 31, 2006 were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2007	**¥ 680**	**$ 5,789**
2008	**3,180**	**27,071**
2009	**15,180**	**129,224**
2010	**35,289**	**300,409**
2011	**180**	**1,532**
2012 and thereafter	**360**	**3,065**
Total	**¥54,869**	**$467,090**

At March 31, 2006, land with carrying amount of ¥209 million ($1,781 thousand) was pledged as collateral for short-term bank loans of ¥25 million ($213 thousand). Investment securities with a carrying amount of ¥15 million ($131 thousand) were deposited as security for dealings at March 31, 2006.

Convertible debentures of the Company at March 31, 2006, were convertible into 11,032 thousand shares of common stock of the Company. The conversion prices are subject to adjustments to reflect stock splits and certain other events.

The Company has entered into loan commitment agreements amounting to ¥28,000 million ($238,359 thousand) with financial facilities. The loans receivable outstanding and the unused balances under these credit facilities as of March 31, 2006 amounted to ¥0 million ($0 thousand) and ¥28,000 million ($238,359 thousand), respectively.

8. 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 paid subject to the approval of the shareholders.

The liability for employees' retirement benefits at March 31, 2006 and 2005 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	**2006**
Projected benefit obligation	**¥ 76,037**	¥ 80,367	**$ 647,283**
Fair value of plan assets	**(56,319)**	(45,643)	**(479,432)**
Unrecognized actuarial gain (loss)	**3,067**	(21,712)	**26,108**
Prepaid pension cost	**34**		**290**
Net liability	**¥ 22,819**	¥ 13,012	**$ 194,249**

The components of net periodic benefit costs for the years ended March 31, 2006 and 2005 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	**2006**
Service cost	**¥ 4,929**	¥ 4,981	**$ 41,961**
Interest cost	**1,620**	1,608	**13,794**
Expected return on plan assets	**917**		**7,805**
Recognized actuarial loss	**7,393**	7,110	**62,932**
Amortization of prior service cost		(14,383)	
Net periodic benefit costs	**¥14,859**	¥ (684)	**$126,492**

Assumptions used for the years ended March 31, 2006 and 2005 are set forth as follows:

	2006	2005
Discount rate	**2.0%**	2.0%
Expected rate of return on plan assets	**(2.0%)**	0.0%
Amortization period of prior service cost	**1 year**	1 year
Recognition period of actuarial gain/loss:		
Company	**5 years**	7 years
Consolidated subsidiaries	**5 years**	5 years

The amount of pension assets calculated from the premium contribution ratio for the general establishment welfare pension fund is ¥797 million.

9. SHAREHOLDERS' EQUITY

Through May 1, 2006, Japanese companies are subject to the Code.

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

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

The Code allows Japanese companies to purchase treasury stock and dispose of such treasury stock upon resolution of the Board of Directors. The aggregate purchased amount of treasury stock cannot exceed the amount available for future dividends plus the amount of common stock, additional paid-in capital or legal reserve that could be transferred to retained earnings or other capital surplus other than additional paid-in capital upon approval of such transfer at the annual general meeting of shareholders.

In addition to the provision that requires an appropriation for a legal reserve in connection with the cash outlays, the Code also imposes certain limitations on the amount of capital surplus and retained earnings available for dividends. The amount of capital surplus and retained earnings available for dividends under the Code was ¥179,836 million ($1,530,914 thousand) as of March 31, 2006, based on the amount recorded in the parent company's general books of account.

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

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

(a) Dividends

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

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. Under the Code, certain limitations were imposed on the amount of capital surplus and retained earnings available for dividends. The Corporate Law also 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 Code, the aggregate amount of additional paid-in capital and legal reserve that exceeds 25% of the common stock may be made available for dividends by resolution of the shareholders. Under the Corporate Law, the total amount of additional paid-in capital and legal reserve may be reversed without limitation of such threshold. 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 and Treasury Stock Acquisition Rights

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.

Under the Corporate Law, stock acquisition rights, which were previously presented as a liability, are now presented as a separate component of shareholders' equity.

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 shareholders' equity or deducted directly from stock acquisition rights.

On December 9, 2005, the ASBJ published a new accounting standard for presentation of shareholders' equity. Under this accounting standard, certain items which were previously presented as liabilities are now presented as components of shareholders' equity. Such items include stock acquisition rights, minority interest, and any deferred gain or loss on derivatives accounted for under hedge accounting. This standard is effective for fiscal years ending on or after May 1, 2006.

10. 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, 2006 and 2005.

The tax effects of significant temporary differences which resulted in deferred tax assets and liabilities at March 31, 2006 and 2005 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	**2006**
Deferred tax assets:			
Current:			
Accrued expenses	**¥ 10,643**	¥11,410	**$ 90,600**
Enterprise tax	**2,126**	1,942	**18,095**
Allowance for doubtful accounts	**1,495**	77	**12,728**
Legal welfare expense	**1,409**	1,454	**11,999**
Other	**1,835**	1,112	**15,623**
Deferred tax assets—current	**¥ 17,508**	¥15,995	**$ 149,045**
Non-current:			
Liability for employees' retirement benefits	**¥ 9,072**	¥ 4,901	**$ 77,226**
Investment securities	**2,692**	2,534	**22,915**
Investment in and advances to non-consolidated subsidiaries and affiliates	**196**	2,836	**1,666**
Loss on devaluation of land	**26,598**		**226,425**
Loss on impairment of long-lived assets	**2,797**	1,861	**23,815**
Loss on devaluation of telephone subscription rights	**603**	525	**5,136**
Unrealized profit	**678**	607	**5,769**
Other	**980**	701	**8,340**
Less valuation allowance	**(28,546)**	(3,768)	**(243,008)**
Deferred tax assets—non-current	**¥ 15,070**	¥10,197	**$ 128,284**
Deferred tax liabilities:			
Current—other	**¥ 41**	¥ 38	**$ 352**
Deferred tax liabilities—current	**¥ 41**	¥ 38	**$ 352**
Non-current:			
Unrealized gain on available-for-sale securities	**¥ 8,335**	¥ 2,884	**$ 70,953**
Other	**548**	501	**4,665**
Deferred tax liabilities—non-current	**¥ 8,883**	¥ 3,385	**$ 75,618**
Deferred tax assets—net	**¥ 23,654**	¥22,769	**$ 201,359**

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statements of operations for the years ended March 31, 2006 and 2005 is as follows:

	2006	2005
Normal effective statutory tax rate	**40.0%**	40.0%
Per capita levy of local taxes	**28.4**	3.4
Valuation allowance	**322.2**	1.8
Other—net	**15.0**	0.1
Actual effective tax rate	**405.6%**	45.3%

11. LEASES

Total lease payments under finance lease arrangements that do not transfer ownership of the leased property to the lessee were ¥4,022 million ($34,238 thousand) and ¥3,259 million for the years ended March 31, 2006 and 2005, 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, 2006 and 2005 was as follows:

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

	Thousands of U.S. Dollars				
	2006				
	Buildings and Structures	Vehicles	Machinery and Equipment	Other Assets	Total
Acquisition cost	**$840**	**$3,286**	**$165,477**	**$4,323**	**$173,926**
Accumulated depreciation	**281**	**1,159**	**61,937**	**1,163**	**64,540**
Net leased property	**$559**	**$2,127**	**$103,540**	**$3,160**	**$109,386**

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

Obligations under finance leases which included the imputed interest expense portion, and noncancelable operating leases as of March 31, 2006 and 2005 were as follows:

	Millions of Yen		Thousands of U.S. Dollars	
	2006		**2006**	
	Finance Lease	Operating Lease	Finance Lease	Operating Lease
Due within one year	**¥ 4,026**	**¥ 591**	**$ 34,275**	**$ 5,034**
Due after one year	**8,824**	**1,084**	**75,111**	**9,228**
Total	**¥12,850**	**¥1,675**	**$109,386**	**$14,262**

	Millions of Yen	
	2005	
	Finance Lease	Operating Lease
Due within one year	¥2,636	¥ 88
Due after one year	5,492	124
Total	¥8,128	¥212

12. CONTINGENT LIABILITIES

Contingent liabilities for guarantees and items of a similar nature at March 31, 2006 amounted to ¥153 million ($1,301 thousand) representing guarantees of loans of an unaffiliated company jointly and severally by the Company and 18 other unaffiliated companies and ¥105 million ($897 thousand) as guarantees of loans of a non-consolidated subsidiary.

13. NET INCOME PER SHARE

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

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

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

14. 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, 2006 and 2005 is as follows:

(1) Industry Segments

	Millions of Yen						
	2006						
	Delivery	BIZ-Logistics	Home Convenience	e-Business	Financial	Eliminations or Corporate	Consolidated
a. Operating revenues and operating income:							
Operating revenues to customers	¥915,952	¥111,488	¥44,498	¥27,279	¥ 45,744		¥1,144,961
Intersegment operating revenues	32,643	13,400	15,525	16,141	6,590	¥ (84,299)	
Total operating revenues	948,595	124,888	60,023	43,420	52,334	(84,299)	1,144,961
Operating costs and expenses	899,779	120,852	59,642	39,790	42,739	(86,562)	1,076,240
Operating income	¥ 48,816	¥ 4,036	¥ 381	¥ 3,630	¥ 9,595	¥ 2,263	¥ 68,721
b. Assets, depreciation and capital expenditures:							
Assets	¥363,707	¥ 49,808	¥16,840	¥22,560	¥223,092	¥117,215	¥ 793,222
Depreciation	24,577	1,017	529	1,119	7,591	170	35,003
Capital expenditures	33,557	1,539	381	1,406	11,884	98	48,865

	Thousands of U.S. Dollars						
	2006						
	Delivery	BIZ-Logistics	Home Convenience	e-Business	Financial	Eliminations or Corporate	Consolidated
a. Operating revenues and operating income:							
Operating revenues to customers	$7,797,325	$ 949,072	$378,807	$232,221	$ 389,412		$9,746,837
Intersegment operating revenues	277,887	114,074	132,160	137,405	56,099	$(717,625)	
Total operating revenues	8,075,212	1,063,146	510,967	369,626	445,511	(717,625)	9,746,837
Operating costs and expenses	7,659,654	1,028,784	507,720	338,728	363,828	(736,889)	9,161,825
Operating income	$ 415,558	$ 34,362	$ 3,247	$ 30,898	$ 81,683	$ 19,264	$ 585,012
b. Assets, depreciation and capital expenditures:							
Assets	$3,096,171	$ 424,004	$143,357	$192,050	$1,899,139	$ 997,826	$6,752,547
Depreciation	209,217	8,661	4,509	9,524	64,618	1,444	297,973
Capital expenditures	285,667	13,102	3,239	11,969	101,164	837	415,978

	Millions of Yen						
	2005						
	Delivery	BIZ-Logistics	Home Convenience	e-Business	Financial	Eliminations or Corporate	Consolidated
a. Operating revenues and operating income (loss):							
Operating revenues to customers	¥866,752	¥110,691	¥43,384	¥24,432	¥26,644		¥1,071,903
Intersegment operating revenues	30,238	10,734	14,971	14,776	6,882	¥(77,601)	
Total operating revenues	896,990	121,425	58,355	39,208	33,526	(77,601)	1,071,903
Operating costs and expenses	860,723	117,274	58,993	36,299	27,099	(79,688)	1,020,700
Operating income (loss)	¥ 36,267	¥ 4,151	¥ (638)	¥ 2,909	¥ 6,427	¥ 2,087	¥ 51,203
b. Assets, depreciation and capital expenditures:							
Assets	¥407,299	¥ 45,682	¥16,442	¥22,263	¥86,163	¥ 98,307	¥ 676,156
Depreciation	28,250	1,012	740	891	6,064	189	37,146
Capital expenditures	26,657	830	458	906	11,632	483	40,966

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

The effect of the change in the accounting of the employee retirement benefit plan described in Note 3 was to decrease operating income of Delivery, BIZ-Logistics, Home Convenience, e-Business and Financial for the year ended March 31, 2006, by ¥3,025 million ($25,753 thousand), ¥158 million ($1,342 thousand), ¥119 million ($1,014 thousand), ¥40 million ($337 thousand) and ¥142 million ($1,212 thousand), respectively, from such segments in the prior year.

(2) Geographic Segments

The geographic segments of the Company and consolidated subsidiaries for the years ended March 31, 2006 and 2005 are summarized as follows:

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

	Thousands of U.S. Dollars					
	2006					
	Japan	U.S.A.	Europe	Asia	Eliminations or Corporate	Consolidated
Operating revenues:						
Outside customers	**$9,537,510**	**$121,669**	**$28,300**	**$59,358**		**$9,746,837**
Interarea	**42,966**	**28,529**	**12,293**	**22,683**	**$ (106,471)**	
Total operating revenues	**9,580,476**	**150,198**	**40,593**	**82,041**	**(106,471)**	**9,746,837**
Operating costs and expenses	**8,997,396**	**147,319**	**42,361**	**81,220**	**(106,471)**	**9,161,825**
Operating income (loss)	**$ 583,080**	**$ 2,879**	**$ (1,768)**	**$ 821**		**$ 585,012**
Assets	**$5,666,457**	**$ 27,646**	**$12,136**	**$35,719**	**$1,010,589**	**$6,752,547**

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

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, 2006 and 2005 amounted to ¥27,078 million ($230,513 thousand) and ¥26,201 million, respectively.

15. SUPPLEMENTARY INFORMATION TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS

In April 2005, the Company acquired 70% of the shares of Fine Credit Co., Ltd. The assets and liabilities of Fine Credit Co., Ltd. at the commencement of consolidation with the Company and reconciliation between the acquisition cost and net cash used for the acquisition are as follows:

	Millions of Yen	Thousands of U.S. Dollars
Current assets	¥ 120,296	$1,024,056
Non-current assets	8,603	73,234
Goodwill	(86)	(732)
Current liabilities	(116,475)	(991,531)
Non-current liabilities	(3,083)	(26,241)
Minority interests	(2,802)	(23,855)
Acquisition cost	6,453	54,931
Cash and cash equivalents	(1,669)	(14,205)
Net cash used for acquisition	4,784	40,726

16. SUBSEQUENT EVENT

The following appropriations of retained earnings at March 31, 2006 were approved at the Company's shareholders meeting held on June 28, 2006:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥11.00 ($0.09) per share	¥4,899	$41,708
Bonuses to directors and corporate auditors	23	196