Analysis of Financial Position and Management Results

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The Current State and Future Direction of the Yamato Group's Finance Strategy

The management philosophy of the Yamato Group is to help "enrich our society by enhancing the social infrastructure of *Takkyubin* networks, creating more convenient services for comfortable lifestyles and developing an innovative logistics system." Guided by this philosophy, the Group has actively worked to create unique services that cannot be duplicated by others by organically combining information technology (IT), logistics technology (LT) and financial technology (FT).

In January 2011, we formulated and announced a long-term management plan, DAN-TOTSU Management Plan 2019, whose final year is fiscal 2020, the 100th anniversary of our founding, and a medium-term management plan for the first three years of this period, DAN-TOTSU Three-Year Plan HOP.

The goal is to establish DAN-TOTSU (unassailable) positions in solution capability, delivery quality and customer satisfaction as a leading provider of distribution and lifestyle support solution services in Asia.

Details of performance and numerical targets are presented in "To Our Shareholders" and "Overview of Operations." This section focuses on evaluation/review of numerical targets, mainly financial targets, in our previous three-year plan, Create Satisfaction Three-Year Plan, and our finance strategy in "DAN-TOTSU Three-Year Plan HOP."

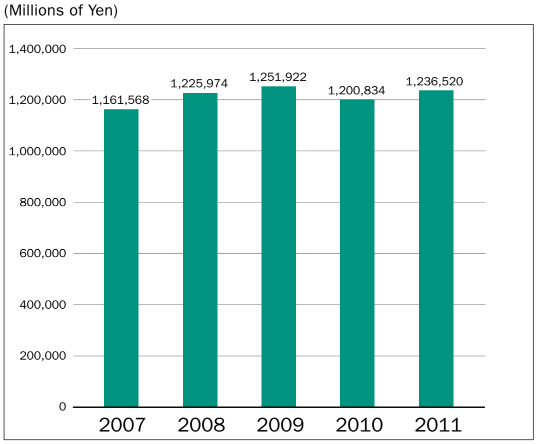
Attainment of Numerical Targets in Create Satisfaction Three-Year Plan and Evaluation

Under the Create Satisfaction Three-Year Plan, the Yamato Group targeted ¥1,450,000 million in operating revenues, operating income of ¥100,000 million, an operating margin of 6.9%, and ROE of 10.0%. The two guiding policies of the plan were to create solution businesses that deliver more convenience to customers, and to expand the Group's business territory to cover the Asian region. From this stance, we developed the *Today Shopping Service, Multi-Maintenance Solution* and other new services as we promoted new businesses for properly responding to our customers' increasingly sophisticated needs.

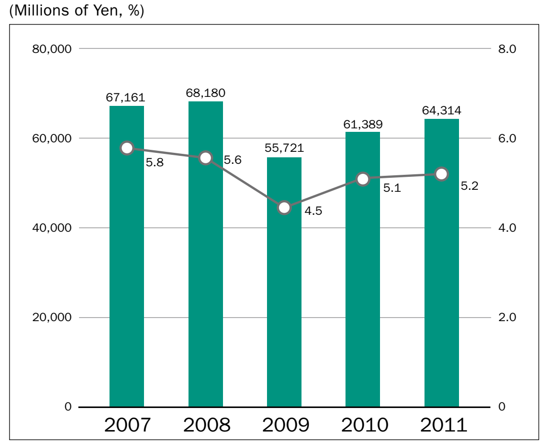
At present, there are signs of economic recovery, especially in Asia, and growth in the mail-order market. However, because of the effects of rapid economic deterioration triggered by the global financial crisis of September 2008, performance in the fiscal year ended March 31, 2011, the final year of the Create Satisfaction Three-Year Plan, was limited to operating revenues of ¥1,236,520 million, operating income of ¥64,314 million, an operating margin of 5.2%, and ROE of 6.5%, unfortunately falling short of all numerical targets.

In addition to falling short of our operating income target, the financial markets remained uncertain and we held back on investments needed for future growth, including the *Haneda Chronogate* logistics terminal. Consequently, we took steps to secure cash in order to increase liquidity at hand. As a result, the shareholders' equity ratio was 57.3% and ROE was 6.5% in fiscal 2011.

Operating Revenues
(Millions of Yen)



Operating Income/Operating Margin
(Millions of Yen, %)



Operating Income (left scale)
Operating Margin (right scale)

As presented starting on page 40, despite the poor economic conditions, the Yamato Group has secured around ¥100.0 billion on an EBITDA basis. The shareholders' equity ratio is around 50%, and both cash flow generation capabilities and financial soundness are at high levels compared to competitors.

From my perspective as executive officer responsible for finance, I recognize that a major issue in addition to steady execution of the business plan is to undertake flexible capital policies that take advantage of this solid financial base, establish further financial dominance and tie this into expansion of corporate value.

The major theme of DAN-TOTSU Three-Year Plan HOP, announced in January 2011, is steady implementation of the business plan as well as expansion of corporate value through the execution of a flexible finance strategy and meeting the expectations of customers, society, employees, shareholders and all stakeholders.

Implementation of Capital Policies

In February 2011, we passed a resolution for issuance of corporate bonds with new share warrants attached for the purpose of share buybacks as part of our flexible finance strategy.

Proceeds of approximately ¥20.0 billion from the issuance of corporate bonds with new share warrants are set to be allocated in their entirety to share buybacks by the end of February 2012 for the purpose of enhancing capital efficiency. With regard to share buybacks, we passed a resolution at the same time as the resolution for issuing corporate bonds with new share warrants that sets an upper limit on total purchases of ¥30.0 billion and a buyback period of one year. (*)

* Share buybacks based on the resolution have ended as of April 27, 2011.

Aim of Issuance of Corporate Bonds with New Share Warrants and Share Buybacks

The Yamato Group concluded that share buybacks utilizing debt-like funds in addition to some of its own funds, while remaining aware of the need to contain capital cost increases, was the most effective scheme for a finance strategy aimed at expanding corporate value, and the optimal method of fund procurement.

We selected this scheme for share buybacks because we believed that buying back shares using low-cost corporate bonds with new share warrants attached and enhanced debt characteristics would enable capital efficiency, such as ROE and EPS, to be improved.

These corporate bonds with new share warrants are designed with the following characteristics.

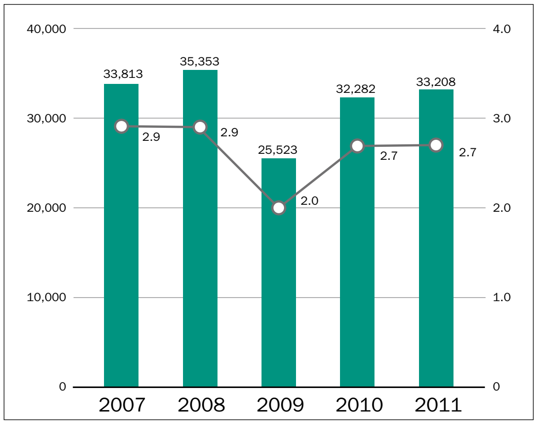
(1) Since they are issued with a zero coupon, this enables a flexible finance strategy to be realized at low cost.
(2) In order to enhance the debt characteristics of these bonds, and out of consideration for existing shareholders, the possibility of conversion into shares has been reduced as much as possible by attaching a 120% conversion limit provision and the right of investors to demand repayments three years from now on March 7, 2014.

The conversion limit provision refers to a provision that prohibits investors from exercising the new share warrants unless the share price exceeds the conversion price for a certain period of time.

Specifically, only when the closing price of Yamato Holdings' common shares exceeds 120% of the conversion price for any 20 days out of the final 30 consecutive trading days of any

Net Income/Return on Revenues

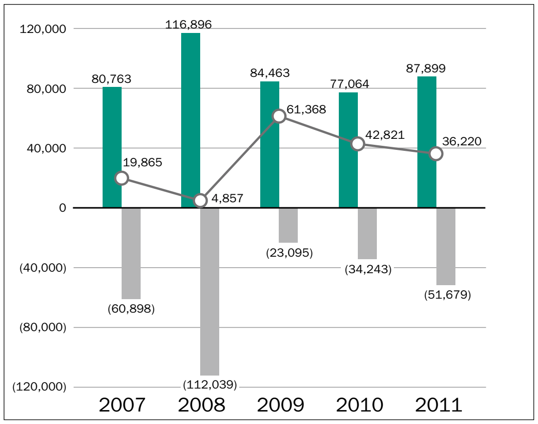
(Millions of Yen, %)



Net Income (left scale)
Return on Revenues (right scale)

Operating and Investing Cash Flows/Free Cash Flows

(Millions of Yen)



Cash Flows from Operating Activities
Cash Flows from Investing Activities
Free Cash Flows

* Free Cash Flows = Cash Flows from Operating Activities + Cash Flows from Investing Activities

quarter will investors, in principle, be able to exercise new share warrants in the following quarter. However, new share warrants can be exercised at any time from the day three months prior to maturity onward.

To date, the Yamato Group has bought back about ¥10.0 billion in shares continuously every year for five years from the fiscal year ended March 31, 2003 to the fiscal year ended March 31, 2007, for a total of about ¥50.0 billion over five years (about 28 million shares). Of this, approximately 12.0 million shares were retired in the fiscal year ended March 31, 2006, and approximately 3 million shares were used for M&A in the fiscal years ended March 31, 2007 and March 31, 2008.

The number of shares bought back in the latest buybacks based on the above-mentioned resolution that ended on April 27, 2011 was approximately 23.6 million shares, with a purchase price of approximately ¥30.0 billion, the largest share buyback in our history.

Towards Enhancement of Financial Quality

The Yamato Group views the return of profit to shareholders as one of its most important management policies. Under these conditions, we conduct business fully recognizing that levels of capital cost should reflect the expectations investors hold for the revenue of the Yamato Group.

I believe that my role is to take steady steps towards enhancement of financial quality, aiming to generate sustained medium- to long-term growth and maximize corporate value while balancing growth potential, financial soundness and operating efficiency. To that end, we have declared ROE to be an important benchmark to keep in mind in order to achieve both ample capital accumulation and utilization of business assets.

The goal in our long-term management plan announced in January 2011, DAN-TOTSU Management Plan 2019, the final year of which is the 100th anniversary of our founding in fiscal 2020, is to establish DAN-TOTSU (unassailable) positions in solution capability, delivery quality, and customer satisfaction as a leading provider of distribution and lifestyle support solution services in Asia. However, the environment surrounding the Yamato Group is now facing a major turning point.

This is because in executing growth strategies toward the position we are shooting for, we will have to win out in competition not only with domestic companies but also with companies backed by national governments in emerging markets, led by China, and if we are unable to corral such growth, the Yamato Group cannot hope for medium- to long-term growth.

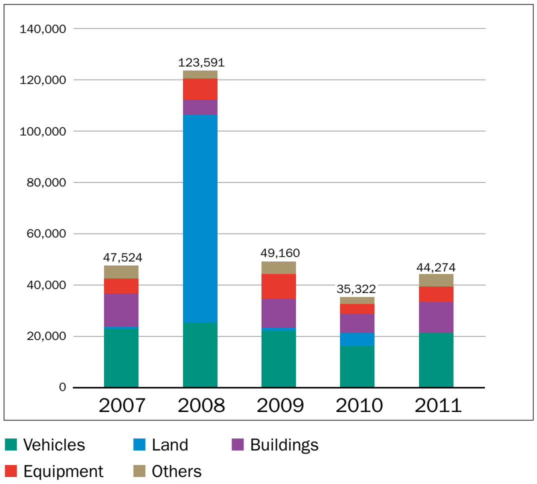
Looking ahead, we will continue to enact medium- and long-term strategies that look five and ten years down the road, respectively. Based on these strategies we will conduct necessary investments that will be increasingly vital going forward, including well-timed M&A, being sure not to overlook the crucial openings for future growth.

Therefore, a certain level of funds on hand will be needed, so there could be cases where measures are taken to raise funds flexibly.

On the other hand, we are also flexibly considering share buybacks in order to maintain funds on hand at appropriate levels, depending on the progress of profit growth and investment plans. While maintaining a shareholders' equity ratio of about 50%, we will improve the quality of our finances and pursue capital efficiency towards attainment of our ROE target of 8.5% for the fiscal year ending March 31, 2014.

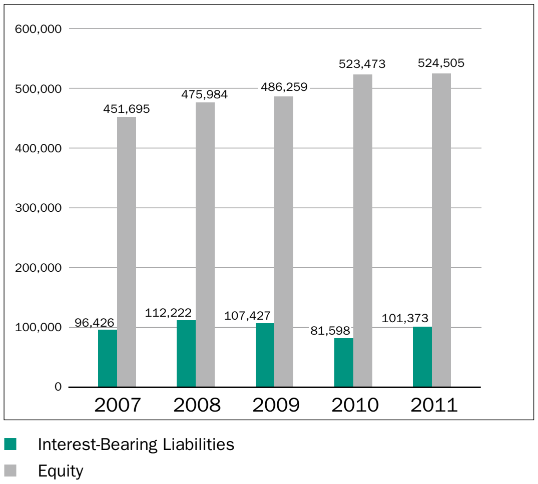
Capital Expenditure

(Millions of Yen)



Interest-Bearing Liabilities/Equity

(Millions of Yen)



As for our dividend policy, our intention to maintain a consolidated dividend payout ratio of 30% is unchanged, with a basic policy of increasing dividends per share in line with profit growth.

Management of Funds

In order to make effective use of surplus funds, the Yamato Group utilizes cash management systems (CMS) for each Group company.

We divide up funds into funds from logistics businesses such as the Delivery and BIZ-Logistics businesses and funds from the Financial Business, which covers the settlement business. We then direct fund investments for future growth.

Credit Ratings

As of March 2011, Yamato Holdings has received the following credit rating from Rating & Investment Information, Inc. (R&I).

R&I AA–

The Yamato Group will strive to minimize risk of loss of performance to secure target profits, maintaining awareness of capital costs, while at the same time maintaining and improving credit ratings in order to facilitate smooth capital procurement.

Risk Management

Over 60% of the consolidated operating revenues of the Yamato Group are accounted for by the *Takkyubin* business.

It follows therefore that, domestic economic trends aside, the largest risk facing the Group is the disruption or damage to the foundation and infrastructure needed to operate *Takkyubin* services. Such potential disruptions include delays or stoppages in the supply of electricity and fuel, the physical damage caused by natural disasters such as the recent Great East Japan Earthquake, as well as the effect of acts of terrorism, war or other international conflict, and the spread of infectious disease such as new strains of influenza. Interruption of *Takkyubin* operations or the inability to continue making deliveries as normal has the potential to severely impact the results of the Yamato Group.

A second area of risk concerns the corporate image of the Group. The Group has spent many years in the passionate pursuit of greater convenience for our customers through high-quality services. As a result we have won the trust of customers and society as a whole, and gained a position of dominance over our rivals.

However, an incident such as damage to or loss of packages entrusted to *Takkyubin* or *Kuroneko Mail*, or a similar major flaw in services or products could lead to a loss of this trust in the Group and thereby impact the Group's results.

In order to continue fulfilling its mission as an essential element of the social infrastructure under any and all circumstances, the Yamato Group has put in place a number of measures aimed at reducing risks associated with disruptions to normal operation of *Takkyubin* services. These measures include policies for engineering a modal shift in pickup and delivery services to reduce fuel usage through the introduction of low-emission vehicles and the use of handcarts. We are also making concerted efforts to reduce the amount of electricity we consume in our operations. In addition, we have set up backup systems for managing information in Tokyo and Osaka.

At the same time, we are making ongoing improvements to quality control to reduce as much as possible the likelihood of major flaws in services or products such as damage to or loss of packages entrusted to us. To this end, we have established a multi-layered approach for reviewing and managing data on quality levels from each of our *Takkyubin* centers.

Toward Enhancement of Shareholder Value

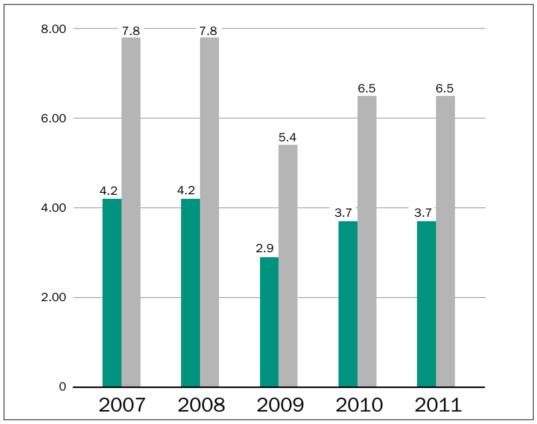
In our medium-term management plan DAN-TOTSU Three-Year Plan HOP, which started in the fiscal year ending March 31, 2012, we intend to heighten the product characteristics of *Takkyubin*, our main product, by strengthening our network and creating new added value, aiming for further enhancement of profit margins in the Delivery Business and the securing of funds for Group growth.

We will also utilize our *Haneda Chronogate* logistics terminal to the fullest to create an innovative logistics network that manages domestic and overseas operations as one, providing high-value-added services to our customers.

Through steady implementation of the above-mentioned business plan, as well as execution of a flexible finance strategy, we will expand corporate value to meet the expectations of customers, society, employees, shareholders and all stakeholders.

ROA/ROE

(%)



ROA
ROE