

Analysis of Financial Position and Management Results



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 Managing Executive Officer
 responsible for Financing and
 Accounting

A Message from the Managing Executive Officer

I was appointed as the managing executive officer responsible for Financing and Accounting of Yamato Holdings Co., Ltd. on April 1, 2012.

In this year's annual report, I would like to look back on the year ended March 31, 2012 and discuss the Yamato Group's capital policies.

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 *TA-Q-BIN* networks, creating more convenient

services for comfortable lifestyles and developing an innovative logistics system." Guided by this philosophy, we aim to generate sustained growth and maximize corporate value by balancing growth potential, financial soundness and operating efficiency.

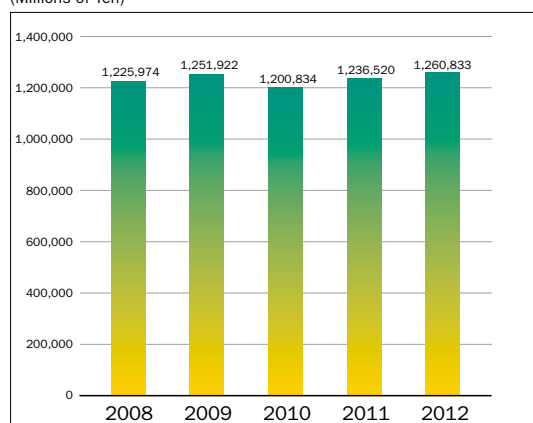
In January 2011, we formulated and announced a long-term management plan, DAN-TOTSU Management Plan 2019, whose final year is fiscal 2020, the 100th anniversary of our founding, and a medium-term management plan, whose final year is fiscal 2014, DAN-TOTSU Three-Year Plan HOP.

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 by the year ending March 2020, when we will celebrate our 100th anniversary. The major theme is to increase satisfaction of shareholders, customers, the public, employees and all other stakeholders.

To raise shareholder value, we have declared ROE to

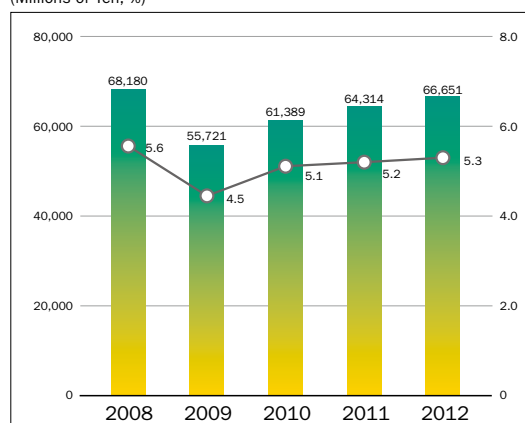
Operating Revenues

(Millions of Yen)



Operating Income/Operating Margin

(Millions of Yen, %)



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

be an important benchmark to keep in mind in order to achieve both strengthened capital accumulation and utilization of business assets. We plan to raise ROE to 8.5% in the year ending March 2014, the final year of the medium-term management plan, and to over 11.0% in the year ending March 2020, the final year of the long-term management plan.

From my perspective as Managing Executive Officer, I recognize that the keys for success are to increase our profitability by steadily executing our business plan, and also raising capital efficiency by implementing flexible capital policies, as and when needed, by taking advantage of our solid financial base. And we must tie these improvements to a further increase in corporate value.

My role as the Managing Executive Officer responsible for Financing and Accounting is to pursue the optimal capital structure that will support the maximization of our corporate value.

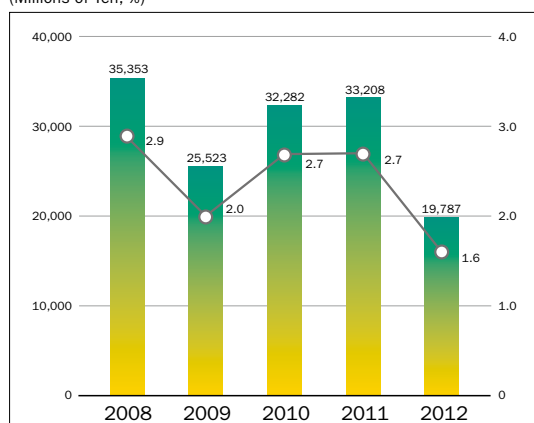
Attainment of Numerical Targets in Fiscal 2012 and Evaluation

In fiscal 2012, the business environment gradually trended towards recovery, backed by growing restoration demand associated with the Great East Japan Earthquake that occurred in March 2011, although the overall Japanese economy showed signs of stagnation, mainly due to slowdowns in overseas economies because of the European debt crisis, and the yen's further appreciation.

Against this backdrop, in fiscal 2012, the first year of our medium-term management plan, DAN-TOTSU Three-Year Plan HOP, the Yamato Group was unable to achieve operating income above the Company's plan because of lower handling volume of *Kuroneko Mail* due to stricter policies on parcel acceptance that emphasize compliance. However, the Yamato Group made progress developing new businesses for properly responding to customers' increasingly sophisticated needs. This, and strong *TA-Q-BIN* handling volume in an expanding mail-order market, supported our performance.

Net Income/Net Margin

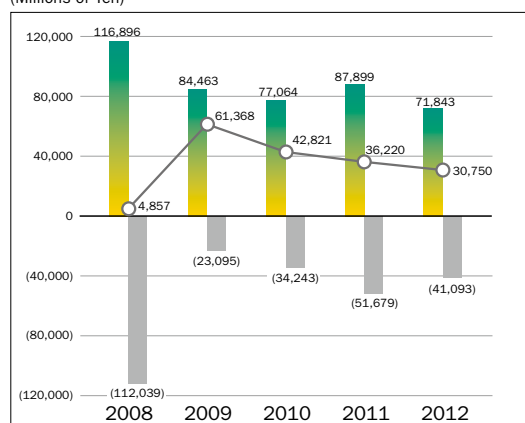
(Millions of Yen, %)



■ Net Income (left scale)
○ Net Margin (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

Operating revenues increased 2.0% year on year to ¥1,260,833 million and operating income increased 3.6% to ¥66,651 million. These figures were close to record-high revenues and earnings.

Net income, however, decreased 40.4% to ¥19,787 million. This decrease was mainly due to recording ¥14,236 million in donations concerning restoration support under other expenses by implementing the “ten yen for every parcel we deliver in Japan” initiative.

Regarding this initiative, as we explained in “A Message from the President” on page 5 and “Report on the Donation Drive of Ten Yen for Every Parcel We Deliver in Japan” on page 32, we continued to support the revitalization of local people’s living conditions and industrial infrastructure in areas affected by the Great East Japan Earthquake to fulfill our social responsibility as a logistics provider.

The entire amount was donated by Yamato Holdings to the Yamato Welfare Foundation and recognized as fully tax-exempt “designated donations” by Japan’s Minister of

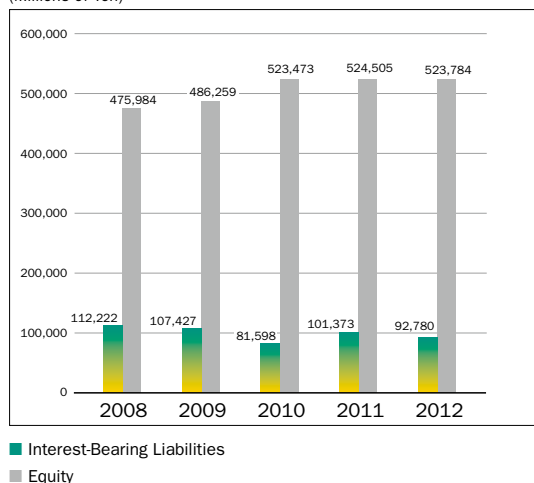
Finance. Combined with donations collected by the Foundation from other companies, organizations and individuals, the funds have been allocated exclusively for restoration and revitalization of the local infrastructure and for rebuilding of the fishing and agriculture industries in the region. An independent committee of experts selected projects for grants under a basic policy of visible, quick and effective assistance. Priority was placed on types of projects that do not normally receive government support.

Since the fundraising initiative came to an end on March 31, 2012, the Company will not incur more special charges for donations going forward.

In fiscal 2012, in addition to recording special charges for donations, as explained above, we prepared for making 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 56.0% and ROE dropped temporarily to a low level of 3.8%.

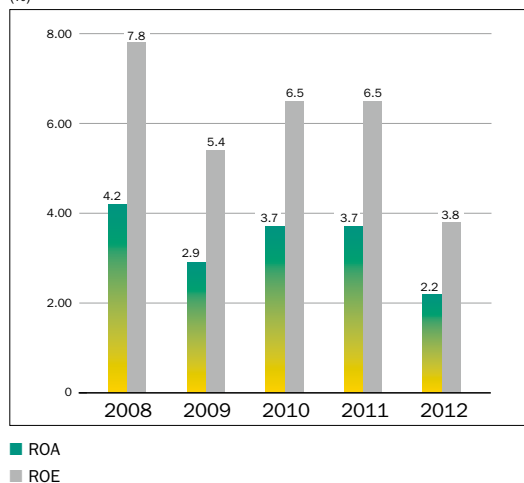
Interest-Bearing Liabilities/Equity

(Millions of Yen)



ROA/ROE

(%)



However, cash flows from operating activities for the year ended March 31, 2012 were over ¥70 billion. We therefore continue to generate stable cash flows of between ¥70 billion and ¥80 billion per year.

Free cash flows, which are the total of cash flows from operating activities and cash flows from investing activities, were ¥30,750 million. This cash has allowed us to maintain the agility and flexibility of financial activities while sufficiently covering ordinary expenditures.

Leveraging our solid financial base, we will pursue the optimal capital structure while balancing operating efficiency and financial soundness.

Implementation of Capital Policies to Enhance Financial Quality

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 were 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 set an upper limit on total purchases of ¥30.0 billion and a buyback period of one year.

Share buybacks based on the aforementioned resolution were completed on April 27, 2011. These buybacks resulted in the repurchase of approximately 23.6 million shares at a total cost of approximately ¥30.0 billion, representing our largest buybacks ever.

The Yamato Group 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 these shares, approximately 12 million shares were retired in the fiscal year ended March 31, 2006, and approximately 3 million shares were used for M&As in the fiscal years ended March 31, 2007 and March 31, 2008.

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

The Yamato Group implemented share buybacks based on the conclusion that utilizing liability-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.

Credit Ratings

As of March 2012, 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 the existing credit rating in order to facilitate smooth capital procurement.

Risk Management

The Yamato Group is fully aware of the potential impact of the following risks on its business performance and financial position, and is accordingly managing these risks.

The following risks are solely within the scope of projections possible from information available at the end of March 2012, and may not encompass all of the risks related to the business of the Yamato Group.

The Yamato Group has six main business segments. These include the Delivery Business, which centers on *TA-Q-BIN* services, and other operations combining logistics technology (LT), information technology (IT), and financial technology (FT).

In fiscal 2012, the *TA-Q-BIN* business accounted for more than 60% of the consolidated operating revenues of the Yamato Group. It therefore has a significant impact on Group results.

Accordingly, any threats to the continuity of the *TA-Q-BIN* business could profoundly affect Group results.

1. Loss of Social Trust

(1) Major Traffic Accident

The Yamato Group's operations center on the Delivery Business, whose vehicles operate on public roads. Notwithstanding the Group's commitment to safety precautions out of an utmost respect for human life, a major traffic accident could cause social trust to decline, affecting Group results.

(2) Leak of Customer Information

The Yamato Group handles information for many customers, including the personal information of customers for the *TA-Q-BIN* and moving services. Although the Group strictly manages information, as part of which it conducts internal audits to monitor such management, leaks of information outside the Group could reduce social trust and affect Group results.

(3) Package Damage or Loss

The Yamato Group has earned strong trust among customers, securing a competitive edge by providing high-quality services.

The Group uses a multi-layered approach to review and manage data on quality levels from each of its *TA-Q-BIN* centers nationwide as it strives daily to improve the quality of its services. Nonetheless, an incident, such as damage to or loss of packages that customers entrust to the Group, could lead to a loss of social trust and affect Group results.

2. Legal and Official Regulations

(1) Legal Regulations

The Yamato Group is regulated by various laws and ordinances.

Compliance management is a top priority for the Group, which acts accordingly. However, the Group's business activities could be restricted by revisions in laws or ordinances, causing a decline in operating revenues or an increase in costs to achieve compliance, thereby affecting Group results.

(2) Official Regulation Due to Environmental Issues

The Yamato Group uses many vehicles in the course of business.

Amid growing interest in environmental issues, the Group has already actively undertaken environmental measures, such as deploying low-emission vehicles and promoting eco driving. However, unexpectedly strict environmental regulations could be enacted, causing an increase in costs to achieve compliance and otherwise affecting Group results.

3. Unforeseen International Developments or Natural Disasters

(1) International Developments or Terrorism

Terrorism, wars or other international conflicts, or outbreaks of new strains of influenza or other infectious diseases could threaten the continuity of the Yamato Group's *TA-Q-BIN* business and affect Group results.

(2) Natural Disasters or Power Outages

The Yamato Group does business activities with equipment requiring electricity, including automatic package sorters and computers that manage information.

Although the Group inspects and checks all equipment regularly to prevent accidents, an unforeseen natural disaster or power outage that hampers freight could affect Group results.

(3) Computer Viruses and Criminal Hacking Activity

The Yamato Group manages information at locations in Tokyo and Osaka and employs state-of-the-art network technologies and a manned monitoring system that operates around the clock.

However, an unanticipated computer virus infection or hacker attack could force the Group to partially halt computer systems or sales activities, affecting Group results.

Basic Policy on Distribution of Profits

The Yamato Group conducts business fully recognizing that levels of capital cost should reflect the expectations shareholders and investors hold for the earnings of the Yamato Group.

Over the medium and long terms, we have a basic policy of paying dividends with a target consolidated dividend payout ratio of 30% of consolidated net income, while considering the need to invest for driving future growth and maintaining a stable management base.

For the fiscal year ended March 31, 2012 we paid dividends of ¥22 per share, including an interim dividend of ¥11.

For the fiscal year ending March 31, 2013, we will decide on the dividend per share after comprehensively considering a range of factors such as the business environment and our performance, as well as the above-mentioned policy.

We ask our shareholders for your ongoing encouragement and support.